

N°354
NOVEMBER
2019

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.News at Agence
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SURVEY: THE FRENCH GOVERNMENT DEBT MARKET CONTINUES TO PROVIDE FULL SATISFACTION FOR INVESTORS IN 2019

Investors remain very highly satisfied with the functioning of the French government debt market. This is the finding of the seventeenth annual online survey of primary dealers' customers conducted between 9 September and 4 October 2019 by the independent research firm, IEM Finance. The annual survey focuses on the quality of business relationships and the services that primary dealers provide to their customers, as well as on the functioning of the French government debt market. In 2019, 221 investors responded to the survey. Respondents represented a total of 157 institutions, primarily major asset managers, insurers and public institutions trading on the French government debt market.

Overall investor satisfaction has been stable for the last three years: 96.2% reported that they were «satisfied» or «very satisfied» in 2019, compared to 97.0% in 2018 and 95.7% in 2017. In the specific case of French investors, the proportion who reported that they were «satisfied» or «very satisfied» reached 100% for the third year in a row, with a significant increase in the proportion of «very satisfied» investors (57.8%, compared to 48.9% in 2018 and 40.0% in 2017).

Liquidity and transparency remain important criteria for investors, 84.9% of whom deemed liquidity to be «very important» and 69.3% felt the same way about transparency. Although investors attribute less importance to them, there was nonetheless a significant increase in the importance given to the other two criteria, innovation and predictability in 2019.

Investors continue to appreciate the liquidity of French government securities very much. Investors reported that they were «satisfied» or «very satisfied» with fixed-rate OATs in the same proportions (98% in 2019, compared to 97.5% in 2017 and 2018). On the other hand, investor satisfaction with inflation-linked bonds declined substantially in 2019, with 63% reporting that they were «satisfied» or «very satisfied», compared to 74.6% in 2018. This finding corroborates the weakening of the inflation-linked bond market observed since the beginning of 2019. In the case of BTFs, 91% of investors reported that they were «satisfied» or «very satisfied» in 2019, compared to 86% in 2018. It should be noted that one third of the respondents did not give an opinion about inflation-linked bonds and BTFs.

The rankings of the five primary dealers that respondents most frequently cited as their main partners on the French Treasury securities market are as follows:

2019	2018
1 – BNP Paribas	1 – BNP Paribas
2 – Société Générale	2 – Société Générale
3 – JP Morgan	3 – JP Morgan
4 – Crédit Agricole CIB	4 – Crédit Agricole CIB
5 – Barclays	5 – Natixis

The vast majority of investors approves AFT's flexibility in the choice of securities to be issued, with off-the-run securities being added to auctions (94.9% reported that they were «fairly satisfied» or «very satisfied» in 2019, compared to 97.4% in 2018 and 94.4% in 2017).

Finally, IEM Finance has surveyed investor interest in the Green OAT since 2018. A growing proportion of respondents reported buying a Green OAT (40%, compared to 31% in 2018) either through a syndicated offering for 61%, of buyers, compared to 72% in 2018 and/or on the secondary market for 79% of buyers, compared to 64% in 2018. Of the buyers, 52% reported that they bought the bond because of its green credentials, compared to 65% in 2018. This finding confirms that the Green OAT not only attract ESG¹ investors; it also features technical qualities that are on a par with those of the other OATs.

¹Environmental issues, Social issues, Governance issues

EUROPE'S MISSING INFLATION

By Sven Jari Stehn, Hugo Monnery, Christian Schnittker, European Economics Analysts at Goldman Sachs

Inflation has remained subdued across the Euro area since mid-2017. Core (ex food and energy) inflation has hovered around 1% since mid-2017, while measures of inflation expectations have fallen to historical lows. This weakness in price inflation contrasts with the substantial labour market improvement that we have seen in recent years. The area-wide unemployment rate has indeed fallen to its lowest level since mid-2008 and wage growth has picked up significantly since 2016. Although the year-over-year growth rate has recently eased somewhat, compensation per employee grew at an annualised quarterly pace of 2.2% in Q2-2019, only slightly below its pre-crisis pace

The persistent shortfall of inflation from the ECB's aim together with the protracted weakness of growth momentum have eroded the Governing Council's confidence that inflation will climb back to 2% over the medium term. The Governing Council therefore returned to easing in September and pledged to keep policy highly accommodative until price pressures have strengthened sufficiently.

No wage puzzle

The behaviour of wage growth is consistent with the prediction of a simple "Phillips curve," which explains pay gains with the unemployment rate, productivity and inflation expectations. We find that labour market slack weighed notably on wage growth after the crisis and has been the main driver of wage gains in recent years.

Gains in earnings slowed notably after the crisis in response to the sharp increase in the unemployment rate. Looking at the unexplained component of wage growth, we see that a bit of a wage puzzle emerged during 2014-16 when the unemployment rate fell but pay growth remained subdued. But earnings gains subsequently picked up quite strongly, catching up with the predictions of the model.

