



# Disposing of USD100bn

## What's next to stop TWD appreciation?

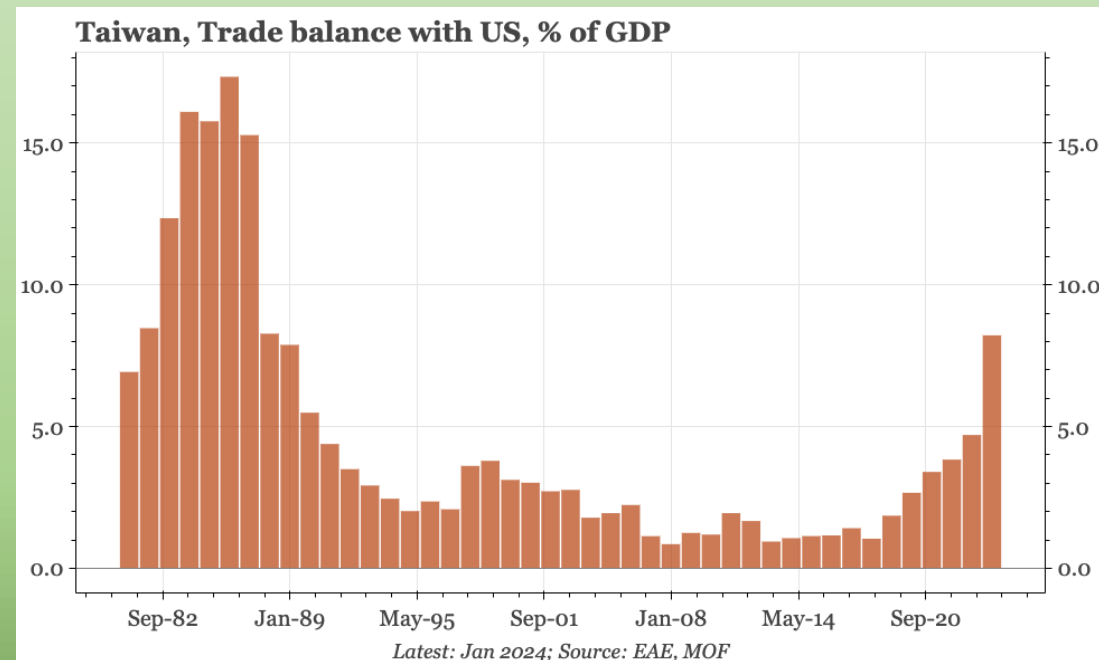
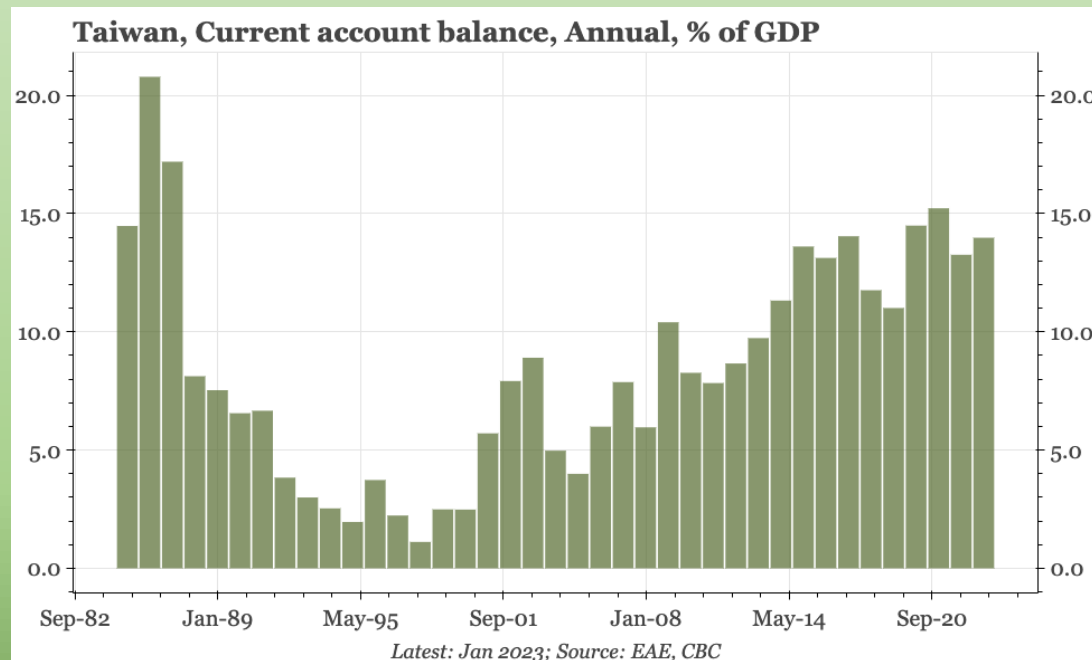
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# Context

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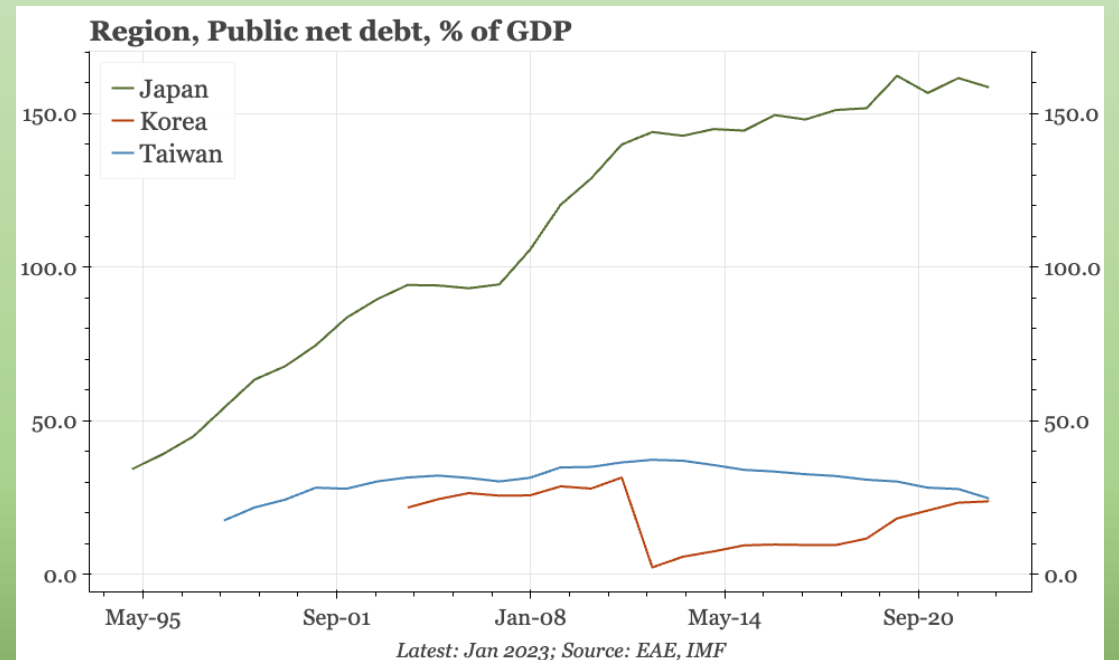
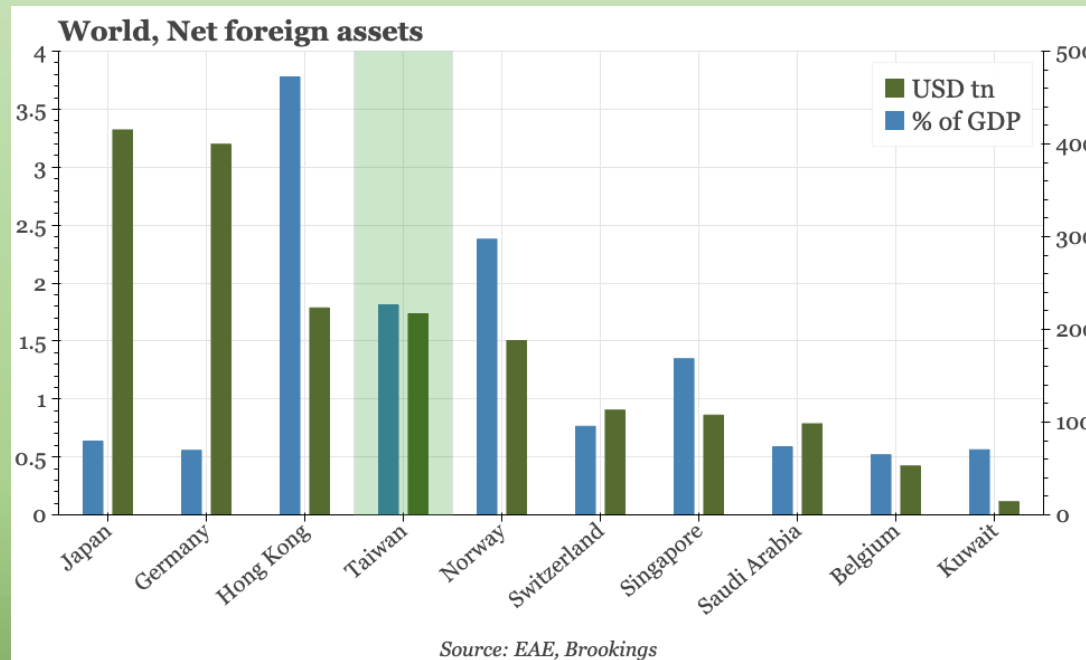
The imbalances of the 1980s are back...





