

6. Stock Market

The Taiwan Stock Exchange (TSE) weighted stock price index (TAIEX) closed the year 2008 down 46.0 percent from the end of the previous year. All industrial groups registered a downward trend, with construction and plastics & chemicals industry shares showing the weakest performance. The TAIEX daily average trading value was NT\$104.9 billion, a 21.6 percent decline from the previous year. The GreTai Securities Market (GTSM), an over-the-counter market, weighted stock price index finished the year down 58.3 percent from the end of the previous year, with all industrial group shares dropping. The daily average trading value was NT\$13.2 billion, a drastic fall of 61.8 percent from the previous year.

The TSE Market

Listings Continued to Rise

At the end of 2008, the number of listed companies in the TSE market stood at 718, an increase of 20 from the end of 2007. The par value of shares issued amounted to NT\$5.7 trillion, rising by 2.4 percent from the end of the previous year. The total market capitalization was NT\$11.7 trillion, contracting by 45.6 percent from the end of 2007.

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
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
2008	4,591.2	104.9	145.5	11,707	-470.0	44.0	43.3
2008/ 1	7,521.1	139.0	16.0	19,140	-34.4	-4.5	2.3
2	8,412.8	130.1	8.5	21,383	98.3	8.6	12.1
3	8,572.6	152.2	14.7	21,734	-18.4	4.9	4.2
4	8,919.9	156.9	14.6	22,645	-29.3	15.4	18.4
5	8,619.1	140.5	13.5	21,892	13.8	5.0	-6.2
6	7,523.5	96.3	10.6	19,137	-115.9	0.2	-10.6
7	7,024.1	100.1	12.3	17,894	-109.6	6.4	8.8
8	7,046.1	93.0	10.9	17,975	-29.9	10.8	4.7
9	5,719.3	89.1	12.8	14,584	-90.5	-6.1	-2.4
10	4,870.7	56.7	10.1	12,403	-114.6	-5.8	3.8
11	4,460.5	55.7	9.8	11,365	-55.7	-4.7	3.4
12	4,591.2	60.1	11.8	11,707	16.2	13.8	4.8

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

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

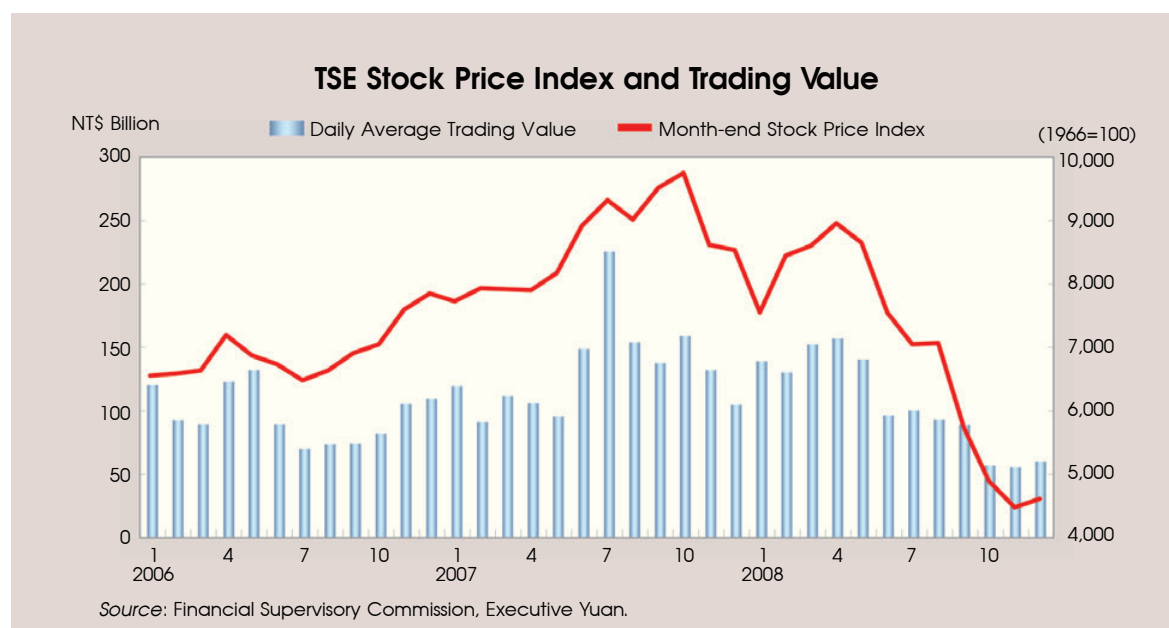
Source: Financial Supervisory Commission, Executive Yuan.

