

EXCHANGE FUND ADVISORY COMMITTEE

Currency Board Sub-Committee

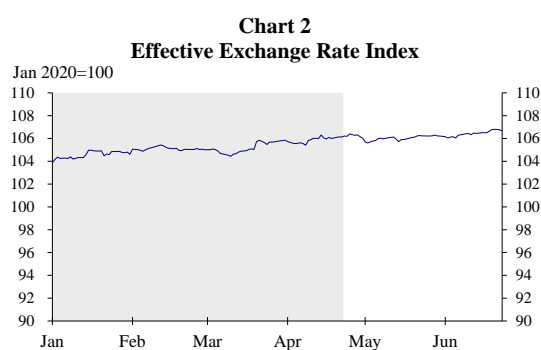
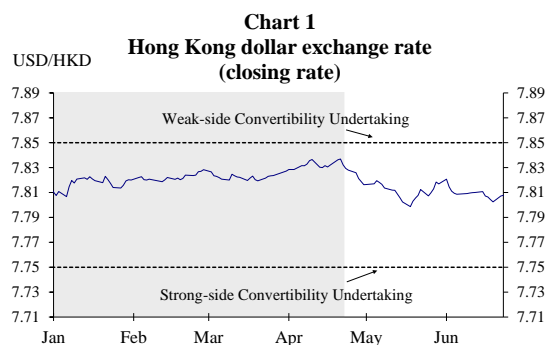
Report on Currency Board Operations

Review period: 25 April – 25 June 2024

During the review period, the Hong Kong dollar (HKD) traded within a range of 7.7987 – 7.8294 against the US dollar (USD). The HKD exchange rate strengthened between late April to mid-May, supported by dividend-related funding demand and vibrant equity market activities, and then remained largely stable. 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

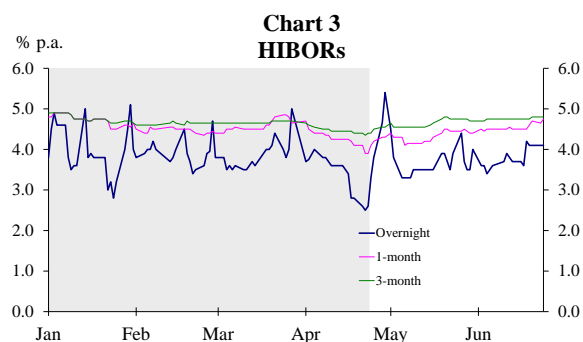
1. During the review period of 25 April to 25 June 2024, the **HKD traded within a range of 7.7987 – 7.8294 against the USD** (Chart 1).¹ The HKD exchange rate strengthened between late April and mid-May, supported by dividend-related funding demand and vibrant equity market activities, and then remained largely stable. Overall, the HKD continued to trade in a smooth and orderly manner during the review period, closing at 7.8078 on 25 June. 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.



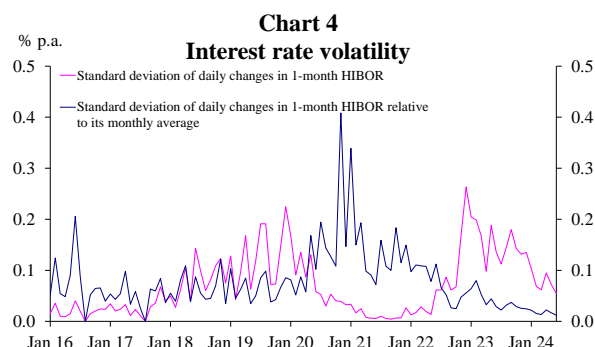
¹ In this report, daily time series charts also cover developments in the preceding review period (as shown in shaded region) for reference and comparison.

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 increased** by 65 basis points and 40 basis points to 4.75% and 4.80% respectively at the end of the review period (Chart 3). Meanwhile, **the overnight HIBOR increased** to 4.10% at the end of the review period.

