

Global Credit Survey

Buying, but No Longer

- Sectoral positions longer, yet overall positions apparently not.
- Cash inflows retreat from their highs, with a particular reduction in €.
- Positions in banks increase, with longs in sub extended significantly.
- Only 17% of investors expect spreads to widen by more than the carry before year-end.
- Core longs and periphery shorts both cut back.

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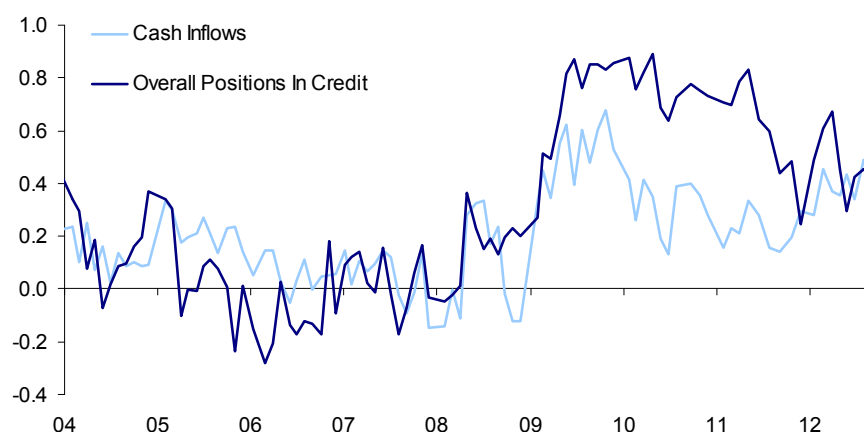
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Figure 1. Overall Positions in Credit vs Cash Inflows (Index, -2 Very Short, +2 Very Long)



Source: Citi Research

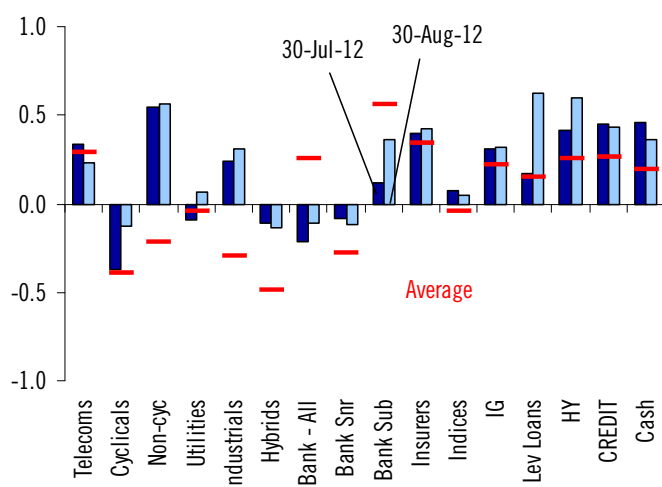
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Our latest client survey contains a paradox. Investors, real money in particular, globally report having added to their sectoral positions almost across the board, and with a bias towards higher beta sectors. Yet their overall positions have not increased correspondingly; indeed the reported position in credit as a whole actually fell slightly (Figure 35).

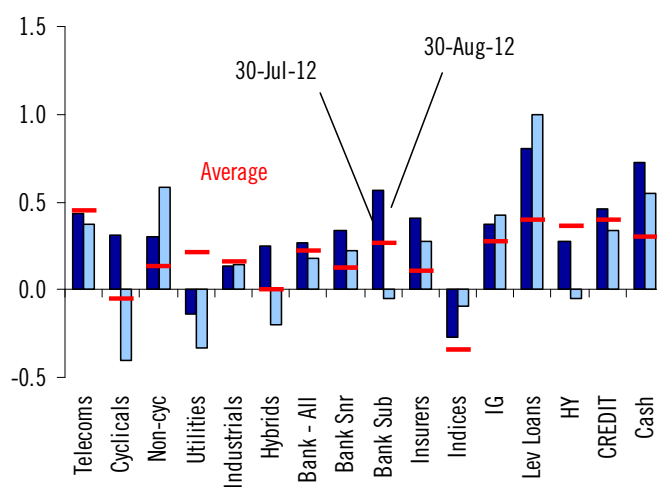
Normally, we would look to cash inflows or index positions to explain such a seeming inconsistency. Yet cash inflows, while they remain elevated and in line with this year's average, have retreated from last month's levels. In € and £ in particular, they fell quite considerably (Figure 37). Although index longs did fall slightly in € and £ (Figure 29), meaning that investors could have been replacing CDS positions with cash ones, we doubt that this is the full explanation.

Figure 2. Real Money – Recent Positions vs Average



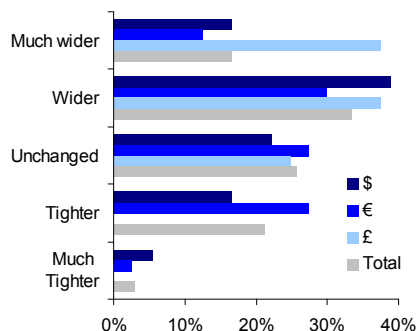
Source: Citi Research

Figure 3. Leveraged Money – Real Position vs Average



Source: Citi Research

Figure 4. Where do you expect spreads in your market to be at year end?



