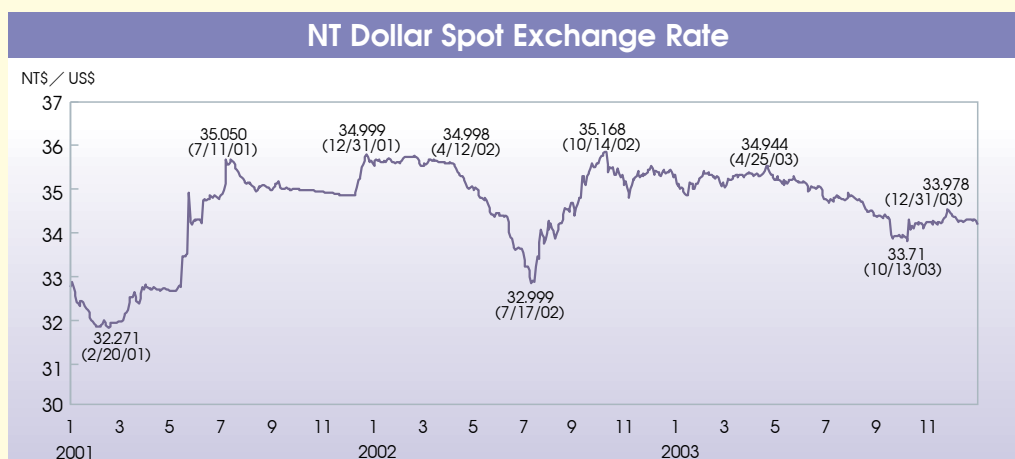


## 9. Foreign Exchange Market

### Largely Stable NT\$/US\$ Exchange Rate

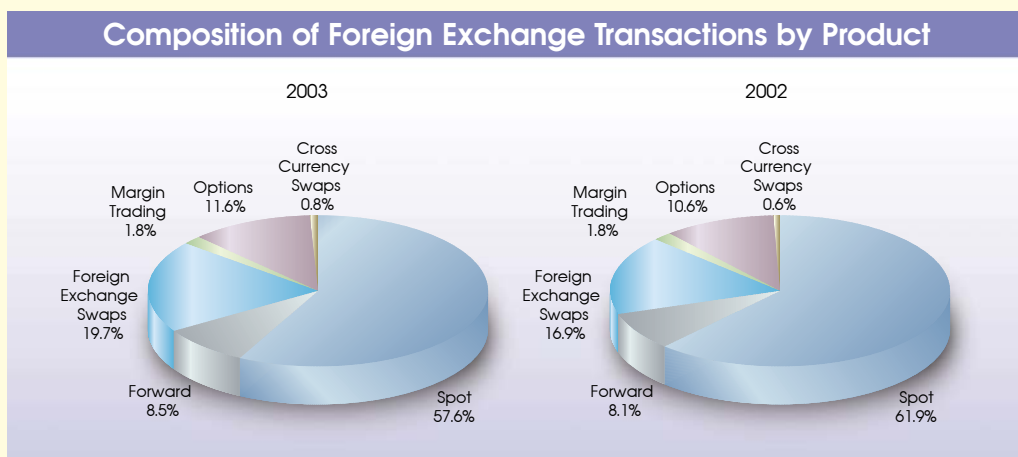
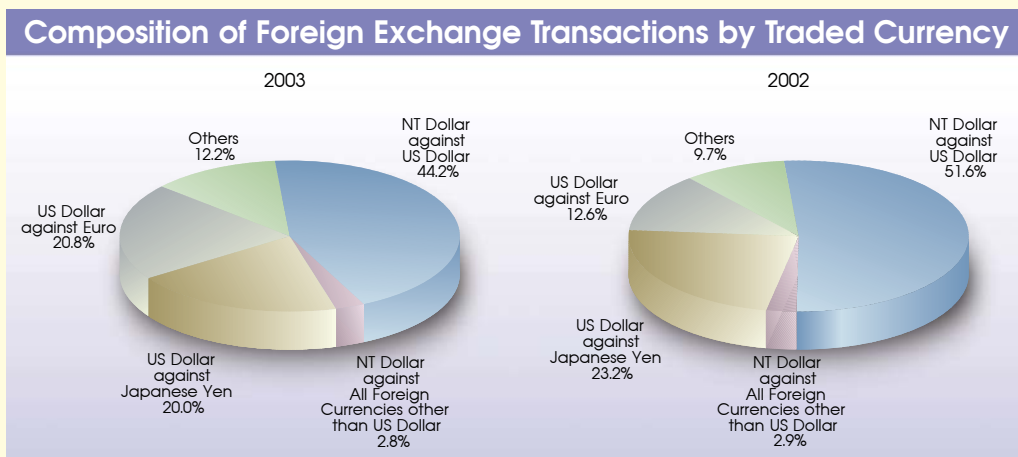
From January to mid-April of 2003, alternating bullish and bearish influences, such as the US-Iraq War, the weakening US dollar, and inflows of foreign funds to the Taiwan stock market, resulted in the NT\$/US\$ exchange rate fluctuating between 34.4 and 34.8. In late April, due to the widespread outbreak of the SARS epidemic in Mainland China, Hong Kong, Taiwan and Singapore, coupled with depreciation of the Japanese yen, the NT dollar declined to 34.944 against the US dollar on April 25, the lowest level of the year. However, the NT dollar started to appreciate in May as market participants suspected the US government's departure from their "strong US dollar" policy. Inward remittance of foreign funds and the Japanese yen's strengthening from 120 to 110 against the US dollar between August and October pushed the NT dollar up further until it reached 33.71 on October 13, the highest level of the year. From its peak, the NT dollar, along with other major Asian currencies, slipped. The NT dollar slipped to a low of 34.051 on October 14, coinciding with the Korean won's sudden drop after the Bank of Korea announced that it had revised downwards South Korea's economic growth forecast for the year. From mid-October onwards, the NT\$/US\$ exchange rate became relatively stable and fluctuated around the 34 mark. At the end of 2003, the NT dollar closed at 33.978 against the US dollar. Compared with the rate of 34.753 registered at the end of 2002, the NT dollar slightly appreciated by 2.28 percent in 2003. On a daily average basis, the NT\$/US\$ exchange rate for 2003 was 34.418, representing an appreciation of 0.46 percent when compared with 34.575 in 2002.



