

Global Liquidity Watch: Weekly Update

Global Liquidity rose last week but the pace of expansion this year has been sluggish



[MICHAEL HOWELL](#)

MAY 14, 2024

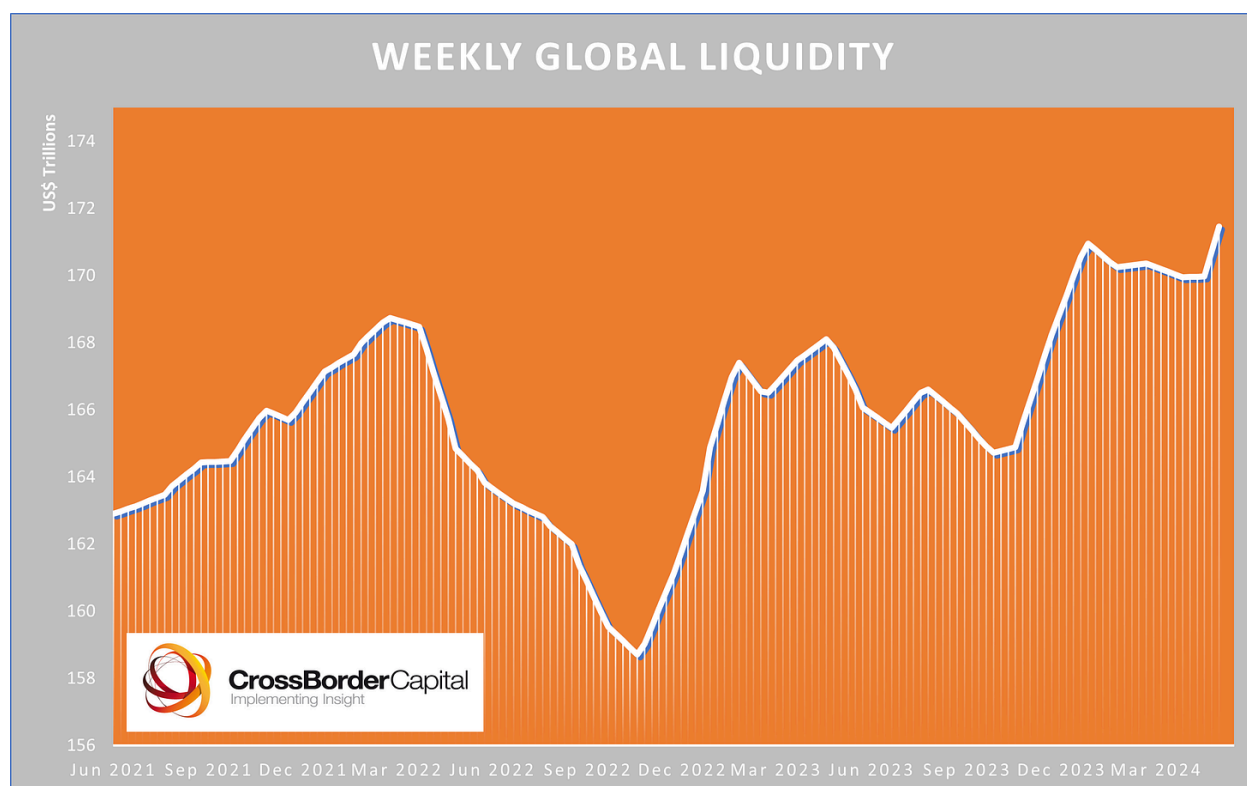
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Global Liquidity rose to US\$171.46tr last week but the pace of expansion so far this year has been sluggish. Improved collateral values and falling bond market volatility were behind last's week rise. The missing element remains Central Bank liquidity. Major Central Banks (the Bank of Japan apart) are still holding back.

