

# Chief Executive of HKMA's response to US Fed FOMC Meeting

The following is issued on behalf of the Hong Kong Monetary Authority:

The United States Federal Reserve's Federal Open Market Committee (US Fed FOMC) decided last night to maintain the target range of the fed funds rate at 2.25 per cent to 2.50 per cent .

Although the FOMC has kept the fed funds rate unchanged, the Hong Kong Monetary Authority (HKMA) note its comments on increased uncertainties in the US economic outlook, and an obvious split in Members' views on interest rate path. While half of members preferred the interest rate to remain unchanged this year, the other half considered one or two reductions necessary.

The Chief Executive of the HKMA, Mr Norman Chan, said, "In Hong Kong, the Hong Kong dollar (HKD) interbank interest rates will continue to be influenced by US dollar (USD) interest rates and other factors such as changes in the market supply of and demand for HKD funding. The HKD interbank rates have gradually increased over the past year as interest rate normalisation progressed, with increased volatility due to seasonal factors including half-year-end effect. Recently one-month HIBOR once rose to 2.6 per cent. As HIBOR increased, carry trade activities reduced and the HKD exchange rate strengthened once to 7.8170 level. Notwithstanding this, transactions in the HKD FX and interbank markets have remained smooth.

Movements of HKD interbank and exchange rates are also consistent with the operation of the Linked Exchange Rate System."

"Future direction of fund flows has become more uncertain in view of the increased uncertainties in the Fed's monetary policy direction. The public should stay vigilant in managing the potential risks arising from market volatilities," added Mr Chan.