

## 6. Stock Market

The Taiwan Stock Exchange (TSE) weighted stock price index (TAIEX) closed the year 2007 with an increase of 8.7 percent from the end of the previous year. Most industrial groups went up, with cement & ceramics and plastics & chemicals industry shares as top performers. The daily average trading value was NT\$133.8 billion, an increase of 38.8 percent from that of the previous year. The GreTai Securities Market (GTSM), an over-the-counter market, weighted stock price index finished the year with a decrease of 5.7 percent from the previous year-end. It recorded a broad drop in all industrial groups except for textile, machinery, and transportation groups. The daily average trading value was NT\$34.6 billion, a sharp increase of 67.1 percent from the previous year.

### The TSE Market

#### Listings Turned to an Increase

There were a total of 698 listed companies at the end of 2007 in the TSE market, an increase of 10 companies from the previous year-end. It was the first time in three years for the number of listed companies to increase. The par value of shares issued totaled NT\$5.6 trillion, up 1.4 percent from the end of 2006. Total market capitalization reached NT\$21.5 trillion, representing a rise of 11.1 percent from the previous year-end.

#### Major Statistics of the TSE Market

	Stock price Index* (1966=100)	Daily Average Trading Value (NT\$ Billion)	Turnover Rate (%)	Market Capitalization* (NT\$ Billion)	Net Buying / Sale Positions** (NT\$ Billion)		
					Foreign Investors Net Buy/Sell	Securities Investment Trust Companies Net Buy/Sell	Securities Dealers Net Buy/Sell
2005	6,548.3	76.2	131.4	15,634	719.4	-86.3	16.9
2006	7,823.7	96.4	142.2	19,377	558.1	-54.3	6.9
2007	8,506.3	133.8	153.3	21,527	74.1	155.4	15.8
2007/ 1	7,699.6	119.6	13.8	19,038	19.0	-0.1	-1.2
2	7,902.0	91.3	5.6	19,541	38.1	7.4	2.0
3	7,884.4	112.0	13.2	19,511	-101.0	-9.7	-1.3
4	7,875.4	105.8	10.9	19,466	78.1	-2.9	-3.0
5	8,145.0	95.7	10.4	20,164	43.7	3.7	10.3
6	8,883.2	148.5	13.5	21,986	185.2	13.8	-1.1
7	9,287.3	225.0	21.5	23,036	-9.3	58.5	3.8
8	8,982.2	154.0	15.8	22,378	-171.4	39.9	-0.6
9	9,476.5	137.4	10.5	23,626	63.6	32.3	12.1
10	9,711.4	158.6	14.4	24,225	52.7	14.4	5.1
11	8,586.4	132.0	13.5	21,594	-149.4	-5.5	-12.2
12	8,506.3	104.4	10.2	21,527	24.9	3.6	2.1

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

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

Source: Financial Supervisory Commission, Executive Yuan.

