



Global Liquidity: Latest GLI™ Data

October 2014

Key Points

There are again few bright spots in the latest GLI (Global Liquidity Index) which shows a fall in the month to end-September 2014 from 48.0 ('normal' index 0-100) to 45.0. **Sub-par liquidity conditions are a concern and question future economic expansion and the stability of World financial markets.** The main cause of the drop was another slide in the pace of private sector cash flow generation and more weakness in cross-border capital flows. The former fact warns that big corporations in America, Europe and Japan are no longer generating cash at the pace they were. Weak cross-border flows emphasise that international investors are becoming skittish, a fact spelled out last month in the alacrity of sterling's collapse.

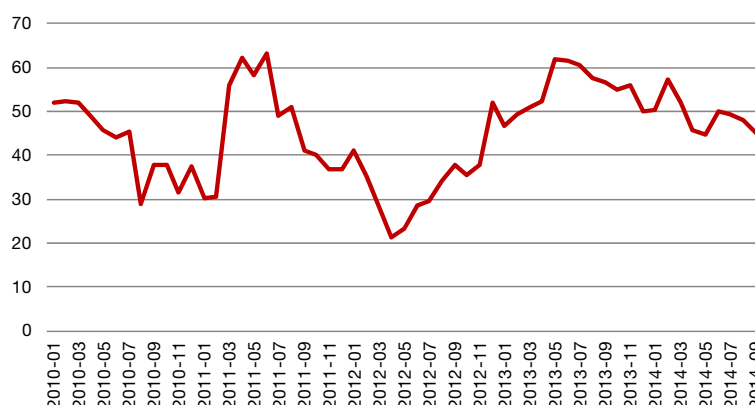
Within the World total, Developed Market (DM) Liquidity remains above average at an index of 56.8 and far stronger than Emerging Market (EM) Liquidity at an 18.4 index. **However, DM liquidity is sliding since in February it stood at 70.9, whereas over the same period EM liquidity has been flat.** Despite a small uptick in liquidity injections from some DM Central Banks, the main cause has been a sharp drop in private sector liquidity from an index of 81.6 to 70.5. This fall may signal a faltering World real economy and has been widespread, with the US sub-index falling to 79.9 from a peak in late-2013 of 96; the UK now at 60.1 from an index of 85.7, and Japan now at 41.4 or half its late-2013 score. Even the Eurozone, which started low and tried to recover, sunk back in September.

The added sting comes from US dollar strength. Our models have forewarned about this risk because, despite popular opinion, the US Federal Reserve is not especially loose in liquidity terms. In short, QE3 is significant, but it is nowhere near as important as QE2 and definitely tiny compared to QE1. This does not say that a reversal of US Fed liquidity is favourable – it is not – rather that the private sector, and specifically US corporations, have been the critical engine for Wall Street. The still wide private sector/Central Bank gap also explains current US dollar strength. **A stronger US dollar is equivalent to a squeeze in global liquidity since it forces many other Central Banks to stay tight and causes funding costs to spiral for off-shore banks that borrow US dollars.** The wary should note the large US dollar outflows from Hong Kong (China's off-shore banking colony) in September.

World GLI™ Summary (‘normal’ range 0-100)	CrossBorderCapital Implementing Insight	Latest Month	Previous Month
TOTAL LIQUIDITY	Decrease, faster rate	45.0	48.0
- Central Bank	Decrease, slower rate	44.1	43
- Private Sector	Increase, slower rate	53.6	61
- Cross-Border Flows	Decrease, faster rate	38	41.1
- Financial Conditions	Improvement, faster rate	61.6	57

The GLI™ are normalised statistical series comprising carefully selected financial flows. A reading above 50 shows an expansion of liquidity and a rise or fall in the index indicates an acceleration or deceleration in speed.