The missing inflation

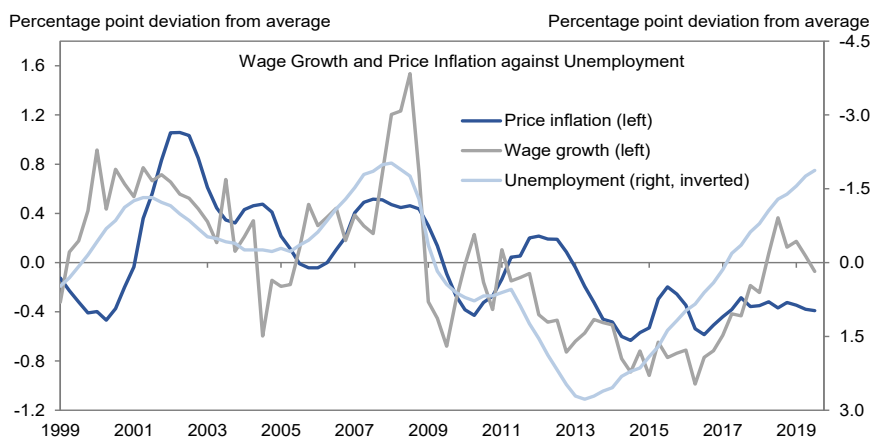
Core inflation, however, remains surprisingly weak compared with the rise in wage growth. Although labour costs and inflation expectations play an important role, Euro area core inflation is highly persistent and well explained by its own lag. The recent increases in wages as implied by the Phillips curve are yet to feed through to inflation, which has given rise to the "missing inflation" since 2017.

The inflation puzzle is closely related to weak profit growth, as firms have absorbed rising wage costs by compressing profit margins rather than passing the costs on to consumers. The evolution of profits margins is likely driven by both structural and cyclical factors. Our previous work suggests that the proliferation of e-commerce and the absence of global "superstar" firms in the Euro area will likely inhibit margin expansion on a more sustained basis. But we also see evidence that a significant part of the recent compression in profits is cyclical. Recent ECB staff work suggests that weak global demand has been the key driver of the recent compression in margins.

A long road ahead

Simulations suggest that core inflation will remain subdued in coming years, although higher wage growth should eventually put some upward pressure on prices, any rise in core inflation will be a slow process given the recent decline in inflation expectations and strong inertia. Our model suggests that core inflation will only rise very slowly from here to around 1¼% at the end of 2022, broadly consistent with, but slightly below, our forecast.

Our analysis suggests that inflation will continue to fall well short of the ECB's inflation aim for the foreseeable future. We therefore expect an additional 10bp rate cut in 2020Q1, followed by a highly accommodative monetary policy stance for the foreseeable future.



Source: Haver Analytics, Goldman Sachs Global Investment Research

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 and Finance. 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 Goldman Sachs. 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 Goldman Sachs.

INDICATIVE AUCTION SCHEDULE

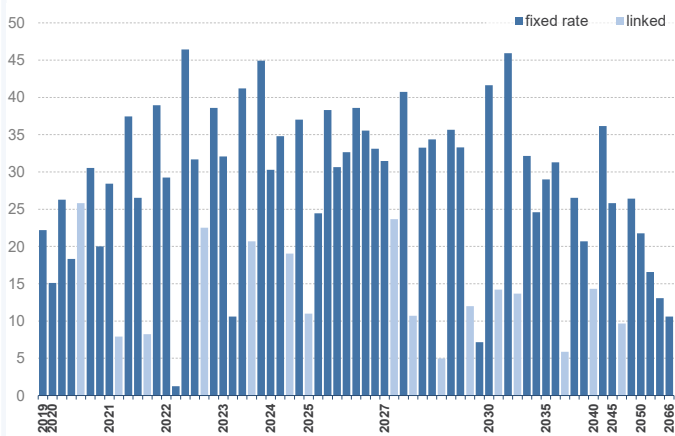
		Short-term					Medium-term	Long-term	Index-linked
December 2019	auction date	2	9	16	23	/	5	5	/
	settlement date	4	11	18	27	/	9	9	/
January 2020	auction date	6	13	20	27	/	23	9	23
	settlement date	8	15	22	29	/	27	13	27

