

Global Credit Survey

Boing!

- Positions bounce back after last month's fall.
- Inflows also return to positive territory.
- Most adding in high beta sectors, with insurance, hybrids and HY particularly elevated.
- Continuing shorts in bank sub debt and peripherals.
- Overall level of positions again becoming extended, but no immediate signs of danger.

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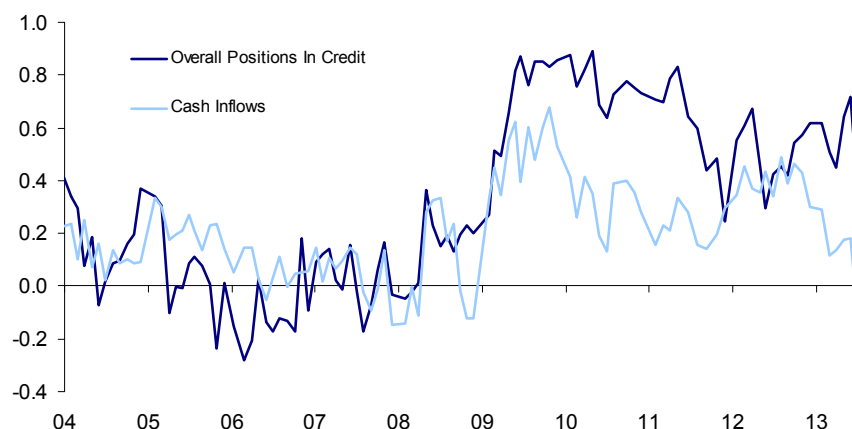
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Figure 1. Overall Positions in Credit vs Cash Inflows (Index, -2 Very Short, +2 Very Long)



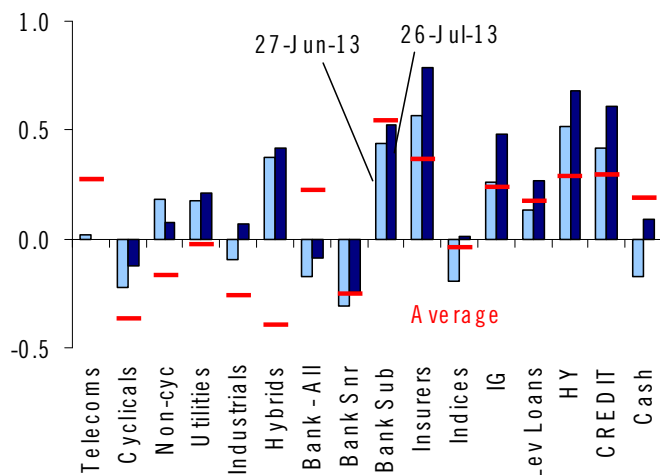
Source: Citi Research

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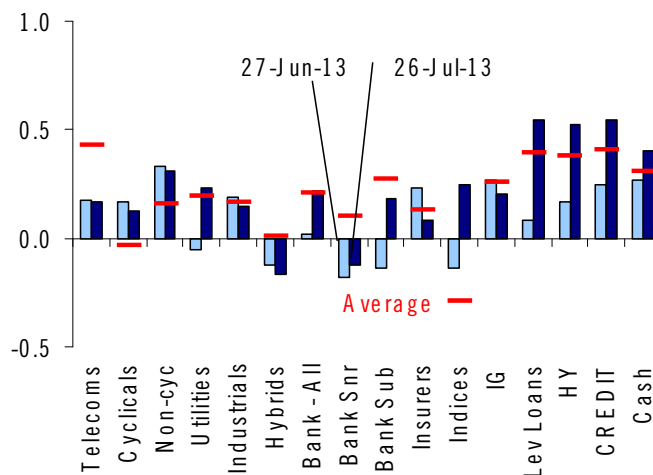
The results of our latest investor survey show a sharp reversal of the pattern we saw last month. There was a significant extension of the aggregate long in credit, accompanied by a marked recovery in inflows. Investors extended positions almost across the board, with a particular increase in higher beta sectors.

Figure 2. Real Money – Recent Positions vs Average



Source: Citi Research

Figure 3. Leveraged Money – Real Position vs Average



Source: Citi Research

The survey results go some way towards explaining the resilience we've seen in cash credit markets lately. Whether it was industrials (Figure 7), bank sub debt (Figure 17), insurers (Figure 19) or HY (Figure 33), investors sought to increase their exposure to the riskiest sectors, and this has been echoed in the outperformance of most higher beta parts of the market over the last couple of weeks. And the heightened risk appetite wasn't limited to high beta sectors either. Positions in utilities (Figure 10) increased, whilst the long in core countries (Figure 45) is now close to its highs of the year. Even for non-cyclicals (Figure 8), which was the only sector that saw a real cut in positioning, this was almost solely attributable to dollar investors, whilst the sterling and euro longs stayed stable. The reduced risk aversion was also evident in the moves in credit indices (Figure 28). Whilst the volatility last month led investors across currencies to put on index shorts, these were all removed this month.

