

Exchange Fund position at end-December 2019

The following is issued on behalf of the Hong Kong Monetary Authority:

The Hong Kong Monetary Authority (HKMA) today (January 23) published the unaudited financial position of the Exchange Fund at end-December 2019.

The Exchange Fund recorded an investment income of HK\$247.2 billion in 2019. The main components were:

- gains on bonds of HK\$114.4 billion;
- gains on Hong Kong equities of HK\$22.1 billion;
- gains on other equities of HK\$100.3 billion;
- negative currency translation effect of HK\$13.0 billion on non-Hong Kong dollar assets (Note 1); and
- gains on other investments of HK\$23.4 billion (Note 2).

Fees on placements by the Fiscal Reserves and placements by Hong Kong Special Administrative Region Government funds and statutory bodies were HK\$29.4 billion (Note 3) and HK\$9.0 billion respectively in 2019 (the rate of fee payment is 2.9 per cent for 2019). After deducting all expenses and fees, the Accumulated Surplus of the Exchange Fund recorded an increase of HK\$148.6 billion (Annexes 1 and 2).

The Abridged Balance Sheet shows that the total assets of the Exchange Fund increased by HK\$204.2 billion, from HK\$4,054.9 billion at the end of 2018 to HK\$4,259.1 billion at the end of 2019. The increase was mainly attributable to the investment income in 2019.

The Exchange Fund recorded an investment return of 6.2 per cent in 2019 (Note 4). Specifically, the Investment Portfolio achieved a rate of return of 9.7 per cent, while the Backing Portfolio gained 2.5 per cent. The Long-Term Growth Portfolio (LTGP) recorded an annualised internal rate of return of about 12.4 per cent since its inception in 2009 up to the end of September 2019.

Commenting on the performance of the Exchange Fund in 2019, the Chief Executive of the HKMA, Mr Eddie Yue, said, "Global financial markets were clouded by the slowdown of global economic growth and US-China trade tensions during 2019. However, accommodative monetary policies by major central banks lent support to the equity and bond markets. With this favourable environment, the Exchange Fund achieved a decent return on equity and bond investments."

Looking ahead, Mr Yue said, "The investment environment in 2020 will

remain challenging. With the signing of the first phase of the US-China trade deal, market uncertainties have subsided somewhat, and there are initial signs of stabilisation in the global economy. Nevertheless, potential risks remain: progress of the next phase of the US-China trade talk, implementation of Brexit and the evolving situation in the Middle East can all potentially affect market sentiment.

"A further concern is that as global interest rates are already at a low level, with some central banks adopting a negative interest rate policy, the room for major central banks to stimulate the economy by means of monetary policy in future has become limited. Since the rally in the equity markets last year was mainly driven by liquidity rather than fundamentals such as favourable corporate earnings and macroeconomic factors, and with asset valuations across markets at stretched levels, it is questionable whether markets can maintain their upward momentum without a strong rebound in the global economy.

"The HKMA will continue to manage the Exchange Fund prudently. We will monitor market developments closely and adjust our investment strategy as and when appropriate. We will also further diversify our investments to strive for higher long-term returns for the Exchange Fund while adhering to the principle of maintaining sufficient liquidity and preserving capital first."

Note 1: This is primarily the effect of translating foreign currency assets into Hong Kong dollar after deducting the portion for currency hedging.

Note 2: This is the valuation change of investments held by investment holding subsidiaries of the Exchange Fund. This figure represents valuation changes up to the end of September 2019. Valuations of these investments from October to December are not yet available.

Note 3: This does not include the 2019 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2019 is available.

Note 4: This return excludes the performance of the Strategic Portfolio and only includes the performance of LTGP up to the end of September 2019. The audited full year return will be disclosed in the 2019 annual report to be released later this year.