

Credit

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Global Credit Survey

Banking on a bailout

- No big reduction in positions, despite near-universal agreement that spreads would widen sharply if Spain and Italy yields reach 8%
- Divergence between \$ positions (longer) and € and £ (slightly shorter)
- Cash levels remain elevated, but fall slightly across currencies
- Some signs of selling spreading from peripherals to core in Europe
- Positions in banks fall to new lows across currencies

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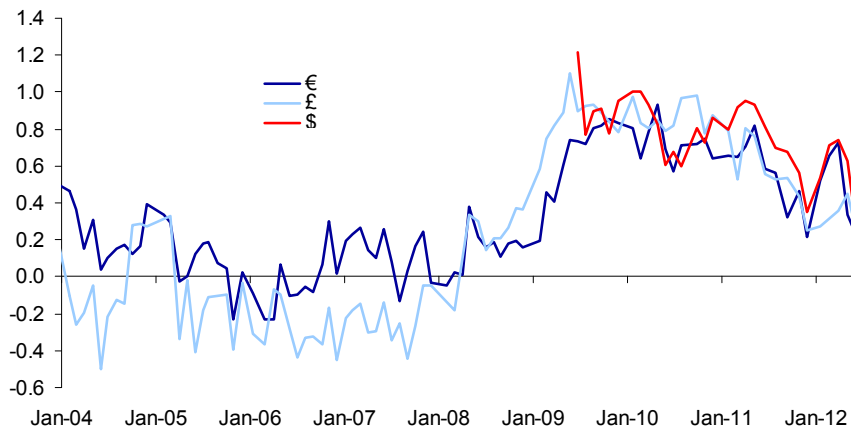
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Figure 1. Overall Positions in Credit by Currency (Index, -2 Very Short, +2 Very Long)



Source: Citi Investment Research and Analysis

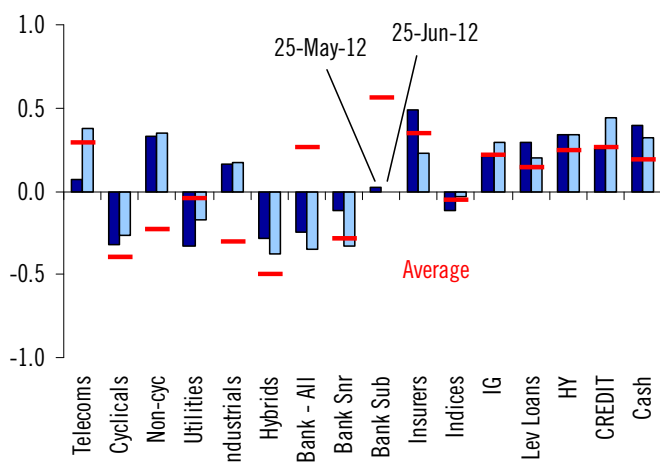
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The results of our latest client survey leave us concerned that many investors are banking on a bailout in Europe. Answering our "question of the month", almost all respondents expected spreads, even in \$, to widen more than 10bp in the event of Spanish and Italian yields passing 8%. But there was relatively little change in investors' overall net long position, and in \$ it actually increased.

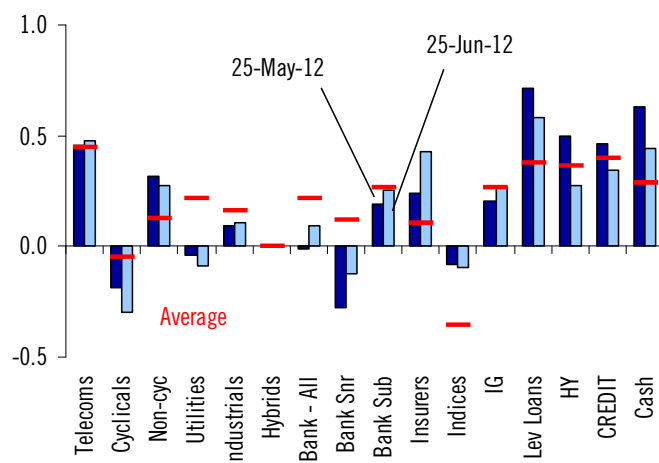
That said, were it not for the sovereign backdrop, we would probably consider positions to be very conservative. Overall longs in both IG and HY remain some of the smallest since 2009. Net positions in banks fell across all three currencies, to the shortest we have ever seen (Figure 16). Investors are no longer overweight but hedged through the indices (Figure 28): their relative lack of exposure reflects the trimming of bond positions and the maintenance of quite high levels of cash (Figure 36). If the sovereign crisis can be prevented from becoming systemic, this all ought to be very supportive.

