

Global Credit Survey

A bid for beta

- Long positions rise to highest since March 2012
- Shift in positioning almost entirely attributable to high beta sectors
- Continued signs of reaching for yield, with record longs in HY and hybrids
- Longs in bank sub debt increase, whilst those in senior cut
- Cash inflows remain subdued, and go negative for first time in \$

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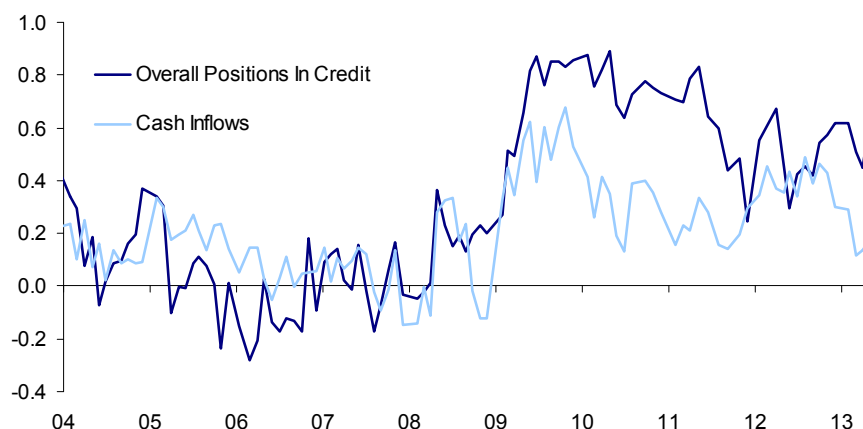
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Figure 1. Overall Positions in Credit vs Cash Inflows (Index, -2 Very Short, +2 Very Long)



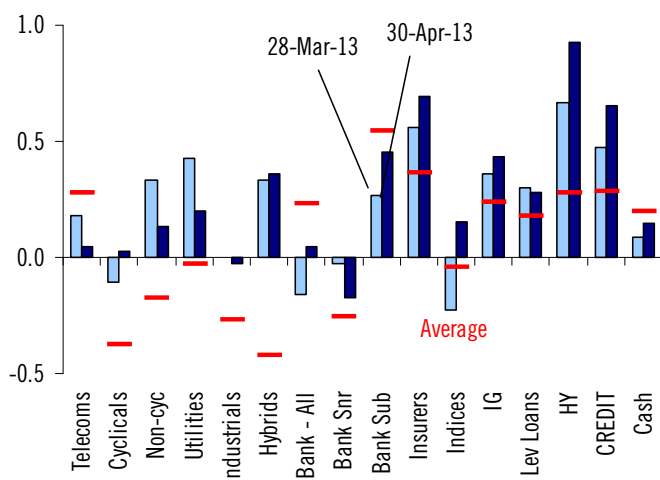
Source: Citi Research

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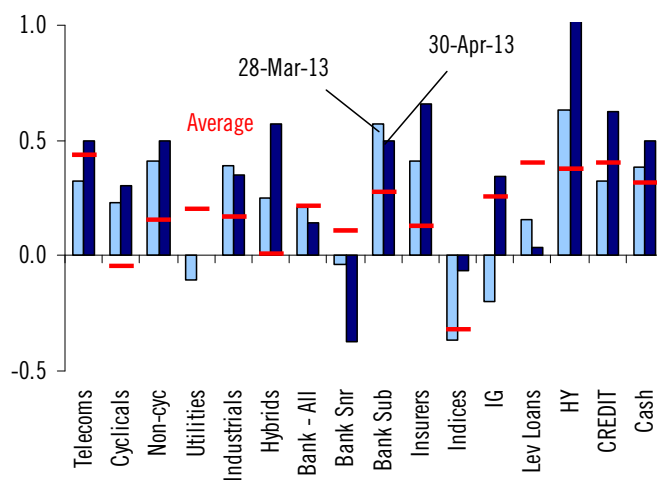
Our latest investor survey shows an increase in the aggregate long in credit that is almost entirely attributable to position extension in higher beta sectors. This suggests that investors are becoming more desperate in their hunt for yield, whilst growing increasingly sceptical of the prospects for spread performance in other parts of the credit market.

Figure 2. Real Money – Recent Positions vs Average



Source: Citi Research

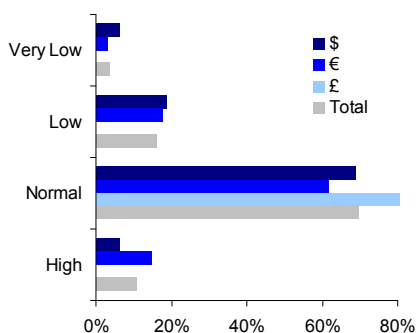
Figure 3. Leveraged Money – Real Position vs Average



Source: Citi Research

Much of the adding seems to have occurred through the credit indices, where last month's short moved to a small net long (Figure 29). Our intrinsics reports show a correspondingly sharp move in index skew.

Figure 4. How is your current cash balance relative to the historical norm?



