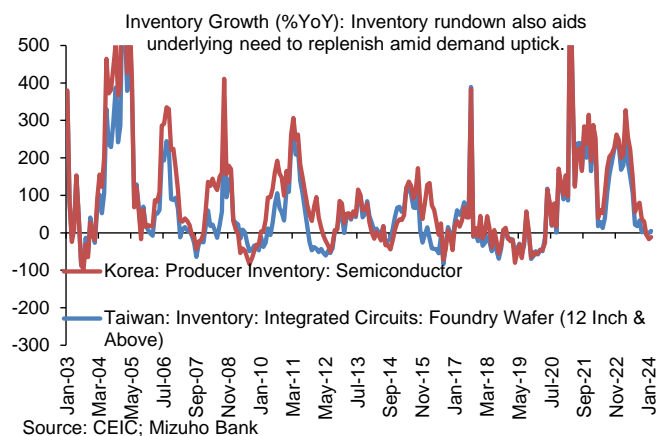
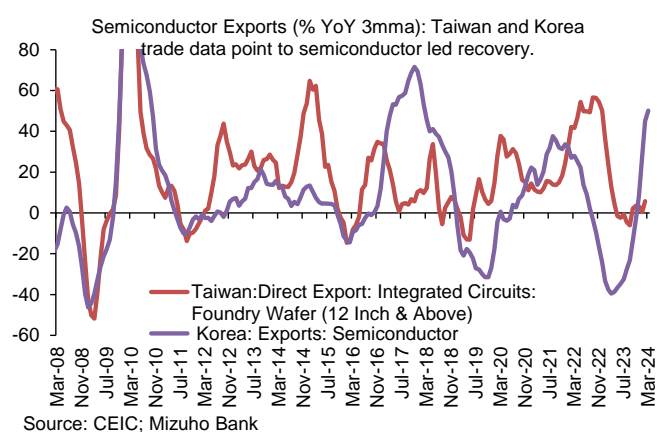


EM-Asia: Semiconductor Cycle & Implications

In a nutshell:

- Semiconductor-led exports recovery assisted in Q1 GDP outperformance for Korea and Taiwan. Given that **China was a key source of demand** in this recovery, the likelihood of stockpiling and front loading semiconductor amid rising trade tensions with the US puts to question the durability of the further outsized exports growth in the months ahead.
- Meanwhile, in Q1, the **US appears to resemble more of a final demand destination of computers/servers** rather than driving direct demand for semiconductors, congruent with the rising AI usage and demand.
- On balance, considering the still tepid recovery in China and slowing growth momentum in the US, we remain circumspect on the prospects an unfettered recovery in Asia. This **recovery may resemble the moderate 2013/14 recovery** rather than a return to the pandemic induced electronics demand type of acceleration or the 2016 super cycle which was driven by broad demand from electronics, autos, industrial equipment and the beginnings of cloud computing.
- Nonetheless, **Korea and Taiwan remain prime beneficiaries of this cycle**, affording the BoK and CBC room to keep rates elevated and backstopping the KRW and TWD.
- Similarly, data across EM-Asia appear to lean towards stronger demand for upstream products such as semiconductors relative to consumer related electronics such as mobile phones and automobiles.
- Specifically, the **likes of Vietnam and Philippines saw some growth support** in Q1 from the external demand recovery. Meanwhile, Malaysia appears to be inching towards a firmer electronics recovery given its relatively upstream positioning. On the other hand, Thailand's electronics sector continued to struggle given their more downstream involvement via automobiles while Indonesia's structural reliance on the commodity sector imply that they may not capture much of the tailwinds on this upcycle.
- Based on **value chain positioning** and relative trade exposures, FX gains are likely to accrue most to KRW and TWD followed by MYR and PHP. VND and THB will trail on more downstream use of chips with IDR least likely to gain materially.

