

## 6. Stock Market

The Taiwan Stock Exchange (TSE) weighted stock price index (TAIEX) closed the year 2006 with an increase of 19.5 percent from the previous year-end. All industrial groups rose with construction and steel and iron shares being the best performers. The daily average trading value for the year was NT\$96.4 billion, 26.5 percent higher than that of the previous year.

The GreTai Securities Market (GTSM), an over-the-counter market, weighted stock price index finished the year with a strong increase of 23.3 percent from the previous year-end. All stock groups went up, while steel and iron, construction, and textile shares recorded the largest gains. The daily average turnover for the year was NT\$20.7 billion, surging by 61.7 percent from the previous year.

### The TSE Market

#### Market Capitalization Increased Substantially

There were a total of 688 listed companies at the end of 2006, representing a decrease of 3 companies from the previous year-end. During the same period, the par value of total

#### 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
2004	6,139.7	95.5	177.5	13,989	284.0	-14.1	-15.4
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
2006/ 1	6,532.2	120.2	13.9	15,610	37.9	-15.8	-4.5
2	6,561.6	92.7	10.0	15,701	66.0	-13.2	-4.4
3	6,614.0	89.8	13.0	15,917	-7.1	-10.7	-0.5
4	7,171.8	122.8	13.4	17,483	170.1	-11.8	11.8
5	6,847.0	132.0	16.6	16,742	-30.1	-0.2	-16.4
6	6,704.4	89.9	12.5	16,389	-46.3	3.7	-8.6
7	6,454.6	70.0	9.3	15,790	-28.9	-0.6	3.1
8	6,611.8	74.0	10.5	16,198	73.6	1.6	7.7
9	6,883.1	74.4	9.3	16,863	78.8	-5.8	6.1
10	7,021.3	82.4	9.5	17,345	58.1	-2.7	-0.6
11	7,567.7	105.8	12.4	18,723	113.4	0.0	10.3
12	7,823.7	109.7	11.9	19,377	72.6	1.3	3.0

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

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

Source: Taiwan Stock Exchange Corporation.

shares issued increased slightly by 1.9 percent to NT\$5.5 trillion, while total market capitalization rose substantially by 23.9 percent to NT\$19.4 trillion.

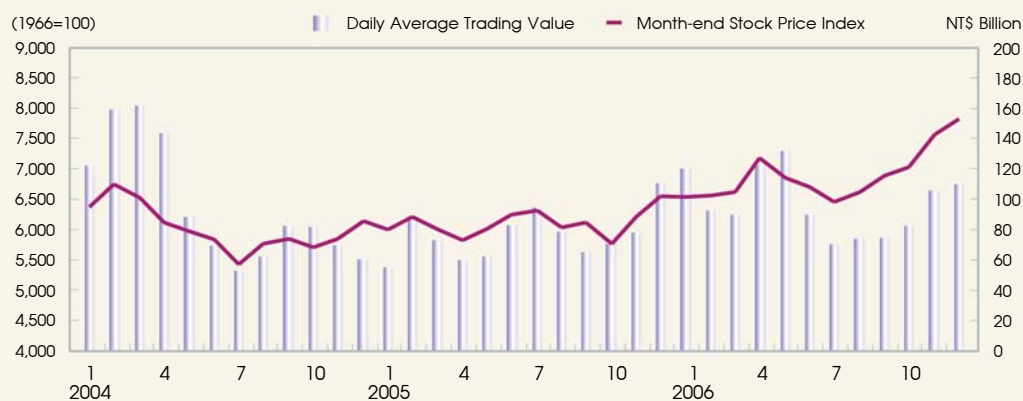
### Share Prices Trended Upwards

During the first three months of 2006, international stock markets weakened on expectations of continuous rate hikes by the US Federal Reserve. Meanwhile, the electronics sector, which weighs heavily on the TSE market, entered a cyclical trough, prompting foreign institutional investors to downgrade local investment. The TAIEX fell to 6,365 points on March 23. During the subsequent two months, international markets rebounded and foreign investors purchased the relatively cheap local shares. The easing of cross-strait relations also helped send asset-related stocks upwards. The TAIEX rallied to 7,474 points on May 8.

From then to July, tensions in Middle East pushed up oil prices. International markets were overshadowed by inflationary pressure and interest rate rise possibilities. Capital retreated from Asia, leading stock prices across the region lower. In Taiwan, political unrest sapped the confidence of local investors. All these factors caused the TAIEX to plunge to a yearly low of 6,258 points on July 17.

Since then, however, stock prices trended upwards on a series of upbeat news. International stock markets gained momentum as the US Federal Reserve halted rate hikes. The Dow Jones Industrial Average Index climbed new highs. On the domestic front, the Carlyle Group's buyout of Taiwan's Advanced Semiconductor Engineering intensified expectations of potential mergers and acquisitions, which prompted foreign investors to engage in large purchases in the local

### TSE Stock Price Index and Trading Value



Source: TSEC Monthly Review, Taiwan Stock Exchange Corporation.

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



Source: TSEC Monthly Review, Taiwan Stock Exchange Corporation.

market. The TAIEX closed the year at an annual high of 7,824 points, showing a 19.5 percent increase over the previous year-end.

