FX Flash

HKD - Back on the Rise

Narrowing US-HK Rate Differential unwinds USDHKD Longs

USDHKD slipped quite precipitously in the past few sessions, dropping from the top of the band which it has hugged since mid-Jun to levels around 7.80-the middle of the trading band at last sight. USDHKD is normally managed within the 7.75-7.85 trading band. The recent surge in the HKD was likely due to the surge in HK rates, exacerbated by the equity-related inflows that result in a surge in demand for HKD. This was similar to what had happened in the early part of the year when strong capital inflows from mainland China was observed through the south bound Shanghai/Shenzhen-Hong Kong Stock Connect that led to a rise in the demand for the HKD. We are witnessing a rise in inflows again and the net daily turnover of Southbound stock connect reached a record of HKD35.88bn on 15 Aug. 1M Hibor surged to 2.57% at last seen. 1M SOFR-Hibor rate differential narrowed to 177bps from 378bps seen earlier.

With Hong Kong's aggregate balance drastically lower, Hibor is on the upmove. USDHKD may continue to remain volatile, tied to domestic liquidity conditions, primarily driven by demand and supply of HKD. However, we hold a more optimistic view on HKD in this half of the year, especially if Fed resumes easing cycle and US policy rates fall. That should limit the gains in the USDHKD to some extent. Buoyant sentiment at home, resilient IPO activities should also keep the USDHKD from sticking to the upper bound of the band.

Analysts

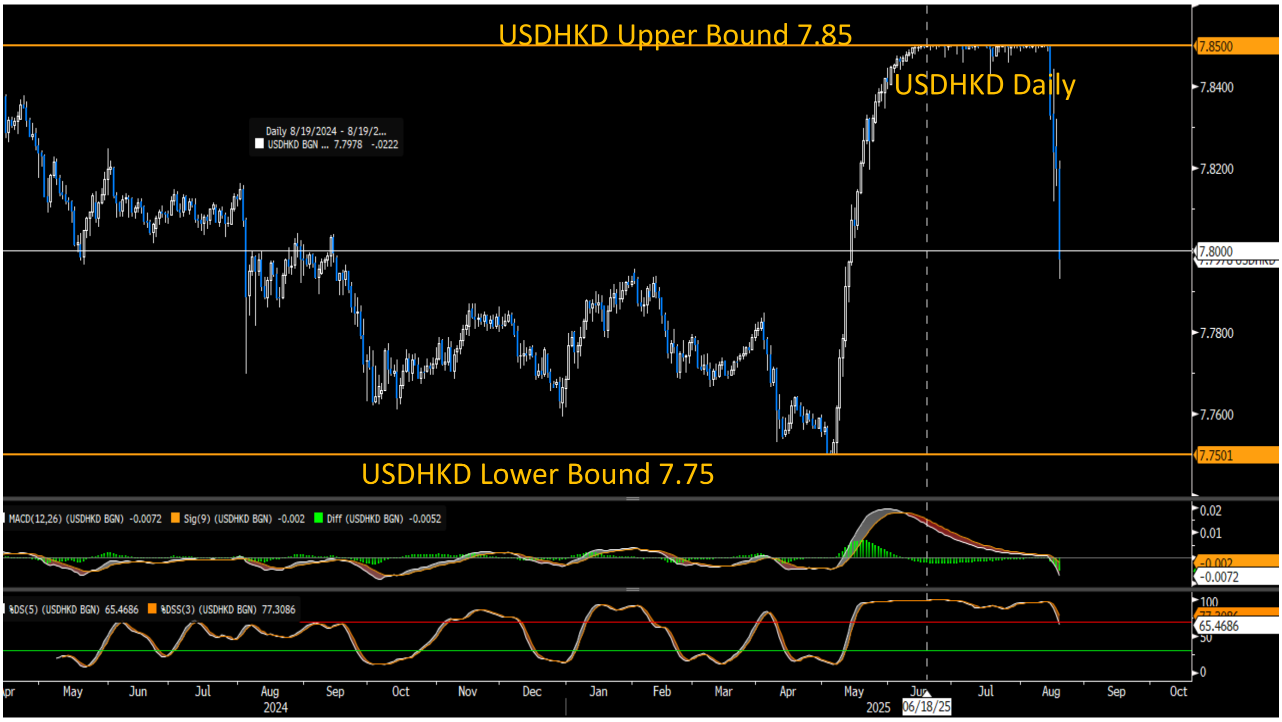
Saktiandi Supaat
(65) 6320 1379
saktiandi@maybank.com

