

Taiwan chart book

Policy remains neutral

Group Research

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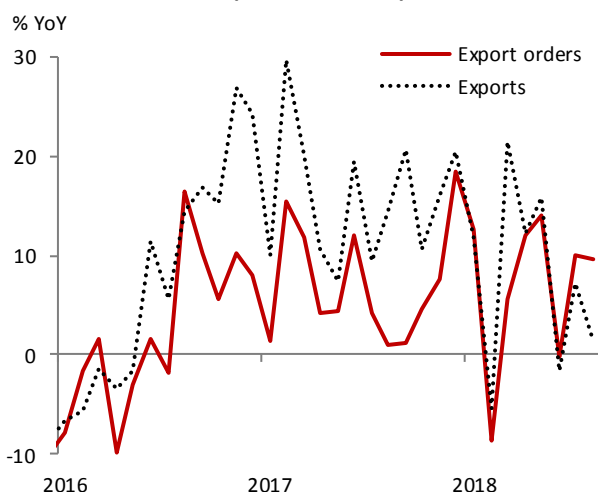


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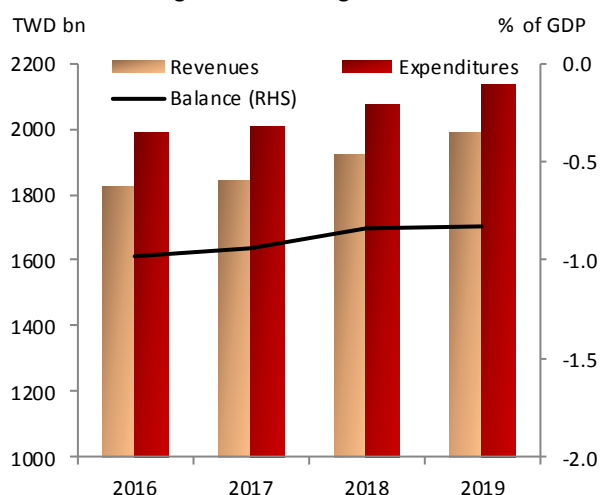
Charts of the month

- *Export growth is slowing as the Chinese economy continues to deleverage and global electronics cycle moderates.*
- *Domestic demand is also losing steam due to weaker consumer sentiment.*
- *But there are no alarming signs pointing to a sharp economic downturn.*
- *Given that job and income conditions have remained steady, the government is not under serious pressure to expand fiscal policy to support growth. The FY19 budget is neutral from the macro perspective.*
- *The central bank is expected to maintain status quo on monetary policy through the rest of this year and into 1H19, balancing between the risks of slower growth and higher (oil) inflation.*
- *External balance is persistently strong, despite the August EM sell-off and equity market outflows.*

