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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

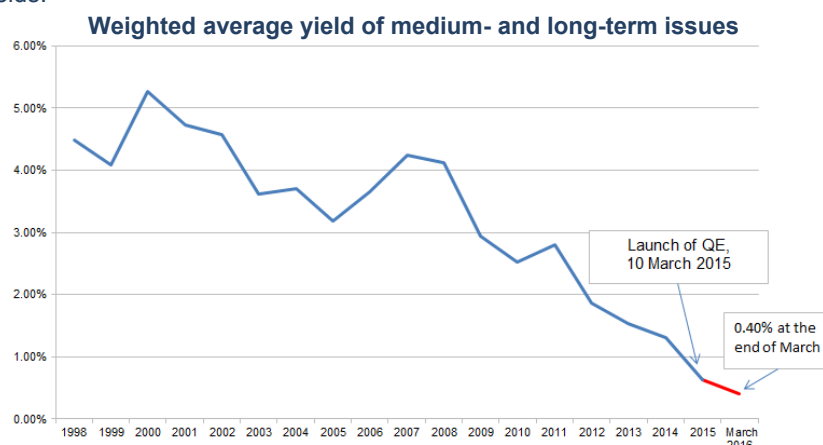
AFT uses its flexible issuance strategy during Quantitative Easing (QE)

The Eurosystem launched the Public Sector Purchase Programme (PSPP) one year ago. The PSPP provides support for the government's issuance programme, but it has also had several technical effects on the market for French debt. Periodic purchases of securities with maturities ranging from 2 to 30 years made it necessary to tap off-the-run issues on a regular basis in order to maintain the greatest liquidity possible for all OATs. Consequently, AFT made its issuance more flexible to meet this demand. The proportion of total issuance relying on off-the-run issues hit its highest point since 2011 at 33% compared to 21.8% in 2014.

The PSPP lowered risk premiums on all maturities, as well as cutting issuance costs for medium- and long-term debt securities to 0.40% at the end of March 2016, compared to 0.63% in 2015. The Programme means the government benefits from low yields at issue on all maturities. Lower yields have also increased investor demand for longer-dated securities carrying higher yields. Consequently, the average issuance maturity increased from 8.9 years in 2014 to 9.1 years in 2015, which means that French debt will be more resilient in the face of rising yields in coming years.

The ECB announced new measures on 10 March 2016 that will increase monthly purchases under the PSPP by €20bn to €80bn starting in April, and expanded the list of eligible securities to include investment-grade corporate bonds denominated in euros. These new measures mean that AFT will continue its issuance programme with three priorities in mind.

The first will be to ensure that the liquidity of French debt remains the best for sovereign bonds in the euro area and worldwide. The second will be to maintain a broad and diverse investor base made up of investors from different resident and non-resident sectors, and for all maturities, so that the lower yields resulting from the PSPP do not cause some investors to choose other instruments over OATs. The third will be to start preparing immediately for the end of QE and an orderly resumption of normal borrowing terms for the government, as stronger growth and renewed inflation in Europe and France lead to higher yields.



Source: Agence France Trésor

Assessing the €QE2 impact

Michael Leister, CFA – Head of Interest Rate Strategy - Commerzbank



Sovereign bond investors are showing only muted enthusiasm for the ECB's latest easing measures so far. Although spreads vs. German Bunds are lower than before the meeting, they remain around the levels observable at the start of the year.

In line with other segments, the disillusionment regarding further cuts of the deposit rate overshadows the scope of the ECB's latest package and renewed focus on non-standard policy measures. The already prevailing €QE-fatigue has likely compounded this as the Public Sector Purchase Programme (PSPP) has been pushing domestic private investors to the sidelines so far, rather than into higher yielding assets as intended by the ECB (the so called portfolio channel of QE).

However, markets seem to underestimate the scope and magnitude of the new ECB measures and the corresponding spread tightening pressure. For one, the €20bn increase in monthly €QE purchase volumes from April onwards is significant. We estimate that monthly ECB and agency purchases will increase by €16bn to a total of €60bn per month with the newly added corporate bonds only making up some €3-5bn towards the end of Q2. This implies that the ECB will buy 80% of monthly gross sovereign bond issuance going forward. Moreover, upon projected termination of the programme in March 2017 the ECB will hold more than 20% of outstanding € sovereign bonds.

