

EXCHANGE FUND ADVISORY COMMITTEE

Currency Board Sub-Committee

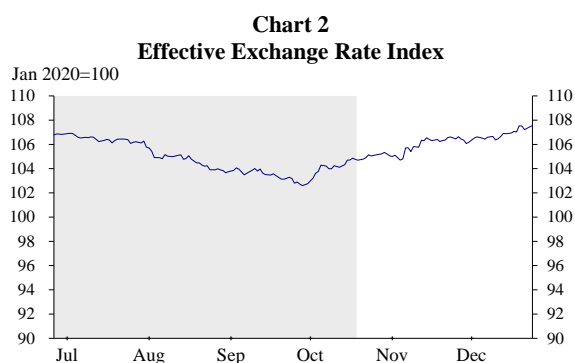
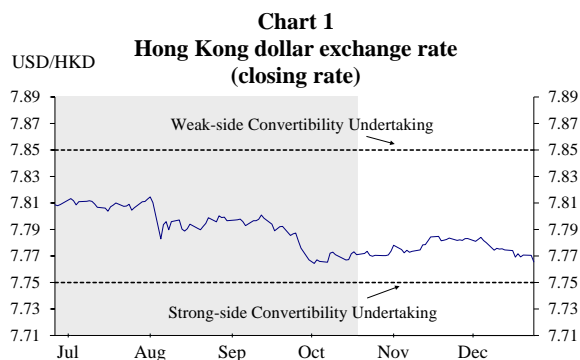
Report on Currency Board Operations

Review period: 19 October 2024 – 24 December 2024

During the review period, the Hong Kong dollar (HKD) traded within a range of 7.7656 – 7.7848 against the US dollar (USD). The HKD exchange rate moderated slightly in the first half of November amid a pullback of the local stock market, and then recovered in December. HKD interbank rates continued to track the USD rates while also being affected by local supply and demand. The HKD interbank market continued to trade in a smooth and orderly manner. Meanwhile, following the decreases in the target range for the US federal funds rate in early November and mid-December, many banks reduced their Best Lending Rates by a total of 37.5 basis points, and the Best Lending Rates in the market ranged from 5.25% – 5.75%. The Convertibility Undertakings were not triggered and the Aggregate Balance was stable at around HK\$45 billion. No abnormality was noted in the usage of the Discount Window. Throughout the review period, the Monetary Base remained fully backed by US dollar foreign reserves, and all changes in the Monetary Base were fully matched by corresponding changes in US dollar foreign reserves in accordance with Currency Board principles.

Hong Kong dollar exchange rate

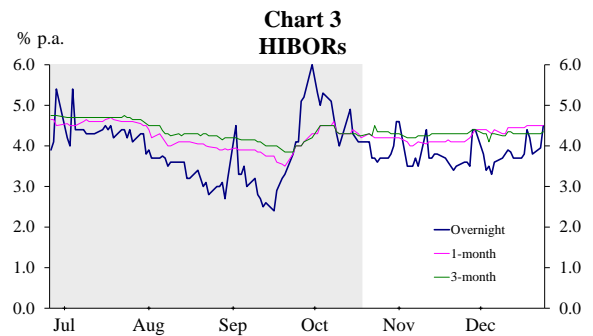
1. During the review period of 19 October 2024 to 24 December 2024, the **HKD traded within a range of 7.7656 – 7.7848 against the USD** (Chart 1).¹ The HKD exchange rate moderated slightly in the first half of November amid a pullback of the local stock market, and then recovered in December. Overall, the HKD continued to trade in a smooth and orderly manner during the review period, closing at 7.7656 on 24 December. The nominal effective exchange rate index of the HKD increased compared with the end of the preceding review period (Chart 2). This mainly reflected the movement of the USD against the currencies of the major trading partners of Hong Kong.



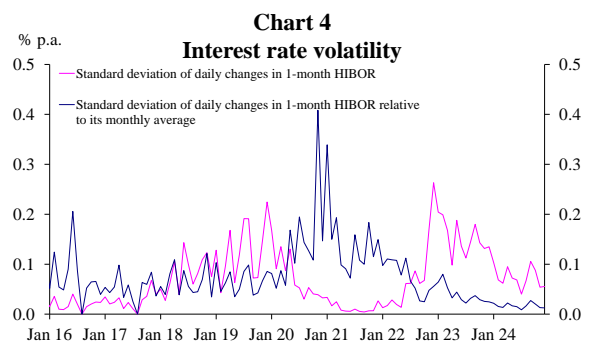
¹ In this report, daily time series charts also cover developments in the preceding review period (as shown in shaded region) for reference and comparison.

