midf RESEARCH

EQUITY STRATEGY | OCTOBER 5, 2015

FUND FLOW REPORT

Week Ended October 2, 2015

Foreign Flow Meter (M'sia)	
Tide	(easing to) MODERATE
Current	(remain) HIGH

- It is early October and the equity markets around the world remained in a state of heightened uncertainty. The performances of markets that we track were range-bound last week and there were no particular outliers.
- The biggest headline news of the week was clearly the 29% single-day plunge in the share price of Glencore, the company ranked 10th in Fortune Global 500 in 2014.
- Friday's U.S unemployment statistics delivered a new twist to the developing storyline which has the market bracing for a U.S rate hike later this year. The Labour Dept reported an unchanged unemployment rate of 5.1% in September, but a significantly lower-than-expected jobs created of only 142,000.
- Meanwhile, China's official PMI for the manufacturing sector came at 49.8 in September, after a reading of 49.7 in August. That means that the sector has contracted for two consecutive months.
- Foreign liquidity outflow from Asia eased noticeably last week, especially in the last two trading days.
- On Bursa, after a heavy tide out the week before, the outflow of foreign fund from the local equity market also reverted to its "normal" pace last week. The heavy money swings in the last two weeks proved to be only a transient phenomenon.
- The KLCI rebounded 0.9% last week with the index climbing gradually to end the week at 1628.8 points.It has lost only -7.5%ytd, outperforming many other markets. The index is close to breaking the short-term resistance.
- The local equity market survived September — historically the most volatile month of the year — unscathed. The KLCI gained a marginal 0.5%, but the FBM70 index rose a surprising 6.0%, the best October return since 1998.
- Trading crossed over to October last week, and the first two opening days reflect caution above everything else.

5 October 2015 | Strategy - Weekly Fund Flow

THE TIDE EBBS AGAIN

A. MARKET SNAPSHOT

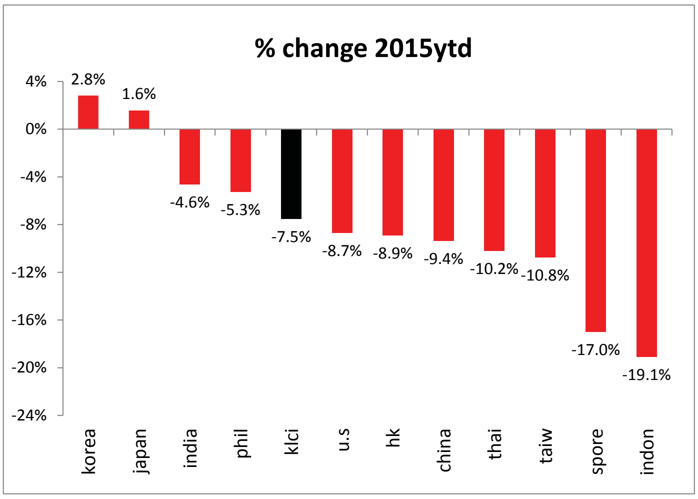
- It is early October and the equity markets around the world remained in a state of heightened uncertainty. The performances of markets that we track were range-bound last week and there were no particular outliers.
- The biggest headline news of the week was clearly the 29% plunge in the share price of Glencore, the company ranked 10th in Fortune Global 500 in 2014. It came on the heels of troubles at Volkswagen, the 8th ranked company in the same aforementioned Fortune 500 list. Corporate troubles and corporate malfeasance are back to haunt the market reminiscence of Enron, Global Crossing and Lehman Brothers. Little wonder markets were on edge last week.
- Friday's U.S unemployment statistics delivered a new twist to the developing storyline which has the market bracing for a U.S rate hike later this year. The Labour Dept reported an unchanged unemployment rate of 5.1% in September, but a significantly lower-than-expected jobs created of only 142,000. That compared with 201,000 median forecast of economists polled by Bloomberg. More importantly, the August figures were revised downwards from 173,000 to 136,000, while that for July reduced from 245,000 to 223,000. All these cast doubts over Fed's plans to start raising interest rates this year.
- Wall Street rallied following the job statistics, with the Dow Jones and S&P500 gaining 1.2% and 1.4% on Friday. That reversed the weekly count from a loss position to a gain of 1.0% each for the two indices.
- Meanwhile, China's official PMI for the manufacturing sector came at 49.8 in September, after a reading of 49.7 in August. That means that the sector has contracted for two consecutive months. However, the corresponding PMI for services in September remained strong at 53.4 helping to neutralize market concerns. The CSI300 had a relatively uneventful week, shedding only -0.9%, the fourth consecutive week of decline.
- Other emerging markets were calmer last week, with only the Thai SET dropping by >2%, the worst performer. The Singapore STI also came under selling pressure and declined for the third consecutive week by -1.4%. The index had lost -17%ytd, the second worst after Indonesia JCI's 19.1%.
- The KLCI rebounded 0.9% last week with the index climbing gradually to end the week at 1628.8 points. It has lost only -7.5%ytd, outperforming many other markets. The index is close to breaking the short-term resistance.

