

News at Agence France Trésor <i>page 1</i>	Economic news <i>page 2</i>	General debt-related data <i>page 3</i>	Secondary market <i>page 5</i>	Negotiable government debt <i>page 6</i>	The French economy and international comparisons <i>page 8</i>
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Agence France Trésor is tasked with managing the government debt and cash positions under the most secure conditions in the interest of the taxpayer.

News at Agence France Trésor

Investors continued to be fully satisfied with the French government debt market in 2015

Investors' assessment of the French Treasury securities market remains excellent. This is the finding of the thirteenth online survey of primary dealers' (SVTs) customers conducted by IEM Finance between 15 September and 9 October 2015. The annual survey gauges the quality of business relationships and services that primary dealers provide to their customers, as well as how well the French debt market operates. In 2015, 285 investors filled out the questionnaire. The respondents represented most of the major asset managers and insurers, along with many public institutions that trade in French debt. French respondents accounted for the largest share of the sample, at 29.1% (compared with 27.6% in 2014), followed by the British (17.9%, compared with 16.8% in 2014) and the Italians (6.3%, compared to 5.4% in 2014). The Japanese represented a smaller share of the sample, at 6%, compared to 8.1% in 2014. The shares of respondents from other countries have been relatively stable since 2013.

Satisfaction with the functioning of the French government debt market remains very high: 93.6% of investors report that they are "very satisfied" or "satisfied". Investors continue to be particularly appreciative of the liquidity of French government securities, but the respondents' satisfaction was down slightly compared to the previous year: Virtually all investors, or 93.7%, reported that they were "very satisfied" or "satisfied" with OATs, compared to 96.1% in the previous year's survey. One third of the respondents in the sample gave no response about BTFs, while 65.2% reported that they were "very satisfied" or "satisfied", compared to 69.2% in 2014. The lower satisfaction rating follows the introduction of tighter regulations that affect the behaviour of primary dealers in their role as market makers on the secondary market.

To ensure a high level of liquidity for French debt, the AFT will continue its practices aimed at facilitating market-making activities and acclaimed by investors, such as issuance of "off the run" securities, or buybacks of securities with residual maturities of two years or less.

Furthermore, the vast majority of investors, or 94.7% are "very satisfied" or "fairly satisfied" (compared to 95.5% in 2014) with the flexibility of the AFT in its choice of securities to issue, including auctions of "off-the-run" securities. The AFT has made good use of this option in 2015, with "off-the-run" securities accounting for 32.2% of medium-term and long-term debt issuance up to the end of October.

Rankings on a relatively stable French government bond market in 2015

On the French government bond market, the five top-ranked primary dealers most frequently mentioned by investors as being their main partner are:

2015	2014	2013	2012
1 – BNP Paribas	1 – BNP Paribas	1 – BNP Paribas	1 – BNP Paribas
2 – Société Générale	2 – Société Générale	2 – Société Générale	2 – Barclays
3 – Barclays	3 – Crédit Agricole	3 – Barclays	3 – Société Générale
4 – Natixis	4 – Barclays	4 – Natixis	4 – Natixis
5 – HSBC	5 – ex-aequo – Natixis et HSBC	5 – ex-aequo – Crédit Agricole et HSBC	5 – Citigroup

The annual rankings are very stable and highlight the primary dealers' collective capacity to meet investors' needs. As is the case every year, investors stress the importance that they place on the quality of the various services provided by primary dealers (pricing, information, advice, sales coverage, research, back/middle office).



The gap between the ECB inflation forecasts and short inflation swaps

By Jean-François Perrin, Inflation Strategist, Crédit Agricole CIB

Euro area inflation swaps are still at historically low levels, despite the uptick since January 2015. The one-year zero coupon swap, referring to annual inflation, excluding tobacco, up to August 2016, currently stands¹ at 0.56%. The one-year forward inflation swap in one year (1Y1Y), which refers to August 2017, is only slightly higher, at 0.81%.

On the other hand, the latest ECB forecasts, from September 2015, foresee average inflation of 1.2% in 2016Q3 and 1.7% in 2017Q4. The ECB predictions may very well be revised downward in the next set of staff forecasts due on 3 December, but the very significant gap between market expectations and the ECB is likely to persist. Why?

Let's start by looking at the ECB staff forecasts. In our view, they seem ambitious. More specifically, the core inflation forecasts, excluding energy and food, call for average inflation of 1.4% in 2016 and 1.6% in 2017. It seems difficult to reach such levels, given (a) the starting point of approximately 1% inflation at the end of 2015, (b) the slow fall in unemployment expected in the euro area, (c) the oil price and EUR profiles used by the ECB (oil prices track futures and the EUR remains the same) and (d) the United States' experience, with adjusted core inflation² of only 1.4%, even though the job market has largely returned to normal. As of today, our core inflation estimate is some 20 to 30 basis points lower than that in the staff forecasts published in September, and this difference carries through to our total inflation forecast.

