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JANUARY
2021

MONTHLY BULLETIN

AGENCE FRANCE TRÉSOR IS TASKED WITH MANAGING THE GOVERNMENT DEBT AND CASH POSITIONS UNDER THE MOST SECURE CONDITIONS IN THE INTEREST OF THE TAXPAYER.

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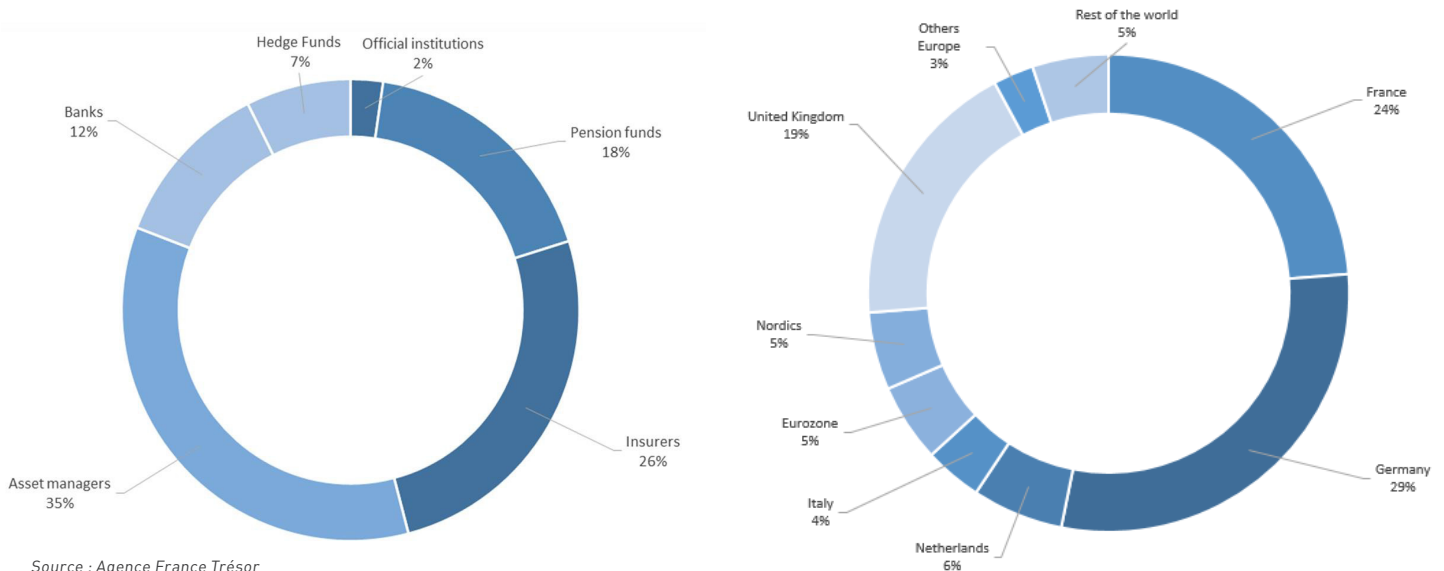
THE SYNDICATED LAUNCH OF THE OAT 0.50% 25 MAY 2072, FOR A RECORD AMOUNT OF €7BN AT AN ALL-TIME LOW YIELD OF 0.593%, CONFIRMS FRANCE'S POSITION AS A BENCHMARK ISSUER AT THE VERY LONG END OF THE EURO YIELD CURVE

AFT undertook the syndicated launch of a new 50-year benchmark OAT on Tuesday, 19 January 2021. The OAT 0.50% 25 May 2072 set a new record of €7bn for this maturity. The price was set at 95.895, reflecting a yield at issuance of 0.593%, which is a record low for any 50-year benchmark OAT issued by auction or syndication. It is also the largest injection of interest rate risk (50-year benchmark bond issued by auction or syndication. It is also the largest injection of interest rate risk (in proportion of issuance volume multiplied by bond duration) since the creation of the euro fixed-income markets, and the biggest extension of the French yield curve in terms of duration (11 years).

AFT opened the euro 50-year bond market on 23 February 2005 with the €6bn launch of the OAT 4.00% 25 April 2055. It has since maintained the market with periodic issues of new 50-year benchmark bonds: the OAT 4.00% 25 April 2060, with a €5bn launch on 10 March 2010, and the OAT 1.75% 25 May 2066, with a €3bn launch on 13 April 2016 as well as by regular taps during auctions. The OAT 0.50% 25 May 2072 is the first 50-year bond to see such strong demand from all investors.

More than 400 final investors subscribed the issue with total demand of €75bn, setting a new record for this maturity. This illustrates certain investors' established appetite for long-dated bonds, despite the important yield decrease. It should be noted that the order book volume also reflects the inflation of certain investors' orders (in anticipating of their dilution upon allocation) observed in recent years and which has accelerated in recent months.

Long-term investors accounted were given preference for this deal. Consequently, four-fifths of the issuance were allocated to mostly European insurers, pension funds and asset managers.



Lead managers for this operation were BNP Paribas, Deutsche Bank, HSBC, J.P. Morgan and Société Générale. All the primary dealers were part of the syndicate.

