

4. Money Market

In April 2012, owing to the growing inflationary pressures resulting from fuel and electricity price hikes, the Bank decided to absorb excess liquidity and keep banks' excess reserves in check. As a result, the interbank overnight call loan rate went up slightly. In the second half of the year, because of the continuing economic slowdown, money market interest rates trended down and remained broadly stable at a low level. Total turnover in both the interbank call loan market and short-term bills market increased for the year.

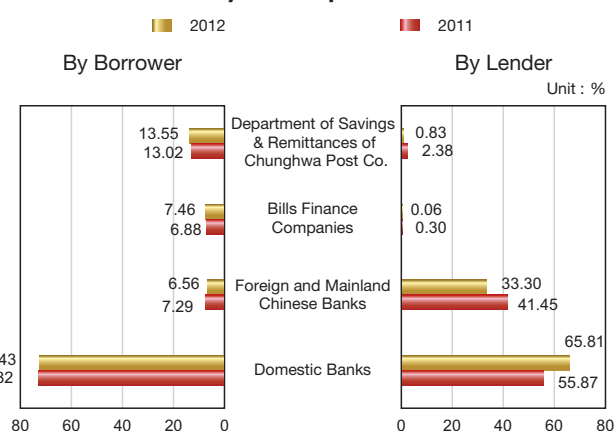
Increase in Interbank Call Loans

In 2012, total annual turnover of interbank call loans amounted to NT\$34,876.3 billion, showing an increase of 6.68 percent when compared with the previous year. The main cause was the interbank overnight call loan rate went up remarkably in the second quarter of the year. As a result, trading in shorter maturities in the interbank call loan market increased.

With regard to borrowers, domestic banks were still the largest player during the year, accounting for 72.43 percent of total transactions, followed by the Department of Savings & Remittances of Chunghwa Post Co., bills finance companies and foreign and Mainland Chinese banks, with shares of 13.55 percent, 7.46 percent and 6.56 percent, respectively. The amount borrowed by bills finance companies increased by 15.78 percent during the year because of their strong demand for funds, which was associated with commercial paper underwriting. The borrowed amount of the Department of Savings & Remittances of Chunghwa Post Co. and domestic banks also increased by 11.00 percent and 6.12 percent, respectively.

With respect to lenders, domestic banks continued to be the largest supplier of funds, accounting for 65.81 percent of total transactions in 2012. Those with smaller proportions were foreign and Mainland Chinese banks, the Department of Savings & Remittances of Chunghwa Post Co. and bills finance companies, with respective shares of 33.30 percent, 0.83 percent and 0.06 percent. The amount lent by domestic banks increased by 25.65 percent compared with the previous year because bills finance companies' borrowing needs became

Composition of Interbank Call Loan Market by Participant



Source: Financial Statistics Monthly, CBC.

stronger. Owing to the transfer of business from the Taipei Branch of DBS Bank Ltd. to the newly launched DBS Bank (Taiwan) Ltd., the amount lent by foreign and Mainland Chinese banks decreased by 14.29 percent, with the share declining from 41.45 percent in the previous year to 33.30 percent.

In terms of maturity, as the interbank overnight call loan rate went up in the first half of 2012, trading in shorter maturities in the interbank call loan market increased moderately. If broken down further, overnight interbank call loans remained the most actively traded instrument in the market with a predominant share of 66.94 percent, up by 2.53 percentage points from that of the previous year. Second were those with a maturity of 1 week, accounting for 29.36 percent, down by 2.40 percentage points from that of the previous year. The share of loans with a 2-week maturity declined to 2.97 percent from 3.59 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.

Increased Transactions in Short-Term Bills

In 2012, newly issued short-term bills totaled NT\$8,187.7 billion. Of the new issues of short-term bills, commercial paper continued to account for the lion's share of 89.30 percent. Second were negotiable certificates of deposit with a share of 7.17 percent, followed by treasury bills with a share of 3.24 percent. Bankers' acceptances made up a marginal share of 0.29 percent. Because market interest rates remained at low levels, private and government enterprises were more willing to issue commercial paper. Compared with the previous year, the growth rate of commercial paper issued was 16.60 percent. In contrast, the Ministry of Finance decreased the issues of treasury bills to lessen the financial burden of the government. As of the end of 2012, total outstanding short-term bills amounted to NT\$1,454.0 billion, 21.92 percent more than that of the previous year end.

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
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	5,642.7	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	7,140.8	1,167.5	365.0	240.0	5,903.4	686.1	33.1	6.2	839.3	235.2
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
2011-2012 Change	763.7	261.4	-56.2	14.7	1041.1	288.4	-5.9	-1.4	-215.3	-40.4
Growth Rate (%)	10.29	21.92	-17.50	8.15	16.60	39.23	-19.60	-24.56	-26.84	-14.88

Source: Financial Statistics Monthly, CBC.

