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COMMENTARY

This week, we turn to FX flows in emerging markets, where most currencies have retreated of late amidst a spike in risk aversion.

Chart 1 shows cumulative FX flows in Asia over the past two months. Clearly, the Chinese renminbi stands out with the strongest net outflows – the CNY devaluation on 11 August was unexpected and has intensified pressure across EM currencies as investors fret again about the sustainability of global growth. Chart 2 shows CNY flows in sharper relief – the 1mma of our iFlow CNY FX indicator began heading south in late July and investors have remained net sellers of both the local currency and equities (see Section 3) in recent sessions.

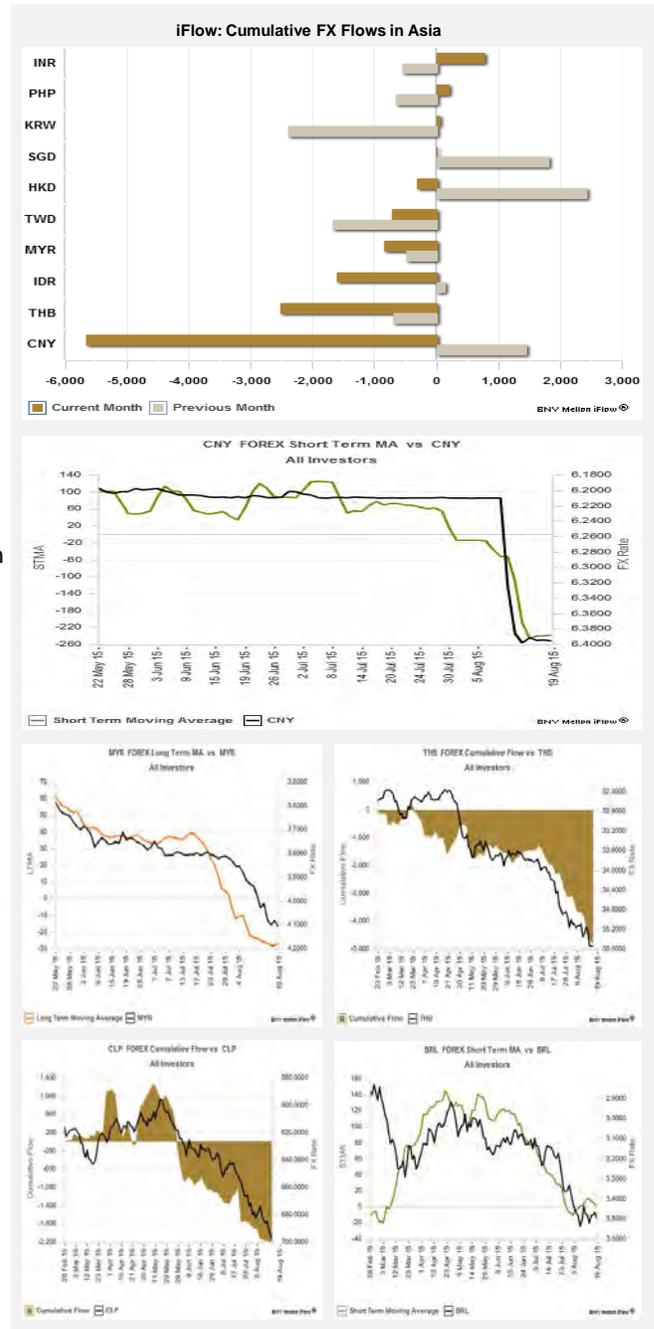
Following the CNY devaluation last week, the past few days have seen several EM currencies losing ground including the 23% plunge in the Kazakhstan tenge today once policy-makers decided to abandon the peg and allow the KZT to float freely. Charts 3 and 4 show net outflows from the Malaysian ringgit and Thai baht, consistent with these two currencies having been amongst the heaviest losers vs the greenback in recent months. In a similar vein in Latin America, Charts 5 and 6 show net outflows from the Chilean peso and Brazilian real in recent weeks.

