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COMMENTARY

Our iFlow charts for major currency and asset markets are relaying a clear message that global investors remain risk averse as they closely monitor evolving policy measures by major central banks.

In general, cross-border portfolio managers are now factoring in a prolonged period of monetary accommodation, not least due to the surprise Bank of Japan measures last week that marked their first foray into the realm of negative rates. As a result of the BOJ's move and mounting macro concerns about slowing global growth and deflationary pressures, investor expectations of another round of monetary stimulus by the ECB at its March meeting have risen, fueled also by recent data and policy-maker comments about the need to do more. Against this backdrop, global bond yields continue to plummet as the whirling eddy of low/negative rates drags yields toward record lows in major markets.

The corollary to all this is a growing belief that the Fed will find it difficult to press ahead with US rate normalization near-term. Unsurprisingly therefore, Chart 1 illustrates how within US fixed income, the sharp uptick in the 1mma of our iFlow US bond indicator confirms the spike in safe-haven flows into especially US Treasuries. This is consistent with the rapid decline in the benchmark 10-year UST yield to below 1.80% this morning (sub-par data such as today's weak ISM non-mfg index have also helped) from levels above 2.25% at the beginning of this year. Similarly, the 1mma of our iFlow German bond flow indicator (Chart 2 was featured in our write-up last week) continues to capture steady safe-haven inflows, consistent with the 2-year bund yield falling below -0.50% for the first time and posting yet another record low this morning.

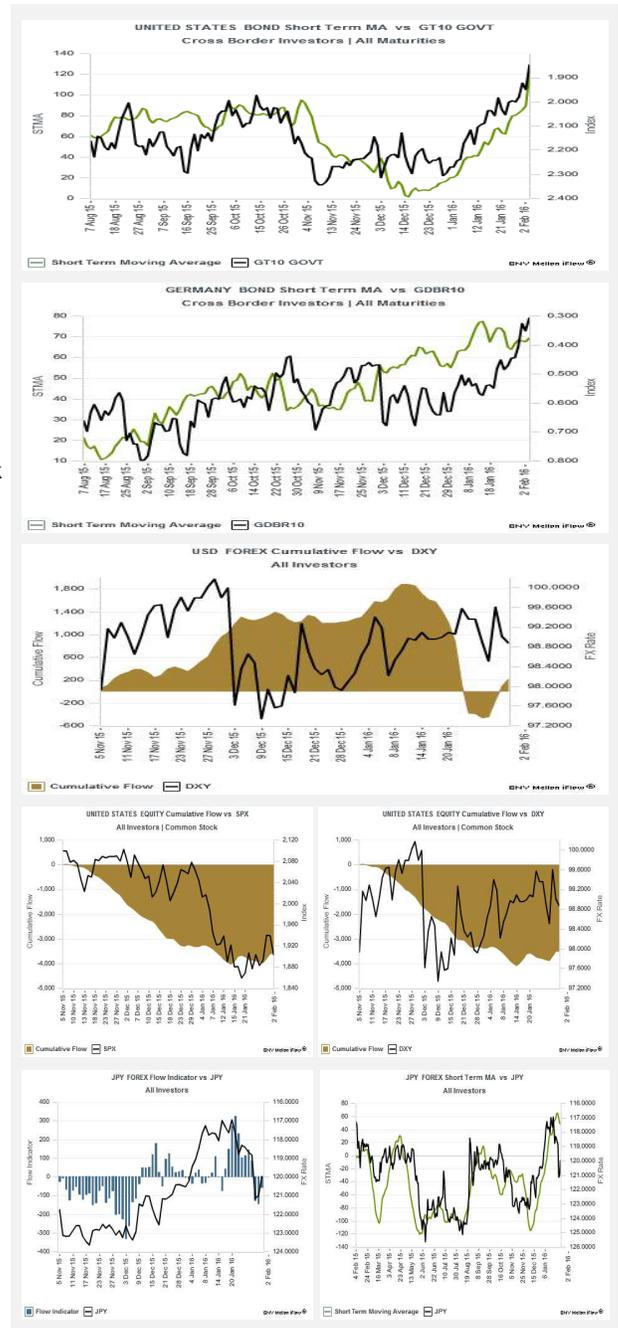
One consequence of the paring of Fed rate hike expectations of late is weaker support for the US dollar (Chart 3). Further, the ongoing US equity market sell-off (part of a global decline) is weighing on the greenback as global investors take profits and money back home – across markets in general, the largely un-hedged nature of equity flows weighs on the local currency (Charts 4 and 5 illustrate this for the US in recent weeks). To complete the circle, as our readers would be familiar with, iFlow has been signposting asset allocation switches away from US equities and into US bonds since last year. Charts 1 and 4 confirm this trend continues apace. Combine all this and the DXY's precipitous decline today becomes understandable.