With respect to other major currencies, the NT dollar depreciated against the Japanese yen and the euro by 7.54 percent and 14.71 percent, respectively, between the end of 2002 and 2003. When based on the trade-weighted average exchange rate against major trading partners (weighted by the sum of imports and exports of goods), the NT dollar depreciated by 3.91 percent between the end of 2002 and 2003.

### Active Trading in the Foreign Exchange Market

Trading in the Taipei foreign exchange market significantly increased in 2003. After deducting double counting on the part of interbank transactions, total net trading volume in the market for the year increased by 30.3 percent from the previous year to US\$1,837.70 billion. The daily average turnover stood at US\$7.30 billion, representing an increase of 30.1 percent over the



previous year. The increase in turnover mainly resulted from the expansion in external trade, the government's gradual relaxation on foreign investment restrictions, and the marked rise in third currency transactions following the sharp appreciation of the euro and Japanese yen against the US dollar.

In terms of trading partners, transactions between banks and non-bank customers accounted for 33.5 percent of total net turnover. Interbank transactions made up a 66.5 percent share, including 21.1 percent for deals among local banks and 45.4 percent for transactions between local banks and overseas banks.

As far as traded currencies are concerned, transactions in third currencies accounted for 53.0 percent of total trading volume, with trading in currency pairs of US dollar- euro and US dollar- Japanese yen accounting for shares of 20.8 percent and 20.0 percent, respectively. NT dollar trading against foreign currencies accounted for 47.0 percent of total trading volume, of which the share of NT dollars against US dollars was 44.2 percent.

With respect to types of transactions, spot transactions accounted for the highest share with 57.6 percent of total turnover, followed by foreign exchange swap transactions with 19.7

### Turnover of Major Products in the Taipei Foreign Exchange Market

Unit: US\$ Million

| Year                         | Spot      | Forward | Forex Swaps | Margin Trading | Options | Cross Swaps | Total     |
|------------------------------|-----------|---------|-------------|----------------|---------|-------------|-----------|
| 1999                         | 700,233   | 80,945  | 156,967     | 33,484         | 68,768  | 2,711       | 1,043,109 |
| 2000                         | 793,024   | 99,702  | 176,299     | 20,056         | 112,485 | 3,536       | 1,205,104 |
| 2001                         | 758,827   | 93,687  | 172,551     | 21,320         | 105,609 | 8,427       | 1,160,421 |
| 2002                         | 872,844   | 114,341 | 238,807     | 25,869         | 149,630 | 8,875       | 1,410,366 |
| 2003                         | 1,058,850 | 156,323 | 361,490     | 33,907         | 213,198 | 13,930      | 1,837,698 |
| 2002-2003<br>Growth Rate (%) | 21.3      | 36.7    | 51.4        | 31.1           | 42.5    | 57.0        | 30.3      |

Source: Department of Foreign Exchange, Central Bank of China.

