FUND FLOW REPORT

EQUITY STRATEGY | NOVEMBER 2, 2015

Week Ended October 30, 2015

Foreign Flow Meter (M'sia)	
Tide	(maintain) MODERATE
Current	(receding) MODERATE

- Equity markets ended trading in the month of October on a rather subdued note. Trading was lacklustre and most benchmark indices ended last week in the redzone.
- In short, risk aversion in the equity markets around the globe has shot up.
- The Federal Reserve's Open Market Committee meeting last Wednesday was a hawkish declaration of intent. It effectively set a scenario for increased market volatility in the intervening period until the next meeting on Dec 16.
- Investors' agitation on Friday was also evident ahead of China's official manufacturing PMI scheduled to be released on Sunday, and the U.S empoyment report on Wednesday. As it turned out, China's PMI indicated that the country's manufacturing sector contracted for the third consecutive month.
- After three weeks of buying, global funds turned net sellers of Asian equity. Selling was heavy in Jakarta and Thailand last week.
- On Bursa, foreign investors turned net sellers after three consecutive weeks of buying. Foreign funds sold RM600m net in the open market last week, after mopping up RM1.43b in the preceding three weeks.
- For 2015, last week's attrition raised the cumulative net foreign outflow to RM17.5b, compared with the RM6.9b outflow for the entire 2014. However, the October month recorded a relatively rare incidence of foreign buying this year, the first surplus since April and only the second time in the last 14 months!
- We are entering a period of low market activity. This is evidenced last week by a significant drop in foreign participation last week.
- Trading crosses over to November on Monday. Ater a strong October, we are expecting a subdued month ahead. History is not exactly on the side of the penultimate month of the year.

2 November 2015 | Strategy - Weekly Fund Flow

LOW-TIDE SEASON BECKONS

A. MARKET SNAPSHOT

- Equity markets ended trading in the month of October on a rather subdued note. Trading was lacklustre and most benchmark indices ended last week in the redzone.
- In short, risk aversion in the equity markets around the globe has shot up. Blame it on the Fed.
- The Federal Reserve's Open Market Committee (FOMC) meeting on Wednesday effectively set a scenario for increased market volatility in the intervening period until the next meeting on Dec 16. From the dovish tone in the preceding meeting, the FOMC reignited the interest rate play by reinstating the possibility of a rate hike in December. In its statement, the FOMC said:

  "*In determining whether it will be appropriate to raise the target range at its next meeting, the committee will assess progress - both realized and expected - toward its objectives of maximum employment and 2 percent inflation*"

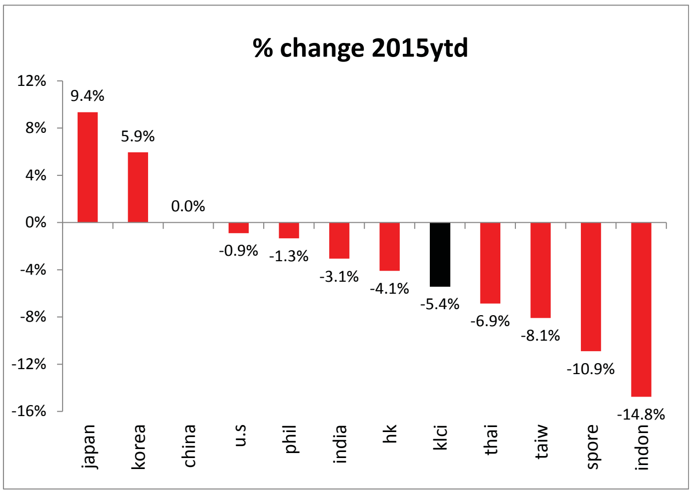
  Another telling evidence that a hike is on the agenda is that almost all FOMC members agreed to reinstate the policy flexibility, barring Jeffrey Lacker, the president of the Richmond Fed. Previously, more members dissented to a rate hike this year.
- Asian equity markets' verdict following the Fed's announcement was very clear. Benchmark Asian indices fell on Thursday. However, the reaction in the foreign exchange markets was rather mixed. While Asian currencies generally weakened, the Thai Baht and Japanese Yen actually strengthened against the greenback. One thing clear though is that the market is pricing in more volatility in the weeks ahead.
- Investors' agitation on Friday was also evident ahead of China's official manufacturing PMI scheduled to be released on Sunday, and the U.S employment report on Wednesday. As it turned out, China's PMI remained below 50 for the third month running at 49.8. A figure <50 indicates that the sector is contracting. The weak numbers heightened expectations that the authorities will introduce more measures to stimulate the economy.
- However, after a three-week long rally during which the CSI300 added >10%, the index succumbed to dampened international sentiment and lost -1%. Markets strongly linked to China — Taiwan, HK and Singapore also lost ground last week. The Jakarta Composite Index was the worst hit, losing -4.3%.
- The KLCI came under selling pressure last week and lost -2.64%, the third worst in a week this year. That increased the year-to-date loss to -5.4%.

