Chasing Yield

The 2Q12 was characterised by continuation of trends evident in recent times. The sovereign crisis in Europe rumbles on; indeed, it may be taking on a more troubling aspect. And investors, facing record-low interest rates and seldom predictable (in the immediate term, at any rate) interventions from politicians, regulators and central bankers, are increasingly taking on more risk in search of a yield.

Europe's political economy in crisis: update

In the 2Q11 Update, we noted the persistence of the crisis in what the classical economists termed 'political economy': an intertwined system where the market is framed by the political setting, which is in turn supported by the economy. At the time, we also quoted Deutsche Bank's chief international economist, who in Aug-11 memorably remarked that 'Lawmakers have done everything to destroy belief in their ability to solve the problems they're facing.' Indeed, we have little doubt that relentless 'banker-bashing' in recent years is in no small part a reflection of voters' (in the USA and Europe) belief that the politicians in power have let 'bankers' (often, rather loosely defined) too easily off the hook, or were even colluding with them.

Unlike the USA, though, the EU does not have one Government. The sovereign crisis in Europe is now moving onto the potentially the most troubling path, that characterised by the growing rift between France and Germany. For decades, the close alignment of the two European heavyweights provided the bedrock for the EU; however, Germany's insistence that further help to troubled European economies be tied to austerity clashes with Hollande's Keynesian approach, bringing into question EU's coherence at the highest level.

In the near term, we expect the two Governments will do their level best to find common ground: after all, Eurozone countries agreed to extend a EUR100bn loan to Spain's financial institutions in June-12 without fresh austerity conditions (for the record, we doubt Spain will be able to deliver on the fiscal adjustment equal to 5.5% of GDP; see the 1Q12 Update), complete with the late-June-12 change in rules governing the European Financial Stability Facility (EFSF) which enabled the money to be loaned directly to Spain's own bailout fund, FROB. This could have been a one-off: in early Aug-12, ECB's President Mario Draghi stated that EFSF/ESM funds will be dispensed only at the request of a Government, and contingent on that Government agreeing to the conditions imposed (he also said that ECB might complement this with purchases of sovereign bonds in the secondary market, which Bundesbank loudly opposed). At any rate, we view the Bundestag's July-12 overwhelming vote in favour of the EUR100bn emergency loan for Spain's banks – during the summer recess, no less! – as far more important: in return for the loan, Spain reportedly agreed only to stricter oversight of banks receiving money from FROB (ehm…), a limit on pay packages of these banks' executives (hardly unique in Europe), and closer monitoring of Spain's implementation of structural reforms requested by the EU (e.g. liberalisation of the domestic labour market, an increase in retirement age, and similar measures). In short, this loan to us signals an acknowledgement that the European sovereign crisis is so much out of control that saying 'no' (to an economy as big as Spain's, anyway) is not really an option, even if it means extending a loan to Spanish banks without obtaining real control of the Spanish banking system. This may not become a norm; but may prove an important precedent.

A longer term – and a much larger – issue is European voters' belief that they are essentially choosing between 'Keynesian' and 'austerity' Governments. At best – i.e. leaving aside the potentially anti-democratic consequences of such polarised voting[1] - this could split the EU into two camps, naturally grouped around France and Germany (in economic matters, that is). Almost a dozen presidential and parliamentary elections scheduled between now and the end of 2013 will likely swing the key EU countries (informally led by France?) in favour of the Keynesian approach. Germany, by contrast, is very unlikely to follow such path – certainly not on Chancellor Merkel's watch - and will, eventually, insist that supporting GIIPS economies must be matched by the real fiscal (preceded by banking?) union. And that, we expect, will prove problematic: European voters have shown little enthusiasm for giving up control over their national budget (and therefore sovereignty) to Brussels (/Berlin) and even less for Germany's belt-tightening approach. Without the former, we do not see how the latter could be enforced; and so we expect the European sovereign crises will, in the next year or so, take on a whole new – and likely more lasting – aspect.

