

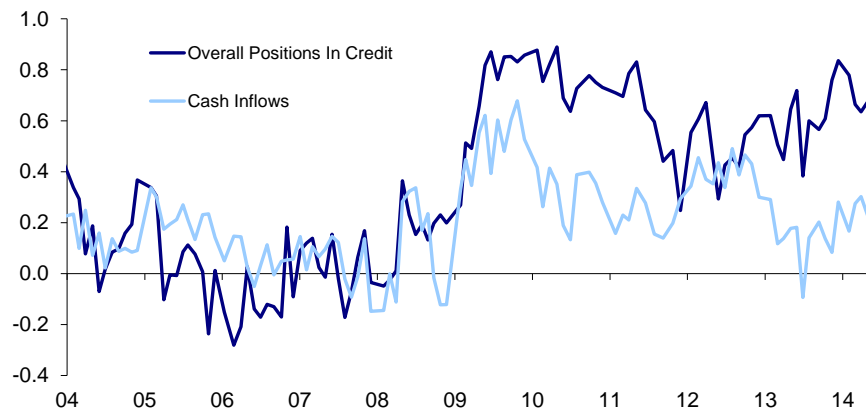
Global Credit Survey

Technically unchallenged

- The aggregate long in credit was unchanged in May
- Inflows increased on aggregate, with a decline in dollars more than offset by an increase from euro and sterling accounts
- The absence of movement in the aggregate long masks notable sector-level shifts
- Positions in Telcos, Utils and Non-fin Hybrids were cut significantly, while the long in Tier II bank debt, insurers and HY increased
- We think these shifts resulted from investors moving some of their exposure from the European periphery towards other high-beta sectors
- The survey results give us little reason to depart from our recent bullishness: while positions remain elevated relative to history, the uptick in inflows leaves us hopeful that they will remain well-supported

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



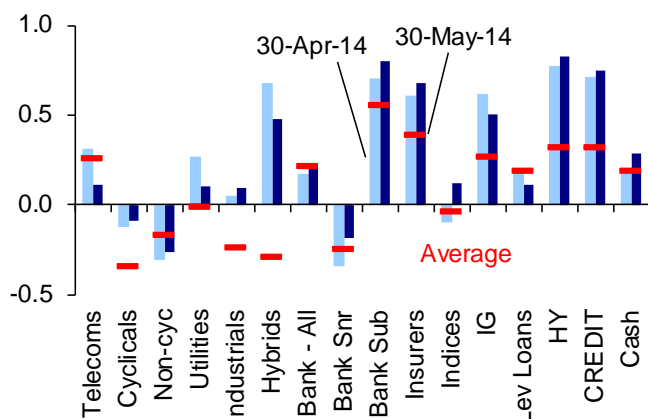
Source: Citi Research

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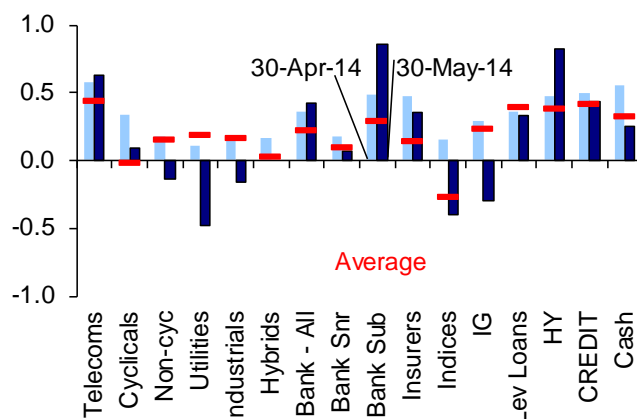
The results of our latest survey show that the aggregate long in credit (Figure 18) was unchanged in May, although there were some significant changes at the sector level. Cash inflows (Figure 19) rebounded after last month's fall, with a decline in dollars more than offset by an increase in euros and sterling.

Figure 2. Real Money – Recent Positions vs Average



Source: Citi Research

Figure 3. Leveraged Money – Recent Positions vs Average



Source: Citi Research

The absence of change in the aggregate long masks some interesting sector-level moves. In a reversal of the previous month's trend, the previous long in Utilities (Figure 7) was cut to nearly neutral, as both leveraged and real money investors reduced their exposure. Positions in Telecoms (Figure 4) were also cut significantly, with Euro investors responsible for much of the shift in both cases.

