

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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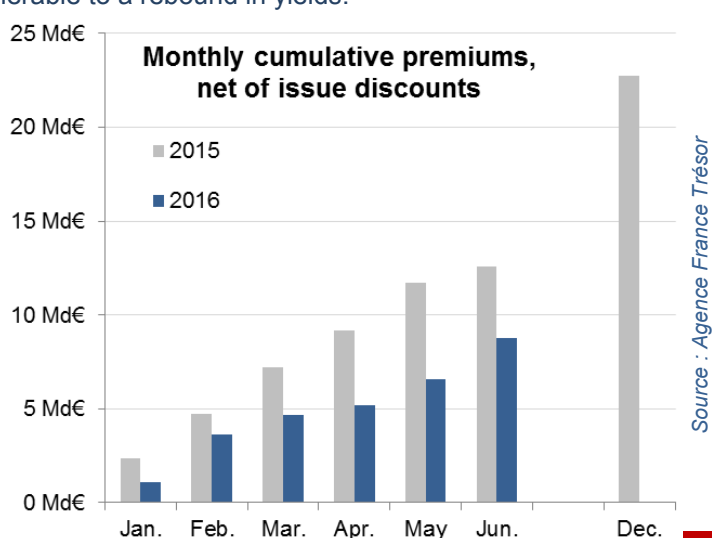
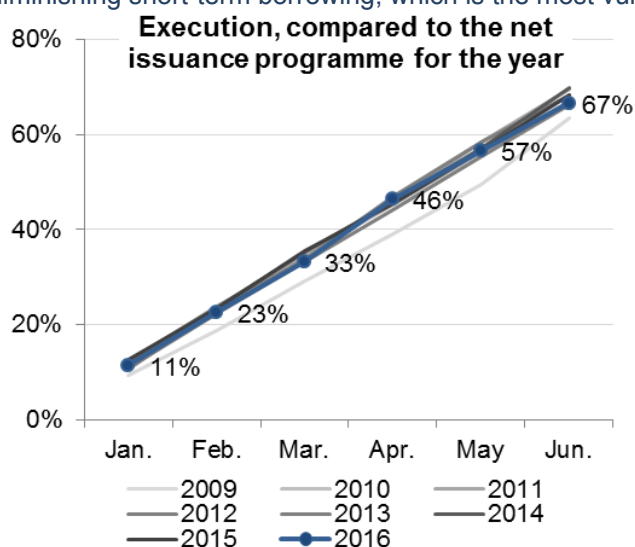
Agence France Trésor is tasked with managing the government debt and cash positions under the most secure conditions in the interest of the taxpayer.

News at Agence France Trésor

As yields continued to fall, the government's borrowing programme generated further issue premiums in 2016

At the end of June, the year's issuance of medium-term and long-term debt stood at €124.4bn. This represents 66.5% of the annual target of €187bn set in the 2016 Budget Act. The execution rate is similar to those achieved at the same date in previous years. The average execution rate achieved at this point in the years from 2010 to 2015 was 68.2%. The pattern over the course of the year is shaped by AFT's calendar of medium-term and long-term debt issuance. Each month in the first half of the year features two auctions of medium-term and long-term debt, whereas only one such auction is held at most in August and December and it is optional, depending on market demand. Consequently, more debt is usually issued in the first half of the year. On the other hand, redemptions are greater in the second half of the year than in the first half. This means that in 2016, as in every year, **the increase in central government debt was virtually completed by the end of June.**

As was the case in 2015, borrowing in 2016 inevitably generated issue premiums, which stood at €9.0bn, minus €0.3bn in discounts at the end of June. The premiums are the result of a further steady drop in medium- and long-term yields during the first half of 2016. Even though the difference between the yields at issue and the coupon rates of the available issues was smaller than it had been in 2015, it was still quite substantial in the first half of 2016: the effective yield was 0.44% (excluding index-linked securities) on bonds with coupon rates averaging 1.13%. This follows the effective yield of 0.63% and average coupon rate of 1.73% in 2015. Issue premiums are the amounts the government receives in excess of the par values that will be repaid to investors over the life of the bonds. The premium is paid because the coupon payments are higher than the effective yield. In both 2016 and 2015, the additional funds raised will contribute to extending the average life of debt, all else being equal, by diminishing short-term borrowing, which is the most vulnerable to a rebound in yields.



