
HSBC Reserve Management Trends 2019

Survey results



Four key takeaways

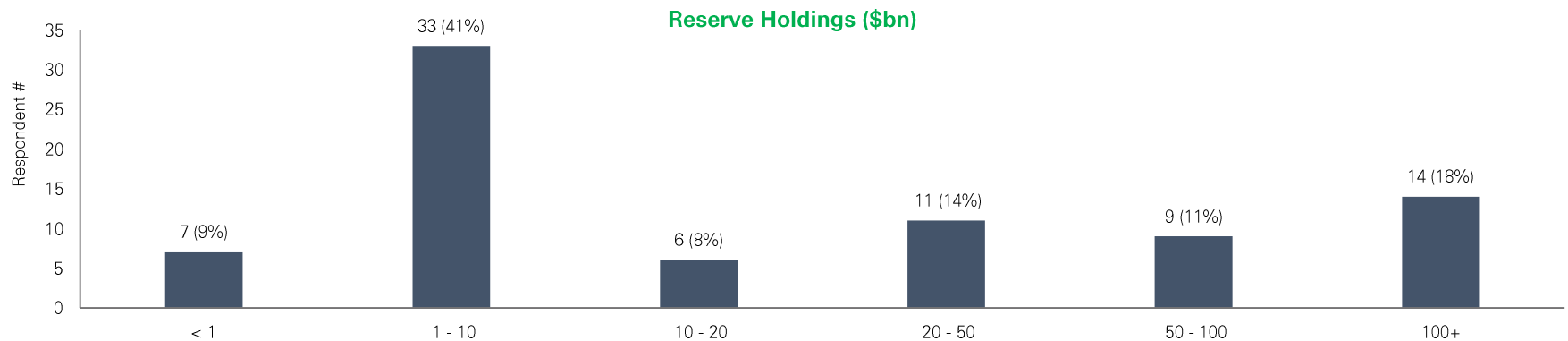
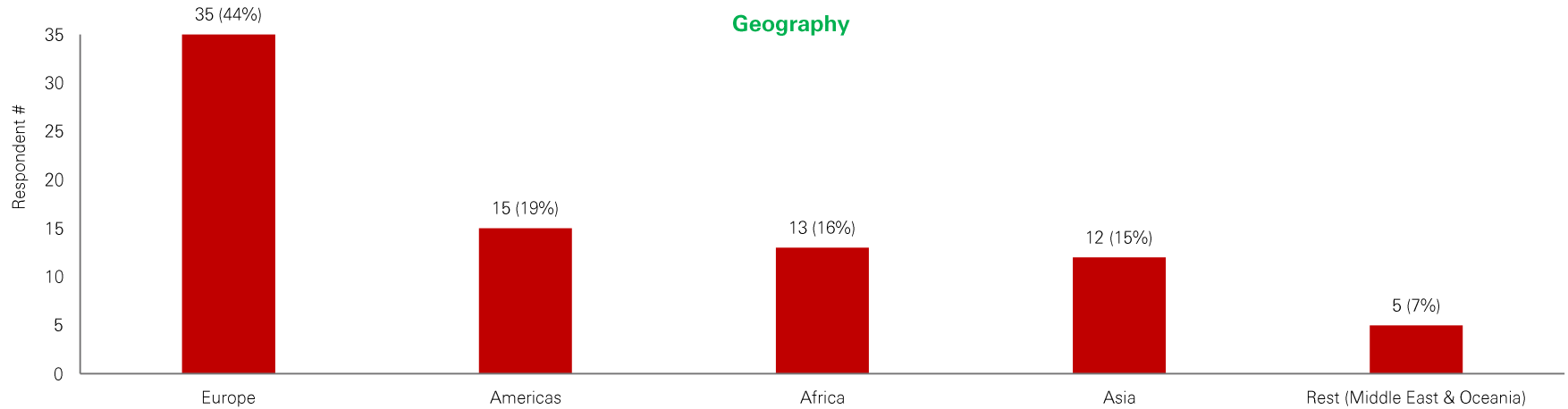
- ◆ Geopolitics is having an important impact on reserve management. (US/China trade wars, Brexit, sanctions)
- ◆ USD remains the unchallenged safe haven currency but there is also a renewed interest in gold.
- ◆ Integration of ESG into central bank portfolios is gathering significant momentum.
- ◆ There is increasing diversification into 'non-traditional' currencies and asset classes.

Notes:

1. Source: Central Banking Publications, HSBC Reserve Management Trends 2019.

80 central banks participated

Average holding of USD 86 billion representing 53% of global reserves



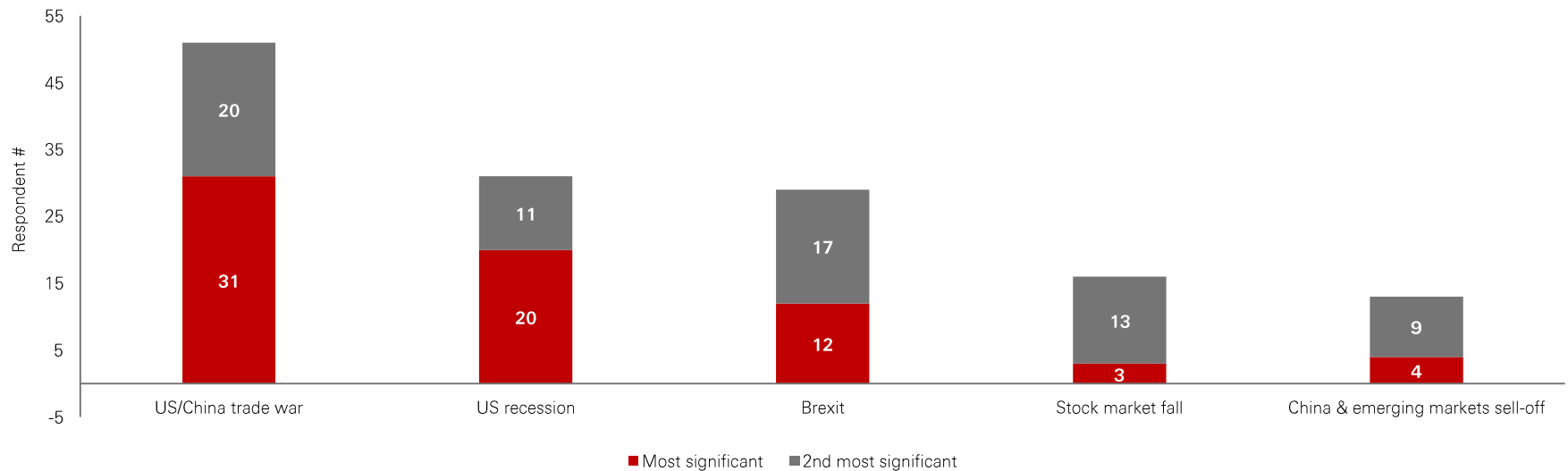
Note:

