



Hong Kong Institute for  
Monetary Research

香港金融研究中心

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[www.hkimr.org](http://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:

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# Hong Kong Institute for Monetary Research – *Newsletter*

Thirty-Fourth Issue (January 2019)

## Recent Activities

### HKMA and BIS Joint Conference – Exchange Rates and Monetary Policy Frameworks

*The Hong Kong Monetary Authority (HKMA) and Bank for International Settlements (BIS) jointly organised the conference entitled “Exchange Rates and Monetary Policy Frameworks” on 16 October 2018.*



Norman TL Chan  
(Chief Executive, HKMA)



Agustín Carstens  
(General Manager, BIS)

This conference is part of the celebration of the 20<sup>th</sup> anniversary of the BIS Asia Pacific Office in Hong Kong. Senior policy makers from 17 global central banks and BIS met for a one-day in-depth discussion on the role of exchange rates in monetary policy framework.

The conference opened with welcoming remarks by Mr Norman TL Chan (Chief Executive, Hong Kong Monetary Authority) and Mr Agustín Carstens (General Manager, Bank for International Settlements). In addition, a luncheon speech was delivered by Mr Glenn Stevens (Former Governor of the Reserve Bank of Australia) on monetary policy and exchange rates.

Overall, the conference covered a wide range of topics, including whether exchange rates are shock absorbers or shock amplifiers, how central banks should respond to exchange rate fluctuations, the role of exchange rates in monetary policy frameworks, and the policy challenges of the current international monetary system.



Yi Gang (Governor, People's Bank of China)



Glenn Stevens  
(Former Governor of the Reserve Bank of Australia)



Eddie Yue (Deputy Chief Executive, HKMA) and  
Masazumi Wakatabe (Deputy Governor, Bank of Japan)



Titanun Mallikamas  
(Assistant Governor, Bank of Thailand)



Erwin Rijanto (Deputy Governor, Bank Indonesia) and  
Tiago Couto Berriel (Deputy Governor, Central Bank of Brazil)



Viral Acharya  
(Deputy Governor, Reserve Bank of India)

## 14<sup>th</sup> Central Bank Conference on The Microstructure of Financial Markets

*The Hong Kong Institute for Monetary Research (HKIMR) hosted the 14th Central Bank Conference on the Microstructure of Financial Markets on 5 and 6 November 2018. The conference series is a regular annual forum where researchers, policy makers and practitioners meet to discuss theoretical work, empirical findings and policy implications related to recent developments in the microstructure of financial markets. This year's conference was held in Hong Kong.*

The first day of the conference began with welcoming remarks by Dr. Cho-hoi Hui (Head of Market Research Division, Hong Kong Monetary Authority), followed by a keynote speech by Prof. Carole Comerton-Forde of University of New South Wales Business School entitled “Does Financial Market Structure Impact the Cost of Raising Capital?” Seven papers were presented on the topics of “OTC Markets”, “Treasury Bonds” and “FX Markets”.

The second day of the conference featured a panel discussion chaired by Mr. Howard Lee, the Deputy Chief Executive of the Hong Kong Monetary Authority through which experts exchanged views on the value of information in an environment of Big Data. Dr. Cho-hoi Hui gave a keynote speech titled “A Rigid Exchange Rate Regime in Flexible Financial Markets – Hong Kong Case”. Six papers were presented related to the topics of “Cryptocurrencies” and “Liquidity”.

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

[http://www.hkimr.org/conferences\\_detail-id104](http://www.hkimr.org/conferences_detail-id104)



Howard Lee  
(Deputy Chief Executive, HKMA)



Carole Comerton-Forde  
(University of New South Wales Business School)



Cho-hoi Hui  
(Head of Market Research Division, HKMA)



Conference Participants



## HKMA, ECB and FRB Joint Conference – China Expert Network Workshop: “The Chinese Economy in the New Era”

*The Hong Kong Monetary Authority (HKMA), the European Central Bank (ECB) and Federal Reserve Board of Governors (FRB) jointly organised the China Expert Network (CEN) Workshop entitled “The Chinese Economy in the New Era” on 28 and 29 November 2018.*



Lillian Cheung  
(Executive Director, HKMA and Director, HKIMR)

The workshop brought together China experts from global central banks, other policy institutions and the private sector to discuss the foremost questions confronting the Chinese economy and their implications for the global economy, with a special interest towards policy-related topics of relevance to central bank policymakers.