If we look at inflation swaps, the level of the one-year swap, at 0.56%, is hard to understand from a purely macroeconomic point of view. Such a level would require a sudden halt of inflation, excluding energy, at 1.2% (its current level) and negative energy inflation at an annual rate of -5%, which is consistent with a Brent crude price of 38 dollars in August 2016, whereas the relevant future is trading at 50 dollars and the 2016Q3 consensus price is 58 dollars. The one-year swap rate of 0.56% could obviously happen, but it would clearly be in a scenario with an inflation rate much lower than the current rate, excluding energy, and much lower than the rate consistent with Brent Crude futures. The 1Y1Y forward swap rate at 0.80%, which is 25 basis points lower than the current core inflation rate, is also

hard to explain from a macroeconomic point of view.

Perhaps the error lies in the reasoning. Perhaps we should not try to "read" such market swaps as forecasting inflation. Such inflation swaps depend heavily on breakeven inflation rates³, which, in turn, depend on investors' appetite for inflation-linked government securities. Their appetite is probably quite weak right now, regardless of the inflation projections that we could come up with, because of the endless slide in commodity prices, which has kept European inflation under 0.5% for 18 months now. The discrepancy between market expectations and forecasts should narrow when clearly positive inflation figures are published, probably in early 2016, or if commodity prices stabilise.

¹Market values on 20 November 2015.

²Core inflation in the United States stood at 1.9% in October 2015, driven largely by the owner's equivalent rent component, which corresponds to the rent that homeowners would pay for their housing if they were tenants. When the United States' core inflation is corrected for this component, which is not found in European statistics, the rate stands at only 1.4%.

³Difference between the nominal interest rate and the real interest rate (yield on inflation-linked bonds).

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NB: this Agence France Trésor forum offers economists an opportunity to express their personal opinion. Thus, the above article strictly reflects the author's view, and should not be construed as expressing the viewpoints of Agence France Trésor or the Ministry of the Economy and Finance.

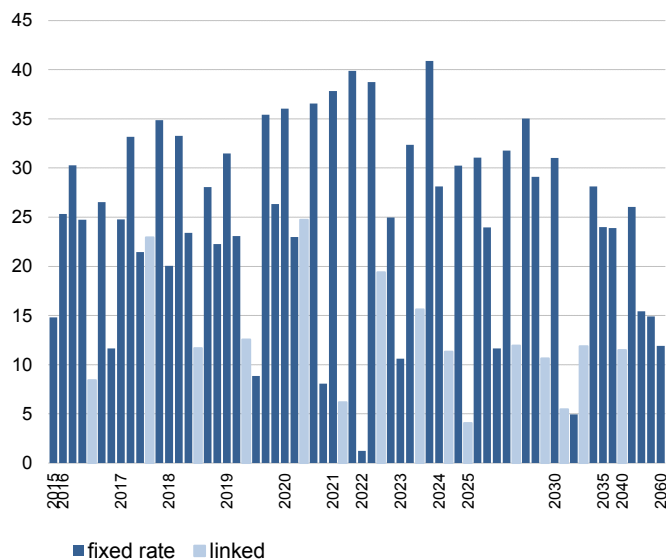
Indicative auction schedule

		Short-term				Medium-term	Long-term	Index-linked
December 2015	auction date	7	14	21	28	//	3	//
	settlement date	9	16	23	30	//	7	//
January 2016	auction date	4	11	18	25	21	7	21
	settlement date	6	13	20	27	25	11	25

Source: Agence France Trésor

Medium- and long-term negotiable government debt at 31 October, 2015

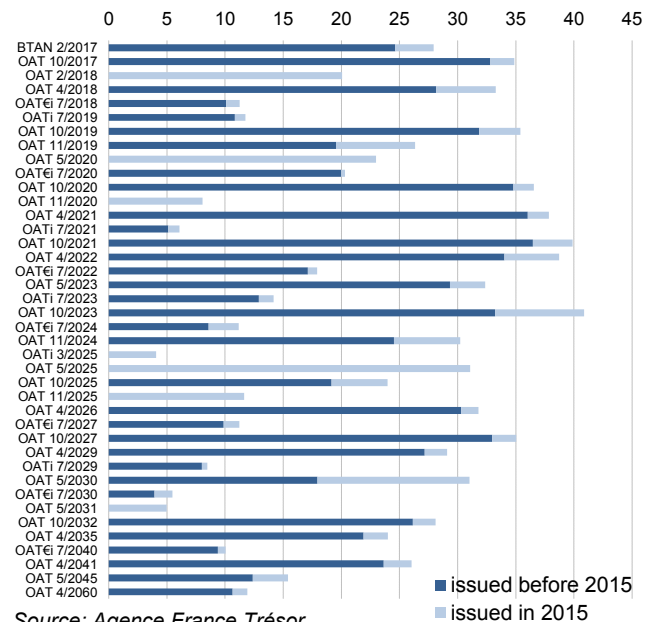
Nominal value of each line, in € billion



