

Record of Discussion of the Meeting of the Exchange Fund Advisory Committee Currency Board Sub-Committee held on January 13

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

(Approved for Issue by the Exchange Fund Advisory Committee on January 29)

Report on Currency Board Operations (October 14 – December 31 2020)

The Sub-Committee noted that the Hong Kong dollar (HKD) exchange rate remained firm and traded within a narrow range of 7.7500 – 7.7544 against the US dollar during the review period. The strong-side Convertibility Undertaking was triggered 20 times from October 14 to October 28. This was underpinned by equity-related demand including the southbound Stock Connect and initial public offering (IPO) activities. Along with the expansion of the Aggregate Balance to HK\$457.47 billion, the short-term HKD interbank interest rates remained soft throughout the review period, with occasional pickups driven by IPO funding demand. Overall, the HKD exchange and interbank markets continued to operate in a smooth and orderly manner.

The Sub-Committee noted that the Monetary Base increased to HK\$2,099.31 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 global equity markets reached new highs as COVID-19 vaccine breakthroughs, greater clarity in the US presidential election results, and a new round of US fiscal stimulus fuelled investors' risk appetite despite the concern over virus mutation. Nevertheless, the rampant spread of COVID-19 continued to weigh on the near-term economic outlook in the EU and the US. The persistent disconnect of financial markets from the real economy could make financial markets more susceptible to volatility. Moreover, geopolitical risks would continue to overshadow financial markets.

The Sub-Committee further noted that global policymakers continue to face the difficult task of timing and tailoring exit from the massive anti-

epidemic support measures. At the same time, policymakers need to be mindful of the longer-term costs, such as rising government debts and delaying the necessary resource reallocation in the post-COVID world.

The Sub-Committee noted that Hong Kong's economy picked up sequentially in the third quarter of 2020. However, downside risks to economic growth intensified amid the fourth wave of local infections, as well as the tightening of social distancing measures and travel restrictions. Against the backdrop of a still weak economic environment, the labour market would remain under pressure, while inflationary pressures should stay mild in the near term. As for the housing market, activity had shown signs of softening since late November.

An Assessment of Inflation-at-Risk in the US

The Sub-Committee noted a paper which examined tail risks to US inflation using the "Inflation at Risk" methodology. The paper underscored the importance of keeping inflation anchored and served as a reminder of the potential stagflationary impact of de-globalisation.