



ITG'S LIQUIDITY BAROMETER – MAY 2010

SUMMARY

- **Liquidity up, volumes up - trading data indicates Asia is weathering European credit storm so far...**

Throughout April an increase in liquidity and strong average trading volumes across the six largest AP markets suggested that the credit storm currently engulfing the EU is taking some time to reach Asia. This is further illustrated by the upward revision of expected GDP numbers across the region, and the strengthening of many currencies (with the notable exception of the Japanese yen) against the US dollar. The effect of rising trading volumes in April also led to stable or slightly lower spreads for all markets other than Taiwan. However, lower index valuations for Asian markets in late April may indicate forthcoming drops for May's full-month analysis.

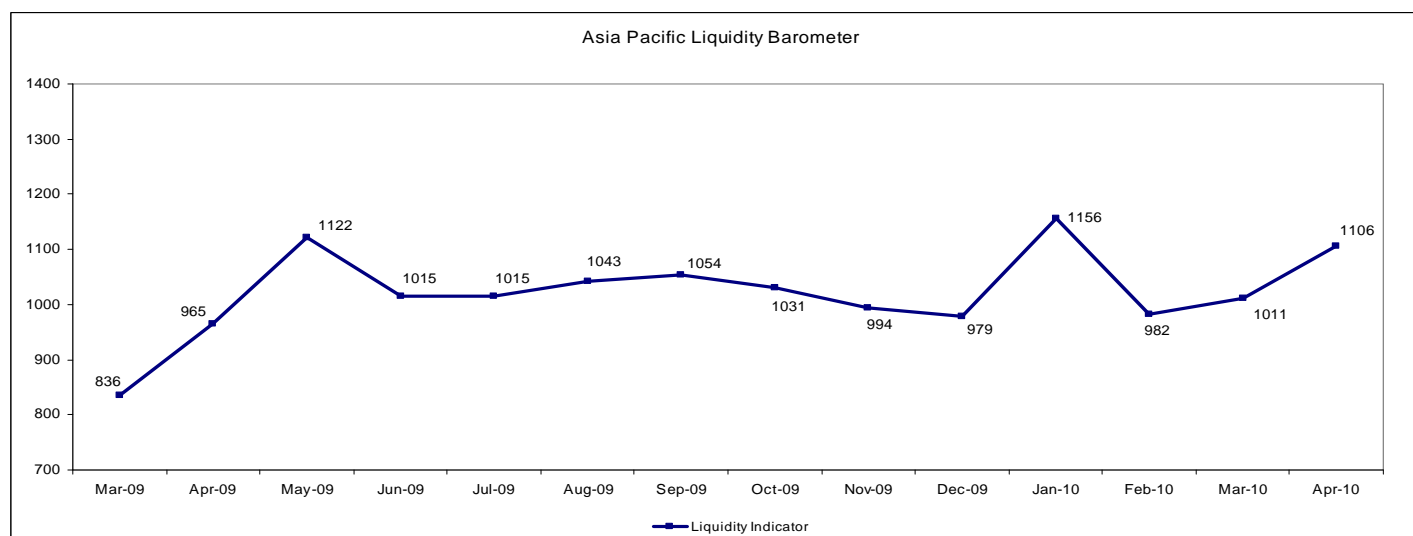
- **Some Asia Pacific market structures are edging closer to US & Europe in terms of electronic trading**

The predominant Asian markets for electronic trading continue to be Korea, Japan and Australia, where typical trade sizes are the lowest in Asia (20, 300 and 311 shares respectively), while spreads in April were maintained or trended slightly lower in those markets (28, 20, and 25 bps respectively).

Japan is also witnessing a continued erosion of auction volumes since the introduction of its low latency Arrowhead system, while spreads are maintaining a tight standard deviation. With regulation changes in both Australia and Japan later this year expected to enhance competition in alternative venues, we predict these markets will become the first movers of electronic trading technology in Asia as the market microstructure model converges to look more like the western markets of the U.S. and Europe. This is compounded by drops in trading costs in those two markets.

- **Trading costs stabilise –higher than other regions, though Japan and Australia becoming competitive**

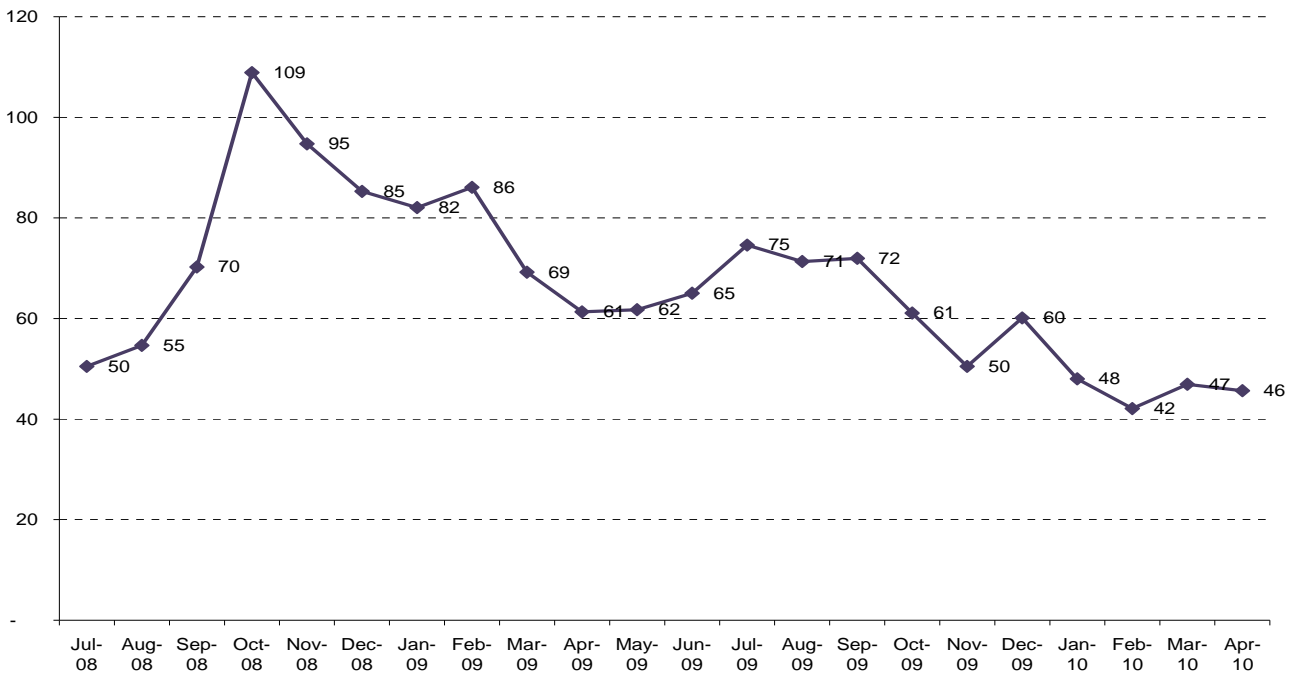
Implementation shortfall trading costs are stabilizing around 50-60 bps for trading Hong Kong, Korea, Singapore and Taiwan, while Australia and Japan are lower at around a 30-40 bps average.



