Exchange Fund Position at end-June 2020

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

The Hong Kong Monetary Authority (HKMA) today (July 24) published the unaudited financial position of the Exchange Fund at end-June 2020.

The Exchange Fund recorded an investment income of HK$101.4 billion in the second quarter of 2020, which largely offset the investment loss of HK$112.0 billion in the first quarter. For the first half as a whole, the Exchange Fund recorded an investment loss of HK$10.6 billion, which has not yet included the performance of the Long-Term Growth Portfolio (LTGP) for the second quarter. The main components were:

- gains on bonds of HK$74.7 billion;
- losses on Hong Kong equities of HK$19.6 billion;
- losses on other equities of HK$15.4 billion;
- negative currency translation effect of HK$24.4 billion on non-Hong Kong dollar assets (Note 1); and
- losses on other investments of HK$25.9 billion (Note 2).

Fees on placements by the Fiscal Reserves and placements by HKSAR government funds and statutory bodies were HK$18.6 billion (Note 3) and HK$5.8 billion respectively in the first half of 2020, with the rate of fee payment at 3.7 per cent for 2020. After deducting all expenses and fees, the Accumulated Surplus of the Exchange Fund recorded a decrease of HK$15.1 billion (Annexes 1 and 2).

Total assets of the Exchange Fund stood at HK$4,195.3 billion at end-June 2020, a decrease of HK$11.4 billion from the end of 2019.

The Chief Executive of the HKMA, Mr Eddie Yue, said, "The outbreak of COVID-19 caused wild swings in financial markets in the first half of the year. Global equity markets experienced sharp corrections in the first quarter. The S&P 500 Index, for example, lost 30% within a short span of one month. With the easing of the COVID-19 situation in some places in the second quarter, coupled with monetary and fiscal stimulus measures introduced globally, major equity markets have rebounded significantly, though still below the levels at the beginning of the year. Meanwhile, bond prices went up as major central banks substantially cut their benchmark interest rates and re-launched quantitative easing programmes. This enabled the bond portfolio of the Exchange Fund to achieve a decent return. Overall, traditional asset classes including equities and bonds, which account for the bulk of the Exchange Fund's assets, managed to recoup the investment loss made in the first quarter."

He added, "Looking ahead, the investment environment in the second half of the year remains challenging. While many governments have begun to relax their anti-epidemic measures, the global economy is still very fragile, and the timing and speed of recovery remain highly uncertain. Geopolitical developments and the risk of resurgence of COVID-19 also add to uncertainties surrounding the markets.

This is an extraordinary time for the global economy, including Hong Kong. Against such backdrop, we will strive to preserve defensiveness and liquidity when managing the Exchange Fund's investments, so as to enhance resilience against any market volatility while ensuring sufficient liquidity to maintain Hong Kong's monetary and financial stability."

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 the LTGP held by investment holding subsidiaries of the Exchange Fund. This figure represents valuation changes up to the end of March 2020. Valuations of these investments from April to June are not yet available.
Note 3: This does not include the 2020 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2020 is available.