

5. Stock Market

After entering the year of 2017, Taiwan's benchmark stock index, the Taiwan Stock Exchange (TWSE) weighted stock price index (TAIEX), swung up from the yearly low at the beginning of the year to reach the 10,000 mark in May. Thanks to robust trading by domestic individual investors, the rally extended further, reaching an all-year high on November 23, the highest level in 28 years. Then, profit-taking trades, foreign investor net sales, and declines in international stock markets combined to send the TAIEX into a period of downward correction.

At the end of 2017, the TAIEX rose by 15.0% compared to the end of the previous year. All categories except Rubber and Biotechnology & Medical Care enjoyed year-on-year gains. Paper & Pulp stocks benefitted from international pulp price surges and posted the largest annual increase of 61.0%, followed immediately by the 55.4% increase of Glass & Ceramic stocks.

The TAIEX daily average trading value was NT\$97.5 billion, expanding significantly by 41.9% over the previous year. This was mainly because a law amendment halved the day trading transaction tax, pushing the share of day trading in total turnover upwards to 26.3% at the end of 2017 from 8.9% at the end of 2016.

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
2015	8,338.1	82.8	77.6	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
2017	10,642.9	97.5	78.4	31,831.9	155.2	-33.5	11.4
2017/ 1	9,448.0	64.6	3.7	27,890.9	46.0	3.0	-4.8
2	9,750.5	98.5	6.2	28,842.6	49.3	-2.1	6.2
3	9,811.5	85.7	6.8	29,057.5	70.4	-3.4	-3.9
4	9,872.0	84.2	5.2	29,246.1	32.1	-5.3	1.3
5	10,040.7	84.1	5.7	29,767.8	49.8	1.0	8.5
6	10,395.1	87.5	6.5	30,841.2	18.7	-8.3	17.0
7	10,427.3	89.7	6.1	30,951.4	-5.2	-8.6	3.0
8	10,585.8	105.1	7.7	31,473.5	-6.4	-1.4	-7.7
9	10,383.9	114.3	8.1	30,942.5	-62.0	-5.5	-8.9
10	10,793.8	113.5	6.7	32,186.0	44.1	1.7	10.9
11	10,560.4	124.0	8.7	31,555.3	-47.5	-4.4	4.0
12	10,642.9	108.8	7.2	31,831.9	-34.0	-0.4	-14.2

Source: Securities and Futures Bureau, FSC.

The Taipei Exchange (TPEX) weighted stock price index for the over-the-counter market rose by 18.6% at the end of 2017, with most categories posting year-on-year gains. The Chemical category gave the best performance with an increase of 50.2% as brighter prospects in electric vehicles generated large profits for suppliers like CoreMax and MECHEMA. Shares in Electronics recorded the second highest annual increase of 32.4% because strong buying from institutional investors drove semiconductor stocks to gain more than 60%. In 2017, the TPEX daily average trading value was NT\$31.2 billion, surging by 50.7% compared to the previous year. This was partly attributable to the day trading tax cut, which led the TPEX turnover of day trading as a percentage of total TPEX turnover to expand markedly to 37.7% at the year end.

The TWSE Market

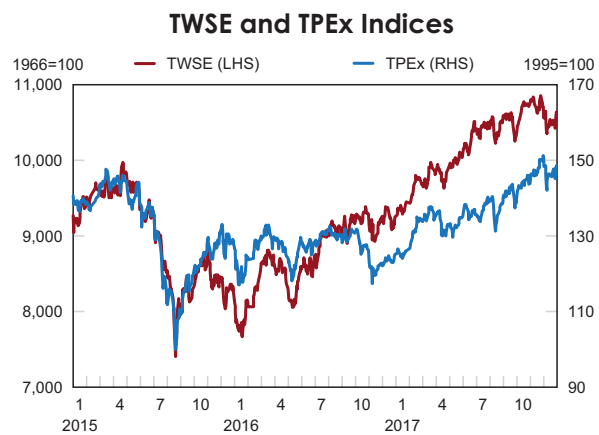
Listings and Capitalization Both Increased

The number of TWSE listings grew by 15 during the year to a total of 907 at the end of 2017. The par value of total shares issued rose by 1.6% to NT\$7.1 trillion. Total market capitalization amounted to NT\$31.8 trillion, increasing by 16.8% year on year. In terms of Taiwan Depository Receipts (TDRs), two existing TDRs were de-listed and no new ones were issued, leading the total number of TDRs on the TWSE to come down to 17 at the end of the year.