That we are witnessing most EM currencies lose ground vs the greenback despite the DXY Dollar Index having drifted lower in August thus far (as the Federal Reserve becomes more tentative about a tentative September rate hike), is entirely understandable given our iFlow observations of portfolio managers reducing exposure to riskier assets in their equity and fixed income portfolios.

However, the USD's slight retreat thus far this month may only prove to be a temporary reprieve as, all said and done, the US Fed still remains the most likely to begin normalizing rates the soonest amongst G-4 central banks, even though the trigger might not be pulled until next year. Given the general fragility of global growth and investor sentiment, the race to the bottom in global currency markets is likely to pick up again with renewed vigor – in fact, one could argue we may already be in the midst of another round of competitive devaluations. EM central banks that have, in general, had to dip into their FX reserves to defend their currencies in recent months may decide the effort to fight the tide may be futile.

In such an environment, we will be closely monitoring underlying asset market flows via our iFlow indicators – these would be key differentiating factors for investors to consider in terms of currency impact if the tide of risk appetite continues to ebb.

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iFLOW® iQ

In the signal grid below as of 19 August 2015 (compared to the previous week's signal grid as of 12 August), EUR changed to Flat from Short, NOK remains in its Short position opened on 30 July with about a 1.4% gain, SEK has closed its Short position opened on 1 July with about a 1.5% gain, and others remain the same. In emerging markets, BRL has closed its Short position opened on 31 July with about a 1.3% gain, KRW changed to Short from Long, TWD opened a Short position on 17 August which has gained about 0.4%, INR changed to Flat from Long, THB opened a Short position, MYR opened a Short position, PHP remains in its Short position opened on 19 June with about a 2.7% gain, and others remain the same. Amongst equities, SPX closed its Long position. 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 19 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)

