Financial markets

Financial market setting

UK referendum dominant topic on the financial markets

Developments on the international financial markets in the second quarter of 2016 were also dominated by the uncertainty surrounding the British referendum on whether to remain in or leave the European Union (EU). Another important factor was monetary policy in the industrialised nations, which was still geared to expansion – not least because of the Leave vote and concerns about the downside risks to the global economy that it could entail. Many market participants were surprised by the vote and shifted funds into safe investments (safe-haven inflows). Nonetheless, the turmoil that observers had feared such an outcome would cause on the international financial markets failed to materialise. Long-term government bond yields in the major currency areas continued to decline and temporarily reached historic lows. This was the case in Germany, Japan and the United Kingdom, for example. Mirroring this, the stock markets initially also recorded sharp share price losses in response to the outcome of the referendum. However, as uncertainty eased, a counterswing fairly rapidly set in on the bond and especially the stock markets. Overall, the Euro Stoxx was trading above its level at the end of March 2016 as this report went to press, and the US markets even marked new record highs. European bank shares significantly underperformed the market. They suffered from deteriorating earnings expectations and from the continuing large levels of non-performing loans, especially in Italy. Funding conditions for enterprises in the euro area improved considerably. The euro's effective exchange rates against the currencies of 19 major trading partners remained virtually unchanged as compared to the end of March 2016. While the single currency fell perceptibly against the yen, it appreciated strongly, particularly against the pound sterling.

Exchange rates

The euro depreciated somewhat against the US dollar from its end-of-March level, falling to US$1.12 by the end of the reporting period. At the beginning of May, meanwhile, it had been trading at its highest level since January 2015, at just under US$1.16. Exchange rate developments were dominated by market participants' uncertainty about the outcome of the UK referendum and by the eventual Leave vote, which took many people by surprise. In addition, changing expectations regarding the US central bank's future monetary policy stance caused perceptible fluctuations in the euro-dollar rate.

Euro under pressure following the UK Leave vote …

Under the influence of brightening economic sentiment in the euro area, together with the absence of guidance from the US central bank that it would raise interest rates in June, as market participants had expected, the euro initially appreciated distinctly up until the beginning of May. Subsequently, the euro-dollar rate was dominated by the changing results of surveys about the referendum. Signs of a shift in the majority view towards remaining in the EU tended to boost the euro exchange rate, right up to the eve of the referendum on 23 June. When, on 24 June, it unexpectedly became apparent that a majority had voted to leave the EU, the single currency fell sharply, dropping just under 3% against the US dollar in one day. Apparently, market participants regarded the referendum result as a possible strain on the euro-area economy, or feared adverse political spillover effects from the vote.

… but stabilised following US interest rate decision as this report went to press

Latterly, market participants have focused more on US monetary policy again. Following the publication of a series of higher-than-expected leading indicators and economic data for the US economy, and the August publication of a surprisingly good labour market report for July, market participants again judged it more probable that key interest rates in the United States

Exchange rate of the euro

Daily data; log scale

Source: ECB. **1** Exchange rate at the start of monetary union on 4 January 1999. **2** As calculated by the ECB against the currencies of 19 countries.

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would soon be raised, despite uncertainty about the consequences of a Brexit. That the euro did not lose even more ground in net terms was in part because the US central bank did not, at its meeting at the end of July, give any guidance on a precise date for its next rate hike and recent US productivity data came in worse than expected. In net terms, the euro depreciated by approximately 2.0% against the US dollar as compared with the end of the first quarter.

Significant losses against the Japanese yen a result of growing uncertainty ...

The single currency recorded perceptible losses of 11.6% against the Japanese yen. This was mainly driven by increased uncertainty on the financial markets, which caused many market participants to unwind yen-based carry trades which they had taken on in the low-interest currency.[1] Meanwhile, the prospect raised by the Japanese House of Councillors elections that the government headed by Prime Minister Abe, which was re-elected by a two-thirds majority, could use its mandate to push through an even more expansionary fiscal and monetary policy prevented an even steeper appreciation of the yen in net terms. The fiscal package presented at the end of July was even more massive than expected, with a total volume of over ¥28 trillion (over €248 billion), which further supported the euro. However, the Bank of Japan's announcement that it would virtually double the annual purchase volume of exchange traded index funds to approximately ¥6 trillion (around €53 billion) sent the euro lower against the yen again. Apparently, the scale of these measures failed to meet market participants' expectations. As this report went to press, the euro was trading at ¥113.