Global Liquidity Cycle
Index ('Normal' range 0-100)
Monthly 2010-2014



Source

CrossBorder Capital, US Federal Reserve, ECB, Bank of England, Bank of Japan, IMF

China GLI™ Summary (‘normal’ range 0-100)	CrossBorderCapital Implementing Insight	Latest Month	Previous Month
TOTAL LIQUIDITY	Decrease, faster rate	23.9	24.1
- Central Bank	Decrease, faster rate	47.1	48.1
- Private Sector	Decrease, slower rate	20.8	17.7
- Cross-Border Flows	Decrease, faster rate	47.4	52.8
- Financial Conditions	Improvement, slower rate	51.8	52.5

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Asia continues to be the most worrying region. Asian Liquidity, on a broad measure that includes China, India and Japan, fell to an index of 27.0, or its lowest reading since 2012. The region is failing to create liquidity domestically; her Central Banks are failing to print liquidity, and now Asia is failing to attract inward cross-border flows. A large part of the problem is the Chinese economy. Admittedly, the People's Bank (PBoC) shifted policy from its earlier tight stance to neutral from late-Spring, but the undertow of weak private sector cash flow, the sharp slowdown in shadow banking activity and further leakage of capital abroad is taking its toll. A weak China is impacting the rest of Asia, even Japan. The plummet in Japanese private sector cash flows is a likely result of Chinese economic problems, but the policy response of further Yen weakness may reinforce this downward spiral because the Yen/ US\$ cross-rate remains crucial to the region's economic prospects. The BoJ's last Reserve Maintenance Period in September saw another large injection of funds pushing net liquidity injections up to Y175 trillion. This may reflect fiscal half-year window-dressing, but the BoJ's previous big liquidity boost in June signalled more Yen weakness.

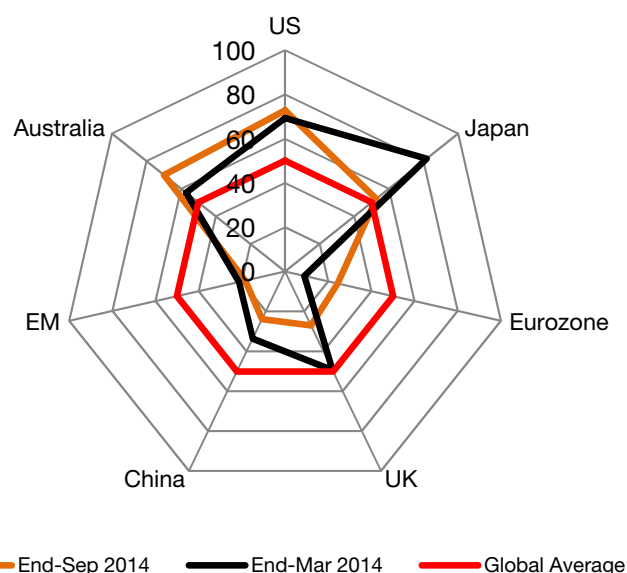
EM are seeing increased volatility in their liquidity data. This year's pick, India, suffered a sharp fall in private sector liquidity in September to an index of 33.9, whereas Russia, this year's pan, enjoyed a positive net inflow of foreign capital in the month, after many months of haemorrhaging funds. A more sombre note rings out from the peak in our 'Edge' index that measures net capital flows into the periphery of the World's financial system, such as Pakistan and Venezuela. **In a joint study with a major risk consultant last year, we showed that this index can be a good predictor of global financial crises.** Unlike 2007/08, the Edge index is not plunging (at least yet), but it appears to have peaked. The speed of exit from sterling last month sounds another warning. The added worry for the UK is that liquidity conditions are now showing 'tightness', having roughly halved since February to an index of only 27.1. This augurs poorly for the upcoming Election because housing is highly liquidity-sensitive and the scale of this drop is consistent with a 10% house price fall.

The overall investment message from the end-September data is cautionary. We have argued over recent months that the pattern of the GLI suggests that 2014 is consistent with what we describe as the *Speculation* phase of the investment cycle, following last year's *Calm*. Troublingly, this means that 2015 suggests an upcoming *Turbulence* phase. The latest liquidity data certainly cannot refute this. World bond markets unquestionably are following this negative script, but then falling liquidity always force yield curves to flatten and unless policy-makers quickly come to the rescue with another new QE4, liquidity and yields must fall even more.

