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COMMENTARY

As global risk aversion intensifies, we focus this week on select currency and asset markets that have borne the brunt of investor pessimism, and those that are reflecting a flight to relative safety.

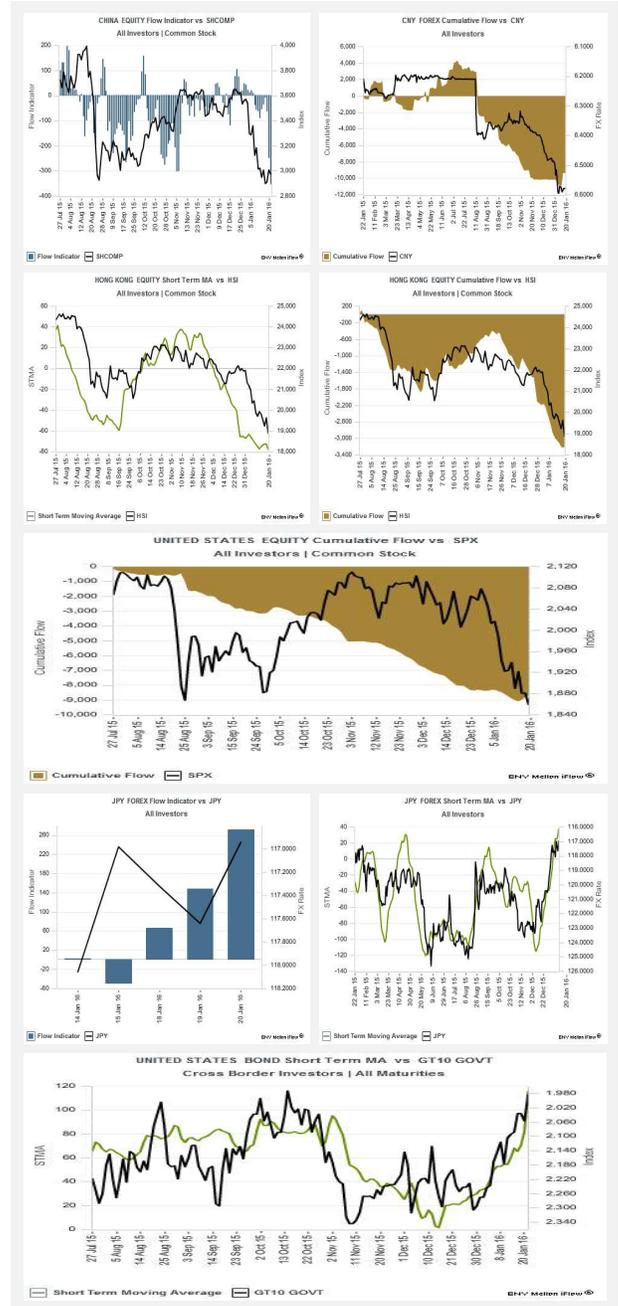
Concerns about China remain a key driver of investor sentiment. As Charts 1 shows, our iFlow China equity indicator reached -350 yesterday (net selling 3.5 times stronger than average flows in Chinese equities over the past year). Further, this reflects renewed strong outflows after a brief hiatus from the heavy selling witnessed during Sep-Nov last year – evidently, equity investors who had been holding out, waiting for a recovery amidst the government’s measures aimed at market stabilization, have started capitulating. Chart 2 confirms that capital outflows, especially from the local equity market, continue to fuel net selling of the renminbi, a trend that was initiated in the immediate aftermath of the CNY devaluation in August 2015.

Heightened China-related worries continue to spill over into Hong Kong markets. Charts 3 and 4 show the 1mma and cumulative flows of our iFlow Hong Kong equity indicator remaining firmly southbound for now, consistent with the Hang Seng index having lost 15.4% year-to-date and strong capital outflows fueling concerns about the HKD currency peg. Global equities in general have also been hard hit of late – Chart 5 shows steady outflows from US equities in recent months, consistent with the S&P 500 having had its worst start to a new year since the financial crisis.

Against this backdrop, it is not at all surprising to see increasing net inflows into relative safe-havens such as the Japanese yen and US Treasuries. Our iFlow JPY FX indicator in Chart 6 is reflecting increased net purchases in recent sessions culminating in a spike to +273 yesterday – the net inflow being nearly three times stronger than average flows over the past year. In fact, the 1mma of our iFlow JPY FX indicator in Chart 7, which has tracked USD/JPY well, confirms the momentum of the latest inflows is the highest in a year as investors unwind riskier exposure at an increasingly rapid pace. This has led USD/JPY to dip below 115 yesterday from levels above 123 just last month. We make a similar observation in Chart 8 – the 1mma of our iFlow US bond indicator has risen rapidly in recent weeks as cross-border investors have sought relative safety and liquidity, which in turn has led the 10-year UST yield to dip below 1.95% yesterday.

