

# THE BANK OF NEW YORK'S INTERACTIVE PORTFOLIO FLOW MONITOR

Flow of funds information is firmly established in the market as important data that can give traders a noticeable edge. Often, the information is passed around anecdotally and is used to explain short-term price moves. Captured and presented in a verifiable form, this data may also be used for identifying medium- and longer-term trends.

The Bank of New York's position as the world's largest custodial bank has given it unique access to daily cross-border portfolio flows in the equity and fixed income markets. This has led to the development of the Interactive Portfolio Flow Monitor (iPFM), the bank's portfolio flows service used primarily by fund managers and hedge funds.

The iPFM uses proprietary data from the Bank of New York's global custody activity. The bank currently has \$8.5 trillion worth of assets under administration which represents over 20% of the total global custody market. According to Michael Woolfolk, head of research at The Bank of New York, "This is a sufficiently large sample to fairly reflect total custodial flows for both major and emerging markets."

Speaking as an in-house user of the iPFM, he continues, "In the strategy department we are primarily interested in any flows likely to trigger FX transactions. Sustained changes in net flows are often a harbinger of changes in the underlying real money flows that ultimately determine the value of currencies."

## The iPFM on-line

The iPFM was launched in 1998 and became available on the Bank of New York website in 2001. At present, the service only includes portfolio inflows into each country although the service is expected to be expanded to incorporate bilateral flows in the near future. The iPFM allows the user to plot portfolio flows into 26 countries including the US, UK, Japan, the Eurozone, Australia, New Zealand, Canada and Scandinavia. Also included are 14 emerging markets. The flows are divided into three 'investment classes'- fixed income, equity or the total of both. Against each of these classes can be plotted up to three 'indicators': 25 FX rates (against the domestic currency), 20 benchmark government bond yields and 34 equity indices (see Figures 1-3). All data is updated daily and can be plotted for periods ranging from one month to two years.

All iPFM charts represent flows in yellow on a scale of

+100 to -100. This scale is a normalized index of cumulative net daily flows in local currency terms. A bar chart (not shown) below each chart displays the net capital flow for each day that contributes to the aggregate chart above it. The charts, however, are somewhat crude and there is no source data available to support them.

## The iPFM Flow Matrix

The flow matrix is an add-on to the iPFM which ranks those investment classes and indicators that exhibit the greatest correlations. The iPFM Flow Matrix sorts and



