

Hong Kong Monetary Authority
Online Drama “STEPS”

Episode 3

- SUPER: STEPS Episode 3
- Female Colleague: It seems you're pretty good in asking girls out
It's been a week, how's your work going?
- Male Colleague: It was a bit of a challenge asking you out, the rest is okay
- Male Colleague: The HKMA bought US dollars
It must have been the HKMA honouring the Convertibility Undertaking
under the Linked Exchange Rate System
to buy US dollars and stabilise the exchange rate
- Female Colleague: Sounds like you do know a thing or two
But do you know that Convertibility Undertakings
comprise strong-side and weak-side?
- Female Colleague: To maintain monetary stability
the HKMA provides Convertibility Undertakings to banks
committing to conducting Hong Kong dollar foreign exchange transactions
with them at HK\$7.75 or HK\$7.85 per US dollar
which are the strong-side and weak-side
Convertibility Undertakings respectively
- Male Colleague: Just like this cup of milk tea?
The proportion of tea and milk has to be appropriate
to make the milk tea perfect
- Female Colleague: It seems you're not so sure after all
Here's an example
If lots of people in the market buy Hong Kong dollars and sell US dollars
the Hong Kong dollar will strengthen and the US dollar will weaken
The market exchange rate will eventually trigger
the strong-side Convertibility Undertaking of 7.75
- Male Colleague: There's tea, but not enough milk
What happens next?
- Female Colleague: That's the cue for the milk tea master
- Female Colleague: When the Hong Kong dollar strengthens
the HKMA will respond to banks' requests
buying US dollars and selling Hong Kong dollars
And when the Hong Kong dollar weakens
triggering the weak-side Convertibility Undertaking of 7.85

the HKMA will sell US dollars and buy Hong Kong dollars
stabilising the Hong Kong dollar exchange rate

Male Colleague: It really tastes much better now
But how does the HKMA do it?

Female Colleague: How is this done?
Of course the operation of the Linked Exchange Rate System
is much more complex than that
It has something to do with the relationship
between Hong Kong and the US dollar interest rates
And we have hundreds of billions of US dollar
foreign reserves to back us up
which makes it all possible

Male Colleague: Wow! Hundreds of billions cups of milk and tea
No no, I mean foreign reserves
No wonder the Hong Kong dollar exchange rate
can remain stable despite of market fluctuations

Female Colleague: Alright, it's about time to get back to work

Male Colleague: Wait
I still have some more questions
Wait
Wait
I still have some more questions
Hey

SUPER: To be continued...

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