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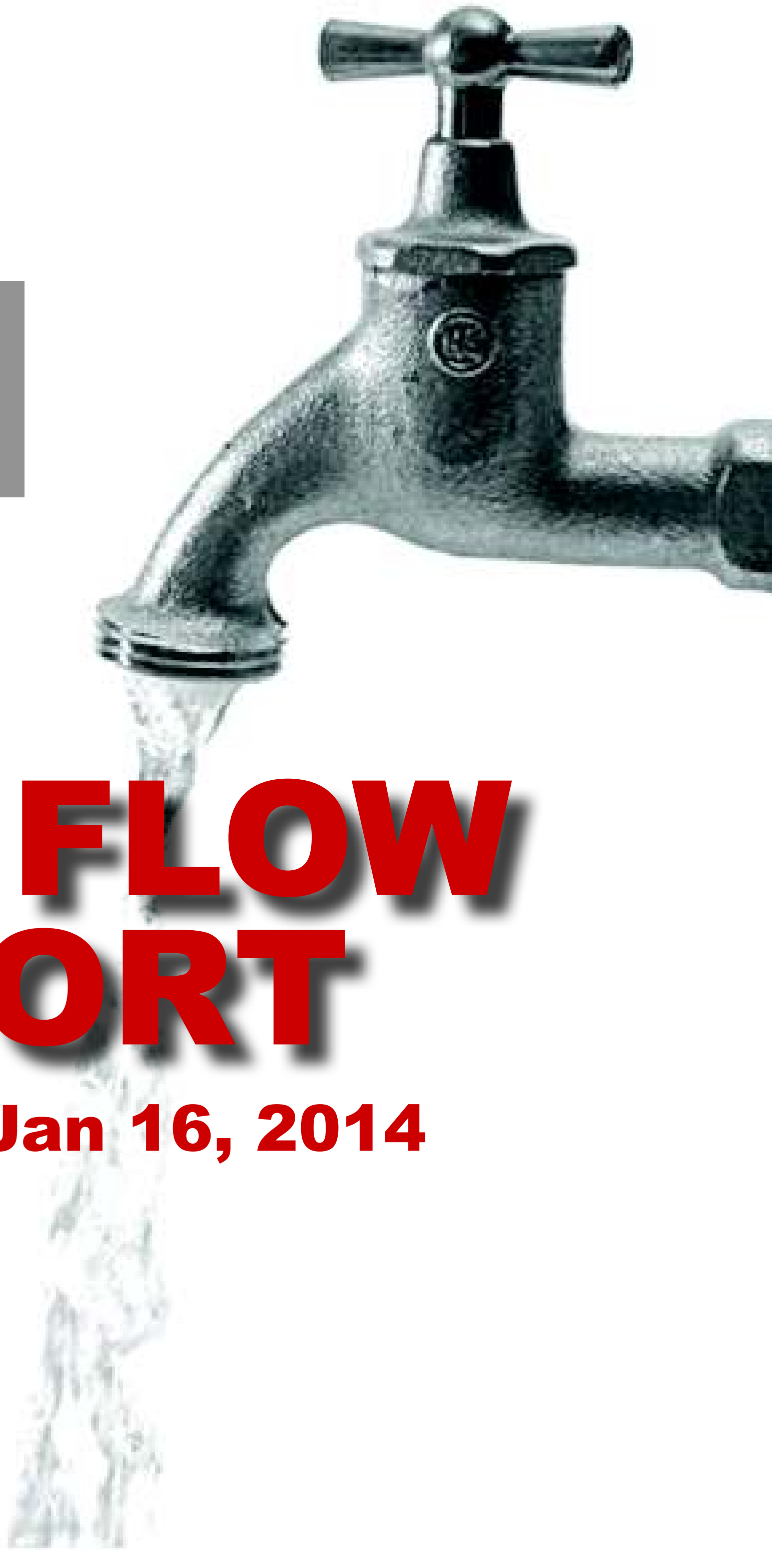
20 January 2014

MALAYSIA EQUITY



FUND FLOW REPORT

Week Ended Jan 16, 2014

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FOR IMPORTANT DISCLOSURES

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20 January 2014 | Strategy - Weekly Fund Flow

THE OMINOUS FIRST 10 DAYS

- Despite undergoing selling pressure last week, share prices on Bursa are still relatively well-behaved, within context that is. As of last Thursday, the KLCI and FBM70 had lost -2.9% and -2.0% respectively in January 2014. If prices were to consolidate at current levels, the market in January 2014 will not be dissimilar with that in January 2013, in terms of the price performance (see chart 1). Indeed, the KLCI had been lacklustre in the last six years. Therefore, placing too much hope for prices to jump so early during the year could be a costly affair.