Performance of major markets

Weekly % change	Week before	Last week
Nikkei 225	2.92	1.37
DAX	6.83	0.52
S&P500	2.07	0.20
Dow Jones	2.50	0.10
CAC	4.70	-0.53
Korea KOSPI	0.50	-0.54
China CSI300	1.05	-1.04
FTSE	1.04	-1.29
Taiwan Taiex	0.80	-1.38
Phil Comp	2.56	-1.41
Thai SET	-0.16	-1.50
Hang Seng	0.37	-2.21
Straits Times	1.25	-2.28
KLCI	-0.34	-2.64
India Sensex	0.94	-2.96
Jakarta JCI	2.90	-4.25

Source: Bloomberg

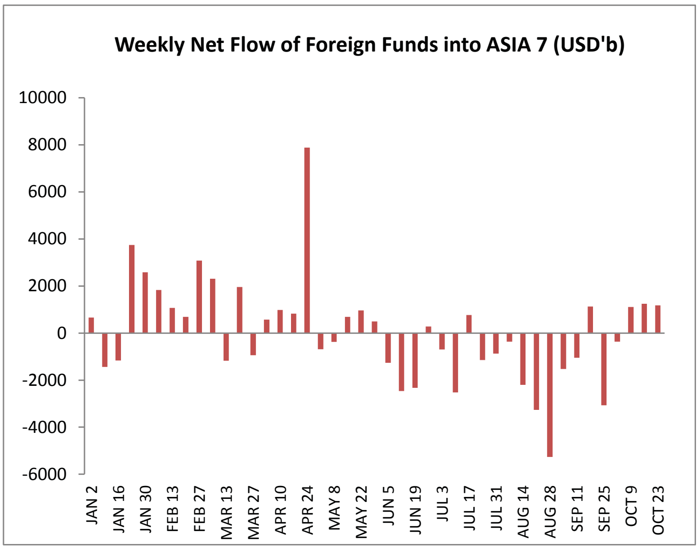
Major Asian indices (2015)

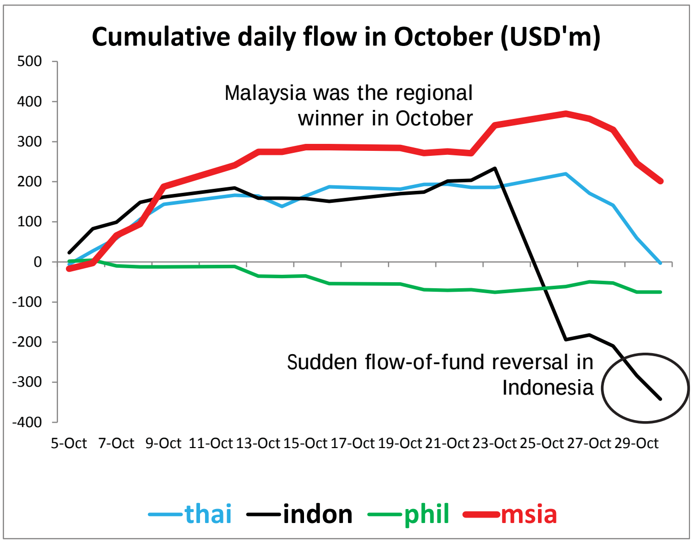


Source:Bloomberg. All in local currency.

