

HSBC Global Management

2019 Global liquidity outlook

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It's been a fascinating year once again in the money markets globally. With the year's Federal Reserve continuing to raise interest rates off the back of a strong U.S. economy, in the Eurozone the ECB continue to keep rates on hold whilst maintaining a very loose monetary policy. In the U.K., a slightly more challenging market, with the onset of Brexit in 2019, with the onset of Brexit in 2019, we did see the MPC raise interest rates in August of this year. Money Market Fund Reform in Europe has continued to dominate our attention. We continue to expect the new low volatility NAV money market funds to be the fund of choice for the vast majority of our investors. And therefore, the impact on investors, the industry should be muted.

Another development that we saw in 2018 was the widening of what's known as the LIBOR-OIS spread. More recently, with the increase in market volatility across asset classes, we've seen the spread widen back out, but not as far as we saw earlier in the year. This has created both a challenge, but also an opportunity for money market investors in 2018.

So let's look forward to 2019. Firstly, looking at rates. Based on today, we expect three 25 basis point rate rises by the Fed in 2019. The market in our view, continues to underestimate the pace and magnitude of rate rises into 2019. Looking to the U.K. and sterling rates, a very challenging backdrop with uncertainty remaining around the outcome of the Brexit negotiations, leading therefore to uncertainty about the likely direction of interest rates. In the Eurozone, as we've seen a slow-down in growth at the end of 2018, expectations have been pushed out for a rate rise by the ECB to well into 2019. And we are market consensus on that view. Our view remains constructive on the global economy, and therefore constructive on credit. High-quality investment grade credit focused on exposure in the banking sector. LIBOR Transition is another area of focus for us in 2019. LIBOR Transition is another area of focus for us in 2019. This is a key consideration for investors in the money markets, and particularly for our client base that has to look beyond that into derivative contracts, as well as short-term money market instruments. Whilst the transition date away from LIBOR of December 2021 may appear a long way off, our expectation is that markets will adapt in front of this regulation as they have with many parts of regulation since the Great Credit Crisis.

One final consideration to look out for 2019, in the Liquidity's base, is the impact of European Money Market Fund Reform. Whilst we expect the transition itself to be uneventful, what we will be looking out for is to see how different managers adapt to the new rules and whether this leads to changes in how they manage portfolios, which may lead to important decisions for investors in money market funds to make.