Source: Citi Research

That said, the bid for beta was also evident across sectors. The previous short position in cyclicals shifted to a long (Figure 7), the long in industrials (Figure 13) was extended and last month's net short in peripherals was nearly neutralised (Figure 44). The highest beta sectors saw the biggest shifts in positions, with longs in HY (Figure 33), non-fin Hybrids (Figure 15) and Insurers (Figure 19) reaching new records. In banks, positions in sub-debt were extended (Figure 23), whilst the short in senior actually increased (Figure 21). We suspect this is partly a reflection of increasing concerns that the bail-in regime for senior will be brought forward to 2015, as opposed to the 2018 originally envisaged.

Positions in lower beta sectors, on the other hand, were at best static and in many cases were reduced. Longs in Non-Cyclicals (Figure 9) were cut sharply, as were those in Utilities (Figure 11) and Telecoms (Figure 5). With spreads in core non-financials near their tights of the last two years, risk-reward on these sectors is becoming progressively less attractive given the decreased scope for spreads tightening much further

Cash inflows increased on aggregate (Figure 37). Whilst \$ inflows declined sharply, in both € and £ they increased. These, together with the relatively solid cash balances shown in the responses to our question of the month (Figure 4), go some way towards offsetting the otherwise negative signal from the survey. That said, reported inflows are roughly half the level they were last time we saw this level of overall positioning, back in March 2012, just prior to a correction. While central bank liquidity seems set to continue egging the market on, and there is little sign of a clear negative catalyst for now, the survey provides clear evidence of just how stretched the credit market is becoming.

