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# Don't forget Taiwan! Trading Greater China's Little Tiger

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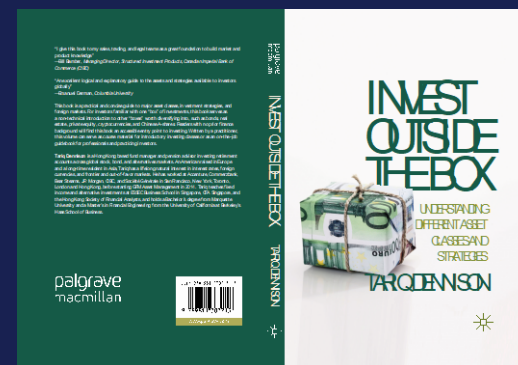
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## About Tariq Dennison, CFP<sup>CM</sup>

- I manage accounts on the Interactive Brokers platform
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- In the market since 1998
  - Commerzbank (NY, London, Frankfurt)
  - Bear Stearns (NY)
  - J.P. Morgan (NY)
  - Canadian Imperial Bank of Commerce
  - Societe Generale (HK)
- Masters in Financial Engineering
  - University of California at Berkeley
- Teach FI/AA at ESSEC Business School
- Focus on US-Asia corridor
- CERTIFIED FINANCIAL PLANNER<sup>CM</sup> professional
- Author “Invest Outside the Box”