In one notable exception to the overall picture of increased risk appetite driving investors longer, euro investors' short in senior bank debt actually increased (Figure 20). This would suggest that investors share our concerns about the potential impact of the new regulatory framework for European bank debt due to come into place over the next few years.

The survey results leave us with mixed feelings. On the one hand we're reassured by the fact that the outflows that so concerned us last month have reversed. Yet we're still not entirely comfortable with longs, particularly in the riskiest parts of the market, having snapped back so quickly. Although not quite at their highs of the year, the fact that positions in several sectors are not too far off serves to illustrate the pressure investors feel to buy into the market at the first sign of recovery. Yes, we're relatively sanguine about the prospects for credit over the summer, and both options markets and the renewed periphery short show that the recovery in positions has been far from indiscriminate. However, given the potential for increased volatility come autumn, paying close attention to how inflows and investor positioning develop over the coming weeks would be well advised.

Figure 4. Telecoms, All Respondents

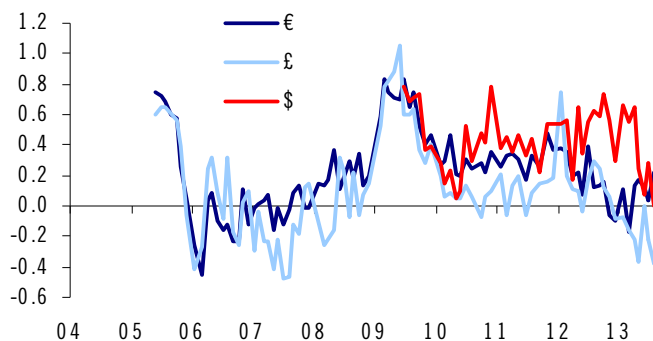


Figure 5. Telecoms, Real Money and Leveraged Accounts

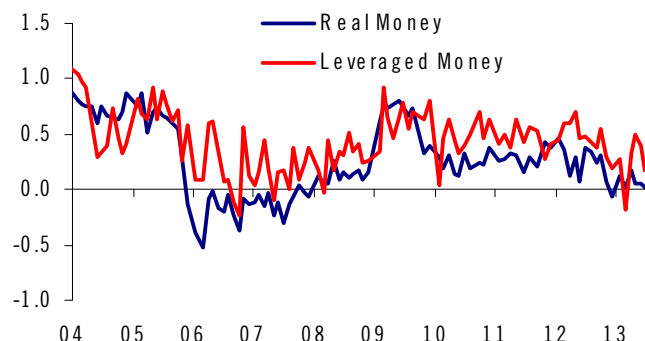


Figure 6. Cyclical, All Respondents

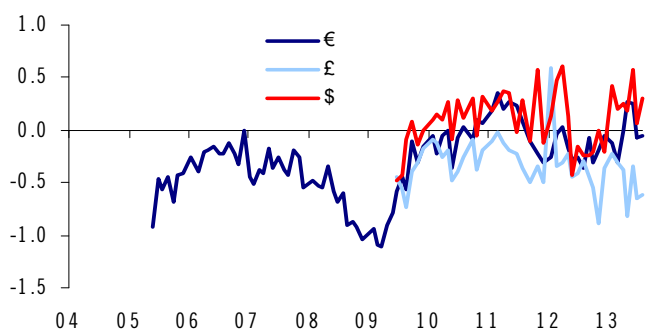


Figure 7. Cyclical, Real Money and Leveraged Accounts

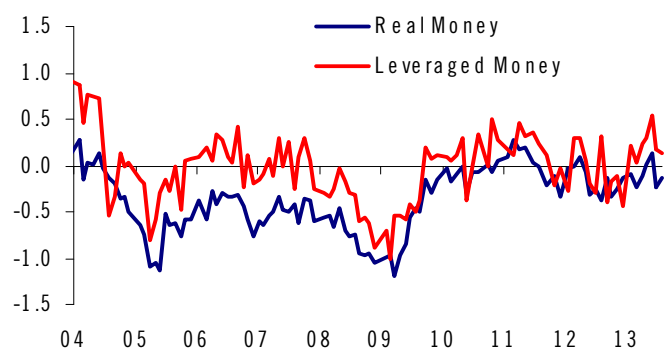


Figure 8. Non-cyclical, All Respondents

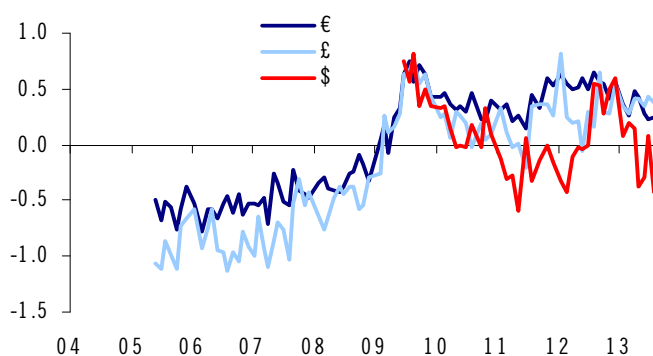


Figure 9. Non-cyclical, Real Money and Leveraged Accounts

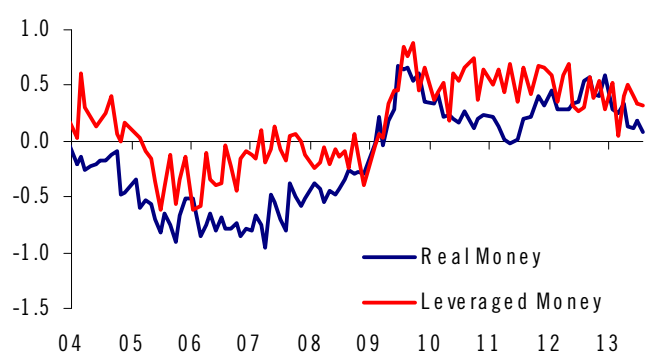


Figure 10. Utilities, All Respondents

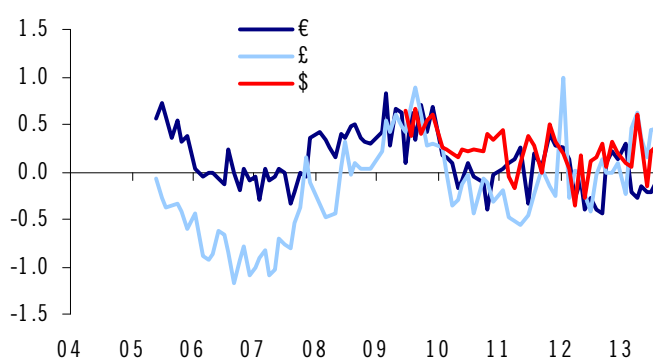
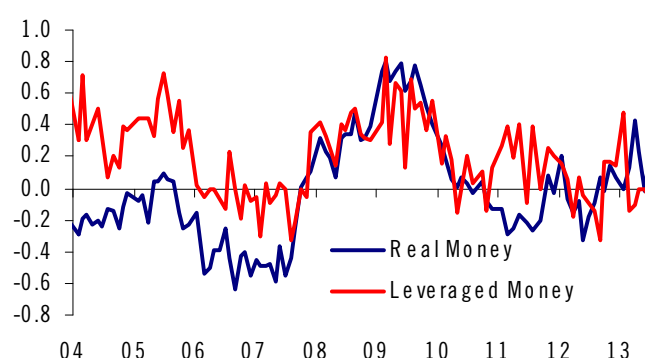


