

N°363
AUGUST
2020

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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France Trésor

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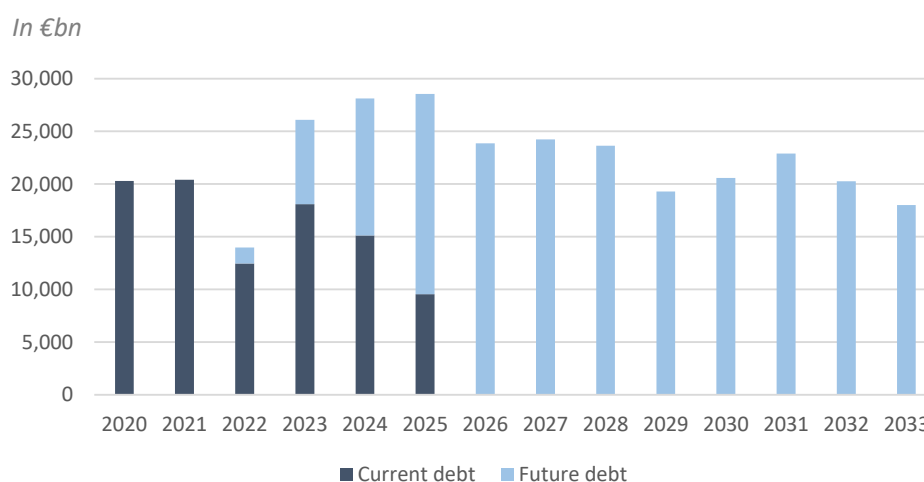
CADES RETURNS TO THE CAPITAL MARKETS WITH A SOCIAL BOND ISSUANCE PROGRAMME

As a consequence of the pandemic and the government's responses to it, France's central government deficit for the year should stand at €222bn under the terms of the third Revised Budget Act for 2020, which was passed in June¹. The crisis has also had an impact on social security financing, just as a return to balanced accounts in 2023 seemed possible for the main social security system (including the old-age solidarity fund). The worsening economic environment has led to declining revenues and higher expenditure, including capital expenditure, on hospitals and on health and social services. This will inevitably result in deeper deficits in the coming years.

Under the circumstances, France's National Assembly passed a Constitutional Bylaw and an ordinary Act on 23 July. This legislation was promulgated on 7 August to arrange the assumption of €136bn in social debt by the Caisse d'amortissement de la dette sociale (CADES). The debt assumed includes nearly €31bn in past deficits, a payment of €13bn in support of the health insurance system to cover hospital debt service, which was announced in November, and a provision of €92bn for the projected Social Security deficits from 2020 to 2023. As a result, the redemption date for the debt assumed by CADES has been pushed back from 2024 to 2033.

In practical terms, the new transfer started on 20 August, with a first payment of €4bn from CADES to the central agency for Social Security bodies (ACOSS). CADES has responded with a new bond issuance programme. It will be carried out by Agence France Trésor, which has been responsible for CADES financing operations since the staff merger enacted in 2017. CADES has opted to issue social bonds to finance its assumption of the new debt. These bonds will comply with the Social Bond Principles of the International Capital Market Association, which have four core components: use of proceeds for social expenditure, evaluation of relevant expenditure, transparent management of proceeds and publication of an annual report.

Redemption timetable for illustration purposes after assuming the new debt, based on the financing and refinancing assumptions



¹ See the editorial of the Monthly Bulletin No. 361, June 2020.

Spyros Andreopoulos, senior Eurozone economist, Ankit Gheedia, senior equity strategist and Eric Oynoyan, senior G10 rates strategist at BNP Paribas

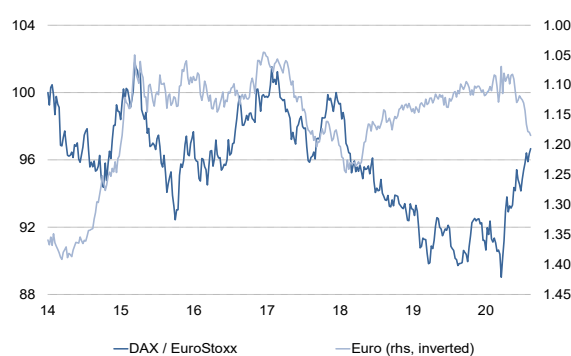
Does the recent EUR/USD move matter for equities?

In the near term, we believe revenue and operational leverage will drive equity prices more than FX will. Over the longer term, if USD weakness persists and the 2021 global economic outlook becomes clearer, FX could again be reflected in exporters' price performance. A substantial move in EURUSD such as that seen recently up by more than 5% over the past few weeks would usually lead to differentiation in equities between exporters and domestics.

