

Publication manager: Anthony Requin

Editor: Agence France Trésor

Available in Arabic, Chinese, English, French, Japanese, Russian and Spanish

n° 312 • May 2016

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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

## The Stability Programme yield assumptions are lower than the previous assumptions underlying the 2016 Draft Budget

Michel Sapin and Christian Eckert presented the 2016-2019 Stability Programme on 13 April 2016. This programme outlines France's fiscal strategy and sets the main objectives, which are to achieve economic recovery and continuing fiscal consolidation.

The Stability Programme came with new macroeconomic and fiscal forecasts. More specifically, the assumptions\* concerning the yields on French debt were updated.

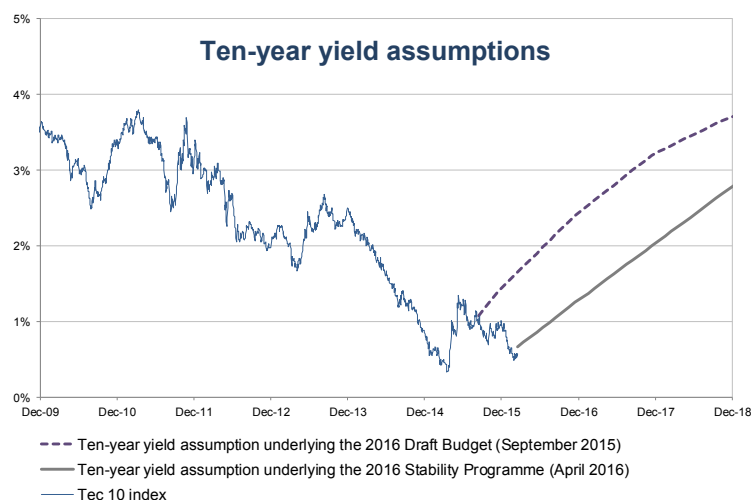
The macroeconomic assumptions underlying the 2016 Draft Budget have not changed. Following growth of 1.2% in 2015, the forecast underlying the fiscal adjustment path is still for 1.5% growth in 2016 and 2017. On the other hand, the further decrease in oil prices means that inflation will be virtually nil in 2016 at 0.1%, compared to 0.0% in 2015, and it will rise to 1.0% in 2017.

In 2015, France continued to enjoy very favourable borrowing terms as a result of continued investor confidence and the European Central Bank's accommodative monetary policy relying on quantitative easing (QE). Yields at issue for short-term securities (BTFs) averaged -0.19%. These yields ended the year under -0.30%, which is lower than the interest rate on the ECB deposit facility, which was cut in December. Similarly, annual yields at issue of securities with maturities of one year or more stood at an average of 0.63%, which is a historically low level.

The interest rate structure underlying the debt servicing cost forecast assumes that European monetary policy will be tightened starting in 2017. It is also consistent with a macroeconomic scenario calling for higher growth and inflation.

Short-term yields should stabilise at the level resulting from the cuts in central bank policy rates made in March. These yields should start rising in 2017, since the ECB's monetary policy is expected to tighten. They should then rise by 80 basis points per year as the improved macro-economic situation leads to a return to normal financing terms.

The assumption is that long-term yields will rise gradually in 2016: with a 10-year yield of 1.25% by the end of 2016, as growth gathers strength. They will then rise by 75 basis points per year, as macroeconomic conditions improve and, starting in the first quarter of 2017, as the moderating effect of the ECB's asset purchase policy ends.



Source : AFT, Banque de France

\* NB: the yield assumptions are not AFT targets or forecasts. Instead, they are intended to contribute to budget programming, which requires a multi-year forecast of debt service costs. These assumptions are consistent with the macroeconomic forecasts underlying France's budget programming and with the leading central banks' forward guidance. They do not necessarily reflect expectations derived from market prices (forward rates).

# April/May 2015 vs today: what's different?

Mohit Kumar - Global Head of Rates Research - Credit Agricole CIB

In some respects market conditions today remind us of April/May-15: ECB purchases are ongoing, bund yields have moved close to (once again) historical lows and there appears little inflationary pressure in the pipeline. Yet, last year Bund yields went from a low of around 5bp to close to 1%, which caught the market by surprise.

The sharp move last year was caused by two key factors: valuations and positioning, both of which were extreme. We would argue that on both these measures we are far less extreme than last year, which makes a repeat of last year's price action unlikely.

