

## 6. Stock Market

The Taiwan Stock Exchange (TSE) capitalization weighted stock index (TAIEX) closed the year 2009 up 78.3 percent from the end of the previous year. All industrial groups performed better than last year, with construction and textile industry shares among the strongest. The TAIEX daily average trading value was NT\$118.3 billion, increasing by 12.8 percent from the previous year.

At the end of 2009, the weighted stock price index of the GreTai Securities Market (GTSM), an over-the-counter market, rose 133.1 percent compared to the end of 2008, with all industrial group shares gaining. The daily average trading value was NT\$20.9 billion, an increase of 58.3 percent from the previous year.

### The TSE Market

#### Listings Increased Substantially

At the end of 2009, the number of listed companies in the TSE market totaled 741, an increase of 23 from the end of 2008. The par value of shares issued amounted to NT\$5.9 trillion, rising 2.3 percent from a year ago. The total market capitalization grew 79.7 percent from the

### Major Statistics of the TSE Market

	Stock price Index* (1966=100)	Daily Average Trading Value (NT\$ Billion)	Turnover Rate (%)	Market Capitalization* (NT\$ Billion)	Net Buying / Sale Positions** (NT\$ Billion)		
					Foreign Investors Net Buy/Sell	Securities Investment Trust Companies Net Buy/Sell	Securities Dealers Net Buy/Sell
2007	8,506.3	133.8	153.3	21,527	74.1	155.4	15.8
2008	4,591.2	104.9	145.5	11,707	-470.0	44.0	43.3
2009	8,188.1	118.3	178.3	21,034	480.1	-28.9	10.0
2009/ 1	4,248.0	56.4	7.8	10,844	-51.9	-2.5	1.8
2	4,557.2	65.5	11.3	11,636	-15.0	1.1	1.5
3	5,210.8	105.0	17.5	13,199	13.4	-2.5	1.3
4	5,992.6	142.4	20.8	15,098	103.7	-4.3	1.9
5	6,890.4	192.2	19.9	17,349	63.6	5.3	2.4
6	6,432.2	123.7	17.6	16,215	21.9	-8.1	-7.1
7	7,077.7	131.8	17.0	17,893	84.5	-1.4	11.0
8	6,826.0	104.8	12.1	17,330	9.4	2.8	-6.0
9	7,509.2	120.0	13.8	19,108	142.2	2.6	1.0
10	7,340.1	126.3	14.8	18,728	-12.0	-9.0	-5.6
11	7,582.2	108.8	11.8	19,403	21.8	-0.4	2.0
12	8,188.1	128.1	14.0	21,034	98.5	-12.6	5.9

Notes: \* Refers to end-of-period data.

\*\* Minus sign "-" indicates net sale positions.

Source: Financial Supervisory Commission, Executive Yuan.

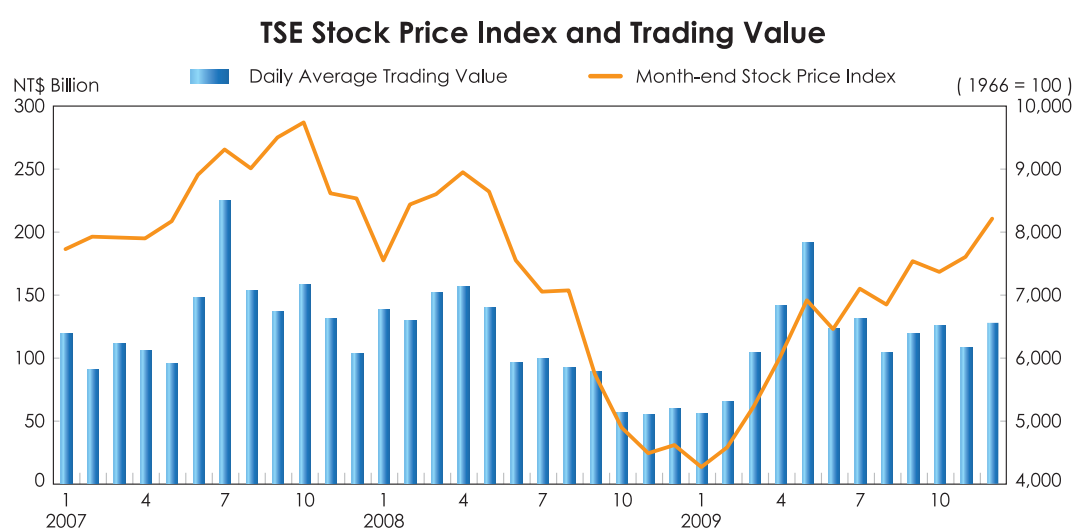
previous year-end to NT\$21 trillion. In addition, a total of 10 companies issued Taiwan Depository Receipts (TDRs) in 2009, a record increase since the last TDR issuance in 2003.

