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Japanese CLO return set to squash triple A spreads

Japan's Norinchukin, thought to be the largest holder of CLO triple As in the world, and at least one other Japanese bank are poised to begin buying new CLO paper at the start of their new financial year in April.

Several CLO market specialists in New York say that Japanese banks including Nochu have started discussions about buying new issue and secondary CLOs, and indicate that they are ready to push the button in the new year.

Although the buyers are said to be eyeing "selective" purchases, it is thought they will nevertheless create several billion dollars of demand for triple A CLOs and will potentially drive in spreads by a significant amount.

Norinchukin last month disclosed that it has sold ¥185 billion (\$2.1 billion) of CLOs in face value terms since the end of last March, reducing its total holdings to ¥1.7 trillion. Senior managers at the bank may be encouraged to start adding to their holdings by the recent

sharp rise in secondary CLO prices, which appears to vindicate its strategy of holding on to most of its portfolio. Last month the bank announced that it had written back up ¥44 billion of its ¥153 billion of CLO losses.

Officials at the bank, which is understood to manage all its investment activities from Tokyo, declined to comment on their CLO plans.

Historically, the biggest buyers of triple A CLOs have been the now defunct SIVs, along with insurance companies and a select group of banks around the world.

"We believe the CLOs have been proven as a concept acceptable to investors," says David Yan, structured credit analyst at Credit Suisse in New York. "Once the new fiscal year starts in the second quarter for Japanese investors, we expect them to come back to the CLO primary market, as the spread on triple A CLOs – probably around 150-175 basis points – will be attractive compared to historical levels."

Successful bear trader makes new short credit call

A credit hedge fund manager is aiming to tap into the risk adverse mood among many investors by launching a dedicated short credit fund.

Point Clear Capital Management's Gamma Fund was launched at the end of last year and is targeting shorts in US high yield, US municipals' bonds and some European sovereigns.

Point Clear previously ran several short credit funds during 2007 and 2008. One of those funds, Alpha 150, proved to have spectacular timing. It delivered a return of approximately 120% to invest-



Minton: going short again

tors, and was unwound after the manager judged that the worst effects of the crisis were over for the medium term.

Now, the firm believes once again that short credit exposure is an attractive way

to hedge market stress.

"We are in a vulnerable place," says Lyle Minton, partner at Point Clear. "The concerted government stimulus has had a meaningful effect on the markets, and some investors are trying to determine if the recovery is sustainable."

While the fund may appeal to investors who have an outright bearish view of the market, it is also intended to be a hedge for those who are mainly long. "We are seeing an increased focus among our core investor base of family offices to protect downside risk," says Minton.