Voluminous

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The high yield market traded in a range this week, with neither cash nor derivatives markets showing much sign of direction. The average price of the Barclays U.S. High Yield Index was down 17 cents, to $102.94 as of Wednesday's close. Meanwhile, series 20 of the HYCDX index was $0.32 weaker, closing at $105.56. Higher beta bonds outperformed last month as the market rallied from the May-June sell-off, but HYCDX (+9.27% year-to-date) remains well ahead of the cash index excess return (+4.81% year-to-date). For more details on index performance, please see the *High Yield Corporate Update*.

Market-wide cash volumes were strong for the first half of the year. The first quarter of the year showed the seasonal jump that has been typical since 2011 and reflects (at least in part) the seasonal pattern in supply. Indeed, since 2010, as much as 30% of the yearly new issue total has come in the first quarter of the year. Furthermore, 1Q13 supply was the largest quarter on record, at a little over $101bn. On the other hand, the second quarter of the year showed abnormally large volumes, and the higher volatility driven by concerns of Fed tapering and rising rates is the likely cause, in our view.

We believe a few trends in the breakdown of volumes are worth pointing out. First, looking at volumes by primary market placement, it is clear that the proportion of total volumes going to the 144A[1] market has grown consistently over the past seven quarters (Figure 2). While recent issuance tends to account for a disproportionate share of volumes, this trend is more a reflection of the outstanding pool of bonds than recent supply. Indeed, the proportion of overall 144A issuance has not changed much over that period; 144A with registration rights issuance has declined steadily, but 144A-for-life issuance has grown more or less in proportion to take up the slack during the past two years. However, the share of 144As in the U.S. High Yield Index has grown monotonically from 30.3% at the end of 2011 to 36.4% as of 2Q13, with nearly three quarters of the growth coming from the 144A-for-life category.

Second, breaking down secondary trade volumes by the counterparties involved is telling, in our view. Specifically, the proportion of total volumes going through the interdealer market appears to be on the decline. In the first quarter of 2011, trades between dealers accounted

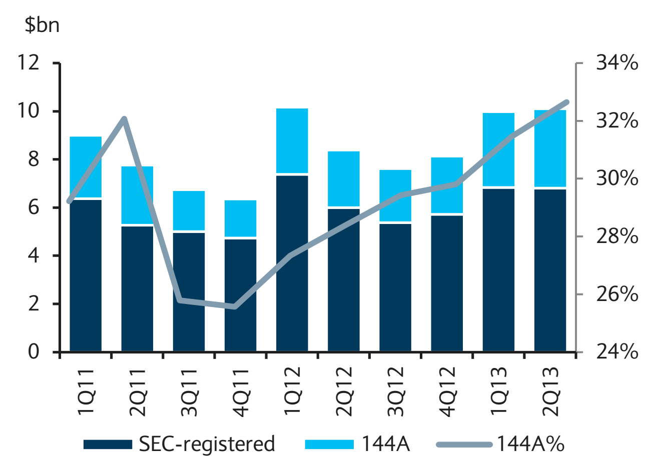
FIGURE 1
Cash and CDS Movers

High Yield Cash					
Best	**Px**	**Chg**	**Worst**	**Px**	**Chg**
OIS 5.125 '23	110.00	+4.5	TXU 6.5 '24	56.00	-3.8
FTR 6.73 '28	98.05	+3.6	ROCKIE 7.5 '38	87.38	-3.6
CZR 5.625 '15	86.00	+3.5	SIRI 5.25 '22	96.75	-3.3

High Yield CDS					
Best	**5y**	**Chg**	**Worst**	**5y**	**Chg**
SKS	163 bp	-116 bp	HET	55.0 pts	+4.5 pts
BYD	3.2 pts	-1.9 pts	MBIA	8.7 pts	+2.0 pts
HMA	162 bp	-36 bp	KBH	372 bp	+32 bp

Source: Barclays Research

FIGURE 2
Average Daily High Yield Volumes – Registered versus 144A

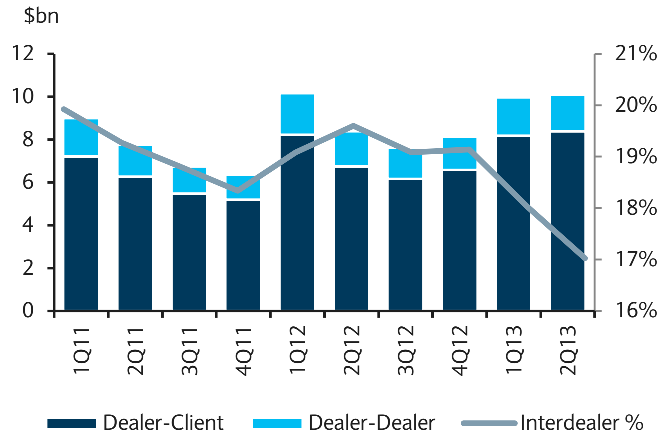


Source: FINRA

[1] Includes both 144A for life and 144A with registration rights.

