

Global Credit Survey

A Step Too Far?

- Positions in most sectors longer, whilst overall long in credit declines slightly.
- Cash inflows decline, with a considerable reduction in both € and \$.
- Positions in senior banks grow shorter, whilst the overweight in sub debt increased.
- The long position in Telecoms, maintained since August 2007, has been eliminated.
- Core longs decline whilst the short in the periphery was eliminated for the first time.

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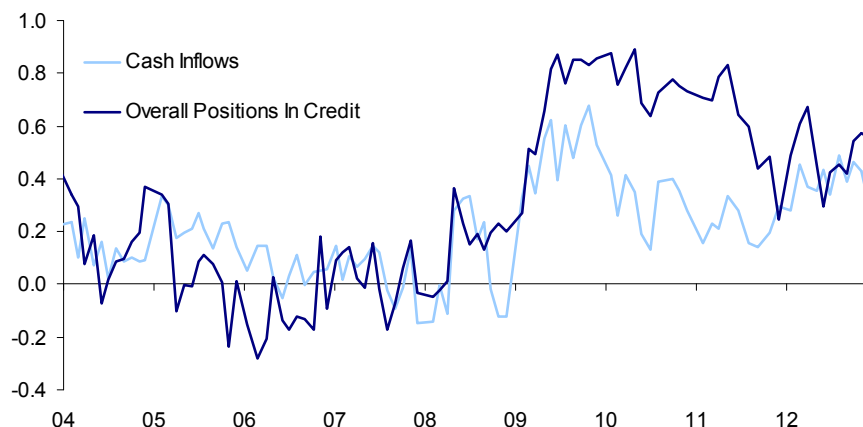
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Figure 1. Overall Positions in Credit vs Cash Inflows (Index, -2 Very Short, +2 Very Long)

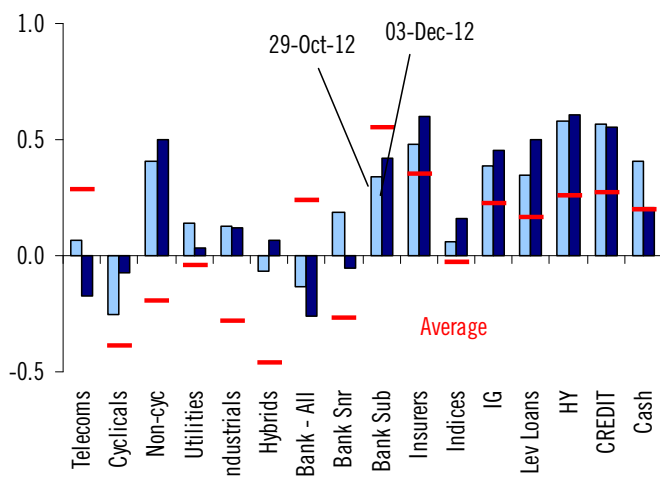


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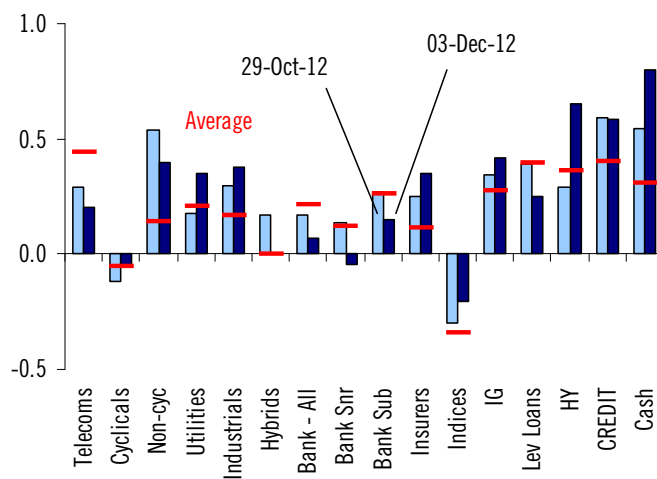
The results of our latest client survey indicate a paradox. Whilst most individual sectors are longer, the overall figure for positions in credit has actually declined slightly. Given shrinking inflows, especially from the US, this could be an indication that investors are perhaps longer overall than they realise, and that this extension in positioning is vulnerable to a pullback in risk appetite (Figure 36 & 38).

Figure 2. Real Money – Recent Positions vs Average



Source: Citi Research

Figure 3. Leveraged Money – Real Position vs Average



Source: Citi Research

The shifts in positions in indices serve to underscore the divergence between the US and Europe, with increased hedging in the US and the removal of such hedges in Europe (Figure 28). Within Europe, the divergence between the core and the periphery (Figures 44 & 45), with longs in the core declining and shorts in the periphery eliminated for the first time since we began asking investors about this in October 2010, highlights investors' desire to flatten their positions going into year-end to protect the returns they have accrued year-to-date.

