

Global Credit Survey

Shedding summer shorts for autumn longs

- Overall positions longer, with almost all of the increase attributable to financials
- Net increase in cash inflows masks divergence between currencies: € inflows rebounded whilst those in £ and \$ were reduced
- Positions in banks increase, with positions in senior at their highest since June 2010
- 71% of investors put the US' chances of falling off the fiscal cliff at under 20%
- Core longs and periphery shorts both cut back

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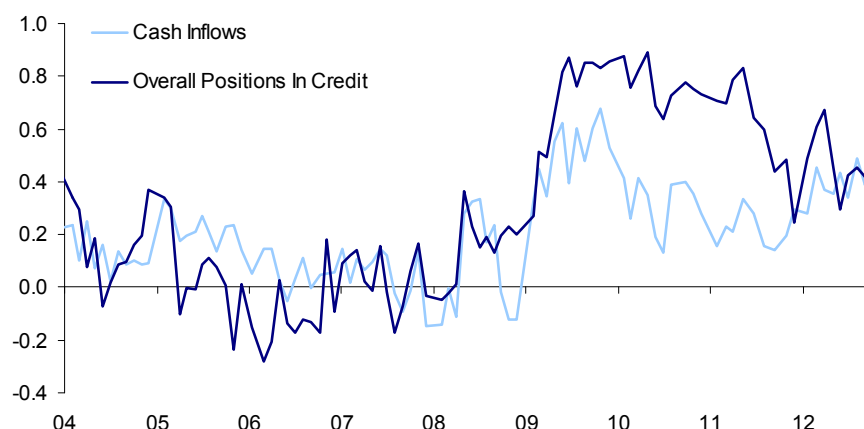
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Figure 1. Overall Positions in Credit vs Cash Inflows (Index, -2 Very Short, +2 Very Long)



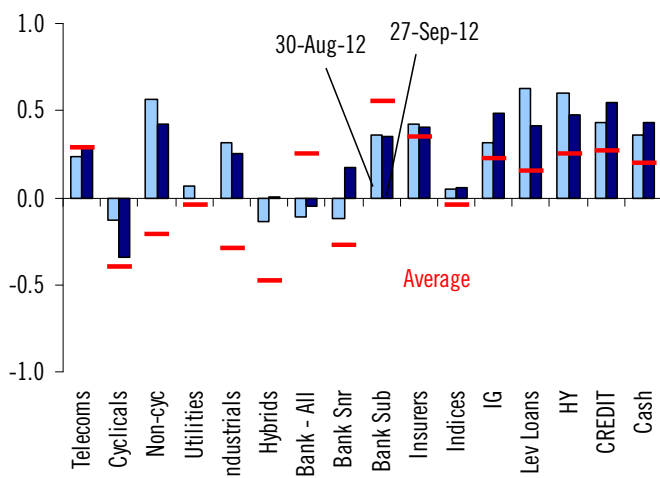
Source: Citi Research

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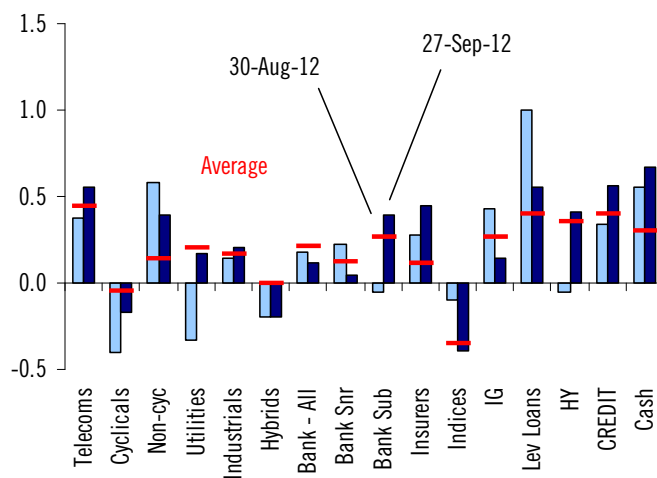
The results of our latest client survey indicate that credit investors have extended their positions slightly over the last month across currencies, with the increase in the aggregate long mostly attributable to an extension of positions in financials. Whilst cash inflows increased overall for both real money and leveraged investors, this was solely due to €; those in £ and \$ actually declined slightly (Figure 37 & Figure 38).

Figure 2. Real Money – Recent Positions vs Average



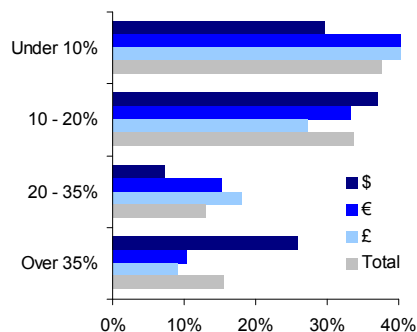
Source: Citi Research

Figure 3. Leveraged Money – Real Position vs Average



Source: Citi Research

Figure 4. What is the likelihood of the US falling off the fiscal cliff?