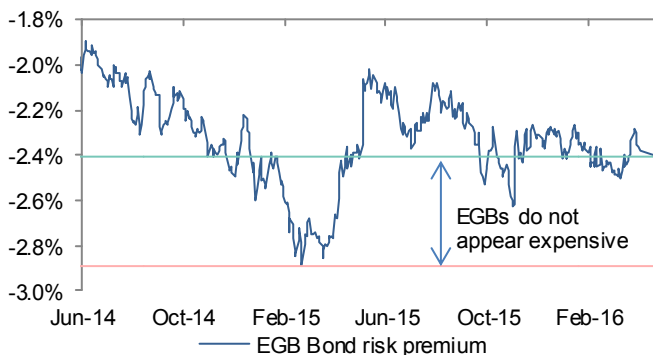
### Valuations: not as extreme as last year

Our bond valuation framework is based on using the **bond risk premium**. Bond yields should be a function of expected growth, expected inflation and a risk premium term. Thus bond risk premium can be defined as:

$$\text{Bond risk premium} = 10Y \text{ rates} - \text{Expectations [long term growth]} - \text{Expectations [long term inflation]}$$

We use the ECB survey of professional forecasters for long term growth estimates and the inflation swaps market for inflation expectations. As the chart below shows, even though bond yields are only marginally higher than the April/May-15, the bond risk premium is close to 60bp higher given lower inflation and growth expectations. On the risk premium basis, EGBs are close to the middle of range observed over the last two years.

**Fig 1) Bond risk premium suggests that EGBs are not as expensive as last year**



Source : Bloomberg

### Positioning: neutral now

The second factor that drove the price action last year was heavy positioning from investors – both real money (on macro fundamentals) and CTAs (given the very strong trend).

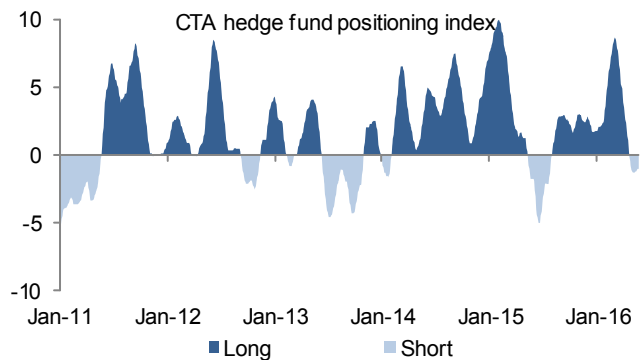
Our proprietary indices which tend to track the positioning of CTA investors show that while in April/May last year, CTAs were record long, now they are close to neutral. These trend-following investors use moving averages to capture momentum and the size of their positions depends on three factors:

- **Strength of the signal**, measured as the deviation between the moving average and the current yield (or price) level;
- **Durability of the signal**, measured as the number of days the yield has been below the moving average; and
- **Volatility**, with positions reduced if the yield (or price) is too volatile and vice versa.

Using the above factors, we reconstruct a proxy position for the trend following hedge funds. As the chart below shows, the long April-15 positioning contrasts with the current one, already close to neutral.

Thus given the close to fair valuations and neutral positioning, we do not view a repeat of last year's EGB sell-off as likely. Our base case scenario is for core and semi core rates to remain in a range bound over the near term.

**Fig 2) Positioning currently close to neutral**



Source: Bloomberg, Crédit Agricole CIB

**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.



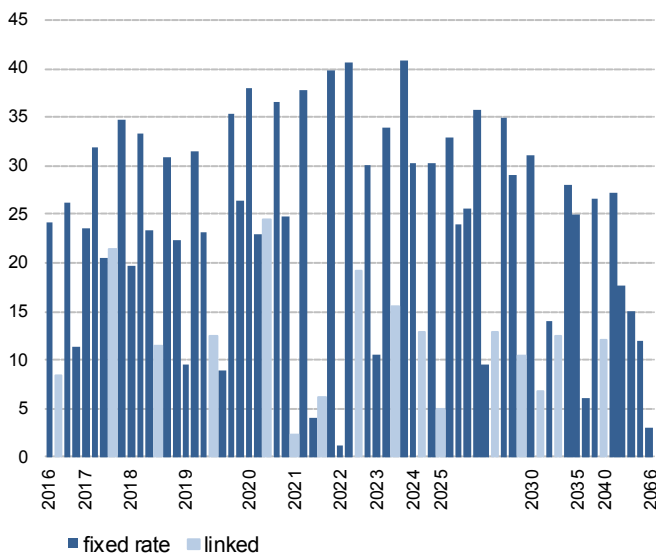
Indicative auction schedule

		Short-term				Medium-term	Long-term	Index-linked
June 2016	auction date	6	13	20	27	16	2	16
	settlement date	8	15	22	29	20	6	20
July 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 30 April 2016

