Exchange Fund Position at end-December 2024

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

The Hong Kong Monetary Authority (HKMA) today (January 27) published the unaudited financial position of the Exchange Fund at end-December 2024.

The Exchange Fund recorded an investment income of HK$219.0 billion in 2024. The main components were:

- gains on bonds of HK$135.6 billion;
- gains on Hong Kong equities of HK$21.8 billion;
- gains on other equities of HK$68.7 billion;
- negative currency translation effect of HK$35.6 billion on non-Hong Kong dollar assets (Note 1); and
- gains on other investments of HK$28.5 billion (Note 2).

Fees on placements by the Fiscal Reserves and placements by HKSAR Government funds and statutory bodies were HK$13.2 billion (Note 3) and HK$15.7 billion respectively in 2024, with the rate of fee payment at 3.7 per cent for 2024.

The Abridged Balance Sheet shows that the total assets of the Exchange Fund increased by HK$65.9 billion, from HK$4,016.5 billion at the end of 2023 to HK$4,082.4 billion at the end of 2024. Accumulated surplus stood at HK$731.6 billion at end-December 2024.

The Exchange Fund recorded an investment return of 5.3 per cent in 2024 (Note 4). Specifically, the Investment Portfolio achieved a rate of return of 7.2 per cent and the Backing Portfolio gained 4.1 per cent. The Long-Term Growth Portfolio (LTGP) recorded an annualised internal rate of return of 11.5 per cent since its inception in 2009 up to the end of September 2024.

Commenting on the performance of the Exchange Fund in 2024, Mr Eddie Yue, Chief Executive of the HKMA, said, "Global financial markets performed broadly well in 2024. Major economies recorded stable growth, while inflation eased closer to policy targets. Major central banks progressively lowered their policy rates. This was positive to the investment environment.

Major equity markets rose notably in 2024, with US equities making strong gains in the first three quarters on the back of a generally positive economic and inflationary fundamentals, and the fervor around the artificial intelligence industry. However, markets became more volatile in the fourth quarter and retreated from their highs as investors turned more cautious amidst concerns over rising inflation and bond yields. In the Mainland and Hong Kong, investor confidence improved, following the Central Government's announcements of a series of policy measures in the third quarter to stimulate the economy and equity market. Nevertheless, the two equity markets softened in the fourth quarter as market participants remained somewhat uncertain about the real economic growth. Meanwhile, global bond markets experienced higher volatility. Although major central banks have affirmed their general policy direction of lowering interest rates, the pace and magnitude of rate cuts have changed a few times during the year. Entering the fourth quarter, as markets began to focus on the US fiscal policy in the coming year, US Treasury yields rose sharply and weighed on bond prices. Furthermore, the US dollar strengthened against other major currencies in 2024, particularly in the fourth quarter, as a result of the interest rate movements and the relatively strong performance of the US economy. In view of these two factors, the Exchange Fund as a whole recorded some valuation loss in the fourth quarter of 2024.

For 2024 as a whole, the Exchange Fund achieved a decent investment income. The bond portfolio has benefited from substantial interest income as a result of persistently high yields. The equity portfolio has also performed well. However, the US dollar strengthened against other major currencies, leading to a negative currency translation effect on our non-Hong Kong dollar assets."

Mr Yue said, "Looking ahead to 2025, the global financial markets remain uncertain. Interest rate policies will continue to be the focus of the markets. According to the latest projections in December, the US Fed forecasted half a percentage point of rate cut in total in 2025. This is smaller than the previous projection of one percentage point, and reflects the Fed's more cautious stance towards inflation. Meanwhile, the new US administration's policies on the economy, tax and trade could add uncertainties to the inflation path. This in turn affects how much room the Fed has in adjusting monetary policy.

Furthermore, any escalation in trade frictions among major economies or geopolitical situation could impact real economic activities, and may also trigger volatility in the financial markets.

Given these challenges we face, the HKMA will, as always, adhere to the principle of capital preservation first while maintaining long-term growth. We will continue to manage the Exchange Fund with prudence and flexibility, implement appropriate defensive measures, and maintain a high degree of liquidity. We will also continue to diversify our investments to strive for higher long-term returns, ensuring that the Exchange Fund remains effective in achieving its purpose of maintaining monetary and financial stability of Hong Kong."

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 reflects the valuations at the end of September 2024. Valuation changes of these investments from October to December are not yet available.

Note 3: This does not include the 2024 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2024 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 2024. The audited full year return will be disclosed in the 2024 annual report.