

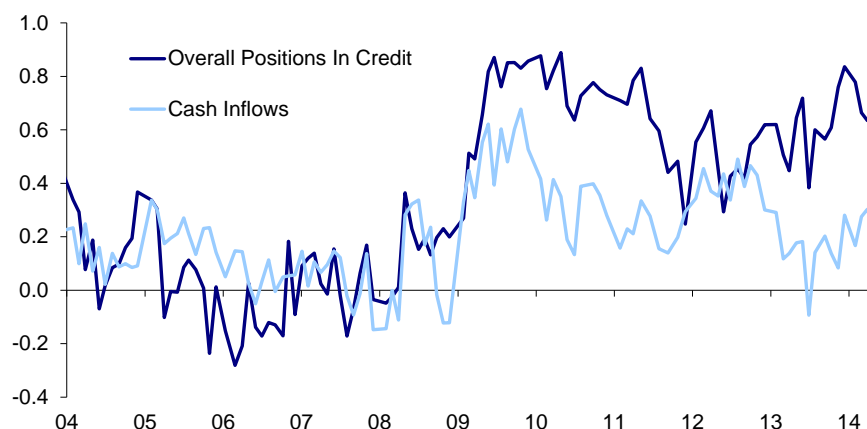
Global Credit Survey

Not as benign, but should still be fine

- The aggregate long in credit grew for the first time this year
- Inflows declined slightly across currencies, but they remain elevated relative to recent history
- Most of the extension in positions came from the highest-beta sectors: Insurance, HY, Non-Financial Hybrids and Tier I
- The long in Core Europe is now at its lowest level on record, whilst positions in the Periphery are at their highest level this year
- In line with our view, most (55%) of the respondents to our Question of the Month are expecting the ECB to launch QE this year
- Although the survey shows a slight weakening in the technical that we found so encouraging last month, the changes are so modest that the survey leaves us comfortable with the long we've been advocating

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Figure 1. Overall Positions in Credit vs Cash Inflows (Index, -2 Very Short, +2 Very Long)



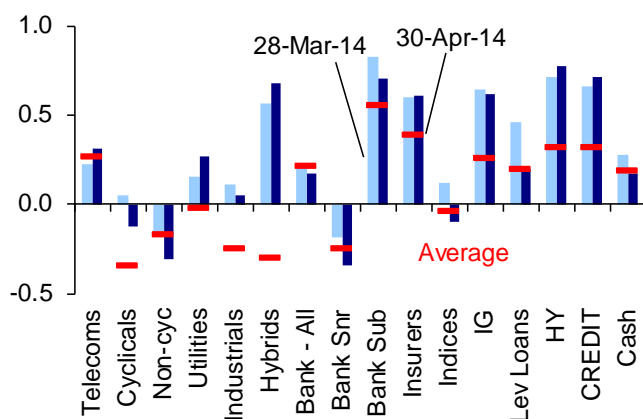
Source: Citi Research

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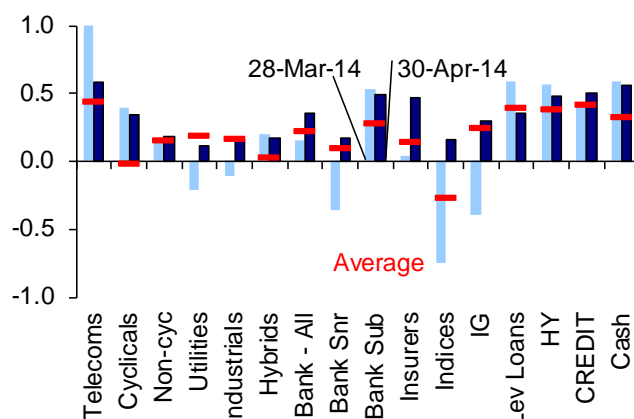
The results of our latest survey show that the aggregate long in credit increased for the first time this year, with the extension in positions almost entirely attributable to the highest beta parts of the market. Cash inflows (Figure 20) declined across currencies although on aggregate they remain elevated relative to history.

