FUND FLOW REPORT

midf RESEARCH

MIDF AMANAH INVESTMENT BANK

MALAYSIA EQUITY RESEARCH | JULY 6, 2015

Week Ended July 3, 2015

Foreign Flow Meter (M'sia)	
Tide	(declined to) LOW
Current	(maintain) MODERATE

- In general, global equity markets drifted further south last week. A few Asian markets attempted to buck the trend, but these were not convincing at best.
- European markets, reeling from the Greece crisis, had one of their worst weeks this year ahead of the poll on Sunday.
- As it turned out, it appears that the Greeks have voted dominantly AGAINST the proposals. After relatively still water last week, expect heavy current and high tide in the days ahead on account of increased uncertainties.
- Meanwhile, the crisis in China worsened as stock prices went on a freefall. The CSI300 index fell -10.4% last week. In the last three weeks, the index had dropped by more than 20%, the threshold which many market observers believe to be the onset of a bear market.
- For the second week in a row, cross-border money movement in Asia was relatively quiet.
- Despite the upgrade in rating outlook by Fitch, foreign selling continued on Bursa for the tenth consecutive week. However, foreign selling appears to be ebbing again, after the surge in outflow in the preceding week.
- Cumulative outflow for June 2015 exceeded RM3b as expected, at RM3.15b. It was the biggest monthly outflow since January 2014. For 2015, last week's selldown increased the cumulative net foreign outflow to RM9.0b, significantly surpassing the RM6.9b outflow for the entire 2014.
- June was the worst month for the local equity market in seven years. Expect knee-jerk adverse reaction to Greece 'NO' vote, but the market should be resilient on a few accounts: Fitch outlook upgrade; developments that may lead to a less hawkish Federal Reserve; and hitherto very little contagion from China's market meltdown on the rest of Asia.

6 July 2015 | Strategy - Weekly Fund Flow

NO VOTE IN GREECE MEANS CHOPPY WATERS AHEAD

A. MARKET SNAPSHOT

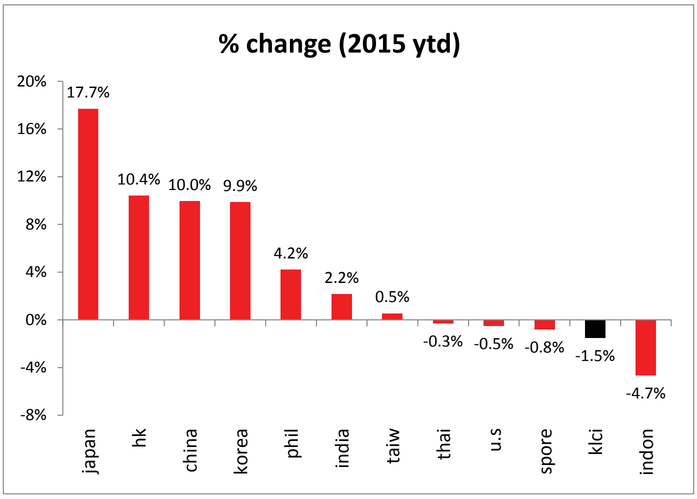
- In general, global equity markets drifted further to the south last week. A few Asian markets attempted to buck the trend, but these were not convincing at best.
- European markets, reeling from the Greece crisis, had one of their worst weeks this year. France's CAC and Germany's DAX lost -5% and -3.8% respectively, unwinding the gains registered in the preceding week.
- Ahead of the poll on Sunday, investors were anxious that a "NO" vote will effectively start the process for a Greece exit from the Euro. A Bloomberg survey showed 43% Greeks intending to reject creditor demands and 42.5% accepting the conditions tied to financial aid. Greece's Prime Minister Tsipras is campaigning for a "NO" vote. On Tuesday, Greece defaulted on its EUR1.6b payment to the IMF, the first developed country to do so. It was also the first sovereign default with the IMF since Zimbabwe in 2001.
- At the point of writing, it appears that the Greeks voted with an easy majority AGAINST the proposals. This will create further uncertainty in the market.
- Meanwhile, the crisis in China worsened as stock prices went on a freefall. The CSI300 index fell -10.4% last week. In the last three weeks, the index had dropped by more than 20%, the threshold which many market observers believe to be the onset of a bear market. The index lost -5.4% on Friday alone, indicating extreme bearishness in this short-term.
- Chinese authorities have been working overtime to stem the tide. Regulators made announcements almost every day on measures to alleviate market stress. Margin-trading rules were eased and trading fees were cut on Wednesday. On Thursday, the China Securities Regulatory Commission announced that it will investigate and "strictly" punish stock manipulators, focussing on short sellers.
- Despite the steep decline in prices in the last three weeks, the CSI index is still up 10% year-to-date, adding to the 52% gain last year. Hence, investors are finding excuses to liquidate their holdings. Last Friday's release of the HSBC China Services PMI, which fell to 51.8 in June from 53.5 in May, was seen as a negative trigger, although the index is still >50.
- For the first time this year, the KLCI led peers in the ranking table with a gain of 1.4%.

