

# Record of Discussion of the Meeting of the Exchange Fund Advisory Committee Currency Board Sub-Committee held on April 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 (January 1 – April 15, 2021)

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The Sub-Committee noted that the Hong Kong dollar (HKD) traded within a range of 7.7512 – 7.7848 against the US dollar during the review period. The HKD stayed firm and traded close to the strong-side Convertibility Undertaking in January and February, mainly driven by equity-related demand arising from fund-raising activities and the southbound Stock Connect. Since March, the HKD softened slightly along with the stock market correction, and as a result of the lower southbound buying flows and the repatriation of initial public offering proceeds by some newly-listed companies. With the sizeable Aggregate Balance, HKD interbank interest rates (i.e. HIBORs) stayed at a low level throughout 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 increased to HK\$2,107.09 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

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The Sub-Committee noted that longer-term US Treasury yields had picked up notably since late January along with the vaccine rollout and the additional fiscal stimulus, triggering global yield rises, market sell-offs, and reduced fund inflows into emerging markets Asia. Nevertheless, asset valuations remained stretched, and were susceptible to any adverse pandemic development, premature tightening of global financial conditions amid continued concerns over US inflation, as well as renewed increase in China-US tensions.

The Sub-Committee further noted that with the global economy gradually returning to normalcy, policymakers continued to face the difficult policy questions of phasing their exits from supportive measures and addressing

long-term scarring effects of the pandemic. In the Mainland China, the policy focus had shifted to containing systemic risks, and there were more defaults of weak corporates in recent quarters.

The Sub-Committee noted that the Hong Kong economy saw some improvement in the fourth quarter of 2020 and early 2021. For 2021 as a whole, real Gross Domestic Product (GDP) was expected to resume positive growth. However, as widespread vaccination took time, the economy still faced considerable challenges in the early part of 2021. The labour market would remain under pressure in the near term, while inflationary pressures were expected to stay muted. Meanwhile, housing prices and transactions picked up in March and early April.

#### Implications of the US Dollar Depreciation on Hong Kong

The Sub-Committee noted a paper which examined the implications of USD depreciation on the Hong Kong economy through scenario analysis. The paper found that USD depreciation could affect Hong Kong's real GDP and inflation through trade, financial and risk channels. The overall impact would depend on the extent and nature of the USD depreciation.