

January export orders

Export orders to decline by 5% in February; YoY growth to rebound more markedly in 2Q24F

Key message

1. January export orders were up 1.9% YoY due to base effects. Electronics downstream underperformed midstream & upstream, while orders of raw materials, which saw decent growth, benefited more from the base effect.
2. Orders from China were tail-winded by a lower comparison base; the effect of orders transferring to ASEAN from Europe sustains
3. We expect export orders to decline by 5% in February, and YoY growth to rebound more markedly in 2Q24F.

January export orders up 1.9% YoY due to base effects

Taiwan export orders totaled US\$48.42bn in January, up 10.5% MoM, up 18.3% when seasonally-adjusted, and up 1.9% YoY, far above consensus of a 16% YoY decline (see Figure 1). YoY growth was significantly higher than expected on a low base comparison, as CNY started in January in 2023. Hence, a more precise YoY growth trend projection will be possible after February figures are announced, coupled with the consolidated January-February figures.

Electronics downstream underperformed midstream & upstream; orders of raw materials, which saw decent growth, benefited more from the base effect

Among major products, ICT orders grew 13.3% MoM, but were down 19.3% YoY to US\$13.91bn in January, on China's relaxation of its zero-COVID policy in the same period in 2023, elevating the comparison base. Orders for handsets and NB declined. Overall ICT orders were weak, but higher orders for server and graphic cards partially offset the decline. January electronics sales edged up by 16.1% YoY to US\$17.54bn, as HPC and AI demand held strong, so orders for wafer distributors, IC design, foundries and PCB thus increased. Optical instrument orders were up by 24% YoY to US\$1.58b, as the sector troughed one year ago. Prices of TV panels held at a high level, and there were increasing orders for backlight modules and optical lenses. Orders for raw materials, except chemicals, grew by more than 25%, as the sector also bottomed one year ago. Base metal orders were up 26.2% YoY due to CNY-led earlier shipments, coupled with steel price hikes and a low comparison base. Plastics and rubber orders also trended up by 25.5%, on earlier pull-in from downstream processing clients and a low comparison base. Chemicals orders only rose by 6.8%. Machinery orders climbed by 9.5% YoY, mainly on rising automation equipment orders and a lower comparison base (see Figures 2 & 3).

Orders from China were tail-winded by a lower comparison base; effect of orders transferring to ASEAN from Europe continues

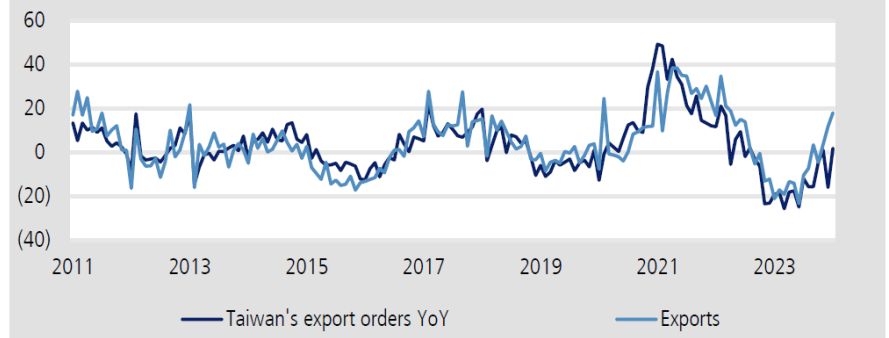
Orders from the US rose 2.7% YoY in January, with electronics exports up the most, by 19.8% to US\$1.05bn, followed by base metal orders, up by 46.2%, to US\$210mn. Orders from China and Hong Kong trended up by 28% YoY, with electronics up the most, by 32.9% to US\$1.43bn. Orders from Europe saw the worst performance, down 50% YoY, with ICT down the most at 64.2% YoY. Orders from the ASEAN and Japan were respectively up by 117.9% and down by 21.2% YoY (see Figures 4 & 5). Generally speaking, the trend of orders shifting to the ASEAN from Europe remains apparent.

Outlook – Export orders to decline by 5% in February; YoY growth to rebound more markedly in 2Q24F

January export orders were above expectations due mainly to the base effect. The figures would have retreated by 20% if the CNY holiday breaks had been aligned. The Taiwan household-based diffusion index is at 33.8 in February, while the order value-based diffusion index is at 35.8, both well below 50 (see Figure 6). We believe export orders will decline by 5% in February, leading to January-February consolidated YoY growth arriving at slightly under or at zero. As we believe significant YoY growth will emerge in 2Q24F, we maintain our forecast of 2024F export orders to grow by mid-to-high single digits.

