FUND FLOW REPORT

Week Ended September 4, 2015

Foreign Flow Meter (M'sia)	
Tide	(maintain) HIGH
Current	(maintain) HIGH

- It was an ominous start to September as most equity markets around the world ended last week in the redzone. A sizeable portion of the losses were attributable to the decline on Friday.
- Things could have been worse had China's market not closed for public holiday on Thursday and Friday.
- It was a rollercoaster week as sentiment went from nervousness following news of a slump in China's manufacturing sector, to optimism over the ECB's revamped QE, and finally back to uncertainty following the U.S unemployment data.
- The rate of outflow of global funds from Asian equity markets decelerated suddenly last week. From an "exodus" proportions, the size shrank to that more aptly described as business-as-usual.
- Compared with many other markets, it was not such an ominous start to September for Bursa.
- The KLCI shed -1.46% last week to dip below the 1,600 level. It is down -9.8%ytd. The KLCI appears to have a hard time clinging on to the 1600 level. There was hesitation whenever the market appears to be making progress.
- The holiday-shortened week started on a positive note as foreign funds bought nearly RM50m net on Tuesday. The initial inflow was arguably a spillover from earlier Friday's buying momentum.
- In the days that followed however, there was an abrupt reversal as the net money flow turned negative during the remaining three days of the week. On Wednesday, the net exit amounted to RM268m. The selling continued on Thursday and Friday with net outflows of RM203m and RM209m respectively.
- For 2015, last week's selling increased the cumulative net foreign outflow to RM16.4b, significantly surpassing the RM6.9b outflow for the entire 2014.

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EBBING TIDE MAY BE TRANSIENT

A. MARKET SNAPSHOT

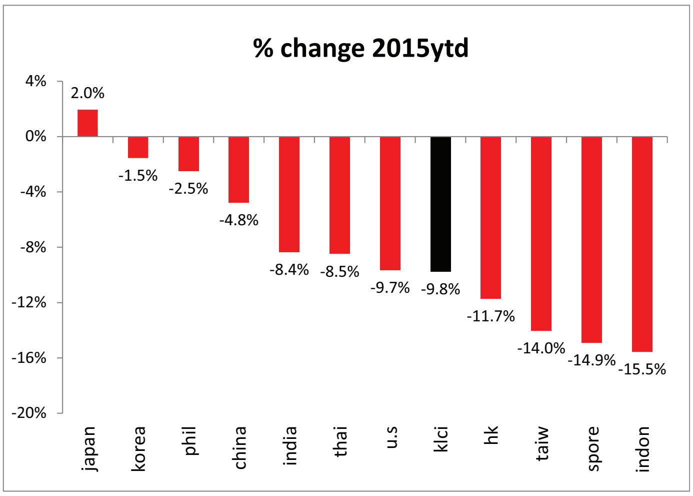
- It was an ominous start to September as most equity markets around the world ended last week in the redzone. A sizeable portion of the losses were attributable to the decline on Friday.
- Things could have been worse had China's market not closed for public holiday on Thursday and Friday.
- After China came out with a slew of measures to revive the market and the economy, focus shifted to the U.S, where the equity market suddenly turned nervous. The Dow Jones has declined >10% since the high on 19 May, 2015. It opened on a cagey note last Monday and succumbed to a selloff on Tuesday, losing -2.8%, the third steepest 1-day decline this year.
- The trigger was clearly the slump in China's manufacturing sector. China's manufacturing activity contracted in August, raising fears that the economy is experiencing a severe-than-expected slowdown. The official PMI index fell to 49.7 in August, the first time it dipped below 50 in 6 months. It was also the lowest in 3 years. A reading below 50 indicates a contraction. On Tuesday, the State Council, China's cabinet, announced that it will relax requirements for fixed-asset investments, including lowering minimum capital requirements. A national development fund fund of RMB60b will also be created for small- and medium-sized enterprises.
- Optimism rose after the European Central Bank revamped its QE program, increasing the flexibility for the Bank to move. ECB increased its limit for single issuer to 33% from 25% and hinted that it will make more adjustments to ensure the full implementation of the EUR1.1tr (USD1.2tr) program until at least September 2016.
- However, markets succumbed to selling pressure on Friday as U.S data showed non-farm payroll rising by 173,000 in August and unemployment rate dropping to 5.1%, the lowest since Aptil 2008. The Dow Jones and S&P500 ended the week down -3.3% and -3.4% respectively, the second worst this year. Investors are still inconclusive whether the Fed will raise interest rate on Sept 16-17, attaching a 30% probability of a rate hike, based on Bloomberg. The probability edged up from 26% before the job data, but much depends on the health of the markets and on China's policy direction.
- The KLCI shed -1.46% last week to dip below the 1,600 level. It is down -9.8%ytd.