Figure 5. Telecoms, All Respondents

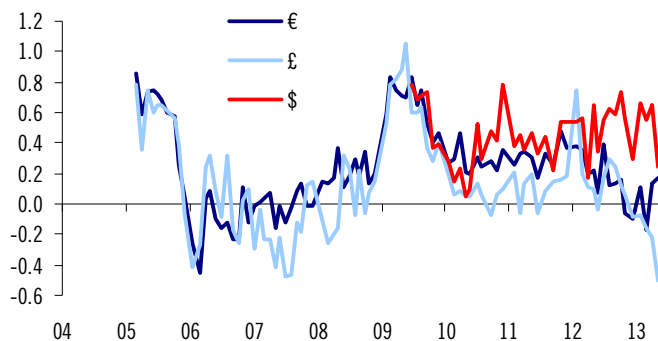


Figure 6. Telecoms, Real Money and Leveraged Accounts

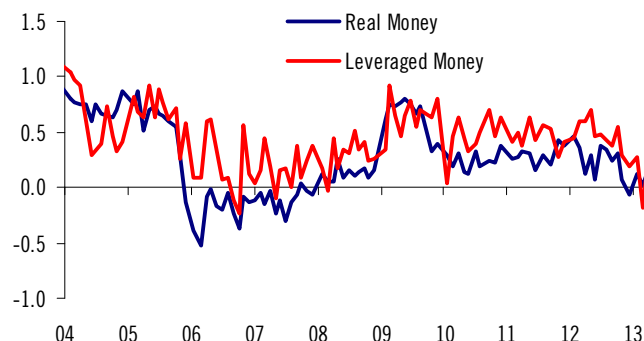


Figure 7. Cyclical, All Respondents

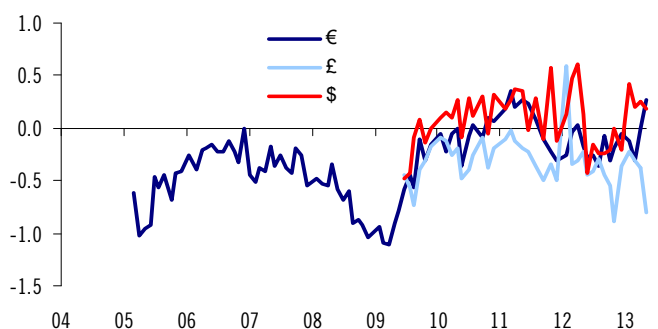


Figure 8. Cyclical, Real Money and Leveraged Accounts

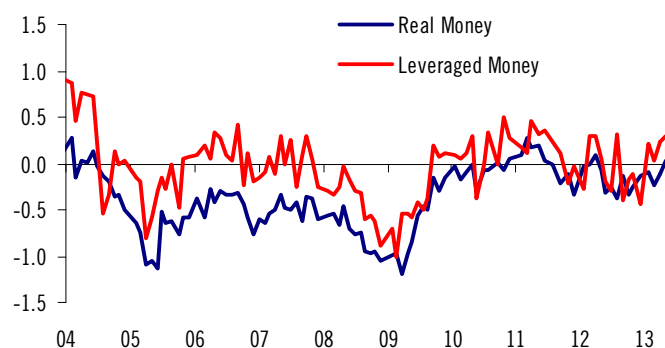


Figure 9. Non-cyclical, All Respondents

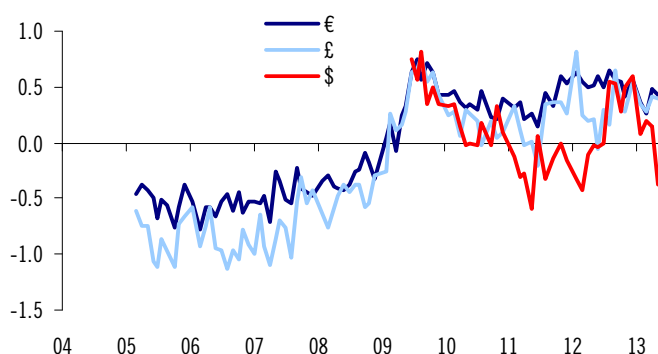


Figure 10. Non-cyclical, Real Money and Leveraged Accounts

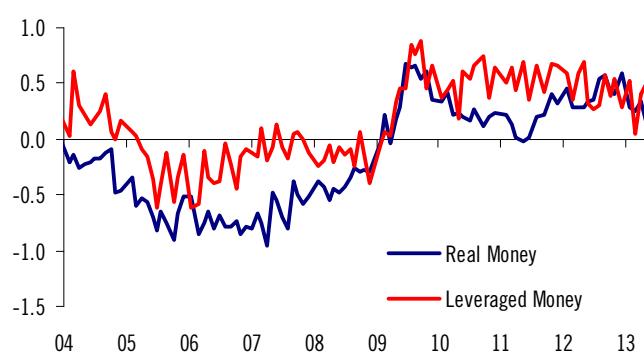


Figure 11. Utilities, All Respondents

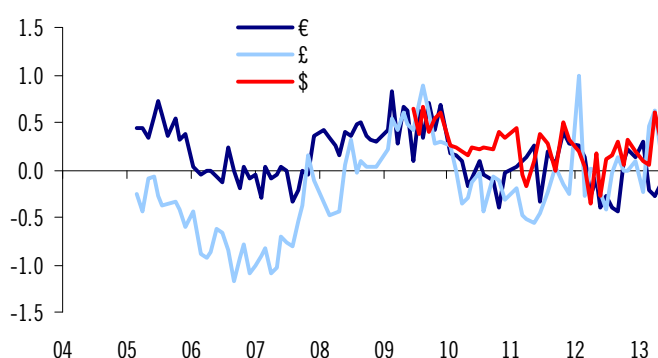
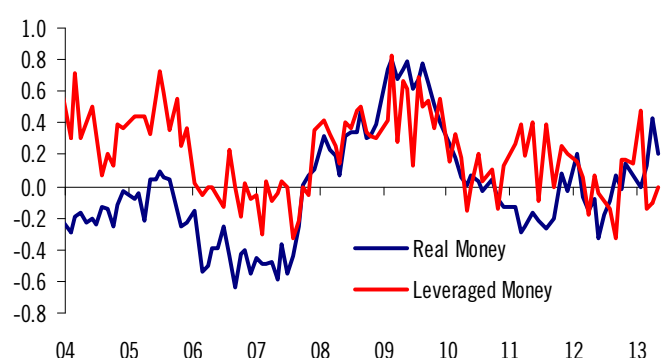


