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COMMENTARY

Given the market gyrations and volatility in the past week, we turn to key G-10 flows after last week's coverage of the EMFX sell-off.

Chart 1 shows our iFlow US bond indicator – we have seen a sustained pick-up in buying since 12 August, one day after the surprise CNY devaluation. Chart 2 reveals that on a 1mma basis, cross-border investors had turned the corner and become net buyers since early July, consistent with the benchmark 10-year UST yield having declined to below 1.95% this week from levels above 2.40% six weeks ago. Treasuries have gained in the past month and a half not only due to reduced expectations of a September Fed rate hike, but also higher risk aversion of late.

This pull-back in investor risk appetite has unsurprisingly led to a sharp pick-up in yen inflows this month as investors have unwound riskier allocations – see the spike in the 1mma of our iFlow JPY FX indicator in Chart 3. What has been more surprising is the pick-up in Euro inflows as well which has in fact led to the Euro gaining slightly more ground than the yen vs the greenback month-to-date – see the steady ascent of the 1mma of our iFlow EUR FX indicator in Chart 4.

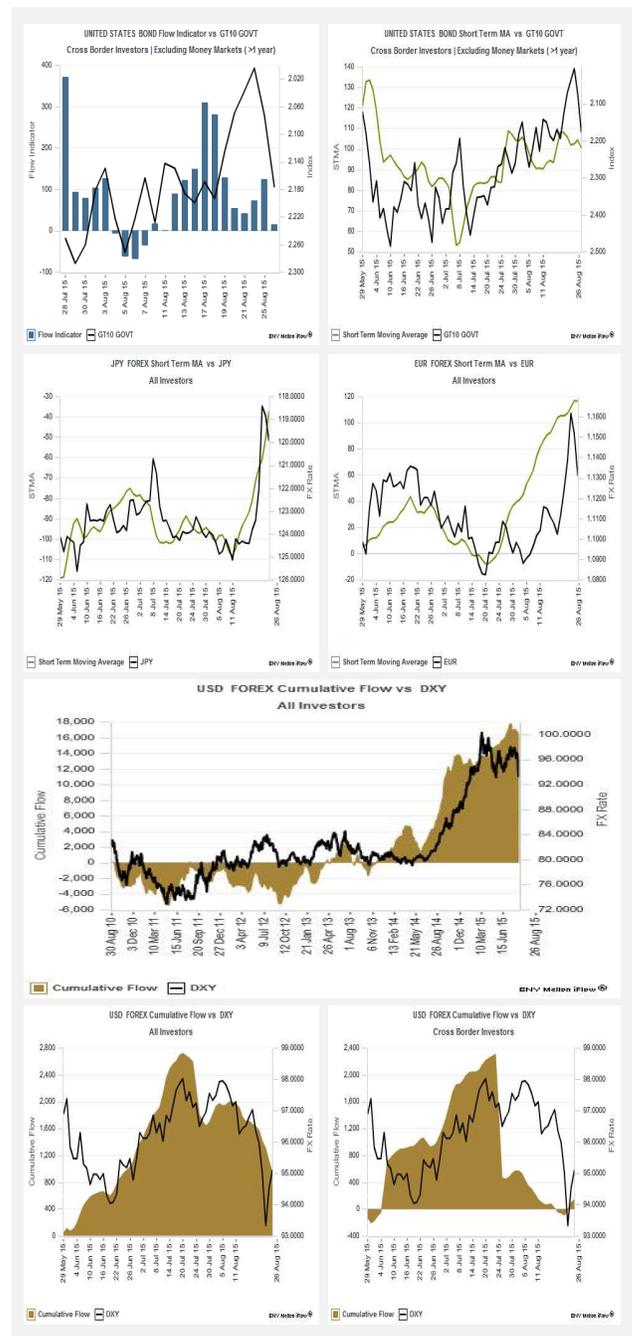
The key driver of these FX moves according to iFlow, is the net selling of USD in recent weeks. Chart 5 is our familiar cumulative USD FX flows chart over the past five years, and the story it tells explaining how our iFlow indicators have signposted the big rising and falling trends of the DXY Dollar Index is a familiar one to our regular readers. Zooming into just the past quarter is revealing. As Chart 6 shows, global investors turned USD net sellers in the second half of July. Chart 7 looks at USD FX activity of cross-border investors (non-US investors only). Comparing Charts 6 and 7 suggests the vast majority of selling pressure on the greenback in recent weeks has come from non-US investors.

