



**CrossBorderCapital**  
Implementing Insight

# Global Liquidity

Money moves markets ...*Global Liquidity* has been devised to track the **gross** ebb and flow of credit and **international capital** through World financial markets

*[Markets] are now cross-border businesses...not understood by the man in the street ... or Washington... If one wants to know what will happen next in the American economy and its financial markets, one has to study and understand what is happening in other parts of the World.*

*David Mulford, Senior US Treasury Official, writing about January 1984*

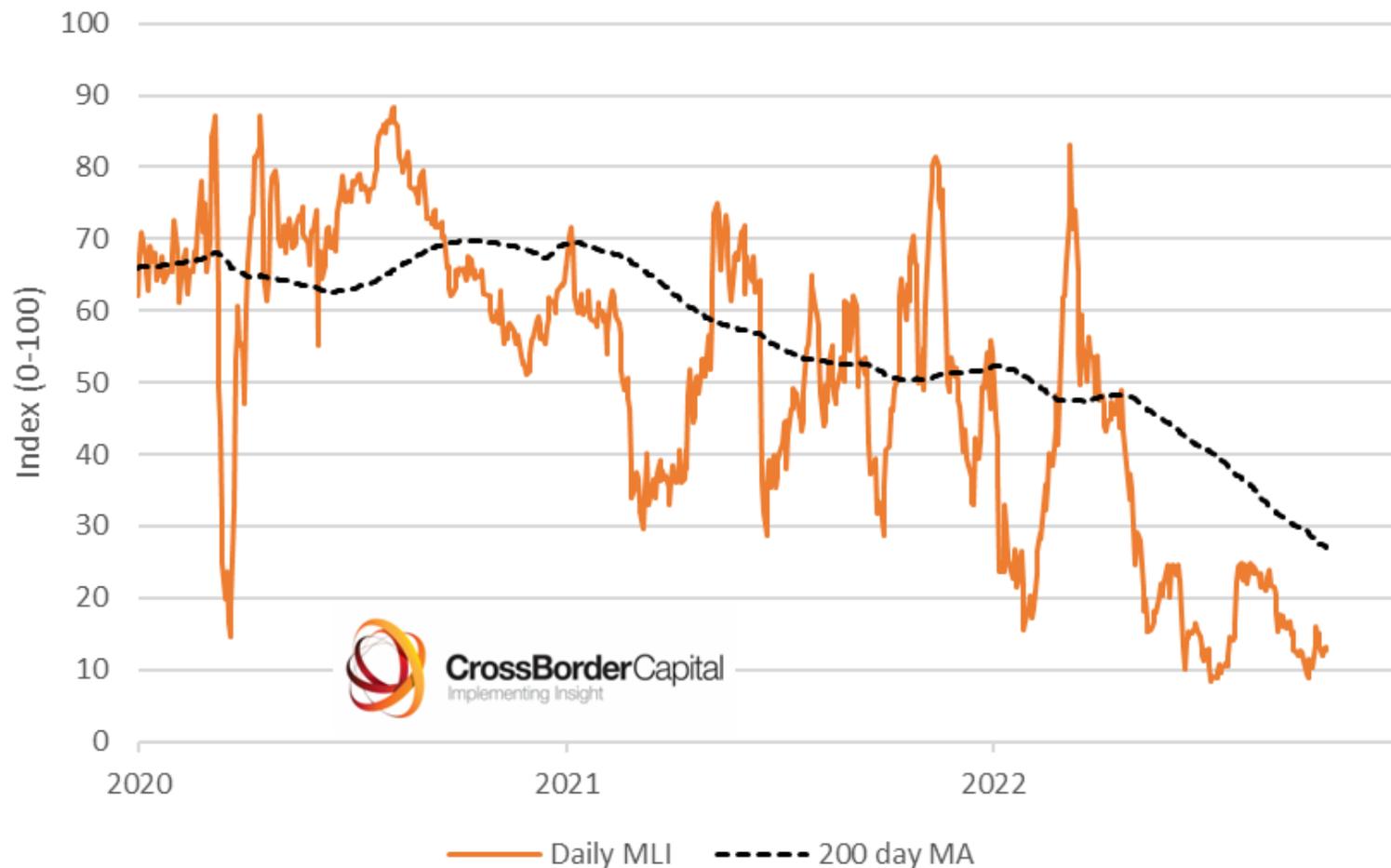


# Understanding **Macro-Valuation** Shifts

- Analysis of the **Stockmarket** NOT the market in individual stocks
- Markets are driven by **supply of liquidity** and **demand for different financial assets**
- Study **behaviour of market players**, such as Central Banks and major investors

