



Hong Kong Institute for
Monetary Research

香港金融研究中心

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www.hkimr.org

The HKIMR was established by the Hong Kong Monetary Authority (HKMA) in August 1999 to conduct and support research on issues in monetary policy, banking and finance that are of strategic importance to Hong Kong and the Asian region.

Highlights of this issue:

HKMA, FRB and Atlanta Fed Joint Conference

HKMA and BIS Joint Conference on Asia-Pacific Economies

The 15th HKIMR Summer Workshop

Visiting Fellow – Robert Dekle

Visiting Fellow – Jason Wu

Hong Kong Institute for Monetary Research – *Newsletter*

Thirty-Second Issue (November 2017)

Recent Activities

HKMA, FRB and Atlanta Fed Joint Conference on “Unconventional Monetary Policy: Lessons Learned”

The Hong Kong Monetary Authority (HKMA), Federal Reserve Board (FRB) and Federal Reserve Bank of Atlanta (Atlanta Fed) jointly held a conference on October 12-13, 2017. The theme of the conference was “Unconventional Monetary Policy: Lessons Learned”.

The conference aimed to bring together senior policymakers from central banks, leading academics and experts from international organisations and the private sector to share their views on the lessons learned of unconventional monetary policy (UMP) since the global financial crisis.

The conference started with welcome remarks by Norman Chan (Chief Executive, HKMA), followed by a keynote speech from Raphael Bostic (President, Federal Reserve Bank of Atlanta) on the Fed’s balance sheet normalisation. In addition, a lunch speech was delivered by Steven Kamin (Director, Division of International Finance, Federal Reserve Board) entitled “International Spillovers of Monetary Policy”.

Overall, the conference covered a wide range of topics related to UMP, including monetary policy in a low interest rate environment, UMP spillovers to emerging markets, monetary policy and banking lending rate pass-through, UMP and financial stability.



Norman Chan (Chief Executive,
Hong Kong Monetary Authority)



Raphael Bostic (President, Federal
Reserve Bank of Atlanta)

The conference was well received and was attended by around 100 participants from different backgrounds, including academics and industrial practitioners.

The conference programme can be accessed on the HKIMR website at the following link:

http://www.hkimr.org/conferences_detail-id101



Eddie Yue (Deputy Chief Executive, Hong Kong Monetary Authority)



Steven Kamin, (Director, Division of International Finance, Federal Reserve Board) delivers the lunch speech



Lillian Cheung (Executive Director (Research), Hong Kong Monetary Authority)



From left to right:

John Rogers (Senior Adviser, Federal Reserve Board), Tao Zha (Executive Director, Center for Quantitative Economic Research, Federal Reserve Bank of Atlanta) and Matteo Ciccarelli (Senior Adviser, European Central Bank)



From left to right:

Mico Loretan (Economic Advisor, Swiss National Bank), Scott Frame (Financial Economist & Senior Adviser, Federal Reserve Bank of Atlanta) and Yongheng Deng (Professor, National University of Singapore)

HKMA-BIS Joint Conference on “The Price, Real and Financial Effects of Exchange Rates”

The Hong Kong Monetary Authority (HKMA) and the Bank for International Settlements (BIS) jointly held a conference on August 28-29, 2017. The theme of the conference was “The Price, Real and Financial Effects of Exchange Rates”.

The conference started with welcome remarks by Arthur Yuen (Deputy Chief Executive, HKMA). A keynote speech on the urgency of finding equilibrium exchange rates was delivered by Sebastian Edwards (Distinguished Professor of International Economics, University of California, Los Angeles). The conference covered a wide range of topics related to exchange rate issues, such as exchange rate puzzles, exchange rates and intra-regional trade, exchange rates and corporate risk-taking, exchange rates and corporate FX hedging, FX reserves and financial stability.

The conference featured a panel discussion chaired by Grant Spencer (Deputy Governor and Head of Financial Stability, Reserve Bank of New Zealand) through which experts and senior policymakers exchanged their views on policy responses in regards to exchange rate challenges.

Speakers at the conference were senior representatives from central banks and BIS, and well-known academics.

The conference programme can be accessed on the HKIMR website at the following link:

http://www.hkimr.org/conferences_detail-id100



Grant Spencer (Deputy Governor,
Reserve Bank of New Zealand)



Hyun Song Shin
(Economic Adviser and Head of Research,
Bank for International Settlements)



Eli Remolona (Chief Representative, Bank for International Settlements Asian Office) and Diwa Guinigundo (Deputy Governor, Bangko Sentral ng Pilipinas)



Sebastian Edwards (Henry Ford II Distinguished
Professor of International Economics)
University of California, Los Angeles)

The 15th HKIMR Summer Workshop

The Institute hosted its 15th HKIMR Summer Workshop on 11 July 2017. The half-day workshop was intended to take advantage of several fellows visiting the Institute over summer. The workshop provided a good opportunity for HKIMR and HKMA staff to interact with visiting fellows.

