

## Taiwan: Export orders fall and will keep on falling

Despite flattering base effects given weakness last year, Taiwan continues to disappoint. We wonder whether policies to attract manufacturers to set up in Taiwan will deliver and whether the central bank will follow its Asian peers and cut rates



A woman checks her mobile phone while waiting to cross the street in Taipei, Taiwan

### Taiwan export orders keep falling

Taiwanese export orders fall for the eighth month in a row, decreasing by \$1.82 billion from June 2018, a reduction of 4.5%YoY. In the second quarter of 2019, they fell 4.7% YoY. For 1H19 export orders fell 6.5%YoY, and that's all with a very low base effect.

The speed of reduction may be slowing slightly from the start of the year, but it's falling nonetheless. And that means production activities will also continue to weaken and we'll be able to confirm that from Tuesday's industrial production data.

## Promoting Taiwan's production line investments

With global smart devices entering a late product cycle, there's a negative environment for manufacturers, especially for technology-focused Taiwanese producers.

The government offers a preferential interest rate policy to manufacturers to encourage them to move production lines from mainland China. But, even if the government attracts investment funds into Taiwan, those production lines may not be running in any meaningful capacity if export orders keep falling.

We believe this will only change to a positive picture once 5G is widely used. Then smartphones will have new product cycles. Until then, we don't think there can be a significant upturn in Taiwan's production and, subsequently, its exports.

## The central bank says it won't cut rates

Other Asian central banks have cut interest rates, Taiwan's has responded by indicating its rate, currently at 1.375%, won't be changing any time soon.

Taiwan CPI inflation is low at 0.86%YoY. GDP has avoided falling into negative territory, with the economy growing at 1.71% in 1Q19, and we expect 1.8% for the whole of 2019. Given that rates are already low, it's difficult for the bank to cut them further in a pre-emptive strike to boost growth.

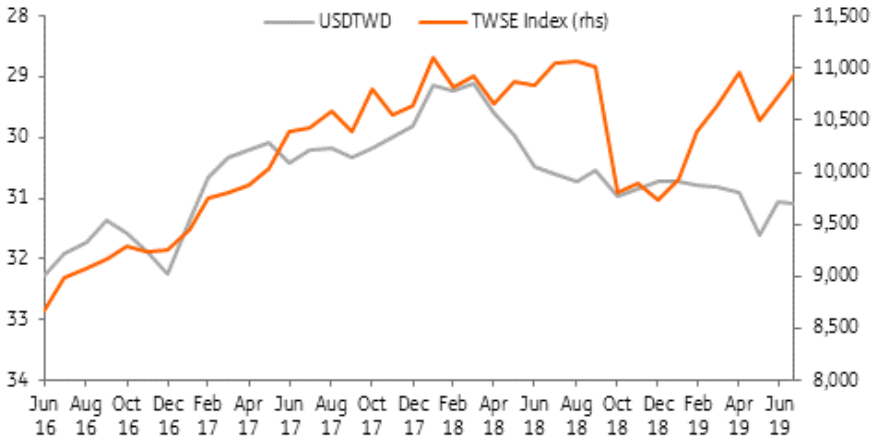
## USD/TWD still weak because of the yuan

Usually, when the Taiwan stock indices rise, there will be inflows of foreign capital into the market, and that should support the Taiwan dollar against the USD. But the stock index (TWSE) have been moving in opposite directions with the currency. The stock market has increased by 13%YTD but the currency has depreciated 1% in the same period.

It could be that the smartphone production cycle has suppressed both Mainland China and Taiwan's economies. The TWD, therefore, has shared the same pressure as the CNY, the yuan. CNY has depreciated slightly at 0.03%YTD.

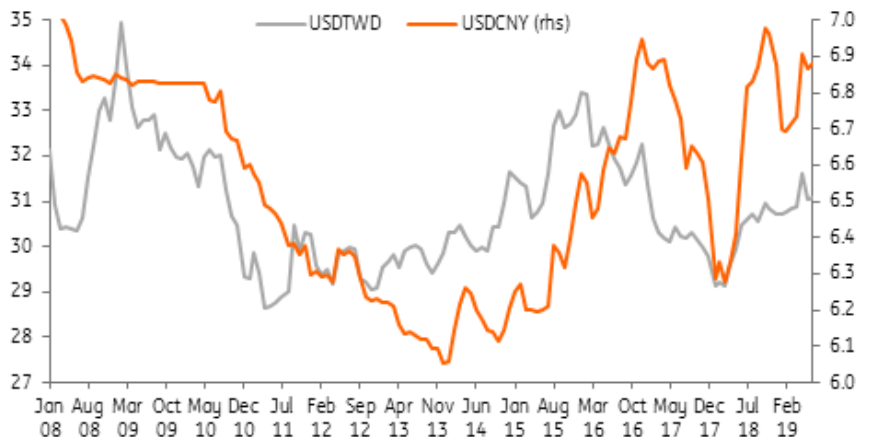
As the two economies are even more interlinked, building up production lines in Taiwan doesn't seem to be the best way to boost growth as the economic weakness lies in the smartphone product life cycle. This will continue until there is a new demand for phone upgrades, which most likely will come from 5G.

### TWD and stock index has lost the link



Source: ING, Bloomberg

### TWD and CNY has increased correlation



Source: ING, Bloomberg