



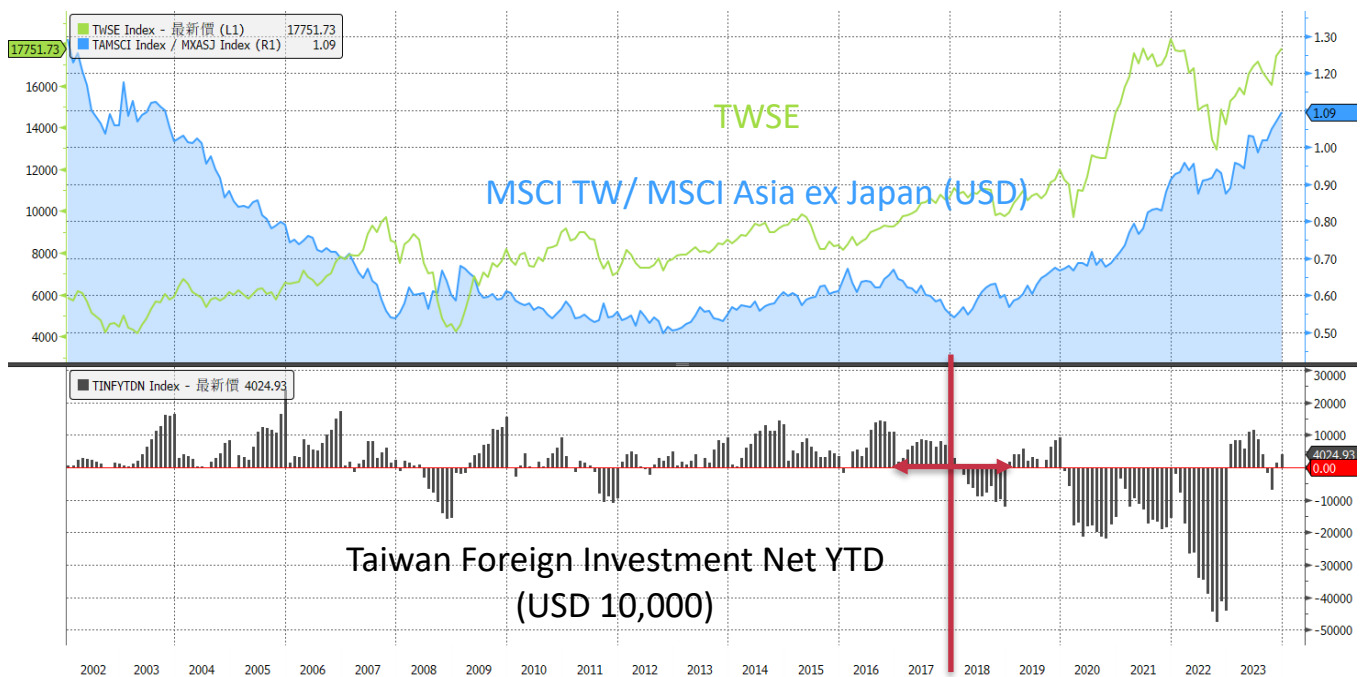
Foreign Capital Flows in Taiwan Stock Market

January 2024

Foreign capital flows may influence the Taiwan stock market and its momentum. In the short- to mid-term foreign flows are driven by the dynamic of market fundamentals and fund flows, while in the long-term foreign flows are the consequence of rebalancing strategy and have more connection with Taiwan stock market's out-/underperformance of its rivals in the region.

By Cathay SITE

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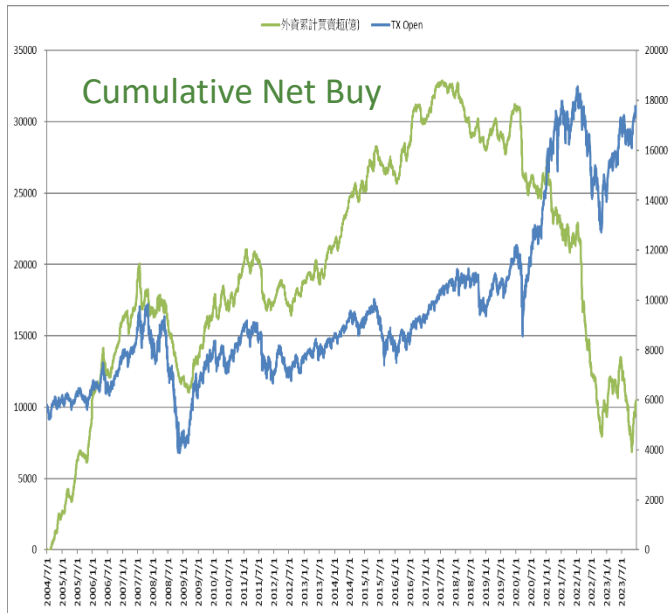
Source: Bloomberg, compiled by Cathay SITE