[1] *We recommend Bertelsmann Stiftung's Transformation Index for a dynamic review of 'transition' countries' economic, democratic and legal policies.*

Results Overview

Primary fees extended a decline from 1Q12, albeit at slower pace – see the 'Results Summary' table below. M&A/Advisory and ECM both extended the sorry trend of recent quarters; thus far, we see no need to reverse our downbeat predictions for 2012. For most banks featured in this report, though, DCM bond and loan fees were the key area of weakness, both posting double-digit y/y declines in 2Q12. One notable area of strength is CDO issuance, which SIFMA put at the highest level since 2008; the issuance is tenth of the size it was prior the original Credit Crunch but, importantly, CLO managers are returning to the market. Highlights:

- DCM bonds had an OK-ish 2Q12. On y/y US$ basis, 2Q12 global high grade bond issuance fees held up reasonably well (volumes for Top 10 players were slightly down vs 2Q11, but higher margins compensated, to a degree) and high yield volumes were well above 3Q11 and 4Q11. At 'Ground Europe', investors' 'flight-to-quality' has moved from sovereign bonds of stronger economies to corporate issuers from those countries - as well as issuers from the UK and the USA – depressing yields in the process: WSJ, citing Markit, stated that, as of July-12, a significant proportion of bonds included in the benchmark Europe corporate bond index are trading with yields below 1.5% (some below 1%) and about half of these are issuers from strong(er) Eurozone economies: Germany, France, and Nordics. GIIPS corporate bonds, by contrast, fared badly (see below).

  We remain, put mildly, cautious regarding the outlook; but also note that, barring some unforeseen macro disaster from the sovereign saga in Europe, such meagre returns may well nudge investors in Europe towards high(er) yielding corporate bonds: a surge of investors' interest in US bank bonds during 1H12, which utterly ignored credit rating agencies' downgrades, as well as lacklustre earnings and gloomy outlook, is a sensible example.

- DCM loan volumes in Europe (excluding MEA) nosedived by c.30% after a very busy 1Q12, and our sources generally agree that margins dropped apace. High-grade loan syndication volumes are being squeezed from both demand and supply side: European high-grade corporates are not in a great rush to borrow; and banks, faced with ever-higher cost of funding which in many cases is well above what the top-rated European corporate are willing to pay for loans, depend on rates, FX, M&A etc products to turn a profit from high-grade loans. As deleveraging by European banks continues in 2H12 and beyond, we expect better-capitalised US banks (principally, Bank of America Merrill Lynch and JP Morgan) will continue to take market share from European lenders, a trend we discussed in the 4Q11 Update.

  In the high-yield/distressed arena, the US and European leveraged buyout firms and distressed-debt funds continue to raise money for distressed opportunities in Europe (the 1Q12 Update). In Aug-12, PriceWaterhouseCoopers was quoted as saying that distressed-debt funds (i.e. excluding 'traditional' LBO firms) accumulated AuM in excess of $120bn, including leverage. (As a point of reference, according to Bloomberg data, banks extended $104bn worth of high-yield loans in Europe in 1H12, a 25% y/y decline.) The funds' money is finding its way into the market in many ways: for example, Bloomberg recently reported that Kohlberg Kravis & Roberts (KKR) almost doubled its direct lending to distressed borrowers in Europe, from $260m in 1H11 to $513m in 1H12, and KKR is but one of the high-profile firm making waves in this area. Further, most, if not all, of 'our' banks are comfortably on target to meet end-2012 Basel 3 requirements[2] and may not stay on the sidelines in the coming year.

  To us, the single most important issue is whether there will be further LTRO-like actions by central banks in 2H12 (we think yes) and whether those will be big enough to continue acting as inhibitors to the (re-)start of the distressed market, as was the case thus far. Next – and in sharp contrast to the USA - will be the question of national jurisdictions, and the structure of available deals: in Europe, bank loans are proportionately more important than other forms of financing. We still expect the distressed market in Europe will (gradually?) wake up; but it is very difficult to predict how soon.

  Outside of EMEA, says Dealogic, North American and APAC ex-Japan loan volumes fell by 38% and 20% y/y, respectively, but our sources agree that fee margins held up well in both regions.

[2] *BNP Paribas Group probably got there first: at end-1H12, it reported Basel 3 Core Tier 1 ratio of 8.9%. The Group's end-1H12 Basel 2.5 CT1 ratio is 10.9%, compared to Societe Generale's 9.9%.*

In secondary markets, JPM's CIO prop trading loss from May-12 deserves a special mention. The very same day, Senator Carl Levin, a co-author of the 'Volcker Rule', said this was a 'stark reminder' about the dangers of prop. We are not quite sure what 'reminder' Senator Levin was referring to: as we pointed out in our May-12 'The Basel Committee trading book proposals' report, proprietary trading losses accounted for less than 4% of all losses incurred during the Credit Crunch. The full Volcker Rule would not have prevented the last crisis, never mind the next one; and JPM CIO loss, while certainly sizeable and embarrassing, in itself does not change the overall picture.

