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GFI Group, Inc. Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Chris Allen – Pali Capital.

Chris Allen – Pali Capital

If you comment just in terms of our outlook for the cash credit business and then can you give us a little bit of color on how you see the CDS market proceeding here. Obviously we've seen some stability, seeing signs of life, but when do you think it could really return to health?

Michael Gooch

I think the combination of the credit derivative market, the explosion of the credit bubble, all of those factors and the position that credit derivatives has found itself in in terms of partly a scapegoat for some of the concerns about systematic risk in the market and where we find ourselves today, what has resulted in that is certainly that there's been more activity in the cash markets.

Our business is obviously had to adjust to that and you can see that we successfully adjusted our business to take advantage of increased activity in cash markets. Also, I think in the cash markets things have become more thinly traded.

There's been less commitment of capital from the street and so I think that agency brokers like ourselves have found ourselves in a position of being able to put together more cash corporate fixed income and sovereign debt business than we may have done in the past. We've also added in that area, we added stuff and we are actively looking to make that a part of our business growth in the future.

In terms of the credit derivatives, the fixed side of that is the credit derivatives have therefore been less liquid. I still think the credit derivative market is a very good functioning, solid market place, but whilst there's been uncertainty in the market, the discussion around what the clearing mechanism will be, whether or not the Fed was going to come in and do something specific with moving things to a CFTC type cleared or even exchange executed environment, I think that has led to some less degree of use of credit derivatives in the fourth quarter and the first quarter.

And to the degree now that many of those issues are beginning to be cleaned up and we've got this big bang agreement between the North American credit derivatives traders and customers and now to some degree largely with Europe as well, where there's this new approach to credit derivatives to where you're going to have these standard contracts that can be easily fungible and offset with each

other with upfront payments and allowance for coupons, etc. with the auction reset of the different levels.

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