Meanwhile, yet another oft-used indicator of risk aversion is re-asserting itself – as Chart 6 shows, although the BOJ's surprise rate move on 29 January has led to our iFlow JPY FX indicator posting three consecutive outflows, the pace of this net selling remains anemic. Chart 7 confirms the upswing in the 1mma of our iFlow JPY FX indicator has only a minor dent for now. Aided by the USD's renewed weakness, USD/JPY is now lower than where it was last Thursday, as investors continue to unwind riskier exposure at an increasingly rapid pace. Amidst all these cross-currents, will the greenback's retreat offer beleaguered commodity and emerging markets a reprieve? Stay tuned!

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iFLOW® iQ

In the signal grid below as of 2 February 2016 (compared to the previous week's signal grid as of 27 January), amongst G10 FX, CHF changed to Flat from Long, EUR closed its Long position opened on 31 December 2016 with about a 0.3% gain and reversed to Short, JPY changed to Flat from Long, GBP opened a Long position on 28 January which has gained about 0.3%, SEK remains in its Short position opened on 23 December 2015 with about a 1.4% gain, and others remain the same. In emerging markets, BRL changed to Flat from Short, INR remains in its Short position opened on 15 December 2015 with about a 1.6% gain, THB changed to Long from Flat, MYR closed its Long position opened on 14 January with about a 4.2% gain, ZAR opened a Short position, PLN changed to Long from Flat, CLP changed to Short from Flat, and others remain the same. Amongst equities, SPX changed to Flat from Short. The US10Y remains Flat.

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 2 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)

