

Taiwan: AI, energy and 4Q outlook

13 October 2026



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- The global landscape remains complex, shaped by AI, energy prices and tariffs.
- Taiwan's AI cycle remains strong, with robust AI exports and investment and an intact semiconductor competitive moat.
- AI is generating broader domestic spillovers, with wealth effects and wage growth supporting consumption.
- Taiwan is cushioning the energy shock by diversifying energy imports and absorbing much of the increase in upstream costs.
- AI-driven growth is likely to moderate from 4Q26 into 2027, as hyperscaler cash-flow pressures rise and higher global rates lift investment costs.
- Energy remains an inflation risk, with domestic electricity prices facing upward pressure after the November local elections.
- GDP growth is expected to moderate to high-single digits from 4Q26, while we maintain our 11.6%/5.6% GDP forecasts for 2026/27.
- Inflation is likely to remain above 2% in 4Q26, with our 2.0%/2.1% CPI forecasts for 2026/27 unchanged.
- We maintain our call for CBC to hike 12.5bp to 2.125% in December, amid tighter liquidity conditions.
- Housing should recover gradually despite credit easing, as excess new-home inventory remains an overhang.

Global backdrop

The global landscape remains complex, shaped by the interplay of AI, energy prices and tariffs, with significant implications for growth, inflation and financial conditions.

1) AI

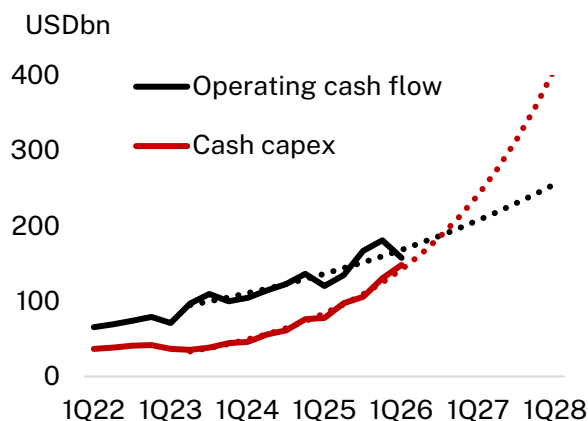
The debate over the durability of the AI investment boom continues. Tailwinds include technological advances, broader adoption, and strategic and geopolitical considerations. Headwinds range from uncertainty over investment returns and hyperscaler financing pressure to physical bottlenecks, safety concerns, and regulatory uncertainty.

Hyperscaler financing pressure has attracted increasing attention. In the early stages of the AI investment boom, hyperscaler capex was largely financed by internal cash flow. This is now changing, as free cash flow is expected to turn negative from 4Q, requiring major players to rely on debt issuance and other external financing increasingly.

At the same time, higher global interest rates are raising the cost of AI investment. The Fed resumed rate hikes at its September meeting, while global bond yields remain under upward pressure amid persistent inflation and elevated public and private borrowing needs. Our baseline assumes US rates will rise by 50bps this year and a further 25bps in 2027 to 4.50%, with global long-term rates also remaining under pressure. This could increasingly weigh

on the economics and pace of AI investment.

Hyperscaler cash flow vs. capex



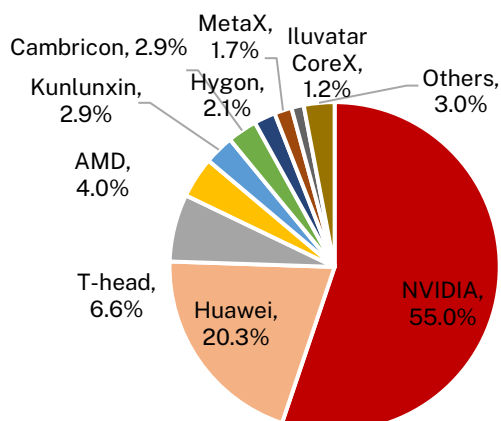
Sources: EPOCH AI, DBS

Notes: Hyperscalers include Microsoft, Amazon, Alphabet, Meta, and Oracle

US-China AI competition is also drawing increasing attention. Across the five layers of the AI ecosystem, China is making rapid progress in energy, infrastructure, AI models and applications, supported by its large scale, cost-effective domestic manufacturing supply chains and huge consumer market, which provides a wide range of real-world scenarios for AI adoption. The emergence of a more integrated and cost-competitive Chinese AI ecosystem could increasingly challenge the US ecosystem, which currently operates at a relatively higher cost.

