

MALAYSIA EQUITY RESEARCH | FEBRUARY 16, 2015

Week Ended February 13, 2015	Foreign Flow Meter	
	 Tide	MODERATE
 Current	STRONG (declining)	

- For the most part last week, trading in the equity market had been weighed down by concerns over Greece.
- However markets roared to life on Friday. On Wall Street, the Dow Jones broke the 18,000 point mark for the first time while the S&P500 closed at record high, the first time in 2015.
- The main catalyst to the market was the EU's 4Q14 GDP growth, which beat expectations. That boosted oil price with the Brent last traded at USD61.52pb.
- In Asia, all eyes were on China which staged a strong rebound after three straight weeks of losses. The CSI300 gained 4.75%, reversing some of the -6.3%ytd loss prior to last week. New reform measures announced boosted sentiment ahead of the Lunar New Year holiday.
- Trading in many markets in the region will be suspended for an extended period of time for the New Year. In Taiwan, there will be no trading from Monday until the following Monday. China's market will be closed from Wednesday until the following Tuesday. Bursa will trade only half a day on Wednesday.
- Foreign investors resumed their exit from Bursa last week, as hopes for a trend reversal was quashed, at least for the time being. Foreigners sold -RM677.7m net and have offloaded -RM2.8b, cumulative, so far this year. Participation rate is still elevated but declining, likely due to the long break ahead.
- There is an even chance of a pre-New Year rally. A better bet is for a post-festive cheers.

16 February 2015 | Strategy - Weekly Fund Flow

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BREAKWATER AHEAD AS HOLIDAY BECKONS

A. MARKET SNAPSHOT

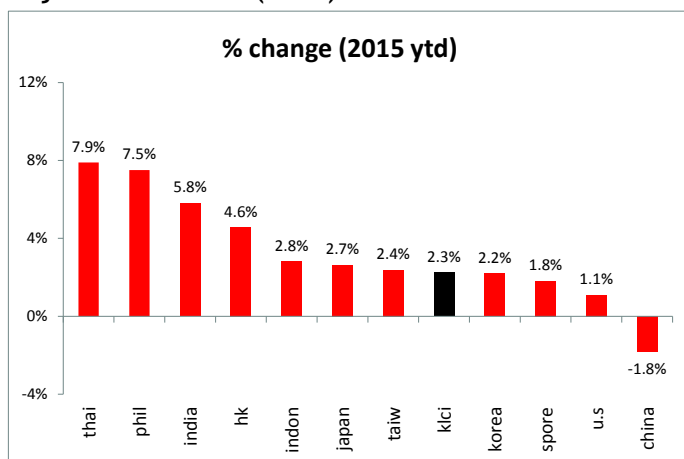
- It was a generally cautious week for global equity, but markets roared to life on Friday's closing.
- Although oil price continued its recovery with the Brent last quoted at USD61.52pb, trading in the equity market last week had been weighed down by concerns over Greece. The euro-area finance ministers failed to reach a deal during the week, and will resume talk on Monday. The current bailout program ends at the end of February. Failure to reach a deal means Greece membership in the 19-member currency union is at stake.
- Prices on Wall Street rose for the second consecutive week with the Dow Jones and S&P500 adding 1.1% and 2.0% respectively. The bulls appear to be back as the Dow Jones broke the 18,000 point mark for the first time while the S&P500 closed at record high, the first time in 2015. The S&P500 closed at record highs 53 times in 2014.
- The main boost to the market on Friday was the EU's 4Q14 GDP growth, which at 0.3%qoq was higher than the 0.2%qoq recorded in 3Q14 and also beat expectations. This boosted oil price on account of optimism over European demand. In addition, President Putin announced on Thursday that an agreement has been reached for a cease-fire in the Ukraine conflict following talks between Russia, Ukraine, Germany and France. The ceasefire will begin on Sunday.
- In Asia, all eyes were on China which staged a strong rebound after three straight weeks of losses. The CSI300 gained 4.75%, reversing some of the -6.3%ytd loss prior to last week. New reform measures announced boosted sentiment ahead of the Lunar New Year holiday. Bank of China announced that firms and financial institutions in Shanghai's Free Trade Zone would be allowed to raise overseas financing without government approvals. It is seen as moving closer towards financial liberalization and would reduce financing costs of companies in the FTZ. Sentiment was also buoyed by the prospect of more reforms in listed SOEs, as agricultural giant COFCO and the State Development & Investment Corp received regulatory approvals for their plans.
- The KLCI lost -0.7%, likely due to profit taking after the strong run the week before.

