

European Credit Alpha

A tale of two markets

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European credit markets continued to grind tighter along with the ongoing rally in risky assets. Given the relative complacency creeping into the market and the number of risk overhangs, at current levels we would refrain from adding net risk for now. We expect in a “base case” that any volatility will be relatively contained, particularly in credit, and would view a meaningful spread widening as a buying opportunity.

Focus: Systematic single-name screening 4

With volatility low and correlation between individual names dropping, we develop a screening methodology for identifying long- and short-basket opportunities versus iTraxx Main. Relying on intuitive metrics and non-perfect correlation between these metrics, we illustrate the capability of such a strategy to generate excess returns.

Investment grade: All on US (growth) 14

Mixed economic data and the proximity of CDS index rolls helped keep investment grade European credit in a tight range this week. Given the lack of news, last week's rally was likely driven by positioning, with clients covering shorts ahead of next week's roll and unlikely to add hedges until Series 19 is being traded. Thus we are likely to remain at the tight end of the recent range over the next week.

High Yield: Primary focus 17

While secondary markets were broadly unchanged this week, primary markets were particularly active. As we have seen in recent weeks, European high yield issuers continue to spread issuance across major currencies. Given this, we examine the price performance of European HY currency pairs and find that they are now trading broadly flat to one another.

Index Relative Value: SenFin-Main-Cross (de)compression 20

In a quiet market, SenFin shows a gradual underperformance versus Main which we think can continue given how SenFin trades versus Main in underlying equities. Anecdotal evidence suggests Cross-Main compresses into the roll. We review historical evidence for this and caution against putting on decompression trades before the roll.

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OVERVIEW

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A tale of two markets

European credit markets continued to grind tighter along with the ongoing rally in risky assets. For the week ended 13 March, iTraxx Main, Sen Fin, and Crossover were 5bp, 3bp, and 20bp tighter, respectively. The cash market tightened as well but did appear to underperform. The Barclays PE Agg Corporate (IG) Index OAS and our PE High Yield Index OAS were 3bp and 9bp tighter on the week, respectively.

A further positive trend in the US economic data helped fuel the continuing rally. US non-farm payrolls on Friday were stronger than consensus expectations, even after accounting for downward revisions to prior periods, as were February retail sales. The retail sales figures in particular were a positive surprise given burgeoning concerns among many market participants about the potential effects of recent tax increases and fiscal policy uncertainty on consumer spending. At the same time, European data have been mixed at best. Eurozone industrial production was weaker than consensus expectations in January, down 0.4% m/m, with weakness led by Germany (0.0% m/m growth) and France (-1.2% m/m). These trends come through clearly in our FX team's data surprise indices (Figure 2). US data have been, on balance, better than expected while European data have been trending below expectations. We have seen moderate outperformance from the US CDS indices in recent weeks, and these data trends, combined with the Italian election outcome, are plausible drivers, in our view.

At the same time, measures of volatility and investor sentiment are beginning to reflect an increased level of complacency. Equity implied volatility, as measured by the VIX and VSTOXX indices, is back near post-crisis lows in both the US and Europe. Retail investor sentiment has moved to meaningfully more bullish levels as reflected by the American Association of Individual Investors (AAII) survey. While this type of complacency has not always implied an imminent sell-off, it does highlight that risky assets are beginning to get more susceptible to bad news.

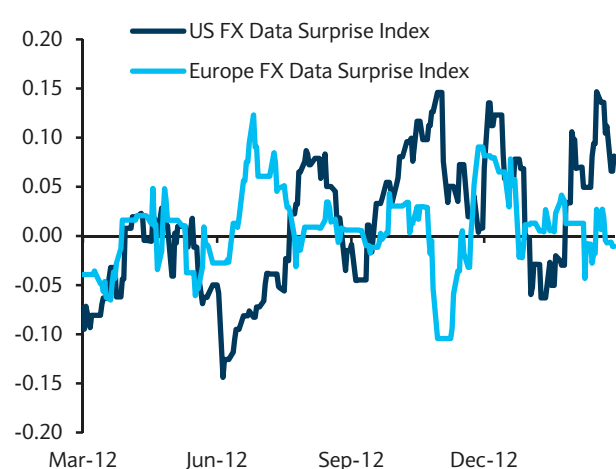
In that vein, sources of potential bad news continue to abound. These include the ongoing fiscal negotiations in the US, the political uncertainty in Italy, and heightened geopolitical risk. That said, these risk overhangs continue to be offset by supportive supply/demand technical positioning. We have had ~EUR21bn and ~EUR3bn of primary issuance in the

FIGURE 1
Key indices' weekly performance

	Wednesday close	Wednesday last week close	Four-week average
PE IG Corp	153	156	156
iTraxx Main	106	111	112
iTraxx SenFin	146	149	148
iTraxx SubFin	247	251	252
PE HY Corp	455	464	461
iTraxx XO	409	429	435

Source: Barclays Research

FIGURE 2
Barclays FX Data Surprise Indices



Source: Barclays Research

European investment grade and high yield markets, respectively, in March. These levels of issuance, after reasonably quiet February calendars, have been well absorbed in the context of still-supportive fund flows. This supportive technical has been well evidenced by the relatively limited volatility seen post the Italian elections.

What does this mean for positioning recommendations? Given the relative complacency creeping into the market and the number of risk overhangs, at current levels we would refrain from adding net risk for now. That said, the supportive technical picture should help to limit the magnitude of any sentiment-driven sell-off. We thus expect in a “base case” that any volatility will be relatively contained, particularly in credit, and would view a meaningful spread widening as a buying opportunity. In the interim, we believe investors should focus on taking advantage of relative-value opportunities as they emerge, a variety of which we have highlighted in our Trade Blotter section.

With regard to identifying relative value opportunities in the market, we have long advocated combining quantitative and qualitative analysis. In this week’s focus article we present a variety of quantitative single-name relative value screening techniques, include back tested results across approaches, and recommend attractive strategies to identify tactical long and short ideas. Please see the focus article for further detail.

FOCUS

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Systematic single-name screening

With volatility low and correlation between individual names dropping, we develop a screening methodology for identifying long- and short-basket opportunities versus iTraxx Main. Relying on intuitive metrics and non-perfect correlation between these metrics, we illustrate the capability of such a strategy to generate excess returns.

We define a series of metrics to capture both the propensity of spread moves to overshoot on both widening and tightening as well as the focus on performance versus benchmarks. We then use these metrics to identify long and short candidates over time which we expect to show superior performance when delta-hedged versus iTraxx Main.

Combining metrics (essentially relying on the benefit from diversification) we identify metric pairs that generate long and short baskets (separately) that give a steady performance versus iTraxx Main over time.

The optimal metric pairs we identify have an intuitive interpretation in that they mix short-term momentum signals with longer-term fundamental value in terms of performance versus benchmark or carry earned per unit of risk.

Using the optimal metric pairs, we highlight what we believe are attractive long and short baskets currently. See Figure 11 and Figure 14 for specific recommendations.

Market backdrop – lower volatility/correlation/spreads

The ECB OMT announcements towards the end of the summer in 2012 have had a notable tranquilising (or even sedating) effect on the markets. Implied volatility from iTraxx Main options is at a three-year low (Figure 1) and realised volatility is the lowest since July 2011.

In addition to volatility dropping as the risk-on/risk-off behaviour dissipates, we have seen a drop in the correlation between names. This manifests itself in a declining realised correlation between names (Figure 1) which is currently the lowest since July 2011. Should markets continue with their current behaviour, and potentially if worsened economic numbers cause the focus to turn more towards individual firm performance, we would expect to see this realised correlation drop further.

FIGURE 1

Implied volatility and realised volatility and correlation towards the lower end



Note: Implied volatility is 3mth ATM interpolated implied volatility from Main options. Realised volatility is for a 3mth horizon. Realised correlation, 3mth horizon, is the uniform correlation number that reconciles the 3mth realised volatility of Main to the individual realised volatilities of the 125 underlying names. Source: Barclays Research

This opens up for relative-value opportunities at the single-name level where we believe there is scope for generating excess returns by focusing on single-name dynamics, both in CDS and cash bond markets.

We have a continued focus on this angle from our colleagues in fundamental credit research and in this Focus piece, we take the first step on a quantitative angle meant to supplement single-name relative value from the fundamental perspective.

Philosophy and purpose

We are not looking to build a complete “black box” that churns data and outputs a series of names. Instead, we focus on intuitive and easy-to-calculate metrics of individual names and use these to rank the attractiveness of being long/short the name.

We pick metrics that characterise the dynamics of credit markets:

- Propensity of names to show momentum and overshoot on tightening and (in particular) widening
- Market focus on relative performance of names versus benchmarks

Whereas an individual name can widen for a fundamentally sound reason which should not be an invitation to simply go long, on a basket-level these dynamics change. Our analyses confirm this, leading to dynamics that can be exploited to generate excess returns.

As far as possible, we want our metrics to be “parameter free”, with the only defining input being the historical window in which individual metrics are calculated.

How do we envision that clients would find this useful? We see two principal uses:

1. Following our recommendations on each rebalance day – either the longs or short baskets or both
2. For investors who have cash to put to work or want to de-risk in a non-index fashion, use the longs and shorts basket as a guide for where to add/reduce risk, in conjunction with our fundamental recommendations

We accept that our algorithm is “dumb”: When picking names programmatically, we ignore problems like sector/region concentration, event risk names and the like. But nevertheless, without any human involvement to avoid these problems, the metrics we choose have still performed well historically.

There is more work to be done. While doing the analysis for this report, we have probably only scratched the surface in terms of what is achievable in refining/picking signals. Stay tuned for more updates on this.

Framework

In our search for single-name systematic strategies we focus on the universe of iTraxx Main S18 constituents and a variety of metrics as summarised in Figure 2. We define each metric such that high (low) scores indicate attractive long (short) risk candidates.

FIGURE 2

Technical indicators

Metric	Definition
Spread per beta	$[\text{Current spread}] / [1.5\text{-year beta vs index}]$
Percent from highs	$[\text{Current Spread} - 2\text{-year Max Spread}] / [2\text{-year Max} - \text{Min Spread}]$
Spread percent change	$[5\text{-mth spread change}] / [\text{Spread 5-mths ago}]$
Spread momentum	$[\text{Current spread} - 1.5\text{yr average spread}] / [1.5\text{yr standard deviation}]$
Moving averages	$([40\text{-day MA spread}] - [100\text{-day MA spread}]) / [\text{Current spread}]$
Performance versus benchmark	1.5-year z-score vs iTraxx Main

Note: "MA" signifies moving average. Source: Barclays Research

To ensure comparability of the performance of various long/short strategies we measure the strategy performance in a unified framework with the following characteristics:

- Test period: Jan 2009 – now; rebalancing: every four weeks, leaving us with 53 rebalancing periods; scope: 5y CDS
- Signal calculation: pick top or bottom 10 names based on the average ranking with respect to the selected set of metrics
- Sizing: beta-adjusted (using 1-year data) versus the benchmark index (iTraxx Main)
- Transaction costs: we include the bid/ask cost for rebalancing single-name trades
- Performance metrics: total P&L delta-hedged versus iTraxx Main (including carry), annualised Sharpe ratio and 95% VaR of P&L observed on rebalance days

Beyond the choice of data and period, the only true inputs into our screening tool are measurement periods for the metrics of Figure 2. Although we acknowledge these would be prone to in-sample over-fitting we have analysed different measurement periods and chosen the above as we believe these constitute a reasonable trade-off between dynamism and stability.

Results – individual metrics

For individual metrics, we show headline results in Figure 3 – for each metric, we show how the long baskets chosen using this metric has performed on a beta-adjusted basis versus Main, and how the equivalent short basket has performed. Even though this is only the initial stage of our analysis – to us the crux lies in combining the metrics – there are already at this stage a number of conclusions:

- **Picking longs is easier than picking shorts:** All our metrics generate positive P&L for the long basket over the full period – with all but one having Sharpe ratios above 0.5. In contrast, for the short baskets, some of the metrics lose money – and Sharpe ratios are generally lower.
- **Metrics are not reflexive:** Just because selling protection on a basket of names that have the highest spread widening momentum in a z-score fashion makes money over time (the "Spread momentum" metric), buying protection on the names at the opposite side of the spectrum – the ones with the most tightening momentum – need not work well. This is shown clearly with the "Spread momentum" metric which generates a Sharpe ratio for picking longs of 0.92, but a negative Sharpe ratio of -0.65 for picking shorts.

- **How to pick longs:** Relying on the “Spread momentum” metric has shown the highest Sharpe ratio on a delta-hedged basis versus Main. This indicates that systematically trading that credit tends to overshoot on the widening side is profitable. Similarly, picking names according to the highest “Spread percent change” also works, and even has higher total P&L, although a lower Sharpe ratio and a much higher VaR than the “Spread momentum” metric.
- **How to pick shorts:** Picking shorts according to the “Moving averages” and lowest “Spread percent change” line up equally with Sharpe ratios of around 0.60, although “Spread percent change” has lower VaR.

FIGURE 3

Performance of strategies based on individual signal – delta-hedged P&L vs Main

	Long basket vs Main			Short basket vs Main		
	Total P&L	Sharpe ratio	VaR	Total P&L	Sharpe ratio	VaR
Spread per beta	182	0.26	-54	550	0.25	-171
Percent from highs	404	0.42	-66	-255	-0.35	-51
Spread percent change	1153	0.78	-106	693	0.59	-58
Spread momentum	1010	0.92	-36	-355	-0.65	-63
Moving averages	790	0.74	-75	702	0.61	-83
Performance versus benchmark	743	0.76	-56	183	0.26	-54

Note: Total P&L is in bp of basket notional after transaction cost, delta-hedged vs Main. Sharpe ratio is annualised, measured every four weeks. VaR is 95% percentile of the four-week performance observations.

