



## ITG'S LIQUIDITY BAROMETER – JULY 2010

### SUMMARY

- **Blame it on the sunshine, blame it on the World Cup, blame it on vacations, blame the remnimbi? However you want to look at it, liquidity in June was down across Asia.**

Despite a positive macro-level picture in Asia with upward revisions of year on year GDP growth and controlled inflation, investor's fears of a global "double dip" appear to be growing. Uncertainty about the impact of ongoing credit instability and China's ability to continue to drive growth in the global economy led investors to react to every bit of good or bad news from Europe and the U.S., creating a stuttering market. And without clear direction, more and more investors chose to keep away from Asian markets and seek a safe haven in the US dollar, which strengthened in June against most Asian currencies with the exception of the Yen.

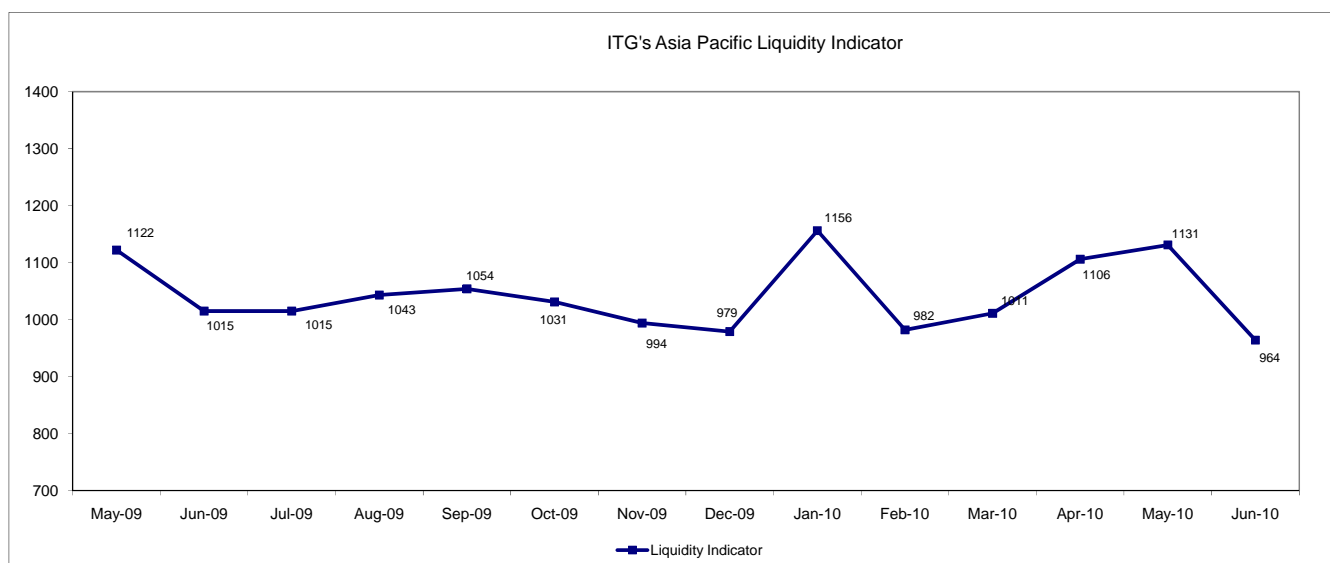
The net result was that **liquidity and turnover were down across major Asian markets** by an average of 15% month over month and down 5% compared to June 2009. Turnover volumes dropped by 26% month over month and 23% compared to June 2009. Several markets - Japan, Hong Kong, Singapore and Taiwan hit their lowest average daily turnover in the past 12 months, a particularly striking reversal for Japan which experienced annual turnover highs in May. With such a drop in liquidity some markets have witnessed an increase in spreads.

- **June intraday volume pushed towards the Close**

Following May's pattern of a shift towards later intra-day trading, the trend became more pronounced in June. In five out of the six main Asia markets we observed a high volume at the Close or the last two bins just before the Close compared to a three month moving average of bin volume. **We believe this may be tied to the quarter end (and half year end) rebalance of index funds which are often benchmarked to the Close. Volume profiles in ITG's structured algorithms are adjusted accordingly.**

- **Trading costs trended lower in Q2 for most markets**

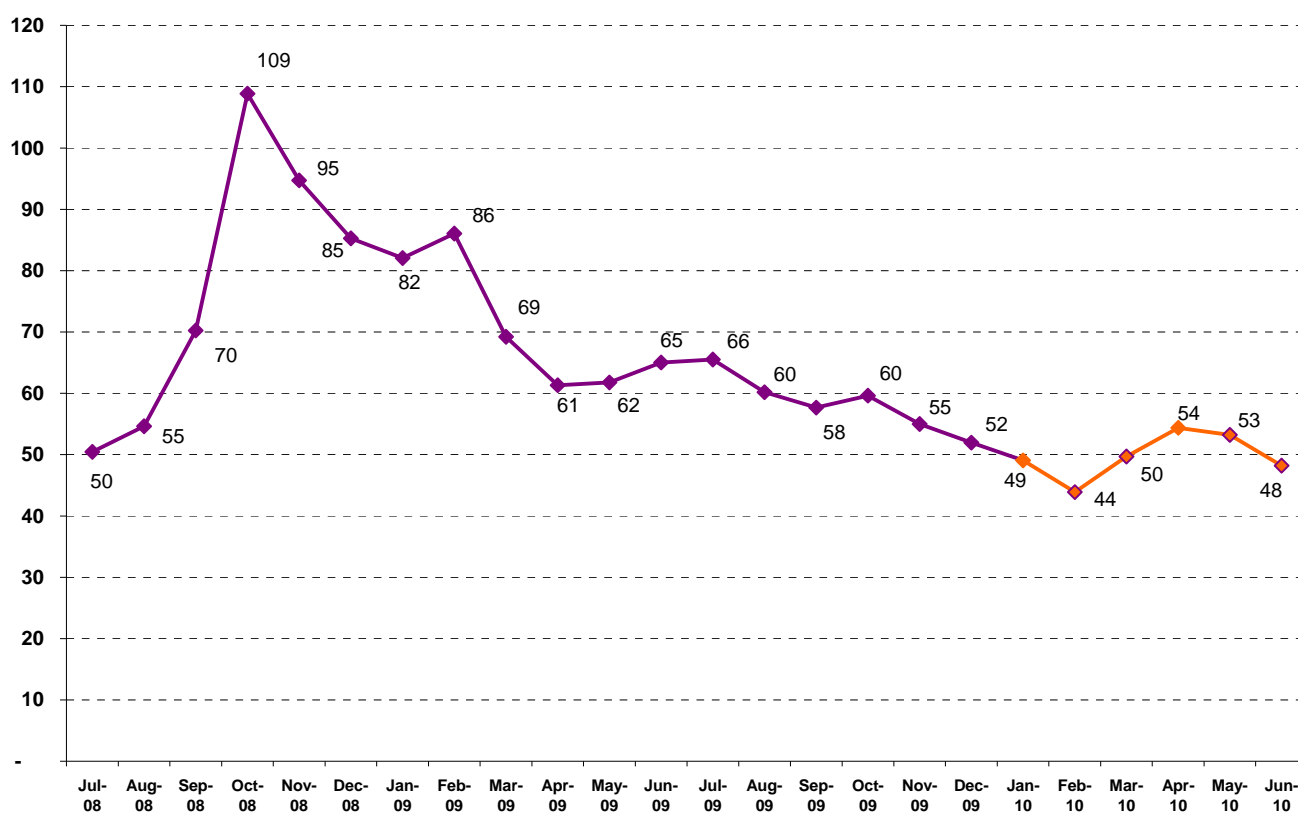
Initial data for Q2 suggests trading costs (as measured against an I.S. benchmark) have declined in Asia to a weighted average of 48 bps. Australia again saw the largest drop, down 25% in Q2 versus Q1.



