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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

## Record demand for the new 30-year OAT

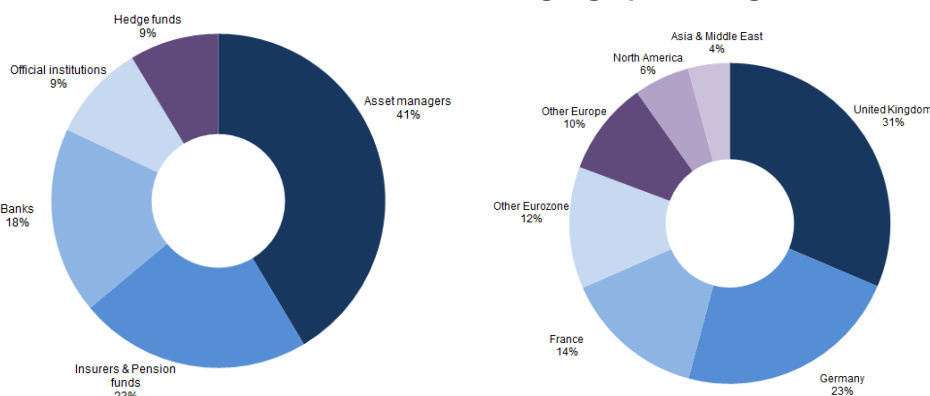
The French government issued a new 30-year benchmark bond in accordance with the 2017 financing programme released in December. AFT launched the syndicated bond on Tuesday, 16 May, following an announcement the day before. The OAT 2.00% 25 May 2048 issuance amount was €7bn, a record inaugural amount for a 30-year bond issued by the AFT. Syndication took place in an extremely stable market, with an accelerated bookbuild. After the release of an indicative price at 9:00 am, the order book had received nearly €18bn in investor intentions by 10:20 am. The spread from the OAT 2045, which was the benchmark for the new issue, was set at 11:47 am. This made it possible to close the order book at 12:16 pm, after recording record total demand of more than €31bn and more than 200 orders. The diversity of the orders that AFT received reflects the broad diversity of the investor base for French debt, both in terms of geographic origins and sectors. The sector and geographic diagrams below show the allocation of the 30-year bond.

Very favourable market conditions meant that the new bond was issued with a yield of 1.997%, as compared to the yield of 3.26% on the OAT 25 May 2045, the previous syndicated 30-year benchmark bond issued in March 2013. The new issue shows that France continues to benefit from very low long-term interest rates. It provides the government with low refinancing costs over a very long period, since the bond will be redeemed in May 2048.

This issue also reaffirms France's role as a benchmark issuer in the euro area for very long-dated bonds. The new benchmark bond is consistent with AFT's issuance strategy and its objective of having a smooth yield curve and good liquidity in every segment of the curve. The issue also provides further proof of investor and market confidence in France's creditworthiness at a time when market conditions in the euro area after the French presidential election are very favourable.

Between the start of 2017 and the end of May, France issued a total of €104.1bn in medium- and long-term debt. Combined with redemptions of €6.5bn over the same period, this represents execution of 52.8% of its programme set at €185bn net of redemptions.

**Allocation of the OAT 2.00% 25 May 2048 is diversified in terms of investor sectors and geographical origins**



Source: Agence France Trésor

# The asymmetry of inflation markets

Christophe Duval-Kieffer, Inflation strategist, Nomura

Inflation-linked markets are now an important part of the fixed-income universe in the euro area. Under the initial leadership of AFT in 1999, this vast market has developed and includes a diverse group of sovereign issuers such as Germany, Italy, Spain and now Ireland. It has provided the euro area fixed income world with more “complete” markets through explicit inflation hedges. It has also provided issuers with means to diversify their issuance policy without resorting to foreign currency issuance.

However, inflation markets underwent major changes in 2016. Inflation valuations have reached historically low levels. In the summer of 2016, the 1-year inflation rate in 9 years reached close to 1.50% - not only its lowest historical level but 50bp below the inflation target of the ECB. The 1-year rate in 5 years was below 1%. Such low levels of inflation valuations are counter-intuitive from the point of view of an economist – after all, most macro models assume some form of mean-reversion to the inflation target beyond a two-year horizon. It is not only an assumption, but also a stabilising feature of the economy.

With such low levels of valuations, a reality was made apparent to market participants: inflation markets are not about inflation, they are about the price of inflation. The price of inflation across states of the world requires focusing on the distribution of possible outcomes for inflation and assigning some subjective probabilities to these outcomes. In 2015, the left side of the inflation distribution became asymmetrically denser, leading to an unprecedented phenomenon: the build-up of a negative inflation premium.

