

UOB Economics Projections	2007	2008	2009F	2010F
GDP	6.0	0.7	-2.8	4.1
CPI (average, y/y)	1.8	3.5	-0.8	0.7
Unemployment rate (sa, %)	3.9	5.0	6.0	5.6
Current account (% of GDP)	8.3	6.2	7.5	6.5
Fiscal balance (% of GDP)	-0.2	-0.8	-2.9	-2.2

- *With increased central bank scrutiny and marginal interest rate differential with the US dollar, TWD has stayed relatively subdued in 4Q09 and the year as well. With the CBC likely to keep interest rate on hold for now, we see little room for the USD/TWD to move substantially lower going into 2010, and continue to look for the pair to shift just slightly lower towards 31.50 by mid-2010, from 32.27 currently.*
- *In an environment of jobless rate near record high and loans demand still in contraction mode, Taiwan's central bank is likely to be able to hold on to its loose policy at least into middle of 2010. This means that the policy rate should stay at 1.25% at end-1H2010, and then edge up to 1.75% by end-2010.*
- *Recovery in demand and a favourable base effect is likely to see Taiwan's exports and other key data moving into double digit growth especially in the first half of 2010. The leading composite index has also turned in a positive reading for the third consecutive month in Nov, suggesting that 4Q09 GDP growth is likely to be positive after a better-than-expected set of 3Q report. As such, we are revising up Taiwan's headline GDP growth figure to -2.8% for 2009 (from -4.3%, vs. revised official forecast of -2.53%), and to +4.1% for 2010 (from +3.6%, vs. official forecast of 4.39%).*

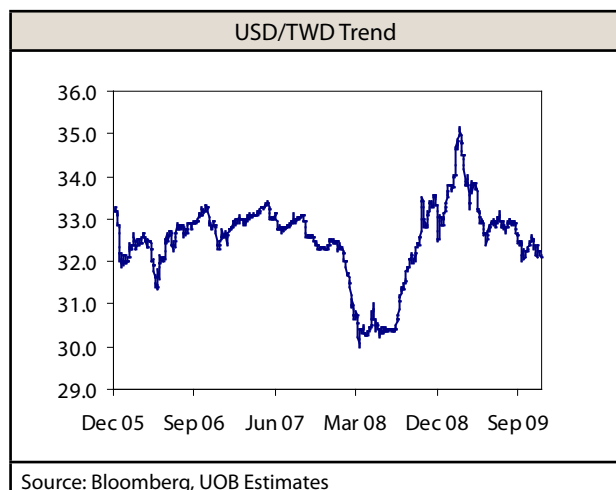
### TWD Staying Subdued

TWD has largely resisted appreciation pressures against the USD during 4Q, as the central bank CBC intervened just as the USD faced severe downward pressure with US Fed keeping interest rates low for "an extended period". As a result, TWD has lagged behind most its peers against the USD during the quarter, down 0.4% compared to gains of around 1-3% for most Asian currencies. YTD, Taiwan dollar has risen about 1.6% against the USD, compared to IDR's 17% gain and KRW's 8.4% rise against the USD. This suggests that CBC's increased surveillance (as we mentioned in the