Source: Barclays Research

Results – combining metrics

Diversification, an ever useful tool, also has its uses in ranking short and long candidates. We show how our “singular” metrics generate P&L profiles with sharply lower correlation than 1 and how this can be used to produce more stable and profitable rankings of longs and shorts.

Individual metrics are not highly correlated: diversify

Even though our metrics (Figure 1) to some degree exploit similar characteristics of credit markets, they do not behave the same – in fact some of them have a very low correlation with each other.

We illustrate this by looking at the correlation of delta-hedged P&L (versus Main) at the rebalance dates for each pair of metrics. For both longs and shorts, the results are shown in Figure 4. The upper triangle is the pair-wise correlation for the long baskets (versus Main), while the lower triangle is the pair-wise correlation for the short baskets (versus Main).

Whereas some metrics are highly correlated – for the short basket, the “Moving averages” and the “Spread percent change” metrics have 92% correlation – for many other metric pairs the correlation is very low indeed. The main implication of this is that combinations of metrics should improve on the performance relative to the “singular” metrics.

FIGURE 4

Correlation between long- and short-basket P&L vs Main: Upper triangle for the longs, lower triangle for the shorts

	Spread per beta	Percent from highs	Spread percent change	Spread momentum	Moving averages	Performance versus benchmark
Spread per beta	-	64%	46%	58%	34%	52%
Percent from highs	84%	-	71%	90%	71%	86%
Spread percent change	82%	72%	-	76%	78%	83%
Spread momentum	60%	81%	56%	-	63%	95%
Moving averages	70%	54%	92%	38%	-	70%
Performance versus benchmark	71%	78%	54%	76%	46%	-

Source: Barclays Research

Metric pairs – results

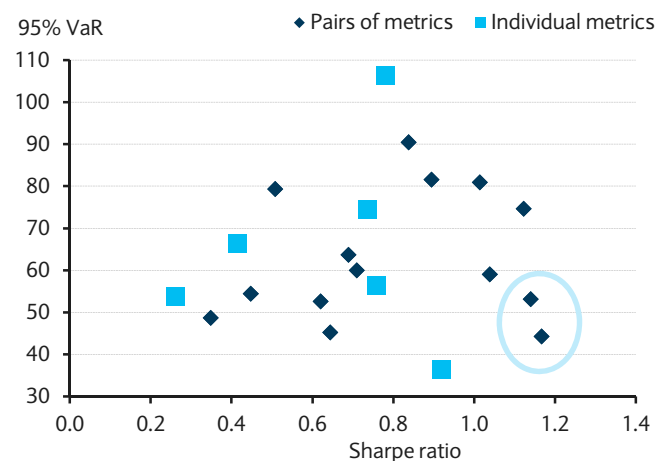
We combine metrics as follows: For each individual metric, we give each name a rank as long or short candidates. Across metrics, we sum up these rankings for each name and use this combined rank for finding the ultimate ranking. By way of example, suppose a name “A” ranks as 1 and 50 in two metrics, it has a combined rank of 51, whereas a name “B” ranks as number 10 and 30 in two metrics, it has a combined ranked of 40, and thus B has a better combined rank than A. Put another way, we use a convex combination of the rankings with a 50% weight, which can be generalised in future research.

Our results indicate that a meaningful improvement in the Sharpe ratio and VaR (simultaneously) can be achieved by combining the metrics. We show the individual and paired VaR versus Sharpe ratio trade-offs in Figure 5 (for longs) and Figure 6 (for shorts).

For picking longs, we can improve materially upon both the Sharpe ratio and VaR by combining the signals, whereas for picking shorts, the improvement is more focused on increasing the Sharpe ratio, with little or no improvement in VaR.

FIGURE 5

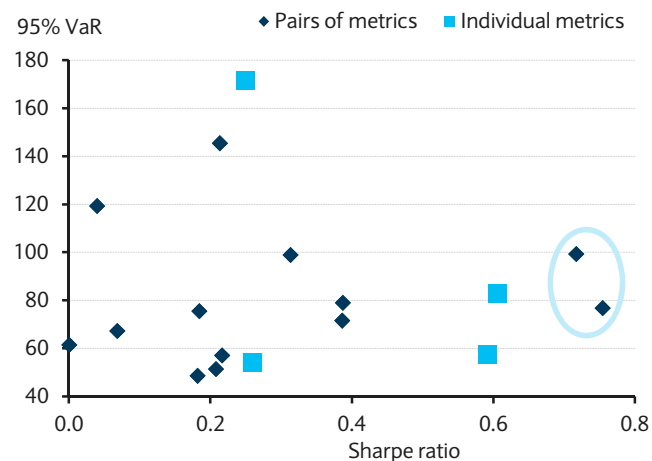
Long baskets: VaR vs Sharpe ratio for individual and paired metrics



Note: 95% VaR monthly shown, positive numbers indicate loss in bp. Sharpe ratio, measured every four weeks, quoted on an annualised basis. Source: Barclays Research

FIGURE 6

Short baskets: VaR vs Sharpe ratio for individual and paired metrics



Note: 95% VaR monthly shown, positive numbers indicate loss in bp. Sharpe ratio, measured every four weeks, quoted on an annualised basis. Source: Barclays Research

Top long and short metric pairs

We identify the top metric pairs for longs and shorts from Figure 5 and Figure 6 in terms of VaR versus Sharpe ratio trade-off, summarising the results in Figure 7. Key highlights are:

- As was the case for picking single metrics, also for metric pairs, it is easier to pick metrics for longs than for shorts, and the benefit from diversification is greater for long pairs than it is for short pairs.
- What works for picking longs does not necessarily work for picking shorts. The top strategies for picking longs produce very poor results when picking shorts. This also works the other way around, although to a somewhat less strong degree.
- The top performing long strategy yields a Sharpe ratio of 1.17 after bid-offer, delta-hedged. The two metrics used – Moving averages and Performance versus benchmark – although having 70% correlation (Figure 4), complement each other well. The Moving averages is a short-term indicator, whereas Performance versus benchmark is a longer-term indicator. It thus makes intuitive sense that a combination of these would yield a superior return than the two strategies individually.
- The top performing short strategy mixes the Moving averages metric with Spread per beta. Although they have a 70% correlation (Figure 4), they also complement each other well; short-term momentum versus longer-term fundamental value (carry per unit of beta). We note that the chosen strategy has a slightly lower Sharpe ratio and VaR than the “Moving averages” versus “Spread percent change” combination also shown. The reason why we pick the former is that this strategy has shown superior performance in more recent years, whereas the secondary strategy has shown a flat performance versus Main recently, having performed very well in 2009-2010.

FIGURE 7

Top long and short metric pairs and P&L statistics

	Long basket vs Main			Short basket vs Main		
	Total P&L	Sharpe ratio	VaR	Total P&L	Sharpe ratio	VaR
Picking longs						
Moving averages Performance versus benchmark	1433	1.17	-44	142	0.21	-51
Moving averages Spread momentum	1398	1.14	-53	49	0.07	-67
Pickings shorts						
Moving averages Spread per beta	443	0.51	-79	995	0.72	-99
Moving averages Spread percent change	1225	0.89	-82	859	0.75	-77

Note: Total P&L is in bp of basket notional after transaction cost. Sharpe ratio is annualised, measured every four weeks. VaR is 95% percentile of the four-week performance observations. Source: Barclays Research

Closer look at the top long and short pairs

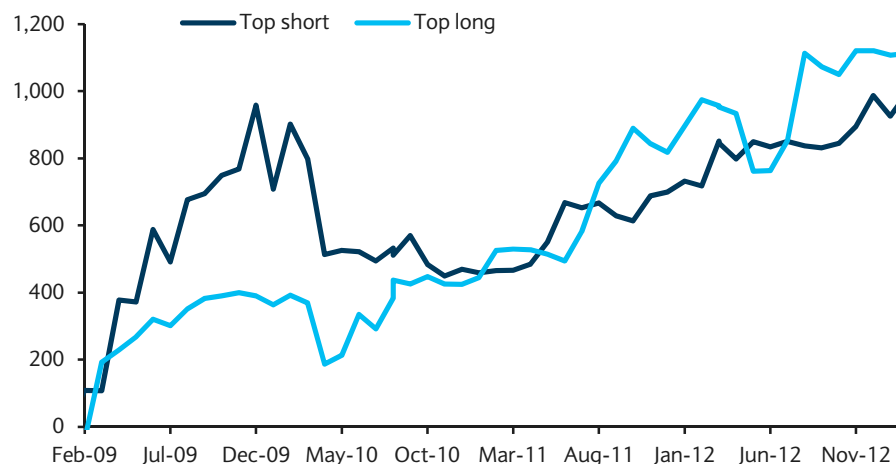
In this section, we focus exclusively on the top short and long pairs from Figure 7 – “Moving averages” and “Performance versus benchmark” for longs, and “Moving averages” and “Spread per beta” for shorts.

A time series of cumulative PnL (Figure 8) is revealing. The top long strategy has shown a steady cumulative performance over the past several years (after bid-offer, delta-hedged), with a couple of months (usually in a row) where the strategy has performed very well.

The top short strategy showed a strong performance in 2009 to mid 2010 and subsequently had a streak of losses, after which it has shown a steady performance month-on-month.

Recently, we note that the top short strategy has been showing steady positive performance, whereas the top long strategy has been largely flat, essentially paying for the bid-offer of rebalancing the portfolio.

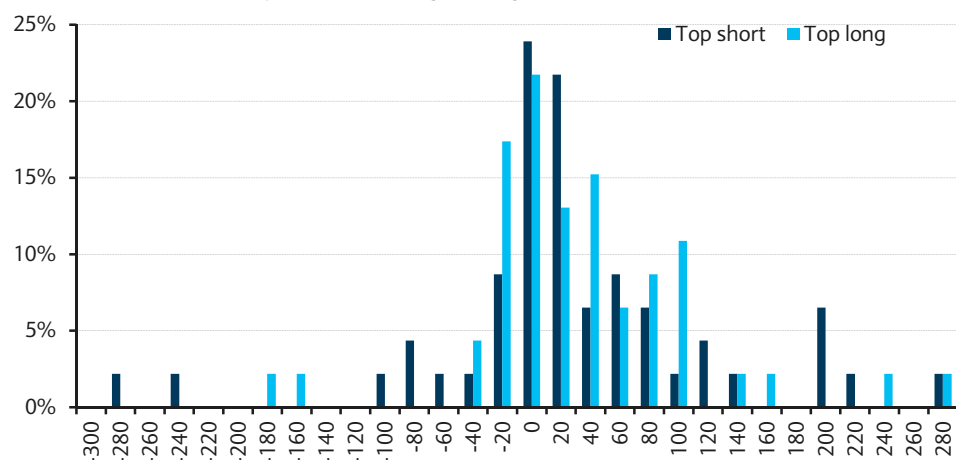
FIGURE 8

Cumulative P&L of top short and long strategies

Note: P&L is in bp of basket notional, hedged every month versus Main, including carry, after bid-offer. Past performance no guarantee for future performance. Source: Barclays Research

The P&L distribution profile (Figure 9) shows that the top long strategy is positively skewed: a trickle of historical observations with negative returns, a solid amount with meaningful positive returns and a couple of outsized P&L. The P&L profile for the top short strategy is somewhat different, as discussed above, with some meaningful observations of negative P&L in 2010.

FIGURE 9

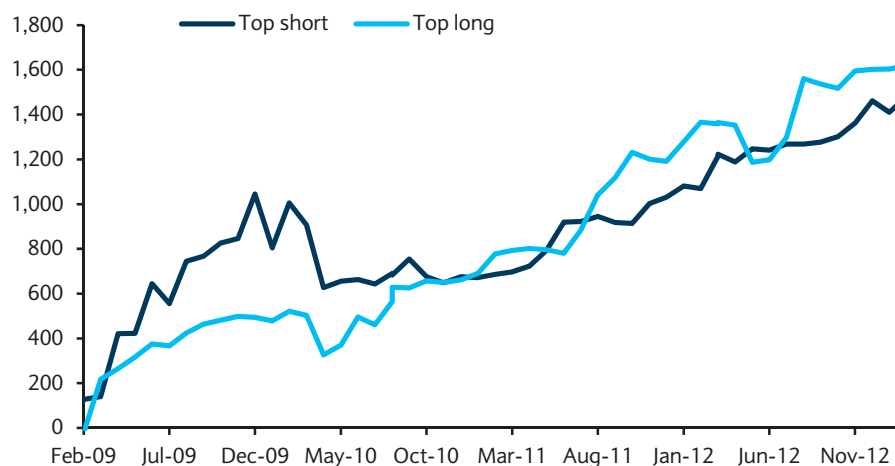
Distribution of P&L for top short and long strategies

Note: P&L in bp for four-weekly rebalancing. Source: Barclays Research

All previous analyses have taken into account bid-offer costs. Focusing on the name-picking ability alone (ignoring the bid-offer cost), Figure 10 shows the cumulative PnL for the top long and short strategies assuming zero bid-offer cost.

FIGURE 10

Cumulative P&L of top short and long strategies assuming zero bid-offer cost



Note: P&L is in bp of basket notional, hedged every month vs Main, including carry but zero bid-offer cost. Past performance no guarantee for future performance. Source: Barclays Research

Top longs and shorts – current single-name results

We focus on which names our top long and short metrics highlight at the moment. As we discussed above, the signals can be used not only as a part of a systematic strategy, but also as a basis for ad hoc basket trades as well as in risk management of existing positions.

Current short basket

Our analysis showed that the signal based on moving averages and spread-per-beta indicators provides relatively attractive and stable screen for picking up names that are likely to underperform iTraxx Main. In Figure 11 we show the list of names currently flagged, together with the key statistics and our fundamental analysts' current ratings where available.