Figure 11. Utilities, Real Money and Leveraged Accounts



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

Source: Citi Research

Figure 12. Industrials, All Respondents

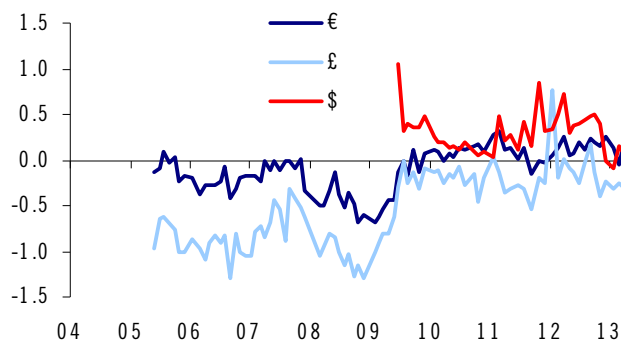


Figure 13. Industrials, Real Money and Leveraged Accounts

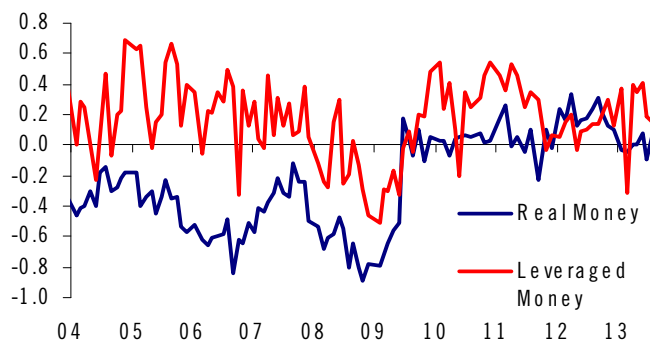


Figure 14. Non-Fin Hybrids, All Respondents

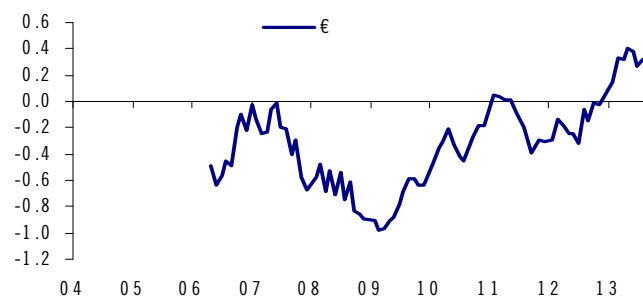


Figure 15. Non-Fin Hybrids, Real Money and Leveraged Accounts

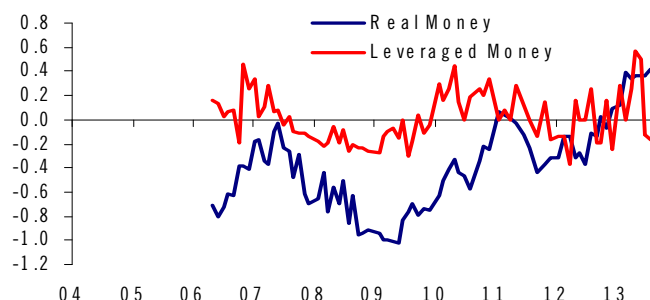


Figure 16. Banks Overall, All Respondents

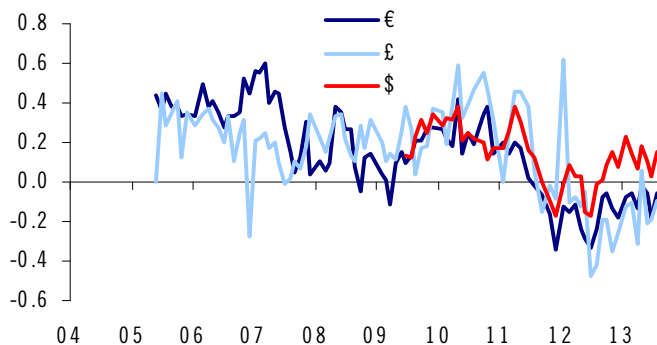


Figure 17. Banks Overall, Real Money and Leveraged Accounts

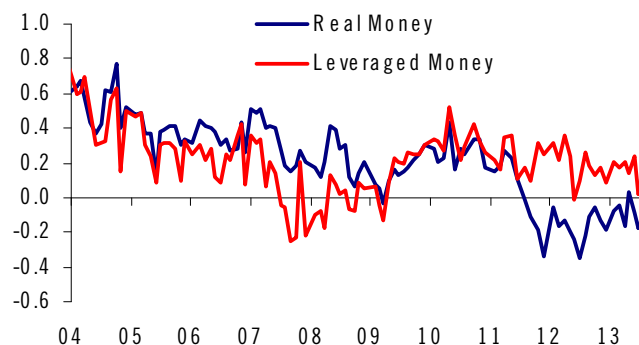


Figure 18. Insurance, All Respondents

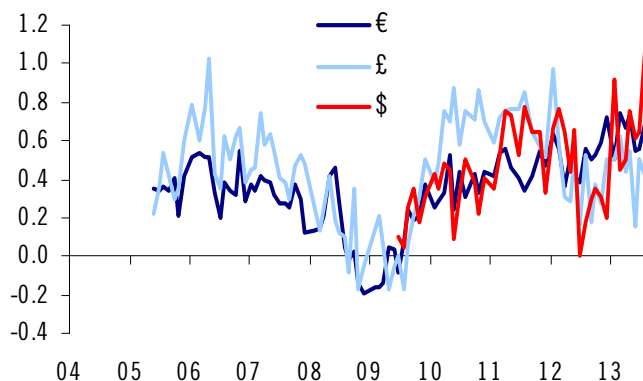
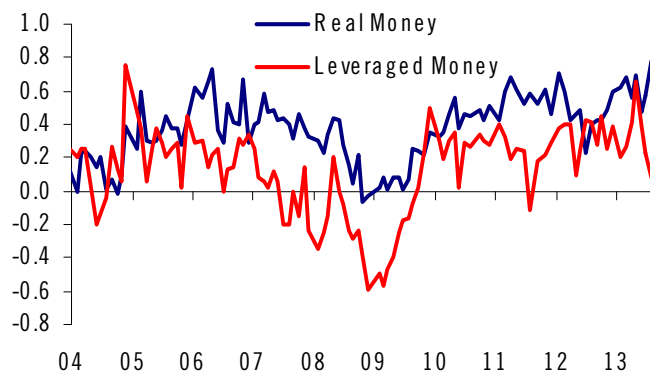