Source: Agence France Trésor

Medium- and long-term: securities issued during the year and total issuance at 31 October, 2015

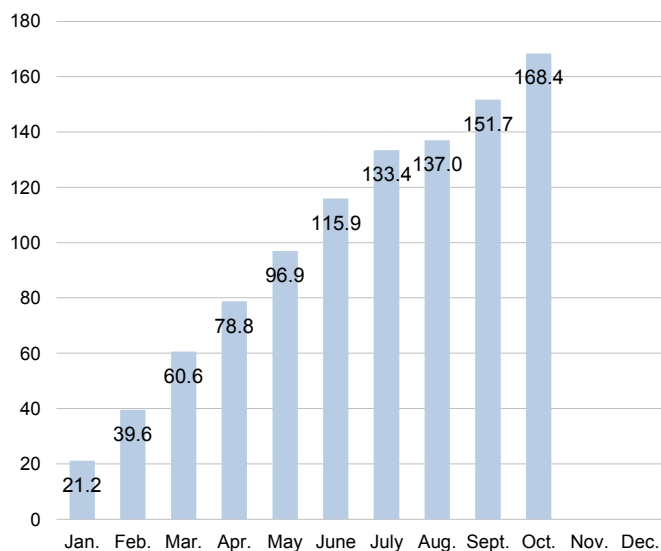
In € billion



Source: Agence France Trésor

Issuance net of buybacks at 31 October, 2015

In € billion



Source: Agence France Trésor

Medium- and long-term: provisional maturity schedule at 31 October, 2015

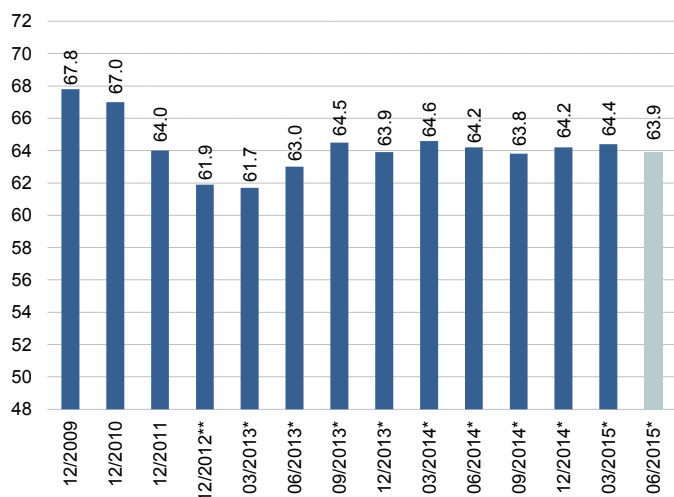
In € billion

Month	Coupon	Redemption
Nov-15	1.1	14.8
Dec-15		
Jan-16		
Feb-16	1.0	25.3
Mar-16	0.0	25.6
Apr-16	15.8	30.3
May-16	3.2	
Jun-16		
Jul-16	3.7	33.2
Aug-16		
Sep-16		
Oct-16	15.6	26.5

Source: Agence France Trésor

Non-resident holders of negotiable government debt in second quarter of 2015

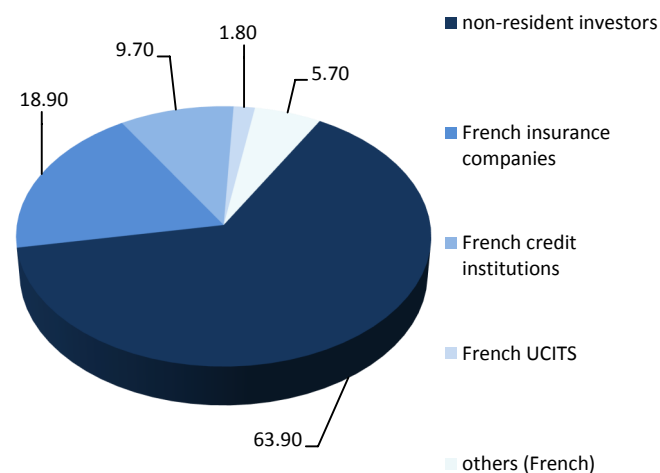
As a % of negotiable debt outstanding expressed in market value



