FUND FLOW REPORT

midf RESEARCH

MIDF AMANAH INVESTMENT BANK

MALAYSIA EQUITY RESEARCH | AUGUST 24, 2015

Week Ended August 21, 2015

Foreign Flow Meter (M'sia)	
Tide	(maintain) HIGH
Current	(maintain) HIGH

- Sentiment towards equity plunged to its weakest this year with all markets falling into the redzone.
- The sharp deterioration has been attributed mainly to the uncertainty caused by China after the devaluation of the yuan.
- Asian markets were routed last week, clearly distraught by the sharp selldown in China on Tuesday. The CSI300 plummeted -11.9% last week, the second steepest decline this year.
- Triggering the reversal in China, after 2 weeks of incline, was the fear that the Government will cease supporting the market.
- On Wall Street, the Dow Jones and S&P500 fell -5.8% each, their worst since 2011 on fears that China's devaluation may trigger a global deflation.
- Global funds exited listed equity across all markets in Asia. It was the biggest weekly outflow from Asia this year.
- There were heavy pullouts from Taiwan, Korea, Thailand and Indonesia where the overhang of foreign liquidity in the market is still very high.
- As of Friday, the KLCI & FBM70 had dropped -8.6% and -10.2% respectively in August, the worst August since the 1997 Asian Financial Crisis. However, the KLCI outperformed all other markets last week, declining by only -1.39%.
- The outflow of foreign money from Bursa-listed companies remained elevated last week amid global turmoil in the equity markets. However, the amount did not escalate but eased, albeit marginally.
- Expect the KLCI's resilience to be manifested this week on the account that (i) foreign money outflow from equity is becoming residual (ii) local liquidity is ample and institutional presence is very strong and (ii) developments elsewhere are helping to dim the spotlight on Malaysia.

24 August 2015 | Strategy - Weekly Fund Flow

GLOBAL TIDAL WAVE

A. MARKET SNAPSHOT

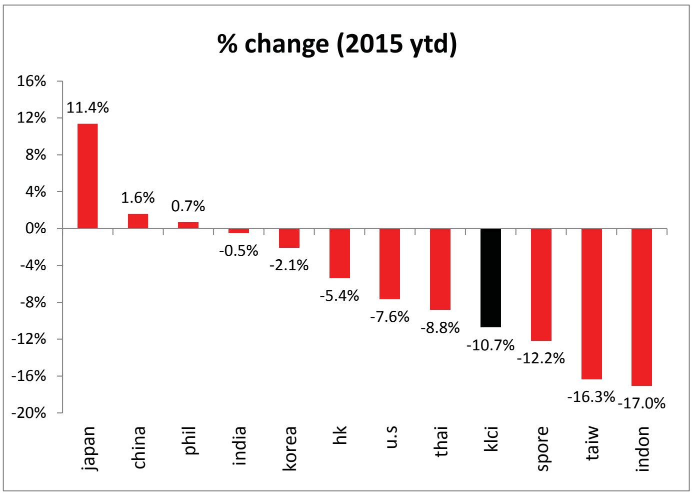
- Sentiment towards equity plunged to its weakest this year with all markets falling into the redzone.
- The sharp deterioration has been attributed mainly to the uncertainty caused by China after the devaluation of the yuan. Will it lead to a currency war? Will it lead to a global deflation?
- Asian markets were routed last week, clearly distraught by the sharp selldown in China on Tuesday and throughout the week. The CSI300 plummeted -11.9%, the second steepest decline this year. The index fell -6.2% on Tuesday alone, with >600 companies hitting limit down. However, the index is still up 1.6% year-to-date.
- Triggering the reversal in China, after 2 weeks of incline, was the fear that the Government will cease supporting the market. It started after official statistics showed that residential property prices rose in July in 31 of the 70 cities tracked. It was higher than 27 in June. A rebound in the property market means less reason for the government to introduce fresh stimulus. Optimism was also dampened after banking data showed the Bank of China injected cash into the financial system through its weekly open-market operations. This diminished hopes for a monetary stimulus, especially via a cut in lenders' reserve requirements. On Friday the securities regulator said that China Securities Finance Corp., the state agency playing the role of supporting share prices, will reduce buying as volatility falls.
- It was bloodbath elsewhere in Asia, with most markets registering one of their worst weeks this year. Taiwan's Taiex, HK's Hang Seng and Indonesia's JCI have all dropped by >20% from the peak this year, indicating a bear market. In Europe, all three main indices of DAX, CAC and FTSE100 recorded their steepest decline this year.
- On Wall Street, the Dow Jones and S&P500 fell -5.8% each, their worst since 2011. The Dow Jones is now down -10% from its high in May while the S&P has retraced 7%. Investors generally treat a retracement of 20% from the high as a mark of a bear market.
- Outperforming all other markets last week was the KLCI, which declined by only -1.39%. Year-to-date, the index is down -10.7%, but better compared with the benchmarks in Singapore, Taiwan and Indonesia. The days ahead would test the resilience of the KLCI in a bearish merket.