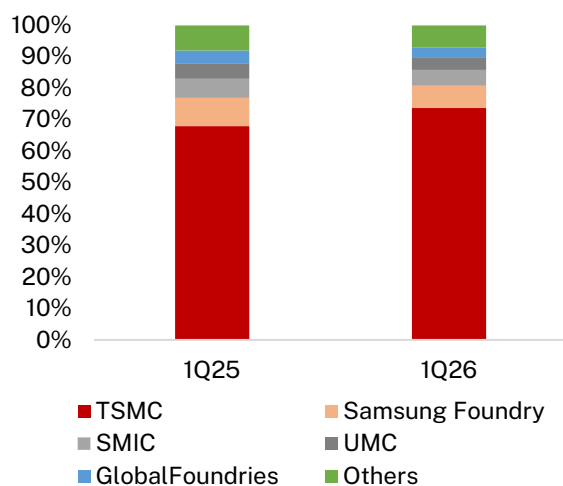
China, however, remains relatively weak in semiconductors. Around half of China's domestic AI chip market still relies on foreign suppliers, including lower-end NVIDIA chips. This semiconductor bottleneck remains a key constraint on China's AI development. In our view, Taiwanese semiconductor companies' competitive moat therefore remains largely intact in the near term.

China's AI chip market share, 2025



Sources: Trendforce, DBS

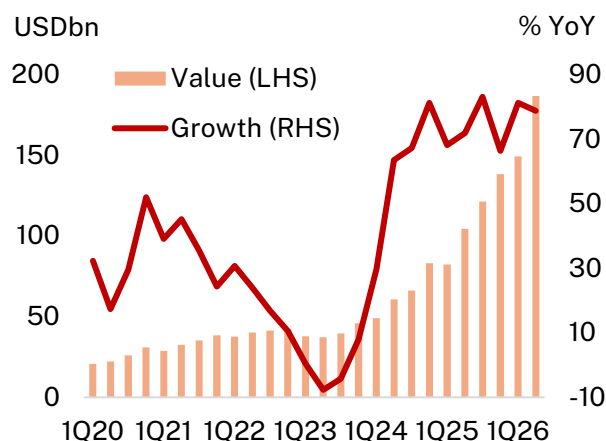
Global pure foundry market share



Sources: Counterpoint, DBS

So far, there is limited evidence of a significant slowdown in AI investment or semiconductor demand. Hyperscaler capex maintained robust yoy growth through 2Q, while Bloomberg forecasts growth to moderate from 95% this year to 39% in 2027. Similarly, global semiconductor sales remained strong through 3Q, while WSTS expects growth to moderate from 90% this year to 27% in 2027.

