

## Taiwan chart book

## Trade war's costs and silver lining

Group Research

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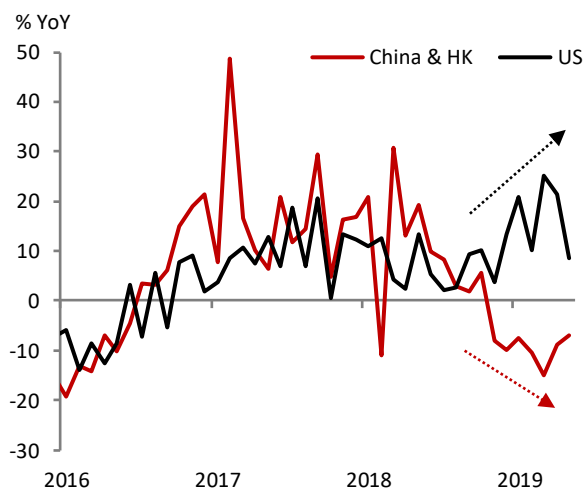


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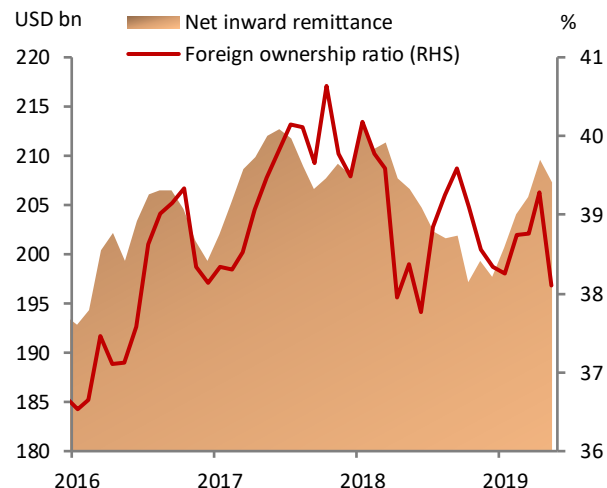
## Charts of the month

- Exports and industrial activities extended weakness in May, in the context of escalating China-US trade war.
- Consumer confidence also took a toll due to the stock market declines and TWD depreciation.
- Bright spots include the rise in Taiwan's exports to the US (trade diversion effect of the trade war), and the increase in domestic investment applications from the Taiwanese firms with operations in China (supply chain diversification effect of the trade war).
- Monetary conditions remain accommodative, thanks to the decline in short-term real interest rates, slide in bond yields, TWD depreciation, and pickup in M2 growth.
- We maintain GDP growth forecast at 1.9% for 2019 and expect the central bank to stand pat this year.

