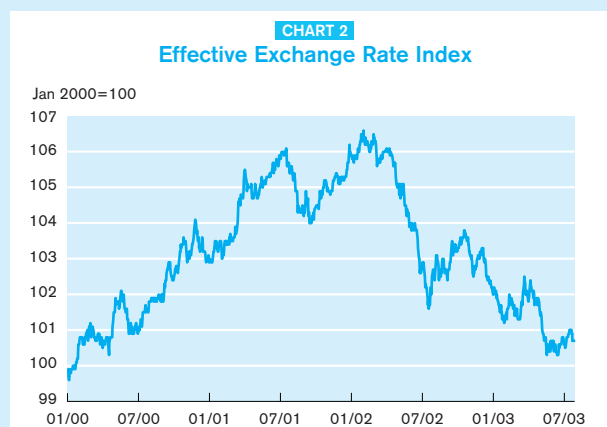
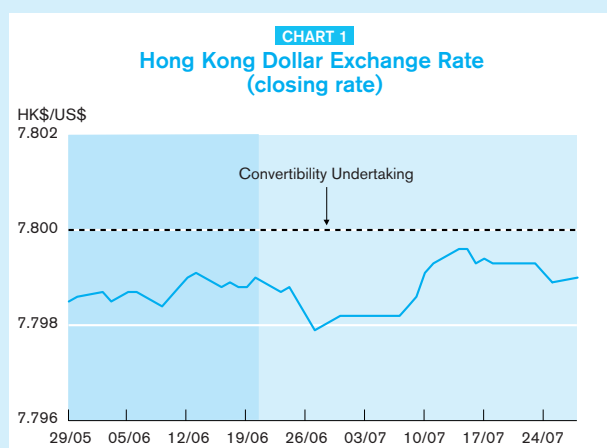


Report on Currency Board Operations (21 June – 28 July 2003)

The Hong Kong dollar remained stable during the reporting period, despite the political uncertainty arising from the resignation of Principal Officials. Interbank interest rates increased modestly, correcting for the earlier pricing-in of a rate-cut of over 25 bp in the US. Meanwhile, their spreads against the US dollar counterparts firmed slightly. The Monetary Base rose marginally from HK\$252.16 billion to HK\$252.59 billion, attributable to a rise in the outstanding amount of Certificates of Indebtedness. In accordance with Currency Board principles, changes in the Monetary Base were fully matched by corresponding changes in foreign reserves.

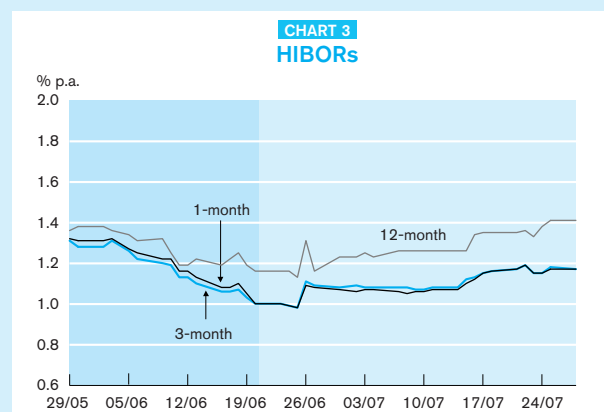
Hong Kong Dollar Exchange Rate

Notwithstanding the political uncertainty arising from the recent resignations of the Financial Secretary and Secretary for Security, **the Hong Kong dollar exchange rate remained stable within the range between 7.7979 and 7.7996** during the reporting period (Charts 1 and 2).

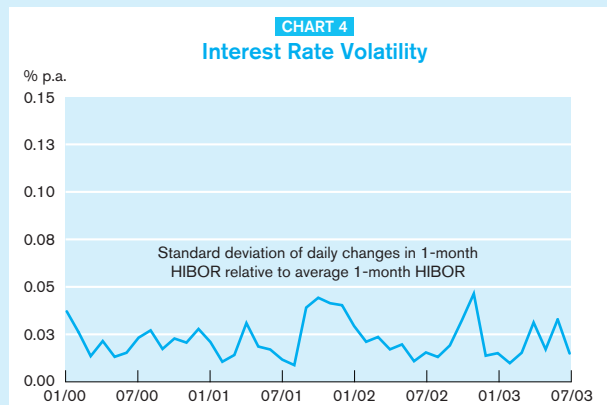


Interest Rates

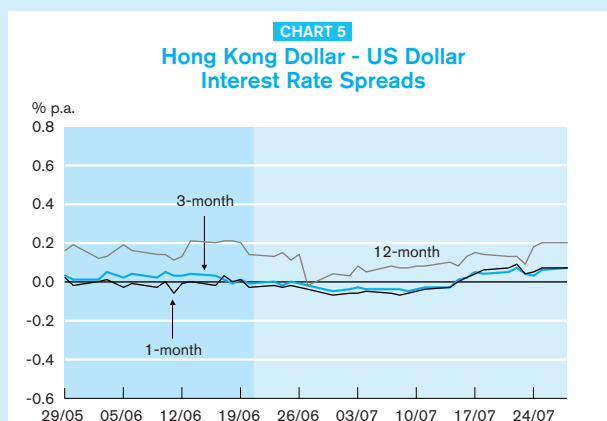
Except for the overnight rate, **Hong Kong dollar interest rates generally firmed** during the reporting period for two main reasons. First, the market corrected for its earlier pricing-in of a rate-cut in excess of 25 bp by the Fed. Secondly, the spreads over their US dollar counterparts widened, reflecting in part the increased political uncertainty. Both the 1-month and 3-month HIBORs increased by 17 bp to close at 1.17%. Similarly, the 12-month HIBOR rose by 25 bp to 1.41% (Chart 3).



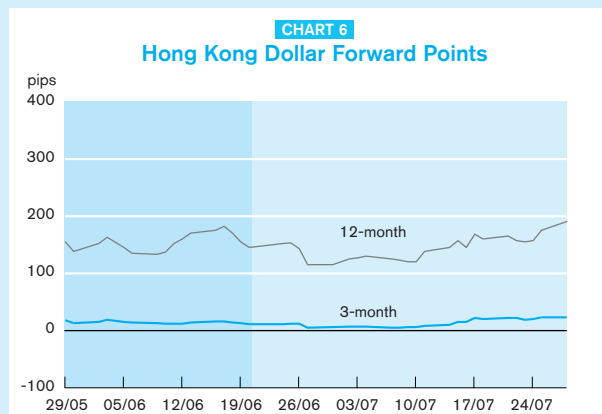
Interest rate volatility, as measured by the ratio of standard deviation of daily changes in the 1-month HIBOR to its average, **declined moderately** (Chart 4).¹



Spreads of Hong Kong dollar interbank interest rates over their US dollar counterparts declined during the first part of the reporting period owing in part to the publication of an exchange of letters between the Financial Secretary and the HKMA, formally specifying the monetary policy objective and the structure of the monetary system of Hong Kong. Nonetheless, the increased political uncertainty, the resignation of the Financial Secretary, and rumours of softened support from the IMF for the Linked Exchange Rate system led to a widening of the interest rate differentials in the latter part of the period. **During the period, the 1-month and 3-month spreads increased by 9 bp and 7 bp respectively and both closed at 7 bp. The 12-month spread also rose by 7 bp to close at 20 bp** (Chart 5).



Mirroring the movements in interest rate spreads, the Hong Kong dollar 3-month forward premium narrowed during the early part of the reporting period before increasing to close at 23 pips. Similarly, **the 12-month forward points eased to a recent low of 115 pips by end June and subsequently rose to 190 pips at the end of the period** (Chart 6).