Figure 2. Real Money – Recent Positions vs Average



Source: Citi Investment Research and Analysis

Figure 3. Leveraged Money – Real Position vs Average



Source: Citi Investment Research and Analysis

But the details of investor positioning suggest to us a little too much confidence in this regard. While € and £ investors trimmed their exposure, \$ investors moved longer, in IG (Figure 30) and in every non-financial sector bar non-cyclicals. Admittedly, overall sectoral positioning is quite defensive — with longs in the likes of non-cyclicals, industrials and telcos (which increased) — and investors doubtless feel they need to hold something. But the fact remains that we have previously seen overall positions much shorter than these — in 2005 and 2006, for example — even with almost (but not quite) the same level of cash inflows.

We remain suspicious that further stress in sovereigns would produce a broader capitulation in corporates. What moderate position reduction occurred in Europe seems to have taken place more through selling of names in the core (Figure 44), rather than in the periphery (where shorts seem to have been partially covered — Figure 43). This may be a rational reflection of the likelihood of a bailout being around the corner, or may alternatively just be a reflection of liquidity: you sell what you can, not necessarily what you want to. The reported short covering was clearly not sufficient to prevent a sharp widening in Spanish and Italian names this month.

In sum, the survey shows several areas of technical support, but equally shows little sign that investors are really positioned for the sovereign crisis again becoming systemic. As several investors put it, "You'd expect a policy response, wouldn't you?"

