



Samarjit Shankar
Managing Director,
Head of iFlow and
Quant Strategies



Jiangan Dou, Ph.D., CFA
Vice President,
iFlow and Markets
Quant Analyst

COMMENTARY

Monetary easing measures remain key in the policy play-books of major central banks trying to ward off deflationary pressures and economic slowdown. By all indications, the USD's retreat in recent weeks (due to the Fed delaying lift-off and US asset allocation switches we have been highlighting via iFlow) have led to increasingly dovish tones and announcements from the ECB and PBOC in the past two days. Mr Draghi commented that additional QE will be considered in December, potentially extending bond purchases beyond next September "if needed", and ECB policy-makers discussed a further reduction in the central bank's negative deposit rate. Not surprisingly, EUR/USD has dropped two big figures since yesterday to as low as 1.0998 thus far today. This morning saw the PBOC cutting benchmark one-year rates by 25 bps (lending rate now 4.35% and deposit rate now 1.5%), the sixth cut since November, and further reducing banks' reserve requirements.

The context behind current policy-making decisions is clearly shown in our iFlow charts – the past two years have seen strong cumulative USD inflows (Chart 1) and, in almost a mirror image, cumulative outflows from the Euro amidst the ECB's QE program (Chart 2). More recently however, USD flows have lost steam – the 3mma of our iFlow USD FX indicator turned south in mid-July (Chart 3), consistent with the DXY Dollar Index falling from above 98 to a 94 handle. Mid-July was also when the 3mma of our iFlow EUR FX indicator (Chart 4) picked up sharply, with the resulting Euro strength since then (EUR/USD rising from levels below 1.09 to above 1.15) surely factoring into ECB policy discussions.

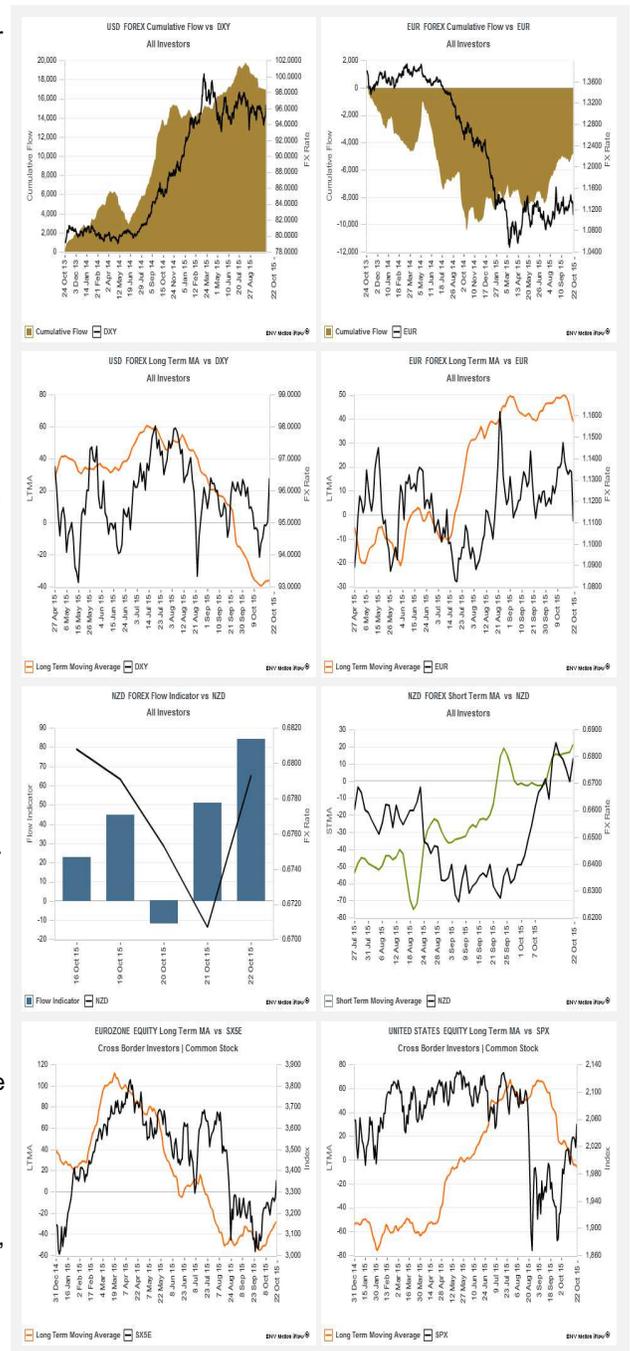
What does all this mean? Along with the Fed having put its first normalization rate hike on hold at its September meeting, the ECB and PBOC meeting outcomes over the past two days have provided another fillip to risk appetite this week – equity and EM asset markets are higher, bond yields lower, and higher yielding currencies are bid as carry trades become more palatable. Although "one swallow does not a summer make", Chart 5 shows how a G-10 high yielder such as the New Zealand dollar saw a stronger net inflow overnight, suggesting the already northbound 1mma of our iFlow NZD FX indicator might have further upside (Chart 6). Our iQ model is Long NZD (see Section 2). Another point of interest to us is whether Mr Draghi's comments rekindle investor interest in European equities and lead them to outperform their US counterparts (Charts 7 and 8 show the 3mma of our iFlow Eurozone and US equity indicators for "cross-border investors", which appear to be troughing and peaking respectively).

