

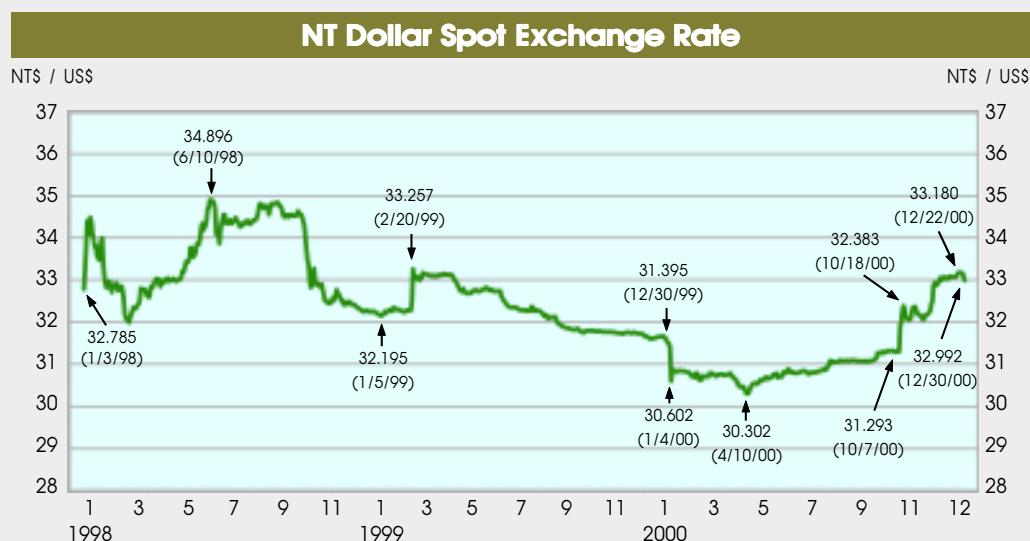
9. Foreign Exchange Market

NT Dollar Depreciated by 4.84 Percent against US Dollar in 2000

In 2000, the NT dollar first appreciated and then depreciated against the US dollar. At the beginning of 2000, the NT\$/US\$ exchange rate was 30.602. The NT dollar then rose moderately and reached 30.302 per US dollar on April 10, hitting the highest level for the year, due to the surge of foreign capital inflows. In May, the U.S. Federal Reserve raised both the Fed funds rate and the discount rate by 50 basis points, the third increase in the year, keeping the US dollar strong. Because the local market strongly expected the NT dollar to depreciate against the US dollar, exporters kept foreign currencies in banks and importers purchased more US dollar forwards to hedge their currency risk. Moreover, as the deposit rate of US dollars was higher than that of NT dollars, the amount of foreign currency deposits in local banks kept on increasing for several consecutive months.

Shortly afterwards, the slowdown of the U.S. economy caused a steep decline in the U.S. stock market. U.S. investors began to move their funds out of overseas markets to compensate for their losses in the U.S. market. The US dollar appreciated against all major Asian currencies, which directly caused the NT dollar to weaken further, and the exchange rate reached 32.383 on October 18. In November 2000, the Economist magazine reported the possibility of Taiwan facing another financial crisis in January 2001. Then in December, the Standard & Poor's Investors Service Inc. (S&P) downgraded Taiwan's sovereign rating prospect from "Stable" to "Negative". The NT dollar continued to depreciate and reached 33.18 per US dollar on Dec. 22, hitting the lowest level for the year. To maintain adequate foreign currency liquidity in the banking system and to stabilize the exchange rate of the NT dollar, the Bank imposed a 5 percent required reserve ratio on all newly—taken foreign currency deposits in domestic banking units (DBUs) on December 8. This reserve ratio was further increased to 10 percent on December 29. The NT dollar consequently rebounded to 32.992 per US dollar on December 30.

Compared with the NT\$/US\$ exchange rate of 31.395 as of the end of 1999, the NT dollar depreciated by 4.84 percent in 2000. In addition, the daily average of the NT\$/US\$ exchange rate for 2000 was 31.225, compared with 32.266 in 1999. On this basis, the NT dollar appreciated by 3.33 percent against the US dollar. In respect of other major currencies, the NT dollar depreciated by 2.08 percent against the Japanese yen and appreciated by 19.33 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 depreciated by 0.85 percent between the end of 1999 and the end of 2000.

