Taiwan Market Report 2019

The 24th Asian Securities Forum Annual General Meeting

A. Taiwan's Economic Situation and Outlook

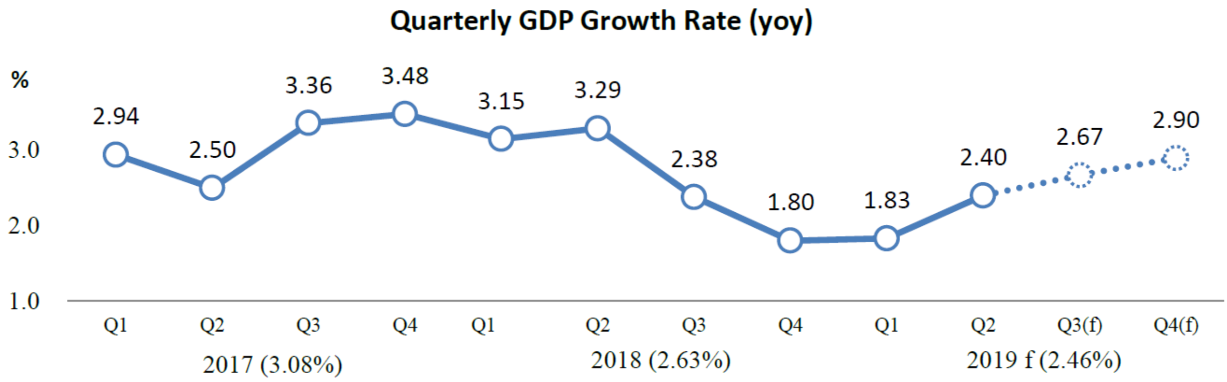
YoY % change	2015	2016	2017	2018	2019 July
GDP growth	0.81	1.41	2.89	2.63	2.40[f]
CPI	-0.30	1.39	0.62	1.35	0.40
Exports	-10.9	-1.8	13.2	5.9	-3.0
Imports	-15.8	-2.8	12.4	10.4	-1.0
Export orders	-4.4	-1.6	10.9	3.86	-6.01
Industrial Production Index	-1.3	2.0	5.0	3.64	3.0
Monetary Aggregate (M2) [a]	6.34	4.51	3.75	3.07	3.38
Unemployment rate (%)	3.78	3.92	3.76	3.71	3.82
TWSE Stock Index [b]	8,338	9,253	10,642	9,727	10,618

Note：[a] Daily Average，[b] Monthly Average TAIEX
Sources：The Central Bank of China (CBC), Financial Supervisory Commission (FSC), Directorate-General of Budget, Accounting and Statistics (DGBAS).

For the second quarter of 2019, the real GDP grew by 2.40%, up from 1.83%in Q1, mainly due to the solid growth momentum of real gross fixed capital formation, and there bound in real exports of goods and services.

According to the DGBAS' forecast in August, real GDP is expected to grow by 2.46% in 2019, 0.27 percentage point higher than the previous forecast.

The government has implemented the forward-looking infrastructure development program, three programs to boost investment in Taiwan, and the subsidy programs for domestic travel and energy-efficient appliance replacement. These measures will provide the economy with a greater boost in 2019.



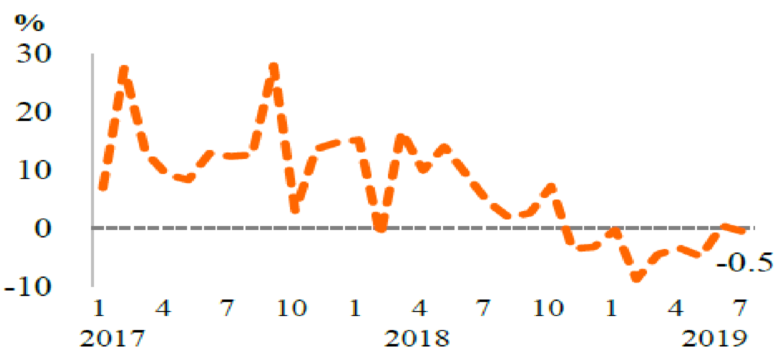
Source: DGBAS.