B. TRACKING MONEY FLOW - ASIA [1]

- After three weeks of buying, global funds turned net sellers of Asian equity.
- Based on provisional data from the respective exchanges, investors classified as “foreign” sold USD725m net in the 7 Asian stock markets that we track (TIPs + India, Taiwan, Korea and Malaysia). It was a moderate turnaround from the USD1.2b net purchase the week before.
- Notable loser among Asian markets last week was Indonesia. The JCI was the worst performer last week as foreign funds liquidated their positions at the fastest rate this year. Foreign investors sold a whopping USD576m last week, with most of it recorded on Monday. However, it was well absorbed by local funds as we note that prices held steady on the day. The major retracement happened on Thursday after the Fed’s pronouncement. The JCI fell 3% while the Rupiah shed 1%. Indonesia is seen as one of the most vulnerable markets in Asia to a U.S. rate hike. Bank Indonesia last cut the benchmark interest rate in February to 7.50% and there is strong expectation that the Bank may cut rate again this year. With the U.S. raising its rate, interest differential will potentially narrow, putting pressure on the Rupiah.
- Coincidentally, the heavy attrition in Indonesia last week occurred in a week when President Jokowi met President Obama. Immediately after the meeting, Jokowi announced the intention for Indonesia to join the Trans Pacific Partnership Agreement (TPPA). During Jokowi’s visit, business deals worth USD20.1b was signed.
- Thailand also recorded a spike in foreign selling last week. The Finance Ministry last week cut its GDP growth estimate to 2.8% in 2015 from 3.0%. That was in line with the central bank’s estimate of 2.7%. The Ministry expects growth of 3.4-3.8% in 2016.
- Taiwan remained one of the more favoured Asian destination last week, as overseas investors bought for the fifth week running. It is apparent that the Taiwan market benefits from a spillover of optimism as a result of China’s renaissance. However, the amount purchased tapered significantly last week, in line with the trend in broader Asia as investors retreat in ancipation of volatility ahead of the Fed’s December dateline. Taiwan’s 3Q15 GDP contracted -1.01%yoy, the first decline since the Financial Crisis, according to preliminary data released by the statistics bureau on Friday.





[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.

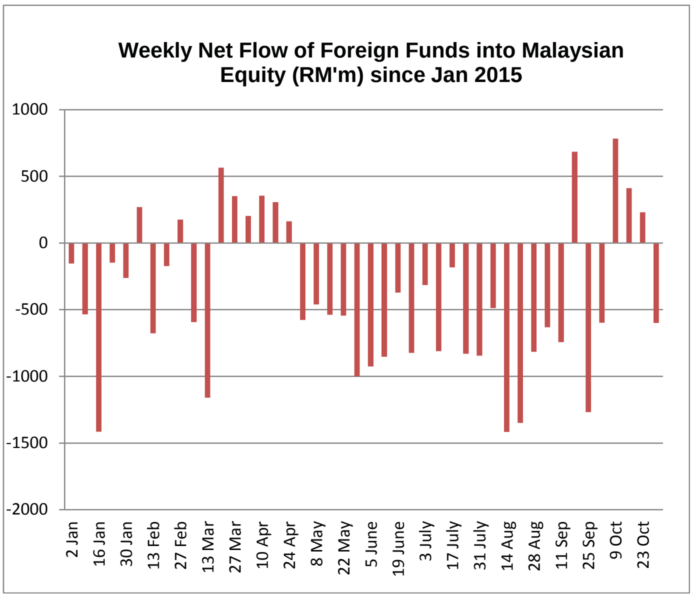
WEEKLY NET FLOW OF FOREIGN FUND INTO EQUITY (USD’m)