To our minds, this cutting likely occurred as investors reduced their longs in the European periphery during the mid-month wobble: Italian and Spanish names feature prominently in the sectors where the reduction occurred. A cut in periphery longs was also likely to have been at least partially responsible for the reduction in the long in Non-Financial Hybrids (Figure 9) to its lowest level since September last year.

This trend was offset by an extension of longs elsewhere, and it accords with the reported reduction in periphery positions (Figure 24), while core longs (Figure 23) reversed their April decline. Positions in HY (Figure 17) increased, and are now at their most elevated level since April last year. Longs in Tier II (Figure 13) and Insurers (Figure 11) climbed, although the Tier I (Figure 14) declined slightly from last month's high. With positions in most other sectors unchanged, there's little in the results to suggest a broader decline in risk appetite; rather it seems that investors have moved some of their previous periphery exposures into other high-beta sectors.

On balance, the survey gives us little reason to depart from the long we've been advocating recently. Yes, aggregate positioning in credit is still quite elevated relative to history and some of the shift this month was towards higher-beta sectors. But given both our preference for moving down in quality in any event and the resilient inflows, our best guess is that the long in credit will remain well supported.

Figure 4. Telecoms, All Respondents

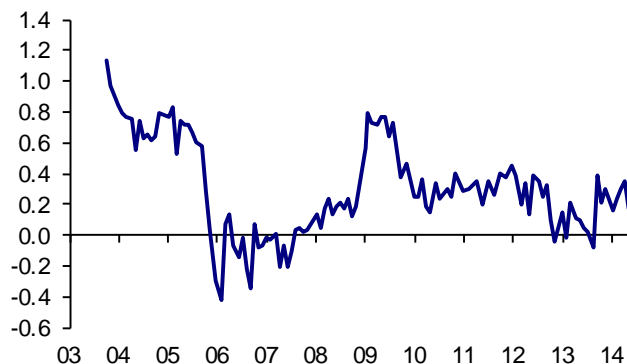


Figure 5. Cyclical, All Respondents

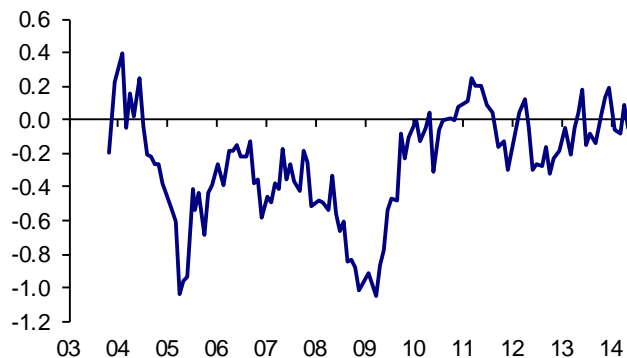


Figure 6. Non-cyclical, All Respondents

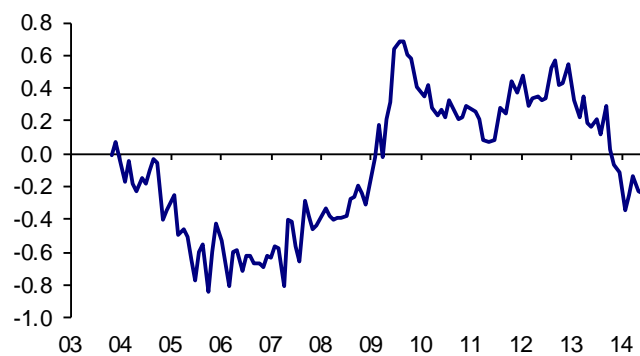


Figure 7. Utilities, All Respondents



Figure 8. Industrials, All Respondents

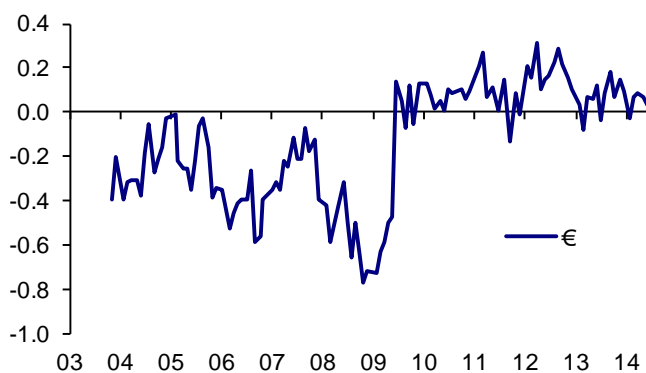


Figure 9. Non-Fin Hybrids, All (Euro) Respondents

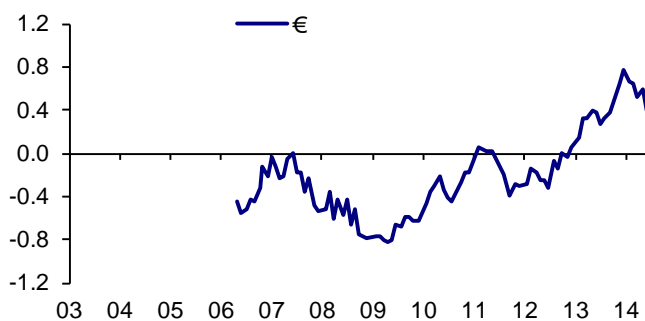


Figure 10. Banks Overall, All Respondents

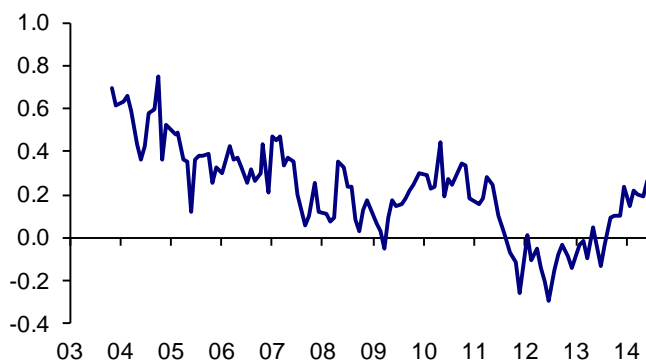
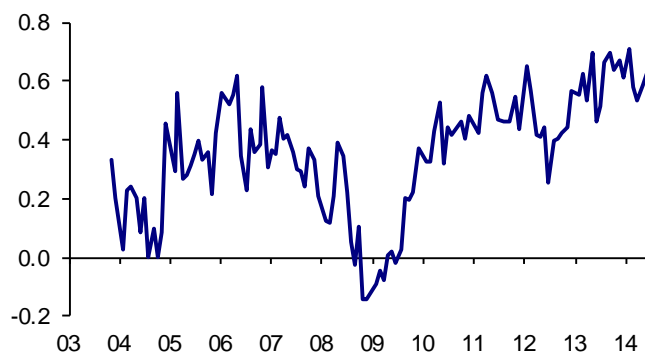


