

## MIDF EQUITY STRATEGY | 6 FEB 2017

WEEK ENDED 3 FEBRUARY 2017

- Equity markets were weighed down partly by market closures in Asia as many investors were away. Most markets ended the week sideways or marginally in the redzone.
- Sentiment remained intact as Wall Street held fort with the Dow Jones staying above the 20,000 point mark. This was despite an increase in uncertainty as President Trump pursued his election promises.
- China's market was closed most of last week but dipped when it re-opened on Friday. The Bank of China unexpectedly increased the rate on its short term lending facility.
- Brent crude oil price was up 2.3% to USD56.81pb. Estimates showed that OPEC have reached 60% of its output cut target.
- The KLCI was relatively unchanged while the ringgit appreciated against the dollar for the fifth consecutive week and was last quoted at USD/RM4.428. President Trump believes that the dollar is too strong at this moment.
- After a promising wave the week before, the tide ebbed out of Asia last week. There was significant foreign pullout from North Asia, but nothing damaging.
- Foreign conviction in Malaysian equity remained unpredictable as international fund managers sold a net -RM136.2m in three days of trading last week. The pattern of foreign trade on Bursa this year has been quite distinctive – the buying has been lumpy and intermittent while the selling has been marginal but persistent.
- For the month of January, foreign investors bought RM419m, the first surplus recorded in five months. It was also the first net inflow of foreign funds on Bursa in the month of January in four years.

## WAKE BROKEN, BUT NO ADVERSE UNDERCURRENT

### A. MARKET SNAPSHOT

- Equity markets in the first week of the Chinese new year were weighed down partly by market closures in China and Taiwan – the former for four days while the latter for three. Korea and Malaysia were also closed on Monday, and Bursa also took additional day off on Wednesday. There was understandably inertia on the part of investors coming back into action.
- Consequently, most markets retreated marginally into the redzone. Uncertainty worsened as President Trump pursued his election promises; last week with his immigration ban on 7 countries. Meanwhile, the Fed maintained its Federal Fund Rate at 0.75%. The Dow Jones was down -0.1% this week.
- China’s market was closed most of last week but dipped when it re-opened on Friday. The Caixin manufacturing purchasing managers’ index (PMI) slowed to 51.0 in January from a 47-month high of 51.9 in December. The big story from China was Bank of China’s unexpected increase of interest rate on its short term lending facility by 10 basis points. It already increased the Medium Term Loan Facility (MLF) by 10 basis point the week before, indicating tightening bias in Beijing, which reflects the authority’s view that the economy is recovering. The CSI 300 fell by -0.7% on the one day it traded.
- In the UK, the British parliament voted overwhelmingly to proceed with Brexit. The UK government’s strategy would be to create a “new strategic partnership” with Europe while also minimizing the impact of a Brexit. The UK government have also pointed out that they were considering trade deals with US, China, Brazil, Australia, New Zealand, India and states in the Persian Gulf. The FTSE was relatively unchanged.
- Share prices in India continued their upward march as the Sensex rose 1.2% last week. The government announced that the status quo on tax breaks for equity investments would be maintained. It also announced a USD59b spending plan to upgrade India’s infrastructure. India has been the star performer this year with the Sensex having risen 6.0%ytd.
- Japan equity was the worst performer last week, as the Nikkei 225 lost

**Table 1** Weekly performance of major indices

Weekly % change	Week before	Last week
India Sensex	3.14	1.28
Jakarta JCI	1.11	0.90
S&P500	1.03	0.12
Taiwan Taiex	1.25	0.08
FTSE	-0.19	0.05
KLCI	1.29	-0.08
Dow Jones	1.34	-0.11
CAC	-0.22	-0.30
Thai SET	1.78	-0.49
Korea KOSPI	0.87	-0.50
China CSI300	0.99	-0.69
Straits Times	1.79	-0.75
Hang Seng	2.07	-0.99
DAX	1.58	-1.38
Phil Comp	1.40	-1.46
Nikkei 225	1.72	-2.82

