

## 6. Stock Markets

Taiwan's benchmark stock index, the Taiwan Stock Exchange (TWSE) weighted stock price index (TAIEX), trended up in the first few months of 2016 as the world's major stock markets rallied and international oil and raw material prices rebounded. Local shares retreated in the following two months to reach a yearly low in May, owing to concerns over the US Fed's possible rate hike, downward corrections in major world stock indices, and a still weak domestic economy. Towards the second half of the year, the TAIEX shrugged off events like Brexit and uncertainty surrounding the US presidential election and swung upward to hit an annual high on December 9 on the back of several positive factors at home and abroad, including international stock market rallies and stronger domestic economic and export growth.

At the end of 2016, the TAIEX rose by 11.0% compared to the end of the previous year. Most categories enjoyed year-on-year gains, except for shares in Shipping & Transportation, Textile, Biotechnology & Medical Care, Tourism, and Automobile. Oil, Gas & Electricity stocks posted the largest increase by 39.4%, followed by Electrical & Cable and Iron & Steel at 34.4% and 34.1%, respectively. The TAIEX daily average trading value was NT\$68.7 billion, a 17.0% decline from 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
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	-35.1	-56.6
2016	9,253.5	68.7	64.6	27,247.9	320.2	-19.9	-86.6
2016/ 1	8,145.2	71.6	6.3	23,964.0	-59.5	-1.1	-13.2
2	8,411.2	73.4	3.9	24,758.0	50.6	-1.7	-9.9
3	8,744.8	81.5	7.3	25,727.2	160.1	-6.9	-18.2
4	8,377.9	68.7	5.3	24,628.6	15.8	-5.4	-5.0
5	8,535.6	66.7	5.6	25,141.2	-73.9	1.8	12.9
6	8,666.6	65.1	5.4	25,528.4	82.1	-2.3	-20.1
7	8,984.4	77.3	5.8	26,475.9	167.7	0.1	-9.4
8	9,068.9	69.5	6.0	26,736.9	71.0	-5.8	-12.8
9	9,166.9	68.4	4.8	27,045.7	2.5	-0.4	-17.4
10	9,290.1	60.3	4.4	27,466.8	-1.9	0.3	2.5
11	9,240.7	67.1	5.4	27,354.2	-96.2	1.5	9.0
12	9,253.5	56.5	4.6	27,247.9	1.9	0.0	-5.1

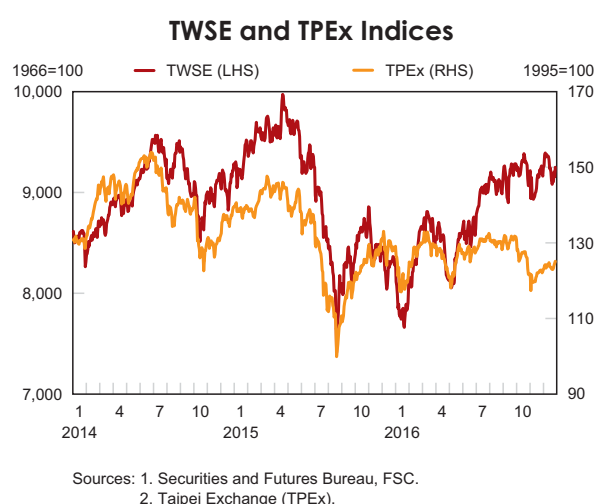
Source: Securities and Futures Bureau, FSC.

In Taiwan's over-the-counter market, the weighted stock price index of the Taipei Exchange (TPEX) closed the year down by 3.0% over the previous year end. The TPEX-listed categories posted mixed performances. Biotechnology & Medical Care shares were dragged down by a biotech company scandal and fell by 25.5% over the previous year, the largest decline among all categories. Cultural & Creative shares posted the second largest fall of 16.1% mainly owing to the failed acquisition of XPEC Entertainment. In 2016, the TPEX daily average trading value was NT\$20.7 billion, decreasing by 11.2% compared to the previous year.

## The TWSE Market

### Listings and Capitalization Both Grew

At the end of 2016, the number of TWSE listings grew by 18 during the year to a total of 892. The par value of total shares issued amounted to NT\$7.0 trillion, increasing by 1.0% from the end of the previous year. Total market capitalization reached NT\$27.2 trillion, a year-on-year increase of 11.2%. In terms of Taiwan Depository Receipts (TDRs), three existing TDRs were de-listed and no new ones were issued. The number of total TDRs on the TWSE decreased to 19 at the end of 2016.