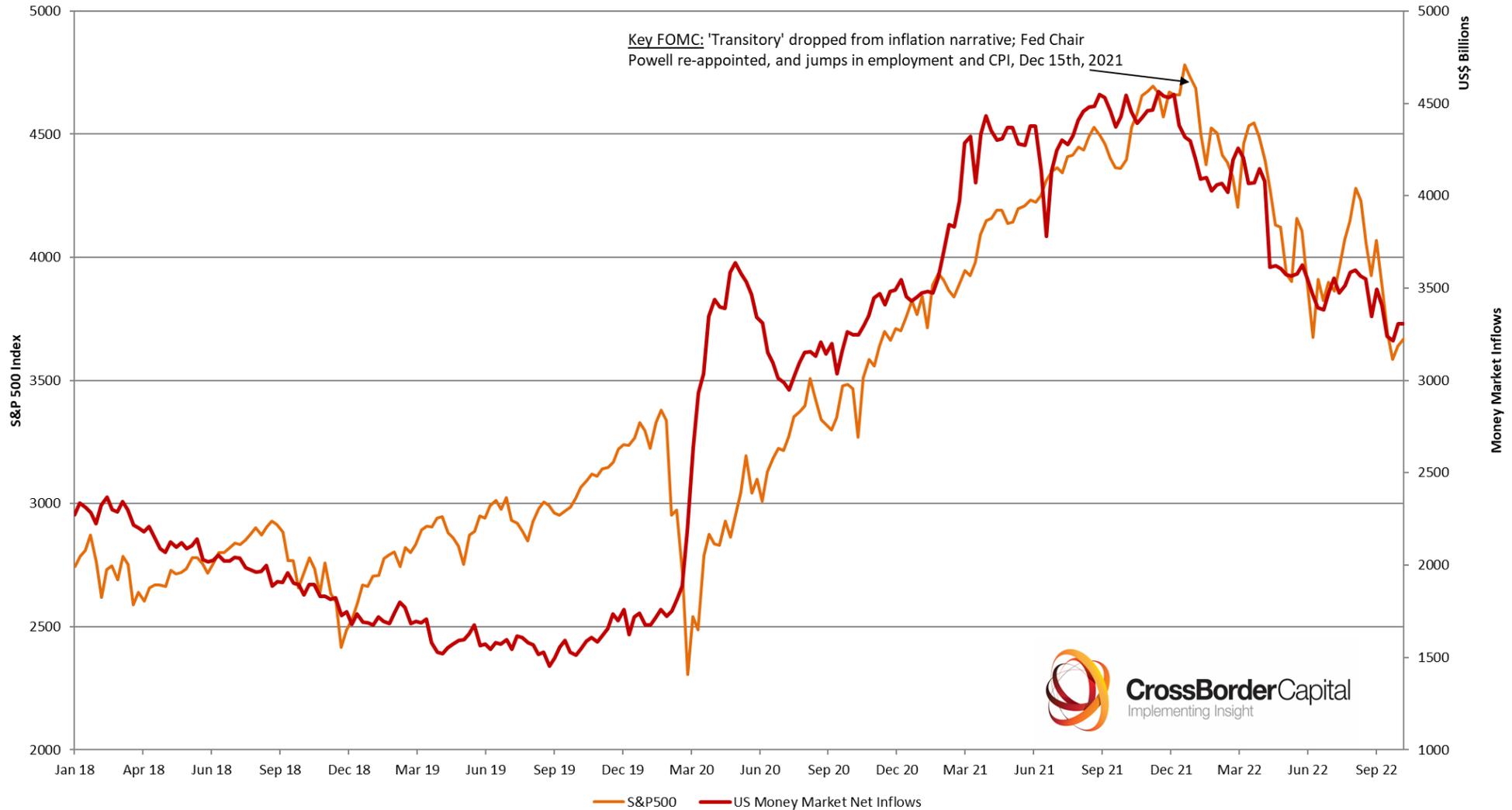


## Daily US 'Market Liquidity' 2020-21



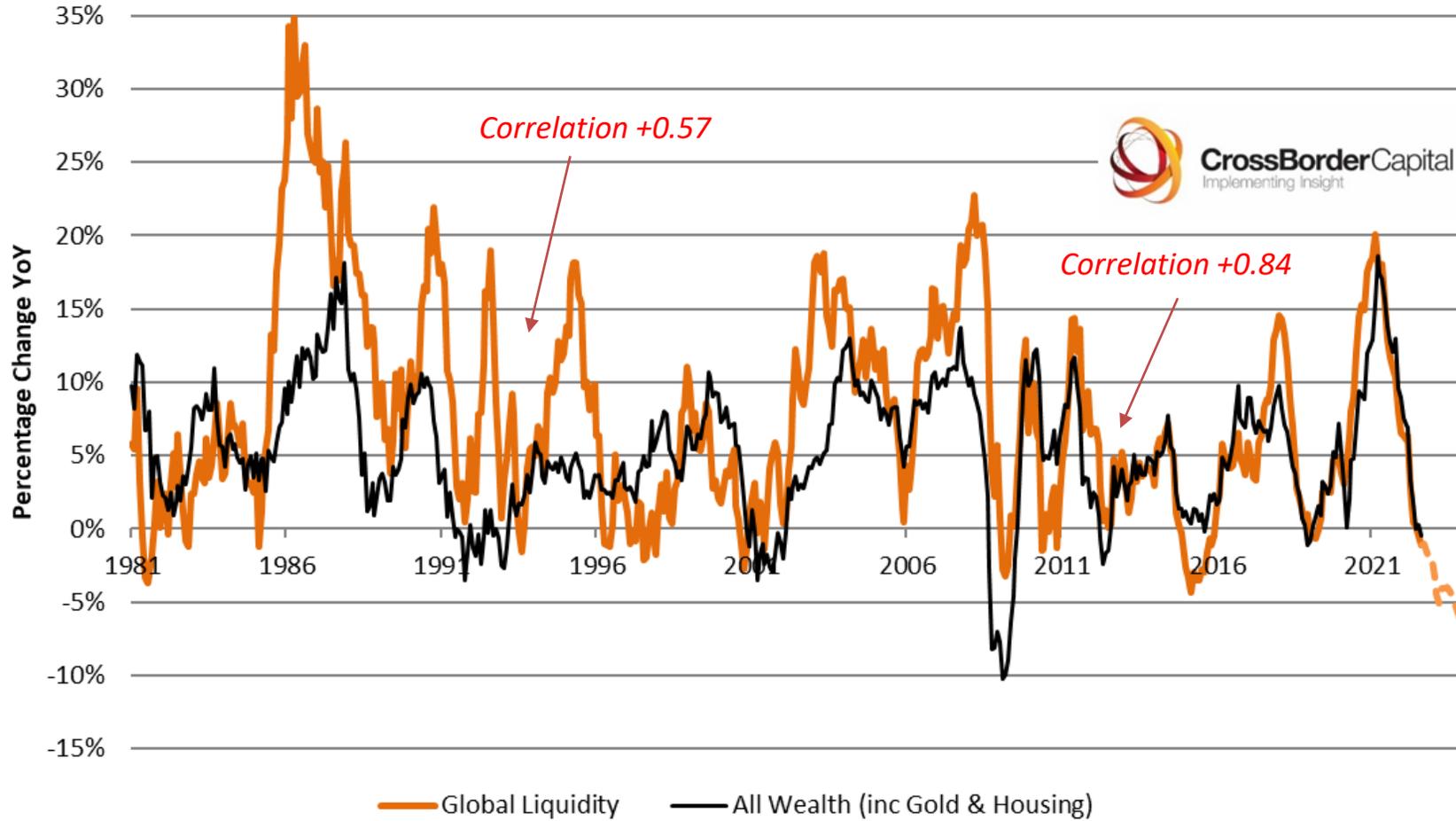


# US Federal Reserve Net Liquidity Injections and S&P500 Index





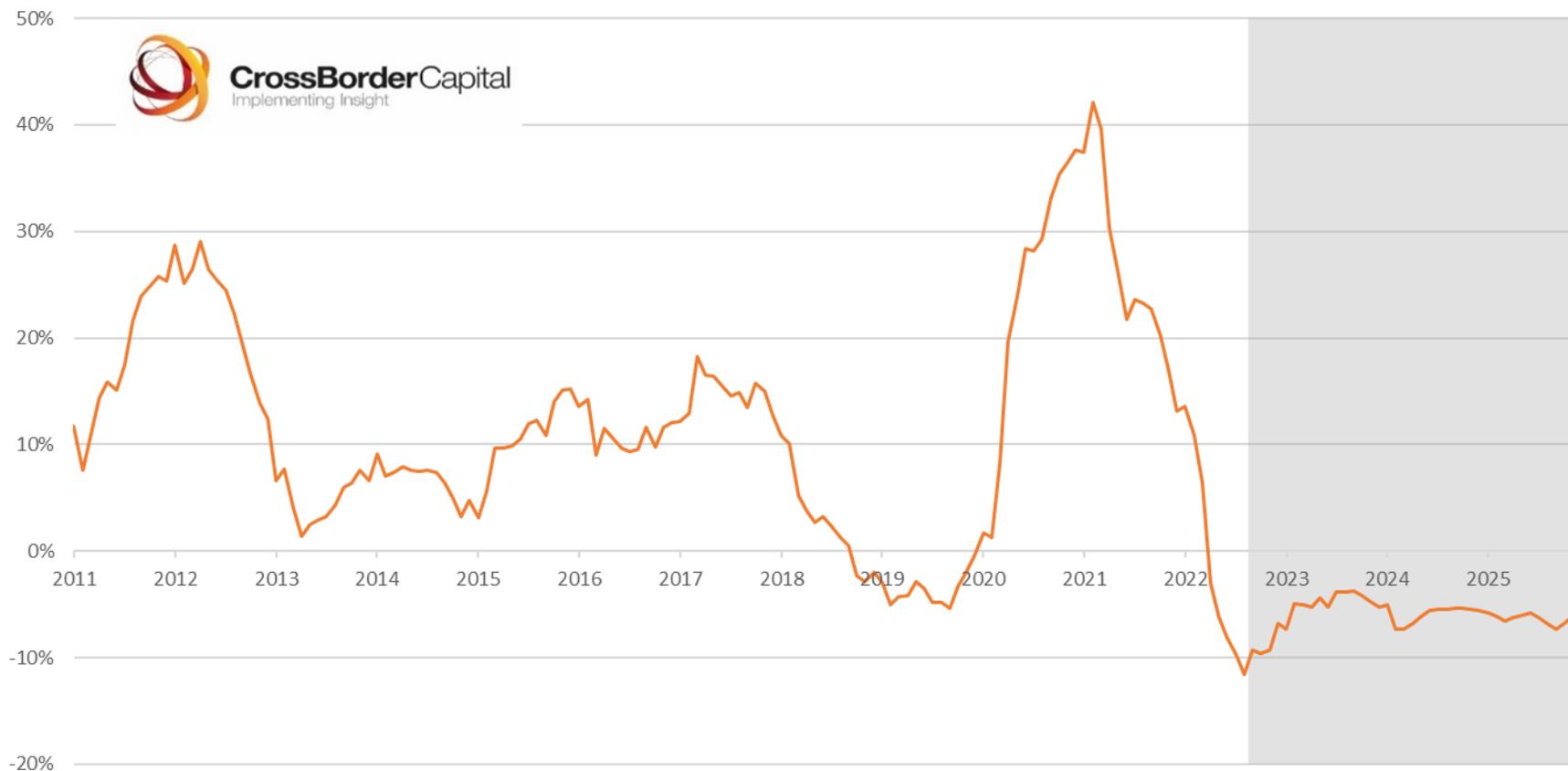
## Global Liquidity & World Wealth (inc. Gold, Crypto & Housing)



Source CrossBorder Capital



# World Central Bank Money



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



## Liquidity Always Features in Crises

**The Evening Standard - May 24, 1932**

- It's a global problem. 'Leak' in 1930s appears in Middle Europe and then threatens to capsize World Economy.
- In an echo of today's crises, 85 years ago policy makers similarly ignored Global 'financial stability' question



*Ufa, é um vazamento desagradável mas, felizmente, não no nosso lado do barco!*



# Global Liquidity

*Global Liquidity* is defined from the **assets-side** of credit provider's balance sheets. It comprises: (1) Central Bank interventions, (2) bank and shadow bank credit, corporate cash flow, **collateral-based** wholesale and repo market activity and (3) net foreign flows

Think of it as essentially starting where conventional definitions of 'money', e.g. retail bank deposits, stop