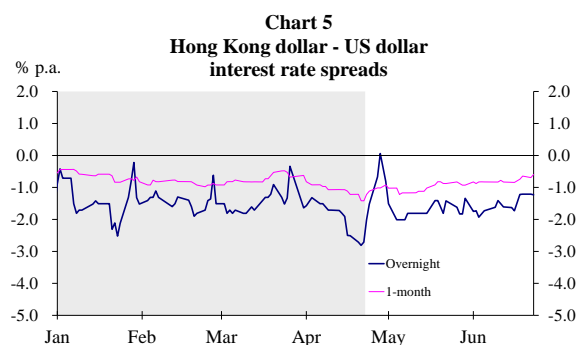


3. **Interest rate volatility**, measured by the standard deviation of daily changes in the 1-month HIBOR, **decreased** to 7 basis points (or 0.07%) in the current review period from 8 basis points (or 0.08%) in the preceding review period (Chart 4). Meanwhile, the standard deviation as a ratio of the average of the 1-month HIBOR hovered at a relatively low level.²

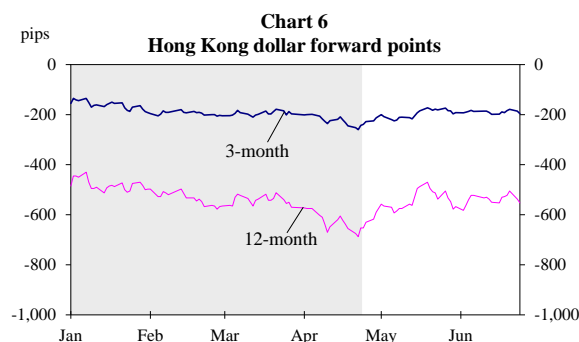


² The ratio of the standard deviation of daily changes in the 1-month HIBOR to its monthly average measures the extent of interest rate fluctuations relative to the average level of interest rates.

4. **The short-term negative HKD-USD interest rate spreads generally narrowed during the review period** (Chart 5).³ The overnight and 1-month interest rate spreads closed at -123 and -60 basis points respectively at the end of the review period.



5. **Both the 3-month and 12-month forward discounts narrowed**, closing at 196 pips and 553 pips respectively at the end of the review period (Chart 6).



³ 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 increased at the shorter end while shifting downward at the longer end (Chart 7). The yield of the 1-year Exchange Fund Bill increased by 26 basis points to 4.26% at the end of the review period, and that of the 10-year Hong Kong Government Bond decreased by 45 basis points to 3.46%. The negative HKD-USD yield spread narrowed across all tenors (Table 1).

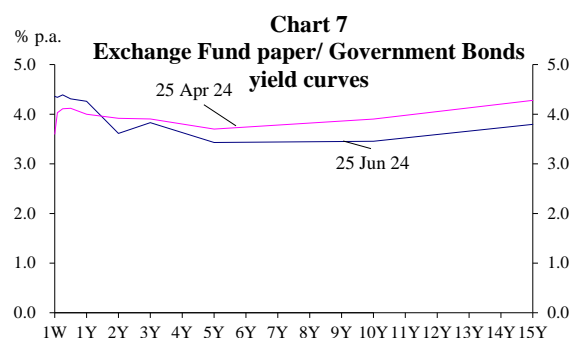
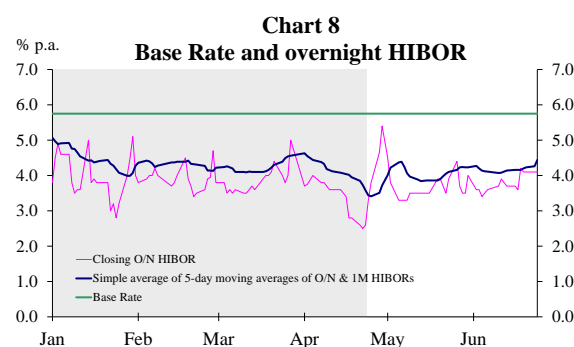


