

## 5. Stock Markets

In the first few months of 2019, positive developments at home and abroad combined to bolster Taiwan's benchmark stock index, the Taiwan Stock Exchange (TWSE) Capitalization Weighted Stock Index (TAIEX). First, signs of thawing in US-China trade friction sent a wave of international capital back into emerging markets, and, as a result, foreign portfolio investors net bought in Taiwan as they increased long positions of TAIEX stocks and futures. Along with local market expectations of record high dividends and rallies on major foreign stock exchanges, the TAIEX climbed to a period high in early May. The gains were followed by a series of corrections through the end of August amid a flurry of developments regarding the US-China trade dispute, political instability in Hong Kong, and net foreign investor selling of TAIEX stocks.

Later, the TAIEX was boosted by several favorable factors, including US stock rallies successively breaking records, iPhone sales exceeding expectations, and the prospect of factory orders being diverted to Taiwan amid US-China trade friction that led to aggressive foreign buying of associated tech stocks. Such upside forces lifted the TAIEX towards a 29-year high in mid-December. At the end of 2019, the TAIEX closed with a 23.3% year-on-year increase.

### Major Statistics of the TWSE Market

Year/Month	Stock Price Index (end of period)	Daily Average Trading Value (NT\$ Billion)	Turnover Rate (%)	Market Capitalization (NT\$ Billion)	Net Buying Positions (NT\$ Billion)		
					Foreign Investors Net Buy/Sell	Securities Investment Trust Companies Net Buy/Sell	Securities Dealers Net Buy/Sell
2017	10,642.9	97.5	78.4	31,831.9	155.2	-33.5	11.4
2018	9,727.4	119.9	92.6	29,318.5	-355.1	-1.5	-99.4
2019	11,997.1	109.4	80.4	36,413.5	244.2	11.3	52.5
2019/ 1	9,932.3	83.5	5.9	29,919.9	37.0	2.4	20.8
2	10,389.2	113.3	4.7	31,286.3	64.7	-1.9	11.9
3	10,641.0	101.4	6.3	32,126.6	1.7	0.4	4.7
4	10,967.7	119.5	7.2	33,106.6	54.4	-4.3	17.2
5	10,498.5	105.9	7.3	31,717.1	-144.9	-0.9	9.5
6	10,730.8	94.8	5.6	32,424.5	39.4	5.4	10.1
7	10,823.8	107.2	7.5	32,706.5	-12.7	3.8	-3.2
8	10,618.1	113.9	7.4	32,117.2	-121.3	5.3	-0.6
9	10,829.7	109.5	6.4	32,784.6	89.7	1.6	-16.5
10	11,358.7	122.9	7.5	34,388.6	124.8	1.3	-16.8
11	11,489.6	122.4	7.4	34,809.1	57.9	1.6	-0.8
12	11,997.1	118.3	7.2	36,413.5	53.4	-3.5	16.2

Source: Securities and Futures Bureau, FSC.

Among the categories listed on the TWSE, the Automobiles category gained the most with a 78.5% rise, benefiting from government subsidies and successful new model launches. The 36.0% rise in the Electronics category was the second largest, thanks to transferred orders in response to the US-China trade war, strong sales of new iPhones, investor enthusiasm, mounting up in reaction to a positive 5G outlook, and robust net foreign buying of tech stocks.

Overall, the TAIEX daily average trading value amounted to NT\$109.4 billion in 2019. Though 8.8% lower than the previous year, the value was the second highest since 2011 and continued to register above NT\$100 billion.

In 2019, the Taipei Exchange (TPEX) weighted stock price index of the over-the-counter market closed the year 20.9% higher than 2018, with most categories posting year-on-year rises except for Iron & Steel and Biotech & Medical Care equities. The Electronics group registered the largest gain of 36.1%, boosted by bullish sentiment with respect to TWSE-listed Electronics shares. Shipping & Transportation companies enjoyed a 21.8% rise in their share prices, the second largest of all groups, as international oil price declines helped trim their operation costs. Overall, the TPEX daily average trading value decreased by 4.8% year on year, totaling NT\$31.4 billion in 2019.

