LIQUID CAPITAL
SECURITIES

HOW MARKETS AND INVESTORS HAVE CHANGED: SHORT-TERM MONEY FLOW, DERIVATIVES AND VOLATILITY

VIENNA, 18th NOVEMBER 2009

MAX BUTTI, CAIA
STRATEGIC DEVELOPMENT DIRECTOR

SUMMARY

- SHORT TERM MONEY FLOWS: WHAT ARE THEY TELLING US
- EQUITY VOLATILITY: HAS SOMETHING MAJOR HAPPENED?
- VOLUMES AND LIQUIDITY
- CONCLUSIONS

COMMITMENT OF TRADERS

COMPREHENSIVE REPORT OF HEDGING AND SPECULATION IN REGULATED FUTURES MARKETS

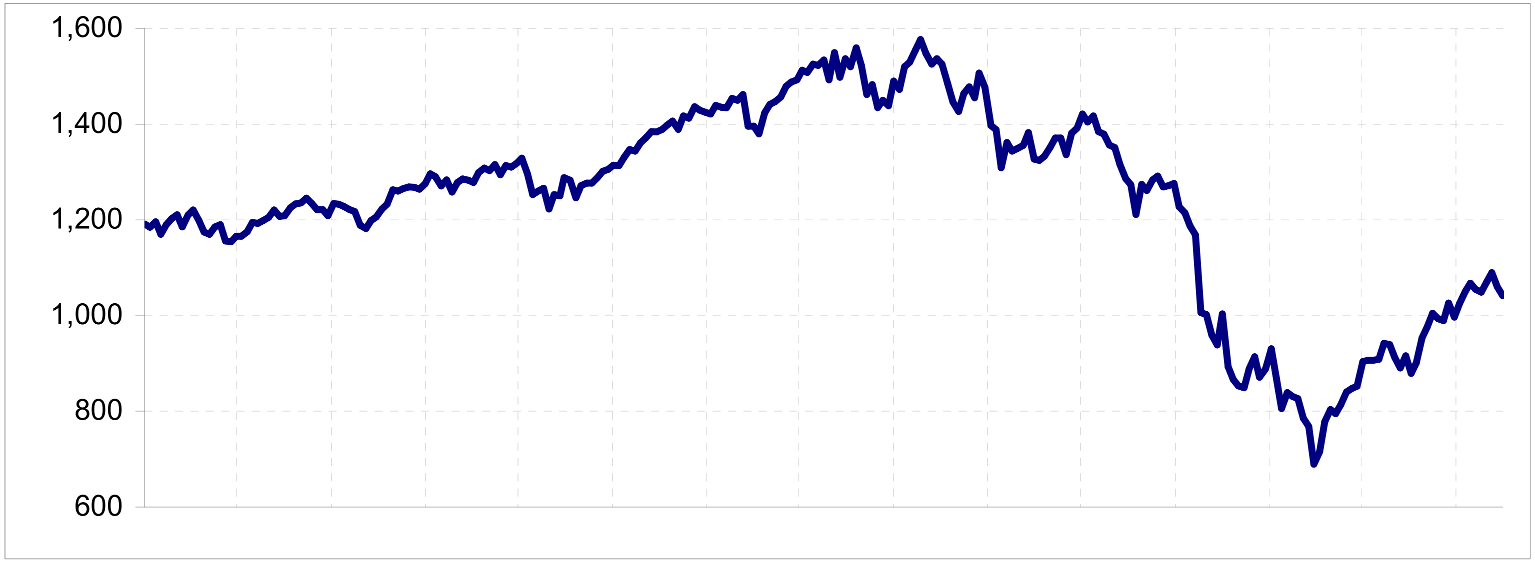
COMMERCIAL IF THE TRADER USES FUTURES CONTRACTS IN THAT PARTICULAR COMMODITY FOR HEDGING

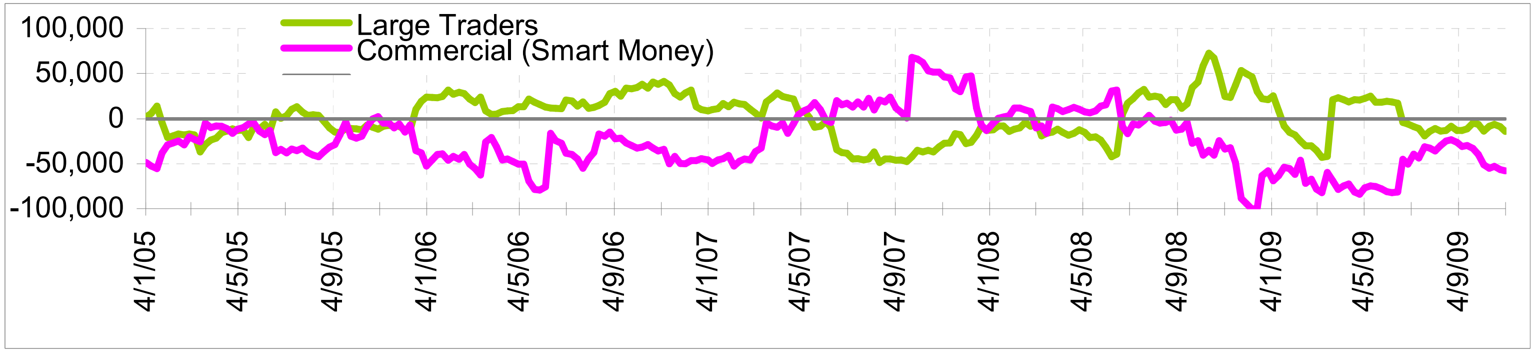
NON COMMERCIAL IN THE TRADER USES FUTURES TO GAIN EXPOSURE (SMART MONEY)