... but clear gains against the pound sterling

On the other hand, the euro made significant gains against the pound sterling, of just under 8.7% in all, having picked up by approximately 5% immediately following the referendum. The Leave vote put the British currency under even more strain than the euro. This reflected concern about the future development of the UK economy, which had been robust up to the middle of the second quarter, but whose growth prospects observers now viewed as more clouded.[2] At the beginning of August, the Bank of England decided to respond with monetary policy. As expected, it lowered the key interest rate by 25 basis points, but additionally took the unexpected decision to raise the purchase volumes of government and corporate bonds over the next 6 and 18 months by £60 billion (approximately €70 billion) and

1 For more on the influence of increased uncertainty in the financial markets on exchange rate developments, including the yen, see: Deutsche Bundesbank, Exchange rates and financial stress, Monthly Report, July 2014, pp 15-28.
2 For more on economic developments in the UK, see p 20.

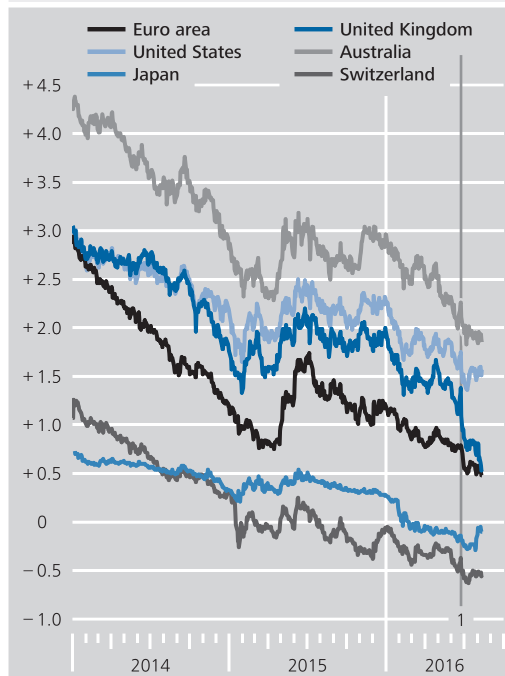
£10 billion (just under €12 billion) respectively. It is additionally making £100 billion (approximately €116 billion) available to commercial banks in long-term refinancing operations. This package of measures resulted in more exchange gains for the euro. As this report went to press, the single currency was trading at £0.86.

Effective euro exchange rate virtually unchanged

Despite the euro's losses against the US dollar and the yen, its effective exchange rates against the currencies of 19 major trading partners remained virtually unchanged as compared to the end of March (-0.3%). This is attributable to distinct exchange gains against the Swedish krona and particularly the pound sterling; their joint weighting when calculating the effective exchange rate stands at just under 18%. The Swiss franc appreciated considerably in its function as a safe-haven currency immediately after the Leave decision. The upward movement was dampened by the Swiss central bank, which announced that it had intervened on the foreign exchange market and would continue to be active. Overall, the euro was around 0.7% weaker against the Swiss franc at last count.

Yields* in euro area and selected countries

% pa, daily data



Source: Thomson Reuters. * Government bonds with a residual maturity of ten years. **1** Announcement of the results of the UK referendum on whether to remain in or leave the EU.
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Securities markets and portfolio transactions

Declining trend in bond yields continues

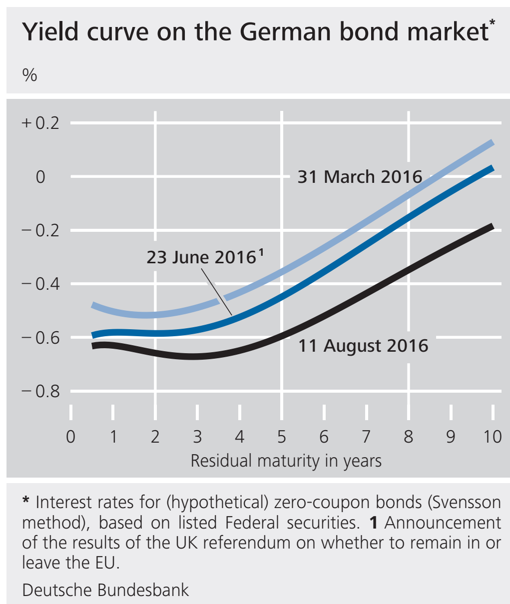
On balance, the trend of declining yields on the international bond markets persisted worldwide in the period under review. Overall, the yield spread of ten-year Bunds to US Treasuries of the same maturity remained virtually unchanged compared to the end of March; as this report went to press, it amounted to 1.7 percentage points in favour of US Treasury yields. This development was partly driven by the UK vote to leave the EU, which took market participants by surprise and caused investors to shift funds into international benchmark bonds at short notice. In addition, international financial investors took a somewhat more sceptical view of global economic developments immediately after the referendum, which encouraged the central banks in the major currency areas to act cautiously and maintain an expansionary monetary policy stance.[3] At last count, ten-year US Treasury yields stood at 1.6%, 21 basis points below their level at the end of March 2016. The interest rates on ten-year Japanese government bonds fell from an already low level, intermittently reaching new historic lows of -0.29% and closing at -0.1% at the end of the reporting period. The UK's central government bonds recorded a drastic decline in yields of 88 basis points. This decline continued towards the end of the period under review following the monetary policy decision taken by the Bank of England, leaving the bonds at a historic low of 0.5%.