Share Prices Took a Tumble

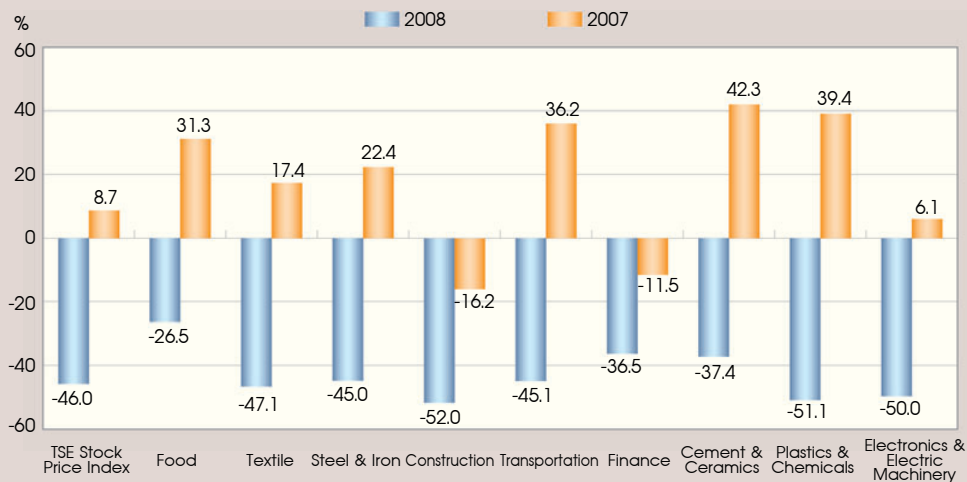
Starting from January, as big international investment banks suffered huge losses and led global stock markets to plummet, TSE shares also felt strains from the massive sell-off by foreign investors and took a plunge. However, the US Fed announced an emergency rate cut of 75 basis points on January 22, boosting global stock markets to rebound. Then in March, the victory of the KMT (Nationalist Party) in the presidential election generated optimism about a warmer cross-strait relationship. Capital inflow poured into domestic market and buoyed TAIEX to firm up to the peak of 9,295 points on May 19.

From then onwards, the optimism for the new government started to lose steam. Coupled with surging global inflationary pressure, the financial turmoil stemming from the financial difficulties of large financial institutions such as Fannie Mae, Freddie Mac, Lehman Brothers, and AIG accelerated to spread out across the world. While global stock markets continued to tumble, more rounds of sell-off by cash-crunching foreign investors led the TAIEX downwards to the all-year low of 4,090 points on November 20. Nevertheless, global stock markets stabilized on several bold rate cuts by central banks around the world. In the domestic scene, fiscal stimulus measures and the launch of the direct cross-strait links brought the TAIEX to recover slowly to 4,591 points on December 31, recording a 46.0 percent decline from the 8,506 points at the year-end of 2007.

All industrial group stock indices registered substantial declines during 2008. This was mainly attributable to the unfolding global financial debacle, the consequential plunge widely seen



Changes in Industrial Group Stock Price Indices in the TSE Market



Source: TSEC Monthly Review, Taiwan Stock Exchange Corporation.

in global stock markets, and the retreat of foreign investment from the TSE market. Among the industrial groups, construction, plastic & chemical, and electronics & electric machinery stocks suffered the worst fall.