I. Momentum of Exports Remain stable

Merchandise exports fell by 0.5% year on year in July 2019, mainly due to contracting exports to China, Hong Kong and Japan contracted, while export-growth to the U.S. accelerated significantly.

By product, the parts and articles of base metal declined 17.7% (yoy); however, the information, communication and audio-video soared 25.7%.

- **Exports**

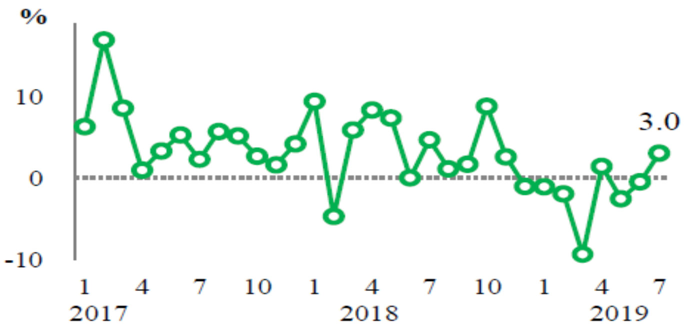


II. Industrial Production Rebounds Modestly

Industrial production index increased 3.0% year-on-year in July, mainly due to the semiconductor suppliers boosted by the peak season effect.

By sector, integrated circuits increased 12.4%, and computers, electronic & optical products surged 34.8%.

- **Industrial Production**

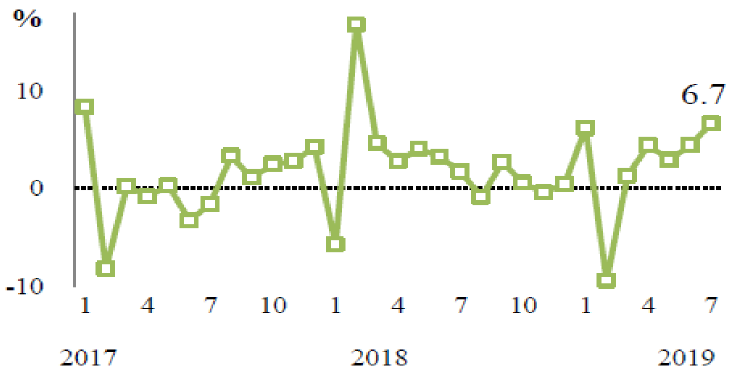


III. Retail Sales Increases Continually

Retail Sales increased 6.7% year-on-year in July 2019, showing the fifth month growth.

The sector of general merchandise stores increased 6.1%, and autos, motorcycles and related parts and accessories grew 18.8%.

- **Retail Sales**

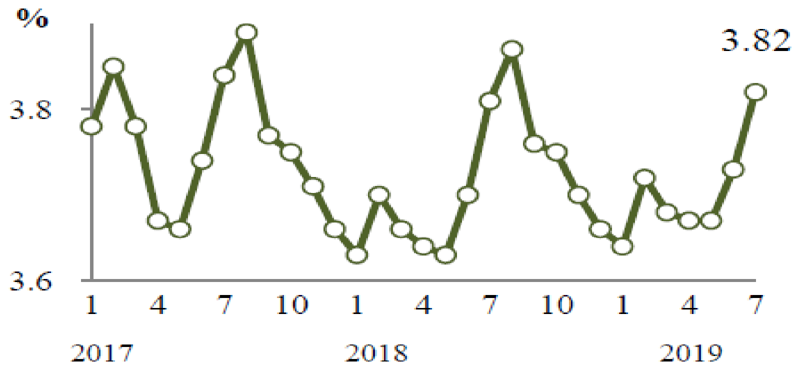


IV. Labor Market Stays Healthy

The unemployment rate increased to 3.82% inJuly2019, mainly due to the entry of new graduates to the job market.