1. Source: Central Banking Publications, HSBC Reserve Management Trends 2019

Reserve managers are most concerned about US/China trade war

US recession and Brexit are also highlighted

Which in your view are the most significant risks facing reserve managers in 2019?^{1,2}



“We decided not to increase our RMB allocation because of the trade tensions between China and the US, despite its diversification benefits; we decided to limit our exposure to Korean assets given the geopolitical risks on the Korean peninsula and the negative effect on Korea from China/US trade tensions; and we decided to eliminate our British pound allocation given the uncertainty around Brexit.”

Americas reserve manager

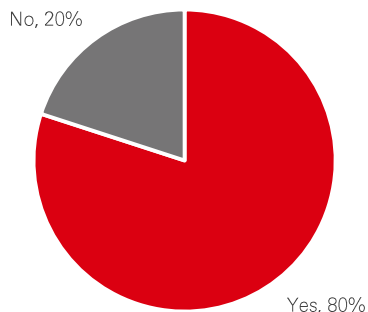
Notes:

1. Source: Central Banking Publications, HSBC Reserve Management Trends 2019
2. 70 respondents replied to this question.

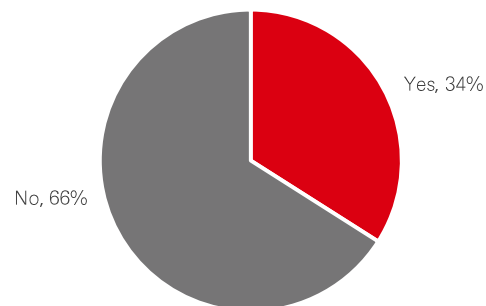
Geopolitics is centre stage for reserve managers

USD is still seen as the safe haven currency

Do you see geopolitical factors impacting currency allocation in the following?¹

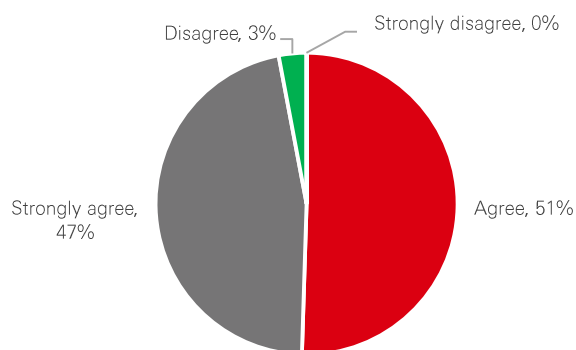


Global central bank reserves?²



your central bank reserves?³

To what extent do you agree that the US dollar is still the safe haven currency?^{1,3}



“The strength of the US in global financial markets, higher proportion of worldwide reserves being in US dollars, and more faith in the US economy compared to the rest of the world prove that the dollar is still the safe haven currency.”

Asian reserve manager

“There are no other safe alternatives you can consider investing in size in a short time period. However, geopolitical challenges and US political developments may potentially harm the dollar’s safe haven status. That is why, in our view, we experience the recent rise in the importance of gold.”

Emerging Markets Reserve Manager

Notes:

1. Source: Central Banking Publications, HSBC Reserve Management Trends 2019
2. 76 respondents replied to this question.
3. 77 respondents replied to this question.

Brexit – 36% of respondents signal it will impact their GBP allocation

Short term uncertainty and operational implications highlighted

Do you see Brexit as having any impact on Global central banks?¹



“Brexit will have an impact on different aspects of reserve management, from the short to the long term horizon. Holdings of sterling reserves are already being affected by Brexit developments.”

Industrial country reserve manager

Do you see Brexit as having any impact on your central bank?¹



“We are affected by many of our counterparties moving at least some parts of their business out of London or preparing for this, so this has generated a lot of (legal) work for our risk management.”

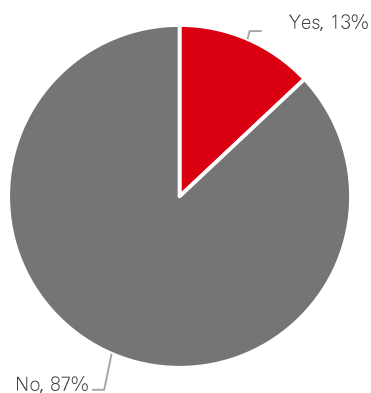
Eurozone reserve manager

Notes:

1. Source: Central Banking Publications, HSBC Reserve Management Trends 2019

Lower rates for longer – impact is limited on absolute \$ & € allocations Reserve managers are more focused on managing duration

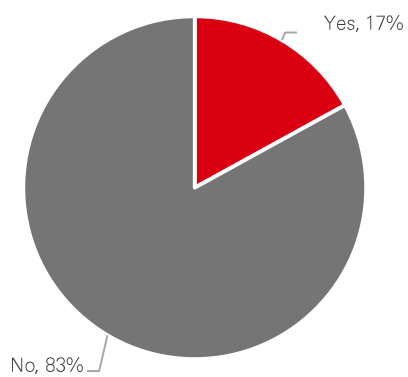
US Fed is expected to reduce the rate of policy normalization in 2019. Any changes to your dollar exposure?^{1,2}



“Not specifically on the USD exposure, but more on the adjustment of interest rate exposure of our USD portfolio,”

Asian reserve manager

The ECB has halted its asset purchase program & has signaled possibility of rate hike in 2019. Any changes to your € exposure in light of this?^{1,3}



“Since interest rates became negative in the Eurozone, we significantly decreased our euro exposure. Once rates return into the positive territory, we will discuss internally the topic of coming back to euro investments.”

