

### 3. Money Market

For the year 2020, the total turnover in the interbank call loan market fell by 6.38% year on year, whereas that in the short-term bills market increased by 8.97%. In terms of money market rates, as the Bank reduced the policy rates by 25 basis points in March in response to the impacts of the COVID-19 pandemic, the interbank overnight call loan rate and bills market rates displayed downtrends. Later in the year, the Bank kept the policy rates on hold amid expectations of a rebound in the domestic economy and a mild inflation outlook. The interbank overnight call loan rate and bills market rates thus fluctuated in a narrow range.

#### Reduction in Interbank Call Loans

Demand for interbank call loans remained weak in 2020, reflecting ample domestic liquidity and the Bank's continued accommodative monetary policy stance. Total annual turnover of interbank call loans stood at NT\$28,093.1 billion, dropping by NT\$1,913.7 billion or 6.38% over the previous year.

With respect to borrowers, domestic banks still made the largest contribution to total transactions with a share of 77.73%, followed by bills finance companies, foreign and Mainland Chinese banks, and Chunghwa Post, with shares of 12.69%, 8.12%, and 1.46%, respectively.

The amount borrowed by domestic banks went up by NT\$701.5 billion or 3.32% from the year before. The increase was mainly because banks' demand for interbank borrowing mounted up as they tried to meet fund allocation needs against a backdrop of rising debt levels of the national treasury owing to the government's pandemic relief and stimulus measures and the Bank's expanded issuance of CDs to absorb market liquidity.

Meanwhile, increased outright sales in the bills market lowered bills finance companies' demand for funds. The amount borrowed by bills finance companies registered a year-on-year decrease of NT\$586.8 billion or 14.13%.

As some of the foreign and Mainland Chinese banks saw their funding needs soften, and some of them turned to their head offices abroad for foreign currency borrowings and then obtained funds through forex swap transactions conducted by domestic banks, the amount borrowed by foreign and Mainland Chinese banks fell by NT\$740.6 billion or 24.52% over the previous year.

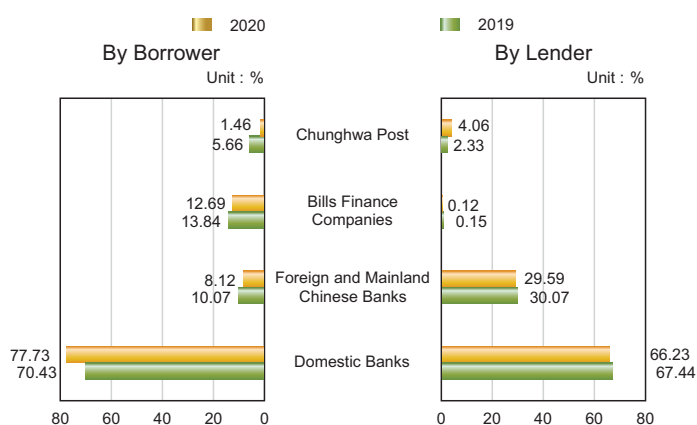
Additionally, the amount borrowed by Chunghwa Post dropped substantially by NT\$1,287.8 billion or 75.83% compared with the previous year as its Department of Savings and Remittances managed funds effectively, thus driving down its demand for borrowing.

In terms of lenders, domestic banks remained the largest supplier of funds, contributing to 66.23% of total transactions in 2020. Foreign and Mainland Chinese banks came second with a share of 29.59%, followed by Chunghwa Post and bills finance companies, making up 4.06% and 0.12% of total transactions, respectively.

With increased lending to meet borrowers' demand resulting in less available funds at hand, the amount of call loans made by domestic banks slid by NT\$1,630.3 billion or 8.06%, compared with the previous year. As for foreign and Mainland Chinese banks, who often carry out the custodian business for foreign investors, massive stock market sell-offs by foreign investors and the consequent capital outflows reduced the source of funds for them, causing the call loans made by this group to decline by NT\$711.4 billion or 7.88% over the previous year.

On the contrary, to channel excess available funds at hand, Chunghwa Post increased its interbank lending by NT\$441.2 billion or 63.15% over the previous year, whereas the amount lent by bills finance companies recorded a year-on-year decrease of NT\$13.1 billion or 28.29% on account of insufficient funds at their disposal.

**Composition of Interbank Call Loan Market by Participant**



Source: Financial Statistics Monthly, CBC.