Most non-financial sectors were either longer or less short. Cyclical saw a considerable reduction in the short positions that has built up since April (Figure 6), whilst positions in non-cyclicals increased (Figure 8) and those in hybrids grew long again for the first time since May last year (Figure 14). On the other hand industrials were nearly unchanged overall (Figure 12) and Telecoms saw a dramatic reversal, with the first aggregate short in the sector since August 2007 (Figure 4). A similar picture of extended positions in most categories being partly offset by considerable reduction in others can be seen in financials. Whilst sub debt (Figure 22) and insurers (Figure 18) grew longer, the long in senior debt was eliminated (Figure 20).

On balance, the survey leaves us slightly less sanguine than we had been previously. Yes, overall positions in credit are nearly static. But the fact that this conceals position cutting in lower beta sectors such as Telcos, Utilities and senior bank debt, whilst longs in Cyclical, bank sub debt and HY have increased indicates that investors have been led further afield in their hunt for yield than they may have liked.

The decline in cash inflows also gives us pause. The slip in US inflows was well flagged, and easily understood in light of the upcoming tax changes on capital gains. However, this has been matched by a similar decline in Europe, and together these indicate that the strong technical holding up the market may prove slightly less reliable going into year-end. Despite this, given the cyclical nature traditionally shows by both inflows and positions, current trends do not preclude a squeeze in the new year.