DOES NOT INCLUDE RETAIL INVESTORS

IT IS THE BEST INDICATION OF MONEY FLOW IN DERIVATIVES

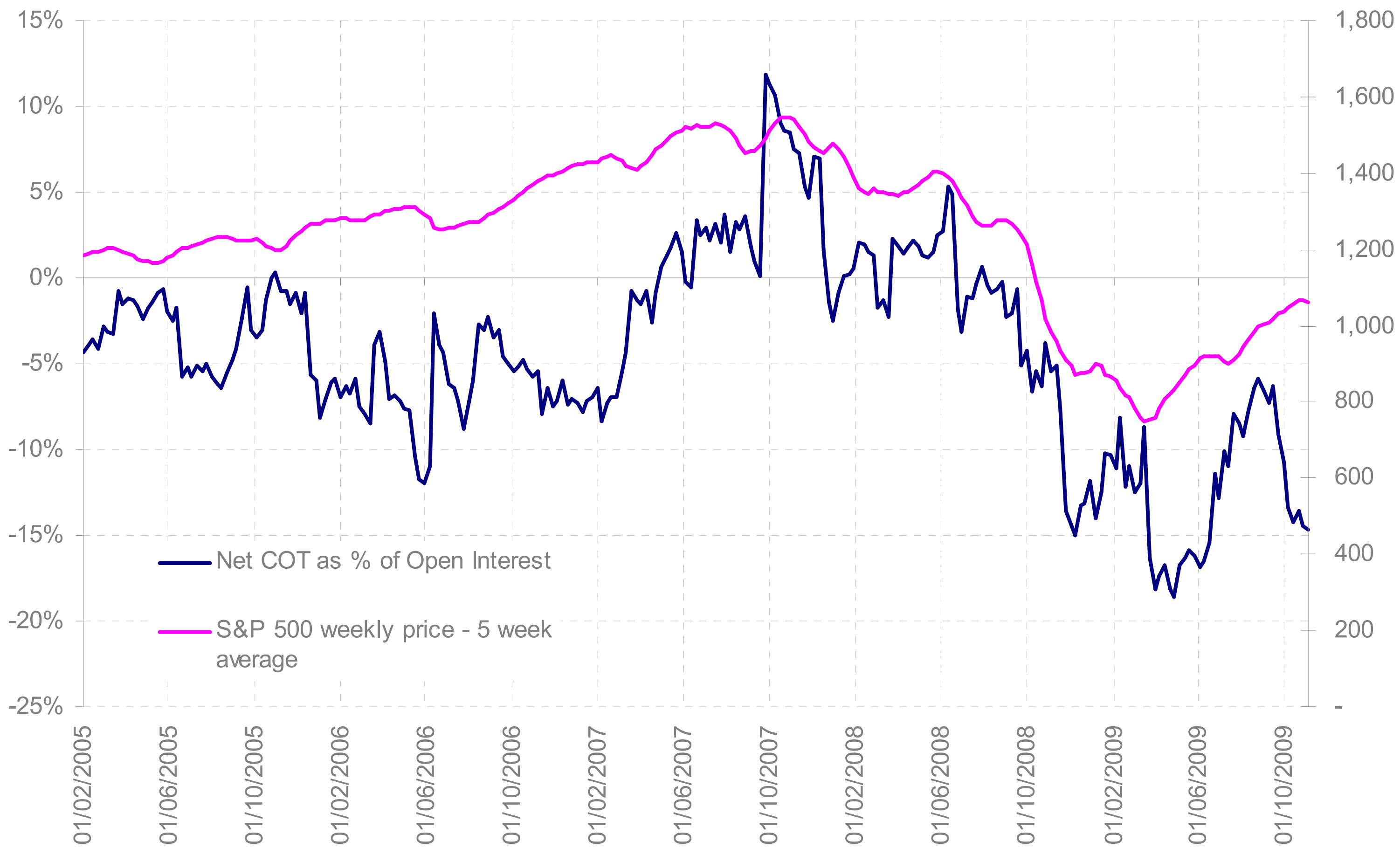
S&P 500 – COMMITMENT OF TRADERS





SOURCE: CFTC

S&P 500 – COMMITMENT OF TRADERS



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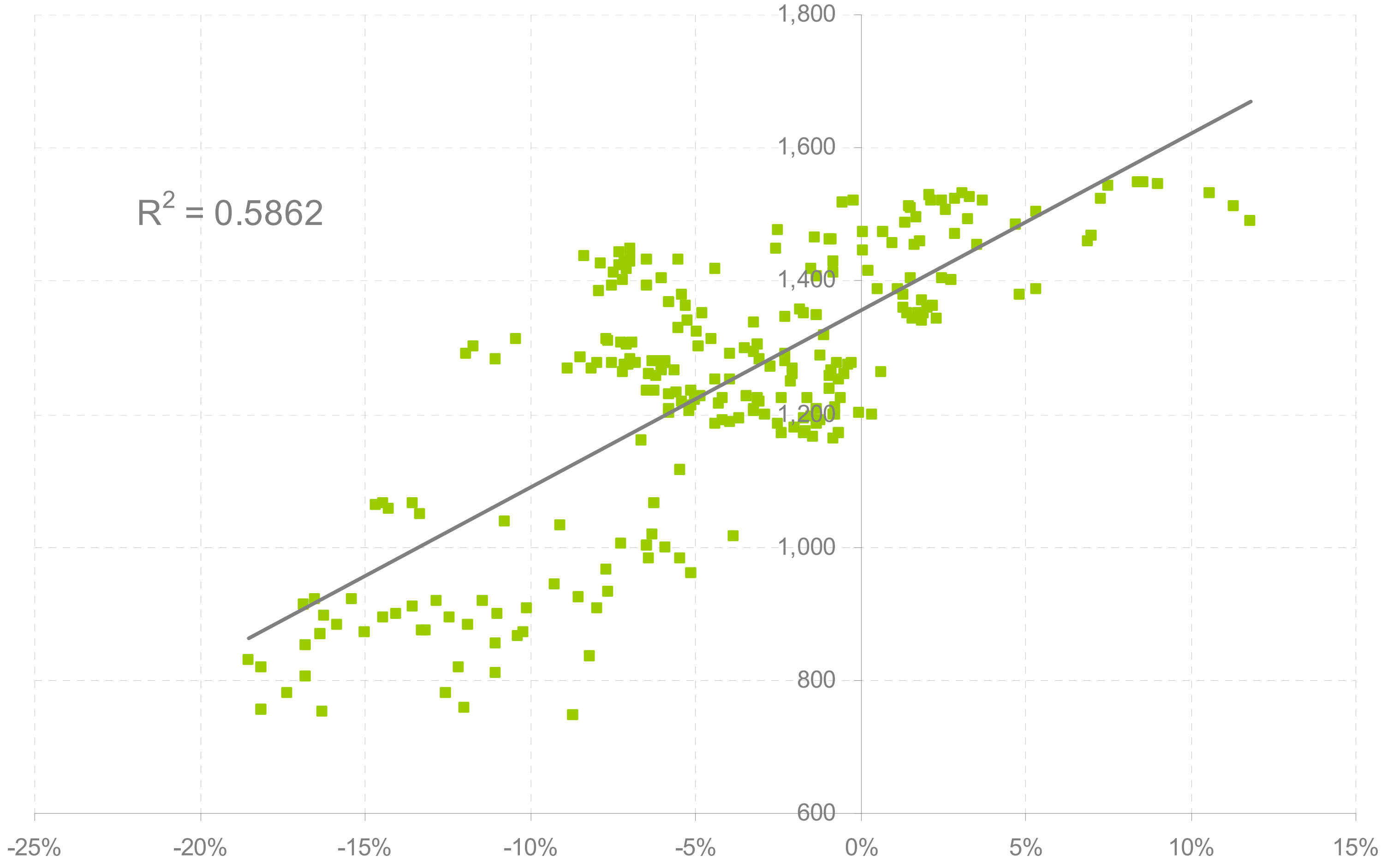
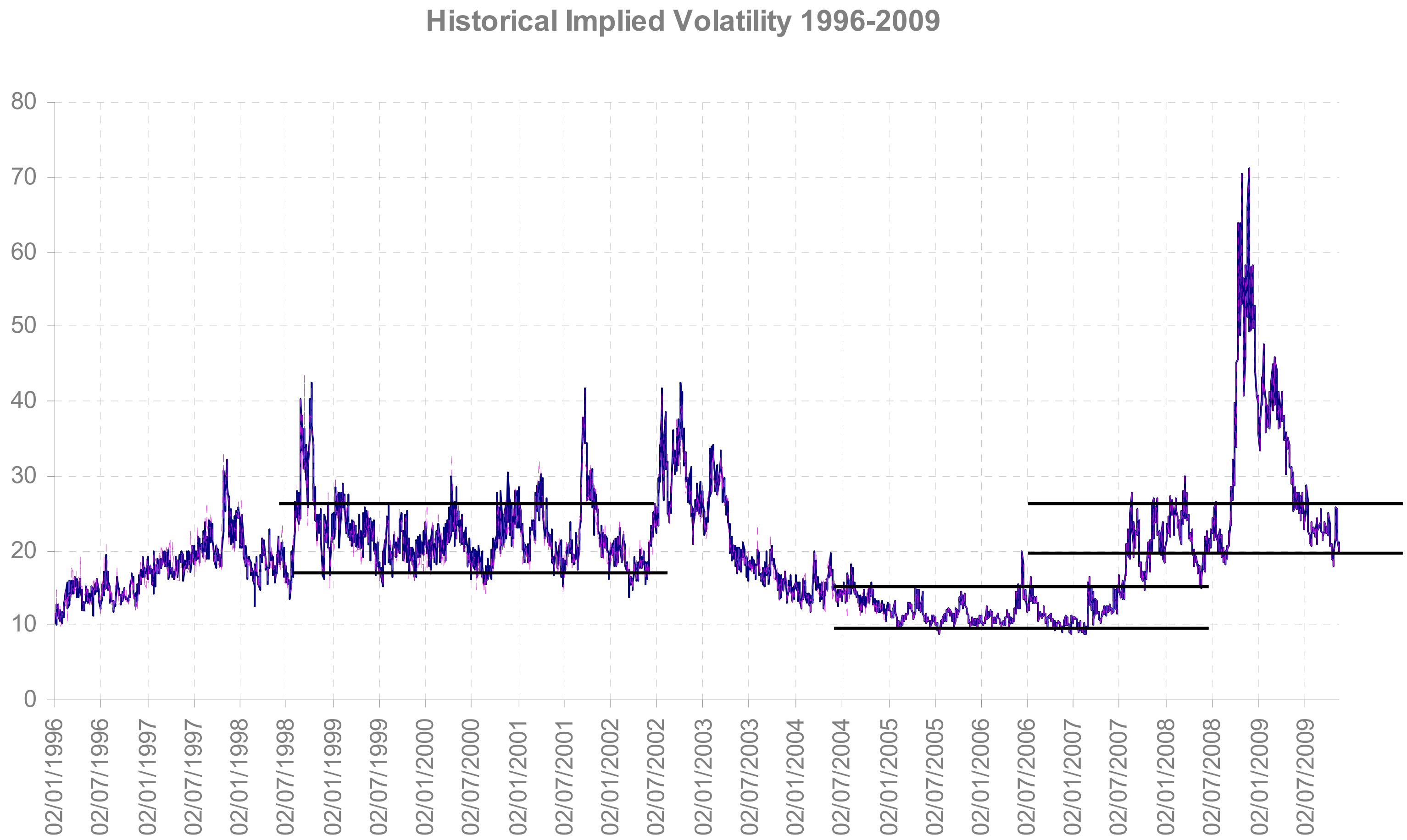
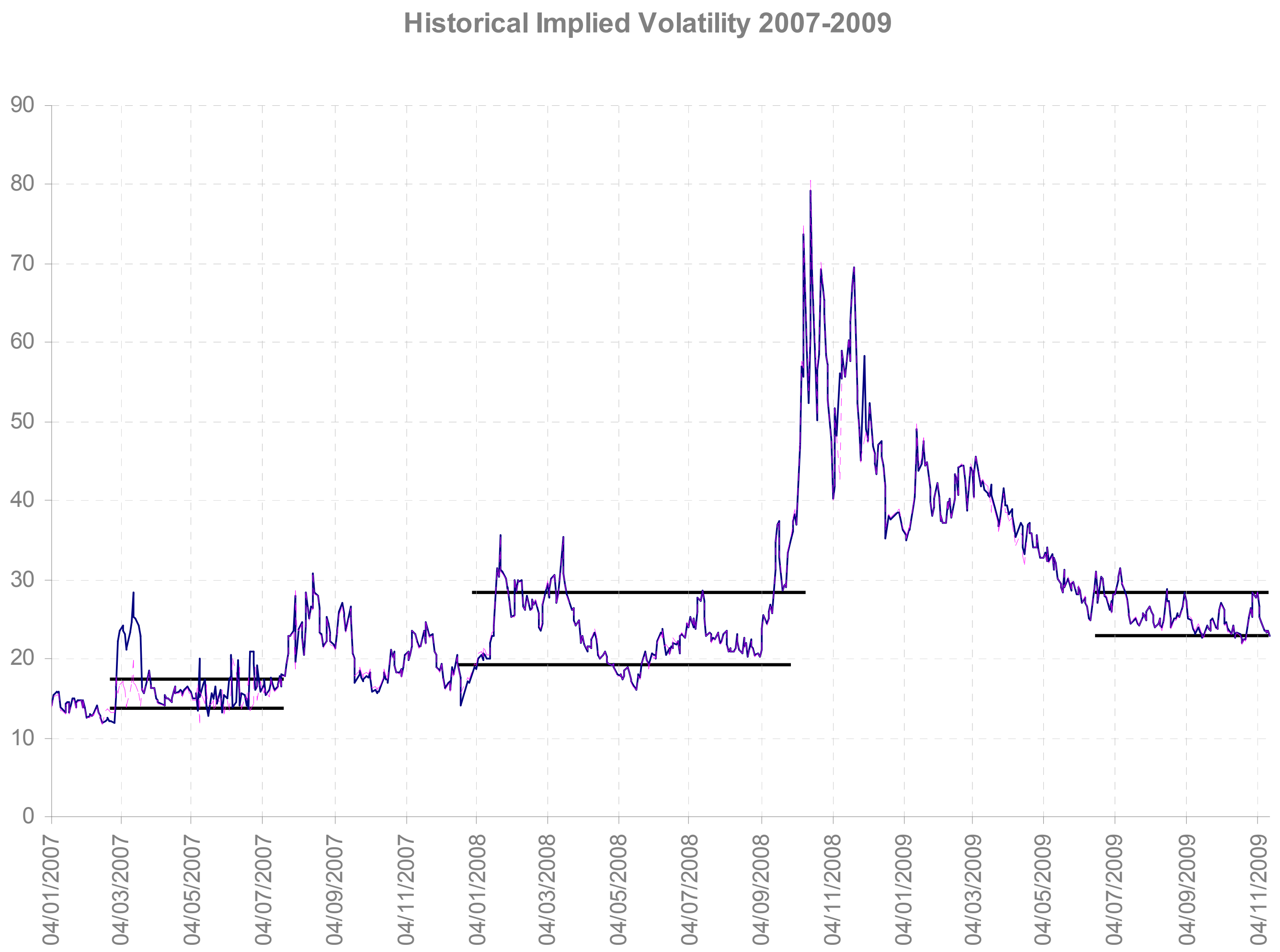


