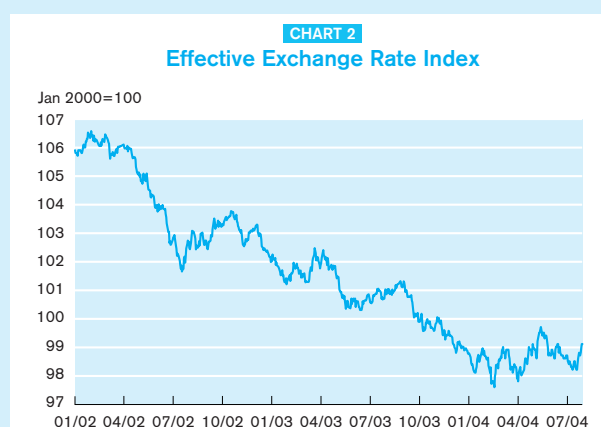
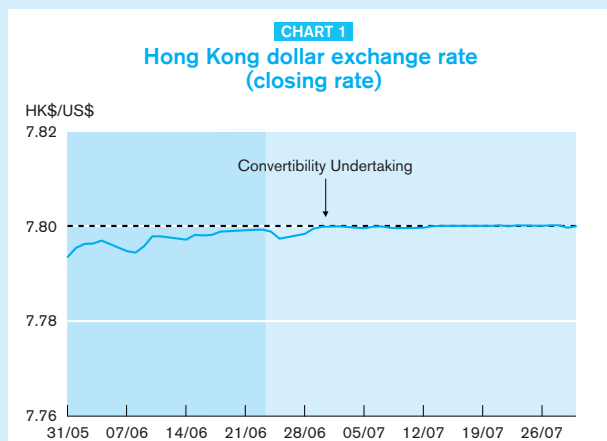


Report on Currency Board Operations (24 June – 30 July 2004)

The Hong Kong dollar exchange rate stayed close to the linked rate and the Convertibility Undertaking was triggered frequently in the latter part of the reporting period. Reflecting the decline in the Aggregate Balance, interbank interest rates firmed. The Monetary Base decreased from HK\$303.52 billion to HK\$280.86 billion during the period. In accordance with Currency Board principles, changes in the Monetary Base were fully matched by corresponding changes in foreign reserves.

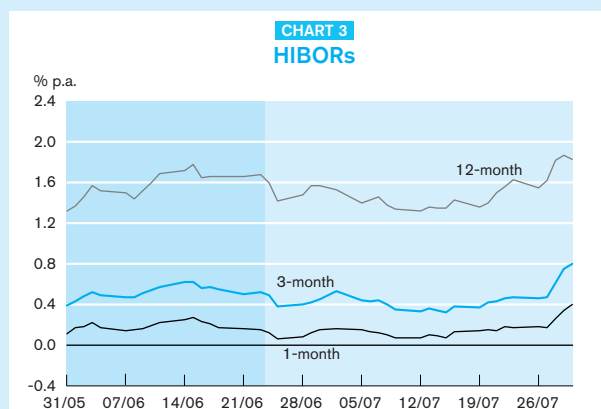
Hong Kong dollar exchange rate

The Hong Kong dollar exchange rate stayed close to the linked rate and closed at 7.7998 at the end of the reporting period (Chart 1). The Convertibility Undertaking was triggered frequently in the latter half of the reporting period, in part attributable to arbitrage activities to take advantage of higher US dollar interest rates versus Hong Kong dollar counterparts. Meanwhile, the effective exchange rate of the Hong Kong dollar increased slightly (Chart 2).

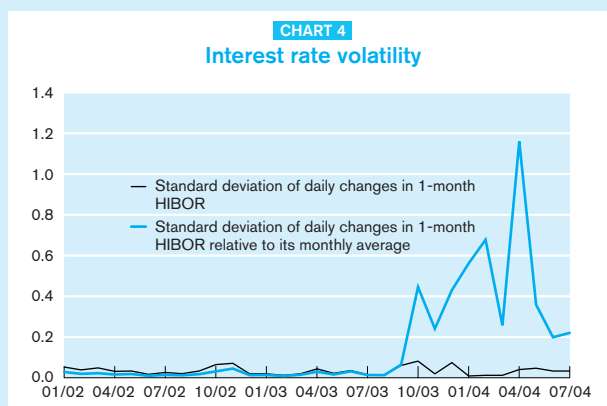


Interest rates

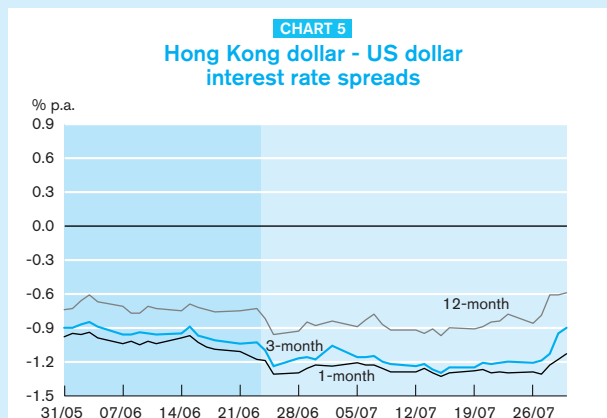
Hong Kong dollar interbank interest rates remained stable in the early part of the reporting period, but rose markedly towards the end of the period. Overall, one-month and three-month HIBORs increased by 28 bp and 31 bp to close at 0.4% and 0.8% respectively. Meanwhile, 12-month HIBOR rose by 23 bp to close at 1.83% (Chart 3).



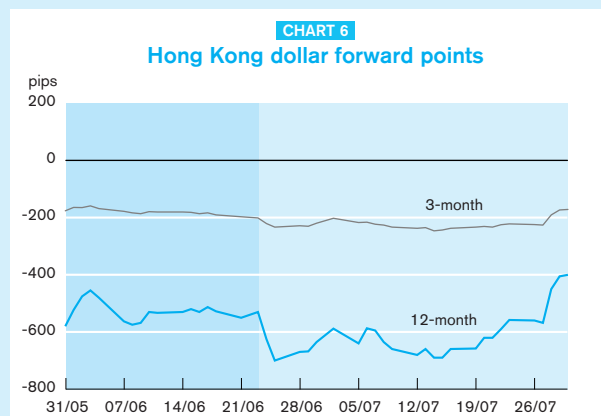
Interest rate volatility, as measured by the standard deviation of daily changes in one-month HIBOR, **remained low**. As a ratio to the average level of one-month HIBOR, it edged up in June, due to the decrease in the latter (Chart 4).¹



Hong Kong dollar interbank interest rates continued to stay below US dollar rates. However, the negative interest rate spreads narrowed during the period, with the one-month and three-month differentials closing at -113 bp and -90 bp respectively. Meanwhile, the 12-month spread narrowed notably to close at -59 bp (Chart 5).



In line with the movements in interest rate spreads, the **Hong Kong dollar 12-month forward discount narrowed markedly by 225 pips to close at 400 pips**. Meanwhile, the three-month forward discount narrowed by 50 pips to close at 171 pips (Chart 6).



Yields of Exchange Fund paper rose during the period, leading to across-the-board decreases in negative yield spreads (Chart 7). In particular, the negative yield spreads for five-year and 10-year paper narrowed to -6 bp and -2 bp respectively at the end of the period (Table 1).