Taiwan: Electronics export orders & exports



Taiwan: Central government budget

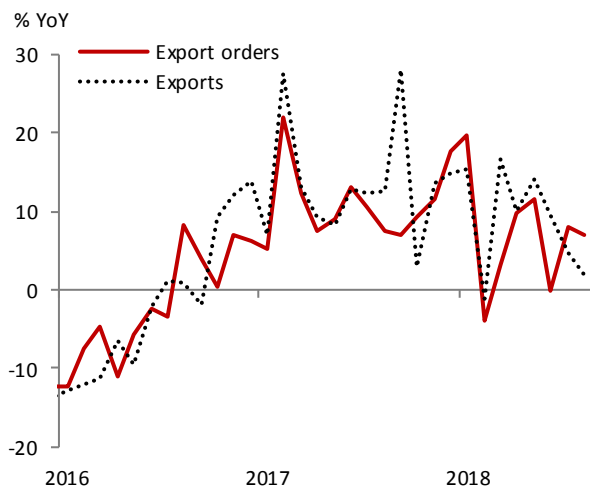


High-frequency indicators – Exports

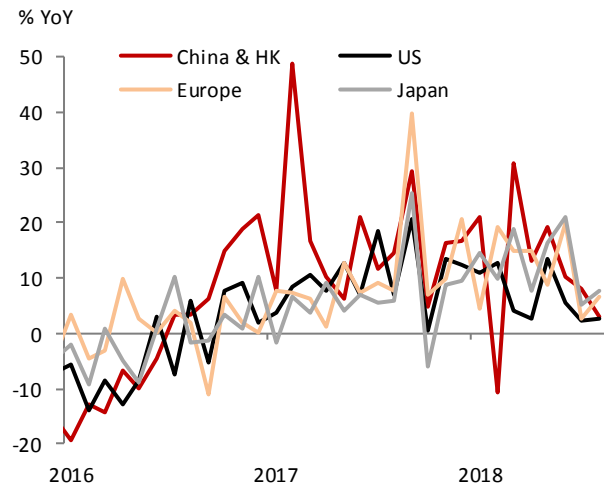
Export growth fell notably to 1.9% YoY in August, the lowest in nearly two years (excluding Chinese New Year). But export orders (7.1% in August) do not point to a sharp deterioration in overseas demand in the next 1-3 months.

Exports to China have fallen the most, which could be explained by the deleveraging and growth deceleration in the Chinese economy. Spill-over effect of the Sino-US trade war (tariffs on a total of USD250bn Chinese products) may only emerge from the end of this year.

Taiwan: Export orders & exports



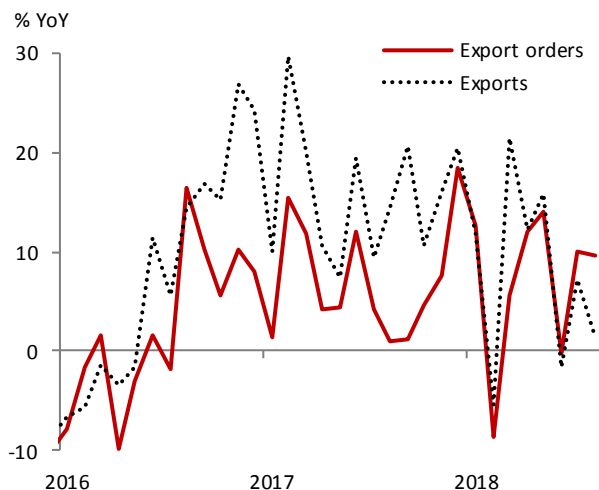
Taiwan: Exports by market



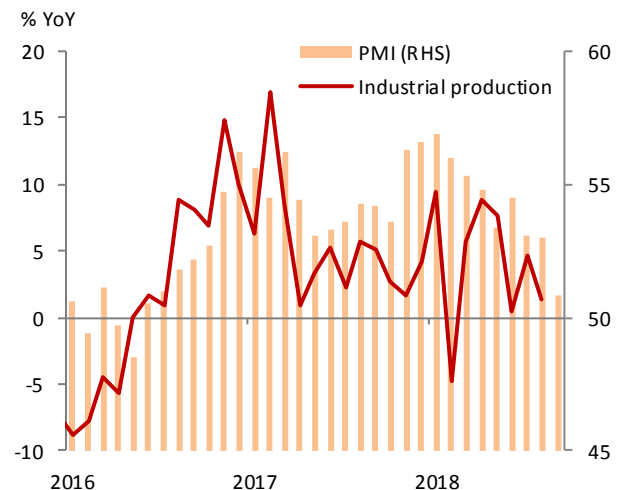
Electronics exports and export orders have stayed on a moderating trend. There is little evidence that this year's iPhone effect will be stronger than last year's.

Manufacturing PMI dropped to a two-year low of 50.8 in September, but still above the neutral level of 50. Slight reductions in output and new client demand (including demand from overseas) weighed on the headline index.

Taiwan: Electronics export orders & exports



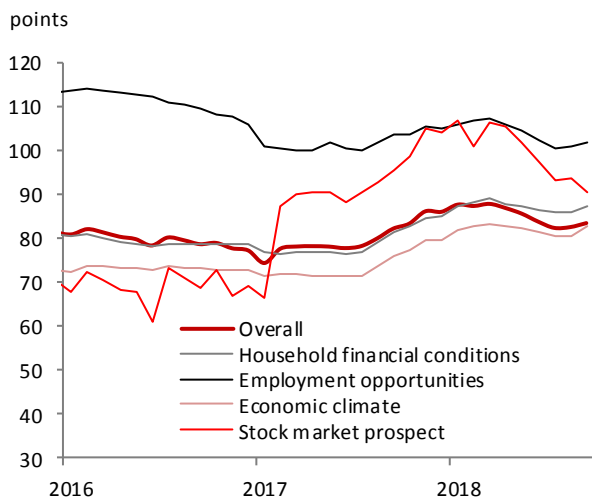
Taiwan: Industrial production & Manufacturing PMI