Source: Citi Research

This is all the more striking given that much of the adding seems to have been in higher beta sectors. Real money covered shorts in cyclicals (Figure 8), became markedly longer in bank sub debt and in high yield (Figure 34), and edged longer in every other sector apart from senior banks, telcos and hybrids. Shorts in the € periphery fell to their lowest since March (Figure 44).

One hypothesis might be that the lack of market volatility has disguised some of the effect of individual bond purchases on overall beta. It is frequently difficult to assess just how long or short a portfolio has really become, in particular when spreads are moving sideways. This potential explanation also seems consistent with investors' response to the "question of the month": only 17% of investors are expecting spreads to widen by more than the carry before year-end, creating a temptation to reach for yield. Yet many expect modest widening, with \$ and £ investors being noticeably more bearish than those in € (Figure 4).

Quite a few of the bearish investors seem to be hedge funds. In contrast to real money, they cut positions in telcos, cyclicals, bank sub debt and high yield, and reported being somewhat less long overall (Figure 3). While the strength of technicals has kept cash largely insulated for now, on balance the survey to our minds supports the idea that the market is at risk of a pullback.

Figure 5. Telecoms, All Respondents

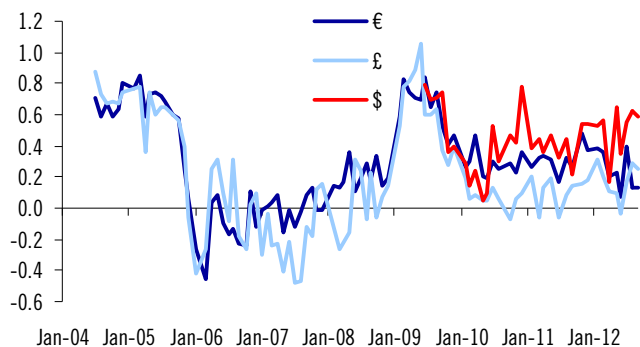


Figure 6. Telecoms, Real Money and Leveraged Accounts

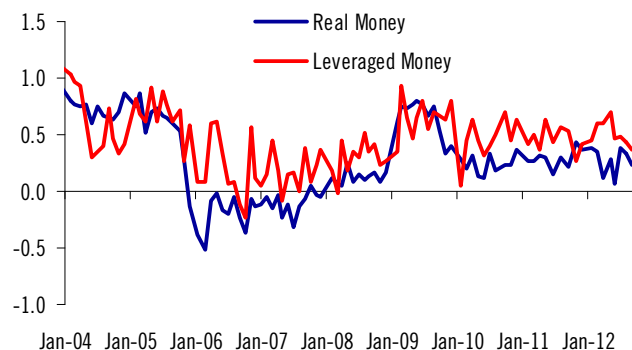


Figure 7. Cyclical, All Respondents

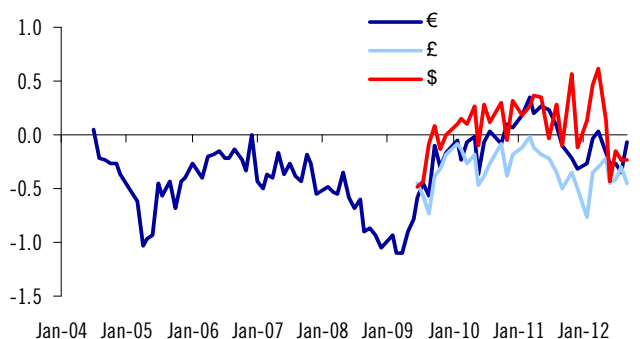


Figure 8. Cyclical, Real Money and Leveraged Accounts

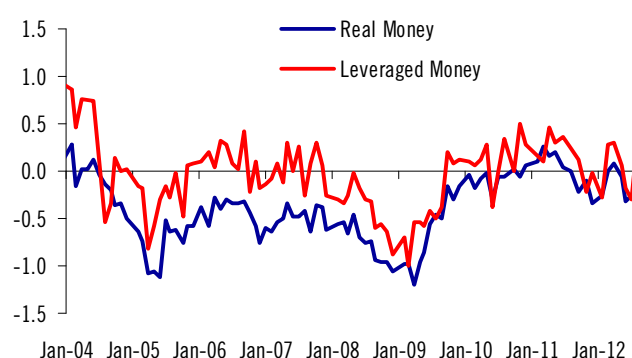


Figure 9. Non-cyclicals, All Respondents

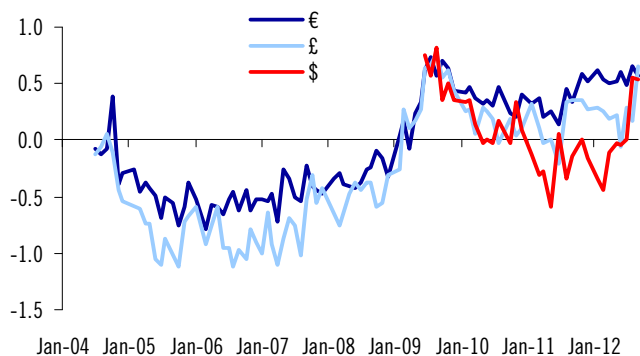


Figure 10. Non-cyclicals, Real Money and Leveraged Accounts

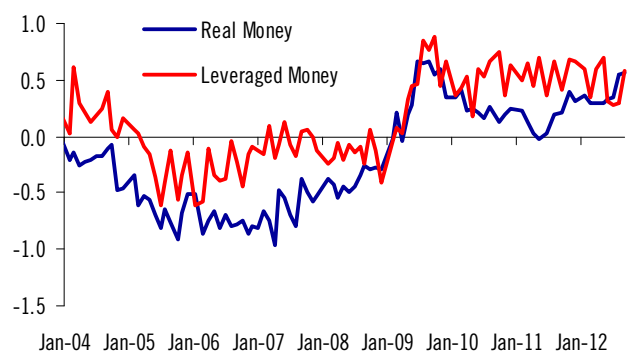


Figure 11. Utilities, All Respondents

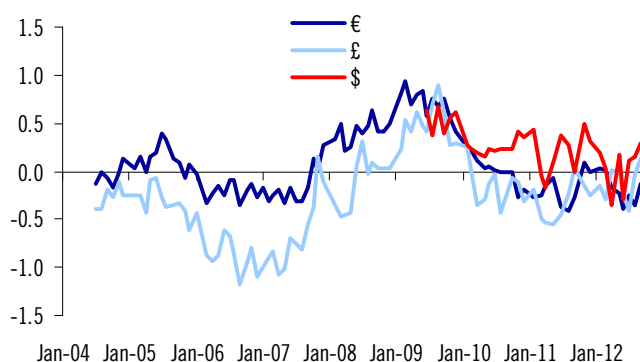
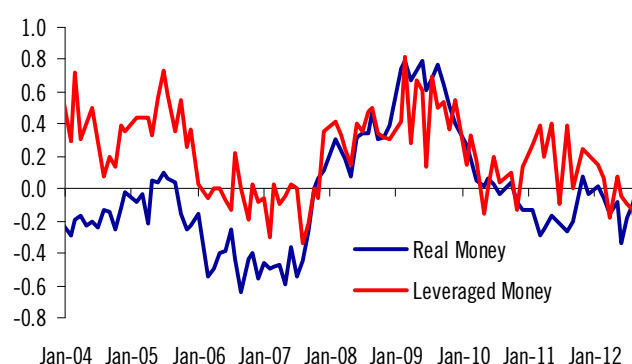


