

Goods trade - green shoots sprouting

Summary

The downturn in regional trade has likely found its bottom and is showing signs of recovery albeit with a bumpy pace with East Asia's export recovery leading the ASEAN-6. Improved import demand observed across key Asian countries further underpins domestic demand as a key driver of regional growth amid improving labour markets and domestic policy support.

With an upturn in the global tech cycle aiding overall exports in Asia including ASEAN-6 countries, a sustained and robust recovery in global semiconductor sales will benefit heavy electronics & electrical (E&E) exporting countries in East Asia and ASEAN, particularly Japan, Hong Kong, Taiwan, Vietnam, Malaysia and Philippines next year.

We see a brighter overall trade outlook for 2024 given the expected global tech upcycle and stabilising commodity price prospects as the effect of the Middle East conflict on commodity prices have been muted thus far. Ongoing voluntary oil production cuts by OPEC+, US plans to replenish its Strategic Petroleum Reserves which is currently at its lowest levels since 1980s and expectations for China's oil demand to stay positive could support commodity prices. That said, we remain vigilant against potential sanction risks as many key countries are due to hold their presidential or general elections next year.

Goods trade have bottomed out

The downturn in regional trade has found its bottom and is rebounding at a more sustainable but bumpy pace. East Asia's export recovery is outperforming that of ASEAN-6, led by Japan (Oct: +1.6% y/y, Sep: +4.3%) and South Korea (Oct: +5.1%, Sep: -4.4%). Vietnam (Nov: +6.7%, Oct: +5.7%), Thailand (Oct: +8.0%, Sep: +2.2%) and Singapore (Domestic Exports, Oct: +3.0%, Sep: -14.8%) were key leaders in the ASEAN region; while Indonesia was a laggard with double-digit export contraction (Oct: -10.4%, Sep: -16.2%).

A narrower contraction in the E&E exports and base effects were main drivers of trade improvement in the forementioned countries. It is consistent with the recovery in Semiconductor Industry Association (SIA)'s global semiconductor sales that increased on a m/m basis for the seventh consecutive month in Sep, reinforcing the positive momentum since mid-2023. However, a key drag from commodity exports amid easing global commodity prices (particularly mineral products and energy prices) dampened the performance of Indonesia and Malaysia exports to some extent.

Similarly, import demand across key Asian countries have also showed a gradual turn. Vietnam outperformed with its imports rising for three consecutive months (Nov: +5.1% y/y, Oct: +6.0%, Sep: +0.3%) after ten months of contraction. Even as China continues to face a shallow recovery and persistent drag from its property sector, China's imports demand managed a positive turnaround (Oct: +2.4%, Sep: -7.0%). This underpins domestic demand as a key driver of regional growth amid improving labour markets and domestic policy support.

Chart 1: Asian exports of goods have bottomed out

Source: CEIC, Macrobond, UOB Global Economics & Markets Research

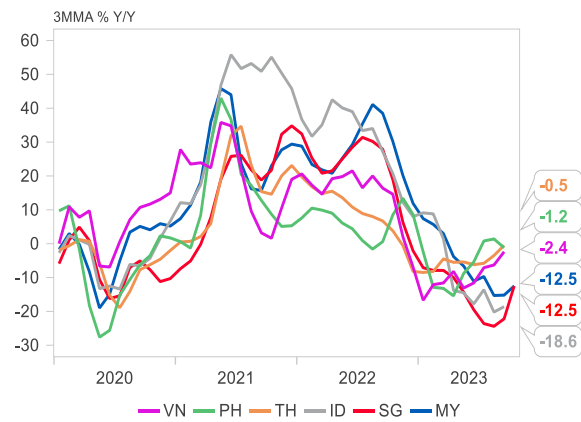
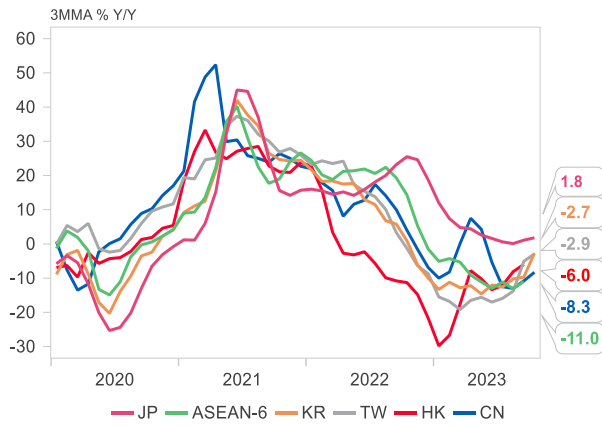