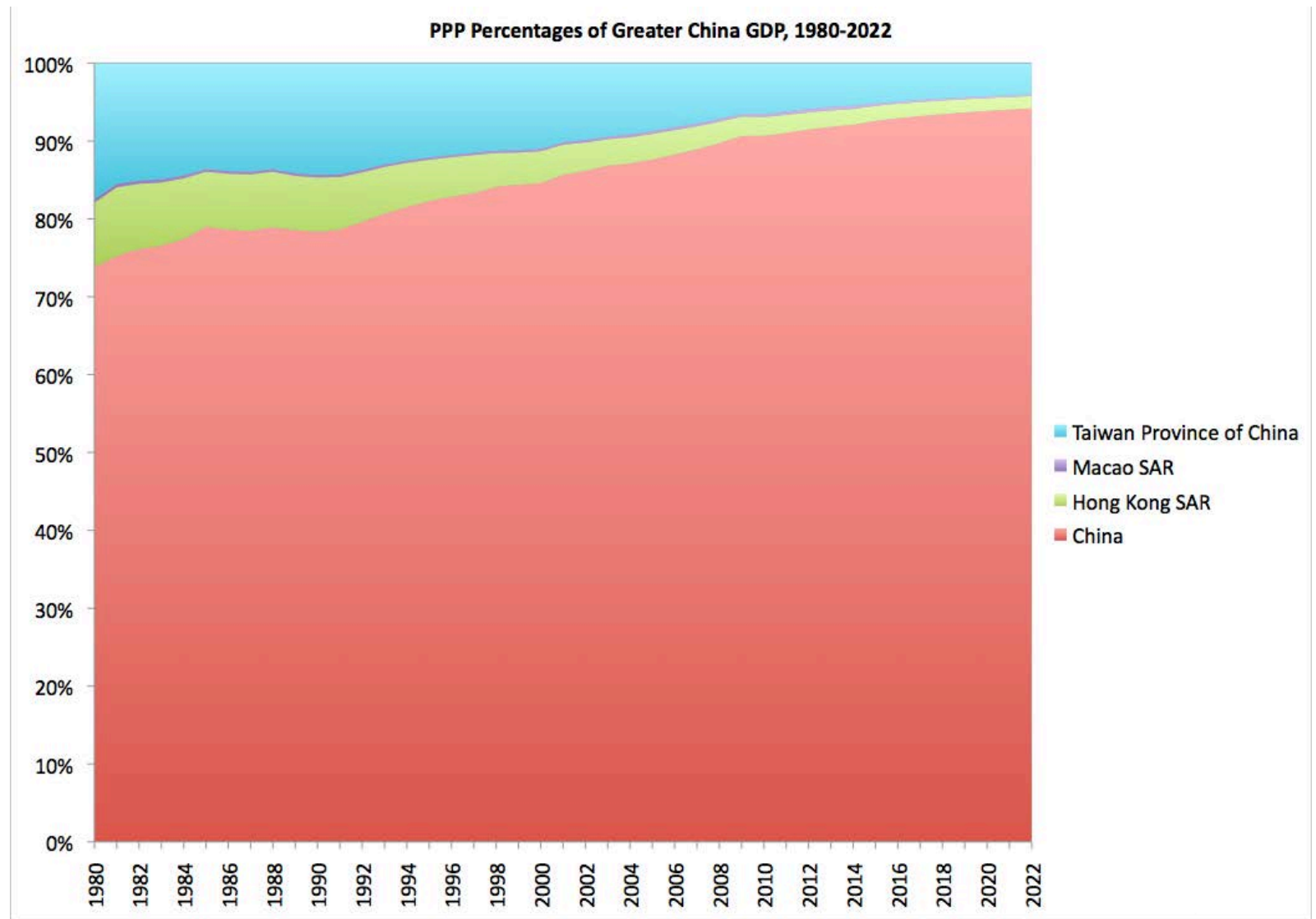


# What is Greater China?



Source: [https://en.wikipedia.org/wiki/File:Great\\_China\\_Map.PNG](https://en.wikipedia.org/wiki/File:Great_China_Map.PNG)

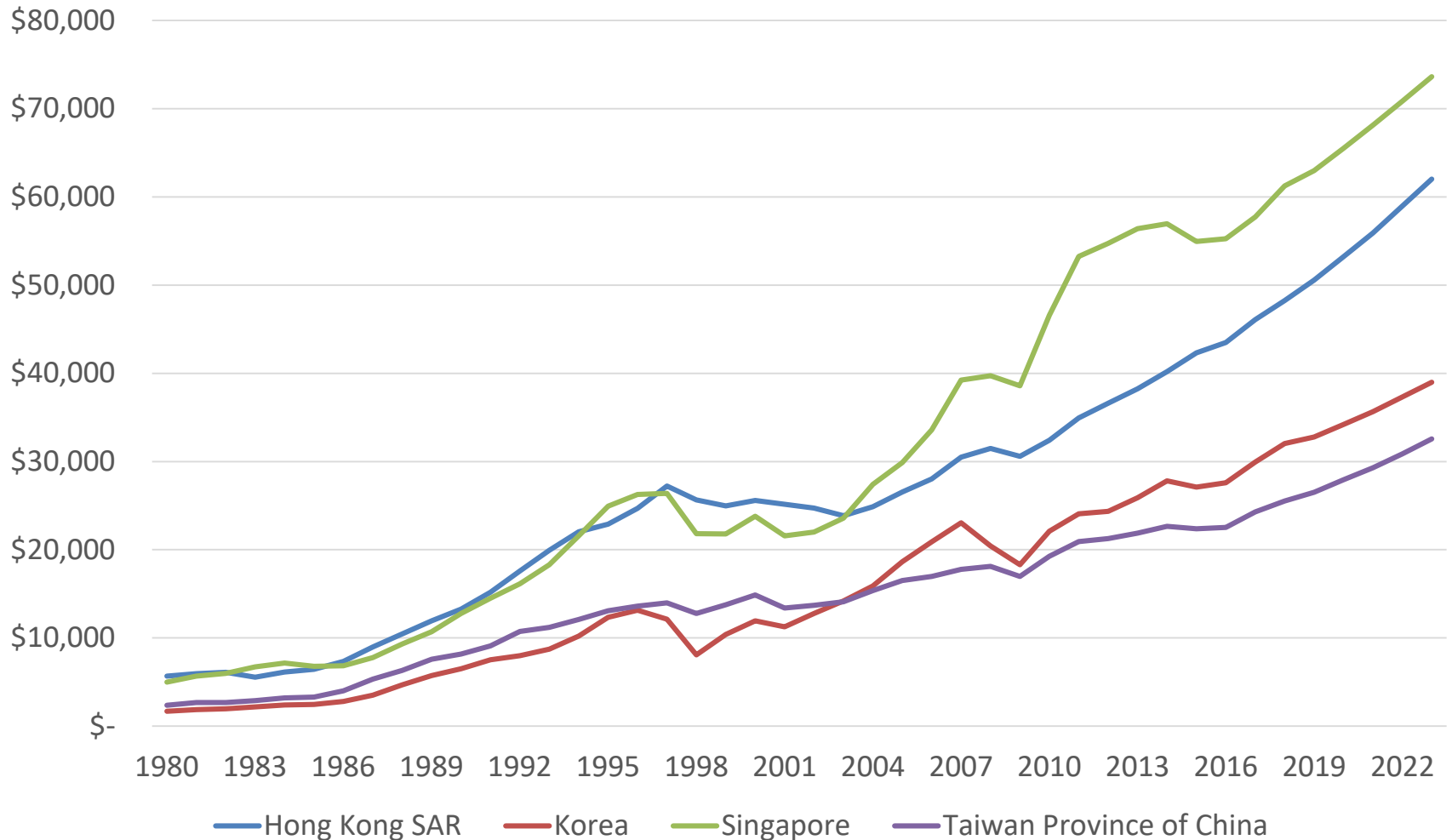
# “Greater China” now mostly PRC, mostly due to population