Trades to position for a strong euro could be to go short DAX versus STOXX 600 or to go long Eurozone midcaps versus large caps. Typically, these would work in a mid-cycle period of low revenue volatility, when variation in FX has a marked impact on profit margins and thus stock prices.

This time, however, revenue volatility is still quite high and there remains a great deal of uncertainty regarding the revenue outlook after the Covid-19 crisis. As a result, variation in FX markets is not the largest driver of profit margins at present.

DAX continues to outperform despite EUR/USD rally



Source: Bloomberg, BNP Paribas

Does the recent EUR/USD move matter for rates?

We do not believe that recent EURUSD move will have any significant impact on European government bond yields and intra-EMU spreads over the coming months. Indeed, in a context of ECB PEPP suppressing volatility on EUR rates and spreads, we think that what will really matter going into September should be the rise in the gross Eurozone government bond supply and the launch of the EU issuance related to the Eurozone recovery fund.

September, by contrast, has been historically the month of steeper curves on both cash and swap markets. The rationale behind that seasonal re-steepening of slopes is the combined jump in the gross government bond supply and swapped issuance. Looking at the 2007-2018 period, the 2s10s and 10s30s slopes have steepened 83% of the time the first half of September, something also observed in September 2019. If anything a further rally of the EURUSD could temporarily fuel a rise in expectations of a deposit facility cut among investors (5bp is priced in by June 2021) which would even strengthen that seasonal steepening pattern on cash and swap curves in September.

A seasonal steepening of 2s10s slope since 2007

Seasonal steepening patterns					
Month	% of steepening	Std. dev.	Average move	Average steepening	Number of days
Feb	67%	8bp	3bp	7bp	9d
Sep	83%	11bp	8bp	11bp	11d
Oct	75%	6bp	3bp	6bp	6d
Seasonal flattening patterns					
Month	% of flattening	Std. dev.	Average move	Average flattening	Number of days
Mar	75%	12bp	4bp	10bp	16d
Apr	75%	4bp	2bp	4bp	13d

Source: BNP Paribas

A seasonal steepening of 10s30s slope since 2007

Seasonal steepening patterns					
Month	% of steepening	Std. dev.	Average move	Average steepening	Number of days
Jan	75%	14bp	6bp	10bp	15d
Feb	92%	4bp	2bp	3bp	12d
Mar	75%	8bp	1bp	4bp	11d
Apr	92%	3bp	2bp	3bp	10d
Sep	83%	5bp	4bp	5bp	12d
Seasonal flattening patterns					
Month	% of flattening	Std. dev.	Average move	Average flattening	Number of days
Oct	75%	7bp	2bp	4bp	5d
Dec	75%	5bp	2bp	4bp	6d

Source: BNP Paribas

With the EUR strengthening, could the ECB cut the deposit rate?

We think the risk-reward of a cut is not favourable, and that while the strengthening might elicit comments that keep the possibility of a cut on the table, the ECB will not actually make the move.

The EUR is up by more than 10% against the USD from March lows and by around 3% on Nominal Effective Exchange Rate (NEER) terms. As a rule of thumb, we estimate that a 10% appreciation takes roughly 0.2pp off headline inflation after one year and 0.1pp off core inflation – not negligible, in our view.

We think the ECB Governing Council is aware that the euro is fundamentally undervalued and the recent appreciation is partly due to break-up premium being priced out, thanks in part to the EU's recovery fund. However, the appreciation has come at an awkward moment and at remarkable speed.

Further cuts in the deposit rate could easily leave the ECB on the wrong side of the reversal rate, in our view, and it is not clear how much lasting easing another 10bp or so could provide. Indeed, if the market believes that any cut could be the ECB's 'last 10bp', the euro could even strengthen afterwards.

NB : this Agence France Trésor forum offers economists an opportunity to express their personal opinion. Accordingly, 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, Finance and the Recovery. Please note that the views expressed in this article represent the personal views of the research analyst author and do not represent an official view of BNP Paribas. In no event should any view expressed in this report be construed as an endorsement or criticism of any government policy, statement, or initiative on the part of BNP Paribas.