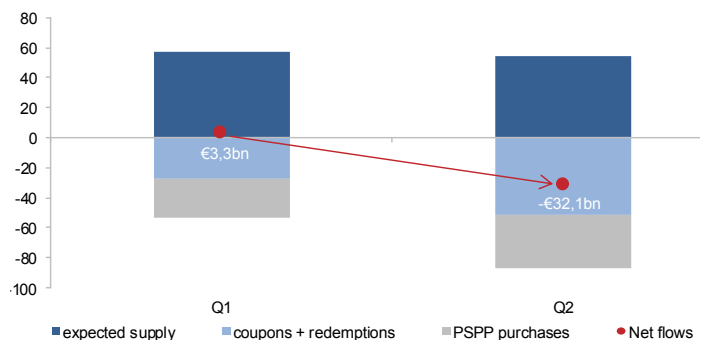
Combined with falling sovereign issuance volumes following the usual front-loading in the first quarter, €QE-adjusted net supply will be deeply negative in Q2: PSPP purchases, coupons and redemptions will exceed projected issuance by c. €165bn - equaling more than four times the (negative) €QE-adjusted net flow observable during the first quarter. OATs should also benefit noticeably from the improving cash flow profile, as we project €QE-adjusted net supply to fall €35bn vs. Q1 (see chart). Moreover, the purchases for the ECB's new Corporate Sector Purchase Programme (CSPP) will start only "towards the end of the second quarter" and government bonds will likely be the key instrument to fill the interim gap. The resulting front-loading will thus further boost the negative net flows during Q2.

At the same time, the ECB will increasingly have to buy from domestic investors as foreign investors - the largest seller to the PSPP so far - pressure to liquidate official fx reserves eases, as already indicated by latest Chinese official fx reserve data.

We therefore expect a strong performance of € sovereign spreads vs. Bunds in the second quarter, also as a stable and very negative rate environment should ultimately unclog the portfolio channel and push investors up the credit curve.

OATs to benefit from improving net net flows in Q2

Expected gross OAT supply – (redemptions + coupons + PSPP purchases), in €bn



Source: ECB, AFT, Commerzbank Research

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

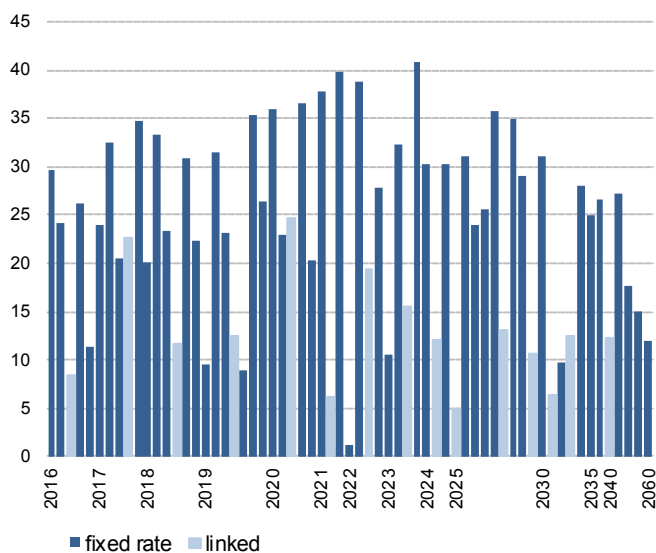
		Short-term					Medium-term	Long-term	Index-linked
April 2016	auction date	4	11	18	25	/	21	7	21
	settlement date	6	13	20	27	/	25	11	25
May 2016	auction date	2	9	17	23	30	19	4	19
	settlement date	4	11	19	25	01 June	23	6	23

anticipated or delayed auctions (bank holidays, etc.)

Source: Agence France Trésor

Medium- and long-term negotiable government debt at 29 February 2016

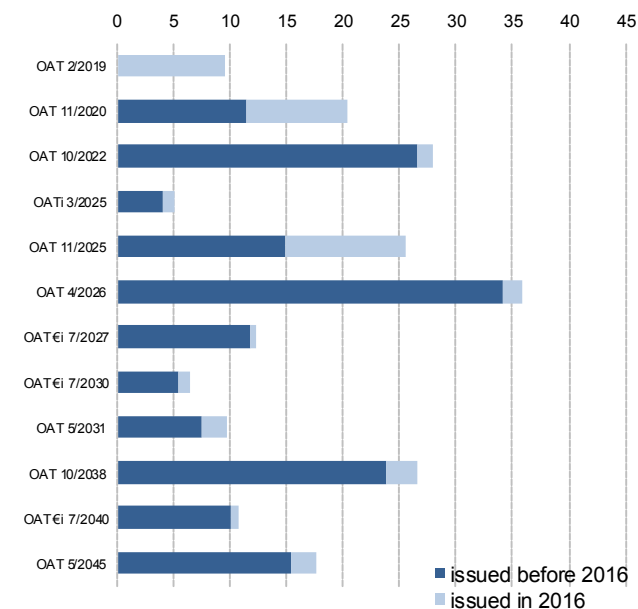
Nominal value of each line, in € billion