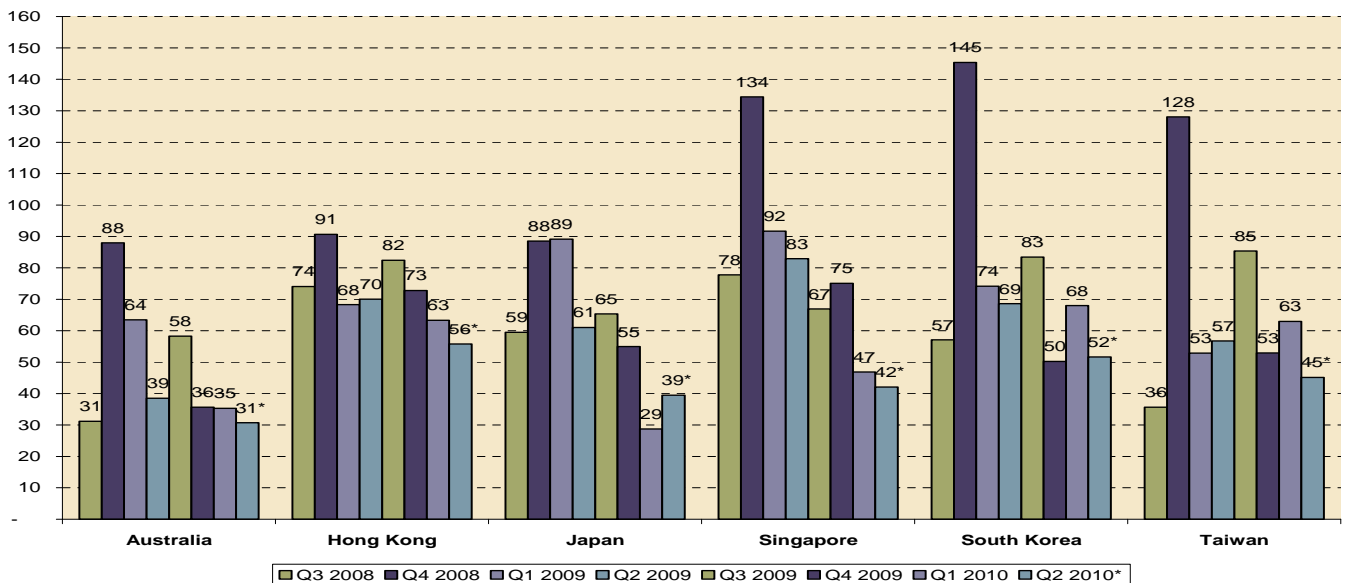
TRADING COSTS

- Average transaction costs for developed Asia have been stable in April showing only a 1bps decline to 46 bps
- Australia (31bps), Singapore (42bps), Korea (52bps) and Taiwan (45bps) all had declining trading costs relative to March, and to the 1st quarter average
- April costs for Hong Kong (56bps) were slightly higher than March but lower than the market's Q1 average
- Japan (39bps) exhibits no change relative to March and a slight gain compared to average Q1 results, though we believe the reason for the higher cost is the smaller sample size currently available for April and this number may be revised back down in the next issue of the liquidity barometer, when a fuller data set has been submitted.