FIGURE 11

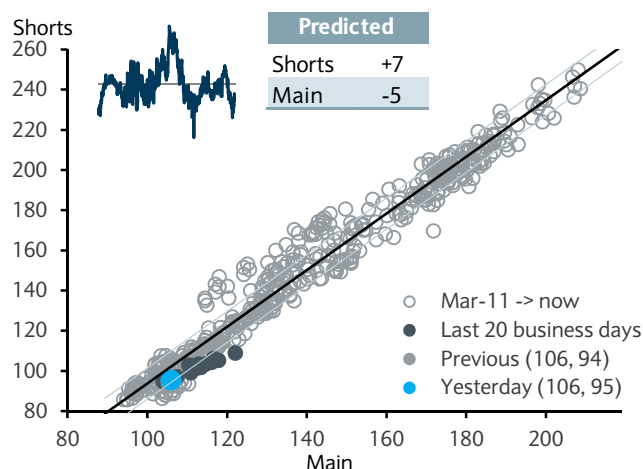
Top short picks

Name	Current spread	Moving averages	Spread per beta	Analyst rating
Index	106	-4%	106	-
Basket	95	-13%	70	-
VW	71	-9%	62	UW
EADFP	90	-10%	66	UW
UBS	88	-10%	69	MW
HOLNVX	130	-11%	73	MW
BNP	130	-10%	68	MW
DAIGR	80	-11%	78	UW
SOCGEN	155	-6%	64	OW
BMW	71	-9%	77	MW
BASGR	49	-7%	67	-
CRDSUI	88	-9%	85	MW

Source: Barclays Research

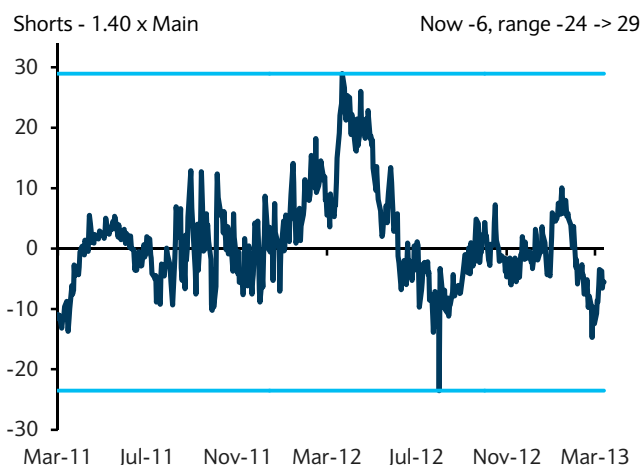
The basket has an average spread of 95bp and beta to iTraxx Main of 1.4, putting the spread-per-beta metric at 68bp versus 106bp for the index itself. This suggests to us that shorting these names is cheaper (in terms of carry) and potentially provides a better risk/reward trade-off in the event of a market sell-off compared with being short iTraxx

FIGURE 12

Shorts basket vs Main

Note: Embedded chart is the z-score of the Shorts-Main regression.
Source: Barclays Research

FIGURE 13

Short basket – 1.4x Main

Source: Barclays Research

Main. In addition, over the past year the basket has rallied relatively more than the index, with the 40-100DMA at -13% versus -4% for Main, which gives us further comfort that the names in the basket have more room to widen in a downside scenario. That said, when implementing the basket trade we would avoid names on which our analysts have an Overweight rating, which in this case applies to SOCGEN. We show the two-year performance of this short basket versus Main in Figure 12 and Figure 13.

Current long basket

On the long single-names front we found that moving averages and performance versus benchmark combine into a meaningful long signal. Figure 14 summarises the key statistics and analyst ratings for the names currently flagged by the signal.

FIGURE 14

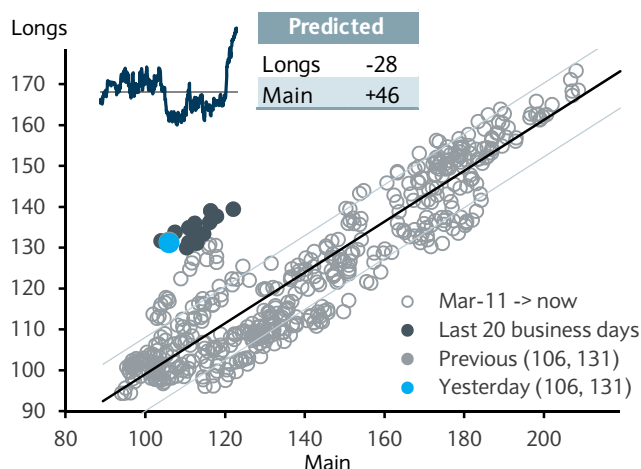
Top long picks

Name	Current spread	Moving averages	Performance versus benchmark	Analyst rating
Index	106	-4%	0	-
Basket	131	14%	1.94	-
MRWLN	90	20%	2.92	MW
WKLNA	87	14%	1.95	UW
PNLNA	252	16%	1.55	MW
CPGLN	57	8%	2.65	-
VOD	84	10%	2.04	UW
EXPNLN	58	8%	2.70	OW
REEDLN	72	10%	1.36	UW
SCABSS	80	8%	1.36	OW
RENTOKIL	202	5%	1.53	MW
TITIM	328	5%	1.31	MW

Source: Barclays Research

FIGURE 15

Longs basket vs Main



Note: Embedded chart is the z-score of the Shorts-Main regression. Source: Barclays Research

FIGURE 16

Longs basket – 0.5x Main



Source: Barclays Research

Clearly, the screen picks up names that have recently substantially underperformed. Although our historical analysis suggests that a diversified basket of such names tends to outperform iTraxx Main, we would be wary of setting up longs in names on which our analysts have Underweight recommendations. Hence, in the basket trade suggested above we would exclude WKLNA, VOD and REEDLN. Nevertheless, taking the basket in its entirety, it has a beta of 0.5 versus Main, meaning that selling 1x protection on the basket should be hedged by buying 0.5x protection on iTraxx Main. We show the 24-month performance of this basket versus Main in Figure 15 and Figure 16.

INVESTMENT GRADE CREDIT

All on US (growth)

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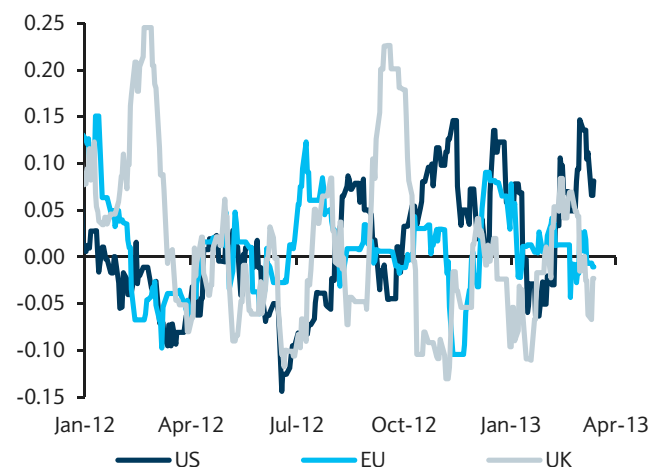
Mixed economic data and the proximity of CDS index rolls helped keep investment grade European credit in a tight range this week. iTraxx Europe has closed between 103bp and 107bp in each of the past five trading sessions. Given the lack of news, we suspect that last week's rally was driven by positioning, with clients covering shorts ahead of next week's roll and unlikely to add hedges until Series 19 is being traded. Thus we are likely to remain at the tight end of the recent range over the next week.

While the Vatican has selected a new Pontiff, Italy has yet to form a government and it seems increasingly unlikely that a durable coalition will emerge. Thus the process will be further complicated (and delayed) by the need to select a new President as well as a Prime Minister, a government and to hold new elections. Markets seem sanguine on the process, though it remains a key "known unknown", in our view. There have also been renewed frictions between Greece and the "troika", which are not yet reflected in credit spreads.

The resilience of credit markets, in part, reflects the strength of global equities and some upbeat data points – including last week's US non-farm payrolls. With the Dow Jones setting a string of all-time highs and the S&P500 within a few basis points of doing the same, spreads could continue to be supported if US equities break out to the upside. Still, as highlighted in Figure 1, we note the divergence between recent economic performance in Europe and the US. Economists had expected a near-term hit to US consumption following the 1 January tax hikes, but US retail sales data for February suggest that consumers have "smoothed" through this by lowering their savings rate. In Europe the hard data have been significantly more disappointing, even in Northern Europe.

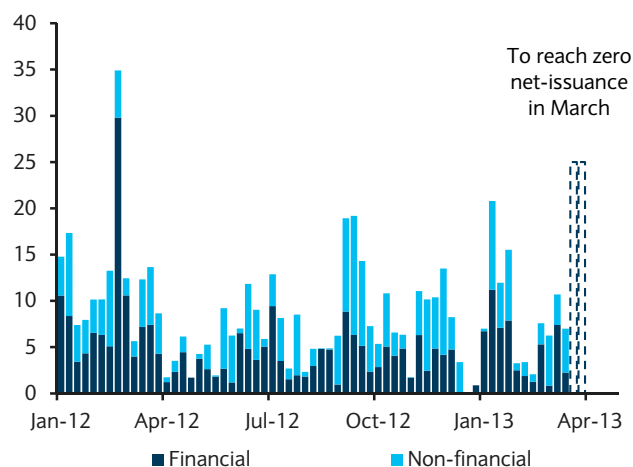
The measured pace of supply has also been supportive for investment grade spreads. Volumes are up on February (indeed, March MTD issuance is already ahead of February's full month total) but, given €73.2bn of redemptions, net issuance is almost certain to be negative again this month – particularly with a four-day week still to come. Year-to-date issuance has lagged our expectations suggesting that, in the context of recently announced capital raisings and hybrid issuance, corporates remain conservative for now.

FIGURE 1
Barclays FX data surprise indices (z-score)



Source: Barclays Research

FIGURE 2
Weekly gross, EUR-unsecured issuance (€ bn)



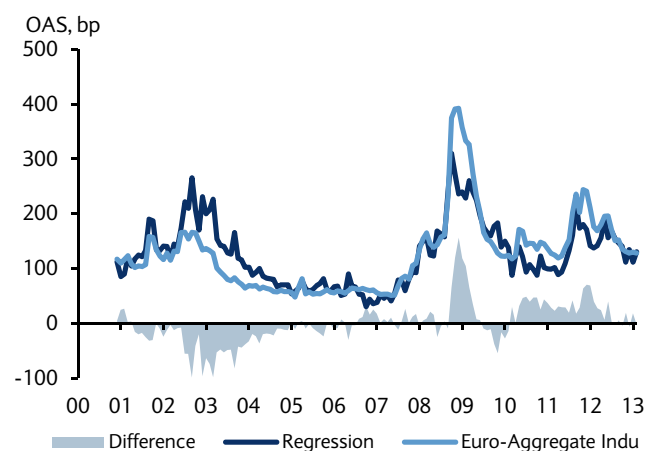
Source: Dealogic, Barclays Research

On that front, Commerzbank announced this week that it is planning a €2.5bn “combined cash capital increase/capital increase against contributions in kind”. This will be used to repay the silent participations owned by SoFFin and Allianz, raising the banks’ fully loaded Basel 3 Common Equity Tier 1 ratio to 8.6% from 7.6%. In the UK, RBS and Lloyds have not indicated any intentions to raise capital but an increasing number of UK officials have indicated that the regulators are likely to identify “capital shortfalls” at the major UK banks in the coming weeks or months.

The immediate outlook for credit remains a range-bound one, with the CDS roll next week quickly followed by public holidays over the Easter period. More broadly, when we look at valuations in cash and CDS they appear to be in line with our macro-variable model for spreads (Figure 3). Primarily, it is the very low levels of volatility (as measured by the V2X index) which appear to justify current cash spreads. Growth remains subdued and lending standards are still modestly net-tightening in Europe.

Repeating our analysis for CDX indices, iTraxx Europe looks either fair or rich, depending on whether we begin our modelling in 2004 or 2010 (Figure 4). Our colleagues estimate the fair value of the upcoming roll at +7bp, which would bring the Long Term model and observed levels closer together. Plugging in our economists’ forecasts for six months forwards we can also see that upside is limited from current levels even if volatility remains subdued. On the other hand, a meaningful pick-up in volatility could result in the index moving significantly wider. This highlights the current asymmetry of IG credit returns, which we have focused on for some time.

