Commentary
**Cash**

**July, 2021**

# Monthly Cash Review

## State Street GBP Liquidity LVNAV Fund

Policy remained unchanged in the absence of a Bank of England Monetary Policy Committee (MPC) meeting in July. The outlook for the UK economy continues to be promising, although clouded. On the interest rate front, market expectations are fully pricing in a 0.15% hike by August 2022, while inflation edged up to 2.5% in June 2021. Money market yields in July were close to the levels seen over recent months, albeit marginally lower overall.

### Policy

There was no Bank of England (BoE) Monetary Policy Committee (MPC) meeting in July. The last meeting was held on 24 June, when the policy rate was left unchanged 0.10% and the stock of quantitative easing (QE) kept at £895 billion. The next meeting is on 5 August, with markets watching closely to see whether there will any change in the 8-1 voting pattern seen in May and June in favour of maintaining QE stock at current levels. Also of keen interest will be the next set of BoE inflation forecasts.

### Outlook

The outlook continues to be promising although clouded for the UK. Data continues to print on the positive side and nearly all remaining lockdown measures were removed on 19 July — so-called “Freedom Day”. This was somewhat mitigated by the continued rise in Delta variant COVID cases, albeit against the positive backdrop of an increased number of first and second vaccinations to combat illness and pressure on the health system. Market volatility around rate hike expectations was high over the month following differing comments from MPC members relating to the potential need to reduce the QE amount. Bullish sentiment saw expectations for both the timing and amount of a hike moved forward and increase initially, before easing once again following some dovish and more neutral comments. Rate hike expectations ended the month with a 0.15% hike remaining fully priced in for August 2022.

### Data

The latest UK purchasing managers’ index (PMI) data saw a fall in the flash composite PMI from 62.2 in June to 57.7 in July (versus consensus expectations of 61.7) — this was driven by declines in both the services and manufacturing PMIs. The services PMI measuring business activity fell from 62.4 to 57.8, with the manufacturing PMI declining from 64.2 to 60.4 on the back of a fall in output. Overall, the fall in the composite PMI isn’t as worrying as it might seem since the largest gains following the easing of restrictions have already been realised — PMI readings in excess of 50 are indicative of growth. The trend within retail sales volumes was a bit weaker than the 0.5% month-on-month rise in June (consensus +0.4%) might suggest, with the bulk of the gain due to a 4.2% rise in food sales, which was partly due to extra spending during the Euros 2020 football tournament. A soft retail sales report is encouraging if it means that the recent loosening in COVID-19 restrictions encouraged households to divert spending their money to pubs, restaurants and cinemas instead. Inflation surprised to the upside again in June, putting it on course to breach 3% by the end of the year. CPI inflation edged up to 2.5% in June from 2.1% in May (consensus 2.2%.) The unemployment rate held steady from an upwardly-revised 4.8% level in April. There was a fall of 114,800 in the claimant count measure of unemployment, and the 356,000 rise in HMRC PAYE employment points to a continued turnaround in the labour market in June, despite the impending end to the furlough scheme on 30 September. The 0.8% month-on-month rise in GDP in May (consensus +1.8%) left the economy 3.1% below its February 2020 pre-pandemic peak. This may mean that the recent rise in COVID-19 cases and the delay to the final easing in related restrictions is hampering the recovery.

## Markets

Money market yields in July were close to levels seen over recent months but marginally lower overall. Investment yields for typical fund holdings were generally 1-2 basis points lower across the 12-month yield curve. Three-month yields were around 0.08%; six-month yields at 0.09%; and 12-month yields at 0.17 %. The GBP LIBOR curve also saw a small dip in fixings with end-of-July fixings for three-month yields stood at 0.07%; six-month yields at 0.09%; and 12-month yields at 0.18%. UK Treasury Bill weekly auctions saw yields move several basis points lower with demand at 0.01%, 0.02%, and 0.02% across the one, three and six-month tenors offered, respectively. Outside of money markets, the benchmark 10-year Gilt yield ended the month at 0.56%, which was 16 basis points lower than at the June month-end.

## Fund

At the fund level, the weighted average maturity (WAM) maintained a high 40-day and low 50 day average during July. Selected investments continue to be made in three-to-six month maturities with the majority of investments kept within the one-month space — of that the bulk of these were kept overnight to enhance already high liquidity holdings and generally achieve the same or better investment yield than can be found in one-month securities. Liquidity requirements were exceeded throughout and were well in excess of minimum requirements. Fund liquidity was covered with a combination of government and supranational holdings, gilt repo and bank deposits. The fund always maintains the highest credit quality.

Source: State Street Global Advisors/Bloomberg, 31 July 2021. The above targets are estimates based on certain assumptions and analysis made by Bloomberg. There is no guarantee that the estimates will be achieved.
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* Pensions & Investments Research Center, as of December 31, 2020.
† This figure is presented as of June 30, 2021 and includes approximately $63.59 billion 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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