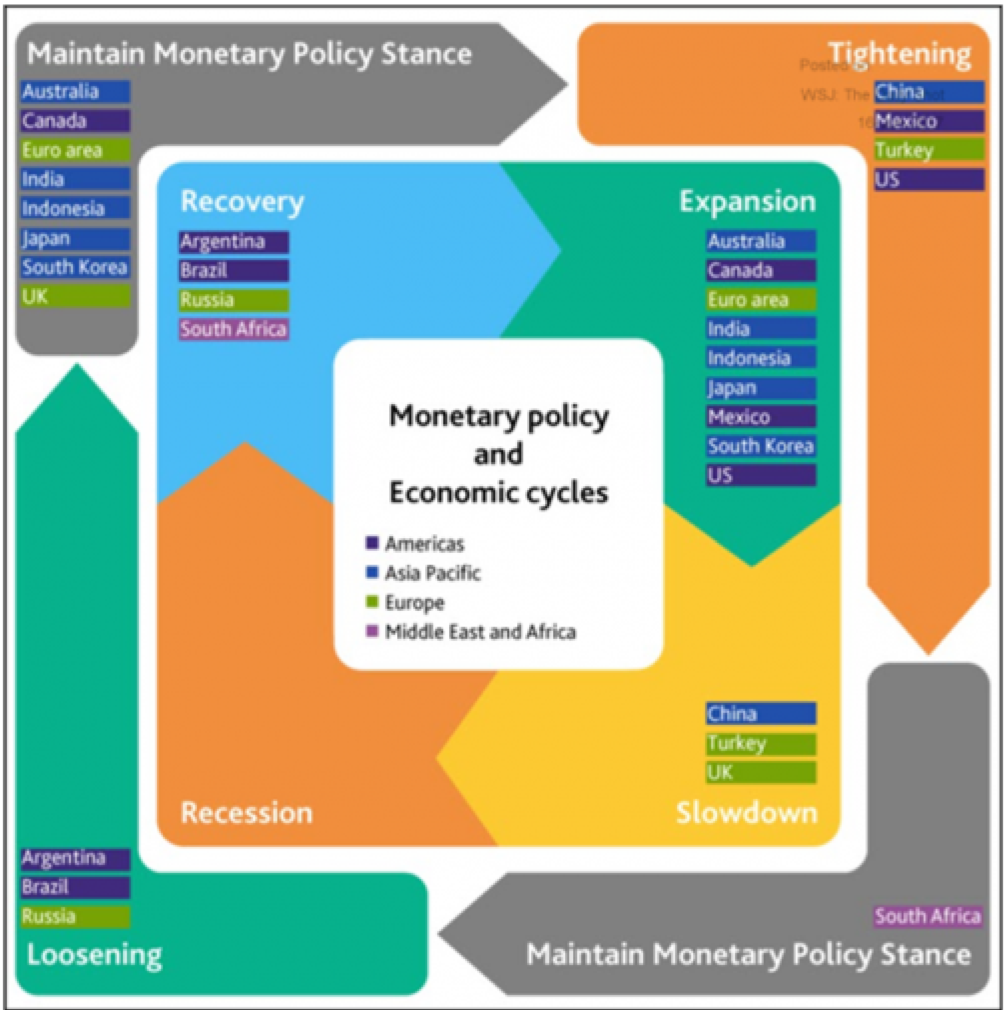
http://www.financialsense.com/global-liquidity-close-tipping-point?utm_source=newsletter&utm_medium=email&utm_campaign=weekly

Global Liquidity Reaching a Tipping Point
16/June/2017.

This week the Fed announced that they are going to begin reducing their $4.2 trillion balance sheet starting this year. Here's what Louis-Vincent Gave at Gavekal Research said about this yesterday (see Louis-Vincent Gave on Tech, Fed Balance Sheet, and More):

> "In our system today, there are four central banks that matter a lot and have a disproportionate impact on global markets: the Fed, the Bank of Japan, the ECB, and People's Bank of China. Starting from really six months ago, we've gone from zero central banks tightening to now two, because (in addition to the Fed) the Chinese central bank is also tightening."

Here's an updated chart from Moody's illustrating where central banks across the globe are currently, showing, as Louis says, US and China tightening while Japan and the ECB maintaining a loose policy stance (h/t @SoberLook):