The first day of the workshop opened with welcoming remarks by Dr. Lillian Cheung (Executive Director, Hong Kong Monetary Authority and Director, Hong Kong Institute for Monetary Research), followed by a keynote speech by Prof. Shang-Jin Wei of Columbia University entitled “An Unhealthy Trade Surplus?”. Mr. Shaghil Ahmed (Senior Associate Director, Federal Reserve Board) gave a luncheon speech titled “China’s Prospects under Global Policy Normalization and Implications for Other EMEs”. The workshop also featured a policy panel discussion chaired by Mr. Jasper Hoek (Chief, Emerging Markets Section of Federal Reserve Board) during which experts exchanged their views on the US-China Trade Relationship. Six papers were presented during the day on the topics of “Capital Account and Exchange Rate Management” and “Deleveraging and Financial Stability”.

The second day of the workshop began with a keynote speech by Mr. Zhong Xu (Director-General, The People’s Bank of China) titled “China’s Economy towards High-Quality Development: Long term trend and policy implications”. It was followed by a market panel chaired by Mr. Gilles Noblet (Principal Adviser, European Central Bank) during which private sector economists gave their views on issues on the Chinese economy. Seven papers were presented on the topics of “Long-term Growth and Rebalancing”, “Global Spillovers” and “Local Government Debt” on day two.

Around 100 people attended the workshop, including representatives from 20 global central banks. This was the first time the CEN workshop was held outside Europe.



Shang-Jin Wei (Columbia University)



Shaghil Ahmed  
(Senior Associate Director, Federal Reserve Board)



Zhong Xu  
(Director-General, The People's Bank of China)



Gilles Noblet  
(Principal Adviser, European Central Bank)



Jasper Hoek  
(Chief, Emerging Markets Section of Federal Reserve Board)



Conference Participants

## Visiting Fellow – Eric Girardin

*Eric Girardin is professor of Economics at Aix-Marseille School of Economics, Aix-Marseille University in France, visiting professor at Peking University HSBC Business School (UK), and chairman of the Forecasting Financial Markets Association.*

*He served as European representative on the Advisory Council of the Asian Development Bank Institute in Tokyo from 2004 to 2012. He visited regularly the Bank of Finland Institute for Economies in Transition (BOFIT), the Chinese Academy of Social Sciences (Beijing), the People's Bank of China Graduate School (Beijing), and Fudan University (Shanghai).*

"A visiting researcher at IMR sits in an office at 2IFC on the 79th floor overlooking Victoria Harbour, which is one of the nodes of global trade."



A visiting researcher at IMR sits in an office at 2IFC on the 79<sup>th</sup> floor overlooking Victoria Harbour, which is one of the nodes of global trade. No better analogy can characterize the perspective offered by such a researcher's interactions with global leading figures of economic research. The impressive list of visitors is testimony to this, but it involves also the always excellent conferences that IMR regularly organises with major think tanks and international organisations from around the world. I especially remember an IMR conference on real estate economics, which after the subprime crisis brought in Hong Kong leading world researchers on the subject. Location is also key for IMR since it sits in a building hosting many major world financial institutions which offers IMR visitors an opportunity to interact with distinguished practitioners. Also the discussions with staff at the Bank for International Settlements Asia-Pacific office one floor below, with the impetus provided sequentially by Andrew Filardo and Franck Packer, are yet another opportunity which visiting researchers at IMR cherish. I personally recall having a discussion at the BIS with Yongheng Deng, visiting from NUS, which led to joint work at IMR on real estate price dynamics in China (HKIMR WP No. 22/2015). Giving a seminar at HKIMR makes visitors not only appreciate the outstanding quality of the facilities offered by the seminar and conference rooms at 2IFC's 55<sup>th</sup> and 56<sup>th</sup> floors, but also benefit from stimulating and often challenging questions raised by participants from Hong Kong's unique mix of researchers and industry experts. The IMR also offers a rare opportunity to liaise and co-operate with researchers in industry or academia in Hong Kong, which led me to work with Alicia Garcia-Herrero (BBVA and Natixis) on PBoC communication (HKIMR WP No. 02/2013) and Joseph Fung (Baptist University) on the Shanghai-Hong Kong share premium (in progress).

My good memories at IMR over the decade since the outbreak of the Global Financial Crisis are so rich that they would fill the whole of this Newsletter. This includes discussions with landmark regular visitors such as Joshua Aizenman, Philippe Bacchetta, Eric van Wincoop, Paul Mizen, and Kent Matthews. The leadership provided by successive IMR directors, from Hans Genberg, to Dong He, and Lillian Cheung, has proved equally key in gradually building the unique environment provided by IMR. Senior managers and researchers, Matthew Yu (or Yiu?), Hongyi Chen and Giorgio Valente have proved not only nice and welcoming but also always open to stimulating discussion, and the support staff's excellence in organising our stays bears testimony to the degree of professionalism typical of Hong Kong.