High-frequency indicators – Domestic demand

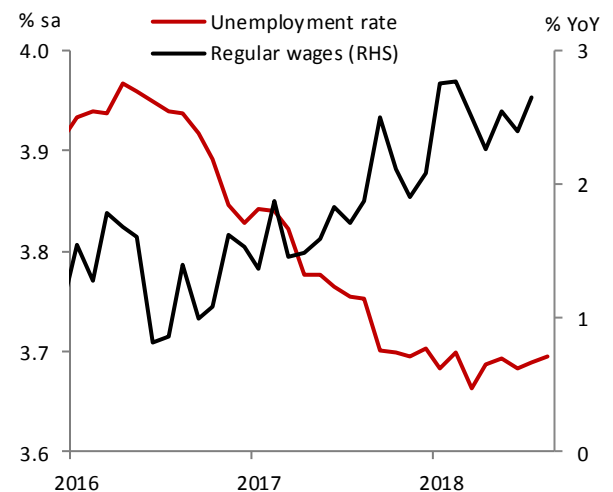
Domestic demand also appears to be losing steam. Consumer confidence has started to wane ever since 2Q, mainly dragged by the sluggish stock market prospects.

Taiwan: Consumer confidence



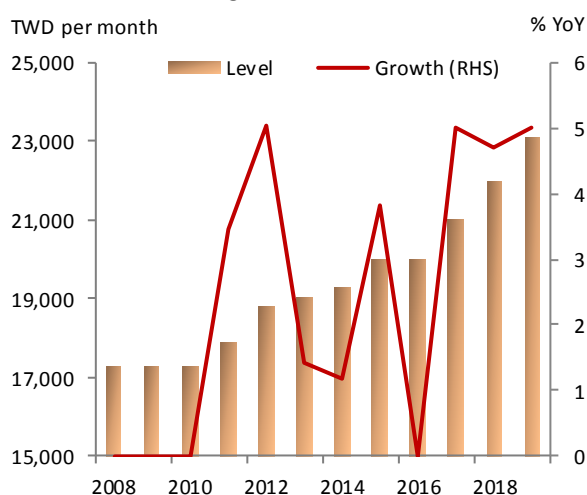
But job and income conditions have remained steady. Unemployment rate stayed at a 17-year low of 3.7% in August, while wage growth crept higher to 2.6% YoY.

Taiwan: Unemployment rate & Wage growth



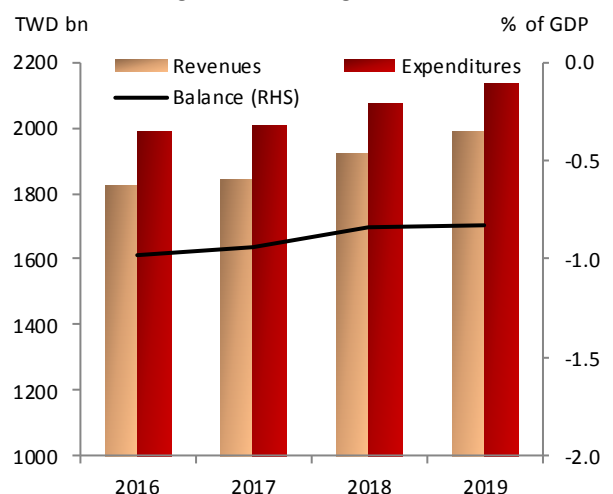
The tightening labour market will likely continue to support consumer spending in the near term. A 5% minimum wage hike has been approved for 2019, the third consecutive year of strong increase.

Taiwan: Minimum wages



The government is not under serious pressure to expand fiscal policy to shore up the economy. According to the FY19 budget proposal, the central government's expenditures will be raised by a modest 3.1% next year and the deficit-to-GDP ratio will be kept stable at 0.8%.