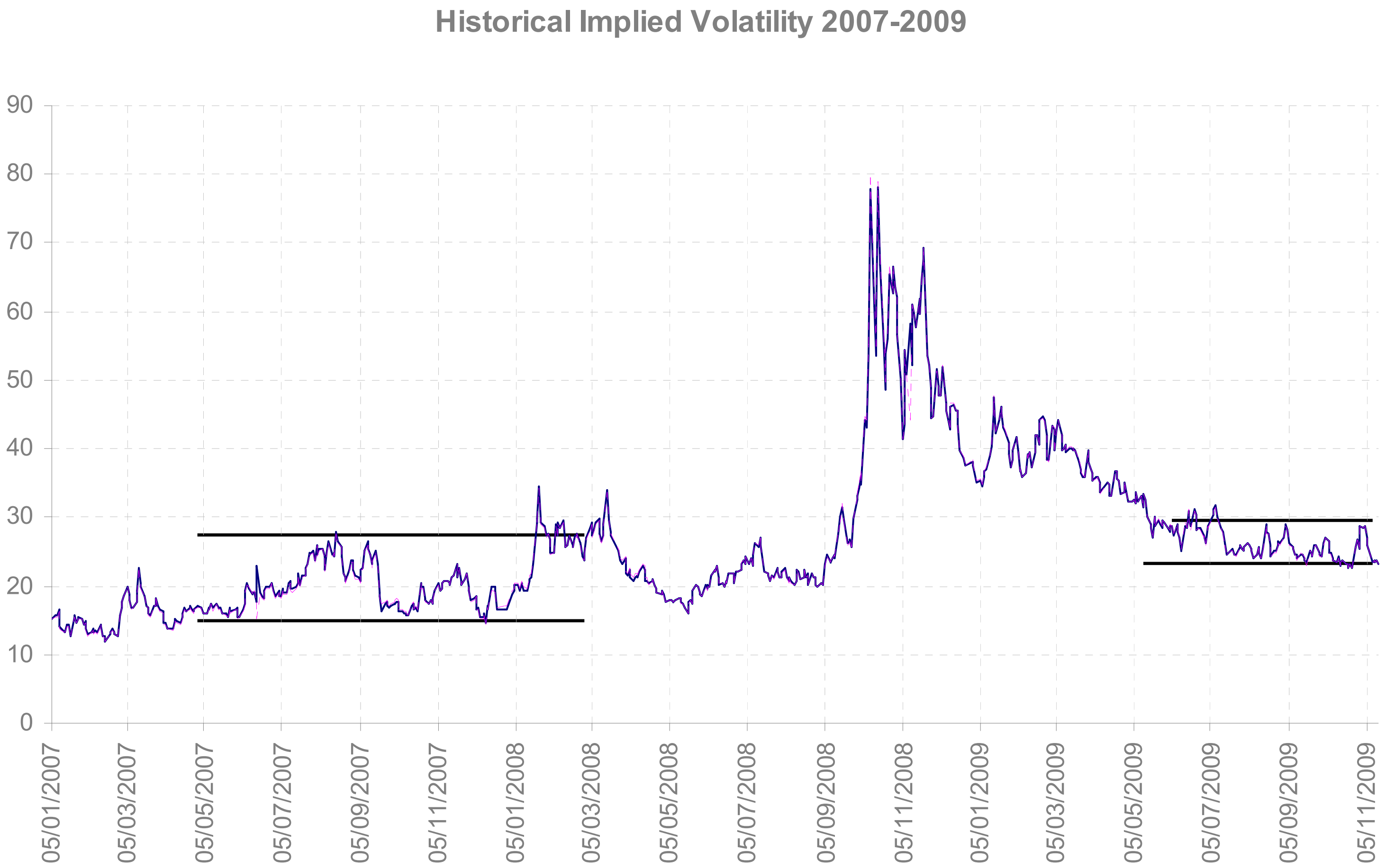
S&P 500 INDEX


Historical Implied Volatility 1996-2009
80
70
60
50
40
30
20
10
0
02/01/1996
02/07/1996
02/01/1997
02/07/1997
02/01/1998
02/07/1998
02/01/1999
02/07/1999
02/01/2000
02/07/2000
02/01/2001
02/07/2001
02/01/2002
02/07/2002
02/01/2003
02/07/2003
02/01/2004
02/07/2004
02/01/2005
02/07/2005
02/01/2006
02/07/2006
02/01/2007
02/07/2007
02/01/2008
02/07/2008
02/01/2009
02/07/2009

EUROSTOXX 50 INDEX

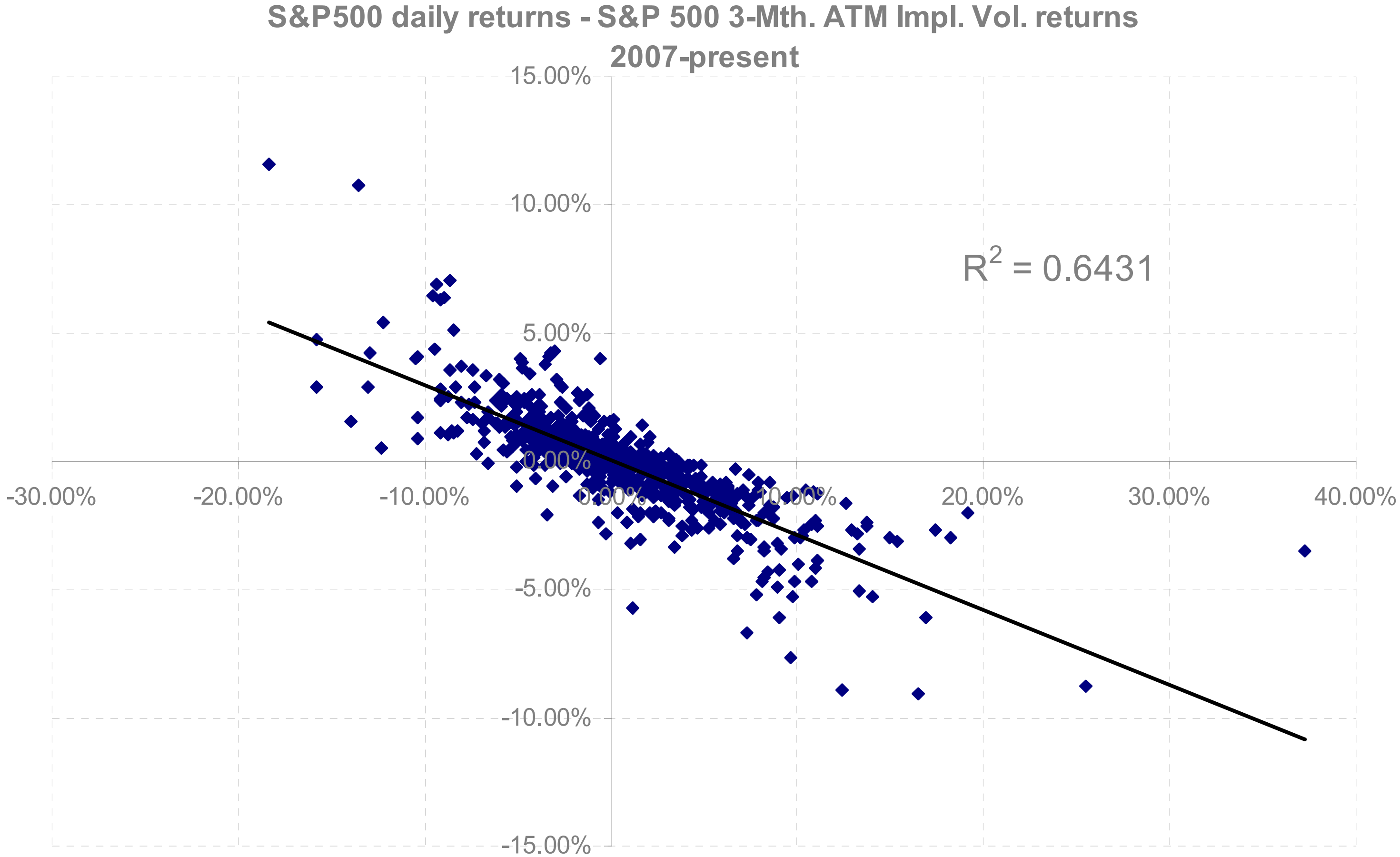


DAX INDEX



Historical Implied Volatility 2007-2009
90
80
70
60
50
40
30
20
10
0
05/01/2007
05/03/2007
05/05/2007
05/07/2007
05/09/2007
05/11/2007
05/01/2008
05/03/2008
05/05/2008
05/07/2008
05/09/2008
05/11/2008
05/01/2009
05/03/2009
05/05/2009
05/07/2009
05/09/2009
05/11/2009

DOES VOLATILITY EXPLAIN RETURNS?



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SECURITIES

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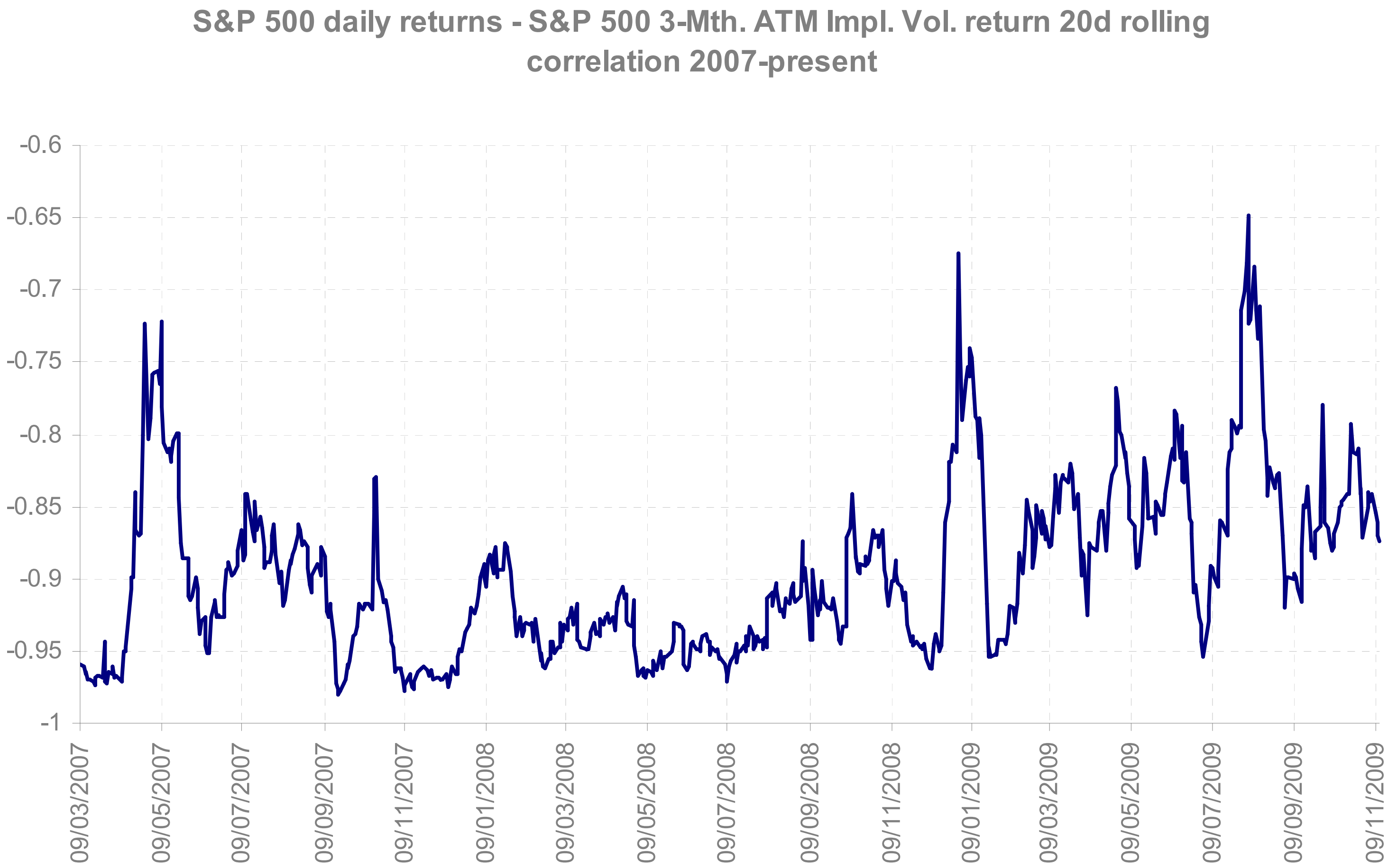
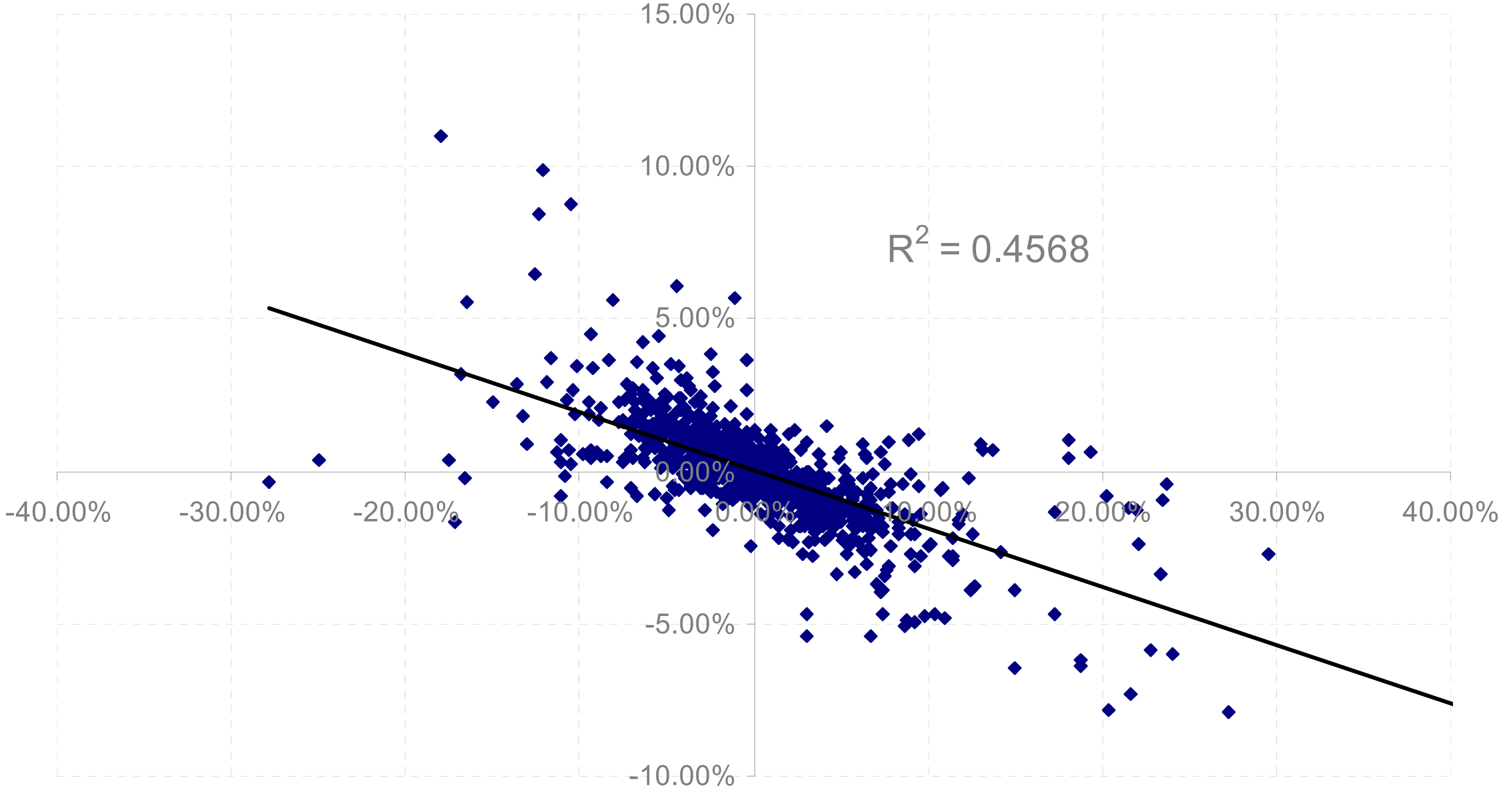