Performance of major markets

Weekly % change	Week before	Last week
China CSI300	-3.55	4.75
S&P500	3.03	2.02
Nikkei 225	-0.15	1.50
CAC	1.88	1.46
India Sensex	-1.59	1.31
Dow Jones	3.84	1.09
DAX	1.42	1.08
Taiwan Taiex	1.01	0.78
Jakarta JCI	1.00	0.59
Phil Comp	0.50	0.59
FTSE	1.54	0.29
Thai SET	2.05	0.14
Korea KOSPI	0.32	0.10
Hang Seng	0.70	0.01
Straits Times	1.18	-0.15
KLCI	1.80	-0.68

Source: Bloomberg

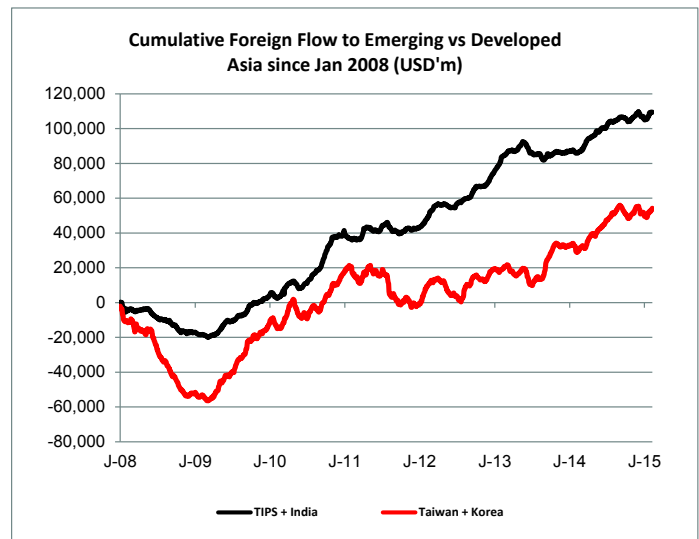
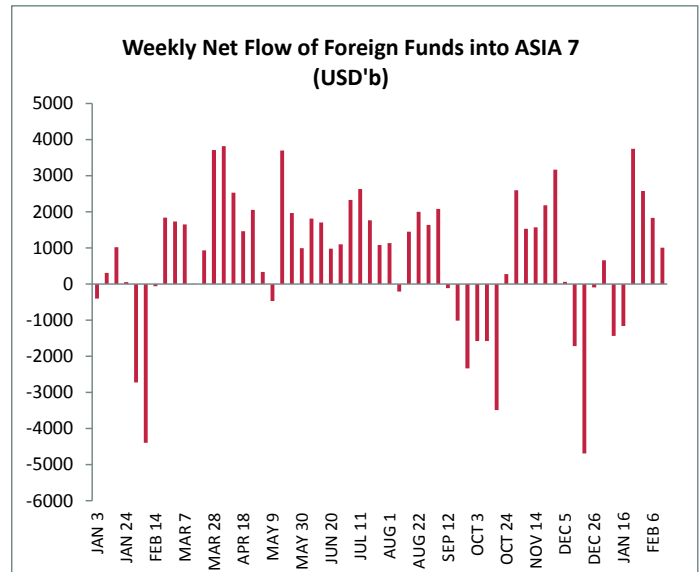
Major Asian indices (2015)