Source: Agence France Trésor

Medium- and long-term: securities issued during the year and total issuance at 29 February 2016

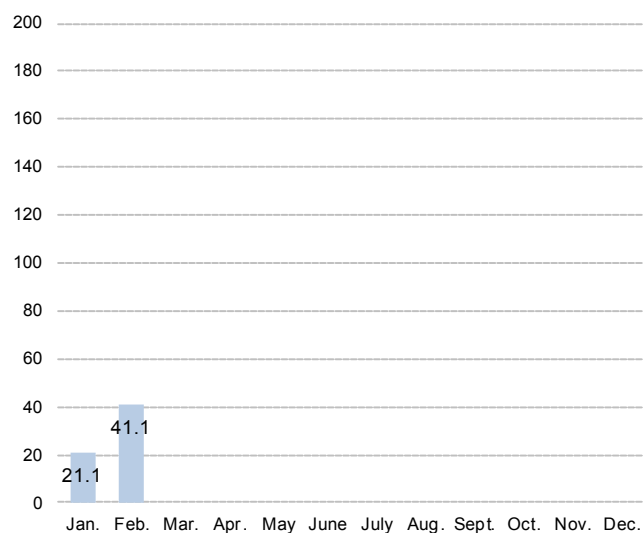
In € billion



Source: Agence France Trésor

Issuance net of buybacks at 29 February 2016

In € billion



Source: Agence France Trésor

Medium- and long-term: provisional maturity schedule at 29 February 2016

In € billion

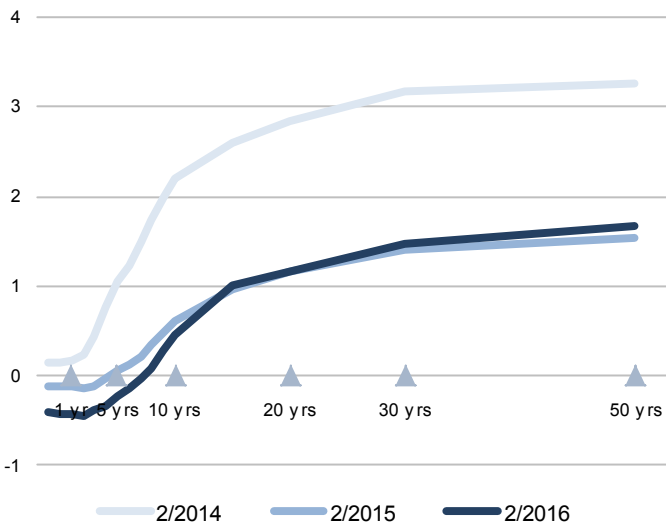
Month	Coupon	Redemption
Mar-16	0.0	
Apr-16	16.0	29.7
May-16	3.4	
Jun-16		
Jul-16	3.7	32.2
Aug-16		
Sep-16		
Oct-16	15.8	26.2
Nov-16	1.2	11.4
Dec-16		
Jan-17		
Feb-17	0.4	23.9

