

## MIDF EQUITY STRATEGY | 14 NOV 2016

WEEK ENDED 11 NOVEMBER 2016

- The election of Mr Trump caused volatility in the equity and financial markets to spike last week.
- Markets in the developed world embraced the election of Mr Trump warmly, but the reaction in Asia was cold, with several casualties, especially on Friday. Wall Street rallied on expectation of fiscal stimulus and the prospect of higher interest rates caused a liquidity shift out of bond into equity. The Dow Jones rose 5.4% to a record closing. It was the highest weekly gain since the week ended 3 July 2011.
- Things turned ugly for Asian emerging currencies and markets on Friday. The Rupiah was the worst performing Asian currency, losing -1.8% on the day, followed by the Korean Won and the Ringgit. Meanwhile, Indonesia's JCI fell a sharp -4.0% on Friday,
- Price of Brent crude oil ended the week at USD44.75pb, down -1.8% for the week.
- The Ringgit was the worst performing Asian currency last week, losing -3.3%. However, the KLCI was relatively resilient last week, dropping only -0.8%, to close at 1634 points, the lowest since June.
- Global investors dumped Asian shares last week at the fastest pace since August last year. The biggest casualty in terms of absolute dollar pullout was Taiwan, where there was heavy investor withdrawal from electronics stocks which are vulnerable to Mr. Trump's threat of penalizing firms such as Apple Inc. which he has blamed for the loss of millions of jobs.
- The foreign tide out of Malaysian equity last week was more contained compared with peers. Indeed, the net amount sold by foreigners on Bursa of -RM800.4m last week was lower than the -RM948.1m offloaded the week prior.

## HIGH TIDE OUT OF ASIA

### A. MARKET SNAPSHOT

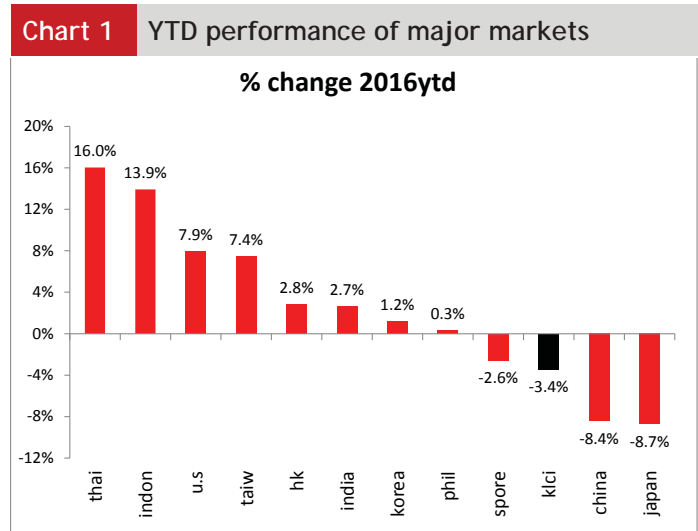
- The election of Mr Trump caused volatility in the equity and financial markets to spike last week.
- Markets in the developed world embraced the election of Mr Trump warmly, but the reaction in Asia was expectedly cold, with several casualties, especially on Friday. Wall Street rallied on expectation of fiscal stimulus. The prospect of higher interest rates caused a shift out of bond into equity. The Dow Jones rose 5.4% to a record closing. It was the highest weekly gain since the week ended 3 July 2011.
- The week started on a positive mood as investors look to a resolution of the U.S presidential race and a removal of the associated political risk. However, as it became apparent that Mr Trump was winning the election, emerging markets tumbled on Wednesday, the steepest slide since Brexit. On Bursa, the KLCI slid by as much as 23 points or -1.4%. However, it regained some of the loss by the close of trade and rebounded significantly the following day.
- Things turned ugly for Asian emerging currencies and markets on Friday. The Rupiah was the worst performing Asian currency, losing -1.8% on the day, followed by the Korean Won and the Ringgit. Meanwhile, Indonesia's JCI fell a sharp -4.0% on Friday, while Taiwan's Taiex and India's Sensex dropped by more than 2%. Emerging nations felt the brunt of Trump's election, as investors price in a higher risk-free interest rates. Emerging economies are also seen as vulnerable should the U.S enforce protectionist trade policies.
- For the week, the Philippines PSEi was the worst performer, dropping -3.5%, followed by the JCI. However, China's equity market bucked the weakness in Asia as the CSI 300 added 1.9% to climb to a ten-month high. Mainland investors apparently bet on a sharp rebound by taking position in stocks that could benefit from Trump's protectionist policies such as agricultural stocks. The CSI 300 has now risen for the fifth straight week. There is optimism that Trump's win will weaken the U.S influence in the region, making it easier for China to push its "One Belt One Road" ambition.
- Brent crude oil price started the week at USD45.95pb, sinking to a low