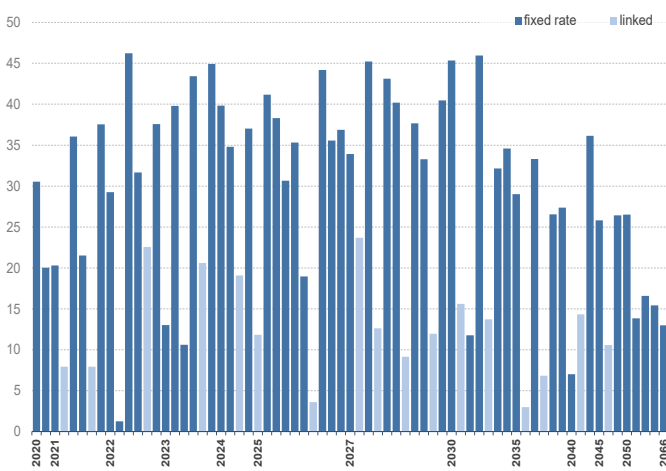
INDICATIVE AUCTION SCHEDULE

		Short-term					Medium-term	Long-term	Index-linked
September 2020	auction date	7	14	21	28	/	17	3	17
	settlement date	9	16	23	30	/	21	7	21
October 2020	auction date	5	12	19	26	/	15	1	15
	settlement date	7	14	21	28	/	19	5	19

Source: Agence France Trésor

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

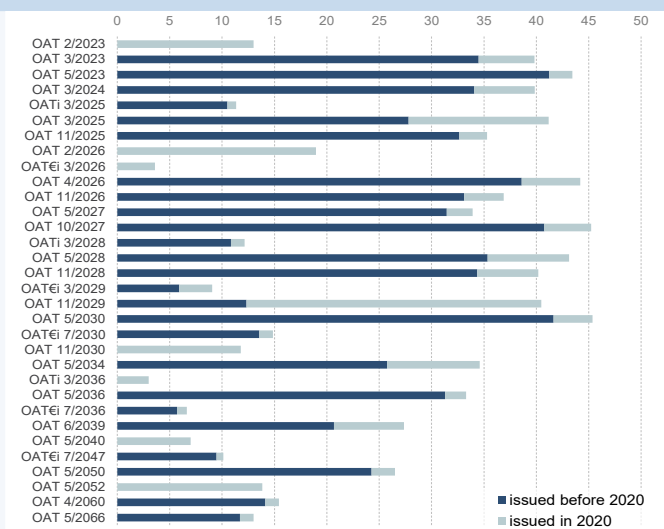
NOMINAL VALUE OF EACH LINE, IN € BILLION



Source: Agence France Trésor

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

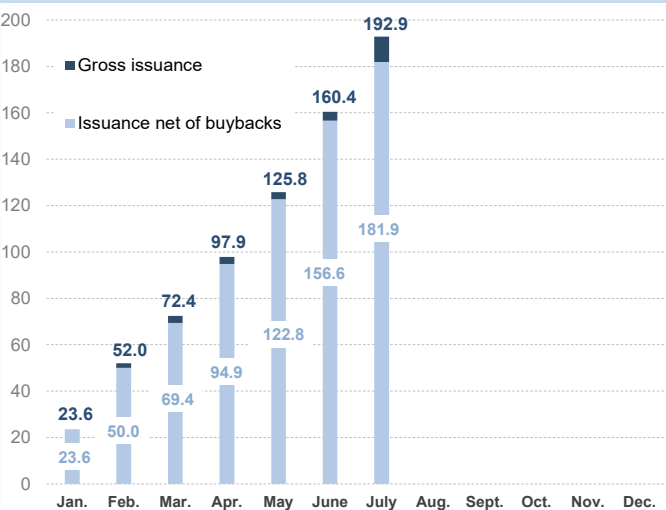
IN € BILLION



Source: Agence France Trésor

ISSUANCE AT 31 JULY 2020

IN € BILLION



Source: Agence France Trésor

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

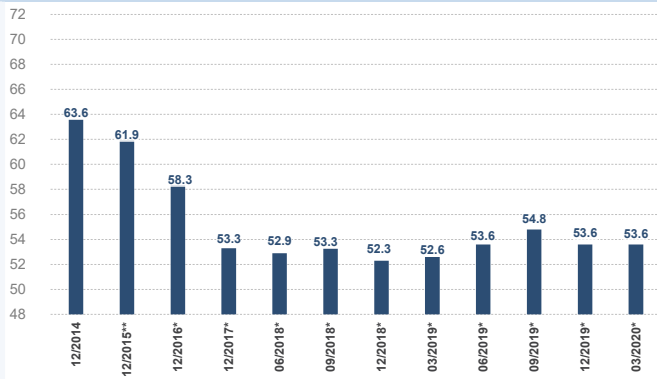
IN € BILLION

Month	Coupon	Redemption
Aug-20		
Sep-20		
Oct-20	10.7	30.5
Nov-20	1.4	20.0
Dec-20		
Jan-21		
Feb-21		20.3
Mar-21	0.0	7.9
Apr-21	11.6	36.1
May-21	7.5	21.5
Jun-21	0.5	
Jul-21	2.4	8.0

