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Subject: An example - Taiwan 2Q GDP -6.5%; exports fell 8.32%

Date: Fri, 14 Aug 2015 16:01:46 +0000

Attachments: enewtotal10408.pdf; JPM_Taiwan_2Q_GDP_weake_2015-08-14_1793170(1).pdf

Inline-Images: image1.gif; image2.gif; image3.gif; image4.gif; image5.gif; image6.gif; image7.gif; image8.gif; image9.gif; image002.jpg; image005.jpg

Brad

When we get the balance sheet and ISDA done, we will likely want to short some Asian currencies (unless they move much lower from here). See the Taiwan data below.

Paul

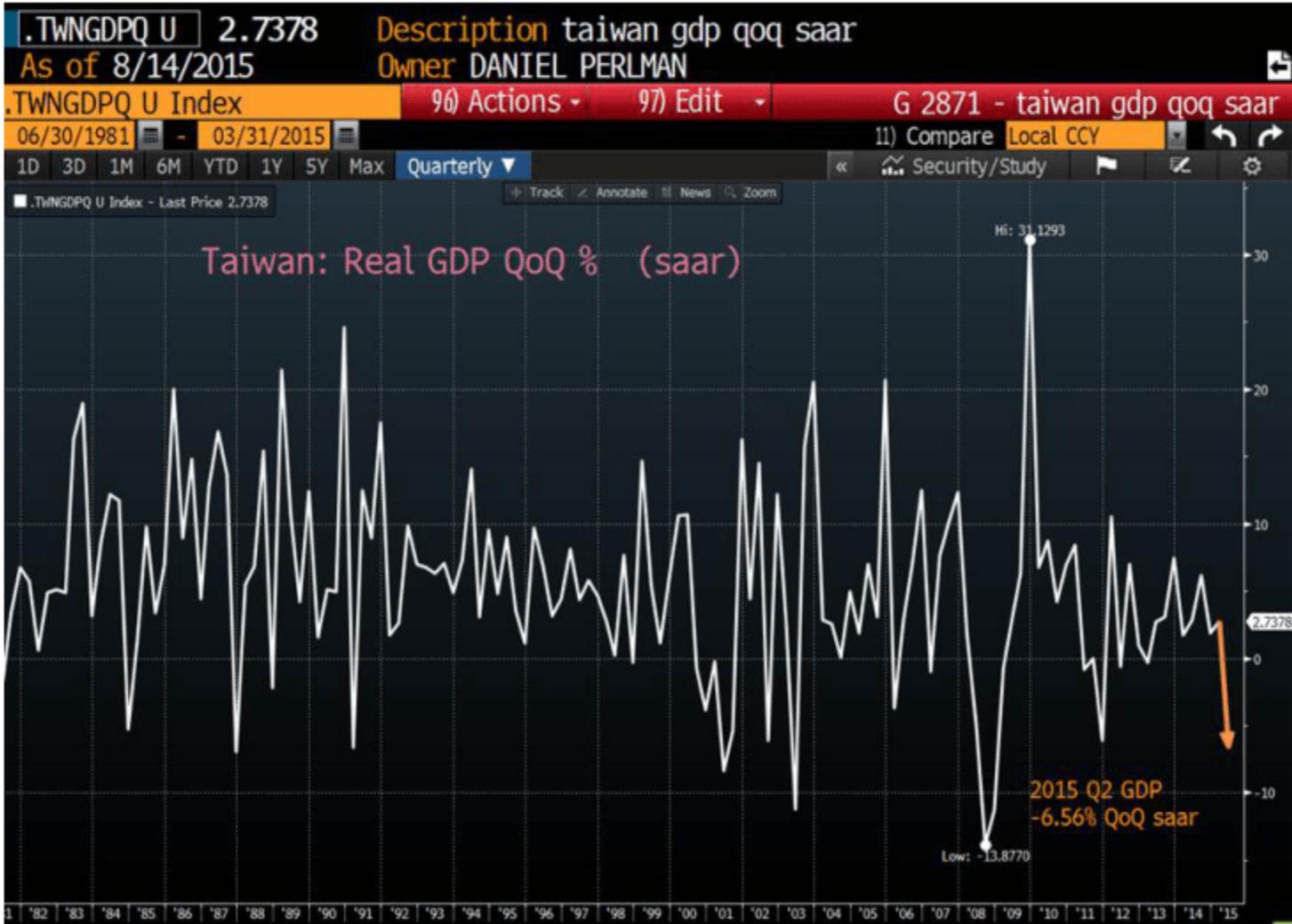
Taiwan came out with its preliminary Q2 GDP data last night and the numbers were weaker than expected. (Q2 GDP @ -6.56% pace!)