Performance of major markets

Weekly % change	Week before	Last week
China CSI300	-6.89	0.70
Thai SET	0.02	0.35
Taiwan Taiex	2.98	-0.23
Phil Comp	-2.48	-0.66
Jakarta JCI	2.54	-0.69
KLCI	2.42	-1.46
DAX	1.72	-2.53
Korea KOSPI	3.28	-2.66
Straits Times	-0.51	-3.12
Dow Jones	1.11	-3.25
CAC	0.95	-3.25
FTSE	0.97	-3.28
S&P500	0.91	-3.40
Hang Seng	-3.56	-3.57
India Sensex	-3.56	-4.51
Nikkei 225	-1.54	-7.02

Source: Bloomberg

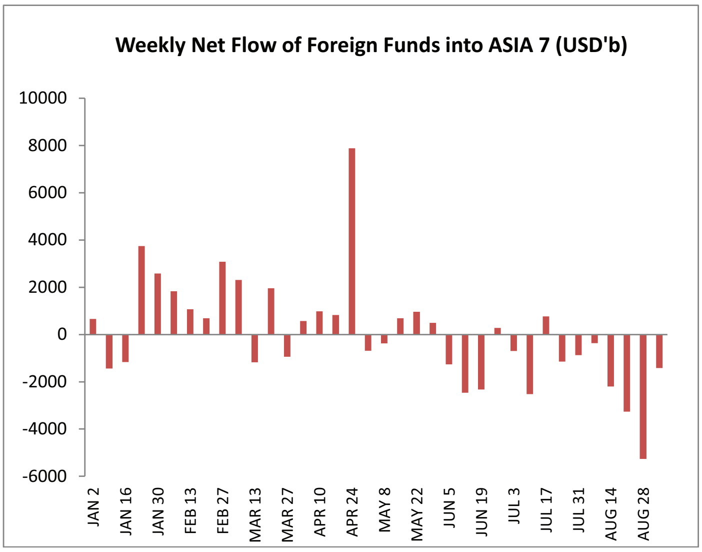
Major Asian indices (2015)

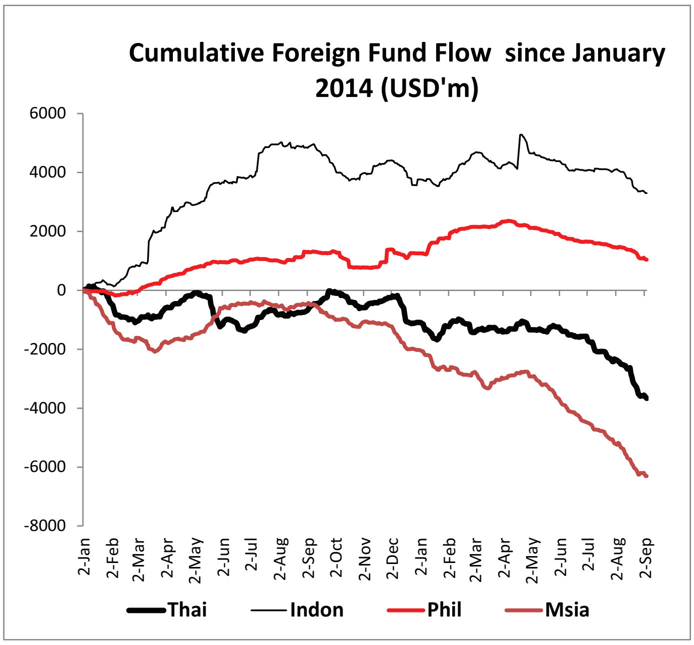


Source:Bloomberg. All in local currency.

B. TRACKING MONEY FLOW

- The rate of outflow of global funds from Asian equity markets decelerated suddenly last week. From an "exodus" proportions, the size shrank to that more aptly described as *business-as-usual*.
- Based on provisional data from the respective exchanges, investors classified as "foreign" remained aggregate net sellers, for the seventh week running, of listed equity in the 7 Asian[1] stock markets that we track (TIPs + India, Taiwan, Korea and Malaysia). The net amount sold declined noticeably from USD5.2b to an estimated USD1.4b .
- For the fourth consecutive week, global funds were net sellers in all seven markets aforementioned. However, the amount of outflow dropped significantly across all markets, without exception.
- In Korea, foreign attrition from equity declined significantly to USD370m from USD2b the week before. However, the overhang of foreign liquidity is still high and last week's relative calm could be transient. Korea is vulnerable to China slowdown and a further devaluation of the yuan. This is reflected by last week's downgrade in the official forecast for GDP growth in 2015 to 3.3% from 3.5%. GDP rose in 2Q15 at the slowest pace in two years while exports fell 14.7%yoy in August, the worst since 2009. The Bank of Korea reduced its benchmark interest rate to an unprecedented 1.5% in June and next meets on Sept. 11. The market is expecting a further rate cut and that caused bond prices to rise, pushing the three-year yield to a record low. All this was manifested by the Won, which was the worst performing currency in Asia last week.
- In Bangkok, foreigners started nibbling in Thai stocks on Monday after 9 straight days of heavy selling. Small purchases continued on Tuesday before sellers regained dominance in the rest of the week. The USD73.9m offloaded was the lowest in five weeks. There was optimism earlier in the week after the Government approved a stimulus package valued at Baht136b (USD3.8b).
- Foreign selling also continued in Indonesia, Philippines and Taiwan, but another market where serious unravelling may be taking place is India, where the Sensex had lost 11% in the last 5 weeks. About USD60.5b entered Indian equity since Jan 2012 and the risk of a reversal is high.