In the secondary market, the total turnover of short-term bills in 2012 increased by 4.67 percent to NT\$59,371.6 billion. Of the total transactions, commercial paper still made up the largest share of 59.61 percent, representing a decrease of 3.39 percentage points compared with the previous year. It was followed by negotiable certificates of deposit with a share of 37.72 percent, representing an increase of 3.92 percentage points over 2011. Treasury bills and bankers' acceptances made up a negligible share of transactions. With respect to market participants, banks were the largest player in the market with a share of 38.73 percent, followed by private enterprises with a share of 32.25 percent.

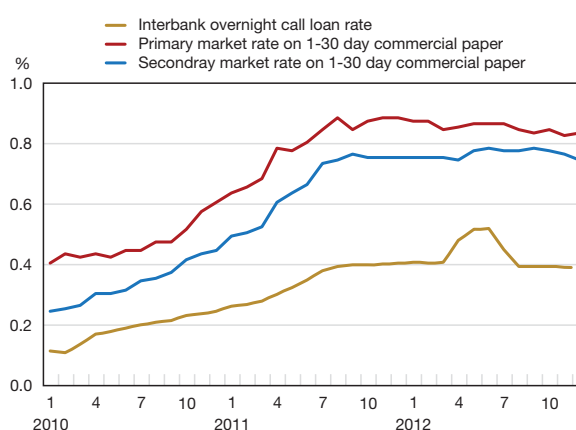
Stable Money Market Rates

In the second quarter of 2012, the domestic economy faced growing inflationary pressures resulting from fuel and electricity price hikes. The Bank decided to absorb excess liquidity and keep banks' excess reserves in check. The interbank overnight call loan rate went up from 0.402 percent in March to 0.513 percent in June.

In the second half of the year, owing to weaker external demand, export growth continued to contract and weighed on private investment and consumption. The interbank overnight call loan rate trended down to 0.388 percent in August and remained broadly stable in subsequent months. The average interbank overnight call loan rate was 0.428 percent in 2012, showing an increase of 8.7 basis points over the previous year.

The primary market rate on commercial paper with maturities of 1-30 days moved downward from 0.87 percent in January of 2012 to 0.83 percent in December of the same year. The secondary market rate on commercial paper with maturities of 1-30 days also descended slightly from 0.75 percent to 0.74 percent during the same period.

Money Market Interest Rates



Source: Financial Statistics Monthly, CBC.

Decrease in Money Market Funds

All quasi-money market funds have been converted to money market funds since the end of 2011. At the end of 2012, there were a total of 47 money market funds in Taiwan with total assets reaching NT\$713.2 billion, a decrease of NT\$42.5 billion or 5.6 percent over the previous year. With regard to portfolio composition, the largest use of the funds was bank deposits with a share of 74.0

percent at the end of the year, followed by repurchase agreements and short-term bills, with shares of 17.2 percent and 8.5 percent, respectively. The increase in bank deposits was mainly because the deposit rates were higher than the interest rates of repurchase agreements during the same period. The bond holding ratio of all money market funds, however, registered only 0.3 percent.

Portfolio Composition of Money Market Funds

Unit: %; NT\$ Billion

Year/Month End	Total	Bank Deposits		Repurchase Agreements		Short-Term Bills		Bonds	
		Amount	Share	Amount	Share	Amount	Share	Amount	Share
2010	779.1	495.6	63.6	172.1	22.1	82.2	10.6	29.2	3.7
2011	755.7	501.8	66.4	155.0	20.5	92.2	12.2	6.7	0.9
2012	713.2	527.7	74.0	123.0	17.2	60.6	8.5	1.9	0.3
2012 / 1	780.5	533.9	68.4	162.4	20.8	78.5	10.1	5.7	0.7
2	786.0	525.9	66.9	145.5	18.5	108.9	13.9	5.7	0.7
3	782.6	570.2	72.9	132.0	16.9	74.8	9.5	5.6	0.7
4	775.9	538.8	69.4	121.8	15.7	109.8	14.2	5.5	0.7
5	730.9	518.5	70.9	93.2	12.7	114.4	15.7	4.8	0.7
6	759.2	504.5	66.4	131.8	17.4	118.5	15.6	4.4	0.6
7	757.9	518.8	68.4	114.0	15.0	122.2	16.2	2.9	0.4
8	769.1	528.1	68.7	135.0	17.6	103.1	13.3	2.9	0.4
9	703.9	515.0	73.2	108.1	15.4	78.2	11.1	2.6	0.4
10	747.3	519.6	69.5	139.0	18.6	86.3	11.6	2.4	0.3
11	761.9	539.6	70.8	145.1	19.0	75.3	10.0	1.9	0.2
12	713.2	527.7	74.0	123.0	17.2	60.6	8.5	1.9	0.3

Note: 2010 data is Quasi-money Market Funds.

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