# Global Liquidity

It is independent of and nearly twice the size of **World GDP**



**Global Liquidity** is a measure of  
**balance sheet**, i.e. the **CAPACITY** of  
capital

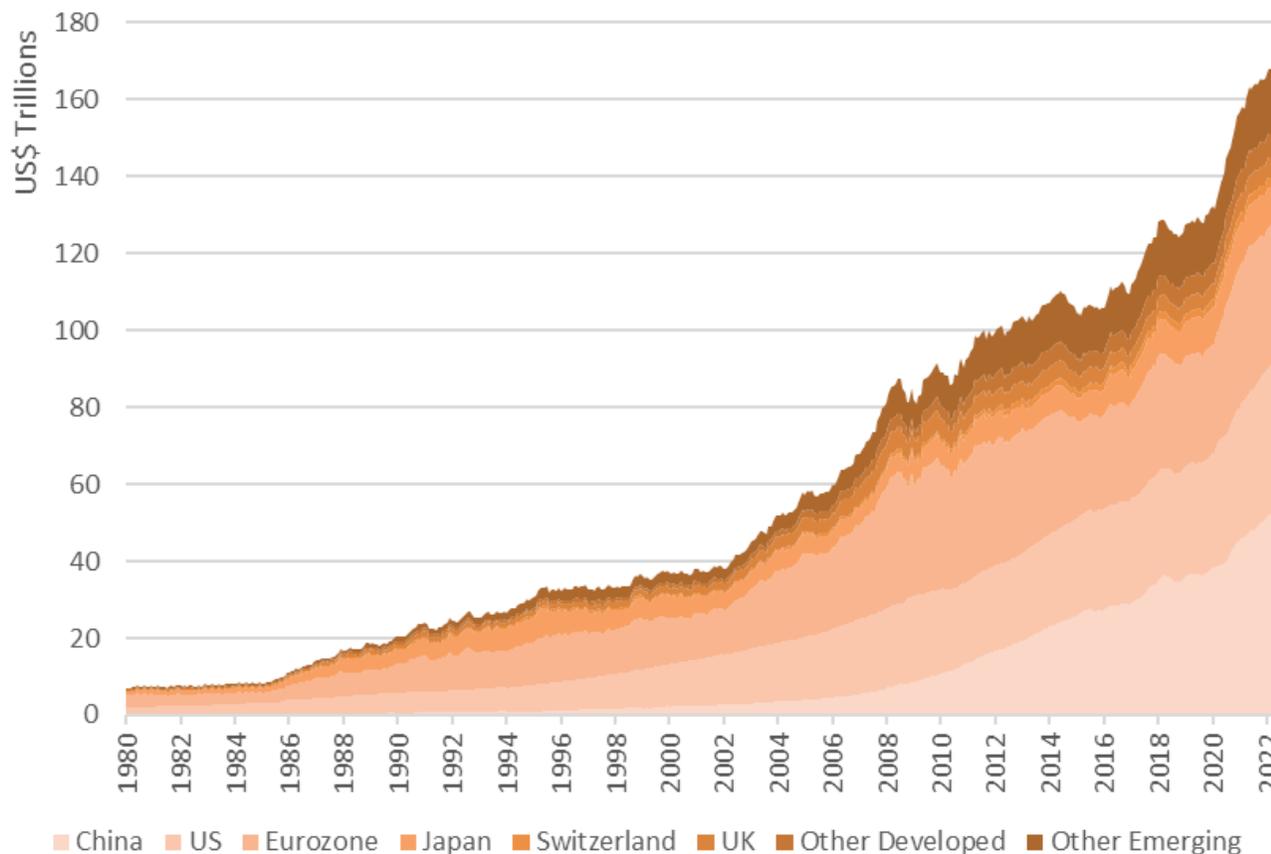
NOT the **COST** of capital

It matters when debt has to be rolled over

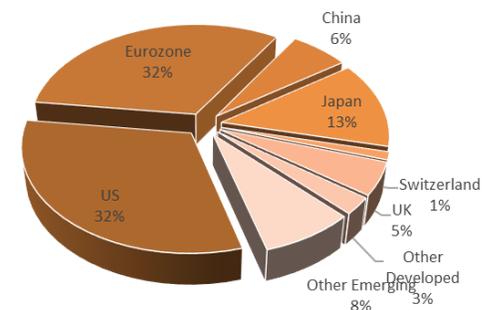


# Global Liquidity: Now Falling in Absolute Terms

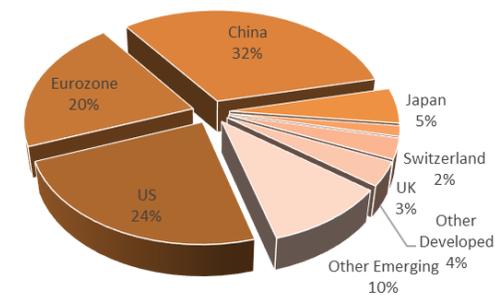
Global Liquidity, 1980-2022



Global Liquidity, 2000

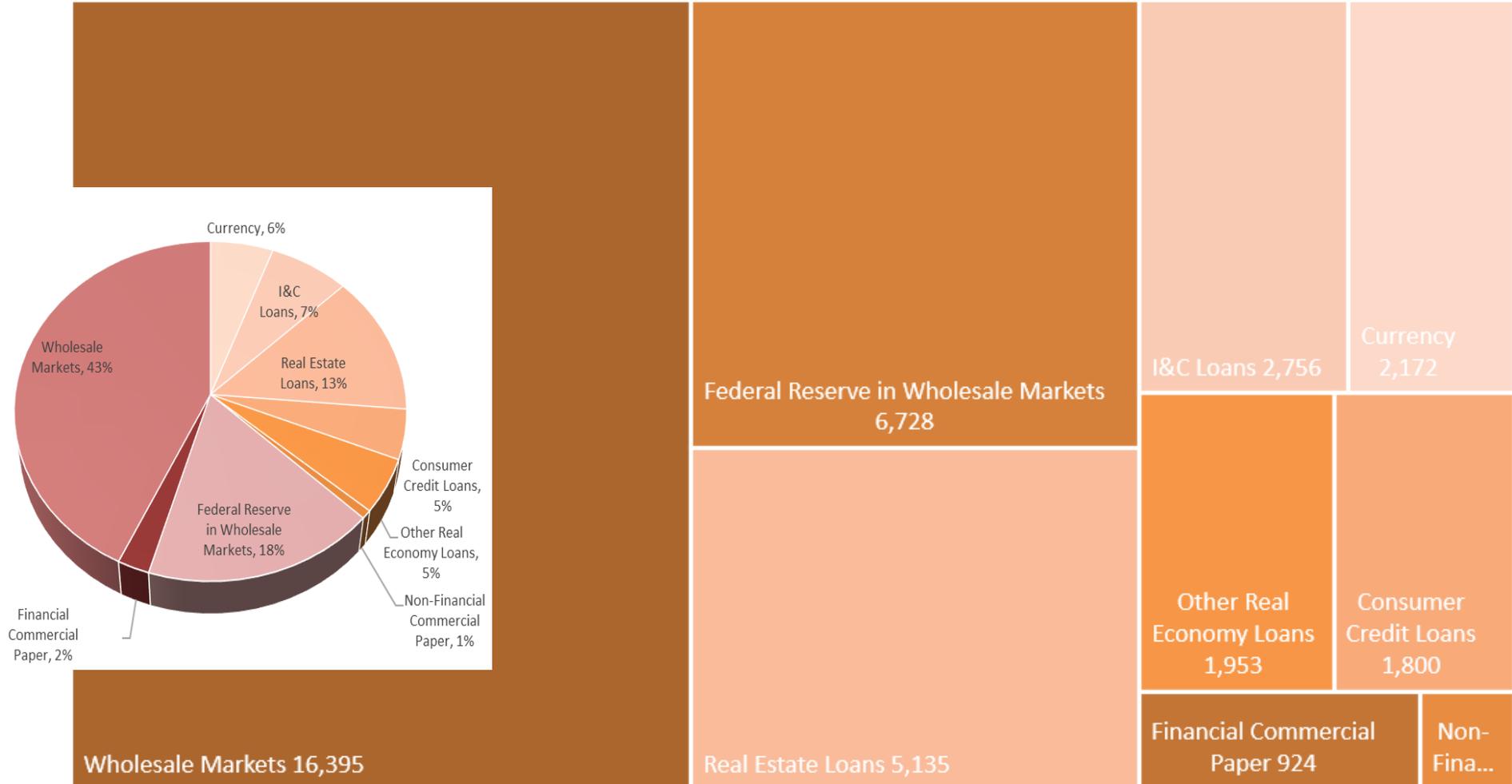


Global Liquidity, 2022



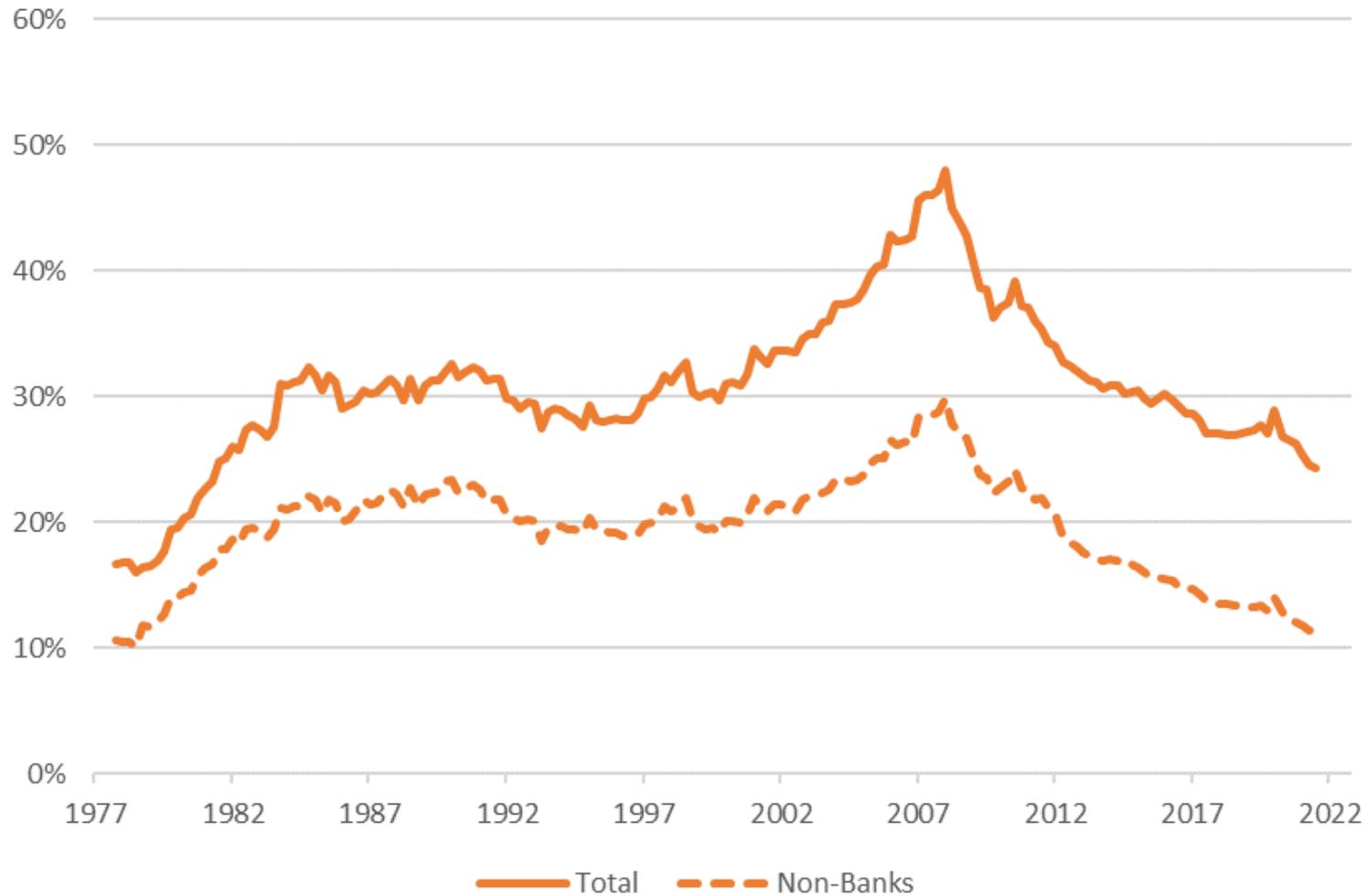


## Components of US Liquidity





## Cross-border Liquidity Flows, 1977-2022 (% World Domestic Liquidity)





## Global Liquidity's 7x Rise Vs China's 87x Jump

US\$trillion	USA	China	Global Liquidity	World Central Banks	US Fed	PBoC	Cross-Border Flows \$
<b>1990</b>	5.5	0.6	23.8	1.7	0.3	0.1	-0.1
<b>2000</b>	11.9	2.4	38.0	2.6	0.6	0.4	-0.2
<b>2008</b>	22.3	8.3	84.9	7.6	1.7	1.8	-0.4
<b>2019</b>	29.8	37.6	131.7	19.8	3.4	4.5	0.5
<b>2022</b>	41.0	52.1	165.6	28.3	5.9	4.9	0.5
<b>Times</b>	7.7x	87x	7x	16.5x	20x	50x	



## Looking Ahead: Two Key Investment Questions

- Will cost inflation revert back to low underlying trend? .... **Yes**
- Will Central Banks continue to create monetary inflation? ... **Yes**

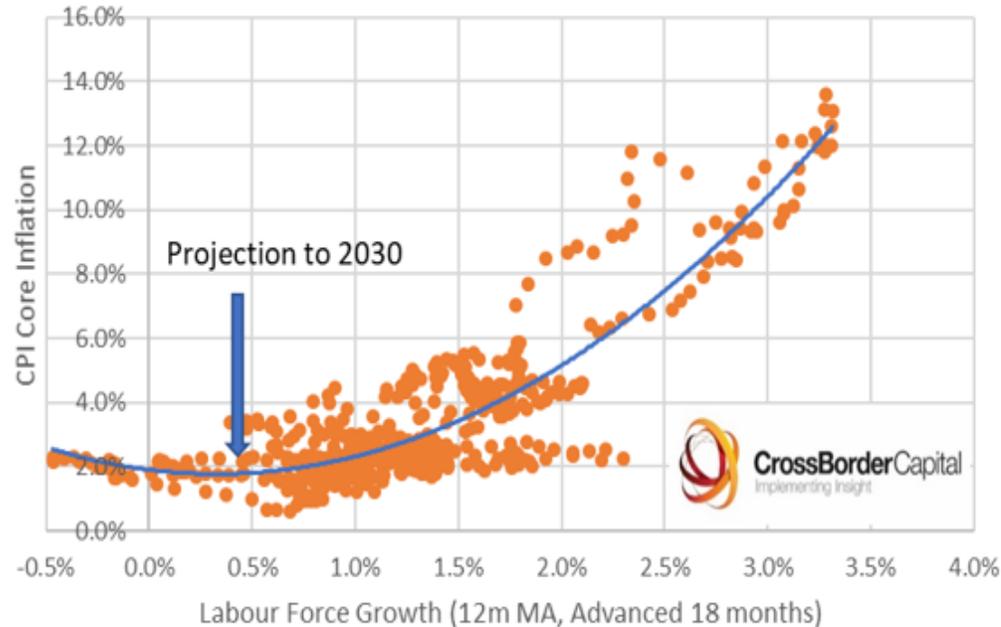
... **Conclusion = underlying trends remain intact: we are simply debating scale and timing of the cycle, and how long inflation lasts**



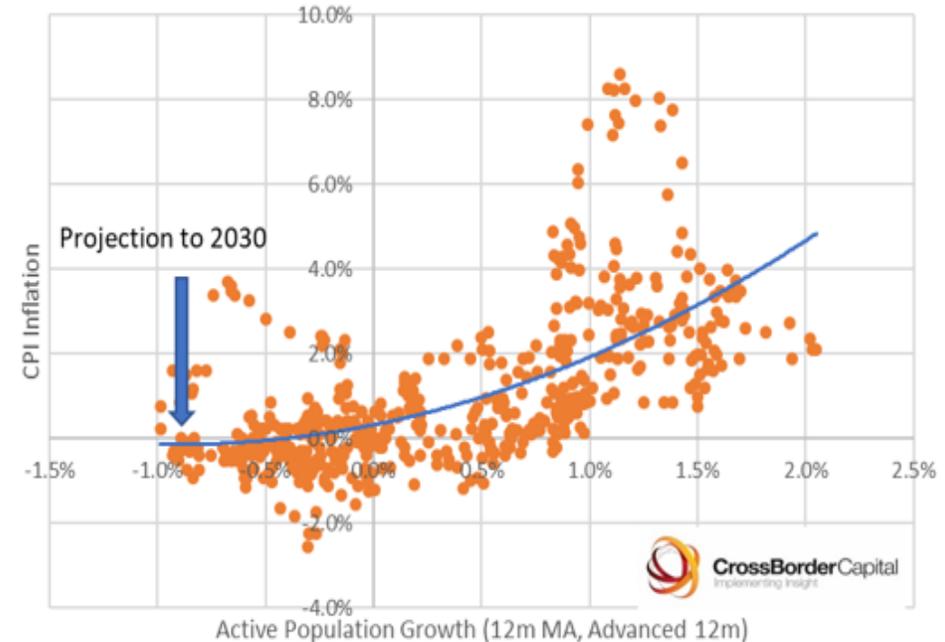
## Is This What The Bond Markets Are Telling Us?

*Inflation is Structurally Low Because of Demographics, Not High! Ageing Populations Are More Likely Deflationary Than Inflationary. Labour Force Growth Matters, Not OAPs. Japan Surely Tells This Story?*

US: Labour Force Growth & CPI, 1978-2021

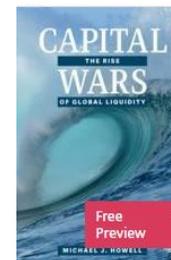
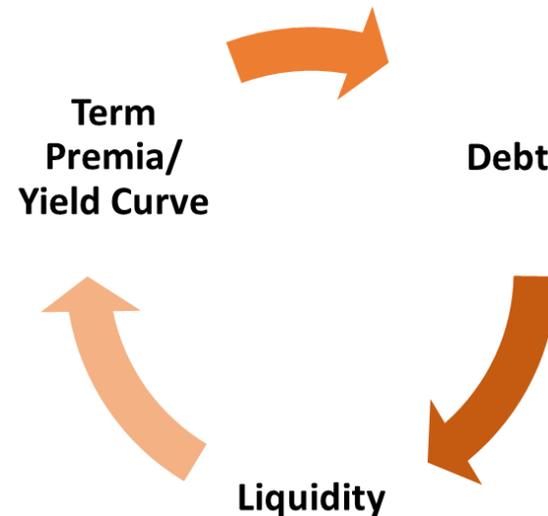


Japan: Active Pop & CPI, 1978-2021



# The Debt-Liquidity Spiral

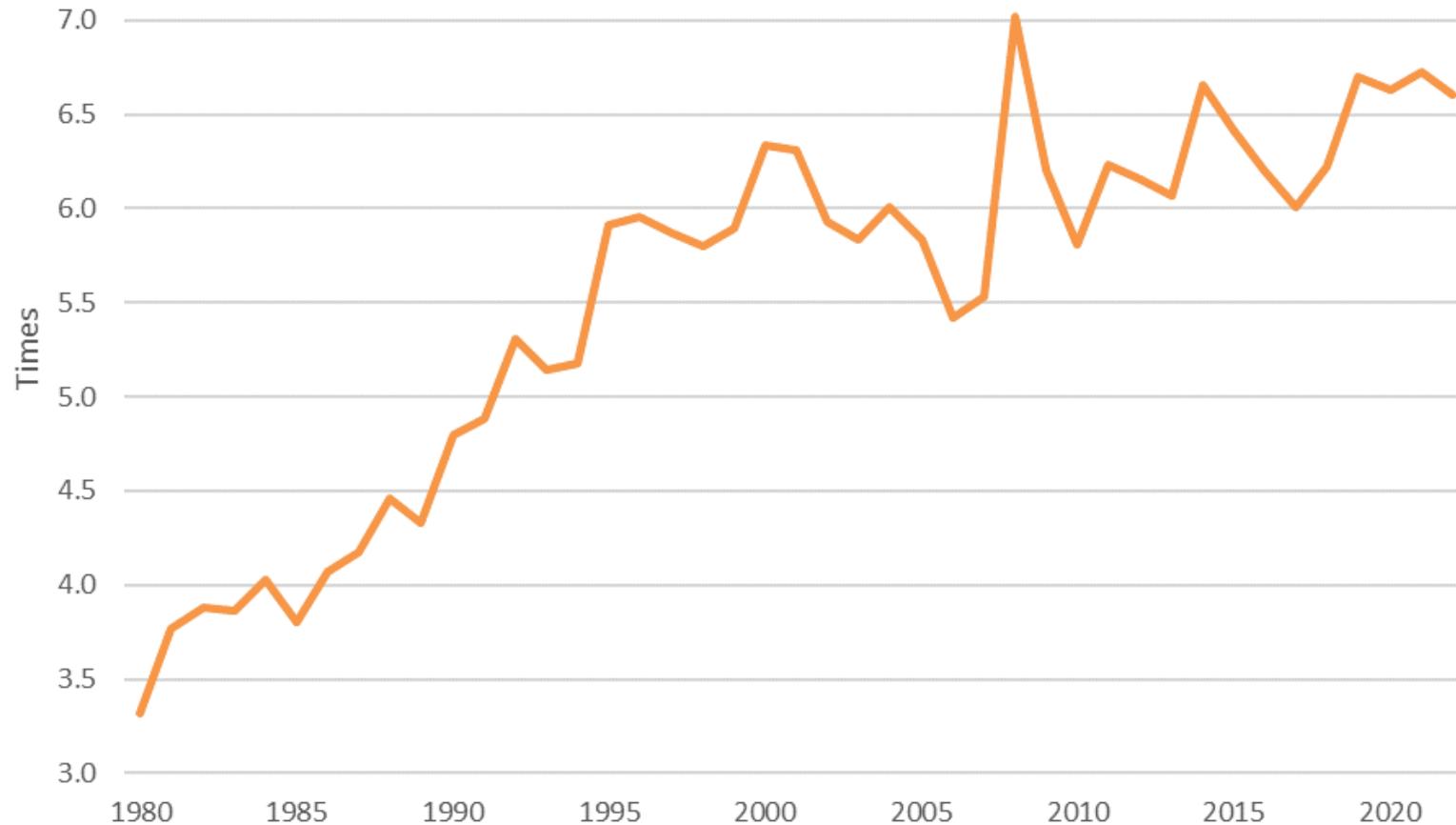
- *Empowering China (& NE Asia) economically has weakened the West financially*
- *The reversal in polarity in World financial flows has forced Western financial markets to become **re-financing mechanisms** (dependent on B/S and liquidity) NOT **new financing systems** (where interest rates matter)*
- *High debts demand more liquidity and create low interest rates. Low interest rates incentivise more debt... Are we locked forever into a spiral of **low interest rates and rising debts**?*



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**Capital Wars**  
The Rise of Global Liquidity  
Authors: **Howell, Michael**