As the very negative contribution of energy prices combined with unusually low levels of core inflation,

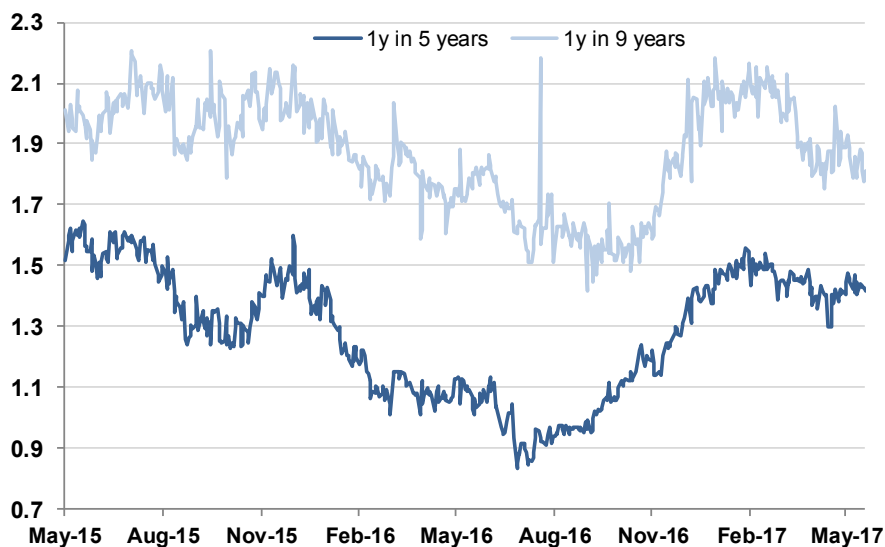
inflation moved into negative territory at the start of 2015; Temporary deflation occurred, increasing in turn the risks of protracted deflation. Deflation is of course the worst possible outcome for inflation markets; it is not surprising then if market participants assigned a greater subjective weight to deflation than its objective weight and were ready to price in a market price of inflation below the expectation of inflation (the definition of a negative inflation premium).

The effective lower bound on short-term rates added to this difficult situation. At the ELB, negative shocks on inflation cannot be accommodated as monetary policy cannot get looser – so the distribution of outcomes for inflation becomes even more skewed to the left and the phenomenon of the negative premium is reinforced. Conversely, the negative inflation premium pushes real yields higher than they ought to be, demanding a prompt reaction from monetary authorities.

Changes to monetary policy have greatly limited the risks of deflation, but have not yet managed to restore usual values for the inflation premium. The inflation market is caught in the middle: no deflation, but no risk of inflation overshoot and 5-year inflation, 5 years forward stands at 1.60%, only 5bp away from its recent lows.

For the issuer of inflation-linked bonds, the negative inflation premium is a disincentive to issue. However, as was discovered during the recent episode of deflation fears, the negative inflation premium combines with historically low levels of nominal yields, resulting globally in record-low real yields and therefore confirming the relevance of funding diversification strategies for the AFT. For inflation investors, it advocates patience as the inflation “asymmetry” is gradually priced out.

Euro inflation forwards



Source : Bloomberg

**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

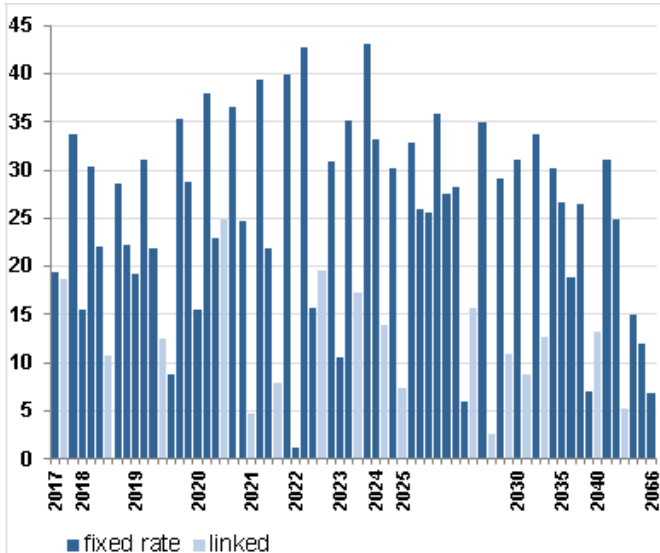
		Short-term					Medium-term	Long-term	Index-linked
June 2017	auction date	6	12	19	26	/	15	1	15
	settlement date	8	14	21	28	/	19	5	19
July 2017	auction date	3	10	17	24	31	20	6	20
	settlement date	5	12	19	26	2 Aug.	24	10	24