For researchers working on China's monetary and financial issues, a stay at HKIMR is a mandatory step also because of the HKIMR's and HKMA's own research. One example will illustrate this. The construction of monetary policy indicators for China has been a common thread over the years and has become a quasi-monopoly of in-house researchers, since it was pioneered and deepened by HKIMR/HKMA staff such as Dong He (HKMA WP, 06/2008), Chang Shu and Brian Ng (CEI, 1/2010), as well as Weibo Xiong (CER, 2012), a lead which I followed with Guonan Ma (BIS, Asia Pacific Office), enabling us to estimate PBoC's Taylor rule in a discrete framework (BIS WP No.641).



## Visiting Fellow – Chao Gu



“I was impressed by the knowledge, insight and depth of the economists at HKIMR and HKMA.”

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*Chao Gu is an associate professor of economics at the University of Missouri. She received a PhD in economics from Cornell University, a MA from the University of Missouri and a BA from Fudan University in China. Her research interest is monetary theory. Her recent research focuses on financial stability and the interaction between monetary and credit markets.*

It was a great pleasure and honour to visit the HKIMR in May 2018. I focused on two projects on monetary theory during my visit. The first one is on the effect of news. While we consider news about productivity and real credit conditions, a leading case concerns central bank announcements, which evidently affect markets and are the key element in “forward guidance” policy. The dynamic effects are intricate, with news about monetary or real factors affecting markets for goods, equity, housing, credit and foreign exchange. News about neutral as well as non-neutral policies can cause cyclic and boom-bust responses, can induce rather than reduce volatility, and can increase or decrease welfare.

The second project is related to toxic assets and the resulting market freeze. The toxic assets pay a negative dividend. They are valued in normal times because of their liquidity value. In crisis times, agents stop believing in the liquidity value, and the market ceases to function. The shift in belief is rational and self-fulfilling. The toxic assets are most likely to exist in the economy with high inflation rate. Proper monetary policy can eliminate such assets.

Since my research expertise is monetary theory, I really appreciated the opportunity to communicate with the central bankers to understand the real world questions and the difference between theory, practice, and the actual result. I presented my work at the seminar to colleagues from HKIMR, HKMA, and nearby universities. There were many insightful, interesting and valuable questions during and after the seminar. I was impressed by the knowledge, insight and depth of the economists at HKIMR and HKMA. I learned tremendously from conversation with Hongyi Chen, Gaofeng Han, Zhibo Tan, and Giorgio Valente. They introduced their research to me, provided insightful comments on my research, and we exchanged our views on policies and various issues. Jing Liu from Financial Stability Surveillance of HKMA proposed intriguing questions on crypto currency and concerns about its impact on the effectiveness of traditional monetary policy and potential fragility. They also showcased Hong Kong’s amazing dim sum culture to me. I look forward to future opportunity to visit again the HKIMR and charming Hong Kong.

## 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.

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.*

## Other Upcoming Activities

### Conference on “Open Economy Macroeconomics in the Age of Normalization”

The Hong Kong Institute for Monetary Research (HKIMR) and the Hong Kong University of Science and Technology (HKUST) will jointly hold the 4th International Macroeconomics and Finance Conference (IMFC4) on “Open Economy Macroeconomics in the Age of Normalization” on 12-13 April 2019 in collaboration with Keio University and Korea University.

This conference aims at bringing experts together to explore the development of open economy macroeconomic analysis. Topics of interest include, among others, “Credit growth and financial frictions in open economy macroeconomics”, “Macro-prudential policy in open economies”, “Policy coordination during as well as in the aftermath of the crisis” and “Changing relationship between international finance and trade”. Prof. Enrique Mendoza of the University of Pennsylvania will give the keynote speech.

### Conference on “Monetary policy and heterogeneity”

The Hong Kong Institute for Monetary Research and Federal Reserve Bank of New York will jointly organise a conference on monetary policy and heterogeneity on 23 and 24 May 2019. The goal of the conference is to bring together researchers working on the interaction between monetary policy and heterogeneity, and analyse the distribution effect of monetary policy. There is a preliminary program featuring presentations by Professor Gianluca Violante from Princeton University, and Professor Giuseppe Moscarini from Yale University.



