

Exchange Fund Position at end-June 2021

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

The Hong Kong Monetary Authority (HKMA) today (July 27) published the unaudited financial position of the Exchange Fund at end-June 2021.

The Exchange Fund recorded an investment income of HK\$102.7 billion in the first half of 2021. The main components were:

- gains on Hong Kong equities of HK\$12.5 billion;
- gains on other equities of HK\$46.4 billion;
- gains on bonds of HK\$1.3 billion;
- positive currency translation effect of HK\$2.8 billion on non-Hong Kong dollar assets (Note 1); and
- gains on other investments of HK\$39.7 billion (Note 2).

Fees on placements by the Fiscal Reserves and placements by HKSAR government funds and statutory bodies were HK\$18.0 billion (Note 3) and HK\$7.9 billion respectively in the first half of 2021, with the rate of fee payment at 4.7 per cent for 2021.

Total assets of the Exchange Fund stood at HK\$4,566.6 billion at end-June 2021, an increase of HK\$67.4 billion from the end of 2020. Accumulated surplus stood at HK\$834.6 billion at end-June 2021.

The Chief Executive of the HKMA, Mr Eddie Yue, said, "Driven by the continued implementation of loose monetary policies and fiscal measures as well as rising vaccination rates, the global economy started to recover gradually in the first half of 2021. Major equity markets have extended the upward momentum since the fourth quarter of last year. Taking US equities as an example, the S&P 500 Index has trended upward and reached new highs, recording an increase of 14.4 per cent in the first half of the year. As a result, the Exchange Fund's equities holdings recorded good gains. Meanwhile, rising inflation expectation has led to a sharp increase in the long-term US Treasury yields in the first quarter. Despite slight downward adjustments in yields in the second quarter, bond prices have decreased across the board, resulting in the relatively lacklustre performance of the bond portfolio. Overall, the Exchange Fund's portfolio mix recorded positive returns in the first half of the year."

He added, "Looking ahead, the investment environment in the second half of the year remains highly uncertain. With the pandemic in major economies gradually brought under control, the market expects that the United States Federal Reserve may consider to commence the tapering of asset purchases.

Meanwhile, the market is also concerned whether the rise in inflation is transitory. In case inflationary pressure kicks in and triggers a sharp rise in bond yields, there will be volatility in the financial markets.

"The HKMA will continue to manage the Exchange Fund prudently and remain flexible. We will also implement defensive measures as appropriate and maintain a high degree of liquidity to deal with possible financial disruptions, and ensure that the Exchange Fund will continue to serve its purpose of maintaining monetary and financial stability in Hong Kong in an effective manner."

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 March 2021. Valuations of these investments from April to June are not yet available.

Note 3: This does not include the 2021 fee payment to the Future Fund because such amount will only be disclosed when the composite rate for 2021 is available.