

EXCHANGE FUND ADVISORY COMMITTEE

Currency Board Sub-Committee

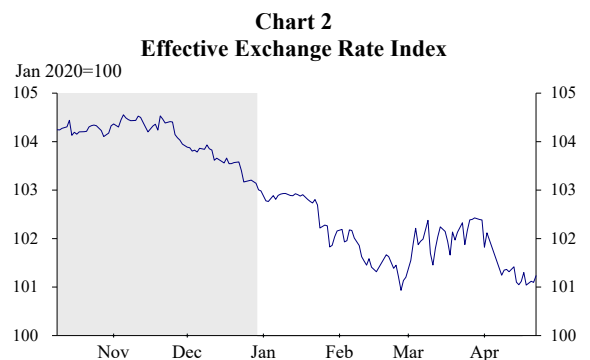
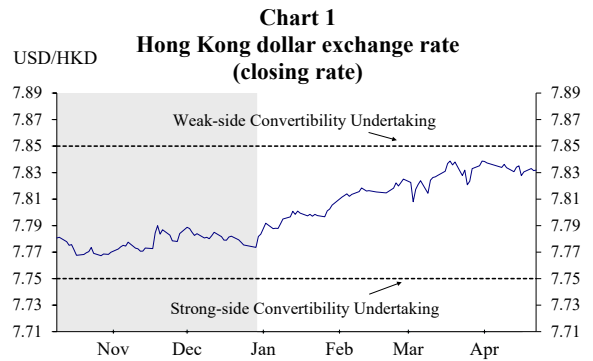
Report on Currency Board Operations

Review period: 30 December 2025 – 22 April 2026

During the review period, the Hong Kong dollar (HKD) traded within a range of 7.7818 – 7.8387 against the US dollar (USD). The HKD eased in early 2026 as HKD interbank rates (HIBORs) softened upon the fading of year-end funding demand, thereby increasing the incentive for carry trade activities. With uncertainty arising from the Middle East conflict in early March, investors unwound short HKD positions and drove the HKD stronger. Nonetheless, carry trade activities incentivised by HKD interest rates moving lower than their USD peers have brought the HKD weaker, and the thin liquidity due to global risk-off sentiment has exaggerated the spot price movements. Towards the quarter end, the HKD rebounded slightly due to the unwinding short positions as short-dated interest rates firmed. While 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. Capital market-related HKD funding demand subsided amid the escalating geopolitical risk in the Middle East. HKD short-dated interest rates eased gradually in response, before firming again towards the quarter end and remaining firm thereafter. Overall, the HKD and the HKD interbank market continued to trade in a smooth and orderly manner. The Convertibility Undertakings (CUs) were not triggered and the Aggregate Balance was stable at 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

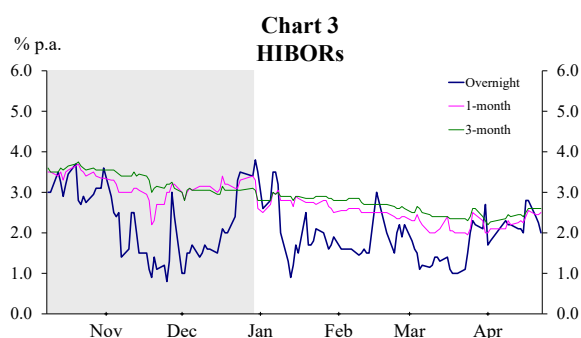
1. During the review period of 30 December 2025 to 22 April 2026, **the HKD traded within a range of 7.7818 – 7.8387 against the USD** (Chart 1).¹ The HKD eased in early 2026 as softened short-term interest rates increased the incentive for carry trade activities. With uncertainty arising from the Middle East conflict in early March, investors unwound short HKD positions and drove the HKD stronger. Nonetheless, carry trade activities incentivised by HKD interest rates moving lower than their USD peers have brought the HKD weaker, and the thin liquidity due to global risk-off sentiment has exaggerated the spot price movements. Towards the quarter end, the HKD rebounded slightly due to the unwinding of short positions as short-dated interest rates firmed. Overall, the HKD continued to trade in a smooth and orderly manner during the review period, closing at 7.8319 on 22 April. The nominal effective exchange rate index of the HKD decreased 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.



