Taiwan central bank stays put at 1.375%

Taiwan has kept rates on hold for seven consecutive quarters but the economy now faces risk from trade protectionism as it sits between the supply chain of goods traded between China and the US

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Rates on hold since July 2016

As expected, Taiwan's central bank kept the interest rate on hold at 1.375%, which has remained unchanged since July 2016.

Taiwan's new central bank governor, Yang Chin-long said the Bank's main task is to keep inflation stable rather than solve the structural problems of the economy.

Since 2016, inflation has fluctuated between 0% to around 2%, and as we forecast it to move between 1% to 1.5% in 2018, we expect the central bank to continue to stay put.

But risks from trade tension are rising

With the help of the US on tourism, and the electronics sector doing well the economy is in good shape, and we expect it to grow at 3.2% in 2018, which is above the consensus of 2.7%. But the risks are rising as tensions between the US and China escalate over trade.

Nowadays, the supply chain is complex, and Taiwan falls between the supply chain of electronic goods traded between China and the US. Increasing trade protectionism would ultimately hurt Taiwan's trade volume and profits.

If trade protection actions become visibly negative for Taiwan's economy, then we may need to revise our GDP forecast and the policy rate.

Expect the TWD to appreciate along the soft USD

As trade tensions escalate, the US dollar would be weaker against major currencies. We expect USD/TWD to reach 28.00 by the end of the year and so far our forecast is on track. The spot is 29.149 against our first quarter forecast of 29.00.

Again, if US trade tensions intensify further, we may need to revise USD/TWD downward. But for now, we keep them unchanged.