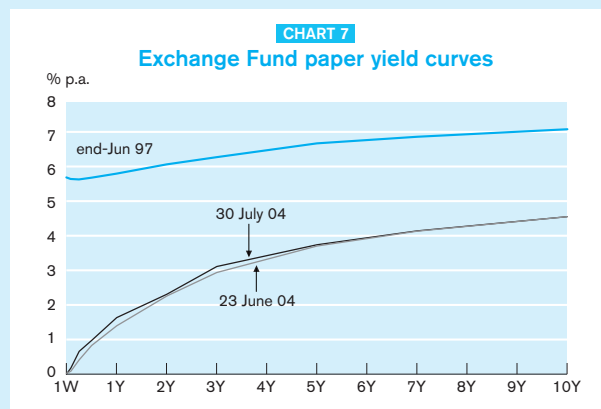
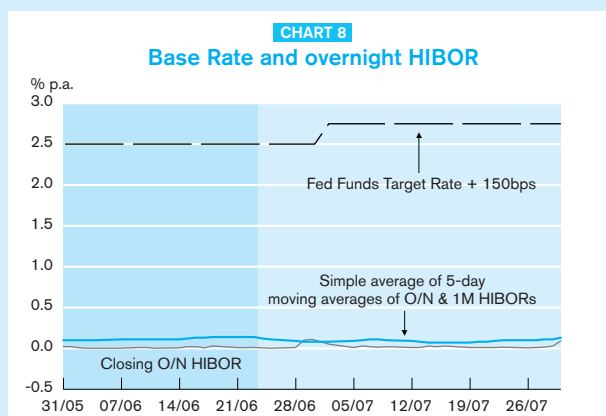


TABLE 1
Yield spreads of Exchange Fund paper over US Treasuries (basis points)

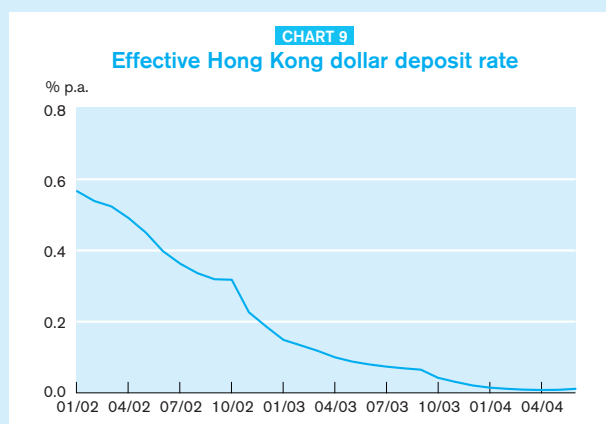
	27 Jun 97	23 Jun 04	30 Jul 04
3-month	56	-93	-81
1-year	21	-64	-49
3-year	3	-31	5
5-year	27	-24	-6
10-year	54	-19	-2

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.

Following the 25 bp rise in the US Fed Funds target rate, the HKMA Base Rate was adjusted upward to 2.75% from 2 July onwards according to the established formula (Chart 8). However, banks kept their Best Lending Rate unchanged at 5%.



The average rate offered by major authorized institutions for one-month time deposit remained unchanged at 0.01% during the period.² Meanwhile, the effective deposit rate was unchanged in June (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

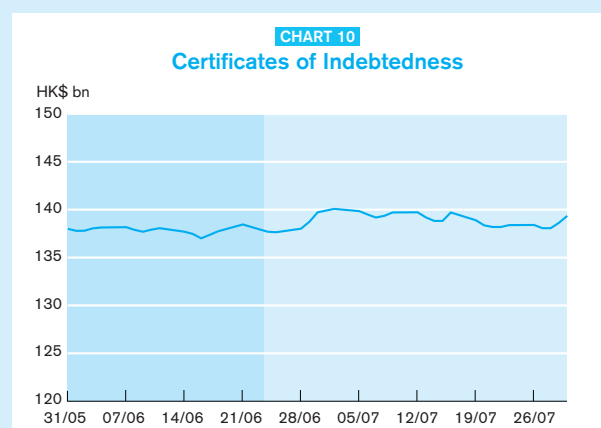
The **Monetary Base**, which comprises Certificates of Indebtedness (CIs), Government-issued currency notes and coins in circulation, the Aggregate Balance, and Exchange Fund Bills and Notes, **decreased from HK\$303.52 billion to HK\$280.86 billion** during the reporting period (Table 2). Movements in individual components are discussed below.

TABLE 2
Monetary Base

(HK\$ bn)	24 Jun 04	30 Jul 04
CIs	137.69	139.35
Government-issued Currency Notes and Coins in Circulation	6.61	6.57
Aggregate Balance	35.53	11.24
Outstanding EFBNs	123.70	123.71
Monetary Base	303.52	280.86

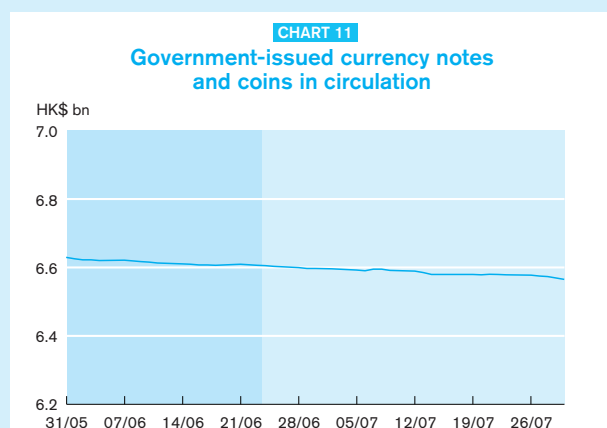
Certificates of Indebtedness

During the period, the three note-issuing banks submitted to the HKMA a total of US\$0.21 billion in exchange for HK\$1.66 billion worth of Certificates of Indebtedness. As a result, **the outstanding amount of CIs increased from HK\$137.69 billion to HK\$139.35 billion** (Chart 10).



Government-issued currency notes and coins in circulation

The total amount of **Government-issued currency notes and coins in circulation declined modestly from HK\$6.61 billion to HK\$6.57 billion** during the reporting period (Chart 11).



Aggregate Balance

The Aggregate Balance stayed at around HK\$35.53 billion in the early part of the reporting period. **Following the repeated purchases of Hong Kong dollars amounting to HK\$24.36 billion by the HKMA under the Convertibility Undertaking in the latter part of the period, the Aggregate Balance shrank to HK\$11.24 billion at the end of the period** (Chart 12 and Table 3).