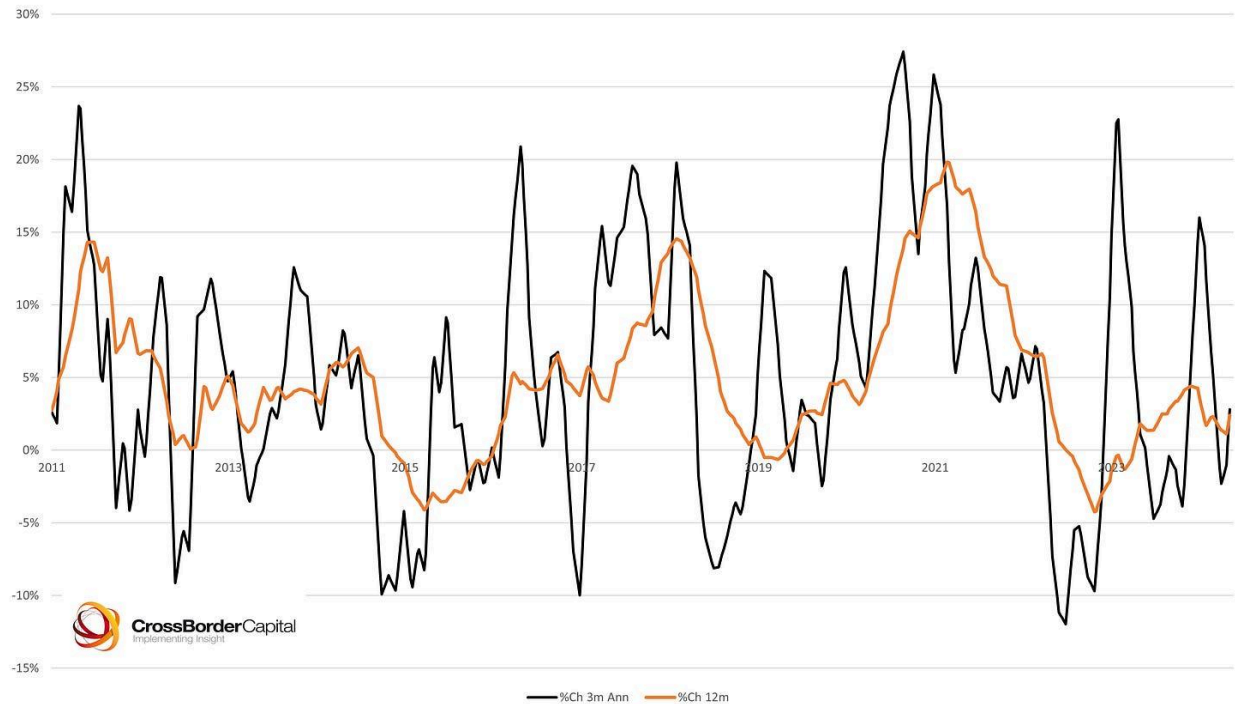
As the chart below shows, the low-point in the current cycle was October 2022. A normal liquidity cycle typically lasts 5-6 years from trough-to-trough and, based on the October-2022 low point, we are now 19 months into the current upturn. The setback in Q2 2024 was expected as tax payments drained liquidity from US money markets and the People's Bank of China tightened to shore up the Renminbi. These came on top of already tight ECB and Bank of England liquidity conditions. We continue to expect liquidity to pick up through 2H 2024, with the current cycle peak coming in late-2025.



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

The next chart plots the annual and 3m annualised growth rates of Global Liquidity. It shows liquidity growing at a quicker 2.8% 3m annualised clip. This is an improvement on the last couple of months but we are still off the pace recorded in the first few months of the year. The sluggish pace is even more evident in the annual growth rate (orange line).