Figure 2. Real Money – Recent Positions vs Average



Source: Citi Research

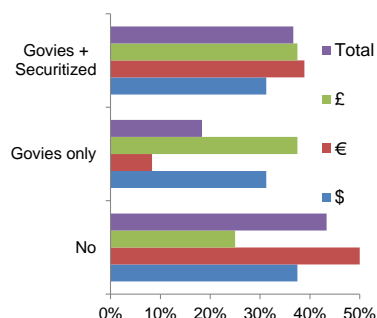
Figure 3. Leveraged Money – Recent Positions vs Average



Source: Citi Research

Shrinking high beta longs were responsible for much of the reduction in the aggregate positions over the past two months, whilst those in lower beta sectors mostly remained relatively static. In April, the bulk of the shift in positioning, this time in the opposite direction, also came from the highest beta sectors, although there were some notable shifts elsewhere too.

Figure 4. Are you expecting ECB QE to start sometime this year?



Source: Citi Research

Longs in Non-Financial Hybrids (Figure 10), Insurers (Figure 12) and High Yield (Figure 18) were extended after declining in both February and March. And though the aggregate long in banks (Figure 11) was unchanged, the shifts across the capital structure illustrate investors' growing appetite for beta: positions in senior bank debt (Figure 13) are now at their shortest since June last year, while those in Tier I (Figure 15) continued to climb. Although the long in Tier II (Figure 14) bank paper came down a little, it remains far above its average of the past two years.

There was a marked increase in positions in Utilities (Figure 8), with the long now at its highest in over a year. Positions in Telecoms (Figure 5) also grew longer, with Euro accounts responsible for much of the shift in both cases. Given the heavy weighting of peripheral corporates in these sectors, we suspect that the extension in positions was largely attributable to the increased appetite for peripheral paper highlighted above.

On balance, while the survey leaves us slightly less confident than we were regarding credit technicals, we remain comfortable with the long we've been advocating recently. Yes, inflows retreated this month, but they remain high relative to the past year and a half. And the fact that the extension in positioning was mostly due to the sectors with the highest beta reawakens some of our concerns from a few months ago about the vulnerability of crowded long positions. But if the ECB really does do QE in the way that the majority of respondents (55%) are expecting (Figure 4), that should more than suffice to outweigh any such minor concerns.