In respect to maturity, interbank overnight call loans remained the most actively traded instrument in the market with a predominant share of 40.40%, down by 8.35 percentage points from that of the previous year. The second were those with a maturity of one week, accounting for 40.00%, up by 3.27 percentage points from that of the previous year, while the share of loans with a two-week maturity rose by 2.34 percentage points to 13.13%.

### Growth in Short-Term Bill Transactions

For the year 2020, newly issued short-term bills stood at NT\$16,005.2 billion. Commercial paper made up a dominant 92.62% of the new issues, followed by negotiable certificates of deposit (NCDs) with a share of 5.19%.

The rise in the volume of newly issued short-term bills was mainly attributable to increased issuance of commercial paper with an amount of NT\$1,211.1 billion because government enterprises

and private enterprises issued commercial paper to raise funds amidst a persistently low interest rate environment. The second largest contributor were treasury bills with a rise of NT\$22.6 billion over the previous year, primarily on account of an increase in issuance to support fiscal funding needs.

However, issuance of NCDs shrank by NT\$154.8 billion from the previous year. This was because, when part of the NCDs reached maturity, some bank holders did not renew the issuance of NCDs after assessing their own funding conditions or corporate holders did not renew their purchases in order to free up funds for other purposes. Meanwhile, the amount of banker's acceptances went down slightly by NT\$1.0 billion from a year before.

Overall, the increase in the total issuance of short-term bills was greater than that in the total repayments for short-term bills. Therefore, the outstanding of short-term bills stood at NT\$2,747.2 billion as of the end of 2020, showing an increase of NT\$394.0 billion or 16.75% from that of the previous year end.

### Short-Term Bills Market

Unit: NT\$ Billion

Year	Total		Treasury Bills		City Treasury Bills		Commercial Paper		Bankers' Acceptances		Negotiable Certificates of Deposit	
	Issues	Year-end Outstanding	Issues	Year-end Outstanding	Issues	Year-end Outstanding	Issues	Year-end Outstanding	Issues	Year-end Outstanding	Issues	Year-end Outstanding
2011	7,424.0	1,192.6	321.2	180.3	-	-	6,270.5	735.2	30.1	5.7	802.2	271.5
2012	8,187.7	1,454.0	265.0	195.0	-	-	7,311.6	1,023.6	24.2	4.3	586.9	231.1
2013	9,809.0	1,650.2	324.6	214.6	-	-	8,827.4	1,199.2	23.5	4.2	633.5	232.3
2014	10,840.6	1,641.2	244.9	130.0	10.0	0.0	9,919.5	1,306.8	24.1	4.3	642.2	200.2
2015	11,512.8	1,677.7	233.7	90.0	-	-	10,426.0	1,346.6	20.8	3.5	832.3	237.6
2016	12,778.5	1,873.5	217.3	90.0	-	-	11,371.3	1,480.1	18.3	4.1	1,171.6	299.4
2017	14,878.5	2,154.5	220.0	25.0	-	-	13,077.8	1,709.0	19.4	4.2	1,561.3	416.4
2018	14,971.9	2,223.1	160.0	30.0	-	-	12,965.0	1,760.6	18.5	4.0	1,828.5	428.5
2019	14,927.3	2,353.2	314.0	65.0	-	-	13,613.6	2,034.1	14.0	2.6	985.7	251.5
2020	16,005.2	2,747.2	336.6	125.0	-	-	14,824.7	2,344.3	13.0	2.8	830.9	275.1

Source: Financial Statistics Monthly, CBC.

The total turnover of short-term bills in 2020 expanded by NT\$3,635.4 billion or 8.97% to NT\$44,140.9 billion. Of the total transactions, commercial paper still accounted for the lion's share of 95.21%, up by 0.58 percentage points from a year earlier. The second were NCDs with a share of 3.99%, 0.73 percentage points lower than the previous year. As for market participants, private enterprises were still the largest player in the market with a share of 47.63%, followed by banks and bills finance companies with shares of 28.41% and 14.61%, respectively.

### Downtrend in Money Market Rates

In 2020, the weighted average interbank overnight call loan rate exhibited a broad downtrend. In January, despite sufficient market liquidity, the interbank overnight call loan rate slightly trended up to 0.180% from the previous month's 0.177%, reflecting increased borrowing by the national

treasury, rising issuance of government bonds and treasury bills, and greater currency demand because of the Lunar New Year holidays. The rate went back down to 0.178% in February on account of a reverse flow of currency back to the banking system after the Lunar New Year holidays.