Given that 1) our iFlow charts on US asset markets show that non-US investors have generally been net sellers of US equities and net buyers of US fixed income securities (especially USTs) over the past year, and 2) equity market activity tends to have a larger FX impact than bond market activity as most equity portfolio managers leave their FX exposure un-hedged, suggests that cross-border investor activity might have an important bearing on the fortunes of the US dollar in the coming months. August has also seen a slight paring of long-USD positions by speculative investors according to CFTC data. While investor sentiment toward the greenback will understandably pivot on the ebb and flow of US rate expectations and upcoming US data, the bigger picture trend may well be determined by asset allocation decisions of non-US investors looking to take profits and bring money home.

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MARKETS GROUP



iFLOW® iQ

In the signal grid below as of 26 August 2015 (compared to the previous week's signal grid as of 19 August), AUD changed to Short from Flat, CAD changed to Short from Flat, GBP remains in its Short position opened on 31 July with about a 1% gain, JPY changed to Long from Short, NOK has closed its Short position opened on 30 July with about a 0.3% gain, NZD remains in its Short position opened on 17 August with about a 2% gain, and others remain the same. In emerging markets, MXN changed to Short from Flat, KRW closed its Short position opened on 18 August with about a 1.2% gain and reopened a Short position shortly after, SGD opened a Long position, TWD has closed its Short position opened on 17 August with about a 1.2% gain, THB remains in its Short position opened on 19 August with about a 0.2% gain, MYR has closed its Short position opened on 19 August with about a 2.2% gain, PHP has closed its Short position opened on 19 June with about a 3.2% gain, and others remain the same. Amongst equities, SPX remains Flat. 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 26 August 2015, 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)

