

EXCHANGE FUND ADVISORY COMMITTEE

Currency Board Sub-Committee

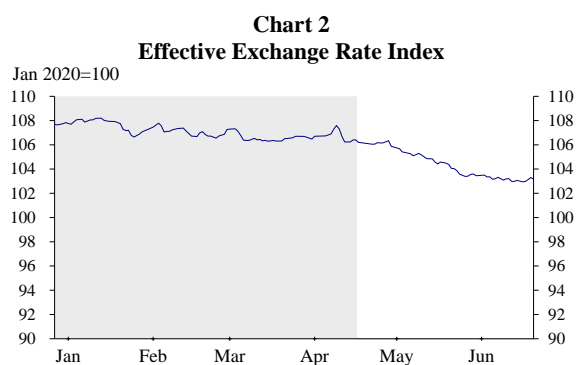
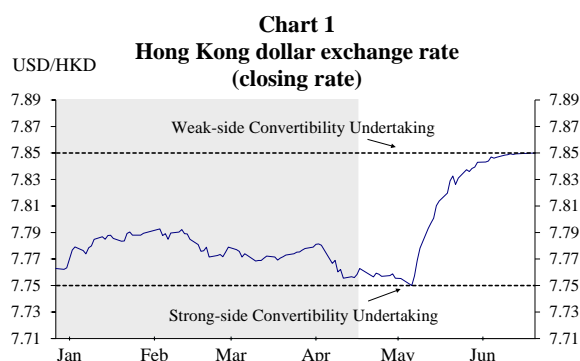
Report on Currency Board Operations

Review period: 17 April 2025 – 20 June 2025

During the review period, the Hong Kong dollar (HKD) traded within a range of 7.7500 – 7.8499 against the US dollar (USD). The HKD exchange rate firmed in the second half of April due to buoyant capital market activities and, in particular, continued net inflows through the Southbound Stock Connect. In early May, amid the sharp appreciation of some Asian currencies against the USD and continued equity-related demand, the strong-side Convertibility Undertaking (CU) was triggered four times, with the HKMA selling HK\$129.40 billion under the strong-side CU. The Aggregate Balance rose correspondingly to around HK\$174 billion. While HKD interbank rates (HIBORs) generally track their USD counterparts under the Linked Exchange Rate System, they are also influenced by the local supply and demand of HKD funding. HIBORs softened as the supply of HKD funding was relatively abundant after the CU triggering. Widened negative HKD-USD interest rate spread incentivised carry trade activities which weighed on the HKD, easing to levels close to the weak-side CU in June. Overall, the HKD and the HKD interbank market continued to trade in a smooth and orderly manner. 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 17 April to 20 June 2025, the **HKD traded within a range of 7.7500 – 7.8499 against the USD** (Chart 1).¹ The HKD exchange rate firmed in the second half of April due to buoyant capital market activities and, in particular, continued net inflows through the Southbound Stock Connect. In early May, amid the sharp appreciation of some Asian currencies against the USD and continued equity-related demand, the strong-side CU was triggered four times, with the HKMA selling HK\$129.40 billion under the strong-side CU. With the Aggregate Balance rising correspondingly to around HK\$174 billion, HKD interest rates softened. Widened negative HKD-USD interest rate spread incentivised carry trade activities which weighed on the HKD, easing to levels close to the weak-side CU in June. Overall, the HKD continued to trade in a smooth and orderly manner during the review period, closing at 7.8499 on 20 June. 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

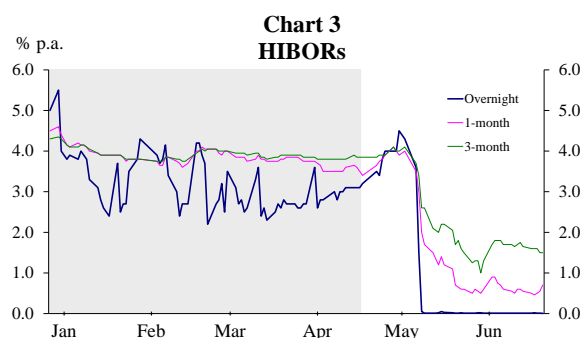


¹ In this report, daily time series charts also cover developments in the preceding review period (as shown in shaded region) for reference and comparison.

