

9. Foreign Exchange Market

NT Dollar Appreciated by 2.62 Percent in 1999

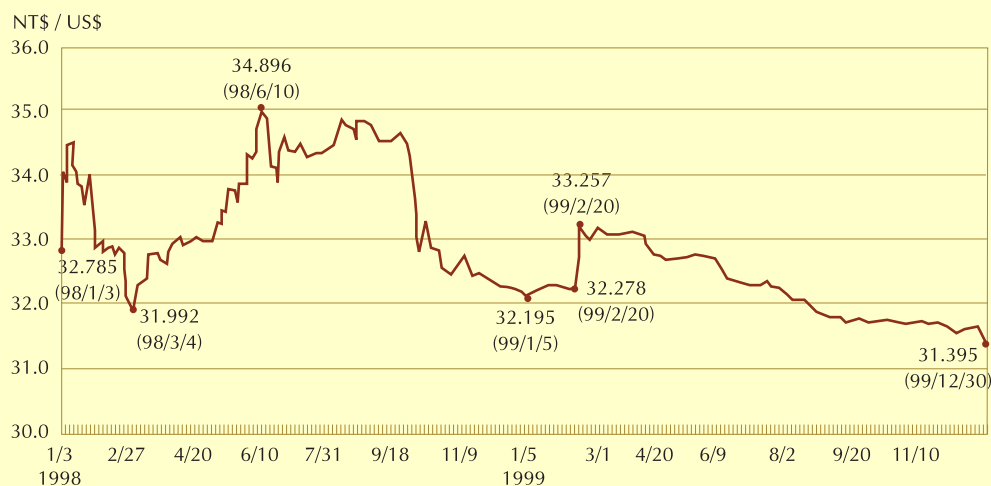
At the beginning of 1999, the NT\$/US\$ exchange rate was 32.195. It then stabilized at between 32.149 and 32.288 from January to February 12, the date before Chinese New Year's Eve. As the foreign exchange market reopened after the Chinese New Year holiday, the NT dollar began to depreciate against the US dollar. The main reason was that the Japanese yen depreciated sharply against the US dollar when the Bank of Japan successively reduced the overnight call-loan rate to near zero from mid-February to early March in order to deal with the credit crunch problem. The local market usually expects the NT dollar to follow the trend of the Japanese yen. As a consequence, the NT dollar exchange rate depreciated from 32.278 to 33.257 or by 2.94 percent within two consecutive days, hitting the lowest level for the year on February 20.

Shortly afterwards, due to the increase in the trade surplus as well as the surge of foreign capital inflows, the NT dollar began to appreciate until the end of 1999. From late February to December, some incidents, such as cross-strait tension in July and the earthquake in September, put pressure on the NT dollar to depreciate. Nevertheless, strong fundamentals compared to those of 1998, such as high economic growth, low inflation, and a huge balance of payments surplus, overwhelmed the incidents, while the downward trend of the US dollar continued to push up the NT dollar exchange rate. Furthermore, during the same period, because the Japanese yen and most crisis-hit Asian countries' currencies appreciated against the US dollar, the market expected the NT dollar to appreciate as well. Thus, the NT dollar kept on rising and reached 31.395 per dollar on December 30, the highest level of the year. The NT dollar consequently appreciated by 6.27 percent from February 20 to December 30.

Compared with the NT\$/US\$ exchange rate of 32.216 as of the end of 1998, the NT dollar appreciated by 2.62 percent in 1999. In addition, the daily average of the NT\$/US\$ exchange rate for 1999 was 32.2661, compared with 33.4447 in 1998. On this basis, the NT dollar appreciated by 3.65 percent against the US dollar. In respect of other major currencies, the NT dollar depreciated by 9.97 percent against the Japanese yen and appreciated by 8.81 percent against the euro. When based on the trade-weighted average exchange rate involving fifteen major trading partners

(weighted by the sum of imports and exports), the NT dollar appreciated by 0.94 percent between the end of 1998 and the end of 1999.