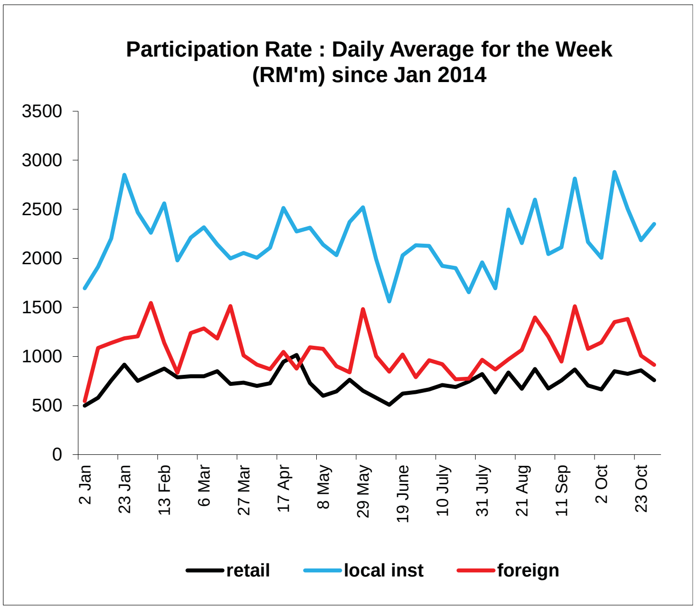
WEEK ENDED	KOREA	THAI	INDON	PHIL	INDIA	TAIWAN	MALAYSIA	TOTAL
SEP 18	313.9	61.3	-116.1	-525.0	575.0	655.2	161.4	1125.7
SEP 25	-923.2	-277.2	-139.7	-49.9	-287.5	-1099.9	-294.1	-3071.5
OCT 2	116.8	-158.1	-42.2	-8.4	-221.9	79.8	-135.1	-369.3
OCT 9	303.0	143.9	161.8	-12.3	122.7	201.1	187.7	1107.9
OCT 16	-70.1	43.4	-10.5	-22.9	418.5	804.5	98.9	1261.8
OCT 23	-97.7	-1.1	82.1	-21.8	304.6	856.4	54.3	1176.8
OCT 30	-134.7	-189.4	-575.6	0.8	128.5	185.3	-139.4	-724.5

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

C. TRACKING MONEY FLOW - MALAYSIA

- On Bursa, foreign investors turned net sellers after three consecutive weeks of buying.
- Foreign funds sold an aggregate RM600.1m, net of purchases, in the open market (i.e excluding off-market deals) last week, after mopping up RM1.43b in the preceding three weeks.
- It was not an outright deficit week though. Overseas investors were still accumulating local equity on Monday, buying RM123.1m on the day. It was obviously a carry-forward momentum from the preceding Friday when a huge RM296.5m inflow was recorded.
- The turnaround was on Tuesday, similar to that observed in Thailand. In Jakarta, foreign funds dumped their holdings heavily a day earlier.
- The real damage was on Thursday, in the aftermath of the Fed's hawkish declaration of intent. Foreign selling on the day surged to RM359.7m, the 12th highest in a day this year. On Friday, the selling tapered to RM191.5m.
- For 2015, last week's attrition raised the cumulative net foreign outflow to RM17.5b, compared with the RM6.9b outflow for the entire 2014. However, the October month recorded a relatively rare incidence of foreign buying this year amounted to RM622.2m, the first surplus since April and only the second time in the last 14 months!
- As forewarned by the title of this report, we are entering a period of low market activity. This is evidenced last week by a significant drop in foreign participation. Average daily gross volume fell to RM916m, the first time it dipped below the RM1b mark in seven weeks.
- Local institutions bought RM503.7m on a yet active RM2.35b participation rate.
- The retail market was vibrant in October. However, it is likely to take a breather in line with the broader market. Participation rate fell below RM800m for the first time in four weeks at RM758m. Retail investors bought RM96.4m net last week, but these are either late in the game or have the wherewithal to hold.





BURSA MALAYSIA: WEEKLY MARKET PARTICIPATION (RM'm)

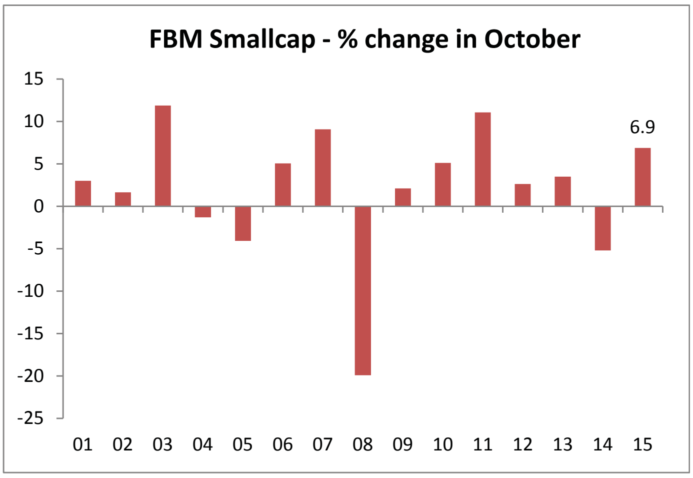
Week ended	LOCAL RETAIL			LOCAL INSTITUTION			FOREIGN			
	BOUGHT	SOLD	NET (RM)	BOUGHT	SOLD	NET (RM)	BOUGHT	SOLD	NET (RM)	NET (USD)*
SEP 11	1872.2	1911.9	-39.7	5673.1	4889.6	783.5	1998.8	2742.6	-743.8	-172.0
SEP 18	1656.0	1820.7	-164.7	5366.1	5886.4	-520.3	3365.5	2680.5	685.0	161.4
SEP 25	1480.4	1335.1	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
OCT 9	2028.9	2216.5	-187.6	6904.7	7500.5	-595.8	3767.0	2983.6	783.4	187.7
OCT 16	1638.6	1656.0	-17.4	4813.4	5207.7	-394.3	2969.2	2557.5	411.7	98.9
OCT 23	2110.3	2182.3	-72.0	5384.1	5542.5	-158.4	2638.3	2407.9	230.4	54.3
OCT 30	1943.6	1847.2	96.4	6126.9	5623.2	503.7	1989.3	2589.4	-600.1	-139.4