- Trading was disrupted last week as Bursa was open for only 3 days. Instead on focussing on the weekly flow figures, we look at the numbers for the first 10 trading days this year. It gives some insights into global funds' take on Malaysia.

- While prices had kept in line with history in the opening 10 days, the direction of foreign money flow had conspicuously diverged. While foreign funds were net buyers throughout the period in 2013, they had been net sellers throughout 2014 thus far, with the exception of the opening day (see chart 2).

Chart 1: Not unlike that in 2013

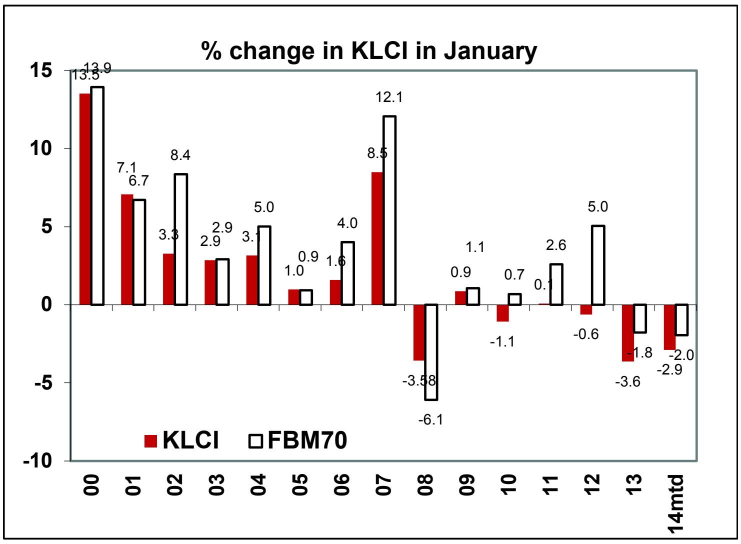
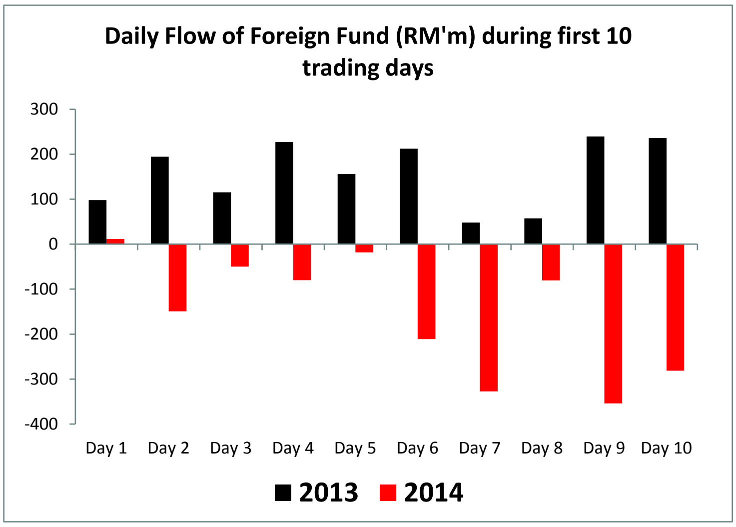