Source: Bloomberg

B. TRACKING MONEY FLOW

- Asian equity remained in the radar screen of global investors.
- Global funds bought Asian equity for the fourth week running. Last week, based on provisional data from the exchanges, investors classified as “foreign” were, in aggregate, net buyers in the 7 Asian¹ stock markets that we track (India, Taiwan, Korea, Thailand, Indonesia, Philippines and Malaysia).
- However, we note that the rate of money flow to Asia has been declining. Last week’s figure of -USD1b was the third week of decline.
- Emerging Asia (as represented by the TIP + India + Malaysia markets) retained its relative attractiveness *vis-a-vis* Developed Asia² (as represented by Korea and Taiwan). Money flow to Emerging Asia outstripped that to Developed Asia by 2.2 times.
- However, within Emerging Asia itself, money flow appears to be turning uneven.
- The only clear and strong beneficiary of foreign money flow based on data in the past few weeks appear to be the Indonesian market. Foreign investors bought USD271m net of Indonesian stocks last week, the highest since July 2014. The prospect for the Indonesian economy is getting better. Last week, the government announced that Indonesia’s 4Q14 current account deficit, a significant turn-off for many investors, had narrowed to USD6.2b, or 2.8% of GDP. It was USD7.0b or 3% of GDP in 3Q14.
- Meanwhile, money is still flowing to Thailand although the amount receded to USD52m last week. The slowdown could reflect the natural ebb and cycle of money flow, but it coincided with an increase in political tension after the Thai parliament voted to impeach former Prime Minister Yingluck Shinawatra and moved forward with criminal charges against her for her role in a rice price-fixing scandal. Yingluck could face up to 10 years in jail if found guilty on



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	3,842	3,520	7,362	-787	6,574

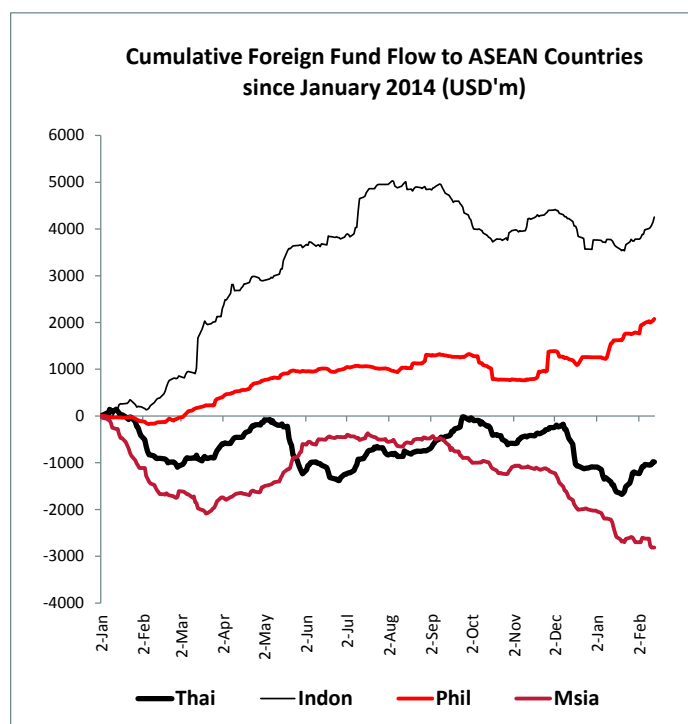
TIP = Thailand, Indonesia, Philippines.
Source: Bloomberg & Bursa statistics.

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.

the criminal charges. She has also been banned from leaving the country.

- Korea continued to struggle to attract global portfolio capital this year, and the exchange reported a -USD90m money outflow last week. The main concern with Korea has been earnings disappointment. The majority of Korean companies reported earnings in the fourth quarter that were below expectations. There have been heavy foreign investors exit from companies such as Samsung, Kia and Navers Corp. Bank of Korea has cut its 2015 GDP growth forecast for Korea from 3.9% to 3.4%.
- Foreign investors, in contrast, are pumping money into Taiwan which reported USD1.2b of net foreign purchase last week. Apparently, most of the money flow to Taiwan has been from Europe, where the ECB announced its version of QE, to take effect in March 2015 until September 2016.