Performance of major markets

Weekly % change	Week before	Last week
KLCI	-0.66	1.39
Jakarta JCI	-1.24	1.22
India Sensex	1.81	1.01
Korea KOSPI	2.12	0.68
Straits Times	0.60	0.53
Nikkei 225	2.64	-0.80
Taiwan Taiex	2.65	-1.10
Phil Comp	0.27	-1.14
S&P500	-0.40	-1.18
Dow Jones	-0.38	-1.21
Thai SET	1.78	-1.63
Hang Seng	-0.36	-2.25
FTSE	0.64	-2.49
DAX	4.10	-3.78
CAC	5.06	-4.96
China CSI300	-6.49	-10.38

Source: Bloomberg

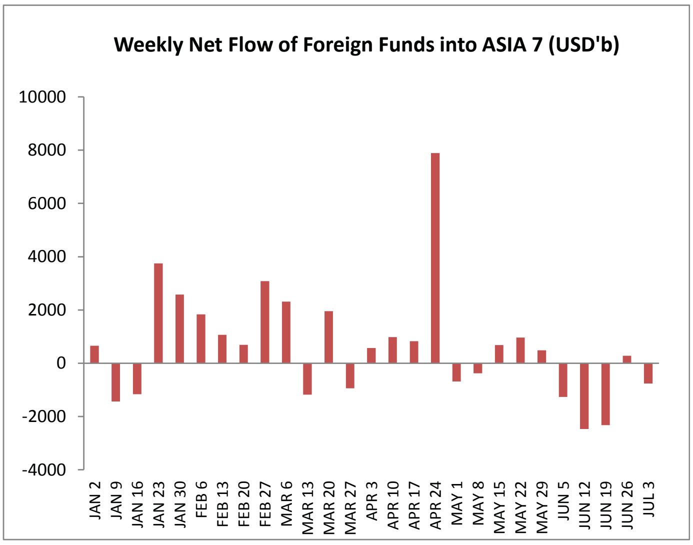
Major Asian indices (2015)

