

Securities Finance Report



Steel yourself

Steel has always fascinated me. Andrew Carnegie was the world's greatest philanthropist and his company today is United States Steel (X). People are shorting global steel companies so let's take a closer look at **X**, **Angang Steel (0347)**, and **ArcelorMittal (MT)**.

Europe's richest man, Lakshmi Mittal, sits atop of an incredibly successful behemoth that dominates European, if not global, iron and steel output. Short sellers are not making directional bets that **ArcelorMittal (MT)** is in trouble but there is some short selling against its convertible debt instruments, issued in April 09. The company issued a USD and a Euro share class of this debt and both are attractive given the euro line is already "in the money" and the dollar bond is close to this level. Many institutional investors consider a bond backed by a very solid company that pays 5 - 7.25% annual interest and can be converted into shares at a discount to the share price to be an attractive investment. Lending funds own 16% of the combined issue.

The company has been guiding down its H2 earnings estimates to below consensus expectations. Is this caution or foreboding of genuine Chinese contraction? (with apologies for the finance jargon). Funds who lend own 11.2% of the issued ordinary shares which has been gently reducing over the past 6 months. It is actually the credit market rather than the equity market who are making the most signals. Of **MT's** 12 most liquid plain corporate bonds, 6 have seen an increase in borrowing over the past year, 4 have seen a reduction and the rest no change. There could be arbitrage trades here rather than plain directional. Either way, **MT** is a very interesting company whether you are an equity or debt investor.

Meanwhile, my eye was caught by HK and China listed **Angang Steel (0347)**. When I was last in Hong Kong in 2007 this company was the most shorted and history is repeating itself. At that stage the short sellers were right but too early and closed their shorts too soon. On the eve of my return for the Data Explorers *Hong Kong Securities Financing Forum* on the 7th October, 15% of total shares are on loan which is close to a 3 year high pointing to significant pessimism. In the other corner, stand the international fund managers who have been increasing their shares in 0347 since November to 3 year high of 18% of the company. I did say steel yourself! Either there is a huge arbitrage being played by the short sellers or they are genuinely betting against what looks to be a good outlook for the company according to recent H1 announcements.

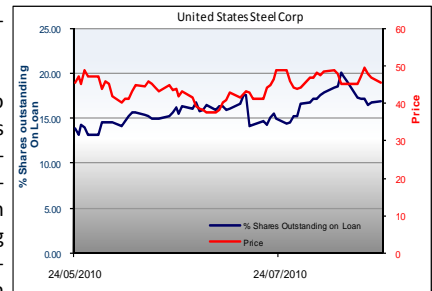
In stark contrast to the way UK politicians do not interfere with foreign investment, it was interesting to see the reaction of the proposed **Angang** investment in the US. A bipartisan group of 50 US lawmakers called for an investigation according to Reuters regarding the company's Mississippi based joint venture. This led to an immediate pull out from the Asian steel company.

Manshaan Iron and Steel has similar prospects to Angang but is a slightly smaller firm. Manshaan sees significant short covering from close to a 2 year high to 11% since late May. Taiwan listed **China Steel (2002)** shows similarly drastic short covering of late.

The "star spangled Scotsman" would not be impressed with all of this short term worrying over the share price of his old company (X) but worry we must. Bullish analysts predict a price target of \$60+ for **United States Steel (X)** and yet today's price is \$46 and short interest is 17% of total shares. Long only managers have bought some more shares in X as it slid to below \$40 in June and they now own 39% of issues shares which is very high. Value investors clearly think X is cheap while short sellers beg to differ.

Will Duff Gordon

For more information on any of the stocks mentioned in

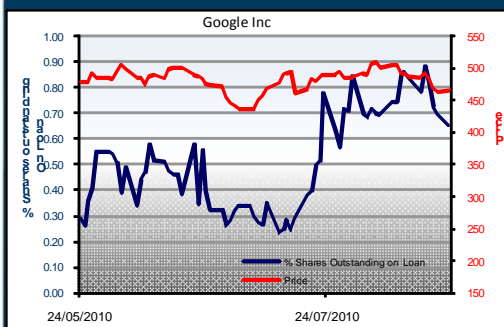


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Stock of the Day: Google (GOOG)

Google has seen its short interest triple as of late. A significant rise from a small base.



% Total Shares Outstanding on Loan

Long Short Ratio: All Global Securities



| 23 Aug 10 | Chg | % Chg | Week % Chg | 52 Week High | 52 Week Low |
|-----------|-------|--------|------------|------------------|------------------|
| 7.18 | -0.00 | -0.05% | -1.48% | 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

DXI Global 50



DXI US 30



DXI UK 30



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.