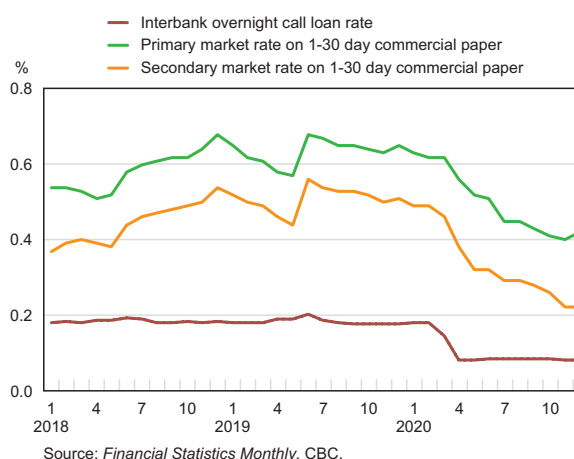
In March, the spread of the coronavirus pandemic and plunging international oil prices led US stocks to tumble, triggering a wave of panic sentiment in financial markets. Continued net sales by foreign investors in the Taiwan Stock Exchange (TWSE) market and the resulting net foreign capital outflows prompted banks to be somewhat cautious about their funding management. These developments, combined with a 25 basis points rate cut by the Bank in late March, sent the interbank overnight call loan rate lower to 0.144%. The rate further slid to 0.079% in April, reflecting the effect of the policy rate reduction.

From June onwards, banks became more cautious about fund allocation given a tighter money market because of the Dragon Boat Festival holidays, payments of the collected income tax revenue to government treasuries, and banks as well as firms preparing for semiannual financial reporting and distributing cash dividends. The interbank overnight call loan rate thus fluctuated in a narrow range.

In the months of October through to December, despite several public holidays and the approach of the year end leading to stronger demand for funds, market liquidity was at a reasonably ample level, alongside net foreign capital inflows for three consecutive months. Therefore, the weighted average interbank overnight call loan rate slightly fluctuated between 0.080% and 0.082%.

The primary market rate on commercial paper with a maturity of 1-30 days dropped to 0.42% in December from 0.65% recorded one year ago, while the secondary market rate on commercial paper with a maturity of 1-30 days significantly slipped to 0.22% in December, far lower than the 0.51% registered a year earlier.

### Money Market Interest Rates



### Substantial Increase in Money Market Funds

In the year 2020, money market funds were generally seen as an ideal investment option to park short-term capital given the benefits of stable returns, low risk, high liquidity, and better yields than those of the other fixed-income instruments. As a result, the size of money market funds reached

a record high for the past four years. At the end of 2020, there were a total of 41 money market funds in Taiwan and the total assets reached NT\$1,021.0 billion with an increase of NT\$227.3 billion or 28.64% from the end of the previous year.

With regard to portfolio composition, the largest use of funds was bank deposits with a share of 54.47% at the end of the year. Following bank deposits were short-term bills and repurchase agreements, accounting for 33.93% and 11.47% of the total money market funds, respectively.

### Portfolio Composition of Money Market Funds

Unit: NT\$ Billion

Year/Month End	Total	Bank Deposits		Short-Term Bills		Repurchase Agreements		Bonds	
		Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
2018	683.6	455.0	66.56	151.1	22.10	76.9	11.25	0.7	0.10
2019	793.7	457.5	57.64	233.7	29.45	100.6	12.67	1.9	0.24
2020	1,021.0	556.1	54.47	346.4	33.93	117.1	11.47	1.4	0.14
2020/ 1	812.0	472.3	58.17	232.5	28.64	105.7	13.02	1.4	0.17
2	794.7	478.4	60.20	230.2	28.97	84.5	10.63	1.6	0.20
3	769.5	459.9	59.77	226.3	29.41	81.7	10.62	1.6	0.20
4	880.8	460.6	52.30	299.1	33.96	119.5	13.56	1.5	0.17
5	889.3	471.4	53.01	311.7	35.05	104.8	11.78	1.4	0.16
6	887.7	469.9	52.94	310.2	34.95	106.2	11.96	1.4	0.15
7	922.0	503.8	54.64	307.7	33.37	109.1	11.83	1.5	0.16
8	928.8	505.7	54.45	313.5	33.75	108.0	11.63	1.6	0.17
9	966.5	522.2	54.03	324.9	33.61	117.7	12.18	1.8	0.18
10	979.0	533.9	54.54	326.6	33.37	117.1	11.96	1.3	0.14
11	1,000.9	551.6	55.11	331.6	33.13	116.2	11.61	1.4	0.14
12	1,021.0	556.1	54.47	346.4	33.93	117.1	11.47	1.4	0.14

Source: Securities Investment Trust & Consulting Association of the R. O. C.