## TRADING COSTS

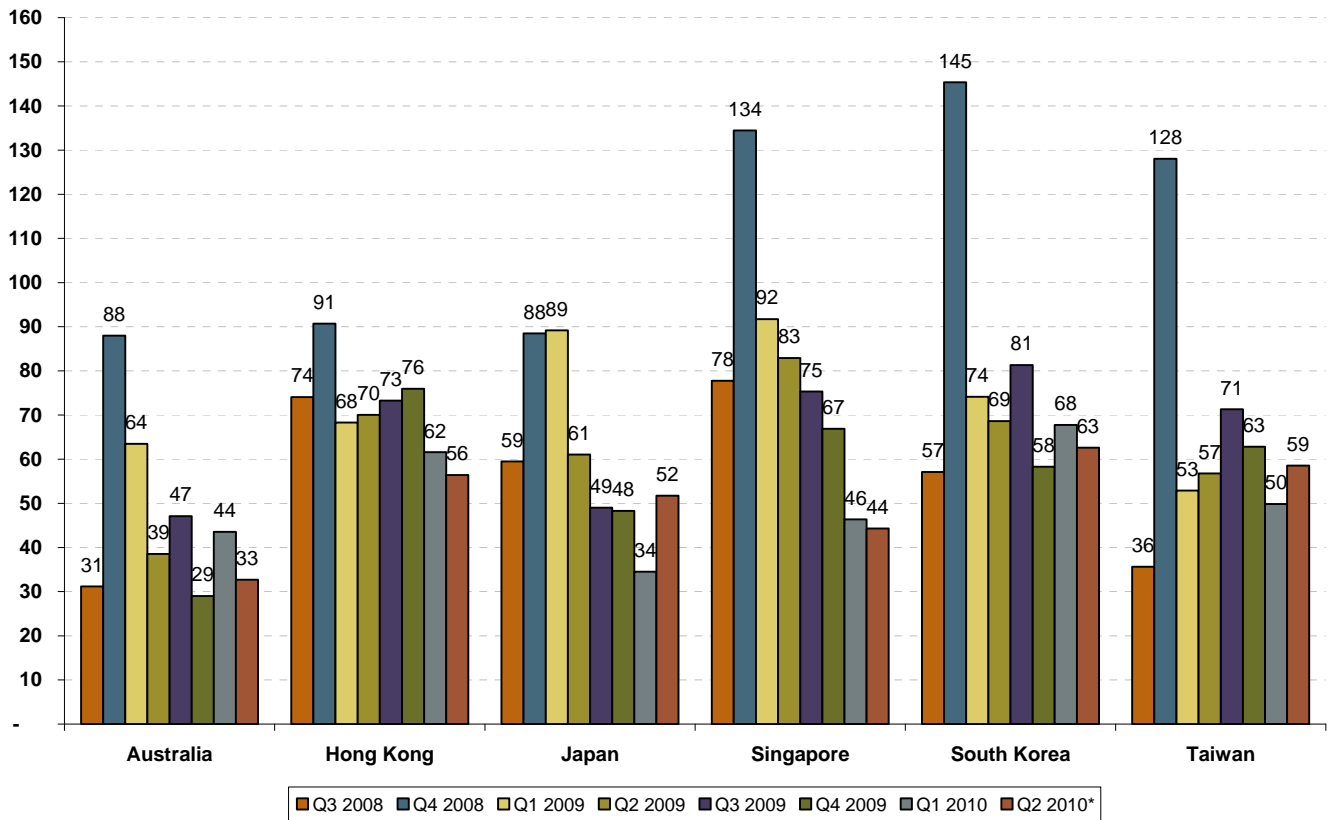
- Preliminary indications are that transaction costs in Asia continued to fall in June. Q2 costs declined relative to Q1 in Australia by 25%, Hong Kong by 10%, Singapore by 4%, Korea by 7% and Taiwan by 20%. Japan is the only markets in which transaction costs have increased by in Q2 relative to Q1 by 53%
- In June, Australia (31 bps), Singapore (27 bps), Korea (50 bps) and Taiwan (45 bps) had declining trading costs relative to May. Hong Kong (54bps) is unchanged and Japan (51bps) increased. **Japan seems high** relative to the Q1 average (34bps) and we expect that the Q2 number will be revised down as more client data is accumulated. (for more detail on country level data please email [info@itg.com](mailto:info@itg.com))
- As we expected, **Taiwan** costs were revised down compared to may estimates. We also expect **Singapore to be revised up** as additional data accumulates.

Weighted Average Transaction Costs Across Developed Asia



- Note: transaction cost data for the previous 2 quarters is reviewed in each issue in light of additional data that is submitted to ITG's peer universe. No additional revisions are expected to Q4 2009 or older data. The purple line indicates confirmed data, orange indicates these are preliminary numbers, subject to change.

