

Global Research

At a Glance

Taiwan – Revising lower our USD-TWD forecasts

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Summary

概要

We expect the TWD to be supported by strong growth, limited monetary policy easing by the CBC, a rise in FX hedging by lifers, reduced capital outflows, and an increase in corporate FX conversion

- Taiwan's economic growth was strong in Q1 (5.5% y/y; p.4), primarily driven by domestic demand (+4.8ppt) followed by net exports (+0.7ppt)
- Leading indicators (such as global chip sales and container shipments) indicate a strong export outlook despite US tariffs; exports to the US rose 33% y/y in 4M-2025 while exports to RoW were up 17% y/y (p.5)
- A CBC rate cut seems unlikely in 2025, in our view, as housing markets remain strong and inflation is still slightly above the 2% threshold (p.6-7)
- We estimate that USD c.200bn (TWD c.6.4tn) of Taiwan life insurance companies' (lifers') foreign investment was FX-unhedged by end-2024; a 10% TWD appreciation since 2 April has led to large FX losses to their income (p.8-9)
- Lifers' FX reserve pools were likely depleted by end-May; by switching to the new regulatory rules, three big lifers could get a one-time boost to their FX reserve pool balance (+TWD 63bn) with greater flexibility to offset FX losses, but a mere 1% of additional TWD appreciation would lead to a complete erosion of their additional balance based on our estimates (p.10)
- We expect lifers to further raise their FX hedging ratios in the foreseeable future from currently historically low levels; every 10% increase in FX hedging ratios implies additional USD-TWD hedging flows of USD c.46bn, by our estimate
- Foreign equity outflows have eased materially since April, while local investors' redemptions from outbound bond ETFs have increased (p.12)
- While the trade surplus rose to a record high (22% y/y in 4M-2025 to USD c.31bn), corporates' FX deposits fell 4.9% y/y in April (the most negative since 2010) with their share of total deposits falling to the lowest (14%) since end-2021 (p.13-14), indicating an acceleration of FX conversion
- Seasonality will likely turn negative in Q3 on the local dividend season; we estimate USD c.16bn (+26% y/y) of dividends to be distributed to foreign investors in Q3. However, seasonality will turn positive again in Q4, which is a typically strong season for tech-related demand (p.15)
- We see a low likelihood of another 10% TWD appreciation (which would help facilitate US-Taiwan trade talks); with TWD NEER now close to the upper end of CBC's band, we expect a further step-up from CBC to slow the pace of TWD appreciation (p.16)



Revising lower our USD-TWD forecasts

下調美元兌台幣匯率預測

We lower our USD-TWD forecasts on a likely rise in lifers' FX hedging, faster corporate FX conversion, and a narrowing US-Taiwan rate differential in H2

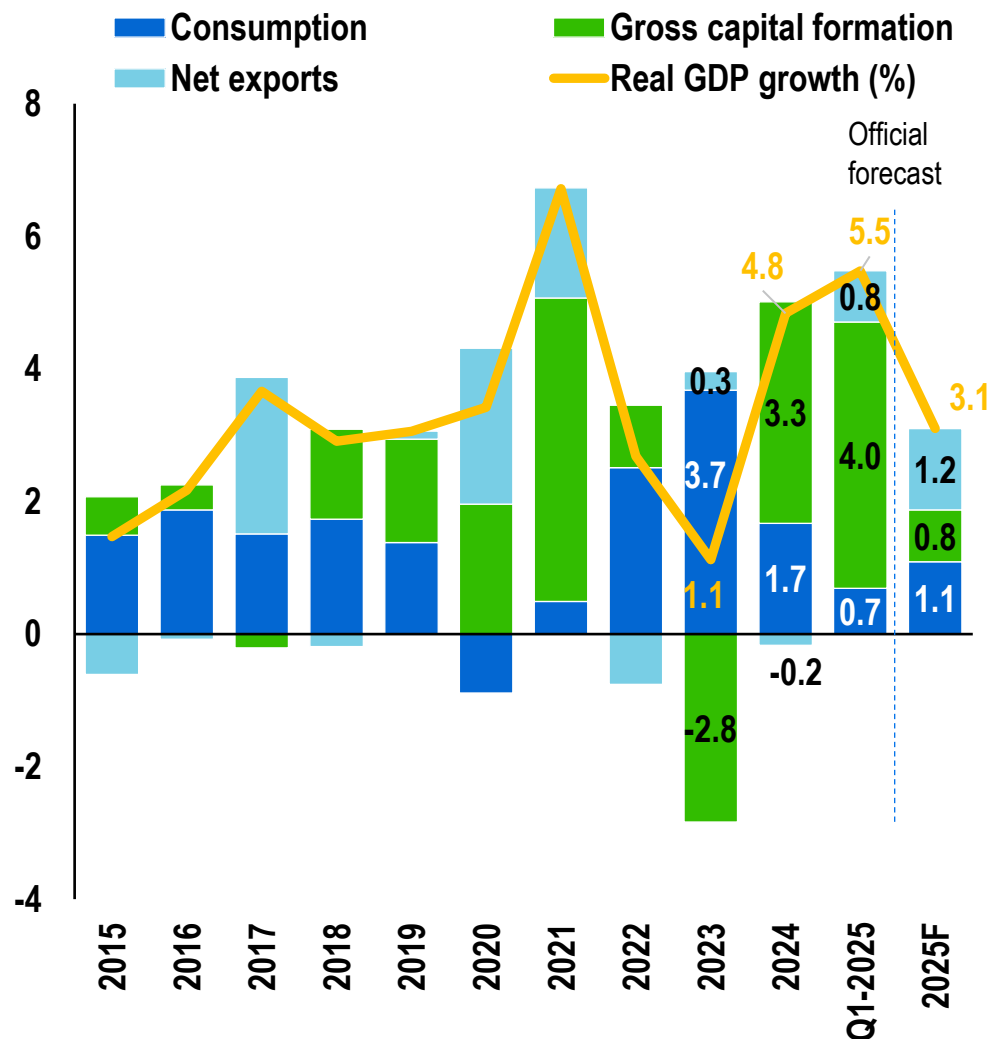
- We revise our USD-TWD forecasts to reflect sharper-than-expected TWD appreciation since late April, as well as positive drivers going forward
- We see a slower pace of TWD appreciation from here after its recent sharp move. We think negative seasonality amid the dividend season may limit downside to USD-TWD in Q3, before likely more downside in Q4 as seasonality turns positive again
- We think market pricing of CBC rate cuts (c.16bps) in the next 12 months is overdone, as progress on curbing housing prices and inflation is far from enough to justify a rate cut, suggesting a likely narrowing of the US-Taiwan rate differential in H2
- We see lifers further raising their FX hedging ratios over time, as their ratios remain historically low and the one-time boost to FX reserve pools from regulatory relief may not be sufficient to offset future FX losses from potential further TWD appreciation
 - Under the new rules for FX reserve pools once approved by regulators (p.10): (1) a lifer can conduct a one-off transfer from its five non-FX reserve pools into FX reserve pools; (2) the annual mandatory provision for FX reserve pools will be raised to 1.2% of FX-unhedged assets (vs 0.6-0.72% under the old rules); (3) a lifer can deduct from FX reserve pools to offset 100% (vs 50-60% under the old rules) of monthly FX losses from FX-unhedged assets (until the balance reaches the lower limit), while 100% (50-60%) of monthly FX gains will need to be added into FX reserve pools; and (4) the upper limit of FX reserve pools will likely more than triple vs the old rules, while the lower limit becomes no less than zero.
- We now see USD-TWD at 29.7 by end-Q3 (vs 33.5 prior), 28.6 by end-2025 (33.0) and 28.4 by end-Q1-2026 (32.6)



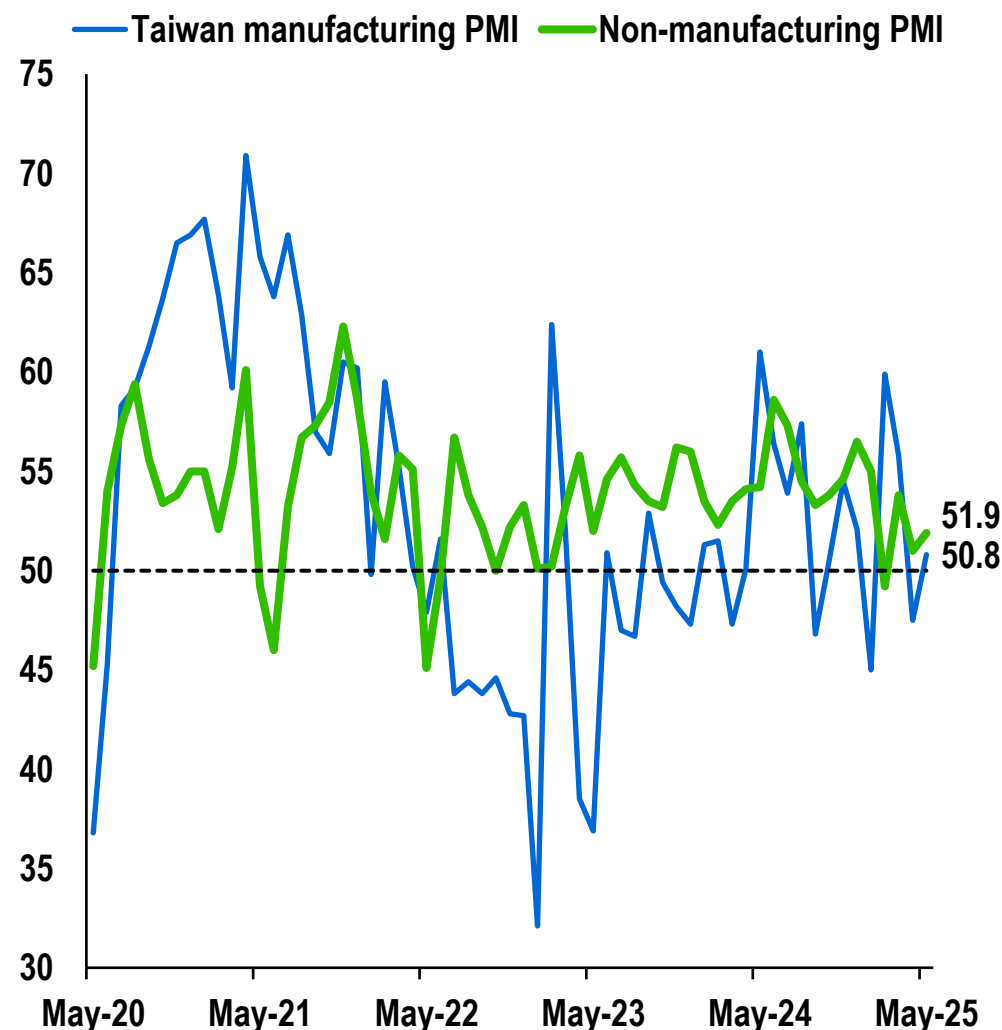
Domestic demand contributed 4.8ppt to Q1 growth, net exports 0.7ppt