optional auctions

Source: Agence France Trésor

MEDIUM- AND LONG-TERM NEGOTIABLE GOVERNMENT DEBT AT 31 OCTOBER 2019

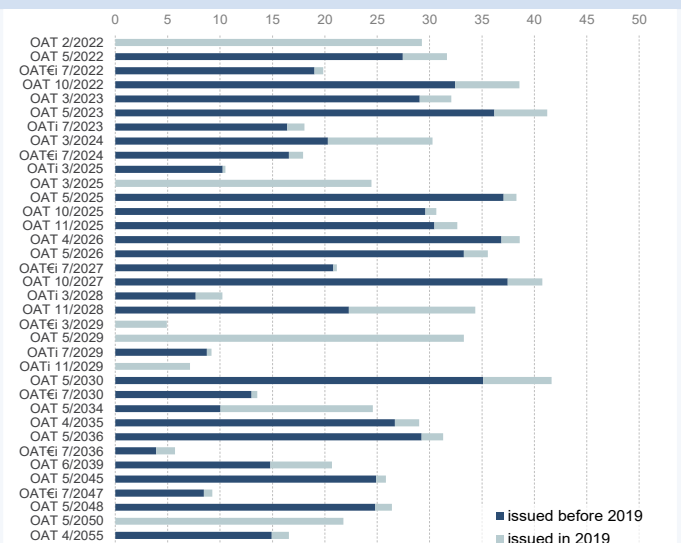
NOMINAL VALUE OF EACH LINE, IN € BILLION



Source: Agence France Trésor

MEDIUM- AND LONG-TERM: SECURITIES ISSUED DURING THE YEAR AND TOTAL ISSUANCE AT 31 OCTOBER 2019

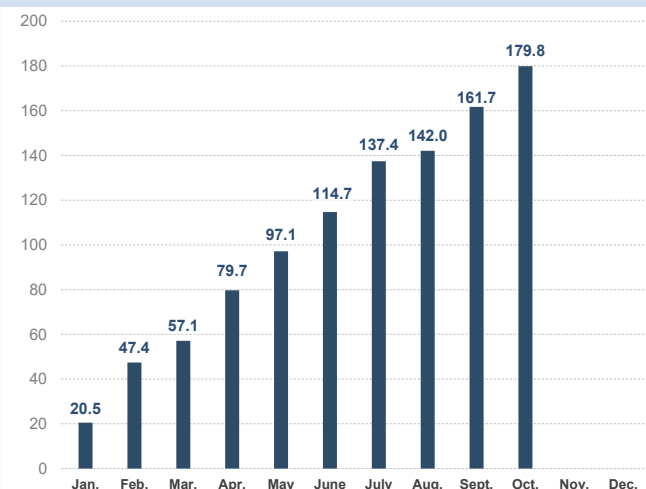
IN € BILLION



Source: Agence France Trésor

ISSUANCE NET OF BUYBACKS AT 31 OCTOBER 2019

IN € BILLION



Source: Agence France Trésor

MEDIUM- AND LONG-TERM: PROVISIONAL MATURITY SCHEDULE AT 31 OCTOBER 2019

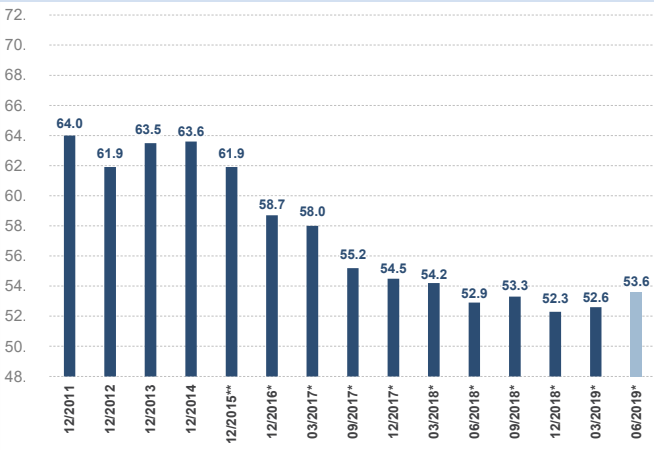
IN € BILLION

Month	Coupon	Redemption
Nov-19	1.5	22.2
Dec-19		0.0
Jan-20		
Feb-20		15.1
Mar-20	0.0	
Apr-20	12.2	26.3
May-20	6.9	18.3
Jun-20	0.4	
Jul-20	3.0	26.1
Aug-20		
Sep-20		
Oct-20	10.7	30.5

