Economy

June export orders to grow by 57% YoY; diffusion index signals upside for small- & mid-cap stocks; order growth to ease after mid-3Q26F on base effects

Key message

1. Taiwan export orders reached US$89.48bn in May, up 2.3% MoM (up 0.5% MoM seasonally-adjusted) and 47.2% YoY, which exceeded our forecast of 40.1% YoY but was below consensus of 50.0% YoY.
2. AI themes drove order trends across sectors; within electronics, optics were the only laggard, while base metals, despite overall weakness, found support from copper's exposure to AI demand; regionally, the US and Europe performed best, while Japan had a relatively muted performance, and ASEAN was constrained by base effects.
3. We forecast June export orders to grow by 57% YoY, driven by the sustained strength of the AI theme, which is the key catalyst behind this wave of robust export growth. Even in non-electronics sectors, industries with exposure to AI-related demand are seeing broad-based support. We believe the AI-driven trend will continue, with base effects unlikely to emerge until mid-3Q26F. Export order growth is therefore expected to be resilient in the near term before gradually moderating.

Event

Taiwan export orders reached US$89.48bn in May, up 2.3% MoM (up 0.5% MoM seasonally-adjusted) and 47.2% YoY, which exceeded our forecast of 40.1% YoY but was below consensus of 50.0% YoY (Figure 1).

Analysis

AI themes drove order trends across sectors; within electronics, optics were the only laggard, while base metals, despite overall weakness, found support from copper's exposure to AI demand. Among major product categories, ICT export orders reached US$32.37bn, up 2.9% MoM and 67.2% YoY, driven by strong cloud demand that is supporting orders for server and networking equipment. Electronics orders totaled US$37.24bn, up 3.6% MoM and 61.2% YoY, supported by sustained strength in AI and high-performance computing (HPC) demand, fueling order growth across the chip distribution, IC manufacturing, and memory subsectors. Optical instrument orders amounted to US$1.89bn, down 0.4% MoM and 1.7% YoY, reflecting weaker panel-related order intakes. That said, demand for optical inspection and metrology equipment tied to AI semiconductor applications partially offset the decline. Raw materials orders were relatively weak overall. Base metals were the only category posting both MoM and YoY growth, while plastics and rubber declined on both measures. Base metals rose by 4.0% MoM and 9.6% YoY, supported by expanding AI applications driving demand for copper foil and CCL, alongside high copper prices versus a year ago. Plastics and rubber fell by 8.2% MoM and 0.9% YoY, reflecting weak demand for plastic feedstock and cautious purchasing by downstream customers. Chemicals declined by 5.6% MoM but rose by 5.3% YoY, as order growth for industrial chemicals and pharmaceuticals was partly offset by weaker demand and customer wait-and-see behavior for certain products. Machinery orders rose 22.5% YoY, driven by strength in semiconductor and automation equipment demand (Figures 2-3).

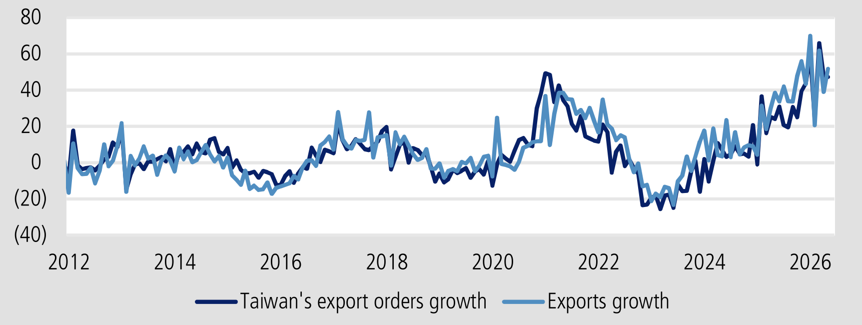
Order growth was strongest in the US & Europe, while Japan & ASEAN, given their already elevated base levels, delivered weaker performances. Orders from the US rose 63.9% YoY, with ICT products contributing the most, increasing by US$8.67bn (or 120.6%). Orders from China and Hong Kong grew 37.5% YoY, driven by electronic products, which increased by US$3.89bn (or 65.0%). Orders from Europe rose by 48.7% YoY, with ICT products increasing by 76.5%. Meanwhile, orders from ASEAN and Japan grew by 31.6% and 29.1% YoY, respectively (Figures 4 and 5).