*anticipated or delayed auctions (bank holidays, etc.)*

Source: Agence France Trésor

Medium- and long-term negotiable government debt at 30 April 2017

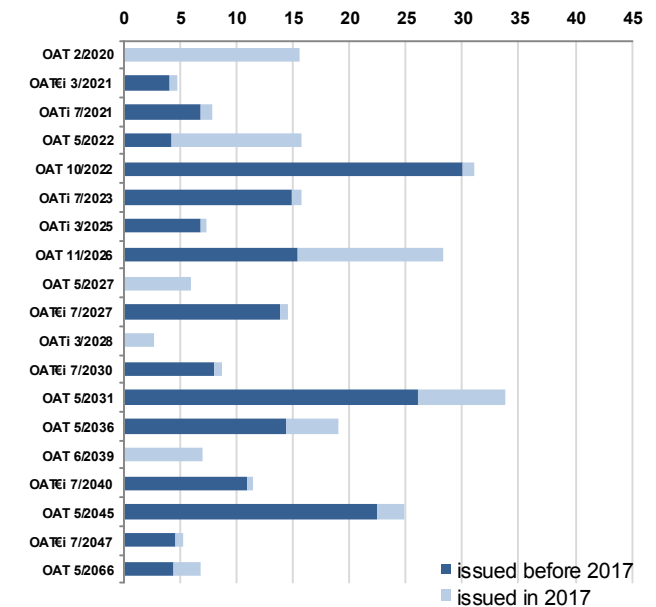
Nominal value of each line, in € billion



Source: Agence France Trésor

Medium- and long-term: securities issued during the year and total issuance at 30 April 2017

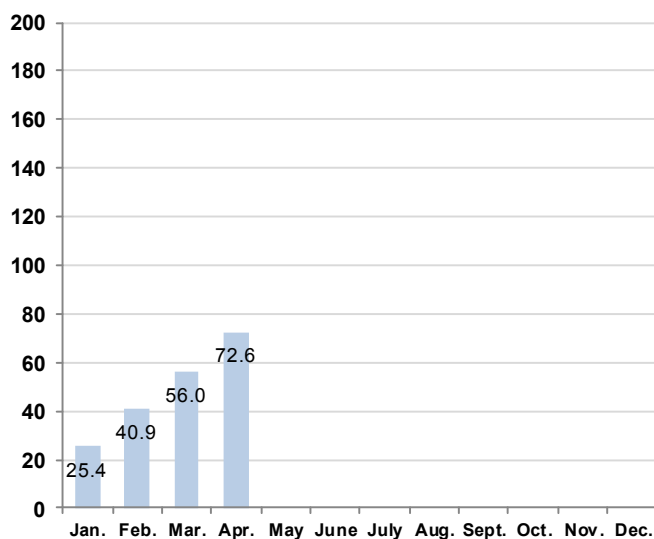
In € billion



Source: Agence France Trésor

Issuance net of buybacks at 30 April 2017

In € billion



Source: Agence France Trésor

Medium- and long-term: provisional maturity schedule at 30 April 2017

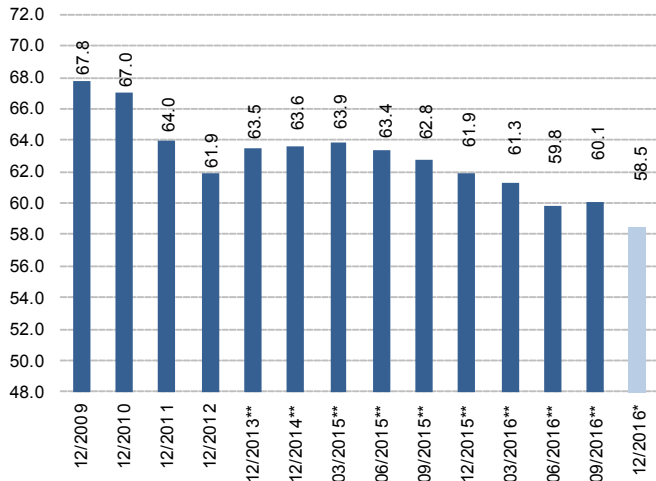
In € billion

Month	Coupon	Redemption
May-17	4.6	
Jun-17	0.1	
Jul-17	3.1	38.2
Aug-17		
Sep-17		
Oct-17	14.8	33.7
Nov-17	1.3	
Dec-17		
Jan-18		
Feb-18		15.5
Mar-18	0.0	
Apr-18	14.2	30.4

