

6. Stock Markets

Entering 2014, Taiwan's stock indices began to gradually climb, driven by global economic recovery, better corporate profits, and strong buying by foreign investors. In the second half of the year, the indices showed mixed fluctuations as the stock markets were affected by heightened international geopolitical tension and a series of domestic incidents including an aviation accident, petrochemical gas explosions and food safety concerns.

At the end of 2014, the Taiwan Stock Exchange (TWSE) weighted stock price index (TAIEX) gained 8.1 percent compared to the end of the previous year. However, most industrial groups posted price falls, with the largest decline in plastics and chemicals shares due to international oil price slumps. Only four groups, namely, electrical, shipping and transportation, trading and consumers' goods, and finance, were able to record year-on-year price gains. The TAIEX daily average trading value was NT\$88.3 billion, a 14.7 percent increase compared to the previous year.

In Taiwan's over-the-counter market, the weighted stock price index of the Taipei Exchange (TPEX, formerly known as GreTai Securities Market or GTSM) closed the year up by 8.3 percent over the previous year end. Amid mixed performances, the iron and steel group topped the risers with a 31.2 percent gain thanks to remarkable corporate profits, whereas textile shares came in with the largest fall of 13.4 percent. In 2014, the TPEX daily average trading value was NT\$25.6 billion, increasing significantly by 56.1 percent compared to the previous year.

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
2012	7,699.5	81.0	97.3	21,352.2	144.2	-16.1	-2.2
2013	8,611.5	77.0	82.6	24,519.6	243.0	-76.7	8.5
2014	9,307.3	88.3	84.6	26,891.5	354.6	-38.1	-0.4
2014/ 1	8,462.6	97.6	7.3	24,137.8	23.2	-4.7	-1.9
2	8,639.6	89.2	6.2	24,567.9	-16.2	-5.8	4.0
3	8,849.3	93.6	7.8	25,187.5	72.1	-9.1	2.4
4	8,791.4	92.2	7.7	25,090.7	89.7	-10.3	-1.6
5	9,075.9	88.2	7.1	25,939.9	33.7	-2.7	5.1
6	9,393.1	98.5	7.3	26,852.7	81.6	-7.8	4.3
7	9,315.9	111.5	9.2	26,662.1	31.0	-2.4	3.8
8	9,436.3	87.8	6.8	27,052.2	46.7	6.1	-1.2
9	8,966.9	75.6	6.2	25,790.1	-59.0	0.9	-19.7
10	8,974.8	79.0	6.7	25,837.4	-1.1	3.5	-6.3
11	9,187.2	73.0	5.5	26,446.8	95.8	1.7	6.9
12	9,307.3	75.8	6.8	26,891.5	-42.7	-7.6	3.9

Source: Securities and Futures Bureau, FSC.

The TWSE Market

Listings and Capitalization Both Increased

At the end of 2014, there were a total of 854 listed companies on the TWSE, 16 more over the previous year. The total capital of listed companies issued amounted to NT\$6.8 trillion, 2.6 percent greater than the previous year. Total market capitalization grew by 9.7 percent year on year to NT\$26.9 trillion. While there was no new issuance of Taiwan Depository Receipts (TDRs) in 2014, two of the existing TDRs were de-listed, trimming the total number of TDRs on the TWSE to 26 at year end.

TAIEX Trended Up in H1 and Fluctuated in H2

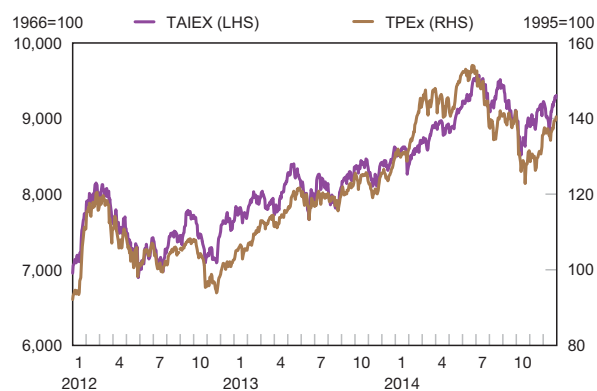
After extended gains following a rally at the end of the previous year, the TAIEX settled down to 8,264 points on February 5 after the market reopened after the Lunar New Year holiday, during which international stock markets plunged. Then, driven by the global economic recovery, better corporate profits, and continued net purchases by foreign investors, the TAIEX trended up to hit an all-year high of 9,569 on July 15.

In the following month, heightened international geopolitical risks, a plane crash on Taiwan's offshore island of Penghu and gas blasts in Kaohsiung combined together to send the TAIEX downwards to 9,086 on August 8. The index was able to bounce back to 9,513 as of September 1, bolstered by an upward revision of Taiwan's GDP forecast by the DGBAS and excellent corporate earnings growth.

