

# Global Liquidity Watch: Weekly Update

Global liquidity levels have risen steadily through July



[MICHAEL HOWELL](#)

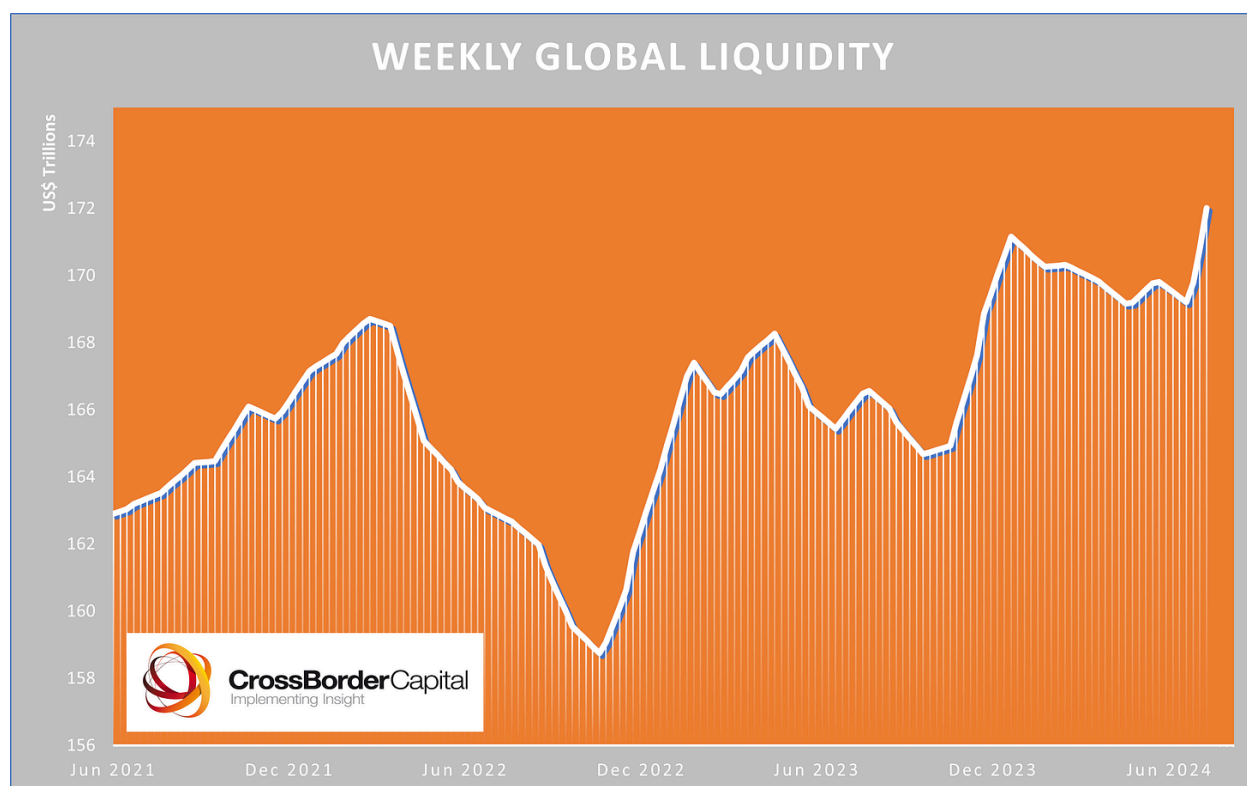
JUL 23, 2024

· PAID

Global liquidity levels have risen steadily through July following a disappointing June. The main driver has been improving collateral values as bond markets respond to encouraging US inflation data. But latest data record a long-awaited uptick in Central Bank liquidity too. This is due to the People's Bank of China which has been injecting liquidity in size in recent days. We are still waiting for the US Federal Reserve but for the moment we have to be content with a stable Fed.

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. Ongoing QT by the ECB and Bank of England; heavy tax payments and an end-quarter jump in reverse repurchase agreements (RRPs) which drained liquidity from US money markets, and currency-related tightening by the Asian Central Banks all contributed to the slowdown.

We have been flagging a likely improvement in 2H 2024, and maybe we are beginning to see the early signs. Last week's standout are the sizeable liquidity injections by the PBoC. The Fed though is still dragging its feet. Better inflation news and a weakening economy should prompt the Fed to loosen the reins in coming months. And ECB and Bank of England QT is set to slow from late-Q3.