FIGURE 3
Euro Agg. Corporate OAS versus four-factor regression



Source: Bloomberg, Barclays Research

FIGURE 4
iTraxx Europe, Model regression and scenario analysis (bp)

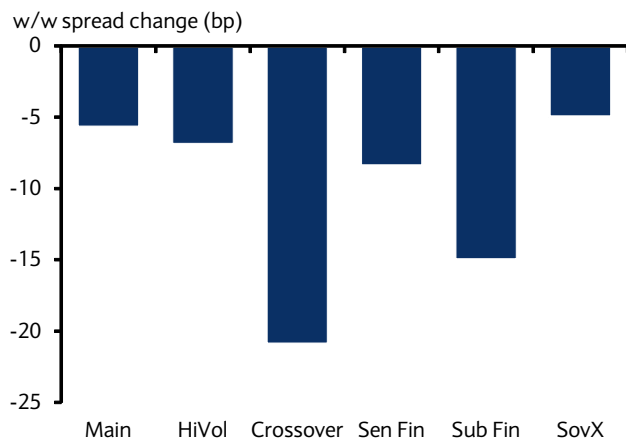
	Observed	ST Model	LT Model
28-Feb	116	121	139
14-Mar	104	106	127
01-Sep			
V2X @ 15		96	122
V2X @ 30		140	154
V2X @ 45		185	186

Note: ST Model based on regression since 2010, LT Model based on regression since 2004. Source: Barclays Research

IG credit at a glance

FIGURE 5

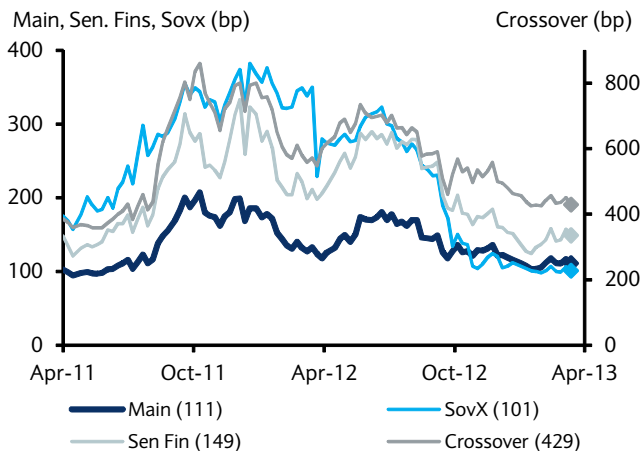
Week-on-week change in iTraxx CDS indices



Note: Measured Wednesday to Wednesday. Source: MarkIt

FIGURE 6

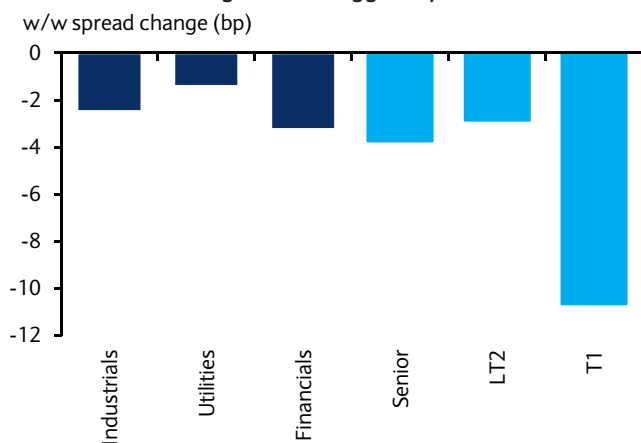
iTraxx Europe CDS indices, spread history



Note: Spreads taken at close of business Wednesday. Source: MarkIt

FIGURE 7

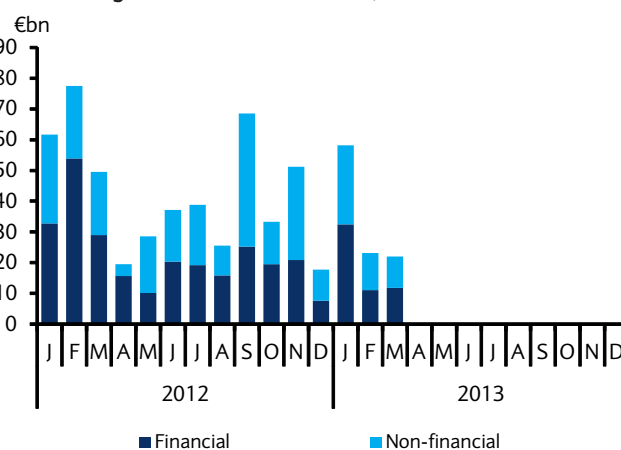
Week-on-week change in Euro Agg. Corporates



Note: Measured Wednesday-to-Wednesday. Source: Barclays Research

FIGURE 8

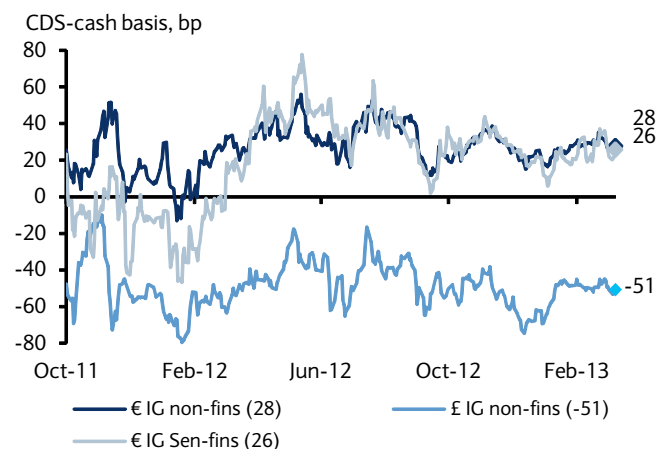
Investment grade €- and £-issuance, ex. covered



Source: Dealogic, Barclays Research

FIGURE 9

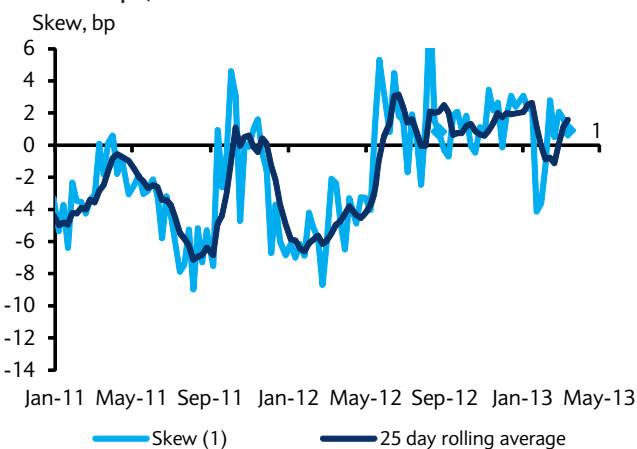
CDS-cash basis



Note: Spreads taken at close of business Wednesday.
Source: MarkIt, Barclays Research

FIGURE 10

iTraxx Europe, market - intrinsic



Note: Spreads taken at close of business Wednesday.
Source: MarkIt, Barclays Research

HIGH YIELD

Primary focus

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The European High Yield market continued to hold in well this week. iTraxx Crossover was unchanged on the week through Thursday ahead of next week's roll. Overall, our benchmark ex-financials index has generated a modest +0.7% total return YTD, underperforming both US HY (+2.5%) and European equities (SXXP +6%). While secondary markets were broadly unchanged this week, primary markets were particularly active. Suncom announced a multi-currency senior PIK Toggle deal to refinance the existing preferred equity certificates. Fiat also launched a benchmark 5y EUR offering, while Belden launched a 10y EUR deal. Sterling primary markets continue to remain active with NWEN Finance set to launch a GBP deal.

While spreads were broadly unchanged at an index level, idiosyncratic headlines continue to drive single-name performance. NSINO was this week's best performing name in Xover (Figure 2) after the company announced that it had reached an agreement with its lenders to reset covenants on its revolver. In the TMT space, ONO reported a solid set of results, showing a 7% growth in revenue albeit with a 2% y/y decrease in EBITDA. Elsewhere, Grohe released results with both top line and bottom line marginally below estimates. On the ratings front, Moody's downgraded Campofrio to B1/Stable from Ba3 following the underperformance of the company's profitability compared to expectations.

As we have seen in recent weeks, European high yield issuers continue to spread issuance across major currencies. Given this, we find it worthwhile to extend our analysis from last week and examine the relative price performance of European HY bonds in different currencies by creating a comparable subset. By matching corporate tickers between the Barclays Pan-Euro HY and US HY indices, we created a database of cross-currency bond pairs with matching levels of seniority and reasonably close maturities (mostly within one year).

Over the past few years, the currency pairs have traded within a fairly narrow range with the exception of the second half of 2011 (Figure 3). During this period, EUR/GBP bonds of European-domiciled issuers traded materially cheap to their corresponding USD bonds. Much of this can be attributed to a general preference for USD assets during this period,

FIGURE 1
Biggest movers – PE High Yield Index (TR, %)

Select top performers	YTD 13 Mar	YTD 06 Mar	Weekly Total Return
CEDC	42.0	36.4	+5.6
Norske Skog	-4.7	-10.1	+5.3
Travelport	91.7	87.4	+4.3
Thomas Cook	16.4	12.9	+3.5
CMACG	15.8	12.7	+3.1
Select bottom performers			
Ideal Standard	-3.9	-1.1	-2.8
Yioula Glassworks	12.5	13.9	-1.4
Frostbite	-13.3	-12.2	-1.1
Pages Jaunes	-4.3	-3.3	-1.0
House Of Fraser	-5.2	-4.2	-1.0

Note: Based on ticker level returns in EUR. Source: Barclays Research

FIGURE 2
Biggest movers – iTraxx Crossover (bp)

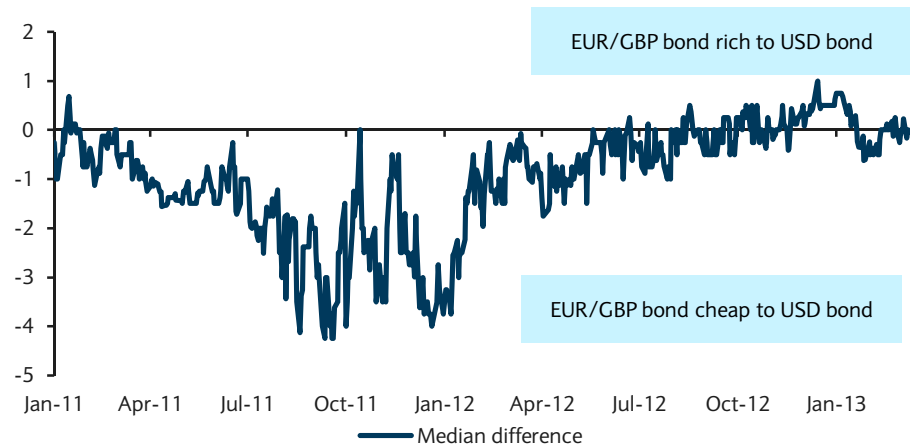
Select top performers	Spread 13 Mar	Spread 06 Mar	Weekly spread change
Norske Skog	1605	1709	-104
Portugal Telecom	388	419	-31
Alcatel Lucent	685	712	-27
OTE	689	714	-26
Convatec	620	645	-25
Select bottom performers			
Codere	1697	1623	+75
Peugeot	686	673	+14
ONO	596	589	+7
Fiat	553	547	+6
Virgin Media	396	391	+5

Source: Barclays Research

when systemic risk in Europe was heightened for some time. Given the decline in sovereign related risk in Europe, the currency pairs now trade broadly flat to one another. We expect these currency pairs to continue to trade in a narrow range to one another, as long as systemic risk in Europe remains at bay.

FIGURE 3

Median price difference for European-domiciled matched pairs (EUR/GBP denominated – USD denominated)

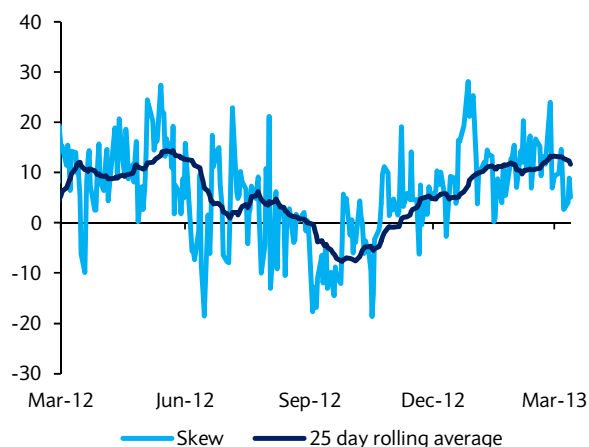


Source: Barclays Research

European High Yield credit at a glance

FIGURE 4

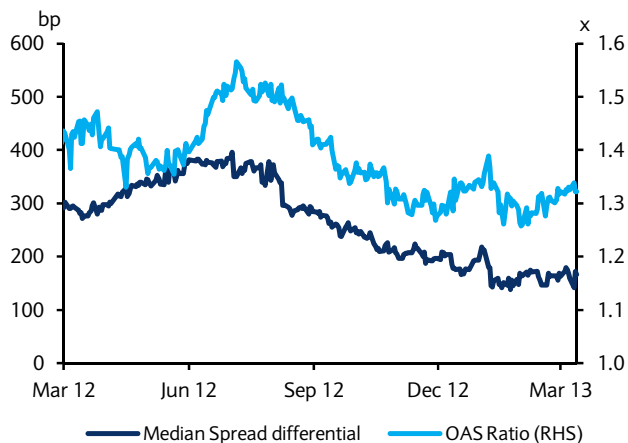
Crossover skew (bp)



Note: Crossover not roll-adjusted. Source: Barclays Research

FIGURE 5

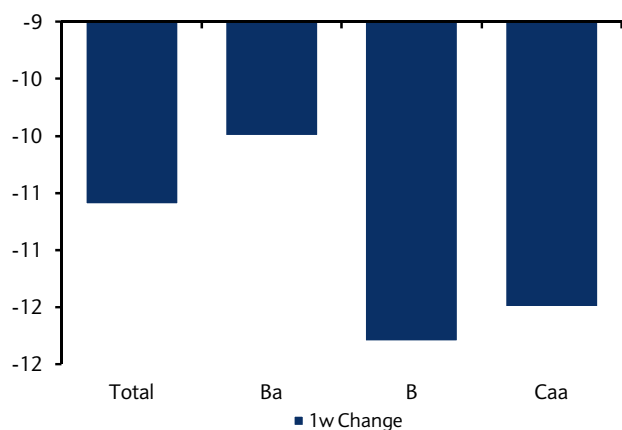
HY secured vs unsecured bonds, ratio (bp, x)



Source: Barclays Research

FIGURE 6

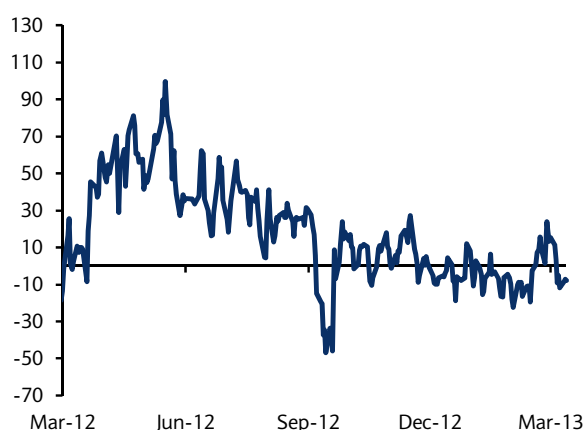
W/w spread change PEHY 3% ex financials (bp)