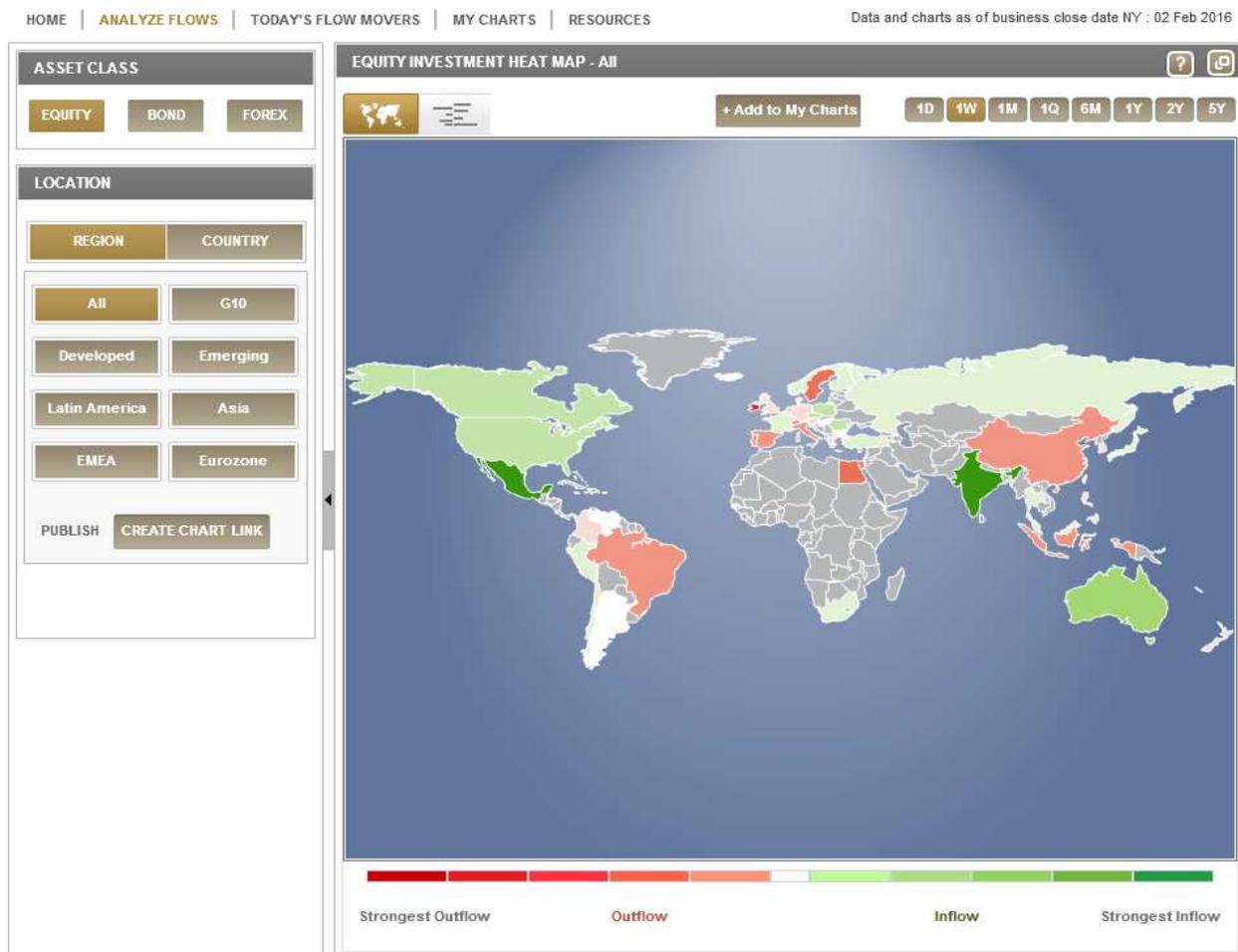
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BNY Mellon iFlow iQ							
2-Feb-2016							
Note: All FX Signals are against the USD, e.g., Long AUD means long AUD/USD, Long CAD means short USD/CAD, etc.							
1	2	3	4	5	6	7	8
CURRENCY	SIGNAL	SIGNAL DATE	ENTRY PRICE	STOP	CURRENT PRICE	OPEN P&L (%)	12-Month Total Return (%)
AUD	Flat	****	****	****	0.7039	****	-7.17
CAD	Flat	****	****	****	1.4055	****	-2.25
CHF	Flat	****	****	****	1.0186	****	-0.27
EUR	Short	****	****	****	1.0919	****	-4.13
GBP	Long	****	****	****	1.4410	****	7.82
JPY	Flat	****	****	****	119.97	****	-9.76
NOK	Flat	****	****	****	8.7284	****	0.48
NZD	Open Short	****	****	****	0.6515	****	10.27
SEK	Short	****	****	****	8.5563	****	15.19
MXN	Long	****	****	****	18.4781	****	13.13
BRL	Flat	****	****	****	3.9902	****	19.04
KRW	Short	****	****	****	1207.39	****	-3.38
SGD	Short	****	****	****	1.4285	****	3.22
TWD	Flat	****	****	****	33.413	****	2.83
INR	Short	****	****	****	67.9825	****	-0.03
THB	Long	****	****	****	35.847	****	5.06
MYR	Close Long	****	****	****	4.2085	****	36.59
IDR	Short	****	****	****	13691.00	****	1.83
PHP	Flat	****	****	****	47.790	****	-2.50
ZAR	Open Short	****	****	****	16.218	****	19.63
TRY	Flat	****	****	****	2.952	****	5.87
HUF	Flat	****	****	****	265.760	****	8.49
PLN	Long	****	****	****	4.036	****	23.05
CLP	Short	****	****	****	713.440	****	17.51
INDEX	SIGNAL	SIGNAL DATE	ENTRY PRICE	STOP	CURRENT PRICE	OPEN P&L (%)	12-Month Total Return (%)
SPX	Flat	****	****	****	1903.03	****	7.62
BOND	SIGNAL	SIGNAL DATE	ENTRY YIELD	STOP	CURRENT YIELD	OPEN P&L (bps)	12-Month Total Return (bps)
US10Y	Flat	****	****	****	1.8448	****	9.03
* 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 US0010YR 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 considerable net outflows from Ireland, Switzerland and Sweden; modest net outflows from UK, Germany, Netherlands, Denmark, Belgium, Portugal, Spain, Italy, Greece, Austria and New Zealand; modest net inflows to US, Canada, Japan, France, Norway, Finland, and Australia.

