

## Good MornING Asia - 24 April 2018

Central banks spend all their efforts trying to raise inflation, then when it looks as if it is happening, anxiety spikes. Stories about global recession looming are in our view hugely overdone. But there are interesting things happening in semiconductor space that Asia ought to be concerned about

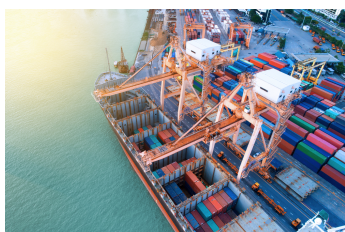
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Despite the rise in industrial production, some electronic parts failed to hold up healthy growth



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2018 remains on course to be the second year of a narrowing trade surplus. Re-pricing for a narrower external surplus and political uncertainty associated...

# Taiwan's industrial production misses estimate for important items

Despite the rise in industrial production, some electronic parts failed to hold up healthy growth



Source: Shutterstock

## Semiconductors grew but panels and optics shrank

In general, production of electronics grew 6.62% year on year, which was above the average industrial production of 3.09% for Taiwan in March. The strongest growth came from integrated circuits, and semiconductors grew at a solid 11%.

However, this may not be as upbeat as it looks. Production of display panels and optic-related parts shrank by 1.67%YoY and 1.4%YoY, respectively.

This makes us think that the whole value chain of smart-device production could be slower than last year.

## Trade tension might not be positive

As trade tensions in the telecoms and IT production sector between Mainland China and the US grow, the whole supply chain of electronic products could be affected. Some players will get hurt immediately, while some may benefit as they have alternative substitutes for the "banned" Chinese products in the US.

We hesitate to jump to the conclusion that this is positive for Taiwanese products because of its closely linked production chain with Mainland China as many electronic products made in Mainland China have parts imported from Taiwan.

This, in fact, could be negative for Taiwan unless it has a substitute for the Mainland products affected.

The asset market has suggested that Taiwan could be affected negatively by the ongoing US-China trade tensions.

USD/TWD has weakened from 29.08 at the beginning of April to 29.531, weakening 1.55% so far in the month. The Taiwan stock market index (TWSE) has also fallen with the currency, which is why we are monitoring the economy closely to consider revision of forecasts.

## Author

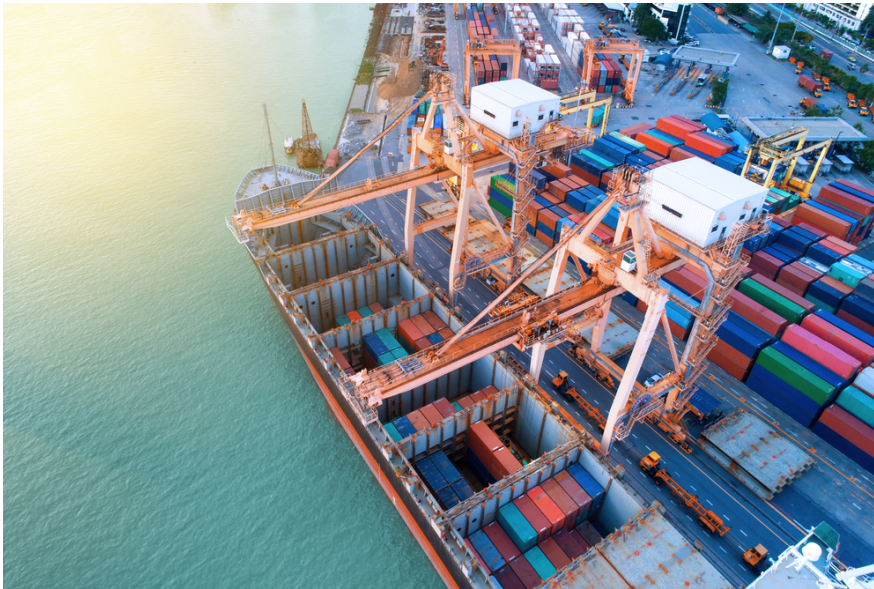
### **Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

# Thailand: Above-expected trade surplus in March

2018 remains on course to be the second year of a narrowing trade surplus. Re-pricing for a narrower external surplus and political uncertainty associated with delayed general elections will weigh on THB performance this year



Source: Shutterstock

**\$1.3bn** Trade surplus in March

Higher than expected

## Above-expected exports, weak imports in March

Thailand's exports grew a greater-than-expected 7.1% year-on-year in March, but import growth was slower than expected, at 9.5%. The consensus forecasts were 6.0% and 11.6%, respectively. The result was a trade surplus of almost \$1.3bn - double the \$660m consensus forecast. Nevertheless, the year-to-date trade surplus of \$2bn has almost halved from a year ago.