All Emerging Markets GLI™ Summary (‘normal’ range 0-100)	CrossBorderCapital Implementing Insight	Latest Month	Previous Month
TOTAL LIQUIDITY	Decrease, faster rate	18.4	18.5
- Central Bank	Decrease, faster rate	42.2	45.3
- Private Sector	Decrease, slower rate	12.4	10.8
- Cross-Border Flows	Decrease, faster rate	42.8	44
- Financial Conditions	Improvement, faster rate	64.5	63.6

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Liquidity Conditions



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

US GLI™ Summary (‘normal’ range 0-100)	CrossBorderCapital Implementing Insight	Latest Month	Previous Month
TOTAL LIQUIDITY	Increase, faster rate	72.8	72.6
- Central Bank	Increase, faster rate	60.8	56.2
- Private Sector	Increase, slower rate	79.9	86.3
- Cross-Border Flows	Decrease, faster rate	2	2.2
- Financial Conditions	Improvement, faster rate	60.4	56.2

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Global Liquidity Indices

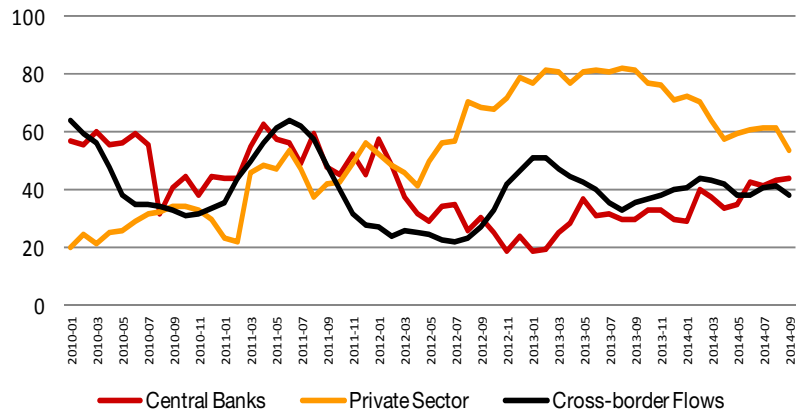
Index ('Normal' Range 0-100) 2013-2014

Index 'Normal' Range = 0-100	Policy Liquidity PLI (Index)	Private Sector Liquidity PSI (Index)	Cross-border Flows XFI (Index)	Total Liquidity TLI (Index)
Sep-13	29.4	81.4	35.2	56.4
Oct-13	33.1	76.9	37	54.8
Nov-13	33.1	76.4	38	56
Dec-13	29.7	70.9	40.2	50.1
Jan-14	28.7	72.2	40.6	50.4
Feb-14	39.8	70.1	43.5	57.2
Mar-14	37.4	63.5	42.9	52
Apr-14	33.5	57.1	41.7	45.5
May-14	34.9	59.4	38.2	44.7
Jun-14	42.2	60.5	38	50.1
Jul-14	41.1	61.2	40.5	49.2
Aug-14	43	61	41.1	48
Sep-14	44.1	53.6	38	45

Source

CrossBorder Capital, US Federal Reserve, ECB, Bank of England, Bank of Japan, IMF

GLI™ Breakdown: Central Banks, Private Sector and Cross-border Flows 2010-2014



Source

CrossBorder Capital, US Federal Reserve, ECB, Bank of England, Bank of Japan, IMF

Global, Developed Markets, Emerging Markets and Frontier Markets - Total Liquidity and Risk Appetite