Source: Agence France Trésor

NON-RESIDENT HOLDERS OF NEGOTIABLE GOVERNMENT DEBT IN SECOND QUARTER OF 2019

AS A % OF NEGOTIABLE DEBT OUTSTANDING
EXPRESSED IN MARKET VALUE

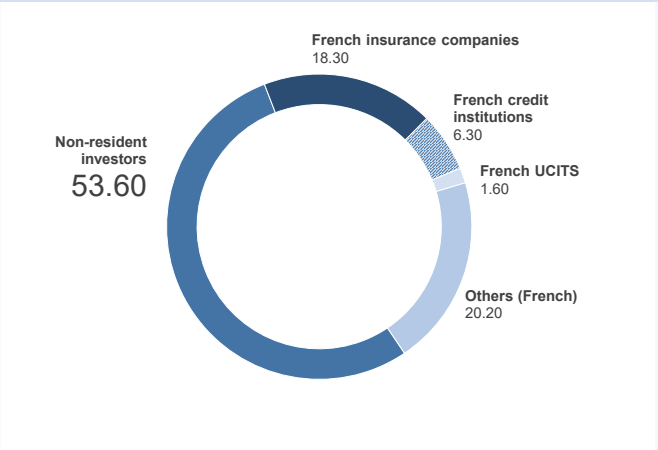


(*) figures quarterly revised

(**) figures annually revised

NEGOTIABLE GOVERNMENT DEBT BY GROUP OF HOLDERS IN SECOND QUARTER OF 2019

STRUCTURE IN % EXPRESSED IN MARKET VALUE



Source: Banque de France

NEGOTIABLE GOVERNMENT DEBT AT 31 OCTOBER 2019

IN EUROS

Total medium- and long-term debt	1,717,552,480,912
Total stripping activity	57,490,349,600
Average maturity	8 years and 229 days
Total short-term debt	113,779,000,000
Average maturity	122 days
Total outstanding	1,831,331,480,912
Average maturity	8 years and 41 days

Source: Agence France Trésor

NEGOTIABLE GOVERNMENT DEBT SINCE 2015 AT 31 OCTOBER 2019

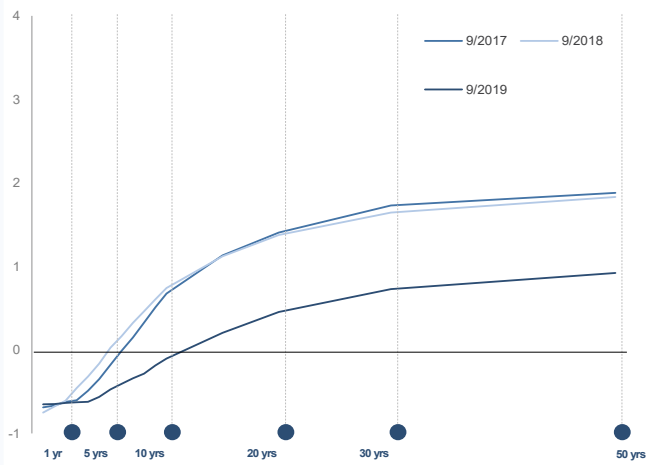
IN € BILLION

	End 2016	End 2017	End 2018	End Sept 2019	End Oct. 2019
Negotiable government debt outstanding	1,621	1,686	1,756	1,854	1,831
<i>of which index-linked securities</i>	<i>200</i>	<i>202</i>	<i>220</i>	<i>222</i>	<i>224</i>
Medium- and long-term	1,487	1,560	1,644	1,740	1,718
Short-term	134	126	113	114	114
Average maturity of the negotiable debt	7 years	7 years	7 years	7 years	8 years
	195 days	296 days	336 days	344 days	41 days

