

6. Stock Market

Taiwan's primary stock index, the Taiwan Stock Exchange (TWSE) weighted stock price index (TAIEX), trended up in the first few months of 2015 and exceeded the 10,000-point mark at the end of April, supported by an environment of policy rate cuts by several central banks and quantitative easing (QE) measures by the ECB. The surge was then reversed in the subsequent months, affected by unfavorable economic conditions at home and abroad, continued net-selling by foreign investors, China's economic slowdown, and the global stock market turbulence. As a result, the TAIEX hit its yearly low in late August before gradually climbing back up afterwards, thanks to the support from the National Financial Stabilization Fund and abating turmoil in major stock markets around the world.

At the end of 2015, the TAIEX dropped by 10.4% compared to one year earlier. Share prices in many industrial groups suffered, while shares in Oil, Gas & Electricity, Food, Biotechnology & Medical Care, Textile, and Plastics enjoyed price rose. The largest two declines went to Glass & Ceramics and Cement, falling by 42.4% and 31.5%, respectively. The TAIEX daily average trading value was NT\$82.8 billion, a 6.3% decrease compared to the previous year.

In Taiwan's over-the-counter market, the weighted stock price index of the Taipei Exchange (TPEX) closed the year down by 8.1% over the previous year end. All but Textile and Biotechnology & Medical Care groups posted share price declines, with construction shares falling the most by 35.8% amid the housing market slump. In 2015, the TPEX daily average trading value was NT\$23.3 billion, decreasing significantly by 9.0% 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
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
2015	8,338.1	82.8	77.5	24,503.6	46.2	-35.2	-56.6
2015/ 1	9,361.9	86.1	6.4	27,081.4	64.2	-0.6	-3.3
2	9,622.1	78.7	3.7	27,859.5	96.6	-1.3	-2.8
3	9,586.4	91.6	7.3	27,787.1	-42.8	-14.2	5.6
4	9,820.1	98.0	6.9	28,480.9	100.2	-5.3	13.9
5	9,701.1	87.9	6.3	28,150.4	31.1	-1.7	-3.9
6	9,323.0	83.8	6.5	27,135.0	-84.7	-3.0	-15.8
7	8,665.3	79.6	6.9	25,275.5	-50.7	3.5	-26.1
8	8,174.9	85.6	7.5	23,860.3	-57.1	1.8	-14.3
9	8,181.2	74.6	6.3	23,896.9	-6.2	-4.8	-3.2
10	8,554.3	80.4	6.8	25,013.8	66.3	1.5	-4.0
11	8,320.6	79.7	6.9	24,387.8	-43.2	-6.0	-7.3
12	8,338.1	67.4	6.3	24,503.6	-27.5	-5.1	4.6

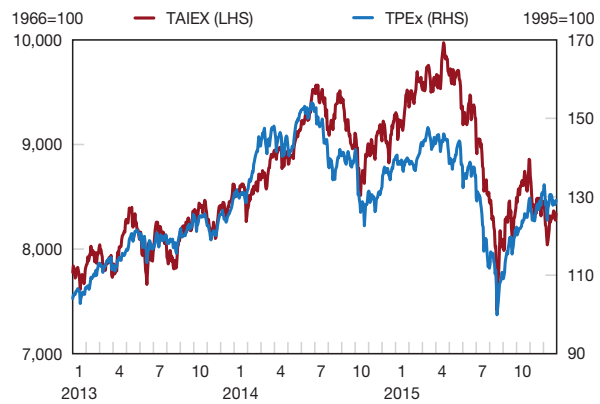
Source: Securities and Futures Bureau, FSC.

The TWSE Market

More Listings, Lower Capitalization

At the end of 2015, the number of TWSE listings grew by 20 during the year to a total of 874. The par value of total shares issued amounted to NT \$7.0 trillion, 2.5% greater than the end of the previous year. Total market capitalization decreased by 8.9% year on year to NT\$24.5 trillion. While there was no new issuance of Taiwan Depository Receipts (TDRs) in 2015, four of the existing TDRs were de-listed. The total number of TDRs on the TWSE became 22 at the end of the year.

