Taiwan’s central bank stays put as a defensive strategy

Taiwan's central bank left policy rate unchanged today. We think the economy will be weaker in 2019, but unless it deep dives into a recession (which is not our base case), the pause will continue

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Taiwan's central bank has been on hold since 2016 and decided against hiking or cutting policy rates again today.

The central bank also claimed that inflation has been mild when in fact, it was not mild, but low at 0.31% in November from 1.17% in October. Even today's export orders data release was worse than expected at -2.1% year on year in November from +5.1% in the prior month.

We believe the decision to stay on hold is a defensive one. With rates at 1.375%, there is little room for cuts. We think the central bank is holding back the cuts if the economy falls into a recession.

1.375%

Taiwan's policy rate

On hold for 10 quarters

The pause will continue in 2019

We forecast Taiwan GDP growth to be 2.0% in 2019, slightly lower than the central bank's forecast of 2.33% and the statistical office's forecast of 2.41%. But these forecasts are well above a recession situation, which is why we think the central bank will stay on hold in 2019.

The USD/TWD will largely be affected by inflows of foreign capital into the asset market. But as Apple has cancelled orders, Taiwan's corporate earnings may not be as competitive as the rest of the region.

Foreign capital inflows into Taiwan will be smaller in 2019 compared to 2018, and as such, we expect USD/TWD to reach 32.00 by the end of 2019 (exchange rate spot was 30.84 at the time of writing this note).