Conclusion

Export orders grew by 47.2% YoY in May, easing slightly from 48.1% YoY growth in April, but reflecting exceptionally strong growth overall. The AI theme remains the driver of this robust expansion, with even non-electronics sectors benefiting from broad-based support where AI exposure is present. The export order diffusion index for June stood at 50.1, based on the number of firms and 54.3 based on order value (Figure 6), both indicating expansion. This suggests, to some extent, a shift away from the traditional "winner-takes-all" dynamic, creating opportunities for small- and mid-cap companies, as well as previously underperforming firms, to see improved valuation prospects. This dynamic also helps explain the recent outperformance of Taiwan's OTC index relative to the main board. We believe the AI-driven upcycle is intact, with base effects unlikely to emerge until mid-3Q26F. Export order growth is therefore expected to be resilient in the near term before gradually moderating. We forecast June export orders to grow by 57% YoY.

Figure 1: May export orders grew by 47.2% YoY, maintaining strong growth

Taiwan export orders growth YoY & exports growth YoY, percent



Source: Bloomberg; KGI Research

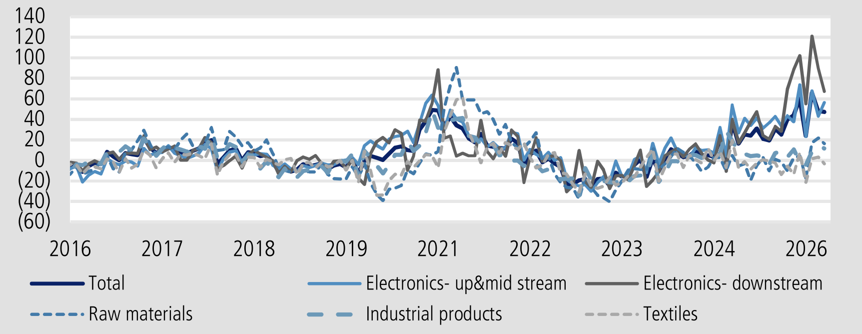
Figure 2: Main export order categories

	May-26			From Jan-25 to May-25		
	Value (US$bn)	MoM (%)	YoY (%)	Value (US$bn)	Weighting (%)	YoY (%)
ICT	32.4	2.9	67.2	146.0	35.7	85.9
Electronics	37.2	3.6	61.2	168.7	41.3	56.3
Optics	1.9	(0.4)	(1.7)	9.2	2.3	2.5
Base metals	2.2	4.0	9.6	10.1	2.5	3.7
Machinery	2.2	4.6	22.5	10.0	2.4	21.6
Plastics/rubber	1.5	(8.2)	(0.9)	7.4	1.8	1.8
Chemicals	1.5	(5.6)	5.3	7.2	1.7	1.6
Total	**89.5**	**2.3**	**47.2**	**408.8**	**100.0**	**49.0**

Source: Bloomberg; KGI Research

Figure 3. The AI theme is driving trends across product categories; among electronics, only optical products showed relative weakness, while the underperforming base metals segment found support from copper's exposure to AI-related demand

Taiwan export orders growth YoY (by category), percent

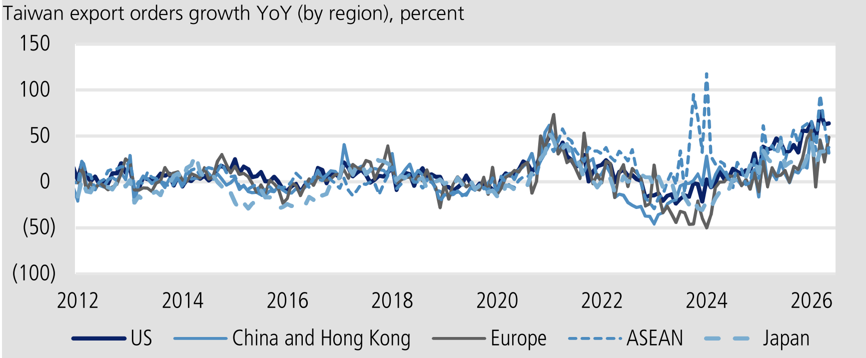


Note: Midstream/ upstream electronics are electronic products and optical apparatus; downstream electronics are information and communication products; raw materials include chemicals, plastic & rubber products, base metals and minerals; industrial products are machinery, electrical machinery products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

Source: Bloomberg; KGI Research

Figure 4: Order growth was strongest in the US & Europe, while Japan & ASEAN lagged, partly due to higher base levels