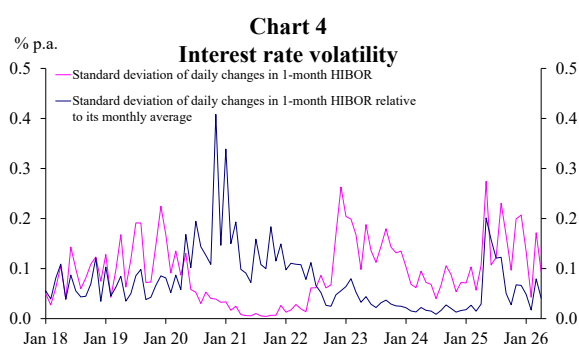
¹ In this report, daily time series charts also cover developments in the preceding review period (as shown in the shaded region) for reference and comparison.

Interest rates

2. The HKD interbank market continued to trade in a smooth and orderly manner. HIBORs eased in early 2026 upon the fading of year-end funding demand. Capital market-related HKD funding demand subsided amid the escalating geopolitical risk in the Middle East. HKD short-dated interest rates eased gradually in response, before firming again towards the quarter end and remaining firm thereafter. For the review period as a whole, **the 1-month HIBOR and 3-month HIBOR decreased** by 80 basis points and 45 basis points to 2.50% and 2.60% respectively (Chart 3). Meanwhile, **the overnight HIBOR decreased** to 2.00% at the end of the review period.

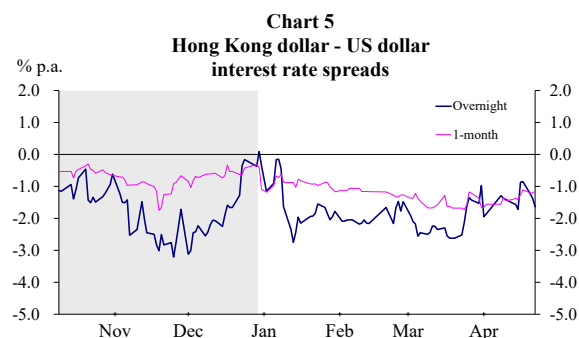


3. **Interest rate volatility**, measured by the standard deviation of daily changes in the 1-month HIBOR, **decreased** to 15 basis points (or 0.15%) in the current review period from 16 basis points (or 0.16%) in the preceding review period (Chart 4). Meanwhile, the standard deviation as a ratio of the average of the 1-month HIBOR hovered at a relatively low level.²

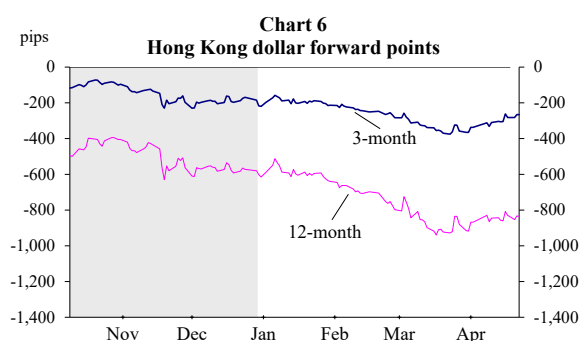


² The ratio of the standard deviation of daily changes in the 1-month HIBOR to its monthly average measures the extent of interest rate fluctuations relative to the average level of interest rates.

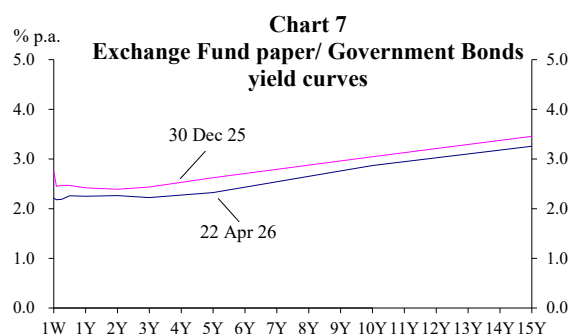
4. **The short-term negative HKD-USD interest rate spreads generally widened during the review period (Chart 5).**³ The overnight and 1-month spreads closed at -164 basis points and -115 basis points at the end of the review period.



5. **Both 3-month and 12-month forward discounts widened,** closing at 266 pips and 835 pips respectively at the end of the review period (Chart 6).



6. **During the review period, HKD yield curve shifted downwards (Chart 7).** The yield of the 1-year Exchange Fund Bill decreased by 17 basis points to 2.25% at the end of the review period, and that of the 10-year Hong Kong Government Bond decreased by 18 basis points to 2.87%. Meanwhile, the negative HKD-USD yield spreads of all tenors widened (Table 1).

