

Exchange Fund Position at end-June 2023

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

The Hong Kong Monetary Authority (HKMA) today (July 25) published the unaudited financial position of the Exchange Fund at end-June 2023.

The Exchange Fund recorded an investment income of HK\$110.0 billion in the first half of 2023. The main components were:

- gains on bonds of HK\$58.0 billion;
- losses on Hong Kong equities of HK\$4.8 billion;
- gains on other equities of HK\$48.5 billion;
- negative currency translation effect of HK\$1.8 billion on non-Hong Kong dollar assets (Note 1); and
- gains on other investments of HK\$10.1 billion (Note 2).

Fees on placements by the Fiscal Reserves and placements by Hong Kong Special Administrative Region Government funds and statutory bodies were HK\$10.0 billion (Note 3) and HK\$7.9 billion respectively in the first half of 2023, with the rate of fee payment at 3.7 per cent for 2023.

Total assets of the Exchange Fund stood at HK\$3,983.9 billion at end-June 2023, a decrease of HK\$24.1 billion from the end of 2022. Accumulated surplus stood at HK\$606.2 billion at end-June 2023.

The Chief Executive of the HKMA, Mr Eddie Yue, said, "There have been signs that inflation in the US has peaked since last year, and the downward trend has continued into the first half of 2023. Investor sentiment has turned positive as the market generally anticipated a slower pace of US rate hikes, coupled with economic data indicating resilience in the US economy. Despite the emergence of market risks arising from the banking crisis in the US and Europe, as well as the US debt ceiling debate, major equity markets maintained their upward momentum, as evidenced by the 15.9 per cent increase in the S&P 500 Index in the first half of this year. On the other hand, with yields of major Government bonds at multi-year high levels, the Exchange Fund has earned decent interest income on its bond holdings. With the reversal of last year's significant decline both in equity and bond markets, the Exchange Fund registered an overall investment income of HK\$110 billion in the first half of 2023."

He added, "Looking ahead, we are not overly optimistic about the investment outlook for the rest of the year. Although global economy has demonstrated resilience to the rapid rate hikes of major central banks, the possibility of continued monetary and credit tightening in the banking sector leading to economic recession is still uncertain. Furthermore, uncertainties

surrounding the path of inflation and peak policy rates set by major central banks remain high, presenting challenges to the investment environment. Geopolitical instability, including the ongoing Russia-Ukraine conflict, along with tensions among major economies, may also trigger asset market corrections and volatilities at any time.

"In face of these challenges, the HKMA will remain prudent and flexible in its management of the Exchange Fund. We will continue to strengthen the Exchange Fund's ability to withstand market fluctuations through defensive measures. Moreover, we will continue to diversify investments to strive for more stable returns for the Exchange Fund and to achieve its long-term investment objectives."

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 reflects the valuations at the end of March 2023. Valuation changes of these investments from April to June are not yet available.

Note 3: This does not include the 2023 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2023 is available.