

# FX Strategy

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## EUR flow of funds: Another month, another record inflow

The Euroland flow of funds posted a surplus on the broad basic balance (current account, FDI and net portfolio flows) in September of EUR 24.2bn, the fourth consecutive inflow. In annual terms, the net portfolio inflow reached EUR 414bn, a new all-time-high. The net annual equity inflow also reached a new high. Overall, net capital flows remain highly supportive of the euro. The details are as follows:

- Euroland's seasonally adjusted current account posted a surplus of EUR 0.6bn in September, down from 4.5bn in the previous month. Over the past year, the euro area has seen a surplus of 26.6bn (0.3% of GDP), compared to a deficit of 22bn a year ago.
- Foreign direct investment recorded a net outflow of EUR 22.6bn. On an annual basis the net outflow stands at 165bn. Not since November 2003 has the euro area seen a net FDI inflow in annual terms.
- Portfolio investments posted a net inflow of EUR 46.2bn. The net equity inflow rose to EUR 21bn, following an outflow of 13.9bn in August, driven mainly by net buying of euro area securities by non-residents. The net inflow in debt instruments slowed to EUR 25bn from 36bn, and the net inflow derived predominantly from net selling of foreign money market instruments and net buying of euro-denominated money market instruments. In annual terms, the net portfolio inflow reached EUR 414bn, a new all-time high. The net equity inflow reached EUR 264bn, also a new all-time-high.
- Taken together, the euro area posted a surplus on its broad basic balance for the fourth consecutive month. The annual surplus reached EUR 275bn, the second highest net inflow on record and only eclipsed in March 2003. Excluding bonds, the narrow basic balance reached EUR 125bn, also the highest since 2003. In short, the euro area flow of funds remains highly positive for the euro.

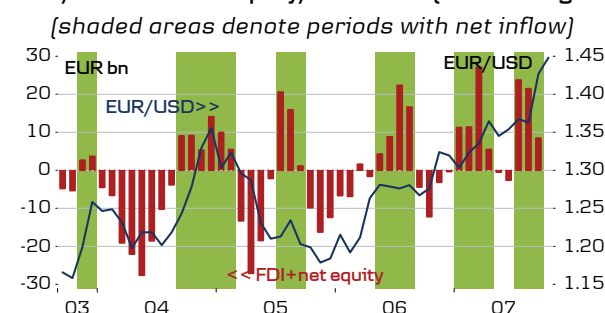
Euroland flow of funds

EUR bn	28/9/07	3m MA	Last 12m
Current account	0.6	3.0	26.6
FDI	-22.6	-9.9	-165.8
Portfolio flow	46.2	32.8	414.4
- net bond	25.0	14.4	151.2
- net equity	21.2	18.3	263.7
Basic balance (1)	-0.8	11.4	124.5
Broad basic balance (2)	24.2	25.8	275.2

1) C/A + FDI+net equity

2) C/A + FDI + net portfolio

EUR/USD and net equity/FDI inflow (3m moving av)



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