Financial markets

Financial market setting

Financial markets caught between economic recovery and progression of pandemic

Since the beginning of the second quarter of 2021, international financial markets have been caught between the economic recovery and current assessments of how the pandemic will evolve. At the start of the quarter, the prospect of pandemic-related restrictions being eased, plus progress on vaccinations and positive business cycle signals, boosted market participants' confidence. This led to rising government bond yields around the world. Since the end of June, however, this development has reversed in view of uncertainty about the economic repercussions of the increasing spread of the Delta variant. Confidence that the end of the pandemic might soon be in sight, which was widespread in the second quarter, flagged again. As a result, yields dropped compared with their levels at the end of March. In the international equity markets, lower discount factors, a good start to the reporting season, and higher profit expectations amongst analysts led to higher equity prices on both sides of the Atlantic. But here, too, the prevailing uncertainty about how the pandemic might evolve left its mark and was reflected in higher equity risk premia. Corporate bond yields in the euro area fell over the entire reporting period against the backdrop of the ongoing purchase programmes. Overall, capital market financing conditions for euro area enterprises thus remained favourable. At the same time, the unexpectedly sharp rise in inflation drew the attention of international financial market participants. Market data, consistent with survey results, signalled temporarily high inflation rates. Longer-term market expectations of inflation, meanwhile, moved towards the 2% target on balance – from different directions – on both sides of the Atlantic. Inflation figures also played a key role in foreign exchange markets and influenced financial market expectations about the future monetary policy stance in the specific currency areas. Compared with the euro area, the monetary policy outlook in the United States and United Kingdom shifted slightly towards a somewhat less accommodative stance. This strengthened the US dollar and pound sterling against the euro, which had previously benefited from the euro area's progress on vaccinations. On balance, however, price changes in the foreign exchange market remained within tight limits over the entire reporting period.

Exchange rates

Euro almost unchanged against US dollar …

From the start of the second quarter of 2021, the euro's exchange rate against the US dollar remained almost unchanged on balance. The euro gradually appreciated from the start of the quarter up until the end of May. Accelerating progress on the vaccination front made for a brighter economic outlook in the euro area during this period, whereas the pace of vaccination was stalling in the United States. The US Federal Reserve also contributed to the euro's initial strength against the US dollar. This is because, at the end of April, the Federal Open Market Committee (FOMC) gave no indication that the Fed would soon end its asset purchase programme, or even raise the federal funds rate, in response to expanding economic activity in the United States. This perception was further reinforced by the publication at the start of May of unexpectedly weak US labour market figures, with the Fed previously stating that any shift in monetary policy would be conditional upon a labour market improvement.

However, the US dollar was then bolstered by surprisingly high inflation figures in the United States. Rising inflation rates generally reduce a currency's purchasing power and thus tend to exert downward pressure on it. On the foreign exchange markets, however, the unexpectedly high figures were taken as a sign that a tightening of monetary policy by the Fed was now more likely after all. This impression was solidi-

fied following the FOMC meeting in mid-June. The FOMC members projected that the conditions for tightening monetary policy could potentially be reached earlier than previously thought. Conversely, ECB officials stated that it was still too soon to talk about unwinding monetary policy support in the euro area. There was thus a shift in the relative monetary policy outlook for market participants, and the euro quickly lost most of the ground it had gained against the US dollar. In July, the euro moved within a narrow range around US$1.18 without any major fluctuations. It was trading at US$1.17 at the end of the reporting period, which was 0.2% lower than at the start of April 2021.

… with slight gains against pound sterling …

At the beginning of the second quarter, the euro appreciated markedly against the pound sterling due to vaccination rates in the euro area catching up. As May started, however, the euro lost some ground again. As in the case of the US dollar, the pound sterling appreciated following the publication of surprisingly high inflation figures in the United Kingdom, as these were also taken as a sign that monetary policy tightening was to be expected soon. Indeed, based on interest rate derivatives, the conclusion can be drawn that market participants expect the United Kingdom's Bank Rate to rise far earlier than the euro area's policy rate. These expectations were dampened by the Bank of England, which stressed more of a wait-and-see attitude until July and thus temporarily put pressure on the pound. In the minutes of its meeting at the start of August, however, the Bank of England stated for the first time since the beginning of the pandemic that some modest tightening of monetary policy might be necessary in the medium term, and the euro fell to its lowest level against the pound in almost a year and a half. At the end of the reporting period, it was trading at £0.86, down 0.4% on its level at the end of March.