內需對一季度台灣經濟增長貢獻4.8個百分點，淨出口貢獻0.7個百分點

We maintain our 2025 growth forecast at 3.0%
Ppt, contribution to growth



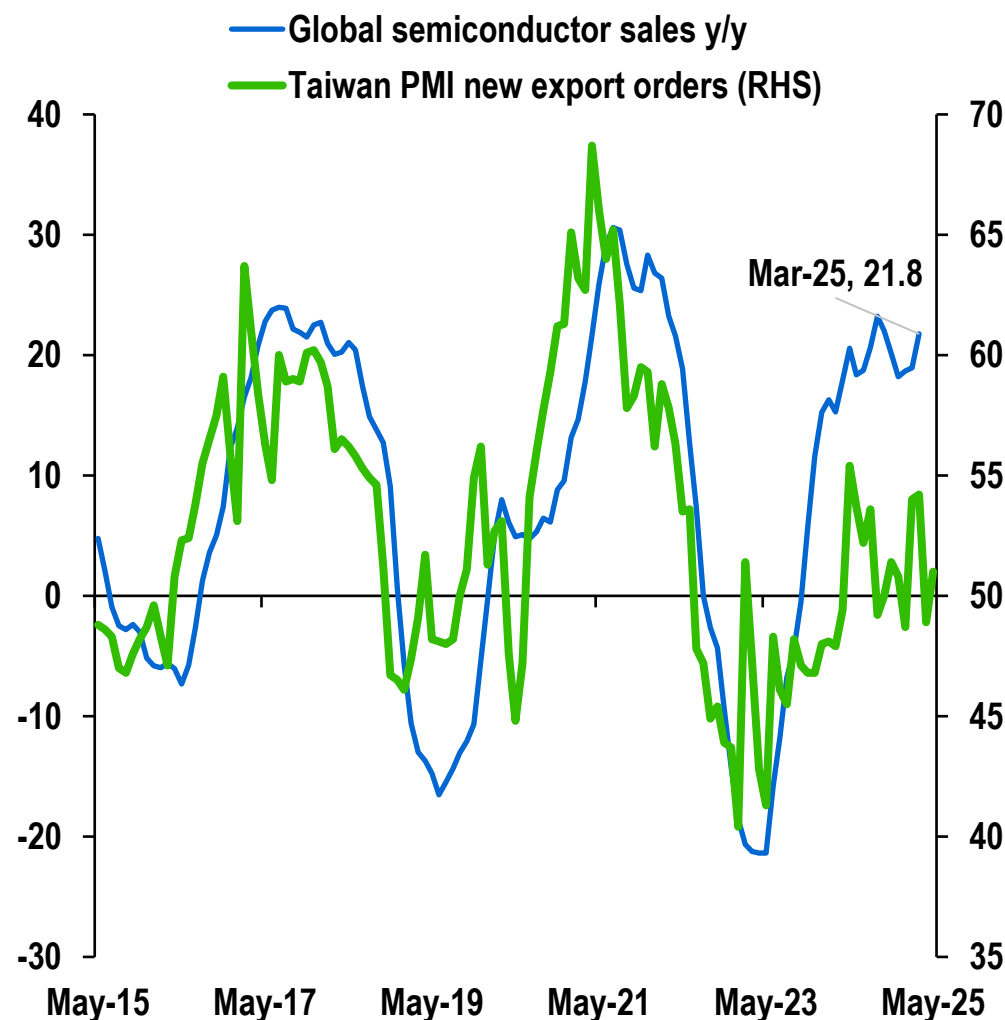
Both the manufacturing and non-manufacturing PMIs indicate strong momentum in Q2



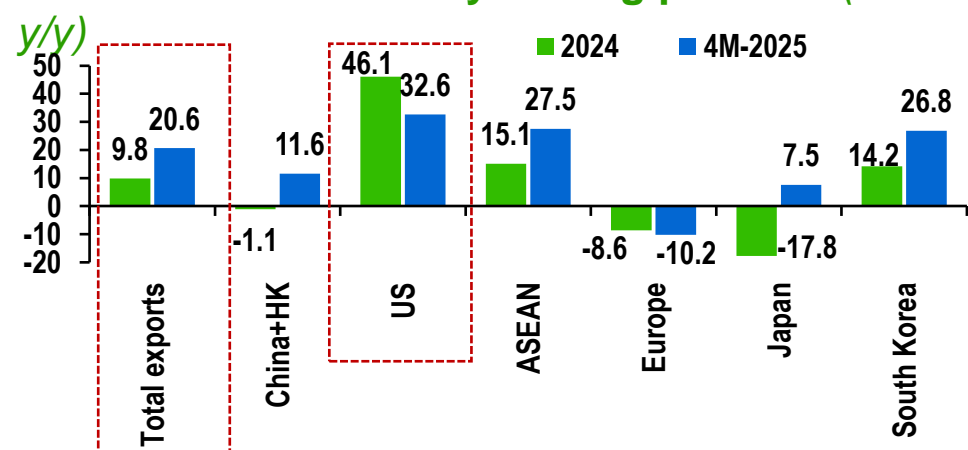
Outlook for Taiwan's exports remains strong despite US reciprocal tariffs

美國對等關稅的影響下，台灣出口前景依然強勁

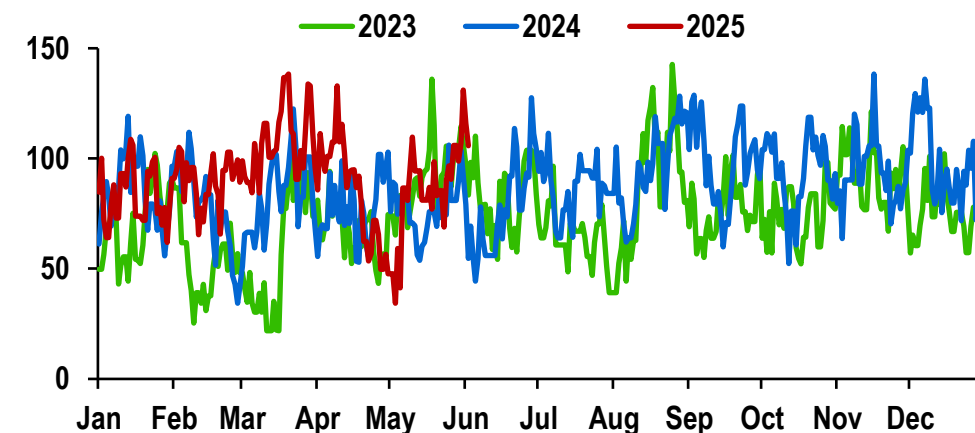
Still-strong global semiconductor sales will likely continue to support Taiwan's export orders



Exports to the US have continued to grow much faster than to other key trading partners (% YTD y/y)



Containers departing Taiwan to the US have risen 13% YTD y/y (thousand TEUs, 15-day rolling sum)

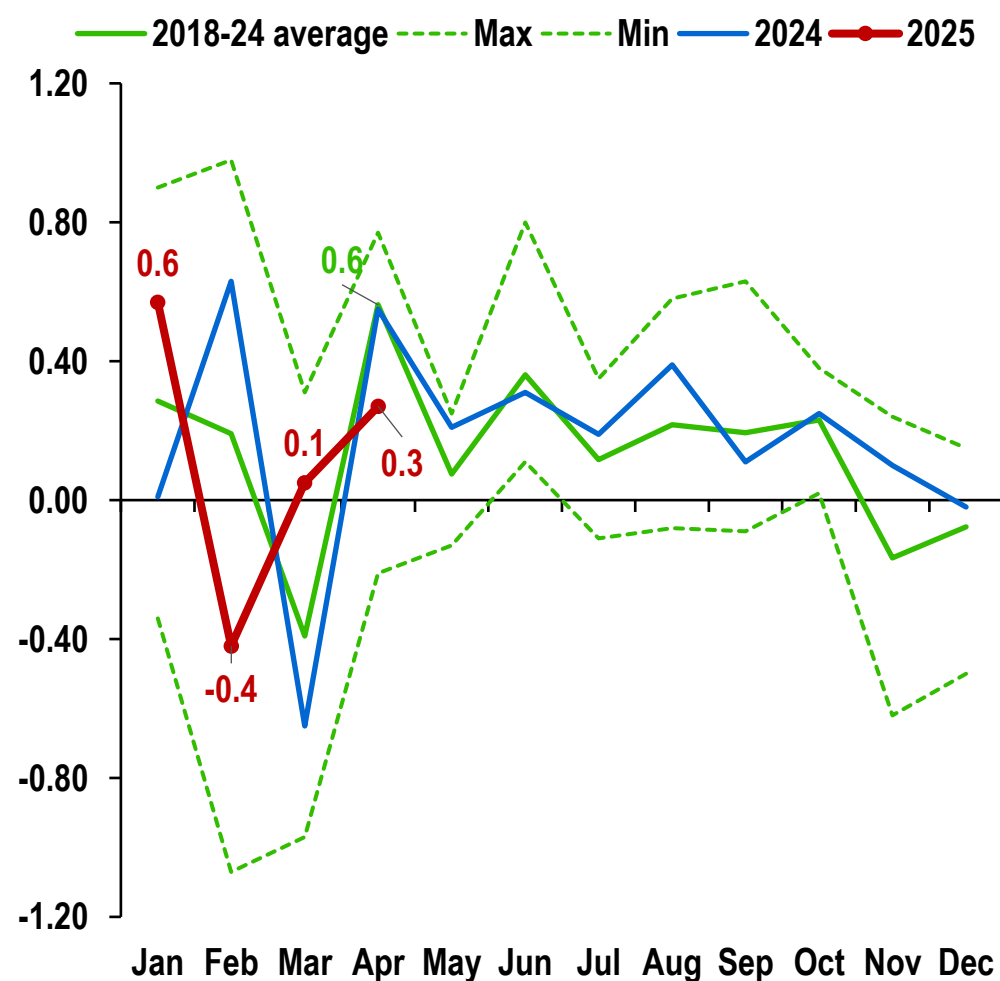
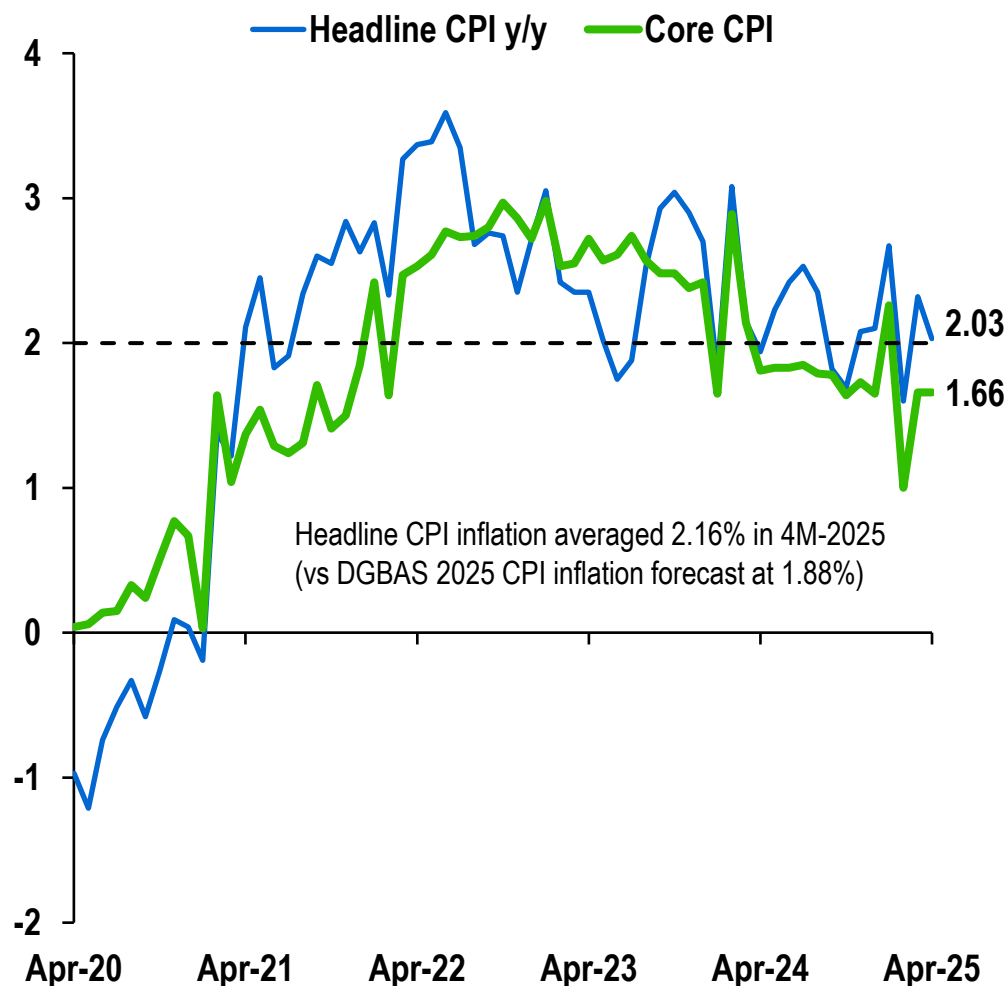


