

MALAYSIA EQUITY RESEARCH | APRIL 6, 2015

<p>Week Ended April 3, 2015</p>	Foreign Flow Meter	
	 Tide	<p>MODERATE (declining)</p>
	 Current	<p>MODERATE (tapering)</p>
<ul style="list-style-type: none"> • Equity markets in Asia rebounded last week but those in the West fell flat. • A weaker-than-expected March payroll numbers in the U.S diminished the risk of an early interest rate hike by the Federal Reserve. That is a dampener on the dollar and may reignite interests in Emerging Asia. • Money flow to Asia has turned erratic based on evidence in the last four weeks. The aggregate numbers do not suggest single-way traffic either way. Country-specific factors dominate. • The local equity market ended March on a cautious note. A historically promising month turned out to be a disappointment. April hardly started on an auspicious note. • Foreign funds have been quietly rebuilding their portfolio of Malaysian equity. • For the third week running, investors classified as “foreign” had been net buyers in the open market (i.e excluding off-market deals) on Bursa. • However, the foreign purchases had occurred amidst a decline in trading activity. Foreign participation rate dipped below the RM1b mark for the first time in six weeks. • The KLCI is not at risk of a significant correction. It is in a healthy technical zone. The latest employment statistics from the U.S may trigger a much needed correction in the dollar. This will further the cause of Emerging Asian equity, particularly the local market. 		

6 April 2015 | Strategy - Weekly Fund Flow

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THE TIDE RECEDED, BUT MAY REVERSE ON DOLLAR CORRECTION

A. MARKET SNAPSHOT

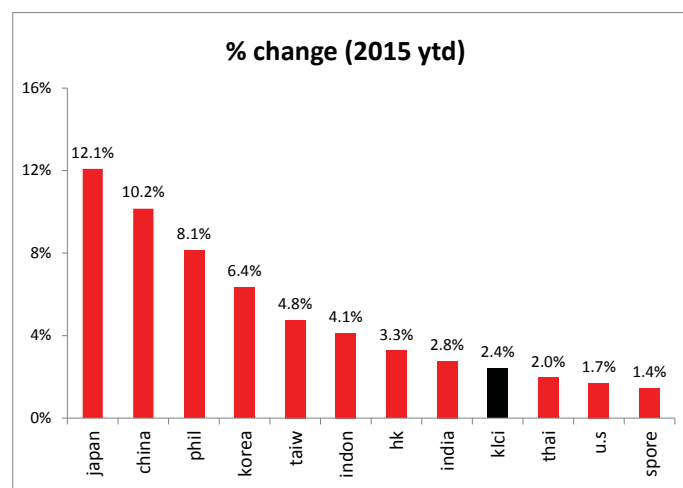
- Equity markets in Asia rebounded last week but those in the West fell flat.
- At the bellweather Wall Street, the Dow Jones and S&P500 indices rose by a marginal 0.3% each, all of which was due to the gains on Friday, after the market-friendly employment numbers were released.
- A weaker-than-expected March payroll numbers in the U.S diminished the risk of an early interest rate hike by the Federal Reserve. The U.S. economy added only 126,000 nonfarm payroll jobs in March, the lowest since December 2013. Prior to March, the economy had added >200k jobs for 12 successive months. Unemployment rate stayed unchanged at 5.5%.
- At the FOMC meeting two weeks ago, the Fed acknowledged that the U.S economic growth has moderated. In its statement, the committee clearly mentioned that it will not raise interest rates until it is "reasonably confident" that inflation will return to its target and the labour market improves further. The slowdown in overall jobs created in March was partly due to the loss of jobs in manufacturing. This arguably reflects the negative impact of the strong dollar, among others.
- In Europe, the FTSE rose on Friday but failed to reverse earlier losses to end the week in the redzone at -0.3%. The UK parliament was dissolved last Monday as the country prepares for a general election on May 7.
- In Asia, all eyes were on China where the CSI300 rose a substantial 5.0%. The index had gained almost 20% in the last 4 weeks, as investors were buoyed by the government's ongoing capital market reforms as well as monetary stimulus. The efforts appear to be working as China's manufacturing sector expanded for the first time in 3 months. The official manufacturing PMI rose to 50.1 in March. It was <50 in January and February, indicating contraction in output.
- Otherwise most other Asian markets had a good week, returning >1%. The biggest swing was seen in India and Thailand.
- The KLCI rose 1.2%, the fourth best week this year. The index has been well supported above the 1,800 level and has gained 2.4%ytd.

