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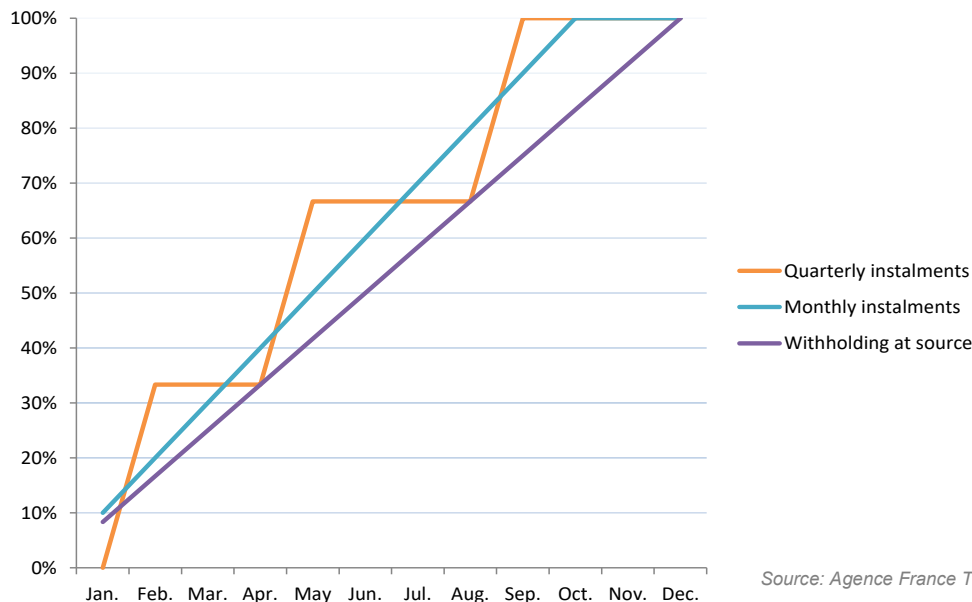
Agence France Trésor is tasked with managing the government debt and cash positions under the most secure conditions in the interest of the taxpayer.

News at Agence France Trésor

Income tax withholding at source: impact on the State's cash management

On 1 January 2019, the new withholding-at-source system for personal income tax will take effect. This reform will affect the French State's cash requirements and its cash management by Agence France Trésor.

Under the current income tax collection scheme, French taxpayers pay their income tax in either quarterly or monthly instalments. In the quarterly system, taxpayers pay one-third of their income tax in February, another third in May and the final third in September. In the monthly system, one-tenth of the full amount is paid on the 15th day of each month from January to October. In both cases, taxpayers have paid the full amount of income tax by September or October (apart from year-end payments for any tax remaining due). Under the withholding-at-source system, one-twelfth of the total amount of income tax will be collected each month, as and when taxpayers receive their income (generally at the end of the month). This will smooth the payment of income tax. Taxpayers will pay the full amount due over 12 months, vs. ten months previously.



The government's income tax revenue stream, which currently fluctuates month by month due to the instalment system, will become smoother thanks to withholding at source. This reform also has other effects on the State's cash management because the amounts paid out for civil servants' wages and pensions will be lower, with income tax withheld directly before the wages and pensions are disbursed. Lastly, to account for tax credits, an amount equivalent to 60% of tax breaks and tax credits will be paid out in advance to beneficiaries on 15 January.

In addition to these permanent changes to the State's cash flow profile, there will be an additional temporary effect for the first year of the reform. Due to the withholding-at-source mechanism, whereby the government will collect tax on income paid the previous month, income tax revenue will be lower than normal in January 2019. As a result, only 11 months of income tax revenue will be fully collected in 2019. This will result in a cash shortfall of around €6bn, which the government has anticipated and factored into its forecasts for the budget deficit and cash flow. This is a one-off effect in 2019 that will not recur in 2020.

China: the short and long term

Carol Zhang, US Rates strategist, Bank of America Merrill Lynch

The recent monetary and fiscal policies put forth by Chinese officials have implications on the US Treasury market in terms of flows as well as fundamentals. In our view, regardless of the direction of RMB, China's footprint in the US Treasury market should be smaller from a flow perspective, but its growth outlook has global implications in the medium and long run in terms of asset allocation.

