

17 February 2014
MALAYSIA EQUITY



FUND FLOW REPORT

Week Ended Feb 14, 2014

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FOR IMPORTANT DISCLOSURES**

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17 February 2014 | Strategy - Weekly Fund Flow

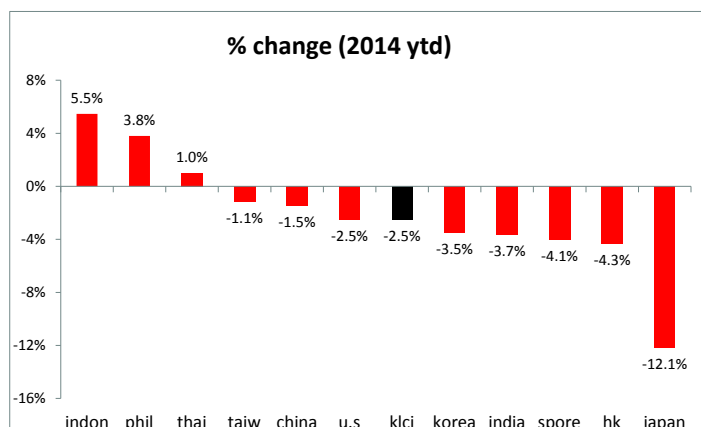
THE TIDE IS REVERSING

MARKET SNAPSHOT

- Equity markets roared back to life to record its best weekly gain this year.
- The Dow Jones and S&P500 indices gained 2.3% each last week, with the latter closing just shy of its all-time high. There is renewed optimism over the economy and in the stock market. U.S corporate earnings remained resilient in the fourth quarter. About 75% of the 400 companies that have posted results reported numbers that exceeded analysts' profit forecast and 64% exceeded sales projections (based on Bloomberg).
- European markets also bounced back strongly, with Germany's DAX index outperforming others in our ranking table, gaining 3.9%. Again, the fillip was strong corporate earnings, especially that of companies in the automotive industry.
- However, the focus of the week has to be the strong performance of the China bourse. The CSI300 rose 3.8%, the best this year on account of strong China's external trade numbers in January, that eased concerns over the extent of the country's economic slowdown. Exports rose 10.6%yoy, far exceeding the 0.1%yoy that the market was expecting.
- Elsewhere, markets in South East Asia were more subdued, although they closed in the greenzone. Indonesia's JCI and Thailand's SET continued their steady gain, with the former the best performing among the main Asian markets this year with +5.5%ytd. We believe global investors continued to favour Indonesian stocks in an election year, as the rupiah was the best performing currency last week, gaining 2.8% against the greenback.
- The KLCI gained for the third successive week to close at 1819.4 points. For the year-to-date, the index is still in the redzone, returning -2.5%.

Performance of major markets		
Weekly % change	Week before	Last week
DAX	-0.05	3.88
China CSI300	0.46	3.76
Hang Seng	-1.81	3.06
CAC	1.50	2.65
S&P500	0.81	2.32
Dow Jones	0.61	2.28
Phil Comp	-0.50	1.71
Taiwan Taiex	-0.89	1.51
FTSE	0.94	1.40
Thai SET	1.74	1.19
Jakarta JCI	1.08	0.93
Korea KOSPI	-0.96	0.92
Straits Times	-0.47	0.85
KLCI	0.25	0.60
India Sensex	-0.67	-0.05
Nikkei 225	-3.03	-1.03

Source: Bloomberg



TRACKING MONEY FLOW

- We believe that the liquidity tide is reversing.
- After selling aggressively two weeks ago, foreign funds made an abrupt turnabout. Foreign sale of Asian stocks dwindled significantly last week. Compared with -USD4.4b offloaded the week before, foreign funds sold only -USD64m net, of equity in the seven Asian markets that we track (Korea, Taiwan, Thailand, Malaysia, Indonesia, Philippines and India*).
- In those countries that foreign funds were exiting, namely Korea, Thailand and India, the amount of outflow reduced significantly that it was only marginal last week. Meanwhile, foreign funds bought back Taiwanese stocks after selling aggressively the week before.
- In an election year, the Indonesian bourse continued to attract global funds. It is still early days yet, but foreign investors appear to be returning to Indonesia stocks, which have not only fallen significantly last year, but rendered cheap by the depreciation of the rupiah. Last week, the net foreign purchase in Jakarta surged to +USD163m, the second highest in a week this year.
- Foreign funds continued to sell Malaysian stocks last week.