Source : Agence France Trésor

EUR rates in H2: short-end exuberances vs long-end uncertainties

Adam Kurpiel, Head of interest rate derivatives strategy, Société Générale CIB

Whatever form it eventually takes, Brexit has already generated a negative uncertainty shock for the global economy. SG economists estimate that Brexit would remove 0.1pp of euro area GDP per annum by 2020. The closing of the output gap will likely slow, meaning that core inflation would remain muted in the medium term, between 1.0% and 1.3% in 2016 and 2017, we estimate. Central banks are expected to remain more accommodative for longer. Some, like the BoE, have room for easing. For others, like the ECB, creative thinking is in order. With policy effectiveness very much in doubt, bond yields can go lower still. The recent risk-on mood on financial markets has helped improve sentiment that Brexit does not call for urgent action. This is an unstable equilibrium. We expect the 10y Bund yield to yet reach new lows and remain below zero until year-end.

After the BoE and the IMF, the ECB expressed the need for more information to better assess the impact of Brexit uncertainty on macroeconomic conditions. The very moderate upward revision of inflation and growth forecasts by the ECB in June was a sign of prudence. There is room for a downward revision to growth numbers, but inflation forecasts are unlikely to be materially lowered. So, market and economic developments through September and maybe beyond will play a significant role in the ECB's decision to act or not.

Market rate cut expectations have moderated since post 23 June paroxysm, but forward OIS are still pricing 15bp rate cuts by late 2017. There is room for a further reduction of rate cut hopes. Because of their negative side effects, ECB rate cuts in excess of 10bp seem unlikely to us even in the case of a major deflationary shock. A decrease in medium-term

inflation expectations becomes problematic for the ECB if it drives real rates higher, like in late 2014 / early 2015, or in August 2015. Similar dynamics is unlikely in the current context of lower key policy rates and stickier near-term inflation expectations, linked to upcoming base effects. Headline HICP inflation is set to increase significantly after the summer, we estimate, averaging 0.4% in 2016 and 1.5% in 2017.

An expansion of the ECB's asset purchase programme beyond March 2017 is the most likely easing step. For this, before the end of the year at the latest, the ECB will need to change the rules of PSPP to deal with the prospects of reaching its purchase limits. Related expectations remain the main driver of the long-end of the EUR curve and swap spreads term structure.

Our projections indicate that NCBs could run out of bonds in Germany, Finland, the Netherlands and Portugal before the presumed end of the programme. What are the ECB options? The most likely option is an increase of the issue limit for non-CAC bonds, from 33% to 50%. Another is to buy selectively below the deposit facility rate. Such decisions would reduce the scarcity premium in long-dated Bunds, justifying recent steepening at the EUR 10-30y curve and narrowing of long-maturity swap spreads relative to short and intermediate maturities. Another option is some deviation from capital key allocation of purchases. Hopes of a move closer to debt-outstanding allocation have contributed to the recent narrowing of peripheral spreads. In our view, political hurdles for such a decision make the risk of disappointment significant.

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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

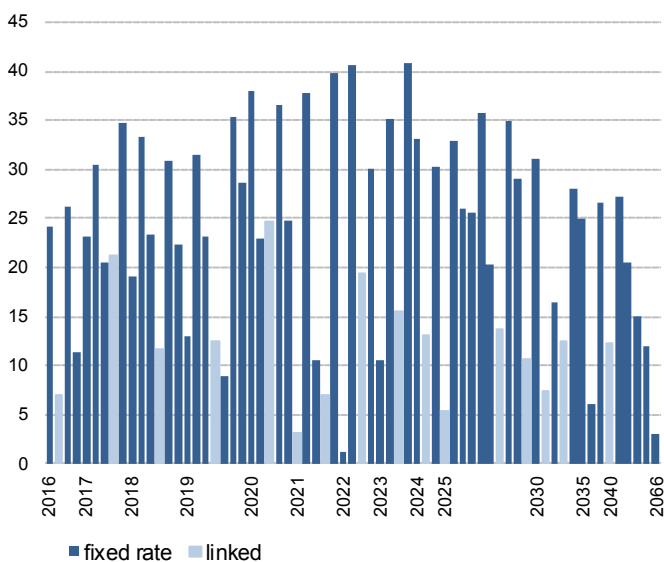
		Short-term					Medium-term	Long-term	Index-linked
August 2016	auction date	1	8	16	22	29	4	4	4
	settlement date	3	10	18	24	31	8	8	8
September 2016	auction date	5	12	19	26	//	15	1	15
	settlement date	7	14	21	28	//	19	5	19