Weighted Average Transaction Costs Across Developed Asia



Developed Asia Transaction Cost by Quarter

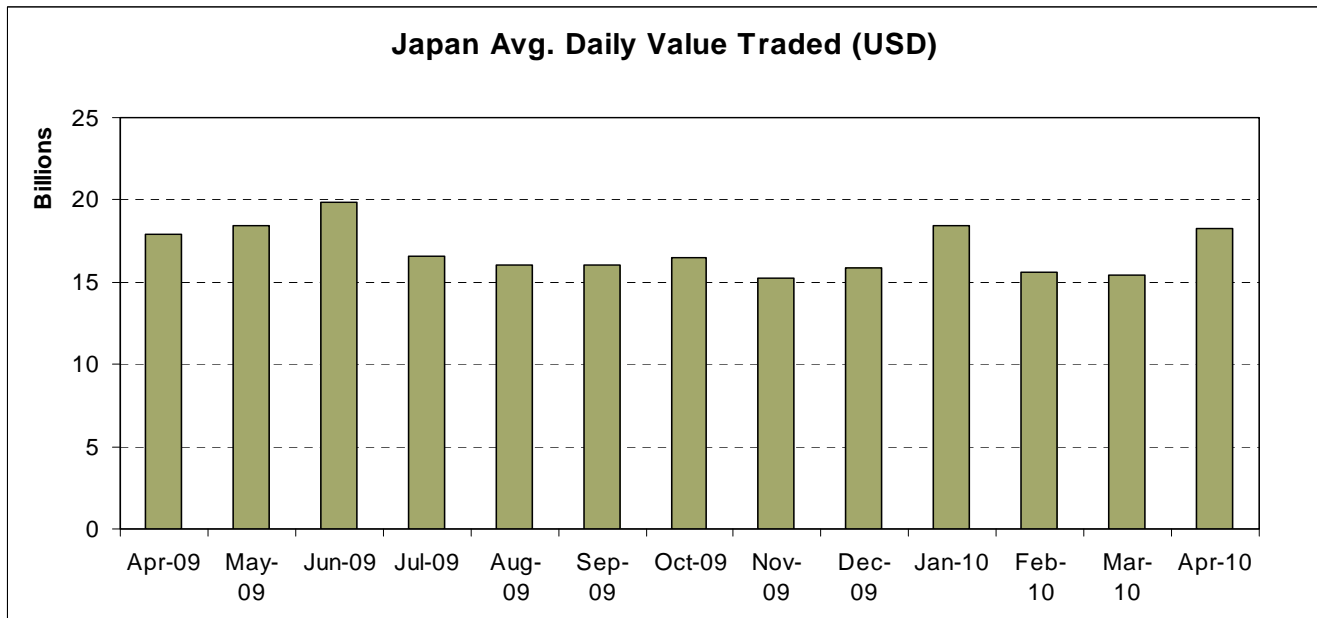
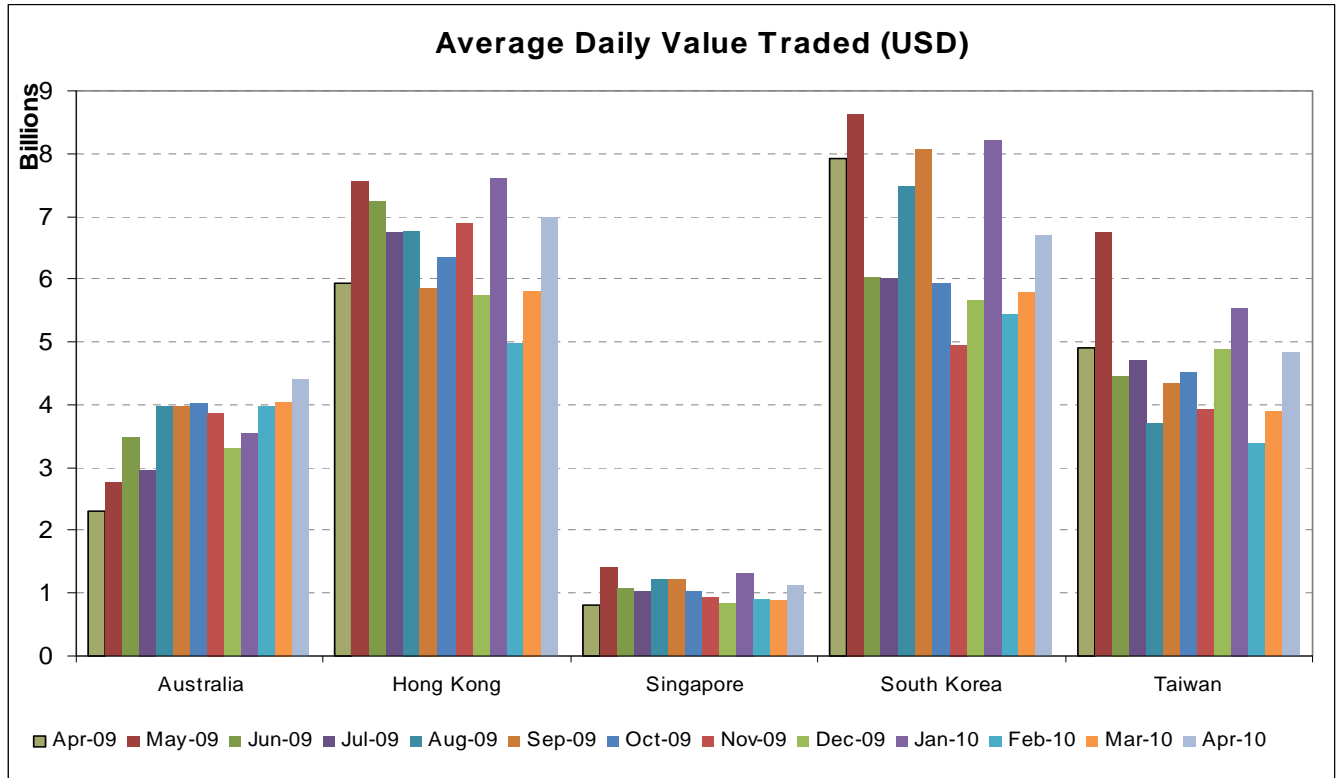


* Q2 2010 data is based on April costs only

MARKET SIZE AND TURNOVER

- All six markets have displayed higher turnover (between 10% and 27%) in April compared to March
- Australia, Hong Kong, Singapore and Japan also displayed higher turnover compared to this time last year

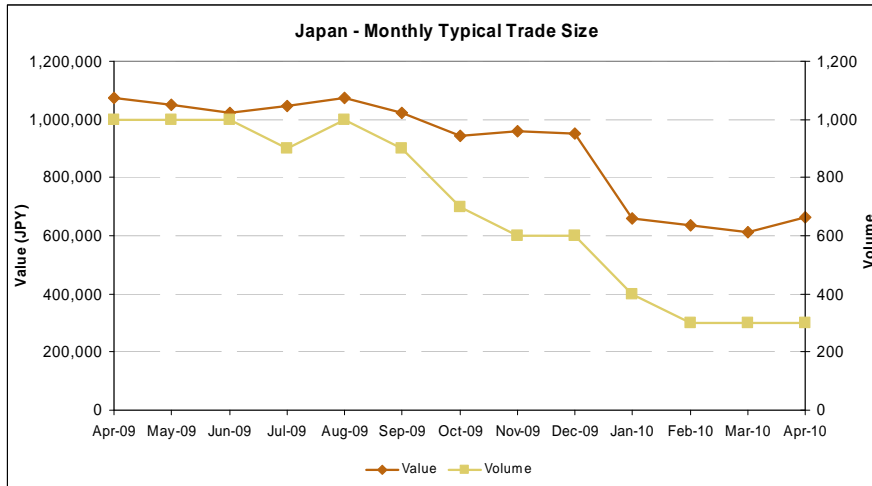
Average Daily Traded Values (\$US)