European reserve manager

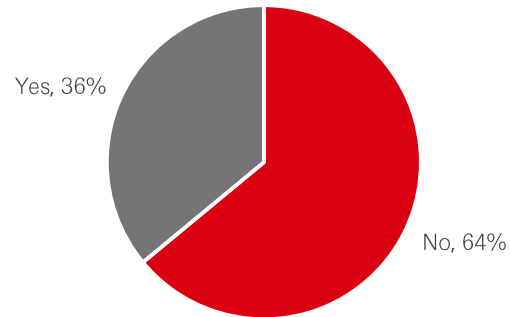
Notes:

1. Source: Central Banking Publications, HSBC Reserve Management Trends 2019
2. 78 respondents replied to this question.
3. 75 respondents replied to this question.

Duration management is an ongoing challenge for reserve managers

Nearly 40% are considering changes over the next year

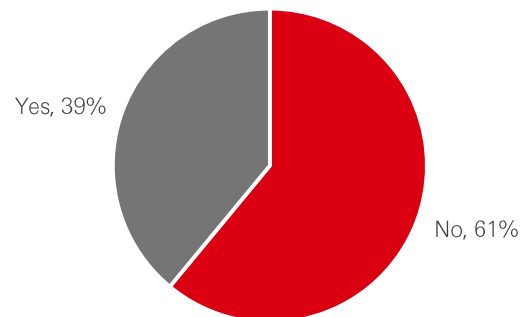
Have you changed your portfolio duration in the past year?^{1,2}



"Still shortening duration, since the market does not provide return for any risk"

Eurozone reserve manager

Are you considering any change in duration in 2019-20?^{1,3}



"Taking into account the slowdown in monetary policy normalization, we are considering extending modified duration"

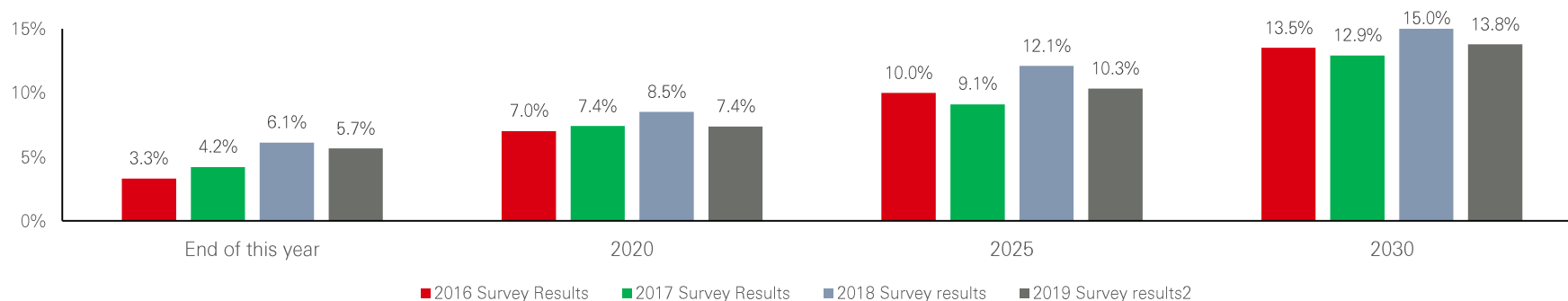
European Reserve Manager

Notes:

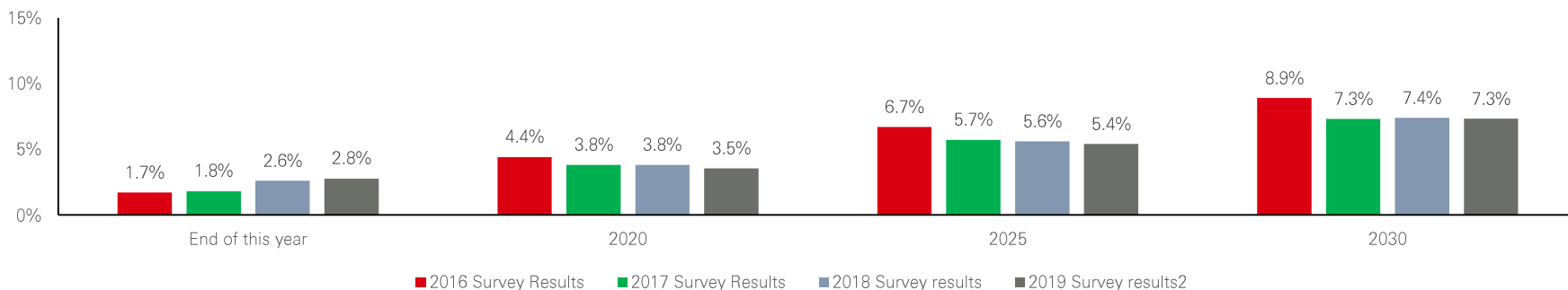
1. Source: Central Banking Publications, HSBC Reserve Management Trends 2018 & 2019
2. 78 respondents replied to this question.
3. 76 respondents replied to this question.

RMB – 68 official institutions investing as of Sept 2018 (2015-37)³ 1.89% of global fx reserves at the end of 2018 (up from 1.23% at end of 2017)⁴

What proportion of global reserves do you think will be invested in the renminbi by ?^{1,2}



What percentage of your reserves do you think will be invested in this currency by ?^{1,2}



“RMB holdings in global reserves will in the long run will reflect the economic strength of China “

European reserve manager

“Our exposure to RMB will be a function of the level of liberalization that the Chinese markets display.”