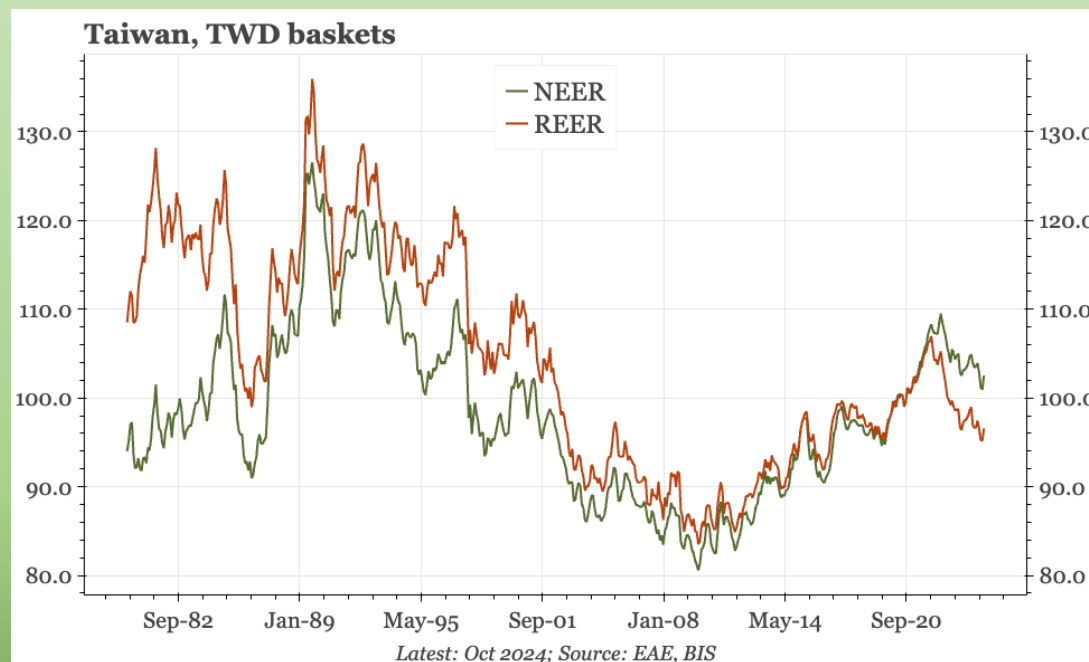
# Context

...making the TWD, economically (!), a safe haven...



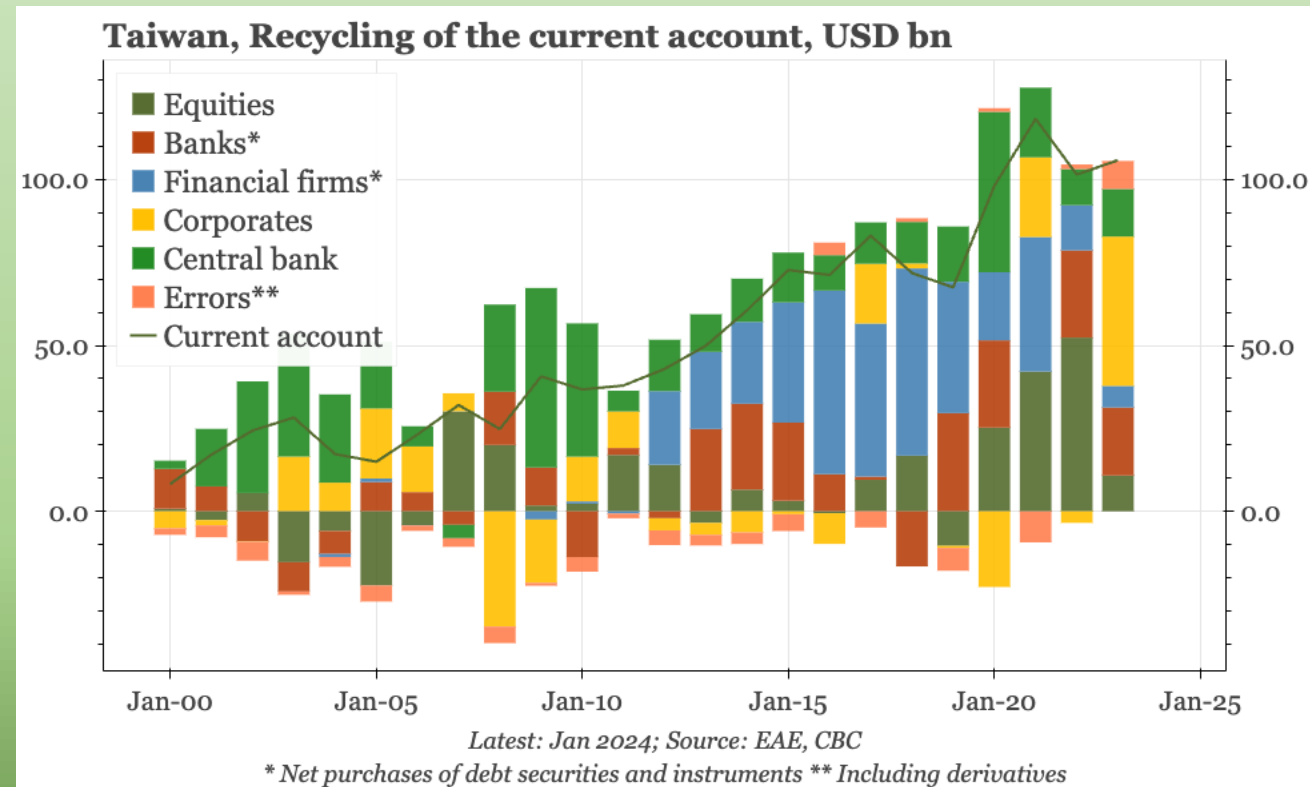
# Context

...and yet, it is weak as 2001, and managed



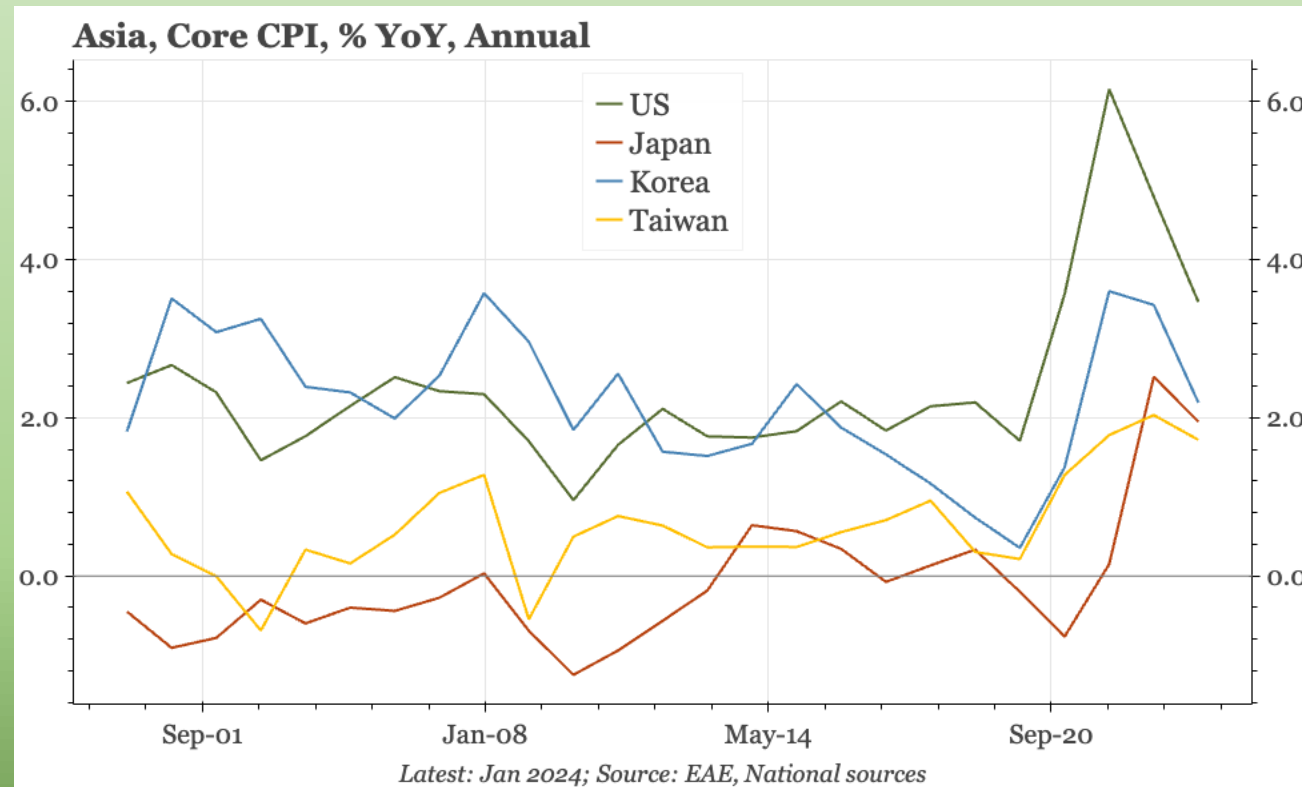
# Context

This only works because of capital outflows...



# Context

...made possible by low inflation...