MARKETS IN DETAIL

JAPAN

Typical trade size

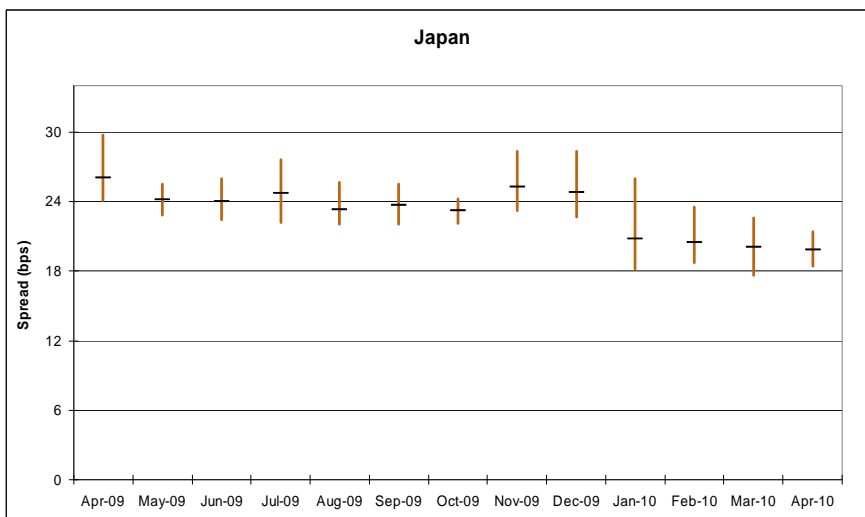


- Japan still has the lowest expected GDP growth in developed Asia, and is battling chronic deflation. Still, a slight devaluation of the Yen in April contributed to increased trading activity

- Average Daily Turnover rose by 18% month on month to US\$18 billion

- Typical trade size remained stable at 300 shares

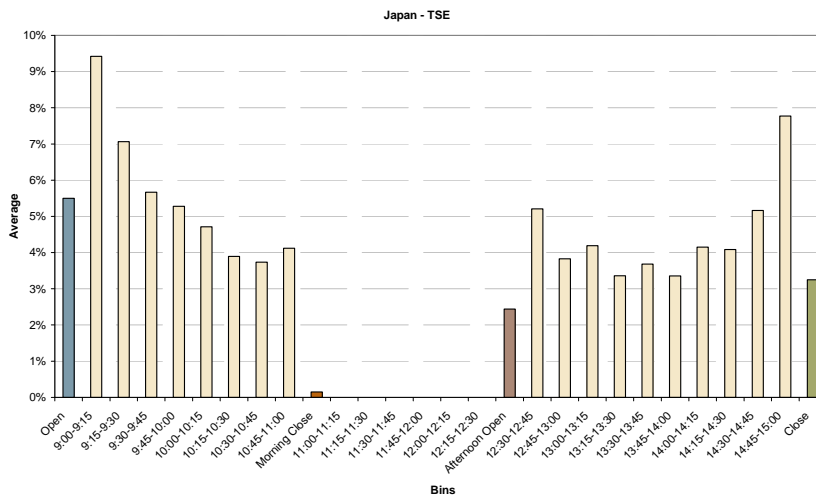
Spread profile



- Spreads remained stable at 20bps with a tighter standard deviation

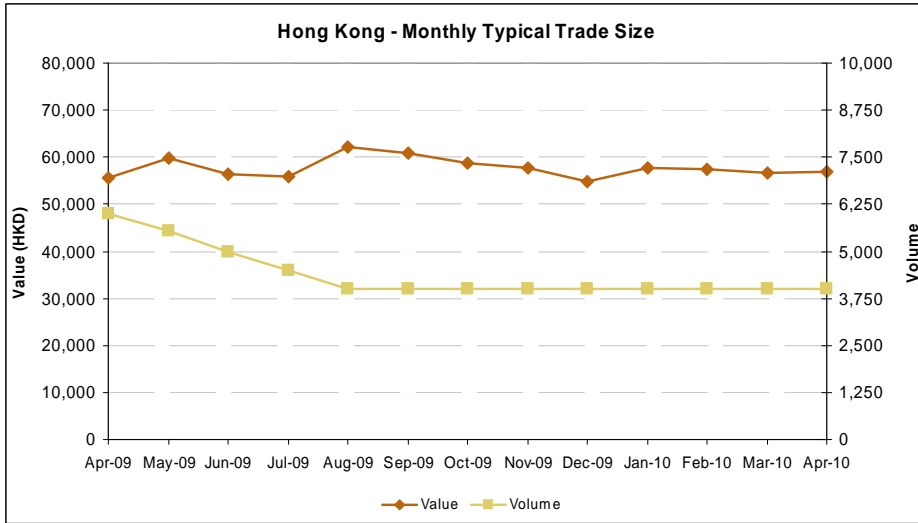
- With one of the lowest typical trade sizes in Asia, tight spreads, pending changes to clearing systems for PTSs (ATSS), and the low latency system put in place by the TSE, we see Japan as one of the most attractive electronic trading markets in Asia and likely to attract high frequency trading which will continue to drive turnover.