Note: Wednesday-to-Wednesday. Source: Barclays Research

FIGURE 7

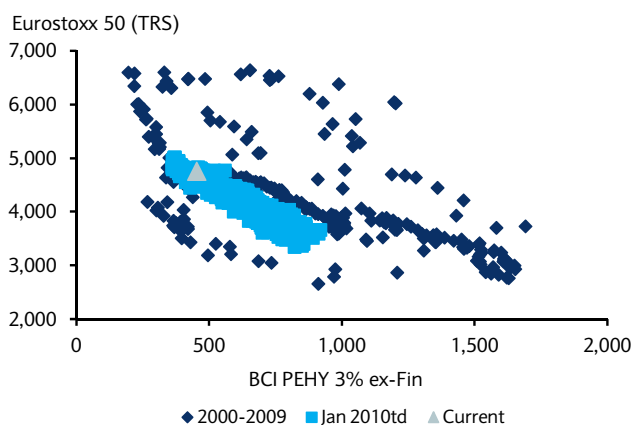
Crossover and PEHY ex-fins CDS-cash basis (bp)



Note: Crossover not roll-adjusted. Source: Barclays Research

FIGURE 8

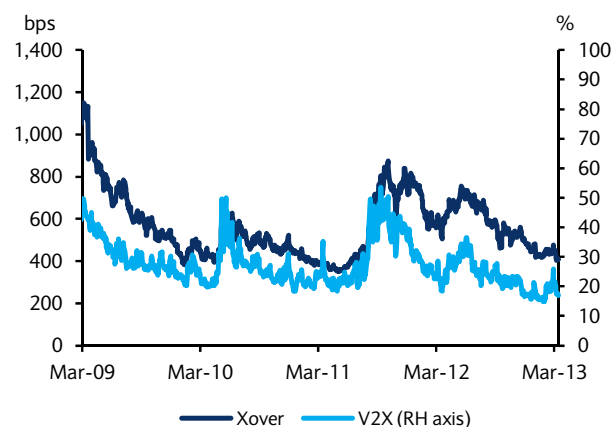
High Yield cash vs equities



Source: Barclays Research

FIGURE 9

V2X Index vs iTraxx Crossover



Source: Barclays Research

INDEX RELATIVE VALUE

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SenFin-Main-Cross (de)compression

In a quiet market, SenFin shows a gradual underperformance versus Main which we think can continue, given how SenFin trades versus Main in underlying equities. Anecdotal evidence suggests Cross-Main compresses into the roll. We review historical evidence for this and caution against putting on decompression trades before the roll.

Market update – it's oh so quiet

As discussed in this week's Focus piece, volatility is generally subdued, also in credit indices. Of note, SenFin has shown a gradual underperformance versus Main (Figure 2), in line with our discussion in the *European Credit Alpha*, 8 March 2013, in which we highlighted a strong historical link between SenFin-Main performance in underlying equity indices and corresponding performance in credit indices. Without a relative improvement in SenFin equities, we see no reason to trade against the SenFin-Main underperformance.

Cross-Main compression into the roll – business as usual?

In previous rolls, Cross has had a propensity to outperform Main going into the roll. We illustrate this by looking at Cross – 4x Main (Figure 1).

The main intuition behind this is that shorts in Cross tends to exit prior to the roll, primarily to avoid rolling down as the new series tends to trade wider than the old series. There are similar dynamics at play in Main, but there we tend to see that clients roll once the new index has opened, meaning that Cross compresses versus Main prior to the roll and then Main plays catch-up afterwards.

Is this time any different? One counter-argument to expecting the typical behaviour is that Cross is already very tight versus Main and relative-value traders will resist the move. We also note that clients are not particularly short Cross S18 (more so S17), so there is no reason to expect an outsized move in Cross. Nevertheless, we would caution against putting on decompression trades in the current index, and wait for the dust to settle after the roll.

FIGURE 1

Cross – 4x Main – typically compression into the roll



Source: Markit, Barclays Research

Index and volatility relative value

FIGURE 2

SenFin vs Main – 24-month plot

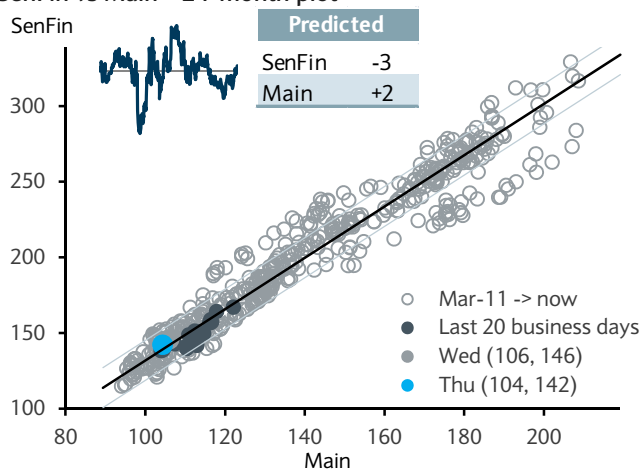


FIGURE 3

Cross vs Main – 24-month plot

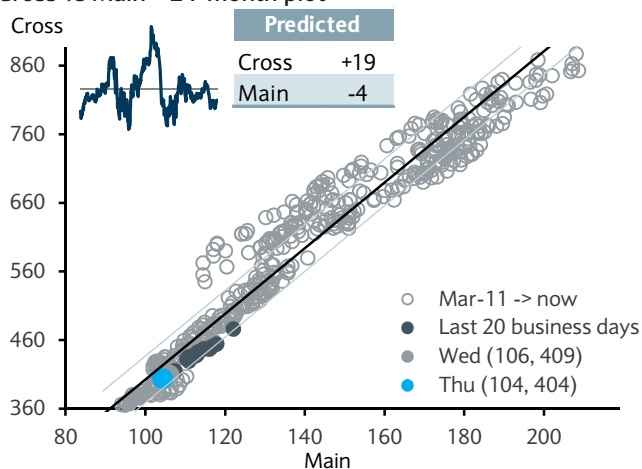


FIGURE 4

SX7E vs SenFin – 24-month log-log plot

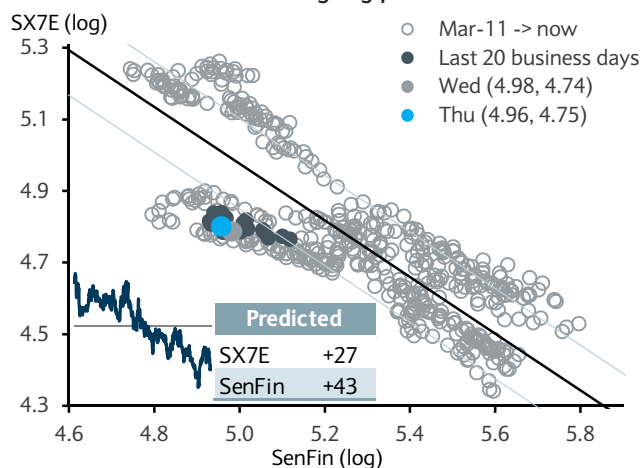


FIGURE 5

SX5E vs Main – 24-month log-log plot

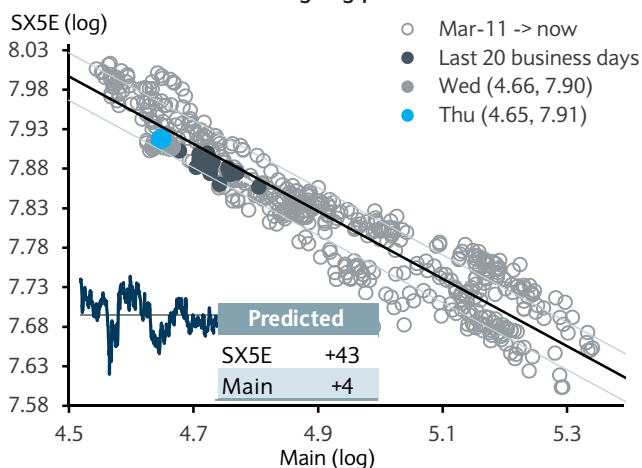


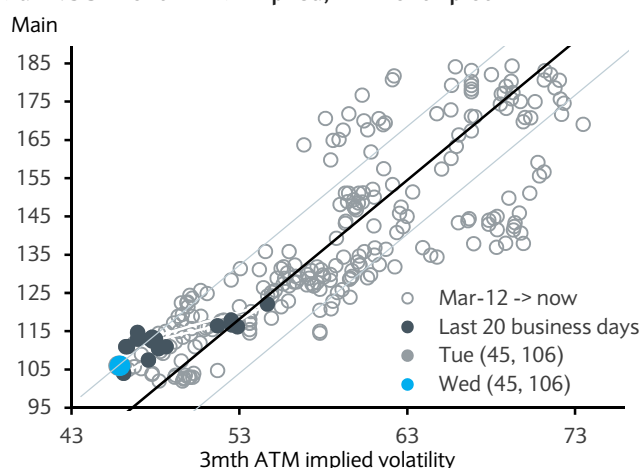
FIGURE 6

ATM implied and realised 3-month volatility, Main



FIGURE 7

Main vs 3-month ATM implied, 12-month plot



Note: Predicted changes shown are for orthogonal regressions, assuming one or the other quantity moves to the fitted line. The embedded chart is the z-score over time for the regression for the period stated. All credit indices shown are adjusted for the rolls.

Source for all figures on this page: Bloomberg, Markit, Barclays Research

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Top longs and shorts – current single-name results

We highlight which names our top long and short metrics highlight currently. As we discussed in the Focus section, the signals can be used not only as a part of a systematic strategy, but also as a basis for ad hoc basket trades as well as in risk management of existing positions.

Current short basket

Our analysis showed that the signal based on 1.5-year spread per beta and moving averages indicators provides a relatively attractive and stable screen for picking up names that are likely to underperform iTraxx Main. In Figure 1, we show the list of names currently flagged by the signal, together with the key statistics and our fundamental analysts' current ratings where available.

FIGURE 1
Top short picks

Name	Current spread	Moving averages	Spread per beta	Analyst rating
Index	106	-4%	106	-
Basket	95	-13%	68	-
VW	71	-9%	62	UW
EADFP	90	-10%	66	UW
UBS	88	-10%	69	MW
HOLNVX	130	-11%	73	MW
BNP	130	-10%	68	MW
DAIGR	80	-11%	78	UW
SOCGEN	155	-6%	64	OW
BMW	71	-9%	77	MW
BASGR	49	-7%	67	-
CRDSUI	88	-9%	85	MW

Source: Barclays Research

The basket has an average spread of 95bp and beta to iTraxx Main of 1.4, putting the spread per beta metric at 68bp versus 106bp for the index itself. This suggests to us that shorting these names is cheaper (in terms of carry) and potentially provides a greater risk/reward in case of market sell-off compared with being short iTraxx Main. In addition, over the past year, the basket has rallied relatively more than the index, with the 40-100DMA at -13% vs -4% for Main, which gives us further comfort that the names in the basket have more room to widen in a downside scenario. That said, when implementing the basket trade, we would avoid names on which our analysts have an Overweight rating, which in this case applies to SOCGEN.

Current long basket

On the long single-names front, we found that moving averages and relative performance versus benchmark combine into a meaningful long signal. Figure 2 summarises the key statistics and analyst ratings for the names currently flagged by the signal.

FIGURE 2
Top long picks

Name	Current spread	Moving averages	Performance versus benchmark	Analyst rating
Index	106	-4%	0	-
Basket	131	14%	1.94	-
MRWLN	90	20%	2.92	MW
WKLNA	87	14%	1.95	UW
PNLNA	252	16%	1.55	MW
CPGLN	57	8%	2.65	-
VOD	84	10%	2.04	UW
EXPNLN	58	8%	2.70	OW
REEDLN	72	10%	1.36	UW
SCABSS	80	8%	1.36	OW
RENTOKIL	202	5%	1.53	MW
TITIM	328	5%	1.31	MW

Source: Barclays Research

Clearly, the screen picks up names that have recently substantially underperformed. Although our historical analysis suggests that a diversified basket of such names tends to outperform iTraxx Main, we would be wary of setting up longs in names on which our analysts have UW recommendations. Hence, in a basket trade suggested above, we would exclude WKLNA, VOD and REEDLN.

Newly opened trades

Trade Idea	Short basket of corporate name versus iTraxx Main	Entry Date	14 Mar 13
Entry Level	VW(71bp), EADFP (90bp), UBS (88bp), HOLNVX (130bp), BNP(130bp), DAIGR (80bp), SOCGEN (155bp), BMW (71bp), BASGR (49bp), CRDSUI (88bp): Average: 95bp Beta to iTraxx: 1.4, at 106	Level as of 13 Mar 13	VW(71bp), EADFP (90bp), UBS (88bp), HOLNVX (130bp), BNP(130bp), DAIGR (80bp), SOCGEN (155bp), BMW (71bp), BASGR (49bp), CRDSUI (88bp): Average: 95bp Beta to iTraxx: 1.4, at 106

Our analysis showed that the signal based on 1.5-year spread per beta and 1-year spread momentum indicators provides a relatively attractive and stable screen for picking up names that are likely to underperform iTraxx Main. Shorting these names is cheaper (in terms of carry) and potentially provides greater risk/reward in case of market sell-off compared with being short iTraxx Main.

