BNY Mellon iFlow® Weekly

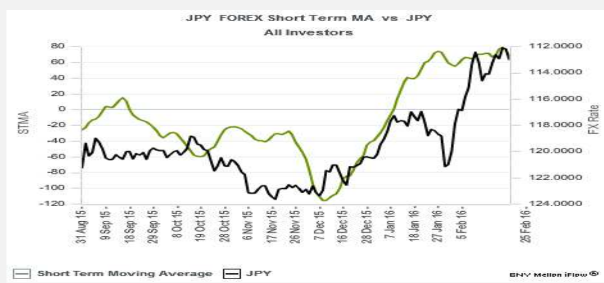
Samarjit Shankar, Managing Director, Head of iFlow and Quant Strategies
Jiangang Dou, Ph.D., CFA, Vice President, iFlow and Markets Quant Analyst

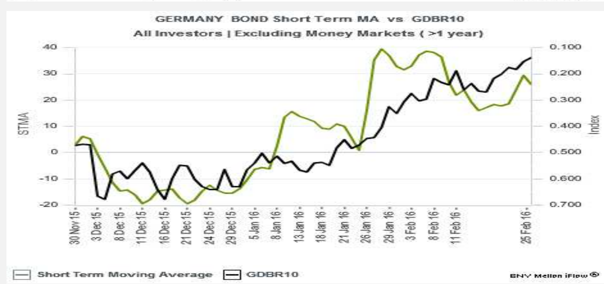
26 February 2016

COMMENTARY

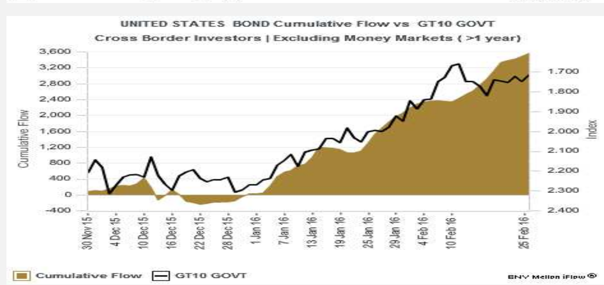
On balance, the past week saw the pendulum of investor sentiment swing back to risk-aversion, triggered by a weaker yuan reference rate fix, and the consequent rekindling of fears that uncertainty about China's economic growth prospects and its currency policy in the face of capital outflows will maintain instability in global markets. Indeed, our iFlow indicators confirm net selling of Chinese equities continued apace in the past five sessions (Chart 1) and cross-border portfolio managers remain net sellers of local stocks as they have largely been over the past six months (Chart 2) – this is consistent with the Shanghai Composite index losing 5.5% this week which included a 6.4% plunge on Thursday. Against this backdrop, Chinese policy-makers have tried to assuage concerns as G-20 central bankers and finance ministers gathered in Shanghai on Friday – Finance Minister Lou Jiwei said there is room to loosen fiscal policy while central bank Governor Zhou Xiaochuan said there is leeway for further monetary actions if required.

While these comments have somewhat helped calm markets sentiment today and fueled guarded optimism that the communique expected at the end of the G-20 summit on Saturday might further soothe frayed investor nerves, we would caution that the issues at hand are very complex. The growing realization that unconventional monetary policy instruments such as QE are getting blunt and that negative rates have had adverse side-effects such as on banking sector profitability and stability, has led to more discussion of alternative levers such as fiscal policy and structural reform to support global demand and growth. However, these are not without pitfalls either – as German Finance Minister Wolfgang Schaeuble put it with reference to calls from the US and China for higher government spending, looking toward debt to finance growth leads to "zombifying" economies. This rings true especially in an environment wherein major economies such as Japan are already saddled with high debt burdens. Meanwhile, structural supply-demand imbalances in key markets such as oil, have continued to fan disinflationary winds, raising the stakes for central banks that need to do more, such as the ECB.





Against this backdrop, it is critically important that the G-20 communique conveys an element of solidarity amongst policy-makers, recognizing they are all in this together, and increased inter-linkages in global financial markets warrant coordinated measures to reflate growth and inflation. Unfortunately however, even if this weekend yields such a statement, it is likely that fickle and fragile investor sentiment will remain hostage to unfolding data releases, of which there is no dearth next week.



Indeed, key iFlow indicators on the Japanese yen, German bunds and US Treasuries continue to reflect heightened risk aversion remains in place (Charts 3, 4, 5) – safe-haven flows triggered by a volatile start to 2016 may yet continue for the foreseeable future unless concerted policy coordination and favorable data help make a dent on what is essentially a crisis of confidence.