Interest rates

2. The HKD interbank market continued to trade in a smooth and orderly manner. The 1-month and 3-month HKD interbank rates (HIBORs) continued to track the USD rates while also being affected by local supply and demand. For the review period as a whole, **the 1-month HIBOR and 3-month HIBOR increased** by 20 basis points and 5 basis points to 4.50% and 4.35% respectively at the end of the review period (Chart 3). Meanwhile, **the overnight HIBOR increased** to 4.50% at the end of the review period.

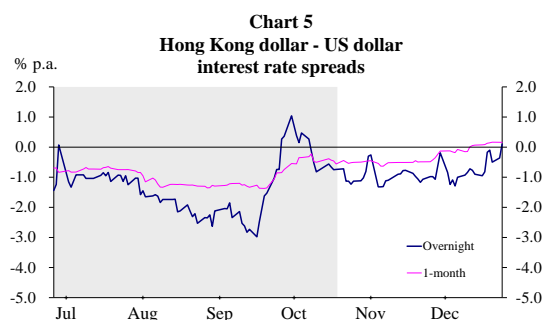


3. **Interest rate volatility**, measured by the standard deviation of daily changes in the 1-month HIBOR, **decreased** to 5 basis points (or 0.05%) in the current review period from 8 basis points (or 0.08%) in the preceding review period (Chart 4). Meanwhile, the standard deviation as a ratio of the average of the 1-month HIBOR hovered at a relatively low level.²

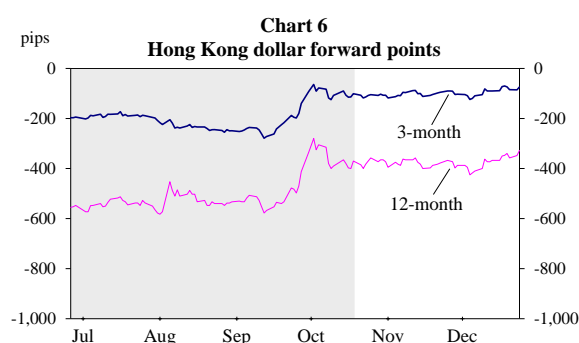


² The ratio of the standard deviation of daily changes in the 1-month HIBOR to its monthly average measures the extent of interest rate fluctuations relative to the average level of interest rates.

4. **The short-term negative HKD-USD interbank interest rate spreads generally narrowed and turned positive during the review period (Chart 5).**³ The overnight and 1-month spread closed at 10 basis points and 16 basis points respectively at the end of the review period.



5. **Both 3-month and 12-month forward discounts narrowed slightly, closing at 75 pips and 328 pips respectively at the end of the review period (Chart 6).**



6. **During the review period, HKD yield curve shifted upwards (Chart 7).** The yield of the 1-year Exchange Fund Bill increased by 35 basis points to 3.55% at the end of the review period, and that of the 10-year Hong Kong Government Bond increased by 66 basis points to 3.68%. While the negative HKD-USD yield spread widened at the 3-year tenor, negative yield spreads at other tenors narrowed (Table 1).

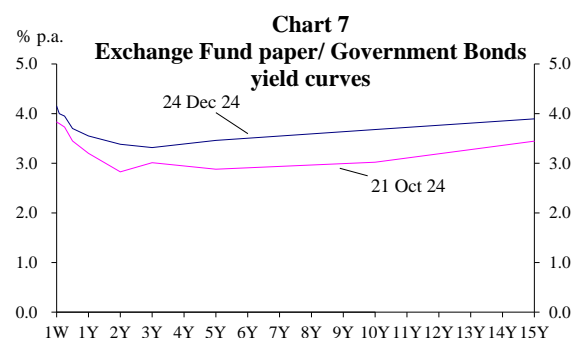
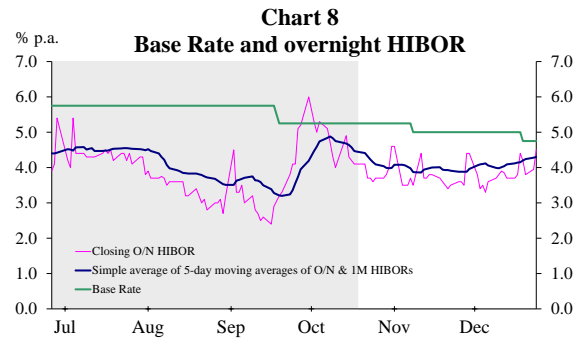


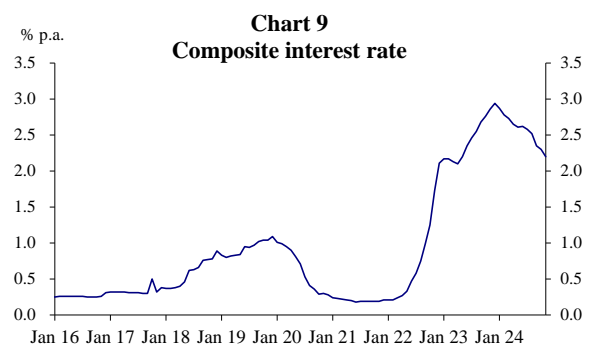
Table 1 Yield spreads of Exchange Fund papers and Hong Kong Government Bonds over US Treasuries (basis points)		
	21 Oct 24	24 Dec 24
3-month EFB	-100	-45
12-month EFB	-104	-69
3-year HKGB	-94	-104
5-year HKGB	-110	-97
10-year HKGB	-117	-91

³ The USD London Interbank Offered Rate (LIBOR) has been discontinued since 1 July 2023 and replaced by the Secured Overnight Financing Rate (SOFR) as its alternative reference rate.

