

3. Money Market

For the year 2017, the global economy regained growth momentum, yet uncertainties still lingered. In Taiwan, both current inflation and inflation expectations stayed anchored, and the CBC maintained an adequately accommodative monetary policy stance in an attempt to support the domestic economic recovery. The interbank overnight call loan rate remained at low levels, whereas bills market rates exhibited a slight uptrend. In 2017, the total turnover in the interbank call loan market and short-term bills market increased by 15.39% and 6.27%, respectively, over the previous year.

Growth in Interbank Call Loans

With the domestic economy registering a solid recovery, steady growth in bank loans and investments increased banks' demand for call loans. However, as net foreign capital inflows rose compared with the previous year, market liquidity remained sufficient. Total annual turnover of interbank call loans for 2017 expanded by NT\$6,815.9 billion, or 15.39%, to NT\$51,106.2 billion.

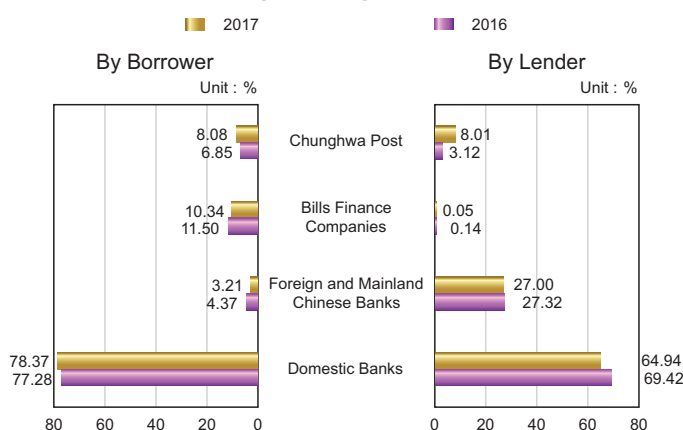
In terms of borrowers, domestic banks were still the largest player during the year, contributing 78.37% of total transactions, followed by bills finance companies, Chunghwa Post, and foreign and Mainland Chinese banks, with shares of 10.34%, 8.08% and 3.21%, respectively. In light of continuous foreign capital inflows, the CBC increased the issuance of certificates of deposit to manage market liquidity, yet later in the year banks' demand for borrowing rose to meet their funding needs. The amount borrowed by domestic banks grew by NT\$5,823.8 billion, or 17.01%, over the previous year. On the other hand, the amount borrowed by bills finance companies climbed by NT\$190.7 billion or 3.75% during the year. The rise was largely because private and government enterprises issued more commercial paper owing to low bills market rates, leading to greater demand from bills finance companies for funds used for underwriting commercial paper. The borrowed amount of Chunghwa Post also expanded significantly by NT\$1,094.2 billion or 36.05%, whereas that of foreign and Mainland Chinese banks fell by NT\$292.8 billion or 15.13%.

With regard to lenders, domestic banks continued to be the largest supplier of funds, accounting for 64.94% of total transactions in 2017. Following domestic banks were foreign and Mainland Chinese banks, Chunghwa Post, and bills finance companies, with respective shares of 27.00%, 8.01%, and 0.05%. The amount lent by domestic banks posted an increase of NT\$2,440.0 billion, or 7.94%, compared with the previous year. As foreign and Mainland Chinese banks gained abundant funds from the custodian business for foreign investors because of net foreign capital inflows, the lending amount of foreign and Mainland Chinese banks grew by NT\$1,701.8 billion or 14.07%. Meanwhile,

Chunghwa Post supplied more funds to the interbank call loan market on account of statutory restrictions on its lending business. Therefore, the amount lent by Chunghwa Post rose substantially by NT\$2,708.0 billion or 195.75% over the previous year.

In respect of maturity, interbank overnight call loans remained the most actively traded instrument in the market with a predominant share of 67.49%, up by 12.99 percentage points from that of the previous year. Second were those with a maturity of 1 week, accounting for 23.99%, down by 11.20 percentage points from that of the previous year. The share of loans with a 2-week maturity also dropped by 2.02 percentage points to 6.28%. Shares for the trading of interbank call loans with maturities of 3 weeks, 1 month, 2-6 months, and above 6 months were negligible.

Composition of Interbank Call Loan Market by Participant



Source: Financial Statistics Monthly, CBC.

Rise in Short-Term Bill Transactions

In 2017, newly issued short-term bills amounted to NT\$14,878.5 billion. Of the new issues, commercial paper continued to make up the lion's share, at 87.90%, followed by negotiable certificates of deposit with a share of 10.49%.

As market interest rates remained at low levels, private and government enterprises were more

Short-Term Bills Market

Year	Unit: NT\$ Billion											
	Total		Treasury Bills		City Treasury Bills		Commercial Paper		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	Issues	Year-end Outstanding
2008	6,948.6	969.8	240.0	106.8	-	-	6074.7	690.2	33.3	4.9	600.6	167.8
2009	6,293.4	1,043.1	435.0	215.0	-	-	5397.7	651.3	21.9	4.9	438.8	171.9
2010	7,140.8	1,167.5	365.0	240.0	-	-	5903.4	686.1	33.1	6.2	839.3	235.2
2011	7,424.0	1,192.6	321.2	180.3	-	-	6270.5	735.2	30.1	5.7	802.2	271.5
2012	8,187.7	1,454.0	265.0	195.0	-	-	7311.6	1023.6	24.2	4.3	586.9	231.1
2013	9,809.0	1,650.2	324.6	214.6	-	-	8827.4	1199.2	23.5	4.2	633.5	232.3
2014	10,840.6	1,641.2	244.9	130.0	1.0	0.0	9919.5	1306.8	24.1	4.3	642.2	200.2
2015	11,512.8	1,677.7	233.7	90.0	-	-	10426.0	1346.6	20.8	3.5	832.3	237.6
2016	12,778.5	1,873.5	217.3	90.0	-	-	11371.3	1480.1	18.3	4.1	1171.6	299.4
2017	14,878.5	2,154.5	220.0	25.0	-	-	13077.8	1709.0	19.4	4.2	1561.3	416.4
2017-2016 Change	2,100.0	281.1	2.7	-65.0	0.0	0.0	1,706.5	228.9	1.1	0.1	389.7	117.0

