

Record of Discussion of Meeting of Exchange Fund Advisory Committee Currency Board Sub-Committee held on July 9

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

(Approved for Issue by the Exchange Fund Advisory Committee on August 3)

Report on Currency Board Operations (April 16 – June 28, 2021)

The Sub-Committee noted that the Hong Kong dollar (HKD) traded within a range of 7.7574 and 7.7699 against the US dollar during the review period. Despite some selling pressure from the repatriation of funds raised in initial public offerings and share placements, the HKD remained firm due to corporates' dividend payment needs and net inflows from the southbound Stock Connects. With the sizeable Aggregate Balance, HKD interbank interest rates (i.e. HIBORs) stayed at low levels during the review period. Overall, the HKD exchange and interbank markets continued to trade in a smooth and orderly manner.

The Sub-Committee noted that the Monetary Base edged up to HK\$2,112.44 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 corresponding 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 the global inflationary pressure had been on rise with the US seeing a relatively higher risk of high and persistent inflation, which could challenge the market's "low for even longer" expectations and lead to a premature tightening of global financial conditions. While some Asian economies registered positive growth in 2021 Q1 on the back of goods exports, economic conditions in the region remained weak especially in those tourism-dependent economies. As such, any financial tightening may further drag economic activity in the region.

The Sub-Committee further noted that in Mainland China, efforts continued to be made by policymakers to contain systemic financial risks. Meanwhile, China-US tensions remained a recurring issue.

The Sub-Committee noted that the Hong Kong economy grew visibly in 2021

Q1, driven by strong merchandise export performance. Economic activities would likely see further recovery for the rest of the year, although uncertainties surrounding the pandemic lingered. While the unemployment rate was likely to ease further alongside the economic recovery, the still-weak labour market as well as the limited upward pressure on rentals suggested that local inflationary pressures should stay mild going forward. As for the housing market, prices continued to rise amid positive market sentiments.

Assessing the Taper Tantrum Risk and its Impact on Hong Kong

The Sub-Committee noted a paper which assessed the taper tantrum risk and its impact on the Hong Kong economy through scenario analysis.