Gerard Lyons
INSIGHT

East offers west a macro-prudential blueprint

Learn from Asia. That is one lesson for western policymakers as a result of this crisis. Over the past decade, Asian governments learnt the benefits of anti-inflationary policies from the west. Now, Asia can export to the west lessons on macro-prudential measures. These should become a vital ingredient of the policy toolkit worldwide.

As regulators rush to impose controls on financial institutions, it is easy to lose sight of simple but effective ways to ensure greater financial stability. This is helping propel macro-prudential measures to the top of the regulatory debate, and rightly so. These are targeted measures that help prevent bubbles and the build up of financial imbalances. They work. My fear is western policymakers are not grasping fully the benefits of macro-prudential measures and instead are opting for second-best regulatory solutions that satisfy political clamour but are not effective.

During the boom under chancellor Nigel Lawson in the late 1980s, I advocated domestic credit controls for the UK. They could have worked then but were not implemented. Now, after the boom and bust under former UK prime minister Gordon Brown, the case is overwhelming for greater targeted controls. Yet, it is not just the UK that could benefit. Europe and the US could gain too.

My fear is western policymakers are not grasping fully the benefits of macro-prudential measures

On the eve of this crisis, many would have doubted whether Asia's policy tools or institutions could have coped with the external shock we saw. But they did.

Asia's crisis of 1997-98 left a lasting memory. It taught countries the importance of self-insurance. In particular, foreign exchange reserves rose, and fiscal and external balances were rebuilt. Crucially, these self-insurance measures were counter-cyclical. This is an important lesson for the west as, during the boom, its fiscal and monetary policies were often pro-cyclical, adding fuel to the fire.

In the west, there is a perception that if global imbalances persist this increases the risk of the next crisis. This adds to pressure to over-regulate the financial sector. But two wrongs do not make a right. Global imbalances are dangerous, but so too is excessive regulation, the unintended consequences of which are negative for lending, growth and jobs.

An alternative is effective, counter-cyclical, macro-prudential measures that, like those across Asia, need to be forward-looking, preventing valuation booms and credit bubbles. A clear lesson of the crisis was that if something seems too good to be true, or is out of line with reality, then it probably is, and needs stopping before it gets worse.

Measures such as tighter loan-to-value ratios or debt-servicing caps have been used across Asia to prevent excesses in specific sectors. However, in the emerging world it was not just sector-specific measures that worked. System-wide tools proved effective, including reserve requirements, capital account restrictions, loan quotas or even capping exposures to risky counterparties or asset classes.

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In the 1990s, the Hong Kong authorities worked with the banks, which agreed to tighten loan-to-value ratios from 90 per cent to 70 per cent. Moreover, all institutions have a clearly defined and documented policy to assess the repayment capability of residential borrowers. One wonders whether such an approach would have helped the US subprime problem. A potential bubble in luxury property prices in Hong Kong has prompted specific measures, including stamp duties and lower loan-to-value ratios.

China has acted likewise, recently raising downpayments, forcing higher lending rates for second homes, prohibiting third mortgages and introducing experiments on taxing home ownership in four cities. There has been tighter scrutiny of developers' financing, which had an immediate impact.

It's not all about restrictions though. Even with specific measures, there needs to be joined-up thinking. If, in the west, people are unable to buy a property because of the need for a big deposit, many may be forced to rent, paying as much, if not more, than on a mortgage.

Joined-up thinking should ensure that preventing a boom in one sector does not lead to problems spilling over elsewhere. In Hong Kong and Singapore, for example, controls on property borrowing went hand in hand with expanding housing supply.

Although macro-prudential measures require judgment calls, they are simple to implement, can be targeted and, thus, effective. They are better than overarching regulations that penalise the good with the bad. Such measures have proved effective in addressing credit growth and property booms, the root cause of most crises.

Monetary and fiscal policy must be co-ordinated to address economic issues. Macro-prudential measures can play a key role in achieving financial stability and avoiding regulatory overkill. Look east, not west.

Dr Gerard Lyons is global head of research and chief economist at Standard Chartered

Emerging markets lure big exchanges

News analysis

Larger bourses are cross-listing with smaller ones in an effort to expand business, writes Jeremy Grant

You scratch my back, and I'll scratch yours. That, in essence, describes a new approach being taken by some of the world's biggest exchanges and their smaller counterparts in emerging markets as both sides seek to expand their businesses.