The operation, followed by issuance of medium-term and index-linked bonds at auction on 21 January 2021, brings AFT's issuance of medium- and long-term debt to €32.2bn in the first month of the year. This represents 12.4% completion of the 2021 borrowing programme of €260bn, and it compares to 11.0% completion of the final (i.e. increased to €260bn in June 2020) 2020 borrowing programme, and 10.3% completion of the 2019 borrowing programme at the same point.

This syndicated deal confirms France's status as a benchmark issuer in the euro area and its capacity to make markets in all yield curve segments, including the very long end, to ensure the liquidity of its securities. In the current troubled economic and public health situation, it also provides further proof of investors' confidence in the French economy and France's creditworthiness, as market conditions remain very favourable. France's cost of medium- and long-term borrowing stood at -0.05% at the end of January 2021, compared to an average of -0.13% in 2020, which was the first year with negative yields on average.

By Alain Bokobza, Praveen Singh and Gaelle Blanchard, Global asset allocators at Société Générale

We expect the reflation trade to get fresh impetus from new and powerful stimulus plans and apparently successful fast-tracking of several vaccines. With the market transfixed by prospects of higher nominal bond yields (we target 1.5% for 10Y treasury yields), we focus on the two key metrics we think are the most relevant for investment strategies: 1) real yields, which indeed are at all-time lows; and 2) curve steepening, which is core to driving sector rotation/stock dispersion.

The year has got off to a busy start on the political front, which has certainly proved good for risk assets, with the reflation trade still at the heart of successful investment strategies. Indeed, in September, we upgraded inflation-linked bonds and stuck to a full weighting in commodities (50% gold, 50% the rest of the commodity complex) on the basis that not only are stimulus plans massive everywhere and broad in nature (fiscal + monetary + targeted government intervention), but should also stay at work long after the virus peaks. That said, with a harsh winter wave underway and some dangerous variants reportedly at work, the peak still appears a long way off. Nevertheless, the approval/roll-out of several vaccines based on different technologies not only spells accelerated immunization of the population but also opens the door to targeted vaccination policies shaped for specific groups (age, etc.) when more is known about their effects (we learn more every day). Hopefully, in this context, the WHO's forecast that 'herd immunity' (60% of the pop.) will not emerge in 2021 will prove pessimistic.

At first take, investors could conclude that the current wave of the virus represents a headwind to risk assets as it imperils next quarter growth and thus corporate earnings. But think again. Changes in Washington have smoothed the path for US government initiatives, with the Senate effectively changing hands and with the Democrats now controlling both chambers and now aligned with the President. So all eyes are turning now to the State Of The Union (SOTU) address, likely in February (no date at the time of writing). The SOTU is traditionally the opportunity for the President to set out his priorities in terms of policies and reforms not only for the year ahead but for the entire four-year mandate. We will be particularly alert to updates in at least four market-sensitive areas: 1) any changes to healthcare policy and its corollaries; 2) any new fiscal measures to support the economy; 3) economic 'diplomacy' and its US/China chapter in particular; and 4) any regulatory tightening against (US) big techs.

At the market level, the main thrust of our strategy is unchanged, i.e., the market should remain (rightly) focused on the end game: vaccines help fight the virus and subsequently trigger an acceleration in the economy, leading to higher nominal bond yields. This is already transpiring in China but is still to materialise in the US (we still target a 1.5% 10-year Treasury yield). Europe will not stay insensitive to US trends once the current virus wave peters out, perhaps after another round of severe lockdowns.

This week, we explore two metrics essential to portfolio construction:

1) Inflation expectations are rising faster than nominal yields, leading to extremely low real yields. If not the Fed's explicit target, it is nevertheless a boost to risk assets as long as equity risk premia remain high (i.e. the excess return to be had from buying equities vs bonds every year to the infinite). We have lost around 110bp since Sep. 2020, with a drop from 6.1% to 5.0%, due a combination of higher equity indices and muted earnings growth prospects for 4Q20 due to lockdowns and rising bond yields.

But current levels still spell 'cheap' equity versus bonds, although the gap has narrowed. Deep negative real rates will keep credit spreads under control for now and keep the USD weak, backfiring into higher inflation expectations, a still lower dollar and higher commodity prices – flows have also been abundant recently in emerging assets. We see a further directional call emerging for equity volatility to converge to relevant credit spreads, fuelling another up leg in equities.

2) The yield curve steepening process in the US is driving some credit and equity themes. Reducing portfolio duration remains essential at this stage of the market cycle, in our view. Some sector rotations are being driven by the curve – but rotation out of Growth into Value does not look granular enough to deliver the best of the expected returns.