Source: Citi Research

The shift in positioning obviously follows the perceived decline of tail-risk post-OMT and the announcement of QE3. With investors who were short financials suffering for much of the month, it is no surprise that shorts there have been cut (Figure 17). There is now a net long in senior banks for the first time since March (Figure 21), and positions in LTII (Figure 23) and insurers (Figure 19) were also extended. The same goes for positions in peripherals, where investors who had been very short suffered as sentiment turned and the large short that we saw two months ago has now nearly been neutralised (Figure 44), presumably with the aid of heavy supply.

However, with risk appetite being scaled back as year-end draws into view, and investors seeking to lock in their strong performance over the summer, it is also not surprising that there was little extension of longs in most non-financial sectors, and that positions in the core were also cut (Figure 45). Whilst the long in telecoms increased (Figure 5), and last month's small short in hybrids was almost entirely removed (Figure 15), cyclical positions grew shorter (Figure 7) and the long in non-cyclicals decreased (Figure 9).

With the aggregate long in credit not particularly elevated from a historical perspective, we don't find current positioning particularly alarming. Whilst the ride is likely to be bumpier than many imagined a couple of weeks ago, we still think the market will trend towards tightening going into year end. Although political uncertainties have increased, and unlike most respondents we put the chance that the US won't reach a deal on the upcoming fiscal cliff at higher than 20% (Figure 4), the tail-risk reducing measures introduced by central banks should not be underestimated.

Granted we've had an inordinate amount of supply over September, and the slight decline in non-financial longs indicates the degree to which investors have mostly just shifted closer to home. However, given the otherwise shrinking universe of investable assets and still-high inflows, the bid for credit seems likely to stay strong.