Source: Bloomberg

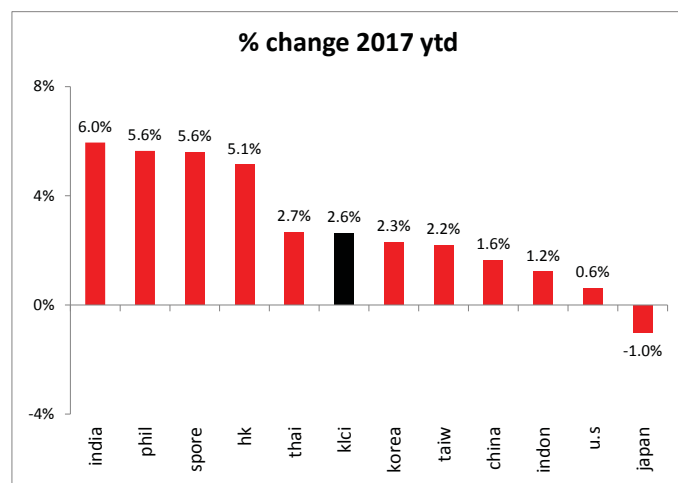
-2.8%. Weaker earnings announcement last week weighed on market sentiment. Toyota Motors posted weaker monthly sales in the United States and lost their top spot for car sales globally to Volkswagen. Mitsubishi Heavy and Mitsubishi Electric stock price also fell after their forecasts fell short of market expectations.

- Crude oil prices gained as estimates showed that OPEC reached 60% of its output cut target. There are still concerns about the rising U.S. oil inventory but the OPEC news overshadowed the increasing inventory. Brent Crude oil was up 2.3% to USD56.81pb.
- The KLCI was relatively unchanged while the ringgit appreciated against the dollar for the fifth consecutive week and was last quoted at USD/RM4.428. The dollar has been sliding because President Trump's government has implicitly and explicitly indicated that the dollar is too strong at this moment.

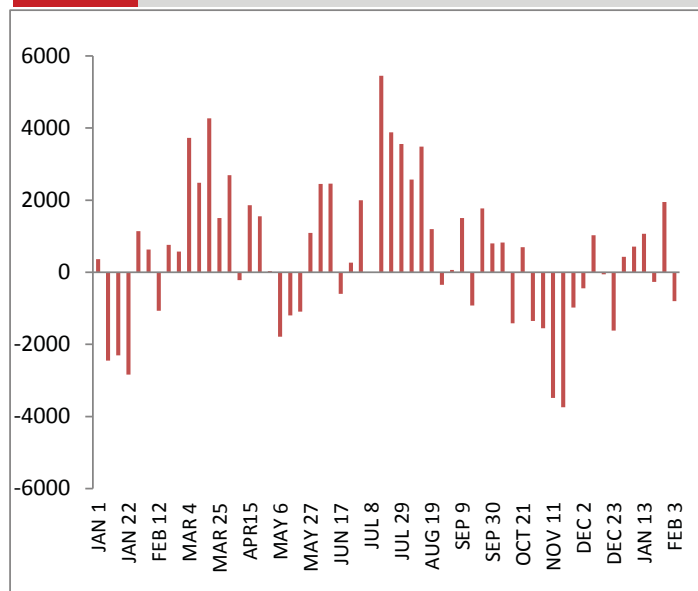
**B. TRACKING MONEY FLOW - ASIA<sup>1</sup>**

- After a promising wave the week before, the tide ebbed out of Asia last week. Investors classified as "foreign" sold an aggregate -USD0.7b net last week in the seven countries<sup>1</sup> that we track.
- There was significant foreign pullout from North Asia, but still manageable relative to the cumulative inflow since December.
- Taiwan was the biggest loser with a -USD531m attrition, although the market was open for only 3 days. Apple supplier stocks gained but investors were concerned about the anti-globalization policies of President Trump.
- Korea also reported foreign selling but it was not as intense as that in Taipei. Weaker earnings and protectionist U.S. policy pushed down the automotive industry and the Kospi. Foreign investors exited Samsung Electronics, apparently on profit-taking after the stock price hit all-time high on

