

## Debunking HKD De-Peg & Diminishing HIBOR Gaps

“How much can you know about yourself if you’ve never been in a fight?” – Fight Club



	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026
FFR Assumptions*	4.00-4.25	3.50-3.75	3.25-3.50	2.75-3.00	2.25-2.75	2.25-2.75
SOFR	4.045	3.605	3.425	2.815	2.455	2.575
3M HIBOR	2.97	2.79	2.85	2.50	2.25	2.45
1Y IRS	2.95	2.74	2.77	2.45	2.15	2.33
USD/HKD	7.80	7.78	7.78	7.77	7.76	7.76

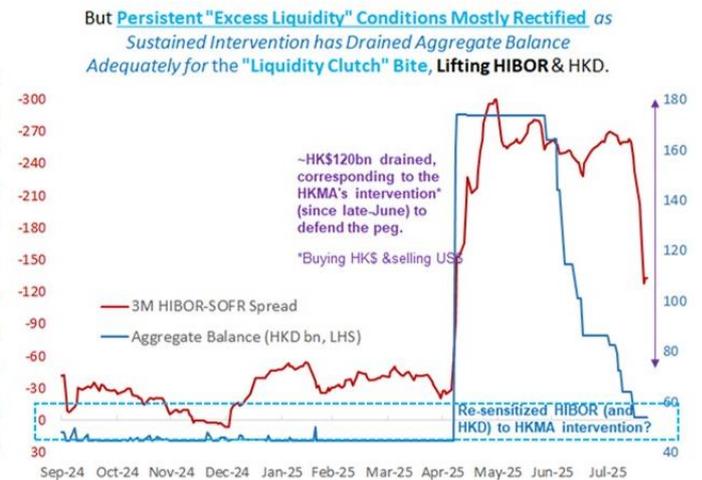
\*Fed Fund Rates Range

### In a Nutshell:

- **HKD de-peg arguments** have been **blown out of the water** as **HKMA intervention** draining liquidity to key thresholds has *resensitized (and accordingly lifted) HKD alongside HIBOR*.
- Specifically, **aggregate balances falling to HK\$50-55bn** has proven to be the “biting point” for HIBOR to be squeezed higher, consequently lifting HKD (from the weak-end of the peg.)
- The resultant **narrowing in SOFR-HIBOR spreads** squeezed out “carry trades”, with consequent **HKD appreciation** reinforcing the dynamic of overcrowded “carry” being unwound.
- To be sure, the **HKD peg was never really in serious threat** given the *HKMA has always had the means to back the peg*.

- Instead, exceptional excess liquidity imposed a lagged and consequently non-linear element to intervention and HIBOR/HKD response, further augmented by liquidity buffer/HKD support trade-offs.
- Crucially, **lingering 125-130bp SOFR-HIBOR gap**, despite significant narrowing of exceptional ~260bp SOFR-HIBOR spread, suggest **further SOFR-HIBOR convergence is the direction of travel to expect**.
- **Although upside risks in HIBOR may be dampened** by flush liquidity (from capital inflows) alongside **mounting Fed rate cuts expectations** (that shift convergence to pipeline SOFR pressures).
  - We have steadfastly rejected (misguided) **speculations of**, and *arguments for*, **HKD de-peg** that had grown louder amid the recent spate of unrelenting HKD pressures.
  - Admittedly, **USD/HKD stuck at 7.85 weak-limit of the (7.75-7.85) peg since early-June** despite HKMA's repeated interventions might have instigated doubts about the HKMA's ability and willingness to defend the peg.
  - But this **mistook the HKMA's dynamic policy trade-off** (judiciously managing a phased trade-off between HKD liquidity buffer and adequate HKD exchange rate support) for **policy incapacitation**.
  - And as of late last week, the **de-peg narrative has been roundly debunked** as **HKMA intervention finally hit "biting point"**.
  - **We had** earlier (in the 8<sup>th</sup> August edition of the Macro Daily publication) **warned of creeping up on the "biting point" as the aggregate balance falls to HK\$50-55bn**.
  - Specifically, **alluding to a non-linear relationship between HKMA intervention and HIBOR/HKD jump under condition of exceptional excess liquidity** (that had earlier prevailed).
  - And this is *precisely what happened last week* as the **aggregate balance further drained** (by ~\$10bn drained) **to sub-HK\$54bn squeezed HIBOR**, and along with it the **HKD, higher**.
  - To be sure, with USD/HKD at 7.81-7.82, it is at the softer side of the 7.75-7.80 band.
  - But crucially, the **HKD has now been re-sensitized to further HKMA interventions** as **exceptional excesses in aggregate balances drained re-engage the transmission clutch for HKMA intervention**.
  - To be sure, the **sensitivity to further HKMA intervention will be on either side for HKD** given USD/HKD now much closer to the peg's mid-point (hence, closer to "neutral").
  - But with (3M) **HIBOR at 2.92%**, the **deviance vis-à-vis the corresponding SOFR** (at 4.21%) is still **significantly**, and perhaps **unsustainably negative**.
  - This firstly means that the *bias in HKD may be to the downside*, at least **until HIBOR converges upwardly towards SOFR**.
  - Moreover, the **remnant 125-130bp spread between HIBOR and SOFR**, while halved from ~260bp previously, is **still exceptional**.
  - This in turn *suggests upside left in HIBOR*, although arguably checked by;
    - i. **evidence of in-/south-bound capital flows keeping liquidity conditions flush** (damping an imminent an complete convergence) alongside;
    - ii. increasingly **dovish Fed bets that ought to soften SOFR** over time, allowing for SOFR to converge downwards.

- The bigger picture is the 125-130bp SOFR-HIBOR spread cannot be imminently bridged by Fed pivot/cut resumption, and so, the trade-off between softer HIBOR discount and HKD pressures will persist.
- Nonetheless, the [HKD de-peg speculation/arguments are properly debunked](#), revealing a bumpy path to stabilizing HKD band trades and HIBOR convergence (with SOFR).



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