

## EM Alpha

## USDTWD call option has expired

**Our six-month USDTWD call option has expired**

In [EM Alpha: Six reasons to buy USDTWD vol 01 August 2023](#) we entered into a long USDTWD topside call option in anticipation of a higher volatility regime ahead of the Taiwan election. This event has occurred and passed, and our option has now crossed its expiry date. We officially exit from this trade, losing the initial premium of 81bps.

**Expect NDF forward-forward to decline in 2024**

Right now, our core conviction on USDTWD remains to receive the forward-forward curve in the NDF space. With the global equity rally, especially around technology stocks, strong inflows into Taiwanese equities will likely put downside pressure on spot USDTWD.

Secondly, in December 2023, the Taiwanese lifers significantly consumed their FX valuation reserves to shelter their earnings from realized FX losses. On a net basis, this means in future episodes of USD weakness, the lifers would have to resort to FX-hedging earlier as there is less FX valuation reserves to smooth the impact of FX volatility. Events that could trigger the lifers to increase FX-hedging include: the resumption of US\$ weakness, bullish momentum on Taiwanese equities, strength in exports or an increase in the FX conversion ratio by Taiwan's exporters.

However, should USDTWD stay stable, then the lifers' incentive could be to reduce FX-hedging, as the annual cost of FX-hedging is close to 4.5%. Across the industry, the lifers spent US\$1.2bn in explicit cost for FX-hedging in December 2023 alone (see: [Asia FI & FX Strategy Watch: Taipei Trip Notes – February 2024 06 February 2024](#)).

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GEM FI & FX Strategy  
Emerging Markets Global

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For a whole list of our trade recommendations, see: [Global Emerging Markets Weekly: No man's EM land 02 February 2024](#)

NDF – non-deliverable forward

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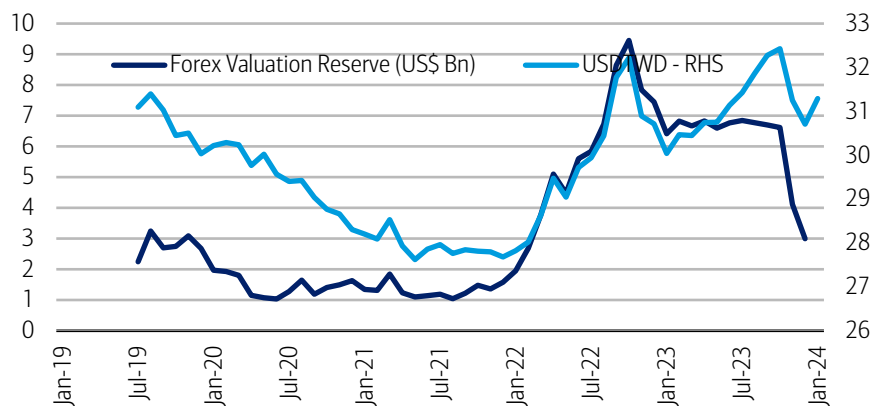
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Timestamp: 07 February 2024 05:00PM EST

**Exhibit 1: Lifers' FX valuation reserves and USDTWD**

The rapid decline in FX valuation reserves in December 2023 will likely limit the ability to shelter against future FX losses



Source: CEIC

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