

Global Liquidity Watch: Weekly Update

Global Liquidity Nudges Higher



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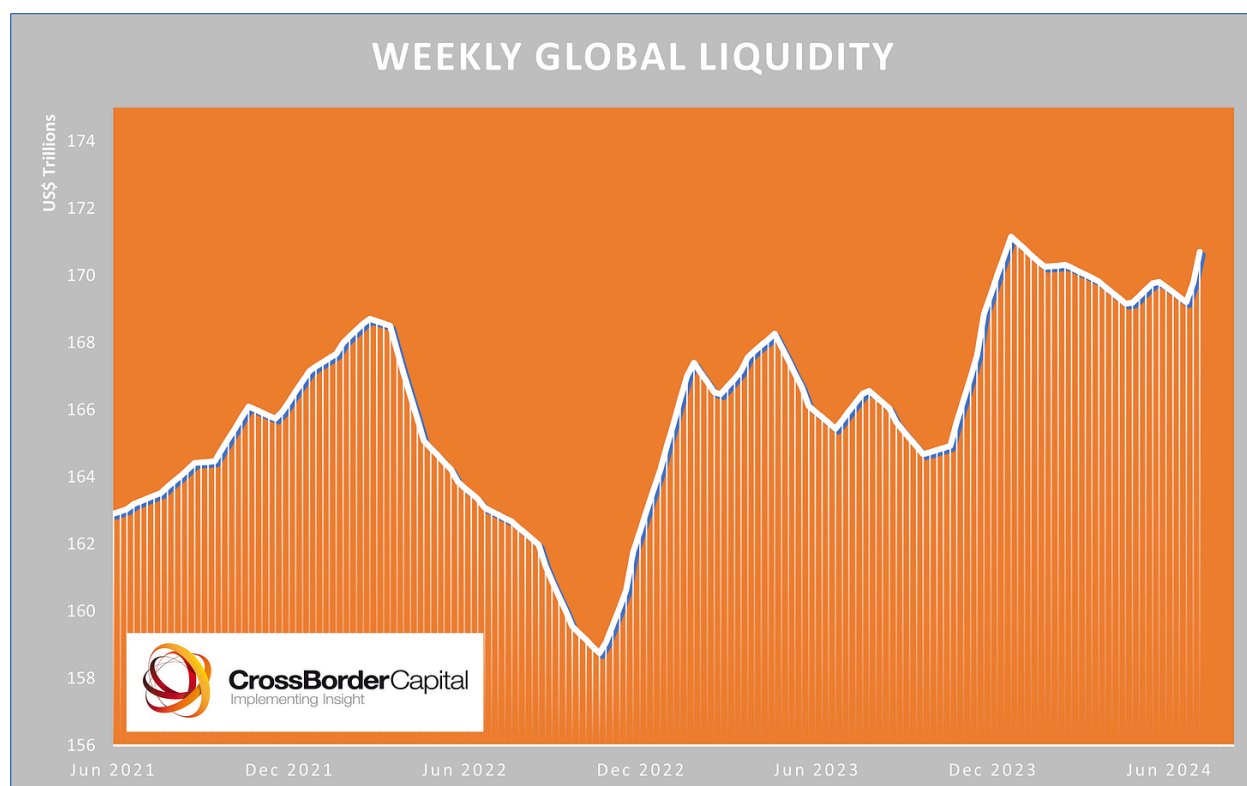
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Global liquidity has nudged higher again. Central Banks have been at the root of the squeeze in the first half of the year, and they continue to be so. More encouraging is the improvement in collateral values as bond markets respond to improving US inflation data. This is underpinning overall liquidity, but we need Central Banks to do their bit too.

A typical liquidity cycle lasts 5-6 years from trough-to-trough and, based on the October-2022 low point, we are roughly a third of the way through the current cycle. Not only has the recovery been shallow but the pace slowed markedly in 1H 2024. Central Banks have been at the root of the squeeze. Heavy tax payments and an end-quarter jump in reverse repurchase agreements (RRPs) which drained liquidity from US money markets, plus currency-related tightening by the Asian Central Banks and ongoing QT by the ECB and Bank of England all contributed to the 1H slowdown.

