

MALAYSIA EQUITY RESEARCH | JUNE 23, 2014

Week Ended June 20, 2014

Malaysia Flow Meter



Tide

LOW



Current

MODERATE

- Forgettable week for equity investors as most actions appear to be on the fields in Brazil.
- Most notable was probably the strong rebound on Wall Street where the Dow Jones and S&P500 gained 1.0% and 1.4% respectively, to close at fresh highs.
- Foreign purchase of Korea and Taiwan stocks slowed down significantly last week, as the fact that these two have been dropped from being candidates for the “developed” market category by the MSCI probably did not go down well with international investors.
- There was heavy outflow from Thailand on the prospect of a capital gains tax.
- On Bursa, there was not much pick-up in trading activity after the school holiday break.
- Investors classified as “foreign” bought RM128.7m in the open market last week, a significant drop from the RM305.8m mopped up the week before. Still, it was the ninth consecutive week of foreign buying on the bourse.
- Expect some activity this week as we head towards the close of 1H14.

NO BOOST TO EMERGING ASIA

A. MARKET SNAPSHOT

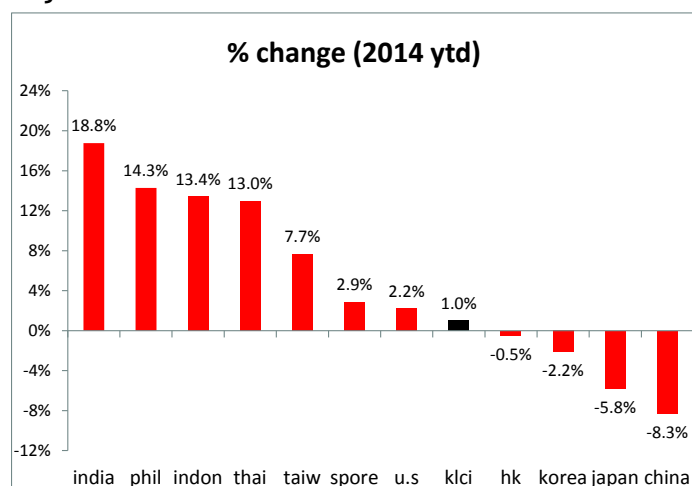
- It was another forgettable week for equity investors as most actions appear to be on the fields in Brazil.
- Perhaps the most notable outcome was the strong rebound on Wall Street. The Dow Jones and S&P500 gained 1.0% and 1.4% respectively. Both indices closed on Friday at fresh highs as investors played down geopolitical risks over Iraq and Ukraine.
- The Federal Reserve reaffirmed its commitment to keep interest rates low as U.S economic recovery pick up pace. Meanwhile, the commodities market stayed upbeat on elevated crude oil price with the WTI last traded at USD106.83pb. The U.S will apparently be sending military advisers to assist the Iraqi army. In Ukraine, the Government announced a week-long unilateral ceasefire against the insurgents in some parts of the country.
- It was a see-saw pattern in China as the CSI300 lost -1.8% to be the worst performing index last week, a complete U-turn from being the best performer the week before. About 100 Chinese companies are in line to be listed by the end of the year, as announced by the China Securities Regulatory Commission in May. Last week's loss partly reflects renewed concerns that these IPOs will divert funds from existing counters. We wrote last week that China may be making a comeback on account of the potential bottoming of the economy and the steady rise in share prices. This suggestion is inevitably weakened by last week's evidence.
- Asian Emerging markets generally closed the week on a negative note as a result of the elevated oil price. In addition, the KOSPI fell for the second consecutive week, after it and Taiwan's Taiex no longer remain candidates for an upgrade into the "developed market" MSCI classification. Among Emerging Asia, only Thai's SET outperformed.
- The KLCI appears to be well supported heading towards the end of 1H14. It rose for the second week running and has moved further into the greenzone having gained 1.0%ytd.