Inflation pressures have eased, yet still slightly above 2% threshold

通膨壓力已逐步緩解，但仍略高於2%的目標

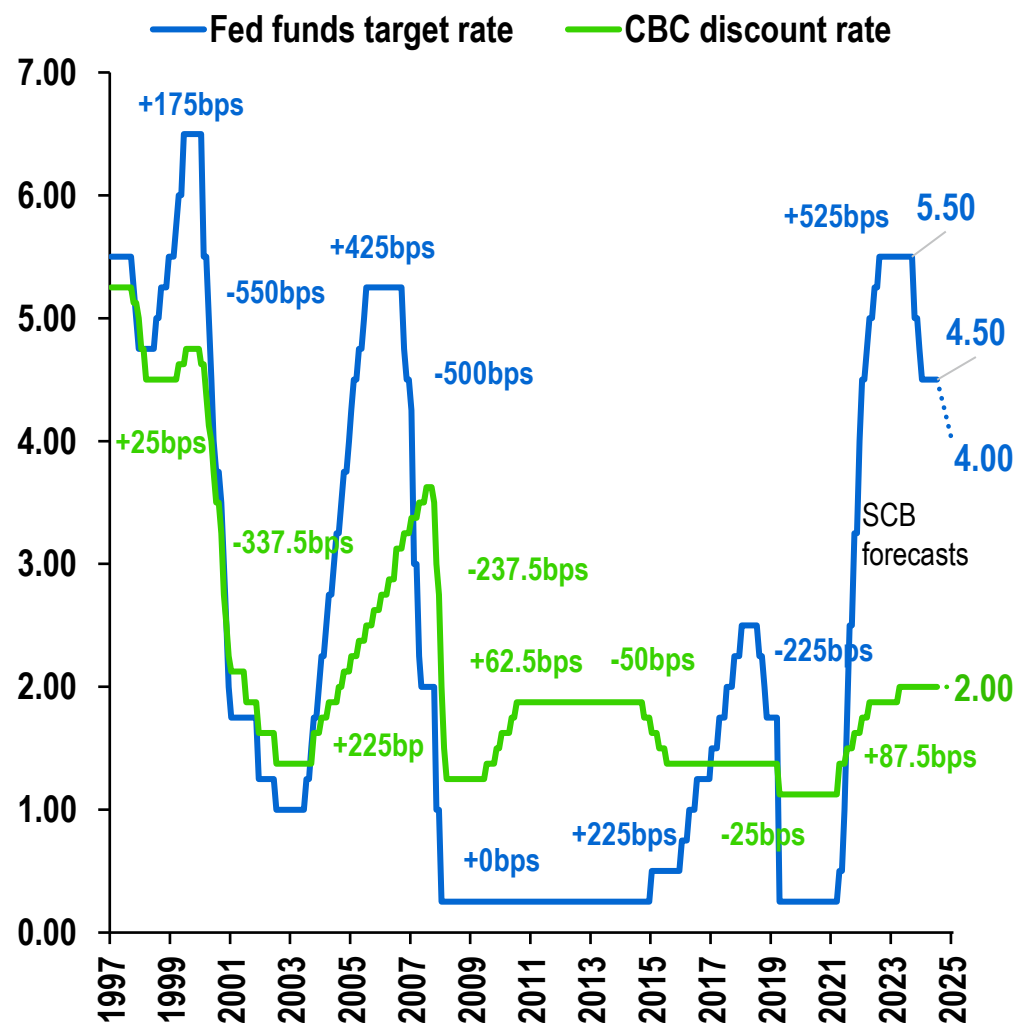
Governor Yang hinted at the March CBC meeting that policy rate cuts will only be considered when CPI inflation falls below 1.5% (% y/y)

Sequential growth in April headline CPI was slower than historical seasonal patterns
% m/m

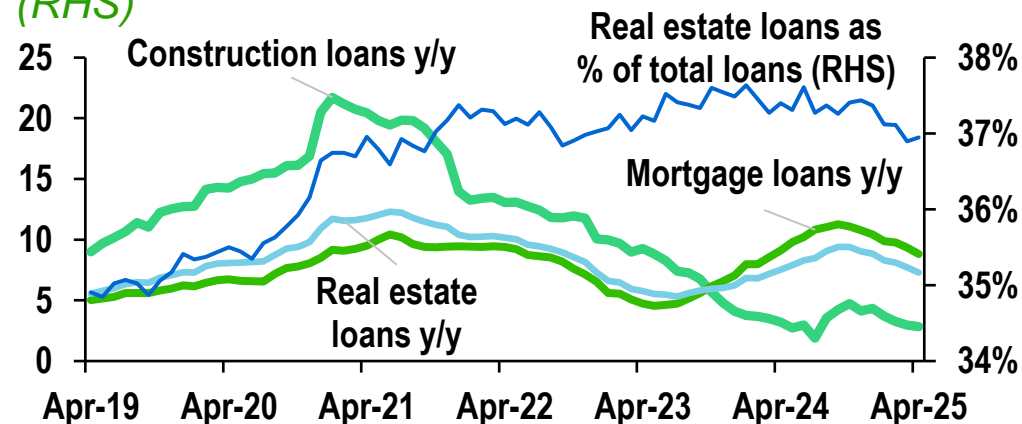


Strong housing market remains a concern; still far from enough to justify a CBC rate cut 強勁的房地產市場仍是掣肘；尚不足以論證降息的合理性

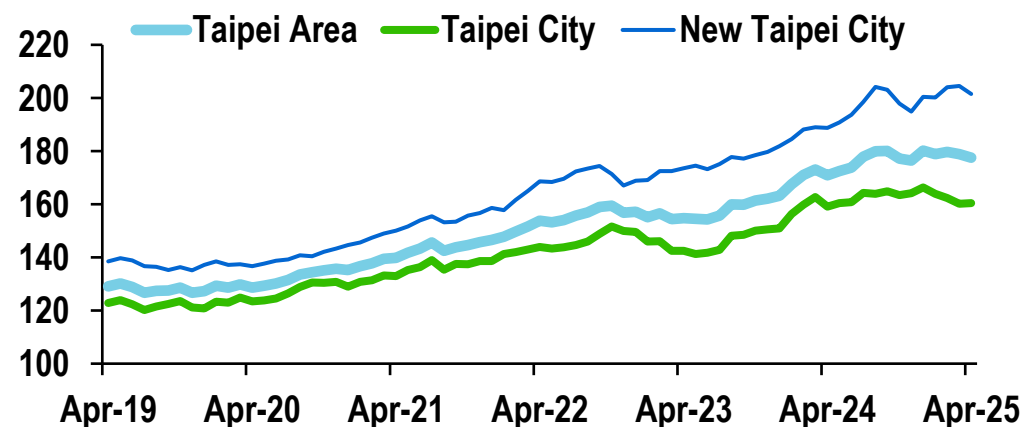
CBC likely to lag the Fed in rate cuts; we see no CBC rate cuts in 2025 (%)



Real-estate loan concentration ratio remains high by historical standards; % y/y (LHS), % (RHS)



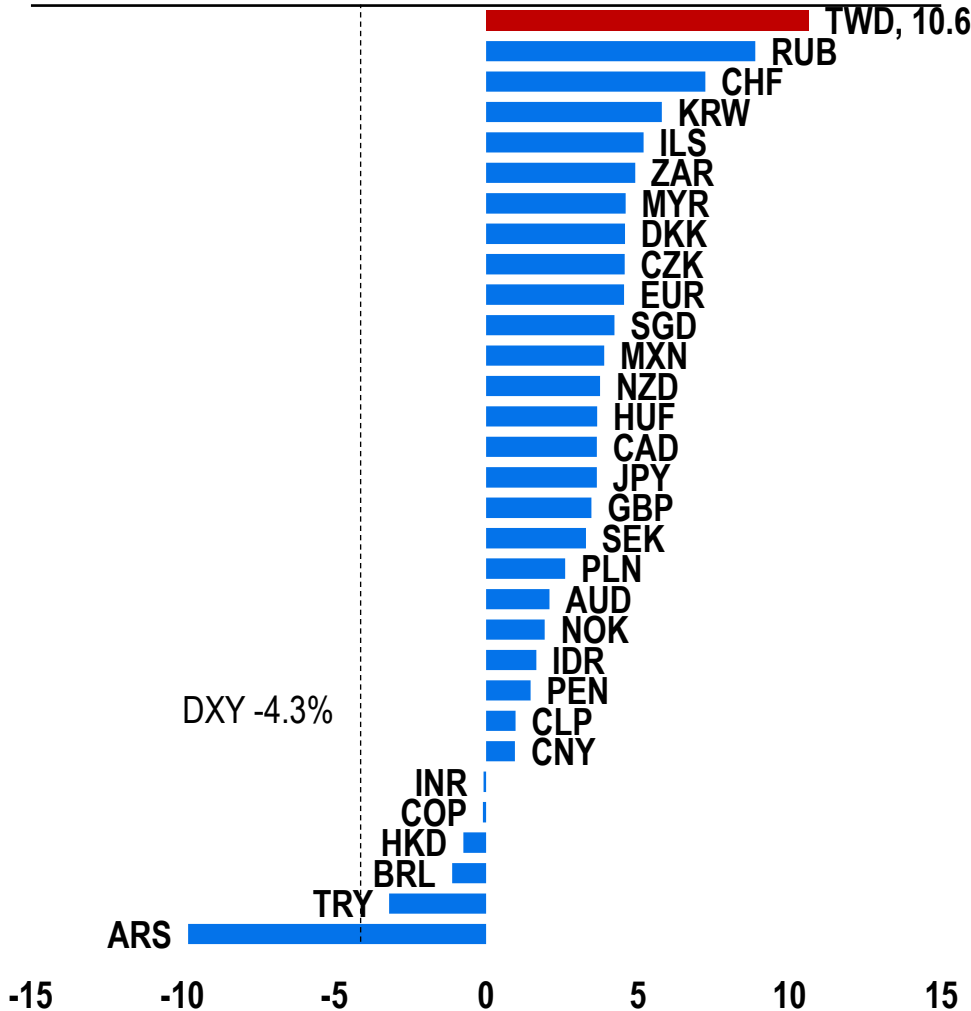
Housing prices remain on an uptrend Sinyi housing price index (2011=100)



