

Record of discussion of meeting of Exchange Fund Advisory Committee Currency Board Sub-Committee held on October 30

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

(Approved for Issue by the Exchange Fund Advisory Committee on November 29, 2024)

Report on Currency Board Operations (June 26 – October 18, 2024)

The Currency Board Sub-Committee (Sub-Committee) noted that the Hong Kong dollar (HKD) traded within a range of 7.7644 – 7.8146 against the US dollar (USD) during the review period. The HKD exchange rate was largely stable between late June and late July before strengthening in early August, driven by the unwinding of carry trades and short HKD positions against the concerns of a possible US recession and expectation of faster and deeper US Fed rate cuts. The HKD further strengthened, supported by equity-related demand as local stock market sentiment improved following a series of economic stimulus measures announced on the Mainland in late September. HKD interbank rates (HIBORs) continued to track the USD rates while also being affected by local supply and demand. Short-term HIBORs tightened in late September due to buoyant equity market and seasonal quarter-end funding demand. In view of the pick-up of payment flows as the capital market turned vibrant, the HKMA temporarily extended the operating hours of the Real Time Gross Settlement (RTGS) systems for several days as precautionary measures, allowing more time for banks to process payments and manage funding for client flows in late hours. Following the decrease in the target range for the US federal funds rate in mid-September, many banks reduced their Best Lending Rates by 25 basis points, and the Best Lending Rates in the market ranged from 5.625 per cent – 6.125 per cent at the end of the review period. 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\$1,938.33 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 a bout of volatility in early August, triggered by concerns over recession risks in the US and an unwinding of the popular carry trades funded by the Japanese yen. While short-lived, the turmoil showed that crowded market positions could be vulnerable to sudden unwinding. Amid more visible signs of cooling labour markets, the Fed and the European Central Bank eased monetary policy and left the door open to more rate cuts ahead, but their interest rate outlook remained clouded by the sluggish services disinflation and recent rising geopolitical tensions in the Middle East.

The Sub-Committee noted that overall economic growth in Mainland China slowed to 4.6 per cent year on year in Q3. In particular, housing market activities and sentiment remained sluggish in September despite destocking efforts, which together with heightened global trade policy uncertainty, had weighed on the near-term economic growth outlook. Since late September, the authorities announced a broad stimulus package, and the immediate impact was largely positive. The Asia Pacific region mostly registered solid growth in the first half of 2024 and remained stable in face of the market turmoil in August with little signs of financial dislocation. The region as a whole was expected to continue to grow at a steady pace in the near term, although the region's resilience would likely continue to be tested by various headwinds, such as still-high global interest rates and elevated trade policy uncertainty in the near term, as well as geoeconomic fragmentation over the longer term.

The Sub-Committee noted that in Hong Kong, economic activities continued to grow at a moderate pace, mainly driven by the strong growth in goods exports alongside robust external demand and the ongoing global tech cycle recovery. Inbound tourism also recovered steadily, but the local retail and catering sectors continued to face headwinds from changing consumption patterns of both local residents and inbound tourists. Looking ahead, Hong Kong's Gross Domestic Product growth momentum was expected to remain moderate in the remainder of the year, with the outlook clouded by various risks and uncertainties stemming from the US policy rate path, global growth prospects, rising trade tensions and the upcoming US presidential election. Meanwhile, sentiment in the residential property market had improved following the interest rate cut, although the commercial real estate markets remained subdued especially in the office segment.

Latest Monetary Policy Implementation Framework in Major Advanced Economies

The Sub-Committee noted a paper that studied the implications of the changes in the monetary policy implementation framework and reserve regimes in major advanced economies.