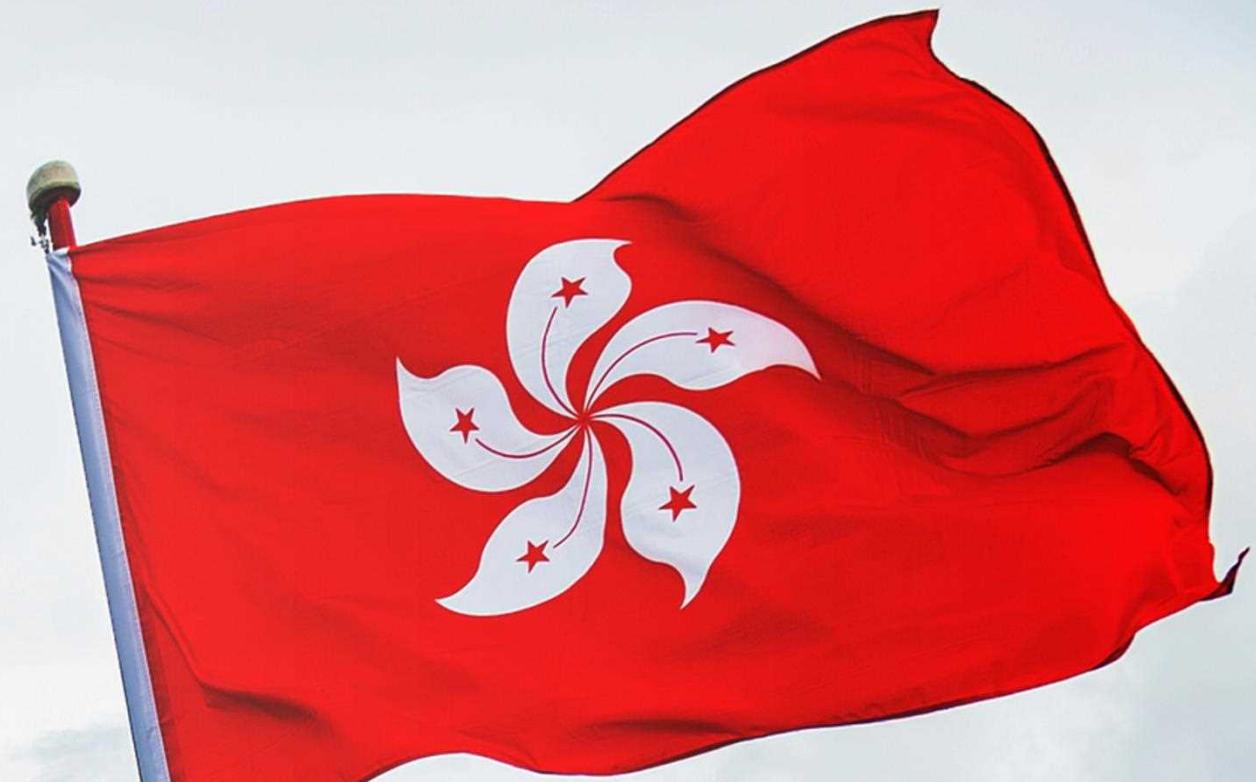




IFM-03 | Group 3
Lecturer: Mr. Tran Minh Hieu

HONG KONG

FINANCIAL STABILITY



BEFORE THE CRISIS



1997

Handover of HongKong

- **July:** Adherence to "one country, two systems" policy
- **Oct:** Speculative pressure due to expected HKD depreciation during Asian Financial Crisis
- **Trade deficits and 230 bp gap** in average between HKD and USD

1998

Rapid Recovery

- **H1:** High interest rate & deflation of asset price bubble
- **H2:** HKMA intervened the negative growth by pouring \$15Bn into stock market to main balance

2000-2003

External Attack

- **2002:** "Dot.com" financial crisis in US
→ Lose confidence & reduce 50% real estate
- **2003:** SARC was forced to Hong Kong to announce restriction on Travel Policy
→ Reduce traveling demand & tourism income

2004-2006

The Closer Economic Partnership Arrangement

- GDP and CPI increase significantly with the rapid development of service industry in export
- Real estate and Residential sector increase in price

