

**EXCHANGE FUND ADVISORY COMMITTEE**

**Currency Board Sub-Committee**

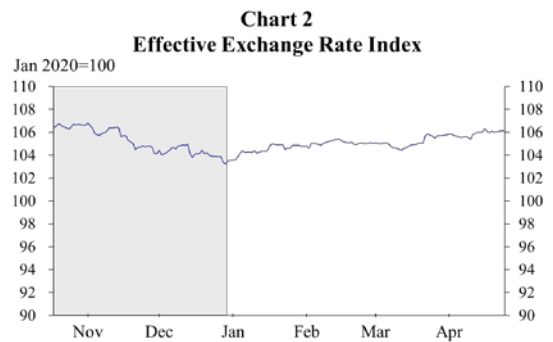
**Report on Currency Board Operations**

**Review period: 30 December 2023 – 24 April 2024**

During the review period, the Hong Kong dollar (HKD) traded within a range of 7.8067 – 7.8369 against the US dollar (USD). The HKD exchange rate moderated slightly amid softened liquidity but remained supported by net inflows through the Southbound Stock Connect. HKD interbank rates continued to track the USD rates while also being affected by local supply and demand. The HKD interbank market continued to trade in a smooth and orderly manner. The Convertibility Undertakings were not triggered and the Aggregate Balance was stable at around HK\$45 billion. No abnormality was noted in the usage of the Discount Window. Throughout the review period, the Monetary Base remained fully backed by US dollar foreign reserves, and all changes in the Monetary Base were fully matched by corresponding changes in US dollar foreign reserves in accordance with Currency Board principles.

## Hong Kong dollar exchange rate

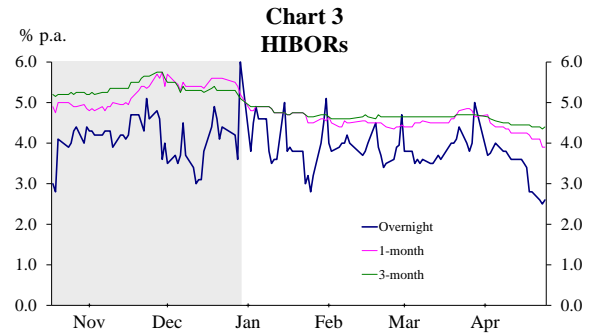
1. During the review period of 30 December 2023 to 24 April 2024, the HKD traded within a range of 7.8067 – 7.8369 against the USD (Chart 1).<sup>1</sup> The HKD exchange rate moderated slightly between January and April amid softened liquidity but remained supported by net inflows through the Southbound Stock Connect. Overall, the HKD continued to trade in a smooth and orderly manner during the review period, closing at 7.8322 on 24 April. The nominal effective exchange rate index of the HKD increased compared with the end of the preceding review period (Chart 2). This mainly reflected the movement of the USD against the currencies of the major trading partners of Hong Kong.



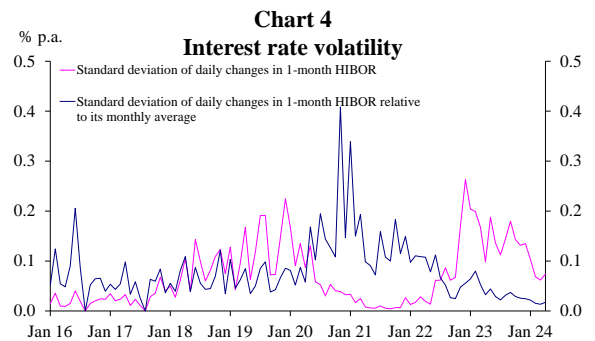
<sup>1</sup> In this report, daily time series charts also cover developments in the preceding review period (as shown in shaded region) for reference and comparison.

## Interest rates

2. The HKD interbank market continued to trade in a smooth and orderly manner. The 1-month and 3-month HKD interbank rates (HIBORs) continued to track the USD rates while also being affected by local supply and demand. For the review period as a whole, **the 1-month HIBOR and 3-month HIBOR decreased** by 90 basis points and 50 basis points to 3.90% and 4.40% respectively at the end of the review period (Chart 3). Meanwhile, **the overnight HIBOR decreased** to 2.60% at the end of the review period.