(samarjit.shankar@bnymellon.com)

iFLOW® iQ

In the signal grid below as of 25 February 2016 (compared to the previous week's signal grid as of 17 February), amongst G10 FX, CAD opened a Long position, CHF has closed its Long position opened on 28 January with about a 2.4% gain, EUR opened a Short position on 19 February which has gained about 1%, GBP has closed its Short position opened on 4 February with about a 3% gain, JPY remains in its Long position opened on 4 February with about a 3.3% gain, NOK remains in its Short position opened on 5 February with about a 0.8% gain, NZD changed to Flat from Long, SEK changed to Flat from Short, and others remain the same. In emerging markets, BRL remains in its Short position opened on 4 February with about a 1.7% gain, KRW remains in its Short position opened on 17 February with about a 1% gain, SGD changed to Flat from Long, INR remains in its Short position opened on 17 February with about a 0.4% gain, MYR changed to Long from Flat, ZAR has closed its Long position opened on 17 February with about a 0.4% gain and opened a Short position shortly after, PLN has closed its Long position opened on 1 February with about a 1.6% gain and opened a Short position shortly after, and others remain the same. Amongst equities, SPX remains in its Long position opened on 16 February with about a 3% gain. The US10Y has opened a Short position.

iFlow iQ models are based on a rich source of fundamental investor flow information. Investor flows have the dominant role to drive a long/short bias. There is an overlay of a set of technical analysis parameters aimed at improving the price-sensitivity of the models. These models equip you to make well-informed decisions across different portfolio strategies and investment horizons. **The signal grid below, as of 25 February 2016, is representative of some of the numerous applications across a multitude of asset classes and markets.**

If you would like a daily update of these models or others, please contact one of our Global Markets Sales professionals in Boston (+1 617 722 6800), New York (+1 212 815 7166), London (+44 207 570 0892) or Hong Kong (+852 2840 6693). (jiangang.dou@bnymellon.com)

BNY MELLON

BNY Mellon iFlow iQ 25-Feb-2016

Note: All FX Signals are against the USD, e.g., Long AUD means long AUD/USD, Long CAD means short USD/CAD, etc.

1	2	3	4	5	6	7	8
CURRENCY	SIGNAL	SIGNAL DATE	ENTRY PRICE	STOP	CURRENT PRICE	OPEN P&L (%)	12-Month Total Return (%)
AUD	Flat	***	***	***	0.7236	***	-9.67
CAD	Open Long	***	***	***	1.3530	***	-3.34
CHF	Flat	***	***	***	0.9904	***	2.35
EUR	Short	***	***	***	1.1018	***	-7.63
GBP	Flat	***	***	***	1.3962	***	12.56
JPY	Long	***	***	***	113.00	***	-5.88
NOK	Short	***	***	***	8.6292	***	1.39
NZD	Flat	***	***	***	0.6723	***	9.81
SEK	Flat	***	***	***	8.5022	***	13.86
MXN	Flat	***	***	***	18.127	***	10.57
BRL	Short	***	***	***	3.9565	***	14.79
KRW	Short	***	***	***	1238.77	***	-2.33
SGD	Flat	***	***	***	1.4019	***	1.17
TWD	Flat	***	***	***	33.378	***	2.83
INR	Short	***	***	***	68.71	***	0.70
THB	Long	***	***	***	35.664	***	5.40
MYR	Long	***	***	***	4.2245	***	27.07
IDR	Flat	***	***	***	13413.00	***	0.32
PHP	Flat	***	***	***	47.637	***	-2.78
ZAR	Short	***	***	***	15.603	***	17.94
TRY	Long	***	***	***	2.928	***	5.51
HUF	Flat	***	***	***	282.640	***	3.03
PLN	Short	***	***	***	3.953	***	16.09
CLP	Short	***	***	***	692.020	***	14.56

INDEX	SIGNAL	SIGNAL DATE	ENTRY PRICE	STOP	CURRENT PRICE	OPEN P&L (%)	12-Month Total Return (%)
SPX	Long	***	***	***	1951.70	***	2.44

BOND	SIGNAL	SIGNAL DATE	ENTRY YIELD	STOP	CURRENT YIELD	OPEN P&L (bps)	12-Month Total Return (bps)
US10Y	Short	***	***	***	1.7157	***	17.29

* STOP— Each new signal carries a predetermined "overlay" stop designed to provide broad latitude of price movement, and defined risk.
* The current price/yield is the 5pm EST closing price on Bloomberg
* The model takes 5pm EST closing price of the signal out day as entry/exit price.
* Please be aware that data revisions may cause signals to be revised occasionally, see below for details.
* The bond yield index is Bloomberg USGG10YR Index, long equals falling yields, short equals rising yields.