Fiona Lim
(65) 6320 1374
fionalim@maybank.com

Alan Lau, CFA
(65) 6320 1378
alanlau@maybank.com

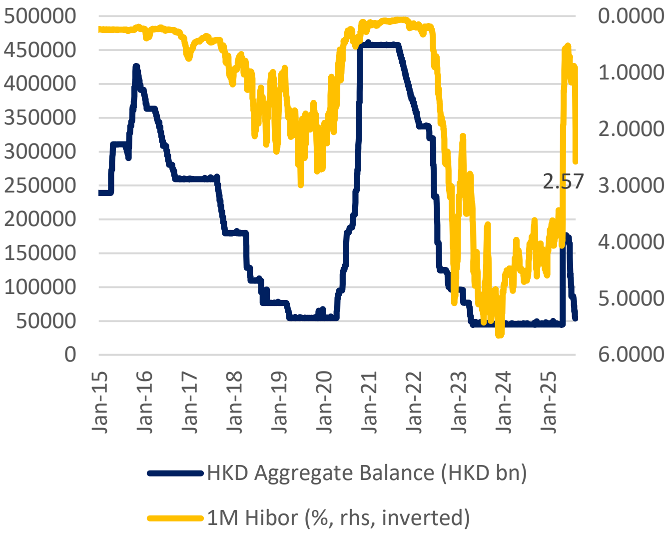
Shaun Lim
(65) 6320 1371
shaunlim@maybank.com

Chart: USDHKD Daily - Plunging on Inflows and Rates Compression



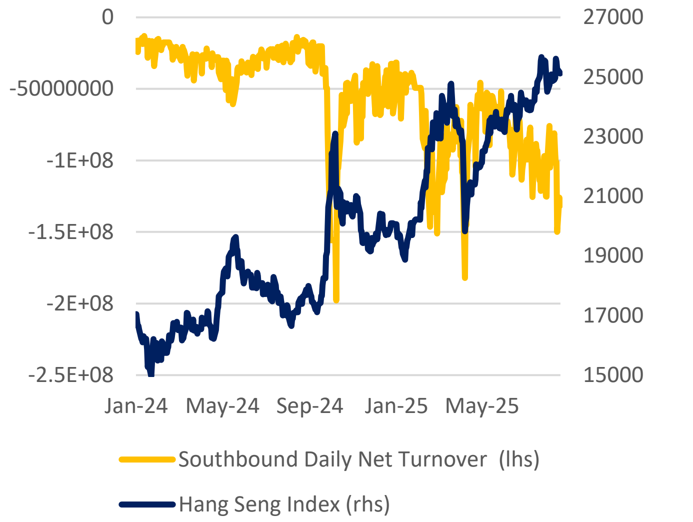
FX
Global

1M Hibor Rate Surges to 2.57% as Aggregate Balance Falls, HKD60bn Seems to be the Tipping Point



Source: Bloomberg, Maybank FX Research & Strategy

Net Daily Turnover for Southbound Connect Rises Again, In Line with the Rise of Hang Seng Index, Hang Seng China Enterprises



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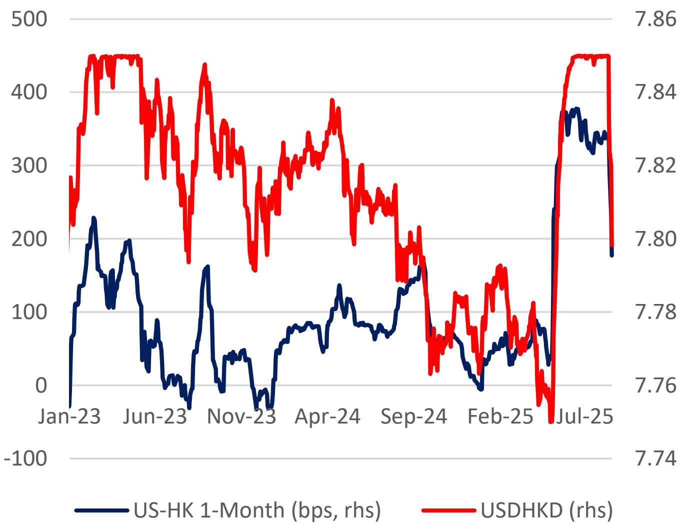
USDHKD Falls Sharply because of the US-HK 1M Rate Compression



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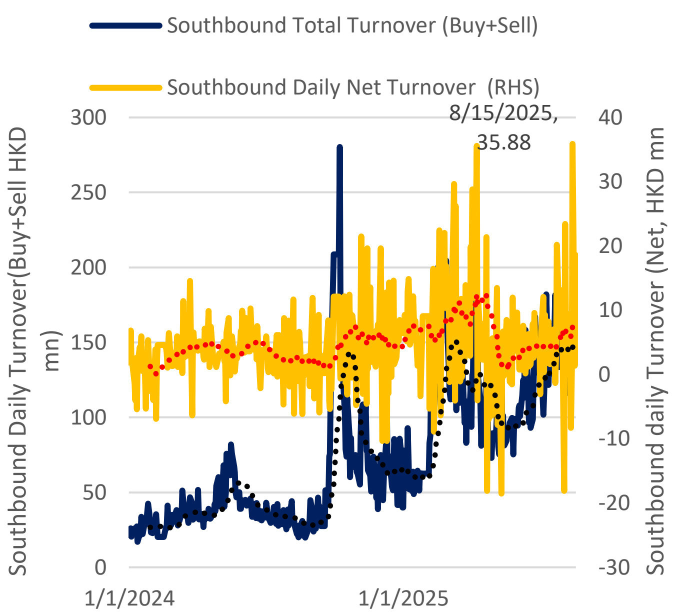
Southbound Capital Flows Rise