**Chart 1** YTD performance of major markets



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



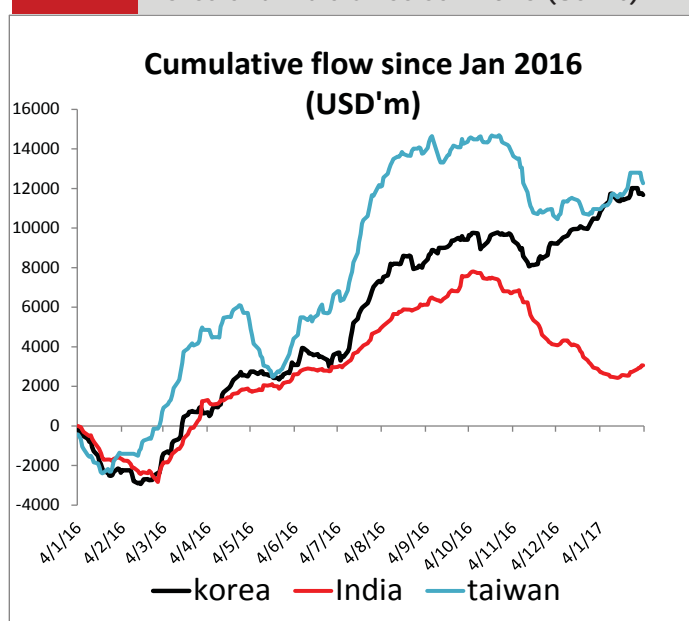
Source: Bloomberg, Bursa Malaysia

<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.

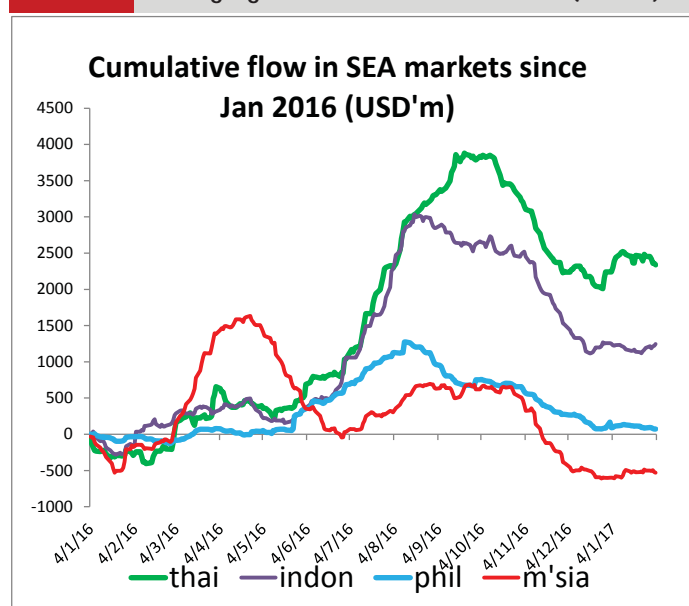
better-than-expected earnings.

- In South East Asia, Thailand felt the brunt of foreign selling as the net outflow amounted to -USD113.9m. Foreigners had been selling in Bangkok in the last three weeks, but the size ballooned suddenly last week. Thailand is in a somewhat similar situation as that in Taiwan. Thailand released positive economic data beating estimates. Their retail sales for November grew 6.41% y-o-y, consumer confidence and business confidence was higher at 74.5 and 50.1 respectively and m-o-m private consumption for December grew 1.4%. Thailand also showed stronger tourist arrivals at 32.59m and higher than expected revenues.
- Meanwhile foreign investors have been nibbling Indonesian stocks for two weeks in a row now. International investors will look forward to the 21 IPOs that the Financial Services Authority (OJK) expects this year, although the bourse's target is higher at 35. A total of 16 IPOs were recorded in 2016.
- India's stock market has been the star performer this year, with the index rising 6.0%ytd. Foreign investors bought Indian shares for the third week running, returning after the attrition as a result of the demonetization of the Indian rupee. The Government clarified that "Category 1 and Category 2" foreign portfolio investments are exempted from the indirect transfer tax, boosting sentiment.

**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)

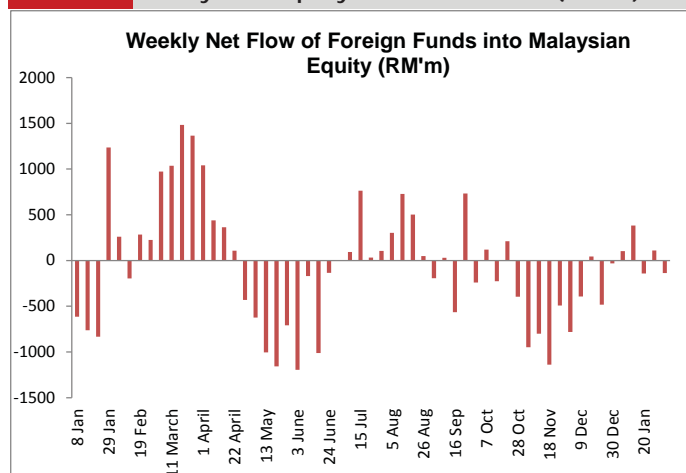
WEEK	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	M'SIA	TOTAL
DEC 16	417.2	-145.5	-182.1	-87.4	-201.3	129.3	10.0	-59.7
DEC 23	49.0	-131.7	52.6	-96.5	-636.1	-745.5	-107.6	-1615.9
DEC 30	485.8	197.1	60.1	9.0	-536.8	221.2	-7.0	429.4
JAN 6	595.4	198.0	-27.1	32.2	-285.6	172.8	22.7	708.5
JAN 13	560.7	44.4	-59.7	13.6	-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	292.4	-531.4	-30.8	-693.3