Yields on ten-year Bunds negative

Ten-year Federal bonds yielded 29 basis points less than at the end of March 2016, standing at -0.2% at the end of the period under review. In mid-June, yields entered negative territory for the first time, reaching a historic low of -0.24%

3 For the measures taken by the Bank of Japan, see p 40.

Yield curve on the German bond market*



* Interest rates for (hypothetical) zero-coupon bonds (Svensson method), based on listed Federal securities. **1** Announcement of the results of the UK referendum on whether to remain in or leave the EU.

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at one point. This makes the Bund one of the few government bonds from the various countries and currency areas to be currently trading at negative yields in this maturity segment. Like the Japanese central government's ten-year security, whose yield entered negative territory for the first time at the end of February 2016, Swiss government bonds with the same maturity, for example, also traded below zero. At the beginning of July they marked a historic low of -0.63%, and ended the period under review yielding -0.6%. Within the monetary union, ten-year bonds in the Netherlands also intermittently fell into marginally negative territory. The implied volatility of options on the Bund future, which had risen significantly around the date of the referendum, dropped in comparison with the end of March and was below the five-year average at the end of the reporting period. The lessening volatility reflects the easing of uncertainty experienced by market participants about further developments in bond yields.

Yield curve for Bunds flatter

The German yield curve derived from Federal securities yields shifted downwards from the end of March under the influence of the abovementioned factors and flattened a little overall. Federal securities with residual maturities of up to 13 years were negative at the current end, whereas the transition to negative yields had lain in the 8-year maturity segment as recently as the end of March. Two-year Federal securities yields fell to -0.7%. This could partly reflect market expectations of a further reduction in the deposit rate, which currently stands at -40 basis points. Another probable factor is that market participants without access to the deposit facility hold liquidity in the form of short-dated securities and are prepared to pay a premium for this. Bonds with a maturity of up to seven years latterly had a yield below the threshold drawn by the deposit facility and therefore cannot currently be purchased under the rules set out in the public sector purchase programme (PSPP).

Narrower yield spreads in the euro area

Bond yields in other euro-area countries followed the broad market trend and predominantly dropped. The temporarily heightened uncertainty surrounding the Leave vote caused yield spreads vis-à-vis the German Bund to rise for a time. However, the GDP-weighted yield on ten-year euro-area bonds (excluding Germany) dropped by 33 basis points overall, ie even slightly more steeply than that of the Bund's benchmark bond. At last count, it reached a historic low of 0.72%. Bonds from Italy and Portugal profited less from the general trend. Here, financial agents priced in country-specific risks. Portuguese government bond yields dropped in the ten-year segment. The yield spread to Bunds with equivalent maturities, however, widened slightly. Bond investors clearly take a critical view, in terms of debt sustainability, of the measures resolved by the new Portuguese government, such as the reduction of the working week, the revocation of wage cuts in the public sector and the suspension of privatisation. On the other hand, the European Commission's and ECOFIN's handling of the excessive deficit procedure had no visible effects. Although it is agreed that the Portuguese and Spanish governments are contravening European budgetary rules, no sanctions have been imposed and the correction deadlines have been put back further. The inadequate disciplinary effect of the Stability and Growth Pact, which is attributable not least to