Trade Recovery in Korea and Taiwan– Underlying Drivers

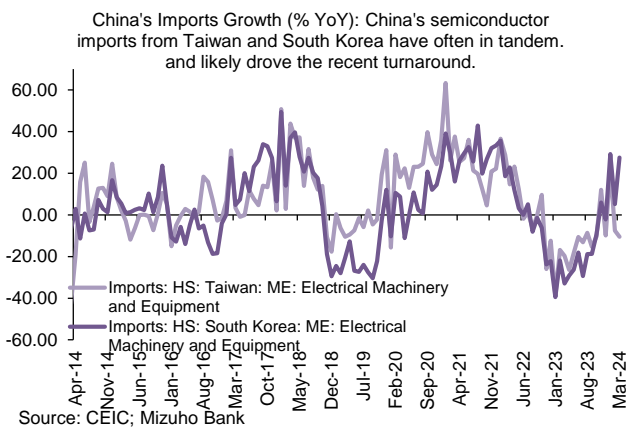
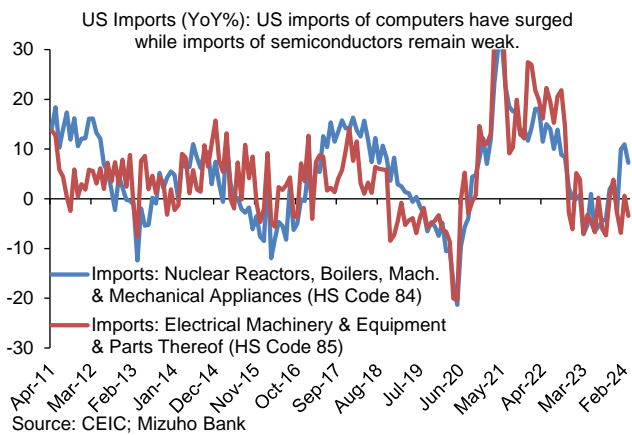


Taiwan and Korea's recent Q1 GDP outperformance alongside strong semiconductor exports growth invites the question of the extent to which Asian economies are primed for tech cycle led tailwinds. At this

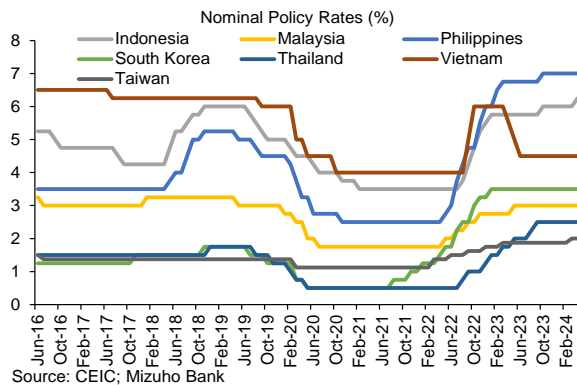
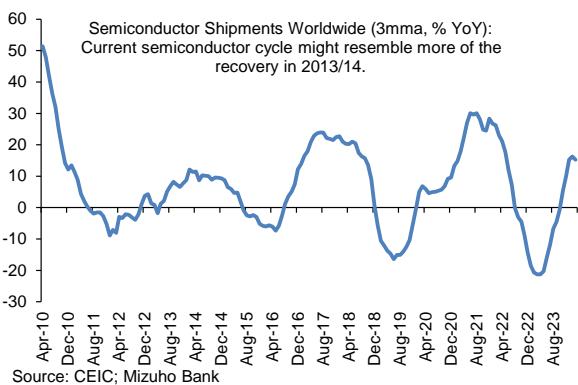
juncture, the semiconductor exports recovery has materialized in a stronger manner in Korea than Taiwan, but this could well be a lag effect which may see Taiwan’s recovery catch-up in the coming months.

Domestically, **underpinning** this semiconductor recovery is the **relative drawdown of inventory** in the sector which then necessitates replenishment amid a demand pickup. Externally, **China has been a key source of the upturn** as their imports of electrical machinery and equipment (of which **semiconductors are a sub-category**) from both countries picked up. Notably, the Q1 divergence between Taiwan and Korea’s aggregate semiconductor exports growth is also reflected by China imports from both countries. Given that China’s demand from both countries have historically been in tandem, imports from Taiwan could pick up in the coming months.

