

European securities lending: utopia or dystopia?

DataLend's Ben Glicher, CIO, and Winston Victolee, data analyst, assess the state of the European market

Market values go up and down, but despite the different market conditions, securities lending utilisation trends have been pretty consistent over time. In Europe specifically, dividend season typically sees an increase on average of around 2 to 3 percent utilisation year over year.

This year, however, things appear to be different. Almost nine months ago, \$103 billion worth of European equities were on loan at a utilisation of 20 percent, with North America having \$355 billion on loan and a utilisation of 18.5 percent.

That can imply that European equities utilisation is more active due to their supply being more available. Now the markets as a whole have changed, with the ebb and flow of value increases and decreases—and maybe even a loosening of the grip on cash—playing a role.

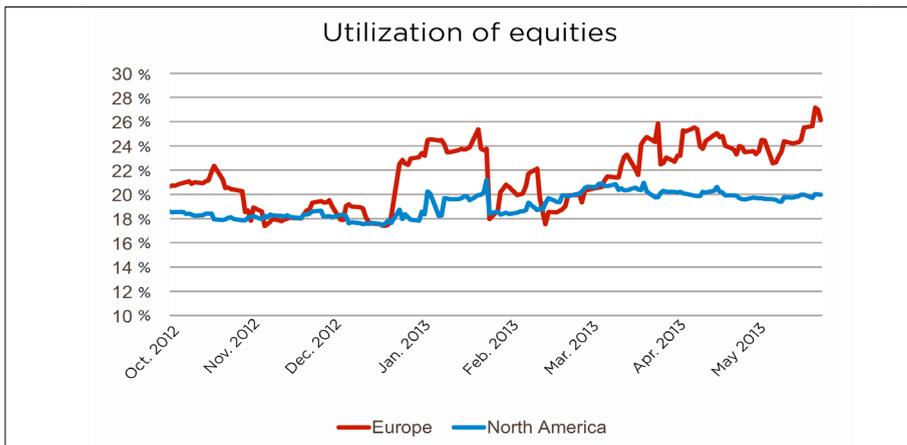
On-loan values of select regional securities (June 2013)

Belgium		France	
DELHAIZE	\$1,088,774,117	TOTAL	\$4,189,307,211
SOLVAY	\$667,453,371	ESSILOR INTERNATIONAL	\$3,264,046,707
BELGACOM	\$561,309,969	SOCIETE GENERALE	\$2,967,255,698
Germany		Greece	
SAP	\$12,523,068,129	ALPHA BANK AU	\$4,097,371
LINDE	\$7,294,359,413	ALPHA BANK RTS	\$3,458,936
DEUTSCHE BANK N	\$4,065,814,559	NAT BANK OF GREECE AU	\$1,147,396
Italy		Luxembourg	
ENI	\$2,886,839,335	ITC DR	\$5,303,578
UNICREDIT	\$2,197,037,493	SES GDR	\$1,193,656
ASSICURAZIONI GENERALI	\$1,390,963,834	EASYETF BRAZIL EUR ETF	\$1,186,340
Poland		Portugal	
POLSKI KONCERN NAFTOWY ORLEN	\$286,525,266	PORTUGAL TELECOM SGPS	\$548,409,183
KGHM POLSKA MIEDZ	\$275,993,465	EDP	\$304,777,085
PKO BANK POLSKI	\$143,457,320	GALP ENERGIA (SGPS)	\$180,072,310

Source: DataLend

on loan and 22 percent utilisation, there are other regional factors at play. The countries with the highest utilisation increases in descending order are Portugal, Greece, Luxembourg, Poland, Italy, France, Belgium and Germany.

operations being suspended across Turkey. Eni, UniCredit and Assicurazioni Generali together account for more than a third of Italy's on loan, helping Italy to gain 9.4 percent in utilisation.



Source: DataLend

Today's market for European equities seems to have received a substantial boost in the securities lending marketplace. European equity on-loan values grew to \$260 billion toward the end of May with a utilisation of 26 percent and a high of \$280 billion, while North American equities are now at \$459 billion with a utilisation just shy of 20 percent and a high of \$460 billion.

With utilisations having increased from 20 percent to 26 percent and on-loan values increasing by more than 2.5 times from \$103 to \$260 billion, the European securities lending market has definitely seen more activity. Comparing last year's highs at \$220 billion

Of the smaller on-loan amounts, Portugal leads the way with a 13.17 percent increase in utilisation and an on-loan value of \$1.2 billion, just under half of which is Portugal Telecom. Poland had an increase of 9.64 percent with an on-loan value of \$1.22 billion, and Belgium had a utilisation increase of 8.36 percent with a current on-loan value of \$4.7 billion. Greece had a utilisation increase of 12.37 percent with an on-loan value of \$12.1 million due, in major part, to Alpha Bank, which for some time has faced fears of being nationalised.

Italy's Eni has an on-loan value of \$2.89 billion and has had some recent issues, with

France leads all of the European countries as far as value increases. France has had an increase in utilisation of 9.3 percent and an on-loan value of \$52.1 billion. The leaders in French securities seem to be names with recent and/or upcoming dividends, which may account for the large increase in utilisation.

Germany paves the way with most of their top securities having dividends recently, but Germany's utilisation only increased by 2.1 percent, further illustrating that the securities lending market in Europe is still quite active regardless of dividends.

All of which is evidence of this recent anomaly in the European securities lending space, where typically consistent utilisation rates have shown a significant spike in 2013.

But what does that mean for market participants?

How does one navigate the current marketplace, where stock prices have climbed and new highs have been reached? Noting the current trends, North American equities have remained relatively consistent, while European equities have received quite a boost. What that means comes down to perspective—there are always the bearish who believe there is money to be made when the market is up.