Figure 4. Telecoms, All Respondents

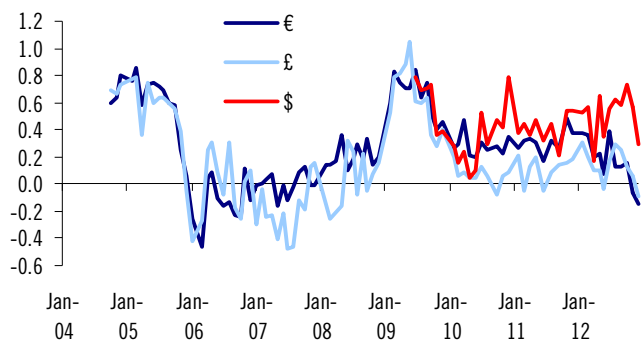


Figure 5. Telecoms, Real Money and Leveraged Accounts

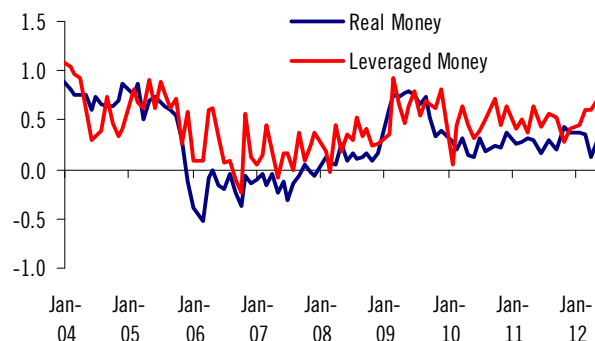


Figure 6. Cyclical, All Respondents

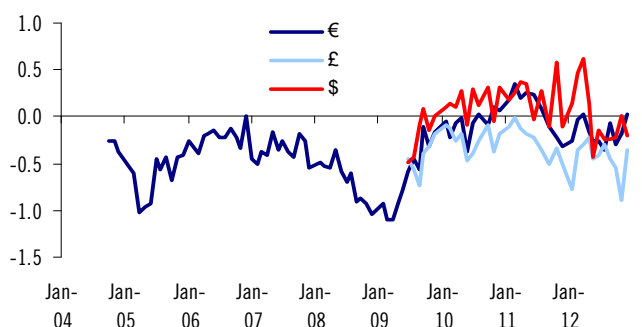


Figure 7. Cyclical, Real Money and Leveraged Accounts

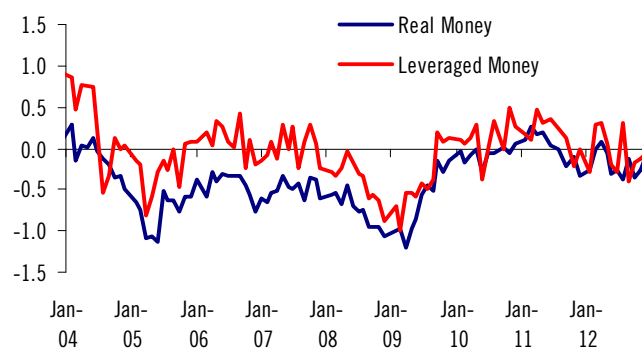


Figure 8. Non-cyclical, All Respondents

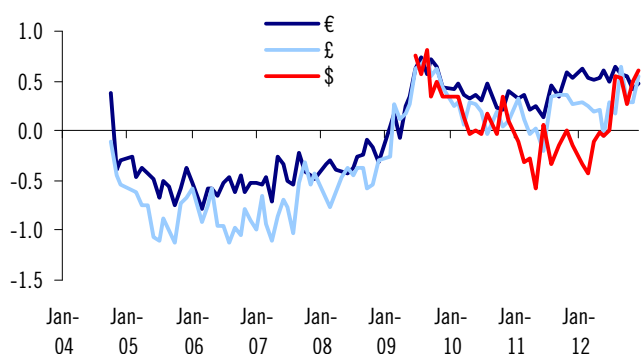


Figure 9. Non-cyclical, Real Money and Leveraged Accounts

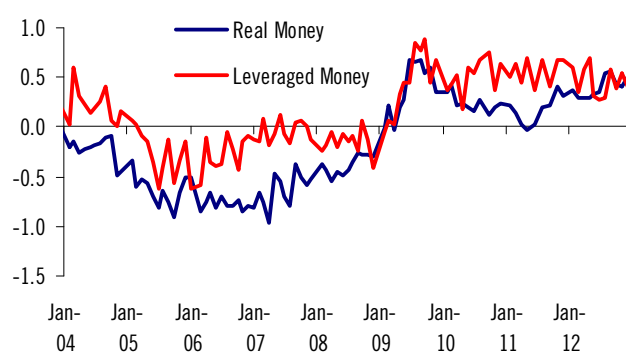


Figure 10. Utilities, All Respondents

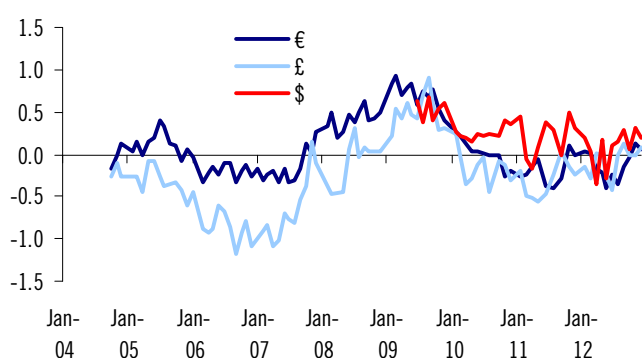
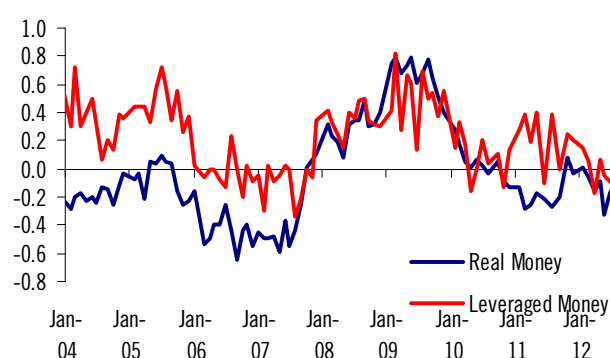