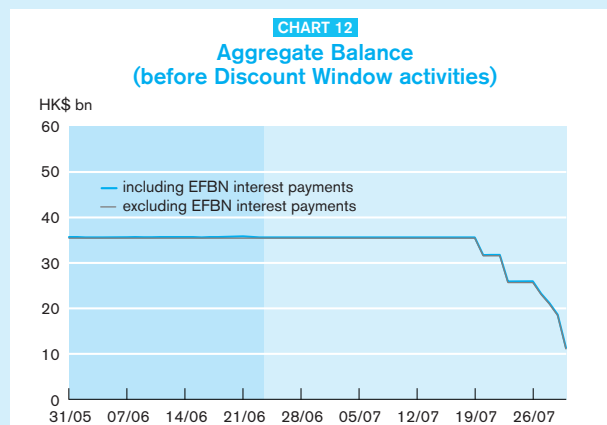
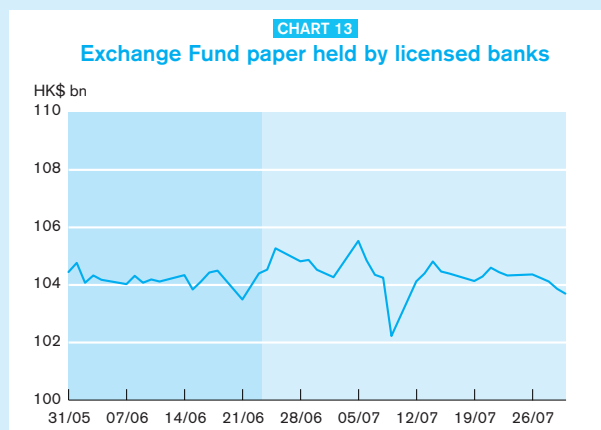


TABLE 3
HKMA HK\$/US\$ foreign exchange transactions (24 June – 30 July 04)

Trade Date	Net HK\$ purchase (+) (HK\$m)
16-July	+3900
21-July	+5850
23-July	+2652
26-July	+2098
27-July	+2527
28-July	+7332

Outstanding Exchange Fund Bills and Notes

The market value of outstanding Exchange Fund Bills and Notes increased slightly from HK\$123.70 billion to HK\$123.71 billion. Meanwhile, **holdings of Exchange Fund paper by the banking sector (before Discount Window activity) declined** from HK\$104.54 billion (84.51% of total) to HK\$103.71 billion (83.83% of total) (Chart 13).



During the period, a total of HK\$0.20 billion of interest payments on Exchange Fund paper were made. An additional HK\$0.13 billion (in market value) of Exchange Fund paper was issued to absorb these interest payments. All issues of Exchange Fund paper were well received by the market (Table 4). The remaining amount was carried forward in the Aggregate Balance.

TABLE 4
Issuance of Exchange Fund Bills and Notes
(24 Jun – 30 Jul 04)

	No. of issues launched	Over-subscription ratio
3-month EFB	5	2.65-6.10
6-month EFB	2	4.62-5.58
1-year EFB	2	3.40-4.99
3-year EFN	1	1.67

Discount Window activity

For the period as a whole, three banks borrowed a total of HK\$889 million, compared with zero in the preceding period (Chart 14). All borrowings used Exchange Fund paper as collateral (Table 5).

CHART 14
Discount Window borrowing

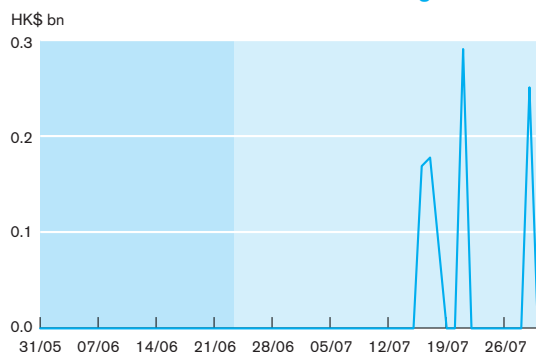


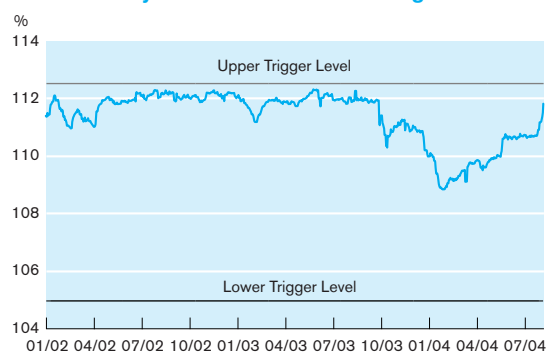
TABLE 5
Frequency of individual bank's access to the Discount Window
(24 Jun – 30 Jul 04)

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

Backing Portfolio

Backing Assets decreased alongside the decline in the Aggregate Balance during the period. Nevertheless, as the Backing Assets decreased proportionally less than the Monetary Base, **the Backing Ratio increased markedly from 110.75% on 24 June to 111.84% on 30 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.

CHART 15
Daily movement of the Backing Ratio



Record of Discussion of the Exchange Fund Advisory Committee Sub-Committee on Currency Board Operations on 3 September 2004

(Approved for Issue by the Exchange Fund Advisory Committee on 30 September 2004)

Report on Currency Board Operations (2 August – 20 August 2004)

The Sub-Committee noted that the Hong Kong dollar exchange rate had stayed close to the linked rate during the reporting period. The Convertibility Undertaking had been triggered on 4 August and the Aggregate Balance had fallen to HK\$7.54 billion at the end of the period. Nevertheless, Hong Kong dollar interest rates had eased and had continued to stay below US dollar rates during the period.

Members observed that, subsequent to the period under review, there had been some further outflows of funds as a result of interest arbitrage trades, leading to further reduction of the Aggregate Balance to \$4.4 billion on 3 September 2004. It was expected that these interest arbitrage trades would lead to further reductions in the size of the Aggregate Balance. Along with this, interbank interest rates could rise further. Members further noted that the loans for use in Hong Kong had grown significantly in the second quarter of this year. But given the abundance of liquidity in the banking system, reflected by the relatively low loan-to-deposit ratio, this should not cause a significant tightening in monetary conditions in the near term.

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 there had been a greater-than-expected slowdown in global growth in the second quarter, particularly in the US and Japan. While this had helped to reduce market expectations about interest rate increases in the near term, there had been renewed concern about surge in oil prices. Economic developments in Hong Kong continued to be encouraging: the Government had revised upwards its growth forecast for 2004 to 7.5% following the better-than-expected growth rate of 12.1% recorded in the second quarter. The main risks to the outlook of Hong Kong's economy remained (i) the pace of interest rate increases; (ii) the persistent rise in oil prices; and (iii) the magnitude of the slowdown of the Mainland economy.

In connection with the third risk, Members noted that, while the administrative macro-economic adjustment measures had moderated growth in GDP and investment in the Mainland, the inflationary and domestic demand pressures did not seem to have abated partly because of the loose monetary and financial conditions. The slowdown of the Mainland economy could present risks to Hong Kong, particularly in the financial markets, which had been used for hedging risks in the Mainland. However judged at this stage, these risks were unlikely to be so large as to threaten monetary and financial stability in Hong Kong.

Intra-regional Trade and the Role of Mainland China

Noting the concern about the potential impact of a slowdown of Mainland economy on the Asian economies through the trade channel, the Sub-Committee considered an information paper on developments in intra-regional trade and the role of Mainland China. Members noted that there had been a significant growth in the intra-regional trade over the past two decades. Some of this expansion in intra-regional trade represented a redirection of trade flows, consistent with greater production sharing among Asian economies and reflecting the comparative advantage of China in processing and assembly operations. Thus, China had played a crucial role in the expansion of intra-regional trade and its slowdown could have an impact on other regional economies, in particular, Taiwan, South Korea, Hong Kong and Japan. The impact would likely be limited provided that the slowdown remained concentrated in domestic demand components, but it could be more pronounced in the event of a credit crunch that affected exporting firms on the Mainland as well.

International Reserve Holdings – Are Financial Centres Different?