FIGURE 3

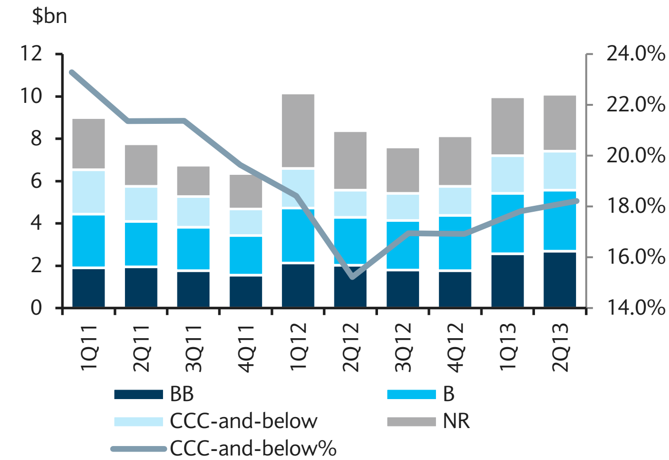
Average Daily High Yield Volumes – Client-Facing versus Interdealer



Source: FINRA

FIGURE 4

Average Daily High Yield Volumes – Quality Breakdown

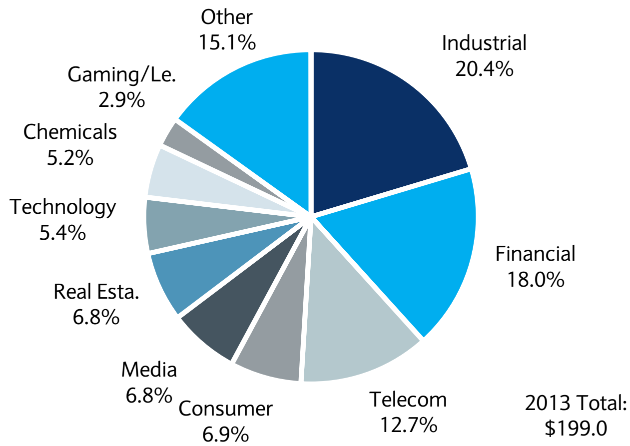


Source: FINRA

for about 20% of total volumes, while in the most recent quarter, that share had declined to 17% (Figure 3). The recent decline could be due to the increase in volatility in 2Q13. However, we believe it could also be a reflection of lower net dealer positioning in corporate debt securities. To the extent that leaner dealer balance sheets explain this trend, interdealer volumes will continue to be a smaller fraction of the pool of trades, in our view.

The share of volumes by credit quality is also interesting. In particular, the proportion of volumes in the more distressed CCC-and-below part of the market declined significantly in the six quarters from 1Q11 to 2Q12, going from 23.3% to 15.2% of the total. Since then, however, the lower end of the quality spectrum has slowly grown in share, back up to 18.2% in the second quarter of the year. While the par weight of CCC-and-below bonds in the U.S. High Yield Index has been steady during the past 10 quarters, ranging from 18.2% to 19.7%, trends in issuance can partly explain this pattern. Indeed, supply in the lower-rated part of the market grew from 13.3% in 2Q12 to 19.4% in 2Q13. With yields and volatility once again on the decline, we believe this trend could persist.