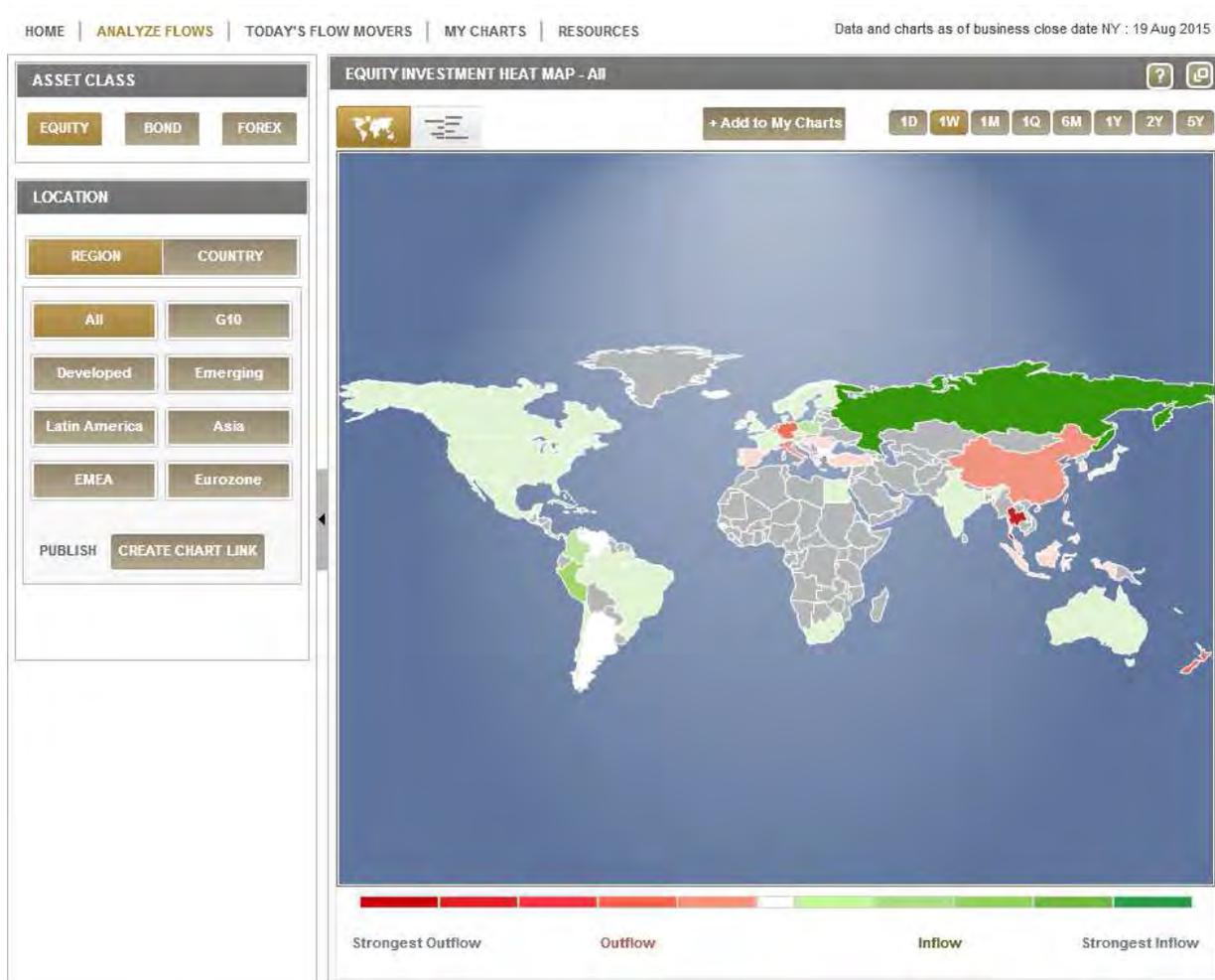
							
BNY Mellon iFlow iQ							
19-Aug-2015							
Note: All FX Signals are against the USD, e.g., Long AUD means long AUD/USD, Long CAD means short USD/CAD, etc.							
1	2	3	4	5	6	7	8
CURRENCY	SIGNAL	SIGNAL DATE	ENTRY PRICE	STOP	CURRENT PRICE	OPEN P&L (%)	12-Month Total Return (%)
AUD	Flat	***	***	***	0.7348	***	7.17
CAD	Flat	***	***	***	1.3129	***	14.16
CHF	Short	***	***	***	0.9656	***	2.94
EUR	Flat	***	***	***	1.1120	***	14.46
GBP	Short	***	***	***	1.5680	***	9.74
JPY	Short	***	***	***	123.80	***	11.25
NOK	Short	***	***	***	8.2856	***	20.68
NZD	Short	***	***	***	0.6601	***	20.36
SEK	Flat	***	***	***	8.5232	***	15.33
MXN	Flat	***	***	***	16.6213	***	19.83
BRL	Flat	***	***	***	3.4924	***	32.23
KRW	Short	***	***	***	1185.53	***	8.28
SGD	Flat	***	***	***	1.4032	***	9.44
TWD	Short	***	***	***	32.554	***	5.69
INR	Flat	***	***	***	65.2737	***	-5.68
THB	Open Short	***	***	***	35.542	***	7.05
MYR	Open Short	***	***	***	4.1058	***	27.38
IDR	Flat	***	***	***	13843.00	***	7.98
PHP	Short	***	***	***	46.313	***	2.77
INDEX	SIGNAL	SIGNAL DATE	ENTRY PRICE	STOP	CURRENT PRICE	OPEN P&L (%)	12-Month Total Return (%)
SPX	Close Long	***	***	***	2079.61	***	8.98
BOND	SIGNAL	SIGNAL DATE	ENTRY YIELD	STOP	CURRENT YIELD	OPEN P&L (bps)	12-Month Total Return (bps)
US10Y	Flat	***	***	***	2.1256	***	41.56
<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 US, Canada, UK, Japan, France, Switzerland, Sweden, Norway, Finland, Austria, Portugal, Ireland and Australia; modest net outflows from Germany, Netherlands, Denmark, Belgium, Spain, Italy, Greece 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 7.3% and 6.2% respectively in the past five trading days. Investors were selling Chinese stocks due to concerns about China's economic outlook and also fears that the Chinese yuan may be devalued further. India has seen modest net inflows, while South Korea, Taiwan, Thailand, Malaysia, Philippines and Indonesia have seen net outflows.
- Brazil, Colombia, Chile and Peru have seen modest net inflows.
- Mexico has seen modest net inflows.
- South Africa has attracted modest 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

