

Global Credit Survey

The Final Cut?

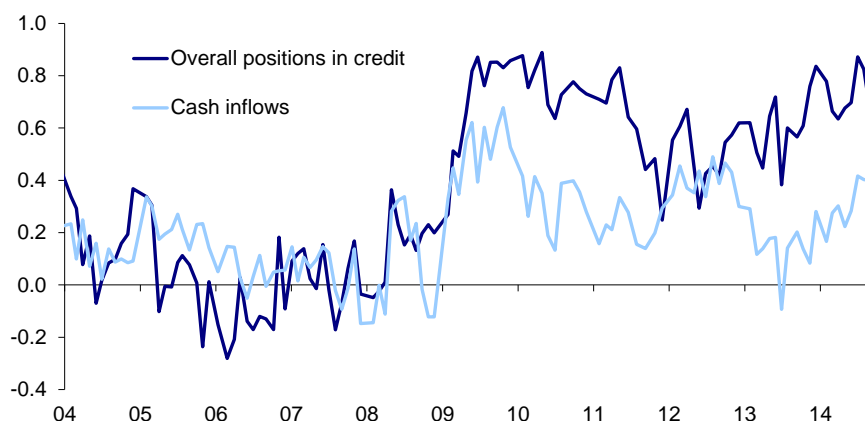
- Aggregate long in credit cut to its lowest level since October 2013.
- In a reversal of recent trends, lower-beta segments led the reduction: shorts in senior bank debt and non-cyclicals increased; the elevated telco long was cut.
- Conversely, positions in high-beta parts of the market mostly either increased or remained static: longs in Tier I recovered following their July fall, presumably on supply.
- Inflows remained resilient, as a decline in euros and sterling was largely offset by an increase in dollars.
- We suspect that the dip in the aggregate long will be short-lived, given our relatively bullish expectations.
- Responses to our "Question of the Month" display a clear "home bias": while 75% of euro investors expect either iTraxx Main or Crossover to outperform in beta-adjusted terms by year-end, 69% of dollar investors think that either the CDX IG or CDX HY will be the top-performing index.

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



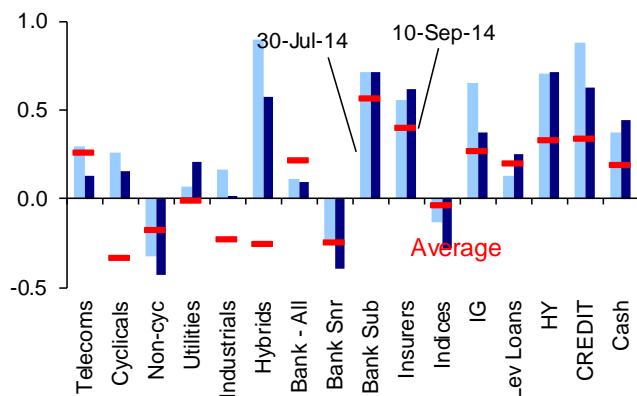
Source: Citi Research

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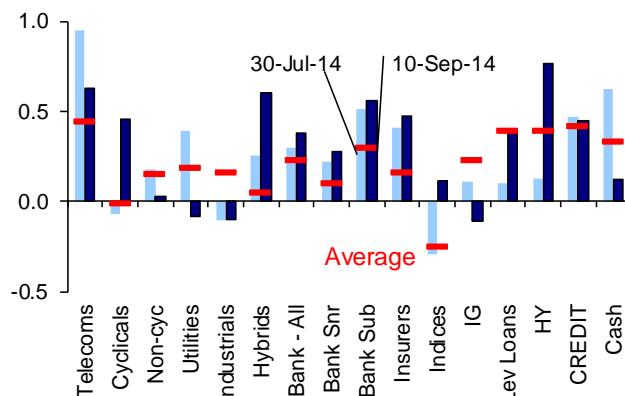
Our latest survey results show that the aggregate long in credit (Figure 19) came down significantly from July, with much of the reduction attributable to low beta sectors, unlike in previous months. Inflows (Figure 20), on the other hand, remained resilient on aggregate, as a decline in euros and sterling was offset by an increase in dollars.

