

# The HKMA's Response to US Fed's Rate Cut

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

The Federal Open Market Committee of the United States Federal Reserve announced last night (March 15, US time) to adjust downward the target range for the US federal funds rate by 100 basis points to 0-0.25 per cent. In light of the Fed's decision, the Hong Kong Monetary Authority (HKMA) also adjusted downward the Base Rate today (March 16). The Base Rate is set at 0.86 per cent today according to a pre-set formula[1].

The Chief Executive of the HKMA, Mr Eddie Yue said, "Following its rate cut on March 3, the Fed further reduced the interest rate outside its scheduled meetings and also announced a series of other measures last night, including increasing its debt securities holdings, in order to support market operations and encourage banks to provide credits to mitigate risks posed by coronavirus to the US economy. In fact, following the US rate cut on March 3, global central banks and fiscal authorities have lowered interest rates and rolled out other measures. These actions together with the Fed's latest decisions show that they are proactive in using various policy tools to mitigate the relevant risks.

The spread of coronavirus has caused big adjustments in global financial markets. Likewise, Hong Kong's stock market has also seen huge volatilities. But our markets have continued to operate in an orderly manner. Hong Kong dollar exchange and interest rates have been largely stable, and our banking system remained robust with strong capital and liquidity buffers. On interest rates, Hong Kong interbank rates would likely follow the downward trend of their US counterparts, but the actual adjustment would still depend on factors such as funding demand and supply, and different tenors of interbank rates may also see different degree of adjustments. The retail deposit and lending rates would however be subject to commercial considerations of individual banks.

The global financial markets are facing a very challenging environment. The HKMA will continue to remain vigilant and closely monitor the markets in collaboration with other regulators. We will also maintain currency stability in Hong Kong in accordance with the Linked Exchange Rate System. As the markets will continue to go through significant ups and downs, I would like to remind investors to assess and manage risks carefully before taking any investment decision."

[1] The Base Rate is set at either 50 basis points above the lower end of the prevailing target range for the US federal funds rate or the average of the five-day moving averages of the overnight and one-month Hong Kong Interbank Offered Rates (HIBORs), whichever is the higher. Following the 100-basis point downward adjustment in the target range for the US federal funds rate

on March 15 (US time), 50 basis points above the lower end of the prevailing target range for the US federal funds rate is 0.5 per cent, while the average of the five-day moving averages of the overnight and one-month HIBORs is 0.86 per cent. The Base Rate is therefore set at 0.86 per cent according to the pre-set formula.