

## 6. Stock Market

Taiwan's stock indices fluctuated at high levels in the first half of 2011, while they dropped significantly in the final six months of the year, mainly attributable to the adverse effects of the Japanese earthquake in March and the deepening European sovereign debt crisis.

At the end of 2011, the Taiwan Stock Exchange (TWSE) weighted stock price index (TAIEX) was 21.2 percent lower than the previous year-end. All industrial groups reported weaker performance than the previous year, except for a slight increase of 2.2 percent for the food industry, while the shipping and construction industries recorded the biggest year-on-year falls among all groups. The TAIEX daily average trading value was NT\$106.1 billion, decreasing by 5.6 percent from the previous year.

At the end of 2011, the weighted stock price index of the GreTai Securities Market (GTSM), an over-the-counter market, fell by 34.8 percent compared to the previous year-end. All industrial groups went lower, with electronics and chemicals among the worst performers. The daily average trading value was NT\$16.17 billion, a decrease of 27.9 percent from the previous year.

### The TWSE Market

#### (1) Listings Increased While Market Capitalization Fell

At the end of 2011, the TWSE market listings totaled 790, 32 more than the end of 2010. The par

### 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
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
2011	7,072.1	106.1	119.9	19,216	-277.6	9.4	-45.6
2011/ 1	9,145.4	131.1	10.8	24,235	99.3	-7.7	-6.9
2	8,599.7	136.3	8.4	22,826	-97.1	-5.9	-13.7
3	8,683.3	114.5	11.4	23,067	-36.1	0.7	-3.1
4	9,007.9	112.1	8.9	23,939	97.1	-4.8	4.1
5	8,988.8	103.5	9.1	23,891	-18.2	0.5	-0.1
6	8,652.6	98.5	9.0	23,012	-21.7	5.4	-8.5
7	8,644.2	115.9	10.6	23,080	-60.8	8.9	5.9
8	7,741.4	127.2	14.1	20,735	-190.3	10.3	-11.2
9	7,225.4	101.7	11.0	19,397	-78.7	3.0	-7.5
10	7,587.7	90.9	8.9	20,393	51.3	4.2	1.6
11	6,904.1	86.4	10.2	18,687	-61.7	-3.2	-6.4
12	7,072.1	65.9	7.6	19,216	39.4	-1.9	0.3

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

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

Source: Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan.

value of shares issued amounted to NT\$6.2 trillion, growing by 3.8 percent over a year earlier. The total market capitalization shrank by 19.3 percent from the previous year-end to NT\$19.2 trillion. In terms of the issuance of Taiwan Depository Receipts (TDRs), 8 new TDRs were issued in 2011, less than the previous year's 12 new issues.

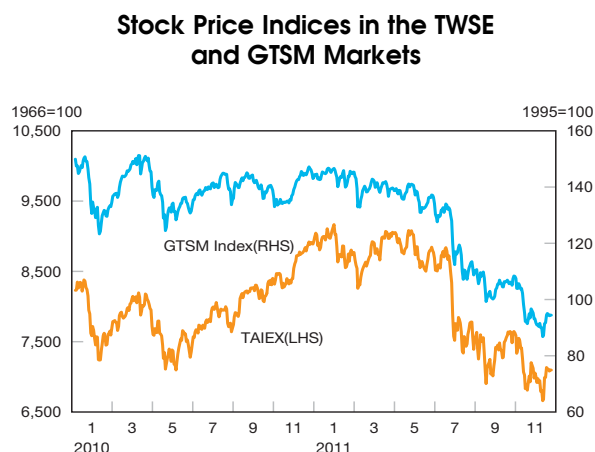
## (2) Stock Indices Turned Lower

In the first month of 2011, the TAIEX rose on foreign investor net-buying to reach the yearly high of 9,145 on January 28. However, political instability in the Middle East and North Africa, and impacts from the Japanese earthquake and the ensuing nuclear crisis combined to drag the TAIEX down to 8,235 on March 15. Afterwards, the reporting of better-than-expected profits by US firms bolstered the TAIEX to climb to 9,062 on June 1, before being followed by a series of index consolidations.