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

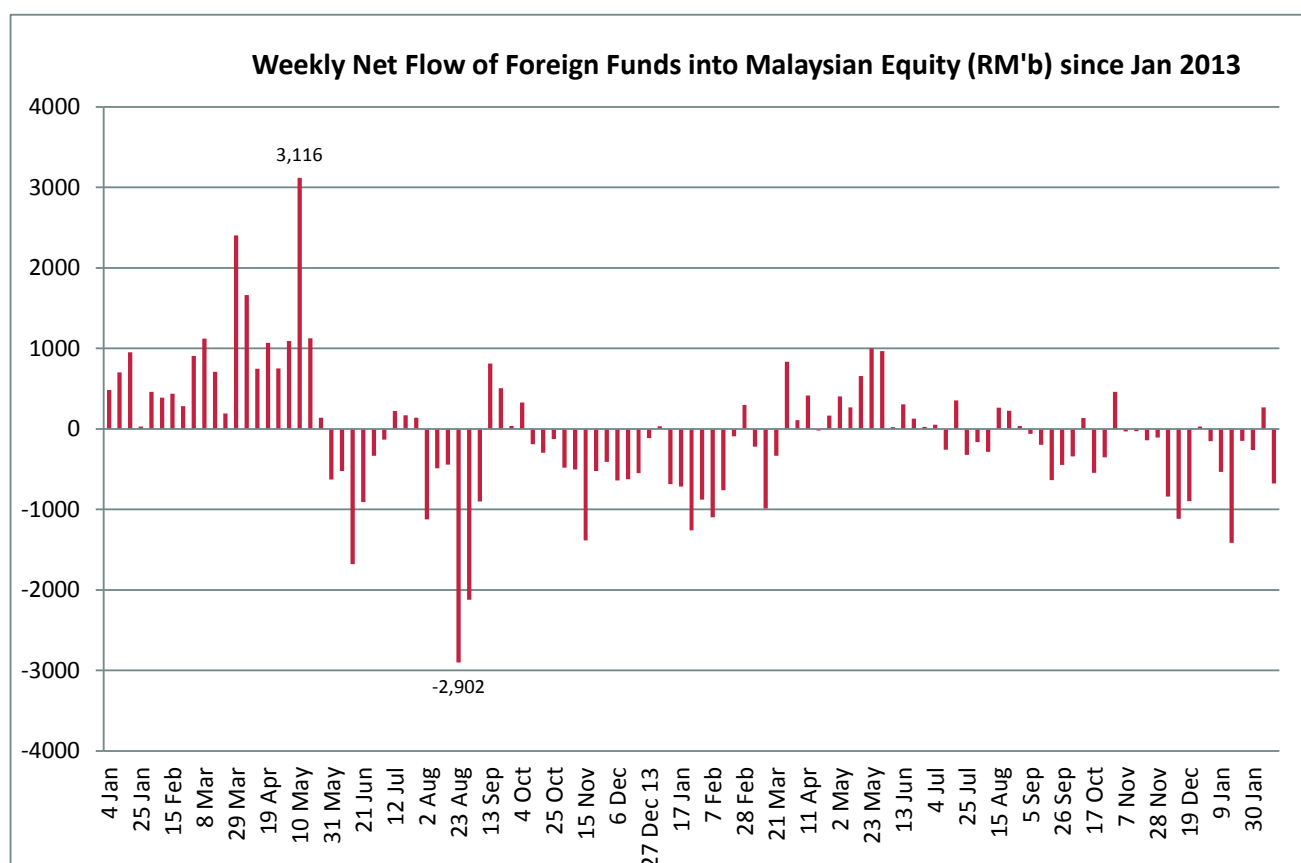
WEEK ENDED	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	MALAYSIA	TOTAL
AUG 15	700.6	82.4	-38.1	86.8	441.8	96.3	82.2	1451.9
AUG 22	499.0	32.7	54.3	96.5	288.7	956.6	71.5	1999.4
AUG 29	405.5	4.1	-56.5	189.1	139.2	948.8	11.7	1641.9
SEP 5	440.6	213.1	70.6	-16.3	793.6	598.8	-19.2	2081.0
SEP 12	-204.8	88.6	-148.0	2.2	432.0	-222.7	-61.5	-114.2
SEP 19	-354.7	169.0	-171.5	-31.9	31.9	-456.9	-197.1	-1011.1
SEP 26	-661.0	253.5	-247.9	-6.1	-366.5	-1164.6	-137.8	-2330.5
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	-345.5	1222.2	-188.2	1007.6