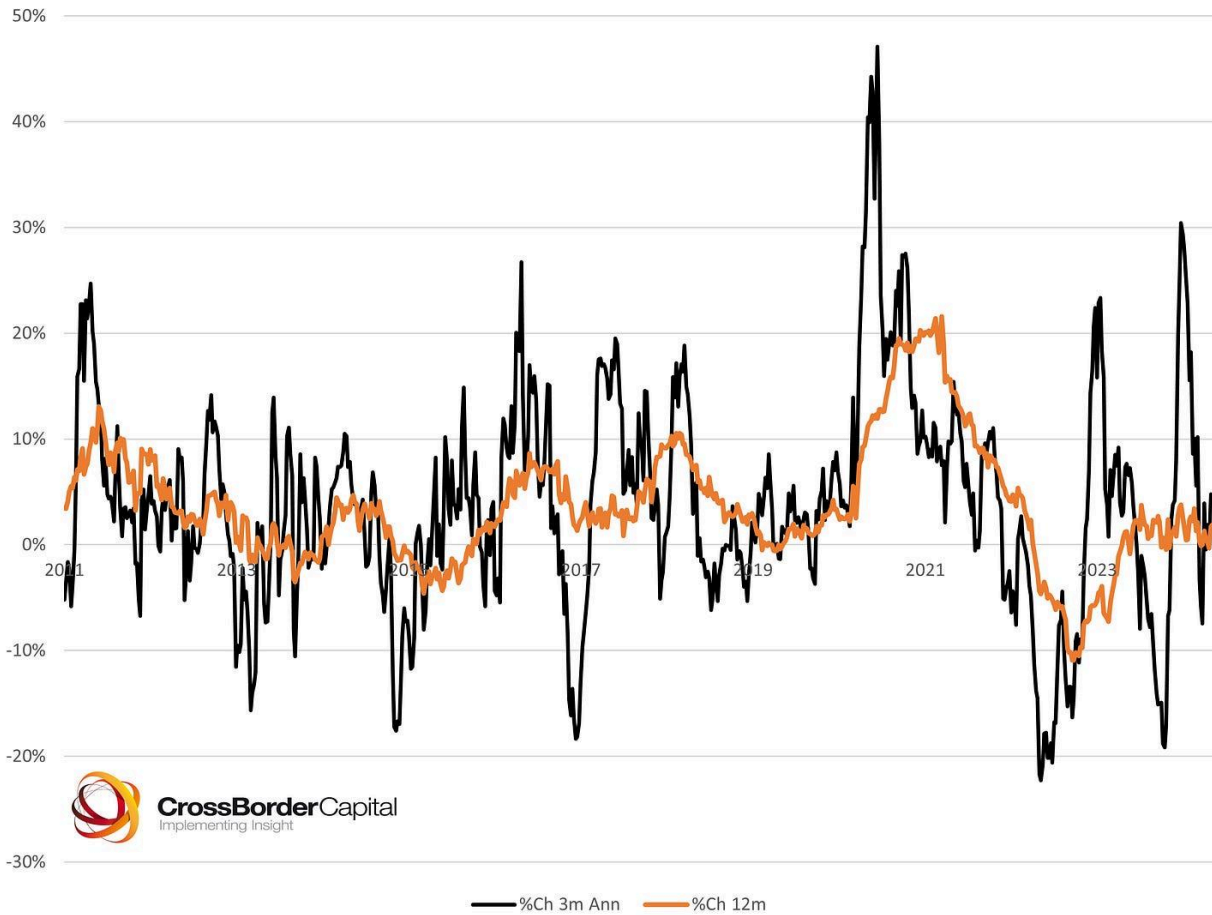
Weekly Growth in Global Liquidity



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 liquidity as well as collateral (bonds). The chart below plots the annual and 3m annualised growth rates. Latest data show the SMB up by 4.5% (3m ann.). The improvement is down to improved collateral values. Added to this, bond market volatility has eased. This directly affects the collateral multiplier. Lower (*higher*) volatility boosts (*depresses*) the collateral multiplier. The MOVE index, a measure of volatility, is back below 100. Latest value 94 versus year-to-date average of 106. It recently peaked at 121 in the wake of Iran's attack on Israel.