Turnover Moved to a Decrease

The bullish market trend was reversed in May 2008 and stock prices plummeted. In addition, the government imposed a ban on short-selling and tightened the floor limits on share prices. As a result, the 2008 TAIEX market turnover thinned to a daily average of NT\$104.9 billion, contracting by 21.6 percent from the NT\$133.8 billion of the previous year.

Massive Sell-off from Foreign Investors

For the year 2008, net sale by foreign investors mounted to NT\$470 billion, a historic high since the deregulation of foreign investment in the stock market. On the other hand, local securities investment trust companies and securities dealers still recorded net buy of NT\$44 billion and NT\$43.3 billion, respectively.

Net equity purchases by foreign investors were only observed in February, May, and December. For February and December, they saw an opportunity of good investment in undervalued stocks on the further subdued TAIEX and the stabilizing global stock markets. For May, the presidential inauguration and the promising outlook of improved cross-Straits relations also encouraged their appetite for the TAIEX stock shares.

However, the faltering financial institutions in the US sent shock waves quickly across Europe and emerging economies, and triggered a worldwide credit crunch. Global stock markets were on a losing streak, and foreign investors thus faced heavy redemption pressures. Against this backdrop, foreign investors turned to a net sale for six consecutive months from June to November as they pulled out of emerging markets including Taiwan.

Along with the sell-off by foreign investors at the beginning of the year, local securities investment trust companies net sold the TSE market shares in January. But they turned to net purchases during the months between February and August on a brighter mid- and long-term investment outlook, backed by the expected thawing of Taiwan-China relations and more liberalized policies after the presidential election. From September to November, though, net sales were recorded as global financial turmoil dragged down international stock markets and local securities investment trust companies had to offload their holdings to cope with redemption pressures. Afterwards, the TAIEX share prices were viewed as overshooting on the downside while local securities investment trust companies took a more bullish position to boost their financial statements at year-end, contributing to a net purchase in December.

Local securities dealers tend to opt for short-swing trading and often net buy on rising prices and net sell on falling prices. They net bought on a market rally between February and April, and net sold in both May and June on weak market performance. From July onwards, local securities dealers had net purchases of the TAIEX shares, except a slight net sale of NT \$2.4 billion in September. This was mostly because a relatively low TSE market attracted the opportunity-seeking securities dealers to buy bargain stocks.