Figure 4. Telecoms, All Respondents

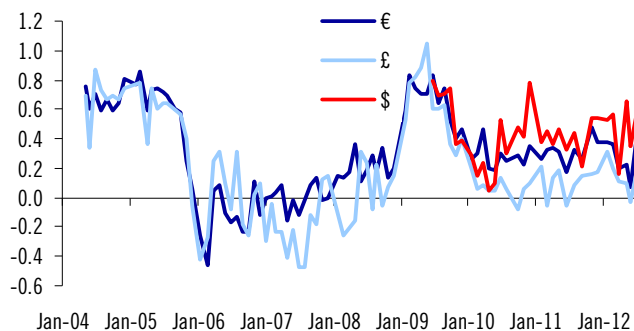


Figure 5. Telecoms, Real Money and Leveraged Accounts

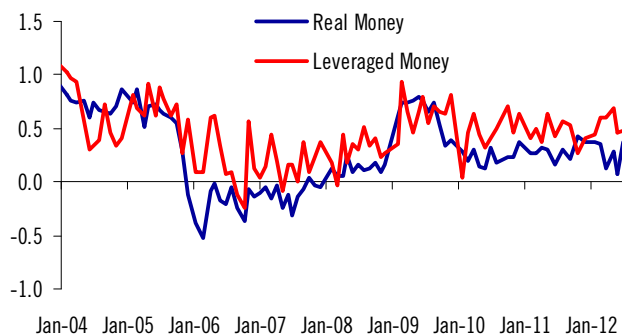


Figure 6. Cyclical, All Respondents

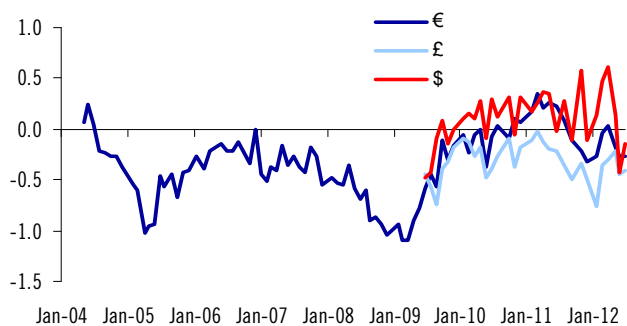


Figure 7. Cyclical, Real Money and Leveraged Accounts

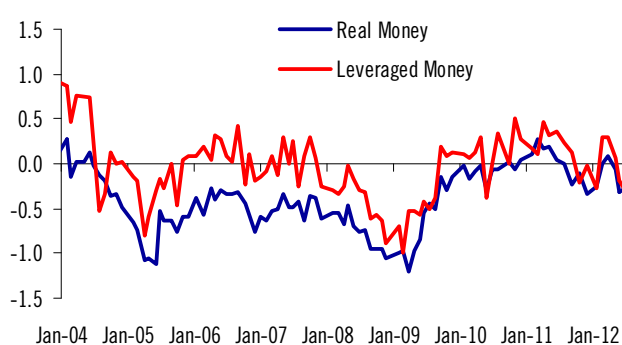


Figure 8. Non-cyclical, All Respondents

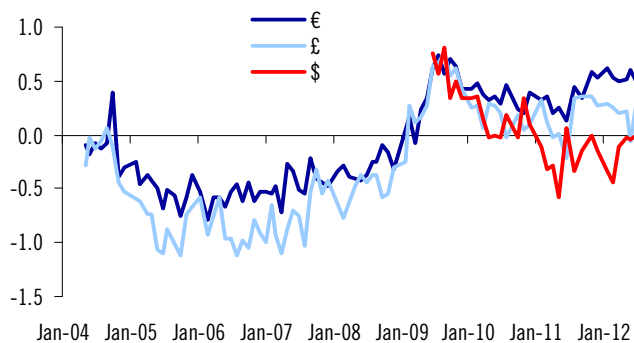


Figure 9. Non-cyclical, Real Money and Leveraged Accounts

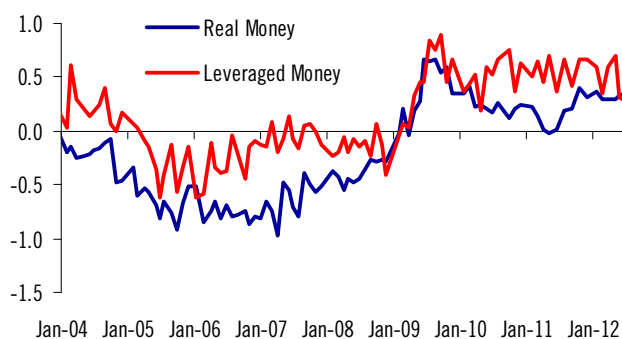


Figure 10. Utilities, All Respondents

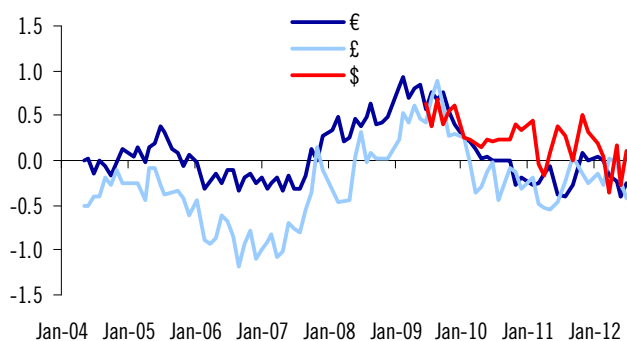
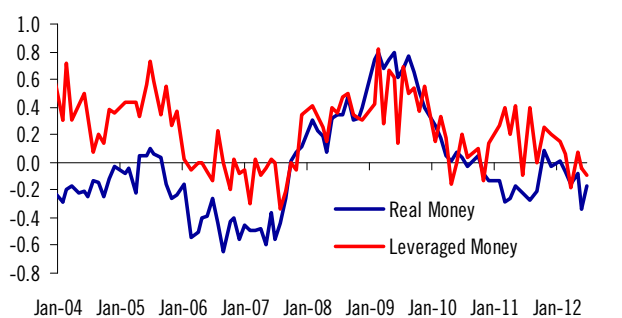


