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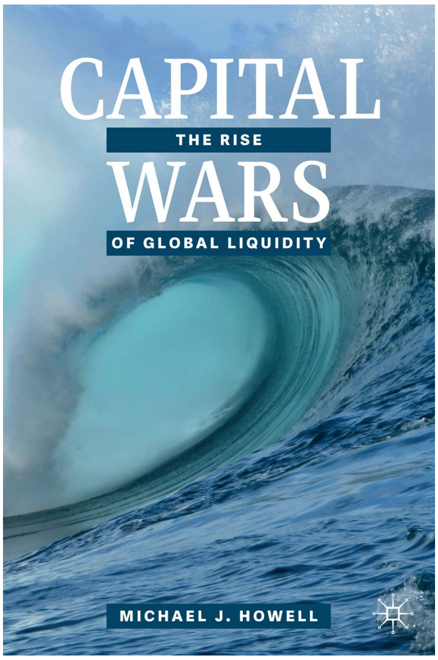

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Michael J. Howell

Capital Wars

The Rise of Global Liquidity

- Explains why liquidity is a key driver of global economies and financial markets and its particular importance in modern debt-based financial systems
- Discusses the roles of Central Banks, shadow banking and the growth of wholesale money on global liquidity
- Looks specifically at the developments in China, which has become a major provider of funds to international markets

Economic cycles are driven by financial flows, namely quantities of savings and credits, and not by high street inflation or interest rates. Their sweeping destructive powers are expressed through Global Liquidity, a $130 trillion pool of footloose cash. Global Liquidity describes the gross flows of credit and international capital feeding through the world's banking systems and wholesale money markets. The huge jump in the volume of international financial markets since the mid-1980s has been boosted by deregulation, innovation and easy money, with financial globalisation now surpassing the peaks of integration reached before the First World War. Global Liquidity drives these markets: it is often determinant, frequently disruptive and always fast-moving. Barely one fifth of Wall Street's huge gains over recent decades have come from earnings: rising liquidity and investors' appetite for riskier financial assets have propelled stock prices higher.

Similar experiences are shared worldwide and even in emerging markets, such as India, flat earnings have not deterred waves of foreign money and domestic mutual funds from driving-up stock prices. Now with central banks actively pursuing quantitative easing policies, industrial corporations flush with cash and rising wealth levels among emerging market investors, the liquidity theory of investment has never been more important. International spill-overs of these rapacious cross-border flows sets off capital wars and exposes the unattractive face of liquidity called 'risk.' As the world grows bigger, it becomes ever more volatile. From the early 1960s onwards, the world economy and its financial markets have suffered from three broad types of shocks – labour costs, oil and commodities, and global liquidity.

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