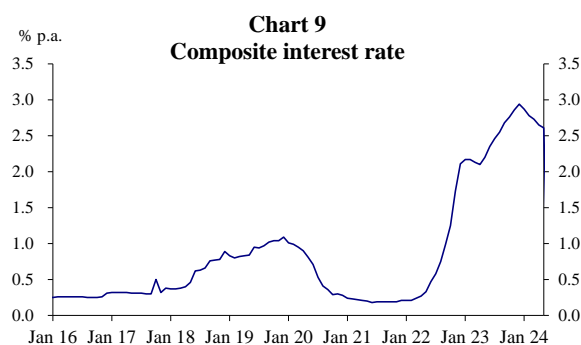
Table 1
Yield spreads of Exchange Fund papers and Hong Kong Government Bonds over US Treasuries (basis points)

	25 Apr 24	25 Jun 24
3-month EFB	-136	-110
12-month EFB	-121	-84
3-year HKGB	-94	-62
5-year HKGB	-100	-82
10-year HKGB	-80	-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 March 2024 and May 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.⁴ **The composite interest rate,**⁵ which indicates the average funding cost of retail banks, **decreased** from 2.73% at the end of March 2024 to 2.61% at the end of May 2024 (Chart 9).



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

⁵ 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.

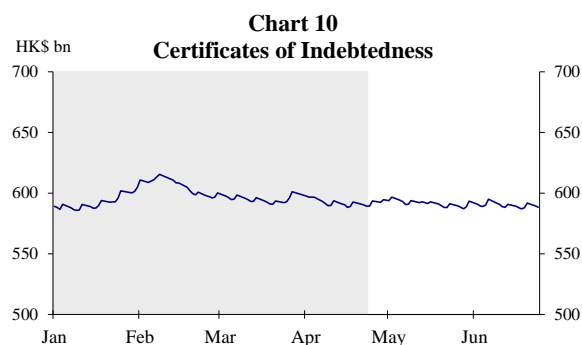
Monetary Base

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\$1,917.51 billion on 25 June 2024 from HK\$1,910.24 billion on 25 April 2024** (Table 2). Movements of the individual components are discussed below.

Table 2 Monetary Base		
(HK\$bn)	25 Apr 24	25 Jun 24
CIs	589.45	588.43
Government-issued Currency Notes and Coins in Circulation	13.18	13.13
Aggregate Balance	44.71	44.78
Outstanding EFBNs	1,262.91	1,271.18
Monetary Base	1,910.24	1,917.51

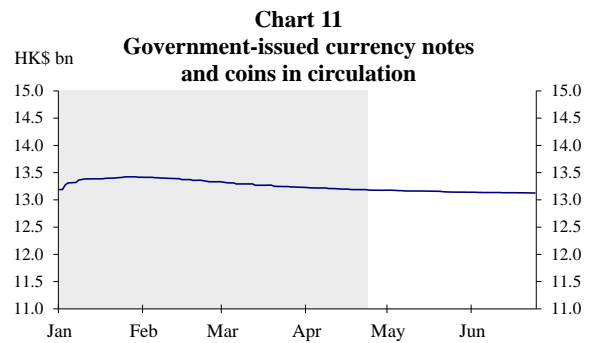
Certificates of Indebtedness

10. During the review period, the note-issuing banks redeemed HK\$1.02 billion worth of CIs from the HKMA in exchange for a net amount of US\$0.13 billion. As a result, **the outstanding CIs decreased to HK\$588.43 billion on 25 June 2024 from HK\$589.45 billion on 25 April 2024** (Chart 10).



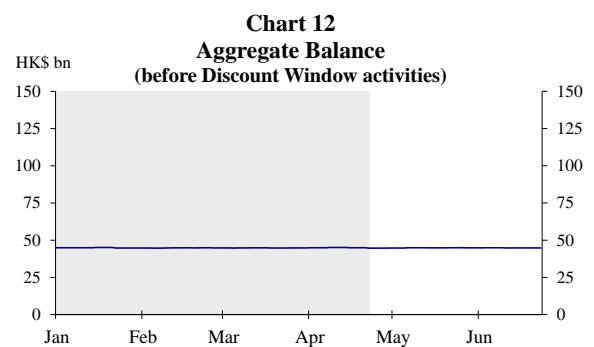
Government-issued currency notes and coins in circulation

11. During the review period, the amount of **government-issued currency notes and coins in circulation** were little changed at HK\$13.13 billion (Chart 11).



