

Securities Finance Report



Asian Securities Lending and Hong Kong - A New Sweetspot

Securities lending in Asia is a growth industry and Hong Kong is the main driver. Today's piece will discuss how Hong Kong's robust equity market, combined with its thriving IPO market make it a great advert for securities lending.

Asia is a region where the income from securities lending is gently rising. Hong Kong is the main driver of this and is a great advert for securities lending. To mark the opening of our office in Hong Kong next week and our forthcoming Asian Securities Financing Forum in Hong Kong on 7th October, we will look at how growth in Asia and especially HK, has created a sweetspot for the securities lending industry.

But before we get too carried away let us give the global context. It will be some time before the income from lending Asian equities overcomes that of Europe or the Americas but it is gaining. Asia contributes 17% to total equity lending income which is up from 14% a year ago. Fixed income securities lending is extremely small in Asia in comparison.

96% of the income is generated from the lending fee rather than from cash re-investment which is similar to Europe but a greater proportion than the 83% we see for lending US equities. Although the split between cash (mainly USD) and non cash collateral received is around 50:50, the Hong Kong lenders derive their revenue from a high lending fee rather than relying on the extra income from re-investing the cash. Unlike the US, they are not relying upon higher interest rates to boost the profitability from lending.

While the income from lending in the major markets is waning due to a steady reduction in demand to borrow (for reasons already chronicled), the daily return from lending in Hong Kong is slowly rising. This time last year the Data Explorers peer group were earning \$400k a day from lending HK equities. Right now this is over \$500k. This is not because investors are suddenly turning very negative leading to rising utilization, nor is it because we have added lots of new HK data during this period. The lending fee is also

steady. The reason is the rising value of the stock on loan due to the increase in equity values which is, in turn, increasing the income being generated. As equity markets rise in Asia so does the income from lending rise by the same tide.

There is every reason to think that Asia, and Hong Kong in particular, will see continually rising income from securities lending. It will ride on the coat tails of the popularity of Hong Kong as a place for companies to issue shares. Here is an interesting bit of evidence that HK is winning the IPO battle with London: in September 2007, institutions were making 1,900 UK small cap shares available for borrowing. Today, that figure has shrunk to 1,400 meaning the large asset managers have cleansed their portfolios of 500 UK companies.

In Hong Kong, it is other way round. Today, you can borrow 930 names outside the main index (HSI) compared to 808 this time 3 years ago. Not only have there been more IPO's in HK, but the new companies are being added to the portfolios of the large asset managers showing the degree to which these funds have moved to Asia as a place to invest.

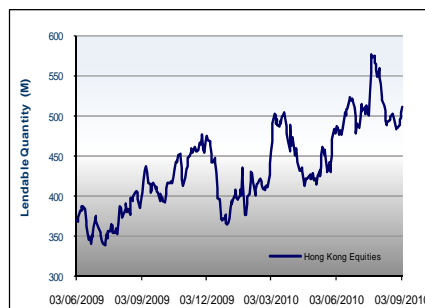
Given that short selling makes markets more efficient by increasing liquidity and price efficiency, the growth of securities lending in this corner of Asia has a wider benefit. It will play its part in encouraging more people to do what Fidelity's Anthony Bolton has done which is to decamp to Hong Kong preferring to cast his fly in their equity market rather than anywhere else.

We can see his point and are equally excited about the forthcoming opening of our office in Hong Kong. We have secured a stellar line up of experienced panelists and moderators from across

securities lending, beneficial owners and hedge funds for our Asian Securities Financing Forum which takes place in Hong Kong on 7th October. Not only will they address the themes raised above, there will be a lively discussion about many broader issues, such as the likely impact of regulation and the appetite for synthetic products in the region. Please visit www.dataexplorers.com/hongkong for the complete agenda and to register.

Will Duff Gordon

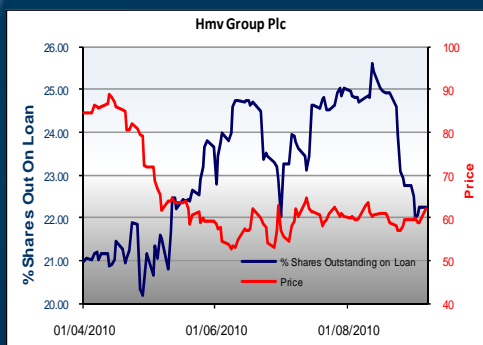
For more information on any of the stocks mentioned in this article, please contact news@dataexplorers.com



Securities Financing Forums
 Where global asset owners, agent lenders, prime brokers and hedge debate the future of securities lending.
 Hong Kong Forum - 7th October
 Dubai Forum - 11th November
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Stock of the Day: HMV Group Plc (HMV)

HMV is due to announce its interim management statement this week. Recent short covering in the stock can be observed.



% Total Shares Outstanding on Loan
 Price

Long Short Ratio: All Global Securities



06 Sep 10	Chg	%Chg	Week %Chg	52 Week High	52 Week Low
7.20	+0.02	+0.24%	+1.30%	7.34 (10-Aug-10)	6.26 (07-May-10)

This is a very simple way to understand whether the market is getting more or less short. It is derived by taking the institutional longs that are made available to borrow through the securities lending programs and divides this by what has been put out on loan.