Source: Agence France Trésor

**Non-resident holders of negotiable government debt in fourth quarter of 2016**

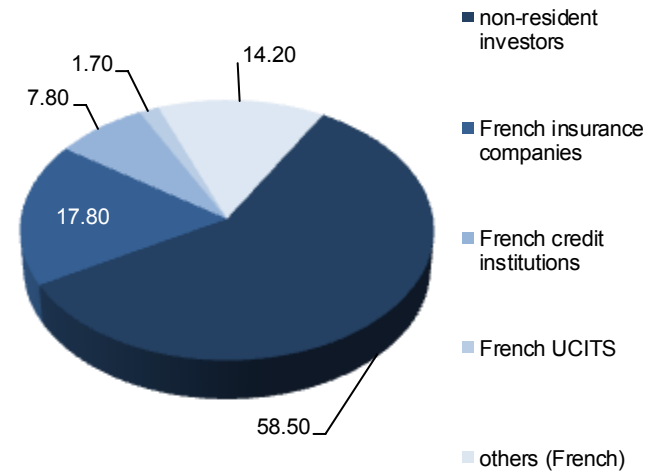
As a % of negotiable debt outstanding expressed in market value



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

**Negotiable government debt by group of holders in fourth quarter of 2016**

Structure in % expressed in market value



Source: Banque de France

**Negotiable government debt at 30 April 2017**

In euros

Total medium- and long-term debt	1,516,170,369,232
Total stripping activity	62,216,209,100
Average maturity	8 years and 114 days
Total short-term debt	146,846,000,000
Average maturity	114 days
<b>TOTAL OUTSTANDING</b>	<b>1,663,016,369,232</b>
<b>Average maturity</b>	<b>7 years and 221 days</b>

Source: Agence France Trésor

**Negotiable government debt and interest rate swaps at 30 April 2017**

In € billion

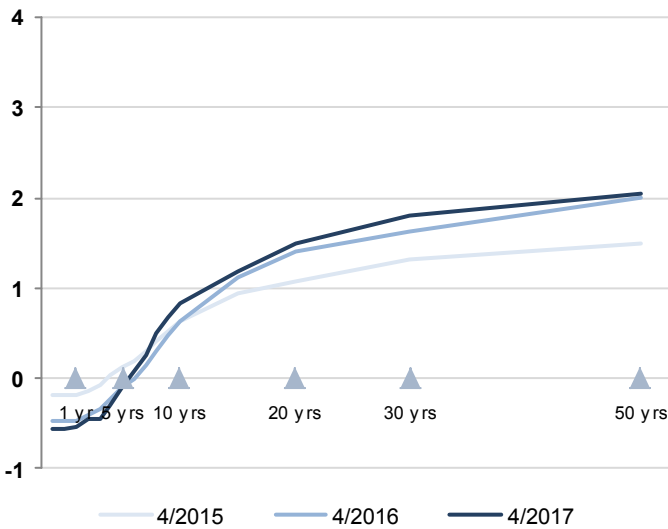
	End 2014	End 2015	End 2016	End March 2017	End April 2017
<b>Negotiable government debt outstanding</b>	<b>1,528</b>	<b>1,576</b>	<b>1,621</b>	<b>1,674</b>	<b>1,663</b>
<i>of which index-linked securities</i>	189	190	200	205	207
Medium- and long-term	1,352	1,424	1,487	1,526	1,516
short-term	175	153	134	148	147
<b>Swaps outstanding</b>	<b>6</b>	<b>6</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Average maturity of the negotiable debt</b>					
before swaps	6 years 363 days	7 years 47 days	7 years 195 days	7 years 195 days	7 years 221 days
after swaps	6 years 362 days	7 years 47 days	7 years 195 days	7 years 195 days	7 years 221 days