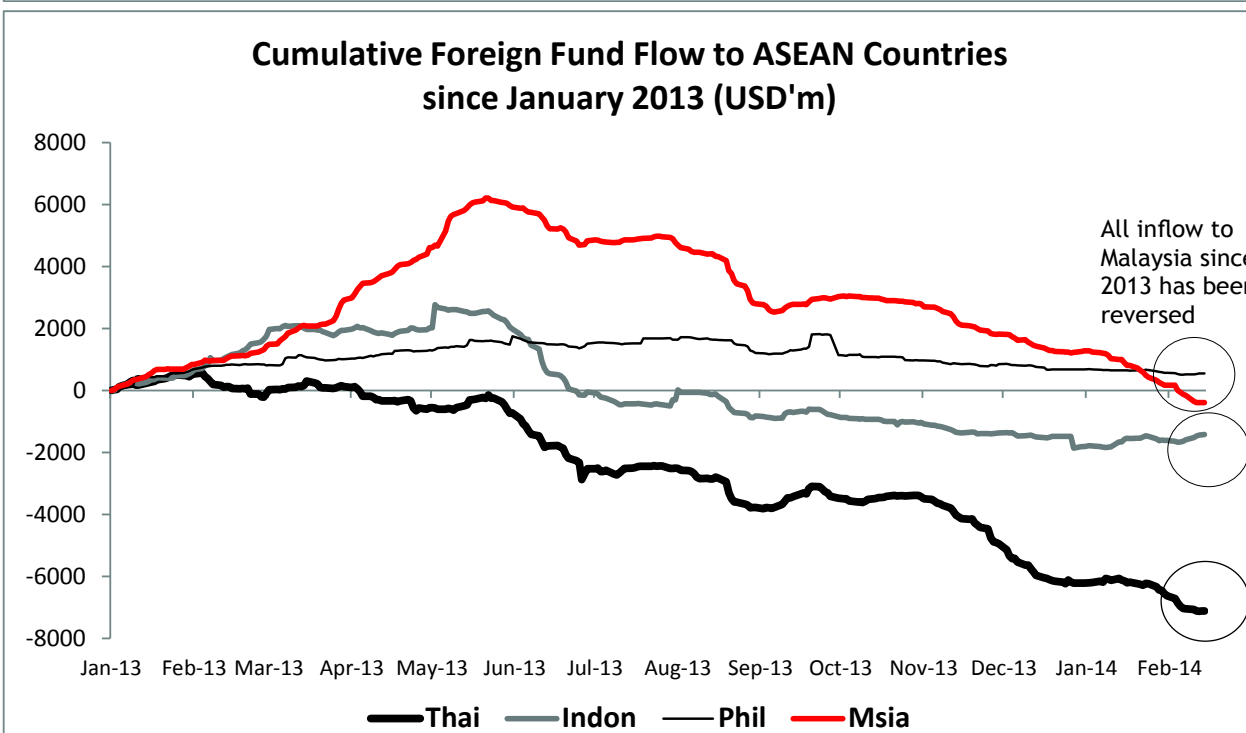
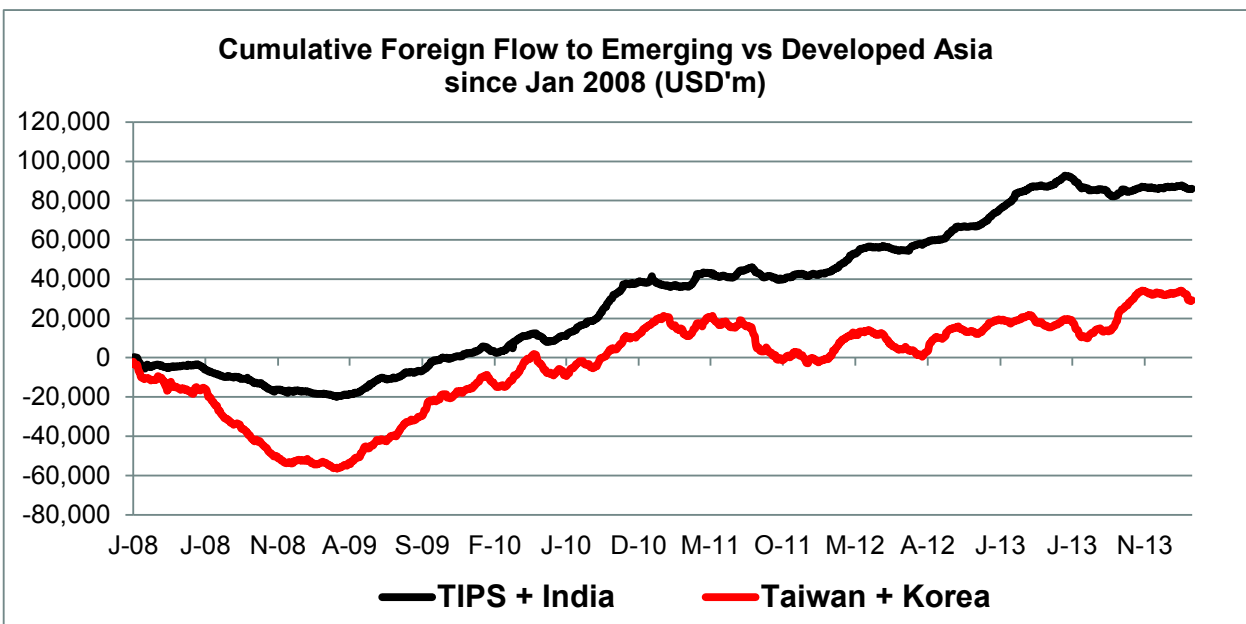
* These markets, for which fund flow data is publicly available, are our proxy for Asia.

