

Exchange Fund Results for 2009

CB(1)1034/09-10(02)

The Hong Kong Monetary Authority (HKMA) announced today (Thursday) the Exchange Fund results* for 2009.

The Exchange Fund recorded an investment income of HK\$106.7 billion in 2009. The main components were ([Annex 1](#))

- a valuation gain on, and dividends from, Hong Kong equities amounting to HK\$48.9 billion
- a valuation gain on, and dividends from, other equities amounting to HK\$48.7 billion
- an exchange valuation gain of HK\$9.8 billion, mainly as a result of the appreciation of other currencies against the US dollar
- a valuation loss, net of interest, on bonds and other investments of HK\$0.7 billion.

After deducting interest and other expenses, the net investment income in 2009 was HK\$103.2 billion. Taking into account fee payments to the Fiscal Reserves and placements by HKSAR government funds and statutory bodies of HK\$34.7 billion, and adding back the valuation gain and dividend income on the Strategic Portfolio of HK\$4.3 billion, the Accumulated Surplus recorded an increase of HK\$72.8 billion ([Annex 1](#)).

The Abridged Balance Sheet ([Annex 2](#)) shows that the total assets of the Exchange Fund increased in 2009 by HK\$591.4 billion, from HK\$1,560.3 billion at the end of 2008 to HK\$2,151.7 billion at the end of 2009. The increase is mainly attributable to capital inflows into the Hong Kong dollar.

The 2009 Exchange Fund investment return is 5.9%** . To reflect the long-term nature of the Fund, the HKMA is also releasing the average investment returns of the Exchange Fund over a number of different time horizons. The average return was 3.8% over the last three years, 4.8% over the last five years, 5% over the last 10 years and 6.1% since 1994*** . These returns compare favourably with the average inflation rate during the corresponding period ([Chart 1 and Table 1](#)).

Commenting on the Exchange Fund results for 2009, Mr Norman Chan, Chief Executive of the HKMA, said that major financial markets recovered in 2009 from the market turbulence in 2007 and 2008. "The investment return of HK\$106.7 billion for the Exchange Fund in 2009 is the second highest on record in terms of amount. Looking back, the investment environment last year remained extremely uncertain and volatile. Major equity markets were still under pressure in the first quarter, but started to recover from the turbulence created by the financial crisis from the second quarter because of the positive impact of stimulus packages and greater investor optimism. US bond yields, on the other hand, saw a sharp rise during the year, especially at the long end, with concerns over the supply of US government bonds and uncertainties about the timing and pace of the exit from monetary easing."

Regarding the outlook for the year ahead, Mr Chan added that the prospects for the global financial markets are far from certain. "While there is a modest recovery in the global economy, its sustainability remains to be seen. The global financial system has stabilised but its recovery is not without fragility. In particular, global banks are expected to face increasing pressure to meet capital and other financing needs in the coming two to three years. In addition, the performance of the financial markets is clouded by the considerable uncertainty about the timing of the exit from monetary easing. In sum, I expect that the uncertainties surrounding the movements of interest rates, international fund flows and exchange rates may lead to considerable volatility in global asset markets in 2010," he said. "The HKMA will continue to be vigilant and manage the Exchange Fund prudently in accordance with the Fund's investment objectives set by the Financial Secretary on the advice of the Exchange Fund Advisory Committee."

* Unaudited figures

** This return excludes the performance of the Strategic Portfolio.

*** Averages over different time horizons are calculated on an annually compounded basis.

Annex 1: [Exchange Fund Results](#)

Annex 2: [Exchange Fund Abridged Balance Sheet](#)

Chart 1: [Investment Return of the Exchange Fund \(1994 to 2009\)](#)

[Table 1: Investment Return of the Exchange Fund in Hong Kong dollar terms](#)
[Remarks at Press Announcement by Mr Norman T.L. Chan, Chief Executive of the HKMA](#)
[Powerpoint Presentation](#)

For further enquiries, please contact:

Hing-fung Wong, Manager (Communications), at 2878 1802 or

Yokee Wong, Manager (Communications), at 2878 1213

Hong Kong Monetary Authority

28 January 2010



Exchange Fund Results**(Expressed in billions of Hong Kong dollars)**

	I ←———— 2009 —————→ I					2008
	Full year*	Q4	Q3	Q2	Q1	Full year
Gain/(Loss) on Hong Kong equities ^	48.9	6.9	15.9	30.3	(4.2)	(77.9)
Gain/(Loss) on other equities ^	48.7	10.0	27.4	27.3	(16.0)	(73.1)
Exchange gain/(loss)	9.8	(3.4)	11.2	11.7	(9.7)	(12.4)
Return from bonds, and others #	<u>(0.7)</u>	<u>(3.7)</u>	<u>17.4</u>	<u>(10.8)</u>	<u>(3.6)</u>	<u>88.4</u>
Investment income/(loss)	106.7	9.8	71.9	58.5	(33.5)	(75.0)
Other income	0.3	0.1	0.0	0.2	0.0	0.3
Interest and other expenses	<u>(3.8)</u>	<u>(1.0)</u>	<u>(0.9)</u>	<u>(1.2)</u>	<u>(0.7)</u>	<u>(6.5)</u>
Net investment income/(loss)	103.2	8.9	71.0	57.5	(34.2)	(81.2)
Payment to Fiscal Reserves ⁽¹⁾	(33.5)	(7.9)	(8.0)	(8.5)	(9.1)	(46.4)
Payment to HKSAR government funds and statutory bodies ⁽¹⁾	(1.2)	(0.6)	(0.3)	(0.3)	0.0	0.0
Increase/(Decrease) in valuation of Strategic Portfolio ^	<u>4.3</u>	<u>(0.1)</u>	<u>1.3</u>	<u>3.2</u>	<u>(0.1)</u>	<u>(8.9)</u>
Increase/(Decrease) in EF Accumulated Surplus	72.8	0.3	64.0	51.9	(43.4)	(136.5)

* Unaudited figures

^ Including dividends

Including interest

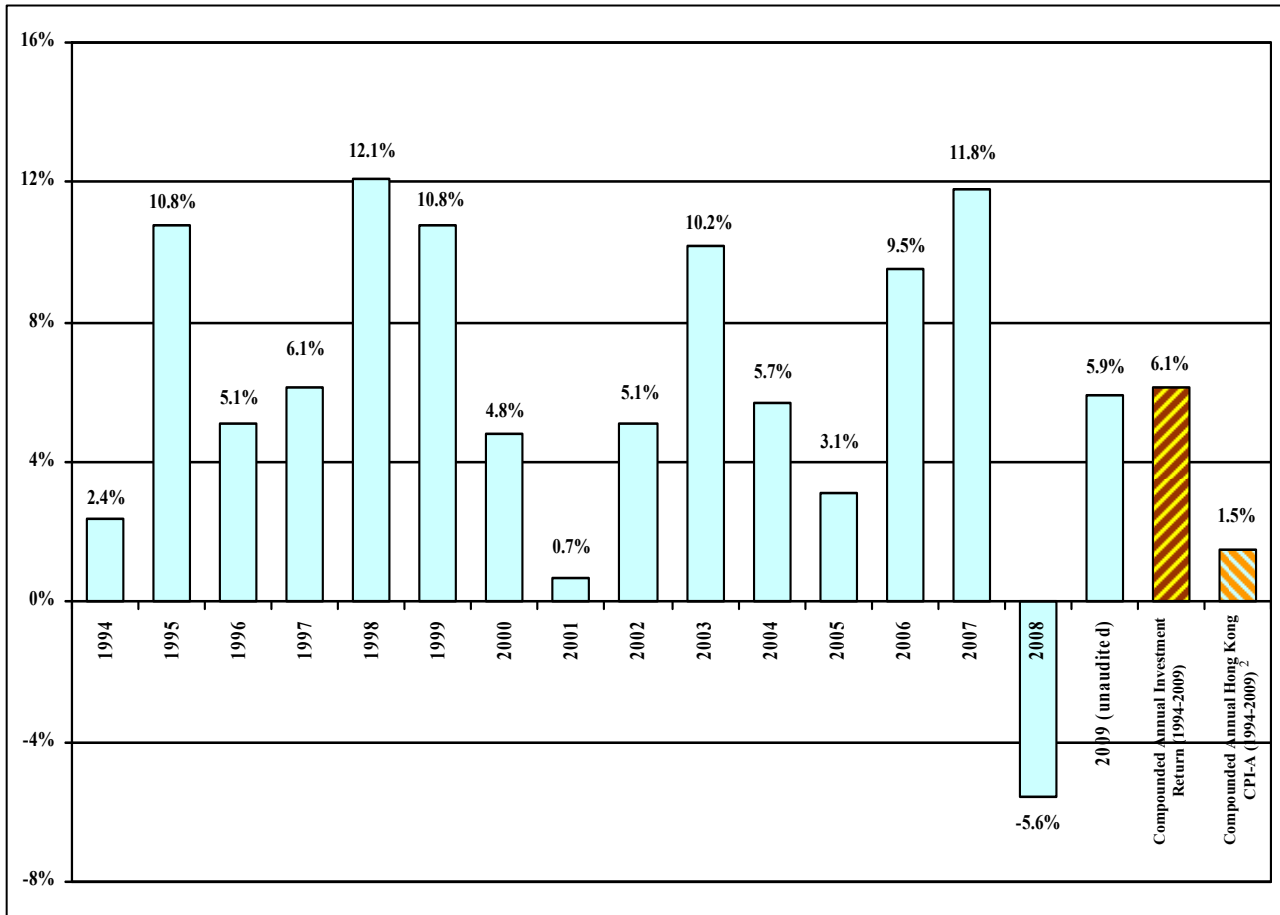
Note 1: The fixed rate of fee payment is 6.8% for 2009 and 9.4% for 2008.