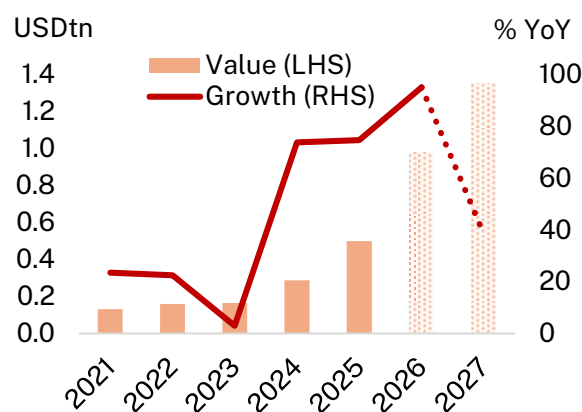
Hyperscaler capex



Sources: Bloomberg, DBS

Notes: Hyperscalers include Microsoft, Amazon, Alphabet, Meta, and Oracle

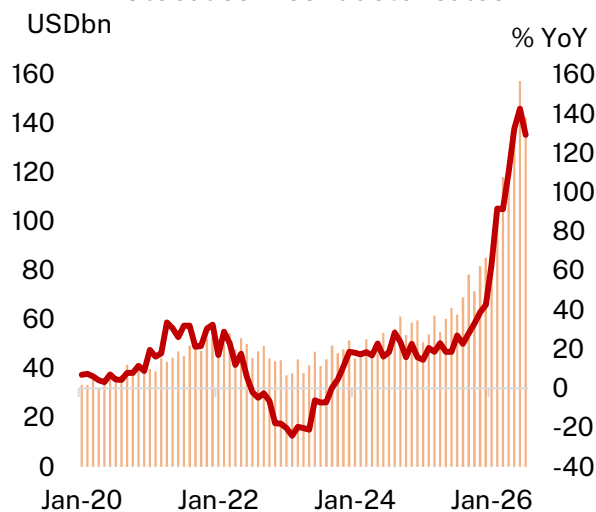
Hyperscaler capex forecast



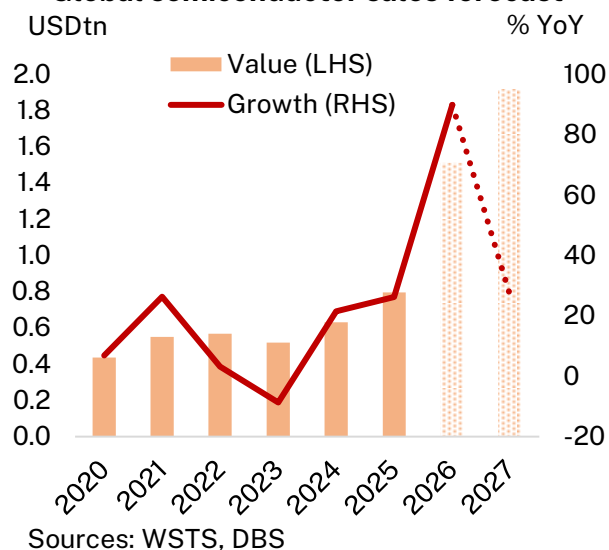
Sources: Bloomberg, DBS

Notes: Hyperscalers include Microsoft, Amazon, Alphabet, Meta, Oracle, Tier 2/Neoclouds, and Chinese players.

