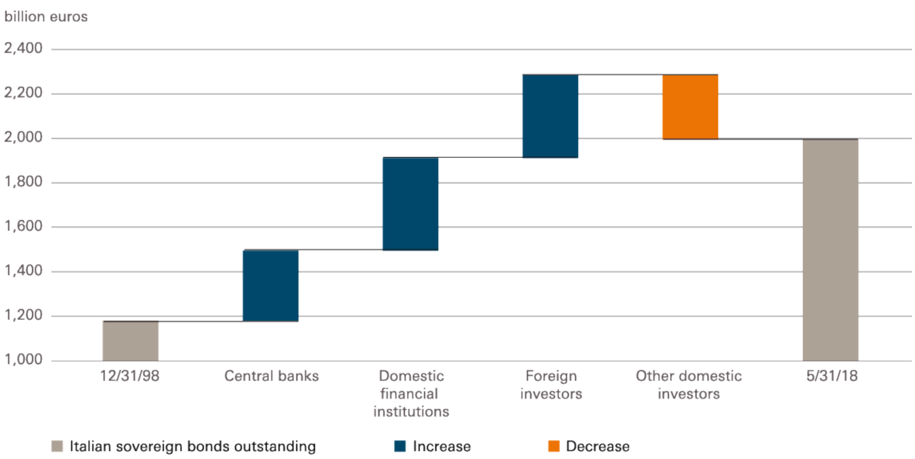
Chart of the week

How the financing of Italian government debt has changed in recent years

Italian politicians are increasingly issuing warnings that an attack on the Italian bond market might be in the making.[1] How would such an attack work? In general, the answer is very simple: investors offer their securities for sale, which leads to falling prices and, conversely, rising yields. Rising yields in turn increase the refinancing costs of the Italian state, which is one of the most indebted countries in the world.

An analysis of which investors have actually reduced their holdings of Italian bonds in recent years offers some interesting insights who might be behind the "attacks". In our "Chart of the Week", we show how various investor groups' holdings of Italian government bonds have changed since the euro's introduction. Overall, Italy's bond-financed public debt increased from EUR 1,180 billion to EUR 1,995 billion. Of this increase, the central banks acquired EUR 314 billion, while domestic financial institutions added EUR 417 billion. Foreign investors, on balance, increased their holdings by EUR 373 billion. Other Italian investors, such as private households and companies, however, reduced their holdings by EUR 289 billion.

So it looks as if Italian savers, not foreign investors, seem not to trust their own state. They probably have good reasons to, and not just because of politics. Risk diversification comes to mind.



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 9/6/18

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[1] See, for example: https://www.reuters.com/article/us-italy-markets-salvini/italys-salvini-says-government-will-stand-up-against-market-attacks-idUSKCN1L512Z

Glossary

Yield

Yield is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

Risk warning

Investments are subject to investment risk, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you might not get back the amount originally invested at any point in time.

Investments in Foreign Countries – Such investments may be in countries that prove to be politically or economically unstable. Furthermore, in the case of investments in foreign securities or other assets, any fluctuations in currency exchange rates will affect the value of the investments and any restrictions imposed to prevent capital flight may make it difficult or impossible to exchange or repatriate foreign currency.

Foreign Exchange/Currency – Such transactions involve multiple risks, including currency risk and settlement risk. Economic or financial instability, lack of timely or reliable financial information or unfavorable political or legal developments may substantially and permanently alter the conditions, terms, marketability or price of a foreign currency. Profits and losses in transactions in foreign exchange will also be affected by fluctuations in currency where there is a need to convert the product’s denomination(s) to another currency. Time zone differences may cause several hours to elapse between a payment being made in one currency and an offsetting payment in another currency. Relevant movements in currencies during the settlement period may seriously erode potential profits or significantly increase any losses.

High Yield Fixed Income Securities – Investing in high yield bonds, which tend to be more volatile than investment grade fixed income securities, is speculative. These bonds are affected by interest rate changes and the creditworthiness of the issuers, and investing in high yield bonds poses additional credit risk, as well as greater risk of default.

Hedge Funds – An investment in hedge funds is speculative and involves a high degree of risk, and is suitable only for “Qualified Purchasers” as defined by the US Investment Company Act of 1940 and “Accredited Investors” as defined in Regulation D of the 1933 Securities Act. No assurance can be given that a hedge fund’s investment objective will be achieved, or that investors will receive a return of all or part of their investment.

Commodities – The risk of loss in trading commodities can be substantial. The price of commodities (e.g., raw industrial materials such as gold, copper and aluminium) may be subject to substantial fluctuations over short periods of time and may be affected by unpredicted international monetary and political policies. Additionally, valuations of commodities may be susceptible to such adverse global economic, political or regulatory developments. Prospective investors must independently assess the appropriateness of an investment in commodities in light of their own financial condition and objectives. Not all affiliates

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