31 August 2010

Securities Finance Report

Cash versus commercial paper and CDs

We have stumbled upon a new trend that could be of interest. The amount of commercial paper and related "near cash" instruments held by Custodians could be a barometer of confidence and expectations of economic recovery. We have seen a quadrupling of inventory in these cash like instruments over the past six months.

Commercial paper (CP) and certificates of deposit (CDs) are very safe assets to own. They are issued by corporate who need to raise short term cash and they are sold at a slight discount to the value that they are redeemed at. They typically pay no interest. As such, they are low down on the list of attractive assets to own.

Securities lending has been an important market for commercial paper. The cash collateral that is received against the loans can be reinvested in money market funds and/or things like commercial paper. That has been the normal use case for CP for Custodians for some time.

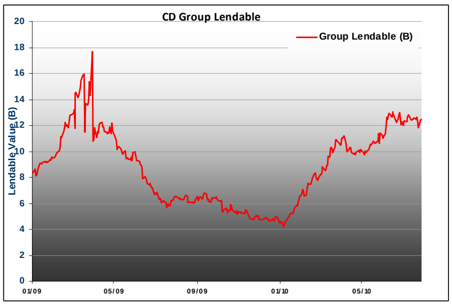
So it is interesting to note that Custodian's have seen an increase in their CP holdings over the last 6 months from \$4bn to \$12bn. It was last this high in Q1 2009 when confidence was extremely low. One guesses that the reason is the incredibly low yield from holding cash or T-Bills.

If you are a large asset manager and a transition in your portfolio results in a large amount of cash being held for a short period, what do you do if you want a very safe asset that pays some form of yield? The present answer seems to be CP. But, during the second half of last year, inventory in commercial paper was declining. This was presumably because the markets were strongly rebounding and many opportunities to house cash existed. That CP inventory is increasing again implies that the same opportunities no longer exist – interest rates are no different to this time last year when CP was declining so it can't be merely due to the low interest rate environment.

However, commercial paper is not as safe as cash, especially since the Fed stopped its financing (guaranteeing) in February this year. Yet, the cessation of this quasi guarantee has not stopped the increase in popularity of commercial paper. If we look at the graph of what we call "liquid assets" inventory (i.e commercial paper and certificates of deposit) the increase coincides with periods of stock market weakness and then it reduces when confidence returns. Today's level has flattened out a little but the direction it takes from here could be a harbinger of things to come.

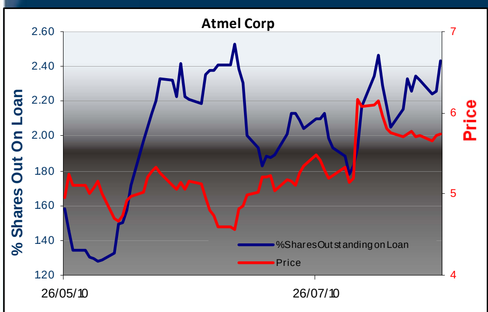
Will Duff Gordon

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



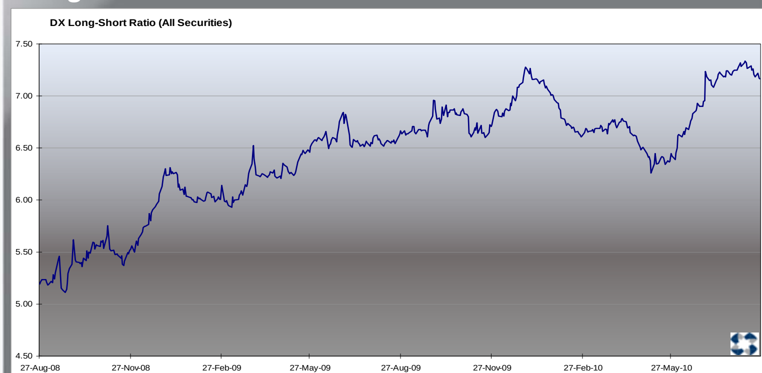
Stock of the Day: Atmel (ATML)

The short base has doubled in the past few months following some strong returns.



% Total Shares Outstanding on Loan
Price

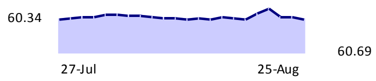
Long Short Ratio: All Global Securities



25 Aug 10	Chg	% Chg	Week % Chg	52 Week High	52 Week Low
7.16	-0.01	-0.12%	-1.28%	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.

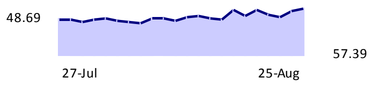
A rising DXI™ index represents a relative increase in quantity on loan (i.e. short selling) while a falling index highlights a decrease in the quantity on loan (i.e. short covering).

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

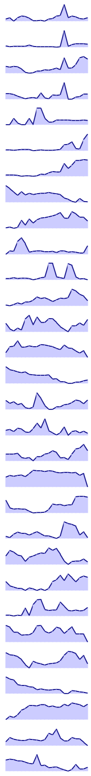
The chart for each index component shows the percent shares outstanding on loan for each company. *Note: this is not to a common scale but rather shows the trend over the past 22 trading days.*

For more information please contact Data Explorers.