Source: Agence France Trésor

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

AS A % OF NEGOTIABLE DEBT OUTSTANDING
EXPRESSED IN MARKET VALUE

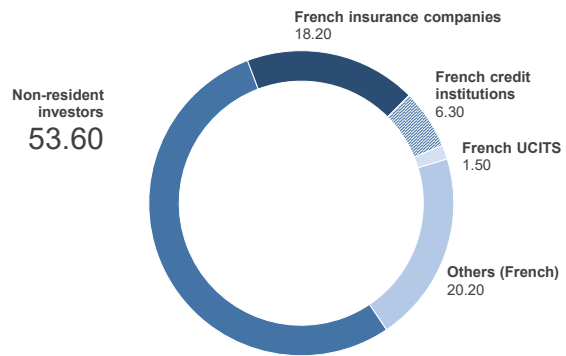


(*) figures quarterly revised

(**) figures annually revised

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

STRUCTURE IN % EXPRESSED IN MARKET VALUE



Source: Banque de France

NEGOTIABLE GOVERNMENT DEBT AT 31 JULY 2020

IN EUROS

Total medium- and long-term debt	1,812,139,493,402
Total stripping activity	56,983,459,600
Average maturity	8 years and 294 days
Total short-term debt	179,772,000,000
Average maturity	124 days
Total outstanding	1,991,911,493,402
Average maturity	8 years and 15 days

Source: Agence France Trésor

NEGOTIABLE GOVERNMENT DEBT SINCE 2017 AT 31 JULY 2020

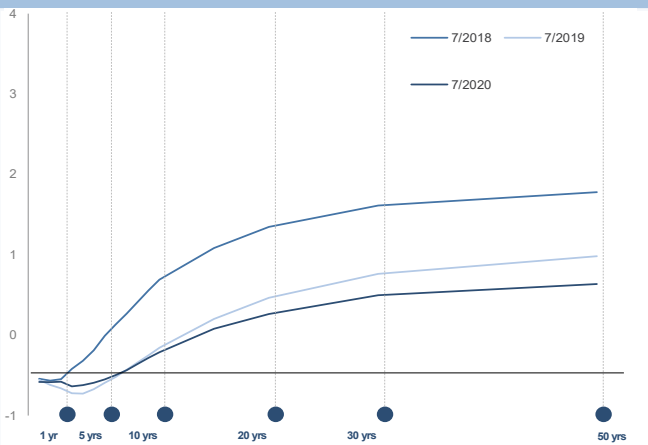
IN € BILLION

	End 2017	End 2018	End 2019	End June 2020	End July 2020
Negotiable government debt outstanding	1,686	1,756	1,823	1,981	1,992
<i>of which index-linked securities</i>	<i>202</i>	<i>220</i>	<i>226</i>	<i>235</i>	<i>215</i>
Medium- and long-term	1,560	1,644	1,716	1,811	1,812
Short-term	126	113	107	170	180
Average maturity of the negotiable debt	7 years	7 years	8 years	7 years	8 years
	296 days	336 days	63 days	355 days	15 days