This week Eurex, the derivatives arm of Deutsche Börse, and SGX, the Singapore exchange, said they would launch an Asian version of Euro Stoxx 50 index futures and options on futures – one of the German exchange's flagship products.

It is the latest in a flurry of "cross-listing" deals struck in the last few months by Eurex and its main global rival, US-based CME Group, with exchanges in Malaysia, India, South Korea, Mexico and Brazil.

At the end of next month Eurex will start trading Kospi 200 options, making trading in the Korean KRX exchange's main products possible after Asian trading hours.

In March, CME and the National Stock Exchange of India signed a cross-listing agreement under which the "Nifty 50", the Indian benchmark index, will be made available to CME for the listing of dollar-denominated futures contracts on CME.

In return, the rights to the S&P 500 and Dow Jones Industrial Average will be made available to India's NSE for the listing of rupee-denominated futures contracts.

'It is a good way for bourses which lack global reach to attract technical expertise to grow'

Cross-listings are designed to expand distribution of established exchanges' core products beyond their time zones and to tap into communities of traders in other regions.

Exchanges like CME and Eurex are still heavily dependent on mature home markets and see Asia and Latin America as offering exciting growth prospects.

That is because such markets are starting to be used by the same algorithmic and "high-frequency" traders that already trade the CME and Eurex. Such traders are piling in to these regions in search of new assets to trade, in turn prompting exchanges there to upgrade their creaky trading systems.

Mexico's stock exchange group, Bolsa Mexicana de Valores, will soon introduce technological changes aimed at attracting high-frequency traders and repatriating trading that has migrated overseas in recent years. It is no coincidence that CME in March struck a strategic partnership with the Bolsa and its MexDer derivative arm.

For the bigger exchanges, cross-listings offer a way to expand distribution without having to set up a separate exchange in emerging market countries, or spending vast sums on marketing.

For smaller regional exchanges, being able to piggyback on to a larger exchange is a way to tap into a large, established pool of liquidity. In March, CME started offering trading of dollar-denominated crude palm oil futures under a cross-listing with Bursa Malaysia. Since then, the Malaysian bourse has seen a modest spike in its crude palm oil futures volumes.

Herbie Skeete, managing director of Mondo Visione, a consultancy, says: "It's also a good way for regional bourses which lack global reach to attract technical expertise to grow."

For the CME, increased distribution of its core products means generating more transaction fees as trading is done almost on a 24-hour basis. Craig Donohue, CME chief executive, says: "As emerging markets grow they will continue to be an important source of growth for us."

CME has gone further than any other exchange in expanding in this and other ways. It has also signed "order routing" agreements with other exchanges, where CME customers get access to foreign exchanges' listed products, and vice-versa.

Mr Donohue says that, since signing a strategic partnership with Brazil's BM&FBovespa exchange, the Brazilian bourse has seen a 4 per cent rise in the average daily volume of its main contract.

In some cases, the larger exchanges have gone further, taking stakes in regional exchanges. Under its Brazilian partnership, CME has taken a 5 per cent stake in BM&FBovespa, while the latter has taken a 1 per cent stake in its US counterpart.

Mr Donohue says: "By becoming a strategic partner we are able to market our products and services much more broadly to their customer base."

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The rights to the S&P 500 will be made available to India's NSE, above

Getty

Market reports

French banks buoy Eurofirst

EUROPE

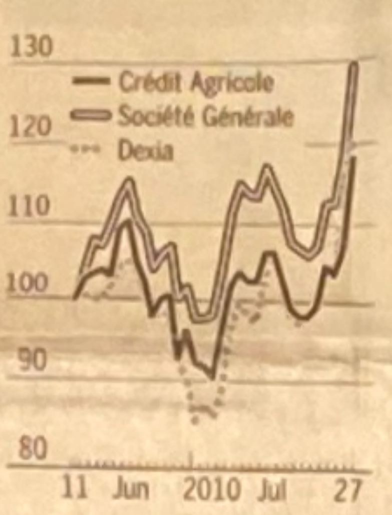
By Matthew Kennard

Soaring French banks helped the benchmark European index rise to its highest since June 21 yesterday as they were seen to be the main beneficiaries of the Basel committee's decision to soften some of its proposed regulatory changes.

The banking sector was further buoyed by ahead-of-forecast second-quarter profits from UBS.