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

## C. TRACKING MONEY FLOW - MALAYSIA

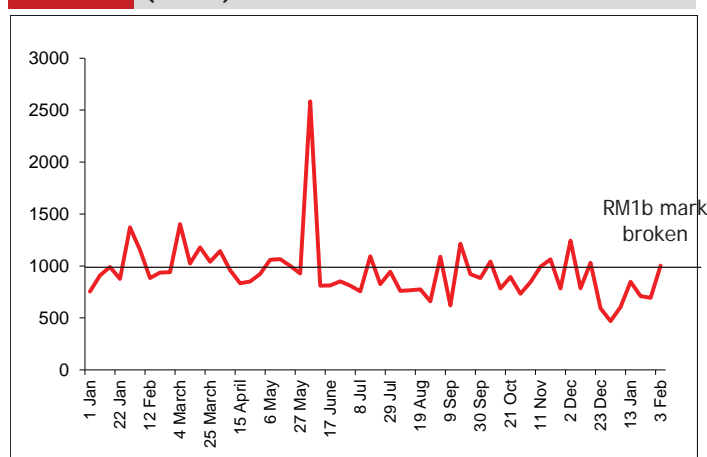
- The KLCI rose 11.5 points last Friday but the push was not from outsiders. Foreign conviction in local equity remained unpredictable as international fund managers sold a net -RM136.2m in three days of trading last week, based on preliminary data from Bursa which excluded off-market trades.
- The pattern of foreign trade on Bursa this year has been quite distinctive – the buying has been lumpy and intermittent while the selling has been marginal but persistent. Last week, foreign investors were net sellers every day of trading. Foreigners had been selling in 5 out of the last 6 trading days. Yet, foreigners have mopped up RM315.7m of local equity this year, until last Friday.
- For the month of January, foreign investors bought RM419m, the first surplus recorded in five months. It was also the first net inflow of foreign funds on Bursa in the month of January in four years. The last January month in which net foreign flow was in favour of Bursa was 2013, the year of the last General Election. The KLCI rose 10.5% in 2013.
- A positive takeaway from last week is that foreigners *are trading* Malaysian equity. Foreign participation rate surged to its highest level this year as the average daily trade value (ADTV) increased 45%. Meanwhile the retail market appears to be waking up as retail investors turned weekly buyers for the first time this year on a 38% surge in ADTV.

**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)	
23 Dec	1023.9	939.0	84.90	4366.0	3969.2	396.8	1239.0	1720.7	-481.7	-107.6
30 Dec	824.8	893.6	-68.80	3890.0	3790.0	100.0	923.1	954.3	-31.2	-7.0
6 Jan	1130.5	1253.8	-123.30	4130.9	4109.4	21.5	1262.0	1160.2	101.8	22.7
13 Jan	1734.4	1774.4	-40.0	5646.7	5989.5	-342.8	2312.2	1929.5	382.8	85.7
20 Jan	1365.8	1411.5	-45.7	5186.2	4997.5	188.7	1702.7	1845.7	-143.0	-32.0
27 Jan	957.8	1100.3	-142.5	5854.6	5822.4	32.2	1789.4	1679.1	110.3	24.9
3 Feb	876.9	825.8	51.1	3643.9	3558.8	85.1	1437.5	1573.7	-136.2	-30.8