Figure 11. Utilities, Real Money and Leveraged Accounts



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

Figure 12. Industrials, All Respondents

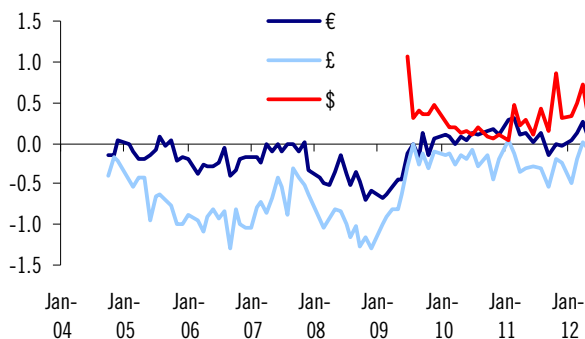


Figure 13. Industrials, Real Money and Leveraged Accounts

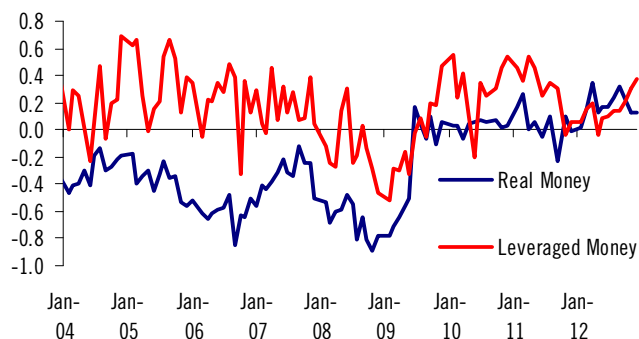


Figure 14. Non-Fin Hybrids, All Respondents

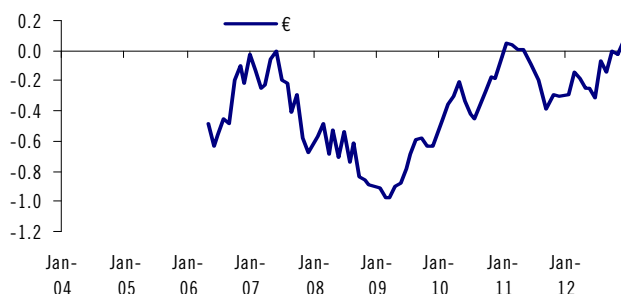


Figure 15. Non-Fin Hybrids, Real Money and Leveraged Accounts

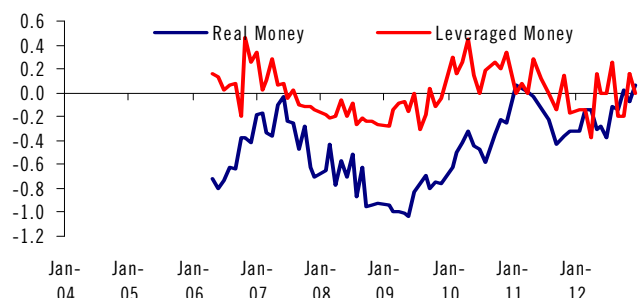


Figure 16. Banks Overall, All Respondents

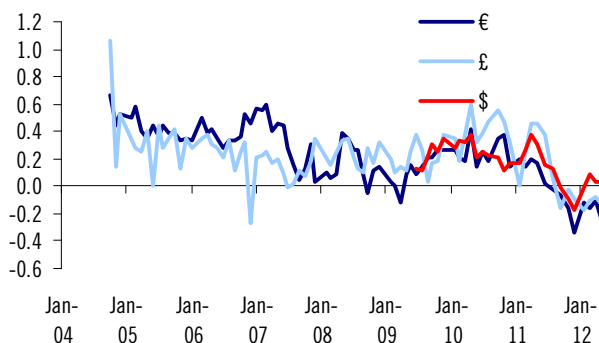


Figure 17. Banks Overall, Real Money and Leveraged Accounts

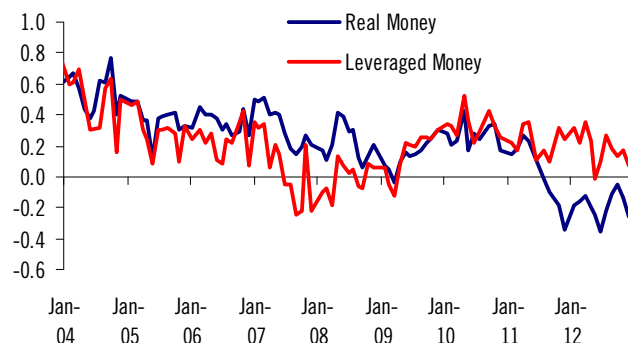


Figure 18. Insurance, All Respondents

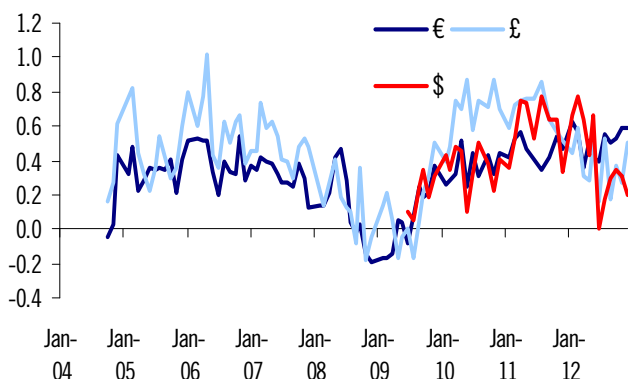
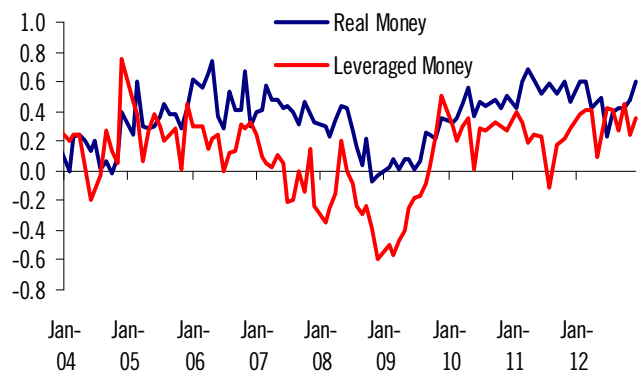


