

## MIDF EQUITY STRATEGY | 19 DEC 2016

WEEK ENDED 16 DECEMBER 2016

- As the markets expected, the Federal Reserve increased the overnight lending rate by a quarter of a percentage point. However, most investors expected 2 rate hikes in 2017 but the Federal Reserve signaled that there may be 3 rate hikes in 2017. The additional estimated rate hike and the interest rate increase weighed on markets and currencies around the world. The Dow Jones hits another record high, ending at 19,843.41 a 0.44% increase on Friday.
- Crude oil opened the week up on news that non-OPEC countries would cut their supply of oil along with OPEC. In spite of that, crude oil prices were up last week gaining 1.62% to USD55.21.
- The ringgit depreciated against the dollar by 1.21% to 4.4780 and the KLCI closed at 1,637.79 a decrease of -0.22%.
- Money has been flowing out of most Asian indexes last week as the Federal Reserve increase the United States base interest rate by a quarter of a percentage point. The net out flow last week was -97.32m.
- The direction of Malaysian equity foreign fund flow changed last week as foreign investors turned net buyers. The net amount bought by foreigners on Bursa last week became positive to RM44.0m, the highest level since 21 October. As mentioned the prior week, we believe this could be signaling a recovering confidence from foreign investors towards Malaysian equity. It is also notable that most Asian markets were positive as well.

## RECEEDING TIDE INTO ASIA AMID FED RATE DECISION

### A. MARKET SNAPSHOT

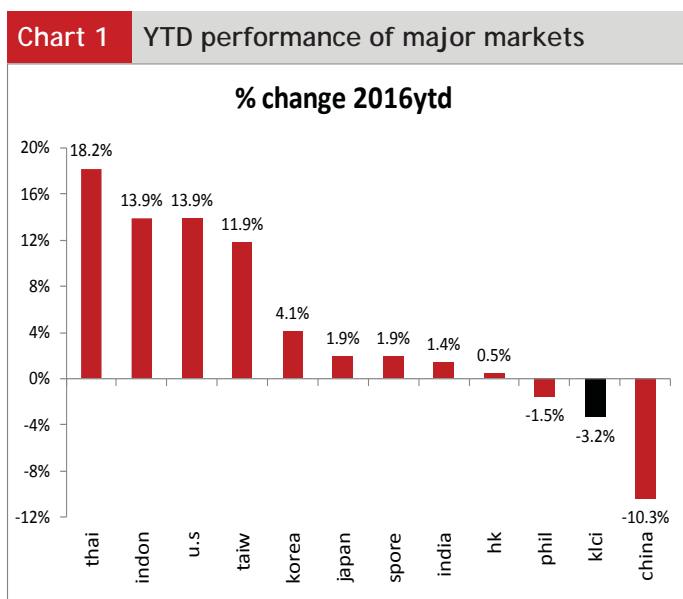
- As the markets expected, the Federal Reserve increased the overnight lending rate by a quarter of a percentage point. However, most investors expected 2 rate hikes in 2017 but the Federal Reserve signaled that there may be 3 rate hikes in 2017. The additional estimated rate hike and the interest rate increase weighed on markets and currencies around the world. The Dow Jones hits another record high, ending at 19,843.41 a 0.44% increase on Friday.
- Most markets in Asia are down but were relatively unaffected by the news, with the exception of China, Hong Kong and Philippines, as it seems that Asian markets have expected the rate hike and priced it in accordingly. Unexpectedly, the Japan Nikkei gained during the week by 2.13%.
- China's CSI300 started the week in the red as regulators clamp down on stock purchases by insurers. This coupled with a rate hike by the Federal Reserve on Wednesday sent the index further down by -4.23% to 3,346.03.
- The Hang Seng was down at the beginning of the week because investors were worried that china would not extend the tax break