The Geneva-listed bank soared 11.2 per cent to €17.46, its highest point for three months, while rival **Credit Suisse** surged 5.9 per cent to €47.23 after Rochdale Securities raised its price target on the stock.

French banks
Share prices (rebased)



Source: Thomson Reuters Datastream

The benchmark FTSE Eurofirst 300 rose 0.5 per cent to 1,054.17, its sixth consecutive session of gains as strong European mortgage borrowing in June and better-than-expected data on house prices from the US added to the general positive mood.

Paris's Cac 40 added 0.8 per cent to 3,666.40, its highest close for more than a month, as its banks enjoyed huge gains.

Crédit Agricole surged 10.1 per cent to €10.63, its highest point for more than two months, while **Société Générale** jumped 10.6 per cent to €44.23, its highest finish for more than three months, helped by investment bank KBW's upgrade of the stock to "outperform" from "market perform". **Dexia** added 8.1 per cent to €3.90, while **BNP Paribas** gained 5.5 per cent to €53.80.

In Berlin, **Deutsche Bank** also posted ahead-of-forecasts profits for the second-quarter, sending its shares up 4.5 per cent to €52.64, their highest finish for three months.

The best performing index in the eurozone was Greece's Athens General, which flew up 4.1 per cent to 1,692.35, its highest finish for more than two months after the second consecutive session of sharp advances led by its banks.

Market rumours of mergers helped **Piraeus Bank** soar 12.4 per cent to €5.00, while **EFG Eurobank** jumped 10.5 per cent to €6.63, its highest finish for nearly four months.

London steel futures trading grows fourfold

COMMODITIES

By Javier Blas

Trading in steel futures at the London Metal Exchange has started to pick up, with volumes rising nearly fourfold in the first half of the year, marking the first sign of interest by producers, consumers and investors in this nascent derivatives market.

The LME is battling with rival exchanges in New York, Shanghai and Dubai for the dominance in derivatives trading in the $500bn-a-year steel market – one of the world's largest commodities markets by value.

The steel contracts faced a rough debut two years ago because of strong opposition from large steelmakers, including ArcelorMittal, the world's largest mill.

But since then opposition has faded and support has emerged from physical traders, medium-sized producers and banks, which are eager to obtain further exposure to the booming commodities sector.

The LME said trading in steel contracts hit 57,606 lots between January and June, up 385 per cent from the same period in 2009.

The surge in LME steel trading comes as steelmakers and consumers such as car manufacturers start to lock in prices and investors use steel futures as a proxy to bet on growth of the global economy.

The breakdown on the annual price system for iron ore, the main ingredient in steel, has also increased the appeal of steel futures, as some producers use them to hedge their margins.

Martin Abbott, LME chief executive, said steel futures, introduced in early 2008, were on a "successful launch phase".

"We are pleased the steel contract has started to gain traction in a serious way."

The LME will merge today its Far East Asia and Mediterranean steel billets contracts into a single derivative, which it hopes will create a global benchmark. The exchange is also adding a delivery point in the US, to complement current ones in Europe and Asia.

Steel trading volumes started to pick up in March after running flat for almost two years and since then they have settled an all-time high every month. Volumes are, nonetheless, well below other metals contracts. Tin, the smallest market at the LME, traded about 760,000 lots in the first half of the year and the largest contracts, copper and aluminium, traded 14.7m and 22.5m lots respectively.

The LME, the world's largest base metals derivatives market, said total trading volumes for all metals in the first half of the year hit an all time high of 59.3m lots, up 7.5 per cent from the same period of 2009. Lead, nickel and copper made the biggest year on year increases. Aluminium posted a small drop.

In other commodity markets, **sugar** prices surged through 19 cents a pound as delays loading shipments from Brazil, the largest producer, sent prices to their highest level in four months. ICE October raw sugar rose 2.3 per cent to an intraday peak of 19.05 cents.

In the energy market, **oil** prices fell 2 per cent, but remained firmly within the $70-$80 trading range that has been in place for most of the year. In late afternoon trading, Nymex September West Texas Intermediate dropped $1.48 to $77.50 a barrel.

Gold prices dropped 2 per cent on the day to $1,159 a troy ounce, the lowest point in nearly three months due to low physical demand.