Figure 12. Utilities, Real Money and Leveraged Accounts



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

Figure 13. Industrials, All Respondents

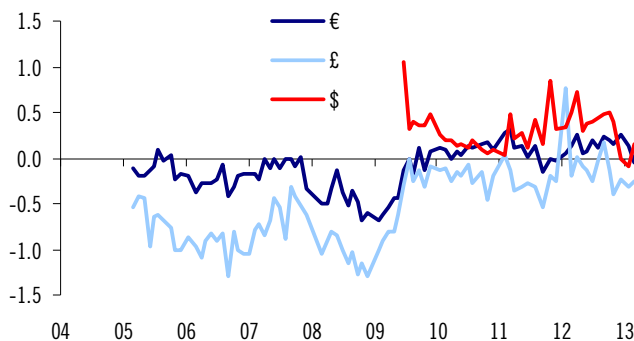


Figure 14. Industrials, Real Money and Leveraged Accounts

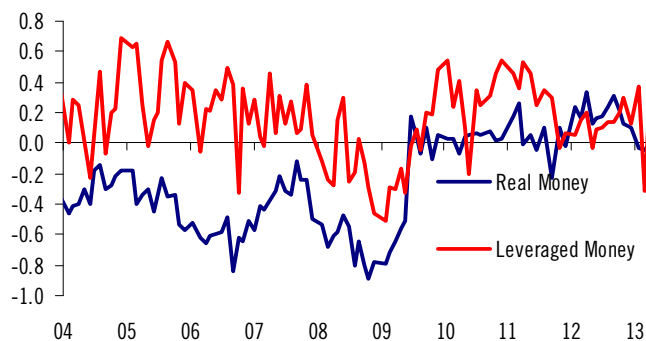


Figure 15. Non-Fin Hybrids, All Respondents

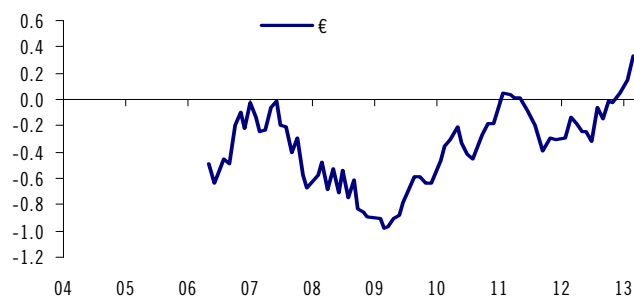


Figure 16. Non-Fin Hybrids, Real Money and Leveraged Accounts

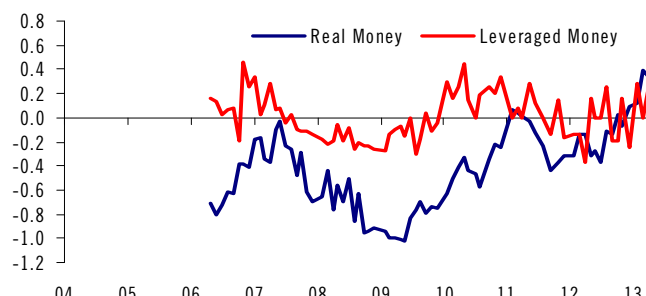


Figure 17. Banks Overall, All Respondents

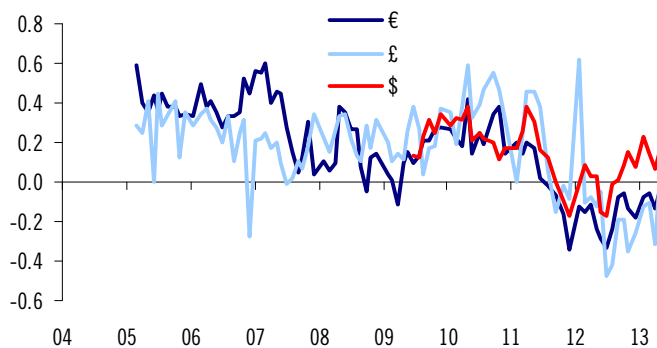


Figure 18. Banks Overall, Real Money and Leveraged Accounts

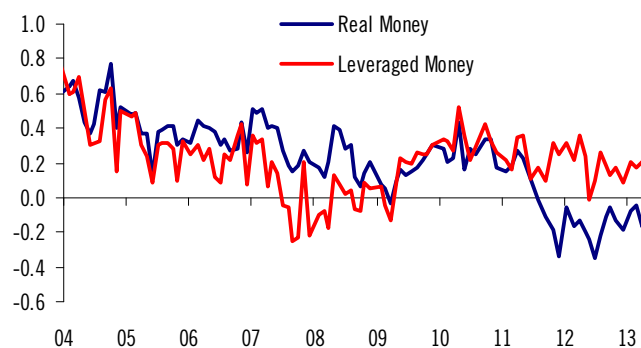


Figure 19. Insurance, All Respondents

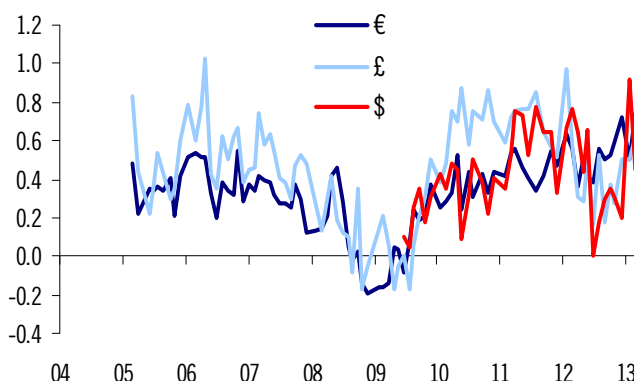
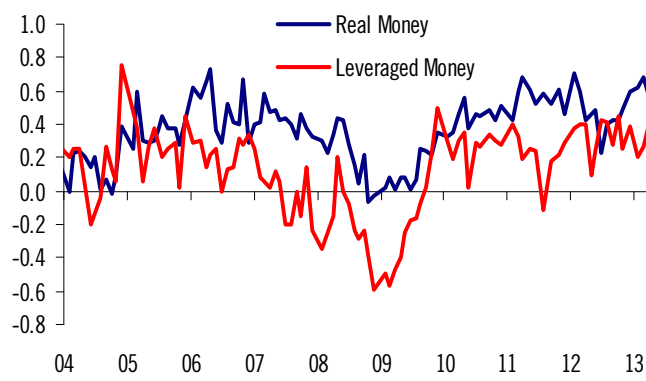


