

EXCHANGE FUND ADVISORY COMMITTEE

Currency Board Sub-Committee

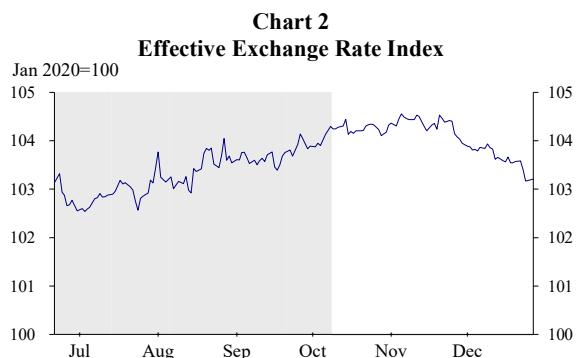
Report on Currency Board Operations

Review period: 9 October 2025 – 29 December 2025

During the review period, the Hong Kong dollar (HKD) traded within a range of 7.7673 – 7.7900 against the US dollar (USD). The HKD strengthened in mid-October, supported by demand for dividend payments and continued net inflows from the Southbound Stock Connect, and eased in mid-November amid softened interest rates before firming towards the year-end on seasonal demand. While HKD interbank rates (HIBORs) generally track their USD counterparts under the Linked Exchange Rate System, they are also influenced by the local supply and demand of HKD funding. HIBORs generally eased during October and November, driven by equity-related demand, before firming again towards the year-end on seasonal factors. Overall, the HKD and the HKD interbank market continued to trade in a smooth and orderly manner. Meanwhile, with the decrease in the target range for the US federal funds rate in Q4, many banks reduced their Best Lending Rates by 12.5 basis points in early November and did not further cut the rates in December, with the Best Lending Rates in the market ranging from 5.000% – 5.500% at the end of the review period. The Convertibility Undertakings (CUs) were not triggered and the Aggregate Balance was stable at around HK\$54 billion. No abnormality was noted in the usage of the Discount Window. Throughout the review period, the Monetary Base remained fully backed by USD foreign reserves, and all changes in the Monetary Base were fully matched by corresponding changes in USD foreign reserves in accordance with Currency Board principles.

Hong Kong dollar exchange rate

1. During the review period of 9 October to 29 December 2025, the HKD traded within a range of 7.7673 – 7.7900 against the USD (Chart 1).¹ The HKD strengthened in mid-October, supported by demand for dividend payments and continued net inflows from the Southbound Stock Connect, and eased in mid-November amid softened interest rates before firming towards the year-end on seasonal demand. Overall, the HKD continued to trade in a smooth and orderly manner during the review period, closing at 7.7736 on 29 December. The nominal effective exchange rate index of the HKD increased slightly from early-October to late-November, and declined thereafter to a lower level than 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.

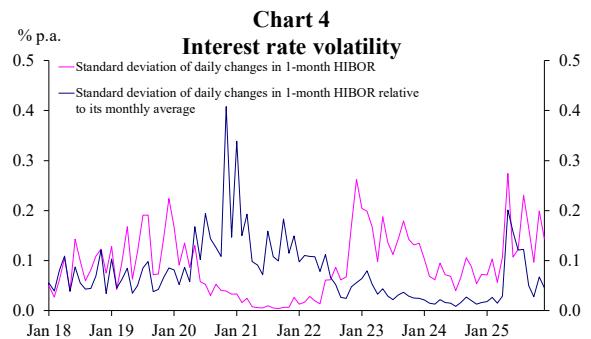
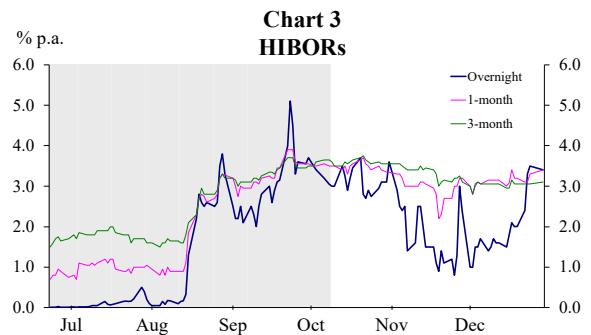


¹ In this report, daily time series charts also cover developments in the preceding review period (as shown in the shaded region) for reference and comparison.

