

Global Liquidity Watch: Weekly Update Q3 is

shaping up well. Global liquidity rose again last week



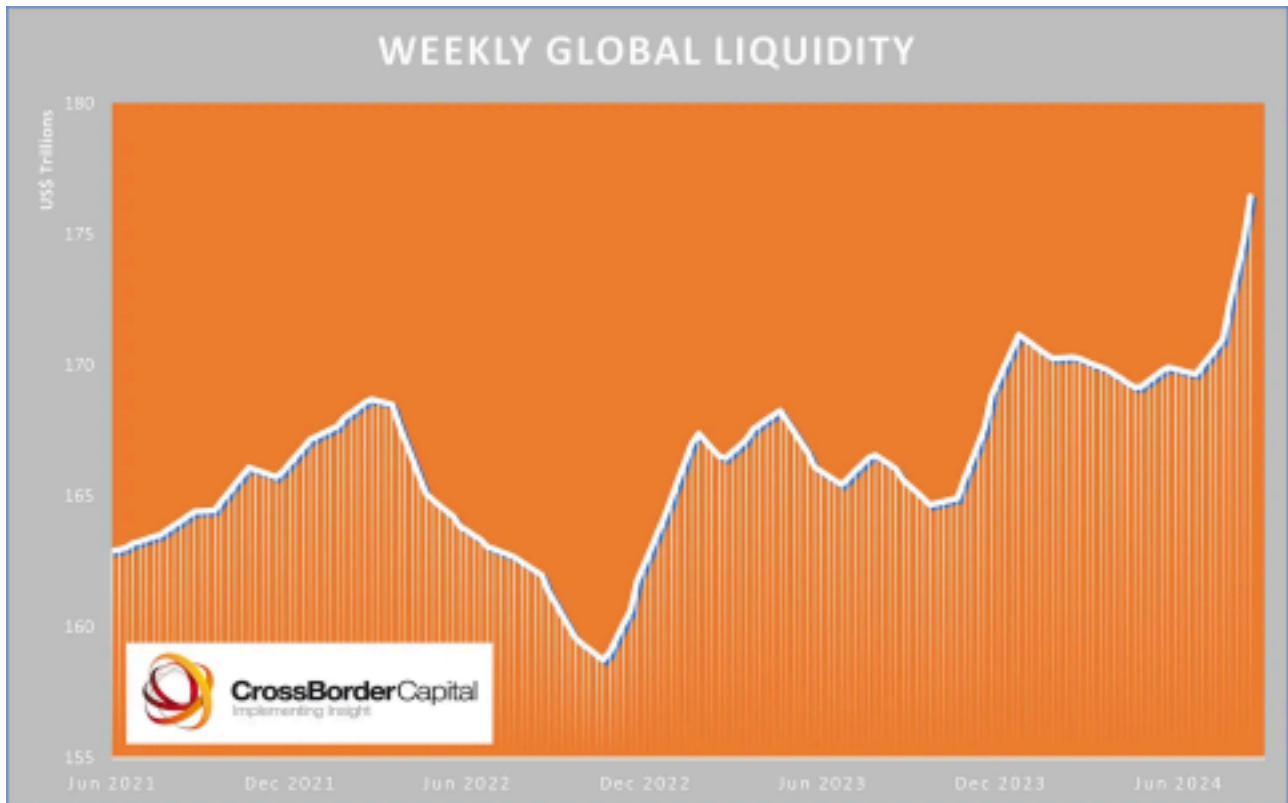
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Q3 is shaping up well. Global liquidity rose again last week and reached a new all-time high. Encouragingly, Central Bank liquidity is turning higher. The PBoC is leading. Fed liquidity has stabilized and the typical seasonal downswing in the TGA is manifesting. Collateral values continue to improve too, although volatility has picked up a tad – this is likely a feature of thinner trading in the holiday period? All-in-all, the prospects for global liquidity in 2H are looking better than they were in 1H.

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. As evidenced in the chart below, liquidity growth dipped sharply in Q2 2024, largely because of Central Bank tightening. July saw the start of a turnaround. Since then, collateral values have been bolstered by encouraging US inflation data and signs that the global economy is slowing, particularly the US which has been the World's post pandemic engine of growth. August has seen the return of the Central Banks, led by the People's Bank of China which has been injecting liquidity in size

Global liquidity rose by a strong US\$1.66tr in the week to US\$176.44tr. This is a new all-time high. To put this into context, it ended 2023 at US\$171.2tr, hit a low of US\$169.2tr in late-April and remained close to this level through to late-June. Since then, it has expanded by a robust US\$6.78tr. (See chart and 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. Latest data show global liquidity expanding at a faster 16.6% 3m annualized clip and by 6.3% YoY.

