



Samarjit Shankar
Managing Director,
Head of iFlow and
Quant Strategies



Jiangang Dou, Ph.D., CFA
iFlow and Markets
Quant Analyst



Thomas R. Hoge III
FX Sales
Technical Analyst

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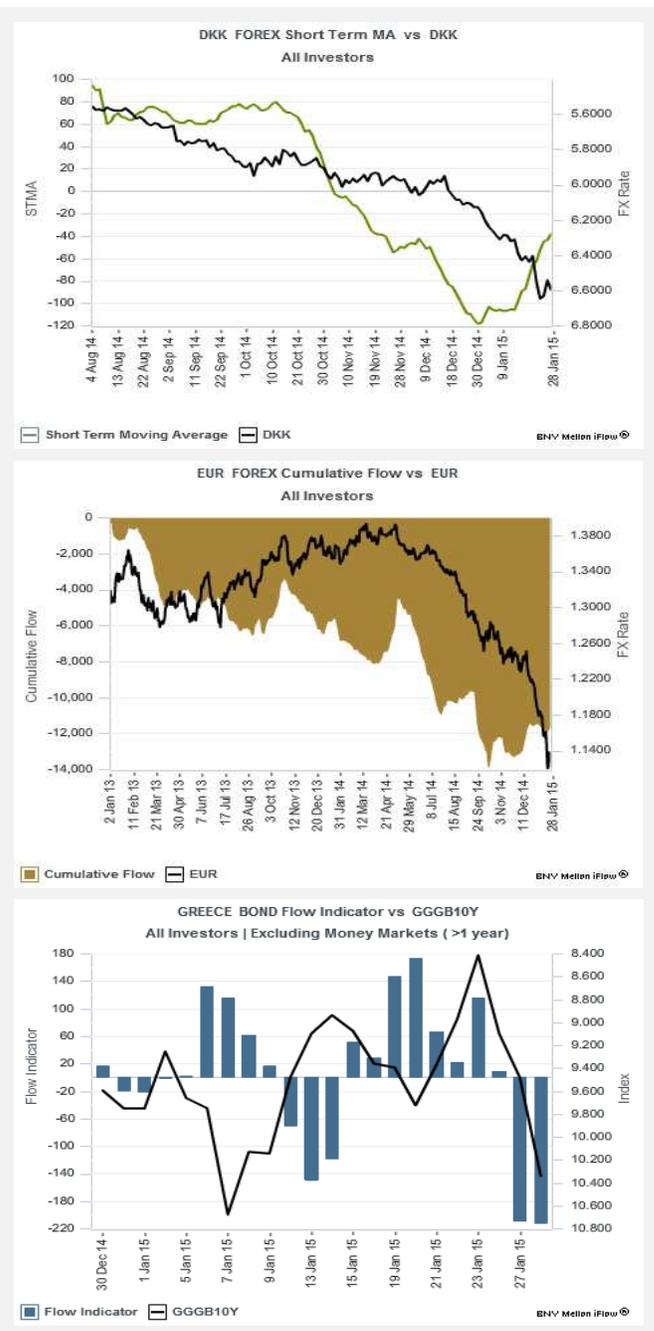
COMMENTARY

In what has turned out to be a very eventful January when it comes to policy moves by central banks, we focus this week on investor activity and policy measures in the immediate aftermath of the latest quantitative easing measures announced by the European Central Bank. This morning's move by Denmark's Nationalbank – cutting rates for the third time in just over a week, stands out, while other central bank measures in recent weeks to ease monetary policy settings have taken place in Canada, India and Singapore.

Our readers will recall we already covered the Swiss National Bank's policy impact in detail last week, the central bank having had to abandon its minimum exchange rate vs the Euro in the wake of strong safe-haven inflows. In a similar vein, Chart 1 shows the 1mma of our iFlow DKK FX flow indicator also turned north in the run-up to the ECB's QE announcement, at the turn of the year to be precise. Not surprisingly, the Danish central bank has also had to act swiftly and decisively over the past 10 days – cutting the certificate of deposit rate last week on Monday and Thursday and again today (to a record -0.50% from a -0.05% starting point) to defend the Danish krone's peg to the Euro. In addition, the Danish central bank is estimated to have sold the local currency, possibly as much as DKK 100 billion worth in the past month, as it has intervened in the FX market to deter speculative inflows.

The rationale behind the central bank moves in Switzerland and Denmark is not difficult to understand if one looks at Chart 2 – our iFlow cumulative EUR FX flows have been generally negative in recent months. At first, worsening fundamentals and a strong USD backdrop weighed on the Euro, which was followed by expectations of the ECB's QE measures against an increasingly disinflationary backdrop. The resulting weaker Euro pressured both EUR/CHF and EUR/DKK, which has elicited contrasting responses by the respective central banks. The fact that the SNB relented, refusing to continue offering artificially cheap entry levels for CHF buyers, has led to market participants to speculate that the Danish central bank might also have to scrap its Euro peg, a cornerstone of its monetary and currency policy.