Performance of major markets

Weekly % change	Week before	Last week
KLCI	-5.10	-1.39
Phil Comp	-1.65	-1.75
India Sensex	-0.60	-2.50
Thai SET	-1.04	-3.42
Straits Times	-2.58	-4.60
Nikkei 225	-0.99	-5.28
Korea KOSPI	-1.33	-5.41
Jakarta JCI	-3.88	-5.44
FTSE	-2.50	-5.54
S&P500	0.67	-5.77
Dow Jones	0.60	-5.82
Taiwan Taiex	-1.62	-6.25
CAC	-3.85	-6.57
Hang Seng	-2.29	-6.59
DAX	-4.40	-7.83
China CSI300	4.26	-11.88

Source: Bloomberg

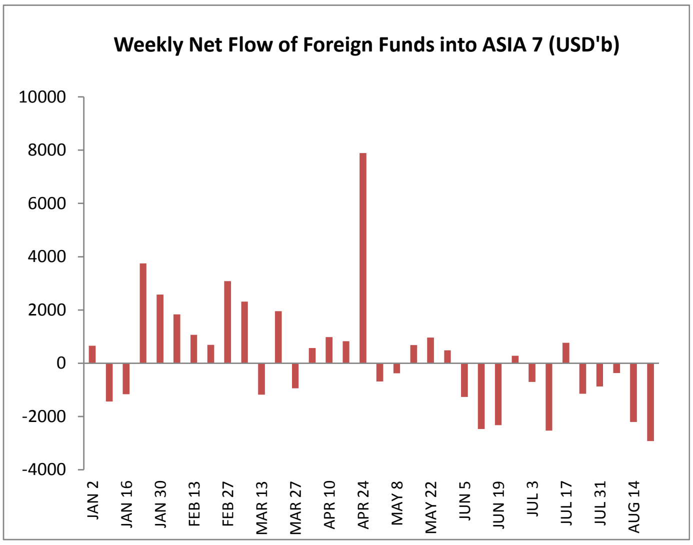
Major Asian indices (2015)

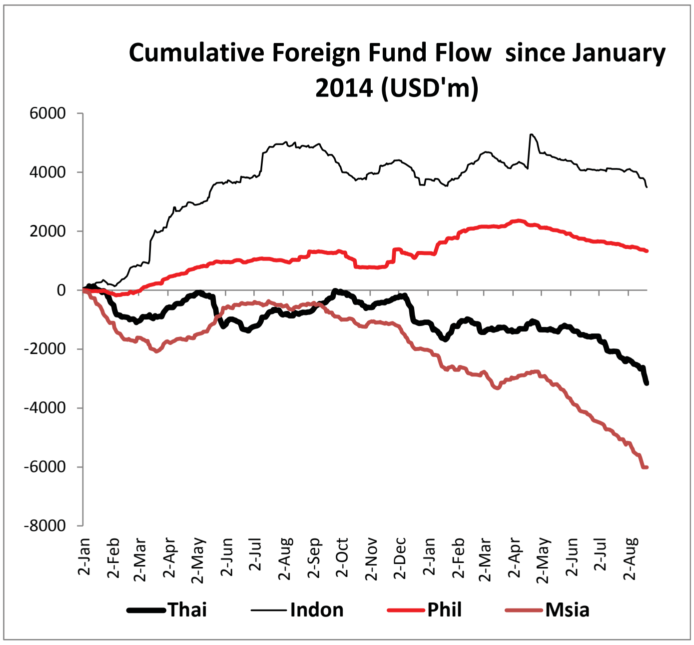


Source:Bloomberg. All in local currency.