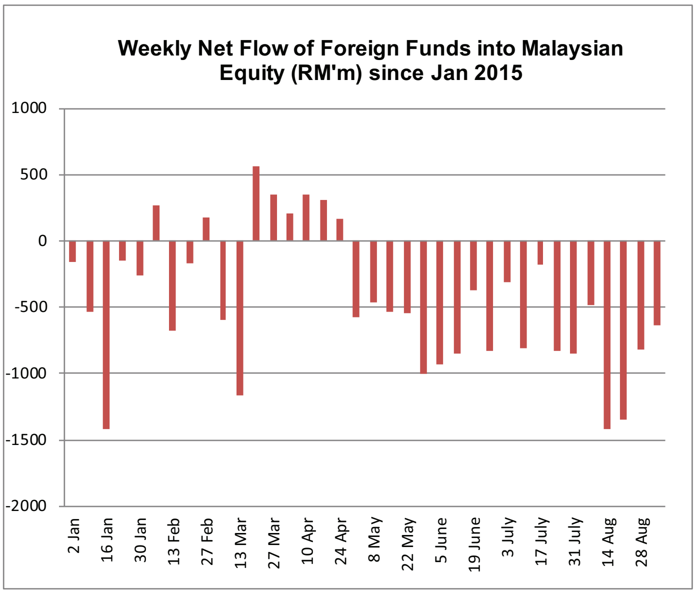
[1] These ASIA 7 markets, for which fund flow data is publicly available, are our proxy for Asia. TIP = Thailand + Indonesia + Philippines.

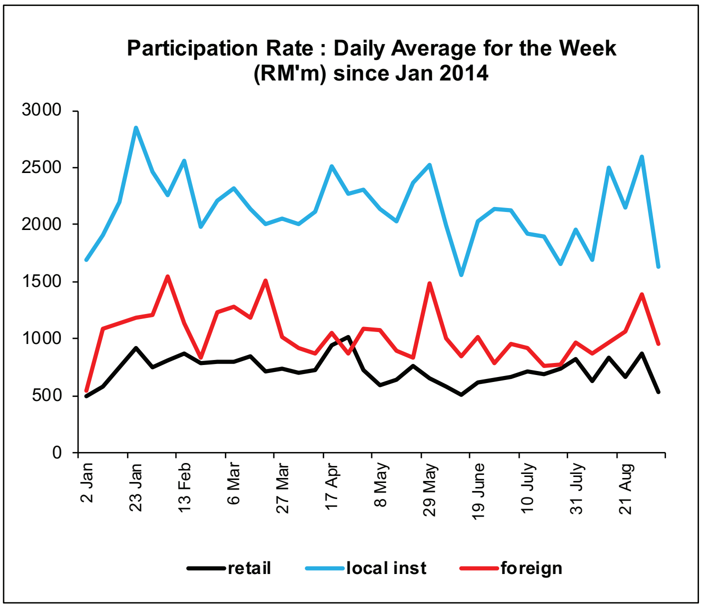
WEEKLY NET FLOW OF FOREIGN FUND INTO EQUITY (USD'm)								
WEEK ENDED	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	MALAYSIA	TOTAL
JUL 24	-874.9	-206.1	-12.3	-39.6	227.7	-24.8	-218.3	-1148.3
JUL 31	18.5	-51.5	-8.3	-69.1	-345.3	-209.0	-221.6	-885.9
AUG 7	-186.3	-172.2	-66.9	-7.0	297.1	-89.4	-124.3	-349.0
AUG 14	-535.4	-168.0	-220.9	-80.3	-369.1	-475.6	-353.3	-2202.6
AUG 21	-903.2	-483.8	-309.4	-52.3	-537.7	-653.3	-327.5	-3267.1
AUG 29	-1950.1	-434.9	-133.5	-240.1	-1903.9	-405.6	-193.3	-5260.8
SEP 4	-370.3	-73.9	-58.6	-47.6	-576.7	-194.4	-148.9	-1421.3