WEEKLY NET FLOW OF FOREIGN FUND INTO EQUITY (USD'm)								
WEEK ENDED	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	MALAYSIA	TOTAL
AUG 30	1151.4	-161.5	-99.6	-262.1	-453.2	417.2	-638.5	-46.2
SEP 6	1476.5	-0.3	-73.2	-27.0	344.1	1178.7	-274.0	2624.8
SEP 13	3603.4	342.1	184.2	108.7	645.0	1475.0	248.0	6606.3
SEP 20	861.7	333.3	103.1	514.2	979.9	783.4	159.3	3734.9
SEP 27	1076.8	-322.4	-170.2	-18.3	108.3	774.2	11.6	1460.0
OCT 4	948.3	-149.9	-116.2	-643.4	180.8	792.1	101.2	1112.9
OCT 11	1127.5	54.0	-27.0	-66.3	505.4	398.1	-59.1	1932.5
OCT 18	1341.2	97.9	-63.6	10.7	723.7	876.2	-93.7	2892.4
OCT 25	1077.1	16.2	-20.4	-105.8	672.4	254.3	-40.3	1853.6
NOV 1	525.2	-96.5	-69.2	-7.2	798.2	467.4	-152.0	1465.9
NOV 8	-619.2	-202.7	-97.4	-77.9	209.3	-12.5	-158.4	-958.8
NOV 15	-263.9	-377.6	-175.0	-40.1	108.3	-586.1	-392.2	-1726.5
NOV 22	72.1	-285.4	-20.5	-57.1	311.5	-778.6	-164.1	-922.2
NOV 29	403.2	-532.2	24.7	59.1	210.8	665.8	-127.6	704.0
DEC 6	-729.4	-586.1	-96.9	-46.0	448.6	265.8	-198.9	-942.8
DEC 13	-1071.1	-428.4	-34.2	-47.1	821.0	580.8	-194.2	-373.2
DEC 20	2.9	-194.2	21.7	-77.3	969.8	37.4	-168.7	591.6
DEC 27	98.7	-52.0	-384.2	-2.1	222.1	277.4	-34.6	125.3
JAN 3	-564.8	18.1	15.1	3.1	116.4	2.2	10.3	-399.6
JAN 10	390.7	71.3	-29.6	-36.3	-55.8	181.2	-209.6	311.9
JAN 17	-111.1	-62.4	274.0	-4.1	268.6	877.3	-217.8	1024.6
JAN 24	-82.1	-50.3	66.2	15.3	158.4	327.8	-378.8	56.6
JAN 31	-775.4	-392.3	-128.1	-85.0	-500.5	-581.7	-263.4	-2726.4
FEB 7	-1149.3	-416.3	22.3	-57.8	-213.9	-2251.7	-329.5	-4396.2
FEB 14	-142.7	-71.6	163.3	31.9	-14.6	198.9	-228.7	-63.6