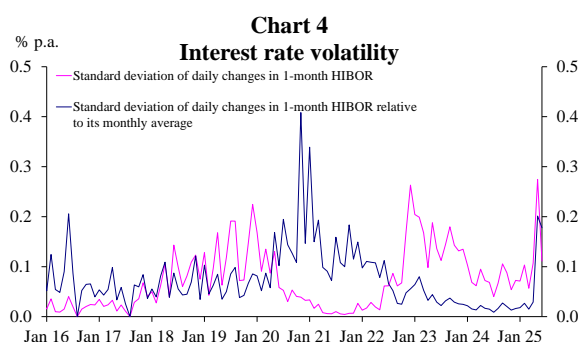
currencies of the major trading partners of Hong Kong.

Interest rates

2. The HKD interbank market continued to trade in a smooth and orderly manner. After rising in the second half of April, short-term HIBORs declined as liquidity condition eased following the expansion of the Aggregate Balance. For the review period as a whole, **the 1-month HIBOR and 3-month HIBOR decreased** by 270 basis points and 235 basis points to 0.70% and 1.50% respectively at the end of the review period (Chart 3). Meanwhile, **the overnight HIBOR decreased** to a very low level of 0.01% at the end of the review period.

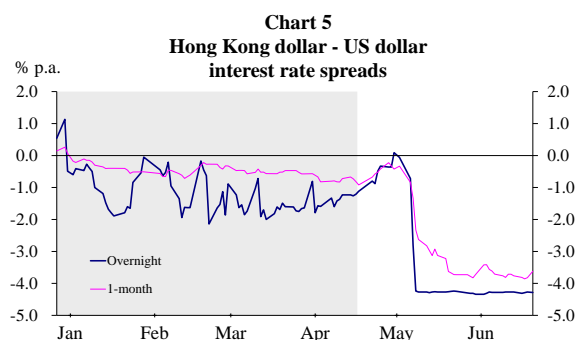


3. **Interest rate volatility**, measured by the standard deviation of daily changes in the 1-month HIBOR, **increased** to 22 basis points (or 0.22%) in the current review period from 8 basis points (or 0.08%) in the preceding review period (Chart 4). Meanwhile, the standard deviation as a ratio of the average of the 1-month HIBOR picked up in May and June amid the lower level of HIBOR.²

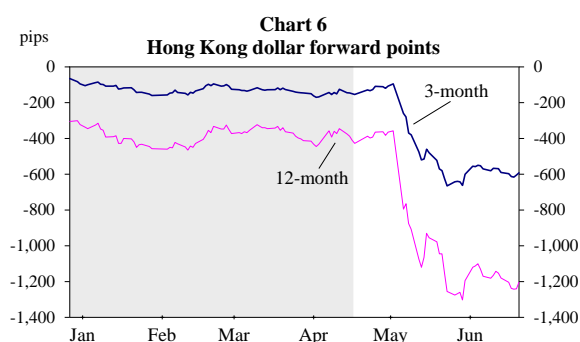


² The ratio of the standard deviation of daily changes in the 1-month HIBOR to its monthly average measures the extent of interest rate fluctuations relative to the average level of interest rates.

4. The spreads of the HKD-USD interbank interest rate generally widened in the negative territory during the review period (Chart 5).³ The overnight and 1-month spreads closed at -429 basis points and -362 basis points respectively at the end of the review period.



5. Both 3-month and 12-month forward discounts widened, closing at 592 pips and 1,203 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 121 basis points to 1.70% at the end of the review period, and that of the 10-year Hong Kong Government Bond decreased by 27 basis points to 3.03%. Meanwhile, the negative HKD-USD yield spreads of all tenors widened (Table 1).

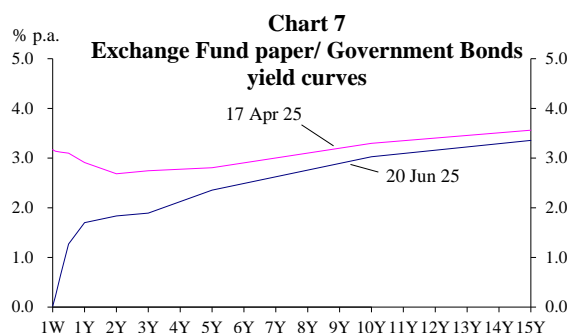
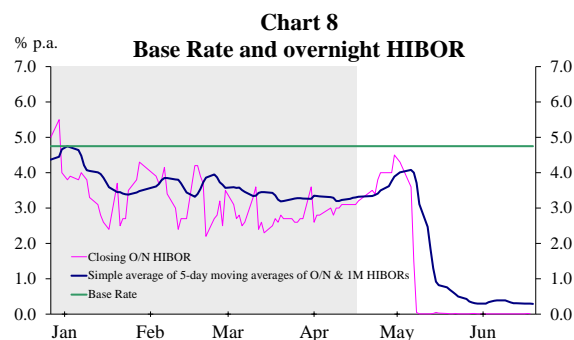