Weekly % change	Week before	Last week
Nikkei 225	3.10%	2.13%
DAX	6.57%	1.79%
CAC	5.19%	1.45%
Korea KOSPI	2.74%	0.87%
FTSE	3.32%	0.83%
Dow Jones	3.06%	0.44%
S&P500	3.08%	-0.06%
KLCI	0.76%	-0.22%
Thai SET	1.64%	-0.25%
Straits Times	1.26%	-0.62%
Taiwan Taiex	2.21%	-0.70%
India Sensex	1.97%	-0.96%
Jakarta JCI	1.19%	-1.44%
Phil Comp	2.27%	-2.73%
Hang Seng	0.87%	-3.25%
China CSI300	-1.00%	-4.23%

Source: Bloomberg

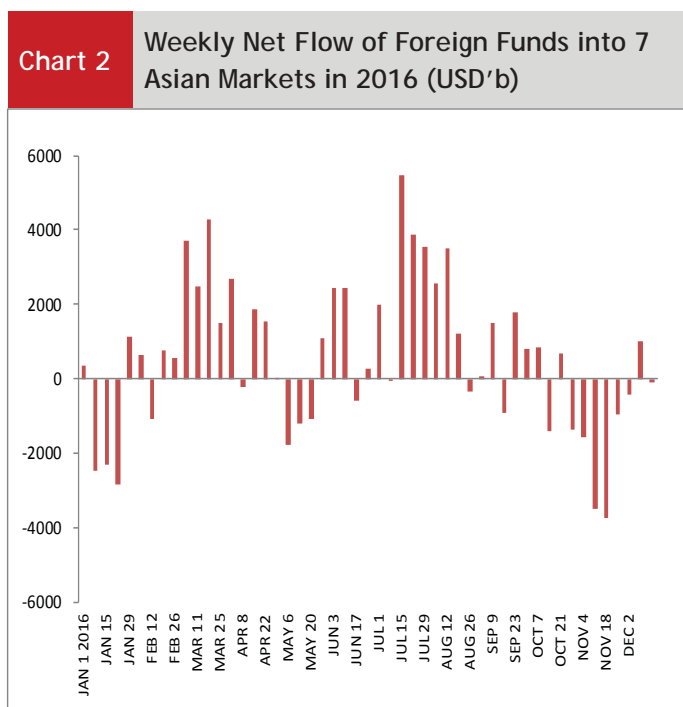
for car purchases in 2017. On Thursday, as the Federal Reserve increased interest rates and the Monetary Authority of Hong Kong did the same and raised rates by a quarter of a percentage point to one percent, sending property stocks and the Hang Seng down. The Hang Seng was at 22,020.75 on Friday a 3.25% decrease from the week before.

- Crude oil opened the week up on news that non-OPEC countries would cut their supply of oil along with OPEC. In spite of that, crude oil prices were up last week gaining 1.62% to USD55.21.
- The ringgit depreciated against the dollar by 1.21% to 4.4780 and the KLCI closed at 1,637.79 a decrease of -0.22%.



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

- Money has been flowing out of most Asian indexes last week as the Federal Reserve increase the United States base interest rate by a quarter of a percentage point. The net out flow last week was -97.32m.
- Funds that were classified as “foreign” were net sellers in six out of the seven Asian equity exchanges that we tracked. The net amount sold decreased last week from 1025.10m to -97.32m last week.
- The Philippines was hit the hardest by the announcement of an interest rate hike in the