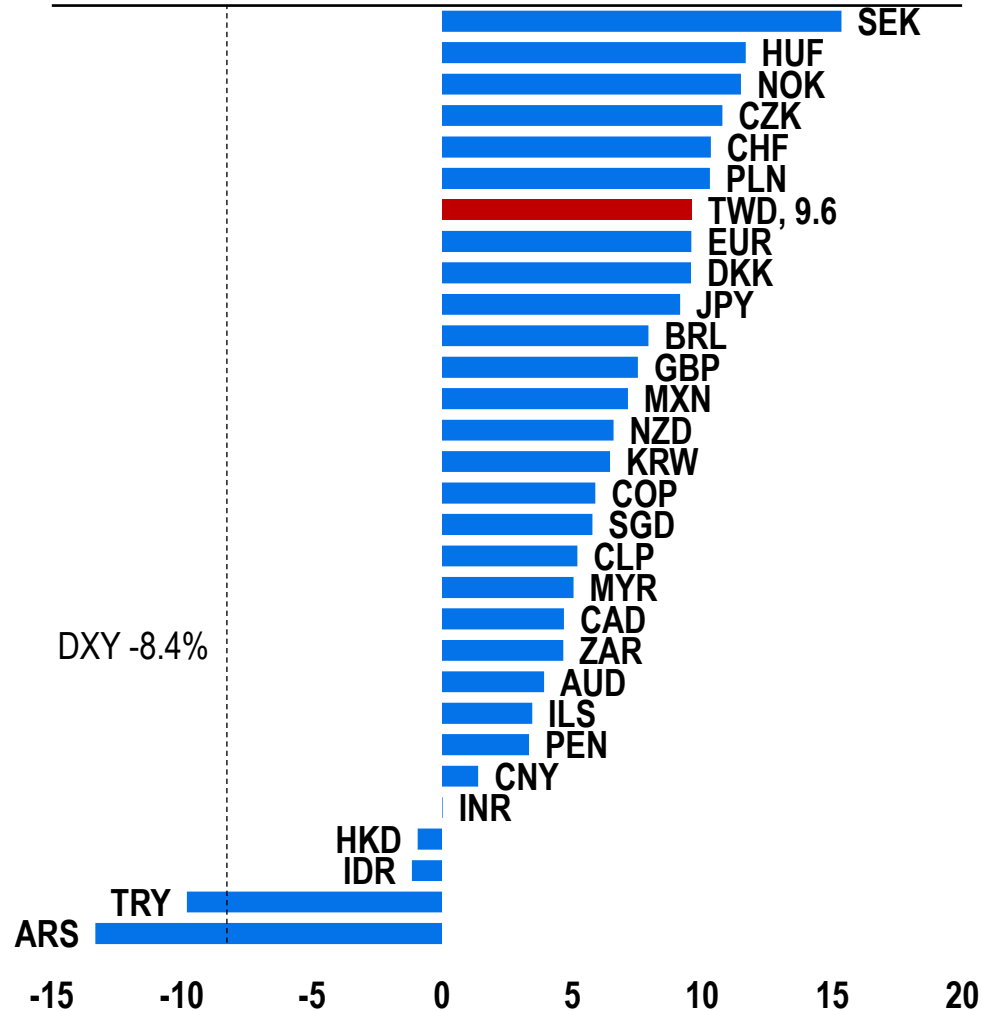
TWD has become the top performer globally since ‘Liberation Day’

4月2日以來，台幣已成為全球表現最佳的貨幣

Major currencies’ performance vs USD since 2-Apr-2025 (as of 30-May-2025)



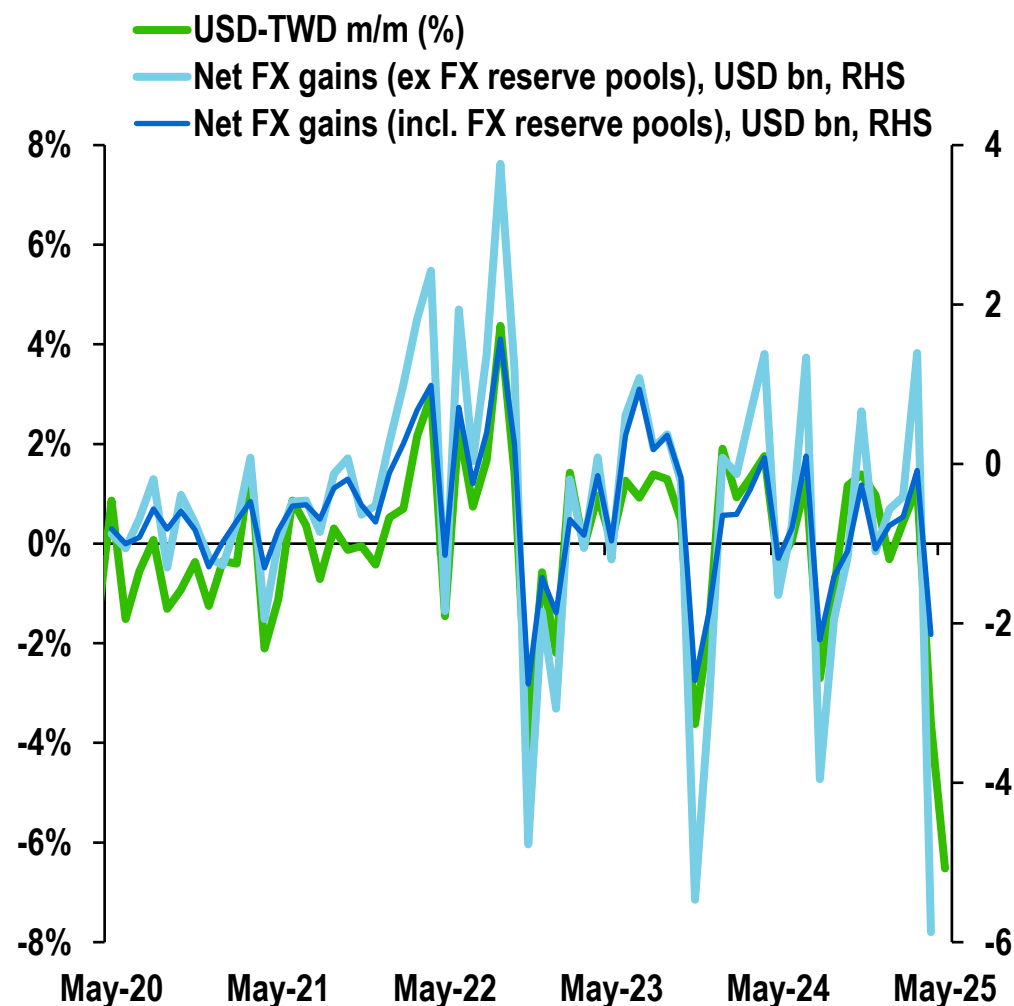
Major currencies’ performance vs USD since end-2024 (as of 30-May-2025)



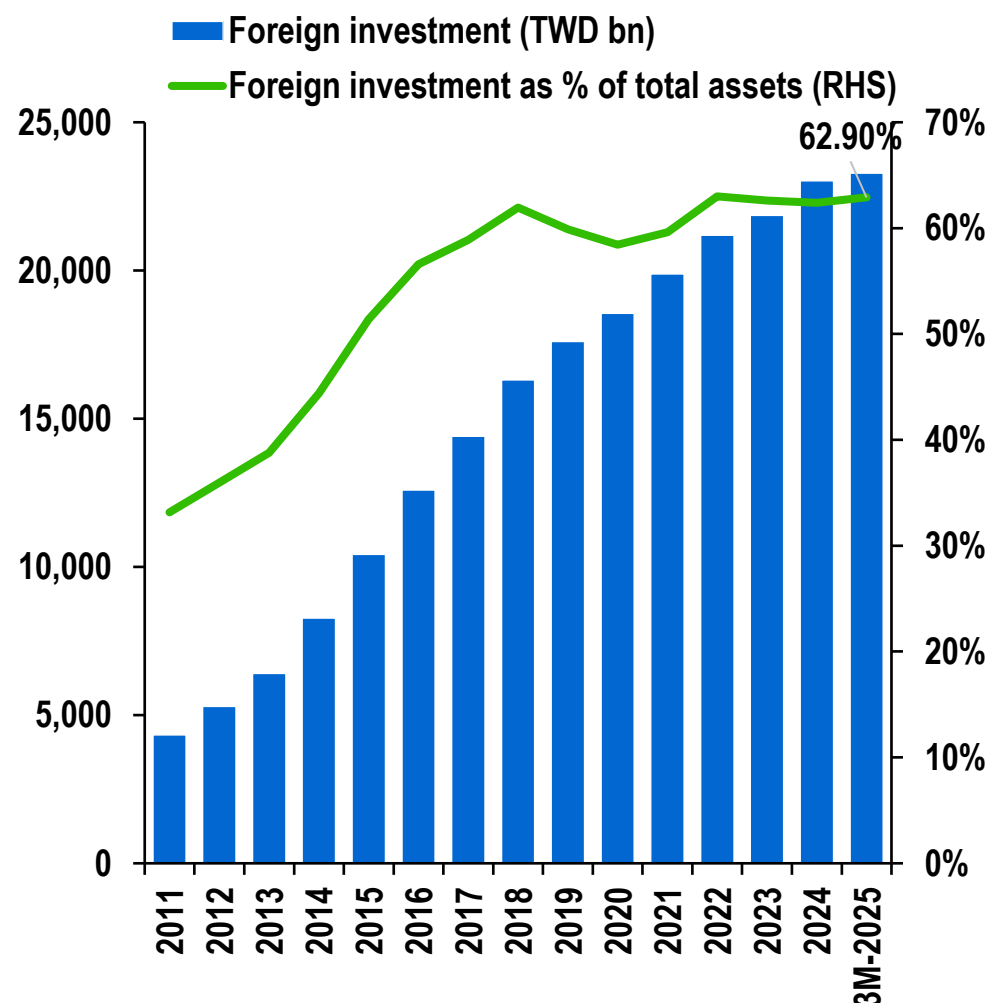
Sharp TWD appreciation has likely led to large FX losses for Taiwan lifers

台幣的大幅升值可能導致壽險面臨大量外匯損失

Net FX losses at USD 2.1bn in April after the offset from FX reserve pools; without FX reserve pools, net FX losses could reach USD 5.9bn

