

HKMA's Response to US Fed's Interest Rate Decision

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

The Federal Open Market Committee of the United States Federal Reserve (the Fed) announced early today (June 19, Hong Kong time) after its two-day meeting that it had decided to keep the target range for the federal funds rate unchanged at 4.25-4.5 per cent.

The policy decision is in line with market expectations. The "dot plot" released following the meeting indicated that the Fed might cut rates by a total of 50 basis points before year end. However, the market generally considers that the pace of future rate cuts remains quite uncertain as it is dependent on US inflation and labour market data developments, as well as the impact of tariff and other economic policies on economic activities.

In Hong Kong, the monetary and financial markets have continued to operate in an orderly manner. The Hong Kong dollar strengthened in early May and triggered the strong-side Convertibility Undertaking under the Linked Exchange Rate System (LERS). The Hong Kong Monetary Authority (HKMA) sold Hong Kong dollars to the market in exchange for US dollars in accordance with the LERS. As a result, the Aggregate Balance increased, and thus bringing down interbank interest rates. The interest rate differential between the Hong Kong dollar and the US dollar widened, incentivising carry trades, leading to the easing of the Hong Kong dollar towards the weak-side Convertibility Undertaking level of 7.85 over the past few weeks. Going forward, the outlook for the Hong Kong dollar market and for interbank rates remains uncertain due to various factors, including carry trades, the supply-demand conditions for Hong Kong dollars created by capital market activities, as well as other seasonal factors. If carry trades are to persist, the Hong Kong dollar exchange rate may weaken further, and may even trigger the weak-side Convertibility Undertaking. In such a case, the HKMA would then sell US dollars in exchange for Hong Kong dollars in accordance with the LERS, leading to a corresponding decline in the Aggregate Balance, hence driving Hong Kong dollar interbank rates to gradually increase.

The extent and pace of future US interest rate cuts are subject to considerable uncertainty, and the prevailing interest rate environment in Hong Kong may evolve due to the various factors mentioned above. The public should take into account the possibility of a rebound in Hong Kong dollar interest rates, and to properly manage the associated risks when making decisions about property purchase, investment or borrowing. The HKMA will continue to closely monitor market developments and maintain monetary and financial stability.