### Developed Asia Transaction Costs by Quarter



- Q2 2010 data is preliminary

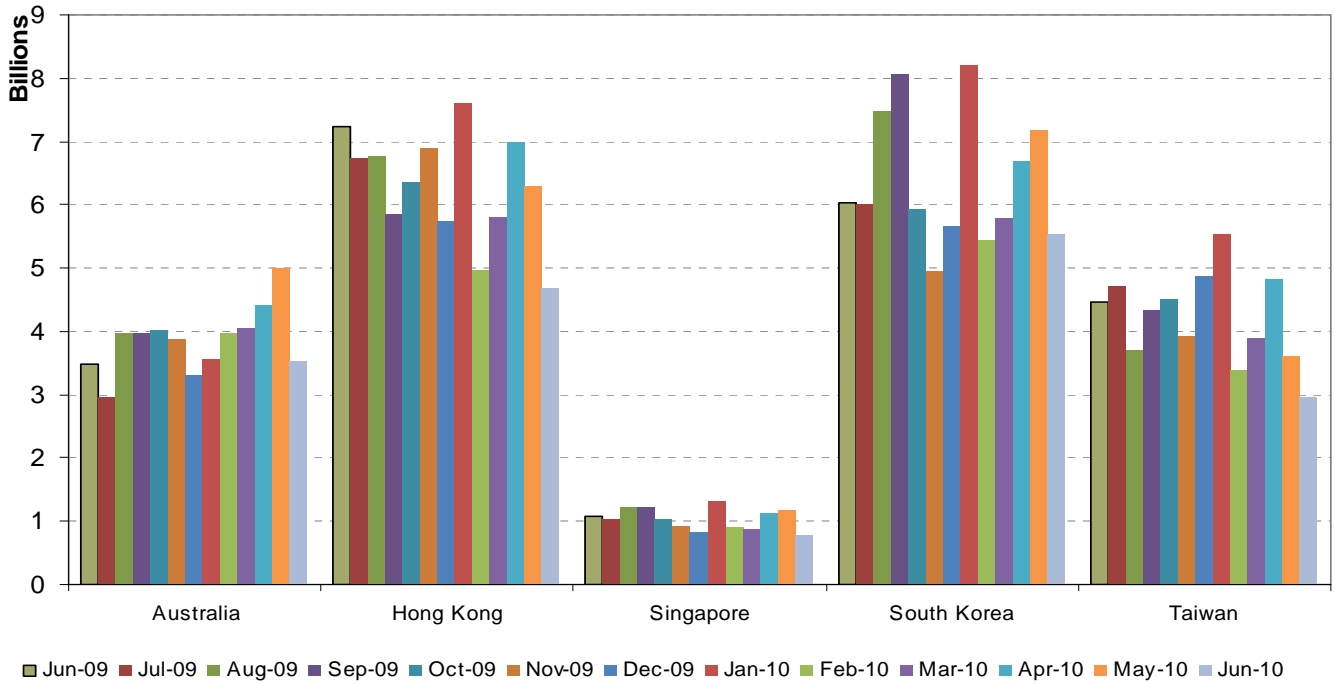
## MARKET SIZE AND TURNOVER

### TURNOVER FALLS ACROSS THE BOARD

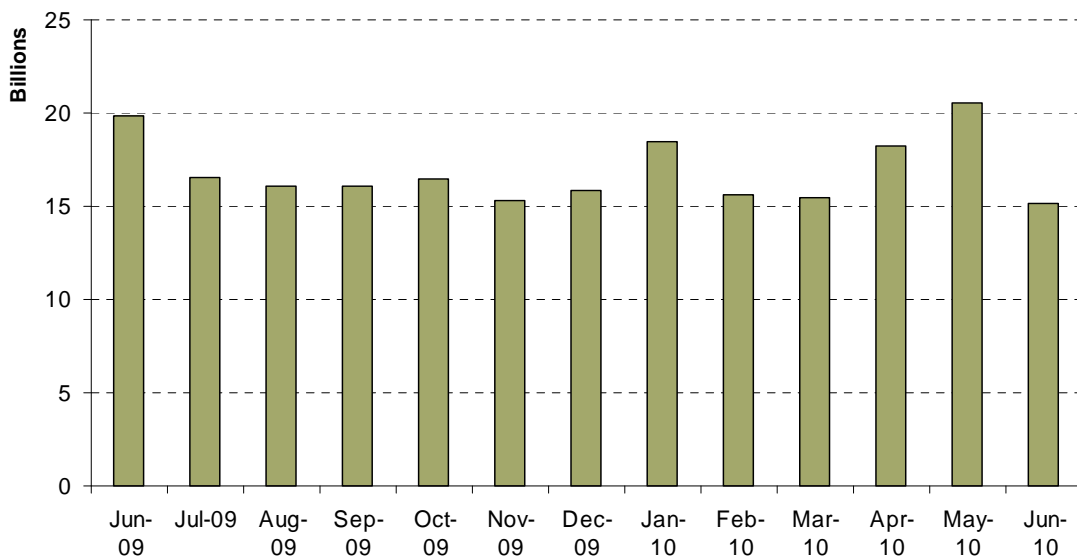
- Daily turnover has dropped by an average of 26% month on month (June vs. May) and 23% year on year (June 2010 vs. June 2009). The largest % drop was in Singapore (34%) the lowest was in Taiwan (18%)
- Australia witnessed a 29% drop (June vs. May) but a 2% increase vs. June 2009 (the only market that witnessed an increase vs. 2009 volumes). Month on month, Hong Kong and Japan dropped by 26% while Korea fell by 23%.

### Average Daily Traded Values (\$US)

Average Daily Value Traded (USD)

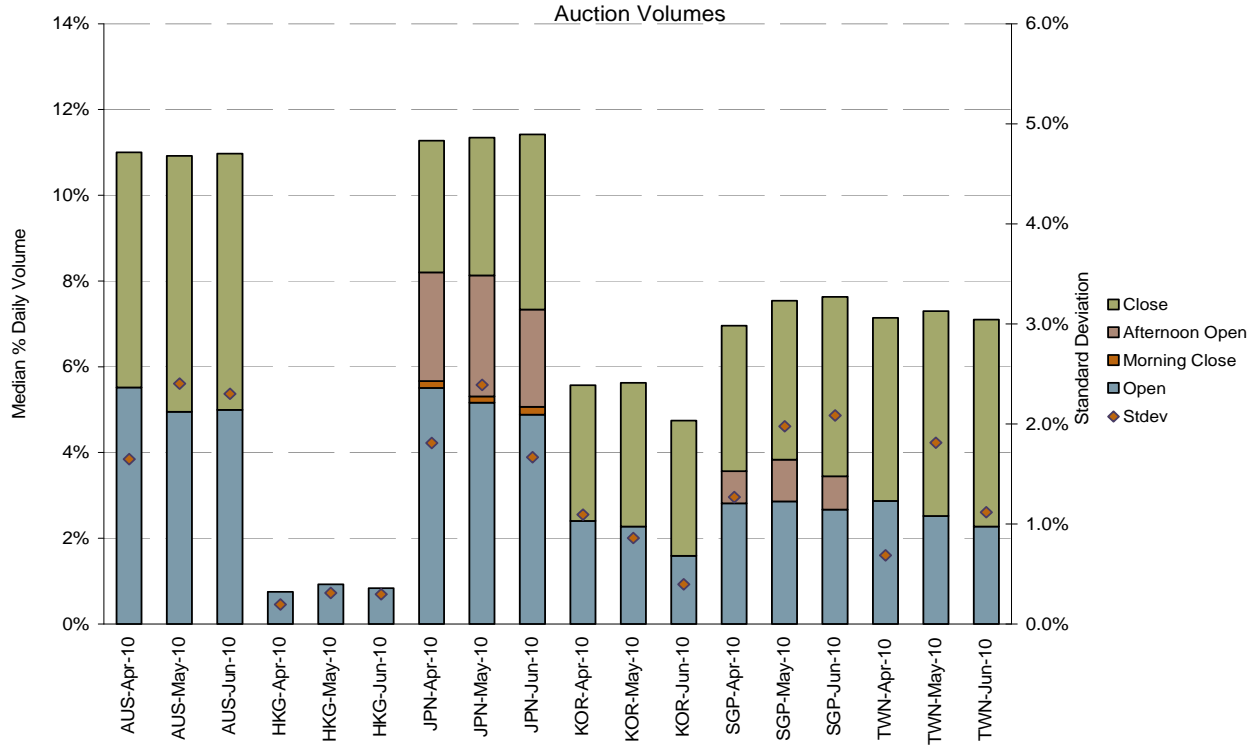


Japan Avg. Daily Value Traded (USD)