**Table 1** Weekly performance of major indices

Weekly % change	Week before	Last week
Dow Jones	-1.50	5.36
DAX	-4.09	3.98
S&P500	-1.94	3.80
Nikkei 225	-3.10	2.78
CAC	-3.76	2.55
China CSI300	0.42	1.88
Straits Times	-0.98	0.69
Thai SET	-0.58	0.59
FTSE	-4.33	0.56
Korea KOSPI	-1.85	0.12
Hang Seng	-1.36	-0.49
KLCI	-1.32	-0.85
Taiwan Taiex	-2.57	-1.22
India Sensex	-2.39	-1.67
Jakarta JCI	-0.88	-2.44
Phil Comp	-2.40	-3.49

Source: Bloomberg

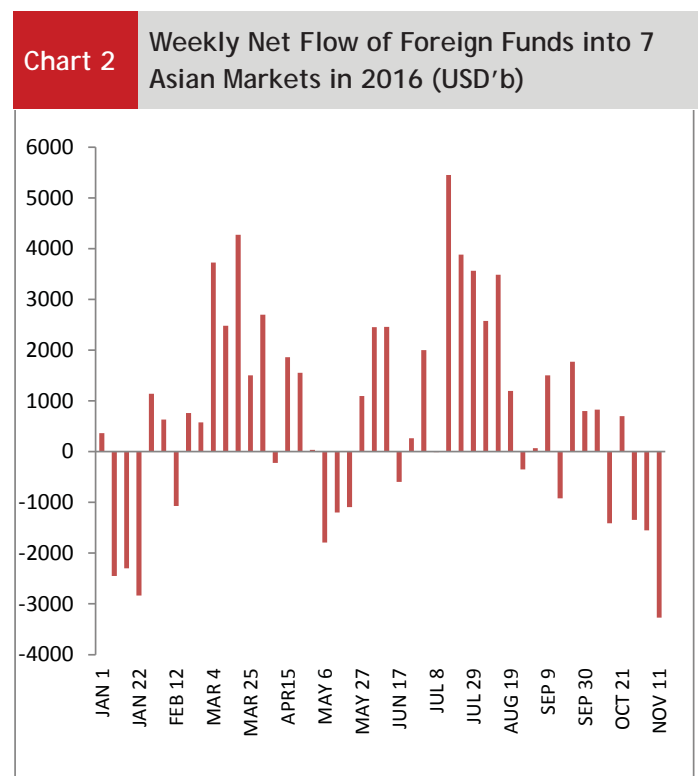
of USD44.45pb (-3.3%) shortly before the U.S election before staging a rebound to USD46.88pb after Mr Trump prevailed. The U.S Energy Information Administration on Wednesday reported a 2.4m barrel rise in domestic crude inventories to 485m barrels last week, confirming that the oil mart still faces a glut that has kept prices under pressure. In addition, the November 30th OPEC meeting in Vienna is still expected to end with a deadlock as the OPEC member countries struggle to achieve a general consensus on limiting crude supply along with other major oil producers such as Russia. Brent ended the week at USD44.75pb.



- The Ringgit was the worst performing Asian currency last week, losing -3.3%. However, the KLCI was relatively resilient last week, dropping only -0.8%, to close at 1634 points, the lowest since June. That pulled the year-to-date score to -3.4%.