Taiwan: Exports by market



Foreign investment in Taiwanese equities

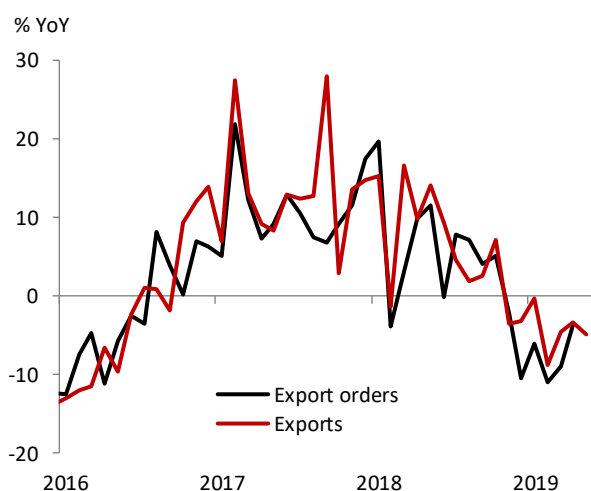


**High-frequency indicators – Exports**

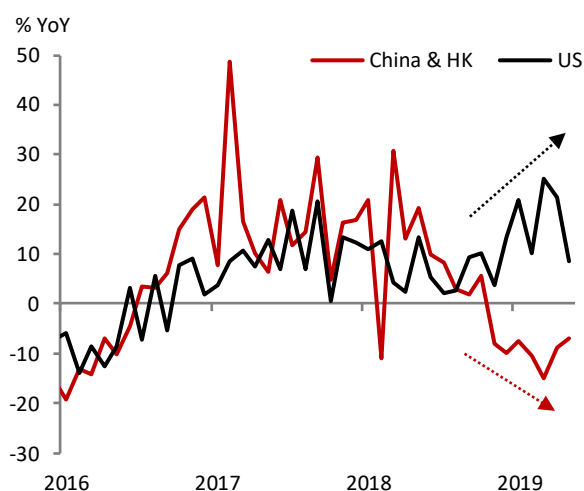
The decline in Taiwan’s exports widened again in May (-4.8% YoY) after narrowing for two consecutive months in March and April. The further rise in US tariffs on the USD200bn worth of Chinese products, effective in May, should have weighed on the Taiwan-China supply chains.

Exports to China and Hong Kong have been contracting for seven consecutive months, reflecting the weakness in Chinese demand and the impact of trade war. Exports to the US, on the other hand, have accelerated since 4Q18; suggesting that Taiwan has also benefited from the trade diversion effect of the trade war.

**Taiwan: Export orders & exports**



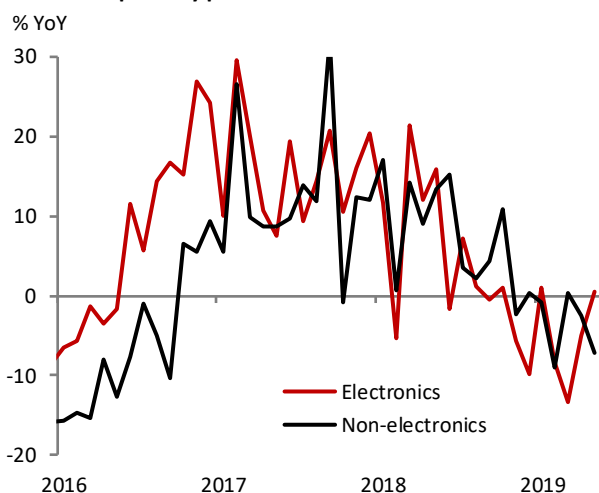
**Taiwan: Exports by market**



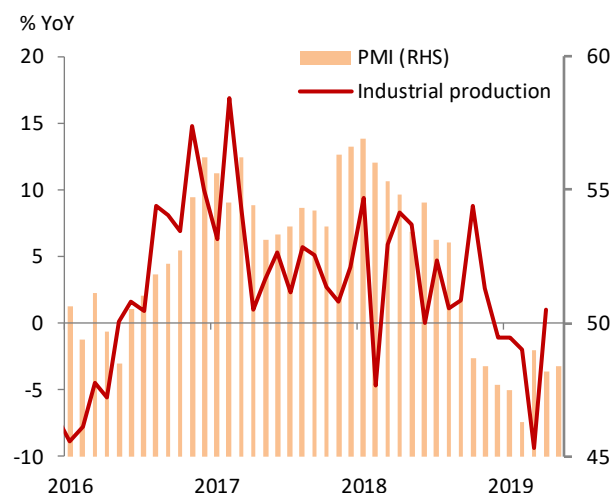
Electronics exports (0.5% YoY) outperformed non-electronics exports (-7.1%) in May. Inventory pre-build by Chinese tech companies should be ongoing, given the 90-day reprieve granted by the US government on the Huawei trade ban. The non-tech sector, however, is weighed down by the decline in global commodity prices.

Manufacturing PMI stayed below the neutral 50 mark for the eighth straight month in May (48.4). This is the longest period of PMI contraction seen since 2015.