Figure 12. Utilities, Real Money and Leveraged Accounts



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

Figure 13. Industrials, All Respondents

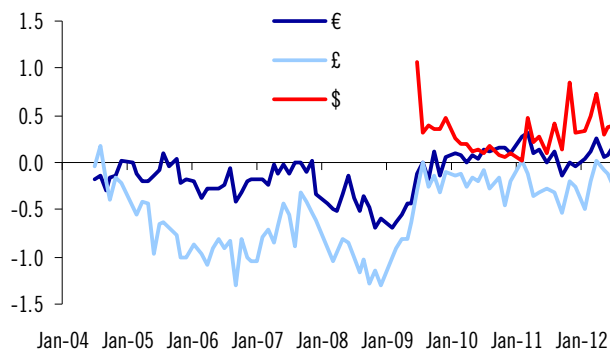


Figure 14. Industrials, Real Money and Leveraged Accounts

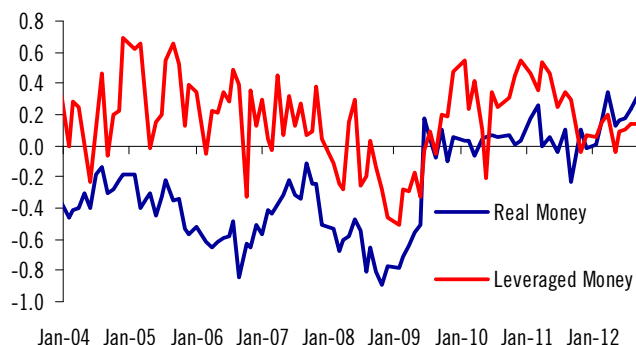


Figure 15. Non-Fin Hybrids, All Respondents

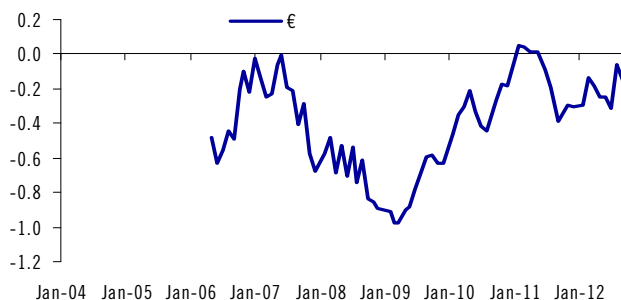


Figure 16. Non-Fin Hybrids, Real Money and Leveraged Accounts

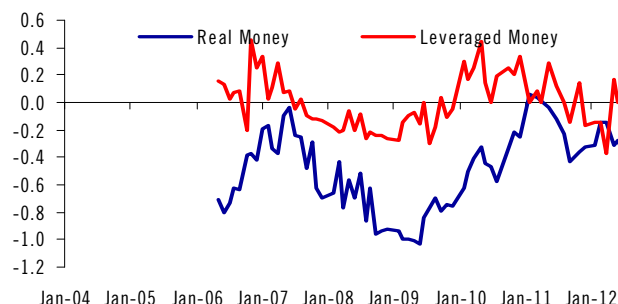


Figure 17. Banks Overall, All Respondents

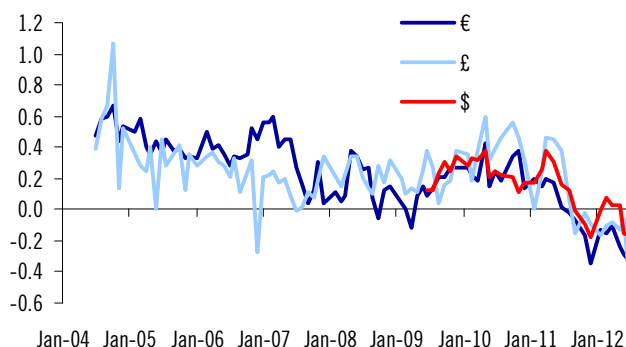


Figure 18. Banks Overall, Real Money and Leveraged Accounts

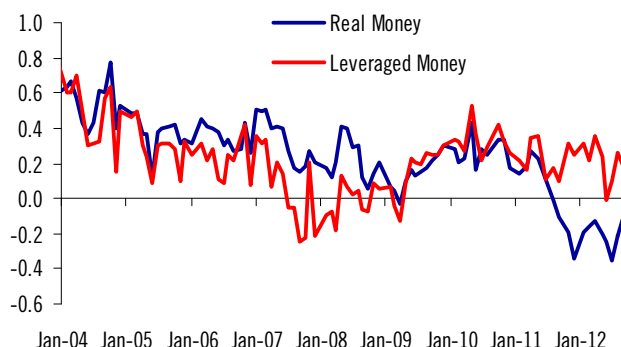


Figure 19. Insurance, All Respondents

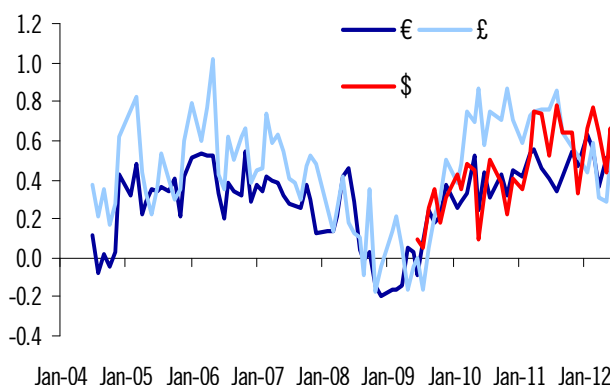
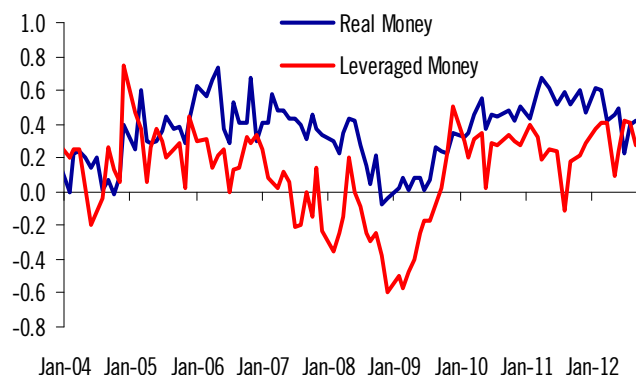


