

3. Money Market

In 2018, the total turnover in the interbank call loan market decreased by 5.70%, while that in the short-term bills market increased by 9.18%. In terms of money market rates, the interbank overnight call loan rate remained at low levels, whereas bills market rates displayed a modest uptrend, as the Bank maintained an accommodative monetary policy stance against a background of slower global and domestic economic growth, heightened uncertainties over international economic and financial prospects, and mild inflation expectations.

Interbank Call Loans Decreased

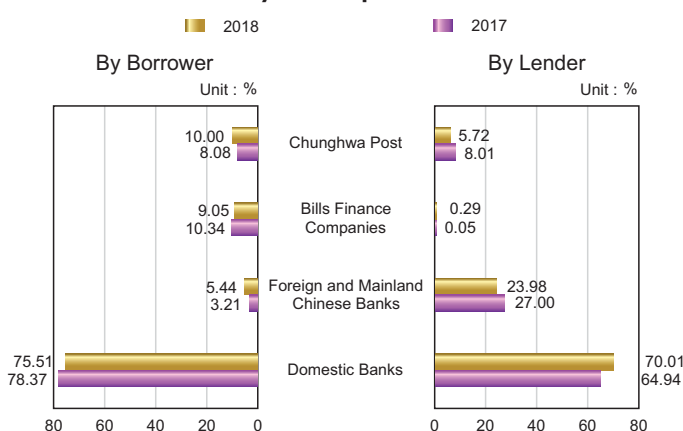
In the first half of the year, banks' demand for call loans rose because of steady growth in bank loans and investments amid robust expansion in the domestic economy. Nevertheless, the escalating US-China trade conflict weighted on the global economy and caused growth in domestic bank loans and investments to decrease in the second half of the year. Total annual turnover of interbank call loans for 2018 decreased by NT\$2,913.5 billion, or 5.70%, to NT\$48,192.7 billion. The outstanding amount of interbank call loans stood at NT\$384.0 billion at the end of the year, recording a slight decrease of 2.28% from the previous year end.

With regard to borrowers, domestic banks were still the largest player during the year, making up 75.51% of total transactions, followed by Chunghwa Post, bills finance companies, and foreign and Mainland Chinese banks, with shares of 10.00%, 9.05%, and 5.44%, respectively. The amount borrowed by domestic banks fell by NT\$3,663.4 billion, or 9.15%, over the previous year because ample liquidity in the banking system caused banks' demand for borrowing to soften. Meanwhile, with market liquidity remaining sufficient, private and government enterprises resorted to other sources for borrowing, leading to weaker demand from bills finance companies for funds used for underwriting commercial paper. Therefore, the amount borrowed by bills finance companies dropped by NT\$922.0 billion or 17.46% during the year. On the other hand, the amount borrowed by Chunghwa Post grew by NT\$691.8 billion or 16.75%, primarily resulting from increased investment in government bonds. The amount borrowed by foreign and Mainland Chinese banks rose substantially by NT\$980.2 billion or 59.67% over the previous year, reflecting greater demand for funds because of net foreign capital outflows.

In terms of lenders, domestic banks continued to be the largest supplier of funds, contributing to 70.01% of total transactions in 2018. Following domestic banks were foreign and Mainland Chinese banks, Chunghwa Post, and bills finance companies, with respective shares of 23.98%, 5.72%, and 0.29%. The amount lent by domestic banks only expanded by NT\$553.3 billion, or 1.67%, compared

with the previous year because of abundant liquidity in the banking system. As for foreign and Mainland Chinese banks, the funds they gained from the custodian business for foreign investors were insufficient because of net foreign capital outflows, bringing down the interbank lending amount of foreign and Mainland Chinese banks by NT\$2,245.6 billion or 16.27%. Meanwhile, the amount lent by Chunghwa Post contracted significantly by NT\$1,335.9 billion or 32.65% over the previous year, largely attributable to less available funds as it increased investment in government bonds.

Composition of Interbank Call Loan Market by Participant



Source: Financial Statistics Monthly, CBC.

In respect of maturity, interbank overnight call loans remained the most actively traded instrument in the market with a predominant share of 63.19%, down by 4.30 percentage points from that of the previous year. Second were those with a maturity of 1 week, accounting for 25.61%, up by 1.62 percentage points from that of the previous year. The share of loans with a 2-week maturity increased by 2.00 percentage points to 8.28%.

Short-Term Bill Transactions Increased

In 2018, newly issued short-term bills amounted to NT\$14,971.9 billion, representing an increase of NT\$93.4 billion or 0.63% over the previous year. Of the new issues, commercial paper still accounted for a dominant share at 86.60%, followed by negotiable certificates of deposit with a share of 12.21%.

As banks issued more negotiable certificates of deposit in an attempt to fill the funding gap or increase the deposit base, the amount of negotiable certificates of deposit issued rose by NT\$267.2 billion from a year before. In contrast, issuance of commercial paper registered a decrease of NT\$112.8 billion compared with the previous year. The decline was mostly because enterprises were less willing to issue commercial paper on account of weakened funding needs and a slight uptrend in money market rates, along with abundant liquidity in the banking system leading banks to actively expand their lending business. The amount of treasury bills and bankers' acceptances fell by NT\$60.0 billion and NT\$0.9 billion, respectively, over the previous year.

As of the end of 2018, total outstanding short-term bills stood at NT\$2,223.1 billion, 3.18% more than that of the previous year end.