… but losses against yen

In net terms, the euro depreciated against the yen. Here, too, the euro posted gains up until the end of May. The increasing spread of the

Exchange rate of the euro

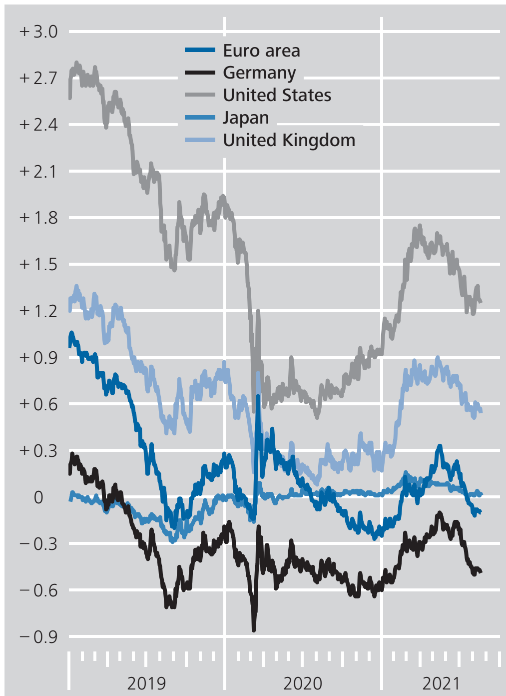
Daily data, log scale

Source: ECB. **1** As calculated by the ECB against the currencies of 19 countries. A rise in values indicates an appreciation of the euro.
Deutsche Bundesbank

virus amid the slow vaccine rollout in Japan was putting the yen under pressure. The tightening of containment measures also placed constraints on economic activity, with the state of emergency in several of the country's major prefectures being extended for a time and expanded to further regions. However, from June, these factors were increasingly obscured by the fact that, given the worldwide spread of the Delta variant, the yen repeatedly benefited from temporary uncertainty among financial market participants about the state of the global economic recovery. Such an exchange rate response is consistent with the frequently made observation that a declining risk appetite

Bond yields* in the euro area and selected countries

% p.a., daily data



Source: Bloomberg. * Government bonds with a residual maturity of ten years.
Deutsche Bundesbank

amongst investors promotes capital inflows into Japan and thus strengthens the yen. At the end of the period under review, the euro stood at ¥128, which was 1.3% lower than at the end of the first quarter.

In effective terms, too, euro slightly weaker on balance

On a weighted average against the currencies of 19 major trading partners, the euro depreciated by -0.5% on balance. In particular, the euro depreciated against the currencies of some central and eastern European countries such as the Czech koruna (-2.5%) and the złoty (-1.5%), which prospered thanks to the successful containment of the virus in those places. By contrast, the euro recorded gains against the Australian dollar (+5.9%) and the Norwegian krone (+5.5%). These were weighed down, inter alia, by the emerging uncertainty about the future course of the global economic recovery and the implications that this may have for the demand for commodities from these countries.

Securities markets and portfolio investment

Bond market

Ten-year government bond yields down globally

Yields on government bonds in the major currency areas were down compared with their levels at the end of the first quarter of 2021. The decline was especially considerable in the United States. The yield on US Treasuries moved 50 basis points lower to 1.3% compared with its level at the end of March. There was little change in the survey and market-based inflation expectations concerning average inflation over the next ten years. As a result, ten-year expected real interest rates in the United States therefore ventured far deeper into negative territory than previously. One major reason for this movement was the growing concern that, even as vaccination rates continue to rise, the pandemic will not come fully under control in the short term. Overall, the high level of confidence that the economy would continue to pick up rapidly, which had still shaped financial market developments in the second quarter, diminished modestly.