Performance of major markets

Weekly % change	Week before	Last week
Taiwan Taiex	-3.90	2.12
Hang Seng	-3.35	1.51
India Sensex	-1.36	1.38
Korea KOSPI	-2.66	1.38
S&P500	-1.36	1.04
Dow Jones	-0.43	0.97
KLCI	-3.26	0.85
Jakarta JCI	-3.90	0.47
FTSE	0.08	0.34
CAC	-1.22	-0.49
Nikkei 225	-1.05	-0.87
China CSI300	-0.59	-0.90
Phil Comp	-3.01	-0.97
Straits Times	-1.63	-1.39
DAX	-2.30	-1.40
Thai SET	-0.97	-2.34

Source: Bloomberg

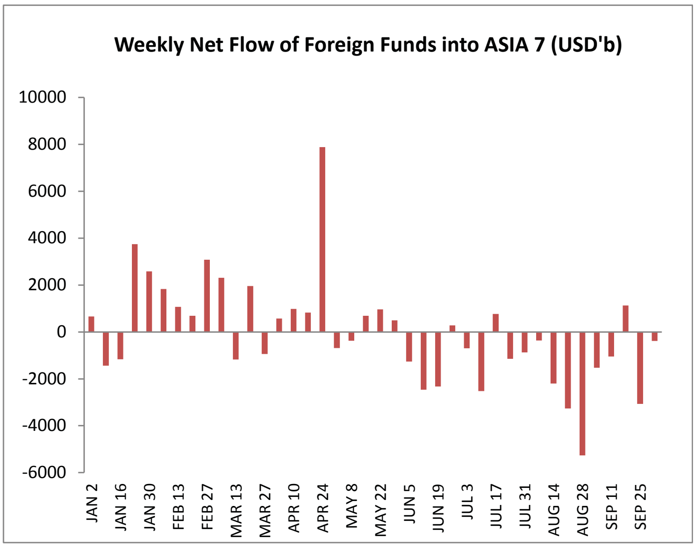
Major Asian indices (2015)

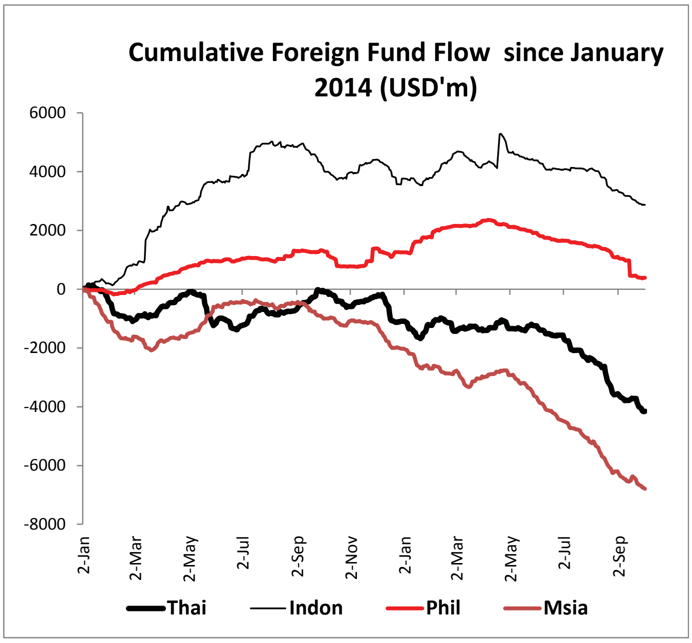


Source:Bloomberg. All in local currency.