Yields on Exchange Fund paper increased across all maturities during the period, largely reflecting the movements of the US Treasury yield curve (Chart 7). The yield differential of 5-year and 10-year paper over the US counterparts narrowed by 9 bp and 7 bp, to 18 bp and 34 bp respectively (Table 1).

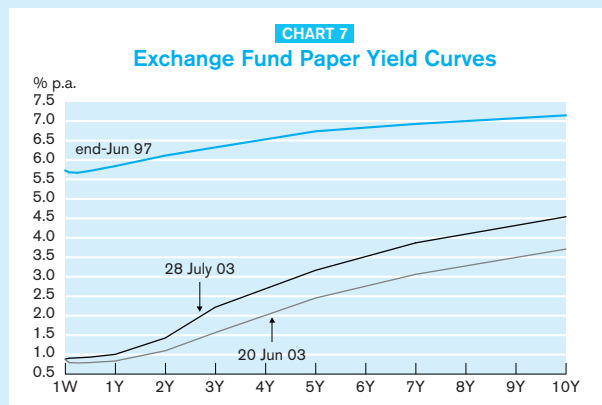
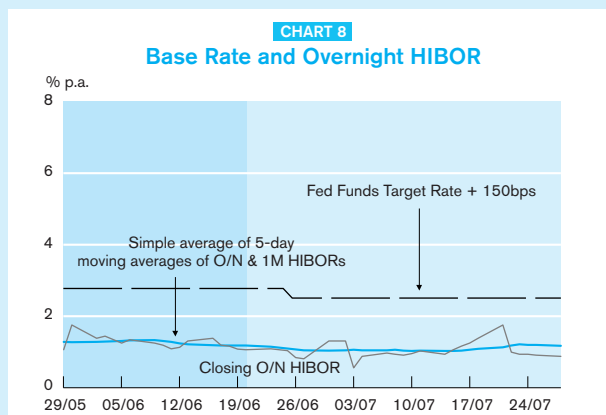


TABLE 1
Yield Spreads of Exchange Fund Paper over US Treasuries (basis points)

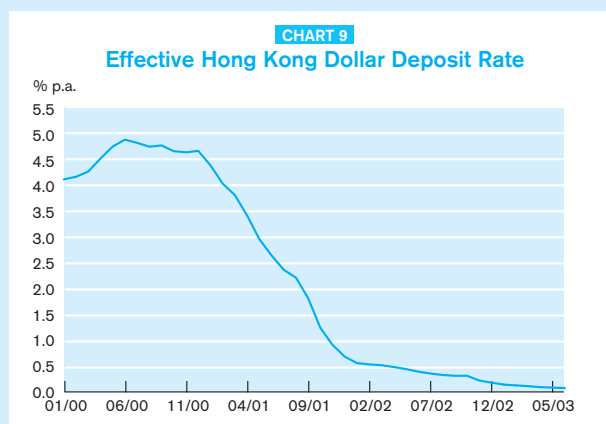
	27 Jun 97	20 June 03	28 July 03
3-month	56	5	3
1-year	21	3	2
3-year	3	16	28
5-year	27	27	18
10-year	54	41	34

¹ The ratio of the standard deviation of daily changes in the 1-month HIBOR to its monthly average measures the extent of interest rate fluctuations relative to the average level of interest rates, which may vary over time.

Following the 25 bp cut in the US Fed Funds Target Rate on 25 June, the **Base Rate was adjusted downward to 2.50% on 26 June** in accordance with the established formula (Chart 8). Nevertheless, **major banks kept their Best Lending Rate unchanged at 5%**.



The average rate offered by major authorized institutions for 1-month time deposits remained unchanged at 0.08% during the period.² Meanwhile, the effective deposit rate declined slightly in June 2003 (Chart 9).³



² The figures refer to the average of interest rates offered by the major authorized institutions for one-month time deposits of less than HK\$100,000.

³ This is the average of the interest rates on demand, savings and time deposits. As the banking statistics classify deposits by remaining maturities, we have used certain assumptions regarding the maturity distribution to compute the effective deposit rate.

Monetary Base

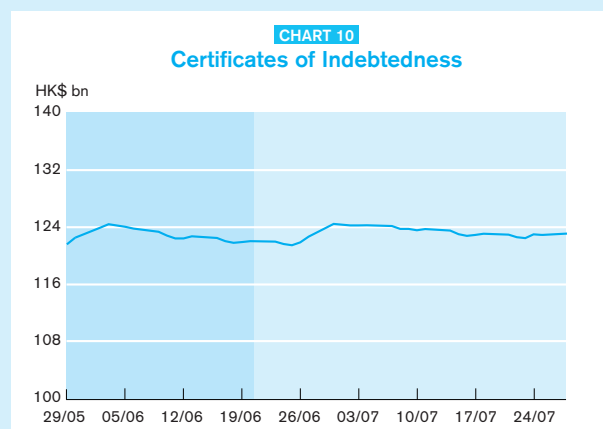
The **Monetary Base**, which comprises Certificates of Indebtedness (CIs), Government-issued currency notes and coins in circulation, the Aggregate Balance, and Exchange Fund Bills and Notes, **increased marginally from HK\$252.16 billion to HK\$252.59 billion during the reporting period** (Table 2). Movements in individual components are discussed below.

TABLE 2
Monetary Base

(HK\$ bn)	23 June 03	28 July 03
CIs	121.88	123.01
Government-issued Currency Notes and Coins in Circulation	6.35	6.29
Aggregate Balance	0.67	0.52
Outstanding EFBNs	123.26	122.78
Monetary Base	252.16	252.59

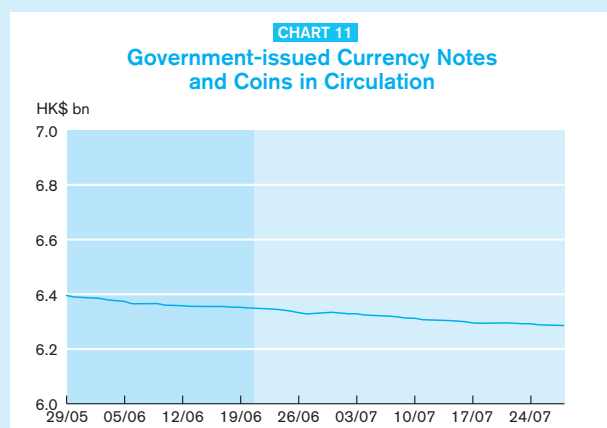
Certificates of Indebtedness

During the period, the three note-issuing banks submitted to the HKMA a total of US\$0.14 billion in exchange for HK\$1.13 billion worth of CIs. As a result, the **outstanding amount of CIs increased modestly from HK\$121.88 billion to HK\$123.01 billion** (Chart 10).



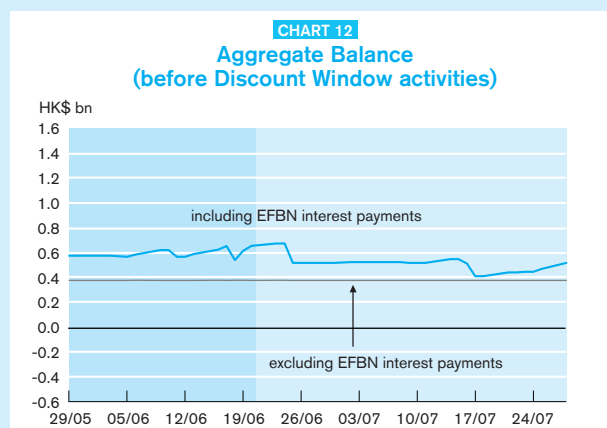
Government-issued currency notes and coins in circulation

The total amount of **Government-issued currency notes and coins in circulation decreased slightly** from HK\$6.35 billion to HK\$6.29 billion during the period (Chart 11), driven mainly by the decline in coins.