Shrinking forward inflation rates in United States as spot inflation rates rise

Forward inflation rates derived from US inflation swaps for a period of five years starting in five years' time stood at 2.3% at the end of the reporting period and were thus 15 basis points below their value at the end of March. It is noteworthy that short-term swap-based inflation expectations increased. One reason for the decline in forward inflation rates amid rising short-term spot inflation rates could have been the publication of the June press release by the FOMC. Its content made it clear for market participants that the Fed would still be unwilling to tolerate high inflation rates in the long term under its new monetary policy strategy. In any case, market participants revised their expectations about the path of expected short-term US interest rates upwards immediately after the FOMC's public statement. Shrinking forward inflation rates amid rising spot inflation rates supported the widespread market view that currently high inflation rates are of a more tem-

porary nature and that the Fed is in a position to take effective countermeasures should they remain high in the long term. This impression was reinforced by the fact that, in early August, some Fed officials were open to bringing forward the timetable for tightening monetary policy, given the positive economic outlook.

Yields in euro area fall due to interest rate linkage with United States

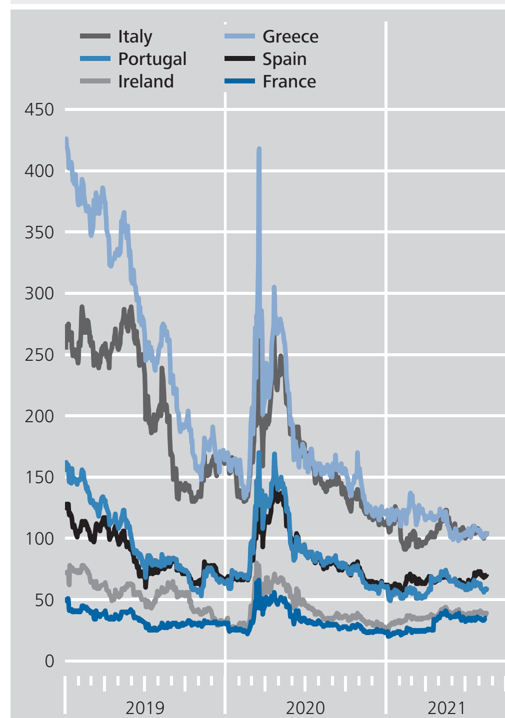
At the end of the period under review, the yield on ten-year Federal bonds stood at -0.5%, 20 basis points lower than at the end of March. It thus fell at a slightly stronger pace than the GDP-weighted euro area (excluding Germany) yield, which dropped by 13 basis points to 0.1%. The euro area yields thus mirrored the decline in US interest rates to some extent, though they were already significantly lower beforehand.[1] As in the United States, the accelerated spread of the Delta variant dampened expectations of a rapid economic recovery in the euro area.

German yield curve shifted downwards and flattened out

The yield curve derived from the yields of Federal securities shifted downwards under these conditions and flattened out. The decline in longer-term yields was due to falling term premia, which can be shown using a yield curve model in which the changes in interest rates can be broken down into the components "term premium" and "expected monetary policy path". This decline was primarily due to spillover effects of falling term premia in the United States, as the market-based probability of euro area inflation falling below 1% on average over the next five years continued to decrease during the reporting period. Implicitly expected short-term interest rates, which reflect the expected interest rate stance, remained virtually unchanged and did not move in response to the publication of the Eurosystem's new monetary policy strategy. The premium that market participants pay for the particularly high liquidity and scarcity of Federal securities increased in the reporting period. Federal securities with a residual maturity of up to ten years were trading below the deposit facility rate of -0.5% throughout the quarter. In addition, the yield spread between Federal securities and maturity-matched bonds issued by the KfW widened, reflecting a liquidity premium. Lastly, interest rates in the repo markets pointed to a liquidity and scarcity premium on Federal securities.