That said, there is a material probability that China’s demand recovery could be a manifestation of front loading due to the various US trade restrictions resulting in the need to source for alternate sources of chips. (e.g. American companies being prohibited from selling high-end chips to China). This need to stock pile and front load is perhaps exacerbated by the upcoming US elections and a possibility that the already fraught geopolitical relations could worsen, while supply chain resiliency and domestic production needs remain priorities. In turn, this could also mean that the further outsized growth in demand from China may not be that durable. Afterall, **China’s weak consumer sentiments and tepid economic recovery ought to restrain optimism surrounding an unfettered boom for the electronics cycle.**



As for the US, import growth of semiconductor devices (under HS code 85) remain weak while **import demand of automatic data processing machines (i.e. computers/servers under HS code 84)** saw stronger growth in Q1 2024. The latter appears to suggest a **decent bout of final demand from businesses and consumers likely in response to AI related demand**. Nonetheless, amid a slowdown of US growth momentum, a US driven trade recovery may not generate an unfettered global uplift. **This recovery is more likely to resemble the moderate 2013/14 recovery** rather than a return to the pandemic induced electronics demand type of acceleration or the 2016 super cycle which was driven by broad demand from electronics, autos, industrial equipment and the beginnings of cloud computing.



Turning to policy implications, while the **BoK and the CBC are afforded policy room to hold their elevated rate for longer**, the resultant KRW and TWD tailwinds in are unlikely to unilaterally turn the USD tide. In fact, even the outperformance against ASEAN peers may be rather differentiated given the low nominal rate returns from KRW and TWD.

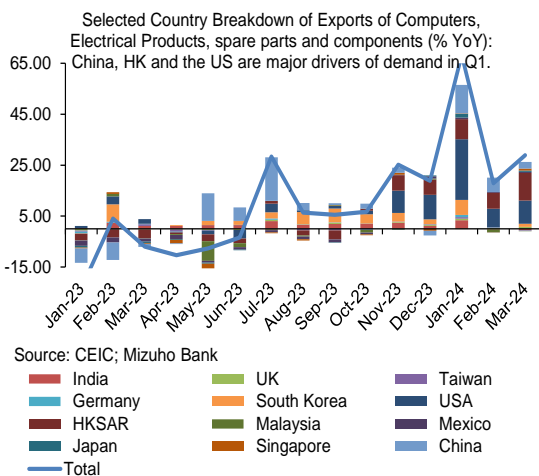
ASEAN – Dampened & Differentiated Spillovers

The ability of ASEAN countries to hitch a ride on the semi-conductor recovery is dependent on the relative supply chain and related technological ladder positioning. Regardless, **the North Asia semiconductor spillovers to ASEAN in this cycle is likely somewhat dampened compared to previous tech cycles.**

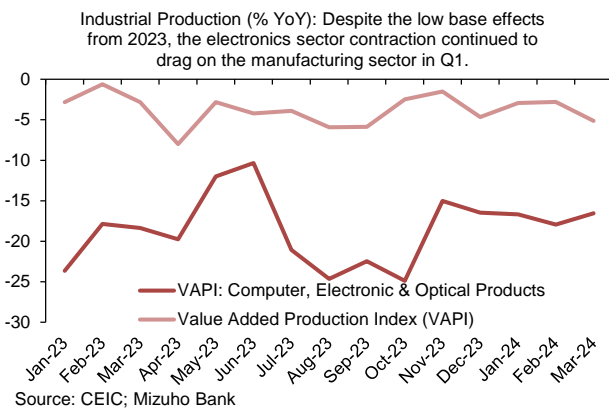
Mainly as on-going chips revival likely pertains more to AI related demand for commercial/industrial server users, a space dominated by Japan, Korea and Taiwan relative to consumer electronics or durables (such as cars), which tend to have a more emphatic cascade effect on ASEAN exporters.

Nonetheless, it will still be **significantly differentiated across ASEAN exporters**, translating into *varied boost to growth* as well as currency, which in turn will **determine policy room** for ASEAN central banks. Crucially, policy differentiation, which both feeds into and feeds off exchange rates, will be even more pronounced by pro-cyclical FX effects.

