

MIDF EQUITY STRATEGY | 23 OCTOBER 2017 WEEK ENDED 20 OCTOBER 2017

- Equity global markets were rather mixed amid an array of political developments from New Zealand to Spain.
- Wall Street continued to flex its muscles, as Dow Jones advanced the most in a day in five weeks at 0.70% to strike above 23,000 points for the first time ever on Wednesday.
- Brent crude oil edged 1.01% higher for the week to settle at USD57.75pb after going through a rather volatile week. Brent crude oil price reached a three-week high at USD58.15pb on Wednesday amid geopolitical turmoil surrounding the autonomous region of Kurdistan.
- Foreign funds continued entering Asian markets albeit at a measurable pace. The provisional aggregate data from the seven Asian exchanges that we track saw investors classified as “foreign” acquired USD535.1m net last week, almost one fourth of the acquisition in the preceding week which amounted to USD2.04b.
- For the fifth week running, foreign funds disposed equities listed on Bursa, the longest selling binge so far this year during the holiday shortened week.
- The FBM KLCI shed 14.7 points for the week to close at its weakest point in six months at 1,741 points. This was contrary to other regional benchmarks which staged a positive trend, notably, Japan, Singapore and South Korea. We reckon that the upcoming 2018 Budget announcement this Friday could provide an impetus for the local bourse. The Ringgit depreciated slightly by 0.07% for the week to USD/MYR4.225.

FOREIGN SELLING ACROSS THE BOARD IN SOUTHEAST ASIA

A. MARKET SNAPSHOT

- Equity global markets were rather mixed amid an array of political developments from New Zealand to Spain.
- Wall Street continued to flex its muscles, as Dow Jones advanced the most in a day in five weeks at 0.70% to strike above 23,000 points for the first time ever on Wednesday. S&P500 and Nasdaq also topped fresh record levels of 2,561 and 6,624 points, respectively, on the same day. Optimism was mainly upheld by IBM's solid 3Q17 results and forecast which indicated its first sales growth in five years which caused its shares to jump the most in a day since 2009.
- Dow Jones and the S&P500 continued their run of record highs until Friday despite the drop in tech related stocks mainly due to two events; (i) the approval of the Republican-backed budget by the Senate and (ii) a report by Politico which showed that Fed Governor, Jerome Powell will likely to be nominated by President Trump to replace Fed Chair Janet Yellen.
- Meanwhile in Asia, the CSI 300 index reached its highest level in more than 2 years on Wednesday at 3,944 points amid President Xi Jinping's address at the 19th Communist Party Congress. A day later, economic data showed that China's GDP expanded by 6.8% yoy in 3Q17 fuelled by robust factory output and consumer spending, in line with expectations, indicating that China's economic growth is still intact. However, China's GDP data failed to buoy the market sentiment, which saw the retreat of the CSI 300 index from its 26-month high but still registered a minimal gain of 0.15% for the week.
- The political rumble in Spain continues following the reluctance of Catalonia's President, Carles Puigdemont to drop the state's claim for independence when he was told to do so by Thursday. Puigdemont's defiance caused the Spanish government to trigger Article 155 of the Constitution to assume control of the Catalonia. The intensified turmoil spooked investors' confidence as IBEX 35 led decliners among most European markets with a -0.34% weekly loss.
- Brent crude oil edged 1.01% higher for the week to settle at USD57.75pb after going through a rather volatile week. Brent crude oil price reached a three-week high at USD58.15pb on Wednesday amid geopolitical turmoil surrounding the autonomous region of Kurdistan. The political instability led to a crude supply disruption following the seizure of the oil rich city of Kirkuk by Iraqi military forces .
- The FBM KLCI shed 14.7 points for the week to close at its weakest point in six months at 1,741 points. This was contrary to other regional benchmarks which staged a positive trend, notably, Japan, Singapore and South Korea. We reckon that the upcoming 2018 Budget announcement this Friday to provide an impetus for the local bourse. The Ringgit depreciated slightly by 0.07% for the week to USD/MYR4.225.

