

6. Stock Market

At the end of 2010, the Taiwan Stock Exchange (TWSE) weighted stock price index (TAIEX) rose 9.6 percent over the previous year-end. All industrial groups recorded higher indices than 2009, with shipping and textile industry shares the top performers. The TAIEX daily average trading value was NT\$112.4 billion, decreasing by 5.0 percent from the previous year.

The weighted stock price index of the GreTai Securities Market (GTSM), an over-the-counter market, closed the year down 4.1 percent compared to the end of 2009, mainly due to falling share prices in the electronics and tourism groups. The daily average trading value was NT\$22.4 billion, an increase of 7.2 percent from the previous year.

The TWSE Market

Listings Continued to Increase

At the end of 2010, the number of listed companies on the TWSE market totaled 758, increasing by 17 over the previous year. The par value of shares issued amounted to NT\$5.9 trillion, a modest increase of 1.0 percent from a year ago. The total market capitalization grew 13.2 percent from the previous year-end to NT\$23.8 trillion. Meanwhile, 12 companies issued Taiwan Depository Receipts (TDRs) in 2010, compared to 10 the year before.

Major Statistics of the TWSE Market

	Stock price Index* (1966=100)	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
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
2010	8,972.5	112.4	136.7	23,811	281.2	-67.8	2.7
2010/ 1	7,640.4	149.1	15.1	19,706	4.1	-14.1	-10.2
2	7,436.1	93.3	6.8	19,159	-90.3	0.3	-4.5
3	7,920.1	101.1	11.4	20,426	113.1	1.8	16.3
4	8,004.3	122.4	12.4	20,647	116.4	-14.9	-4.6
5	7,374.0	94.5	10.4	19,052	-127.2	-9.7	-13.0
6	7,329.4	79.7	8.9	18,919	-12.4	-5.3	2.9
7	7,760.6	101.6	11.1	20,071	63.4	6.8	7.5
8	7,616.3	123.9	13.8	19,764	-46.2	-9.3	-2.5
9	8,237.8	125.3	12.3	21,400	79.0	-4.3	11.7
10	8,287.1	113.7	11.0	21,655	40.4	-6.3	-1.4
11	8,372.5	105.6	10.6	22,031	53.8	-4.5	1.8
12	8,972.5	133.6	12.9	23,811	87.1	-8.4	-1.2

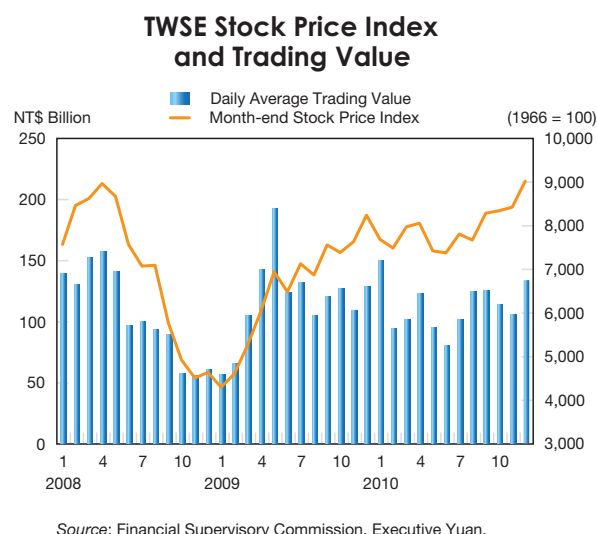
Notes: * Refers to end-of-period data.

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

Source: Financial Supervisory Commission, Executive Yuan.

Stock Indices Went up

The TWSE market opened high as the cross-strait MOU on financial cooperation was about to take effect, climbing to 8,357 points on January 15. However, the People's Bank of China's move to raise the required reserve ratio and the sovereign debt crisis in Greece and other European countries sapped its momentum, and the TAIEX skidded to 7,213 points on February 6. Then, US stock markets were boosted by easing concerns over the Greek debt crisis, and foreign investors in Taiwan responded with a huge net-purchase that pushed the TAIEX up to 8,172 points on April 15. However, the shadow of the European debt crisis loomed large again, and the resulting plunge in global stock markets dragged down the TAIEX to the 7,072 points of June 9.