For the first half year of 2019, the average real regular earnings of all employees was US$1,293.4, 1.75% more than same period of last year.

- **Unemployment Rate**

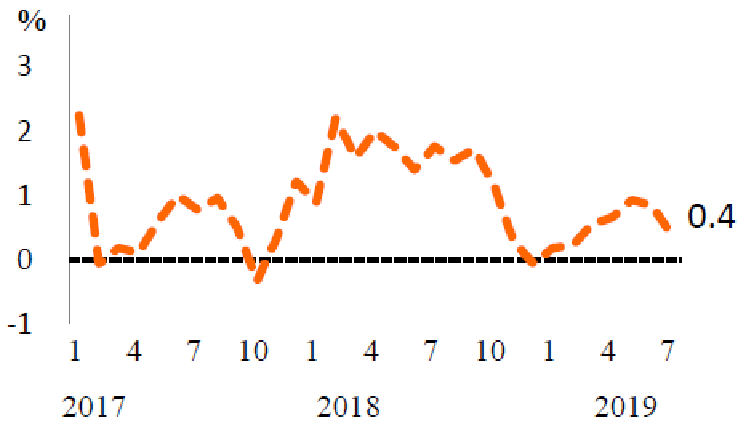


V. Inflation Remains Low

CPI increased by 0.40% in July 2019, as the prices of vegetables and fruits rose 6.83% and 5.61% respectively. The core CPI increased 0.34%.

For the first seven months of 2019, the CPI increased 0.54% over the same period of the previous year.

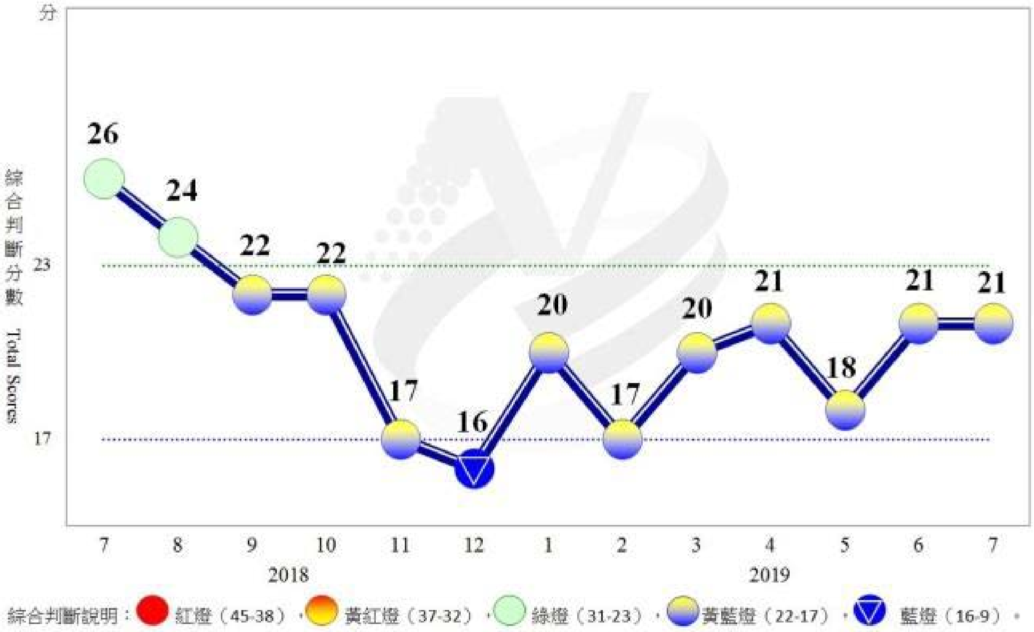
- **Inflation**



VI. The Monitoring Indicator Flashes Yellow-Blue Signal

In July 2019, the overall monitoring indicator continued to flash the "yellow-blue" signal.

