Emerging Market Trade Idea

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Sell USD/TWD again

- **USD/TWD has climbed to new 2026 highs on the back of the sell-off in chip stocks and outflows from Taiwan.**
- **The consolidation in the TWD has the currency looking undervalued at current levels. We look for a rebound in the TWD given still-resilient fundamentals and favourable seasonality.**
- **We recommend selling USD/TWD 3M NDF at 32.68 with a take profit of 31.20 and a stop-loss of 33.45.**



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Re-entering short USD/TWD

USD/TWD spot has climbed above 32.70 on Wednesday, making a new 2026 high. The sell-off in TWD has been particularly strong as the currency has been weighed on by the pullback in global chip stocks and foreign outflows from Taiwan. However, we believe that the TWD sell-off is looking stretched here. Our constructive fundamental view on the TWD also remains unchanged. We recommend the trade for the following reasons:

- The underperformance of the TWD is not just against the USD but also peers like the KRW and JPY. As a result, the TWD NEER has declined to its lowest level since 2020. The TWD NEER is now trading 4.4% below its 3Y moving average. This basis to 3Y moving average both reached similarly stretched levels in early August 2026 and in April 2025. In both instances, the TWD made a rebound. While we do not expect a magnitude of appreciation similar to April 2025, we do think these metrics are supportive of the TWD decline looking more stretched and hence potential for a bottoming.
- Foreign investor outflows have been a key factor that has weighed on the TWD. Among several headwinds, foreign investors have net sold USD23.8bn of Taiwan equities month to date, with notable selling pressure on 15 October (USD9.9bn). This activity reflects broader weakness in investor sentiment around AI and has created some near-term pressure on the currency.

  However, the underlying picture appears more resilient. Despite recent equity market volatility, the impact on Taiwan's export outlook remains limited. TSMC, Taiwan's biggest chipmaker, has given robust Q4 sales guidance of USD52.3-54.3bn, which is also above consensus estimates. This suggests that underlying structural AI export demand remains exceptionally strong. Importantly, there has not been a deterioration in fundamentals, which may eventually help stabilise flows.

  Taiwan's trade balance remains an important structural support for the TWD. Driven by sustained global demand for AI-related exports, the trade balance has expanded substantially, bringing the 12-month rolling current account surplus to a record USD217bn. We see this as being an important stabiliser for the TWD over the medium term.
- The USD/TWD NDF curve is flat to three months falling from an average of +50 earlier in the month. However, the USD/TWD 3M NDF outright is also a new high for 2026, and its March 2025 high of 33.2 could be strong resistance.
- In a statement on 19 October, Taiwan's central bank (CBC) commented on the recent TWD depreciation and noted that it remains on hand to stabilise the TWD if it remains volatile.
- The TWD displays positive seasonality into the end of the year. This is supportive of the trade idea.

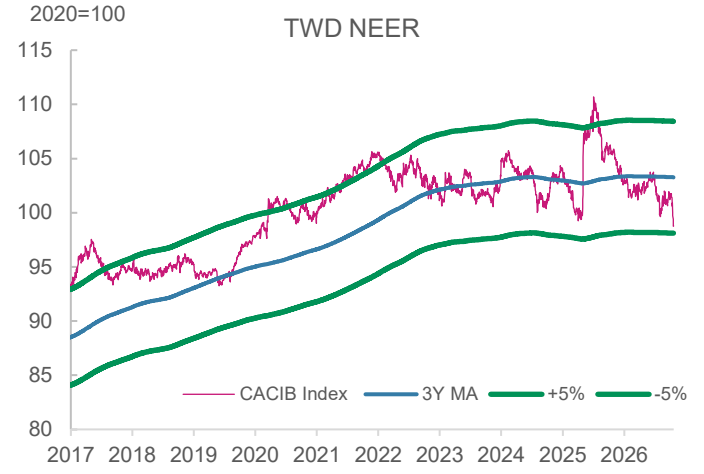
We maintain our bearish view on USD/TWD and recommend shorting USD/TWD 3M NDF at 32.68 with a take profit of 31.20 and a stop-loss of 33.45.

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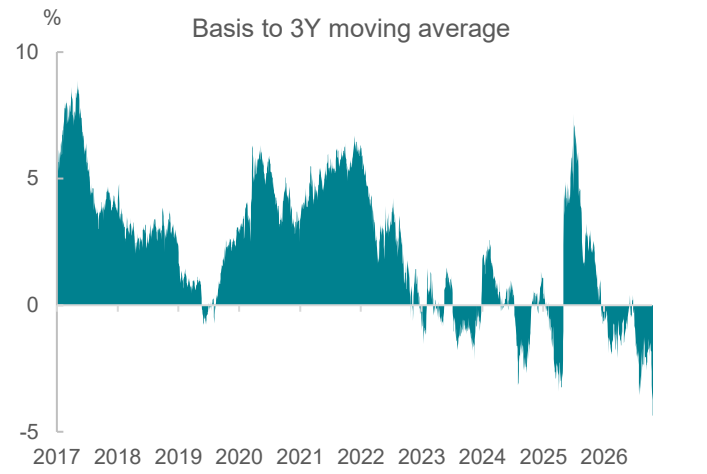
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TWD NEER has underperformed



Source: Bloomberg, Crédit Agricole CIB

TWD at a record underperformance relative to peers



Source: Bloomberg, Crédit Agricole CIB

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