Figure 5. Telecoms, All Respondents

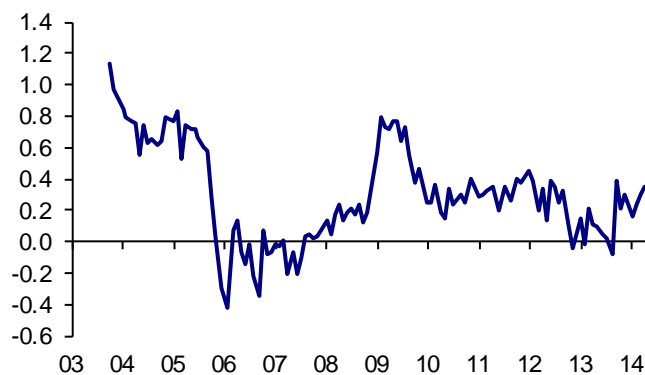


Figure 6. Cyclical, All Respondents

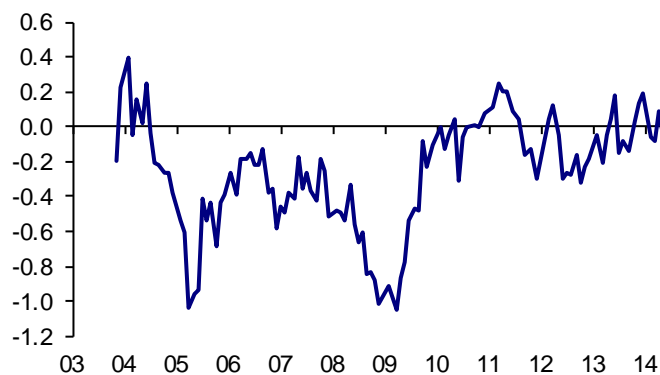


Figure 7. Non-cyclicals, All Respondents

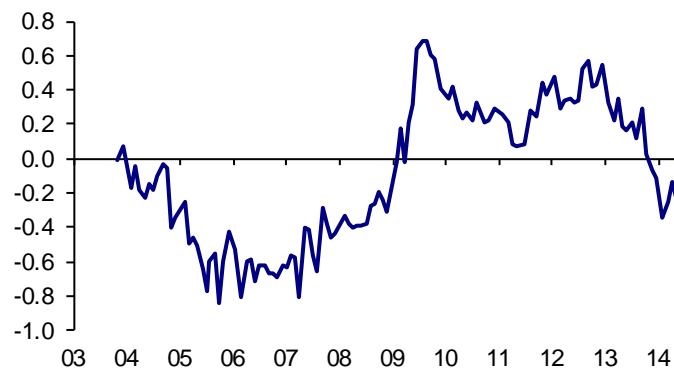


Figure 8. Utilities, All Respondents

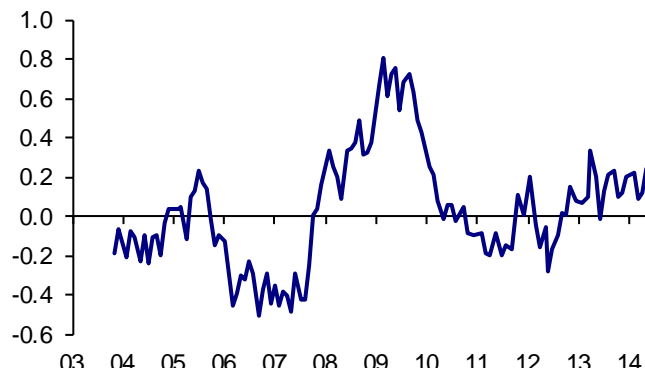


Figure 9. Industrials, All Respondents