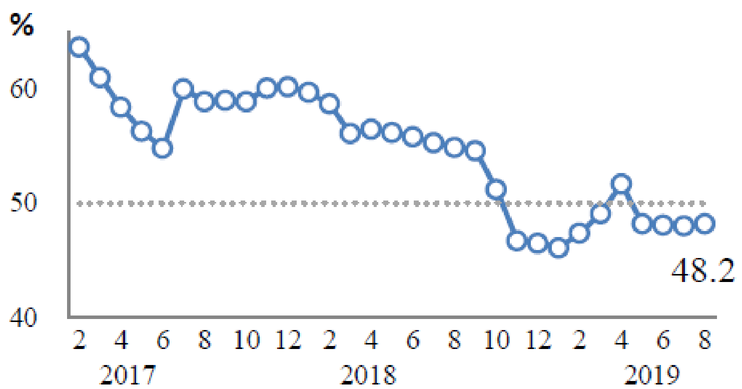
The trend-adjusted leading index picked up for seven consecutive months and the coincident index increased for three consecutive months.



VII. Manufacturing PMI Shows Contraction

The manufacturing sector contracted for four consecutive months as the seasonally adjusted Taiwan Manufacturing PMI registered 48.2% in August 2019, a small increase of 0.2 percentage points from July 2019.

- **Manufacturing PMI**



B. Taiwan Securities 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

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.

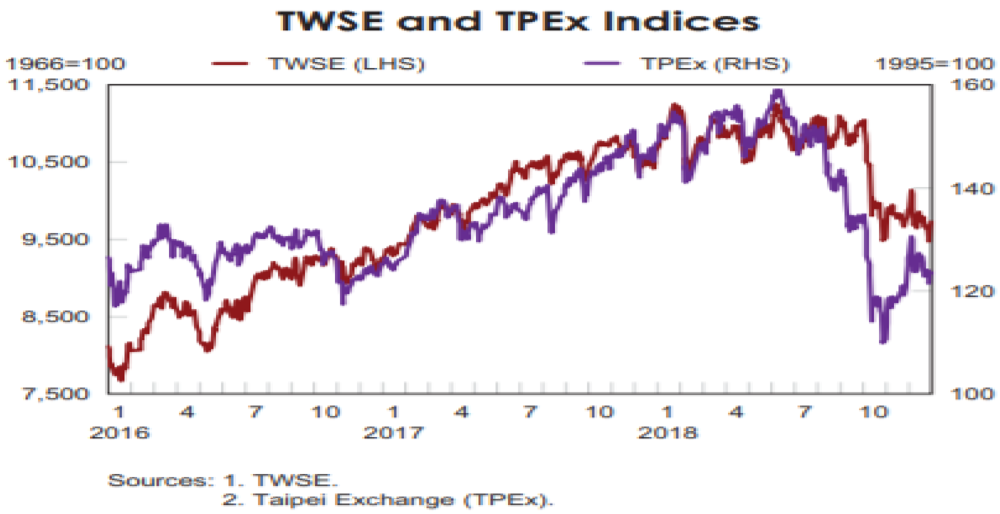
as their 2017 surges were contrasted by plunges in 2018. Tourism shares also suffered a fall of 26.0%, owing to a dwindling number of Chinese tourists and a rush of hotels scrambling out of the market.

The TAIEX daily average trading value was US$3.8 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 US$1.05 billion.