CHART ONE:

GDP Contracted at a -6.56% pace in Q2. That was the worst number in almost six years.

CHART TWO:
recession.

Exports for Q2 declined at a -8.32% pace. Also the worst number since the last





Source: Bloomberg 14Aug2015

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Asia Pacific Economic Research

Taiwan: 2Q GDP weakened notably, main drag coming from the export sector, especially tech

Taiwan's 2Q15 real GDP growth slowed notably to 0.52%oya (compared to the advanced reading of 0.64%), following the upwardly-revised growth at 3.84%oya in 1Q (previously: 3.37%).

The Directorate General of Budget, Accounting and Statistics (DGBAS) estimates that, seasonally-adjusted, real GDP contracted 6.56% q/q, saar in 2Q15, following the positive growth at 2.3% q/q saar in 1Q.

Breakdown of 2Q GDP by expenditure highlights that the notable contraction in the economy (in %q/q saar terms) **was mainly dragged by export sector weakness** (especially for tech products). On the domestic front, GDP expenditure data showed decent growth in private consumption in 2Q, though GDP industry data suggested that consumption-related sectors, such as wholesale and retail trade, remained subdued. Meanwhile, fixed investment growth rebounded decently in 2Q, which may hint at some potential moderate recovery for the economy going into 2H15.

Watching for signs of 2H15 improvement in external demand

The significant weakness in Taiwan's 2Q GDP, with the most severe quarterly GDP contraction (in %q/q saar terms) since the worst moments of the global financial crisis, was mainly dragged by the export and manufacturing sectors, with the notable underperformance of the tech sector (tech IP fell significantly at 34.5% 3m/3m saar in June).

Looking ahead, on the external front, our global team continues to expect stronger global growth in 2H15, which will hopefully provide some support for moderate recovery in Taiwan's export and manufacturing sector. In this regards, it is with noting: (1) Taiwan's July exports improved moderately (up 3.2% m/m sa in real terms); (2) tech exports, following the significant weakness in 2Q, rebounded 7.7% m/m sa in July; (3) capital goods imports rose notably at 93.6% m/m sa and 13.2% m/m sa in July and June respectively, suggesting decent expansion in corporate capex, which in turn hints at some moderate recovery in export and manufacturing sectors in coming months.

On the domestic front, it is worth noting that the slowing in industrial activity through 2Q seemed to have gradually fed into the labor market, with employment growth losing momentum lately (in % m/m sa terms, total employment stopped growing in June), which could restrain private consumption outlook going into 2H15.

Overall, our forecast for Taiwan's full-year 2015 GDP growth now stands at 1.3%oya, assuming moderate recovery in the sequential growth trend to average at about 3.0% q/q saar in 3Q and 4Q.

Meanwhile, regarding monetary policy, considering the notable weakness in latest macro data, the possibility of a potential policy rate cut, sometime during 2H15, seems to be on the rise. Besides, as the major source of recent macro weakness largely originated from the external sector, managing currency competitiveness would be an important policy tool going ahead.

For further details of the 2Q GDP report, looking at the major GDP expenditure components:

- Total exports of goods and services contracted notably by 16.5% q/q saar in 2Q, compared to the modest expansion at 1.7% q/q saar in 1Q. (In particular, monthly trade data suggested the tech sector was the main drag on 2Q export weakness, as tech exports contracted 27.0% 3m/3m saar in June.)
- Imports of goods and services expanded moderately at 3.0% q/q saar in 2Q, following the contraction at 5.5% q/q saar in 1Q (reflecting the notable rebound in 2Q domestic fixed investment).
- On the domestic front, private consumption expenditure rose 3.0% q/q saar in 2Q, following the solid gain at 4.1% q/q saar in 1Q.
- Gross fixed capital formation rebounded rather notably by 26.8% q/q saar in 2Q, following the contraction at 13.1% q/q saar in 1Q.

Regarding GDP details by industry:

- Manufacturing production contracted 13.4% q/q saar in 2Q, following the moderate gain at 2.2% q/q saar in 1Q.
- With regard to domestic service sectors, wholesales and retail trade, which is closely related to private consumption expenditure, contracted 5.1% q/q saar in 2Q, following the decline at 3.4% q/q saar in 1Q.
- Real estate activity rose modestly at 1.2% q/q saar in 2Q, following the modest gain at 0.5% q/q saar in 1Q.
- Finance and insurance services expanded significantly at 12.9% q/q saar in 2Q, adding to the gain at 17.6% q/q saar in 1Q.
- In addition, construction activity contracted 5.3% q/q saar in 2Q, adding to the decline at 4.2% q/q saar in 1Q.