Source: Agence France Trésor

YIELD CURVE FOR FRENCH GOVERNMENT SECURITIES

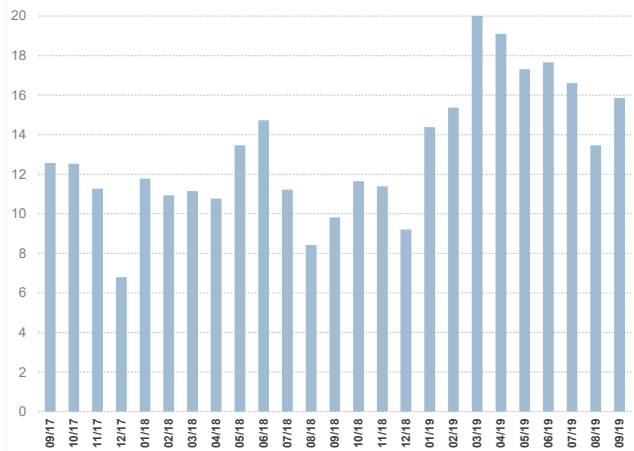
END-OF-MONTH VALUE, %



Source: Bloomberg

AVERAGE DAILY VOLUME OF MEDIUM- AND LONG-TERM TRANSACTIONS

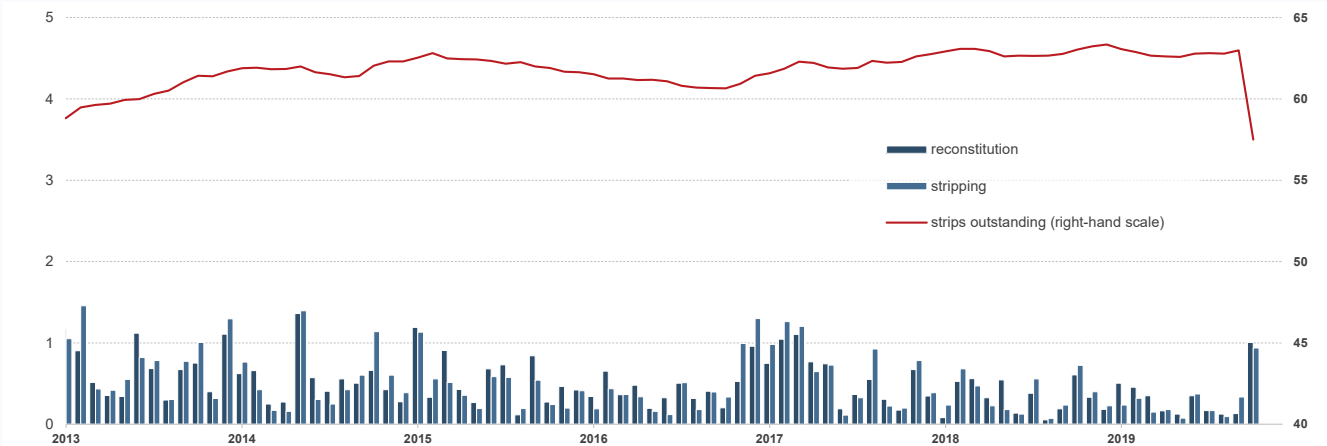
IN € BILLION



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

TOTAL STRIPPING AND RECONSTITUTION

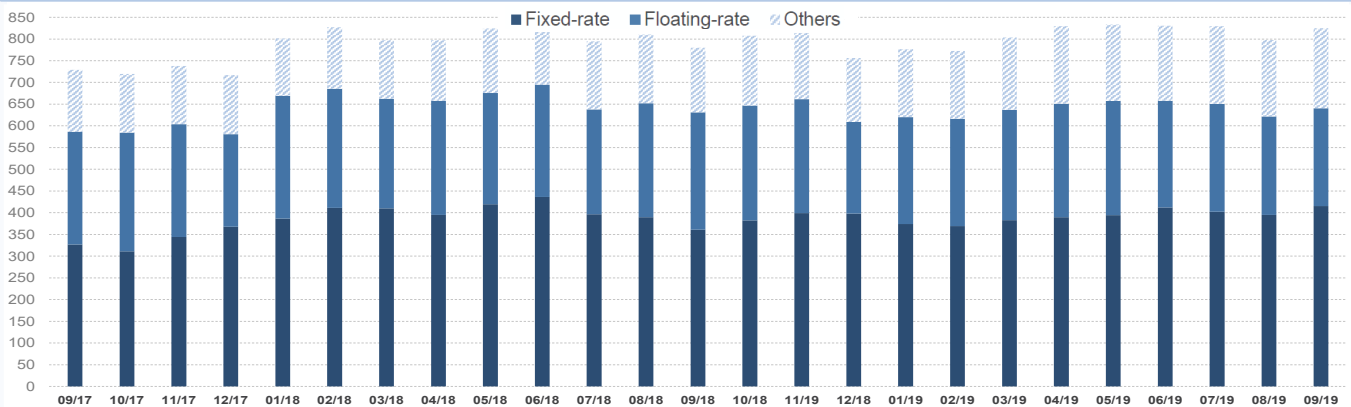
IN € BILLION



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 2019

ISIN Code	Maturity	Outstanding(€)
FR0125218265	BTF 6 November 2019	4,204,000,000
FR0125692386	BTF 14 November 2019	5,293,000,000
FR0125533101	BTF 20 November 2019	5,062,000,000
FR0125692394	BTF 27 November 2019	5,489,000,000
FR0125218273	BTF 4 December 2019	4,600,000,000
FR0125692402	BTF 11 December 2019	5,602,000,000
FR0125692410	BTF 18 December 2019	5,609,000,000
FR0125375099	BTF 2 January 2020	4,991,000,000
FR0125848491	BTF 8 January 2020	5,192,000,000
FR0125692428	BTF 15 January 2020	5,122,000,000
FR0125848509	BTF 22 January 2020	5,533,000,000
FR0125375107	BTF 29 January 2020	4,165,000,000
FR0125692436	BTF 12 February 2020	4,184,000,000
FR0125375115	BTF 26 February 2020	4,483,000,000
FR0125692444	BTF 11 March 2020	4,480,000,000
FR0125533119	BTF 25 March 2020	5,811,000,000
FR0125848558	BTF 8 April 2020	1,097,000,000
FR0125533127	BTF 22 April 2020	4,897,000,000
FR0125533135	BTF 20 May 2020	4,669,000,000
FR0125533143	BTF 17 June 2020	4,616,000,000
FR0125692451	BTF 15 July 2020	5,158,000,000
FR0125692469	BTF 12 August 2020	5,267,000,000
FR0125692477	BTF 9 September 2020	4,087,000,000
FR0125848467	BTF 7 October 2020	4,168,000,000