Performance of major markets

Weekly % change	Week before	Last week
China CSI300	2.03	5.01
Hang Seng	0.46	3.22
India Sensex	-2.84	2.92
Thai SET	-2.27	2.73
Phil Comp	0.76	1.46
Korea KOSPI	-0.86	1.27
KLCI	0.54	1.17
Jakarta JCI	-0.85	1.10
Taiwan Taiex	-2.52	1.02
DAX	-1.42	0.83
CAC	-1.05	0.80
Nikkei 225	-1.40	0.77
S&P500	-2.23	0.29
Dow Jones	-2.29	0.29
Straits Times	1.10	0.11
FTSE	-2.39	-0.31

Source: Bloomberg

Major Asian indices (2015)

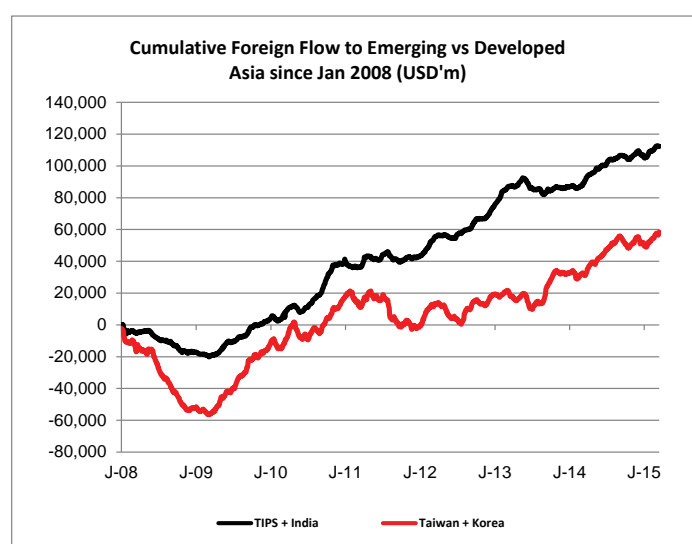
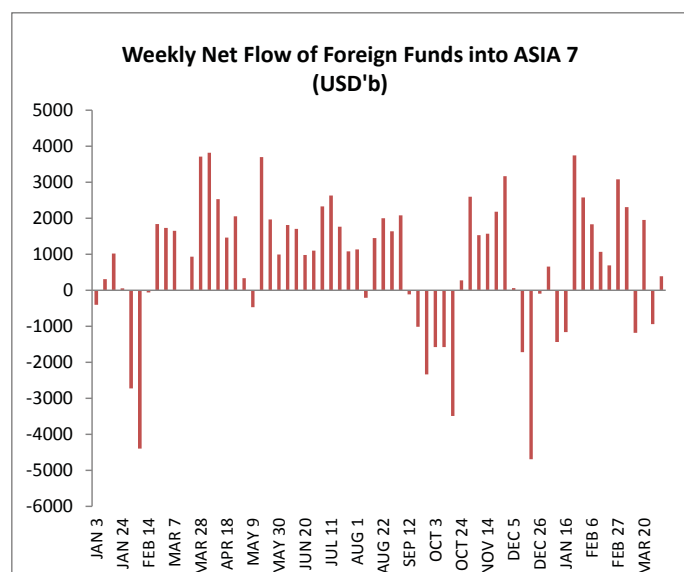