Taiwan: Central government budget

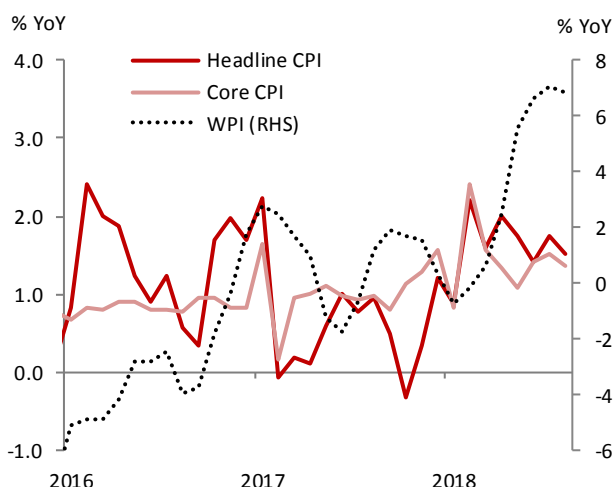


Note: Figures include special budgets.

Monetary

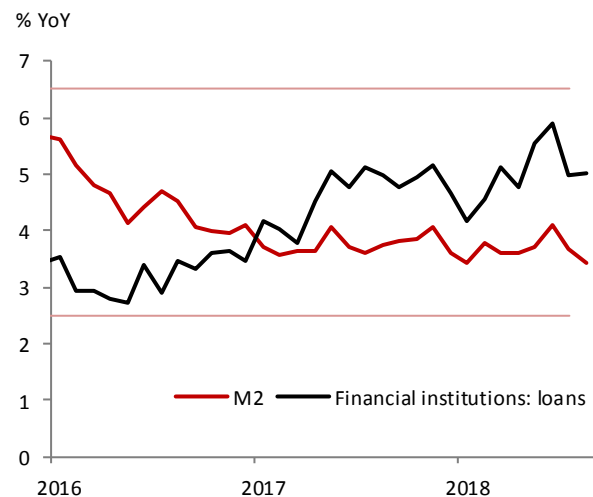
Inflation risk is on the rise, not only due to the temporary festive/weather effect, but also due to higher oil prices and a stronger USD. Headline CPI stayed above trend at 1.5% YoY in August, while WPI hit an 8-year high of 7%.

Taiwan: Inflation



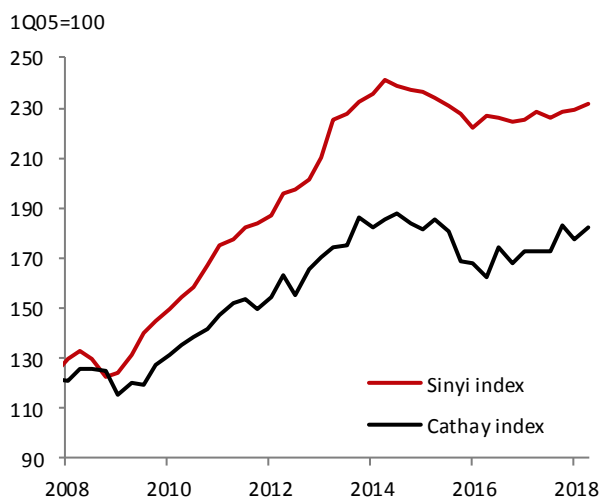
The risk of financial imbalances is not a big worry. Loan growth (5.0% YoY in August) does not appear excessive compared to the pace of nominal GDP growth (about 3%). Money supply M2 growth (3.4% YoY in August) has stayed within the central bank's target range of 2.5-6.5%.

Taiwan: Money supply & Loan growth



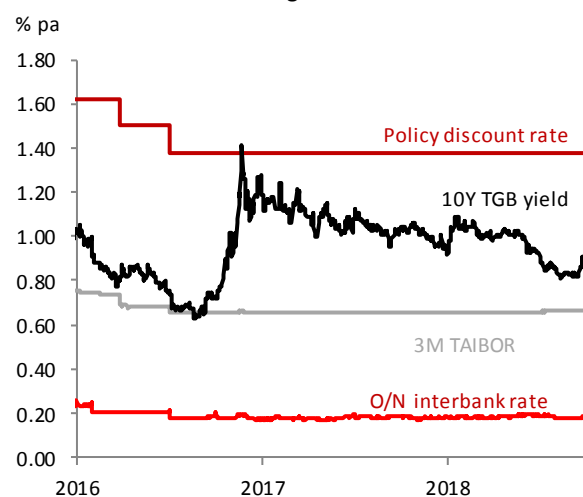
Property prices have risen from the 2016 bottom but remained below the 2014 peak levels. The ongoing recovery is backed by income gains – the nationwide housing price-to-income ratio has remained stable at about 9 times in the past couple of years.

