

OCTOBER 2019

# GLOBAL MONEY MARKET MONTHLY

## LIQUIDITY STRAINS IN US REPO MARKETS

### MARKET REVIEW

#### UK

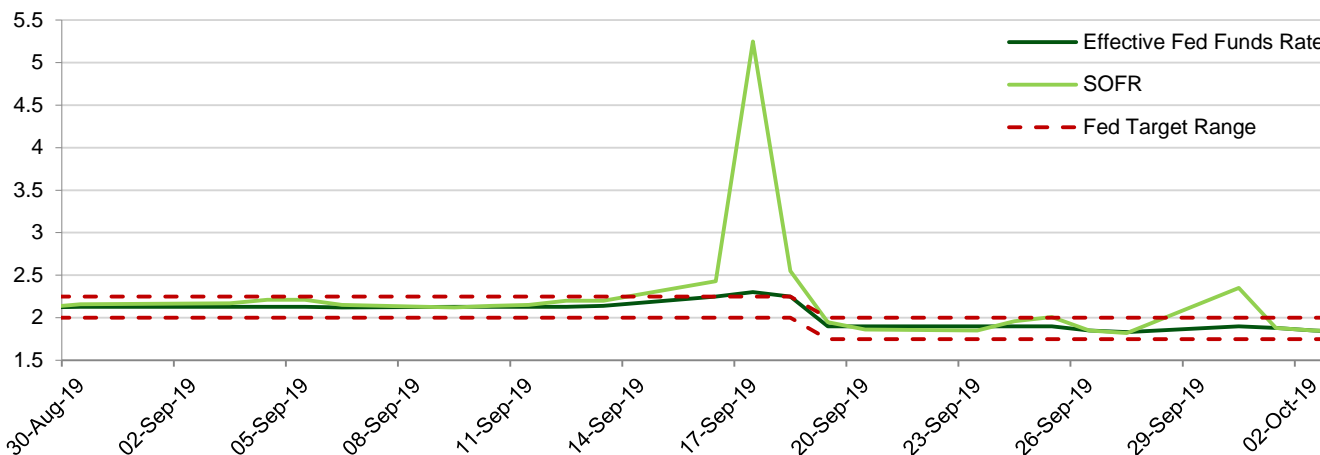
The Bank of England's Monetary Policy Committee (MPC) voted unanimously to keep rates unchanged at 0.75% and again reiterated that its policy reaction to a no-deal Brexit would need to be judged after the event. The central bank also noted that Brexit uncertainty was in danger of becoming entrenched and, along with US-China trade tensions and a continued weakening of global growth, have caused a "heightened volatility in UK asset prices". The MPC meets again on 7 November, after the current Brexit deadline of 31 October.

#### Europe ex-UK

At the 12 September meeting, the European Central Bank (ECB) announced a comprehensive stimulus package on the back of further weakening in the eurozone's economic outlook. The Governing Council cut rates by 10bp, bringing the main deposit rate to a record low of -0.50%, and issued stronger forward guidance saying that it expects rates to remain at their current or lower levels until its inflation outlook improves. Additionally, the central bank changed the terms of its targeted long-term refinancing operations (TLTRO) rate in order to provide more favourable bank lending conditions and introduced a two-tier rate system meant to lessen the impact of negative interest rates on bank deposits held with the central bank.

The ECB also announced a restart of its quantitative easing (QE) programme that will see the central bank make €20bn of monthly asset purchases indefinitely, starting in November. In the accompanying press conference, outgoing ECB President Mario Draghi encouraged governments to supplement the central bank's monetary policy efforts through fiscal measures, a sentiment that his successor Christine Lagarde has echoed.

Chart of the Month: Liquidity Strains in the US Money Markets Caused Repo Rates to Spike in September (%)



Source: Bloomberg. Data as at 2 October 2019.