Americas reserve manager

Notes:

1. Source: Central Banking Publications, HSBC Reserve Management Trends 2016, 2017, 2018, 2019
2. The total number of respondent varied each year
3. CFETS
4. IMF COFER

Reserve Managers are expanding their currency horizons

Number of central banks investing in non-traditional reserve currencies?^{1,2}

Currency	Number investing in 2019 (in 2018)	Total Government bond market size (USD bn)	Foreign Holdings (%)
AUD	44 (38)	588.4	56.0%
CAD	41 (31)	612.5	31.3%
SEK	24 (14)	59.0	~ 35%
NOK	22 (15)	51.5	58.0%
DKK	22 (14)	121.0	~ 40%
NZD	19 (14)	79.3	52.60%
KRW	16 (10)	655.5	14.6%
SGD	14 (9)	169.0	Not publicly disclosed
ZAR	6 (4)	136.2	38.4%
MYR	5 (3)	177.8	24.3%
PLN	5 (2)	169.1	26.9%
MXN	5 (1)	361.4	32.1%
IDR	4 (1)	178.7	38.1%
INR	3 (2)	814.7	3.4%
THB	3 (1)	260.2	11.3%
RUB	2 (2)	112.0	25.9%
BRL	2 (2)	991.8	12.2%
TRY	2 (0)	109.9	14.8%

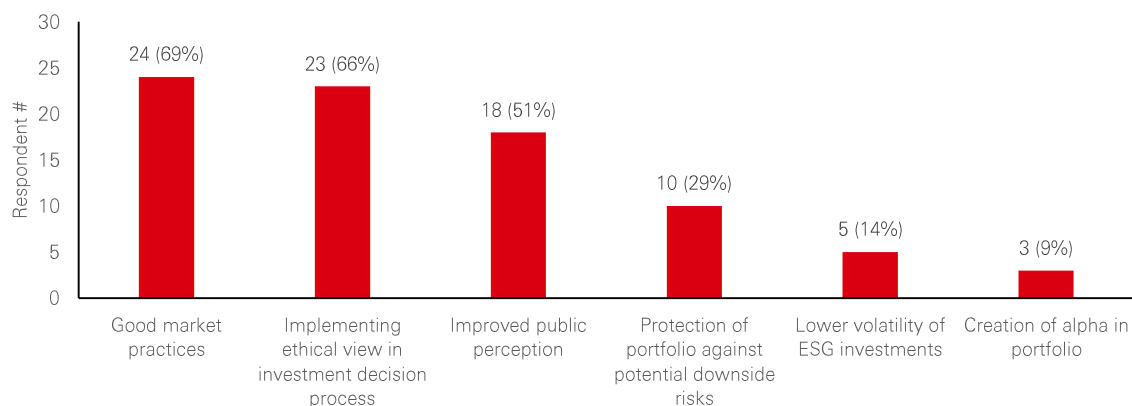
Notes:

1. Source: Central Banking Publications, HSBC Reserve Management Trends 2018, HSBC Research
2. The total number of respondent varied for each currency.

ESG – gathering momentum

10 are implementing, a further 24 are considering

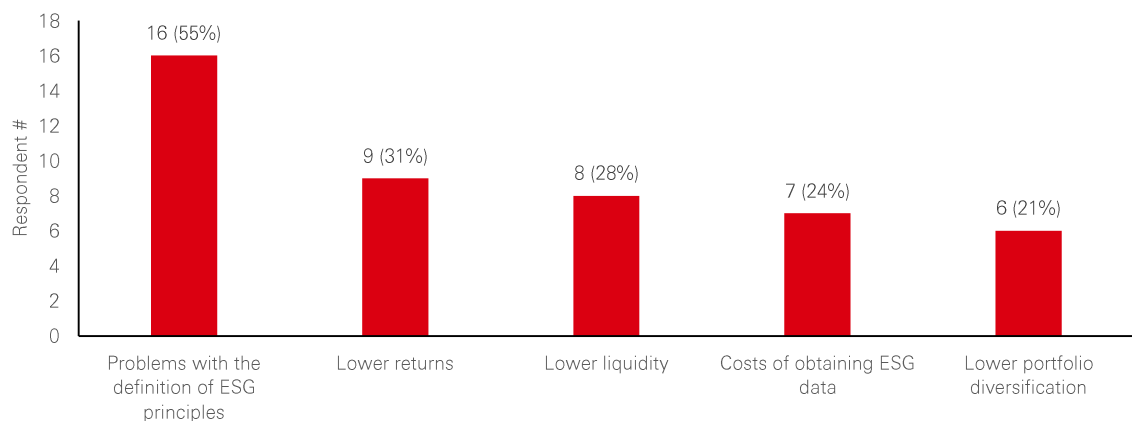
If you answered implementing or considering investing in ESG, what were your reasons?^{1,2}



“We are planning to explicitly consider ESG in the next revision of investment policy”

African central bank

If you answered not considering or rejected investing in ESG, what were your reasons?^{1,3}



“Our institution is committed to ESG principles and wants to lead by example in the domestic financial system. Diversification advantages are under review.”

Emerging Markets central Bank

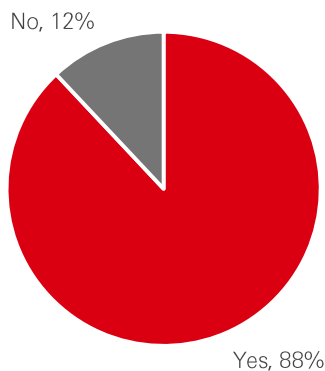
Notes:

1. Source: Central Banking Publications, HSBC Reserve Management Trends 2019
2. 33 respondents replied to this question.
3. 29 respondents replied to this question.

88% see higher gold allocations in the next 2-3 years

Increased interest driven by diversification and geopolitics

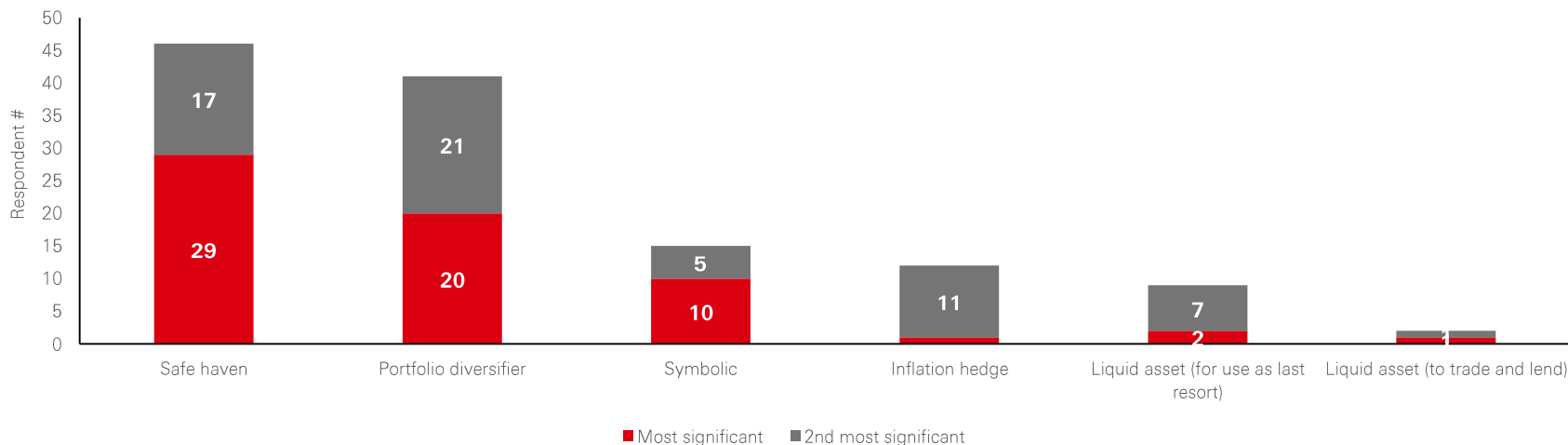
Do you see central banks globally increasing their exposure to gold over the next 2-3 years?^{1,2}