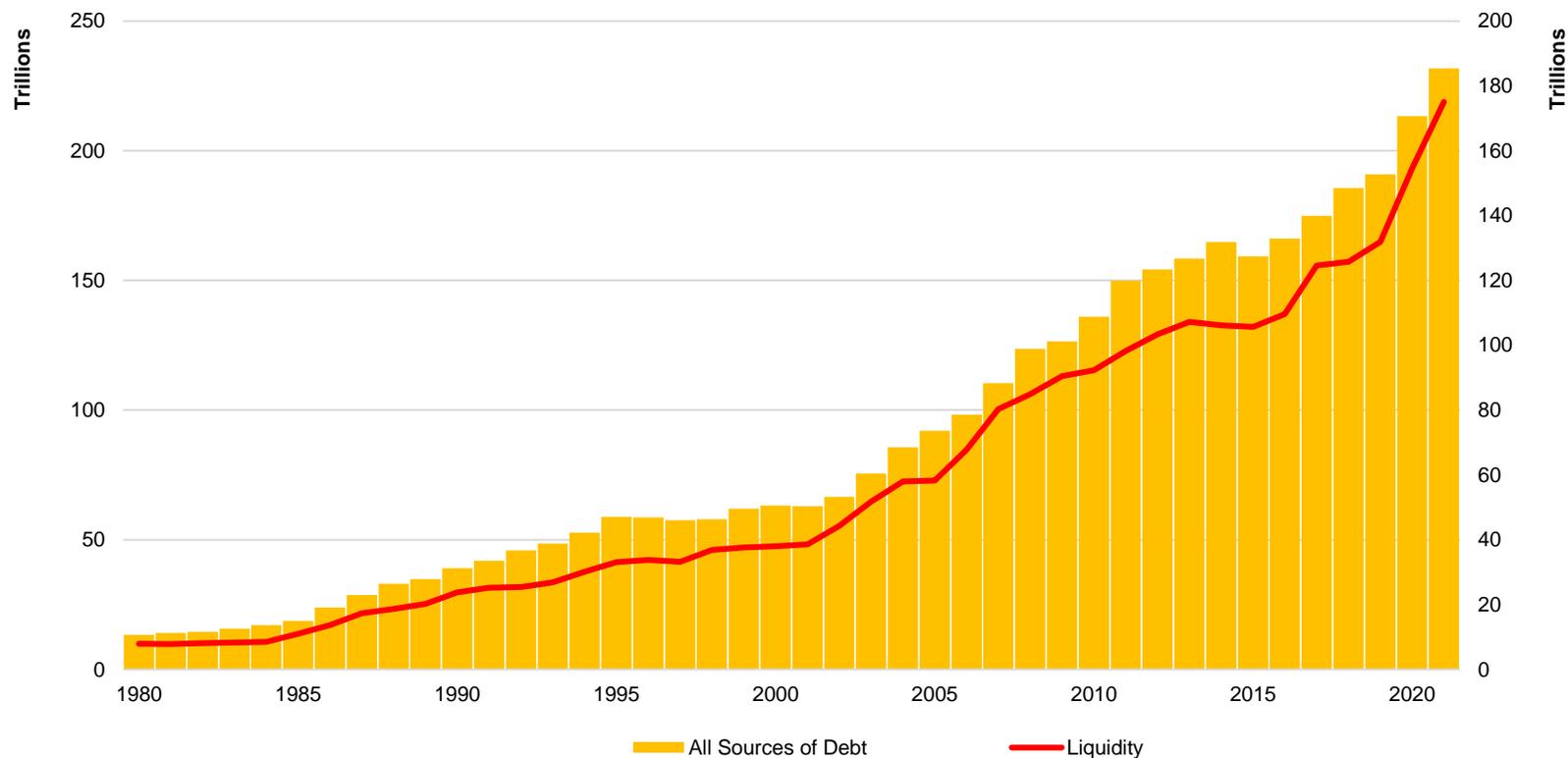
## Ratio of Re-Financing to New Financings: World Economy, 1980-2022





# World Debt (ex-Financials) and Global Liquidity

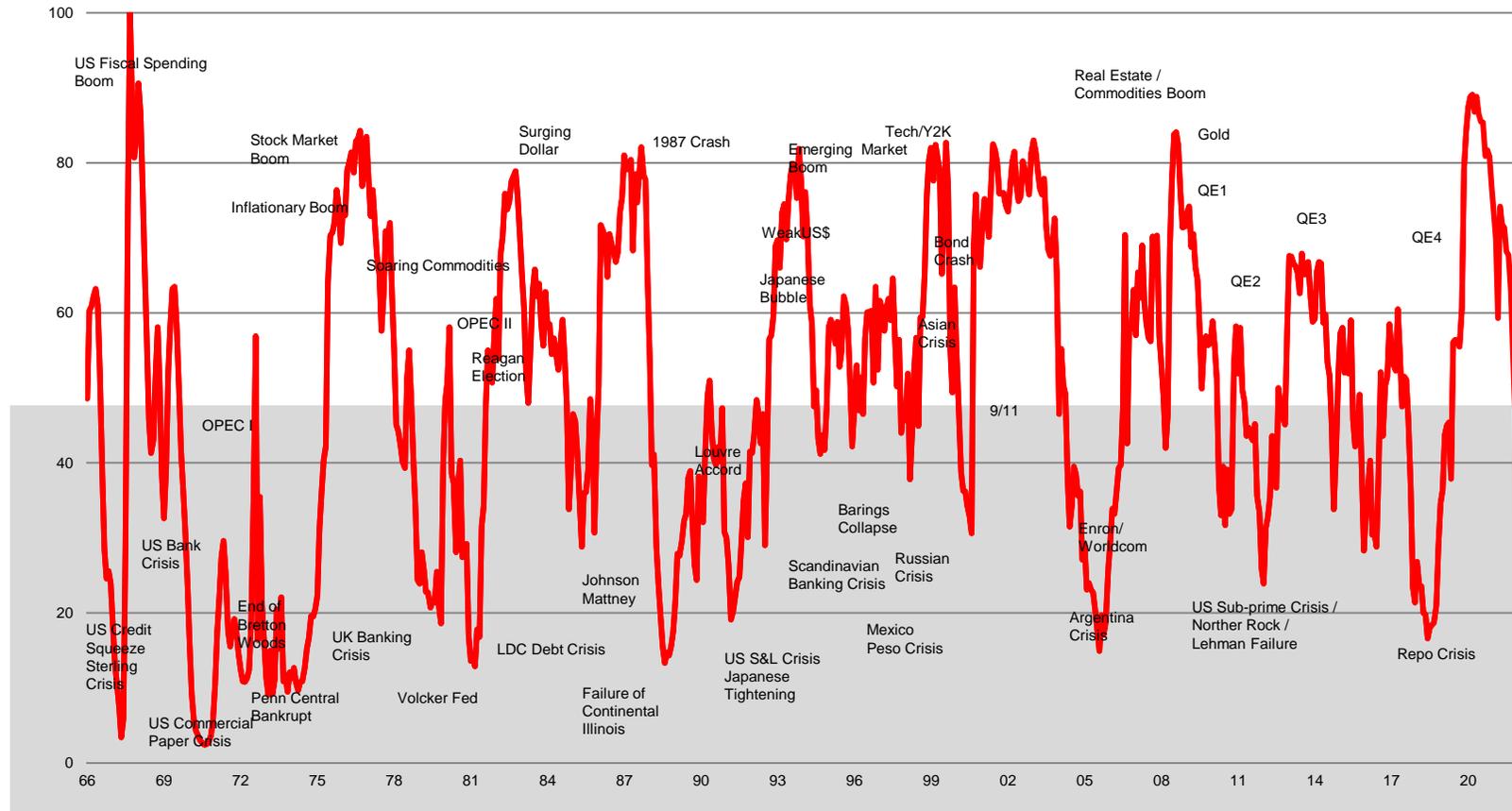
- *The remarkable rise in both World Debt and Global Liquidity continues apace*



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



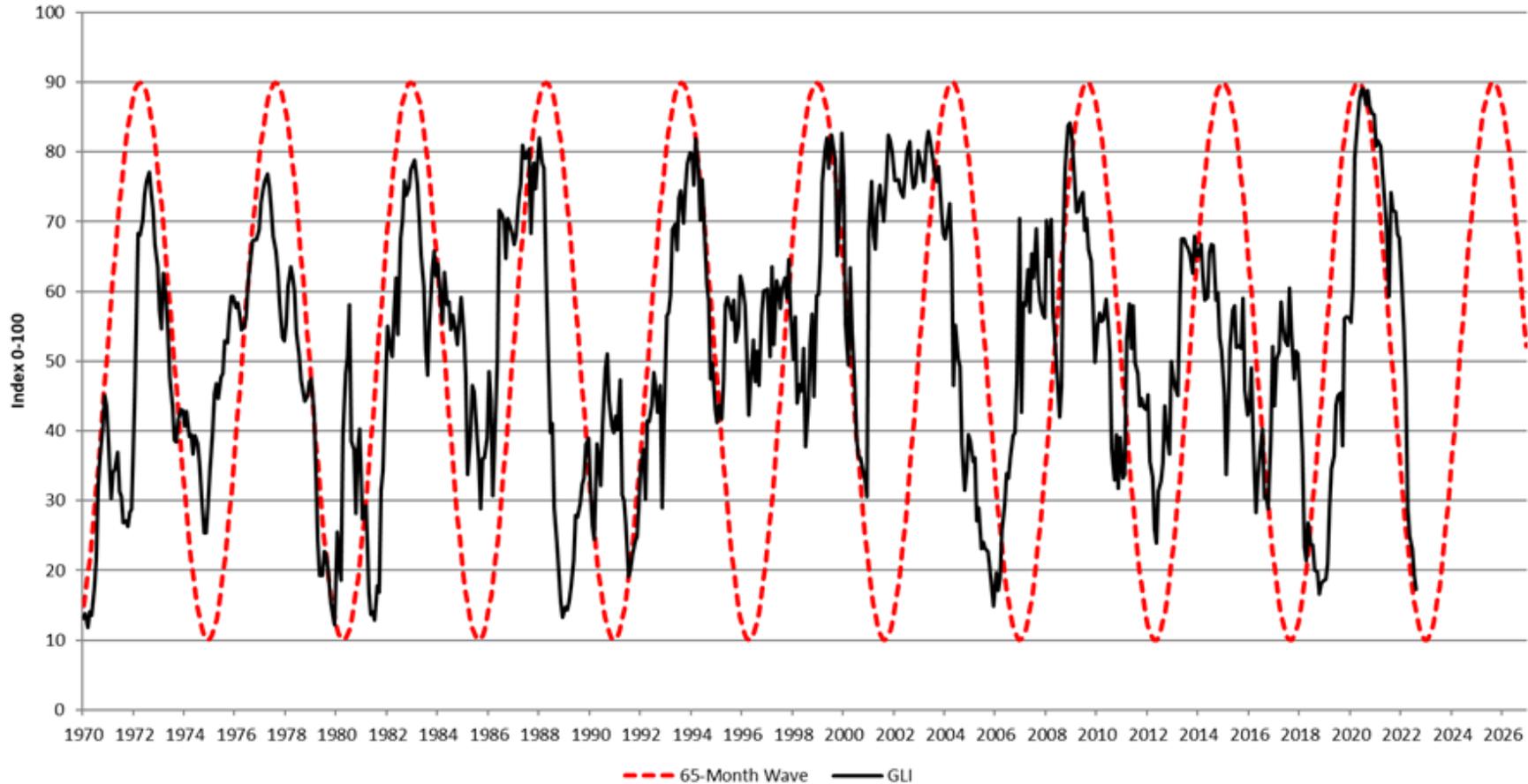
# Global Liquidity Index (GLI™), 1965-2022



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



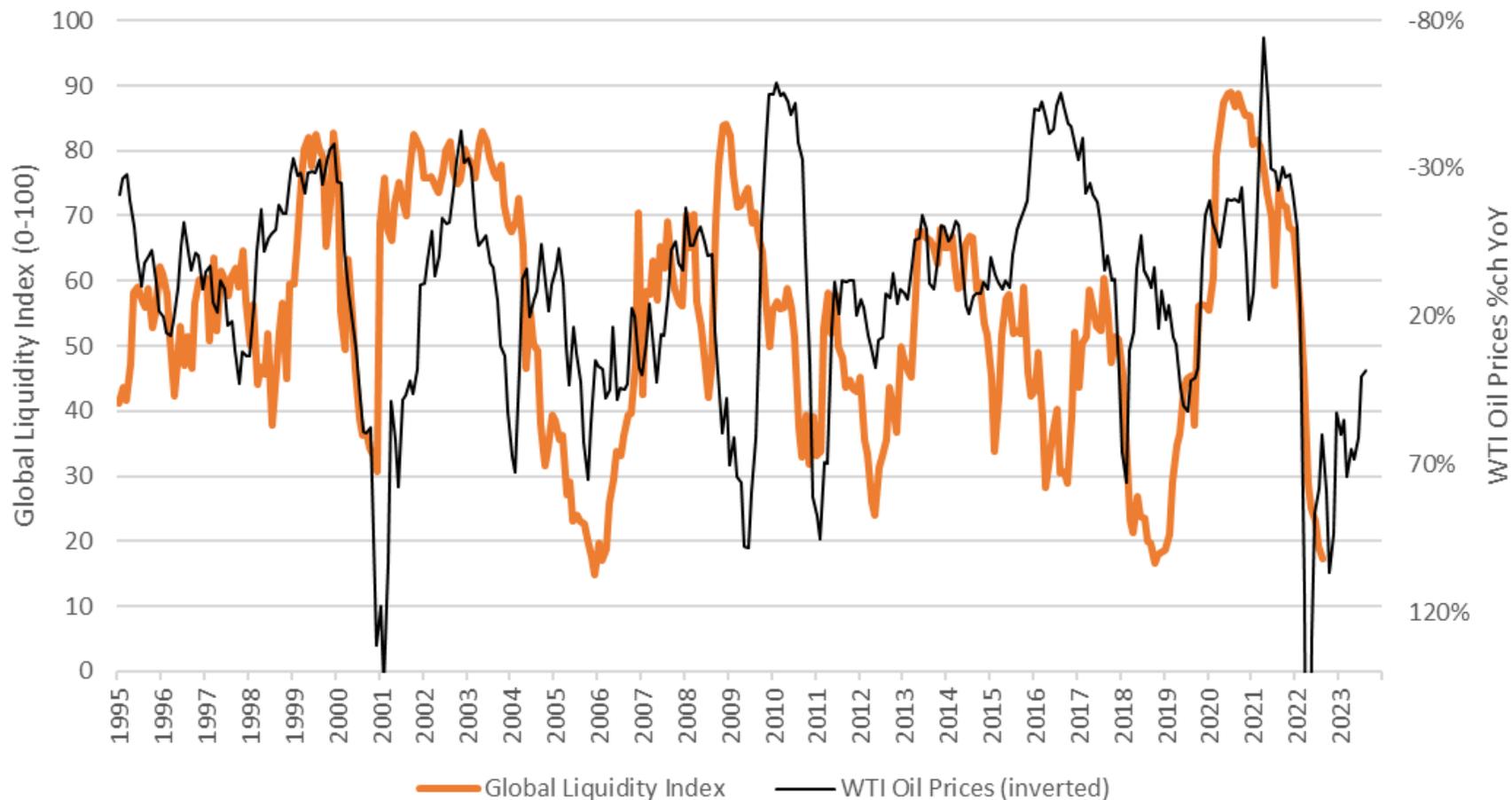
# Global Liquidity Index (GLI™) Long-Term Cycles



