

Record of Discussion of the Meeting of the Exchange Fund Advisory Committee Currency Board Sub-Committee held on July14

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

(Approved for Issue by the Exchange Fund Advisory Committee on July 30)

Report on Currency Board Operations (April 17 – July 2, 2020)

The Sub-Committee noted that the Hong Kong dollar (HKD) exchange rate traded close to the strong-side Convertibility Undertaking (CU), moving within a range of 7.7500 – 7.7571 against the US dollar (USD), during the review period. The strong-side CU was triggered 21 times between April 21 and June 24, with accumulated inflows of HK\$57.6 billion. This was underpinned by equity-related demand, including initial public offering activities, southbound Stock Connect, and dividend payments. With the Aggregate Balance expanding to HK\$131.61 billion, HKD interbank interest rates generally softened. 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\$1,748.31 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 changes in foreign reserves.

The Report on Currency Board Operations for the period under review is at Annex.

Monitoring of Risks and Vulnerabilities

The Sub-Committee noted that global equity markets had recouped most of their first-quarter losses, supported by increased optimism of a rebound in economic activities and extensive fiscal and monetary stimulus globally. Nevertheless, questions over fiscal and monetary policy leeway would likely persist, while side-effects arising from the unprecedented stimulus on inflation, financial stability and fiscal sustainability remained to be seen. Global economic outlook was also clouded by risks of new waves of COVID-19 and geopolitical developments.

The Sub-Committee noted that concerted liquidity and credit easing measures by global central banks had helped stabilise global funding markets. However, the surge in global corporate bond issuance had deepened concerns over debt service capability amid declining business revenues.

The Sub-Committee noted that in Hong Kong, economic activities remained weak in the second quarter and the unemployment rate would likely rise further. The HKMA had taken a three-pronged approach to bolster the banking sector in supporting the real economy. Meanwhile, housing transactions picked up in May and June alongside more new project sales and improved market sentiments.

A Conceptual Framework for Understanding Cross-Border Fund Flows

The Sub-Committee noted a study that laid out a conceptual framework for understanding cross-border fund flows.