2008

First phase

Q1.2009

Second phase

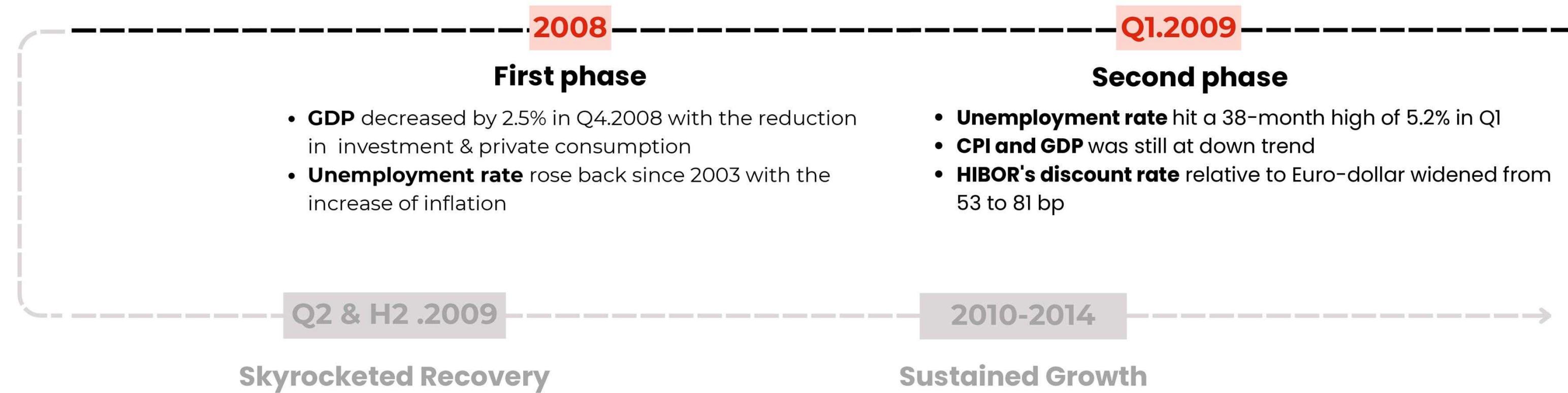
Q2 & H2 .2009

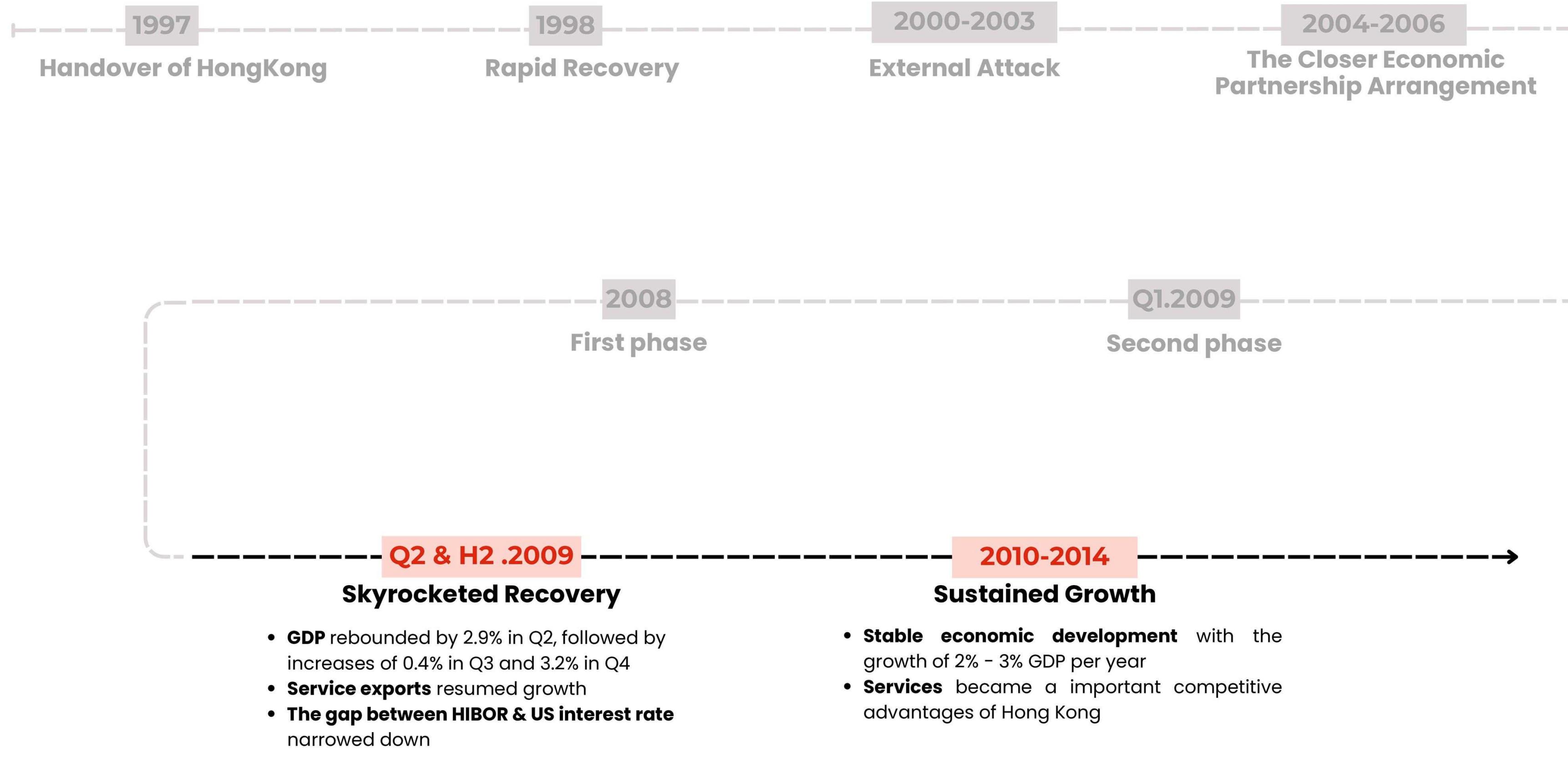
Skyrocketed Recovery

2010-2014

Sustained Growth

DURING THE CRISIS





PURCHASING POWER PARITY (PPP) TABLE



Purchasing Power Parity of Hong Kong:

Pre-crisis (2007)	Crisis (2008)	Post-crisis (2010)
5.28	5.24	5.19

Pre-crisis (2007): 1 USD = 5.28 HKD

The relative prices of these commodities in US dollars for each period:

Industry	Items	2007	2008	2010
Agricultural	Rice (USD/cwt)	13.55	15.34	13.99
	Cotton (USD/Lbs)	68.01	49.02	144.81
Energy	Gasoline (USD/Gal)	2.48	1.01	2.45
Livestock	Lean hogs (USD/Lbs)	57.88	60.88	79.75