Spreads of ten-year government bonds over Federal bonds

Basis points, daily data



Sources: Bloomberg and Bundesbank calculations.
Deutsche Bundesbank

Widening of yield spreads in euro area

Yield spreads between ten-year Federal bonds and government bonds from other euro area countries (GDP-weighted average excluding Germany) widened slightly by 7 basis points to 55 basis points. Bucking the trend, the yield spreads between Greek government bonds and German government bonds narrowed somewhat and are now at a level comparable to the spreads on Italian government bonds.

1 The narrowing of the yield spread between the United States and the euro area associated with changes in yields in the ten-year range may come as a surprise in view of increased inflationary pressures and the prospect of monetary policy tightening in the United States. This was mainly due to the greater decline in term premia across the Atlantic. By contrast, the interest rate differential between two-year bonds widened, which more strongly reflects expectations concerning the future orientation of monetary policy.

Forward inflation rates* and expectations in the euro area and the United States

Weekly averages

Sources: Bloomberg, 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 for the euro area and CPI Urban Consumers for the United States) realised over the next five or ten years.

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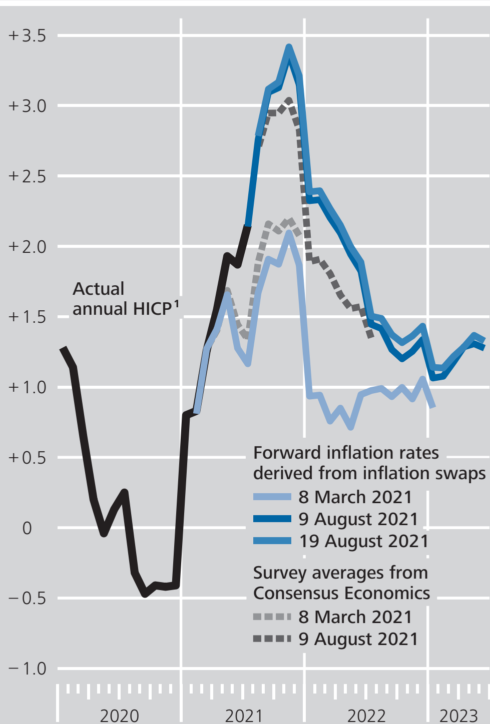
Short-term HICP paths for the euro area

% p.a.



Sources: Fenics Market Data, Consensus Economics, Eurostat and Bundesbank calculations. 1 HICP excluding tobacco.

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Although one rating agency upgraded Greece's credit rating by one notch, there was no strong immediate market response to this – in line with previous upgrades. Fundamental factors, such as a change in debt sustainability, had little effect on interest rate differentials at the end of the period under review. One reason for this could have been the decisions made by the ECB Governing Council in January 2021, in which it was reiterated that the ECB would purchase flexibly under the pandemic emergency purchase programme. Market stress indicators, which include liquidity indicators, also pointed to a relaxed market situation for government bonds in the euro area.

Yields significantly down in United Kingdom

Over the course of the reporting period, yields on ten-year UK government bonds were down by 31 basis points at 0.5%. This was largely attributable to the international comovement of interest rates, which is currently closely related to the pandemic situation. The Bank of England's decision in April to slow its pace of bond purchases only caused interest rates to rise temporarily. It left its Bank Rate at an all-time low of 0.1%. In Japan, ten-year government bond yields were within the range in which market observers believe the Bank of Japan would like to keep yields, 8 basis points lower at 0%. Fundamental factors have hardly had any impact on interest rates in Japan for some time.

Forward inflation rates in euro area have risen

The five-year forward inflation rates derived from inflation swaps starting in five years' time rose to 1.7% in the euro area, 11 basis points higher than at the end of the first quarter. The announcement of the Eurosystem's new monetary policy strategy with a symmetrical inflation target of 2% did not have any immediate impact on longer-term market-based inflation expectations. The inflation expectations for the euro area six to ten years ahead, as calculated by Consensus Economics in July on the basis of surveys, remained unchanged on balance. The inflation risk premium, which can more or less be calculated as the difference between market-based and survey-based expectations,

remained negative, but decreased in absolute size. This indicates that market participants estimate the risk of surprisingly low inflation in the longer term to be lower than before.