Chart 2: Sluggish commodity exports key culprit to ASEAN-6's export performance

Source:

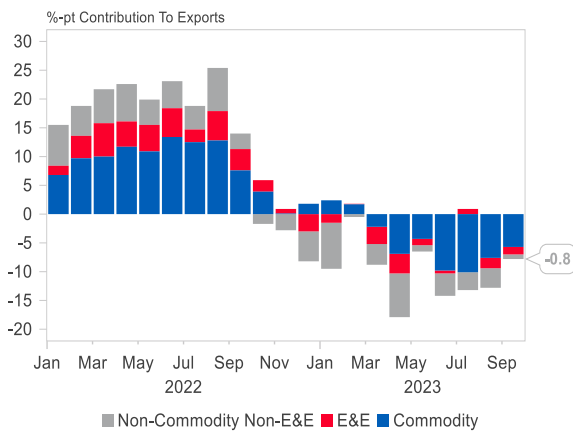


Chart 3: An upturn in global tech cycle

Source:

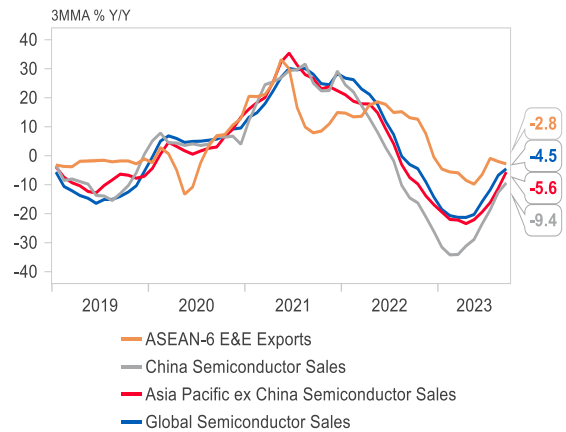


Chart 4: Asia's E&E exports rebounded in tandem with global semiconductor sales

Source: CEIC, UOB Global Economics & Markets Research

Note: E&E comprises 1) office machines and automatic data processing equipment, 2) telecommunications and sound recording equipment, and 3) electrical machinery, apparatus and appliances

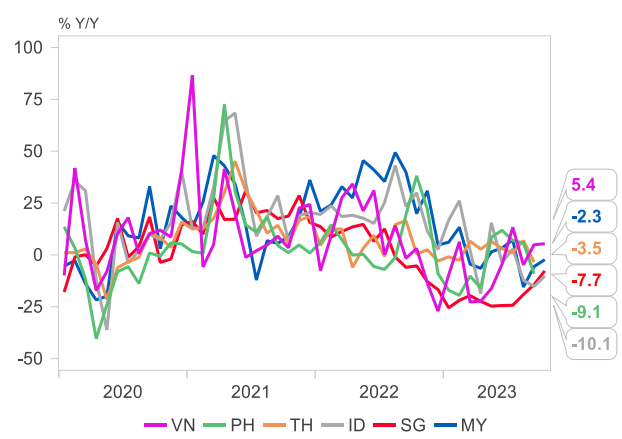
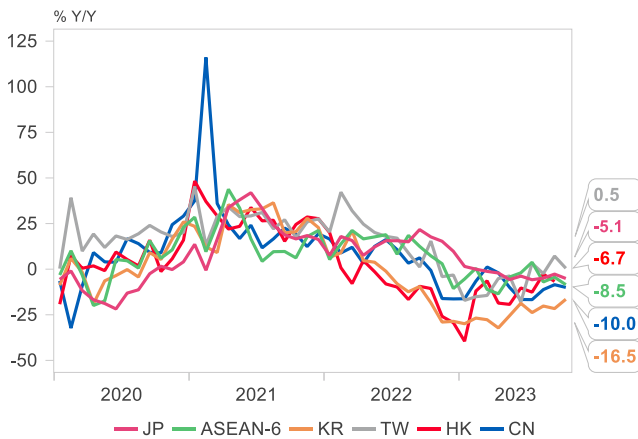


Chart 5: Performance of commodity exports in Asia including ASEAN-6

Source: CEIC, UOB Global Economics & Markets Research
 Note: Commodity exports comprises commodities and commodity based exports