### Turnover of Other Products in the Taipei Foreign Exchange Market

Unit: US\$ Million

| Year                         | Interest Rate-related Products |                     |                       |  | Commodity-related Products |                   | Stock Index Options | Total  |
|------------------------------|--------------------------------|---------------------|-----------------------|--|----------------------------|-------------------|---------------------|--------|
|                              | Forward Rate Agreements        | Interest Rate Swaps | Interest Rate Options | Foreign Currency Interest Rate Futures | Commodity Price Swaps      | Commodity Options |                     |        |
| 1999                         | 2,195                          | 1,859               | 814                   | 185                                    | 295                        | 89                | 0                   | 5,437  |
| 2000                         | 5,417                          | 4,097               | 1,471                 | 152                                    | 1,541                      | 201               | 37                  | 12,916 |
| 2001                         | 12,170                         | 12,114              | 1,018                 | 74                                     | 644                        | 259               | 34                  | 26,313 |
| 2002                         | 30,518                         | 22,488              | 4,479                 | 2,458                                  | 1,826                      | 305               | 556                 | 62,630 |
| 2003                         | 20,121                         | 41,855              | 10,066                | 12,036                                 | 3,313                      | 175               | 663                 | 88,229 |
| 2002-2003<br>Growth Rate (%) | -34.1                          | 86.1                | 124.7                 | 389.7                                  | 81.4                       | -42.5             | 19.2                | 40.9   |

Source: Department of Foreign Exchange, Central Bank of China.

percent, options transactions with 11.6 percent, forward transactions with 8.5 percent, margin trading transactions with 1.8 percent, and cross currency swap transactions with 0.8 percent. Compared with 2002, the trading volumes of cross currency swaps and foreign exchange swaps recorded the highest growth rates of 57.0 percent and 51.4 percent, respectively.

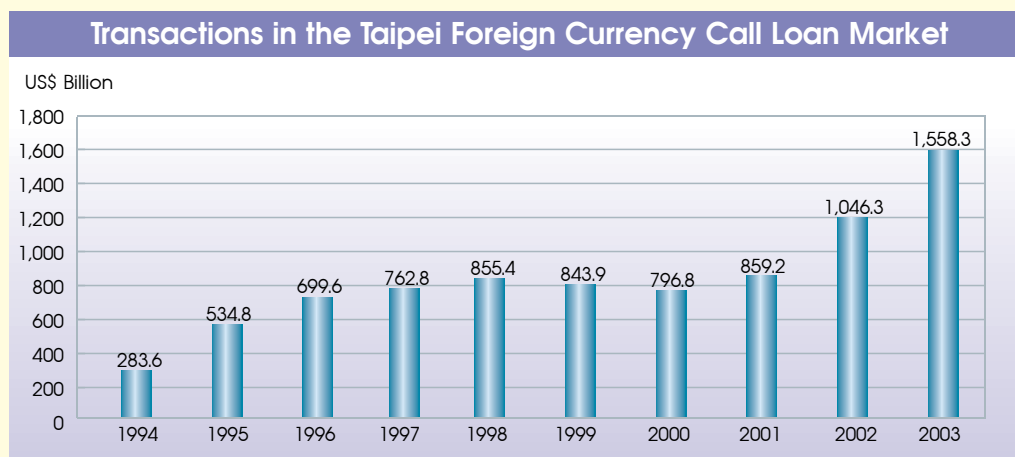
By the end of 2003, the other foreign derivatives allowed to trade in local markets included forwards, swaps and options on foreign currency interest rates, commodity and stock indices. The turnover with respect to these products amounted to US\$88.23 billion. Of this amount, interest rate-related derivatives accounted for the lion's share with US\$84.08 billion or 95.3 percent.

### Increasing Transactions in the Foreign Currency Call-Loan Market

The transaction volume in the foreign currency call-loan market in 2003 was equivalent to US\$1,558.3 billion. Of this amount, US dollar transactions accounted for US\$1,557.2 billion, a marked increase of 49 percent over 2002. The increase was mainly due to the Bank's provision of foreign currency funds through the call loan market with the aim of assisting Taiwanese firms' overseas operations, as well as the increase of foreign currency deposits in local banks.