(*) figures revised quarterly
(**) figures revised annually
Source: Banque de France

Negotiable government debt by group of holders in second quarter of 2015

Structure in % expressed in market value



Source: Banque de France

Negotiable government debt at 31 October, 2015

In euros

Total medium- and long-term debt	1,419,621,012,488
Total stripping activity	61,894,889,100
Average maturity	7 years and 326 days
Total short-term debt	160,027,000,000
Average maturity	114 days
TOTAL OUTSTANDING	1,579,648,012,488
Average maturity	7 years and 46 days

Source: Agence France Trésor

Negotiable government debt and interest rate swaps at 31 October, 2015

In € billion

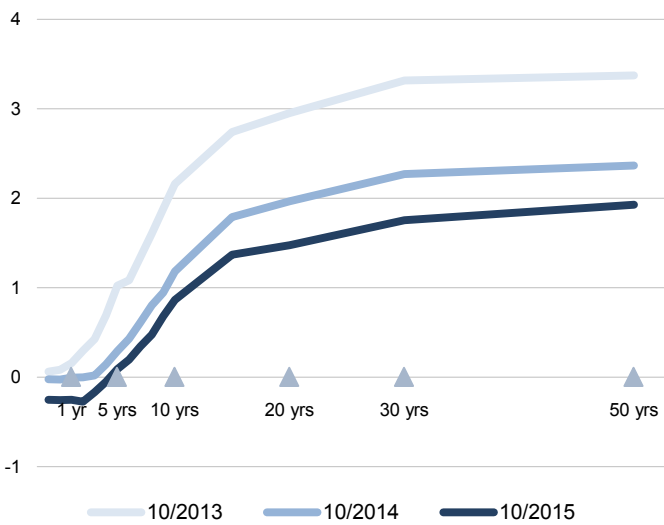
	End 2012	End 2013	End 2014	End Sept. 2015	End Oct. 2015
Negotiable government debt outstanding	1,386	1,457	1,528	1,589	1,580
of which index-linked securities	173	174	189	186	188
Medium- and long-term	1,220	1,283	1,352	1,429	1,420
short-term	167	174	175	160	160
Swaps outstanding	10	7	6	6	6
Average maturity of the negotiable debt					
before swaps	7 years 37 days	7 years 5 days	6 years 363 days	7 years 17 days	7 years 46 days
after swaps	7 years 34 days	7 years 2 days	6 years 362 days	7 years 16 days	7 years 46 days