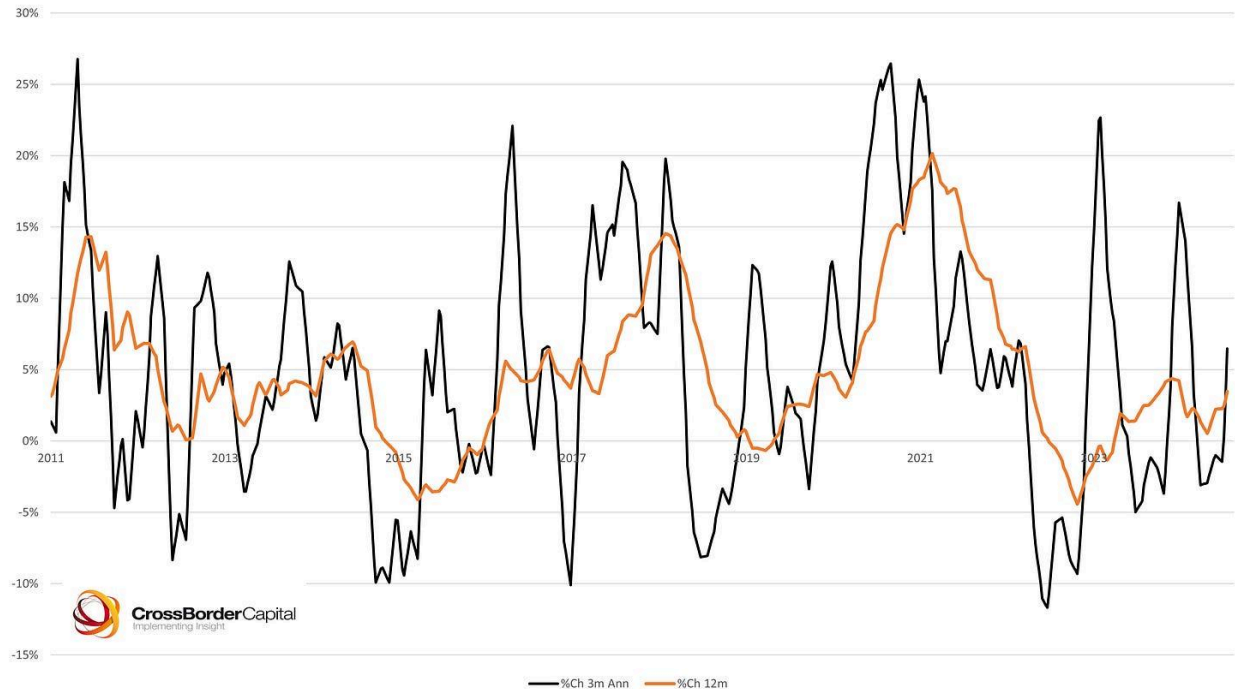


**Source: CrossBorder Capital, US Federal Reserve, People's Bank of China, ECB, Bank of Japan, Bank of England**

Global liquidity rose by US\$1.23tr last week to US\$172.0tr. This brings the cumulative increase so far in July to +US\$2.8tr and pushes global liquidity to a 2024 high. (See table below).

The next chart plots the annual and 3m annualized growth rates. Latest data record rates of +6.5% 3m annualized and 3.5% YoY.

