Record of discussion of meeting of Exchange Fund Advisory Committee Currency Board Sub-Committee held on January 11

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

(Approved for Issue by the Exchange Fund Advisory Committee on February 2, 2024)

Report on Currency Board Operations (October 18 – December 29, 2023)

The Currency Board Sub-Committee (Sub-Committee) noted that the Hong Kong dollar (HKD) traded within a range of 7.7906 – 7.8269 against the US dollar (USD) during the review period. The HKD exchange rate strengthened in November, mainly driven by buying flows on firmer HKD interest rates and net buying flows through the Southbound Stock Connect. HKD interbank rates continued to track the USD rates while also being affected by local supply and demand. The Convertibility Undertakings were not triggered and the Aggregate Balance was stable at around HK$45 billion. No abnormality was noted in the usage of the Discount Window. Overall, the HKD exchange and interbank markets continued to trade in a smooth and orderly manner.

The Sub-Committee noted that the Monetary Base increased to HK$1,895.86 billion at the end of the review period. In accordance with the Currency Board principles, all changes in the Monetary Base had been fully matched by changes in foreign reserves.

The Report on Currency Board Operations for the review period is at Annex.

Monitoring of Risks and Vulnerabilities

The Sub-Committee noted that market expectations of early interest rate cuts in 2024 had been bolstered by recent signs of cooling global growth and inflation, which underpinned rallies in major bond and equity markets in late 2023. However, there was a risk that financial markets might have discounted the "high for longer" scenario too soon given that services inflation in major advanced economies was still supported by tight labour markets that could render core inflation stickier than expected. Meanwhile, global commercial real estate (CRE) markets could face sustained headwinds, heaping pressure on banks with significant CRE exposures.

The Sub-Committee noted that economic recovery continued in Mainland China in Q4 2023, but the near-term economic outlook continued to face challenges. In response, the authorities strengthened fiscal policy support to bolster infrastructure investment, and vowed to satisfy the reasonable financing needs of property developers regardless of their ownerships. As for the Asia Pacific region, while foreign exchange depreciation and capital outflow pressures subsided in late 2023 along with the rising rate cut expectations in the US, headwinds such as weak external demand would continue to weigh on regional economies. Meanwhile, the rising non-bank financial intermediation (NBFI) in the region was worth close monitoring given the data gaps and opacity of the NBFI market.

The Sub-Committee noted that in Hong Kong, economic activities recovered steadily through the end of 2023 on the back of the continued revival of inbound tourism and consumption demand. Looking ahead, these two segments were expected to support the economy in 2024, but the growth outlook was subject to increased external uncertainties relating to the US policy rate path, dimmer global economic prospects, the recovery pace of the global tech cycle and the evolving geopolitical tensions. While the Government's relaxations of demand-side management measures in late October 2023 had bolstered housing market sentiment somewhat, the housing market as well as the commercial property market remained soft amid the high interest rate environment.