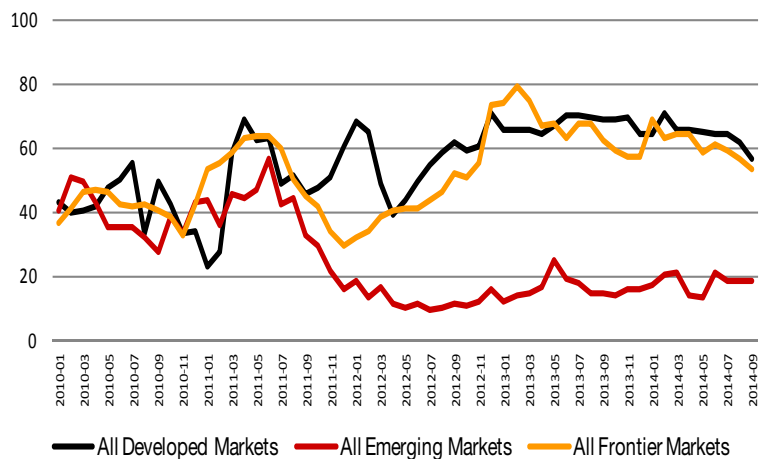
Index ('Normal' Range 0-100) 2013-2014

Index 'Normal' Range = 0-100	World	All Developed Markets	All Emerging Markets	All Frontier Markets	Risk Appetite (Index)
Sep-13	56.4	69	14.7	62.7	-1.3
Oct-13	54.8	68.9	13.9	59	-0.4
Nov-13	56	69.8	16	57.3	-1
Dec-13	50.1	64.6	16.2	57.4	-1.3
Jan-14	50.4	64.7	17.2	68.6	-11.1
Feb-14	57.2	70.9	20.5	63	-4.6
Mar-14	52	66	21.3	64.3	-8.3
Apr-14	45.5	65.9	14	64.1	-6.7
May-14	44.7	65.2	13.6	58.9	-7.6
Jun-14	50.1	64.7	21.2	61.4	-8.5
Jul-14	49.2	64.7	18.3	59.4	-9.5
Aug-14	48	61.8	18.5	56.9	-9.2
Sep-14	45	56.8	18.4	53.2	-16.5

Source

CrossBorder Capital, US Federal Reserve, ECB, Bank of England, Bank of Japan, IMF

GLI™ Breakdown: Major Regimes 2010-2014



Source

CrossBorder Capital, US Federal Reserve, ECB, Bank of England, Bank of Japan, IMF



Global Liquidity Changes

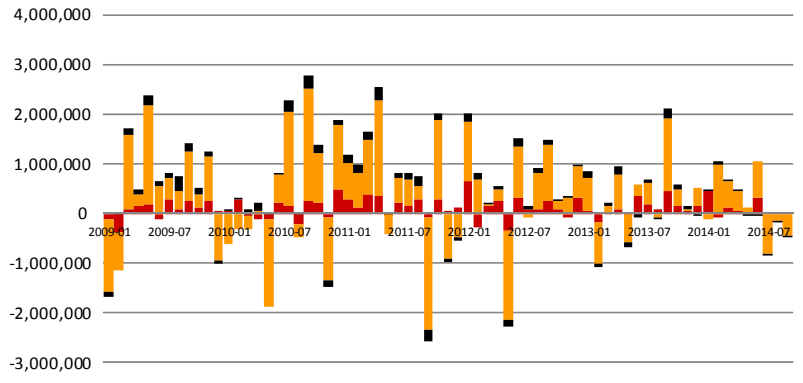
US\$ Millions Rolling 3-month Average 2013-2014

Index 'Normal' Range = 0-100	Policy Liquidity (US dollars)	Private Sector Liquidity (US dollars)	Cross-border Flows (US dollars)	Total Liquidity (US dollars)
Sep-13	238,924	612,947	74,446	926,318
Oct-13	230,046	576,046	92,857	898,949
Nov-13	224,786	609,286	122,658	956,730
Dec-13	131,206	229,980	53,118	414,305
Jan-14	232,748	86,110	15,121	333,978
Feb-14	187,238	408,613	19,736	615,587
Mar-14	169,922	472,787	29,895	672,605
Apr-14	34,957	638,605	35,589	709,151
May-14	62,438	342,837	9,703	414,979
Jun-14	126,952	413,871	1,007	541,830
Jul-14	121,002	21,025	(24,881)	117,147
Aug-14	125,604	(61,509)	(30,448)	33,647
Sep-14	32,337	(454,195)	(42,688)	(464,546)