## Weekly Growth in Global Liquidity

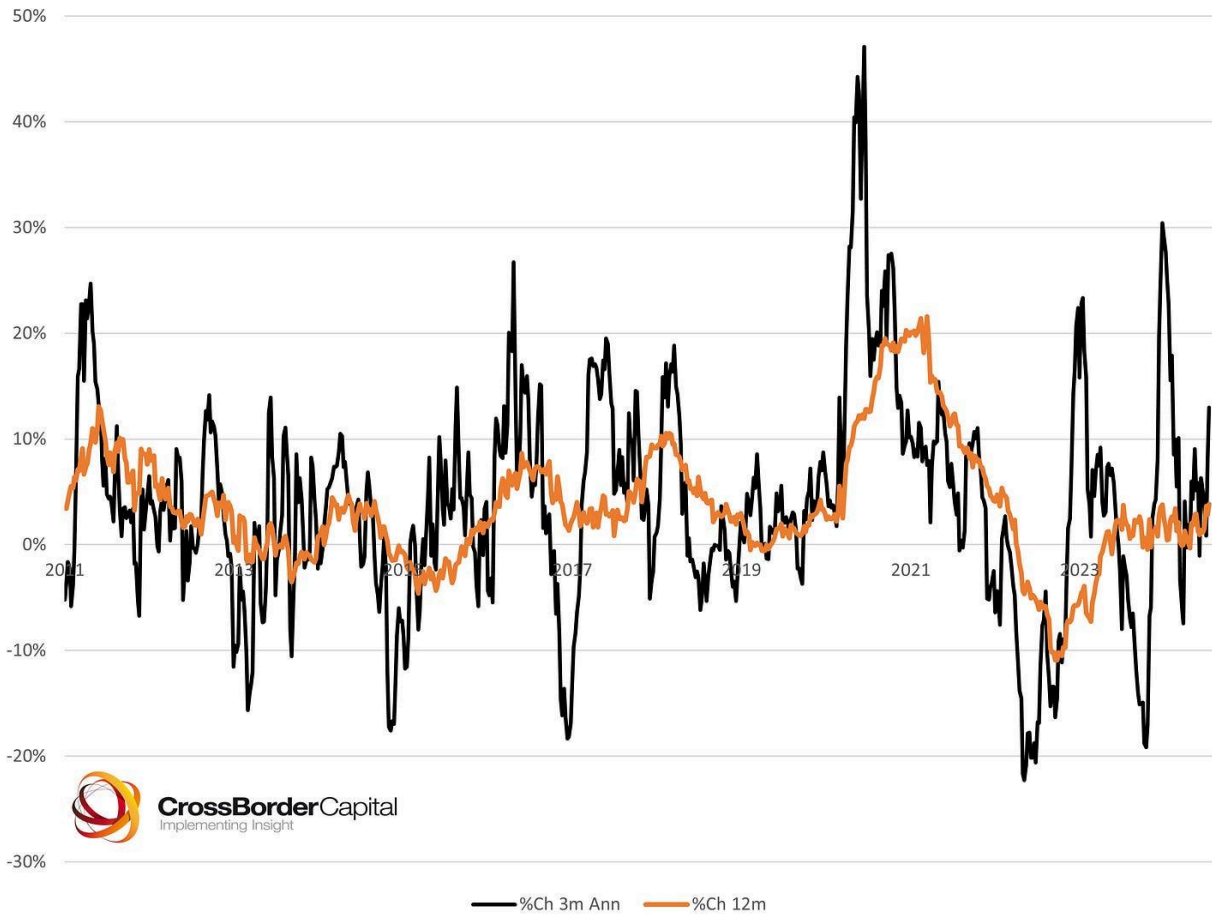


**Source: CrossBorder Capital, US Federal Reserve, People's Bank of China, ECB, Bank of Japan, Bank of England**

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 (+13.0% 3m annualized). This partly reflects a dip three months ago (and the same will likely affect next week's numbers too) but importantly the SMB also rose in absolute terms – up by US\$364bn in the week to US\$95.93tr. The SMB has expanded by US\$2.6tr so far in July.

Collateral values are still contributing most to the rise. Better US inflation news has underpinned 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, is hovering around 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**

S\$ 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	170.78	1.00	95.57	0.96
19/07/2024	172.01	1.23	95.93	0.36