Figure 19. Insurance, Real Money and Leveraged Accounts



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

Figure 20. Banks, Senior, All Respondents

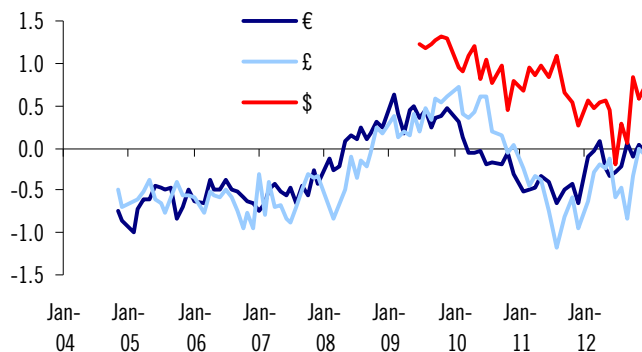


Figure 21. Banks, Senior, Real Money and Leveraged Accounts

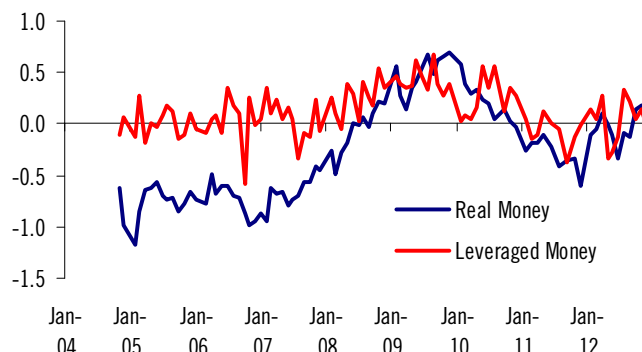


Figure 22. Banks, LT2, All Respondents

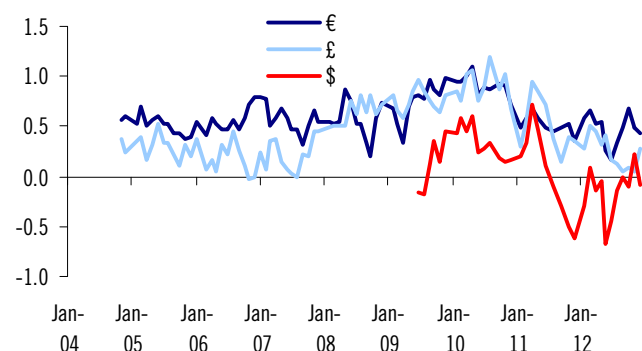


Figure 23. Banks, LT2, Real Money and Leveraged Accounts

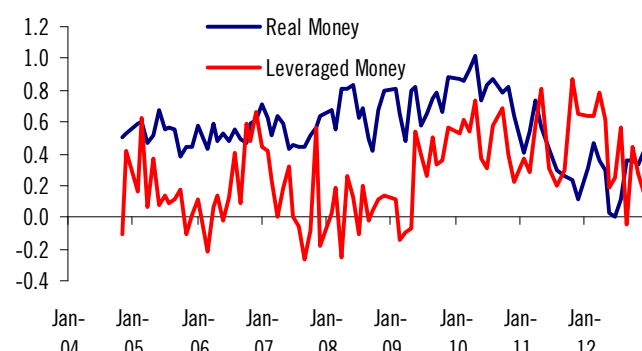


Figure 24. Banks, UT2, All Respondents