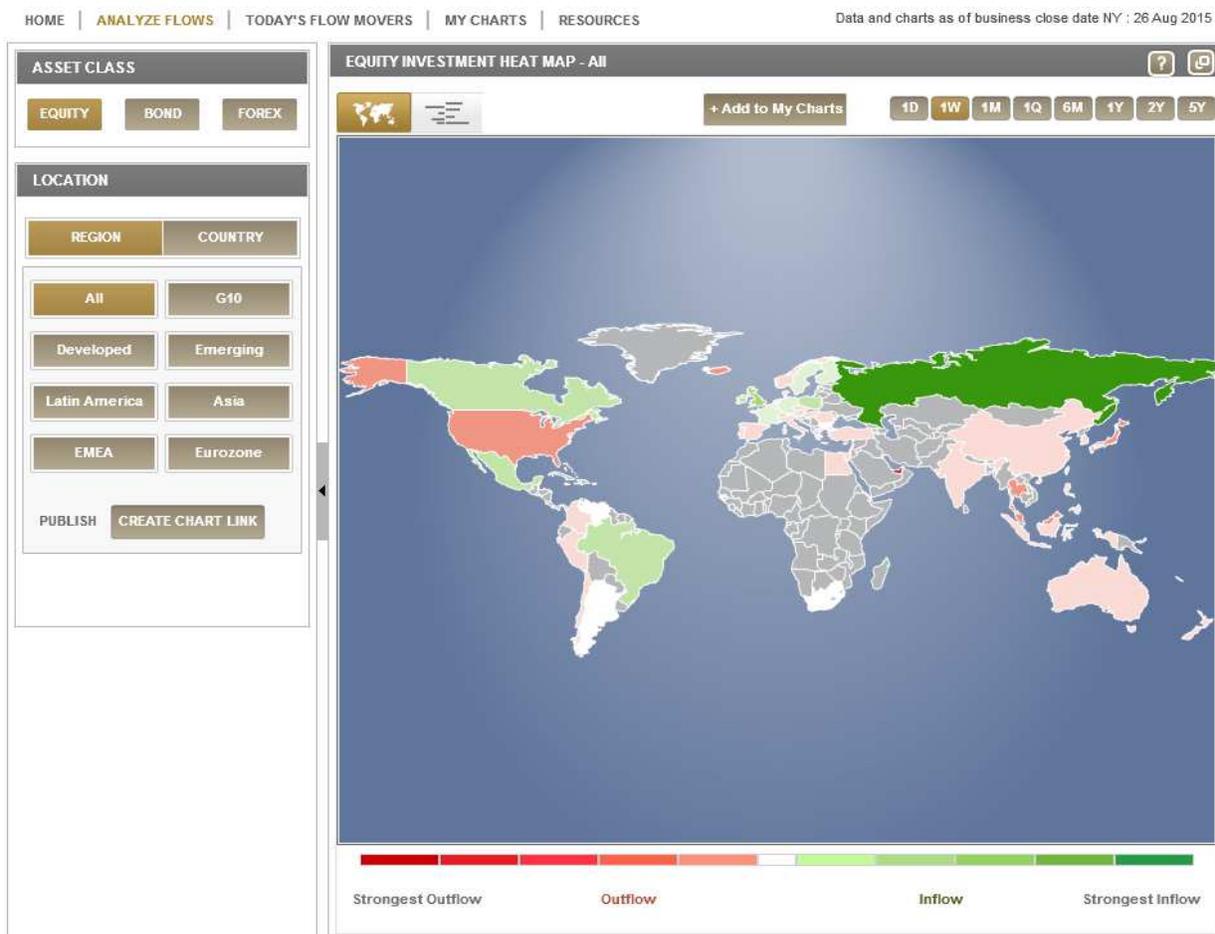
							
BNY Mellon iFlow iQ 26-Aug-2015							
<i>Note: All FX Signals are against the USD, e.g., Long AUD means long AUD/USD, Long CAD means short USD/CAD, etc.</i>							
1	2	3	4	5	6	7	8
CURRENCY	SIGNAL	SIGNAL DATE	ENTRY PRICE	STOP	CURRENT PRICE	OPEN P&L (%)	12-Month Total Return (%)
AUD	Short	***	***	***	0.7122	***	9.75
CAD	Short	***	***	***	1.3292	***	11.98
CHF	Flat	***	***	***	0.9548	***	-1.09
EUR	Flat	***	***	***	1.1314	***	15.97
GBP	Short	***	***	***	1.5463	***	11.13
JPY	Long	***	***	***	119.92	***	7.55
NOK	Flat	***	***	***	8.3792	***	19.58
NZD	Short	***	***	***	0.6439	***	22.82
SEK	Flat	***	***	***	8.4909	***	15.33
MXN	Short	***	***	***	17.0129	***	18.69
BRL	Flat	***	***	***	3.5964	***	29.48
KRW	Short	***	***	***	1185.82	***	8.58
SGD	Open Long	***	***	***	1.4065	***	9.60
TWD	Flat	***	***	***	32.622	***	6.52
INR	Flat	***	***	***	66.1438	***	-5.68
THB	Short	***	***	***	35.617	***	7.26
MYR	Flat	***	***	***	4.2460	***	29.57
IDR	Flat	***	***	***	14133.00	***	7.98
PHP	Open Short	***	***	***	46.674	***	3.36
INDEX	SIGNAL	SIGNAL DATE	ENTRY PRICE	STOP	CURRENT PRICE	OPEN P&L (%)	12-Month Total Return (%)
SPX	Flat	***	***	***	1940.51	***	8.38
BOND	SIGNAL	SIGNAL DATE	ENTRY YIELD	STOP	CURRENT YIELD	OPEN P&L (bps)	12-Month Total Return (bps)
US10Y	Flat	***	***	***	2.1752	***	39.50
<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 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, Canada, Germany, France, Switzerland, Sweden, Finland, Ireland and Netherlands; modest net outflows from US, Japan, Norway, Denmark, Belgium, Austria, Portugal, Spain, Italy, Greece, Australia and New Zealand.