Aggregate Balance

The **Aggregate Balance remained stable** at around HK\$0.51 billion during the period, with small fluctuations reflecting interest payments on Exchange Fund paper (Chart 12).

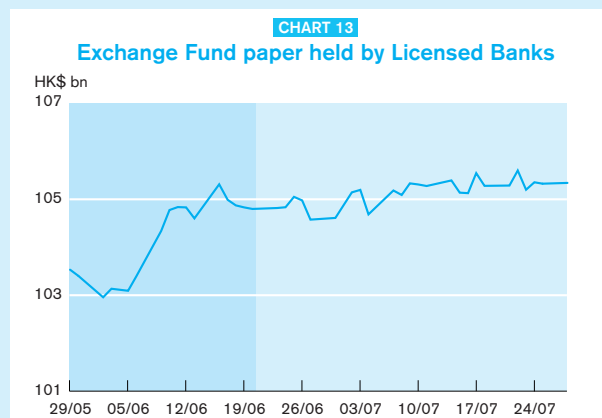


Outstanding Exchange Fund Bills and Notes

The market value of outstanding Exchange Fund paper decreased slightly from HK\$123.26 billion to **HK\$122.78 billion**. All issues of Exchange Fund Bills and Notes were well received by the market (Table 3). **Holdings of Exchange Fund paper by the banking sector (before Discount Window activity) increased** from HK\$104.80 billion (85.03% of total) to HK\$105.33 billion (85.78% of total) during the period (Chart 13).

TABLE 3
Issuance of Exchange Fund Bills and Notes (21 June – 28 July 03)

	No. of issues launched	Over-subscription ratio
3-month EFB	5	6.01 - 8.44
6-month EFB	3	7.73 - 9.05
1-year EFB	1	8.63
3-year EFN	1	3.33



During the period, **interest payments of HK\$0.15 billion were made on Exchange Fund paper**. Taking into account interest payments carried forward from the last reporting period, **an additional HK\$0.29 billion (in market value) of Exchange Fund paper was issued to absorb these interest payments**.

Discount Window Activity

For the period as a whole, **15 banks borrowed a total of HK\$4.08 billion from the Discount Window**, compared with HK\$1.83 billion in the preceding period (Chart 14). All of them used Exchange Fund paper as collateral (Table 4).

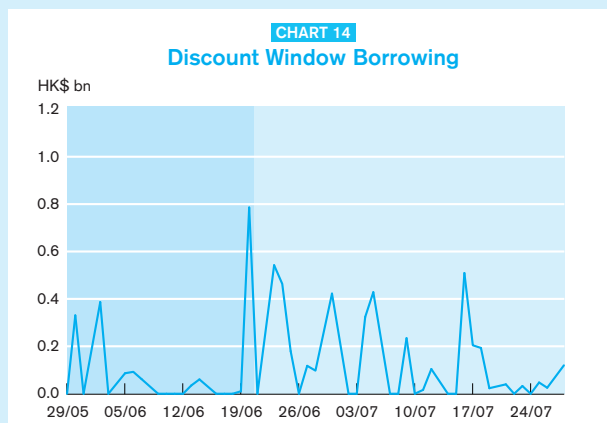
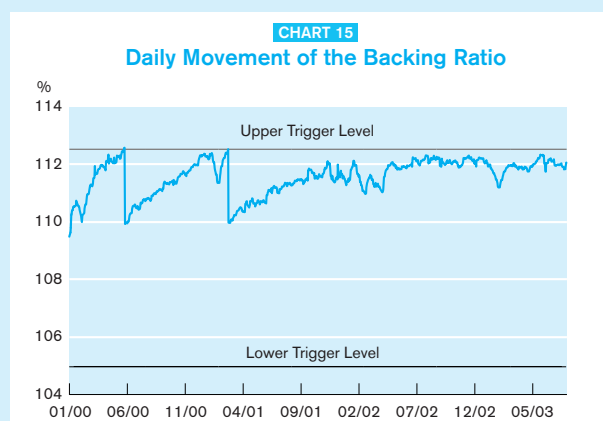


TABLE 4
Frequency of Individual Bank Access to the Discount Window (21 June – 28 July 03)

Frequency of using Discount Window	No. of banks
1	10
2	2
3	2
10	1
Total	15

Backing Portfolio

Backing assets increased slightly during the period, largely as a result of an increase in the outstanding amount of CIs. Nevertheless, as the Monetary Base increased proportionately more than the backing assets, **the backing ratio decreased marginally from 112.12% on 22 June to 112.07% on 28 July** (Chart 15). Under the Linked Exchange Rate system, while specific Exchange Fund assets have been designated for the backing portfolio, all Exchange Fund assets are available to support the Hong Kong dollar exchange rate.



Record of Discussion of the Exchange Fund Advisory Committee Sub-Committee on Currency Board Operations on 5 September 2003

(Approved for Issue by the Exchange Fund Advisory Committee on 25 September 2003)

Report on Currency Board Operations (29 July — 25 August 2003)

The Sub-Committee noted that the Hong Kong dollar and the exchange markets had remained stable in August. Supported by improved confidence in Hong Kong's economic outlook and inflow of funds into equities, Hong Kong dollar forward points had eased to below 100 pips since late August. Interest rate spreads between the Hong Kong dollar and US dollar also declined further.

The Sub-Committee noted that the Asia-Pacific Economic Cooperation (APEC) held a Finance Ministers Meeting on 4-5 September in Phuket. After the meeting, APEC issued a Joint Ministerial Statement emphasising the importance of, among other things, adopting macroeconomic policies that promoted sustainable growth, supported by appropriate exchange rate policies that facilitated orderly and balanced external adjustment. Members noted that Hong Kong's Linked Exchange Rate system was not discussed at the Meeting, and that the Finance Ministers all accepted that there was no one single exchange rate regime that suited all economies under all circumstances.

The Sub-Committee noted that, in accordance with Currency Board principles, changes in the Monetary Base during the reporting period had been fully matched by changes in the 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 the global economic recovery had continued to be on track, with the US reporting a stronger-than-expected growth in the second quarter of 2003 and signs that the economy would likely remain robust in the third quarter. In Hong Kong, economic activity had rebounded since the end of May and, supported by the continued strong growth in exports of goods and services including an upturn in

inbound tourism, was likely to continue to recover in the remainder of the year. Local financial market conditions had also improved markedly in line with overseas developments. Members noted, however, that the recent debate on the Mainland of China's exchange rate regime and domestic fiscal developments could impact on the Hong Kong dollar exchange markets.

The Sub-Committee noted an analysis on market expectations of real GDP growth. The analysis pointed out that there was an increasing trend for central banks to downplay point forecasts of GDP growth and inflation, but to aim to present a full picture of the extent of uncertainty and the balance of risks facing the economy.

The Economic Impact of SARS in Asia

The Sub-Committee noted an information paper on the economic impact of the spread of SARS in Asia. The Report found that as concerns about the disease receded, tourism and the retail sector had rebounded to various degrees in the region, and were likely to continue to grow in the remainder of this year, while the manufacturing and export sectors had been little affected by the epidemic.