Performance of major markets

Weekly % change	Week before	Last week
Nikkei 225	0.14	1.67
S&P500	-0.68	1.38
Dow Jones	-0.88	1.02
Taiwan Taiex	0.68	0.84
Thai SET	-0.14	0.77
DAX	-0.74	0.75
FTSE	-1.17	0.70
KLCI	0.75	0.48
CAC	-0.83	-0.04
India Sensex	-0.66	-0.49
Hang Seng	1.60	-0.54
Phil Comp	0.33	-0.80
Straits Times	-0.19	-1.05
Korea KOSPI	-0.23	-1.14
Jakarta JCI	-0.21	-1.60
China CSI300	1.95	-1.82

Source: Bloomberg

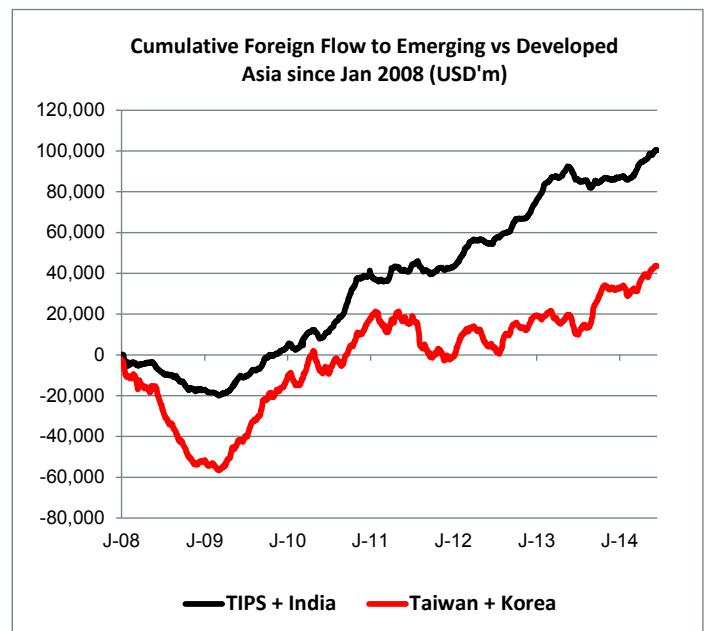
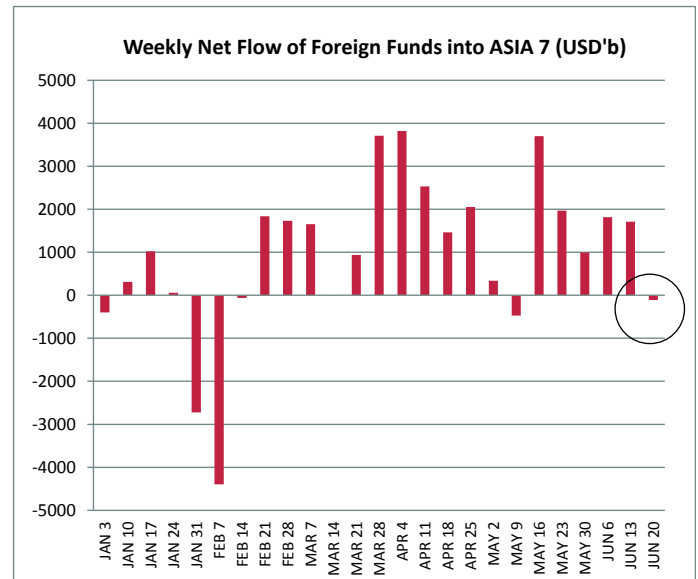
Major Asian indices



Source: Bloomberg

B. TRACKING MONEY FLOW - ASIA

- In aggregate, global funds appear to have pared down their portfolio holdings of Asian stocks last week, according to preliminary data from our proxy markets. This would be the first time in 6 weeks that an outflow has been registered.
- Last week, funds classified as “foreign” were, in aggregate, net sellers of stocks in the seven Asian exchanges that we track (Korea, Taiwan, Thailand, Malaysia, Indonesia, Philippines and India ¹).
- “Foreign” funds sold USD106m, compared with the revised figure of USD1.7b mopped up the week before (see bar chart).
- Breaking down the markets by level of development, we note that global liquidity moved out, albeit moderately, of Emerging Asia, as represented by the Thailand, Indonesia, Philippines (TIPs) and India markets. Meanwhile, the flow to the more Developed Asia ², as represented by Taiwan and Korea, slowed down significantly.
- Foreign purchase of Korea and Taiwan stocks slowed down significantly last week. The fact that these two markets are no longer being considered as candidates for an upgrade into the “developed” market category by the MSCI probably did not go down well with international investors.
- Also notable last week was the heavy outflow from Thailand and the relatively strong inflow to Indonesia.
- The Thai bourse reported foreign selling amounted to USD274m, the fifth highest in a week this year. There was no sudden deterioration in the state of affairs as far as politics is concerned.



