

Citi shares in record slump, CDS spreads widen

Bank takes on \$17 billion of SIV assets, shuts another hedge fund

By [Alistair Barr](#)

Theme: [Global Economy](#)

Global Research, November 19, 2008

MarketWatch 19 November 2008

Nov. 19, 2008 SAN FRANCISCO (MarketWatch) — Citigroup Inc. shares slumped a record 23% Wednesday and credit-default swap spreads on its debt widened after the bank took on more than \$17 billion in assets from structured investment vehicles and shut another hedge fund. Citi shares slumped 23% to close at \$6.40. The previous biggest one-day drop was 21.7% during the market collapse on Oct 19, 1987. CDS spreads on Citi

Delayed quote dataAdd to portfolio Analyst Create alertInsider Discuss Financials Sponsored by: C) were trading at more than 360 basis points over Treasury bonds during afternoon action, up from a 240 basis points yesterday, according to Phoenix Partners Group. CDS are a common type of derivative contract that pay out in the event of default. When the difference, or spread, between rates on these contracts and interest rates on Treasuries increases, that suggests investors are more worried about defaults. Citi said it will purchase the final \$17.4 billion of assets still in structured investment vehicles, or SIVs, that the bank advised. SIVs sell short-term debt and use they money to invest in longer-term, higher-yielding assets. During the credit boom earlier this decade, these vehicles became a popular way for some banks to grow assets without adding extra stress on their balance sheets. But when the credit crunch hit, SIVs couldn't refinance their short-term debt. That forced banks including Citi and HSBC

Delayed quote dataAdd to portfolio Analyst Create alertInsider Discuss Financials Sponsored by: HBC) to take the assets onto their own balance sheets. In December, Citi said it would take \$49 billion of assets from SIVs it advised onto its balance sheet to resolve concerns about how the vehicles were going to repay their debts. The SIVs in question have been selling assets since then, and now have \$17.4 billion left, Citi said Wednesday. Taking on this final chunk of assets will mean the SIVs have enough money to repay senior debt obligations that are maturing, the bank said. Citi estimated that it needs to provide \$300 million in extra funding for the transaction to close. Citigroup CDS led an increase in counterparty credit risk in the derivatives market Wednesday, according to Credit Derivatives Research. The CDR Counterparty Risk Index, which tracks credit-default swaps on leading banks and brokerage firms, rose 12.3 points to 263.9 during midday action. CDS spreads on Morgan Stanley

CDR said. "Citigroup showed the greatest deterioration on news of hedge fund closures and SIV takeovers," David Klein, manager of CDR's credit indexes, said in an e-mail. Citi is shutting down a corporate credit hedge fund called Corporate Special Opportunities after it slumped more than 50% in October.

"As with many other credit-based investment products, investment returns have been hurt

by one of the most volatile periods for fixed income in history," a Citigroup spokesman said in a statement Wednesday.

In February, Citi suspended investor redemptions from the fund, which once had more than \$4 billion in assets. See full story. The value of the fund's assets has now dwindled to less than \$60 million, while its debt is about \$880 million. That may leave investors with recoveries of no more than 10 cents on the dollar, according to the Financial Times. Citi lent the hedge fund money and bought assets with a notional value of \$1 billion that it put in the fund, the FT reported. Losses for Citi could total hundreds of millions of dollars, the newspaper said. Alistair Barr is a reporter for MarketWatch in San Francisco.

The original source of this article is MarketWatch
Copyright © [Alistair Barr](#), MarketWatch, 2008

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Alistair Barr](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca
www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca