

MIDF EQUITY STRATEGY | 2 JANUARY 2018 WEEK ENDED 29 DECEMBER 2017

- Equity markets worldwide ended the last week of 2017 on a mixed note amid thin trading ahead of the new year holiday.
- Overall, the all three major U.S benchmarks posted the best annual gains since 2013. Among the three benchmarks, the tech heavy Nasdaq recorded the biggest yearly gain of 28% followed by Dow Jones with a 25% advance and the S&P 500 which gained 19%.
- Brent crude oil price advanced 2.5% for the week to settle at USD66.87pb with an annual gain of 17.7%. It was also during 2017 that Brent crude oil price reached above USD60pb for the first time in two years, supported by ongoing efforts by the OPEC to prolong output cuts combined with strong demand from China.
- The tide returned to Asia after four consecutive weeks of attrition. Based on the provisional aggregate data from the seven Asian exchanges that we track, investors classified as “foreign” mopped up USD1.14b last week.
- Malaysia recorded a net buying of foreign funds from equities listed on Bursa which amounted to RM10.33b net or equivalent to USD2.36b, offsetting approximately 35% of the total outflows from 2014 to 2016. This amount is estimated based on net transactions in the open market excluding off-market deals.
- The FBM KLCI scored its biggest weekly gain since January 2016 at 2.08% closing near 1,800 points, bringing its yearly gain in 2017 to 9.4%. The FBM KLCI scored its biggest weekly gain since January 2016 at 2.08% closing near 1,800 points, bringing its yearly gain in 2017 to 9.4%.

BURSA SOARS NEAR 1,800 POINTS

A. MARKET SNAPSHOT

- Equity markets worldwide ended the last week of 2017 on a mixed note amid thin trading ahead of the new year holiday.
- The performance of Wall Street in the final week of 2017 was rather subdued with the Dow Jones and the S&P 500 suffering a weekly loss of 0.14% and 0.36% respectively which snapped the five-week winning streak of both benchmarks. It is noteworthy that despite thin trading, the Dow Jones logged its 71st record high in 2017 on Thursday at 24,837 points with the help of banking stocks and also energy stocks which eked out gains due to low temperatures across much of the U.S which lifted the price of natural gas.
- Nonetheless on an annual basis, major U.S benchmarks have experienced a rally in 2017 underpinned by factors including commendable corporate earnings, positive economic growth and the progress made for President Trump's tax overhaul plan. More importantly, the fact that there was tension between Pyongyang and Washington indicates that U.S market stood resilient despite such circumstances..
- Overall, the all three major U.S benchmarks posted the best annual gains since 2013. Among the three benchmarks, the tech heavy Nasdaq recorded the biggest yearly gain of 28% followed by Dow Jones with a 25% advance and the S&P 500 which gained 19%
- Markets in Asia also were looking good especially Hang Seng index as it crossed the 30,000 level for the first time in 10 years. In fact, the Hang Seng index outperformed other major Asian benchmarks with a 36% annual gain mainly boosted by Tencent Holdings with solid earnings coupled with a series of all-time highs in 2017.
- Meanwhile Italy dissolved its parliament on Thursday to pave way for a national election on 4 March 2018. This poses a risk of political turbulence in the nation as opinion polls demonstrate that neither the Five Star, the Democrats nor the centre right bloc would win a parliamentary majority. As political turmoil heats up, the nation's fixed income market has seen the yield on Italy's 10-year benchmark bond being the highest in the euro zone excluding Greece.
- Brent crude oil price advanced 2.5% for the week to settle at USD66.87pb with an annual gain of 17.7%. It was also during 2017 that Brent crude oil price reached above USD60pb for the first time in two years, supported by ongoing efforts by the OPEC to prolong output cuts combined with strong demand from China. Other catalysts for the oil market this year include the pipeline outages in Libya and the North Sea.

