

How Are Different Client Types Positioned?

Positioning in Bunds, BTPs, Bono and OATs

- Combining the results of an informal survey of client positioning, via our domestic and international sales networks, with our data on executed customer flows across our electronic platforms over recent months, gives an interesting perspective on relative risk appetite, divergences of opinion, and positioning.
- Putting our survey and flow data together points towards 5 main conclusions:
 - The most widespread risk exposure is to the front end of Spain.
 - Positioning in Italy seems is only slightly long, but in the case of a surge in risk appetite the accumulated underweight at in the 10yr+ bucket points to potential for flattening.
 - The lack of a large overweight in Bunds suggests that the sell-off will be less dramatic than it might have been.
 - The buying of the core - and Germany in particular - that we have seen over the last 3 months has been concentrated in the 2-5yr sector.
 - Exposure to France is in the 5-10yr sector. To the extent that positioning exacerbates moves we expect this part of the curve to have the highest beta.

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Figure 1. Estimated positioning by client type in Germany, France, Italy and Spain

	Germany	France	Italy	Spain
Hedge Funds	Small long	Small short	Small long	Small long
Central Banks	Small long	Small long	Neutral	Neutral
Japan	Short	Long	Neutral	Short
UK Real Money	Neutral	Short	Neutral	Long
European Real Money	Neutral	Small long	Small long	Long

Source: Citi Research

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Positioning in Bunds, BTPs, Bono and OATs

Combining the results of an informal survey of client positioning (via Citi's domestic and international sales networks) with Citi data on executed customer flows across our electronic platforms over recent months, gives an interesting perspective on relative risk appetite, divergences of opinion, and positioning. We present the results below.

How are the different client types positioned?

Positioning survey results

Figure 2 summarises the results of our survey of client positioning in Germany, France, Italy and Spain. Four main points arise from this:

1. The most widespread long position is in Spain.
2. In Italy positioning is neutral to small long.
3. Positioning is not long in Bunds.
4. Positions in France are a net small long. It remains to be seen how long the central Japanese long lasts given current moves and levels.

Positioning by client type in Germany, France, Italy and Spain

Figure 2. Positioning by client type in Germany, France, Italy and Spain

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Hedge Funds	Small long	Small short	Small long	Small long
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UK Real Money	Neutral	Short	Neutral	Long
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Source: Citi Research

Figure 3 breaks down the European real money category. When you look at individual country domestic positioning, it reflects a low level of conviction. German domestics are small long peripherals (and neutral Germany) and Italian domestics are long Spain.

How are domestics positioned in Italy, Spain, Germany and France?

Figure 3. European domestics' positioning survey results

	Germany	France	Italy	Spain
German domestics	Neutral	Neutral	Small long	Small long
French domestics	Neutral	Long	Neutral	Neutral
Italian domestics	Neutral	Small short	Long	Long
Spanish domestics	Neutral	Neutral	Neutral	Long

Source: Citi Research

For more detailed colour, e.g., positioning of individual client types within countries, or on the curve, please contact your Citi salesperson

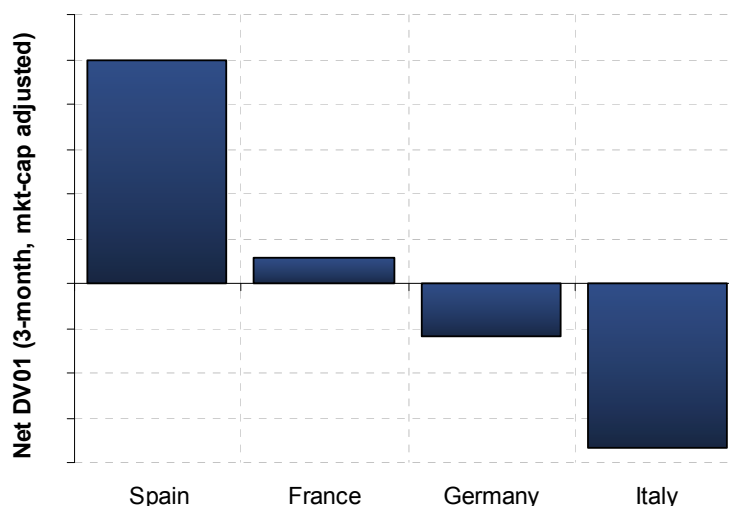
A bald long/short/neutral obviously glosses over the important nuances of where on the curve the positions are, e.g. our flow data clearly show the appetite for Spain over the last 3 months, but only in the front end (Figure 6); it doesn't convey information about offsetting positions between different account types within a country, e.g., insurers vs asset managers; and it gives no idea of investor intentions or information on how they are expressing their views (e.g., via the curve, cross-market, or through options). For more detailed colour please contact your Citi salesperson.