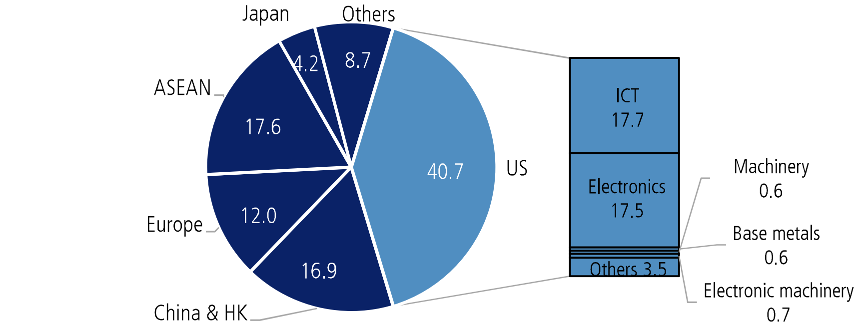
Taiwan export orders growth YoY (by region), percent



Source: Bloomberg; KGI Research

Figure 5: Orders from US rebounded notably this month, while ASEAN saw a decline

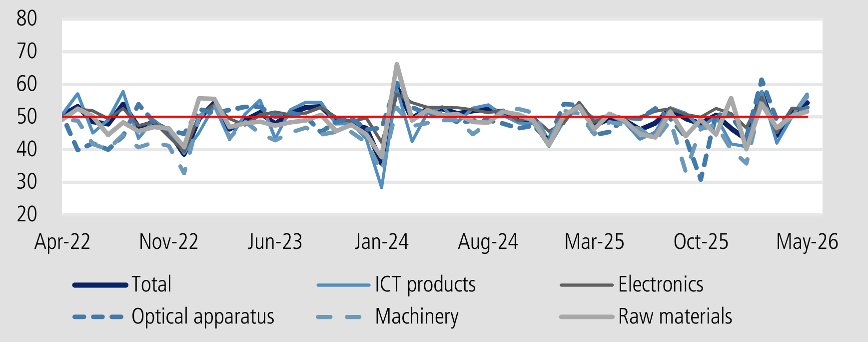
Taiwan export orders weighting (by region), percent



Source: Bloomberg; MOEA; KGI Research

Figure 6: Order value-based diffusion index at 54.3 in June

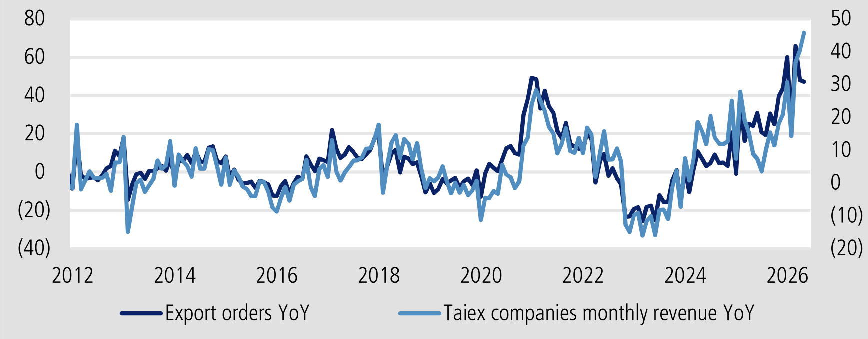
Diffusion index by order type (value), percent



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

Figure 7. Export orders vs. Taiex revenue growth

Taiwan export orders YoY, percent (LHS); Taiex monthly revenue growth YoY, percent (RHS)



Source: Bloomberg; KGI Research

Figure 8: Major international political & economic events over the next quarter

Date	Major event	Possible effect
July	CCP Politburo meeting	Roll out economic stimulus policies that the market had anticipated for 2Q26
7/1	Joint review of the US-Mexico-Canada Agreement	Focus on rules of origin for the automobile industry, as well as steel & aluminum production and labor compliance standards
7/7-8	36th NATO Summit	Focus on cross-Atlantic partnerships amid US policy changes
7/22-23	ECB meeting	Very likely to suspend rate hikes; ECB president's press meeting statement is a key factor to watch
7/24	Expiry of Section 122 of the US Trade Act	Impact of Section 301 as a substitute for Section 122 remains to be seen, but we do not expect strong responses from the market
7/28-29	FOMC meeting	Clearer outlook on rate hikes at end-2026; financial markets may fluctuate
7/30-31	BOJ meeting	Suspend rate hike and announce the latest GDP and inflation forecasts
August	Jackson Hole Economic Symposium	Fed Chair Kevin Warsh to give a speech for the first time; global central banks will adapt to the new Fed chair's policy framework and its influence on other central banks
9/9-10	ECB meeting	A key factor to watch is whether rate hikes will resume or remain on hold, depending on how the ECB prioritizes inflation management and economic stimulus
9-15-16	FOMC meeting	All eyes on the first time Warsh changes the way guidance is provided, which could give rise to transparency issues
9/17-18	BOJ meeting	Rate hike probability remains low; guidance for interest rate adjustment in 4Q26 to draw attention