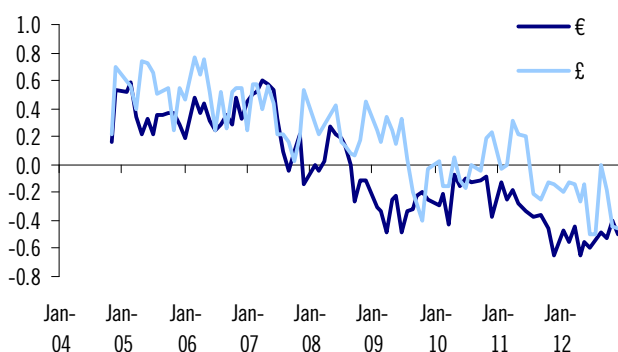


Figure 25. Banks, UT2, Real Money and Leveraged Accounts

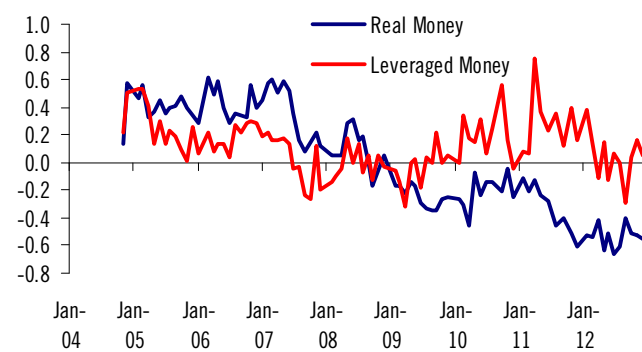


Figure 26. Banks, Tier 1, All Respondents

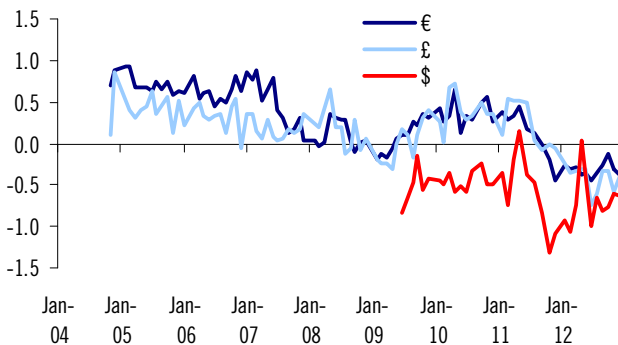


Figure 27. Banks, Tier 1, Real Money and Leveraged Accounts

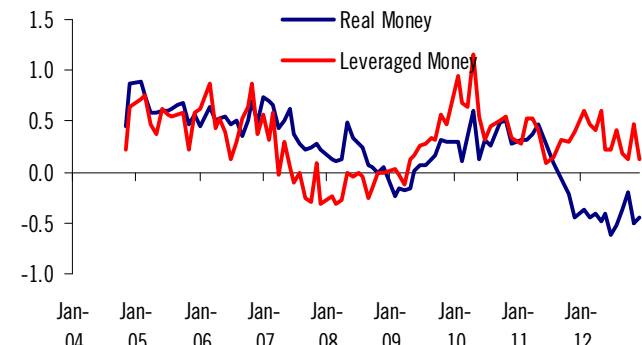


Figure 28. Credit Indices, All Respondents

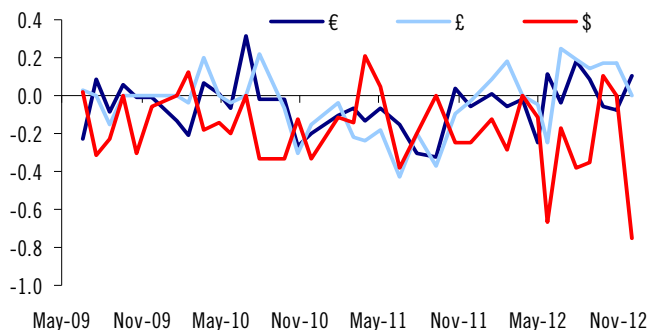


Figure 29. Credit Indices, Real Money and Leveraged Accounts

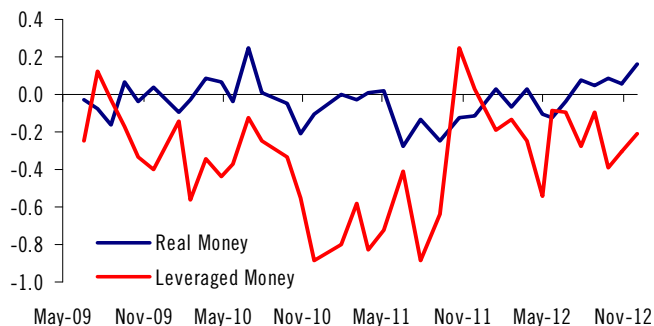


