

6. Stock Market

In 2012, Taiwan's stock markets fluctuated in a mixed trend, affected by factors including the re-introduction of a tax on capital gains from securities investment, fuel and electricity price hikes, the eurozone sovereign debt debacle, and the US "fiscal cliff".

The Taiwan Stock Exchange (TWSE) Capitalization Weighted Stock Index (TAIEX) closed the year up 8.9 percent over the previous year end. All industrial groups rose compared to the previous year, with construction and food shares recording the top two highest increases. The TAIEX daily average trading value was NT\$81.0 billion, decreasing sharply by 23.7 percent compared to the previous year.

At the end of 2012, the weighted stock price index of the GreTai Securities Market (GTSM), an over-the-counter market, posted an annual increase of 10.0 percent. All industrial groups except tourism went up, with biotech and medical care shares posting the greatest increase at 45.6 percent. The daily average trading value was NT\$11.8 billion, a decrease of 27.0 percent from the previous year.

Major Statistics of the TWSE Market

Year/Month	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
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
2012	7,699.5	81.0	97.3	21,352	144.2	-16.1	-2.2
2012/ 1	7,517.1	90.2	6.6	20,458	51.3	-7.1	4.6
2	8,121.4	139.0	12.6	22,116	63.5	-5.2	8.7
3	7,933.0	99.8	10.6	21,641	32.3	-5.5	-8.0
4	7,501.7	75.8	7.4	20,480	-31.2	-1.6	-5.9
5	7,301.5	73.0	8.1	19,943	-112.8	0.7	-1.6
6	7,296.3	63.7	6.7	19,981	-26.2	2.7	4.2
7	7,270.5	66.1	7.3	19,914	-47.0	9.4	3.6
8	7,397.1	75.8	8.2	20,353	92.1	5.5	-0.9
9	7,715.2	85.3	8.0	21,222	58.7	-3.4	2.2
10	7,166.1	63.0	7.0	19,769	-28.7	-2.7	-13.4
11	7,580.2	68.8	7.2	20,916	42.8	2.3	3.2
12	7,699.5	77.5	7.6	21,352	49.5	-11.1	1.1

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

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

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

The TWSE Market

Listings and Capitalization Both Increased

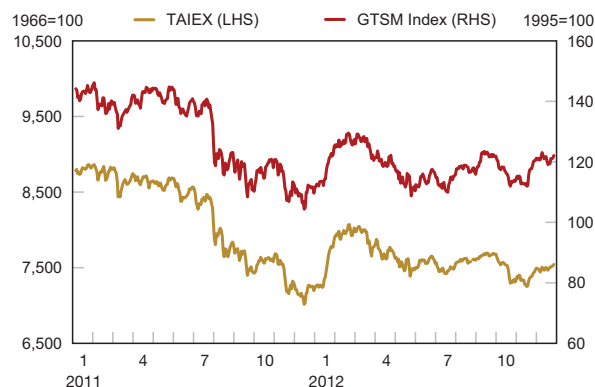
In 2012, 19 new listings brought the total number of TWSE-listed companies to 809 at the end of the year. The par value of shares issued was NT\$6.4 trillion, 3.2 percent greater than the end of the previous year. The total market capitalization grew by 11.5 percent year on year to NT\$21.4 trillion. While there were no new issuances of Taiwan Depositary Receipts (TDRs) in 2012, three were de-listed, trimming the number of total TDRs on the TWSE to 31 at year end.

