

Taiwan strategy

China-themed stocks up on market rescue measures

Key message

1. September export orders were up by 4.6% YoY, missing consensus of 5.6% YoY growth, but beating our forecast.
2. Electronic orders outperformed on favorable seasonality, while orders for raw material products slumped. By region, orders from the US, Japan and ASEAN outperformed, while orders from Europe and China faltered.
3. We forecast export orders to rise by 3.6% YoY in October, and more positives in ICT, electronics, machinery and base metal sectors. The corresponding Taix sectors outperformers are the computer peripherals, communications networks, electronic components, semiconductor, machinery, steel and chemicals sectors.

Event

Taiwan export orders totaled US\$53.79bn in September, up by 7.1% MoM, but down by 3.5% MoM when seasonally-adjusted, and grew by 4.6% YoY, missing consensus of 5.6% YoY growth, but beating our forecast of 0.5% YoY growth (see Figure 1).

Analysis

Among major products, ICT orders were up by 24.4% MoM and 7.0% YoY to US\$17.60bn in September, on robust demand for AI applications and from the cloud industry, resulting in stronger server orders. The stellar growth was partially offset by reduced order inflows for new handsets. Electronics orders climbed 6.5% MoM and 10.5% YoY to US\$19.01bn, as demand for high-power computing (HPC) and AI remained robust, resulting in more orders for IC manufacturers and operators of distribution channels. Optical instrument orders rose by 3.3% YoY to US\$1.88bn, on increased demand for optical inspection and measuring equipment, as the result of new semiconductor capacities coming on stream. However, orders for backlight modules declined, eroding part of the sales growth. Orders for raw materials were muted across the board, with base metals being the best performing subsector, with 4.3% YoY growth but down 1.6% MoM in September orders, which were mainly for certain steel and other metal products. However, orders for steel coil and plate continued to slip, partially offsetting base metal order growth. Plastics and rubber orders fell 1.1% YoY, as orders to Taiwan upstream petrochemicals suppliers were impacted by new capacity ramp-ups by overseas competitors. However, orders for a handful of rubber products picked up, partially offsetting the order decline. Orders for chemicals sank 8.5% YoY, due to crude oil price falls and new capacity ramp-ups by overseas competitors. Machinery orders were up by 3.6% YoY, on aggressive capacity expansion by semiconductor makers, spurring demand for semiconductor equipment and growing orders for automation equipment, despite receding demand for machine tools (Figures 2 & 3).

Export orders from the US rose 8.3% YoY in September, with electronics up the most, by 24.9%, or US\$1.52bn. Orders from China and Hong Kong fell 3.6% YoY, with electronics down the most, by 4.3%, or US\$260mn. Orders from Europe decreased by 4.2% YoY, with orders for ICT products down the most, by 4.3% YoY. Orders from the ASEAN and Japan were up by 13.4% YoY and 9.8% YoY, respectively (see Figures 4 & 5).

Conclusion

In September, Taiwan export orders were lower than expected, but orders for electronics products were solid on favorable seasonality, contrary to some investors' negative views. Demand for raw materials was anemic overall, but machinery orders rebounded on robust demand for semiconductor equipment, despite weakness in the machine tool subsector. The corporate number-based diffusion index is at 47.1 in October, while the order value-based diffusion index is at 51.3 (see Figure 6). We estimate export orders will rise by 3.6% YoY in October on a high base. Judging by individual diffusion indices, ICT, electronics, machinery and base metal products will outperform, along with the corresponding Taix sectors of computer peripherals, communications networks, electronic components, semiconductor, machinery, steel and chemicals.