Afterwards, the momentum of the TAIEX was sapped by a number of adverse factors, including domestic food safety concerns raised by a tainted oil scandal, a wider Ebola outbreak, and investor pullback from emerging markets. The TAIEX started a downward trend to hit 8,513 on October 17. However, encouraged by a continuing recovering of the US, improvement shown by domestic economic indicators, and the easing of some stock market investment measures, the TAIEX gradually swung upwards to close the year at 9,307 points, 8.1 percent higher than the 8,612 at the previous year end.

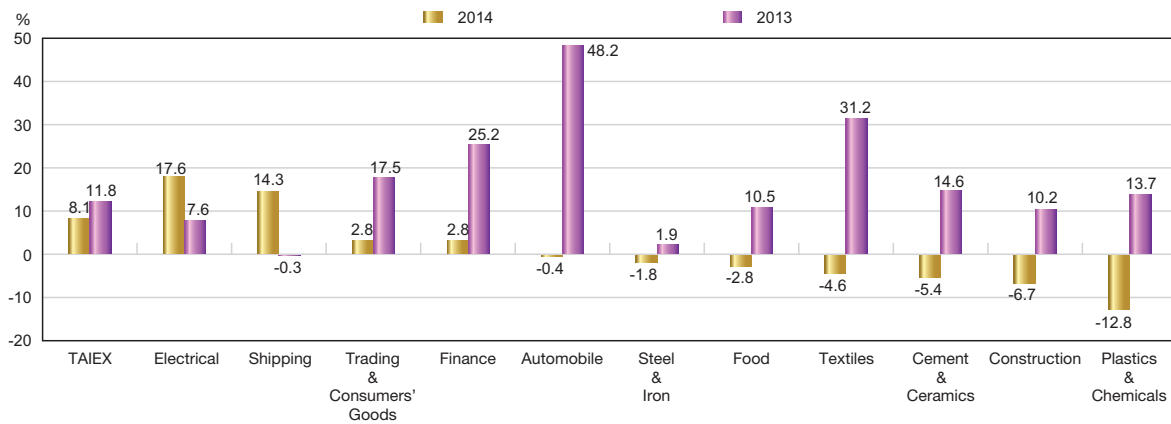
Broken down by subcategory, most industrial groups, except electrical, shipping and transportation, trading and consumers' goods, and finance, saw their share prices fall in 2014. Electrical stocks

TAIEX and TPEX Indices



Sources: 1. Securities and Futures Bureau, FSC.
2. Taipei Exchange (TPEX).

Changes in Industrial Group Stock Price Indices in the TWSE Market



Source: TWSE.

posted the largest gain of 17.6 percent, as huge sales of new cellphones increased demand for memory modules and chips and boosted the profits of IC companies. Shipping shares came in second with a 14.3 percent gain owing to reduced costs amid international oil price declines. On the other hand, oil price falls led plastics and chemicals shares to drop in value by 12.8 percent, the worst among all groups.

Market Turnover Increased

In 2014, the TWSE market turnover, measured on a daily average basis, increased to NT\$88.3 billion from the NT\$77.0 billion of the previous year, a 14.7 percent increase underpinned primarily by steady economic growth and a host of government measures to stimulate the stock market. As trading activity became robust, the turnover rate also rose from 82.6 percent the previous year to 84.6 percent.

Significant Net Buying by Foreign Investors

In 2014, foreign investors bought a net NT\$354.6 billion in the TWSE market, and were net buyers for the third year in a row. Local securities investment trust companies and securities dealers net sold TAIEX shares valued at NT\$38.1 billion and NT\$0.4 billion, respectively.

In the months of February, September, October, and December, foreign investors were net sellers in response to declines in international markets as well as profit taking from across Asian emerging markets. In all the other months of 2014, foreign investors were net buyers, fueled by market rallies in the US and Europe, a brighter economic outlook, and continued growth in earnings of Taiwan's listed companies.

Local securities investment trust companies, on the other hand, continued to be net sellers from January to July as they took advantage of an upward trend. After August, they began bargain hunting amid an extended market fall and turned into net buyers between August and November, until they net sold again in the last month of the year in response to strong year-end demand for fund redemption as well as a need to boost their own financial statements.

Local securities dealers, with inclinations for short swing trading, net sold in January, April, August, September, and October on market slumps and net bought in the rest of the year when the TAIEX rose.