COMMODITY PRICES

Energy		Price*	Change
WTI Crude Oil †	Sep	77.50	1.48
Brent Crude Oil ‡	Sep	76.13	1.37
RBOB Gasoline †	Aug	2.0632	0.0426
Heating Oil †	Aug	1.9994	-0.0432
Natural Gas †	Aug	4.675	+0.063
Ethanol ◆	Aug	1.609	+0.009
Uranium		41.75	nc
Carbon Emissions ‡	Sep	€13.65	+0.19
Diesel (French)		647.25	-10.50
Unleaded (95R)		696.50	-11.00
Base Metals (◆ LME 3 Month)			
Aluminium		2061.00	+21.00
Aluminium Alloy		2040.00	+15.00
Copper		7120.00	+94.00
Lead		1995.00	+18.00
Nickel		20780.00	+270.00
Tin		19495.00	+235.00
Zinc		1936.00	+19.00
Precious Metals (PM London Fix)			
Gold		1168.00	-15.50
Silver		1816.00	+15.00
Platinum		1560.00	+14.00
Palladium		478.00	+1.00
Bulk Commodities			
Iron Ore (Platts) ‡	Aug	126.00	-5.50
Iron Ore (TSI) ≠		136.30	+2.90
globalCOAL RB Index		89.88	-0.64
Baltic Dry Index		1869	+28
Agricultural & Cattle Futures			
Corn ◆	Sep	366.00	+2.0[illegible]
Wheat ◆	Sep	595.00	+5.5[illegible]
Soybeans ◆	Aug	998.00	-0[illegible]
Soybeans Meal ◆	Aug	294.50	+1[illegible]
Cocoa ◆	Sep	£2280	[illegible]
Cocoa ▼	Sep	2.980	[illegible]
Coffee (Robusta) ◆	Jul	1691	[illegible]
Coffee (Arabica) ▼	Sep	163.75	[illegible]
White Sugar ◆	Oct	566.60	[illegible]
Sugar 11 ▼	Oct	18.42	[illegible]
Cotton ▼	Oct	81.45	[illegible]
Orange Juice ▼	Sep	146.7[illegible]	[illegible]
Palm Oil	Dec	837.5	[illegible]
Live Cattle ♣	Aug	92.6[illegible]	[illegible]
Feeder Cattle ♣	Aug	114.9	[illegible]
Lean Hogs ♣	Aug	82[illegible]	[illegible]
Frozen Pork Bellies ♣	Jul	119[illegible]	[illegible]

Sources: † NYMEX, ‡ ECX/ICE [illegible] ◆ NYSE Liffe, ▼ NYBOT, ♣ CB[illegible] don Metal Exchange. * Late[illegible] otherwise stated. ± Platts.

INDICES

	[illegible]	% Chg [illegible]	% Chg Year
		2.8	15.9
S&P GSCI Spt	[illegible]	2.1	5.4
DJ UBS Spt	[illegible]	1.9	6.3
R/J CRB TR	[illegible]46	3.5	6.5
Rogers RICIX TR	[illegible]05	3.7	16.0
M Lynch MLCX Spt	[illegible]67.27	3.7	9.0
UBS B'berg CMCI	13.79	9.9	3.0
LEBA EUA Carbon	[illegible]	[illegible]	[illegible]

Sterling at five-month high versus dollar

CURRENCIES

By Jack Farchy, Miles Johnson and Jun Merrett

The pound rose to a five-month high against the dollar yesterday as data on the UK retail sector came in much stronger than expected.

Optimism among UK retailers is at its highest level since July 2004, according to a monthly survey by the CBI, the employers' group.

A combination of the positive effect of the football World Cup, sunny weather, and summer discounting lifted retail sales in July, with 51 per cent of retailers reporting a year-on-year increase on sales compared with just 18 per cent seeing a drop – the strongest sales data in more than three years.

"Worries had surfaced that forthcoming tax increases and possible public sector layoffs accompanied by a severe bout of spending cuts would demolish spending patterns," said Andrew Wilkinson, senior markets analyst at Interactive Brokers.

"Based upon what the CBI reported today, there's life in the old dog yet," he said.

The upbeat report sent sterling up 0.6 per cent to $1.5586 against the dollar on the news, while it was also 0.6 per cent higher against the euro at £1.1990. The pound has risen 9.5 per cent against the dollar from a mid-May low of $1.4230.

Howard Archer, chief European and UK economist at IHS Global Insight, said the upbeat report "boosts hopes that the [UK] economy can achieve further decent growth in the third quarter".