TAIEX Experienced Sharper Swings

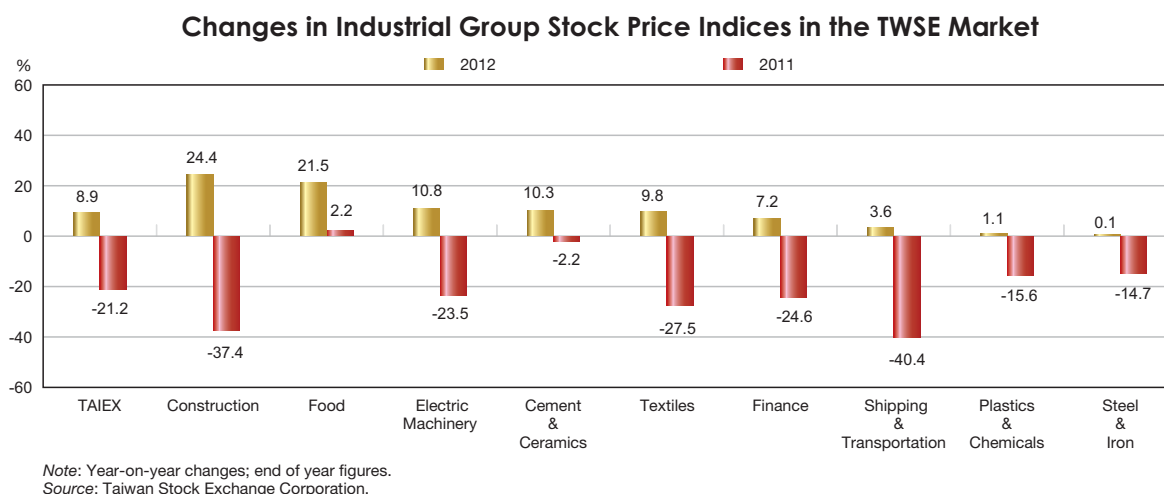
The TAIEX surged in the first two months of 2012 on several factors. Domestically, the conclusion of Taiwan's presidential election removed the uncertainty factor; internationally, the US Fed decided to maintain extremely low interest rates, and eurozone finance ministers reached a deal on a Greek bailout. Extended gains in international stock markets and strong buying by foreign investors boosted the TAIEX to a yearly high of 8,144 on March 2. However, the TAIEX was then dragged down by several factors, including an international stock market slump on weaker-than-expected US and European economic growth and a deepening European debt crisis, in addition to a foreign investor sell-off of TAIEX holdings as the market was impacted by a possible levy on capital gains and fuel and electricity price hikes. A series of price declines finally led the TAIEX to its yearly low of 6,895 on June 4.

Thereafter, the European debt crisis showed signs of abating, Taiwan and China inked an MOU on cross-strait currency settlement, and the US and Japan both adopted further quantitative easing. Not only did international stock markets recover, but Taiwan's stock market also enjoyed heavy buying by foreign investors, spurring the TAIEX to rally to 7,782 on September 19. Afterwards, as the effect of the Fed's third round of quantitative easing (QE3) faded over time, Apple's low share price put strains on TWSE-listed companies along its supply chain, and re-emerging concerns over the US "fiscal cliff" further dented investor confidence. The ensuing pressures thus pushed the TAIEX lower to 7,088 on November 21. While hopes rose in US "fiscal cliff" negotiations and the Fed announced more quantitative easing, Taiwan's cabinet was also working on a stimulus package to bolster the local stock markets. As a result, the TAIEX rallied on strong buying by foreign investors, climbing to 7,700 on December 28 and closing the year 8.9 percent higher than 7,072 at the end of 2011.

Stock Price Indices of the TWSE and GTSM Value



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



Broken down by subcategory, stock prices in all industrial groups rose on heavy buying by foreign investors as the deep decline in the previous year attracted value investing. Among the industrial groups that rebounded, construction shares went up 24.4 percent, food industry shares 21.5 percent, and electric machinery shares 10.8 percent.

Turnover Shrank Markedly

In 2012, the TWSE market turnover, measured on a daily average basis, declined significantly by 23.7 percent from the NT\$106.1 billion of the previous year to NT\$81.0 billion. This was mainly because market sentiment turned cautious amid the debate over the reintroduction of a capital gains tax, the lingering European debt crisis, and domestic economic slowdown. Trading therefore cooled off considerably, reaching a daily average low of NT\$63.0 billion in October.

Foreign Investors Net Bought While Domestic Institutional Investors Net Sold

In terms of trading positions in the TWSE market in 2012, foreign investors bought a net NT\$144.2 billion, while local securities investment trust companies and local securities dealers net sold NT\$16.1 billion and NT\$2.2 billion, respectively.

Large net sales by foreign investors were recorded between April and July because of the impact of the capital gains tax and renewed European debt woes, and in October because of the severe loss on the government pension fund and the US “fiscal cliff” concerns. In the other months of the year, foreign investors net bought TAIEX shares, attributable to the conclusion of Taiwan's presidential election, gradual stabilization of the European debt crisis, the Fed's two announcements of quantitative easing, and the subsequent rally in international stock markets.

Local securities investment trust companies net bought between May and August and in November on bargain hunting amid market corrections. From January to March, net sales were recorded owing to profit-taking. Net sales in April resulted from the proposed reintroduction of a levy on capital gains, while a net sale of NT\$11.1 billion in December was induced by redemption pressures from fund investors and accounting considerations.