# Context

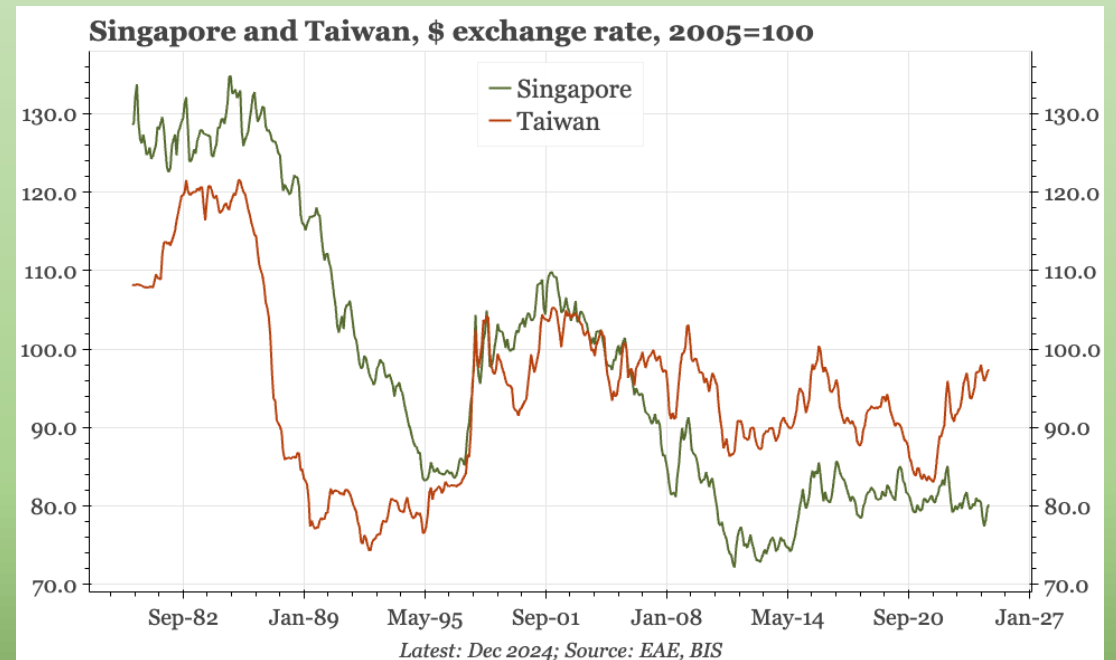
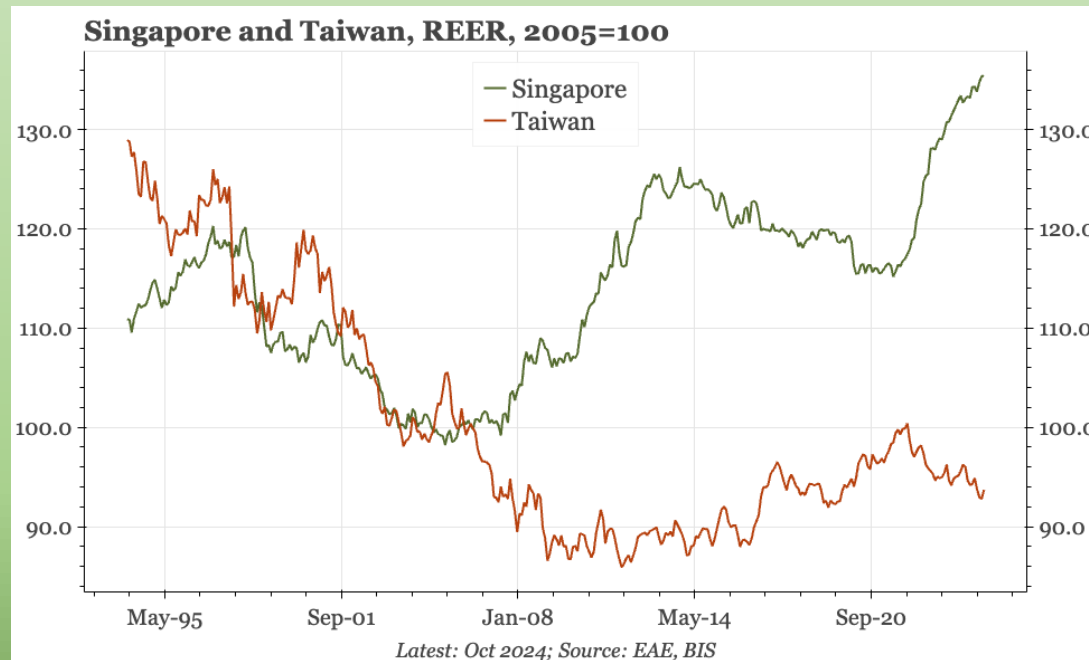
...meaning low domestic interest rates...





# Context

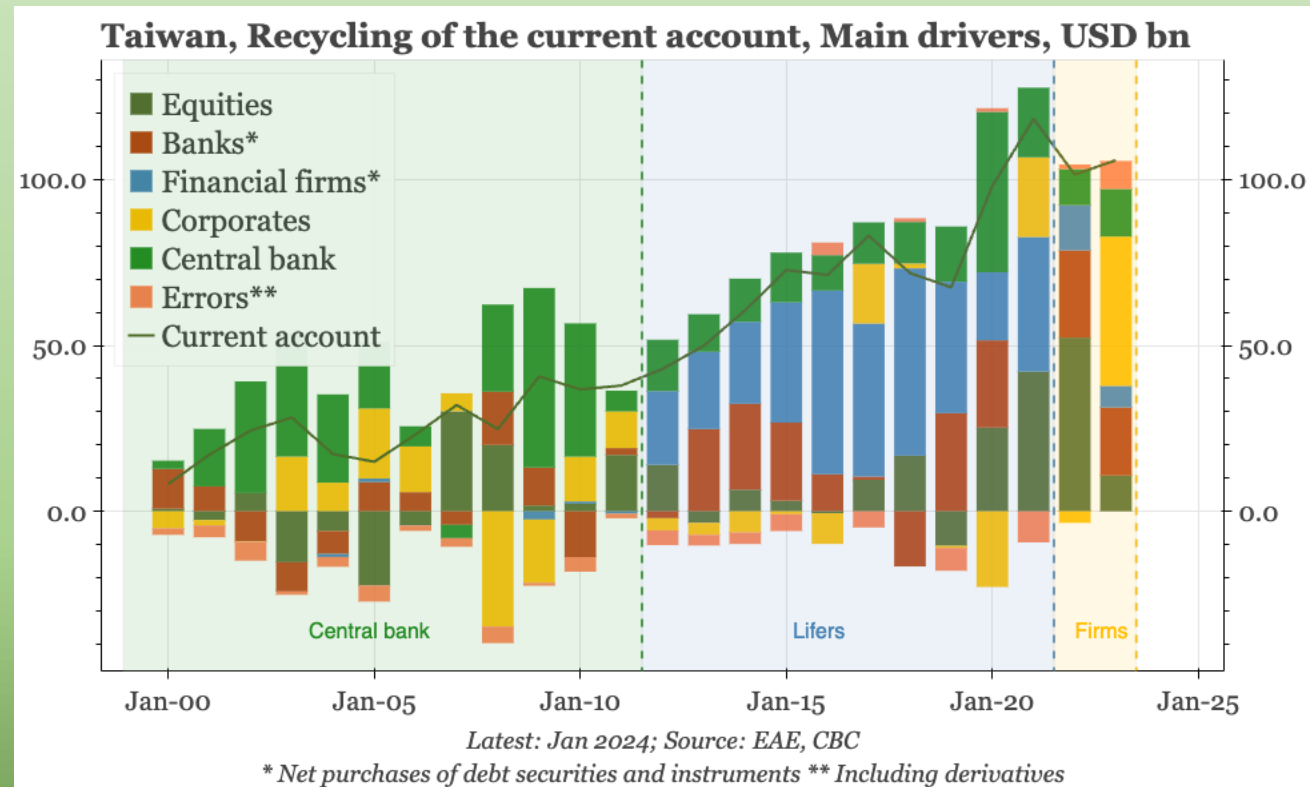
...and no reason to hold TWD assets if the ccy never appreciates