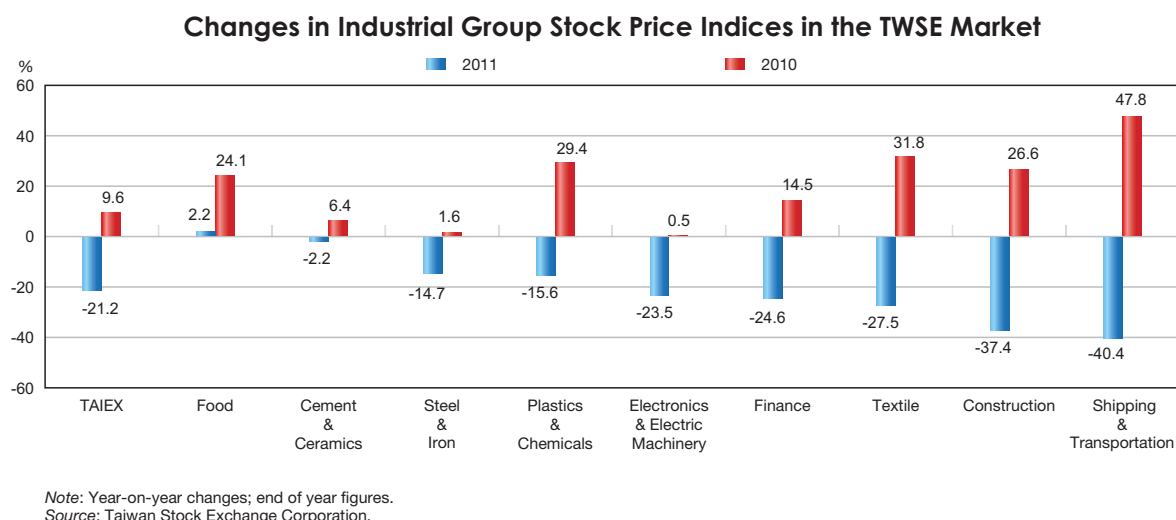
From August onwards, as the European sovereign debt crisis worsened and a global economic slowdown loomed, foreign investors offloaded their TWSE market shares, causing the TAIEX to tumble to 6,877 on September 26. Thereafter, major EU countries reached an initial consensus on debt crisis solutions, while the US posted better-than-expected signs for its economic recovery. These improvements boosted both international stock markets and the TAIEX, the latter of which climbed to 7,622 on November 1.

However, sovereign debt problems deepened in Italy and Spain, while domestic investor sentiment turned cautious before Taiwan's presidential election. As a result, the TAIEX weakened to a yearly low of 6,633 on December 19. It then bottomed out and rebounded to 7,072 on December 30, supported by intervention from the National Stabilization Fund. The TAIEX closed the year with a decline of 21.2 percent from the 8,973 points registered at the end of 2010.

Broken down by subcategory, stock prices in all industrial groups dropped, except for the food industry with a moderate gain of 2.2 percent. The main reasons behind the fall in prices included the protracted European debt crisis, global economic slowdown, and world stock market slumps. The worst performers in the TWSE market in 2011 were shares in the groups of shipping and transportation (down 40.4 percent), construction (down 37.4 percent), and textiles (down 27.5 percent).



Source: 1. Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan.  
2. Gre Tai Securities Market.



### (3) Turnover Declined

TWSE market turnover, measured on a daily average basis, declined by 5.6 percent from NT\$112.4 billion the previous year to NT\$106.1 billion in 2011. This was mainly because a downtrend in the market from August onwards sapped investor confidence and dampened trading. In particular, in the fourth quarter, investors became more cautious on concerns over market corrections and uncertainties ahead of the presidential election, leading to a sharp decrease in daily average market turnover to less than NT\$100 billion.

### (4) Foreign Investors Net Sold

In 2011, foreign investors sold a net NT\$277.6 billion in the TWSE market. Net purchases by foreign investors were recorded in January, April, October, and December, when the US stock markets strengthened and concerns about the European debt crisis also eased. However, in the other months of the year, foreign investors sold more TWSE market shares than they bought, mainly affected by the aftermath of the Japanese earthquake and the ongoing European debt crisis.

### (5) Local Securities Investment Trust Companies Net Bought

Local securities investment trust companies net bought NT\$9.4 billion in 2011. They net sold in January, February, and April on account of profit taking after the TAIEX exhibited relative strength. In March, and during the months from May to October, net purchases were recorded as these companies took the opportunity of the TWSE market corrections to increase their holdings of stocks they deemed undervalued. In the last two months of the year, redemption pressures from fund investors and accounting considerations combined to lead the local securities investment trust companies to sell more stocks than they bought.

### (6) Local Securities Dealers Net Sold

Local securities dealers are inclined toward short-swing trading, and they often net buy on rising prices and net sell on falling prices. In 2011, they sold a net NT\$45.6 billion in the TWSE market. They bought more than they sold in April, July, October and December when the TAIEX rebounded. In the other months of the year, net sales were recorded due to the lackluster performance of the TAIEX.