MEDIUM- AND LONG-TERM DEBT (MATURING 2019-2022) AT 31 OCTOBER 2019

ISIN Code	Bond	Outstanding(€)	Ind. Coeff.	Face value(€)	Stripped(€)	CAC*
	Maturity 2019	22,220,570,718				
FR0011993179	OAT 0.50% 25 November 2019	22,177,000,000			5,000,000	x
FR0000570954	OAT cap. 9.82% 31 December 2019	43,570,718 (2)		6,692,154	-	
	Maturity 2020	136,039,597,800				
FR0013232485	OAT 0.00% 25 February 2020	15,090,000,000			0	x
FR0010854182	OAT 3.50% 25 April 2020	26,261,000,000			0	
FR0012557957	OAT 0.00% 25 May 2020	18,332,000,000			0	x
FR0010050559	OAT€i 2.25% 25 July 2020	25,791,597,800 (1)	1.27618	20,210,000,000	0	
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	147,460,923,880				
FR0013311016	OAT 0.00% 25 February 2021	28,431,000,000			0	x
FR0013140035	OAT€i 0.10% 1 March 2021	7,915,397,880 (1)	1.04618	7,566,000,000	0	x
FR0010192997	OAT 3.75% 25 April 2021	37,429,000,000			0	
FR0013157096	OAT 0.00% 25 May 2021	26,522,000,000			0	x
FR0011347046	OATi 0.10% 25 July 2021	8,222,526,000 (1)	1.05417	7,800,000,000	0	
FR0011059088	OAT 3.25% 25 October 2021	38,941,000,000			0	
	Maturity 2022	169,689,969,960				
FR0013398583	OAT 0.00% 25 February 2022	29,253,000,000			0	x
FR0000571044	OAT 8.25% 25 April 2022	1,243,939,990			629,888,400	
FR0011196856	OAT 3.00% 25 April 2022	46,422,000,000			0	
FR0013219177	OAT 0.00% 25 May 2022	31,666,000,000			0	x
FR0010899765	OAT€i 1.10% 25 July 2022	22,523,029,970 (1)	1.13449	19,853,000,000	0	
FR0011337880	OAT 2.25% 25 October 2022	38,582,000,000			0	

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

(2) Including coupons capitalised at 31 December 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.

