

## October export orders

### November export orders to resume YoY growth at 4.2%, supporting a strong Taix performance

#### Key message

1. October export orders down 4.6% YoY, close to our forecast of 4% YoY decline; order contraction of all major products narrowed; electronics (midstream to upstream) outperformed
2. Orders from Europe saw the biggest YoY decline, while YoY growth of orders from ASEAN improved significantly, surpassing China for the first time
3. We forecast November export orders to resume YoY growth at 4.2%, supporting a strong Taix performance

#### October export orders down 4.6% YoY, close to our forecast of 4% YoY decline

Taiwan export orders totaled US\$52.87bn in October, up 2.9% MoM (down 5.7% seasonally-adjusted) and down 4.6% YoY. The YoY decline significantly narrowed from last month, came close to our forecast of a 4% YoY decline, and was better than consensus of a 7.6% YoY decline (see Figure 1).

#### Order contraction of all major products narrowed; electronics (midstream to upstream) outperformed

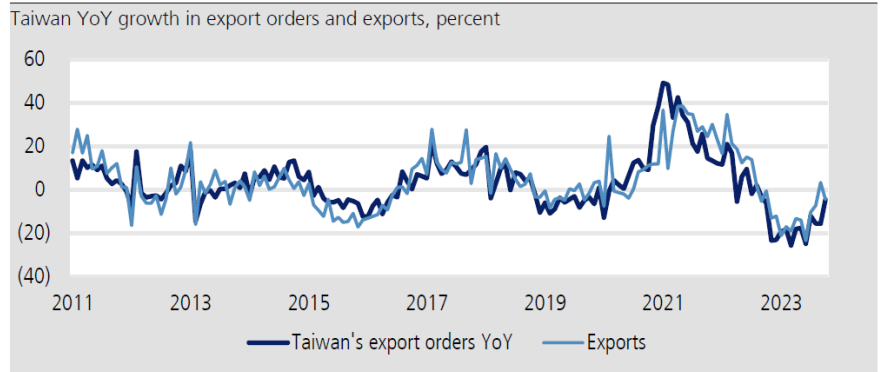
Among major products, ICT orders rose 6.4% MoM, but fell 5.2% YoY to US\$17.5bn in October, as end-market demand remained weak, leading to falling NB and networking orders. However, the contraction was partially offset by rising server and graphics card orders, a pattern also seen in previous months. October electronics orders decreased by only 0.3% YoY to US\$18.81bn, mainly due to anemic demand for end-products and continued inventory adjustments in supply chains, resulting in conservative order placement from clients and order contraction for PCB and OSAT. Orders for foundry and IC design edged up, partially offsetting this contraction. Optical instrument orders grew 13.8% YoY to US\$1.67bn, mainly as TV panel prices were higher than in October last year, while orders for optical lens also rose. The decline in raw materials orders moderated, with order contraction of the three major categories all arriving below 12% YoY. For base metals, demand contraction in steel led to conservative order placement from clients, but orders rose significantly MoM. Plastics/ rubber orders retreated by 6.9% YoY on sluggish demand, coupled with overseas competitors ramping up new capacity and cutting prices for inventory digestion. Chemicals orders fell 11.5% YoY in October, greater than the 10.1% decline last month. Contraction of machinery orders meaningfully narrowed, but still fell 12.8% YoY as manufacturers continued to reduce equipment investment due to a global economic slowdown (see Figures 2 & 3).

#### Among major regions, orders from Europe experienced the worst decline, while YoY growth of orders from ASEAN improved significantly, surpassing China for the first time

Orders from the US fell 1.4% YoY in October, with ICT down by US\$760mn, or 12% YoY, and electromechanical down by US\$180mn, or 25.6% YoY, for the biggest decline, albeit partially offset by higher electronics orders (up 13.3%). Orders from China and Hong Kong grew 1.2% YoY, primarily due to an expansion of ICT orders of US\$160mn, while electronics orders fell to US\$120mn, down 2.2% YoY, partially offsetting overall growth. Orders from Europe remained in the doldrums, falling 45.8% YoY, with ICT & electronics down the most at 50.8%. Orders from ASEAN and Japan were up 94.9% YoY and down 17.6% YoY, respectively (see Figures 4 & 5).