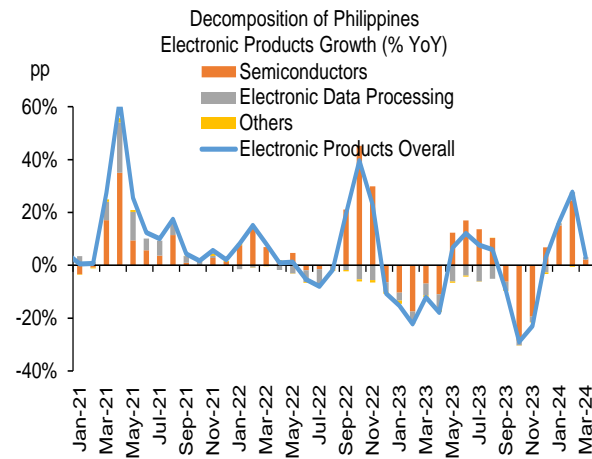
FX multipliers: All else equal and looking past overarching USD trend, the **uplift from the semiconductor cycle** with knock-on growth and policy impact will *comparatively benefit KRW and TWD most followed by MYR* (given Malaysia’s relatively upstream exposures). PHP will benefit to a lesser extent given the still large electronics exposure. VND trails as gains are likely to be from downstream use of chips in consumer goods. *THB’s gains* may be *similar, but somewhat diminished* by the high semiconductor import reliance for downstream use (e.g. autos). *IDR may benefit the least* given relatively lower electronics activity exposure.



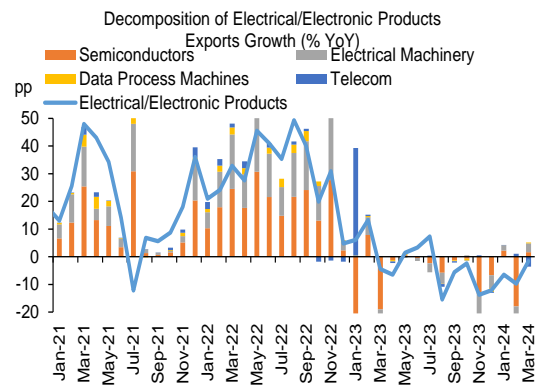
Vietnam: Exports of computers and electrical products saw strong growth of 38% YoY in Q1 with external demand driven by the US, China and Hong Kong. However, mobile phone and parts related exports saw more modest growth of around 5% growth as improving demand from US, Middle East and India demand offset drag from China. Given the lack of broad recovery in the consumer electronics sector, a more substantial growth recovery will also require stronger orders in the traditional footwear and apparel sector. Nonetheless, the growth upturn allows the SBV to focus on the VND and wider financial sector stability, pushing back pressures to lower policy rates.



Thailand: In Q1, the lack of broad pass-through from the electronics upturn is particularly evident as **industrial production of computer, electronics and optical products remain in contraction relative to a year ago despite the low base effects.** From a structural angle, given that semiconductors serve more as an input into key exports such as vehicles with exports of electrical machinery and equipment not even a top 10 driver of net exports revenue, the current brand of semiconductor recovery is not expected to provide much of a growth lift.



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

Philippines: Semiconductors constituting a significant proportion of exports means that Philippines is likely poised to continue benefitting from tailwinds of the tech cycle. Exports growth was encouraging in Q1'2024 on the back of strong semiconductor as well as electronic data processing exports growth. Nonetheless, key risk persists on whether this is the start of a longer and more durable electronics cycle recovery or a short and modest recovery.

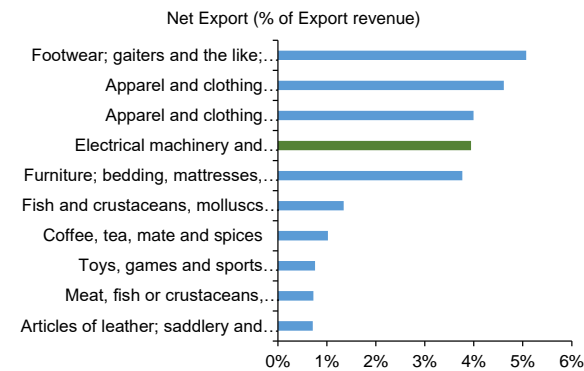
Furthermore, the inherent large goods deficit (at 14.3% of GDP in 2023) on huge import expenditures on capital & industrial goods (e.g. transport equipment, mineral oils), intermediate goods (e.g. semiconductors) and to some extent agriculture goods (e.g. cereals) imply that the current account deficit is unlikely to be reverse in 2024, consequently PHP tailwinds remain muted.