Source: Agence France Trésor



Yield curve for French government securities

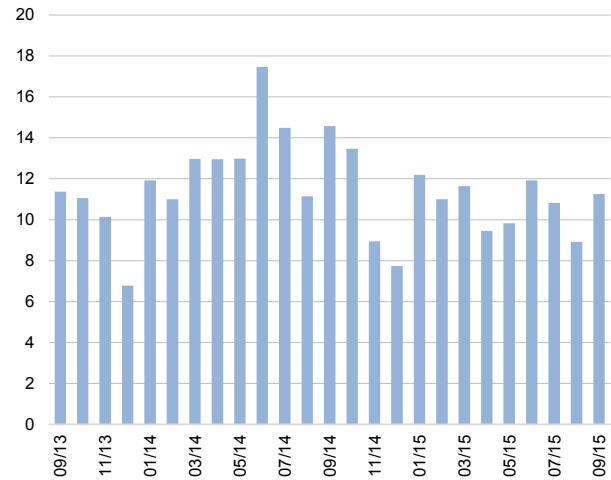
End-of-month value, %



Source: Bloomberg

Average daily volume of medium- and long-term transactions

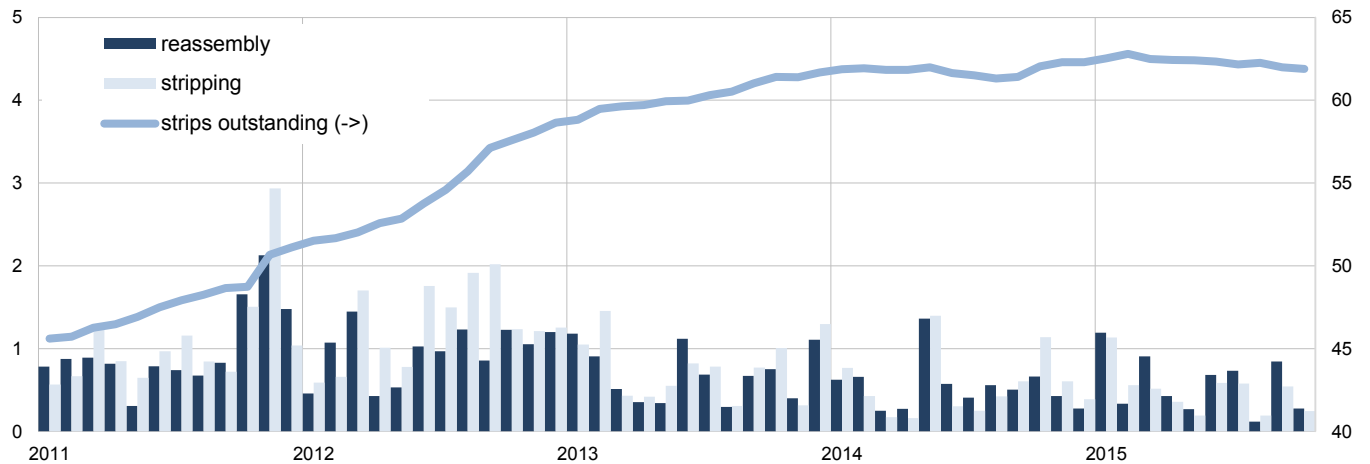
In € billion



Source: reporting by primary dealers in government securities, excluding flows arising from the Eurosystem public sector purchase programme.

Total stripping and reassembly

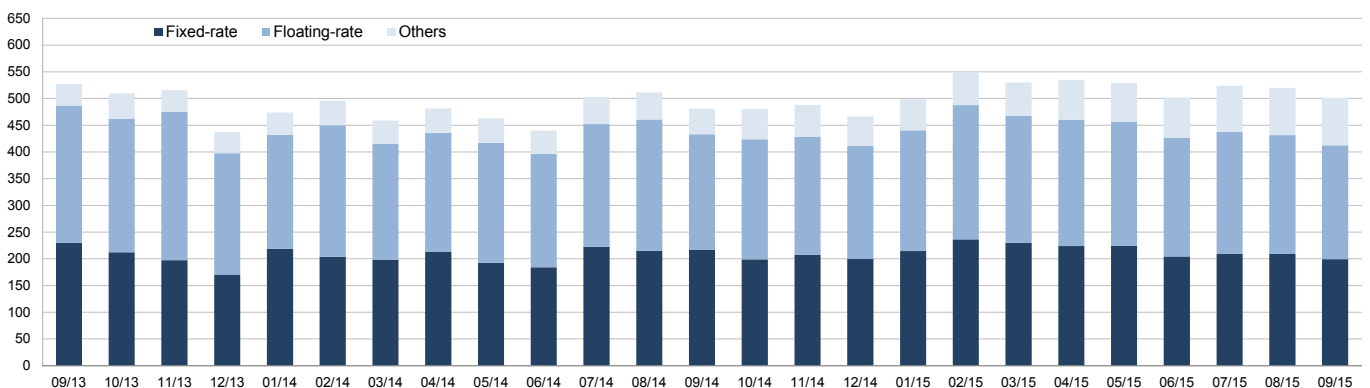
In € billion



Source: Euroclear

Primary dealers, repo outstanding at end of month

In € billion



Source: reporting by primary dealers in government securities

Short-term debt at 31 October, 2015

	Maturity	Outstanding (€)
BTF	04 November 2015	7,006,000,000
BTF	11 November 2015	6,573,000,000
BTF	18 November 2015	7,864,000,000
BTF	25 November 2015	5,502,000,000
BTF	02 December 2015	7,093,000,000
BTF	09 December 2015	6,698,000,000
BTF	16 December 2015	7,178,000,000
BTF	23 December 2015	6,196,000,000
BTF	30 December 2015	7,992,000,000
BTF	06 January 2016	7,416,000,000
BTF	13 January 2016	7,587,000,000
BTF	20 January 2016	5,650,000,000
BTF	27 January 2016	4,433,000,000
BTF	03 February 2016	7,441,000,000
BTF	17 February 2016	6,097,000,000
BTF	02 March 2016	6,216,000,000
BTF	16 March 2016	7,467,000,000
BTF	31 March 2016	6,724,000,000
BTF	27 April 2016	5,876,000,000
BTF	25 May 2016	4,895,000,000
BTF	22 June 2016	7,262,000,000
BTF	20 July 2016	5,332,000,000
BTF	18 August 2016	5,862,000,000
BTF	14 September 2016	5,555,000,000
BTF	12 October 2016	4,112,000,000