Source: Bloomberg

FUND FLOW REPORT

B. TRACKING MONEY FLOW

- Money flow to Asia has turned erratic based on statistical evidence in the last four weeks.
- The aggregate numbers do not suggest single-way traffic either way. Country-specific factors dominate. The level of conviction appears to be weak, partly due to the mixed signals coming out from the U.S pertaining to the timing of interest rate normalization.
- Based on provisional data from the respective exchanges, investors classified as “foreign” turned aggregate net buyers, albeit marginally, in the 7 Asian¹ stock markets that we track (India, Taiwan, Korea, Thailand, Indonesia, Philippines and Malaysia). The amount bought last week was only USD388m.
- The flow to Asia remained uneven. The crude data suggests that the appetite for Developed Asia² (as represented by Korea and Taiwan) was flat last week. In contrast, Emerging Asia (as represented by the TIP + India + Malaysia markets) appear to be a returning flavour.
- There was heavy foreign buying of Korean equity from mid-February until the third week of March. After a brief respite, the buying continued last week, albeit at a more sedate pace.
- The Korean market is heavily traded now with the KOSPI back to above the 2,000-point level. The average daily turnover of the South Korean stock market reached a three-year high in 1Q15. Last week, Korean construction stocks came into focus on news of a nuclear deal with Iran. If economic sanctions against Iran were lifted, Korean contractors will benefit from a construction boom in the country. Iran was one of the largest construction markets in the Middle East before the sanctions. Daelim Industrial, Hyundai E&C and GS E&C used to be heavy players there in the early 2000s.
- Meanwhile, there appears to be a pause in foreign activity in Taiwan. However, liquidity is ample and it is only a matter of time before the buying resume. Taiwan has always been a destination for technology-related investments. Among the potential growth



NET FLOW BY DESTINATION (USD'm)

Year	TIPs + India	Taiwan + Korea	TOTAL	M'sia	Total (+M'sia)
2008	-17,195	-53,106	-70,301	n.a	n.a
2009	20,580	40,063	60,642	n.a	n.a
2010	35,690	29,234	64,924	n.a	n.a
2011	2,748	-17,801	-15,053	n.a	n.a
2012	31,302	19,976	51,278	4,385	55,663
2013	12,446	13,500	25,946	1,224	27,170
2014	20,093	18,874	38,967	-2,025	36,942
2015	6,790	7,754	14,544	-1,112	1,3431

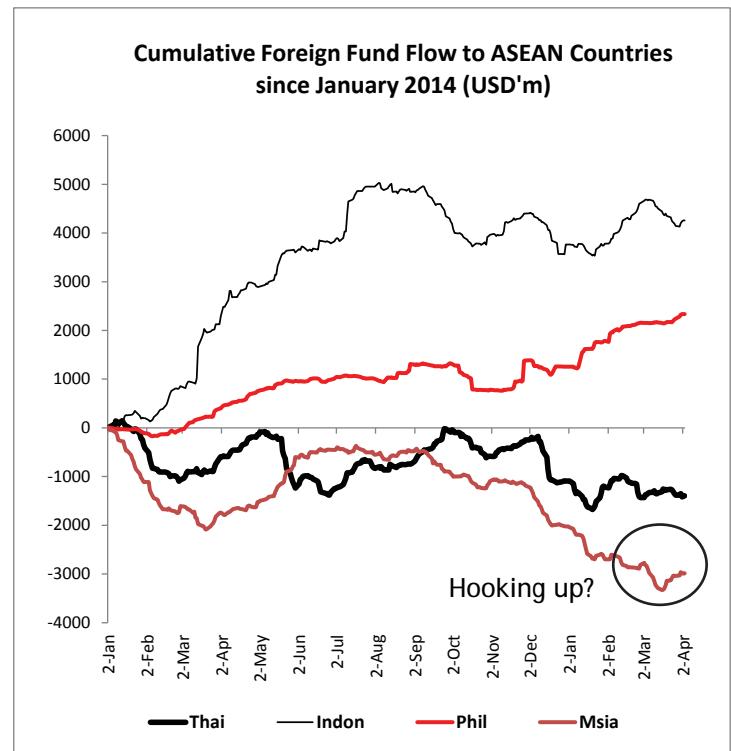
TIP = Thailand, Indonesia, Philippines.
Source: Bloomberg & Bursa statistics.

¹ These ASIA 7 markets, for which fund flow data is publicly available, are our proxy for Asia. TIP = Thailand + Indonesia + Philippines.