We remain hopeful that the situation will improve through 2H 2024. US Federal Reserve run-off is already slowing, and better inflation news and a weakening economy should prompt the Fed to loosen the reins in coming months. ECB and Bank of England QT is set to slow from late-Q3. And Asian Central Banks' support for their currencies is having a negative impact on their economies and little impact on their currencies. Surely something must give soon?

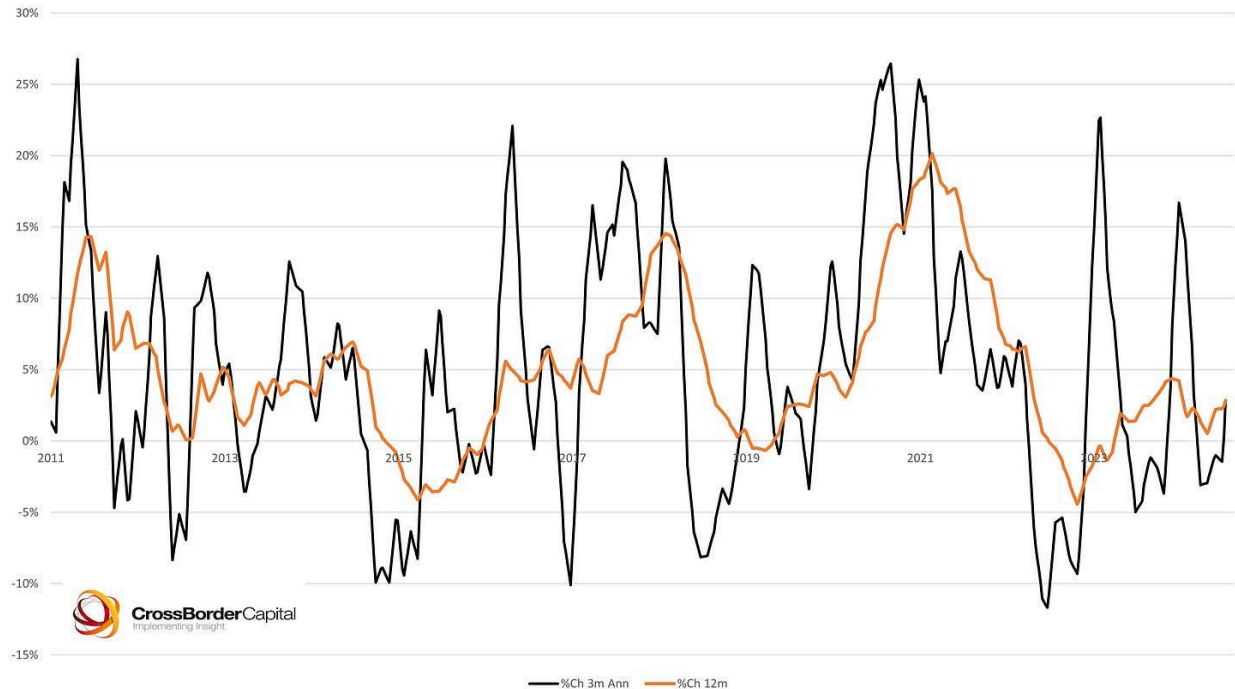


Source: CrossBorder Capital, US Federal Reserve, People's Bank of China, ECB, Bank of Japan, Bank of England

Global liquidity rose by US\$920bn last week to US\$170.7tr. This is still off the level recorded at the start of the year (US\$171.2tr) but it is above the year's low of US\$169.0tr in April. (See table below).

The next chart plots the annual and 3m annualized growth rates. Latest data record rates of +2.9% for both *3m annualized* and *YoY*.

