Exchange Fund Position at end-June 2018

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

The Hong Kong Monetary Authority (HKMA) today (July 27) published the unaudited financial position of the Exchange Fund at end-June 2018.

The Exchange Fund recorded an investment income of HK$27.3 billion in the first half of 2018. The main components were:

- gains on bonds of HK$19.5 billion;
- losses on Hong Kong equities of HK$3.4 billion;
- losses on other equities of HK$2.7 billion;
- positive currency translation effect on non-Hong Kong dollar assets of HK$5 billion (Note 1); and
- gains on other investments of HK$8.9 billion (Note 2).

Fees on placements by the Fiscal Reserves and placements by HKSAR government funds and statutory bodies were HK$22.2 billion (Note 3) and HK$6.9 billion respectively in the first half of 2018 (the rate of fee payment is 4.6 per cent for 2018). After deducting all expenses and fees, the Accumulated Surplus of the Exchange Fund recorded a decrease of HK$36.2 billion (Annexes 1 and 2).

Total assets of the Exchange Fund stood at HK$4,100.7 billion at end-June 2018, an increase of HK$85.4 billion from the end of 2017.

The global financial markets were very volatile during the first half of the year. At the beginning of the year, the markets were concerned that the US Federal Reserve might quicken the pace of rate hikes on the back of rising inflationary pressures in the US. As a result, yields on the US Treasuries surged, and the global equity markets experienced sharp corrections after reaching new highs at end-January. In particular, the US Dow Jones Industrial Average Index lost 1 175 points in one day, its worst single-day point decline in history. Subsequently, trade tensions between the US and its major trading partners (including China) weighed on market sentiments and added to the global equity market volatility. The US dollar strengthened in the second quarter and asset prices in some emerging markets dropped substantially.

The Chief Executive of the HKMA, Mr Norman Chan, said, "As we have warned at the beginning of the year, asset prices in the global financial markets were in general at their historical highs and the markets might have underpriced some risk factors, including the pace of US interest rate normalisation and the US government's trade policy. These factors could easily trigger significant corrections and volatilities in asset markets."

He added, "Looking ahead, the global investment environment will become even more complex and challenging in the second half of the year. As trade conflicts between the US and China continue to escalate, trade tensions between the US and other countries are also intensifying. It is hard to predict what will happen next. There are no winners but only losers in trade wars. If the trade wars continue to heat up, the global economy and financial markets will be taking a hit. At the same time, the US Federal Reserve might step up the pace and the magnitude of its monetary policy tightening amid rising inflation, leading to volatility in financial markets. In the face of such an environment, the HKMA will continue to strengthen the Exchange Fund's resilience to market fluctuations through defensive measures and investment diversification."

Note 1: This is primarily the effect of translating foreign currency assets into Hong Kong dollar after deducting the portion for currency hedging.
Note 2: This is the valuation change of investments held by investment holding subsidiaries of the Exchange Fund. This figure represents valuation changes up to the end of March 2018. Valuations of these investments from April to June are not yet available.
Note 3: This does not include the 2018 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2018 is available.