DOES VOLATILITY EXPLAIN RETURNS?

Eurostoxx 50 daily returns - Eurostoxx 50 3-Mth. ATM Impl. Vol. returns
2007-present



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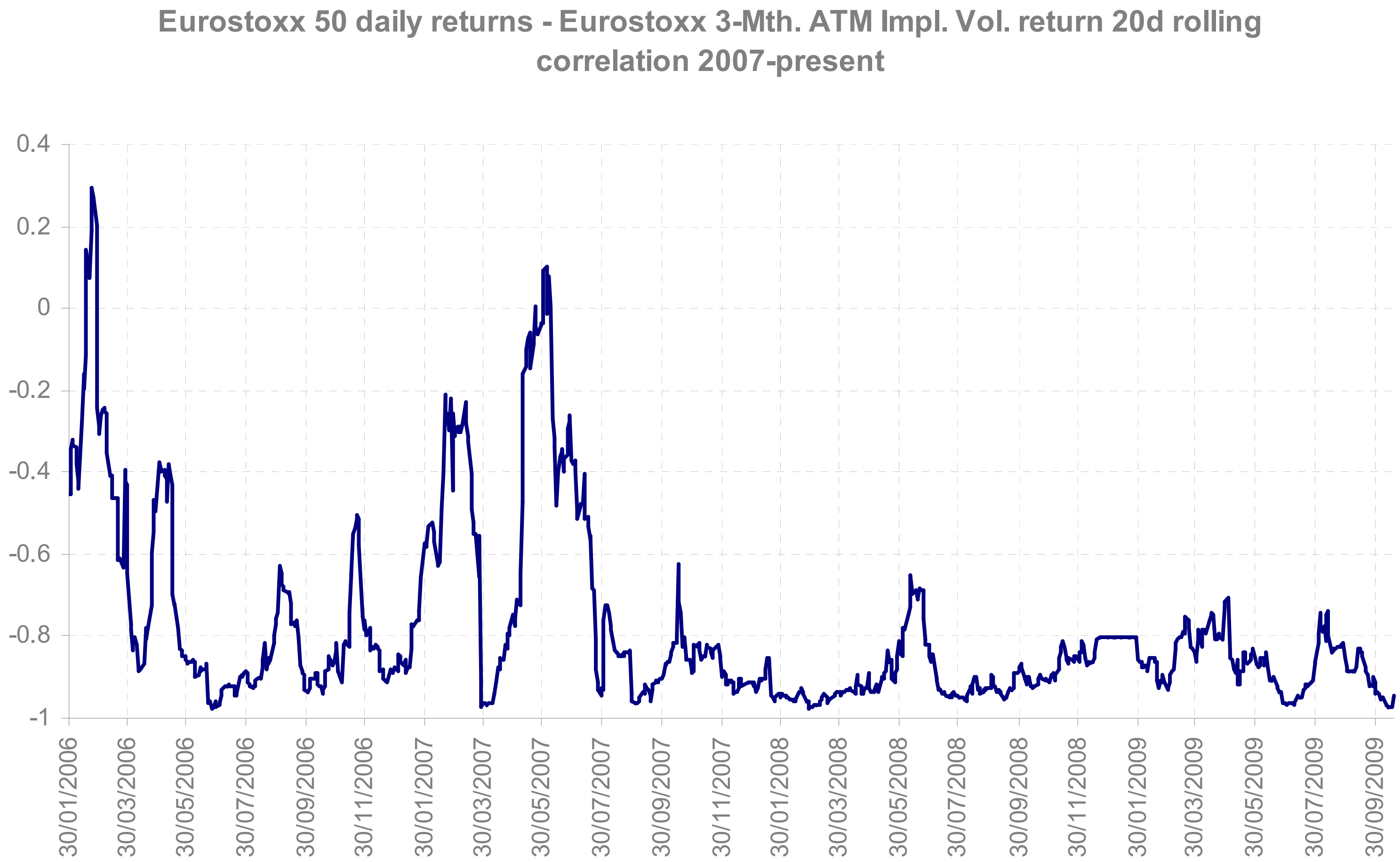

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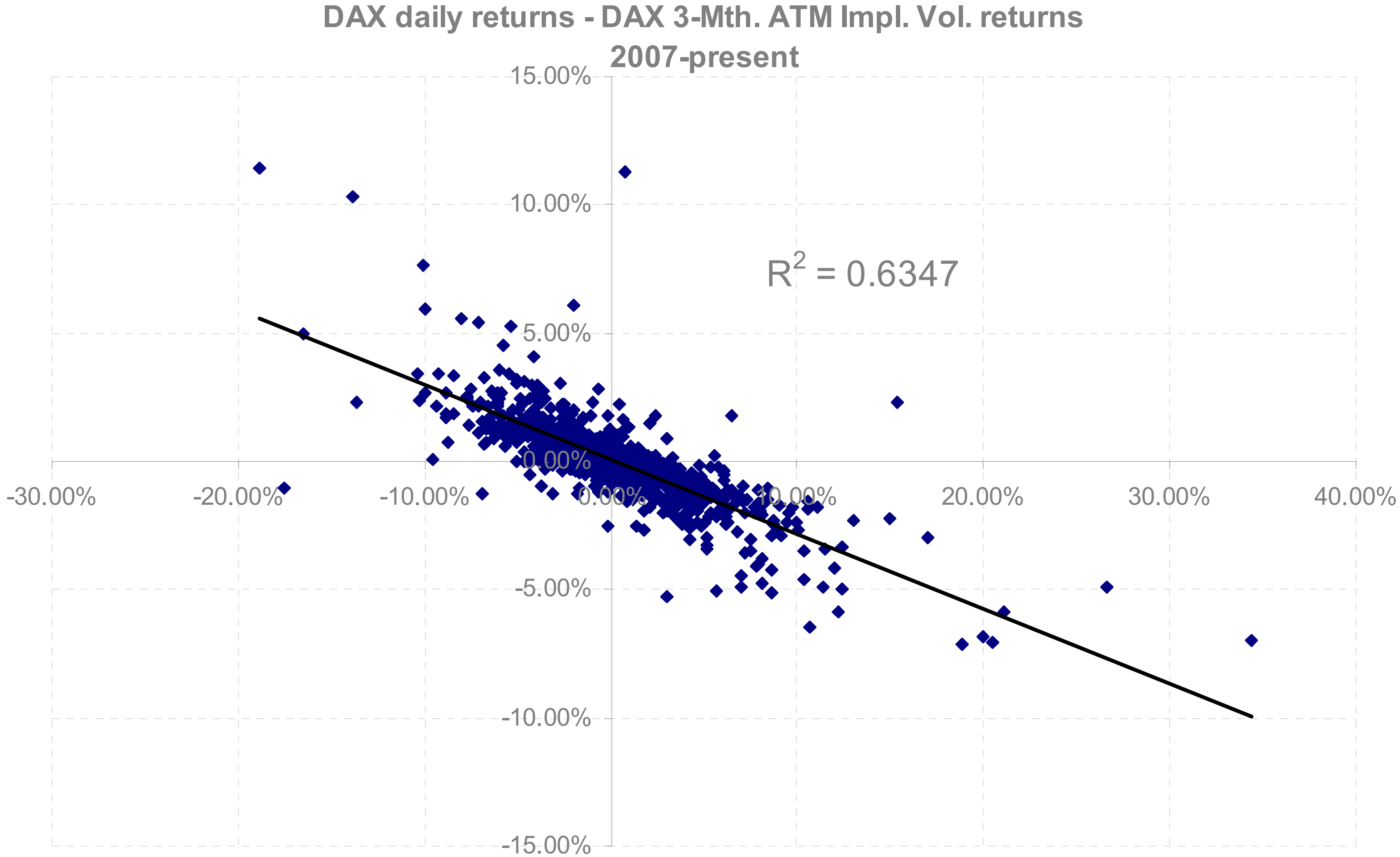