Table 1 Weekly performance of major indices

Weekly % change	Week before	Last week
Jakarta JCI	1.66	2.16
KLCI	0.41	2.08
Phil PCOMP	1.14	1.50
FTSE 100	1.36	1.25
Hang Seng	2.53	1.15
Korea KOSPI	-1.67	1.10
Taiwan TAIEX	0.44	1.00
Thai SET	1.42	0.67
FSSTI Index	-0.91	0.51
India SENSEX	1.43	0.34
Dow Jones	0.42	-0.14
S&P 500	0.28	-0.36
China CSI 300	1.85	-0.59
Nikkei	1.55	-0.60
CAC 40	0.29	-0.97
DAX	-0.23	-1.19

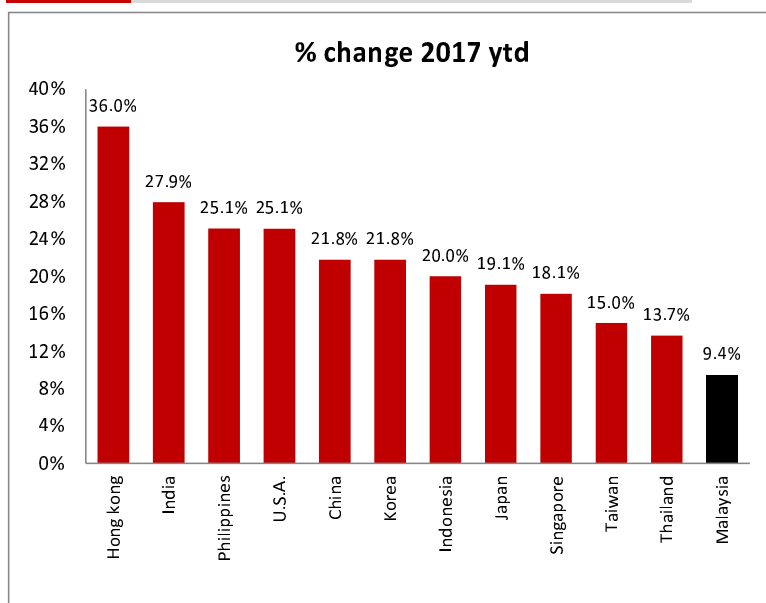
Source: Bloomberg

- The FBM KLCI scored its biggest weekly gain since January 2016 at 2.08% closing near 1,800 points, bringing its yearly gain in 2017 to 9.4%. Although the FBM KLCI lagged its regional peers mainly due to the pre-election effect, the local bourse has a high potential to track gains in its peers as fundamentals of the Malaysian market remains intact. The Ringgit meanwhile outperformed other currencies in South East Asia with an annual gain of 10.9% to settle at USD/MYR4.0465, the biggest since 2010.

B. TRACKING MONEY FLOW - ASIA¹

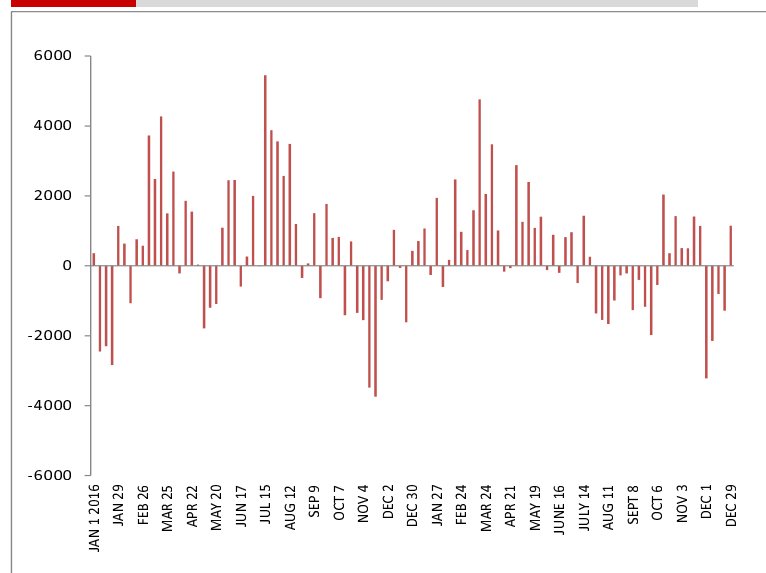
- The tide returned to Asia after four consecutive weeks of attrition. Based on the provisional aggregate data from the seven Asian exchanges that we track, investors classified as “foreign” mopped up USD1.14b last week.
- It is noteworthy that the bulk of last week’s inflow into Asia was contributed by North Asia. In Korea, foreign investors acquired USD317.1m net of local equities, snapping the four week selling binge which coincided with the KOSPI’s 1.1% weekly advance. Aside from that, Korea’s second tier stock market, KOSDAQ had its value of shares traded hit an all time high worth KRW876.3t, surpassing the KRW873.8t recorded in 2015. The optimism on KOSDAQ was bolstered by the government’s initiatives to stimulate the tech-savvy market in 2018. On an annual basis, Korea was the largest beneficiary of foreign inflows among the seven Asian markets we track, attracting USD8.27b worth of funds to its shores in 2017, lower than last year’s inflow of USD10.48b net.
- Similar to Korea, foreign investors returned to Taiwan as they bought USD472.7m net after four weeks of hesitation which was followed by Taiex’s 1.0% weekly gain. The amount of funds that entered Taiwan in 2017 were not that far off from Korea’s, which was USD6.11b net. With the release of Apple’s iPhone X, it was no surprise that stock of semiconductor players had a good run for the year with TSMC finishing 26% higher while Hon Hai Precision extended gains to 13% which overall lifted the Taiex by 15% in 2017, the best annual performance in eight years.
- In Emerging South East Asian markets, Indonesia was the only one experiencing outflows.