Growth in World Shadow Monetary Base



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

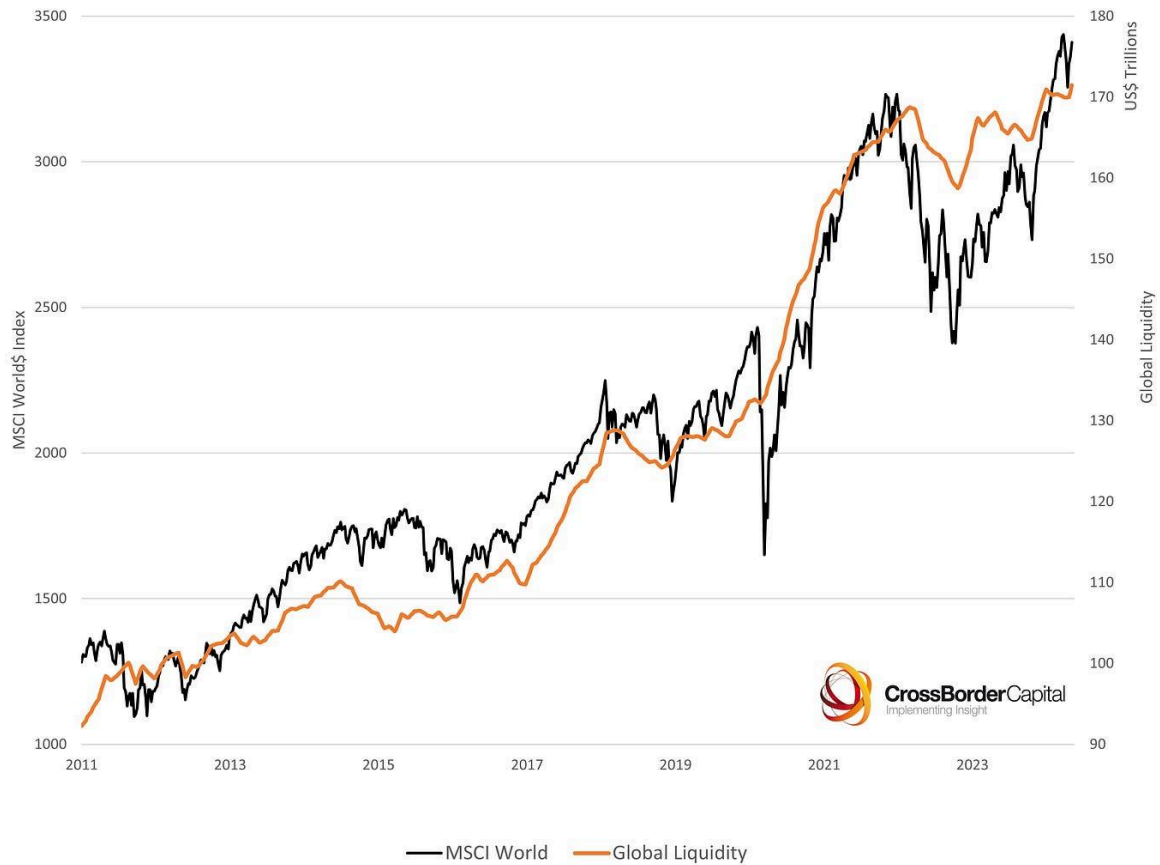
US\$ Trillions	Global Liquidity	Weekly Change	Shadow Monetary Base	Weekly Change
Jan 2023	167.68		92.06	
Feb	166.27		89.97	
Mar	167.47		92.52	
Apr	168.26		92.77	
May	166.21		91.56	
Jun	165.46		91.92	
Jul	166.78		92.07	
Aug	165.89		90.02	
Sep	164.66		88.26	
Oct	164.95		87.88	
Nov	168.24		90.86	
Dec	171.13		94.32	
Jan 2024	170.22		92.51	
Feb	170.36		93.05	
Mar	169.95		92.51	
Apr	169.98		92.48	
03/05/2024	170.72	0.74	94.31	1.83
10/05/2024	171.46	0.74	94.26	-0.05

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 risk assets. The recovery in liquidity levels starting from late-2022 buoyed risk asset markets. Equally, weaker liquidity levels through Q1-Q3 2023 negatively impacted risk assets.

As the plot shows, when gains in the MSCI run ahead of rises in liquidity, markets often undergo a near-term correction. Latest data suggest that risk assets have gone ahead of liquidity once again. On this basis, we can expect markets to lose some momentum.

MSCI & Global Liquidity



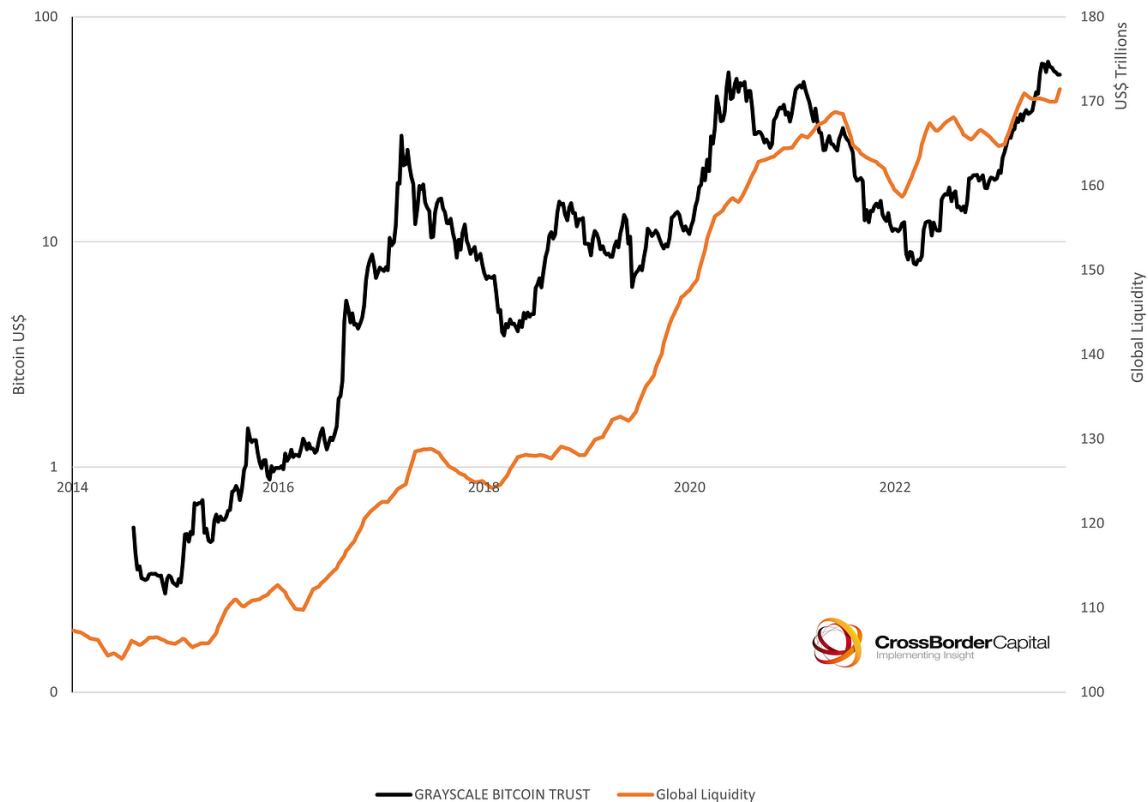
Source: CrossBorder Capital, US Federal Reserve, People's Bank of China, ECB, Bank of Japan, Bank of England, MSCI