Market expectation of temporary further rise in inflation rates towards end of 2021

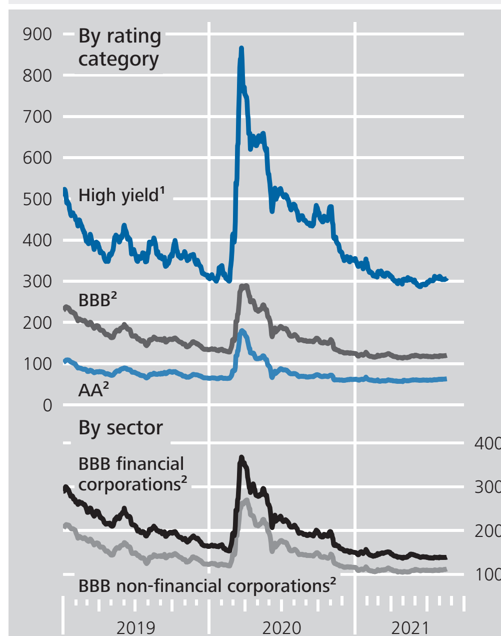
By contrast, in the shorter term, market data indicated temporary further rises in inflation rates. According to these data, the expected annual rate of change in the Harmonised Index of Consumer Prices (HICP) in the euro area as a whole is set to rise to nearly 3½% by the fourth quarter of this year, before subsequently falling to under 2% by the middle of next year (see the lower chart on p. 50). The market-based patterns are thus similar to the patterns of the survey expectations for the euro area and the projection for Germany (see also p. 65); they reflect the same influencing factors, such as the base effect of the reversal of the temporary VAT rate reduction in Germany. It is noteworthy that both survey respondents and inflation swap traders revised their expectations upwards to a significant extent in recent months. Furthermore, for the period up to mid-2022, market expectations were higher than survey expectations. The inflation risk premium was thus positive – a rare occurrence in the euro area in recent years, with market participants presumably hedging against upward risks from unexpectedly high future inflation. Both the upward revisions of market expectations and the current pattern of inflation rates discernible from market data suggest there is a risk that the initial surge in prices could continue and that inflation could rise in the medium term.

Corporate bond yields down

Against the backdrop of the Eurosystem's ongoing purchase programmes, the yields on European corporate bonds fell significantly compared with the end of the first quarter of 2021, in some cases recording new historical lows. Bonds issued by BBB-rated financial corporations with residual maturities of between seven and ten years yielded 0.8% as this report went to press, down 31 basis points from the end of March. Yields on non-financial corporate bonds also declined, falling by 20 basis points to 0.5%. The main driver of this development was the decline in risk-free interest rates. However, as the yields on maturity-matched Federal securities declined less strongly on balance, the yield spreads of European financial corporations over Federal bonds narrowed by 9 basis points. By contrast, the yield spreads of non-financial corporations remained virtually unchanged. In line with these lower risk premia, the credit default premia for European corporations also declined compared with the end of the first quarter (ten-year iTraxx 125 down 5 basis points). The financing conditions of European corporations in the bond market therefore remained highly favourable.

Yield spreads of corporate bonds in the euro area*

Basis points, daily data



Sources: Thomson Reuters and Bundesbank calculations. * Compared with Federal securities with a residual maturity of seven to ten years. **1** Merrill Lynch index across all maturities. **2** In each case, iBoxx indices with a residual maturity of seven to ten years.
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Continuing high net sales in bond market

At €434½ billion, gross issuance in the German bond market in the second quarter of 2021 was down slightly compared with the previous quarter's figure (€472½ billion). After deducting redemptions and taking into account changes in issuers' holdings of their own bonds, net sales came to €59 billion, which was relatively high compared with the figures