#### Outlook – Export orders to resume YoY growth at 4.2% in November, supporting a strong Taix performance

As expected, the contraction of October export orders YoY narrowed markedly on positive seasonality, as year-end selling season boosted export orders. Global manufacturing activities starting to bottom up is another key factor in the contraction. We stand by our view that we are seeing signs of a rebound in global manufacturing. The Taiwan household-based diffusion index is at 44.8 in November, while the order value-based diffusion index is at 48.8 (see Figure 6). We forecast Taiwan export orders will resume YoY growth in November at around 4.2% as orders declined significantly in 4Q22. At end-2Q23, we forecasted that export orders would have bottomed at end-2Q23 and would resume YoY growth in 4Q23F. These forecasts are borne out by current market conditions.

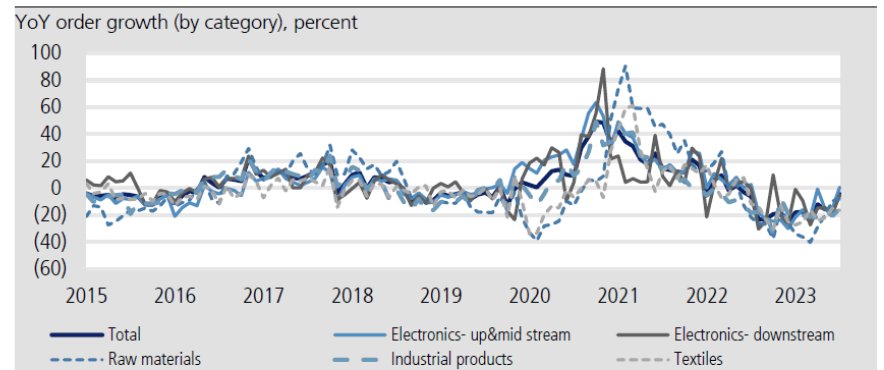
**Figure 1: October export orders down 4.6% YoY, close to our forecast of a 4% drop**


Source: Bloomberg; KGI Research

**Figure 2: Main order categories**

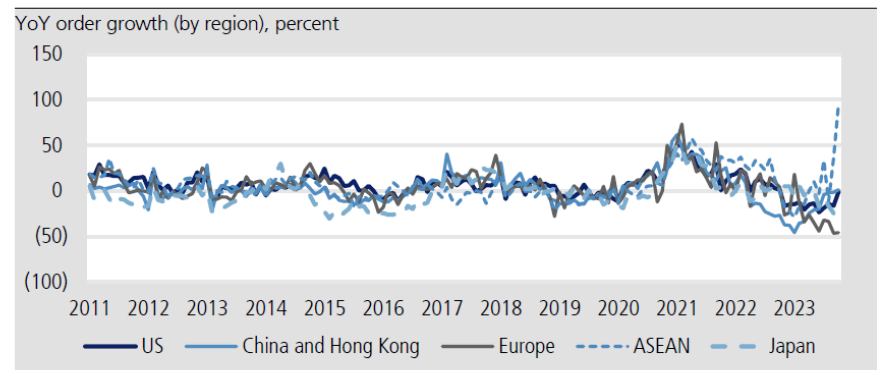
	Oct-23			From Jan-23 to Oct-23		
	Value (US\$bn)	MoM (%)	YoY (%)	Value (US\$bn)	Weighting (%)	YoY (%)
ICT	17.5	6.4	(5.2)	137.6	29.5	(13.4)
Electronics	18.8	9.3	(0.3)	157.1	33.7	(17.0)
Optics	1.7	(7.9)	13.8	15.9	3.4	(17.3)
Base metals	2.0	3.5	(5.4)	20.9	4.5	(23.9)
Machinery	1.5	(5.6)	(12.8)	16.0	3.4	(21.6)
Plastics/rubber	1.5	(2.2)	(6.9)	15.8	3.4	(27.9)
Chemicals	1.3	(10.9)	(11.5)	14.5	3.1	(28.3)
<b>Total</b>	<b>52.9</b>	<b>2.9</b>	<b>(4.6)</b>	<b>466.6</b>	<b>100.0</b>	<b>(17.3)</b>