In sum, as we await four central bank meetings next week (FOMC, BOJ, RBNZ, Riksbank), there are a lot of variables at play with policy-makers and investors alike closely monitoring data and global capital flows as they make decisions at a critical juncture. Stay tuned.

(samarjit.shankar@bnymellon.com)

Please see last page for important legal information.
For professional use only. Not for distribution to the public

MARKETS GROUP



iFLOW® iQ

In the signal grid below as of 22 October 2015 (compared to the previous week's signal grid as of 15 October), amongst G10 FX, CAD changed to Flat from Long, CHF remains in its Short position opened on 12 October with about a 1.1% gain, NOK closed its previous Short position and reopened a Short position on 17 October which has gained about 1.7%, NZD closed its Short position opened on 15 October with about a 2.1% gain and reversed to long on 21 October which has gained about 1.3%, SEK opened a Short position on 16 October which has gained about 2.5%, and others remain the same. In emerging markets, MXN closed its Short position opened on 15 October with about a 0.5% gain and reversed to Long, BRL changed to Flat from Long, KRW remains in its Long position opened on 2 October with about a 3.6% gain, SGD remains in its Long position opened on 12 October with about a 0.3% gain, TWD remains in its Long position opened on 2 October with about a 1.4% gain, INR remains in its Long position opened on 29 September with about a 1.3% gain, IDR opened a Long position, PHP changed to Long from Flat, TRY remains in its Long position opened on 7 October with about a 2.3% gain, PLN remains in its Short position opened on 16 October with about a 2.5% gain, CLP closed its Short position opened on 16 October with about a 2.1% gain, and others remain the same. Amongst equities, SPX changed to Flat from Long. The US10Y opened a Long position on 20 October which has gained about 4 bps.

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 22 October 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							
22-Oct-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	Short	***	***	***	0.7208	***	7.99
CAD	Flat	***	***	***	1.3088	***	9.34
CHF	Short	***	***	***	0.9732	***	0.38
EUR	Flat	***	***	***	1.1109	***	4.49
GBP	Flat	***	***	***	1.5394	***	4.23
JPY	Long	***	***	***	120.89	***	3.25
NOK	Short	***	***	***	8.3338	***	19.44
NZD	Long	***	***	***	0.6793	***	27.89
SEK	Short	***	***	***	8.4492	***	16.25
MXN	Close Short and Go Long	***	***	***	16.4765	***	19.47
BRL	Flat	***	***	***	3.9094	***	34.61
KRW	Long	***	***	***	1138.5	***	8.24
SGD	Long	***	***	***	1.3944	***	8.96
TWD	Long	***	***	***	32.496	***	9.37
INR	Long	***	***	***	65.1263	***	-2.74
THB	Long	***	***	***	35.580	***	8.05
MYR	Flat	***	***	***	4.2938	***	31.24
IDR	Open Long	***	***	***	13640.00	***	8.69
PHP	Long	***	***	***	46.530	***	1.07
ZAR	Flat	***	***	***	13.399	***	17.68
TRY	Long	***	***	***	2.873	***	15.61
HUF	Flat	***	***	***	279.480	***	16.34
PLN	Short	***	***	***	3.828	***	18.13
CLP	Close Short	***	***	***	699.480	***	18.87
INDEX	SIGNAL	SIGNAL DATE	ENTRY PRICE	STOP	CURRENT PRICE	OPEN P&L (%)	12-Month Total Return (%)
SPX	Flat	***	***	***	2052.51	***	18.35
BOND	SIGNAL	SIGNAL DATE	ENTRY YIELD	STOP	CURRENT YIELD	OPEN P&L (bps)	12-Month Total Return (bps)
US10Y	Long	***	***	***	2.0263	***	39.27

* 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.