Investment activity in the German securities markets

€ billion

Item	2020 Q2	2021 Q1	2021 Q2
Debt securities			
Residents	120.8	111.8	95.7
Credit institutions	24.5	10.9	– 20.4
of which:			
Foreign debt securities	8.5	– 4.2	– 5.8
Deutsche Bundesbank	78.6	54.6	72.2
Other sectors	17.7	46.3	43.9
of which:			
Domestic debt securities	1.7	– 10.3	7.8
Non-residents	69.0	26.6	– 6.2
Shares			
Residents	26.6	18.6	34.9
Credit institutions	1.6	3.6	1.5
of which:			
Domestic shares	1.7	2.6	1.5
Non-banks	25.0	14.9	33.4
of which:			
Domestic shares	9.6	6.4	6.8
Non-residents	– 9.0	4.2	– 1.1
Mutual fund shares			
Investment in specialised funds	1.2	23.9	21.4
Investment in retail funds	7.5	9.4	9.9
of which:			
Equity funds	4.8	4.3	4.3

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prior to the coronavirus pandemic. In addition, foreign borrowers placed debt securities worth €30½ billion in the German market. Thus, funds totalling a net €89½ billion were raised in the German bond market in the period under review.

High net public sector issuance

The public sector issued own debt securities in the amount of €51 billion net in the quarter under review. The Federal Government predominantly issued Federal bonds with a maturity of ten years (€28½ billion), but also those with maturities of 15 years (€11 billion), 30 years (€11 billion) and seven years (€7 billion). This included the first issuance of a 30-year green Federal bond in May, which expanded the maturity spectrum covered by the Federal Government in the green segment. In addition, the Federal Government issued Treasury discount paper for €5 billion net and two-year Federal Treasury notes for €1½ billion net. State and local government issued debt securities worth €2 billion net.

Rise in enterprises' capital market debt

In the course of the second quarter, domestic enterprises increased their capital market borrowing by €12½ billion on balance (previous quarter: €1½ billion). New debt securities were issued by non-financial corporations and other financial intermediaries.

Net redemptions by credit institutions

By contrast, domestic credit institutions redeemed their own bonds to the tune of €4½ billion net in the quarter under review. On balance, the bulk of redemptions were attributable to debt securities issued by specialised credit institutions (€8 billion). At the same time, the outstanding volume of bank debt securities and mortgage Pfandbriefe increased by €2½ billion net and €1½ billion net, respectively.

Purchases of debt securities

In the second quarter of 2021, the Bundesbank was the main buyer in the domestic bond market, acquiring debt securities amounting to €72 billion net, predominantly under the Eurosystem's asset purchase programmes. Domestic non-banks expanded their bond portfolios by €44 billion in net terms, with their focus on foreign debt securities (€36 billion). By contrast, domestic credit institutions and non-resident investors sold bonds worth €20½ billion net and €6 billion net, respectively.

Equity market

Equity markets record price gains on both sides of Atlantic

The international equity markets were also caught between the economic recovery, on the one hand, and uncertainty surrounding the continued spread of the Delta variant of the coronavirus, on the other. One factor that supported equity prices was the continued decline in risk-free interest rates. These reduce the discount factor, which is used to value future profits, and thus inflate the present value of companies. Furthermore, optimism was generated by a positive reporting season on both sides of the Atlantic, with significantly higher than expected profits in some cases. In addition, analysts once again made upward revisions to their future earnings expectations. By

contrast, the uncertainty surrounding the continued spread of the Delta variant weighed on prices. The widespread confidence in the financial markets at the beginning of the second quarter that the end of the pandemic might soon be in sight gave way to worries that a fourth wave could materialise in the fourth quarter. In this regard, in Japan the relatively modest progress made in rolling out its coronavirus vaccination programme and the high strain on the healthcare system weighed on equity prices. Overall, euro area stocks, as measured by the EURO STOXX, recorded significant gains amounting to 7.4% compared with the end of March. US and German shares, as measured by the S&P 500 and the CDAX, temporarily hit historical highs, climbing by 10.9% and 4.0% in the period under review, respectively. The UK's FTSE All-Share Index also recorded gains, ending 6.1% higher. By contrast, the Japanese Nikkei 225 fell somewhat, posting losses of -6.5%.