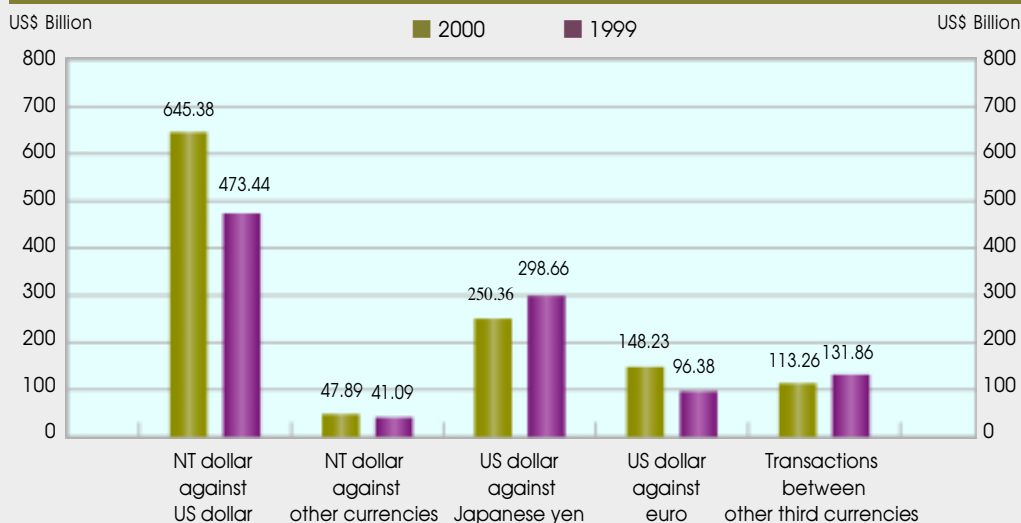
Increase in Trading In the Foreign Exchange Market

Trading in the Taipei foreign exchange market increased in 2000. After deducting double counting on the part of interbank transactions, total net trading volume in the market for the year increased by 15.5 percent from the previous year and amounted to US\$1,205 billion. The average daily turnover was US\$4.88 billion, representing an increase of 17.1 percent over the previous year. The apparent increase in total net turnover mainly resulted from the growth of transactions between NT dollars and US dollars.

In terms of trading partners, transactions between banks and non-bank customers accounted for 44.5 percent of total net turnover, with interbank transactions making up the remaining 55.5 percent. Of the latter, local interbank transactions accounted for 21 percent and transactions between local banks and overseas banks for the remaining 34.5 percent.

In terms of traded currencies, transactions in third currencies accounted for 42.5 percent of total trading volume, with trading in currency pairs of US dollar-Japanese yen and US dollar-euro accounting for shares of 20.8 percent and 12.3 percent, respectively. NT dollar trading against foreign currencies accounted for 57.5 percent of total trading volume, of which the share of NT dollars against US dollars was 53.5 percent.

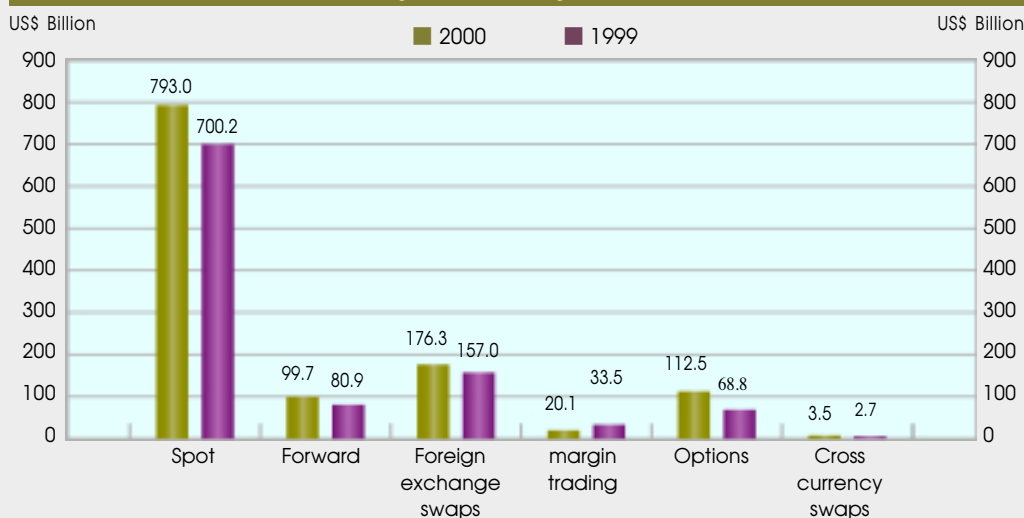
Composition of Foreign Exchange Transactions by Traded Currency



With respect to types of transactions, spot transactions accounted for the lion's share with 65.8 percent of total turnover, followed by foreign exchange swap transactions with 14.6 percent, option transactions with 9.3 percent, forward transactions with 8.3 percent, margin trading transactions with 1.7 percent, and cross currency swap transactions with 0.3 percent.

Compared with 1999, options grew by 63.6 percent and swaps grew by 30.4 percent in 2000. The rapid growth in option transactions showed that people increasingly used options as an instrument to hedge foreign exchange risk or to profit from exchange rate fluctuations. The growth

Composition of Foreign Exchange Transactions by Product



Turnover of Major Products in the Taipei Foreign Exchange Market

Unit: US\$ Million

Year	Spot	Forward	Forex Swaps	Margin Trading	Options	Cross Currency Swaps	Total
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
2000	793,025	99,711	176,299	20,056	112,485	3,536	1,205,114
1999-2000 Growth Rate (%)	13.3	23.2	12.3	-40.1	63.6	30.4	15.5

Source: Foreign Exchange Department, Central Bank of China.

in swap transactions showed that the Bank used swaps as a supplementary instrument to its open market transactions for strengthening the effectiveness of short-term liquidity and exchange rate controls. During the year, spot transactions, forward transactions and swap transactions each increased by 13.3 percent, 23.2 percent and 12.3 percent, respectively.

