HSBC Liquidity Fund Euro
HSBC Global Liquidity Funds plc

July 2021

The European Central Bank (ECB) kept its monetary policy settings unchanged during its July meeting. The bank updated its forward guidance in light of the recent Strategy Review, taking into account their new symmetric 2% inflation target. The ECB said that they expect interest rates to remain "at their present or lower levels until its sees inflation reaching 2% well ahead of the end of its projection horizon and durably for the rest of the projection horizon". So given that the ECB's latest forecasts in June pointed to headline inflation at 1.5% in 2022 and 1.4% in 2023, it implies that there could still be a long way to go before rate hikes would be consistent with the inflation outlook.

There were no other major changes in the policy statement, including the terms of the asset purchases or the sequencing between possible future rate hike and the end of QE. The ECB still expects asset purchases to end shortly before it starts raising the key ECB interest rates.

In the Eurozone, the Composite PMI showed a sharper than expected increase in July, rising from 59.5 to 60.6 (consensus 60.0). This represents the strongest reading since July 2000. The manufacturing PMI fell from 63.4 to 62.6, broadly in line with consensus (62.5). The upside surprise came in services, where the activity index jumped from 58.3 to 60.6 (consensus: 59.3). GDP rose by 2.2% qoq in Q2, up from a decline of 0.3% in the first quarter and beating survey expectations of 2.0%. Overall, economic recovery is likely to strengthen in Q3 2021, as easing restrictions and faster vaccinations rates bring European economies closer to pre-virus levels of output. However, downside risks from the spread of the Delta variant of Covid-19 could linger, particularly for tourism-dependent economies in the South.

Meanwhile, CPI inflation rose to a higher than expected 2.2% in July (survey: +2.0%) amid rising food and energy costs and base effects from Germany's temporary VAT rate cut last year. Inflation is likely to remain above the European Central Bank's 2% target during Q3 as the economy recovers before returning below target in 2022. Lastly, the unemployment rate fell 0.3ppts to 7.7% (survey: +7.9%) with strong contributions from Spain, Italy and France as looser virus restrictions boosted activity.

Credit spreads remained extremely low and even if we consider that there is no really value to expend investments further, we continued our strategy to invest into 2022 maturities to avoid keeping too much cash for the turn of the year. As a consequence, both WAL and WAM remained relatively high on average this month. Overall, we continue to keep a huge portion of the fund into very short maturities and into government securities and we will keep this strategy in the next few weeks.

HSBC Asset Management

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:

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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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