TAIEX and TPEX Indices



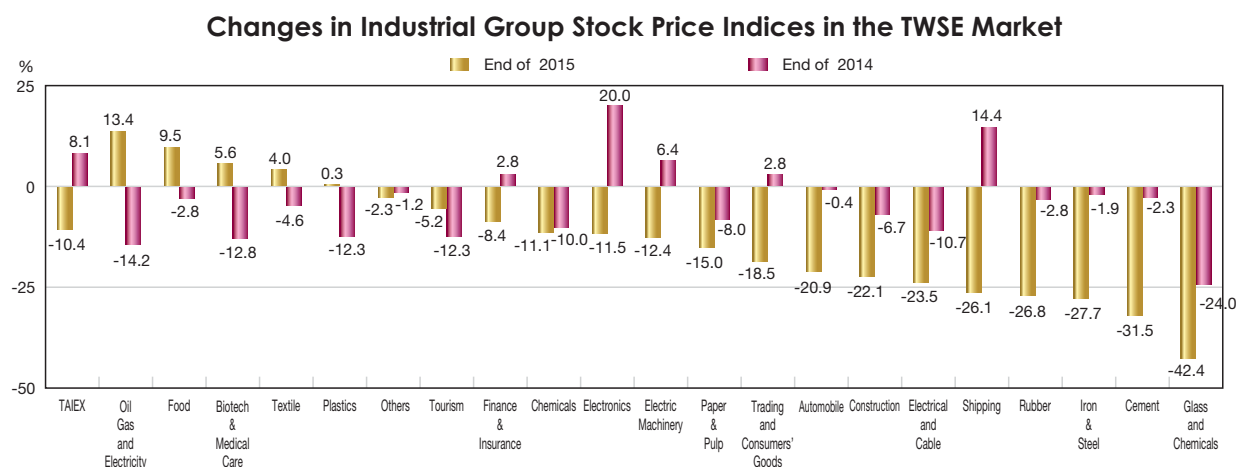
Sources: 1. Securities and Futures Bureau, FSC.
2. Taipei Exchange (TPEX).

TAIEX Climbed Before Falling, Showing Greater Volatility

Entering 2015, several factors combined to boost Taiwan's equities. Internationally, major stock markets rallied as central banks reduced their policy rates and the ECB unveiled QE measures. Foreign investors turned into net buyers of TAIEX shares, followed by the Financial Supervisory Commission's (FSC's) stock market stimulus program. The TAIEX was driven up consequently, hitting the 10,000-point mark intraday on April 27 and closing the day at 9,973 points.

Afterwards, Taiwan's export growth continued to slow and the domestic economy slackened, while expectations of an upcoming US Fed rate hike prompted investors to withdraw from Asian markets, and China's growth momentum eased and its stock crash spread into an international market meltdown. Reflecting the above, the TAIEX suffered successive declines toward the yearly low of 7,410 points on August 24. With government funds deployed to shore up the stock market and major foreign markets stabilized, the TAIEX rose up to 8,857 points on November 4 before entering several weeks of price consolidation. At the end of the year, the TAIEX closed at 8,338 points, down by 10.4% compared to 9,307 points a year ago.

Broken down by subcategory, five industrial groups, namely Oil, Gas & Electricity, Food, Biotechnology & Medical Care, Textile, and Plastics, saw their share prices increase, while the rest slid down. The worst performers were Glass & Ceramics, with a 42.4% drop, and Cement, with a 31.5% fall, affected mainly by weak demand for cement amid sluggish housing markets on both sides of the Strait. The international commodity price slump eroded profit earnings of Iron & Steel and Rubber groups, whose stock prices fell 27.7% and 26.8%, respectively. Shipping shares dropped 26.1% as the world trade slowdown caused sea freight rates to plunge.



Market Turnover Decreased

In 2015, the TWSE market turnover, measured on a daily average basis, decreased to NT\$82.8 billion from the NT\$88.3 billion of the previous year. This represented a 6.2% decline, as investors turned cautious amid a weaker stock market in the second half of the year and lingering uncertainty prior to the presidential and parliamentary elections in January 2016. As trading activity lost momentum, the turnover rate also dropped from 84.6% in the previous year to 77.5%.

Foreign Investors Net-Buying Sharply Contracted

In 2015, foreign investors bought a net NT\$46.2 billion in the TWSE market, a sizable decrease compared to the NT\$354.6 billion of 2014. Local securities investment trust companies and securities dealers net sold TAIEX shares valued at NT\$35.2 billion and NT\$56.6 billion, respectively.

In the months of January, February, April and May, foreign investors were net-buyers in the TAIEX market, encouraged by a steady domestic recovery and rising corporate profits, while in March they net sold in the local bourse for profit taking. Afterwards, international stock market slumps and a slow domestic economy led to net-selling from June to December, except October when a global rally and the expectation of the Fed postponing the expected rate hike attracted foreign capital inflows back to Asian emerging markets including Taiwan.

Taking into consideration an elevated TAIEX, local securities investment trust companies recorded a net selling position in the first half of 2015. They net bought in July, August, and October, increasing holdings of bargain stocks after a considerable fall of the TAIEX. Then they net sold again in the last two months of the year to meet the year-end demand for fund redemption and to boost their own financial statements.