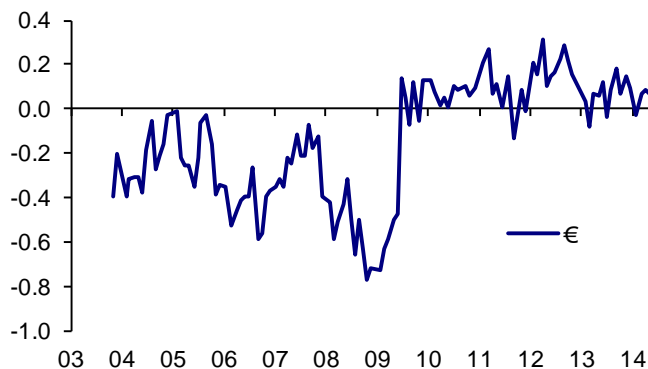


Figure 10. Non-Fin Hybrids, All (Euro) Respondents

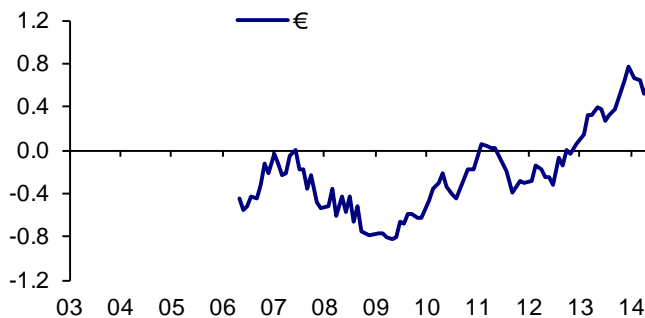


Figure 11. Banks Overall, All Respondents

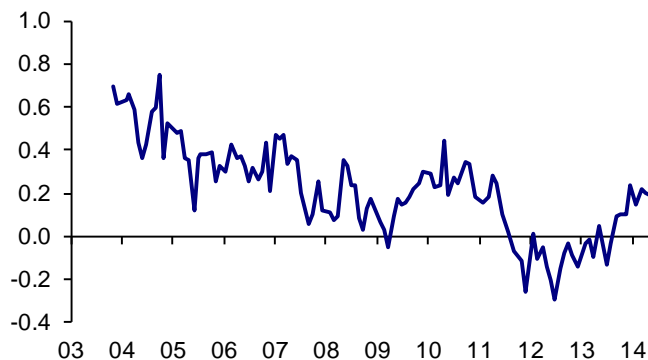
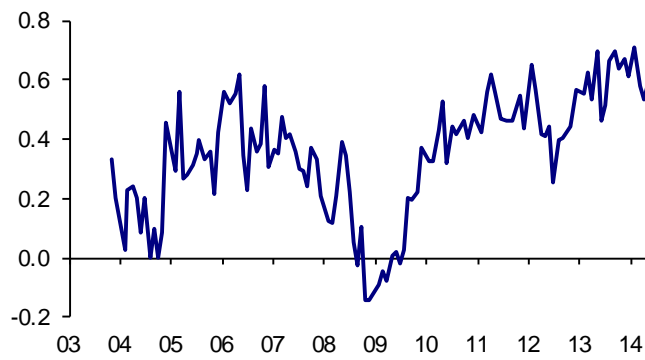


Figure 12. Insurance, All Respondents



Source: Citi Research
(+2 = Very Long, -2 = Very Short)