Figure 30. High Grade Overall, All Respondents

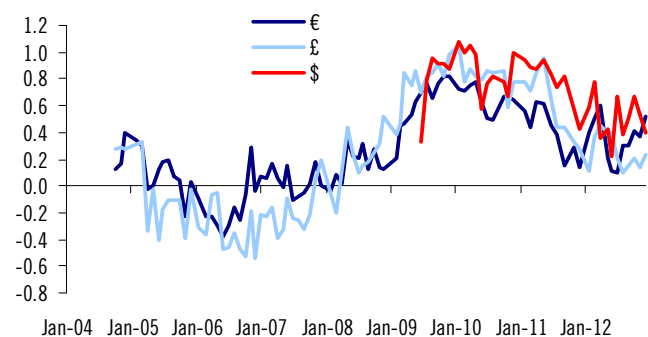


Figure 31. High Grade, Real Money and Leveraged Accounts

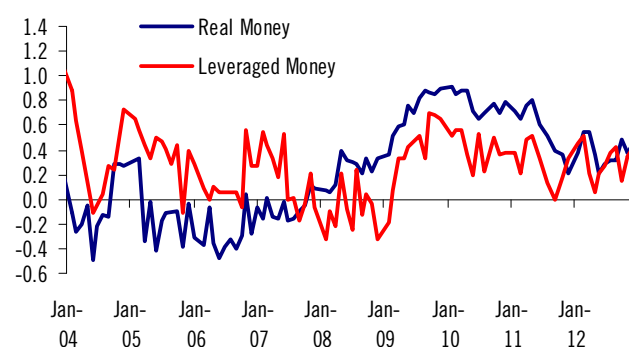


Figure 32. High Yield Overall, All Respondents

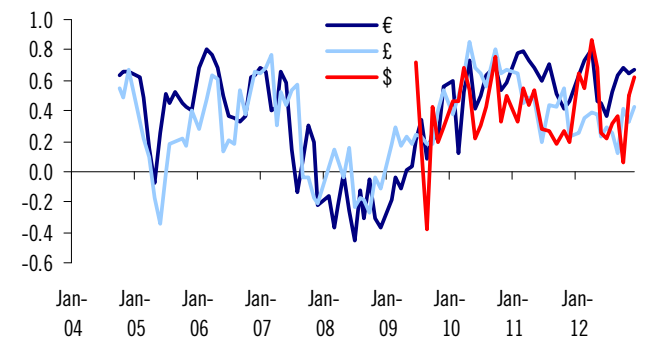


Figure 33. High Yield, Real Money and Leveraged Accounts

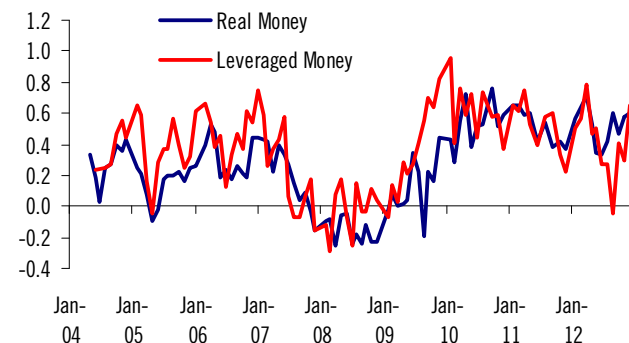


Figure 34. CREDIT Overall, All Respondents

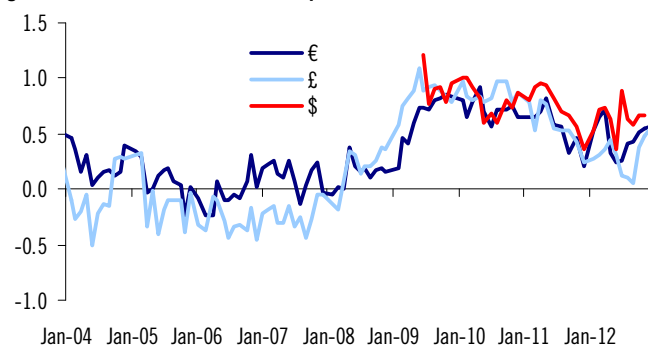
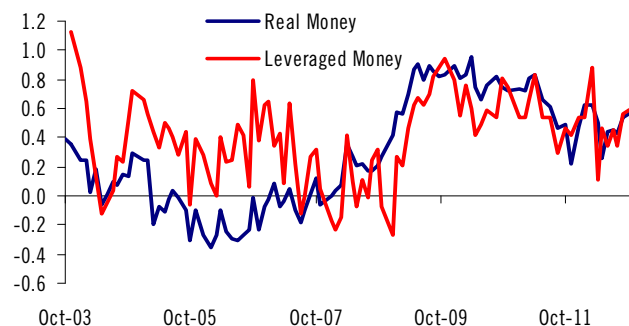


