

EXCHANGE FUND ADVISORY COMMITTEE

Currency Board Sub-Committee

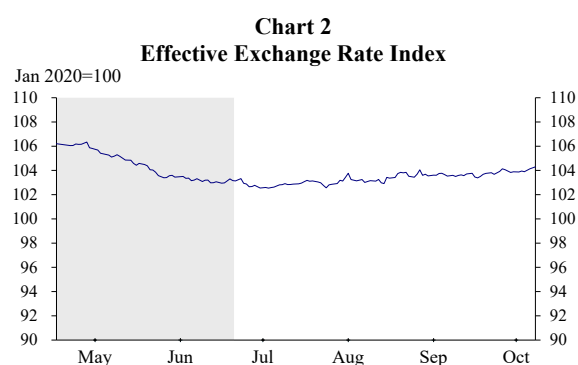
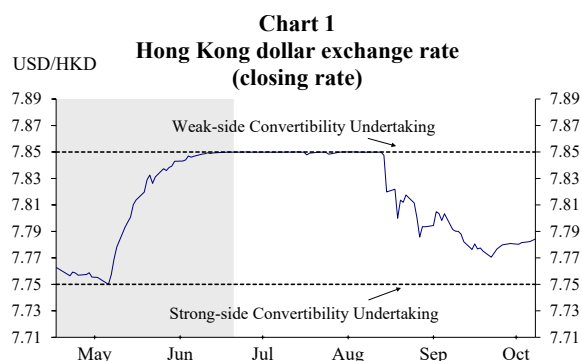
Report on Currency Board Operations

Review period: 21 June 2025 – 8 October 2025

During the review period, the Hong Kong dollar (HKD) traded within a range of 7.7705 – 7.8500 against the US dollar (USD). The HKD stayed close to the weak-side Convertibility Undertaking (CU) between mid-June and mid-August, and the weak-side CU was triggered 12 times during the review period. With the HKMA buying HK\$119.95 billion under the weak-side CU, the Aggregate Balance fell correspondingly to around HK\$54 billion. Since mid-August, the HKD has strengthened as short-term HIBORs firmed and net buying flows through Southbound Stock Connect continued. 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. Amid the reduction in the Aggregate Balance, HIBORs picked up since mid-August and the negative HKD-USD interest rate spread narrowed. Overall, the HKD and the HKD interbank market continued to trade in a smooth and orderly manner. Meanwhile, following the decrease in the target range for the US federal funds rate in mid-September, many banks reduced their Best Lending Rates by 12.5 basis points, and the Best Lending Rates in the market ranged from 5.125% – 5.625% at the end of the review period. No abnormality was noted in the usage of the Discount Window. Throughout the review period, the Monetary Base remained fully backed by USD foreign reserves, and all changes in the Monetary Base were fully matched by corresponding changes in USD foreign reserves in accordance with Currency Board principles.

Hong Kong dollar exchange rate

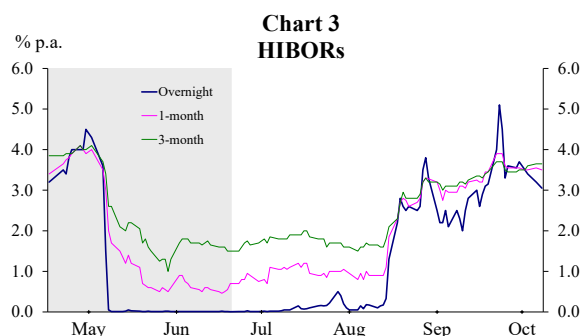
1. During the review period of 21 June to 8 October 2025, the HKD traded within a range of 7.7705 – 7.8500 against the USD (Chart 1).¹ The HKD stayed close to the weak-side CU between mid-June and mid-August, and the weak-side CU was triggered 12 times. With the HKMA buying HK\$119.95 billion under the weak-side CU, the Aggregate Balance fell correspondingly to around HK\$54 billion. Since mid-August, the HKD has strengthened as short-term HIBORs firmed and net buying flows through Southbound Stock Connect continued. Overall, the HKD continued to trade in a smooth and orderly manner during the review period, closing at 7.7843 on 8 October. 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.