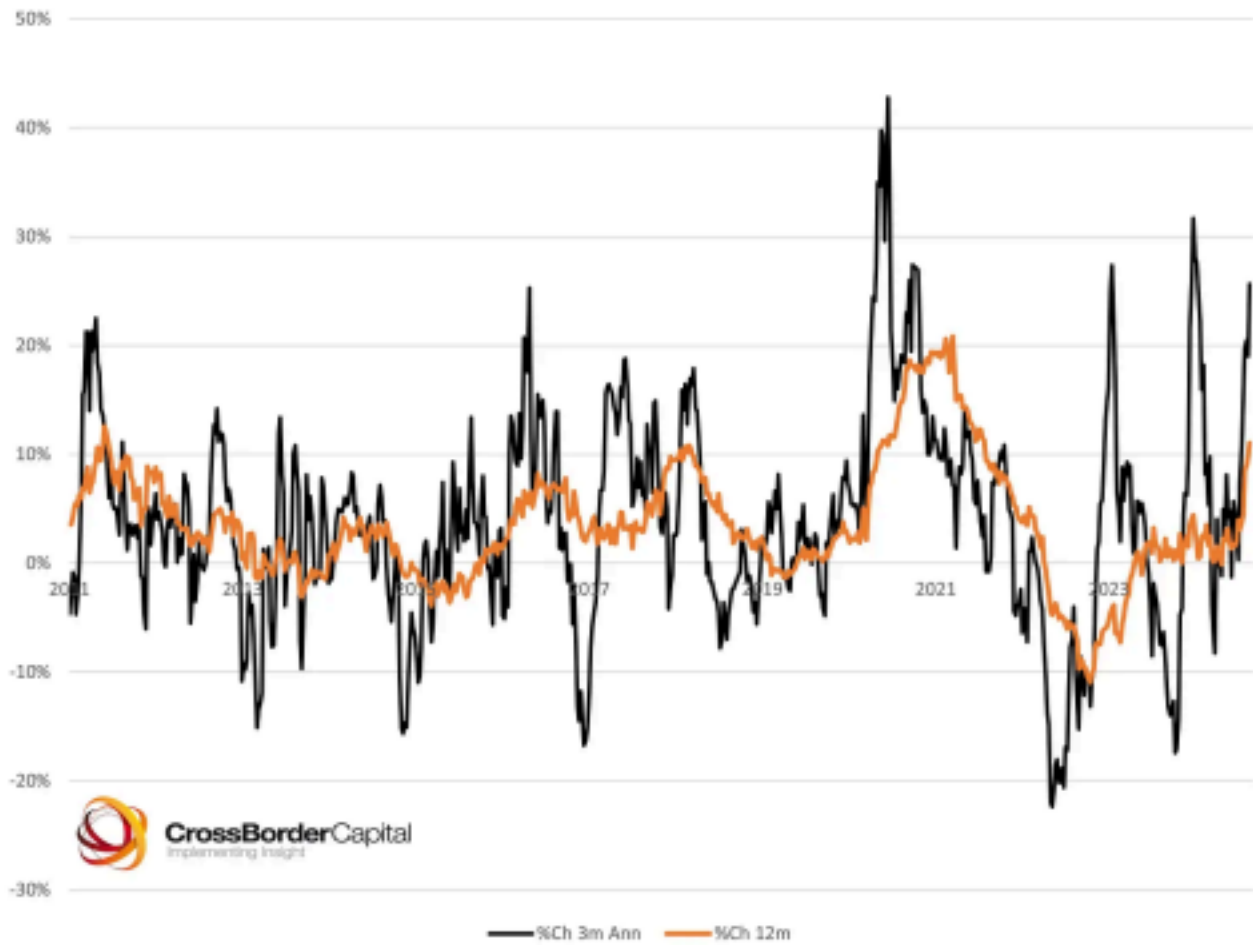


Source: CrossBorder Capital, US Federal Reserve, People's Bank of China, ECB, Bank of Japan, Bank of England

Global liquidity is underpinned by the Shadow Monetary Base (SMB). The SMB comprises Central Bank (CB) liquidity as well as collateral (bonds). Latest data plotted in the next chart shows SMB growth jumping higher to a 25.6% 3m annualized clip, or 11% year-on-year. In nominal terms, the SMB rose by nearly US\$90bn in the week to US\$105.93tr and brings the increase since late-June to US\$6.67tr. Current levels exceed the peaks reached in 2021 at the height of the Covid pandemic.

While Central Banks (mainly the PBoC) have provided a fillip to global liquidity levels in August, rising collateral (bond) values were the mainstay of the recovery from early July. Bond market volatility picked up in early August over uncertainty about US inflation and global economic prospects, and was likely exacerbated by thin holiday trading? The MOVE index, a measure of volatility, hit 121 earlier this month and has averaged 110 through the month. This is a tad above the year-to-date average. Higher (lower) volatility depresses (boosts) the collateral multiplier, and hence liquidity levels.