**Taiwan: Exports by product**



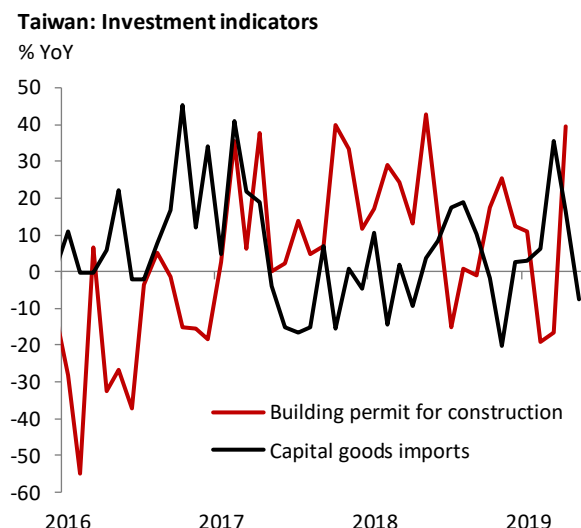
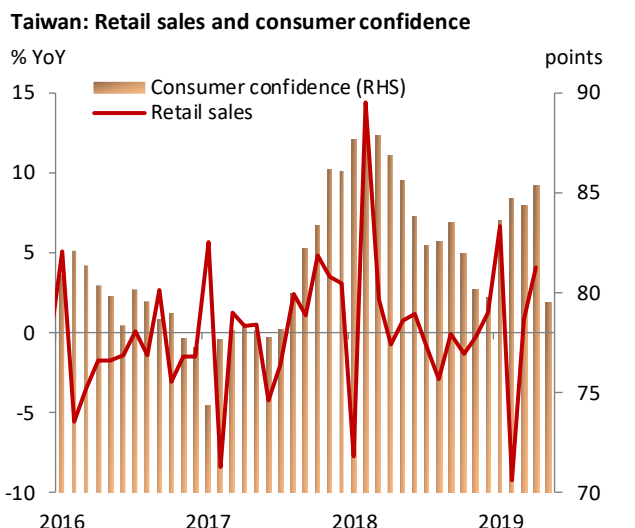
**Taiwan: Manufacturing PMI and industrial production**



**High-frequency indicators – Domestic demand**

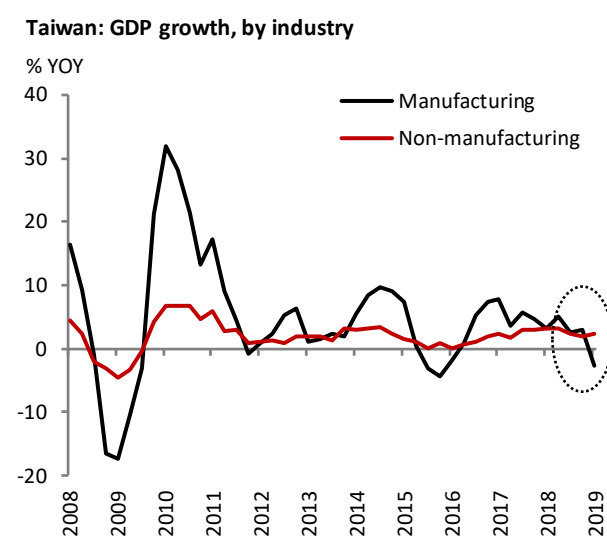
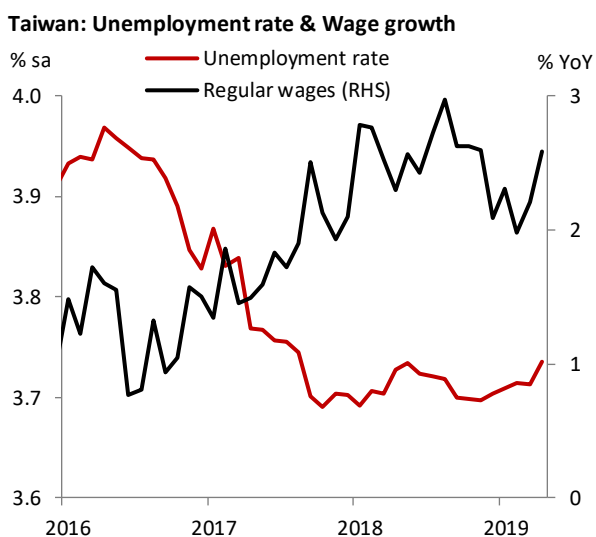
Retail sales have been holding up well as of April. But consumer confidence plunged by 6ppt in May, primarily dragged by the deterioration in the stock market prospect.

Investment indicators have been moving sideways. Government said that a total of 69 Taiwanese firms with operations in China have applied to invest TWD 369bn in Taiwan so far this year, a response to the trade war. How well this will boost investment growth remains to be seen.



Labour market conditions have remained largely stable. The seasonally adjusted unemployment rate deteriorated slightly to 3.74% in April from 3.71% in the preceding three months. But wage growth improved to offset.