Equity markets highlights:

- Cash equity continue to shrink (the 4Q11 Update): we estimate the Top 3 revenue generators' featured in this report saw their average cash equity revenue fall to the lowest quarterly level since 4Q10. Regionally, we hear that EMEA units of banks included in this report suffered the steepest decline in revenue - 25% during 2Q12/2Q11 - though the composite figure masks the growth in a relatively low-value MEA. In the USA, 'our' banks' equity commissions held up better, but still registered a double-digit 1H12/1H11 decline.

  In APAC, according to World Federation of Exchanges, the value of stock trades dropped by 22% during 1H12/1H11; this was driven not so much by the number of trades (which was actually slightly up vs 1H11), but by a decline in market cap, with steepest overall decline being registered in small(er) trading centres. This rhymes with our intel suggesting that most banks' – their margins under constant pressure, as we discussed in the 4Q11 Update – are concentrating their efforts in regional hubs. Most recently, doubts about China's economic outlook[3] in the face of European sovereign crisis brought into sharp focus the banks' APAC equity units' fledgling profitability, which we commented on throughout 2011. Equities account for a lion's share of banks' regional revenue, so this is, to *understate*, a problem unlikely to go away anytime soon. Among 'our' banks, Deutsche Bank, Goldman Sachs, and UBS are all reportedly reducing staff across their regional equity divisions, including ECM; we do not expect a sudden reversal in (the perception of) the regional macro outlook, and so expect to hear of further job cuts in 2H12, independent of (however unlikely) stabilisation in revenue.

- In the 4Q11 Update, we anticipated a tough 1H12 for prime brokers. This prediction proved only partially correct. We correctly identified broad trends: leading providers indeed continue to benefit '…from hedge funds generally abandoning the multiple broker model', and macro and special situation funds enlarged their share of the 1H12 institutional wallet (in May-12, macro funds posted their best monthly result since Apr-11). We underestimated, however, the extent to which North America and APAC earnings would offset the expected weakness in Europe, which was hit hard by the general unpopularity of equity strategies; at the global level, in US$ terms, we estimate the average revenue for the 11 banks featured in this report was flat-ish 1H12/1H11. That said, we note a considerable slowdown in 2Q12/1Q12 revenue compared to the 1Q12/4Q11; and looking ahead, we expect that a combination of low interest rates, banks' pressured balance sheets, and hedge funds' reduced activity will result in a slowdown in prime services revenue, especially in Europe; leaders, though, may benefit from smaller players pulling out.

- The sale of structured CDs in the USA shows no signs of a slowdown, and our recent research points to further acceleration during 2H12. Estimates[4] of the market size vary. NYC-based Structured Products Association estimates $60bn worth of structured products was sold in the USA in FY11, up 20% y/y and nearly 2x above FY09. In late 2011, a senior market participant estimated that annual sales of structured CDs alone may reach $25bn in the near term; another commentator estimated annualised FY12 volume at $30bn, which we find somewhat optimistic. Either way, non-participants mostly agree that the risk/profit from these instruments is skewed in favour of issuers, rather than investors; we would not argue with that view…

  … but would not expect a slowdown in sales anytime soon, either – quite the contrary. Partly, our view is due to Financial Industry Regulatory Authority's (FINRA) Apr-12 decision not to ban retail

[3] *Those doubts are not universally shared . In Aug-12, Bloomberg reported that Chinese regulators granted, in the first seven months of 2012, almost $7bn of quotas for purchases of mainland securities, the highest figure to date. While local investors are reportedly staying on the sidelines, regional fund managers are investing at a record pace.*

[4] *Structured (market- / equity-linked) CDs guarantee a repayment of the principal at maturity; so long as risks are fully disclosed to investors, the USA regulators treat these instruments as bank deposits, rather than securities and allow these to be backed by the Federal Deposit Insurance Corp (FDIC), up to $250k. Being bank deposits, structured CDs are not registered with the SEC, so the market size is estimated by specialist firms and market participants.*

structured products even if they seem too complex for the retail market, despite its handing out fines to several issuers in May-12 (the 1Q12 Update) and several of the US States reportedly conducting their own review of these products as of mid-2012. A greater factor, though, is the investors' (including the 'traditional' CD retail buyers who have seen their returns dwindle in recent years) hunger for yield, and structured CDs do advertise juicy returns: 4-7% annual return in the first year is common, with more extreme instruments offering up to 20%+ annual return (albeit with 0.5% return in the worst-case scenario). Banks have so far had little difficulty in keeping their fees at 6%+, including hedging and distribution fee; in the surging market, price competition seems an unlikely prospect in the near term.