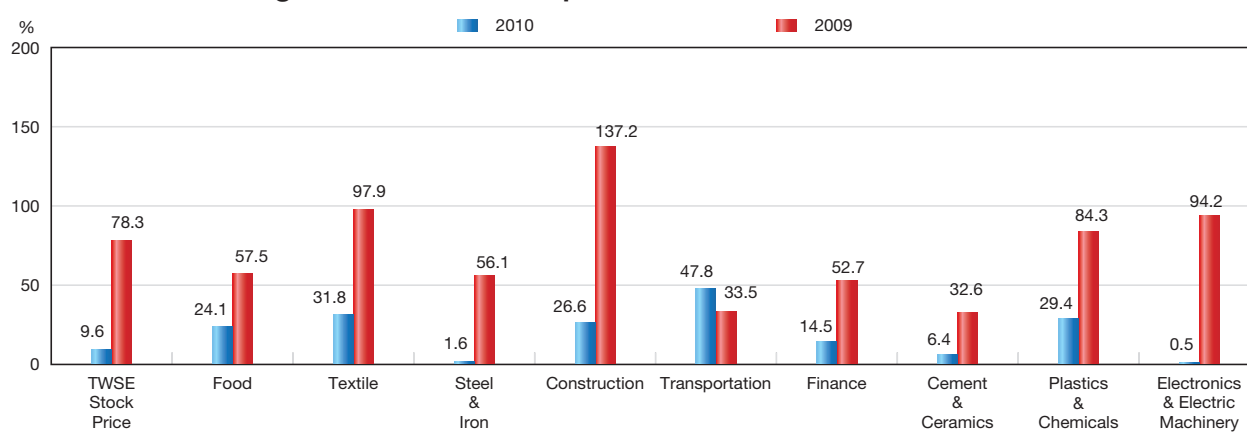
Nevertheless, in mid-June, against a backdrop of the alleviated crisis in Europe, strong upswings in US stock markets, and a bullish trend due to the potential benefits of the Economic Cooperation Framework Agreement (ECFA), the TAIEX resumed its upward trend and climbed to 8,034 points on August 9. Afterwards, heavy selling pressures of previously locked in shares around the 8,000 point threshold and a weakened US stock performance caused the TAIEX to dip.

Between September and December, the US Federal Reserve (Fed) announced a second round of quantitative easing (QE2) and induced continuous capital inflows to Asia. This propelled a substantial buyout of the TWSE market by foreign investors, which drove the TAIEX up to a yearly high of 8,973 points on December 31. This represented an annual increase of 9.6 percent, compared to the 8,188 points recorded at the previous year-end.

Traditional Industry Stocks Outperformed the TAIEX

By subcategory of industrial groups, financials and traditional industrials performed better as they attracted investors who were optimistic about the ECFA effect and potential asset price hikes supported by NT dollar appreciation. In contrast, a stronger NT dollar caused electronics & electric machinery stocks to suffer from exchange rate losses and lower earnings, posting a weaker performance than financial and traditional industry shares. Among the top performers in 2010 were shares in the groups of shipping and transportation (a 47.8 percent rise), textile (a 31.8 percent rise), and plastics & chemicals (a 29.4 percent rise), while financials gained 14.5 percent. However, electronics & electric machinery stocks rose slightly by 0.5 percent.

Changes in Industrial Group Stock Price Indices in the TWSE Market



Source: TSEC Monthly Review, Taiwan Stock Exchange Corporation.

Turnover Declined

Affected by greater volatility in the TWSE market this year, investors tended to take a more conservative stance. As a result, market turnover declined by 5.0 percent from NT\$118.3 billion the previous year to NT\$112.4 billion on a daily average basis.

Foreign Investors Net Bought

In 2010, foreign investors bought a net NT\$281.2 billion in the TWSE market. In January, bullish US stock markets and the signing of the MOU on cross-strait financial cooperation led foreign investors to buy more than they sold. Net sales were recorded in February, May, June, and August due to the European sovereign debt crisis and weak US stock markets. In contrast, as the debt crisis in Europe eased and US stock markets strengthened, foreign investors net bought in the TWSE market in March, April, and July. And in the four months from September onwards, the US Fed's QE2 resulted in capital inflows to Asia, including a series of net purchases by foreign investors in Taiwan's stock market.