Source: Agence France Trésor



Yield curve for French government securities

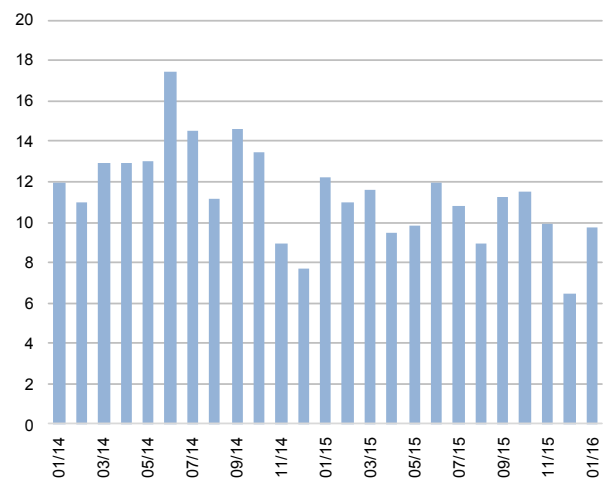
End-of-month value, %



Source: Bloomberg

Average daily volume of medium- and long-term transactions

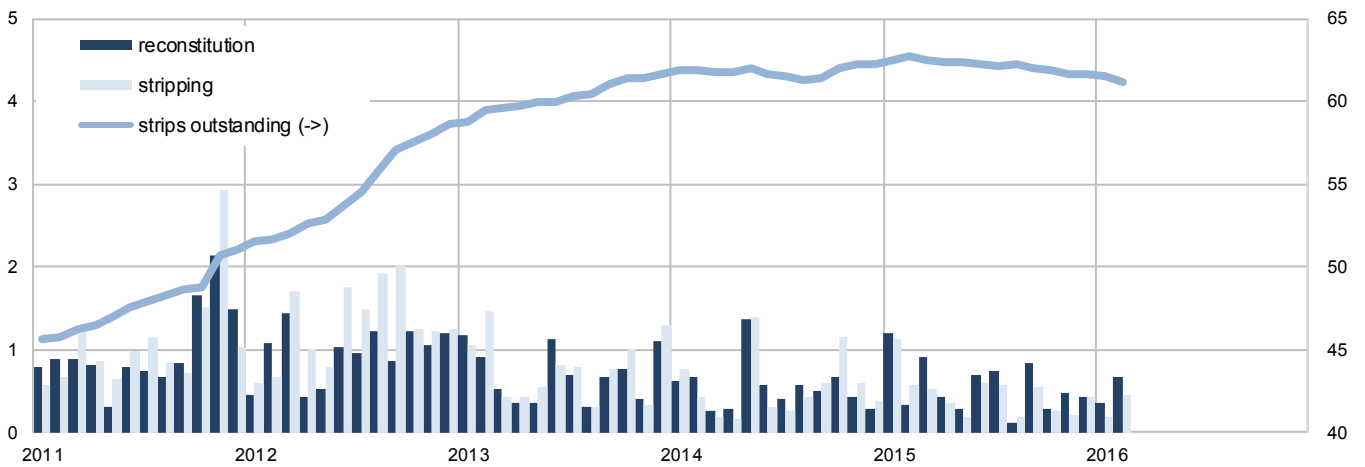
In € billion



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

Total stripping and reconstitution

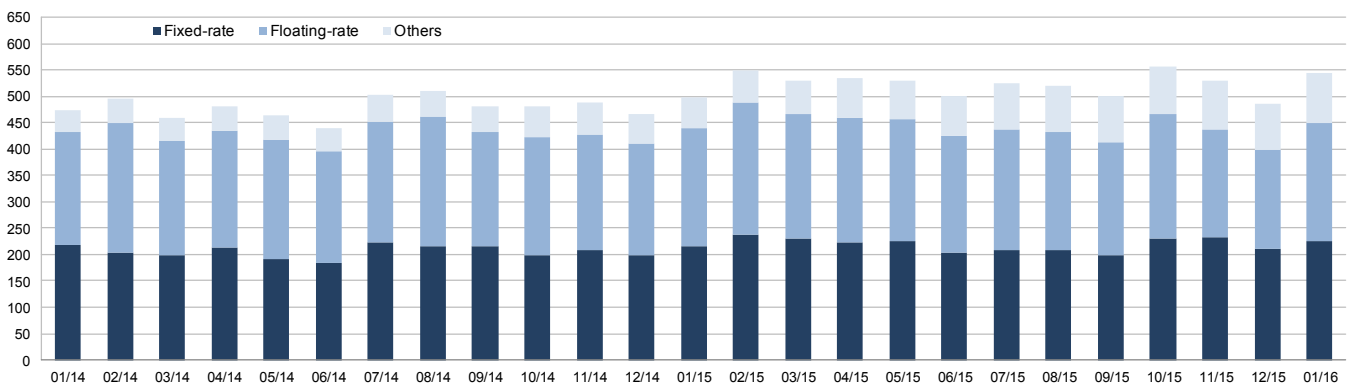
In € billion



Source: Euroclear

Primary dealers, repo outstanding at end of month

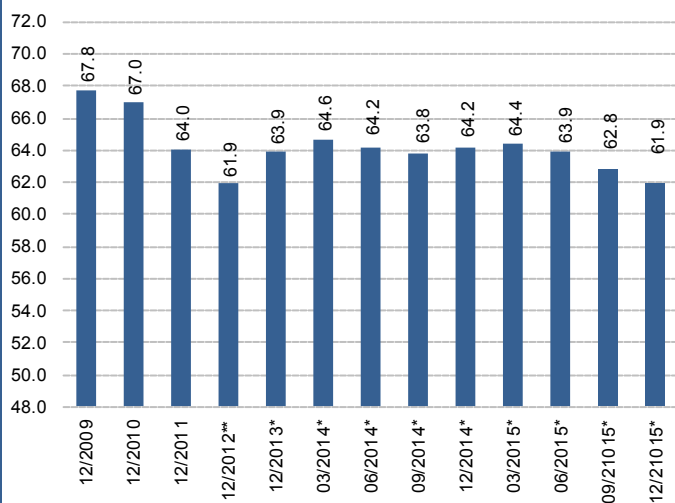
In € billion



Source: reporting by primary dealers in government securities

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

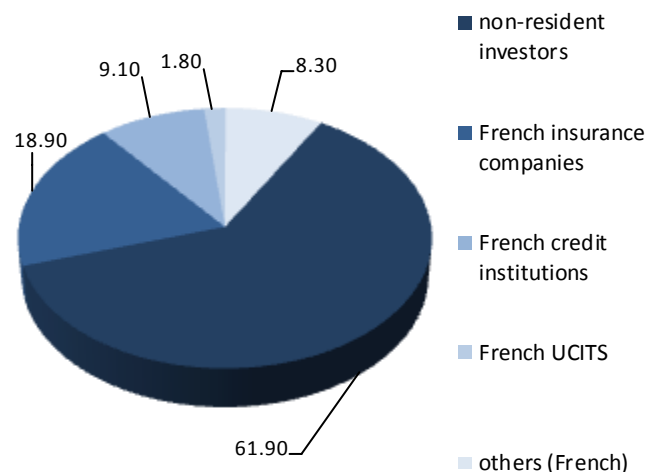
As a % of negotiable debt outstanding expressed in market value



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

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

Structure in % expressed in market value



Source: Banque de France

Negotiable government debt at 29 February 2016

In euros

Total medium- and long-term debt	1,439,804,781,288
Total stripping activity	61,250,989,100
Average maturity	7 years and 325 days
Total short-term debt	148,789,000,000
Average maturity	117 days
TOTAL OUTSTANDING	1,588,593,781,288
Average maturity	7 years and 67 days

Source: Agence France Trésor

Negotiable government debt and interest rate swaps at 29 February 2016

In € billion