# Three stages

# Three actors

## The CBC, then lifers, now corporates



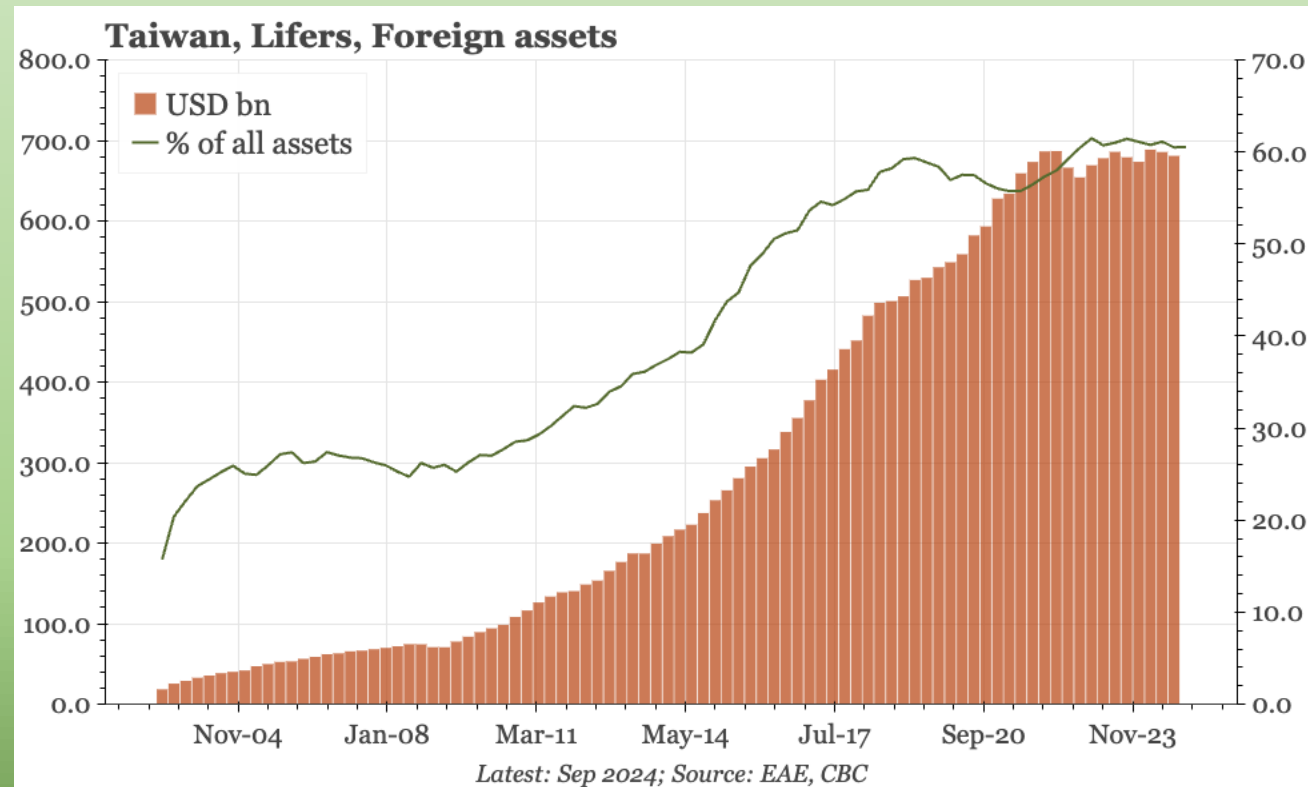
# Three actors: 1. Central bank

Near 90% of GDP, further official intervention becomes awkward



# Three actors: 2. Lifers

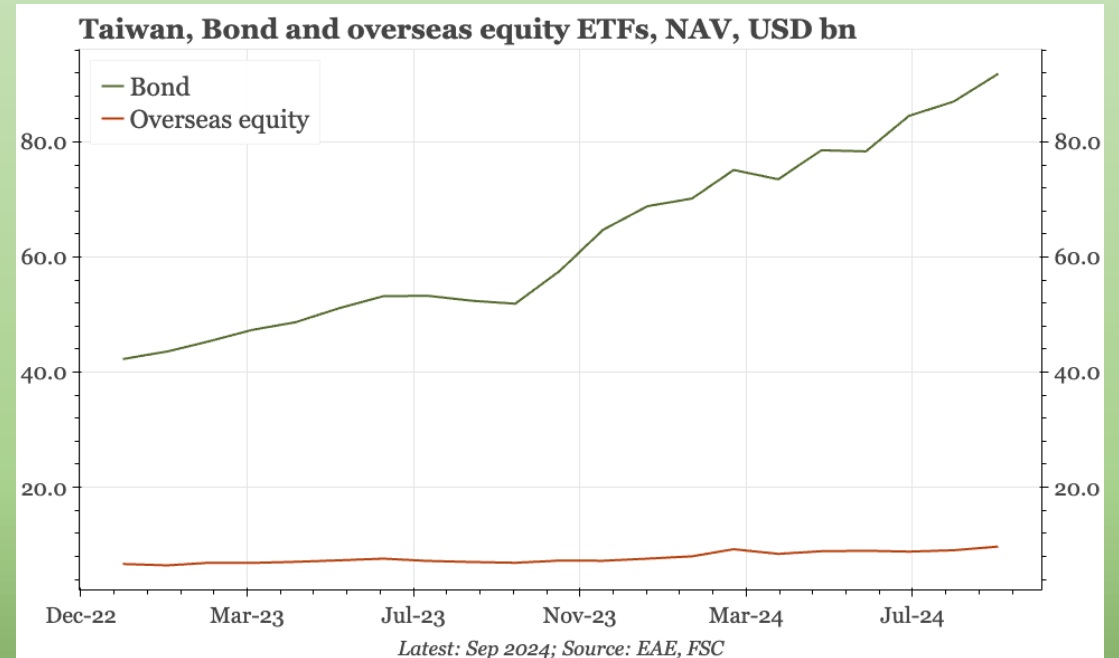
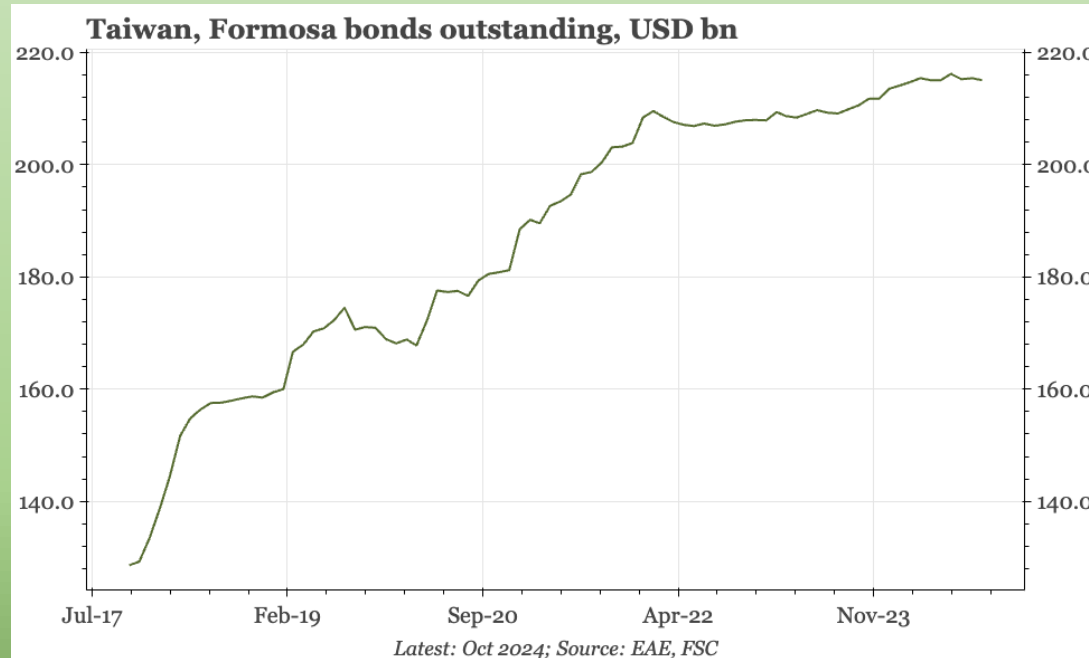
From no foreign assets 2003 to USD700bn now..