Figure 20. Insurance, Real Money and Leveraged Accounts



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

Figure 21. Banks, Senior, All Respondents

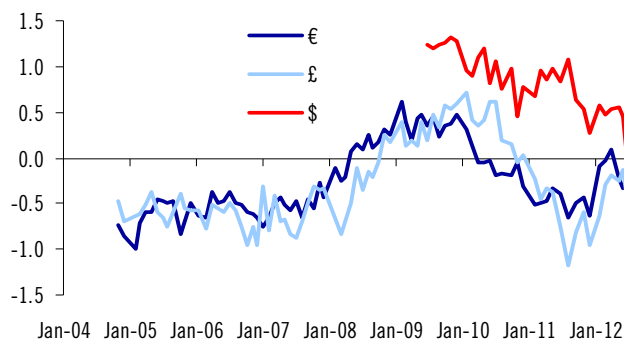


Figure 22. Banks, Senior, Real Money and Leveraged Accounts

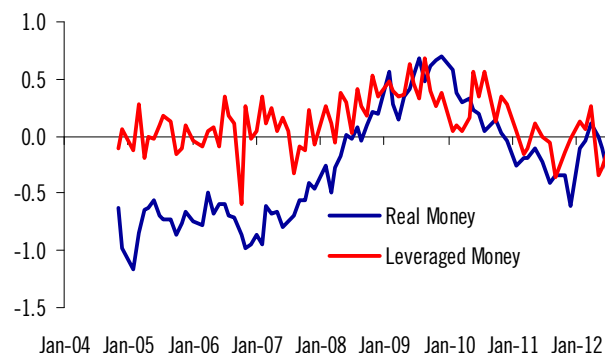


Figure 23. Banks, LT2, All Respondents

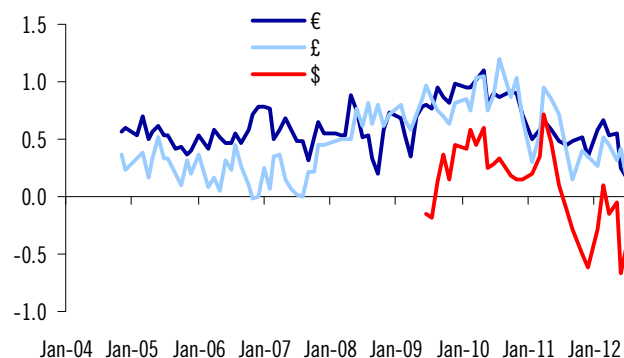


Figure 24. Banks, LT2, Real Money and Leveraged Accounts

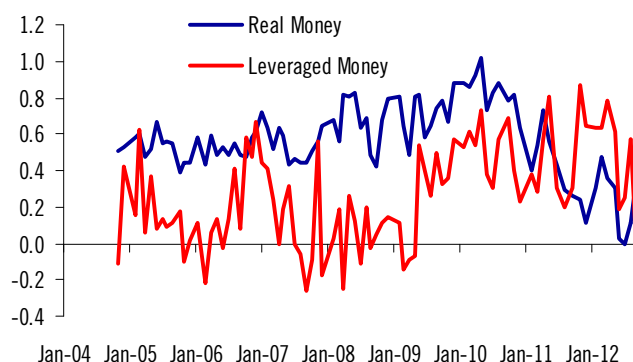


Figure 25. Banks, UT2, All Respondents

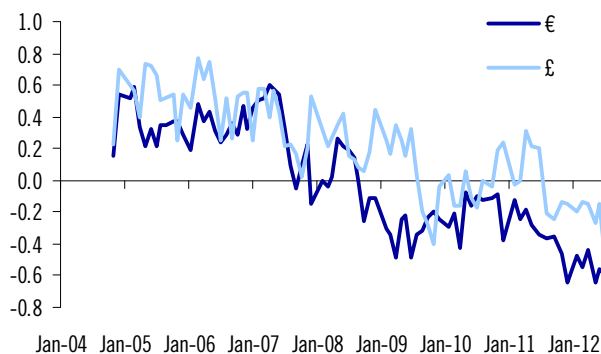


Figure 26. Banks, UT2, Real Money and Leveraged Accounts

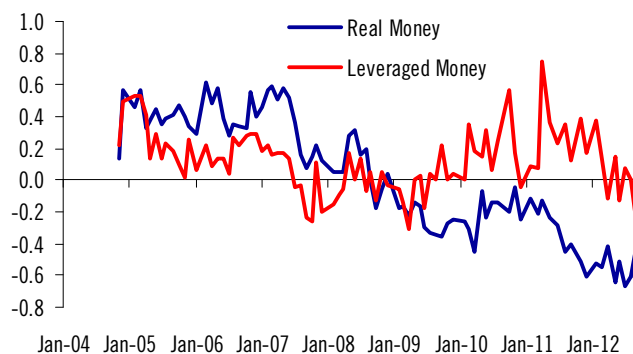


Figure 27. Banks, Tier 1, All Respondents

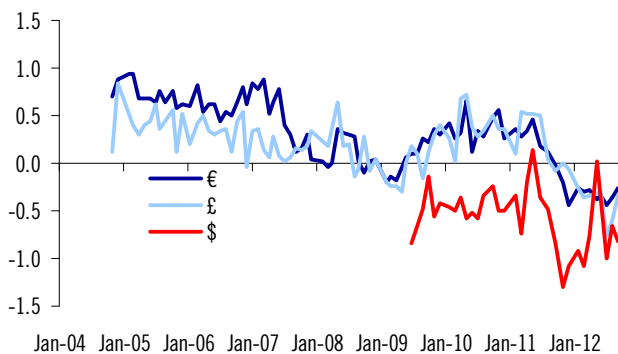
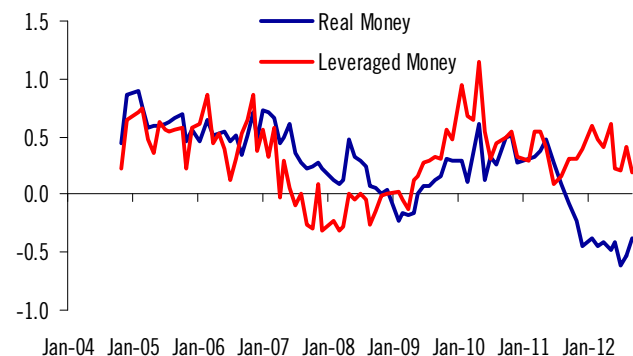


