Commentary
Cash

October 2020

Monthly Cash Review

October's headlines were largely concentrated on November's US election. The historically divisive election has been the main focus for the US, as well as other parts of the world, for the better part of 2020. Due to the large amount of mail-in ballots as a result of the ongoing pandemic, we won't know the outcome for potentially days if not weeks.

Looking at the cash markets, the election has had very little or no impact on rates or liquidity, thus far. Here is the month in summary:

- Economic indicators turned broadly positive over the month given the results of a larger economic 'reopening.' Indicators are expected to turn negative as infection rates trend higher and restricted economic activity is anticipated.

- Negotiations on the next fiscal deal were delayed multiple times. It is expected Congress will come to an agreement post-election.

- Market index rates (SOFR, Libor, OIS) were mostly unchanged over the month. Libor rates reached historic lows intra-month but closed slightly higher — 3-month Libor: 0.21% — most likely due to the weakness in the risk (equity) sector. Please reference our Weekly Commentary and Fixed Income market update email sent each Friday for all current and historical market rates.

- Commercial paper (CP) and certificate of deposit (CD) rates were mixed to slightly lower over the month and continue to see strong demand. CP outstanding debt was higher month-over-month and is now $971 billion after starting the year at $1.16 trillion. The low over the past two decades was $913 billion in January of 2017, just after money market fund reform.

- US Treasury bill (T-bill) yields were unchanged over the month. The expectation of a fiscal stimulus package and an increase in T-bill supply has many hopeful for higher yields. T-bill outstanding debt is now $5.02 trillion and total Treasury debt is over $20 trillion. T-bill outstanding debt has not been 25% of total Treasury debt since 2010. This should support higher T-bill yields than we saw in the last zero policy rate market between 2008 and 2015.

- The Federal Reserve's (Fed) balance sheet of assets (System Open Market Account or SOMA) expanded by ~$90 billion this month and is now $7.145 trillion. Excess reserves held at the Fed were unchanged at $2.85 trillion. The Fed continues to purchase ~$80 billion of US Treasury debt and ~$40 billion of agency mortgage debt each month as part of their quantitative easing program.

- Other Fed liquidity programs that sprung from the liquidity crisis in March and April have seen continued utilization decline. This was, and is, expected. The largest decline was in the FX Swap line peaked at $448 billion and is now at $0.2 billion. The money market liquidity facility is now $5.6 billion from a high of $53 billion.

- 10-year Treasury yields were higher by ~20bps over the month. This is somewhat counterintuitive considering the sell-off in equities but could be explained by some expectation of a Democratic party sweep and thus more fiscal stimulus. With election outcomes uncertain, yields look poised to fall in November.

- T-bills continue to offer higher yields and better value for Government money market funds over Government agency debt. The agencies (FHLB, FNMA, FHLMC) continue to issue debt at yields lower than that of T-bills. This is the result of low supply and strong demand for agency debt. We remain focused on buying T-bills for the portfolios.

- Money market fund AUM continues to drift lower, as expected. Approximately $50 billion flowed out in October and the total balance is now $4.348 trillion. Institutional prime funds was the only category that saw inflows, up $3 billion for a total of $298 billion.

- The yield difference between a prime money market fund and a government money market fund continues to compress and according to the author's ten fund average, stands at 6bps. It is anticipated that the difference could tighten further.

- The market continues to price in the risk of negative policy rates in the US although the Fed has been very clear this is not part of their policy tool kit. There is the possibility of negative market rates but at the current time remains very low. The Fed also maintains their reverse repo program in order to drain liquidity should market rates go negative.

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* This figure is presented as of September 30, 2020 and includes approximately $80.51 billion USD of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

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