Figure 1: January export orders were up 16.0% YoY due to the base effect

Taiwan YoY growth of export orders & exports, percent



Source: Bloomberg; KGI Research

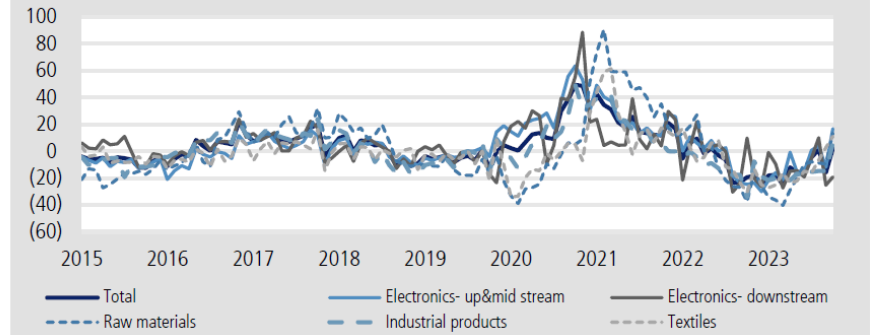
Figure 2: Main order categories

	Jan-24			From Jan-24 to Jan-24		
	Value (US\$bn)	MoM (%)	YoY (%)	Value (US\$bn)	Weighting (%)	YoY (%)
ICT	13.9	13.3	(19.3)	13.9	28.7	(19.3)
Electronics	17.4	16.9	16.1	17.4	36.0	16.1
Optics	1.6	(1.6)	24.0	1.6	3.3	24.0
Base metals	2.3	5.9	26.2	2.3	4.7	26.2
Machinery	1.6	(2.0)	9.5	1.6	3.3	9.5
Plastics/rubber	1.7	10.2	25.5	1.7	3.4	25.5
Chemicals	1.5	2.7	6.8	1.5	3.1	6.8
Total	48.4	10.5	1.9	48.4	100.0	1.9

Source: Bloomberg; KGI Research

Figure 3: Electronics downstream underperformed midstream & upstream; growth in orders of raw materials benefited more from the base effect

YoY order growth (by category), percent

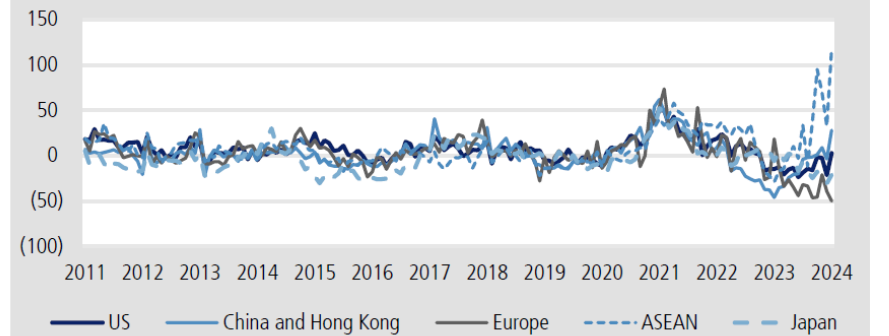


Note: Midstream/ upstream electronics comprises electronic products and optical apparatus; downstream electronics are information and communication categories; raw materials comprises chemicals, plastics/ rubber products, base metals and minerals; industrial products are machinery, electrical machinery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

Source: Bloomberg; KGI Research

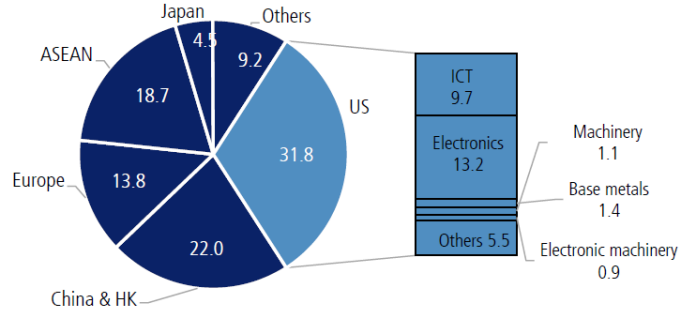
Figure 4: Orders from China were boosted by the base effect; the trend of orders shifting to the ASEAN from Europe has been sustained