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



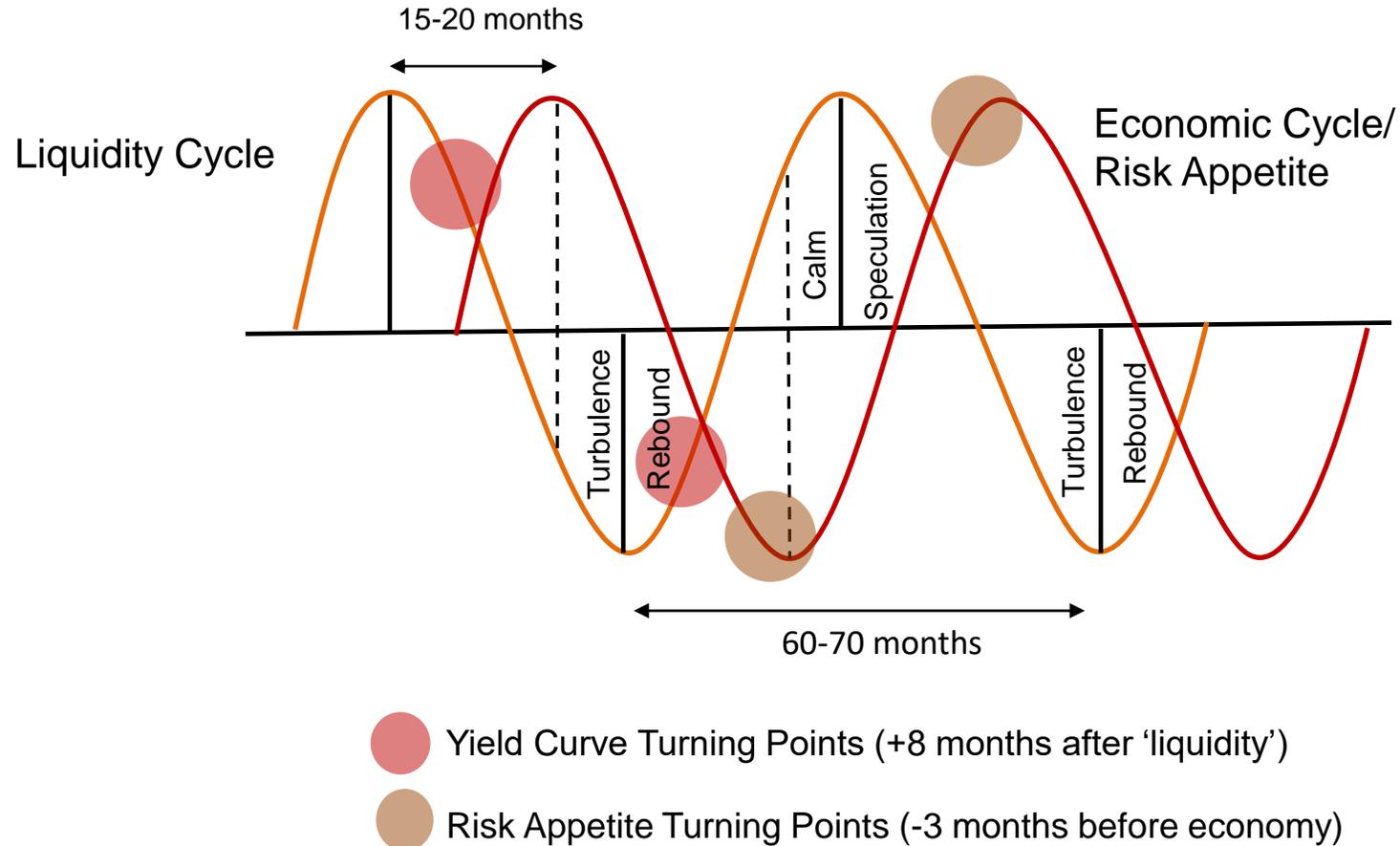
## Higher Oil Prices Smash Global Liquidity ... Lower Oil?



Source  
CrossBorder Capital, US Federal Reserve, FRED



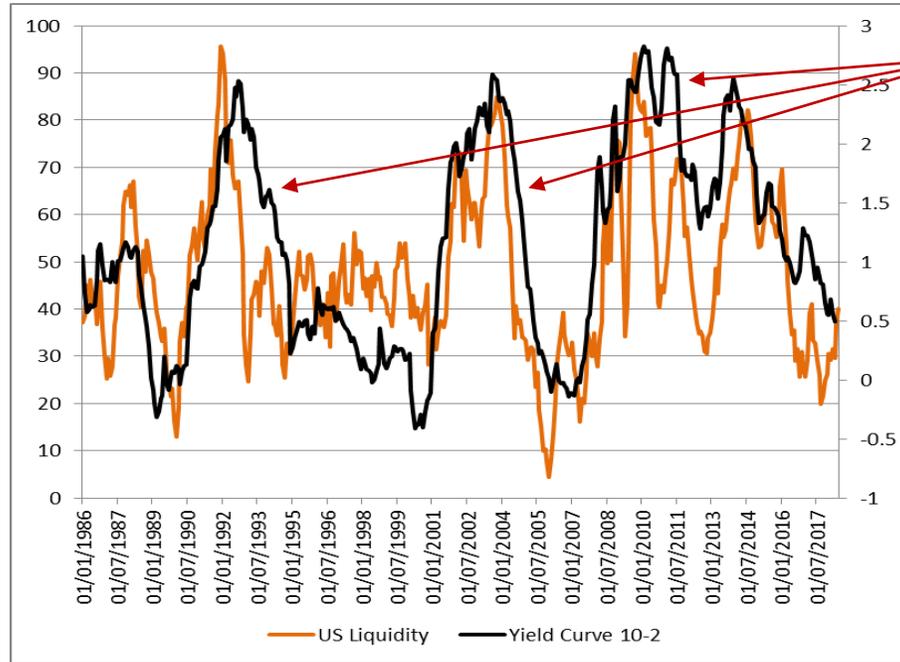
# The Global Liquidity Cycle



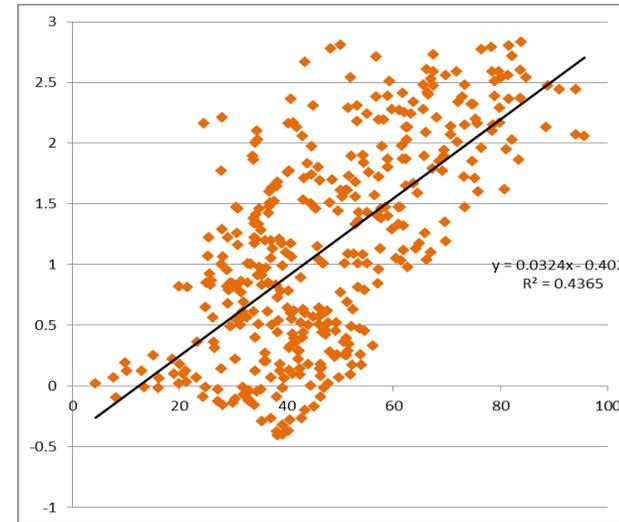
*Implication yield curve leads markets by 6-9 months and economy by 9-12 months. Liquidity leads markets by 9-12 months.*



# What Drives Bonds & The Yield Curve?



The slope of the yield curve moves pro-cyclically with liquidity. The transmission occurs via term premia and the net demand for 'safe' assets



## Pairwise Granger Causality Tests

Date: 05/31/18 Time: 09:50

Sample: 1986M01 2018M12

Lags: 6

Null Hypothesis:

Obs

F-Statistic

Prob.

**US Liquidity** does not Granger Cause **Yield Curve 10-2**

388

2.50553

0.0217

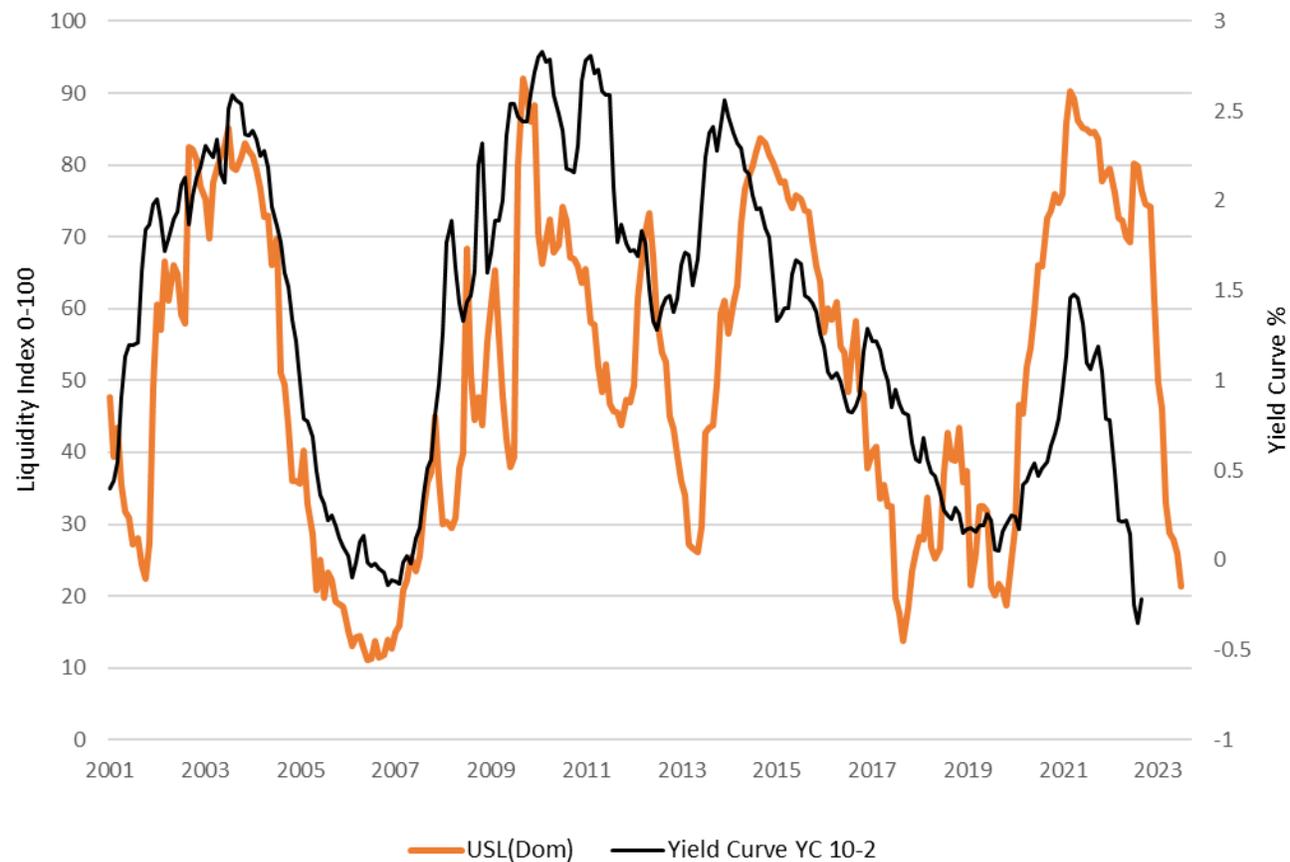
**Yield Curve 10-2** does not Granger Cause **US Liquidity**