7. Following the decreases in the US federal funds target range from 4.75% – 5.00% to 4.50% – 4.75% on 7 November 2024 (US time) and further to 4.25% – 4.50% on 18 December 2024 (US time), **the HKMA Base Rate decreased from 5.25% to 5.00% on 8 November 2024 and further to 4.75% on 19 December 2024** according to the established formula (Chart 8), with the Base Rate set at either 50 basis points above the lower end of the prevailing target range for the US federal funds rate or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever is the higher.



8. Following the decreases in the target range for the US federal funds rate on 7 November 2024 (US time) and 18 December 2024 (US time), **many banks reduced their Best Lending Rates by a total of 37.5 basis points**. At the end of the review period, the Best Lending Rates in the market ranged from 5.25% – 5.75%. The average interest rate for newly approved mortgage loans decreased from 4.03% in September 2024 to 3.73% in November 2024. Meanwhile, the average 1-month HKD time deposit board rate offered by retail banks decreased from 0.51% to 0.33% at the end of the review



period.⁴ **The composite interest rate,**⁵ which indicates the average funding cost of retail banks, **decreased** from 2.35% at the end of September 2024 to 2.20% at the end of November 2024 (Chart 9).

⁴ The figure refers to the average interest rate offered by major authorized institutions for 1-month time deposits of less than HK\$100,000.

⁵ This is a weighted average interest rate of all HKD interest-rate-sensitive liabilities, which include deposits from customers, amounts due to banks, negotiable certificates of deposit and other debt instruments, and all other liabilities that do not involve any formal payment of interest but the values of which are sensitive to interest rate movements (such as HKD non-interest bearing demand deposits) on the books of banks. Data from retail banks, which account for about 90% of the total customers' deposits in the banking sector, are used in the calculation.

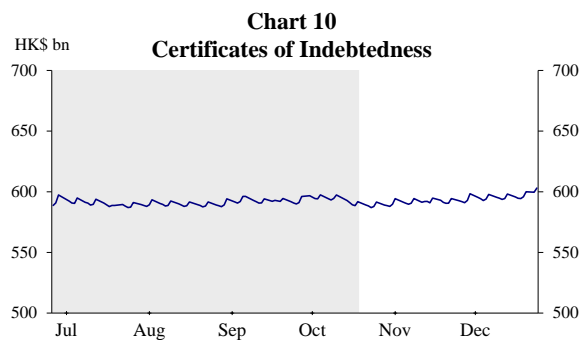
Monetary Base

9. **The Monetary Base**, which consists of Certificates of Indebtedness (CIs), government-issued currency notes and coins in circulation, the Aggregate Balance, and Exchange Fund Bills and Notes (EFBNs), **increased to HK\$1,958.14 billion on 24 December 2024 from HK\$1,936.01 billion on 21 October 2024** (Table 2). Movements of the individual components are discussed below.

Table 2 Monetary Base		
(HK\$bn)	21 Oct 24	24 Dec 24
CIs	589.12	603.01
Government-issued Currency Notes and Coins in Circulation	13.10	13.30
Aggregate Balance	44.80	44.75
Outstanding EFBNs	1,289.00	1,297.08
Monetary Base	1,936.01	1,958.14

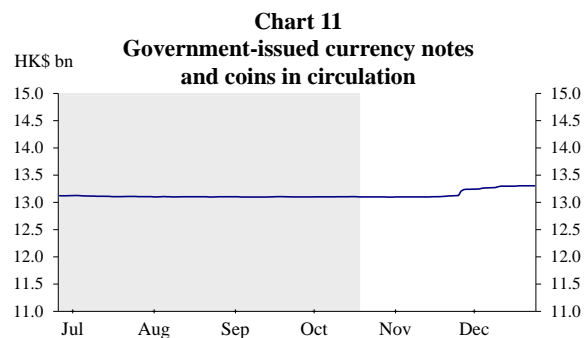
Certificates of Indebtedness

10. During the review period, the note-issuing banks submitted a net amount of US\$1.78 billion to the HKMA in exchange for HK\$13.89 billion worth of CIs. As a result, **the outstanding CIs increased** to HK\$603.01 billion on 24 December 2024 from HK\$589.12 billion on 21 October 2024 (Chart 10).