Under the tendency for Tech to lead and Taiwan to maintain its relative strength in the region, it is estimated that foreign institutional investors will continue the net selling trend.

After 2018, foreign institutional investors registered an aggregate net sell of NT\$2 trillion worth of shares on Taiwan's stock market. In the meantime, Taiwan's stock market capitalization grew to NT\$ 21.9 trillion. The percentage of foreign capital in Taiwan stocks didn't change much and remained at near 40%. The cumulative net sell of NT\$2 trillion only accounts for 10% of the market capitalization,



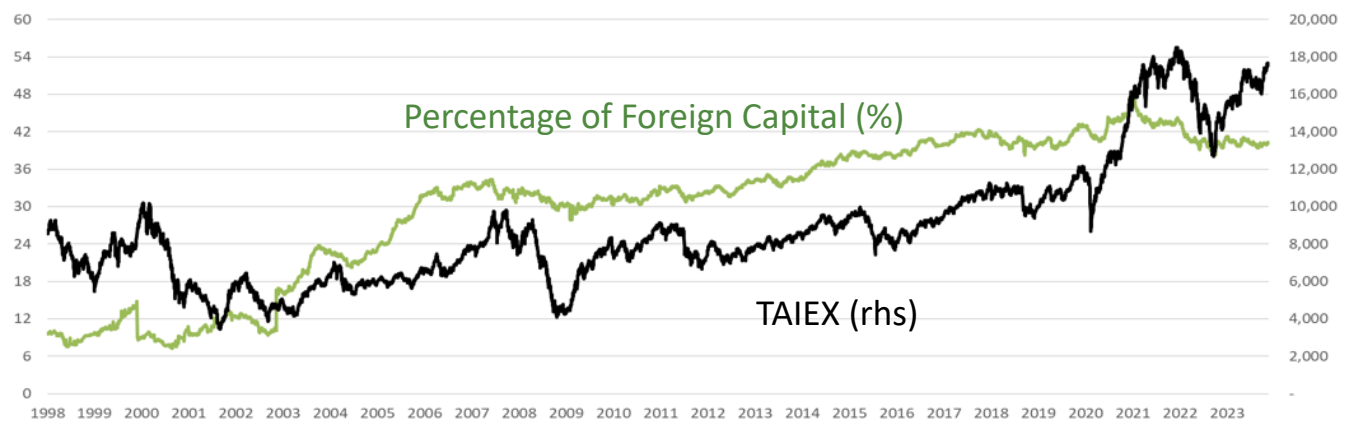
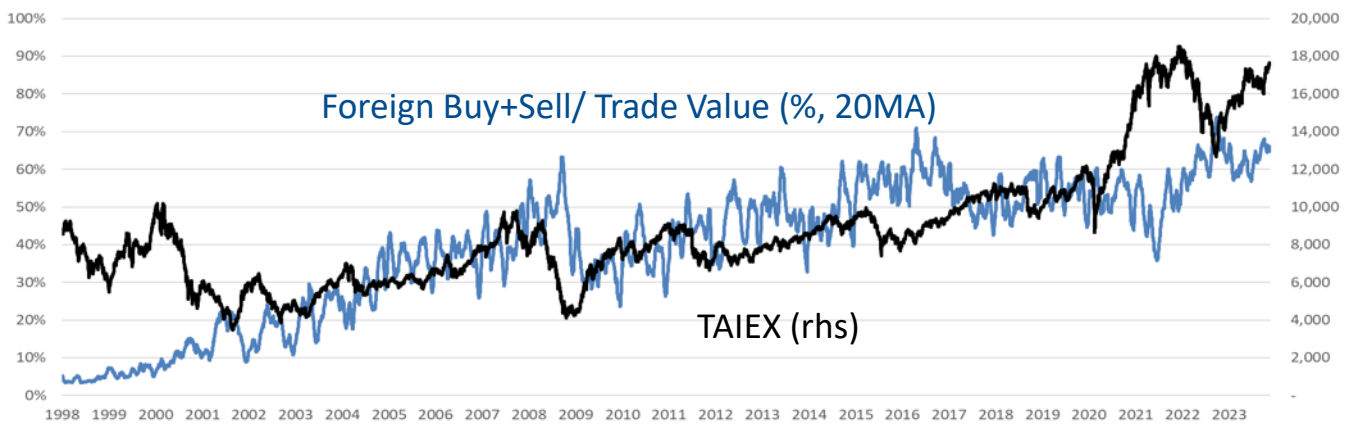
and is presumed to realign the allocation in Taiwan stock market back to the original target by cutting the holdings in stocks whose market value surged.