Global semiconductor sales



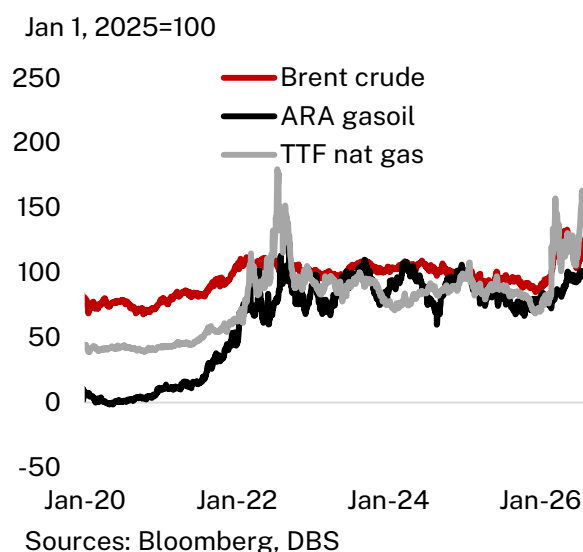
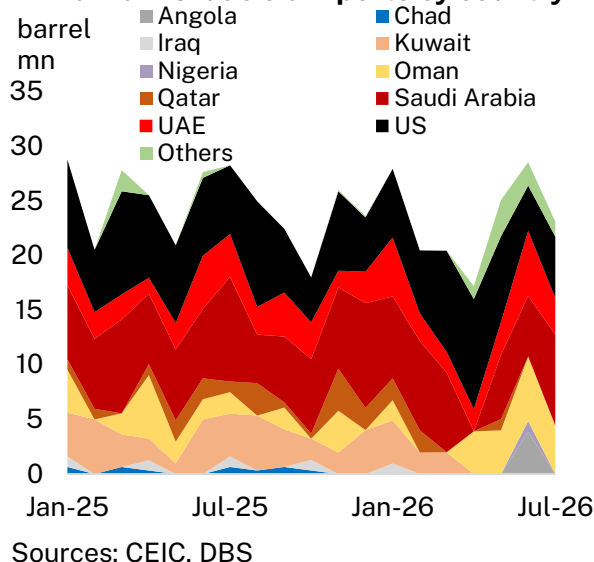
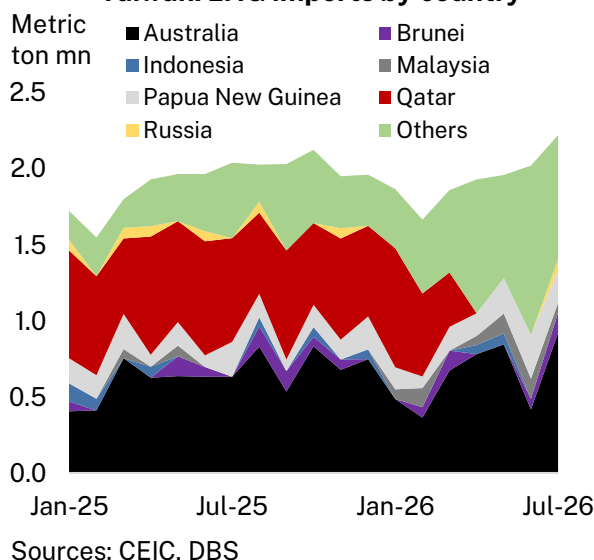
Sources: WSTS, DBS

Global semiconductor sales forecast

2) Energy

The US-Iran conflict remains at a standoff, keeping the energy-price outlook highly uncertain. New developments are likely after the US midterm elections in November, with both further escalation and de-escalation possible. Crude oil prices have remained elevated at around USD100/bbl amid a persistent geopolitical risk premium. In contrast, refined product prices have risen more sharply as refining disruptions and tighter product logistics have amplified the supply shock. Natural gas prices have also increased sharply, reflecting disruptions to LNG supply and limited alternative shipping routes.

Taiwan has been actively diversifying its energy import sources to cushion the impact. LNG imports from Qatar have fallen to zero since April, while imports from the US and other suppliers have surged to offset the shortfall, helping maintain stable domestic electricity supply.

ICE energy prices**Taiwan: Crude oil imports by country****Taiwan: LNG imports by country**

3) Tariffs

US tariff actions are likely to accelerate after the US midterm elections in November. Two major tariff measures remain in the pipeline. The Section 301 forced-labor tariff was implemented in July, while final tariff action under the Section 301 overcapacity investigation, which covers 16 economies, remains pending. Meanwhile, Phase 1 of the Section 232 semiconductor tariffs was implemented in January, while Phase 2, covering a broader range of semiconductor-related products, remains pending.

Taiwan has secured a relatively favourable framework through its trade and investment agreements with the US. Taiwan signed an Agreement on Reciprocal Trade (ART) and an Investment MOU with the US earlier this year. The ART establishes a 15% US tariff rate on Taiwanese goods, while the MOU provides Taiwan with preferential treatment under Section 232, including for semiconductors. The ART has yet to enter into force, and it remains to be seen how the final Section 301 tariff burden will interact with the 15% ART framework. Meanwhile, major Taiwanese companies such as TSMC are expanding their US investments under the Investment MOU, which could support relatively favourable treatment for Taiwan when broader Section 232 semiconductor tariffs are introduced.