Table 1 Weekly performance of major indices

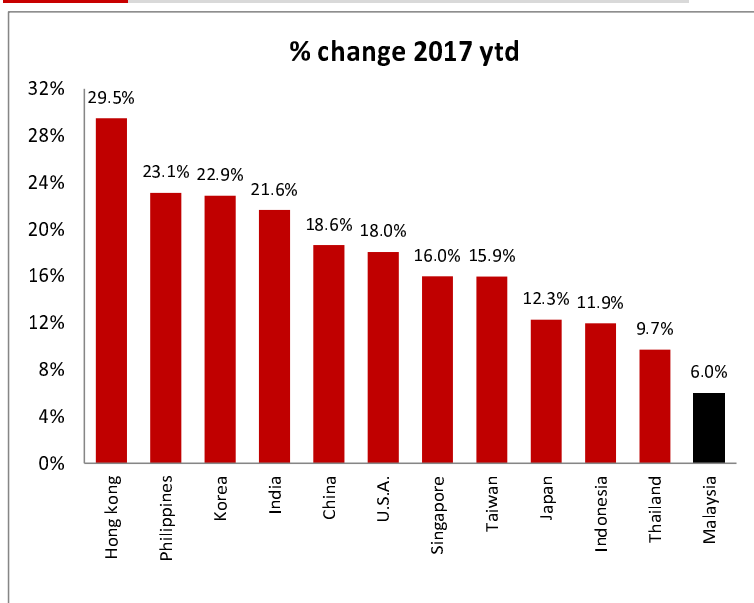
Weekly % change	Week before	Last week
Dow Jones	0.43	2.00
Nikkei	2.24	1.43
S&P 500	0.15	0.86
FSSTI Index	0.85	0.65
Korea KOSPI	3.31	0.64
CAC 40	-0.15	0.39
China CSI 300	2.20	0.15
Jakarta JCI	0.32	0.09
Taiwan TAIEX	1.82	0.04
Hang Seng	0.06	0.04
DAX	0.28	0.00
India SENSEX	1.94	-0.13
FTSE 100	0.17	-0.16
Phil PCOMP	1.65	-0.32
KLCI	-0.49	-0.84
Thai SET	0.97	-1.16