	End 2013	End 2014	End 2015	End Jan. 2016	End Feb. 2016
Negotiable government debt outstanding	1,457	1,528	1,576	1,596	1,589
of which index-linked securities	174	189	190	192	193
Medium- and long-term	1,283	1,352	1,424	1,445	1,440
short-term	174	175	153	152	149
Swaps outstanding	7	6	6	6	6
Average maturity of the negotiable debt					
before swaps	7 years 5 days	6 years 363 days	7 years 47 days	7 years 35 days	7 years 66 days
after swaps	7 years 2 days	6 years 362 days	7 years 47 days	7 years 35 days	7 years 66 days

Source: Agence France Trésor

Short-term debt at 29 February 2016

	Maturity	Outstanding (€)
BTF	02 March 2016	6,216,000,000
BTF	09 March 2016	8,243,000,000
BTF	16 March 2016	7,467,000,000
BTF	31 March 2016	6,724,000,000
BTF	06 April 2016	7,289,000,000
BTF	13 April 2016	7,019,000,000
BTF	20 April 2016	6,381,000,000
BTF	27 April 2016	6,357,000,000
BTF	04 May 2016	6,286,000,000
BTF	11 May 2016	6,018,000,000
BTF	19 May 2016	7,302,000,000
BTF	25 May 2016	4,895,000,000
BTF	08 June 2016	5,454,000,000
BTF	22 June 2016	7,262,000,000
BTF	06 July 2016	6,366,000,000
BTF	20 July 2016	5,332,000,000
BTF	03 August 2016	2,014,000,000
BTF	18 August 2016	5,862,000,000
BTF	14 September 2016	5,555,000,000
BTF	12 October 2016	8,049,000,000
BTF	09 November 2016	7,161,000,000
BTF	07 December 2016	3,590,000,000
BTF	04 January 2017	7,090,000,000
BTF	01 February 2017	4,857,000,000

