Taiwan: 3Q GDP shines with strong exports

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Exports are growing so well that GDP beat consensus expectations. However, even with such good growth, inflation will stay low as consumption growth is soft. This means the central bank is likely to stay put. Demand to push the Taiwan New Dollar (TWD) stronger will mainly come from foreign investors chasing after Taiwan's stock market. For Taiwan's economy, it is trade that drives growth. Impressive export growth of over 11.16% YoY delivered 3.11% YoY GDP growth in 3Q17 (up from 2.3% in 2Q).

Domestic consumption grew modestly at 1.9% YoY in 3Q, partly due to base effects. We also believe that high export growth has not been fully transmitted to the consumption sector via wage growth.

11.16%

Taiwan export growth

Delivering 3.11% YoY GDP growth

Better than expected

Mediocre domestic demand will continue to limit consumer price inflation (ING Forecast: 0.8% 2017; 1.0% 2018; prior: 0.5% in Sep 2017). Rising crude oil prices have turned WPI from negative to positive inflation. But the still low inflation environment means that we believe that the central bank has no option but to stay on hold through 2017-18. The peak months of export revenue converting to TWD strength were in 3Q17. In the fourth quarter, we expect the Taiwan stock market will continue to attract substantial foreign inflows. This should support USDTWD going lower (INGF: 29.8 4Q17; 29.5 1Q18).

External trade should continue to support a large chunk of GDP growth. We have revised our GDP forecast for 4Q up to 2.8% YoY. Taiwan's economy has been too reliant on external trade and is too focused on electronic parts and products. This leaves the economy vulnerable to external turmoil. Economic reform is necessary to diversify the economy and to grow further.

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