Source: Bloomberg; KGI Research

**Figure 3: Order contraction of major products narrowed; electronics (midstream to upstream) outperformed**


Note: Midstream/upstream electronics comprises electronic products and optical apparatus; downstream electronics are information and communication categories; raw materials comprises chemicals, plastics/ rubber products, base metals and minerals; industrial products are machinery, electrical machinery products and transport equipment

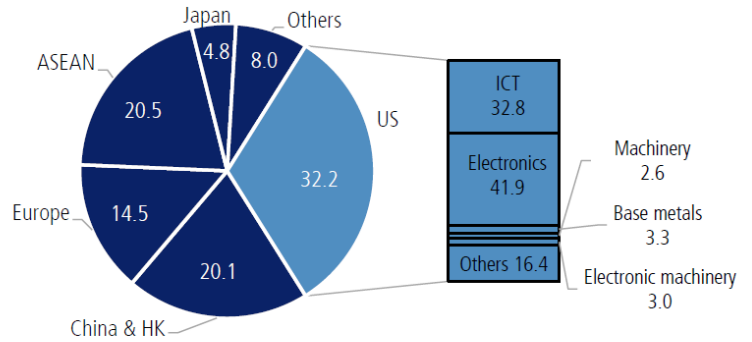
Source: Bloomberg; KGI Research

**Figure 4: Orders from Europe saw the biggest drop; YoY growth of orders from ASEAN improved by leaps & bounds**


Source: Bloomberg; KGI Research

**Figure 5: Order weighting of ASEAN rose meaningfully again (above 20%), even surpassing China**

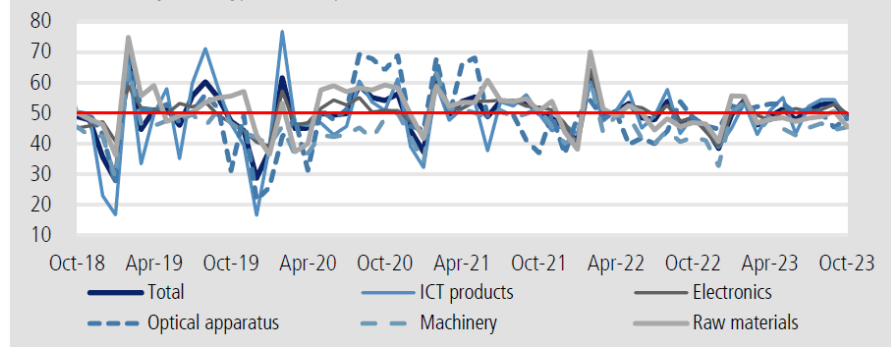
Order weighting (by region), percent



Source: Bloomberg; MOEA; KGI Research

**Figure 6: Diffusion index indicates MoM November export orders will fall slightly**

Diffusion index by order type (value), percent

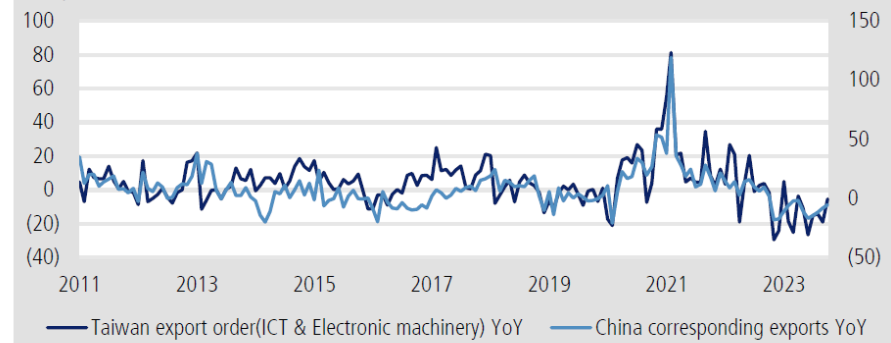


Note: Raw materials include chemicals, plastic/rubber products, base metals, and minerals

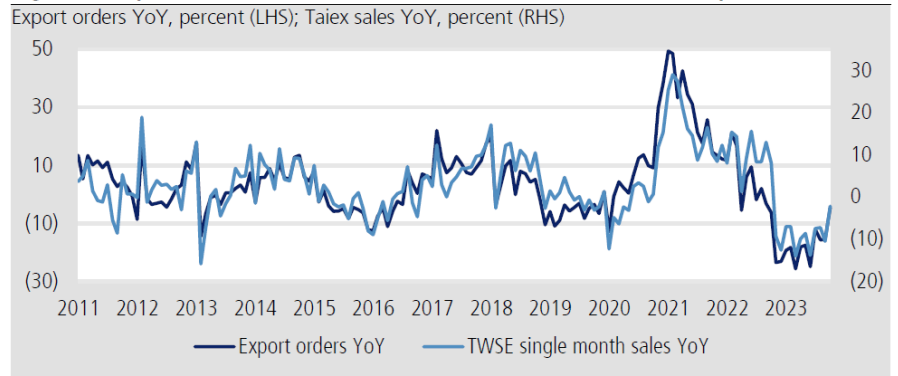
Source: Bloomberg; KGI Research

**Figure 7: China corresponding exports YoY contraction narrowed as YoY decline in orders for ICT & electronic machinery (higher overseas production ratio) narrowed noticeably in October**

Taiwan export orders (ICT & electronic machinery) YoY, percent (LHS); China corresponding exports YoY, percent (RHS)



Source: Bloomberg; KGI Research

**Figure 8: Export order rebound YoY in line with Taiex sales YoY uptrend**


Source: Bloomberg; KGI Research

**Figure 9: Major international political & economic events over next quarter**

Date	Major event	Possible effect
November/ December	The Third Plenary Session of the 20th Communist Party of China Central Committee	The market is focused on the Third Plenum for its economic reform focus. But with the current mindset of maintaining stability above all else, it may not be easy to introduce reforms or stimulus that are effective for the market
December	China central economic working conference	Setting the economic development plan and growth target for next year; we expect the economic growth target to remain at about 5%
December 12-13	Fed FOMC meeting	The current economic data indicates slowing economic growth and inflation. The FOMC dot plot shows that the interest rate target will be raised by 25bps by the end of the year, while the market believes that the rate hike has come to an end. The market also brings forward the timing of future interest rate cuts
December 14	ECB monetary policy meeting	May provide guidance for rate cutting conditions