As for local securities dealers, who are inclined toward short-swing trading, they net sold on falling prices in March, April, May and October and net bought on rising prices in January, February, November and December. Net purchases in June and July, however, were due to bargain hunting after the TAIEX plunged in May.

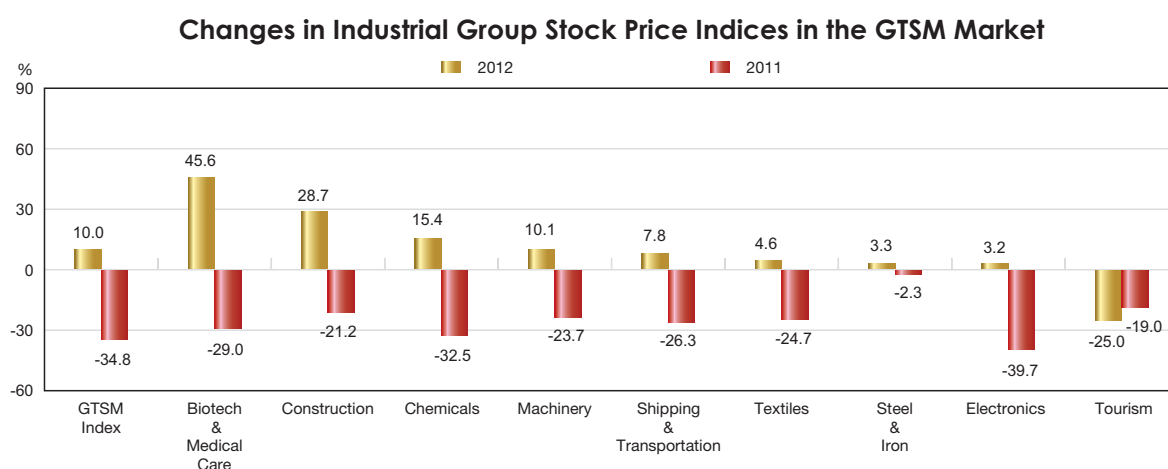
The GTSM Market

GTSM Listings Increased

In 2012, the number of GTSM listings increased by 31 to a total of 638 at the end of the year. The par value of total shares amounted to NT\$667.5 billion, falling by 8.8 percent from the previous year end. However, market capitalization posted a year-on-year increase of 22.6 percent, standing at NT\$1.74 trillion at the end of 2012.

Share Prices Rose before Weakening

GTSM shares experienced an uptrend in 2012 as did TWSE shares. The GTSM index peaked at 120.5 on March 3 and fell to a yearly low of 93.9 on November 21 on account of the expected capital gains tax, European debt concerns, and economic slowdown. Thereafter, the effect of the Fed's further quantitative easing boosted international stock markets, while Taiwan's cabinet planned to offer a policy package to spur the domestic stock markets. These positive developments combined



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

to prop up the GTSM index to close the year at 103.3 on December 28, 10.0 percent higher than the 93.9 points recorded at the end of 2011.

For the year of 2012, foreign investors net bought NT\$20 million in the GTSM market, local securities investment trust companies also bought a net NT\$2.1 billion, while securities dealers net sold NT\$0.1 billion. The daily average turnover in the GTSM market was NT\$11.8 billion, reducing by 27.2 percent from NT\$16.2 billion the previous year.

Key Measures for the Stock Markets

In 2012, the key measures for Taiwan's stock markets include:

- (1) On March 14, in an effort to enhance competitiveness, the Financial Supervisory Commission (FSC) approved that securities firms may trade securities issued by the Mainland Chinese government or corporate entities in Hong Kong, Macau or other overseas markets.
- (2) On July 3, the FSC agreed that public companies may issue renminbi-denominated straight corporate bonds in overseas markets, which would increase funding channels for Taiwanese enterprises in renminbi (RMB) financing.
- (3) On July 25, the Legislative Yuan passed the amendments to the Income Tax Act and the amendments to the Income Basic Tax Act in pursuit of tax equity. As a result, a tax on one's income from securities transactions, which was suspended in 1990, would take effect on January 1, 2013.
- (4) On August 31, to deepen cross-strait financial cooperation, the Central Bank of the Republic of China (Taiwan) and the People's Bank of China announced simultaneously the inking of the "MOU on Cross-Strait Currency Settlement," which would enter into force within 60 days from the signing date once respective preparation work was completed on each side of the Taiwan Strait.
- (5) On October 17, to increase the incentive to invest in foreign currency-denominated funds, the FSC approved that securities investment trust companies may offer RMB-denominated funds, of which the shares can be purchased in NT dollars.