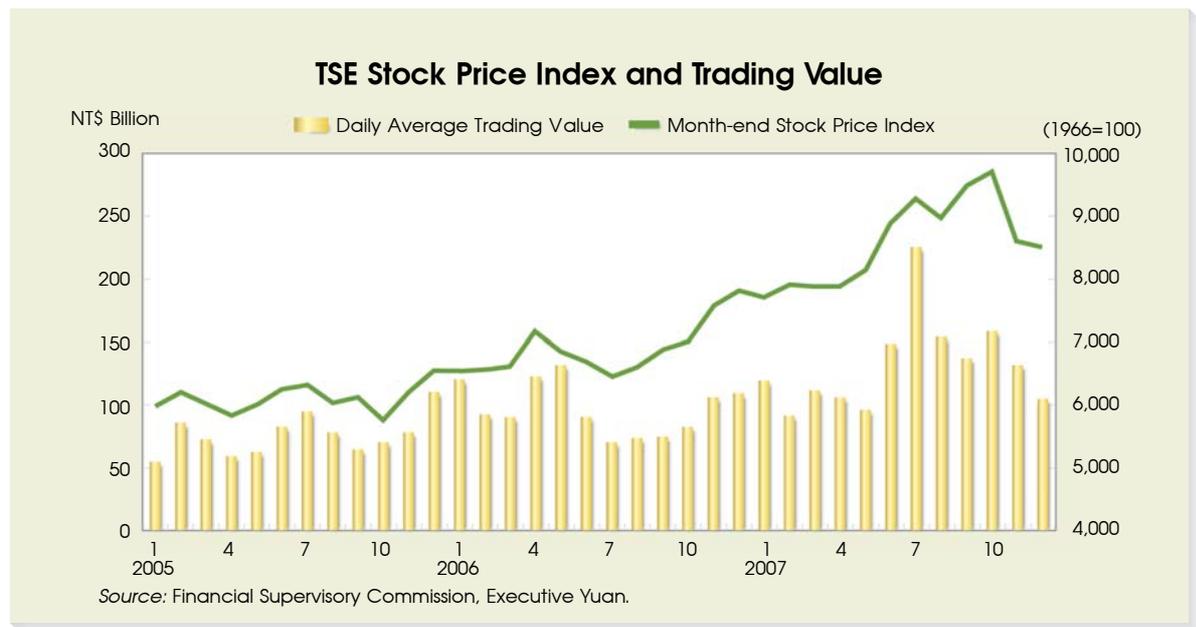
## Volatile Stock Prices

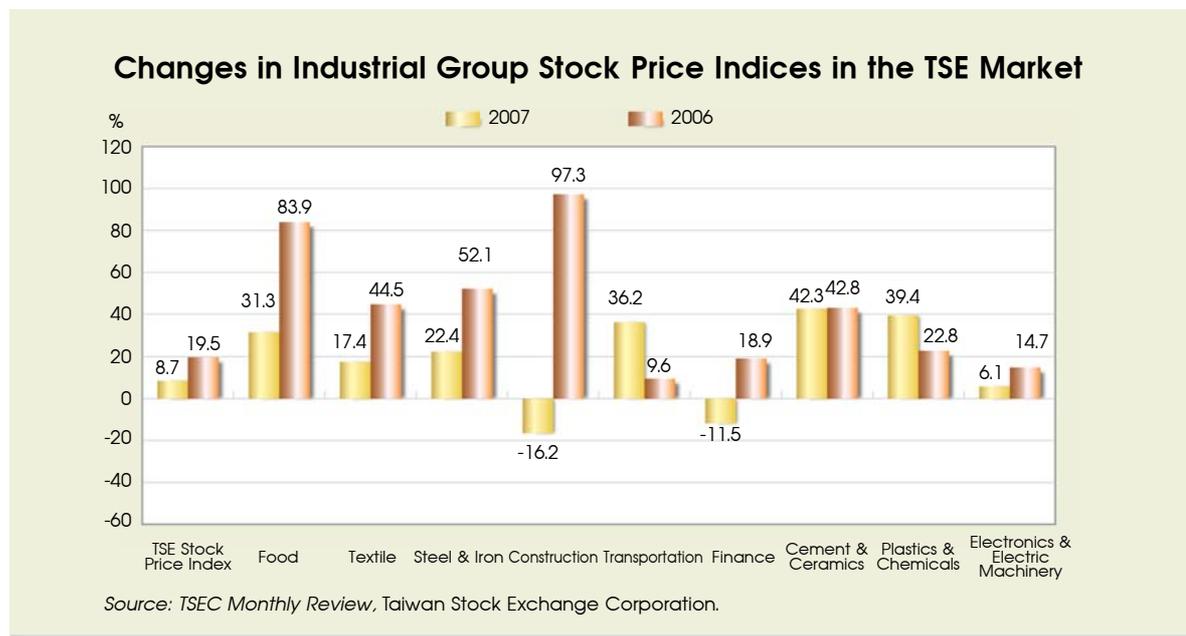
For the period between January and early March, the TAIEX corrected against the background of the Rebar Group fraud case and foreign investors' sell-off triggered by a tumbling Chinese stock market. The TAIEX fell to 7,345 points on March 5. During the period from mid-March to July, global stock markets rebounded strongly while domestically government policies inspired investor optimism. As both individual and institutional investors from home and abroad expanded their investment, the TAIEX sparked off a surging wave and reached 9,744 points on July 24, looking set for the 10,000-point milestone.

However, the widening US subprime mortgage crisis sapped global markets. From late July to mid August, as foreign investors sold off their TSE shares to secure liquidity, the TAIEX sank to 8,090 points on August 17, a plunge of nearly 1,700 points within one month. Starting from late August to the end of October, global markets were boosted markedly after two Fed rate cuts were perceived to help cushion the credit crisis. Likewise, the TAIEX got a lift, mainly from foreign investors, and soared to an all-year high of 9,810 points on October 29.

Unfortunately, the subprime mortgage crisis continued to deepen, and the financial sector took the hardest blow. This fueled existing worries about a likely US recession and consequently global markets plunged. As foreign investors began another bout of sell-off, the TAIEX tumbled down to 8,276 points on November 28. In December, the stock market appeared increasingly volatile against the backdrop of a less-than-expected Fed rate cut and the uncertain political outlook at home. The TAIEX corrected to 7,807 points on December 18 before it rebounded

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with regained stability in global markets as well as in domestic politics. The TAIEX closed the year 2007 at 8,506.3 points, a rise of 8.7 percent when compared to the 7,823.7 points at the end of the previous year.