PURCHASING POWER PARITY (PPP) TABLE



The relative prices of these commodities in HK dollars for each period:

Industry	Items	2007	2008	% Changes in 2008	2010	% Changes in 2010
Agricultural	Rice (HKD/cwt)	2.57	2.93	13.92%	2.7	4.96%
	Cotton (HKD/Lbs)	12.89	9.35	-27.47%	27.91	116.45%
Energy	Gasoline (HKD/Gal)	0.47	0.19	-59.02%	0.47	0.73%
Livestock	Lean hogs (HKD/Lbs)	10.97	11.61	-27.47%	15.37	40.08%

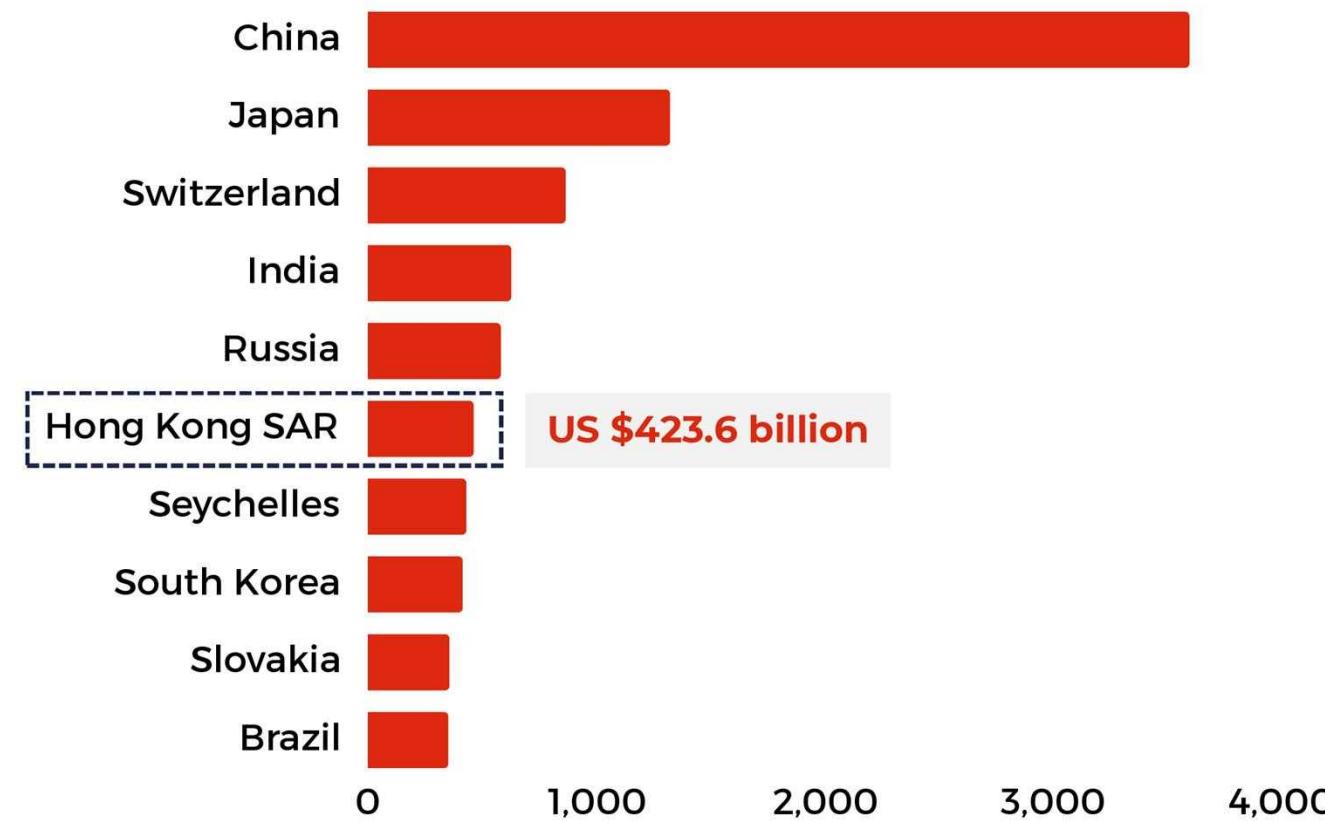
- 2007 witnessed the lowest price of gasoline and a stable market for all goods.
- Aside from lean hogs and rice, other commodities saw significant shifts in 2008:
 - Cotton prices dropped from 12.89 HKD/Lbs to 9.35 HKD/LBs.
 - Gasoline saw a drop from 0.47 HKD/Gal to 0.19 HKD/Gal.
- After the financial crisis, all three of the remaining commodities—rice excluded—had recovered by 2010.