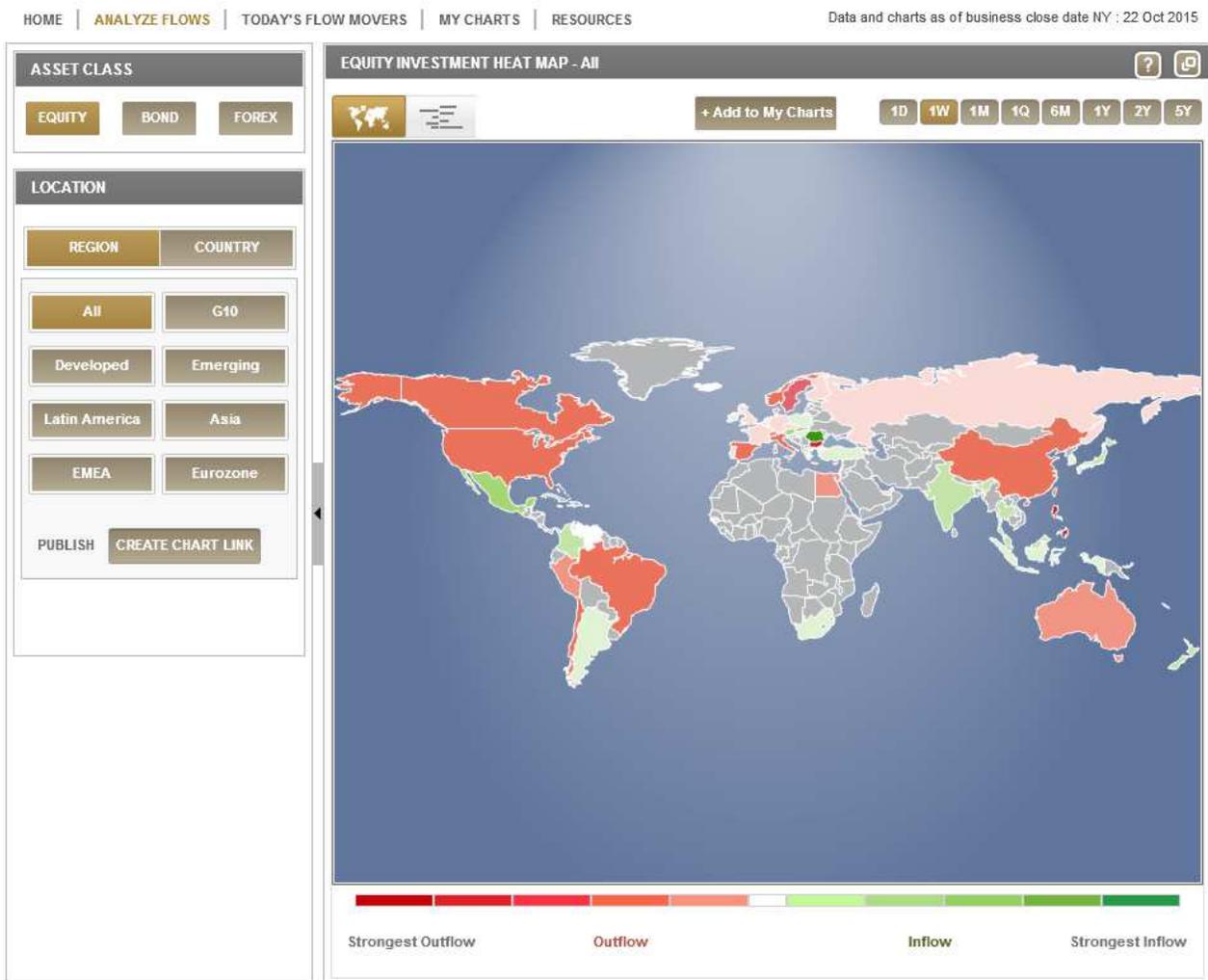
NOTES:
 “Signal” as used in this document refers to model output information only and should not be relied upon as a direction or instruction to take a specific market position or any action whatsoever.
 All trading models could experience periods of drawdown that may last for protracted periods of time, 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 Japan, Netherlands, Austria, Ireland and New Zealand; modest net outflows from US, UK, Canada, Germany, France, Denmark, Switzerland, Norway, Sweden, Finland, Belgium, Italy, Portugal, Spain, Greece and Australia.

For emerging markets:

- China has seen modest net outflows. Investors remained cautious and appear to be viewing the recent stock market rally as a selling opportunity. South Korea, India, Thailand, Malaysia and Indonesia have seen modest net inflows, while Taiwan and Philippines have seen modest net outflows.
- Brazil, Chile and Peru have seen modest net outflows, while Colombia has seen modest net inflows
- Mexico has seen modest net inflows, with the MEX IPC index up about 1.3% in the past five trading days.
- South Africa has seen modest net inflows, with the JALSH index up about 2.2% in the past week.
- Russia has seen modest net outflows; Turkey, Hungary and Poland have seen modest net inflows, while Czech Republic has seen modest net outflows.



iFLOW: DEVELOPED EQUITY MARKETS ... over the past month



iFLOW: EMERGING EQUITY MARKETS ... over the past month



About BNY Mellon Global Markets

iFlow® is a registered trademark of The Bank of New York Mellon Corporation under the laws of the United States of America and other countries.