Fixed income markets revenue in 2Q12 was noticeably down relative to 2Q11. Rates and FX put in a reasonable performance in 2Q12, with some of 'our' banks doing particularly well in money markets. Overall, credit trading revenue nosedived; not surprisingly (the 1Q12 Update), we hear the hardest hit were the European units, impacted the absence of LTRO' 'sugar rush'; GIIPS' high-grade corporate bonds were also hit in May and June-12. That said, we also note pockets of relatively strong revenue generation: some banks saw an uptick in distressed and loan trading as a drop in average loan prices bounced back in June-12. Over in the USA, the US Treasury, US bonds and muni markets were all resilient. Our Jan-12 prediction that muni revenue will hold up has thus far proved correct though we are now reviewing that opinion in light of the latest market developments. Highlights:

- In mortgages, in mid-June-12, The Fed's disposals from crisis-era Maidel Lane (ML) vehicles repaid all $73bn of loans that The Fed made during the Credit Crunch. Of this, ML III – the latest portfolio[5], dating from Nov/Dec-08 and comprising CDOs from AIGFP' counterparties - accounts for $24bn. A month later, ML III also repaid AIG's $5bn equity contribution plus interest, and paid residual profits to The Fed. There will be more: as of July-12, ML III still had $19bn of securities available for sale and The Fed will receive 2/3 of residual profits generated by these sales (which are not subject to a fixed timeframe, only to The Fed's thus far very fine read of the market).

  To date, investors – including most of 'our' banks – bid with enthusiasm for Maiden Lane (and similar) assets, and the consensus has it that ML III will have little difficulty disposing of the remainder of its portfolio. After a difficult 2011, investors' current view is that the worst is over for the housing market[6]; with non-agency RMBS securities - backed by subprime, prime, or Alt-A mortgages - reportedly yielding 5-9% (and that is *down* from 1Q12), weekly trading volumes reached $11-15bn in July-12, according to Deutsche Bank, with subprime accounting for up to 1/3 of the volume. It is early days yet, but – barring a renewed recession and/or a resultant jump in delinquency rates - this rally may have legs: learned market participants point out that some hedge funds are locking in the gains. We, on the other hand, give greater weight to reports that 'long-money' from pension funds and insurers are investing eagerly and anticipate banks' seasonally-adjusted revenue in 2H12 will therefore be considerably better than 2H11. Non-agency RMBS trading is also likely to be supported by further increases in agency MBS trading levels as investors see opportunities from the rising USA housing market.

  The outlook for the CMBS market may be even more difficult to call. On one hand, the market is not exactly in rude health: the delinquency rates in the US commercial real estate loans in CMBS have been rising through most of 1H12 to reach 9-10% by the end of July-12, according to specialised commentators – and this is happening in the era of record-low interest rates that are unlikely to go up in the foreseeable future. Perhaps more tellingly, special servicers, led by investment funds-owned LNR Partners, CW Capital and C-III, liquidated $6.5bn of CMBS loans during 1H12; of that, $2.4bn generated little or no loss, but the remainder did, nearly $2bn, equivalent to c.50% of loans' balance.

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[5] *Maiden Lane II LLC (comprising AIG's assets with $39bn par value as of Oct-08, purchased with the loan from The Fed for $19.5bn) was the first to complete the sale of the portfolio, in Feb-12; the net proceeds, plus the related cashflow, exceeded the value of the original $19.5bn loan by $2.8bn, including $580m interest. Maiden Lane I LLC, formed in Mar-08 to facilitate JP Morgan's takeover of Bear Stearns, borrowed $29bn - not including the $1.2bn subordinated loan from JP Morgan - to purchase a portfolio of RMBS, CMBS and related derivative securities from Bear Stearns. In mid-June-12, this vehicle fully repaid all the loans made by The Fed.*