Figure 35. CREDIT Overall, Real Money and Leveraged Accounts



Source: Citi Research

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

Figure 36. Cash Inflows, All Respondents

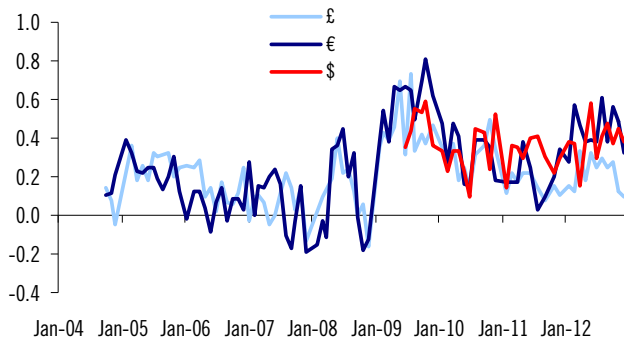


Figure 37. Cash Inflows, Real Money and Leveraged Accounts

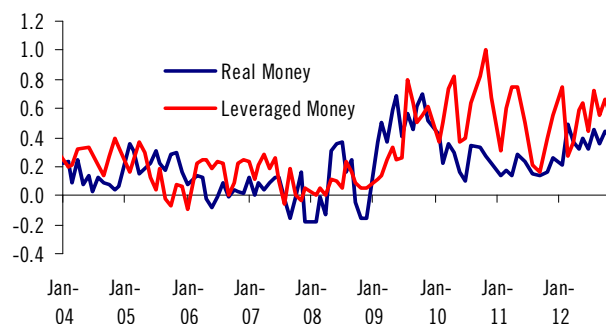


Figure 38. Lev Loans, All Respondents

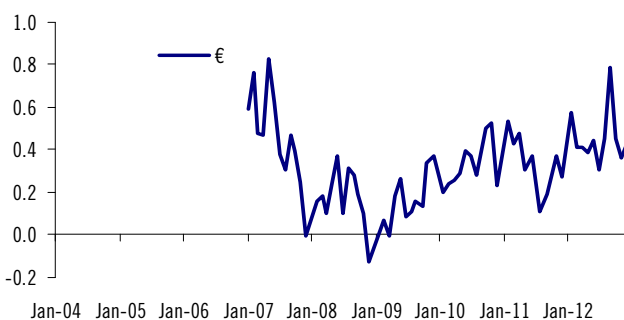


Figure 39. Lev Loans, Real Money and Leveraged Accounts

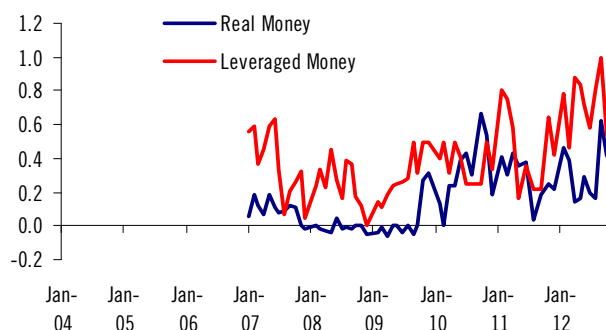


Figure 40. ABS, All (Sterling) Respondents

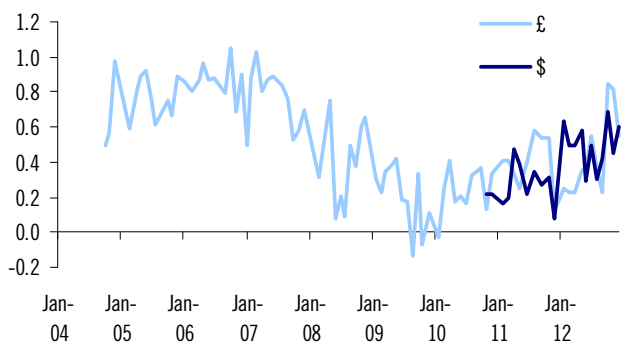


Figure 41. SAS, All (sterling) Respondents

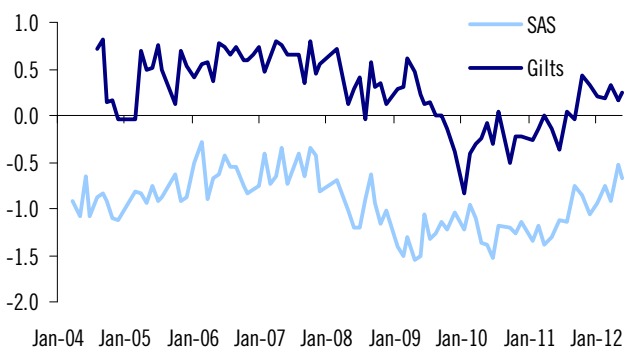


Figure 42. Gilts, All (Sterling) Respondents

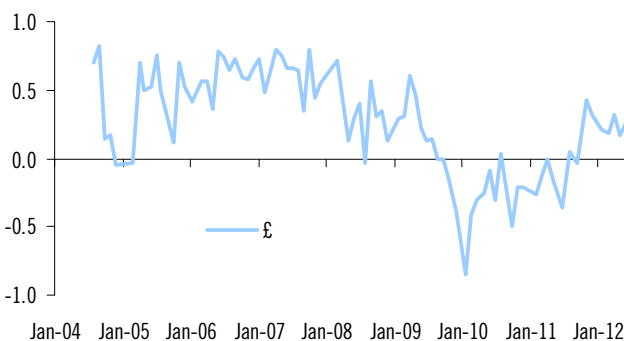
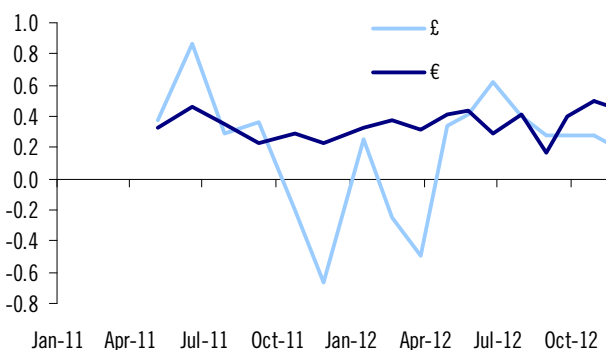


Figure 43. Covered, All Respondents



Source: Citi Research

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

Figure 44. Peripheral Europe, Real and Leveraged Accounts

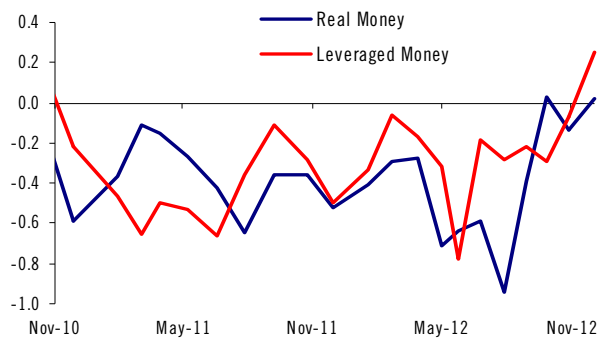
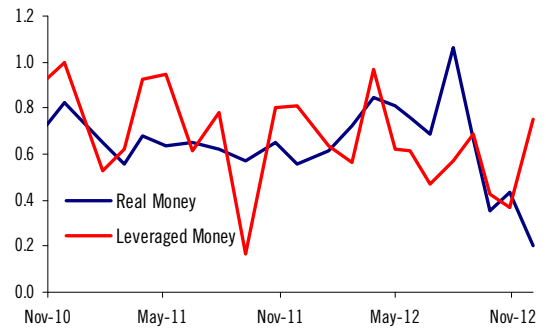


Figure 45. Core, Real And Leveraged Accounts



Source: Citi Research

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

Appendix A-1

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