

Navigating iFlow Monitor

UNDERSTANDING INVESTOR
FLOWS EVERY DAY

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John Velis, PhD

FX and Macro Strategist,
Americas, BNY Mellon

A guide to the iFlow Monitor

We have been publishing our daily iFlow Monitor for nearly a year now. The Monitor provides a snapshot of our iFlow data for investor flows by country and asset class, as well as three iFlow-derived series for three common currency strategies: carry, trend and value. The aim of the Monitor is to provide a daily read at a high level of recent observations and tendencies of investor behavior. Going forward, we will be enhancing the style flow with investor holdings and positioning.



John Arabadjis, PhD

Head of Markets Macro
Strategy Product & Analytics

iFlow Monitor: A Review and Enhancements

The [iFlow Monitor](#) leverages BNY Mellon's unique position at the center of global financial flows and reports daily information on investor flows into (or out of) currencies, equities and bonds over various time horizons. iFlow vividly captures daily flows cross 30+ currencies, equity markets and bond markets. [iFlow Cloud](#) does the same for longer-term positioning, allowing for a comparison of holdings.

- **Asset flows:** We show one-week, one-month and one-quarter investor flows across more than 30 currencies and national equity and bond markets. This gives investors an at-a-glance view of the strongest trends and their recent history.
- **FX Style flows:** We present data on investor appetite for common FX thematic buckets or styles. Investor flows into carry currencies, trending currencies and/or over-/undervalued currencies are reported in our FX Style Indices.
- **Style positioning:** The latest enhancement to the Monitor is the inclusion of investor positioning by those same FX styles (carry, trend, value). For each investment style, we add holdings data where blue/amber correspond to statistically significant high/low positioning. Knowing the direction of investor appetite is undoubtedly useful, but knowing how investors are positioned already across those styles provides additional, powerful information.



Juliette Eastwood

Senior Analyst,
Markets Macro Strategy
Product & Analytics



Asset Flows in the iFlow Monitor

Top of Monitor is a dashboard of investor behavior

The top three panels of the Monitor display our iFlow indicators for (from left to right) foreign exchange, equity markets, and bond markets across 34 countries covered by our data. The tables are arranged in four groups; the G10 countries, Latin America, EMEA and Asia-Pacific. Each table is divided into three columns, displaying flow indicators on a one-week (i.e, five-day), one-month (20-day), and one-quarter (65-day) lookback basis.

The color scales also indicate both direction and magnitude of the flow indicators. Amber indicates outflows, and the darker the shading the stronger the outflow. Blue, conversely, indicates inflows, again with shading applied to indicate magnitude. The indicators are reported as indices, representing the cumulative flow (over each period) normalized by past observations. In this way, the indicators are comparable to their own history and across countries.

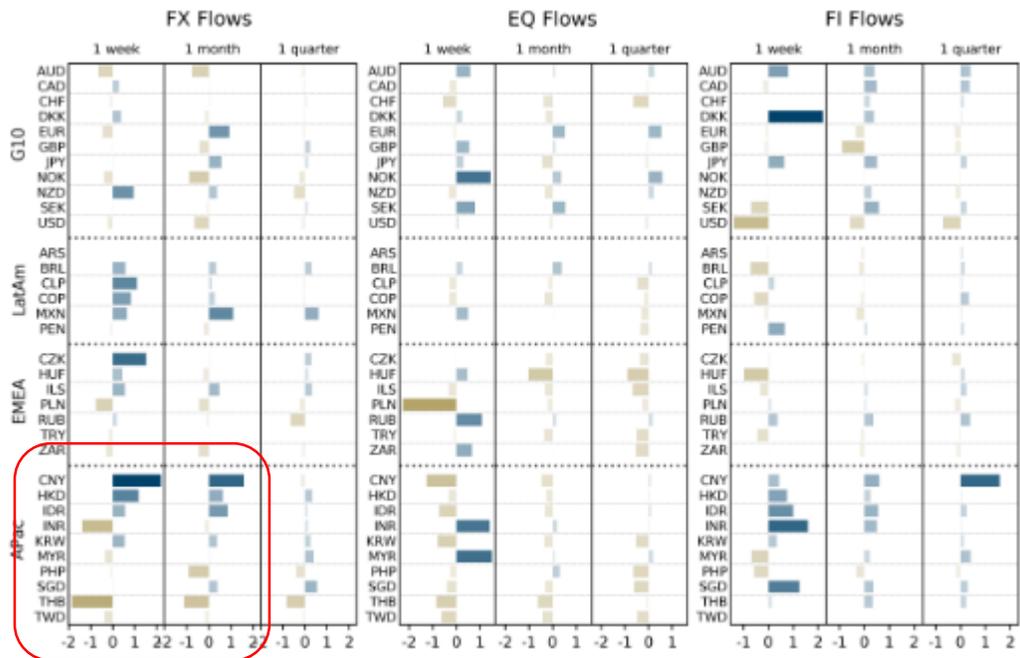
This structure allows the reader to quickly visualize a summary of investor demand for an asset class and country combination. We can quickly discern not only whether the asset class in question is experiencing inflows or outflows over various time horizons, but also whether the flows (in either direction) are accelerating or decelerating.

