HSBC Liquidity Fund Australian Dollar
HSBC Global Liquidity Funds plc

July 2021

The Reserve Bank of Australia (RBA) kept its cash rate and 3-year yield targets on hold at 0.10% at its 6 July meeting, as expected.

It seems to have updated its forward guidance subtly which could open up the possibility of rate hikes earlier than 2024. The statement reads “The Bank’s central scenario for the economy is that this condition will not be met before 2024”, whereas previously all of the forecast scenarios were pointing to “unlikely to be [met] until 2024 at the earliest”.

Maintaining the yield curve target and not rolling it forward was consistent with the idea that they see rate hikes as possible in 2024. It also noted that 'any increase in the cash rate will take place after bond purchases have ended'.

On Quantitative Easing (QE), the RBA committed to additional QE, following the end of their current AUD 100bn programme in September. However, it announced a taper as expected and set the next QE tranche at AUD 4bn per week (currently AUD 5bn per week) until at least mid-November. The RBA basically shifted from a six-monthly target amount to a weekly amount. It also noted that, come November, it will allow for the possibility of a timely recalibration of the Bank's bond purchases in either direction. While the taper is an acknowledgement that the economic numbers have been better than expected recently, the RBA also noted that "an adjustment in the rate of weekly purchases does not change [the substantial and ongoing degree of support to the Australian economy]”.

With the cash rate floored at 0.10%, overnight rates still near zero, most issuers looking to issue longer in the 3-6mth space and a relatively flat curve out to 4 months. Alongside a slight pickup in the 4-6 month bucket for some issuers and an RBA meeting to discuss QE in August, we continue to target a Weighted Average Maturity at the higher end of the 35-45 day range. We look to add credit selectively (either through fixed or floating rate notes to gain the tenor spread), where attractive and to meet our diversification and liquidity ladder requirements. This would be a combination of Banks, Supranationals, Agencies and State Governments. We maintain our liquidity through overnight, 1 Week deposits, T-bills and government bonds.

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HSBC Asset Management

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Contact details

For a copy of the prospectus, key investor information document, supplementary information document, annual and semi-annual reports, information on portfolio holdings or other matters, please contact your local HSBC Group office, contact our team of liquidity specialists in your region:

Americas	EMEA	France
T: +1 (1) 212 525 5750	T: +44 (0) 20 7991 0406	T: +33 1 58 13 15 26
E: amus.client.services@us.hsbc.com	E: liquidity.emea@hsbc.com	E: hsbc.client.services-am@hsbc.fr
Germany	Asia	Japan
T: +49 (0)211 910 4784	T: +852 2284 1376	T: +813 3548 5634
E: investorservices@hsbc.de	E: liquidity.asia@hsbc.com	E: global.liquidity.japan@hsbc.co.jp
Switzerland	UK Corporates	UK Financial Institutions
T: +41 44 206 2600	T: +44 (0) 20 7991 7153	T: +44 (0) 20 7992 5440
E: swiss.investorservices@hsbc.com	E: liquidity.uk.corporate@hsbc.com	E: liquidity.uk.fig@hsbc.com

Please refer to the key risks and important information section

For more information on our capabilities go to:
https://www.assetmanagement.hsbc.co.uk/en/institutional-investor/investment-expertise/liquidity

Key risks

The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested.

- Asset backed securities (ABS) and mortgage backed securities (MBS) risk. ABS and MBS typically carry prepayment risk, as well as having potential for default. The securities can carry an above-average risk of being hard to value or to sell at a desired time and price
- Counterparty risk. The possibility that the counterparty to a transaction may be unwilling or unable to meet its obligations
- Credit risk. A bond or money market security could lose value if the issuer's financial health deteriorates
- Derivatives risk. Derivatives can behave unexpectedly. The pricing and volatility of many derivatives may diverge from strictly reflecting the pricing or volatility of their underlying reference(s), instrument or asset
- Exchange rate risk. Changes in currency exchange rates could reduce or increase investment gains or investment losses, in some cases significantly
- Investment leverage risk. Investment leverage occurs when the economic exposure is greater than the amount invested, such as when derivatives are used. A Fund that employs leverage may experience greater gains and/or losses due to the amplification effect from a movement in the price of the reference source
- Liquidity risk. Liquidity risk is the risk that a Fund may encounter difficulties meeting its obligations in respect of financial liabilities that are settled by delivering cash or other financial assets, thereby compromising existing or remaining investors
- Money Market Fund risk. The fund's objective may not be achieved in adverse market conditions. During times of very low interest rates, the interest received by the Fund could be less than the costs of operating the Fund
- Operational risk. Operational risks may subject the Fund to errors affecting transactions, valuation, accounting, and financial reporting, among other things

Further information can be found in the prospectus and Key Investor Information Document (KIID).

Important information

The MMF have availed of the derogation provided for under Article 17(7) of the Money Market Fund Regulation and accordingly a Fund may, in accordance with the principle of risk-spreading, invest up to 100% of its assets in different money market instruments issued or guaranteed separately or jointly by the European Union, the national, regional and local administrations or their central banks, the European Central Bank, the European Investment Bank, the European Investment Fund, the European Stability Mechanism, the European Financial Stability Facility, a central authority or central bank of a third country, the International Monetary Fund, the International Bank for Reconstruction and Development, the Council of Europe Development Bank, the European Bank for Reconstruction and Development, the Bank for International Settlements, or any other relevant international financial institution or organisation to which one or more member states of the European Union belong.

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