

Record of discussion of meeting of Exchange Fund Advisory Committee Currency Board Sub-Committee held on January 20

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

(Approved for issue by the Exchange Fund Advisory Committee by circulation)

Report on Currency Board Operations (October 12, 2019 – January 8, 2020)

The Sub-Committee noted that the Hong Kong dollar (HKD) exchange rate traded within a range of 7.7726 – 7.8452 against the United States dollar (USD) during the review period. The HKD had strengthened gradually since mid-October 2019 and gained further momentum in December, with the HKD exchange rate staying in the strong side of the Convertibility Zone. The strong demand for HKD was due mainly to initial public offerings and unwinding of short HKD positions near the year-end. As liquidity tightened during the review period, short-dated HKD interbank interest rates (HIBORs) broadly picked up, with overnight and 1-month HIBORs seeing larger fluctuations. Overall, the HKD exchange and interbank markets continued to trade in a smooth and orderly manner.

The Sub-Committee noted that the Aggregate Balance remained little changed at around HK\$54.4 billion, while the Monetary Base increased slightly to HK\$1,664.13 billion at the end of the review period.

The Sub-Committee further noted that, 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 period under review is at Annex.

Monitoring of Risks and Vulnerabilities

The Sub-Committee noted that in the United States, the Federal Reserve had signalled its intention to keep interest rates on hold, but trade and inflation developments would likely continue to cloud the monetary policy outlook.

The Sub-Committee noted that in Europe, growth momentum remained subdued. Future negotiations between the United Kingdom and the European Union on post-Brexit trade relations would likely remain a major source of

uncertainty to the European economy.

The Sub-Committee noted that in Mainland China, economic activities continued to soften, leading to a number of policy responses on both the monetary and fiscal fronts.

The Sub-Committee noted that in Hong Kong, after entering into a technical recession in the third quarter of 2019, the economy weakened further in the early part of the fourth quarter, with the unemployment rate facing stronger upward pressure ahead.

Scenario Analysis of the Hong Kong Economy

The Sub-Committee noted a scenario analysis of Hong Kong's economic growth and unemployment rate for 2020 under different scenarios.