FUND FLOW REPORT

midf RESEARCH

MIDF AMANAH INVESTMENT BANK

Week Ended August 14, 2015

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

- Sentiment generally worsened in the equity markets around the world last week. Emerging markets were routed although China forged ahead for the second consecutive week
- The biggest market news was undoubtedly on Tuesday, when the People's Bank of China, the central bank, effectively devalued the yuan. That sets the tone for three straight days of decline in the yuan, which ended on Friday after the Bank of China's intervention. The authorities in China may not want to trigger a currency war.
- The path is getting rockier in the days ahead. Global funds ditched Asian stocks after two week on the edge.
- Foreign funds were clear net sellers in all Asian markets that we track. There were heavy selling in Korea, Indonesia and Thailand. Foreign investors also reduced position in India.
- On Bursa, foreign money outflow surged to its highest in a week this year. Last week, foreign investors offloaded RM1.417b net, edging the previous high for 2015 of RM1.416b recorded in the trading week ended January 16.
- For 2015, last week's selldown increased the cumulative net foreign outflow to RM13.6b, significantly surpassing the RM6.9b outflow for the entire 2014.
- Nevertheless, foreign participation rate was still below the RM1b mark, indicating that foreign liquidity overhang in the equity market has shrunk significantly.
- The KLCI fell -5.1% after the -2.4% decline the week before, and the index closed the week below the psychological 1,600 points. It hit intraday low of 1590 on Friday.

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THE TIDE IS HIGH

A. MARKET SNAPSHOT

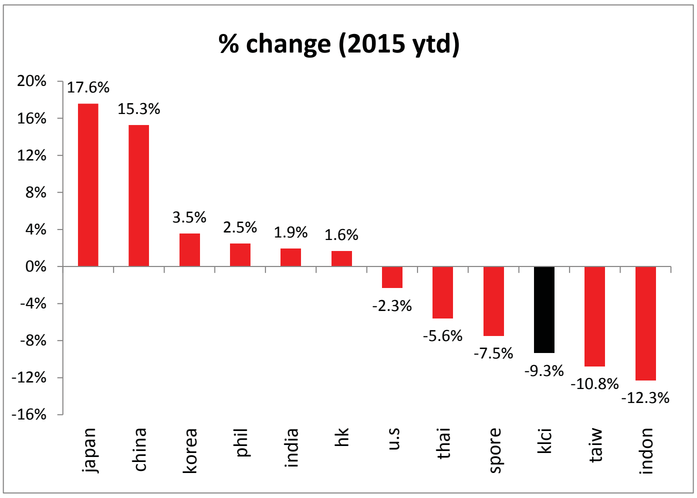
- Sentiment generally worsened in the equity markets around the world last week.
- Emerging markets were routed although China forged ahead for the second consecutive week, rebounding after the freefall since mid-June. The CSI300 rose 4.3%, after adding 2.4% the week before. The index is still up 15.3%ytd.
- The biggest market news was undoubtedly on Tuesday, when the People's Bank of China, the central bank, effectively devalued the yuan. The bank changed the way it determines the daily fixing to the U.S. dollar, which is now more market-driven, causing the yuan to decline by almost 2% on Tuesday, the maximum allowed in a day.
- The trigger could be the contraction in China exports, which slumped 8.3%yoy in July, the biggest drop in four months. It was also significantly below expectations of a 1% decline. Exports to the EU and U.S dropped 12.3%yoy and 1.3%yoy respectively.
- That sets the tone for three straight days of decline in the yuan, which ended on Friday after the Bank of China stepped in to raise the value of the yuan against the US dollar by 0.05%. It could be a case that the authorities in China may not want to trigger a currency war with other major currencies in the world. For the week, the yuan fell by -2.84%, the lowest in three years.
- The bellweather market, Wall Street, managed to eke out marginal gains as the Dow Jones and S&P500 added 0.60% and 0.67% respectively. However European markets slid in tandem with those in Asia.
- South East Asian markets were dragged by the yuan devaluation with the KLCI hit the most. It was also the worst performing market last week. The KLCI fell -5.1% after the -2.4% decline the week before, and the index closed the week below the psychological 1,600 points. It hit intraday low of 1590 on Friday. The KLCI experienced its heaviest fall on Monday falling -1.68%. Indeed, the index contracted by more than 1% every day last week except on Thursday. The -1.68% decline on Monday was the worst 1-day performance since 18 Oct 2011. The -5.1% decline for the week was the worst since January 2008.
- Year-to-date, the KLCI is down -4.5% but is still ahead of Indonesia's JCI and Taiwan's Taiex.