0.79594

0.5735



## US Treasury 10-2 Year Yield Curve and US Liquidity(Advanced By 9 Months)

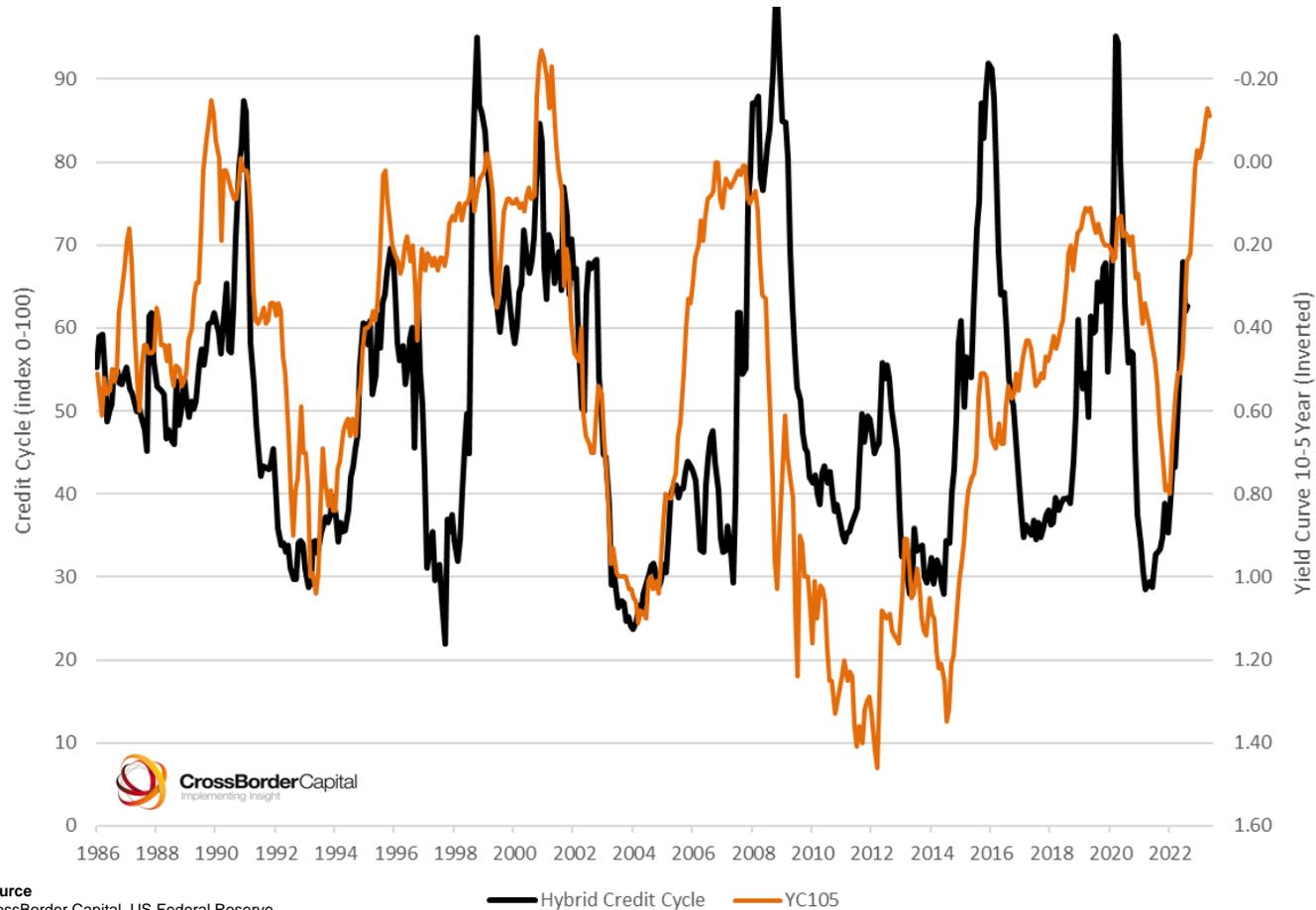


Source  
CrossBorder Capital, US Federal Reserve



## US Treasury 10-5 Yield Curve Spread (+12m) and US Credit Cycle

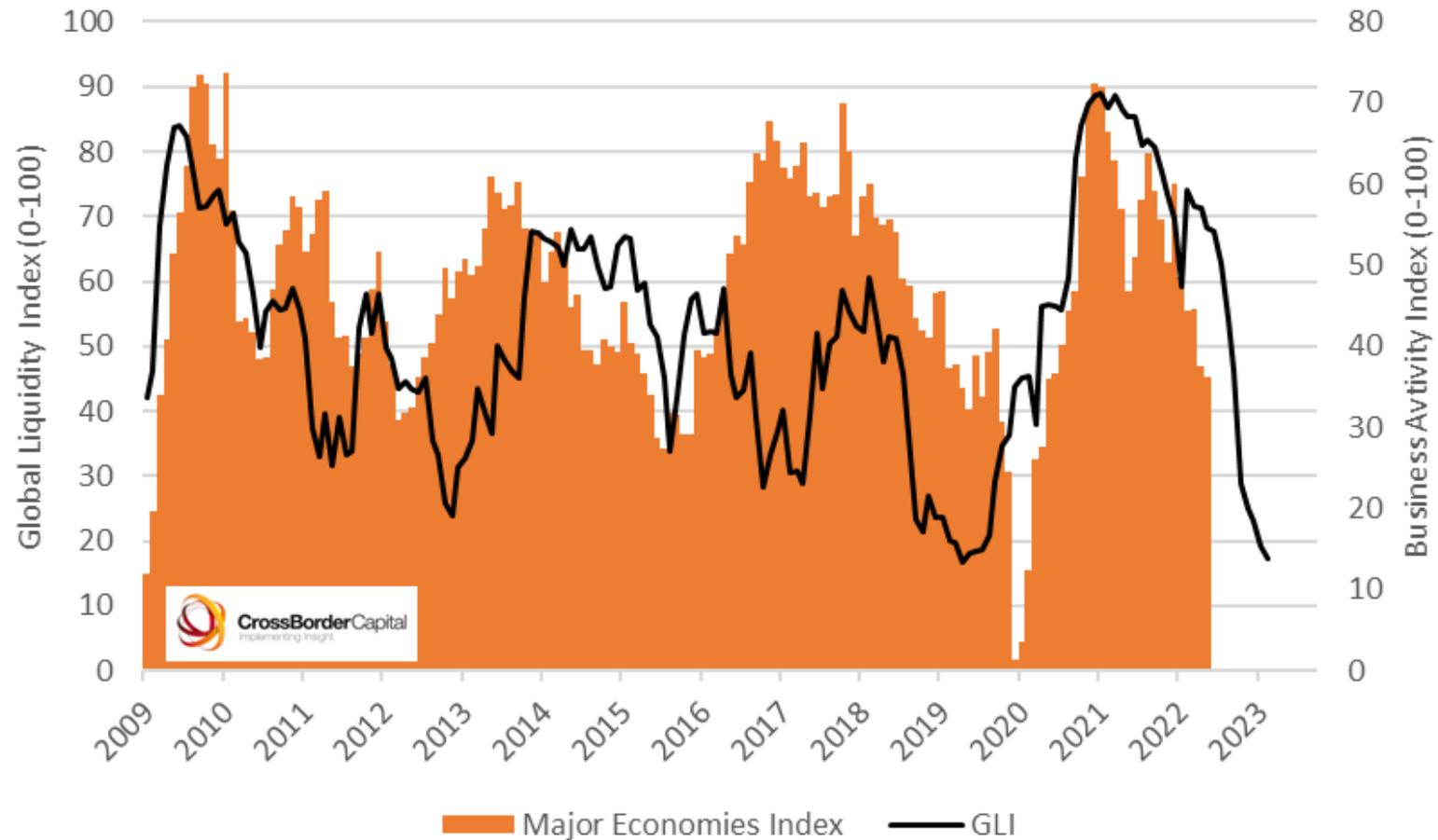
- *Credit spreads move in opposition to yield curve/ term premia*



Source  
CrossBorder Capital, US Federal Reserve

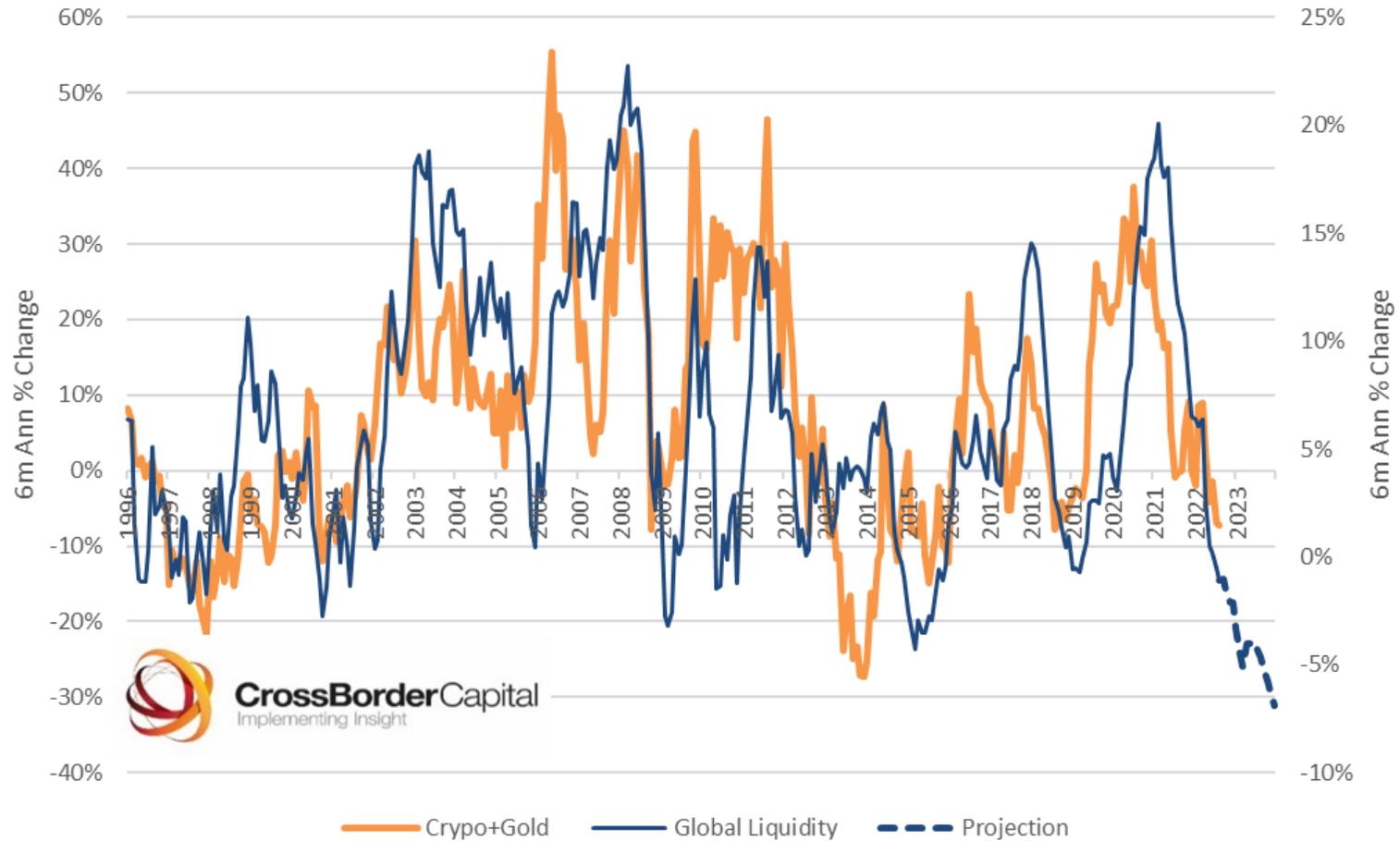


## Major Economies' Business Activity & Global Liquidity (+9 Months)





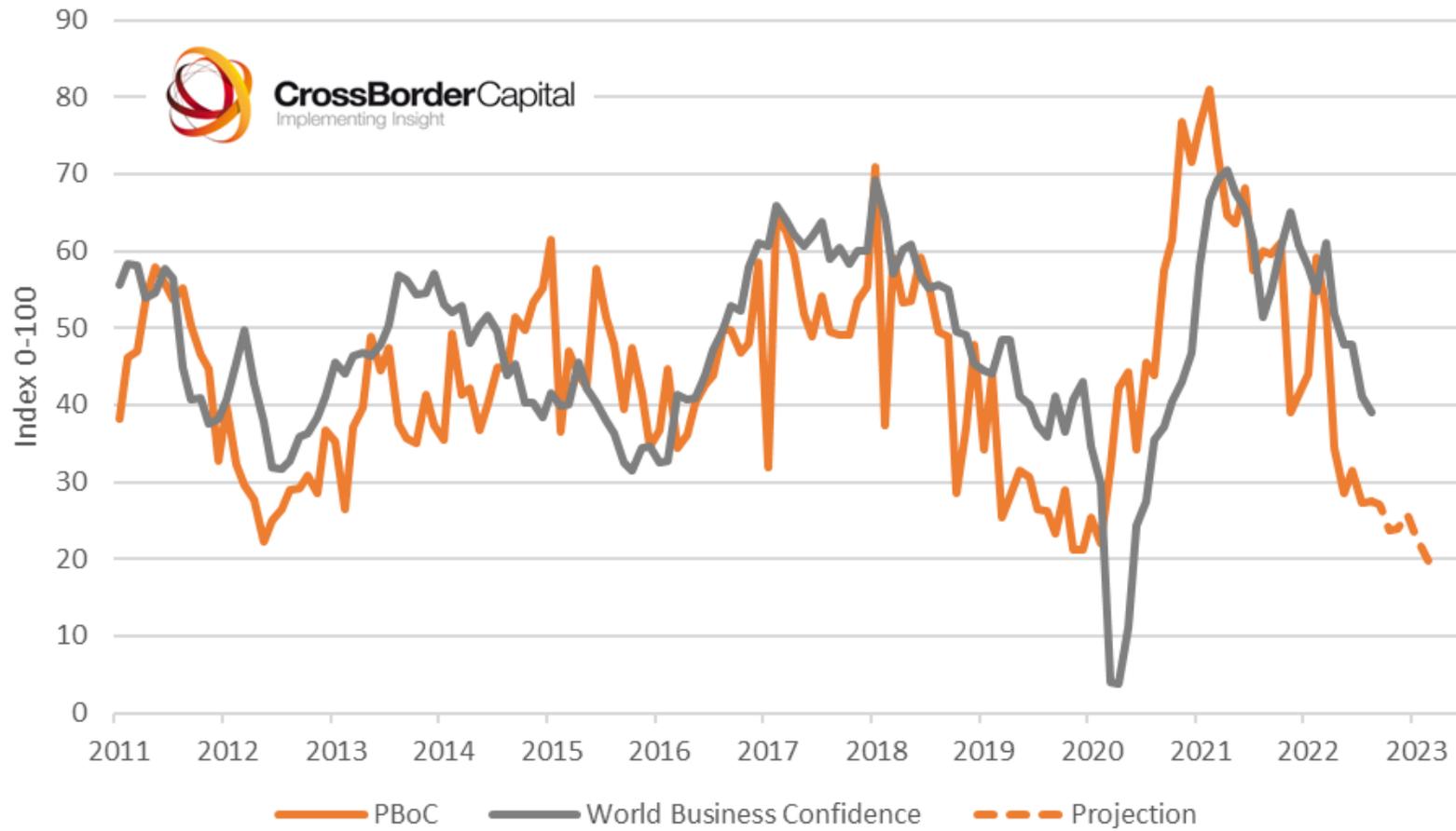
## Global Liquidity & Monetary Inflation Hedges (Gold & Crypto)