VWAP profile (TSE – other Japanese markets available on request)



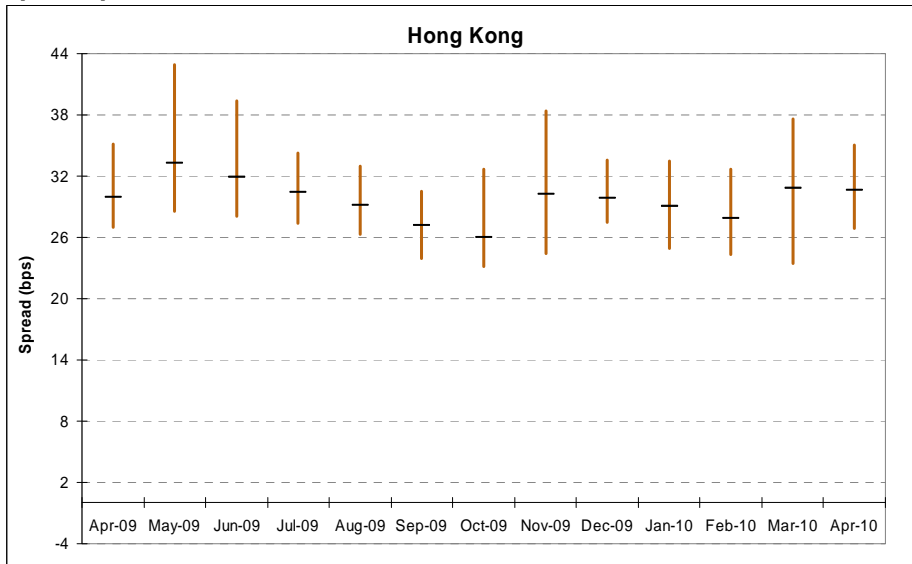
HONG KONG

Typical trade size

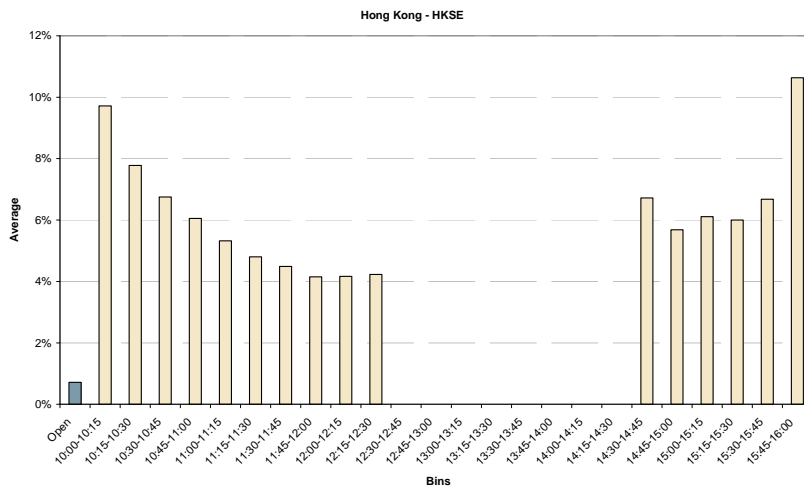


- Turnover up 20% in April, to a daily average of US\$7 billion
- Typical trade size is consistent at 4 lots
- Spreads remained slightly elevated at 30 bps, although with tighter standard deviation.