Medium- and long-term debt (maturing 2015–2018) at 31 October, 2015

ISIN Code	Bond	Outstanding (€)	Ind. Coeff.	Face value	Stripped (€)
	Maturity 2015	14,808,000,000			
FR0011452721	OAT 0.25% 25 November 2015	14,808,000,000			0
	Maturity 2016	126,942,680,600			
FR0119105809	BTAN 2.25% 25 February 2016	25,317,000,000			–
FR0010288357	OAT 3.25% 25 April 2016	30,267,000,000			0
FR0119580050	BTAN 2.5% 25 July 2016	24,735,000,000			–
FR0119105791	BTANi 0.45% 25 July 2016	8,436,680,600	(1) 1.05340	8,009,000,000	–
FR0000187361	OAT 5% 25 October 2016	26,524,000,000			274,017,000
FR0011857218	OAT 0.25% 25 November 2016	11,663,000,000			0
	Maturity 2017	137,230,628,650			
FR0120473253	BTAN 1.75% 25 February 2017	24,787,500,000			–
FR0010415331	OAT 3.75% 25 April 2017	33,162,000,000			0
FR0120746609	BTAN 1% 25 July 2017	21,443,000,000			–
FR0010235176	OATi 1% 25 July 2017	22,963,128,650	(1) 1.13707	20,195,000,000	0
FR0010517417	OAT 4.25% 25 October 2017	34,875,000,000			0
	Maturity 2018	138,729,137,500			
FR0012634558	OAT 0% 25 February 2018	20,057,000,000			0
FR0010604983	OAT 4% 25 April 2018	33,269,000,000			0
FR0011394345	OAT 1% 25 May 2018	23,412,000,000			0
FR0011237643	OAT€i 0.25% 25 July 2018	11,679,137,500	(1) 1.03750	11,257,000,000	0
FR0010670737	OAT 4.25% 25 October 2018	28,047,000,000			0
FR0011523257	OAT 1% 25 November 2018	22,265,000,000			0

(1) face value x indexation coefficient (face value if coefficient < 1)