B. TRACKING MONEY FLOW - ASIA [1]

- Foreign liquidity outflow from Asia eased noticeably last week, especially in the last two trading days.
- Based on provisional data from the respective exchanges, investors classified as "foreign" remained aggregate net sellers in the 7 Asian stock markets that we track (TIPs + India, Taiwan, Korea and Malaysia). However, the amount offloaded dwindled to only USD384m, from USD3.1b the week before. It may even be lower as the final tally from India, where the market had a decent Friday, has yet to be released,
- Among the markets, Thailand stood out as the one under the weather where relatively heavy foreign selling lingered. Foreign funds sold USD158m, after offloading USD277m the week before. The Thai baht was the worst performer in Asia last week, amid pressure, not only from the equity market, but from the bond market as well. In the equity market, there was heavy selling on Mon-Wed, but subsided thereafter. There were concerns over Thai banks as Sahaviriya Steel Industries PCL, operator of Southeast Asia's largest flat-steel manufacturing complex, defaulted on its USD1.4b loans. It is Thailand's biggest default since Thai Petrochemical Industry PCL's USD3.8b case during the Asian Financial Crisis. The earnings of Siam Commercial Bank Pcl, Krung Thai Bank Pcl and Tisco Financial Group Pcl, are exposed over this case.
- In Jakarta, foreign funds were steady sellers for the 12th consecutive week, but the outflow reduced significantly. There is some optimism ahead of the announcement this week of the third instalment of a policy package aimed at boosting the economy. Indonesia's government has said that it will seek to lower fuel costs and boost bank lending, the latter to be achieved by exploring ways to enable banks to reduce their operational costs.
- In Korea, the equity market recorded a USD117m foreign fund injection, only the second week in nine that a surplus has been reported. The Won was the best performer last week, aided by a rally in the bond market, where the potential downgrade in official GDP growth forecast is fuelling expectations of easier yields. Bank of Korea is meeting Oct 15 and may slash 2015 growth forecast from 2.8%.





[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.

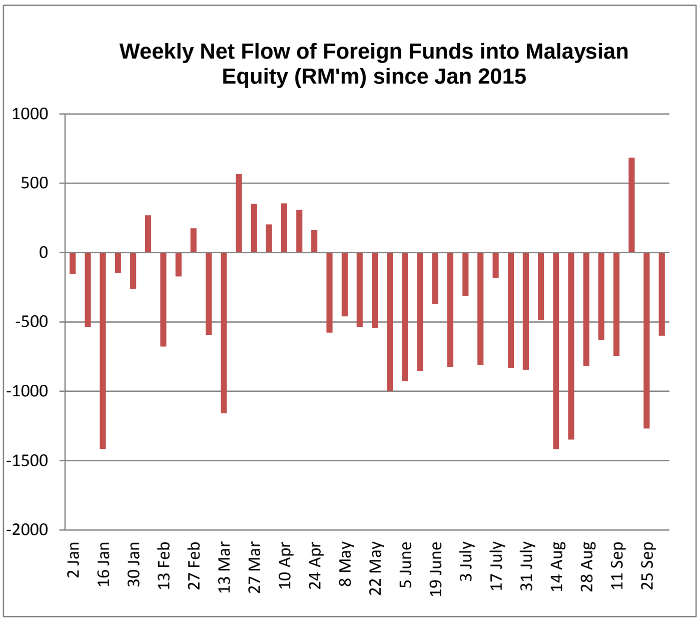
WEEKLY NET FLOW OF FOREIGN FUND INTO EQUITY (USD'm)

