



Global View

February 2015

Global Liquidity in 2014: Bigger, Faster, Stronger

This report details the expanding US\$100 trillion pool of Global Liquidity. The US still dominates, but more in currency terms than in geographic size, given the rapid increase in Chinese liquidity. Together, these two nations make up roughly half of the Global Liquidity total. Shadow banks explain much of the pre-Lehman Crisis growth in Global Liquidity, but China and not Western Central Banks' QE policies is behind the subsequent momentum.

Global Liquidity, the flow of cash and credit money through world financial markets, broke through the US\$100 trillion barrier in mid-2014 before settling back to end the year just a tad lower. It has risen by 15 times since 1980, three times since 2000 and it is up 40% since end-2007, mostly because of China and other Emerging Markets. The pool of Global Liquidity stands one-third bigger than World GDP.

Global Liquidity is dominated by the US, China and the European economies. Together, these each comprise roughly one quarter of total flows, with the remainder roughly split equally between Emerging Markets and other Developed economies, such as Japan, Australia and Canada.

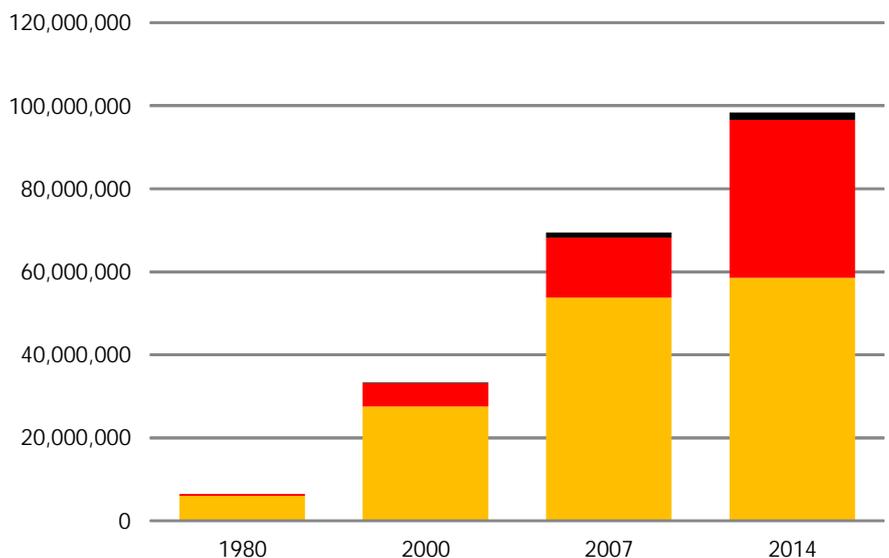
Chinese liquidity now roughly matches the US in size, having nearly quadrupled since end-2007 in what is surely the World's biggest ever (and least discussed) credit boom. On top, the balance sheet of the PBoC (People's Bank) has grown to stand one fifth larger than the post-QE inflated US Fed balance sheet.

Shadow banks contributed a large part of the growth in Global Liquidity in the period ahead of the 2008 Lehman Crisis, although, since then, shadow banking has barely changed in size, either up or down. A major part of the post-2007 growth in Global Liquidity is explained by more active Central Banks through their QE policies.

Figure 1
Global Liquidity by Major
Investment Region
US\$ Millions 1980-2014

- Developed
- Emerging
- Frontier

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



Global View



The share of US dollars and US dollar-linked currencies in Global Liquidity has risen to nearly three-quarters, largely because of the growth of liquidity in China and across the Emerging Markets. This linkage helps to explain why a stronger US dollar often means a tightening of Global Liquidity.

In 2014, Emerging Markets suffered a US\$700 billion net outflow of funds as international capital grew wary of the sector. These flows matter, but they are highly volatile. In 2007, for example, net inflows hit almost US\$500 billion. Given that these flows are often highly leveraged

domestically in EM financial systems (e.g. Chinese Shadow Banks leverage by 12-13 times on our estimates), volatility can be quickly translated into volatility in Global Liquidity itself. As the World gets bigger, it becomes more volatile.

