



Global Liquidity: Latest GLI™ Data

August 2014

Key Points

The GLI (Global Liquidity) leading index of international capital and liquidity movements was slightly higher in July 2014 at 45.8 ('normal' range 0-100), from 44.6 in June. Developed economies have much stronger liquidity at a 62.5 index level, than Emerging Markets at 16.7. Headline global liquidity conditions are broadly unchanged over the past four months and remain a tad below average, but this disguises two major undercurrents: (1) there is an on-going switch in the direction of capital flows from Developed to Emerging Markets, even despite the fact that capital is again, as we write, quitting Russia; and (2) private sector liquidity is either weak or weakening, and Central Bank liquidity is either generally firm or strengthening. Looking ahead, this capital-flow backdrop points to a more upbeat investment outlook for Emerging Markets and a gradually more defensive investment posture for Developed Markets. **Moreover, it suggests that gold may have another bull run in 2015.**

The two key economies to watch from a capital-flow perspective are the US and China. The tempo of Chinese flows has a magnified effect on the EM economies, and similarly US liquidity tends to govern capital movements across the Developed World. **Therefore, indications that Chinese PBoC liquidity is stabilising and that US private sector liquidity is peaking are important future signposts for the direction of global capital.**

July data show a rebound in US private sector liquidity to a high reading of 83.0 and no significant evidence so far of US Fed tightening actions from 'tapering' efforts. **On our measures, the Fed's stance is just above 'neutral' and, taking into account recent activity and inflation readings, it may have even effectively eased a tad recently.** Moreover, despite the clear step-up in Bank of Japan liquidity injections to Y153 trillion in late-June, the effect on broader Japanese liquidity has so far proved more muted. **However, it seems clearer from the July data that both China and, more generally, the EM are easing liquidity conditions, with China favouring targeted measures.** Our index of PBoC liquidity moved up to an index of 43.0. Although this still sits below the neutral 50-threshold, it is around five index points higher than six months ago. Similarly, EM Central Bank liquidity moved up to an index value of 40.3, or around 15 index points higher than earlier this year. A major additional impetus for EM has been the effect of the Reserve Bank of India monetizing the continuing strong capital inflows that heralded Modi's Election. Of the major EM economies, Indian liquidity is strongest at 64.9.

Also of note is the strong showing from Australia, particularly since increased foreign appetite could reflect a renewed interest both in mining investments and regional exposure to Asia. Australian liquidity

World GLI™ Summary (‘normal’ range 0-100)	CrossBorderCapital	Latest Month	Previous Month
TOTAL LIQUIDITY	Decrease, slower rate	45.8	44.6
- Central Bank	Decrease, slower rate	43.2	41.2
- Private Sector	Increase, faster rate	56.1	55.2
- Cross-Border Flows	Decrease, slower rate	38.7	36.1
- Financial Conditions	Improvement, slower rate	60.8	61.4

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	Latest Month	Previous Month
TOTAL LIQUIDITY	Decrease, faster rate	21.3	24.1
- Central Bank	Decrease, slower rate	43	42.7
- Private Sector	Decrease, faster rate	20.7	25.6
- Cross-Border Flows	Decrease, faster rate	49.4	49.9
- Financial Conditions	Deterioration, faster rate	49.3	49.6

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Global Liquidity Latest



(80.0) is the strongest of the major economies, with private sector liquidity buoyant (73.9) and net cross-border flows (59.1) pacing this rise.

In contrast, UK and Eurozone liquidity flow data are mixed. The ECB is not yet adding funds, although domestic Eurozone liquidity is being bolstered by private sector savings (35.7) and by particularly strong foreign inflows (77.5). **However, the weak overall liquidity total at 22.3 warns that investment risks remain high and that the real economy continues to be fragile.** The situation in the UK is far different because very strong corporate cash flows underpin a high private sector liquidity reading of 66.3. The Bank of England's tighter monetary stance just offsets this, but new to the picture is a recent reversal in UK capital inflows, made to look worse by recent data revisions. These warn that sterling may be vulnerable near-term.