[6] *S&P/Case-Shiller Composite-20 City Home Price Index is a benchmark index of y/y changes in residential home prices in 20 metropolitan markets in the USA. At end-May-12, this index stood at -0.7%, showing by far the slowest price index decline over the previous year's period (seasonally-adjusted, the index probably rose). For comparison, this index was showing 3-4% monthly y/y declines during 4Q11 and 1Q12, falling to 2.5% and 1.8% by end-Mar-12 and end-Apr-12, respectively.*

A growing number of investment funds like these odds[7]: Angelo Gordon & Co., Brevan Howard, LibreMax (co-founded by 'I'm short Your House' Gregg Lippmann, formerly of Deutsche Bank) and many others are increasing their allocations to CMBS and/or raising new money. Banks are not idling, either: in May-12, Barclays Capital and Morgan Stanley won an auction of $1.5bn CDO 'Wave' – CMBS 1.0, 2007 vintage – offered by UBS; we understand both banks quickly found ready buyers for these securities and/or the underlying property bonds. On balance, we expect 'our' banks will grow CMBS trading and underwriting revenue in 2H12 versus 2H11; but we also doubt such growth will be in a straight line, or indeed evenly spread across the peer group.

- In June-12, we reported on the resilience and the superior cost efficiency of electronic trading in EMEA Equities. Believing that, once released, technology will not be rolled back[8], we and our partner firms have also been monitoring 'e-developments' in various fixed income markets. FX trading, of course, is easily ahead: depending on definitions, market commentators estimate that 40-60%+ of global FX volume trades electronically[9] via specialised electronic brokers, single-dealer and multi-dealer platforms (SDP and MDP, respectively).

  Adding to the high-level comments we made in the 1Q12 Update, our current interest is in the relatively small, but lucrative, FX options market.[10] Largely due to the complexity involved in pricing of these products, SDPs dominate this space; and electronic trading, while a growth market, remains a fraction of voice-dealing volume in both Europe/London and the USA, and focused on major developed and some emerging markets currency pairs. The incoming regulation may well cause a fundamental shift in the market. The Dodd-Frank Act, which *currently* covers FX options, swaptions and non-deliverable forwards (though not narrowly-defined FX swaps) looks likely to shift FX options to central clearing. The lack of clarity around the timing of the full introduction of new rules, however, is a key issue for market participants: European and the USA regulators are not exactly in agreement on all aspects of FX options trading and are likely to deal with credit and rates clearing first; rather importantly for the very global FX trading, APAC is an uncharted territory.

  Timing aside, we expect to see these key trends over the next couple of years:

  - High-volume users of FX options – funds, mid-size banks, corporates – will continue to favour their chosen SDPs until the regulatory switch to central clearing becomes a certainty.
  - Electronic trading will continue to gain in importance as SDPs accelerate the development of new and increasingly complex 'e-products'. We expect this shift will be gradual, but also note a surge in automated trading in other fixed income markets. Granted, bond trading (which our research suggests is the next big 'e-arena', including anonymised trading in high-yield and converts) is hardly the same as trading FX options; but it does suggest e-solutions are being found in markets that were, until recent years, considered too illiquid (or, some would point out, too profitable) for scalable e-trading. E-trading is generally most advanced in Europe, but APAC and the USA banks are catching up fast, the latter with Basel 3-type enthusiasm[11].
  - A 'mass-market' high-frequency trading is several years away. Some SDPs (Credit Suisse is often mentioned as one of the prime examples here) will, however, trade directly with clients they know well.

According to our research, the leaders among banks included in this report, in alphabetical order, are Barclays Capital, Deutsche Bank, Goldman Sachs, and JP Morgan.

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[7] *From Jan-13, there will be a shiny new index to aid hedging, courtesy of Markit. Unlike the existing CMBS indices, which are linked to legacy/pre-Credit Crunch issues, the new CMBSX.6 will be based on newer issues (including the 20-odd new issues since mid-2011), broadly known as 'CMBS 2.0'*

[8] *…though it might be slowed down. In the wake of the near-collapse of Knight Capital in Aug-12, regulators are gearing up to increase their oversight of various forms of electronic equity trading. Slowing down the execution time, and/or insisting customers specify price bands for buy/sell orders seem two of the more sensible ideas presently making rounds.*