**\$40bn**

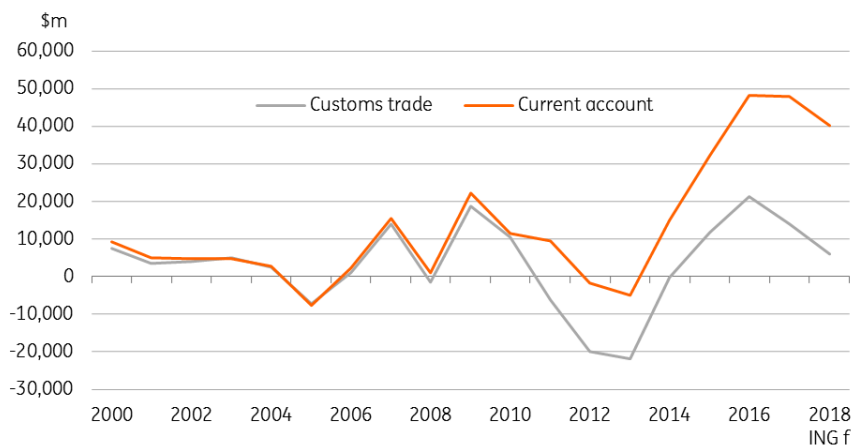
ING forecast of 2018 current account surplus

8% of GDP

## Narrowing trade surplus

2017 was the first year in the last four years that Thailand's trade surplus narrowed; at \$13.9bn, the 2017 annual surplus was down from \$21.2bn in 2016. Our forecasts of 7% export growth and 11% import growth in all of 2018, imply a further narrowing of the surplus to \$6bn this year. If all of this narrowing gets carried over to the current account surplus, the latter will come in close to \$40bn or about 8% of GDP in 2018. That cannot be taken for granted, however. Despite a \$7.3bn YoY narrowing of the trade surplus in 2017, the current account held steady at \$48bn (10.5% of GDP).

## Trade balance drives current account balance



Source: CEIC, ING

## THB re-pricing

We view the persistent wide current account surplus more as a sign of weakness than a strength of the economy, signifying anaemic domestic spending. Yet this is the main source of the currency appreciation underway since last year. The Thai baht's (THB) 4% year-to-date appreciation against the US dollar, the most among Asian currencies, comes on top of 10% appreciation in 2017 when it was the third-best performer (after the Korean Won and the Malaysian ringgit).

However, THB appreciation has almost stalled since March this year. We believe re-pricing for a narrower external surplus and political uncertainty associated with delayed general elections will weigh on THB performance in 2018. We forecast a tight range trading of USD/THB around 31 through the rest of the year.

## Author

**Amrita Naik Nimbalkar**

Junior Economist, Global Macro  
[amrita.naik.nimbalkar@ing.com](mailto:amrita.naik.nimbalkar@ing.com)

**Mateusz Sutowicz**  
Senior Economist, Poland  
[mateusz.sutowicz@ing.pl](mailto:mateusz.sutowicz@ing.pl)

**Alissa Lefebvre**  
Economist  
[alissa.lefebvre@ing.com](mailto:alissa.lefebvre@ing.com)

**Deepali Bhargava**  
Regional Head of Research, Asia-Pacific  
[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

**Ruben Dewitte**  
Economist  
+32495364780  
[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

**Kinga Havasi**  
Economic research trainee  
[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

**Marten van Garderen**  
Consumer Economist, Netherlands  
[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

**David Havrlant**  
Chief Economist, Czech Republic  
420 770 321 486  
[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