Ongoing concerns about China, oil, global growth and deflationary pressures are likely to remain an important determinant of investor risk appetite going forward. Today’s comments by ECB president Mario Draghi led to optimism about the potential for further monetary stimulus. Whether this translates to concrete steps by major central banks to soothe frayed investor nerves remains to be seen.

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iFLOW® iQ

In the signal grid below as of 20 January 2016 (compared to the previous week's signal grid as of 13 January), amongst G10 FX, JPY remains in its Long position opened on 31 December 2015 with about a 2.7% gain, GBP has closed its Short position opened on 8 January with about a 2.3% gain, EUR remains in its Long position opened on 31 December 2015 with about a 0.3% gain, NOK changed to Flat from Short, SEK remains in its Short position opened on 23 December 2015 with about a 1.8% gain, and others remain the same. In emerging markets, MXN has closed its Short position opened on 6 January with about a 4.1% gain, BRL opened a Short position, KRW closed its Long position and reversed to Short on 18 January which has gained about 0.3%, SGD opened a Short position, TWD has closed its Short position opened on 11 January with about a 0.7% gain, INR remains in its Short position opened on 15 December 2015 with about a 1.6% gain, THB remains in its Short position opened on 10 December 2015 with about a 0.6% gain, MYR changed to Long from Flat, PHP closed its Long position, TRY remains in its Short position opened on 11 January with about a 0.2% gain, PLN changed to Flat from Long, and others remain the same. Amongst equities, SPX closed its Short position opened on 8 January with about a 2.2% gain and opened a Long position. The US10Y opened a Long 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 20 January 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)