Trade Idea	Long basket of corporate names versus iTraxx Main	Entry Date	14 Mar 13
Entry Level	MRWLN (90bp), WKLNA (87bp), PNLNA (252bp), CPGLN (57bp), VOD (84bp), EXPNLN (58bp), REEDLN (72bp), SCABSS (80bp), RENTKL (202bp), TITIM(328bp) Average: 131bp Beta to iTraxx: 0.5, at 106	Level as of 13 Mar 13	MRWLN (90bp), WKLNA (87bp), PNLNA (252bp), CPGLN (57bp), VOD (84bp), EXPNLN (58bp), REEDLN (72bp), SCABSS (80bp), RENTKL (202bp), TITIM(328bp) Average: 131bp Beta to iTraxx: 0.5, at 106

On the long single-names front, we found that spread percentage change and spread momentum combine into a relatively meaningful long signal. Although our historical analysis suggests that a diversified basket of such names tends to outperform iTraxx Main, we would be wary of setting up longs in names on which our analysts have UW recommendations. Hence, in a basket trade suggested above, we would exclude WKLNA, VOD and REEDLN

Summary of currently open trades

Core strategic trades

Trade Idea	Systematic curve trading on iTraxx Main	Entry Date	6 Mar 13
Entry Level	Duration-neutral steepener on iTraxx Main 5s/10s curve at +44.5bp.	Level as of 14 Mar 13	Duration-neutral steepener on iTraxx Main 5s/10s curve at +47bp
Credit curves have a close relationship with the macro environment, providing investors with opportunities to execute systematic strategies. We use a simple momentum indicator on the iTraxx 5y spread level to choose between a “bullish”/“bearish” regime, decided by comparing levels of the 5-day and 100-day moving averages with the 5y spread (5-day MA > 100-day MA: bearish regime; else bullish regime).			

Trade Idea	Buy DAX put, sell Main payer to June	Entry Date	7 Mar 13
Entry Level	Sell €100mn Main Jun strike 120 payer at 47.5/ (ref 111) Buy 452 lots DAX Jun strike 7800 puts at /210.40 (ref 7943)	Level as of 14 Mar 13	Sell €100mn Main Jun strike 120 payer at 31.1/ (ref 105) Buy 452 lots DAX Jun strike 7800 puts at /163 (ref 8033)

DAX has outperformed Main recently. For investors wishing to take a cautious stance, we believe we currently have an attractive entry point to implement an efficient short on the market via DAX puts and Main payers:

Trade Idea	Sell Main receivers, buy SX5E calls	Entry Date	21 February 2013
Entry Level	Sell €100mn Main Jun receivers K110 @ 26.50 (ref 113) Buy 456 lots SX5E Jun calls K2650 @ 58.10 (ref 2600)	Level as of 14 Mar 2013	Sell €100mn Main Jun receivers K110 @ 39.4 (ref 105) Buy 456 lots SX5E Jun calls K2650 @ 103 (ref 2730)

We think that the recent outperformance in Main versus SX5E has pushed the valuations to the point at which it is attractive to buy slightly out-of-the-money equity upside versus credit upside.

Trade Idea	CDS-cash basis opportunities	Entry Date	21 February 2013
Entry Level	Neg basis: buy RENAUL 5.625 '17 @ z+270bp, buy 4y CDS @ 207bp (basis @ -63bp) Pos basis: sell ENFP 4.25 '20 @ z+107bp, sell 7y CDS @ 184bp (basis @ 77bp)	Level as of 14 Mar 2013	Neg basis: buy RENAUL 5.625 '17 @ z+256bp, buy 4y CDS @ 230bp (basis @ -26bp) Pos basis: sell ENFP 4.25 '20 @ z+106bp, sell 7y CDS @ 158bp (basis @ 52bp)

We highlight a number of CDS-cash basis opportunities that stand out at current levels.

Trade Idea	Cross-currency relative value in corporate hybrids	Entry Date	7 February 2012
Entry Level	Sell RWE €4.625 '15 (z+346) into RWE \$7 '17 (z+427) Sell BGGP €6.5 '17 (z+297) into BGGP \$6.5 '17 (z+393) Sell SSE €5.625 '17 (z+335) or €5.025 '15 (z+315) into \$5.625 '17 (z+421)	Level as of 14 Mar 2013	Sell RWE €4.625 '15 (z+312) into RWE \$7 '17 (z+384) Sell BGGP €6.5 '17 (z+279) into BGGP \$6.5 '17 (z+328) Sell SSE €5.625 '17 (z+317) or €5.025 '15 (z+323) into \$5.625 '17 (z+401)

Given the size of the recent dislocation, the most interesting tactical theme in the space is currently the strong cheapening of \$-denominated new-style bonds from RWE, BGGP and SSELN.

Trade Idea	Buy basket of T1s versus iTraxx Sub Fin	Entry Date	17 January 2013
Entry Level	Buy ACAFP €7.875 at 504, €8.2 at 483, £8.125 at 543, \$8.375 at 525, SOCGEN €9.375 at 577, £8.875 at 527, BNP €7.781 at 418 and UBS €7.152 at 378; avg 494bp (z-spread to worst) Buy iTraxx Sub Fin at 215bp	Level as of 14 Mar 2013	Buy ACAFP €7.875 at 492, €8.2 at 478, £8.125 at 558, \$8.375 at 506, SOCGEN €9.375 at 507, £8.875 at 535, BNP €7.781 at 418 and UBS €7.152 at 433; avg 491bp (z-spread to worst) Buy iTraxx Sub Fin at 246bp

We continue to believe that within banks the most room for further spread performance remains in T1s, while the risk/reward in LT2s is now much more balanced. We highlight several bonds in the T1 space which stand out as best positioned to outperform.

Trade Idea	Sell protection on a basket of CDS that lagged the rally, hedged with Main	Entry Date	17 January 2013
Entry Level	Sell €100mn protection on GSZFP (100), ACFP (145), AUCHAN (82), AALLN (155), ALOFP (167), SOLBBB (112), TKAAP (149), ENFP (151) and AHNA (109); avg 130 Buy €60mn iTraxx Main at 103.0	Level as of 14 Mar 2013	Sell €100mn protection on GSZFP (94), ACFP (121), AUCHAN (75), AALLN (150), ALOFP (138), SOLBBB (100), TKAAP (134), ENFP (130) and AHNA (114); avg 117 Buy €60mn iTraxx Main at 105

In spite of Main being tighter now than in March 2012, fewer constituents are trading towards their recent tights. We identify a basket of names that have lagged the rally and recommend selling protection on this basket versus iTraxx Main.

Trade Idea	Buy Senior Financials, Sell iTraxx Main CDS	Entry Date	17 January 2013
Entry Level	Buy Senior Fin at 130bp on notional of 1.0 Sell iTraxx Main at 103.25bp on notional of 1.26	Level as of 14 Mar 2013	Buy Senior Fin at 144.75bp on notional of 1.0 Sell iTraxx Main at 104.5bp on notional of 1.26

The signal for our iTraxx Main/SenFin compression-decompression systematic strategy switched from compression to decompression. We close out the compression trade and re-open it in a “compression” mode.

Trade Idea	Sell 3s5s on selected names	Entry Date	10 January 2013
Entry Level	Buy DV01-neutral flattener on: UBS at 30bp, CS at 30bp, HANRUE at 33bp, SRENVX at 33bp, ZURNVX at 33bp, ALZ at 32bp, MUNRE at 20bp, VIEFP at 60bp, UU at 40bp and CNALN at 20bp	Level as of 14 Mar 2013	Buy DV01-neutral flattener on: UBS at 30bp, CS at 30bp, HANRUE at 30bp, SRENVX at 30bp, ZURNVX at 30bp, ALZ at 30bp, MUNRE at 20bp, VIEFP at 57bp, UU at 58bp and CNALN at 18bp
We recommend selling curves in situations where the flattener offers positive carry+roll, the curve looks elevated historically and the curve is relatively liquid.			
Trade Idea	Sell Metro €17s, buy Continental €17s	Entry Date	22 November 2012
Entry Level	MEOGR 4.25% 2017s@ 109.0 CONGR 7.5% 2017s@ 107.5	Level as of 14 Mar 2013	MEOGR 4.25% 2017s@ 109.28 CONGR 7.5% 2017s@ 106.24
Metro's earnings and ratings will continue to be pressured through 2013, increasing the risk of below-IG ratings by the end of 2013. Our analysts continue to expect Continental AG to attain IG ratings by the end of 2013.			
Trade Idea	Cross-currency relative value	Entry Date	8 November 2012
Entry Level	Buy VOD £5.625% '25s (114bp ASW) Sell VOD €5.375% '22s (57bp ASW) Pick-up (57bp ASW, 56bp after swap) Buy DAIGR £3.5% '19s (123bp ASW) Sell DAIGR €2.625% '19s (47bp ASW) Pick-up (76bp ASW, 62bp after swap)	Level as of 14 Mar 2013	Buy VOD £5.625% '25s (125bp ASW) Sell VOD €5.375% '22s (88bp ASW) Pick-up (37bp ASW, 35bp after swap) Buy DAIGR £3.5% '19s (109bp ASW) Sell DAIGR €2.625% '19s (55bp ASW) Pick-up (54bp ASW, 44bp after swap)
Recent movements in credit-, swap- and cross-currency basis spreads have left sterling credit looking cheap to equivalent EUR/USD denominated cash. We highlight two opportunities to potentially pick up spread by switching into equivalent GBP bonds from EUR.			
Trade Idea	Relative Value in HY	Entry Date	25 October 2012
Entry Level	Sell Lafarge 6.125% 15s @ 108.0; Buy Banque PSA 4.0% 15s @ 99.2 Sell Odeon 9.0% 18s @ 103.5; Buy Kerling 10.625% 17s @ 98.25	Level as of 14 Mar 2013	Sell Lafarge 6.125% 15s @ 108.40; Buy Banque PSA 4.0% 15s @ 101.30 Sell Odeon 9.0% 18s @ 105.0; Buy Kerling 10.625% 17s @ 92
We highlight opportunities where we believe recent underperformance offers scope for upside over the medium term. We contrast these long ideas with similarly-rated credits that do not appear to be pricing in potential cyclical challenges.			
Trade Idea	Sub/senior compression trade in insurance CDS	Entry Date	25 October 2012
Entry Level	Sell sub protection: AEGON (295bp), ALVGR (180bp), AXASA (266bp), MUNRE (131bp), ZURNVX (180bp), avg 210.4bp Buy protection: SenFin (169.5bp), ratio 1.2x	Level as of 14 Mar 2013	Sell sub protection: AEGON (243bp), ALVGR (130bp), AXASA (243bp), MUNRE (115bp), ZURNVX (158bp), avg 178bp Buy protection: SenFin (144.75bp)
Following a widening in sub/senior spread ration insurers to recent historical highs, we recommend positioning for compression in this relationship.			
Trade Idea	Long Italian vs Spanish IG-rated Corporates	Entry Date	4 October 2012
Entry Level	Sell TITIM 5y CDS (323bp), Buy TELEFO 5y CDS (320bp) Sell ENEL 5y CDS (250bp), Buy IBESM 5y CDS (293bp)	Level as of 13/14 Mar 2013	Sell TITIM 5y CDS (334bp), Buy TELEFO 5y CDS (240bp) Sell ENEL 5y CDS (265bp), Buy IBESM 5y CDS (200bp)
At current trading levels, we believe longs in Italian corps and shorts in Spanish corps present attractive risk/reward opportunities.			
Trade Idea	Sell 3s5s on a basket of IG, HY and sovereign names	Entry Date	20 September 2012
Entry Level	Sell 3s5s on: IG: NXT (40bp), BMW (39bp), BNFP (27bp), VLVY (60bp), AKZANA (40bp), DT (30bp), ROLLS (31bp), FRFP (60bp), VW (38bp), MLFP (50bp), SGOF (56bp) HY: KABEGR (110bp), IESYRP (180bps), MWDP (140bp), RALFP (180bp), STORA (130bp) Sovereign: DBR (29bp), FRTR (55bp), NETHER (28bp), BGB (57bp)	Level as of 14 Mar 2013	Sell 3s5s on: IG: NXT (40bp), BMW (35bp), BNFP (27bp), VLVY (64bp), AKZANA (44bp), DT (32bp), ROLLS (31bp), FRFP (63bp), VW (33bp), MLFP (45bp), SGOF (58bp) HY: KABEGR (80bp), IESYRP (156bps), MWDP (155bp), RALFP (182bp), STORA (132bp) Sovereign: DBR (15bp), FRTR (34bp), NETHER (25bp), BGB (34bp)
We like the flatteners as a hedging strategy in the current environment because, in our view: 1) if nothing happens and we roll down the CDS curves, the trades will turn a profit; 2) if spreads are volatile but curves remain steep, the trades will turn a profit (from the convexity); 3) in a very distressed outcome, the trades are jump-to-default positive.			

Trade Idea	Long basket of corporate hybrids	Entry Date	13 September 2012
Entry Level	ALLRNV 4.875 '15 @ z+225 BGGP €6.5 '17 @ z+352 ENBW 7.375 '17 @ z+477 LINGR 7.375 '16 @ z+207 RWE \$7 '17 @ z+495 DGFP 6.25 '15 @ z+396 Avg z+359	Level as of 14 Mar 2013	ALLRNV 4.875 '15 @ z+167 BGGP €6.5 '17 @ z+267 ENBW 7.375 '17 @ z+315 LINGR 7.375 '16 @ z+165 RWE \$7 '17 @ z+385 DGFP 6.25 '15 @ z+299 Avg z+266

We remain constructive on corporate hybrids. Elevated spreads and recent underperformance relative to senior debt, equity and Industrial BBBs provide a strong technical support for the valuations from the macro perspective, in our view. Based on fundamentals, valuations and structural features we currently prefer hybrids issued by ALLRNV, BGGP, ENBW, RWE (new issues), VINCI and LINGR.

Trade Idea	3/5s flatteners in WINDIM and ONO	Entry Date	26 July 2012
Entry Level	WINDIM 3/5s at 9 pts ONO 3/5s at 9 pts	Levels as of 14 Mar 2013	WINDIM 3/5s at 7 pts ONO 3/5s at 7 pts

Curves are at historical highs; we expect that in either a policy-induced rally or a significant sovereign-based sell-off, CDS curves in both peripheral credits will flatten significantly from current levels.

