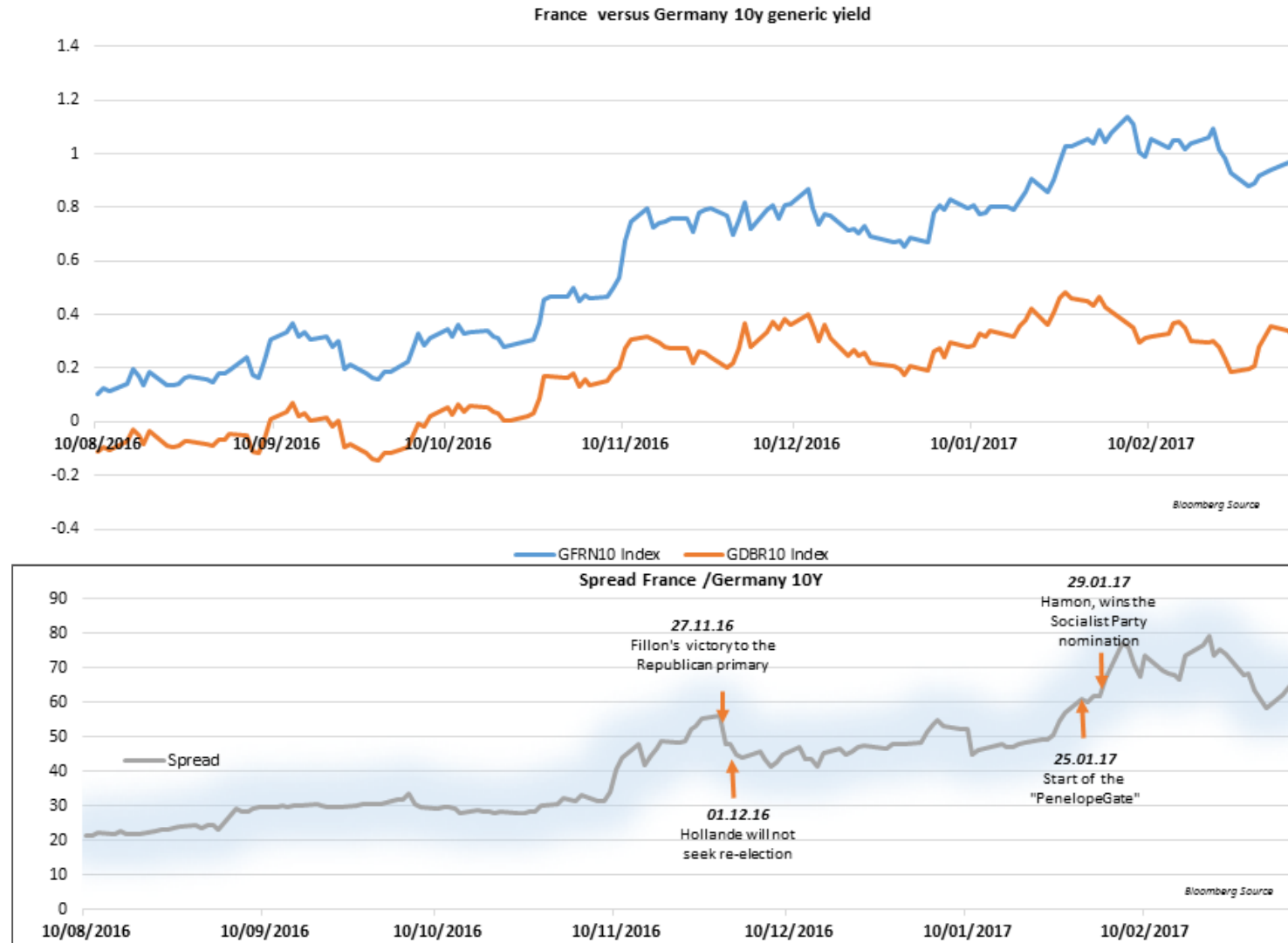


Impact of political developments in Europe on the euro area money market

Franck Carminati