optional auctions

Source: Agence France Trésor

Medium- and long-term negotiable government debt at 30 June 2016

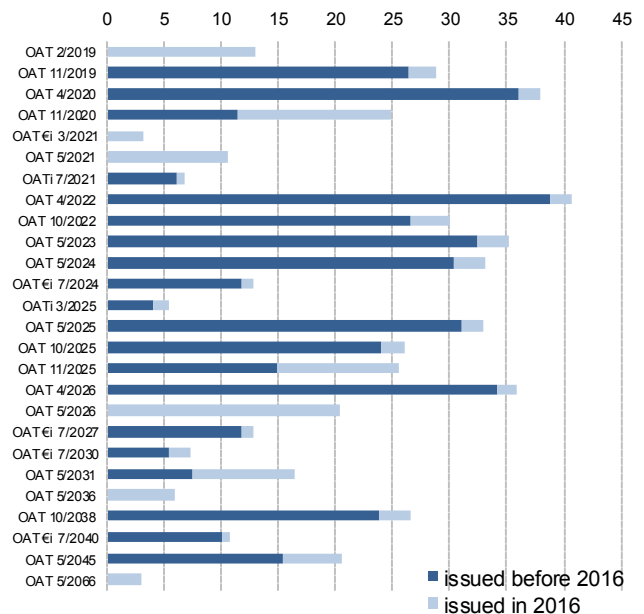
Nominal value of each line, in € billion



Source: Agence France Trésor

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

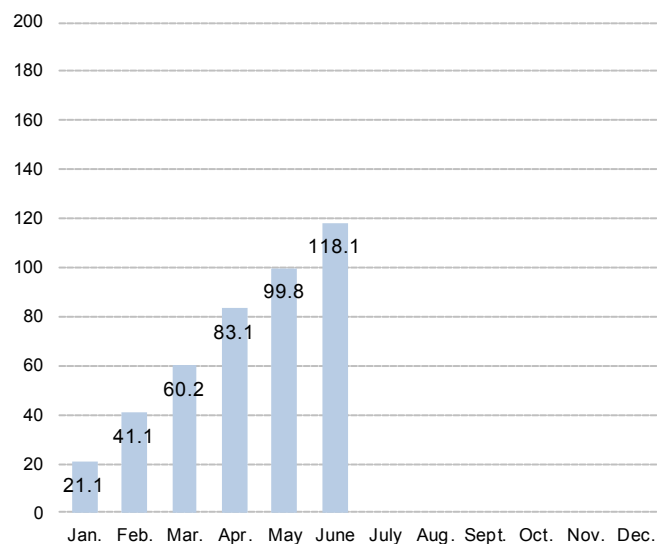
In € billion



Source: Agence France Trésor

Issuance net of buybacks at 30 June 2016

In € billion



Source: Agence France Trésor

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

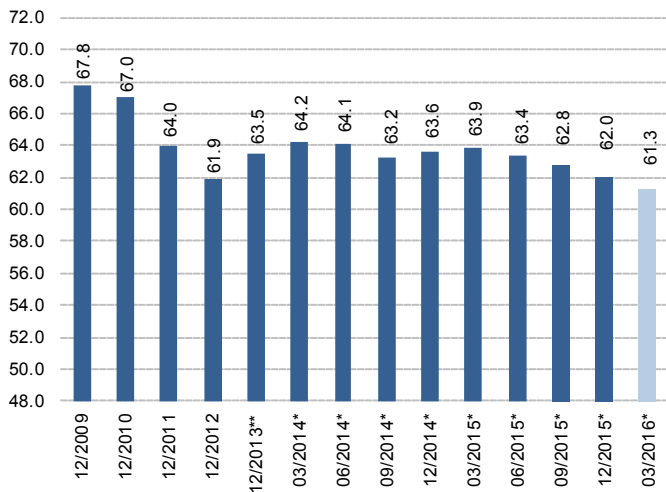
In € billion

Month	Coupon	Redemption
Jul-16	3.7	31.0
Aug-16		
Sep-16		
Oct-16	16.0	26.2
Nov-16	1.2	11.4
Dec-16		
Jan-17		
Feb-17	0.4	23.1
Mar-17	0.0	
Apr-17	15.1	30.5
May-17	3.9	
Jun-17		