The other two soft spots in the data are the renewed weakness in EM (and Chinese) private sector liquidity, which likely indicates persistent economic weakness, and the similar and, perhaps, connected softness in Japanese private sector liquidity. **We believe that the common factor is a Chinese economy that is moving from a 7-8% to a sub-5% real GDP growth rate and thereby causing a negative regional fall-out.** This will surely encourage further easing across the region, with Japan, possibly spurred by recent strong capital inflows, leading the way.

2014 is the year we mark-down as *Speculation*, based on the liquidity cycle: a time when the risk/ return balance deteriorates but should stay positive. Overall, we can conclude four things from recent liquidity/capital flow trends:

- looking through the small blip-up in July data, the inflection and decline in overall DM liquidity indicates a flattening G20 yield curve, which is supportive of bonds and likely indicates a slowing but not recessionary World economy around Q1 2015
- with private sector liquidity the main driver of the DM liquidity decline (not Central Banks), it suggests that exposure to more extreme grades of corporate credit should be reduced
- Central Bank liquidity support is increasing against the backdrop of deteriorating private sector liquidity which underpins the gold price. The marginal rise in policy liquidity has been greatest in the Eurozone, which probably makes the Euro more vulnerable
- China and Emerging Markets appear to be slowly bottoming-out in liquidity terms
- Japan's economy remains fragile and the BoJ must ease more

This backdrop, in our opinion, will cause increased volatility in risk asset markets as 2015 approaches, with gathering signs that the major economies are stuttering leading to renewed pressure on Central Banks to keep easing and to delay QE exits. **This should underpin gold, and help to push capital back into Asia.**

All Emerging Markets GLI™ Summary (‘normal’ range 0-100)		Latest Month	Previous Month
TOTAL LIQUIDITY	Decrease, faster rate	16.7	19.0
- Central Bank	Decrease, slower rate	40.3	39
- Private Sector	Decrease, faster rate	13.4	18.3
- Cross-Border Flows	Decrease, slower rate	40.4	37.9
- Financial Conditions	Improvement, slower rate	57.2	59.5

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Central Bank Liquidity - Emerging Markets Index



Source
CrossBorder Capital, People's Bank of China, IMF

US GLI™ Summary (‘normal’ range 0-100)		Latest Month	Previous Month
TOTAL LIQUIDITY	Increase, faster rate	72.8	66.4
- Central Bank	Increase, faster rate	57.4	52.9
- Private Sector	Increase, faster rate	83	76.8
- Cross-Border Flows	Decrease, faster rate	2.9	3.4
- Financial Conditions	Improvement, faster rate	60.4	58

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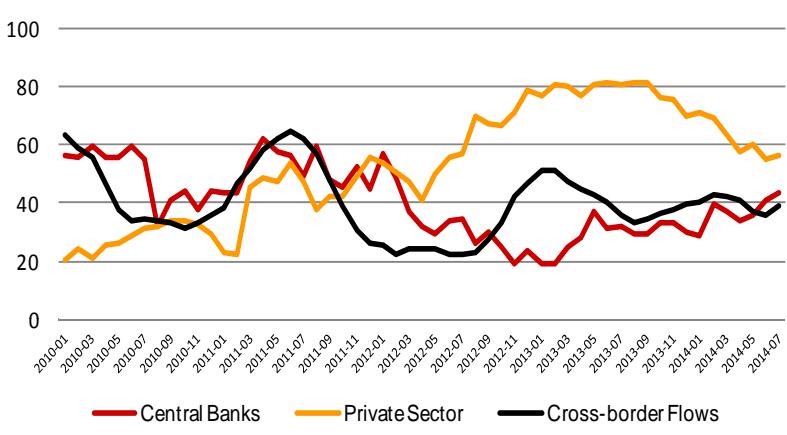