Source: IMF WEO Database

# Taiwan's per capita GDP vs the other "Asian Tigers"

GDP Per Capita of 4 Asian Tigers



Source: IMF WEO Database

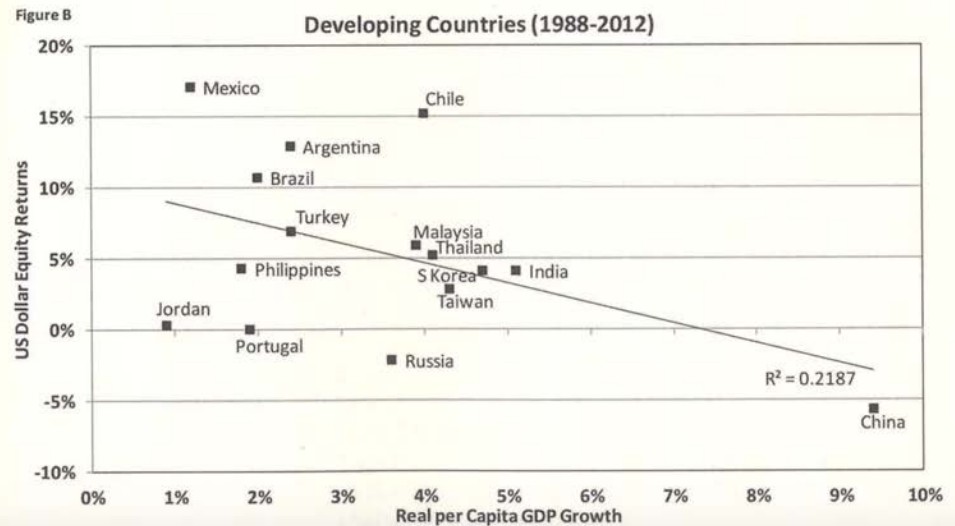
## Taiwan's market has:

- It's own currency (New Taiwan Dollar)
- Capital controls / NTD not freely convertible
- FINI requirement for foreign investors (main reason you can't trade Taiwan shares in IBKR)
- Investor priority: Domestic, MSCI broad, direct foreign
- Historical ties to Singapore: TDRs, Tiger times



FIGURE 13-2

Dollar Returns and per Capita Real GDP Growth in Developed and Developing Economies