Chart 1: US 10Y inflation breakeven

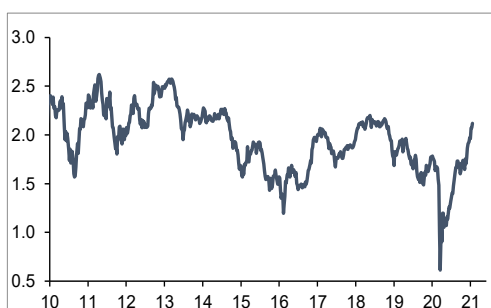
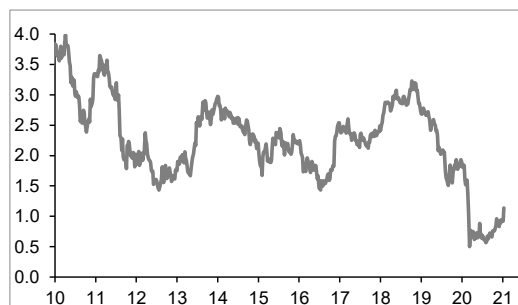


Chart 2: 10Y UST yield



Source: Datastream, Bloomberg, SG Cross Asset Research

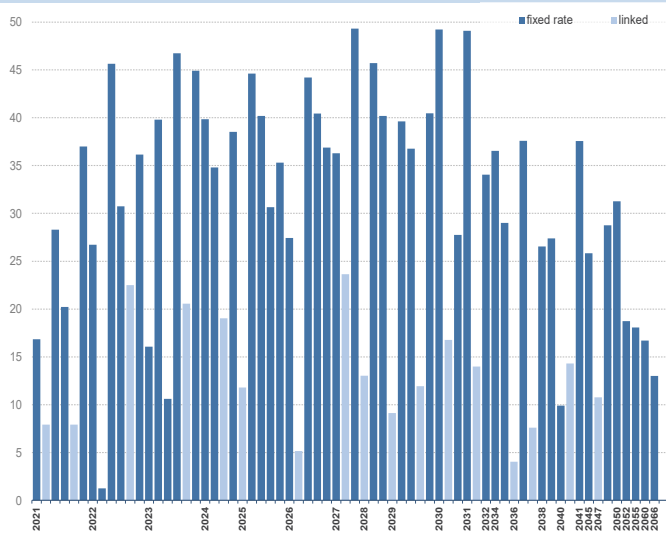
INDICATIVE AUCTION SCHEDULE

		Short-term					Medium-term	Long-term	Index-linked
February 2021	auction date	1	8	15	22	/	18	4	18
	settlement date	3	10	17	24	/	22	8	22
March 2021	auction date	1	8	15	22	29	18	4	18
	settlement date	3	10	17	24	31	22	8	22

Source: Agence France Trésor

MEDIUM- AND LONG-TERM NEGOTIABLE GOVERNMENT DEBT AT 31 DECEMBER 2020

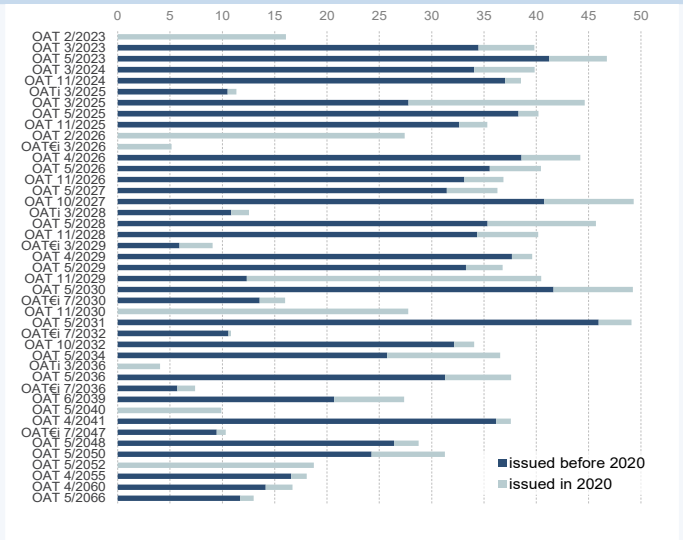
NOMINAL VALUE OF EACH LINE, IN € BILLION



Source: Agence France Trésor

MEDIUM- AND LONG-TERM: SECURITIES ISSUED DURING THE YEAR AND TOTAL ISSUANCE AT 31 DECEMBER 2020

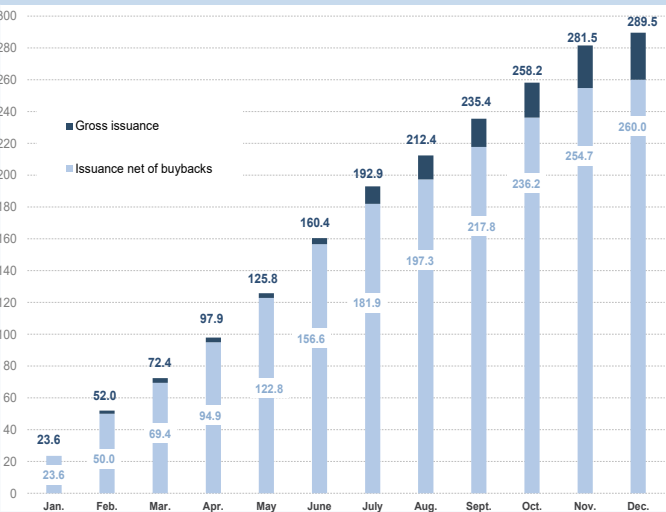
IN € BILLION



Source: Agence France Trésor

ISSUANCE AT 31 DECEMBER 2020

IN € BILLION



Source: Agence France Trésor

MEDIUM- AND LONG-TERM: PROVISIONAL MATURITY SCHEDULE AT 31 DECEMBER 2020

IN € BILLION

Month	Coupon	Redemption
Jan-21		
Feb-21		16.8
Mar-21	0.1	7.9
Apr-21	11.6	28.3
May-21	8.1	20.2
Jun-21	0.5	
Jul-21	2.4	8.0
Aug-21		
Sep-21		
Oct-21	10.1	37.0
Nov-21	1.4	
Dec-21		