#### US

US money markets experienced several periods of stress in mid-September as a mismatch between market supply and demand, caused by a combination of structural and temporary factors, triggered overnight repo rates (SOFR) to jump as high as 5.25% (see Chart above). The market volatility briefly pushed the effective federal funds rate to 2.30%, slightly above the upper bound of the Federal Reserve's (Fed) target range of 2.25% only two days before Federal Open Market Committee cut the target range to 1.75% - 2%. Over the following weeks, the Fed made a series of cash injections to improve liquidity and put downward pressure on the effective funds rate. This marks the Fed's first direct cash infusion into the banking sector since the 2008 financial crisis.

Fed Chairman Powell also announced that the central bank is restarting its overnight repo operations in order to safeguard against similar liquidity strains happening to money markets in the future. Operations are expected to continue through January, at least, and will involve maturities of between five and 52 weeks. The chairman emphasised that the purchasing of short-term Treasuries, which will expand the Fed's balance sheet, is meant to facilitate short-term lending conditions and should not be confused with the large-scale asset purchases, or QE, that is intended to stimulate the US economy.

## KEY INTEREST RATES, GLOBAL DATA AND INSIGHT CASH FUND PERFORMANCE

United Kingdom - GBP		Change						
%		Month-end	MTD	QTD	YTD	1-year	3-year	5-year
Rates	Base rate	0.75	0.00	0.00	0.00	0.00	0.50	0.25
	SONIA	0.71	0.00	0.00	0.01	0.01	0.55	0.31
	Repo index ratee	0.73	-0.01	0.00	0.07	0.00	0.72	0.38
LIBOR	1-month	0.72	0.01	0.00	-0.01	-0.01	0.45	0.21
	3-month	0.76	0.00	0.00	-0.15	-0.04	0.38	0.19
	6-month	0.83	0.04	0.00	-0.21	-0.08	0.29	0.11
	12-month	0.89	0.05	0.00	-0.28	-0.17	0.13	-0.17
SWAP	1-year	0.74	0.02	0.00	-0.34	-0.25	0.27	-0.14
	3-year	0.63	-0.01	0.00	-0.59	-0.65	0.19	-0.95
	5-year	0.60	-0.01	0.00	-0.70	-0.84	0.09	-1.39

Eurozone - EUR		Change						
%		Month-end	MTD	QTD	YTD	1-year	3-year	5-year
Rates	Base rate	-0.50	-0.10	0.00	-0.10	-0.10	-0.10	-0.30
	EONIA	-0.45	-0.09	0.00	-0.10	-0.10	-0.12	-0.65
LIBOR	1-month	-0.46	-0.03	0.00	-0.09	-0.09	-0.09	-0.46
	3-month	-0.42	0.02	0.00	-0.11	-0.10	-0.12	-0.50
	6-month	-0.39	0.04	0.00	-0.15	-0.12	-0.18	-0.57
	12-month	-0.33	0.05	0.00	-0.21	-0.17	-0.27	-0.67
SWAP	1-year	-0.49	0.08	0.00	-0.19	-0.20	-0.17	-0.56
	3-year	-0.45	0.11	0.00	-0.38	-0.53	-0.23	-0.71
	5-year	-0.40	0.13	0.00	-0.60	-0.81	-0.24	-0.87

United States of America - USD		Change						
%		Month-end	MTD	QTD	YTD	1-year	3-year	5-year
Rates	Base rate	1.88	-0.25	0.00	-0.50	-0.25	1.50	1.75
	SOFR	2.35	0.19	0.00	-0.65	0.10	N/A	N/A
LIBOR	1-month	2.02	-0.07	0.00	-0.49	-0.24	1.48	1.86
	3-month	2.09	-0.05	0.00	-0.72	-0.31	1.23	1.85
	6-month	2.06	0.02	0.00	-0.82	-0.55	0.82	1.73
	12-month	2.03	0.06	0.00	-0.97	-0.89	0.48	1.45
SWAP	1-year	1.83	0.03	0.00	-0.93	-0.96	0.88	1.47
	3-year	1.55	0.16	0.00	-1.04	-1.50	0.48	0.26
	5-year	1.50	0.18	0.00	-1.07	-1.57	0.32	-0.43

Source: Bloomberg. Data as at 30 September 2019.