Figure 19. Insurance, Real Money and Leveraged Accounts



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

Source: Citi Research

Figure 20. Banks, Senior, All Respondents

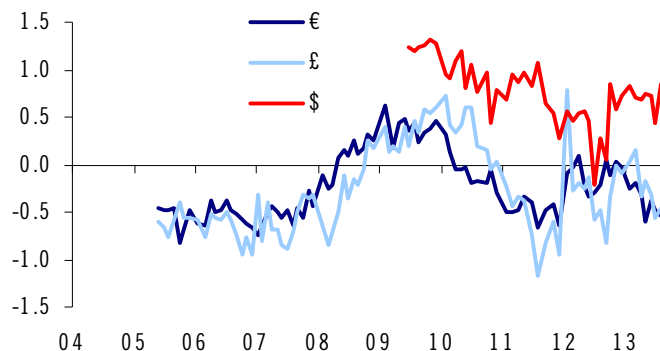


Figure 21. Banks, Senior, Real Money and Leveraged Accounts

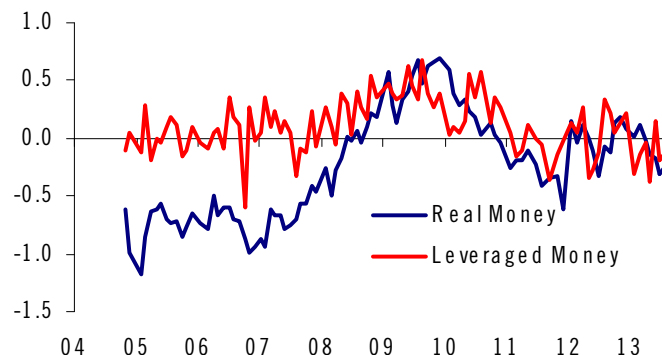


Figure 22. Banks, LT2, All Respondents

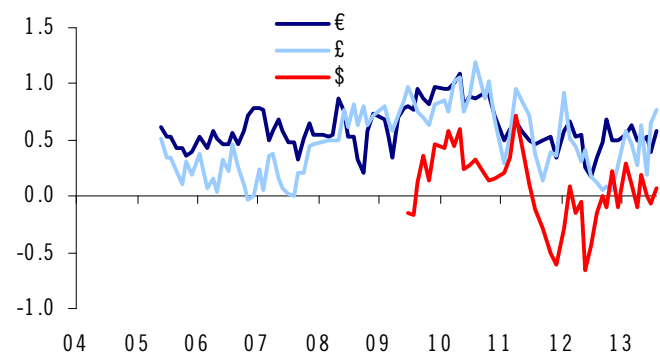


Figure 23. Banks, LT2, Real Money and Leveraged Accounts

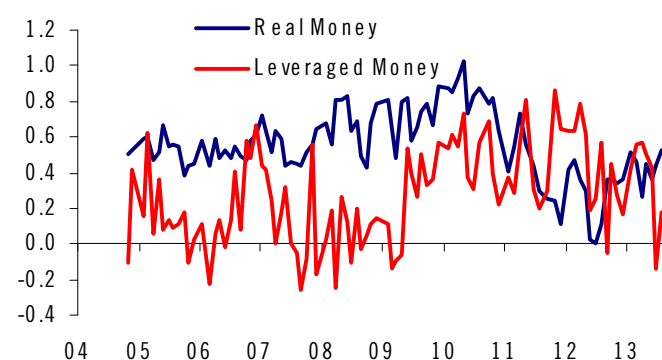


Figure 24. Banks, UT2, All Respondents

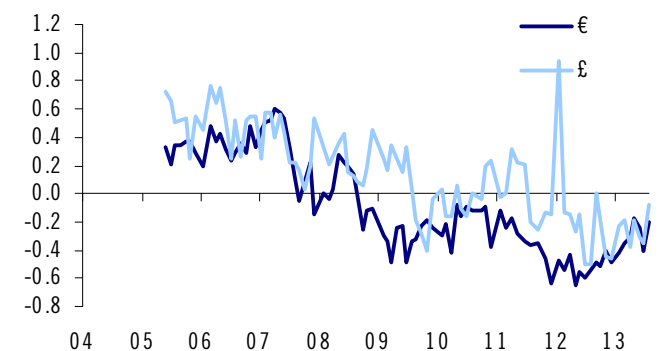


Figure 25. Banks, UT2, Real Money and Leveraged Accounts

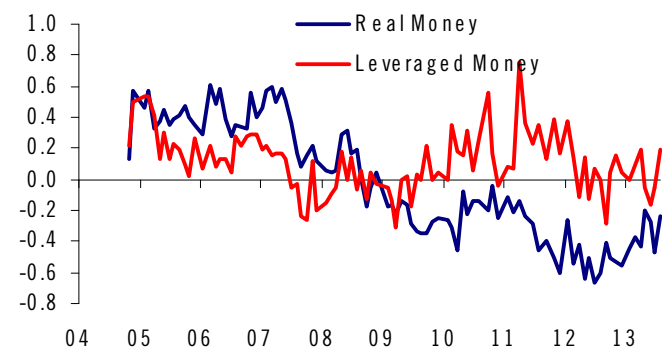


Figure 26. Banks, Tier 1, All Respondents

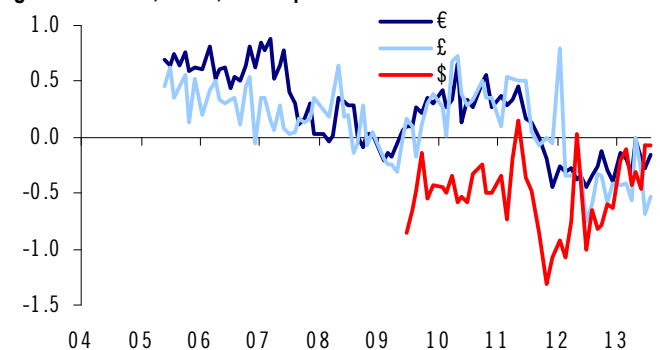
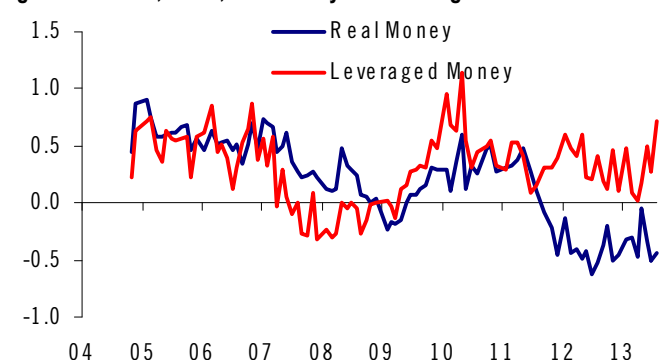


