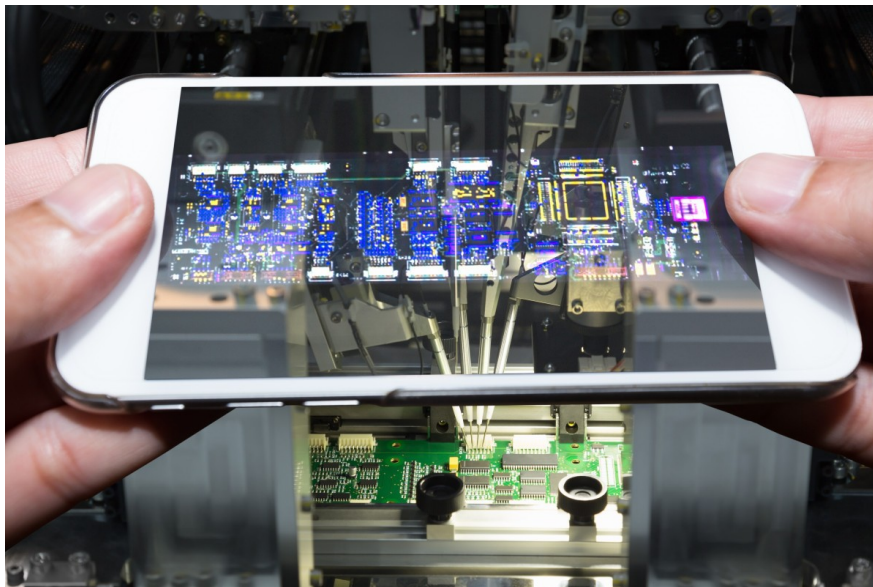


## Revising Taiwan dollar down as industrial production almost stalls

We are revising Taiwan's dollar down after this set of industrial production data and high inflation numbers from various economies. Semiconductor demand is falling, and capital outflows from Taiwan may not turn around anytime soon



Source: Shutterstock

**0.73%** Industrial production (year-on-year)

Worse than expected

### Industrial production almost stalled in June

Industrial production edged up slightly by 0.73% year-on-year in June compared with the same month in 2021. **This is the slowest growth since January 2020.** Within industrial production, manufacturing rose even less, at 0.51% YoY, showing very weak demand for Taiwan's main export

item: semiconductors.

Weak demand for semiconductors is the result of lockdowns in Shanghai back in March-May this year, and consumer purchasing power fell substantially in the Mainland China market as the jobless rate increased after the lockdowns. Though semiconductors for electric vehicles (EV) have increased this month due to consumption subsidies offered to buyers of EVs, demand for smartphones and other electronic goods is still weak. Sales of smartphones are expected to fall for the rest of the year.

Even though we expect a slow recovery of consumption demand in Mainland China, we still face another challenge globally, which is high inflation. High inflation defers consumption decisions on cars and consumer electronic goods.

## Weaker TWD

All of this points to a possible contraction of demand and therefore production of semiconductors for the rest of the year. The worry that I have had for a long time for Taiwan is its economic concentration in semiconductors alone. And we are at the moment of suffering from this concentration risk.

This means a sell-off in Taiwan equities could continue as this data confirms how weak demand is for the main pillar of Taiwan's stock market. This means there could be capital outflows from Taiwan, resulting in a weaker Taiwan dollar.

We are revising our forecast for USD/TWD to pass 30.20 this quarter (the previous forecast was 29.7 by the end of the third quarter) and the next level could be 30.70. The spot is now at 29.91.

## Author

### Iris Pang

Chief Economist, Greater China

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