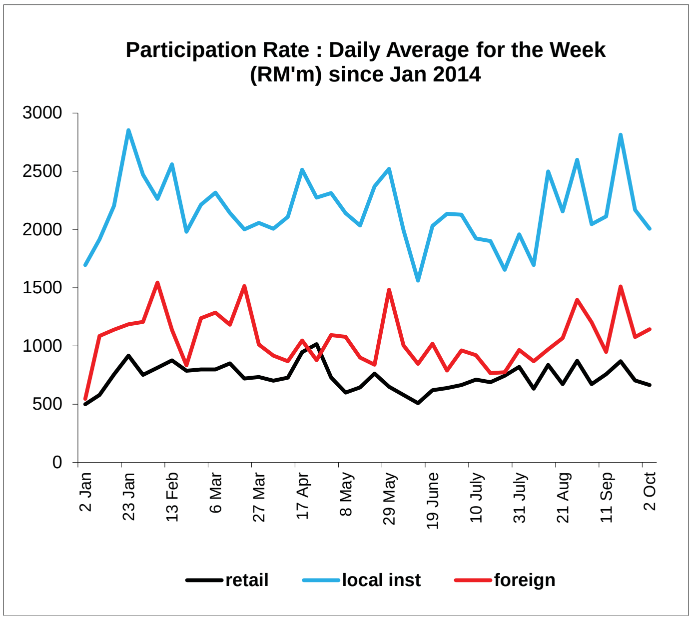
WEEK ENDED	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	MALAYSIA	TOTAL
AUG 21	-903.2	-483.8	-309.4	-52.3	-537.7	-653.3	-327.5	-3267.1
AUG 29	-1950.1	-434.9	-133.5	-240.1	-1903.9	-405.6	-192.7	-5260.8
SEP 4	-369.9	-73.9	-58.6	-47.6	-636.2	-193.3	-148.8	-1528.3
SEP 11	-791.7	-116.6	-127.7	-67.5	-359.3	587.5	-172.0	-1047.2
SEP 18	313.9	61.3	-116.1	-525.0	575.0	655.2	161.4	1125.7
SEP 25	-923.2	-277.2	-139.7	-49.9	-287.5	-1099.9	-294.1	-3071.5
OCT 2	116.8	-158.2	-42.2	-8.4	-236.6	79.8	-135.1	-383.9

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

C. TRACKING MONEY FLOW - MALAYSIA

- After a heavy tide out the week before, the outflow of foreign fund from the local equity market reverted to its “normal” pace last week. The heavy swings in the movement of funds in the last two weeks proved to be a transient phenomenon.
- Investors classified as “foreign” remained net sellers on Bursa last week. Foreign funds offloaded RM598.7m net in the open market (i.e excluding off-market deals), a sharp decline from the RM1.27b outflow the week before.
- Foreign funds were net sellers every single day last week. Selling was relatively heavy on Monday and Thursday, reflecting spillover of negativities from the previous week’s global paranoia and apprehensions over emerging markets as a whole.
- For 2015, last week’s attrition raised the cumulative net foreign outflow to RM18.3b, almost three times the RM6.9b outflow for the entire 2014. More importantly, we believe the overhang of foreign liquidity in the market is now at its lowest since the Financial Crisis of 2007. We estimate the size of the overhang to have dropped to that below RM10b for the first time last week, for funds which came in since early 2010.
- Foreign participation rate stayed elevated last week. The average daily gross volume was RM1.14b, picking up from RM1.08b the week before. Nevertheless, we note that on Tuesday, the volume was only RM1.15b although net sale amounted to RM216m.
- Local institutions were passive buyers, mopping up RM539.1m net on RM2.0b participation rate. Average volume had surpassed the RM2b mark in the last 8 eight consecutive weeks.
- Meanwhile, retailers remained net buyers, purchasing RM59.6m, after a record haul for 2015 in the preceding week. Nevertheless, participation rate eased to RM664m, indicating falling speculative element in the market.





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)*
AUG 14	2142.0	2043.3	98.7	6903.2	5584.8	1318.4	1718.6	3135.7	-1417.1	-353.3
AUG 21	1684.3	1676.1	8.2	6058.1	4717.3	1340.8	1993.9	3342.9	-1349.0	-327.5
AUG 28	2132.8	2234.7	-101.9	6955.0	6036.8	918.2	3083.9	3900.2	-816.3	-193.3
SEP 4	1365.7	1324.6	41.1	4384.2	3793.8	590.4	2091.1	2722.6	-631.5	-148.8
SEP 11	1872.2	1911.9	-39.7	5673.1	4889.6	783.5	1998.8	2742.6	-743.8	-172.0
SEP 18	1656.0	1820.7	-164.7	5366.1	5886.4	-520.3	3365.5	2680.5	685.0	161.4
SEP 25	1480.4	1335.1	145.3	4896.2	3772.8	1123.4	1519.9	2788.6	-1268.7	-294.1
OCT 2	1689.6	1630.0	59.6	5286.0	4746.9	539.1	2559.9	3158.6	-598.7	-135.1