Source: Bloomberg

B. TRACKING MONEY FLOW - ASIA¹

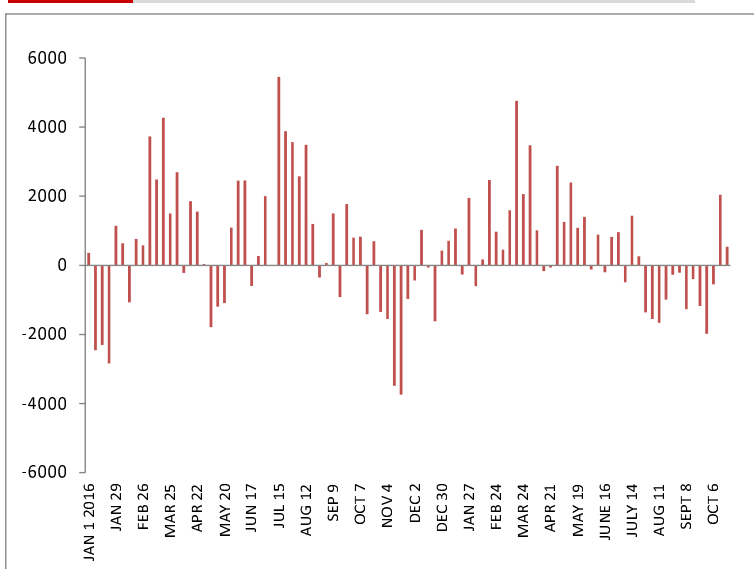
- Foreign funds continued to enter Asian markets albeit at a slower pace. The provisional aggregate data from the seven Asian exchanges that we track saw investors classified as “foreign” acquired USD535.1m net last week, almost one fourth of the acquisition in the preceding week which amounted to USD2.04b.
- The bulk of the inflow was again dominated by markets in North Asia with Taiwan taking the lead. Foreign investors in Taiwan mopped up USD713.1m net last week, the largest weekly net inflow since the week ended June 30. The inflow into Taiwan stretched to 10 days in a row, the longest streak in five months, supported by TSMC’s technological advantage which helped to offset the lacklustre global demand of smartphones thus, contributing to a smaller-than-expected decline in its 3Q17 earnings. TSMC will continue to receive advance process orders in 2H17 from companies such as Huawei and Apple, enabling the company to forecast around 11-12% growth in 4Q17 on the back of the iPhone X release. Viewing from a broader level, Taiwan’s September exports orders rose 6.9%yoy to a record high of USD45.9b, mainly boosted by the launch of new mobile devices is a testament to the sanguine performance of companies like TSMC. The Taiwan Dollar on the other hand declined by 0.36% for the week to USD/TWD30.25 following its removal from the U.S’s foreign exchange watch list.
- Meanwhile in Korea, international funds only chipped in USD300.4m net of local stocks, more than 1/5 of the amount bought in the week before. Nonetheless, the KOSPI advanced 0.64% for the week to finish the week at a new record level for the 28th time this year at 2,489 points on Friday. KOSPI’s record high coincided with the foreign buying that peaked the same day during the week at USD130.3m net which was mainly skewed towards technology stocks that were up 1.7% overall. The main beneficiary of the foreign buying was the market bellwether, Samsung Electronics which rose for the first time after 2 consecutive days of losses at 1.6% while its market capitalisation reached a new level above KRW400t or USD353b, taking up a quarter of the entire KOSPI. Currency wise, the Korean Won lost 0.21% to close at USD/KRW1,131 for the week following a possible rate hike in November as indicated by the Bank of Korea.

Chart 1 YTD performance of major markets



Source: Bloomberg

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

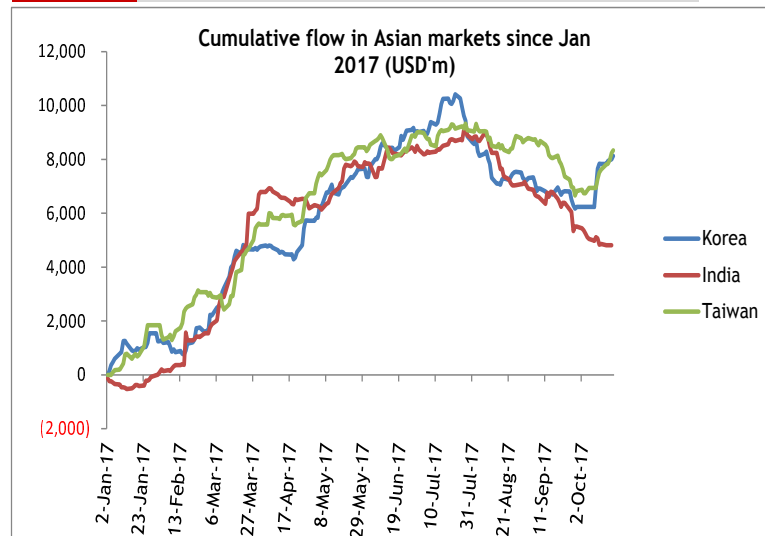


Source: Bloomberg, Bursa Malaysia

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.