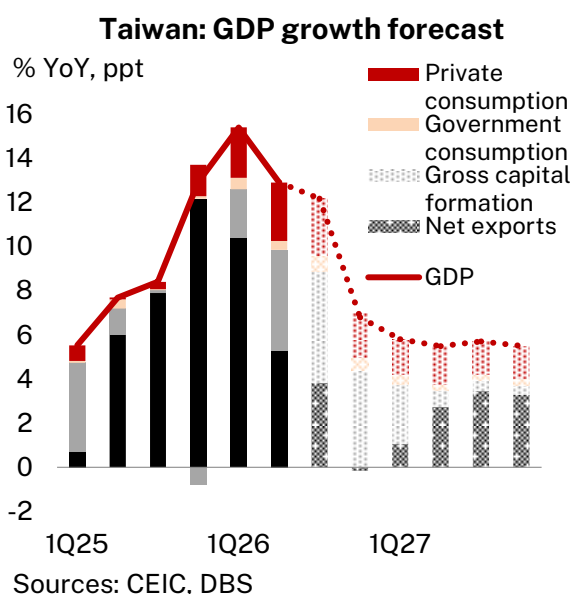
Taiwan 4Q outlook

Taiwan has navigated the complex global environment relatively well so far

this year, supported by robust AI exports and investment, diversified energy imports, and efforts to absorb higher upstream energy costs. Some normalisation is likely in 4Q26–2027, as the AI-driven growth boost moderates and domestic energy prices face greater pressure to adjust.

1) Growth

GDP growth remains broadly on track with our expectations. High-frequency indicators suggest that GDP growth should remain around 12% yoy in 3Q, broadly in line with 12.9% in 2Q but below the 15.4% peak in 1Q. Growth is expected to moderate to a high-single-digit pace from 4Q onwards. **We maintain our full-year GDP growth forecasts at 11.6% for 2026 and 5.6% for 2027.**



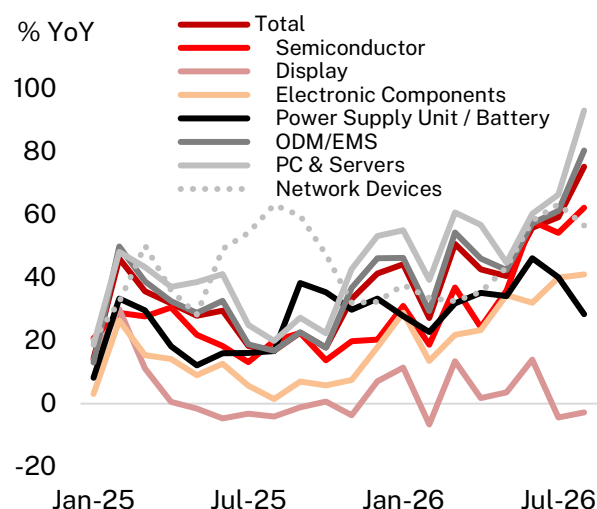
The AI cycle remains the key driver of Taiwan's growth. Information and communication products and electronic components accounted for nearly 80% of total exports in the first nine months of this year, while manufacturing accounts for nearly 50% of gross fixed

capital formation. From 4Q onwards, export growth is expected to moderate from exceptionally strong levels to a more normal but still robust pace, broadly following the trajectory of global hyperscaler capex and semiconductor sales. Investment is likely to follow a similar path.

For now, Taiwanese technology companies continue to report robust revenue growth, led by semiconductors, ODMs/EMS, and PCs and servers. Capacity utilisation at leading Taiwanese foundries has also continued to rise, suggesting that investment demand remains strong.