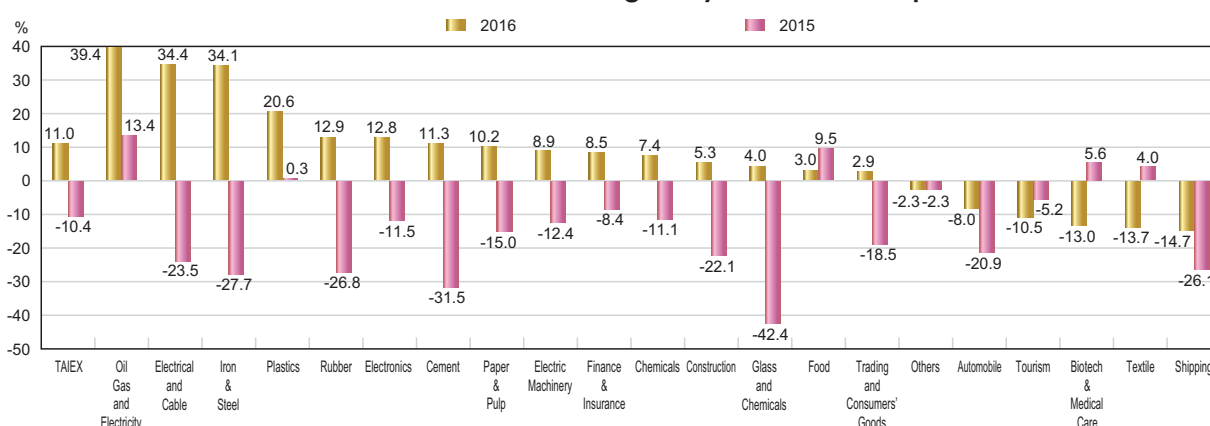


### TAIEX Started Higher Before Dipping but Rallied in H2

In the beginning months of 2016, the TAIEX was boosted by major international stock market rallies and rising oil and raw material prices, as well as net foreign buying of TAIEX shares. As a result, the index rose to a high of 8,813 points on March 21. However, renewed market concern over the possible Fed rate hike, consolidations in major international stock indices, and a still weak domestic economy combined to drag down the TAIEX, which dipped to a low of 8,054 points on May 13.

Then, despite disruptions from uncertainty surrounding the Brexit vote and the US presidential election, the TAIEX climbed higher because international stock markets rallied, new iPhones sold better than expected, the NASDAQ hit multiple record highs, Taiwan's economy and exports both picked up, and foreign investors net-bought TWSE-listed shares. The TAIEX swung to an all-year high of 9,393 on December 9 and trended down on profit-taking trades and thinner foreign buying around the Christmas holidays. The TAIEX closed the year at 9,254, rising by 11.0% from the 8,338 points at the end of the previous year.

TWSE Stock Price Changes, by Industrial Group



Source: TWSE.

Broken down by subcategory, only five industrial groups, namely Shipping & Transportation, Textile, Biotechnology & Medical Care, Tourism, and Automobile, recorded year-on-year declines. Shipping & Transportation suffered the most with a 14.7% drop, because demand for shipping by air and by sea was dampened by weak global trade and some shipping companies taking heavy losses. On the other hand, boosted by international oil price rises, Oil, Gas & Electricity shares climbed 39.4%, the largest increase among all industrial groups. The second-best performance was the 34.4% rise of Electrical & Cable shares, thanks to increased demand for electric appliances and better corporate profits as copper and nickel prices went up. Iron & Steel shares also surged 34.1% owing to higher demand for steel and rising steel prices.

### Market Turnover Decreased

In 2016, turnover in the TWSE market measured on a daily average basis, decreased by 17.0% to NT\$68.7 billion from the NT\$82.8 billion of the previous year. The decline was mainly because a lock-in effect had led to slower trading despite price rises domestically as investors held on to stocks with high dividend yields in a low-interest global environment. Moreover, subdued trading activity also resulted in a lower turnover rate, which dropped from 77.6% the previous year to 64.6%.

### Net Foreign Buying Increased

In 2016, foreign investors bought a net NT\$320.2 billion in the TWSE market, a significant increase from the NT\$46.2 billion of 2015. Local securities investment trust companies and securities dealers net sold TAIEX shares valued at NT\$19.9 billion and NT\$86.6 billion, respectively.

Looking at foreign buying in 2016, foreign investors net-sold TAIEX shares in January amid international stock market crashes and geopolitical tensions. They became net buyers between February and April, encouraged by a global market rally and international oil and raw material

price rebounds. Although market concern of a possible Fed rate hike and a looming Brexit vote turned foreign investors into net-sellers in the TWSE mainboard in May, net-buying was recorded in June through to September albeit dwindling month by month. In both October and November, the TWSE market saw renewed net-sales by foreign investors because uncertainty surrounding the US presidential election and a possible Fed rate hike drained capital out of Asian stock markets including Taiwan. However, in December, the TAIEX's annual high record also brought about a modest net foreign buying position.