"Nevertheless, the suspicion remains that further out consumers are likely to find life hard and will be constrained in their spending," he added.

A strengthening pound may damp growth in the UK's export sector, which has been benefiting from the currency weakness.

Elsewhere, the Israeli shekel jumped 0.7 per cent against the dollar to a five-week peak of Shk3.8090 after the Bank of Israel surprised the market by hiking interest rates by 25 basis points to 1.75 per cent.

Nick Bennenbroek, head of currency strategy at Wells Fargo, said he expected further rate rises to take place at "only a very gradual pace".

"As a result, across the spectrum of emerging market currencies we see the shekel as more of a laggard than a leader," Mr Bennenbroek said, forecasting a level of ILS3.70 against the dollar by early 2011.

Benign bank earnings and firmer investor risk appetite helped the euro hit an 11-week high of $1.3045 against the dollar. Later in the session the dollar recovered ground against the single currency.

Late in New York trading the dollar was flat against the euro at $1.2999. The dollar rose 1.2 per cent to ¥87.90, and was up 1.1 per cent versus the Swiss franc to $1.0600.

CURRENCY RATES

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		DOLLAR		EURO		POUND	
Jul 27	Currency	Closing Mid	Day's Change	Closing Mid	Day's Change	Closing Mid	Day's Change
Argentina	(Peso)	3.9315	-0.0015	5.1049	0.0171	6.1153	0.0295
Australia	(A$)	1.1082	-0.0044	1.4390	-0.0004	1.7238	0.0021
Bahrain	(Dinar)	0.3770	-	0.4896	0.0019	0.5864	0.0031
Bolivia	(Boliviano)	7.0200	-	9.1152	0.0341	10.9193	0.0568
Brazil	(R$)	1.7668	-0.0046	2.2941	0.0025	2.7481	0.0072
Canada	(C$)	1.0339	0.0022	1.3425	0.0079	1.6082	0.0118
Chile	(Peso)	519.550	-1.1000	674.610	1.0969	808.134	2.5064
China	(Yuan)	6.7786	-0.0009	8.8017	0.0318	10.5438	0.0535
Colombia	(Peso)	1852.90	-7.8000	2405.90	-1.1035	2882.09	2.9392
Costa Rica	(Colon)	519.300	-0.5450	674.286	1.8133	807.747	3.3630
Czech Rep.	(Koruna)	19.2780	-0.1716	25.0315	-0.1285	29.9860	-0.1094
Denmark	(DKr)	5.7393	-0.0219	7.4522	-0.0005	8.9272	0.0127
Egypt	(Egypt £)	5.7027	0.0004	7.4047	0.0272	8.8703	0.0457
Estonia	(Kroon)	12.0502	-0.0451	15.6465	-	18.7434	0.0277
Hong Kong	(HK$)	7.7663	-0.0002	10.0841	0.0374	12.0800	0.0626
Hungary	(Forint)	218.376	3.6172	283.550	3.6200	339.673	3.8281
India	(Rs)	46.6550	-0.3950	60.5792	-0.2847	72.5696	-0.2332
Indonesia	(Rupiah)	9015.00	19.0000	11705.5	19.1446	14022.4	43.6223
Iran	(Rial)	10000.0	-	12984.5	48.5000	15554.5	[illegible]
Israel	(Shk)	3.8073	-0.0266	4.9436	-0.0160	5.9220	-0.0104
Japan	(Y)	87.8600	0.6200	114.082	1.2282	136.662	1.6710
One Month		87.8338	0.0024	114.042	0.0016	136.602	0.0038
Three Month		87.7695	0.0070	113.938	0.0041	136.467	0.0084
One Year		87.3656	0.0166	113.259	-0.0230	135.565	0.0017
Kenya	(Shilling)	80.5500	-0.5500	104.590	-0.3209	125.292	-0.1985
Kuwait	(Dinar)	0.2878	-0.0003	0.3737	0.0010	0.4477	0.0018
Malaysia	(M$)	3.1845	-0.0130	4.1349	-0.0014	4.9533	0.0057