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

NET FLOW (USD'm)	TIPs + India	Taiwan + Korea	Total
2008	-17,195	-53,106	-70,301
2009	20,580	40,063	60,642
2010	35,690	29,234	64,924
2011	2,748	-17,801	-15,053
2012	31,302	19,976	51,278 (55,663*)
2013	12,446	13,500	25,946 (27,170*)
2014	-963	-3,738	-4,701 (-6,142*)

TIP = Thailand, Indonesia, Philippines * including Malaysia

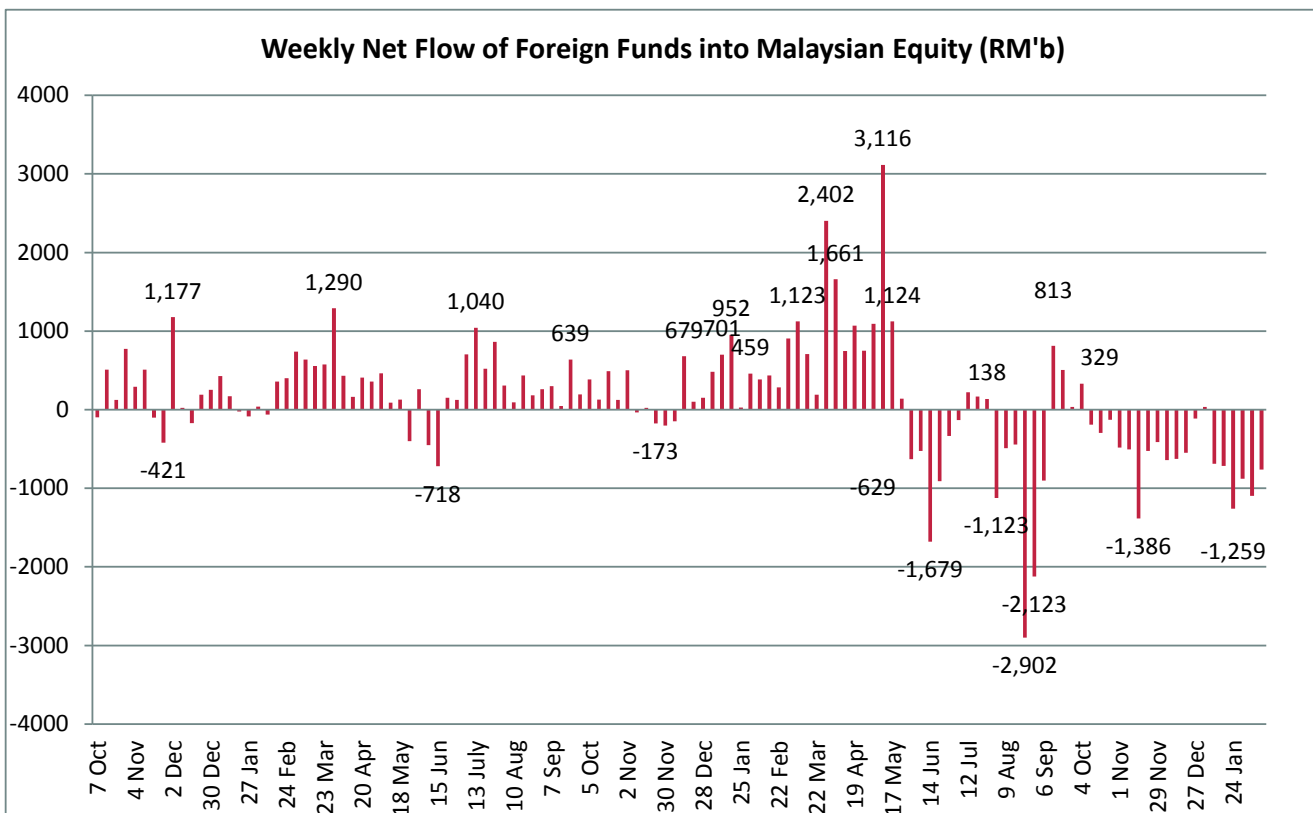


MALAYSIA

- The intensity of foreign selling in Malaysia eased last week, but the size of the outflow was still significant. Foreign funds offloaded -RM760.2m net of Malaysian stocks in the open market (i.e excluding off-market transactions), compared with -RM1.1b the week before. It was also the 18th week out of the last 19 that foreign investors had been net sellers.
- Daily outflow was capped at below RM250m for the first time since the first week of trading this year. So far in 2014, daily net sale exceeded the RM500m level only once compared with 6 times in 2013. It was in the RM300-RM500m bracket only 3 times, compared with 11 times in 2013.
- Year-to-date, a total of -RM5.54b of foreign money had exited Malaysian equity. In the last 19 weeks (i.e during the current phase of foreign sell-down), a total of -RM11.21b of foreign money had exited Malaysian equity. That translated into an average of -RM590m a week, an increase from -RM580m the week before.
- Average daily foreign participation rate dropped abruptly to only RM790m, after surpassing the RM1b for *four* consecutive weeks. Foreign participation rate (average daily gross purchase and sale) was the lowest in six weeks. This is another indication that the intensity of foreign selling is tapering.
- Retail investors' daily participation rate surged last week to RM979m, the highest since November 2013. However, we believe the early birds are already taking profit, as overall, retailers were net sellers, albeit marginal at only -RM40m.

Amount of net sale in a day (RM'm)	Number of day(s)	
	2013	2014
> 1,000	1	0
900 - 1,000	1	0
800 - 900	0	0
700 - 800	1	0
600 - 700	1	0
500 - 600	2	1
400 - 500	4	0
300 - 400	7	3
200 - 300	17	8