For emerging markets:

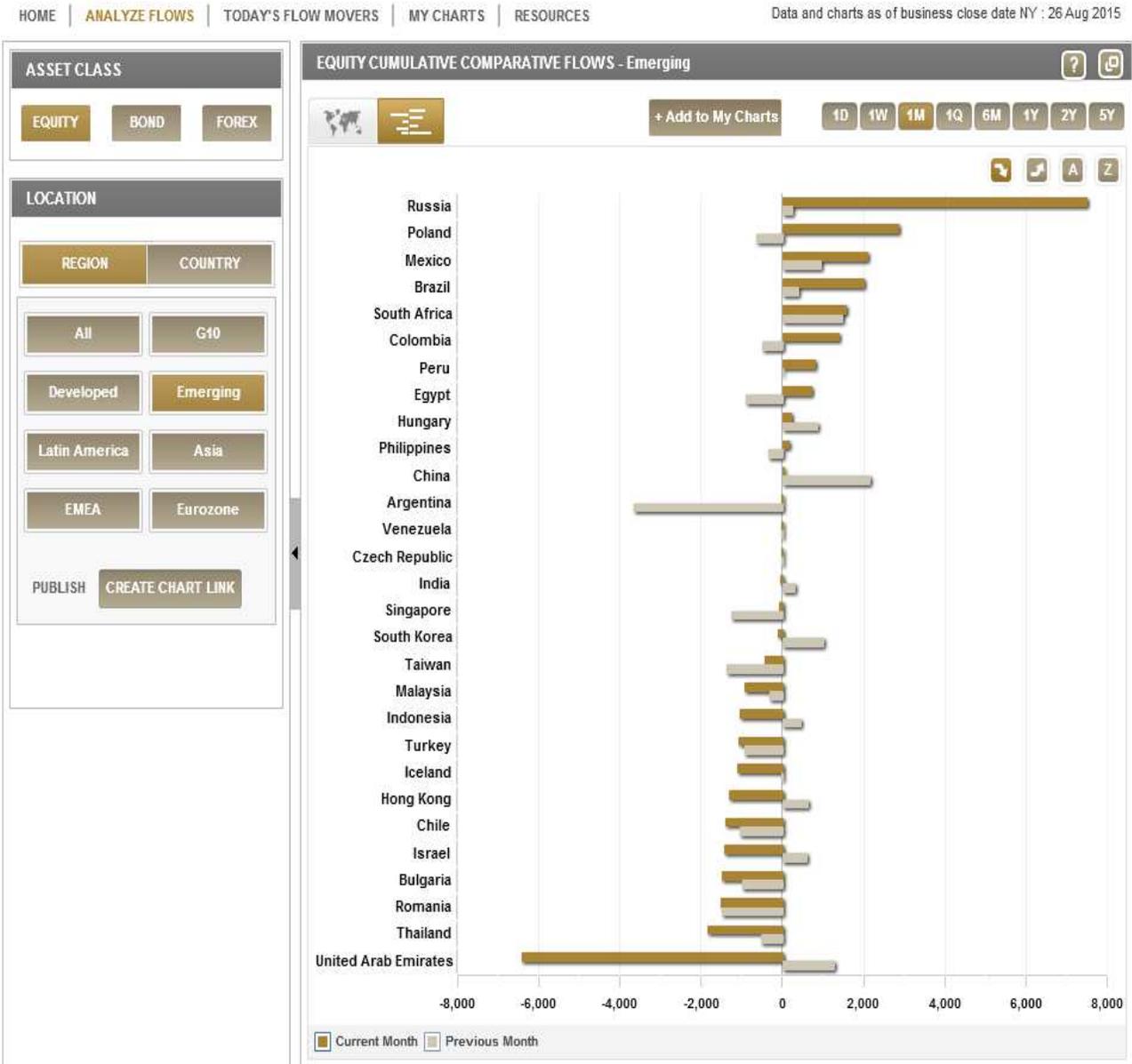
- China has seen net outflows in the past week, with the Shanghai Comp Index and the Shenzhen Comp Index down 15.9% and 18.7% respectively in the past five trading days. The PBOC cut interest rates and reduced the reserve requirement ratio on Tuesday to calm investors after the most recent stock market plunge. The stock markets rebounded sharply on Thursday. The effects of various measures that have been applied so far to calm the markets continue to be monitored. South Korea, Taiwan, India, Thailand, Malaysia, Philippines and Indonesia have all seen net outflows.
- Brazil has seen net inflows, with the IBOVESPA index up about 2% in the past week. Colombia, Chile and Peru have seen modest net outflows.
- Mexico has seen modest net inflows.
- South Africa has attracted slight net inflows.
- Russia continued to see significant net inflows. Poland has seen modest net inflows, while Hungary, Turkey and Czech Republic have 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