**B. TRACKING MONEY FLOW - ASIA<sup>1</sup>**

- Global investors dumped Asian shares last week at the fastest pace since August last year.
- Investors classified as “foreign” offloaded -USD3.3b, based on provisional aggregate data from the seven Asian exchanges that we track.
- The biggest casualty in terms of absolute dollar pullout was Taiwan, where foreign attrition amounted to a whopping -USD1.36b, only the fifth week this year that the amount had surpassed the USD1b mark. There was heavy investor withdrawal from electronics stocks which are vulnerable to Mr. Trump’s threat of penalizing firms such as Apple Inc. which he has blamed for the loss of millions of jobs by producing products overseas.
- Taking the brunt of foreign attrition was TSMC, the world’s largest contract chip maker, which is believed to produce the A10 processor for the iPhone 7 model. Other casualties were Largan Precision Co., a smartphone camera lens supplier to Apple and Hon Hai Precision Industry Co., an assembler of iPhones and iPads. Several electronics



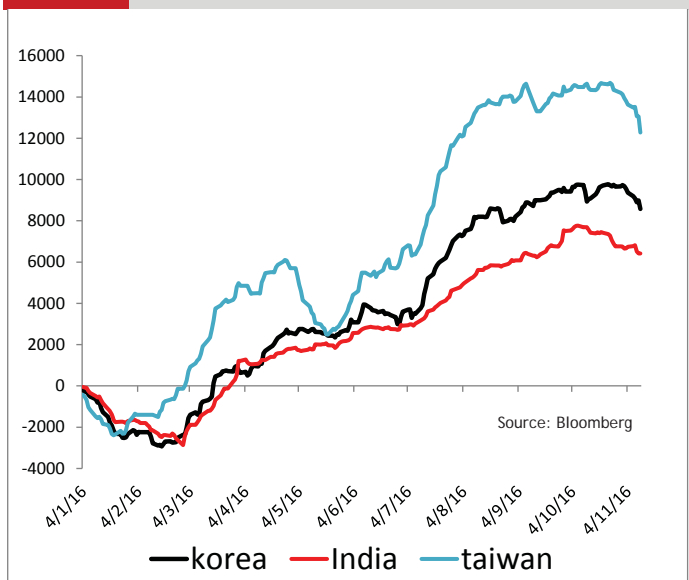
Source: Bloomberg, Bursa Malaysia

<sup>1</sup> Based on 7 Asian markets, for which fund flow data is publicly available. These are our proxy for Asia: TIPs (Thailand, Indonesia, Philippines), Korea, Taiwan, India and Malaysia.

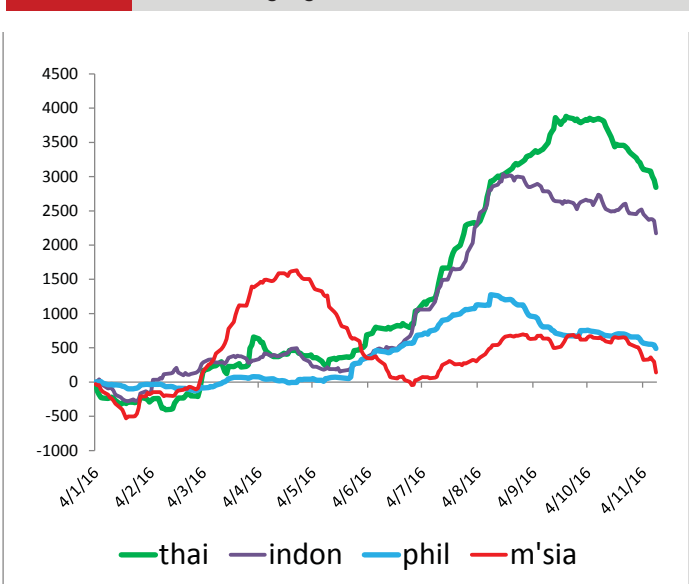
companies were punished for reporting forex losses in 3Q16, specifically Quanta Computer Inc., the world's largest contract notebook computer maker, and Pegatron Corp., an assembler of the iPhone 7, which hit limit down.

- Foreign sell-down of Korean stocks amounted to USD786m, the second highest in a week this year. Some Korean stocks were resilient despite the Trump threat, such as refineries, which are expected to benefit from the president-elect's affinity for traditional energy. Mr Trump is against developing renewable energy.
- In South East Asia, there was heavy withdrawal from Thailand and Indonesia, the two SEA markets with the highest overhang of foreign liquidity this year. Foreigners pulled out USD263m from Thai shares last week, the third time it exceeded USD200m in four weeks. This despite news that the long-awaited mandatory provident fund will be enforced in 2018, which will strengthen institutional participation in the local stock market.
- Foreign funds pulled out USD280m from Indonesia, the highest this year as the rupiah was hammered on Friday. There was foreign withdrawal from banks such as BCA, and consumer-oriented stocks. Foreigners have been selling for 11 straight weeks, the longest stretch among markets in SEA.