Source: KGI Research

Figure 9: Key economic data - US

Indicators		Units	2021	2022	2023	2024	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26
GDP	GDP QoQ SAAR	QoQ %, SAAR					3.8			4.4			0.5			1.6		
	GDP YoY	YoY %	6.2	2.5	2.9	2.8	2.1			2.3			2.0			2.6		
Consumer prices	CPI	YoY %	4.7	8.0	4.1	3.0	2.7	2.7	2.9	3.0		2.7	2.7	2.4	2.4	3.3	3.8	4.2
	Core CPI	YoY %	3.6	6.2	4.8	3.4	2.9	3.1	3.1	3.0		2.6	2.6	2.5	2.5	2.6	2.8	2.9
	PCE price index	YoY %	4.1	6.5	3.8	2.6	2.6	2.6	2.7	2.8	2.7	2.8	2.9	2.9	2.9	3.5	3.8	
	Core PCE index	YoY %	3.6	5.3	4.2	2.9	2.8	2.9	2.9	2.8	2.8	2.8	3.0	3.1	3.0	3.2	3.3	
Labor market	Labor force participation rate	%	62.0	62.3	62.5	62.5	62.3	62.2	62.3	62.5		62.5	62.4	62.1	62.0	61.9	61.8	61.8
	Unemployment rate	%	5.4	3.6	3.6	4.0	4.1	4.3	4.3	4.4		4.5	4.4	4.3	4.4	4.3	4.3	4.3
	Non farm payrolls	'000	7,268	4,526	2,515	1,459	(20)	64	(70)	76	(140)	41	(17)	160	(156)	214	179	172
	Net Change In total employment in labor force	'000	6,078	4,526	2,515	1,459	83	(187)	230	286			232	(895)	(185)	(64)	(226)	149
	Challenger job cut announce	YoY %	(1.2)	(1.7)	2.1	(0.9)	(2)	140	13	(26)	175	24	(8)	118	(72)	(78)	(21)	3
	Opening/ hiring	x	1.56	1.75	1.58	1.42	1.35	1.36	1.34	1.37	1.38	1.36	1.24	1.35	1.41	1.24	1.49	
	Avg. hourly earnings	YoY %	4.9	4.9	4.1	4.1	3.9	4.0	4.0	3.8	3.9	3.9	3.7	3.7	3.7	3.4	3.6	3.4
Economic activity & business condition	Industrial production	YoY %	4.4	1.7	(0.2)	(0.7)	0.6	1.9	1.2	1.9	1.8	1.8	1.2	1.1	0.8	0.6	1.4	1.7
	Durable goods orders	YoY %	18.4	8.8	3.7	(1.7)	12.6	3.6	5.1	9.7	4.6	10.5	12.8	9.0	7.5	2.8	19.2	
	Core capital goods orders	YoY %	13.4	8.6	(2.5)	(0.6)	4.5	4.4	2.5	5.3	6.2	4.1	8.0	2.9	5.9	10.8	10.9	
	Total business inventory/ sales ratio	x	1.29	1.36	1.41	1.40	1.38	1.37	1.37	1.37	1.38	1.37	1.36	1.35	1.33	1.32	1.31	
	Manufacturing inventory/ sales ratio	x	1.49	1.53	1.59	1.58	1.57	1.56	1.56	1.56	1.56	1.57	1.56	1.55	1.52	1.51	1.50	
	Retail inventory/ sales ratio	x	1.14	1.23	1.27	1.31	1.29	1.29	1.28	1.28	1.29	1.28	1.28	1.28	1.27	1.26	1.26	
	ISM manufacturing index	Point	60.6	53.5	47.1	48.2	49.0	48.4	48.9	48.9	48.8	48.0	47.9	52.6	52.4	52.7	52.7	54.0
	ISM non-manufacturing index	Point	62.4	56.1	52.7	52.4	50.8	50.5	51.9	50.3	52.0	52.4	53.8	53.8	56.1	54.0	53.6	54.5
	ISM manufacturing index: new orders	Point	64.3	51.6	46.0	48.7	46.9	47.5	51.1	48.7	48.7	47.3	47.4	57.1	55.8	53.5	54.1	56.8
	Chicago Fed National activity Index	Point	0.37	(0.06)	(0.12)	(0.20)	(0.08)	0.01	(0.36)	(0.31)	(0.49)	(0.30)	(0.04)	0.12	0.09	(0.15)	0.14	