Figure 2. Real Money – Recent Positions vs Average



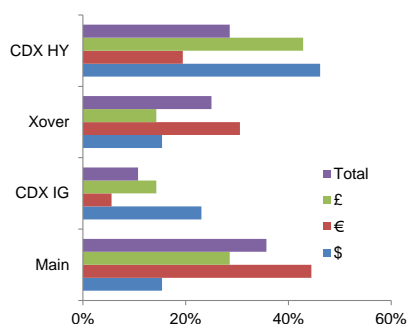
Source: Citi Research

Figure 3. Leveraged Money – Recent Positions vs Average



Source: Citi Research

Figure 4. Which of the following will perform best (beta-adjusted) between now and year-end?



Source: Citi Research

The reported reduction in exposure has brought the aggregate long to its lowest level since October last year, but very little of this was attributable to the highest beta parts of the market. The long in Tier II (Figure 14) was unchanged, while Tier I (Figure 15), Insurers (Figure 12) and HY (Figure 18) saw positions increase following their dip in July. And while the previous longs in the core (Figure 24) were cut to neutral, those in the periphery (Figure 25) were extended. Non-financial hybrids (Figure 10), where positions came back from the all-time high reached in July, was the exception.

The bulk of the reduction was instead attributable to lower-beta segments as the long in IG credit was cut to its lowest level this year (Figure 17), and positions in senior bank debt reached their shortest since November 2011 (Figure 13). Cutting from both real money and leveraged investors led to the short in non-cyclicals reaching its most extended since June 2008 (Figure 7). The previously extended long in Telecoms was cut back (Figure 5), there was a net short in Industrials for the first time since January (Figure 9) and positions in cyclicals were trimmed (Figure 6). Utilities was the only exception to trend of low-beta cutting (Figure 8).

While some of the reported reduction is likely attributable to the perception of positions being less extended following a relatively weak summer, we reckon that investors have also been making space for the anticipated primary activity that now appears to be materialising. The cutting in lower-beta sectors accords with the sentiments we expressed in our [weekly](#), given how rich spreads appeared at the time. Given both the improvement in sentiment since then and the fact that investors have evidently not been sufficiently concerned about the outlook to scale down their high-beta holdings, we suspect that the reduction in the aggregate long will prove short-lived, with new supply likely to contribute to the pick-up in positions. Yet with inflows relatively resilient, and the market still underestimating the positive impact of the ECB's recent announcements [in our view](#), we're left relatively sanguine about the outlook into year end.