Performance of major markets

Weekly % change	Week before	Last week
China CSI300	2.36	4.26
S&P500	-1.25	0.67
Dow Jones	-1.79	0.60
India Sensex	0.43	-0.60
Nikkei 225	0.68	-0.99
Thai SET	-0.79	-1.02
Korea KOSPI	-0.98	-1.33
Taiwan Taiex	-2.57	-1.62
Phil Comp	-0.23	-1.65
Hang Seng	-0.34	-2.29
FTSE	0.33	-2.50
Straits Times	-0.18	-2.58
CAC	1.42	-3.85
Jakarta JCI	-0.67	-3.88
DAX	1.61	-4.40
KLCI	-2.35	-5.10

Source: Bloomberg

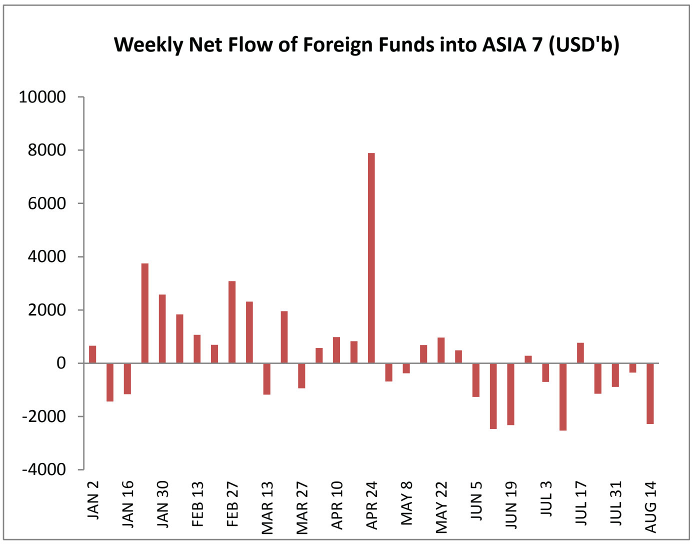
Major Asian indices (2015)

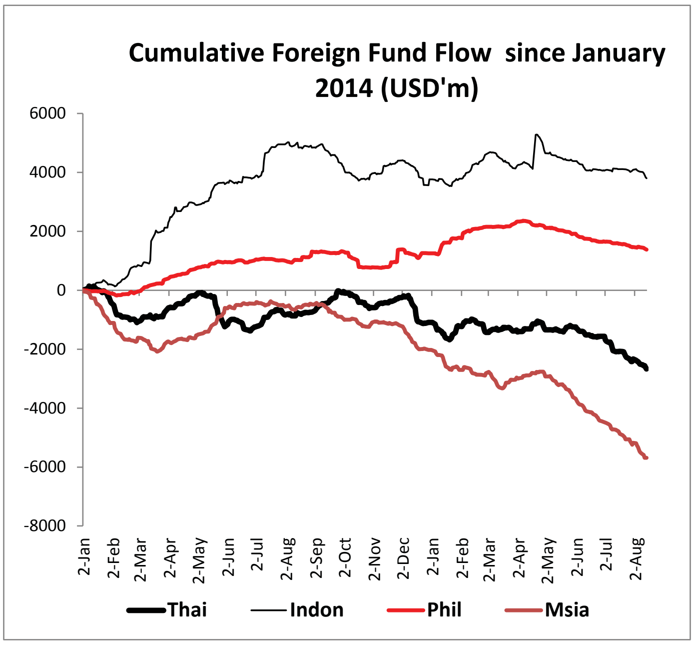


Source:Bloomberg. All in local currency.