### Continued Expansion in the Assets of Offshore Banking Units

At the end of 2003, there were 70 offshore banking units (OBUs) in operation. Domestic banks operated 41 of the OBUs, while foreign banks ran the other 29. The combined assets of all OBUs totaled US\$64.55 billion at the end of the year, representing a significant increase of US\$14.23 billion or 28.3 percent from the previous year-end. Domestic bank OBUs accounted for US\$43.61 billion or 68 percent of these combined assets, and foreign bank OBUs accounted for US\$20.94 billion or 32 percent of the total.



## Consolidated Balance Sheet of Offshore Banking Units in Banking System

Unit: US\$ Million

| End of 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 |
|--------------|-------------------------------------|----------------------|----------------------------------|--------------|---------------------------------|--|-------------------------------|-------------------|
| 2001/12      | 15,721                              | 4,206                | 29,773                           | 1,206        | 50,906                          | 12,429                                 | 36,522                        | 1,955             |
| 2002/12      | 15,160                              | 5,896                | 27,454                           | 1,808        | 50,318                          | 14,326                                 | 33,443                        | 2,549             |
| 2003/12      | 15,939                              | 7,648                | 37,420                           | 3,541        | 64,548                          | 16,307                                 | 44,288                        | 3,953             |
| 2003/ 1      | 15,103                              | 6,189                | 27,697                           | 1,763        | 50,752                          | 14,355                                 | 34,013                        | 2,384             |
| 2            | 15,081                              | 6,403                | 28,346                           | 1,765        | 51,595                          | 14,577                                 | 34,520                        | 2,498             |
| 3            | 15,228                              | 6,708                | 30,305                           | 1,860        | 54,101                          | 14,936                                 | 36,543                        | 2,622             |
| 4            | 15,246                              | 6,751                | 29,053                           | 1,984        | 53,034                          | 14,870                                 | 34,955                        | 3,209             |
| 5            | 15,393                              | 7,043                | 29,531                           | 2,035        | 54,002                          | 15,244                                 | 35,878                        | 2,880             |
| 6            | 15,443                              | 6,853                | 31,110                           | 1,844        | 55,250                          | 15,593                                 | 36,969                        | 2,688             |
| 7            | 15,644                              | 6,982                | 31,608                           | 1,994        | 56,228                          | 16,041                                 | 37,432                        | 2,755             |
| 8            | 15,767                              | 7,146                | 31,861                           | 1,862        | 56,636                          | 16,241                                 | 37,757                        | 2,638             |
| 9            | 15,774                              | 7,524                | 33,115                           | 2,508        | 58,921                          | 16,196                                 | 39,454                        | 3,271             |
| 10           | 15,423                              | 7,430                | 33,818                           | 3,019        | 59,690                          | 16,166                                 | 39,747                        | 3,777             |
| 11           | 15,494                              | 7,612                | 36,172                           | 2,928        | 62,206                          | 16,176                                 | 42,363                        | 3,667             |
| 12           | 15,939                              | 7,648                | 37,420                           | 3,541        | 64,548                          | 16,307                                 | 44,288                        | 3,953             |

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

The OBU's main sources of funds were due to affiliated branches and deposits by financial institutions, which together accounted for 69 percent of total liabilities. These were followed by deposits of non-financial institutions, which accounted for 25 percent of total liabilities. OBUs have been gradually developing into capital management centers for overseas Taiwanese businesses. In terms of the geographical origin, 70 percent of funds came from Asia, and 19 percent from the Americas.

The main uses of funds were due from affiliated branches and deposits with financial institutions. These accounted for the lion's share, or 58 percent of total assets. Second to these were loans extended abroad and locally with a share of 24 percent. Additionally, portfolio investments accounted for 12 percent of total assets. In terms of fund destination, 68 percent of funds went to Asia, and 19 percent to the Americas.

The forex-trading turnover of all OBUs in 2003 was US\$59.76 billion, of which US\$44.06 billion was for spot transactions, US\$10.22 billion for currency swap transactions, and US\$5.48 billion for forward transactions. The total turnover of other derivative products, including margin trading, options, foreign currency interest rate swaps, financial futures, foreign currency forward rate agreements, cross currency swaps and commodity swaps, amounted to US\$59.08 billion, representing a significant increase of 85.8 percent on the previous year.