Source: Agence France Trésor

YIELD CURVE FOR FRENCH GOVERNMENT SECURITIES

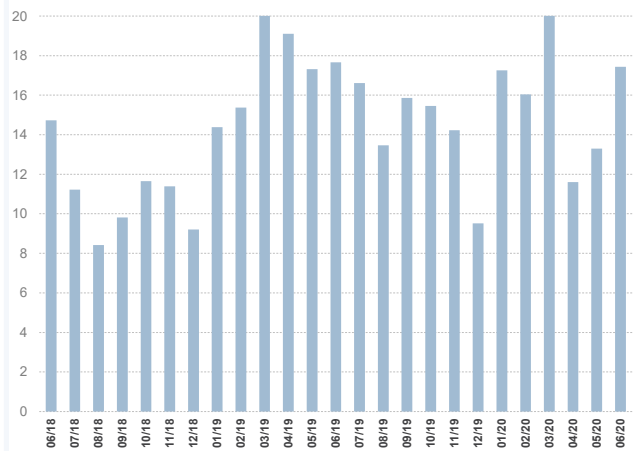
END-OF-MONTH VALUE, %



Source: Bloomberg

AVERAGE DAILY VOLUME OF MEDIUM- AND LONG-TERM TRANSACTIONS

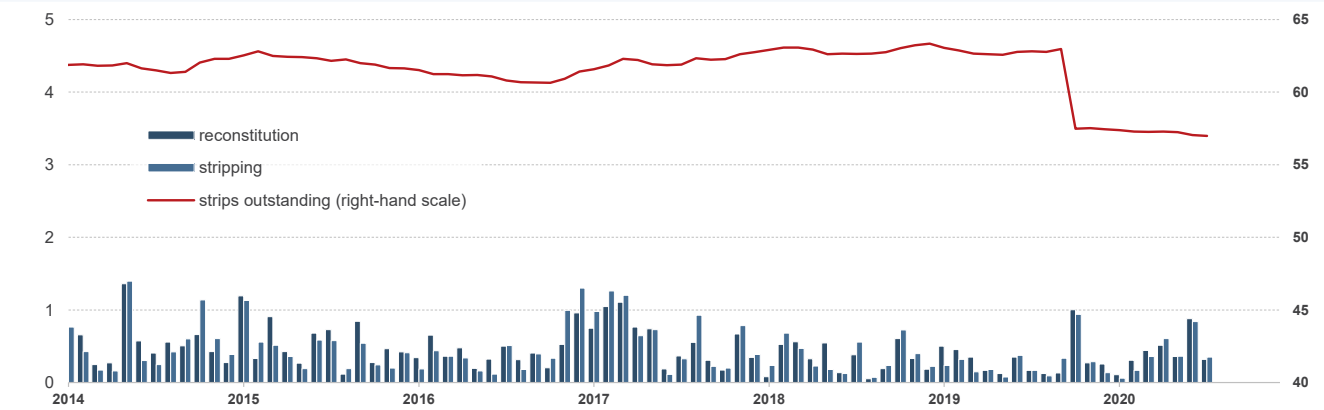
IN € BILLION



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

TOTAL STRIPPING AND RECONSTITUTION

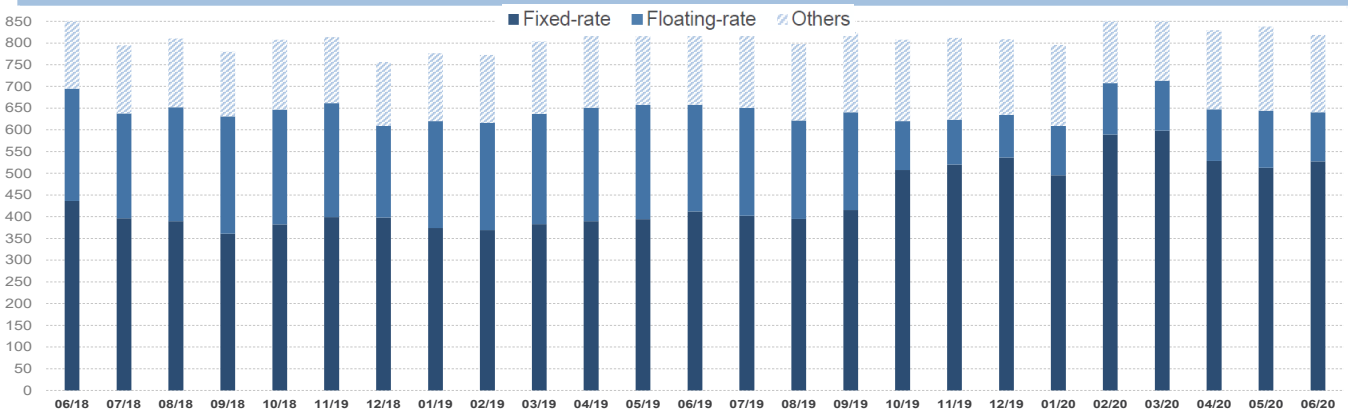
IN € BILLION



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 JULY 2020

ISIN Code	Maturity	Outstanding(€)
FR0125848640	BTF 1 July 2020	5,971,000,000
FR0126001686	BTF 8 July 2020	8,998,000,000
FR0125692451	BTF 15 July 2020	5,158,000,000
FR0126001694	BTF 22 July 2020	8,650,000,000
FR0125848657	BTF 29 July 2020	4,659,000,000
FR0126001702	BTF 5 August 2020	9,322,000,000
FR0125692469	BTF 12 August 2020	5,267,000,000
FR0126001710	BTF 19 August 2020	8,094,000,000
FR0125848665	BTF 26 August 2020	7,042,000,000
FR0126001728	BTF 2 September 2020	7,491,000,000
FR0125692477	BTF 9 September 2020	5,084,000,000
FR0126001736	BTF 16 September 2020	7,810,000,000
FR0126001744	BTF 23 September 2020	10,149,000,000
FR0125848467	BTF 7 October 2020	7,313,000,000
FR0126001769	BTF 21 October 2020	8,757,000,000
FR0125848475	BTF 4 November 2020	5,688,000,000
FR0125848475	BTF 18 November 2020	7,335,000,000
FR0125848483	BTF 2 December 2020	6,470,000,000
FR0125848673	BTF 27 January 2021	4,660,000,000
FR0125848681	BTF 24 February 2021	6,215,000,000
FR0125848699	BTF 24 March 2021	7,338,000,000
FR0126001785	BTF 21 April 2021	10,971,000,000
FR0126001793	BTF 19 May 2021	8,329,000,000
FR0126001801	BTF 16 June 2021	2,732,000,000