MEDIUM- AND LONG-TERM DEBT (MATURING IN 2023 AND BEYOND) AT 31 OCTOBER 2019

ISIN Code	Bond	Outstanding(€)	Ind. Coeff.	Face value(€)	Stripped(€)	CAC*
Maturity 2023		149 514 935 103				
FR0013283686	OAT 0.00% 25 March 2023	32 076 000 000			0	×
FR0000571085	OAT 8.50% 25 April 2023	10 606 195 903			5 386 165 200	
FR0011486067	OAT 1.75% 25 May 2023	41 220 000 000			0	×
FR0010585901	OATi 2.10% 25 July 2023	20 694 739 200 (1)	1,14665	18 048 000 000	0	
FR0010466938	OAT 4.25% 25 October 2023	44 918 000 000			440 085 000	
Maturity 2024		121 160 145 600				
FR0013344751	OAT 0.00% 25 March 2024	30 288 000 000			0	×
FR0011619436	OAT 2.25% 25 May 2024	34 810 000 000			0	×
FR0011427848	OATe 0.25% 25 July 2024	19 037 145 600 (1)	1,06240	17 919 000 000	0	×
FR0011962398	OAT 1.75% 25 November 2024	37 025 000 000			42 000 000	×
Maturity 2025		137 021 574 478				
FR0012558310	OATi 0.10% 1 March 2025	10 982 646 360 (1)	1,04517	10 508 000 000	0	×
FR0013415627	OAT 0.00% 25 March 2025	24 450 000 000			0	×
FR0012517027	OAT 0.50% 25 May 2025	38 297 000 000			0	×
FR0000571150	OAT 6.00% 25 October 2025	30 653 928 118			2 825 964 400	
FR0012938116	OAT 1.00% 25 November 2025	32 638 000 000			0	×
Maturity 2026		107 269 000 000				
FR0010916924	OAT 3.50% 25 April 2026	38 595 000 000			0	
FR0013131877	OAT 0.50% 25 May 2026	35 550 000 000			0	×
FR0013200813	OAT 0.25% 25 November 2026	33 124 000 000			0	×
Maturity 2027		95 860 880 000				
FR0013250560	OAT 1.00% 25 May 2027	31 451 000 000			0	×
FR0011008705	OATe 1.85% 25 July 2027	23 656 880 000 (1)	1,11800	21 160 000 000	0	
FR0011317783	OAT 2.75% 25 October 2027	40 753 000 000			48 043 600	
Maturity 2028		78 341 688 791				
FR0013238268	OATi 0.10% 1 March 2028	10 683 577 380 (1)	1,04342	10 239 000 000	0	×
FR0000571226	OAT zero coupon 28 March 2028	28 111 411 (3)		46 232 603	–	
FR0013286192	OAT 0.75% 25 May 2028	33 272 000 000			0	×
FR0013341682	OAT 0.75% 25 November 2028	34 358 000 000			0	×
Maturity 2029		93 035 949 812				
FR0013410552	OATe 0.10% 1 March 2029	4 961 432 820 (1)	1,00658	4 929 000 000	0	×
FR0000571218	OAT 5.50% 25 April 2029	35 644 880 458			2 530 546 100	
FR0013407236	OAT 0.50% 25 May 2029	33 281 000 000			0	×
FR0000186413	OATi 3.40% 25 July 2029	12 006 636 534 (1)	1,30718	9 185 144 000	0	
FR0013451507	OAT 0.00% 25 November 2029	7 142 000 000			0	×
Maturity 2030		55 859 903 750				
FR0011883966	OAT 2.50% 25 May 2030	41 642 000 000			0	×
FR0011982776	OATe 0.70% 25 July 2030	14 217 903 750 (1)	1,04875	13 557 000 000	0	×
Maturity 2031		45 948 000 000				
FR0012993103	OAT 1.50% 25 May 2031	45 948 000 000			54 500 000	×
Maturity 2032		45 849 045 150				
FR0000188799	OATe 3.15% 25 July 2032	13 686 722 550 (1)	1,29303	10 585 000 000	0	
FR0000187635	OAT 5.75% 25 October 2032	32 162 322 600			10 999 357 400	
Maturity in 2033 and beyond		312 280 295 870				
FR0013313582	OAT 1.25% 25 May 2034	24 577 000 000			0	×
FR0010070060	OAT 4.75% 25 April 2035	29 004 000 000			4 589 637 000	
FR0013154044	OAT 1.25% 25 May 2036	31 286 000 000			0	×
FR0013327491	OATe 0.10% 25 July 2036	5 858 161 750 (1)	1,02865	5 695 000 000	0	×
FR0010371401	OAT 4.00% 25 October 2038	26 534 000 000			4 738 931 400	
FR0013234333	OAT 1.75% 25 June 2039	20 677 000 000			0	×
FR0010447367	OATe 1.80% 25 July 2040	14 309 638 720 (1)	1,19776	11 947 000 000	0	
FR0010773192	OAT 4.50% 25 April 2041	36 152 000 000			6 409 799 000	
FR0011461037	OAT 3.25% 25 May 2045	25 824 000 000			1 409 010 000	×
FR0013209871	OATe 0.10% 25 July 2047	9 665 495 400 (1)	1,04379	9 260 000 000	0	×
FR0013257524	OAT 2.00% 25 May 2048	26 409 000 000			747 800 000	×
FR0013404969	OAT 1.50% 25 May 2050	21 765 000 000			138 600 000	×
FR0010171975	OAT 4.00% 25 April 2055	16 583 000 000			8 345 018 000	
FR0010870956	OAT 4.00% 25 April 2060	13 055 000 000			7 465 104 100	
FR0013154028	OAT 1.75% 25 May 2066	10 581 000 000			681 900 000	×

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

(3) Revised on 28 March 2019; 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	-0.4%	Sep. 2019
Household consumption*, year-on-year	-0.2%	Oct. 2019
Unemployment rate (ILO)	8.6%	Q3-2019
Consumer prices, year-on-year		
• all items	0.8%	Oct. 2019
• all items excluding tobacco	0.6%	Oct. 2019
Trade balance, fob-fob, sa (€bn)	-€5.6bn	Sep. 2019
" "	-€5.4bn	Aug. 2019
Current account balance, sa (€bn)	-€2.7bn	Sep. 2019
" "	-€2.5bn	Aug. 2019
10-year constant maturity rate (TEC10)	-0.07%	28 Nov. 2019
3-month interest rate (Euribor)	-0.40%	26 Nov. 2019
EUR / USD	1.10	29 Nov. 2019
EUR / JPY	120.50	29 Nov. 2019