Local Securities Investment Trust Companies Net Sold

Local securities investment trust companies net sold NT\$67.8 billion during the course of the year. They were faced with heavier pressures to redeem mutual funds as investors suspected the TAIEX had already neared its peak and became inclined to take profits rather than wait for limited further rises. Net sales were therefore recorded for nine months, except for February, March, and July. In both February and March, the TAIEX pulled back and investors increased holdings of stocks deemed undervalued. July's net purchase was mainly attributable to optimism about the ECFA and its positive effect on the stock market.

Local Securities Dealers Net Bought

In 2010, local securities dealers bought a net NT\$2.7 billion. They tend to opt for short-swing trading and often net buy on rising prices and net sell on falling prices. Net sales by this group appeared in January, February, April, May, August, and October, as the TAIEX experienced the doldrums. December recorded a net sale by local dealers despite a bullish TWSE market as they turned conservative in light of a substantial rise in the TAIEX. On the other hand, the signing of the ECFA and its potential benefits encouraged local dealers to increase share holdings in June despite a flagging stock market. Net buying was recorded in all of the other months as local securities dealers naturally bought more than they sold in a strong market.

The GTSM

GTSM Listings Increased

At the end of 2010, the number of listed companies in the GTSM increased by 18 from a year before, bringing the total to 564. The par value of total shares amounted to NT\$706.0 billion at the year-end, falling by 8.6 percent over the previous year. Market capitalization amounted to NT\$1,984.6 billion, rising by 3.7 percent from the end of 2009.

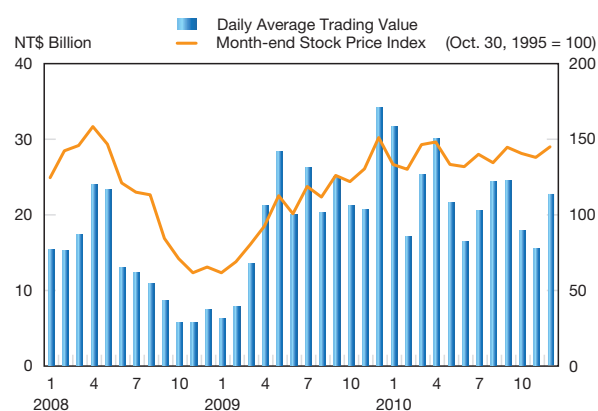
Share Prices Fell While Turnover Increased

From January to early February, the GTSM index experienced a sharp fall due to offloading by both foreign and domestic institutional investors amid a sovereign debt crisis in South Europe and the consequent plunge in global stock markets. The GTSM index dropped to an all-year low of 122.8 points on February 6.

However, the index quickly rallied to peak at 150.8 points on April 15 as foreign investors were boosted by easing concerns over the South European debt crisis, the strong US stock market rebound, and the ECFA effect. Afterwards, though, the debt crisis in South Europe aggravated and foreign investors dumped their GTSM shares amidst a slump in global stock markets, dragging down the GTSM index to 124.0 points on May 25.

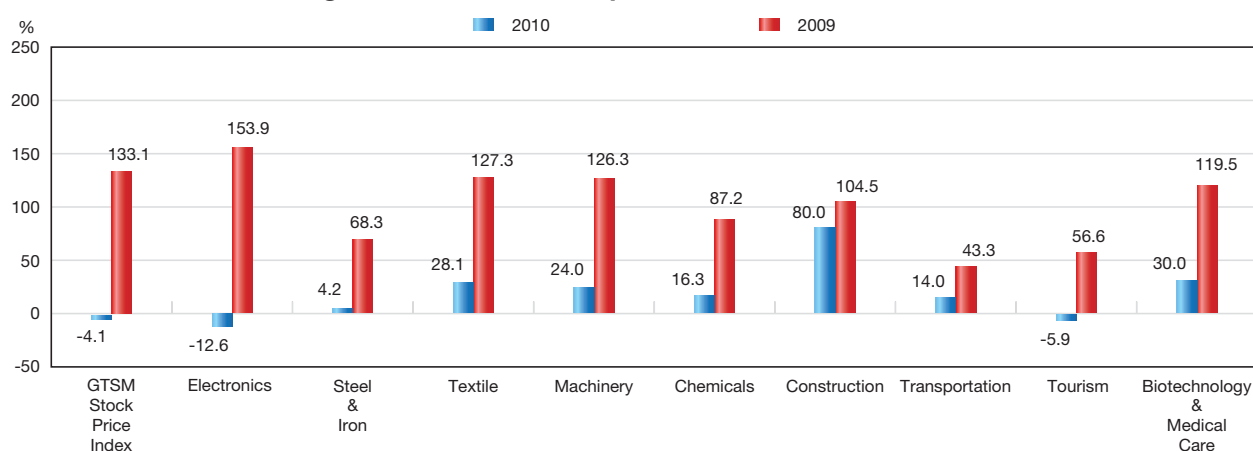
Another rebound appeared between June and mid-August, supported by an improved situation in South Europe, US stock gains, and the ECFA effect. Since the index climbed higher