HONG KONG'S FOREIGN RESERVES

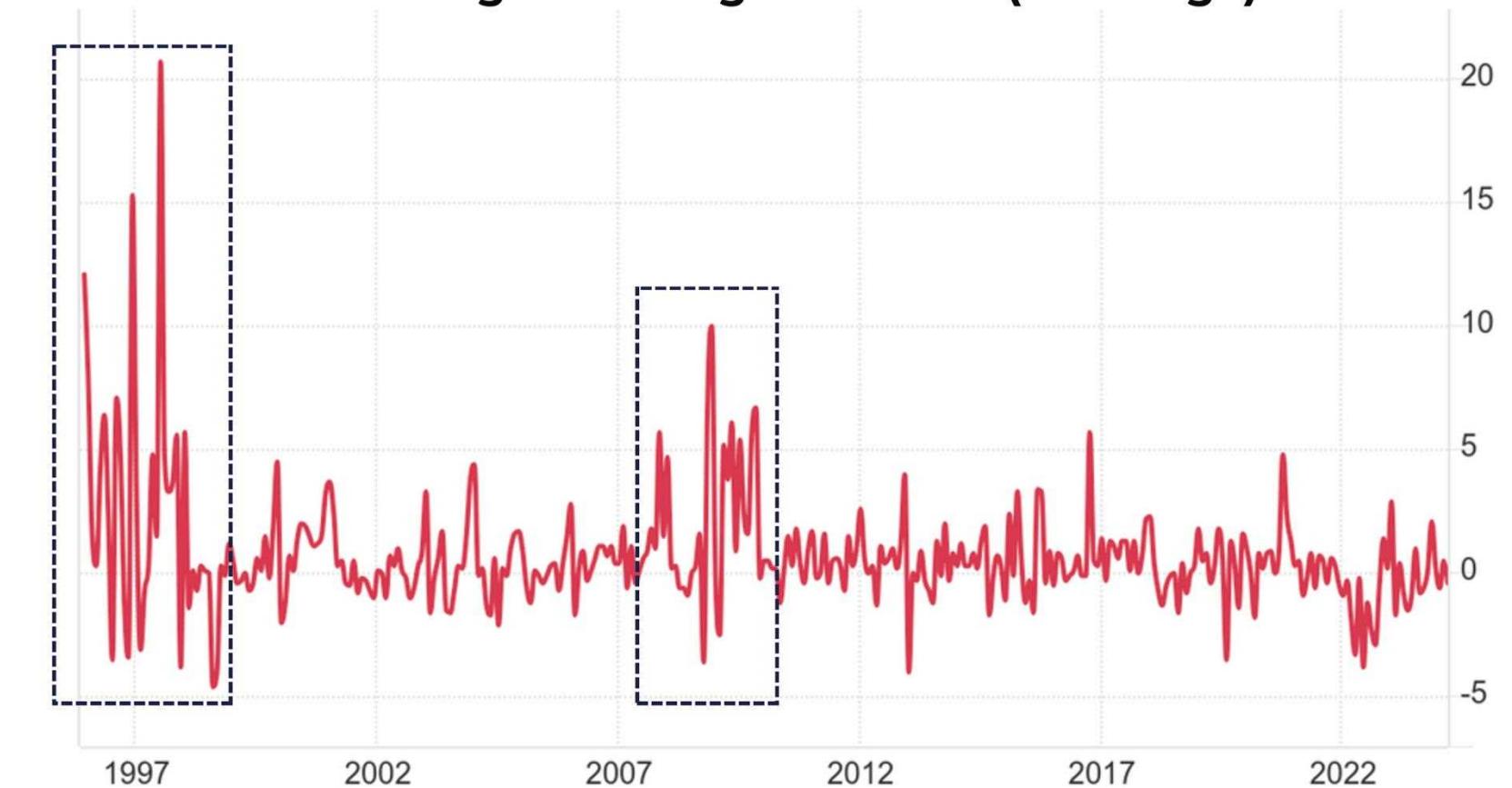


Foreign currency reserve assets in the Exchange Fund serve as a key indicator of international capital flows.

Foreign exchanges reserves as of February 2024



HK Foreign Exchange Reserves (% change)



Hong Kong is one of the nations with the highest foreign exchange reserves in the world (**Top 6**)

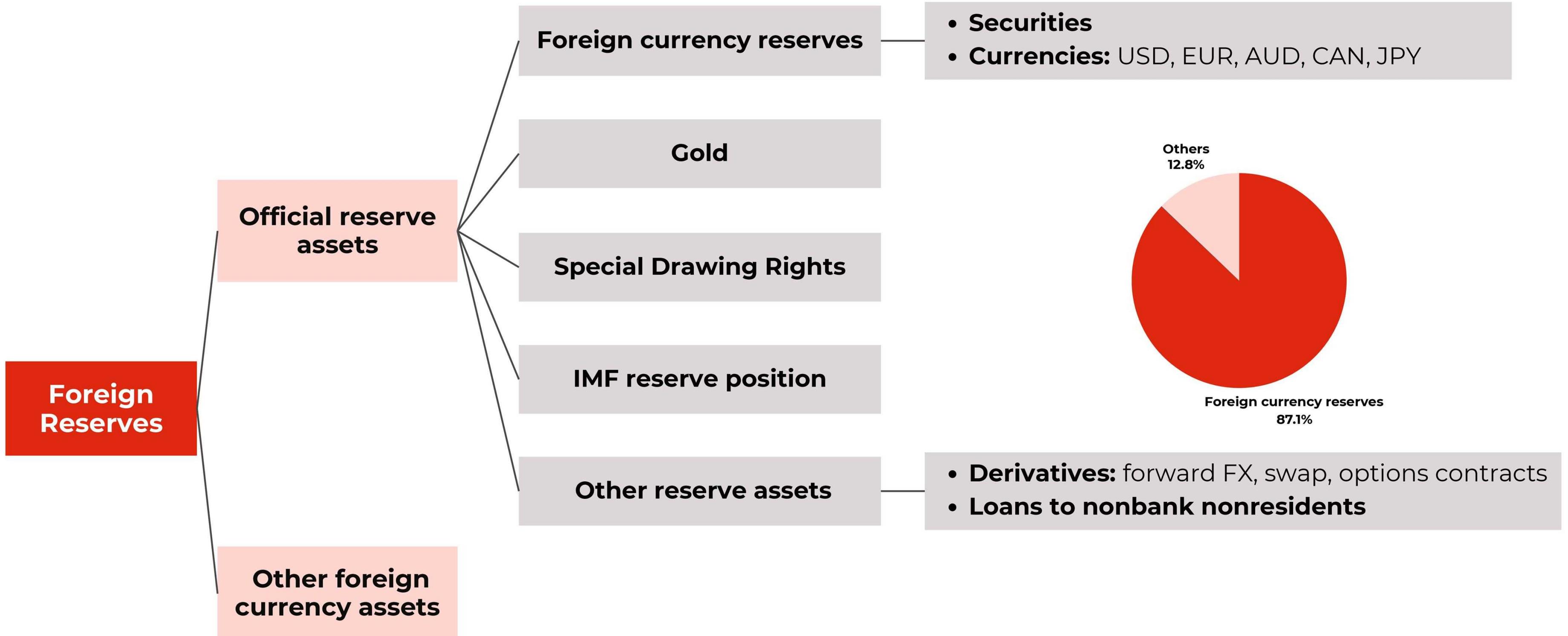
Fluctuate significantly in 1997 and 2007-2008 due to