Interest rates

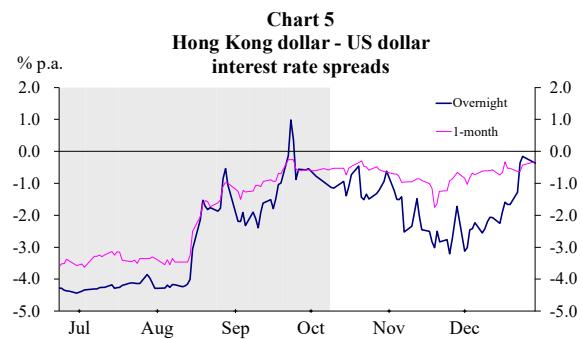
2. The HKD interbank market continued to trade in a smooth and orderly manner. HIBORs generally eased during October and November, driven by equity-related demand, before firming again towards the year-end on seasonal factors. For the review period as a whole, **the 1-month HIBOR and 3-month HIBOR decreased** by 10 basis points and 50 basis points to 3.40% and 3.10% respectively (Chart 3). Meanwhile, **the overnight HIBOR increased** to 3.40% 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 16 basis points (or 0.16%) in the current review period from 17 basis points (or 0.17%) 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

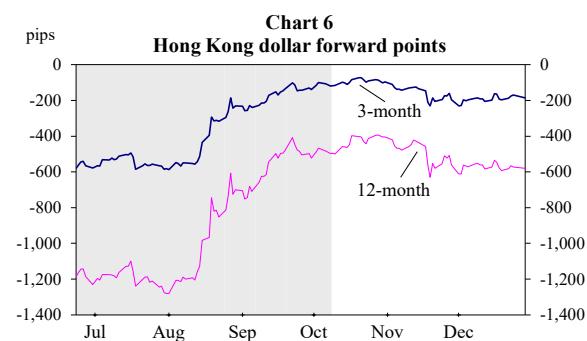


² The ratio of the standard deviation of daily changes in the 1-month HIBOR to its monthly average measures the extent of interest rate fluctuations relative to the average level of interest rates.

4. The short-term negative HKD-USD interest rate spreads widened during October and November before narrowing in December (Chart 5).³ The overnight and 1-month spreads closed at -37 basis points and -32 basis points at the end of the review period.



5. Both 3-month and 12-month forward discounts widened, closing at 185 pips and 580 pips respectively at the end of the review period (Chart 6).



6. During the review period, HKD yields decreased at the shorter end (Chart 7). The yield of the 1-year Exchange Fund Bill decreased by 20 basis points to 2.45% at the end of the review period, while that of the 10-year Hong Kong Government Bond remained virtually unchanged at 2.98%. While the negative HKD-USD yield spreads widened at the 3-month and 12-month tenors, negative yield spreads at other tenors narrowed (Table 1).

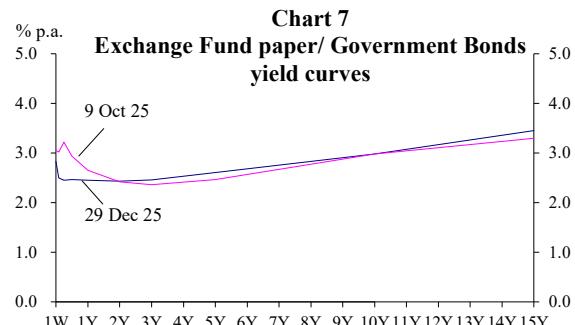
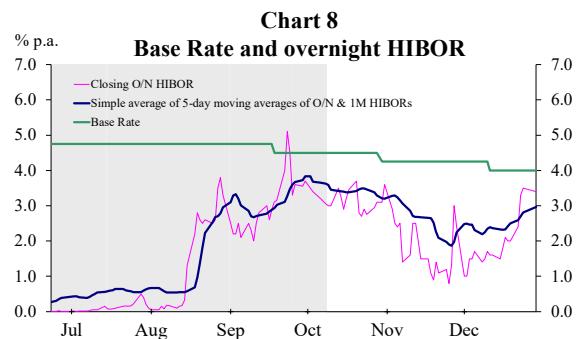


