

Monetary Conditions in 2006

REVIEW OF 2006

Hong Kong's foreign exchange and money markets were stable in 2006. The Hong Kong dollar spot exchange rate fluctuated between the Linked Rate of 7.8 to one US dollar and the strong-side Convertibility Undertaking of 7.75 during the year.

Movements in Hong Kong dollar interbank interest rates largely followed those in their US dollar counterparts. The Hong Kong Interbank Offered Rates rose in the first half of the year, tracking increases in the US federal funds target rate. Since the US Fed stopped raising the target rate in August, Hong Kong dollar interest rates have been steady, moving between four and five per cent.

Amid ample liquidity, Hong Kong dollar interbank interest rates stayed below their US dollar counterparts during the year. But the negative interest rate spreads in 2006 were not large compared to historical standards. From a macroeconomic perspective, monetary conditions in 2006 were broadly neutral.

The Convertibility Undertakings were not triggered in 2006, and the HKMA did not conduct any foreign exchange operations. The Aggregate Balance remained stable at around \$1.3 billion, and interest rate volatility continued to remain low.

ACTIVITIES AT THE HKMA

The Currency Board Sub-Committee of the Exchange Fund Advisory Committee continued to oversee the operation of the Currency Board system and examine issues affecting monetary and financial stability in Hong Kong.

The Hong Kong Institute for Monetary Research conducts research in monetary policy and banking and finance issues that are of strategic importance to Hong Kong and the region, and promotes central bank co-operation in research.

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Chart 1. Market exchange rate, January-December 2006



Chart 2. HIBORs and LIBORs, January-December 2006