Figure 11. Insurance, All Respondents



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

Figure 12. Banks, Senior, All Respondents

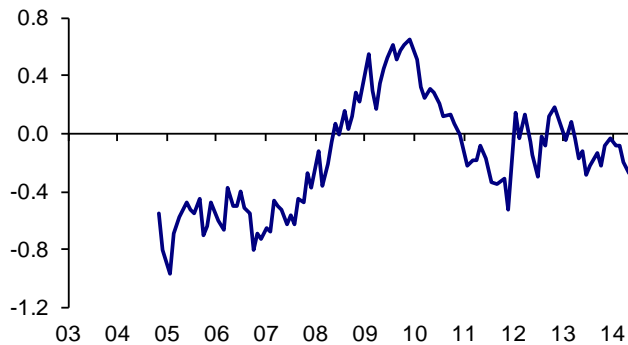


Figure 13. Banks, Tier II, All Respondents

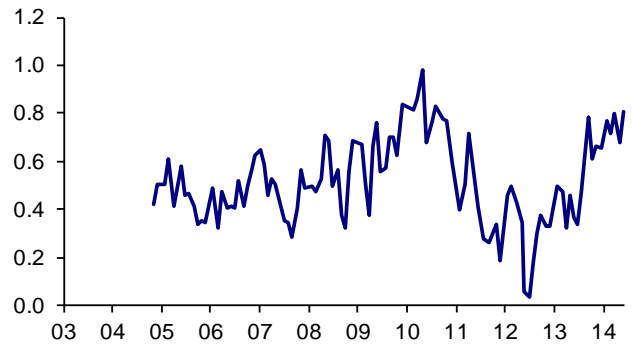


Figure 14. Banks, Tier 1, All Respondents

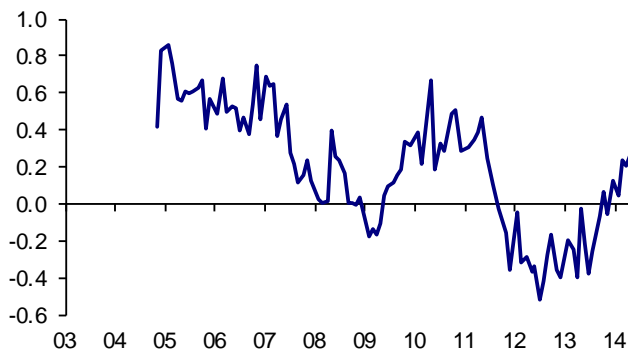


Figure 15. Credit Indices, All Respondents

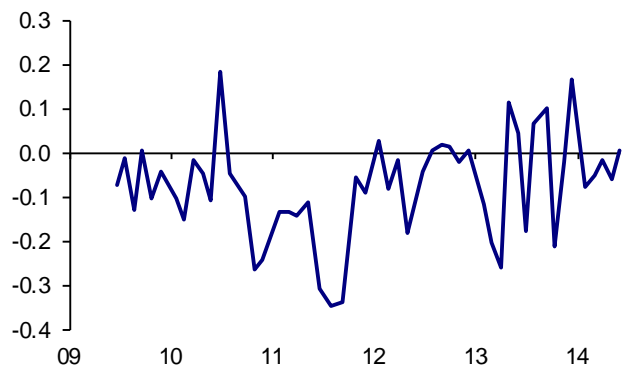


Figure 16. High Grade Overall, All Respondents

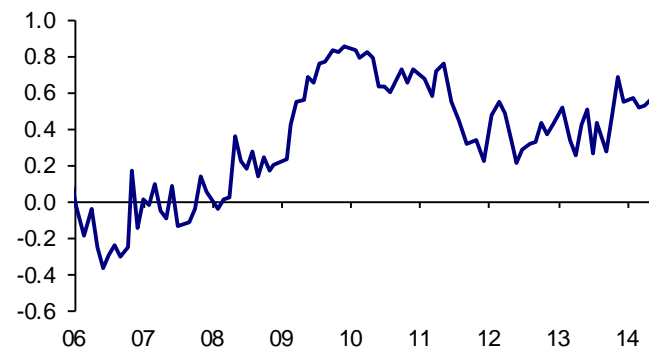


Figure 17. High Yield Overall, All Respondents

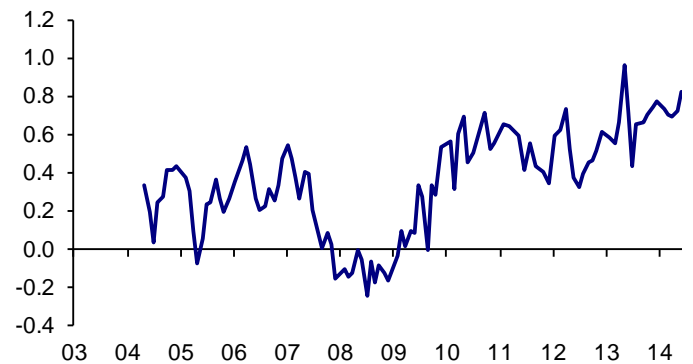


Figure 18. CREDIT Overall, All Respondents

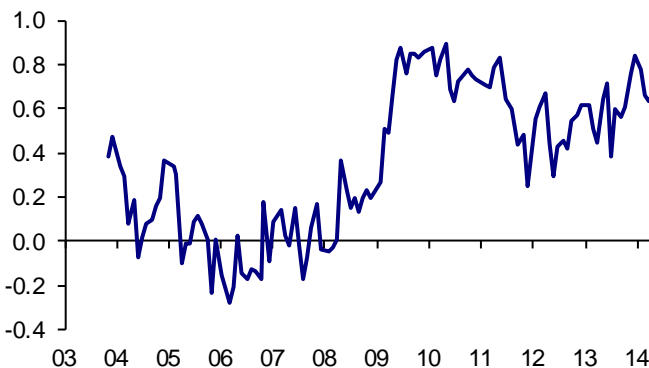
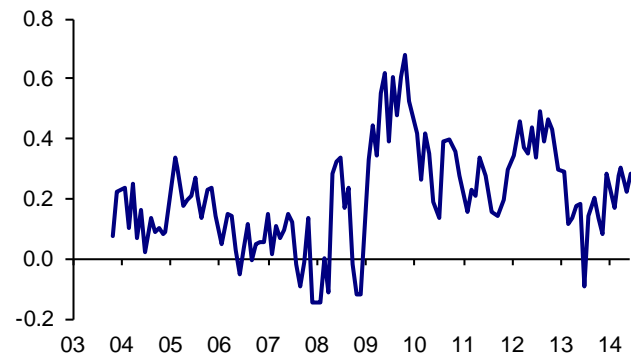