Source CrossBorder Capital



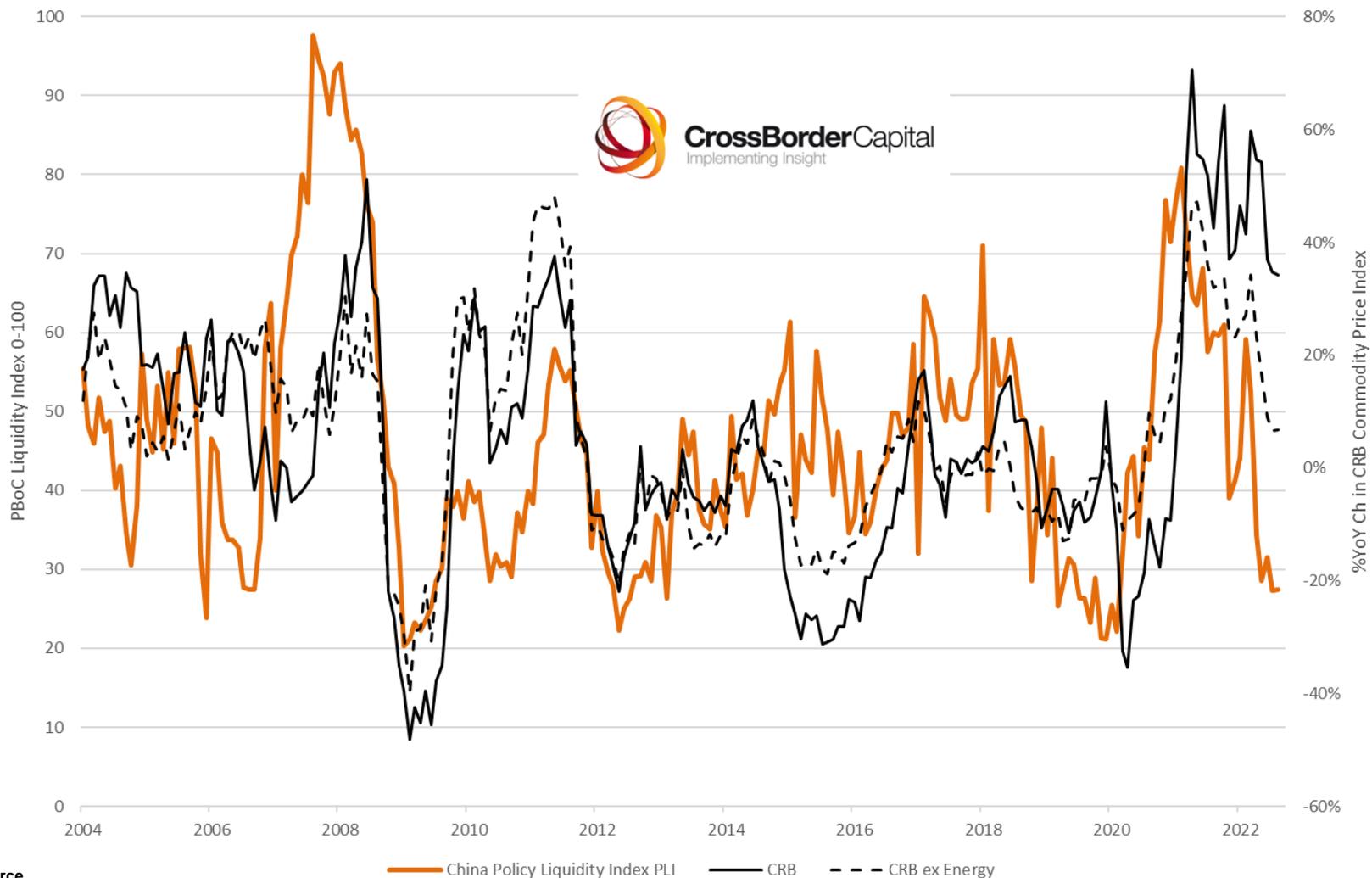
## Chinese People's Bank and World Business Confidence



Source  
CrossBorder Capital, People's Bank of China



# Chinese People's Bank and World Commodity Prices



Source  
CrossBorder Capital, People's Bank of China



## Ratio of World Investors' Equity Holdings to Global Liquidity

- *World stock markets converge towards target level of Global Liquidity 0.51x*

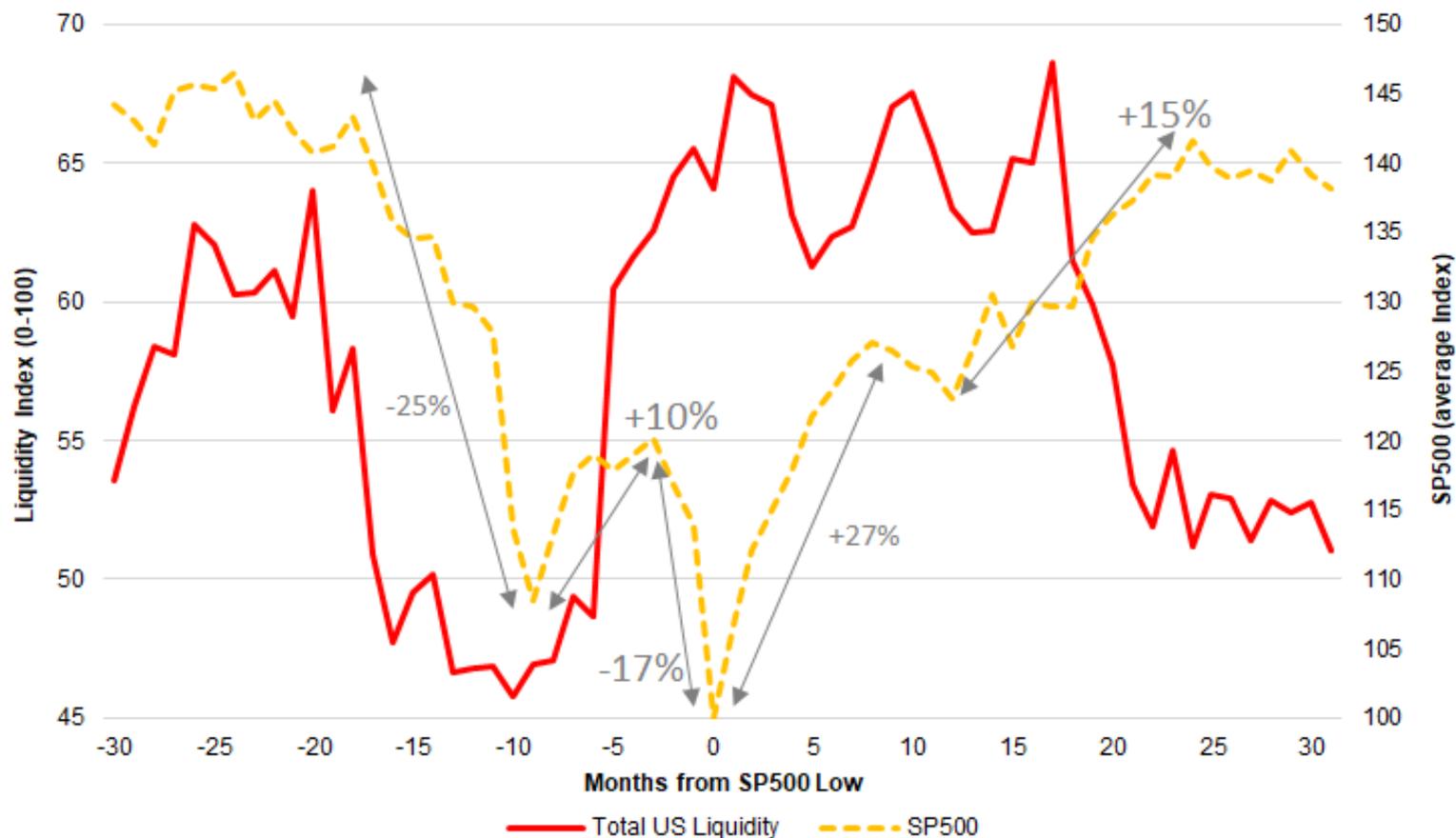


Source  
CrossBorder Capital, US Federal Reserve, People's Bank of China, ECB, Bank of Japan, Bank of England, IMF





## 'Average' S&P500 Index Performance and US Liquidity Index



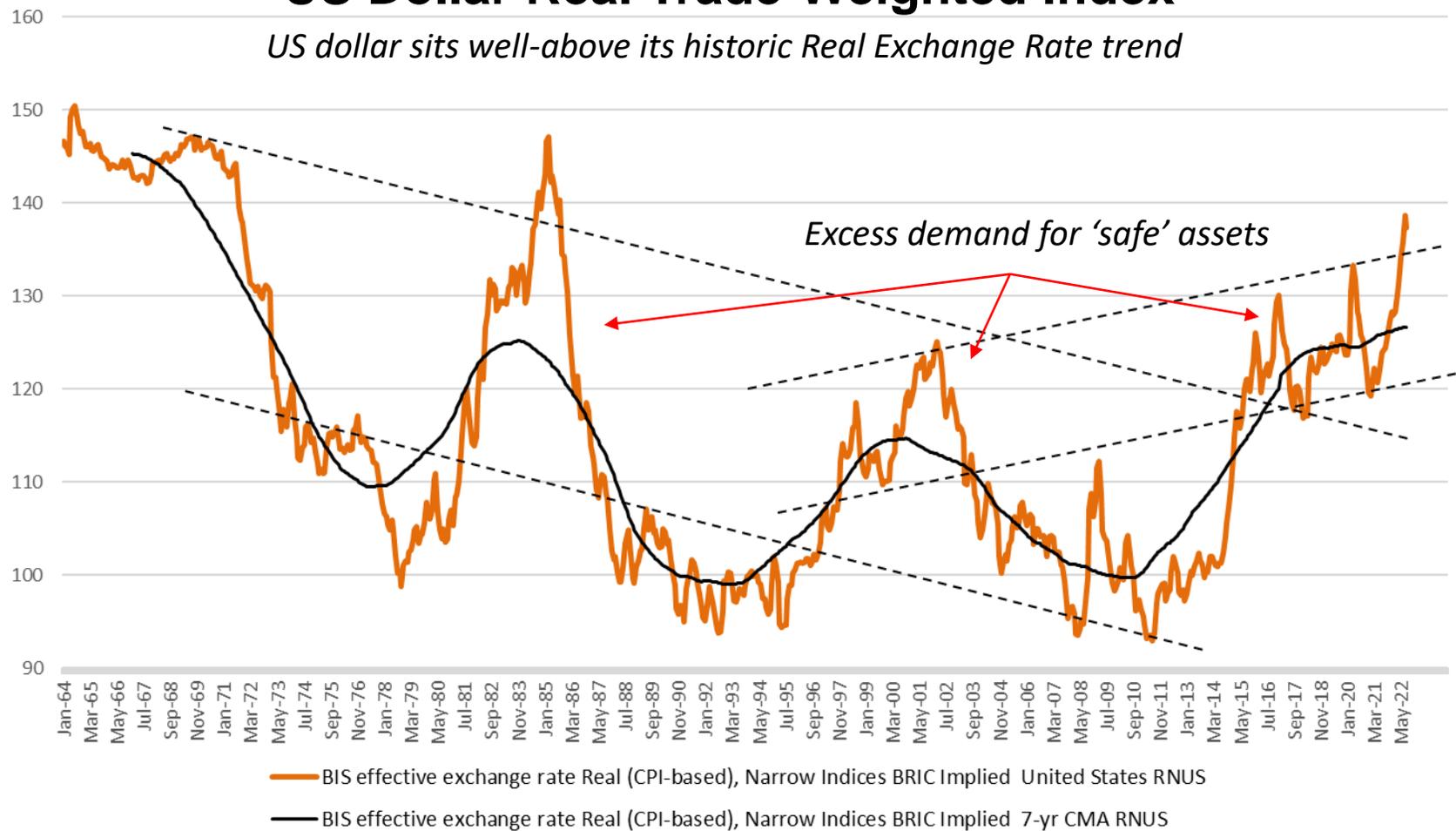
Source  
CrossBorder Capital, US Federal Reserve, S&P500 Index

Note: Overall **Bear Market** drop -31% in 25 months; Overall **Bull Market** rally 42% in 25 months