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

C. TRACKING MONEY FLOW - MALAYSIA

- The outflow of foreign money from equities listed on Bursa continued to abate last week but remained above half a billion ringgit level.
- Investors classified as "foreign" sold equity listed in the open market on Bursa (i.e. excluding off-market deals) amounted to RM632m on a net basis last week. It was the lowest net outflow since the first week of August when the net outflow stood at RM488m. Nevertheless, foreign investors have been net sellers on Bursa for nineteen consecutive weeks, the longest stretch of back-to-back weekly selldown since the 2008 Financial Crisis.
- The holiday-shortened week started on a positive note as foreign funds bought nearly RM50m net on Tuesday. The initial inflow was arguably a spillover from earlier Friday's buying momentum. In the days that followed however, there was an abrupt reversal as the net money flow turned negative during the remaining three days of the week. On Wednesday, the net exit amounted to RM268m. The selling continued on Thursday and Friday with net outflows of RM203m and RM209m respectively.
- For purpose of monitoring the intensity of the current phase of daily selldown, our trigger threshold is RM200m. That threshold has been exceeded 42 times so far this year, compared with only 23 times for the entire 2014.
- For 2015, last week's selldown increased the cumulative net foreign outflow to RM16.4b, significantly surpassing the RM6.9b outflow for the entire 2014.
- Foreign participation rate (daily average gross purchase and sale) declined to RM963m. The average daily foreign participation rate thus far in 2015 was RM1.04b.
- Meanwhile local institutions mopped up RM590m while retailers were marginal net buyer at RM41m.





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)*
JUL 17	1167.9	1242.7	-74.8	3454.9	3196.7	258.2	1251.6	1435.0	-183.4	-48.2
JUL 24	1839.8	1882.4	-42.6	4573.7	3700.0	873.7	1521.8	2351.9	-830.1	-218.3
JUL 31	2005.6	2099.0	-93.4	5364.6	4426.2	938.4	1991.9	2836.9	-845.0	-221.6
AUG 7	1601.8	1561.8	40.0	4461.1	4013.3	447.8	1928.3	2416.1	-487.8	-124.3
AUG 14	2142.0	2043.3	98.7	6903.2	5584.8	1318.4	1718.6	3135.7	-1417.1	-353.3
AUG 21	1684.3	1676.1	8.2	6058.1	4717.3	1340.8	1993.9	3342.9	-1349.0	-327.5
AUG 28	2132.8	2234.7	-101.9	6955.0	6036.8	918.2	3083.9	3900.2	-816.3	-193.3
SEP 4	1365.7	1324.6	41.1	4384.2	3793.8	590.4	2091.1	2722.6	-631.5	-148.9

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

D. THE WEEK AHEAD

NOT SUCH A BAD START TO SEPTEMBER

- Compared with many other markets, it was not such an ominous start to September for Bursa. However, the performance in the first week could have been better. The KLCI appears to have a hard time clinging on to the 1600 level. There was hesitation whenever the market appears to be making progress.
- The KLCI edged closer to the 50-day moving average line but the gap is still sizeable and is unlikely to be bridged this week in view of the bearish outcome on Wall Street on Friday, the global bellweather.
- Friday's decline across Asia indicates the apprehension ahead of the U.S employment data and Federal Reserve's Open Market Committee meeting scheduled on 17 September. As it turned out, Friday's release of the U.S employment data has caused more uncertainty pertaining to the Fed's course of action. While the underlying U.S economy is strong, market sentiment is worsening and China's policy manoeuvring is still in the works.
- Bank Negara's Monetary Policy Committee (MPC) is also scheduled to meet this week on Friday. There is little risk of an interest rate hike in view of the slowdown in economic activity locally and abroad. Inflation too is While we expect the MPC to keep the OPR unchanged, easier monetary policy is a policy option should the situation turns messier.
- Bond prices continued to recover last week. The yield on 10 year MGS dropped by more than 150 basis points indicating strong buying interests, most likely from local institutions. Despite the decline in the Ringgit, KLIBOR rates have stayed stable. The spread between MGS and KLIBOR is attractive enough for local institutions, especially banks to take position.
- The Ringgit was not the worst hit currency last week (it was the Won). Even on Friday, the heat was on the Taiwanese dollar and Indian Rupee. However, there is no respite in the Non-Deliverable Forward (NDF) market where 12-month Ringgit was last valued at USD/RM4.3556. There is still plenty of speculative elements in the NDF market. The price of Brent crude slid below USD50pb at USD49.61pb and that does not usually work in favour of the Ringgit.

KLCI- Gap with 50DMA still wide

Attrition in the bond market appear to have abated. Yield on 10-year MGS eased

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