Malaysia: Well positioned to reap spillovers from uptick in electronics cycle given their position higher up value chain. Malaysia could see a further recovery in the months ahead and we already observe signs of bottoming electrical/electronic products growth, alongside **improving electrical/electronic products industrial production** and manufacturing sector seeing a growth rebound at 1.9% in Q1'2024 (Q4: -0.3%). Interestingly, Malaysia's data processing machines exports (albeit constituting a small proportion of exports) have seen supportive growth in Q1'2024, which could be fueled by demand from US.

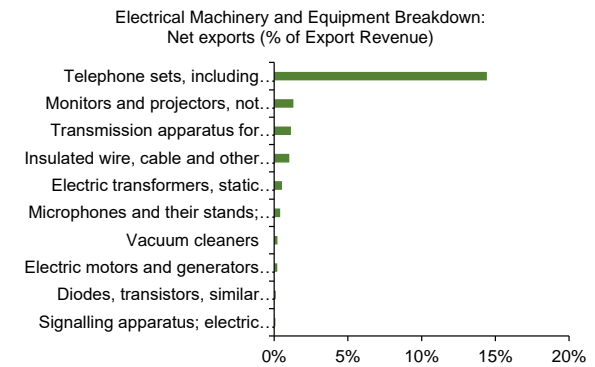
Indonesia: Given that Indonesia remains skewed towards the commodity sector, spillovers from the tech cycle are likely limited. Within electronics, their focus is more on downstream products which are subject to idiosyncrasies of specific industries, as opposed to upstream products (e.g. semiconductors) which are required in most electronics. The current glut of EVs in China is also a potential key risk on automotive export growth. Growth in the future will likely be dependent on investment inflows from downstreaming policies as well as commodity exports.

