Hedge Funds in Emerging Markets

Hedge Funds are among the most innovative and controversial of financial market institutions. Largely exempt from regulation and shrouded in secrecy, they are credited as having improved efficiency and adding liquidity to financial markets, but also having severely destabilised markets following the Asian financial crisis and the near-collapse of Long-Term Capital Management.

De Brouwer presents a nuanced and balanced account to what is becoming an increasingly politicised and hysterical discussion of the subject. Part I explains the workings of hedge funds. Part II focuses on the activities of macro hedge funds and proprietary trading desks in East Asia in 1997 and 1998, with case-study material from Hong Kong, Indonesia, Malaysia, Singapore, Australia and New Zealand. Part III of the book looks at the future of hedge funds, their role for institutional investors, and policy proposals to limit their destabilising effects.

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Contents

List of figures vii
List of tables ix
Preface xi

1. The issues 1
2. What is a hedge fund? 9
3. Hedge funds in east Asia 41
4. Hong Kong 73
5. Indonesia, Malaysia and Singapore 96
6. Australia and New Zealand 121
7. Models of market dynamics 144
8. Inferring hedge fund positions from returns data 171
9. Looking forward 187

References 219
Index 227
Figures

2.1 Hedge fund and mutual fund returns 19
2.2 Hedge funds – MAR/Hedge 33
2.3 Hedge funds – Van Hedge 33
3.1 Net delta position of individual hedge funds and market open interest in HSIF 45
3.2 Mutual funds total assets in emerging markets 53
3.3 Mutual funds total assets in emerging markets net new cash flow 54
4.1 JP Morgan real effective exchange rate for Hong Kong 74
4.2 Annual GDP growth in Hong Kong 75
4.3 Asset prices in Hong Kong 75
4.4 Hang Seng Index and net open interest 78
4.5 Net delta position of individual hedge funds and market open interest in HSIF 79
4.6 Three-month HIBOR futures open interest 82
4.7 Aggregate balance and three-month interest rates 83
4.8 Deposits in Hong Kong by currency denomination 86
4.9 Hong Kong stock prices and interest rates 87
4.10 Individual macro hedge fund returns 91
4.11 Stock price volatility 93
4.12 Price-earnings ratio, Hang Seng Index 94
5.1 Rupiah and Indonesian overnight interest rate 99
5.2 Indonesian stock-price 99
5.3 Intra-day rupiah bid-ask spread, 1998 101
5.4 Ringgit and baht 103
5.5 Ringgit turnover in Malaysia 103
5.6 Malaysia’s foreign exchange reserve 105
5.7 Interest rate and the ringgit 105
5.8 Ringgit and Kuala Lumpur composite stock price index 106
5.9 Correlation of stock prices and ringgit 107
5.10 Correlation rupiah and ringgit, January to August 1998 108
List of figures

5.11 Onshore and offshore interbank interest rates 112
5.12 Singapore dollar and the three-month interest rate 115
5.13 Foreign exchange reserves, Singapore 115
5.14 Singapore stock prices 116
5.15 Onshore and offshore one-month interest rates, Singapore 117
5.16 Real effective exchange rates 120
6.1 GDP growth in Australia and New Zealand 122
6.2 Current-account deficits of Australia and New Zealand 123
6.3 Export commodity prices of Australia and New Zealand 124
6.4 US dollar exchange rates of Australia and New Zealand 124
6.5 Interest rates in Australia and New Zealand 125
6.6 Australian dollar 126
6.7 Australian dollar onshore turnover 128
6.8 New Zealand dollar 133
6.9 Australian dollar residuals 137
6.10 NZ dollar residuals 140
7.1 Price dynamics in the De Long, et al. (1990a) model 147
7.2 The decision tree 152
7.3 Nash equilibrium payoffs under different fundamentals 163
8.1 Portfolio returns 179
8.2 Actual and inferred ringgit positions 180
8.3 Actual and inferred Dow positions 181
8.4 Actual and inferred Dow positions with changing positions 183
8.5 Long and short positions in the ringgit 184
8.6 Weekly ringgit positions inferred from a regression of aggregate 185
9.1 Returns on returns of all assets in the portfolio 189
## Tables