Figure 1: September export orders grew 4.6% YoY, missing consensus of 5.6% YoY

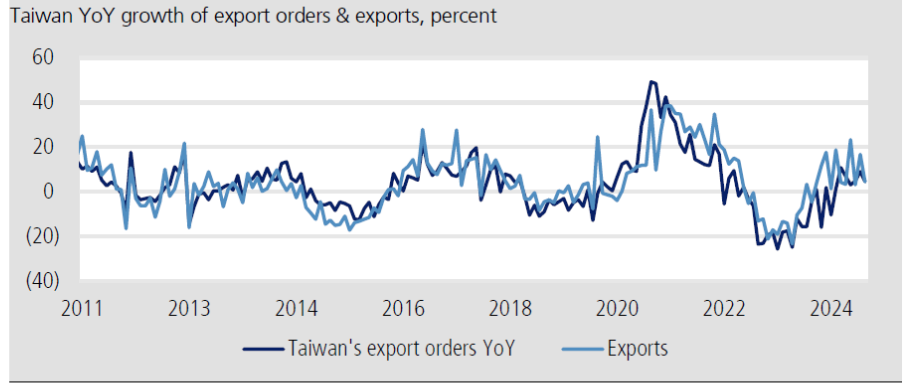
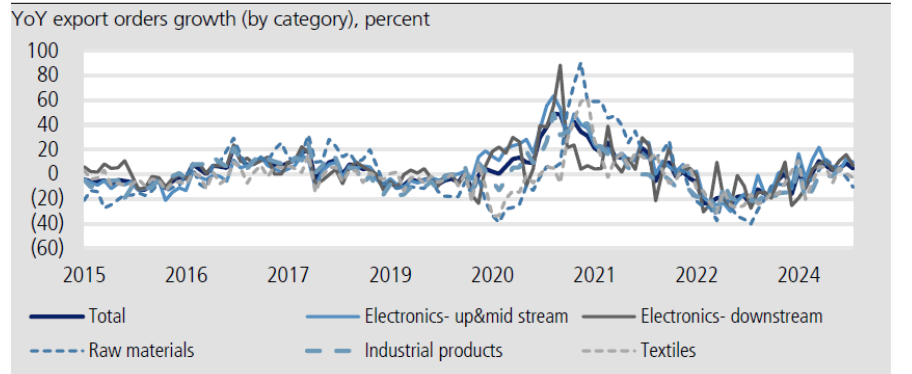


Figure 2: Main export order categories

	Sep-24			From Jan-24 to Sep-24		
	Value (US\$bn)	MoM (%)	YoY (%)	Value (US\$bn)	Weighting (%)	YoY (%)
ICT	17.6	24.4	7.0	123.4	28.8	2.8
Electronics	19.0	6.5	10.5	151.6	35.4	9.7
Optics	1.9	(0.8)	3.3	15.5	3.6	8.9
Base metals	2.0	(1.6)	4.3	19.0	4.4	0.8
Machinery	1.6	(3.4)	3.6	14.5	3.4	(0.4)
Plastics/rubber	1.5	(6.8)	(1.1)	14.4	3.4	1.1
Chemicals	1.4	(12.0)	(8.5)	13.7	3.2	3.6
Total	53.8	7.1	4.6	428.9	100.0	3.7

Source: Bloomberg; KGI Research

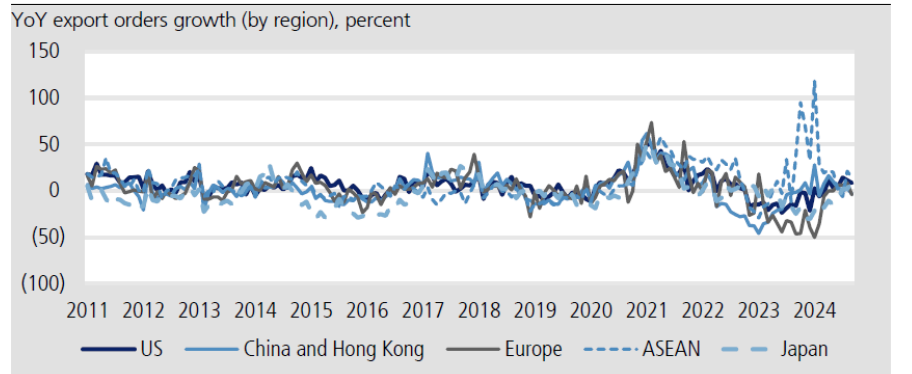
Figure 3: YoY growth of electronics export orders outperformed on favorable seasonality, but raw materials orders were sluggish



Note: Midstream/ upstream electronics are electronic products and optical apparatus; downstream electronics are information and communication products; raw materials include chemicals, plastic & rubber products, base metals and minerals; industrial products are machinery, electrical machinery products and transportation equipment.