- 1997
 - Asian financial crisis 1997
 - Britain officially transferred Hong Kong's sovereignty to China → 'One country, two systems'
- Great Recession 2008

HONG KONG'S FOREIGN RESERVES



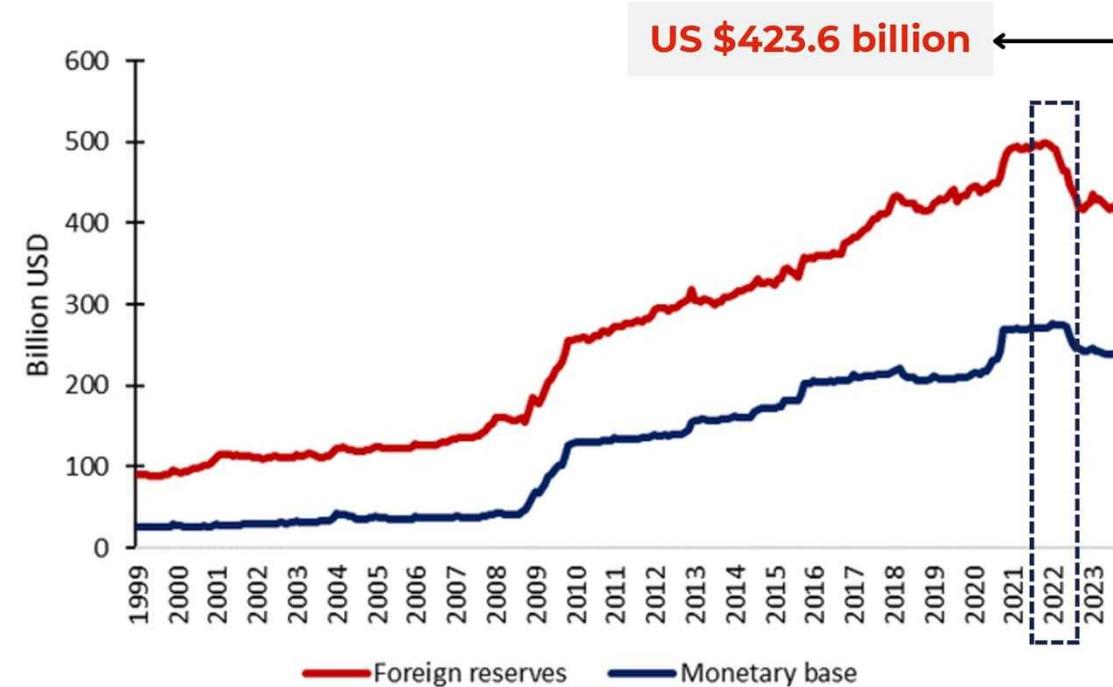
In Hong Kong, Foreign Exchange Reserves are the foreign assets held or controlled by the country central bank.