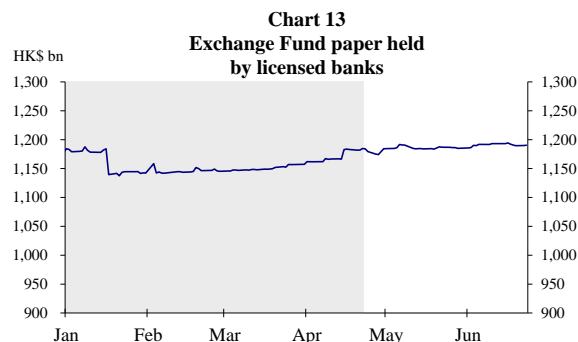
Aggregate Balance

12. During the review period, the Convertibility Undertakings were not triggered and **the Aggregate Balance** was little changed at around **HK\$44.78 billion** (Chart 12).



Outstanding Exchange Fund Bills and Notes

13. **The market value of the outstanding EFBNs increased to HK\$1,271.18 billion during the review period. Holdings of Exchange Fund papers by the banking sector (before Discount Window activities) increased to HK\$1,190.42 billion (93.6% of total) from HK\$1,184.14 billion (93.8% of total) (Chart 13).**

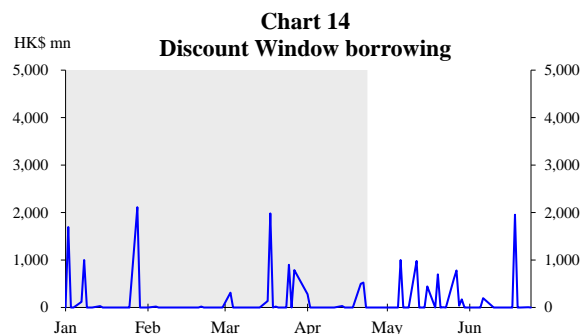


14. During the review period, **interest payments on Exchange Fund papers amounted to HK\$7,959.21 million. A total of HK\$7,924.29 million (in market value) of Exchange Fund papers were issued to absorb these interest payments.** The remaining amount was carried forward in the Aggregate Balance at the end of the review period. The Exchange Fund papers issued during the review period were generally well received by the market (Table 3).

Table 3 Issuance of Exchange Fund Bills and Notes (25 Apr 24 – 25 Jun 24)		
	No. of issues launched	Over-subscription ratio
1-month EFB	1	4.38
3-month EFB	9	0.98 – 1.57
6-month EFB	9	1.39 – 2.99
12-month EFB	2	3.68 – 4.86
2-year EFN	1	1.38

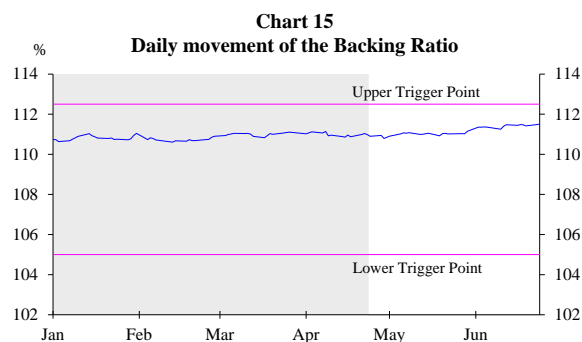
Discount Window activities

15. During the review period, a total of **HK\$6,877 million** was borrowed from the Discount Window, compared with HK\$10,476 million in the preceding review period from 30 December 2023 to 24 April 2024 (Chart 14). No abnormality was noted in the relevant usage.



Backing Portfolio

16. The Backing Assets increased to HK\$2138.33 billion on 25 June 2024. **The Backing Ratio increased to 111.51% from 110.90% 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.



Hong Kong Monetary Authority
16 August 2024