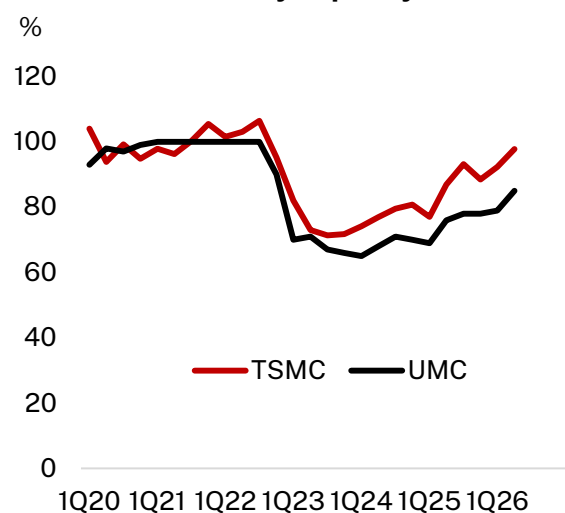
The AI boom is also beginning to generate broader spillovers to the domestic economy. The AI-driven equity rally has generated significant wealth effects, with the TAIEX up 70% year-to-date and Taiwan becoming the world's fifth-largest stock market. Taiwanese households have benefited from the appreciation of financial assets, with equities and mutual funds accounting for nearly 30% of total household financial assets. The equity rally has also generated positive income effects. Wage growth has picked up, led by the services sector, particularly financial services, as strong earnings at financial institutions – especially securities firms – have prompted higher compensation to retain talent. These wealth and income gains should support household consumption, creating a positive feedback loop that broadens the benefits of the AI boom across the wider economy.

Taiwan: Tech sector revenue



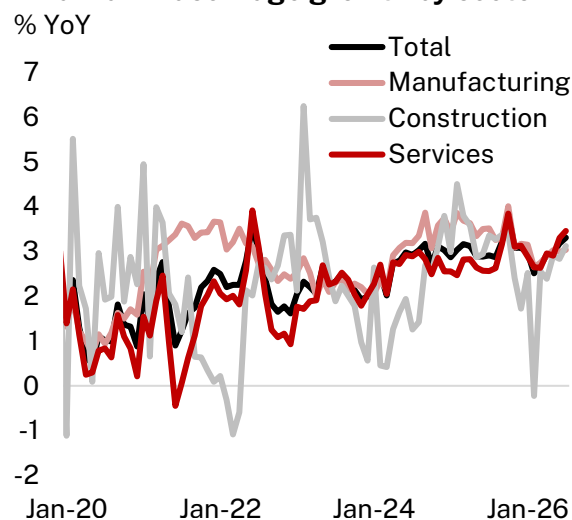
Sources: Bloomberg, DBS

Taiwan: Foundry capacity utilization



Sources: Bloomberg, DBS

Taiwan: Base wage growth by sector

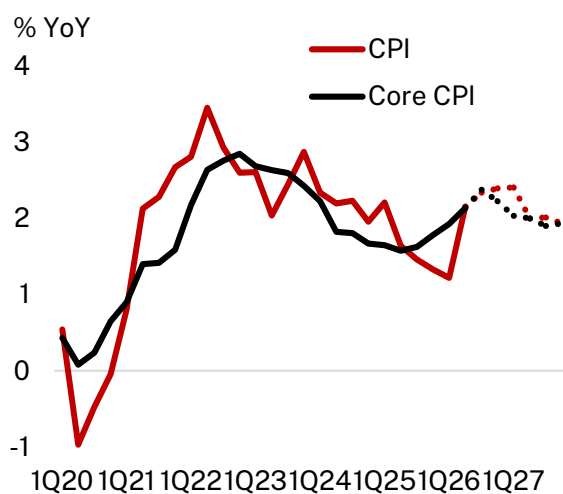


Sources: CEIC, DBS

2) Inflation

CPI inflation is also tracking broadly in line with our forecast. Headline CPI remained elevated at 2.4% yoy in 3Q, up from 1.2% in 1Q and 2.2% in 2Q. **We maintain our forecast for headline CPI inflation to remain close to 2.5% in 4Q, and retain our full-year forecasts at 2.0% for 2026 and 2.1% for 2027.**

