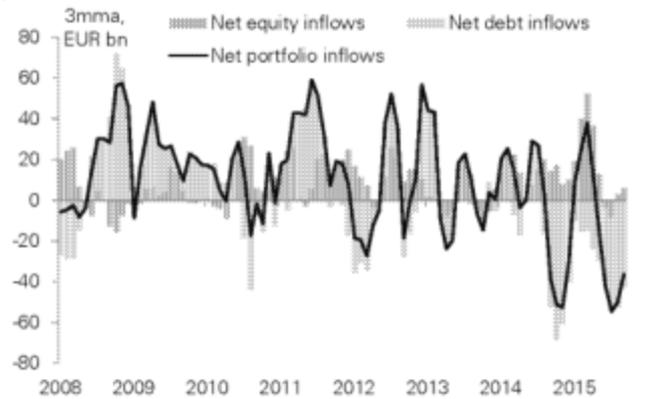




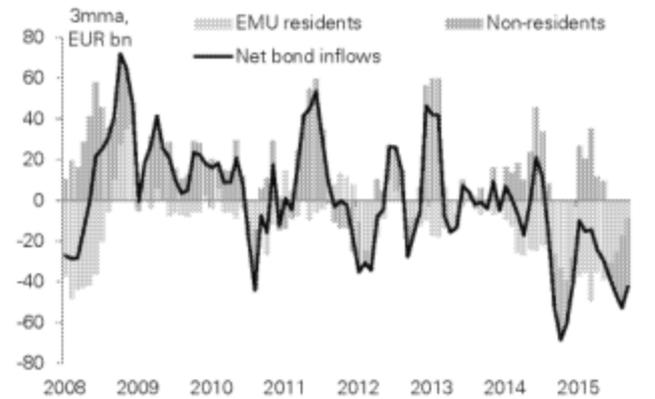
even clearer how pivotal fixed income outflows have been for the Eurozone's basic balance.

Figure 5: Bond outflows still close to summer peak, while equity inflows have abated for good



Source: Deutsche Bank, Bloomberg Finance LP

Figure 6: Non-residents' divestitures increasingly important, but ultimate asset ownership is murky



Source: Deutsche Bank, Bloomberg Finance LP

A recent criticism of the Euroglut thesis is that foreign divestitures now account for a greater share of net bond outflows than European purchases abroad, seemingly inconsistent with our hypothesis of a European saving glut. The attribution of ultimate asset ownership is murky, however. While we show below that Americans have likely started to divest European bonds, we suspect that sales of euro area assets held in the UK and other offshore centres are in part attributable to euro area residents.

Do the portfolio flow changes in the euro area financial account matter for the exchange rate? Plotting EUR/USD against the smoothed basic balance would suggest so. More specifically in response to the Fed's second argument, if exchange rates adjusted to policy changes such as QE instantaneously, the euro should not have trended with such persistence over the past year (figure 7). Indeed, following the euro's momentum has been one of the best performing currency strategies this year, as shown by the excess returns on our DBCR index

Figure 7: EUR/USD has tracked the basic balance closely



Source: Deutsche Bank, Bloomberg Finance LP

Figure 8: Success of following euro momentum shows exchange rate adjustment not instantaneous but on back of flows



Source: Deutsche Bank, Bloomberg Finance LP

(figure 8).