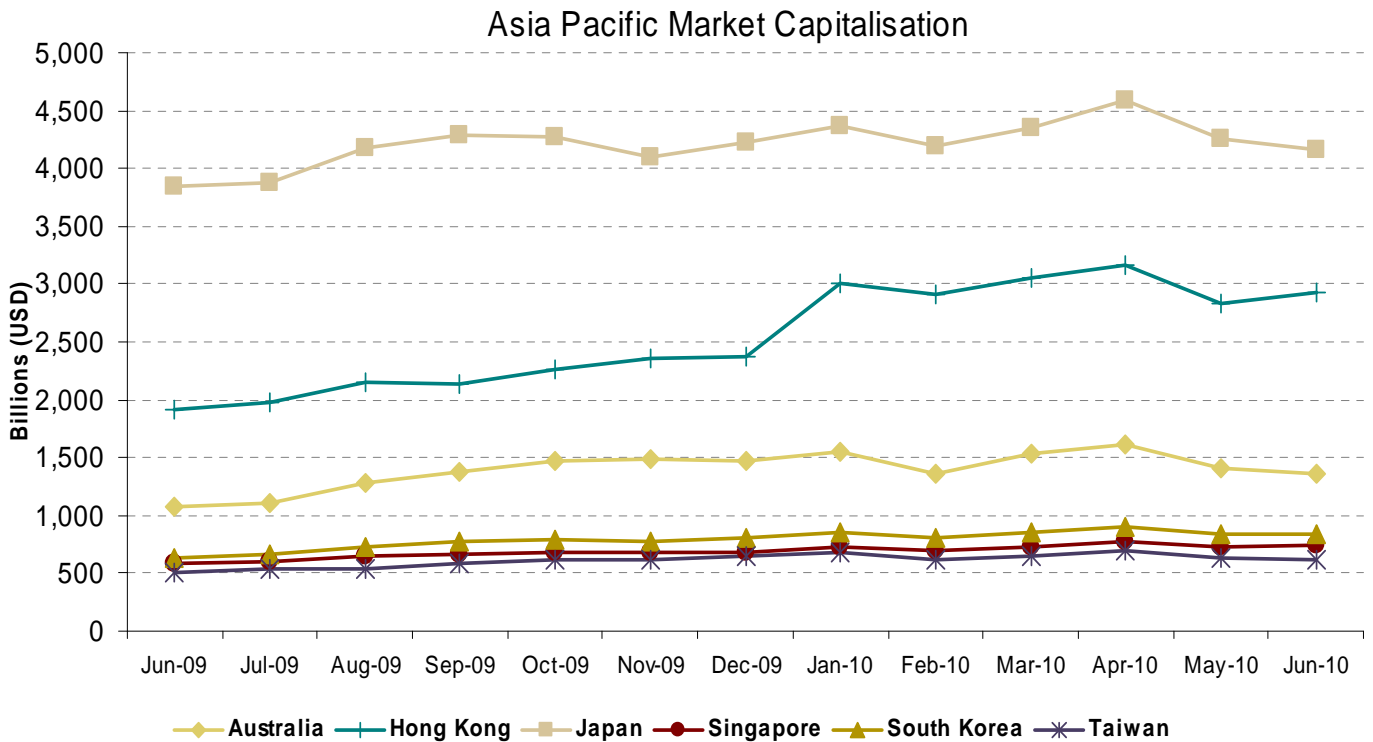


## AUCTION VOLUME

- Auction volumes displayed overall stability in June although the Korea Opening auction witnessed almost a full percentage point drop from 2.3% to 1.6% of daily traded value



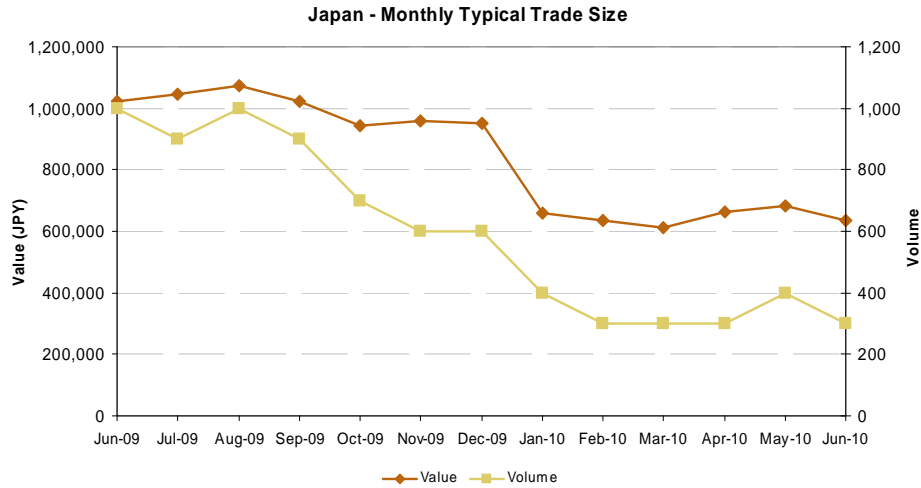
## Market Capitalisation



## MARKETS IN DETAIL

### JAPAN

#### Typical trade size



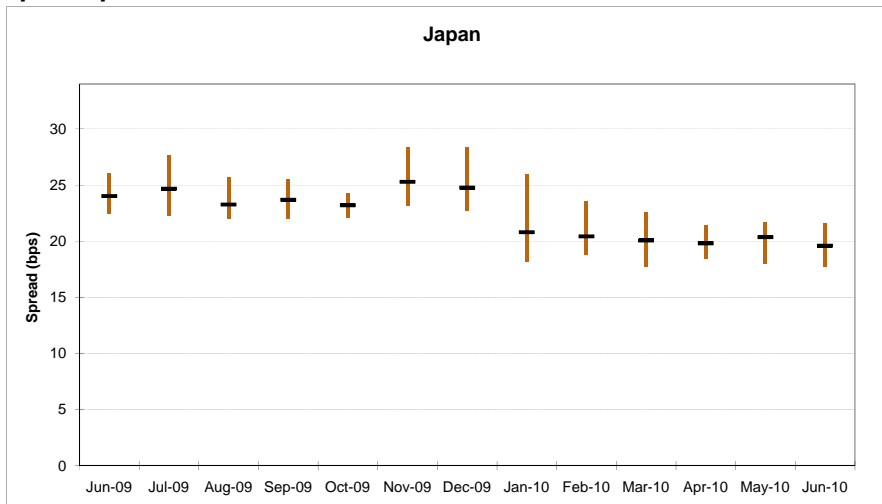
- Average Daily Turnover dropped by 26% month on month to just over US\$15 billion. This is a 24% drop vs. June 2009 – **the lowest daily average turnover in the last 12 months** (see chart on p4)

- Typical trade size returned to 300 shares on average

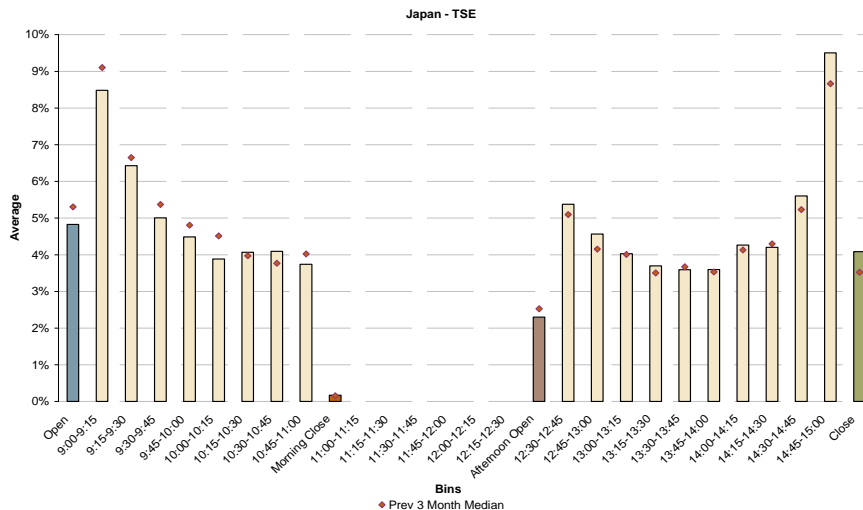
- Spreads remained stable at 20bps

- Volumes have continued the shift towards the second half of the day. The most dramatic drop (0.5%) is in the first 15 minute bin after the Open, shifting to the last 15 minutes of trading and Close.