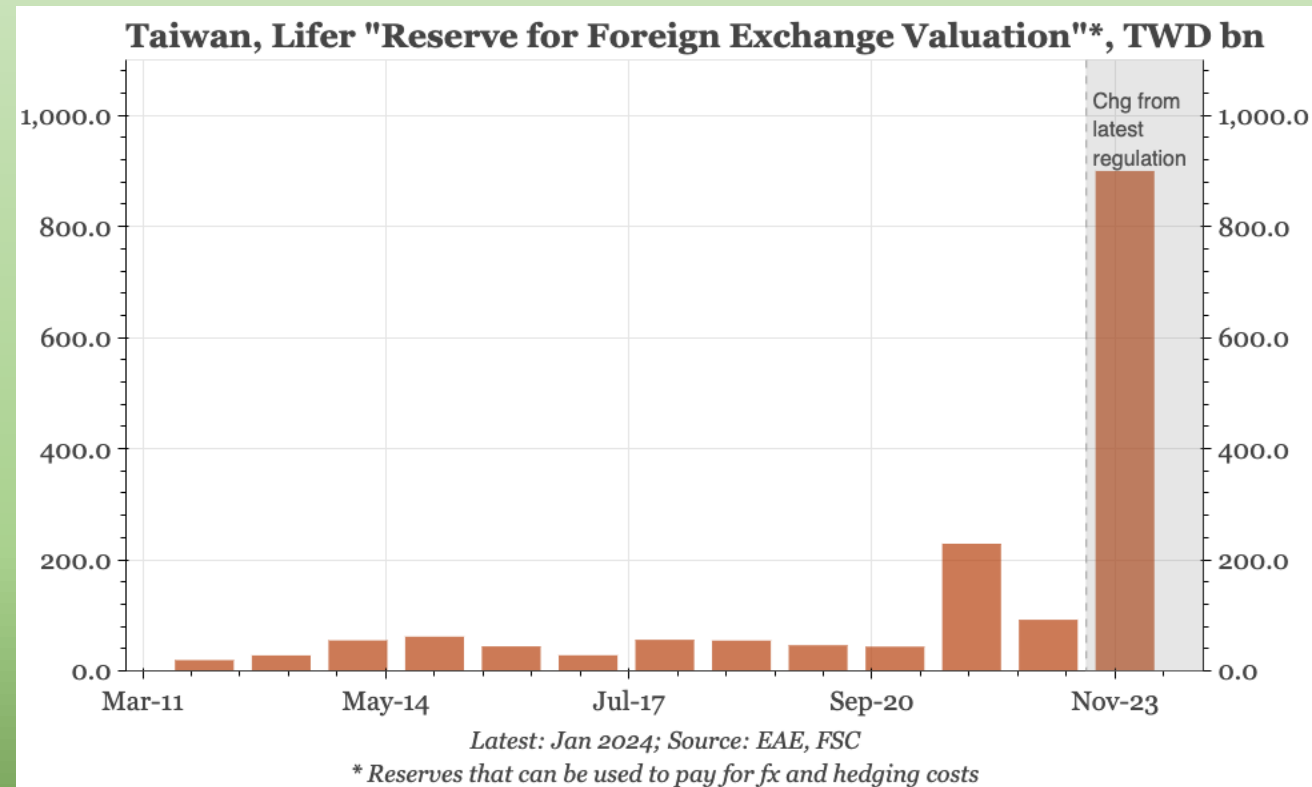
# Three actors: 2. Lifers

...as lifers and regulators find ways around a 45% exposure ceiling



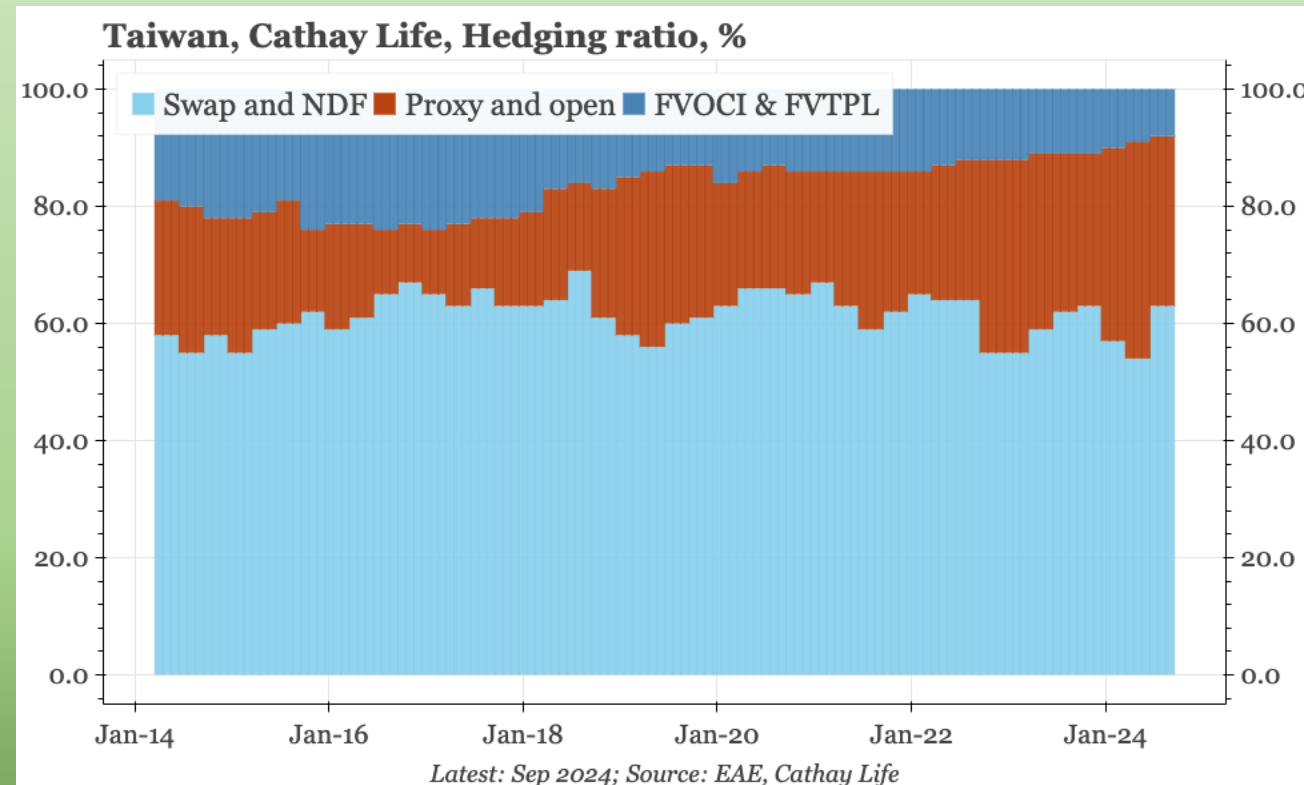
# Three actors 2.Lifers

## Regulators are still helping...



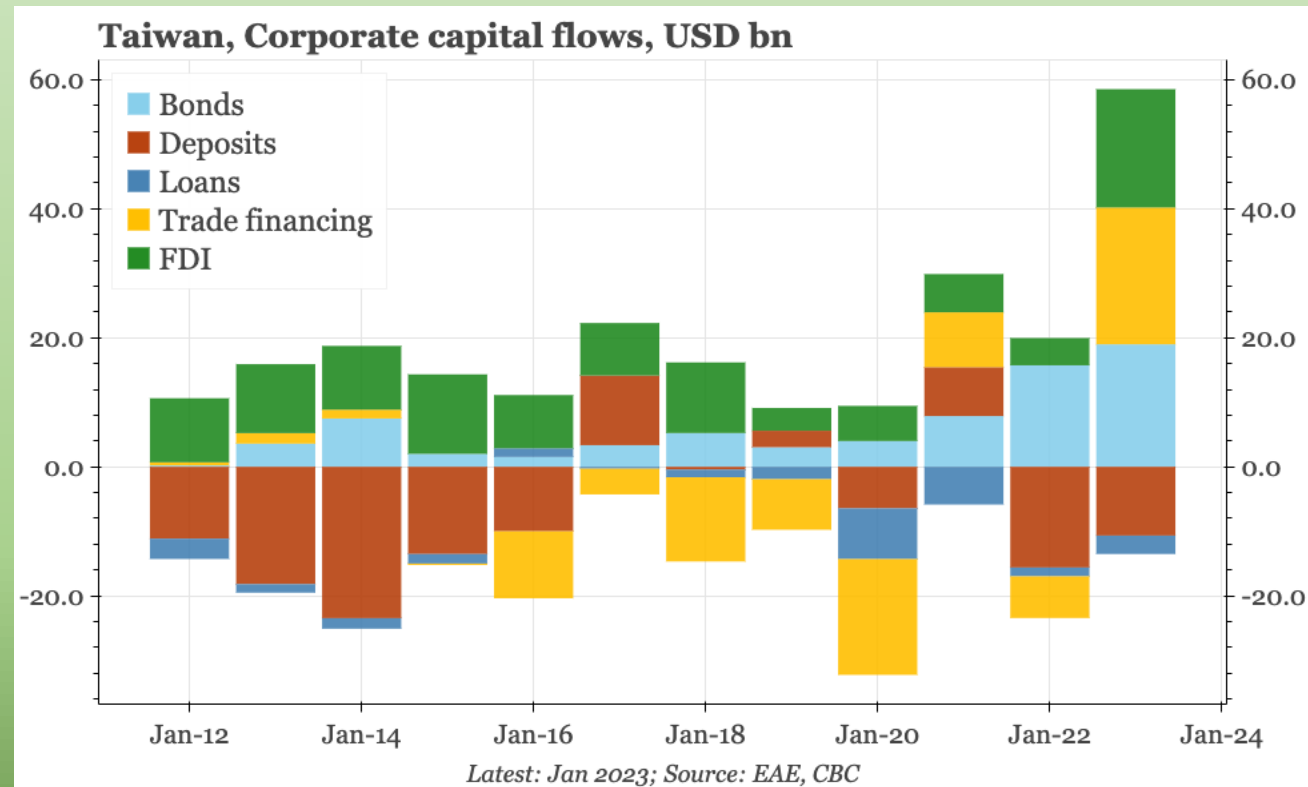
# Three actors: 2. Lifers

...but the result is more fx risk on private sector balance sheets

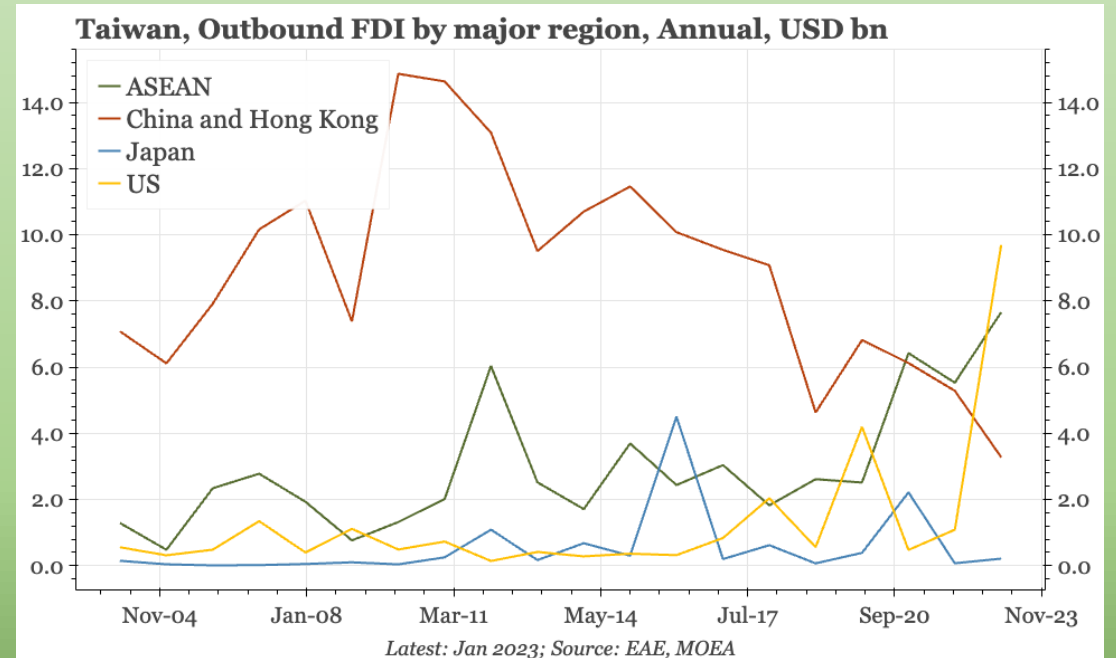
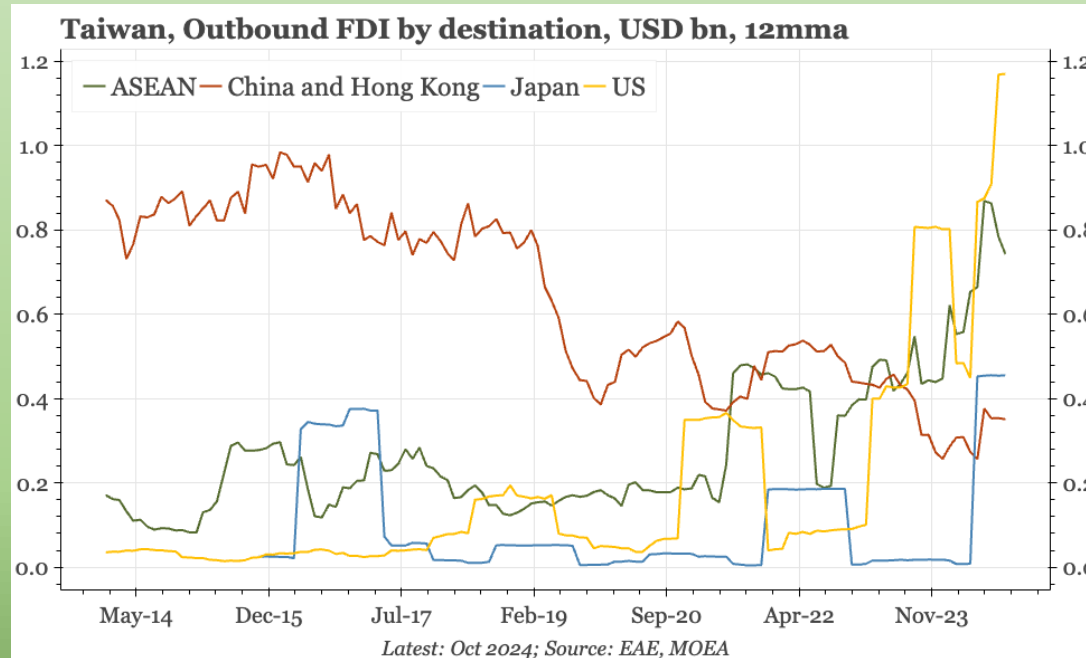