Local securities investment trust companies net bought in May, July, October, and November. In the rest of the year, net selling positions were recorded because some of these investors held off buying in a heated market and some increased selling to meet fund redemption demand or to boost their own financial statements.

Local securities dealers, with an inclination for short swing trading, net bought in May, October, and November when the TAIEX trended up or reached a period high. They net sold in the rest of the year when the TAIEX weakened or for the purposes of position adjustment or profit taking.

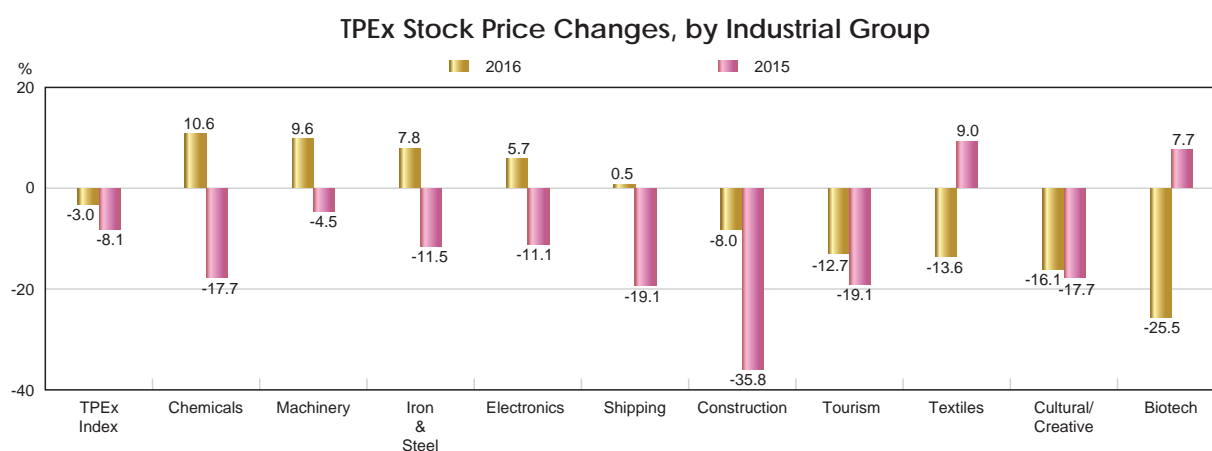
## The TPEX Market

### Listings Increased, Capitalization Shrank Slightly

At the end of 2016, the number of TPEX listings increased by 20 to a total of 732. The total par value amounted to NT\$715.3 billion, up by 1.3% from the previous year. Market capitalization decreased slightly by 0.3% to NT\$2.72 trillion.

### TPEX Index Swung Lower

In 2016, stock prices in the TPEX market moved in a trading range between 117.09 and 132.91 as volume and prices were both depressed by less participation of retail investors in this mid- and small-cap market. At the end of the year, the TPEX closed at 125.2 points, 3.0% lower compared to



Source: TPEX.

the 129.1 points at the previous year end.

For the year of 2016, foreign investors made net purchases of NT\$31.7 billion in the TPEX market, while local securities investment trust companies and local dealers recorded net selling positions of NT\$13.5 billion and NT\$0.5 billion, respectively. The daily average turnover in the TPEX market fell to NT\$20.7 billion, a 11.2% decrease from the NT\$23.3 billion of the previous year.

### **Key Measures for the Stock Markets**

Key measures for Taiwan's stock markets in 2016 included the following:

- (1) January 1: Effective from this day, initial public offerings (IPOs) shall be conducted via bidding auction, except for those IPO companies raising capital of an amount less than NT\$0.4 billion or Cultural & Creative listings.
- (2) February 1: The FSC expanded the scope of securities eligible for day trading from 377 to 1,432 stocks.
- (3) April 12: The National Financial Stabilization Fund announced that it would stop its market-stabilizing buying actions, which had already lasted longer than ever before (from August 25, 2015 to April 12, 2016, totaling 232 days).
- (4) August 2: The FSC eased rules governing risk-based capital ratios of insurance companies, in hopes of stimulating the local equities markets by boosting insurers' investment in local stocks as well as exchange-traded funds (ETFs).
- (5) October 19: The TPEX gave the greenlight for securities firms to conduct over-the-counter trading of foreign-currency denominated structured notes with professional institutional investors and high-net-worth corporate investors.