NET FLOW	TIPs + India	Taiwan + Korea	Total (USD'm)
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	13,599	10,509	24,108 (23,651^)

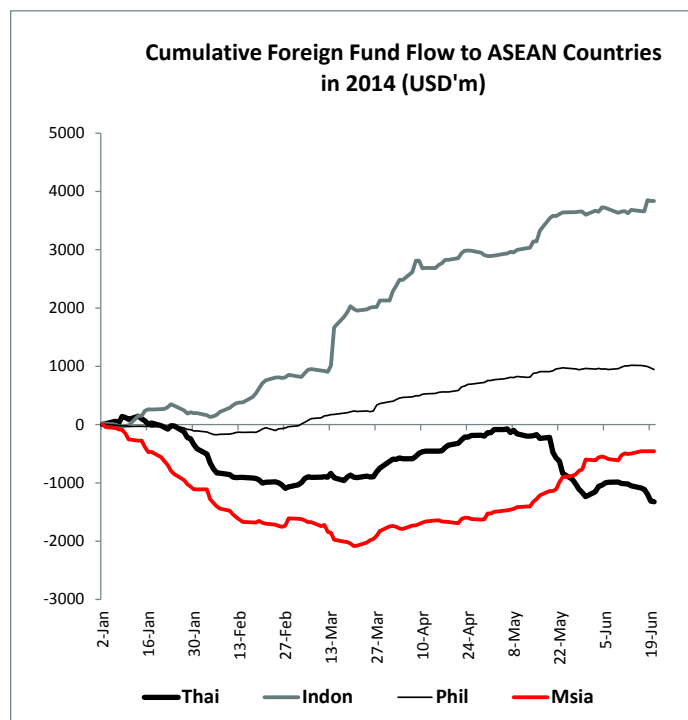
TIP = Thailand, Indonesia, Philippines ^ including Malaysia

¹ These ASIA 7 markets, for which fund flow data is publicly available, are our proxy for Asia.

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.

However, sentiment was badly affected after the Thai bourse is reported to be considering imposing a capital gains tax arising from the selling of shares held for a short time, probably less than 6 months or a year. Apparently, a study of taxation of the stock market will be completed within three months. Such development is an inevitable market dampener, that will weigh down on the market in the next few weeks.

- Foreign funds bought back Indonesian stocks after selling marginally the week before. Presidential candidates Prabowo Subianto and Joko Widodo are currently engaged in a series of 5 national debates, before the election on July 9. Joko is leading in opinion polls, but Probowo has closed the gap significantly in recent weeks.
- India showed a USD31m net sale by foreigners, which would be a first in 18 weeks. However, these figures are subject to change and we will wait for the confirmation.



Source: Various countries' exchanges, via Bloomberg. These figures are subject to revisions. Aggregated by MIDFR.

