



## FX Daily

# Americans are selling Euro-area equities

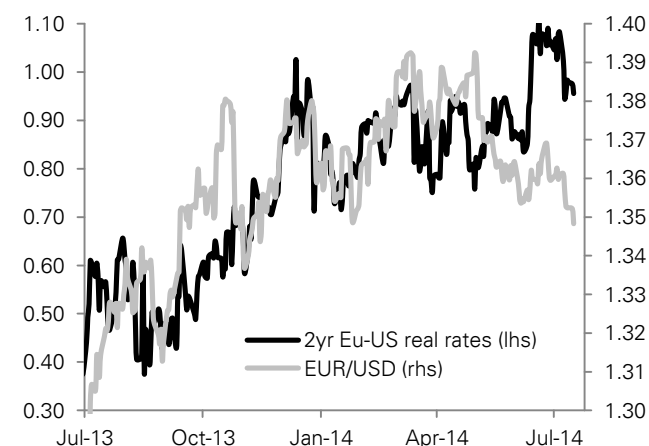
We will get more excited with EUR/USD downside when either (or preferably both) of the below pick up steam.

First, **real rate differentials** need to turn more negative, driven by either side of the Atlantic. Real rates appear to have peaked (chart 1), but we expect this to be a slow grind. In Europe, it's all about how much the ECB can raise inflation expectations. We are worried that banks delay TLTRO usage to December given that the September window will pre-date the AQR results and it will take well into 2015 to judge the true net liquidity injection. In the US, it's more than just payrolls. Yesterday's lower CPI was supportive of real rates, but bigger picture the market has to unwind some of the more pessimistic expectations that have set in around the potential growth rate. It would take a consistent string of very good real activity data for this to materialize.

Second, **euro flows** need to turn more negative. On this front, things could be getting more interesting sooner. Last week's TIC and ECB portfolio flow data for May painted a mixed message. US equity outflows are running at record highs, but at least Americans are rotating away from Europe, where net equity flows turned marginally negative. More interesting is our high-frequency proxy that monitors Euro-bound equity flows on a daily basis. This has been confirming the pause in inflows since May, but yesterday it showed the largest daily equity outflow in the history of this series (chart 2).

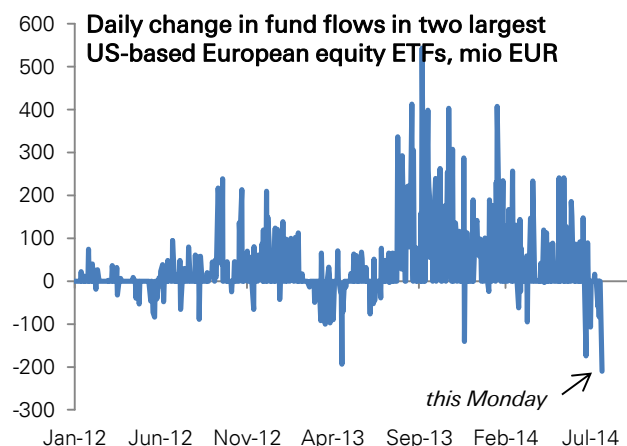
Could this be the start of something more sinister? Developments in Russia, positioning, broader risk appetite and the European growth outlook should provide most of the answer. Even if the first two are negatives, our positive expectations on euro-area growth and risk appetite prevent us from calling the beginning of a huge bout of outflows. Still, the removal of that source of support over the last few weeks is notable. We wouldn't get excited for a big move in the euro lower yet, but will be monitoring this flow very closely over the next few weeks in case we're wrong - it is the one factor that could drive EUR/USD towards our year-end 1.30 forecast quicker than we expect.

Euro Real Yields Have Peaked, But Not Collapsing



Source: Deutsche Bank, Bloomberg Finance LP

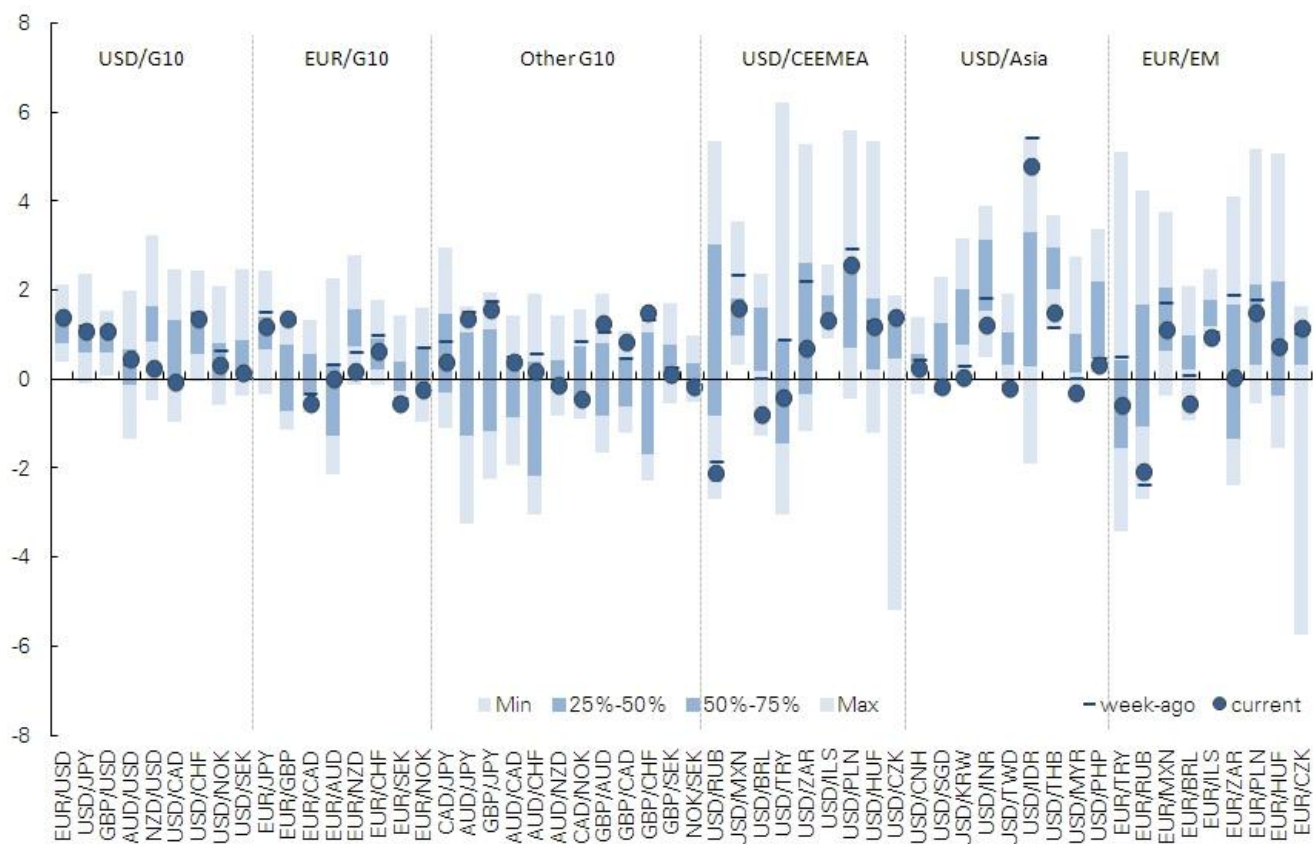
Equity Outflows Are More Important



Source: Deutsche Bank, Bloomberg Finance LP and DB research  
\*we observe similar patterns for other currencies



## Volatility Risk Premia (3m) Still High



Source: Deutsche Bank



# Appendix 1

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