Looking ahead, another key developing element in the Euro's outlook is the deterioration in investor sentiment toward Greece. The election of Alexis Tsipras as prime minister following his



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GLOBAL MARKETS



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Syriza party's victory on 25 January on an anti-austerity platform, has once again brought to the front-burner existential concerns about the single currency. Not surprisingly, our iFlow Greece bond indicator has exceeded -200 the past two sessions (Chart 3) as investors further reduce their exposure to local currency debt instruments as they have been doing gradually over the past half-year (Chart 4). This is consistent with the renewed spike in Greek credit-default swap spreads (Chart 5), the rise in the 3-year Greek bond yield (hitting 18.63% at one point) and the ongoing yield inversion of the 3yr-10yr tenors.

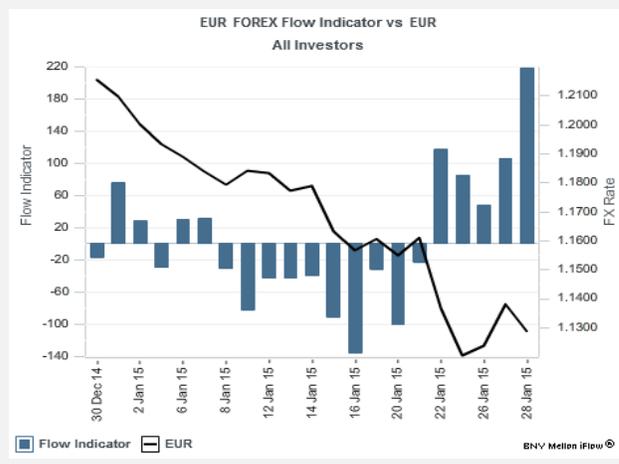
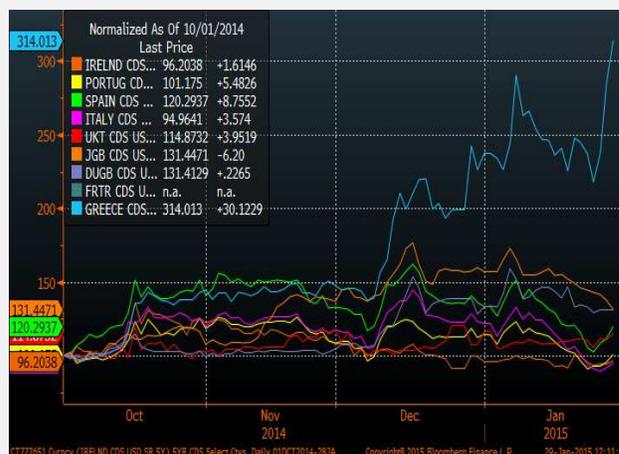
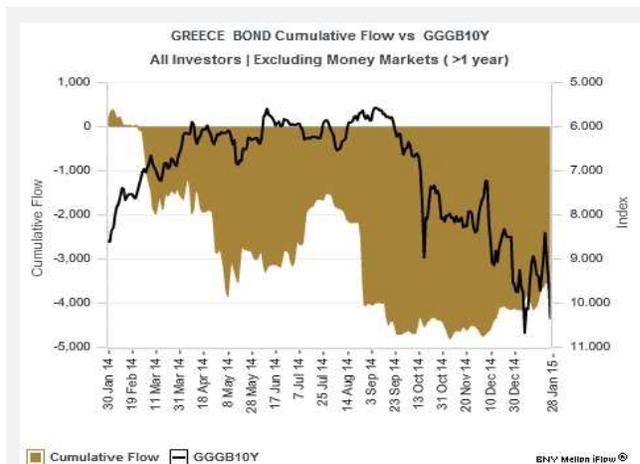
Curiously though, we have to point out that we have actually seen modest Euro net buying since the ECB's QE announcement last Thursday – Chart 6 shows five successive days of EUR inflows that approached +200 yesterday (twice as strong as average Euro flows over the past year). While this is entirely consistent with the price action since last week (EUR/USD stabilizing around a 1.13 handle for now after having fallen to as low as 1.1098 early Monday), it begs the question whether this is simply a temporary pause in the single currency's decline, or if there are other factors in play? If the latter, is the presently unfolding third act of the Greek crisis irrelevant for the Euro?

Indeed, our iFlow Metrics model turned long EUR on 26 January after securing a tidy 4% gain on a Short EUR position that closed on 22 January – see Section 2 for details.

In Section 3, my colleague offers interesting technical perspectives on EUR/USD, EUR/GBP and EUR/JPY over the past decade. Comparing the three at face value, one could argue that since the first two have retraced more of their 2000/2008 rallies than has the third one, EUR/JPY might have more room to fall. At the same time, these charts also raise the possibility that if the funding currency of choice for carry trades is going to switch from the yen to the Euro (since from a macro perspective, the ECB has been a late entrant to the QE fold and has a lot more ground to cover vis-à-vis the BOJ), there will be more EUR/JPY downside going forward.