YoY order growth (by region), percent



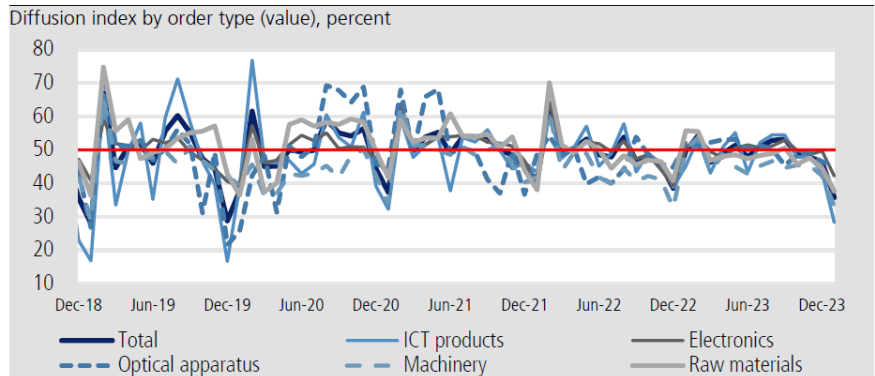
Source: Bloomberg; KGI Research

Figure 5: Order weighting of Europe narrowed, while ASEAN continued to trend up
Order weighting (by region), percent



Source: Bloomberg; MOEA; KGI Research

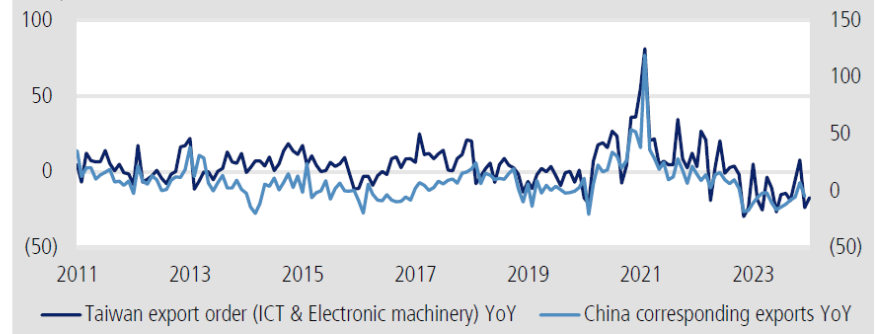
Figure 6: Diffusion index indicates February export orders will fall slightly MoM on the base effect



Note: Raw materials include chemicals, plastic/rubber products, base metals, and minerals
Source: Bloomberg; KGI Research

Figure 7: ICT & electronic machinery, which have a high proportion of overseas production, slightly recovered MoM in January

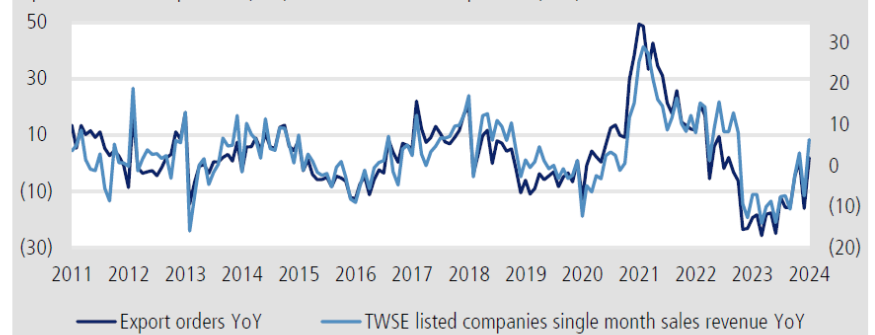
Taiwan export orders (ICT & electronic machinery) YoY, percent (LHS); China corresponding exports YoY, percent (RHS)



Source: Bloomberg; KGI Research

Figure 8: Export orders YoY growth picked up, in line with YoY Taiex revenue rebound

Export orders YoY, percent (LHS); Taiex revenue YoY, percent (RHS)



Source: Bloomberg; KGI Research

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

Date	Major event	Possible effect
March	China's Two Sessions	The tone of "maintaining stability" is expected to be repeated; more implementation details will be revealed
March 5	US presidential primaries Super Tuesday	The presidential candidates of both parties can be basically determined, and market uncertainties will ease, as will risk premium
March 19-20	Fed FOMC Meeting	The Fed may announce that quantitative tightening will be reduced in 2Q, which would prompt bullishness in the market

