



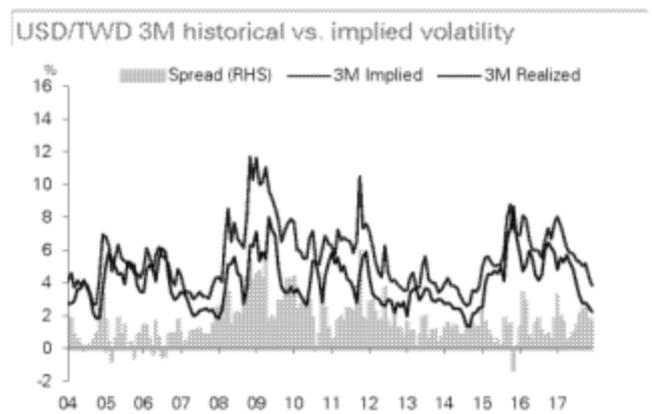
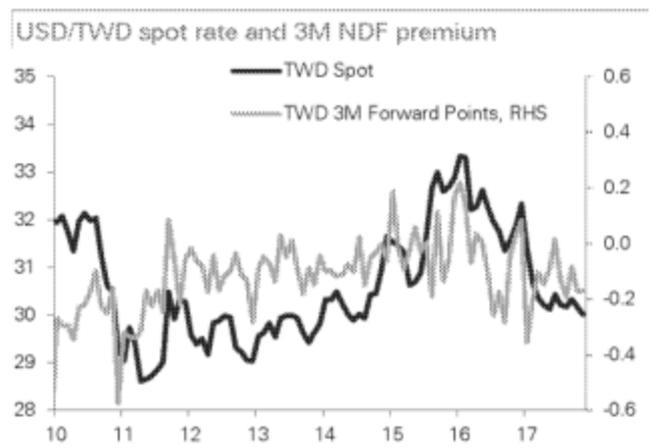
# Taiwan

The Central Bank of China is responsible for conducting both monetary and exchange rate policies. There is no formal inflation target, but the CBC has a medium-term objective of keeping M2 growth in a range. The central bank's main policy instrument is the discount rate, though in practice it uses several tools such as OMOs and the FX rate to influence monetary conditions.

Over the past two decades, the TWD market has been managed actively by the central bank. The objective is to smooth day-to-day volatility in the spot market and ensure that currency moves reflect fundamentals and real economic transactions rather than speculative activity. Preventing excessive appreciation of the TWD is also desirable to maintain export competitiveness. Such active management had led CBC to become one of the largest holders of foreign reserves. CBC has historically tended to enjoy positive carry on its reserves sterilization given low domestic rates.

Taiwan continues to enjoy large current account surpluses, and is consequently a significant net investor to the world with large overseas portfolio investment by local asset managers. Associated hedging activities have a meaningful – generally depressive – impact on the NDF curve, resulting in negative carry to the TWD. This has led it to regularly be seen as a regional funder carry trades.

A recent improvement in ties with the Mainland has led to several initiatives to facilitate cross-border investment and direct conversion of RMB into TWD at licensed institutions. In 2013, direct clearing and offshore trading of RMB began in Taiwan with the launch of yuan-denominated operations such as deposits, loans and remittances. The NT dollar is convertible for current account transactions, but more restricted on the capital account.



Source: DB Global Markets Research, Bloomberg Finance L.P.