Figure 5. Telecoms, All Respondents

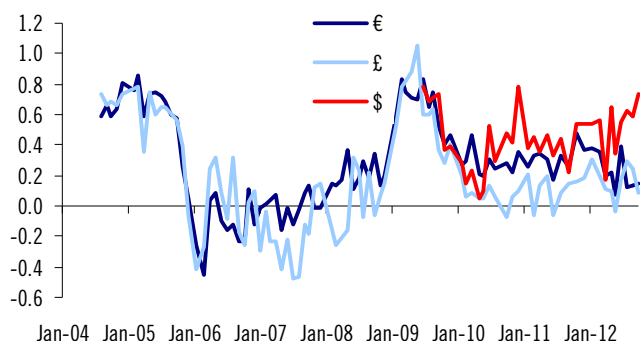


Figure 6. Telecoms, Real Money and Leveraged Accounts

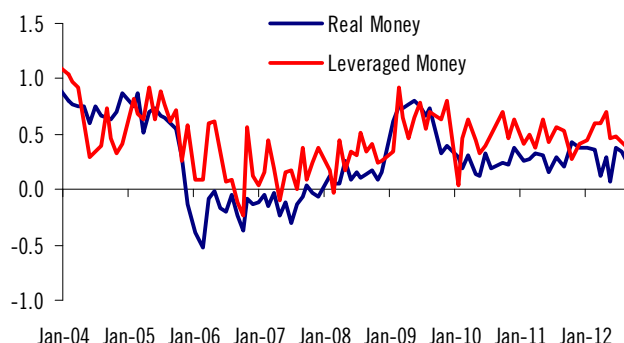


Figure 7. Cyclical, All Respondents

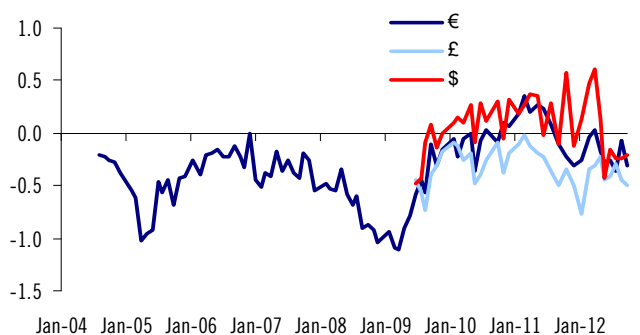


Figure 8. Cyclical, Real Money and Leveraged Accounts

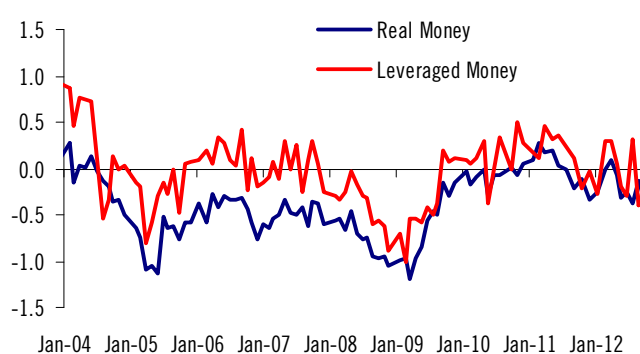


Figure 9. Non-cyclicals, All Respondents

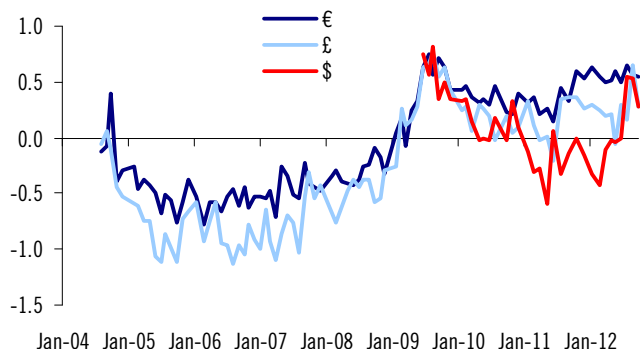


Figure 10. Non-cyclicals, Real Money and Leveraged Accounts

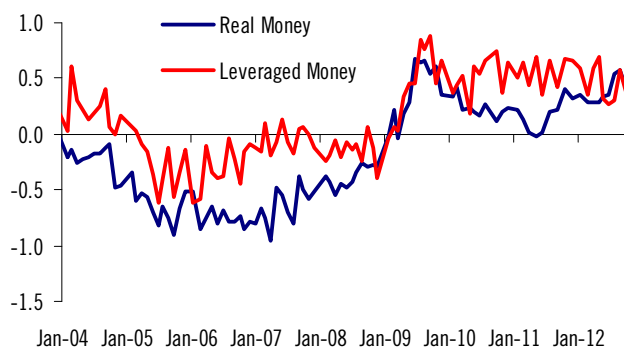


Figure 11. Utilities, All Respondents

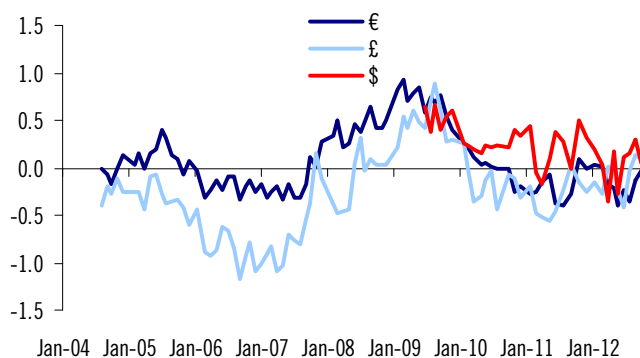
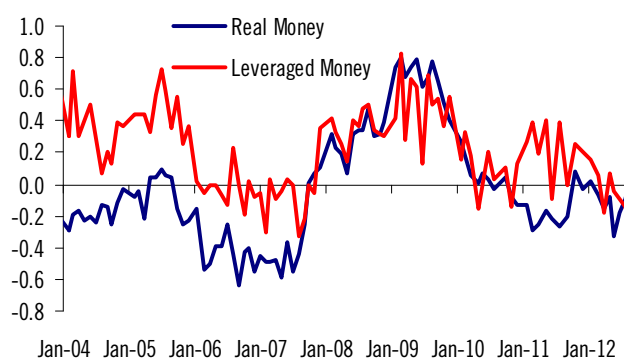


