Global Liquidity Watch: Weekly Update

Sluggish Global Liquidity Growth

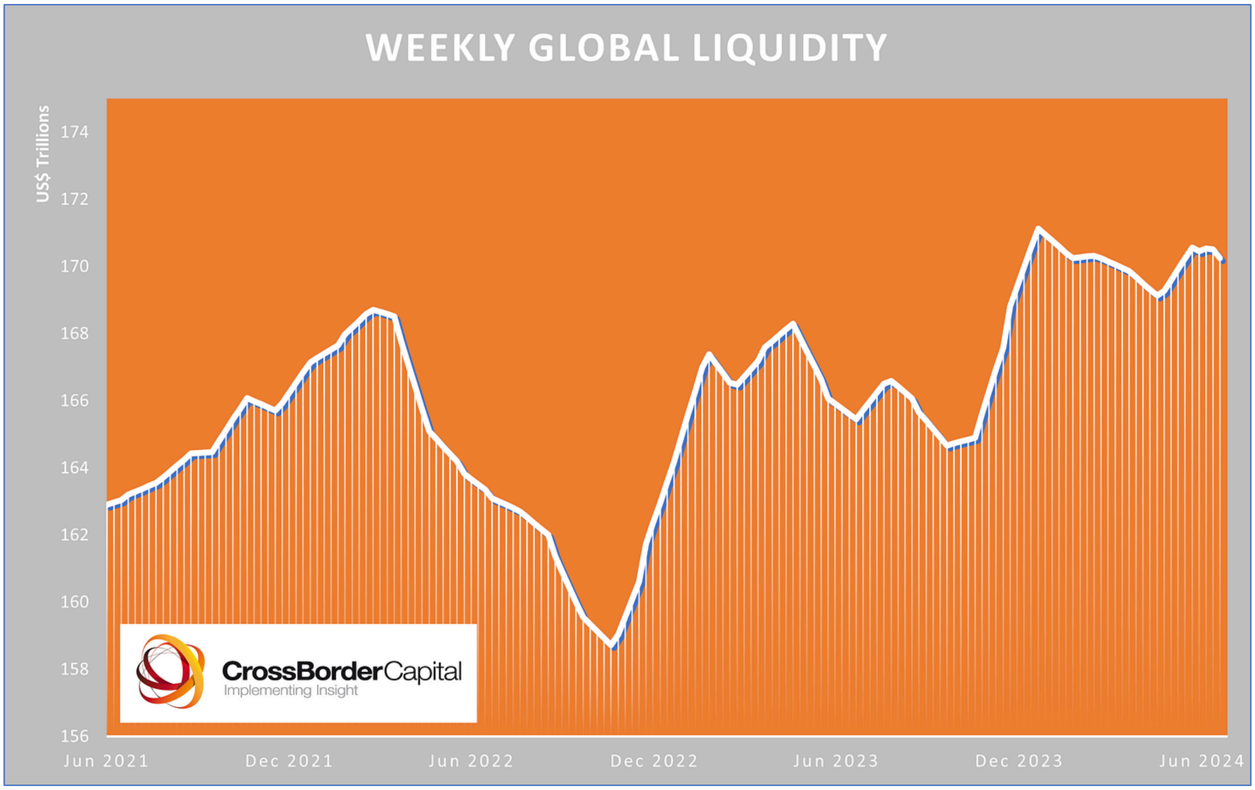
MICHAEL HOWELL
JUL 02, 2024
· PAID

We remain in a temporary “air pocket” which we hope will turn out to be a Q2 event. We have been expecting this. It stems from heavy US tax payments in April and an end-quarter jump in reverse repurchase agreements (RRPs). Added to this Asian Central Banks (China and Japan) have squeezed for weak currency reasons. Q3 could be very different?

For the moment though, global liquidity growth remains sluggish. Central Banks are keeping liquidity in check and collateral values tick up and down as markets try to guess the timing of interest rate cuts. The good news is that bond market volatility has subsided. This is the key to a stable collateral multiplier and, hence, stable overall liquidity levels.

