

MIDF EQUITY STRATEGY | 13 FEB 2017

WEEK ENDED 10 FEBRUARY 2017

- Equity markets reverted to the greenzone across the board last week. However, the gains were mostly marginal, as markets remained in the wait-and-see mode.
- In Asia, global investors generally stayed put last week. There was no significant portfolio re-allocation across regions.
- Foreign investors made a relatively strong return to Malaysian equity after three weeks of hesitation. Based on preliminary data from Bursa, foreign investors bought RM297.2m net in 4 days of trading last week. It was the second highest weekly haul in 20 weeks.
- Year-to-date, foreigners investors have mopped up RM612.9m worth of listed local equity. Foreigners were net buyers on Bursa in January for the first time in five months. February looks promising to be the second straight month of foreign buying.
- The KLCI maintained its positive start to the year with a gain of 0.83% last week. The index has gained 3.5% so far this year, outperforming regional peers such as Thailand's SET and Indonesia's JCI.
- Meanwhile the ringgit declined -0.36% during the week to USD/RM4.4438, after rising five weeks in a row. However, the outlook is positive in view of the momentum in the equity and oil markets.
- The price of Brent crude oil spiked by almost 2% on Friday on IEA's report showing that OPEC/NOPEC's production cuts have been effective.

RISING TIDE ON BURSA

A. MARKET SNAPSHOT

- Equity markets reverted to the greenzone across the board last week. However, the gains were mostly marginal, as markets remained in the wait-and-see mode.
- On Wall Street, the Dow Jones closed above the 20,000 level for the third straight as the index added almost 1%. The majority of the S&P500 companies have reported their fourth quarter financials. Earnings growth in 4Q16 is on track to hit 8.2%, the best performance since 3Q14. Monetary policy was also in the headlines last week as the St. Louis Federal Reserve Bank President James Bullard said that U.S. interest rates would likely remain low through 2017 with his estimate of one rate hike this year amidst uncertainty over the impact of President Trump's policies.
- Meanwhile, President Trump kept investors' hopes high on announcement that he would make a major tax change in the coming weeks. President Trump also made first contact with President Xi Jinping via a letter, communicating his intention to maintain good cooperation between the 2 countries.
- China's foreign exchange reserves unexpectedly fell marginally below the closely watched USD3 trillion level in January, the first time in nearly six years. Although reserves fell but China's export had a strong rebound y-o-y and was better than expected with a 7.9% increase in January, their balance of trade for January stood at USD51.35b. The CSI300 was higher by 1.46%.
- In Europe, all eyes are on the election in France, due April this year. Frontrunner Francois Fillon popularity has tumbled after he was engulfed in a scandal about family hiring. This gave Emmanuel Macron and Marine Le Pen a slight edge. The race to the presidency is still very uncertain causing markets to be wary. In addition, France's balance of trade was weaker than expected at -EUR3.4b euros.
- The Nikkei was rather muted throughout the week but spiked after President Trump announced his plans for a "phenomenal" tax plan in the coming weeks. This was ahead of a planned meeting between President Trump and Japanese Prime Minister Shinzo Abe on Friday last week to discuss trade and defence cooperatives. Investors are expecting positive

Table 1 Weekly performance of major indices

| Weekly % change | Week before | Last week |
|-----------------|-------------|-----------|
| Nikkei 225 | -2.82 | 2.44 |
| Taiwan Taiex | 0.08 | 2.22 |
| Hang Seng | -0.99 | 1.93 |
| Straits Times | -0.75 | 1.92 |
| China CSI300 | -0.69 | 1.46 |
| Dow Jones | -0.11 | 0.99 |
| FTSE | 0.05 | 0.98 |
| KLCI | -0.08 | 0.83 |
| S&P500 | 0.12 | 0.81 |
| India Sensex | 1.28 | 0.33 |
| Jakarta JCI | 0.90 | 0.20 |
| Thai SET | -0.49 | 0.20 |
| DAX | -1.38 | 0.13 |
| Phil Comp | -1.46 | 0.12 |
| Korea KOSPI | -0.50 | 0.09 |
| CAC | -0.30 | 0.06 |

Source: Bloomberg

results from the meeting. The Nikkei rose 2.44%, the best gainer.

- Oil prices dropped at the start of the week as U.S. inventory continue to build up to record highs and a drop in demand from China indicated an oversupplied market. As much as OPEC cuts their supply, other factors namely United States production continues to increase. Oil prices saw a silver lining midway through the week when there were unexpected draws in gasoline inventories, implying that there is a good demand for the product. Oil prices recovered slightly on the news but were still down for the week by -0.19%.
- Malaysia posted stronger export growth at 10.7% for December 2016 while trade stood at RM1.485 trillion for the year 2016. The upward sentiment and strong economic data pushed the KLCI to close higher by 0.83%. Meanwhile the ringgit declined -0.36%, after rising for five weeks in a row.