Figure 28. Banks, Tier 1, Real Money and Leveraged Accounts



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

Figure 29. Credit Indices, All Respondents

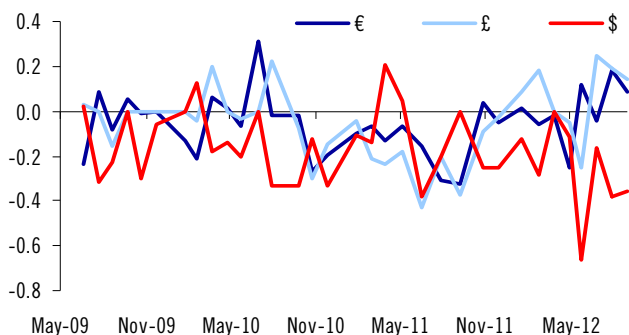


Figure 30. Credit Indices, Real Money and Leveraged Accounts

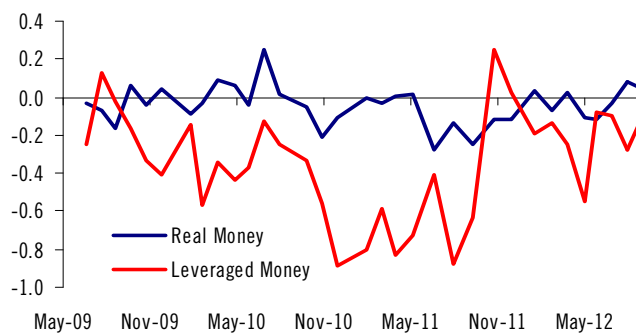


Figure 31. High Grade Overall, All Respondents

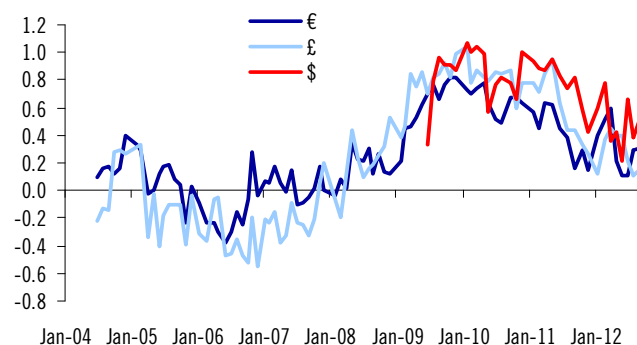


Figure 32. High Grade, Real Money and Leveraged Accounts

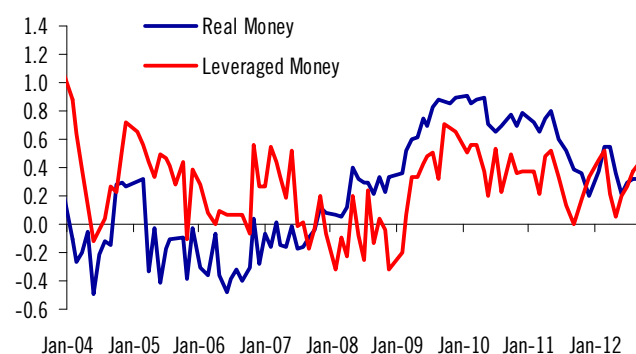


Figure 33. High Yield Overall, All Respondents

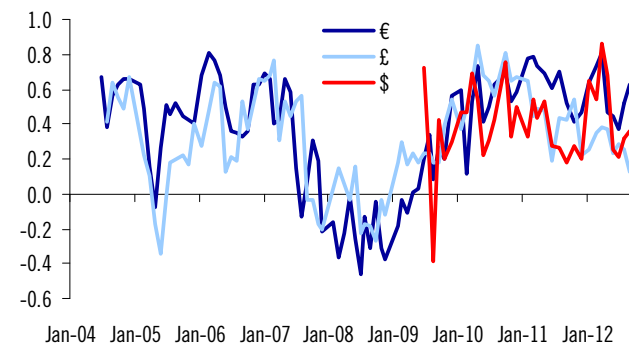


Figure 34. High Yield, Real Money and Leveraged Accounts

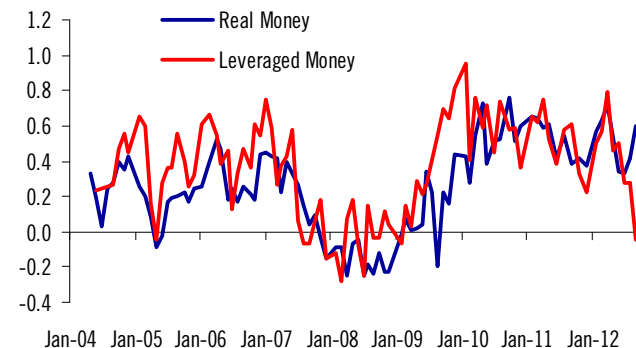


Figure 35. CREDIT Overall, All Respondents

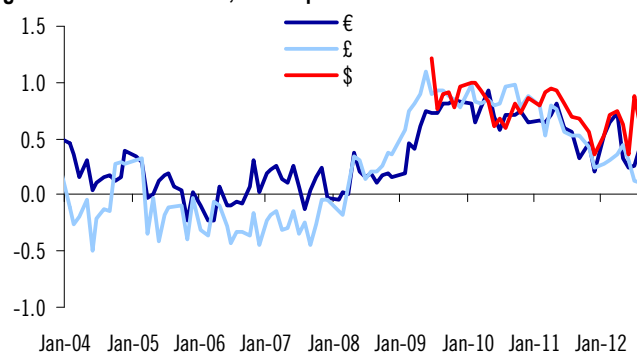
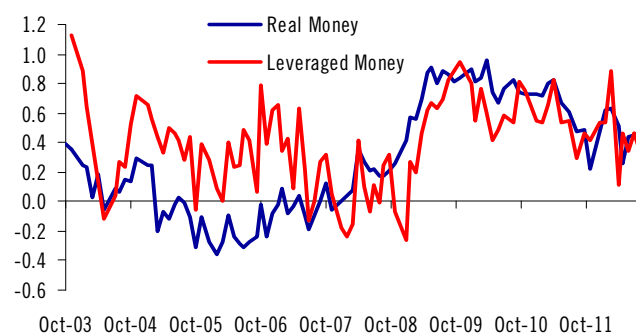