Source: Agence France Trésor



Yield curve for French government securities

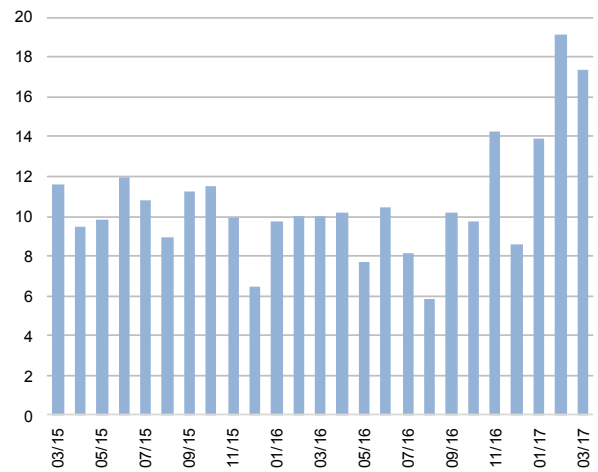
End-of-month value, %



Source: Bloomberg

Average daily volume of medium- and long-term transactions

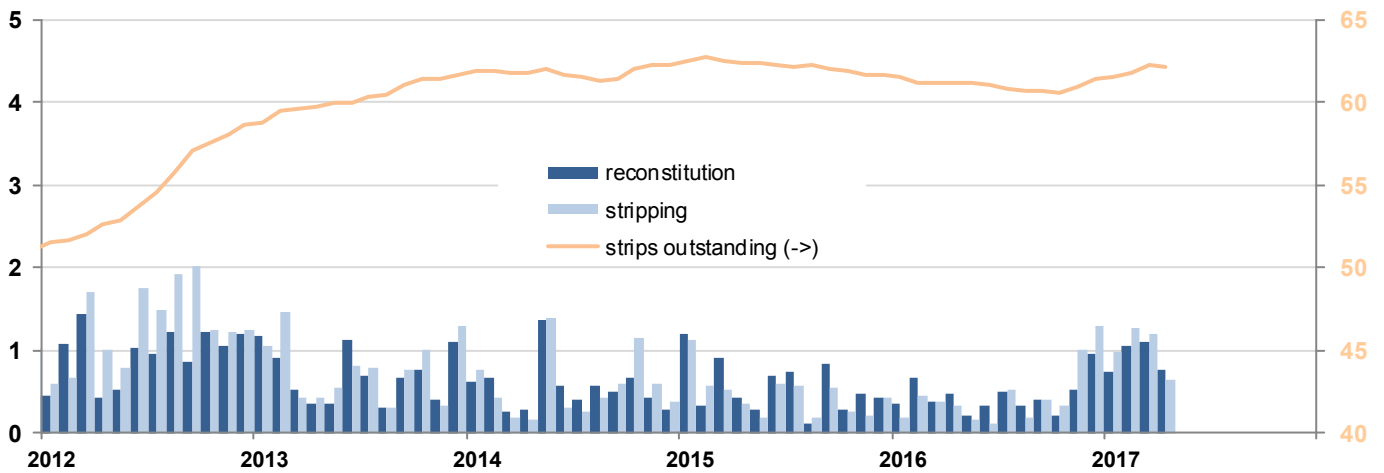
In € billion



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

Total stripping and reconstitution

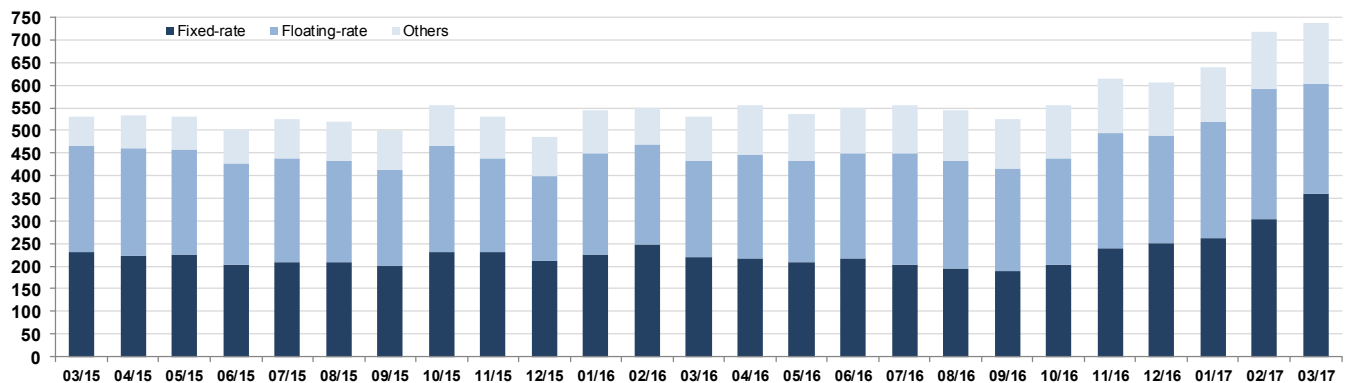
In € billion



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 2017

	Maturity	Outstanding (€)
BTF	04 May 2017	8,322,000,000
BTF	11 May 2017	5,276,000,000
BTF	17 May 2017	6,829,000,000
BTF	24 May 2017	4,972,000,000
BTF	31 May 2017	7,464,000,000
BTF	08 June 2017	5,267,000,000
BTF	14 June 2017	7,183,000,000
BTF	21 June 2017	4,571,000,000
BTF	28 June 2017	6,546,000,000
BTF	05 July 2017	7,990,000,000
BTF	12 July 2017	7,113,000,000
BTF	19 July 2017	3,979,000,000
BTF	26 July 2017	3,774,000,000
BTF	02 August 2017	6,682,000,000
BTF	17 August 2017	5,088,000,000
BTF	30 August 2017	5,465,000,000
BTF	13 September 2017	5,871,000,000
BTF	27 September 2017	3,109,000,000
BTF	11 October 2017	6,152,000,000
BTF	08 November 2017	6,440,000,000
BTF	06 December 2017	8,412,000,000
BTF	31 January 2018	6,936,000,000
BTF	28 February 2018	7,133,000,000
BTF	28 March 2018	6,272,000,000

