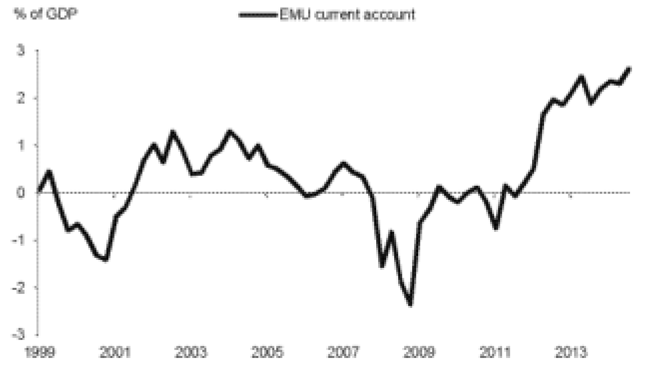
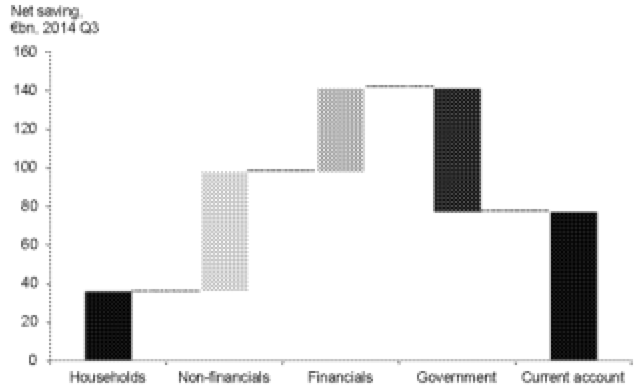
Figure 1: Current account surpluses of 3% are here to stay



Source: Deutsche Bank, ECB

Figure 2: Both households and corporations are net savers



Source: Deutsche Bank, ECB

Surpluses recycled through record portfolio outflows

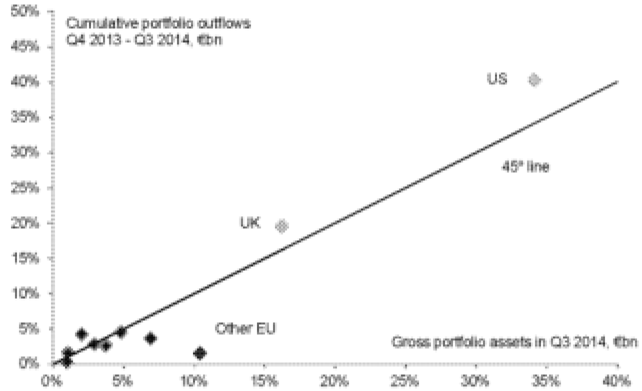
The large current account surplus combined with ECB easing and negative rates has initiated a process of large-scale capital outflows from Europe. In the second half of 2014, the euro area saw record net investment in foreign portfolio assets, reaching €135bn in Q4 (Figure 3), or around half a trillion in annualized terms. There are no indications that this trend has reversed or slowed down since. More than 90% of these flows are attributable to fixed income, though equity outflows accelerated markedly in December. At the same time, 'other investment' outflows--mostly bank lending in the European periphery—have diminished relative to the financial account. The expansion of the Eurozone's financial account has thus been driven by portfolio outflows. This stands in stark contrast to the pre-crisis decade, during which the Eurozone recycled its intermittent and meager surpluses through EUR-denominated loans to the European periphery.

Portfolio outflows from the euro area have been searching for yield overseas. Relative to the allocation of the EMU's total stock of foreign portfolio assets, recent flows have disproportionately favoured assets in the US, the UK, and Canada (Figure 4). By contrast, the rest of the European Union—Scandinavia and Eastern Europe—have seen disproportionately small outflows as a result of being drawn into the Eurozone's disinflationary spiral. If one plotted outflows against assets at the beginning of the four-quarter period, the new investor bias towards the Anglo-Saxon countries would be even starker.

Figure 3: Portfolio outflows at record highs

Source: Deutsche Bank, ECB

Figure 4: Disproportionate portfolio outflows to US and UK



Source: Deutsche Bank, ECB