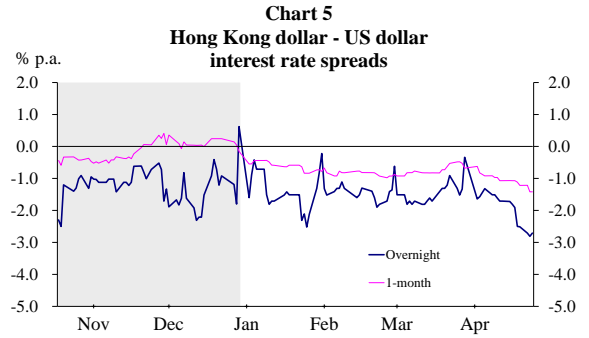


3. **Interest rate volatility**, measured by the standard deviation of daily changes in the 1-month HIBOR, **decreased** to 8 basis points (or 0.08%) in the current review period from 13 basis points (or 0.13%) in the preceding review period (Chart 4). Meanwhile, the standard deviation as a ratio of the average of the 1-month HIBOR hovered at a relatively low level.<sup>2</sup>

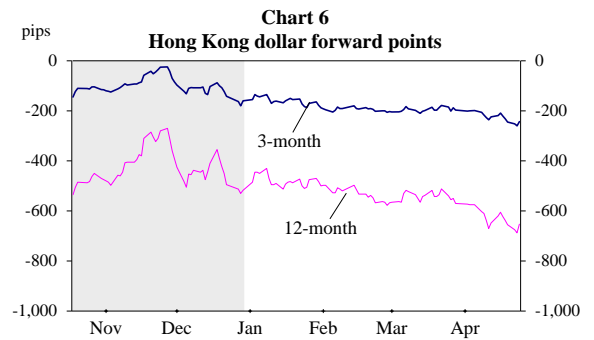


<sup>2</sup> The ratio of the standard deviation of daily changes in the 1-month HIBOR to its monthly average measures the extent of interest rate fluctuations relative to the average level of interest rates.

4. **The short-term negative HKD-USD interest rate spreads generally widened during the review period (Chart 5).**<sup>3</sup> The overnight and 1-month interest rate spreads closed at -271 and -142 basis points respectively at the end of the review period.

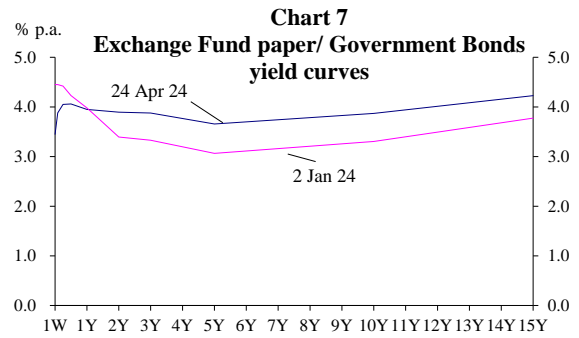


5. **Both the 3-month and 12-month forward discounts widened,** closing at 243 pips and 653 pips respectively at the end of the review period (Chart 6).



<sup>3</sup> The USD London Interbank Offered Rate (LIBOR) has been discontinued since 1 July 2023 and replaced by the Secured Overnight Financing Rate (SOFR) as its alternative reference rate.

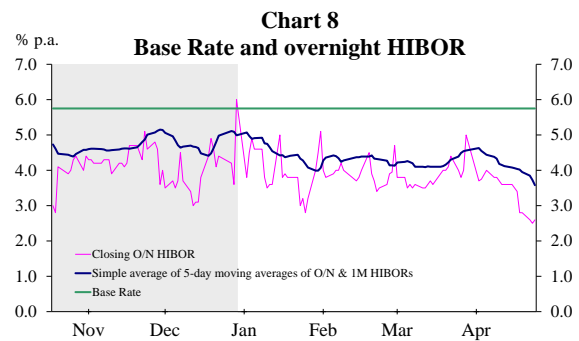
6. During the review period, HKD yields decreased at the shorter-end while shifting upward at the longer end (Chart 7). The yield of the 1-year Exchange Fund Bill decreased by 3 basis points to 3.95% at the end of the review period, and that of the 10-year Hong Kong Government Bond increased by 57 basis points to 3.87%. The negative HKD-USD yield spread widened across all tenors (Table 1).