Spot Exchange Rate 1998-1999



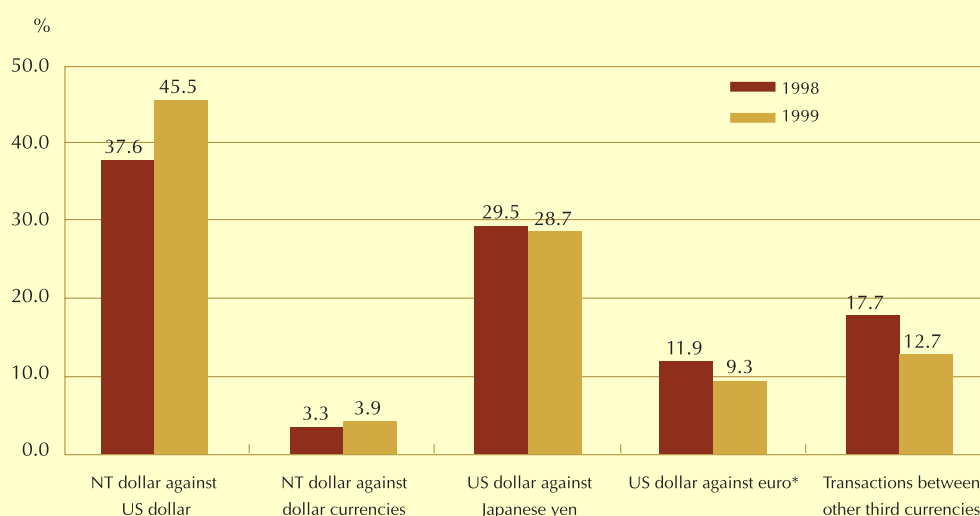
Shrinkage of Trading in the Foreign Exchange Market

Trading in the Taipei foreign exchange market declined in 1999. After deducting double counting on the part of interbank transactions, total net trading volume in the market for the year decreased by 11.0 percent from the previous year and amounted to US\$1,043 billion. The average daily turnover was US\$4.2 billion, representing a decrease of 11.3 percent over the previous year. The sharp decline in total net turnover mainly resulted from the contraction of forex transactions in third currencies. Two reasons may explain this contraction. First, the European single currency, the euro, replaced the Deutsche mark (DM) as a major trading currency on January 1, 1999. The introduction of the euro dismantled the trading pairs of the DM to the other ten European currencies, such as the French franc and Italian lira. Second, forex settlements were deterred due to the conservative attitude of forex traders who feared that the upcoming new millennium could possibly result in a computer shut-down.

In terms of trading partners, transactions between banks and customers accounted for 42.1 percent of total net turnover, with interbank transactions making up the remaining 57.9 percent. Of the latter, local interbank transactions accounted for 18.5 percent and transactions between local banks and overseas banks for the remaining 39.4 percent.

In terms of traded currencies, transactions in third currencies accounted for 50.6 percent of total trading volume, with trading in currency pairs of US dollar-Japanese yen and US dollar-euro accounting for shares of 28.7 percent and 9.3 percent, respectively. NT dollar trading against foreign currencies accounted for 49.4 percent of total trading volume, of which the share of NT dollars against US dollars was 45.5 percent.