Exchange Fund Abridged Balance Sheet**(Expressed in billions of Hong Kong dollars)**

	At 31 December 2009 (unaudited)	At 31 December 2008	Change
ASSETS			
Deposits	127.9	172.8	(44.9)
Debt securities	1,638.3	1,151.3	487.0
Hong Kong equities ⁽¹⁾	142.9	92.9	50.0
Other equities	214.6	103.3	111.3
Other assets	28.0	40.0	(12.0)
	<hr/>	<hr/>	<hr/>
Total assets	2,151.7	1,560.3	591.4
LIABILITIES AND FUND EQUITY			
Certificates of Indebtedness	199.0	176.1	22.9
Government-issued currency notes and coins in circulation	8.4	8.3	0.1
Balance of the banking system	264.6	158.0	106.6
Exchange Fund Bills and Notes	536.4	162.5	373.9
Placements by banks and other financial institutions	28.3	13.6	14.7
Placements by Fiscal Reserves	504.1	531.4	(27.3)
Placements by HKSAR government funds and statutory bodies	41.9	0.1	41.8
Other liabilities	15.7	29.8	(14.1)
	<hr/>	<hr/>	<hr/>
Total liabilities	1,598.4	1,079.8	518.6
Accumulated Surplus	553.3	480.5	72.8
	<hr/>	<hr/>	<hr/>
Total liabilities and fund equity	2,151.7	1,560.3	591.4

Note 1: Hong Kong equities include shares of the Hong Kong Exchanges and Clearing Limited in the Strategic Portfolio.

Chart 1: Investment Return of the Exchange Fund (1994 to 2009) ¹



¹ Investment return calculation excludes the holdings in the Strategic Portfolio.

² CPI(A) is calculated based on the 2004/2005 base new series.

Table 1: Investment Return of the Exchange Fund in Hong Kong dollar terms ¹

	Investment return ^{2,3}	CPI(A) ^{3,4}	Excess return over benchmark
2009	5.9%	1.7%	122 bps
3-year average (2007 – 2009)	3.8%	2.1%	24 bps
5-year average (2005 – 2009)	4.8%	1.9%	N/A ⁵
10-year average (2000 – 2009)	5.0%	0.1%	N/A ⁵
Average since 1994	6.1%	1.5%	N/A ⁵

¹ The investment returns for 2001 to 2003 are in US dollar terms.

² Investment return calculation excludes the holdings in the Strategic Portfolio.

³ Averages over different time horizons are calculated on an annually compounded basis.

⁴ CPI(A) is calculated based on the 2004/2005 base new series.

⁵ N/A: Not Applicable. Compilation of active returns for individual portfolios started in 2006.