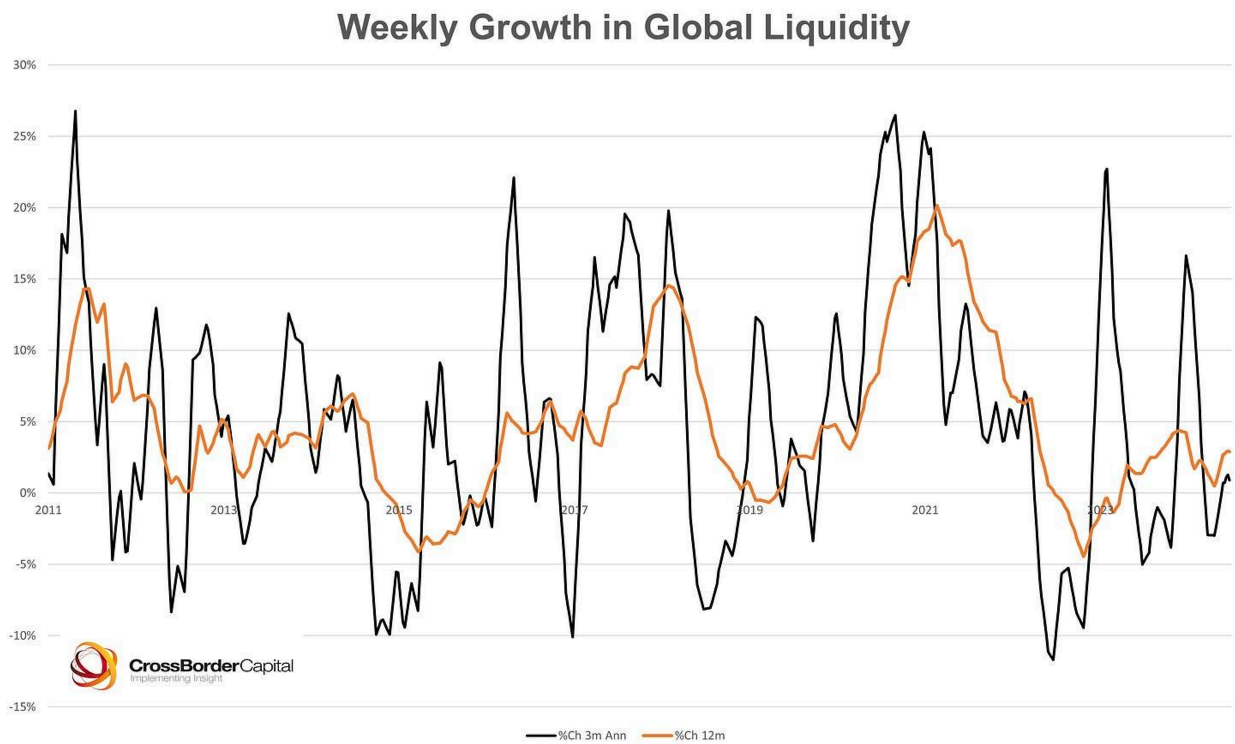
The low-point in the current cycle was October 2022 (see chart below). A normal liquidity cycle typically lasts 5-6 years from trough-to-trough and, based on the October-2022 low point, we are now 21 months into the current upturn. The pace of recovery has clearly slowed this year. This is largely down to the Central Banks and their ongoing QT. And this is having a negative effect on collateral values.

In nominal terms liquidity slipped by US$260bn last week to US$170.25tr. It started the year at US$171.14tr and hit a low of US$168.95tr in April (end-month data). (See table below).