Medium- and long-term debt (maturing in 2019 and beyond) at 31 October, 2015

ISIN Code	Bond	Outstanding (€)	Ind. Coeff.	Face value	Stripped (€)
Maturity 2019		137,752,852,268			
FR0000189151	OAT 4.25% 25 April 2019	31,478,000,000			0
FR0011708080	OAT 1% 25 May 2019	23,095,000,000			0
FR0010850032	OATi 1.3% 25 July 2019	12,562,504,400	(1) 1.07006	11,740,000,000	0
FR00000570921	OAT 8.5% 25 October 2019	8,844,392,893			5,778,885,100
FR0010776161	OAT 3.75% 25 October 2019	35,410,000,000			0
FR0011993179	OAT 0.5% 25 November 2019	26,333,000,000			0
FR00000570954	OAT cap. 9.82% 31 December 2019	29,954,975	(2)	6,692,154	–
Maturity 2020		128,348,378,500			
FR0010854182	OAT 3.5% 25 April 2020	36,032,000,000			0
FR0012557957	OAT 0% 25 May 2020	22,969,000,000			0
FR0010050559	OAT€i 2.25% 25 July 2020	24,724,378,500	(1) 1.21735	20,310,000,000	0
FR0010949651	OAT 2.5% 25 October 2020	36,562,000,000			0
FR0012968337	OAT 0.25% 25 November 2020	8,061,000,000			0
Maturity 2021		83,901,571,880			
FR0010192997	OAT 3.75% 25 April 2021	37,837,000,000			0
FR0011347046	OATi 0.1% 25 July 2021	6,173,571,880	(1) 1.01339	6,092,000,000	0
FR0011059088	OAT 3.25% 25 October 2021	39,891,000,000			0
Maturity 2022		84,328,524,500			
FR00000571044	OAT 8.25% 25 April 2022	1,243,939,990			617,468,400
FR0011196856	OAT 3% 25 April 2022	38,725,000,000			0
FR0010899765	OAT€i 1.1% 25 July 2022	19,402,584,510	(1) 1.08219	17,929,000,000	0
FR0011337880	OAT 2.25% 25 October 2022	24,957,000,000			0
Maturity 2023		99,480,116,803			
FR00000571085	OAT 8.5% 25 April 2023	10,606,195,903			5,596,400,200
FR0011486067	OAT 1.75% 25 May 2023	32,358,000,000			0
FR0010585901	OATi 2.1% 25 July 2023	15,633,920,900	(1) 1.10230	14,183,000,000	0
FR0010466938	OAT 4.25% 25 October 2023	40,882,000,000			549,585,000
Maturity 2024		69,686,955,080			
FR0011619436	OAT 2.25% 25 May 2024	28,128,000,000			17,000,000
FR0011427848	OAT€i 0.25% 25 July 2024	11,323,955,080	(1) 1.01342	11,174,000,000	0
FR0011962398	OAT 1.75% 25 November 2024	30,235,000,000			58,000,000
Maturity 2025		70,756,172,518			
FR0012558310	OATi 0.1% 1 March 2025	4,079,244,400	(1) 1.00474	4,060,000,000	0
FR0012517027	OAT 0.5% 25 May 2025	31,065,000,000			0
FR00000571150	OAT 6% 25 October 2025	23,968,928,118			3,136,464,400
FR0012938116	OAT 1% 25 November 2025	11,643,000,000			0
Maturity 2026		31,784,000,000			
FR0010916924	OAT 3.5% 25 April 2026	31,784,000,000			90,813,000
Maturity 2027		46,989,348,900			
FR0011008705	OAT€i 1.85% 25 July 2027	11,960,348,900	(1) 1.06646	11,215,000,000	0
FR0011317783	OAT 2.75% 25 October 2027	35,029,000,000			0
Maturity 2028		22,534,786			
FR00000571226	OAT zero coupon 28 March 2028	22,534,786	(3)	46,232,603	–
Maturity 2029		39,734,460,883			
FR00000571218	OAT 5.5% 25 April 2029	29,091,880,458			3,519,609,100
FR0000186413	OATi 3.4% 25 July 2029	10,642,580,425	(1) 1.25663	8,469,144,000	0
Maturity 2030		36,491,186,400			
FR0011883966	OAT 2.5% 25 May 2030	31,023,000,000			0
FR0011982776	OAT€i 0.7% 25 July 2030	5,468,186,400	(1) 1.00040	5,466,000,000	0
Maturity 2031 and later		172,634,463,220			
FR0012993103	OAT 1.5% 25 May 2031	4,964,000,000			0
FR0000188799	OAT€i 3.15% 25 July 2032	11,872,900,920	(1) 1.23342	9,626,000,000	0
FR0000187635	OAT 5.75% 25 October 2032	28,114,322,600			11,231,157,400
FR0010070060	OAT 4.75% 25 April 2035	24,004,000,000			5,218,167,000
FR0010371401	OAT 4% 25 October 2038	23,889,000,000			4,857,011,400
FR0010447367	OAT€i 1.8% 25 July 2040	11,488,239,700	(1) 1.14254	10,055,000,000	0
FR0010773192	OAT 4.5% 25 April 2041	26,037,000,000			7,448,539,000
FR0011461037	OAT 3.25% 25 May 2045	15,421,000,000			499,600,000
FR0010171975	OAT 4% 25 April 2055	14,926,000,000			7,433,188,000
FR0010870956	OAT 4% 25 April 2060	11,918,000,000			5,568,984,100

(1) face value x indexation coefficient (face value if coefficient < 1)

(2) Including coupons capitalised at 31 Dec. 2014; not open to subscription

(3) Revised on 28 March 2015; not open to subscription

Most recent economic indicators

Industrial output, year-on-year	0.7%	Sep 2015
Household consumption*, year-on-year	1.6%	Oct 2015
Unemployment rate (ILO)	10.3%	Jun 2015
Consumer prices, year-on-year		
all items	0.1%	Oct 2015
all items excluding tobacco	0.1%	Oct 2015
Trade balance, fob-fob, sa (€bn)	-€3.4bn	Sep 2015
" "	-€3.0bn	Aug 2015
Current account balance, sa (€bn)	€0.5bn	Sep 2015
" "	-€0.1bn	Aug 2015
10-year constant maturity rate (TEC10)	0.77%	30 Oct. 2015
3-month interest rate (Euribor)	-0.068%	30 Oct. 2015
EUR / USD	1.1017	30 Oct. 2015
EUR / JPY	132.88	30 Oct. 2015