Recent Developments in Labour Earnings in Hong Kong

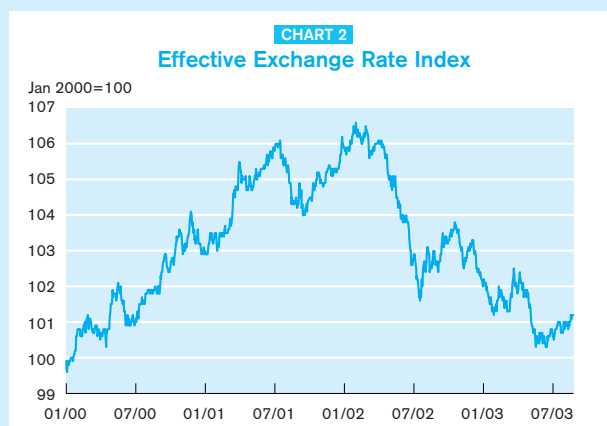
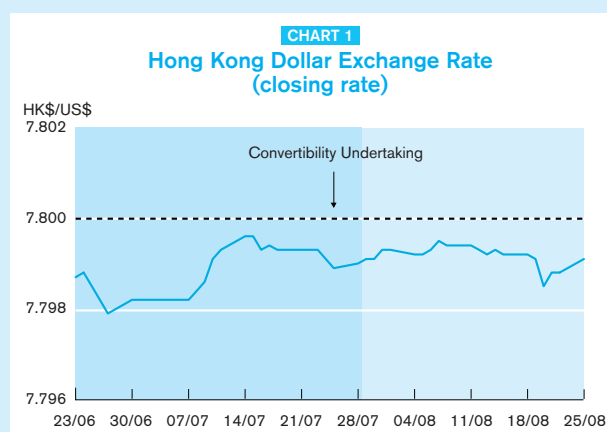
The Sub-Committee noted a preliminary analysis on labour earnings in Hong Kong, which suggested that official labour earnings indicators might have underestimated the extent of wage adjustment in recent years. A wage index adjusted for changes in working hours, in particular, showed that declines in nominal wages in the past five years were likely to be larger than implied by the official statistics, pointing to a greater degree of wage flexibility. Members noted that unemployment had mainly affected relatively low-skilled and low-paid groups, as many of these positions had been relocated across the border.

Annex Report on Currency Board Operations (29 July – 25 August 2003)

The Hong Kong dollar remained stable during the reporting period. Interbank interest rates eased, and their spreads against the US dollar counterparts narrowed. The Monetary Base rose marginally from HK\$252.45 billion to HK\$253.29 billion, attributable to a rise in the outstanding amount of Certificates of Indebtedness. In accordance with Currency Board principles, changes in the Monetary Base were fully matched by corresponding changes in foreign reserves.

Hong Kong Dollar Exchange Rate

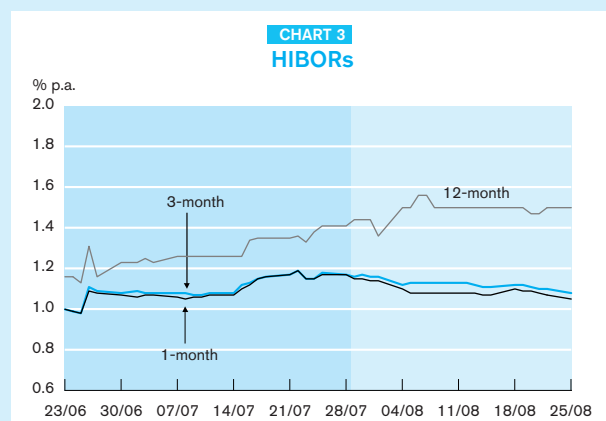
The Hong Kong dollar exchange rate moved within the range of 7.7985 and 7.7995 during the reporting period, and closed at 7.7991 at the end of the period (Charts 1 and 2).



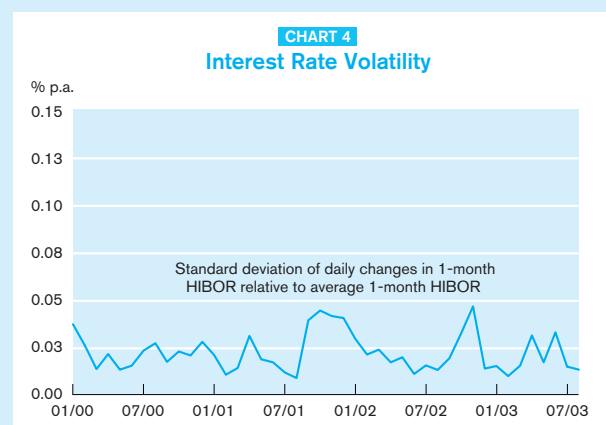
¹ The ratio of the standard deviation of daily changes in the 1-month HIBOR to its monthly average measures the extent of interest rate fluctuations relative to the average level of interest rates, which may vary over time.

Interest Rates

Except for the one-year rate, Hong Kong dollar interest rates generally eased during the reporting period. The 1-month and 3-month HIBORs decreased by 10 bp and 8 bp to close at 1.05% and 1.08% respectively. In contrast, the 12-month HIBOR rose by 6 bp to 1.50% (Chart 3).

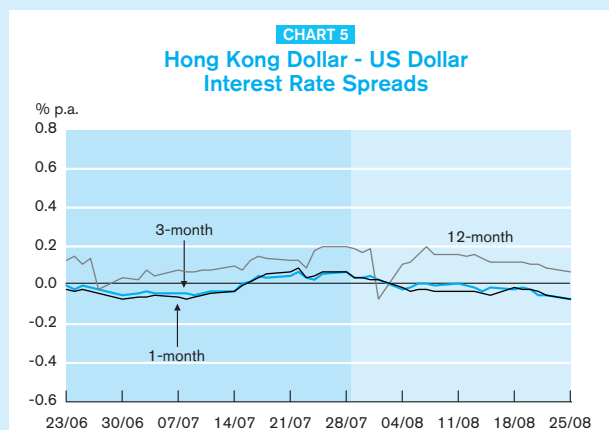


Interest rate volatility, as measured by the ratio of standard deviation of daily changes in the 1-month HIBOR to its average, declined moderately (Chart 4).¹

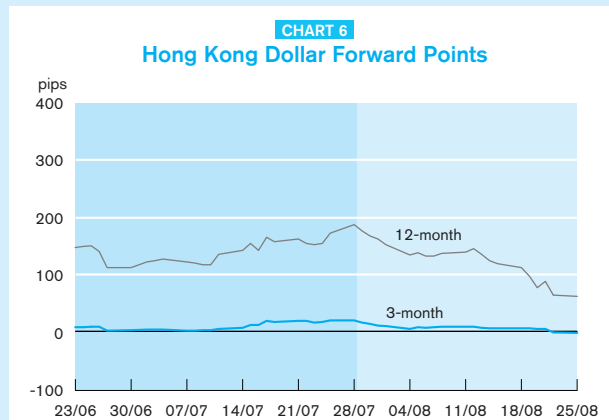


Spreads of Hong Kong dollar interbank interest rates over their US dollar counterparts declined during the period.

The 1-month and 3-month spreads dropped by 11 bp to -7 bp, while the 12-month spread decreased by 12 bp to close at 7 bp (Chart 5).



Echoing the movements in interest rate spreads, the Hong Kong dollar 3-month forward premium narrowed and closed at 1 pip. Similarly, **the 12-month forward points eased to 65 pips at the end of the period** (Chart 6).



Yields on Exchange Fund paper fell at the short end but rose in the intermediate and long ends during the period, mainly reflecting the movements in the US Treasury yield curve (Chart 7). The yield differentials narrowed, with the spreads of the 5-year and 10-year paper over the US counterparts declining by 15 bp and 13 bp, to 3 bp and 21 bp respectively (Table 1).

