



Strategy Trade

Global Markets Research

7 May 2025

Foreign Exchange - Asia ex-Japan

NEW – Long 1x3M USD/TWD spread

After a ~4 standard deviation move lower in the 1x3s TWD NDF curve, there could be a rebound, with spot being held stable.

Trade: We initiate a sell/buy 1x3M USD/TWD NDF spread position with a conviction level of 3/5, targeting ~200pips of gains by 5 June.

Rationale for the trade

1. A long 1x3M USD/TWD spread offers attractive valuation and risk/reward.

Following the *sharp TWD appreciation* against USD during 2-5 May that fuelled market expectations of further gains, the 1x3M USD/TWD NDF spread is now at -420pips or a **3.6 standard deviation below its 6M average**. Such an extreme level in the 1x3M spread was last observed in November 2020 and occurred after a lengthy period of relatively orderly TWD appreciation from mid-2019.

2. We see scope for a near-term rise in the USD/TWD NDF curve, and especially in short-tenor swap points over coming weeks.

Since 5 May, the Central Bank of China (Taiwan; hereinafter “CBC”) has turned more forceful in addressing the sharp TWD appreciation. Indeed, media reports indicate the CBC intervened to slow TWD appreciation on the afternoon of 5 May (*Bloomberg*, 5 May). With the potential for a more stable or even higher spot USD/TWD in the near term owing to the CBC actions (see point 2a below), as well as some support for USD in DM from ongoing US trade negotiations (China-US negotiations scheduled for 8 May EST), we see scope for the USD/TWD NDF curve to normalise and the 2M NDF points to normalise closer to around -200pips (at expiry of the 1M leg on 5 June).

a. **The CBC’s determination to hold TWD stable in the near term** can be observed from its press conference (*Bloomberg*, 5 May), during which it 1) reiterated that the US did not make a request for TWD appreciation; 2) clarified that it had smoothed the market and would step in the FX market if stability were threatened; 3) noted that the amount of suspected currency speculation is large, aside from “excessive” inflows from exporters and foreign investors; and 4) warned against irresponsible speculation/commentary on the FX market.

3. There may also be unwinding of speculative short USD/TWD positions in the near term,

which should help to normalise the NDF curve and swap points. The CBC also highlighted that it would conduct inspections of local banks to discourage speculation (*Focus Taiwan*, 6 May). We believe that potential Taiwanese lifers’ FX forward hedging will emerge, but only after some curve normalisation, given current hedging costs.

4. We would not expect the NDF curve to flatten too much more, if the CBC once again steps away from supporting spot USD/TWD

(i.e., likely parallel shift lower). A CBC decision to allow further TWD appreciation is a key risk to this position, as our last FX valuation analysis suggests TWD is *significantly undervalued* by 16.5%, prior to the recent adjustment (TWD NEER has appreciated by ~5% since the start of May 2025).

Risk to the view: If the CBC allows spot USD/TWD to break lower again in the near term, our trade would suffer losses, given the negative carry and risk of a marginal flattening of the NDF curve.

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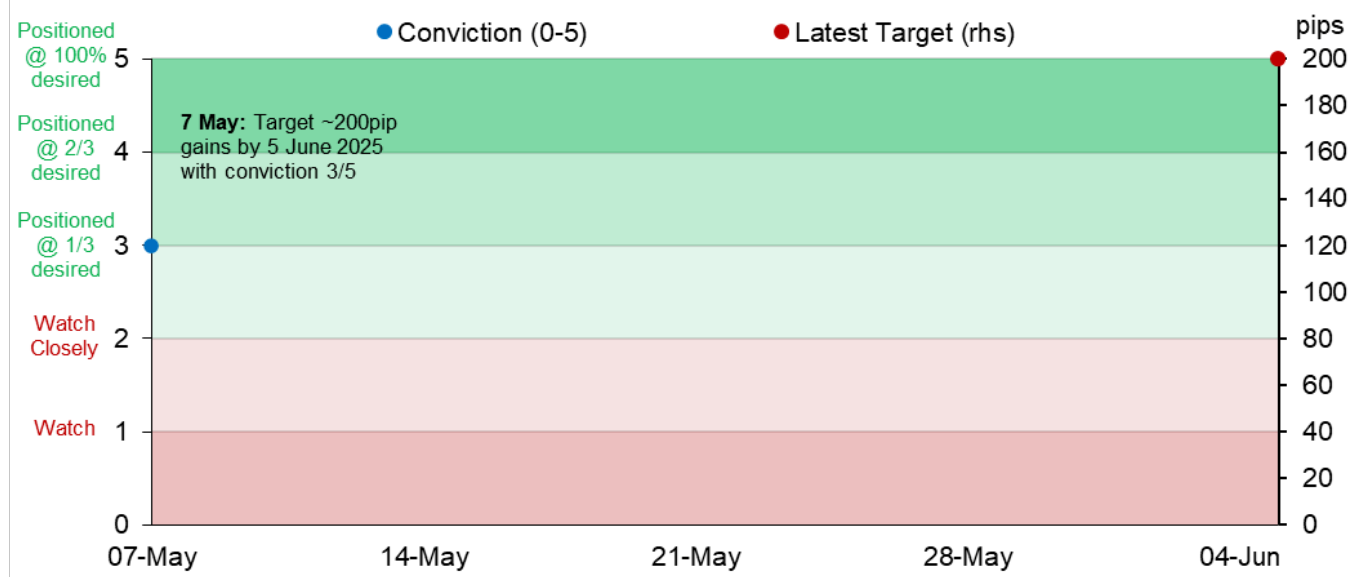
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Please see *Strategy portfolio update* (30 April 2025) for our full portfolio.