² Technically, the Korea and Taiwan markets have not yet been classified as “developed” under the MSCI. We use the term liberally only for tracking purposes.

stocks are those with exposure to China's efforts in developing the 4G LTE network nationwide.

- Emerging Asia is slowly creeping back into the radar screen of global investors. After three weeks of sell-down, foreign investors bought back Indonesian equity last week. The JCI Index set new highs again last week, as sentiment turned positive with expectations of improvement in trade balance, low inflation and recovery in the rupiah.
- India and Philippines continue to be the favoured destinations in Emerging Asia although the intensity of preference was noticeably lesser than that at the beginning of the year.
- Meanwhile, foreign investors appear to be wary of Thailand, especially on the surprising strength of the baht. The baht has surprised markets by becoming one of the world's best performing currencies over the last 12 months despite the country's political turmoil, looser monetary policy, the prospect of easier fiscal policy and a strong dollar. Growth was also below expectation.



WEEKLY NET FLOW OF FOREIGN FUND INTO EQUITY (USD'm)

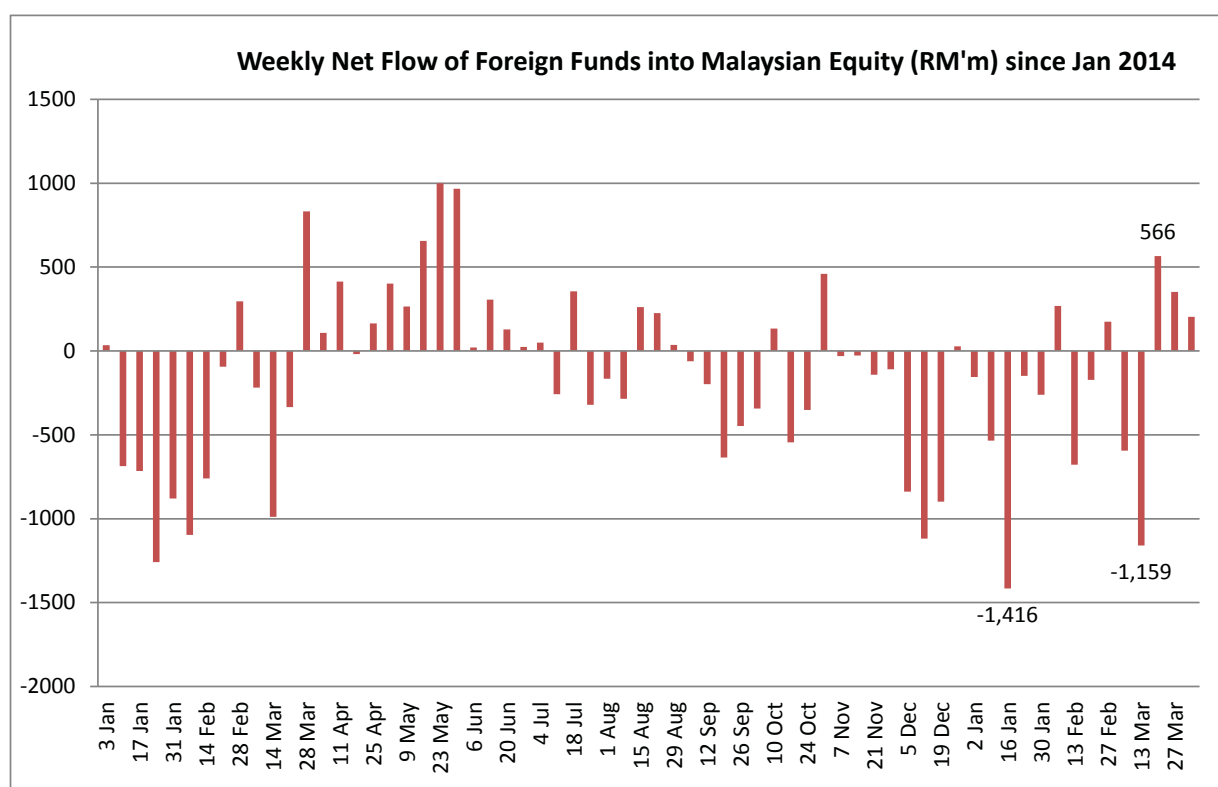
WEEK ENDED	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	MALAYSIA	TOTAL
OCT 3	-309.1	-75.9	-344.4	20.3	107.2	-866.0	-104.8	-1572.7
OCT 10	-716.4	-64.4	-88.9	-189.7	-304.0	-256.2	41.2	-1578.3
OCT 17	-1093.2	-248.8	-187.8	-299.9	-604.9	-888.2	-166.3	-3489.1
OCT 24	139.0	-93.8	30.5	-8.8	290.6	27.7	-107.5	277.7
OCT 31	219.3	-81.4	210.8	1.6	668.7	1439.5	140.2	2598.6
NOV 7	-248.9	129.9	-14.9	-17.9	891.6	797.9	-8.7	1529.0
NOV 14	-12.9	39.2	259.7	23.7	455.3	818.0	-8.1	1575.0
NOV 21	955.7	40.2	76.1	156.2	139.3	854.8	-42.2	2180.1
NOV 28	860.1	127.4	113.1	439.4	833.5	831.4	-32.5	3172.7
DEC 5	470.8	19.8	-65.5	-114.0	275.8	-279.9	-243.0	64.0
DEC 12	-696.2	-246.2	-110.6	-54.3	534.7	-824.2	-320.2	-1717.0
DEC 19	-1514.0	-593.7	-383.4	-111.1	-732.1	-1095.9	-257.7	-4687.8
DEC 26	-49.5	-46.4	-269.2	155.7	-292.8	405.2	8.0	-89.0
JAN 2	-144.6	26.6	194.0	-4.6	143.6	489.8	-44.1	660.7
JAN 9	-118.8	-191.0	14.0	-9.7	-440.3	-540.0	-150.3	-1435.5
JAN 16	-743.6	-283.6	-160.1	369.8	550.0	-499.0	-396.1	-1162.7
JAN 23	208.8	112.6	44.0	147.5	1081.0	2194.1	-41.5	3746.6
JAN 30	-410.7	290.4	121.1	19.8	1642.1	988.4	-71.9	2579.2
FEB 6	435.6	184.2	197.1	205.3	-107.4	841.9	75.3	1832.1
FEB 13	-89.7	51.7	271.0	86.0	-284.6	1222.2	-188.6	1068.1
FEB 20	129.0	-155.8	100.2	27.7	640.9	0.0	-48.3	693.7
FEB 27	691.4	-293.2	262.1	52.5	1185.0	1134.6	48.7	3081.0
MAR 6	887.8	104.4	68.7	-6.7	892.4	527.2	-162.7	2311.1
MAR 13	87.4	-9.4	-179.6	12.6	160.0	-935.3	-314.1	-1178.4
MAR 20	1297.3	62.8	-151.8	7.7	172.5	414.7	151.9	1955.1
MAR 27	-0.5	-107.5	-204.3	69.0	234.7	-1026.8	96.3	-939.1
APR 3	204.0	-13.8	112.3	96.2	44.4	-109.9	54.8	388.3