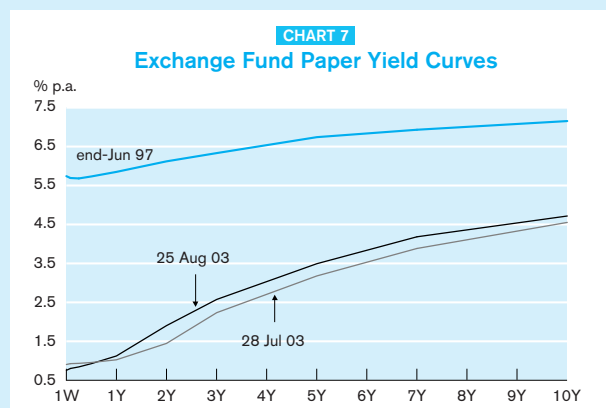
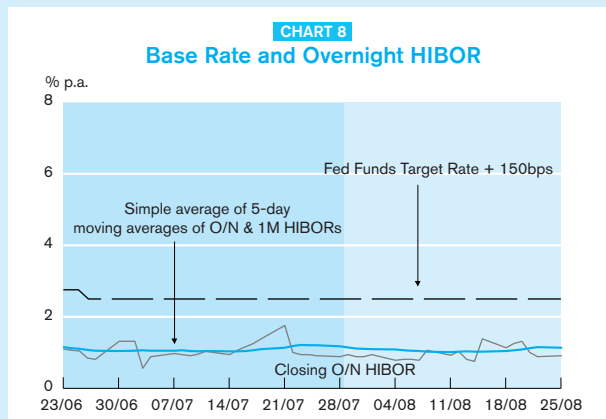


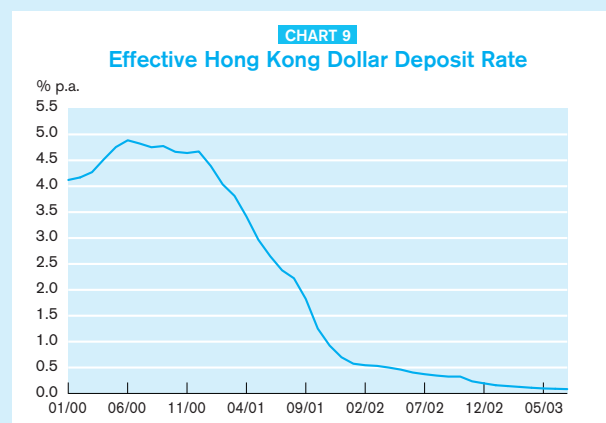
TABLE 1
Yield Spreads of Exchange Fund Paper over US Treasuries (basis points)

	27 Jun 97	28 July 03	25 Aug 03
3-month	56	3	-10
1-year	21	2	-10
3-year	3	28	8
5-year	27	18	3
10-year	54	34	21

The HKMA Base Rate remained at 2.50% (Chart 8). The banks also kept their Best Lending Rate unchanged at 5%.



The average rate offered by major authorized institutions for 1-month time deposits dropped from 0.08% to 0.07% during the period.² Meanwhile, the effective deposit rate declined slightly in July 2003 (Chart 9).³



² The figures refer to the average of interest rates offered by the major authorized institutions for one-month time deposits of less than HK\$100,000.

³ This is the average of the interest rates on demand, savings and time deposits. As the banking statistics classify deposits by remaining maturities, we have used certain assumptions regarding the maturity distribution to compute the effective deposit rate.

Monetary Base

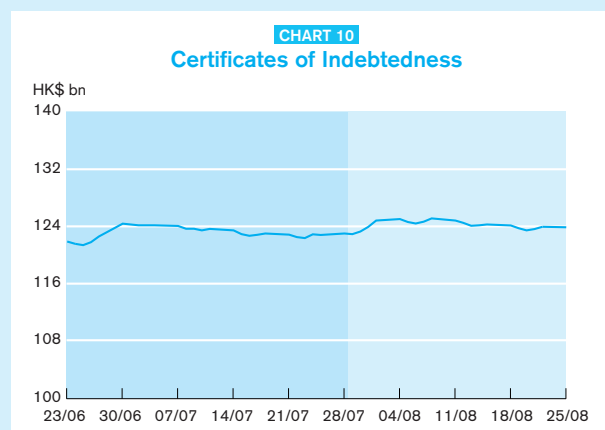
The Monetary Base, which comprises Certificates of Indebtedness (CIs), Government-issued currency notes and coins in circulation, the Aggregate Balance, and Exchange Fund Bills and Notes, increased marginally from HK\$252.45 billion to HK\$253.29 billion during the reporting period (Table 2). Movements in individual components are discussed below.

TABLE 2
Monetary Base

(HK\$ bn)	29 July 03	25 Aug 03
CIs	122.91	123.86
Government-issued Currency Notes and Coins in Circulation	6.28	6.27
Aggregate Balance	0.54	0.63
Outstanding EFBNs	122.73	122.55
Monetary Base	252.45	253.29

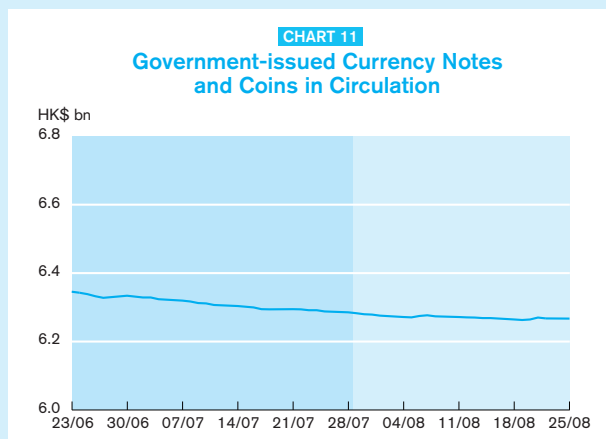
Certificates of Indebtedness

During the period, the three note-issuing banks submitted to the HKMA a total of US\$0.12 billion in exchange for HK\$0.95 billion worth of CIs. As a result, the outstanding amount of CIs increased modestly from HK\$122.91 billion to HK\$123.86 billion (Chart 10).



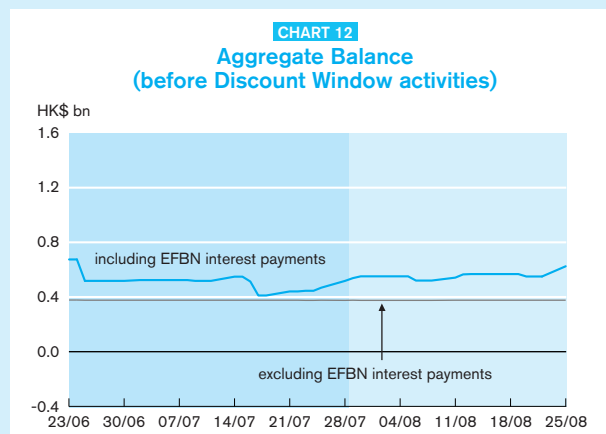
Government-issued currency notes and coins in circulation

The total amount of **Government-issued currency notes and coins in circulation** was largely unchanged at around HK\$6.27 billion during the period (Chart 11).



Aggregate Balance

The **Aggregate Balance** remained stable at around HK\$0.55 billion during the period, with small fluctuations reflecting interest payments on Exchange Fund paper (Chart 12).



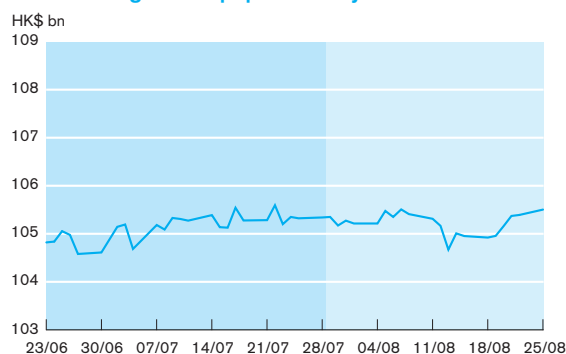
Outstanding Exchange Fund Bills and Notes

The market value of outstanding Exchange Fund paper decreased modestly from HK\$122.73 billion to **HK\$122.55 billion**. All issues of Exchange Fund Bills and Notes were well received by the market (Table 3). **Holdings of Exchange Fund paper by the banking sector (before Discount Window activity) increased** from HK\$105.34 billion (85.83% of total) to HK\$105.49 billion (86.08% of total)(Chart 13).