## Share Prices Surged

In January 2009, as the US recession deepened, the Dow Jones Industrial Average index plummeted. It also adversely affected the performance of Taiwan's IT industry. Combined with a continued sell-off by foreign investors, the above factors dragged down the TAIEX with a low of 4,243 points recorded on January 20.

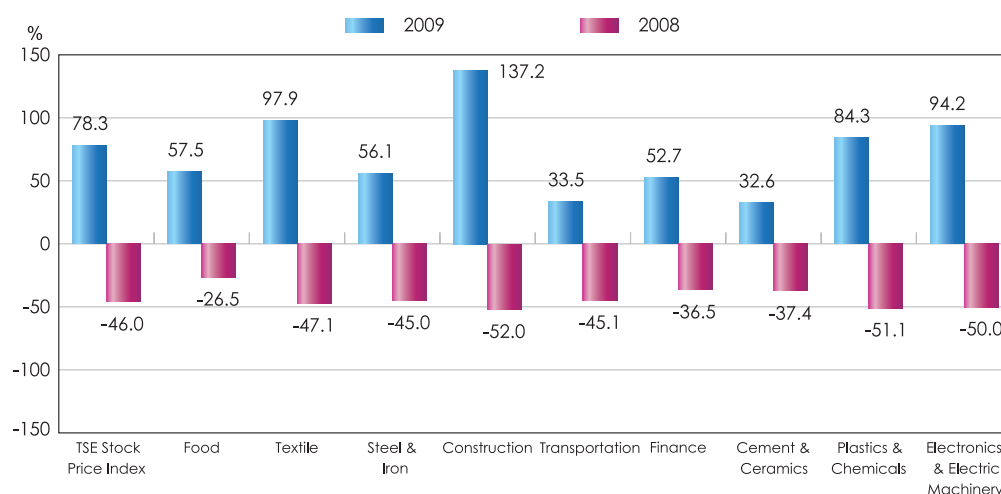
However, a flush of funds due to low interest rates and the bottoming out of US stock markets in mid March combined to set off a worldwide upswing in stock markets. In late June, the government markedly loosened restrictions on Chinese investment in Taiwan, encouraging foreign investors to net buy in the TSE market and spurring the TAIEX to a high of 7,143 points on July 28. Nevertheless, notable downward corrections in Chinese stock markets as well as some political effects in the aftermath of the August 8 flood in Taiwan combined to bring down the TAIEX, which dipped to 6,655 points on August 21.

From late August, US stock markets rose steadily on evidence of improved economic conditions as well as the Fed's decision to leave interest rates unchanged. Meanwhile, favorable developments in cross-strait relations, such as the possible signing of memorandums of understanding (MOUs) on financial cooperation and the Economic Cooperation Framework Agreement (ECFA), also attracted increasing foreign investment in Taiwan's stock market. Against this backdrop, the TAIEX continued a strong upswing to reach an all-year high of 8,188



Source: Financial Supervisory Commission, Executive Yuan.

### Changes in Industrial Group Stock Price Indices in the TSE Market



Source: TSEC Monthly Review, Taiwan Stock Exchange Cooperation.

points on December 31, 2009, a remarkable rally of 78.3 percent from the 4,591 points at the end of 2008.

In terms of stock price changes in industrial groups, all industrial group stock indices enjoyed significant gains during the year. This was mainly because the economy seemed to have bottomed worldwide as the financial turmoil gradually subsided, sending global stock markets upward. Likewise, foreign investors bought more than they sold in the Taiwan Stock Exchange. The net purchase by foreign investors and ample liquidity on the domestic scene combined to prop up all industrial group shares, with the best performance delivered by the construction, textile, and electronics & electric machinery stocks.

### Turnover Rose Moderately

The extended gains in the domestic stock market bolstered investor confidence, rekindling trading activity. For the year of 2009, the TAIEX market recorded a daily average turnover of NT\$118.3 billion, growing by 12.8 percent from the NT\$104.9 billion of the previous year.

### Dealers and Foreign Investors Net Bought, While Local Securities Investment Trust Companies Net Sold

In 2009, foreign investors bought a net NT\$480.1 billion in the TSE market, along with an NT\$10 billion net purchase by local securities dealers. In contrast, local securities investment trust companies net sold NT\$28.9 billion in the year.

Net sales by foreign investors were only registered in January, February, and October, with

the rest of the months of the year recording net buying. For the first two months, foreign investors net sold on bearish views of the Taiwan market due to concerns about deteriorated global economic conditions and share price slumps around the world. The net sale in October was induced mainly by stock market corrections globally and profit-taking in TAIEX stocks after a wave of upsurge.

