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Analysis of today
Assessment of tomorrow

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The myth of the commodity shock: global money supply is soaring again

Global money supply is soaring again, while money velocity remains depressed and uneven across regions.

This highlights a key point: commodities transmit relative price signals, but persistent inflation is always a monetary phenomenon driven by runaway money creation.

The Bloomberg Global Money Supply proxy shows global money supply in USD terms rising back to record highs above 121 trillion since late 2025, with annualised growth in the low double digits over recent months.

This is consistent with estimates of broad money in the major currency blocs (US, euro area, China, and Japan), which now exceed 98–100 trillion dollars and have resumed an upward trend after the brief 2023–24 slowdown.

At a country level, forecasts for 2026 still show growth in M2 across almost all large economies, even after the inexistent "quantitative tightening" narrative.

In the United States, M2 is around 22.7 trillion dollars, growing at more than 5 per cent year over year as of early 2026. However, at least the United States economy shows some real GDP growth, because we see similar rates of change in other advanced economies, despite sluggish real growth.

Money supply rising above 3% in economies with less than 1% real GDP growth, and a large part of it driven by government spending, means a persistent loss of purchasing power for citizens and families.

In China, broad money (M2) is growing at 9 per cent year-on-year, the same as at the end of 2025 and above earlier expectations. China does not report M3, but it is safe to assume that it is growing faster than nominal GDP, ahead of government targets.

In the euro area, the ECB reports that broad money M3 is growing 3.3 per cent year-on-year in January 2026, up from 2.8 per cent in December 2025.

Liquidity at a pace inconsistent with growth

In other words, the world continues to add liquidity at a pace inconsistent with stagnant productivity, weak private sector growth and sluggish consumption, which increases inflationary pressures.

The quantitative theory of money shows that it is not only the stock of money that matters when measuring inflationary pressures but also how quickly it circulates.

When money supply soars and money velocity stagnates or declines, we may see asset inflation but not necessarily worrying increases in consumer prices. However, when both rise, while productivity stagnates, the loss of purchasing power of citizens becomes a real concern.

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Furthermore, even modest recoveries in money velocity can translate a given monetary overhang into broad-based price increases. A clear example was the 2021-2024 inflationary burst.

The latest World Bank figures indicate that broad money as a share of GDP is trending upward across both advanced and emerging economies, which is consistent with persistent inflation and the global rise of consumers' discontent.

Furthermore, as high taxes and government spending-driven policies create stagnation, the structural decline in velocity keeps central banks in accommodative mode.

Why commodities are symptoms, not causes

Blaming oil, gas, or food for inflation ignores simple logic: relative price shocks in specific markets can make some items more expensive, but they do not permanently debase the currency, the unit of account.

A war, a drought, or an OPEC decision can trigger a spike in one or several commodities, but this is a change in relative prices that the economy can absorb if the overall quantity of money is stable, and policy remains orthodox. In such a world, higher energy prices compress other expenditures, and the price level adjusts; there is no generalised, persistent inflation.

> Newly created money does not enter the system neutrally; it flows first through financial markets and credit channels

Persistent inflation appears when the supply of money structurally outpaces the productive capacity of the economy and the real demand for liquidity.

Newly created money does not enter the system neutrally; it flows first through financial markets and credit channels, inflating the prices of non-replicable assets: real estate, equities, and, crucially, commodities used as protection against currency debasement.

Empty calories

Treating commodities as the villain leads to counterproductive policies: windfall taxes, price controls, and bans on futures markets that worsen scarcity while doing nothing about the root cause.

What looks like a "commodity shock" will in fact be the visible symptom of monetary inflation - Daniel Lacalle

The relevant variable for persistent inflation is the interaction between central-bank balance sheets, government spending and borrowing, and the evolution of money velocity relative to real output.

As long as broad money keeps rising faster than productivity-adjusted GDP, global liquidity will gravitate towards scarce, tangible assets, and what looks like a "commodity shock" will in fact be the visible symptom of monetary inflation.

As central banks have abandoned their objective of price stability to prioritise cheap government borrowing, even if it means eroding the middle-class purchasing power.

This trend is creating a real problem for most economies, as higher percentages of GDP growth come from empty calories driven by cheap money and not productive investment with prudent consumption.