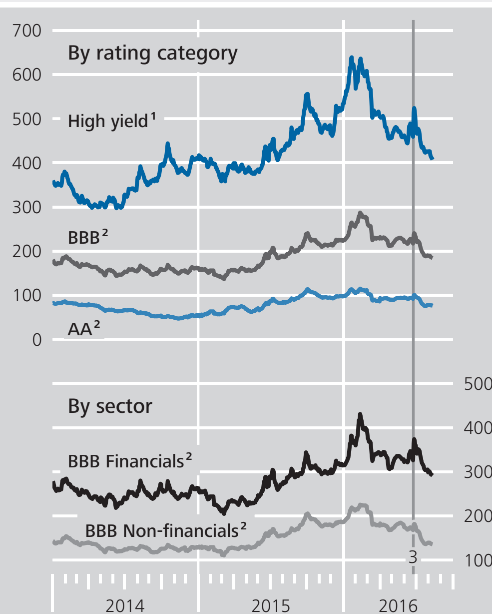
deficiencies of implementation, could have been priced in in advance. Yields on Italian bonds with a ten-year maturity fell very slightly overall, to a level of 1.1%. Thus there were only limited spillover effects from Italian banks, some of which needed equity injections, to the central government's financing conditions. As a result, the interest dispersion in the euro area remained virtually unchanged and thus stayed below its five-year average. The falling yields in the euro area and the narrowing yield spread to Bunds were not driven by a decline in default risks. CDS premiums remained largely unchanged compared to the end of March.

Very favourable financing conditions for enterprises

The corporate bond market is being heavily influenced by the corporate sector purchase programme (CSPP), which was adopted as a new element of the expanded asset purchase programme (APP) at the start of April 2016 and launched on 8 June 2016. Under CSPP, the Eurosystem buys corporate debt securities that fulfil its criteria for eligible collateral, ie corporate bonds that are classified as at least investment grade under the Eurosystem Credit Assessment Framework (ECAF).[4] Debt securities from issuers supervised under the Single Supervisory Mechanism (SSM), as well as their subsidiaries, are not eligible, thus excluding bank bonds in particular. Under the effects of the purchase programme, financing conditions for enterprises in the real sector improved markedly as of the end of March. For example, yields on European non-financial corporations with a BBB rating (as measured by the average rating from the rating agencies Fitch, Moody's and Standard & Poor's) and a residual maturity of seven to ten years fell by 70 basis points to a record low of just over 1.0%.[5] The five-year average, at 2.8%, is significantly higher. The yield spread over Bunds with matching maturities also narrowed, falling by 42 basis points to 136 basis points. This is more than 50 basis points lower than the five-year average. Corporate bonds therefore outperformed equities and Bunds from March onwards. Furthermore, the fall in corporate bond yields was not accompanied by a corresponding drop in default

Yield spreads of corporate bonds in the euro area*

Basis points, daily data



Sources: Thomson Reuters and Bundesbank calculations. * Compared with Federal securities with residual maturity of seven to ten years. **1** Merrill-Lynch index across all maturities. **2** In each case, iBoxx indices with residual maturity of seven to ten years. **3** Announcement of the results of the UK referendum on whether to remain in or leave the EU.

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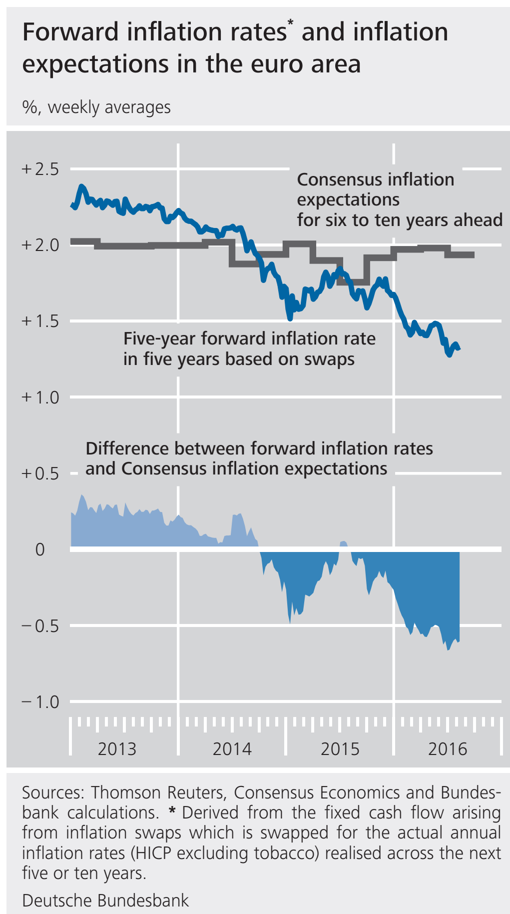
risk. Measured in terms of the premiums on European credit default swaps (itraxx index) for the non-financial sector, default risk fell only marginally. All in all, this suggests a high valuation level in this market segment. Moreover, there are indications of a deterioration in the liquidity situation on the corporate bond market, as measured by transaction costs. The financing conditions for the euro area's financial corporations also improved, with yields on European financial corporations with a BBB rating and a residual maturity of seven to ten years falling in the reporting period by 79 basis points to 2.6% at last count.[6] The yield spread over Bunds with matching maturities narrowed, on balance, by 51 basis points. The collapse in