Taiwan: Residential property prices



Balancing between the growth and inflation risks, Taiwan's central bank kept the benchmark discount rate unchanged at 1.375% at the latest meeting on 27th September. This was despite the further hike in Fed funds rate to 2.25% and the upward pressure on long-term TGB yields.

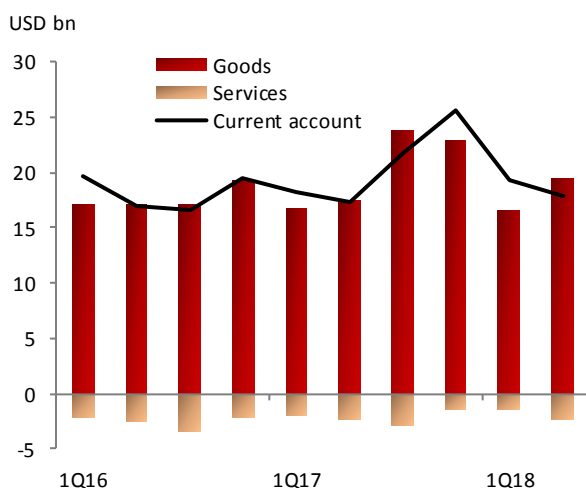
Taiwan: Short-term and long-term interest rates



Capital flows

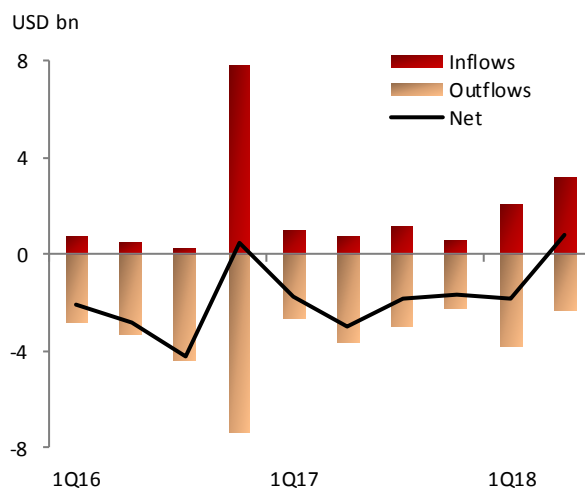
The current account maintained a strong surplus in 1H18 (USD37.2bn, 12.4% of 1H GDP). Impact of rising oil prices on C/A appears well manageable (-USD2.8bn per annum for every USD10 rise in oil prices).

Taiwan: BOP: Current account



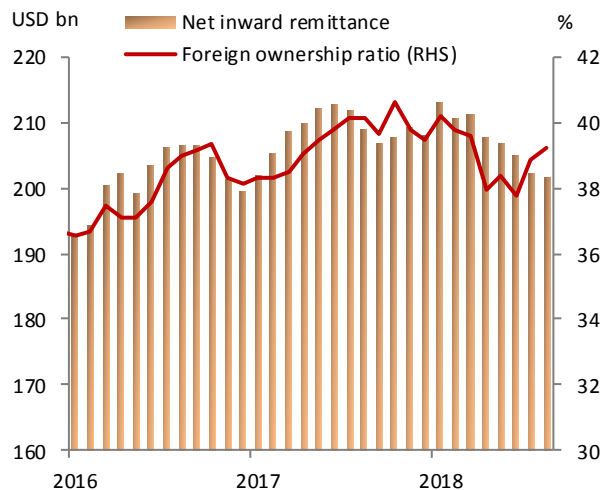
FDI inflows jumped to a 6-quarter high of USD3.2bn in 2Q18, thanks to rising investment in the high-tech sector. Micron Technology boosted stake in its Taiwanese subsidiary; Microsoft, Google and IBM also announced earlier this year to expand R&D investment in Taiwan.