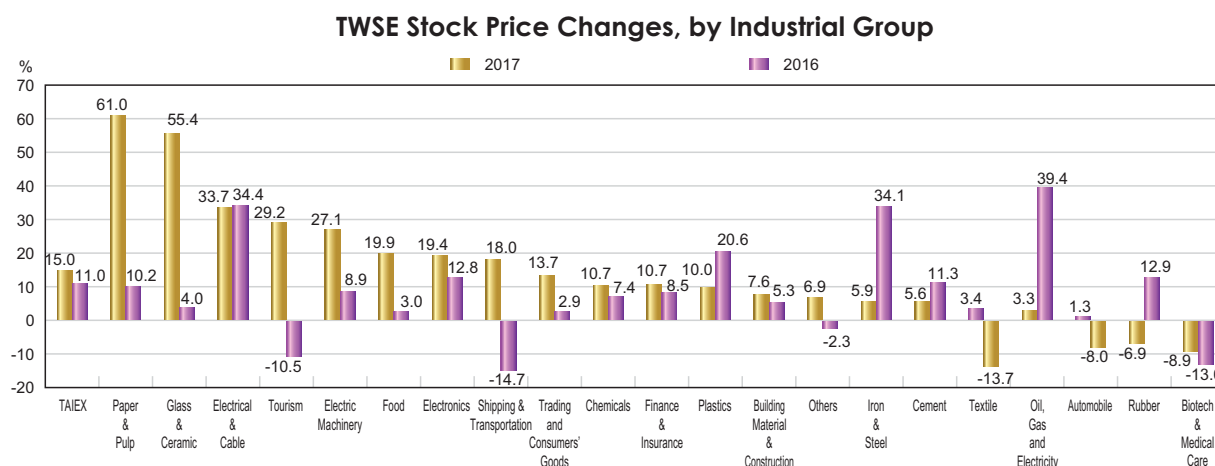
TAIEX Hit Record High in 28 Years

As the US stock market set multiple record highs in the first few months of 2017, along with rising international raw material prices and continued foreign investor buying, the TAIEX trended up and hit 9,972 points on March 21. The mainboard index dipped to 9,633 points on April 20, owing to market declines in the US and Europe and intensified geopolitical risks associated with North Korea and Syria. The TAIEX then followed major foreign stock markets to rally steadily higher, boosted also by strong earnings reports of TWSE-listed firms and active foreign buying of heavyweight stocks, and surpassed the 10,000-point mark in May.

Afterwards, the TAIEX broadly maintained an uptrend, except for a few brief pullbacks: In summer, major international stock indices plunged while Korean Peninsula tensions spiked, leading to net foreign selling in the local market that sent the TAIEX down to 10,225 as of August 14; then, faltering iPhone X expectations also dented the local benchmark index, which stood at to 10,257 points on September 26. In the last quarter



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



Source: TWSE.

of the year, the TAIEX was bolstered by extended rallies in international stock markets, steady domestic economic growth, and excellent corporate earnings reports, and peaked at 10,855 points on November 23, the highest in 28 years. Towards the end of 2017, weaker international stock indices, profit-taking trades, and net foreign selling combined to lead the TAIEX lower. The index finished the year at 10,643 points, rising by 15.0% from the 9,254 points reported one year before.

Broken down by subcategory, all industrial groups posted year-on-year gains except for Rubber and Biotechnology & Medical Care. Paper & Pulp stocks rose by 61.0%, the biggest increase among all groups, thanks to large orders and good profits amid international pulp price surges. The second highest was the 55.4% increase in Glass & Ceramic shares, driven by greater demand for fiberglass cloth and glass. Electrical & Cable shares came in third with an increase of 33.7% on the back of roaring corporate profits as copper and nickel prices went up. Among the categories with year-on-year declines, Biotechnology & Medical Care recorded the largest drop by 8.9% as a result of the US policy of holding down drug costs.

Market Turnover Increased

In 2017, trading heated up owing to the day trading tax cut and the revived participation of large and medium retail investors. As a result, the TWSE market turnover, measured on a daily average basis, grew significantly by 41.9% to NT\$97.5 billion from the NT\$68.7 billion of the previous year. Along with robust trading activity, the turnover rate also rose from the 64.6% of 2016 to 78.4% in 2017.

TWSE Market Recorded Net Foreign Buying

In 2017, foreign investors bought a net NT\$155.2 billion in the TWSE market, lower than the NT\$320.2 billion of the previous year. Local securities investment trust companies net sold TAIEX shares worth NT\$33.5 billion, while securities dealers recorded a net purchase of NT\$11.4 billion.