Source: Bursa's preliminary data

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

**D. MONEY FLOW<sup>2</sup> AMONG BURSA'S TOP 100 CAPITALIZED STOCKS: WEEK ENDED 3 FEB**
**TOP 10 NET MONEY INFLOWS**

- Petronas Gas registered the highest net money inflow of RM20.99m last week. Its share price however lagged with a -1.53% loss, versus the KLCI's marginal decline of -0.08%. Nonetheless, net money inflow amidst retreating share price may indicate a buy on weakness (BOW) stance among some investors.
- Public Bank recorded the second highest net money inflow of RM12.55m. Nevertheless, its share price marginally underperformed against the KLCI with a -0.10% drop during the week which may attract a BOW stance among some investors. The Group posted FY16 net profit growth of +2.9%yoy to RM5.21b on the back of robust NII and Islamic Banking income growth, moderating the impact from higher OPEX and lower NOII. The result was within ours and consensus' expectations coming in at 104% and 105% of respective full year estimates.
- British American Tobacco saw the third highest net money inflow of RM9.06m. Its share price too underperformed with a rather sizable -4.55% loss during the review week which may nonetheless attract a BOW stance among some investors.

**TOP 10 NET MONEY OUTFLOWS**

- Petronas Chemicals saw the largest net money outflow of -RM6.58m last week. Its stock price ended unchanged but nevertheless marginally outperformed vis-à-vis the FBM KLCI which declined by -0.08% during the review week.
- IOI Corp recorded the second largest net money outflow -RM5.39m during the week under review. Its share price however outperformed the market benchmark with a 2.67% weekly gain. On this score, it is notable that net money outflow amidst advancing share price indicates a sell on strength stance among some investors.
- MISC registered the third largest net money outflow at -RM4.67m in the review and its share price underperformed with a -1.87% drop. According to a recent survey by Bloomberg, crude-tanker time-charter rates may slide 27% in 2017 after falling 37% last year. Rates are being anchored by OPEC's decision to cut crude production, decelerating ton-mile demand growth and increases in the tanker fleet. 

**Table 4** Top 10 Net Money INFLOW

Name	Net Money Flow (RM mn)		Price (% Chg)	Remark
	Last Week	Prev Week	Last Week	
PETRO GAS	20.99	3.59	-1.53	BOW
PUBLIC BANK	12.55	15.54	-0.10	BOW
BAT	9.06	-3.96	-4.55	BOW
CIMB	6.75	-4.09	-0.60	BOW
GENTING	4.90	5.66	0.12	-
KLCCP	4.38	9.20	0.26	-
AIRASIA	4.33	-3.97	3.23	-
HLEONG BANK	3.67	2.02	1.36	-
AMMB	3.54	1.90	-1.95	BOW
TM	2.10	3.46	-1.48	BOW

Source: Bloomberg, MIDFR;

Note: BOW – Buy on weakness, SOS – Sell on strength (Bloomberg defined)

**Table 5** Top 10 Net Money OUTFLOW

Name	Net Money Flow (RM mn)		Price (% Chg)	Remark
	Last Week	Prev Week	Last Week	
PETRO CHEM	-6.58	-1.76	0.00	-
IOI CORP	-5.39	5.39	2.67	SOS
MISC	-4.67	-0.07	-1.87	-
DIGI.COM	-3.73	10.28	2.43	SOS
TNB	-3.17	83.29	-1.18	-
INARI	-2.32	0.27	1.69	SOS
RHB BANK	-2.01	1.50	-1.20	-
CAPITALAND	-1.54	-0.76	3.07	SOS
UMW HLDGS	-1.28	-3.23	-5.94	-
IGB REIT	-1.17	-0.14	0.00	-

Source: Bloomberg, MIDFR;

Note: BOW – Buy on weakness, SOS – Sell on strength (Bloomberg defined)

<sup>2</sup> Money flow indicates whether a particular stock is being more heavily purchased or sold. Money flow generally confirms price trend. As price rises, money flow is usually positive, vice versa. A divergence may portend a reversal in price trend. A rising stock price with a negative money flow can indicate a future price correction, vice versa.

How is money flow calculated? When a trade is performed, its price is compared to the price of the previous trade (the first trade of the day is compared to the previous day's close). If the prices differ, either upticks or downticks, the value of the trade (price multiplied by number of shares) is added to or subtracted from the money flow respectively.

Source: Bloomberg, MIDFR

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**Business Address:**  
11 & 12 th Floor, Menara MIDF,  
82, Jalan Raja Chulan, 50200  
Kuala Lumpur.  
Tel: 2173 8888  
Fax: 2173 8380