Source: KGI Research

Figure 10: Key economic data, US

Indicators	Units	2020	2021	2022	2023	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24				
GDP	GDP QoQ SAAR	QoQ % SAAR				2.2	2.1											3.3			
	GDP YoY	YoY %				(2.2)	5.8	1.9	2.5	1.7											3.1
Consumer prices	CPI	YoY %				1.2	4.7	8.0	4.1	6.0	5.0	4.9	4.0	3.0	3.2	3.7	3.7	3.1	3.4	3.1	
	Core CPI	YoY %				1.7	3.6	6.2	4.8	5.5	5.6	5.5	5.3	4.8	4.7	4.3	4.1	4.0	4.0	3.9	3.9
	PCE price index	YoY %				1.1	4.2	6.5	3.7	5.2	4.4	4.4	4.0	3.2	3.3	3.4	2.9	2.6	2.6		
	Core PCE index	YoY %				1.3	3.6	5.2	4.1	4.8	4.8	4.8	4.7	4.3	4.2	3.7	3.6	3.4	3.2	2.9	
Labor market	Labor force participation rate	%				61.5	62.0	62.3	62.5	62.5	62.6	62.6	62.6	62.8	62.8	62.7	62.8	62.5	62.5		
	Unemployment rate	%				8.1	5.4	3.6	3.6	3.6	3.5	3.4	3.7	3.6	3.8	3.8	3.7	3.7	3.7		
	Non farm payrolls	'000				(9,274)	7,245	4,528	3,056	287	146	278	303	240	184	210	246	165	182	333	353
	Net Change In total employment in labor force	'000				(8,856)	6,135	4,528	3,056	149	523	138	(255)	297	205	291	50	(270)	586	(683)	(31)
	Challenger job cut announce	YoY %				15.8	(1.2)	(1.7)	2.1	410	319	176	287	25	(8)	267	58	9	(41)	(20)	(20)
	Opening/ hiring	x				1.07	1.57	1.74	1.60	1.62	1.61	1.69	1.54	1.54	1.62	1.58	1.52	1.61	1.61		
Avg. hourly earnings	YoY %				5.4	5.0	4.9	4.3	4.7	4.6	4.7	4.6	4.7	4.7	4.5	4.5	4.3	4.3	4.3	4.5	
Economic activity & business condition	Industrial production	YoY %				(7.2)	4.4	3.4	0.2	0.9	0.2	0.4	0.1	(0.4)	0.1	(0.1)	(0.3)	(1.0)	(0.4)	1.2	0.0
	Durable goods orders	YoY %				(4.6)	18.4	8.3	4.5	0.2	4.6	2.7	7.5	9.0	2.9	3.0	5.9	0.7	10.0	3.6	
	Core capital goods orders	YoY %				(8.3)	12.8	6.5	1.7	2.7	1.9	1.0	3.2	1.4	0.4	0.6	0.5	0.8	1.4	0.9	
	Total business inventory/ sales ratio	x				1.44	1.29	1.34	1.38	1.38	1.40	1.40	1.40	1.40	1.39	1.37	1.36	1.37	1.37	1.37	
	Manufacturing inventory/ sales ratio	x				1.62	1.49	1.47	1.48	1.49	1.48	1.50	1.49	1.48	1.47	1.46	1.46	1.48	1.48	1.48	
	Retail inventory/ sales ratio	x				1.34	1.15	1.24	1.30	1.28	1.30	1.29	1.30	1.30	1.30	1.30	1.30	1.30	1.31	1.31	
	ISM manufacturing index	Point				52.4	60.6	53.5	47.1	47.7	46.5	47.0	46.6	46.4	46.5	47.6	48.6	46.9	46.6	47.1	49.1
	ISM non-manufacturing index	Point				54.3	62.4	56.1	52.8	55.0	51.2	52.3	51.0	53.6	52.8	54.1	53.4	51.9	52.5	50.5	53.4
	ISM manufacturing index: new orders	Point				53.9	64.3	51.6	46.0	47.0	44.6	45.5	42.9	45.7	47.0	46.4	48.6	46.2	47.8	47.0	52.5
	Chicago Fed National activity index	Point				(0.46)	0.40	(0.03)	(0.12)	(0.28)	(0.53)	0.11	(0.16)	(0.41)	0.17	(0.25)	(0.03)	(0.65)	0.21	0.02	(0.30)