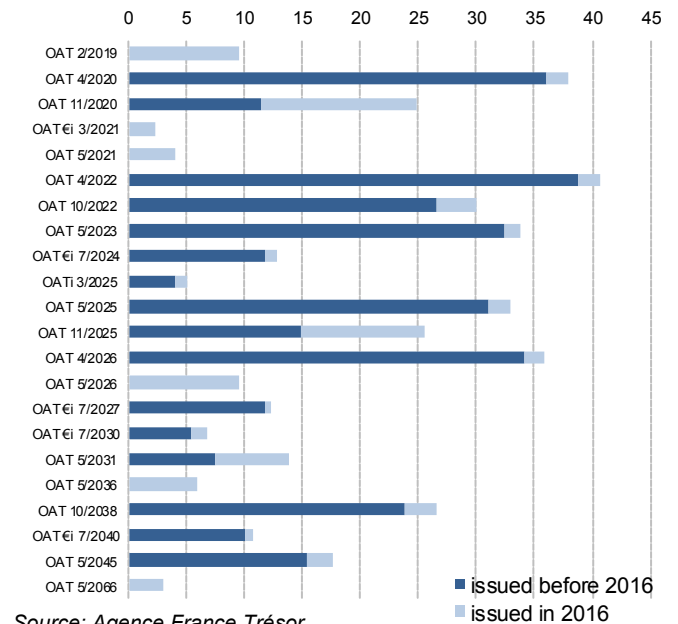
Nominal value of each line, in € billion



Source: Agence France Trésor

Medium- and long-term: securities issued during the year and total issuance at 30 April 2016

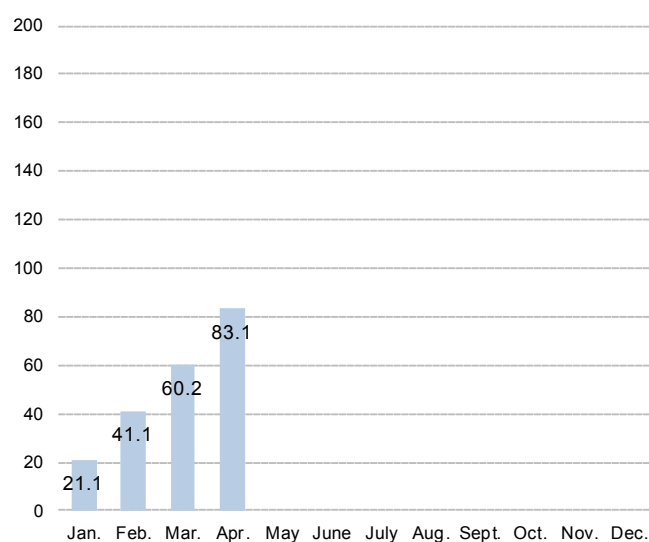
In € billion



Source: Agence France Trésor

Issuance net of buybacks at 30 April 2016

In € billion



Source: Agence France Trésor

Medium- and long-term: provisional maturity schedule at 30 April 2016

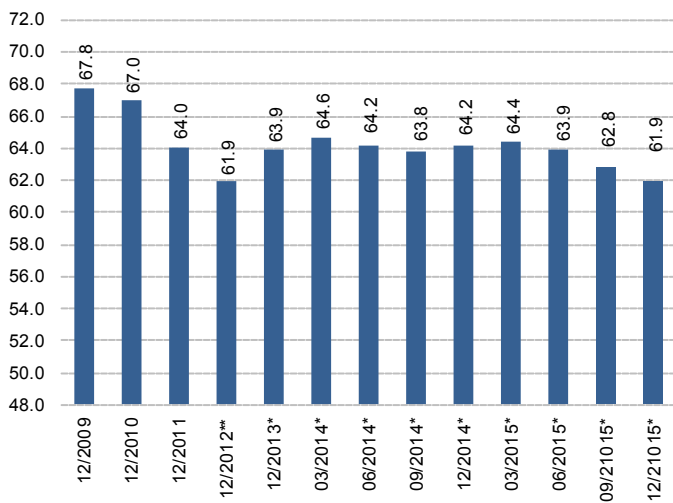
In € billion

Month	Coupon	Redemption
May-16	3.7	
Jun-16		
Jul-16	3.7	32.2
Aug-16		
Sep-16		
Oct-16	16.0	26.2
Nov-16	1.2	11.4
Dec-16		
Jan-17		
Feb-17	0.4	23.4
Mar-17	0.0	
Apr-17	15.2	31.3