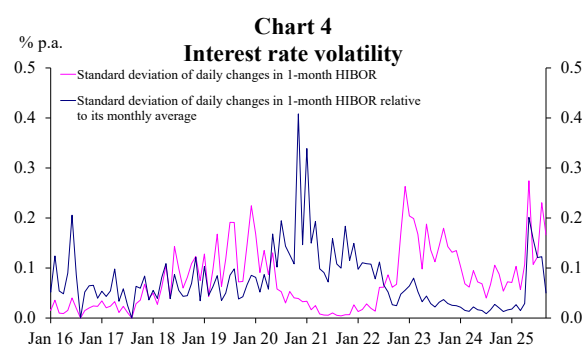
¹ In this report, daily time series charts also cover developments in the preceding review period (as shown in the shaded region) for reference and comparison.

Interest rates

2. The HKD interbank market continued to trade in a smooth and orderly manner. After staying at a low level between mid-June and mid-August, HIBORs rose as liquidity conditions tightened following the reduction of the Aggregate Balance. For the review period as a whole, **the 1-month HIBOR and 3-month HIBOR increased** by 280 basis points and 215 basis points to 3.50% and 3.65% respectively at the end of the review period (Chart 3). Meanwhile, **the overnight HIBOR increased** to 3.05% at the end of the review period.

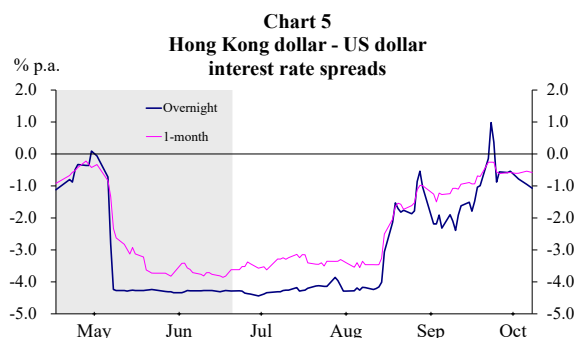


3. **Interest rate volatility**, measured by the standard deviation of daily changes in the 1-month HIBOR, **decreased** to 17 basis points (or 0.17%) in the current review period from 22 basis points (or 0.22%) in the preceding review period (Chart 4). The standard deviation as a ratio of the average of the 1-month HIBOR also decreased during the review period.²

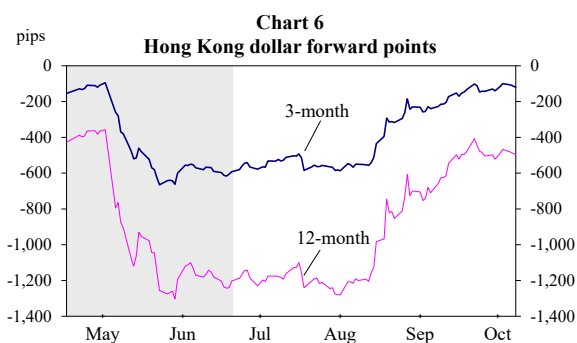


² The ratio of the standard deviation of daily changes in the 1-month HIBOR to its monthly average measures the extent of interest rate fluctuations relative to the average level of interest rates.

4. The spreads of the HKD-USD interbank interest rate generally narrowed in the negative territory during the review period (Chart 5).³ The overnight and 1-month spreads closed at -107 basis points and -58 basis points respectively at the end of the review period.



5. Both 3-month and 12-month forward discounts narrowed, closing at 120 pips and 498 pips respectively at the end of the review period (Chart 6).



6. During the review period, HKD yield curve flattened, with the yields shifting upward at the shorter end (Chart 7). The yield of the 1-year Exchange Fund Bill increased by 100 basis points to 2.70% at the end of the review period, and that of the 10-year Hong Kong Government Bond increased by 1 basis point to 3.03%. Meanwhile, the negative HKD-USD yield spreads of all tenors narrowed (Table 1).