**Chart 3** Net Flow of Foreign Funds into Taiwan, Korea and India in 2016 (USD'b)



**Chart 4** Net Flow of Foreign Funds into South East Asia Emerging Markets in 2016 (USD'b)



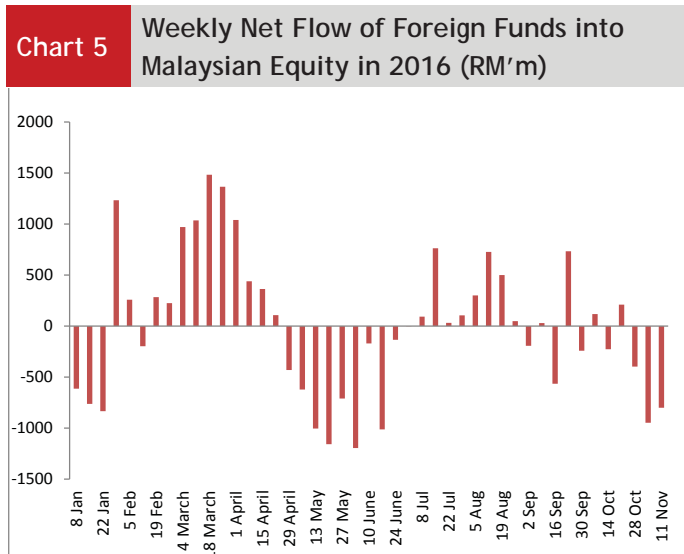
**Table 2** Weekly Net Flow Of Foreign Fund Into Equity By Market (USD'm)

WEEK	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	M'SIA	TOTAL
SEP 23	362.6	1.6	-3.3	-40.0	407.9	864.8	177.7	1771.3
SEP 30	53.8	-76.8	-14.4	76.6	731.3	87.5	-58.2	799.8
OCT 7	341.5	36.2	-42.9	-13.6	254.4	224.4	28.9	828.9
OCT 14	-670.8	-86.7	-56.6	-58.6	-340.7	-145.0	-54.2	-1412.6
OCT 21	621.0	-279.6	-14.8	24.4	-3.2	298.6	50.5	696.8
OCT 28	-52.2	-114.2	-48.7	-46.6	-656.3	-334.1	-95.0	-1347.1
NOV 4	-292.7	-236.4	-11.3	-90.4	-21.4	-673.1	-226.2	-1551.5
NOV 11	-785.8	-263.4	-280.3	-77.9	-324.3	-1355.4	-184.1	-3271.2

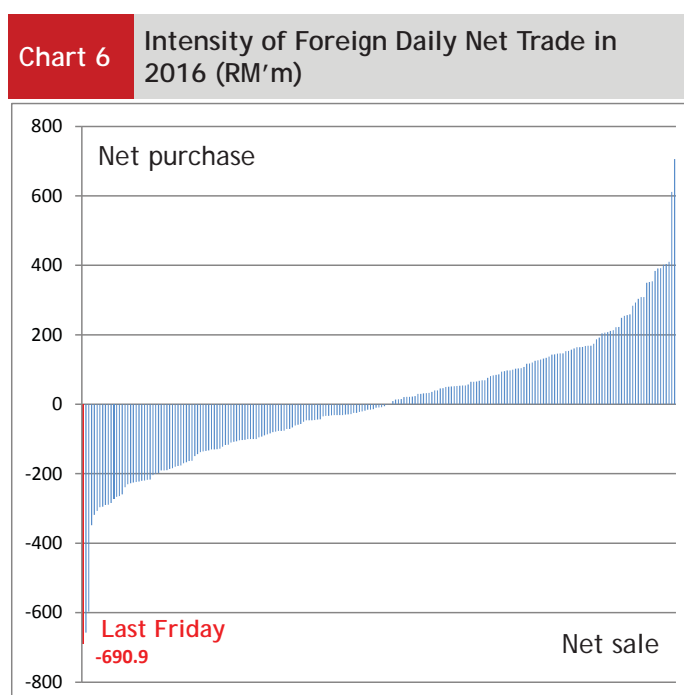
Source: Respective exchange statistics reported on Bloomberg, Bursa Malaysia. These figures are subject to revisions.