Short-Term Bills Market

Unit: NT\$ Billion

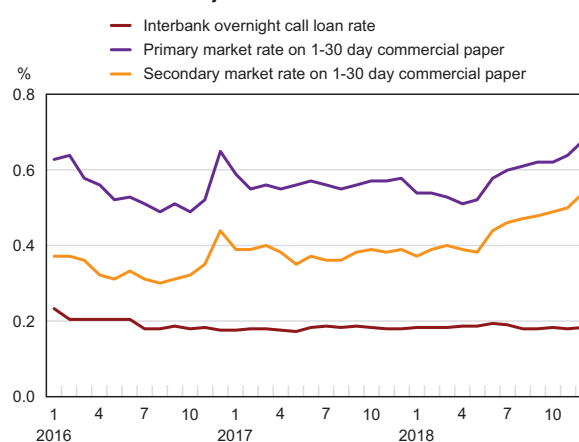
Year	Total		Treasury Bills		City Treasury Bills		Commercial Paper		Bankers' Acceptances		Negotiable Certificates of Deposit	
	Issues	Year-end Outstanding	Issues	Year-end Outstanding	Issues	Year-end Outstanding	Issues	Year-end Outstanding	Issues	Year-end Outstanding	Issues	Year-end Outstanding
2009	6,293.4	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
2013	9,809.0	1,650.2	324.6	214.6	-	-	8,827.4	1,199.2	23.5	4.2	633.5	232.3
2014	10,840.6	1,641.2	244.9	130.0	10.0	0.0	9,919.5	1,306.8	24.1	4.3	642.2	200.2
2015	11,512.8	1,677.7	233.7	90.0	-	-	10,426.0	1,346.6	20.8	3.5	832.3	237.6
2016	12,778.5	1,873.5	217.3	90.0	-	-	11,371.3	1,480.1	18.3	4.1	1,171.6	299.4
2017	14,878.5	2,154.5	220.0	25.0	-	-	13,077.8	1,709.0	19.4	4.2	1,561.3	416.4
2018	14,971.9	2,223.1	160.0	30.0	-	-	12,965.0	1,760.6	18.5	4.0	1,828.5	428.5

The total turnover of short-term bills in 2018 expanded by 9.18% to NT\$41,255.9 billion. Of the total transactions, commercial paper still made up the lion's share with 89.04%, showing a decrease of 1.67 percentage points from a year earlier. Second were negotiable certificates of deposit with a share of 10.58%, recording an increase of 1.74 percentage points over the previous year. Treasury bills and bankers' acceptances made up negligible shares of transactions. With respect to market participants, private enterprises remained the largest player in the market with a share of 42.89%, followed by banks with a share of 31.35%.

Money Market Rates Remained at Low Levels

For the year 2018, the weighted average interbank overnight call loan rate remained at a low level because of ample market liquidity. In the first half of the year, banks' funding conditions slightly tightened on account of the US-China trade dispute, net foreign capital outflows, enterprise mergers and acquisitions, and income tax collections. As a result, the weighted average interbank overnight call loan rate went up from 0.180% in January of 2018 to 0.192% in June. Later in the year, net foreign capital inflows helped increase market liquidity, thereby sending the rate down to 0.178% in September. However, the weighted average interbank overnight call loan rate slightly fluctuated between 0.179% and 0.183% in December, reflecting higher funding needs of enterprises at the end of the year.

Money Market Interest Rates



The primary market rate on commercial paper with a maturity of 1-30 days moved within a range between 0.51% and 0.68%, while the secondary market rate on commercial paper with a maturity of 1-30 days remained between 0.37% and 0.54% throughout the year.

Money Market Funds Contracted

Amid global financial market turbulence in the year 2018, money market funds were often seen as an ideal investment option to park short-term capital given the benefits of low risk and high liquidity, yet investment trust companies adopted a product diversification strategy which affected their asset allocation during the year. In addition, money market funds tend to generate relatively lower returns. These factors combined to lend to a continuous decline in the size of money market funds. At the end of 2018, there were a total of 43 money market funds in Taiwan with total assets reaching NT\$683.6 billion, down by NT\$99.4 billion or 12.70% from the previous year end.

In respect of portfolio composition, the largest use of the funds was bank deposits with a share of 66.56% at the end of the year. Following bank deposits were short-term bills and repurchase agreements, accounting for 22.10% and 11.25% 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 (%)
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
2018	683.6	455.0	66.56	151.1	22.10	76.9	11.25	0.7	0.10
2018/ 1	813.5	551.3	67.77	154.6	19.01	106.7	13.11	0.9	0.11
2	828.5	557.0	67.23	164.5	19.85	106.0	12.80	1.0	0.12
3	826.3	567.7	68.70	155.7	18.84	102.0	12.34	1.0	0.12
4	831.8	571.4	68.69	160.3	19.28	99.0	11.90	1.0	0.12
5	798.9	557.6	69.80	141.2	17.67	99.1	12.40	1.0	0.13
6	725.5	500.9	69.04	129.4	17.83	94.6	13.03	0.7	0.09
7	736.0	503.1	68.36	137.0	18.61	95.3	12.94	0.6	0.09
8	751.6	509.9	67.85	146.3	19.47	94.7	12.60	0.6	0.08
9	716.6	483.1	67.41	150.6	21.02	82.3	11.48	0.6	0.09
10	730.2	483.6	66.23	157.3	21.54	88.7	12.15	0.6	0.09
11	730.6	468.0	64.05	175.2	23.97	86.9	11.89	0.6	0.09
12	683.6	455.0	66.56	151.1	22.10	76.9	11.25	0.7	0.10