<table>
<thead>
<tr>
<th>Table</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Classification of hedge funds</td>
<td>20</td>
</tr>
<tr>
<td>2.2</td>
<td>Hedge fund performance</td>
<td>35</td>
</tr>
<tr>
<td>2.3</td>
<td>Correlation of returns: Goldman Sachs and FRM database, 1994 to 1998</td>
<td>38</td>
</tr>
<tr>
<td>2.4</td>
<td>Correlation of returns: Van Hedge database, 1995 to 1999</td>
<td>39</td>
</tr>
<tr>
<td>3.1</td>
<td>Changes in banks’ unconsolidated assets in Asia, $US billion</td>
<td>65</td>
</tr>
<tr>
<td>3.2</td>
<td>Measures of real exchange rate misalignment</td>
<td>68</td>
</tr>
<tr>
<td>5.1</td>
<td>Innovations to the Ringgit</td>
<td>109</td>
</tr>
<tr>
<td>5.2</td>
<td>Closed interest parity</td>
<td>118</td>
</tr>
<tr>
<td>6.1</td>
<td>Model of the Australian dollar, November 1988 to March 2000</td>
<td>137</td>
</tr>
<tr>
<td>6.2</td>
<td>Model of the NZ dollar, February 1989 to February 2000</td>
<td>139</td>
</tr>
<tr>
<td>9.1</td>
<td>Matrix of transparency of positions in financial markets</td>
<td>205</td>
</tr>
</tbody>
</table>
Preface

My interest in hedge funds in emerging markets was sparked by my involvement in the Study Group on Market Dynamics, which reported to the Financial Stability Forum Working Group on Highly Leveraged Institutions, in 1999. At the time I was Chief Manager, International Markets and Relations, at the Reserve Bank of Australia, a position I left when I became Professor of Economics at the Australian National University in January 2000.

Much of the information used in this book was collected at that time, in visits to Auckland, Hong Kong, Johannesburg, Kuala Lumpur, New York, Singapore, Sydney and Wellington. A lot of important information was also gathered after that, in visits as an academic to Bangkok, Singapore and Tokyo and in subsequent conversations with market participants and officials.

It is important to stress at the outset that I have not used confidential information collected while I was a central bank official or discussed official meetings in this book. I have consulted widely with officials from relevant national and international authorities about the material presented here, and I am confident that I have not breached any commercial or official confidence. This is not intended to implicate these people; not everyone I consulted necessarily agrees with my analysis and views.

I am deeply indebted to many people for their advice, assistance, information and support in writing this book. It could never have been written but for the willingness of hundreds of market participants and officials to talk, often frankly, about the activities of hedge funds, banks and securities companies in financial markets in 1997 and 1998.

I am grateful in the first instance to my former colleagues at the Reserve Bank of Australia, especially Ric Battelino, Stephen Grenville, Philip Lowe, Bob Rankin and Mike Sinclair. I am deeply indebted to the other members of the FSF Study Group on Market Dynamics, Charles Adams (International Monetary Fund, convenor), Hervé Ferhani
Preface

(Banque de France), Dino Kos (Federal Reserve Bank of New York), Julia Leung (Hong Kong Monetary Authority), Robert McCauley (Bank for International Settlements, Hong Kong Representative Office), Anthony Richards (International Monetary Fund), Nouriel Roubini (US Treasury, now New York University), Andrew Sykes (Financial Services Authority, UK) and Iwao Toriumi (Bank of Japan).

I am also grateful to Ashwin Rattan and the staff at Cambridge University Press for their support and professionalism, and to Malhar Nabar for excellent research assistance in writing Chapter 8. I received helpful comments from fellow academics, especially Peter Drysdale, Ross Garnaut, Adrian Pagan and David Vines.

I am most deeply grateful to Michael Sparks and Jakob Spink for their support and endurance during the months I spent travelling collecting the information used in this book and the months writing it up. This book is dedicated to them.