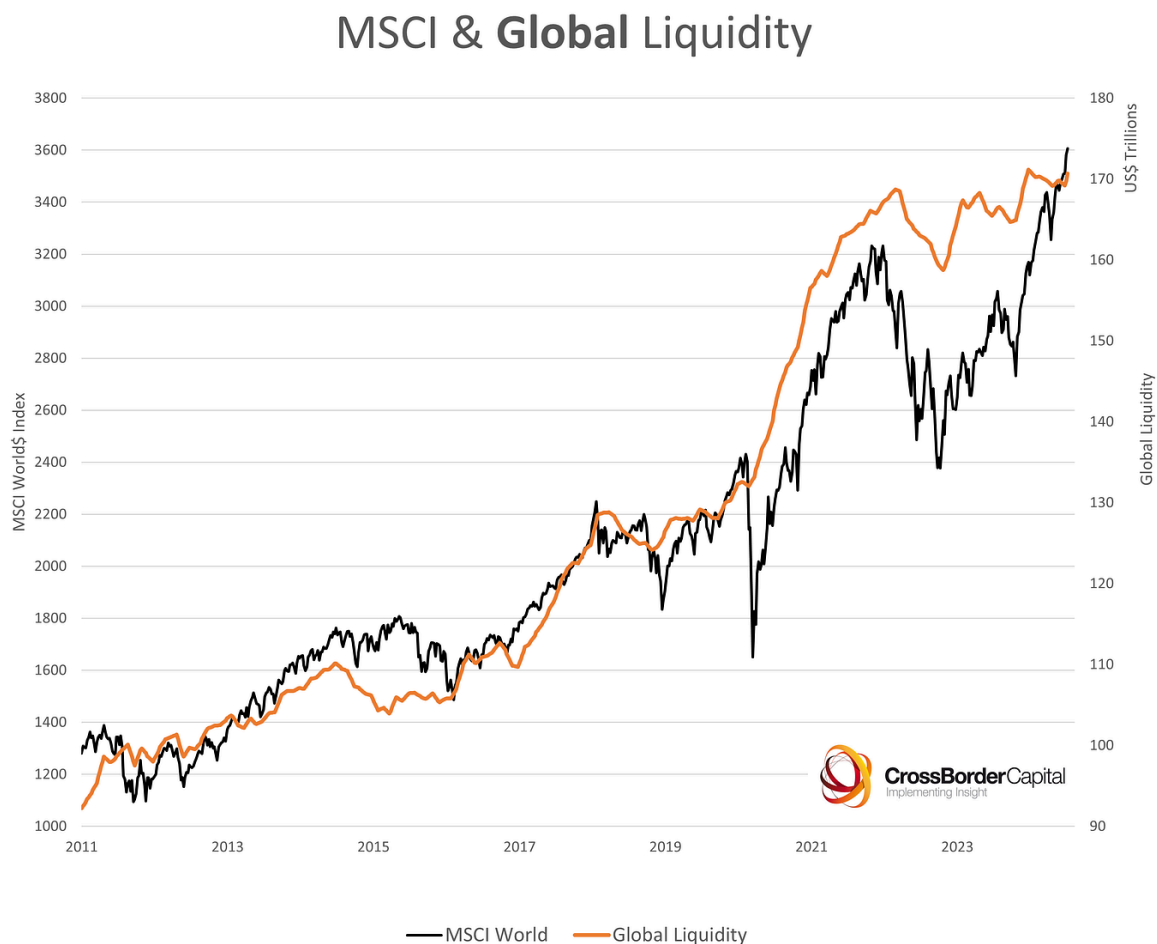
**\* Monthly data (full) are based on data for all 90 countries that we cover. They comprise Central Bank and private sector liquidity. These values can be restated due to seasonal adjustments and revisions to underlying data.**

**\*\* 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.



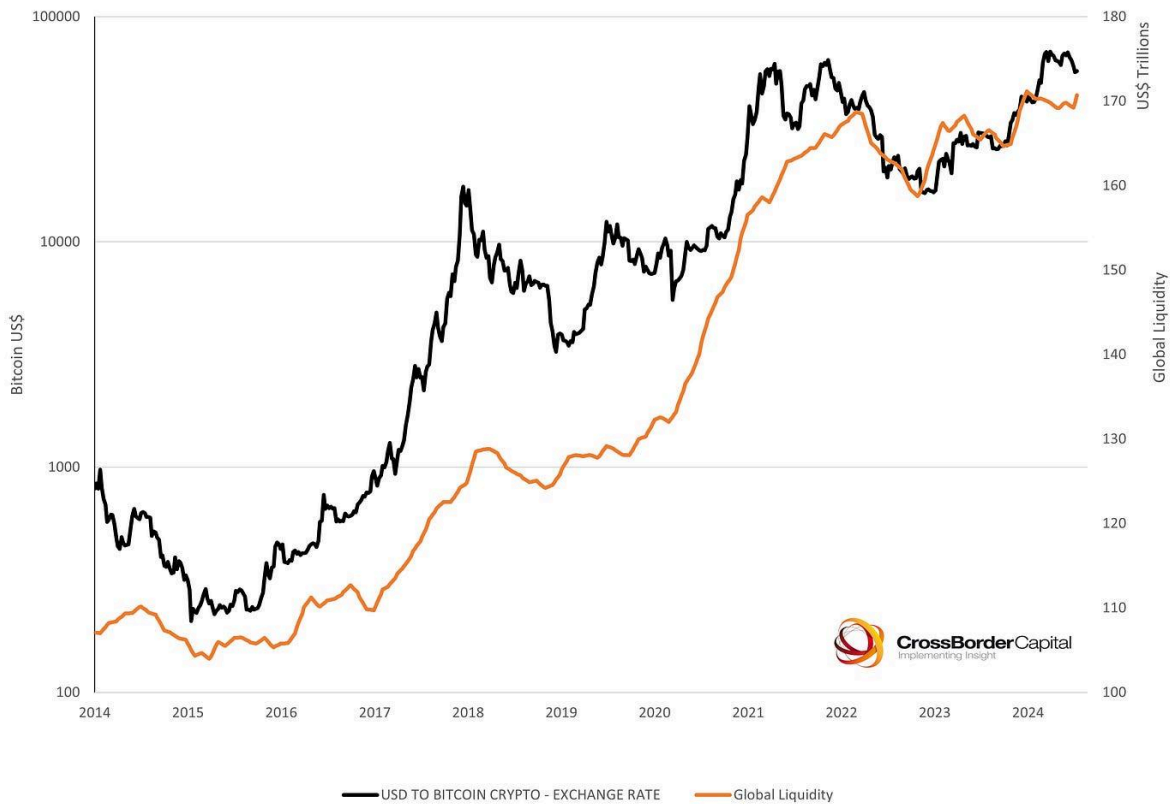
**Source: CrossBorder Capital, US Federal Reserve, People's Bank of China, ECB, Bank of Japan, Bank of England, MSCI**