Figure 11. Utilities, Real Money and Leveraged Accounts



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

Figure 12. Industrials, All Respondents

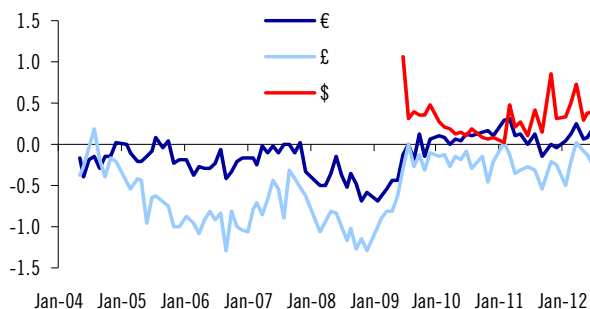


Figure 13. Industrials, Real Money and Leveraged Accounts

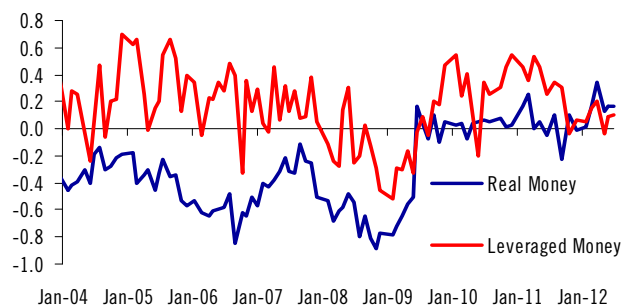


Figure 14. Non-Fin Hybrids, All Respondents

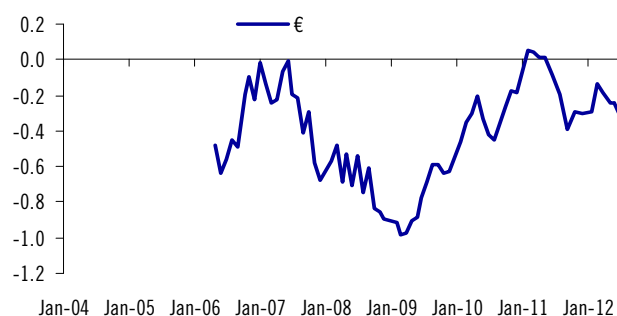


Figure 15. Non-Fin Hybrids, Real Money and Leveraged Accounts

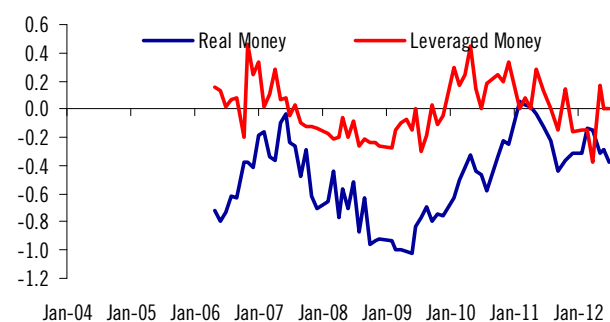


Figure 16. Banks Overall, All Respondents

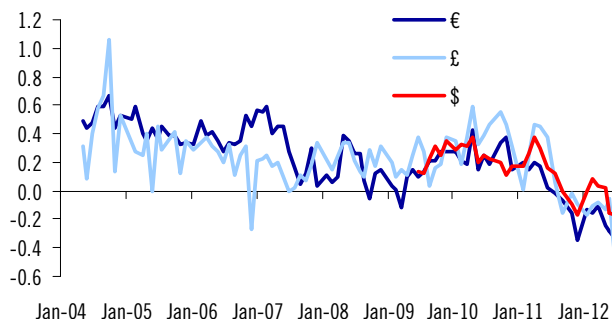


Figure 17. Banks Overall, Real Money and Leveraged Accounts

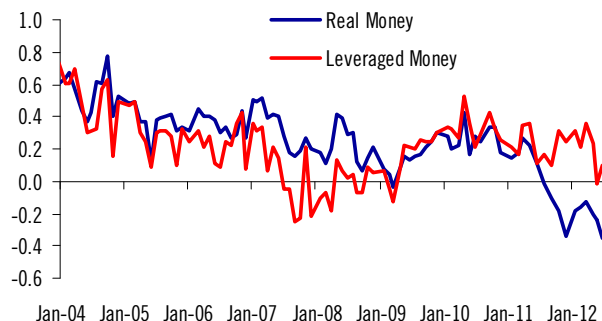


Figure 18. Insurance, All Respondents

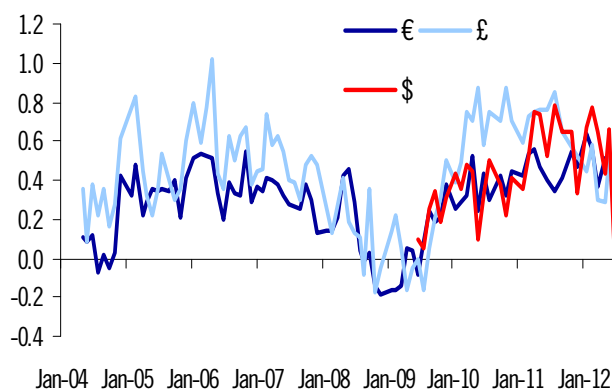
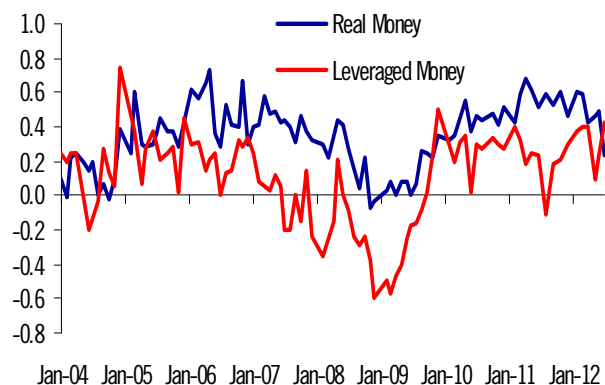