Trade Idea	Switch out of EUR into GBP Tier 1s	Entry Date	28 June 2012
Entry Level	Sell DANBNK €4.878 '17 @ 81.25, buy £5.563 '17 @ 76.5	Level as of 14 Mar 2013	Sell DANBNK €4.878 '17 @ 98.5, buy £5.563 '17 @ 96

European bank Tier 1s denominated in EUR outperformed the comparable GBP bonds in this sell-off. With the valuation differentials at historical highs, we think that selected pairs offer attractive switch opportunities.

Trade Idea	iTraxx Crossover/Main decompression	Entry Date	21 June 2012
Entry Level	Buy protection on Crossover @ 721 Sell protection on Main @ 169 Notional ratio of 3.5x	Level as of 14 Mar 2013	Buy protection on Crossover @ 406 Sell protection on Main @ 104.5

The Crossover/Main relationship is currently close to extreme levels following a few weeks of continuous compression. We believe a decompression trade has become attractive at this entry point.

Trade Idea	RV between covered bonds and bank CDS/senior	Entry Date	14 June 2012
Entry Level	Buy BBVA 4.25 Mar-15 covered @ 400 ASW, Buy matched CDS @ 469 Buy SANTAN 3.25 Feb-15 covered @ 395 ASW, Buy matched CDS @ 424	Level as of 14 Mar 2013	Buy BBVA 4.25 Mar-15 covered @ 147 ASW, Buy matched CDS @ 210 Buy SANTAN 3.25 Feb-15 covered @ 143 ASW, Buy matched CDS @ 195

The relative value between covered bonds and senior unsecured bank has returned to extreme levels in Spanish banks. Covered bonds currently trade close to in line with senior unsecured bank bonds on spread, which we view as fundamentally unsustainable.

Trade Idea	Short potential fallen angels in cash	Entry Date	31 May 2012
Entry Level	Sell CAFP 4.375% 2016 at +280bp spread to bunds, €105.6, 3.0% YTM Sell MEOGR 4.25% 2017 at +218bp spread to bunds, €107.8, 2.5% YTM	Level as of 14 Mar 2013	Sell CAFP 4.375% 2016 at +123bp spread to bunds, €110.42, 1.40% YTM Sell MEOGR 4.25% 2017 at +155bp spread to bunds, €109.28, 1.78% YTM

Amongst a list of potential fallen angels, we think the risk/reward in terms of limiting exposure is most attractive in the credits trading especially tight vs BBs - Metro, Carrefour, Areva (Not Rated), Alstom, ArcelorMittal, names our analysts are currently Underweight.

Trade Idea	Negative basis in sub financials	Entry Date	19 April 2012
Entry Level	UBS £6.375% of '24 @ -123bp	Levels as of 14 Mar 2013	UBS £6.375% of '24 @ -85bp

Subordinated financials have moved to materially negative basis versus 5y CDS. We believe for trades whereby investors buy bonds and buy CDS, this make sense as a tactical trade.

Trade Idea	Positive basis opportunities	Entry Date	16 February 2012
Entry Level	WINDIM 11.75 '17 (110 pts, package); SUNCOM 8.5 '18 (111 pts, package); FIAT 6.375 '16 (109 pts, package)	Level as of 14 Mar 2013	WINDIM 11.75 '17 (109.25pts, package); SUNCOM 8.5 '18 (105pts, package); FIAT 6.375 '16 (104.6pts, package)

For a credit trading at stressed/distressed levels with a package priced at a significant discount to par, there is the potential for significant upside in the case of either a credit event, or a substantial credit rally. For investors comfortable with a credit, a large positive basis is often a signal to switch from the bonds to the CDS.

Trade Idea	Italy 5s10s flatteners (ratio 1.425x)	Entry Date	9 February 2012
Entry Level	Buy Italy 5s10s flattener @ -2bp	Level as of 14 Mar 2013	Buy Italy 5s10s flattener @ 30bp

If the sovereign crisis takes a turn for the worse, the curve is likely to invert significantly, as was the case in the weaker peripherals. In a positive market scenario, we see limited room for further steepening. We adjust the trade ratio to increase potential P&L in a positive scenario.

Trade Idea	Switch out of ISPIM €5 '19 into €3.75 '20nc15	Entry Date	19 January 2012
Entry Level	Sell ISPIM €5 '19 at 86.8 Buy ISPIM €3.75 '20nc15 at 75	Level as of 14 Mar 2013	Sell ISPIM €5 '19 at 101.16 Buy ISPIM €3.75 '20nc15 at 86.00
The market is pricing in near certainty that the ISPIM €3.75 '20nc15 will be extended to maturity, which, in our view, provides an attractive opportunity to own a bond equivalent to the LT2 bullet, but with additional significant upside in a positive market scenario.			
Trade Idea	HY basis opportunities	Entry Date	5 January 2012
Entry Level	Positive CONVAT 10.875 '18 basis; €116 pt package cost Positive ARGID '20 basis; €106.8pt package cost	Level as of 14 Mar 2013	Positive CONVAT 10.875 '18 basis; €115.5pt package cost Positive ARGID 9.25 '20 basis; €107.25pt package cost
For a credit trading at stressed/distressed levels with a package priced at a significant discount to par, there is the potential for significant upside in case of either a credit event or a substantial credit rally. For investors comfortable with a credit, a large positive basis is often a signal to switch from the bonds to the CDS.			
Source for all tables: Barclays Research			

ANALYST RATINGS SUMMARY

HIGH GRADE CREDIT RESEARCH		
Sectors	Overweight	Underweight
	Insurance	Autos and Auto Parts, Airlines, Building Materials, Chemicals, Diversified Manufacturing, Technology, Pharmaceuticals, Retail and Services, Utilities
Autos		Volkswagen, Daimler, Scania, MAN, Volvo, Michelin, Bosch
Banks	Societe Generale	Commerzbank, Deutsche Bank, Intesa, Unicredit
Consumer & Retail	Ahold, BAT, Experian, Tate & Lyle	Adecco, Carrefour, Carlsberg, Diageo, Henkel, Kingfisher, Metro, Suedzucker
General Industrial	CRH, HIT Finance, Linde, Rexam, SCA	ABB, Akzo Nobel, Atlantia, Bayer, Bouygues, EADS, Saint Gobain, Syngenta
Insurance	Allianz, AXA, Generali, Hannover Re, Munich Re, Swiss Re, Zurich	
Oil & Gas	BP	BG, Repsol YPF, OMV
Pharmaceuticals	Merck KGaA, Roche	AstraZeneca, GlaxoSmithKline, Sanofi-Aventis
TMT	BskyB, TeliaSonera, Telenor	France Telecom, Wolters Kluwer, BT Group, KPN, Vodafone
Transport	National Express	Go-Ahead, First Group
Utilities	ESB, Edison	Dong Energy, Enel, ENBW, E.ON, Fortum, Gas Natural, Red Electrica, RWE, SSE, Suez Environnement, UU plc, Vattenfall

High Grade CDS trade ideas (at current levels)

Buy Protection: Akzo Nobel, AstraZeneca, Atlantia, Bayer, BT Group, Carrefour, Centrica, Diageo, Endesa, Enel, Fortum, KPN, Next, National Grid, Suedzucker, Pearson, Repsol, Rexam, Saint Gobain, Tate & Lyle, Total, UU plc, Vattenfall, Wolters Kluwer, Metro, Carlsberg, IMT

Sell Protection: Clariant, BP, EDF, E.ON, ITV, Lanxess, Merck, PostNL, Roche, SCA, SocGen, TeliaSonera, Kingfisher, Pernod, Casino

HIGH YIELD CREDIT RESEARCH		
Companies	Overweight	Underweight
Autos & Airlines	Jaguar Land Rover £ 8.125% 2018s, Jaguar Land Rover \$ 7.75% 2018s, Jaguar Land Rover £ 8.25% 2020s, Jaguar Land Rover \$ 8.125% 2021s, FIAT (7.75% 16s, 7% 17s)	Air France 2014s, 2016s, Conti 6.5% €16s, Conti 7.125% €18s, Conti 4.5% \$ 19s, FIAT (6.375% '16, 5.625% '17, CHF 5% 15s, CHF 5.25% 16s), Faurecia (9.375% 2016, 8.75% 2019), Lufthansa, PSA 6.875% 16s, PSA 5% '16, PSA 6% '33, PSA 6.875% '16, Renault (6% 14s, 6.625% 15s, 4.625% 16s, 5.625% 17s, 4.625% 17s), Schaeffler 6.75% 17s, 8.75% 19s
Basic Industry/ Healthcare	Albea 8.75% 19s, Albea 8.375% 19s, Ardagh 8.750% '20s, Ardagh 7.125% '17s, Ardagh 9.250% '20s, Ardagh 9.125% '20s, Ardagh 11.125% '18s (€+\$), Clariant €'17s, HeidelbergCement (all rated issues), Kerling 10.625% '17s, Lecta €+262.5bp '14s, 8.875% '19s, M-Real 8.875% '13s, Reynolds 9.5% 17s, Sappi 6.625% '18s, UPM \$18s, £'17s, Four Season Healthcare	ArcelorMittal, Ardagh 9.25% '16s, Ardagh 7.375% €17s, Ardagh 7.375% €17s, Ardagh 7.375% \$17s, Ardagh 7.375% \$17s, Clondalkin €+200bp '13s, Kinove 10.000% '18s, Kinove 9.625% '18s, Lafarge (with the exception of the 6.625% £'17s), Metsa Board 8.75% '13s, Norske Skog 7.000% '17s, Norske Skog 11.750% 16s, Norske Skog 6.125% 15s, Norske Skog 7.125% 33s, Oxea € 9.625% '17, Reynolds 8.0% '16s, Sappi 6.625% '21s, Smurfit Kappa 5.125% 18s, Smurfit Kappa 4.875% 18s, Smurfit Kappa 7.25% 17s, Smurfit Kappa 7.75% 19s, Smurfit Kappa €+350 20s, Stora Enso €14s, Stora Enso €19s, Stora Enso \$16s
General Industrial/Chemicals	Taylor Wimpey 10.375% '15s, Securitas Direct 8.875% 18s, Securitas Direct 8.875% 18s, Ciech 9.5% 19s	Grohe FRNs (Sep-17), Styrolution 7.625% 16s, ISS 8.875% 16s
Consumer & Retail & Gaming	Bakkavor 8.25 '18s, Boparan 9.875% 2018, Boparan 9.75% 2018, Cirsia 8.750% '18s, Codere 8.250% '15s, Codere 9.250% '19s, Dixons 6.125% '12s, Edcon €+325bp '14s, Edcon €+550bp '15s, Foodcorp 8.750% '18s, Gala 11.5% 15s, House of Fraser 8.875% '18s, Ontex 9.000% '19, Ontex 0 '18s, Phones4u 9.500% '18s, Peermont 7.750% '14s, Matalan 8.875% '16s	Agrokor 10% 16s, Campofrio 8.25% '16s, Odeon 9.000% '18s, Odeon €+500bp '18s, Picard 9.000% '18s, Refresco 7.375% '18s, Refresco €+400bp '18s
TMT	CETV 9.000% '17s, CETV 11.625% '16s, Kabel BW 7.500% '19s, Kabel BW 7.500% 19s, Matterhorn 7.750% 20s, Unity Media 8.125% '17s, Unity Media 8.125% '17s, Unity 9.625% 19s, Unity 9.500% '21s, Unity 5.5% 22s, Virgin Media 8.875% '19s, Virgin 5.125% 22s, Wind 11.750% '17s, Wind 7.250% '18s, Wind 7.375% '18s, Ziggo 8.000% '18s, Priory 7.000% '18s, UPC 6.375% '22s	Numericable €+787.5 18s, Numericable 12.375% 19s, Numericable 8.75% 19s, ONO 11.125% 19s, ONO 10.875% 19s, Sunrise 7% 17s, Telenet 6.375%, Telenet 6.625% '21s, Telenet €+378bp '21s, Telenet 6.25% 22s, Virgin Media 7.000% '18s, Virgin Media 6.500% '18s, Virgin Media 5.500% '21s, Virgin Media 5.250% '21s, Ziggo 6.125% 17s
Transportation		Europcar 9.75 '17s Hapag-Lloyd €9 '15s, Stena 6.125% '17s, Stena 5.875% '19s, Stena 7.875% '20s
Utilities	Edison (All rated issues)	EDP (€5.5 '14, €3.25 '15, €3.75 '15, €5.875 '16, €4.625 '16, €4.75 '16, €5.75 '17, €4.125 '20, \$6 '18, \$4.9 '19, £ 8.625 '24, £6.625 '17)

High Yield CDS trade ideas (at current levels)

Buy Protection: ArcelorMittal, GKN, Lafarge, Lufthansa, Dixons (2y/5y steepener), Stena, Stora Enso

Sell Protection: British Airways, Clariant, Grohe, HeidelbergCement, M-Real, Ladbrokes, Smurfit Kappa (Sub), Norske Skog (2y), UPM