GTSM Stock Price Index and Trading Value



Sources: 1. Financial Supervisory Commission, Executive Yuan.
2. GreTai Securities Market.

Changes in Industrial Group Stock Price Indices in the GTSM



Source: GreTai Securities Market.

between mid-August and October to the level registered earlier in the year, investors opted out to avert losses, while the US stock markets also experienced wild fluctuations, jointly taking the GTSM index to a period of consolidation.

Between November and December, positive factors including the US Fed's QE2, a continuous uptrend in US stock markets, and a resulting surge of capital flows into Asia boosted foreign investment in GTSM shares, lifting the index to eventually close the year at 144.0 points, 4.1 percent lower when compared to 150.1 points at the end of 2009.

For the year 2010, foreign investors net bought NT\$10.4 billion in the GTSM, local securities investment trust companies and securities dealers net sold NT\$13.8 billion and NT\$3.5 billion, respectively. The daily average turnover in the GTSM market was NT\$22.4 billion, an increase of 7.2 percent from the previous year's NT\$20.9 billion.

Key Measures for the Stock Market

The following important measures for the stock market were delivered in 2010:

- (1) On January 15, the Financial Supervisory Commission (FSC) announced the maximum amount for Mainland Chinese qualified domestic institutional investors (QDIIs) to invest in Taiwan. The combined investment made by Mainland Chinese QDIIs is capped at US\$0.5 billion, while each QDII may apply to invest in Taiwan with no more than US\$80 million. In addition, investment by each Mainland Chinese QDII in an enterprise of Taiwan's financial sector shall not exceed 5 percent of the enterprise's total shares outstanding, and the combined investment by all Mainland Chinese QDIIs shall not exceed 10 percent.

Later, the ceiling was lifted higher from US\$80 million to US\$100 million by the FSC on December 22, 2010, to better reflect the latest economic developments.

- (2) On January 25, the Taiwan Futures Exchange introduced 34 stock futures contracts and 13 new stock options contracts in a bid to further expand the width and depth of the futures market and to provide more diversified trading and hedging services.
- (3) On February 25, the FSC gave the green light to securities firms to be entrusted with or to engage in securities trading of red-chip stocks listed on the Hong Kong and Macao stock markets and exchange traded funds (ETFs) linked to Chinese equities.
- (4) On March 16, the FSC promulgated the *Regulations Governing Approval and Management of Securities and Futures Transactions and Investment Between the Taiwan Area and the Mainland Area* to regulate matters related to office set-up and investment by Mainland Chinese securities and futures firms, such as prior screening and evaluation as well as risk management and control.
- (5) On May 21, the FSC agreed to allow securities firms to offer offshore mutual funds investment in a periodic investment plan with flexibility in contribution amount so that investors may benefit from diversification and lower investment costs.
- (6) On June 8, the TSE promulgated the amendments to the *Taiwan Stock Exchange Corporation Securities Borrowing and Lending Rules*, adding that a designated offshore foreign institutional investor may use US dollars as collateral.
- (7) On November 11, in conjunction with the Bank's foreign exchange management policies, the FSC promulgated the amendments to rules and laws governing investment in securities by overseas Chinese and foreign nationals. Accordingly, foreign investment in Taiwan's government bonds shall be included in the 30 percent limit of the investor's inward remittances, whatever the remaining length to maturity. However, part of original purchase of government bonds that will not mature within one year may remain within their current positions, exempt from the 30 percent limit.