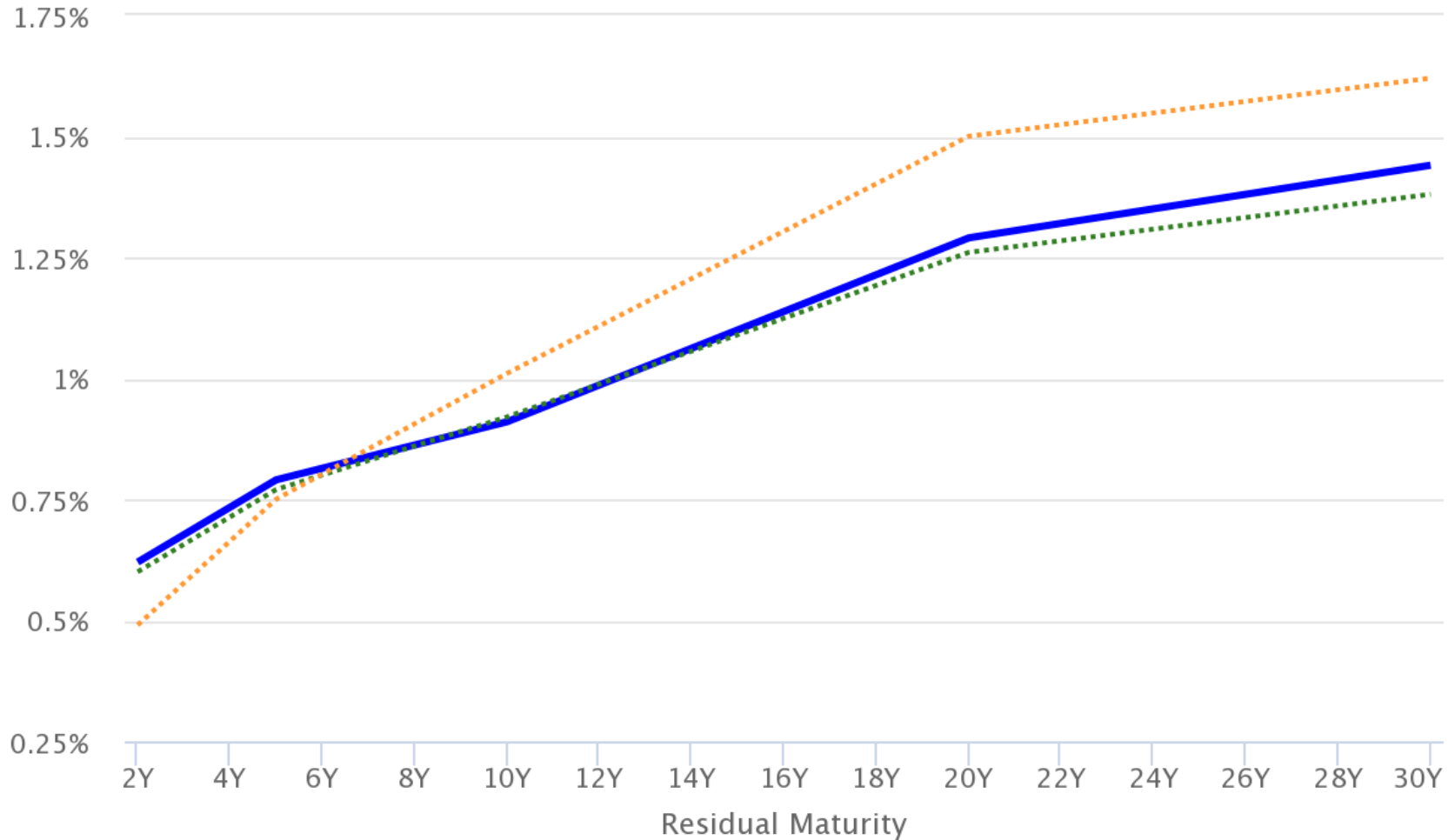


High Growth →  
Low Stock  
Returns and  $v/v$

Source: Stocks for the Long Run  
Jeremy Siegel

# Taiwan Yield Curve – 9 Nov 2018

Taiwan Government Bonds



— Taiwan (9 Nov 2018)    - - - 1M ago    - - - 6M ago

Highcharts.com

Source: <http://www.worldgovernmentbonds.com/country/taiwan/>

## One more comparison:

### Taiwan

- 23 million pop
- GDP per capita:  
\$26k nom/\$53k PPP
- Closer to mainland
- Resource importer