	Conference board leading index	YoY %				(4.7)	7.1	0.4	(7.7)	(7.0)	(8.0)	(8.3)	(8.2)	(8.1)	(7.8)	(7.9)	(8.1)	(8.1)	(7.6)	(7.1)	(7.0)
	C&I Loans for large/medium - tightening lending standard	%				37.6	(15.1)	11.8	43.9			46.0			50.8		33.9			14.5	
C&I Loans for large/medium - stronger demand	%				(15.5)	(1.2)	12.4	(42.3)			(55.6)			(51.6)		(30.5)			(25.0)		
Housing market	Building Permits	'000, SAAR				1,479	1,740	1,666	1,462	1,482	1,437	1,417	1,496	1,441	1,443	1,541	1,471	1,498	1,467	1,493	1,489
	Housing starts	'000, SAAR				1,397	1,606	1,551	1,422	1,436	1,380	1,348	1,583	1,418	1,451	1,305	1,356	1,376	1,512	1,562	1,331
	New home sales	'000, SAAR				833	769	637	667	625	640	679	710	683	728	654	698	676	615	651	661
	Existing home sales	mn, SAAR				5.6	6.1	5.1	4.1	4.5	4.4	4.2	4.2	4.1	4.1	4.0	4.0	3.9	3.9	3.9	4.0
	NAHB housing market index	Point, SA				70	81	59	44	42	44	45	50	55	56	50	44	40	34	37	44
S&P/Case-Shiller 20-city composite home price index	YoY %				10.3	18.6	4.8		0.6	(1.0)	(1.7)	(1.8)	(1.2)	0.1	2.2	4.0	4.9	5.5			
Consumption	Personal expenditures	YoY % SA				(2.5)	8.4	2.5	2.2	2.3	1.7	1.6	1.8	2.1	2.5	2.0	2.1	1.9	2.7	3.2	
	Retail sales	YoY %				0.9	18.2	9.7	3.4	5.3	2.2	1.3	2.1	1.5	2.8	2.8	4.0	2.2	3.6	5.3	0.6
	Retail sales ex-autos	YoY %				1.7	17.2	11.3	3.1	6.4	2.5	1.6	1.4	0.5	1.7	2.4	3.4	2.0	3.1	4.4	1.2
	Domestic vehicles sales	mn, SA				173.0	179.2	164.8	185.2	14.9	14.8	15.9	15.1	15.7	15.7	15.0	15.7	15.5	15.3	15.8	15.0
	Conference board consumer confidence	Point				101.0	112.7	104.5	105.4	103.4	104.0	103.7	102.5	110.1	114.0	108.7	104.3	99.1	101.0	108.0	114.8
	Michigan Consumer Sentiment Index	Point				81.5	77.6	59.0	65.4	66.9	62.0	63.7	59.0	64.2	71.5	69.4	67.9	63.8	61.3	69.7	79.0
Fiscal	Budget balance	As % of GDP				(15.2)	(10.5)	(5.4)	(6.5)	(6.1)	(6.7)	(7.2)	(7.8)	(8.3)	(8.4)	(5.6)	(6.3)	(5.2)	(6.3)	(6.5)	(6.3)
	Current account balance	As % of GDP				(2.8)	(3.5)	(3.8)			(3.4)			(3.2)		(3.1)					
Int'l balance	Net foreign securities transactions	US \$bn				505	907	1,321	1,029	151.0	174.3	103.1	17.6	192.0	14.2	92.6	17.4	(24.1)	99.7	160.2	
	Federal funds rate	%				0.25	0.25	4.50	5.50	4.75	5.00	5.00	5.25	5.25	5.50	5.50	5.50	5.50	5.50	5.50	5.50
Monetary & financial	10-Year treasury yield	%				0.91	1.51	3.87	3.88	3.92	3.47	3.42	3.64	3.84	3.96	4.11	4.57	4.93	4.33	3.88	3.91
	Dollar index	Point				89.9	95.7	103.5	101.3	104.9	102.5	101.7	104.3	102.9	101.9	103.6	106.2	106.7	103.5	101.3	103.3