In order to get a better idea of where concentrations of positioning may lie, below we look at patterns in client flows over the last quarter.

Examining flow data for accumulation of positions¹

Figure 4 below shows net demand over the last 3 months, adjusted for market size. The preference of investors for Spain over Italy is clear, with strong net buying of the former, and net selling of the latter. (It is also noticeable that over the same period, France has enjoyed net buying while Germany has seen net selling).

Figure 4. Clear preference for Spain over Italy (and France over Germany) over the last 3m.

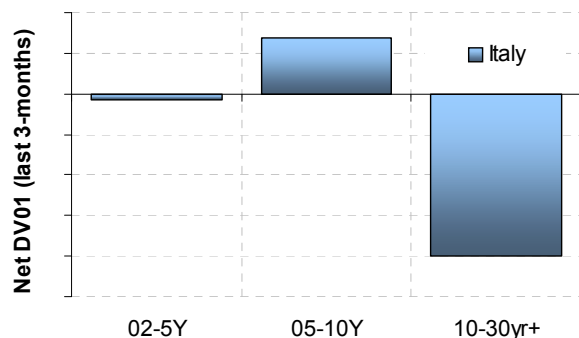


Source: Citi Research

Differences in demand on the curve for Italy and Spain

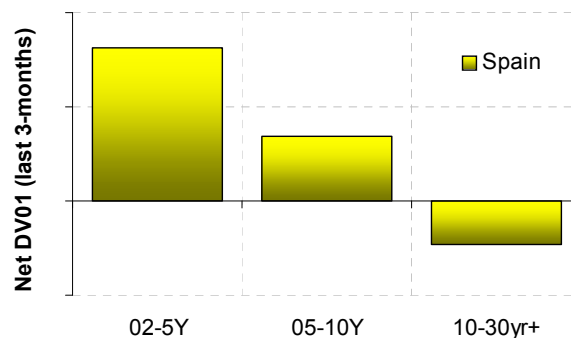
The result of breaking each country's net demand down into maturity buckets is shown below. We have seen no demand for duration in Italy over the last 3 months (Figure 5, below left): the buying of Italy we have seen has all been in the 5-10yr sector. In Spain, like Italy, we have seen buying of the 5-10yr sector and selling of the 10-30yr sector (Figure 6, below, right).

Figure 5. We have seen no demand for duration in Italy over the last 3 months. Buying has been in the 5-10yr sector.



Source: Citi Research

Figure 6. Buying of the front end of Spain over the last 3m. Appetite has been inversely related to duration.



Source: Citi Research

The difference between demand for Italy and Spain however is that the latter has been positive and concentrated in the short end (Figure 6 above, right). It is probably no coincidence that this is the sector that stands in the shade of the OMT.