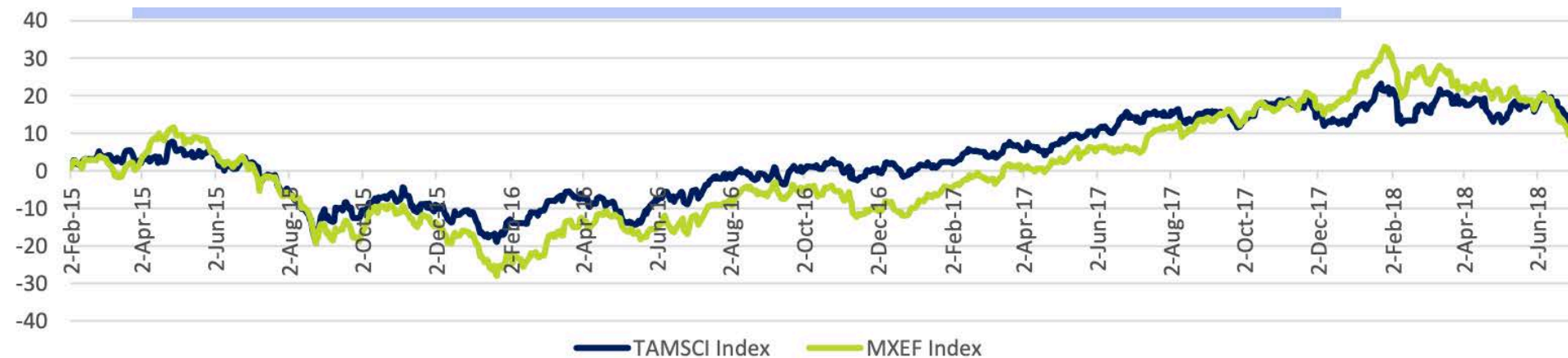


### Australia

- 25 million pop
- GDP per capita:  
\$59k nom/\$53k PPP
- More land
- Resource exporter

# Emerging, Developing or Developed?

## TW less volatile than EM



Source: SGX

# Some ratios to compare:

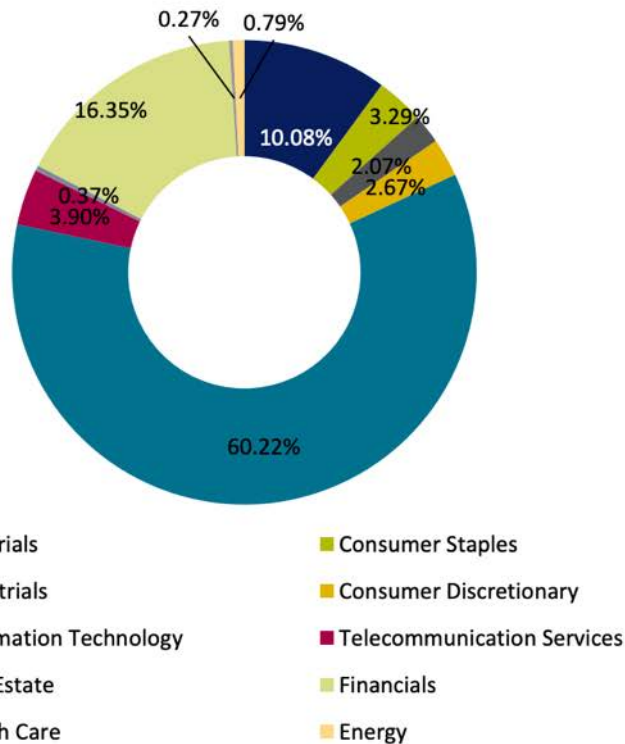
ETP Name	Div Yield	P/E	EPS Growth	P/B	BVPS Growth	Volatility	1yr Return	3yr Return	10yr Return
Japan	1.34%	13.3	11.7	1.3	7.9	14.5	-7.1	4.2	6.2
Brazil	2.84%	14.4	19.3	1.7	4.2	34.7	-4.5	21.9	4.1
India	0.69%	21.7	10.9	3.3	9.3	17.8	-15.0	2.1	
<b>Taiwan</b>	<b>2.54%</b>	<b>13.3</b>	<b>10.5</b>	<b>1.8</b>	<b>6.2</b>	<b>17.5</b>	<b>-13.6</b>	<b>7.5</b>	<b>10.7</b>
South Korea	1.26%	9.3	20.3	1.0	7.4	20.0	-20.4	4.1	10.2
China	1.53%	14.1	20.1	1.7	11.9	20.7	-20.3	4.3	
Germany	2.08%	14.0	11.1	1.7	4.9	16.6	-15.7	2.2	6.7
Canada	1.98%	15.9	5.9	1.8	6.1	15.3	-8.1	4.4	5.8
Hong Kong	2.35%	10.6	6.3	1.3	4.7	14.6	-10.9	4.4	11.6
Australia	3.93%	16.4	1.4	2.0	1.5	17.6	-8.8	6.5	8.5
Switzerland	1.67%	21.6	-6.4	2.1	0.7	12.7	-3.4	2.8	8.4
Spain	2.33%	13.4	8.7	1.2	0.4	20.7	-12.7	-1.1	3.0
France	1.99%	16.2	12.5	1.6	2.5	16.5	-8.2	5.3	6.4
Malaysia	2.71%	17.5	2.6	1.8	6.0	17.7	-1.4	4.0	7.9
Singapore	3.49%	12.8	0.2	1.2	2.0	15.5	-10.9	3.2	9.2