For example, in the snapshot below (taken from the iFlow Monitor for October 23, 2020), CNY flows over the past week had been quite strong, and because the indicator bar for CNY one-week flows is darker and longer than the one-month indicator bar, we know those flows are accelerating. Looking at THB flows, we see the opposite: one-week outflows are accelerating over the past month and quarter.

Example:

Top panel of iFlow Monitor displaying various flow metrics across countries, asset classes and time frames. Snapshot taken from October 23, 2020 Monitor.

SOURCE: BNY Mellon Markets



FX Style Indices

Measuring investor appetite and holdings for Carry, Trend and Value

The bottom panel of the Monitor presents flows and holdings of our FX Style indices – Carry, Trend and Value – measuring investor appetite and positioning in each of these three distinct FX styles and strategies.

The flow indicator for iFlow Carry is defined as the 20-day rolling Spearman rank correlation between flows and five-year bond yields for each currency. When the correlation is high, we infer that investors are buying high-yielding currencies, and when correlation is low, investors are buying low-yielding, safe haven currencies. We state that the correlation is (statistically) significantly high or low when the P-value for the Spearman correlation coefficient is below 0.2. In this way we can be reasonably assured that the observation of the index is sufficiently and statistically different from a zero value (i.e, no correlation between flows and yield). For more details on iFlow Carry, [click here](#).

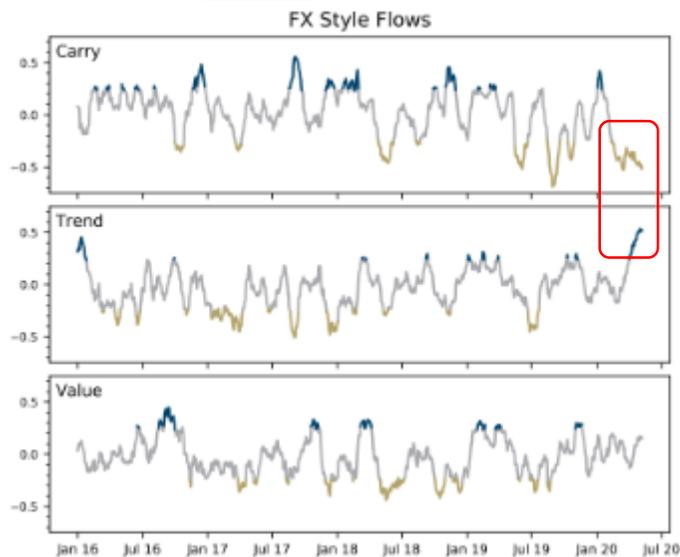
The flow indicator for iFlow Trend is calculated the same way, except instead of looking at the correlation of currency flows with bond yields, we look at the correlation of flows with currency spot momentum, defined as the ratio of a currency's 50-day moving average to its 200-day moving average. If the correlation is positive, we infer that investors are trend-following, and if it's negative, they are selling out of existing positions in trending currencies. The indicator follows the same analysis with P-values to determine statistical significance as with iFlow Carry. For more details on iFlow Trend, [click here](#).

iFlow Value is analogous to iFlow Carry and iFlow Trend, except in this case we report the correlation of flows with a currency's over- or undervaluation, as measured by the deviation of a currency's Real Effective Exchange Rate (REER) from its own three-year moving average. We use REERs calculated by the Bank for International Settlements. Positive correlation means investors are favoring cheap (on our measure) currencies as opposed to expensive currencies. Contrarily, when the correlation is negative, investors are happy to buy overvalued currencies. P-values indicate values that are significantly different from zero. For more details on iFlow Value, [click here](#).