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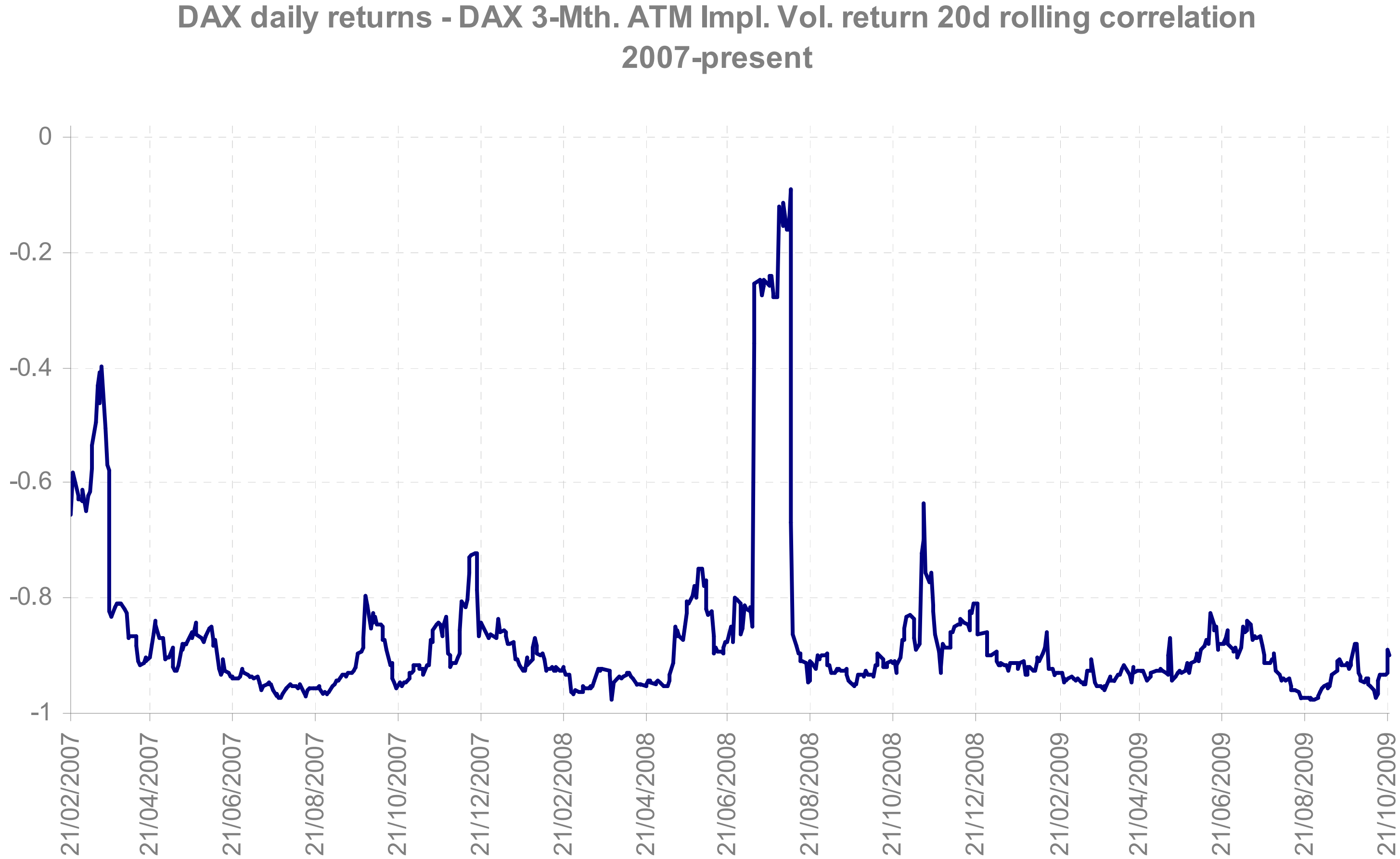
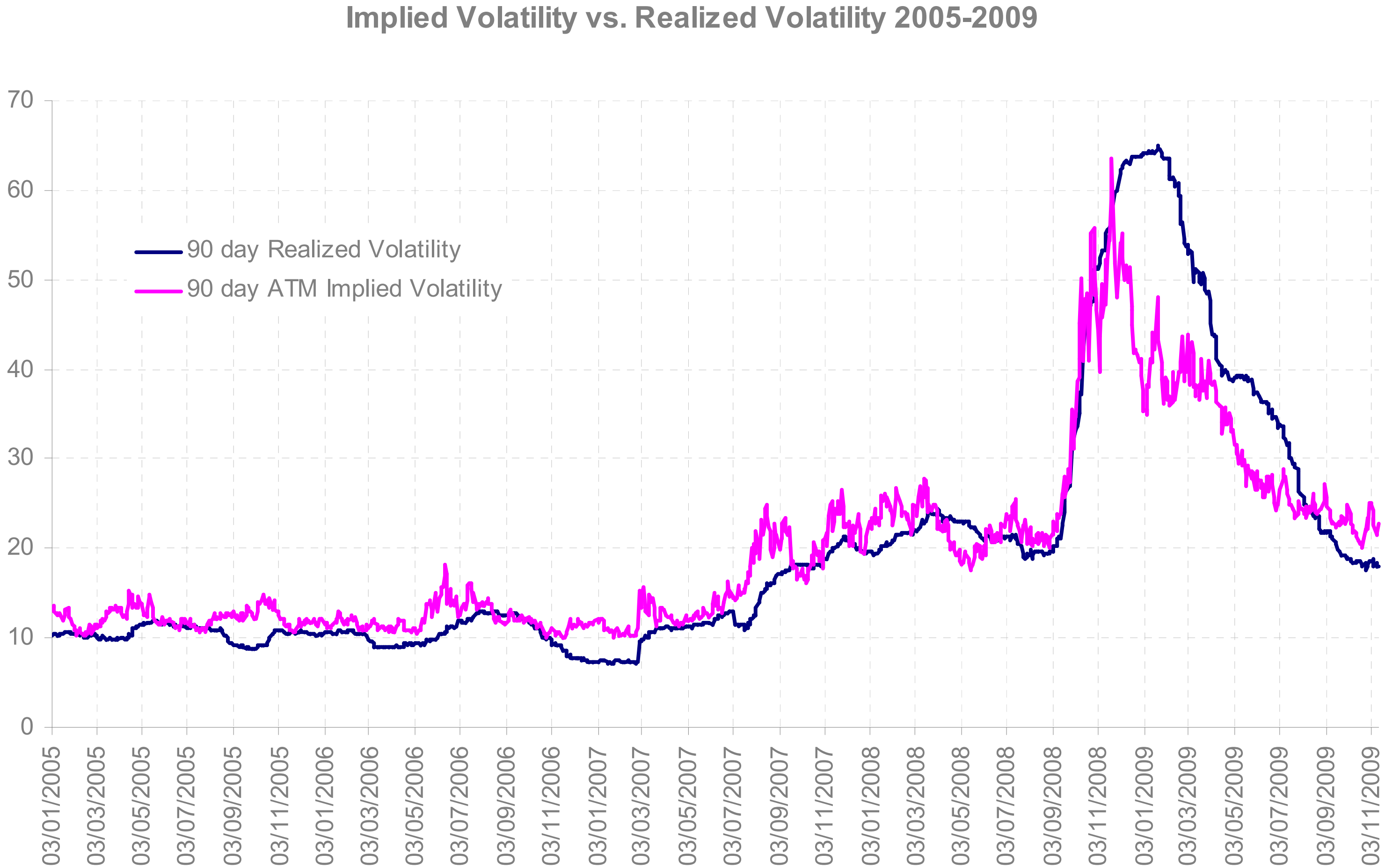