In the first half of 2017, foreign investors remained net buyers of TAIEX shares for six consecutive months, helping the index reach and stay above the 10,000 point mark. In the latter half of the year, however, foreign buying was only recorded in October, while US monetary policy normalization, Korean Peninsula tensions, and disappointing sales of the iPhone X, as well as profit-taking trades, led to net foreign selling in the other five months.

In terms of local securities investment trust companies, they were net buyers in January, May, and October. In the rest of the year, they became net sellers to ensure gains from price increases in order to meet fund redemption demand, boost their own financial statements, or adjust positions amidst relatively strong rallies.

Local securities dealers, with inclination for short swing trading, net bought in February, April to July, October, and November amid market uptrends. In the other months of the year, they net sold as a result of hedging or profit-taking strategies.

The TPEX Market

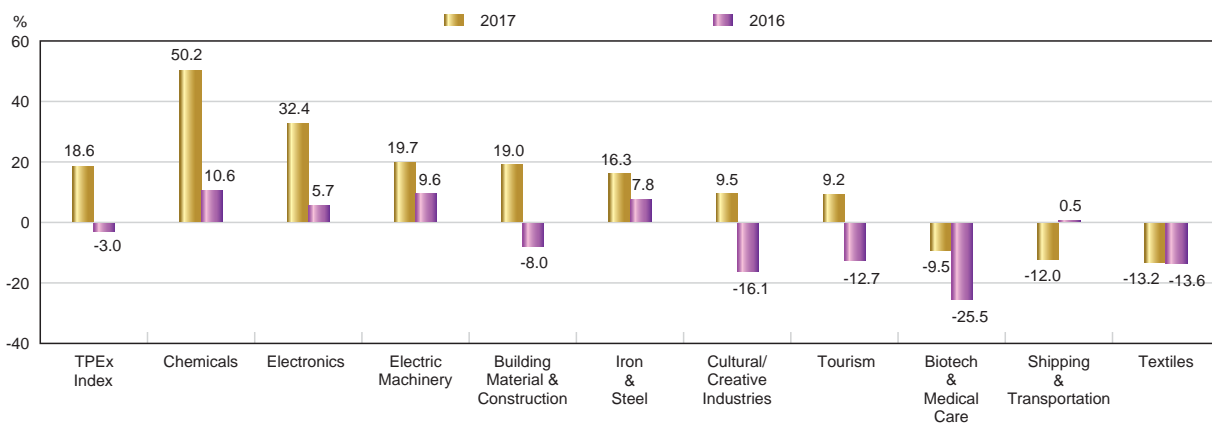
Listings and Capitalization Increased

At the end of 2017, the number of TPEX listings increased by 12 to 744. The total par value amounted to NT\$722.4 billion, up by 1.0% from the previous year. Market capitalization increased by 21.8% to NT\$3.32 trillion.

TPEX Index Swung Higher

During 2017, the TPEX index broadly followed the TWSE index and swung upwards. The index reached the yearly high of 151.3 points on November 29 before closing the year at 148.5 points, which was 18.6% higher than the 125.2 recorded at the end of the previous year.

TPEX Stock Price Changes, by Industrial Group



Source: TPEX.

For the year of 2017, foreign investors made net purchases of NT\$32.7 billion in the TPEX market, while local securities investment trust companies and local dealers recorded net selling positions of NT\$0.4 billion and NT\$6.5 billion, respectively. The daily average turnover in the TPEX market increased markedly by 50.7% from the NT\$20.7 billion registered a year ago to NT\$31.2 billion.

Key Measures for the Stock Markets

Key measures for Taiwan's stock markets in 2017 include the following:

- (1) January 1: Effective from this day to December 31, 2026, bond ETFs, corporate bonds, and bank debentures are exempt from securities transaction tax.
- (2) January 9: The CBC eased the rules to allow securities firms to provide services with NT dollar-denominated forex spots and forex derivatives products.
- (3) January 16: A cash creation/redemption mechanism is adopted for exchange-traded funds (ETFs); in addition, securities firms may offer services for investment in the stocks and ETFs by way of dollar cost averaging.
- (4) April 11: The Legislative Yuan passed the third reading of amendments to the Securities Transaction Tax Act, cutting the securities transaction tax rate by half from 0.3 percent to 0.15 percent for one year, effective from April 28, subject to review of the desirability of the tax cut one year from enforcement.
- (5) May 15: Taiwan Futures Exchange began allowing after-hours trading from the end of regular trading hours until five a.m. the next morning.
- (6) August 3: Securities investment trust enterprises may set up private equity funds through their subsidiaries; one of the objectives of the new policy is to steer the capital of domestic institutional investors, including pension funds, insurers, and banks, into local real industries (e.g., companies engaging in infrastructure building such as power plants and airports).