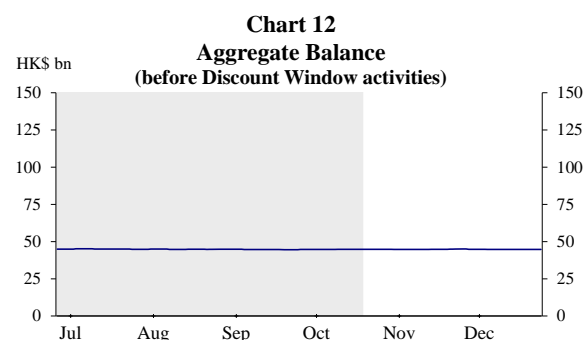
Government-issued currency notes and coins in circulation

11. During the review period, the amount of **government-issued currency notes and coins in circulation** were little changed at HK\$13.30 billion (Chart 11).



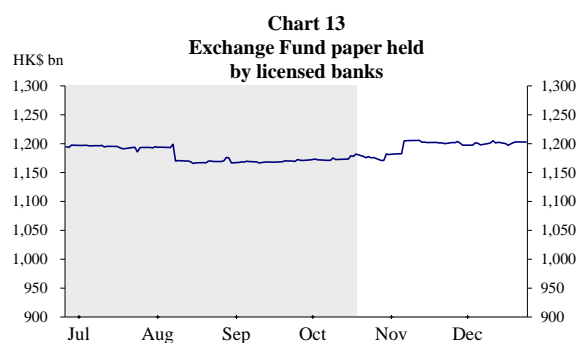
Aggregate Balance

12. During the review period, the Convertibility Undertakings were not triggered and **the Aggregate Balance** was little changed at around **HK\$44.75 billion** (Chart 12).



Outstanding Exchange Fund Bills and Notes

13. The market value of the outstanding EFBNs increased to HK\$1,297.08 billion during the review period. Holdings of Exchange Fund papers by the banking sector (before Discount Window activities) increased to HK\$1,202.90 billion (92.7% of total) from HK\$1,178.00 billion (91.4% of total) (Chart 13).

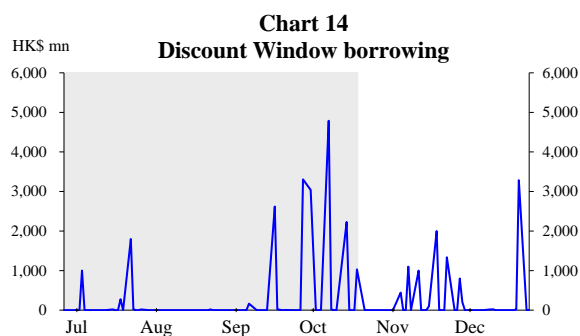


14. During the review period, interest payments on Exchange Fund papers amounted to HK\$8,253.35 million. A total of HK\$8,325.84 million (in market value) of Exchange Fund papers were issued to absorb these interest payments. The Exchange Fund papers issued during the review period were generally well received by the market (Table 3).

Table 3 Issuance of Exchange Fund Bills and Notes (19 Oct 24 – 24 Dec 24)		
	No. of issues launched	Over- subscription ratio
1-month EFB	1	5.73
3-month EFB	10	1.02 – 1.85
6-month EFB	10	0.89 – 3.16
12-month EFB	3	1.95 – 3.29
2-year EFN	1	1.59

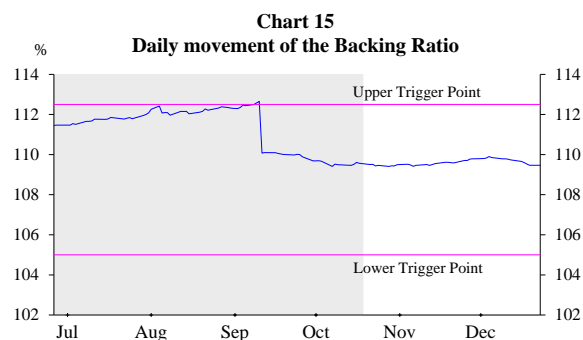
Discount Window activities

15. During the review period, a total of **HK\$10,334 million** was borrowed from the Discount Window, compared with HK\$20,383 million in the preceding review period from 26 June 2024 to 18 October 2024 (Chart 14). No abnormality was noted in the relevant usage.



Backing Portfolio

16. The Backing Assets increased to HK\$2,139.66 billion on 23 December 2024. **The Backing Ratio decreased to 109.47% from 109.50% during the review period** (Chart 15). Under the Linked Exchange Rate System, while specific Exchange Fund assets have been designated for the Backing Portfolio, all Exchange Fund assets are available to support the HKD exchange rate.



Hong Kong Monetary Authority
19 February 2025