TABLE 3
Issuance of Exchange Fund Bills and Notes (29 July – 25 August 03)

	No. of issues launched	Over-subscription ratio
3-month EFB	4	3.61 - 5.09
6-month EFB	2	4.62 - 7.72
1-year EFB	1	6.52
2-year EFN	1	3.98
7-year EFN	1	3.21

CHART 13
Exchange Fund paper held by Licensed Banks



During the period, **interest payments of HK\$0.25 billion were made on Exchange Fund paper. An additional HK\$0.15 billion (in market value) of Exchange Fund paper was issued to absorb these interest payments.** The remaining amount was carried forward in the Aggregate Balance.

Discount Window Activity

For the period as a whole, **11 banks borrowed a total of HK\$1.47 billion from the Discount Window**, compared with HK\$4.08 billion in the preceding period (Chart 14). All of them used Exchange Fund paper as collateral (Table 4).

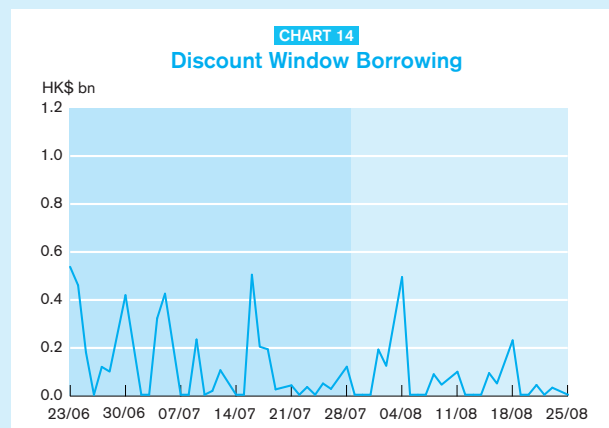
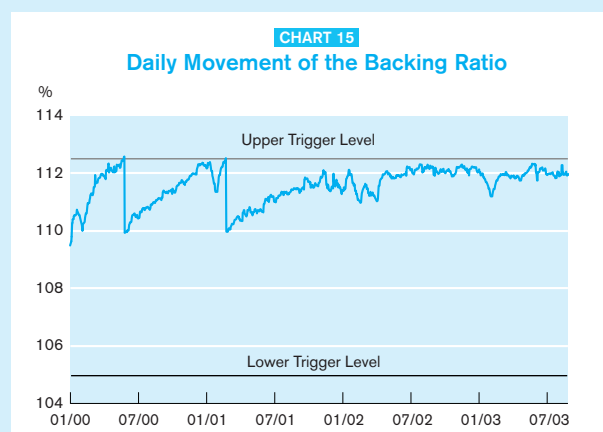


TABLE 4
Frequency of Individual Bank Access to the Discount Window (29 July – 25 August 03)

Frequency of using Discount Window	No. of banks
1	8
2	2
5	1
Total	11

Backing Portfolio

Backing assets increased slightly during the period, largely as a result of an increase in the outstanding amount of CIs. Nevertheless, as the Monetary Base increased proportionately more than the backing assets, **the backing ratio decreased marginally from 112.05% on 29 July to 111.98% on 25 August** (Chart 15). Under the Linked Exchange Rate system, while specific Exchange Fund assets have been designated for the backing portfolio, all Exchange Fund assets are available to support the Hong Kong dollar exchange rate.

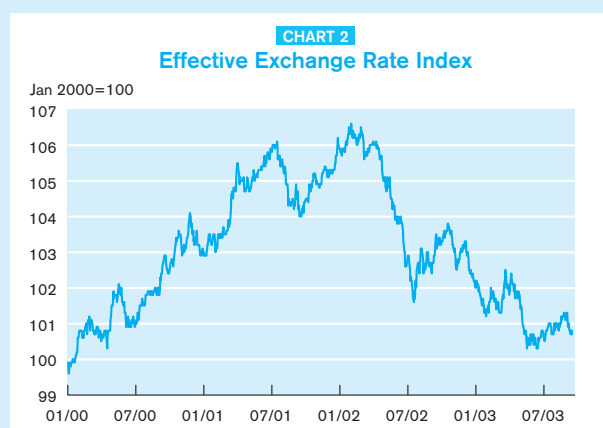
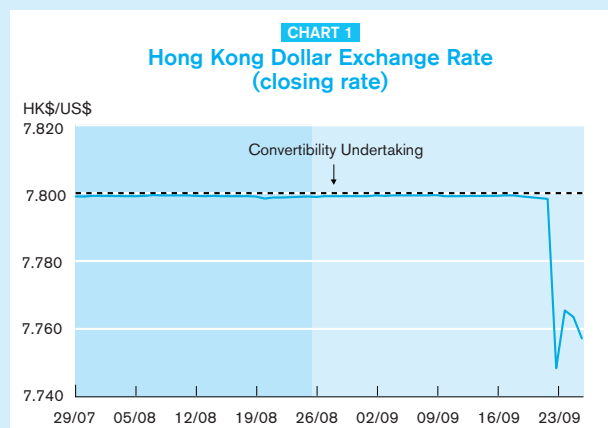


Report on Currency Board Operations (26 August – 26 September 2003)

The Hong Kong dollar strengthened markedly during the reporting period, triggered by market speculation about a revaluation of the Hong Kong dollar following the G7 statement about the need for greater exchange rate flexibility. In response to banks' offers, the HKMA bought US\$60 million on 23 September under the Currency Board account. Interbank interest rates eased to levels below their US dollar counterparts, in line with the expansion in the Aggregate Balance. The Monetary Base rose moderately from HK\$253.22 billion to HK\$256.24 billion, attributable mainly to a rise in the outstanding amount of Certificates of Indebtedness. In accordance with the Currency Board principles, changes in the Monetary Base were fully matched by corresponding changes in foreign reserves.

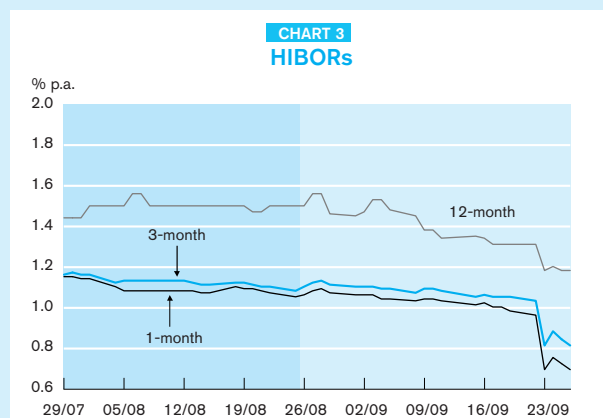
Hong Kong Dollar Exchange Rate

The Hong Kong dollar exchange rate strengthened sharply on 23 September, peaking at 7.730 during intra-day trading. According to market intelligence, this was partly triggered by rumours of a revaluation of the Hong Kong dollar after the G7 statement calling for greater exchange rate flexibility and exacerbated by some unwinding of short Hong Kong dollar positions. In response to banks' offer, the HKMA bought US\$60 million on 23 September. The Hong Kong dollar exchange rate then weakened moderately to close at 7.7573 at the end of the reporting period (Charts 1 and 2).