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

ISIN Code	Bond	Outstanding(€)	Ind. Coeff.	Face value(€)	Stripped(€)	CAC*
Maturity 2020		50,565,000,000				
FR0010949651	OAT 2.50% 25 October 2020	30,547,000,000			0	
FR0012968337	OAT 0.25% 25 November 2020	20,018,000,000			3,000,000	x
Maturity 2021		131,270,137,860				
FR0013311016	OAT 0.00% 25 February 2021	20,302,000,000			0	x
FR0013140035	OAT <i>€i</i> 0.10% 1 March 2021	7,927,352,160 (1)	1.04776	7,566,000,000	0	x
FR0010192997	OAT 3.75% 25 April 2021	36,067,000,000			0	
FR0013157096	OAT 0.00% 25 May 2021	21,502,000,000			0	x
FR0011347046	OAT <i>i</i> 0.10% 25 July 2021	7,930,785,700 (1)	1.04974	7,555,000,000	0	
FR0011059088	OAT 3.25% 25 October 2021	37,541,000,000			0	
Maturity 2022		168,523,918,590				
FR0013398583	OAT 0.00% 25 February 2022	29,253,000,000			0	x
FR0000571044	OAT 8.25% 25 April 2022	1,243,939,990			311,888,400	
FR0011196856	OAT 3.00% 25 April 2022	46,222,000,000			0	
FR0013219177	OAT 0.00% 25 May 2022	31,666,000,000			0	x
FR0010899765	OAT <i>€i</i> 1.10% 25 July 2022	22,556,978,600 (1)	1.13620	19,853,000,000	0	
FR0011337880	OAT 2.25% 25 October 2022	37,582,000,000			0	
Maturity 2023		172,396,943,743				
FR0013479102	OAT 0.00% 25 February 2023	13,016,000,000			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			5,378,665,200	
FR0011486067	OAT 1.75% 25 May 2023	43,434,000,000			0	x
FR0010585901	OAT <i>i</i> 2.10% 25 July 2023	20,607,747,840 (1)	1.14183	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 JULY 2020