[9] *The explosive growth of retail FX in recent years deserves a special note. Retail FX is particularly popular in 'carry pairs' trades (it may account for as much as 10% of global spot volume, excluding interbank trades) and in APAC, though it has grown at an estimated rate of 30%+ over the past 5 years or so, and spreading globally. Pioneers were independent firms, but major banks have been steadily gaining market share to reach an estimated 1/3 of the global volume, compared to aggregators <20%. We have not done a detailed study of the retail FX market, but our sources generally agree that among the 11 banks in this report, the leaders (in alphabetical order) are Barclays, Citi, Deutsche Bank and UBS.*

[10] *In the Company section, we include FX options revenue in FICC Structured.*

[11] *'Cloud' computing is an unknown quantity: to the main FX options users, stung by the added cost of regulation (which some participants put as high as 15%) it could provide cost efficiencies over-and-above the 'regular' e-trading, but the technology, we hear, has yet to develop to the point where it provides comfort to key clients.*

Theme: Banning short-sellers – Part II

On the regulatory front, in late July-12, Italy and Spain banned short-selling (except for market makers); not 'naked' short selling, mind – that is already disallowed – but *any* short-selling operation of shares or derivatives. The Spanish regulator, CNMV, introduced a blanket ban for 3 months, and said this may be extended; Italy's Consob prohibited practice on 29 banking and insurance stocks, for one week. We rather doubt this latest ban will have a more lasting effect than the one from the summer of 2011: financial shares in Spain gained during the time the short-selling ban was in place (Aug-11 – Feb-12), but then almost halved in value since the ban was withdrawn to date.

We reiterate our repeatedly stated view that political interference of this sort – primarily targeting, but missing, hedge funds, for the slump in the GIPPS markets is caused by weak fundamentals, not speculators[12] - may cause a long-term harm to the markets. Bans like this could well drive away long-only funds, which are unlikely to commit to European stocks unless there are signs of regulatory stability; market participants might wonder whether regulators see something that is not public knowledge and flee any assets perceived as risky; a small number of countries introducing bans on their own accord may well distort valuations in other European markets as short sellers try to hedge by shorting the very liquid French or German stockmarkets; and at any rate, large-caps often trade on exchanges outside of their home markets, further muting the effect of short selling bans.

Addressing the last point, European Securities and Markets Authority (ESMA) will, fromNov-12, be granted supposedly wide-ranging powers to coordinate short-selling curbs across countries. It will be interesting (to us observers, anyway) to see whether ESMA's new powers result in the level playing field, or drives equity investors away from European shares more generally.

[12] *Indeed, in its latest Current Issues, The Fed of New York examined the effect of the 2008 short-selling ban in the USA, and concluded that '...the bans lowered market liquidity and increased trading costs' by $500m in the US equities options during September 18 and October 8, 2008' (this in addition to another study, published in 2009, which estimated the cost of the 2008 short selling ban in the equity market at $600m.) The report goes on to say '…our findings suggest that short-selling was not a cause of the market's decline. Indeed, stocks with net short-selling around this time actually had higher returns than others stocks. The full report is here: http://www.newyorkfed.org/research/current_issues/ci18-5.pdf.*

Results Summary

Product Revenue: Summary

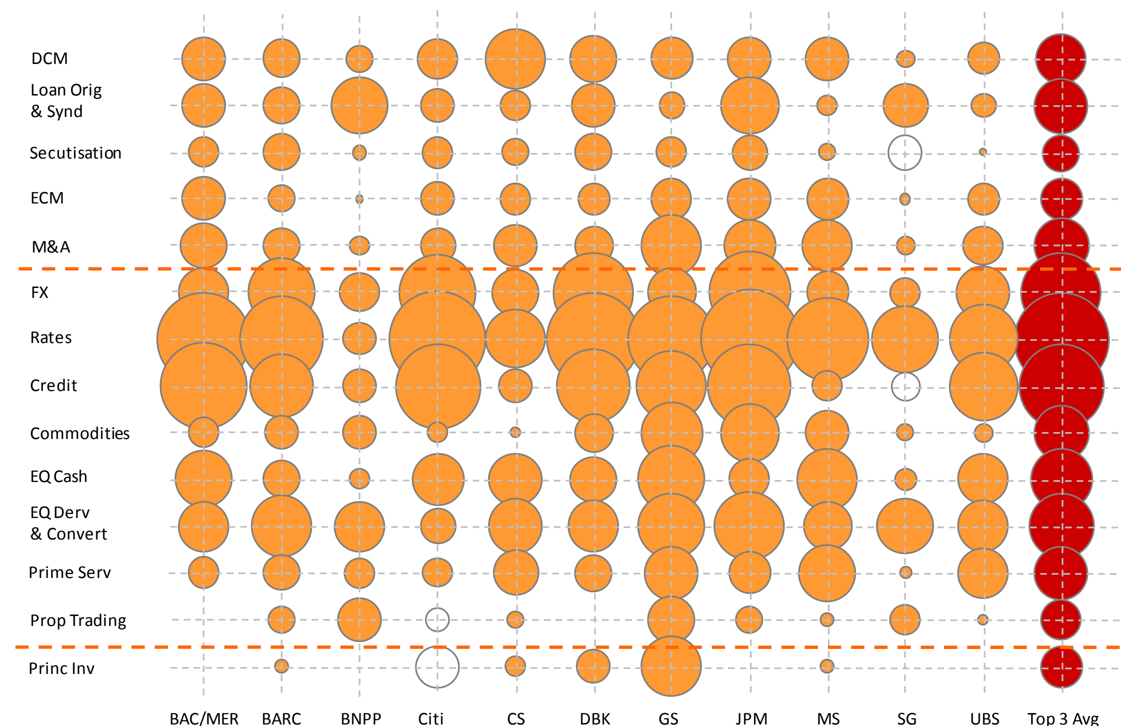
(Peer Group[1] Top Quartile[2], TRIC product definitions, post-writedowns, US$m, Level 1 estimate)