“Global instability and geopolitical instability are driving central banks, especially from emerging markets, to increase their gold holdings.”

Industrial country reserve manager

Which of the following best represents your view of the value gold brings to reserves portfolios today?^{1,3}



Notes:

1. Source: Central Banking Publications, HSBC Reserve Management Trends 2019
2. 65 respondents replied to this question.
3. 62 respondents replied to this question.

Gold Reserves – top 20 holders

Rank	Country	Tonnes			USD Bn			% of reserves
		End-17	End-18	Change	End-17	End-18	% Change	
1	United States	8,133.5	8,133.5	0.0	337.6	334.5	-0.9%	73.9%
2	Germany	3,373.6	3,369.7	-3.9	140.0	138.6	-1.0%	69.2%
3	Italy	2,451.8	2,451.8	0.0	101.8	100.8	-0.9%	65.5%
4	France	2,436.0	2,436.0	0.0	101.1	100.2	-0.9%	59.0%
5	Russia	1,838.8	2,113.0	274.2	76.3	86.9	13.8%	17.6%
6	Mainland China	1,842.6	1,852.5	9.9	76.5	76.2	-0.4%	2.3%
7	Switzerland	1,040.0	1,040.0	0.0	43.2	42.8	-0.9%	5.1%
8	Japan	765.2	765.2	0.0	31.8	31.5	-0.9%	2.4%
9	Netherlands	612.5	612.5	0.0	25.4	25.2	-0.9%	65.5%
10	India	558.1	598.6	40.5	23.2	24.6	6.3%	5.9%
11	ECB	504.8	504.8	0.0	21.0	20.8	-0.9%	25.8%
12	Taiwan	423.6	423.6	0.0	17.6	17.4	-0.9%	3.5%
13	Portugal	382.5	382.5	0.0	15.9	15.7	-0.9%	63.8%
14	Kazakhstan	299.8	350.4	50.6	12.4	14.4	15.8%	44.9%
15	Saudi Arabia	323.1	323.1	0.0	13.4	13.3	-0.9%	2.4%
16	United Kingdom	310.3	310.3	0.0	12.9	12.8	-0.9%	7.3%
17	Lebanon	286.8	286.8	0.0	11.9	11.8	-0.9%	20.2%
18	Spain	281.6	281.6	0.0	11.7	11.6	-0.9%	15.8%
19	Austria	280.0	280.0	0.0	11.6	11.5	-0.9%	48.3%
20	Turkey ⁶⁾	202.0	253.5	51.5	8.4	10.4	24.3%	12.1%
26	Poland	103.0	128.6	25.6	4.3	5.3	23.7%	4.4%
52	Hungary	3.1	31.5	28.4	0.1	1.3	906.7%	4.1%
Gold Price		1,291.0	1,279.0				-0.9%	

Source: World Gold Council report

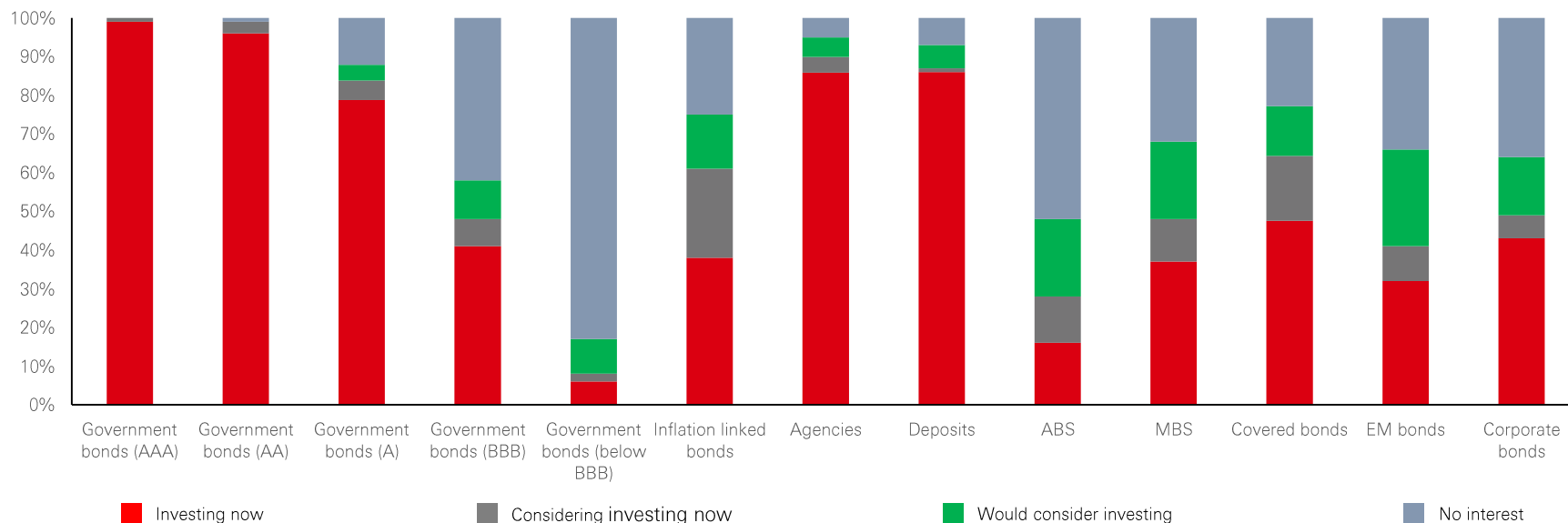
⁶⁾ The figure for Turkey's official gold reserves excludes gold owned by commercial bank held at the central bank under the Reserve Option Mechanism (ROM).