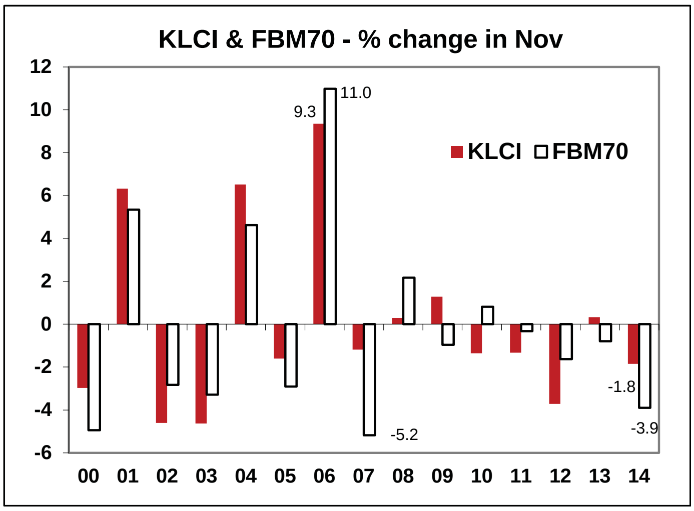
* Estimate by MIDF Research based on prevailing exchange rate.
Source: Bursa's preliminary data

D. THE WEEK AHEAD

NOVEMBER HAZE

- Trading in October ended last Friday on an ominous note as investors in general began to withdraw from the market ahead of what is expected to be a volatile period until December 16, when the Federal Reserve may increase its policy interest rate.
- Still, for the month, the KLCI and FBM70 indices gained 2.8% and 4.1% respectively, the best performance for the month of October in four years. Meanwhile, small capitalized stocks also had the best October in four years as the FBM Smallcap Index rose 6.9%. It was also the best monthly gain since May 2013 (see chart).
- Trading crosses over to November on Monday. After a strong October, we are expecting a subdued month ahead. After all, history is not exactly on the side of the penultimate month of the year. Both the KLCI and FBM70 ended in the redzone in November, in four out of the last five years (see chart). Last year, the KLCI fell -1.8% while the FBM70 shed a sizeable -3.9%.
- We would especially caution against taking excessive position in small cap stocks. The FBM Smallcap index fell a whopping -7.1% in November last year, and had declined during the same month in the last six successive years. After a relatively strong October for small caps, as aforementioned, we expect the equity class to take a breather this month.





HIGHER VOLATILITY UNTIL FOMC DEC MEET

- The stage is set for the Fed to raise interest rate in December. Our house view is that the Fed will raise the Federal Fund Rate by 25 basis points at its meeting on Dec 16. It could be higher, by 50 basis points, but the final decision will depend on the strength of the economy and the core inflation rate. The latter, which excludes the volatile food and fuel costs, was at 1.9% in September and the October statistics will be unveiled on November 17. The Fed has already indicated that it will raise interest rate once the inflation number hit 2.0%, as long as the underlying employment condition remain at current level.
- Exhibiting demure trading pattern on Bursa, the KLCI's 30-day volatility of 12.35 was the second lowest among the major benchmarks in Asia last week. In comparison, similar measure of volatility was twice as high in Jakarta. Bursa is likely to be under the radar in the weeks ahead as foreign liquidity in the system is still very low. Even after the selling last week, we expect further attrition of the residual RM622m of foreign funds that bought into local stocks in October. However, there should be ample local liquidity to absorb any withdrawal.

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