DRIVING FACTORS OF A LARGE SCALE OF FOREIGN RESERVE



Foreign reserves asset of the HKMA & MB in Hong Kong



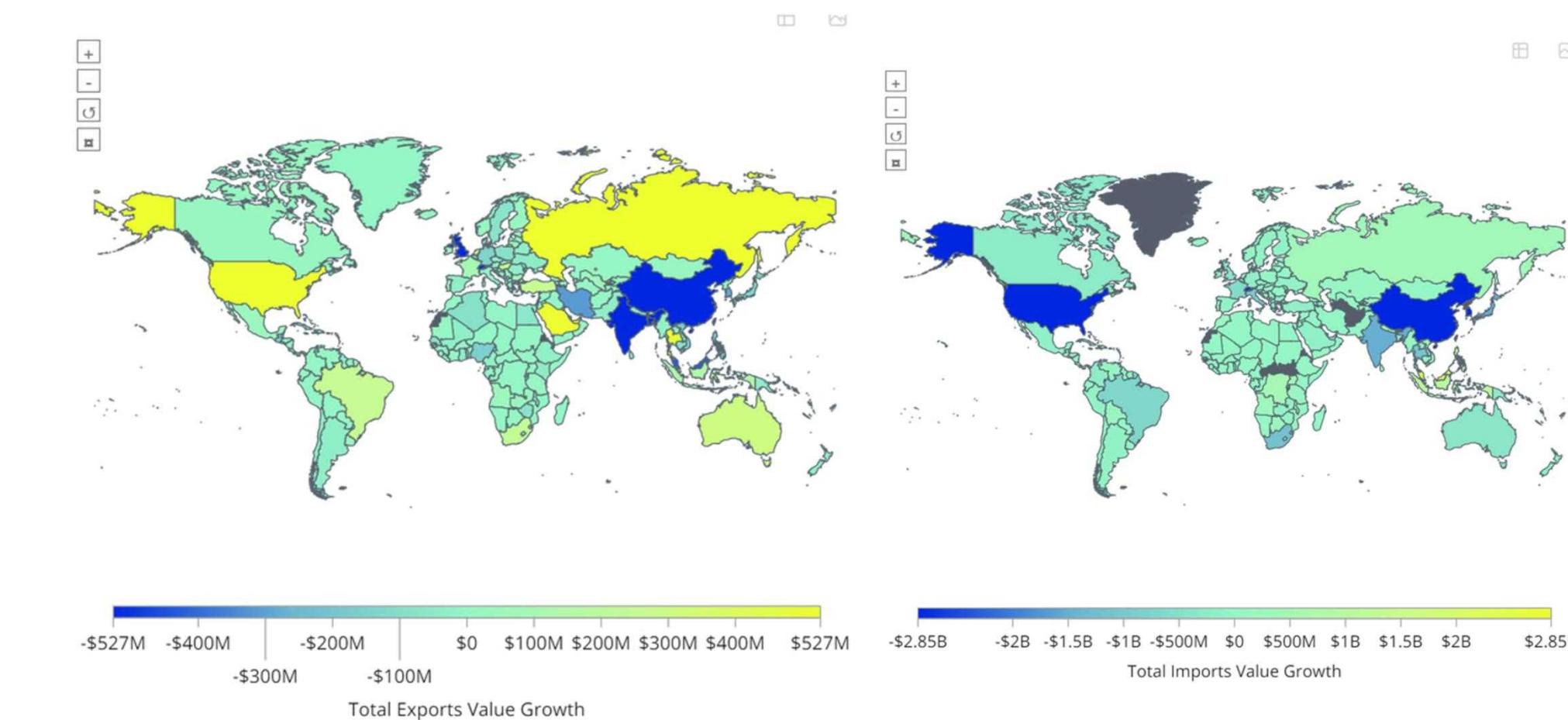
2022: witnessed a notable decrease due to a trade deficit

Export (2022)

Total: \$113B

Import (2022)

Total: \$623B



Historical Trade Performance (Previously Strong)

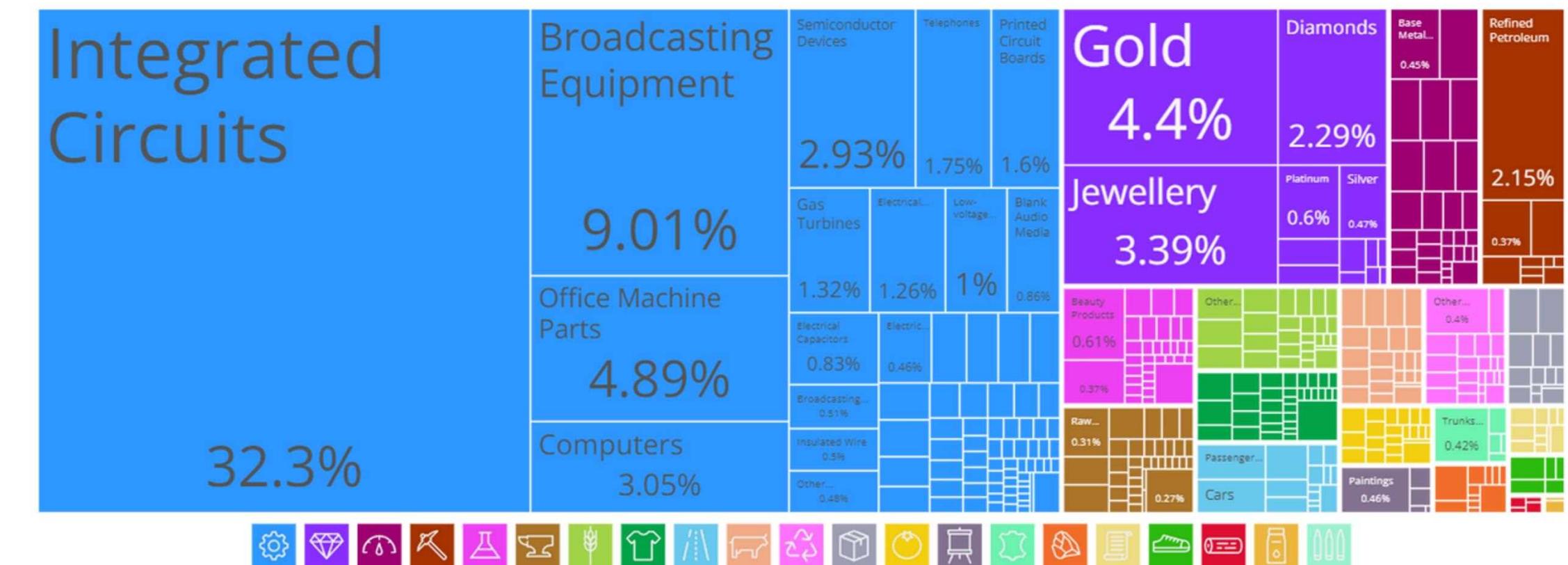


Increased Pool of Foreign Currency: receive foreign currency (e.g., USD, EUR) as payment