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Reserve managers are exploring new asset classes

84% have adjusted asset classes in the past 12-18 months

Which view best describes your attitude to the following asset classes?^{1,2}



"We are investing in government & corporate bonds, emerging-market bonds, inflation-linked bonds, agencies, deposits, ABS, MBS, covered bonds, gold, equities."

Asian reserve manager

"We have added a corporate bond mandate and included government bonds from Australia and New Zealand in our benchmark portfolio."

Americas reserve manager

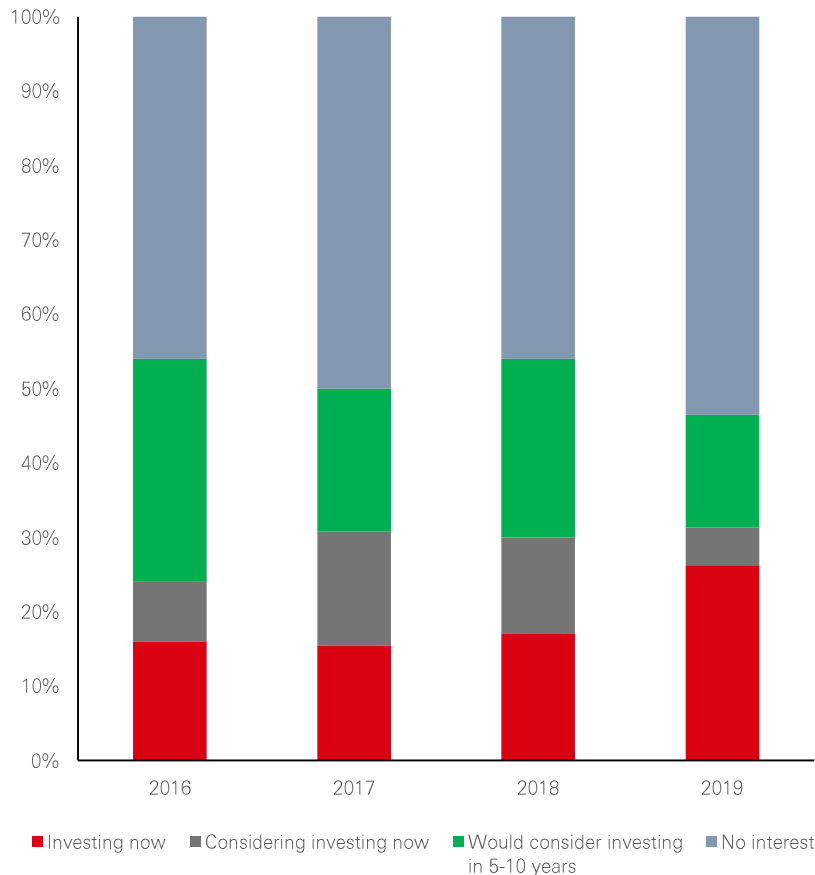
Notes:

1. Source: Central Banking Publications, HSBC Reserve Management Trends 2019
2. The total number of respondent varied for each asset class.
3. 32 respondents replied to this question.

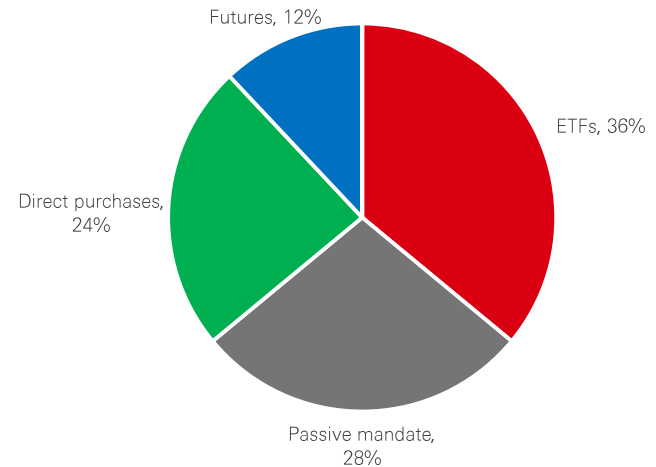
Number investing in equities rising

Reserve managers use a variety of ways to access equity markets

Which view best describes your attitude to the investment in equities?^{1,2}



If your central bank is investing in equities, please say how you access this asset class?^{1,3}



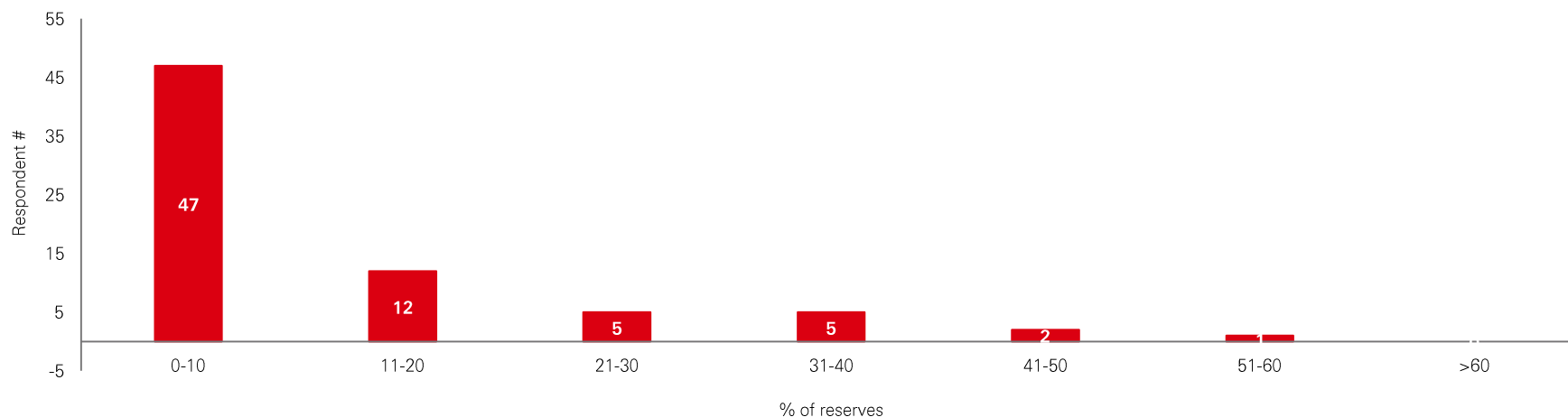
Notes:

1. Source: Central Banking Publications, HSBC Reserve Management Trends 2016, 2017, 2018, 2019
2. The total number of respondent varied each year
3. 20 respondents replied to this question. 5 selected 2 options.

