

Taiwan's electronic sector holds up well but keep an eye on market volatility

The export-driven economy seemed to be doing fine in May as electronics supported industrial production growth. As trade tensions escalate, we forecast USD/TWD to reach 30.60 by the end of 2018



Source: Shutterstock

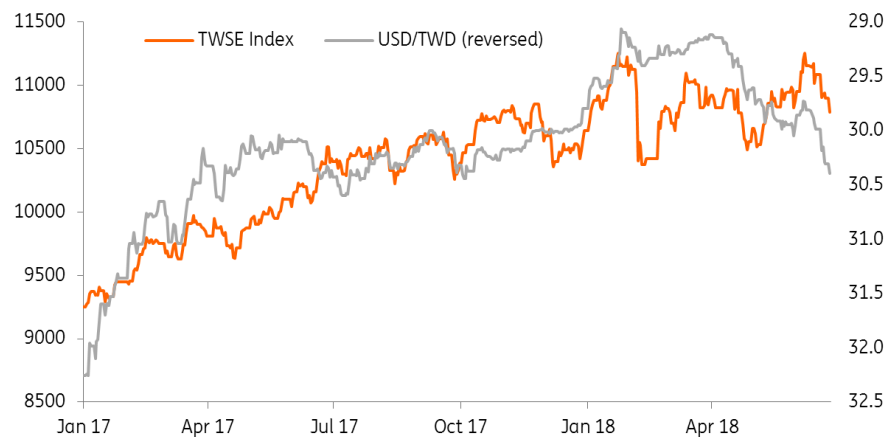
Industrial production grew 7.05% year on year, of which integrated circuit production grew 17.56% YoY and electronic parts production grew at 9.38% YoY. Other computer parts grew by 19.74%, mainly brought by the production of cameras used in new handset models.

But this is data from May - trade tensions have escalated since

It is true that data in May shows Taiwan's manufacturing industry, and therefore the economy was running well. But trade tension between Mainland China and the US have escalated since.

We believe if a trade war materialises between Mainland China and the US, then world trade volume would shrink, and that would put Taiwan's export-driven manufacturing industry at risk.

USD/TWD would continue to rise in the middle of escalating trade war



Source: ING, Bloomberg

We forecast USD/TWD to reach 30.20 by the end of 1H18 and 30.60 by the end of 2018.

Today's bearish sentiment, arising from the news that the US could ban Chinese companies' investments in the US for security reasons, has fueled depreciation of the yuan as well as the new Taiwan dollar.

The market is very sensitive to news relating to a trade war, and market participants should watch out for increasing volatilities in asset markets.