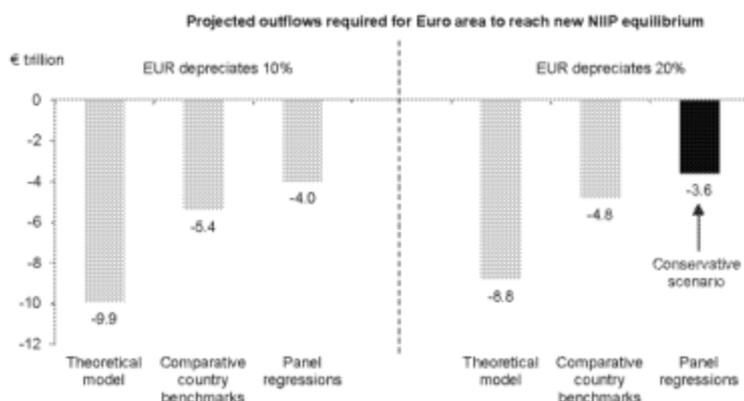




Euroglut here to stay: trillions of outflows to go

- Last year we introduced the Euroglut concept: the idea that the Euro-area's huge current account surplus reflects a very large pool of excess savings that will have a major impact on global asset prices for the rest of this decade. Combined with ECB quantitative easing and negative rates we argued that this surplus of savings would lead to large-scale capital flight from Europe causing a collapse in the euro and exceptionally depressed global bond yields.
- With European portfolio outflows currently running at record highs, this piece now asks: Can outflows continue? How big will they be? The answer to this question is critical: the greater the European outflows, the more the euro can weaken and the lower global bond yields can stay.
- We answer the outflows question by modeling the Euro-area's net international investment position (NIIP). Europe is currently a net debtor to the rest of the world, or in other words foreigners own more European assets than European investors do offshore. Due to a structural rise in saving preferences post-crisis, we argue that Europeans now have to become net creditors to the rest of the world.
- We find that the Eurozone's NIIP needs to rise from -10% of GDP to at least 30% for Europe's current account surplus to become sustainable. We estimate that this adjustment requires net capital outflows of at least 4 trillion euros, equivalent to a continuation of the current pace of outflows for the next eight years. The adjustment can materialize quicker if the euro weakens, or if the current account moderates, but is large irrespective.
- The current pace of capital outflows is even larger than our expectations from last year. Combined with our estimates above we revise our EUR/USD forecasts lower. We now see EUR/USD moving down to 1.00 by year-end, 90cents by 2016 and down to a trough of 85cents by 2017.
- We also foresee a continuation of low and flat global yield curves: Europe will continue being a major source of global imbalances for the rest of this decade.

Trillions of European outflows to come



Source: Deutsche Bank