MONTHLY UPDATE **DECEMBER 2010**

Market Indicators

		THREE-MONTH TREND	ONE-MONTH TREND	TWO-WEEK TREND	MARKET SHARE	COVERAGE (80%)*	AUCTION LIQUIDITY*	AVG DAILY NO. of TRADES	Average Trade Size (ATS)	Bid-ASK Spread (VWAS in bp)	% time at BEST BID &OFFER*	% time at BEST BID & OFFER with greatest size*
AEX	EURONEXT	→	↑	↑	68.0%	45.0%	9.2	4 694	9 544	3.7	66%	37%
	CHI-X	↑	→	↓	22.0%	39.0%		2 538	5 718	3.1	50%	6%
	TURQUOISE	↓	↓	↓	3.5%	40.0%		470	4 921	4.7	18%	0%
	BATS	→	→	↓	6.5%	33.0%		840	5 081	4.7	32%	1%
BEL20	EURONEXT	↓	↑	↑	69.1%	39.0%	10.0	2 088	7 069	5.6	54%	32%
	CHI-X	↑	↓	↓	21.7%	25.0%		1 188	3 905	3.9	44%	7%
	TURQUOISE	↓	↓	↓	3.6%	32.0%		233	3 296	5.5	24%	1%
	BATS	↑	↑	→	5.6%	39.0%		374	3 200	10.4	26%	2%
CAC40	EURONEXT	↓	↑	↑	69.3%	55.0%	12.1	7 071	9 001	3.7	66%	36%
	CHI-X	↑	↓	↓	21.5%	55.0%		3 746	5 273	3.0	51%	8%
	TURQUOISE	→	→	↓	4.2%	53.0%		901	4 258	4.3	26%	0%
	BATS	→	→	↓	5.0%	45.0%		959	4 796	4.7	18%	0%
DAX	XETRA	↑	↑	↑	72.6%	53.0%	6.9	3 877	23 753	4.2	63%	38%
	CHI-X	↓	↓	↓	18.2%	53.0%		3 511	6 577	2.9	51%	6%
	TURQUOISE	→	↓	↓	2.8%	55.0%		637	5 528	4.0	14%	0%
	BATS	↑	→	↓	6.4%	57.0%		1 516	5 315	4.5	34%	1%
FTSE 100	LSE	↓	↑	↑	58.1%	44.0%	11.8	2 672	10 711	5.4	75%	34%
	CHI-X	→	→	↓	25.6%	39.0%		2 036	6 095	4.9	68%	11%
	TURQUOISE	↓	↓	↓	5.3%	39.0%		493	5 290	5.7	37%	0%
	BATS	↑	↓	↓	11.0%	37.0%		1 012	5 263	6.2	50%	1%
SLI (30)	SIX	→	→	↑	70.9%	39.0%	9.8	2 609	22 895	7.6	78%	51%
	CHI-X	↓	↓	↓	16.9%	30.0%		1 410	10 096	7.3	65%	5%
	TURQUOISE	→	→	↓	3.3%	30.0%		309	9 427	8.1	44%	0%
	BATS	↑	→	↓	8.8%	30.0%		790	9 426	8.2	59%	2%
EUROSTOXX 50	CHI-X	→	↓	↓	15.9%	63.0%		4 451	6 554	3.3	58%	8%
	TURQUOISE	→	→	↓	2.8%	62.0%		1 002	5 647	3.8	33%	0%
	BATS	→	↓	↓	5.3%	56.0%		1 793	6 094	4.5	42%	1%

Reference period: *1 December to 31 December 2010*

* Exclusive CA Cheuvreux – TAG

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CHEUVREUX
CRÉDIT AGRICOLE GROUP

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COMMENTS:

Trading volumes showed a near 23% decrease in December, due to market makers' holidays after the third Friday of the month. The major decrease took place on the FTSE 100, with average daily turnover approaching EUR16bn on the main indices. As a result, primary markets recovered market share, mainly to the detriment of Chi-X, the market share of which declined on every index except the FTSE 100.

Very specific behaviour was noted on 24 and 31 December. Open primary markets gained an average 12 points of market share during these half-days of trading, with Euronext reaching 81.8%, for example, on 24 December for CAC 40 stocks. The major loser was Chi-X, which saw its market share drop by approximately 12.5%. This reshuffling came with a drastic fall in volumes on these two days.