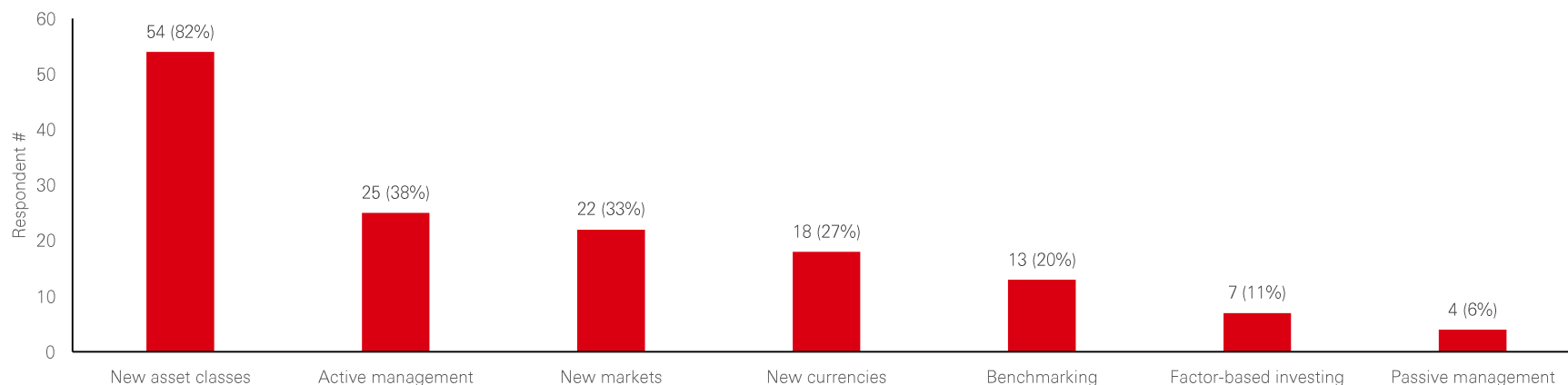
Vast majority outsource part of their reserves

New asset classes are most likely to attract external managers

What proportion of your reserves is managed by external managers?^{1,2}



Where, over the next 2-3 years, do you see potential for use of external managers in your central bank?^{1,3}

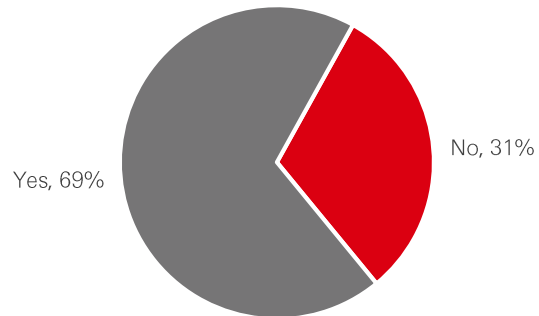


Notes:

1. Source: Central Banking Publications, HSBC Reserve Management Trends 2019
2. 72 respondents replied to this question.
3. 66 respondents replied to this question.

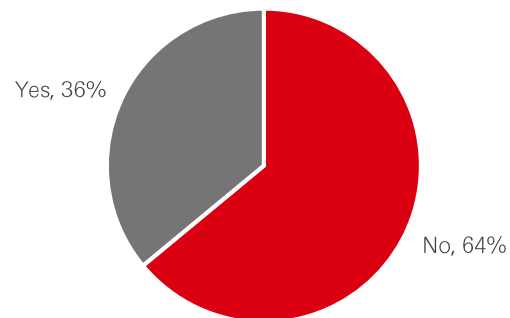
Almost 70% of respondents divide reserves into distinct portfolios