Source
CrossBorder Capital, US Federal Reserve, ECB, Bank of England, Bank of Japan, IMF

Liquidity Flows

US\$ Millions Monthly 2009-2014

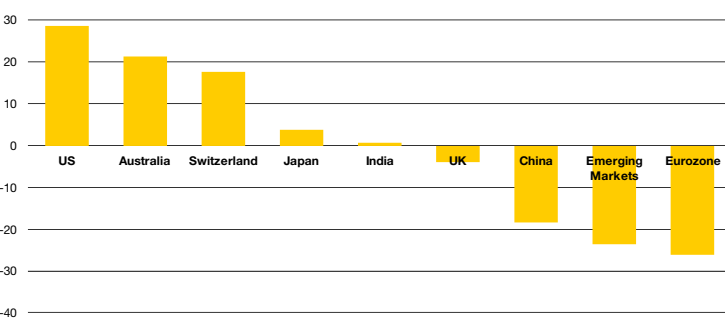


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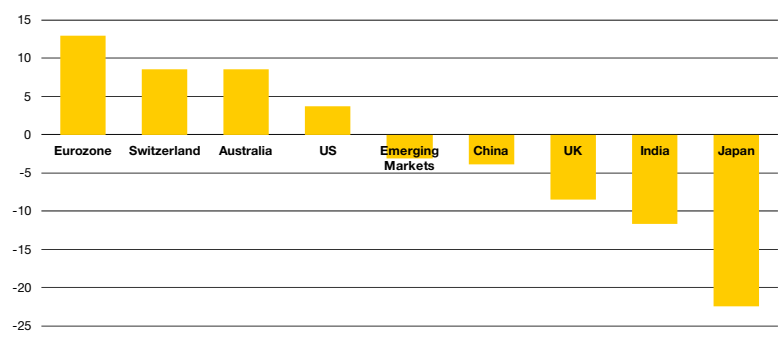
— Cross-border
— Central Bank
— Domestic Institutions

Where is the Global Money Flowing?

Relative to Average



6-month Change



Source
CrossBorder Capital, US Federal Reserve, ECB, Bank of England, Bank of Japan, IMF



Notes:

The *CrossBorder Capital* Global Liquidity Indexes (GLI™) are weighted composite indicators derived from sampling macro-liquidity conditions across 80 economies World-wide. They attempt to unambiguously measure flows of money into international financial markets. The indexes have been regularly published since the late-1980s and are typically released around 10-working days after each month-end. The GLI™ are expressed as indexes 0-100. A reading above 50 shows an expansion of liquidity and a rise or fall in the index indicates an acceleration or deceleration. Our research shows that the GLI™ consistently lead real economic activity by 12-15 months. Hence, extreme falls in liquidity can precede recessions and trigger financial crises.

The GLI™ are available nationally for all 80 economies and are aggregated regionally and globally. The sub-indexes (available at country, region and global levels) cover Central Bank Liquidity, Domestic Private Sector Liquidity and Cross-border Financial Flows. Approximately 30 carefully selected variables are collected monthly per economy, comprising measures of available funding, credit growth and leverage, shadow banking, Central Bank interventions and international capital movements. The underlying variables are first normalised and then weighted into the indexes using a combination of size and principal component factors. The methodology is identical for all economies and data classifications conform to standard IMF definitions. Data is occasionally revised through time, but the most significant of these revisions tend to occur within one month of publication. The GLI™ data can be obtained from us as a regular subscription or as a single download.

CrossBorder Capital Ltd:

CrossBorder Capital is an independent research organisation founded in 1996 and based in London. For more information please see: www.liquidity.com

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