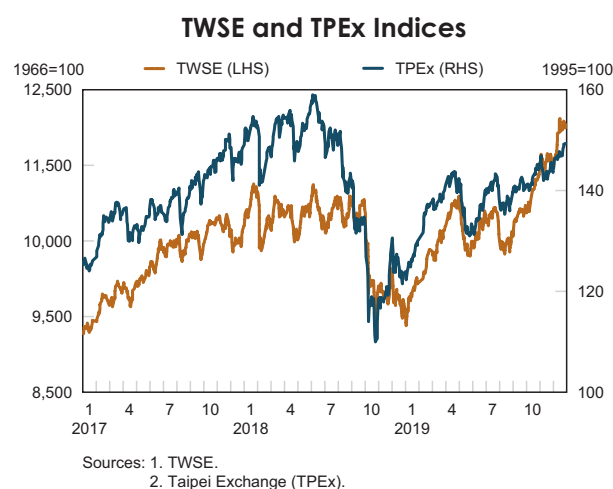
## The TWSE Market

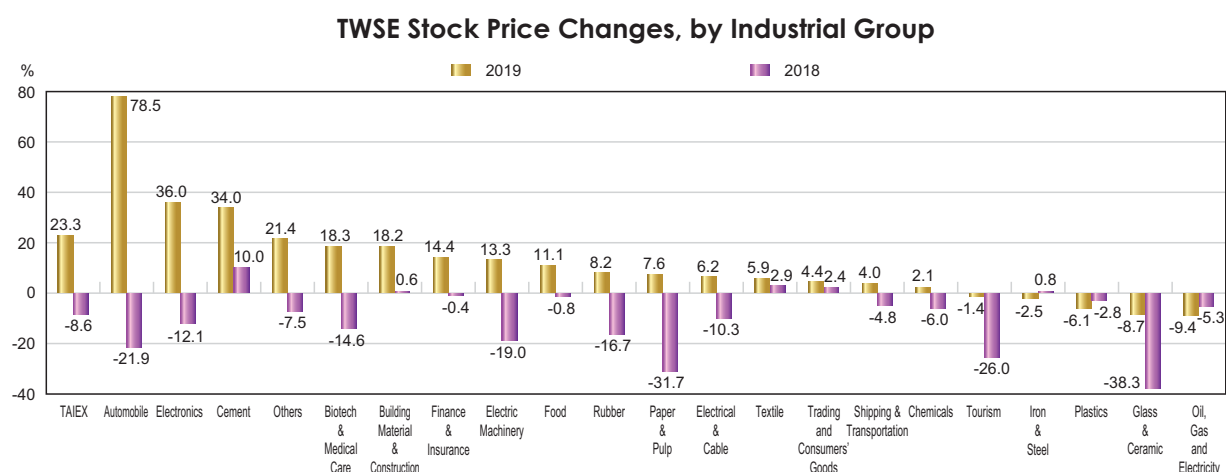
### Listings and Capitalization Both Increased

At the end of 2019, the number of TWSE listings increased by 14 to reach a total of 942. The par value of total shares issued decreased marginally by 0.05% year on year to NT\$7.2 trillion owing mainly to a handful of de-listings and capital reduction. Total market capitalization was NT\$36.4 trillion, a marked rise of 24.2% from the year before. As for Taiwan depository receipts (TDRs), the total number stood at 14 at the end of 2019 as three existing TDRs went delisted.

### TAIEX Swung to Record High in 29 Years

As the year 2019 unfolded, US-China trade friction eased markedly, inducing renewed capital flows into emerging market economies, and foreign investors net bought in the TWSE market to increase equity and futures long positions. Meanwhile, investor sentiment was generally buoyed by anticipation of record-high stock dividends. As a result, the TAIEX joined major foreign stock indices in rebounding and climbed to 11,096 points on May 3.





However, volatile months followed. Across the world, market sentiment was chiefly driven by the twists and turns of the US-China trade conflict - including an additional tariff hike to 25% on US\$200 billion worth of Chinese exports to the US (announced on May 6), the trade blacklisting of Chinese tech giant Huawei in mid-May, market optimism surrounding the end-of-June Trump-Xi meeting, the proceeding of bilateral trade talks in July, the imposition of 10% tariffs on another US\$300 billion of Chinese goods (announced in early August), and a 90-day reprieve on the US ban on Huawei (extended to Nov. 19). These developments, combined with pro-democracy protests in Hong Kong and net foreign selling of Taiwan shares, triggered wild fluctuations in the TAIEX through the end of August.