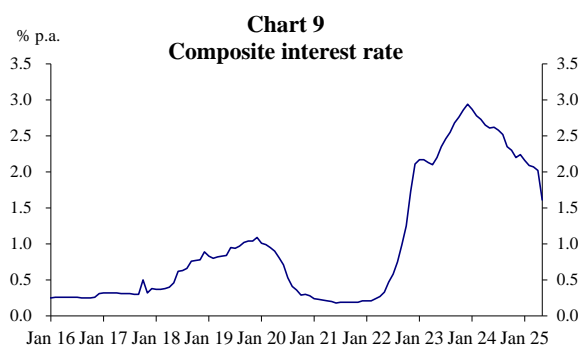
Table 1 Yield spreads of Exchange Fund papers and Hong Kong Government Bonds over US Treasuries (basis points)		
	17 Apr 25	20 Jun 25
3-month EFB	-122	-374
12-month EFB	-108	-237
3-year HKGB	-108	-197
5-year HKGB	-114	-161
10-year HKGB	-104	-135

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. 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 1-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 3.52% in March 2025 to 3.51% in April 2025. Meanwhile, the average 1-month HKD time deposit board rate offered by retail banks remained at 0.22% for the review period.⁴ **The composite interest rate,**⁵ which indicates the average



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.

funding cost of retail banks,
decreased from 2.07% at the end
of March 2025 to 1.61% at the end
of May 2025 (Chart 9).

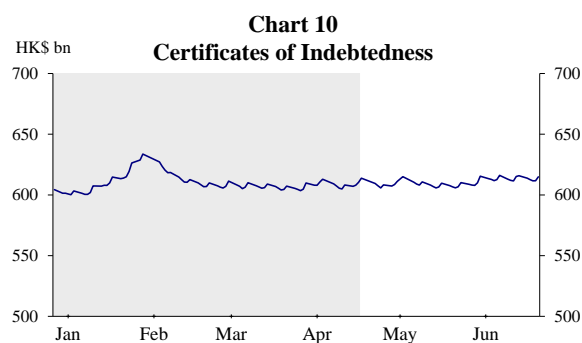
Monetary Base

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\$2,125.03 billion on 20 June 2025 from HK\$1,984.60 billion on 17 April 2025** (Table 2). Movements of the individual components are discussed below.

Table 2 Monetary Base		
(HK\$bn)	17 Apr 25	20 Jun 25
CIs	613.80	614.89
Government-issued Currency Notes and Coins in Circulation	13.21	13.17
Aggregate Balance	44.67	173.46
Outstanding EFBNs	1,312.92	1,323.51
Monetary Base	1,984.60	2,125.03

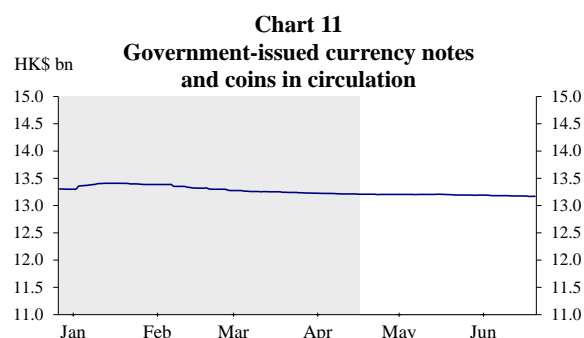
Certificates of Indebtedness

10. During the review period, the note-issuing banks submitted a net amount of US\$0.14 billion to the HKMA in exchange for HK\$1.09 billion worth of CIs. As a result, **the outstanding CIs increased** to HK\$614.89 billion on 20 June 2025 from HK\$613.80 billion on 17 April 2025 (Chart 10).



Government-issued currency notes and coins in circulation

11. During the review period, the amounts of **government-issued currency notes and coins in circulation** were little changed at HK\$13.17 billion (Chart 11).



Aggregate Balance

12. The **Aggregate Balance** rose from **HK\$44.67 billion** to **HK\$173.46 billion** during the review period (Chart 12) owing to the triggering of the strong-side CU in early May (Table 3).⁶ These foreign exchange operations were consistent with Currency Board principles, as the increases in the Monetary Base were matched by equivalent increases in US dollar reserves.