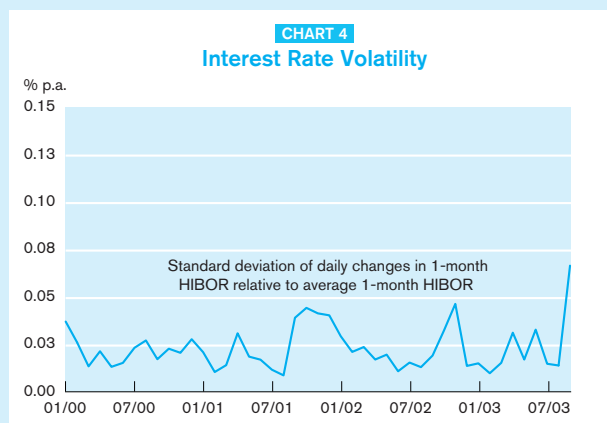


Interest Rates

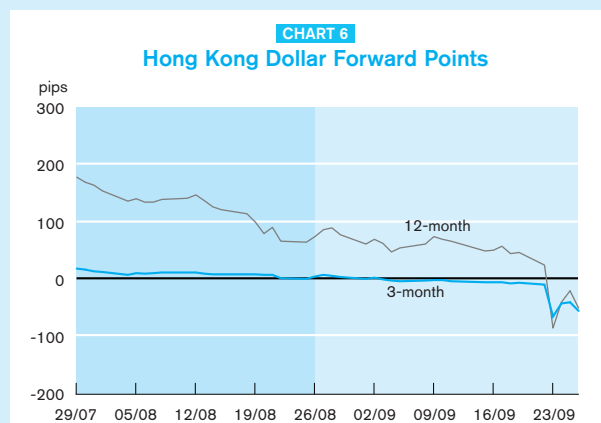
Hong Kong dollar interest rates eased noticeably alongside the strengthening of the exchange rate. This reflected an increased demand for Hong Kong dollar assets and the expansion of interbank liquidity. The 1-month and 3-month HIBORs decreased by 37 bp and 29 bp to close at 0.69% and 0.81% respectively. Similarly, the 12-month HIBOR dropped by 32 bp to 1.18% (Chart 3).



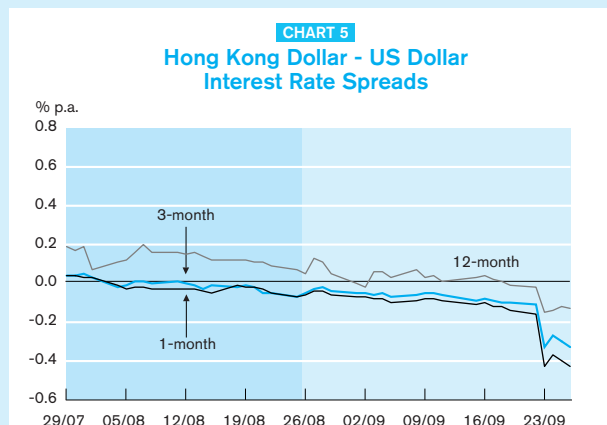
Interest rate volatility, as measured by the ratio of standard deviation of daily changes in the 1-month HIBOR to its average, **rose** during the period, owing to the abrupt decline in the interest rate (Chart 4).¹



Mirroring the movements in interest rate spreads, the Hong Kong dollar 3-month forward points decreased to a discount of 55 pip. Similarly, **the 12-month forward points fell to -50 pips at the end of the period** (Chart 6).



The spreads of Hong Kong dollar interbank interest rates over their US dollar counterparts fell below zero during the period. The 1-month and 3-month spreads dropped by 37 bp and 28 bp to -43 bp and -33 bp respectively, while the 12-month spread declined by 18 bp to close at -13 bp (Chart 5).



Yields on Exchange Fund paper declined during the period, reflecting the movements in the US Treasury yield curve, as well as a fall in yield spreads (Chart 7). The yield differentials generally decreased, except for the 5-year paper. Specifically, the spread of the 5-year paper over the US counterpart rose slightly by 6 bp to 9 bp, while that of the 10-year paper dropped by 5 bp to 16 bp (Table 1).

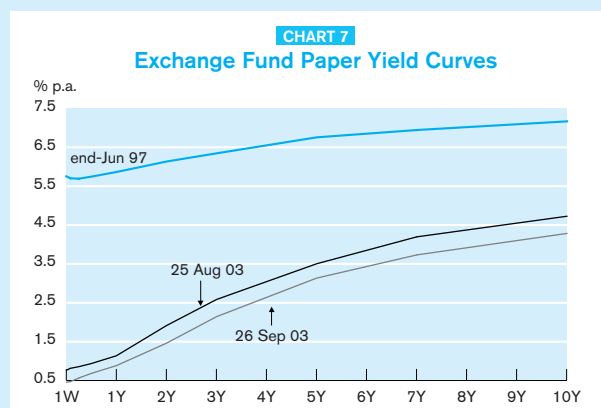
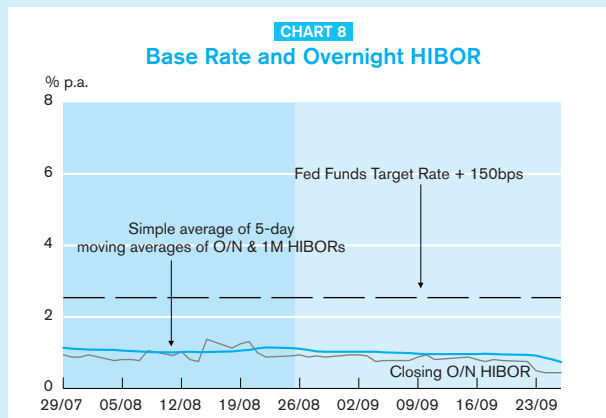


TABLE 1
Yield Spreads of Exchange Fund Paper over US Treasuries (basis points)

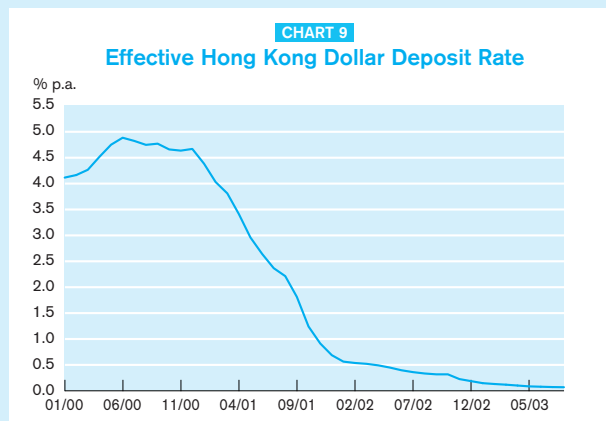
	27 Jun 97	25 Aug 03	26 Sep 03
3-month	56	-10	-38
1-year	21	-10	-23
3-year	3	8	6
5-year	27	3	9
10-year	54	21	16

¹ The ratio of the standard deviation of daily changes in the 1-month HIBOR to its monthly average measures the extent of interest rate fluctuations relative to the average level of interest rates, which may vary over time.

The HKMA Base Rate remained at 2.50% (Chart 8). The banks also kept their Best Lending Rate unchanged at 5%.



The average rate offered by major authorized institutions for 1-month time deposits remained at 0.07% during the period.² Meanwhile, the effective deposit rate was unchanged in August 2003 (Chart 9).³



² The figures refer to the average of interest rates offered by the major authorized institutions for one-month time deposits of less than HK\$100,000.

³ This is the average of the interest rates on demand, savings and time deposits. As the banking statistics classify deposits by remaining maturities, we have used certain assumptions regarding the maturity distribution to compute the effective deposit rate.