Source: Agence France Trésor

Non-resident holders of negotiable government debt in first quarter of 2016

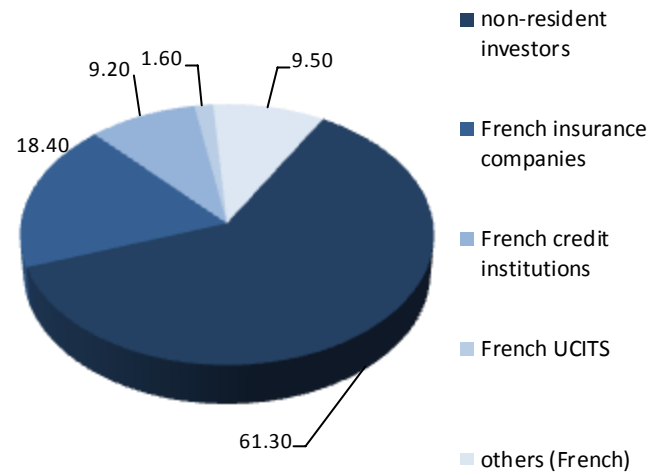
As a % of negotiable debt outstanding expressed in market value



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

Negotiable government debt by group of holders in first quarter of 2016

Structure in % expressed in market value



Source: Banque de France

Negotiable government debt at 30 June 2016

In euros

Total medium- and long-term debt	1,485,648,173,749
Total stripping activity	61,075,589,100
Average maturity	7 years and 340 days
Total short-term debt	152,918,000,000
Average maturity	114 days
TOTAL OUTSTANDING	1,638,566,173,749
Average maturity	7 years and 81 days

Source: Agence France Trésor

Negotiable government debt and interest rate swaps at 30 June 2016

In € billion

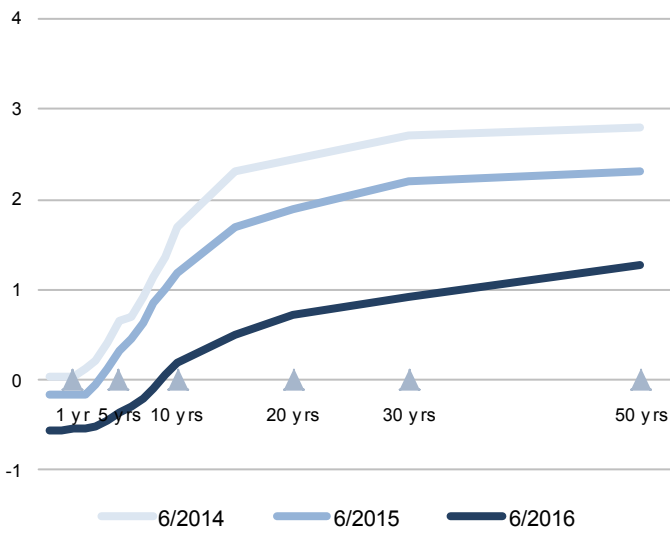
	End 2013	End 2014	End 2015	End May 2016	End June 2016
Negotiable government debt outstanding	1,457	1,528	1,576	1,625	1,639
of which index-linked securities	174	189	190	197	197
Medium- and long-term	1,283	1,352	1,424	1,469	1,486
short-term	174	175	153	156	153
Swaps outstanding	7	6	6	6	6
Average maturity of the negotiable debt					
before swaps	7 years	6 years	7 years	7 years	7 years
after swaps	5 days	363 days	47 days	85 days	81 days
before swaps	7 years	6 years	7 years	7 years	7 years
after swaps	2 days	362 days	47 days	85 days	81 days

