FINANCIAL TIMES

September 20, 2011 2:08 pm

Lyxor: No blowback from SocGen downgrade

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Ignites Europe, a Financial Times publication, provides news and analysis of the European fund industry. http://www.igniteseurope.com

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Lyxor says it has not been impacted by the recent problems at its troubled banking parent Société Générale, stressing that outflows at the exhcange traded fund house have not taken place as a result of investor concerns.

The firm, which was recently ousted from its position as the second-largest ETF provider in Europe, does acknowledge that outflows are taking place but says it is due to wider economic uncertainty rather than problems at SocGen.

Moody's downgraded the long-term debt ratings of both SocGen and Crédit Agricole last week, following days of uncertainty regarding their exposure to Greek sovereign debt.

Nizam Hamid, deputy head of Lyxor ETFs, says: "We haven't seen any signs of outflows because of [group issues]. A lot of the outflows reflect the market itself."

Mr Hamid says Lyxor's sales teams are in "daily contact" with investors and that they "haven't had to reassure clients".

Lyxor will, however, this week introduce "client-friendly solutions" that seek to alleviate concerns about swap-based ETFs, he says.

Lyxor will for the first time publish its funds' assets on a daily basis, while also resetting swap exposures to zero on a daily basis. "It's a very client-friendly solution," says Mr Hamid.

Analysts, meanwhile, have also rubbished suggestions that SocGen could try to sell Lyxor as part of a $4bn asset disposal that was announced earlier this week.

Pierre Flabbee, a Paris-based analyst at Kepler Capital Markets, says: "Lyxor works very well. Its strength is that it is in direct contact with information generated by [SocGen's] trading desks."

Christophe Nijdam, an analyst at Alphavalue, an independent research firm, believes

SocGen is a lot more likely to sell its 25 per cent stake in Amundi, which is co-owned by Crédit Agricole, rather than Lyxor.

Mr Nijdam says: “I don’t believe SocGen would sell Lyxor because it is a strategic asset for the equity derivatives desks of the investment bank.

“On the other hand, SocGen could try to sell its stake in Amundi, as it has previously said. The only questions are about the time and the price that can be achieved via a minority stake.”

SocGen and other French banks have suffered from the decision by US money market funds to reduce their holdings in such companies over the past few days. Vanguard and Legg Mason have made such moves.

Fidelity also says it currently has zero exposure to SocGen. “We run our money market funds on a very conservative basis,” says a spokesperson.

Central banks, however, last week gave a much welcomed boost to French banks after announcing that they would provide short term, dollar-denominated liquidity loans.

However, Mr Flabbee says short-term liquidity is a “real concern” for SocGen, adding that US investor perception is linked to the 2008 financial crisis.

“There is nervousness, which is accentuated by the fact that the crisis in Greece is not yet resolved.”

Citi points to the fact that French banks, which have a high dependence on wholesale funding, have substantially bolstered their liquidity positions over the past few years.

Mr Flabbee says that SocGen must still find alternatives to US money market funds for short term funding.

“No doubt French and other eurozone banks are experiencing a ‘run’ from US money market funds. However, we believe they can manage a reduction to zero,” says Citi.

“Overall, we do not believe in a repeat of the 2008-’09 liquidity crisis. Banks have built up liquidity buffers and central banks are willing to extend virtually unlimited liquidity.”

Printed from: http://www.ft.com/cms/s/0/35795dfe-e389-11e0-8f47-00144feabdc0.html

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