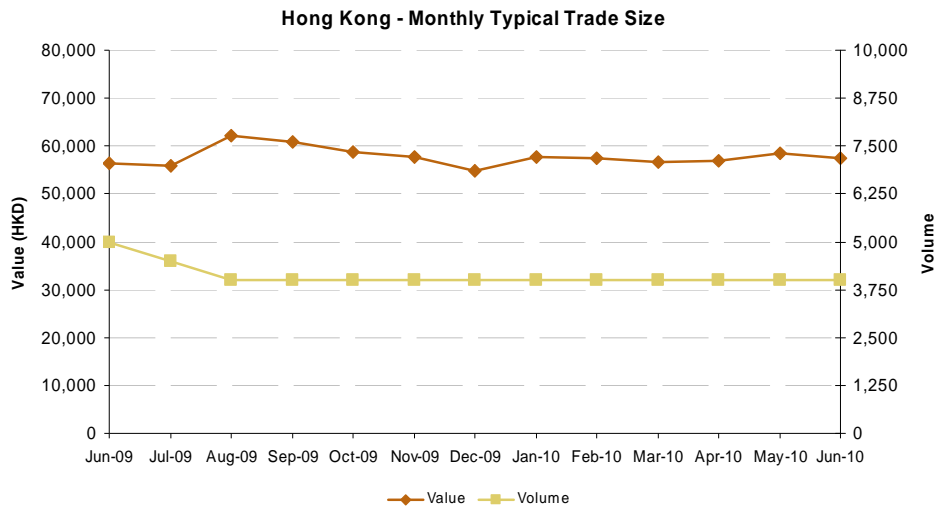
#### Spread profile



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

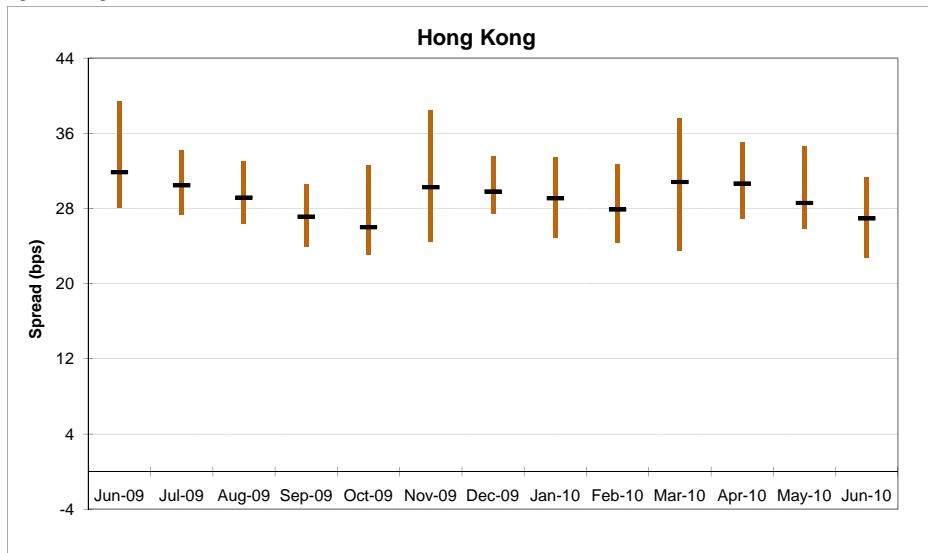


## HONG KONG Typical trade size

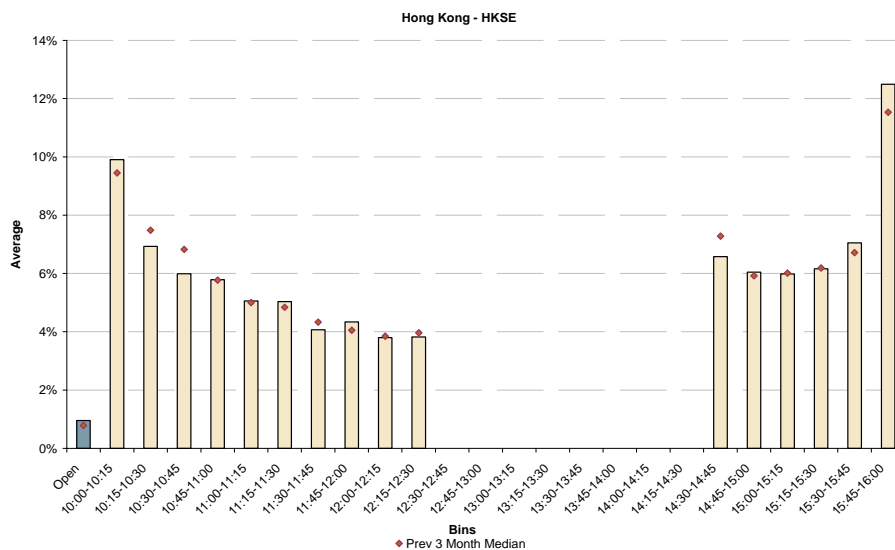


- Turnover was down 26% month on month and 35% compared with June 2009, to a daily average of US\$4.7 billion. **This makes June the lowest daily average turnover in the past 12 months (p4)**
- Typical trade size is consistent at 4 lots
- Spreads came down slightly to 27 bps with a range between 23 and 31 bps throughout the month
- Volume increased in the first 15 and last 15 minutes minutes of trading. Lower volumes were experienced on the afternoon Open.