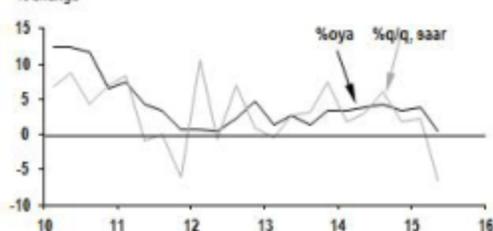
Taiwan: real GDP growth

	2014	3Q14	4Q14	1Q15	2Q15
%oya					
Real GDP	3.8	4.3	3.5	3.8	0.5
Private consumption	3.0	3.8	2.4	3.8	2.9
Government consumption	3.7	3.9	4.3	3.9	0.0
Gross capital formation	1.8	4.8	0.0	-0.2	1.3
Exports of goods & serv.	5.9	7.6	6.5	6.1	-1.3
Imports of goods & serv.	5.8	9.2	6.1	2.7	2.2
%q/q, saar					
Real GDP		6.1	1.9	2.3	-6.6
Private consumption		2.5	2.0	4.1	3.0
Government consumption		4.6	1.3	-9.8	5.7
Gross capital formation		16.6	-3.5	-13.1	26.8
Exports of goods & serv.		9.2	4.4	1.7	-16.5
Imports of goods & serv.		9.7	2.8	-5.5	3.0

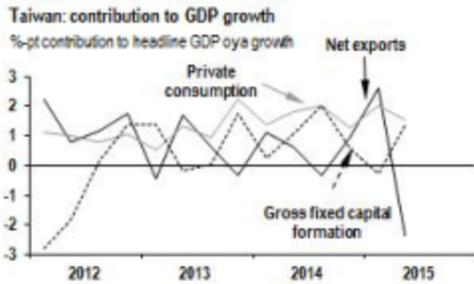
Source: DGBAS

Taiwan: real GDP growth

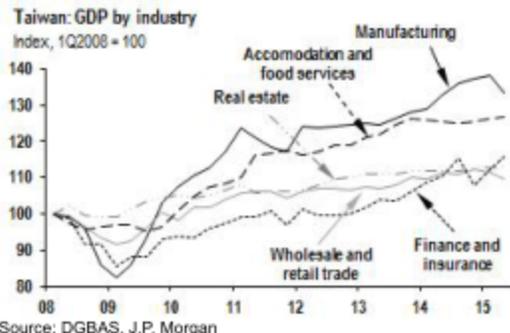
% change



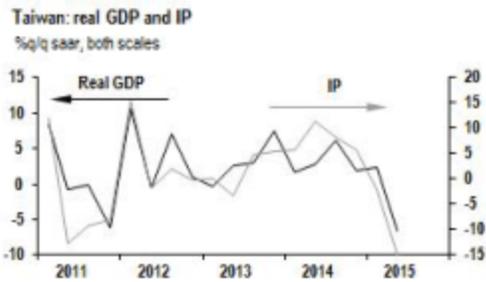
Source: DGBAS



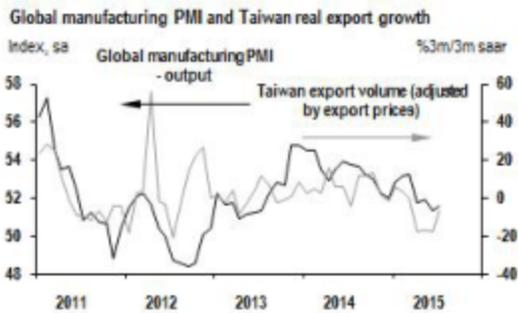
Source: DGBAS



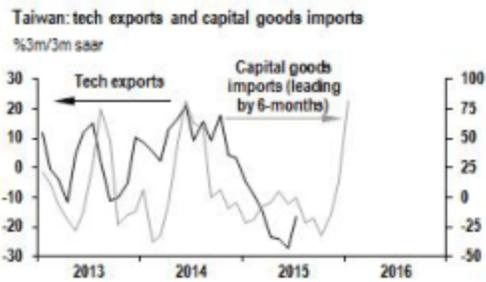
Source: DGBAS, J.P. Morgan



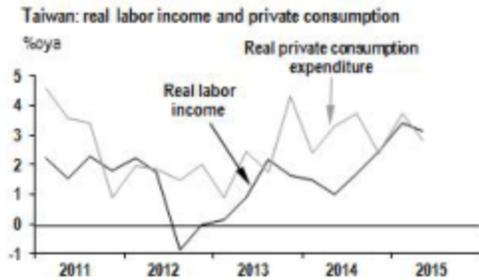
Source: DGBAS, MoEA, J.P.Morgan



Source: MoF, DGBAS, Markit, J.P.Morgan



Source: MoF, J.P.Morgan



Source: DGBAS, J.P.Morgan

Click [here](#) for the full Note and disclosures.

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