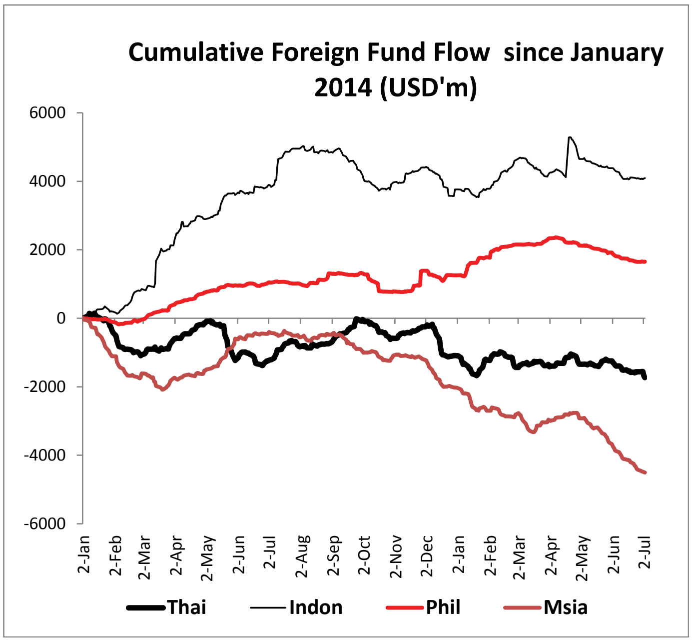


Source:Bloomberg

B. TRACKING MONEY FLOW

- For the second week in a row, cross-border money movement in Asia was relatively quiet.
- Based on provisional data from the respective exchanges, investors classified as "foreign" were *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 only -USD757m, not sizeable enough to infer any discernible flow-of-fund trend. It is apparent that most investors were edgy with respect to the developments in the Eurozone, as well as in China.
- Despite the market meltdown in China, there has not been a heavy foreign portfolio exodus from Asian markets, especially from the North and Emerging Asia.
- Indeed, Bloomberg carried a story of investors switching from China to Hong Kong based on money flow in the exchange traded funds (ETF) listed in the U.S. BlackRock Inc., which has an USD8.1b ETF tracking Hong Kong-listed Chinese companies drew USD588m in June, the second biggest inflow in 2.5 years. Concurrently, investors withdrew USD337m from the ETF investing in their mainland-listed equivalents.
- The only relatively noticeable cross-border money movement among the markets that we track was in Thailand, where an outflow of USD127m was the highest in four weeks. Two weeks ago, the Bank of Thailand cut its 2015 GDP growth forecast to 3.0% from 3.8%, citing declining exports and falling consumer prices.
- This month, the Thai Ministry of Finance is likely to cut its growth forecast again. In addition to weakening exports, Thailand is also facing the worst drought in more than 10 years. These revisions are likely to cause a downward revision in the forecasts of corporate earnings, resulting in lower price targets.
- Elsewhere, foreign investors were noticeably quiet in Seoul, Jakarta and Manila.





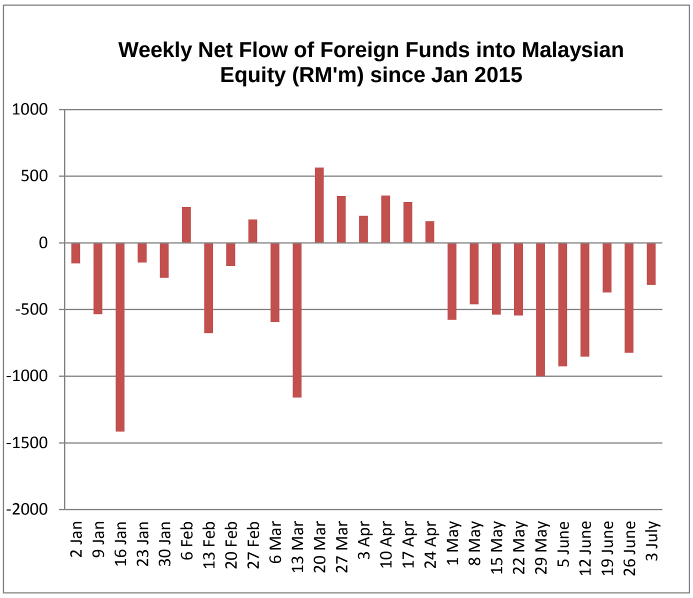
[1] These ASIA 7 markets, for which fund flow data is publicly available, are our proxy for Asia. TIP = Thailand + Indonesia + Philippines.

