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LET'S TALK ABOUT...
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Negative yeld

Germany recently issued debt – namely 6 month Bunds – with a 0.0122% negative nominal yield for the first time. That means investors pay for the "privilege" of lending money to the country, as it is still perceived as a safe haven amid the financial storm which is raging Euroland. Indeed the demand for Bunds, during the latest auction, was not so positive as usually, and actually the loss for the investor is some more than the marginal negative percent, if one considers inflation, transaction fees, however small they are and the expenses for holding the securities in the investor's portfolio.
German Bunds had actually already traded at negative yelds before, but it had happened in the secondary market, that is for already marketed instruments, not at time of issuing them. The contrast is huge with the similar Italian and Spanish bonds, which are currently facing their highest yields – that means borrowing costs – since the 90s.
Of course a condition of negative yields is anomalous, and is a mirror of the worries and uncertainties surrounding not just the payment of interests, but rather the repayment of the principal itself at maturity, so to be willing to pay money for a certain guarantee of having it back.
The fixed income scenario is being dominated by near zero, or even negative, returns, as well as near zero borrowing costs for banks, in order to support credit and avoid liquidity crunches. However the risk exists of fuelling a "liquidity trap", which inhibits investments and keeps cash held and unused. Such scenario may even worsen if inflation were to come back, because small nominal negative yields would then become more consistent negative real returns due to money depreciation.
Thus paying for investing money with no returns may look nonsense, but may nevertheless be a smart strategy if investing in a commodity, instrument or currency with high appreciation potentials. But it is not so sure that this may be the case for the German Bunds and the other sovereign debt securities of the so called "virtuous" countries of Euroland. - *GLT*