

5. Foreign Exchange Market

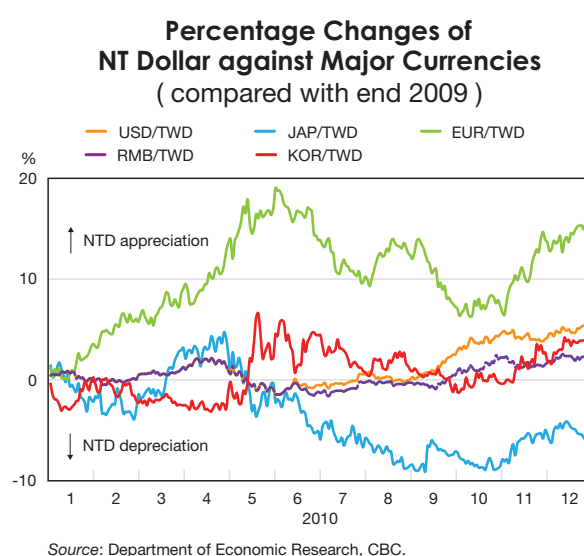
Moderate Appreciation of the NT dollar

The NT dollar was steady since the beginning of 2010 until enormous foreign capital inflows from September onwards caused the NT dollar to appreciate markedly in the fourth quarter of 2010. On a daily average basis, the trade-weighted nominal effective exchange rate index of the NT dollar increased by 1.30 percent in 2010.

The NT\$/US\$ exchange rate was stable from January to March. Afterwards, the NT dollar appreciated against the US dollar because of appreciation expectations surrounding the RMB and foreign capital inflows. In May, the increasing sovereign credit risk of the euro area caused the US dollar to gain strength. Furthermore, foreign capital outflows from East Asia in response to political tension on the Korean peninsula pushed the NT\$/US\$ exchange rate to depreciate to a yearly low of 32.528 on June 7, representing a depreciation of 1.53 percent compared to the end of 2009.

The NT dollar stayed largely stable from July to September. As the continued easing monetary policy of the US led to international capital flows into Asia, NT dollar appreciation advanced. In early November, the US Federal Reserve launched the second round of quantitative easing (QE2) and thus pushed the NT\$/US\$ exchange rate further to a yearly high of 30.217 on December 30, 6.00 percent higher than at the end of 2009. Between the end of 2009 and 2010, the NT dollar appreciated by 5.47 percent against the US dollar. On a daily average basis, the NT\$/US\$ exchange rate appreciated by 4.45 percent compared with that of the previous year.

The NT dollar appreciated against the euro throughout 2010. Because of the sovereign credit crisis of Greece, Spain and Portugal, the NT dollar appreciated against the euro to a yearly high of 38.777 on June 7. After the endeavors of deficit cutting and government bond issuance, the euro rebounded as the crisis improved and the appreciation of the NT dollar against the euro narrowed. In early November, the euro area's debt crisis aggravated and broadened the range of NT dollar appreciation. At the end of the year, the exchange rate of the NT dollar against the euro was 13.70 percent



above the level observed one year before. On a daily average basis, the NT dollar appreciated against the euro by 9.45 percent compared with the previous year.

The Japanese yen remained strong as the economic performance of Japan was better than that of the US and the euro area. Although the NT dollar appreciated against the yen from mid-March to May due to the expectation of another round of monetary easing in Japan, for the year as a whole it depreciated. At the end of the year, the NT dollar depreciated by 6.92 percent against the Japanese yen compared to the end of 2009. On a daily average basis, the NT dollar depreciated against the Japanese yen by 2.13 percent when compared with the previous year.

The path of the NT dollar against the RMB was similar to that of the NT dollar against the US dollar before mid-June because the RMB was pegged to the US dollar. On June 19, Mainland China announced that it would enhance RMB flexibility; this caused the NT dollar to depreciate slightly against the RMB, but it bounced back after September. Between the end of 2009 and 2010, the NT dollar appreciated by 1.81 percent against the RMB. On a daily average basis, the NT dollar appreciated by 3.50 percent against the RMB as compared with the previous year.

The NT dollar depreciated against the Korean won at the beginning of the year, reflecting an increase in South Korea's exports and foreign capital inflows. After May, the tension on the Korean peninsula heightened, adding to the pressure on the Korean won. In the following months, since South Korean economic growth was better than expected and foreign capital flowed into the country, the NT dollar turned to depreciate against the Korean won. In November, the NT dollar strengthened against the Korean won because of a military conflict between the North and South Korea and a consequent outflow of foreign capital. The NT dollar appreciated by 2.78 percent against the Korean won between the end of 2009 and 2010. On a daily average basis, the NT dollar depreciated by 5.50 percent against the Korean won in 2010 when compared with the previous year.