	Conference board leading index	YoY %	7.3	0.7	(7.6)	(4.7)	(3.8)	(3.4)	(3.5)	(3.2)	(3.1)	(3.7)	(3.7)	(3.6)	(3.1)	(3.0)	(1.6)	(1.5)
	C&I Loans for large/medium - tightening lending standard	%	(15.1)	11.8	43.9	9.5		9.5			6.5			5.3			8.1	
	C&I Loans for large/medium - stronger demand	%	(1.2)	12.4	(42.3)	(18.2)		(28.6)			11.5			16.1			4.8	
Housing market	Building Permits	'000, SAAR	1,734	1,685	1,516	1,474	1,399	1,400	1,347	1,444	1,418	1,414	1,482	1,393	1,540	1,363	1,423	1,413
	Housing starts	'000, SAAR	1,603	1,550	1,421	1,370	1,379	1,432	1,291	1,319	1,273	1,319	1,378	1,385	1,346	1,522	1,392	1,177
	New home sales	'000, SAAR	769	636	666	684	665	648	698	714	652	757	723	576	641	663	622	
	Existing home sales	mn, SAAR	6.1	5.1	4.1	4.1	4.0	4.0	4.0	4.1	4.1	4.1	4.3	4.0	4.1	4.0	4.0	4.2
	NAHB housing market index	Point, SA	81	59	44	45	32	33	32	32	37	38	39	37	37	38	34	37
	S&P/Case-Shiller 20-city composite home price index	YoY %	18.7	4.9	6.4	4.6	2.1	1.8	1.6	1.4	1.4	1.5	1.5	1.2	0.9	0.8		
Consumption	Personal expenditures	YoY %, SA	8.8	3.0	2.6	2.9	2.5	2.6	2.8	2.4	2.5	2.2	1.6	2.2	2.6	2.1	2.1	
	Retail sales	YoY %	18.1	9.1	3.5	2.6	4.4	4.1	5.0	4.1	3.2	3.2	2.4	3.3	4.2	4.2	4.8	6.9
	Retail sales ex-autos	YoY %	17.2	10.6	3.3	2.8	4.0	4.0	4.8	3.8	3.7	4.1	3.3	4.0	4.2	5.7	6.4	7.5
	Domestic vehicles sales	mn, SA	179.2	164.8	185.2	189.3	15.3	16.4	16.1	16.4	15.3	15.6	16.0	14.9	15.8	16.3	15.9	16.1
	Conference board consumer confidence	Point	112.7	104.5	105.4	104.5	95.2	98.7	97.8	95.6	95.5	92.9	94.2	89.0	91.0	92.2	93.8	93.1
	Michigan Consumer Sentiment Index	Point	77.6	59.0	65.4	72.5	60.7	61.7	58.2	55.1	53.6	51.0	52.9	56.4	56.6	53.3	49.8	44.8
Fiscal	Budget balance	As % of GDP	(10.4)	(5.3)	(6.3)	(6.9)	(6.3)	(6.4)	(6.2)	(5.8)	(5.9)	(5.3)	(5.4)	(5.3)	(5.2)	(5.9)	(5.3)	(5.2)
Int'l balance	Current account balance	As % of GDP	(3.7)	(3.8)	(3.3)	(4.1)	(4.3)			(4.0)			(3.6)					
	Net foreign securities transactions	US $bn	907	1,321	1,005	779	157.7	37.6	132.3	177.8	30.6	203.4	100.3	12.8	56.6	79.9	103.1	
Monetary & financial	Federal funds rate	%	0.25	4.50	5.50	4.50	4.50	4.50	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.75	3.75	3.75
	10-Year treasury yield	%	1.51	3.87	3.88	4.57	4.23	4.37	4.23	4.15	4.08	4.01	4.17	4.24	3.94	4.32	4.37	4.44
	Dollar index	Point	95.7	103.5	101.3	108.5	96.9	100.0	97.8	97.8	99.8	99.5	98.3	97.0	97.6	100.0	98.1	98.9