MONTHLY GOVERNMENT BUDGET POSITION

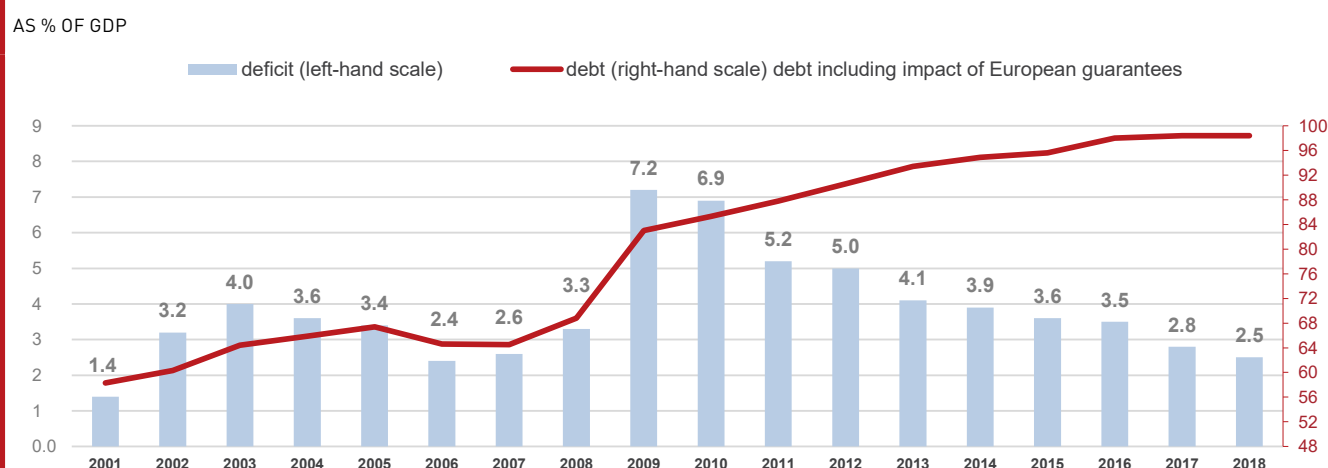
	end of September level				
	2017	2018	2017	2018	2019
General budget balance	-73.35	-76.91	-49.64	-59.13	-86.16
Revenue	313.59	313.77	238.28	231.88	212.81
Expenditure	386.94	390.69	287.92	291.01	298.97
Balance of special Treasury accounts	5.53	0.82	-26.62	-28.01	-22.85
General budget outturn	-67.67	-76.00	-76.26	-87.14	-109.01

* manufactured products

Sources: Insee, Minefi, Banque de France

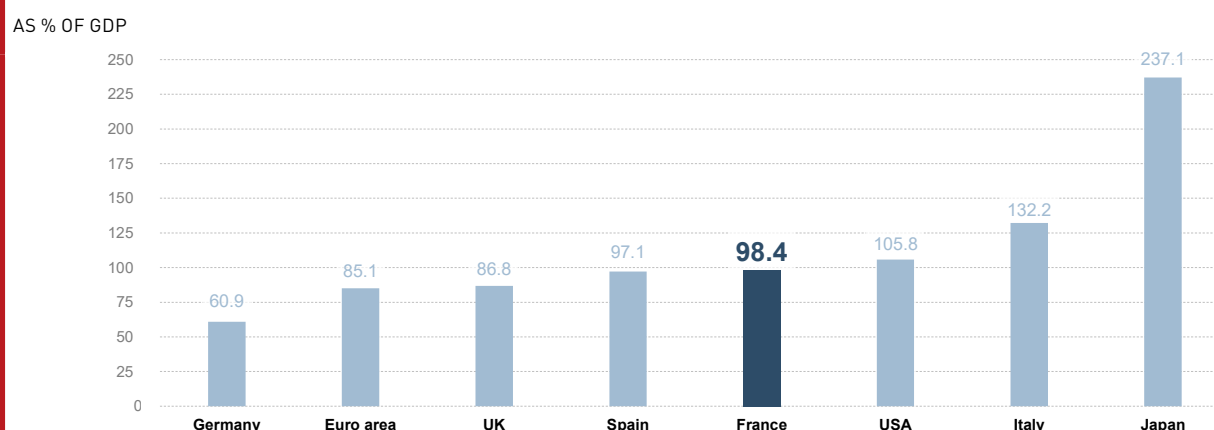
Source: Ministry of Public Action and Accounts

PUBLIC FINANCES: DEFICIT AND DEBT



Source: Insee


GENERAL GOVERNMENT DEBT IN 2018



Sources: Eurostat, FMI, Insee

DECEMBER 2019 

6 Balance of payments in October	6 Foreign trade by value in October	10 Payroll employment: Q4 2019	10 Industrial production: October index	12 Consumer prices: November index	13 Net international reserves in November
18 Inflation (HICP) : October index	19 Monthly business survey (goods-producing industries) in December	20 Industrial producer and import price: November indices	20 Household consumption expenditure on goods in November	20 Debt of the general government according to	

JANUARY 2020 

8 Foreign trade by value in November	8 Consumer confidence survey: December survey	8 Balance of payments in November 2019	10 Industrial production: November index	15 Consumer prices: December index	15 Net international reserves in December 2019
17 Inflation (HICP) : December index	22 Quarterly business survey (goods-producing industries) in January 2020	22 Monthly business survey (goods-producing industries) in January 2020	27 Job seekers – Q4 2019	29 Consumer confidence survey: January survey mensuelle de janvier 2020	31 Quarterly national accounts: initial estimate Q4-2019
31 Industrial producer and import price: december indices	31 Household consumption expenditure on goods in December				

Sources: Insee, Eurostat

Publication manager: Anthony Requin
 Editor: Agence France Trésor
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