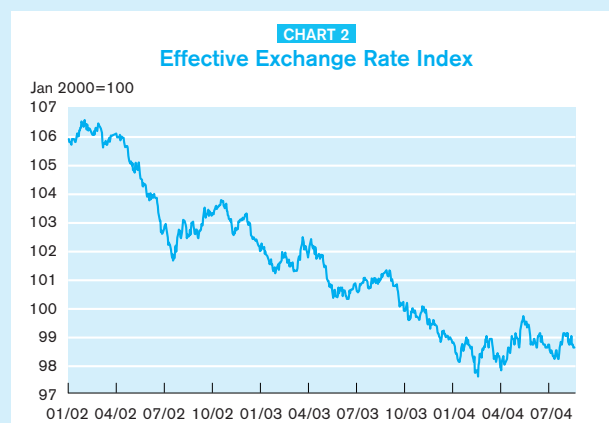
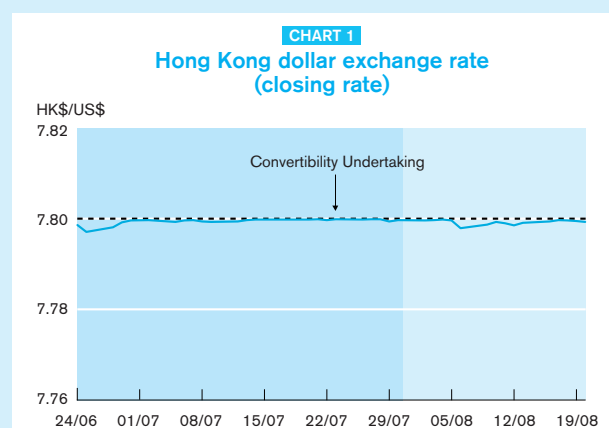
Noting that there had been discussions about the size of the foreign reserves in Hong Kong, the Sub-Committee considered an information paper on the demand for international reserves by considering the financial centre status of an economy as well as factors such as the size of an economy, trade openness and the exchange rate regime. Members noted that international financial centres (IFC), which were often confronted with substantial and volatile international capital flows, might seek to hold a higher level of foreign reserves. The results of the HKMA study confirmed that, after controlling for important variables such as the size of the economy, trade openness and IFC status, the level of foreign reserves in Hong Kong did not appear to be unusually high by international standards.

Annex Report on Currency Board Operations (2 August – 20 August 2004)

The Hong Kong dollar exchange rate stayed close to the linked rate, triggering the Convertibility Undertaking on 4 August. Interbank interest rates eased. The Monetary Base decreased from HK\$281.69 billion to HK\$278.04 billion during the period. In accordance with Currency Board principles, changes in the Monetary Base were fully matched by corresponding changes in foreign reserves.

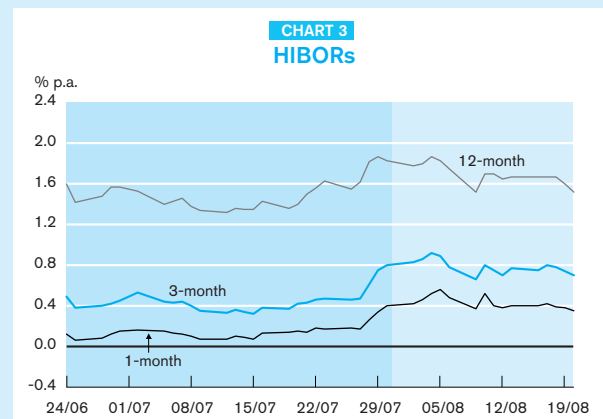
Hong Kong dollar exchange rate

The Hong Kong dollar exchange rate stayed close to the linked rate and closed at 7.7994 at the end of the reporting period (Chart 1). Meanwhile, the effective exchange rate of the Hong Kong dollar declined mildly as the US dollar weakened against other major currencies (Chart 2).

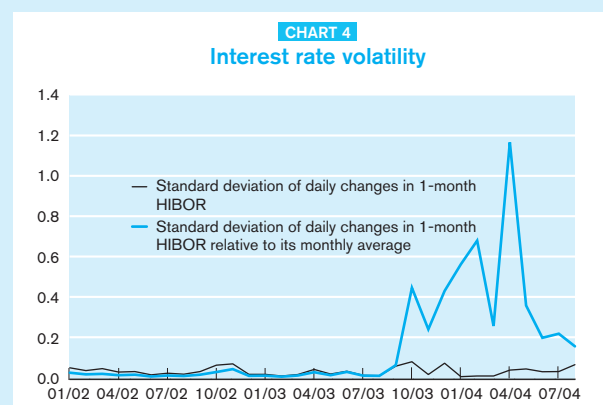


Interest rates

Hong Kong dollar interbank interest rates decreased in the middle of the reporting period. Overall, one-month and three-month HIBORs declined by 7 bp and 13 bp to close at 0.35% and 0.70% respectively. Meanwhile, 12-month HIBOR dropped by 26 bp to close at 1.52% (Chart 3).

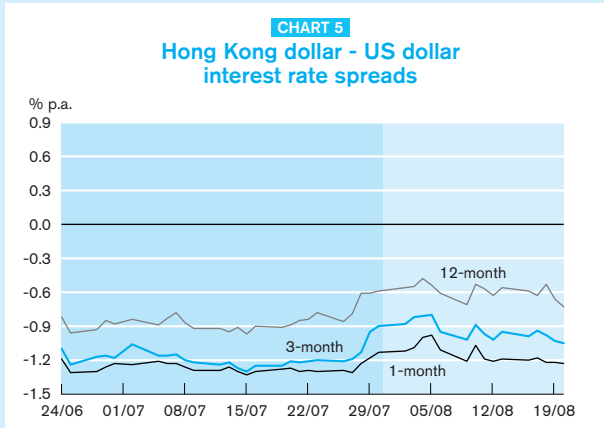


Interest rate volatility, as measured by the standard deviation of daily changes in one-month HIBOR, remained low. As a ratio to the average level of one-month HIBOR, it decreased in August, due to an increase in the latter (Chart 4).¹

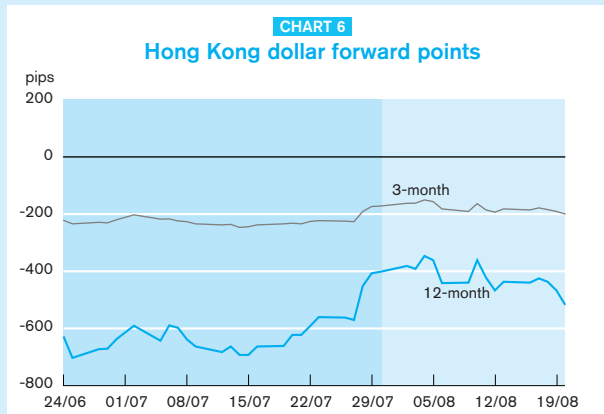


¹ The ratio of the standard deviation of daily changes in the 1-month HIBOR to its monthly average measures the extent of interest rate fluctuations relative to the average level of interest rates, which may vary over time.

Hong Kong dollar interbank interest rates continued to stay below US dollar rates. The negative interest rate spreads widened slightly during the period, with the one-month and three-month differentials closing at -123 bp and -105 bp respectively. Meanwhile, the 12-month spread increased by 17 bp to close at -73 bp (Chart 5).



In line with the movements in interest rate spreads, the **Hong Kong dollar 12-month forward discount rose by 135 pips to close at 515 pips.** Meanwhile, the three-month forward discount increased by 37 pips to close at 199 pips (Chart 6).