ISIN Code	Bond	Outstanding(€)	Ind. Coeff.	Face value(€)	Stripped(€)	CAC*
Maturity 2024		130 739 995 190				
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	19 065 995 190 (1)	1,06401	17 919 000 000	0	x
FR0011962398	OAT 1.75% 25 November 2024	37 025 000 000			42 000 000	x
Maturity 2025		157 251 708 388				
FR0012558310	OATi 0.10% 1 March 2025	11 813 780 270 (1)	1,04077	11 351 000 000	0	x
FR0013415627	OAT 0.00% 25 March 2025	41 176 000 000			0	x
FR0012517027	OAT 0.50% 25 May 2025	38 297 000 000			0	x
FR0000571150	OAT 6.00% 25 October 2025	30 653 928 118			2 812 064 400	
FR0012938116	OAT 1.00% 25 November 2025	35 311 000 000			0	x
Maturity 2026		139 174 000 000				
FR0013508470	OAT 0.00% 25 February 2026	18 953 000 000			0	x
FR0013519253	OAT€i 0.10% 1 March 2026	3 594 000 000 (1)	0,99823	3 594 000 000	0	x
FR0010916924	OAT 3.50% 25 April 2026	44 202 000 000			0	
FR0013131877	OAT 0.50% 25 May 2026	35 550 000 000			0	x
FR0013200813	OAT 0.25% 25 November 2026	36 875 000 000			0	x
Maturity 2027		102 842 640 400				
FR0013250560	OAT 1.00% 25 May 2027	33 924 000 000			0	x
FR0011008705	OAT€i 1.85% 25 July 2027	23 692 640 400 (1)	1,11969	21 160 000 000	0	
FR0011317783	OAT 2.75% 25 October 2027	45 226 000 000			46 943 600	
Maturity 2028		95 988 318 410				
FR0013238268	OATi 0.10% 1 March 2028	12 631 609 280 (1)	1,03904	12 157 000 000	0	x
FR0000571226	OAT zero coupon 28 March 2028	29 709 130 (3)		46 232 603	–	
FR0013286192	OAT 0.75% 25 May 2028	43 135 000 000			0	x
FR0013341682	OAT 0.75% 25 November 2028	40 192 000 000			0	x
Maturity 2029		132 525 640 141				
FR0013410552	OAT€i 0.10% 1 March 2029	9 142 549 590 (1)	1,00811	9 069 000 000	0	x
FR0000571218	OAT 5.50% 25 April 2029	37 680 880 458			2 372 546 100	
FR0013407236	OAT 0.50% 25 May 2029	33 281 000 000			0	x
FR0000186413	OATi 3.40% 25 July 2029	11 956 210 093 (1)	1,30169	9 185 144 000	0	
FR0013451507	OAT 0.00% 25 November 2029	40 465 000 000			0	x
Maturity 2030		72 749 105 120				
FR0011883966	OAT 2.50% 25 May 2030	45 360 000 000			0	x
FR0011982776	OAT€i 0.70% 25 July 2030	15 612 253 760 (1)	1,05034	14 864 000 000	0	x
FR0013516549	OAT 0.00% 25 November 2030	11 777 000 000			0	x
Maturity in 2031 and beyond		458 112 085 560				
FR0012993103	OAT 1.50% 25 May 2031	45 948 000 000			53 900 000	x
FR0000188799	OAT€i 3.15% 25 July 2032	13 707 469 150 (1)	1,29499	10 585 000 000	0	
FR0000187635	OAT 5.75% 25 October 2032	32 162 322 600			10 879 757 400	
FR0013313582	OAT 1.25% 25 May 2034	34 584 000 000			0	x
FR0010070060	OAT 4.75% 25 April 2035	29 004 000 000			4 467 837 000	
FR0013524014	OATi 0.10% 1 March 2036	3 000 000 000 (1)	0,99574	3 000 000 000	0	x
FR0013154044	OAT 1.25% 25 May 2036	33 300 000 000			0	x
FR0013327491	OAT€i 0.10% 25 July 2036	6 835 377 000 (1)	1,03020	6 635 000 000	0	x
FR0010371401	OAT 4.00% 25 October 2038	26 534 000 000			4 704 941 400	
FR0013234333	OAT 1.75% 25 June 2039	27 375 000 000			0	x
FR0013515806	OAT 0.50% 25 May 2040	7 000 000 000			0	x
FR0010447367	OAT€i 1.80% 25 July 2040	14 331 262 790 (1)	1,19957	11 947 000 000	0	
FR0010773192	OAT 4.50% 25 April 2041	36 152 000 000			6 005 299 000	
FR0011461037	OAT 3.25% 25 May 2045	25 824 000 000			1 068 810 000	x
FR0013209871	OAT€i 0.10% 25 July 2047	10 588 654 020 (1)	1,04538	10 129 000 000	0	x
FR0013257524	OAT 2.00% 25 May 2048	26 409 000 000			651 900 000	x
FR0013404969	OAT 1.50% 25 May 2050	26 515 000 000			112 600 000	x
FR0013480613	OAT 0.75% 25 May 2052	13 830 000 000			95 000 000	x
FR0010171975	OAT 4.00% 25 April 2055	16 583 000 000			8 222 518 000	
FR0010870956	OAT 4.00% 25 April 2060	15 432 000 000			8 173 904 100	
FR0013154028	OAT 1.75% 25 May 2066	12 997 000 000			1 139 800 000	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	-23.4%	Jun. 2020
Household consumption*, year-on-year	0.7%	Jul. 2020
Unemployment rate (ILO)	7.1%	Q2-2020
Consumer prices, year-on-year		
• all items	0.8%	Jul. 2020
• all items excluding tobacco	0.5%	Jul. 2020
Trade balance, fob-fob, sa (€bn)	-€8.0bn	Jun. 2020
" "	-€7.5bn	May. 2020
Current account balance, sa (€bn)	-€8.2bn	Jun. 2020
" "	-€8.4bn	May. 2020
10-year constant maturity rate (TEC10)	-0.11%	31 Aug. 2020
3-month interest rate (Euribor)	-0.48%	27 Aug. 2020
EUR / USD	1.19	28 Aug. 2020
EUR / JPY	125.39	28 Aug. 2020