Chart 1 YTD performance of major markets



Source: Bloomberg

Chart 2 Weekly Net Flow of Foreign Funds into 7 Asian Markets since Jan 2016 (USD'm)

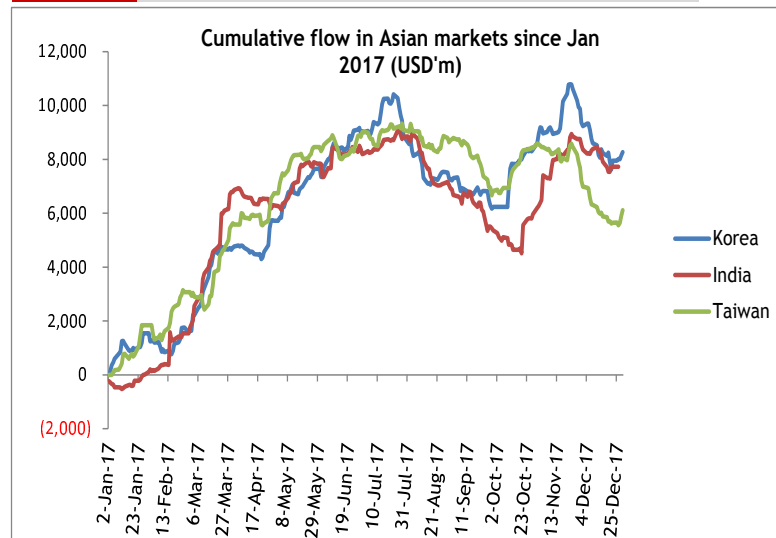


Source: Bloomberg, Bursa Malaysia

¹ Based on 7 Asian markets, for which fund flow data is publicly available. These are our proxy for Asia: TIPS (Thailand, Indonesia, Philippines), Korea, Taiwan, India and Malaysia.