# Three actors: 3. Corporates

## Some bond investments...



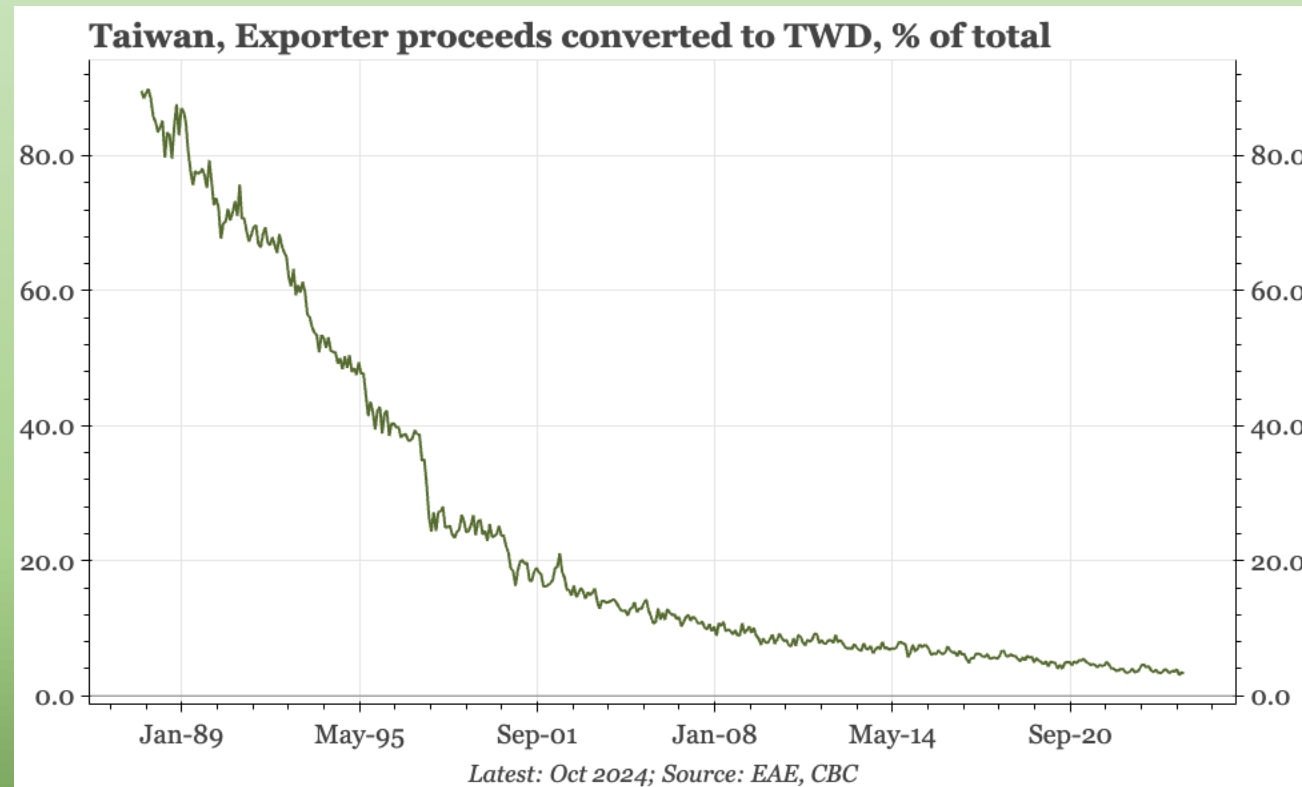
# Three actors: 3. Corporates ...and some FDI...





# Three actors: 3. Corporates

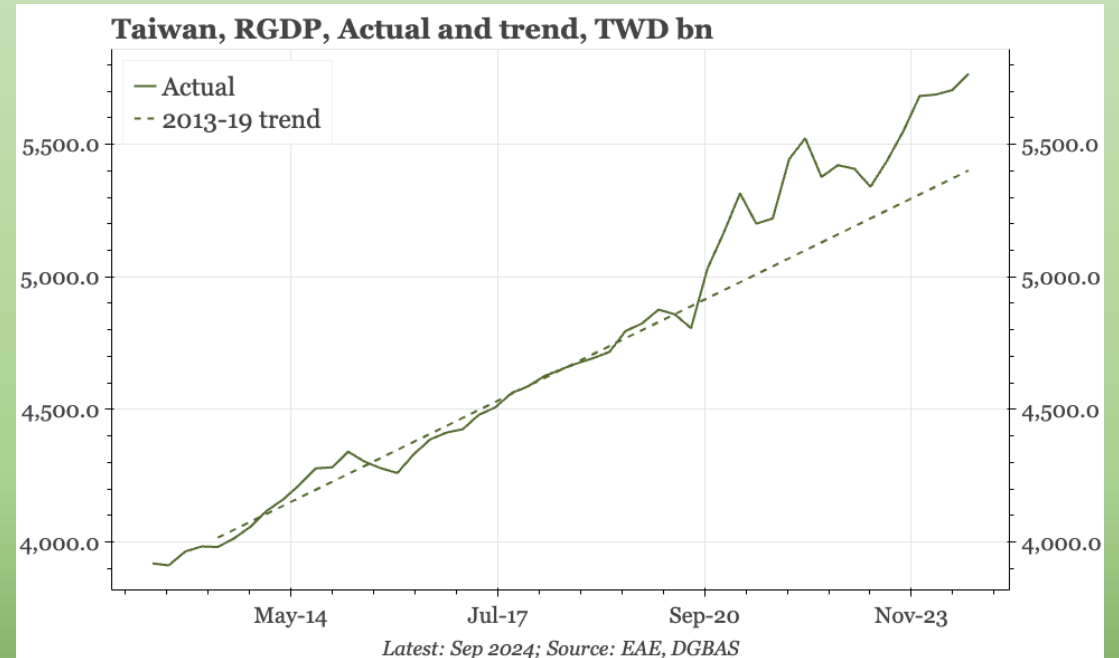
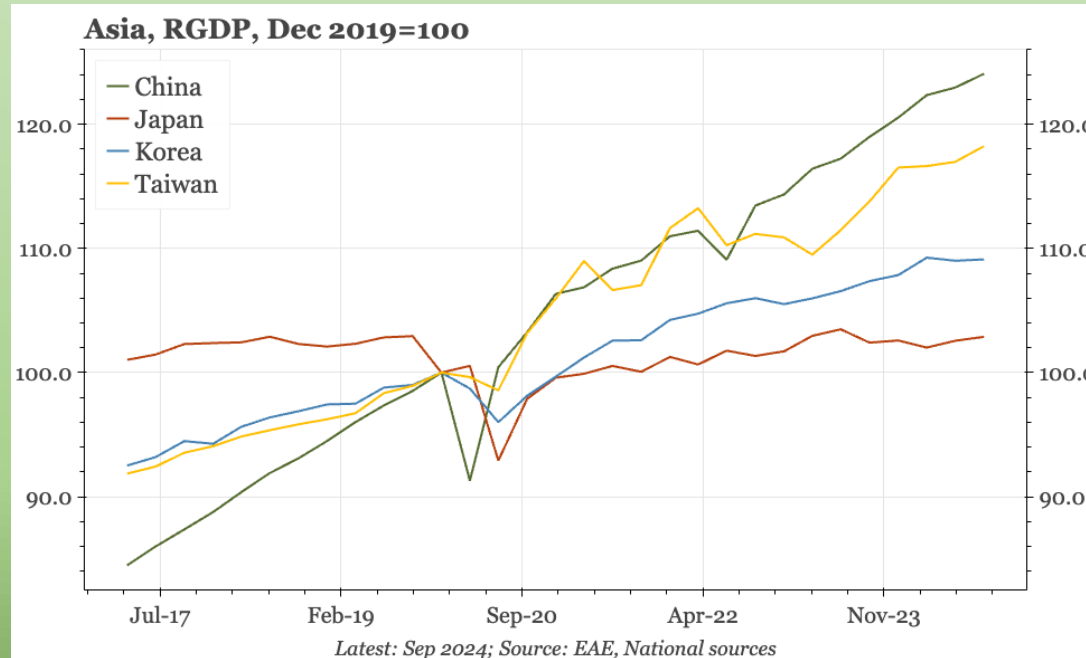
...but essentially, no one wants to hold TWD