Source: Financial Statistics Monthly, CBC.

willing to issue commercial paper instead of borrowing from banks. Therefore, the amount of commercial paper issued went up by NT\$1,706.5 billion from a year before. Negotiable certificates of deposit came in second with an increase of NT\$389.7 billion. The growth was primarily because banks issued more negotiable certificates of deposit to fill the funding gap. The amount of treasury bills and bankers' acceptances only slightly expanded by NT\$2.7 billion and NT\$1.1 billion, respectively, compared with the previous year.

As of the end of 2017, total outstanding short-term bills reached NT\$2,154.5 billion, 15.00% more than that of the previous year end.

The total turnover of short-term bills in 2017 rose by 6.27% to NT\$37,785.6 billion. Of the total transactions, commercial paper still accounted for the largest share with 90.71%, representing a decrease of 1.53 percentage points from a year earlier. Second were negotiable certificates of deposit with a share of 8.84%, recording an increase of 1.61 percentage points over 2016. Treasury bills and bankers' acceptances made up negligible shares of transactions. As for market participants, private enterprises remained the largest player in the market with a share of 44.52%, followed by banks with a share of 29.61%.

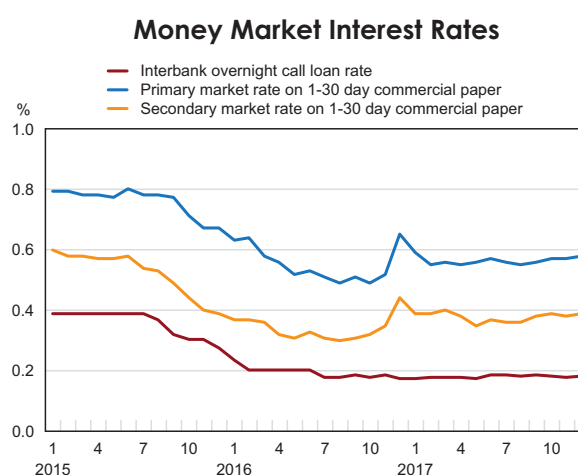
Money Market Rates Staying at Low Levels

In 2017, banks' demand for call loans strengthened amid the steady recovery in the domestic economy. As net foreign capital inflows increased for the year and the CBC maintained an adequately accommodative monetary policy stance, market liquidity remained ample. The weighted average interbank overnight call loan rate stayed at a low level between 0.172% and 0.184%.

The primary market rate on commercial paper with a maturity of 1-30 days fluctuated within a narrow range between 0.55% and 0.59%, while the secondary market rate on commercial paper with a maturity of 1-30 days remained between 0.35% and 0.40% throughout the year.

Reduction in Money Market Funds

With the benefits of low risk and high liquidity, money market funds tend to be an ideal investment option to park short-term capital. Nevertheless, the product diversification strategy adopted by investment trust companies have affected their asset allocation in recent years. Furthermore, the world's major stock markets have rallied, while money market funds tend to generate relatively lower returns. All the above factors led to a decline in the size



of money market funds. At the end of 2017, there were a total of 44 money market funds in Taiwan with total assets reaching NT\$783.1 billion, contracting by NT\$65.2 billion or 7.69% over the previous year.

With respect to portfolio composition, the largest use of the funds was bank deposits with a share of 70.27% at the end of the year. Following bank deposits were short-term bills and repurchase agreements, accounting for 16.97% and 12.64% of total money market funds, respectively.

Portfolio Composition of Money Market Funds

Unit: NT\$ Billion

Year/Month End	Total	Bank Deposits		Short-Term Bills		Repurchase Agreements		Bonds	
		Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
2015	993.5	655.2	65.95	161.2	16.23	165.6	16.67	11.4	1.14
2016	848.3	551.1	64.97	144.2	17.00	134.7	15.88	18.2	2.15
2017	783.1	550.3	70.27	132.9	16.97	99.0	12.64	0.9	0.11
2017/ 1	791.9	538.9	68.05	141.4	17.85	95.7	12.09	15.9	2.01
2	818.4	549.1	67.09	140.6	17.17	118.4	14.47	10.4	1.27
3	808.8	558.2	69.02	131.8	16.30	112.0	13.85	6.8	0.84
4	870.4	592.2	68.04	149.7	17.20	122.5	14.08	6.0	0.69
5	883.8	604.8	68.43	146.1	16.53	127.8	14.47	5.1	0.57
6	824.6	561.0	68.03	136.3	16.53	122.9	14.90	4.5	0.54
7	803.8	561.8	69.89	132.4	16.48	106.7	13.28	2.9	0.35
8	842.4	570.4	67.71	148.1	17.59	121.4	14.41	2.4	0.29
9	768.7	536.5	69.79	125.0	16.26	105.8	13.76	1.4	0.19
10	803.2	542.6	67.56	142.5	17.74	116.9	14.55	1.2	0.15
11	817.7	561.7	68.70	146.1	17.86	108.7	13.29	1.2	0.15
12	783.1	550.3	70.27	132.9	16.97	99.0	12.64	0.9	0.11

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