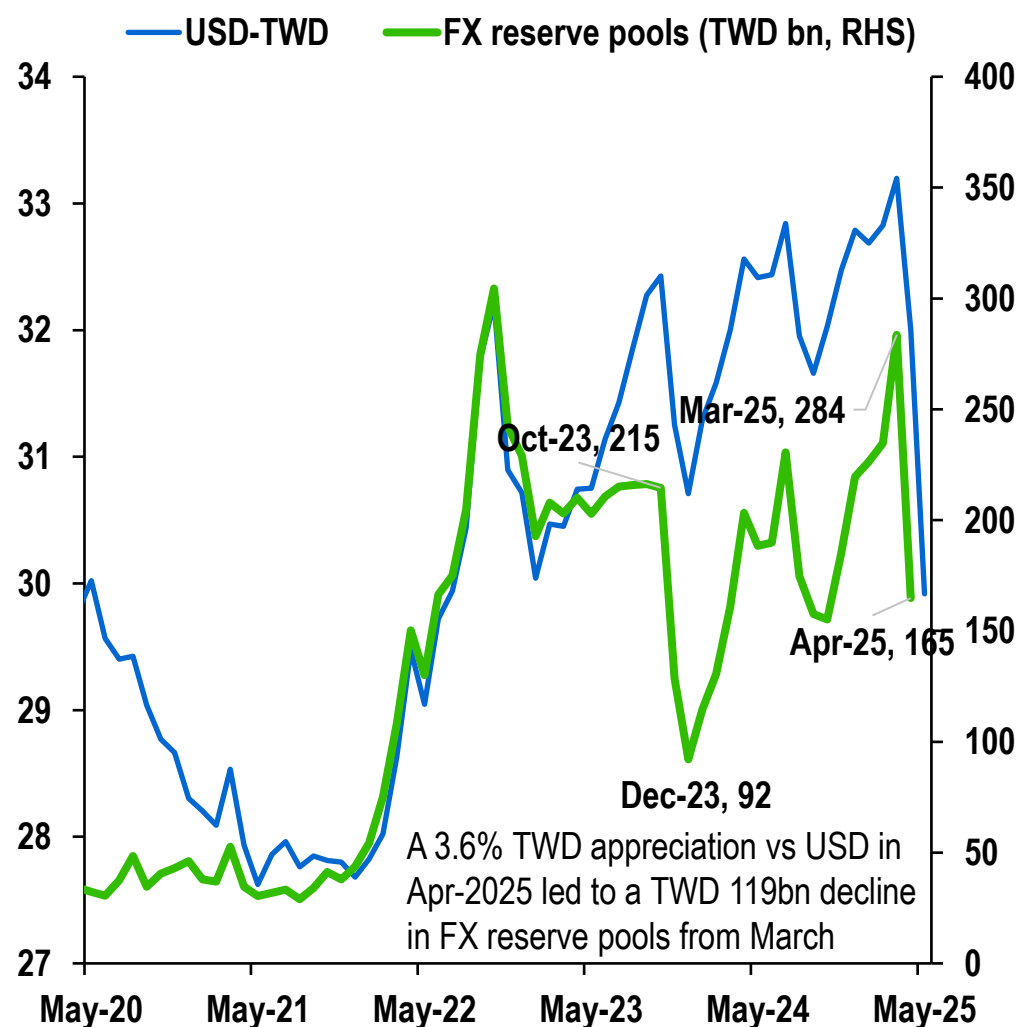


We estimate that c.28% (USD c.200bn) of lifers' foreign investment (USD c.700bn) is FX-unhedged



More lifers have applied for new FX reserve pool regime to offset FX losses 更多壽險公司已申請外匯價格準備金新制，以抵消外匯損失

FX reserve pools were likely near depletion by end-May



New rules will offer temporary relief to lifers, with a one-time boost in FX reserve pools

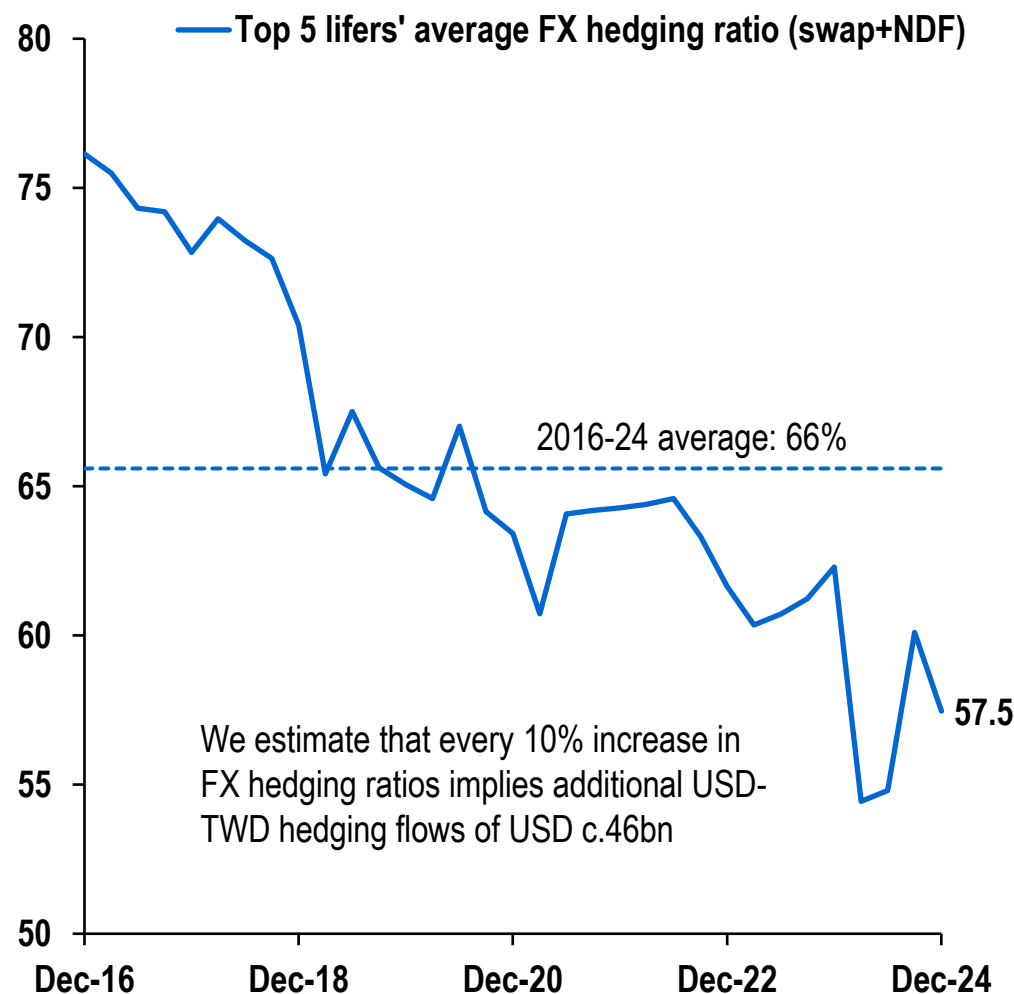
	Current rules	New rules (voluntary; no roll-back)	
Monthly fixed provision	5-6bps of FX-unhedged assets (0.60-0.72% annualised)	10bps (1.2% annualised)	
Monthly additional provision / Monthly offset	50-60% of monthly FX gains (losses) from FX-unhedged assets will be added to (offset by) FX reserve pools	100%	
Upper limit	TWD c.300bn for the life insurance industry	TWD c.960bn if all lifers are to apply	
Lower limit	6x of monthly fixed provision	Not less than zero	
Other	N/A	Allow a one-off transfer of five special reserve pools* into FX reserve pools	

Lifer	Status	Additional balance if under new rules	FX reserve pools
Cathay	Pending approval	+TWD 14.6bn	TWD 30.5bn as of Apr-25
Fubon	Approved in May-2025	+TWD 8bn	TWD 9.0bn as of Apr-25
Nanshan	Pending approval	+TWD 40.4bn	TWD 17.8bn as of Apr-25
Shin Kong	Approved in 2024		TWD 34.3bn as of Apr-25
KGI	Approved in 2024		TWD 21.2bn as of Apr-25
AIA	Approved in 2024		TWD 2.0bn as of Q1-25
Taishin	Approved in 2024		TWD 1.7bn as of Q1-25
Mercuries	Approved in Apr-2025		TWD 1.5bn as of Q1-25

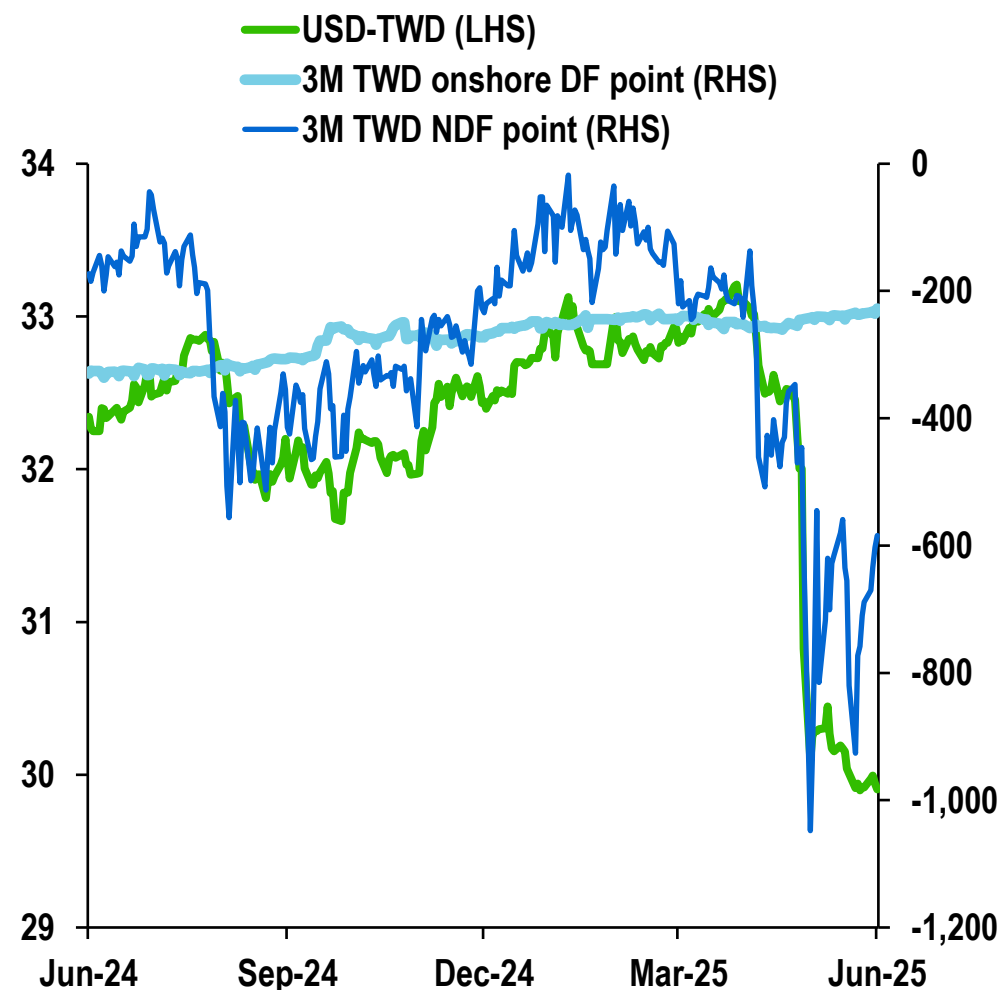


Lifers will likely raise FX hedging ratios over time on a downtrend in USD-TWD 隨着台幣進入升值週期，壽險將逐漸提高外匯避險比重

FX hedging ratios of lifers have been at record lows (*%, up to end-2024, data from top-five lifers*)