In contrast to the recession in the manufacturing sector, services industry has maintained steady growth as of 1Q, especially wholesale & retail trade, accommodation & food services, healthcare and professional services, another sign indicating the stability in domestic demand.

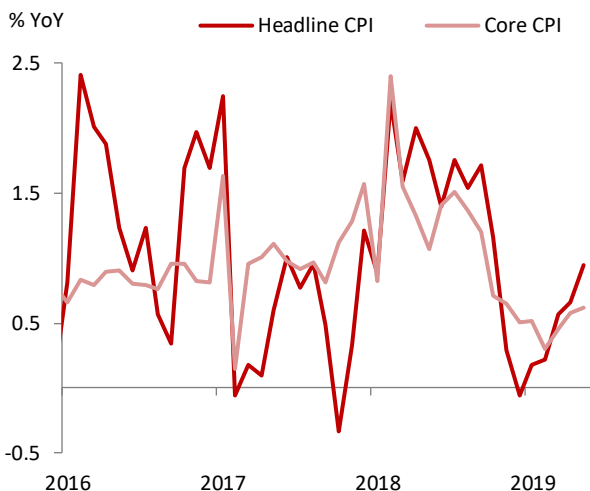


**Monetary**

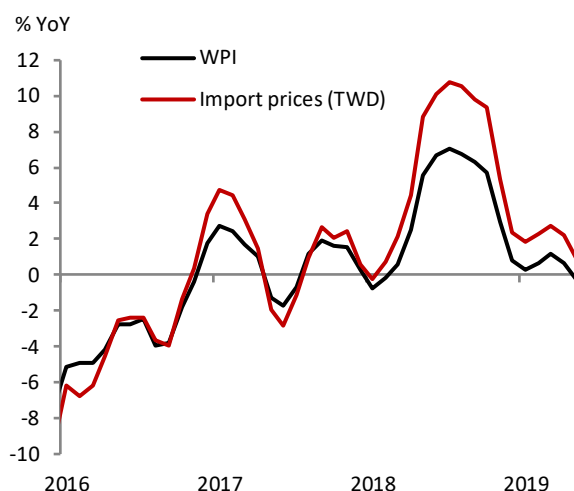
Headline CPI inched upward to 0.9% YoY in May, the highest over seven months. The rise was mainly attributed to the volatile food price component (vegetable prices in particular). Core CPI remained little changed at 0.6%.

Import cost pressures have remained muted. The inflationary impact of the 2% TWD depreciation in May was entirely offset by the decline in global commodity prices.

**Taiwan: CPI inflation**



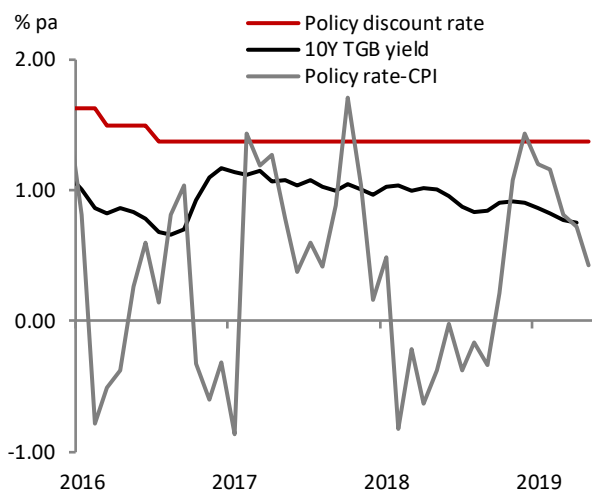
**Taiwan: WPI & Import prices**



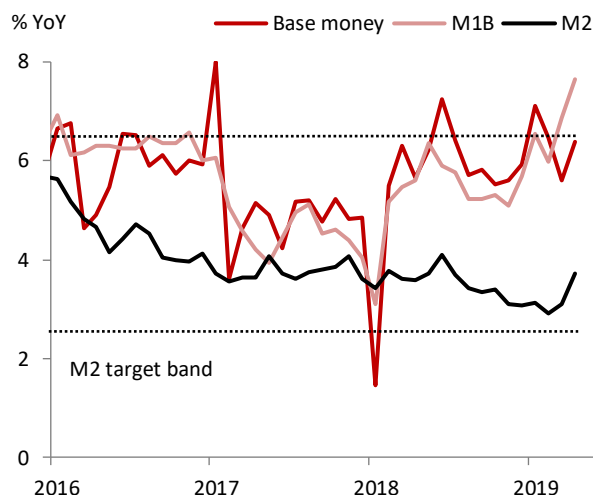
Monetary conditions have remained accommodative, thanks to the decline in short-term real interest rates, slide in bond market yields, and weakening of the TWD.