Global Liquidity Indices Index ('Normal' Range 0-100) 2013-2014



Index 'Normal' Range = 0- 100	Policy Liquidity PLI (Index)	Private Sector Liquidity PSI (Index)	Cross-border Flows XFI (Index)	Total Liquidity TLI (Index)
Jul-13	31.7	80.4	35.7	60.5
Aug-13	29.3	81.1	33.1	57
Sep-13	29.3	81.2	34.8	56.1
Oct-13	33.1	76.5	36.4	54.5
Nov-13	33	75.8	37.4	55.6
Dec-13	29.8	69.8	39.7	49.4
Jan-14	28.7	71.3	40.2	49.7
Feb-14	39.6	69.3	43	56.6
Mar-14	37.2	63.6	42.4	51.8
Apr-14	33.7	57.7	40.8	45.8
May-14	36.1	60.3	36.8	45.8
Jun-14	41.2	55.2	36.1	44.6
Jul-14	43.2	56.1	38.7	45.8

GLIT™ Breakdown: Central Banks and Private Sector 2010-2014



Source

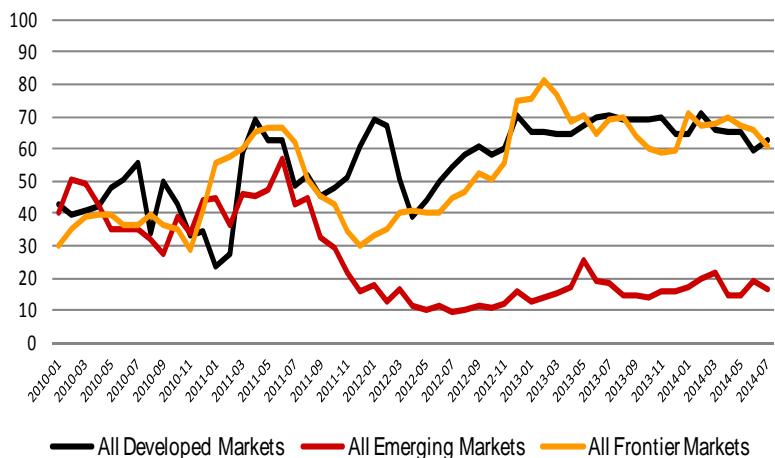
CrossBorder Capital, US Federal Reserve, ECB, Bank of England, Bank of Japan, IMF

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)
Jul-13	60.5	70.2	18.2	69	0.3
Aug-13	57	69.4	14.9	69.5	-5.4
Sep-13	56.1	68.9	14.7	64.1	-1.4
Oct-13	54.5	68.8	13.8	60.2	-0.5
Nov-13	55.6	69.9	15.9	58.9	-1.2
Dec-13	49.4	64.4	16.1	59.3	-1.5
Jan-14	49.7	64.6	17.2	71.3	-11.3
Feb-14	56.6	70.9	20	67.4	-4.8
Mar-14	51.8	65.7	21.8	68.1	-8.4
Apr-14	45.8	65.5	14.8	69.9	-6.8
May-14	45.8	65	14.9	67.4	-7.6
Jun-14	44.6	59.6	19	66.1	-9.8
Jul-14	45.8	62.5	16.7	60.6	-11.4