# US Dollar Real Trade-Weighted Index

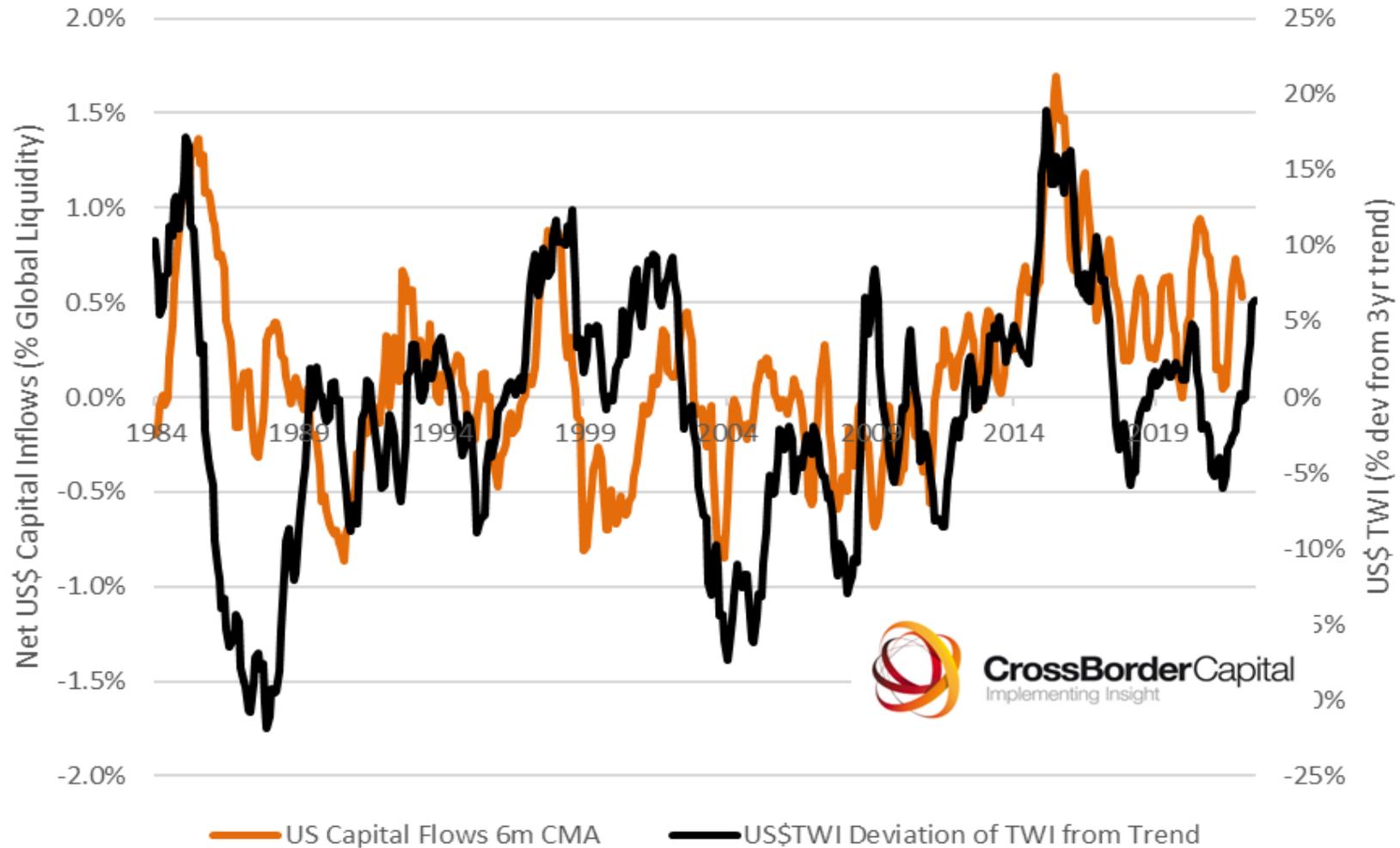
*US dollar sits well-above its historic Real Exchange Rate trend*



Source  
CrossBorder Capital, US Federal Reserve



## Capital Flows into US\$ and % Dev US\$TWI from 3yr Trend

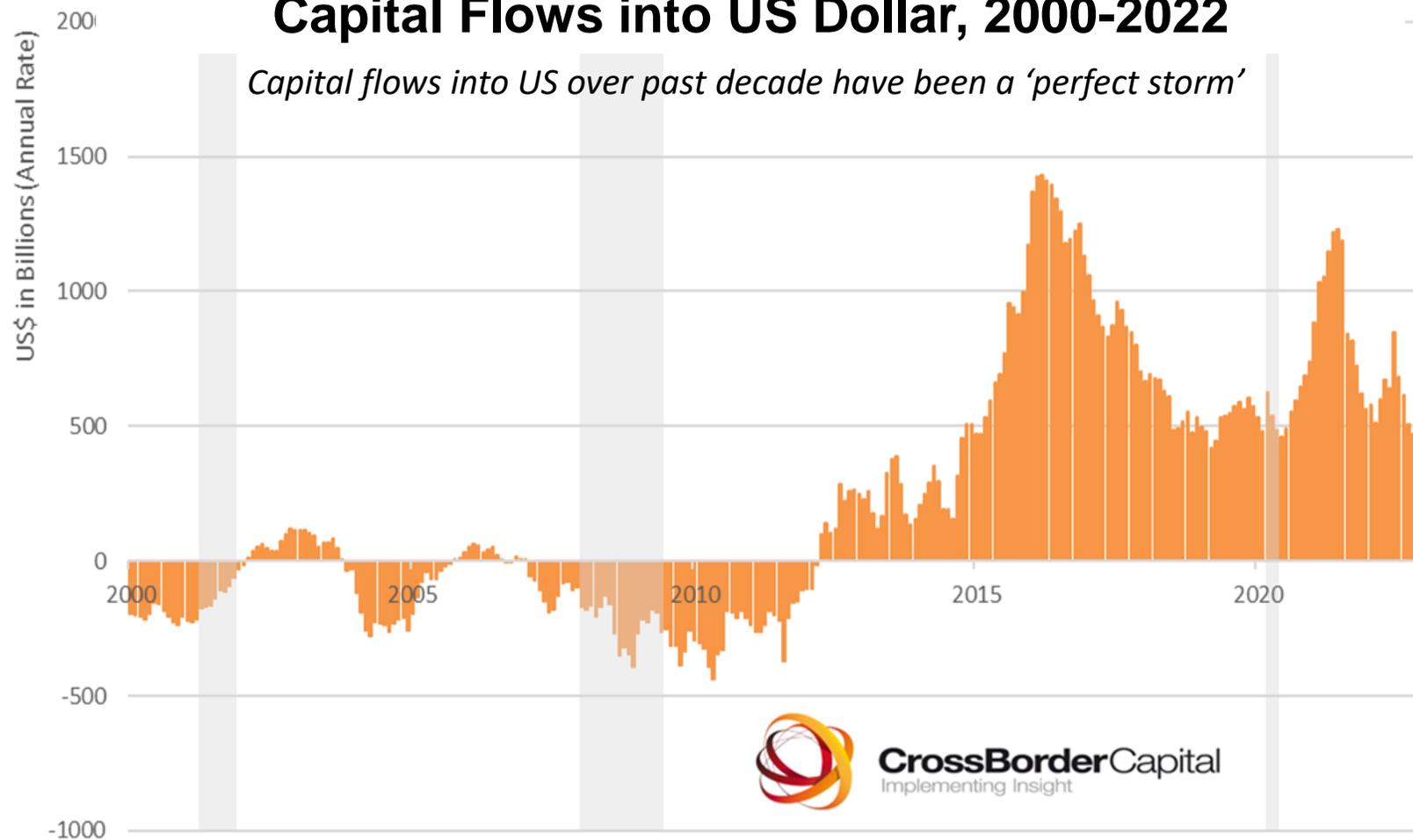


Source  
CrossBorder Capital, US Federal Reserve, IMF



## Capital Flows into US Dollar, 2000-2022

*Capital flows into US over past decade have been a 'perfect storm'*



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



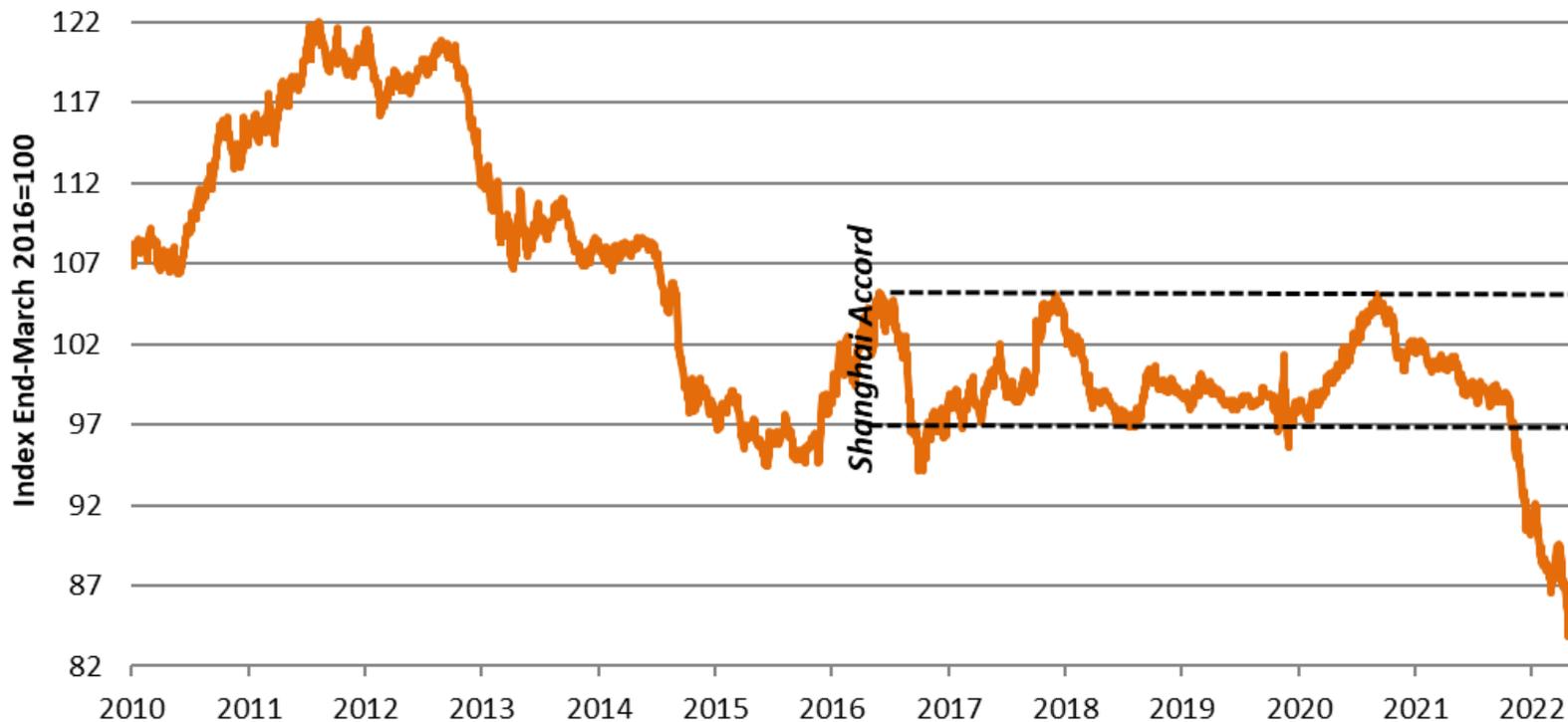
# The US Dollar-based World Financial System

- *US\$-centric Bretton Woods I still exists, there is no BWII nor BWIII*
- *BWI is a funding/ investment system, not an accounting system for World trade*
- *BWI was originally a club for the 'Liberal International Order'. Friend and Foes again demarcated **No PRC or USSR***





## Asian 'Euro' (Currency Basket)



**Source**  
CrossBorder Capital, US Federal Reserve, People's Bank of China, Bank of Japan, IMF



## Final Thoughts: The *Financialisation* of China

*“...we should promote the Renminbi to be the primary currency of Asia, just as the US dollar first became the currency of North America and then the currency of the World ... Every globalisation was initiated by a rising empire ... As a rising super power, the ‘One Belt, One Road’ strategy is the beginning of China’s own globalisation ... it is a counter-measure to the US strategy of shifting focus to the East.”*

(Excerpts from a speech by Major-General Qiao Liang, Chinese PLA, April 2015)



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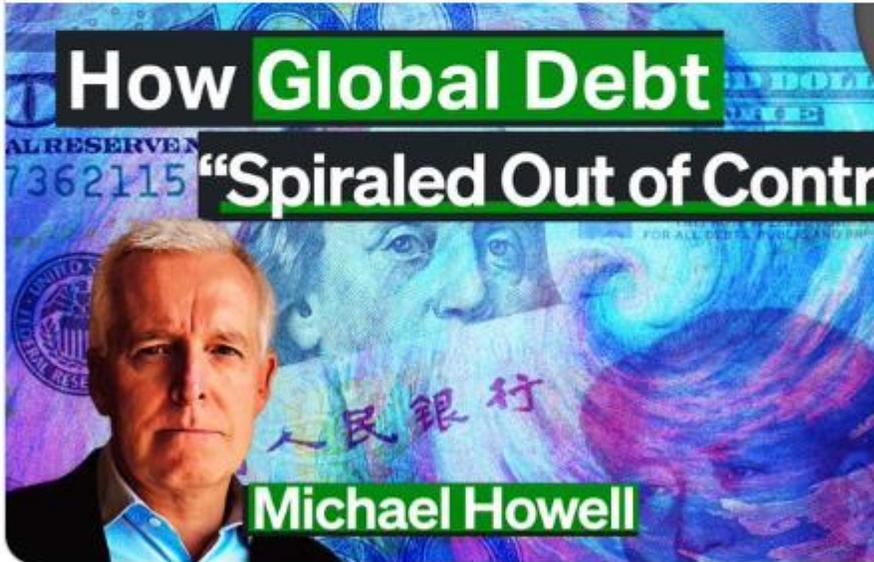
Spotify: [spoti.fi/3BOGLPD](https://spoti.fi/3BOGLPD)

**Mippo** @Mikelppolito\_ · 1h

Soaring global debt, the US vs China power competition, and for liquidity are all connected.

This week's OTM guest @crossbordercap explains why.

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# CAPITAL WARS & THE BATTLE FOR GLOBAL LIQUIDITY

.....MICHAEL HOWELL.....

0:05 / 54:15

Why Global Liquidity Matters Now More Than Ever | Michael Howell

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