Growth (Real GDP) %	2018	Consensus		Change YTD		Inflation (CPI) %	2018	Consensus		Change YTD	
		2019 <sup>F</sup>	2020 <sup>F</sup>	2019 <sup>F</sup>	2020 <sup>F</sup>			2019 <sup>F</sup>	2020 <sup>F</sup>		
United Kingdom	1.5	1.2	1.1	-0.3	-0.5	United Kingdom	2.5	1.9	2.0	-0.2	0.0
United States	2.9	2.3	1.7	-0.3	-0.2	United States	2.4	1.8	2.0	-0.4	-0.2
Euro area	1.8	1.1	1.0	-0.5	-0.5	Euro area	1.7	1.2	1.3	-0.5	-0.4
Japan	0.7	0.9	0.3	0.0	-0.2	Japan	1.0	0.7	1.0	-0.4	-0.4
China	6.6	6.2	6.0	0.0	0.0	China	2.1	2.5	2.3	0.2	0.0
Developed markets	2.3	1.7	1.5	-0.4	-0.3	Developed markets	2.3	1.8	1.9	-0.4	-0.2
Emerging markets	5.0	4.5	4.7	-0.4	-0.3	Emerging markets	3.5	3.8	3.7	0.1	0.2
Global	3.7	3.2	3.1	-0.3	-0.2	Global	3.3	3.0	3.0	-0.3	0.0

F = Bloomberg consensus forecast. Source: Bloomberg. Data as at 30 September 2019.

Insight Liquidity Fund Performance <sup>1</sup>		1-month	3-month	YTD	1-year	3-year	5-year	S.I.
GBP	Government Liquidity Fund <sup>2</sup>	0.79%	0.79%	0.80%	0.80%	0.54%	N/A	0.54%
	Benchmark	0.57%	0.56%	0.56%	0.57%	0.35%	N/A	0.34%
	ILF GBP Liquidity Fund <sup>3</sup>	0.81%	0.82%	0.85%	0.84%	0.58%	0.57%	2.17%
	Benchmark	0.57%	0.56%	0.56%	0.57%	0.35%	0.35%	1.91%
	ILF GBP Liquidity Plus Fund <sup>4</sup>	1.02%	1.06%	1.28%	1.10%	0.84%	0.86%	2.30%
	Benchmark	0.65%	0.64%	0.68%	0.70%	0.47%	0.46%	1.81%
EUR	ILF EUR Cash Fund <sup>5</sup>	-0.48%	-0.42%	-0.39%	-0.40%	-0.41%	-0.28%	1.02%
	Benchmark	-0.62%	-0.57%	-0.55%	-0.55%	-0.53%	-0.44%	0.82%
USD	ILF USD Liquidity Fund <sup>6</sup>	2.23%	2.34%	2.50%	2.47%	1.74%	1.17%	1.62%
	Benchmark	1.97%	2.12%	2.28%	2.26%	1.54%	0.98%	1.43%

<sup>1</sup> Source: Insight Investment and Rimes. Data as at 30 September 2019. All performance is annualised. Gross of fees performance results do not reflect the deduction of charges, which will reduce investors' returns. Past performance is not a guide to future performance. The value of investments and any income from them will fluctuate and is not guaranteed (this may be partly due to exchange rate fluctuations). Investors may not get back the full amount invested. <sup>2</sup> Fund performance is shown for share class 3 and is calculated in GBP as total return, including reinvested income, gross of fees and expenses. Fund inception date: 9 March 2016. Benchmark: 7-day GBP LIBID. <sup>3</sup> Fund performance is shown for share class 3 and is calculated in GBP as total return, including reinvested income, gross of fees and expenses. Fund inception date: 2 January 2003. Benchmark: 7-day GBP LIBID. <sup>4</sup> Fund performance is shown for share class 7 and is calculated in GBP as total return, including reinvested income, gross of fees and expenses. Fund inception date: 13 December 2004. Benchmark: 3-month GBP LIBID. <sup>5</sup> Fund performance is shown for share class 7 and is calculated in EUR as total return, including reinvested income, gross of fees and expenses. Fund inception date: 6 September 2012. Benchmark: 7-day EUR LIBID. <sup>6</sup> Fund performance is shown for share class 3 and is calculated in USD as total return, including reinvested income, gross of fees and expenses. Fund inception date: 21 March 2005. Benchmark: 7-day USD LIBID.