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

FUND FLOW REPORT

C. TRACKING MONEY FLOW - MALAYSIA

- Our anxiety was not misplaced as the brief respite from foreign selling on Bursa in the first week of February did not sustain. Foreign investors resumed their exit from Bursa last week, as hopes for a trend reversal was quashed, at least for the time being. However, we believe that the aversion could be partly attributable to the long break ahead, not only in Malaysia, but most markets in the East Asia.
- Last week, investors classified as “foreign” sold, on a net basis, local equity in the open market (i.e excluding off-market deals) amounted to -RM677.7m net. Foreigners sold every single day during the week. The net amount offloaded on Thursday, -RM357m, was the third highest in a day this year.
- Last week sales increased the cumulative net foreign outflow for 2015 to -RM2.8b. The cumulative foreign outflow for the entire 2014 was -RM6.9b.
- Foreign volume is still elevated. Foreign participation rate (daily average gross purchase and sale) was RM1.14b last week, six weeks in a row that it had exceeded RM1b. However, it was the lowest in five weeks.
- Local institutions supported the market last week, mopping up RM749m. Participation rate remained strong at RM2.56b. Local institutions have absorbed RM3.1b net so far this year. In 2014, they bought RM8.2b net.
- Retailers remained cautious and stayed on the sideline. Retailers sold -RM71.2m last week, the fourth straight week of selling. Participation rate remained moderate at RM877.2m. This is not a healthy condition if one is expecting a pre-New Year rally of the retail stocks.