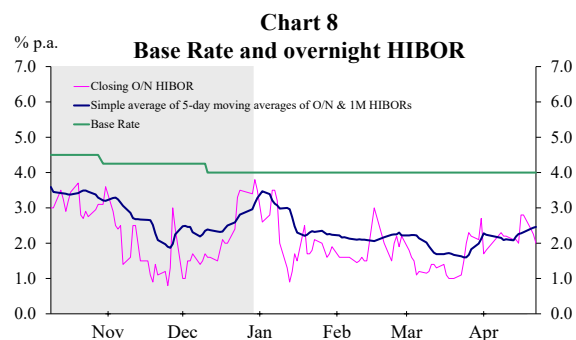


7. During the review period, the target range for the US Federal Funds Rate remained unchanged at 3.50% – 3.75%. As such, **the HKMA Base Rate remained**

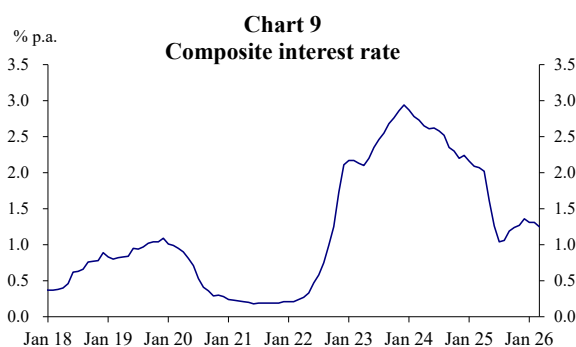
	30 Dec 25	22 Apr 26
3-month EFB	-118	-150
12-month EFB	-105	-144
3-year HKGB	-106	-159
5-year HKGB	-106	-159
10-year HKGB	-110	-143

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.

unchanged at 4.00% 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. During the review period, **banks kept their Best Lending Rates unchanged.** The Best Lending Rates in the market continued to range from 5.00% – 5.50%. The average interest rate for newly approved mortgage loans remained virtually unchanged at 3.26% between December 2025 and February 2026. Meanwhile, the average 1-month HKD time deposit board rate offered by retail banks decreased from 0.10% to 0.07% during the review period.⁴ **The composite interest rate,**⁵ which indicates the average funding cost of retail banks, **decreased** from 1.36% at the end of December 2025 to 1.25% at the end of March 2026 (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.

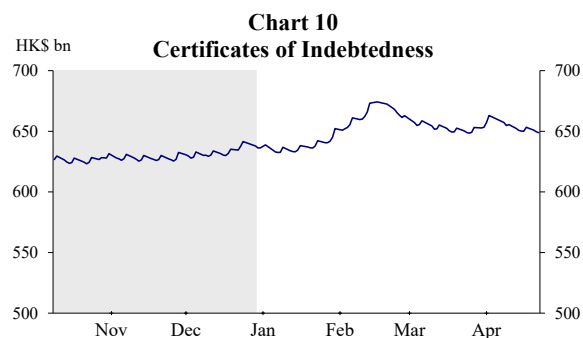
Monetary Base

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\$2,061.37 billion on 22 April 2026 from HK\$2,039.52 billion on 30 December 2025** (Table 2). Movements of the individual components are discussed below.

(HK\$bn)	30 Dec 25	22 Apr 26
CIs	636.19	648.81
Government-issued Currency Notes and Coins in Circulation	13.23	13.29
Aggregate Balance	53.95	53.83
Outstanding EFBNs	1,336.16	1,345.45
Monetary Base	2,039.52	2,061.37

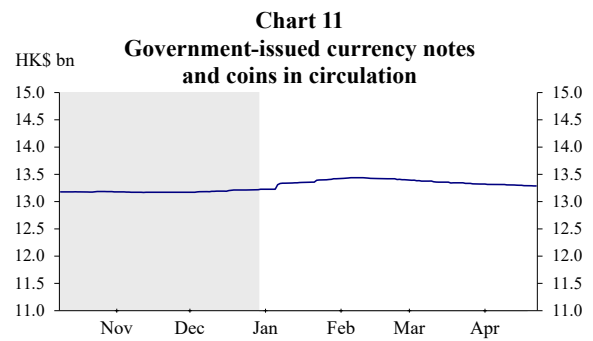
Certificates of Indebtedness

10. During the review period, the note-issuing banks submitted a net amount of US\$1.62 billion to the HKMA in exchange for HK\$12.62 billion worth of CIs. As a result, **the outstanding CIs increased** to HK\$648.81 billion on 22 April 2026 from HK\$636.19 billion on 30 December 2025 (Chart 10).