Figure 19. Insurance, Real Money and Leveraged Accounts



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

Figure 20. Banks, Senior, All Respondents

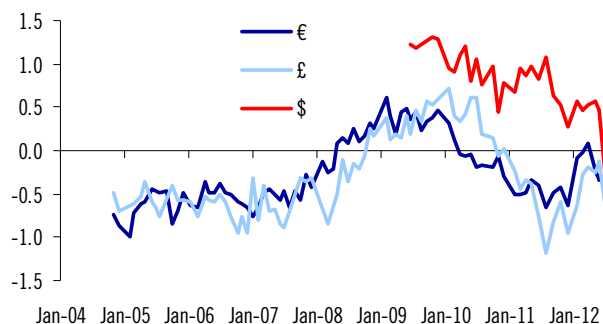


Figure 21. Banks, Senior, Real Money and Leveraged Accounts

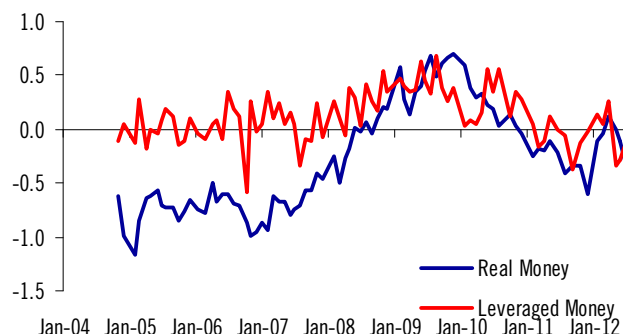


Figure 22. Banks, LT2, All Respondents

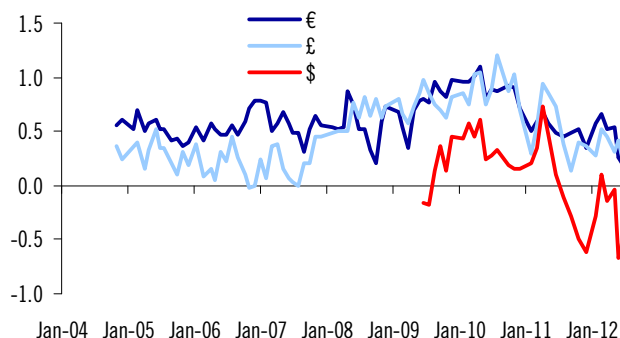


Figure 23. Banks, LT2, Real Money and Leveraged Accounts

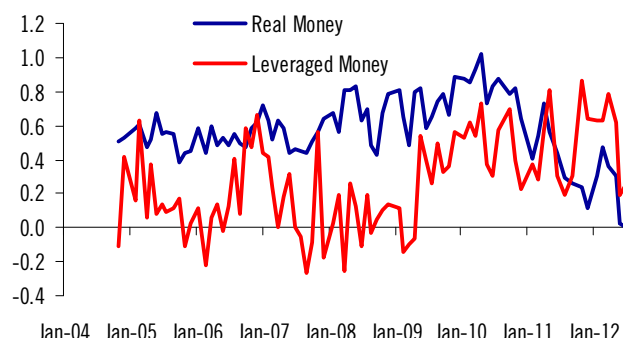


Figure 24. Banks, UT2, All Respondents

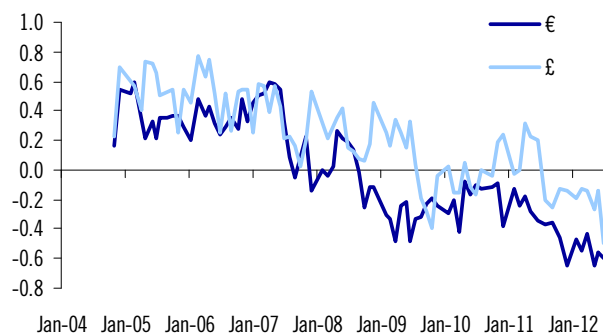


Figure 25. Banks, UT2, Real Money and Leveraged Accounts

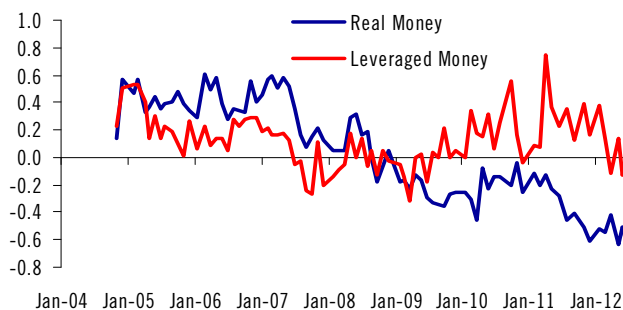


Figure 26. Banks, Tier 1, All Respondents

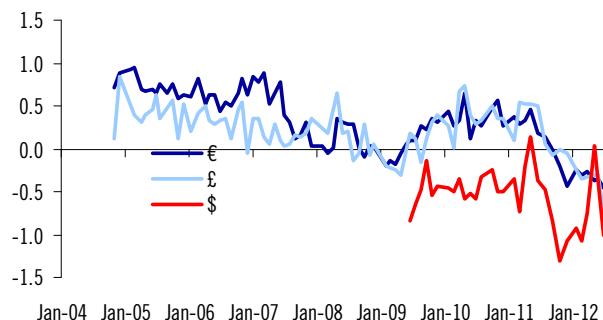
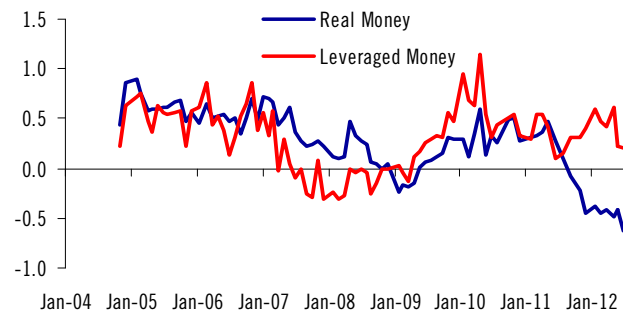


Figure 27. Banks, Tier 1, Real Money and Leveraged Accounts



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

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Figure 28. Credit Indices, All Respondents