Local securities dealers, with tendencies for short swing trading, net bought in March, April, and December on market uptrends and net sold in the rest of the year when the TAIEX weakened.

The TPEX Market

Listings and Capitalization Both Increased

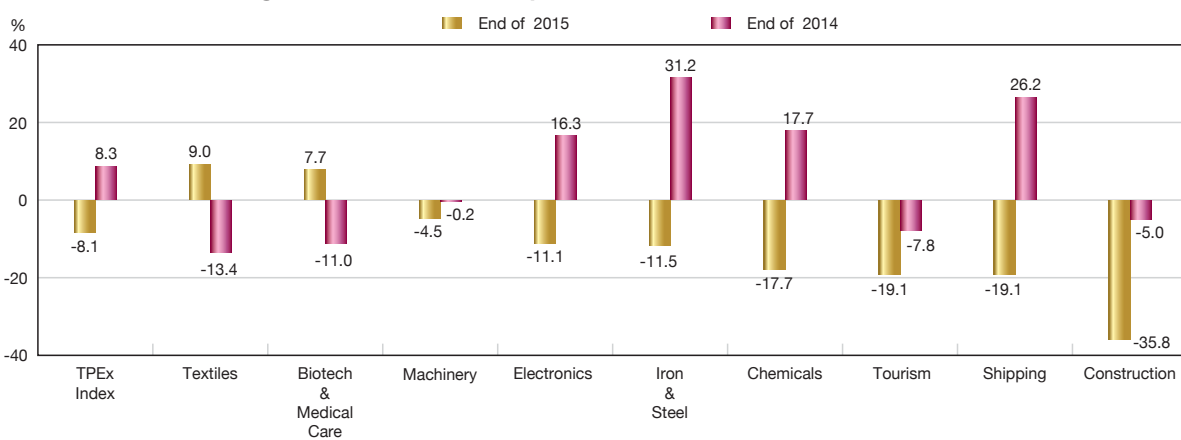
The number of TPEX listings increased by 27 to a total of 712 at the end of 2015. The total par value amounted to NT\$706.2 billion, up by 3.9% from the previous year end. Market capitalization grew by 1.9% year on year, amounting to NT\$2.73 trillion at the year end.

TPEX Index on Mixed Trend Before Rebounding

Stock prices in the TPEX market generally tracked the TWSE in 2015. The TPEX index began the year with an uptrend to peak at 147.7 points on March 20, before swinging down toward an all-year low of 100.0 points on August 24, hit by China's and international stock market plunges, economic downturns at home and abroad, and foreign investor sell-off. Later, the TPEX recovered some of the losses thanks to bio-tech share gains. At the end of the year, the TPEX closed at 129.1 points, down by 8.1% from the 140.4 points at the previous year end.

For the year of 2015 as a whole, foreign investors and local securities investment trust companies made net purchases of NT\$53.3 billion and NT\$6.4 billion in the TPEX market, while local dealers net sold NT\$5.2 billion. The daily average turnover in the TPEX market decreased by 9.0% from the previous year's NT\$25.6 billion to NT\$23.3 billion.

Changes in Industrial Group Stock Price Indices in the TPEX Market



Source: TPEX.

Key Measures for the Stock Markets

Key measures for Taiwan's stock markets in 2015 included the following:

- (1) January 1: In line with the implementation of the new integrated income tax system, only 50% (originally 100%) of the imputed tax credit of shareholders' dividends can be used to offset their individual income tax liability, effective January 1, 2015.
- (2) June 1: The FSC announced that (A) the price rise/fall limit would be increased to 10% from the previous 7% cap, (B) the account collateral maintenance ratio for securities margin transactions would be raised from the current 120% to 130%, and (C) the scope of securities eligible for day trading would be expanded to 435 stocks (from 150 TWSE stocks to 275; from 50 TPEX stocks to 160).
- (3) August 12: the FSC announced (A) adjustment to the maintenance margin requirement for short trading of TWSE- or TPEX-listed securities from 90% to 120% and (B) expanding the range of collateral that an investor can use to make up the shortfall for margin purchases or short sales.
- (4) August 25: The government announced it would deploy the National Financial Stabilization Fund by as much as NT\$500 billion, authorizing its fund managers to buy equities in a move to stabilize the stock market.
- (5) September 21: the FSC lifted the ban prohibiting short selling of stocks below the closing prices of the previous trading session.
- (6) October 16: The FSC readjusted the maintenance margin requirement for short trading from 120% back to 90% and discontinued the scope expansion of collateral used to make up the shortfall for margin purchases or short sales.
- (7) November 17: The amendment to the *Income Tax Act* passed the third reading in the parliament, revoking the capital gains tax levied on income from securities transactions, effective January 1, 2016.