Figure 5. Telecoms, All Respondents



Figure 6. Cyclical, All Respondents

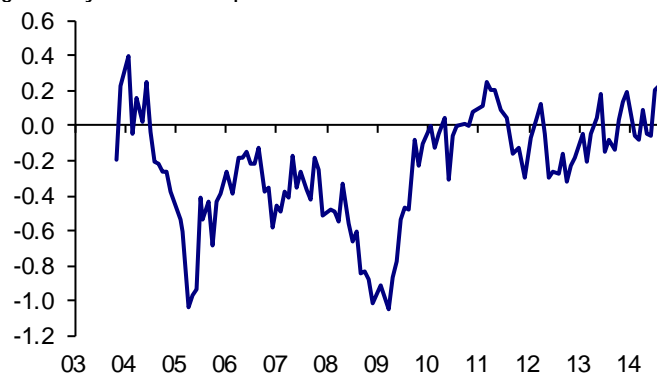


Figure 7. Non-cyclical, All Respondents

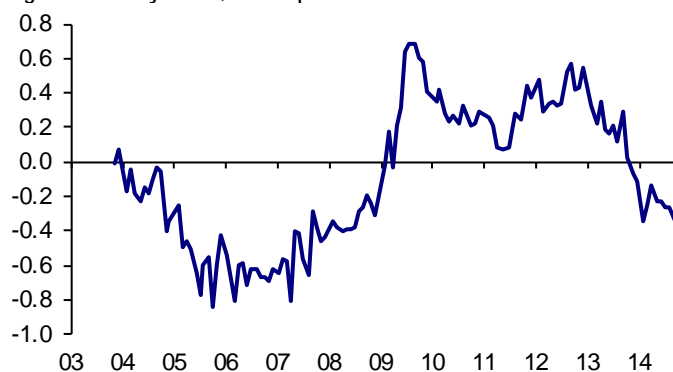


Figure 8. Utilities, All Respondents

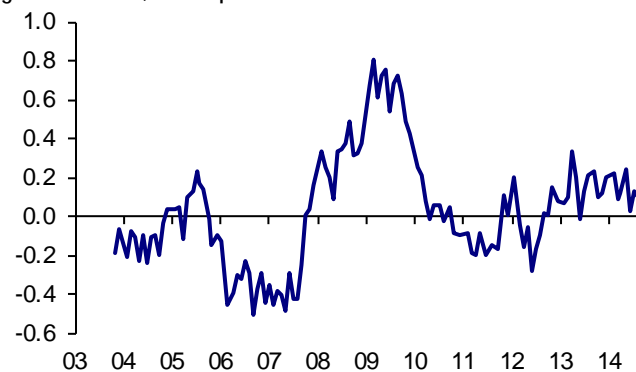


Figure 9. Industrials, All Respondents