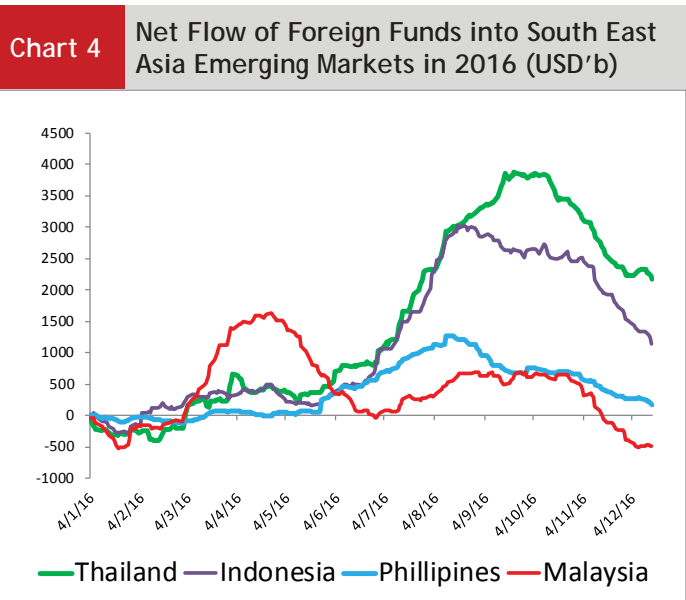
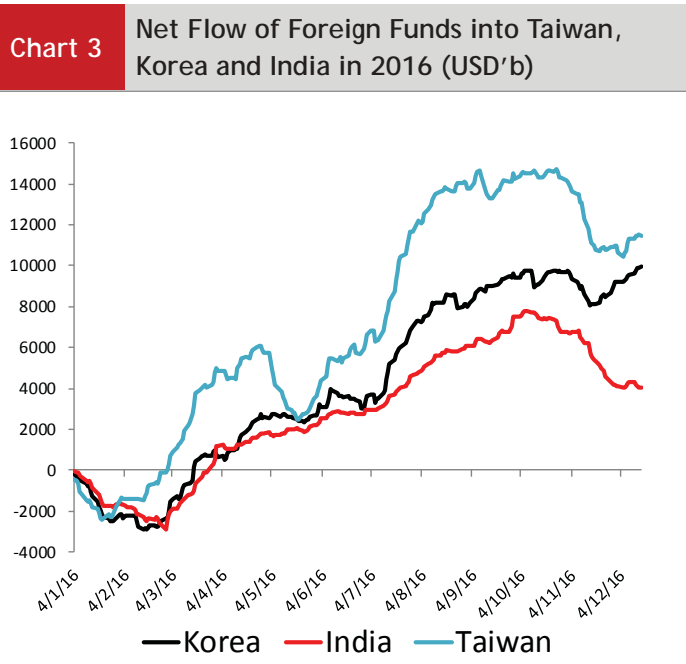


Source: Bloomberg, Bursa Malaysia

<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.

United States. With a total net amount of -87.38m flowing out of the country.

- Earlier in the week in Korea, President Park Geun-hye was impeached, ending what has been weeks of political unsettlement in Korea. The Korean KOSPI saw an increase of 417.24m in foreign funds flowing into the country during the week after the impeachment.