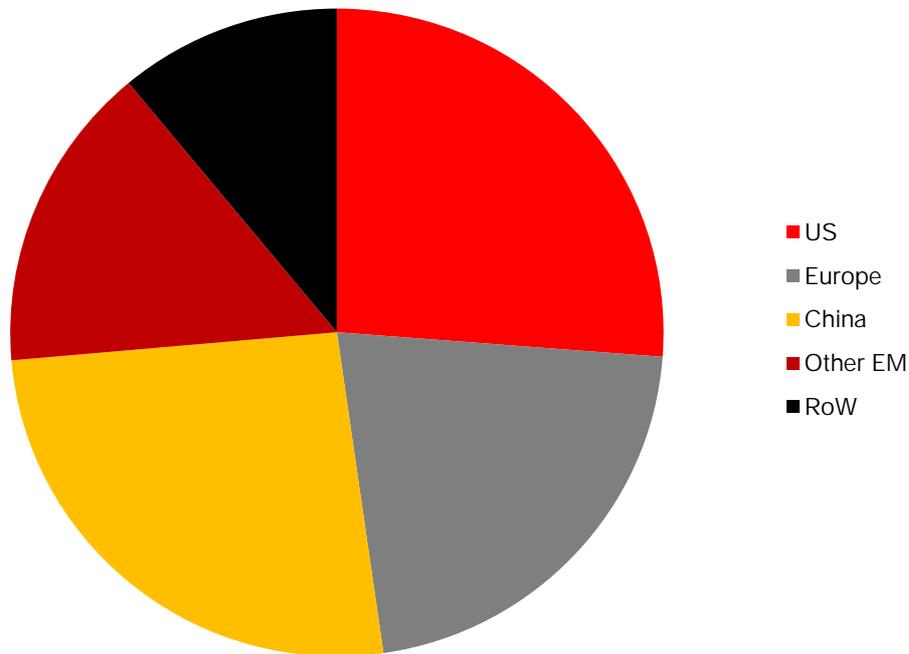


Figure 2
Percentage Breakdown of Global Liquidity
End-2014

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

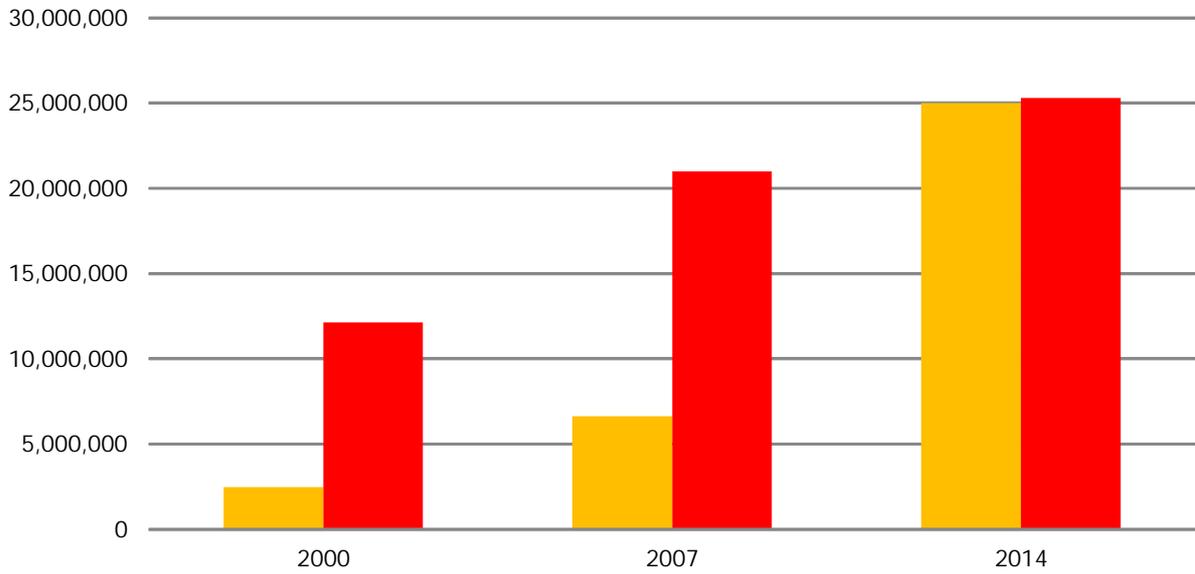


Figure 3
Liquidity Flows - US Versus China
US\$ Millions 2000-2014

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