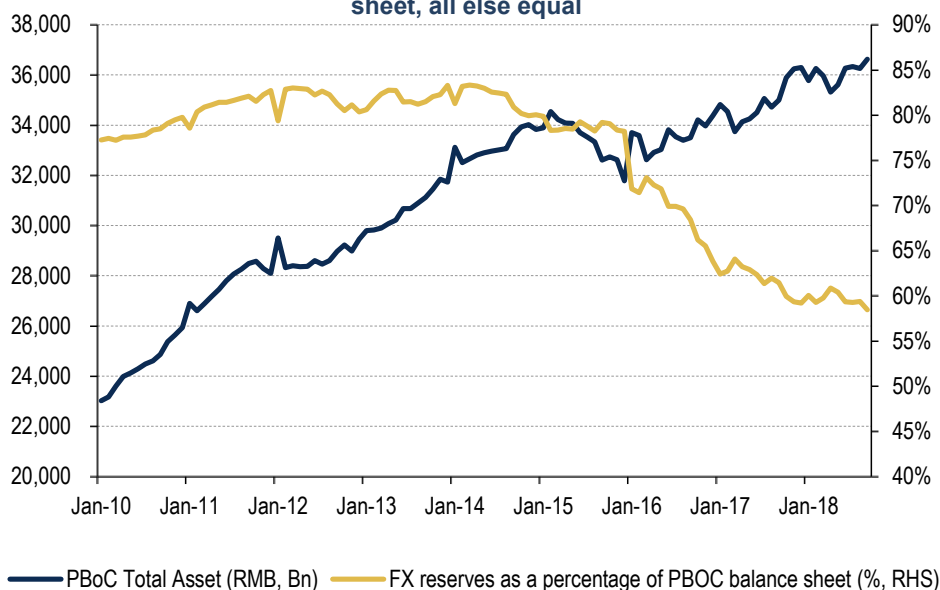
If Chinese authorities directly intervene in the FX market to prevent RMB weakness, this would imply selling USD assets and buying RMB. If this is the case, a 2015-16 style intervention is unlikely, but a passive Treasury portfolio roll-off is more plausible. In fact, this could be what we have witnessed in late October. NY Fed custody holdings data, which reflects about 70-80% of the world's reserve manager Treasury holdings, saw a \$23bn weekly drop, coincided with a \$34bn decline in China's October FX reserve assets.

In our view, this has less to do with trade tensions and the need to offset tariff impact, but more to do with domestic growth concerns. For this reason, there is a much smaller chance of an aggressive Treasury selling program from China compared to 2015-2016. In China's case, FX reserves are directly linked to its base money creation; reducing FX reserves would be a tightening measure in monetary policy, all else equal. Although PBoC has expanded its monetary policy tools in recent years to reduce its reliance on FX reserves, they are still a significant part of the central bank balance sheet (Chart). As the Chinese policy goals are to ease fiscal and monetary conditions, depleting FX reserves too fast would be counterproductive. In any case, a lack of reserve manager sponsorship of US Treasuries would put upward pressure on real yields, especially considering the \$1tn US fiscal deficit in FY2019.

If CNY were to depreciate further, the Chinese FX reserve build from export growth should be relatively small. Since the implementation of tariffs this year, China's exports to the US continued to track the rest of the world, and there have been signs of frontloading from US importers. This makes additional export growth seems less likely, even if CNY were to weaken. At the same time, continued RMB weakness could encourage capital outflows and invite political pressure in trade talks, an outcome China would like to avoid.

Over the medium term, while we do not think China is going to be overly active in the US Treasury market, the policy measures being implemented in China have a material impact on the broader EM growth outlook, which also feed into G10 growth (especially Europe) and investor risk appetite. Therefore, the "if" and "when" questions regarding these policies should be, in the coming quarters, a key market focus at the global level and, notably, the European bond segments, while the ECB is about to terminate its asset purchases.

While PBoC has a bigger toolbox in implementing monetary policy, FX reserves are still a significant part of its balance sheet and base money creation - a sharp drop in FX reserves would result in a drop in central bank balance sheet, all else equal



Sources : BofA Merrill Lynch Global Research, PBoC

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Indicative auction schedule

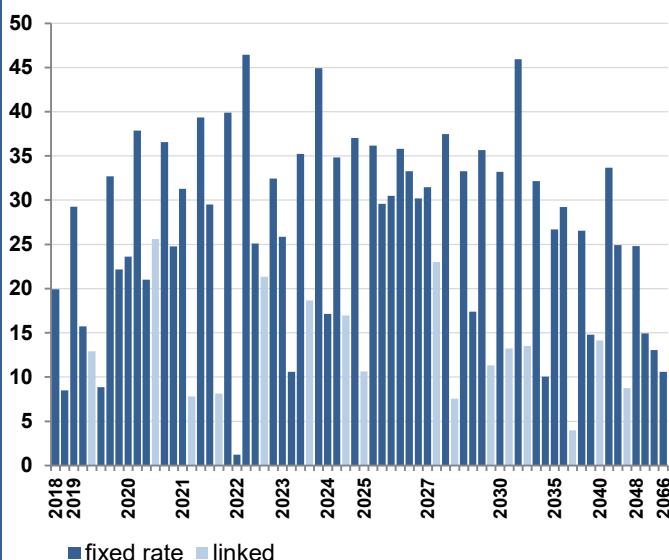
		Short-term				Medium-term	Long-term	Index-linked
December 2018	auction date	3	10	17	24	6	6	/
	settlement date	5	12	19	28	10	10	/