	FY09	FY10	1Q11	2Q11	3Q11	4Q11	FY11	1Q12	2Q12	2Q12/2Q11: Top #1/2/3 % ch.
Total: TRIC definition	26,985	22,308	6,997	5,285	3,302	3,168	18,261	6,397	4,265	CS / GS / Citi
Primary	3,946	5,058	1,439	1,529	881	898	4,521	1,192	1,107	CS / GS / BARC
DCM	1,417	1,295	309	265	134	209	969	335	197	GS / DBK / UBS
Loan Orig & Synd	739	1,276	370	479	325	268	1,475	296	282	GS / BARC / JPM
Securitisation	-283	672	204	144	108	111	494	156	190	GS / SG / Citi
ECM	1,711	1,389	332	379	157	174	1,073	210	204	UBS / BARC / MS
M&A	1,328	1,257	337	458	319	338	1,493	256	302	Citi / BAC/MER / BARC
Secondary	21,502	17,351	5,558	3,609	2,548	2,236	13,851	5,174	3,293	GS / CS / BARC
FX	2,456	2,713	625	605	685	626	2,542	733	579	CS / BAC/MER / Citi
Rates	7,048	4,304	1,267	1,027	795	794	3,609	1,458	1,105	GS / CS / BAC/MER
Credit	6,001	4,414	1,849	1,008	269	239	3,043	1,692	722	BNPP / UBS / DBK
Commodities	1,487	907	340	166	264	195	933	336	134	BARC / BAC/MER / SG
EQ Cash	2,270	1,739	576	493	500	392	1,906	459	329	GS / CS / DBK
EQ Derv&Conv't	2,807	2,178	665	571	402	327	1,971	638	411	Citi / JPM / CS
Prime services	1,187	973	253	290	305	271	1,087	286	296	BNPP / BARC / UBS
Prop Trading	2,278	770	197	168	96	77	438	155	89	JPM / SG / GS
Principal Inv	0	477	102	125	0	61	275	39	35	CS / GS / Citi

(1) Peer Group: BAC/MER, BARC, BNPP, Citi, CS, DBK, GS, JPM, MS, SG, UBS. (2) Top Quartile is calculated on a product-by-product basis, for each period shown. One-off and extraordinary items, fully described in the Company Section, are excluded.

Product Revenue: Absolute* 3-quarter moving average

(TRIC product definitions, post-writedowns, US$m, Global Level 1 estimate)



Source: Tricumen. (1) Bubble size = absolute revenue; empty bubbles = negative revenue; missing bubbles = no revenue. One-off and extraordinary items, as described in the Company Section, are excluded.