Source: KGI Research

**Figure 10: Key economic data, US**

Indicators		Units	2020	2021	2022	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	
GDP	GDP QoQ SAAR	QoQ %, SAAR				2.6				2.2			2.1				4.9	
	GDP YoY	YoY %	(2.2)	5.8	1.9	0.7				1.7			2.4				2.9	
Consumer prices	CPI	YoY %	1.2	4.7	8.0	7.1	6.5	6.4	6.0	5.0	4.9	4.0	3.0	3.2	3.7	3.7	3.2	
	Core CPI	YoY %	1.7	3.6	6.2	6.0	5.7	5.6	5.5	5.6	5.5	5.3	4.8	4.7	4.3	4.1	4.0	
	PCE price index	YoY %	1.1	4.2	6.5	5.9	5.4	5.5	5.2	4.4	4.4	4.0	3.2	3.4	3.4	3.4	3.4	
	Core PCE index	YoY %	1.3	3.6	5.2	5.1	4.9	4.9	4.8	4.8	4.8	4.8	4.7	4.3	4.3	3.8	3.7	
Labor market	Labor force participation rate	%	61.5	62.0	62.3	62.2	62.3	62.4	62.5	62.6	62.6	62.6	62.6	62.6	62.8	62.8	62.8	62.7
	Unemployment rate	%	8.1	5.4	3.6	3.6	3.5	3.4	3.6	3.5	3.4	3.7	3.6	3.5	3.8	3.8	3.8	3.9
	Non farm payrolls	'000	(9,289)	7,267	4,793	290	239	472	248	217	217	281	105	236	165	297	150	
	Net Change In total employment in labor force	'000	(8,873)	6,120	4,793	(66)	717	894	177	577	139	(310)	273	268	222	86	(348)	
	Challenger job cut announce	YoY %	15.8	(1.2)	(1.7)	417	129	440	410	319	176	287	25	(8)	267	58	9	
	Opening/ hiring	x	1.07	1.57	1.74	1.72	1.80	1.67	1.62	1.61	1.69	1.54	1.54	1.53	1.62	1.63		
	Avg. hourly earnings	YoY %	5.5	5.0	4.8	5.0	4.8	4.4	4.7	4.3	4.4	4.3	4.4	4.3	4.3	4.3	4.3	4.1
Economic activity & business condition	Industrial production	YoY %	(7.2)	4.4	3.4	1.9	0.6	1.5	0.9	0.2	0.4	0.1	(0.4)	0.1	0.1	(0.2)	(0.7)	
	Durable goods orders	YoY %	(4.6)	18.4	8.3	3.0	4.7	2.3	0.2	4.6	2.7	7.5	9.0	2.9	3.0	5.9		
	Core capital goods orders	YoY %	(8.3)	12.8	6.5	3.2	1.0	5.6	2.7	1.9	1.0	3.2	1.4	0.4	0.6	0.5		
	Total business inventory/ sales ratio	x	1.44	1.29	1.34	1.38	1.39	1.37	1.38	1.40	1.40	1.40	1.40	1.39	1.37	1.36		
	Manufacturing inventory/ sales ratio	x	1.62	1.49	1.47	1.47	1.49	1.48	1.49	1.48	1.50	1.49	1.48	1.47	1.46	1.46		
	Retail inventory/ sales ratio	x	1.34	1.15	1.24	1.27	1.30	1.27	1.28	1.30	1.29	1.30	1.30	1.30	1.30	1.31		
	ISM manufacturing index	Point	52.4	60.7	53.5	49.0	48.4	47.4	47.7	46.3	47.1	46.9	46.0	46.4	47.6	49.0	46.7	
	ISM non-manufacturing index	Point	54.3	62.4	56.1	55.5	49.2	55.2	55.1	51.2	51.9	50.3	53.9	52.7	54.5	53.6	51.8	
	ISM manufacturing index: new orders	Point	53.9	64.3	51.6	46.8	45.1	42.5	47.0	44.3	45.7	42.6	45.6	47.3	46.8	49.2	45.5	
