

EXCHANGE FUND ADVISORY COMMITTEE

Currency Board Sub-Committee

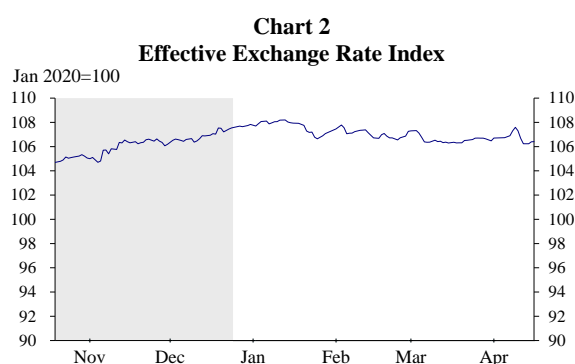
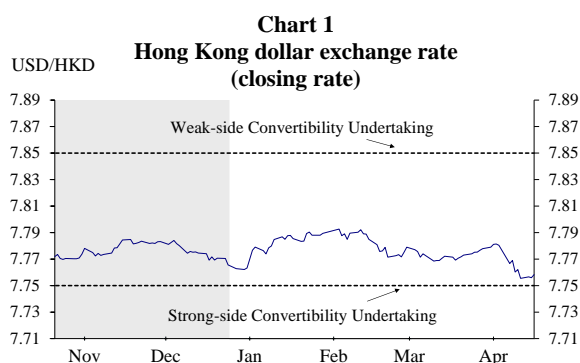
Report on Currency Board Operations

Review period: 25 December 2024 – 16 April 2025

During the review period, the Hong Kong dollar (HKD) traded within a range of 7.7555 – 7.7927 against the US dollar (USD). The HKD exchange rate moderated in early January 2025 as liquidity tightness subsided at the end of 2024 and global markets reacted to US tariff announcements, but strengthened in mid-February 2025, supported by strong performance of the local stock market amid Mainland China's recent advancements in artificial intelligence and net inflows from the southbound Stock Connects. In early April, in response to further US tariffs, the HKD strengthened further as short HKD carry trades unwound amid a risk-off sentiment and southbound inflows continued. HKD interbank rates (HIBORs) continued to track the USD rates while shorter-tenor rates were also being affected by local supply and demand. Short-term HIBORs tightened briefly near the year-end but softened thereafter as funding demand faded. The HKD interbank market continued to trade in a smooth and orderly manner. 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 25 December 2024 to 16 April 2025, **the HKD traded within a range of 7.7555 – 7.7927 against the USD** (Chart 1).¹ The HKD exchange rate moderated in early January 2025 as liquidity tightness subsided at the end of 2024 and global markets reacted to US tariff announcements, but strengthened in mid-February 2025, supported by strong performance of the local stock market amid Mainland China's recent advancements in artificial intelligence and net inflows from the southbound Stock Connects. In early April, in response to further US tariffs, the HKD strengthened further as short HKD carry trades unwound amid a risk-off sentiment and southbound inflows continued.² Overall, the HKD continued to trade in a smooth and orderly manner during the review period, closing at 7.7583 on 16 April. The nominal effective exchange rate index of the HKD decreased 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.

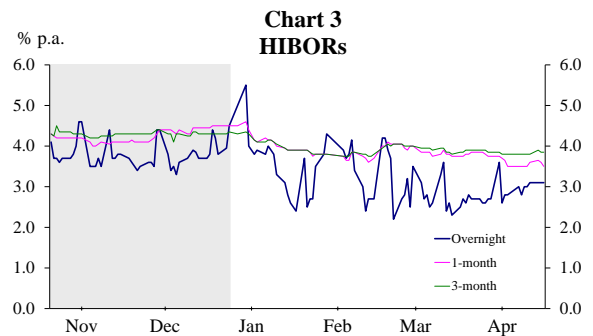


¹ In this report, daily time series charts also cover developments in the preceding review period (as shown in shaded region) for reference and comparison.