Figure 20. Insurance, Real Money and Leveraged Accounts



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

Figure 21. Banks, Senior, All Respondents

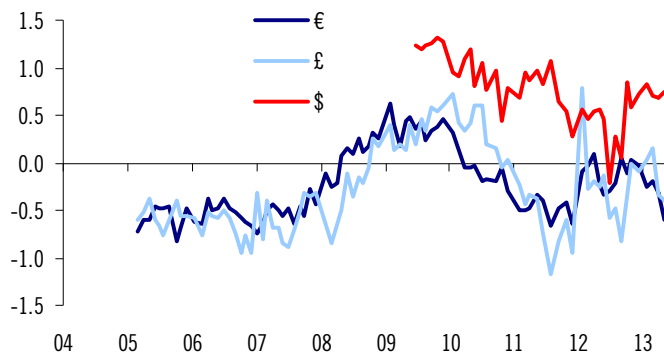


Figure 22. Banks, Senior, Real Money and Leveraged Accounts

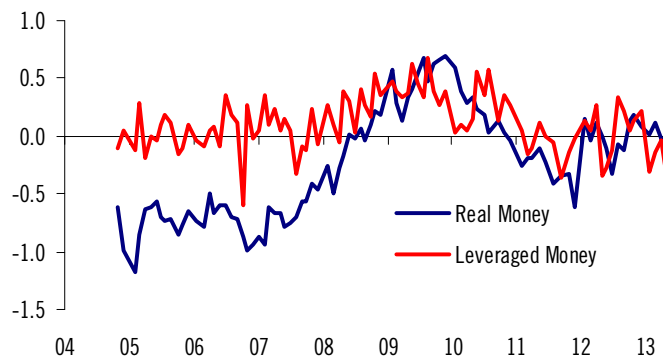


Figure 23. Banks, LT2, All Respondents

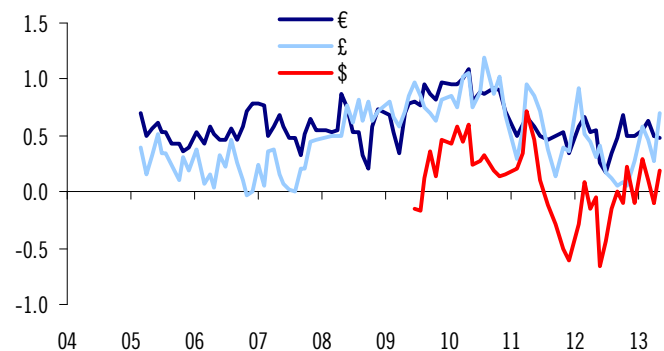


Figure 24. Banks, LT2, Real Money and Leveraged Accounts

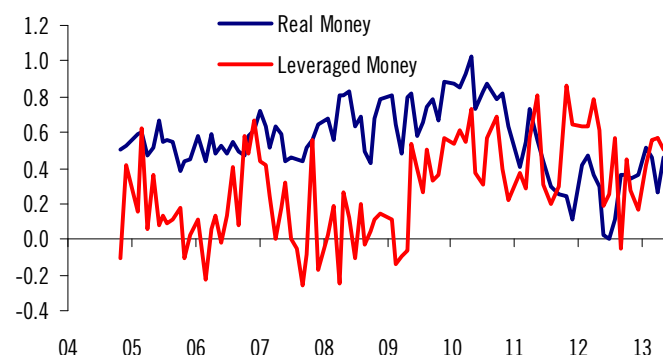


Figure 25. Banks, UT2, All Respondents

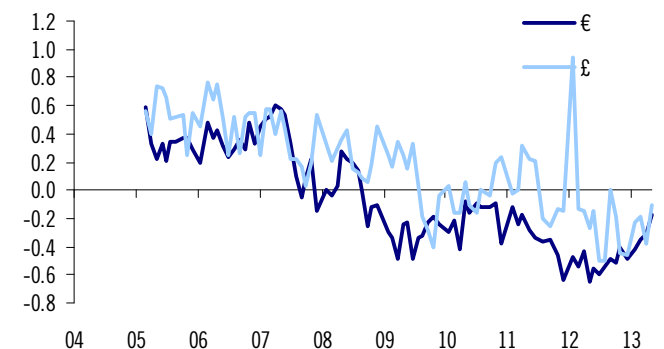


Figure 26. Banks, UT2, Real Money and Leveraged Accounts

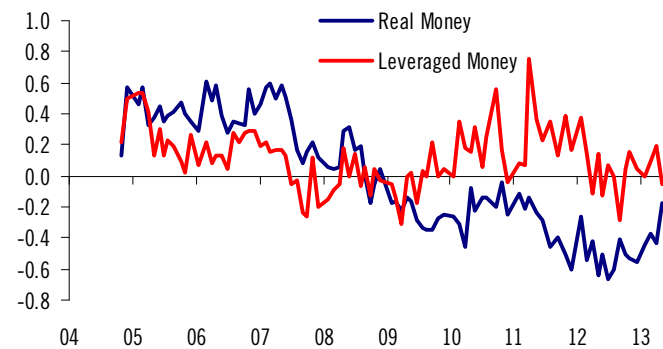


Figure 27. Banks, Tier 1, All Respondents

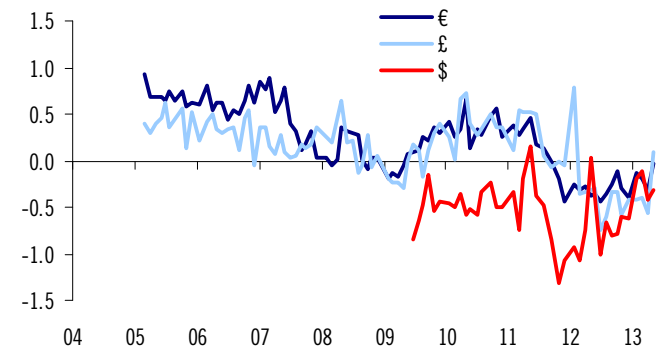
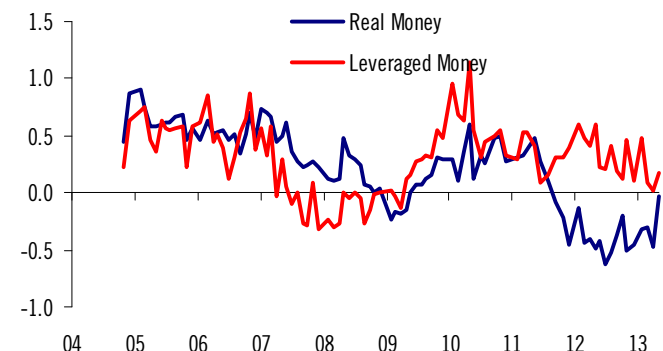