■ China
■ US

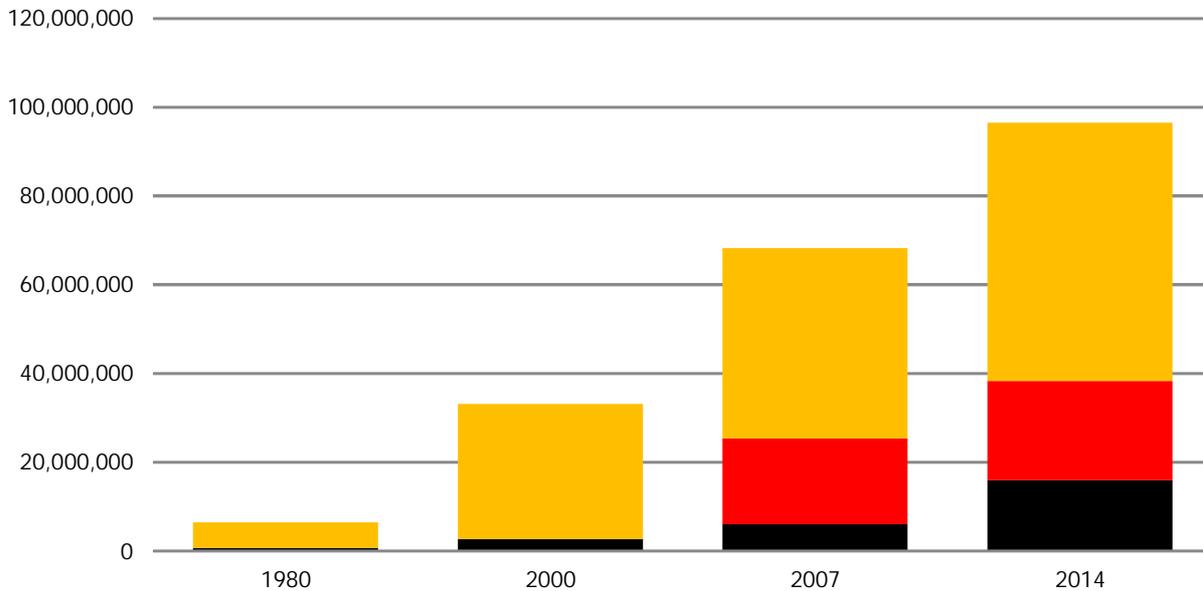


Figure 4
Global Liquidity By Liquidity Type
US\$ Millions 1980-2014

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

■ Central Banks
■ Shadow Banks
■ Private Sector Liquidity

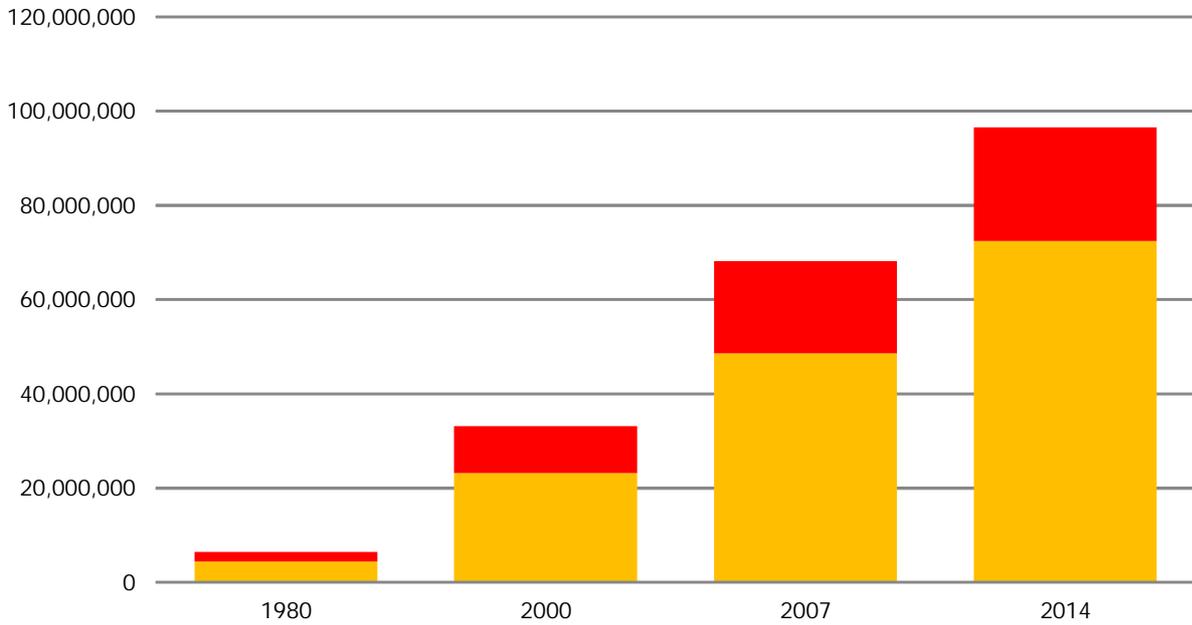


Figure 5
Global Liquidity By Currency Bloc