Dark daily turnover reached EUR322m on the main indices, representing 2% of lit volumes. **Dark monthly turnover was up by 92% from December 2009 to December 2010.**

December is the last month for which we will be presenting coverage figures, given the fact that they have remained quite stable since 2009. In January, new figures on dark volumes will be added to our Monthly Indicators.

Since the beginning of 2010, primary markets have been losing market share and have fallen below the 70% threshold on almost all indices. The FTSE 100 suffered the fastest pace of decline in 2009, but the LSE's market share has remained relatively stable, under 60%, since March 2010. Chi-X showed a rapid increase in market share but seems to have reached an asymptote over the past few months. Turquoise and BATS were competing neck and neck in 2009, but BATS outperformed Turquoise in 2010. This conclusion is consistent with EBBO figures, with Chi-X converging with the primary markets for the past few months, and even outperforming them on several occasions. BATS and Turquoise also presented improving EBBO figures, with BATS showing a better performance than Turquoise most of the time.

With the exception of high-volatility periods, where the significant rising parameter is the number of trades, **spreads have tightened in 2010.**

Fact of the Month/Year: BATS is in exclusive talks to acquire Chi-X, and this may dramatically change the fragmentation landscape. If this move proceeds, regional exchanges will face a stronger competitor, and the new player will have greater weight in its talks with regulators.

Long-Term Analysis: In 2010, competition began to ease across trading platforms (LSE acquiring Turquoise, and now exclusive talks are taking place between BATS and Chi-X). **2011 will be a year of consolidation between the main players**, while Xetra and NASDAQ-OMX appear to be dangerously out of the game.

What have we gained? The overall quality of service definitely increased (latencies decreased), but we encountered outages, even on historical markets. **At what cost?** The cost of risk increased with events like the Flash Crash in the US on 6 May, and outages that could be considered the result of too much competition leading to platforms taking on too much operating risk. We also suffered from the now well-known issues caused by high-frequency trading.

A good point for the European Commission is that MiFID gave rise to pan-European platforms, with around three main players offering a large range of products (lit books, hidden books, mid-points, smart routing) and an excess of niche offerings (BCNs, SI, etc.) from smaller players. We are nevertheless lacking uniformity in the clearing and settlement space.

Future Trends: Let's make three wishes for the European market microstructure in 2011:

- More transparency, especially post-trade;
- A clear status for all trading facilities (OTF is a good proposal);
- Capacity for regulators, via ESMA, to adjust the cost of high-frequency trading to pay only for what we get (tick size adjustments seems to be a good guess).

DEFINITIONS:

Market share: For local main indices, this is the ratio of the venue's turnover over the sum of the turnover of all the four considered venues. For the Eurostoxx 50, it is the ratio of the venue's turnover over the sum of the turnover of all venues trading Eurostoxx 50 components.

Coverage: This indicator is inspired by the "inequality measure", also called the Pareto principle or the 80:20 rule: when 80% of an activity is concentrated on 20% or less of its players, this activity is clearly not well balanced. The coverage indicator assesses the "20%" part of this rule of thumb for exchanges. The closest to 80% it is, the more the venue offers balanced liquidity from one stock to another.

Auction liquidity: This is the ratio of the proportion of the turnover traded during auctions by the typical time ratio between the continuous auction phase (generally 8½ hours) and the fixing auctions (usually two 5-minute phases), which is less than 2%. It is only available for primary exchanges. The higher it is, the more turnover one will find during auctions.

Average daily number of trades: The higher it is, the more chance an investor has to be present when a trade happens. *Contrary to block venues, the granularity of a venue is a must to attract different order flows.*

Average trading size (ATS): Mean trading size in euros. This can be considered as the "natural size" of orders on the venue.

Bid-Ask Spread (Volume Weighted Average Spread): The average spread when a trade occurs, weighted by the turnover of the trade. It is the bid-ask spread from the liquidity provider's point of view.

% Time at EBBO at Best Bid and Offer: This is the proportion of the day during which the venue offers a spread equal to the EBBO.

% Time at EBBO at Best Bid and Offer with Greatest Size: This is the proportion of the day during which the venue offers the greatest sizes at a spread equal to the EBBO.

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