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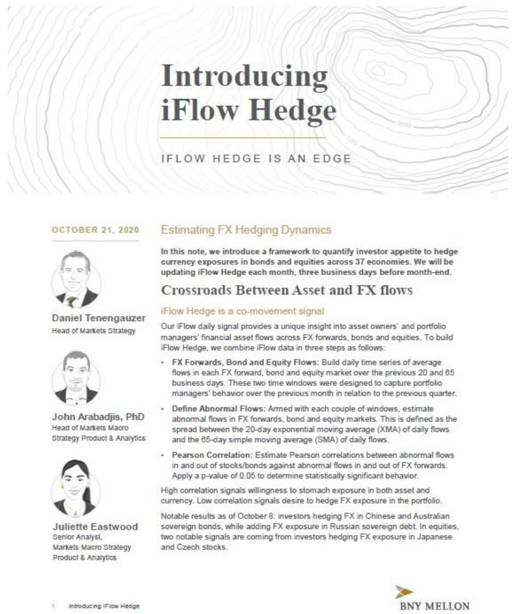
Introducing iFlow Hedge

iFlow Hedge, the latest addition to our suite of iFlow Signals (**Carry**, **Value**, **Trend**, **Cloud**, **Green**, **Chart**), introduces a new framework that quantifies investor appetite to hedge currency exposure in bonds and equities across 37 economies.

We will be updating iFlow Hedge monthly in order to provide insight into asset owners and portfolio managers' flows across asset classes. A high correlation between flows indicates a willingness among investors to take exposure in both assets and currencies, while a low correlation signals desire to hedge FX exposure.

To read a deep dive into our iFlow Hedge methodology, click on the thumbnail to the right.



Introducing iFlow Hedge

IFLOW HEDGE IS AN EDGE

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Estimating FX Hedging Dynamics

In this note, we introduce a framework to quantify investor appetite to hedge currency exposures in bonds and equities across 37 economies. We will be updating iFlow Hedge each month, three business days before month-end.

Crossroads Between Asset and FX flows

iFlow Hedge is a co-movement signal

Our iFlow daily signal provides a unique insight into asset owners' and portfolio managers' financial asset flows across FX forwards, bonds and equities. To build iFlow Hedge, we combine iFlow data in three steps as follows:

- **FX Forwards, Bond and Equity Flows:** Build daily time series of average flows in each FX forward, bond and equity market over the previous 20 and 65 business days. These two time windows were designed to capture portfolio managers' behavior over the previous month in relation to the previous quarter.
- **Define Abnormal Flows:** Armed with each couple of windows, estimate abnormal flows in FX forwards, bond and equity markets. This is defined as the spread between the 20-day exponential moving average (XMA) of daily flows and the 65-day simple moving average (SMA) of daily flows.
- **Pearson Correlation:** Estimate Pearson correlations between abnormal flows in and out of stocks/bonds against abnormal flows in and out of FX forwards. Apply a p-value of 0.05 to determine statistically significant behavior.

High correlation signals willingness to stomach exposure in both asset and currency. Low correlation signals desire to hedge FX exposure in the portfolio.

Notable results as of October 8: investors hedging FX in Chinese and Australian sovereign bonds, while adding FX exposure in Russian sovereign debt. In equities, two notable signals are coming from investors hedging FX exposure in Japanese and Czech stocks.

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