4 The eligibility of collateral is set out in the Eurosystem Credit Assessment Framework (ECAF). See Deutsche Bundesbank, The Common Credit Assessment System for assessing the eligibility of enterprises, Monthly Report, January 2015, pp 33-45.
5 Sources: In each case, iBoxx indices ("financials", "non financials") with a residual maturity of seven to ten years.
6 See footnote 4 above.

Forward inflation rates* and inflation expectations in the euro area

%, weekly averages



Sources: Thomson Reuters, Consensus Economics and Bundesbank calculations. * Derived from the fixed cash flow arising from inflation swaps which is swapped for the actual annual inflation rates (HICP excluding tobacco) realised across the next five or ten years.
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share prices afflicting the euro area's financial sector corporations thus failed to spill over into the market for bank bonds. Only in the context of the referendum did the yield spread expand by just over 40 basis points, but it has since narrowed again.

Lower forward inflation rates in the euro area

In the euro area, the five-year forward inflation rate in five years derived from inflation swaps shed 9 basis points on balance since the end of March 2016 and currently stands at just over 1.3%. At the start of June, market-based inflation expectations initially nudged upwards, before briefly falling to 1.25% immediately after the Brexit vote. Strikingly, the survey-based inflation expectations that capture the annual average for the period six to ten years ahead remained virtually unchanged during the same space of time.[7] The difference between the market-based and survey-based values is partly attributable to the inflation risk premium, which has been negative for some time now, as well as, for instance, possible liquidity premiums or distortions resulting from market segmentations. One reason for the recent drop in the indicator is the marked decline in the yield on the ten-year benchmark Bund, which has attracted particularly large safe-haven inflows. At the same time, five-year bonds are not currently eligible for purchase by the Eurosystem because their yields are too low. This has dampened the decline in yields on five-year bonds compared with those on ten-year bonds. In the upshot, this could distort the forward rates for maturities of between five and ten years, and thus, indirectly, forward inflation rates in their function as an indicator of inflation expectations. This hypothesis is borne out at least by movements in the forward inflation rate, which fell sharply following the United Kingdom's vote to leave the EU before recovering slightly as uncertainty subsided.

Net issuance in the German bond market

Gross issuance in the German bond market amounted to €332½ billion in the second quarter of 2016 and was therefore somewhat below its previous-quarter level (€367 billion). After deducting redemptions and taking account of changes in issuers' holdings of their own bonds, net issuance came to €18½ billion. In addition, foreign borrowers placed debt securities worth €21½ billion in the German market. The outstanding volume in the German bond market thus rose by €40½ billion net in the period under review.

Rise in credit institutions' capital market debt

Domestic credit institutions increased their capital market debt by €14 billion in the second quarter (compared with €23½ billion in the first quarter). Debt securities of specialised credit institutions (€17 billion) constituted the lion's share of issues, followed to a lesser extent by other bank debt securities which can be structured flexibly (€6½ billion). This contrasted with net redemptions of public Pfandbriefe and mortgage Pfandbriefe totalling €6½ billion and €3 billion respectively.

7 Source: Consensus Economics, Consensus Forecasts, annual average for the period six to ten years ahead.

Net public sector issuance

In the quarter under review, the public sector issued bonds in the amount of €3½ billion net, compared with net redemptions of €2 billion one quarter earlier. These figures include issues by resolution agencies set up for German banks, which are ascribed to the public sector for statistical purposes. Central government itself issued mainly Treasury discount paper (Bubills; €8 billion), and to a lesser extent 30-year bonds (€2 billion). This contrasted with net redemptions of five-year Federal notes (Bobls) and ten-year bonds, totalling €6 billion and €3 billion respectively. In the quarter under review, state and local governments redeemed their own bonds to the tune of €½ billion net.

Increase in enterprises' capital market debt

Domestic enterprises issued debt securities worth €1½ billion net in the second quarter. On balance, the vast majority of these were bonds with maturities of more than one year. Overall, net issuance was solely attributable to non-financial corporations (€4½ billion), while other financial intermediaries made net redemptions (-€3 billion). Thus far, the data are not indicative of an acceleration in the issuance activity of non-financial corporations in the German market, whose bonds are eligible for purchase by the Eurosystem under the now up-and-running CSPP.

