

From: Daniel Sabba <[REDACTED]>
To: "jeevacation@gmail.com" <jeevacation@gmail.com>
CC: Vahe Stepanian <[REDACTED]>, Ariane Dwyer <[REDACTED]>, Paul Morris <[REDACTED]>
Subject: FW: Change in EUR/USD forecast (parity this year) [C]
Date: Tue, 10 Mar 2015 20:28:42 +0000
Attachments: euroglut_trillions_of_outflows.pdf
Inline-Images: ATT00003.gif; ATT00004.gif; ATT00005.gif; ATT00006.gif; ATT00007.gif; ATT00008.gif; ATT00009.gif; ATT00010.gif

Classification: **Confidential**

Jeffrey – see attached and below per our conversation. Regards, Daniel

From: George Saravelos
Sent: Tuesday, March 10, 2015 11:29 AM
To: GFX Management Team
Subject: Change in EUR/USD forecast (parity this year)

Hi everyone,

I just wanted to highlight that we have changed DB's official EUR/USD forecasts for this and the following years.

The year-end forecast is now parity (1.00) to be followed by 90 cents next year and 85 cents in 2017.

The rationale is a continuation of the Euroglut theme we have been talking about over the last few months: record European outflows to the rest of the world on the back of a structural change to European asset allocation. In the piece below we argue that Europe has to transform itself into a net creditor nation by buying a lot more foreign assets. We estimate this requires at least 4 trillion euros of additional outflows. In turn, European buying of foreign assets is likely to mean global yield curves stay very low and very flat - a new "bond conundrum".

Full piece is below.

George



George Saravelos
FX and Rates Strategy

Deutsche Bank AG, Filiale London
Global Market

Passion to Perform

----- Forwarded by George Saravelos/db/dbcom on 10/03/2015 15:22 -----

From: George Saravelos/db/dbcom
To:
Date: 10/03/2015 13:47
Subject: ***Euroglut here to stay: trillions of European outflows to go*****

EFTA01196831



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 modelling the Euro-area's net international investment position (NIIP). We argue that Europeans now have to become net creditors to the rest of the world and that the NIIP needs to rise from -10% of GDP to at least 30%. As such, **we estimate that Euroglut requires net European capital outflows of at least 4 trillion euros.** This conclusion leads to three investment implications.

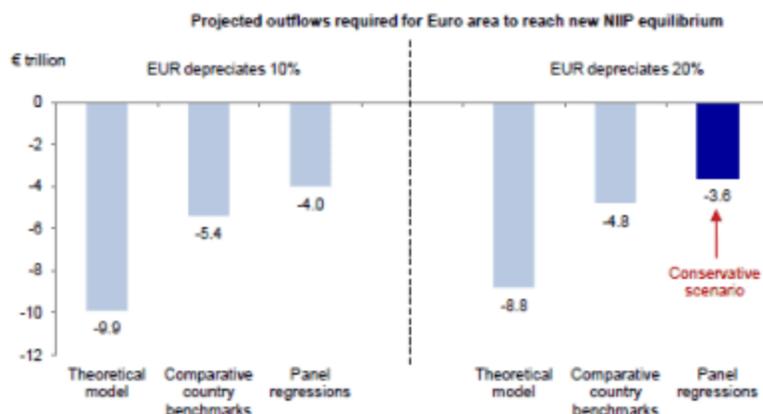
First, we continue to expect broad-based euro weakness. European outflows have been even bigger than our initial (high) expectations, so **we are revising our EUR/USD forecasts lower.** We now foresee a move down to 1.00 by the end of the year, 90 cents by 2016 and a new cycle low of 85 cents by 2017.