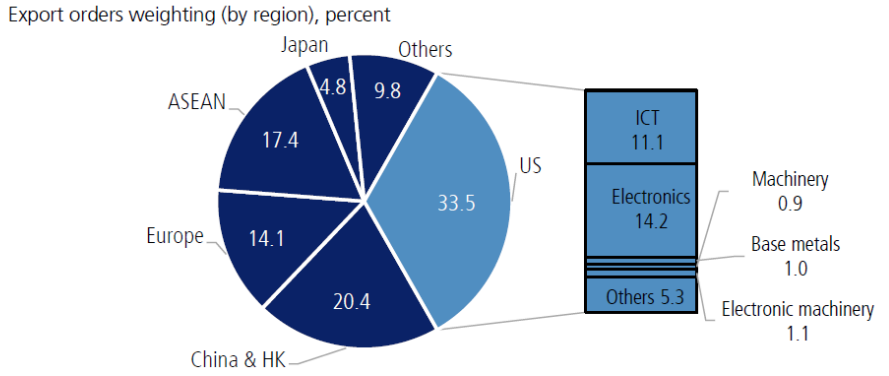
Source: Bloomberg; KGI Research

Figure 4: Orders from US, Japan & ASEAN outperformed



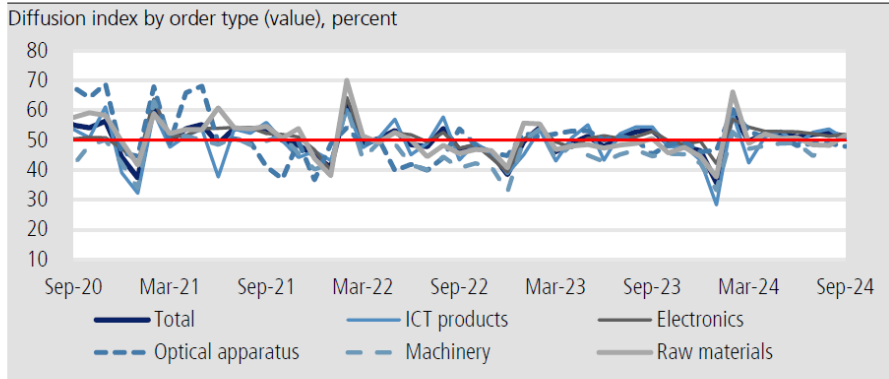
Source: Bloomberg; KGI Research

Figure 5: The export order weighting of China dropped the most in September, while the weighting of the ASEAN picked up the most