Taiwan: CPI inflation forecast

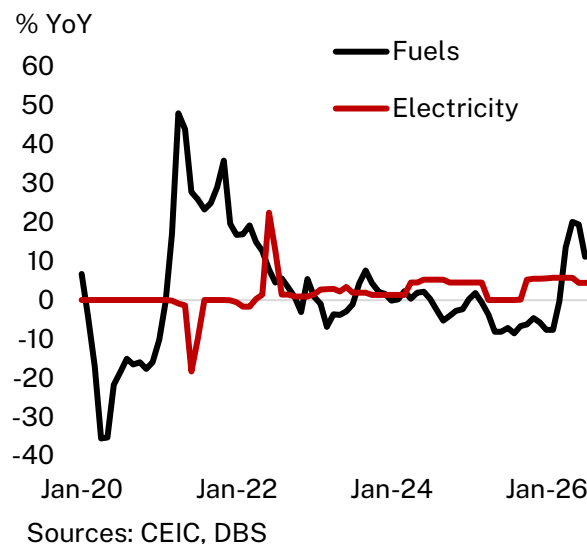


Sources: CEIC, DBS

Energy inflation remains the main upside risk. The government has absorbed much of the increase in energy costs through state-owned CPC and Taipower, limiting the pass-through to domestic consumers. With losses at both companies widening, the government will need to decide whether to provide additional subsidies to cover the losses or allow further increases in domestic energy prices. The September review postponed the adjustment to the December meeting, when the overall situation will be reassessed after the November local elections. Taipower's latest review indicated that electricity rates would need to rise by 12.8%. A hike in electricity prices could lift inflation

expectations and generate second-round effects, particularly as the labour market tightens and wage pressures increase.

Taiwan: CPI - energy prices



Sources: CEIC, DBS

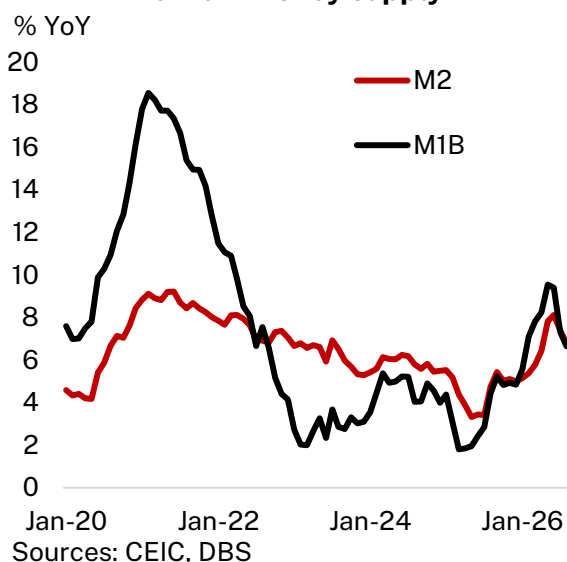
3) Monetary policy

The central bank kept the policy discount rate unchanged at 2.00% at its September meeting, in line with our expectations. **We continue to expect a modest 12.5bp rate hike at the December meeting, bringing the policy rate to 2.125%.** By then, CPI inflation is likely to have remained above 2% for around six consecutive months. The possibility of an increase in electricity prices following the November local elections could further lift inflation expectations, strengthening the case for a December rate hike.

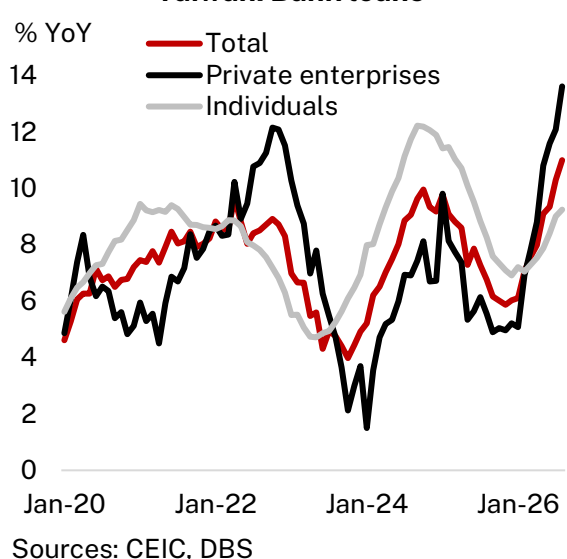
Financial conditions have already tightened despite the absence of a policy rate hike. M2 growth remained around 7% yoy in 3Q, well below double-digit nominal GDP growth. At the same time, bank loan growth has accelerated to more than 10% yoy, driven by strong

corporate credit demand, particularly AI-related fundraising by technology companies. Tighter financial conditions are also evident in rising market interest rates, including commercial paper rates and government bond yields.