auctions the second and the fourth Thursday of the month

Source: Agence France Trésor

Medium- and long-term negotiable government debt at 31 October 2018

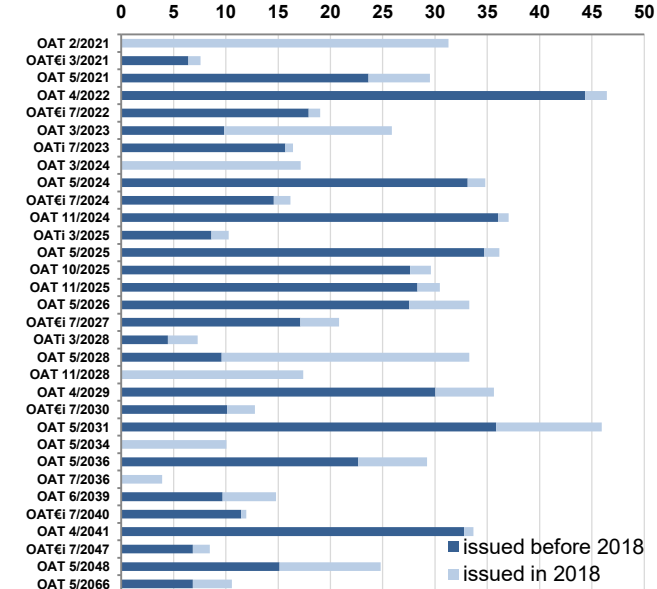
Nominal value of each line, in € billion



Source: Agence France Trésor

Medium- and long-term: securities issued during the year and total issuance at 31 October 2018

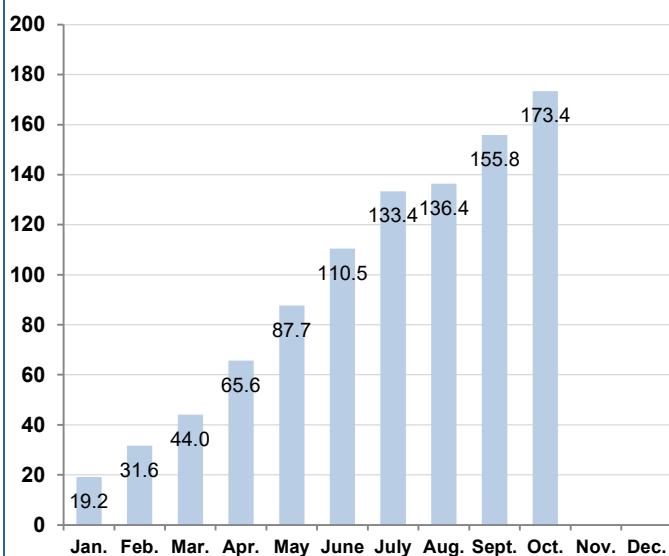
In € billion



Source: Agence France Trésor

Issuance net of buybacks at 31 October 2018

In € billion



Source: Agence France Trésor

Medium- and long-term: provisional maturity schedule at 31 October 2018

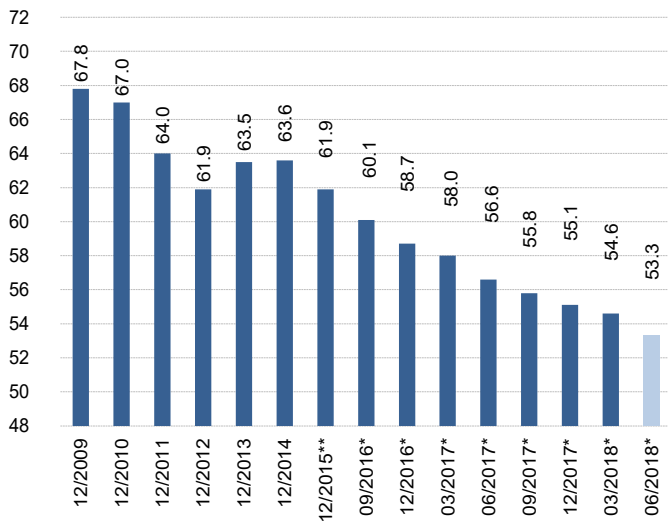
In € billion

Month	Coupon	Redemption
Nov-18	1.5	19.9
Dec-18		
Jan-19		
Feb-19		8.5
Mar-19	0.0	
Apr-19	13.6	29.3
May-19	6.0	15.7
Jun-19	0.3	
Jul-19	3.1	13.0
Aug-19		
Sep-19		
Oct-19	12.5	41.5