Composition of Foreign Exchange Transactions by Traded Currencies

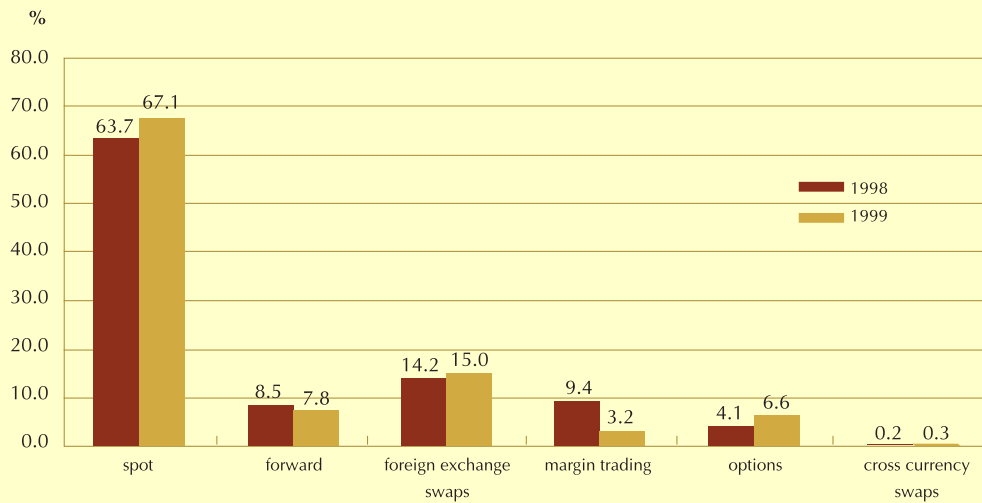


* Data in 1998 refer to US dollar against Deutsche mark.

With respect to types of transactions, spot transactions accounted for the lion's share with 67.1 percent of total turnover, followed by foreign exchange swap transactions with 15.0 percent, forward transactions with 7.8 percent, options transactions with 6.6 percent, margin trading transactions with 3.2 percent, and cross currency swaps transactions with 0.3%.

Compared with 1998, options grew by 43.8 percent in 1999. The rapid growth in options transactions showed that people have increasingly used options as an instrument to hedge foreign exchange risk or to profit from exchange rate fluctuations since options were introduced in May 1997. During the year, spot transactions, forward transactions, swap transactions and margin trading each decreased by 6.2 percent, 18.3 percent, 5.6 percent and 69.5 percent, respectively. These decreases, in general, resulted from the start of euro trading in the market as well as the approach of the millennium year. In addition, the marked decline in forward and margin trading was due to the Bank's strict measures to suppress speculation in relation to the NT dollar exchange rate since May 1998.

Composition of Foreign Exchange Transactions by Products



Turnover of Major Products in the Taipei Foreign Exchange Market

Unit: US\$ Million

Year	Spot Transactions	Forward Transactions	Forex Swaps	Margin Trading	Options	Cross Currency Swaps*	Total
1995	673,806	62,805	187,027	66,967	20,898	385	1,011,888
1996	692,135	71,153	187,649	87,433	15,558	1,128	1,055,056
1997	750,089	106,876	152,496	150,497	26,621	2,198	1,188,777
1998	746,334	99,108	166,224	109,886	47,818	2,472	1,171,842
1999	700,233	80,945	156,967	33,484	68,768	2,711	1,043,109
1998-1999	-6.2	-18.3	-5.6	-69.5	43.8	9.7	-11.0
Growth Rate (%)							

Note : * Cross currency swaps were reclassified as an item in major products instead of other products in September 1999.

Source : Foreign Exchange Department, Central Bank of China.

At the end of 1999, the Bank allowed other forex products to be traded including foreign currency interest rate-related products such as swaps, futures, options, commodity options and trust funds for foreign securities investment. The turnover in respect of these new products amounted to US\$28.3 billion in 1999, an increase of US\$6.1 billion or 27.7 percent over the previous year. Of this amount, trust funds for foreign securities investment accounted for the lion's share with US\$22.8 billion, followed by foreign currency forward rate agreements with US\$2.2 billion.

Slight Contraction in the Foreign Currency Call-Loan Market

Since the introduction of the euro in 1999, the Bank converted Deutsche marks into euros as a seed fund. The transactions in the foreign currency call-

Turnover of Other Products in the Taipei Foreign Exchange Market

Unit: US\$ Million

Year	Interest Rate Swaps	Forward Rate Agreements	Interest Rate Options	Trust Funds for Foreign Securities Investment	Foreign Currency Interest Rate Futures	Commodity Options	Commodity Price Swaps	Total
1995	1,880	489	436	779	0	0	0	3,584
1996	2,607	215	1,544	3,943	1,410	2	0	9,721
1997	4,577	700	1,891	9,061	1,176	1,233	0	18,638
1998	3,828	586	840	15,642	1,230	0	17	22,143
1999	1,859	2,195	814	22,843	185	295	89	28,280

*Cross currency swaps were reclassified as an item in major products instead of other products in September 1999.