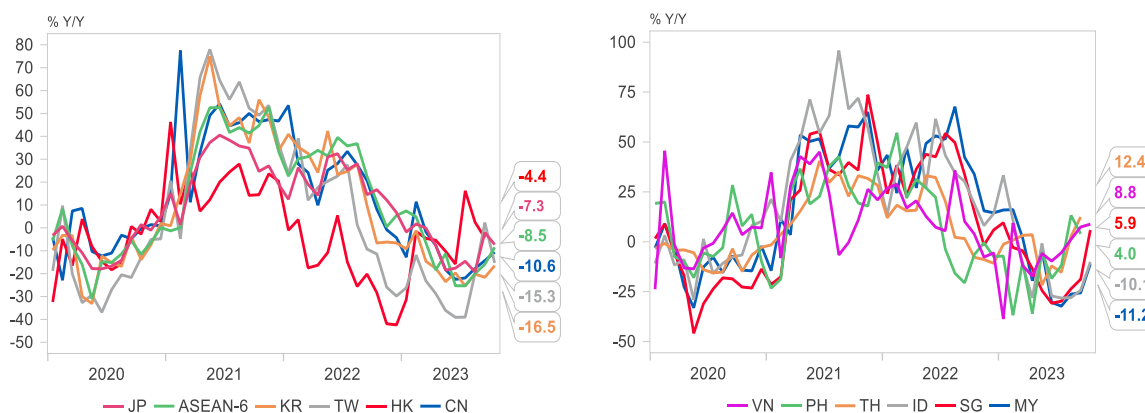
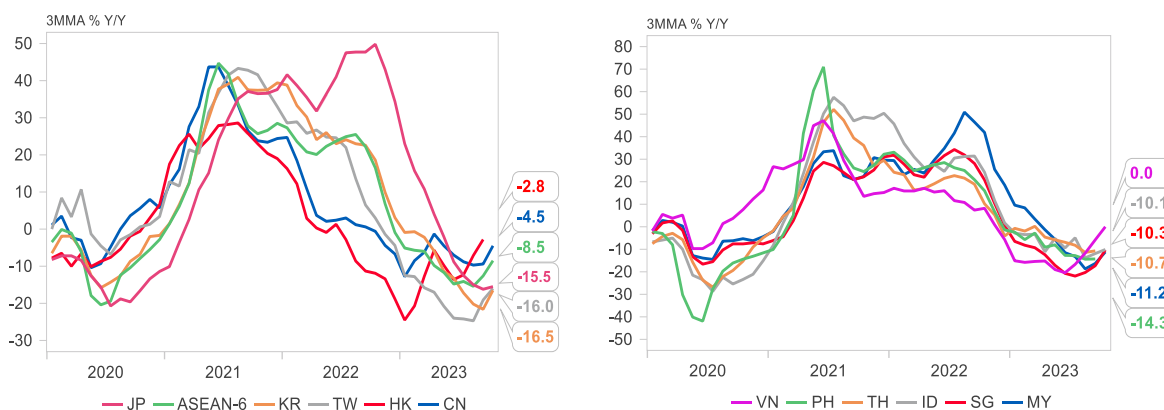


Chart 6: Asian imports of goods showed similar trend

Source: CEIC, UOB Global Economics & Markets Research



Key catalyst - global tech upcycle

We expect regional trade to recover and improve in 2024 thanks to post-supply chain diversification effects that became more apparent since 2018 and on the ongoing global tech upcycle. To recap, the flare-up of US-China trade conflicts that started in 2018-2019 forced companies to diversify their supply chains in an attempt to avoid higher tariffs. This was then accelerated by the COVID-19 pandemic crisis in 2020-2021 and Russia-Ukraine war in 2022 to mitigate supply shortages, shorten the input delivery time and reduce the input costs.

All these events alongside global climate change have expedited the transformation to automation and digitalisation despite a short-term disruption from subdued demand due to tighter monetary conditions and elevated cost price pressures in 2022-2023. The World Semiconductor Trade Statistics (WSTS) projects a persistent and robust rebound in global semiconductor sales (+13.1% in 2024 vs an estimated -9.4% in 2023 and +3.3% in 2022) which will likely benefit heavy E&E exporting countries in East Asia and ASEAN, particularly Taiwan, South Korea, Malaysia, Vietnam and Philippines. These countries carry an E&E export share of over 30%.

WSTS projects the surge in global semiconductor sales to be driven by the Memory segment with an over 40% increase, and single-digit growth in other key categories, including Discrete, Sensors, Analog, Logic and Micro. It is also expected to be buoyed by an anticipated robust double-digit growth in sales in the Americas and Asia Pacific regions next year. Additionally, the long-term outlook for semiconductor demand remains strong, with chips enabling countless products the world depends on and giving rise to new, transformative technologies of the future.

This expected robust rebound in E&E shipments will help buffer overall exports while commodity exports find support from stabilising commodity price prospects as the effect of the Middle East conflict on commodity prices have been muted thus far. Ongoing voluntary oil production cuts by OPEC+, US plans to replenish its Strategic Petroleum Reserves which is currently at its lowest levels since 1980s and expectations for China's oil demand to stay positive could support commodity prices. Countries with a higher E&E export share or more diversified export base are expected to perform better in 2024.

