

Exchange Fund Position at end-June 2024

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

The Hong Kong Monetary Authority (HKMA) today (July 30) published the unaudited financial position of the Exchange Fund at end-June 2024.

The Exchange Fund recorded an investment income of HK\$104.0 billion in the first half of 2024. The main components were:

- gains on bonds of HK\$57.9 billion;
- gains on Hong Kong equities of HK\$6.6 billion;
- gains on other equities of HK\$47.8 billion;
- negative currency translation effect of HK\$16.3 billion on non-Hong Kong dollar assets (Note 1); and
- gains on other investments of HK\$8.0 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\$7.0 billion (Note 3) and HK\$8.4 billion respectively in the first half of 2024, with the rate of fee payment at 3.7 per cent for 2024.

Total assets of the Exchange Fund stood at HK\$3,978.6 billion at end-June 2024, a decrease of HK\$37.9 billion from the end of 2023. Accumulated surplus stood at HK\$688.3 billion at end-June 2024.

The Chief Executive of the HKMA, Mr Eddie Yue, said, "In the first half of this year, most major equity markets recorded significant gains. In particular, market optimism about interest rate cuts on the back of moderating inflationary pressures in major economies has driven major equity indices to new highs. The Hong Kong equity market also posted modest gains. In bond markets, despite falling bond prices resulting from rising yields of major government bonds, bond holdings recorded positive returns after interest income was taken into account, as bond yields stayed at a relatively high level. Overall speaking, the Exchange Fund registered a decent investment income in the first half of 2024."

He added, "Looking ahead, factors such as future policy rate paths, global growth outlook and geopolitical tensions will continue to introduce uncertainties to the investment environment. While the market generally anticipates that the US rate cut cycle will begin in 2024, recent economic data have been mixed; the timing and pace of the Fed's rate cuts remains unclear. As global equity markets and asset valuations have registered substantial gains in recent years, any slowdown in the global economy or deterioration in corporate earnings could trigger heightened market volatility and adjustments in asset prices. Furthermore, it is difficult to

predict the impact of geopolitical tensions, including the ongoing Russia-Ukraine conflict and situation in the Middle East, as well as the upcoming US presidential election on the global economy and financial markets. These factors could lead to sudden reversals in market conditions.

In face of these challenges, the HKMA will continue to adhere to the principle of capital preservation first while maintaining long-term growth. We shall continue to manage the Exchange Fund with prudence and flexibility, implement appropriate defensive measures, and maintain a high degree of liquidity. We will also continue our investment diversification to strive for higher long-term investment returns, and ensure that the Exchange Fund will continue to serve its purpose of maintaining monetary and financial stability of Hong Kong in an effective manner."

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 2024. Valuation changes of these investments from April to June are not yet available.

Note 3: This does not include the 2024 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2024 is available.