

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 26)

Report on Currency Board Operations (April 13 – June 23, 2022)

The Sub-Committee noted that the Hong Kong dollar (HKD) traded within a range of 7.8381 – 7.8500 against the US dollar (USD) during the review period. With the lacklustre performance of the local stock market and market concerns over the US monetary policy normalisation, the HKD softened further against the USD since late April. The weak-side Convertibility Undertaking (CU) was eventually triggered 14 times during the review period and the Hong Kong Monetary Authority bought HK\$104.28 billion under the weak-side CU. The Aggregate Balance and the Monetary Base fell correspondingly after the triggering of the weak-side CU. The HKD interbank interest rates generally increased during the review period due to expectation of further US rate hikes, but remained at low levels by historical standards. Overall, the HKD exchange and interbank markets continued to trade in a smooth and orderly manner.

The Sub-Committee noted that the Monetary Base decreased to HK\$2,046.93 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 global financial markets experienced sell-offs amid mounting global inflationary pressures and expectations of accelerated policy normalisation by major central banks. In the US, with inflation increasing to high levels and becoming more broad-based and persistent, there was a risk that the Federal Reserve's aggressive policy normalisation would adversely affect economic growth.

The Sub-Committee noted that, in Mainland China, the economy showed signs of bottoming out amid easing local infections, but factors such as the ongoing property market downturn could pose downward pressures on the

economy. As for the Asian region, with the pace of monetary policy normalisation expected to be slower than that in the US and the narrowing interest rate differentials vis-à-vis the USD, some economies might face potential fund outflows and interest rate snapbacks. Meanwhile, a slowdown in the Mainland economy could risk dragging growth in the region.

The Sub-Committee noted that in Hong Kong, economic activities generally picked up in Q2 amid the stabilised local infection situation and the disbursement of consumption vouchers. The unemployment rate also edged down in May, while the underlying inflation remained moderate given soft residential rentals. Alongside improved property market sentiment and more new launches, the housing market also turned more active in Q2 2022.

Credit Risk Assessment Using Deep Learning

â€‹The Sub-Committee noted a paper that illustrated how Deep Learning could be deployed to predict credit deterioration in the banking sector's corporate loan portfolio.