Source: Various countries' exchanges. These figures are subject to revisions.

FUND FLOW REPORT

C. TRACKING MONEY FLOW - MALAYSIA

- Foreign funds have been quietly rebuilding their portfolio of Malaysian equity.
- For the third week running, investors classified as “foreign” had been net buyers in the open market (i.e excluding off-market deals) on Bursa. The amount mopped up last week was RM203.8m, which is *not insignificant*.
- Most of the purchases came early in the week. On Tuesday, the net purchase amount was RM263.4m, only the fifth day this year that the RM200m mark had been broken. There was marginal selling on Wednesday and Thursday, but the buying resumed on Friday.
- In March, although there was heavy exit in the first two weeks, much of it was reversed subsequently. For the month, aggregate net outflow of foreign portfolio capital from the local equity market amounted to only -RM539.9m, compared with -RM2.4b in January. For the first quarter of 2015, a total of -RM3.4b of foreign portfolio left Malaysian equity. Including off-market trades, this figure would likely be higher.
- Last week’s purchase reduced the cumulative net foreign outflow for 2015 to -RM3.45b. In comparison, the cumulative foreign outflow for the entire 2014 was -RM6.93b.
- Foreign purchases aforementioned had occurred amidst a decline in trading activity. Foreign participation rate (daily average gross purchase and sale) fell to RM917m last week, the first time it dipped below the RM1b mark in six weeks, and only the second week this year. Foreign participation amounted to only RM351m on Friday, the lowest this year.
- Local institutions held fort last week, offloading only -RM37.5m. Participation rate remained elevated at RM2b. Local institutions have absorbed RM4.1b net so far this year. In 2014, they mopped up RM8.18b net.
- Most of the selling last week were by the retailers, which offloaded -RM166m, the second highest in a week this year. Yet, participation rate remained low at only RM701m, the lowest since the first week this year.

