

Taiwan surprises markets, hikes rates to highest level since 2008

Taiwan's Central Bank of China (CBC) hiked interest rates by 12.5bp to 2% in a surprise move as inflation concerns weighed on policymakers



Taiwan's central bank

2%

Taiwan's Benchmark Interest Rate

12.5 bp rate hike

Higher than expected

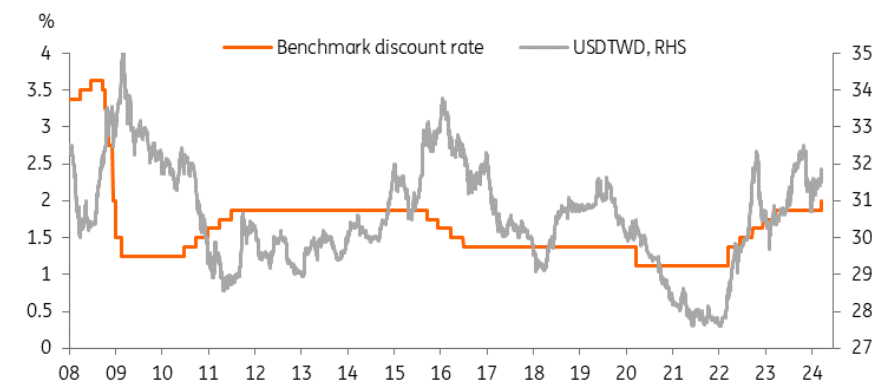
A surprise rate hike to take rates to highest level since 2008

Taiwan's Central Bank of China (CBC) hiked interest rates by 12.5bp to 2%, which came as a significant surprise, with all of the market forecasts expecting no change at this meeting. This rate hike took the benchmark rate to the highest level since 2008. All but one monetary policy committee member voted to hike rates at the meeting, with one voting to keep rates unchanged.

The timing of the rate hike was a little puzzling, given the global environment has shifted toward discussions of monetary policy easing. In fact, most of the debate had been centred on whether

we will see a rate cut later in the year, rather than a rate hike.

Taiwan's benchmark discount rate hiked to highest level since 2008



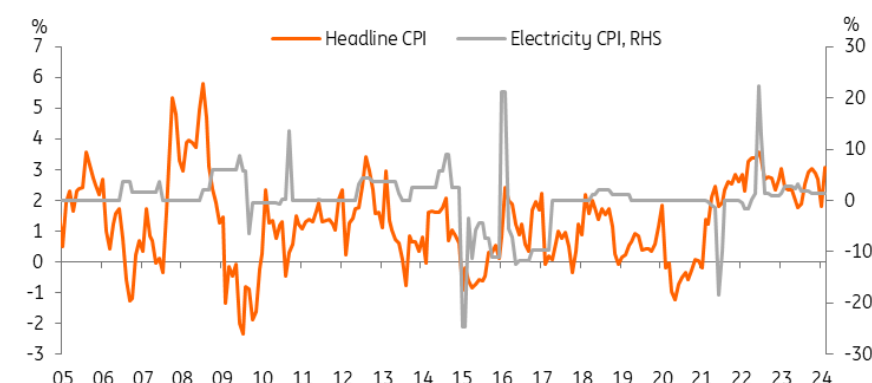
Source: Bloomberg, ING

Inflation the main reason behind the rate hike

At the press conference following the rate decision, CBC Governor Yang Chin-Long indicated that inflation was the primary reason for the rate hike. There was an extensive discussion of the impact of a potential hike in electricity prices on inflation pressures. He also emphasised that the issue of inflation would be a medium to long-term consideration.

It's possible that a contributing factor was a higher-than-expected February inflation read, which rose to a 19-month high of 3.08% year-on-year – but in our view, this was skewed by the Lunar New Year effect. A stronger-than-expected start to exports in the year may have strengthened the central bank's conviction in the growth outlook.

Potential electricity price hike a factor behind inflation fears



Sources: CEIC, ING

CBC likely to stay on hold in coming months, move could support TWD in short term

Regarding the TWD, we have seen a depreciation in the year to date, and it has trended weaker despite encouraging exports to start the year. With unfavourable interest rate spreads, the TWD

depreciated in early 2024. The rate hike could help narrow this spread and support the TWD in the near term.

Moving forward, Governor Yang hinted that rates are now at an appropriate level following the decision to hike rates, indicating that we will likely see stable rates at the next few meetings, barring any major changes to the outlook.

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