BNY MELLON
iFlow® Weekly

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COMMENTARY

We focus on Greece and China this week – while investors have seemingly become inured of the former's travails, our iFlow indicators reflect initial signs of contagion from the Chinese equity sell-off amidst heightened risk aversion.

Greece first. The witching hour has passed and we still don't have a resolution – the victory of the "no" vote in last Sunday's Greek referendum has led to yet more last-ditch efforts this week to salvage an accord between the country's leaders and creditors. The next deadline is midnight Thursday in Brussels by which time Greece needs to present an economic reform proposal in exchange for a new bailout – the leaders of all 28 European Union countries will then meet on Sunday 12 July to make a decision in response to Greece's proposal, while the ECB will meet the next day to decide next steps.

Chart 1 shows the 1mma of our iFlow Greece bond flow indicator remains firmly southbound as it has been since 19 June, consistent with the 10-year Greek yield reaching 19.58% earlier today from a 10% handle just two weeks ago. Charts 2, 3 and 4 show that global portfolio managers' paring of exposure to Spanish and Portuguese debt instruments has not been severe in recent weeks, while Italian bonds have attracted modest net inflows of late – this is entirely consistent with the back-up in yields in these countries not having been as pronounced as in Greece. Perhaps this is what has led to a harder stance by Greece's creditors as they realize the consequences of a potential Grexit may not be too disastrous for the rest of Europe – indeed, European leaders are now talking openly about this possible outcome as they prepare to isolate its impact.

We now turn to China where global contagion risks from the ongoing stock-market sell-off appear greater than from Greece. The Shanghai Composite index has lost 31% over the past month. More worryingly, Wednesday saw trading halted in at least 1331 companies on mainland exchanges and another 747 companies' share prices falling by the 10% daily limit. All told, sellers were locked out of more than 70% of the Chinese market. While authorities have taken several measures in recent days to shore up the market, investor confidence has rapidly deteriorated.

Chart 5 shows the big picture iFlow story of strong cumulative inflows into Chinese equities over the past two years. Interestingly, Chart 6 focuses on 2015YTD with the

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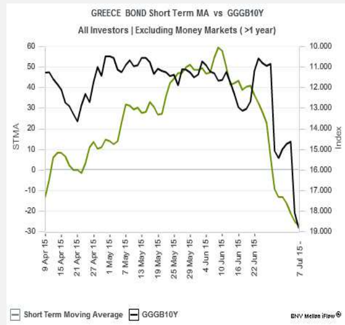