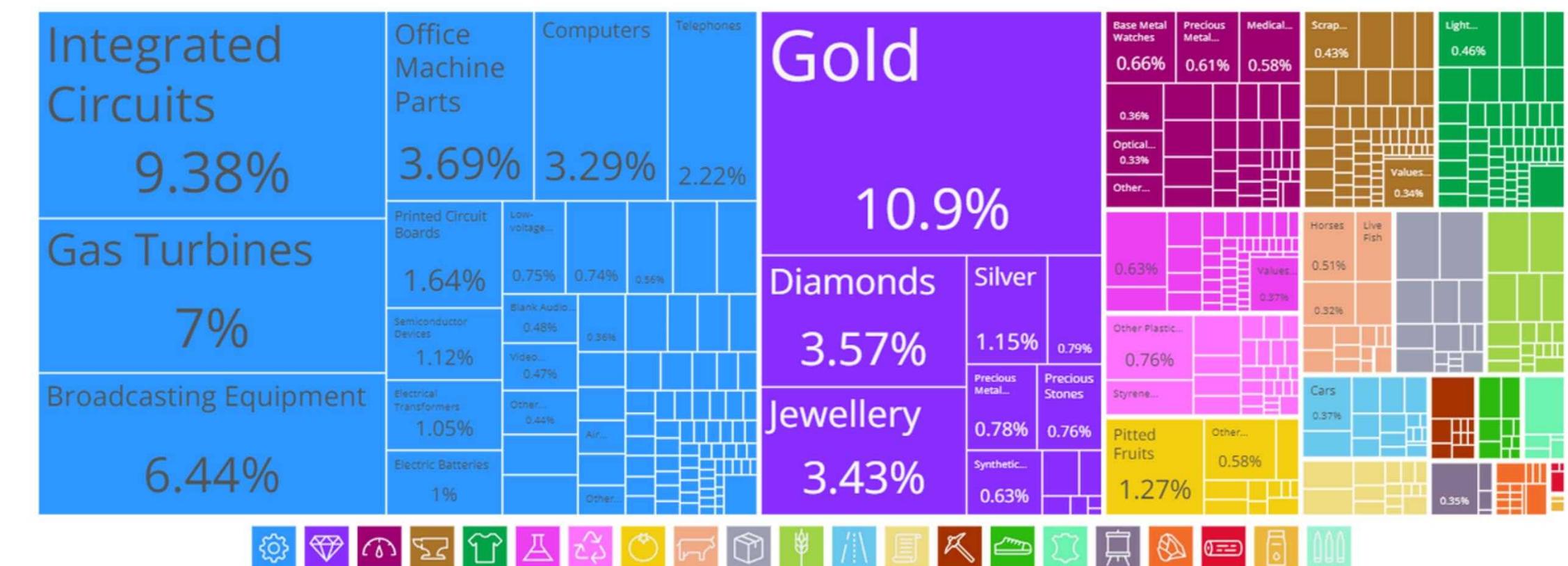
DRIVING FACTORS OF A LARGE SCALE OF FOREIGN RESERVE



Imported products (2022)



Exported product (2022)

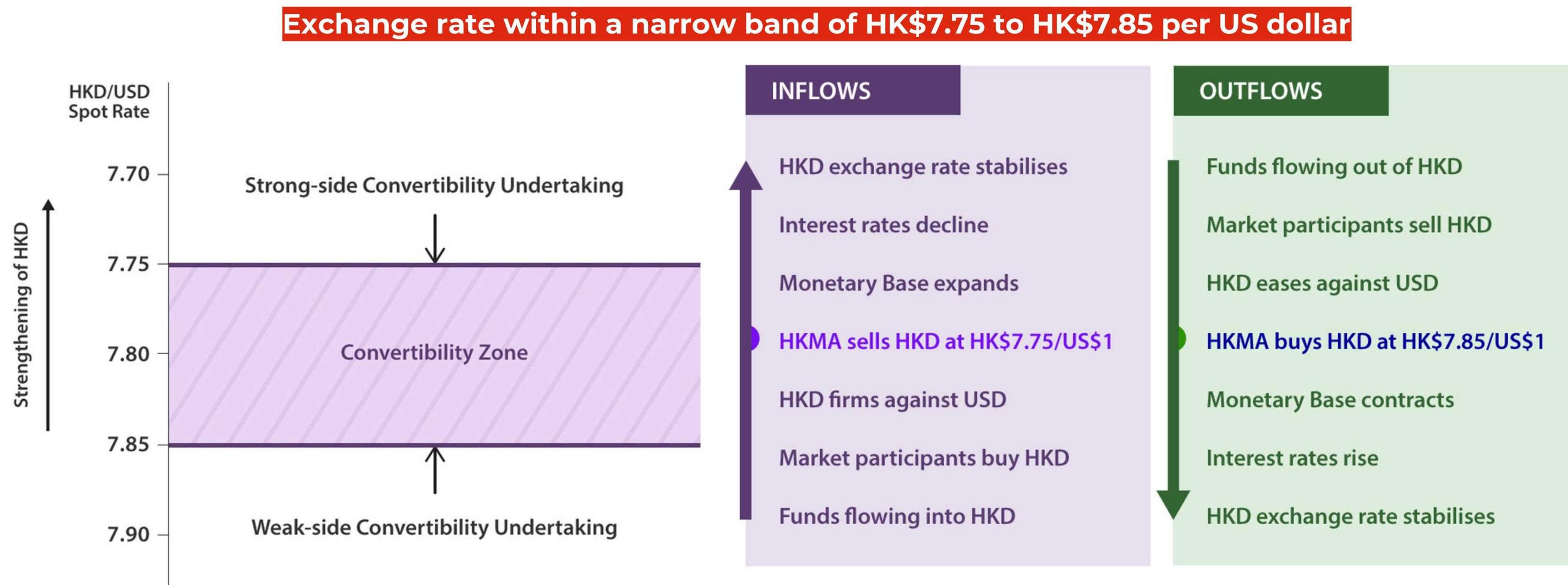


DRIVING FACTORS OF A LARGE SCALE OF FOREIGN RESERVE



Foreign reserves will adjust with the corresponding changes in the money base

- By Linked Exchange Rate System (LERS)
- Through the Convertibility Undertakings (CUs)
- With automatic interest rate adjustment mechanism