Yields of Exchange Fund paper dropped during the period, in part reflecting the movements of the US Treasury yield curve (Chart 7). Separately, the negative yield spreads for five-year and 10-year paper expanded to -16 bp and -13 bp respectively at the end of the period (Table 1).

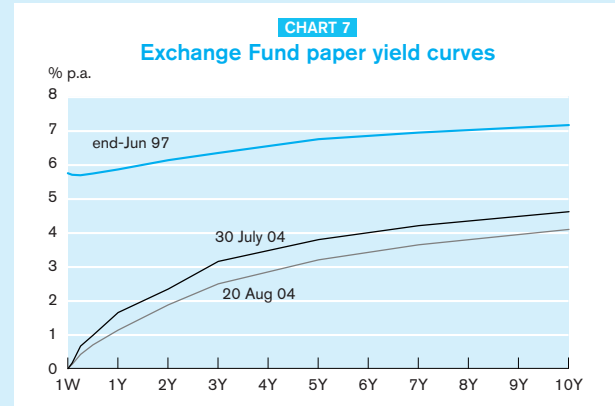
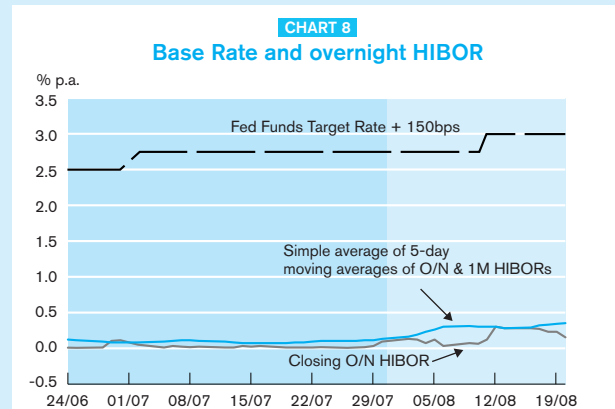


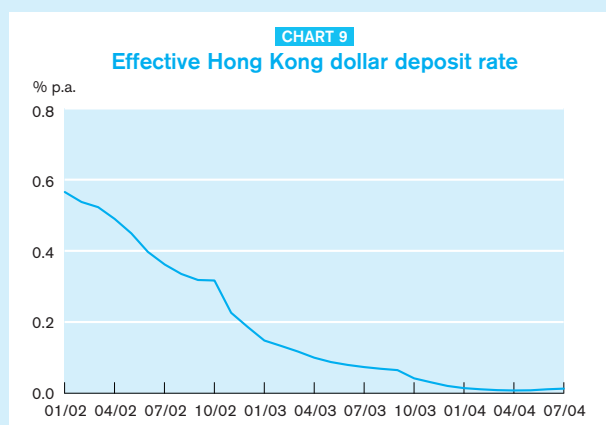
TABLE 1
Yield spreads of Exchange Fund paper over US Treasuries (basis points)

	27 Jun 97	30 Jul 04	20 Aug 04
3-month	56	-81	-102
1-year	21	-49	-66
3-year	3	5	-24
5-year	27	-6	-16
10-year	54	-2	-13

Following the 25 bp rise in the US Fed Funds target rate, the HKMA Base Rate was adjusted upward to 3.00% from 11 August onwards according to the established formula (Chart 8). However, **banks kept the Best Lending Rate unchanged at 5%.**



The average one-month time deposit rate offered by major authorized institutions remained at 0.01% during the period.² Meanwhile, the effective deposit rate was unchanged in July (Chart 9).³



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, **decreased from HK\$281.69 billion to HK\$278.04 billion** during the reporting period (Table 2). Movements in individual components are discussed below.

TABLE 2
Monetary Base

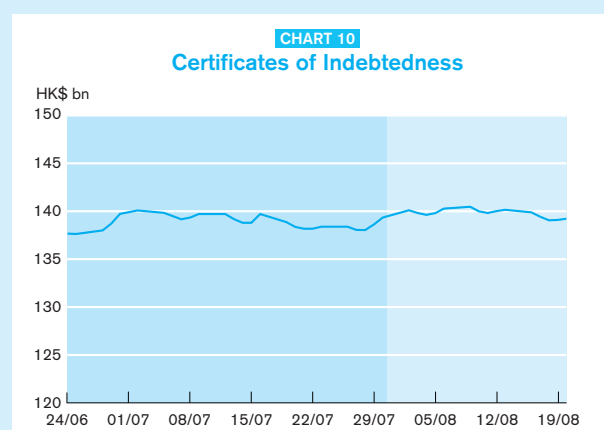
(HK\$ bn)	2 Aug 04	20 Aug 04
CIs	140.11	139.23
Government-issued Currency Notes and Coins in Circulation	6.56	6.55
Aggregate Balance	11.24	7.54
Outstanding EFBNs	123.78	124.73
Monetary Base	281.69	278.04

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.

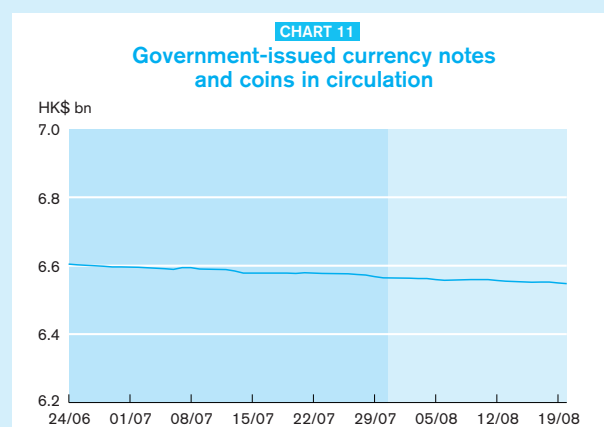
Certificates of Indebtedness

During the period, the three note-issuing banks redeemed a total of HK\$0.88 billion worth of Certificates of Indebtedness in exchange for US\$0.11 billion. As a result, **the outstanding amount of CIs decreased from HK\$140.11 billion to HK\$139.23 billion** (Chart 10).



Government-issued currency notes and coins in circulation

The total amount of **Government-issued currency notes and coins in circulation was little changed at HK\$6.55 billion** at the end of the reporting period (Chart 11).



Aggregate Balance

Reflecting the purchases of Hong Kong dollars amounting to HK\$3.65 billion by the HKMA under the Convertibility Undertaking on 4 August, the Aggregate Balance fell. It remained stable afterwards and closed at HK\$7.54 billion at the end of the period (Chart 12 and Table 3).