* 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

- Tenaga Nasional registered the highest net money inflow of RM12.32m last week. Nonetheless, its share price lagged the market benchmark as it recorded a -0.17% weekly loss. In comparison, the FBM KLCI gained by 0.85% during the review week. It must be highlighted that net money inflow amidst retreating share price indicates buy on weakness (BOW) stance among some investors.
- Axiata came in second with RM10.62m net inflow but its share price too underperformed the market benchmark with a -1.69% week-on-week decline which may indicate a BOW stance among some investors. In a recent Bursa filing, Axiata announced it had agreed to purchase 75% of Digicel Asian Holdings Pte Ltd, the parent of Digicel Myanmar Tower Co., for USD125 million.
- Digi.com recorded the third highest net money inflow of RM9.50m. Accordingly, its share price outperformed the FBM KLCI with a 1.09% weekly gain.

TOP 10 NET MONEY OUTFLOWS

- Public Bank saw the largest net money outflow of –RM22.79m during the review week. However, its stock price outperformed the FBM KLCI as it ended the week higher by 1.14% against a smaller 0.85% rise in the market benchmark. It is notable that net money outflow amidst advancing share price indicates sell on strength (SOS) stance among some investors.
- Kossan Rubber came in second last week with a net outflow of –RM15.71m. Similarly, its share price also outperformed the market benchmark with a 6.26% weekly gain which may indicate SOS stance among some investors.
- British American Tobacco registered the third largest net money outflow at –RM6.57m in the review week. Accordingly, its share price underperformed the broader market with a -2.26% weekly loss.

Tables below list the Top 10 Net Money Inflows and Net Money Outflows last week among the largest 100 market capitalized stocks on Bursa Malaysia.

Name	Net Money Flow (RM mn)		Price (% Chg)	Remark
	Last Week	Prev Week	Last Week	
TNB	12.32	3.37	-0.17	BOW
AXIATA	10.62	-4.16	-1.69	BOW
DIGI	9.50	2.19	1.09	-
CIMB	8.88	-0.85	-4.69	BOW
YTL CORP	5.33	3.14	0.00	-
MAHB	4.74	-0.51	1.17	-
MISC	3.86	-5.32	2.00	-
YTL POWER	3.48	-0.60	1.89	-
MAXIS	3.28	9.74	1.55	-
GENTING	3.08	4.72	0.28	-

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

Name	Net Money Flow (RM mn)		Price (% Chg)	Remark
	Last Week	Prev Week	Last Week	
PUBLIC BANK	-22.79	39.55	1.14	SOS
KOSSAN	-15.71	0.86	6.26	SOS
BAT	-6.57	-2.26	-2.26	-
AMMB	-6.49	0.06	0.66	SOS
LAFARGE	-4.16	-11.86	1.46	SOS
TM	-3.63	4.07	1.95	SOS
WESTPORTS	-3.57	-0.69	0.71	SOS
DIALOG	-3.23	-0.10	1.25	SOS
MAYBANK	-2.11	-12.15	0.48	SOS
SIME DARBY	-1.62	2.11	8.20	SOS

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.

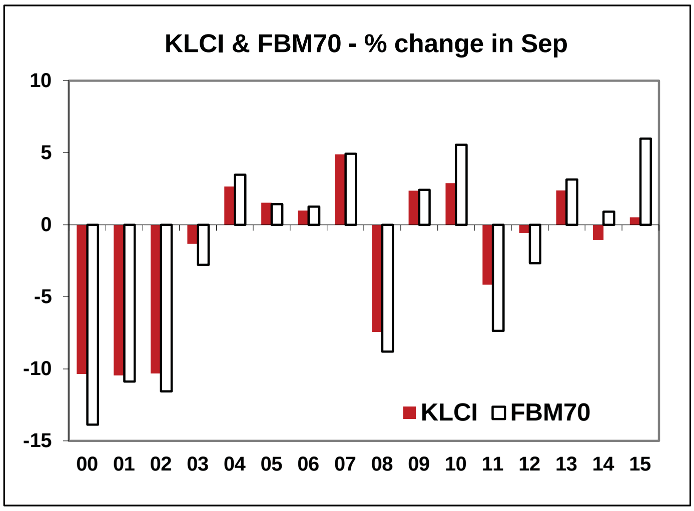
How is money flow calculated? When a trade is performed, its price is compared to the price of the previous trade (the first trade of the day is compared to the previous day's close). If the prices differ, either upticks or downticks, the value of the trade (price multiplied by number of shares) is added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