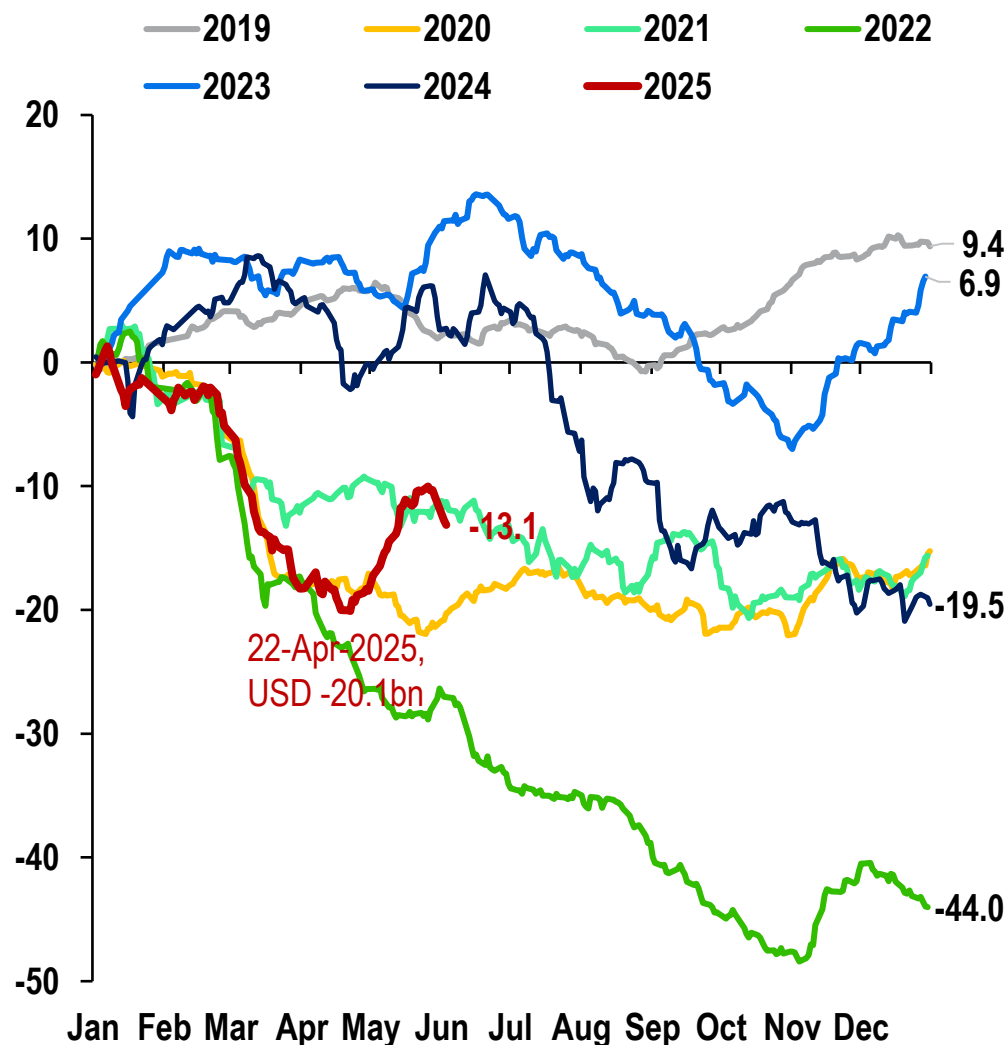
Hedging costs remained expensive on the front-end of NDF curve, despite a stabilisation of NDF points



Foreign equity outflows have eased; more local redemptions from outbound bond ETFs 外資對台股淨流出壓力緩和；本地投資者對外國債券ETF的淨贖回增加

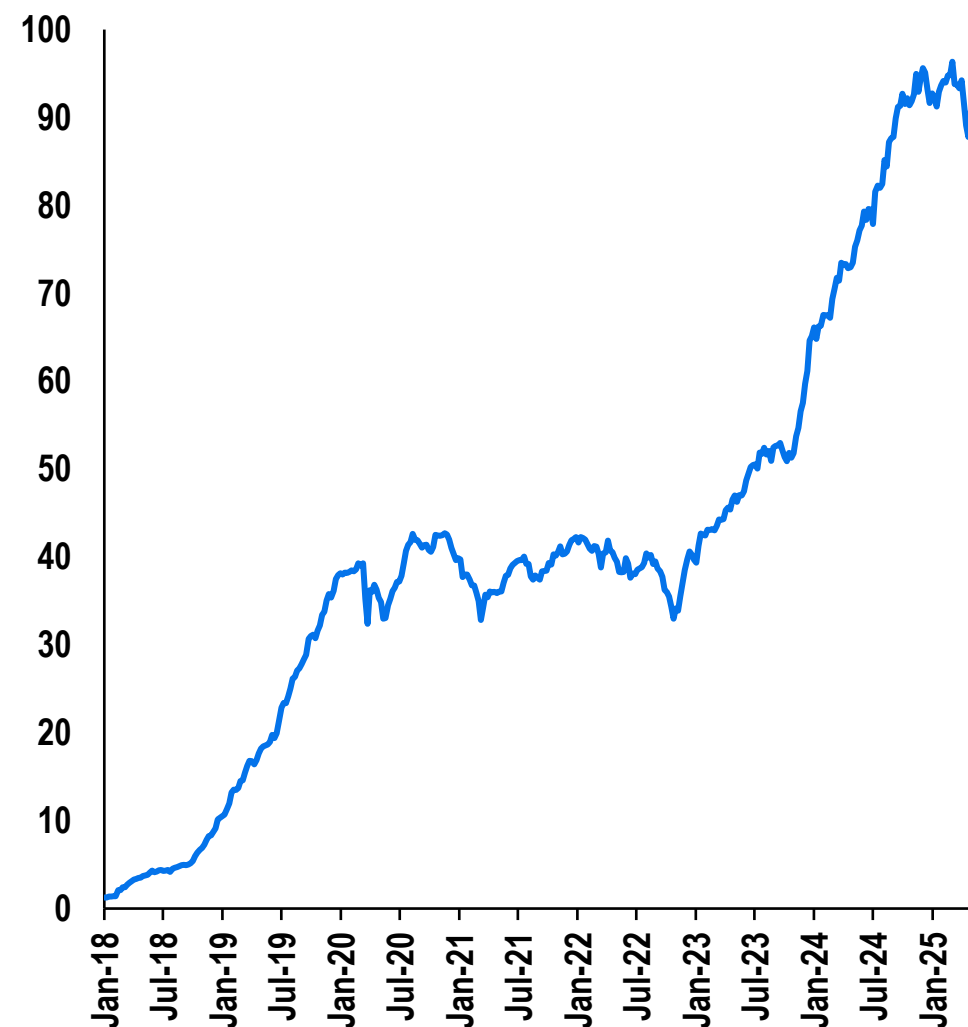
YTD foreign flows to Taiwan equities

USD bn, cumulative



Total AUM of onshore-listed foreign bond ETFs

USD bn

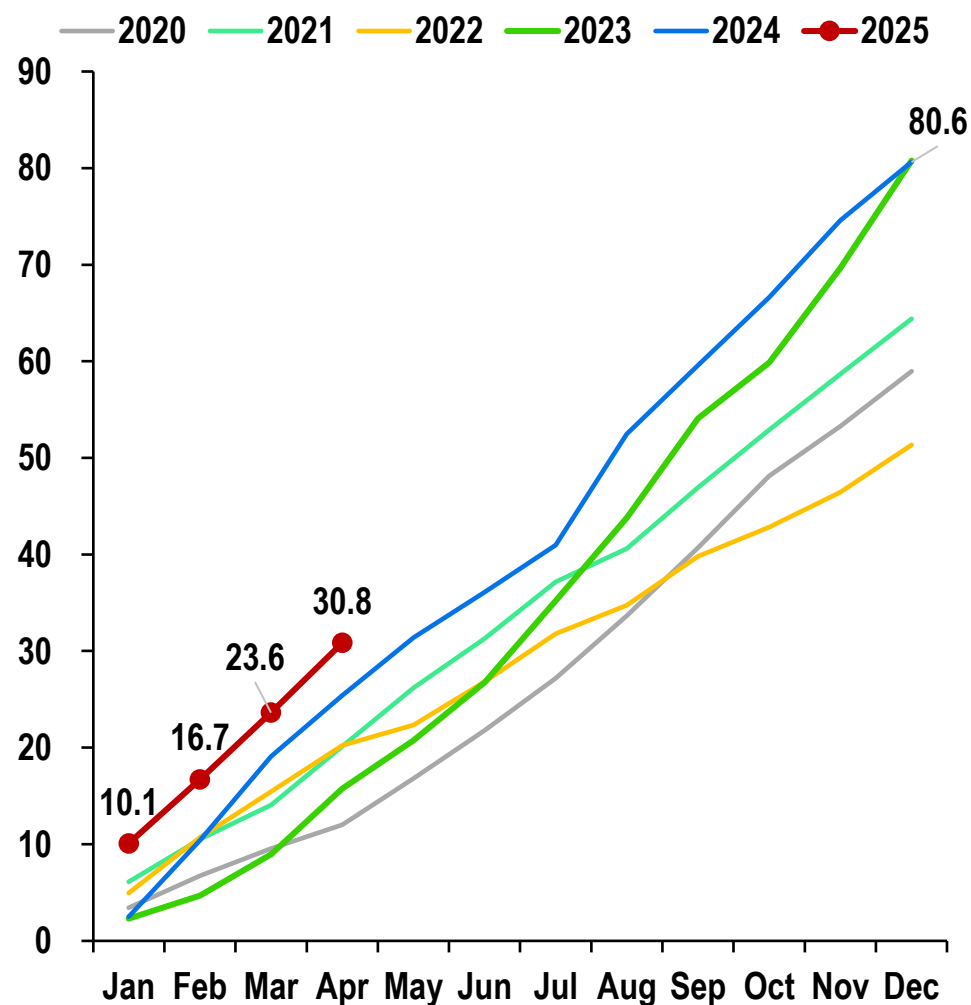


Trade surplus has risen to record-high levels

貿易順差已升至歷史最高水平

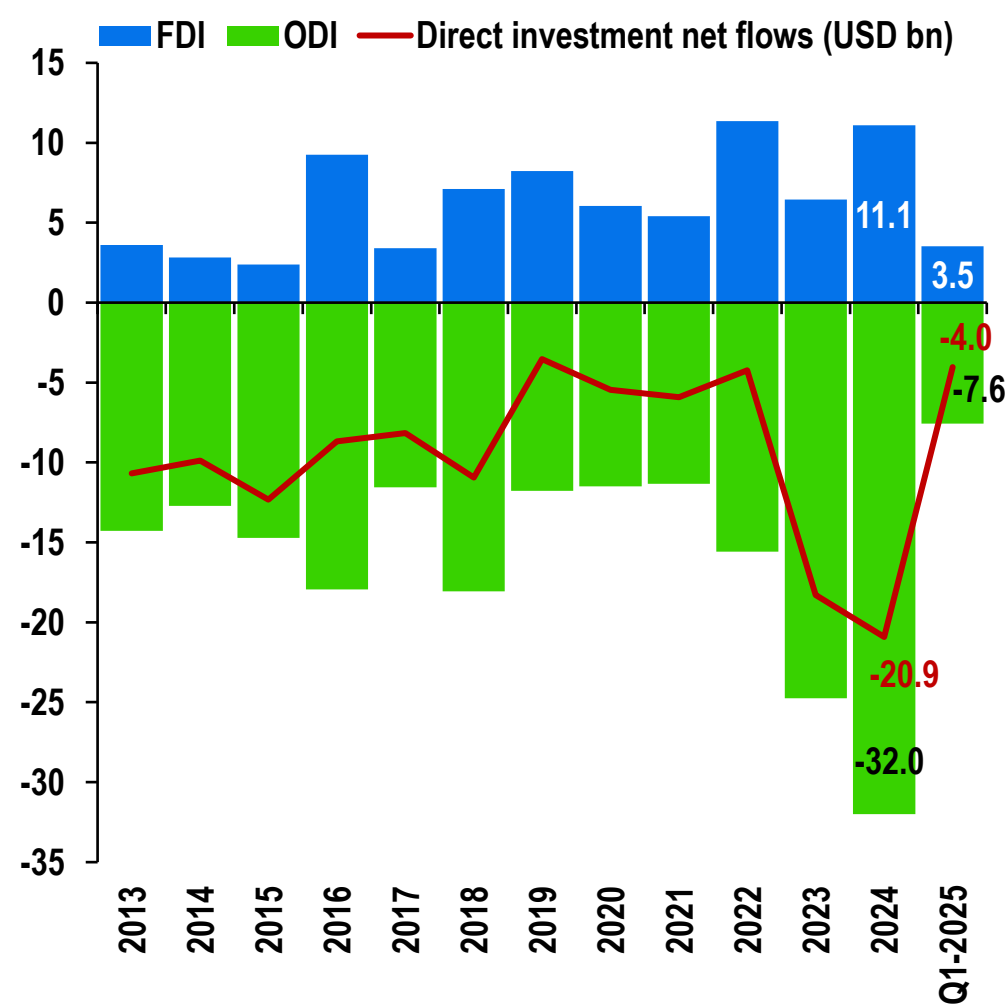
YTD trade balance up 21.6% y/y in 4M-2025
despite a high base

