

neighboring markets of Tokyo, Hong Kong, Singapore, Thailand, and Kuala Lumpur (Chart 3.9).

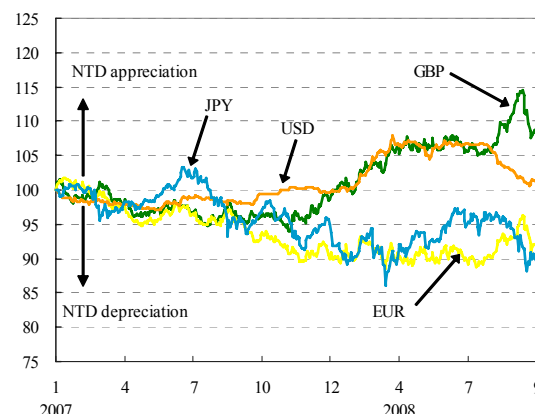
3.3 Foreign exchange markets

The NT dollar exchange rate reversed from appreciation to depreciation and trading volume shrank from Q2

After the dramatic appreciation in 2008 Q1, the NT dollar exchange rate generally moved in a narrow range between 30 and 31 against the US dollar in Q2, but then depreciated to 32.13 at the end of September, a 5.53% drop compared to the end of June, or a rise of 0.97% compared to the end of 2007. The NT dollar exchange rate turned into depreciation due mainly to continued foreign capital outflows from the Taiwan stock market and the rebound of the US dollar caused by sizable international capital inflows into the US to address a worsening financial crisis (Chart 3.10). As for other key international currencies, the NT dollar trended downward against the yen in the first three quarters of 2008, depreciating by 5.13%, while the NT dollar appreciated against the pound and the euro by 12.78% and 4.67%, respectively, over the same period (Chart 3.10). The recent depreciation of the NT dollar against the US dollar not only relieved the pressure of significant exchange losses on those financial institutions with large foreign currency assets in the first half of 2008, but it would also enhance the competitiveness of export industries.

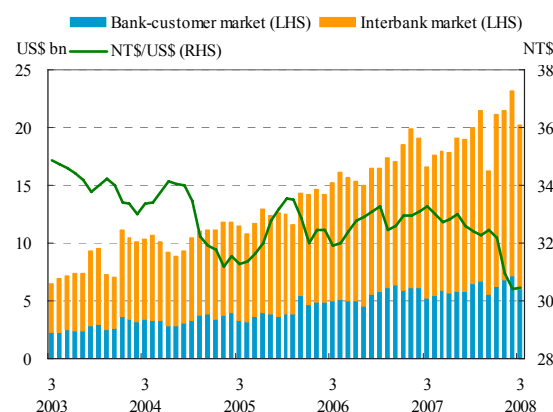
The trading volume on Taiwan's foreign exchange market has gradually decreased due to the stockpiling of US dollars in the market, while the average daily trading volume in the first eight months of 2008 reached US\$20.2 billion, an increase of 10.16% compared to the US\$18.3 billion recorded during the same period of the previous year. The interbank market

Chart 3.10 Movements of NT dollar exchange rate against key international currencies



Note: 2 January 2007 = 100.
Source: CBC.

Chart 3.11 NT\$/US\$ exchange rate and foreign exchange market trading volume



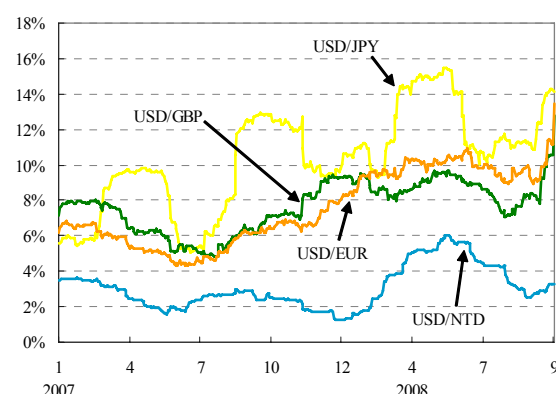
Note: Trading volume is the monthly average of daily data, while exchange rate is end-of-period data.
Source: CBC.

accounted for a relatively large portion of the growth. A breakdown by counterparty showed that the average daily trading volume in the interbank market accounted for 69.69% of total volume, the largest share in the first eight months of 2008, while the bank-customer market made up a 30.31% share (Chart 3.11). As for types of transactions, spot trading accounted for 50.56% of total volume, followed by foreign exchange swaps with 31.27%.

NT dollar volatility against US dollar soared before gradually stabilizing

In 2008 Q1, volatility in the NT dollar exchange rate against the US dollar increased dramatically, hitting a peak of 6.00% in late May, and then decreased steadily to around 3.00%, before settling at 3.25% at the end of September. Compared to the volatility in the exchange rates of major currencies (e.g. GBP, EUR, and JPY) against the US dollar, however, the NT dollar exchange rate was relatively stable (Chart 3.12).

Chart 3.12 Exchange rate volatility of various currencies against US dollar



Note: Volatility refers to the annualized standard deviation of 60-day daily returns.

Source: CBC.