Source: Agence France Trésor

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

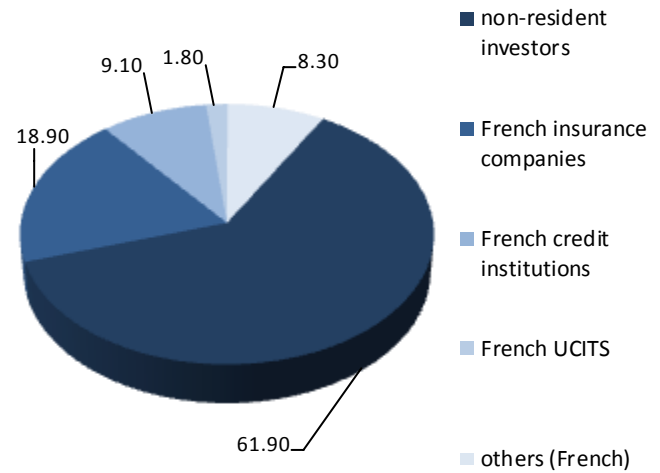
As a % of negotiable debt outstanding expressed in market value



(\* ) 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 30 April 2016

In euros

Total medium- and long-term debt	1,450,049,164,229
Total stripping activity	61,161,289,100
Average maturity	8 years and 15 days
Total short-term debt	154,814,000,000
Average maturity	117 days
<b>TOTAL OUTSTANDING</b>	<b>1,604,863,164,229</b>
<b>Average maturity</b>	<b>7 years and 108 days</b>

Source: Agence France Trésor

### Negotiable government debt and interest rate swaps at 30 April 2016

In € billion

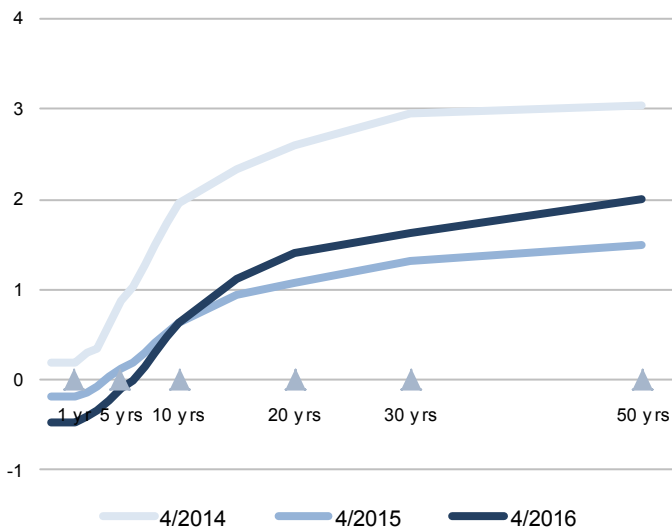
	End 2013	End 2014	End 2015	End March 2016	End April 2016
<b>Negotiable government debt outstanding</b>	<b>1,457</b>	<b>1,528</b>	<b>1,576</b>	<b>1,611</b>	<b>1,605</b>
of which index-linked securities	174	189	190	192	192
Medium- and long-term	1,283	1,352	1,424	1,457	1,450
short-term	174	175	153	155	155
<b>Swaps outstanding</b>	<b>7</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>
<b>Average maturity of the negotiable debt</b>					
before swaps	7 years 5 days	6 years 363 days	7 years 47 days	7 years 33 days	7 years 108 days
after swaps	7 years 2 days	6 years 362 days	7 years 47 days	7 years 33 days	7 years 108 days