Source: Agence France Trésor

NON-RESIDENT HOLDERS OF NEGOTIABLE GOVERNMENT DEBT IN THIRD QUARTER OF 2020

AS A % OF NEGOTIABLE DEBT OUTSTANDING
EXPRESSED IN MARKET VALUE



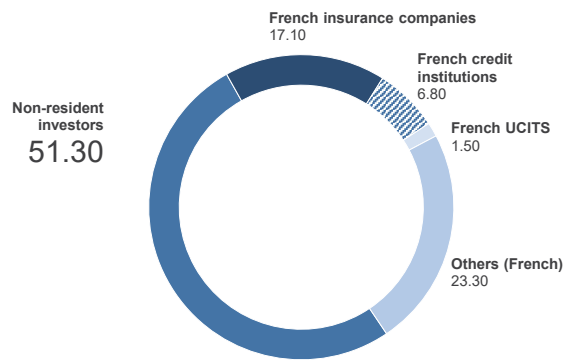
(*) figures quarterly revised

(**) figures annually revised

Source: Banque de France

NEGOTIABLE GOVERNMENT DEBT BY GROUP OF HOLDERS IN THIRD QUARTER OF 2020

STRUCTURE IN % EXPRESSED IN MARKET VALUE



Source: Banque de France

NEGOTIABLE GOVERNMENT DEBT AT 31 DECEMBER 2020

IN EUROS

Total medium- and long-term debt	1,839,406,134,752
Total stripping activity	58,408,459,600
Average maturity	8 years and 325 days
Total short-term debt	161,608,000,000
Average maturity	122 days
Total outstanding	2,001,014,134,752
Average maturity	8 years and 73 days

Source: Agence France Trésor

NEGOTIABLE GOVERNMENT DEBT SINCE 2018 AT 31 DECEMBER 2020

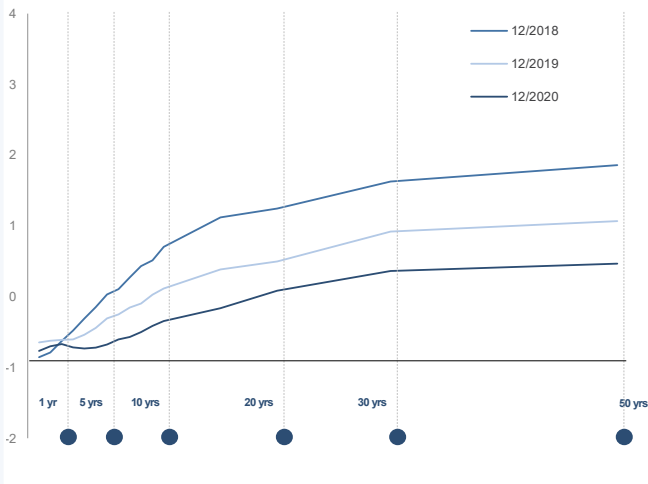
IN € BILLION

	End 2018	End 2019	End 2020	End Nov. 2020	End Dec. 2020
Negotiable government debt outstanding	1,756	1,823	2,001	1,995	2,001
<i>of which index-linked securities</i>	<i>220</i>	<i>226</i>	<i>220</i>	<i>220</i>	<i>220</i>
Medium- and long-term	1,644	1,716	1,839	1,834	1,839
Short-term	113	107	162	165	162
Average maturity of the negotiable debt	7 years	8 years	8 years	8 years	8 years
	336 days	63 days	73 days	78 days	73 days