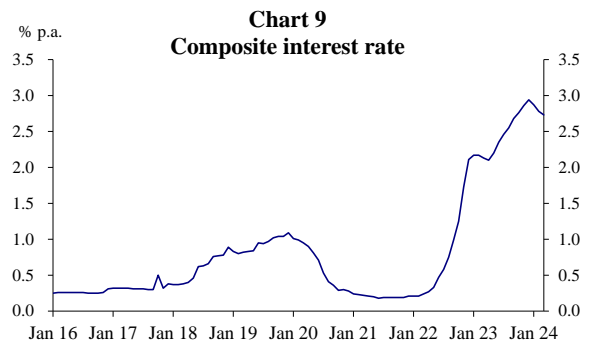
**Table 1**  
**Yield spreads of Exchange Fund papers and Hong Kong Government Bonds over US Treasuries (basis points)**

	2 Jan 24	24 Apr 24
3-month EFB	-104	-141
12-month EFB	-82	-122
3-year HKGB	-76	-90
5-year HKGB	-87	-98
10-year HKGB	-65	-78

7. During the review period, the target range for the US Federal Funds Rate remained unchanged at 5.25% – 5.50%. As such, the **HKMA Base Rate remained unchanged at 5.75%** according to the established formula (Chart 8), with the Base Rate 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 HIBORs, whichever is the higher.



8. During the review period, **banks kept their Best Lending Rates unchanged.** The Best Lending Rates in the market continued to range from 5.875% – 6.375%. The average interest rate for newly approved mortgage loans remained virtually unchanged at 4.13% between December 2023 and March 2024. Meanwhile, the average 1-month HKD time deposit board rate offered by retail banks remained unchanged at 0.57% at the end of the review period.<sup>4</sup> **The composite interest rate,**<sup>5</sup> which indicates the average funding cost of retail banks, **decreased** from 2.94% at the end of December 2023 to 2.73% at the end of March 2024 (Chart 9).



<sup>4</sup> The figure refers to the average interest rate offered by major authorized institutions for 1-month time deposits of less than HK\$100,000.

<sup>5</sup> This is a weighted average interest rate of all HKD interest-rate-sensitive liabilities, which include deposits from customers, amounts due to banks, negotiable certificates of deposit and other debt instruments, and all other liabilities that do not involve any formal payment of interest but the values of which are sensitive to interest rate movements (such as HKD non-interest bearing demand deposits) on the books of banks. Data from retail banks, which account for about 90% of the total customers' deposits in the banking sector, are used in the calculation.

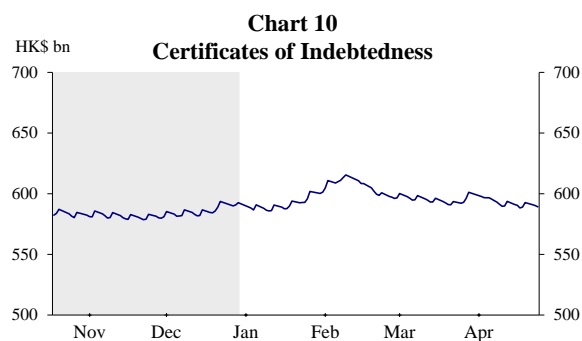
## Monetary Base

9. **The Monetary Base**, which consists of Certificates of Indebtedness (CIs), government-issued currency notes and coins in circulation, the Aggregate Balance, and Exchange Fund Bills and Notes (EFBNs), **increased to HK\$1,909.96 billion on 24 April 2024 from HK\$1,893.13 billion on 2 January 2024** (Table 2). Movements of the individual components are discussed below.

(HK\$bn)	2 Jan 2024	24 Apr 2024
CIs	589.13	589.20
Government-issued Currency Notes and Coins in Circulation	13.19	13.19
Aggregate Balance	44.95	44.71
Outstanding EFBNs	1,245.87	1262.87
<b>Monetary Base</b>	<b>1,893.13</b>	<b>1,909.96</b>

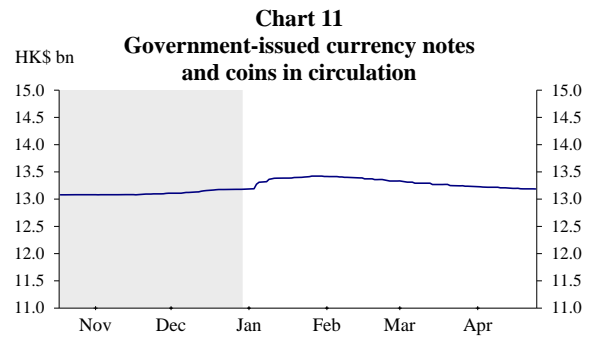
### *Certificates of Indebtedness*

10. During the review period, the note-issuing banks submitted a net amount of US\$0.01 billion to the HKMA in exchange for HK\$0.07 billion worth of CIs. As a result, **the outstanding CIs increased to HK\$589.20 billion on 24 April 2024 from HK\$589.13 billion on 2 January 2024** (Chart 10).