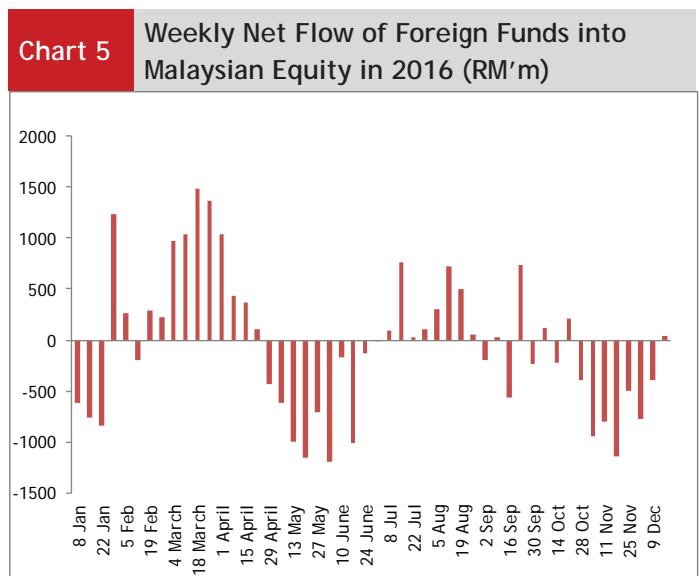
Source: Bloomberg, Bursa Malaysia

WEEK	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	M'SIA	TOTAL
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	-78.3	-538.0	-1355.4	-184.1	-3485.2
NOV 18	-442.9	-295.2	-235.1	-105.4	-900.4	-1500.9	-261.16	-3741.2
NOV 25	376.8	-176.2	-200.7	-76.1	-804.9	17.1	-110.91	-974.9
DEC 2	713.6	-132.5	-237.1	-34.7	-423.5	-151.9	-174.81	-440.9
DEC 9	305.8	83.0	-169.7	-14.2	210.3	710.2	-88.29	1028.1
DEC 16	417.2	-145.5	-182.1	-87.38	-238.9	129.3	10.03	-97.32

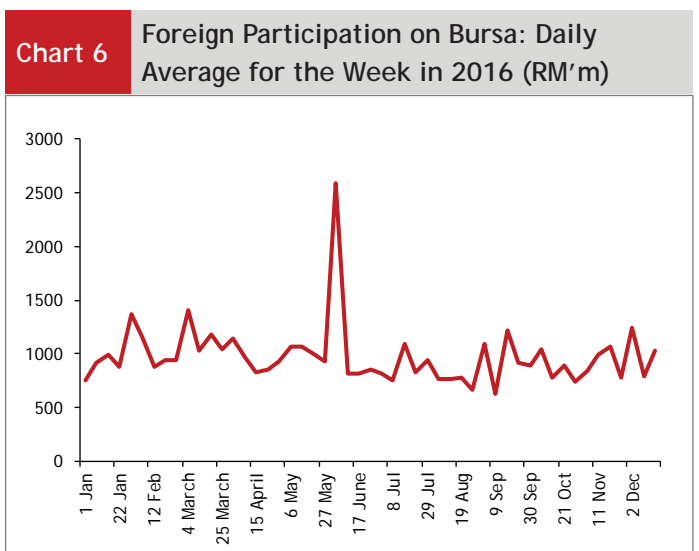
Source: Respective exchange statistics reported on Bloomberg, Bursa Malaysia. These figures are subject to revisions.

**C. TRACKING MONEY FLOW - MALAYSIA**

- The direction of Malaysian equity foreign fund flow changed last week as foreign investors turned net buyers. The net amount bought by foreigners on Bursa last week became positive to RM44.0m, the highest level since 21 October. As mentioned the prior week, we believe this could be signaling a recovering confidence from foreign investors towards Malaysian equity.
- Pursuant to the prior week, foreign investors were net buyers on Tuesday with a build up of RM159.9m, the highest since mid-October. Despite the attrition on the remaining days which accumulated to -RM115.9m, foreign investors became net buyers last week, the first in eight weeks. The lowest attrition was on Friday of -RM1.0m.
- On a cumulative year-to-date, the amount of net-selling from foreigners is -RM2.5b. However, compared to 2015, the outflow amount is still considered low as only RM8.5b has been redeemed since April. It was -RM19.5b net outflow in 2015.
- Retail investors gross participation rate continued expanded slightly to RM378.5m. However, the buying on dips conviction fell slightly to RM14.1m compared to the prior week of RM21.1m.



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)	
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
18 Nov	1265.5	1227.2	38.3	5392.0	4292.4	1099.6	2089.6	3227.5	-1137.9	-261.2
25 Nov	1309.7	1204.6	105.1	4510.5	4122.3	388.2	1710.6	2203.9	-493.3	-110.9
2 Dec	1172.8	1210.7	-37.9	5548.9	4730.5	818.4	2720.6	3501.1	-780.5	-174.81
9 Dec	881.8	860.7	21.1	4607.1	4235.8	371.3	1765.6	2158.0	-392.4	-88.29
16 Dec	764.0	749.9	14.1	3822.4	3880.5	-58.1	2083.7	2039.7	44.0	10.03

Source: Bursa's preliminary data

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

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