Source: Agence France Trésor



Yield curve for French government securities

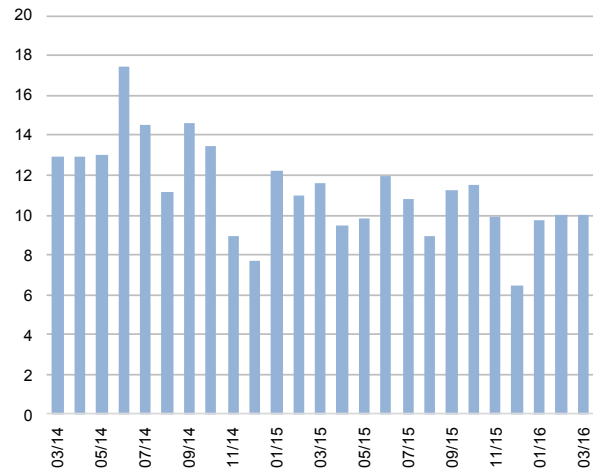
End-of-month value, %



Source: Bloomberg

Average daily volume of medium- and long-term transactions

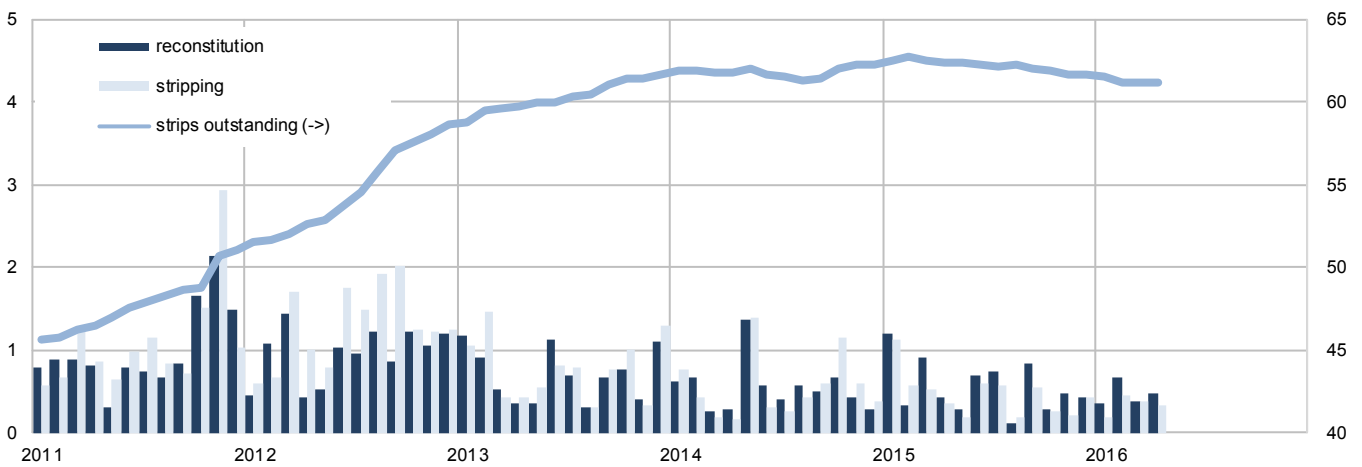
In € billion



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

Total stripping and reconstitution

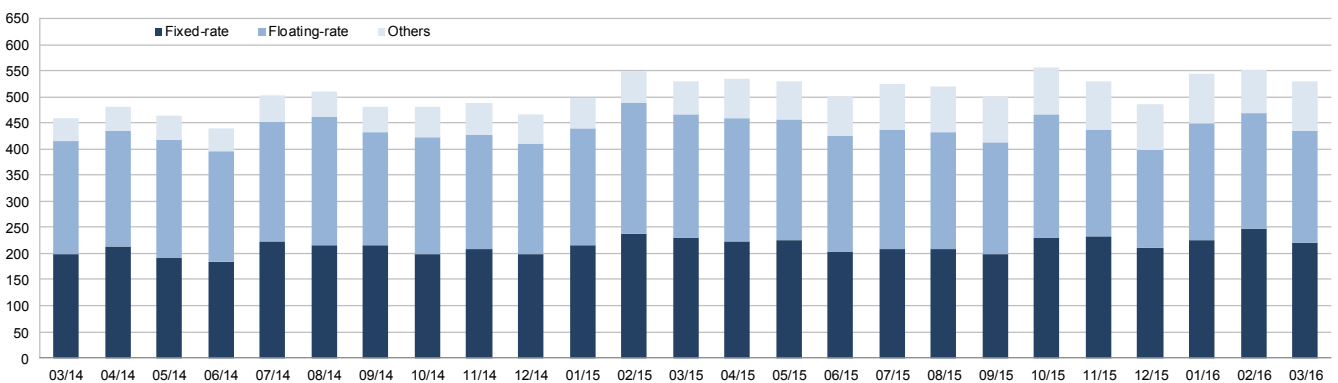
In € billion



Source: Euroclear

Primary dealers, repo outstanding at end of month

In € billion



Source: reporting by primary dealers in government securities

### Short-term debt at 30 April 2016

	Maturity	Outstanding (€)
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	01 June 2016	7,601,000,000
BTF	08 June 2016	5,454,000,000
BTF	15 June 2016	7,092,000,000
BTF	22 June 2016	7,262,000,000
BTF	29 June 2016	7,576,000,000
BTF	06 July 2016	6,366,000,000
BTF	13 July 2016	7,290,000,000
BTF	20 July 2016	5,332,000,000
BTF	27 July 2016	3,594,000,000
BTF	03 August 2016	6,538,000,000
BTF	18 August 2016	5,862,000,000
BTF	31 August 2016	6,504,000,000
BTF	14 September 2016	5,555,000,000
BTF	28 September 2016	3,150,000,000
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	6,746,000,000
BTF	01 March 2017	6,366,000,000
BTF	29 March 2017	6,135,000,000