Source: MIDFR, Bursa statistics

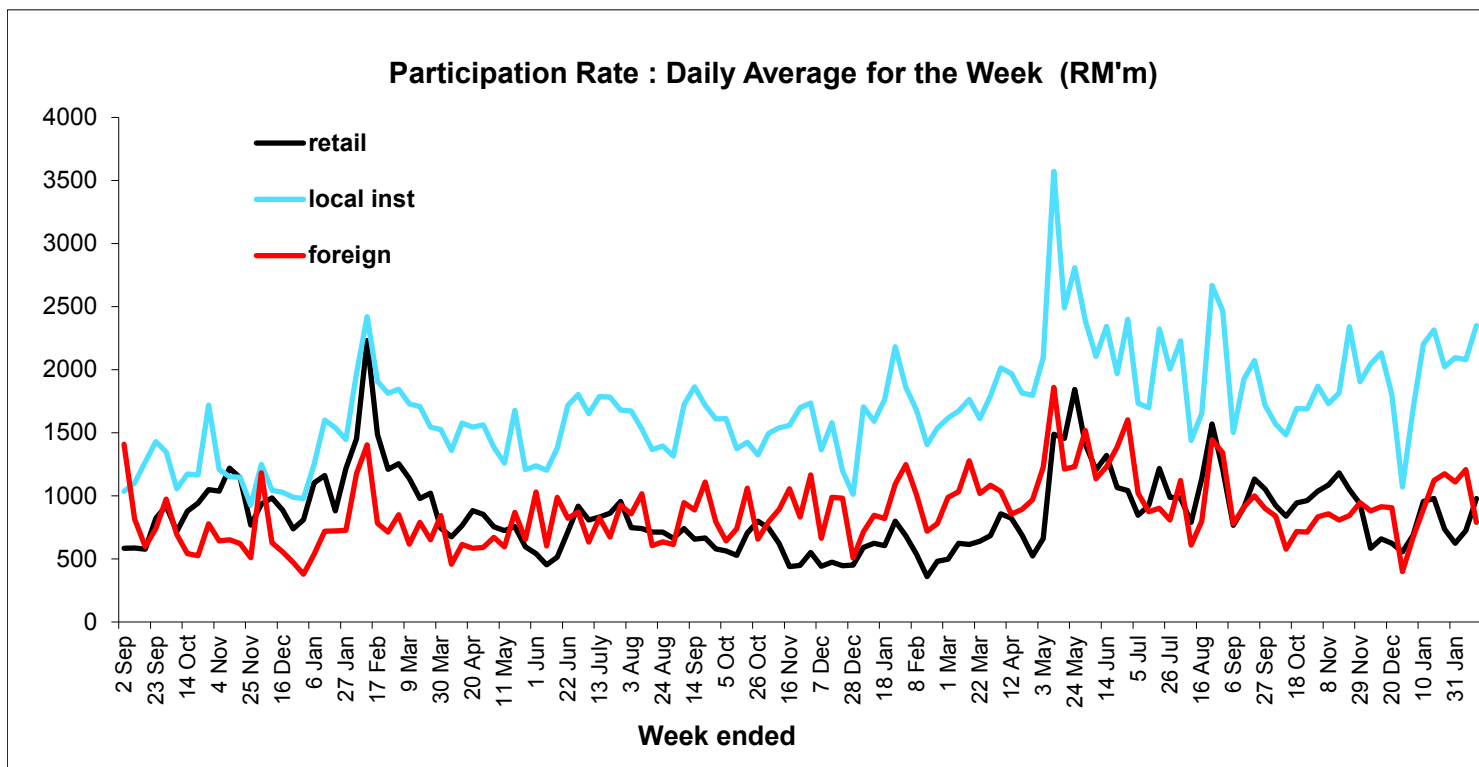


Source: Bursa, excluding off-market trades

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 27	2683.8	2587.5	96.3	4226.3	4359.1	-132.8	2269.1	2232.6	36.5	11.6
OCT 4	2256.2	2363.7	-107.5	3809.5	4030.8	-221.3	2259.6	1930.8	328.8	101.2
OCT 11	2020.9	2170.4	-149.5	3876.1	3537.8	338.3	1349.2	1538.0	-188.8	-59.1
OCT 18	1816.5	1955.4	-138.9	3602.3	3167.0	435.3	1288.5	1584.9	-296.4	-93.7
OCT 25	2409.8	2403.9	5.9	4283.2	4161.8	121.4	1716.7	1843.9	-127.3	-40.3
NOV 1	2556.7	2625.3	-68.6	4946.3	4397.6	548.7	1847.7	2327.8	-480.1	-152.0
NOV 8	2174.4	2175.4	-1.0	3716.8	3211.9	504.9	1461.7	1965.6	-503.9	-158.4
NOV 15	3059.2	2849.4	209.8	5127.8	3951.8	1176.0	1329.1	2714.9	-1385.8	-432.1
NOV 22	2677.1	2564.3	112.8	6058.6	5646.9	411.7	1849.3	2373.8	-524.5	-163.9