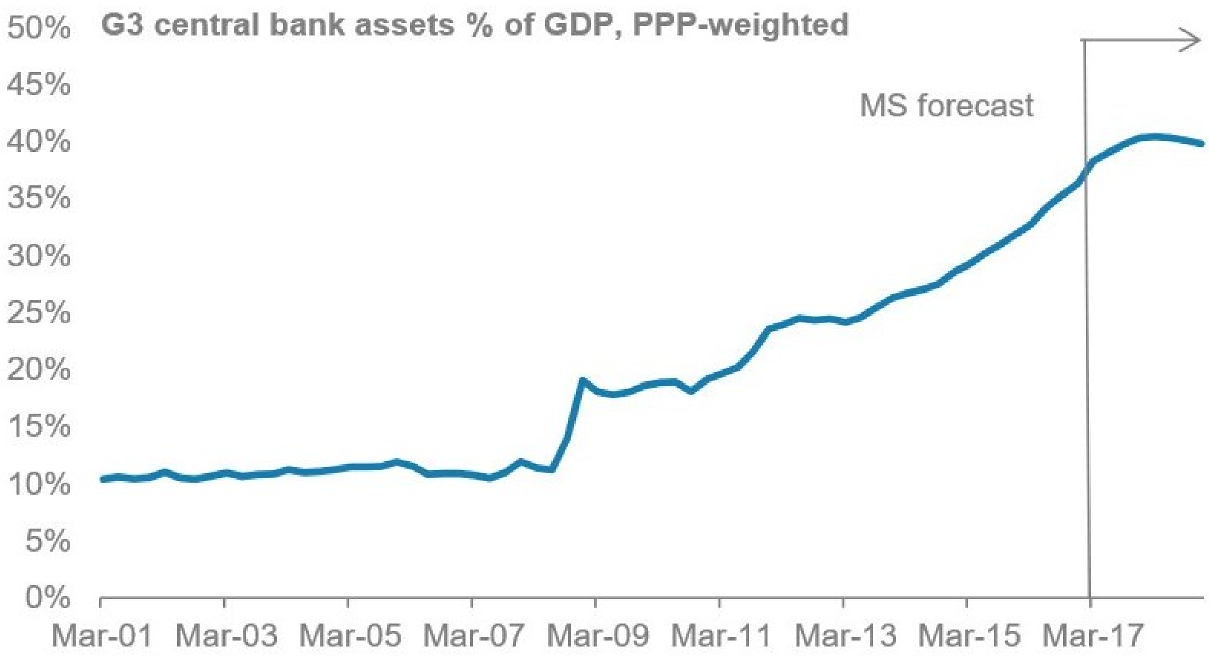
Source: Moody's Investors Service

Louis continues:

> “So, you have 2 out of 4 that are now tightening and 2 of out 4 that are still easing very aggressively. My guess is...when we move to 3 out of 4 that will most likely break the back of the markets. When does that happen? Most likely, I don't think it will be the BOJ, it'll be the ECB at the end of this year, beginning of next.”

On that note, Jeroen Blokland (@jsblokland) notes that global liquidity is close to a tipping point with a chart from Morgan Stanley forecasting central bank assets as a percent of GDP peaking in the second half of 2018.

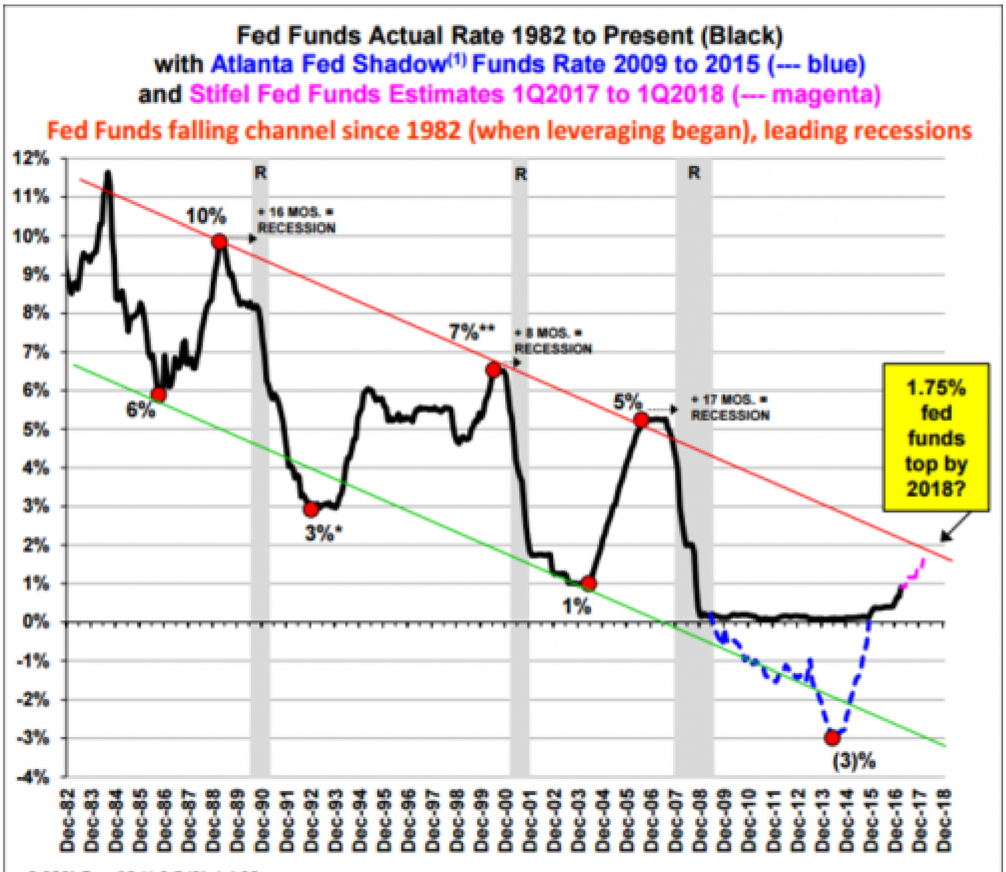
Exhibit 1: G3 central bank assets as a % of GDP to start declining from 2Q18



Source: National sources, Morgan Stanley Research forecasts

This also lines up with Barry Bannister’s thesis of a market peak possibly around the second half of 2018 followed by a recession in 2019 (see Barry Bannister’s Comprehensive Macro Outlook Suggests Bear Market in 2019):

> “Critically important to understand: the Fed is farther along with ‘hikes’ than investors realize. Interest rates weigh heavily this cycle (excess debt, high valuation, the need for EPS reflation), and we believe the Fed began tightening in May 2014 (half-way through QE3 taper) when the Shadow Fed Funds rate bottomed at minus 3%.”



* 2.92% Dec-92 ** 6.54% Jul-00