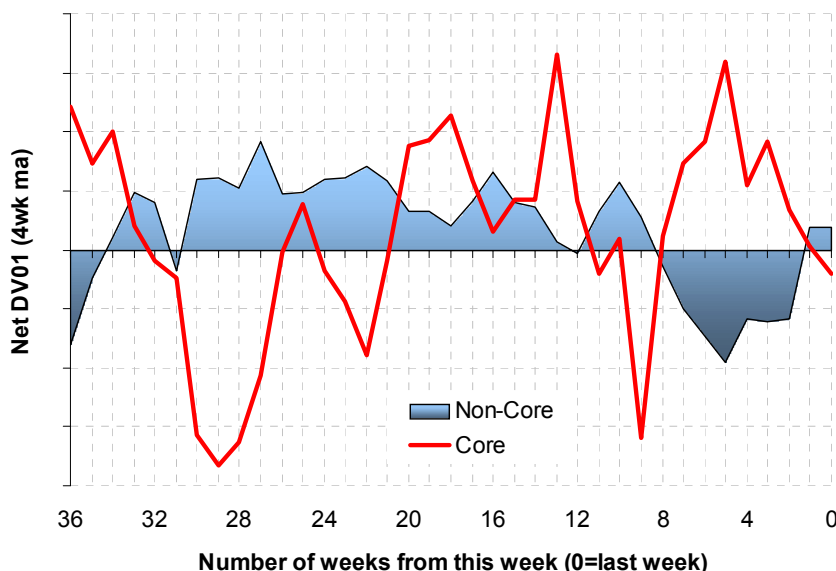
¹ This is based on executed Citi electronic client flows.

Risk aversion receding

Risk appetite clearly returning with rebounding demand for peripherals, while demand for the core continues to fall. Where are the accumulated positions?

Figure 7 below shows the recent decline in demand for the core and the rebound in demand for peripherals (or rather the demand for the relative yield they offer).

Figure 7. Rebounding demand for peripherals while demand for the core continues to fall.



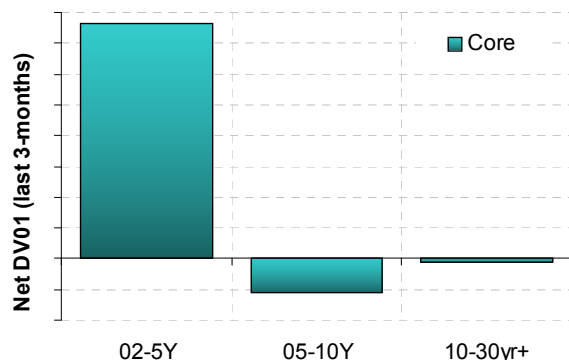
Source: Citi Research

Buying of the core has been concentrated in the short end.

Selling of the periphery has been in the 10yr+ sector.

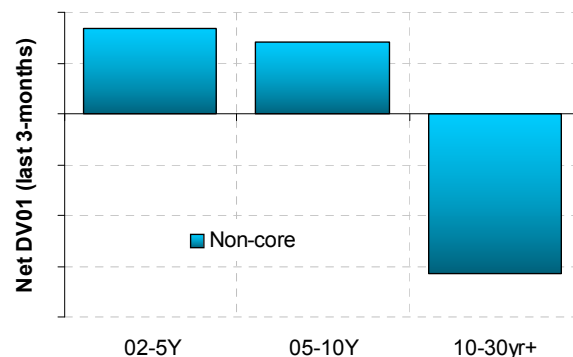
Although net demand for the core has been positive over the last 3 months, it has been heavily concentrated in the short end (see Figure 8 below left). Demand for peripherals has been negative over that period, but that conceals net buying of both the 2-5yr and 5-10yr sectors over the 3 months. This was, however, outweighed by the selling of the 10-30yr sector (see Figure 9 below right).

Figure 8. Buying of the core over the last 3 months has been concentrated in the front end.



Source: Citi Research

Figure 9. Reduction of duration risk in the periphery and exposure to the short end over the last 3 months.