Equity market

Beginning of 2019 = 100, log scale, daily data

Sources: Thomson Reuters and Bundesbank calculations.
Deutsche Bundesbank

Uneven developments across sectors

In the period under review, price changes in individual sectors deviated fairly considerably in some cases from those in the respective overall market. A typical pattern emerged that has been seen since the onset of the coronavirus crises whenever worries about the spread of the pandemic come back to the fore. For example, share prices of European companies in the travel and leisure sector in particular, such as airlines and hotels, recorded significant losses compared with their prices at end of March, while shares in the IT sector outperformed the rest of the market. Despite a positive reporting season, US financial stocks also performed weakly, with shares in US banks posting gains of 3.0% and thus underperforming the market as a whole. By contrast, shares in European banks posted gains of 7.4% in line with the overall market, not least against the backdrop of a successful stress test by the European Banking Authority.

Stock market volatility virtually unchanged

Price uncertainty in the equity market – as measured by the implied volatility of equity indices calculated from options – did not change much in the period under review. While worries about the spread of the Delta variant temporarily led to significantly greater volatility in mid-July, equity market uncertainty for both US and European stock markets was latterly only marginally higher than its respective five-year averages.

Valuation somewhat lower

The EURO STOXX earnings yield, calculated on the basis of earnings forecasts for the next 12 months, i.e. the inverse price/earnings ratio, rose on its level at the end of March, indicating a lower relative valuation than at the end of the first quarter. Given the uncertainty about the further course of the pandemic, financial market participants were again demanding higher risk compensation (e.g. as reflected by the EURO STOXX) at the end of the period under review than at the end of March. The equity risk premium, which compensates investors for holding risky equities instead of safe Federal securities, thus remained well above its multi-year average. However, the lower risk-

free interest rates also need to be taken into account in this analysis. In recent years, falling safe interest rates have typically been accompanied by rising equity risk premia, a residual of the dividend discount model. Even so, the implied costs of equity, i.e. the sum of safe interest rates and the equity risk premium, rose in the period under review. Overall, the valuation level in the European equity market therefore declined somewhat. Despite the S&P 500 posting considerable gains, its valuation saw a similar development, albeit one that was less pronounced with regard to most indicators.

Stock market funding and stock purchases

In the second quarter of 2021, domestic enterprises placed new shares worth €7 billion net in the German equity market, following €13 billion in the first three months of the year. The outstanding volume of foreign shares in the German market rose by €26½ billion net over the same period. On balance, equities were acquired almost exclusively by German non-banks (€33½ billion), which also include investment funds. Domestic credit institutions bought such paper for €1½ billion net, while foreign investors reduced their equity exposure in Germany by €1 billion net.

Mutual funds

Sales and purchases of mutual fund shares

During the reporting period, domestic investment companies recorded inflows of €31½ billion, after raising funds totalling €33½ billion in the first quarter. The vast majority of the fresh funds were channelled to specialised funds reserved for institutional investors (€21½ billion). Among the various asset classes, mixed securities funds in particular were the chief sellers of new fund shares (€26 billion), but equity funds and open-end real estate funds also placed new shares in the market, albeit to a lesser extent (€4½ billion and €3½ billion, respectively). By contrast, bond-based funds redeemed their own shares to the tune of €2 billion. Foreign funds traded in the German market attracted inflows totalling €25 billion net in the second quarter of 2021. Domestic non-banks were the