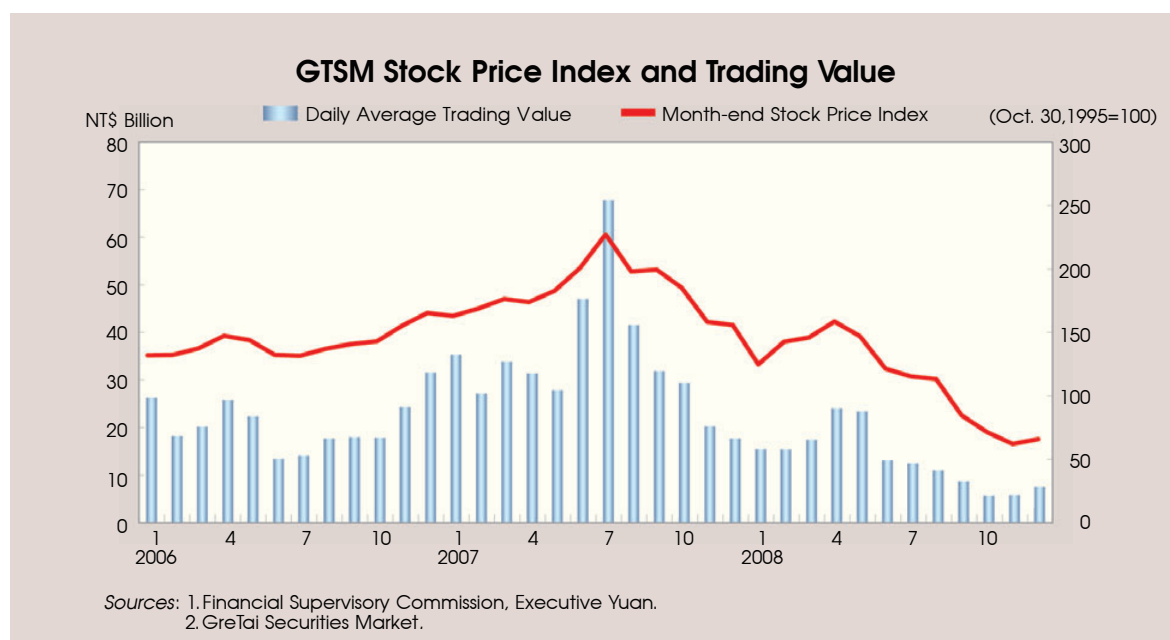
The GTSM Market

GTSM Listings Showed the First Decline

The number of listed companies in the GTSM market fell to 539 at the end of 2008, 8 less when compared to the end of the previous year. It was the first decrease since the GTSM market was established, mainly due to more termination of GTSM listings on account of sluggish business. At the year-end, the par value of total shares amounted to NT\$703.1 billion, 1.6 percent less than the end of last year. Market capitalization reduced drastically by 58.7 percent from the previous year-end to NT\$772.1 billion.

Share Prices and Turnover Shrank Markedly

The GTSM market was severely hit in January by a global stock market slump and the resulting sell-off on the part of foreign and local institutional investors. For the months between February and May, as the government acted to bolster investor confidence ahead of the



presidential election, and then the KMT's win on March 22 sparked optimism about better cross-strait relations, hopeful individual investors continued to buy more shares, spurring the GTSM market to an all-year high of 163.2 points on May 19. For the rest of the year, as global financial crisis deepened, individual investors as well as foreign investors and local securities investment trust companies all turned cold on the GTSM market. The index slipped all the way to an all-year low of 54.9 points on November 20, before rebounding to 64.4 points at year-end, thanks to less volatile international markets and fiscal stimulus measures taken by Taiwan's government. However, the GTSM index still closed the year substantially lower, falling by 58.3 percent when compared to the 154.5 points at the end of 2007.

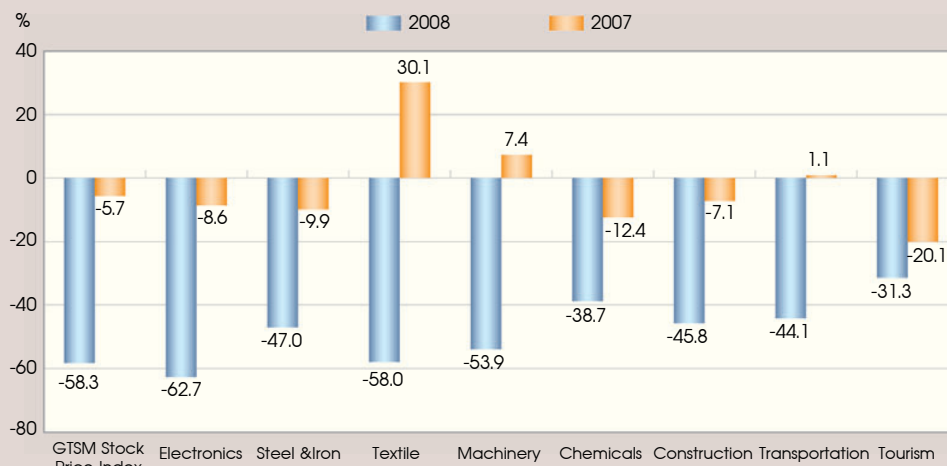
For the year of 2008, foreign investors net sold NT\$25 billion in the GTSM market, while local securities investment trust companies and securities dealers bought a net of NT\$1.8 billion and NT\$5.2 billion, respectively. The daily average turnover in the GTSM market was NT\$13.2 billion, a sharp decline of 61.8 percent from the previous year's NT\$34.6 billion.