Monetary Base

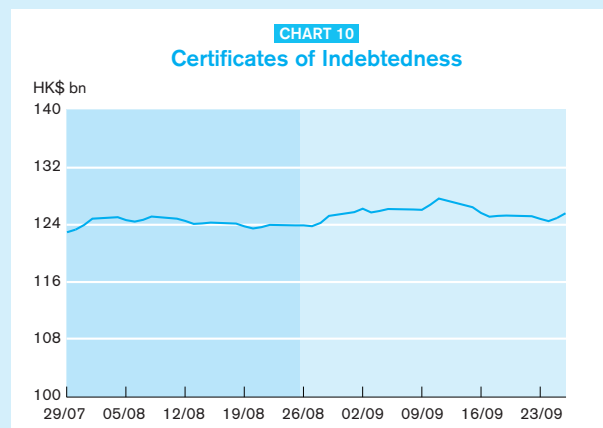
The Monetary Base, which comprises Certificates of Indebtedness (CIs), Government-issued currency notes and coins in circulation, the Aggregate Balance, and Exchange Fund Bills and Notes, increased from HK\$253.22 billion to HK\$256.24 billion during the reporting period (Table 2). Movements in individual components are discussed below.

TABLE 2
Monetary Base

(HK\$ bn)	26 Aug 03	26 Sep 03
CIs	123.88	125.55
Government-issued Currency Notes and Coins in Circulation	6.27	6.26
Aggregate Balance	0.65	0.99
Outstanding EFBNs	122.43	123.45
Monetary Base	253.22	256.24

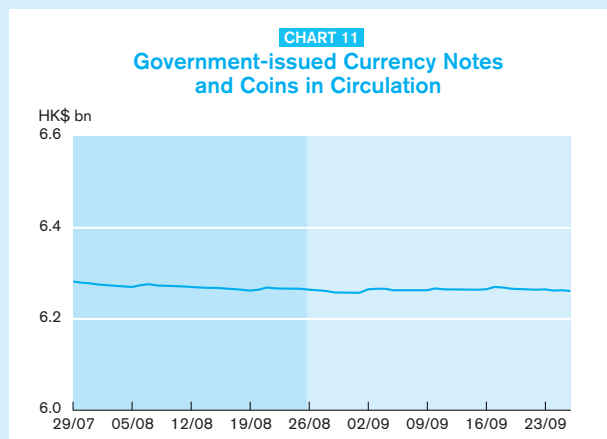
Certificates of Indebtedness

During the period, the three note-issuing banks submitted to the HKMA a total of US\$0.21 billion in exchange for HK\$1.67 billion worth of CIs. As a result, the outstanding amount of CIs increased modestly from HK\$123.88 billion to HK\$125.55 billion (Chart 10).



Government-issued currency notes and coins in circulation

The total amount of **Government-issued currency notes and coins in circulation was stable** at around HK\$6.26 billion during the period (Chart 11).



Aggregate Balance

The HKMA sold a total of HK\$0.47 billion of Hong Kong dollar in response to bank bids on 23 September. As a result, **the Aggregate Balance increased to around HK\$0.99 billion**. Thereafter, the Aggregate Balance remained stable, with small fluctuations due to interest payments on Exchange Fund paper (Chart 12 and Table 3).

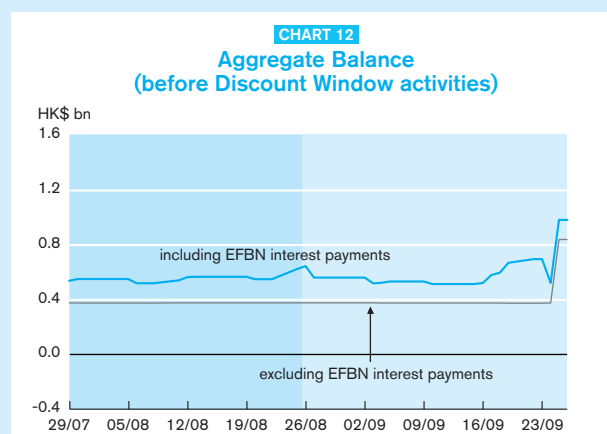


TABLE 3
HKMA Hong Kong Dollar/US Dollar FX Transaction (26 August – 26 September 03)

Trade Date	Net HK\$ purchase (+) (HK\$mn)
23 Sep	-466

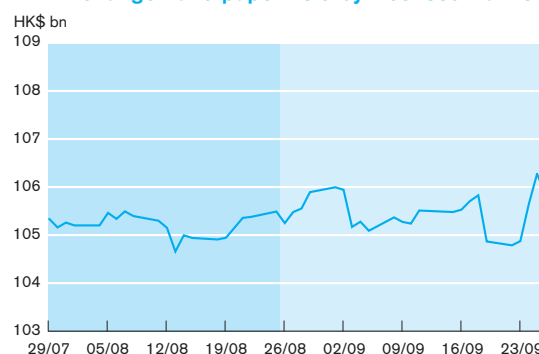
Outstanding Exchange Fund Bills and Notes

The market value of outstanding Exchange Fund paper increased modestly from HK\$122.43 billion to **HK\$123.45 billion**. All issues of Exchange Fund Bills and Notes were well received by the market (Table 4). **Holdings of Exchange Fund paper by the banking sector (before Discount Window activity) increased slightly** from HK\$105.25 billion (85.97% of total) to HK\$105.86 billion (85.75% of total)(Chart 13).

TABLE 4
Issuance of Exchange Fund Bills and Notes (26 August – 26 September 03)

	No. of issues launched	Over-subscription ratio
1-month EFB	2	7.33 - 14.50
3-month EFB	5	4.27 - 6.37
6-month EFB	2	6.08 - 7.19
1-year EFB	2	4.68 - 5.80
5-year EFN	1	2.67

CHART 13
Exchange Fund paper held by Licensed Banks



During the period, **interest payments of HK\$0.26 billion were made on Exchange Fund paper**. Taking into account interest payments carried forward from the last reporting period, **an additional HK\$0.39 billion (in market value) of Exchange Fund paper was issued to absorb these interest payments**.

Discount Window Activity

For the period as a whole, **13 banks borrowed a total of HK\$1.94 billion from the Discount Window**, compared with HK\$1.47 billion in the preceding period (Chart 14). All of them used Exchange Fund paper as collateral (Table 5).

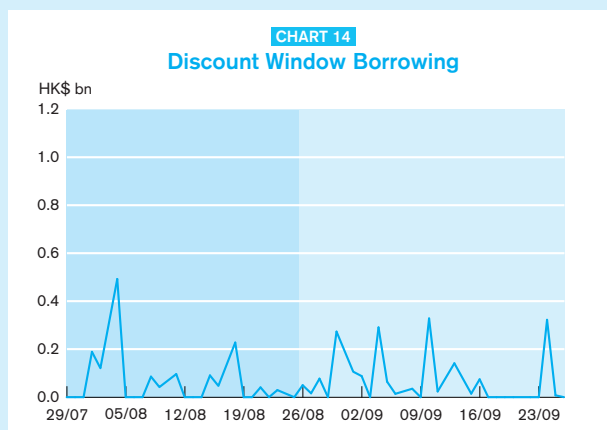


TABLE 5
Frequency of Individual Bank Access to the Discount Window (26 August – 26 September 03)

Frequency of using Discount Window	No. of banks
1	9
2	2
3	1
8	1
Total	13

Backing Portfolio

Backing assets increased slightly during the period, largely as a result of the increase in the outstanding amount of CIs, which more than offset some revaluation losses associated with the weakening of US dollar against the Hong Kong dollar. **The backing ratio decreased marginally from 111.96% on 26 August to 111.43% on 26 September** (Chart 15). Under the Linked Exchange Rate system, while specific Exchange Fund assets have been designated for the backing portfolio, all Exchange Fund assets are available to support the Hong Kong dollar exchange rate.

