EUR/USD: Waiting on the great rotation

Looking at exchange-traded fund flow data, one observation is that the EUR/USD rally has not been built on a rotation into eurozone equities - yet. Surveys point to an investor base overweight US equities and minded to rotate into Europe. If that move happens, EUR/USD could be a 1.25 story after all

European re-rating and equity flows

The explosive rally in EUR/USD last month begs the question whether it was driven by a re-assessment of European growth prospects in light of progress on the EU recovery fund.

The reason we mention this is that during the last major period of EUR/USD strength, in 2017, there was a positive re-assessment of Eurozone growth after the bloc survived the euro-sceptic challenge of both Dutch and French elections.

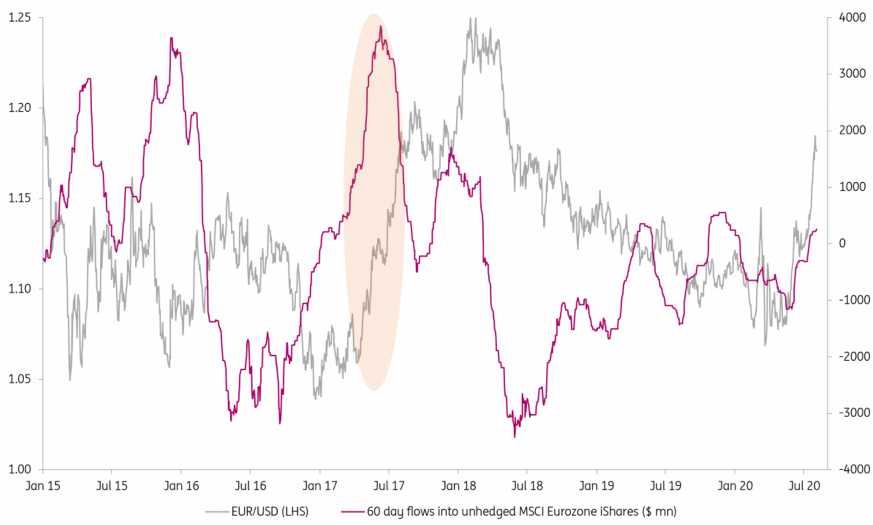
That period of renewed Eurozone optimism sparked good international demand for Eurozone equities. At the time we were monitoring that investment switch using ETF fund flow data. One of the largest US-listed ETFs investing in Eurozone equities is the iShares MSCI Eurozone ETF. In the chart below we highlight the rolling 60-day flows into this ETF, which peaked at around $4bn in June 2017.

Of note now is the fact that the recent EUR/USD rally has not been backed by equity flows. Buy-side surveys suggest that: i) investors are still heavily overweight US equities, especially tech stocks, and ii) are minded to rotate into Eurozone and see the Euro as cheap.

Notably, investors have not executed that plan.

If that rotation comes to pass – and we'll continue tracking this ETF data – then EUR/USD may be a 1.25 story after all.

EUR/USD versus flows into Eurozone equity ETFs



Source: ING, Bloomberg

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

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