Later, the TAIEX was led higher by bullish factors at home and abroad, including the Fed's three consecutive rate cuts, multiple US stock rallies to record highs, better-than-expected sales of new iPhones, favorable tariff implications of trade diversion for Taiwanese businesses, and a related foreign net buying of the tech shares expected to benefit therefrom. As a result, the local mainboard index continued trending upwards, reaching the yearly peak of 12,122 points on December 18, which was the highest level recorded on the TAIEX in 29 years. The TAIEX closed the year of 2019 at 11,997 points, representing a 23.3% rise over the 9,727 points of the year 2018.

Broken down by subcategory, most industrial groups recorded year-on-year rises, except for four categories, namely Oil, Gas & Electricity, Glass & Ceramics, Plastic, Iron & Steel, and Tourism. Automobile shares rose by 78.5%, the largest gain among all categories, as the car market was bolstered by a government incentive program to encourage trading old vehicles for new ones and strong sales of new car models. The Electronics category's 36.0% gain was the second largest, as foreign investors aggressively built up tech positions on the TWSE against a backdrop of a huge increase in diverted orders, particularly for the smartphone IC and manufacturing industries, to

avoid US tariffs on Chinese goods, a positive market response for new Apple iPhones, and bullish sentiment about 5G network and AI technologies. The third largest gainer, with a rise of 34.0%, was the Cement category because a price rebound and sustained demand from China's urban development and housing policy reform boosted revenues of major cement producers.

On the other hand, among those with year-on-year declines, Oil, Gas & Electricity suffered the largest loss of 9.4% as international oil prices experienced a relative slump. Glass & Ceramics took a dive of 8.7%, as slow business dampened pull-in momentum and hurt company revenues. Plastics dropped 6.1%, weighed down by falling plastic-chemical product quotations owing to overcapacity in the China market.

### **Market Turnover Decreased**

For year 2019, TWSE market turnover, measured on a daily average basis, decreased by 8.8% to NT\$109.4 billion from the NT\$119.9 billion of the previous year. The value, albeit lower, was the second highest since 2011 and still registered above the significant NT\$100 billion level. Reflecting that moderate decrease, the turnover rate also slipped from the 92.6% of 2018 to 80.4%, which was higher than those of the US and the UK and similar to that of Japan.

### **Net Purchases by Institutional Investors**

In 2019, all three types of institutional investors, who were net sellers the year before, net bought on the TWSE, with foreign investors, local securities investment trust companies and local securities dealers posting net purchases of NT\$244.2 billion, NT\$11.3 billion, and NT\$52.5 billion, respectively.

Foreign institutional investors were net buyers in the first four months of 2019, encouraged by a reprieve in US-China trade tensions that also sparked a wave of capital flows back to emerging market economies. However, foreign net selling was recorded in May, July, and August, in tandem with a capital outflow from the region in the midst of renewed escalation in the trade conflict and political unrest in Hong Kong. Then, the last four months of the year witnessed a successive row of net foreign buying, buoyed by Fed rate cuts, solid sales of new iPhones, and expected benefits of orders diverted to Taiwan's tech firms owing to the US-China trade conflict.

Local securities investment trust companies were net sellers in February, April, May, and December, during which they offloaded shares to take profits in order to meet fund redemption demand, to boost their financial statements, or to adjust portfolios at higher price levels. In the other months, net purchases were recorded.

Local securities dealers, with inclination for short swing trading, net sold in the months of July through to November as a result of hedging or portfolio adjustment and net bought in the other months of the year.