Appendix: Key Trade Drivers in ASEAN Countries

Vietnam

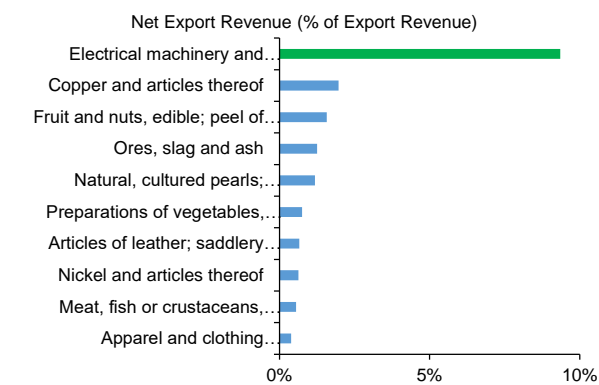


Source: UNComtrade (2021); Mizuho Bank

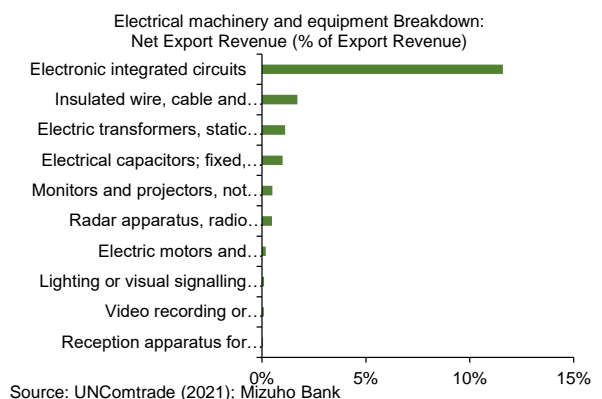


Source: UNComtrade (2021); Mizuho Bank

Philippines

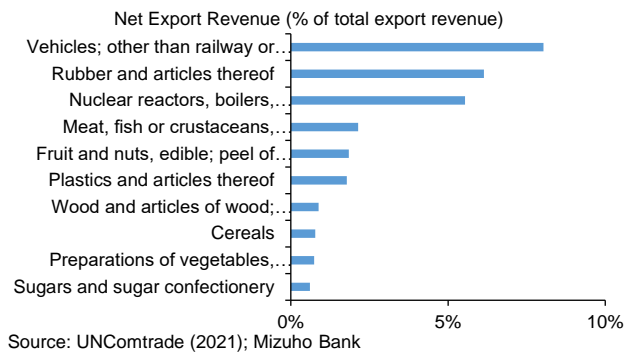


Source: UNComtrade (2021); Mizuho Bank

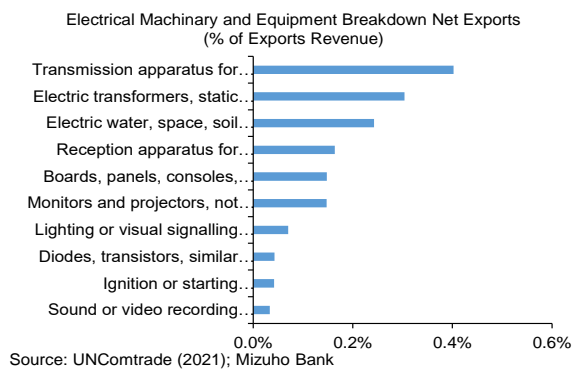


Source: UNComtrade (2021); Mizuho Bank

Thailand

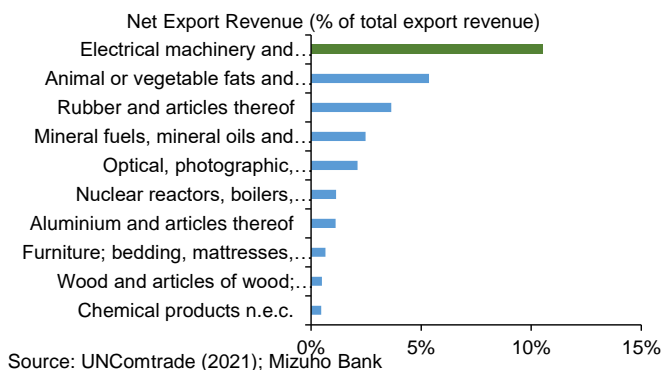


Source: UNComtrade (2021); Mizuho Bank

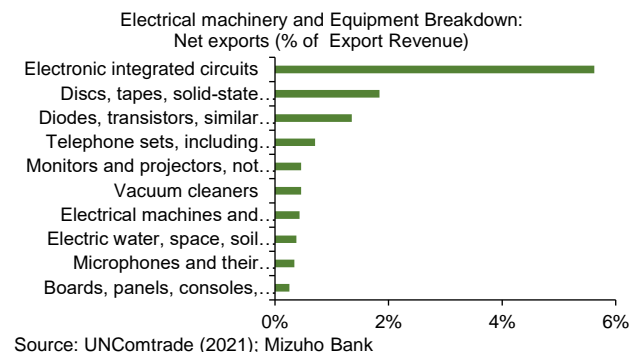


Source: UNComtrade (2021); Mizuho Bank

Malaysia

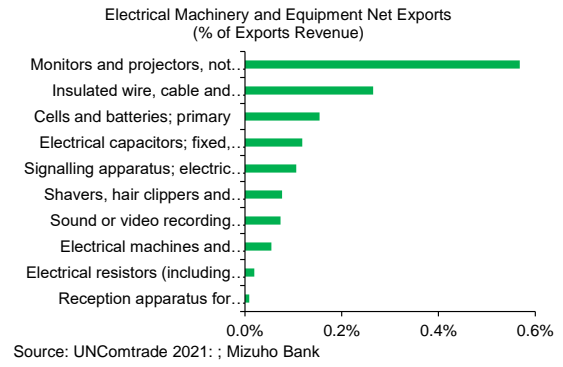
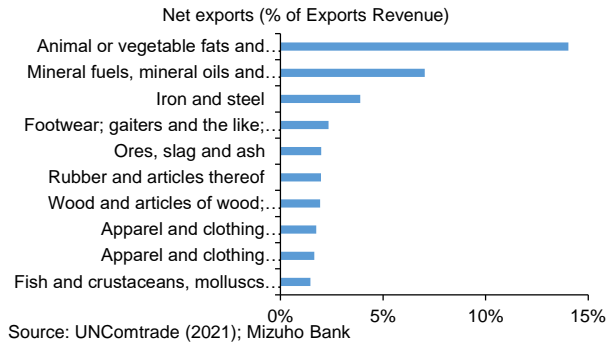


Source: UNComtrade (2021); Mizuho Bank



Source: UNComtrade (2021); Mizuho Bank

Indonesia



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