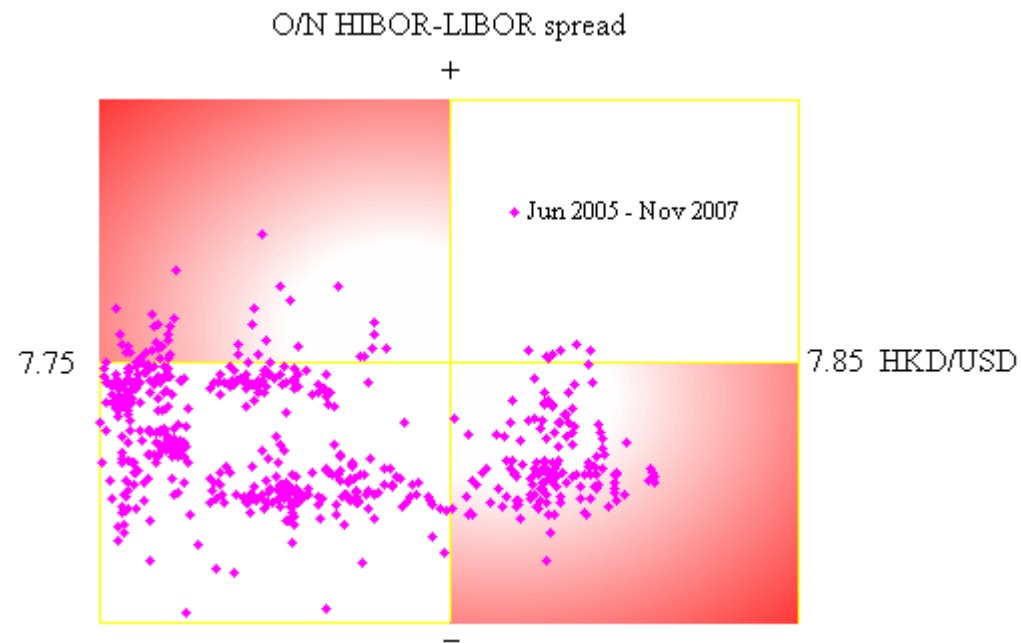


Hong Kong Exchange Rate System and Bond Market

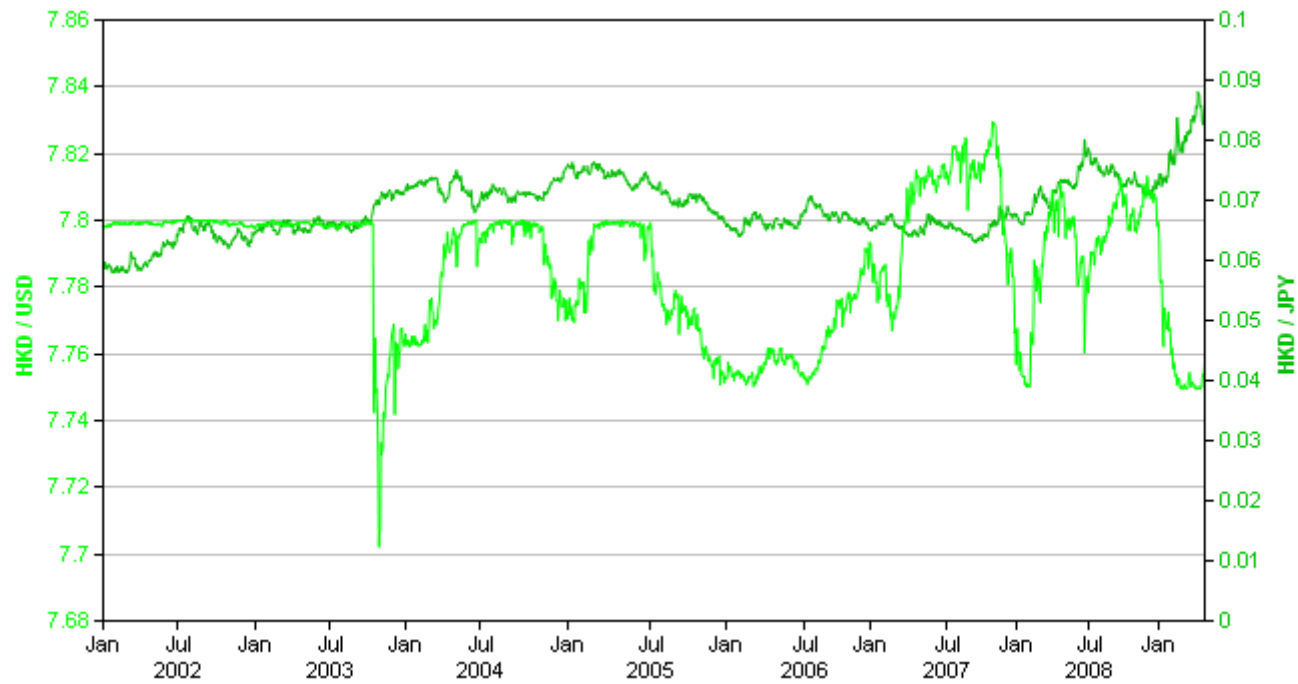
Exchange Rate

- Since October 17, 1983, the HK dollar pegged to US dollar: 7.8 HK\$/US\$
- May 18, 2005, the convertibility zone changed to: 7.75 – 7.85 HK\$/US\$
- Pegged exchange rate and monetary policy (interest rate).