USD bn, cumulative



ODI flows have increased, yet their magnitude
remains much smaller than the trade surplus

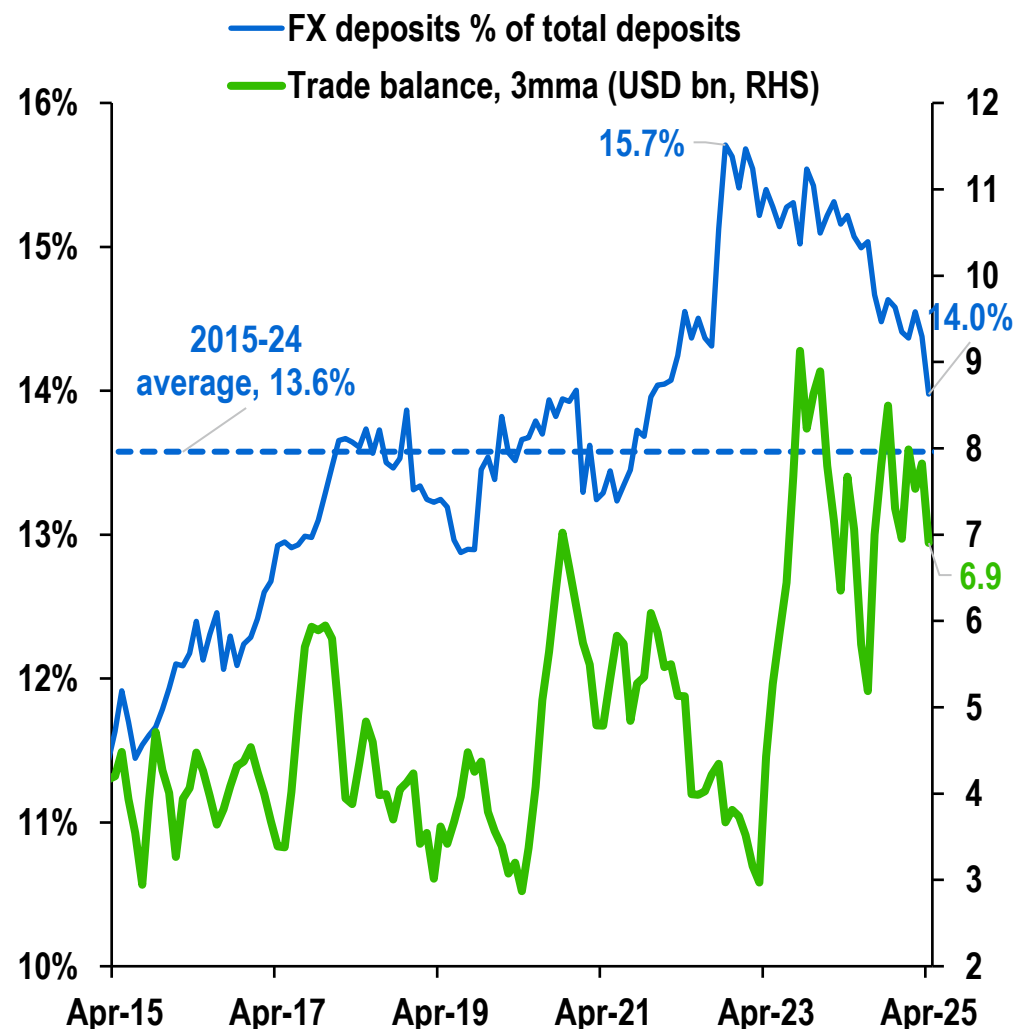
USD bn, per Taiwan's balance of payments data



Corporates' sizeable FX deposits have started to fall at a faster pace

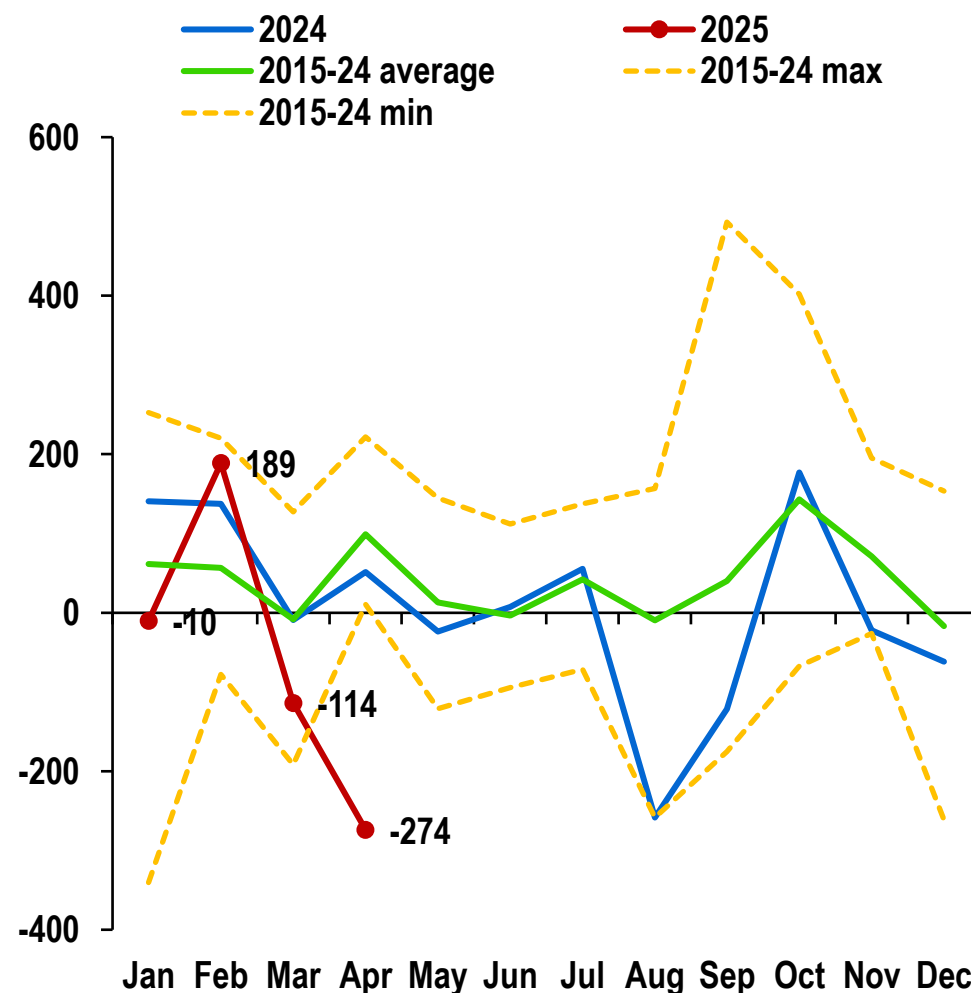
外匯存款已經以更快的速度減少

The share of FX deposits in total deposits has fallen, but remains higher than 10Y average



FX deposits dropped 4.9% y/y in April, the most negative reading since February 2010 (-5.2%)