Figure 1. Total portfolio flows and spot USD/CHF

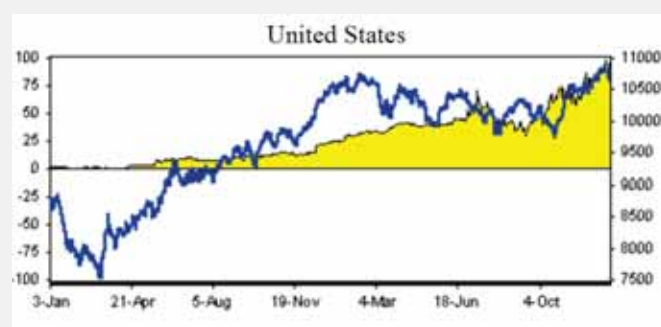


Figure 2. Equity flows and Dow

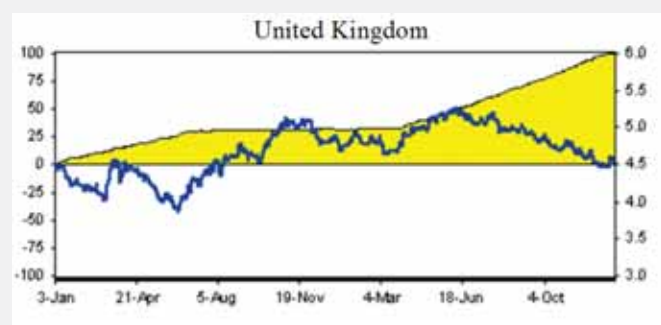


Figure 3. Fixed income flows and 10-year gilt

BRL EQ 100	CAD EQ 100	GBP EQ 100	GBP FI 100	GBP T 100	JPY EQ 100	NOK FI 100
THB EQ 100	USD FI 100	TWD EQ 97.6	JPY T 97.4	MXN EQ 96.8	CHF EQ 95.7	DKK FI 95
PLN EQ 89.8	JPY FI 86.7	CAD T 81.5	SEK EQ 70.7	DKK T 62.5	DKK EQ 48.3	SEK T 28.7
NZD FI 22.3	NZD T 17.5	NZD EQ -10.5	KRW EQ -24.1	SGD EQ -48.3	IDR EQ -58	CAD FI -66.7
NOK T -69.4	PHP EQ -70.5	AUD T -72	AUD FI -77	HKD EQ -82.5	AUD EQ -90.9	CZK EQ -100
SEK FI -100	HUF EQ -100	NOK EQ -100				

Figure 4.

presents the iPFM data identifying the major trends and correlations in currency, equity and fixed income markets ranking them on an index of +/- 100. This index is a measure of relative correlation and says nothing about the actual correlation that may exist between an investment class and indicator. For example, even if an actual correlation is low, it may have an index of +100 if it is the highest correlation that the iPFM identifies. To aid in the identification of trends, the ranked output is colour coded in shades that vary from dark blue (positive) to dark red (negative). The matrix (Figure 4.) shows that the strongest correlation over the past 3 months was between Brazilian equity inflows and the domestic stock market. Clicking on this square displays the chart (see Figure 5).

**Not a predictive tool**

The Bank of New York's claim that their custodial holdings are representative of total capital flows is open to question. The iPFM only looks at private sector cross-border flows into each country which means the system cannot, as yet, measure and display net capital flows, surely a more important determinant of market prices. Moreover,

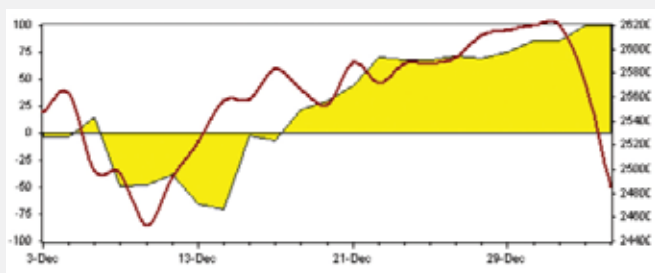


Figure 5. Brazilian equity inflows and stock market (IBOV)



**"REAL MONEY FLOWS ULTIMATELY DETERMINE THE VALUE OF CURRENCIES."**

**MICHAEL WOOLFOLK,  
THE BANK OF NEW YORK**

as the bank readily admits, it does not have a significant share in two important areas - official flows such as central bank reinvestment of intervention proceeds and the Japanese market. Japanese investors still prefer using domestic custodial banks.

Basic flow-of-funds interpretation implies that positive or increasing capital inflows into a country will support the domestic currency. This appears obvious as investment in US fixed income or equity instruments require the buying of dollars. However, as a guide to currency movements, the iPFM seldom provides explanations for market behaviour. For example, over the past 3 months, capital inflows into the US have been positive although the dollar continued to weaken against the euro and other currencies. The Bank of New York accepts that the service may have limited forecasting ability. "The iPFM," says Woolfolk, "is designed to be a value-added explanatory tool for financial market professionals and not a predictive tool."

Nevertheless, The Bank of New York's position as a custodial bank affords it a unique advantage in having access to portfolio data when no daily cross-border capital flow data is publicly available elsewhere. As Woolfolk explains, "We choose to focus on providing the most up to date and accurate cross-border capital flow data available in the market." ■

**More information is available from  
[www.globalmarkets.bankofny.com](http://www.globalmarkets.bankofny.com)**