Major items of the balance of payments

€ billion

Item	2020 Q2	2021 Q1	2021 Q2p
I. Current account	+37.3	+ 66.7	+56.5
1. Goods	+27.5	+ 56.0	+45.6
2. Services	+ 5.6	+ 3.6	+ 5.0
3. Primary income	+13.1	+ 27.7	+14.5
4. Secondary income	− 8.9	− 20.6	− 8.5
II. Capital account	+ 0.2	− 0.2	− 1.9
III. Financial account (increase: +)	+28.6	+127.5	+61.8
1. Direct investment	−12.5	+ 31.2	+ 0.5
Domestic investment abroad	−10.1	+ 45.5	+14.3
Foreign investment in the reporting country	+ 2.4	+ 14.3	+13.9
2. Portfolio investment	+ 0.5	+ 46.8	+75.7
Domestic investment in foreign securities	+60.6	+ 77.7	+65.4
Shares[1]	+19.1	+ 9.1	+10.1
Investment fund shares[2]	+15.4	+ 16.8	+24.9
of which: Money market fund shares	+ 1.7	− 8.7	− 1.3
Short-term debt securities[3]	+ 3.3	+ 3.6	− 5.7
Long-term debt securities[4]	+22.8	+ 48.2	+36.1
of which: Denominated in euro[5]	+17.9	+ 37.4	+25.6
Foreign investment in domestic securities	+60.1	+ 30.9	−10.3
Shares[1]	− 9.0	+ 4.2	− 5.2
Investment fund shares	+ 0.2	+ 0.1	+ 1.1
Short-term debt securities[3]	+35.3	+ 19.5	+ 0.2
Long-term debt securities[4]	+33.6	+ 7.1	− 6.3
of which: Issued by the public sector[6]	+20.8	− 1.4	−12.2
3. Financial derivatives[7]	+31.3	+ 22.3	+13.5
4. Other investment[8]	+ 9.1	+ 26.8	−27.9
Monetary financial institutions[9]	−45.2	−105.8	−11.2
Enterprises and households[10]	− 4.3	+ 54.0	− 6.3
General government	− 0.4	− 1.1	− 4.4
Bundesbank	+59.1	+ 79.8	− 6.1
5. Reserve assets	+ 0.2	+ 0.4	+ 0.1
IV. Errors and omissions[11]	− 8.9	+ 61.1	+ 7.1

1 Including participation certificates. 2 Including reinvested earnings. 3 Short-term: original maturity of up to one year. 4 Long-term: original maturity of more than one year or unlimited. 5 Including outstanding foreign Deutsche Mark bonds. 6 Including bonds issued by the former Federal Railways, the former Federal Post Office and the former Treuhand agency. 7 Balance of transactions arising from options and financial futures contracts as well as employee stock options. 8 Includes in particular financial and trade credits as well as currency and deposits. 9 Excluding the Bundesbank. 10 Includes the following sectors: financial corporations (excluding monetary financial institutions) as well as non-financial corporations, households and non-profit institutions serving households. 11 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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main buyers, adding mutual fund shares worth €51½ billion to their portfolios. Domestic credit institutions and non-resident investors increased their fund portfolios by €3½ billion net and €1 billion net, respectively.

Direct investment

Direct investment sees low net capital exports

Transactions in cross-border portfolio investment resulted in net capital exports of €75½ billion in the second quarter of 2021. Direct investment resulted in only minor capital outflows of €½ billion.

German direct investment abroad results in capital exports

Direct investment abroad by enterprises domiciled in Germany came to €14½ billion in the reporting period (previous quarter: €45½ billion). These enterprises boosted their equity capital in non-resident subsidiaries (€31 billion); roughly one-quarter of this amount was accounted for by reinvested earnings. By contrast, funds flowed back to Germany via intragroup credit transactions (€16½ billion). The bulk of this was attributable to redemptions of financial credits by affiliated enterprises abroad (€15½ billion).

Foreign direct investment in Germany generates capital inflows

Foreign enterprises increased their direct investment in Germany by €14 billion in the reporting period, following an increase of €14½ billion in the first quarter. They provided, in particular, additional equity capital to German enterprises (€9½ billion), but also issued intra-group loans (€4½ billion). The majority of these loans were financial credits provided by foreign parent companies to their German subsidiaries.