

Record of Discussion of the Meeting of the Exchange Fund Advisory Committee Currency Board Sub-Committee held on October 23

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

(Approved for Issue by the Exchange Fund Advisory Committee on November 27)

Report on Currency Board Operations (July 3 – October 13, 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 narrow range of 7.7500 – 7.7535 against the US dollar (USD), during the review period. The strong-side CU was triggered 44 times between July 6 and October 13, primarily driven by equity-related demand including initial public offering (IPO) activities, the southbound Stock Connect and dividend payments. With the Aggregate Balance expanded to HK\$280.15 billion, the short-term HKD interbank interest rates remained low. Overall, the HKD exchange and interbank markets continued to trade in a smooth and orderly manner.

The Sub-Committee noted that the Monetary Base rose to HK\$1,931.40 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 equity markets reached historical highs in early September amid accommodative policy responses, investor optimism, and rally in technology stocks. Nevertheless, the prolonged loose monetary policy worldwide could exacerbate financial imbalance. Meanwhile, resurging COVID-19 infections could weigh on the nascent recovery, especially for Europe and the US, while heightened geo-political risks could lead to increased market volatilities. A surge in corporate bond issuance globally also warranted close monitoring.

The Sub-Committee noted that global policymakers were facing the difficult task of timing and tailoring their exit from the massive anti-pandemic support measures. On the one hand, a premature withdrawal of policy support could undermine economic recovery. On the other hand, a sustained

policy support could lead to concerns about fiscal sustainability and hinder the post-COVID economic restructuring.

The Sub-Committee noted that in Hong Kong, economic activities remained weak in the early part of the third quarter amid the third wave of local infections. The labour market would stay under pressure and inflation might moderate further in the near term. Meanwhile, the housing market activities had picked up slightly in September with gradually stabilising local infection situation.

Understanding Hong Kong's Interbank Market

The Sub-Committee noted a paper that examined the underlying factors behind the occasional spikes in HKD Interbank Offered Rates. The paper found that the interbank market had continued to operate in an orderly manner.