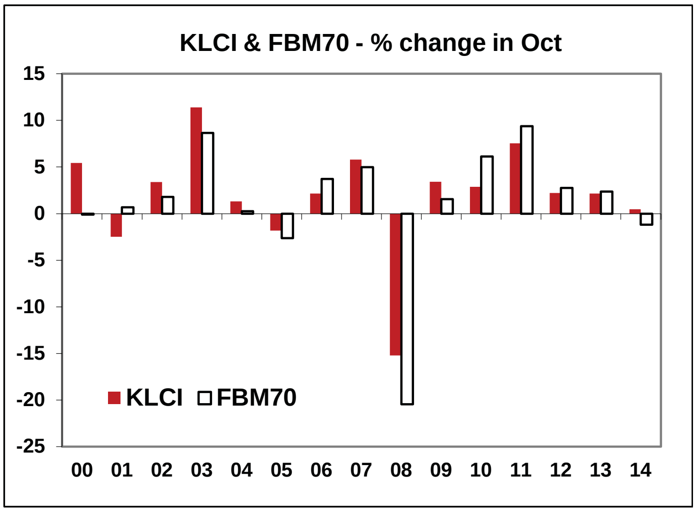
Source: Bloomberg, MIDFR

D. THE WEEK AHEAD

DECENT SEPTEMBER, AHOY OCTOBER!

- The local equity market survived September — historically the most volatile month of the year — unscathed. The KLCI gained a marginal 0.5%, but the FBM70 index rose a surprising 6.0%, the best return since 1998.
- Trading crossed over to October last week, and the first two opening days reflect caution above everything else. This is unsurprising. The earlier part of October tends to be extremely volatile, reflecting heightened anxiety spilling over from September. This early-month weakness tends to be overdone and as investors return to pick up bargains, October has proven to be actually a gainful month for equity (see chart). Barring a financial meltdown (such as that in 2008), we expect history to repeat itself in 2015.
- Wall Street rallied on Friday and that should assuage sentiment as the market open this week. However we are less perturbed with what is happening on Wall Street and we do not see it as a prime driver for the local market. The Dow Jones and S&P500 have been subjected to large daily swings as they are already in a weak zone, having been subjected to a "death cross" in late August and are now trading below the short-term support. Until the situation is normalized, any sudden surge in the index is unlikely to herald a reversal in trend. Vice versa, any sharp fall is unsurprising.
- The market gained a couple of much needed shots in the arm last week. *Firstly*, the latest ranking of WEF's Global Competitiveness Index (GCI) in which Malaysia's position improved two rungs to 18th spot is an endorsement of the government's reform initiatives. *Secondly*, the recent statement by BNM's chief on the wherewithal of local institutional funds to fill any vacuum left by foreign bondholders also managed to sooth investors' wariness over the possibility of a bond market collapse, i.e. sharply rising yields.
- We expect additional market catalysts this week. Recall that BNM's international reserves position has risen for two consecutive fortnights. The end-September statistics to be unveiled on Wednesday should further mend market sentiment. Also on Wednesday, the trade statistics for August will be announced that should see Malaysia outperforming its Asian peers again.
- Nevertheless, the valuation gauge of FBM KLCI as measured by the standard deviation against its long-term price-earnings ratio based on consensus 2016 earnings stood at merely -0.13 as of Friday's closing. Hence from earnings multiple standpoint, the market is neither expensive nor very cheap. Thus we recommend bottom-up selective buying on stocks which have fallen to or remain within the desired valuation range.





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