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		98.04	
Feb	166.23		95.69	
Mar	167.39		98.30	
Apr	168.27		98.42	
May	166.28		96.98	
Jun	165.44		97.40	
Jul	166.74		97.49	
Aug	165.87		95.40	
Sep	164.67		93.96	
Oct	164.99		93.79	
Nov	168.28		96.90	
Dec	171.16		100.65	
Jan 2024	170.24		98.60	
Feb	170.34		99.03	
Mar	169.83		98.51	
Apr	168.99		98.30	
May	169.98		99.88	
Jun	169.66		99.26	
Jul	171.34		101.80	
02/08/2024	172.45	1.11	105.10	3.30
09/08/2024	173.54	1.09	104.82	-0.29
16/08/2024	174.78	1.24	105.04	0.22
23/08/2024	176.44	1.66	105.93	0.89

** 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, with liquidity leading. 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. The relationship is borne out by recent events. Risky asset values peaked in mid-July and volatility ensued. We

noted at the time that this was likely a correction and that rising liquidity levels would help to stabilise markets and underpin a recovery. This recovery looks to be underway.



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

Here are similar charts with gold and bitcoin. Both are sensitive to monetary inflation, i.e. rising liquidity, so should be similarly supported.



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

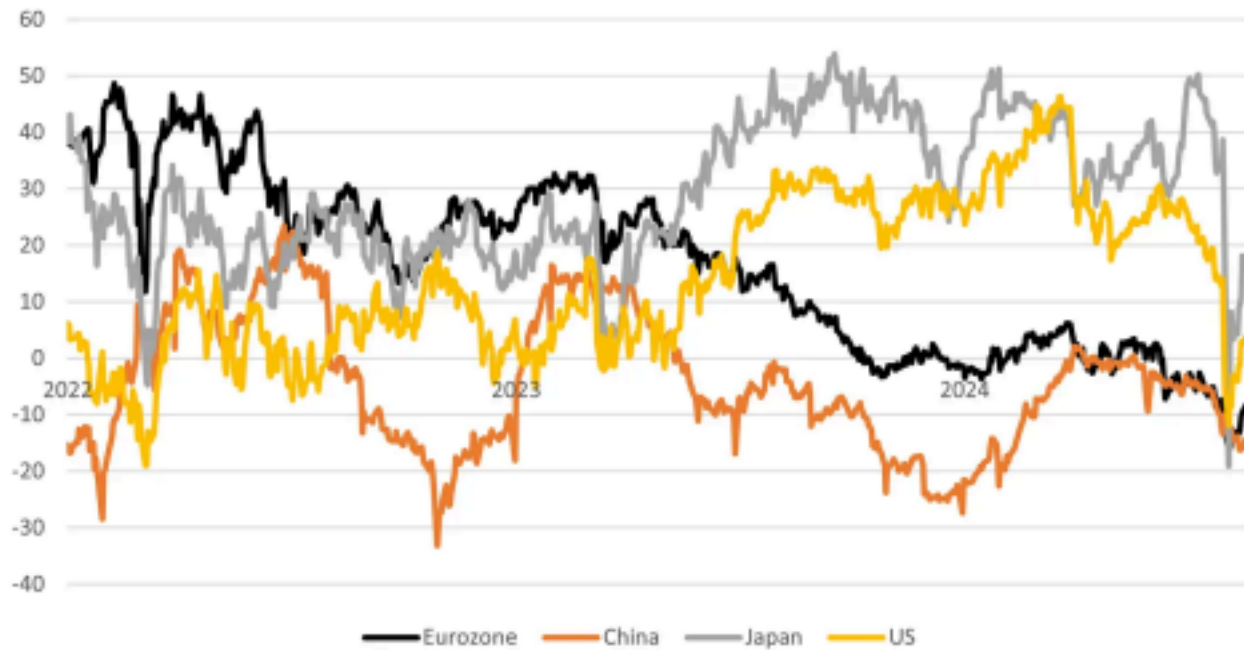
The next two charts show our investor exposure indicators. These compare holdings

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 has recovered to +2 having hit a low of -19 in early August. Still, this neutral position is way below the high of +31 (very risk-on) in March. Developed Markets have been particularly volatile (latest +4 vs. -19 recent low). Japan (+19 vs. -19) and the UK (+16 vs. +1) have recovered well, but the US has lagged (+3 vs. -12). The Eurozone (-8 vs. -16), largely because of France (-22) and Italy (-8), remains risk off. Exposure to Emerging Markets is edging higher (-1) but investors continue to shun China (-14).



Investors' Exposure to Major Risk Asset Markets



Source: CrossBorder Capital

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