Turnover of Foreign Exchange Market Increased

Trading in the Taipei foreign exchange market increased in 2010. Total net trading volume for the year increased by 24.4 percent from the previous year to US\$5,115.1 billion. The daily average turnover was US\$20.2 billion, representing also an increase of 24.4 percent over the previous year. The increase in turnover mainly reflected an expansion of international trade, capital inflows and magnifying capital movements.

In terms of trading partners, transactions between banks and non-bank customers accounted for 24.5 percent of the total net turnover, while inter-bank transactions made up a 75.5 percent share, including 28.6 percent for transactions among local banks and 46.9 percent for those between local banks and overseas banks.

Turnover of Major Products in the Taipei Foreign Exchange Market

Unit: US\$ Million

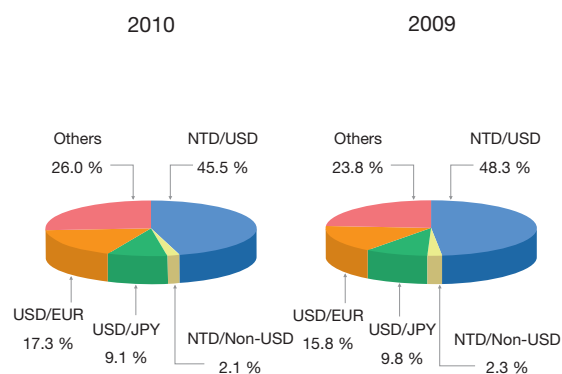
Year	Spots	Forwards	Forex Swaps	Margin Trading	Options	Cross Currency Swaps	Total
2006	1,910,270	411,182	1,107,646	37,809	396,578	47,353	3,910,838
2007	2,418,963	477,189	1,362,112	42,482	303,857	29,683	4,634,286
2008	2,455,394	459,393	1,548,763	34,871	307,857	40,097	4,846,375
2009	1,841,951	283,233	1,627,020	20,809	311,353	26,927	4,111,293
2010	2,192,719	290,075	2,166,897	18,295	423,261	23,848	5,115,095
2009-2010 Growth Rate (%)	19.0	2.4	33.2	-12.1	35.9	-11.4	24.4

Source: Department of Foreign Exchange, CBC.

As far as traded currencies were concerned, NT dollar trading against foreign currencies accounted for 47.6 percent of the total trading volume, of which trading against the US dollar made up a dominant 45.5 percent. Transactions in third currencies accounted for 52.4 percent of total trading volume, with trading in currency pairs of US dollar-other currencies and US dollar-euro accounting for shares of 26.0 percent and 17.3 percent, respectively. Compared with 2009, NT dollar trading against foreign currencies increased by 17.1 percent, and transactions in third currencies increased by 31.9 percent.

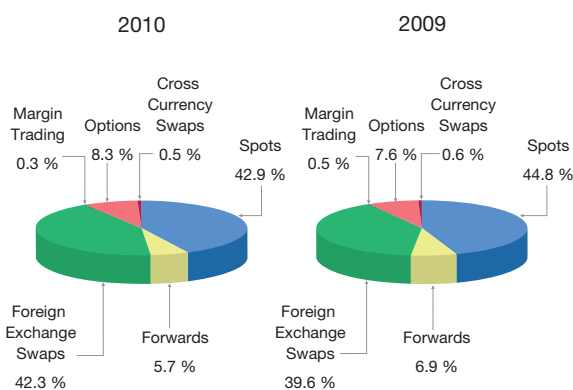
With respect to transaction types, spot transactions accounted for the highest share with 42.9 percent of total turnover, followed by foreign exchange swaps with a share of 42.3 percent. Compared with 2009, except for a decrease in margin trading and cross currency swaps transactions, the trading volume of all the other types increased. However, in terms of the share of total turnover, only the transactions of foreign exchange swaps and options increased.

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			
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
2010	842	125,541	6,043	392,368	18,060	105	10,126	553,085
2009-2010 Growth Rate (%)	-85.3	-73.2	20.9	88.1	-1.6	104.9	205.7	-22.1

Source: Department of Foreign Exchange, CBC.