Weekly Growth in Global Liquidity

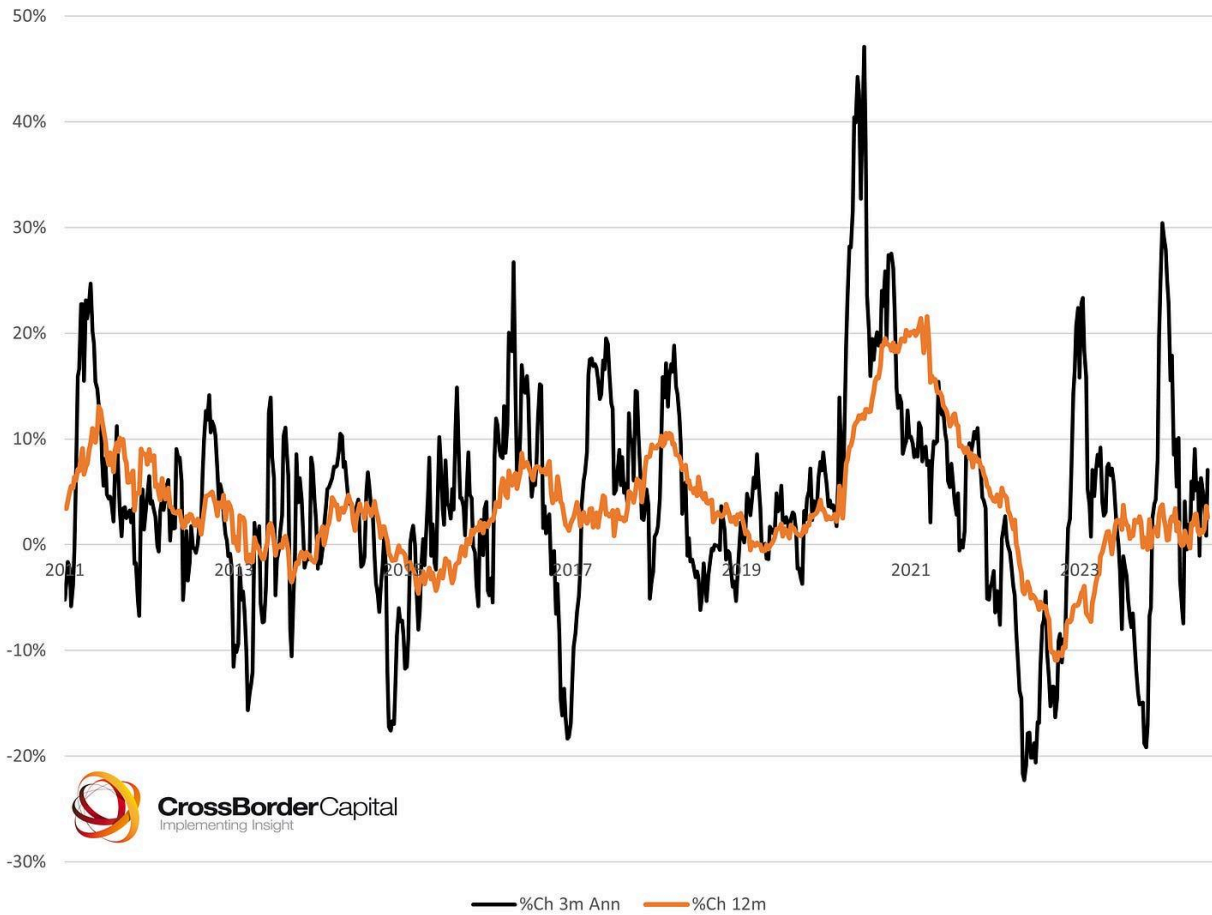


Source: CrossBorder Capital, US Federal Reserve, People's Bank of China, ECB, Bank of Japan, Bank of England

Global liquidity is underpinned by the Shadow Monetary Base (SMB). The SMB comprises Central Bank (CB) liquidity as well as collateral (bonds). Latest data show SMB growth jumping higher to 7.1% (3m annualized). This partly reflects the dip three months ago but importantly the SMB also rose in absolute terms on the week – up by US\$730bn to US\$95.34tr.

Collateral values contributed most to the rise. Lower-than-forecast US inflation data has lifted bond prices and reduced bond market volatility. The latter directly affects the collateral multiplier. Lower volatility boosts the collateral multiplier, and hence liquidity levels. The MOVE index, a measure of volatility, has edged below 90. This compares to the year's average of 103 and is way off this year's peak 121 in the wake of Iran's attack on Israel and last year's near-200 at the time of the SVB crisis..