Source: Agence France Trésor

Non-resident holders of negotiable government debt in second quarter of 2018

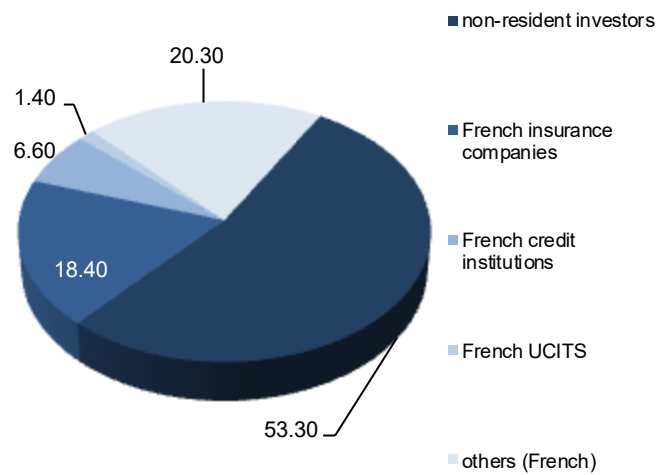
As a % of negotiable debt outstanding expressed in market value



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

Negotiable government debt by group of holders in second quarter of 2018

Structure in % expressed in market value



Source: Banque de France

Negotiable government debt at 31 October 2018

In euros

Total medium- and long-term debt	1,640,795,679,536
Total stripping activity	63,026,934,700
Average maturity	8 years and 180 days
Total short-term debt	118,781,000,000
Average maturity	115 days
TOTAL OUTSTANDING	1,759,576,679,536
Average maturity	7 years and 344 days

Source: Agence France Trésor

Negotiable government debt since 2015 at 31 October 2018

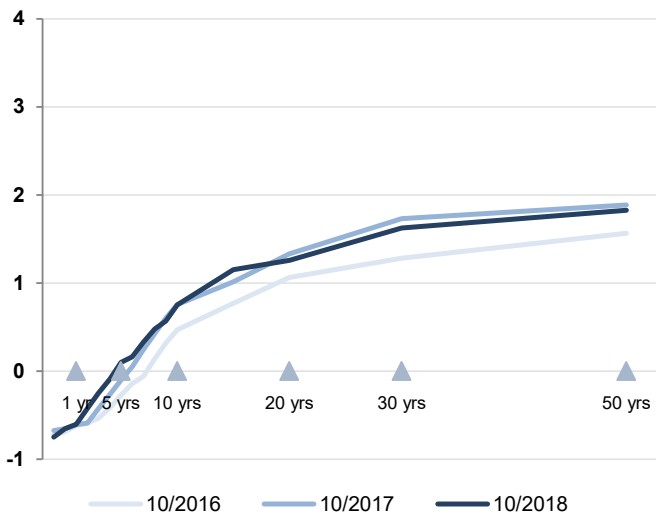
In € billion

	End 2015	End 2016	End 2017	End Sept. 2018	End Oct. 2018
Negotiable government debt outstanding	1,576	1,621	1,686	1,772	1,760
<i>of which index-linked securities</i>	190	200	202	215	218
Medium- and long-term	1,424	1,487	1,560	1,650	1,641
short-term	153	134	126	122	119
Average maturity of the negotiable debt					
	7 years	7 years	7 years	7 years	7 years
	47 days	195 days	296 days	309 days	344 days