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

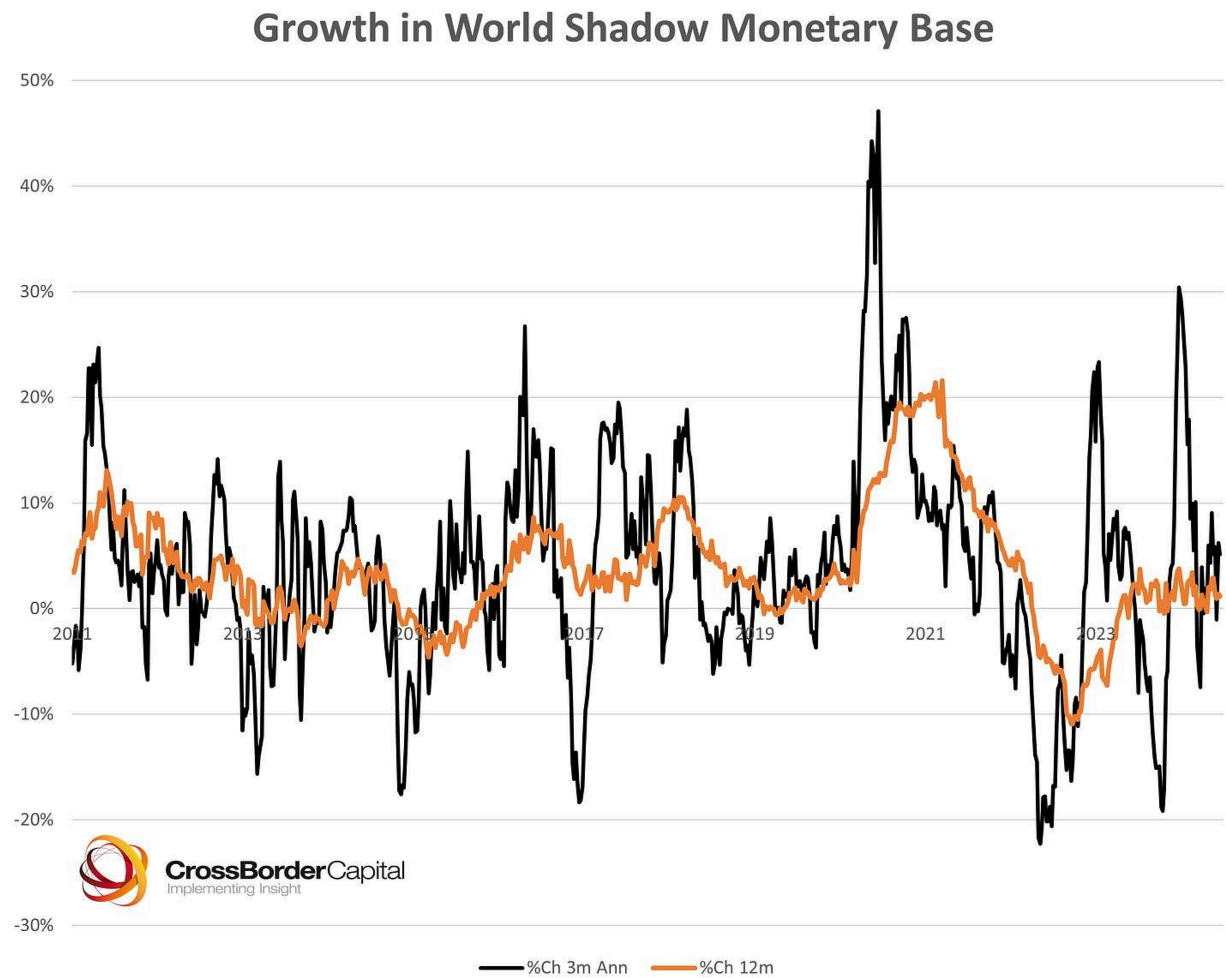
The next chart plots the annual and 3m annualized growth rates of Global Liquidity. Latest weekly measures point to still-sluggish growth (latest +0.9% 3m annualized and 2.9% YoY).



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 and collateral *(bonds).* The next chart plots the annual and 3m annualized growth rates. Latest data show the SMB up by 3.3% on a 3m annualized basis and 1.5% YoY. The same base effect which distorted the previous week's data is at play. It reflects the dip in March. In nominal terms, the SMB slipped by US$616bn in the week to US$93.27tr. Both Central Bank liquidity and collateral values dipped.