Purchases of debt securities

In the second quarter, the Bundesbank was the dominant buyer in the domestic bond market, purchasing bonds for €51 billion under the Eurosystem's purchase programmes. The vast majority of these bonds were issued by the domestic public sector (€49½ billion). Domestic non-banks purchased debt securities to the tune of €33½ billion. The focus of investor interest here was primarily on foreign securities (€28 billion). By contrast, foreign investors and domestic credit institutions sold bonds amounting to €24½ billion and €19½ billion net respectively.

International equity markets dominated by UK referendum

International equity markets posted gains overall, amid heavy volatility. The UK's broad FTSE 350 equity index and the S&P 500 in the United States made marked gains on the end of March (up 10.8% and 6.1%, respectively) and were most recently trading near to or at record highs. While the German CDAX and the broad Euro Stoxx index saw smaller gains of 5.3% and 2.2% respectively, at the end of the reporting period they were nonetheless at, or just under, their highs for the year. Only Japan's broad equity index, the Nikkei 225, remained virtually unchanged on balance. Equity prices in the second quarter were strongly influenced by the referendum in the United Kingdom. Uncertainty regarding its outcome and the consequences for the global economy of a possible exit from the EU led to heavy volatility on the markets even before votes were cast. Ultimately, however, the expectation came to prevail that a majority would vote to remain in the EU. Prices consequently dropped very sharply immediately following the decision to leave the EU. However, the market turmoil that observers had feared failed to materialise. Prices initially fell sharply in a very volatile market environment, but a counterswing fairly rapidly set in as

Investment activity in the German securities markets

€ billion

Item	2015 Q2	2016 Q1	2016 Q2
Debt securities			
Residents	16.5	54.6	64.7
Credit institutions	− 39.4	5.5	− 19.7
of which			
Foreign debt securities	− 5.5	9.3	− 5.8
Deutsche Bundesbank	36.2	38.3	50.8
Other sectors	19.7	10.8	33.6
of which			
Domestic debt securities	5.5	− 16.1	5.8
Non-residents	− 30.9	11.9	− 24.3
Shares			
Residents	10.5	7.8	12.0
Credit institutions	− 2.8	− 9.4	1.9
of which			
Domestic shares	− 6.8	− 6.9	0.8
Non-banks	13.3	17.3	10.1
of which			
Domestic shares	1.1	8.6	5.1
Non-residents	8.9	− 1.5	− 5.2
Mutual fund shares			
Investment in specialised funds	24.6	27.1	19.8
Investment in retail funds	2.6	5.7	6.1
of which			
Equity funds	− 2.6	− 0.9	0.8

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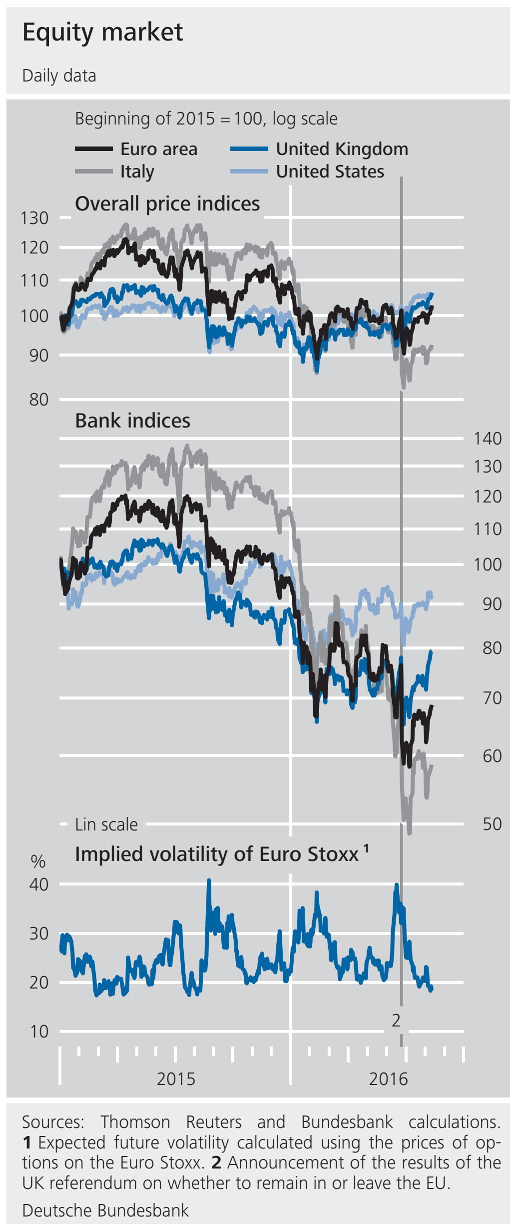
Equity market