	Chicago Fed National activity Index	Point	(0.46)	0.40	(0.02)	(0.55)	(0.44)	0.40	(0.29)	(0.50)	0.08	(0.18)	(0.40)	0.20	(0.22)	0.02		
	Conference board leading index	YoY %	(4.6)	6.6	0.9	(4.6)	(6.0)	(6.0)	(6.8)	(7.9)	(8.1)	(7.9)	(7.8)	(7.5)	(7.7)	(7.8)		
	C&I Loans for large/medium - tightening lending standard	%	37.6	(15.1)	11.8			44.8				46.0			50.8			33.9
	C&I Loans for large/medium - stronger demand	%	(15.5)	(1.2)	12.4			(31.3)				(55.6)			(51.6)			(30.5)
Housing market	Building Permits	'000, SAAR	1,479	1,740	1,666	1,402	1,409	1,354	1,482	1,437	1,417	1,496	1,441	1,443	1,541	1,471	1,487	
	Housing starts	'000, SAAR	1,397	1,606	1,551	1,427	1,357	1,340	1,436	1,380	1,348	1,583	1,418	1,451	1,305	1,346	1,372	
	New home sales	'000, SAAR	833	769	637	582	636	649	625	640	679	710	683	736	676	759		
	Existing home sales	mn, SAAR	5.6	6.1	5.1	4.1	4.0	4.0	4.6	4.4	4.3	4.3	4.2	4.1	4.0	4.0		
	NAHB housing market index	Point, SA	70	81	59	33	31	35	42	44	45	50	55	56	50	44	40	
	S&P/Case-Shiller 20-city composite home price index	YoY %	10.3	18.6	4.9	7.0	4.9	2.8	0.6	(1.1)	(1.7)	(1.8)	(1.2)	0.1	2.2			
Consumption	Personal expenditures	YoY %, SA	(2.5)	8.4	2.5	0.9	1.3	2.3	2.3	1.7	1.6	1.8	2.1	2.6	2.3	2.4		
	Retail sales	YoY %	0.9	18.2	9.7	6.1	6.0	7.4	5.3	2.2	1.3	2.1	1.5	2.8	2.8	4.1	2.5	
	Retail sales ex-autos	YoY %	1.7	17.2	11.3	7.4	7.2	8.4	6.4	2.5	1.6	1.4	0.5	1.7	2.4	3.5	2.3	
	Domestic vehicles sales	mn, SA	173.0	179.2	164.8	14.1	13.3	15.7	14.9	14.8	15.9	15.1	15.7	15.7	15.0	15.7	15.5	
	Conference board consumer confidence	Point	101.0	112.7	104.5	101.4	109.0	106.0	103.4	104.0	103.7	102.5	110.1	114.0	108.7	104.3	102.6	
	Michigan Consumer Sentiment Index	Point	81.5	77.6	59.0	56.7	59.8	64.9	66.9	62.0	63.7	59.0	64.2	71.5	69.4	67.9	63.8	
Fiscal	Budget balance	As % of GDP	(15.2)	(10.5)	(5.4)	(5.1)	(5.4)	(5.9)	(6.1)	(6.7)	(7.2)	(7.8)	(8.3)	(8.4)	(5.6)	(6.3)	(6.1)	
	Current account balance	As % of GDP	(2.8)	(3.5)	(3.8)		(3.7)			(3.4)			(3.2)					
Int'l balance	Net foreign securities transactions	US \$bn	505	907	1,321	171.5	152.8	30.8	81.6	196.0	127.2	19.3	186.1	9.5	62.2	(1.7)		
Monetary & financial	Federal funds rate	%	0.25	0.25	4.50	4.00	4.50	4.50	4.75	5.00	5.00	5.25	5.25	5.50	5.50	5.50	5.50	
	10-Year treasury yield	%	0.91	1.51	3.87	3.61	3.87	3.51	3.92	3.47	3.42	3.64	3.84	3.96	4.11	4.57	4.93	
	Dollar index	Point	89.9	95.7	103.5	106.0	103.5	102.1	104.9	102.5	101.7	104.3	102.9	101.9	103.6	106.2	106.7	

