

Record of Discussion of the Meeting of the Exchange Fund Advisory Committee Currency Board Sub-Committee held on June 28

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

(Approved for issue by the Exchange Fund Advisory Committee on July 17)

Report on the Currency Board Operations (April 17 – June 14)

The Sub-Committee noted that during the review period, the Hong Kong dollar (HKD) traded within a range of 7.8427 – 7.8500 against the US dollar (USD). Since the first triggering on April 12, the weak-side Convertibility Undertaking (CU) was triggered 19 times and the Hong Kong Monetary Authority bought HK\$70.4 billion under the weak-side CU. The Aggregate Balance and the Monetary Base fell correspondingly after the multiple triggering of the weak-side CU, with the Monetary Base declining to HK\$1,643.77 billion at the end of the review period. The HKD firmed again towards the end of the review period, in part underpinned by seasonal demand for the HKD (e.g. corporate demand for dividend payments) and interbank demand in preparation for sizable initial public offering (IPO) activities.

The Sub-Committee noted that largely reflecting IPO-related demand, reduced interbank liquidity following triggering of the weak-side CU, expectation of US rate hikes and seasonal liquidity demand, HKD interbank interest rates picked up across the curve during the review period.

The Sub-Committee further noted that, 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 the Annex.

Monitoring of Risks and Vulnerabilities

The Sub-Committee noted that in the US, although solid growth performance led the Federal Reserve Board (Fed) members to suggest a Dot Plot Median Forecast of four rate hikes in 2018, the Fed might need to weigh between rising inflationary pressures and downside risks to growth from trade conflicts further down the road.

The Sub-Committee noted that the US dollar strengthening and escalating

trade tensions had put pressure on capital outflows from emerging market economies, and might weigh on their growth outlook.

The Sub-Committee noted that in Mainland China, domestic demand showed signs of moderation but investment in high-value added manufacturing sectors remained solid. Rising trade tensions and signs of slower growth would pose challenges for Mainland authorities to calibrate policies to strike a balance between reducing financial risks and achieving stable growth.

The Sub-Committee noted that in Hong Kong, economic growth accelerated in the first quarter and the growth momentum was expected to remain solid albeit at a slightly slower pace. The sanguine outlook was against the background of heightened uncertainties, particularly from the threat of trade tensions.

Interest Rate Sensitivity of Hong Kong Dollar Money Demand

The Sub-Committee noted a study which examined the lower interest rate sensitivity of HKD money demand since the global financial crisis.