Source: Agence France Trésor



Yield curve for French government securities

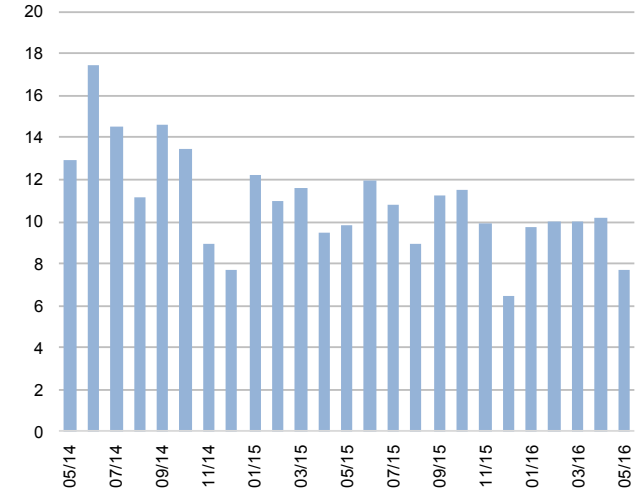
End-of-month value, %



Source: Bloomberg

Average daily volume of medium- and long-term transactions

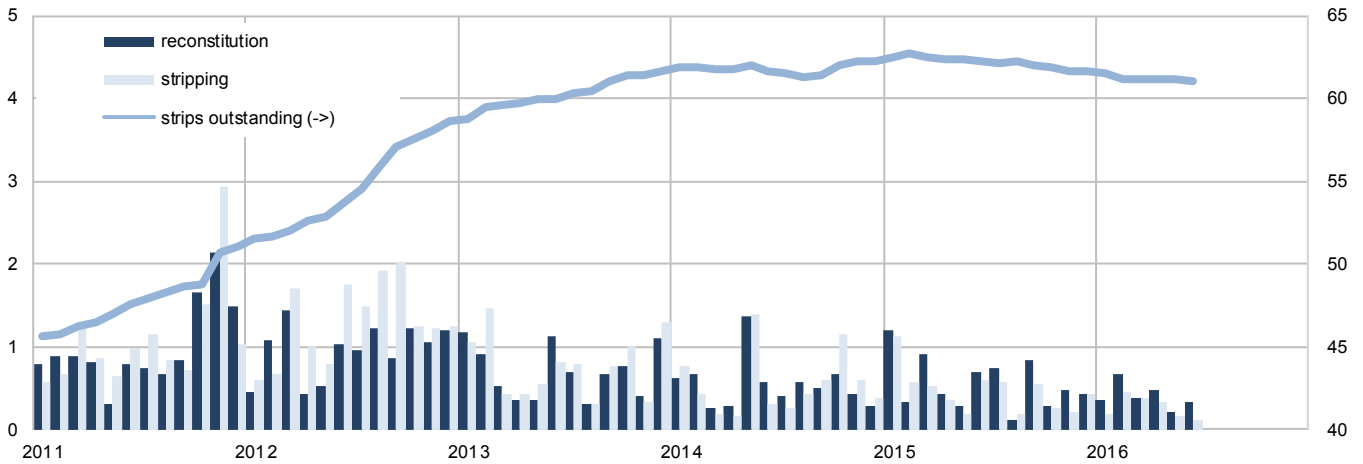
In € billion



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

Total stripping and reconstitution

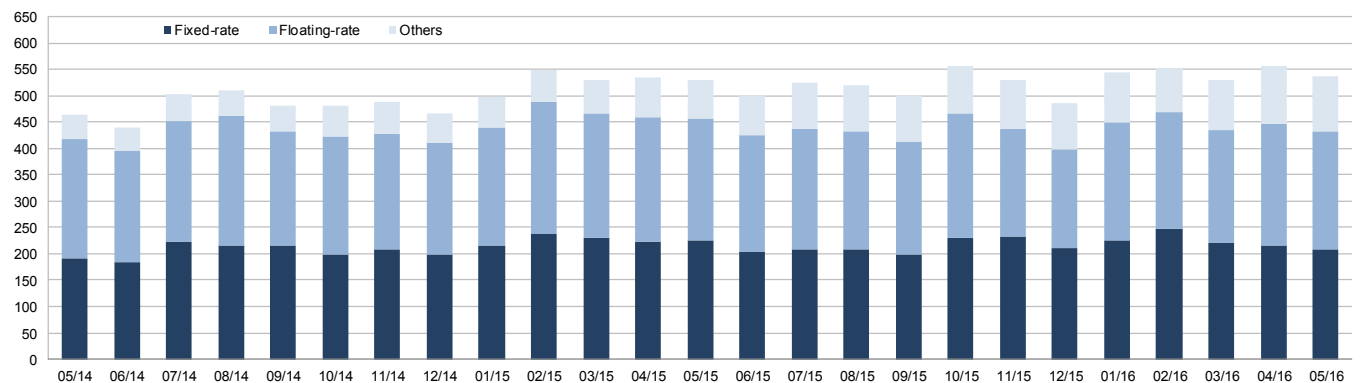
In € billion



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 June 2016

	Maturity	Outstanding (€)
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	7,462,000,000
BTF	03 August 2016	6,538,000,000
BTF	10 August 2016	7,743,000,000
BTF	18 August 2016	5,862,000,000
BTF	24 August 2016	6,895,000,000
BTF	31 August 2016	6,504,000,000
BTF	07 September 2016	7,040,000,000
BTF	14 September 2016	5,555,000,000
BTF	21 September 2016	7,940,000,000
BTF	28 September 2016	5,828,000,000
BTF	12 October 2016	8,049,000,000
BTF	26 October 2016	5,209,000,000
BTF	09 November 2016	7,161,000,000
BTF	23 November 2016	4,906,000,000
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
BTF	26 April 2017	5,030,000,000
BTF	24 May 2017	4,972,000,000
BTF	21 June 2017	1,309,000,000