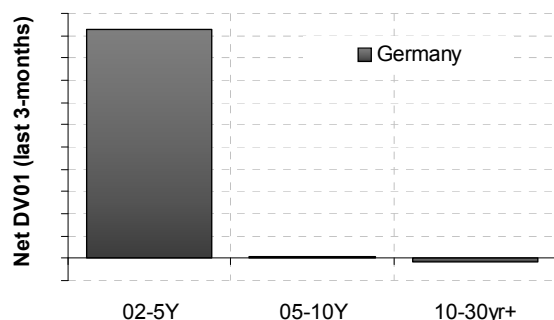


Source: Citi Research

Clear differences between the incidence of demand on the French and German curves

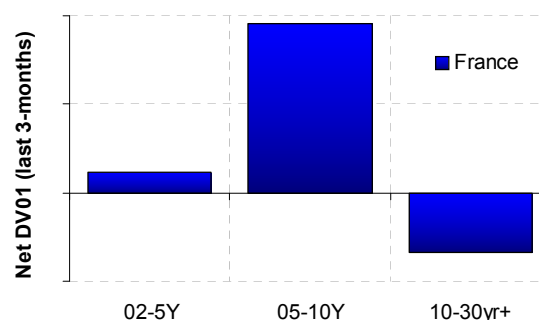
Again, drilling down to individual countries we find clear differences between the incidence of demand on the curve. Net demand for Germany over the last three months has been focused almost exclusively on the short end (Figure 10 below, left). Demand for France, on the other hand, has been in the belly of the curve (Figure 11).

Figure 10. Net flows in Germany all in the short end over the last 3m.



Source: Citi Research

Figure 11. Net buying of the belly of the French curve, not the front end.

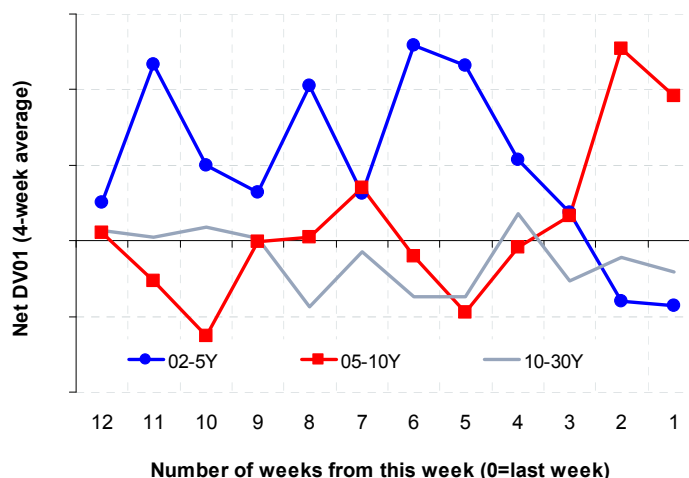


Source: Citi Research

Looking at Europe as a whole, we have seen clear flattening pressure with declining demand for the front end and an equal increase in demand for the 5-10yr sector.

Figure 12. Consistent buying of the front end over the last 3 months has turned to net selling recently. At the same time, demand for 5-10yr sector has increased, and by the same amount.

More evidence of confidence: maturity extension in Europe



Source: Citi Research

Conclusions from combining positioning and flow data

Putting our survey and flow data together points towards 5 main conclusions

- The most widespread risk exposure is to the front end of Spain.
- Positioning in Italy seems only slightly long, but in the case of another surge in risk appetite the accumulated underweight at in the 10yr+ bucket points to potential for flattening.
- The lack of a large overweight in Bunds suggests that the sell-off will be less dramatic than it might have otherwise been.
- The buying of the core, and Germany in particular, that we have seen over the last 3 months – though this is now reversing² – appears to have been concentrated in the 2-5yr sector.
- Exposure to France is in the 5-10yr sector. To the extent that positioning exacerbates moves we would expect this part of the curve to have the highest beta.

² Our recent weekly [European Flow Monitor](#), showed a clear downward trend in demand for Bunds, continued buying of OATs, and increasing demand for Italy.

Appendix A-1

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