Source: HKTD Economic Forum (<http://info.hktdc.com/econforum/hkma/hkma071201.htm>)

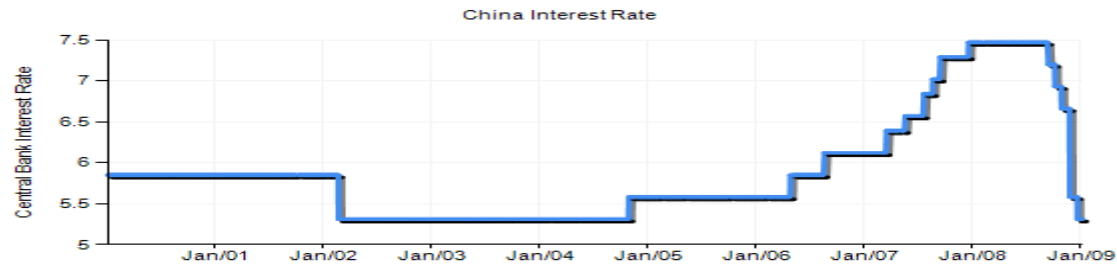
Exchange Rates of HK\$ to US\$ and Yen.



Source: <http://asianbondsonline.adb.org>

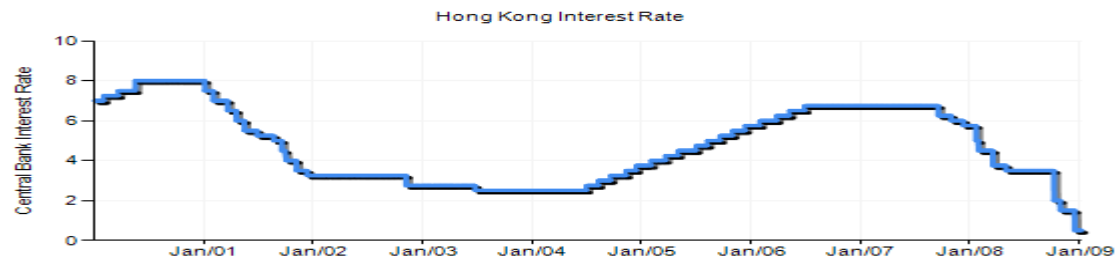
Interest Rates in China, HK and US

(Source: <http://www.tradingeconomics.com/>)