B. TRACKING MONEY FLOW

- The path is getting rockier in the days ahead. Global funds ditched Asian stocks after two week on the edge. Foreign funds were clear net sellers in all Asian markets that we track.
- Based on provisional data from the respective exchanges, investors classified as "foreign" were aggregate net sellers of listed equity in the 7 Asian[1] stock markets that we track (TIPs + India, Taiwan, Korea and Malaysia). The net amount sold was USD2.28b, the highest in five weeks.
- There were heavy selling in emerging and developed markets alike. In South East Asia, heavy foreign attrition was reported in Indonesia and Thailand. In Indonesia, foreign investors withdrew USD221m, the highest in 15 weeks. President Joko Widodo reshuffled his cabinet last week, while the rupiah retreated to a fresh 17-year low on yuan's devaluation. In Thailand, foreigners pulled out USD168m, maintaining the rate of attrition recorded the week before despite the market being closed on Wednesday for the Queen's birthday. Oil and gas stocks remained under pressure up north.
- Meanwhile, the more advanced Taiwan and Korean markets also came under heavy foreign selling pressure last week. In Taipei, foreigners yanked out USD482, the highest in five weeks. Last Thursday night, Morgan Stanley Capital International (MSCI) announced that it will be reducing the TAIEX's weights in some of its indices for the eighth straight quarter. Taiwan's weightage in the MSCI Emerging Markets Index will be reduced from 12.54% to 12.5% and that in the MSCI Asia ex-Japan Index from 14.87% to 14.83%. This will be effective 1 September.
- The Korean Won was the second worst performer in Asia last week behind the Ringgit, as foreign investors pulled out USD535m from the Korean Stock Exchange, the highest in five weeks. The exchange was closed on Friday but the KOSPI already dipped below the psychological 2000 points on Thursday close. Korea is expected to be among the hardest hit by a continued depreciation of the yuan.





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

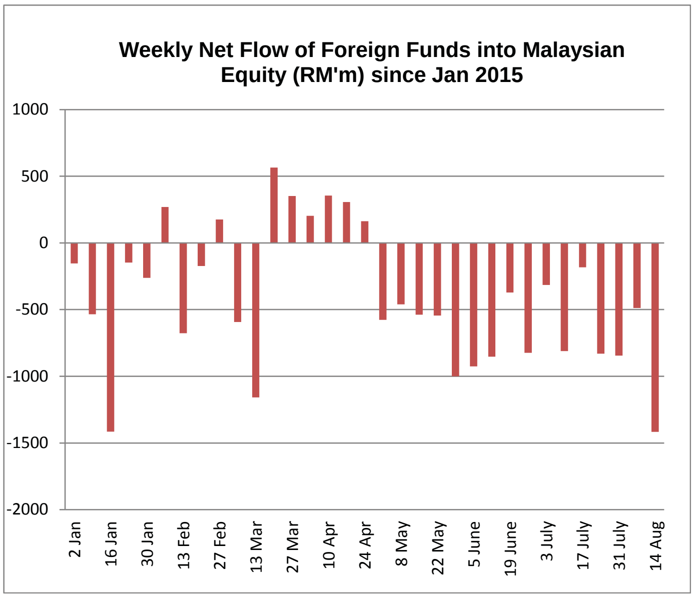
WEEKLY NET FLOW OF FOREIGN FUND INTO EQUITY (USD'm)

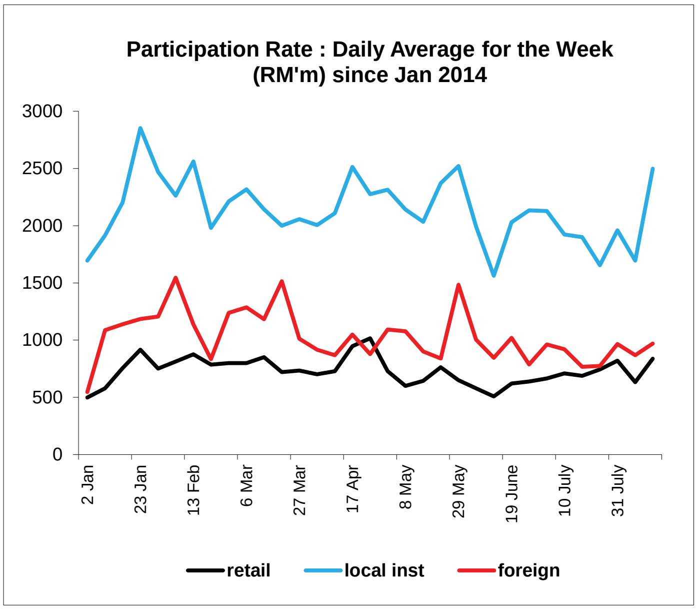
WEEK ENDED	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	MALAYSIA	TOTAL
JUL 3	-45.5	-170.1	-0.3	6.5	-21.2	-387.1	-83.4	-701.2
JUL 10	-1227.8	-318.9	48.3	-55.1	362.0	-1120.9	-213.2	-2525.5
JUL 17	319.8	-24.5	-28.8	-21.3	476.9	141.0	-48.2	814.9
JUL 24	-874.9	-206.1	-12.3	-39.6	227.7	-24.8	-218.3	-1148.3
JUL 31	18.5	-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	-439.9	-481.9	-354.8	-2281.1