## Spread profile

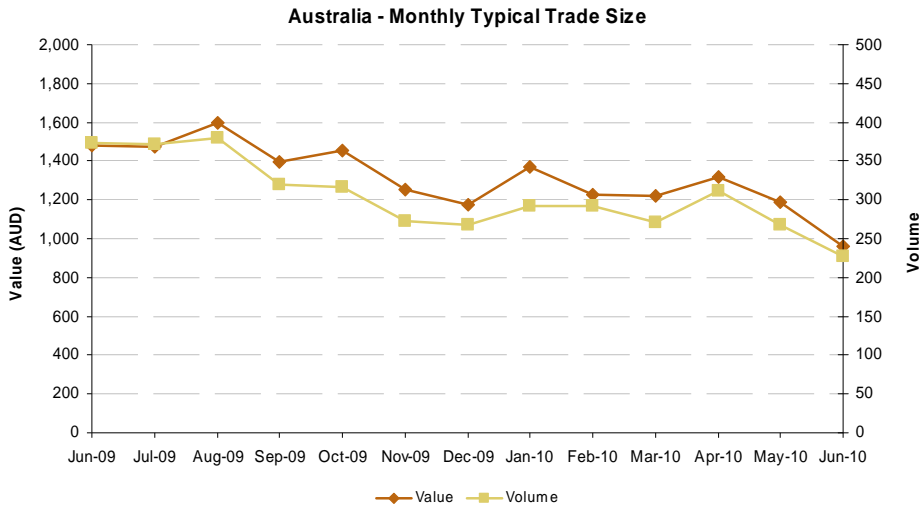


## VWAP profile HKSE



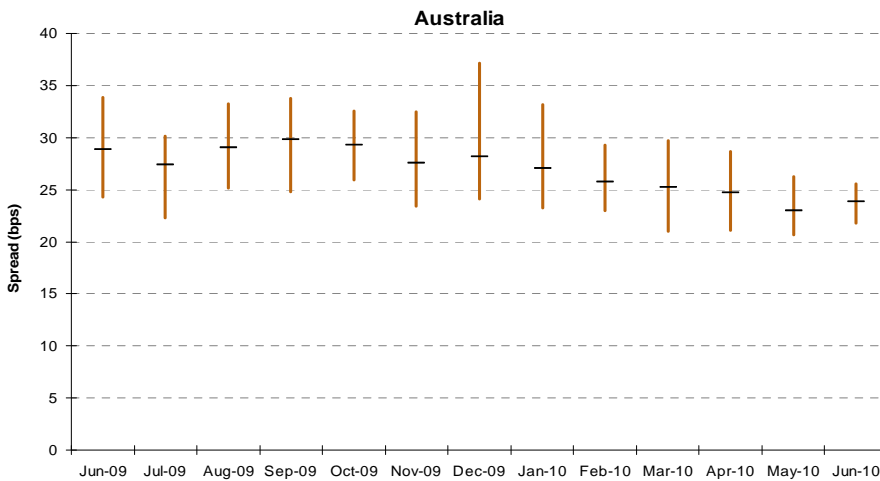
# AUSTRALIA

## Typical trade size

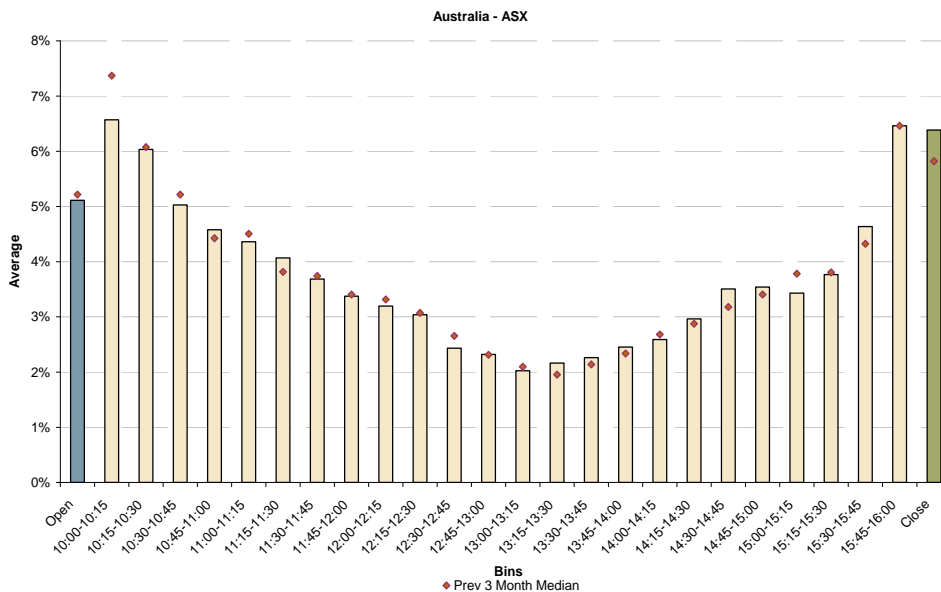


- Turnover down 29% month over month to a daily average of US\$3.5 billion, hitting similar lows to those experienced during the traditionally slow Australian summer months (Nov-Jan) p4.
- Typical trade size came down further to 230 shares
- Spreads widened to 24 bps (a 4% increase) due to the drop in liquidity, gapping between 22 and 26 bps
- Volumes migrated from the first 15 minutes of trading (-0.8%) to the Close (+0.6%).

