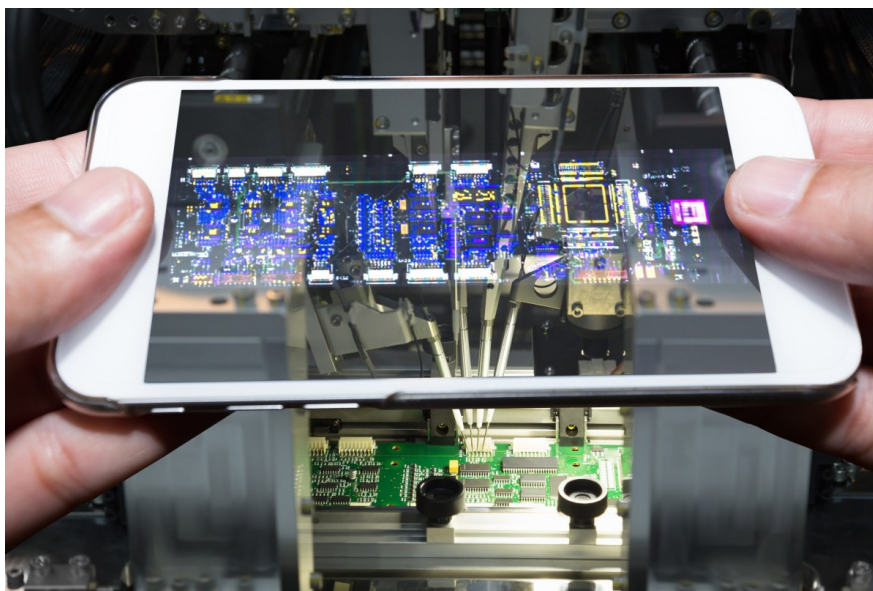


Taiwan's industrial production surprises us all

The surprisingly good Taiwanese industrial production numbers in July are probably due to the upcoming smartphone release, which will help exports too. But we expect the economy to return to a state of low or even negative manufacturing growth, once this shipment is on its way



Source: Shutterstock

Smartphones to the rescue

Taiwan's industrial production rebounded to positive territory, growing by 3.03% year on year in July from a negative growth rate of 0.49% in June. This is good news for Taiwan given the ongoing global trade and technology war; at least the release of new smartphone models is able to help Taiwan's economy.

Growth mainly came from manufacturing products related to smartphone production. Computers and related products grew by 34.82%YoY while the integrated circuits component grew by 12.39%. These are astonishing growth figures but given that headline growth is just 3.03%, inevitably there are some items that saw negative growth. The most prominent contraction was seen in LCD panel

production, which contracted by 14.6%YoY and machinery, which shrank by 13.98%.

Exports should be upbeat

The production growth of new smartphones will help exports, which is why we expect shipments to be strong in August and September even though there are doubts about sales but that is a concern for fourth-quarter production.

Good exports should marginally support GDP growth in 3Q19, which is why we think our GDP forecast for 3Q at 2.0%YoY is still within a reasonable range.

Can this positive manufacturing growth continue?

We doubt Taiwan's manufacturing growth will continue after the first batch of new smartphone sales. Most consumers are looking to upgrade to 5G phones, which should become available in a few locations from 2020. Therefore, we don't expect smartphone sales to be very strong this year, which makes it unlikely that companies will place extra orders

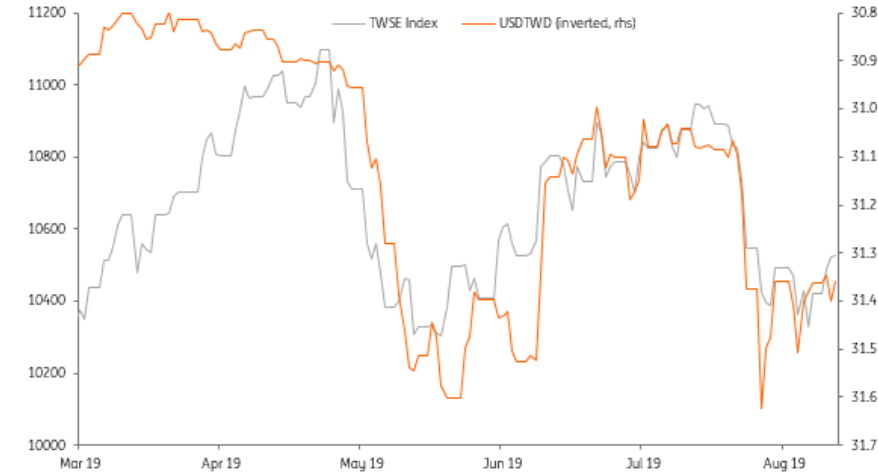
We think it unlikely that the positive industrial production growth will become a rising trend. It'll probably only last for one quarter, and will then fall with the sales of smartphones, if no more orders are placed.

USD/TWD forecast

The capital inflows into Taiwan's stock market have strengthened the Taiwanese dollar since the beginning of August. But these inflows and outflows will be more frequent if investors find Taiwan's industrial production growth for smartphone unsustainable in 4Q19, which will affect USD/TWD directly.

We expect TWD to weaken from the current level of 31.39 to 31.50 by the end of the year. We may revise our forecast of TWD to a weaker level if industrial production growth flips back to the negative territory.

USD/TWD and Taiwan stock market



Source: ING, Bloomberg

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