Most industrial group stock price indices rose in 2007. Only construction and finance stocks declined. Construction shares shed 16.2 percent due to a cooldown in the local housing market and the US subprime mortgage crisis. Also plagued by the US debacle, and influenced by the Rebar Group incident and the passage of the Consumer Debt Clearance Regulations, finance stocks fell 11.5 percent. Food, textile and cement & ceramics stocks, with their corporate revenue highly correlated with the China market, enjoyed strong gains, mainly supported by China's stock market boom and rising domestic demand, as well as their reinvestment profits in China. Plastics and chemicals stocks leaped 39.4 percent, as earnings expectations bolstered by the high prices of petrochemical raw materials lured long-term investment. On a similar note, steel & iron and transportation stocks also went up on rising steel and shipping prices. Electronics & electric machinery stocks rose 6.1 percent, reflecting the recovering business prospect and solid gains of key electronic industries, such as panels, notebook PCs and cell phones.

### Substantial Increase in Turnover

As Taiwan's stock market continued its bull run this year, an influx of domestic individual investors spurred market turnover. The daily average trading value recorded NT\$133.8 billion, a significant rise of 38.8 percent over the NT\$96.4 billion in the previous year. Heated transactions

by individual investors also pushed up the turnover rate from the previous year's 142.2 percent to 153.3 percent.

### **Net Buying by Institutional Investors**

Foreign investors net bought NT\$74.1 billion, a huge retreat when compared with the previous year. Local securities investment trust companies showed a net purchase of NT\$155.4 billion, instead of a net sale in the previous year, while local securities dealers recorded a higher net purchase of NT\$15.8 billion than the previous year.

The first two months of the year registered a small net purchase by foreign investors due to a conservative stance, as global stock markets entered a period of consolidation after earlier gains. In March, the global market slump early that month and a large stake sale by Philips, the major shareholder of Taiwan Semiconductor Manufacturing Company Ltd. (TSMC), combined to prompt a huge sell-off by foreign investors. This was followed by a net purchase from foreign investors for three months in a row, owing to a weight increase of the TAIEX by Morgan Stanley Capital International (MSCI) in its emerging market indices, a global stock market rally, and a positive outlook for the electronic industry. Foreign sell-off was observed in July, August, and November. On a large part, this was because foreign institutional investors offloaded their shares in return for cash under redemption pressure amid a global market fall. August in particular recorded a net sale of NT\$171.4 billion. Foreign investors, inspired by the US stock market rally on two consecutive Fed rate cuts, net bought the TAIEX in both September and October. As the TAIEX was perceived to be near bottom and the stocks were apparently undervalued, December saw another net purchase by opportunity-seeking foreign investors.

Local securities investment trust companies actively took bull positions in the TAIEX, especially between May and October. One contributing factor was government encouragement for the launch of domestic stock-investment funds, which successfully attracted many investors as the TAIEX enjoyed an upswing in both June and July. Flush with funds, local securities investment trust companies posted massive net buying in the year.

Local securities dealers, with a tendency for short-swing trading and a hedging demand from stock warrants, often buy on rising prices and sell on falling prices. Therefore, they net bought in February, May, July, September, and October on vigorous stock performance. However, they net sold in June, despite a thriving market, in order to secure their profits. On the other hand, a flagging market led the local securities dealers to net sell in January, March, April, August, and November, while they net bought in December for bargain stocks amid an extended market fall.