MONTHLY GOVERNMENT BUDGET POSITION

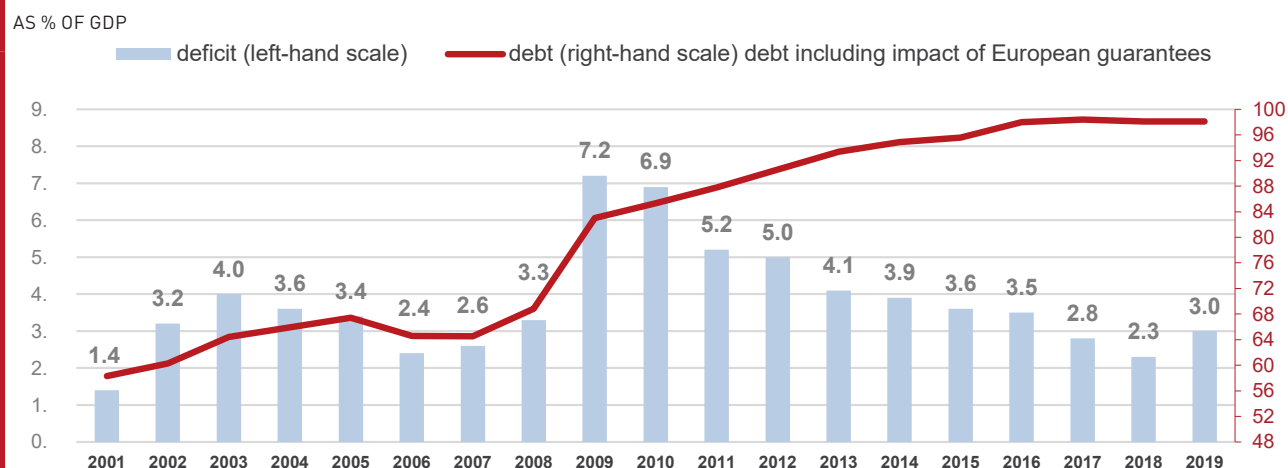
			end of June level		
	2018	2019	2018	2019	2020
General budget balance	-76.91	-96.91	-40.46	-60.61	-101.29
Revenue	313.79	301.07	159.44	143.77	129.27
Expenditure	390.69	397.98	199.90	204.38	230.55
Balance of special Treasury accounts	0.82	4.06	-18.40	-16.73	-23.59
General budget outturn	-76.00	-92.69	-58.87	-77.34	-124.88

* manufactured products

Sources: Insee, Minefi, Banque de France

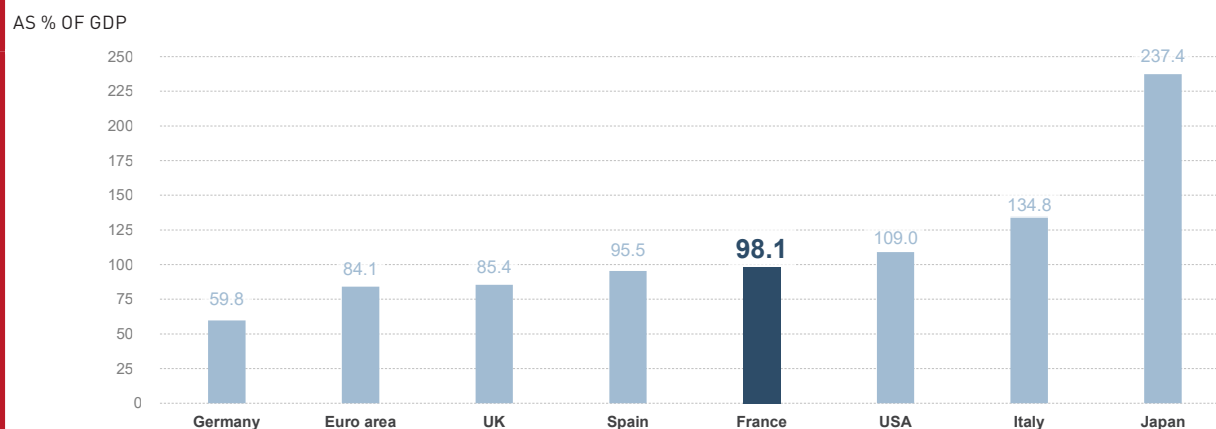
Source: Ministry of Public Action and Accounts

PUBLIC FINANCES: DEFICIT AND DEBT



Source: Insee

GENERAL GOVERNMENT DEBT IN 2019



Sources: Eurostat, IMF, Insee

SEPTEMBER 2020 

4 Balance of payments in July	8 Payroll employment Q2	8 Foreign trade by value in July	10 Industrial production: July index	15 Consumer prices: August indices	15 Net international reserves in August
24 Monthly business survey (goods-producing industries) in September	25 Debt of the general government according to Maastricht definition Q2	29 Consumer confidence survey: September survey	30 Industrial producer and import price: August indices	30 Consumer prices: September index	30 Household consumption expenditure on goods in August

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