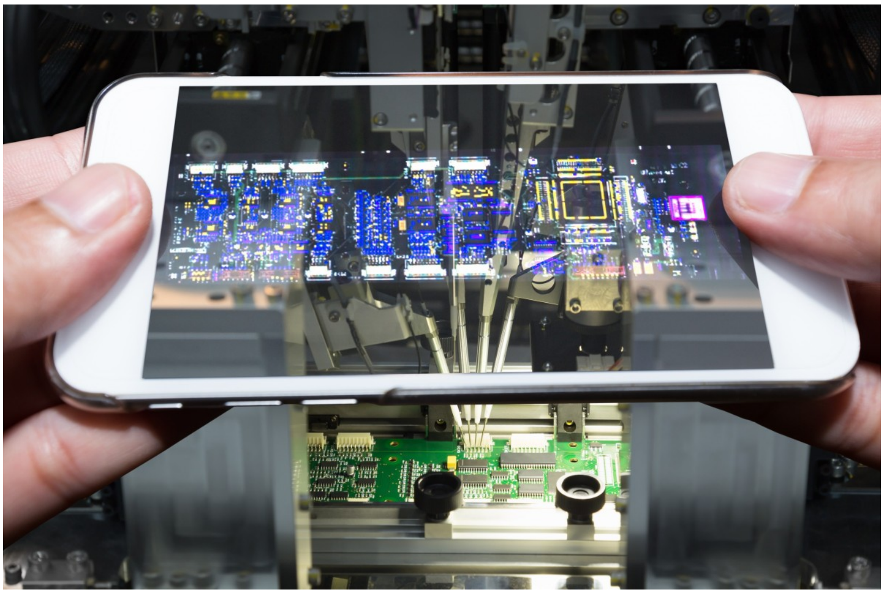
Taiwan: Why we're revising our USD/TWD forecast

After surprisingly good yearly growth in export orders, Taiwan surprised the market with a big jump in industrial production. This should be the beginning of an upward trend for Taiwan



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Semiconductors as the growth engine

Industrial production grew 7.34% year-on-year in June. Among all the items, integrated circuits grew 35.24% YoY, followed by the category of computer, electronic products and optical products, which grew 19.42% YoY.

These are the areas that Taiwan has taken advantage of after the Trump administration banned a number of Mainland Chinese companies from doing business in the US. Taiwan is filling this gap to fulfil orders from Mainland China as well as from US.

However, aside from semiconductor-related products, Taiwan's production has been dismal. Automobile and parts production fell 19.45% YoY, and textile and garment production fell 21.46% YoY.

Focus on one industry is an opportunity but also a risk

The technology war between the US and Mainland China has forced Taiwan to shift production even more in the direction of semiconductors.

This has helped Taiwan to recover faster from the damage caused by Covid-19.

More foreign capital has gone into Taiwan's semiconductor sector, and hence strengthened the Taiwan dollar.

However, the reliance on a single growth factor could be risky.

Revising USD/TWD forecasts

Based on better-than-expected export order growth of 6.5% YoY in June, and 7.34% YoY growth in industrial production, as well as our expectation that the technology war between the US and Mainland China will continue to benefit Taiwan in 2020, we are revising our TWD forecasts stronger.

Our forecasts for USD/TWD are 29.30 and 29.10 at the end of third and fourth quarter, respectively.

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