Figure 13. Banks, Senior, All Respondents

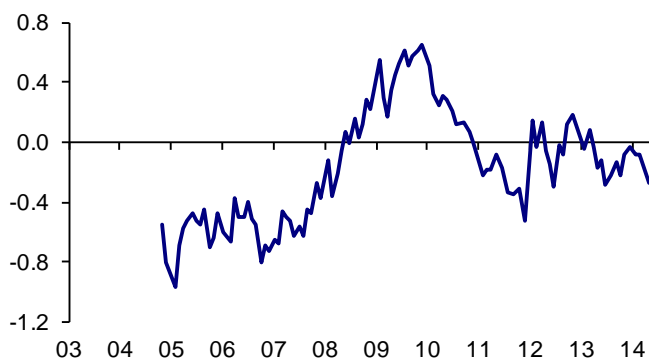


Figure 14. Banks, Tier II, All Respondents

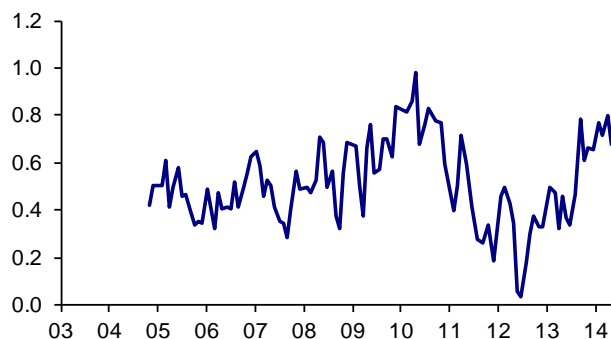


Figure 15. Banks, Tier 1, All Respondents

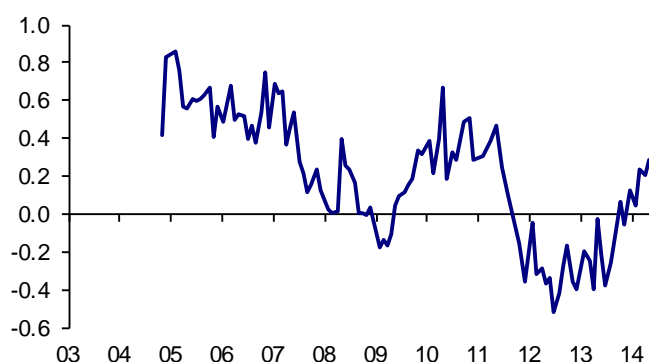


Figure 16. Credit Indices, All Respondents

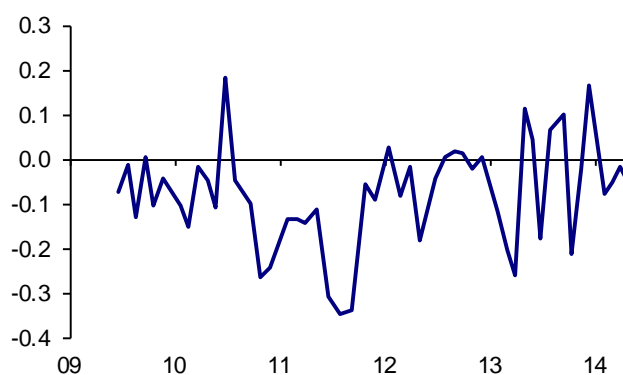


Figure 17. High Grade Overall, All Respondents

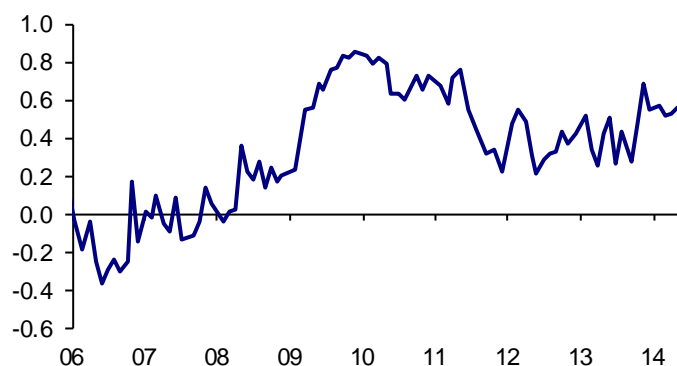


Figure 18. High Yield Overall, All Respondents

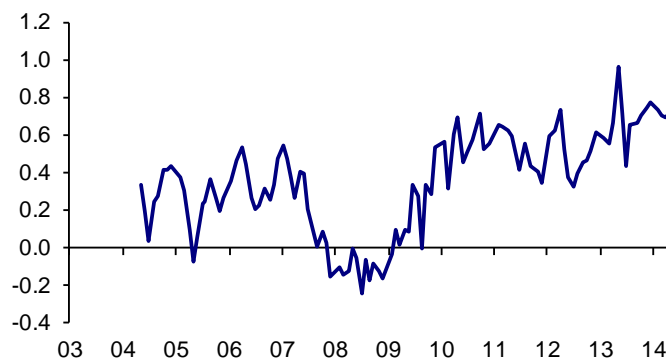


Figure 19. CREDIT Overall, All Respondents

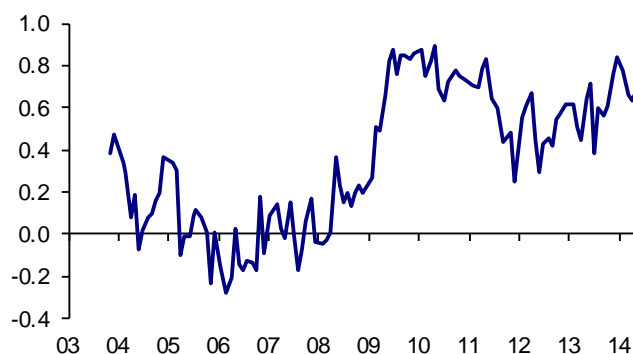
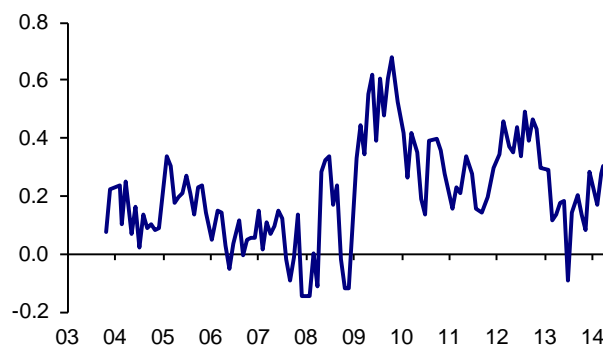


Figure 20. Cash Inflows, All Respondents



Source: Citi Research

(+2 = Very Long, -2 = Very Short)