## Call for Papers

### Conference on “Monetary Policy and Heterogeneity”

**23-24 May 2019**

Hosted by:

Hong Kong Monetary Authority and Federal Reserve Bank of New York

**Submission Deadline: 15 February 2019**

The Hong Kong Monetary Authority and Federal Reserve Bank of New York are organising a conference on monetary policy and heterogeneity to be held in Hong Kong on 23-24 **May 2019**.

The goal of the conference is to bring together researchers working on the implications of heterogeneity for the design and transmission of monetary policy. The program committee invites submissions of both theoretical and applied work on topics including (but not limited to)

- distribution of income, wealth and debt and the transmission of monetary policy
- distributional consequences of conventional and unconventional monetary policy
- interaction between housing markets, mortgage markets and monetary policy
- linkages between monetary and fiscal policies in the presence of heterogeneity

In addition to the contributed papers, the program will feature presentations by Gianluca Violante and Giuseppe Moscarini. All presentations will be in plenary sessions. Each paper will be assigned a discussant.

We invite authors to submit completed papers or extended abstracts. Preferences are for completed papers. If you know of a paper that fits the conference theme, please forward this message to the authors.

Please submit the full paper with an abstract in pdf format to [hkimr@hkma.gov.hk](mailto:hkimr@hkma.gov.hk), using the authors' names as the filenames of the papers, and enter "Paper Submission for HKMA-New York Fed 2019 Joint Conference" as the email subject line. Please also indicate in your submission whether you would be interested in being a discussant as well. The organisers will select the papers based on originality, analytical rigour, and policy relevance.

The deadline for paper submission is **February 15, 2019**. Only the authors of accepted papers will be informed by **March 22, 2019**. Travel and local accommodation for speakers and discussants from academic institutions will be funded by the organisers.

#### Organising Committee:

Hongyi Chen, Hong Kong Institute for Monetary Research

Marco Del Negro, Federal Reserve Bank of New York

Fatih Karahan, Federal Reserve Bank of New York

Paolo Pesenti, Federal Reserve Bank of New York

## Visiting Fellows and Seminars

November 12 – December 7, 2018

**Hong Ru**

(Nanyang Technological University)

January 10 – January 23, 2019

**Yinggang Zhou**

(Xiamen University)

**January 18, 2019**

*Is the RMB a safe-haven currency?*

*Evidence from Conditional Coskewness and Cokurtosis*

By **Yinggang Zhou**, Xiamen University

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**Zhibo Tan**

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**Selina Cheung**

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**Annie Fung**

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## Recent HKIMR Working Papers

**No.03 / 2019** "Predictability in sovereign bond returns using technical trading rules: Do developed and emerging markets differ?" by Tom Fong and Gabriel Wu

**No.02 / 2019** "Demographic changes and inflation dynamics" by Gaofeng Han

**No.01 / 2019** "From a Quantity to an Interest Rate-Based Framework: Multiple Monetary Policy Instruments and Their Effects in China" by Soyoung KIM (Research Fellow) and Hongyi Chen

**No. 25/2018** "Exchange rate solutions with currency crashes" by Cho-hoi Hui, Chi-Fai Lo and Chi-Hei Liu

**No. 24/2018** "Implications of Loan Portfolio Concentration for Banks' Credit Risk and Return: Evidence from Hong Kong" by Kelvin Ho, Ka-Fai Li and Edward Tan

**No. 23/2018** "What Drives Commodity Price Booms and Busts?" by David S. Jacks and Martin Stuermer

**No. 22/2018** "Do Long-term Institutional Investors Contribute to Financial Stability? – Evidence from equity investment in Hong Kong and international markets" by Tom Fong, Angela Sze and Edmund Ho

**No. 21/2018** "Funding Constraints and Market Illiquidity in the European Treasury Bond Market" by Sophie Moinas, Minh Nguyen and Giorgio Valente

**No. 20/2018** "Computer-based Trading, Institutional Investors and Treasury Bond Returns" by Xiaoquan Liu, Ingrid Lo, Minh Nguyen and Giorgio Valente

**No. 19/2018** "High-Frequency Trading in the U.S. Treasury Market around Macroeconomic News Announcements" by George J. Jiang, Ingrid Lo and Giorgio Valente

**No. 18/2018** "The Macroeconomic Effects of Macroprudential Policy" by Björn Richter, Moritz Schularick and Ilhyock Shim

**No. 17/2018** "International Trade Finance and the Cost Channel of Monetary Policy in Open Economies" by Nikhil Patel

and more ..... please visit our website.