Money supply growth has picked up (M2: 3.7% YoY in Apr vs 3.0% in Jan-Mar), helped by the fine-tuning of open market operations (the outstanding amount of CDs/NCDs issued by the central bank declined by TWD 191bn, or 2.4% in Apr-May).

**Taiwan: Key interest rates**



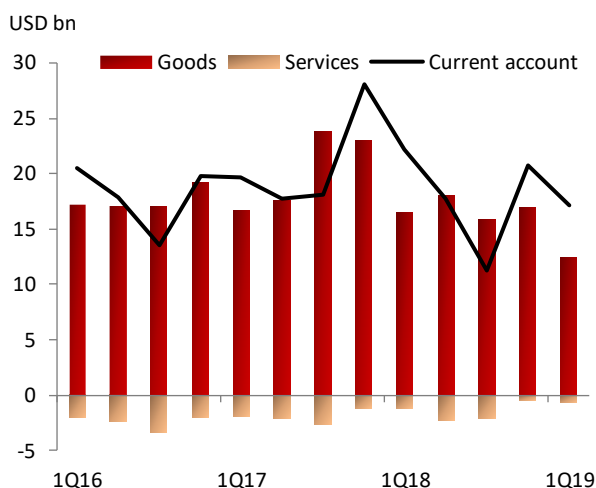
**Taiwan: Money supply**



**Capital flows**

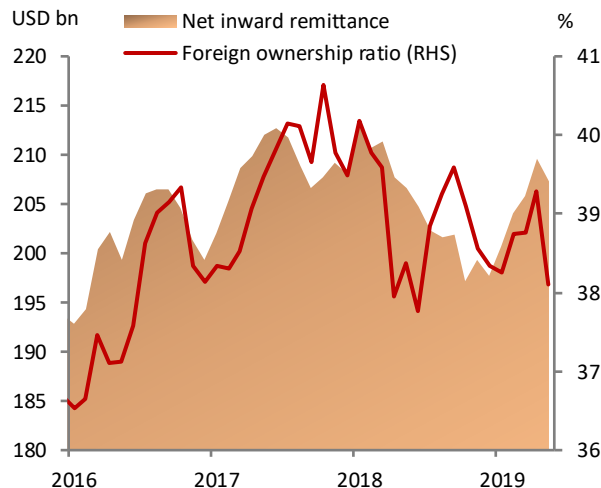
Current account surplus shrank by -23% YoY in 1Q due to export contraction but remained sizeable at USD 17.1bn (11.4% of GDP, 4-quarter rolling basis).

**Taiwan: BOP: Current account**



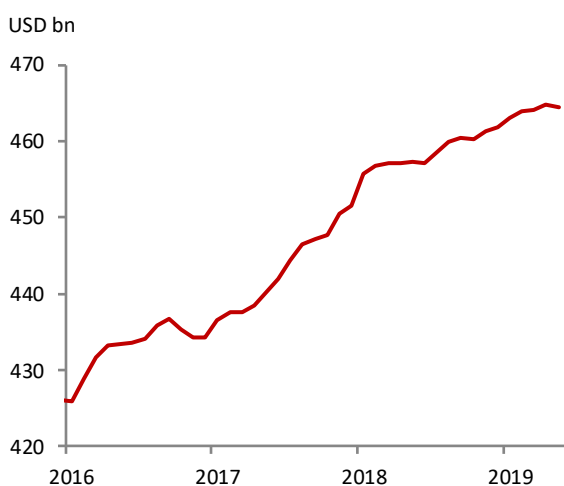
Foreign inflows into Taiwan’s equity market declined for the first time over five months in May, owing to trade war worries and global risk aversion.