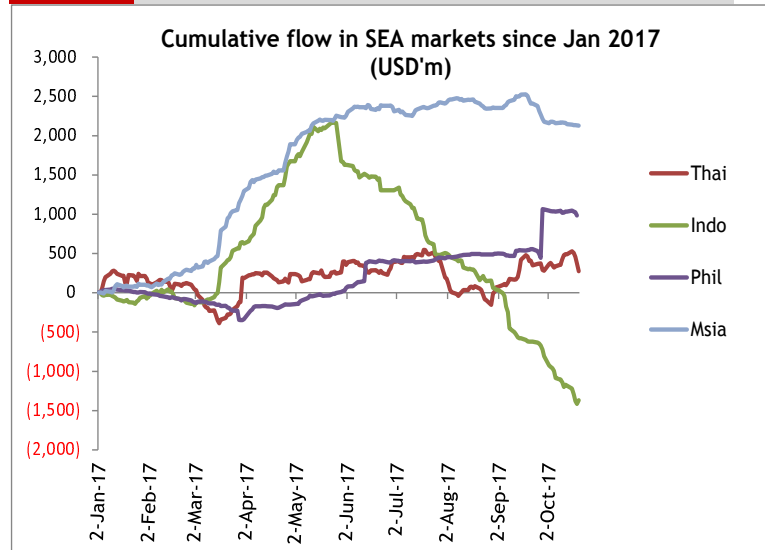
- In Emerging South East Asian markets, foreign net selling was across the board with Thailand experiencing the highest attrition.
- International investors in Bangkok disposed -USD217.0m net last week, the highest attrition in 11 weeks, in line with the SET's 1.16% weekly decline. Indeed, foreigners were net sellers in 4 out of 5 trading days with Friday recording the largest daily net outflow since July 31 at -USD98.7m. Overall market sentiment in Bangkok was dampened due to the 14%yoy drop in the 3Q17 aggregate earnings of major banks which was the second consecutive quarterly decline in earnings despite national statistics which signalled economic recovery.
- The pace of foreign selling in Manila intensified as global investors offloaded -USD49.7m net, the largest weekly attrition since end of March. The PSEi followed suit, down 0.32% for the week as foreigners pocketed gains from the PSEi's new record high of 8,497 points on Tuesday along with positive developments from the brawl in Marawi City. The Peso also staged a decline, losing 0.14% to USD/PHP51.484, its weakest level so far this year despite the nation posting its first Balance of Payments surplus since April for the month of September, which amounted to USD24m.
- Foreign attrition in Jakarta has extended to its 16th week. Despite ongoing selling pressure, the JCI continued to demonstrate its resilience by gaining 0.09% last week, marking its third week in a row of gains amid steady progress of President Trump's tax reform plan. The Rupiah meanwhile cancelled off gains in the preceding week by declining 0.16% to USD/IDR13,519 following Bank of Indonesia's move to maintain the interest rate at 4.25% after two surprise cuts, citing a close eye on the Rupiah weakness that may prevail if the Fed really carries out another rate hike later this year.

Chart 3 Net Flow of Foreign Funds into Taiwan, Korea and India since Jan 2017(USD'm)



Source: Bloomberg

Chart 4 Net Flow of Foreign Funds into South East Asia Emerging Markets since Jan 2017 (USD'm)



Source: Bloomberg, Bursa Malaysia

Table 2 Weekly Net Flow Of Foreign Fund Into Equity By Market (USD'm)

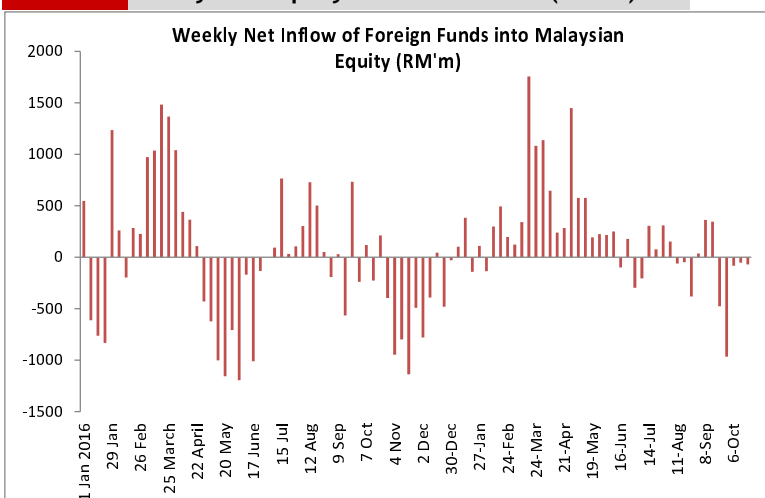
WEEK	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	M'SIA	TOTAL
SEP 1	-229.2	168.3	-110.7	6.9	17.4	-76.8	8.5	-215.6
SEP 8	-399.3	103.7	-491.6	-21.7	-435.2	-110.2	85.8	-1,268.5
SEP 15	-214.6	242.6	-125.6	68.1	185.9	-638.9	82.1	-400.2
SEP 22	127.9	-71.1	-43.6	12.0	-407.4	-677.1	-114.0	-1,173.3
SEP 29	-587.5	-68.6	-183.4	511.4	-883.3	-541.5	-229.4	-1,982.3
OCT 6	0.00	58.3	-278.5	-27.8	-395.5	113.4	-19.6	-549.6
OCT 13	1,595.8	153.5	-99.0	-2.9	-281.0	685.22	-12.9	2,038.6
OCT 20	300.4	-217.0	-182.9	-49.7	-12.0	713.1	-16.9	535.1