Figure 28. Banks, Tier 1, Real Money and Leveraged Accounts



Source: Citi Research

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

Figure 29. Credit Indices, All Respondents

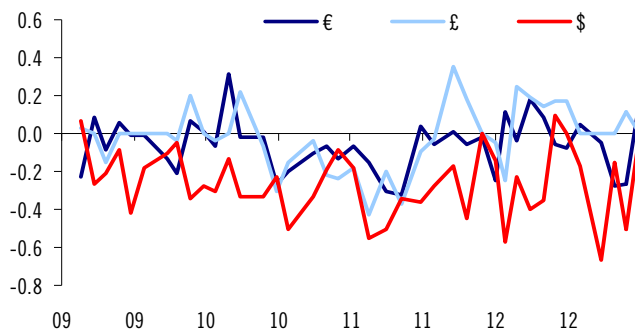


Figure 30. Credit Indices, Real Money and Leveraged Accounts

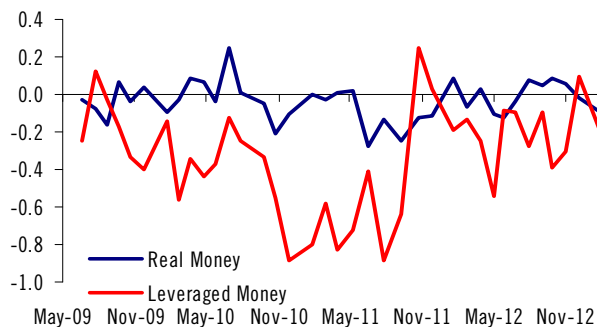


Figure 31. High Grade Overall, All Respondents

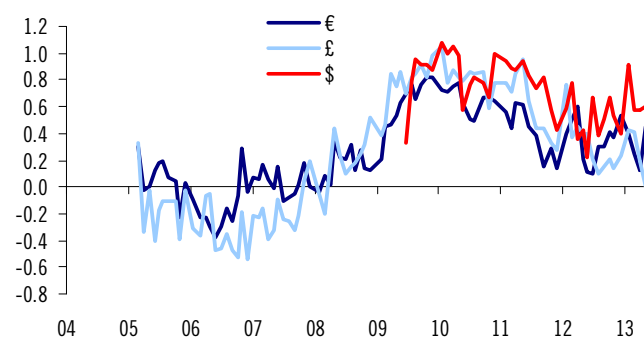


Figure 32. High Grade, Real Money and Leveraged Accounts

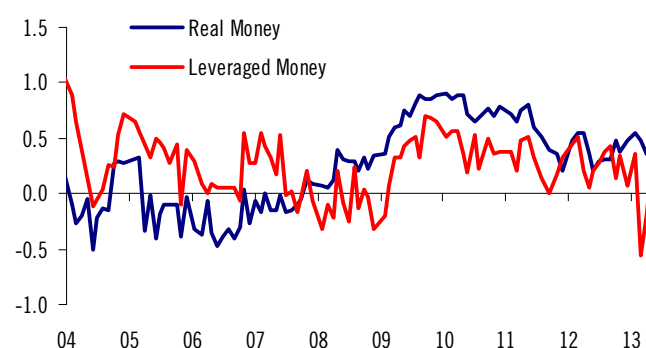


Figure 33. High Yield Overall, All Respondents

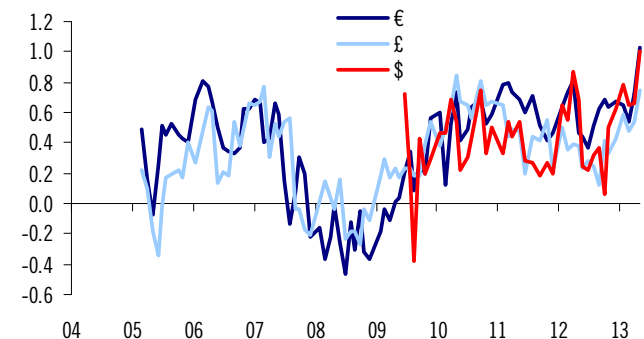


Figure 34. High Yield, Real Money and Leveraged Accounts

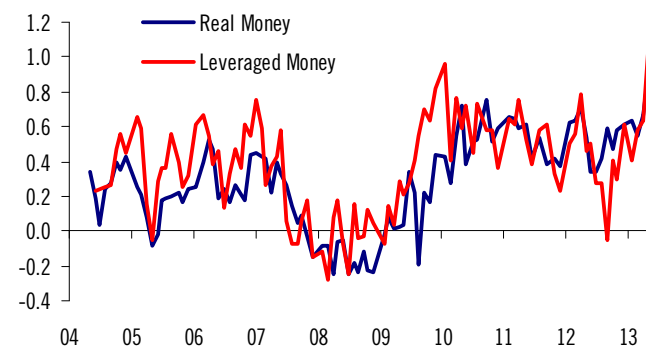


Figure 35. CREDIT Overall, All Respondents

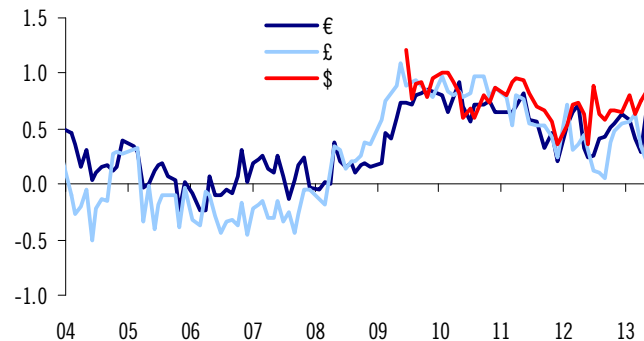
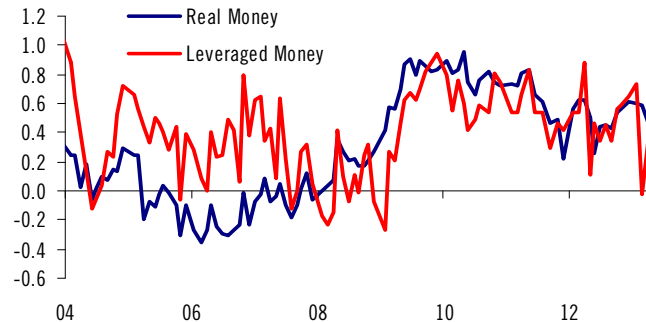