Second, we expect continued European inflows into foreign assets, particularly fixed income. Our earlier work demonstrated that the primary destination of European outflows will be core fixed income markets in the rest of the world, and evidence over the last few months supports these trends: **most European outflows are going to the US, UK and Canada. These flows should keep global yield curves low and flat.**

Finally, we see Euroglut as continuing to constrain monetary policy across the European continent for the foreseeable future. Since our paper in September central banks in Switzerland, Norway, Sweden, Denmark, the Czech Republic and Poland have all eased. These countries run large current account surpluses. Through a unique mix of huge excess savings and structurally low yields, **the entire European continent will continue to be a major source of global imbalances for the rest of this decade.**



Trillions of European outflows to come



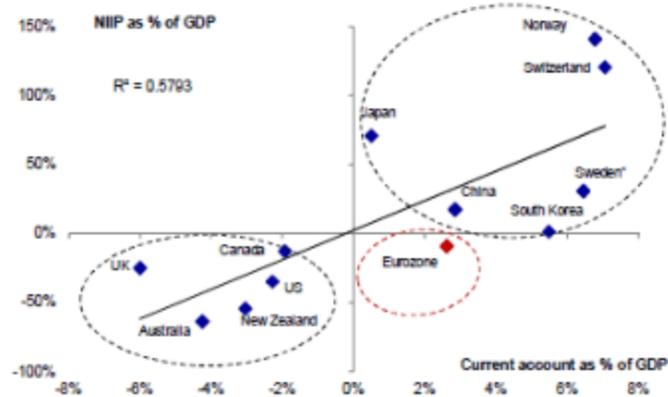
Source: Deutsche Bank

Figure 3: Portfolio outflows at record highs



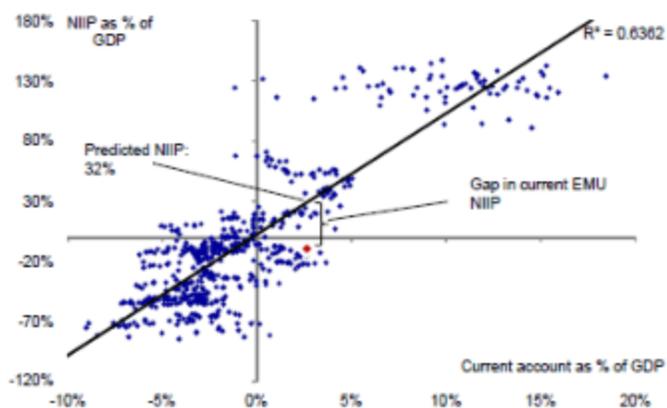
Source: Deutsche Bank, ECB

Figure 7: Only Eurozone has stock-flow mismatch in G10



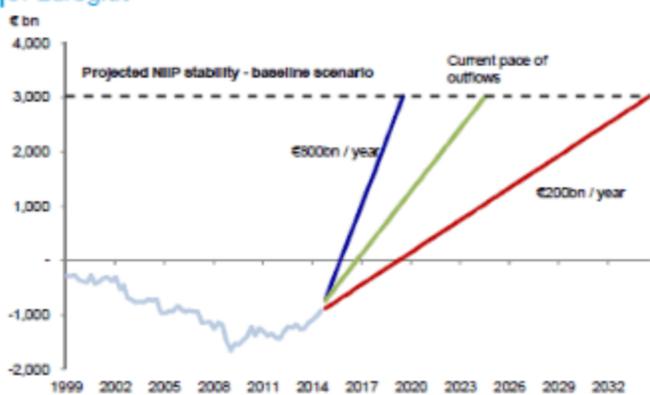
Source: Deutsche Bank, Haver. Note: Sweden's NIP adjusted for hidden capital outflows, see footnote 3.

Figure 9: Illustrative regression analysis



Source: Deutsche Bank, Haver

Figure 12: NIP will not stabilize for years depending on size of Euroglut



Source: Deutsche Bank



George Saravelos
FX and Rates Strategy

[Redacted]
[Redacted] Winchester Street, EC2N 2DB London, United Kingdom
[Redacted]

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