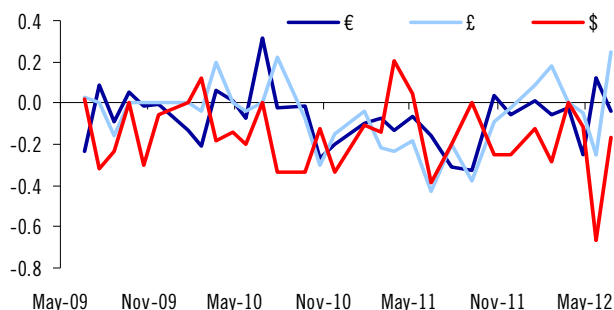


Figure 29. Credit Indices, Real Money and Leveraged Accounts

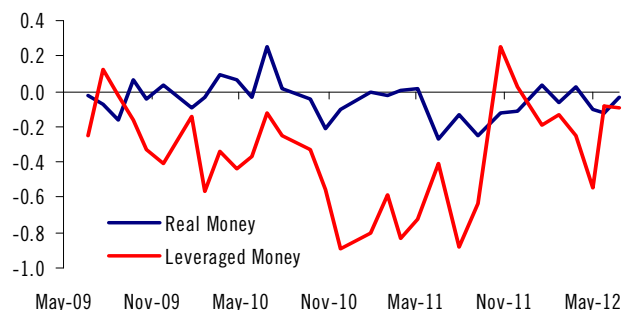


Figure 30. High Grade Overall, All Respondents

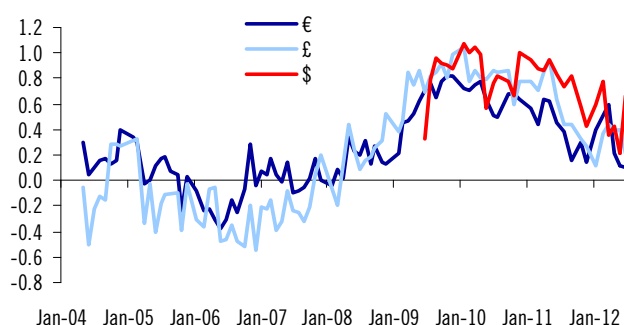


Figure 31. High Grade, Real Money and Leveraged Accounts

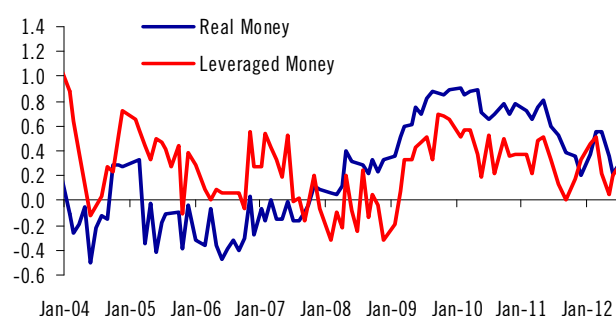


Figure 32. High Yield Overall, All Respondents

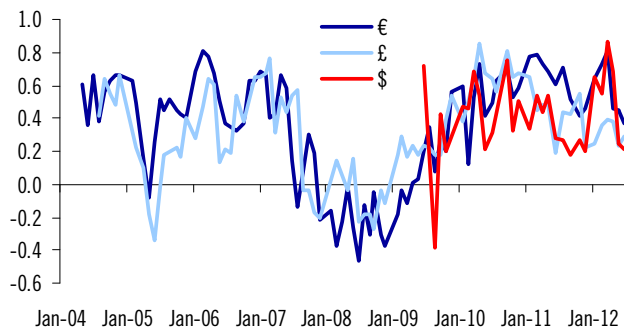


Figure 33. High Yield, Real Money and Leveraged Accounts

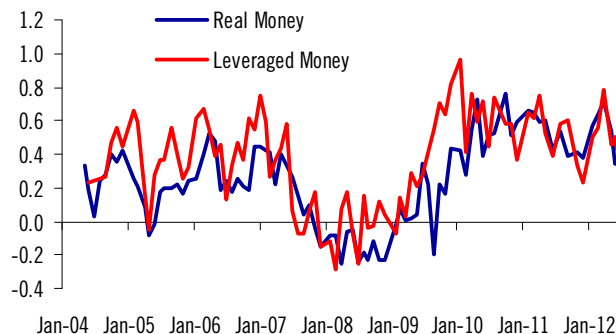


Figure 34. CREDIT Overall, All Respondents

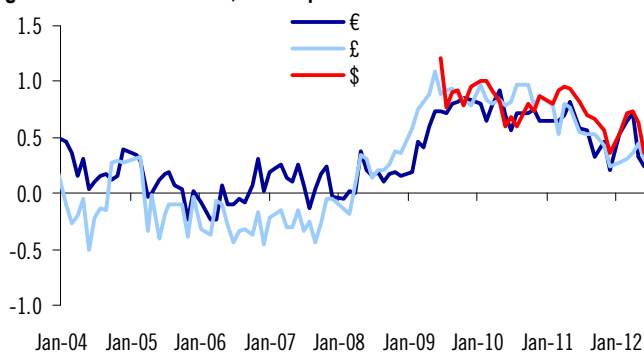
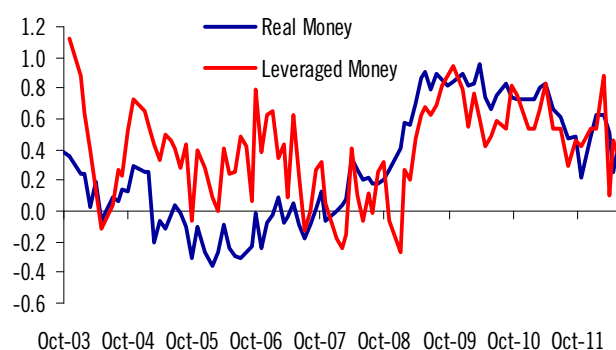