NOV 29	2297.5	2383.0	-85.5	5008.0	4511.5	496.5	2161.8	2572.8	-411.0	-127.6
DEC 6	1430.9	1488.7	-57.8	5460.6	4761.0	699.6	1880.9	2522.7	-641.8	-198.9
DEC 13	1632.9	1663.1	-30.2	5660.6	5005.1	655.5	1971.4	2596.7	-625.3	-194.2
DEC 20	1557.5	1560.2	-2.7	4785.3	4233.7	551.6	1992.6	2541.5	-548.9	-168.7
DEC 27	1092.9	1134.9	-42.0	2216.3	2060.2	156.1	743.2	857.3	-114.1	-34.6
JAN 3	1391.3	1360.9	30.4	3345.9	3410.2	-64.3	1359.3	1325.4	33.9	10.3
JAN 10	2442.1	2340.4	101.7	5799.8	5215.1	584.7	1889.8	2576.2	-686.4	-209.3
JAN 17	1481.3	1459.3	22.0	3821.4	3127.3	694.1	1323.9	2040.0	-716.1	-217.0
JAN 24	1839.1	1844.6	-5.5	5689.7	4425.2	1264.5	2307.1	3566.1	1259.0	-378.8
JAN 31	1283.2	1211.7	71.5	4595.8	3787.2	808.6	1779.5	2659.6	-880.1	-263.4
FEB 7	1502.5	1394.8	107.7	4655.6	3667.2	988.4	1870.1	2966.2	-1096.1	-329.5
FEB 14	2428.0	2468.4	-40.4	6279.0	5478.4	800.6	1593.8	2354.0	-760.2	-228.7