However, the most recent Euro inflows in Chart 6 call into question this “funding currency” premise, at least for now. In other words, even if the Euro were to be the logical choice as a funding currency, there appear to be bigger forces in play in the FX markets that we need to be mindful of – to illustrate this we note that the BRL has risen by over 9% against the CHF since January 15th (indeed the BRL is actually higher against the CHF than it was on December 16th) and that the one year yield differential stands somewhere in the regions of 12.5 percentage points. In contrast, the BRL is up only 4.1% against the EUR (reflecting the more modest yield differential).

In sum, the fact that the EUR has actually stabilized against a range of currencies this week (including the USD) despite the



developments in Greece suggests there is more to it than meets the eye, and may be illustrative of the pressures building across asset markets and currencies that we will be monitoring very closely via iFlow.

samarjit.shankar@bnymellon.com



IFLOW METRICS

In the signal grid below as of 27 January 2015 (compared to the previous week's signal grid as of 20 January), AUD remains in its Short position opened on 12 December with about a 3.8% gain, CAD changed to Flat from Long, EUR closed its Short position opened on 9 January with about a 4% gain and opened a Long position on 26 January which has registered a 1.3% gain so far, JPY remains in its Short position opened on 12 December with about a 0.8% gain, NZD has closed its Short position opened on 20 January with about a 1.1% gain and reversed to Long, and others remain the same. In emerging markets, KRW remains in its Long position opened on 6 January with about a 1.7% gain, TWD and PHP changed to Long from Flat, and others remain the same. Amongst equities, SPX has closed in its Long position opened on 19 January with about a 2.2% gain and reversed to Short on 22 January which has registered about a 1.6% gain so far. The US10Y bond signal remains Long.

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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-Metrics 27-Jan-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	****	****	****	0.7937	****	-2.83
CAD	Flat	****	****	****	1.2399	****	-3.82
CHF	Flat	****	****	****	0.9029	****	-0.96
EUR	Long	****	****	****	1.1381	****	2.83
GBP	Flat	****	****	****	1.5197	****	-0.86
JPY	Long	****	****	****	117.87	****	11.79
NOK	Long	****	****	****	7.7319	****	-10.38
NZD	Long	****	****	****	0.7452	****	5.33
SEK	Flat	****	****	****	8.1819	****	-4.14
MXN	Short	****	****	****	14.6181	****	8.05
BRL	Flat	****	****	****	2.5735	****	8.74
KRW	Long	****	****	****	1079.75	****	-3.10
SGD	Flat	****	****	****	1.3389	****	7.57
TWD	Long	****	****	****	31.287	****	3.14
INR	Flat	****	****	****	61.4075	****	-0.26
THB	Short	****	****	****	32.5030	****	6.58
MYR	Flat	****	****	****	3.5972	****	4.63
IDR	Flat	****	****	****	12469.00	****	8.63
PHP	Long	****	****	****	44.0750	****	-0.22
INDEX	SIGNAL	SIGNAL DATE	ENTRY PRICE	STOP	CURRENT PRICE	OPEN P&L (%)	12-Month Total Return (%)
SPX	Short	****	****	****	2029.55	****	24.26
BOND	SIGNAL	SIGNAL DATE	ENTRY YIELD	STOP	CURRENT YIELD	OPEN P&L (bps)	12-Month Total Return (bps)
US10Y	Long	****	****	****	1.8231	****	30.10
* STOP— Each new signal carries a predetermined "overlay" stop designed to provide broad latitude of price movement, and defined risk. The multiple model integration of iFlow Metrics provides a structure highly sensitive to price change, and as a result, the vast majority of signals exit the market in advance of the overlay stop being elected. * 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.							

WEEKLY TECHNICALS

The volatility kicked off by the Swiss National Bank got a further boost from the ECB last week. Against this backdrop it is worth taking a quick look at the long-term charts for the major EUR crosses (less the CHF, which we covered last week):

EUR/USD reached, and briefly surpassed, key support **~1.1213** (61.8% Fibonacci retracement of its 2000/2008 rally from **~.8230** to **~1.6038**). A sustained break below this level will find its next support **~1.0765** (September 2003 low). Resistance now comes in **~1.1460** (confluence of mid-Jan low and 45-day downtrend).

EUR/USD Monthly Chart:



EUR/GBP took out its 14-year uptrend **~.7560**, tumbling to a new 7-year low **~.7400**. Key support now comes in **~.7260** (both 61.85 Fibonacci retracement of its 2000/2008 rally from **~.5685** to **~.9805** and 2003 high). Resistance comes in **~.7725** (45-day downtrend).

EUR/GBP Monthly Chart:



The EUR/JPY chart differs significantly from the first two in that it took a drastic dive in 2008 (as market-participants unwound their JPY-funded carry trades). As noted above by my colleague, a shift to a EUR-funded carry trade could exacerbate the downside for this cross. That said, it will find support ~128.50 (38.2% Fibonacci retracement of its 2012/2014 rally from ~94.12 to ~149.78). Initial resistance currently comes in ~134.60 (30-day downtrend).

EUR/JPY Monthly Chart:



(thomas.hoge@bnymellon.com)

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²Source: Global Finance Magazine.