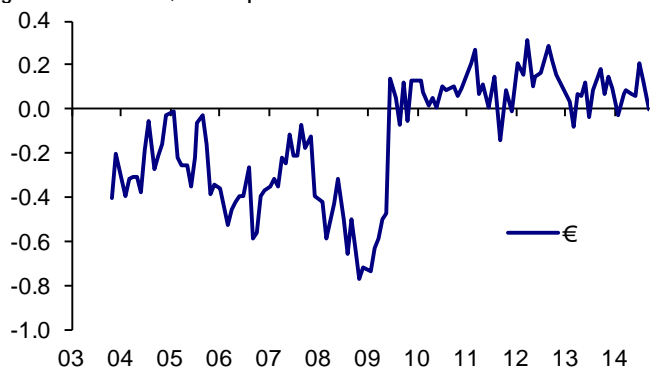


Figure 10. Non-Fin Hybrids, All (Euro) Respondents

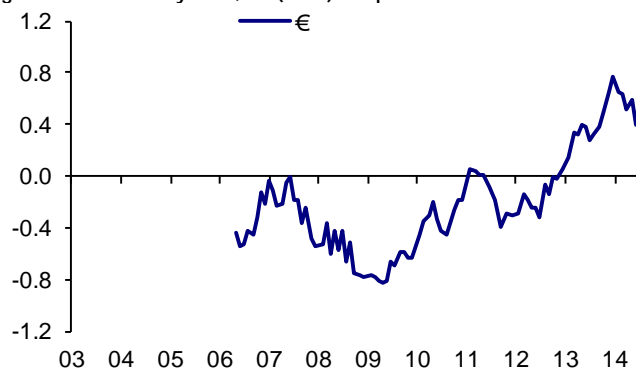


Figure 11. Banks Overall, All Respondents

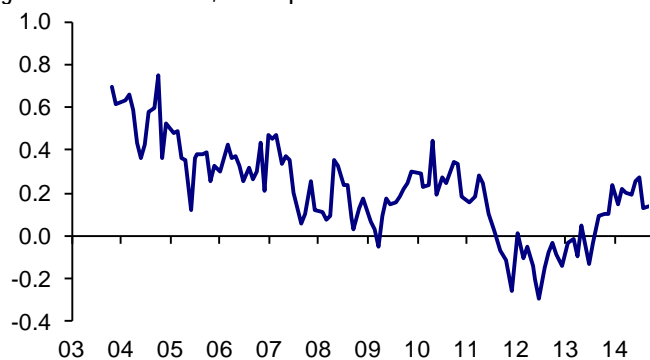
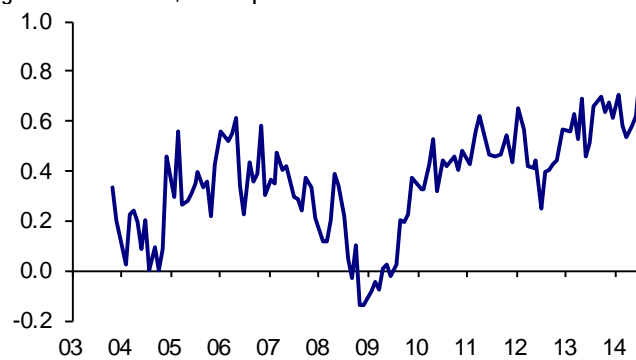


Figure 12. Insurance, All Respondents



Source: Citi Research.