Figure 12. Utilities, Real Money and Leveraged Accounts



Source: Citi Research

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

Figure 13. Industrials, All Respondents

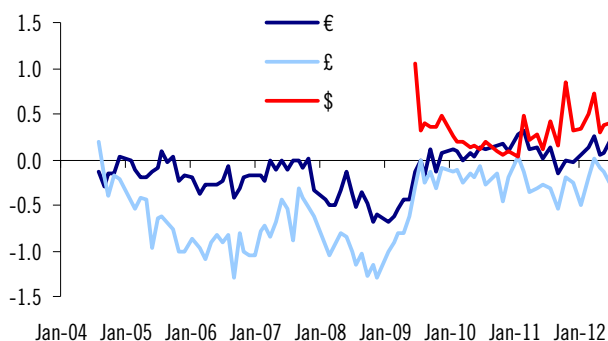


Figure 14. Industrials, Real Money and Leveraged Accounts

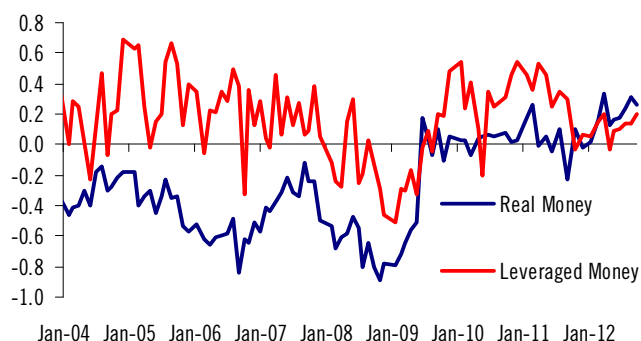


Figure 15. Non-Fin Hybrids, All Respondents

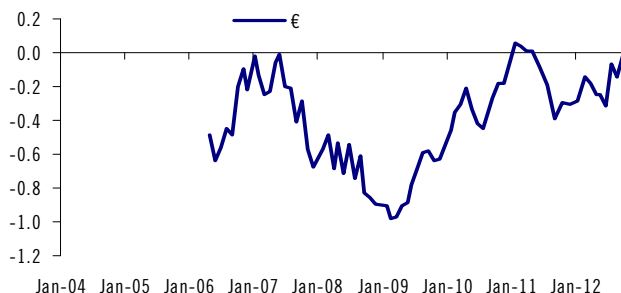


Figure 16. Non-Fin Hybrids, Real Money and Leveraged Accounts

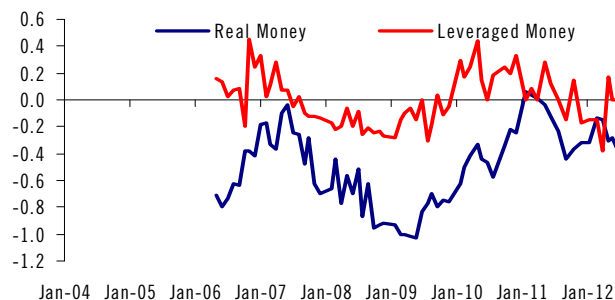


Figure 17. Banks Overall, All Respondents

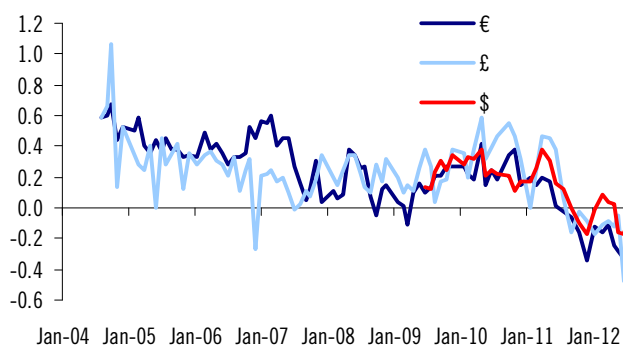


Figure 18. Banks Overall, Real Money and Leveraged Accounts

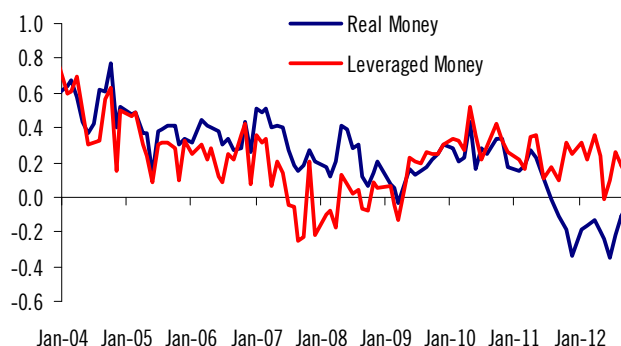


Figure 19. Insurance, All Respondents

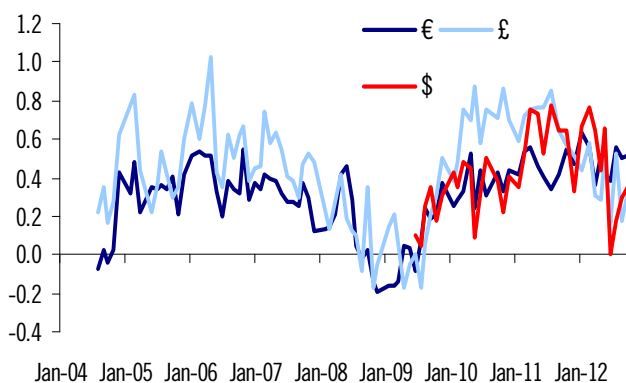
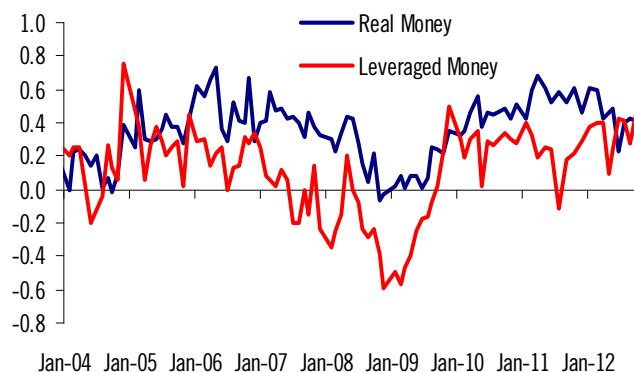