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

ISIN Code	Bond	Outstanding (€)	Ind. Coeff.	Face value	Stripped (€)
	Maturity 2016	68,909,032,520			
FR0119580050	BTAN 2.5% 25 July 2016	24,221,500,000			–
FR0119105791	BTANi 0.45% 25 July 2016	7,080,532,520 (1)	1.05068	6,739,000,000	–
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	130,074,853,850			
FR0120473253	BTAN 1.75% 25 February 2017	23,115,000,000			–
FR0010415331	OAT 3.75% 25 April 2017	30,546,000,000			0
FR0120746609	BTAN 1% 25 July 2017	20,493,000,000			–
FR0010235176	OATi 1% 25 July 2017	21,145,853,850 (1)	1.13413	18,645,000,000	0
FR0010517417	OAT 4.25% 25 October 2017	34,775,000,000			0
	Maturity 2018	140,697,148,700			
FR0012634558	OAT 0% 25 February 2018	19,107,000,000			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	11,697,148,700 (1)	1.03910	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	153,108,391,446			
FR0013101466	OAT 0% 25 février 2019	12,981,000,000			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	12,530,102,000 (1)	1.06730	11,740,000,000	0
FR0000570921	OAT 8.5% 25 October 2019	8,844,392,893			5,732,385,100
FR0010776161	OAT 3.75% 25 October 2019	35,410,000,000			0
FR0011993179	OAT 0.5% 25 November 2019	28,737,000,000			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 June 2016

ISIN Code	Bond	Outstanding (€)	Ind. Coeff.	Face value	Stripped (€)
	Maturity 2020	147,002,358,200			
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	24,762,358,200	(1) 1.21922	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
	Maturity 2021	98,419,843,000			
FR0013140035	OAT€i 0.1% 1 March 2021	3,135,000,000	(1) 0.99949	3,135,000,000	0
FR0010192997	OAT 3.75% 25 April 2021	37,837,000,000			0
FR0013157096	OAT 0% 25 May 2021	10,633,000,000			0
FR0011347046	OATi 0.1% 25 July 2021	6,923,843,000	(1) 1.01078	6,850,000,000	0
FR0011059088	OAT 3.25% 25 October 2021	39,891,000,000			0
	Maturity 2022	91,343,286,640			
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	19,432,346,650	(1) 1.08385	17,929,000,000	0
FR0011337880	OAT 2.25% 25 October 2022	30,052,000,000			0
	Maturity 2023	102,318,695,253			
FR0000571085	OAT 8.5% 25 April 2023	10,606,195,903			5,490,900,200
FR0011486067	OAT 1.75% 25 May 2023	35,237,000,000			0
FR0010585901	OATi 2.1% 25 July 2023	15,593,499,350	(1) 1.09945	14,183,000,000	0
FR0010466938	OAT 4.25% 25 October 2023	40,882,000,000			459,585,000
	Maturity 2024	76,452,077,220			
FR0011619436	OAT 2.25% 25 May 2024	33,135,000,000			10,000,000
FR0011427848	OAT€i 0.25% 25 July 2024	13,082,077,220	(1) 1.01498	12,889,000,000	0
FR0011962398	OAT 1.75% 25 November 2024	30,235,000,000			46,000,000
	Maturity 2025	89,861,469,318			
FR0012558310	OATi 0.1% 1 March 2025	5,379,541,200	(1) 1.00215	5,368,000,000	0
FR0012517027	OAT 0.5% 25 May 2025	32,870,000,000			0
FR0000571150	OAT 6% 25 October 2025	26,039,928,118			3,123,464,400
FR0012938116	OAT 1% 25 November 2025	25,572,000,000			0
	Maturity 2026	56,119,000,000			
FR0010916924	OAT 3.5% 25 April 2026	35,814,000,000			149,313,000
FR0013131877	OAT 0.5% 25 May 2026	20,305,000,000			0
	Maturity 2027	48,685,726,600			
FR0011008705	OAT€i 1.85% 25 July 2027	13,656,726,600	(1) 1.06810	12,786,000,000	0
FR0011317783	OAT 2.75% 25 October 2027	35,029,000,000			0
	Maturity 2028	23,815,557			
FR0000571226	OAT zero coupon 28 March 2028	23,815,557	(3)	46,232,603	-
	Maturity 2029	39,706,936,165			
FR0000571218	OAT 5.5% 25 April 2029	29,091,880,458			3,382,609,100
FR0000186413	OATi 3.4% 25 July 2029	10,615,055,707	(1) 1.25338	8,469,144,000	0
	Maturity 2030	38,314,117,380			
FR0011883966	OAT 2.5% 25 May 2030	31,023,000,000			0
FR0011982776	OAT€i 0.7% 25 July 2030	7,291,117,380	(1) 1.00194	7,277,000,000	0
	Maturity 2031	16,453,000,000			
FR0012993103	OAT 1.5% 25 May 2031	16,453,000,000			0
	Maturity 2032 and later	188,158,421,900			
FR0000188799	OAT€i 3.15% 25 July 2032	12,550,851,200	(1) 1.23532	10,160,000,000	0
FR0000187635	OAT 5.75% 25 October 2032	28,114,322,600			11,034,157,400
FR0010070060	OAT 4.75% 25 April 2035	25,004,000,000			5,110,667,000
FR0013154044	OAT 1.25% 25 May 2036	6,000,000,000			0
FR0010371401	OAT 4% 25 October 2038	26,534,000,000			4,902,011,400
FR0010447367	OAT€i 1.8% 25 July 2040	12,206,248,100	(1) 1.14430	10,667,000,000	0
FR0010773192	OAT 4.5% 25 April 2041	27,307,000,000			7,310,039,000
FR0011461037	OAT 3.25% 25 May 2045	20,598,000,000			515,600,000
FR0010171975	OAT 4% 25 April 2055	14,926,000,000			7,204,588,000
FR0010870956	OAT 4% 25 April 2060	11,918,000,000			5,723,284,100
FR0013154028	OAT 1.75% 25 May 2066	3,000,000,000			42,000,000