Mexico	(New Peso)	12.6440	-0.0540	16.4176	-0.0084	19.6671	0.0190
New Zealand	(NZ$)	1.3625	-0.0082	1.7691	-0.0041	2.1193	-0.0017
Nigeria	(Naira)	150.250	0.0500	195.092	0.7934	233.706	1.2943
Norway	(NKr)	6.1605	0.0348	7.9991	-0.0151	9.5823	0.0039
Pakistan	(Rupee)	85.5500	0.0550	111.082	0.3438	133.069	0.6078
Peru	(New Sol)	2.8225	0.0010	3.6649	0.0149	4.3903	0.0244
Philippines	(Peso)	45.9700	-0.1650	59.6898	0.0095	71.5041	0.1171
Poland	(Zloty)	3.0868	-0.0269	4.0080	-0.0198	4.8013	-0.0166
Romania	(New Leu)	3.2747	-0.0095	4.2520	0.0035	5.0936	0.0116
Russia	(Rouble)	30.2370	-0.0550	39.2613	0.0755	47.0322	0.1599
Saudi Arabia	(SR)	3.7502	-0.0002	4.8694	0.0179	5.8332	0.0301
Singapore	(S$)	1.3619	-0.0019	1.7684	0.0041	2.1184	0.0081
South Africa	(R)	7.3315	-0.0319	9.5196	-0.0057	11.4037	0.0099
South Korea	(Won)	1181.45	-9.7000	1534.05	-6.8179	1837.69	-5.4396
Sweden	(SKr)	7.2954	-0.0285	9.4727	-0.0015	11.3476	0.0149
Switzerland	(SFr)	1.0623	0.0144	1.3793	0.0238	1.6523	0.0310
Taiwan	(T$)	32.0280	-0.0715	41.5868	0.0628	49.8180	0.1487
Thailand	(Bt)	32.2000	-0.0450	41.8101	0.0980	50.0855	0.1912
Tunisia	(Dinar)	1.4623	-0.0065	1.8987	-0.0014	2.2745	0.0017
Turkey	(Lira)	1.5130	-0.0047	1.9646	0.0013	2.3534	0.0050
UAE	(Dirham)	3.6729	0.0001	4.7691	0.0179	5.7130	0.0299
UK (0.6429)*	(£)	1.5555	0.0081	0.8348	-0.0012	-	-
One Month		1.5552	-	0.8348	0.0000	-	-
Three Month		1.5548	0.0000	0.8349	0.0000	-	-
One Year		1.5517	-0.0002	0.8353	-0.0002	-	-
Ukraine	(Hrywnja)	7.8953	-0.0008	10.2516	10.2516	12.2807	0.0628
Uruguay	(Peso)	20.9500	-	27.2026	27.2026	32.5867	0.1697
USA	($)	-	-	1.2985	0.0049	1.5555	0.0081
One Month		-	-	1.2984	-	1.5552	-
Three Month		-	-	1.2982	0.0000	1.5548	0.0000
One Year		-	-	1.2962	-0.0005	1.5517	-0.0002
Venezuela ‡	(Bolivar Fuerte)	4.2947	-	5.5764	0.0209	6.6801	0.0347
Vietnam	(Dong)	19095.0	-	24793.9	91.3171	29701.3	153.122
Euro (0.7701)*	(Euro)	1.2985	0.0049	-	-	1.1980	0.0018
One Month		1.2984	-	-	-	1.1978	0.0000
Three Month		1.2982	0.0000	-	-	1.1978	0.0000
One Year		1.2962	-0.0005	-	-	1.1972	0.0003
SDR		0.6604	-0.0006	0.8575	0.0025	1.0273	0.0046

Rates are derived from WM/Reuters at 4pm (London time). * The closing mid-point rates for the Euro and £ against the $ are shown in brackets. The other figures in the dollar column of both the Euro and Sterling rows are in the reciprocal form in line with market convention. ‡ New Venezuelan Bolivar Fuerte introduced on Jan 1st. 2008. Currency redenominated by 1000. Some values are rounded by the FT. The exchange rates printed in this table are also available on the internet at http://www.FT.com/marketsdata

Euro Locking Rates: Austrian Schilling 13.7603, Belgium/Luxembourg Franc 40.3399, Cyprus 0.585274, Finnish Markka 5.94572, French Franc 6.55957, German Mark 1.95583, Greek Drachma 340.75, Irish Punt 0.787564, Italian Lira 1936.27, Malta 0.4293, Netherlands Guilder 2.20371, Portuguese Escudo 200.482, Slovenia Tolar 239.64, Spanish Peseta 166.386