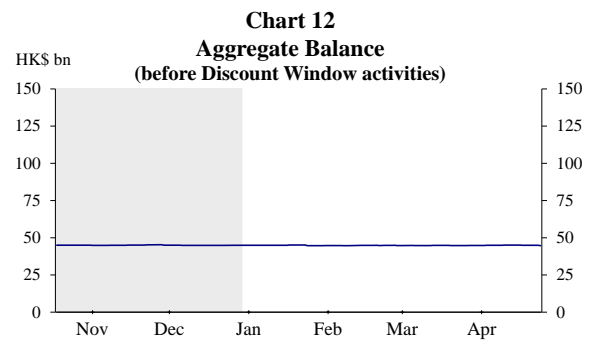
*Government-issued currency notes and coins in circulation*

11. During the review period, the amount of **government-issued currency notes and coins in circulation were little changed** at HK\$13.19 billion (Chart 11).



*Aggregate Balance*

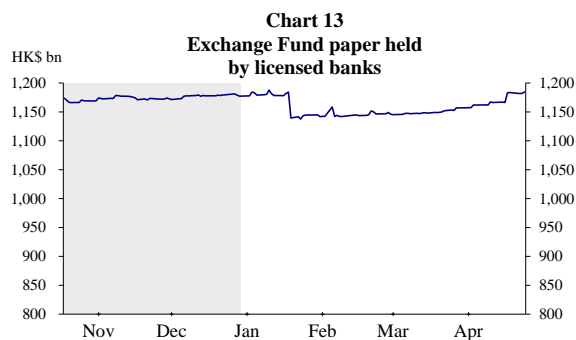
12. During the review period, the Convertibility Undertakings were not triggered and **the Aggregate Balance was little changed** at around **HK\$44.71 billion** (Chart 12).





*Outstanding Exchange Fund Bills and Notes*

13. **The market value of the outstanding EFBNs increased to HK\$1,262.87 billion during the review period. Holdings of Exchange Fund papers by the banking sector (before Discount Window activities) increased to HK\$1,184.67 billion (93.8% of total) from HK\$1,177.75 billion (94.5% of total) (Chart 13).**

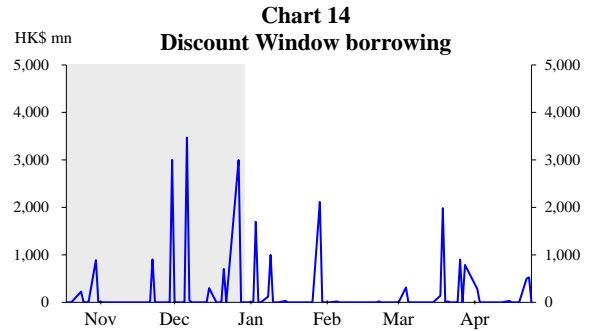


14. During the review period, **interest payments on Exchange Fund papers amounted to HK\$16,849.31 million. A total of HK\$17,160.83 million (in market value) of Exchange Fund papers were issued to absorb these interest payments.** The Exchange Fund papers issued during the review period were generally well received by the market (Table 3).

	No. of issues launched	Over-subscription ratio
1-month EFB	5	2.83 – 4.05
3-month EFB	17	0.92 – 2.20
6-month EFB	17	1.24 – 2.63
12-month EFB	4	2.99 – 4.02
2-year EFN	1	1.48

### Discount Window activities

15. During the review period, a total of HK\$10,476 million was borrowed from the Discount Window, compared with HK\$12,535 million in the preceding review period from 18 October 2023 to 29 December 2023 (Chart 14). No abnormality was noted in the relevant usage.



### Backing Portfolio

16. The Backing Assets increased to HK\$2,119.95 billion on 24 April 2024. **The Backing Ratio increased to 110.98% from 110.74% during the review period** (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 HKD exchange rate.