Figure 36. CREDIT Overall, Real Money and Leveraged Accounts



Source: Citi Research

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

Figure 37. Cash Inflows, All Respondents

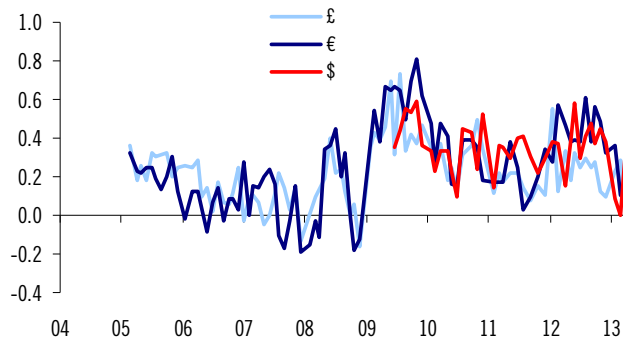


Figure 38. Cash Inflows, Real Money and Leveraged Accounts

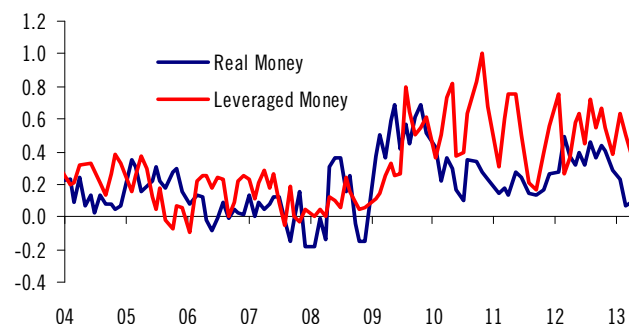


Figure 39. Lev Loans, All Respondents

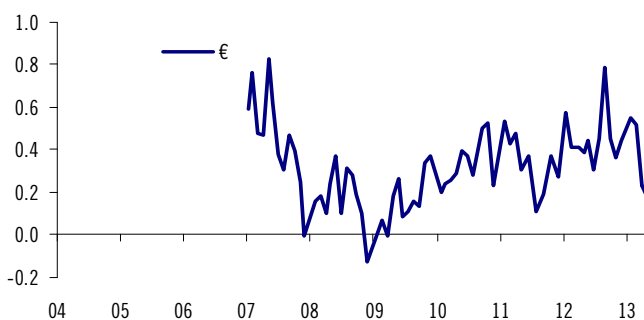


Figure 40. Lev Loans, Real Money and Leveraged Accounts

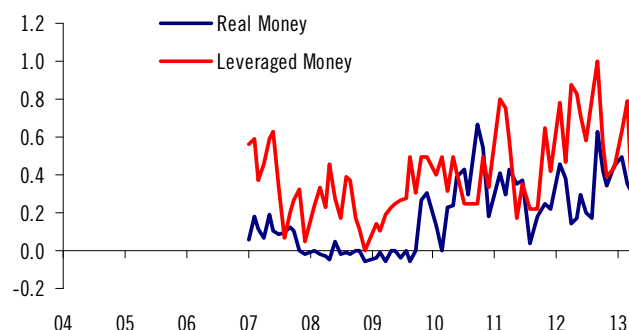


Figure 41. ABS, All (Sterling) Respondents

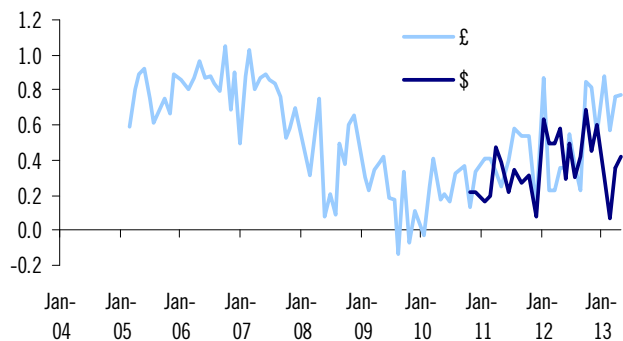


Figure 42. SAS, All (sterling) Respondents