CHART 12
Aggregate Balance
(before Discount Window activities)

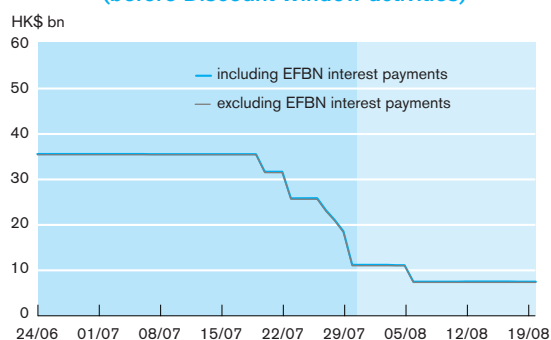


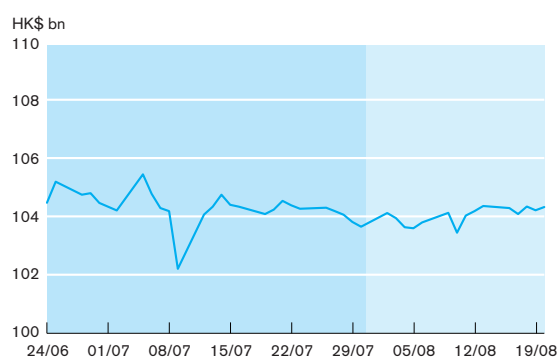
TABLE 3
HKMA HK\$/US\$ foreign exchange transactions
(2 August – 20 August 04)

Trade Date	Net HK\$ purchase (+) (HK\$mn)
4-August	+3647

Outstanding Exchange Fund Bills and Notes

The market value of outstanding Exchange Fund Bills and Notes increased moderately from HK\$123.78 billion to HK\$124.73 billion. Meanwhile, holdings of Exchange Fund paper by the banking sector (before Discount Window activity) increased from HK\$104.19 billion (84.17% of total) to HK\$104.39 billion (83.70% of total) (Chart 13).

CHART 13
Exchange Fund paper held by licensed banks



During the period, a total of HK\$0.07 billion of interest payments on Exchange Fund paper were made. Taking into account interest payments carried forward from the last reporting period, an additional HK\$0.13 billion (in market value) of Exchange Fund paper was issued to absorb these interest payments. All issues of Exchange Fund paper were well received by the market (Table 4).

TABLE 4
Issuance of Exchange Fund Bills and Notes
(2 August – 20 August 04)

	No. of issues launched	Over-subscription ratio
3-month EFB	3	1.99-5.57
6-month EFB	2	4.00-5.84
2-year EFN	1	3.44

Discount Window activity

For the period as a whole, seven banks borrowed a total of HK\$4.79 billion, compared with HK\$889 million in the preceding period (Chart 14). All borrowings used Exchange Fund paper as collateral (Table 5).

CHART 14
Discount Window borrowing

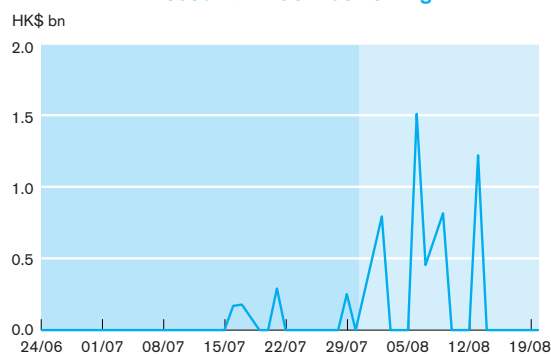
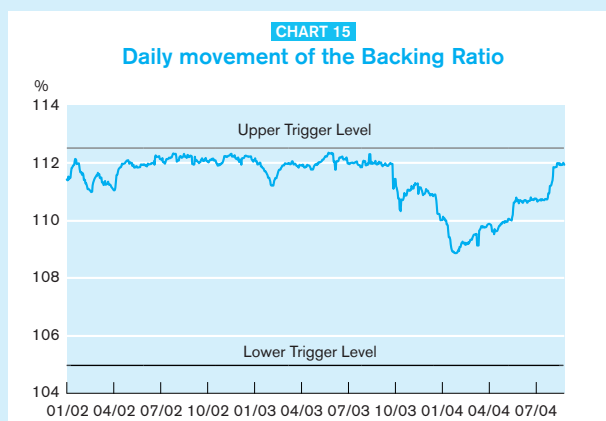


TABLE 5
Frequency of individual bank's access to the Discount Window
(2 August – 20 August 04)

Frequency of using Discount Window	No. of banks
1	5
2	1
3	1
Total	7

Backing Portfolio

Backing Assets decreased along with the decrease in the Aggregate Balance and CIs during the period. Nevertheless, as the Backing Assets decreased proportionally less than the Monetary Base, **the Backing Ratio increased from 111.83% on 2 August to 111.92% on 20 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.

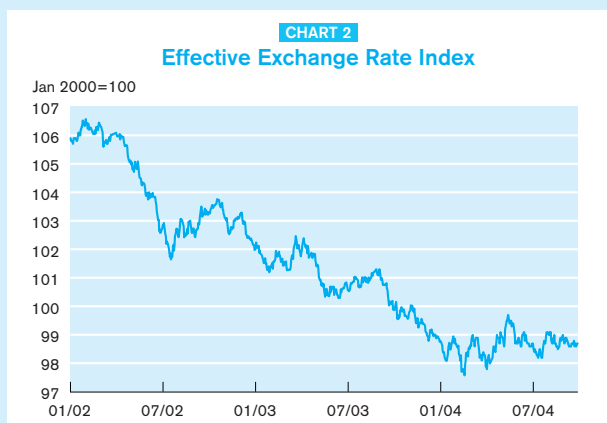
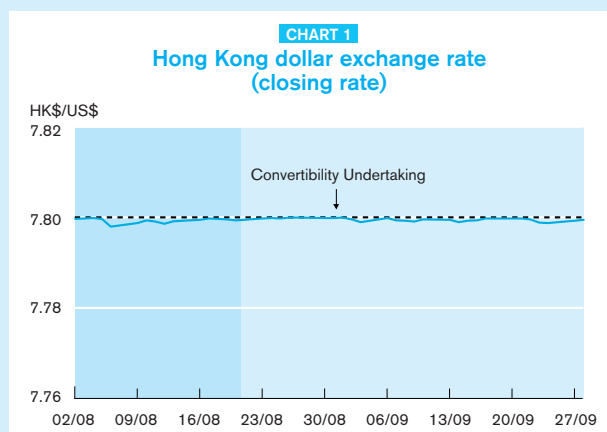


Report on Currency Board Operations (22 August – 28 September 2004)

The Hong Kong dollar exchange rate stayed near the Linked Rate, with the Convertibility Undertaking being triggered on several occasions. Short-term interbank interest rates rose markedly. The Monetary Base increased slightly from HK\$278.02 billion to HK\$278.42 billion during the period. 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

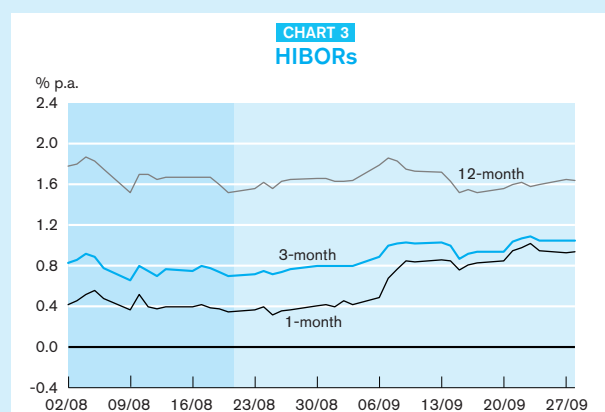
The **Hong Kong dollar exchange rate** stayed close to the Linked Rate and **closed at 7.7995** at the end of the period, with the Convertibility Undertaking being triggered on several occasions (Chart 1). Meanwhile, the effective exchange rate of the Hong Kong dollar was little changed (Chart 2).