B. TRACKING MONEY FLOW - ASIA¹

- Global investors generally stayed put last week. There was no significant portfolio re-allocation across regions.
- Investors classified as “foreign” were only marginal aggregate net buyers in the seven Asian markets that we track.
- The most significant movement was in Korea, where there was a -USD350m foreign disposal, the second consecutive week of attrition. However, foreign outflow from Korean stocks in the last fortnight is still small relative to the USD12.0b that came in prior to that, since the start of 2016. There appear to be heavy foreign selling on Friday of stocks in the E&E industry, in particular Samsung Electronics Co Ltd. This may be attributable to the fire that broke in one of Samsung’s plant in Tianjin that was caused by discarded faulty batteries.
- Taiwan reported a net foreign inflow of USD306m compared to an outflow of -USD531m the week before. However,

Chart 1 YTD performance of major markets

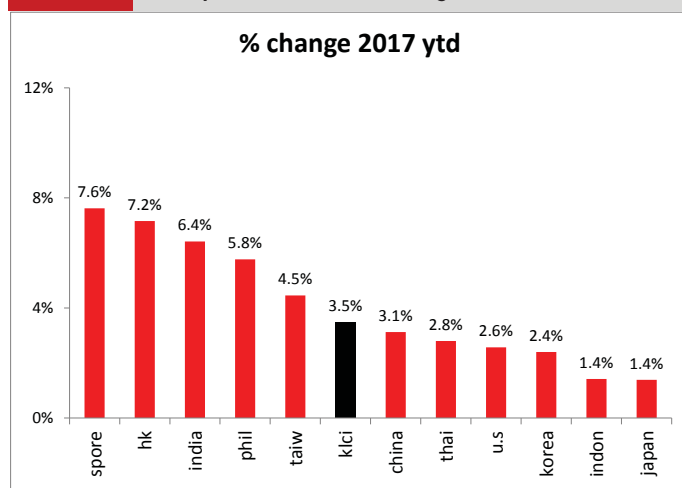
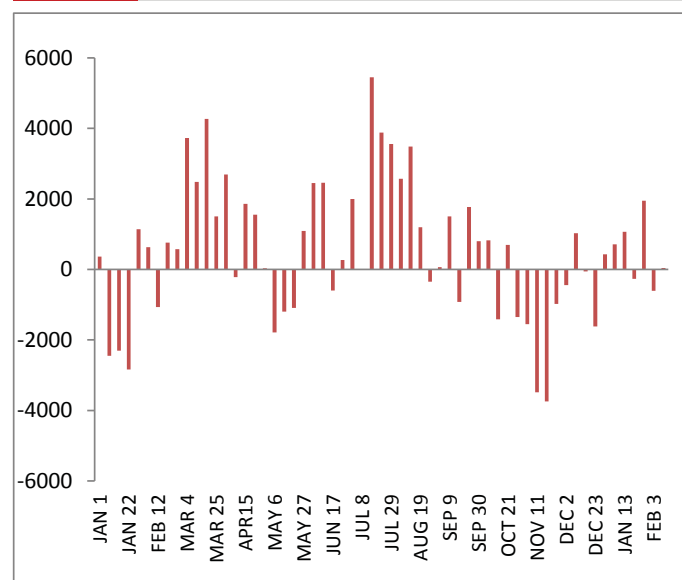


Chart 2 Weekly Net Flow of Foreign Funds into 7 Asian Markets since Jan 2016 (USD’b)



Source: Bloomberg, Bursa Malaysia

¹ 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.

Taiwan was hit by a strong earthquake on Saturday morning and sentiment may be affected on Monday although its two leading semiconductor foundries said that the impact on their operations in Tainan were only minimal.

- Meanwhile, Emerging SEA markets were small beneficiaries of foreign funds last week. In Bangkok, foreigners turned buyers after a three-week selling streak as Thailand's central bank decided to keep its one-day repurchase rate at 1.5% where it has been since April 2015.
- Foreign buying momentum in Indonesia remained intact after three weeks, although the amount was small. Optimism towards Indonesia is underpinned by stronger retail sales which grew 10.5%yoy in January and consumer confidence of 115.3 points that beat the consensus.
- An exception to regional trend last week was the Philippines where foreign investors sold shares for the fourth week running, pulling out -USD34m, the highest net outflow since December. During last week, Philippines environment minister, Regina Lopez said that the order to shut mines operating in watersheds is non-negotiable. Lopez is confident that the crackdown would get the backing of President Rodrigo Duterte, even if it will hurt the economy or put off foreign investors.