### Medium- and long-term debt (maturing 2017–2020) at 30 April 2017

ISIN Code	Bond	Outstanding (€)	Ind. Coeff.	Face value	Stripped (€)
<b>Maturity 2017</b>		<b>71,702,602,060</b>			
FR0120746609	BTAN 1% 25 July 2017	19,340,000,000			–
FR0010235176	OATi 1% 25 July 2017	18,672,602,060 (1)	1.13899	16,394,000,000	0
FR0010517417	OAT 4.25% 25 October 2017	33,690,000,000			0
<b>Maturity 2018</b>		<b>129,524,438,955</b>			
FR0012634558	OAT 0% 25 February 2018	15,459,000,000			0
FR0010604983	OAT 4% 25 April 2018	30,437,000,000			0
FR0011394345	OAT 1% 25 May 2018	22,016,000,000			0
FR0011237643	OAT€i 0.25% 25 July 2018	10,655,438,955 (1)	1.04583	10,188,500,000	0
FR0010670737	OAT 4.25% 25 October 2018	28,692,000,000			0
FR0011523257	OAT 1% 25 November 2018	22,265,000,000			15,000,000
<b>Maturity 2019</b>		<b>158,012,273,688</b>			
FR0013101466	OAT 0% 25 February 2019	19,313,000,000			0
FR0000189151	OAT 4.25% 25 April 2019	31,128,000,000			0
FR0011708080	OAT 1% 25 May 2019	21,960,000,000			0
FR0010850032	OATi 1.3% 25 July 2019	12,583,753,800 (1)	1.07187	11,740,000,000	0
FR0000570921	OAT 8.5% 25 October 2019	8,844,392,893			5,591,885,100
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	36,126,995 (2)		6,692,154	–
<b>Maturity 2020</b>		<b>162,700,807,200</b>			
FR0013232485	OAT 0% 25 February 2020	15,538,000,000			0
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	24,922,807,200 (1)	1.22712	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