Spread profile

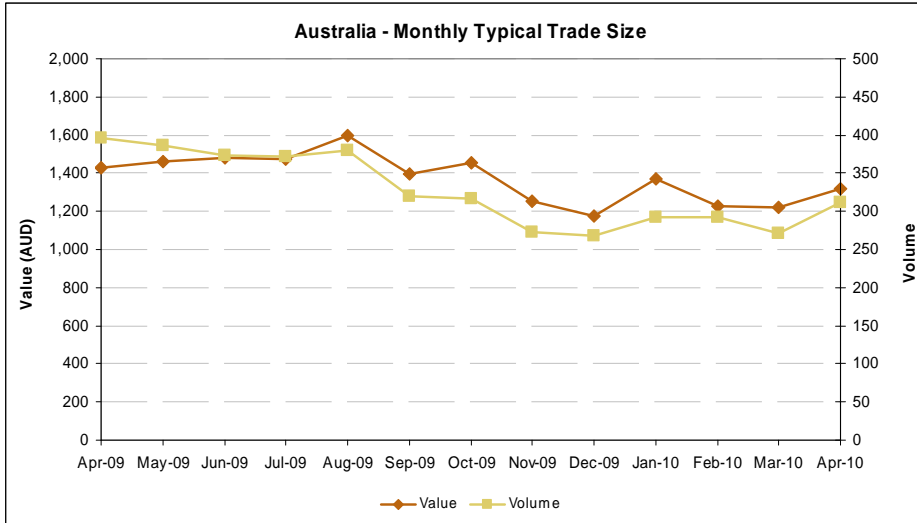


VWAP profile HKSE



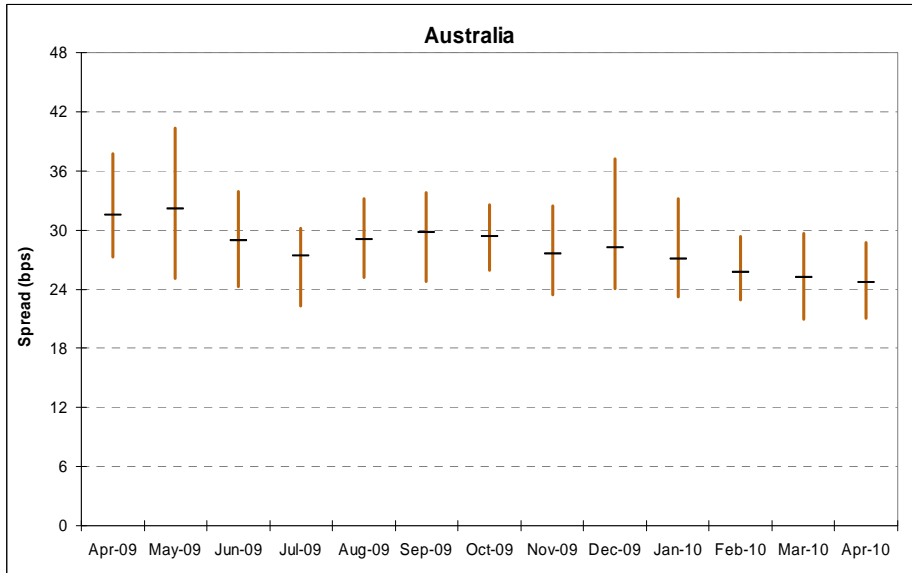
AUSTRALIA

Typical trade size

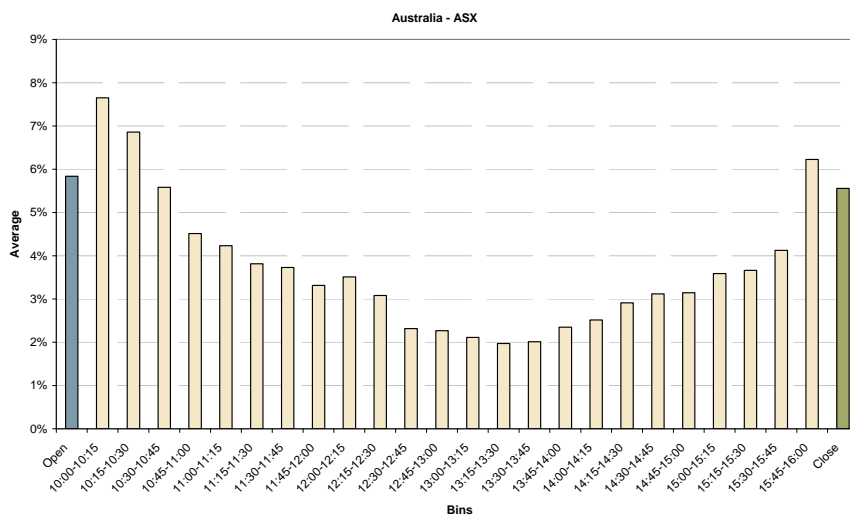


- Turnover up 10% in April, to a daily average of US\$4.4 Billion
- Typical trade size rose above the 300 shares (to 311) for the first time since October of 2009
- Spreads remained at 25 bps albeit with slightly lower standard deviation.
- These trends will play a vital role in assessing the impact of the upcoming introduction of additional execution venues in Australia and changes to the ASX's trading platform.

Spread profile

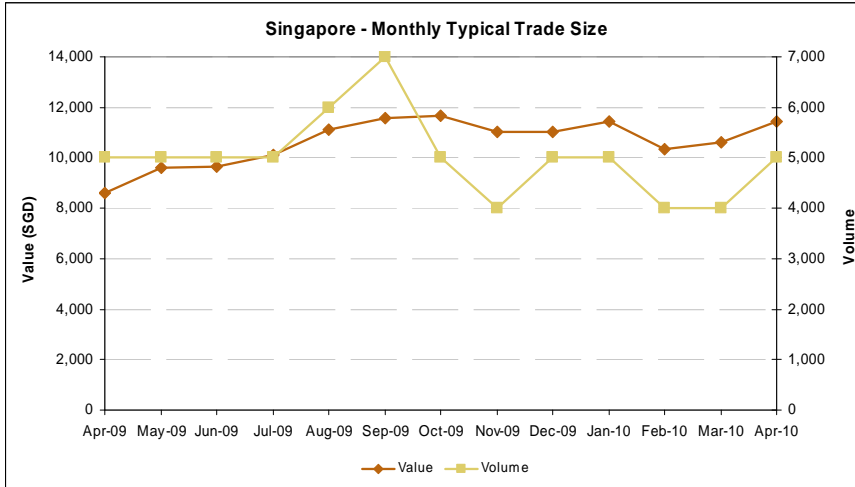


VWAP profile ASX



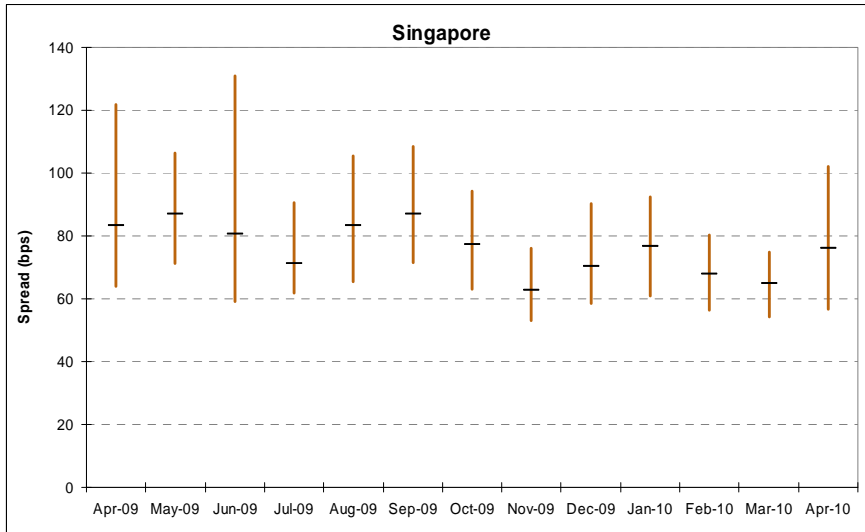
SINGAPORE

Typical trade size

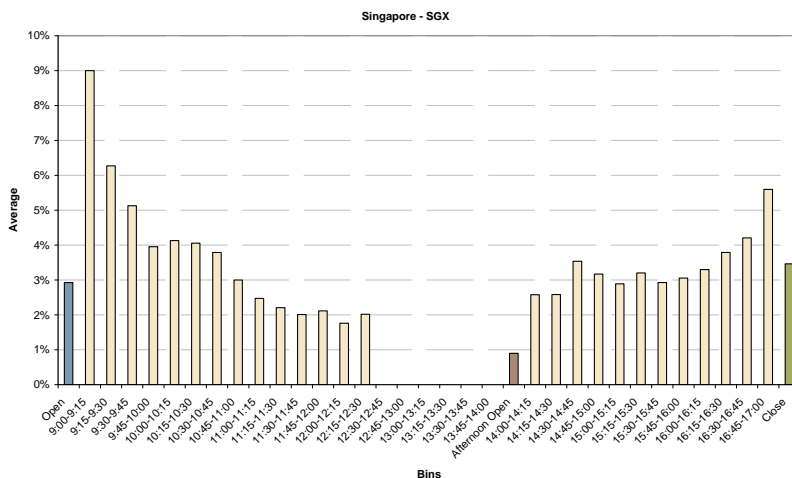


- Turnover up 27% in April, to a daily average of US\$1.1 Billion
- Typical trade size is fluctuating between the 4000 to 5000 shares
- Average spreads increased by 17% to 76 bps with significant growth in standard deviation (highest since Oct 2009). This reverses a trend of lower spreads and lower standard deviation that started in January 2010 maintaining Singapore's status as the Asian market with the widest spreads by quite some way.