Chart 7: Global semiconductor sales forecasts

Source: WSTS, UOB Global Economics & Markets Research
East Asia covers China, Hong Kong, Taiwan, South Korea and Japan

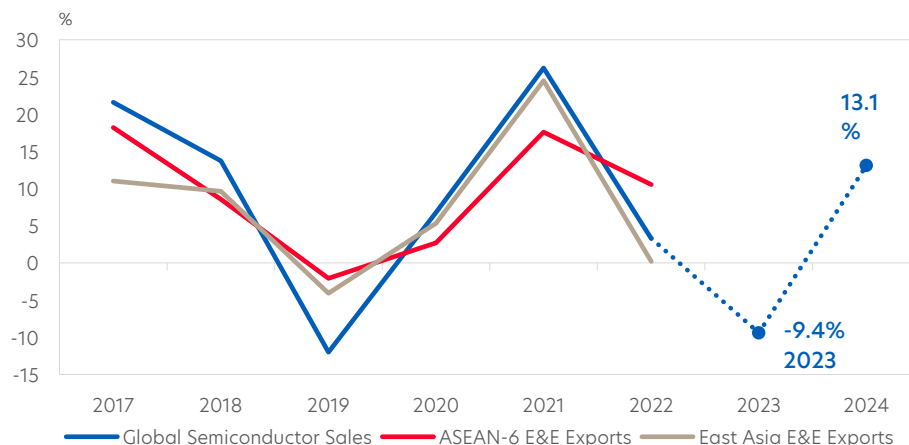


Table 1: E&E exports make up over 30% in several Asian countries

Country	Commodity (Comdty)	E&E	Non-Comdty Non-E&E	Total
	% Of Total Respective Exports (9M23*)			
East Asia	14	36	50	100
CN	13	31	56	100
HK	5	70	25	100
TW	13	60	27	100
KR	27	24	49	100
JP	15	35	50	100
ASEAN-6	35	28	37	100
SG^	61	14	25	100
MY	34	41	25	100
ID	58	7	35	100
TH	22	28	50	100
PH	17	62	21	100
VN	18	33	49	100

* Data - % of total respective exports (9M23) except for South Korea (7M23)

^ Based on domestic exports, excluding re-exports number due to country's reporting practise

Source: CEIC, UOB Global Economics & Markets Research

Brighter trade outlook for 2024 but caution on potential sanction risks

The regional trade outlook looks brighter for 2024. We project regional countries' exports to reverse course and expand positively between 2.0%-23.7% in 2024 despite lingering macro headwinds and a more challenging economic and financial landscape. This is in line with the World Trade Organisation (WTO)'s projection for world merchandise trade volumes to rise by 3.3% in 2024 (2023 est: +0.8%), underscored by Asia as the fastest growing region for both exports and imports.

That said, we remain cautious against potential sanction risks alongside impending retaliation measures. An escalation in geopolitical conflict could also threaten the trade recovery with many key countries due to hold their presidential or general elections next year including US (on 5 Nov), Russia (17 Mar) and Taiwan (13 Jan).

Other downside risks to the trade outlook as we enter 2024 include an escalation in the Middle East tensions, tighter financial and monetary conditions for a prolonged period, a lethargic recovery in China amid ongoing property woes, and heightened US-China trade conflict that could tip the global economy into a recession. We also see the risk of an underestimation of physical climate risk that could weigh on the countries covered in this report.

Table 2: Gross export performance and forecasts among Asian countries

Country	2020	2021	2022	YTD 2023	2023F	2024F
China	3.6	29.9	7.0	(5.9)	(4.5)	6.0
Taiwan	4.9	29.3	7.4	(12.9)	(10.0)	12.0
South Korea	(5.5)	25.7	6.1	(10.0)	(7.0)	8.5
Indonesia	(2.7)	41.9	26.0	(12.1)	(10.0)	3.2
Malaysia	(1.1)	26.1	24.9	(8.0)	(7.2)	3.5
Philippines	(8.1)	14.5	5.7	(6.6)	(6.6)	5.0
Singapore (NODX)	4.3	12.1	3.0	(15.0)	(12.5)	6.0
Thailand (BOP Basis)	(6.5)	19.2	5.4	(4.1)	0.7	2.0
Vietnam	6.9	18.9	10.6	(5.9)	(2.0)	23.7

Source: CEIC, Macrobond, UOB Global Economics & Markets Research

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