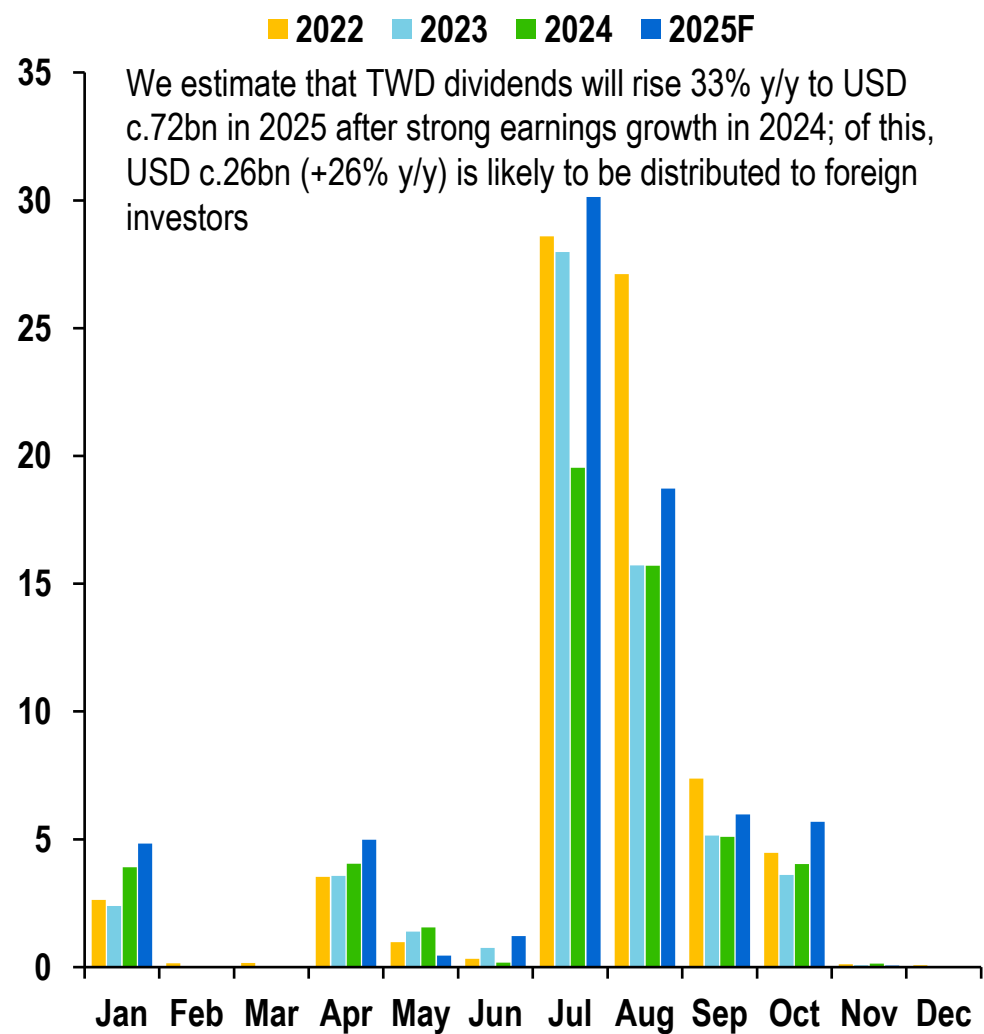
TWD bn, monthly change



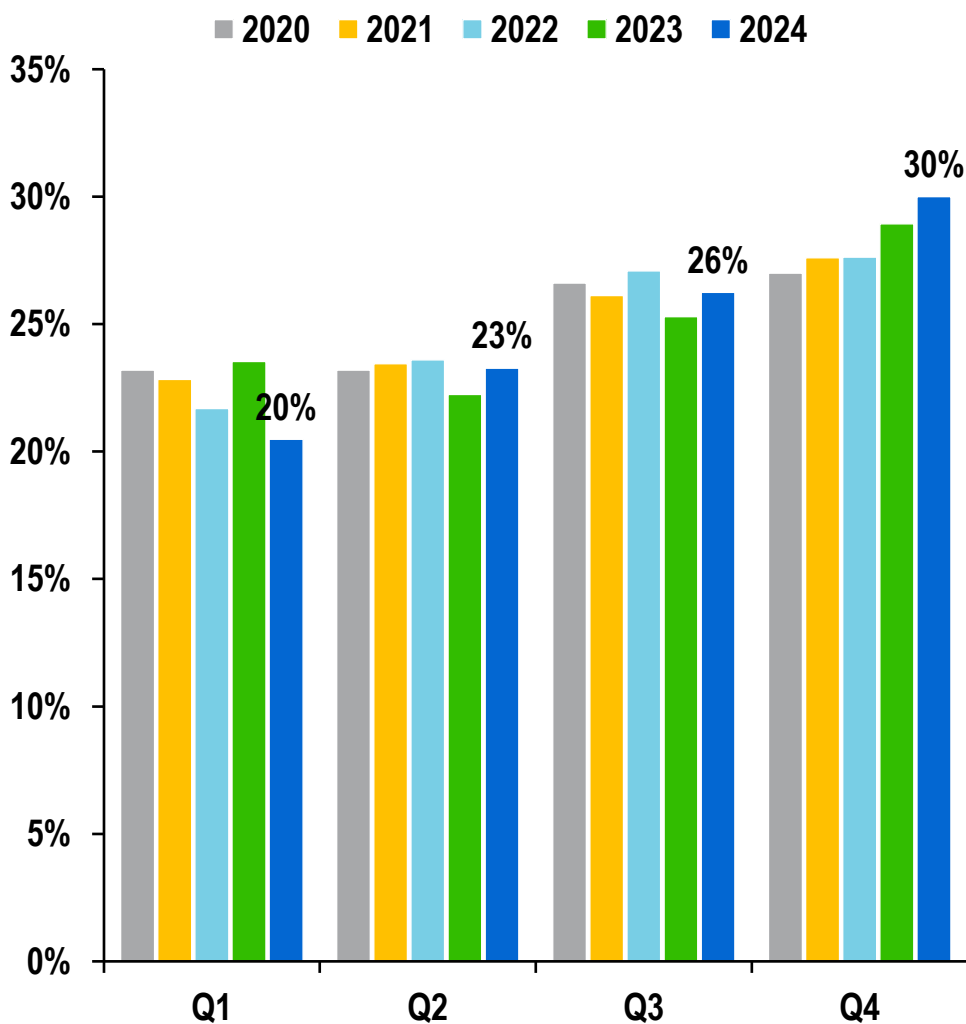
Seasonality likely to turn negative in Q3 before becoming positive again in Q4

季節性因素在三季度轉為負面，並在四季度重回正面

TWD dividend payments to rise in July-October
USD bn, based on TWSE index



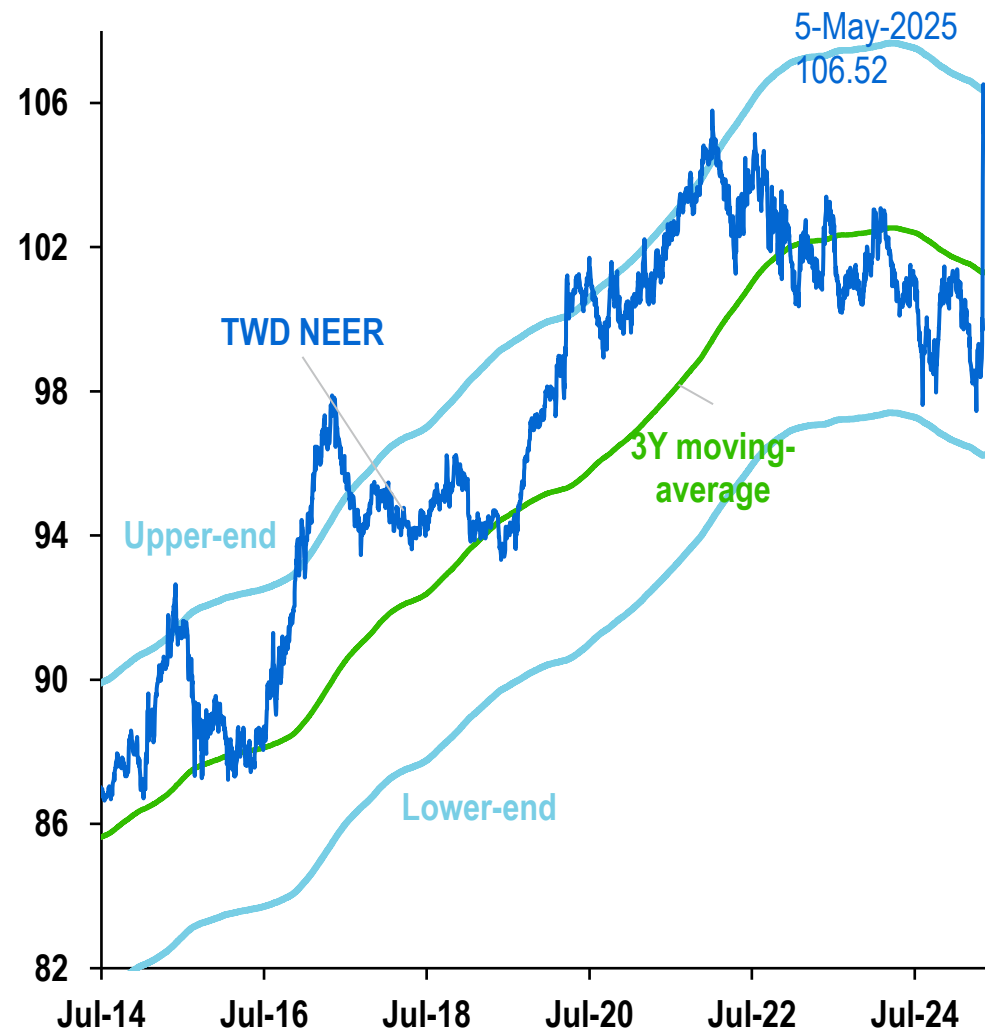
Q4 is typically a strong season for tech-related demand; % of TSMC annual revenue, by quarter



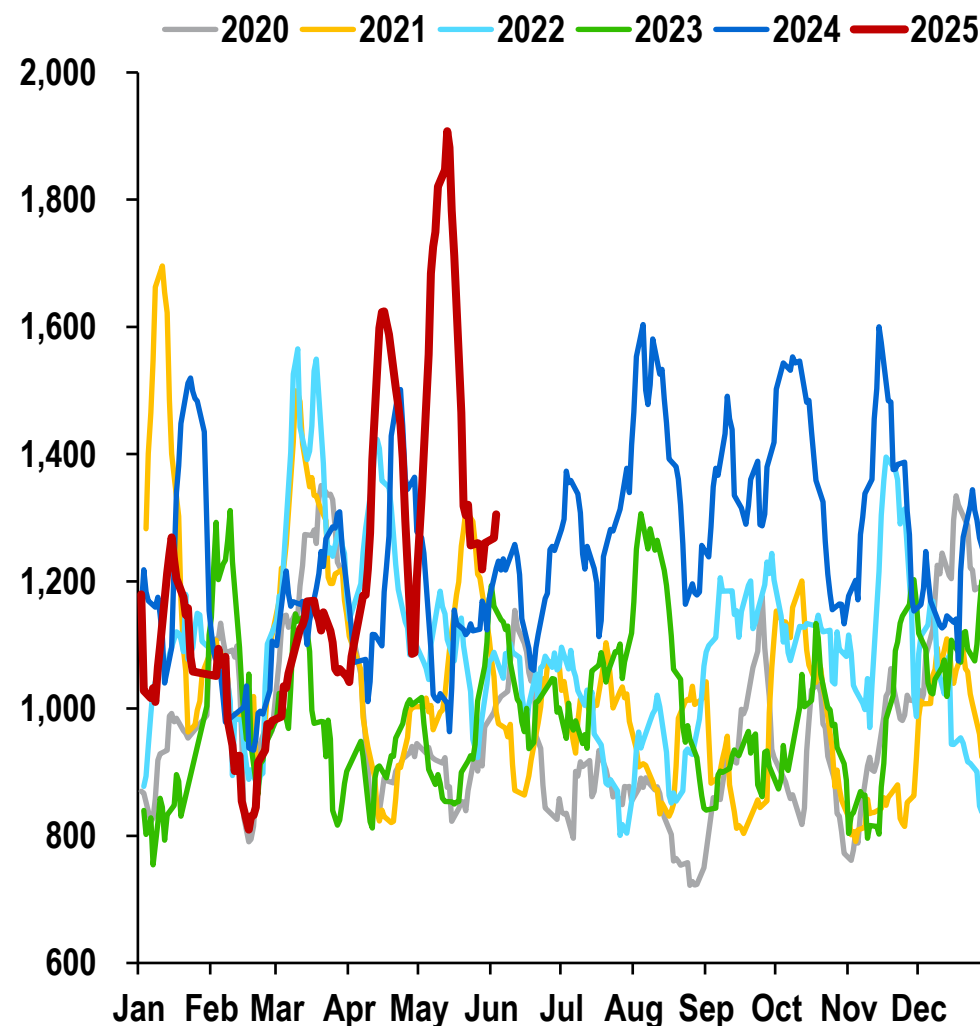
CBC FX intervention likely to slow the pace of TWD appreciation

央行加強外匯管控，或旨在減緩台幣上漲的步伐

TWD NEER is currently close to the 5% upper-end band in CBC's preferred metrics



Daily spot trading volume has declined substantially (USD mm, 10-day moving average)



* The CBC uses a +/-5% band around the 36-month moving average of the TWD nominal effective exchange rate (NEER) to assess the TWD's valuations

Source: Bloomberg, Standard Chartered Research



Material changes to our views

	Change	Period	Prior	New
FX				
New Taiwan dollar	USD-TWD	2025E	33.00	28.60
New Taiwan dollar	USD-TWD	2026E	32.50	28.40
New Taiwan dollar	USD-TWD	Q2-2025E	33.10	29.70
New Taiwan dollar	USD-TWD	Q3-2025E	33.50	29.70
New Taiwan dollar	USD-TWD	Q4-2025E	33.00	28.60
New Taiwan dollar	USD-TWD	Q1-2026E	32.60	28.40
New Taiwan dollar	USD-TWD	Q2-2026E	32.60	28.40



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