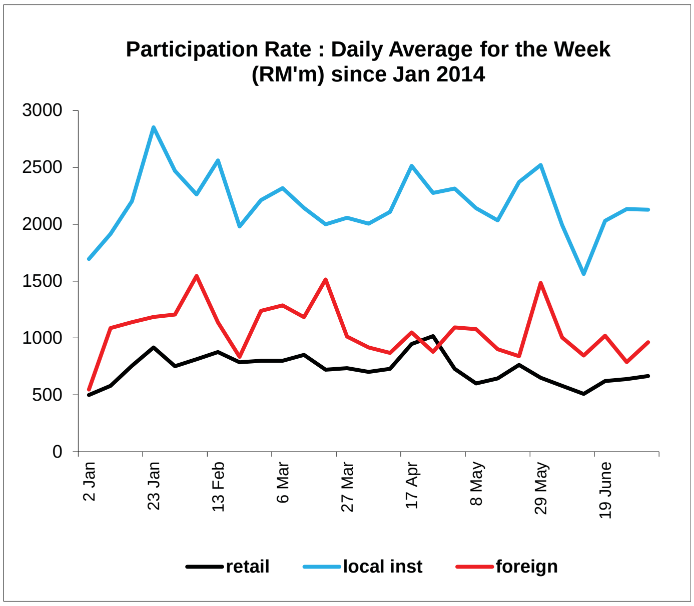
WEEKLY NET FLOW OF FOREIGN FUND INTO EQUITY (USD'm)

WEEK ENDED	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	MALAYSIA	TOTAL
MAY 22	818.3	126.0	-89.2	-51.9	46.3	268.4	-151.2	966.7
MAY 29	323.0	9.2	-33.6	-63.4	334.4	194.3	-274.5	489.4
JUN 5	688.2	-147.8	-99.7	-109.0	-177.6	-1167.5	-250.6	-1263.9
JUN 12	-608.9	-122.5	-218.8	-63.4	-305.4	-917.8	-227.4	-2464.1
JUN 19	-878.2	-60.9	43.4	-51.9	-416.3	-858.6	-99.5	-2321.9
JUN 26	-57.5	17.5	-20.8	-48.4	120.5	489.2	-219.9	280.6
JUL 3	-45.5	-170.1	-0.3	6.5	-76.9	-387.1	-83.4	-756.9

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

C. TRACKING MONEY FLOW - MALAYSIA





- Mirroring markets elsewhere in the region, Bursa reported a marginal net change in foreign investment in stocks listed on the exchange.
- Still, despite the upgrade in rating outlook by Fitch, foreign selling persisted on Bursa. Foreign investors have now been net sellers on Bursa for *ten* consecutive weeks. It has been the longest stretch of foreign withdrawal since the exodus during the last three months of 2013. Last week, investors classified as "foreign" sold equity listed in the open market on Bursa (i.e excluding off-market deals) amounted to RM314.9m on a net basis. However, that was a significant drop from the RM824.7m sold the week before.
- Foreigners were net sellers every day last week. Selling continued on Wednesday, albeit marginally, the day after Fitch upgraded Malaysia's rating outlook from "negative" to "stable". However, foreign selling appears to be ebbing again, after the surge in outflow in the preceding week.
- Cumulative outflow for June 2015 exceeded RM3b as expected, at RM3.15b. It was the biggest monthly outflow since January 2014. For 2015, last week's selldown *increased* the cumulative net foreign outflow to RM9.0b, significantly **surpassing** the RM6.9b outflow for the entire 2014.
- Foreign participation rose to a "moderate-high" level with daily volume for the week averaging RM962m. However, there was a significant drop in volume on Friday, understandably so ahead of the referendum in Greece.
- Local institutions mopped up RM470.8m in the open market last week on active participation rate of RM2.13b. Local funds have mopped up RM10.4b this year, compared with RM8.2b in 2014.
- Retailers remained on the sideline.

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)*
MAY 15	1541.0	1678.9	-137.9	5422.2	4746.6	675.6	1984.6	2522.3	-537.7	-149.0
MAY 22	1895.7	1920.4	-24.7	6209.7	5641.0	568.7	1827.4	2371.4	-544.0	-151.2
MAY 29	1627.3	1624.7	2.6	6801.0	5803.8	997.2	3207.4	4207.2	-999.8	-274.5
JUN 5	1416.2	1479.8	-63.6	5479.0	4489.3	989.7	2047.7	2973.8	-926.1	-250.6
JUN 12	1271.1	1270.4	0.7	4330.8	3478.8	852.0	1688.9	2541.6	-852.7	-227.4
JUN 19	1581.3	1524.2	57.1	5234.3	4919.0	315.3	2363.2	2735.6	-372.4	-99.5
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