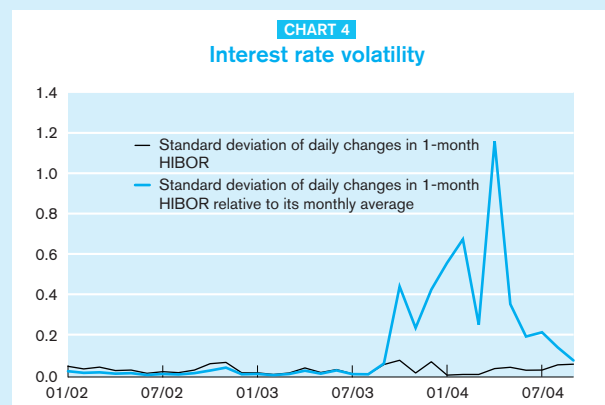
¹ The ratio of the standard deviation of daily changes in the 1-month HIBOR to its monthly average measures the extent of interest rate fluctuations relative to the average level of interest rates, which may vary over time.

Interest rates

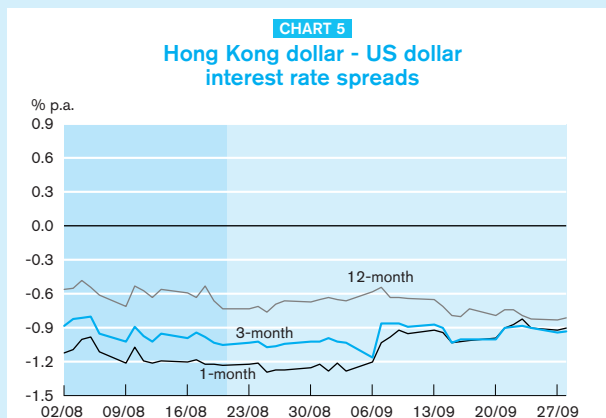
Hong Kong dollar interbank interest rates rose markedly at the short end during the reporting period. Specifically, the one-month and three-month HIBORs increased by 57 bp and 33 bp to close at 0.94% and 1.05% respectively. Meanwhile, 12-month HIBOR edged up by 8 bp to close at 1.64% (Chart 3).



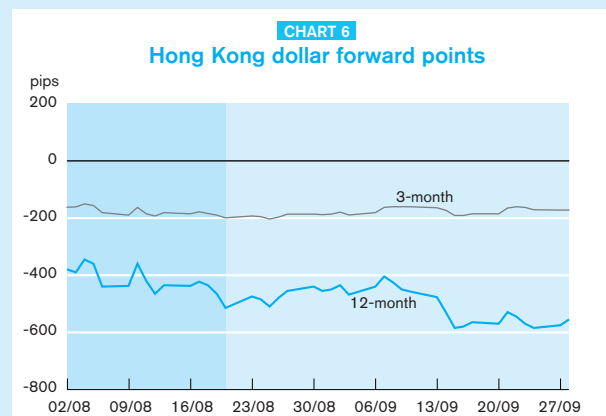
Interest rate volatility, as measured by the standard deviation of daily changes in one-month HIBOR, **remained low**. As a ratio to the average level of one-month HIBOR, it decreased in September, due to an increase in the latter (Chart 4).¹



Hong Kong dollar interbank interest rates remained below US dollar rates. The negative interest rate differentials narrowed during the period, with the one-month and three-month spreads closing at -90 bp and -93 bp respectively. Meanwhile, the 12-month spread widened by 8 bp to close at -81 bp (Chart 5).



Reflecting the movements in interest rate spreads, the **Hong Kong dollar 12-month forward discount increased by 80 pips to close at 555 pips.** Meanwhile, the three-month forward discount decreased by 21 pips to close at 172 pips (Chart 6).



Yields on Exchange Fund paper rose at the short end and eased at the long end during the period, largely reflecting the movements of the US Treasury yield curve (Chart 7). Separately, the negative yield spreads for five-year and 10-year paper both expanded to -29 bp at the end of the period (Table 1).

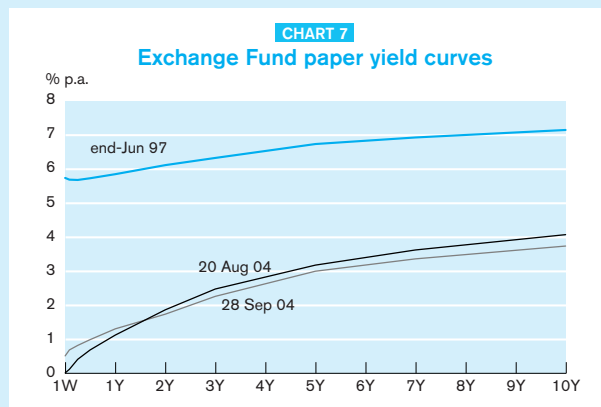
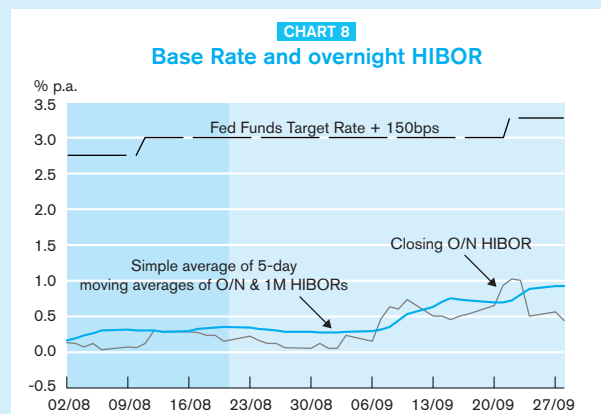


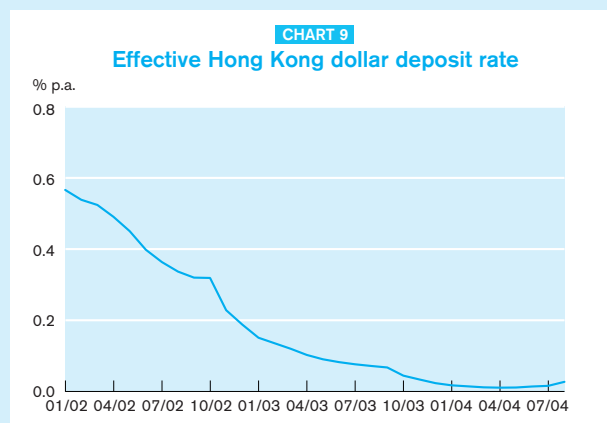
TABLE 1
Yield spreads of Exchange Fund paper over US Treasuries (basis points)

	27 Jun 97	20 Aug 04	28 Sep 04
3-month	56	-102	-91
1-year	21	-66	-82
3-year	3	-24	-54
5-year	27	-16	-29
10-year	54	-13	-29

Following the 25 bp rise in the US Fed funds target rate, the HKMA Base Rate was adjusted upward to 3.25% from 22 September onwards according to the established formula (Chart 8). Accordingly, **banks raised the Best Lending Rate, but by a smaller amount of 12.5 bp to 5.125%.**



The average one-month time deposit rate offered by major authorized institutions rose from 0.01% to 0.17% during the period.² Meanwhile, the effective deposit rate increased slightly to 0.02% in August (Chart 9).³



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 slightly from HK\$278.02 billion to HK\$278.42 billion** during the reporting period (Table 2). Movements in individual components are discussed below.