Taiwan: Money supply



Taiwan: Bank loans



The central bank has continued to ease housing credit controls gradually. At its September meeting, it raised the LTV cap on second-home mortgage loans to 70%, the second easing of housing credit controls this year. There is scope for further easing, including removing the

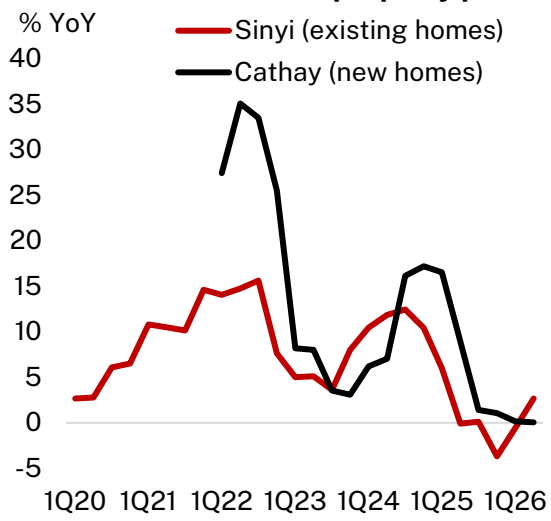
LTV cap on second-home loans or raising the LTV caps for third- and fourth-home loans and high-value properties, which currently stand at 30%. However, the central bank is likely to proceed cautiously, given concerns that a faster relaxation could reignite speculative demand and put renewed upward pressure on housing prices.

4) Housing

A gradual and modest recovery in the housing market is expected from 4Q26 into 2027. The existing-home market has already shown early signs of recovery, with Sinyi housing prices returning to slightly positive yoy growth since 2Q. Total building transactions also returned to positive yoy growth in 3Q. The easing of credit controls should help reinforce this modest recovery trend.

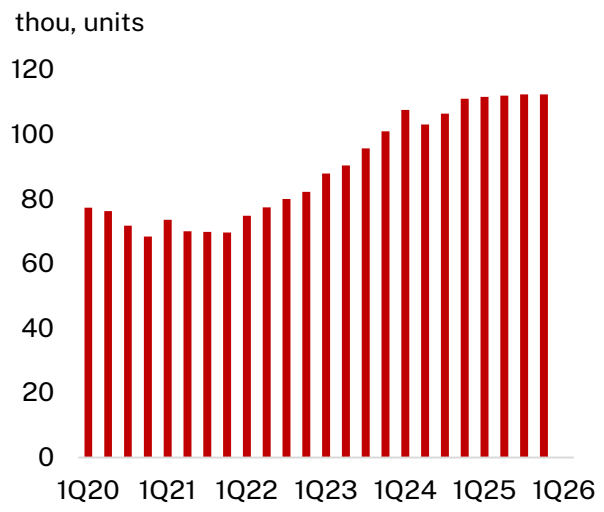
The new-home market remains under pressure. The number of new units under construction has started to decline since 2023, while new completions are only beginning to ease this year. Demand remains weak, as potential buyers continue to wait for lower prices. Unsold new homes stood at 113K units at end-2025, compared with a historical normal level of around 80K, implying excess inventory of roughly 30K units. At the current pace of new-home transactions, it would take roughly one year to normalize the existing excess inventory, and longer when factoring in the new supply pipeline. Some industry experts estimate that it could take as long as 3.8 years digest current inventories fully ([here](#)).

Taiwan: Residential property prices



Sources: CEIC, DBS

Taiwan: Unsold new homes



Sources: Ministry of the Interior, DBS

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