

Unexpected drop in Taiwan's export value

The later than normal sales of smartphones, along with high base effects, have also led to negative inflation

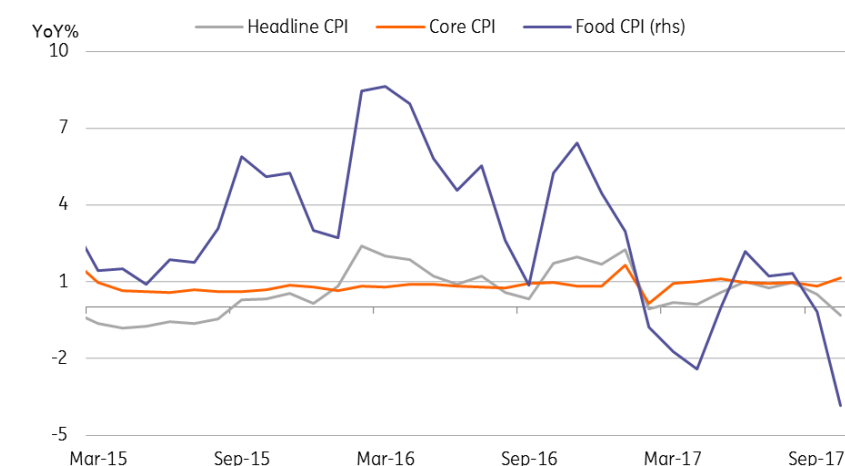


We underestimated the high base effects (9.3%YoY in the same month in 2016) and the impact of delayed sales of smartphones on Taiwan's export growth in October. That export growth came in at 3%, we were forecasting 16% while the consensus was 7%. The previous figure was 28.1%.

Our forecast for imports was closer (Actual: 0.1%; INGf: 1.3%; cons: 2.1%; prior: 22.2%).

As Taiwan's trade is mostly driven by the smartphone and gadget industry, the delayed sales overlapping high base effects resulted in low growth. We are still optimistic that the fourth quarter of this year and the first of next will be good months for exports as pre-sales show demand for smartphone gadgets is strong.

Base effect push food price and headline CPI to deflation

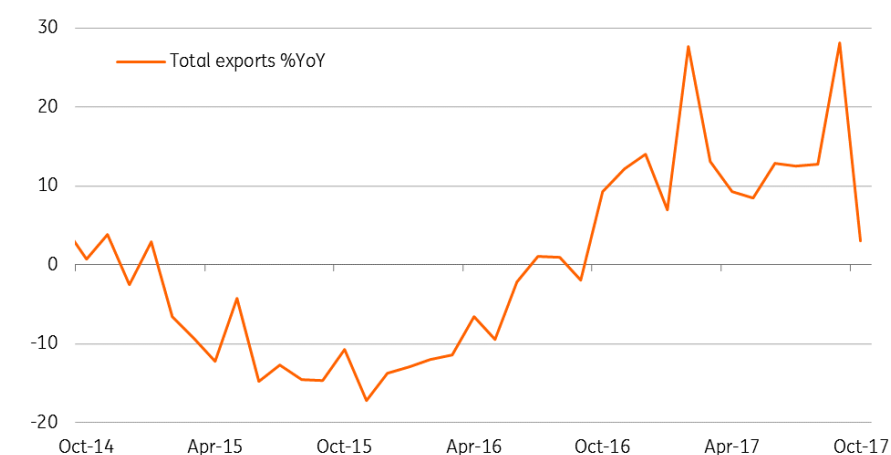


Source: ING, Bloomberg

Rising global crude oil prices and high China PPI, due to deleveraging reform, helped push Taiwan's WPI inflation higher in October than we had thought (actual: 1.58%; INGf: 2.1%; prior: 1.62%).

But CPI was pushed below zero again due to high base effects and cheaper food prices (Actual: -0.32%; INGf: 0.0%; cons: 0.2%; prior: 0.5%). The lower food price trend may continue due to a high base until February.

Base effects are playing central roles in this weak data. They do not reflect the underlying good trade growth and mild positive inflation of the economy. We believe the Central Bank of the Republic of China (CBC) could remain on hold for a further year. However, with a new governor next February we may need to watch out for something new.



Source: ING, Bloomberg