### Medium- and long-term debt (maturing 2016–2019) at 30 April 2016

ISIN Code	Bond	Outstanding (€)	Ind. Coeff.	Face value	Stripped (€)
	<b>Maturity 2016</b>	<b>70,178,122,770</b>			
FR0119580050	BTAN 2.5% 25 July 2016	24,221,500,000			–
FR0119105791	BTANi 0.45% 25 July 2016	8,349,622,770 (1)	1.04253	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
	<b>Maturity 2017</b>	<b>132,282,367,300</b>			
FR0120473253	BTAN 1.75% 25 February 2017	23,615,000,000			–
FR0010415331	OAT 3.75% 25 April 2017	31,811,000,000			0
FR0120746609	BTAN 1% 25 July 2017	20,593,000,000			–
FR0010235176	OATi 1% 25 July 2017	21,488,367,300 (1)	1.12534	19,095,000,000	0
FR0010517417	OAT 4.25% 25 October 2017	34,775,000,000			0
	<b>Maturity 2018</b>	<b>141,062,092,890</b>			
FR0012634558	OAT 0% 25 February 2018	19,622,000,000			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	11,547,092,890 (1)	1.02577	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
	<b>Maturity 2019</b>	<b>147,106,184,246</b>			
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	12,432,894,800 (1)	1.05902	11,740,000,000	0
FR0000570921	OAT 8.5% 25 October 2019	8,844,392,893			5,710,385,100
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 30 April 2016

ISIN Code	Bond	Outstanding (€)	Ind. Coeff.	Face value	Stripped (€)
<b>Maturity 2020</b>		<b>146,684,912,900</b>			
FR0010854182	OAT 3.5% 25 April 2020	37,927,000,000			0
FR0012557957	OAT 0% 25 May 2020	22,969,000,000			0
FR0010050559	OAT€i 2.25% 25 July 2020	24,444,912,900	(1) 1.20359	20,310,000,000	0
FR0010949651	OAT 2.5% 25 October 2020	36,562,000,000			0
FR0012968337	OAT 0.25% 25 November 2020	24,782,000,000			0
<b>Maturity 2021</b>		<b>90,222,910,480</b>			
FR0013140035	OAT€i 0.1% 1 March 2021	2,290,000,000	(1) 0.98667	2,290,000,000	0
FR0010192997	OAT 3.75% 25 April 2021	37,837,000,000			0
FR0013157096	OAT 0% 25 May 2021	4,095,000,000			0
FR0011347046	OATi 0.1% 25 July 2021	6,109,910,480	(1) 1.00294	6,092,000,000	0
FR0011059088	OAT 3.25% 25 October 2021	39,891,000,000			0
<b>Maturity 2022</b>		<b>91,094,073,540</b>			
FR0000571044	OAT 8.25% 25 April 2022	1,243,939,990			617,468,400
FR0011196856	OAT 3% 25 April 2022	40,615,000,000			0
FR0010899765	OAT€i 1.1% 25 July 2022	19,183,133,550	(1) 1.06995	17,929,000,000	0
FR0011337880	OAT 2.25% 25 October 2022	30,052,000,000			0
<b>Maturity 2023</b>		<b>100,827,856,093</b>			
FR0000571085	OAT 8.5% 25 April 2023	10,606,195,903			5,488,400,200
FR0011486067	OAT 1.75% 25 May 2023	33,867,000,000			0