Source: Agence France Trésor

Yield curve for French government securities

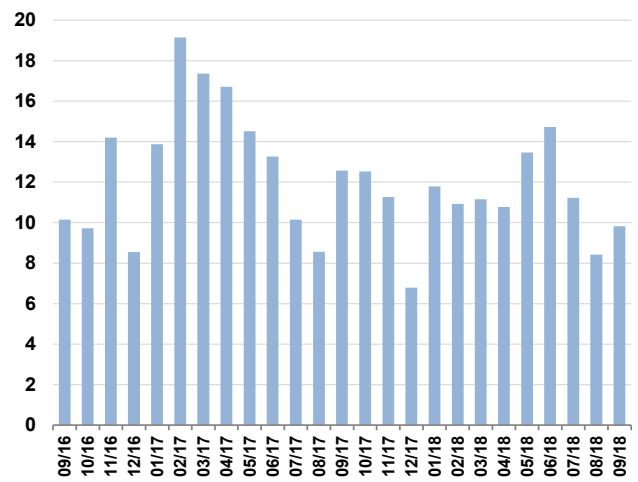
End-of-month value, %



Source: Bloomberg

Average daily volume of medium- and long-term transactions

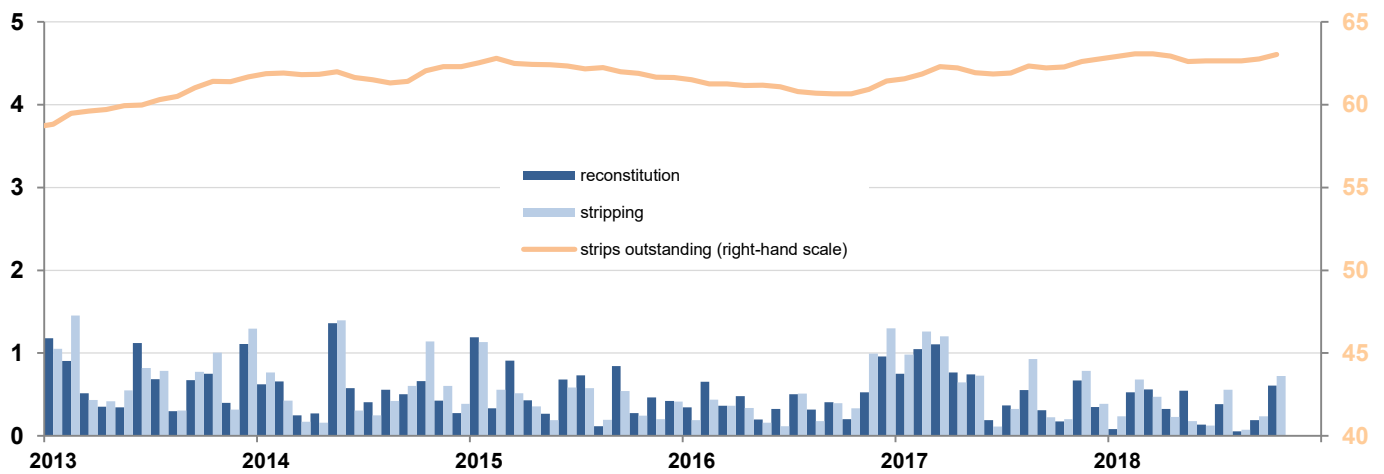
In € billion



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

Total stripping and reconstitution

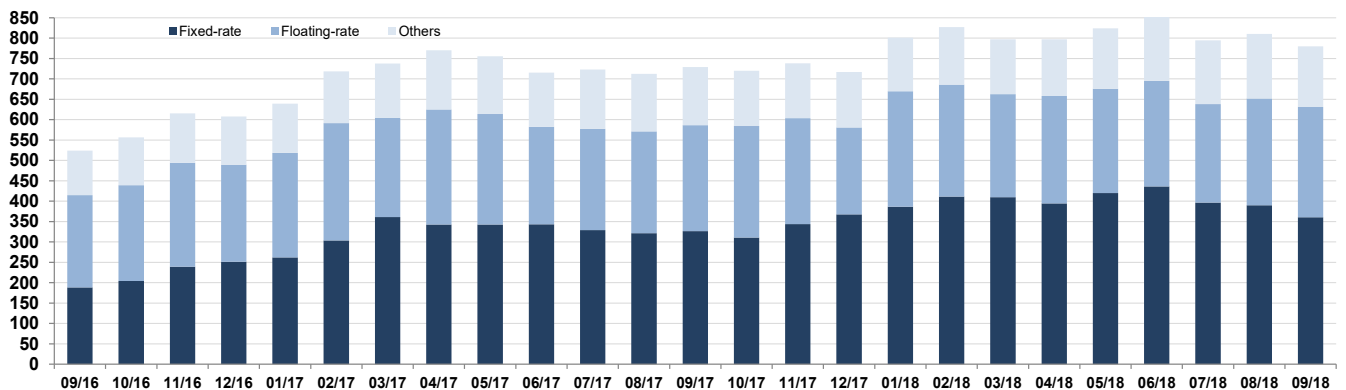
In € billion



Source: Euroclear

Primary dealers, repo outstanding at end of month

In € billion



Source: reporting by primary dealers in government securities

Short-term debt at 31 October 2018

	Maturity	Outstanding (€)
BTF	7 November 2018	4,847,000,000
BTF	14 November 2018	6,260,000,000
BTF	21 November 2018	4,010,000,000
BTF	28 November 2018	6,223,000,000
BTF	5 December 2018	2,175,000,000
BTF	12 December 2018	9,059,000,000
BTF	19 December 2018	4,150,000,000
BTF	4 January 2019	5,257,000,000
BTF	9 January 2019	9,507,000,000
BTF	16 January 2019	5,380,000,000
BTF	23 January 2019	5,473,000,000
BTF	30 January 2019	6,145,000,000
BTF	13 February 2019	4,559,000,000
BTF	27 February 2019	5,540,000,000
BTF	13 March 2019	4,835,000,000
BTF	27 March 2019	4,755,000,000
BTF	10 April 2019	1,189,000,000
BTF	25 April 2019	4,890,000,000
BTF	22 May 2019	4,752,000,000
BTF	19 June 2019	3,745,000,000
BTF	17 July 2019	4,369,000,000
BTF	14 August 2019	4,235,000,000
BTF	11 September 2019	3,926,000,000
BTF	9 October 2019	3,500,000,000