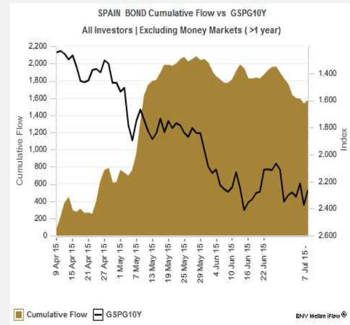

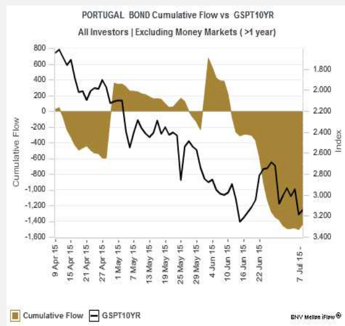

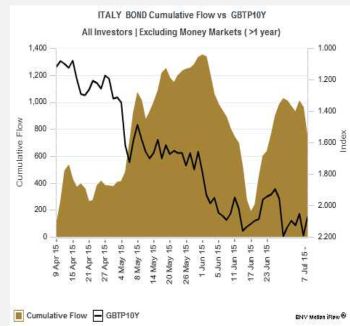

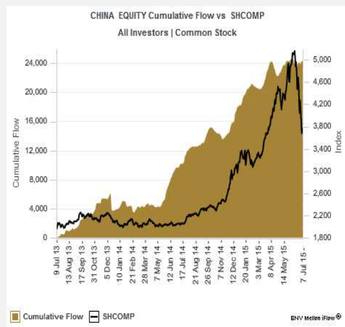

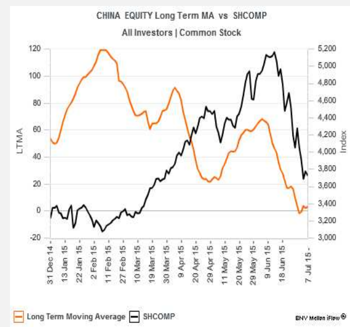

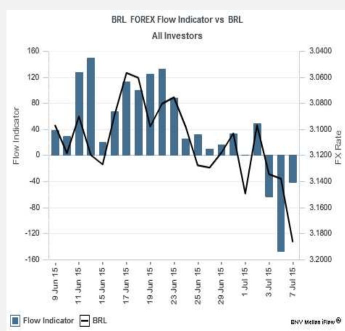

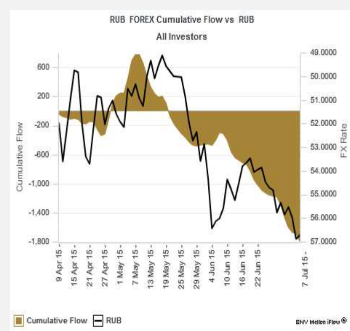

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3mma of our iFlow China equity indicator illustrating how global portfolio managers have been taking profits on their China exposure in recent months. Foreign investors have been selling Shanghai shares at a record pace – Monday and Tuesday alone saw CNY 23.7 billion worth of sales through the Hong Kong- Shanghai exchange, the most since the program began last November. Yet, current market conditions have turned very illiquid, and investors not being able to sell their holdings will understate net outflows. We will monitor Chinese flows closely for our readers to get as accurate a read as possible via iFlow.

For now, it is evident that China's troubles (as investors fret about a hard-landing) are spilling over into other emerging asset markets, commodity-related FX, and the equity asset class as a whole. For example, Chart 7 shows fresh net selling of the Brazilian real, while Charts 8 and 9 show accelerating outflows from the Russian ruble and Chilean peso – all-commodity-related currencies. Chart 10 shows the Indian rupee has also been on the back-foot of late. Perhaps it is no coincidence that Tuesday saw BRICS policy-makers finalize a $100 billion pool of foreign reserves to aid each other in times of illiquidity.

Even amongst G-10, commodity-linked exposure such as the Australian dollar has now been out of favor in recent weeks (Chart 11), while outflows from the New Zealand dollar continue apace (Chart 12). Elsewhere amongst emerging markets, our iFlow MXN FX indicator posted a -200 reading yesterday (Chart 13), which means net selling twice as strong as average flows over the past year. As Chart 14 confirms, the acceleration of MXN cumulative outflows is in keeping with the general trend we are observing in other riskier asset and currency markets.

Even as investors await the end-game in Greece which will determine whether the country remains a part of the Euro or not, the sell-off in Chinese equities is becoming an increasingly important determinant of global investor sentiment. The resulting rise in risk aversion and higher volatility continue to drive safe-haven trades.

In particular, there have been renewed steady inflows into the Swiss franc in recent weeks, a trend that has coincided with the Swiss National Bank admitting to intervening in the FX markets last month – as Chart 15 shows, the 3mma of our iFlow CHF FX has been on the rise once again, much as it was during 2014H2 which led to the SNB scrapping its 1.20 EUR/CHF line in the sand in January this year. Further, we continue to witness elevated buying interest in US Treasuries (Chart 16), consistent with the 10-year UST yield falling below 2.20% yesterday from levels close to 2.50% in the last week of June. This decline in yields could intensify if asset allocators move decisively away from equities in the coming weeks. Needless to say, we will keep our readers posted with how global investor activity unfolds in what is a very fluid situation for risk and investor activity.

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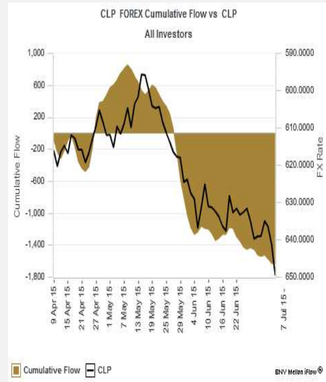
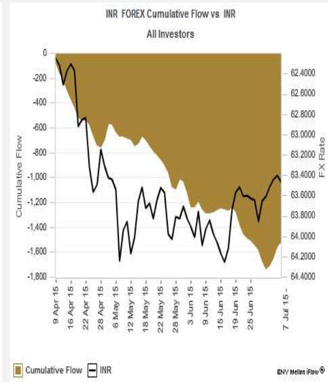
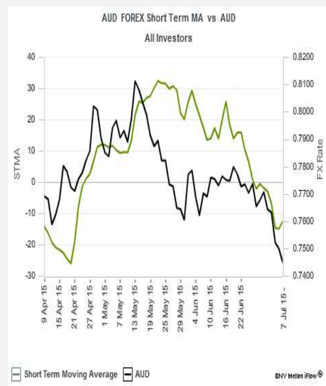
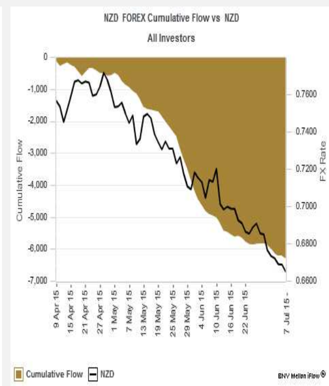
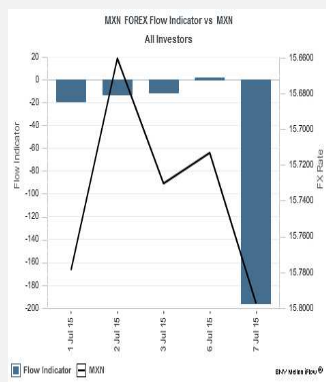
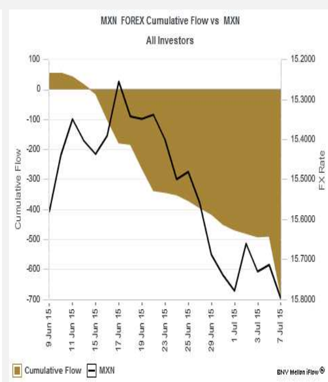