Chart 2: Contrasting flow

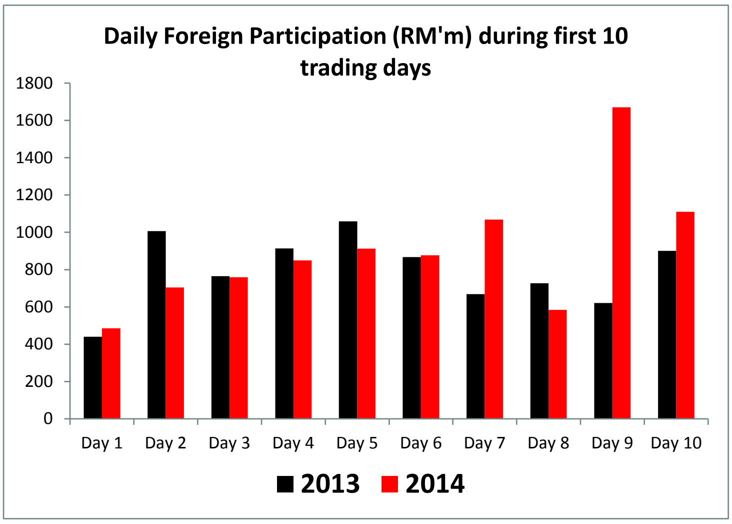


- During the 10 days, the cumulative *net purchase* by foreign funds was RM1.58b in 2013. In 2014, the cumulative *net sale* had been -RM1.54b. The inflow in 2013 coincided with QE3 (which was announced on 13 September 2012, and was upsized to USD85b from USD40b in an announcement on 12 December 2012). The outflow in 2014 coincided with the tapering of the Fed's QE3.

- The flow of foreign funds *into and out* of Malaysian equity was relatively extreme in 2013. In terms of the size of the movement, it was probably the most volatile year yet on record. Between 2 Jan-May 22, 2013, a cumulative total of RM18.9b (net) of foreign funds had entered Malaysian equity via the open market (i.e excluding offmarket transactions). Since then, a total of RM15.9b had left, leaving only RM3.0b left at the end of 2013. In 2012, RM13.7b entered the market, and the traffic flow was effectively one-way.

- Foreign participation in the first week or so of 2014 was relatively similar to that recorded in 2013. However, there had been a noticeable spike in activity in the last two days of trading this year, with participation rate (i.e gross purchase and sale) exceeding RM1b -- see Chart 3. Indeed, participation rate hit RM1.67b on Wednesday, the highest since September 30 last year when the U.S Government was in the midst of being forced to shut down.

Chart 3: Active participation of late



- The fact is the outflow of foreign portfolio capital from Malaysian equity has been significant, and is in line with what is hapening in the South East Asian Emerging markets. However, the rate of outflow has, thus far, been relatively "manageable" in several regards:
  - » Equity prices have held ground, supported by local liquity;
  - » Rates in the money and forex markets have remained steady, albeit with some increase in volatility; and
  - » The outflow has not been disruptive to funding and capital-raising activities.

First 10 market days	2013	2014
KLCI	1684.63 -4.3 pts (-0.3%)	1813.01 -53.9 pts (-2.9%)
1USD/RM exchange rate (+/- = appreciate/depreciate)	3.0170 +1.36%	3.2977 -0.67%
Yield on 3-year MGS (%)	2.99% -5.6 b.p	3.19% -15.7 b.p
Yield on 10-year MGS (%)	3.48% +3 b.p	4.16% +5.1 b.p

- The fact also remains that the overhang of foreign liqudity in Malaysian equity is still very high despite the steady exit in the last 6 months or so. We estimate the current overhang of the foreign portfolio fund to be >RM30b, which is more than twice the amount of money that had left since last year. Therefore, the threat of an "exodus" is still a clear and present risk although in our opinion, it will require a crisis to trigger it.

- Foreign selldown in the first 10 trading days of 2014 suggests that foreign appetite for Malaysian equity in the secondary market is likely to be unexciting this year. The unwinding of the Fed's quantitative easing and the spectre of interest rate rising in the U.S, possibly in 2015, will remain a dampener on demand. However, foreign demand for primary market offerings is expected to remain healthy, especially those issues which are sizeable.

- Expect a slow start to the week. To begin with, it is a public holiday in the U.S (Martin Luther King Jr. Day) on Monday. The situation in Thailand is also not getting any better as the 2nd February Election looms. It is causing the regional risk premium to increase. Expect follow-through selling by global funds of SEA markets.

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