Medium- and long-term debt (maturing 2018-2021) at 31 October 2018

ISIN Code	Bond	Outstanding (€)	Ind. Coeff.	Face value	Stripped (€)
	Maturity 2018	19,930,000,000			
FR0011523257	OAT 1.00% 25 November 2018*	19,930,000,000			20,000,000
	Maturity 2019	130,141,644,559			
FR0013101466	OAT 0.00% 25 February 2019*	8,480,000,000			0
FR0000189151	OAT 4.25% 25 April 2019	29,273,000,000			0
FR0011708080	OAT 1.00% 25 May 2019*	15,735,000,000			0
FR0010850032	OATi 1.30% 25 July 2019	12,897,577,000 (1)	1.10330	11,690,000,000	0
FR0000570921	OAT 8.50% 25 October 2019	8,844,392,893			5,480,585,100
FR0010776161	OAT 3.75% 25 October 2019	32,695,000,000			0
FR0011993179	OAT 0.50% 25 November 2019*	22,177,000,000			5,000,000
FR0000570954	OAT cap. 9.82% 31 December 2019	39,674,666 (2)		6,692,154	-
	Maturity 2020	169,462,846,400			
FR0013232485	OAT 0.00% 25 February 2020*	23,609,000,000			0
FR0010854182	OAT 3.50% 25 April 2020	37,871,000,000			0
FR0012557957	OAT 0.00% 25 May 2020*	21,019,000,000			0
FR0010050559	OAT <i>€i</i> 2.25% 25 July 2020	25,619,846,400 (1)	1.26144	20,310,000,000	0
FR0010949651	OAT 2.50% 25 October 2020	36,562,000,000			0
FR0012968337	OAT 0.25% 25 November 2020*	24,782,000,000			0
	Maturity 2021	155,995,910,940			
FR0013311016	OAT 0.00% 25 February 2021*	31,275,000,000			0
FR0013140035	OAT <i>€i</i> 0.10% 1 March 2021*	7,823,924,940 (1)	1.03409	7,566,000,000	0
FR0010192997	OAT 3.75% 25 April 2021	39,352,000,000			0
FR0013157096	OAT 0.00% 25 May 2021*	29,504,000,000			0
FR0011347046	OATi 0.10% 25 July 2021	8,149,986,000 (1)	1.04487	7,800,000,000	0
FR0011059088	OAT 3.25% 25 October 2021	39,891,000,000			0
	Maturity 2022	126,536,737,930			
FR0000571044	OAT 8.25% 25 April 2022	1,243,939,990			508,888,400
FR0011196856	OAT 3.00% 25 April 2022	46,422,000,000			0
FR0013219177	OAT 0.00% 25 May 2022*	25,105,000,000			0
FR0010899765	OAT <i>€i</i> 1.10% 25 July 2022	21,320,797,940 (1)	1.12138	19,013,000,000	0
FR0011337880	OAT 2.25% 25 October 2022	32,445,000,000			0
	Maturity 2023	135,266,970,553			
FR0013283686	OAT 0.00% 25 March 2023*	25,861,000,000			0
FR0000571085	OAT 8.50% 25 April 2023	10,606,195,903			5,372,565,200
FR0011486067	OAT 1.75% 25 May 2023*	35,237,000,000			0
FR0010585901	OATi 2.10% 25 July 2023	18,644,774,650 (1)	1.13653	16,405,000,000	0
FR0010466938	OAT 4.25% 25 October 2023	44,918,000,000			431,085,000

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

(2) Including coupons capitalised at 31 December 2017; 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.