Table 1
Yield spreads of Exchange Fund papers and Hong Kong Government Bonds over US Treasuries (basis points)

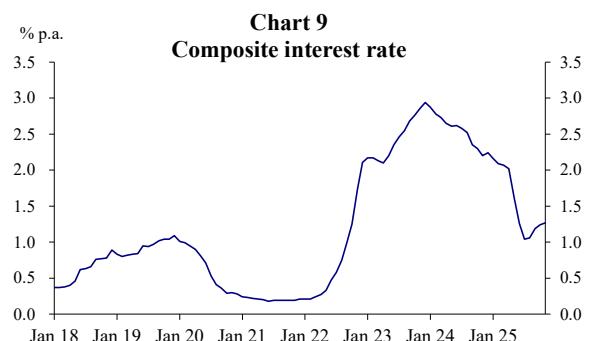
	9 Oct 25	29 Dec 25
3-month EFB	-81	-123
12-month EFB	-101	-103
3-year HKGB	-123	-105
5-year HKGB	-128	-106
10-year HKGB	-116	-114

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.

7. Following the decrease in the US federal funds target range from 4.00% – 4.25% to 3.75% – 4.00% on 29 October (US time) and further to 3.50% – 3.75% on 10 December (US time), **the HKMA Base Rate decreased from 4.50% to 4.25% on 30 October and further to 4.00% on 11 December** 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 5-day moving averages of the overnight and 1-month HIBORs, whichever is the higher.



8. With the decrease in the target range for the US federal funds rate in Q4, **many banks reduced their Best Lending Rates by 12.5 basis points in early November and did not further cut the rates in December** as deposit rates were already close to zero. At the end of the review period, the Best Lending Rates in the market ranged from 5.000% – 5.500%. The average interest rate for newly approved mortgage loans decreased from 3.47% in September to 3.26% in November. Meanwhile, the average 1-month HKD time deposit board rate offered by retail banks decreased from 0.14% to 0.10%



during the review period.⁴ **The composite interest rate**,⁵ which indicates the average funding cost of retail banks, **increased** from 1.19% at the end of September to 1.27% at the end of November (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.

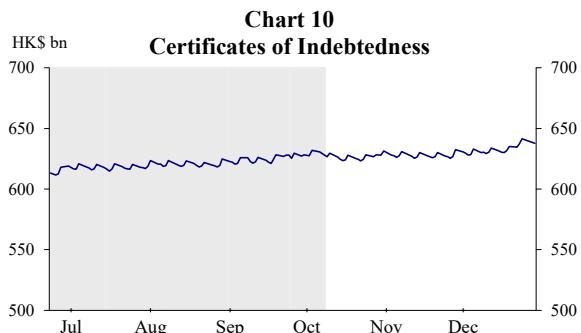
Monetary Base

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\$2,040.65 billion on 29 December from HK\$2,019.41 billion on 9 October** (Table 2). Movements of the individual components are discussed below.