Source: Fidelity

# Unlike FANG or BATJ, Taiwan is more about IT hardware

- ✓ Opportunity to gain access into Taiwan's thriving tech sector, with 60% weight in IT
- ✓ Bloomberg ticker: TAMSCI Index, Reuters ticker: TAMSCI Index

## Sector Weights of the MSCI Taiwan Index<sup>SM</sup>



## Top 20 Constituents

Bloomberg Ticker	Company Name	%
2330 TT Equity	TSMC	28.7
2317 TT Equity	Hon Hai Precision Industry Co Ltd	7.4
1301 TT Equity	Formosa Plastics Corp	2.7
3008 TT Equity	Largan Precision Co Ltd	2.4
2454 TT Equity	MediaTek Inc	2.4
1303 TT Equity	Nan Ya Plastics Corp	2.4
2882 TT Equity	Cathay Financial Holding Co Ltd	2.4
1326 TT Equity	Formosa Chemicals & Fibre Corp	2.3
2412 TT Equity	Chunghwa Telecom Co Ltd	2.3
2891 TT Equity	CTBC Financial Holding Co Ltd	2.1
1216 TT Equity	Uni-President Enterprises Corp	2.0
2881 TT Equity	Fubon Financial Holding Co Ltd	1.8
2002 TT Equity	China Steel Corp	1.6
2886 TT Equity	Mega Financial Holding Co Ltd	1.6
3711 TT Equity	ASE Technology Holding Co Ltd	1.3
2327 TT Equity	Yageo Corp	1.3
2308 TT Equity	Delta Electronics Inc	1.2
2474 TT Equity	Catcher Technology Co Ltd	1.2
2303 TT Equity	United Microelectronics Corp	1.1
2892 TT Equity	First Financial Holding Co Ltd	1.1

Source: Bloomberg, as of 29 June 2018



Source: SGX

# The Futures on IBKR (Order Confirmation)

The image shows three overlapping screenshots of the IBKR Order Confirmation window. The top window is for FTSE/Xinhua China A50, the middle for MSCI China Free Price USD Index, and the bottom for MSCI Taiwan Index. Each window displays a table with columns for Financial Instrument, Bid, Bid Yield, Ask, Ask Yield, Last, and Last Yield. The bottom window also includes an Order Description, Order Type (LMT), Limit Price, Amount, Commission (est.), Total, and a Margin Impact table.