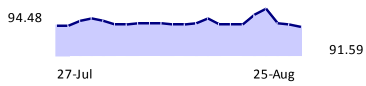
DXI US 30



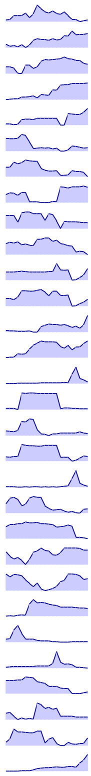
Abbott Laboratories
Apple Inc
At&T Inc
Bank Of America Corp
Berkshire Hathaway Inc
Chevron Corp
Cisco Systems Inc
Citigroup Inc
Coca-Cola Co
Conocophillips
Exxon Mobil Corp
General Electric Co
Goldman Sachs Group Inc
Google Inc
Hewlett-Packard Co
Intel Corp
International Business Machines Corp
Johnson & Johnson
Jpmorgan Chase & Co
Mcdonald'S Corp
Microsoft Corp
Oracle Corp
Pepsico Inc
Pfizer Inc
Philip Morris International Inc
Procter & Gamble Co
Schering Plough Corp
Verizon Communications Inc
Wal-Mart Stores Inc
Wells Fargo & Co



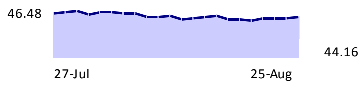
DXI UK 30



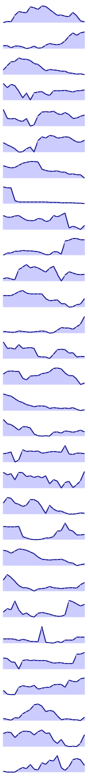
Anglo American Plc
Astrazeneca Plc
Bae Systems Plc
Barclays Plc
Bg Group Plc
Bhp Billiton Plc
Bp Plc
British American Tobacco Plc
British Sky Broadcasting Group Plc
Carnival Plc
Centrica Plc
Diageo Plc
Eurasian Natural Resources Corporation Plc
Glaxosmithkline Plc
Hsbc Holdings Plc
Imperial Tobacco Group Plc
Lloyds Banking Group Plc
National Grid Plc
Prudential Plc
Reckitt Benckiser Group Plc
Rio Tinto Plc
Royal Bank Of Scotland Group Plc
Royal Dutch Shell Plc
Sabmiller Plc
Scottish & Southern Energy Plc
Standard Chartered Plc
Tesco Plc
Unilever Plc
Vodafone Group Plc
Xstrata Plc



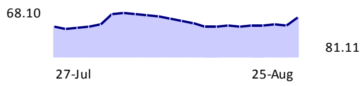
DXI EU xUK 30



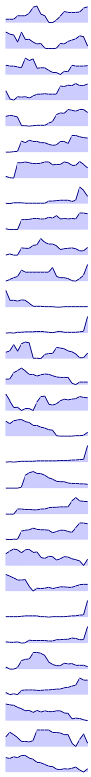
Allianz Se
Anheuser-Busch Inbev Nv
Banco Santander Sa
Basf Se
Bayer Ag
Bnp Paribas Sa
Credit Suisse Group Ag
Daimler Ag
Deutsche Telekom Ag
E.On Ag
Electricite De France Sa
Eni Spa
France Telecom Sa
Gdf Suez Sa
H & M Hennes & Mauritz Ab
L'Oreal Sa
Lvmh Moet Hennessy Louis Vuitton Sa
Nestle Sa
Novartis Ag
Novo Nordisk A/S
Roche Holding G Par
Sanofi-Aventis Sa
Sap Ag
Siemens Ag
Statoil Asa
Telefonica Sa
Total Sa
Ubs Ag
Unicredit Spa
Unilever Nv



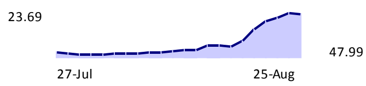
DXI Japan 30



Canon Inc
Denso Corp
East Japan Railway Co
Fanuc Ltd
Honda Motor Co Ltd
Japan Tobacco Inc
Kansai Electric Power Co Inc
Kddi Corp
Mitsubishi Corp
Mitsubishi Ufj Financial Group Inc
Mitsui & Co Ltd
Mizuho Financial Group Inc
Nintendo Co Ltd
Nippon Steel Corp
Nippon Telegraph And Telephone Corp
Nissan Motor Co Ltd
Nomura Holdings Inc
Ntt Docomo Inc
Panasonic Corp
Seven & I Holdings Co Ltd
Shin-Etsu Chemical Co Ltd
Softbank Corp
Sony Corp
Sumitomo Mitsui Financial Group Inc
Takeda Pharmaceutical Co Ltd
Tokio Marine Holdings Inc
Tokyo Electric Power Co Inc
Toshiba Corp
Toyota Motor Corp
Yahoo Japan Corp



DXI Asia xJP 30



Australia And New Zealand Banking Group Ltd
Bhp Billiton Ltd
Boc Hong Kong (Holdings) Ltd
Cheung Kong (Holdings) Ltd
China Mobile Ltd
Clp Holdings Ltd
Cnooc Ltd
Commonwealth Bank Of Australia
Dbs Group Holdings Ltd
Hang Seng Bank Ltd
Hutchison Whampoa Ltd
Jardine Matheson Holdings Ltd
Jardine Strategic Holdings Ltd
Li & Fung Ltd
Mtr Corporation Ltd
National Australia Bank Ltd
Oversea-Chinese Banking Corp Ltd
Rio Tinto Ltd
Singapore Telecommunications Ltd
Sun Hung Kai Properties Ltd
Swire Pacific Ltd
Telstra Corporation Ltd
The Hong Kong And China Gas Co Ltd
United Overseas Bank Ltd
Wesfarmers Ltd
Westfield Group
Westpac Banking Corp
Wilmar International Ltd
Woodside Petroleum Ltd
Woolworths Ltd