Source: St Louis FED, CMoney, compiled by Cathay SITE

The cumulative net buy of foreign investors has plummeted below the level in 2008, but the value of shares held by foreign investors increased significantly, meaning that the influence of holdings outweighs trading.

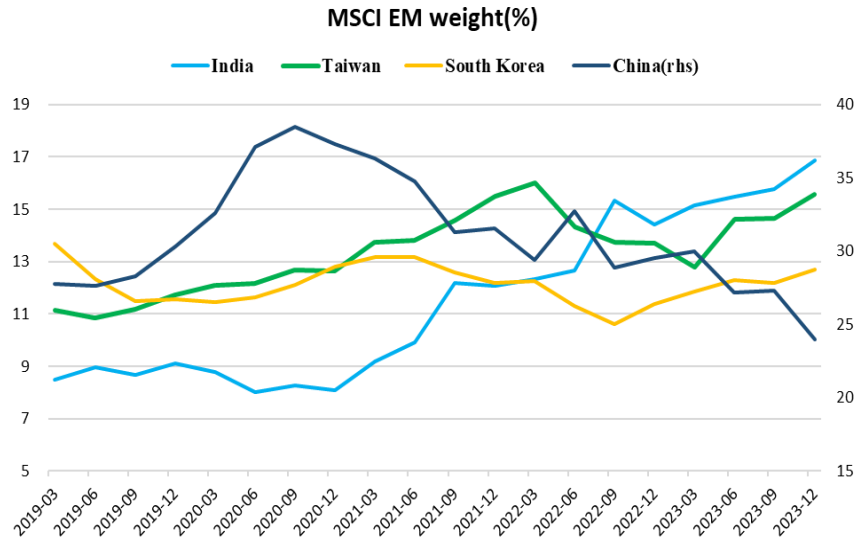
Foreign investors raised the position in Taiwan stocks by 20% during 2003-2006, and by another 10% during 2013-2017. In the recent 5 years, the percentage of foreign capital in Taiwan stocks remained steady (at 40%), and so did the turnover. This proves that the rebalancing didn't lead to underweight in Taiwan stock market.



Source: Cmoney, compiled by Cathay SITE



The inclusion of China A shares in MSCI has been fully phased in during 2017-2019. The adjustment of country weighting thereafter had more to do with the relative strength of each stock market.



Source: Taipei Exchange, Taiwan Futures Exchange, MacroMicro, compiled by Cathay SITE

For bullish years since 2009, the share of foreign capital increased at an average rate of 1.3%. Therefore, considering that Taiwan stocks experienced massive foreign outflows in 2022, we maintain our forecast that the share of foreign capital has room to increase in 2024 against the backdrop of cooling inflation and recovering fundamentals.

	Percentage of Foreign Capital (%)	+/- (%)
2000	8.6	
2001	10.9	
2002	11.6	
2003	19.6	
2004	21.9	
2005	26.6	
2006	32.3	
2007	33	
2008	31.4	
2009	30.3	
2010	31.3	1.0
2011	32.2	0.9
2012	32.8	0.6
2013	34.2	1.4
2014	36.5	2.3
2015	38.3	1.8
2016	39.5	1.2
2017	41.2	1.7
2018	40.5	-0.7
2019	40.6	0.1
2020	42.8	2.2
2021	44.1	1.3
2022	41.1	-3.0

Source: CMoney, compiled by Cathay SITE



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