Growth in World Shadow Monetary Base



Source: CrossBorder Capital, US Federal Reserve, People's Bank of China, ECB, Bank of Japan, Bank of England

US\$ Trillions	Global Liquidity	Weekly Change	Shadow Monetary Base	Weekly Change
Jan 2023*	167.70		92.06	
Feb	166.23		89.97	
Mar	167.39		92.52	
Apr	168.27		92.77	
May	166.28		91.54	
Jun	165.44		91.92	
Jul	166.74		92.07	
Aug	165.87		90.02	
Sep	164.68		88.26	
Oct	164.99		87.88	
Nov	168.28		90.87	
Dec	171.16		94.32	
Jan 2024	170.24		92.51	
Feb	170.34		93.05	
Mar	169.83		92.51	
Apr	169.00		92.48	
May	169.96		93.96	
Jun	169.21		93.33	
05/07/2024	169.78	0.57	94.61	1.28
12/07/2024	170.70	0.92	95.34	0.73

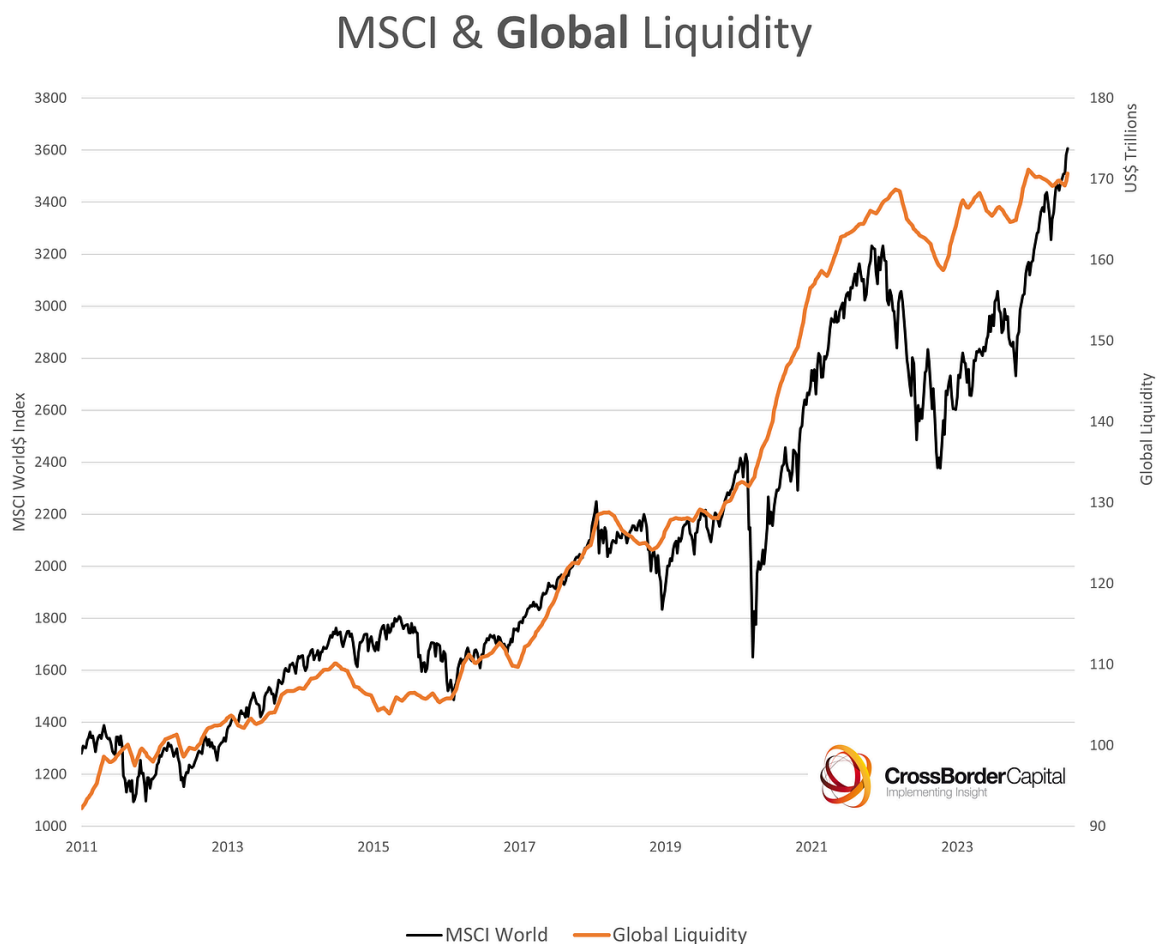
*** Monthly data (full) are based on data for all 90 countries that we cover. They comprise Central Bank and private sector liquidity. These values can be restated due to seasonal adjustments and revisions to underlying data.**

**** Weekly data (flash) are an intra-month estimate of the monthly data. They are based on Central Bank data for the major five CBs: US Federal Reserve, People's Bank of China, ECB, Bank of Japan and Bank of England; G7 plus China high- grade collateral values; and a collateral multiplier and bond market volatility.**

Source: CrossBorder Capital, US Federal Reserve, People's Bank of China, ECB, Bank of Japan, Bank of England

The next chart plots Global Liquidity against the MSCI World Index. It evidences the link between liquidity and risky assets. Rising liquidity levels buoy risk asset markets. Equally, weaker liquidity has a negative impact.