S&P 500 INDEX



Implied Volatility vs. Realized Volatility 2005-2009
90 day Realized Volatility
90 day ATM Implied Volatility
0
10
20
30
40
50
60
70
03/01/2005
03/03/2005
03/05/2005
03/07/2005
03/09/2005
03/11/2005
03/01/2006
03/03/2006
03/05/2006
03/07/2006
03/09/2006
03/11/2006
03/01/2007
03/03/2007
03/05/2007
03/07/2007
03/09/2007
03/11/2007
03/01/2008
03/03/2008
03/05/2008
03/07/2008
03/09/2008
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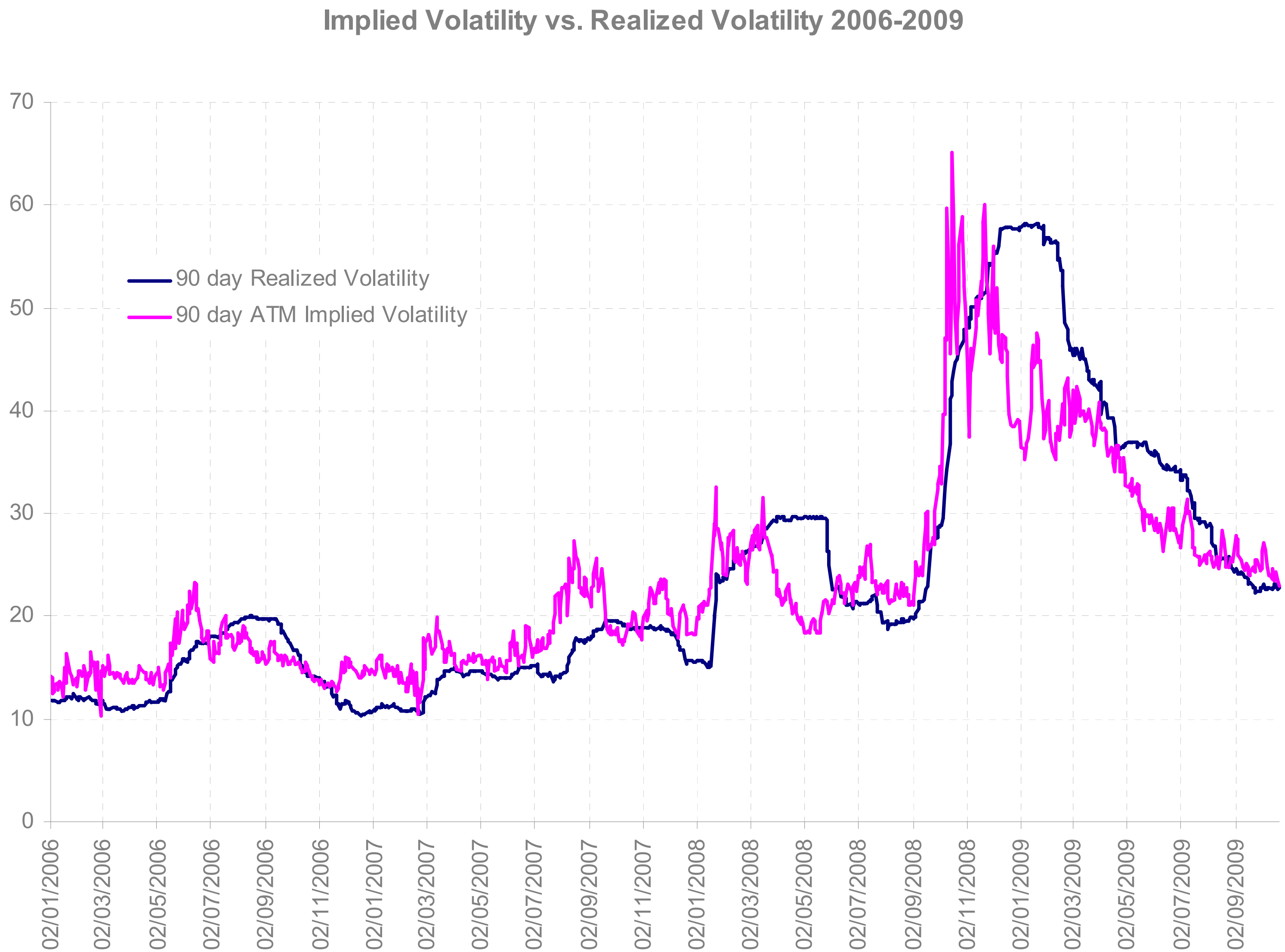
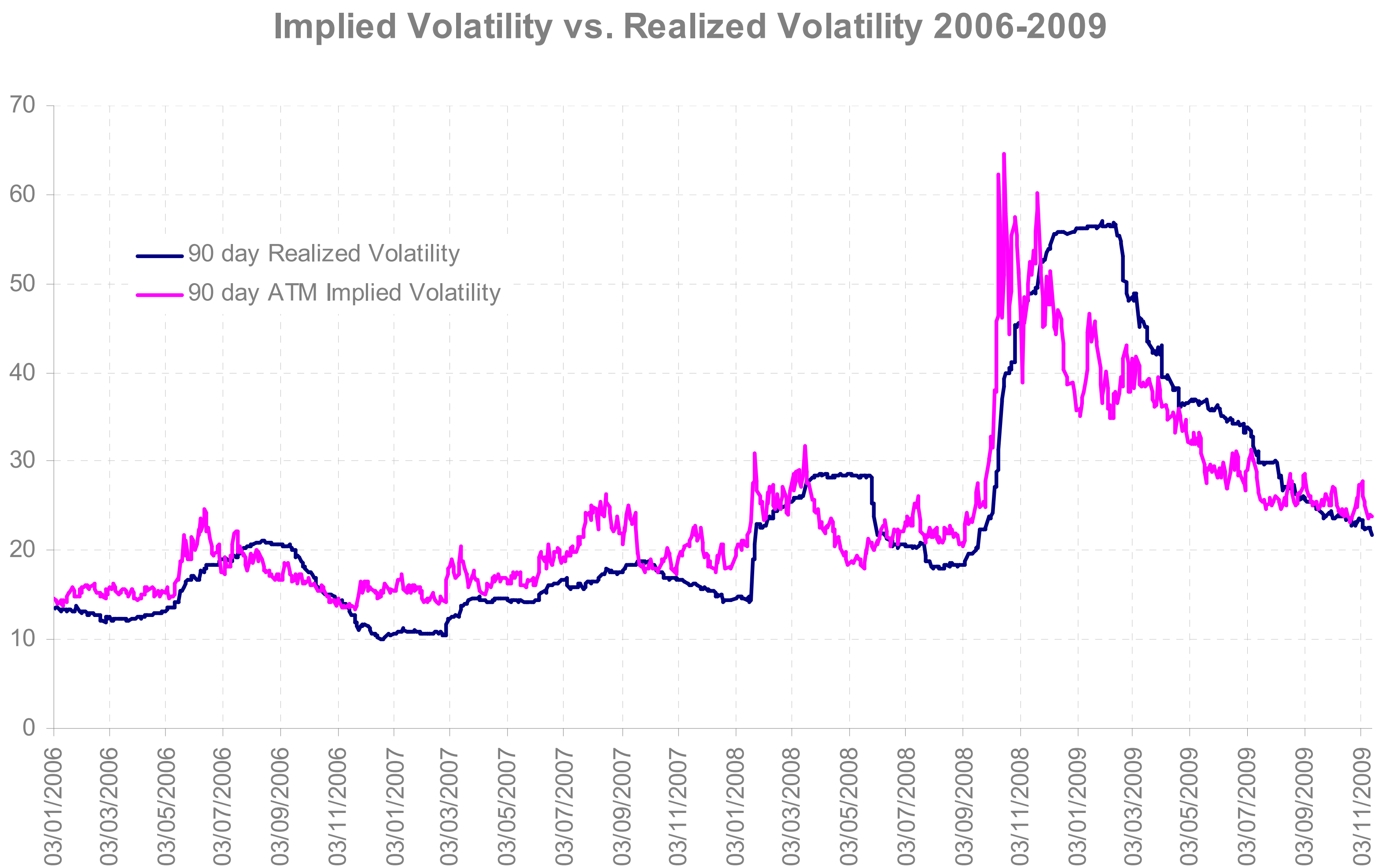
03/03/2009
03/05/2009
03/07/2009
03/09/2009
03/11/2009

EUROSTOXX 50 INDEX



DAX INDEX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90 day Realized Volatility
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03/01/2006
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03/09/2006
03/11/2006
03/01/2007
03/03/2007
03/05/2007
03/07/2007
03/09/2007
03/11/2007
03/01/2008
03/03/2008
03/05/2008
03/07/2008
03/09/2008
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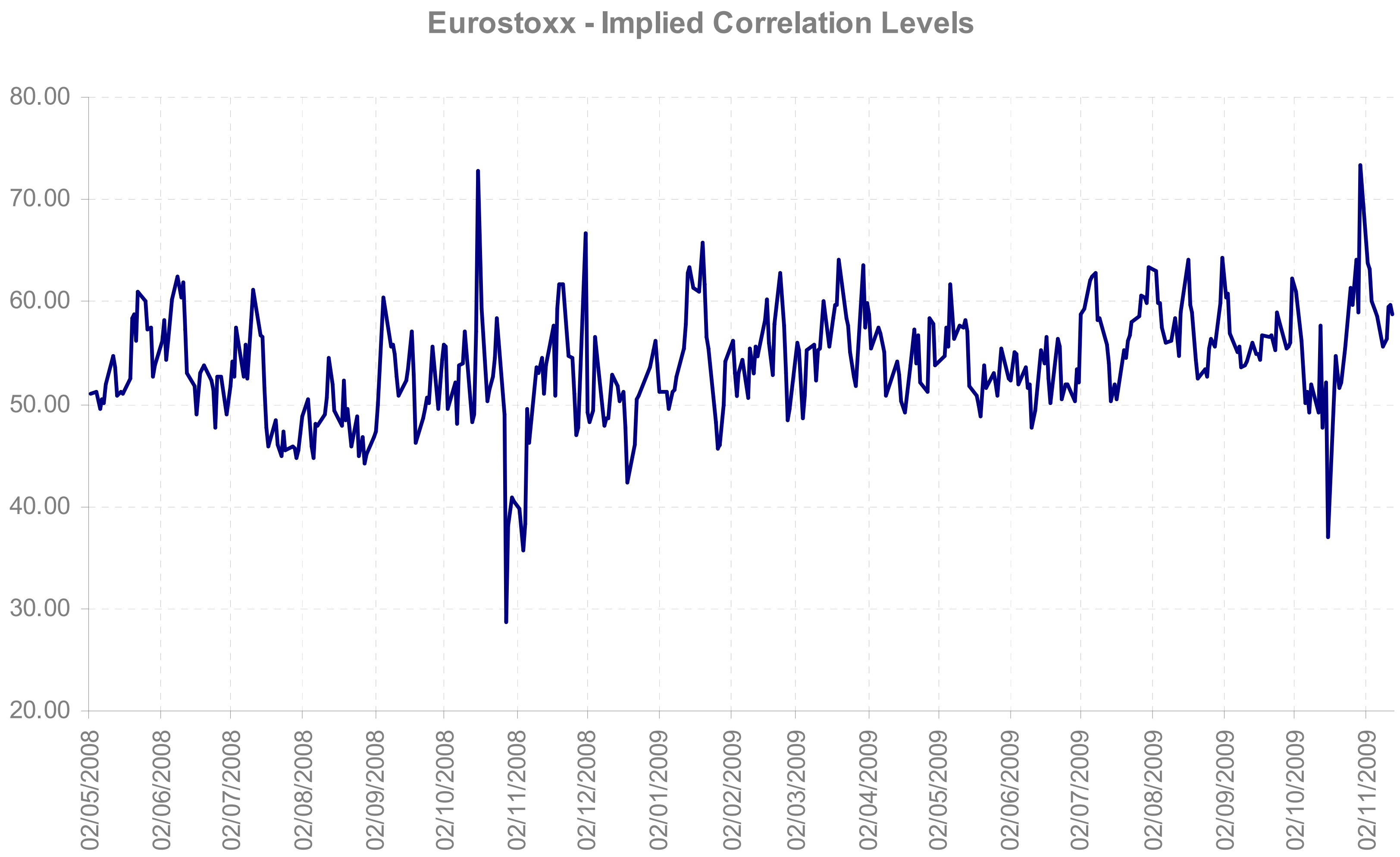
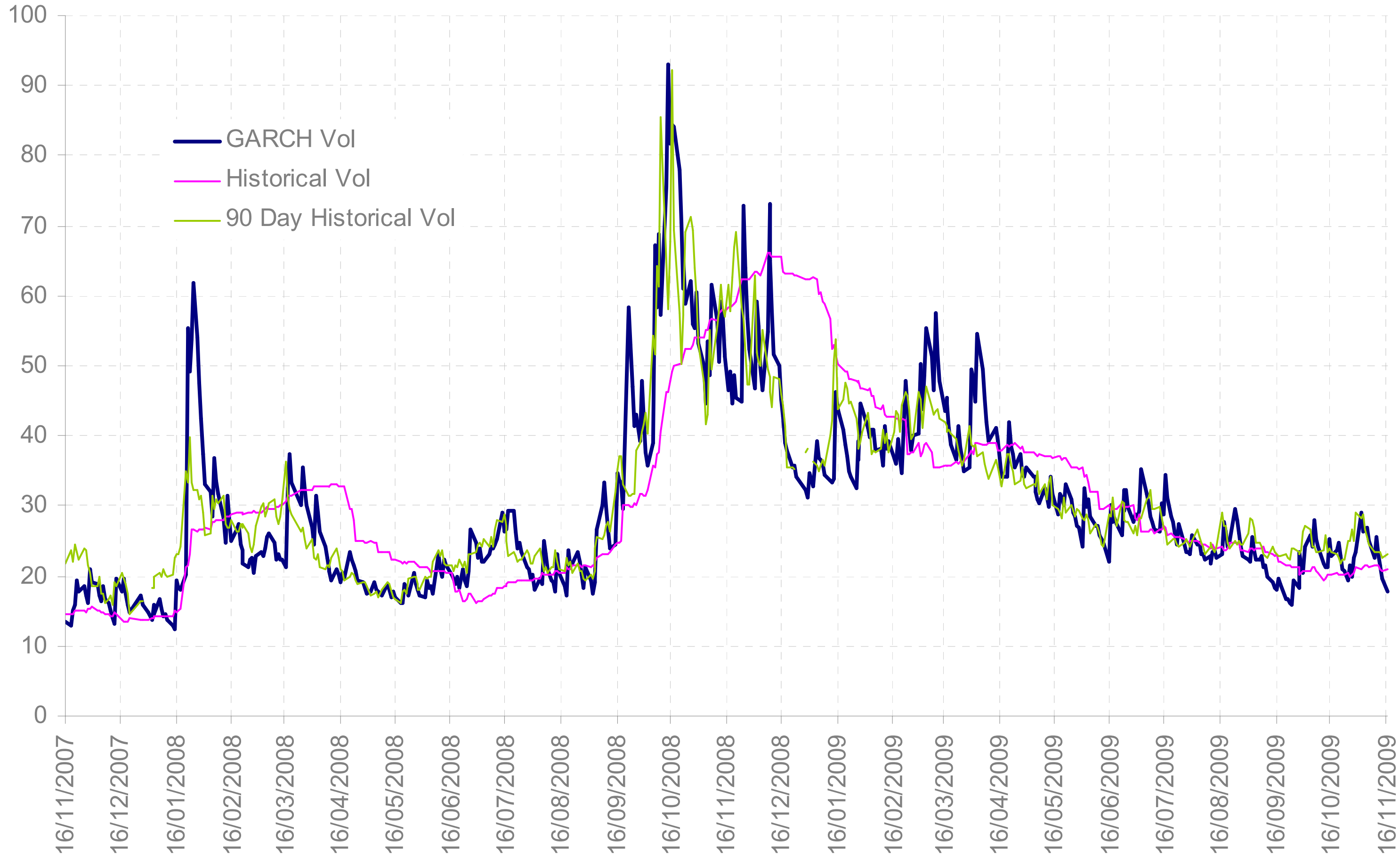
03/09/2009
03/11/2009