B. TRACKING MONEY FLOW

- There was no reprieve in Asia, as global funds exited listed equity across all markets. It was the biggest weekly outflow from Asia this year.
- Based on provisional data from the respective exchanges, investors classified as "foreign" were aggregate net sellers of listed equity in the 7 Asian[1] stock markets that we track (TIPs + India, Taiwan, Korea and Malaysia). The net amount sold was USD2.92b, the highest this year.
- For the second week running, there were heavy selling in both emerging and developed markets. In South East Asia, Thailand had easily its biggest weekly foreign money attrition this year, with a total of USD484 having left Bangkok. The explosion in Bangkok's central shopping district on Monday set the tone for the rest of the week. Current leader Prayuth Chan-Ocha, who has been in charge since the military coup in May 2014, reshuffled his Cabinet last week, including naming a new deputy and finance minister. Thailand's GDP growth decelerated to 2.8%yoy in 2Q15 and the economy is likely to be the among the slowest-growing in SEA this year.
- Foreign selling in Indonesia was also heavy, as the amount pulled out intensified to USD309m, the second highest in a week this year. Indonesia's exports contracted -19.2%yoy in July, and the economy is growing at its slowest pace in 6 years.
- Meanwhile, selling in Taiwan intensified on concerns that China's slowing economy will reduce demand for Taiwan's tech products. The price of bellweather stock, Taiwan Semiconductor Manufacturing Co., plunged 4% on Friday. There also continued to be some foreign portfolio adjustment ahead of the MSCI new country weightage to take effect in September.
- In Korea, an amount of USD903m left the equity market, the highest in six weeks. The Won dropped significantly on Friday as tensions with North Korea heightened. On Thursday, South Korea fired artillery rounds into North Korea in response to the latter's shelling across the border. Apparently it was protesting Seoul's anti-Pyongyang propaganda broadcasts.





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

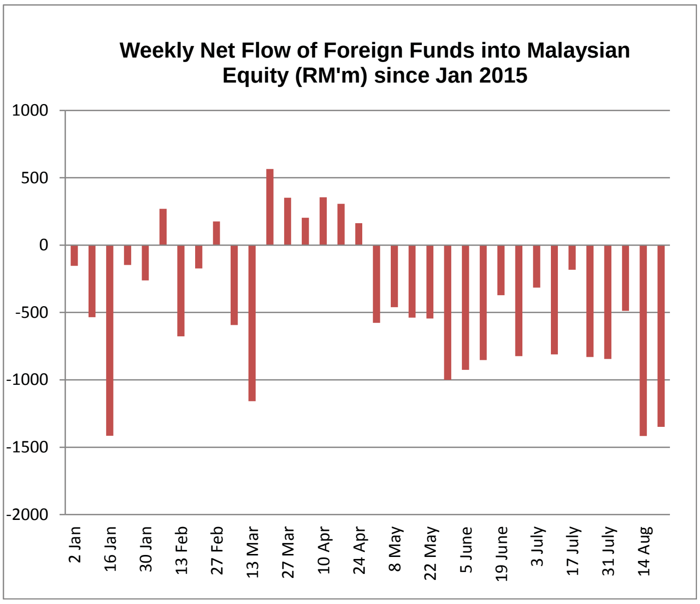
WEEKLY NET FLOW OF FOREIGN FUND INTO EQUITY (USD'm)