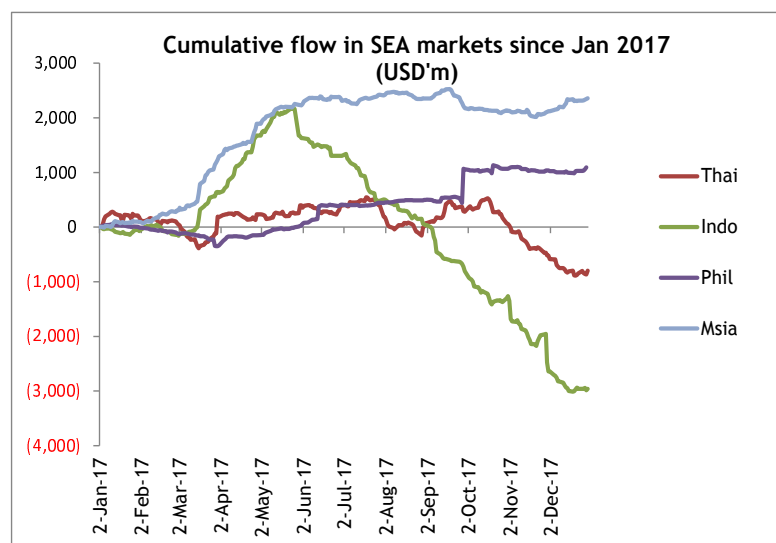
- A reversal of trend occurred in Thailand as foreigners snapped up USD52.7m net after 10 uninterrupted weeks of selling. Foreign buying peaked on Friday at USD71.89m, coinciding with the SET's fresh record close of 1,753 points. The risk-on mood in Thailand last week was buoyed by speculation on spending by tourists as the number of tourists increased by 23% yoy in November which aided the Baht's 0.52% weekly gain to USD/THB 32.571. Nonetheless, Thailand still experienced an outflow of -USD796m net in 2017, the second heaviest in South East Asia.
- In Manila, global funds upped their ante as they bought USD68.0m net of stocks, more than twice the amount bought in the preceding week. USD1.10b worth of foreign funds entered the Philippines in 2017, the second highest foreign buying in South East Asia. The inflow in 2017 saw a substantial improvement from the USD83.4m inflow recorded in 2016. The influx of foreign funds into the Philippines on an annual basis has pushed the PSEi 25.1% higher, outpacing other Asian benchmarks namely Taiwan and Korea.
- Meanwhile in Jakarta, International investors were marginal sellers, disposing off -USD2.13m net last week, bringing the total number of weekly attritions in 2017 to 33 weeks. As a result, foreign investors offloaded -USD2.96m net in 2017, the biggest selloff in South East Asia. Notwithstanding this, the JCI capped an annual gain of 20.0% in 2017, the biggest yearly gain since 2014 with banks making up the top gainers such as PT Bank Rakyat, PT Bank Central Asia and PT Bank Negara Indonesia. Looking forward, President Joko Widodo will pay his visit to the local bourse for the third time in six months as growing support for local stocks is expected to help mitigate foreign outflows and boost the benchmark index in 2018.

Chart 3 Net Flow of Foreign Funds into Taiwan, Korea and India since Jan 2017(USD'm)



Source: Bloomberg

Chart 4 Net Flow of Foreign Funds into South East Asia Emerging Markets since Jan 2017 (USD'm)



Source: Bloomberg, Bursa Malaysia

Table 2 Weekly Net Flow Of Foreign Fund Into Equity By Market (USD'm)

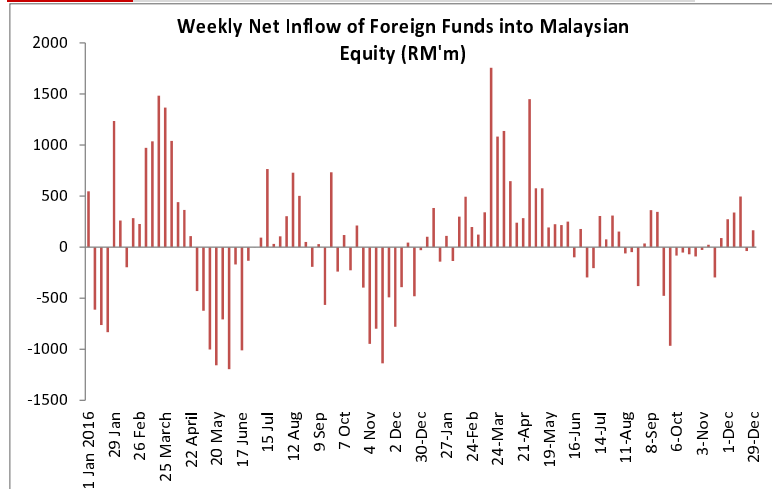
WEEK	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	M'SIA	TOTAL
NOV 10	-17.3	-118.5	-141.3	-0.75	1,032.0	-255.2	5.2	504.1
NOV 17	1,210.9	-183.0	-276.1	-58.8	934.4	-142.3	-71.4	1,413.7
NOV 24	460.9	-14.7	161.1	-18.0	120.3	411.2	21.7	1,142.5
DEC 1	-1,381.5	-178.3	-661.5	18.8	395.9	-1,481.9	66.6	-3,221.8
DEC 8	-635.3	-166.4	-183.5	-33.3	-534.2	-679.7	82.8	-2,149.6
DEC 15	-363.0	-60.1	-172.8	-4.0	101.4	-429.3	121.3	-806.6
DEC 22	-283.5	-37.2	39.7	28.6	-787.9	-235.8	-9.4	-1,285.6
DEC 29	317.1	52.7	-2.1	68.0	195.8	472.7	40.6	1,144.7