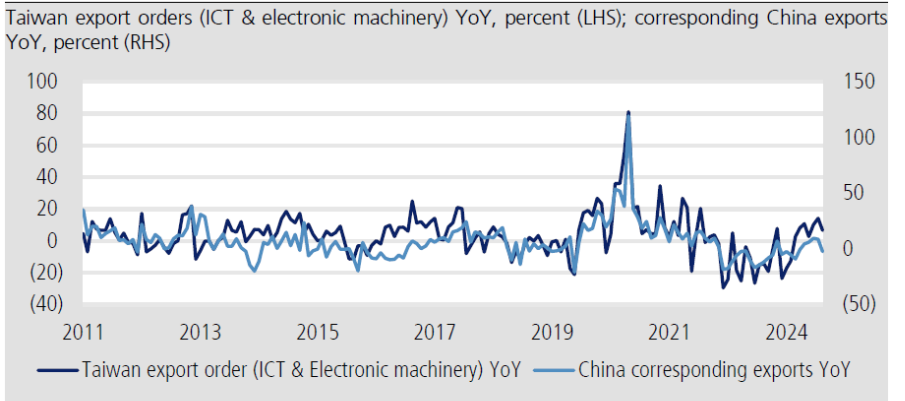
Source: Bloomberg; MOEA; KGI Research

Figure 6: Diffusion indices point to order growth in October



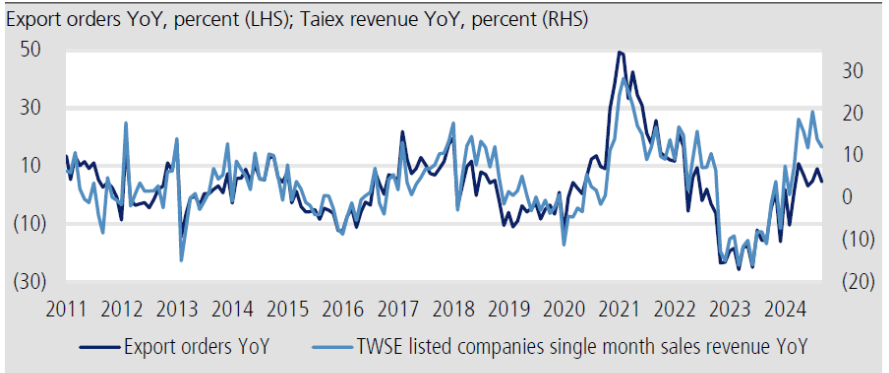
Note: Raw materials are chemicals, plastics & rubber products, base metals, and minerals
Source: Bloomberg; KGI Research

Figure 7: ICT & electronic machinery orders recovered in September, but corresponding China exports fell slightly



Source: Bloomberg; KGI Research

Figure 8: YoY growth in export orders sank, in line with Taix revenue growth



Source: Bloomberg; KGI Research

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

Date	Major event	Possible effect
October 22-24	2024 BRICS summit	First meeting following the BRICS expansion (United Arab Emirates, Egypt, Iran, and Ethiopia are invited). The BRICS countries seek greater global influence and see themselves as in competition with the G7.
October 25-27	2024 Annual Meeting of the IMF and the World Bank	Expected to set the tone for 2025F economic forecasts and provide clearer guidance on global economic trends.
October 30-31	BOJ Monetary Policy Meeting	Slim chance of the BOJ to hiking rates. The BOJ may hint another 25bps-rate hike in December, but the market may see turmoil if overly-hawkish stances emerge again.
November 5	U.S. Presidential Election	Kamala Harris and Donald Trump are in a "coin flip" race. The policy differences between them are quite vast, and the election is expected to be highly consequential. However, the electoral result will have a minimal impact on the long-term performance of the stock market.
November 6-7	Fed FOMC Meeting	An additional rate cut is widely expected. The market will look into the implications for inflation and unemployment.
December	China Central Economic Work Conference	Will establish 2025F economic development plans and growth goals. We expect the economic growth forecast for 2025 will be unchanged at 5%.
December 12	ECB Monetary Policy Meeting	An additional 25bps-rate cut is expected.
December 18-19	Fed FOMC Meeting	The US Fed is expected to cut interest rates by 25bps. The market may be affected if an accelerated rate cut is attributed to an economic recession.
December 18-19	BOJ Monetary Policy Meeting	High chances for the BOJ to raise rates by 10-15bps.