For emerging markets:

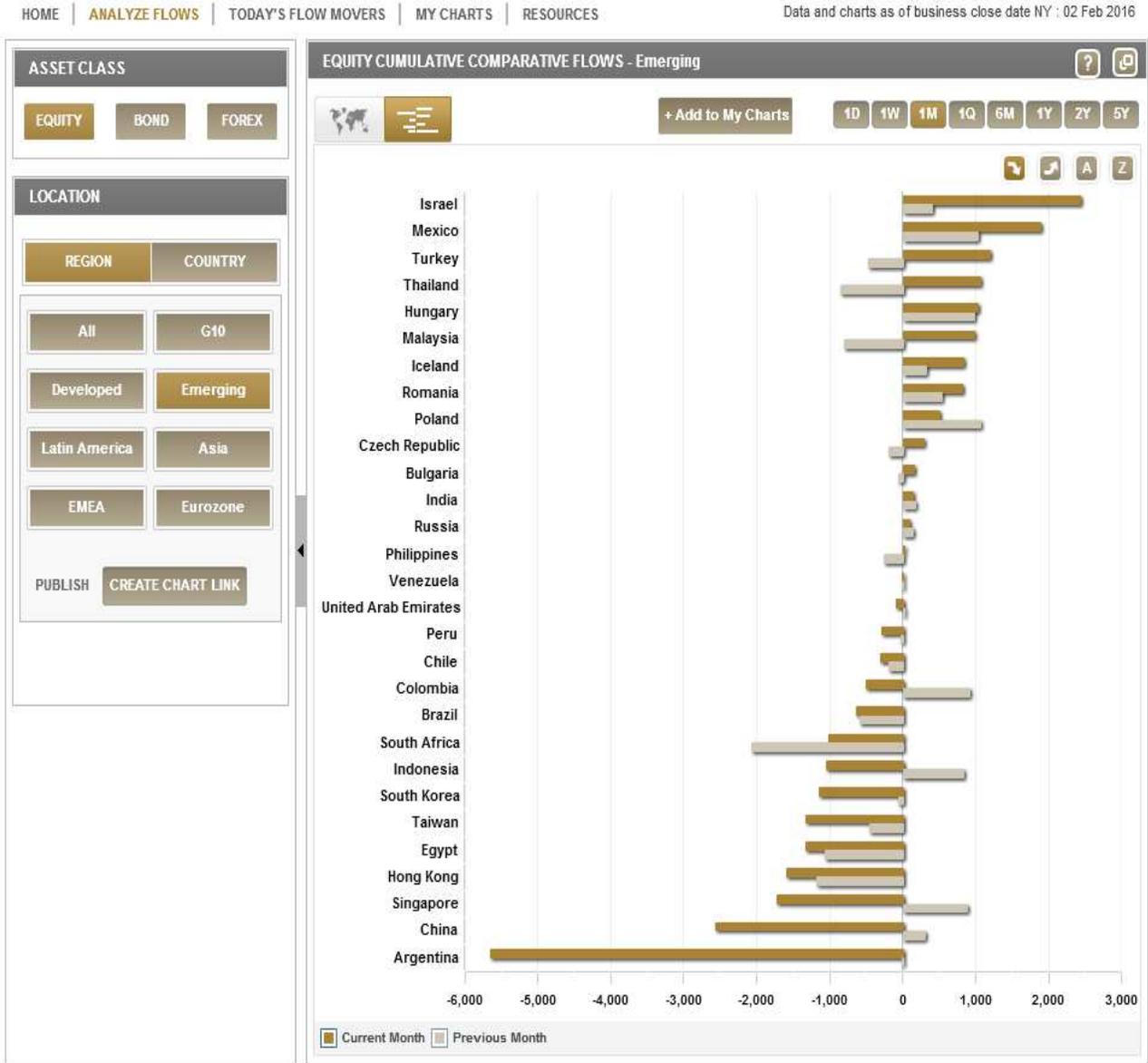
- China has seen modest net outflows. Investors remain cautious about the economic slowdown. South Korea, Taiwan, Indonesia and Philippines have seen modest net outflows, while India, Thailand and Malaysia have seen modest net inflows.
- Brazil has seen modest net inflows, with the IBOVESPA index up about 2.6% in the past week; Chile has seen modest net inflows, while Peru and Colombia have seen modest net outflows,
- Mexico has seen net inflows, with the MEX IPC index up about 2.9% in the past week.
- South Africa has seen modest net inflows, with the JALSH index up about 1.3% in the past week.
- Russia has seen modest net inflows; Poland, Hungary, Czech Republic and Turkey have also seen modest net outflows.



iFLOW: DEVELOPED EQUITY MARKETS ... over the past month



iFLOW: EMERGING EQUITY MARKETS ... over the past month



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² Source: Global Finance Magazine, World's Best Foreign Exchange Providers 2015, January 2015