Four papers were presented this time, covering: (1) Why do firms issue bonds in the offshore market? Evidence from China; (2) What do yield spreads tell us about bond excess returns predictability?; (3) US monetary policy, fund flows, and capital restrictions; and (4) Effects of capital flow on the equity and housing market in Hong Kong.

The conference programme and slides can be accessed at the following link: http://www.hkimr.org/conferences_detail-id99



Yue Ma (Yeung Kin Man Chair Professor of Finance, City University of Hong Kong)



Giorgio Valente (Senior Economist, HKIMR)



Workshop participants



Lillian Cheung (Executive Director (Research), HKMA) and Jason Wu (Assistant Director, Federal Reserve Board)

Upcoming Activities

Conference on “China’s Real Estate Market and Implications for Economic and Financial Stability”

Hong Kong Monetary Authority, People’s Bank of China and Development Research Centre of the State Council will co-organise a conference on the Chinese economy in Hong Kong on 18-19 January, 2018.

The conference is intended to provide an opportunity for academics, policymakers and business economists to discuss important analytical and policy issues related to the Chinese economy. The theme of the conference is “China’s Real Estate Market and Implications for Economic and Financial Stability”. Featured sessions include a policy forum by senior policymakers and well-known academics, and a panel discussion delivered by chief China economists from major investment banks.

Visiting Fellow – Robert Dekle

Robert Dekle is Professor of Economics at the University of Southern California. He received his PhD at Yale University and has worked at Boston University, the Federal Reserve Board of Governors and the International Monetary Fund. He has served as Visiting Scholar at the Bank of Japan and the Asian Development Bank Institute, among other institutions. He works in the areas of International Economics, Macroeconomics and the East Asian Economies. He has published many refereed journal articles.

While I have been to Hong Kong many times, this is the first time I have visited the HKIMR. HKIMR is the perfect place to work, especially if you are interested in the Chinese economy. During my visit, I had the opportunity to attend the HKIMR Annual International Conference on the Chinese Economy. I learned much from the Director, Lillian Cheung, and the expert staff economists about the Hong Kong and Chinese economies, especially about Chinese monetary policies. I also enjoyed the delicious Cantonese cuisine, the splendid hiking around Lamma and Lantau islands, and the culture in the New Territories and Macau.

Chinese monetary policies have traditionally been characterised as “quantitatively based”, meaning the People’s Bank of China would set quantitative goals, such as growth of total commercial bank credit. These goals would be met by administratively setting bank loan and deposit rates, reserve requirements and loan quotas, and by persuading banks to adjust their lending (i.e., by “moral suasion”). For my project at the HKIMR, I investigated the impact of these quantitative monetary policies on the interest rate spread of Chinese local government bonds.

Chinese local governments have issued large amounts of bonds through their own companies (SOEs), government financing vehicles (LGFVs) and by issuing their own bonds. The interest rate spread of these bonds relative to central government bonds reflect the riskiness or default probabilities of these local government bonds.

Say there is an exogenous expansion in Chinese money supply. The effect of this money supply increase on local government bond spreads is still an unresolved empirical question. On the one hand, as aggregate liquidity expands, bond spreads may decrease as local governments are better able to pay back their debts. Alternatively, bond spreads may increase as local governments take on more risky projects.

I also investigated the effect of quantitative monetary policies on cross-provincial differences in interest rate spreads. Chinese provinces differ in the prevalence of state-owned enterprises. For example, provinces that have many state-owned enterprises may lack market orientation. Relatedly, Chinese provinces may differ in how efficiently they allocate capital. Provinces that allocate capital inefficiently may respond to an increase in aggregate liquidity by further allocating capital inefficiently, thereby widening the interest rate spreads.

While China has stepped away from quantitative monetary policies by adopting more interest rate policies, such as adjusting the seven-day Repo rate, the PBOC still engages “moral suasion” in quantitative monetary policies under the guise of macro-prudential regulations. Many Western industrialised countries adopted quantitative monetary policies, or “quantitative easing”, during the financial crisis. The Chinese experience of the effect of quantitative monetary policies on capital misallocation may be instructive to the industrialised West.

In short, I learned a lot while at the HIKIMR. I hope there will be another opportunity to visit the HKIMR soon.



“HKIMR is the perfect place to work, especially if you are interested in the Chinese economy.”

Visiting Fellow – Jason Wu



“I got to meet many new colleagues during my visit at HKIMR, many of whom are deeply knowledgeable about various topics and institutional details and gave me great suggestions for my work.”

Jason is an Assistant Director in the Division of Monetary Affairs at the Federal Reserve Board, where he advises the Federal Open Market Committee on policy issues pertaining to the implementation and transmission of monetary policy and financial stability. Before his tenure in Monetary Affairs, Jason was an economist in the Division of Supervision and Regulation, where he helped shape the Fundamental Review of the Trading Book and other Basel-related projects. He also served as an onsite examiner at banks and participated in several Dodd-Frank related projects. Jason obtained his PhD in economics from the University of Wisconsin-Madison in 2007. His current research interests are on the spillover effects of monetary policy, the effects of financial intermediation, and applied econometrics.