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

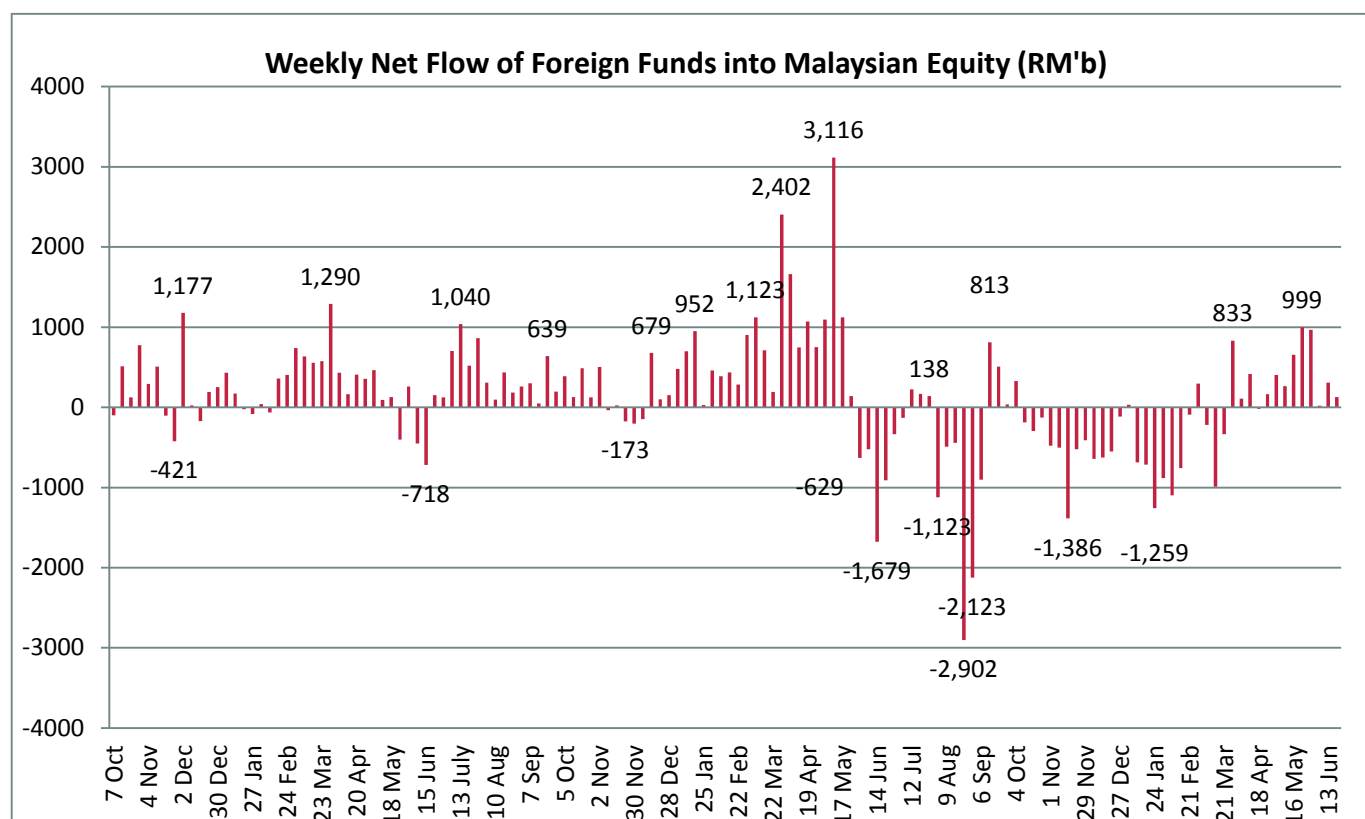
WEEK ENDED	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	MALAYSIA	TOTAL
JAN 3	-564.8	18.1	15.1	3.1	116.4	2.2	10.3	-399.6
JAN 10	390.7	71.3	-29.6	-36.3	-55.8	181.2	-209.6	311.9
JAN 17	-111.1	-62.4	274.0	-4.1	268.6	877.3	-217.8	1024.6
JAN 24	-82.1	-50.3	66.2	15.3	158.4	327.8	-378.8	56.6
JAN 31	-775.4	-392.3	-128.1	-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	-142.6	-71.6	163.3	31.9	-11.3	197.8	-228.6	-61.2
FEB 21	127.8	-84.7	376.8	79.3	331.3	1036.0	-28.2	1838.2
FEB 28	636.3	-80.5	96.5	18.7	313.9	655.6	90.4	1730.9
MAR 7	127.4	163.8	96.1	139.3	838.9	355.4	-67.0	1654.0
MAR 14	-1245.6	-7.7	717.1	72.4	119.8	527.0	-301.2	-118.2
MAR 21	-616.2	2.4	284.4	49.7	1213.1	82.2	-101.9	913.6
MAR 28	426.4	164.0	174.4	135.3	1027.1	1041.5	253.1	3221.4
APR 4	1522.7	159.7	353.7	103.2	856.8	1202.3	33.2	4231.7
APR 11	994.1	132.0	205.3	61.9	299.3	701.6	127.6	2521.8
APR 18	410.3	100.8	140.3	32.6	41.9	739.8	-5.8	1459.8
APR 25	524.0	167.0	155.9	136.6	247.4	770.5	50.4	2051.9
MAY 2	-503.3	101.7	-82.7	76.9	322.4	299.1	123.2	337.4
MAY 9	-668.5	-72.8	95.5	52.0	390.2	-348.7	82.0	-470.4
MAY 16	1236.5	-77.9	330.2	82.7	1637.8	285.2	203.6	3697.9
MAY 23	1060.8	-599.5	313.3	68.7	277.4	537.0	311.1	1968.3
MAY 30	256.1	-398.5	-39.7	-10.7	398.3	489.2	300.7	995.5
JUN 6	293.7	246.0	99.0	-18.6	1008.0	181.6	6.0	1815.8
JUN 13	105.6	-62.5	-15.7	70.6	850.9	669.5	95.3	1713.6
JUN 20	69.1	-273.6	154.7	-70.4	-30.9	5.0	39.9	-106.3

