

STRUCTURED FINANCE: ‘New Normal’ in CMBS; October CLOs Sputter



2015-10-19 14:09:10.746 GMT

By Christopher DeReza

(Bloomberg) -- The CMBS market is facing a “new normal” with AAA benchmarks pricing in the Swaps +125bps area, Talmage CEO Edward Shugrue said in an e-mail. Meanwhile CLO primary market continues to be challenged, as October is on pace to produce the lowest volume so far this year.

* CLO

- * The U.S. CLO primary mkt continues “at a subdued pace,” with only \$2.6b priced MTD, putting October on pace to be the slowest month YTD, JPMorgan analysts Rishad Ahluwalia and Jacob Kurosaki wrote Fri.
- * “A challenging arb and the inability for CLO spreads to stabilize is a major factor impacting CLO formation,” JPM said
- * Single-As “had held-in admirably in 2015,” yet demand is starting to cool on relative value in other fixed-rate alternatives, JPM said
- * “Though credit risks are different, new issue CMBS Single-As are ~65bps wider since the start of August to S+330bps and are now on top of CLO Single-As,” JPM said
- * Amid a stabilizing HY mkt, CLO market liquidity “is starting to slightly improve as DNTs measured by BWIC line items dropped from 40% last week to 30% this week,” JPM said
- * While CLO BBs should trade in wide range given varying credit risks, investors seem hesitant to sell at levels wider than ~800bps “suggesting some sort of near-term floor,” JPM said
- * Pool defaults are likely to rise in 2016/2017, JPM says
- * Higher tiering continues in the secondary, WF says
- * U.S. CLO mkt has "significant exposure" to Valeant
- * Guggenheim modified a warehouse structure, Moody’s said
- * CLO equity continues to offer strong cash-on-cash returns, WF says

* CMBS

* Last week saw good activity with one single asset deal for \$300m an some conduit activity, including one pricing, Shugrue said

* "GSCCRE 2015-HULA which is secured by Michael Dell's Four Seasons Hualalai in Hawaii, priced a touch wider than talk in the belly but was otherwise well received; this was a follow-up to his \$350m Four Seasons Maui (CSMC 2014-TIKI)," Shugrue said

* "On the conduit side, AAAs were closed in context of the 'new normal' of Swaps +125 area, and the pipeline is full with new supply"

* Selloff in conduits has started to have an affect on lending rates for CMBS loans, Barclays said

* Real money said rotating into new issue, corporates

* Hedge funds are now the top A and BBB- new issue CMBS buyers, JPM says

* Latest conduits employ change in rating agency use, CS says

* Underwriting quality erosion may be slowing, CS says

* Agency CMBS attractive, exposure to rising rents, GS says

* ABS

* Dominos Pizza priced \$1.425b whole business ABS

* BBVA Compass announced its 1st prime auto ABS off the BCART shelf

* Also Green Tree brought a servicer advances deal, the first offering off the GAAFT shelf

* An aspect of Moody's FFELP proposal "seems mistaken," Barclays says

* Money market assets inflow add widening pressure, WF says

* Sale of 2 GE units to Wells will ding ABS volume, Barclays says

* RMBS

* Chimera plans to sell \$541.8m subprime RMBS

* Prime jumbo issuance beats 2014 total, Fitch says

* There's been a mispricing of risk in certain CRTs, WF says

* CW settlement approval date is set, MS says

--With assistance from Charles Williams in New York.