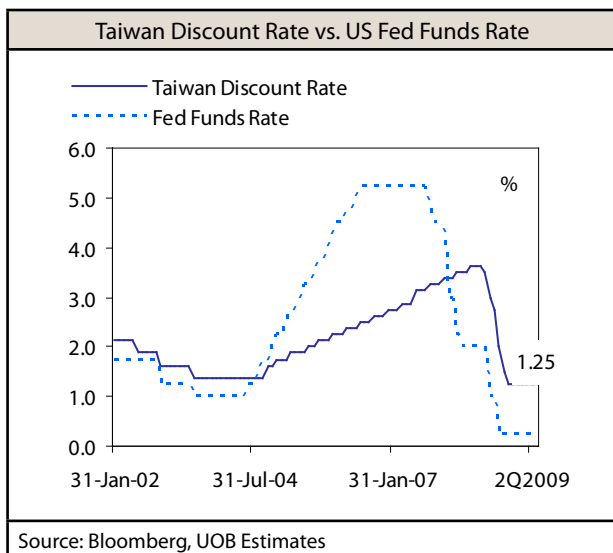
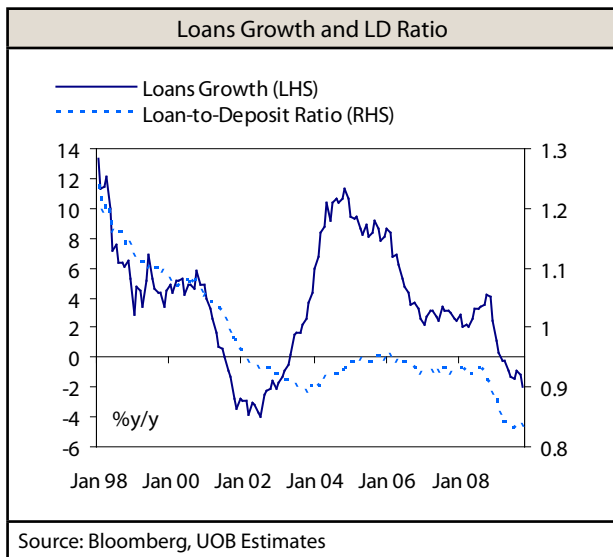
previous quarterly) has played its part in subduing the TWD. Another factor playing a part is that CBC is likely to keep its interest rate on hold at least until mid-2010, which means there is very little incentive in terms of interest rate differential for the USD/TWD pair. As such, we see little room for the USD/TWD to move substantially lower going into 2010, and continue to look for the pair to shift just marginally lower towards 31.50 by mid-2010, from 32.27 currently.

### Monetary Policy Staying on Hold For Now

With the aggressive nature of the rate cuts earlier this year (which amounted to a total of 237.5bps in interest rate cuts in less than 6 months to 1.25% vs. the same quantum of rate cut back in 2000/01, but spread over about 12 months) and continued improvements in most incoming data, it is natural to be concerned when the CBC would restored from the emergency setting or "exit strategy", a similar situation faced by most other central banks in the world. One factor is to watch for is whether there are any inflationary pressures given the loose policy and rebounding growth. Taiwan's inflation rate has remained in negative territory for about 10 months and are likely to remain muted, as a slack labour force likely to keep prices down. Even with improvements seen in recent months, Taiwan's jobless rate is still elevated near record high, both seasonally adjusted and non seasonally adjusted basis (over 6% seasonally



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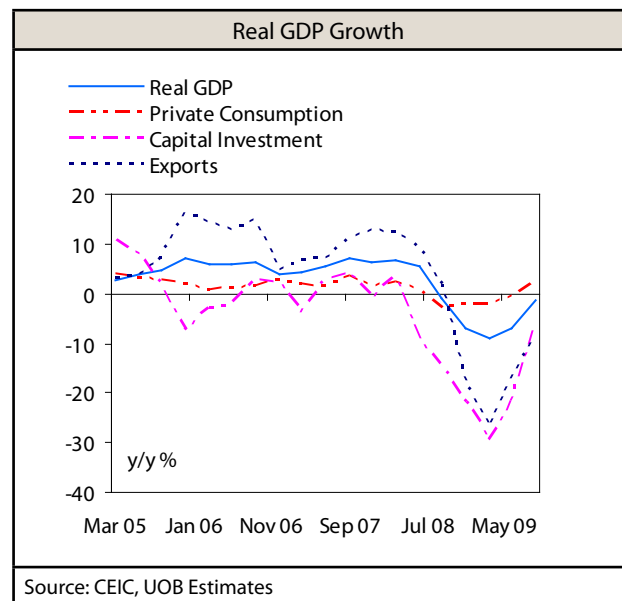


adjusted) and is likely to edge down only moderately going into 2010. In addition, credit demand continued to shrink since March this year, and no signs of improvements are seen despite record low interest rates. We continue to expect the central bank to hold on to its loose policy for now and would not be looking at reversing its policy stance until the second half of 2010, at which time most of Asian central banks would be looking to unwind their policy. This means that the policy rate should stay at 1.25% at end-1H2010, and then edge up to 1.75% by end-2010.