Medium- and long-term debt (maturing 2016–2019) at 29 February 2016

ISIN Code	Bond	Outstanding (€)	Ind. Coeff.	Face value	Stripped (€)
	Maturity 2016	99,963,750,900			
FR0010288357	OAT 3.25% 25 April 2016	29,725,000,000			0
FR0119580050	BTAN 2.5% 25 July 2016	24,221,500,000			–
FR0119105791	BTANi 0.45% 25 July 2016	8,410,250,900 (1)	1.05010	8,009,000,000	–
FR0000187361	OAT 5% 25 October 2016	26,204,000,000			221,517,000
FR0011857218	OAT 0.25% 25 November 2016	11,403,000,000			0
	Maturity 2017	134,420,181,450			
FR0120473253	BTAN 1.75% 25 February 2017	23,915,000,000			–
FR0010415331	OAT 3.75% 25 April 2017	32,586,000,000			0
FR0120746609	BTAN 1% 25 July 2017	20,593,000,000			–
FR0010235176	OATi 1% 25 July 2017	22,551,181,450 (1)	1.13351	19,895,000,000	0
FR0010517417	OAT 4.25% 25 October 2017	34,775,000,000			0
	Maturity 2018	141,653,114,910			
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	11,703,114,910 (1)	1.03963	11,257,000,000	0
FR0010670737	OAT 4.25% 25 October 2018	30,947,000,000			0
FR0011523257	OAT 1% 25 November 2018	22,265,000,000			0
	Maturity 2019	147,196,464,846			
FR0013101466	OAT 0% 25 février 2019	9,480,000,000			0
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	12,523,175,400 (1)	1.06671	11,740,000,000	0
FR0000570921	OAT 8.5% 25 October 2019	8,844,392,893			5,705,885,100
FR0010776161	OAT 3.75% 25 October 2019	35,410,000,000			0
FR0011993179	OAT 0.5% 25 November 2019	26,333,000,000			0
FR0000570954	OAT cap. 9.82% 31 December 2019	32,896,553 (2)		6,692,154	–

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

(2) Including coupons capitalised at 31 December 2015; not open to subscription

Medium- and long-term debt (maturing in 2020 and beyond) at 29 February 2016

ISIN Code	Bond	Outstanding (€)	Ind. Coeff.	Face value	Stripped (€)
Maturity 2020		140,733,153,500			
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	24,775,153,500	(1) 1.21985	20,310,000,000	0
FR0010949651	OAT 2.5% 25 October 2020	36,562,000,000			0
FR0012968337	OAT 0.25% 25 November 2020	20,395,000,000			0
Maturity 2021		83,882,260,240			
FR0010192997	OAT 3.75% 25 April 2021	37,837,000,000			0
FR0011347046	OATi 0.1% 25 July 2021	6,154,260,240	(1) 1.01022	6,092,000,000	0
FR0011059088	OAT 3.25% 25 October 2021	39,891,000,000			0
Maturity 2022		87,325,326,880			
FR0000571044	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	19,442,386,890	(1) 1.08441	17,929,000,000	0
FR0011337880	OAT 2.25% 25 October 2022	27,914,000,000			0
Maturity 2023		99,431,043,623			
FR0000571085	OAT 8.5% 25 April 2023	10,606,195,903			5,479,900,200
FR0011486067	OAT 1.75% 25 May 2023	32,358,000,000			0
FR0010585901	OATi 2.1% 25 July 2023	15,584,847,720	(1) 1.09884	14,183,000,000	0
FR0010466938	OAT 4.25% 25 October 2023	40,882,000,000			464,585,000
Maturity 2024		72,612,622,890			
FR0011619436	OAT 2.25% 25 May 2024	30,355,000,000			10,000,000
FR0011427848	OAT€i 0.25% 25 July 2024	12,022,622,890	(1) 1.01551	11,839,000,000	0
FR0011962398	OAT 1.75% 25 November 2024	30,235,000,000			46,000,000
Maturity 2025		85,600,857,448			
FR0012558310	OATi 0.1% 1 March 2025	4,994,929,330	(1) 1.00159	4,987,000,000	0
FR0012517027	OAT 0.5% 25 May 2025	31,065,000,000			0
FR0000571150	OAT 6% 25 October 2025	23,968,928,118			3,163,464,400
FR0012938116	OAT 1% 25 November 2025	25,572,000,000			0
Maturity 2026		35,814,000,000			
FR0010916924	OAT 3.5% 25 April 2026	35,814,000,000			135,313,000
Maturity 2027		48,112,481,950			
FR0011008705	OAT€i 1.85% 25 July 2027	13,083,481,950	(1) 1.06865	12,243,000,000	0
FR0011317783	OAT 2.75% 25 October 2027	35,029,000,000			0
Maturity 2028		22,534,786			
FR0000571226	OAT zero coupon 28 March 2028	22,534,786	(3)	46,232,603	-
Maturity 2029		39,701,092,455			
FR0000571218	OAT 5.5% 25 April 2029	29,091,880,458			3,532,109,100
FR0000186413	OATi 3.4% 25 July 2029	10,609,211,997	(1) 1.25269	8,469,144,000	0
Maturity 2030		37,411,677,580			
FR0011883966	OAT 2.5% 25 May 2030	31,023,000,000			0
FR0011982776	OAT€i 0.7% 25 July 2030	6,388,677,580	(1) 1.00246	6,373,000,000	0
Maturity 2031		9,644,000,000			
FR0012993103	OAT 1.5% 25 May 2031	9,644,000,000			0
Maturity 2032 and later		176,280,217,830			
FR0000188799	OAT€i 3.15% 25 July 2032	12,557,353,600	(1) 1.23596	10,160,000,000	0
FR0000187635	OAT 5.75% 25 October 2032	28,114,322,600			11,067,357,400
FR0010070060	OAT 4.75% 25 April 2035	25,004,000,000			5,231,167,000
FR0010371401	OAT 4% 25 October 2038	26,534,000,000			4,869,511,400
FR0010447367	OAT€i 1.8% 25 July 2040	12,212,541,630	(1) 1.14489	10,667,000,000	0
FR0010773192	OAT 4.5% 25 April 2041	27,307,000,000			7,350,039,000
FR0011461037	OAT 3.25% 25 May 2045	17,707,000,000			500,600,000
FR0010171975	OAT 4% 25 April 2055	14,926,000,000			7,302,588,000
FR0010870956	OAT 4% 25 April 2060	11,918,000,000			5,553,484,100