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

(2) Including coupons capitalised at 31 December 2016; not open to subscription



Medium- and long-term debt (maturing in 2021 and beyond) at 30 April 2017

ISIN Code	Bond	Outstanding (€)	Ind. Coeff.	Face value	Stripped (€)
<b>Maturity 2021</b>		<b>113,718,660,880</b>			
FR0013140035	OAT€i 0.1% 1 March 2021	4,705,880,880	(1) 1.00596	4,678,000,000	0
FR0010192997	OAT 3.75% 25 April 2021	39,352,000,000			0
FR0013157096	OAT 0% 25 May 2021	21,852,000,000			0
FR0011347046	OATi 0.1% 25 July 2021	7,917,780,000	(1) 1.01510	7,800,000,000	0
FR0011059088	OAT 3.25% 25 October 2021	39,891,000,000			0
<b>Maturity 2022</b>		<b>110,204,327,510</b>			
FR0000571044	OAT 8.25% 25 April 2022	1,243,939,990			463,268,400
FR0011196856	OAT 3% 25 April 2022	42,703,000,000			0
FR0013219177	OAT 0% 25 May 2022	15,727,000,000			0
FR0010899765	OAT€i 1.1% 25 July 2022	19,558,387,520	(1) 1.09088	17,929,000,000	0
FR0011337880	OAT 2.25% 25 October 2022	30,972,000,000			0
<b>Maturity 2023</b>		<b>106,357,987,103</b>			
FR0000571085	OAT 8.5% 25 April 2023	10,606,195,903			5,387,540,200
FR0011486067	OAT 1.75% 25 May 2023	35,237,000,000			0
FR0010585901	OATi 2.1% 25 July 2023	17,329,791,200	(1) 1.10416	15,695,000,000	0
FR0010466938	OAT 4.25% 25 October 2023	43,185,000,000			428,585,000
<b>Maturity 2024</b>		<b>77,281,604,080</b>			
FR0011619436	OAT 2.25% 25 May 2024	33,135,000,000			0
FR0011427848	OAT€i 0.25% 25 July 2024	13,911,604,080	(1) 1.02156	13,618,000,000	0
FR0011962398	OAT 1.75% 25 November 2024	30,235,000,000			46,000,000
<b>Maturity 2025</b>		<b>91,903,416,678</b>			
FR0012558310	OATi 0.1% 1 March 2025	7,421,488,560	(1) 1.00644	7,374,000,000	0
FR0012517027	OAT 0.5% 25 May 2025	32,870,000,000			0
FR0000571150	OAT 6% 25 October 2025	26,039,928,118			2,999,464,400
FR0012938116	OAT 1% 25 November 2025	25,572,000,000			0
<b>Maturity 2026</b>		<b>91,560,000,000</b>			
FR0010916924	OAT 3.5% 25 April 2026	35,814,000,000			0
FR0013131877	OAT 0.5% 25 May 2026	27,522,000,000			0
FR0013200813	OAT 0.25% 25 November 2026	28,224,000,000			0
<b>Maturity 2027</b>		<b>56,638,715,780</b>			
FR0013250560	OAT 1% 25 May 2027	5,980,000,000			0
FR0011008705	OAT€i 1.85% 25 July 2027	15,629,715,780	(1) 1.07502	14,539,000,000	0
FR0011317783	OAT 2.75% 25 October 2027	35,029,000,000			0
<b>Maturity 2028</b>		<b>2,622,473,720</b>			
FR0013238268	OATi 0.1% 1 March 2028	2,597,304,600	(1) 1.00476	2,585,000,000	0
FR0000571226	OAT zero coupon 28 March 2028	25,169,120	(3)	46,232,603	-
<b>Maturity 2029</b>		<b>40,085,984,218</b>			
FR0000571218	OAT 5.5% 25 April 2029	29,091,880,458			3,191,719,100
FR0000186413	OATi 3.4% 25 July 2029	10,994,103,760	(1) 1.25875	8,734,144,000	0
<b>Maturity 2030</b>		<b>39,815,501,170</b>			
FR0011883966	OAT 2.5% 25 May 2030	31,023,000,000			0
FR0011982776	OAT€i 0.7% 25 July 2030	8,792,501,170	(1) 1.00843	8,719,000,000	0
<b>Maturity 2031</b>		<b>33,749,000,000</b>			
FR0012993103	OAT 1.5% 25 May 2031	33,749,000,000			103,000,000
<b>Maturity 2032</b>		<b>42,916,555,400</b>			
FR0000188799	OAT€i 3.15% 25 July 2032	12,632,232,800	(1) 1.24333	10,160,000,000	0
FR0000187635	OAT 5.75% 25 October 2032	30,284,322,600			11,661,857,400
<b>Maturity 2033 and later</b>		<b>187,376,020,790</b>			
FR0010070060	OAT 4.75% 25 April 2035	26,678,000,000			5,038,967,000
FR0013154044	OAT 1.25% 25 May 2036	18,954,000,000			0
FR0010371401	OAT 4% 25 October 2038	26,534,000,000			4,902,811,400
FR0013234333	OAT 1.75% 25 June 2039	7,000,000,000			0
FR0010447367	OAT€i 1.8% 25 July 2040	13,213,683,560	(1) 1.15172	11,473,000,000	0
FR0010773192	OAT 4.5% 25 April 2041	31,111,000,000			7,282,439,000
FR0011461037	OAT 3.25% 25 May 2045	24,908,000,000			1,181,600,000
FR0013209871	OAT€i 0.1% 25 July 2047	5,288,337,230	(1) 1.00367	5,269,000,000	0
FR0010171975	OAT 4% 25 April 2055	14,926,000,000			7,497,588,000
FR0010870956	OAT 4% 25 April 2060	11,918,000,000			6,318,384,100
FR0013154028	OAT 1.75% 25 May 2066	6,845,000,000			106,100,000

(1) face value x indexation coefficient (face value if coefficient < 1)  
(3) Revised on 28 March 2017; not open to subscription

### Most recent economic indicators

Industrial output, year-on-year	0.4%	Mar. 2017
Household consumption*, year-on-year	0.4%	Apr. 2017
Unemployment rate (ILO)	9.6%	Mar. 2017
Consumer prices, year-on-year		
all items	1.2%	Apr. 2017
all items excluding tobacco	1.1%	Apr. 2017
Trade balance, fob-fob, sa (€bn)	-€5.4bn	Mar. 2017
" "	-€6.4bn	Feb. 2017
Current account balance, sa (€bn)	-€3.0bn	Mar. 2017
" "	-€3.5bn	Feb. 2017
10-year constant maturity rate (TEC10)	0.75%	30 May. 2017
3-month interest rate (Euribor)	-0.33%	26 May. 2017
EUR / USD	1.1173	30 May. 2017
EUR / JPY	123.97	30 May. 2017