## IMPORTANT INFORMATION

---

### RISK DISCLOSURES

**Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.**

The performance results shown, whether net or gross of investment management fees, reflect the reinvestment of dividends and/or income and other earnings. Any gross of fees performance does not include fees and charges and these can have a material detrimental effect on the performance of an investment.

Any target performance aims are not a guarantee, may not be achieved and a capital loss may occur. Strategies which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.

Portfolio holdings are subject to change, for information only and are not investment recommendations.

### ASSOCIATED INVESTMENT RISKS

#### Cash

Where the portfolio holds over 35% of its net asset value in securities of one governmental issuer, the value of the portfolio may be profoundly affected if one or more of these issuers fails to meet its obligations or suffers a ratings downgrade.

This is not a banking product and whilst preservation of capital is a major component of the objective it is not guaranteed. The value of capital invested in a money market fund may fluctuate. Neither Insight nor any other BNYM group company will provide capital support in the event of any capital loss, which will be borne by the investor.

The issuer of a debt security may not pay income or repay capital to the bondholder when due.

#### Government Liquidity Fund

Shareholders of the Fund and clients of the Investment Manager and Sub-Investment Manager may act directly as repo and reverse repo counterparties to the Fund. This may give rise to potential conflicts of interest.

Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.

Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.

The investment manager may invest in instruments which can be difficult to sell when markets are stressed.

Portfolios which enter into repurchase and reverse repurchase agreements may be exposed to losses if the counterparty does not fulfil its obligations to the portfolio.

The above fund or funds described in this document meet the definition of a covered fund under Volcker regulations, that is, a domestic or foreign hedge fund, private equity fund, venture capital fund, commodity pool or alternative investment fund (AIF) that is sold in a private, restricted or unregistered offering to investors who must meet certain net worth, income or sophistication standards or is sold to a restricted number of investors. Generally, any such fund is not registered with a securities/commodity regulator and therefore cannot be offered to the general or retail public unless the investor meets some type of qualification to demonstrate the investor doesn't need the protection of the securities or commodities regulations.

- **Any losses in the fund will be borne solely by investors in the fund and not by BNY Mellon (including its affiliates); therefore BNY Mellon's losses in the fund will be limited to losses attributable to the ownership interests in the fund held by BNY Mellon and any affiliate in its capacity as an investor in the fund or as beneficiary of a restricted profit interest held by BNY Mellon or any affiliate.**
- **Ownership interests in the fund are not insured by the Federal Deposit Insurance Corporation (FDIC), are not deposits, obligations of, or endorsed or guaranteed in any way, by BNY Mellon. Neither BNY Mellon nor any of its controlled affiliates (which includes the fund's general manager/managing partner/ investment adviser), may directly or indirectly, guarantee, assume, or otherwise insure the obligations or performance of the fund or of any other covered fund in which the fund invests.**
- **Investors should read the fund's offering documents before investing in the fund. Information about the role of BNY Mellon, its controlled affiliates, and their employees in sponsoring or providing services to the fund are described in the Volcker Rule section of the offering documents.**

### FIND OUT MORE

#### Institutional Business Development

businessdevelopment@insightinvestment.com

+44 20 7321 1552



[@InsightInvestIM](https://twitter.com/InsightInvestIM)



[company/insight-investment](https://company/insight-investment)



[www.insightinvestment.com](https://www.insightinvestment.com)

This document is a financial promotion and is not investment advice. Unless otherwise attributed the views and opinions expressed are those of Insight Investment at the time of publication and are subject to change. This document may not be used for the purposes of an offer or solicitation to anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. Insight does not provide tax or legal advice to its clients and all investors are strongly urged to seek professional advice regarding any potential strategy or investment. Issued by Insight Investment Management (Global) Limited. Registered office 160 Queen Victoria Street, London EC4V 4LA. Registered in England and Wales. Registered number 00827982. Authorised and regulated by the Financial Conduct Authority. FCA Firm reference number 119308.

© 2019 Insight Investment. All rights reserved.

IC1615