TABLE 2
Monetary Base

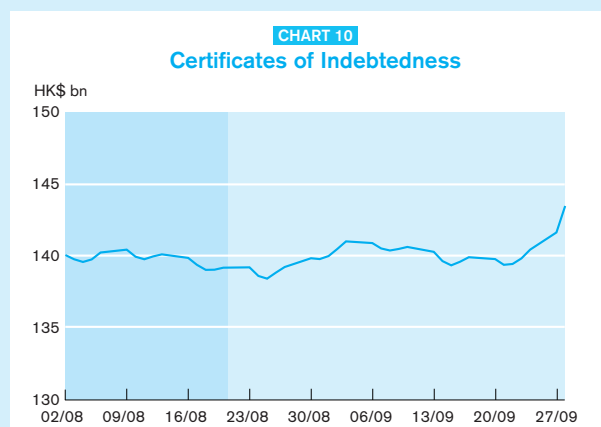
(HK\$ bn)	23 Aug 04	28 Sep 04
CIs	139.26	143.52
Government-issued Currency Notes and Coins in Circulation	6.55	6.56
Aggregate Balance	7.54	3.31
Outstanding EFBNs	124.67	125.05
Monetary Base	278.02	278.42

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.

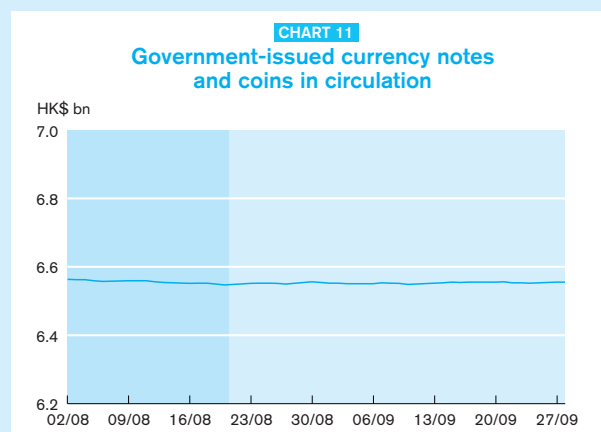
Certificates of Indebtedness

In the light of increased demand for banknotes during public holidays, the three note-issuing banks submitted a total of US\$0.55 billion in exchange for HK\$4.26 billion worth of Certificates of Indebtedness during the period. As a result, **the outstanding amount of CIs increased from HK\$139.26 billion to HK\$ 143.52 billion** (Chart 10).



Government-issued currency notes and coins in circulation

The total amount of **Government-issued currency notes and coins in circulation was little changed at HK\$6.56 billion** at the end of the reporting period (Chart 11).



Aggregate Balance

Reflecting the purchases of Hong Kong dollars amounting to HK\$4.29 billion by the HKMA under the Convertibility Undertaking in the middle of the reporting period, the Aggregate Balance shrank. It remained stable thereafter and closed at HK\$3.31 billion at the end of the period (Chart 12 and Table 3).

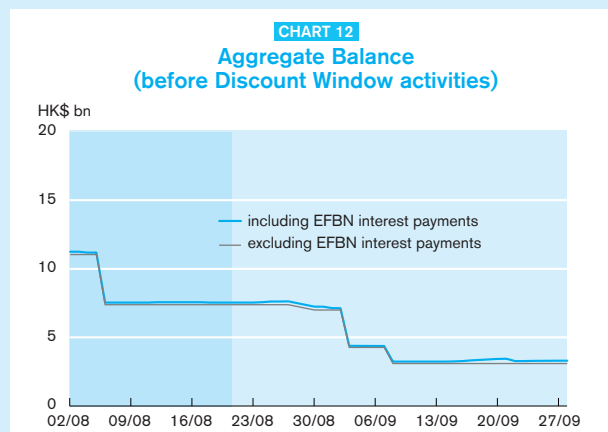
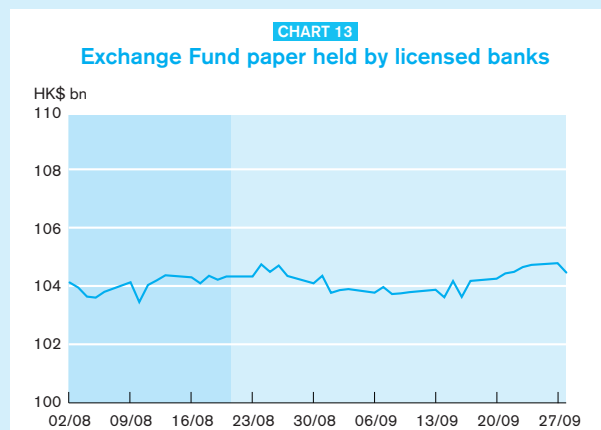


TABLE 3
HKMA HK\$/US\$ foreign exchange transactions
(22 August – 28 September 04)

Trade Date	Net HK\$ purchase (+) (HK\$m)
26-Aug	+390
1-Sep	+2730
6-Sep	+1170

Outstanding Exchange Fund Bills and Notes

The market value of outstanding Exchange Fund Bills and Notes increased modestly from HK\$124.67 billion to HK\$125.05 billion. Meanwhile, holdings of Exchange Fund paper by the banking sector (before Discount Window activities) increased from HK\$ 104.39 billion (83.73% of total) to HK\$104.53 billion (83.59% of total) (Chart 13).



During the period, a total of HK\$0.41 billion of interest payments on Exchange Fund paper were made. An additional HK\$0.31 billion (in market value) of Exchange Fund paper was issued to absorb these interest payments. All issues of Exchange Fund paper were well received by the market (Table 4). The remaining amount was carried forward in the Aggregate Balance.

TABLE 4
Issuance of Exchange Fund Bills and Notes
(22 Aug – 28 Sep 04)

	No. of issues launched	Over-subscription ratio
3-month EFB	6	3.08-5.22
6-month EFB	3	2.62-5.64
12-month EFB	2	2.40-4.75
5-year EFN	1	2.19
7-year EFN	1	2.06

Discount Window activity

For the period as a whole, **nine banks borrowed a total of HK\$1.22 billion from the Discount Window**, compared with HK\$4.79 billion in the preceding period (Chart 14). All borrowings used Exchange Fund paper as collateral (Table 5).

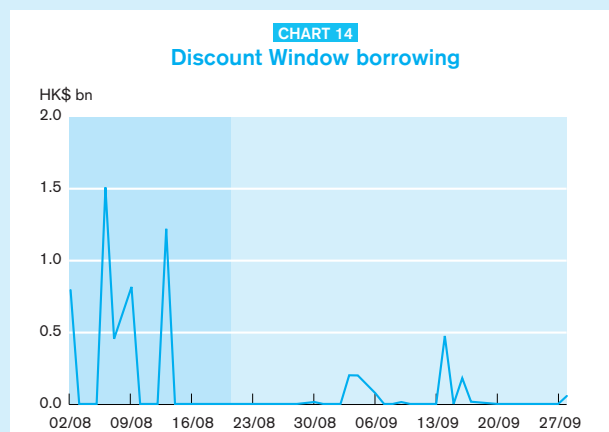


TABLE 5
Frequency of individual bank's access to the Discount Window (22 Aug – 28 Sep 04)

Frequency of using Discount Window	No. of banks
1	5
2	3
3	1
Total	9

Backing Portfolio

Backing Assets rose due to the increase in CIs, valuation gains and interest income during the period, which more than offset the contraction of the Aggregate Balance. As the Backing Assets increased proportionally more than the Monetary Base, **the Backing Ratio increased from 111.92% on 22 August to 111.99% on 28 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.