All industrial group stock price indices went up this year. Shares of traditional industries largely outperformed electronics and electric machinery shares and financial shares. Construction shares recorded a steep increase of 97.3 percent, driven by a buoyant housing market and the pending commencement of the high-speed railway. Iron and steel shares surged by 52.1 percent, as continuously rising international steel prices contributed to the profits of local companies. Tourism stocks advanced by 31.2 percent on expectations that the restrictions on tourists from China would be further lifted. Textile, cement and ceramics, and plastics and chemicals shares also rose mainly because renminbi appreciation and the rapid growth of demand from China fuelled related shares. On the other hand, electronics and electric machinery shares rose by 14.7 percent, a much smaller rise than most traditional industrial groups. This reflected that investors were conservative on the outlook of the electronics sector and therefore shifted investment to traditional sectors. Financial shares gained 18.9 percent, as credit and debit card defaults were expected to gradually subside and the buyout of Hsinchu International Bank by Standard Chartered Bank propped up hopes of other merger and acquisition cases.

### Substantial Increase in Turnover

Driven by bullish sentiment, the daily average turnover for the year increased significantly by 26.5 percent from the previous year to NT\$96.4 billion. As rising share prices prompted

individual investors, usually with high turnover rates, to engage in the market, the turnover rate for this year rose to 142.2 percent from the previous year's 131.4 percent.

### Large Net Buying by Foreign Investors

Foreign investors registered a net purchase of NT\$558.1 billion in the TSE market. Local securities dealers recorded a net purchase of NT\$6.9 billion, while local securities investment trust companies showed a net sale of NT\$54.3 billion.

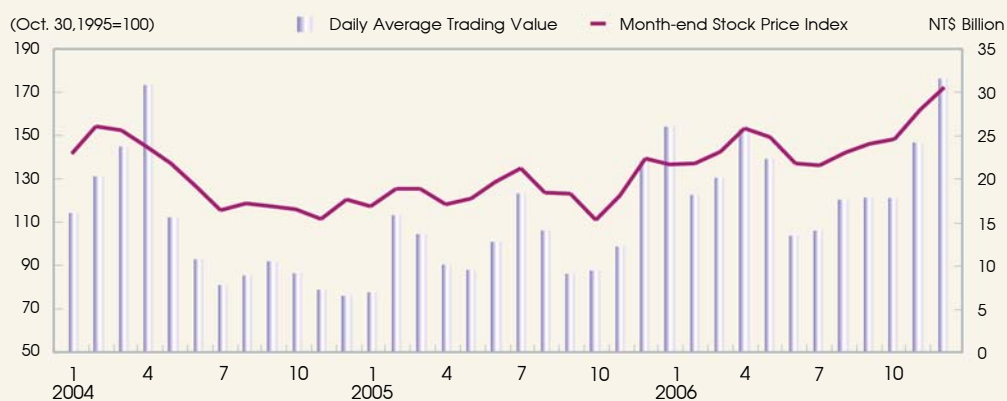
Foreign investors were attracted to Taiwan this year mainly due to the strong rally of international stock markets and the merger and acquisition possibilities of local enterprises. Local securities investment trust companies registered net sales in most of the months except June, August and December. They were pressured by investors, who remained conservative and would rush to redeem their holdings when prices went up. Local securities dealers usually engage in short-swing trading, and they often buy on rising prices and sell on falling prices to meet the hedging demand of stock warrants. Therefore, local securities dealers net sold in January, February, May and June amid gloomy market conditions, and net bought in April, August, September, November and December when the market rose. In April and November, they net bought more than 10 billions worth of stocks amid sharply rising prices.

### The GTSM Market

#### Market Capitalization Increased Sharply

The number of listed companies in the GTSM market increased to 531 at the end of 2006,

#### GTSM Stock Price Index and Trading Value



Source: GTSM Monthly Review, GreTai Securities Market.

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



Source: GTSM Monthly Review, GreTai Securities Market.

an increase of 28 companies from the previous year-end. The par value of total shares issued amounted to NT\$726.2 billion at the end of 2006, 12.9 percent higher than that of the previous year-end. Market capitalization was valued at NT\$1.9 trillion at the end of 2006, recording a steep rise of 44.7 percent when compared with the previous year-end.

#### Share Prices Consolidated before Rising

GTSM stock prices consolidated in the first three months of 2006 amid lackluster international stock markets and cyclical troughs of the electronic sector. In April, the GTSM stock price index swung upwards along with rising international markets and easing of cross-Strait relations. From May onwards, concerns over global inflationary pressure prompted capital to retreat from Asia, tumbling regional stock markets. The GTSM index fell to an all-year low of 119.0 points on June 21. Beginning from August, rate hikes by the US Federal Reserve were ended, international capital returned to Asia, and the merger and acquisition potential among Taiwan's enterprises was heightened. The GTSM index rose all the way to an all-year high of 164 points at the year-end, a strong gain of 23.3 percent from the previous year-end.

Foreign investors recorded a net sale of NT\$5.8 billion, while local securities investment trust companies and securities dealers bought a net of NT\$11.0 billion and NT\$1.1 billion, respectively, for the year.

#### Sharp Increase in Turnover

The daily average turnover in the GTSM market for the year was NT\$20.7 billion, a sharp

increase of 61.7 percent from the previous year. Turnover in the first three months was suppressed by the prolonged consolidation. Daily turnover was NT\$20.1 billion in March. As the market picked up in April, the daily average turnover expanded to NT\$25.8 billion. From May onwards, turnover shrank as investors stood on the sidelines due to bearish sentiment and political unrest. Daily turnover in June declined to NT\$13.5 billion. As market sentiment turned bullish again, daily turnover for the period from August to October stayed at around NT\$17.8 billion. In the final two months, prices surged, leading daily turnover to expand to NT\$31.6 billion in December.

