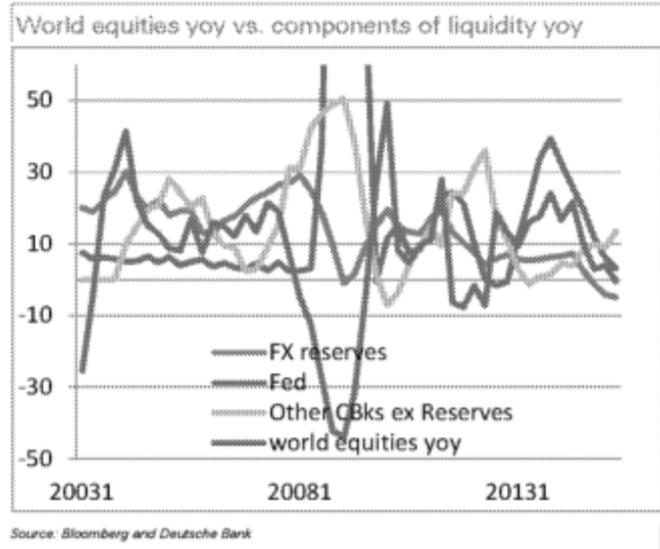
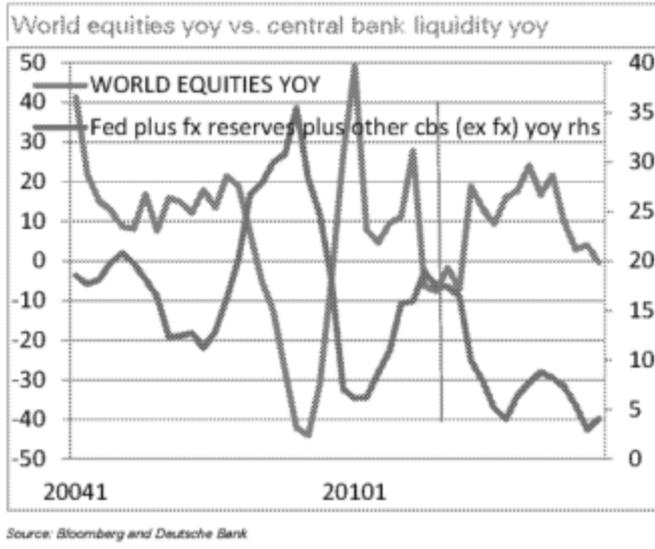


Let's start with risk assets, proxied by global equity prices. It would appear at first glance that the correlation is negative in that when central bank liquidity is expanding, equities are falling and vice versa. Of course this likely suggests a policy response in that central banks are typically "late" so that they react once equities are falling and then equities tend to recover. If we shift liquidity forward 6 quarters we can see that the market "leads" anticipated" additional liquidity by something similar. This is very worrying now in that it suggests that equity price appreciation could decelerate easily to -20 or even 40 percent based on near zero central bank liquidity, assuming similar multipliers to the post crisis period. From q2 levels that implies an MSCI level of around 1350 for 2015q4 (reference q2 @ 1735), the end August level was 1645 i.e. still another 10-15 percent decline.



Interestingly, the components of liquidity themselves behave a little differently with FX reserves and Fed balance sheet being more in line recently than other central bank liquidity. This reflects the ECB and BoJ tardier reactions to balance sheet expansion in the post crisis period. If we only consider the FX and Fed components of liquidity there appears to be a tighter and more contemporaneous relationship with equity prices. The suggestion is at one