

HKMA's response to US Fed's Interest Rate Decision

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

The Federal Open Market Committee of the United States Federal Reserve (the Fed) just announced its decision to cut the target range for the federal funds rate by 25 basis points, to 4.5-4.75 per cent. The HKMA has reduced the Base Rate to 5 per cent according to the established mechanism with immediate effect.

The Fed further cut interest rates as expected by the market to implement less restrictive monetary policy. However, the pace of future rate cuts remains uncertain as it is subject to US economic data, which will be influenced by fiscal, economic and trade policies. Furthermore, monetary policies across the major economies are not entirely in sync. The risk of global financial market volatility should continue to be closely monitored.

Our financial and monetary markets have continued to operate in a smooth and orderly manner. Market liquidity condition has remained stable, and the Hong Kong dollar exchange rate stays steady. Under the Linked Exchange Rate System, Hong Kong dollar interbank rates generally track the US dollar counterparts, while shorter-tenor interbank rates tend to be also influenced by the supply and demand of Hong Kong dollar funding in the local market such as seasonal effects and capital market activities.

With regard to deposit and lending rates, banks will normally take into account factors such as funding supply and demand in the interbank market, the level of interbank rates and their own funding cost structures to access the merit and extent of adjustments, if any. The rate-cut cycle in the US is still at its initial stage. Interest rates might still remain at relatively high levels for some time. The public should carefully assess and continue to manage the interest rate risk when making property purchase, mortgage or other borrowing decisions.

The rate-cut decision in the US will not affect our financial and monetary stability. The HKMA will closely monitor market developments including trends of interest rates and movements of funds around the global markets to ensure financial and monetary stability.