Source: Bloomberg; KGI Research

Figure 10: Key economic data - Taiwan

Indicators		Units	2021	2022	2023	2024	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26
GDP	GDP YoY	YoY %	6.7	2.7	1.1	5.3	7.7			8.4			13.0			14.6		
Consumer prices	CPI	YoY %	2.0	3.0	2.5	2.2	1.4	1.5	1.6	1.3	1.5	1.2	1.3	0.7	1.8	1.2	1.7	2.2
	Core CPI	YoY %	1.9	2.7	2.4	1.7	1.5	1.7	1.8	1.5	1.8	1.7	1.8	1.3	2.6	1.9	1.9	2.1
Labor market	Unemployment rate	%	3.7	3.6	3.4	3.4	3.4	3.3	3.3	3.4	3.3	3.4	3.4	3.4	3.3	3.4	3.3	
Economic activity	Industrial production	YoY %	14.7	(1.7)	(12.5)	11.6	20.6	20.1	15.2	18.2	15.9	18.4	23.1	27.9	16.6	26.1	14.2	
	Markit Taiwan manufacturing PMI	Point				50.9	47.2	46.2	47.4	46.8	47.7	48.8	50.9	51.7	55.2	53.3	55.3	56.1
	NDC monitoring light signal						Green	Green	Green	Yellow-red	Yellow-red	Yellow-red	Red	Red	Red	Red	Red	
	NDC monitoring indicators	Point	39.0	24.2	14.4	34.0	29.0	29.0	31.0	34.0	35.0	37.0	38.0	39.0	41.0	39.0	39.0	
	NDC composite leading index	YoY %	4.9	(3.3)	(1.7)	2.2	8.6	8.9	9.7	10.9	12.2	13.5	14.6	15.6	16.6	18.0	19.6	
	NDC composite coincident index	YoY %	8.8	(1.3)	(9.5)	3.0	16.7	16.9	17.3	17.9	18.8	19.7	20.6	21.4	21.9	22.2	22.4	
Consumption	Retail sales	YoY %	3.3	7.4	9.7	3.3	(2.9)	(3.6)	0.4	(1.6)	1.9	1.6	0.9	(3.4)	7.7	3.3	5.2	
Trade	Exports	US$bn	446.6	479.7	432.6	475.3	53.3	56.7	58.4	54.2	60.9	64.1	62.5	65.8	49.8	80.2	67.6	78.5
	Imports	US$bn	381.3	428.1	352.1	394.7	41.3	42.3	41.7	41.9	39.2	48.0	43.0	46.8	37.0	58.9	53.3	60.6
	Trade balance	US$bn	65.3	51.6	80.5	80.6	12.1	14.4	16.8	12.4	21.7	16.1	19.4	18.9	12.8	21.3	14.4	17.9
	Export growth	YoY %	29.4	7.4	(9.8)	9.9	33.7	42.0	33.9	33.7	47.5	56.0	43.4	69.9	20.6	61.8	39.0	51.7
	Import growth	YoY %	33.4	12.3	(17.8)	12.1	17.2	20.4	29.5	25.1	14.5	44.9	14.9	63.5	6.8	38.3	29.2	54.9
	Export orders	US$bn	674.1	666.8	561.0	589.6	59.8	60.5	60.1	70.3	69.4	73.0	76.2	76.9	63.9	91.1	87.4	
	Export order growth	YoY %	26.3	(1.1)	(15.9)	5.1	31.0	20.8	19.5	30.6	25.0	39.5	43.8	60.1	23.8	65.9	48.1	
Monetary & financial	M1B	YoY %	12.8	4.1	3.1	4.0	2.4	2.9	4.5	5.2	4.8	4.9	4.9	5.6	7.1	7.8	8.3	9.6
	M2	YoY %	8.0	7.1	5.3	5.5	3.5	3.4	4.8	5.4	5.0	5.1	5.0	5.2	5.4	5.8	6.5	7.8
	Foreign reserves	US$bn	548.4	554.9	570.6	576.7	598.4	597.9	597.4	602.9	600.2	599.8	602.6	604.5	605.5	596.9	602.5	605.1
	Rediscount rate	%	1.1	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
	Exchange rate	USD/TWD	27.7	30.7	30.7	32.8	29.6	29.9	30.6	30.5	30.7	31.4	31.4	31.5	31.2	32.0	31.7	31.4

Source: Bloomberg; KGI Research

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