(1) face value x indexation coefficient (face value if coefficient < 1)
(3) Revised on 28 March 2015; not open to subscription

Most recent economic indicators

Industrial output, year-on-year	1.9%	Jan 2016
Household consumption*, year-on-year	2.6%	Feb 2016
Unemployment rate (ILO)	10.3%	Dec 2015
Consumer prices, year-on-year		
all items	-0.2%	Feb 2016
all items excluding tobacco	-0.2%	Feb 2016
Trade balance, fob-fob, sa (€bn)	-€3.7bn	Jan 2016
" "	-€3.7bn	Dec 2015
Current account balance, sa (€bn)	-€1.4bn	Jan 2016
" "	-€0.4bn	Dec 2015
10-year constant maturity rate (TEC10)	0.41%	31 Mar. 2016
3-month interest rate (Euribor)	-0.242%	29 Mar. 2016
EUR / USD	1.1385	31 Mar. 2016
EUR / JPY	127.90	31 Mar. 2016

* manufactured products

Sources: Insee, Minefi, Banque de France

Monthly government budget position

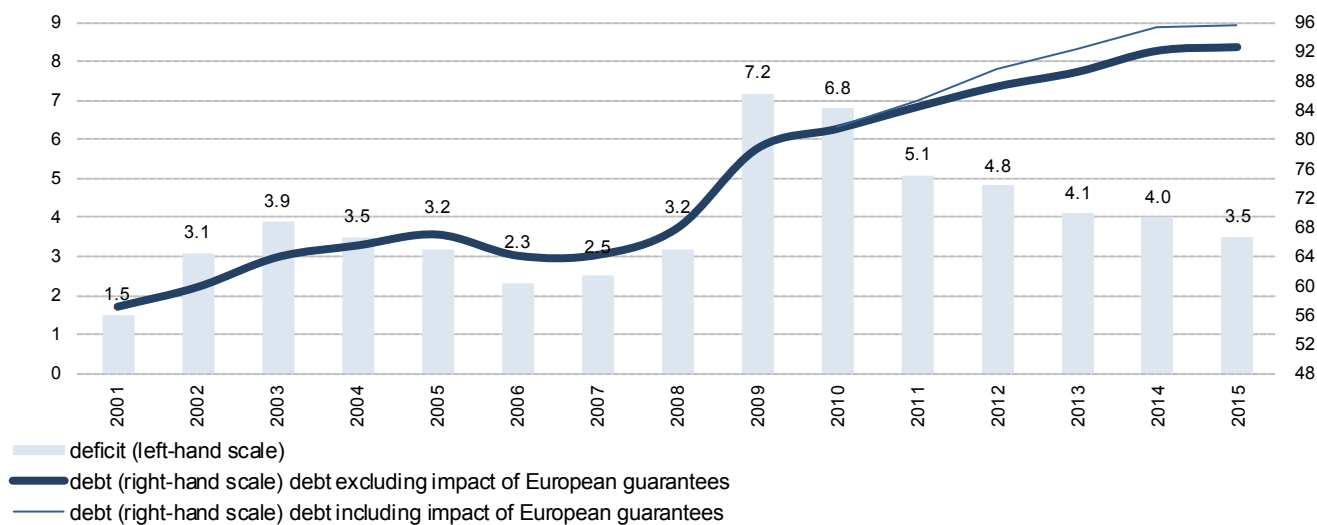
In € billion

	2014	2015	end of January level		
			2014	2015	2016
General budget balance	-85.71	-72.15	-9.40	-6.33	-5.16
revenue	291.95	299.66	23.24	24.76	26.40
expenditure	377.66	371.80	32.64	31.09	31.56
Balance of special Treasury accounts	0.16	1.62	-3.34	-3.07	-4.00
General budget outturn	-85.56	-70.52	-12.73	-9.40	-9.17

Source: Minefi

Public finances: deficit and debt

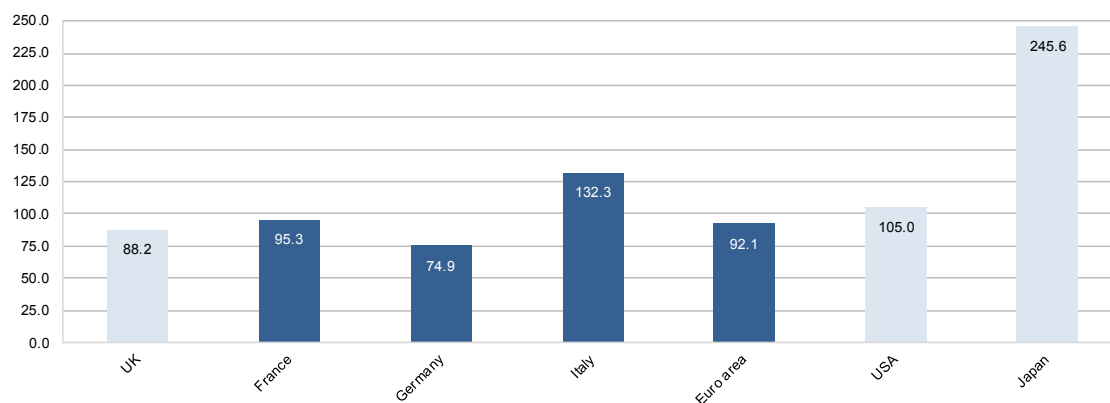
As % of GDP



Source: Eurostat, Insee

General government debt in 2014

As % of GDP



Sources: Eurostat (2016), FMI (2015), Insee (2016)

French economic indicators: timetable

April 2016		May 2016	
7	Balance of payments in February	4	Balance of payments in March
7	Foreign trade in February	4	Foreign trade in March
8	Industrial output in February	10	Industrial output in March
12	Eurozone economic outlook - Q2-2016	10	Industrial investments: April
13	Consumer prices: index for March	12	Consumer prices: index for April
14	Inflation (HICP): index for March	13	Payroll employment: provisional results Q1-2016
21	Industrial outlook: monthly survey for April	18	Inflation (HICP): index for April
26	Industrial outlook: quarterly survey in April	19	Job seekers Q1-2016 (ILO)
26	Job seekers in March	24	Industrial outlook: monthly survey for May
27	Household confidence survey: April survey	25	Job seekers in April
28	New building starts in March	27	Household confidence survey: May survey
29	Household consumption of manufactured products in March	27	Quarterly national accounts: first results Q1-2016
29	Net foreign exchange reserves in March	31	New building starts in April
29	Quarterly national accounts: first results Q1-2016	31	Net foreign exchange reserves in April
		31	Household consumption of manufactured products in April
		31	Industrial producer prices: April index

Sources: Insee, Eurostat

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