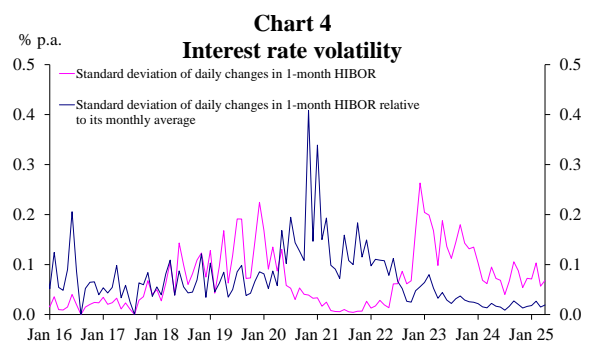
² Net inflows from southbound Stock Connects reached a record high of HK\$29.6 billion on 10 March and was surpassed by HK\$35.6 billion on 9 April. For the review period as a whole, net inflows from the southbound Stock Connects amounted to HK\$624 billion, compared with the net inflows of HK\$246 billion in the preceding review period.

Interest rates

2. The HKD interbank market continued to trade in a smooth and orderly manner. The HKD interbank rates (HIBORs) continued to track the USD rates while shorter-tenor rates were also being affected by local supply and demand. Short-term HIBORs tightened briefly near the year-end but softened thereafter as funding demand faded. For the review period as a whole, **the 1-month HIBOR and 3-month HIBOR decreased** by 100 basis points and 45 basis points to 3.50% and 3.85% respectively at the end of the review period (Chart 3). Meanwhile, **the overnight HIBOR decreased** to 3.10% at the end of the review period.

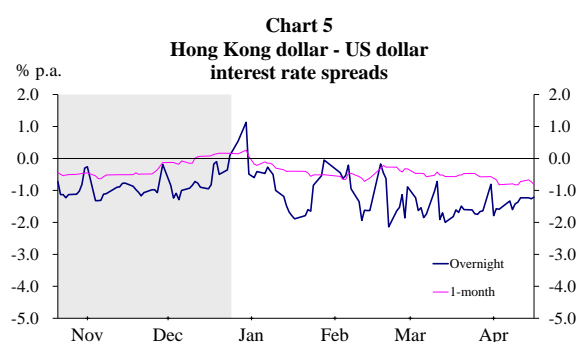


3. **Interest rate volatility**, measured by the standard deviation of daily changes in the 1-month HIBOR, **increased** to 8 basis points (or 0.08%) in the current review period from 5 basis points (or 0.05%) in the preceding review period (Chart 4). Meanwhile, the standard deviation as a ratio of the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

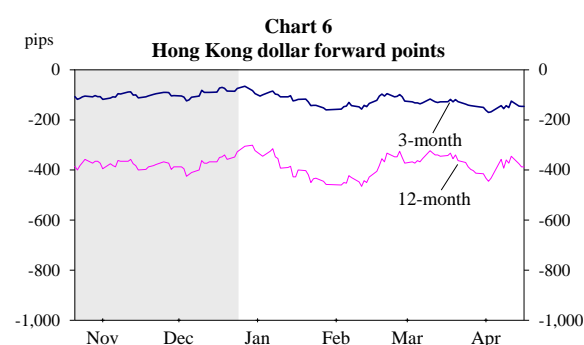


³ The ratio of the standard deviation of daily changes in the 1-month HIBOR to its monthly average measures the extent of interest rate fluctuations relative to the average level of interest rates.

4. Except for a brief period where the short-term HKD-USD interbank interest rate spreads turned positive due to year-end tightness, HKD interest rates were generally lower than their USD counterparts during the review period (Chart 5).⁴ The overnight and 1-month spread closed at -121 basis points and -82 basis points respectively at the end of the review period.



5. Both 3-month and 12-month forward discounts widened, closing at 146 pips and 388 pips respectively at the end of the review period (Chart 6).



6. During the review period, HKD yield curve shifted downwards (Chart 7). The yield of the 1-year Exchange Fund Bill decreased by 57 basis points to 2.98% at the end of the review period, and that of the 10-year Hong Kong Government Bond decreased by 31 basis points to 3.37%. While the negative HKD-USD yield spread at the 3-year and 10-year tenors narrowed, negative yield spreads at other tenors widened (Table 1).