Hong Kong Dollar sticking to the US Dollar peg

Increase in US interest rates prompts a similar rise in local rates

Limit the independence of Hong Kong in monetary policy decisions

Incentivize market participants to engage in carry trades

The "Impossible Trinity"





1. EFFECTIVE HEDGING STRATEGY

Diversification

Portfolio diversification by using **Modern Portfolio Theory (MPT)** investors to assemble an asset portfolio that maximizes expected return for a given level of risk.

Other strategies

- **Use Multifactors - Statistical Factors Model:** $R_{it} - R_{ft} = \alpha_{it} + \beta_1(R_{Mt} - R_{ft}) + \beta_2SMB_t + \beta_3HML_t + \epsilon_{it}$
- **Time-series Momentum:** long stocks that have risen and short on stocks that have fallen in previous cycles, with the performance of stock using these formulae: $mom_{t-1}^k(N) = \frac{\prod_{i=1}^N (1+R_{t-1}^k)^{-1}}{\sigma_{t-1}^k \sqrt{N}}$ $performance_t(N) = \sum_k G_{t-1}^k \frac{mom_{t-1}^k}{\sigma_{t-1}^k} R_t^k$
- **Use the Hang Seng Currency Hedged Index Series (for non-local investors)**

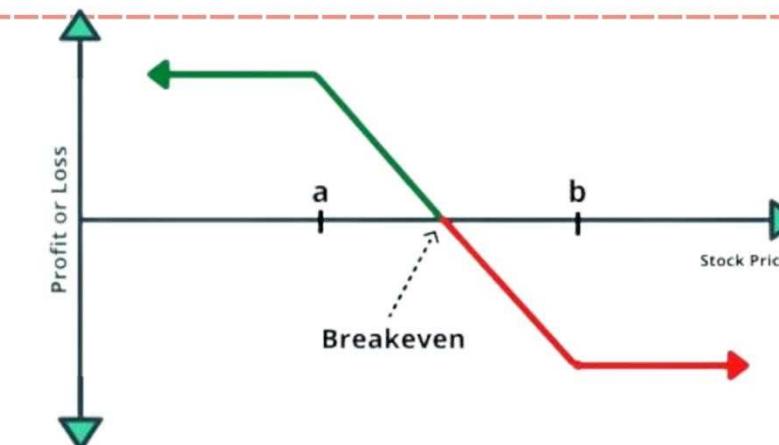
Using Financial Instruments

Use various financial instruments: Variance Swap, Volatility Swap, Long Strategies for Options,...

- Example: Hedging using options

As price increases:

- buy a put option with a higher strike price
- sell a put option with a lower strike price





2. INEFFECTIVE HEDGING STRATEGY

Gold as a haven asset

- Gold is linked to currencies, its price is subject to inflation to a degree
- Political issues can also impact gold's efficiency as a haven asset
- Gold is probably going to turn into a bit of a long-term hedge unless investors lose faith in a nation's currency

(Quanhao, 2022)

Government Bonds as safe-haven asset

The fluctuate correlation between stocks and bonds throughout the years

↳ Bonds are not yet a reliable hedge against falling equity prices



**THANK YOU FOR
LISTENING**
谢谢！



GROUP EVALUATION FORM

TRIMESTER 2 – 2023

Team member 1: Trần Thị Hoài Lam

Team member 2: Trần Bảo Long

Team member 3: Nguyễn Hà Phước Trọng

Team member 4: Đỗ Minh Thy

Team member 5: Nguyễn Thị Vân Anh

Team member 6: Trần Ngọc Thùy Ngân

Team member 7: Phạm Minh Hồng Hạc

Please rate the performance of each person on your team using the grid below. Write each person's name at the top of this evaluation form. For each item, rate each team member on a scale of 1 to 10. The peer evaluation form should be attached by the end of your group report. **Any group not completing this evaluation form will receive a 10% deduction on the grade.**

Criteria	Trần Thị Hoài Lam	Trần Bảo Long	Nguyễn Hà Phước Trọng	Đỗ Minh Thy	Nguyễn Thị Vân Anh	Trần Ngọc Thùy Ngân	Phạm Minh Hồng Hạc
Contribution	10	10	10	10	10	10	10
Availability for team meetings	10	10	10	10	10	10	10
Quality of tasks done	10	10	10	10	10	10	10
Work ethics/ attitude	10	10	10	10	10	10	10
Collaboration	10	10	10	10	10	10	10

Note: The evaluation form's purpose is to provide your lecturer feedback regarding team members' cooperation and participation. The evaluation is used for reference.

The instructor reserves the right to make changes regarding this evaluation if (s)he believes necessary.

Signature

1. Lam
2. Long
3. Trọng
4. Thy
5. Anh
6. Ngân
7. Hạc

Date: 22nd April, 2024