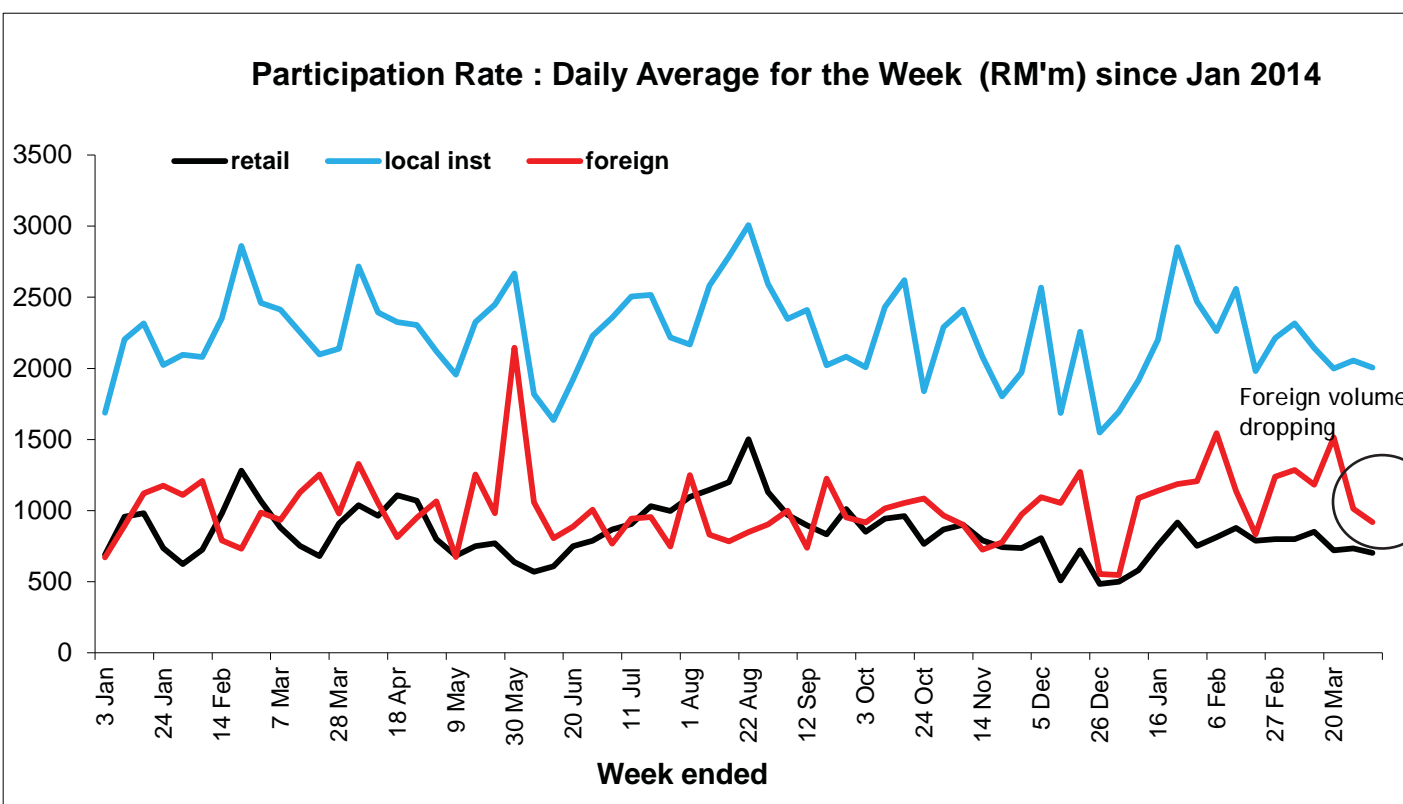


Source: Bursa statistics, excluding off-market trades

BURSA MALAYSIA: WEEKLY MARKET PARTICIPATION (RM'm)