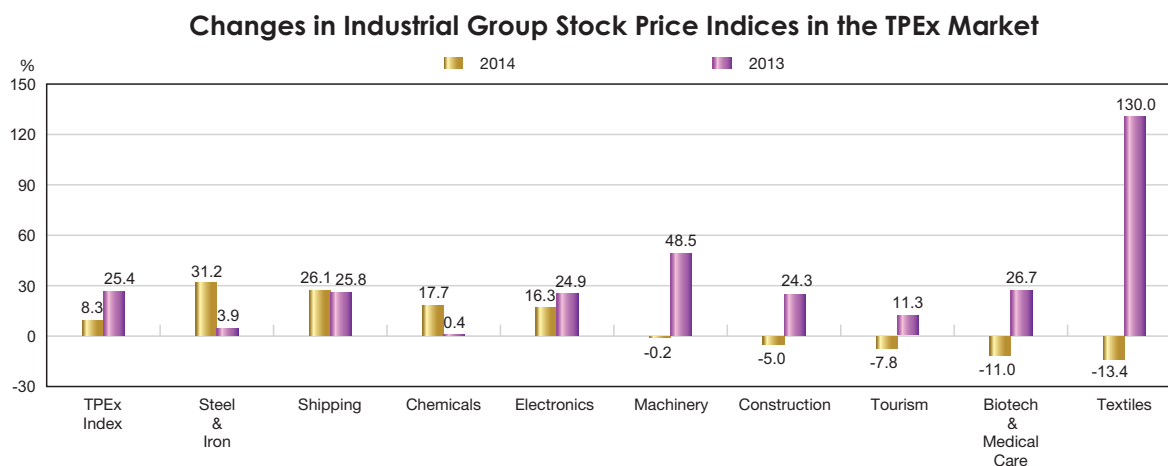
The TPEX Market

Listings and Capitalization Both Increased

The number of TPEX listings increased by 27 to a total of 685 at the end of 2014. The total capital amounted to NT\$679.6 billion, up by 2.7 percent from the previous year end. Market capitalization grew by 15.5 percent year on year, standing at NT\$2.68 trillion at the year end.

Market Index Fell After Rising

Stock prices in the TPEX market generally shared a similar trend with the TWSE market, albeit with greater volatility. Taking an uptrend early in the year all the way to peak at 154.1 points on July 1, the TPEX index was then battered by negative factors, including elevated geopolitical risks, growing concerns over the Ebola outbreak, and a spate of food safety scandals. It hit an all year low of 122.7 on October 27 and then rallied along with international markets to close the year at 140.4 points, up by 8.3 percent from the 129.6 points at the previous year end.



Source: TPEX.

For the year of 2014 as a whole, foreign investors recorded a net purchase position of NT\$43.1 billion in the TPEX market, while local securities investment trust companies and local dealers net sold NT\$4.4 billion and NT\$1.0 billion, respectively. The daily average turnover in the TPEX market was NT\$25.6 billion, increasing markedly by 56.1 percent from NT\$16.4 billion in 2013.

Key Measures for the Stock Markets

Key measures for Taiwan's stock markets in 2014 include the following:

- (1) January 6: Investors may conduct buy-then-sell day trading from this day on.
- (2) June 30: Two way (buy first or sell first) same day trading was given the green light as of this day for a total of 200 different stocks, including the component stocks of the Taiwan 50 Index, the Taiwan Mid-Cap 100 Index, and the TPEX 50 Index (formerly known as GreTai 50 Index) .
- (3) August 25: The Taiwan HC (High Compensation) 100 Index, an index compiled by the TWSE and Research Affiliates, was officially launched.
- (4) October 7: The FSC announced four measures to reinvigorate the stock markets, namely: (A) to exclude the leveraged amount used in day trading from the balance of margin purchases and short selling; (B) to raise the ceiling on the margin loan ratio for stocks traded over the counter to 60 percent (from 50 percent) ; (C) to raise the cap on margin purchasing and short selling of a single trading account and a single stock; and (D) to hold more results conferences for commendable corporate performances.
- (5) November 18: The FSC announced law amendments with the following liberalization measures:
 - A. Offshore securities units (OSUs) and offshore banking units (OBUs) are no longer required to cap their sales of Taiwan securities investment funds at under 30 percent of their net assets;
 - B. The underlying assets for the foreign currency equity derivatives business conducted by OSUs may involve TWSE or TPEX listed single stocks, TWSE or TPEX stock price indices, or exchange-traded funds on Taiwan's securities markets;
 - C. When conducting stock lending business, a securities firm may (a) accept as collateral all types of securities purchased or borrowed via margin trading and central government bonds; (b) grant a borrower another 6-month extension appropriately based on the borrower's credit standing, allowing the borrowing period to be 18 months at most; and (c) expand margin loans to a same natural person where the balance shall not exceed NT\$80 million (formerly capped at NT\$60 million) .
- (6) December 26: After an amendment to the *Income Tax Act* passed the third reading in the

legislature, a proposed capital gains tax measure for active stock market traders was put off for three years. Beginning 2018, individuals who sell more than NT\$1 billion worth of shares within the year will be levied a transactions income tax of 0.1 percent on trades beyond the NT\$1 billion threshold.