Source: Agence France Trésor

YIELD CURVE FOR FRENCH GOVERNMENT SECURITIES

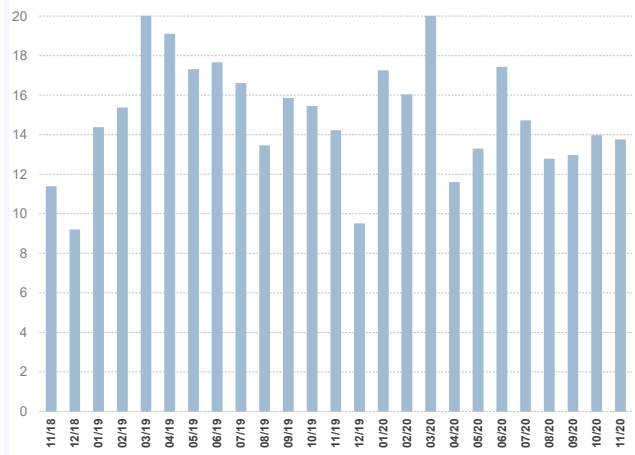
END-OF-MONTH VALUE, %



Source: Bloomberg

AVERAGE DAILY VOLUME OF MEDIUM- AND LONG-TERM TRANSACTIONS

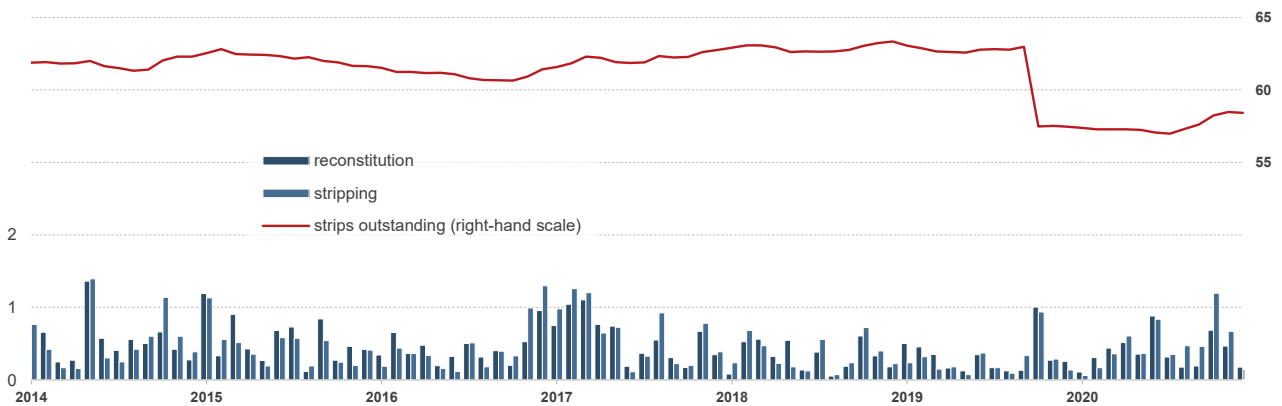
IN € BILLION



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

TOTAL STRIPPING AND RECONSTITUTION

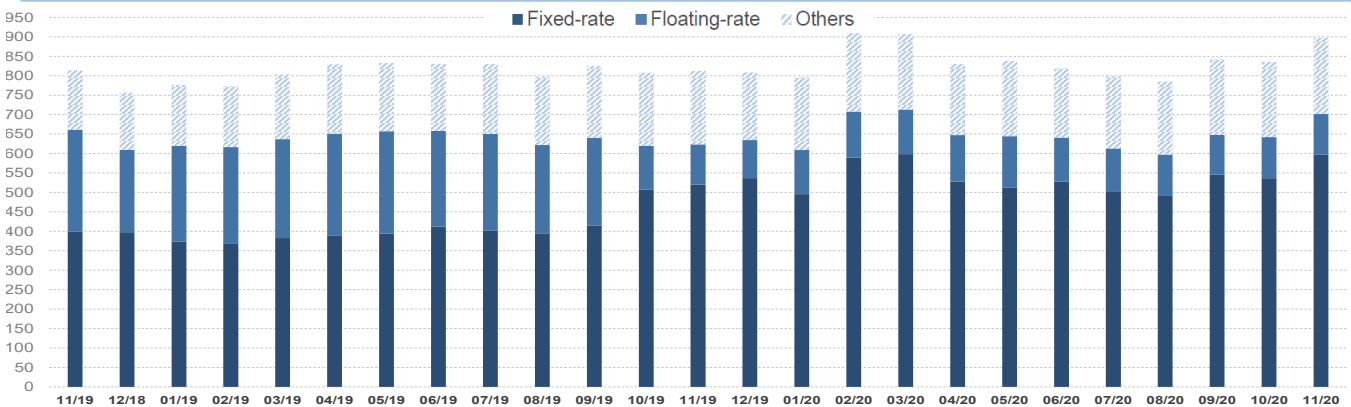
IN € BILLION



Source: Euroclear

PRIMARY DEALERS, CUMULATED REPO OUTSTANDING AT END OF MONTH

IN € BILLION



Source: reporting by primary dealers in government securities

SHORT-TERM DEBT AT 31 DECEMBER 2020

ISIN Code	Maturity	Outstanding (€)
FR0126310244	BTF 6 January 2021	6,901,000,000
FR0126310251	BTF 13 January 2021	8,020,000,000
FR0126461591	BTF 20 January 2021	4,640,000,000
FR0125848673	BTF 27 January 2021	5,477,000,000
FR0126461609	BTF 3 February 2021	6,897,000,000
FR0126310269	BTF 10 February 2021	6,617,000,000
FR0126461617	BTF 17 February 2021	6,743,000,000
FR0125848681	BTF 24 February 2021	6,755,000,000
FR0126461625	BTF 3 March 2021	9,417,000,000
FR0126310277	BTF 10 March 2021	6,283,000,000
FR0125848699	BTF 24 March 2021	8,170,000,000
FR0126461658	BTF 8 April 2021	7,307,000,000
FR0126001785	BTF 21 April 2021	10,971,000,000
FR0126461666	BTF 5 May 2021	7,411,000,000
FR0126001793	BTF 19 May 2021	8,329,000,000
FR0126001801	BTF 16 June 2021	10,585,000,000
FR0126310285	BTF 14 July 2021	7,449,000,000
FR0126310293	BTF 11 August 2021	6,688,000,000
FR0126310301	BTF 8 September 2021	8,685,000,000
FR0126461682	BTF 6 October 2021	6,595,000,000
FR0126461690	BTF 4 November 2021	8,022,000,000
FR0126461708	BTF 1 December 2021	3,646,000,000