Figure 27. Banks, Tier 1, Real Money and Leveraged Accounts



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

Source: Citi Research

Figure 28. Credit Indices, All Respondents

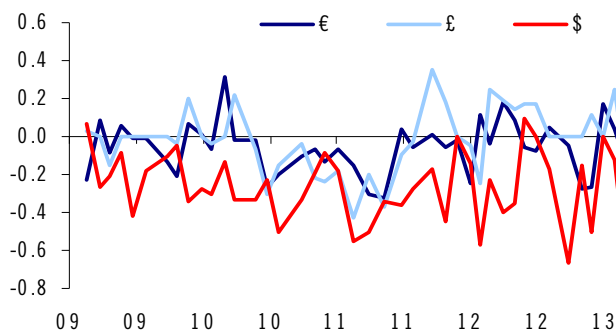


Figure 29. Credit Indices, Real Money and Leveraged Accounts

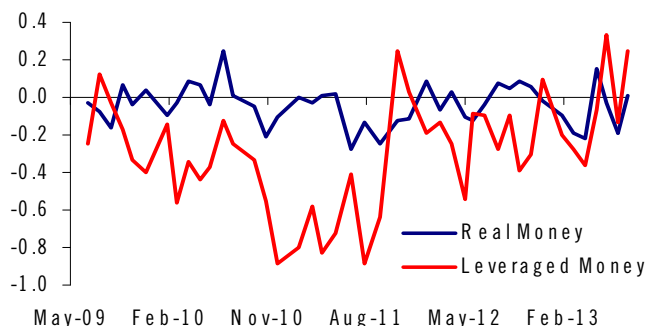


Figure 30. High Grade Overall, All Respondents

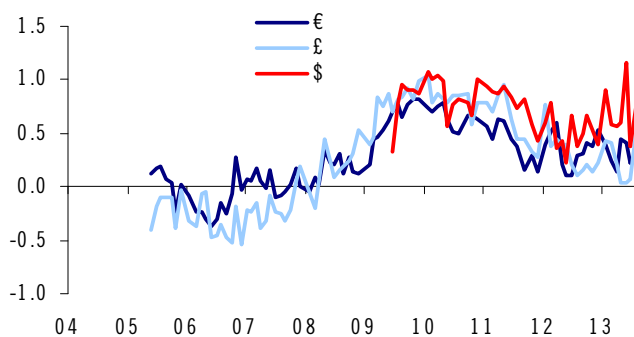


Figure 31. High Grade, Real Money and Leveraged Accounts

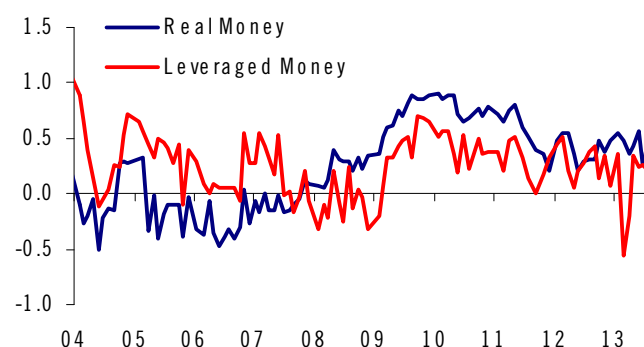


Figure 32. High Yield Overall, All Respondents

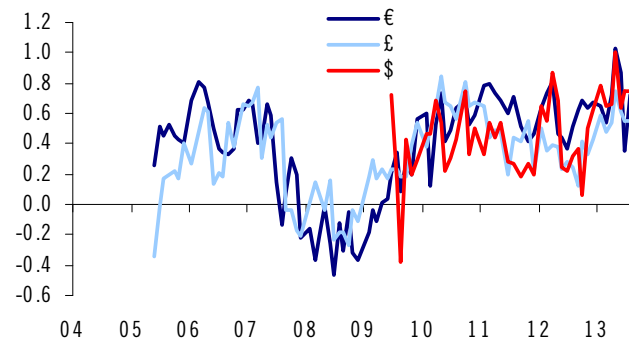


Figure 33. High Yield, Real Money and Leveraged Accounts

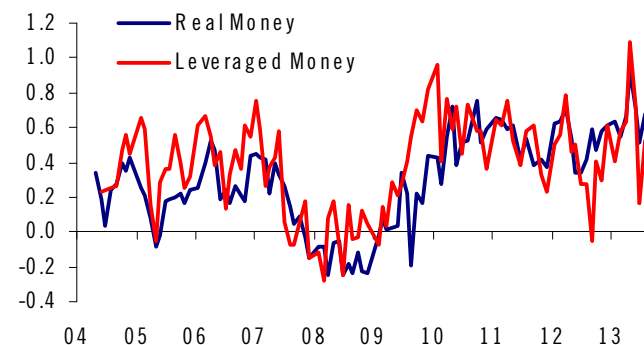


Figure 34. CREDIT Overall, All Respondents

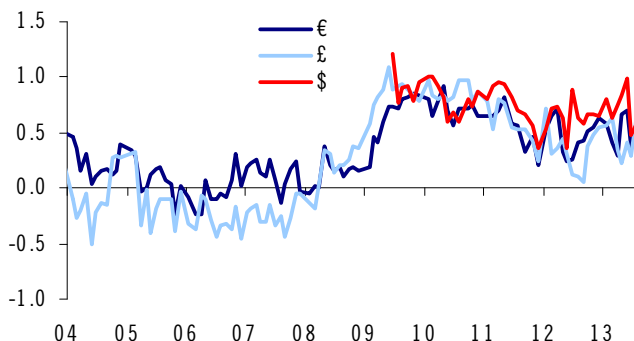
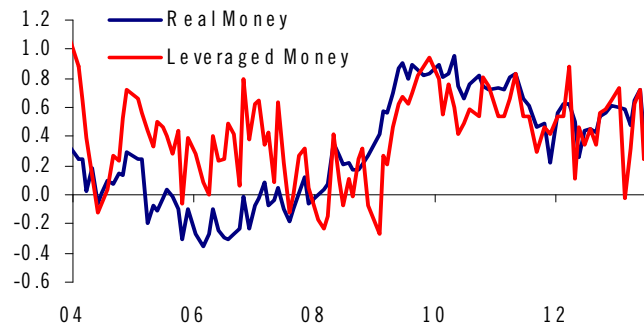