There was some positive news though. The collateral multiplier has stabilized on the back of lower bond market volatility. The MOVE index, a measure of volatility, is currently at 96. This compares to the year's average of 103 and is comfortably below the peak 121 in the wake of Iran's attack on Israel. It is also roughly half the 2023 peak recorded at the time of the SVB crisis. This directly affects the collateral multiplier. Lower volatility boosts the collateral multiplier, and hence liquidity levels.



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	166.24		89.97	
Mar	167.42		92.52	
Apr	168.30		92.77	
May	166.22		91.56	
Jun	165.46		91.92	
Jul	166.77		92.07	
Aug	165.90		90.02	
Sep	164.67		88.26	
Oct	164.96		87.88	
Nov	168.25		90.87	
Dec	171.14		94.32	
Jan 2024	170.23		92.51	
Feb	170.35		93.05	
Mar	169.87		92.51	
Apr	168.95		92.48	
May	170.56		93.96	
07/06/2024**	170.46	*-0.10*	93.67	*-0.29*
14/06/2024	170.54	*0.08*	94.33	*0.66*
21/06/2024	170.51	*-0.03*	93.89	*-0.44*
28/06/2024	170.25	*-0.26*	93.27	*-0.62*

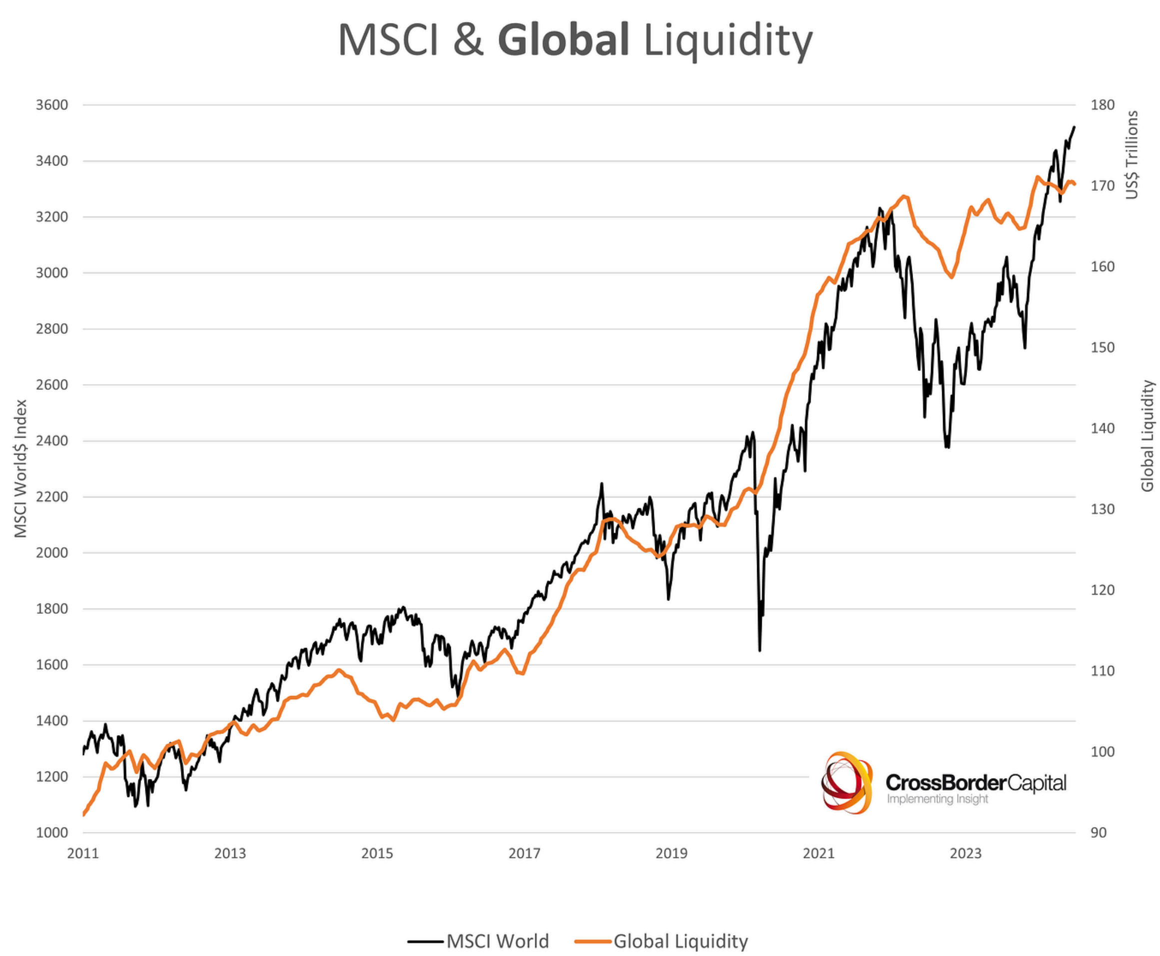
***** Monthly data (full) are based on data for all 90 countries that we cover. They comprise Central Bank and private sector liquidity. These values can be restated due to seasonal adjustments and revisions to underlying data.***