The TWSE Market

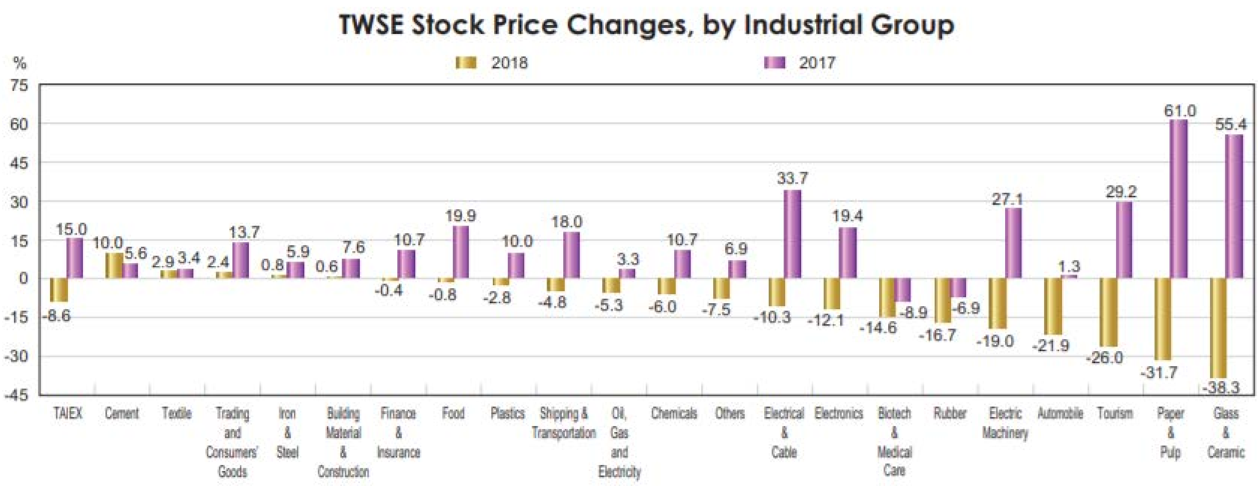
At the end of 2018, the number of TWSE listings totaled 928, with the number of initial public offerings reaching a 5-year record of 31. The par value of total shares issued rose by a modest 0.3% to US$228.57 billion, while total market capitalization shed 7.9% to US$930.16 billion. The number of Taiwan 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 than one year. In the final months of 2018, uncertainties including trade conflicts among major economies and domestic elections



Source: TWSE.

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 US$ 3.8 billion from the US$ 3.1billion 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 US$ 11.27 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 US$ 47.62 million and US$ 315.56 million, respectively, in the TWSE market.

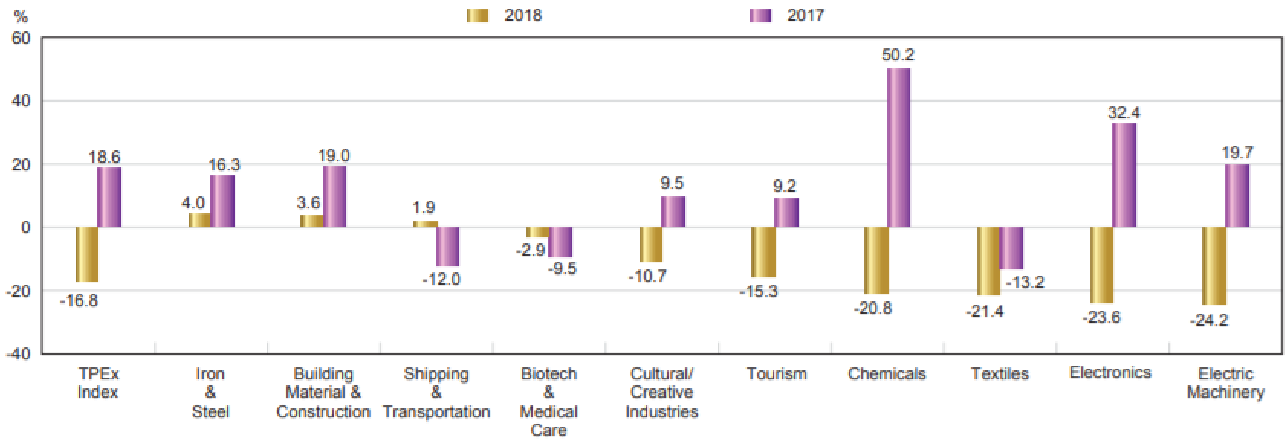
Looking at foreign investor behavior in 2018, they collectively became net sellers in the TWSE market in months other than January, July, August, September, and November. The net sales were mainly attributable to international headwinds, including escalating US-China trade friction, growing expectation 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 US$ 4.54 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