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Fig. 1: Sell/buy 1x3M USD/TWD NDF spread; conviction level: 3/5; targeting ~200pips gains by 5-June



Note: Conviction scale: 1 – Watch; 2 – Watch Closely; 3 – Positioned @ 1/3 desired; 4 – Positioned @ 2/3 desired; 5 – Positioned @ 100% desired.
Source: Bloomberg, Nomura.

Fig. 2: Trade ideas

Trade	Target	Timeline	Conviction (0-5)	Entry Date
<i>*NEW Long 1MX3M USD/TWD</i>	200 pip gain	5-Jun	3	7-May-25
<i>Long 6M USD/HKD</i>	7.80	25-Nov	3	2-May-25
<i>Long TWD/THB</i>	-	-	2	2-May-25
<i>Short USD/JPY</i>	138	end-July	3	5/2/2025
<i>Short CNH vs equally-weighted basket (EUR, AUD, KRW)</i>	4.0%	end-Jun	3	25-Apr-25
<i>Short GBP/AUD</i>	2.00	mid-July	3	25-Apr-25
<i>Pay Jun-IMM 5y HK IRS (vs.US)</i>	20bp gain	mid-June	3	25-Apr-25
<i>Pay Jun-IMM 5y Korea NDIRS</i>	2.48%	end-June	3	23-Apr-25
<i>Long EUR/INR</i>	-	-	2	16-Apr-25
<i>Pay Mar-IMM 2y Taiwan NDIRS</i>	-	-	1	11-Apr-25
<i>Jun-IMM 2s5s China NDIRS steepener</i>	15bp gain	end-Jun	4	11-Apr-25
<i>Long 10yr ACGB vs UST</i>	-	-	2	11-Apr-25
<i>Pay Jun-IMM 5y China NDIRS</i>	1.50%	end-May	3	11-Apr-25
<i>Long 5y IGB</i>	5.75%	end-Jun	5	28-Mar-25
<i>Long 9m USD/HKD</i>	7.8	end-Dec	3	28-Mar-25
<i>Long 12m USD/HKD</i>	7.8	Mar-26	3	28-Mar-25
<i>Long NZD/USD</i>	-	-	2	20-Mar-25
<i>Long EUR/GBP</i>	-	-	2	5-Mar-25
<i>Short CNH vs abridged 5FX CFETS basket</i>	-	-	2	5-Mar-25
<i>Short GBP/JPY</i>	-	-	2	5-Feb-25
<i>Long EUR/CHF</i>	-	-	2	24-Jan-25
<i>Short CHF/JPY</i>	-	-	2	10-Jan-25
<i>Australia receive 2s5s10s fly</i>	-18bp	end-May	3	6-Dec-24
<i>Receive Jun-IMM 2y India NDOIS</i>	5.25%	end-Q2	3	25-Nov-24
<i>Long 10y IGB</i>	50bp gain	end-Jun	3	6-Nov-24
<i>Short S\$SNEER</i>	1.5%	end-Apr	3	6-Nov-24

Note: Conviction scale: 1 – Watch; 2 – Watch Closely; 3 – Positioned @ 1/3 desired; 4 – Positioned @ 2/3 desired; 5 – Positioned @ 100% desired.
Source: Bloomberg, Nomura.

Appendix A-1

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