Taiwan: BOP: Direct investment



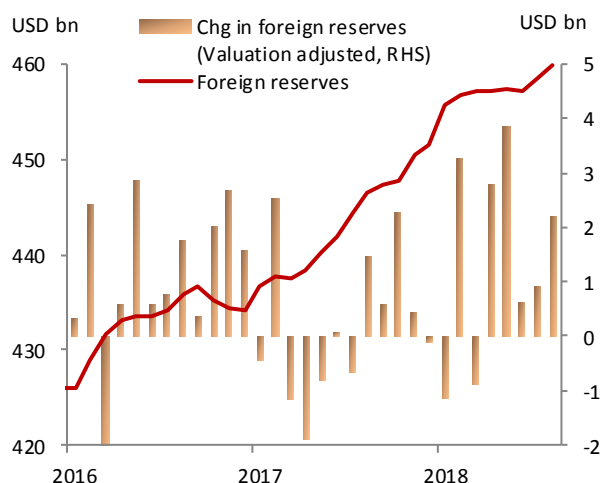
Foreign investment in Taiwan's equity market has been falling for five consecutive months as of August, in light of the spreading concerns about Sino-US trade war and Turkish/Argentine debt crisis.

Foreign investment in Taiwanese equities



Thanks to the current account surplus and FDI inflows offsetting portfolio investment outflows, the balance of payments remained robust. Foreign reserves climbed higher in August, hitting a new record USD459.9bn.

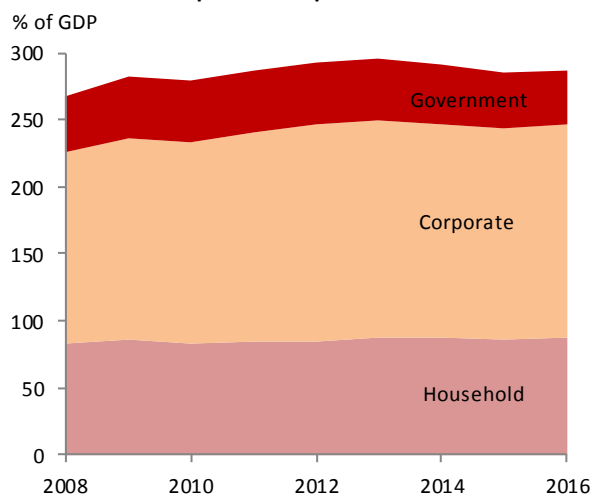
Taiwan: Foreign reserves



Domestic & Foreign debt

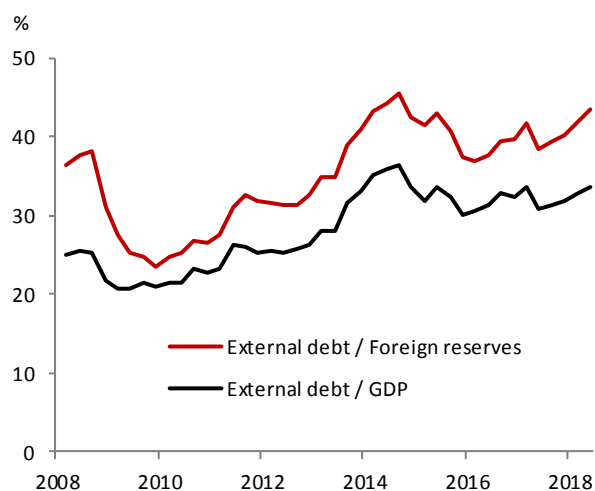
The corporate and household sectors have slightly increased their leverage after the 2008 GFC, thanks to the ultra-low interest rate environment. But government debt has been reduced gradually since 2013, reflecting the positive progress in fiscal consolidation.

Taiwan: Domestic private and public debt



External debt situation is basically stable. Gross external debt has been stabilising at about 33% of GDP in the past five years. Foreign reserve could comfortably cover 2.3 times of the outstanding total external debt.

Taiwan: External debt ratios



Forecasts on major indicators

	GDP				CPI inflation			
	2016	2017	2018f	2019f	2016	2017	2018f	2019f
Annual change (% YoY)	1.4	2.9	2.7	2.2	1.4	0.6	1.3	1.0

Exchange rate and interest rates forecasts									
		1Q18	2Q18	3Q18f	4Q18f	1Q19f	2Q19f	3Q19f	4Q19f
Benchmark discount rate	(%, eop)	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.50
3M TAIBOR	(%, eop)	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.74
Government bond yields	2Y (%, eop)	0.45	0.50	0.51	0.60	0.62	0.64	0.66	0.68
	10Y (%, eop)	0.99	0.93	0.87	0.95	1.05	1.15	1.20	1.25
	10Y-2Y (bps)	54	43	36	35	43	51	54	57

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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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