

Weak-side CU under Linked Exchange Rate System triggered again

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

The weak-side Convertibility Undertaking (CU) of HK\$7.85 to US\$1 under the Linked Exchange Rate system (LERS) was triggered this morning (August 15) during the New York trading hours. The HKMA sold US dollars (USD) for Hong Kong dollars (HKD) of HK\$2.16 billion. The Aggregate Balance will reduce by the corresponding amount to HK\$107.2 billion on August 16.

On the latest market operations, the Deputy Chief Executive of the HKMA, Mr Howard Lee, said, "Since the normalisation of USD interest rates began at the end of 2015, the US Fed has already raised interest rates seven times. The resultant widening of interest rate gaps between HKD and USD has attracted carry trade activities and prompted funds to flow gradually from HKD to USD. The weak-side CU was triggered in April and May this year, whereby the HKMA bought HK\$70.35 billion from the market. Subsequently amid a decline in the banking sector's Aggregate Balance, HKD interest rates rose gradually to higher levels, reducing the incentive for funds flowing out from HKD in the past two or three months. Lately, as the demand for HKD funding softened following completion of a few large scale Initial Public Offerings (IPOs), interest rate gaps between HKD and USD widened again. Also coupled with other factors including the repatriation of funds raised in IPOs earlier, HKD turned weaker and the weak-side CU was triggered again. But I wish to reiterate that, when the weak-side CU is triggered, the HKMA will buy HKD and sell USD at 7.85 and ensure that HKD will not weaken beyond 7.8500 in the interbank market. Such operations are normal and in accordance with the design of the LERS."

"The resilience of banks and financial system in Hong Kong has been greatly enhanced since the Asian Financial Crisis. The Exchange Fund of Hong Kong holds over HK\$4 trillion worth of assets, more than 80 per cent of which being foreign exchange reserves, providing powerful defence for our financial stability. Besides, the HKD Monetary Base amounted to over HK\$1.6 trillion and banks held more than HK\$4 trillion of highly liquid assets at the end of 2017, providing a strong buffer in the event of fund outflows. In the past years, the HKMA has also enhanced the robustness of the local banking sector through many counter-cyclical and other regulatory measures. Hong Kong is well prepared to meet challenges from potential asset market volatilities and fund outflows. We remind everyone again to manage interest rate and market risks prudently. The weak-side CU may be triggered again in the future depending on capital flows. The HKMA is fully capable of maintaining the stability of the HKD exchange rate and managing large-scale capital flows. We will also closely monitor developments in the markets and external environment to ensure that the LERS operates effectively," he added.