Key Measures for the Stock Market

The following important measures for the stock market were enacted in 2008:

- (1) On February 5, the Financial Supervisory Commission (FSC) approved an enhancement of block trading system proposed by the TSE, including an additional pairs trading session between 8:00 am and 8:30 am before the stock market opens and a reduction of price increment for block trading to NT\$0.01.

Changes in Industrial Group Stock Price Indices in the GTSM Market



Source: GreTai Securities Market.

- (2) On March 18, in a related action to promote foreign enterprises' listing on the TSE market, the FSC relaxed restrictions on securities firms trading offshore company securities. According to the FSC, the total shares of any foreign company held by a securities firm shall not exceed 5 percent of the total shares issued by the foreign company, and the total acquiring cost of the securities issued by any foreign company held by a securities firm shall not exceed 10 percent of its capital net worth.
- (3) On June 27, the TSE recognized the Hong Kong Stock Exchange (HKSE) as one of the acknowledged foreign stock exchanges, a move to attract offshore Taiwanese and foreign companies to list on the TSE market. Accordingly, an HKSE listed offshore Taiwanese or foreign company may issue Taiwan Depositary Receipts (TDRs) in Taiwan or seek a second listing on the TSE market.
- (4) On July 14, the FSC notified that investment in the China market securities by an offshore mutual fund raising money in the local market shall be publicly listed securities, of which the total investment amount shall not exceed 10 percent of the net asset value of the fund.
- (5) On July 30, the FSC relaxed restrictions on investing in the China market with the capital raised by issuing new stocks or corporate bonds. In addition, the FSC lifted the ban on investing in the China market with capital raised by an issuer when registering a planned offering and issuance of overseas securities with the FSC.

- (6) On September 21, the FSC announced that in order to boost the stock market, it would impose a ban on the short-selling of stocks below their previous session's close. This measure, in force from September 22 to October 3, applied to a selection of 150 domestic stocks, including those in the Taiwan 50 Index, the Taiwan Mid-Cap 100 Index, and the TSEC Taiwan Technology Index.
- (7) On September 30, the FSC took another action to help relieve the stock market from bearish pressure by temporarily banning the short-selling of all stocks, effective between October 1 and October 14. Under this measure, investors would not be allowed to sell short through securities borrowing and lending (SBL) system and margin selling for stocks of all listed companies in the TSE and GTSM markets, including short-selling of stocks above their last closing prices.
- (8) On October 12, the Executive Yuan took the following measures to stabilize the stock market: (a) to halve the price-fall limit to 3.5 percent, effective from October 13 to 17; (b) to extend the temporary ban on short-selling of all stocks from its initial expiry date of October 14 to December 31; (c) to coordinate with the management committee of the National Stabilization Fund to continue its intervention so as to prop up the stock market.
- (9) On November 27, the FSC announced that starting from November 28, the ban on short-selling of stocks above the last closing prices through SBL system and margin selling was lifted (but short-selling of stocks below their last closing prices remained banned). Nevertheless, Exchange Traded Funds (ETFs) and short-selling through securities borrowing and lending for the purpose of hedging by securities and futures firms may be exempted.
- (10) The FSC announced on December 4 that it had drafted the Regulations Governing Securities Investment and Futures Trading in Taiwan by Mainland China Area Investors. In accordance with the new regulations, qualified domestic institutional investors (QDII) in China may conduct securities investment and futures trading in Taiwan.
- (11) On December 31, the FSC announced that it would lift the ban on the short-selling below the last closing prices of 150 domestic stocks, including those in the Taiwan 50 Index, the Taiwan Mid-Cap 100 Index, and the TSEC Taiwan Technology Index. In the same announcement, the FSC also resumed the original rules governing the total volume of sales of margin selling and securities borrowing and lending.