

4. Money Market

In 2010, the total turnover increased by 38.01 percent in the interbank call-loan market, and by 39.15 percent in the short-term bills market. Interest rates in both markets went up gradually after the Bank raised the discount rate and increased the issuance of NCDs from the second quarter.

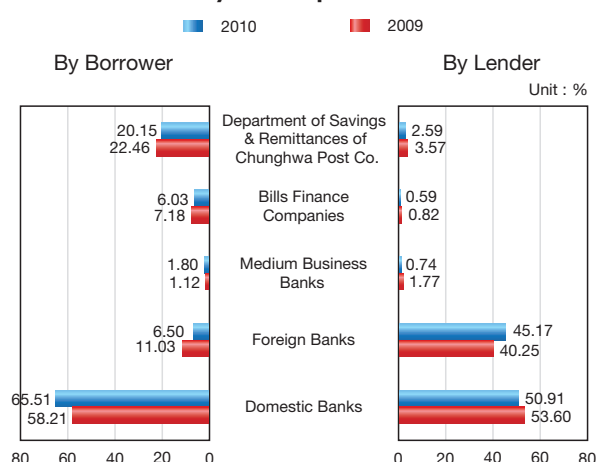
Dynamic Interbank Call-Loan Market

Trading in the interbank call-loan market was active in 2010. As the domestic economy regained momentum following the global economy recovery, banks' loan growth increased steadily and banks' lending policies to the call-loans turned easier. Coupled with the abundant supply of funds in the local market associated with foreign capital inflows in the fourth quarter, total annual turnover amounted to NT\$35,479.4 billion for the year, showing a marked increase of 38.01 percent when compared with the previous year.

Domestic banks were the largest borrower during the year, accounting for 65.51 percent of total trading, followed by Department of Savings & Remittances of Chunghwa Post Co., foreign banks and bills finance companies, with shares of 20.15 percent, 6.50 percent and 6.03 percent, respectively. The share of domestic banks increased by 7.30 percentage points, with the borrowed amount increasing by 55.31 percent. The increase reflected the Bank's increase in the issuance of short- and long-term certificates of deposit, which induced banks' demand for call-loans. The share of Department of Savings & Remittances, Chunghwa Post Co. decreased by 2.31 percentage points, although the borrowed amount increased because of its collaborative efforts in managing market liquidity. The share of foreign banks also decreased due to the inflow of foreign capital and was 4.53 percentage points less than that in the previous year. The share of bills finance companies decreased by 1.15 percentage points from the previous year, though the borrowed amount increased, mainly because they continuously increased the issuing amount of bills to improve profits.

With regard to lenders, domestic banks continued to be the largest supplier of funds, accounting for 50.91 percent of total transactions. Following domestic banks were foreign banks,

Composition of Interbank Call-Loan Market by Participant



Source: Financial Statistics Monthly, CBC.

Department of Savings & Remittances of Chunghwa Post Co. and medium business banks with respective shares of 45.17 percent, 2.59 percent and 0.74 percent. The amount lent by domestic banks increased by 31.10 percent compared with the previous year because banks' lending policies became easier. With abundant funds gained from the custodian business for foreign investors, the amount lent by foreign banks kept increasing. The share of foreign banks climbed from 40.25 percent in the previous year to 45.17 percent. The share of Department of Savings & Remittances of Chunghwa Post Co. decreased to 2.59 percent from 3.57 percent in the previous year, and that of medium business banks decreased by 1.03 percentage points over the same period.

In terms of maturity, overnight interbank call loans remained the most actively traded instrument in the market with a predominant share of 63.54 percent, up by 4.92 percentage points from that of the previous year. Second were those with a maturity of 1 week, accounting for 31.05 percent, down by 0.22 percentage points from that of the previous year. The share of loans with a 2-week maturity declined to 4.49 percent from 8.25 percent in the previous year. Shares for the trading of those with maturities of 3 weeks, 1 month, 2-6 months, and above 6 months were negligible.