Chart 3

Net Flow of Foreign Funds into Taiwan, Korea and India since Jan 2016 (USD'b)

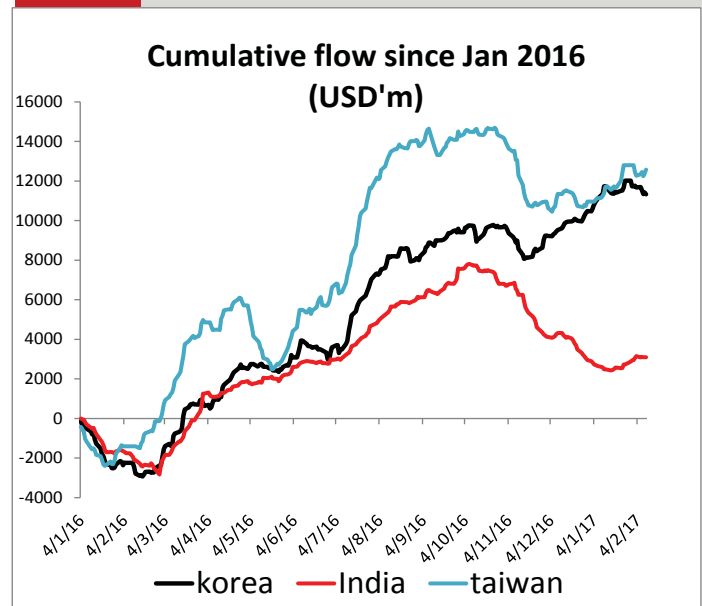
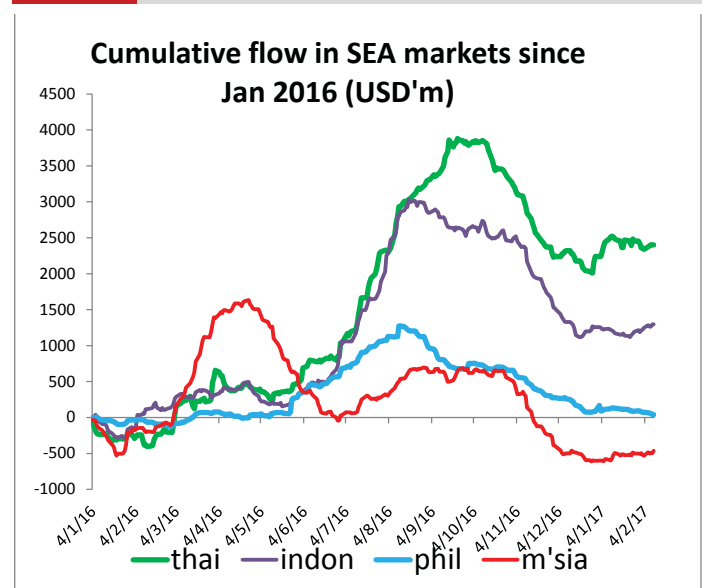


Chart 4

Net Flow of Foreign Funds into South East Asia Emerging Markets since Jan 2016 (USD'b)



Source: Bloomberg, Bursa Malaysia

Table 2

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

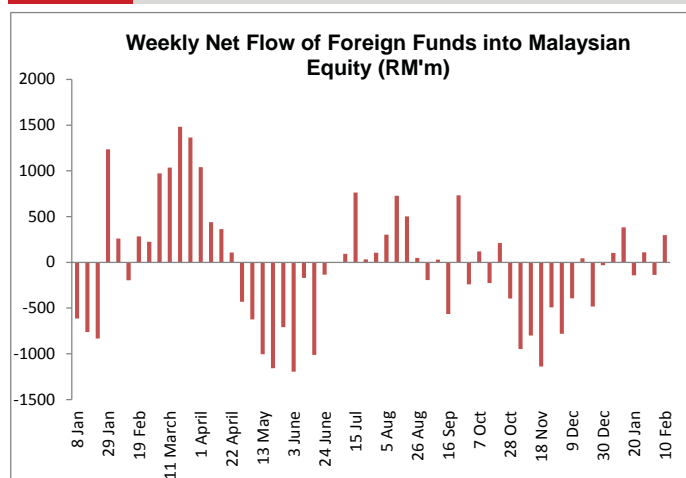
| WEEK | KOREA | THAI | INDON | PHIL | INDIA | TAIWAN | M'SIA | TOTAL |
|--------|--------|--------|-------|-------|--------|--------|--------|---------|
| DEC 23 | 49.0 | -131.7 | 52.6 | -96.5 | -636.1 | -745.5 | -107.6 | -1615.9 |
| DEC 30 | 485.8 | 197.1 | 60.1 | 9.0 | -536.8 | 221.2 | -7.0 | 429.4 |
| JAN 6 | 595.4 | 198.0 | -27.1 | 32.2 | -285.6 | 172.8 | 22.7 | 708.5 |
| JAN 13 | 560.7 | 44.4 | -59.7 | 13.6 | -189.0 | 612.5 | 85.7 | 1083.4 |
| JAN 20 | -221.6 | -15.3 | -32.8 | -15.8 | 101.4 | -48.3 | -32.0 | -264.4 |
| JAN 27 | 608.0 | -14.3 | 54.7 | -25.8 | 192.1 | 1106.9 | 24.9 | 1946.4 |
| FEB 3 | -349.6 | -113.9 | 53.5 | -13.5 | 382.0 | -531.4 | -30.8 | -603.7 |
| FEB 10 | -350.2 | 44.1 | 16.8 | -34.3 | 35.7 | 305.5 | 67.0 | 84.8 |