MEDIUM- AND LONG-TERM DEBT (MATURING 2021-2023) AT 31 DECEMBER 2020

ISIN Code	Bond	Outstanding(€)	Ind. Coeff.	Face value(€)	Stripped(€)	CAC*
Maturity 2021		118,180,760,520				
FR0013311016	OAT 0.00% 25 February 2021	16,847,000,000			0	x
FR0013140035	OAT€i 0.10% 1 March 2021	7,910,782,620 (1)	1.04557	7,566,000,000	0	x
FR0010192997	OAT 3.75% 25 April 2021	28,307,000,000			0	
FR0013157096	OAT 0.00% 25 May 2021	20,209,000,000			0	x
FR0011347046	OATi 0.10% 25 July 2021	7,915,977,900 (1)	1.04778	7,555,000,000	0	
FR0011059088	OAT 3.25% 25 October 2021	36,991,000,000			0	
Maturity 2022		163,010,668,450				
FR0013398583	OAT 0.00% 25 February 2022	26,720,000,000			0	x
FR0000571044	OAT 8.25% 25 April 2022	1,243,939,990			310,888,400	
FR0011196856	OAT 3.00% 25 April 2022	45,642,000,000			0	
FR0013219177	OAT 0.00% 25 May 2022	30,738,000,000			0	x
FR0010899765	OAT€i 1.10% 25 July 2022	22,509,728,460 (1)	1.13382	19,853,000,000	0	
FR0011337880	OAT 2.25% 25 October 2022	36,157,000,000			0	
Maturity 2023		178,726,501,503				
FR0013479102	OAT 0.00% 25 February 2023	16,070,000,000			0	x
FR0013283686	OAT 0.00% 25 March 2023	39,815,000,000			0	x
FR0000571085	OAT 8.50% 25 April 2023	10,606,195,903			5,335,565,200	
FR0011486067	OAT 1.75% 25 May 2023	46,748,000,000			0	x
FR0010585901	OATi 2.10% 25 July 2023	20,569,305,600 (1)	1.13970	18,048,000,000	0	
FR0010466938	OAT 4.25% 25 October 2023	44,918,000,000			440,085,000	

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

* Like all euro area bonds, the bonds issued after 1 January 2013 have collective action clauses (CACs), which means that they are not fungible with bonds issued prior to this date.

