

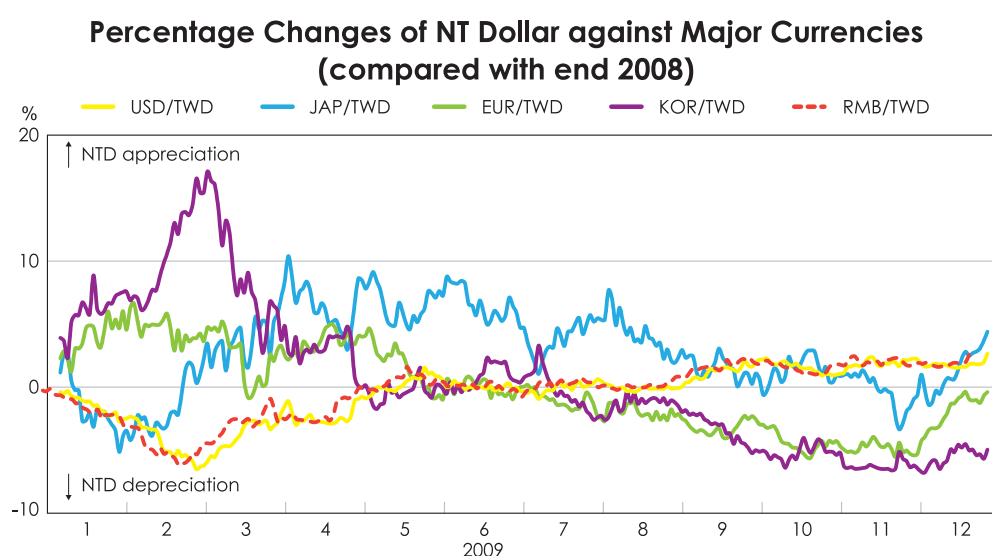
5. Foreign Exchange Market

Large Fluctuations of the NT dollar Exchange rate

On a daily average basis, the trade-weighted nominal effective exchange rate index of the NT dollar declined by 4.13 percent in 2009. However, the foreign exchange market experienced noticeable fluctuations during the year.

The NT dollar depreciated against the US dollar at the beginning of the year, and then appreciated gradually. The NT dollar weakened in the first two months as a result of Taiwan's export decline and foreign capital outflow. The NT\$/US\$ exchange rate depreciated to a yearly low of 35.174 on March 2.

After March, as the pace of the economic decline slowed and demand for hedges weakened, the NT dollar started to appreciate against the US dollar. From mid-July onwards, US dollar carry trade expanded because the short-term interest rate for borrowing US dollars was lower to near zero percent. In addition, foreign capital flowed into Taiwan in response to the better relationship across the Taiwan Strait and rebounding stock market. All these factors pushed the NT dollar appreciated slowly against the US dollar, from 32.785 on July 1 to a yearly high of 32.030 on December 31, 2.59 percent higher than at the end of 2008. On a daily average basis, the NT\$/US\$ exchange rate depreciated by 4.54 percent compared with that of the previous year.



The NT dollar appreciated against the euro at first, then declined in the following months, and went up again in December. At the beginning of the year, the economic performance of the euro area deteriorated and Eastern Europe faced a credit downgrade. Therefore, as the European Central Bank (ECB) cut policy rates twice in the first quarter, the NT dollar appreciated. In early March, the euro became stronger due to the easing of the Eastern European credit crisis. After mid-March, the euro turned weak again because markets expected the ECB to cut interest rates further. However, after late April, the threat of an economic recession diminished in the euro area, capital flowed from the dollar denominated assets to more risky ones, and central banks diversified their portfolio of foreign currency reserves. Hence, the NT dollar depreciated slowly against the euro. In December, the NT dollar bounced back against the euro because of the increasing sovereign credit risk of Greece and Spain. At the end of the year, the exchange rate of the NT dollar against the euro was 0.46 percent below the level observed one year before. On a daily average basis, the NT dollar appreciated against the euro by 0.58 percent compared with the previous year.

The NT dollar appreciated against the Japanese yen till March, slowly depreciated in the following months, and strengthened again in December. In January, investors unwound their yen carry trade positions in response to the international financial turmoil. The NT dollar depreciated against the Japanese yen, and touched a yearly low of 0.3826 on January 23. Afterwards, the NT dollar turned strong against the Japanese yen in March, when Japan suffered exports contraction and weak domestic demand. However, after April, because of Japan's increasing trade surplus, the government economic stimulus plan, and a rosy global economic outlook, the Japanese yen gained strength and the NT dollar depreciated gradually against the Japanese yen until December. In December, the NT dollar appreciated against the Japanese yen, as the US dollar bounced, and Japan faced the threat of deflation. At the end of the year, the NT dollar appreciated by 4.33 percent against the Japanese yen compared to the end of 2008. On a daily average basis, the NT dollar depreciated against the Japanese yen by 13.47 percent when compared with the previous year.