**Sander Burgers**  
Senior Economist, Dutch Housing  
[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

**Lynn Song**  
Chief Economist, Greater China  
[lynn.song@asia.ing.com](mailto:lynn.song@asia.ing.com)

**Michiel Tukker**  
Senior European Rates Strategist  
[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

**Michal Rubaszek**  
Senior Economist, Poland  
[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

**Stefan Posea**

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**

Senior Sector Strategist, Real Estate

[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**

Research Assistant, Energy Transition

[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**

Sector Economist, TMT & Healthcare

[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**

Sector Economist

[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**

Commodities Strategist

[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

**ING Analysts**

**James Wilson**

EM Sovereign Strategist

[James.wilson@ing.com](mailto:James.wilson@ing.com)

**Sophie Smith**

Digital Editor

[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

**Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Adam Antoniak**

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

**Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@asia.ing.com)

**Coco Zhang**

ESG Research

[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

**Jan Frederik Slijkerman**

Senior Sector Strategist, TMT

[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

**Katinka Jongkind**

Senior Economist, Services and Leisure

[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

**Marina Le Blanc**

Sector Strategist, Financials

[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

**Samuel Abettan**

Junior Economist

[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

**Franziska Biehl**

Senior Economist, Germany

[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**

Senior Editor and Supervisory Analyst

[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**

Credit Strategist

[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**

Senior Economist, Poland

[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Oleksiy Soroka, CFA**

Senior High Yield Credit Strategist

[oleksiy.soroka@ing.com](mailto:oleksiy.soroka@ing.com)

**Antoine Bouvet**

Head of European Rates Strategy

[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**

Global Head of Sector Research

[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**

Senior Sector Economist, Industry and Healthcare

[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**

Senior Sector Economist, Transport and Logistics

[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**

Sector Economist

[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**

Senior Economist, Philippines

[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

**Egor Fedorov**

Senior Credit Analyst

[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**

Consumer Economist

[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**

Senior Sector Economist, Energy

[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**

Head of Corporates Sector Strategy

[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**

Senior Economist, France and Switzerland

[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**

Behavioural Scientist

+31(0)611172684

[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)

**Valentin Tataru**

Chief Economist, Romania

[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

**Suvi Platerink Kosonen**

Senior Sector Strategist, Financials

[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**

Senior Sector Economist, Food & Agri

[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**

Senior Economist Construction & Team Lead Sectors

[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Klok**

Senior Economist, Netherlands

[marcel.klok@ing.com](mailto:marcel.klok@ing.com)

**Piotr Poplawski**

Senior Economist, Poland

[piotr.poplawski@ing.pl](mailto:piotr.poplawski@ing.pl)

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**

Chief Economist and Global Head of Research  
[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**  
Senior Macro Economist  
[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**  
Head of Global IFRS9 ME Scenarios  
[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**  
Head of Financials Sector Strategy  
[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**  
Head of Commodities Strategy  
[Warren.Patterson@asia.ing.com](mailto:Warren.Patterson@asia.ing.com)

**Rafal Benecki**  
Chief Economist, Poland  
[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**  
Senior Economist, Belgium, Luxembourg  
[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**  
Senior Economist, Hungary  
[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

**Inga Fechner**  
Senior Economist, Germany, Global Trade  
[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

**Dimitry Fleming**  
Senior Data Analyst, Netherlands  
[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**  
Chief Economist, Romania  
+40 31 406 8990  
[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**  
Chief Economist, Turkey  
[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**

Writer, Group Research

+44 20 7767 6209

[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

**Tim Condon**

Asia Chief Economist

+65 6232-6020

**Martin van Vliet**

Senior Interest Rate Strategist

+31 20 563 8801

[martin.van.vliet@ing.com](mailto:martin.van.vliet@ing.com)

**Karol Pogorzelski**

Senior Economist, Poland

[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Viraj Patel**

Foreign Exchange Strategist

+44 20 7767 6405

[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

**Owen Thomas**

Global Head of Editorial Content

+44 (0) 207 767 5331

[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**

Chief Economist, LATAM

+1 646 424 6464

[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**

Economist, Digital Finance

+44 20 7767 5306

[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)

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