From March onwards, foreign investors set off a seven-month streak of net buying mainly due to positive developments in both Taiwan and the world. Internationally, the global economy was healing and the US stock market had continued to firm up since mid-March. On the other hand, cross-Strait relations had greatly improved, supporting the optimism for closer cooperation in economy and trade between Taiwan and China. Towards the end of the year, the signing of a cross-Strait MOU on financial cooperation as well as the ECFA attracted attention. At the same time, US stocks posted strong performance with renewed all-year highs for several times. These factors combined to encourage foreign investors to net buy in the TSE market in both November and December.

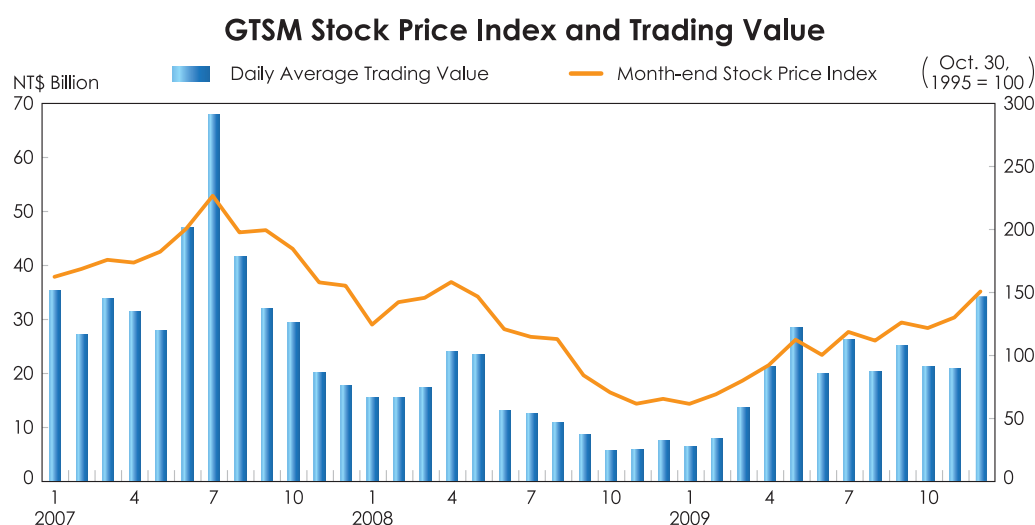
Local securities investment trust companies adopted a relatively conservative strategy and net sold in eight months out of twelve in the year of 2009. The net sale in January was attributable to massive share-offloading by foreign investors amid weak global stock markets. Net sales recorded in the other 7 months (March, April, June, July, October, November and December) were a result of profit taking in stocks after sufficient short-term gains. On the other hand, they net bought in February as they increased holdings of stocks deemed undervalued after a considerable price fall. In May, a net purchase emerged on hopes that the MOU on financial cooperation, if inked, would boost the TSE market with an influx of approved Chinese investment. Seeing that foreign investors bought vigorously in the TSE market amid the ongoing bull run in global markets, domestic securities investment trust companies also net bought in August and September.

As for local securities dealers, they tend to opt for short-swing trading and often net buy on rising prices and net sell on falling prices. However, they net bought in January despite a flagging stock market, taking the chance to invest more while prices were at historical lows. By contrast, they net sold in June, August and October on a bearish market. Net buying was recorded in all the other months as local securities dealers naturally bought more than they sold in a strong market.

## **The GTSM Market**

### **GTSM Listings Increased Modestly**

At the end of 2009, the number of listed companies in the GTSM market increased by 7



from a year before, bringing the total to 546. This showed a turnaround from the first-ever annual decrease in 2008. The par value of total shares amounted to NT\$772.7 billion at the year-end, rising 9.9 percent from the end of the year before. Market capitalization surged by a remarkable 147.9 percent from the previous year-end to NT\$1,914.2 billion.

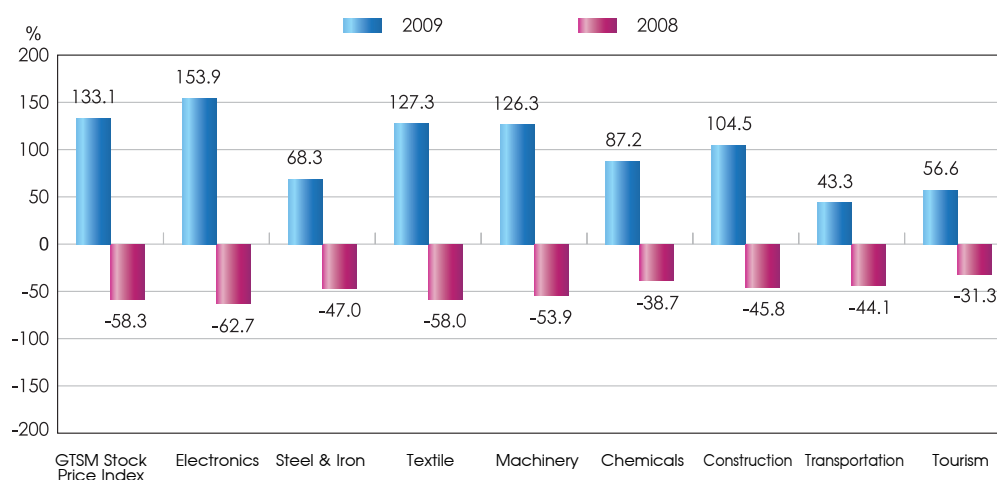
### Share Prices and Turnover Increased Significantly