The exchange rate of the RMB against the US dollar remained relatively stable in 2009. The NT dollar exchange rate against the RMB weakened in the first quarter to reach a low of 5.138 on March 2, before consolidating and climbing to a high of 4.692 on December 31. Between the end of 2008 and 2009, the NT dollar appreciated by 2.65 percent against the RMB. On a daily average basis, the NT dollar depreciated by 6.11 percent against the RMB as compared with the previous year.

The NT dollar appreciated against the Korean won at the beginning of the year before depreciating gradually. The NT dollar appreciated dramatically against the Korean won in the

first two months. This was because Korea's exports decreased substantially, and foreign capital flowed out of the country. The Bank of Korea cut policy rates twice in order to stimulate economic growth, and global financial markets expected a financial crisis to emerge in Korea at the beginning of the year, adding to the pressure on the Korean Won. However, after April, as Korea's current account returned to a surplus, and foreign capital flowed back in, the Korean won rebounded. The won kept appreciating after the FTSE upgraded Korea from emerging market to developed country status and markets expected more foreign capital to flow into the stock market. The NT dollar kept depreciating against the Korean won and hit a yearly low of 0.028 on December 8. The NT dollar depreciated by 5.02 percent against the Korean won between the end of 2008 and 2009. On a daily average basis, the NT dollar appreciated by 10.14 percent against the Korean won in 2009 when compared with the previous year.

Turnover of Foreign Exchange Market Decreased

Trading in the Taipei foreign exchange market decreased in 2009. Total net trading volume for the year decreased by 15.2 percent from the previous year to US\$4,111.29 billion. The daily average turnover was US\$16.25 billion, representing a decrease of 15.8 percent over the previous year. The decrease in turnover mainly reflected a contraction of international trade and diminishing capital movements. Furthermore, transactions in third currencies decreased because major central banks introduced loose monetary policies to tackle the financial crisis, which narrowed the interest rate spreads between currencies.

In terms of trading partners, transactions between banks and non-bank customers accounted for 25.8 percent of the total net turnover, while inter-bank transactions made up a 74.2 percent share, including 23.5 percent for transactions among local banks and 50.7 percent for those between local banks and overseas banks.

Turnover of Major Products in the Taipei Foreign Exchange Market

Unit: US\$ Million

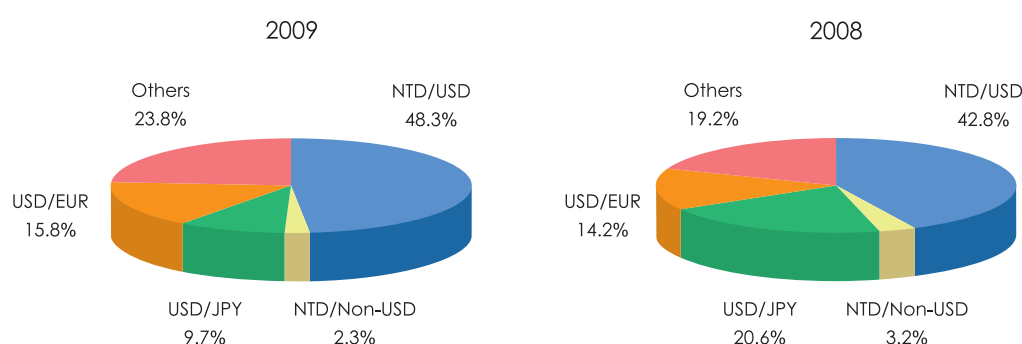
Year	Spots	Forwards	Forex Swaps	Margin Trading	Options	Cross Currency Swaps	Total
2005	1,550,731	274,370	823,483	24,378	295,908	39,788	3,008,657
2006	1,910,270	411,182	1,107,646	37,809	396,578	47,353	3,910,838
2007	2,418,963	477,189	1,362,112	42,482	303,857	29,683	4,634,286
2008	2,455,394	459,393	1,548,763	34,871	307,857	40,097	4,846,375
2009	1,841,951	283,233	1,627,020	20,809	311,353	26,927	4,111,293
2008-2009 Growth Rate (%)	-25.0	-38.3	5.1	-40.3	1.1	-32.8	-15.2

Source: Department of Foreign Exchange, CBC.

As far as traded currencies are concerned, NT dollar trading against foreign currencies accounted for 50.6 percent of the total trading volume, of which trading against the US dollar made up a dominant 48.3 percent. Transactions in third currencies accounted for 49.4 percent of total trading volume, with trading in currency pairs of US dollar-other currencies and US dollar-euro accounting for shares of 23.8 percent and 15.8 percent, respectively. Compared with 2008, NT dollar trading against foreign currencies decreased by 6.7 percent, and transactions in third currencies decreased by 22.39 percent as well.