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 US$ 23.44 billion, while market capitalization fell 14.8% to US$ 89.84 billion. 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

TPEx Stock Price Changes, by Industrial Group



Source: TPEx.

turmoil at home and abroad, the TPEx Index plummeted to 109.9 points 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 US$ 428.57 million, US$ US$ 241.27 million and US$ 4.97 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 US$ 990.48 billion of the previous year to US$ 1.05 billion.

C. Prospects for the securities industry

I. Promulgation of the “Regulations Governing the Financial Investment, Management, and Utilization of Repatriated Overseas Funds”

The Management, Utilization and Taxation of Repatriated Offshore Funds Act (the Act) were promulgated on July 24, 2019. The FSC introduced the Regulations Governing the Financial Investment, Management, and Utilization of Repatriated Overseas Funds (the Regulations), which came into effect on August 15, 2019, according to the authorization specified in Paragraph 6 of Article 6 of the Act. For overseas funds remitted by an individual or a profit seeking enterprise to a foreign exchange deposit account, the account holder may withdraw up to 25% of the after-tax fund and deposit it in a trust account or discretionary account for investment in financial instrument(s). The key points of the Regulations about the fund management and utilization are as follows:

1. Financial instruments that such funds can invest in and the limitations on such investments: these financial instruments include domestic securities, including government bonds, publicly offered corporate

bonds, financial debentures, international bonds, stocks of OTC-listed and exchange-listed companies, emerging stocks, securities investment trust funds (including ETFs), futures ETFs and ETNs. Such investments can also be used in trading of listed warrants, futures or options for hedging purpose. Up to 3% of the after-tax fund remitted by an individual may be used to purchase domestic protection-type and elderly benefits insurance products.

2. The limitations on utilization of such funds in domestic securities and insurance products:

(1) The fund is subject to limits on its domestic securities investment to avoid portfolio concentration. The investment in stock and bonds of one company shall not exceed 20% and the shares held by such stock investment shall not exceed 10% of the invested company.

(2) The fund shall not be used for margin trading, securities lending and borrowing and investments in leveraged ETFs or ETNs, inverse ETFs or ETNs.

(3) The fund shall not be pledged as a collateral for borrowing or guarantee. Domestic insurance products purchased with such fund shall not be used for the application of policy loans.

3. Fund retrieval with installment plan after a specific period: 1/3 of the fund for investments in financial instruments may be retrieved in the fifth, sixth and seventh year respectively after the expiration of the term from the date of remittance to the foreign exchange deposit account. According to the second part of Paragraph 2 of Article 6 of the Act, retrieval of the fund that is placed in the aforementioned foreign exchange deposit account and not used in real investment and in financial instrument(s) shall be retrieved according to the aforementioned regulations.

II. Defining securities tokens as securities specified in the Securities and Exchange Act

To address the needs of the blockchain enterprises to raise funds through offering cryptocurrencies that have securities nature, the FSC makes it clear that cryptocurrencies having investment nature and liquidity will be considered as securities regulated by the Securities and Exchange Act. It then issued an order in accordance with Paragraph 1, Article 6 of the Securities and Exchange Act on July 3, 2019, which defines that cryptocurrencies with securities nature (securities tokens) as securities regulated by the aforementioned Act. According to the definition provided by the aforementioned order, the securities tokens refer to those that utilize cryptography and decentralized ledger technology or other similar technology to reveal their value digitally stored, exchanged or transferred, and that have liquidity and the following investment nature:

(1) The capital providers make the contribution of funding.

(2) Funding is to a common enterprise or project.

(3) The capital providers expect to make a profit.

(4) The profit depends on the efforts of the issuer or third party/third parties.