At the beginning of the year, affected by the deteriorating global economy and the ensuing plunge in stock markets, foreign investors net sold in the Taiwan market, dragging down GTSM share prices to a yearly low of 60.5 points on January 21. But the low share prices attracted local securities investment trust companies, leading to a market rebound in February.

From March onwards, the GTSM index further strengthened. First, the US stock market rally bolstered the global market. Then in late June, the government deregulation regarding Chinese investment in Taiwan boosted stock purchases by both foreign investors and local securities investment trust companies. As a result, the GTSM index climbed steadily to peak at 117.5 points on July 31. However, the political impact in the wake of the August 8 flood, on top of the profit-taking pressure to offload high-priced share holdings, contributed to a faltering performance in August.

Towards the end of the year, the US stock market kept rising to new highs on encouraging US economic data. Meanwhile, the cross-strait MOUs and ECFA also offered an optimistic outlook. Benefiting from the above developments, investment of foreign investors and local

### Changes in Industrial Group Stock Price Indices in the GTSM Market



Source: GreTai Securities Market.

securities investment trust companies showed a net purchase and had thus sent the GTSM market on an upward climb from September. On December 31, the GTSM index closed at an all year high of 150.1 points, gaining by 133.1 percent from 64.4 points at the end of 2008.

For the year of 2009, foreign investors net bought NT\$30.5 billion in the GTSM market, followed by local securities investment trust companies and securities dealers, who bought a net of NT\$12.2 billion and NT\$5.3 billion, respectively. The daily average turnover in the GTSM market was NT\$20.9 billion, a growth of 58.3 percent from the previous year's NT\$13.2 billion.

### Key Government Measures for the Stock Market

Many important measures for the stock market were implemented in 2009, including the following:

1. On January 15, the Financial Supervisory Commission (FSC) approved the application for setting up the MF Global Futures Trust Co., Ltd., the first of its kind in Taiwan.
2. On January 19, the FSC approved the Taiwan Futures Exchange to launch a new Gold Options contract, expanding the family of commodity futures products in addition to the existing US dollar- and NT dollar-denominated gold futures contracts.
3. On April 30, the FSC promulgated the Regulations Governing Securities Investments and Futures Trading in Taiwan by Investors from Mainland China, giving permission for Mainland Chinese to invest in Taiwan's securities and futures markets. The FSC further announced on December 23 that a Mainland Chinese investor may, pursuant to the aforesaid Regulations, invest in Taiwan's

government bonds, money market instruments (bills of terms no longer than 90 days), and money market funds, where the total amount shall not exceed 30 percent of the investor's inward remittance.

4. On May 8, the FSC announced that the total amount of foreign currencies held by a securities investment consultant company was to be raised from 10 percent of the company's net worth to 30 percent, in accordance with its needs for business operations.
5. On May 22, the FSC announced that Hong Kong would be recognized as a place of registration for offshore Exchange Traded Funds (ETFs) and a place where fund manager can be located.
6. On July 21, the W.I.S.E. Polaris CSI 300 ETF was approved by the FSC to raise funds in Taiwan, and was later listed for trading as of August 17. Similarly, two other ETFs, the Hang Seng Index ETF and Hang Seng H-Share Index ETF, which are offered and sold in Taiwan by HSBC Global Asset Management (Taiwan) Ltd., were approved by the FSC on July 29 and listed for trading on August 14.
7. The TSE announced on September 14 the amendment to the Rules Governing Review of Securities Listings to allow a foreign IT enterprise whose depository receipts already are or have been listed on any major foreign securities exchange or securities market to apply for primary listing in Taiwan.
8. On September 28, the FSC announced that, pursuant to the amendment to the Directions for the Conduct of Wealth Management Business by Securities Firms, a securities firm may conduct investment trust business as part of wealth management services for its customers.
9. On November 10, the FSC announced that the funds remitted into Taiwan by overseas Chinese and foreigners shall no longer be placed in time deposit accounts.
10. On November 16, the FSC announced that three cross-strait financial supervisory MOUs governing banking, insurance, and securities and futures were inked and will take effect within 60 days from November 16.