By the end of 2000, the other forex products having been allowed to be traded in the Taiwan market included foreign currency interest rate-related products such as swaps, futures, options, forward rate agreements, commodity options, commodity price swaps and trust funds for foreign securities investment. The turnover in respect of these new products amounted to US\$52.46 billion in 2000, an increase of US\$24.18 billion or 85.5 percent over the previous year. Of this amount, trust funds for foreign securities investment accounted for the largest share with US\$39.55 billion, followed by foreign currency forward rate agreements with US\$5.42 billion.

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
1996	2,607	215	1,544	3,944	1,310	2	0	9,622
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
2000	4,097	5,417	1,471	39,546	152	1,541	201	52,424

Source: Foreign Exchange Department, Central Bank of China.

Slight Contraction in the Foreign Currency Call-Loan Market

The transactions in the foreign currency call-loan market decreased slightly during 2000. It showed that the demand for foreign currency call loans declined as local banks had accepted plenty of foreign currency deposits owing to the general public's anticipation of NT dollar depreciation in the latter half of the year. Total transactions in the foreign currency call-loan market in 2000 amounted to the equivalent of US\$796.7 billion, a decrease of US\$47 billion or 5.6 percent over the previous year. Of this total, US dollar transactions amounted to US\$793.7 billion, reflecting a decrease of 5.6 percent over 1999, and Japanese yen transactions totaled ¥284.1 billion, a decrease of 14.6 percent. The amount of euro transactions was rather small, totaling only 352 million euros.

Continued Expansion in Offshore Banking Units

At the end of 2000, there were 68 offshore banking units (OBUs) in operation, 1 unit less than at the end of the previous year. The decrease in the number of OBUs was due to the merger of Banque Nationale de Paris with Banque Paribas, both from France. The combined assets of all OBUs amounted to US\$47.3 billion at the end of the year, having increased by US\$6.1 billion or 14.71 percent over the previous year. Domestic bank OBUs accounted for US\$31.6 billion or 67 percent of these combined assets, and foreign bank OBUs accounted for US\$15.8 billion or 33 percent of the total.

From the balance sheet analysis, the OBUs' main sources of funds were due to related offices and deposits by financial institutions that accounted for 72 percent of total liabilities. Of these, due to related offices accounted for 56 percent, deposits by financial institutions located overseas accounted for 5 percent of total liabilities, those by other financial institutions situated locally for 7 percent and inter-OBU deposits for 4 percent. In terms of the continental areas of origin, the main source of funds was from Asia which accounted for 79 percent, followed by America with 15 percent, Europe with 5 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 51 percent of total assets, of which 27 percent was due from related offices, 18 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 65 percent, followed by America with 25 percent, Europe with 8 percent and other areas with 2 percent.

The forex-trading turnover of all OBUs in 2000 was US\$57 billion. Of this amount, spot transactions

accounted for US\$37.8 billion, followed by currency swap transactions with US\$13.5 billion, and forward transactions with US\$5.8 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\$21.5 billion.

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*	Other Liabilities
1997/12	11,736	3,885	19,944	3,561	39,126	4,551	29,239	4,159
1998/12	14,549	4,223	19,174	2,686	40,632	6,241	29,470	3,539
1999/12	15,813	4,273	18,911	2,271	41,268	8,004	30,670	2,594
2000/12	17,050	3,831	24,528	1,928	47,337	10,654	34,119	2,564
2000/ 1	15,914	4,236	21,394	2,251	43,795	7,537	33,779	2,479
2	15,639	4,197	20,759	2,266	42,861	7,683	33,299	1,879
3	15,763	4,194	20,069	1,780	41,806	7,770	32,063	1,973
4	15,796	4,062	19,130	1,738	40,726	7,923	30,802	2,001
5	15,876	4,042	19,604	2,831	42,353	8,155	31,114	3,084
6	15,941	3,864	20,228	2,285	42,318	8,428	31,166	2,724
7	16,215	3,815	18,997	2,544	41,571	8,817	29,753	3,001
8	16,805	3,802	18,930	2,782	42,319	9,229	29,781	3,309
9	16,764	3,797	19,927	2,188	42,676	9,827	30,017	2,832
10	16,820	3,792	24,037	2,158	46,807	10,096	33,875	2,836
11	16,841	3,840	24,453	2,285	47,419	10,628	33,851	2,940
12	17,050	3,831	24,528	1,928	47,337	10,654	34,119	2,564

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

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