As the plot shows, when gains in the MSCI run ahead of rises in liquidity, markets often undergo a near-term correction or at least a pause. Latest data show risky assets still outpacing rises in liquidity.



Source: CrossBorder Capital, US Federal Reserve, People's Bank of China, ECB, Bank of Japan, Bank of England, MSCI

Here are similar charts but with gold and bitcoin.

Gold & Global Liquidity



Bitcoin & Global Liquidity

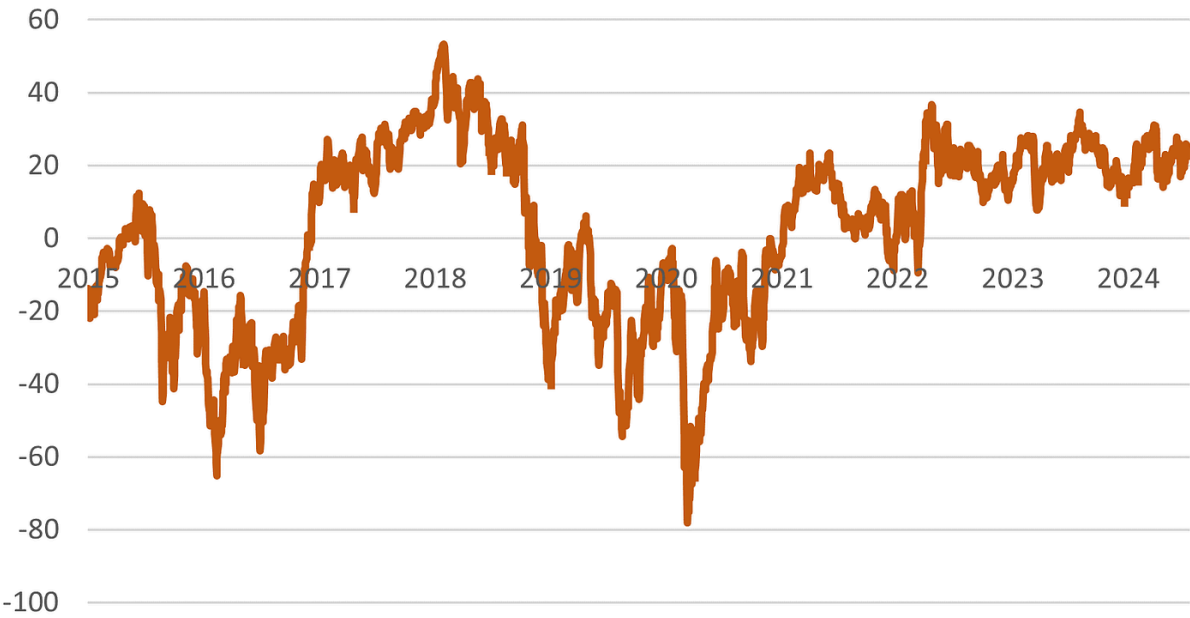


Source: CrossBorder Capital, US Federal Reserve, People's Bank of China, ECB, Bank of Japan, Bank of England

The next plot shows our investor exposure indicator. This compares holdings of risky assets to holdings of safe assets in global portfolios. (A positive value denotes "risk on" and a negative value "risk off").

The latest index value of +23 for the World aggregate is still below the +35 hit in March. A rebalancing of portfolios in June took the index down to +17 and, while there has been a recovery, investors seem to be treading cautiously. Both Developed and Emerging Markets have been affected. That said, DM (+27) are still preferred to EM (+3). Japan is by far the favourite (+51), with the US (+22) and UK (+21) next in line but at a distance. The Eurozone (-3), particularly France (-17), and China remain out-of-favour (-12).

Investors' Exposure to Global Risk Assets



Source: CrossBorder Capital