FR0010585901	OATi 2.1% 25 July 2023	15,472,660,190	(1) 1.09093	14,183,000,000	0
FR0010466938	OAT 4.25% 25 October 2023	40,882,000,000			459,585,000
<b>Maturity 2024</b>		<b>73,504,262,440</b>			
FR0011619436	OAT 2.25% 25 May 2024	30,355,000,000			10,000,000
FR0011427848	OAT€i 0.25% 25 July 2024	12,914,262,440	(1) 1.00196	12,889,000,000	0
FR0011962398	OAT 1.75% 25 November 2024	30,235,000,000			46,000,000
<b>Maturity 2025</b>		<b>87,397,928,118</b>			
FR0012558310	OATi 0.1% 1 March 2025	4,987,000,000	(1) 0.99438	4,987,000,000	0
FR0012517027	OAT 0.5% 25 May 2025	32,870,000,000			0
FR0000571150	OAT 6% 25 October 2025	23,968,928,118			3,143,464,400
FR0012938116	OAT 1% 25 November 2025	25,572,000,000			0
<b>Maturity 2026</b>		<b>45,401,000,000</b>			
FR0010916924	OAT 3.5% 25 April 2026	35,814,000,000			139,313,000
FR0013131877	OAT 0.5% 25 May 2026	9,587,000,000			0
<b>Maturity 2027</b>		<b>47,938,019,200</b>			
FR0011008705	OAT€i 1.85% 25 July 2027	12,909,019,200	(1) 1.05440	12,243,000,000	0
FR0011317783	OAT 2.75% 25 October 2027	35,029,000,000			0
<b>Maturity 2028</b>		<b>23,815,557</b>			
FR0000571226	OAT zero coupon 28 March 2028	23,815,557	(3)	46,232,603	-
<b>Maturity 2029</b>		<b>39,624,616,085</b>			
FR0000571218	OAT 5.5% 25 April 2029	29,091,880,458			3,393,609,100
FR0000186413	OATi 3.4% 25 July 2029	10,532,735,627	(1) 1.24366	8,469,144,000	0
<b>Maturity 2030</b>		<b>37,826,000,000</b>			
FR0011883966	OAT 2.5% 25 May 2030	31,023,000,000			0
FR0011982776	OAT€i 0.7% 25 July 2030	6,803,000,000	(1) 0.98909	6,803,000,000	0
<b>Maturity 2031</b>		<b>13,925,000,000</b>			
FR0012993103	OAT 1.5% 25 May 2031	13,925,000,000			0
<b>Maturity 2032 and later</b>		<b>184,950,002,610</b>			
FR0000188799	OAT€i 3.15% 25 July 2032	12,389,916,800	(1) 1.21948	10,160,000,000	0
FR0000187635	OAT 5.75% 25 October 2032	28,114,322,600			11,061,657,400
FR0010070060	OAT 4.75% 25 April 2035	25,004,000,000			5,130,667,000
FR0013154044	OAT 1.25% 25 May 2036	6,000,000,000			0
FR0010371401	OAT 4% 25 October 2038	26,534,000,000			4,922,011,400
FR0010447367	OAT€i 1.8% 25 July 2040	12,049,763,210	(1) 1.12963	10,667,000,000	0
FR0010773192	OAT 4.5% 25 April 2041	27,307,000,000			7,353,039,000
FR0011461037	OAT 3.25% 25 May 2045	17,707,000,000			500,600,000
FR0010171975	OAT 4% 25 April 2055	14,926,000,000			7,217,088,000
FR0010870956	OAT 4% 25 April 2060	11,918,000,000			5,746,484,100
FR0013154028	OAT 1.75% 25 May 2066	3,000,000,000			0