Figure 21. Lev Loans, All Respondents

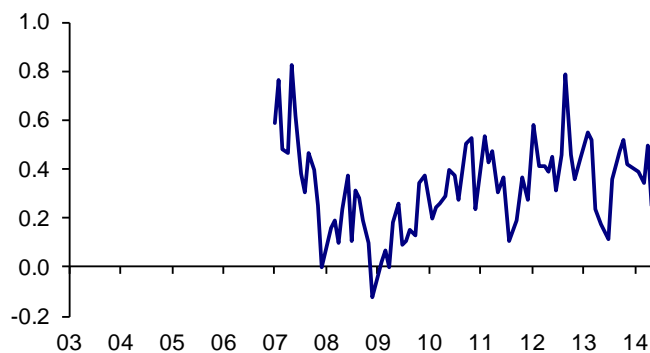


Figure 22. ABS, All (Sterling) Respondents

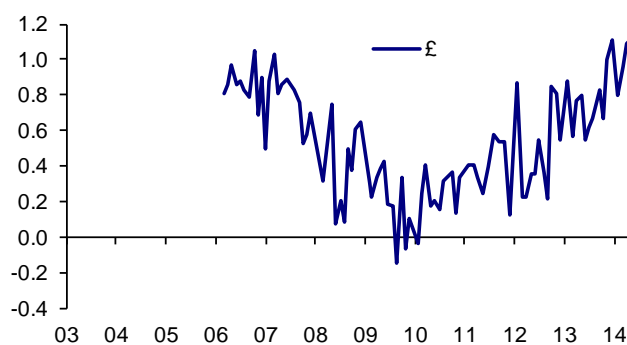


Figure 23. SAS, All (sterling) Respondents

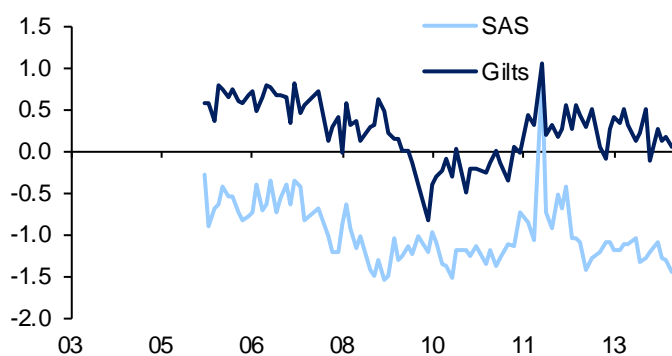


Figure 24. Core Europe, All Respondents



Figure 25. Peripheral Europe, All Respondents

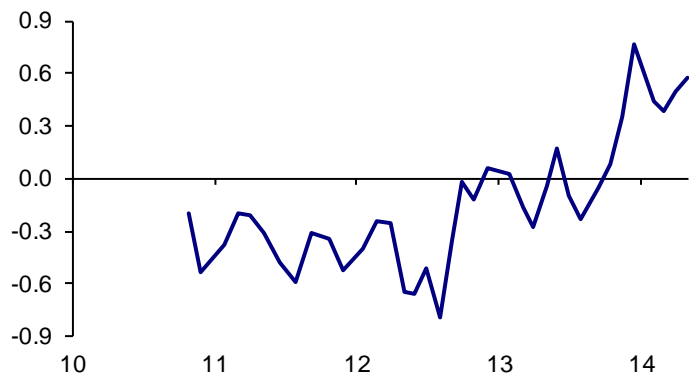
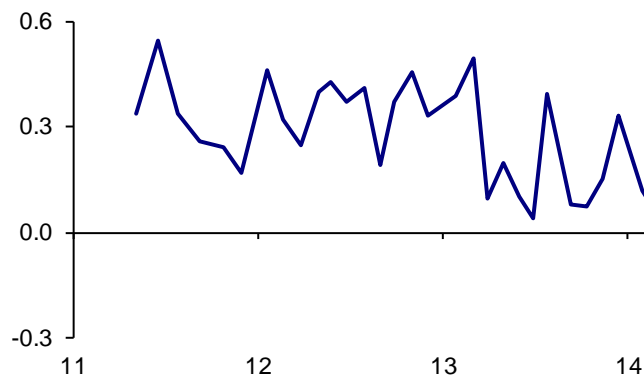


Figure 26. Covered, All Respondents



Source: Citi Research

(+2 = Very Long, -2 = Very Short)

Appendix A-1

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