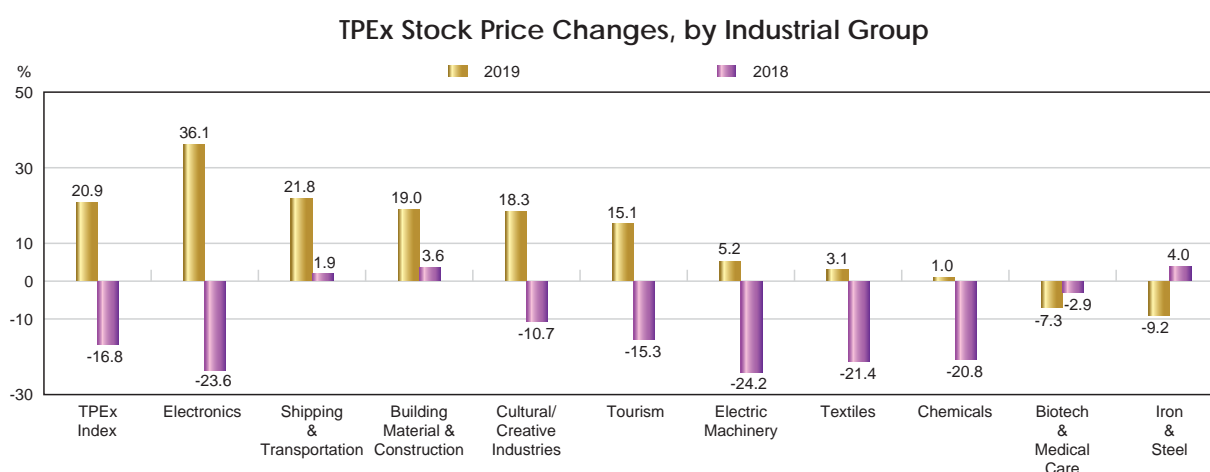
## The TPEX Market

### Listings and Capitalization Increased

At the end of 2019, the number of TPEX listings increased by 9 to 775. The total par value rose by 1.1% year on year to NT\$746.7 billion, while market capitalization mounted by 21.5% over the previous year to NT\$3.43 trillion.

### TPEX Index Swung Higher

Share movements on the TPEX in 2019 were generally similar to those on the TWSE. The index opened the year higher and continued an uptrend toward a period high of 143.8 points in late April, before bouts of the US-China trade disputes sent the index on a bumpy ride through the end of August. Later in the year, stronger-than-expected sales of new iPhones and the effects of diverted orders from China to Taiwan gave a considerable boost to electronics shares, driving the TPEX index to swing upwards to the yearly high of 149.4 points at the end of the year, a 20.9% year-on-year rise compared to 123.5 points at end-2018.



Source: TPEX.

Most TPEX-traded industrial groups posted gains in the year, except for Iron & Steel and Biotech & Medical Care shares. The largest year-on-year increase of 36.1% was registered by the Electronics category, spurred by rallies on the TWSE for the same industrial group. Shipping & Transportation companies recorded the second highest rise in share prices, climbing by 21.8% as cheaper oil helped reduce their costs.

In terms of institutional investor behavior, foreign investors and local securities investment trust companies net bought TPEX securities worth NT\$38.3 billion and NT\$2.1 billion, respectively. Local dealers posted a record high net sale of NT\$299.9 billion as they slashed their positions in bond exchange-traded funds (ETFs).

For year 2019, the daily average turnover in the TPEx market decreased by 4.7% from the NT\$33.0 billion of 2018 to NT\$31.4 billion.

### **Key Measures for the Stock Markets**

Key measures for Taiwan's stock markets in 2019 included the following:

- (1) January 1: Effective from this date, there would be no stock trading and settlement on the Saturdays adjusted to be business days to reflect holiday date changes.
- (2) February 1: The Financial Supervisory Commission (FSC) would allow all 14 foundations under its management to invest in mutual funds and ETFs linked to Taiwanese equities, and unsecured corporate bonds, with the maximum investment capped at 20% of the total property value of the foundation.
- (3) April 30: First-ever local listings of exchange-traded notes (ETNs) began to be launched.
- (4) August 15: The FSC promulgated the *Regulations Governing the Financial Investment, Management, and Utilization of Repatriated Offshore Funds*, stipulating that such funds could be drawn into a segregated trust account or segregated securities discretionary account for financial investment within the following scope only: (1) domestic securities, (2) trading of securities-related futures or options on the Taiwan Futures Exchange, and (3) domestic insurance products.
- (5) October 3: The FSC promulgated the *"Operation Directions Governing Securities and Futures Businesses' Application for the Approval of Business Trial Runs"* in an effort to encourage the offering of innovative financial products or services, which would in turn help promote corporate competitiveness and strengthen financial consumer rights.