BNY Mellon Global Markets includes the Foreign Exchange and Derivatives businesses of The Bank of New York Mellon together with the securities business of BNY Mellon Capital Markets¹. Pursuant to Title VII of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the applicable rules thereunder, The Bank of New York Mellon is provisionally registered as a swap dealer with the Commodity Futures Trading Commission ("CFTC") and is a swap dealer member of the National Futures Association (NFA ID 0420990). These businesses provide products for corporate, institutional and high-net-worth investors to access liquidity, execute investment and hedging requirements as well as manage risk. With foreign exchange sales and trading desks in ten cities across three continents, BNY Mellon Global Markets has access to more than 80 currency markets. The BNY Mellon Global Markets award-winning team² of market strategists offers topical commentary and daily analysis of economic and market conditions. BNY Mellon Global Markets' derivatives business offers hedging products based in the interest rate and currency markets. BNY Mellon Capital Markets underwrites and transacts in a broad range of debt and equity securities.

"BNY Mellon" is the corporate brand of The Bank of New York Mellon Corporation and may also be used as a generic term to reference the corporation as a whole or its various subsidiaries. Products and services may be provided under various brand names, including BNY Mellon Asset Servicing and BNY Mellon Asset Management. BNY Mellon Asset Servicing is the brand name encompassing BNY Mellon's affiliated companies that may provide some of the services referenced in this presentation. BNY Mellon Asset Management is the brand name encompassing BNY Mellon's affiliated investment management firms and global distribution companies. Products and services may be provided by various subsidiaries, affiliates, joint ventures and in some instances by third party providers of The Bank of New York Mellon Corporation where authorized and regulated as required within each jurisdiction, and may include The Bank of New York Mellon, One Wall Street, New York, New York 10286, a banking corporation organized and existing pursuant to the laws of the State of New York and operating in England through its branch at One Canada Square, London E14 5AL, England. Registered in England and Wales with FC005522 and BR000818.

This document has been prepared solely for general information, discussion, and reference purposes only. This document itself and the information and the statements contained herein, are not an offer or solicitation to buy or sell any products (including financial products) or services, or to participate in any strategy, and should not be construed as such.

This document is not intended to provide legal, tax, accounting, investment, financial or other professional advice on any matter, and is not to be used as such. Recipients should always seek professional advice, including tax, legal, financial, and/or accounting advice prior to making any investment decision.

This document is intended for private circulation. The information contained herein is not intended for distribution to, or use by, any person or entity in any jurisdiction or country in which such distribution or use would be contrary to local law or regulation. Similarly, this material may not be distributed or used for the purpose of making offers or solicitations in any jurisdiction and especially in any circumstances in which such offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements. Persons **accessing this material** are required to inform themselves about and to observe any restrictions that apply to the distribution of this information in their jurisdiction. This document may contain certain "forecast" statements that may reflect possible future events based on current expectations. Forecast statements are neither historical facts nor assurances of future performance. Forecast statements typically include, and are not limited to, words such as "anticipate", "believe", "estimate", "expect", "future", "intend", "likely", "may", "plan", "project", "should", "will", or other similar terminology and should NOT be relied upon as accurate indications of future performance or events. Because forecast statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. "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.

Some information contained in this document has been obtained from third party sources, including sources generally available to the public, and has not been independently verified. Price and other data are subject to change at any time without notice. Any price or other data used is for illustrative purposes only and will not reflect actual current conditions. BNY Mellon, and its broker dealer affiliates, may have long or short positions in any currency, derivative or instrument discussed herein.

Recipients of this document assume any and all investment risks, including the loss of any invested principal amounts related in any manner whatsoever to any information provided by BNY Mellon hereto.

No representations or warranties are made, and BNY Mellon assumes no liability, as to the accuracy or completeness of any information or data contained in this document or its effectiveness for any particular purpose.

The investment products and services mentioned herein are not insured by the FDIC (or any other state or federal agency), are not deposits of or guaranteed by any bank, and are subject to investment risk, including the loss of principal amount invested.

The Bank of New York Mellon, member FDIC.

© 2015 The Bank of New York Mellon Corporation. All rights reserved.

¹The following are registered broker-dealer, wholly-owned subsidiaries of The Bank of New York Mellon Corporation: BNY Mellon Capital Markets, LLC, member FINRA/SIPC; BNY Mellon Capital Markets EMEA Limited is authorized and regulated by the Financial Conduct Authority UK under registration number 580200. BNY Mellon Capital Markets, LLC is an indirect-wholly-owned subsidiary of The Bank of New York Mellon Corporation and a member of FINRA and SIPC.

² Source: Global Finance Magazine, World's Best Foreign Exchange Providers 2015, January 2015

