

Record of discussion of meeting of Exchange Fund Advisory Committee Currency Board Sub-Committee held on October 27

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 (June 24, 2023 – October 17, 2023)

The Currency Board Sub-Committee (Sub-Committee) noted that the Hong Kong dollar (HKD) traded within a range of 7.7940 – 7.8474 against the US dollar (USD) during the review period. The HKD exchange rate strengthened during late June to end of July, mainly reflecting seasonal corporate funding needs. The HKD softened in August alongside weak equity market activities and sentiments before rebounding since early September amid quarter-end seasonal demand and net buying flows through Southbound Stock Connect. Amid market expectation of a "high for longer" US policy rate, HKD interbank rates continued to track the USD rates while also affected by local supply and demand. Following the increase in the target range for the US federal funds rate in July, many banks raised their Best Lending Rates by 12.5 basis points, and the Best Lending Rates in the market ranged from 5.875 per cent – 6.375 per cent at the end of the review period. The Convertibility Undertakings were not triggered and the Aggregate Balance was little changed at around HK\$45.05 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\$1,872.80 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 the US Federal Reserve was expected to maintain a "high for longer" interest rate profile amid a more-resilient-than-expected economy and the attendant upside risks to inflation, which could pose challenges to leveraged sectors and asset valuations. In Asia Pacific, regional economies continued to face a myriad of challenges from

weak external demand and high indebtedness, while foreign exchange depreciation and fund outflow pressures arising from the widening interest rate differentials vis-à-vis the US might constrain the degree of any monetary policy easing.

The Sub-Committee noted that Mainland China's real GDP growth saw a faster sequential momentum in Q3 2023 after the authorities strengthened policy support to shore up market confidence and stabilise the economy. Nevertheless, Mainland China's economic outlook continued to face headwinds from a challenging external environment and a weak property market.

The Sub-Committee noted that the Hong Kong economy was expected to recover further for the rest of 2023, with inbound tourism and consumption demand being the major growth drivers. Meanwhile, the housing market softened further stepping into Q3 2023 as market sentiment turned more cautious amid rising interest rates and continuous launch of new projects by property developers with discounts.

Recent movements in the Hong Kong dollar interest rates

The Sub-Committee noted a paper that studied the recent movements in the Hong Kong dollar interest rates.