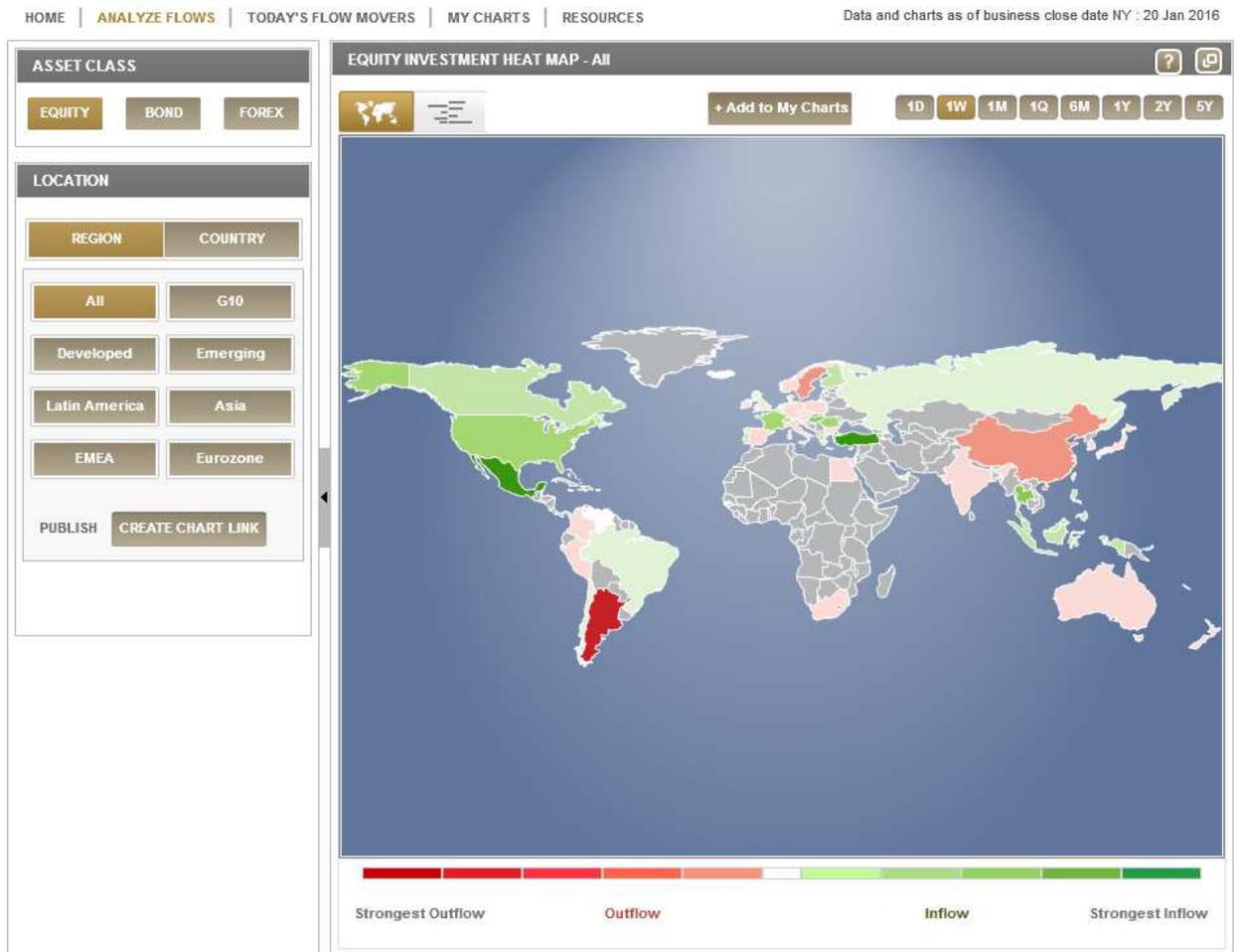
BNY MELLON							
BNY Mellon iFlow iQ							
20-Jan-2016							
Note: All FX Signals are against the USD, e.g., Long AUD means long AUD/USD, Long CAD means short USD/CAD, etc.							
1	2	3	4	5	6	7	8
CURRENCY	SIGNAL	SIGNAL DATE	ENTRY PRICE	STOP	CURRENT PRICE	OPEN P&L (%)	12-Month Total Return (%)
AUD	Flat	***	***	***	0.6908	***	-7.17
CAD	Flat	***	***	***	1.4504	***	6.21
CHF	Flat	***	***	***	1.0043	***	1.73
EUR	Long	***	***	***	1.0890	***	0.82
GBP	Close Short	***	***	***	1.4192	***	11.14
JPY	Long	***	***	***	116.94	***	-4.09
NOK	Flat	***	***	***	8.8779	***	0.48
NZD	Flat	***	***	***	0.6430	***	10.27
SEK	Short	***	***	***	8.5923	***	15.62
MXN	Flat	***	***	***	18.5278	***	13.67
BRL	Open Short	***	***	***	4.0976	***	21.44
KRW	Short	***	***	***	1213.82	***	-2.85
SGD	Open Short	***	***	***	1.4378	***	4.89
TWD	Flat	***	***	***	33.695	***	7.59
INR	Short	***	***	***	67.9638	***	-0.05
THB	Short	***	***	***	36.279	***	6.76
MYR	Long	***	***	***	4.3950	***	32.34
IDR	Long	***	***	***	13964.00	***	2.21
PHP	Close Long	***	***	***	47.945	***	-2.50
ZAR	Flat	***	***	***	16.762	***	17.48
TRY	Short	***	***	***	3.042	***	8.97
HUF	Flat	***	***	***	289.100	***	8.49
PLN	Flat	***	***	***	4.126	***	22.97
CJP	Flat	***	***	***	729.110	***	19.17
INDEX	SIGNAL	SIGNAL DATE	ENTRY PRICE	STOP	CURRENT PRICE	OPEN P&L (%)	12-Month Total Return (%)
SPX	Open Long	***	***	***	1859.33	***	5.93
BOND	SIGNAL	SIGNAL DATE	ENTRY YIELD	STOP	CURRENT YIELD	OPEN P&L (bps)	12-Month Total Return (bps)
US10Y	Open Long	***	***	***	1.9824	***	12.40
<ul style="list-style-type: none"> * 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 modest net outflows from Japan, Germany, Norway, Sweden, Netherlands, Denmark, Spain, Italy, Austria, Ireland, Australia and New Zealand; modest net inflows to US, Canada, UK, France, Switzerland, Finland, Belgium, Portugal and Greece.

For emerging markets:

- China has seen net outflows, with the Shanghai Comp index and Shenzhen Comp index down about 4.2% and 3.1% respectively in the past five trading days. Worries about economic slowdown continued to weigh on investor sentiment. South Korea, Taiwan, India, and Malaysia have seen modest net outflows, while Thailand, Indonesia, and Philippines have seen modest net inflows.
- Brazil has seen modest net inflows. Peru and Colombia have seen modest net outflows, while Chile has seen modest net inflows.
- Mexico has seen net inflows.
- South Africa has seen modest net outflows, with the JALSH index down about 3% in the past week.
- Russia has seen modest net inflows; Czech Republic and Poland have seen modest net outflows, while Turkey and Hungary have seen net inflows.



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