As part of my research sabbatical from the Federal Reserve Board, I had the opportunity to visit the HKIMR for six weeks this summer to work on my research on portfolio flows and capital controls (more on that later). My visit to HKIMR was very fruitful. Its staff, especially director Lillian Cheung and senior economists Hongyi Chen, Giorgio Valente and Matthew Yiu, were accommodative and collegial. Its abundant resources and other reputable visiting fellows meant this was a great environment for research. The dynamism of Hong Kong was the cherry on top: there’s always interesting things to see, and ideas seemingly flow everywhere.

During my visit, I worked a research agenda that aims to explore the effect of US monetary policy on portfolio fund flows to Emerging Market Economies (EMEs) and the ameliorating effects of capital controls imposed by these countries. Against the backdrop of accommodative and unconventional monetary policy, the debate on how to prevent sudden “starts” and “stops” of capital flows to EMEs has become particularly important. I devised a regression framework that employs high-frequency measures of US monetary policy shocks and flows to mutual funds (MFs) and exchange traded funds (ETFs) that specialise in EMEs. Combined with several datasets of the level and change in capital control measures, I found that, for a panel of EME countries, capital controls have ambiguous effects on ameliorating the sensitivity of fund flows to US monetary policy shocks. For example, tightening inflow controls did not necessarily prevent surges in fund flows that followed an accommodative US monetary policy shock.

This was surprising to me, and an in-depth investigation of the reasons behind these results is warranted. Funds have institutional features, such as liquidity transformation (funds offer investors daily redemption against less liquid assets) and first-mover advantage (for a fund whose value is falling, an investor who leaves earlier is better able to avoid mutualising losses) that may affect the ways fund investors and fund managers react to capital controls. I am currently analysing how they change allocations and investments around various capital controls actions, and I have preliminarily found that some of these institutional features may incentivise behaviour, contrary to the goals of capital controls.

I got to meet many new colleagues during my visit at HKIMR, many of whom are deeply knowledgeable about various topics and institutional details and gave me great suggestions for my work. As a native of Hong Kong, I would definitely like to visit the HKIMR again, and I also look forward to engaging with the institute during its many excellent conferences and meetings.

Application for Visiting Research Fellow

The HKIMR accepts applications for positions as Visiting Research Fellow on an ongoing and highly competitive basis under the Thematic Study Fellowship Programme and the Regular Research Fellowship Programme. The Council of Advisers reviews proposals four times a year. The deadline for the next round of applications is December 31, 2017.

Please visit our website (<http://www.hkimr.org/content-id13>) for more details on research topics, requirements and submission guidelines.

Applicants should note that papers produced partly or wholly under this visiting program are required to acknowledge the financial support of the HKIMR if the papers are submitted to any journals.

Visiting Fellows and Seminars

September 4-29, 2017

Harald Scheule

(University of Technology, Sydney)

September 11 – October 6, 2017

Peter Tillmann

(Justus-Liebig University Giessen)

October 9-20, 2017

Paul Mizen

(University of Nottingham)

October 23, 2017

Geographic diffusion of an international currency: a case study of the Renminbi – Robert McCauley, Bank for International Settlements

October 26, 2017

World Economic Outlook and Recent Wage Dynamics in Advanced Economies – Weicheng Lian, International Monetary Fund

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Chris Ip

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Selina Cheung

Administrative Assistant:
Judy Kwan

Recent HKIMR Working Papers

No.23/2017 "Tail risk spillover in Asia Pacific stock market," by Tom Fong, Ka-Fai Li and Edmund Ho

No.22/2017 "Corporate Default Risk and Loan Pricing Behaviour in China," by Hongyi Chen, Jianghui Chen and Gaofeng Han

No.21/2017 "Exchange rate dynamics under a currency board when policy rates are zero," by Cho-Hoi Hui, Ka-Fai Li and Chi-Fai Lo

No.20/2017 "Credit Default Swaps and Bank Regulatory Capital," by Chenyu Shan, Dragon Yongjun Tang and Hong Yan

No.19/2017 "Why do firms issue bonds in the offshore market? Evidence from China," by Qing Ba, Frank Song and Peng Zhou

No.18/2017 "Determinants of mutual fund flows to Hong Kong equities," by Tom Fong, Angela Sze and Edmund Ho

No.17/2017 "US Monetary Policy Spillovers," by Saroj Bhattarai, Arpita Chatterjee and Woong Yong Park

No.16/2017 "Return Comovement," by David C. Parsley and Helen Popper

No.15/2017 "Boom-and-Bust Cycles in Emerging Markets: How Important is the Exchange Rate?" by Pierre Siklos

No.14/2017 "VaR and Stress Tests: The Impact of Fat-Tail Risk and Systemic Risk on Commercial Banks in Hong Kong and China," by Jacky So and Tony U

No.13/2017 "Quantifying Financing Needs in the Belt and Road Countries and Industries," by Hongyi Chen, Tianjiao Jiang and Chen Lin

No.12/2017 "History, Culture and the Rise of Informal Finance in China," by Jinyan Hu, Chicheng MA and Bo Zhang

and more please visit our website.