## The GTSM Market

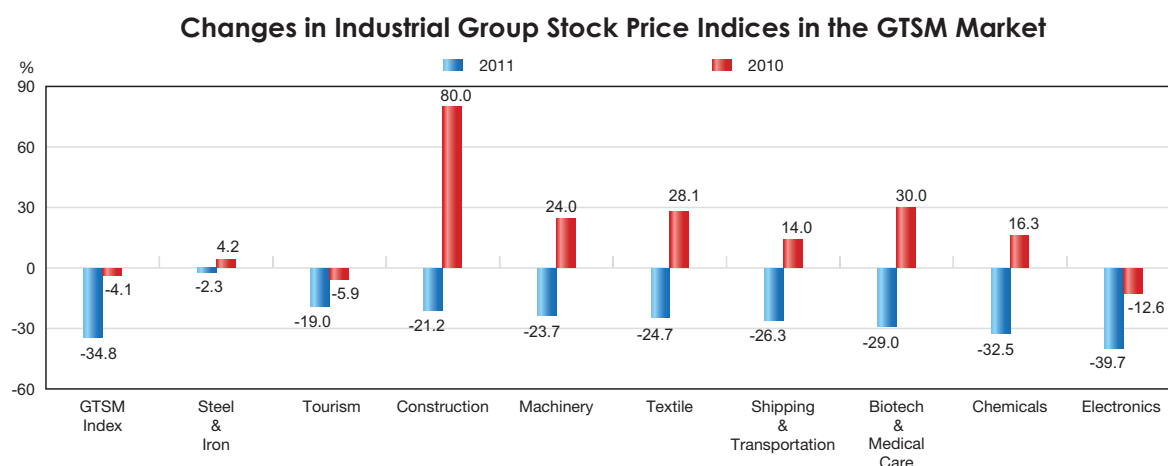
### (1) GTSM Listings Increased with Lower Market Capitalization

The number of GTSM listings increased by 43 over the year to reach a total of 607 at the end of 2011. The par value of total shares amounted to NT\$731.9 billion at the end of the year, 3.7 percent higher than the previous year-end. However, market capitalization shrank by 28.6 percent year on year, totaling NT\$1,417.1 billion at the end of 2011.

### (2) Share Prices Slumped

As in the TWSE market, GTSM share prices also descended substantially in 2011. The GTSM index peaked at the yearly high of 146.2 on January 20 before falling to 132.3 on March 17. The subsequent strengthening in global stock markets supported the GTSM index to recover to 140.6 on June 1.

However, the unfolding European debt crisis and slowing global economic growth dragged the GTSM index down to a yearly low of 86.2 on December 19. Although a rally boosted the GTSM index to close the year at 93.9, it was still 34.8 percent lower than the 144.0 points of the previous year-end.



Note: Year-on-year changes; end of year figures.  
Source: GreTai Securities Market.

For the year of 2011, foreign investors net bought NT\$12.3 billion in the GTSM market, while local securities investment trust companies and securities dealers net sold NT\$2.0 billion and NT\$8.0 billion, respectively. The daily average turnover in the GTSM market was NT\$16.17 billion, a decrease of 27.9 percent from NT\$22.44 billion the previous year, mainly due to reduced trading as a result of low confidence in the weak market.

## Key Measures for the Stock Markets

In 2011, the key measures for Taiwan's stock markets included:

- (1) On February 22, the Financial Supervisory Commission (FSC) eased the restrictions on Taiwanese investment in Mainland Chinese listed securities. The cap on such investment, conducted via Taiwan's securities investment trust funds and discretionary asset management, was raised from 10 percent of the net asset value of the fund to 30 percent. This measure was designed to help securities investment trust enterprises to be more competitive with greater flexibility in asset management and product diversity to meet the various investment needs of their customers.
- (2) On April 7, the FSC approved the Taiwan Futures Exchange (TAIFEX) plan to launch a block trading system to provide traders with a suitable channel for large-volume trades.
- (3) On April 19, the FSC gave the permission for securities firms to issue callable bull/bear contracts (CBBCs), offering investors a wider range of products while increasing securities market liquidity. The TWSE launched the first CBBCs on July 8.
- (4) On November 11, the FSC announced the adjustment of daily quotas on sales of borrowed securities in order to provide for more reasonable control in this matter. Before the adjustment, daily quotas on the quantity of orders for the sale of borrowed securities were not allowed to exceed 3 percent of TWSE- or GTSM-listed shares outstanding or beneficial interest units issued. The new rule for such quotas put the cap at 20 percent of the 30-day moving average transaction volume for the given security.
- (5) On December 20, the National Stabilization Fund Management Committee announced it would begin to deploy utilizable funds for stock market trading to ensure market liquidity and stability.