Certificates of Indebtedness

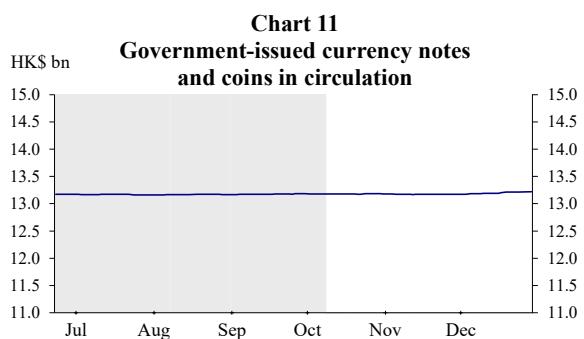
10. During the review period, the note-issuing banks submitted a net amount of US\$1.43 billion to the HKMA in exchange for HK\$11.17 billion worth of CIs. As a result, **the outstanding CIs increased to HK\$637.84 billion on 29 December from HK\$626.67 billion on 9 October** (Chart 10).

Table 2 Monetary Base		
(HK\$bn)	9 Oct 25	29 Dec 25
CIs	626.67	637.84
Government-issued Currency Notes and Coins in Circulation	13.18	13.22
Aggregate Balance	54.17	53.95
Outstanding EFBNs	1,325.40	1,335.65
Monetary Base	2,019.41	2,040.65



Government-issued currency notes and coins in circulation

11. During the review period, the amounts of **government-issued currency notes and coins in circulation were little changed** at HK\$13.22 billion (Chart 11).



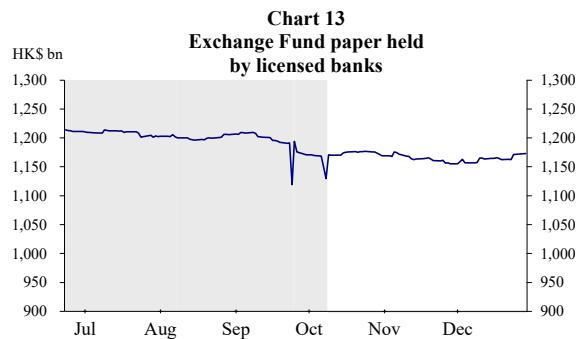
Aggregate Balance

12. During the review period, the CUs were not triggered and **the Aggregate Balance was little changed at around HK\$53.95 billion** (Chart 12).



Outstanding Exchange Fund Bills and Notes

13. The market value of the outstanding EFBNs increased to HK\$1,335.65 billion during the review period. Holdings of Exchange Fund papers by the banking sector (before Discount Window activities) increased to HK\$1173.01 billion (87.8% of total) from HK\$1170.69 billion (88.3% of total) (Chart 13).



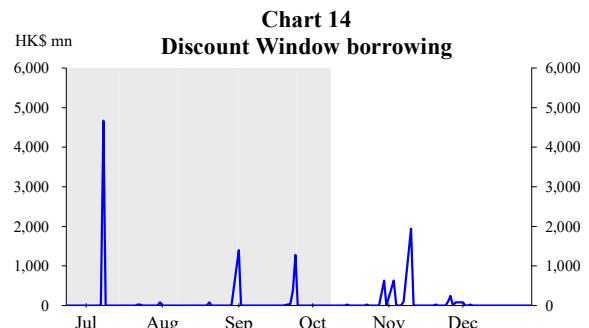
14. During the review period, interest payments on Exchange Fund papers amounted to HK\$7,915.88 million. A total of HK\$8,139.27 million (in market value) of Exchange Fund papers were issued to absorb these interest payments. The Exchange Fund papers issued during the review period were generally well received by the market (Table 3).

Table 3
Issuance of Exchange Fund Bills and Notes (9 Oct 25 – 29 Dec 25)

	No. of issues launched	Over-subscription ratio
1-month EFB	0	-
3-month EFB	11	1.17 – 1.94
6-month EFB	11	1.8 – 3.63
12-month EFB	3	3.55 – 5.71
2-year EFN	1	2.02

Discount Window activities

15. During the review period, a total of HK\$3,884 million was borrowed from the Discount Window, compared with HK\$7,956 million in the preceding review period from 21 June 2025 to 8 October 2025 (Chart 14). No abnormality was noted in the relevant usage.



Backing Portfolio

16. The Backing Assets increased to HK\$2,249.55 billion on 29 December. The Backing Ratio increased to 110.24% from 109.88% 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.