DXI Global 50



The DXI™ Data Explorers family of indices tracks the change in securities lending, a proxy for short selling, in relation to shares outstanding of the largest companies in each region. The advantage of the DXI™ methodology is that it is not impacted by changes in price or by changes in trade volume so securities lending activity is not obscured by cash market movements.

The region-specific DXI™ US, UK, Europe (ex UK), Japan, and Asia (ex Japan) 30 each cover the securities lending loan base for the 30 largest market capitalised companies in each region, respectively.

The DXI Global 50 is made up of the 50 largest companies from the five regional indices.

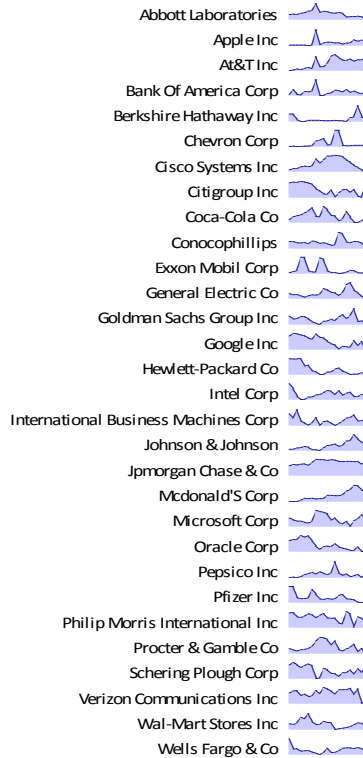
A rising DXI™ index represents a relative increase in quantity on loan (i.e. short selling) while a falling index highlights a decrease in the quantity on loan (i.e. short covering).

Each index has a base as of 6 January 2010 and is rebalanced quarterly. The indices are not weighted.

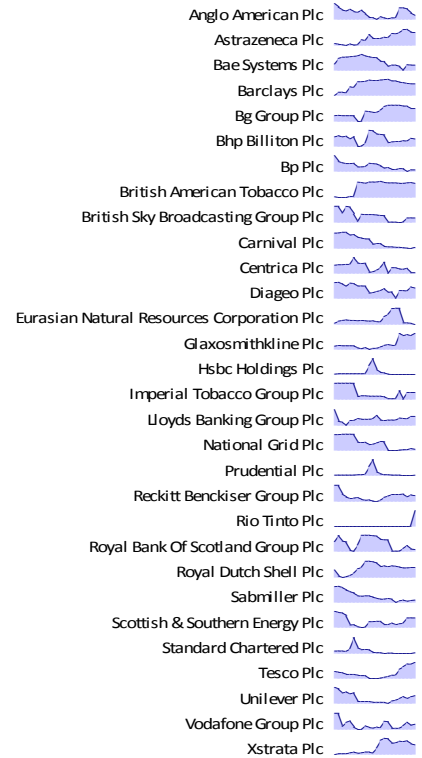
The chart for each index component shows the percent shares outstanding on loan for each company. *Note: this is not to a common scale but rather shows the trend over the past 22 trading days.*

For more information please contact Data Explorers.

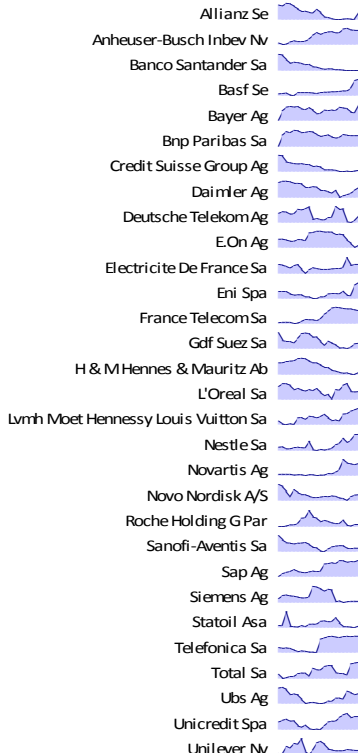
DXI US 30



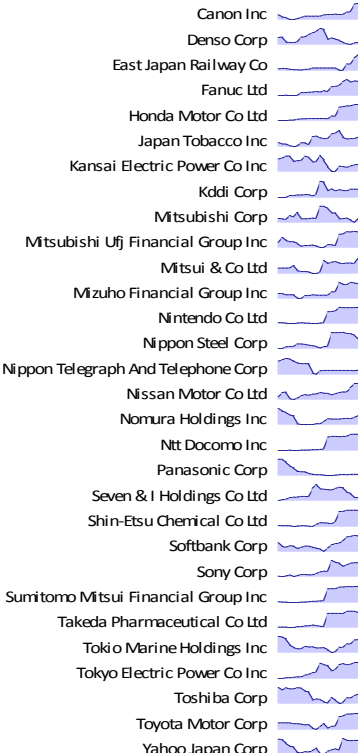
DXI UK 30



DXI EU xUK 30



DXI Japan 30



DXI Asia xJP 30



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