Figure 36. CREDIT Overall, Real Money and Leveraged Accounts



Source for all: Citi Research

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

Figure 37. Cash Inflows, All Respondents

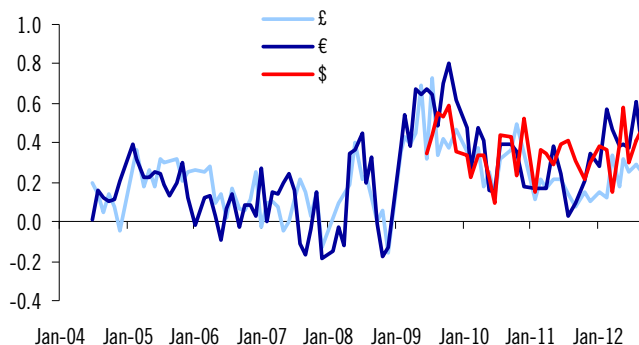


Figure 38. Cash Inflows, Real Money and Leveraged Accounts

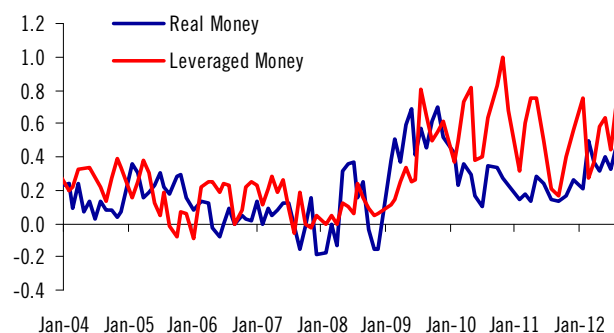


Figure 39. Lev Loans, All Respondents

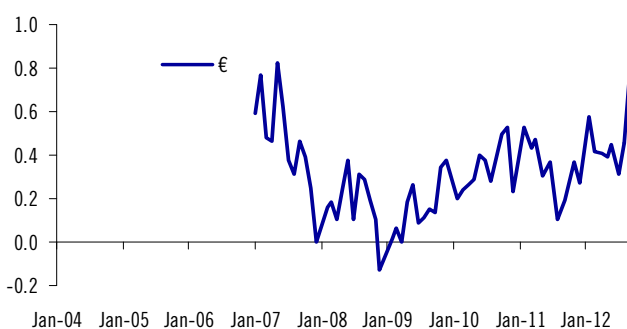


Figure 40. Lev Loans, Real Money and Leveraged Accounts

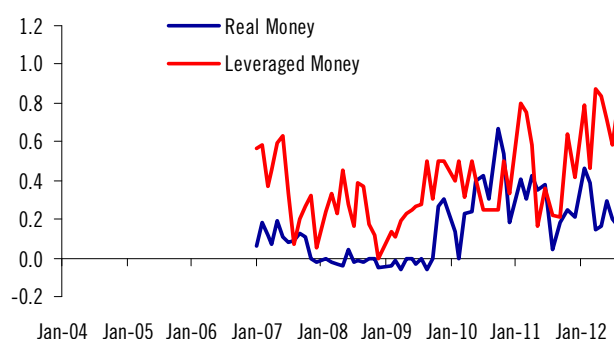


Figure 41. ABS, All (Sterling) Respondents

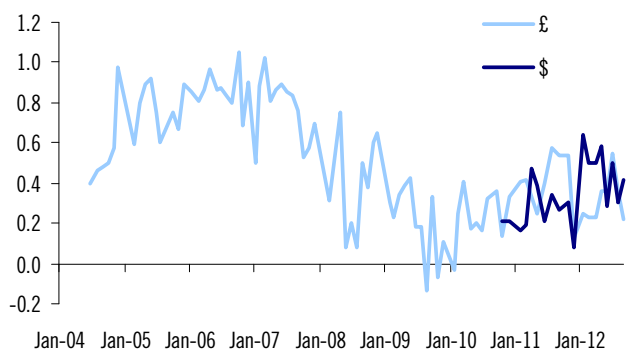


