Commentary
Cash

July 2020

Monthly Cash Review

State Street GBP Liquidity LVNAV Fund

With no Bank of England meeting scheduled for July, policy rates remained unchanged. The economy returned to growth in May, with data releases such as retail sales rising to pre-pandemic levels in June. Money markets were kept busy with euro commercial paper activity high, although yields continued to fall and curves flattened. Brexit trade talks in July did not appear as encouraging as discussions held in June.

Policy

There was no Bank of England (BoE) policy meeting scheduled for July. The last meeting took place on 18 June when the bank's Monetary Policy committee (MPC) unanimously (9–0) decided to hold rates at 0.10%, while voting 8–1 to increase quantitative easing (QE) by £100 billion to a target level of £745 billion by the end of 2020. The BoE has only started to make inroads into the aforementioned £100 billion of QE purchases and with market conditions appearing orderly with yields pinned at low levels, no changes to current policy are expected at its 6 August meeting.

Outlook

The economy returned to growth in May while data releases such as retail sales rose to pre-pandemic levels in June — this is more a measure of the success that policymakers had in mitigating the effects of the lockdown. The real test will arguably come as the economy navigates the speed bumps ahead caused by the phasing out of the government's support schemes. Another obstacle in the shape of Brexit remains as trade talks in July appeared less encouraging than the discussions held in June. Although the MPC did not discuss negative interest rates at its June meeting, the market has continued to price in its likelihood, with UK gilt yields out to seven years moving deeper into negative territory. Consensus expectations remain that such a move would be a last resort and that additional quantitative easing remains the preferred route.

Data

The purchasing managers' indices for Services (from 47.1 to 56.6) and Manufacturing (from 50.1 to 53.6) both rose in June — readings above 50 are indicative of growth. Retail sales were down by 22% at the trough in April, but are now less than 1% below the pre-pandemic levels following a 13.9% rise in June. The £35.5bn rise in public sector borrowing (PSNB) in June was smaller than consensus expectations of £41.5bn and the downwardly-revised £45.5bn rise in May, which suggests that government support is starting to wind down as the economy reopens. However, this figure remains about five times higher than in June last year. Although employment saw the largest drop since September 2011, the 126,000 fall in headline employment was still well below the consensus estimate of 234,000. Total pay fell by 1.2% month-on-month in May as the 20% pay cut taken by many furloughed workers dragged it lower; headline annual pay growth fell from +1.0% to -0.3% as a result. CPI inflation saw a small rise, from +0.5% in May to +0.6% in June (consensus +0.4%), but this seems unlikely to be sustained for long, as additional measures such as VAT cuts take hold.

Markets

Money markets were kept busy with euro commercial paper activity high. Strong investor demand was evident as a number of issuers with incremental supply saw strong uptake during the period. GBP activity was buoyant with investors showing continued interest into 2021.
In broad terms, curves moved tighter and flatter, with levels compressing across all currencies as opportunities to capture yield run thin. Activity was driven by the overall lack of supply across sectors and ratings, allowing issuers to continue improving execution through price tightening and maturity extension. The sterling curve became particularly flat with yields out to six-months trading on top of overnight Deposit and Repo levels at around 0.06%. The GBP Libour curve also continued to fall, with the three-to-12-months' fixings ending the month between three and 13 basis points lower.

Fund

At the fund level, the weighted average maturity (WAM) was increased from mid-30-day range to a low 40-day range as selected high-quality investments were made within a six-month maturity. With a flat yield curve, most investments were placed within a one-month maturity. Liquidity was maintained at high levels at all times 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 maintained high credit quality.

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* This figure is presented as of June 30, 2020 and includes approximately $69.52 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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Marketing communication

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