

Record of Discussion of the Meeting of the Exchange Fund Advisory Committee Currency Board Sub-Committee held on April 28

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

(Approved for Issue by the Exchange Fund Advisory Committee by Circulation)

Report on Currency Board Operations (January 9, 2020 – April 16, 2020)

The Sub-Committee noted that the Hong Kong dollar (HKD) exchange rate traded within a range of 7.7506 – 7.7962 against the US dollar (USD) during the review period. The HKD was firm in January, mainly driven by initial public offerings (IPO) activities and tightened liquidity around the Chinese New Year holiday. After softening briefly towards the end of February, the HKD firmed again in March and traded close to the strong-side Convertibility Undertaking (CU) amid unwinding of short HKD positions, equity-related inflows under the Stock Connect, and quarter-end HKD demand. The HKD interbank interest rates generally picked up in March amid global USD funding stress, quarter-end and IPO-related funding demand. Overall, the HKD exchange and interbank markets continued to trade in a smooth and orderly manner despite negative market sentiments arising from the outbreak of coronavirus disease 2019.

The Sub-Committee noted that the Aggregate Balance remained little changed at around HK\$54.1 billion, while the Monetary Base increased slightly to HK\$1,685.07 billion at the end of the review period. All changes in the Monetary Base had been fully matched by changes in foreign reserves in accordance with the Currency Board principles.

The Sub-Committee further noted that the Hong Kong Monetary Authority (HKMA) had been working on a number of measures to increase market liquidity. These included suitably reducing the issuance size of Exchange Fund Bills to increase the overall HKD liquidity, and introducing a USD Liquidity Facility, whereby the HKMA would use the funds obtained from the US Federal Reserve (Fed)'s repurchase agreement facility for foreign and international monetary authorities (FIMA Repo Facility) for lending to local banks through repurchase transactions.

The Report on Currency Board Operations for the period under review is at Annex.

Monitoring of Risks and Vulnerabilities

The Sub-Committee noted that the COVID-19 outbreak had brought the global economy to a near standstill. Governments and central banks around the world had launched extensive fiscal and monetary stimulus with a view to easing the damage inflicted by the outbreak. The US Fed, for instance, had cut the Fed funds rate twice by a total of 150 basis points, relaunched asset purchase program, and rolled out FIMA Repo Facility in the past few months. However, the large fiscal expansion might raise concerns about fiscal sustainability, particularly in countries with weaker government finances.

The Sub-Committee noted that supply chain disruptions and tighter USD liquidity conditions were threatening the Asian region. In Mainland China, economic activities slowed down sharply in the first quarter of 2020, while March figures pointed to signs of a gradual recovery.

The Sub-Committee noted that in Hong Kong, the economy weakened further in the first quarter of 2020 and the unemployment rate would likely rise further. The HKMA had been closely coordinating with the banking sector to launch a series of relief measures with the aim of alleviating the cash-flow pressure on corporates and individuals. It had also enhanced banks' capacity in providing credit to support the real economy by suitably releasing the capital and liquidity buffers accumulated in the past.

Assessment of the Hong Kong Property Market

The Sub-Committee noted a study which assessed the property price dynamics of Hong Kong under different scenarios amid the likely deterioration in Hong Kong's macroeconomic and financial conditions. The study noted that the eight rounds of HKMA macro-prudential measures had restrained excessive leverage and helped reduce the downside risk to the property market.