Source: KGI Research

Figure 10: Key economic data - US

Indicators	Units	2020	2021	2022	2023	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	
GDP	GDP QoQ SAAR	QoQ % SAAR						3.2			1.6			3.0				
	GDP YoY	YoY %	(2.2)	6.1	2.5	2.9		3.2			2.9			3.0				
	CPI	YoY %	1.2	4.7	8.0	4.1	3.2	3.1	3.4	3.1	3.2	3.5	3.4	3.3	3.0	2.9	2.5	2.4
Consumer prices	Core CPI	YoY %	1.7	3.6	6.2	4.8	4.0	4.0	3.9	3.9	3.8	3.8	3.6	3.4	3.3	3.2	3.2	3.3
	PCE price index	YoY %	1.1	4.1	6.6	3.8	3.0	2.7	2.7	2.6	2.6	2.8	2.7	2.6	2.4	2.5	2.2	
	Core PCE index	YoY %	1.3	3.6	5.4	4.2	3.4	3.2	3.0	3.1	2.9	3.0	2.9	2.7	2.6	2.6	2.7	
	Labor force participation rate	%	61.5	62.0	62.3	62.5	62.7	62.8	62.5	62.5	62.7	62.7	62.5	62.6	62.7	62.7	62.7	62.7
	Unemployment rate	%	8.1	5.4	3.6	3.6	3.8	3.7	3.7	3.7	3.9	3.8	3.9	4.0	4.1	4.3	4.2	4.1
	Non farm payrolls	'000	(9,274)	7,245	4,528	3,013	165	182	290	256	236	310	108	216	118	144	159	254
Labor market	Net Change in total employment in labor force	'000	(8,856)	6,135	4,528	3,013	(270)	586	(683)	(31)	(184)	498	25	(408)	116	67	168	430
	Challenger job cut announce	YoY %	15.8	(1.2)	(1.7)	2.1	9	(41)	(20)	(20)	9	1	(3)	(20)	20	9	1	53
	Opening/ hiring	x	1.07	1.56	1.75	1.58	1.49	1.60	1.54	1.54	1.52	1.49	1.41	1.46	1.51	1.42	1.51	
	Avg. hourly earnings	YoY %	5.4	5.0	4.9	4.3	4.3	4.3	4.4	4.3	4.1	3.9	4.0	3.8	3.6	3.9	4.0	
	Industrial production	YoY %	(7.1)	4.4	3.4	0.2	(0.8)	(0.2)	0.8	(1.2)	(0.1)	(0.3)	(0.8)	0.1	0.8	(0.5)	(0.2)	(0.6)
	Durable goods orders	YoY %	(4.6)	18.4	8.2	4.4	0.7	10.0	3.4	(0.9)	4.5	(2.2)	1.2	(1.4)	(11.3)	2.8	(0.5)	
	Core capital goods orders	YoY %	(8.3)	12.8	6.5	1.7	0.8	1.4	0.8	(0.2)	3.2	(0.9)	2.8	(0.5)	(2.2)	2.0	(1.4)	
	Total business inventory/ sales ratio	x	1.44	1.28	1.34	1.37	1.37	1.36	1.37	1.38	1.37	1.37	1.38	1.38	1.37	1.38	1.37	1.38
	Manufacturing inventory/ sales ratio	x	1.62	1.49	1.47	1.48	1.49	1.48	1.48	1.49	1.47	1.47	1.46	1.47	1.46	1.45	1.46	
	Retail inventory/ sales ratio	x	1.34	1.15	1.24	1.27	1.28	1.28	1.28	1.30	1.29	1.29	1.30	1.31	1.33	1.32	1.33	
Economic activity & business condition	ISM manufacturing index	Point	52.4	60.6	53.5	47.1	46.9	46.6	47.1	49.1	47.8	50.3	49.2	48.7	48.5	46.8	47.2	47.2
	ISM non-manufacturing index	Point	54.3	62.4	56.1	52.8	51.9	52.5	50.5	53.4	52.6	51.4	49.4	53.8	48.8	51.4	51.5	54.9
	ISM manufacturing index: new orders	Point	53.9	64.3	51.6	46.0	46.2	47.8	47.0	52.5	49.2	51.4	49.1	45.4	49.3	47.4	44.6	46.1
