

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

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

(Approved for Issue by the Exchange Fund Advisory Committee on November 23, 2022)

Report on Currency Board Operations (June 24 – October 10, 2022)

The Currency Board Sub-Committee (Sub-Committee) noted that the Hong Kong dollar (HKD) traded within a range of 7.8359 – 7.8500 against the US dollar (USD) during the review period. Along with the increases in the target range for the US federal funds rate, the weak-side Convertibility Undertaking (CU) was triggered multiple times during the review period and the HKMA bought HK\$114.68 billion under the weak-side CU. The Aggregate Balance fell correspondingly to HK\$120.89 billion. The HKD interbank interest rates increased during the review period, with the 1-month HKD interbank rate rising to 2.40 per cent. Following the increase in the US federal funds target range in September, many banks raised their Best Lending Rates by 12.5 basis points, marking the first increase since 2018. 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\$1,926.05 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 as global inflation was likely to stay elevated given the high energy prices, persistent supply chain disruptions and tight labour markets, the US Federal Reserve (Fed) and other major central banks had frontloaded monetary tightening, fuelling the risks of a global slowdown. In the Euro Area, stagflation risks were particularly notable, while in the UK, the government's announcement of a debt-financed tax cut package had resulted in repricing of UK assets.

The Sub-Committee noted that the Mainland Chinese economy continued to

face downside risks to growth amid the still subdued property market and new COVID-19 outbreaks. In the Asian region, weakened demand from the US and other major economies could weigh on export growth, while any aggressive monetary tightening could undermine domestic demand.

The Sub-Committee noted that in Hong Kong, domestic economic activities had generally stabilised further stepping into Q3, with the rolling out of the Phase II Consumption Voucher Scheme. While worsened global economic prospects had continued to weigh on Hong Kong's merchandise exports, the recent adjustments to quarantine restrictions might help inbound tourism and exports of services. Meanwhile, the housing market had softened in Q3 as market sentiment turned more cautious amid rising interest rates.

A Monitoring Framework for Assessing Hong Kong Dollar Liquidity

The Sub-Committee noted a paper that proposed a monitoring framework for assessing HKD liquidity.