Figure 42. SAS, All (sterling) Respondents

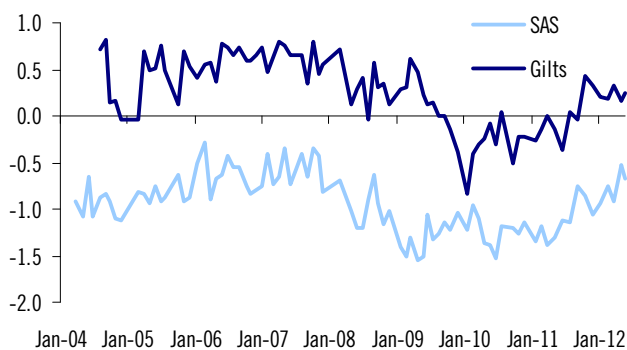


Figure 43. Gilts, All (Sterling) Respondents

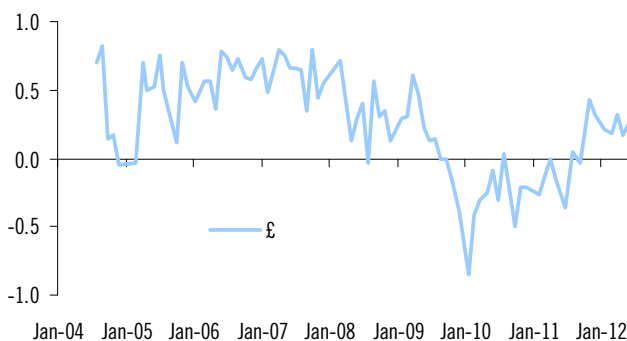


Figure 44. Covered, All Respondents

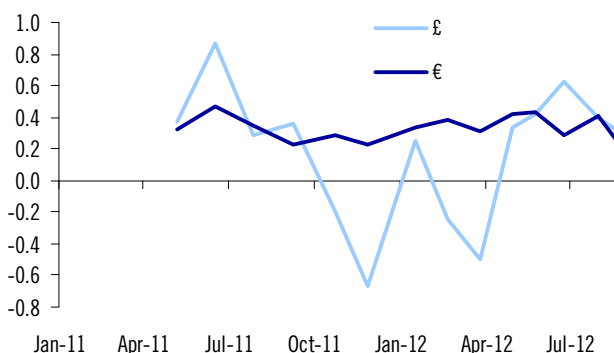


Figure 45. Peripheral Europe, Real and Leveraged Accounts

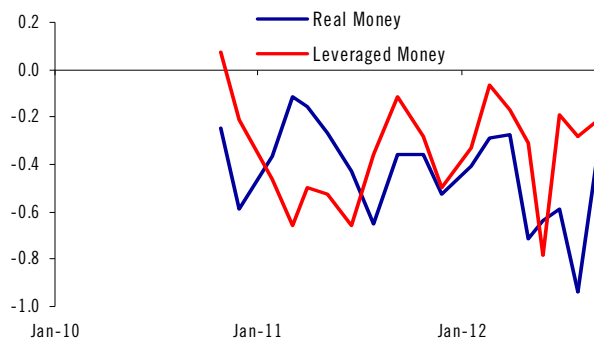
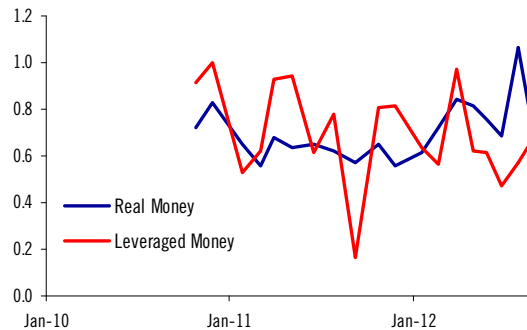


Figure 46. Core, Real And Leveraged Accounts



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Appendix A-1

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