	Chicago Fed National activity index	Point	(0.46)	0.40	(0.02)	(0.13)	(0.63)	0.21	(0.12)	(0.87)	0.35	(0.17)	(0.35)	0.23	(0.20)	(0.42)	0.12	
	Conference board leading index	YoY %	(4.7)	7.1	0.4	(7.7)	(8.1)	(7.6)	(7.1)	(7.1)	(6.5)	(5.5)	(5.3)	(4.9)	(5.2)	(5.0)		
	C&I Loans for large/medium - tightening lending standard	%	37.6	(15.1)	11.8	43.9	33.9			14.5			15.6			7.9		
	C&I Loans for large/medium - stronger demand	%	(15.5)	(1.2)	12.4	(42.3)	(30.5)			(25.0)			(26.6)			0.0		
	Building Permits	'000, SAAR	1,478	1,738	1,682	1,518	1,534	1,508	1,530	1,508	1,563	1,485	1,440	1,399	1,454	1,406	1,470	1,428
	Housing starts	'000, SAAR	1,394	1,605	1,552	1,421	1,365	1,510	1,568	1,376	1,546	1,299	1,377	1,315	1,329	1,262	1,361	1,354
	New home sales	'000, SAAR	831	770	637	666	673	611	654	664	643	683	736	672	681	751	716	
	Existing home sales	mn, SAAR	5.6	6.1	5.1	4.1	3.9	3.9	3.9	4.0	4.4	4.2	4.1	4.1	3.9	4.0	3.9	
	NAHB housing market index	Point, SA	70	81	59	44	40	34	37	44	48	51	51	45	43	41	39	41
	S&P/Case-Shiller 20-city composite home price index	YoY %	10.4	18.6	4.9	6.4	5.1	5.6	6.4	6.8	7.5	7.5	7.2	6.8	6.5	5.9		
	Personal expenditures	YoY % SA	(2.5)	8.8	3.0	2.5	2.3	3.1	3.6	1.9	2.1	2.7	2.4	2.8	2.9	2.8	2.9	
	Retail sales	YoY %	0.8	18.2	9.1	3.6	2.7	4.0	5.5	0.3	2.1	3.6	2.8	2.6	2.0	2.9	2.2	1.7
	Retail sales ex-autos	YoY %	1.5	17.3	10.6	3.5	2.6	3.6	4.6	0.9	2.0	3.7	3.2	2.9	3.3	3.2	2.5	2.2
	Domestic vehicles sales	mn, SA	173.0	179.2	164.8	185.2	15.5	15.3	15.8	15.0	15.8	15.5	15.7	15.9	15.3	15.8	15.1	15.8
	Conference board consumer confidence	Point	101.0	112.7	104.5	105.4	99.1	101.0	108.0	110.9	104.8	103.1	97.5	101.3	97.8	101.9	105.6	98.7
	Michigan Consumer Sentiment Index	Point	81.5	77.6	59.0	65.4	63.8	61.3	69.7	79.0	76.9	79.4	77.2	69.1	68.2	66.4	67.9	70.1
Fiscal	Budget balance	As % of GDP	(15.2)	(10.5)	(5.4)	(6.5)	(5.2)	(6.3)	(6.5)	(6.3)	(6.4)	(5.9)	(5.7)	(6.1)	(5.6)	(5.6)	(7.2)	(6.3)
	Current account balance	As % of GDP	(2.8)	(3.7)	(3.9)	(3.3)				(3.2)		(3.2)			(3.3)			
Int'l balance	Net foreign securities transactions	US \$bn	505	907	1,321	932	(25.5)	101.1	88.2	(69.4)	25.6	58.6	1.8	(42.8)	80.5	137.9	111.4	
	Federal funds rate	%	0.25	0.25	4.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.00
Monetary & financial	10-Year treasury yield	%	0.91	1.51	3.87	3.88	4.93	4.33	3.88	3.91	4.25	4.20	4.68	4.50	4.40	4.03	3.90	3.78
	Dollar index	Point	89.9	95.7	103.5	101.3	106.7	103.5	101.3	103.3	104.2	104.5	106.2	104.7	105.9	104.1	101.7	100.8