Figure 20. Insurance, Real Money and Leveraged Accounts



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

Figure 21. Banks, Senior, All Respondents

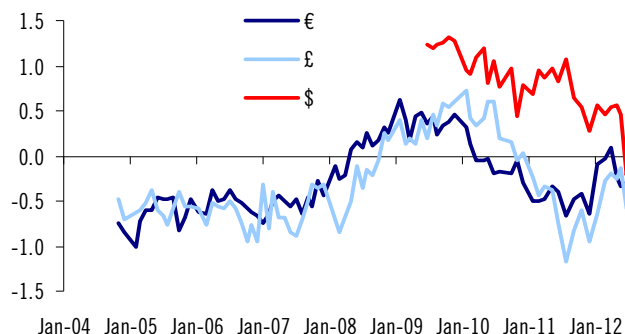


Figure 22. Banks, Senior, Real Money and Leveraged Accounts

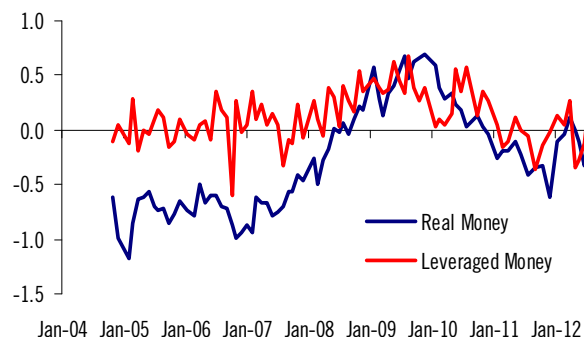


Figure 23. Banks, LT2, All Respondents

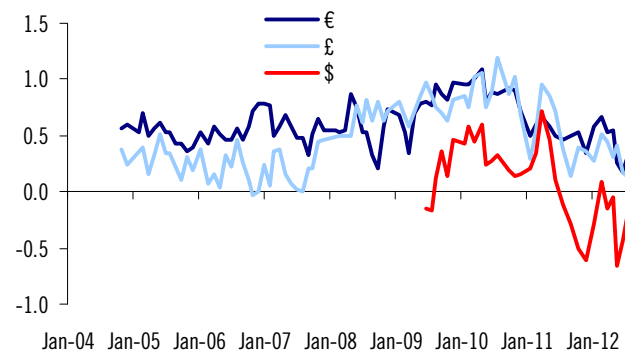


Figure 24. Banks, LT2, Real Money and Leveraged Accounts

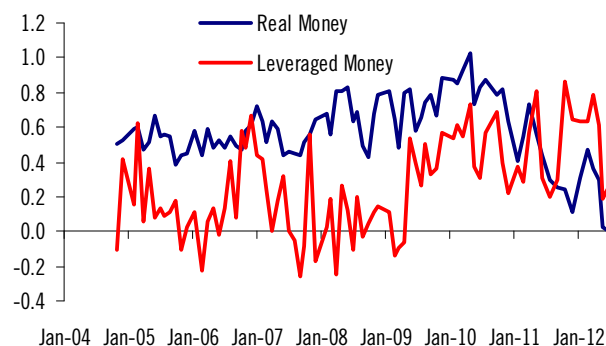


Figure 25. Banks, UT2, All Respondents

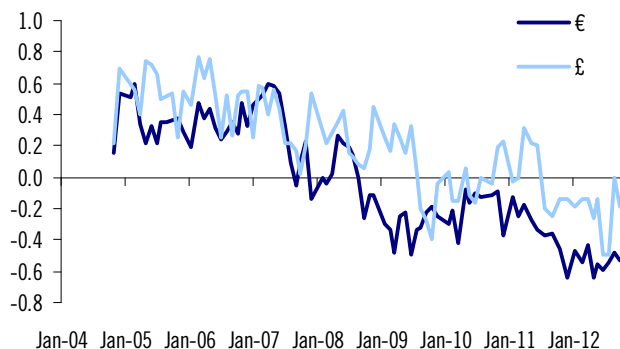


Figure 26. Banks, UT2, Real Money and Leveraged Accounts

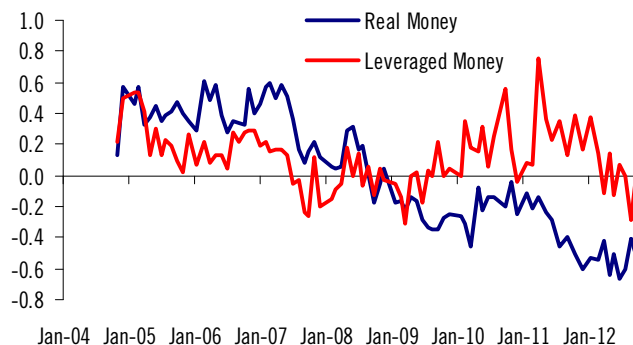


Figure 27. Banks, Tier 1, All Respondents

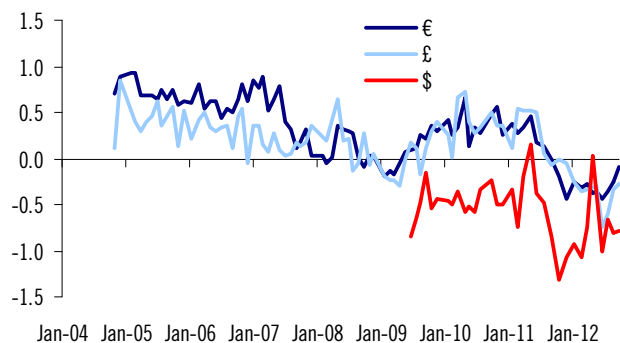
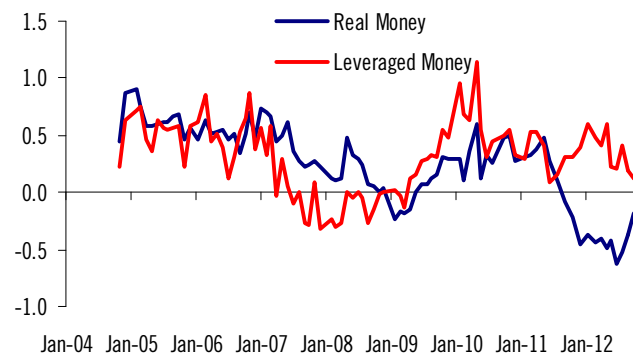