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

C. TRACKING MONEY FLOW - MALAYSIA

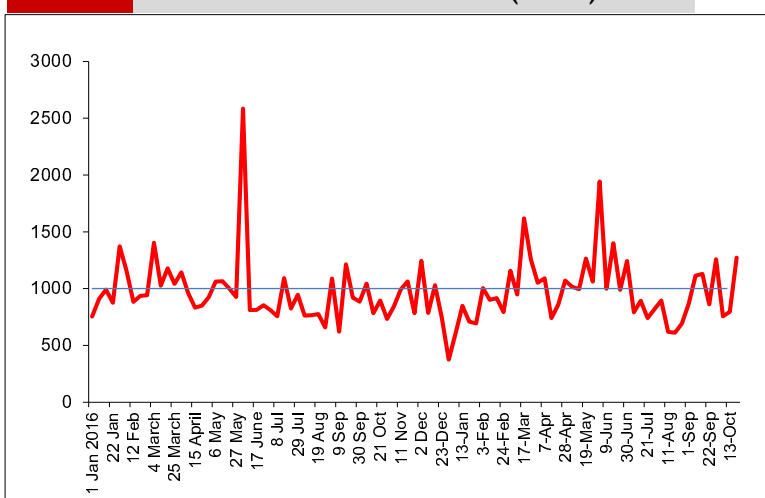
- For the fifth week running, foreign funds disposed equities listed on Bursa, the longest selling binge so far this year during the holiday shortened week.
- Last week, foreign investors sold -RM71.4m net, higher than the -RM54.2m net recorded in the preceding week. The estimates made are based on transactions in the open market which excluded off market deals.
- During the four-day trading week, foreign selling occurred on each day. Tuesday recorded the highest attrition for the week which amounted to -RM29.1m net as investors shifted to the sidelines to seek cover before the Deepavali holiday on Wednesday. As the foreign net outflow persisted until Friday, the FBM KLCI took cue, resuming its gradual descent to end the week at 1,741 points, the lowest since April 20 after starting the week at a closing level of 1,754 points.
- It seems that the local market is showing a muted response while markets elsewhere are showing a bullish trend amid global developments such as President Trump's tax reform progress, commendable earnings on Wall Street and upbeat Chinese economic data. We note that although the foreign selling in Malaysia was in conformity with its Southeast Asian peers, the benchmark index in the respective peers tend to be more resilient as compared to Malaysia.
- The cumulative net foreign inflow into shares listed on Bursa as of last week currently stands at RM9.40b. Nevertheless, the cumulative amount still offsets approximately 30% of the total net outflows recorded in the past three years.
- Foreign participation rebounded strongly as the foreign average daily trade value (ADTV) surged by a staggering 60% to reach above the RM1b level at RM1.27b, the third highest weekly amount for the year.
- On the other hand, the retail market was somewhat muted as the retail ADTV was slightly unchanged, only declining by 0.04% to RM995.3m.