Money Market Contact Group
Frankfurt, 14 March 2017

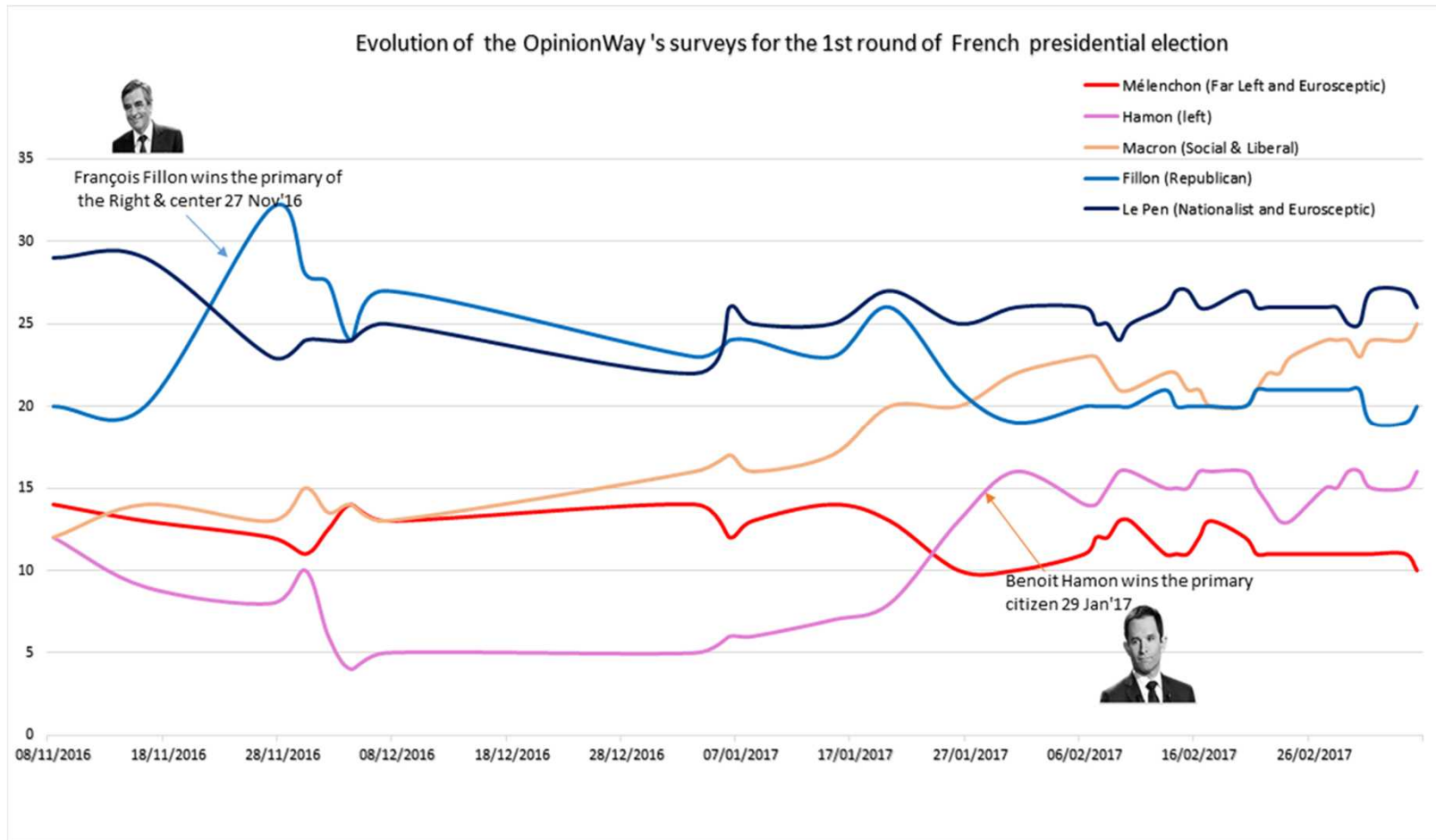
French government bond market driven by political developments