C. TRACKING MONEY FLOW - MALAYSIA

- Malaysian equity has been subjected to foreign money attrition since early May. The heaviest of the sell-down appears to be in the past and the foreign money currently flowing out is, at most, residual. Hence, the heavy tide out of Asian equity last week was more contained on Bursa.
- Indeed, the net amount sold by foreigners on Bursa of -RM800.4m last week was lower than the -RM948.1m offloaded the week prior. Still, it was the seventh highest weekly outflow this year, estimated based on transactions in the open market which excluded off market deals.
- Foreign investors were actually net buyers on Monday and Tuesday, albeit moderately. This was in contrast to that in the TIPs markets where foreign selling was reported for the 2-day total. The buying reversed abruptly on Wednesday and continued for the rest of the week. On Friday, the attrition turned ugly as the amount offloaded amounted to - RM690.9m. It was the highest in a day so far this year.
- Despite the attrition last week, foreign investors remained net purchaser cumulative year-to-date. But the amount has shrunk to only RM261m from a peak of +RM6.47b in April, meaning -RM6.21m



Source: Bursa Malaysia preliminary statistics



Source: Bursa Malaysia preliminary statistics, MIDFR

**Table 3** BURSA MALAYSIA: WEEKLY MARKET PARTICIPATION (RM'm)

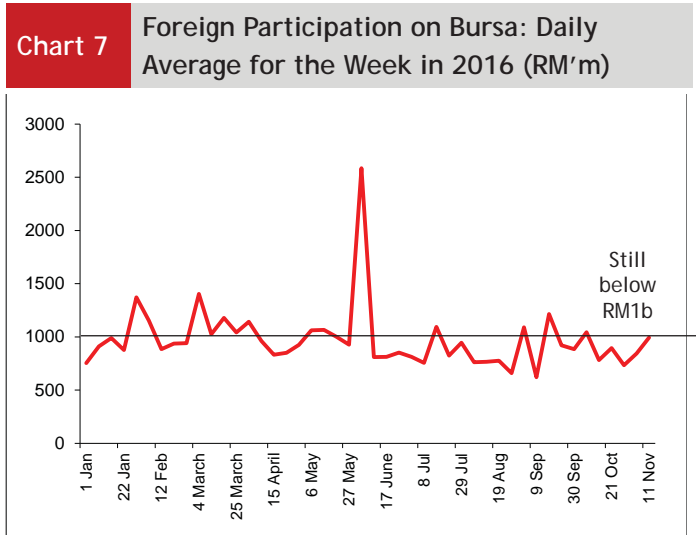
Week ended	LOCAL RETAIL			LOCAL INSTITUTION			FOREIGN			NET (USD)*
	BOUGHT	SOLD	NET (RM)	BOUGHT	SOLD	NET (RM)	BOUGHT	SOLD	NET (RM)	
30 Sep	1467.1	1470.9	-3.8	5805.8	5561.2	244.6	2092.1	2332.9	-240.8	-58.2
7 Oct	887.2	975.1	-87.9	4361.4	4392.3	-30.9	2146.7	2027.9	118.8	28.9
14 Oct	1114.0	1196.1	-82.1	5566.6	5257.1	309.5	1843.5	2070.9	-227.4	-54.2
21 Oct	1054.4	1155.5	-101.1	5120.0	5230.0	-110.0	2340.9	2129.8	211.1	50.5
28 Oct	1239.8	1244.9	-5.1	5740.1	5338.2	401.9	1635.6	2032.4	-396.8	-95.0
4 Nov	1196.7	1146.8	49.9	6246.8	5348.6	898.2	1634.2	2582.3	-948.1	-226.2
11 Nov	1607.7	1607.8	-0.1	7035.5	6235.0	800.5	2083.7	2884.1	-800.4	-184.1

Source: Bursa's preliminary data

\* Estimate by MIDF Research based on prevailing exchange rate.

had been redeemed since April. It was -RM19.5b and -RM6.9b net outflow in 2015 and 2014 respectively.

- Foreign participation remained surprisingly moderate. Foreign ADTV (average daily value of shares traded) remained below the RM1b mark at RM994m.
- The market was well supported by local institutions last week.
- Retail investors came to life last week. Retail ADTV shot up 37% to RM643m. It was the highest in 12 weeks and the first time it exceeded the RM500m mark in six weeks. However, the buying on dips conviction was weak as the buying and selling amount was almost equal last week.



Source: Bursa Malaysia preliminary statistics, MIDFR

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