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

C. TRACKING MONEY FLOW - MALAYSIA

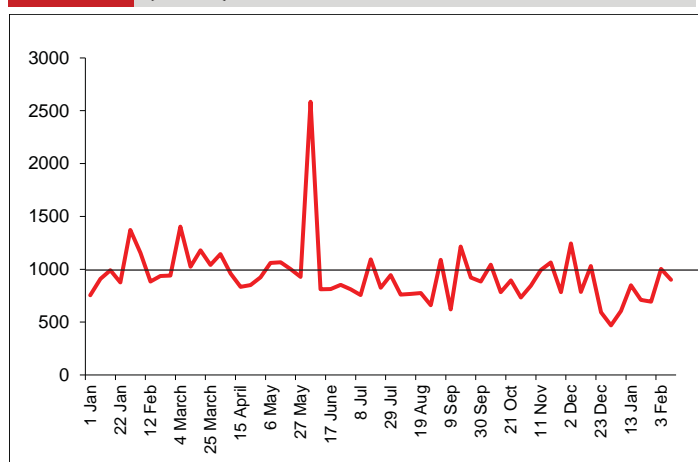
- Foreign investors made a relatively strong return to Malaysian equity after three weeks of hesitation. Based on preliminary data from Bursa which excluded off-market trades, foreign investors bought RM297.2m net of equity listed on Bursa in 4 days of trading last week. It was the second highest weekly haul in 20 weeks.
- Last week, foreign investors were net buyers in 3 out of 4 trading days. There was strong foreign buying of Malaysian equity on Monday which amounted to RM206.3m net. It was only the second time this year that the figure had exceeded RM200m, and the reported inflow was even higher than that recorded in Korea, Thailand and Indonesia.
- Year-to-date, foreigners investors have mopped up RM612.9m worth of local equity. Foreigners were net buyers on Bursa in January for the first time in five months. February looks promising to be the second straight month of foreign buying.
- Foreign participation eased after surging the week before. Foreign average daily trade value (ADTV) retreated 10.3% to RM900m, still healthy in view of the market closure on Thursday. More importantly, foreign ADTV surged to RM1.17b on Friday, only the third time this year that it had exceeded RM1b. It coincided with the 10.4pt increase in the KLCI, as the index broke 1,700 points intraday.
- The retail market is still below the healthy zone despite the 23% jump in ADTV to RM696m last week. For a healthy retail participation, the ADTV should be closer to RM1b. In 2013, the ADTV was RM910m.

Chart 5 Weekly Net Flow of Foreign Funds into Malaysian Equity since Jan 2016 (RM'm)



Source: Bursa Malaysia preliminary statistics

Chart 6 Foreign Participation on Bursa: Daily Average for the Week since Jan 2016 (RM'm)



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) | |
| DEC 30 | 824.8 | 893.6 | -68.80 | 3890.0 | 3790.0 | 100.0 | 923.1 | 954.3 | -31.2 | -7.0 |
| JAN 6 | 1130.5 | 1253.8 | -123.30 | 4130.9 | 4109.4 | 21.5 | 1262.0 | 1160.2 | 101.8 | 22.7 |
| JAN 13 | 1734.4 | 1774.4 | -40.0 | 5646.7 | 5989.5 | -342.8 | 2312.2 | 1929.5 | 382.8 | 85.7 |
| JAN 20 | 1365.8 | 1411.5 | -45.7 | 5186.2 | 4997.5 | 188.7 | 1702.7 | 1845.7 | -143.0 | -32.0 |
| JAN 27 | 957.8 | 1100.3 | -142.5 | 5854.6 | 5822.4 | 32.2 | 1789.4 | 1679.1 | 110.3 | 24.9 |
| FEB 3 | 876.9 | 825.8 | 51.1 | 3643.9 | 3558.8 | 85.1 | 1437.5 | 1573.7 | -136.2 | -30.8 |
| FEB 10 | 1675.2 | 1107.1 | -11.1 | 5647.9 | 5934.0 | -286.1 | 1948.9 | 1651.7 | 297.2 | 67.0 |

Source: Bursa's preliminary data

* Estimate by MIDF Research based on prevailing exchange rate.

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