Week ended	LOCAL RETAIL			LOCAL INSTITUTION			FOREIGN			
	BOUGHT	SOLD	NET (RM)	BOUGHT	SOLD	NET (RM)	BOUGHT	SOLD	NET (RM)	NET (USD)*
NOV 7	2267.3	2234.2	33.1	6030.9	6034.3	-3.4	2233.9	2263.6	-29.7	-8.7
NOV 14	2011.5	1923.2	78.3	5176.2	5227.2	-51.0	1797.5	1824.8	-27.3	-8.2
NOV 21	1932.6	1780.0	152.6	4500.8	4511.8	-11.0	1871.5	2013.1	-141.6	-42.2
NOV 28	1847.2	1835.2	12.0	4977.1	4880.2	96.9	2376.0	2484.9	-108.9	-32.5
DEC 5	2139.0	1883.9	255.1	6715.5	6131.6	583.9	2314.1	3153.1	-839.0	-243.0
DEC 12	1276.9	1267.6	9.3	4771.1	3662.7	1108.4	2072.1	3189.8	-1117.7	-320.2
DEC 19	1741.3	1860.9	-119.6	6153.4	5135.8	1017.6	2732.2	3630.2	-898.0	-257.7
DEC 26	928.9	1003.4	-74.5	3119.6	3073.2	46.4	1120.0	1091.9	28.1	8.1
JAN 2	970.7	1028.0	-57.3	3496.5	3284.8	211.7	1016.0	1170.4	-154.4	-44.1
JAN 9	1501.3	1399.4	101.9	5003.6	4570.3	433.3	2448.0	2983.2	-535.2	-150.3
JAN 16	1928.4	1853.2	75.2	6176.1	4835.4	1340.7	2141.0	3556.9	-1415.9	-396.1
JAN 23	2198.9	2382.4	-183.5	7294.8	6963.4	331.4	2890.1	3038.0	-147.9	-41.5
JAN 30	1841.2	1917.3	-76.1	6342.7	6005.1	337.6	2885.6	3147.1	-261.5	-71.9
FEB 6	1167.3	1273.1	-105.8	3311.0	3473.8	-162.8	2452.0	2183.4	268.6	75.3
FEB 13	2157.5	2228.7	-71.2	6774.6	6025.7	748.9	2504.9	3182.6	-677.7	-188.6
FEB 20	974.6	992.4	-17.8	2570.6	2379.9	190.7	955.4	1128.3	-172.9	-48.3
FEB 27	1953.2	2041.8	-88.6	5488.1	5574.5	-86.4	3184.4	3009.4	175.0	48.7
MAR 6	2022.6	1973.1	49.5	6063.1	5519.1	544.0	2917.7	3511.2	-593.5	-162.7
MAR 13	2138.6	2113.6	25.0	5922.7	4789.2	1133.5	2375.9	3535.1	-1159.2	-314.1
MAR 20	1745.9	1858.8	-112.9	4773.5	5226.1	-452.6	4069.0	3503.5	565.5	151.9
MAR 27	1799.1	1871.5	-72.4	4999.8	5279.6	-279.8	2705.8	2353.6	352.2	96.3
APR 3	1669.3	1835.6	-166.3	4995.9	5033.4	-37.5	2395.5	2191.7	203.8	54.8

* Estimate by MIDF Research based on prevailing exchange rate.
Source: Bursa's preliminary data