Figure 28. Banks, Tier 1, Real Money and Leveraged Accounts



Source: Citi Research

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

Figure 29. Credit Indices, All Respondents

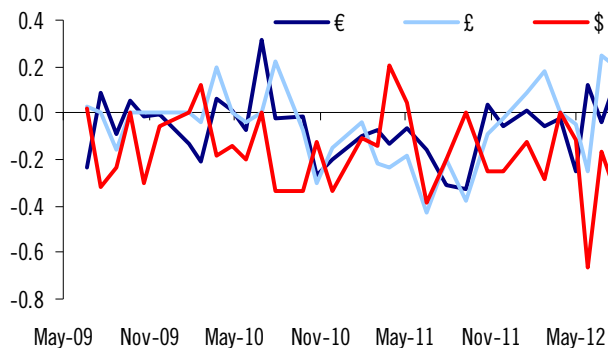


Figure 30. Credit Indices, Real Money and Leveraged Accounts

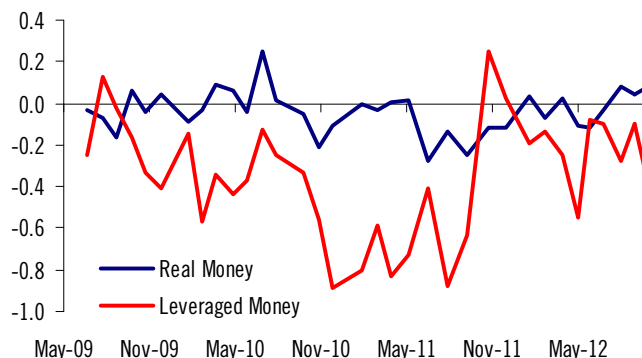


Figure 31. High Grade Overall, All Respondents

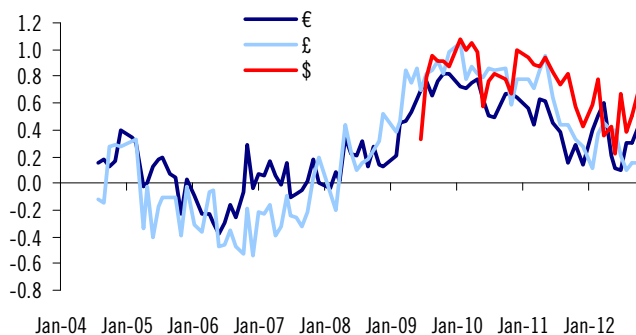


Figure 32. High Grade, Real Money and Leveraged Accounts

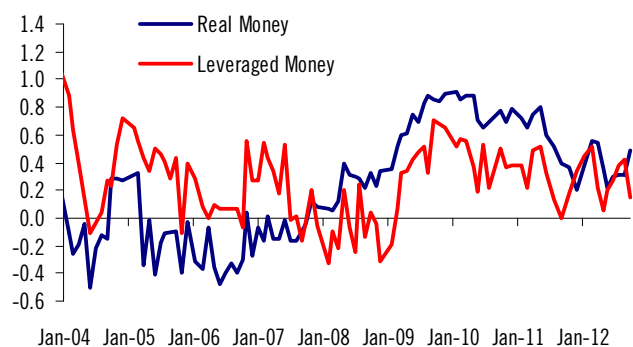


Figure 33. High Yield Overall, All Respondents

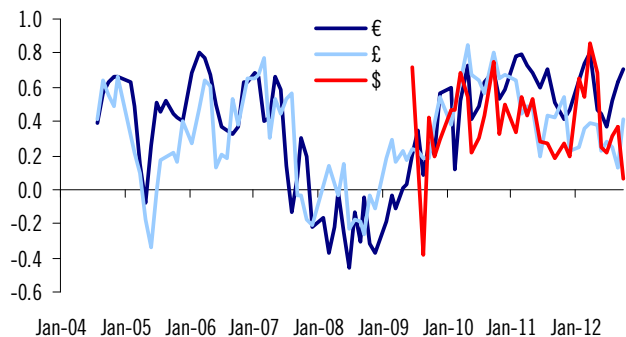


Figure 34. High Yield, Real Money and Leveraged Accounts

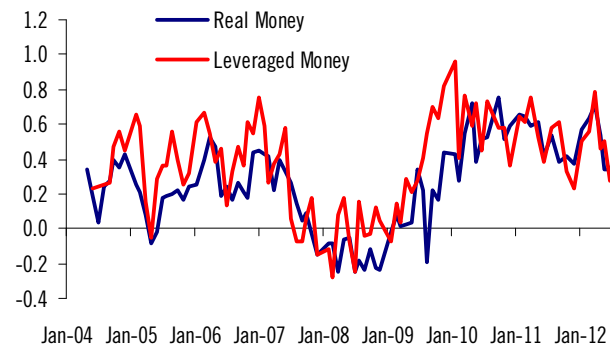


Figure 35. CREDIT Overall, All Respondents

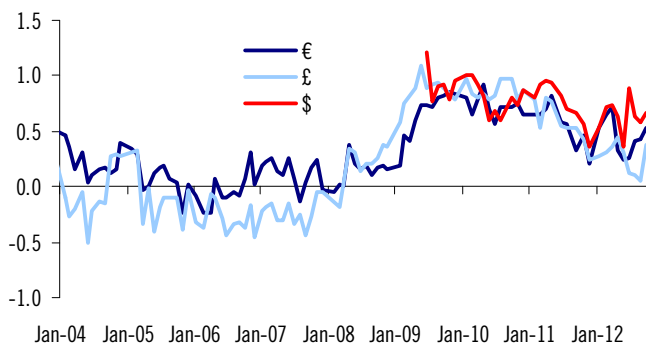
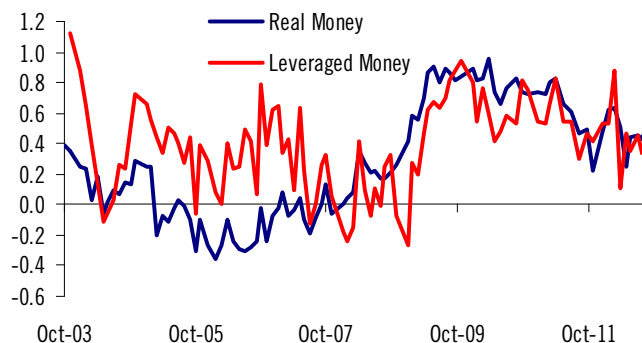