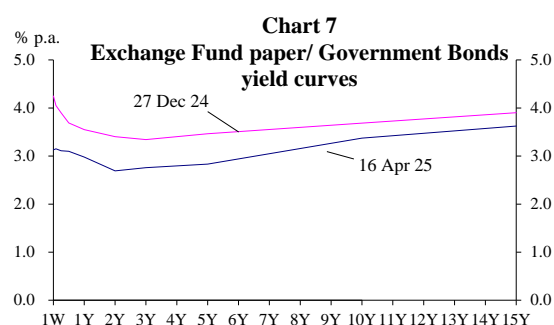
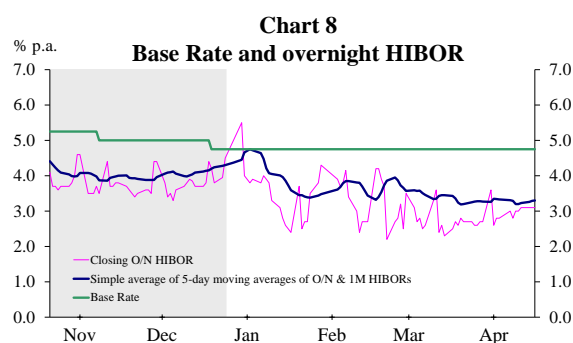


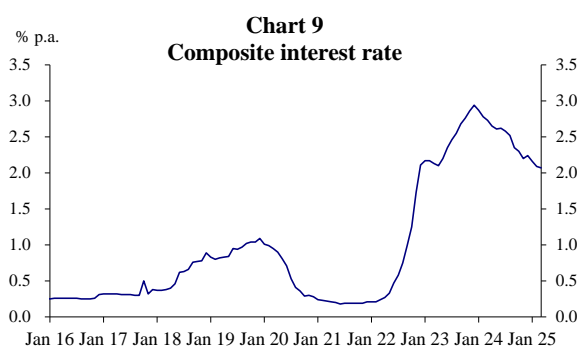
Table 1 Yield spreads of Exchange Fund papers and Hong Kong Government Bonds over US Treasuries (basis points)		
	27 Dec 24	16 Apr 25
3-month EFB	-41	-122
12-month EFB	-65	-98
3-year HKGB	-102	-101
5-year HKGB	-99	-108
10-year HKGB	-93	-92

⁴ 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. During the review period, the target range for the US Federal Funds Rate remained unchanged at 4.25% – 4.50%. As such, **the HKMA Base Rate remained unchanged at 4.75%** 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. During the review period, **banks kept their Best Lending Rates unchanged.** The Best Lending Rates in the market continued to range from 5.25% – 5.75%. The average interest rate for newly approved mortgage loans decreased from 3.59% in December 2024 to 3.51% in February 2025. Meanwhile, the average 1-month HKD time deposit board rate offered by retail banks decreased from 0.32% to 0.22% at the end of the review period.⁵ **The composite interest rate,**⁶ which



⁵ The figure refers to the average interest rate offered by major authorized institutions for 1-month time deposits of less than HK\$100,000.

⁶ 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.

indicates the average funding cost of retail banks, **decreased** from 2.24% at the end of December 2024 to 2.07% at the end of March 2025 (Chart 9).

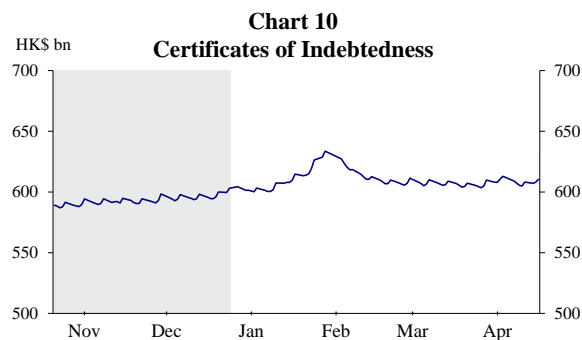
Monetary Base

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\$1,980.99 billion on 16 April 2025 from HK\$1,959.87 billion on 27 December 2024** (Table 2). Movements of the individual components are discussed below.

Table 2 Monetary Base		
(HK\$bn)	27 Dec 24	16 Apr 25
CIs	604.38	610.34
Government-issued Currency Notes and Coins in Circulation	13.30	13.21
Aggregate Balance	44.80	44.67
Outstanding EFBNs	1,297.39	1,312.77
Monetary Base	1,959.87	1,980.99

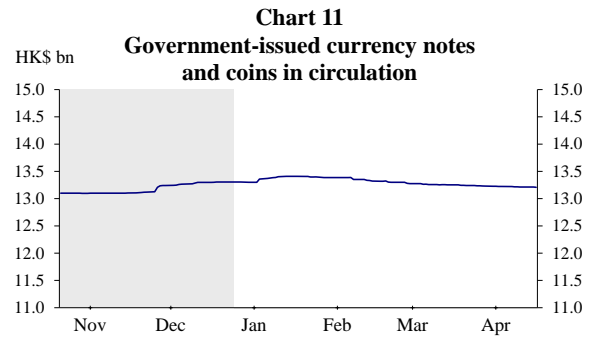
Certificates of Indebtedness

10. During the review period, the note-issuing banks submitted a net amount of US\$0.76 billion to the HKMA in exchange for HK\$5.96 billion worth of CIs. As a result, **the outstanding CIs increased to HK\$610.34 billion on 16 April 2025 from HK\$604.38 billion on 27 December 2024** (Chart 10).