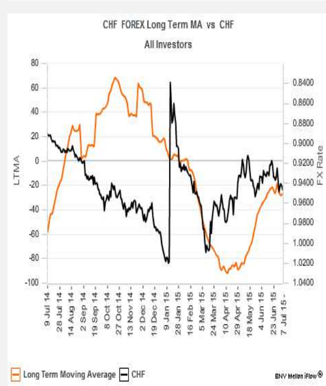


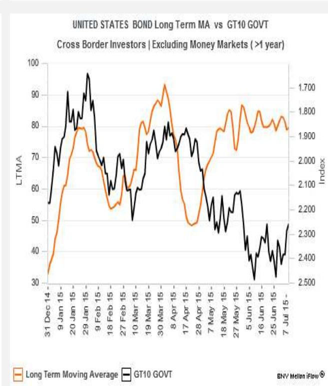












iFLOW® iQ

In the signal grid below as of 7 July 2015 (compared to the previous week's signal grid as of 30 June), CAD changed to Flat from Long, EUR opened a Short position, GBP changed to Flat from Long, NZD remains in its Short position opened on 8 April with about a 12% gain, SEK opened a Short position on 1 July which has gained about 1.6% so far, and others remain the same. In emerging markets, MXN closed its Short position opened on 26 June with about a 0.7% gain and then opened a Long position, BRL closed its Long position and opened a Short position on 1 July which has gained about 1.2% so far, KRW closed its Short position opened on 25 June with about a 1.2% gain and reopened a Short position shortly after, SGD opened a Short position, THB remains in its Short position opened on 27 May with about a 0.7% gain, MYR closed its Short position opened on 18 June with about a 2.6% gain, PHP remains in its Short position opened on 19 June with about a 0.4% gain, and others remain the same. Amongst equities, SPX opened a 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 7 July 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

BNY Mellon iFlow iQ **7-Jul-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	****	****	****	0.7451	****	7.83
CAD	Flat	****	****	****	1.2705	****	11.71
CHF	Flat	****	****	****	0.9466	****	3.38
EUR	Open Short	****	****	****	1.1011	****	16.32
GBP	Flat	****	****	****	1.5462	****	8.46
JPY	Short	****	****	****	122.54	****	12.45
NOK	Flat	****	****	****	8.1586	****	17.64
NZD	Short	****	****	****	0.6651	****	17.97
SEK	Short	****	****	****	8.5121	****	15.39
		****	****	****		****	
MXN	Long	****	****	****	15.7971	****	16.38
BRL	Short	****	****	****	3.1862	****	25.22
KRW	Open Short	****	****	****	1130.2	****	9.07
SGD	Open Short	****	****	****	1.3541	****	9.36
TWD	Long	****	****	****	30.989	****	2.95
INR	Long	****	****	****	63.46	****	-1.27
THB	Short	****	****	****	33.993	****	2.84
MYR	Close Short	****	****	****	3.8073	****	21.03
IDR	Flat	****	****	****	13330.00	****	10.21
PHP	Short	****	****	****	45.243	****	2.62

INDEX	SIGNAL	SIGNAL DATE	ENTRY PRICE	STOP	CURRENT PRICE	OPEN P&L (%)	12-Month Total Return (%)
SPX	Open Long	****	****	****	2081.34	****	17.29

BOND	SIGNAL	SIGNAL DATE	ENTRY YIELD	STOP	CURRENT YIELD	OPEN P&L (bps)	12-Month Total Return (bps)
US10Y	Flat	****	****	****	2.2582	****	44.25

* 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.