Product Revenue: Momentum*

2Q12/2Q11 (TRIC product definitions, post-writedowns, % change, Global Level 1 estimate)

	BAC/MER	BARC	BNPP	Citi	CS	DBK	GS	JPM	MS	SG	UBS	Top 25%	Bottom 25%
Total capital markets	→	→	↓	↑	↑	↓	↑	↓	↓	↓	→	-12%	-32%
Primary	↓	↑	↓	→	↑	↓	↑	→	↓	↓	→	-16%	-40%
DCM	↓	→	↓	→	→	↑	↑	↓	↓	↓	↑	2%	-35%
Loan Orig & Synd	↓	↑	→	↓	→	↓	↑	↑	↓	↓	→	-26%	-45%
Securitisation	↓	↓	↓	↑	N/M	↓	↑	→	→	↑	↓	35%	-45%
ECM	↓	↑	↓	→	↓	↓	→	↓	↑	↑	↑	-33%	-64%
M&A	↑	↑	↓	↑	→	→	→	↓	↓	↓	↓	-19%	-51%
Secondary	→	↑	↓	→	↑	→	↑	↓	↓	↓	↓	-10%	-27%
FX	↑	→	↓	↑	↑	↓	↓	→	↓	↓	→	7%	-10%
Rates	↑	→	↓	→	↑	↓	↑	↓	↓	↓	→	18%	-15%
Credit	↓	→	↑	↓	N/M	→	↓	↓	N/M	N/M	↑	-14%	-35%
Commodities	↑	↑	→	↓	↓	↓	↓	→	↓	→	↓	-5%	-19%
EQ Cash	→	↓	→	→	↑	↑	↑	↓	↓	→	↓	-15%	-31%
EQ Derv & Converts	→	→	↓	↑	↑	↓	↓	↑	↓	↓	→	-16%	-47%
Prime services	↓	↑	↑	↓	↓	→	→	↓	↓	→	↑	6%	-5%
Prop Trading	N/M	↓	↓	N/M	→	N/M	→	↑	N/M	N/M	N/M	-12%	-51%
Principal Inv	N/M	N/M	N/M	→	↑	↓	→	N/M	↓	N/M	N/M	-25%	-69%

6m12/6m11 (TRIC product definitions, post-writedowns, % change, Global Level 1 estimate)

	BAC/MER	BARC	BNPP	Citi	CS	DBK	GS	JPM	MS	SG	UBS	Top 25%	Bottom 25%
Total capital markets	→	↑	↓	↑	↑	↓	→	↓	↓	↓	→	-9%	-19%
Primary	↓	↑	↓	↑	→	→	↑	↓	↓	↓	→	-15%	-29%
DCM	↓	↑	↓	→	→	↑	→	↓	↓	↓	↑	6%	-18%
Loan Orig & Synd	→	↑	↓	→	↓	↑	↑	→	↓	↓	↓	-21%	-38%
Securitisation	↓	→	↓	↑	→	↓	↑	↓	↑	↑	↓	34%	-37%
ECM	↓	↑	↓	→	↓	↓	↓	→	→	↑	↑	-29%	-47%
M&A	→	→	↓	↑	↑	→	↑	↓	↓	↓	↓	-18%	-41%
Secondary	→	↑	↓	↑	↑	↓	→	→	↓	↓	↓	-4%	-15%
FX	→	→	↑	↑	↑	↓	↓	→	↓	↓	↓	12%	-10%
Rates	↑	↑	↓	→	↑	↓	→	↓	↓	→	↓	25%	-2%
Credit	↑	↓	↑	↑	↓	→	↓	→	→	↓	→	-16%	-29%
Commodities	→	↓	→	↑	↓	↓	↓	↓	→	↑	→	5%	-8%
EQ Cash	↓	↓	→	→	↑	↓	↑	↓	↑	→	↓	-19%	-25%
EQ Derv&Conv't	→	↑	↓	↑	→	↓	↑	→	↓	↓	↓	-7%	-28%
Prime services	↓	↑	↑	↓	↓	↓	→	↓	→	→	↑	11%	-6%
Prop Trading	↑	→	↓	N/M	→	N/M	↓	↑	↓	↑	N/M	-22%	-55%
Principal Inv	N/M	↑	↑	→	↑	↓	↓	N/M	↑	↑	N/M	-25%	-58%

*Source: Tricumen analysis. * Arrows show FY11/FY10 % change in revenue vs peers. Up-/down-arrows: top-/bottom-quartile. One-off and extraordinary items, as described in the Company Section, are excluded.*

Notes & Caveats

Tricumen Limited has used all reasonable care in writing, editing and presenting the information found in this report. All reasonable effort has been made to ensure the information supplied is accurate and not misleading. For the purposes of cross-market comparison, all numerical data is normalised in accordance to Tricumen's proprietary product classification and may contain +/-10% margin of error.

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