Figure 36. CREDIT Overall, Real Money and Leveraged Accounts



Source: Citi Research

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

Figure 37. Cash Inflows, All Respondents

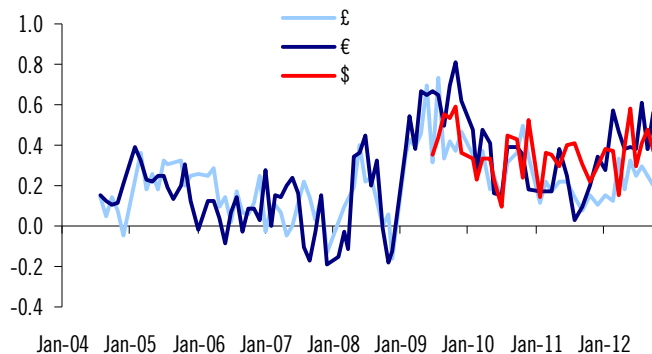


Figure 38. Cash Inflows, Real Money and Leveraged Accounts

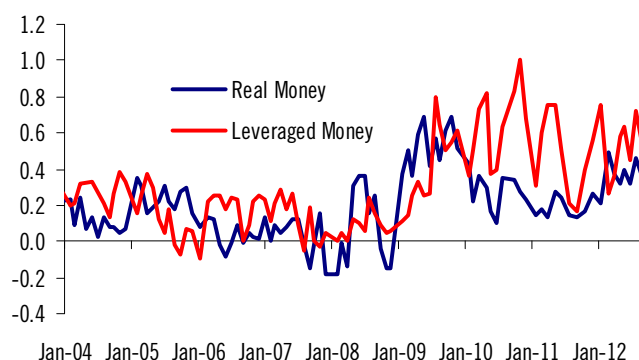


Figure 39. Lev Loans, All Respondents



Figure 40. Lev Loans, Real Money and Leveraged Accounts

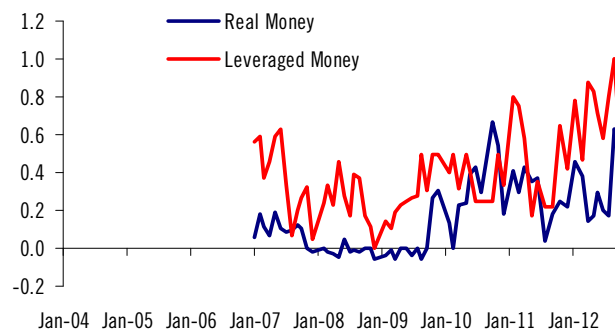


Figure 41. ABS, All (Sterling) Respondents

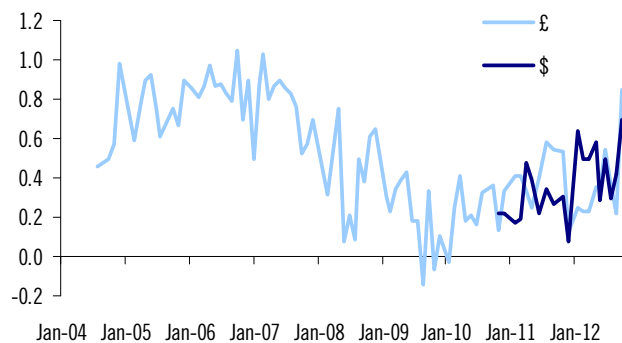