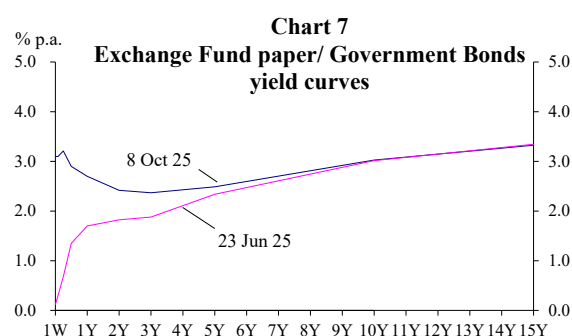
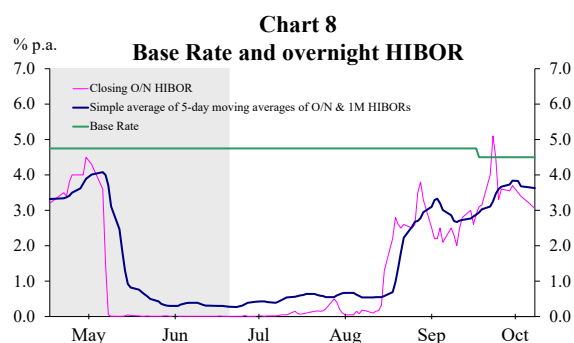


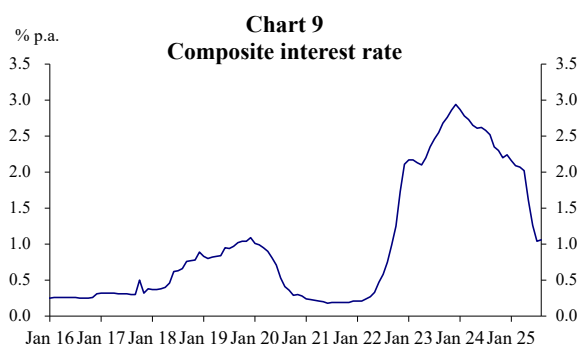
Table 1 Yield spreads of Exchange Fund papers and Hong Kong Government Bonds over US Treasuries (basis points)		
	23 Jun 25	8 Oct 25
3-month EFB	-370	-80
12-month EFB	-230	-96
3-year HKGB	-192	-121
5-year HKGB	-157	-123
10-year HKGB	-132	-110

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 decrease in the US federal funds target range from 4.25% – 4.50% to 4.00% - 4.25% on 17 September (US time), **the HKMA Base Rate decreased from 4.75% to 4.50% on 18 September** 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 5-day moving averages of the overnight and 1-month HIBORs, whichever is the higher.



8. Following the decrease in the target range for the US federal funds rate on 17 September (US time), **many banks reduced their Best Lending Rates by 12.5 basis points.** At the end of the review period, the Best Lending Rates in the market ranged from 5.125% – 5.625%. The average interest rate for newly approved mortgage loans increased from 2.10% in June to 3.31% in August. Meanwhile, the average 1-month HKD time deposit board rate offered by retail banks decreased from 0.22% to 0.16% during the review period. ⁴



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.

The composite interest rate, ⁵ which indicates the average funding cost of retail banks, **decreased** from 1.26% at the end of June to 1.06% at the end of August (Chart 9).

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.

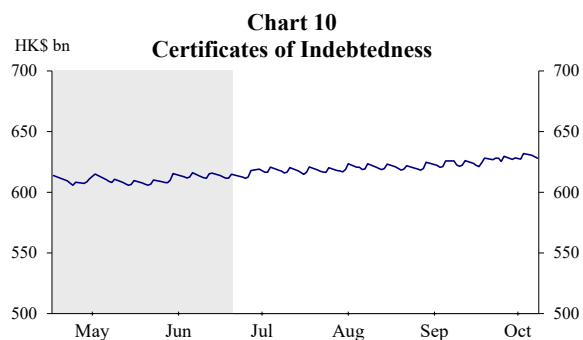
Monetary Base

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), **decreased to HK\$2,020.69 billion on 8 October from HK\$2,123.24 billion on 23 June** (Table 2). Movements of the individual components are discussed below.