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

C. TRACKING MONEY FLOW - MALAYSIA

- Foreign money outflow from Bursa-listed companies surged to its highest in a week this year.
- Last week, investors classified as "foreign" sold equity listed in the open market on Bursa (i.e excluding off-market deals) amounted to RM1.417b on a net basis, edging the previous high for 2015 of RM1.416b recorded in the trading week ended January 16. It was the 11th time the weekly outflow had exceeded the RM1b mark since January 2012. It was also the fourth highest during the period, but was dwarfed by the RM2.9b outflow in the third week of August 2013.
- Foreign investors have now been net sellers on Bursa for *fifteen* consecutive weeks, the longest stretch of back-to-back weekly selldown since the 2008 Financial Crisis.
- Unsurprisingly, foreign investors were net sellers every day last week. Net sale peaked at RM403.8m on Friday, the third highest in a day this year. It was also the third rare occurrence when the outflow had exceeded RM400m. For purpose of monitoring, our trigger threshold is RM200m. That threshold had been exceeded 32 times this year, compared with 23 times for the entire 2014.
- For 2015, last week's selldown *increased* the cumulative net foreign outflow to RM13.6b, significantly **surpassing** the RM6.9b outflow for the entire 2014.
- Foreign participation rate increased to an almost "high" level. Daily gross volume averaged RM971m last week, still below the RM1b mark, and lower than the daily average of RM1.07b in 1H15. This indicates that foreign liquidity overhang in the equity market has shrunk significantly.
- Local institutions mopped up RM1.32b in the open market last week, and participation rate surged past RM2b for the first time in six weeks at RM2.50b.
- Retailers have been bargain hunting, buying for the second week in a row, on relatively active participation. Net buy was RM99m last week, with average daily gross trade at RM837m, the highest in 16 weeks.





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)*
JUN 26	1585.3	1607.4	-22.1	5757.7	4910.9	846.8	1559.6	2384.3	-824.7	-219.9
JUL 3	1584.0	1739.9	-155.9	5552.9	5082.1	470.8	2246.5	2561.4	-314.9	-83.4
JUL 10	1788.8	1762.8	26.0	5199.6	4413.9	785.7	1897.1	2708.8	-811.7	-213.2
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	-354.8

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

D. TOP 100 STOCKS: MONEY FLOW [2]

TOP 10 NET MONEY INFLOWS

- Digi.com recorded the highest net money inflow of RM17.50m last week. Accordingly, its share price outperformed the broader market with a slight -0.79% weekly decline. In comparison, the FBM KLCI slumped by -5.10% during the review week. Furthermore, it must be noted that net money inflow amidst retreating share price indicates buy on weakness (BOW) stance among some investors.
- Malayan Banking came in second with RM16.15m net inflow but its share price slightly underperformed the market benchmark with a -7.48% week-on-week decline. Nonetheless, net money inflow amidst retreating share price indicates BOW stance among some investors. Moreover, it is notable that he company's weightage in MSCI AP Index was recently raised by a slight +0.17%.
- Public Bank recorded the third highest net money inflow of RM6.66m and its share price slightly outperformed the FBM KLCI with a -4.61% weekly loss. Likewise, it is notable that net money inflow amidst retreating share price indicates BOW stance among some investors.

Name	Net Money Flow (RM mn)		Price (% Chg)	Remark
	Last Week	Prev Week	Last Week	
DIGI.COM	17.50	3.07	-0.79	BOW
MAYBANK	16.15	10.89	-7.48	BOW
PUBLIC BANK	6.66	22.95	-4.61	BOW
ASTRO	6.63	-1.39	-2.67	BOW
AXIATA	6.51	-3.58	-3.17	BOW
QL RES.	5.03	0.09	-7.06	BOW
SIME DARBY	4.82	0.98	-5.53	BOW
PETRONAS GAS	4.30	6.85	-2.66	BOW
UNITED PLANT	3.97	-0.01	-0.66	BOW
BAT	3.33	0.84	-6.25	BOW

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

TOP 10 NET MONEY OUTFLOWS

- Telekom Malaysia saw the largest net money outflow of –RM10.36m during the review week. However, its stock price outperformed as it ended the week lower by -4.09% against a bigger -5.10% decline in the FBM KLCI.
- Tenaga Nasional came in second last week with a net outflow of –RM8.13m and its share price underperformed the market benchmark with a -7.19% weekly loss. Concerns over its intention to purchase power assets from Edra Energy arguably contributed to the price underperformance.
- Kossan Rubber registered the third largest net money outflow at –RM5.91m in the review week. Nonetheless, its share price outperformed the broader market with a -3.51% weekly decline.