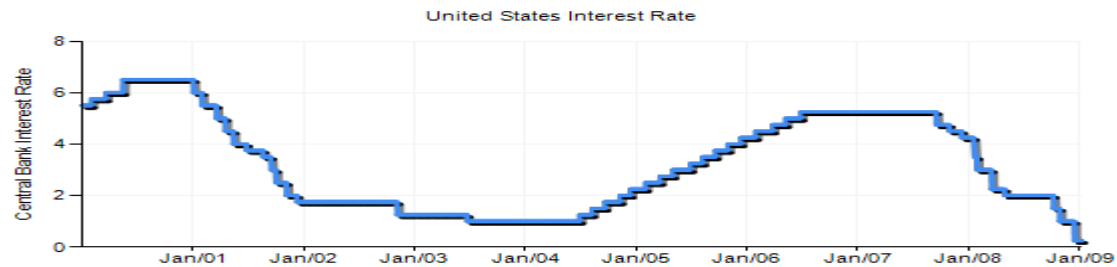
source: The People's Bank of China

www.tradingeconomics.com



source: HK Monetary Authority

www.tradingeconomics.com

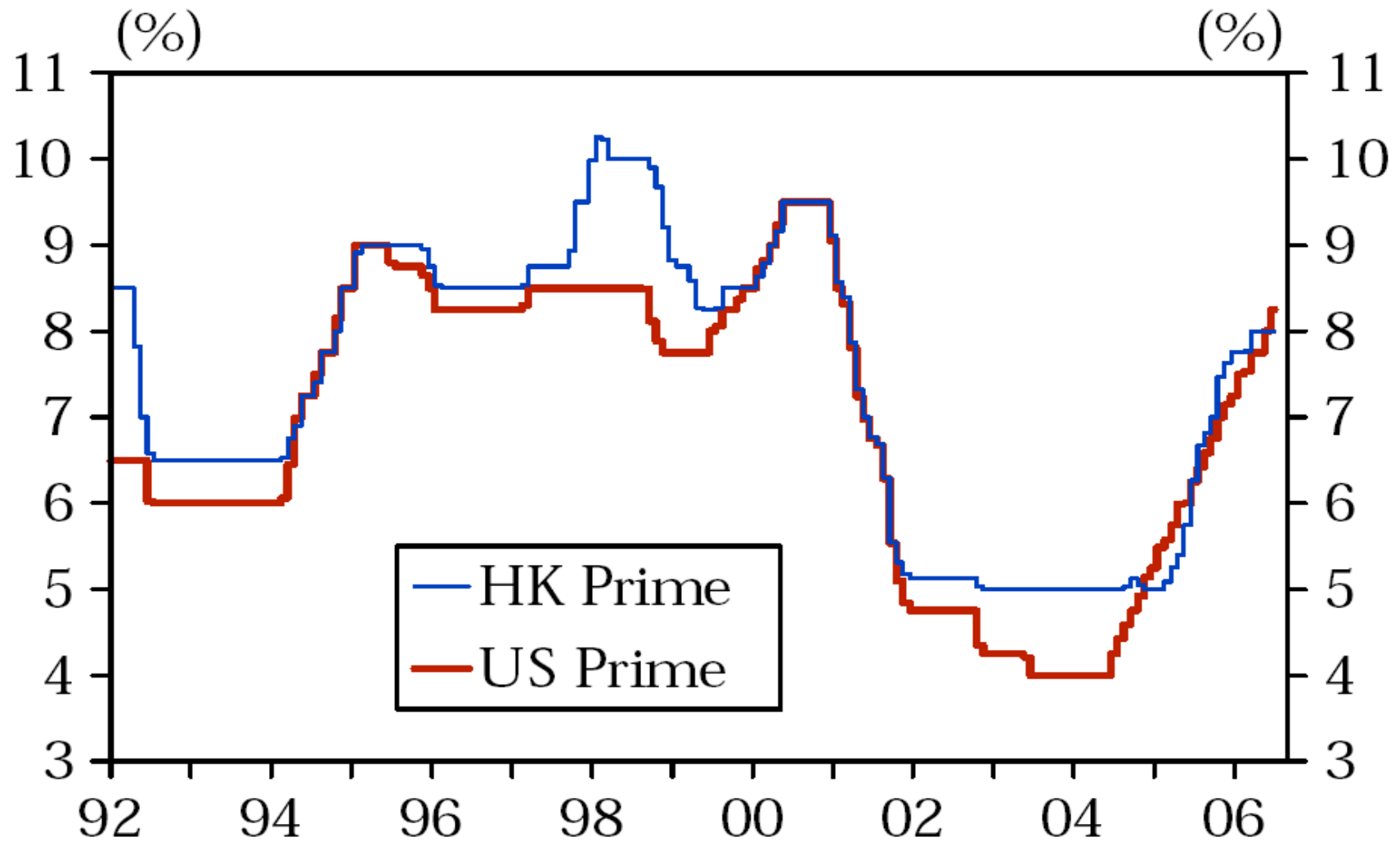


source: Federal Reserve

www.tradingeconomics.com

Are the interest rates in HK and US identical?

-- Not really.



(Source: Hang Seng Economic Monthly, August 2006)

Implications in the bond market

Term structure of interest rates - difference in long term bonds between US and HK:

- **Default risk, and**
- **exchange rate risk**

.....?