Figure 35. CREDIT Overall, Real Money and Leveraged Accounts



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

Figure 36. Cash Inflows, All Respondents

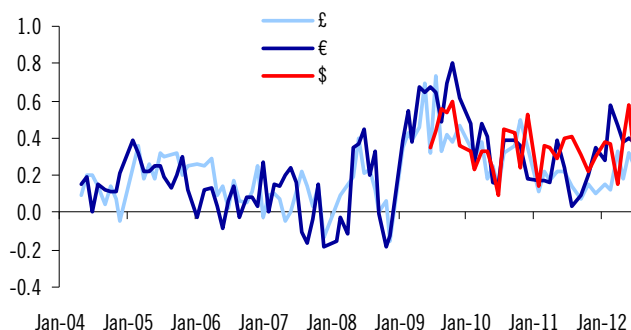


Figure 37. Cash Inflows, Real Money and Leveraged Accounts

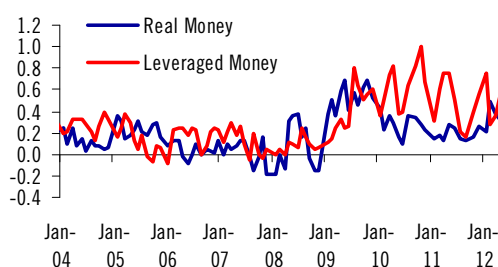


Figure 38. Lev Loans, All Respondents



Figure 39. Lev Loans, Real Money and Leveraged Accounts

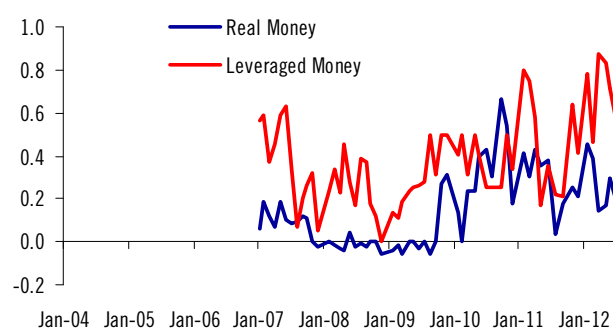


Figure 40. ABS, All (Sterling) Respondents

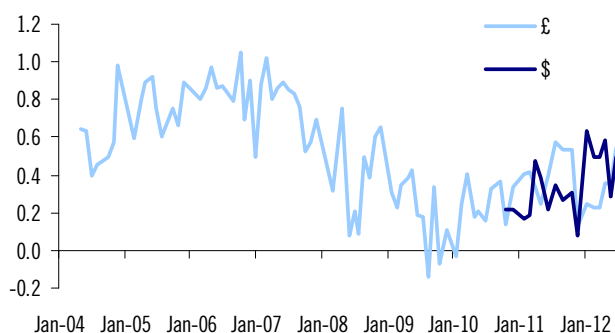


Figure 41. SAS, All (sterling) Respondents

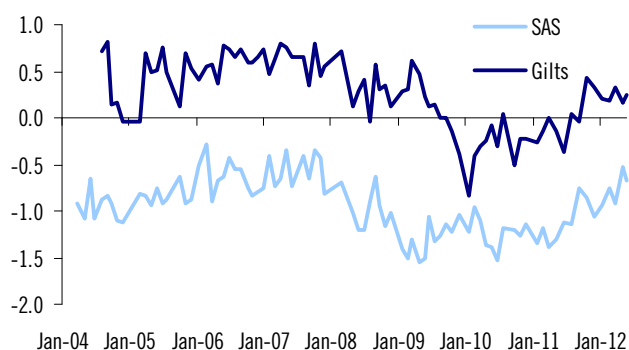