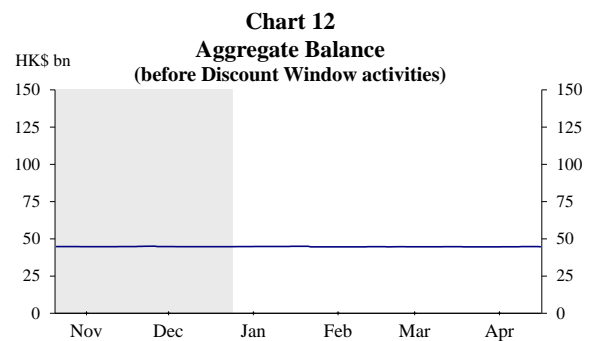
Government-issued currency notes and coins in circulation

11. During the review period, the amount of **government-issued currency notes and coins in circulation** were little changed at HK\$13.21 billion (Chart 11).



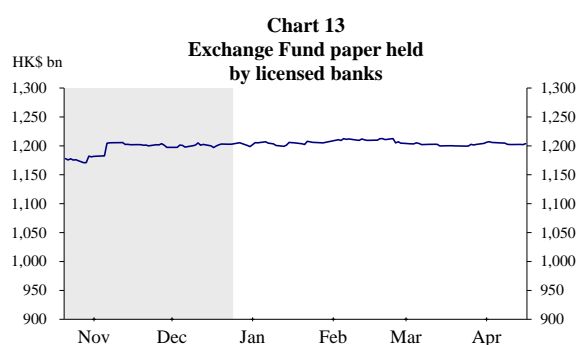
Aggregate Balance

12. During the review period, the Convertibility Undertakings were not triggered and **the Aggregate Balance** was little changed at around **HK\$44.67 billion** (Chart 12).



Outstanding Exchange Fund Bills and Notes

13. **The market value of the outstanding EFBNs increased to HK\$1,312.77 billion during the review period. Holdings of Exchange Fund papers by the banking sector (before Discount Window activities) decreased to HK\$1,203.78 billion (91.7% of total) from HK\$1,205.42 billion (92.9% of total) (Chart 13).**

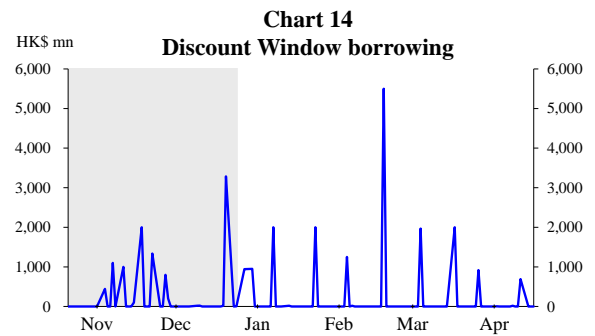


14. During the review period, **interest payments on Exchange Fund papers amounted to HK\$14,546.74 million. A total of HK\$14,651.67 million (in market value) of Exchange Fund papers were issued to absorb these interest payments.** The Exchange Fund papers issued during the review period were generally well received by the market (Table 3).

Table 3 Issuance of Exchange Fund Bills and Notes (27 Dec 24 – 16 Apr 25)		
	No. of issues launched	Over-subscription ratio
1-month EFB	1	3.93
3-month EFB	16	1.29 – 2.01
6-month EFB	16	1.35 – 2.86
12-month EFB	4	1.93 – 4.83
2-year EFN	1	7.78

Discount Window activities

15. During the review period, a **total of HK\$18,290 million was borrowed from the Discount Window**, compared with HK\$10,334 million in the preceding review period from 19 October to 24 December 2024 (Chart 14). No abnormality was noted in the relevant usage.



Backing Portfolio

16. The Backing Assets increased to HK\$2,186.70 billion on 16 April 2025. **The Backing Ratio increased to 110.38% from 109.41% 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.