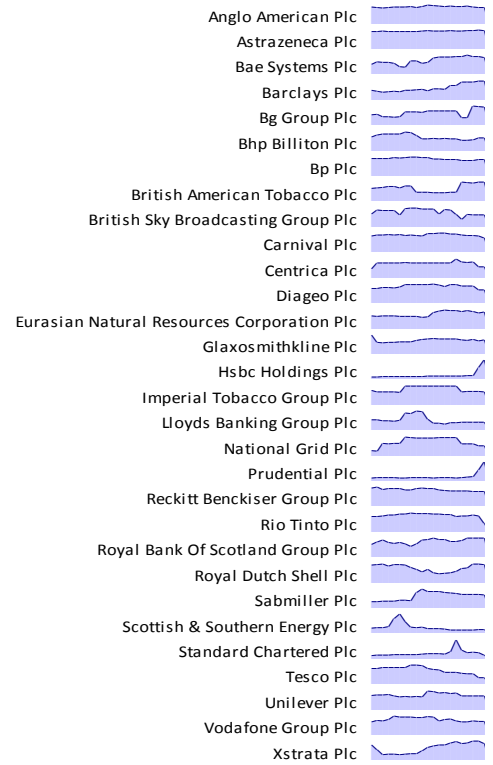
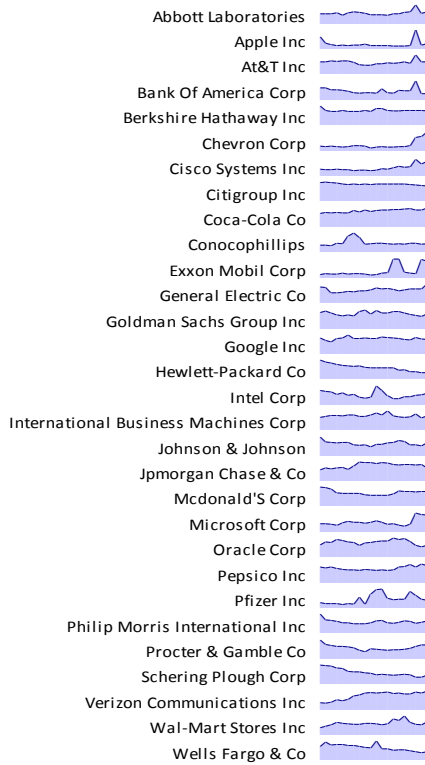
The DXI Global 50 is made up of the 50 largest companies from the five regional indices.

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).

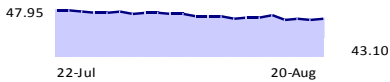
Each index has a base as of 6 January 2010 and is rebalanced quarterly. The indices are not weighted.

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.



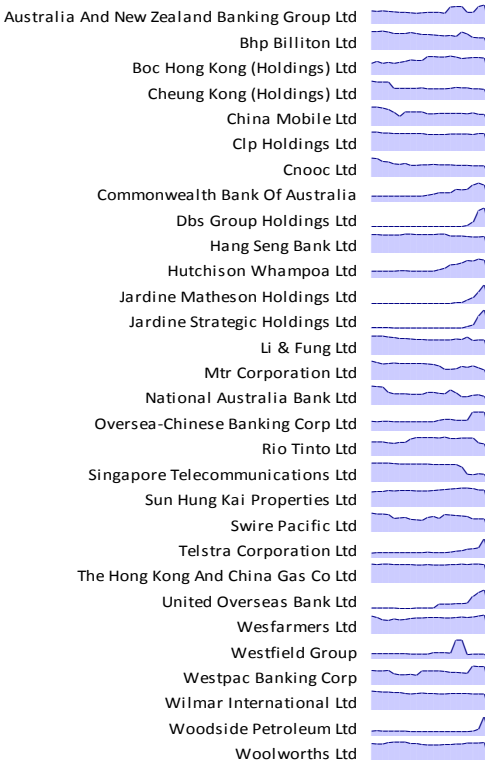
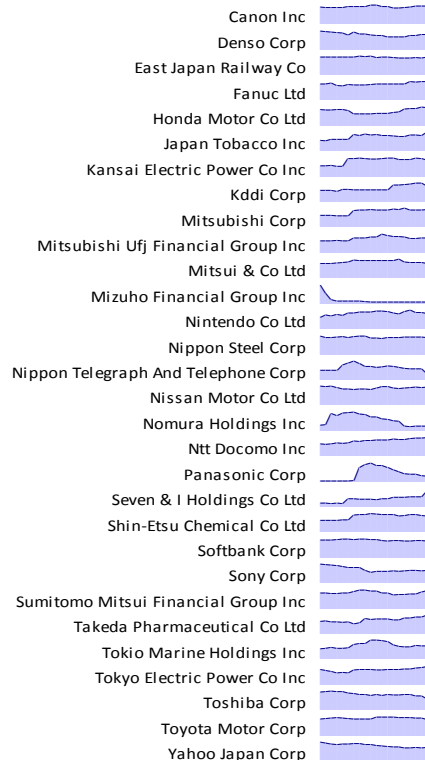
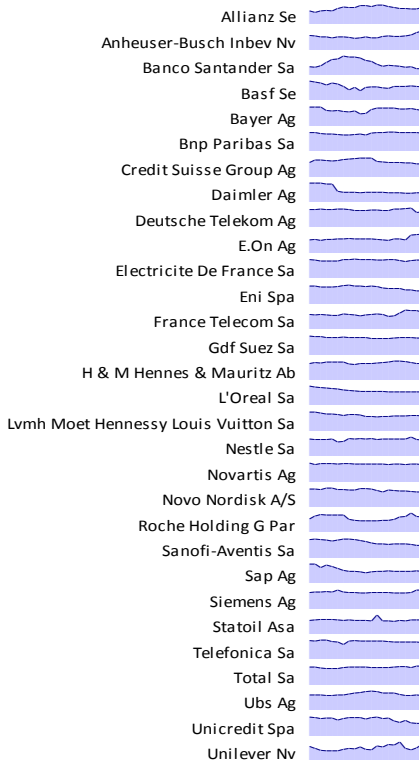
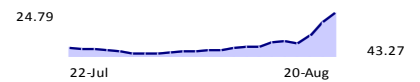
DXI EU xUK 30



DXI Japan 30



DXI Asia xJP 30



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