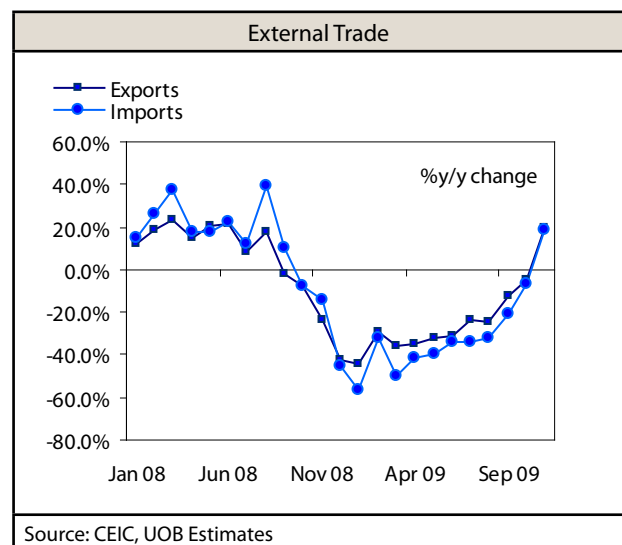
### Macro: Data to Rebound on Low Base

Recent data from Taiwan continued to point to likelihood that domestic economic activities to bounce higher going into 1Q-2Q 2010, on the back of sharply lower base a year earlier. This should bode well for overall growth in the

quarters ahead. Taiwan's industrial production rose 6.6%/y in Oct, extending the 1.7%/y gain in Sep as production of electronics products rose. Export orders ended its 15 months of declines, with a 4.4%/y rise in Oct, boosted by demand from Asia, particularly China and Singapore. This has provided support for exports, which rose nearly 20%/y in Nov, reversing nearly 14 months of contraction which slumped as much as 45%/y in Jan. In the months ahead, we should expect China's exports to see significant jump in exports data, most likely in the 20-30% pace on the back

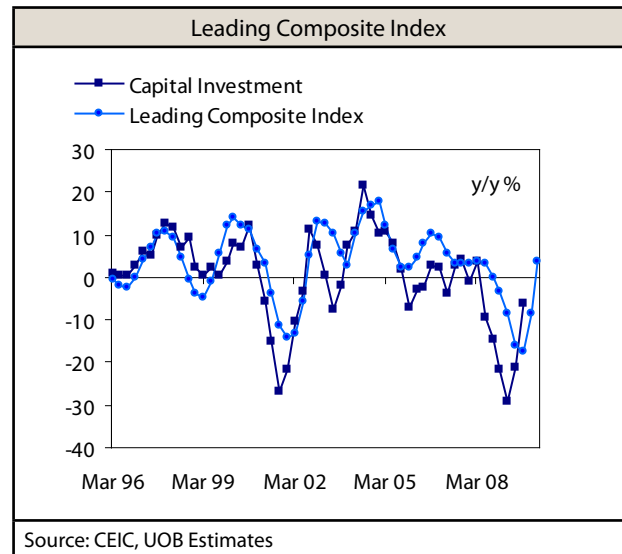


recovery in demand and lower base from last year. This means that headline growth numbers are expected to improve further into 1H10. As a recap, Taiwan's 3Q09 real GDP contracted at a smaller than expected 1.29%/y and



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rebounded 8.25%q/q saar. The sequential growth figure for 3Q extended from a sharp 18.8%q/q saar rebound in 2Q, thus confirming that Taiwan has at least ended its recession after four consecutive quarters of declines, at least on a statistical basis. Headline GDP for 3Q was largely boosted by a recovery in private spending (+2.2%/y after 4 quarters of declines), government spending, and exports. However, investment spending continued to contract, but at a slower pace of -6.2%/y, compared to the 14-29% declines seen in the preceding four quarters. All indications further confirm that the worst is indeed over for Taiwan, and the leading composite index has also turned in a positive reading for the third consecutive month in Nov, suggesting that 4Q09 GDP growth is likely to be positive. Prior to the onset of the GDP contraction in 3Q08, the leading index has contracted for 6 months (this performance that is slightly below that of the 2001 recession when it led by 9 months). With a strong set of 3Q GDP and favourable base effect beginning to exert itself starting from 4Q, we are revising up Taiwan's headline GDP growth figure to -2.8% for 2009 (from -4.3%,



Source: CEIC, UOB Estimates

vs. revised official forecast of -2.53%), and to +4.1% for 2010 (from +3.6%, vs. official forecast of 4.39%).