Here are similar charts but with gold and bitcoin.

## Gold & Global Liquidity



## Bitcoin & Global Liquidity



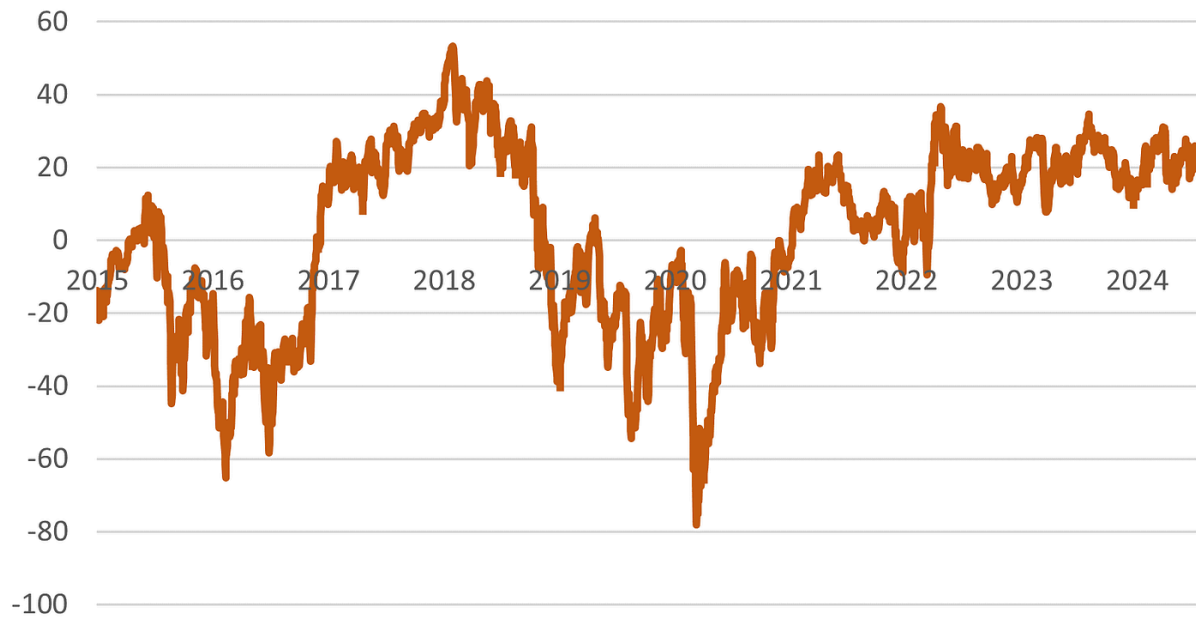
**Source: CrossBorder Capital, US Federal Reserve, People's Bank of China, ECB, Bank of Japan, Bank of England**

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 World aggregate, currently at +20, records a gentle downwards shift in exposure through July. It has mostly affected Developed Markets (+24) and particularly the US (+20). Japan remains the market of choice (+45), followed by the US and UK (+19). The Eurozone (-5), largely because of France (-20), and China remain out-of-favour (-14).



## Investors' Exposure to Global Risk Assets



**Source:** *CrossBorder Capital*