

5. Stock Market

Strong volatility associated with international financial market turbulence marked the year of 2018 for Taiwan's benchmark stock index, the Taiwan Stock Exchange (TWSE) weighted stock price index (TAIEX). For the first three quarters of the year, the TAIEX fluctuated wildly at relatively high levels, reflecting a mix of bullish and bearish influences such as US-China trade conflicts, international market movements, geopolitical concerns, and investor expectations of the Federal Reserve's policy rate paths. However, the TAIEX retreated from above the 10,000 mark in the fourth quarter, as global stock market crashes, rising US bond yields, and foreign investor sell-offs in Asian emerging markets (EM) dragged the local stock index out of a 1-year plus streak of strength.

At the end of 2018, the TAIEX dropped by 8.6% compared with the end of the previous year. Most categories lost ground, except for Cement, Textile, Trading & Consumers' Goods, Iron & Steel, and Building Material & Construction. The two worst-performing groups were Glass & Ceramics and Paper & Pulp, posting year-on-year declines of 38.3% and 31.7%, respectively as their 2017 surges were contrasted by plunges in 2018. Tourism shares also suffered a fall of 26.0%, owing to a dwindling number of Chinese tourists and a rush of hotels scrambling out of the market.

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
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
2018	9,727.4	119.9	92.6	29,318.5	-355.1	-1.5	-99.4
2018/ 1	11,103.8	127.5	8.4	33,277.3	75.5	-1.3	17.2
2	10,815.5	127.0	5.1	32,434.1	-99.4	1.8	-11.2
3	10,919.5	113.3	8.0	32,748.5	-45.1	-5.1	-21.9
4	10,657.9	124.5	7.0	31,872.8	-82.3	0.9	-9.4
5	10,875.0	132.1	8.9	32,527.6	-28.1	-3.8	-10.9
6	10,836.9	150.1	9.3	32,437.0	-83.2	-0.1	2.1
7	11,057.5	132.7	8.8	33,122.3	8.3	4.8	-1.3
8	11,063.9	116.7	8.1	33,241.1	32.8	9.2	-23.5
9	11,006.3	118.7	6.8	33,057.5	65.9	-0.9	-1.8
10	9,802.1	109.5	8.2	29,529.6	-143.0	-7.7	-12.3
11	9,888.0	103.2	7.6	29,753.8	10.4	1.1	-9.1
12	9,727.4	88.7	6.4	29,318.5	-66.9	-0.5	-17.4

Source: Securities and Futures Bureau, FSC.

The TAIEX daily average trading value was NT\$119.9 billion in 2018, a year-on-year increase of 23.0%, as the extension of the day-trading transaction tax break shored up market momentum.

The Taipei Exchange (TPEX) weighted stock price index for the over-the-counter market slipped by 16.8% in 2018, with most categories posting year-on-year declines. Among them, the Electric Machinery and Electronics categories sank by 24.2% and 23.6%, respectively, affected by the US-China trade conflict and weakness of technology shares in the US market. For the year of 2018, the TPEX daily average trading value increased by 5.8% to NT\$33.0 billion.

The TWSE Market

Listings Increased; Capitalization Shrank

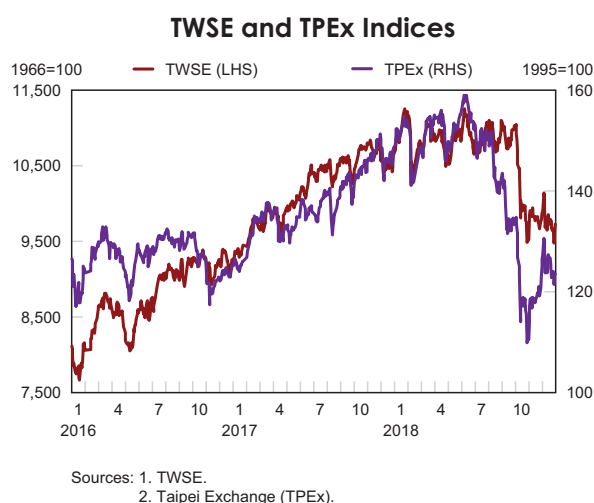
At the end of 2018, the number of TWSE listings totaled 928, with the number of initial public offerings reaching a 5-year record of 31. The par value of total shares issued rose by a modest 0.3% to NT\$7.2 trillion, while total market capitalization shed 7.9% to NT\$29.3 trillion. The number of Taiwan Depository Receipts (TDRs) remained 17.