Name	Net Money Flow (RM mn)		Price (% Chg)	Remark
	Last Week	Prev Week	Last Week	
TM	-10.36	-3.03	-4.09	-
TNB	-8.13	-7.94	-7.19	-
KOSSAN	-5.91	0.34	-3.51	-
CARLSBERG	-5.64	0.23	-2.56	-
HARTALEGA	-5.33	-0.89	-4.35	-
GENTING	-4.52	0.40	-6.02	-
AMMB HLDGS.	-2.79	1.26	-7.79	-
MISC	-2.11	1.40	-3.05	-
HONG LEONG FIN.	-2.08	0.01	-7.13	-
UMW O&G	-1.89	-0.35	-18.25	-

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

[2] 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

E. THE WEEK AHEAD

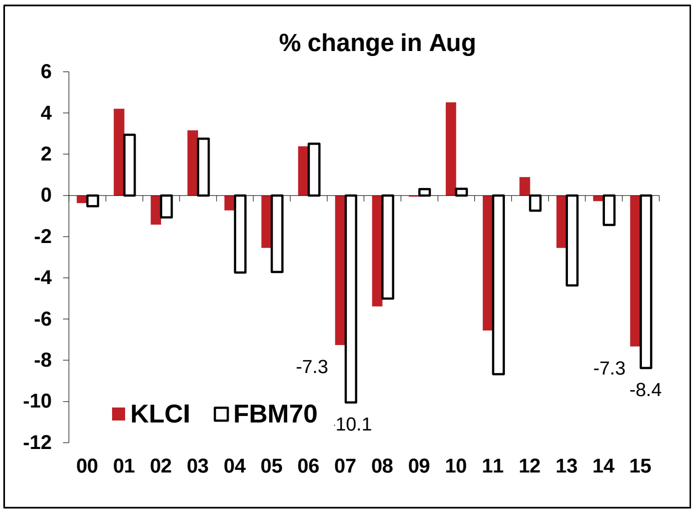
NO RESPITE, AS AUGUST IS BAD

- The heading of this section last week was "How bad will August be ?" The answer is pretty bad. As of last Friday, the KLCI was down -7.3%, as ugly as it was during the crisis year of 2007 when the index also declined by the same margin. The FBM70 fared relatively better, falling -8.4%, versus -8.7% and -10.1% in 2011 and 2007 respectively (see chart).
- The real adjustment, however, is happening in the market for smallcaps. The FBMSmallcap index has thus far declined -10.1% in August. If it stays the same until the end of the month, it will be the worst monthly performance since September 2002 and one of the worst August on record.
- The root problem, in our opinion, remains the Ringgit, which was the worst performing Asian currency against the dollar last week. It is weighing down sentiment in the equity market. The outlook does not look so rosy in the immediate future — the 12-month Non-Deliverable Forward (NDF) market last priced the Ringgit at RM4.2326 against the greenback (see chart).
- In addition, there is attrition in the local bond market, which we believe is led by foreign money. The yield on 10-year Malaysian Government Securities spiked to 4.256% on Friday which is likely due to the selldown by foreign funds (see chart).There is a huge overhang of foreign liquidity in the ringgit bond market, and this is where the pressure on Ringgit is emanating from.
- In contrast, the overhang of foreign liquidity in the equity market has shrunk significantly, as evidenced by the money flow statistics, which we discussed in Section C above. Instead, what we are witnessing is a *disorderly* outflow of portfolio capital from the **bond** market. The attrition of foreign capital from the bond market has been accelerated and abetted by a weakening of sentiment over a range of factors.
- It is apparent that the Ringgit has overshot its fair valuation. Fundamentally, there has not been any significant deterioration in the Malaysian economy. GDP grew 4.9%yoy in 2Q15, which is stronger compared with many peers in the region, and is above expectation in view that the GST came into effect during the quarter. The sharp depreciation of the currency is mainly due to sentiment, and perception will be hard to change in the short term.

KLCI OVERSOLD, PRESSURE LIKELY TO CONTINUE

- As of last Friday, the KLCI was 10% below its 200-day moving average line and 7% below its 50-day equivalent. It is apparent that such a divergence is too sizeable, and we expect the gap to be reduced in due course. This closure of the gap can only materialize if the KLCI were to stop falling.
- Based on various closings last Friday, we expect pressure on the KLCI to continue this week.

Bad August



No respite in the Ringgit NDF market

Accelerated foreign attrition in the bond market?

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