## Spread profile

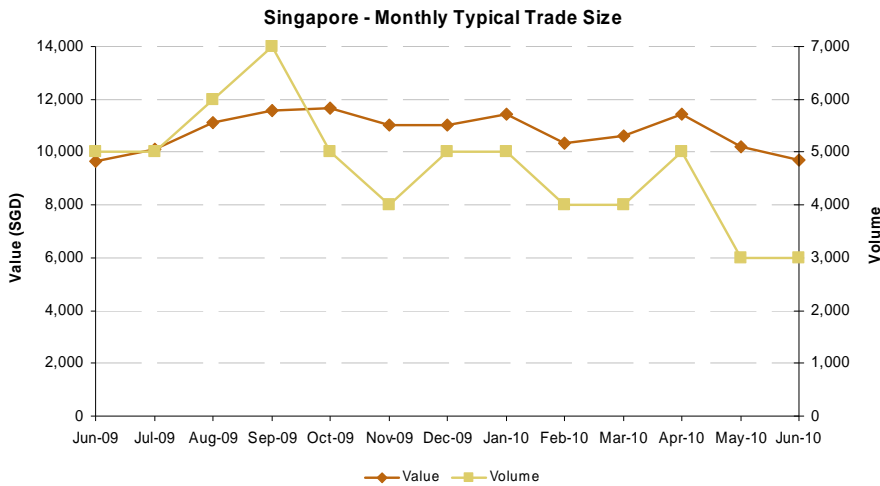


## VWAP profile ASX



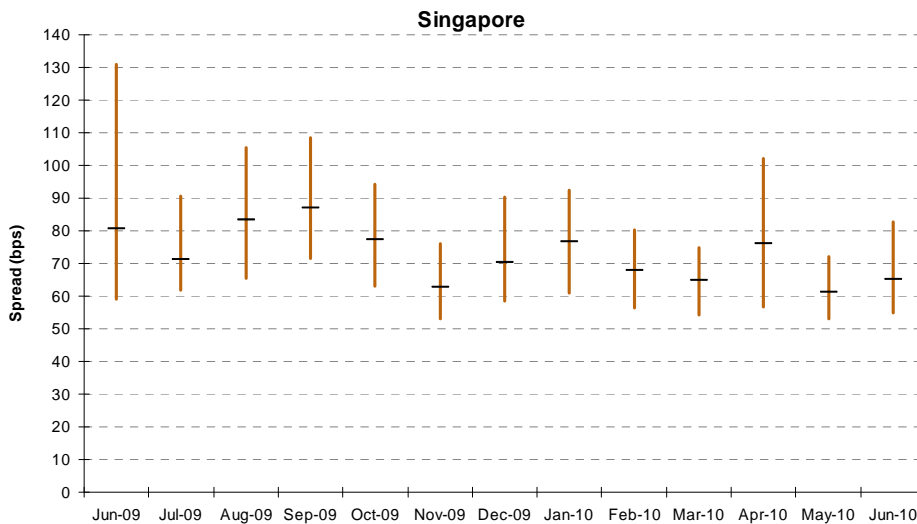
# SINGAPORE

## Typical trade size

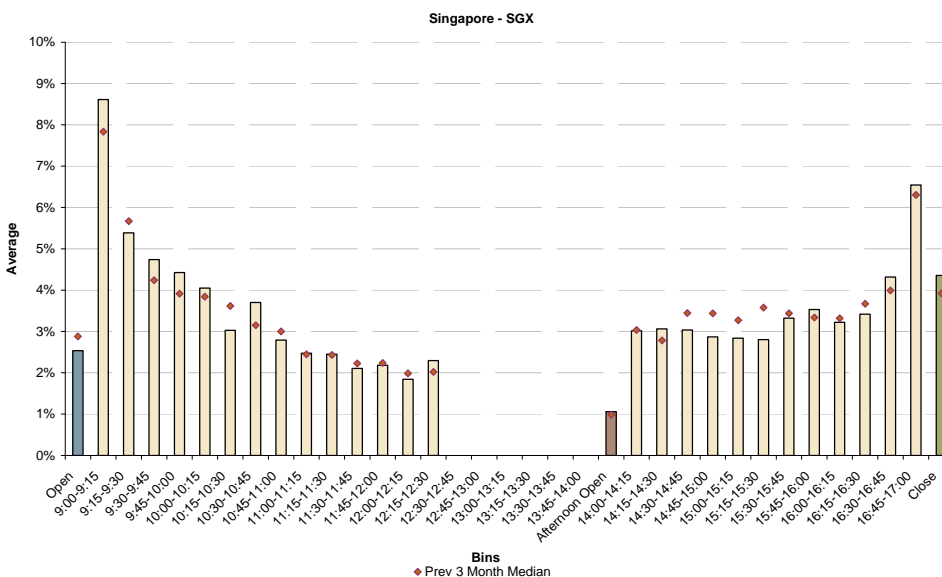


- Turnover dropped 34% month over month and 28% vs. June 2009, to a daily average of US\$0.8 Billion – **the lowest turnover in the past 12 months (p4)**
- Typical trade size remained unchanged at the lows of 3000 shares
- Average spreads have increased with the massive drop in liquidity to 65 bps (from 61bps), an increase of 6.5%. Standard deviation widened again, gapping between 55 and 82 bps.
- There is a shift in volumes starting in the last 30 minutes of trading and the Close at the expense of the early part of the afternoon session.

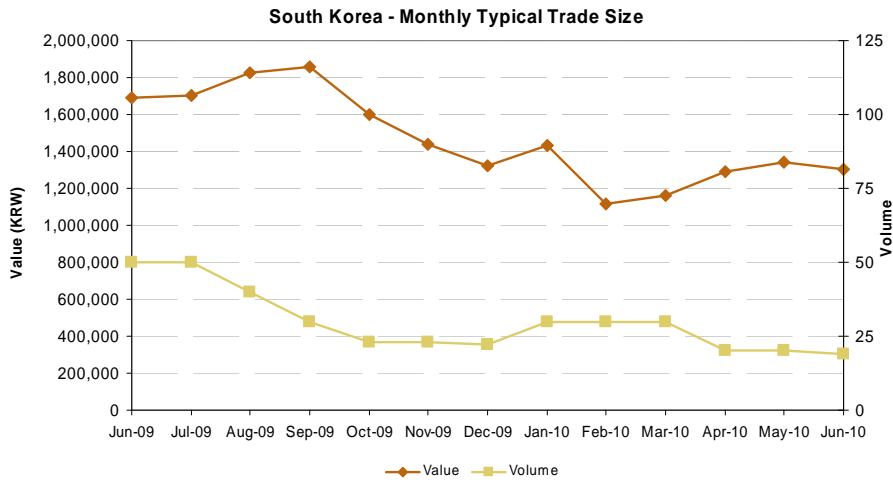
## Spread profile



## VWAP profile SGX

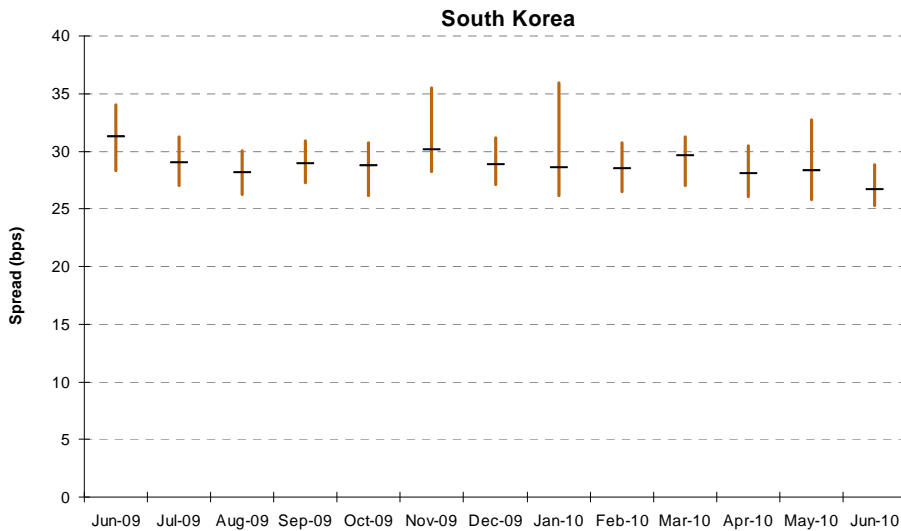


## KOREA Typical trade size

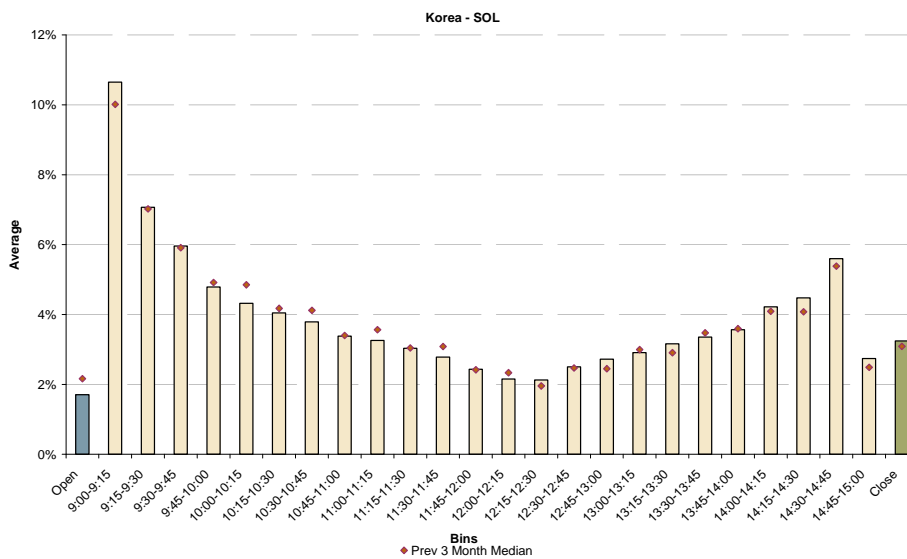


- Turnover was down 23% month over month and 8% vs. June 2009, to a daily average of US\$5.5 Billion. This is the lowest turnover since the Chinese New Year month of Feb.
- Typical trade size was stable at 20 shares on average.
- Spreads held slightly lower at 27 bps, ranging between 25 and 29 bps.
- Unlike the other markets Korea volume profile has no significant shifts.