Increase in Short-Term Bills Market Transactions

In 2010, newly issued short-term bills totaled NT\$7,137.2 billion. Of the new issues of short-term bills, commercial paper continued to account for the lion's share of 82.71 percent. Second were negotiable certificates of deposit with a share of 11.71 percent. Bankers' acceptances made up a marginal share of 0.46 percent. Compared with the previous year, the growth rate of commercial paper issued turned positive because corporate demand for funds was strong. In contrast, the Ministry of Finance decreased the issues of treasury bills owing to the increase in tax revenues. As

Short-Term Bills Market

Unit: NT\$ Billion

Year	Total		Treasury Bills		Commercial Papers		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
2001	9,901.5	1,487.8	85.0	50.0	8,926.8	1,102.4	36.1	8.3	853.6	327.1
2002	8,378.1	1,309.5	180.0	180.0	7,525.1	870.1	40.1	7.9	632.9	251.5
2003	7,547.7	1,194.4	60.0	60.0	6,815.1	808.8	34.5	6.8	638.1	318.7
2004	6,888.8	1,316.5	130.9	130.9	5,642.8	775.6	35.2	7.6	1,080.0	402.4
2005	7,121.0	1,168.1	115.0	45.0	5,690.4	747.0	31.1	7.7	1,284.5	368.5
2006	7,004.0	1,092.4	45.0	25.0	5,879.8	717.6	36.1	8.1	1,043.1	341.7
2007	6,495.1	925.3	88.0	28.0	5,577.2	664.8	38.2	8.4	791.7	224.0
2008	6,948.6	969.8	240.0	106.8	6,074.7	690.2	33.3	4.9	600.6	167.8
2009	6,293.4	1,043.1	435.0	215.0	5,397.7	651.3	21.9	4.9	438.8	171.9
2010	7,137.2	1,167.5	365.0	240.0	5,903.4	686.1	33.1	6.2	835.7	235.2
2009-2010 Change	843.8	124.4	-70.0	25.0	505.7	34.8	11.2	1.3	396.9	63.3
Growth Rate (%)	13.41	11.93	-16.09	11.63	9.37	5.34	51.14	26.53	90.45	36.82

Source: Financial Statistics Monthly, CBC.

of the end of 2010, total outstanding short-term bills amounted to NT\$1,167.5 billion, 11.93 percent more than that of the previous year-end.

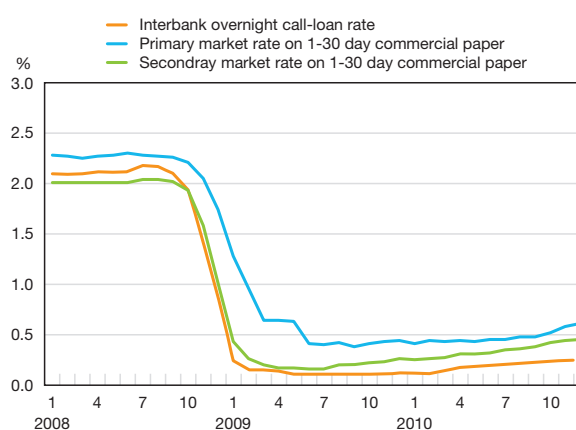
In the secondary market, the total turnover of short-term bills increased by 39.15 percent to NT\$58,577.5 billion. Of the total transactions, commercial paper still made up the largest share of 59.38 percent, representing a decrease of 18.79 percentage points compared with the previous year. It was followed by negotiable certificates of deposit with a share of 38.26 percent, representing an increase of 20.72 percentage points over 2009. Treasury bills accounted for 2.34 percent. With respect to market participants, banks were the largest players in the market with a combined share of 39.51 percent, followed by private enterprises with a share of 33.02 percent.

Gradual Rise in Money Market Rates

During 2010, funding conditions in the banking system gradually returned to normal levels. In the first quarter, due to continual inflow of funds from overseas and the Bank's low interest rates, funding conditions remained easy. From the second quarter, amid a domestic economic recovery, the Bank issued more certificates of deposit to prevent excess liquidity from affecting the stability of financial markets and raised the discount rate, the rates on accommodations with collateral and accommodations without collateral three times each by 0.125 percentage points to safeguard price stability. Consequently, the level of banks' excess reserves subsided and funding conditions became normal.

Although the Bank kept policy rates at a low level, the interbank overnight call-loan rate went up gradually from its lowest point of 0.10 percent in February to 0.17 percent in May, before edging up to 0.24 percent at the year end following the Bank's increasing of policy rates three times since June. The primary market rate on commercial paper with maturities of 1-30 days went upward from 0.40 percent in the beginning of 2010 to 0.60 percent at the end of the year. The secondary market rate on commercial paper with maturities of 1-30 days also stepped up from 0.24 percent to 0.44 percent during the same period.

Money Market Interest Rates



Source: Financial Statistics Monthly, CBC.