Daily data



Sources: Thomson Reuters and Bundesbank calculations. **1** Expected future volatility calculated using the prices of options on the Euro Stoxx. **2** Announcement of the results of the UK referendum on whether to remain in or leave the EU.
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uncertainty subsided. As this report went to press, all key indices had recovered the losses incurred after the referendum. Even the UK's broad FTSE 350 equity index climbed 12.3% following its post-referendum slump. However, in light of the marked appreciation of the euro (+8.7%), this nevertheless translates into significantly lower profits for investors calculating in euros. Prices were buoyed by the prospect of continued expansionary monetary policy and a series of good fundamentals, such as a company report season in the United States that has thus far surpassed analysts' expectations. Furthermore, in Japan, the recently announced economic policy measures helped shore up the country's broad equity index.

Bank shares particularly hard hit

European bank stocks underperformed the market as a whole throughout the period under review. This reflects the lower earnings outlook for banks, which had been below average since the end of March, ie even well ahead of the referendum. According to IBES surveys, analysts revised dividend growth expectations for European banks in 2017 down by 10.6% between March and August, while expected dividend growth for all the companies included in the Euro Stoxx fell by just 3.3%. Prior to the publication of the EBA stress test, valuations of European banks were also affected by uncertainty regarding the possibility of further capital needs. This was compounded by concerns about the level of non-performing loans on the balance sheets of some banks in euro-area periphery countries. Shares of financial institutions came under additional pressure once the stress test results were published. While the simulated EBA stress scenario showed that banks were overwhelmingly sufficiently capitalised, attention turned once again to structural factors, such as the profitability of banks, which investors regard as weak overall (partly owing to the low-interest-rate environment), future business models and holdings of balance-sheet legacy burdens. Furthermore, in Italy, fears spread that the capital increase required for a major Italian bank, which is to be organised by a banking syndicate, could hurt other Italian institutions. Overall, as this report went to press, European bank shares were down 8.8% on their value at the end of the first quarter, compared with gains of 7.2% for US bank stocks.

Price uncertainty higher initially, but then subsides

In the run-up to the referendum, uncertainty among market participants regarding further price developments increased markedly, reaching new year's highs in Germany and the euro area in mid-June (as measured by the implied volatilities of stock price indices calculated from options), before subsiding fairly rapidly. However, the risk premiums for the European and German equity indices remained virtually un-

changed, on balance, over the entire reporting period.

Stock market funding and stock purchases

Issuing activity in the German equity market remained muted in the second quarter. Domestic enterprises issued €½ billion worth of new shares. The outstanding volume of foreign shares in the German market rose by €6 billion over the same period. Equities were purchased primarily by domestic non-banks (€10 billion) and domestic credit institutions (€2 billion). By contrast, foreign investors sold German equities in the amount of €5 billion.

Sales and purchases of mutual fund shares

During the quarter under review, domestic investment companies recorded inflows of €26 billion, after raising funds totalling €33 billion in the previous three-month period. The fresh cash mainly accrued to specialised funds reserved for institutional investors (€20 billion). Among the asset classes, mixed securities-based funds attracted the most inflows (€9½ billion), though bond-based funds (€5 billion), open-end real estate funds (€4 billion) and funds of funds (€3½ billion) also sold fund shares. Foreign funds traded in the German market attracted net inflows totalling €8 billion in the second quarter of 2016. Domestic non-banks were the main buyers, adding mutual fund shares worth €33½ billion to their portfolios, for the most part domestic fund units. German credit institutions purchased mutual fund shares for €2 billion, while foreign investors sold mutual fund shares worth €2 billion.

Direct investment

Capital imports in direct investment

In contrast to cross-border portfolio investment, which saw net outflows totalling €66 billion in the second quarter of 2016, direct investment generated net capital imports of €16 billion.