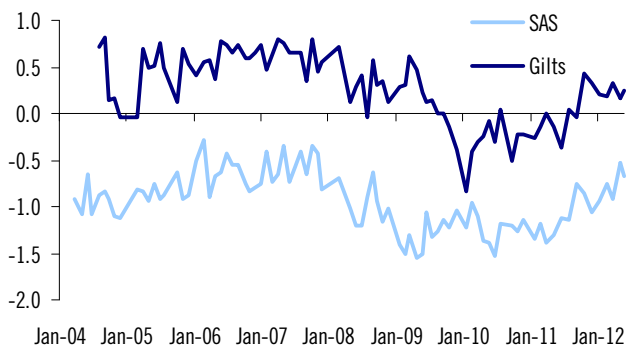


Figure 43. Gilts, All (Sterling) Respondents

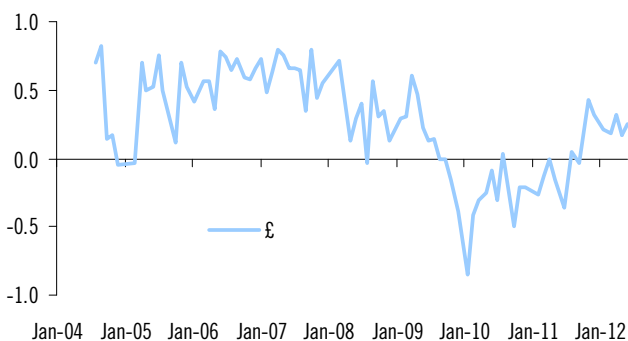
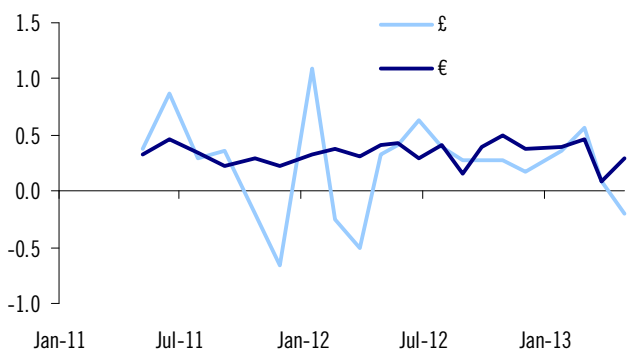


Figure 43. Covered, All Respondents



Source: Citi Research

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Figure 44. Peripheral Europe, Real and Leveraged Accounts

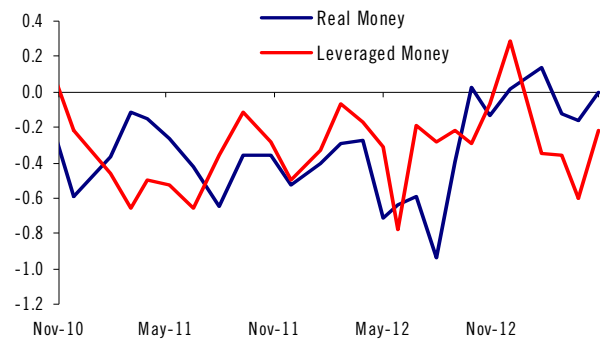
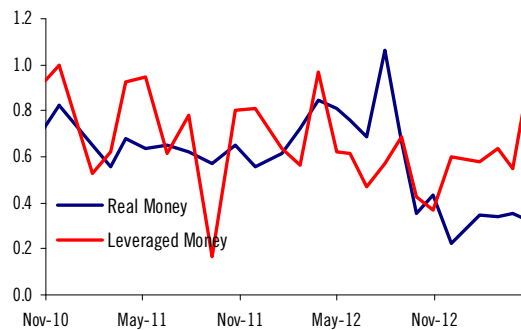


Figure 45. Core, Real And Leveraged Accounts



Source: Citi Research
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Appendix A-1

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