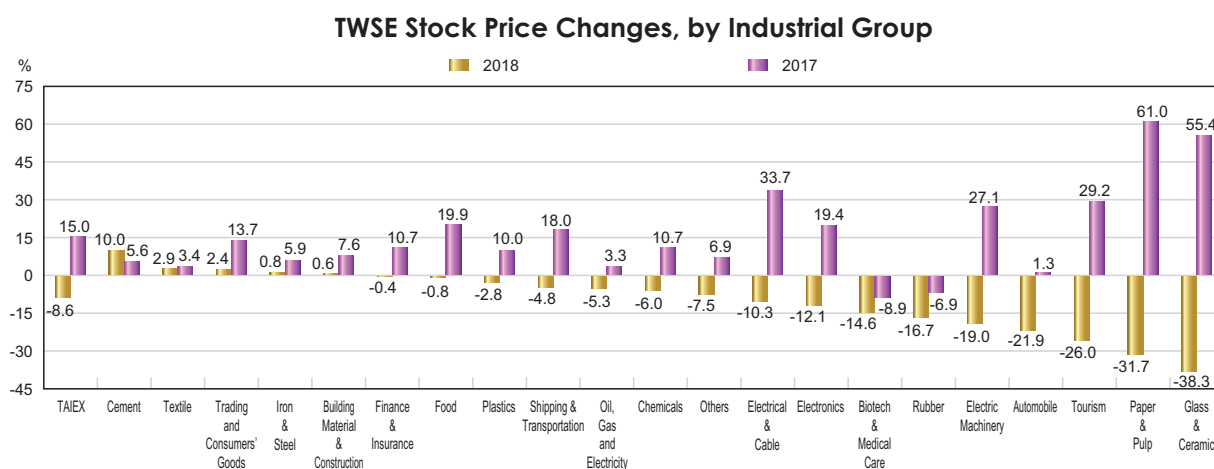
TAIEX's Record Start Was Reversed by Market Downswings amid International Slump

At the start of 2018, as US equities hit multiple historical records and foreign investors bought heavily in the local market, the TAIEX set off a gaining streak and peaked at 11,253 points on January 23, the highest mark in 28 years. The index pulled back afterwards and dropped to 10,372 points on February 9, owing to European and US stock market crashes and investor concern about steeper US rate hikes, as well as profit-taking sell-offs on the TWSE.

Thereafter, up until the end of the third quarter, the TAIEX fluctuated sharply at high levels. The local benchmark oscillated wildly in the interim, reflecting the upside and downside developments on the international scene, including US-China trade talk progress, global stock market performance, geopolitical risks, and investor expectations about the Fed's rate decisions.

The fourth quarter, though, was characterized by a broader downtrend. With global equities crumbling, the US bond yield climbing, and foreign investors offloading a lot of their Asian EM positions, the TAIEX plunged to 9,489 points on October 26 from 11,052 points on October 1, halting a bull run that had lasted for more





Source: TWSE.

than one year. In the final months of 2018, uncertainties including trade conflicts among major economies and domestic elections caused the main board shares to seesaw at lower price levels. The TAIEX closed the year at 9,727 points, down by 8.6% compared to 10,643 points a year before.

Broken down by subcategory, most industrial groups registered lower prices than the previous year. Glass & Ceramic and Paper & Pulp shares suffered the hardest, as high comparison bases in 2017 and steeper corrections in 2018 dragged them down by 38.3% and 31.7%, respectively. Tourism shares decreased by 26.0%, affected by a fall in Chinese tourism to Taiwan and the ensuing spate of hotel shutdowns. The stocks in the Automobile subcategory also slipped by 21.9%, owing to trade war-related impacts and declining car sales. By contrast, shares in Cement, Textile, Trading w& Consumers' Goods, Iron & Steel, and Building Material & Construction all recorded positive year-on-year growth, with Cement shares harvesting the biggest rise of 10% thanks to record-high corporate earnings.

Market Turnover Increased

In 2018, trading momentum built up mainly because the day-trading tax cut was extended until the end of 2021. For the year of 2018, the TWSE market turnover, measured on a daily average basis, increased by 23.0% to NT\$119.9 billion from the NT\$97.5 billion recorded the previous year. Robust trading activity also sent the turnover rate higher from the 78.4% of 2017 to 92.6%.

TWSE Witnessed Net Sales by Institutional Investors

In 2018, all three major types of institutional investors net sold in the local stock market. Foreign investors offloaded a net NT\$355.1 billion of TAIEX shares, an amount unseen since the 2009 global financial crisis. Meanwhile, local securities investment trust companies and securities dealers recorded net sales of NT\$1.5 billion and NT\$9.94 billion, respectively, in the TWSE market.

Looking at foreign investor behavior in 2018, they collectively became net sellers in the TWSE market in months other than January, July, August, September, and November. The net sales were mainly attributable to international headwinds, including escalating US-China trade friction, growing expectation of the Fed's rate hikes, increased geopolitical tensions, and slumping global equities. Indeed, the global stock market crash triggered the year's heaviest net sale of NT\$143.0 billion of main board shares in October and pushed the TAIEX below the 10,000 mark.

In terms of local securities investment trust companies, they were net buyers in February, April, July, August, and November. In the rest of the year, they became net sellers with profit-taking transactions for the purpose of fund redemption, financial statement boosting, or portfolio adjustments.