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



THE WEEK AHEAD

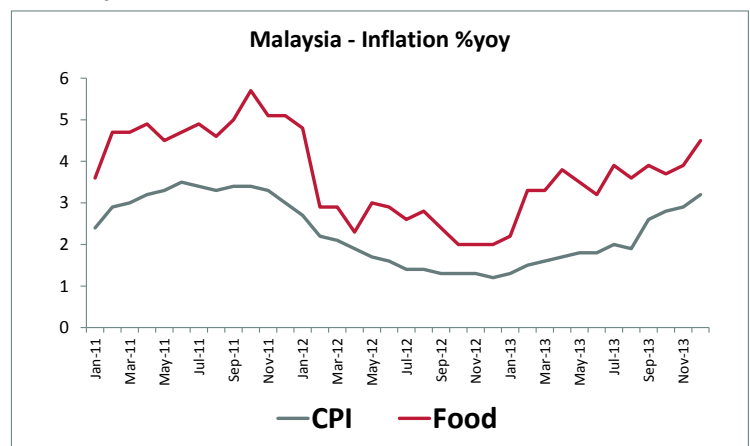
BETTER SENTIMENT ON STRONGER FUNDAMENTALS

- We believe the market has overcome the difficult hurdles this year and better days ahead beckon.
- For Malaysia, the latest numbers on the current account and the government's fiscal position show good improvement and are reasons for investors to cheer.
 - » On CURRENT ACCOUNT, figures released last week show the surplus increasing to RM16.2b in 4Q13, from RM9.8b in 3Q13. Although as % of GNI, the current account surplus dropped to 3.9% in 2013 from 6.3% in 2012, forward-looking observers would note that in 4Q13, the ratio surged to 6.4%. With recovering global trade, it is expected that the current account balance will move back to comfortable level this year.
 - » On FISCAL BALANCE, Bank Negara disclosed last week that the deficit for 2013 was lower at 3.9% of GDP, compared 4.0% targeted. Operating expenditure dropped -4.6% in 4Q13, on account of lower emoluments and subsidies.
- The rating agency, FITCH, has cast doubts that the Government's target of cutting its fiscal deficit to 3% by 2015 will be met. Our simulation suggests that the target is achievable, even without an increase in the toll rate this year, as announced by the Government early this month.
- We believe investors' optimism towards the economy is improving with the numbers released last week. Bond yields in general eased last week, a sign perhaps that demand for ringgit bond (especially risk-free) is returning, especially by foreign investors.

INFLATION NUMBERS ON WEDNESDAY

- One of the most important market determinants next week will have to be the inflation number for January due out on Wednesday (18 February).
- The number will reflect the new electricity tariff which took effect on January 1. Recall that CPI inflation in December accelerated to 3.2%yoy from 2.9%yoy in November. Much of the rise was attributable to the 4.5%yoy increase in "food and non-alcoholic beverage" item, which rose 4.5%yoy, the highest in about two years.
- We will not be surprised if the headline number hit 3.5%, as January's number will reflect the 1st round effect of the hike in electricity tariff and the second round effect of the fuel, tobacco and sugar price hikes in 4Q13. However, we do not expect it to increase the likelihood that the OPR will be raised when Bank Negara's Monetary Policy Committee next meet on March 6. The rise in inflation is still being primarily cost rather than demand driven.

Inflation numbers to show 1st round effect of electricity tariff adjustment



SECOND AND THIRD LINERS TO CONTINUE UPTREND

- Small and mid-cap stocks had a good week and we expect the momentum to continue as three conditions make it conducive for a continued uptrend. These are (i) Healthy and rising retail participation; (ii) Technically bullish indicators; and (iii) Improving broader sentiment towards equity.



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