**Foreign investment in Taiwanese equities**



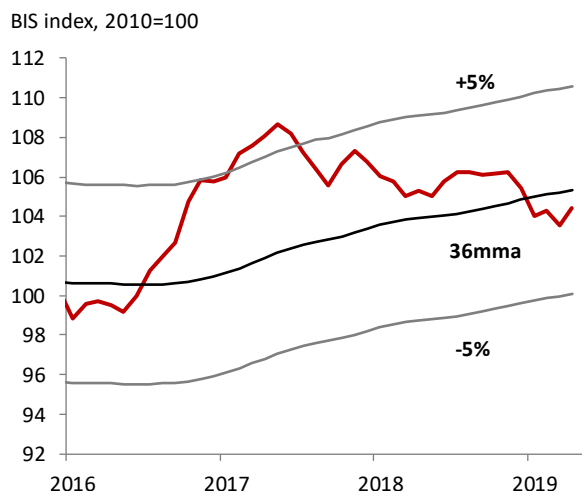
Foreign reserves fell for the first time over seven months in May, by USD 0.4bn. The central bank openly mentioned in a statement that the decline in reserves was due to its interventions to mitigate FX market volatility.

**Taiwan: Foreign reserves**



The TWD real effective exchange rate (REER) has fallen by about 5% from its peak levels recorded in 2017, but still within the ±5% range of the 36-month moving average.

**TWD REER**

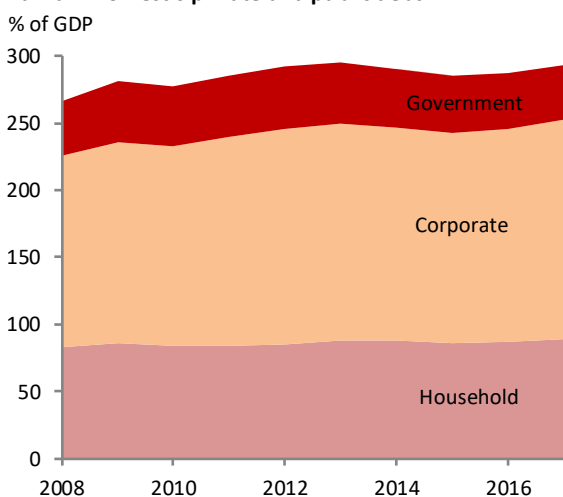


**Domestic and foreign debt**

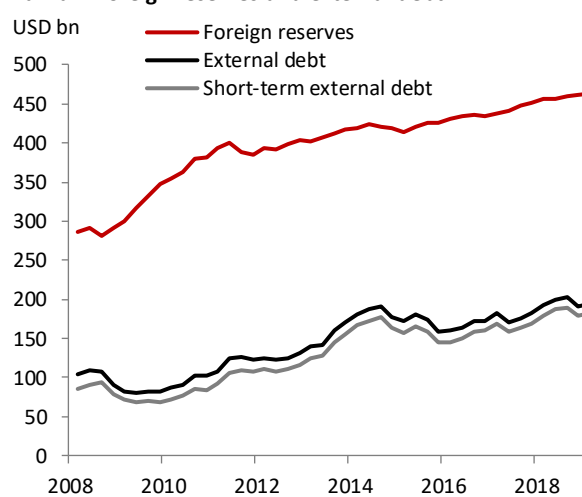
Domestic debt situation remains stable, with the persistent decline in public debt offsetting the increase in corporate and household borrowings. There is room for the government to roll out fiscal stimulus in the event of external shocks / private sector deleveraging.

External balance sheet remains strong. Foreign reserve to short-term external debt ratio stayed at 2.5 times in 1Q. Foreign reserves can also comfortably cover 2.4 times of the outstanding gross external debt.

**Taiwan: Domestic private and public debt**



**Taiwan: Foreign reserves and external debt**



## Forecasts on major indicators

	GDP				CPI inflation			
	2017	2018	2019f	2020f	2017	2018	2019f	2020f
Annual change (% YoY)	3.1	2.6	1.9	1.8	0.6	1.3	0.7	1.0

## Exchange rate and interest rates forecasts

		1Q19	2Q19f	3Q19f	4Q19f	1Q20f	2Q20f	3Q20f	4Q20f
Benchmark repo rate	(%, eop)	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375

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**Sources:** Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

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