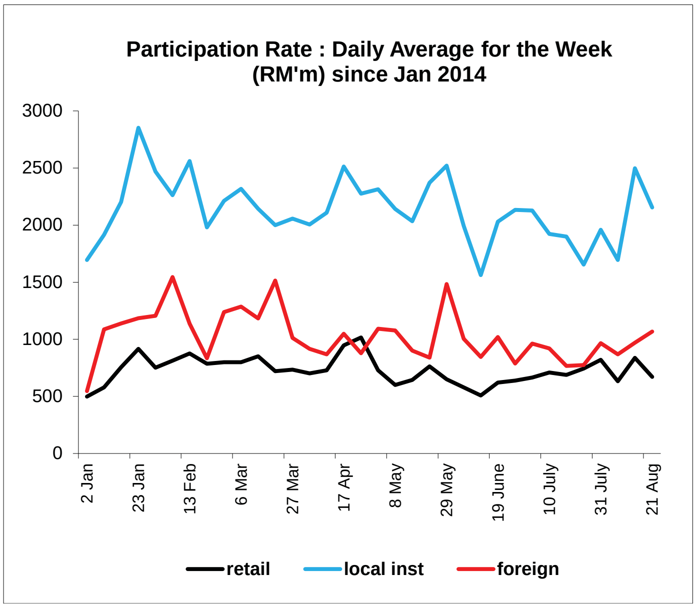
WEEK ENDED	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	MALAYSIA	TOTAL
JUL 10	-1227.8	-318.9	48.3	-55.1	362.0	-1120.9	-213.2	-2525.5
JUL 17	319.8	-24.5	-28.8	-21.3	476.9	141.0	-48.2	814.9
JUL 24	-874.9	-206.1	-12.3	-39.6	227.7	-24.8	-218.3	-1148.3
JUL 31	18.5	-51.5	-8.3	-69.1	-345.3	-209.0	-221.6	-885.9
AUG 7	-186.3	-172.2	-66.9	-7.0	297.1	-89.4	-124.3	-349.0
AUG 14	-535.4	-168.0	-220.9	-80.3	-369.1	-475.6	-353.3	-2202.6
AUG 21	-903.2	-483.8	-309.4	-52.3	-188.4	-653.3	-327.9	-2918.3

Source: Respective exchange statistics reported on Bloomberg. Bursa Malaysia. These figures are subject to revisions.

C. TRACKING MONEY FLOW - MALAYSIA

- The outflow of foreign money from Bursa-listed companies remained elevated last week amid global turmoil in the equity markets. However, the amount did not escalate but eased, albeit marginally.
- Last week, investors classified as "foreign" sold equity listed in the open market on Bursa (i.e excluding off-market deals) amounted to RM1.35b on a net basis, lower than that in the preceding week, which was the year's high of RM1.42b. It was the 12th week that the outflow had exceeded the RM1b mark since January 2012. It was also the seventh highest during the period, but was dwarfed by the RM2.9b outflow in the third week of August 2013.
- Foreign investors have now been net sellers on Bursa for *sixteen* consecutive weeks, the longest stretch of back-to-back weekly selldown since the 2008 Financial Crisis.
- As expected, foreign investors were net sellers every day last week, and had been offloading in the last 13 trading days. The amount surpassed RM300m on Tuesday and Friday but did not exceed RM400m. For the third week running, the heaviest of the attrition happened on Friday, indicating risk aversion going into the weekend. For purpose of monitoring, our trigger threshold is RM200m. That threshold had been exceeded 37 times this year, compared with 23 times for the entire 2014.
- For 2015, last week's selldown *increased* the cumulative net foreign outflow to RM15.0b, significantly **surpassing** the RM6.9b outflow for the entire 2014.
- Foreign participation rate finally surpassed the RM1b level in >2 months. Daily gross volume averaged RM1.07b last week, after eight weeks below RM1b. The inertia in foreign activity to pick up indicates that foreign liquidity overhang in the equity market has shrunk significantly.
- Local institutions mopped up RM1.34b in the open market last week, and participation rate stayed above RM2b for the second straight week at RM2.16b.
- Retailers retreated to the sideline after two weeks of relatively strong buying. Net buy was only RM8m as participation rate dropped to RM672m.