MEDIUM- AND LONG-TERM DEBT (MATURING IN 2024 AND BEYOND) AT 31 DECEMBER 2020

ISIN Code	Bond	Outstanding(€)	Ind. Coeff.	Face value(€)	Stripped(€)	CAC*
Maturity 2024		132 211 035 820				
FR0013344751	OAT 0.00% 25 March 2024	39 839 000 000			0	x
FR0011619436	OAT 2.25% 25 May 2024	34 810 000 000			0	x
FR0011427848	OAT€i 0.25% 25 July 2024	19 026 035 820 (1)	1,06178	17 919 000 000	0	x
FR0011962398	OAT 1.75% 25 November 2024	38 536 000 000			42 000 000	x
Maturity 2025		162 571 687 448				
FR0012558310	OATi 0.10% 1 March 2025	11 791 759 330 (1)	1,03883	11 351 000 000	0	x
FR0013415627	OAT 0.00% 25 March 2025	44 618 000 000			0	x
FR0012517027	OAT 0.50% 25 May 2025	40 197 000 000			0	x
FR0000571150	OAT 6.00% 25 October 2025	30 653 928 118			2 801 064 400	
FR0012938116	OAT 1.00% 25 November 2025	35 311 000 000			0	x
Maturity 2026		154 100 000 000				
FR0013508470	OAT 0.00% 25 February 2026	27 435 000 000			0	x
FR0013519253	OAT€i 0.10% 1 March 2026	5 151 000 000 (1)	0,99614	5 151 000 000	0	x
FR0010916924	OAT 3.50% 25 April 2026	44 202 000 000			0	
FR0013131877	OAT 0.50% 25 May 2026	40 437 000 000			0	x
FR0013200813	OAT 0.25% 25 November 2026	36 875 000 000			0	x
Maturity 2027		109 252 914 400				
FR0013250560	OAT 1.00% 25 May 2027	36 296 000 000			0	x
FR0011008705	OAT€i 1.85% 25 July 2027	23 642 914 400 (1)	1,11734	21 160 000 000	0	
FR0011317783	OAT 2.75% 25 October 2027	49 314 000 000			61 943 600	
Maturity 2028		98 946 388 330				
FR0013238268	OATi 0.10% 1 March 2028	13 017 679 200 (1)	1,03710	12 552 000 000	0	x
FR0000571226	OAT zero coupon 28 March 2028	29 709 130 (3)		46 232 603	–	
FR0013286192	OAT 0.75% 25 May 2028	45 707 000 000			0	x
FR0013341682	OAT 0.75% 25 November 2028	40 192 000 000			0	x
Maturity 2029		137 919 093 961				
FR0013410552	OAT€i 0.10% 1 March 2029	9 123 323 310 (1)	1,00599	9 069 000 000	0	x
FR0000571218	OAT 5.50% 25 April 2029	39 618 880 458			2 302 646 100	
FR0013407236	OAT 0.50% 25 May 2029	36 778 000 000			0	x
FR0000186413	OATi 3.40% 25 July 2029	11 933 890 193 (1)	1,29926	9 185 144 000	0	
FR0013451507	OAT 0.00% 25 November 2029	40 465 000 000			0	x
Maturity 2030		93 768 272 520				
FR0011883966	OAT 2.50% 25 May 2030	49 233 000 000			0	x
FR0011982776	OAT€i 0.70% 25 July 2030	16 774 272 520 (1)	1,04813	16 004 000 000	0	x
FR0013516549	OAT 0.00% 25 November 2030	27 761 000 000			0	x
Maturity in 2031 and beyond		490 718 811 800				
FR0012993103	OAT 1.50% 25 May 2031	49 107 000 000			51 900 000	x
FR0000188799	OAT€i 3.15% 25 July 2032	13 977 192 320 (1)	1,29227	10 816 000 000	0	
FR0000187635	OAT 5.75% 25 October 2032	34 059 322 600			10 851 757 400	
FR0013313582	OAT 1.25% 25 May 2034	36 541 000 000			0	x
FR0010070060	OAT 4.75% 25 April 2035	29 004 000 000			4 164 737 000	
FR0013524014	OATi 0.10% 1 March 2036	4 042 000 000 (1)	0,99388	4 042 000 000	0	x
FR0013154044	OAT 1.25% 25 May 2036	37 601 000 000			0	x
FR0013327491	OAT€i 0.10% 25 July 2036	7 596 187 560 (1)	1,02804	7 389 000 000	0	x
FR0010371401	OAT 4.00% 25 October 2038	26 534 000 000			4 686 841 400	
FR0013234333	OAT 1.75% 25 June 2039	27 375 000 000			0	x
FR0013515806	OAT 0.50% 25 May 2040	9 905 000 000			0	x
FR0010447367	OAT€i 1.80% 25 July 2040	14 301 275 820 (1)	1,19706	11 947 000 000	0	
FR0010773192	OAT 4.50% 25 April 2041	37 558 000 000			5 960 299 000	
FR0011461037	OAT 3.25% 25 May 2045	25 824 000 000			1 028 810 000	x
FR0013209871	OAT€i 0.10% 25 July 2047	10 770 833 500 (1)	1,04318	10 325 000 000	0	x
FR0013257524	OAT 2.00% 25 May 2048	28 759 000 000			649 900 000	x
FR0013404969	OAT 1.50% 25 May 2050	31 274 000 000			112 300 000	x
FR0013480613	OAT 0.75% 25 May 2052	18 736 000 000			241 000 000	x
FR0010171975	OAT 4.00% 25 April 2055	18 061 000 000			9 353 518 000	
FR0010870956	OAT 4.00% 25 April 2060	16 696 000 000			8 743 304 100	
FR0013154028	OAT 1.75% 25 May 2066	12 997 000 000			1 269 900 000	x

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

(3) Revised on 28 March 2020, not open to subscription

* Like all euro area bonds, the bonds issued after 1 January 2013 have collective action clauses (CACs), which means that they are not fungible with bonds issued prior to this date.

MOST RECENT ECONOMIC INDICATORS

Industrial output, year-on-year	-4.8%	Nov. 2020
Household consumption*, year-on-year	-18.8%	Nov. 2020
Unemployment rate (ILO)	9.0%	Q3-2020
Consumer prices, year-on-year		
• all items	0.0%	Dec. 2020
• all items excluding tobacco	-0.3%	Dec. 2020
Trade balance, fob-fob, sa (€bn)	-€3.6bn	Nov. 2020
" "	-€4.6bn	Oct. 2020
Current account balance, sa (€bn)	-€1.4bn	Nov. 2020
" "	-€3.8bn	Oct. 2020
10-year constant maturity rate (TEC10)	-0.28%	29 Jan. 2021
3-month interest rate (Euribor)	-0.54%	29 Jan. 2021
EUR / USD	1.21	29 Jan. 2021
EUR / JPY	127.09	29 Jan. 2021