Note: Bold text represents rating(s) change this week. Source: Barclays Research

KEY CREDIT MARKET INDICATORS AS OF WEDNESDAY, 13 MAR 2013

		current		diff changes				3-month range			
Investment Grade		OAS	yield	daily	WTD	MTD	YTD	OAS	yield		
Corporates		148	2.1	0	0	-5	-2	140	157	2.0	2.4
Industrials		124	1.8	0	0	-4	-4	121	131	1.7	2.1
Financials		163	2.3	0	0	-5	-4	152	176	2.2	2.6
Basic industry		113	1.7	0	0	-7	-4	110	122	1.6	2.0
Capital goods		123	1.7	0	0	-1	-13	121	138	1.7	2.0
Communications		157	2.3	0	0	-8	5	145	165	2.1	2.5
Consumer cyclical		105	1.4	0	0	-3	-16	104	125	1.4	1.8
Consumer non-cyclical		94	1.4	0	-1	-2	-2	93	100	1.4	1.7
Energy		117	1.7	0	1	-5	3	107	124	1.6	2.0
Technology		127	1.7	0	0	-3	-5	127	151	1.6	2.1
Transportation		176	2.4	-1	-3	-7	-9	169	193	2.4	2.8
Utilities		175	2.4	1	3	-6	5	156	182	2.2	2.7
Banking senior		131	1.7	0	-1	-3	-1	122	141	1.6	2.0
AAA		66	1.2	0	1	0	-1	62	69	1.2	1.6
AA		83	1.4	0	0	-2	3	76	86	1.2	1.6
A		112	1.7	0	0	-3	-2	107	119	1.6	2.0
BBB		213	2.8	0	1	-8	-3	197	226	2.7	3.1
AA-AAA		17		0	-1	-3	4	11	20		
A-AA		30		0	0	-1	-6	29	30		
BBB-A		100		0	1	-5	-1	90	107		
IG Excess return											
Corporates				0.00	0.09	0.16	0.62				
Industrials				0.01	0.13	0.09	0.47				
Financials				0.00	0.07	0.21	0.74				
AAA				-0.02	0.06	-0.20	0.26				
AA				0.00	0.10	-0.02	0.16				
A				0.00	0.10	0.05	0.54				
BBB				-0.01	0.07	0.35	0.86				
Markit Indices											
iTraxx Main		106		0	2	-10	-11	102	122		
iTraxx Senior Financials		146		3	7	-11	3	121	167		
CDX IG		79		-1	-1	-9	-16	79	97		
Index-Intrinsic skew											
iTraxx Main skew		-1		-1	1	-3	-7	-4	8		
iTraxx SenFin skew		3		0	4	1	-2	-2	9		
CDX IG skew		-5		-1	0	-3	-4	-7	1		
Cash-CDS Basis											
iTraxx Main - Industrials		23		1	2	-6	4	9	33		
		current		diff changes				3-month range			
Index pairs		diff	ratio	daily	WTD	MTD	YTD	diff	ratio		
CDX IG - iTraxx Main		-27	0.7x	-1	-3	1	-5	-33	-15	0.7x	0.9x
iTraxx SenFin - Main		40	1.4x	3	5	-1	14	18	46	1.2x	1.4x
iTraxx SenFin - SovX		48	1.5x	2	5	-7	15	14	61	1.1x	1.6x
iTraxx Main - SovX		8	1.1x	-1	0	-6	1	-5	15	0.9x	1.2x

		current		diff changes				3-month range			
High Yield		OAS	yield	daily	WTD	MTD	YTD	OAS	yield		
Corporates		455	6.2	2	2	-14	-34	435	507	6.1	6.9
Industrials		453	5.6	3	4	-16	-37	444	513	5.6	6.2
Financials		466	7.9	-3	-6	-10	-29	424	512	7.3	8.8
Basic industry		486	5.8	2	7	-31	-45	457	549	5.7	6.3
Capital goods		330	4.4	3	9	-14	-18	298	389	4.4	5.0
Communications		502	6.5	1	-7	-32	-83	501	611	6.5	7.4
Consumer cyclical		474	5.7	6	10	7	10	403	505	5.4	6.2
Consumer non-cyclical		502	6.1	0	1	-44	-62	501	569	6.1	6.7
Energy		528	5.8	6	7	-41	-65	508	608	5.8	6.8
Technology		494	5.5	5	7	-21	25	249	523	4.6	5.9
Transportation		562	6.5	0	-2	36	9	495	576	5.8	6.6
Utilities		418	4.8	13	3	-4	-8	362	444	4.2	5.1
BB		366	5.1	0	1	-11	-19	339	403	4.9	5.7
B		576	7.6	3	2	-20	-55	565	658	7.5	8.4
CCC		847	10.0	7	3	-27	-97	818	966	10.0	11.9
BB-BBB		153		0	0	-3	-16	141	177		
B-BB		210		2	1	-9	-36	197	256		
CCC-B		271		4	1	-7	-42	218	314		
HY Total return											
Corporates				0.14	0.27	0.82	1.02				
Industrials				0.08	0.17	0.57	0.73				
Financials				0.31	0.53	1.47	1.80				
BB				0.15	0.30	0.78	1.03				
B				0.16	0.21	0.77	1.11				
CCC				0.02	0.21	1.24	0.82				
Markit Indices											
iTraxx XO		409		-1	7	-38	-73	402	482		
CDX HY		394		-6	-10	-47	-94	394	500		
Index-Intrinsic skew											
iTraxx XO skew		5		-4	2	-3	-20	0	28		
CDX HY skew		-1		-4	-4	-17	-15	-16	29		
Cash-CDS Basis											
iTraxx XO - HY Industrials		-2		0	3	-20	-16	-18	31		
		current		diff changes				3-month range			
Index pairs		diff	ratio	daily	WTD	MTD	YTD	diff	ratio		
iTraxx XO - Main		303	3.9x	-1	5	-28	-61	298	370	3.8x	4.4x
CDX HY - iTraxx XO		-16	1.0x	-5	-17	-10	-22	-30	27	0.9x	1.1x
CDX HY - CDX IG		315	5.0x	-5	-9	-38	-78	315	403	5.0x	5.2x

Source: Bloomberg, Barclays Research

KEY NON-CORPORATE INDICATORS AS OF WEDNESDAY, 13 MAR 2013

	current	diff changes				3-month range	
Benchmark Yields		daily	WTD	MTD	YTD		
2Y Germany	0.06	-0.01	-0.03	0.02	0.08	-0.06	0.30
5Y Germany	0.45	0.00	-0.05	0.02	0.16	0.29	0.80
10Y Germany	1.48	0.00	-0.04	0.03	0.17	1.31	1.71
30Y Germany	2.36	0.00	-0.01	0.05	0.20	2.17	2.46
2Y US	0.26	0.00	0.01	0.02	0.01	0.24	0.28
5Y US	0.88	0.01	-0.01	0.12	0.15	0.65	0.91
10Y US	2.02	0.00	-0.02	0.15	0.26	1.70	2.06
30Y US	3.22	0.00	-0.03	0.13	0.27	2.87	3.26
Sovereign Risk							
iTraxx SovX WE	98	1	2	-4	-12	96	113
10Y France - Germany	0.61	-0.01	0.01	-0.10	-0.06	0.55	0.72
10Y Greece - Germany	9.10	0.06	0.16	-0.32	-1.26	8.37	11.66
10Y Ireland - Germany	2.92	0.00	0.04	-0.03	-0.29	2.69	3.35
10Y Italy - Germany	3.18	0.06	0.11	-0.09	0.01	2.48	3.46
10Y Portugal - Germany	4.39	0.01	0.04	-0.40	-1.18	4.20	5.96
10Y Spain - Germany	3.28	0.04	0.05	-0.35	-0.64	3.23	4.04
Rates							
3M £ LIBOR	0.51	0.00	0.00	0.00	-0.01	0.51	0.52
3M Euribor	0.20	0.00	0.00	-0.01	0.02	0.18	0.23
2Y € swap	0.45	0.00	-0.01	0.00	0.08	0.34	0.70
5Y € swap	0.93	-0.01	-0.02	0.01	0.16	0.77	1.21
10Y € swap	1.74	0.00	-0.02	-0.01	0.18	1.57	1.94
30Y € swap	2.43	0.00	0.00	0.03	0.20	2.23	2.54
S&P 500 Sector Performance							
Consumer Discretionary	418	0.5%	0.4%	4.2%	11.2%	369	418
Consumer Staples	398	0.1%	0.0%	1.4%	10.4%	357	398
Energy	579	-0.2%	0.0%	1.0%	8.7%	522	583
Financials	247	0.3%	0.5%	4.2%	11.5%	215	247
Healthcare	519	0.0%	0.8%	3.4%	12.2%	457	519
Industrials	362	0.5%	0.2%	2.2%	10.2%	323	362
Information Tech	481	0.0%	-0.3%	1.9%	3.7%	454	484
Materials	250	-0.2%	0.3%	3.1%	5.2%	228	251
Telecom	156	-0.4%	-0.1%	2.2%	7.1%	144	157
Utilities	192	0.4%	0.3%	1.7%	8.2%	175	192

Note: Equity index/sector returns are price returns only (ex-dividends).

Source: Bloomberg, Barclays Research

	current	diff changes				3-month range	
Equities		daily	WTD	MTD	YTD		
Euro Stoxx 50	2,705	-0.3%	-0.9%	2.6%	2.5%	2,571	2,749
FTSE 100	6,482	-0.4%	0.0%	1.9%	9.0%	5,898	6,511
CAC 40	3,836	-0.1%	-0.1%	2.9%	5.1%	3,601	3,840
DAX 30	7,971	0.1%	-0.2%	2.9%	4.5%	7,581	7,986
S&P 500	1,555	0.1%	0.2%	2.6%	8.3%	1,402	1,556
NIKKEI	12,240	-0.6%	-0.4%	5.6%	15.1%	9,581	12,349
VIX	12	-0.4	-0.8	-3.7	-6.2	12	23
VSTOXX	17	-0.4	-0.5	-4.1	-4.4	15	26
Commodities							
Gold	1,590	-3	12	8	-87	1,572	1,722
Copper	353	-3	2	-2	-14	349	380
Oil	109	-1	-2	-3	-3	108	119
Gas	3.68	0.04	0.05	0.19	0.33	3.11	3.68
Corn	710	-4	7	7	10	681	742
Foreign Exchange							
EUR/USD	1.30	-0.01	0.00	-0.01	-0.02	1.30	1.36
EUR/JPY	125	0	0	4	10	109	127
EUR/GBP	0.87	-0.01	0.00	0.01	0.06	0.81	0.87
EUR/CHF	1.23	0.00	0.00	0.01	0.03	1.21	1.25
EUR/SEK	8.33	0.04	0.00	-0.12	-0.26	8.28	8.79
EUR/NOK	7.45	0.01	0.00	-0.04	0.11	7.29	7.49
S&P Euro 350 Sector Performance							
Consumer Discretionary	1,351	0.1%	0.2%	2.8%	6.5%	1,252	1,351
Consumer Staples	2,580	-0.1%	0.4%	2.5%	9.0%	2,357	2,582
Energy	1,281	0.1%	0.1%	1.4%	-0.5%	1,240	1,339
Financials	665	-0.1%	-0.8%	1.1%	5.8%	622	673
Healthcare	1,564	-0.1%	0.3%	1.3%	8.1%	1,444	1,575
Industrials	1,427	0.0%	0.0%	2.5%	8.1%	1,309	1,428
Information Tech	946	0.0%	-0.2%	3.2%	10.4%	849	948
Materials	2,298	-0.1%	0.5%	0.4%	0.0%	2,244	2,368
Telecom	1,012	-0.4%	-0.4%	5.7%	4.4%	929	1,022
Utilities	1,096	-0.1%	-1.1%	0.4%	-3.0%	1,067	1,155

REPORTING CALENDAR NEXT WEEK

Date	Company	Release/event	Economic data	Other events
Mon, 18 Mar	Polkomtel	FY 12	EZ: Trade Balance	
Tues, 19 Mar	Boparan	Q2 12/13 Results	EZ: New Car Registrations, Zew Surveys	Spain T-bills
	BMW	FY 12	UK: PPI, CPI, RPI	
	Popolare di Milano	Q4 12	GE: Zew Surveys	
	Sainsbury	Q4 12 sales	US: Housing Starts	
Wed, 20 Mar	Metro	FY 12	EZ: Consumer Confidence	CDS Index roll
	Numericable	FY 12	UK: Jobless Claims, Unemployment Rate	CDS options expire
	Rheinmetall	FY 12		FOMC policy meeting
	Smiths	IMS		BoE Minutes
				UK 2013/14 Budget
Thu, 21 Mar	DFS	Q2 13	EZ: PMIs ("Flash")	Spain bond auction
	Lanxess	FY 12	UK: Retail Sales, Public Finances, CBI Total	
	Next	FY 12	Orders	
	Refresco	FY 12	GE: PMIs ("Flash")	
	Suncom	FY 12	US: Jobless Claims, PMI, Leading Indicators,	
	Talanx	FY 12	Philadelphia Fed, Existing Home Sales	
	Schaeffler	FY 12		
Fri, 22 Mar			GE: IFOs	

Note: Items in bold we consider to be more important to markets.

Source: Bloomberg, company reports, Barclays Research

THE WEEK AFTER

Date	Company	Release/event	Economic data	Other events
Mon, 25 Mar			US: Chicago Fed, Dallas Fed Manf.	UK public holiday Italy bond auction
Tues, 26 Mar	Ardagh Compass Kingfisher	FY 12 Q2 13 IMS FY 12	UK: CBI Sales US: Durable Goods, S&P/CaseShiller, Richmond Fed, Consumer Confidence, New Home Sales	
Wed, 27 Mar			EZ: CPI, Confidence Surveys UK: GDP Q4 12 ("Final") US: Pending Home Sales	Italy bond auction CDX HY roll
Thu, 28 Mar	Buzzi Unicem Ineos Monte dei Paschi Ontex Priory Voyage Care Wendel	Q4 12 Annual report Q4 12 FY 12 FY 12 FY 12 Q4 12	EZ: M3 UK: Gfk Consumer Confidence GE: Unemployment US: GDP Q4 12 ("Final"), Personal Consumption, Jobless Claims, Chicago PMI, Kansas City Fed	
Fri, 29 Mar			US: Personal Income & Spending, U of Mich. Confidence	Good Friday

Note: Items in bold we consider to be more important to markets.

Source: Bloomberg, company reports, Barclays Research

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- Call or put vertical spread purchasing (same expiration month for both options): The basic risk of effecting a long spread transaction is limited to the premium paid when the position is established.
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Underweight: The analyst expects the six-month total return of the rated debt security or instrument to be below the six-month expected total return of the Barclays U.S. 2% Issuer Capped High Yield Credit Index, the Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, or the EM Asia USD High Yield Corporate Credit Index, as applicable.

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