Figure 35. CREDIT Overall. Real Money and Leveraged Accounts



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

Source: Citi Research

Figure 36. Cash Inflows, All Respondents

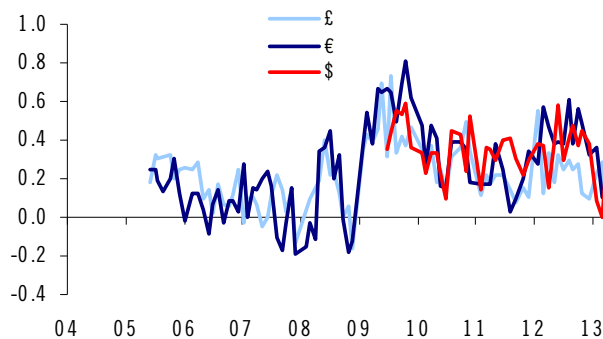


Figure 37. Cash Inflows, Real Money and Leveraged Accounts

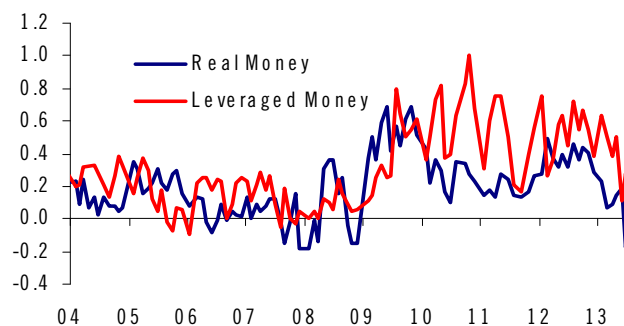


Figure 38. Lev Loans, All Respondents

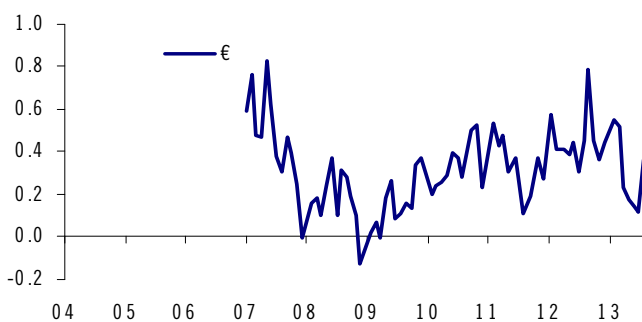


Figure 39. Lev Loans, Real Money and Leveraged Accounts

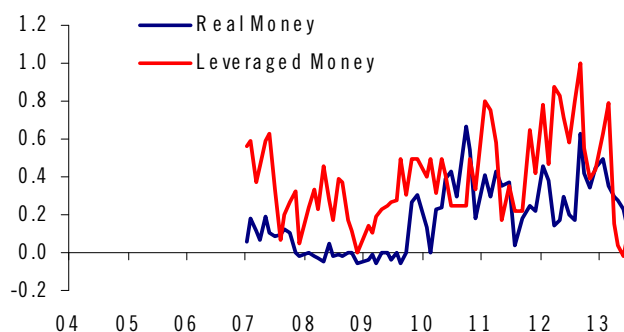


Figure 40. ABS, All (Sterling) Respondents

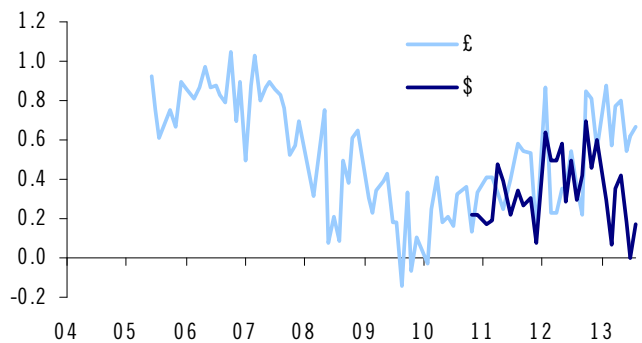


Figure 41. SAS, All (sterling) Respondents