Figure 42. Gilts, All (Sterling) Respondents

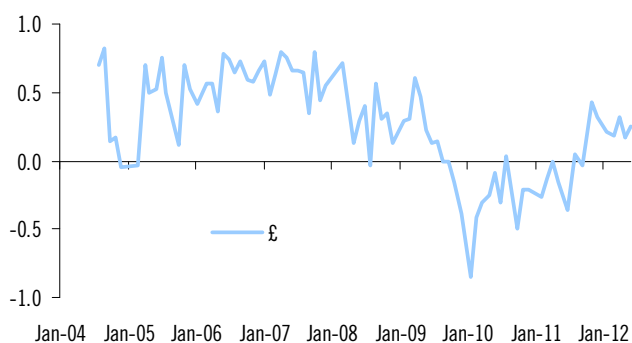
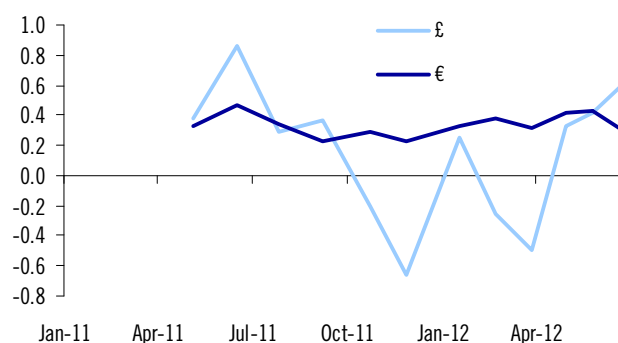
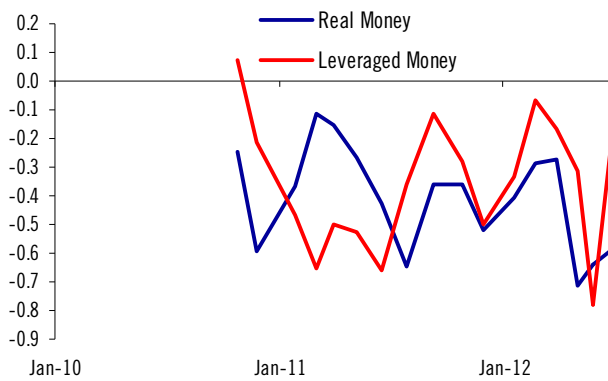


Figure 43. Covered, All Respondents



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

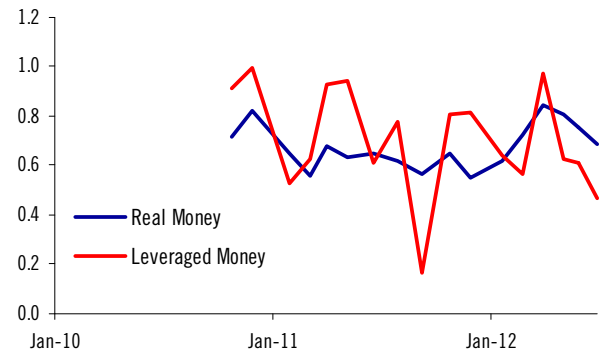
Figure 43. Peripheral Europe, Real and Leveraged Accounts



Source: Citi Investment Research and Analysis

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Figure 44. Core, Real And Leveraged Accounts



Appendix A-1

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