FINANCIAL REVIEW

SE Companies and Markets

HD **Morgan Stanley tepid on volume, eyes share**

BY Joyce Moullakis
WC 1,008 words
PD 16 June 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 20
LA English

LP

Exclusive **Equity** activity may take two years to return to former levels.

Australian **equity** trading volumes may take as long as two years to recover but Morgan Stanley is targeting a top three ranking in institutional equities in the next 12 months, says joint Asia Pacific chief Gokul Laroia.

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In many parts of the world, investment banks and trading houses are suffering from lacklustre trading volumes even as merger and initial public offering activity climbs. This year, the drop away in trading has occurred well before the European summer and many, including Mr Laroia, are hopeful the worst has passed.

"It's a very much region specific issue … It's very difficult to say we are going to see a broad recovery in volumes because of one particular event that is going to occur, I don't think we subscribe to that view," Mr Laroia told The Australian Financial Review during a visit to Sydney. "Having said that, we are at a pretty low base right now so we expect and certainly hope it's going to get better."

He noted that Australian trading volumes may take one-to-two years to show a sustainable pick-up after being impacted by factors including elevated market levels and the nation's connectivity to **China**. However, if the market pulled back from recent highs, that may attract more investors to buy stocks.

"In the short term, a market correction could get [Australian] volumes going, but in the longer-term the global links are important," Mr Laroia said.

Last month, volumes across the Australian Securities Exchange and Chi-X slumped to their lowest May level in five years, according to IRESS data. The value of daily trading volumes fell short of $4 **billion** in May, well off the pre-global financial crisis levels of $6 **billion** traded a day.

"The rest of Asia is driven by idiosyncratic events," Mr Laroia added, referring to events like elections in India, which prompted a large rise in volumes, and political instability in Thailand, which saw volumes drop off. Work to do in Australia

As structural reform continued in **China**, trading volumes may take one-to-two years to recover there as well, and new **Chinese** sharemarket listings would likely contribute 35 per cent of the region's total in the medium term, down from highs of about 60 per cent, he said. Morgan Stanley does, however, expect a pick up in volumes in Japan in the second half of this year.

Separately, Mr Laroia is cautiously optimistic, but says it's too difficult to predict a broader return of volatility to financial markets.

In Australia, he believes Morgan Stanley still has work to do to improve its wealth unit but expects the **firm** will continue to win market share in local institutional equities, following a slow build of the division and a marked improvement in the past three years.

Morgan Stanley ranks fourth in institutional equities market share, with 8.1 per cent of Australian volume for the year-to-date as at May 31. That is about double where it was in 2009.

Mr Laroia, who also heads up Morgan Stanley's Asian institutional equities and wealth management units, is eyeing a top three spot in Australia.

"From a commission perspective we are probably top three already and if the panel rankings continue to improve we will be there on volume in the next 12 months," Mr Laroia said. "Three years ago when we did market share for Asia we had two slides, we had Asia and Asia ex-Australia, because the Australian market … dragged us down. Now there is a real desire to include Australia because it's accretive."

Globally, Morgan Stanley is attempting to make its business more resilient to shocks through a bigger wealth management push. But Morgan Stanley's Australian wealth arm has confronted a turbulent few years amid several changes of chief executives. The role is now merged with that of head of equities Ian Chambers, matching the regional template. Overhaul necessary

Last month, however, the **company** outlined sweeping changes to the commissions it pays local advisers, particularly cutting pay to those writing lower levels of revenue. Morgan Stanley's global chief James Gorman has also said the **firm** wants to lower the compensation-to-revenue ratio in wealth management. While the Australian measures have sparked some discontent within the unit, Mr Laroia labelled the overhaul as necessary.

"Unless you actually have a business that consistently makes some money we are not going to be in a position to invest in the business, and if we are not investing in the business, why are we running the business," he said. "This will see us move to profitability which will then allow us to do more with the business. We want to grow it [Australian wealth management]."

Morgan Stanley is seeking 10 per cent to 15 per cent growth over the next 12 months in wealth adviser numbers. There are currently 190 local advisers. But the sharp cuts to payments at the lower levels of its commission grid, may prompt adviser departures when they come into effect in July.

Across the entire Australian unit, the **firm** expects headcount to remain broadly flat, but there is scope to make some hires in specific sectors in investment banking, local boss Steve Harker said. Morgan Stanley Australia ranks eighth this year in mergers and acquisitions advisory work, and is sitting in second spot for **equity** capital markets deals.

Morgan Stanley has been heavily involved in state government privatisations, and also jointly advised Transurban on its winning Queensland Motorways bid. The **firm** is working alongside Macquarie Capital on the initial public offering of Monash IVF. Morgan Stanley did, however, miss out on a **lead** role on the mooted float of Medibank Private. In the Asia Pacific, Morgan Stanley is tracking well this year. It ranks second in **equity** capital issuance, on Dealogic numbers, and leads the pack in merger advisory transactions.

CO dwitd : Morgan Stanley

IN i814 : Banking | i831 : Financial Investments | i83101 : Investment Banking | ibnk : Banking/Credit | ifinal : Financial Services | iinv : Investing/Securities

NS ccat : Corporate/Industrial News

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

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AN Document AFNR000020140615ea6g0002y