\* manufactured products

Sources: Insee, Minefi, Banque de France

### Monthly government budget position

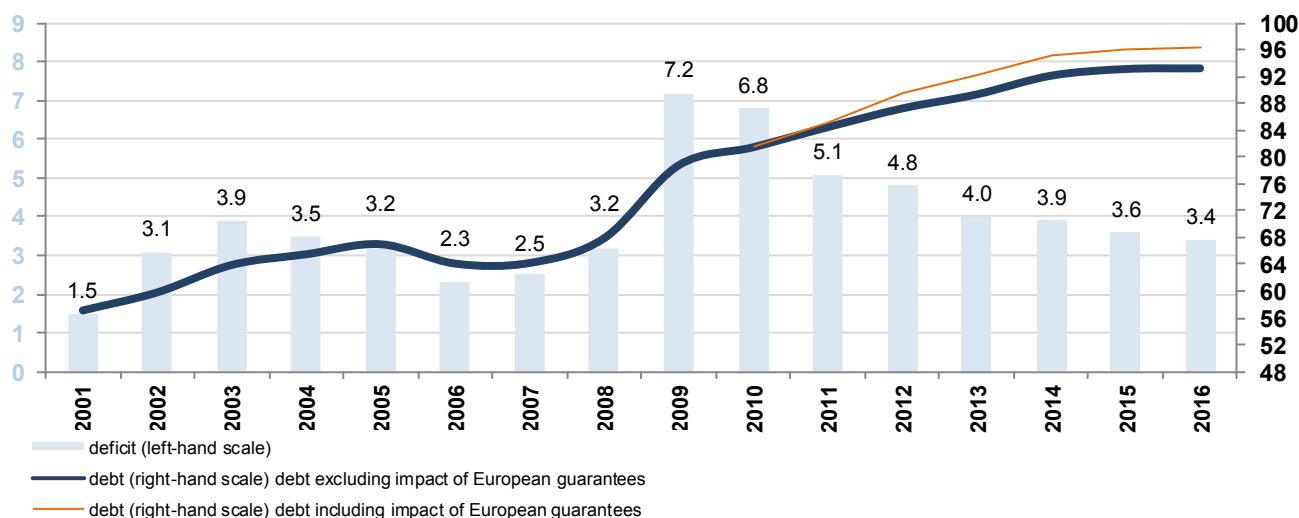
In € billion

	2015	2016	end of March level		
			2015	2016	2017
General budget balance	-72.15	-75.80	-14.28	-9.01	-10.11
revenue	299.66	304.02	74.25	76.69	78.34
expenditure	371.80	379.82	88.53	85.70	88.45
Balance of special Treasury accounts	1.62	6.80	-12.01	-18.48	-19.45
<b>General budget outturn</b>	<b>-70.52</b>	<b>-69.00</b>	<b>-26.29</b>	<b>-27.49</b>	<b>-29.56</b>

Source: Minefi

### Public finances: deficit and debt

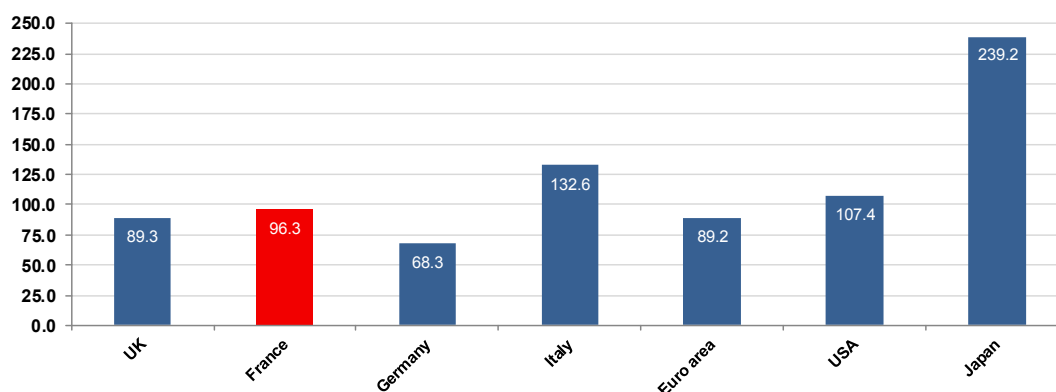
As % of GDP



Source: Eurostat, Insee

### General government debt in 2016

As % of GDP



Sources: Eurostat, IMF, Insee



## French economic indicators: timetable

June 2017		July 2017	
 8	Foreign trade by value in April	 7	Foreign trade by value in May
 8	Balance of payments in April	 7	Industrial production: May index
 9	Industrial production: April index	 7	Balance of payments in May
 13	Payroll employment: Q1-2017	 13	Consumer prices: June index
 15	Consumer prices: May index	 13	Net international reserves in June
 15	Net international reserves in May	 17	Inflation (HICP): June index
 16	Inflation (HICP): May index	 25	Monthly business survey (goods-producing industries) in July
 22	Monthly business survey (goods-producing industries) in June	 25	Quarterly business survey (goods-producing industries) in July
 23	Quarterly national accounts: final results Q1-2017	 25	Industrial producer and import price: June indices
 26	Job seekers in May	 25	Job seekers in June
 28	Consumer confidence survey: June survey	 26	Consumer confidence survey: July survey
 28	Housing starts in May	 28	Quarterly national accounts: initial estimate Q2-2017
 30	Debt of the general government according to Maastricht definition Q1-2017	 28	Household consumption expenditure on goods in June
 30	Industrial producer and import price: May indices	 28	Housing starts in June
 30	Household consumption expenditure on goods in May		

Sources: Insee, Eurostat