



Impact of the current interest rate
environment and increased uncertainty on
the management of foreign exchange
reserves

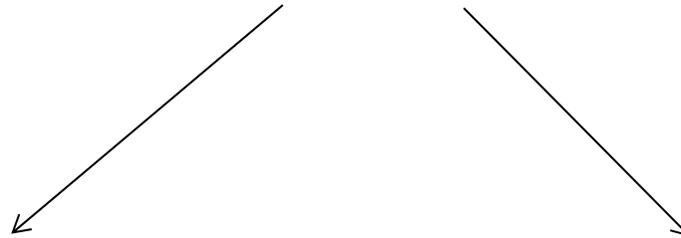
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Interest Rate

Interest Rate



Policy Rate

Investment Return



Increased Uncertainty

	Policy Rate	Investment Return	
		Near Term	Long Term
US	Steadily rising	Support equities; Suppress bonds; Strong currency	Unclear
Euro-zone	Steady in near term with minor chance of tapering	Support equities; Support bonds; Weak currency	Likely suppressed due to currency risk
UK	Remain low with possible downward pressure	Support equities; Support bonds; Weak currency	Unclear clouded by BREXIT
Japan	Remain low	Support equities; Support bonds; Weak currency	Likely suppressed due to demographic issues
Rest of DM	Remain low with possible upward pressure depending on US growth	Support equities; Support bonds; Weak currency	Unclear
China	Steady with rising pressure	Support equities; Suppress bonds; Weak currency	Slightly positive
EM	Steady with rising pressure	Support equities; Suppress bonds; Weak currency	Slightly positive



Impact on Foreign Exchange Reserve Management

Low Policy Rate

- Distort market dynamics
- Artificially suppress interest rate/return against pent-up rate hike pressure
- Negative side effects e.g. debased currency, risk of future inflation

Low Investment Return

- Take excessive risk to compensate for lower return
- Thin cushion for mistakes
- Move into uncharted water
- Discourage investment, prolonging recessive environment

Interest Rate Normalisation

- Uneven speed of growth and different phases of economic cycle
- Excess volatility in currency market
- Policy uncertainty



Investment Strategies

- Diversification by markets and asset classes
 - to help achieve a more stable and better long-term return
- Exercise prudence and robust risk management
 - to help increase robustness in different market conditions while searching for higher returns