

# The Analysis of the Influence of a Sovereign Foreign LT Issuer Credit Rating on Credit Spreads and Asset Swap Spreads (German Edition)



Masterarbeit aus dem Jahr 2012 im Fachbereich BWL - Bank, Borse, Versicherung, Note: -, Fachhochschule des bfi Wien GmbH, Veranstaltung: Banking and Finance, Sprache: Deutsch, Abstract: The purpose of this paper is to measure the correlation between the foreign longterm issuer credit ratings and both, credit spreads and ASW and to assess the role that the Rating Agencies play on the capital markets. Ratings reflect the financial strength and credit-worthiness of the issuer as assessed by the external rating agency. Spreads indicate the markets expectations in connection to the riskiness of the investment. Hence high spreads compensate investors for the higher risk taken. The result of the analysis is that there indeed exist correlations between foreign long-term issuer credit ratings and both, credit spreads and ASW. A high spread is strongly correlated to a low credit rating. However, even if the relationship exists, it is not possible to draw clear patterns of the market behavior. In some of the analyzed cases, market movements took place before a rating change, which indicates that both, the market and rating agencies considered the same information. In other cases, the market was influenced by the rating change. And sometimes the market reacted different to the rating agencies decisions and expectations. Overall the market reacts differently fast and not homogenous to the fundamental information it has. This makes it impossible to clearly state the extent to which ratings influence spreads. The results are not clear enough to indicate a more precise answer or to fully understand the market behavior. The market is a highly volatile environment in which it is impossible to draw predictable behavior patterns in relation purely to the credit rating. This inconsistency in reaction is partially conflicting the theory of the strong-form EMH, as the market reacts to

the asymmetric level of information available or prices in other factors not covered in this paper.

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In general a better long-term issuer credit rating should lead to a lower **The Analysis of the Influence of a Sovereign Foreign LT Issuer** 5 ASSET SWAP SPREAD AND APPROXIMATION TO ASW Figure 14 Spain Credit Spread & Foreign LT Issuer Credit Rating Correlation from .. For the relevant calculations in this thesis, the Redemption Yields (RY) or Yield to maturity (YTM) of Portugal, Spain, Greece and Germany are relevant. .. Zur mobilen Version. **The Analysis of the Influence of a Sovereign Foreign LT Issuer** curve (the swap spread) influences ASW spreads only in periods of increased volatility. Keywords: European Bonds, Asset Swap Spreads, Credit Spreads, Financial Crisis, The purpose of this study is to analyze the time-series dynamics of ASW . values for Banks, Tier 1 Capital and AAA-rated corporate bonds. **The Analysis of the Influence of a Sovereign Foreign LT Issuer** evolution of sovereign credit default swap (CDS) spreads during spreads at the end of 2011 remain much lower (between 50 bps, in Germany, and 150 bps, in CDSs can only be traded on the debt of companies that issue rated, publicly limit their analysis to the impact of the Greek sovereign credit risk shock on **PDF? 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