FINANCIALOUNGE

Stock Exchange - the possible merger between Hong Kong and London will not hurt Piazza Affari

by the Editorial Staff

According to analysts, the bid made by the Hong Kong Stock exchange on the London Stock Exchange will have no repercussions on Italian assets. The banks' problems are due to low profitability caused by the ECB's ultra-expansive policy

There is no danger. In fact, there may even be some advantages. Should the bid made by the Hong Kong Stock Exchange to merge with the London Stock Exchange be successful, practically nothing would change for Piazza Affari, which is part of the London Stock Exchange Group. Likewise for public bonds, over € 400 billion worth, of which 287 represent BTPs as certified by Bankitalia in July, that are held in our credit institutions. "Let us make it clear right from the start", explained **Emanuele Canegrati**, senior analyst from BP Prime, London, "that the bid is related to the Stock Exchange as a business mechanism and not the companies that are listed on it". There is therefore no risk, notwithstanding the fact that, yesterday, both the Lega and the M5S, with urgent questions and queries, demanded clarifications from the newly appointed Minister of the Economy, Roberto Gualtieri. "For Hong Kong, the deal certainly does not concern Italy", noted **Vincenzo Longo**, market analyst from the IG Group. "There is no transfer of our assets into Chinese hands in very much the same way that they are not currently in English hands".

PIAZZA AFFARI WILL PLAY A LEADING ROLE IN BREXIT

"The fears of an impact on the Italian Stock Exchange already emerged at the time of the merger with the London Stock Exchange. Since then, time has proved that the merger was positive for both, an example proving the point being the importation of the AIM UK model to the Italian market, with a significant number of small to medium sized companies that used to find it difficult to get listed”. **Angelo Meda**, head of Equities at Banor Sim explains. “Now, there is still a fear of a ‘peripheralization’ of Italy which, according to some, could become a secondary type of asset and with only a few dedicated investments within a global group. These fears are unfounded. With the Brexit process in its final stages, Milan could indeed become the hub of the group within the European common market. The leadership position in bond markets, which is also a consequence of the country's significant public debt, could even be one of the strengths of the new group and lead to new developments in other markets. The key variable to define”, the analyst continued, “will be the governance of the new company, which is fundamental in order to keep the role of regulated markets separate from the interests of individual countries, allowing Stock Exchanges to fulfil a role that is as neutral as possible while at the same time facilitating the use of financial markets to raise capital and guarantee its efficient allocation”.

HONG KONG WANTS TO GROW AND CHALLENGE THE HEGEMONY OF WALL STREET

But there are many who read Hong Kong’s move as reflecting its intent to challenge the financial hegemony of Wall Street and to create a new financial centre along the lines of what China is already attempting to achieve in the field of trade and infrastructure with the Silk Road project. “The operation is carried out so that the rest of the world, with the exception of the United States, increases its presence in Stock Exchange infrastructure in such a way as to narrow the gap with Wall Street, the undisputed leader”, continued Canegrati. “**Currently, the United States Financial market is worth four times that of the whole of Europe**. A company like Apple is worth as much as the whole Milan Stock Exchange, and the first three companies listed on the New York Stock Exchange are worth as much as the whole Frankfurt Stock Exchange”. “What seems to be evident is that, notwithstanding the Brexit problem, the City has great appeal and it represents a strategic financial asset”, added Longo. “Hong Kong’s idea is that there will not be a hard Brexit but that it will happen in a very soft manner, or maybe not at all, and so they are making a bet and taking advantage of the weak pound, which is appealing for whoever wishes to buy assets in the United Kingdom”.

NO TROJAN HORSE: THE ECB IS BEING BLAMED FOR BRINGING THE BANKS TO THEIR KNEES

Adopting Prime Minister Boris Johnson’s approach, that is Brexit at all costs, “It is rational on the part of Hong Kong to make a proposal that leads the City to integrate with a growing financial market such as the Asian market”, explained the BP Prime senior analyst. But couldn’t this turn the London and Milan Stock Exchanges into a sort of Trojan Horse with which Chinese capital would penetrate Europe? “I really don’t think so”, Canegrati concluded. “If anything, the real danger for our banks and for European banks does not come from China but from the United States. And what is at fault is not this type of transaction but the ECB’s ultra-expansive monetary policy, a policy characterized by below zero interest rates that has destroyed the banks' profitability both in terms of dimensions and in terms of profit. This means that **American banks have enough available liquidity to absorb our credit institutions** and the European ones very soon. But nobody is talking about that”.