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

C. TRACKING MONEY FLOW - MALAYSIA

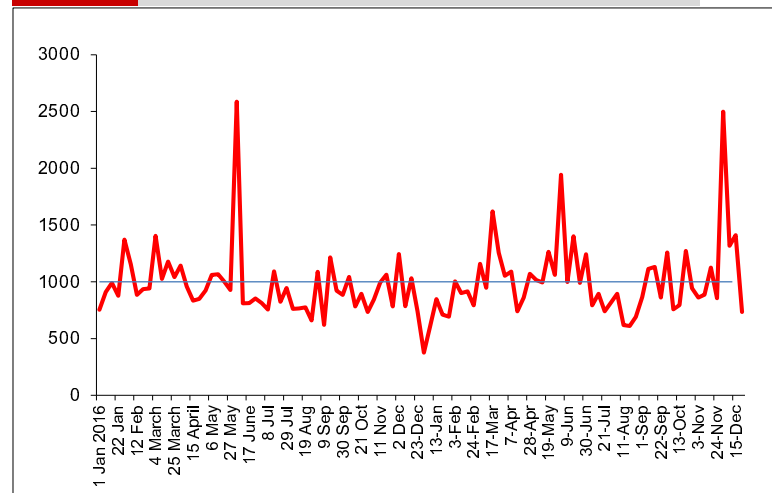
- Malaysia recorded a net buying of foreign funds from equities listed on Bursa which amounted to RM10.33b net or equivalent to USD2.36b, offsetting approximately 35% of the total outflows from 2014 to 2016. This amount is estimated based on net transactions in the open market excluding off-market deals.
- The USD2.36b inflow was the highest among the four South East Asian markets that we track. This was the first annual net inflow recorded since the election year of 2013 and the biggest since 2012 which experienced an inflow of USD4.75b net.
- Foreign funds were rather aggressive buyers in 2017 where Bursa recorded a net injection in 35 out of 52 weeks of trading during the year. From early February to June 2017, foreign funds were net buyers for 18 straight weeks, the longest buying streak recorded since 2013 which had 21 weeks. The most outstanding day was on 17 March 2017 when foreign investors loaded up RM816.1m net coinciding with FBM KLCI closing above the 1,740 level for the first time since June 2015, resulting in a monthly inflow of RM4.37b net for March 2017 amid election rumours.
- However from August to November 2017, foreigners retreated from Bursa as they dumped -RM1.22b net during that period due to the escalating tensions in the Korean peninsula. Interestingly, the significant progress made for the U.S tax overhaul plan saw foreign funds making a comeback in December 2017 as they acquired RM959.9m net.
- After the heavy buying in 2017, we opine that inflows would continue in 2018 especially after the 14th General Election as investors favour certainty in the market. Meanwhile, we also note that other external factors such as foreign investors' views on external monetary policies could prompt outflow of cheap money used by investors to enter emerging markets. However, we reckon that the impact on the latter is expected to be minimal.

Chart 5 Weekly Net Flow of Foreign Funds into Malaysian Equity since Jan 2016 (RM'm)



Source: Bursa Malaysia preliminary statistics

Chart 6 Foreign Participation on Bursa: Daily Average for the Week since Jan 2016 (RM'm)



Source: Bursa Malaysia preliminary statistics, MIDFR

Table 3 BURSA MALAYSIA: WEEKLY MARKET PARTICIPATION (RM'm)

Week ended	LOCAL RETAIL			LOCAL INSTITUTION			FOREIGN			NET (USD)*
	BOUGHT	SOLD	NET (RM)	BOUGHT	SOLD	NET (RM)	BOUGHT	SOLD	NET (RM)	
NOV 17	2,467.0	2,318.3	148.7	6,697.6	6,549.2	148.4	2,664.6	2,961.7	-297.1	-71.4
NOV 24	2,099.6	2,123.5	-23.9	7,232.5	7,297.2	-64.7	2,184.8	2,096.2	88.6	21.7
DEC 1	1,667.9	1,655.5	12.4	5,904.2	6,189.9	-285.7	5,132.8	4,859.5	273.3	66.6
DEC 8	2,078.0	1,945.3	132.7	6,514.5	6,984.9	-470.4	3,462.6	3,124.9	337.7	82.8
DEC 15	2,238.2	2,280.2	-42.0	7,635.1	8,088.4	-453.3	3,774.8	3,279.5	495.3	121.3
DEC 22	2,312.5	2,360.4	-47.9	6,815.6	6,729.5	86.1	1,814.6	1,852.8	-38.2	-9.4
DEC 29	2,303.5	2,445.4	-141.9	4,966.0	4,989.2	-23.2	1,193.9	1,028.8	165.1	40.6

Source: Bursa's preliminary data

* Estimate by MIDF Research based on prevailing exchange rate.