NOTES:

"Signal" as used in this document refers to model output information only and should not be relied upon as a direction or instruction to take a specific market position or any action whatsoever.

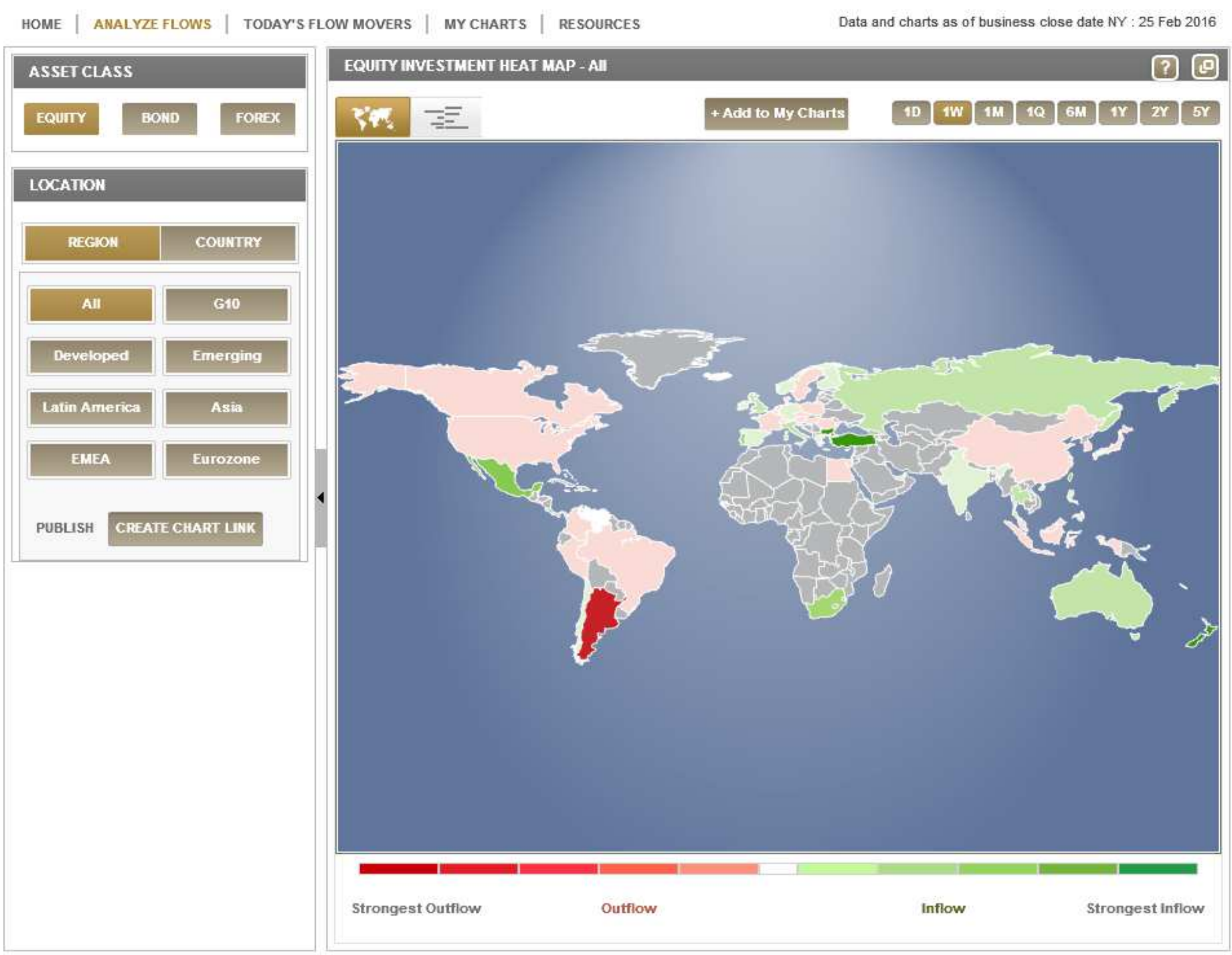
All trading models could experience periods of drawdown that may last for protracted periods of time, which is why single asset performance is generally more volatile than a diversified portfolio of assets that can provide a more balanced overall performance thereby reducing the depth and time of drawdown periods that otherwise could be experienced in a single asset portfolio. Past performance is not indicative of future results. There is risk in all trading.