Figure 42. SAS, All (sterling) Respondents

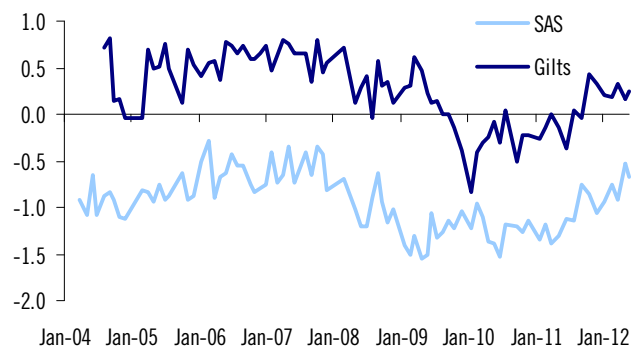


Figure 43. Gilts, All (Sterling) Respondents

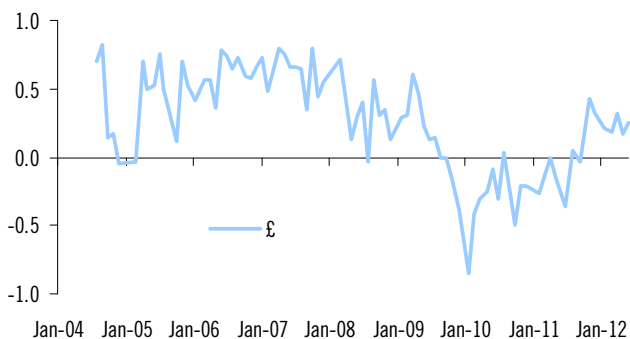


Figure 43. Covered, All Respondents

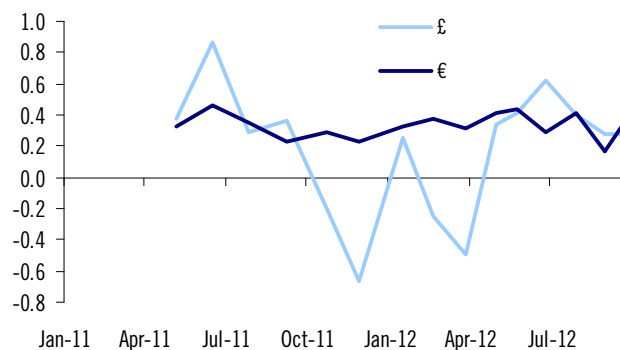
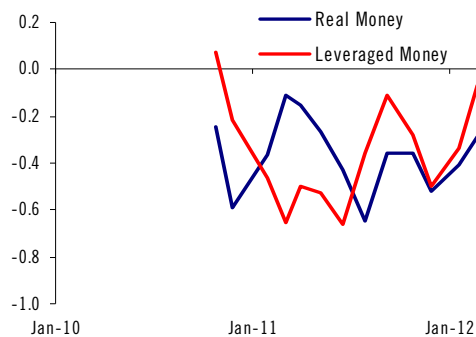


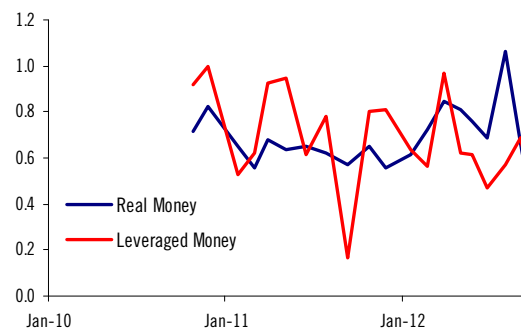
Figure 44. Peripheral Europe, Real and Leveraged Accounts



Source: Citi Research

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

Figure 45. Core, Real And Leveraged Accounts



Appendix A-1

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