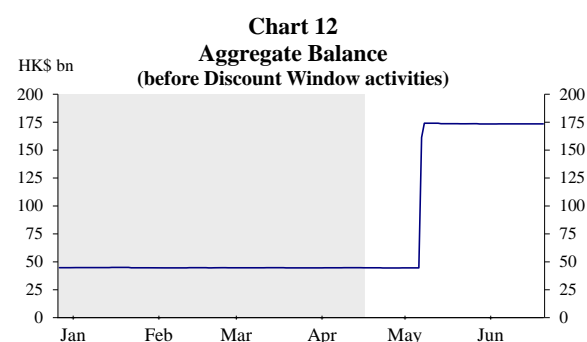
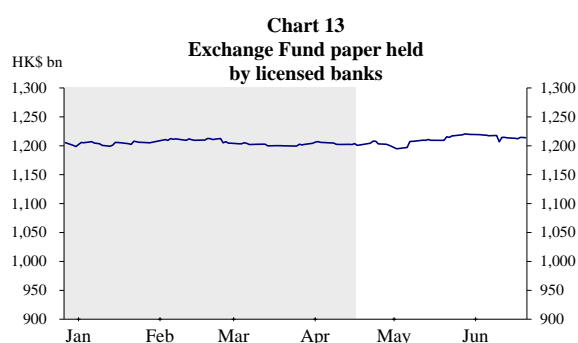


Table 3 HKMA US\$/HK\$ FX Transactions (17 Apr 25 - 20 Jun 25)	
Trade Date	Net purchase of US\$ (HK\$ mn)
2-May	46,539
5-May	70,076
6-May	12,788
Total	129,402

⁶ The strong-side CU was triggered one time during New York trading hours on 2 May, one time each during Hong Kong and New York trading hours on 5 May, and one time during Hong Kong trading hours on 6 May.

Outstanding Exchange Fund Bills and Notes

13. The market value of the outstanding EFBNs increased to HK\$1,323.51 billion during the review period. Holdings of Exchange Fund papers by the banking sector (before Discount Window activities) increased to HK\$1,213.95 billion (91.7% of total) from HK\$1,200.70 billion (91.5% of total) (Chart 13).

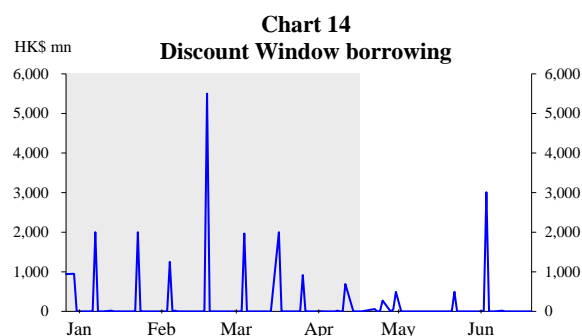


14. During the review period, interest payments on Exchange Fund papers amounted to HK\$3,840.54 million. A total of HK\$4,471.81 million (in market value) of Exchange Fund papers were issued to absorb these interest payments. The Exchange Fund papers issued during the review period were generally well received by the market (Table 4).

Table 4 Issuance of Exchange Fund Bills and Notes (17 Apr 25 – 20 June 25)		
	No. of issues launched	Over- subscription ratio
1-month EFB	0	-
3-month EFB	9	1.07 – 2.51
6-month EFB	9	1.99 – 3.32
12-month EFB	2	2.57 – 5.5
2-year EFN	1	2.58

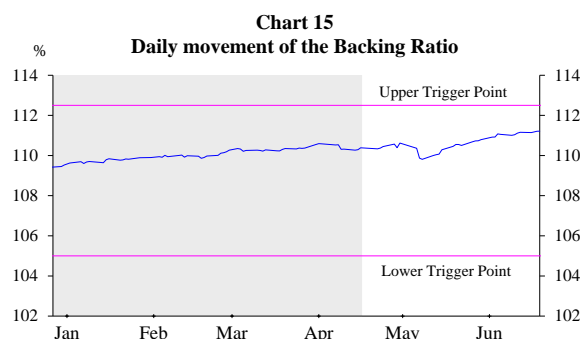
Discount Window activities

15. During the review period, a total of **HK\$4,408 million** was borrowed from the Discount Window, compared with HK\$18,290 million in the preceding review period from 25 December 2024 to 16 April 2025 (Chart 14). No abnormality was noted in the relevant usage.



Backing Portfolio

16. The Backing Assets increased to HK\$2,359.84 billion on 19 June 2025. **The Backing Ratio increased to 111.22% from 110.33% 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
13 August 2025