Table 2 Monetary Base		
(HK\$bn)	23 Jun 25	8 Oct 25
CIs	613.09	628.10
Government-issued Currency Notes and Coins in Circulation	13.17	13.18
Aggregate Balance	173.46	54.17
Outstanding EFBNs	1,323.52	1,325.25
Monetary Base	2,123.24	2,020.69

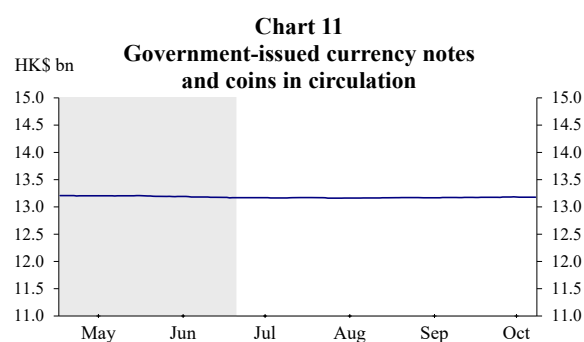
Certificates of Indebtedness

10. During the review period, the note-issuing banks submitted a net amount of US\$1.92 billion to the HKMA in exchange for HK\$15.01 billion worth of CIs. As a result, **the outstanding CIs increased** to HK\$628.10 billion on 8 October from HK\$613.09 billion on 23 June (Chart 10).



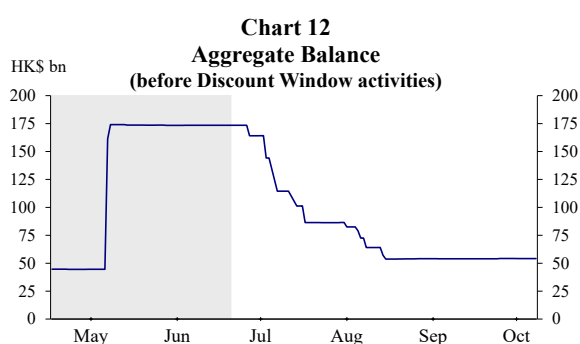
Government-issued currency notes and coins in circulation

11. During the review period, the amounts of **government-issued currency notes and coins in circulation** were little changed at HK\$13.18 billion (Chart 11).



Aggregate Balance

12. The **Aggregate Balance declined from HK\$173.46 billion to HK\$54.17 billion during the review period** (Chart 12) owing to the triggering of the weak-side CU between late June and mid-August (Table 3).⁶ These foreign exchange operations were consistent with Currency Board principles, as the decreases in the Monetary Base were matched by equivalent decreases in USD reserves.

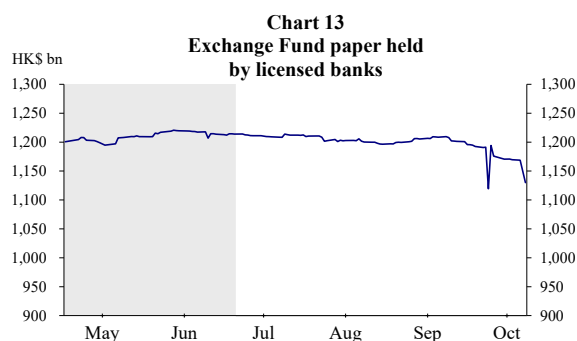


Trade Date	Net purchase of USD (HK\$ mn)
25-Jun	-9,420
1-Jul	-20,018
3-Jul	-29,634
10-Jul	-13,282
15-Jul	-14,829
30-Jul	-3,925
1-Aug	-3,533
4-Aug	-6,429
6-Aug	-8,439
12-Aug	-7,065
13-Aug	-3,376
Total	-119,948

⁶ The weak-side CU was triggered one time during New York trading hours on 25 June, 1 July, 10 July, 15 July, 30 July, 4 August, 12 August and 13 August respectively, two times during New York trading hours on 3 July, and one time during Hong Kong trading hours on 1 August and 6 August respectively.