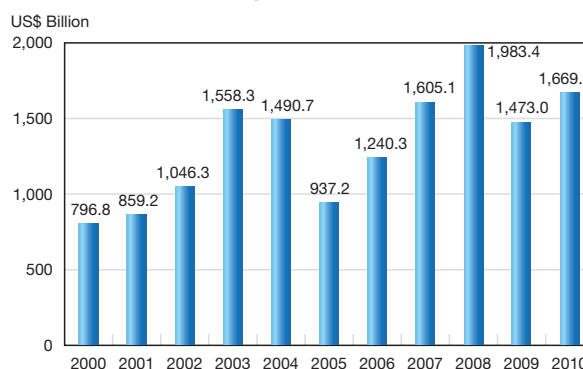
In 2010, the turnover of forwards, swaps and options based on foreign currency interest rates, stock price indices, commodity prices, and credit derivatives amounted to US\$553.1 billion. Of this amount, interest rate-related derivatives accounted for the lion's share of US\$524.8 billion or 94.9 percent, representing a negative annual growth rate of 23.8 percent. Interest rate swaps accounted for the majority of declines with US\$343.5 billion among derivatives due to a relatively higher base.

Foreign Currency Call-Loan Market Transactions Increased

The transaction volume in the foreign currency call-loan market in 2010 was US\$1,669.3 billion, an increase of 13.3 percent over the previous year. Of this amount, US dollar transactions accounted for US\$1,654.3 billion, as high as 99.1 percent of the total and about 13.4 percent higher than that in 2009. The increase was mainly attributable to the rising turnover of overnight call-loans, reflecting the trending down of the US dollar interest rate.

Japanese yen transactions totaled ¥954.0 billion in 2010, a slight decrease of 0.4 percent over the figure recorded in 2009, but the share remained rather small at only 0.6 percent. The amount of euro transactions totaled only 0.9 billion, 37.1 percent lower than that of the previous year, and the share was 0.1 percent. Other currencies accounted for 0.2 percent of total transaction volume in 2010.

Transactions in the Taipei Foreign Currency Call-Loan Market



Source: Department of Foreign Exchange, CBC.

Offshore Banking Units' Assets Increased

There were 61 offshore banking units (OBUs) in operation at the end of 2010. Domestic banks operated 36 of the OBUs, while foreign banks ran the other 25 units. Owing to the increases in claims on local banks and Inter-OBUs, the total assets of all OBUs increased to US\$122.9 billion at the end of the year, representing an increase of US\$27.9 billion or 29.3 percent from the previous year-end. OBUs of domestic banks accounted for US\$97.7 billion or 79.4 percent of these combined assets, and OBUs of foreign banks accounted for US\$25.3 billion, or 20.6 percent of the total. The OBUs' main uses of funds were dues from affiliated branches and deposits with financial institutions. These accounted for 45.5 percent of total assets. Second to these were loans with a share of 33.8 percent. In terms of fund destination, 61.3 percent of funds went to Asia, and 26.7 percent went to the Americas.

The OBUs' main sources of funds were dues to affiliated branches and deposits by financial institutions, which together accounted for 61.2 percent of total liabilities. These were followed by deposits of non-financial institutions, which accounted for 29.0 percent of total liabilities after an increase of 9.5 percent compared to the previous year. OBUs have been the funding centers for overseas Taiwanese firms. In terms of geographical origin, 70.8 percent of funds came from Asia, and 21.5 percent from the Americas.

Supported by the global economic recovery, the forex-trading turnover of all OBUs in 2010 was US\$196.8 billion, of which US\$109.0 billion was for spot transactions, US\$50.5 billion for forward transactions and US\$37.3 billion for foreign exchange swap transactions. Compared with the previous year, spot, forward and foreign exchange swap transactions increased 22.5 percent, 37.5 percent and 13.5 percent, respectively.

The total turnover of derivatives products amounted to US\$525.8 billion, an increase of 67.6 percent over the previous year. Of this amount, interest futures accounted for US\$392.4 billion, as high as 74.6 percent of the total and an increase of 88.2 percent from 2009. The main reason was the increase in hedging and speculative transactions by companies as a result of interest rate changes.

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
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
2010/12	40,752	15,952	55,878	10,348	122,930	35,587	75,270	364	11,709
2009/12-2010/12 Growth Rate (%)	35.9	16.0	27.1	40.8	29.3	9.5	39.2	3.4	43.9

Source: Financial Statistics Monthly, CBC.