(1) face value x indexation coefficient (face value if coefficient < 1)  
(3) Revised on 28 March 2016; not open to subscription

### Most recent economic indicators

Industrial output, year-on-year	0.5%	Mar. 2016
Household consumption*, year-on-year	2.2%	Apr. 2016
Unemployment rate (ILO)	10.2%	Mar. 2016
Consumer prices, year-on-year		
all items	-0.2%	Apr. 2016
all items excluding tobacco	-0.2%	Apr. 2016
Trade balance, fob-fob, sa (€bn)	-€4.4bn	Mar. 2016
" "	-€5.1bn	Feb. 2016
Current account balance, sa (€bn)	-€1.8bn	Mar. 2016
" "	-€4.1bn	Feb. 2016
10-year constant maturity rate (TEC10)	0.50%	30 May. 2016
3-month interest rate (Euribor)	-0.26%	27 May. 2016
EUR / USD	1.1139	30 May. 2016
EUR / JPY	123.85	30 May. 2016

\* manufactured products

Sources: Insee, Minefi, Banque de France

### Monthly government budget position

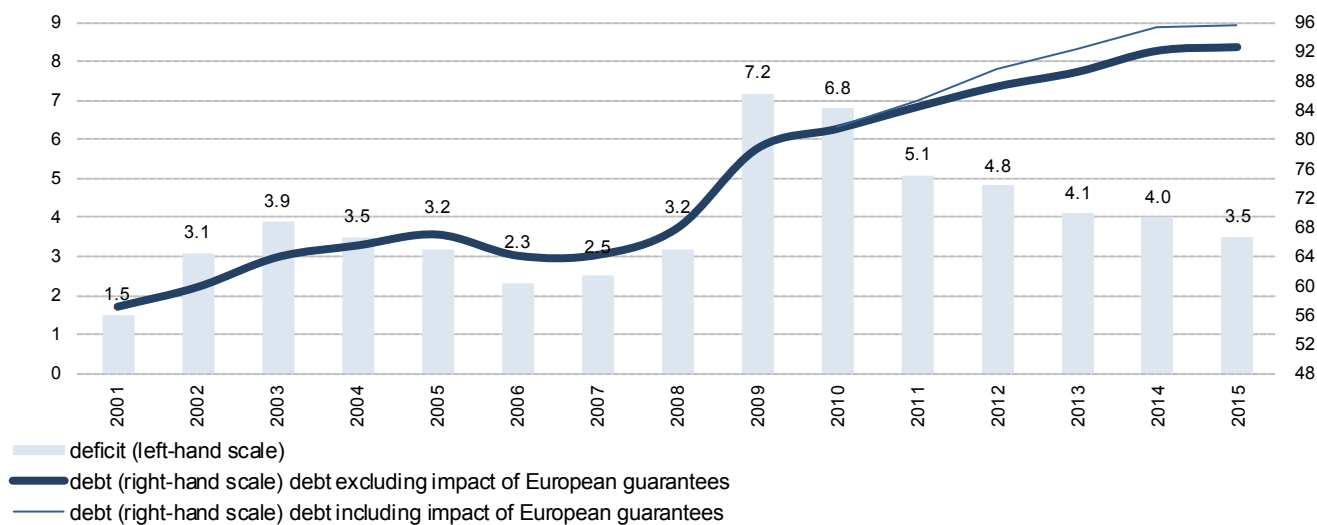
In € billion

	2014	2015	end of March level		
			2014	2015	2016
General budget balance	-85.71	-72.15	-14.99	-14.28	-9.01
revenue	291.95	299.66	73.70	74.25	76.69
expenditure	377.66	371.80	88.70	88.53	85.70
Balance of special Treasury accounts	0.16	1.62	-13.03	-12.01	-18.48
<b>General budget outturn</b>	<b>-85.56</b>	<b>-70.52</b>	<b>-28.02</b>	<b>-26.29</b>	<b>-27.49</b>

Source: Minefi

### Public finances: deficit and debt

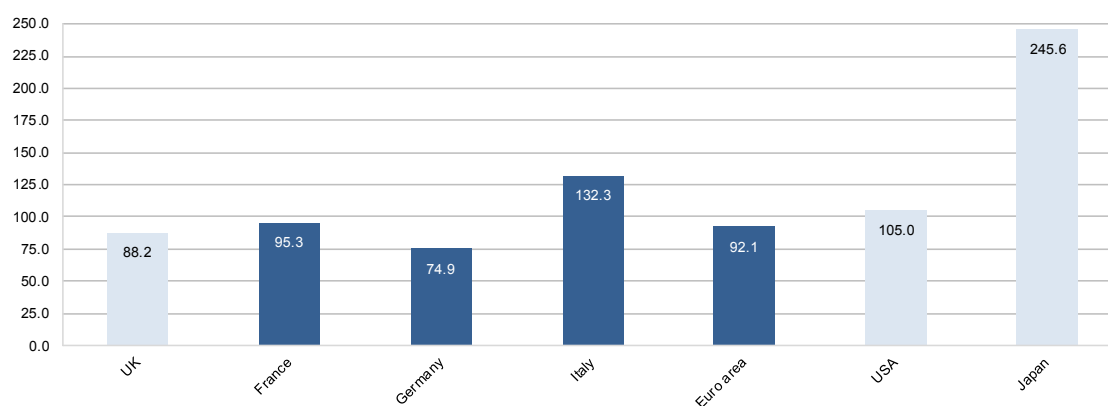
As % of GDP



Source: Eurostat, Insee

### General government debt in 2014

As % of GDP



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



## French economic indicators: timetable

June 2016	July 2016
 Foreign trade in April	 Foreign trade in May
 Balance of payments in April	 Balance of payments in May
 Payroll employment: final results Q1-2016	 Industrial output in May
 Industrial output in April	 Eurozone economic outlook - Q3-2016
 Consumer prices: index for May	 Consumer prices: index for June
 Inflation (HICP): May index	 Inflation (HICP): June index
 Industrial trends: monthly survey for June	 Industrial trends: monthly survey for July
 Job seekers in May	 Industrial trends: quarterly survey for July
 Quarterly national accounts: final results Q1-2016	 Job seekers in June
 Household confidence survey: June survey	 Household confidence survey: July survey
 New building starts in May	 Industrial producer prices: June index
 Industrial producer prices: May index	 New building starts in June
 General government debt Q1-2016	 Household consumption of manufactured goods in June
 Household consumption of manufactured goods in May	 Net foreign exchange reserves in June
 Net foreign exchange reserves in May	

Sources: Insee, Eurostat

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