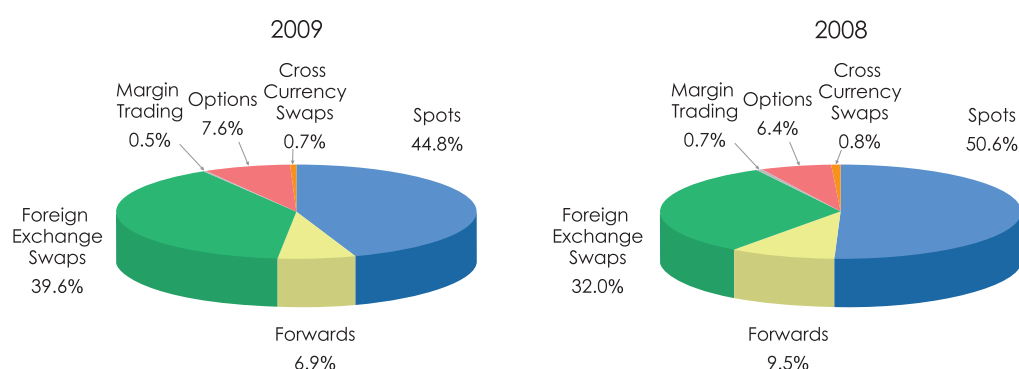
With respect to transaction types, spot transactions accounted for the highest share of 44.8 percent of total turnover, followed by foreign exchange swaps with a share of 39.6 percent. Compared with 2008, except for an increase in cross currency swaps and options transactions,

Composition of Foreign Exchange Transactions by Traded Currency



Source: Department of Foreign Exchange, CBC.

Composition of Foreign Exchange Transactions by Product



Source: Department of Foreign Exchange, CBC.

Turnover of Other Products in the Taipei Foreign Exchange Market

Unit: US\$ Million

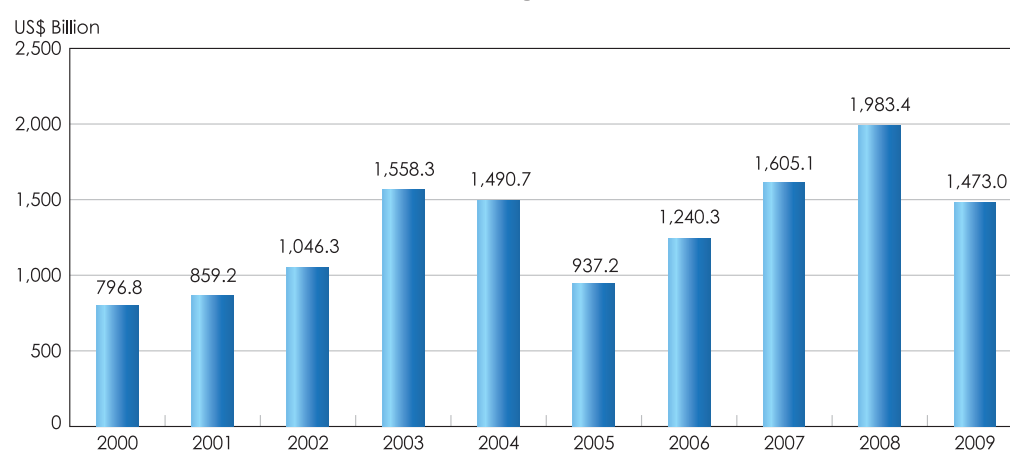
Year	Interest Rate-related Products				Commodity-related Products		Stock Index Options	Credit Derivatives	Total
	Forward Rate Agreements	Interest Rate Swaps	Interest Rate Options	Foreign Currency Interest Rate Futures	Commodity Options	Commodity Price Swaps			
2005	25,089	78,528	23,668	29,385	4,594	—	389	581	162,235
2006	24,796	69,219	11,970	40,992	1,827	—	1,005	964	150,772
2007	12,958	93,072	17,475	176,723	6,947	—	627	5,243	313,044
2008	18,799	205,911	8,860	172,918	17,875	—	126	3,586	428,075
2009	5,715	469,003	4,999	208,566	18,360	—	51	3,312	710,006
2008-2009 Growth Rate (%)	-69.6	127.8	-43.6	20.6	2.7	—	-59.4	-7.6	65.9

Source: Department of Foreign Exchange, CBC.

the trading volumes of all the other types decreased, and margin trading and forwards posted the largest decreases of 40.3 percent and 38.3 percent, respectively. The main reason was the enterprise demand for forwards decreased because of a slowdown in exports amid the financial crisis.