Earlier this year, Hong Kong witnessed similarly strong capital market activities and continued net inflow through the Southbound Stock Connect. There was a revival of IPO activities, dividend payout season as well as a stronger prospect of a China recovery. HKD strengthened towards the lower end of the band (7.75) in May before HKMA started its usual management of the Linked Exchange Rate System (LERS). Intervention activities expanded the HK interbank liquidity, plunged the interbank rates and brought the USDHKD back to the top of the band. That was also notably constructive for economic recovery that needed the lower borrowing costs. The wide Sofr-hibor rates since had also been constructive for carry trades, keeping the USDHKD at the top of the band for the past several weeks.

Fast forward to this day , the aggregate balance has fallen from a high of HKD176bn to HKD 53.7bn at last check. That is a fall of around 70%. 1M hibor had remained sticky around 1.0% until aggregate balance fell below HKD60bn. The surge in capital flow of late exacerbated demand conditions, leading to a rise of the 1M Hibor to 2.57% at last sight and Soft-Hibor rate differential to compress to around 177bps from 378bps seen earlier. The ebb and flow of capital movements along with HKMA intervention efforts could continue to affect liquidity conditions in Hong Kong, leading to corresponding volatility in the USDHKD.

Holding a More Optimistic View of HKD

That said, we are relatively optimistic on the HKD (vs. the USD). Back in 2022-2023, USDHKD slid and rebounded back to the top of the band rather quickly because of weak market sentiment and high US rates. Thus far this year, the Fed has been on an extended pause in its easing cycle, keeping SOFR rather elevated and as such, when sentiments turned, dividend seasons peaked, demand for HKD eased. A bigger aggregate balance and concomitantly wider US-HK rate differential brought USDHKD back towards 7.85. Our houseview remains for the Fed to resume its easing cycle in this half of the year. As US policy rates fall, SOFR should follow and that should limit the gains in the USDHKD to some extent. In addition, China has been more determined to support domestic growth, notwithstanding challenges of deflation, involution and employment. That has been reviving interests in Chinese equities as well. We also note the recent changes in Hong Kong's listing rules that could also be **supportive of IPO activities, capital inflows and add to the demand for HKD.** The rules were eased to encourage more Chinese companies to list in Hong Kong by reducing minimum public float requirement and allocating bulk of share offering to institutional investors.

SGDHKD continues to remain swung by the USDSGD and was last seen around 6.07. MYRHKD was last seen around 1.8470. Given Hong Kong's currency board system (aka its peg to the USD), we hold a relatively bearish view of the HKD vs. the SGD and MYR.

	End Q3-25	End Q4-25	End Q1-26	End Q2-26
USD/HKD	7.83	7.81	7.78	7.75
SGD/HKD	6.12	6.17	6.17	6.18
MYR/HKD	1.86	1.90	1.92	1.94

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Published by:

Malayan Banking Berhad
(Incorporated In Malaysia)

Foreign Exchange
Singapore
Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com
(+65) 6320 1379

Fiona Lim
Senior FX Strategist
Fionalim@maybank.com
(+65) 6320 1374

Alan Lau
FX Strategist
alanlau@maybank.com
(+65) 6320 1378

Shaun Lim
FX Strategist
shaunlim@maybank.com
(+65) 6320 1371

Indonesia
Juniman
Chief Economist, Indonesia
juniman@maybank.co.id
(+62) 21 2922 8888 ext 29682

Myrdal Gunarto
Industry Analyst
MGunarto@maybank.co.id
(+62) 21 2922 8888 ext 29695

Sales
Malaysia
Zarina Zainal Abidin
Head, Sales-Malaysia, Global Markets
zarina.za@maybank.com
(+60) 03- 2786 9188

Tan Yew Yan
Head, Sales Corporates & CFS
yewyan.tan@maybank.com

Singapore
Sheetal Dev Kaur
Head, Corporates Sales (MBS)
skaur@maybank.com
(+65) 63201335

Tan Huilin
Head, Sales FI
TanHuilin@maybank.com
(+65) 63201511

Janice Loh Ai Lin
Head, Sales (MSL)
jloh@maybank.com.sg
(+65) 6536 1336

Shanghai
Joyce Ha
Treasury Sales Manager
Joyce.ha@maybank.com
(+86) 21 28932588

Indonesia
Endang Yulianti Rahayu
Head of Sales, Indonesia
EYRahayu@maybank.co.id
(+62) 21 29936318 or
(+62) 2922 8888 ext 29611

Philippines
Angela R. Ofrecio
Head, Global Markets Sales
Arofrecio@maybank.com
(+632 7739 1739)

Fixed Income
Malaysia
Winson Phoon
Head, Fixed Income
winsonphoon@maybank.com
(+65) 6231 5831

Se Tho Mun Yi
Fixed Income Analyst
munyi.st@maybank-ib.com
(+60) 3 2074 7606

s