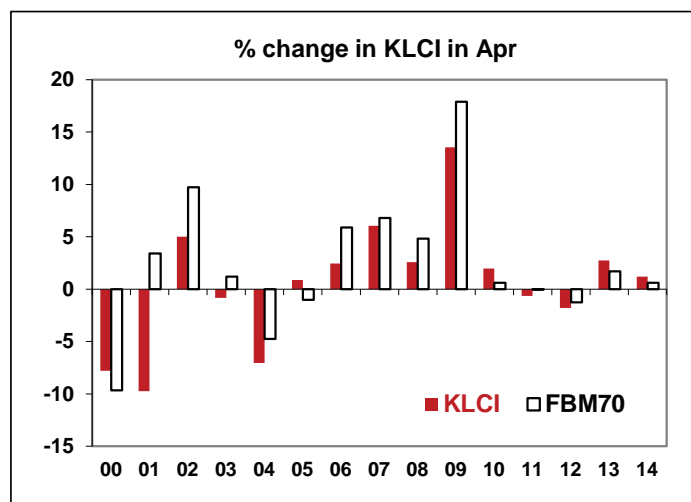


FUND FLOW REPORT

D. THE WEEK AHEAD

"SPRING"-LESS APRIL

- The equity market ended March on a cautious note. A historically promising month turned out to be a disappointment. The KLCI gained only 0.5% for the month, the lowest in six years. Meanwhile, the FBM70 and FBM Smallcap indices lost -0.9% and -2.0% respectively.
- April hardly started on an auspicious note. Foreign investors were net sellers in the opening days of the month. There was uncertainty over the impact of the GST, which took effect on 1 April. And the helicopter tragedy over the weekend is a reminiscent of the tragic helicopter crash of the late TS Yahya Ahmad of DRB-Hicom in 1997.
- Having said that, April had been an "indifferent" month for the equity market based on the performances of the KLCI and FBM70 in the past five years (see chart). It will be hard to justify otherwise this year.



... BUT TECHNICALS ARE PROMISING

- We do not believe that the KLCI is at risk of a significant correction. It is in a healthy zone, above the long-term resistance as represented by the 200-day moving average line (200DMA) -- see chart.
- More importantly, the KLCI is significantly above the short-term trend line as represented by the 50DMA. In the days ahead, the KLCI will be pulling the 50DMA upwards, possibly staging a golden crossover with the 200DMA later this month, if things stay where they are now.
- This applies to the FBM70 and FBM Smallcap as well, although the two indices appear to be lagging the pace of the KLCI. If focus shifts away from the big caps, the second and third liners are poised to benefit.

KLCI in healthy zone

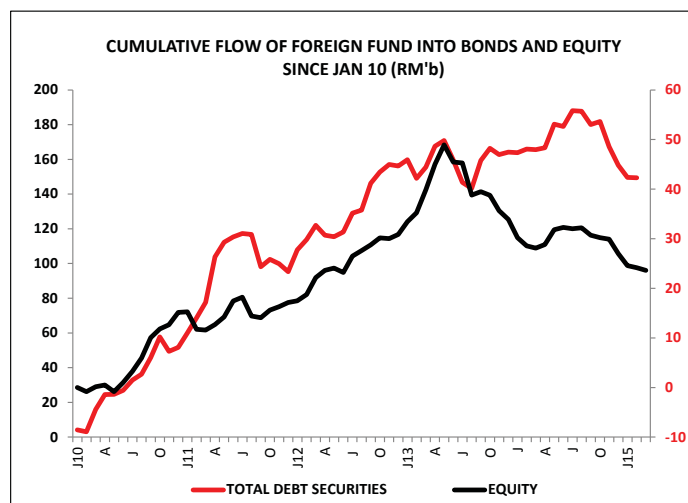


SHORT-TERM DOLLAR WEAKNESS TO HELP MARKET

- In our opinion, the biggest factor to further the cause of the market this week is the expected correction in the dollar. It is apparent that the strength of the greenback is hurting the U.S economy, as evidenced by the loss in manufacturing employment in March.
- The ringgit was one of the best performing currencies in Asia last week. A better prospect for the ringgit will motivate a return of portfolio capital especially into bonds (see chart). Thus far, the movement of foreign capital has caused some misalignment in the ringgit exchange rate. A rectification of this should be positive for the equity market.



Foreign portfolio capital may return on better ringgit outlook



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