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)*
JUL 3	1584.0	1739.9	-155.9	5552.9	5082.1	470.8	2246.5	2561.4	-314.9	-83.4
JUL 10	1788.8	1762.8	26.0	5199.6	4413.9	785.7	1897.1	2708.8	-811.7	-213.2
JUL 17	1167.9	1242.7	-74.8	3454.9	3196.7	258.2	1251.6	1435.0	-183.4	-48.2
JUL 24	1839.8	1882.4	-42.6	4573.7	3700.0	873.7	1521.8	2351.9	-830.1	-218.3
JUL 31	2005.6	2099.0	-93.4	5364.6	4426.2	938.4	1991.9	2836.9	-845.0	-221.6
AUG 7	1601.8	1561.8	40.0	4461.1	4013.3	447.8	1928.3	2416.1	-487.8	-124.3
AUG 14	2142.0	2043.3	98.7	6903.2	5584.8	1318.4	1718.6	3135.7	-1417.1	-353.3
AUG 21	1684.3	1676.1	8.2	6058.1	4717.3	1340.8	1993.9	3342.9	-1349.0	-327.9

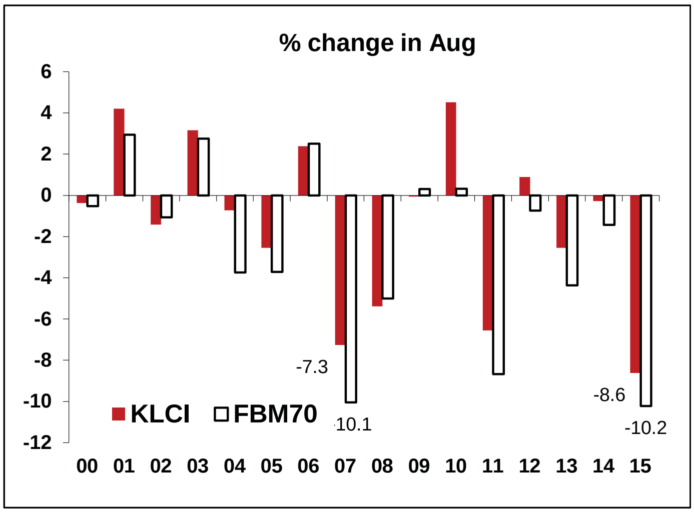
* Estimate by MIDF Research based on prevailing exchange rate.
Source: Bursa's preliminary data

D. THE WEEK AHEAD

AUGUST GETS UGLIER, AND THE PENDULUM HAS SWUNG

- As of Friday, the KLCI had dropped -8.6% in August. The FBM70 had shed -10.2%. For both indices, it has been the worst August since the 1997 Asian Financial Crisis (see chart).
- However, weak sentiment towards the equity market has spread globally. China's devaluation of the yuan has plunged the world into a state of heightened uncertainty. The pendulum is swinging faster and it is not coming to a rest so soon. The U.S market has only started unravelling, while the indices in China, despite having declined sharply, are still in the greenzone year-to-date.
- The days ahead will be challenging indeed for global equity. However, expect the resilient attributes of the KLCI to be manifested, as it did last week. The are good reasons for this:
    - foreign money outflow from equity is becoming residual. The bulk of the volatile foreign funds have already left the system.
    - local liquidity is ample and institutional presence is very strong in Malaysia.
    - developments elsewhere are helping to dim the spotlight on Malaysia. While we expect the Ringgit to remain under pressure, focus will be more on other equity markets such as Taiwan, Korea, Thailand and Indonesia where the overhang of foreign liquidity is still very high. Meanwhile, Hong Kong (as well as Taiwan) has entered into bear market territory after the Hang Seng and Taiex have retraced by >20% from the peak.

Worst August for the KLCI, so far



CHINA'S RESCUE ACT?

- China's decision to devalue its currency is a blessing in disguise for Malaysia, at least in the *short-term*. It effectively pre-empts the U.S Fed's interest rate increase and placed the rampaging U.S dollar in a proper perspective. However, within a *longer-term* context, further devaluations of the yuan risks slowing down the global economy.
- The Ringgit is expected to stay depressed as we believe foreign attrition will continue unabated in the market for Malaysian Government Securities (MGS). The yield on 10-year MGS spiked to 4.37% on Friday, from 4.21% a week before. We note that 3-month KLIBOR remained unchanged at 3.69%, indicating that the decline in the Ringgit has not translated into higher cost of credit. This is important for the economy as it is the spike in the cost of credit which will choke economic activity.
- The Ringgit is too misaligned compared with peers. With equity markets elsewhere on course for a rough week ahead, while Bursa expected to be more resilient, the gap between Ringgit and its peers will hopefully narrow.

Continued spike in yield means foreign attrition in the bond market stayed unabated

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