German direct investment abroad

In the second quarter of 2016, direct investment abroad by German enterprises amounted to €12 billion. Domestic investors primarily bolstered their equity capital (€11½ billion), doing

Major items of the balance of payments

€ billion

Item	2015 Q2	2016 Q1	2016 Q2p
I Current account	+ 58.5	+ 64.7	+ 73.1
1 Goods[1]	+ 69.4	+ 64.4	+ 78.2
2 Services[2]	− 5.9	− 5.7	− 5.2
3 Primary income	+ 2.1	+ 19.4	+ 4.5
4 Secondary income	− 7.1	− 13.5	− 4.4
II Capital account	+ 1.1	− 0.4	+ 1.6
III Financial account (increase: +)	+ 72.8	+ 22.7	+ 58.3
1 Direct investment	+ 3.1	+ 3.8	− 16.1
Domestic investment abroad	+ 18.5	+ 30.7	+ 12.2
Foreign investment in the reporting country	+ 15.5	+ 26.9	+ 28.3
2 Portfolio investment	+ 52.7	+ 41.1	+ 65.8
Domestic investment in foreign securities	+ 26.9	+ 47.2	+ 34.2
Shares[3]	+ 10.7	+ 1.3	+ 4.6
Investment fund shares[4]	+ 8.5	+ 9.7	+ 7.8
of which Money market fund shares	− 1.3	+ 6.2	− 1.3
Long-term debt securities[5]	+ 11.0	+ 31.2	+ 26.5
of which Denominated in euro[6]	+ 1.4	+ 24.7	+ 17.7
Short-term debt securities[7]	− 3.4	+ 5.0	− 4.8
Foreign investment in domestic securities	− 25.8	+ 6.1	− 31.6
Shares[3]	+ 8.8	− 3.0	− 5.5
Investment fund shares	− 3.6	− 2.8	− 1.8
Long-term debt securities[5]	− 28.6	− 6.4	− 31.9
of which Issued by the public sector[8]	− 18.7	− 10.2	− 39.3
Short-term debt securities[7]	− 2.3	+ 18.3	+ 7.6
3 Financial derivatives[9]	+ 5.9	+ 4.9	+ 4.0
4 Other investment[10]	+ 11.6	− 28.4	+ 3.9
Monetary financial institutions[11]	+ 9.7	− 29.8	− 29.9
Enterprises and households[12]	+ 3.3	− 8.9	− 3.6
General government	+ 4.5	− 0.6	− 4.4
Bundesbank	− 5.9	+ 10.9	+ 41.9
5 Reserve assets[13]	− 0.5	+ 1.2	+ 0.8
IV Errors and omissions[14]	+ 13.2	− 41.5	− 16.3

1 Excluding freight and insurance costs of foreign trade. 2 Including freight and insurance costs of foreign trade. 3 Including participation certificates. 4 Including reinvested earnings. 5 Long-term: original maturity of more than one year or unlimited. 6 Including outstanding foreign D-Mark bonds. 7 Short-term: original maturity up to one year. 8 Including bonds issued by the former Federal Railways, the former Federal Post Office and the former Treuhand agency. 9 Balance of transactions arising from options and financial futures contracts as well as employee stock options. 10 Includes in particular financial and trade credits as well as currency and deposits. 11 Excluding the Bundesbank. 12 Includes the following sectors: financial corporations (excluding monetary financial institutions) as well as non-financial corporations, households and non-profit institutions serving households. 13 Excluding allocation of special drawing rights and excluding changes due to value adjustments. 14 Statistical errors and omissions, resulting from the difference between the balance on the financial account and the balances on the current account and the capital account.

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so largely via new cross-border investment (€9½ billion). By contrast, claims from credit transactions grew only slightly on balance (€½ billion). Trade credits were issued to the tune of €3 billion, while repayments of financial credits amounted to €2½ billion. Broken down by region, it is clear that domestic enterprises made major investments in Luxembourg (€3 billion), Switzerland (€2 billion) and Belgium (€1½ billion) during the reporting period.

Foreign direct investment in Germany

The key factor behind the overall development in direct investment in the second quarter of 2016 was the relatively strong credit provision by foreign proprietors to affiliated enterprises in Germany, amounting to €28½ billion. Thanks to group-internal lending, foreign investors' claims against affiliated enterprises in Germany grew on balance by €23½ billion. This was achieved almost exclusively through the granting of financial credits to domestic enterprises (€23 billion). Foreign investors also shored up their equity capital by €5 billion. The lion's share was focused on new investment (€4½ billion). Parallel to this, foreign enterprises reinvested their earnings in Germany (€1 billion). There were large flows of money to domestic enterprises from Luxembourg (€9 billion), the Netherlands (€6 billion) and the United Kingdom (€3 billion). This occurred largely via an increase in financial credits to domestic parent companies.