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

The French economy and International comparisons

Most recent economic indicators

Industrial output, year-on-year	0.5%	May. 2016
Household consumption*, year-on-year	0.6%	Jun. 2016
Unemployment rate (ILO)	10.2%	Mar. 2016
Consumer prices, year-on-year		
all items	0.2%	Jun. 2016
all items excluding tobacco	0.2%	Jun. 2016
Trade balance, fob-fob, sa (€bn)	-€2.8bn	May. 2016
" "	-€4.8bn	Apr. 2016
Current account balance, sa (€bn)	-€0.3bn	May. 2016
" "	-€2.1bn	Apr. 2016
10-year constant maturity rate (TEC10)	0.16%	29 Jul. 2016
3-month interest rate (Euribor)	-0.30%	27 Jul. 2016
EUR / USD	1.1090	28 Jul. 2016
EUR / JPY	116.14	28 Jul. 2016

* manufactured products

Sources: Insee, Minefi, Banque de France

Monthly government budget position

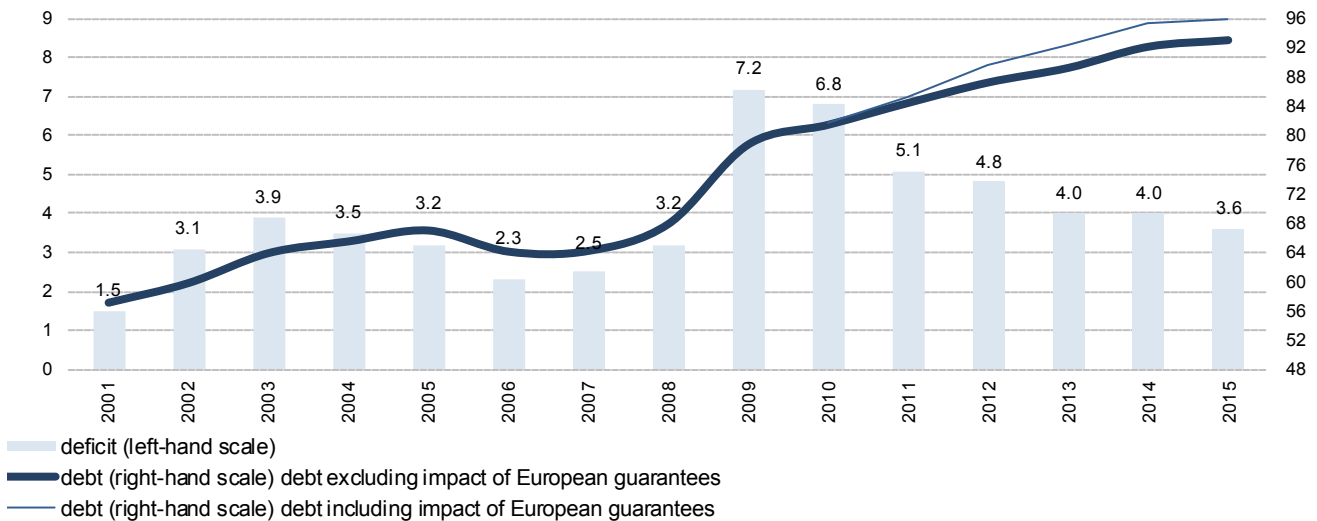
In € billion

	2014	2015	end of May level		
			2014	2015	2016
General budget balance	-85.71	-72.15	-42.66	-42.24	-38.93
revenue	291.95	299.66	123.96	123.23	126.37
expenditure	377.66	371.80	166.62	165.47	165.30
Balance of special Treasury accounts	0.16	1.62	-21.67	-21.69	-26.74
General budget outturn	-85.56	-70.52	-64.33	-63.93	-65.67

Source: Minefi

Public finances: deficit and debt

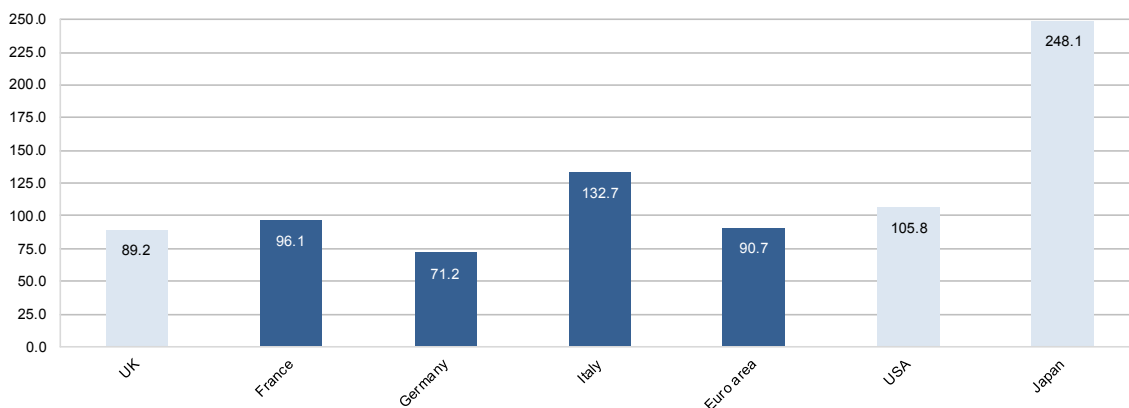
As % of GDP



Source: Eurostat, Insee





















General government debt in 2015

As % of GDP



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

French economic indicators: timetable

August 2016		September 2016	
 5	Foreign trade by value June	 6	Household confidence survey: August survey
 5	Balance of payments in June	 7	Foreign trade by value July
 10	Industrial output in June	 7	Balance of payments in July
 11	Consumer prices: index for July	 8	Payroll employment: Q2-2016
 12	Payroll employment: provisional results Q2-2016	 9	Industrial output in July
 18	Job seekers Q2-2016 (ILO)	 14	Consumer prices: index for August
 18	Inflation (HICP): July index	 15	Inflation (HICP): August index
 24	Job seekers in July	 22	Industrial trends: monthly survey for September
 25	Industrial investments: July survey	 23	Quarterly national accounts: final results Q2-2016
 25	Industrial trends: monthly survey for August	 26	Job seekers in August
 26	Housing starts in July	 28	Housing starts in August
 26	Quarterly national accounts: second estimate Q2-2016	 28	Household confidence survey: September survey
 31	Net foreign exchange reserves in July	 30	Net foreign exchange reserves in August
		 30	Debt of the general government according to Maastricht definition - Q2 2016
		 30	Household consumption expenditure on goods in July and August

Sources: Insee, Eurostat