ARBITRAGE OPPORTUNITIES



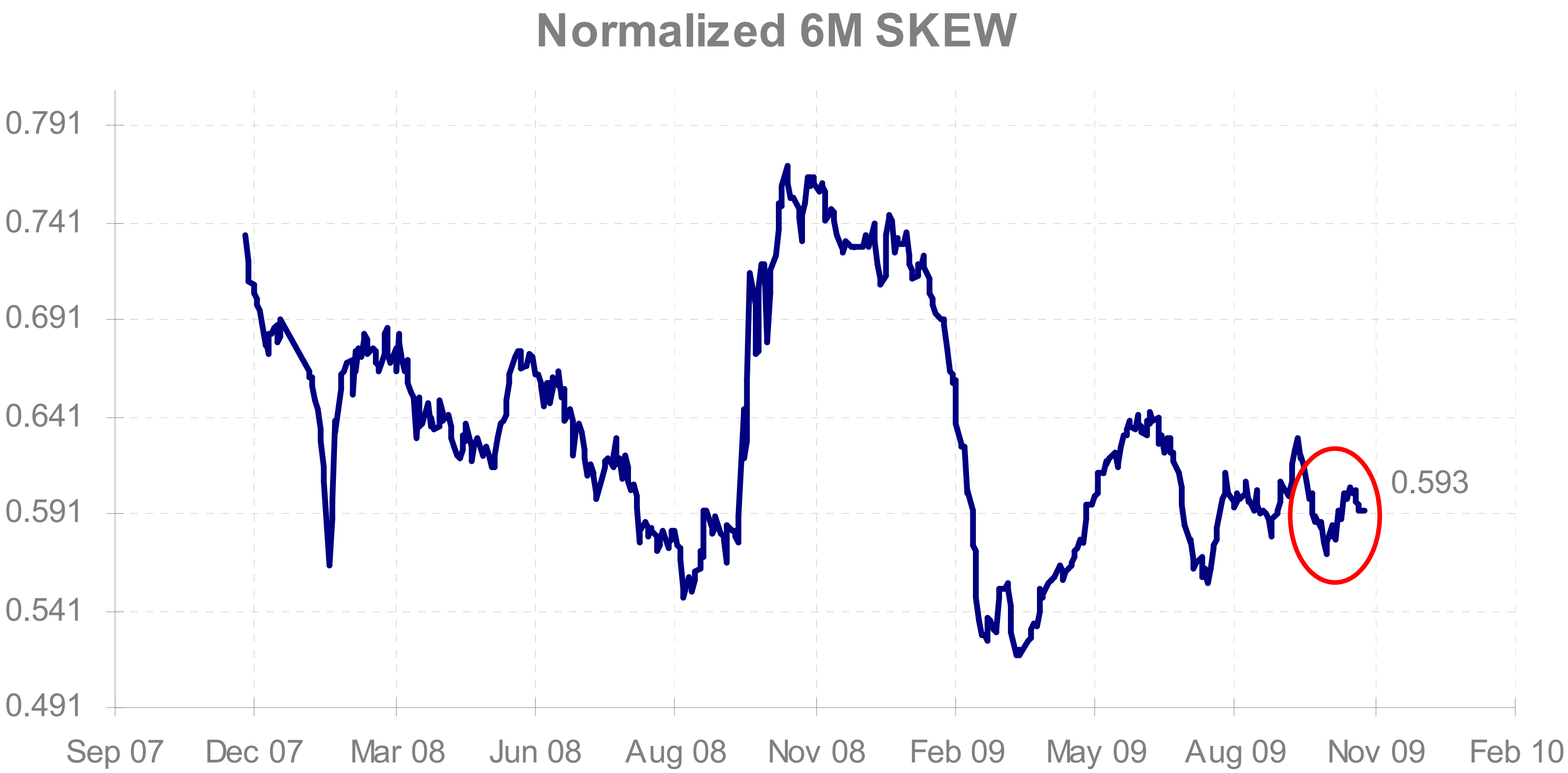
EUROSTOXX VOLATILITY ESTIMATE



EUROSTOXX 50 INDEX

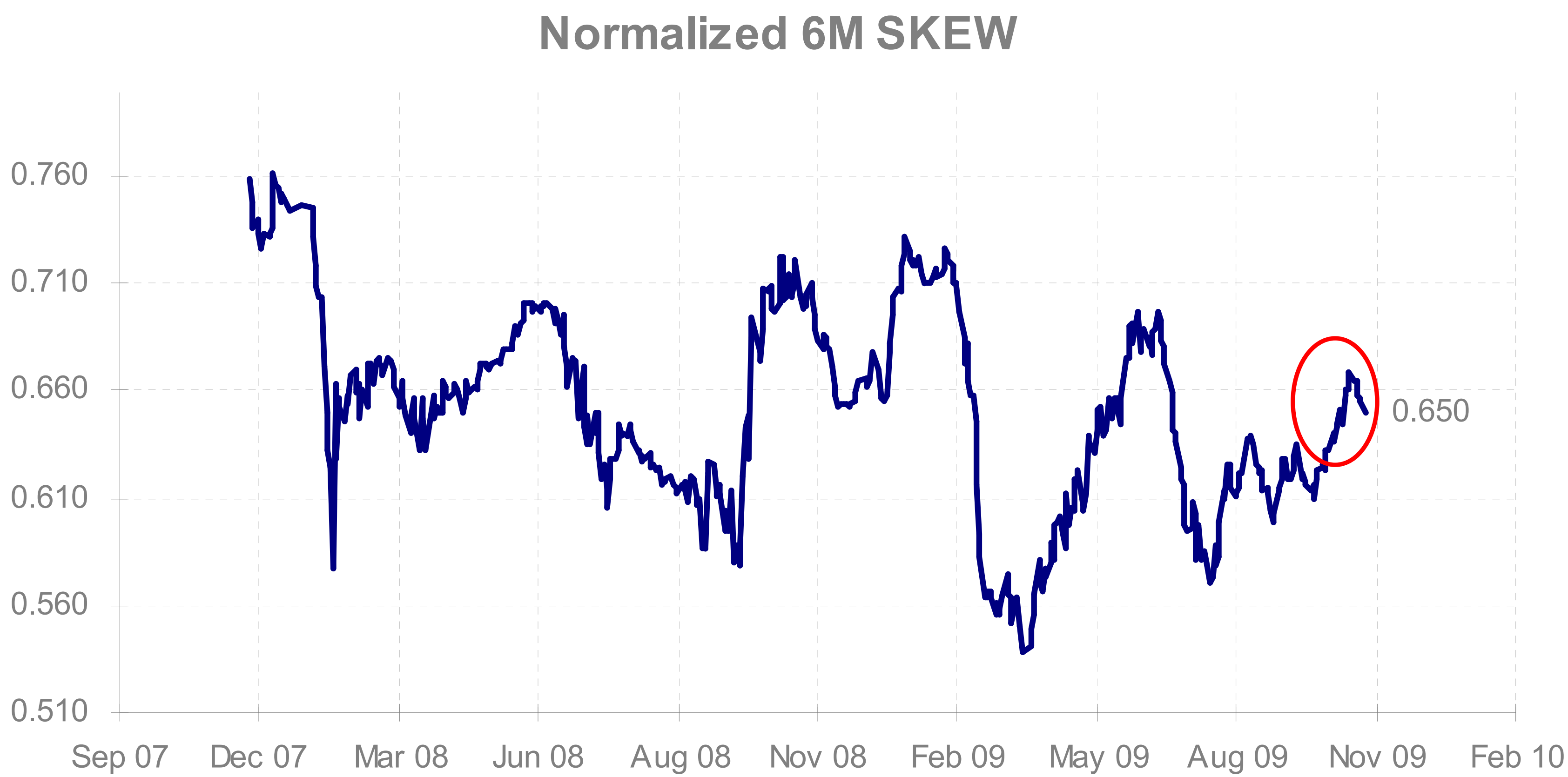
SOURCE: LIQUID CAPITAL MARKETS

DAX INDEX



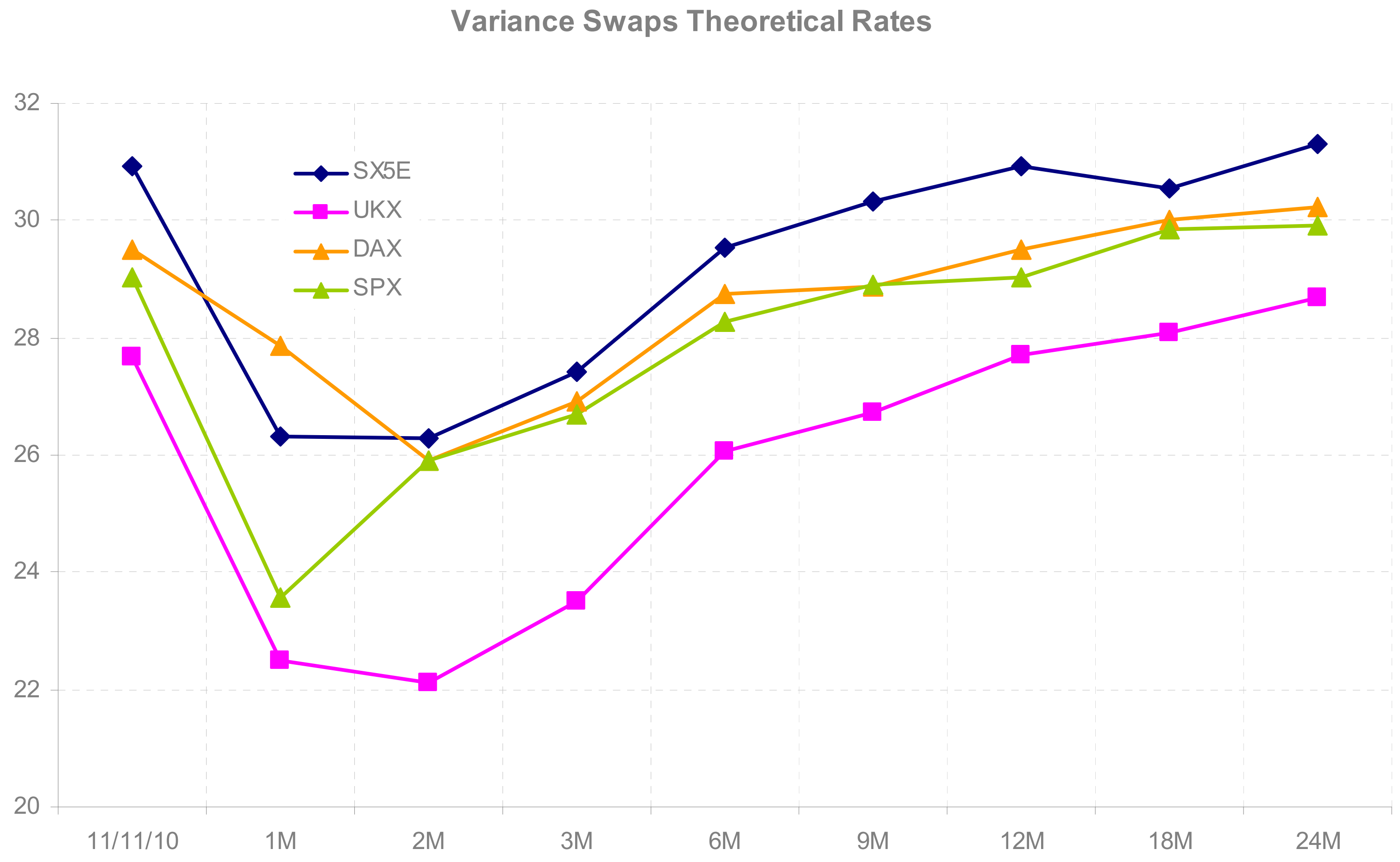
SOURCE: LIQUID CAPITAL MARKETS

FTSE 100 INDEX



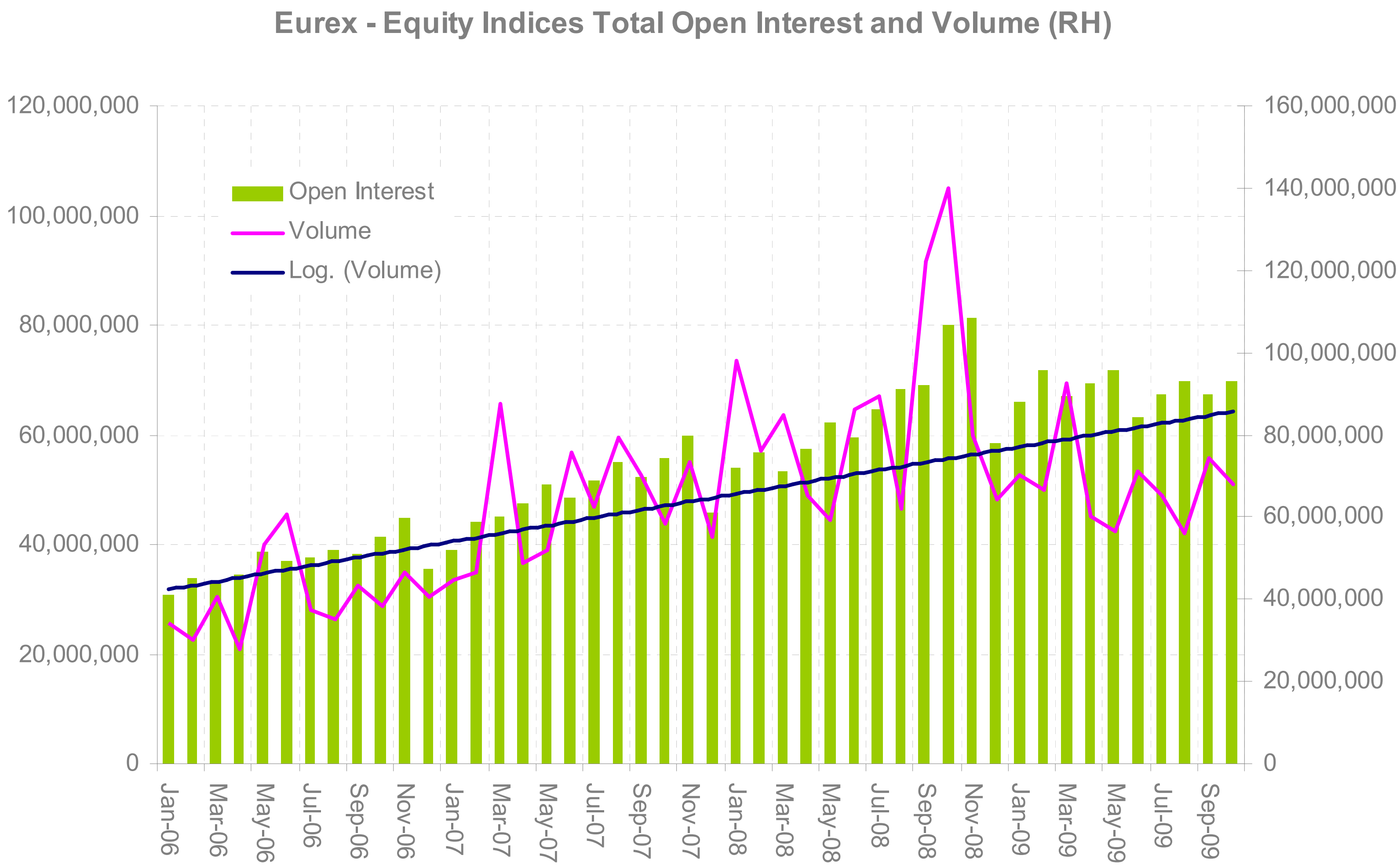
SOURCE: LIQUID CAPITAL MARKETS

TERM STRUCTURE



SOURCE: BLOOMBERG

EUREX – VOLUME AND OI HISTORY



SOURCE: FOW TRADE DATA

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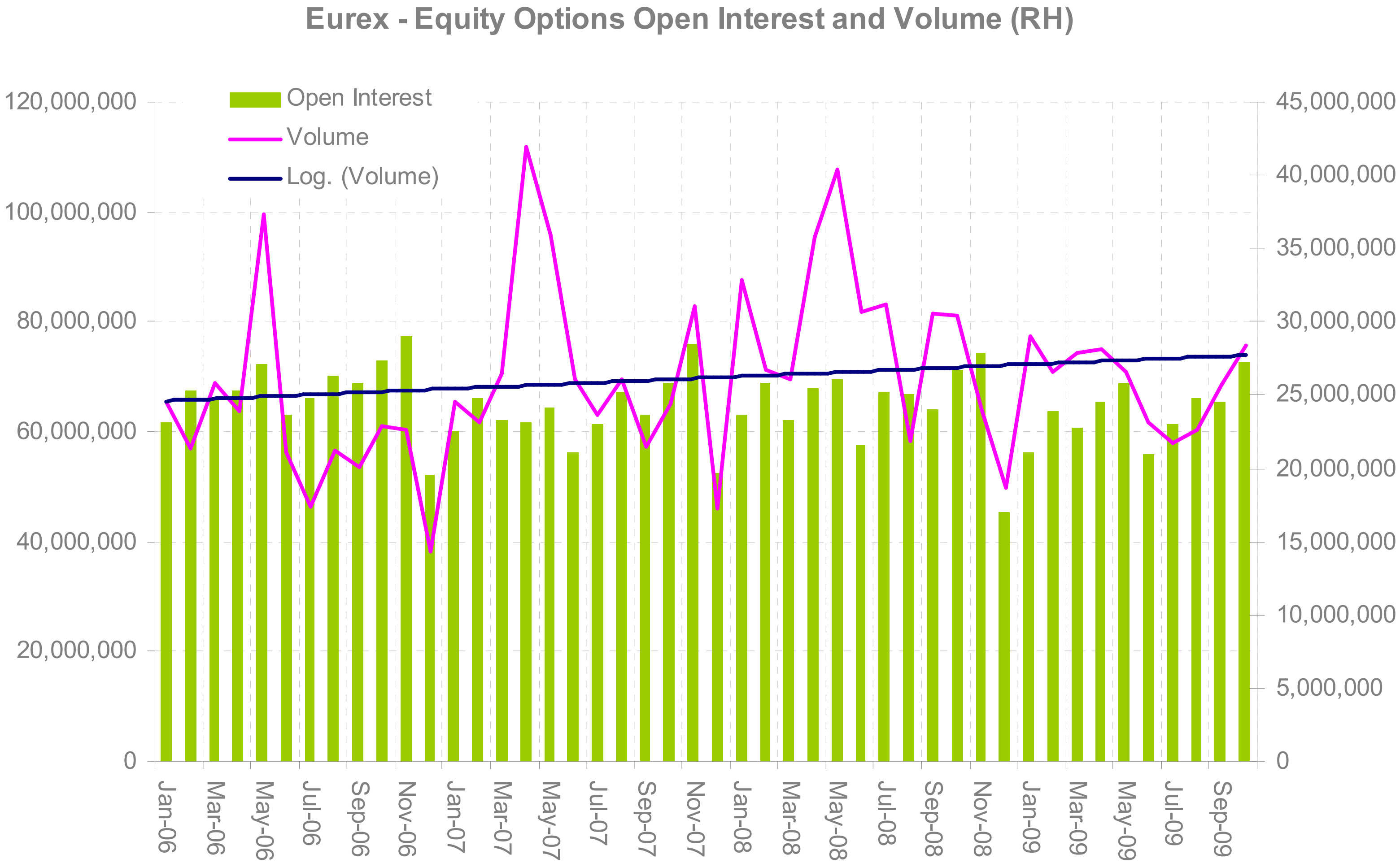

SOURCE: FOW TRADE DATA

CONCLUSIONS

WE EXPECT MID-TERM VOLATILITY SKEW TO REMAIN MODERATELY STEEP IN EUROSTOXX AND DAX AND TO BECOME STEEPER IN FTSE

GENERAL FEELING OF UNCERTAINTY IS CONFIRMED BY THE VARIANCE TERM STRUCTURE – BUYERS OF MID/LONG-TERM VOLATILITY

DERIVATIVES VOLUMES HAVE DECREASED BUT OPEN INTEREST REMAINES STABLE

ACTIVITY IS NOW CONCENTRATING IN INDEX PRODUCTS

IN BOTH PRODUCT CATEGORIES, LIQUIDITY IS PATCHY AND IT HAS NEARLY DRIED UP IN SINGLE STOCK OPTIONS

CONCLUSIONS

LIQUIDITY FLOWS REMAIN THE MAIN CONCERN

FORGET ALPHA, CAPITAL PRESERVATION IS THE NEW BLACK

THE PERFORMANCE OF EQUITY MARKETS IN THE NEXT IN THE NEXT 3 6 MONTHS IS PREDICATED ON QE PROGRAMS

INVESTORS WILL LOOK FOR CONFIRMATION IN EXTENSION OF QE PROGRAMS OR IN CONSISTENT BUY SIGNALS FROM MEDIUM-TERM INDICATORS

WEAK DOLLAR AND STERLING COULD GENERATE INFLATIONARY PRESSURE IN THE US AND UK

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