

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 29)

Report on Currency Board Operations (June 26 – October 11, 2019)

The Sub-Committee noted that the Hong Kong dollar (HKD) exchange rate traded within a range of 7.7886 – 7.8465 against the US dollar (USD) during the review period. The HKD strengthened in late June and early July, mainly driven by the funding demands arising from sizable initial public offering activities, dividend payouts by listed companies in Hong Kong and half-year closing. The HKD eased gradually after the half-year end as these factors faded, before strengthening moderately again in mid-September amid tightening of liquidity. During the review period, the longer-dated HKD interbank interest rates were relatively stable, while the shorter-dated rates broadly declined. Overall, the HKD exchange and interbank markets continued to trade in a smooth and orderly manner.

The Sub-Committee noted that the Aggregate Balance was little changed at around HK\$54.4 billion, while the Monetary Base increased slightly to HK\$1,653.8 billion at the end of 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 Annex.

Monitoring of Risks and Vulnerabilities

The Sub-Committee noted that in the US, the ebb and flow of US-China trade disputes continued to pose uncertainties to the global economy, while the monetary policy outlook remained fluid as the Federal Reserve weighed still-solid economic momentum and firming inflation against downside risks.

The Sub-Committee noted that in Europe, lingering trade and political uncertainty would likely continue to weigh on the region's economic outlook. The chronically weak inflation outlook had led the European Central Bank into

more unconventional monetary easing.

The Sub-Committee noted that in Mainland China, growth outlook appeared to gravitate towards the lower end of the Government target range, which had led to a number of policy responses on both the monetary and fiscal fronts.

The Sub-Committee noted that in Hong Kong, the economy faced downside risks amid external headwinds and recent social incidents domestically. The labour market had been solid although it could face more challenges ahead, while the housing market had shown some early signs of softening over the past several months.

The Impact of Future Initial Public Offerings (IPOs) on Hong Kong Interbank Offered Rates (HIBORs)

The Sub-Committee noted a study which used textual analysis to assess the impact of future IPOs on medium-term interest rates. The study provided empirical support that news on future IPOs had an impact on medium-term HIBORs and shed light on market participants' evolving liquidity management practices.