# Running out of road?

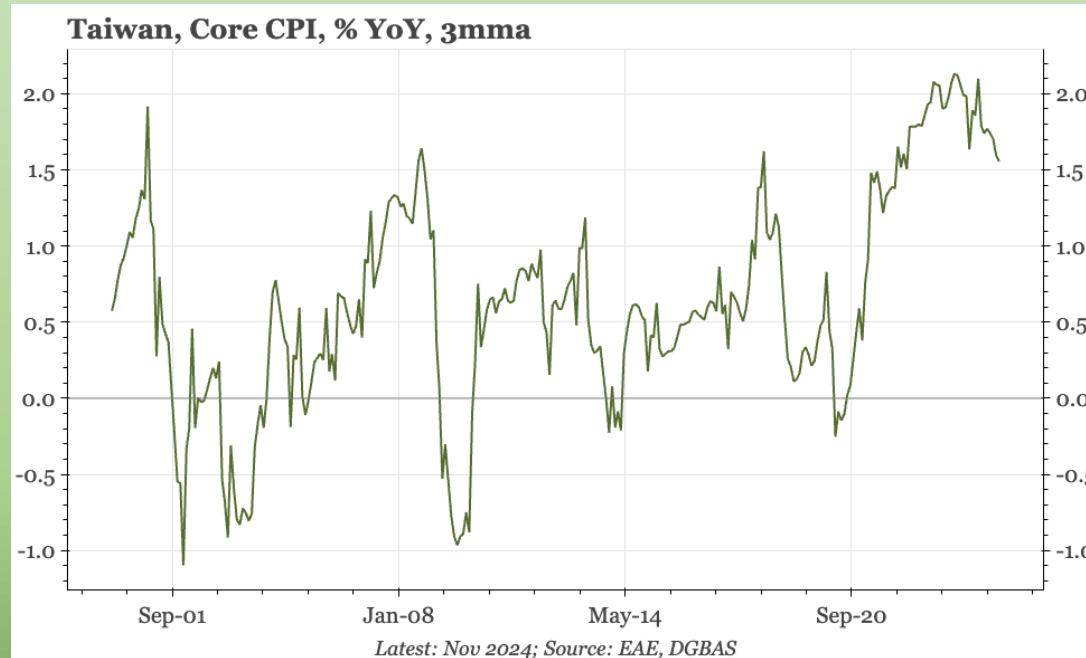
# 1. Taiwan inflation

## Post-covid take-off...



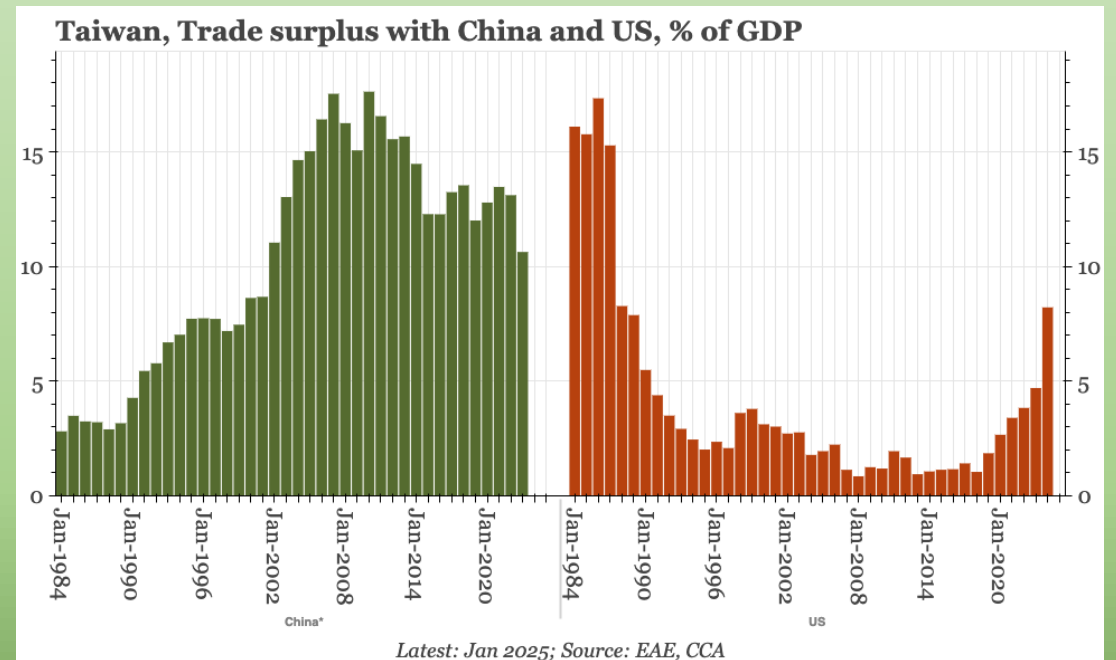
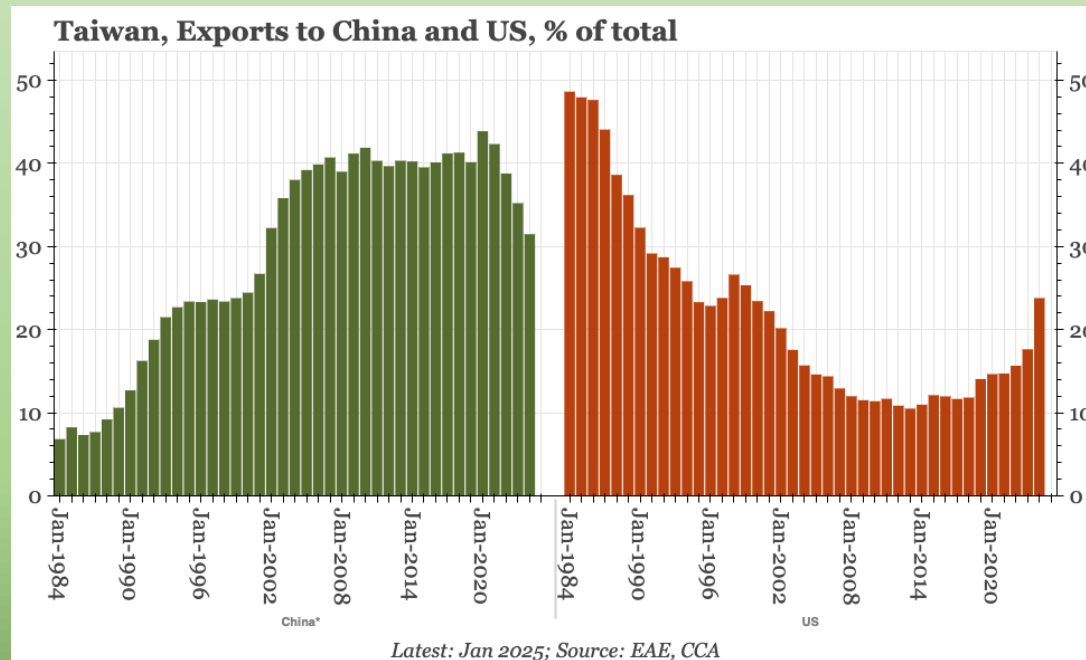
# 1. Taiwan inflation

...means inflation likely isn't going back to 0%



## 2. Trump administration

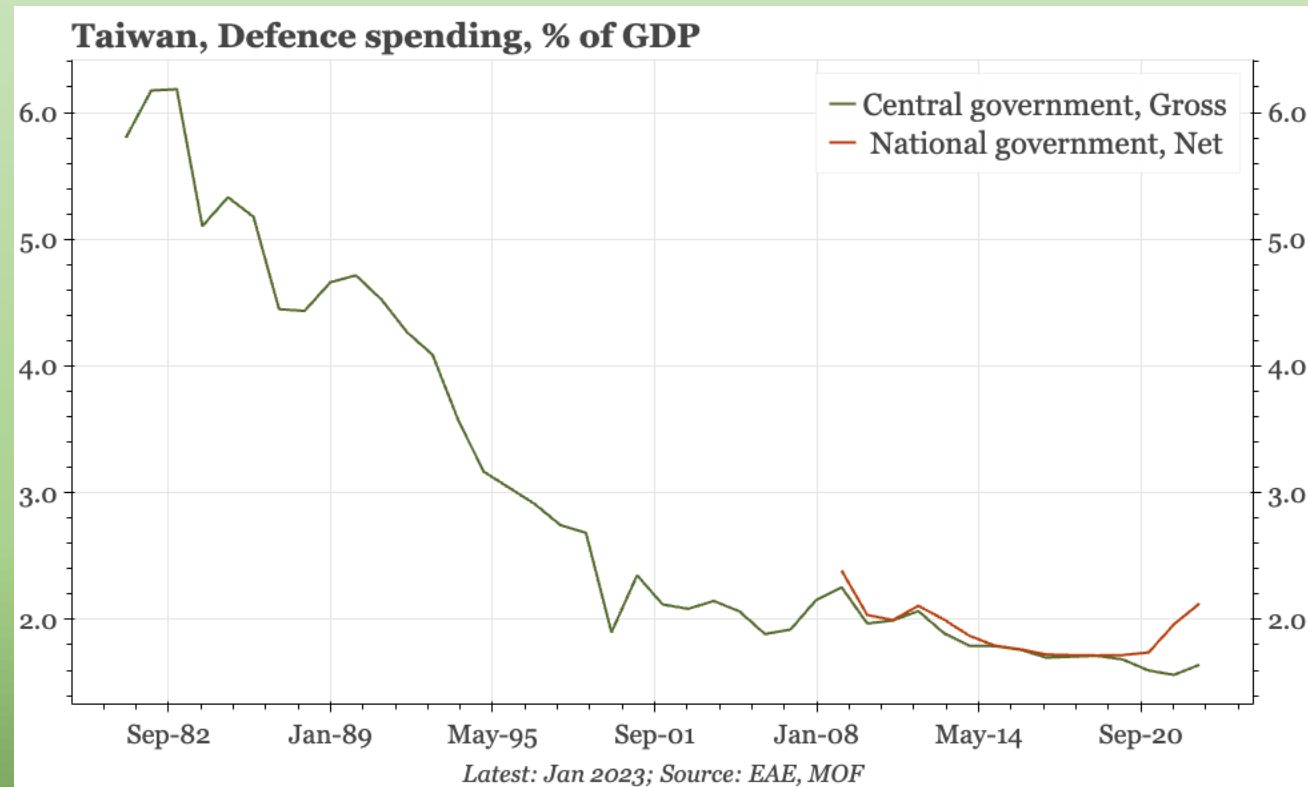
Taiwan's US imbalance is in double digits again...