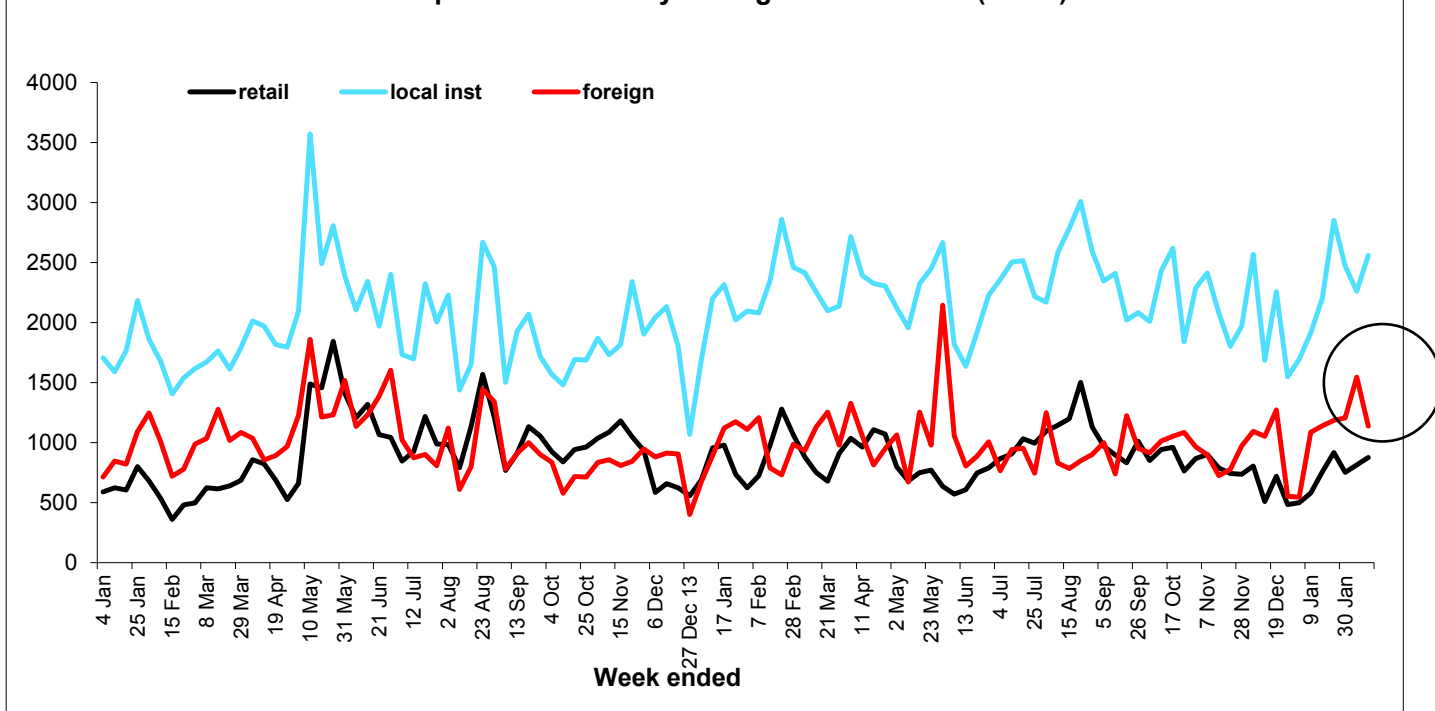


Source: Bursa statistics, excluding off-market trades

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)*
SEP 19	1674.4	1655.2	19.2	4352.0	3735.4	616.6	2130.7	2766.5	-635.8	-197.1
SEP 26	2528.4	2528.2	0.2	5429.0	4981.8	447.2	2157.1	2604.5	-447.4	-137.8
OCT 3	2135.1	2117.2	17.9	5183.9	4859.5	324.4	2116.0	2458.3	-342.3	-104.8
OCT 10	1974.1	1795.8	178.3	4705.7	5018.0	-312.3	2095.3	1961.3	134.0	41.2
OCT 17	2382.5	2422.3	-39.8	6843.7	6259.0	584.7	2358.9	2903.8	-544.9	-166.3
OCT 24	1436.6	1622.6	-186.0	3946.1	3408.8	537.3	1992.2	2343.5	-351.3	-107.5
OCT 31	2114.6	2222.5	-107.9	5549.8	5901.9	-352.1	2646.4	2186.4	460.0	140.2
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	-188.2

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

Participation Rate : Daily Average for the Week (RM'm) since Jan 2013


D. THE WEEK AHEAD

PRE-NEW YEAR RALLY? BETTER BET FOR A POST FESTIVE CHEERS

- At this juncture, the prospects for a pre-Chinese New Year rally is still mixed. This is in view that foreign investors turned net sellers again in the market last week, although we believe the amount is residual in our opinion. In addition, retail investors are still on the sideline and the moderate volume is not indicative of an impending rally. We expect investors to avoid significant “long” exposures in the market ahead of the break. Bursa will only trade half a day on Wednesday.
- There is a better chance of a post-festive rally when the road ahead is clearer. The conditions for a strong market revival are good. The indices are all trading above the short-term support (see chart). At the current rate of incline, there is a good probability for the indices to move past the 200-moving average line a few weeks after the new year.

OIL BOOST

- The local stock market is still heavily influenced by the ringgit and the price of oil. The ringgit was boosted on Friday as oil price continued to climb, with Brent crude oil breaking the USD60pb level. It received additional boost as the dollar lost traction following the weak retail sales number for January.
- The price of oil is still unsettled. Geopolitical risk is rising as the U.S appears inclined to attack the Islamic State forces in Syria. It will cause a fresh round of conflict in the Middle East which has always caused an upward pressure in the price of oil. It is thus, ironically, positive for Malaysia.
- We believe that the price of oil, specifically Brent, is still in the process of searching for an equilibrium. In our opinion, this new equilibrium is in the region of USD60-70 per barrel, which is higher than the Federal Government’s assumption of USD55pb when it announced Budget Revisions 2015. It will be a boost to domestic spending.
- In the meantime, we note that the interbank market is not betting on the OPR to increase anymore. The spread between the 3-month KLIBOR and the OPR is falling (see chart). This means that the money market is pricing in lower inflationary pressure and slower growth. Theoretically, this increases the relative attractiveness of stocks vis-a-vis bonds. But asset switching theory has yet to find strong evidence in Malaysia.



KLCI - above the 50day moving average (50DMA) line



FBM Small cap - also above the 50DMA



Interbank market not betting on OPR hike anymore



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