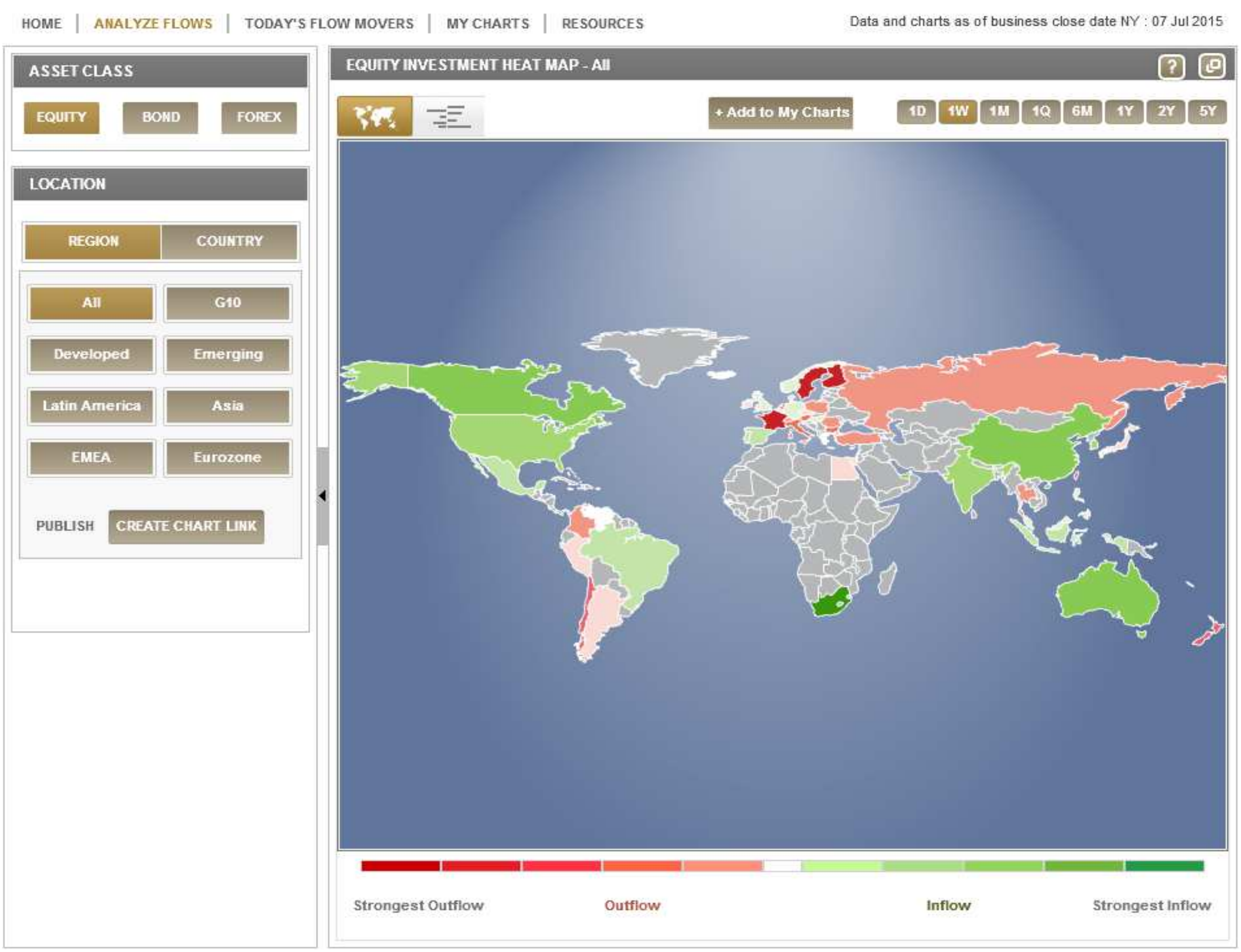
All trading models could experience periods of drawdown that may last for protracted periods of time, which is why single asset performance is generally more volatile than a diversified portfolio of assets that can provide a more balanced overall performance thereby reducing the depth and time of drawdown 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