GLIT™ Breakdown: Major Regimes 2010-2014



Source

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

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



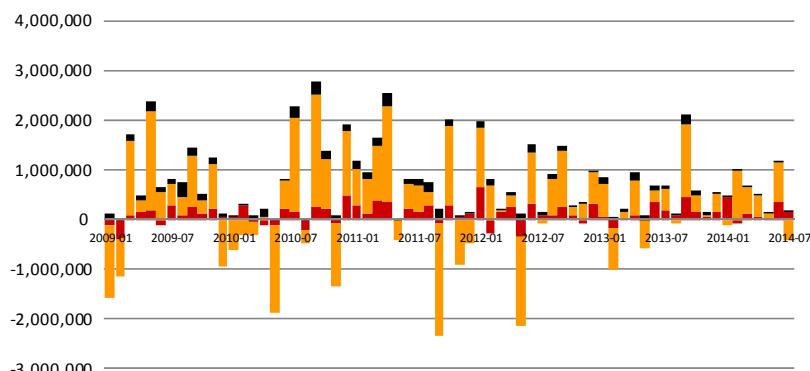
Global Liquidity Changes

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)
Jul-13	178,695	28,063	85,968	292,726
Aug-13	212,197	189,497	65,766	467,460
Sep-13	238,924	613,024	101,901	953,849
Oct-13	230,043	575,828	122,941	928,813
Nov-13	226,600	609,421	126,395	962,416
Dec-13	132,929	229,928	60,910	423,766
Jan-14	234,360	87,431	22,234	344,026
Feb-14	185,757	403,445	20,303	609,506
Mar-14	168,659	467,543	22,136	658,338
Apr-14	35,249	641,228	22,093	698,570
May-14	64,656	356,181	16,564	437,401
Jun-14	145,202	441,903	18,745	605,849
Jul-14	171,384	166,081	26,076	363,540

Liquidity Flows

US\$ Millions Monthly 2009-2014



Source

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

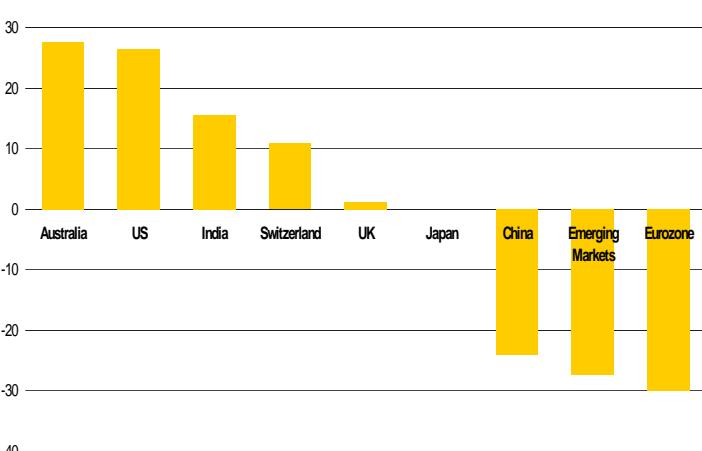
Source

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

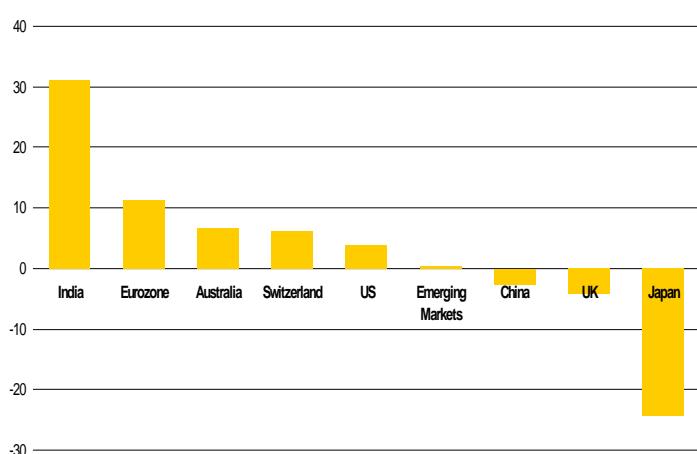
Cross-border
 Central Bank
 Domestic Institutions

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

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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

CROSSBORDER CAPITAL LIMITED
MARBLE ARCH TOWER
55 BRYANSTON STREET
LONDON W1H 7AA
TELEPHONE 020 7868 4104 FAXSIMILE 020 7868 4118

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REGISTERED IN ENGLAND COMPANY NUMBER 2687676
REGISTERED ADDRESS: 26 RED LION SQUARE, LONDON WC1R 4AG

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