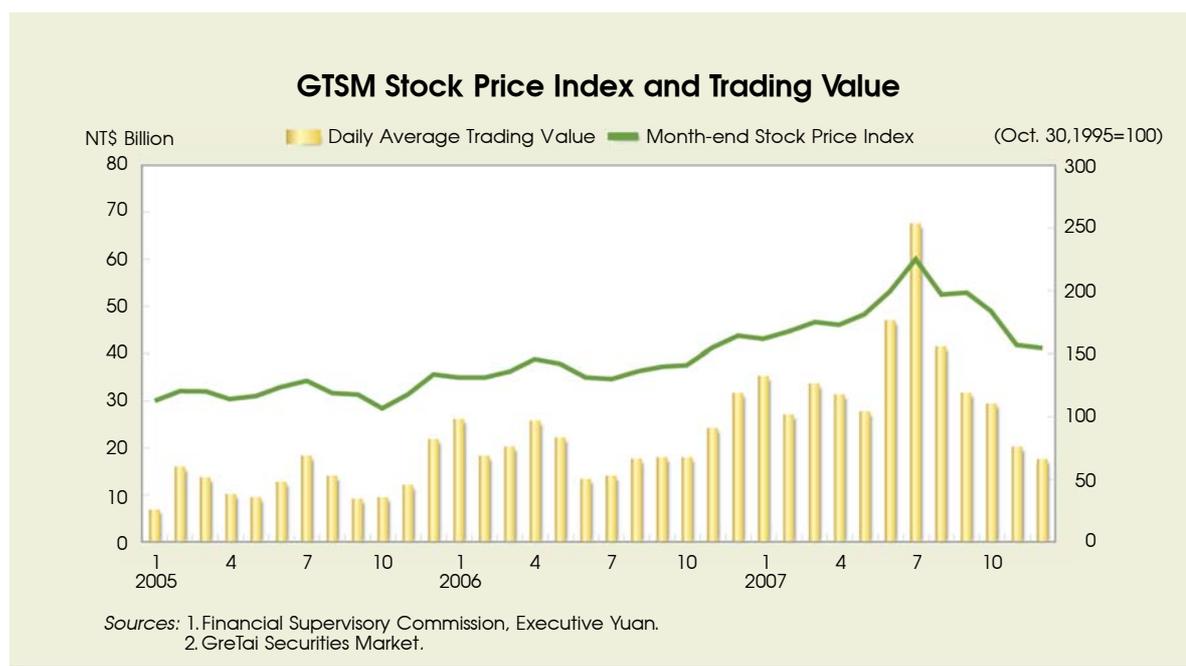
## The GTSM Market

### Increase in Listings

The number of listed companies in the GTSM market increased to 547 at the end of 2007, 16 more than the end of the previous year. At the year-end, the par value of total shares amounted to NT\$714.8 billion, 1.6 percent less than the previous year-end. Market capitalization was valued at NT\$1.9 trillion, representing little change from the previous year-end.

### Stock Prices Lifted Before Easing

The GTSM stock prices suffered from the Rebar Group incident in January, but recovered in the following two months on a global market upswing. In April, increasing tremors were felt in markets worldwide, and local securities dealers as well as investment trust companies logged a net sale, causing the stock prices to dip. However, the GTSM index went up with a leap during the months between May and July when favorable government policy announcements and strong global market performance led the index up to an all-year high of 233.3 points on July 25. From August onwards, global markets took several blows amid the US subprime mortgage meltdown, unleashing bouts of sell-off by foreign and local institutional investors. As a result, the GTSM index continued to slip and hit a yearly low of 137.9 points on December 21. The GTSM index closed the year at 154.5 points, down 5.7 percent from the 163.9 points at the end of the preceding year.



### Changes in Industrial Group Stock Price Indices in the GTSM Market



Source: GreTai Securities Market.

For the year of 2007, foreign investors net bought NT\$7.1 billion in the GTSM, while local securities investment trust companies bought a net of NT\$12.5 billion. However, local securities dealers had a net sale of NT\$3.7 billion.

### Sharp Increase in Turnover

The daily average turnover in the GTSM market for the year of 2007 was NT\$34.6 billion, a major increase of 67.1 percent from the previous year. Amid optimism among investors, the daily average turnover reached NT\$35.3 billion in January before the trading was thinned due to the Chinese New Year holidays in February. Rising stock prices buoyed the daily turnover in March. Investors were then held back by scheduled financial statement disclosures of GTSM listed companies and the uncertainty ahead of the inauguration anniversary speech by the President. The daily average turnover in May dipped to NT\$27.9 billion. In June and July, the turnover increased substantially along with the share prices, fueled by policy incentives and big net purchases by both foreign and local institutional investors. The daily average turnover in July soared to NT\$67.7 billion. From August onward, trading subsided month by month to NT\$17.6 billion in December, as net sales by foreign investors and local securities investment trust companies exacerbated a downward trend in stock prices.

### Key Measures for the Stock Market

The following important measures for the stock market were delivered in 2007:

- (1) On June 15, the Financial Supervisory Commission adjusted the credit lines for securities

margin trading. The credit ceiling for margin purchase of each investor was raised from NT\$30 million to NT\$60 million, while that for short sale was lifted from NT\$20 million to NT\$40 million.

- (2) On July 2, the TSE re-categorized listed companies into 29 industrial groups. Newly added groups included Oil, Gas & Electricity Industry and General Industry. Chemical Industry and Biotechnology & Medical Care were separated to become standalone groups. Electronic Industry was further broken down into 8 subgroups.