D. MONEY FLOW² AMONG BURSA'S TOP 100 CAPITALIZED STOCKS: WEEK ENDED 29 DECEMBER
TOP 10 NET MONEY INFLOWS

- Public Bank registered the highest net money inflow of RM31.17m last week. Its share price however underperformed with a 0.39% gain against the FBM KLCI which gained by 2.08% during the week under review.
- Tenaga Nasional recorded the second highest net money inflow of RM9.47m. However, its share price slightly underperformed against the market benchmark with a 1.87% advance during the review week.
- Petronas Gas saw the third highest net money inflow of RM8.28m. Its share price outperformed the FBM KLCI with a 2.22% gain during the week under review.

Table 4 Top 10 Net Money INFLOW

Name	Net Money Flow (RM mn)		Price (% Chg)	Remark
	Last Week	Prev Week	Last Week	
PUBLIC BANK	31.17	1.73	0.39	-
TNB	9.47	28.69	1.87	-
PETRONAS GAS	8.28	2.91	2.22	-
IOI CORP	6.93	26.10	-0.22	BOW
AXIATA	6.15	-2.87	1.86	-
IOI PROP	4.76	21.10	1.65	-
F&N	3.66	-7.96	2.35	-
MAXIS BHD	3.14	5.68	0.17	-
NESTLE	2.52	22.10	1.18	-
CMSB	2.29	-0.37	5.98	-

Source: Bloomberg, MIDFR;

Note: BOW – Buy on weakness, SOS – Sell on strength (Bloomberg defined)

TOP 10 NET MONEY OUTFLOWS

- Petronas Dagangan saw the largest net money outflow of -RM18.07m last week. Its stock price ended marginally higher by 0.08%, underperforming vis-à-vis the FBM KLCI which advanced by 2.08% during the review week. It is notable that net money outflow amidst advancing share price may indicate a sell on strength (SOS) stance among some investors.
- Maybank recorded the second largest net money outflow -RM8.46m during the week under review. Its share price however substantially outperformed the market benchmark with a 3.38% weekly gain.
- PPB Group registered the third largest net money outflow at -RM8.33m in the review week. Its share price marginally underperformed the benchmark with a 2.01% weekly gain.

Table 5 Top 10 Net Money OUTFLOW

Name	Net Money Flow (RM mn)		Price (% Chg)	Remark
	Last Week	Prev Week	Last Week	
PETDAG	-18.07	8.19	0.08	SOS
MAYBANK	-8.46	18.91	3.38	SOS
PPB GROUP	-8.33	0.43	2.01	SOS
CIMB	-6.94	-2.59	0.77	SOS
BURSA	-5.48	0.03	1.50	SOS
SAPURA	-3.24	-3.61	0.00	-
PETCHEM	-2.63	-9.12	1.32	SOS
POS MALAYSIA	-2.59	-0.02	3.35	SOS
SIME DARBY	-2.24	-5.72	5.24	SOS
AIRASIA	-2.13	-2.82	1.21	SOS

Source: Bloomberg, MIDFR;

Note: BOW – Buy on weakness, SOS – Sell on strength (Bloomberg defined)

² Money flow indicates whether a particular stock is being more heavily purchased or sold. Money flow generally confirms price trend. As price rises, money flow is usually positive, vice versa. A divergence may portend a reversal in price trend. A rising stock price with a negative money flow can indicate a future price correction, vice versa.

How is money flow calculated? When a trade is performed, its price is compared to the price of the previous trade (the first trade of the day is compared to the previous day's close). If the prices differ, either upticks or downticks, the value of the trade (price multiplied by number of shares) is added to or subtracted from the money flow respectively.

Source: Bloomberg, MIDFR

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