* manufactured products

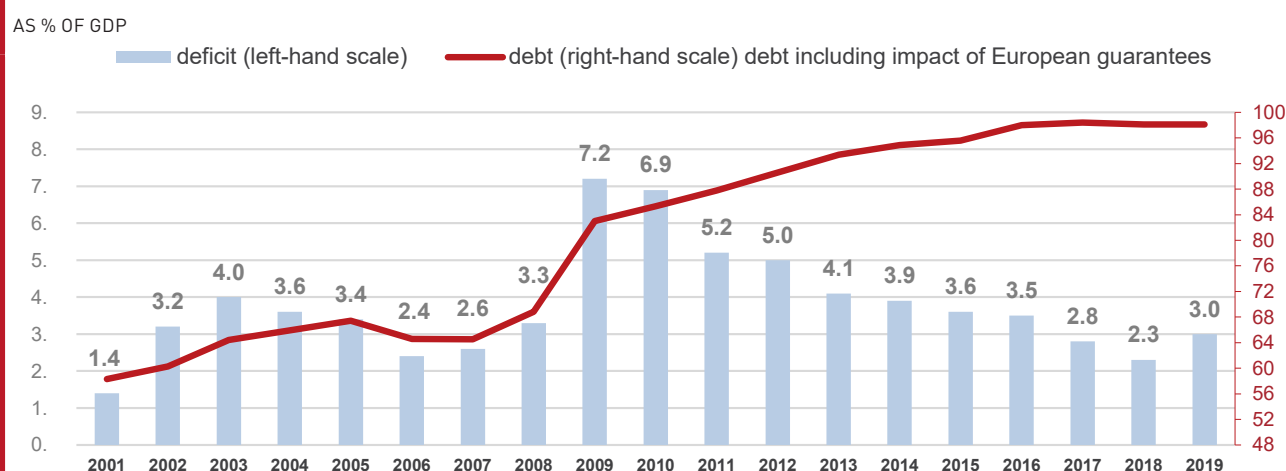
Sources: Insee, Minefi, Banque de France

MONTHLY GOVERNMENT BUDGET POSITION

	2018		end of November level		
	2018	2019	2018	2019	2020
General budget balance	-76.91	-96.91	-88.88	-109.72	-171.38
Revenue	313.79	301.07	272.21	256.39	238.95
Expenditure	390.69	397.98	361.10	366.11	410.33
Balance of special Treasury accounts	0.82	4.06	-6.76	-4.21	-5.46
General budget outturn	-76.00	-92.69	-95.64	-113.93	-176.85

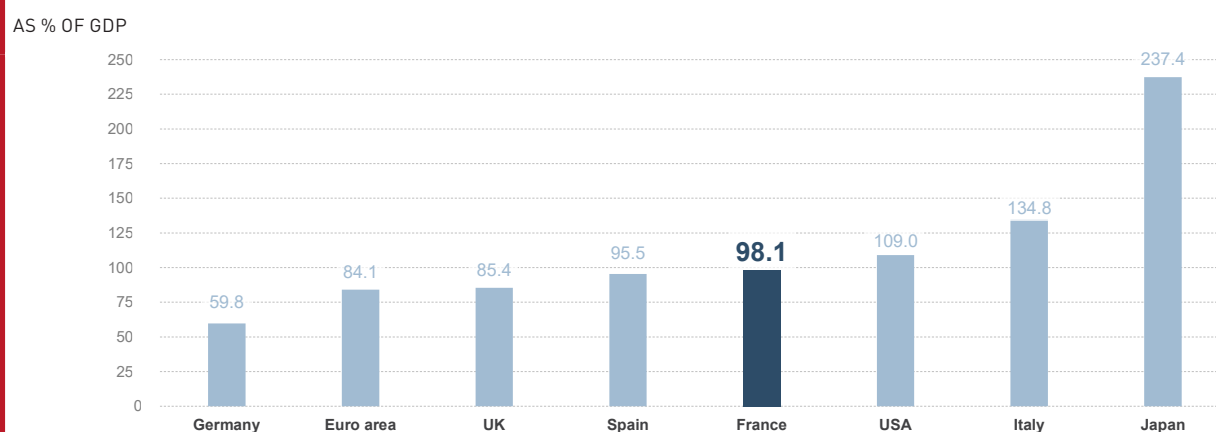
Source: Ministry of the Economy, Finance and the Recovery

PUBLIC FINANCES: DEFICIT AND DEBT




Source: Insee

GENERAL GOVERNMENT DEBT IN 2019



Sources: Eurostat, IMF, Insee

FEBRUARY 2021 

5 Job seekers Q4 2020 (ILO)	16 Consumer prices: January index	19 Monthly business survey (goods-producing industries) in February	23 Inflation (HICP): January index	24 Consumer confidence survey: February survey	25 Household consumption expenditure on goods in January
26 Quarterly national accounts: final results Q4-2020	26 Industrial producer and import price: January indices				

MARCH 2021 

5 Balance of payments in January	15 Net international reserves in February	16 Consumer prices: February index	17 Inflation (HICP): February index	25 Monthly business survey (goods-producing industries) in February	26 Debt of the general government according to Maastricht definition Q4-2020
26 Consumer confidence survey: March survey	31 Household consumption expenditure on goods in February	31 Industrial producer and import price: February indices			

Sources: Insee, Eurostat

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