

Taiwan rate hike more likely as inflation edges up

Inflation in Taiwan increased slightly on a yearly basis. Higher energy prices persist and could be a good reason for the central bank to hike again on 16 June



The Taiwan central bank has raised its policy rate by 25bps

Higher inflation increases the likelihood of another rate hike in June

The CPI rose by 3.39% year-on-year in May after a 3.38% increase in April, while the WPI rose by 16.62% YoY in May after a 15.07% increase a month earlier. The increase in the CPI was mainly due to the sharp rise in fruit and vegetable prices and energy prices. The increase in the WPI, on the other hand, was mainly due to the rise in energy prices.

The likelihood of another interest rate hike on 16 June has risen as the central bank may take into account the continued high energy prices.

The last rate hike cycle - between March 2010 and June 2011 - resulted in five rate increases of 12.5bp each. The CPI at that time was between 1.34% and 1.94%.

12.5bp or 25bp interest rate hike?

The central bank raised the discount rate by 25bp in March this year. It was quite surprising at the time due to the fact that most of the previous moves have been in 12.5bp increments.

As inflation rose by only 0.01bp in May, the central bank may choose to raise the discount rate by 12.5bp on 16 June. If the rate is raised by 25bp, then the USD/TWD should move lower to around 28.00 from the current level of 29.51.

We will also be looking closely at the wording of the central bank's statement in June to see if the central bank will continue to raise interest rates.