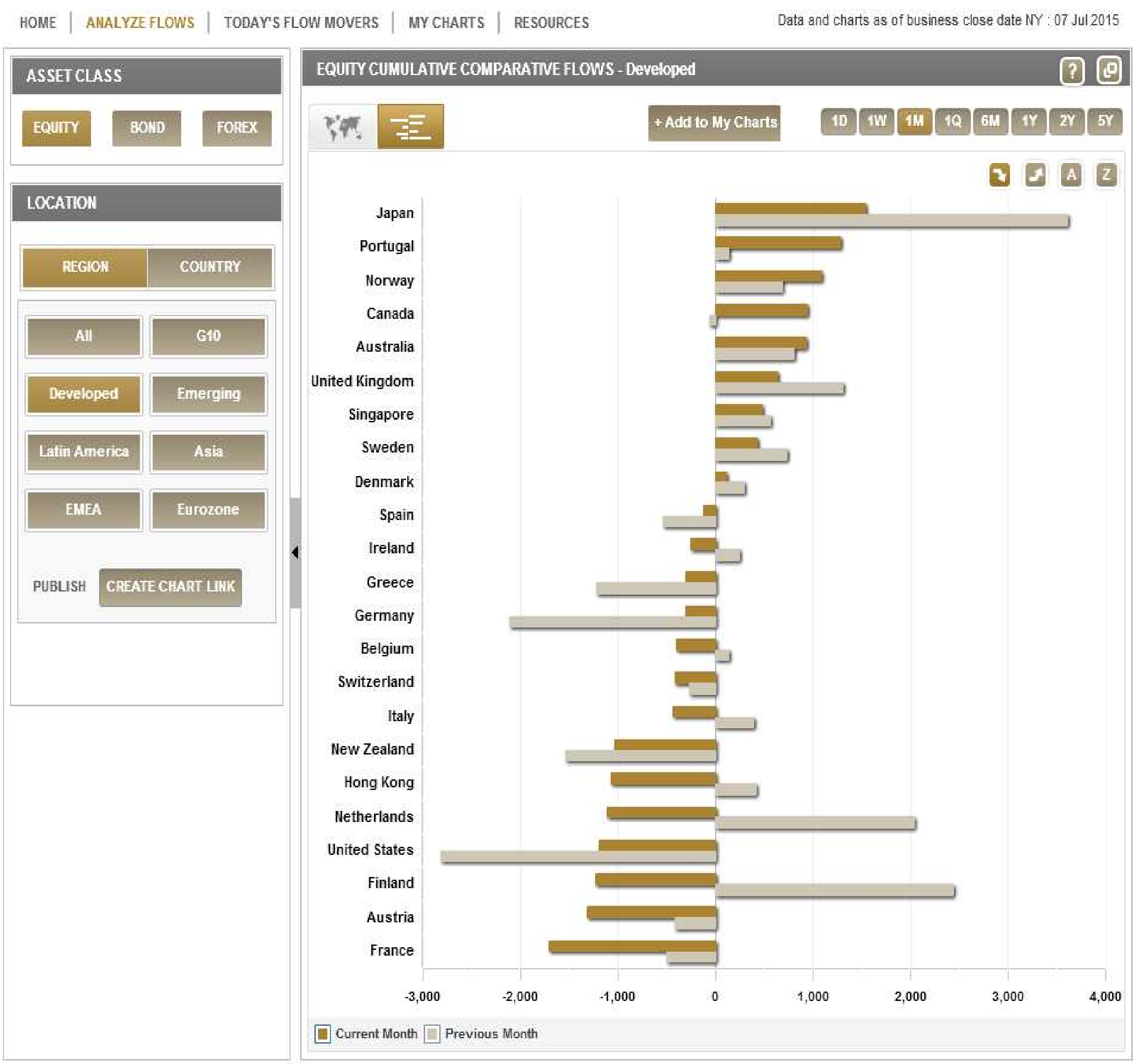
In developed markets, the past week has seen considerable net inflows to US, Canada and Australia, modest net inflows to Germany (third week of net inflows in a row, despite the uncertainties in Greece), UK, Norway, Portugal, Spain and Belgium; considerable net outflows from France, Sweden, Finland, Italy, Netherlands, Austria and New Zealand; and modest net outflows from Switzerland, Denmark, Ireland, and Greece.

For emerging markets:

- South Korea, India, Indonesia, Malaysia and Philippines have seen net inflows, while Taiwan and Thailand have seen net outflows.
- China continued to see net inflows on balance. Chinese stock markets have experienced precipitous selloffs in the past several weeks. The government has come up with a slew of measures to calm the markets and prop up stocks, the effectiveness of which is yet to be seen.
- Brazil continued to see net inflows, Peru, Colombia and Chile have seen net outflows.
- Mexico has seen modest net inflows.
- South Africa continued to see significant net inflows.
- Russia has seen net outflows. Turkey, Hungary, Czech Republic, and Poland have also seen net outflows.



iFLOW: DEVELOPED EQUITY MARKETS … over the past month



iFLOW: EMERGING EQUITY MARKETS … over the past month

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