***** 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.

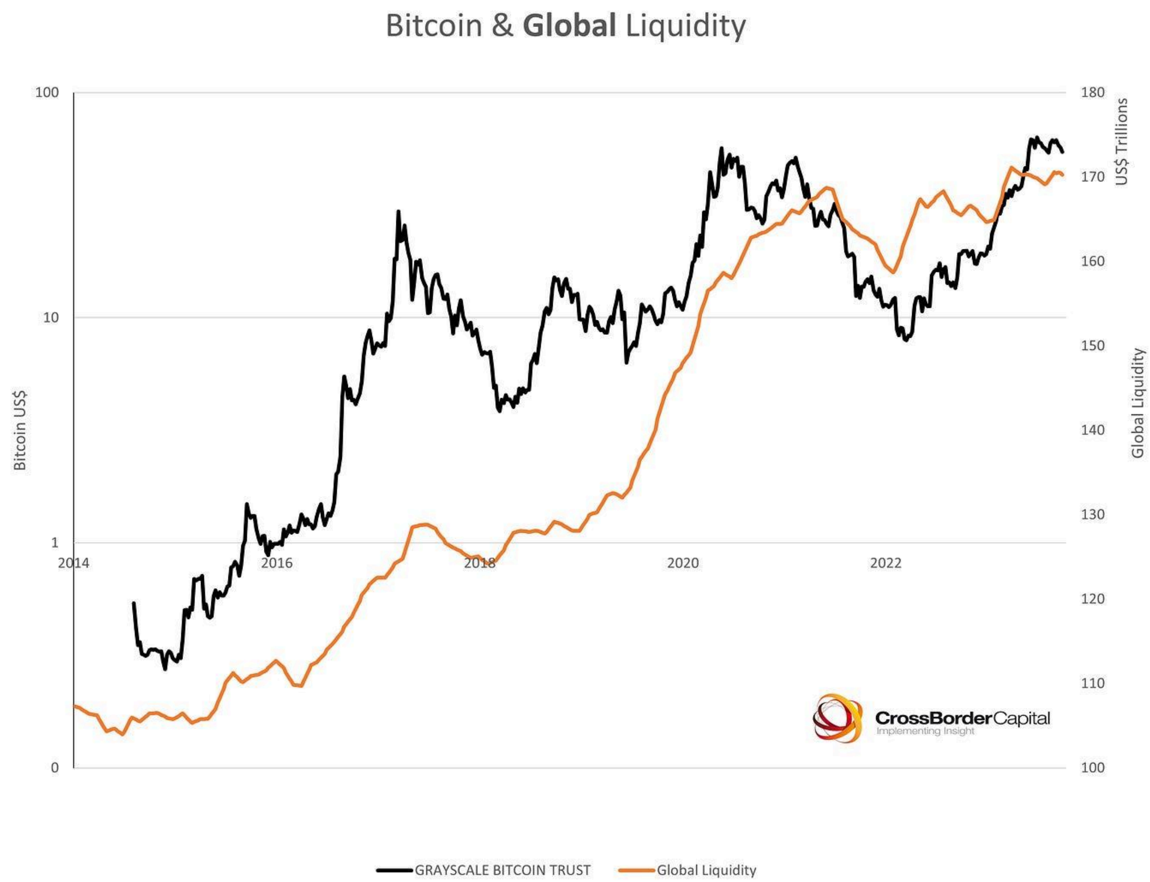
As the plot shows, when gains in the MSCI run ahead of rises in liquidity, markets often undergo a near-term correction. Latest data show risky assets still outpacing rises in liquidity.