Medium- and long-term debt (maturing in 2022 and beyond) at 31 October 2018

ISIN Code	Bond	Outstanding (€)	Ind. Coeff.	Face value	Stripped (€)
Maturity 2022		105,968,290,040			
FR0013344751	OAT 0.00% 25 March 2024*	17,156,000,000			0
FR0011619436	OAT 2.25% 25 May 2024*	34,810,000,000			0
FR0011427848	OAT€i 0.25% 25 July 2024*	16,977,290,040 (1)	1.05012	16,167,000,000	0
FR0011962398	OAT 1.75% 25 November 2024*	37,025,000,000			51,000,000
Maturity 2025		106,848,564,698			
FR0012558310	OATi 0.10% 1 March 2025*	10,625,636,580 (1)	1.03594	10,257,000,000	0
FR0012517027	OAT 0.50% 25 May 2025*	36,156,000,000			0
FR0000571150	OAT 6.00% 25 October 2025	29,593,928,118			2,850,064,400
FR0012938116	OAT 1.00% 25 November 2025*	30,473,000,000			0
Maturity 2026		99,302,000,000			
FR0010916924	OAT 3.50% 25 April 2026	35,814,000,000			0
FR0013131877	OAT 0.50% 25 May 2026*	33,274,000,000			0
FR0013200813	OAT 0.25% 25 November 2026*	30,214,000,000			0
Maturity 2027		91,913,870,680			
FR0013250560	OAT 1.00% 25 May 2027*	31,451,000,000			0
FR0011008705	OAT€i 1.85% 25 July 2027	23,008,870,680 (1)	1.10508	20,821,000,000	0
FR0011317783	OAT 2.75% 25 October 2027	37,454,000,000			118,843,600
Maturity 2028		58,269,918,914			
FR0013238268	OATi 0.10% 1 March 2028*	7,565,319,300 (1)	1.03422	7,315,000,000	0
FR0000571226	OAT zero coupon 28 March 2028	26,599,614 (3)		46,232,603	-
FR0013286192	OAT 0.75% 25 May 2028*	33,272,000,000			0
FR0013341682	OAT 0.75% 25 November 2028*	17,406,000,000			0
Maturity 2029		46,961,274,132			
FR0000571218	OAT 5.50% 25 April 2029	35,644,880,458			2,955,046,100
FR0000186413	OATi 3.40% 25 July 2029	11,316,393,674 (1)	1.29565	8,734,144,000	0
Maturity 2030		46,456,131,400			
FR0011883966	OAT 2.50% 25 May 2030*	33,208,000,000			0
FR0011982776	OAT€i 0.70% 25 July 2030*	13,248,131,400 (1)	1.03663	12,780,000,000	0
Maturity 2031		45,948,000,000			
FR0012993103	OAT 1.50% 25 May 2031*	45,948,000,000			63,500,000
Maturity 2032		45,690,905,250			
FR0000188799	OAT€i 3.15% 25 July 2032	13,528,582,650 (1)	1.27809	10,585,000,000	0
FR0000187635	OAT 5.75% 25 October 2032	32,162,322,600			11,279,157,400
Maturity 2033 et plus		256,102,614,040			
FR0013313582	OAT 1.25% 25 May 2034*	10,054,000,000			0
FR0010070060	OAT 4.75% 25 April 2035	26,678,000,000			4,886,337,000
FR0013154044	OAT 1.25% 25 May 2036*	29,226,000,000			0
FR0013327491	OAT€i 0.10% 25 July 2036*	3,981,632,160 (1)	1.01676	3,916,000,000	0
FR0010371401	OAT 4.00% 25 October 2038	26,534,000,000			4,763,931,400
FR0013234333	OAT 1.75% 25 June 2039*	14,793,000,000			0
FR0010447367	OAT€i 1.80% 25 July 2040	14,144,292,240 (1)	1.18392	11,947,000,000	0
FR0010773192	OAT 4.50% 25 April 2041	33,670,000,000			6,872,999,000
FR0011461037	OAT 3.25% 25 May 2045*	24,908,000,000			1,177,710,000
FR0013209871	OAT€i 0.10% 25 July 2047*	8,736,689,640 (1)	1.03173	8,468,000,000	0
FR0013257524	OAT 2.00% 25 May 2048*	24,815,000,000			700,100,000
FR0010171975	OAT 4.00% 25 April 2055	14,926,000,000			7,702,218,000
FR0010870956	OAT 4.00% 25 April 2060	13,055,000,000			7,208,804,100
FR0013154028	OAT 1.75% 25 May 2066*	10,581,000,000			579,100,000

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

(3) Revised on 28 March 2018; 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	-1.1%	Sep. 2018
Household consumption*, year-on-year	1.5%	Oct. 2018
Unemployment rate (ILO)	9.1%	Q4-2017
Consumer prices, year-on-year		
all items	2.2%	Oct. 2018
all items excluding tobacco	1.9%	Oct. 2018
Trade balance, fob-fob, sa (€bn)	-€5.7bn	Sep. 2018
" "	-€5.7bn	Aug. 2018
Current account balance, sa (€bn)	-€1.9bn	Sep. 2018
" "	-€2.0bn	Aug. 2018
10-year constant maturity rate (TEC10)	0.71%	28 Nov. 2018
3-month interest rate (Euribor)	-0.32%	26 Nov. 2018
EUR / USD	1.13	28 Nov. 2018
EUR / JPY	128.47	28 Nov. 2018