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

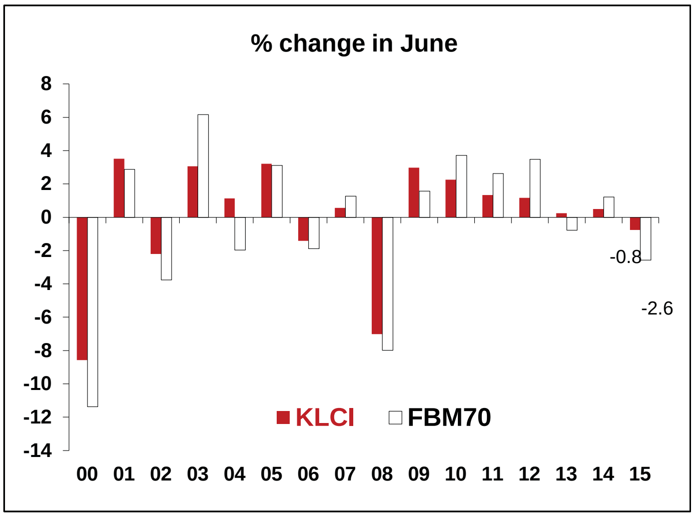
D. THE WEEK AHEAD

WORST JUNE IN 7 YEARS

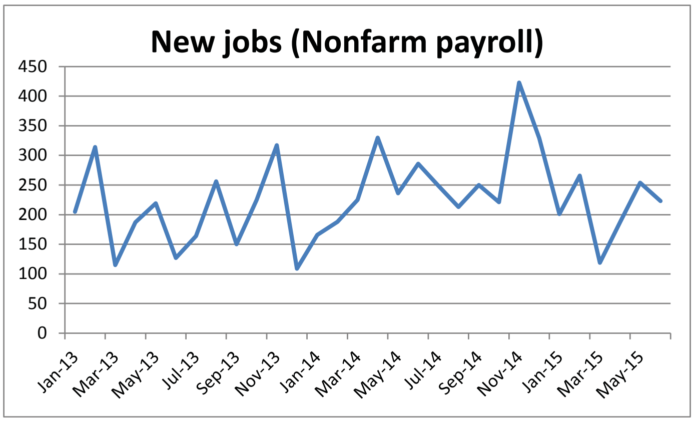
- The final score for June shows the FBM KLCI and FBM70 retreating by -0.8% and -2.6% respectively. It was the worst month of June since 2008.
- The combined tensions over Greece and China, as well as a host of domestic issues, effectively ruled out any meaningful progress for the local market during the month.

EXPECT KNEE-JERK NEGATIVE REACTION TO GREECE, BUT LOCAL MARKET SHOULD BE RESILIENT

- We wrote last week that the month of July has historically been benign for the local stock market. The Greece NO vote means uncertainties ahead and there will likely be a global selloff in equities in the immediate term. However, the Greece outcome should have been expected and priced in.
- The local market is likely to be weighed down by global sentiment. However, there are reasons to expect the market to be resilient.
- *Firstly*, Fitch's announcement upgrading the outlook of Malaysia's rating from "negative" to "stable" came as a surprise and is short-term positive for the market. It removed a dark cloud hanging over the market since Fitch downgraded the outlook to "negative" in 2013.
- *Secondly*, last Friday's U.S non-farm payroll numbers for June of 223,000 were lower than the 230,000 expected. In addition, the figures for April and May were revised downwards by 30k each. The weaker-than-expected employment numbers are hardly an encouragement for the Federal Reserve to be aggressively hawkish in its policy stance. There is now rising expectation that the timing of the first increase in the Fed Fund rate may be pushed back later than September. Such a scenario would be a reprieve for currencies around the world, especially the ringgit, with positive spillovers on the stock market.
- *Thirdly*, the situation in Greece and with respect to the euro means that the Fed is likely to reassess its monetary policy stance. Raising the Fed Fund rate while the euro is vulnerable may lead to a global currency crisis.
- *Fourthly*, the repercussion resulting from China's market meltdown seems to be contained. So far, there has not been any significant contagion on the rest of Asia, especially Emerging Markets.



Latest U.S nonfarm payroll numbers reduces presure on U.S interest rate



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