Source: Bloomberg; KGI Research

Figure 11: Key economic data, Taiwan

Indicators		Units	2020	2021	2022	2023	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
GDP	GDP YoY	YoY %	3.4	6.6	2.6	1.4		(3.5)			1.4			2.3				5.1
Consumer prices	CPI	YoY %	(0.2)	2.0	3.0	2.5	2.4	2.4	2.4	2.0	1.8	1.9	2.5	2.9	3.0	2.9	2.7	1.8
	Core CPI	YoY %	0.7	1.9	2.7	2.4	2.6	2.6	2.7	2.6	2.6	2.7	2.6	2.5	2.5	2.4	2.4	1.6
Labor market	Unemployment rate	%	3.7	3.7	3.6	3.4	3.6	3.6	3.6	3.5	3.5	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Economic activity	Industrial production	YoY %	8.8	14.7	(1.7)	(12.4)	(10.0)	(16.0)	(22.6)	(15.7)	(17.3)	(15.5)	(10.8)	(6.9)	(2.3)	(2.1)	(4.0)	
	Market Taiwan manufacturing PMI	Point			47.7	46.3	49.0	48.6	47.1	44.3	44.8	44.1	44.3	46.4	47.6	48.3	47.1	48.8
	NDC monitoring light signal						Blue	Blue	Blue	Blue	Blue	Blue	Blue	Yellow-blue	Blue	Yellow-blue	Yellow-blue	
	NDC monitoring indicators	Point	24.3	39.0	24.2	14.3	10.0	11.0	11.0	12.0	13.0	15.0	15.0	17.0	16.0	20.0	20.0	
	NDC composite leading index	YoY %	(0.5)	4.6	(2.8)	(1.0)	(5.4)	(5.1)	(4.7)	(4.3)	(3.9)	(3.5)	(3.3)	(3.2)	(3.2)	(3.3)	(3.5)	
	NDC composite coincident index	YoY %	(0.7)	7.1	(1.1)	(6.1)	(14.2)	(14.5)	(14.0)	(13.1)	(11.6)	(9.8)	(7.7)	(5.4)	(3.2)	(1.0)	1.0	
Consumption	Retail sales	YoY %	0.2	3.3	7.4	6.9	4.6	7.6	7.5	17.1	13.9	5.3	4.3	6.9	5.1	7.2	1.1	
Trade	Exports	US\$bn	345.2	446.6	479.7	432.6	31.1	35.2	36.0	36.1	32.3	38.7	37.4	38.8	38.1	37.5	39.9	37.2
	Imports	US\$bn	285.8	381.3	428.1	352.1	28.7	31.0	29.3	31.3	26.4	30.3	28.8	28.5	32.3	27.7	28.8	34.7
	Trade balance	US\$bn	59.4	65.3	51.6	80.5	2.4	4.2	6.7	4.9	6.0	8.5	8.6	10.3	5.8	9.8	11.1	2.5
	Export growth	YoY %	4.9	29.4	7.4	(9.8)	(17.1)	(19.1)	(13.3)	(14.1)	(23.4)	(10.4)	(7.3)	3.4	(4.5)	3.7	11.8	18.1
	Import growth	YoY %	0.1	33.4	12.3	(17.8)	(9.5)	(20.1)	(20.3)	(21.8)	(30.1)	(21.0)	(23.0)	(12.2)	(12.4)	(15.0)	(6.5)	19.0
	Export orders	US\$bn	533.7	674.1	666.8	561.0	42.1	46.6	42.5	45.7	44.2	47.7	46.0	51.4	52.9	50.6	43.8	
	Export order growth	YoY %	10.1	26.3	(1.1)	(15.9)	(18.3)	(25.7)	(18.1)	(17.6)	(24.9)	(12.0)	(15.7)	(15.6)	(4.6)	1.0	(16.0)	
Monetary & financial	M1B	YoY %	16.2	12.8	4.1	3.1	2.0	2.0	2.7	3.3	2.4	3.7	2.9	2.8	3.3	3.0	3.1	
	M2	YoY %	8.5	8.0	7.1	5.3	6.8	6.6	6.7	6.6	5.9	6.9	6.5	6.0	5.7	5.3	5.3	
	Foreign reserves	US\$bn	529.9	548.4	554.9	570.6	558.4	560.3	561.1	562.9	564.8	566.5	565.5	564.0	561.1	567.5	570.6	569.5
	Rediscount rate	%	1.1	1.1	1.8	1.9	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
	Exchange rate	USD/TWD	28.5	27.7	30.7	30.7	30.5	30.5	30.7	30.8	31.1	31.4	31.9	32.3	32.4	31.3	30.7	31.3

Source: Bloomberg; KGI Research

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