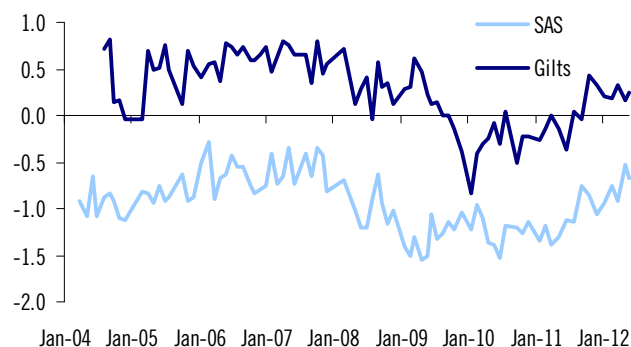


Figure 42. Gilts, All (Sterling) Respondents

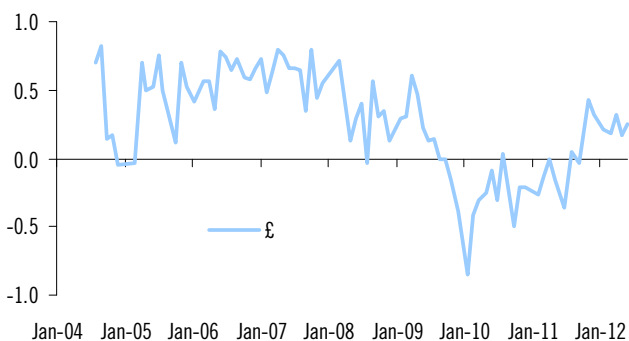
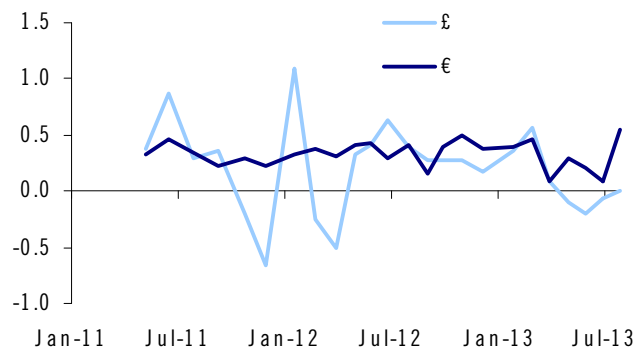


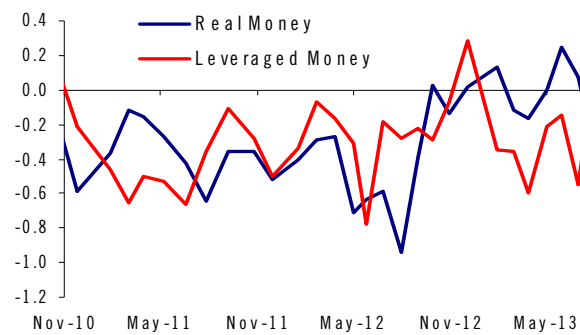
Figure 43. Covered, All Respondents



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

Source: Citi Research

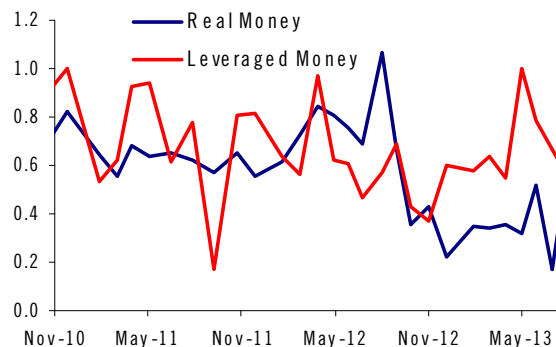
Figure 44. Peripheral Europe, Real and Leveraged Accounts



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

Source: Citi Research

Figure 45. Core, Real And Leveraged Accounts



Appendix A-1

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