iFLOW: GLOBAL EQUITY MARKETS … over the past week

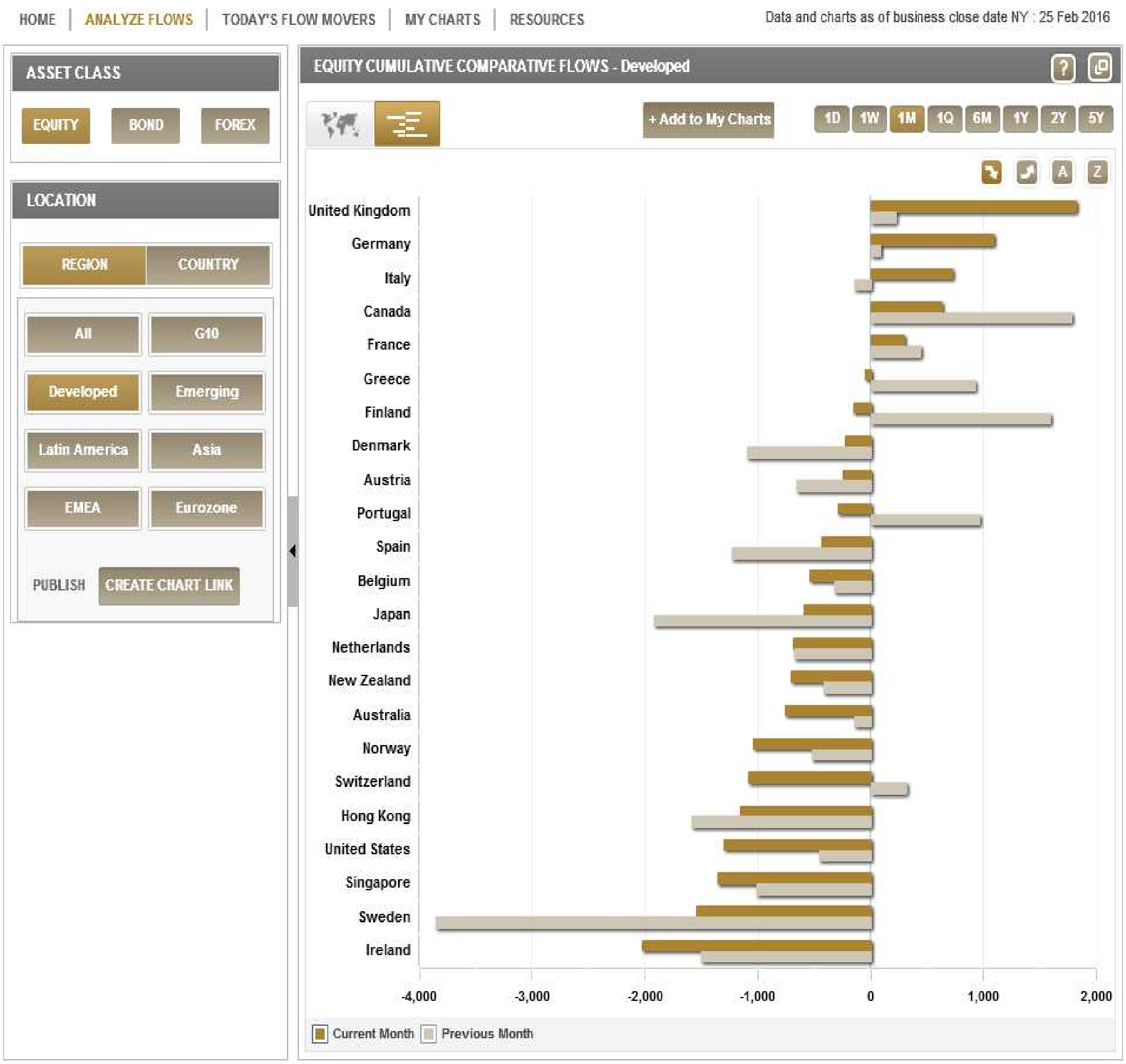
In developed markets, the past week has seen modest net inflows to UK, Germany, Norway, Finland, Ireland, Spain, Portugal, Italy, Greece, Australia and New Zealand; modest net outflows from US, Canada, Japan, France, Switzerland, Sweden, Denmark, Netherlands, Belgium and Austria;

For emerging markets:

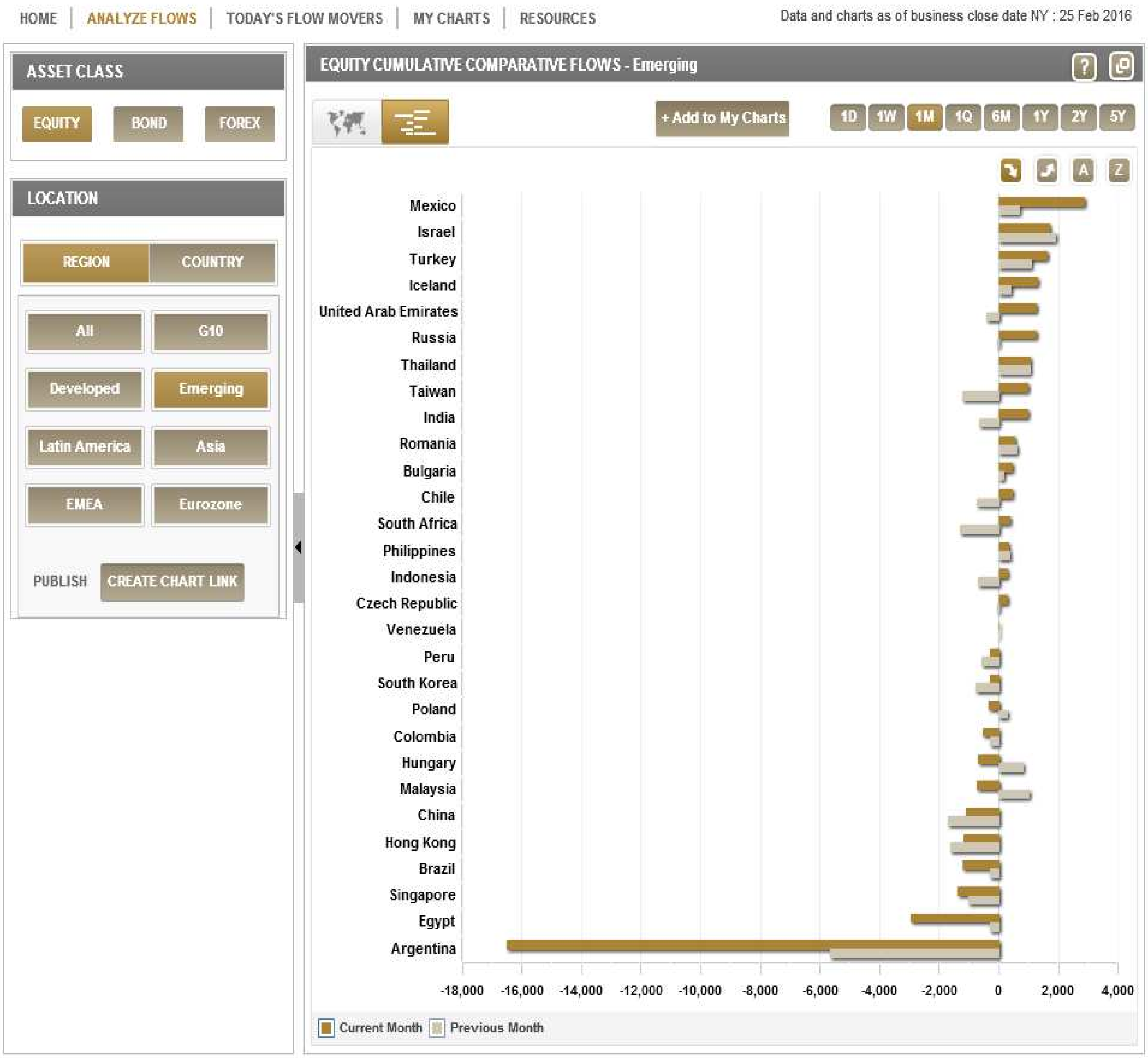
- China has seen modest net outflows in the past week. Investors remain cautious about the economic slowdown. Taiwan, India, Thailand and Philippines have seen modest net inflows, while South Korea, Malaysia and Indonesia have seen modest net outflows.
- Brazil, Colombia and Peru have seen modest net outflows, while Chile has seen modest net inflows.
- Mexico has seen modest net inflows.
- South Africa has seen modest net inflows, with the JALSH index up about 0.8% in the past week.
- Russia has seen modest net inflows, with the MICEX index up about 1% in the past week; Poland, Czech Republic and Hungary have seen modest net outflows, while Turkey has seen considerable net inflows.



iFLOW: DEVELOPED EQUITY MARKETS … over the past month



iFLOW: EMERGING EQUITY MARKETS … over the past month



BNY MELLON