US\$ Billions 1980-2014

■ US dollar-linked
■ Non-US \$

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

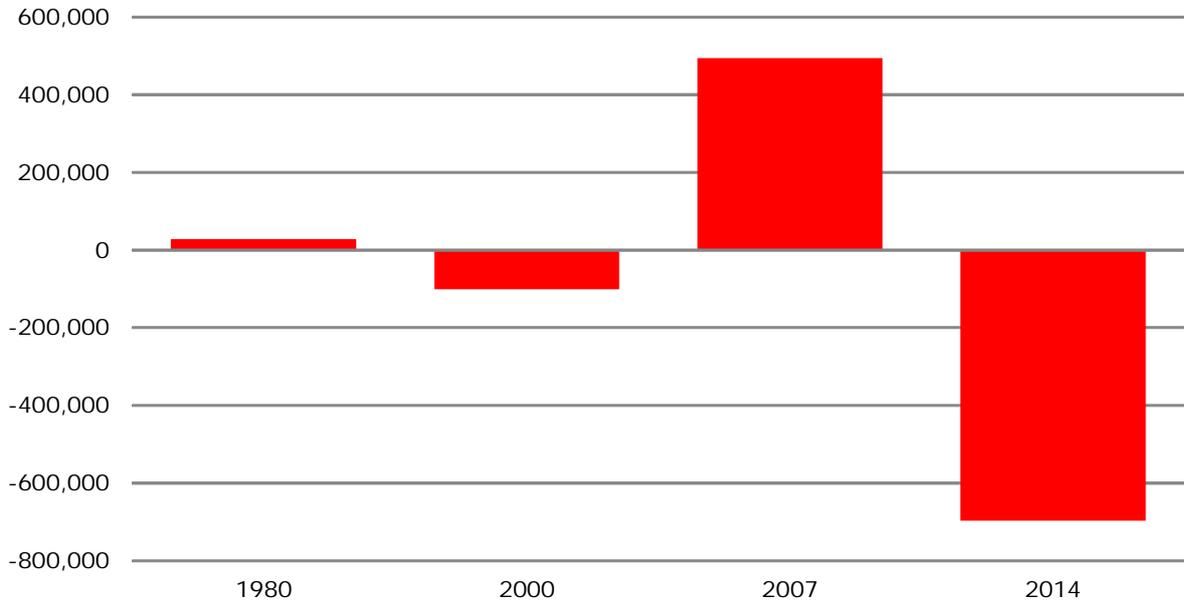


Figure 6
Cross-Border Flows to Emerging Markets
US\$ Millions 1980-2014

Source
CrossBorder Capital, IMF

Global View



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