In 2009, the turnover of forwards, swaps and options based on foreign currency interest rates, stock price indices, commodity prices, and credit derivatives amounted to US\$710.01 billion. Of this amount, interest rate-related derivatives accounted for the lion's share of US \$688.28 billion or 96.9 percent, representing an annual growth rate of 69.3 percent. Because the demand for interest rate hedging increased, interest rate swaps accounted for the highest growth rate of 127.8 percent among all kinds of derivatives compared with the previous year.

Transactions in the Taipei Foreign Currency Call-Loan Market



Source: Department of Foreign Exchange, CBC.

Foreign Currency Call-Loan Market Transactions Decreased

The transaction volume in the foreign currency call-loan market in 2009 was US\$1,473.01 billion, a decrease of 25.7 percent over the previous year. Of this amount, US dollar transactions accounted for US\$1,459.17 billion, as high as 99.06 percent of the total and about 25.9 percent lower than that in 2008. The decrease mainly reflected declining turnover in the call-loan market with plentiful supply of long-term funds and the easing of the credit crunch. Japanese yen transactions totaled ¥958.00 billion in 2009, a slight increase of 7.8 percent over the figure recorded in 2008, but the share remained rather small at only 0.70 percent. The amount of euro transactions totaled only €1.45 billion, 49.7 percent lower than that of the previous year, and the share was 0.14 percent. Other currencies accounted for 0.11 percent of total transaction volume in 2009.

Offshore Banking Units' Assets Decreased

There were 63 offshore banking units (OBUs) in operation at the end of 2009. Domestic banks operated 36 units of the OBUs, while foreign banks ran the other 27 units. Owing to the decreases in claims on foreign financial institutions and nonresidents, the total assets of all OBUs decreased to US\$95.05 billion at the end of the year, representing a decrease of US\$3.58 billion or 3.6 percent from the previous year-end. OBUs of domestic bank accounted for US\$81.44 billion or 86 percent of these combined assets, and OBUs of foreign bank accounted for US\$13.61 billion, or 14 percent of the total. The OBUs' main uses of funds were due from affiliated branches and deposits with financial institutions. These accounted for 46 percent of total assets. Second to these were loans with a share of 32 percent. In terms of fund destination, 57 percent of funds went to Asia, and 26 percent went to the Americas.

The OBUs' main sources of funds were due to affiliated branches and deposits by financial institutions, which together accounted for 57 percent of total liabilities. These were followed by deposits of non-financial institutions, which accounted for 34 percent of total liabilities and increased by 4.4 percent compared to the previous year. OBUs have been gradually developing into funding centers for overseas Taiwanese firms. In terms of geographical origin, 72 percent of funds came from Asia, and 23 percent from the Americas.

The forex-trading turnover of all OBUs in 2009 was US\$158.60 billion, of which US\$88.99 billion was for spot transactions and US\$36.71 billion for forward transactions. Compared with the previous year, spot and forward transactions decreased 17.44 percent and 2.3 percent, respectively. Foreign exchange swap transactions amounted to US\$32.91 billion, a 20.77 percent increase from 2008. The main reason was because of more banks entering the swap transaction market during 2009.

Consolidated Balance Sheet of Offshore Banking Units in Banking System

Unit: US\$ Million

Year/Month	Loans to Non-financial Institutions	Portfolio Investment	Claims on Financial Institutions	Other Assets	Total Assets= Total Liabilities	Deposits of Non-financial Institutions	Due to Financial Institutions	Securities Issued	Other Liabilities
2005/12	18,697	8,718	38,432	4,311	70,158	20,712	44,305	0	5,141
2006/12	19,473	10,805	40,352	6,056	76,686	24,227	46,664	483	5,312
2007/12	23,931	11,969	47,788	7,593	91,281	27,263	55,939	499	7,580
2008/12	32,481	10,851	48,141	7,159	98,632	31,133	60,198	724	6,577
2009/12	29,988	13,757	43,954	7,352	95,051	32,493	54,070	352	8,136
2008/12-2009/12 Growth Rate (%)	-7.7	26.8	-8.7	2.7	-3.6	4.4	-10.2	-51.4	23.7

Source: Financial Statistics Monthly, CBC.

The total turnover of derivative products amounted to US\$313.82 billion, a moderate increase of 3.5 percent over the previous year. Of this amount, financial futures accounted for US\$209.37 billion, as high as 66.72 percent of the total and an increase of 19.47 percent from 2008. The main reasons were huge global equity market fluctuations and low interest rates affected by the financial crisis, as well as the related hedging and speculative needs. Commodity forwards showed a large increase of 261.28 percent from the previous year; however, such transactions only accounted for 0.05 percent of total turnover of derivative products.