Source: Bloomberg; KGI Research

Figure 11: Key economic data, Taiwan

Indicators	Units	2020	2021	2022	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	
GDP	GDP YoY	YoY %	3.4	6.5	2.4		(0.8)										
Consumer prices	CPI	YoY %	(0.2)	2.0	3.0	2.4	2.7	3.1	2.4	2.4	2.0	1.8	1.9	2.5	2.9	3.1	
	Core CPI	YoY %	0.7	1.9	2.7	2.9	2.7	3.0	2.6	2.6	2.7	2.6	2.7	2.6	2.5	2.5	
Labor market	Unemployment rate	%	3.7	3.7	3.6	3.6	3.6	3.6	3.6	3.6	3.5	3.5	3.4	3.4	3.4		
Economic activity	Industrial production	YoY %	8.8	14.7	(1.7)	(9.2)	(11.5)	(23.6)	(10.0)	(16.0)	(22.6)	(15.7)	(17.3)	(15.5)	(10.8)	(6.7)	
	Markit Taiwan manufacturing PMI	Point		58.5	47.7	41.6	44.6	44.3	49.0	48.6	47.1	44.3	44.8	44.1	44.3	46.4	47.6
	NDC monitoring light signal					Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Blue	Yellow-blue	
	NDC monitoring indicators	Point	24.3	39.0	24.2	12.0	12.0	11.0	10.0	11.0	11.0	12.0	13.0	15.0	15.0	17.0	
	NDC composite leading index	YoY %	(0.5)	4.6	(3.0)	(7.1)	(6.8)	(6.2)	(5.6)	(5.3)	(4.9)	(4.5)	(4.1)	(3.9)	(4.0)	(4.4)	
	NDC composite coincident index	YoY %	(0.7)	7.1	(1.1)	(9.9)	(11.9)	(13.5)	(14.4)	(14.6)	(14.3)	(13.3)	(11.8)	(9.9)	(7.6)	(5.1)	
Consumption	Retail sales	YoY %	0.2	3.3	7.4	1.8	9.4	4.3	4.6	7.6	7.5	17.1	13.9	5.3	4.3	6.0	
Trade	Exports	US\$bn	345.2	446.6	479.7	36.1	35.8	31.5	31.1	35.2	36.0	36.1	32.3	38.7	37.4	38.8	38.1
	Imports	US\$bn	285.8	381.3	428.1	32.7	31.0	29.2	28.7	31.0	29.3	31.3	26.4	30.3	28.8	28.5	32.3
	Trade balance	US\$bn	59.4	65.3	51.6	3.4	4.8	2.3	2.4	4.2	6.7	4.9	6.0	8.5	8.6	10.3	5.8
	Export growth	YoY %	4.9	29.4	7.4	(13.1)	(12.2)	(21.2)	(17.1)	(19.1)	(13.3)	(14.1)	(23.4)	(10.4)	(7.3)	3.4	(4.5)
	Import growth	YoY %	0.1	33.4	12.3	(9.2)	(11.7)	(16.8)	(9.5)	(20.1)	(20.3)	(21.8)	(30.1)	(21.0)	(23.0)	(12.2)	(12.3)
	Export orders	US\$bn	533.7	674.1	666.8	50.1	52.2	47.5	42.1	46.6	42.5	45.7	44.2	47.7	46.0	51.4	53
	Export order growth	YoY %	10.1	26.3	(1.1)	(23.5)	(23.2)	(19.3)	(18.3)	(25.7)	(18.1)	(17.6)	(24.9)	(12.0)	(15.7)	(15.6)	(4.6)
Monetary & financial	M1B	YoY %	16.2	12.8	4.1	4.4	4.1	2.7	2.0	2.0	2.7	3.3	2.4	3.7	2.9	2.8	
	M2	YoY %	8.5	8.0	7.1	7.4	7.1	6.7	6.8	6.6	6.7	6.6	5.9	6.9	6.5	6.0	
	Foreign reserves	US\$bn	529.9	548.4	554.9	552.2	554.9	557.1	558.4	560.3	561.1	562.9	564.8	566.5	565.5	564.0	561.1
	Rediscount rate	%	1.1	1.1	1.8	1.6	1.8	1.8	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
	Exchange rate	USD/TWD	28.3	27.7	30.7	30.9	30.7	30.0	30.5	30.5	30.7	30.8	31.1	31.4	31.9	32.3	32.4

Source: Bloomberg; KGI Research

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