High Yield Supply by Sector – 2013 Breakdown



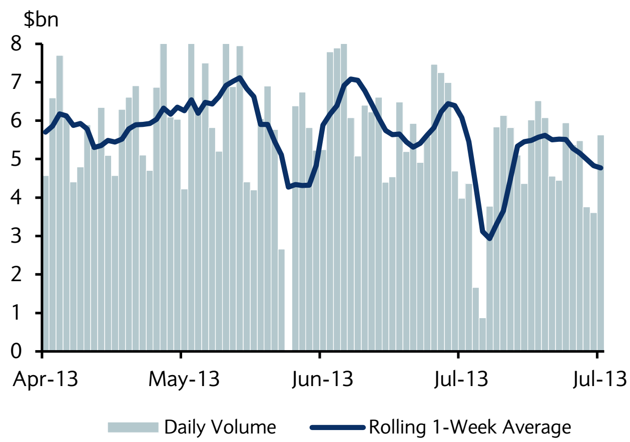
Source: Barclays Research

Top On-the-Run CDX Index Names by Weekly CDS Volume

	Notional Outstanding ($bn)		Volume – Week Ending 7/26/13 ($mn)
	Gross	Net	Gross
R.R. Donnelley	24.7	1.4	906.3
CenturyLink	20.5	1.1	522.5
RadioShack	19.4	0.8	466.0
MBIA Insurance	63.6	1.7	371.0
Radian Group	33.9	1.1	327.7
MGIC Investment	27.4	1.1	309.1
Clear Channel	24.0	1.0	265.0
J. C. Penney	23.3	1.7	259.3
Kinder Morgan EP	8.7	0.7	247.5
Pulte Group	21.5	1.1	203.5

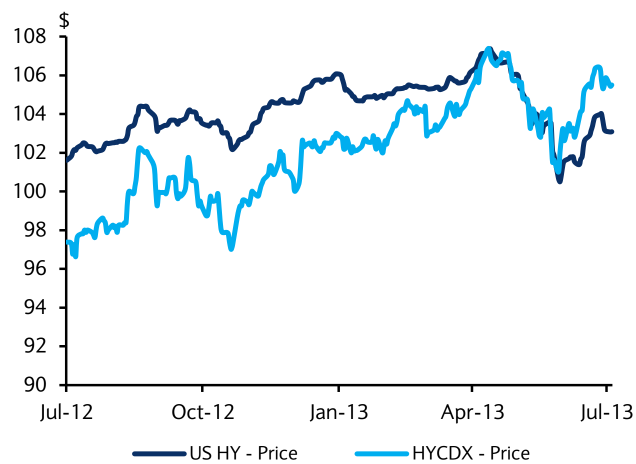
Source: Barclays Research

High Yield Average Institutional Trade Volume



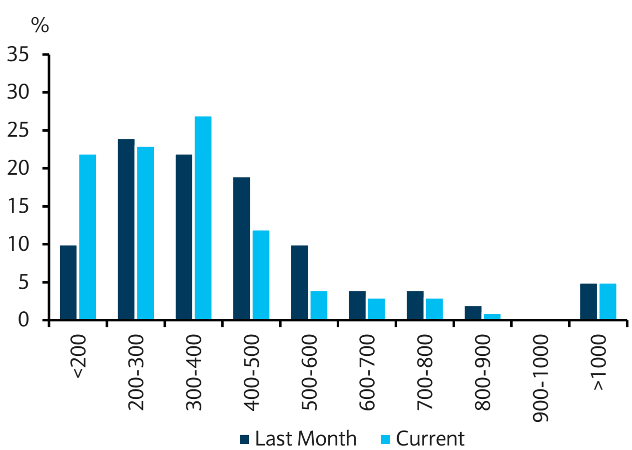
Source: Barclays Research

On-the-Run HYCDX versus U.S. High Yield Index



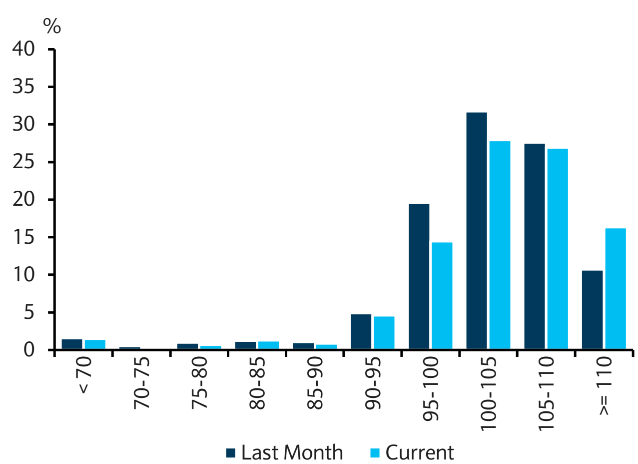
Source: Barclays Research

On-the-Run HYCDX Spread Distribution



Source: Barclays Research

High Yield Index Price Distribution by Par



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