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

Figure 13. Banks, Senior, All Respondents

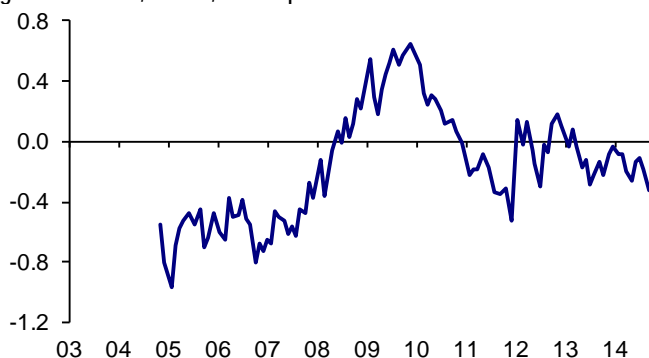


Figure 14. Banks, Tier II, All Respondents

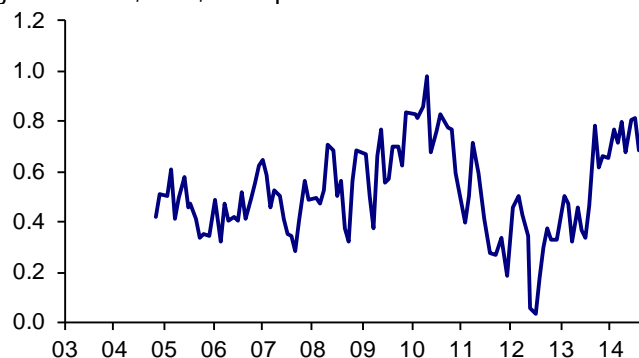


Figure 15. Banks, Tier 1, All Respondents

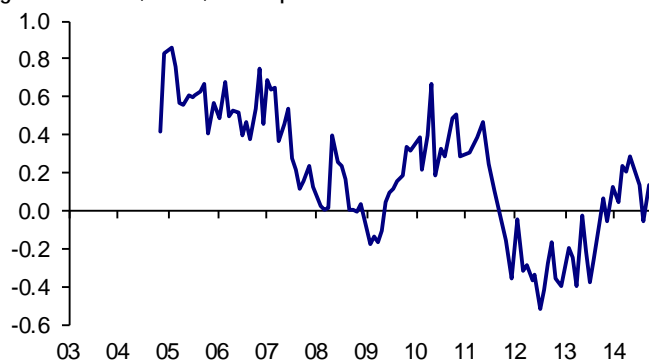


Figure 16. Credit Indices, All Respondents

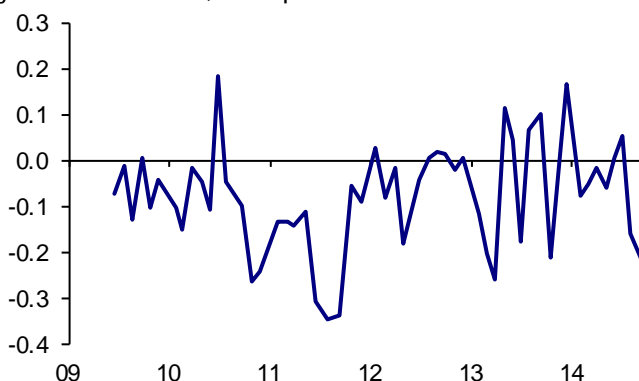


Figure 17. High Grade Overall, All Respondents



Figure 18. High Yield Overall, All Respondents

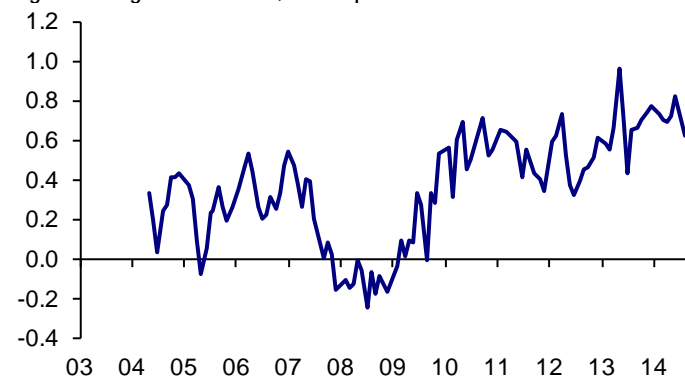


Figure 19. CREDIT Overall, All Respondents

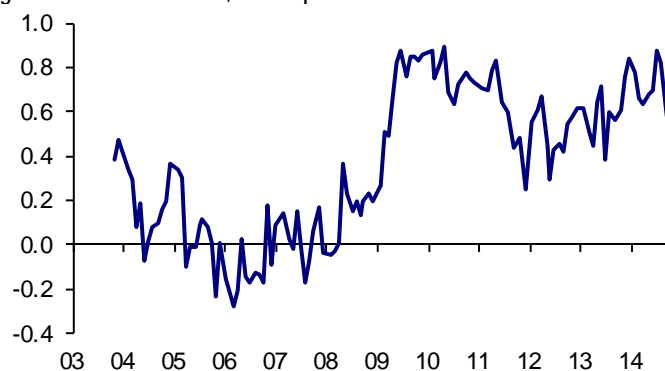
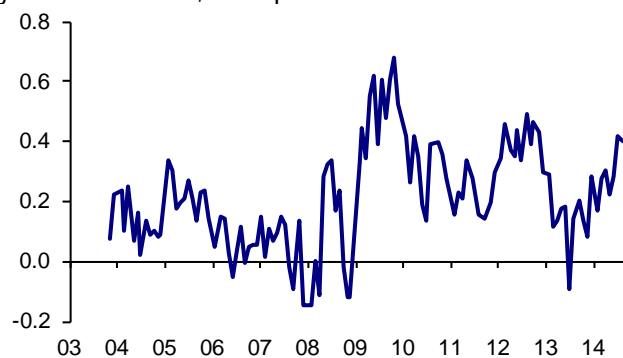


Figure 20. Cash Inflows, All Respondents



Source: Citi Research.