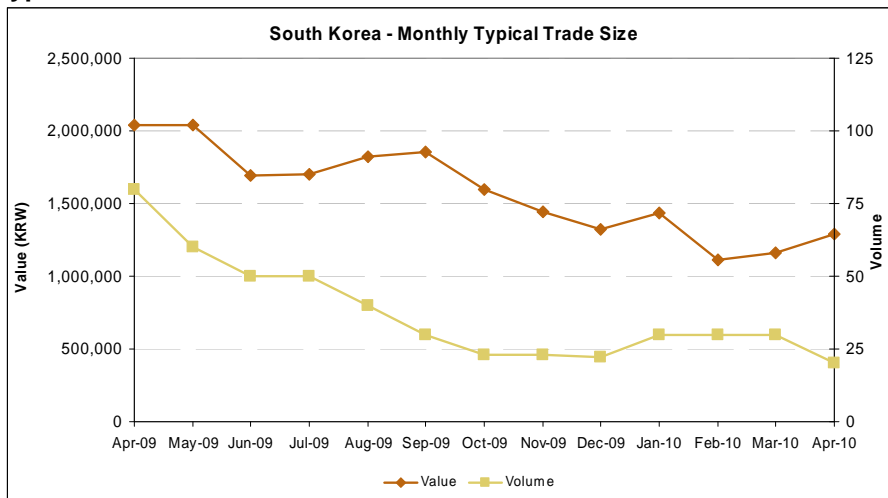
Spread profile



VWAP profile SGX

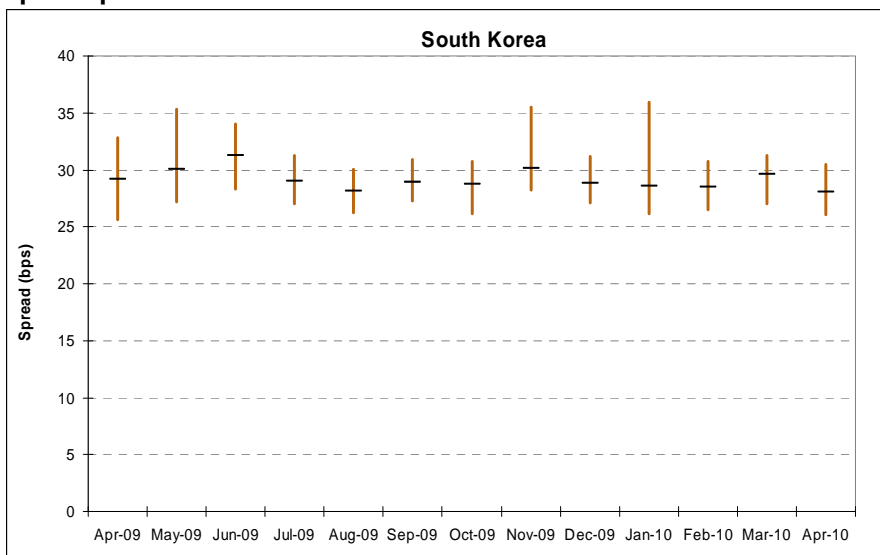


KOREA Typical trade size

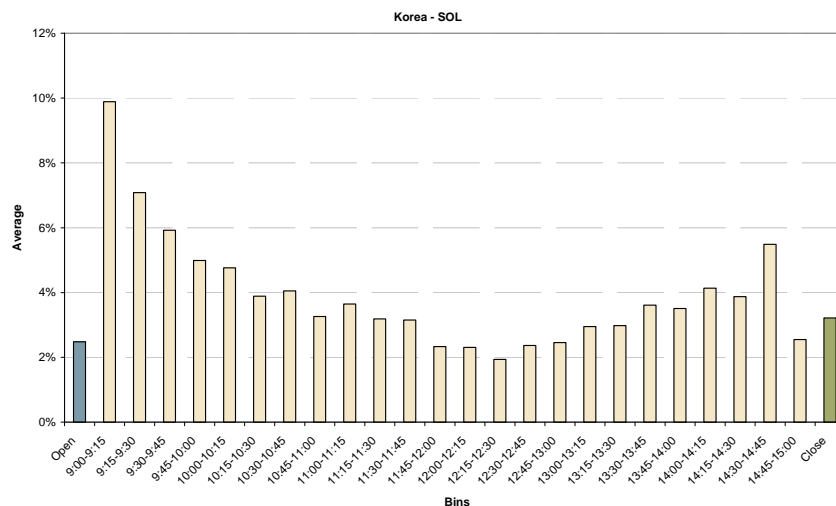


- Turnover up 15% in April, to a daily average of US\$6.7 Billion
- Typical trade size came down to 20 shares on average.
- Spreads came down from the March high of 30 bps to 28 bps (consistent since Dec). Standard deviation has remained at a low level.