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)	
SEP 8	1,727.3	1,709.5	-63.2	4,529.1	4,774.5	-245.4	2,407.9	2,045.3	362.6	85.8
SEP 15	2,359.7	2,338.5	21.2	5,408.3	5,774.6	-366.3	2,998.5	2,653.4	345.1	82.1
SEP 22	2,035.0	1,976.2	58.8	4,810.4	4,391.5	418.9	1,483.1	1,960.8	-477.7	-114.0
SEP 29	2,348.7	2,257.8	90.9	6,563.3	5,686.9	876.4	2,662.8	3,630.1	-967.3	-229.4
OCT 6	2,117.1	2,203.7	-86.6	5,692.3	5,522.8	169.5	1,850.4	1,933.3	-82.9	-19.6
OCT 13	2,469.3	2,509.3	-40.0	5,620.5	5,526.3	94.2	1,961.6	2,015.6	-54.2	-12.9
OCT 20	2,002.7	1,978.5	24.2	4,796.4	4,749.2	47.2	2,507.7	2,579.1	-71.4	-16.9

Source: Bursa's preliminary data

* Estimate by MIDF Research based on prevailing exchange rate.

D. MONEY FLOW² AMONG BURSA'S TOP 100 CAPITALIZED STOCKS: WEEK ENDED 20 OCTOBER
TOP 10 NET MONEY INFLOWS

- Hartalega registered the highest net money inflow of RM16.25m last week. Its share price substantially outperformed against the FBM KLCI which lost 0.84% for the week.
- Malaysia Airports Holding Berhad recorded the second highest net money inflow of RM13.31m. Its share price slightly outperformed against the market benchmark with a 0.24% loss during the review week. It is notable that the net money inflow amidst declining share price indicates a buy on weakness (BOW) stance among investors.
- IOI Corp saw the third highest net money inflow of RM10.51m. Its share price declined by 1.55% compared to the FBM KLCI which only decreased by 0.84% during the week under review. It is notable that the net money inflow amidst declining share price indicates a buy on weakness (BOW) stance among investors.

Table 4 Top 10 Net Money INFLOW

Name	Net Money Flow (RM mn)		Price (% Chg)	Remark
	Last Week	Prev Week	Last Week	
HARTALEGA	16.25	1.91	3.34	-
MAHB	13.31	17.06	-0.24	BOW
IOI CORP	10.51	5.46	-1.55	BOW
KOSSAN	6.99	0.65	0.71	-
TOP GLOVE	2.72	1.64	9.65	-
NESTLE	2.53	15.31	0.12	-
YINSON	1.88	0.26	6.41	-
MY EG	1.55	1.93	-0.98	BOW
AMMB	1.33	-0.20	-2.24	BOW
MAH SING	1.03	0.24	1.28	-

Source: Bloomberg, MIDFR;

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

TOP 10 NET MONEY OUTFLOWS

- Petronas Chemicals saw the largest net money outflow of -RM23.03m last week. Its share price also substantially outperformed the market benchmark with a 2.72% weekly gain.
- Hong Leong Bank recorded the second largest net money outflow of -RM13.61m during the week under review. Its share price outperformed the benchmark index with a 0.12% loss for the week.
- TNB meanwhile registered the third largest net money outflow at -RM11.99m. Its share price outperformed the market benchmark with a 0.85% weekly gain. It is notable that the net money outflow amidst advancing share price indicates a sell on strength (SOS) stance among investors.

Table 5 Top 10 Net Money OUTFLOW

Name	Net Money Flow (RM mn)		Price (% Chg)	Remark
	Last Week	Prev Week	Last Week	
PETCHEM	-23.03	-4.65	2.72	SOS
HLBK	-13.61	-7.38	-0.12	-
TNB	-11.99	-31.22	0.85	SOS
CIMB	-11.05	-23.54	-2.06	-
AXIATA	-11.04	-4.64	-2.09	-
GAMUDA	-10.47	-31.01	-0.97	-
PPB GROUP	-8.06	-2.93	-1.78	-
PUBLIC BANK	-7.41	-30.06	-0.20	-
IHH	-6.87	-0.82	-0.51	-
FGV	-4.26	0.18	-0.55	-

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

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