

Swap Curve Dynamics in Hong Kong: An Interpretation

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Summary

This paper investigates the information content of the Hong Kong and USD swap curves and argues that these curves contain important information for a policy maker. This information is over and above the information provided by the sovereign yield curves and the standard measures of market liquidity, Libor-type interest rates. The empirical work indicates strongly that using sovereign yield curves and concentrating only on the risk premia associated with the breakdown of the currency peg is not sufficient for policy making in Hong Kong. Swap spreads and swap curves should be carefully constructed and monitored to evaluate economy wide risks and to conduct macroeconomic policy. The paper also reviews the main components of Hong Kong financial markets during this analysis.