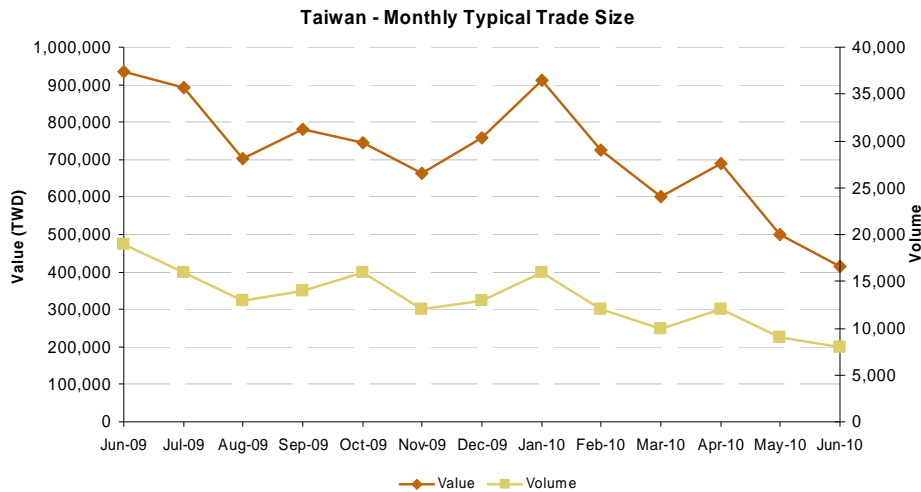
## Spread profile



## VWAP profile SOL



## TAIWAN Typical trade size



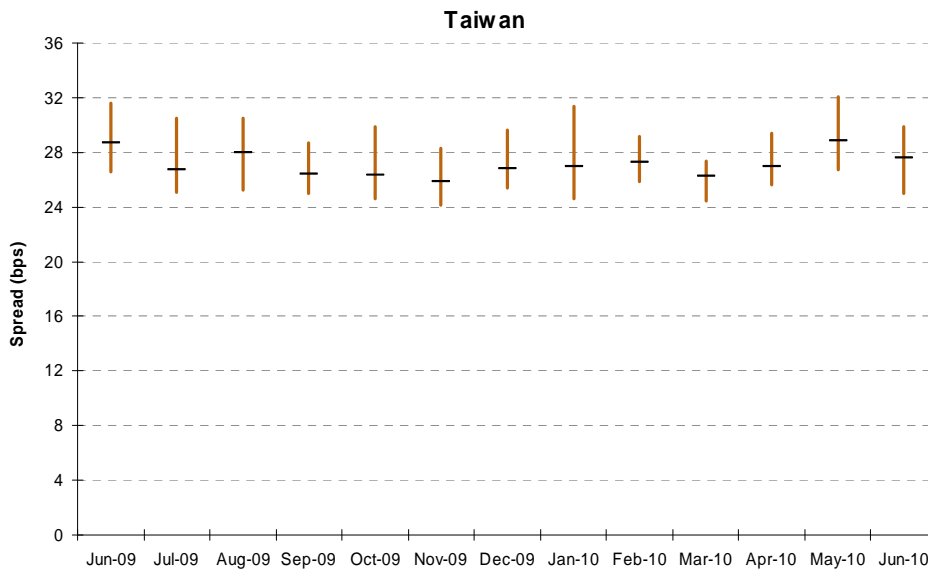
- Turnover down 18% month over month and 34% vs. June 2009, to a daily average just under US\$3billion. Coupled with May's turnover drop this is the **lowest turnover in the past 12 months (p4)**

- Typical trade sizes continued the descent to 8,000 shares on average

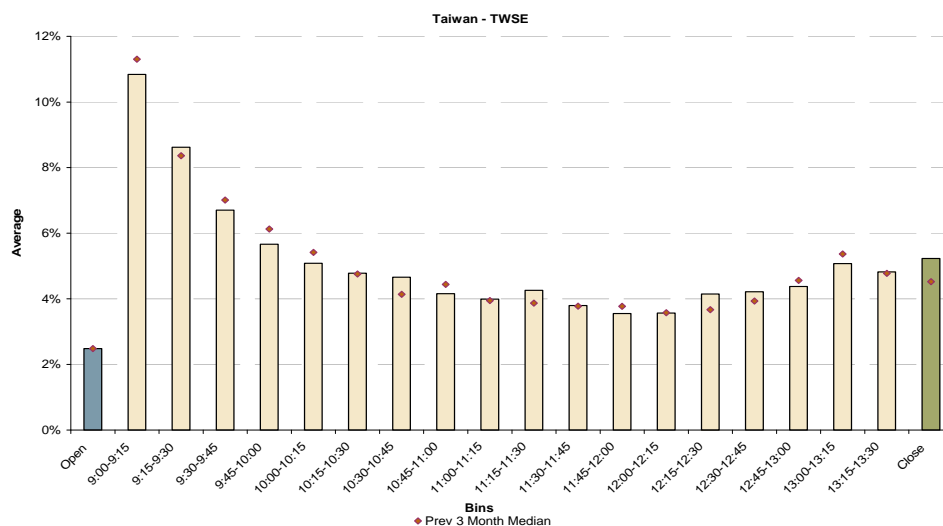
- Spreads were almost flat at 28 bps

- Volumes were stable throughout the day, there was a slight drop in the first 15 minutes of trading and an increase in the Close volume.

## Spread profile



## VWAP profile TWSE



## MACRO MARKET INFORMATION

- Australia Central Bank Rate remained unchanged at 4.5%
- Japan consensus estimate of GDP growth revised up to 3.25% from 2.15% while deflation expectations came down to -1.0% from -1.1%
- Hong Kong inflation up to 2.25% from 2.15%
- Taiwan Central Bank Rate up to 1.38%
- The USD continued to strengthen against the AUD, HKD, SGD, KRW and TWD and also continued to weaken against JPY in June

	FX US\$1 (May)	FX US\$1 (June)	Central Bank Rate	GDP (2009)	GDP (2010 exp)	CPI (2009)	CPI (2010 exp)
<b>AU</b>	1.1525	1.1735	4.50%	1.33%	3.47%	1.85%	2.80%
<b>JP</b>	91.83	90.85	0.10%	-5.20%	3.25%	-1.35%	-1.00%
<b>HK</b>	7.7860	7.7883	0.50%	-2.70%	5.70%	0.52%	2.25%
<b>SG</b>	1.3947	1.3984	0.69%	-1.98%	6.50%	0.62%	2.45%
<b>KR</b>	1169	1215	2.00%	0.20%	5.30%	2.80%	2.75%
<b>TW</b>	31.82	32.18	1.38%	-1.87%	6.14%	-0.87%	1.40%

## ITG Liquidity Barometer – Asia Pacific

**Ofir Gefen** +852 2846 3573  
**Ian Jones** +612 9779 4621  
**Clare Rowsell** +852 2846 3567

For more information on this research please contact: +852 2846 3567 or email: [info@itg.com](mailto:info@itg.com)

### Call ITG's Trading Desks on

Hong Kong: +852 2846 3592

Australia: +612 9779 4604



ITG Hong Kong Limited (ITGHK) is a Participating Organisation of the Hong Kong Stock Exchange, a licensed corporation of the Hong Kong Securities and Futures Commission and is authorised under the Hong Kong Securities and Futures Ordinance to provide dealing in securities and automated trading services (Licence Number AHD810). ITG Japan Limited (ITGJ), is a registered broker with the Japanese Financial Supervisory Agency. ITG Australia Limited [ACN 003 067 409] (ITGA is a Market Participant of the Australian Securities Exchange and is authorised under the Financial Services Law to provide financial services in Australia (AFS Licence Number 219582). ITGHK, ITGJ and ITGA are subsidiaries of Investment Technology Group, Inc. (the ITG Group). This document has been prepared for the general information of investors or traders and not as advice to or for any particular person, corporation or business entity. Although every attempt has been made to verify the accuracy of the information contained in this document/presentation, any and all liability for any errors or omissions (except any statutory liability which cannot be excluded) is specifically excluded by ITGHK, ITGJ, ITGA, the ITG Group and their associates, officers, employees and agents.