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

FUND FLOW REPORT

C. TRACKING MONEY FLOW - MALAYSIA

- There was not much pick-up in trading activity after the school holiday break.
- Investors classified as “foreign” bought RM128.7m last week, a significant drop from the RM305.8m mopped up the week before. It was a decent amount considering the waning broader sentiment towards Emerging Asia, not to mention the distraction caused by the World Cup.
- Last week’s inflow marks the ninth consecutive week of foreign buying of stocks in the open market (i.e excluding off-market deals) on Bursa. The longest streak of foreign buying since the 2008 Financial Crisis, was 24 months based on our available record.
- On cumulative basis, foreign investors remained net sellers of Malaysian stocks in 2014, but the net *outflow* as of last Friday had declined to only -RM1.6b. In 2013, Malaysia reported a net inflow of +RM3.0b.
- Foreign participation on the local bourse remained moderate, but was still among the lowest this year. The average daily foreign participation rate (average daily gross purchase and sale) on Bursa stayed below RM900m at RM888m, an improvement over the RM805m the week before.
- The retail market sprang back into some action. Retail participation jumped to RM749m, the highest in four weeks although it was still lower than the average of RM846m for the year. Sellers still overwhelmed buyers for the 10th week in a row as retailers offloaded RM83m.
- Local institutions sold a marginal RM46m last week. Participation bounced back from its nadir in 2014 with average daily volume of RM1.9b, compared with 1.6b the week before.