Financial Instrument	Bid	Bid Yield	Ask	Ask Yield	Last	Last Yield
XINA50 ∞ Oct30'17 ...	12017.50		12020.00		12020.00	
M3CNX ∞ Sep28'17 ...	8330.00		8350.00		8338.00	
STW ∞ Oct30'17 @SGX	384.00		384.20		384.10	

Amount		Margin Impact (in USD)			
Amount		Current	Change	Post-trade*	
Amount	38,410 USD	Equity with Loan	10,655,869	-3	10,655,866
Commission (est.)	2.85 USD	Initial Margin	1,019,910	2,471	1,022,381
Total	38,412.85 USD	Maintenance Margin	1,013,664	1,977	1,015,641
		Position	0	1	1

\*This is a current projection and is subject to change.

Source: Interactive Brokers, M3CNX = PR, M1CNX = NTR

# Futures vs the US ETF

## Hedging and spread trading opportunities against iShares MSCI Taiwan Index ETF

	SGX MSCI Taiwan Index Futures (US\$)	NYSE iShares MSCI Taiwan Index ETF (US)
<b>Trading Hours Singapore Time</b>	T Session: 8.45am – 1.50pm T+1 Session: 2.35pm – 2.00pm (next day)	<b>Trading Hours</b> 9:30pm to 4:00am
<b>Contract Size</b>	US\$100 x SGX MSCI Taiwan Index Futures price	<b>Board lot</b> 1 share
<b>Average Daily Volume (Average daily turnover)</b>	83,363 contracts in Sep 2018 (US\$3.45 billion notional)	<b>Average Daily Turnover</b> US\$161.0m in Sep 2018
<b>Monthly Average OI</b>	193,895 contracts in Sep 2018 (US\$8.7b)	<b>AUM</b> US\$4.07b
<b>Premium (front month futures over cash)</b>	-0.45% for YTD 2018	<b>Premium /Discount over NAV</b> 0.32% for YTD 2018
<b>Correlation with SGX MSCI Taiwan Index Futures*</b>		<b>94.5% (monthly)</b>

Source: SGX

... then there's tax...



# Night trading

Order Book for TWX18 Contract as of 16 Nov, 10.00pm Singapore Time

BidSize	BidPrice	AskPrice	AskSize
15	362.80	362.90	66
41	362.70	363.00	54
40	362.60	363.10	40
38	362.50	363.20	40
59	362.40	363.30	50
38	362.30	363.40	41
46	362.20	363.50	35
38	362.10	363.60	29
38	362.00	363.70	30
58	361.90	363.80	48
33	361.80	363.90	30
31	361.70	364.00	28
28	361.60	364.10	22
29	361.50	364.20	23
28	361.40	364.30	33
29	361.30	364.40	7
28	361.20	364.50	9
33	361.10	364.60	47
43	361.00	364.70	5
71	360.90	364.80	39
51	360.80	364.90	17
23	360.70	365.00	3
24	360.60	365.10	1
23	360.50	365.20	6
23	360.40	365.30	1
67	360.30	365.40	1
17	360.20	365.50	13
8	360.10	365.80	3
12	360.00	366.00	101
4	359.90	366.30	1

Source: SGX

# The future: tunnel connection to the mainland?



The train would travel from Fuzhou province's Pingtan county and arrive in Hsinchu city, southwest of Taipei in 32 minutes. The regions lie on the opposite sides of the Taiwan Strait

Source: <https://www.dailymail.co.uk/news/china/article-6031289/China-plans-worlds-longest-rail-tunnel-84-miles-connect-mainland-Taiwan.html>

# Trade 1: STW vs XINA50 or M1CNX (NTR) futures

## Drivers

- Spread between Taiwan and Mainland
- Futures-Futures, USD to USD

## Risks

- Significant sector differences
- Geopolitical shocks

## Some Correlations:

TAMSCI vs. XIN9I: 0.654

TAMSCI vs. M1CNX: 0.746

# Historical returns of four markets



Source: Yahoo Finance

## Trade 2: TSM vs STW futures

- Similar to Nortel vs TSX in 1999-2000?
- Apple supply chain?
- Know the index vs name
- Currency risk differences



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