Outstanding Exchange Fund Bills and Notes

13. The market value of the **outstanding EFBNs increased** to HK\$1,325.25 billion during the review period. **Holdings of Exchange Fund papers by the banking sector (before Discount Window activities) decreased** to HK\$1,130.09 billion (85.3% of total) from HK\$1,214.09 billion (91.7% of total) (Chart 13).

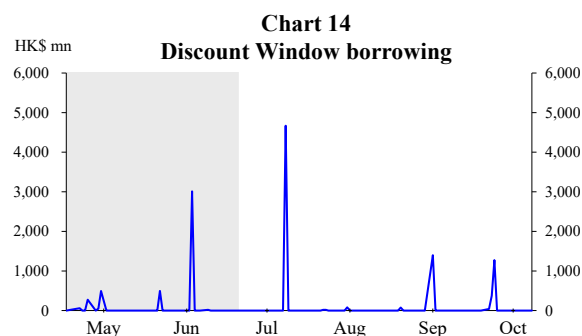


14. During the review period, **interest payments on Exchange Fund papers amounted to HK\$8,607.80 million. A total of HK\$7,943.50 million (in market value) of Exchange Fund papers were issued to absorb these interest payments.** The remaining amount was carried forward in the Aggregate Balance at the end of the review period. 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 (23 Jun 25 – 8 Oct 25)		
	No. of issues launched	Over-subscription ratio
1-month EFB	0	-
3-month EFB	16	0.63 – 1.81
6-month EFB	16	1.38 – 3.12
12-month EFB	5	1.92 – 3.81
2-year EFN	1	3.53

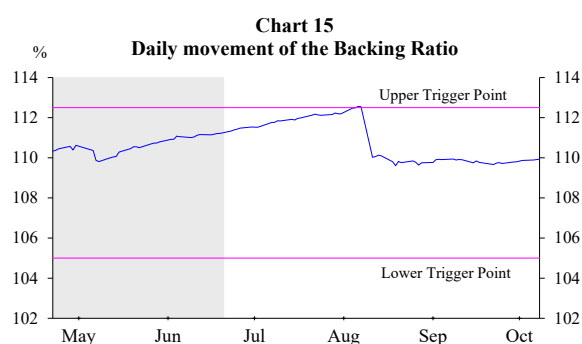
Discount Window activities

15. During the review period, a **total of HK\$7,956 million was borrowed from the Discount Window**, compared with HK\$4,408 million in the preceding review period from 17 April to 20 June (Chart 14). No abnormality was noted in the relevant usage.



Backing Portfolio

16. The Backing Assets decreased to HK\$2,221.31 billion on 8 October. **The Backing Ratio decreased to 109.93% from 111.34% during the review period** (Chart 15). On 6 August and 7 August, the Backing Ratio reached the upper trigger point of 112.5% and assets were transferred from the Backing Portfolio to the Investment Portfolio and the Backing Ratio was brought down to around 110.0%.⁷ Under the Linked Exchange Rate System, while specific Exchange Fund assets have been designated for the



⁷ The Backing Ratio should be maintained between 105% and 112.5%. When the Backing Ratio reaches 112.5% (the upper trigger point), assets will be transferred out of the Backing Portfolio to the Investment Portfolio of the Exchange Fund to reduce the ratio to 110%. Conversely, should the ratio drop to 105% (the lower trigger point), assets will be injected from the Investment Portfolio to restore it to 107.5%. This arrangement enables a higher investment return on excess assets while ensuring sufficient liquid assets in the Backing Portfolio.

Backing Portfolio, all Exchange Fund assets are available to support the HKD exchange rate.

Hong Kong Monetary Authority
28 November 2025