* manufactured products

Sources: Insee, Minefi, Banque de France

Monthly government budget position

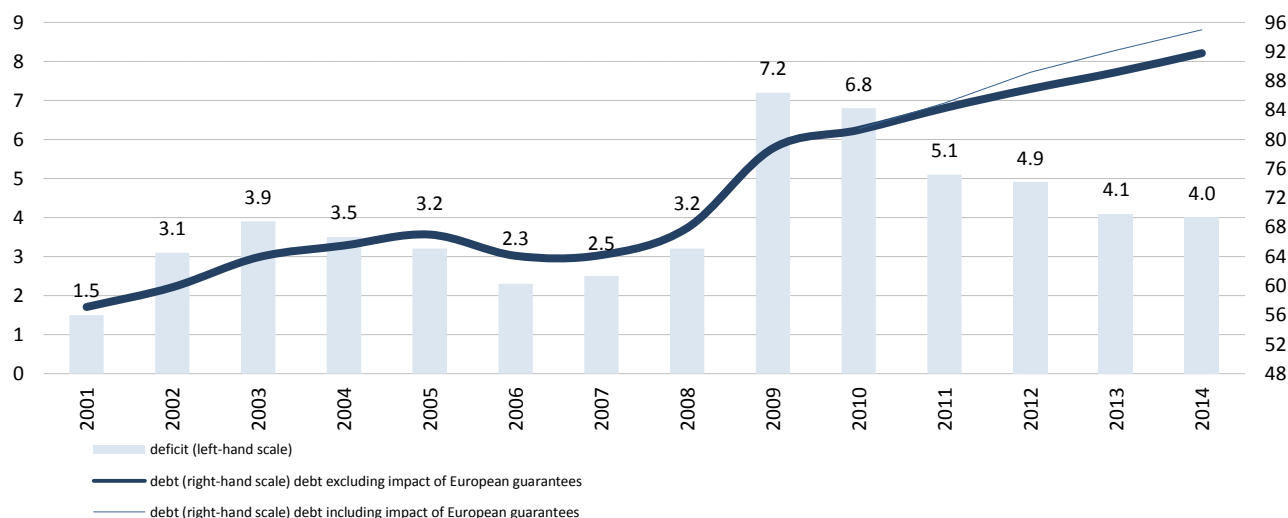
In € billion

	2013	2014	end of September level		
			2013	2014	2015
General budget balance	-75.43	-85.71	-56.88	-57.24	-48.81
revenue	301.24	291.95	225.93	220.75	226.47
expenditure	376.67	377.66	282.81	277.99	275.28
Balance of special Treasury accounts	0.56	0.16	-23.95	-23.26	-25.72
General budget outturn	-74.87	-85.56	-80.83	-80.50	-74.53

Source: Minefi

Public finances: deficit and debt

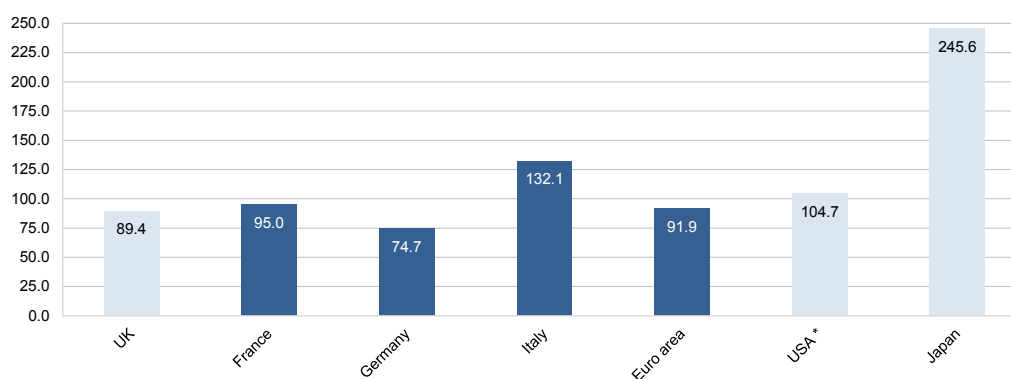
As % of GDP



Source: Insee

General government debt in 2014

As % of GDP



Sources: Eurostat (07/2015), FMI (07/2015)

* IMF estimate

French economic indicators: timetable

December 2015		January 2016	
	3 Job seekers Q3-2015 (ILO)		8 Consumer prices: index for December
	8 Foreign trade in October		8 Industrial output in November
	10 Industrial output in October		12 Eurozone economic outlook - 1st quarter 2016
	10 Payroll employment: Q3-2015		13 Consumer prices: index for December
	10 Consumer prices: index for November		13 Balance of payments in November
	11 Balance of payments in October		19 Inflation (HICP): December index
	16 Inflation (HICP): November index		21 Industrial trends: monthly survey for January
	18 Industrial trends: monthly survey for December		27 Job seekers in December
	23 National quarterly accounts: final results Q3-2015		27 Household confidence survey: January survey
	23 The general government Maastricht debt Q3-2015		28 New building starts in December
	23 Household consumption of manufactured goods in November		29 Household consumption of manufactured goods in December
	24 Job seekers in November		29 Industrial producer prices: December index
	29 New building starts in November		

Sources: Insee, Eurostat