Source: Bloomberg; KGI Research

Figure 11: Key economic data - Taiwan

Indicators		Units	2020	2021	2022	2023	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
GDP	GDP YoY	YoY %	3.4	6.6	2.6	1.3			4.8			6.6			5.1			
Consumer prices	CPI	YoY %	(0.2)	2.0	3.0	2.5	3.0	2.9	2.7	1.8	3.1	2.2	1.9	2.2	2.4	2.5	2.4	1.8
	Core CPI	YoY %	0.7	1.9	2.7	2.4	2.5	2.4	2.4	1.7	2.9	2.1	1.8	1.8	1.8	1.9	1.8	1.8
Labor market	Unemployment rate	%	3.8	3.7	3.6	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.3	3.3	3.4	
Economic activity	Industrial production	YoY %	8.8	14.7	(1.7)	(12.5)	(2.2)	(1.8)	(3.8)	15.6	(1.3)	4.2	14.5	15.7	12.8	13.0	13.4	
	Markit Taiwan manufacturing PMI	Point			47.7	46.3	47.6	48.3	47.1	48.8	48.6	49.3	50.2	50.9	53.2	52.9	51.5	50.8
	NDC monitoring light signal						Blue	Yellow-blue	Yellow-blue	Green	Green	Green	Yellow-red	Yellow-red	Red	Yellow-red	Red	
	NDC monitoring indicators	Point	24.3	39.0	24.2	14.4	16.0	20.0	22.0	27.0	29.0	31.0	35.0	36.0	38.0	35.0	39.0	
	NDC composite leading index	YoY %	(0.4)	4.6	(3.1)	(1.5)	(2.1)	(2.1)	(2.2)	(2.3)	(2.1)	(1.5)	(0.5)	0.7	1.8	2.8	3.6	
	NDC composite coincident index	YoY %	(1.0)	8.2	(1.4)	(8.0)	(4.1)	(2.0)	(0.1)	1.7	3.4	4.9	6.3	7.4	8.3	8.9	9.5	
Consumption	Retail sales	YoY %	0.2	3.3	7.4	9.7	8.5	12.0	4.5	3.5	12.3	5.7	1.6	2.6	3.9	3.1	1.1	
Trade	Exports	US\$bn	345.2	446.6	479.7	432.6	38.1	37.5	39.9	37.2	31.4	41.8	37.5	37.4	39.9	39.9	43.6	40.6
	Imports	US\$bn	285.8	381.3	428.1	352.1	32.3	27.7	28.8	34.7	23.6	33.1	31.0	31.3	35.2	35.1	32.1	33.5
	Trade balance	US\$bn	59.4	65.3	51.6	80.5	5.8	9.8	11.1	2.5	7.9	8.7	6.5	6.1	4.7	4.8	11.5	7.1
	Export growth	YoY %	4.9	29.4	7.4	(9.8)	(4.6)	3.7	11.7	17.7	1.3	18.8	4.3	3.4	23.4	3.1	16.8	4.5
	Import growth	YoY %	0.1	33.4	12.3	(17.8)	(12.4)	(14.8)	(6.7)	18.7	(17.8)	7.2	6.5	0.6	33.9	15.8	11.7	17.3
	Export orders	US\$bn	533.7	674.1	666.8	561.0	52.9	50.6	43.8	48.4	37.7	47.2	47.1	48.9	45.6	50.0	50.2	
	Export order growth	YoY %	10.1	26.3	(1.1)	(15.9)	(4.6)	1.0	(16.0)	1.9	(10.4)	1.2	10.8	7.0	3.1	4.8	9.1	
	M1B	YoY %	16.2	12.8	4.1	3.1	3.3	3.0	3.1	3.6	4.5	5.4	4.9	5.0	5.2	5.2	4.1	
M2	YoY %	8.5	8.0	7.1	5.3	5.7	5.3	5.3	5.4	5.6	6.2	6.1	6.0	6.3	6.2	5.8		
Monetary & financial	Foreign reserves	US\$bn	529.9	548.4	554.9	570.6	561.1	567.5	570.6	569.5	569.4	568.1	567.0	572.8	573.3	571.7	579.1	577.9
	Rediscount rate	%	1.1	1.1	1.8	1.9	1.9	1.9	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0
	Exchange rate	USD/TWD	28.3	27.7	30.7	30.7	32.4	31.3	30.7	31.3	31.6	32.0	32.6	32.4	32.4	32.8	32.0	31.7

Source: Bloomberg; KGI Research

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