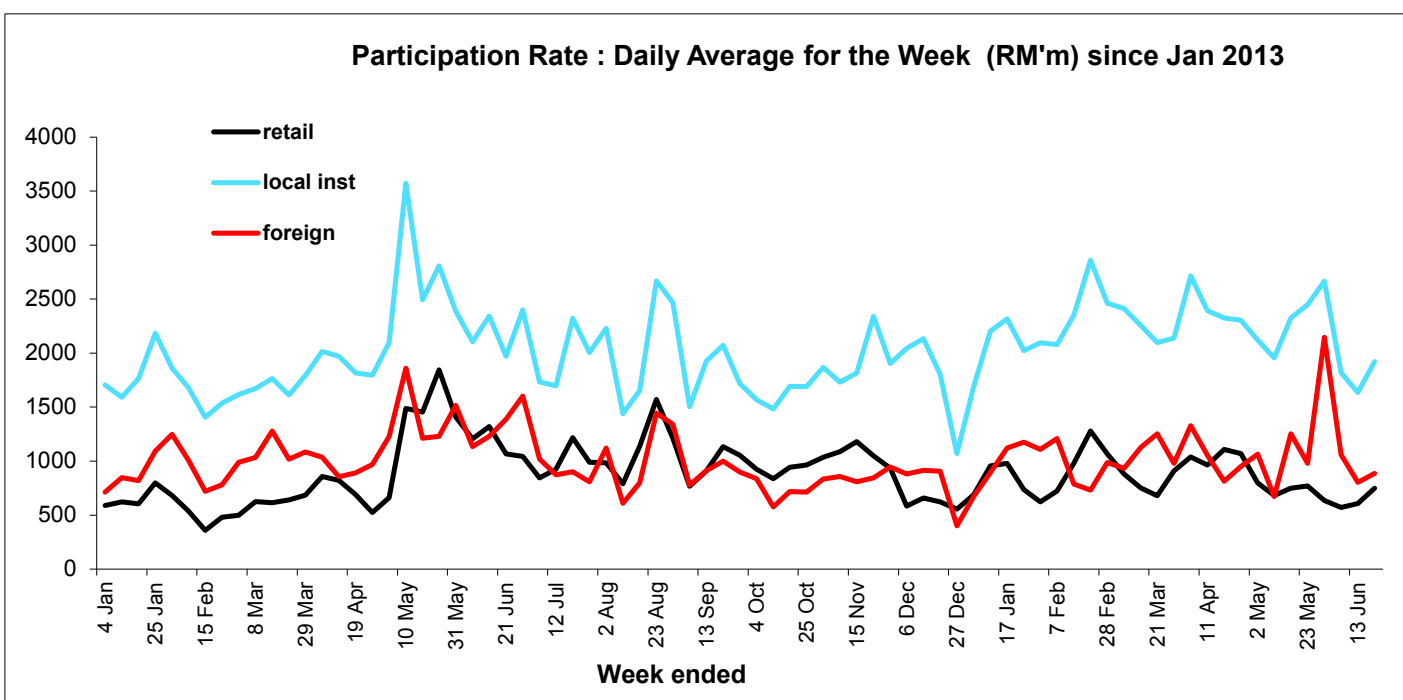


Source: Bursa, excluding off-market trades

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)*
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	-228.6
FEB 21	3204.9	3194.0	10.9	7193.9	7111.3	82.6	1783.0	1876.5	-93.5	-28.2
FEB 28	2749.0	2584.1	164.9	5923.0	6384.1	-461.1	2613.0	2316.8	296.2	90.4
MAR 7	2198.5	2206.0	-7.5	6148.8	5922.4	226.4	2224.0	2442.9	-218.9	-67.0
MAR 14	1919.2	1840.2	79.0	6095.9	5185.6	910.3	2324.6	3313.9	-989.3	-301.2
MAR 21	1674.4	1721.6	-47.2	5438.6	5056.8	381.8	2966.6	3301.2	-334.6	-101.9
MAR 28	2276.4	2274.1	2.3	4929.7	5764.7	-835.0	2866.3	2033.6	832.7	253.1
APR 4	2555.8	2633.0	-77.2	6775.8	6806.3	-30.5	3374.9	3267.2	107.7	33.2
APR 11	2416.8	2396.6	20.2	5766.2	6200.8	-434.6	2842.9	2428.5	414.4	127.6
APR 18	2762.7	2774.2	-11.5	5831.2	5801.0	30.2	2023.3	2042.0	-18.7	-5.8
APR 25	2653.3	2696.6	-43.3	5702.2	5824.0	-121.8	2459.2	2294.1	165.1	50.4
MAY 2	1540.6	1654.4	-113.8	4097.0	4385.6	-288.6	2329.5	1927.1	402.4	123.2
MAY 9	1688.1	1720.0	-31.9	4775.2	5009.1	-233.9	1812.9	1547.1	265.8	82.0
MAY 16	1473.0	1525.3	-52.3	4346.6	4951.1	-604.5	2837.2	2180.4	656.8	203.6
MAY 23	1899.5	1950.7	-51.2	5649.1	6597.1	-948.0	2950.0	1950.8	999.2	311.1
MAY 30	1521.4	1657.4	-136.0	6252.8	7083.8	-831.0	5848.0	4881.0	967.0	300.7
JUN 6	1377.6	1473.0	-95.4	4586.9	4511.6	75.3	2655.8	2635.7	20.1	6.0
JUN 13	1478.1	1558.3	-80.2	3977.0	4202.6	-225.6	2165.1	1859.3	305.8	95.3
JUN 20	1830.5	1913.3	-82.8	4784.6	4830.5	-45.9	2283.5	2154.8	128.7	39.9