Local securities dealers, with inclination for short swing trading, net bought during the bullish months of January and June in 2018 and net sold in the rest of the year to hedge their positions or lock in gains.

The TPEX Market

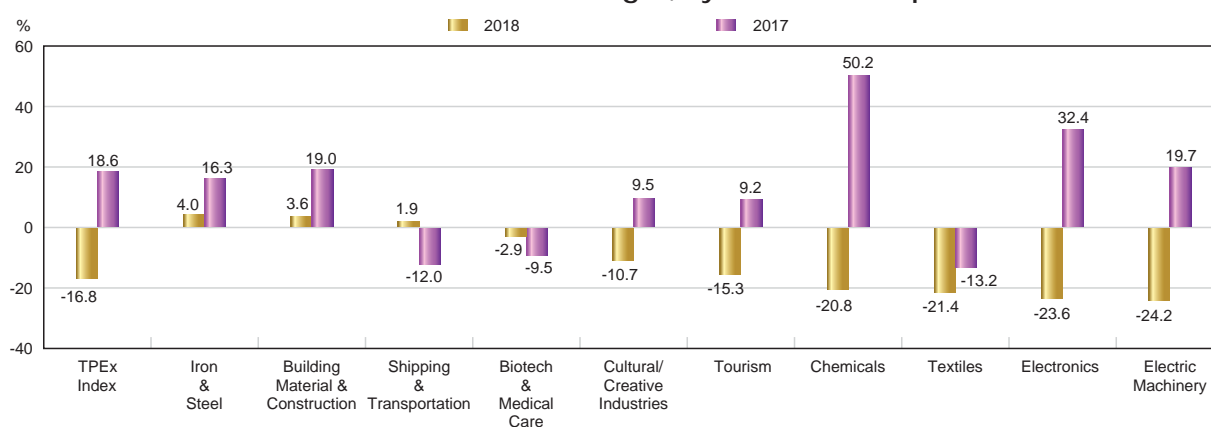
Listings Increased but Capitalization Fell

At the end of 2018, the number of TPEX listings increased to 766, with 31 new listings mostly from the technology industry. The total par value rose by 2.2% year on year to NT\$738.5 billion, while market capitalization fell 14.8% to NT\$2.83 trillion.

TPEX Index Rallied but Then Dropped with Sharp Swings

In 2018, the TPEX experienced wilder fluctuations than the TWSE. The index opened the year with upswings and peaked at 159.1 points on June 6 but sharper corrections followed. Amid economic worries and financial market turmoil at home and abroad, the TPEX Index plummeted to 109.9 points

TPEX Stock Price Changes, by Industrial Group



Source: TPEX.

on October 26. Despite a rebound afterwards, the index closed the year at 123.5 points. Not only did it fall by 16.8% compared to the previous year's 148.5 points, it also suffered a decline nearly twice as large as that in the TAIEX.

For the year of 2018, net sales by foreign investors, local securities investment trust companies, and local dealers were NT\$13.5 billion, NT\$7.6 billion and NT\$156.4 billion, respectively. The historical record of net sales by local dealers was because these investors offloaded in large quantity their holdings of bond ETFs and call/put warrants.

The daily average turnover in the TPEx market increased by 5.8% from the NT\$31.2 billion of the previous year to NT\$33.0 billion.

Key Measures for the Stock Markets

Key measures for Taiwan's stock markets in 2018 include the following:

- (1) January 1: The withholding tax on dividends paid to foreign shareholders would be raised from 20% to 21%.
- (2) January 18: With the passing of tax reforms, the tax credit imputation of the integrated income tax system was abolished. Resident shareholders may now be levied for income from dividends in either of the following ways — a 8.5% deduction on dividend income as part of total taxable income, up to a maximum of NT\$80,000, or a flat tax rate of 28% on dividend income only.
- (3) April 13: With the passage of an amendment to the Securities Transaction Tax Act, the transaction tax cut for day trading would be extended to December 31, 2021, effective from April 28, 2018. The extended tax reduction also applies to day trading by securities dealers.
- (4) May 29: The Financial Supervisory Commission (FSC) announced that qualified securities firms may issue exchange-traded notes (ETNs), an instrument to be officially defined as a security from July 2, 2018.
- (5) August 9: A draft amendment to the *Futures Trading Act* was approved by the Cabinet, paving the way for a central counterparty clearing mechanism of over-the-counter derivatives transactions. In addition, the maximum administrative fine for violations against futures trading regulations would be raised from NT\$0.6 million to NT\$2.4 million.
- (6) September 10: The FSC announced that, starting in 2019, the TWSE would no longer offer makeup sessions for trading and settlement on those Saturdays adjusted to be work days, which used to be the norm under the government's mechanism to substitute a Saturday for an extra weekday off in order to complete an extended national holiday weekend.