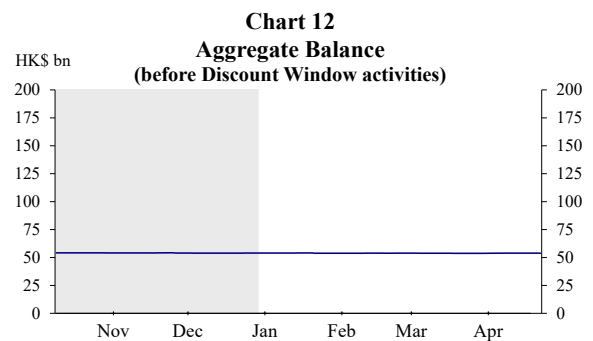
Government-issued currency notes and coins in circulation

11. During the review period, the amounts of **government-issued currency notes and coins in circulation were little changed at HK\$13.29 billion** (Chart 11).



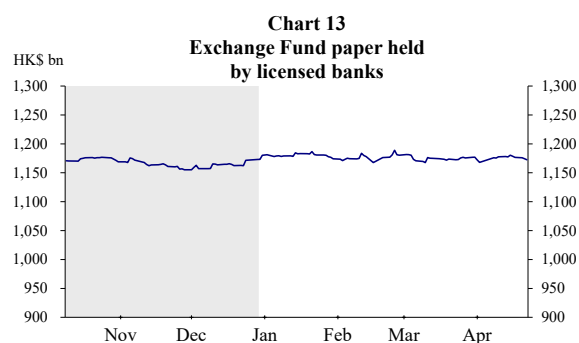
Aggregate Balance

12. During the review period, the CUs were not triggered and **the Aggregate Balance was little changed at around HK\$53.83 billion** (Chart 12).



Outstanding Exchange Fund Bills and Notes

13. The market value of the outstanding EFBNs increased to HK\$1,345.45 billion during the review period. Holdings of Exchange Fund papers by the banking sector (before Discount Window activities) decreased to HK\$1,172.64 billion (87.2% of total) from HK\$1,173.19 billion (87.8% of total) (Chart 13).

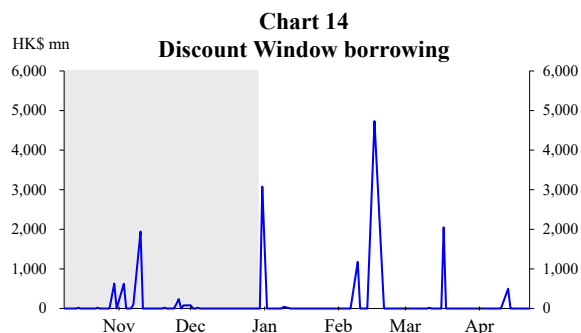


14. During the review period, interest payments on Exchange Fund papers amounted to HK\$9,549.16 million. A total of HK\$9,678.30 million (in market value) of Exchange Fund papers were issued to absorb these interest payments. The Exchange Fund papers issued during the review period were generally well received by the market (Table 3).

	No. of issues launched	Over-subscription ratio
1-month EFB	0	-
3-month EFB	17	0.92 – 1.95
6-month EFB	17	1.16 – 3.4
12-month EFB	4	2.44 – 4.04
2-year EFN	1	4.87

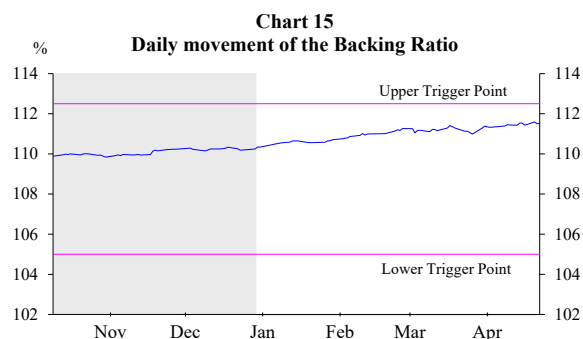
Discount Window activities

15. During the review period, a total of HK\$11,603 million was borrowed from the Discount Window, compared with HK\$3,884 million in the preceding review period from 9 October 2025 to 29 December 2025 (Chart 14). No abnormality was noted in the relevant usage.



Backing Portfolio

16. The Backing Assets increased to HK\$2,298.76 billion on 22 April 2026. The Backing Ratio increased to 111.53% from 110.35% 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
15 June 2026