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

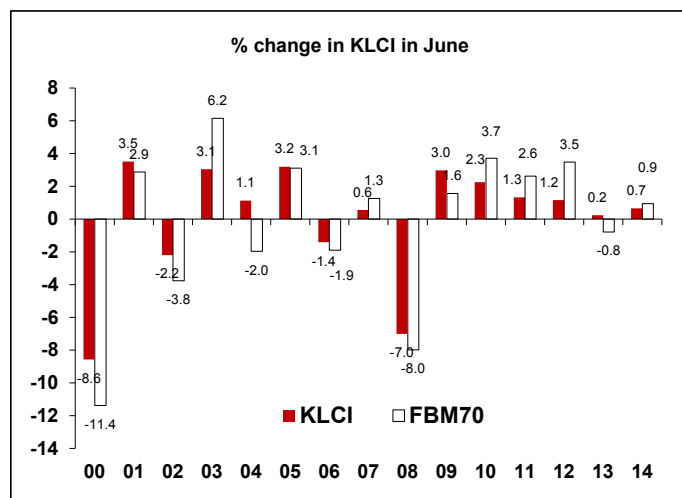


FUND FLOW REPORT

D. THE WEEK AHEAD

WILL 1H14 CLOSE WITH A BANG?

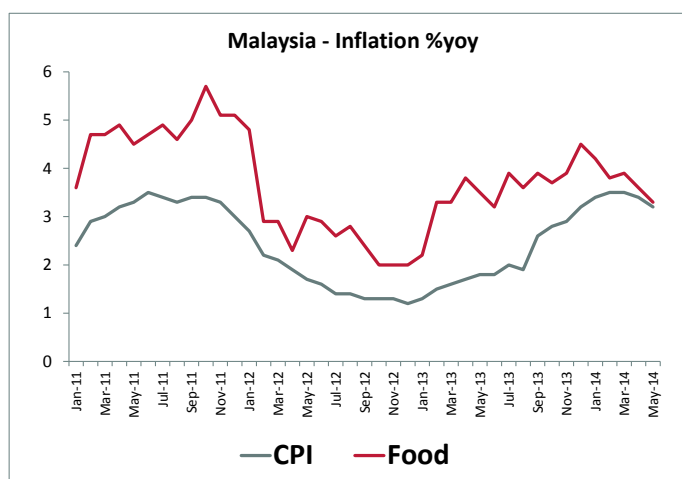
- June has, thus far, been forgettable. As of last Friday, the FBM KLCI and FBM70 had added only 0.7% and 0.9% for the month. It was better than that last year, but over a longer term perspective, the increment was below average.
- In contrast, the FBM Smallcap remained on a strong upward trajectory. After the woeful 0.1% gain in May, the index had bounced back to add 2.5% in June (as of Friday). It is apparent that currently, the momentum still favours the small and mid-cap counters, although retail investors remained sceptical and on the sideline.
- This is the penultimate week before trading for 2H14 officially kicks off next Tuesday. Most of the window dressing activity will happen this week rather than on Monday. The practice is that the mark-to-market valuation for many funds is likely to be based on the average volume-weighted price over a few days rather than the price on the last trading day of the period.
- Hoping 1H14 to close with a bang? Based on the evidence thus far, we would not be that sanguine. There could be institutional support over selective large-cap names, such as that witnessed lately with respect to SapuraKencana, Tenaga and Public Bank. Otherwise, we would keep to our view that the actions would mainly be on the fields in Brazil.



June 2014 as of the 20th

LOWER RISK OF OPR RISING

- CPI for May rose by only 3.2%yoy, compared with 3.4%yoy in April. Inflation had decelerated for two consecutive months. This is significant as we do not believe that any decision to raise the OPR when the Monetary Policy Committee (MPC) meets on 10 July is cast in stone. By then, the MPC would likely have advanced information about how inflation played out in June. In our opinion, if the CPI continued to accelerate in June, the MPC is unlikely to proceed with its rate tightening. With food prices decelerating sharply, this is a real possibility.



FEW SIGNIFICANT RELEASES THIS WEEK

- Except for China's flash PMI on Monday, the week is relatively clear of potholes. The concentration of market-moving economic releases would be next week.



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