

Record of discussion of meeting of Exchange Fund Advisory Committee Currency Board Sub-Committee held on July 5

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

(Approved for Issue by the Exchange Fund Advisory Committee on July 25, 2024)

Report on Currency Board Operations (April 25 – June 25, 2024)

The Currency Board Sub-Committee (Sub-Committee) noted that the Hong Kong dollar (HKD) traded within a range of 7.7987 – 7.8294 against the US dollar (USD) during the review period. The HKD exchange rate strengthened between late April and mid-May, supported by dividend-related funding demand and vibrant equity market activities, and then remained largely stable. 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\$1,917.51 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 asynchronous developments across advanced economies (AEs) on the growth and inflation fronts had driven a divergence in their central banks' recent policy actions. While the US Federal Reserve (the Fed) stayed put in June amidst sticky inflation and solid job growth, a number of AE central banks had started to lower rates. Looking ahead, the Fed's "high for longer" forward guidance might continue to fuel USD strength and weigh on the exchange rates of emerging market Asian economies while the still-elevated global interest rates could pose challenges to asset valuation and the private sector's credit quality.

The Sub-Committee noted that economic recovery in Mainland China remained uneven, with stronger external trade but sluggish domestic demand and property market activities. Market sentiment on the Mainland economy

improved somewhat after a more supportive policy tone from the April Politburo meeting, where the authorities pledged to reduce housing inventory, but the outlook remained challenging given the complicated geo-strategic environment.

The Sub-Committee noted that in Hong Kong, economic activities continued to expand in Q1 2024, underpinned by a notable increase in merchandise exports alongside the improvement in external demand and the upturn in the global technology cycle. Looking ahead, the domestic economy was expected to continue to recover at a moderate pace in 2024, but the growth outlook would face evolving risks and uncertainties relating to the US policy rate path, global economic prospects and geopolitical tensions. While residential market transactions had been active since the policy relaxations in late-February, market sentiment turned cautious in May amid increased new property launches at competitive prices and renewed uncertainty surrounding the US policy rate path. Meanwhile, the commercial real estate market remained subdued, especially in the office segment.