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New listings drive bounce in equity trade

By Jeremy Grant in Singapore Author alerts

Buoyant global equity markets and a resurgence in company listings drove a rebound in the value and volume of share trading on the world's bourses in the first six months of the year, signalling a possible turnround after years of anaemic performance.

The value of share trading rose by 10 per cent to $29.7tn, and was 6.8 per cent higher on a year-on-year basis, according to the World Federation of Exchanges, the London-based industry group for 62 exchanges.

The number of initial public offerings globally fell by 11 per cent compared with the second half of 2013 but was 42 per cent higher on a year-on-year basis.

The growth in IPOs in the first half has been driven by a more than doubling in the value of cross-border listings, according to a separate survey last month by Baker & McKenzie, a law firm. Much of that has been a steady stream of Chinese companies listing on the New York Stock Exchange and Nasdaq, while there was also a 29 per cent surge in domestic listings in the period.

Last month saw the two main US indices – the S&P 500 and Dow Jones Industrial Average – reach their highest levels since they were launched, respectively, in 1957 and 1984.

Grégoire Naacke, senior analyst at the WFE, said: "After several years of decline we are witnessing signs of a recovery in exchange volumes in the recent period. ''The IPO numbers mirror this trend. The question now is, will it last?''

There was however a sharp divergence in the fortunes of Asia, where the value of shares traded declined by 6 per cent, and the rest of the world. There was a 24 per cent rise in Europe, Africa and the Middle East, and a 16 per cent rise in the US.

Exchanges have suffered from repeated years of weak equity trading volumes since the impact of the global financial crisis in 2008.

That has been exacerbated by a loss of confidence in the way share markets operate after incidents such as the "flash crash" on Wall Street in 2010 and, recently, amid the fallout from "Flash Boys", a book written by Michael Lewis, which has again raised questions over US equity market structure.

The most recent controversy centres on transparency in dark pools, which have drawn scrutiny amid signs that high-frequency traders have infiltrated them, leading to average order sizes shrinking and fears among some asset managers over who their orders may be interacting with.

Exchanges have in the meantime been able partially to offset weak share trading volumes by building up their derivatives business, and expanding further into ancillary businesses such as electronic corporate services and data.

Last month Nasdaq OMX, operator of the Nasdaq market, reported double-digit earnings and revenue growth for the second quarter in spite of low trading volumes as acquisitions and cost cuts helped boost its results.

Exchanges have also sought to benefit from increased regulatory scrutiny of off-exchange trading by emphasising the traditional role of bourses as venues where prices are always available to all type of market participants.

"Exchanges serve the real economy every day," said Hüseyin Erkan, WFE chief executive. "As volumes recover and companies seek capital to fund themselves, market operators will play an even greater role. The recent concerns have focused investor interest in markets that are transparent and regulated."

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