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

Figure 21. Lev Loans, All Respondents

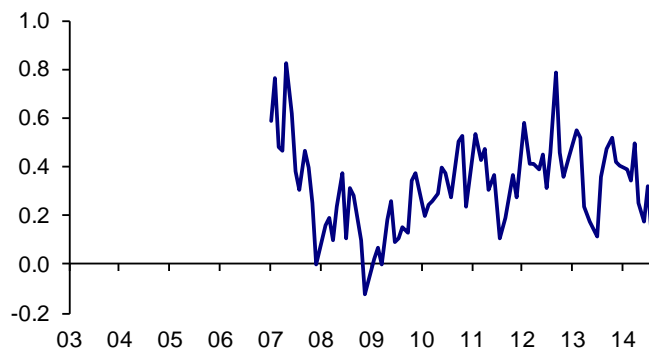


Figure 22. ABS, All (Sterling) Respondents

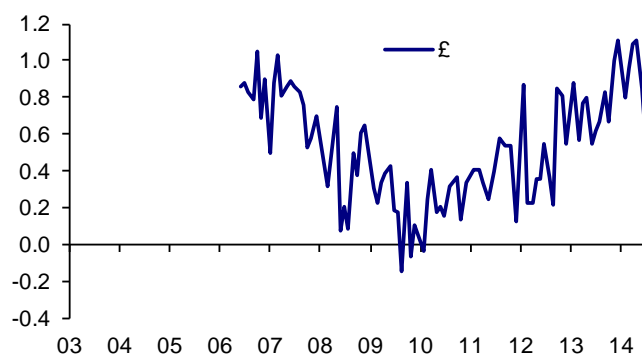


Figure 23. SAS, All (sterling) Respondents

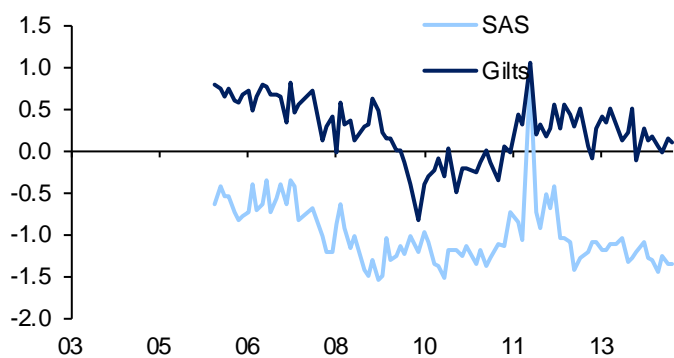


Figure 24. Core Europe, All Respondents



Figure 25. Peripheral Europe, All Respondents

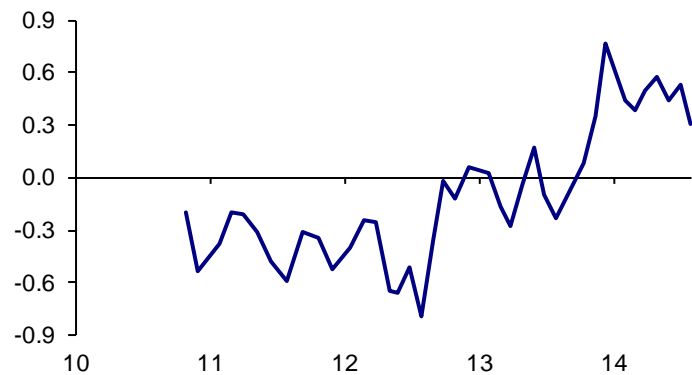
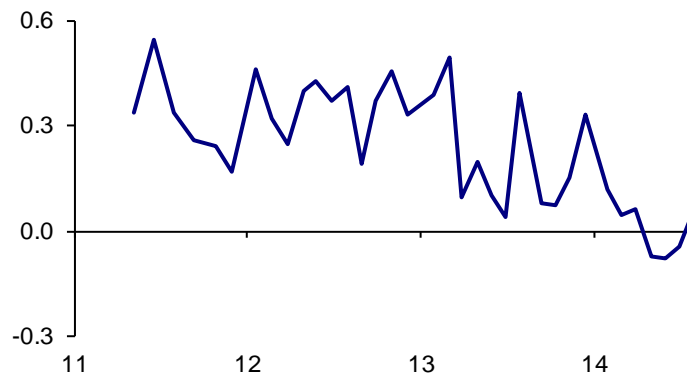


Figure 26. Covered, All Respondents



Source: Citi Research

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

Appendix A-1

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