Here are similar charts but with gold and bitcoin.

Gold & Global Liquidity



Bitcoin & Global Liquidity

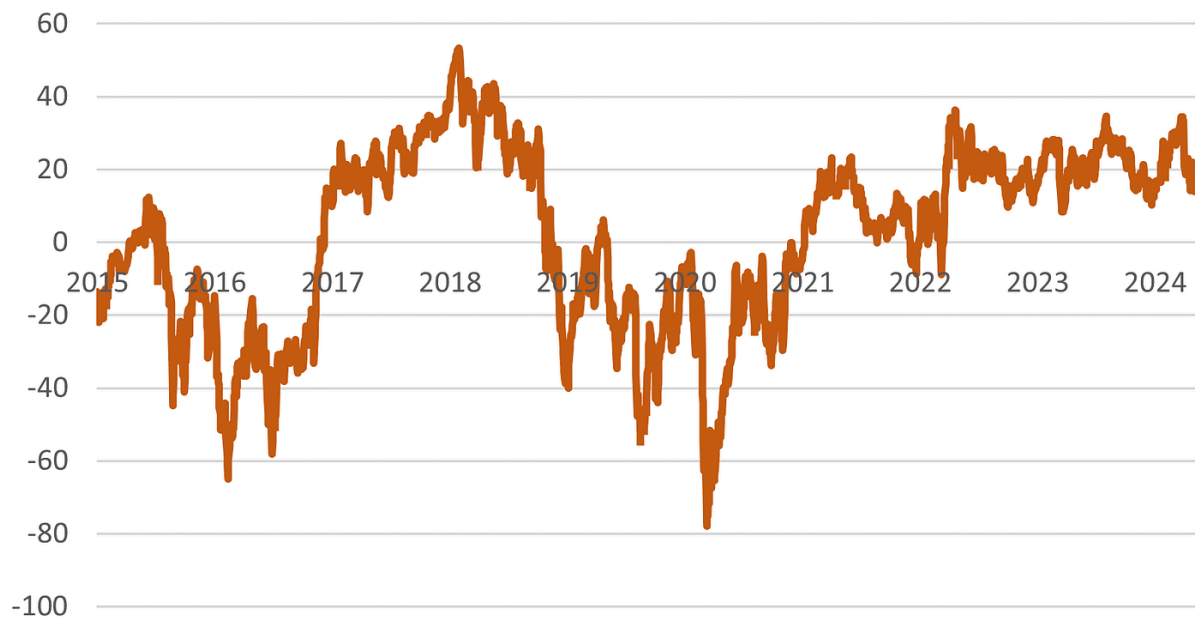


Source: CrossBorder Capital, US Federal Reserve, People's Bank of China, ECB, Bank of Japan, Bank of England, MSCI

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 for this Global aggregate stands at +17, compared to a year-to-date average of +23 and high of +35. The downward adjustment has mostly affected the Developed Markets (latest +17; year's average +27; year's high +38). Japan has taken the hit (+7; +25; +47). The UK has emerged as favourite (the current reading of +30 is the year's high). US risk assets are still liked but investors have pared back exposure (+22; +33; +47). Investors started to rebuild exposure to China but this has paused (-3; -9; +2).

Investors' Exposure to Global Risk Assets



Source: *CrossBorder Capital*