Source: Foreign Exchange Department, Central Bank of China.

loan market decreased slightly during the year. Total transactions in 1999 amounted to the equivalent of US\$843.8 billion, a decrease of US\$11.6 billion or 1.4 percent over the previous year. Of this total, US dollar transactions amounted to US\$840.7 billion, reflecting a decrease of 1.2 percent over 1998, and Japanese yen transactions totaled ¥332.6 billion, a decrease of 24.4 percent. The amount of euro transactions was rather small, totaling only 5 million euros.

Continued Expansion in Offshore Banking Units

At the end of 1999, there were 69 offshore banking units (OBUs) in operation, 3 units less than at the end of the previous year. The decrease in the number of OBUs was due to two mergers, Nationsbank with Bank of America, Bankers Trust with Deutsche Bank, and the closedown of Canadian Imperial Bank of Commerce. The combined assets of all OBUs amounted to US\$41.3 billion at the end of the year, having increased by US\$0.6 billion or 1.6 percent over the previous year. Domestic bank OBUs accounted for US\$28.2 billion or 68.2 percent of these combined assets, and foreign bank OBUs accounted for US\$13.1 billion or 31.8 percent of the total.

From the balance sheet analysis, the OBUs' main sources of funds were due to related offices (see the footnote in the related table) and deposits by financial institutions that accounted for 74 percent of total liabilities. Of these, due to related offices accounted for 42 percent, deposits by financial institutions located overseas accounted for 12 percent of total liabilities, those by other financial institutions situated locally for 16 percent and inter-OBU deposits for 4 percent. In terms of the areas of origin, the main source of funds

was from Asia that accounted for 76 percent, followed by America with 16 percent, Europe with 7 percent, and other areas with 1 percent. The main use of funds was due from related offices and deposits with financial institutions that accounted for the lion's share or 46 percent of total assets, of which 29 percent was due from related offices, 11 percent was deposited overseas, 2 percent with other domestic financial institutions, and 4 percent with domestic OBUs. Asia was the main destination of funds accounting for 64 percent, followed by America with 25 percent, Europe with 8 percent and other areas with 3 percent.

Consolidated Balance Sheet of Offshore Banking Units

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
1997/ 12	11,736	3,885	19,944	3,561	39,126	4,551	29,239	1,177	4,159
1998/ 12	14,549	4,223	19,174	2,686	40,632	6,241	29,470	1,382	3,539
1999/ 12	15,813	4,273	18,911	2,271	41,268	8,004	30,670	--	2,594
1999/ 1	14,655	4,170	19,697	2,761	41,283	6,246	30,410	1,382	3,245
2	14,479	4,230	18,582	3,043	40,334	6,341	29,062	1,382	3,549
3	14,553	4,253	17,881	2,850	39,537	6,547	28,886	1,354	2,750
4	14,655	4,276	19,284	2,817	41,032	6,729	29,885	1,309	3,109
5	14,803	4,248	17,300	2,617	38,968	6,844	27,964	1,309	2,851
6	15,125	4,084	17,797	2,378	39,384	6,862	28,528	1,309	2,685
7	15,428	3,937	17,957	2,555	39,877	7,352	28,502	1,309	2,714
8	15,357	3,788	19,199	3,183	41,527	7,253	29,575	1,309	3,390
9	15,367	3,707	20,718	2,519	42,311	7,367	30,795	1,309	2,840
10	15,323	3,656	19,894	2,872	41,745	7,661	29,634	1,309	3,141
11	15,628	3,549	21,257	2,721	43,155	7,733	30,919	1,329	3,174
12	15,813	4,273	18,911	2,271	41,268	8,004	30,670	--	2,594

* Due to financial institutions includes due to related offices, which was separated from due to and deposits by other financial institutions as an item since December 1999.

**The statistics related to securities issued has been reclassified as an item in the due to financial institutions.

Source : *Financial Statistics Monthly, Taiwan District, the Republic of China, January 2000, Central Bank of China.*

The forex trading turnover of all OBUs in 1999 was US\$73.8 billion. Of this amount, spot transactions accounted for US\$43.6 billion, followed by currency swap transactions with US\$20.9 billion, and forward transactions with US\$9.3 billion. The total trading turnover of the other new products, including margin trading, options, foreign currency interest rate swaps, financial futures, foreign currency forward rate agreements and cross currency swaps, amounted to US\$9.7 billion.