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.

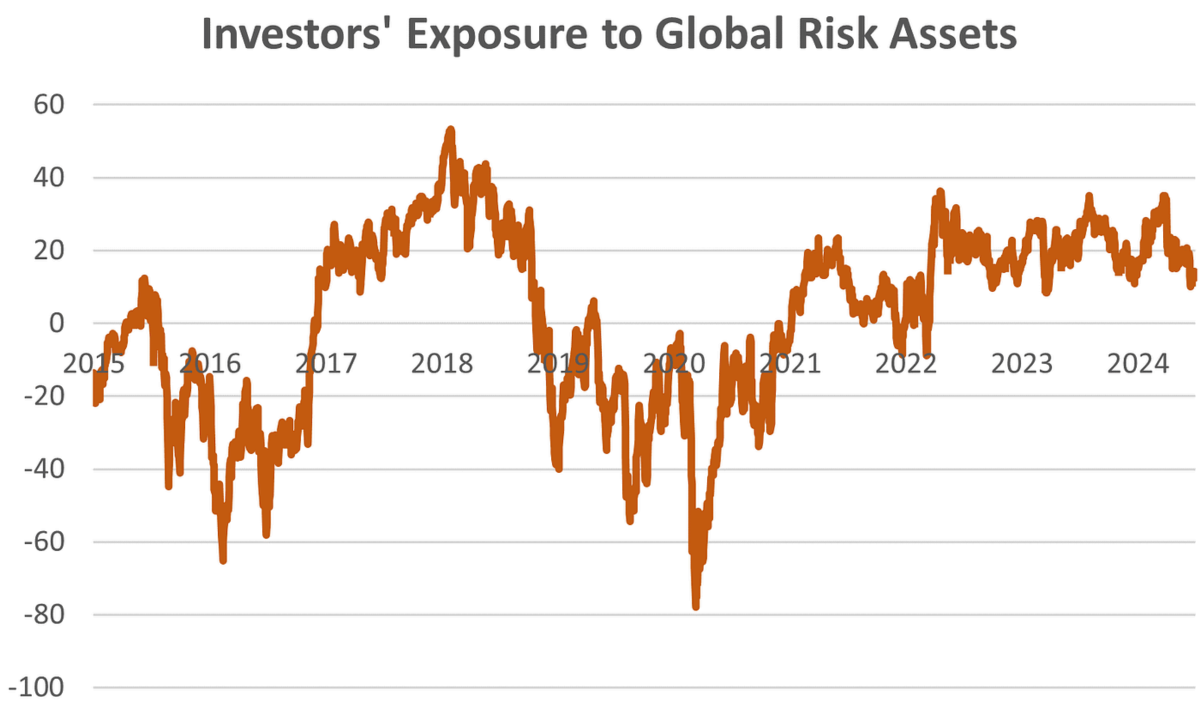

Gold & Global Liquidity
Gold
Global Liquidity
US$ Trillions
2600
2400
2200
2000
1800
1600
1400
1200
1000
220
200
180
160
140
120
100
80
2009
2011
2013
2015
2017
2019
2021
2023
CrossBorderCapital
Implementing Insight
Gold Bullion LBM $/t oz DELAY
Global Liquidity



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 (+14) for the World aggregate is above recent lows (+10) but way off the +35 hit in March. Globally, investors are still risk-on but their appetite for risky assets has diminished. The adjustment has hit the Developed Markets (DM) hardest (+18 vs. +39 high), particularly the US and Japan. They came close to +50 earlier in the year but are now back to +25 and +21, respectively. The UK initially benefitted from the adjustment but election jitters (?) have dampened investor enthusiasm (+15). The Eurozone (-6), Emerging Markets (-2) and China (-14) are neutral/risk-off.



Source: CrossBorder Capital