Spread profile

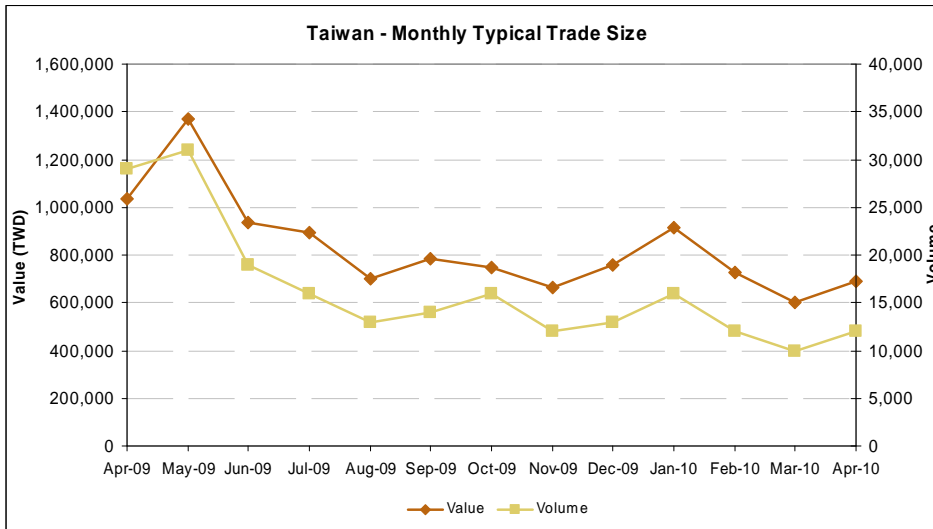


VWAP profile SOL



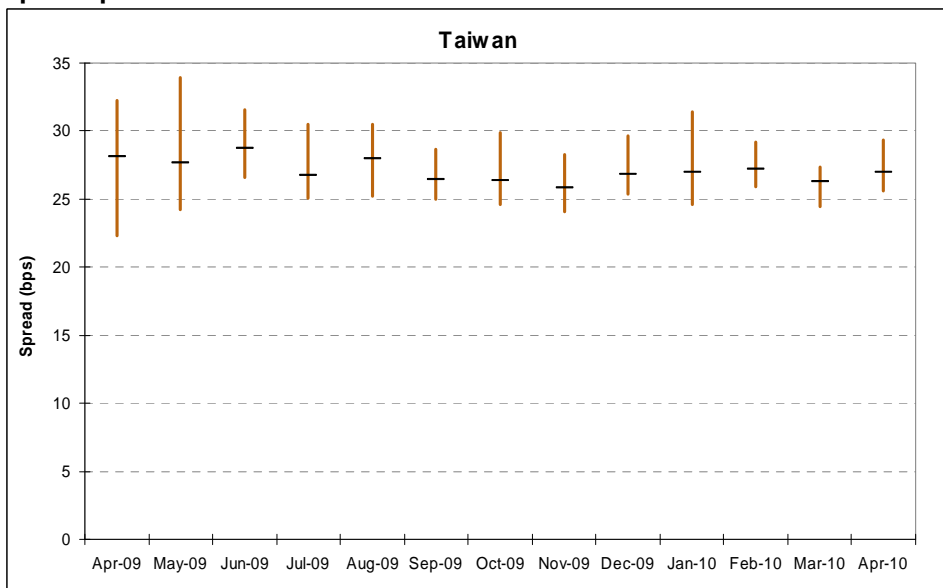
TAIWAN

Typical trade size

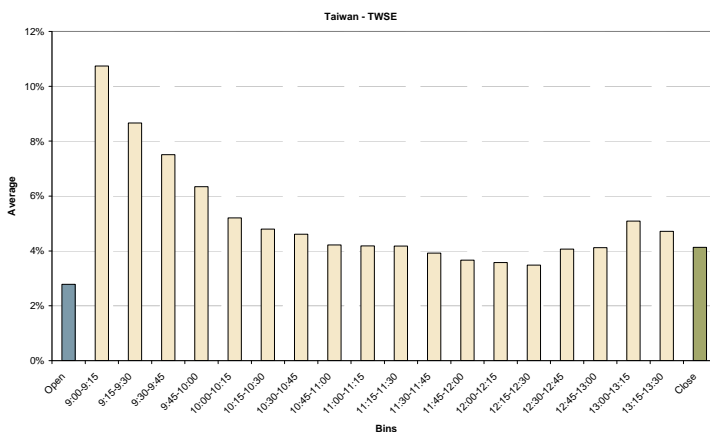


- Turnover up 24% in April, to a daily average of US\$4.8 Billion
- After a few months of trending down, typical trade sizes climbed back to a 12,000 share average. The exchange system of matching only every 20 seconds keeps this figure particularly high.
- Spreads trended slightly up to 27 bps (from 26 bps). Spread standard deviation has remained low

Spread profile



VWAP profile TWSE



MACRO MARKET INFORMATION

Going forward ITG's Asia Pacific Liquidity Barometer will also include macro-level market information which may be referred to as an illustration of certain market and trading trends:

- Japan consensus estimate of GDP growth revised up to 2.1% from 1.9% while deflation expectation came down to -1.2% from -1.25%
- Hong Kong consensus estimate of GDP growth revised up to 5.25% from 4.25%
- Singapore inflation expectation went up to 2.45% from 2.4%
- South Korea consensus estimate of GDP growth revised up to 5.3% from 5.25%; while inflation expectation came down to 2.75% from 2.8%
- USD strengthen against the Yen while weakening against AUD, SGD, KRW, and TWD

	FX US\$1 (March)	FX US\$1 (April)	Central Bank Rate	GDP (2009)	GDP (2010 exp)	CPI (2009)	CPI (2010 exp)
AU	1.0958	1.0790	4.50%	1.33%	3.47%	1.85%	2.73%
JP	90.57	93.45	0.10%	-5.20%	2.10%	-1.35%	-1.20%
HK	7.7613	7.7629	0.50%	-2.70%	5.25%	0.52%	2.30%
SG	1.4	1.3819	0.69%	-1.98%	6.50%	0.62%	2.45%
KR	1136	1116	2.00%	0.20%	5.30%	2.80%	2.75%
TW	31.83	31.48	1.25%	-1.87%	4.72%	-0.87%	1.34%

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