Do you apply tranching in the management of your reserves?^{1,2}



Most use 2 but some apply 3, 4 or even 5 tranches

Do you designate any of your reserves as held to maturity?^{1,3}



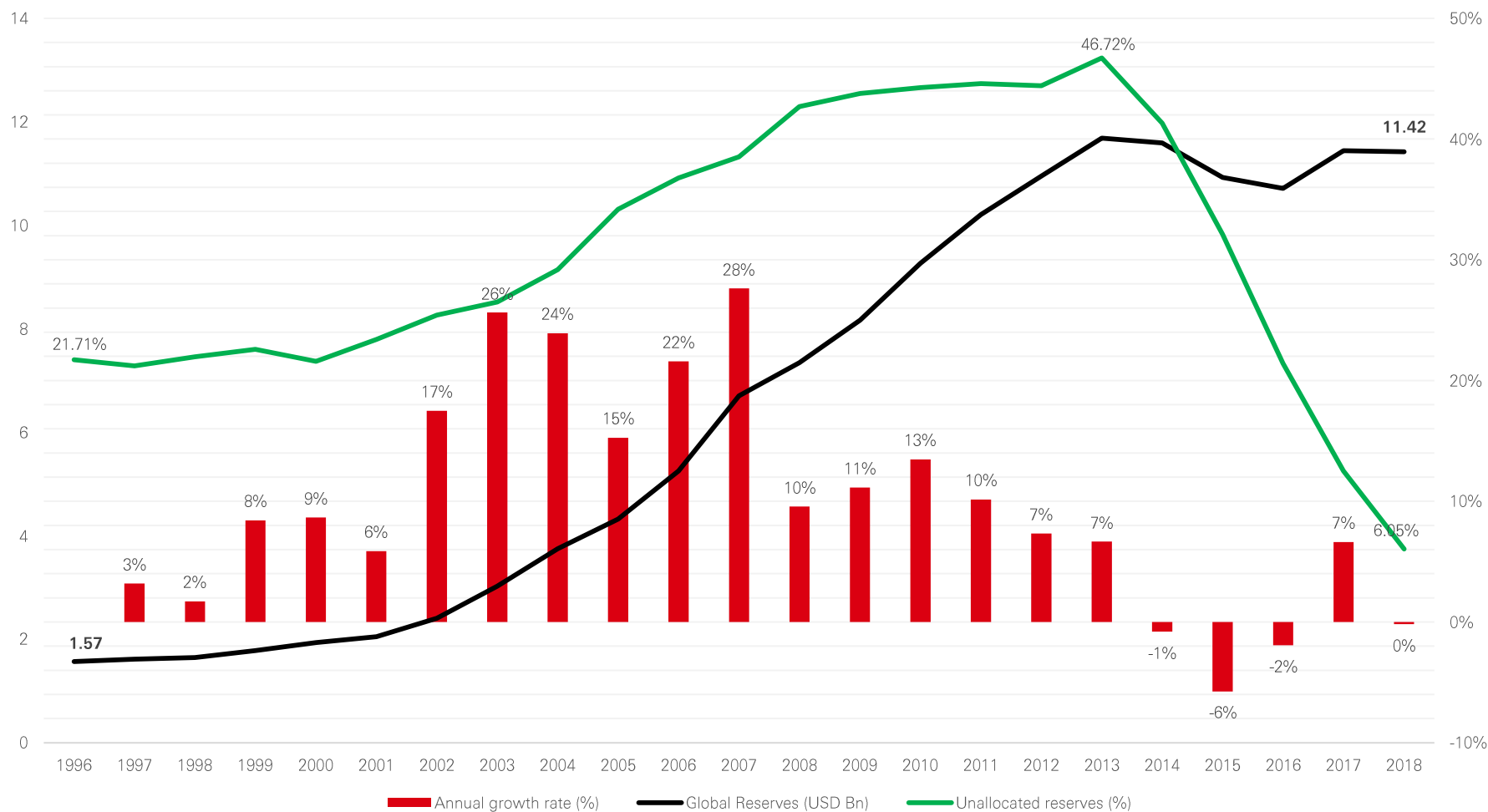
"To avoid price fluctuations in those securities that don't need to be liquid"
Americas Reserve Manager

Notes:
1. Source: Central Banking Publications, HSBC Reserve Management Trends 2019
2. 80 respondents replied to this question.
3. 76 respondents replied to this question.

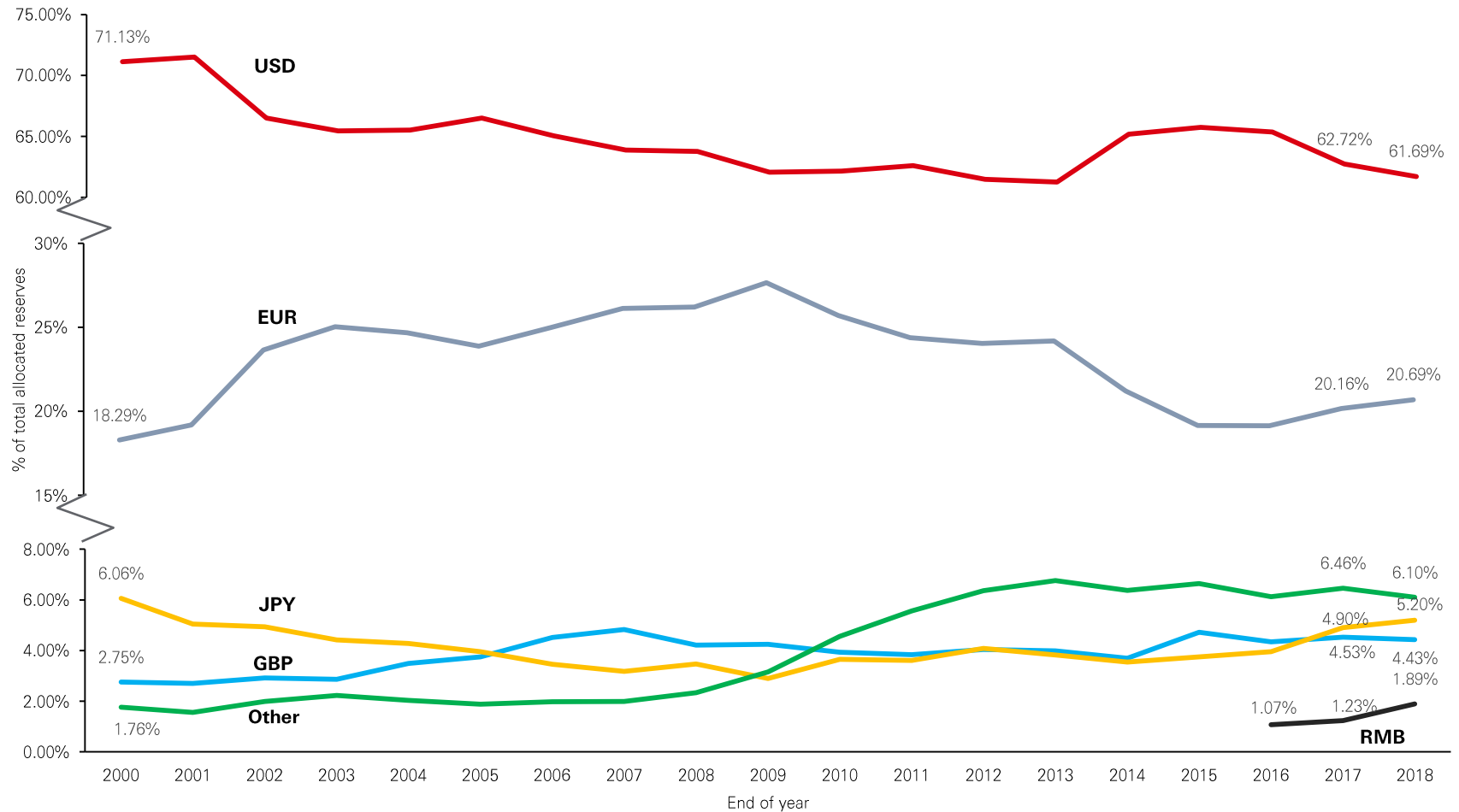
Appendix

Global foreign exchange reserves (1996 – 2018)

No growth in 2018 mainly due to \$ strengthening



Allocated Global Foreign Exchange Reserves by Currency Over Time



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