Example:

FX Style Indices from
May 7, 2020, iFlow
Monitor

SOURCE: BNY Mellon
Markets



FX Style Holdings

Adding investor positioning by FX style and strategy

Going forward, we will start to publish FX Style Holdings as well as FX Style Flows. In this way we can measure if investor positioning in these strategies is over- or under-held. It's one thing to know which direction the flows are moving – in favor of or shunning a particular currency style – but it's another to understand if these styles are already fully bought into or sold out of. Just as we do with individual currencies in our [iFlow Cloud](#) publication, the iFlow Monitor will show both flows and holdings, this time for our style indices.

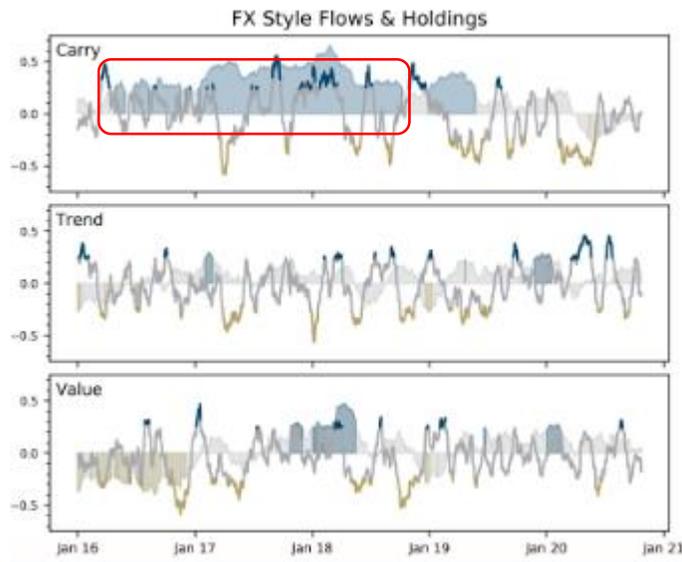
The FX Style Holdings indices are also calculated using Spearman correlations, but now we look at the correlations of the holdings of a currency with its yield, trend or value. Looking at the new, enhanced lower panel for the Monitor, we can see the evolution of positioning in each style. The area chart in the background of each graph shows the correlation of holdings with each factor, and if the area is blue, it means that the holdings are statistically significantly positive, again using a P-value of 0.2. When the area is amber, holdings are significantly negative.

So, in the graph below, for the period between mid-2016 and mid-2018 we see that carry holdings were extended (significantly positive) that entire period. So even though iFlow Carry was signaling significantly positive correlation of flows with carry, the holdings were elevated during that period. Carry as a strategy performed indifferently during that period; the positions were already full.

Example:

FX Style Indices with both flows and holdings for Carry, Trend and Value. From iFlow Monitor, October 26, 2020

SOURCE: BNY Mellon Markets



A One-Stop Shop for iFlow Data

The iFlow Monitor is a daily read on flows and FX style positioning

The objective of the iFlow Monitor is twofold: First, it provides readers with a daily, “one-stop shop” for flows across currencies, equities and bonds by country and market, on a short-, medium- and long-term basis. Secondly, it summarizes investor flows (and now positions as well) across three dimensions of FX style: Carry, Trend and Value.

The Monitor, as a daily flagship publication, is a basic building block of our suite of iFlow products capturing investor behavior across a variety of dimensions. In addition, we chart currency flows, positioning and profitability of those positions with our monthly iFlow Cloud, hedging behavior for sovereign bond and equity flows with our monthly iFlow Hedge, and a weekly catalogue of flows and holdings for currencies, and flows for sovereign bonds, corporate bonds and equities via our iFlow Chart publication.

Our ever-expanding set of tools, which leverage BNY Mellon’s unique position at the center of global financial flows, is not complete and continues to evolve, now with FX Style Holdings adding additional depth to the iFlow Monitor.

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