* manufactured products

Sources: Insee, Minefi, Banque de France

Monthly government budget position

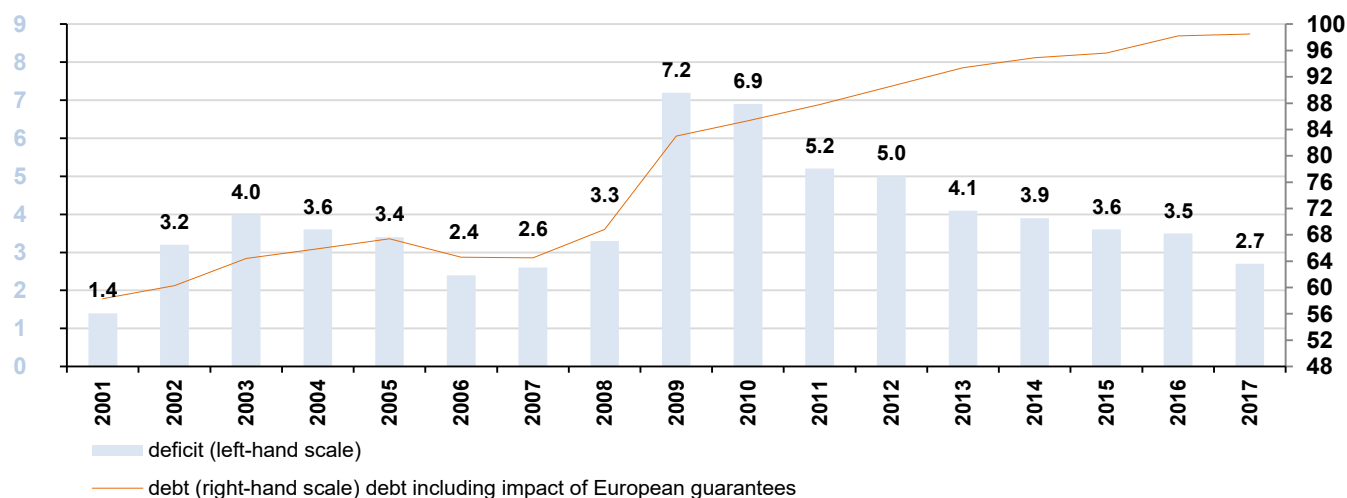
In € billion

	end of September level				
	2016	2017	2016	2017	2018
General budget balance	-75.85	-73.35	-48.34	-49.64	-59.13
revenue	303.97	313.59	229.01	238.28	231.88
expenditure	379.82	386.94	277.35	287.92	291.01
Balance of special Treasury accounts	6.80	5.53	-34.68	-26.62	-28.01
General budget outturn	-69.05	-67.67	-83.02	-76.26	-87.14

Source: Minefi

Public finances: deficit and debt

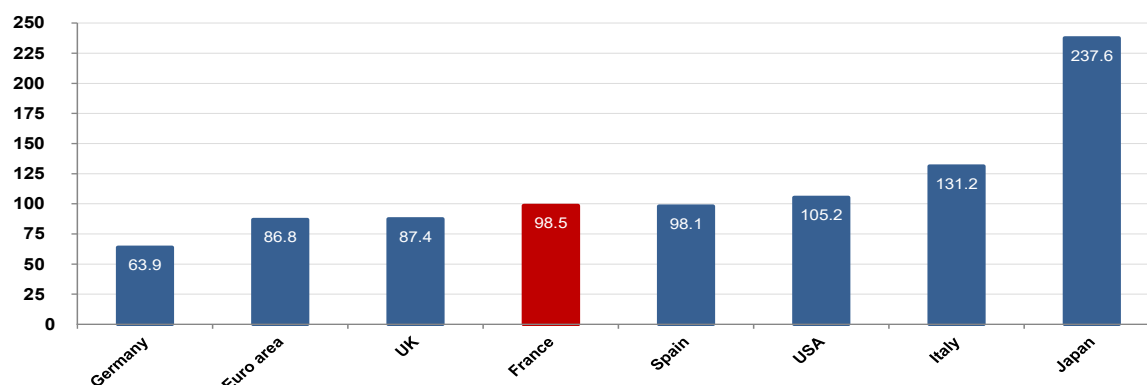
As % of GDP



Source: Insee

General government debt in 2017

As % of GDP



Sources: Eurostat, IMF, Insee

French economic indicators: timetable

Decembre 2018		January 2019	
 7	Foreign trade by value in October	 4	Industrial producer and import price: December indices
 7	Balance of payments in October	 4	Consumer prices: December index
 7	Industrial production: October index	 4	Foreign trade by value in November
 11	Payroll employment: Q3 2018	 4	Balance of payments in November
 13	Consumer prices: November index	 9	Consumer confidence survey: December survey
 14	Net international reserves in November	 10	Industrial production: November index
 17	Inflation (HICP): November index	 15	Consumer prices: December index
 21	Debt of the general government according to Maastricht definition Q3-2018	 15	Net international reserves in December
 21	Quarterly national accounts: final results Q3-2018	 24	Monthly business survey (goods-producing industries) in January
 21	Industrial producer and import price: November indices	 24	Quarterly business survey (goods-producing industries) in
 21	Household consumption expenditure on goods in November	 25	Job seekers Q4-2018 (ILO)
 21	Monthly business survey (goods-producing industries) in December	 30	Quarterly national accounts: initial estimate Q4-2018
		 30	Household consumption expenditure on goods in December
		 31	Industrial producer and import price: December indices
		 31	Consumer prices: December index

Sources: Insee, Eurostat

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