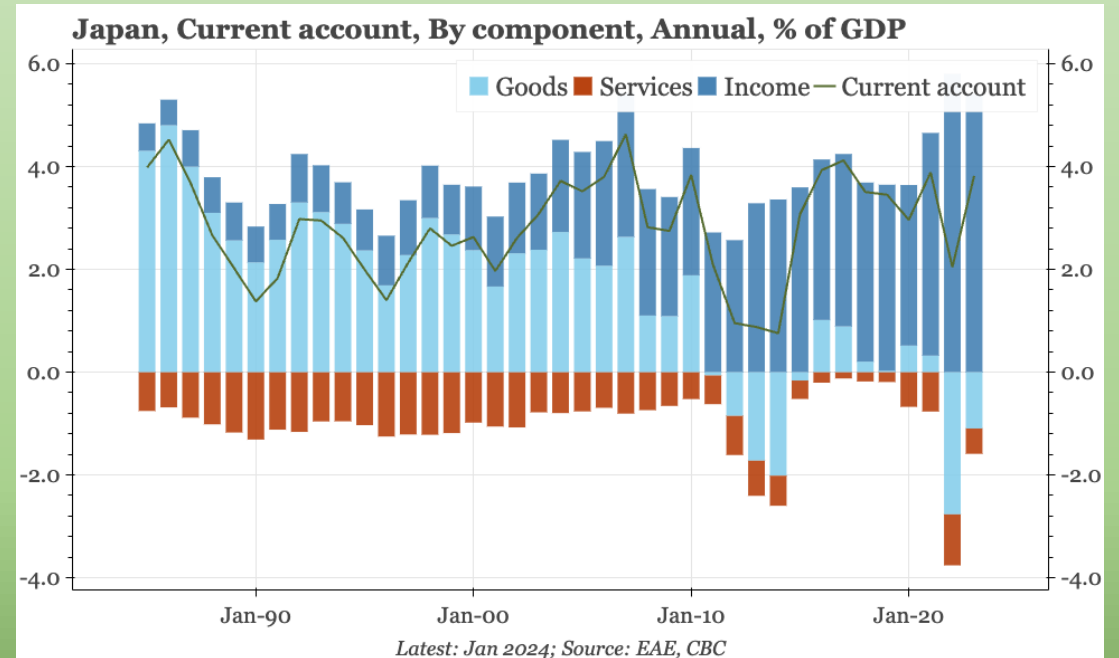
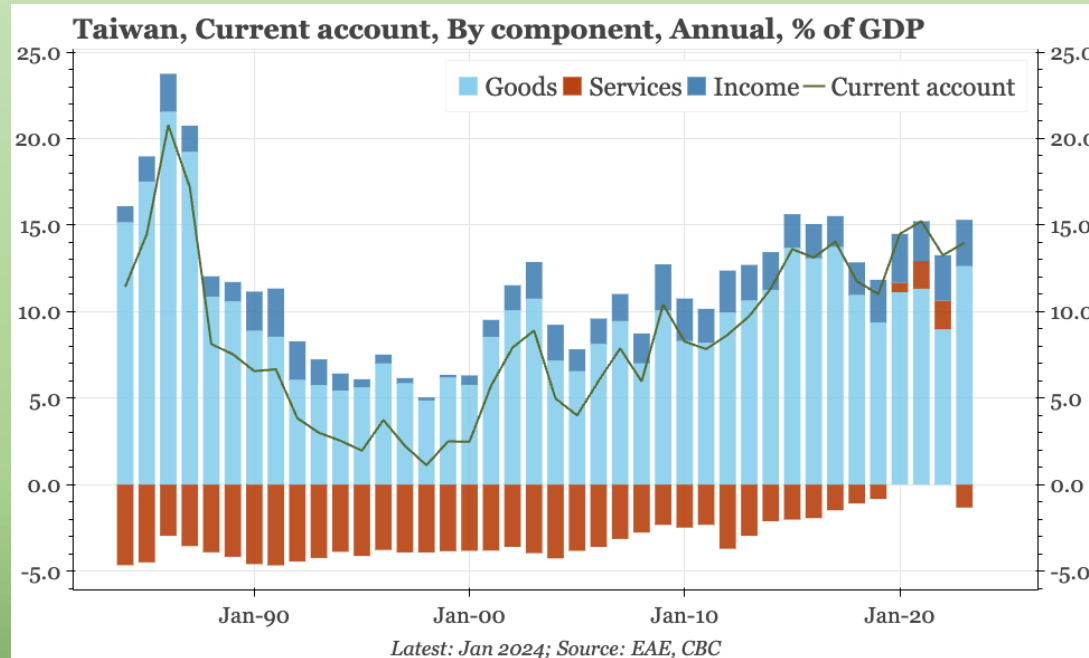
## 2. Trump administration

...so won't be resolved by military spending

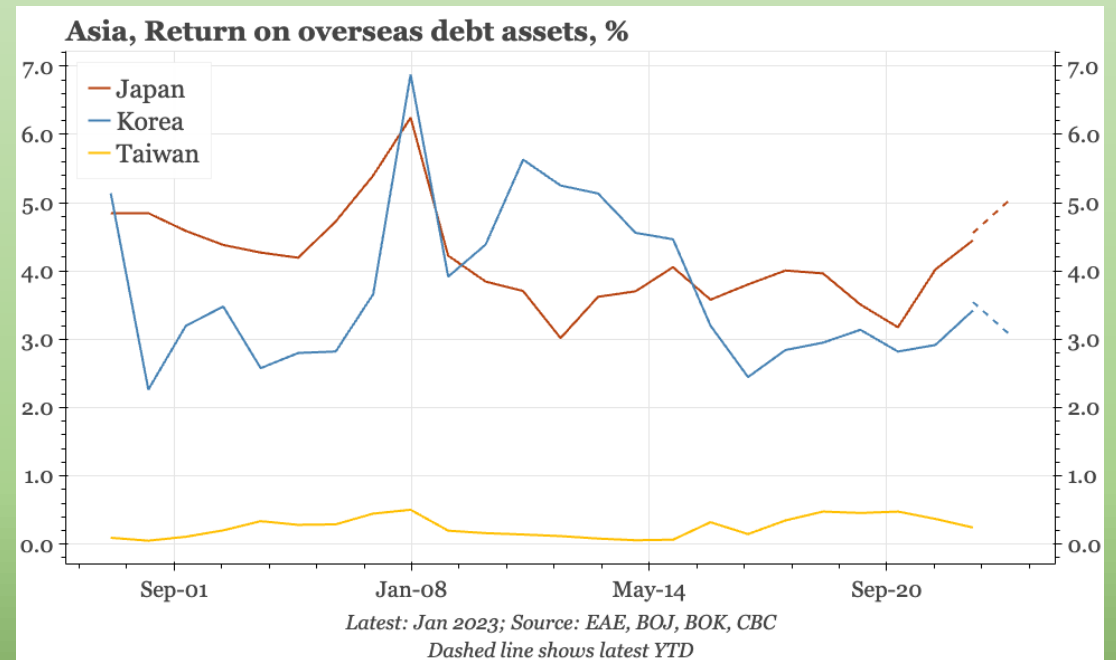
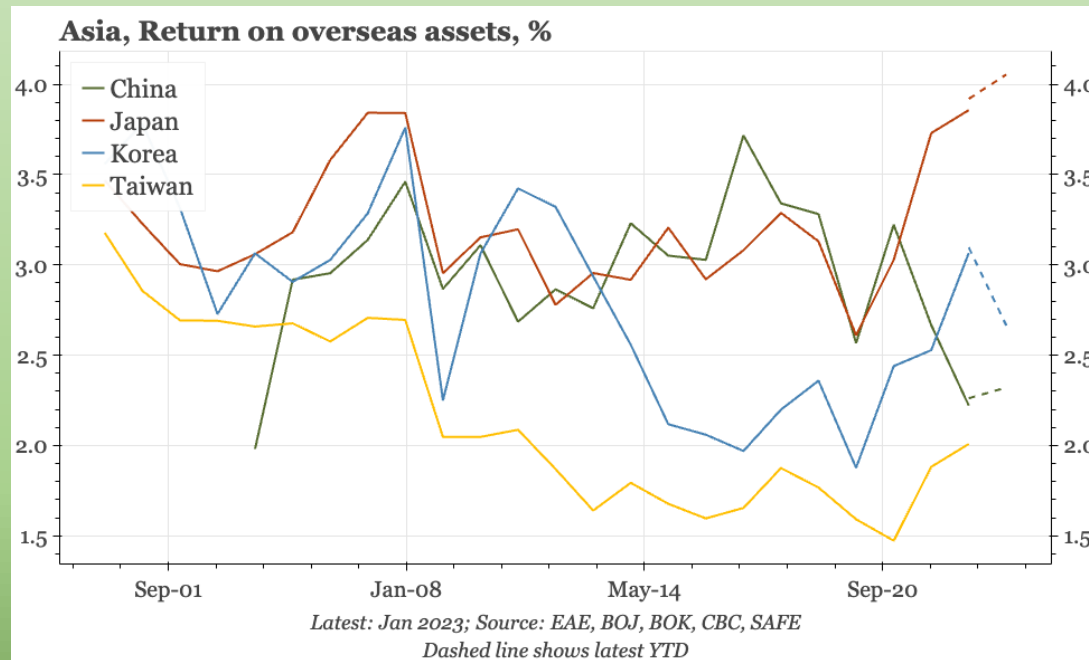


### 3. Is the current account understated?

Despite all the fx assets, income inflows are small...



# 3. Is the current account understated? ...with implied returns looking way to low



# Scenarios

## 1. US runs hot

- TW private investors continue to seek returns overseas...
- ...at cost of taking on growing FX balance sheet risk
- Is there a financial stability "red line" for TW authorities

## 2. US exceptionalism ends

- US rates and equities fall sharply, depressing TW private capital outflows
- TW equities fall too, but CA surplus remains large
- Recycling the CA falls once again to CBC. Can it get away with it?

## 3. Taiwan runs hot

- Domestic inflation holds up, rate differential with US closes
- Trump focuses on bilateral trade surplus
- Combination forces big structural appreciation of TWD





# East Asia Econ

Macro and market analysis of the world's largest  
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