

HKMA's response to US Fed's rate hike

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

The Federal Open Market Committee of the United States Federal Reserve (US Fed) announced in the early morning today (March 17, Hong Kong time) that it would raise the target range for the federal funds rate by 25 basis points to 0.25-0.5 per cent. In the light of the US Fed's decision, the Hong Kong Monetary Authority (HKMA) has also raised the Base Rate today. According to the pre-set formula (Note), the Base Rate is set at 0.75 per cent today. The US Fed also indicated that ongoing increases in interest rate would be appropriate amid persistently high inflation and expected to begin balance sheet reduction at a coming meeting.

The Chief Executive of the HKMA, Mr Eddie Yue, said, "The US's entry to the rate hike cycle is within market expectation. Our financial systems and money markets have continued to operate in an orderly and smooth manner.

As an international financial centre, it is normal for inflows and outflows of funds to happen in Hong Kong. Under the Linked Exchange Rate System, the Hong Kong dollar (HKD) exchange rate has been moving within the Convertibility Zone of 7.75 to 7.85 as driven by market supply and demand. Drawing reference from experience, the HKD interbank rates may not necessarily rise with the US dollar interest rates immediately. The extent of lagging will depend on HKD supply and demand situations in the local market. As regards banks' interest rates, it will be the commercial decision of banks having regard to their own funding cost structures.

Recently, the global financial markets have been very volatile, and Hong Kong cannot be immune. When the market is volatile, we should stay vigilant and carefully manage the risks. Looking around the world, geopolitics, macroeconomic and pandemic development are all filled with risks and uncertainties. These factors may not only affect the financial markets, but also influence the US Fed's future considerations regarding the pace and magnitude of the US rate hikes and other relevant policies such as balance sheet reduction, as well as other central banks' policy stances. The HKMA will continue to closely monitor market situations, with a view to maintaining stability in Hong Kong's financial and monetary systems."

Note: The Base Rate is set at either 50 basis points above the lower end of the prevailing target range for the US federal funds rate or the average of the five-day moving averages of the overnight and one-month Hong Kong Interbank Offered Rates (HIBORs), whichever is higher. Following the 25-basis point upward adjustment in the target range for the US federal funds rate by the US on March 16 (US time), 50 basis points above the lower end of the prevailing target range for the US federal funds rate is 0.75 per cent, while the average of the five-day moving averages of the overnight and one-month HIBORs is 0.14 per cent. The Base Rate is therefore set at 0.75 per cent according to the pre-set formula.