Figure 19. Cash Inflows, All Respondents



Source: Citi Research

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

Figure 20. Lev Loans, All Respondents



Figure 21. ABS, All (Sterling) Respondents

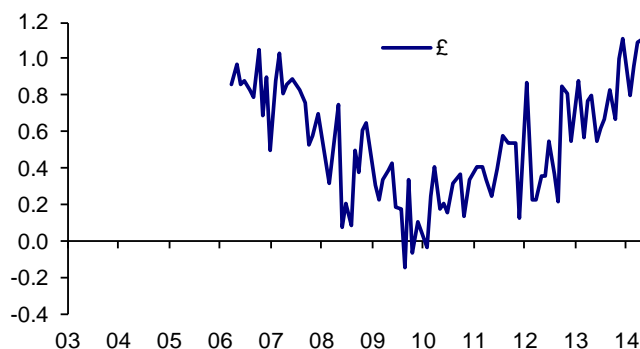


Figure 22. SAS, All (sterling) Respondents

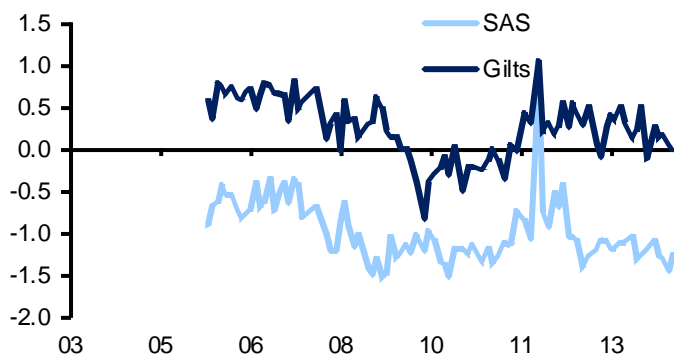


Figure 23. Core Europe, All Respondents



Figure 24. Peripheral Europe, All Respondents

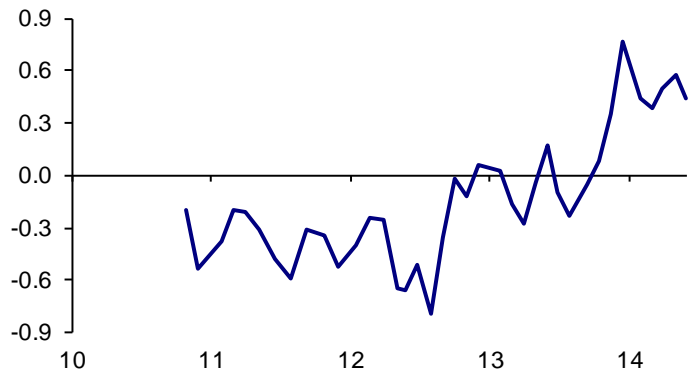
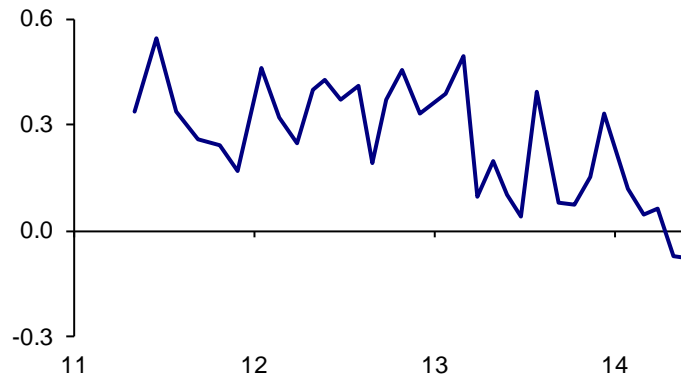


Figure 25. Covered, All Respondents



Source: Citi Research

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

Appendix A-1

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