French elections - an overview

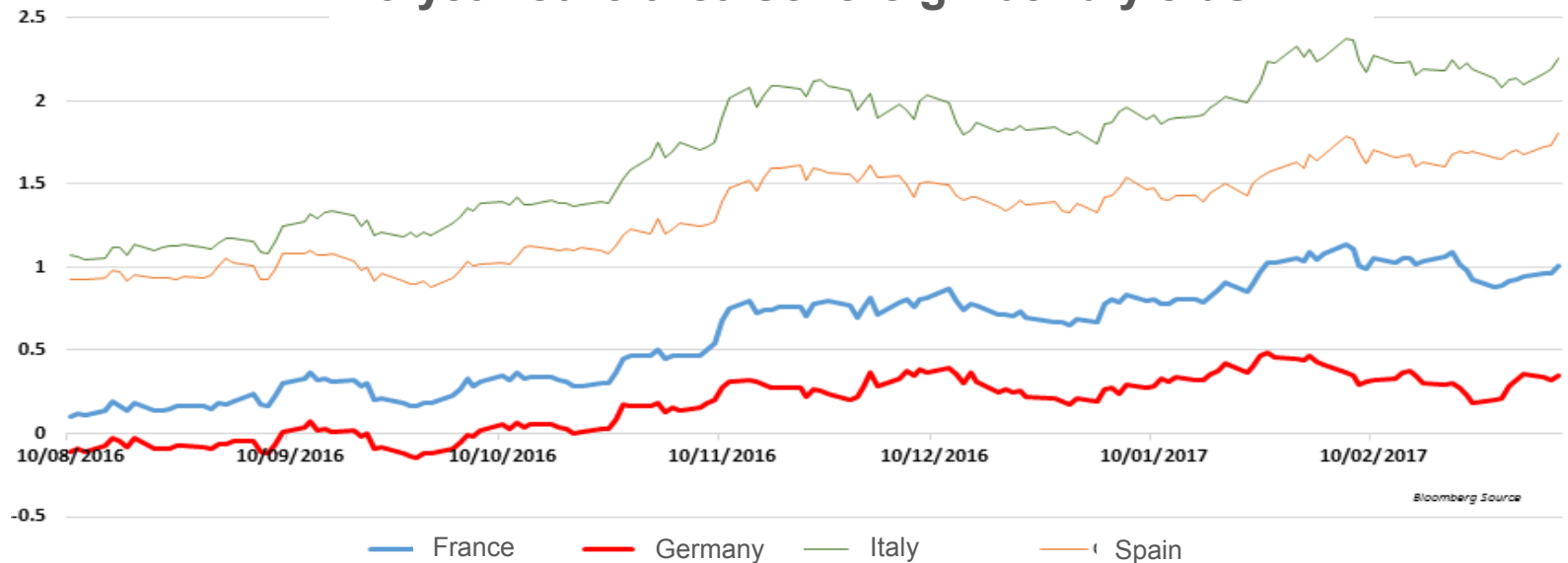
- The first round of the 2017 French presidential election will be held on 23 April 2017 and the run-off election between the top two candidates will be held on 7 May 2017
- Marine Le Pen the far right and Eurosceptic candidate has led the opinion polls for the first round since the beginning of the race. However she would lose the run-off whatever her opponent among the other frontrunner candidates Macron and Fillon. French government curve seems highly correlate to the odds of a Le Pen's final victory.
- Main frontrunner since his nomination at the end of Nov'16, Fillon has seen his candidacy jeopardized since end of January by a series of revelations followed by justice investigations. Benefiting from Fillon's woes the social liberal Macron has emerged as a serious candidate for the final victory.

The odds of Le Pen victory correlated the most with the government bonds market spreads

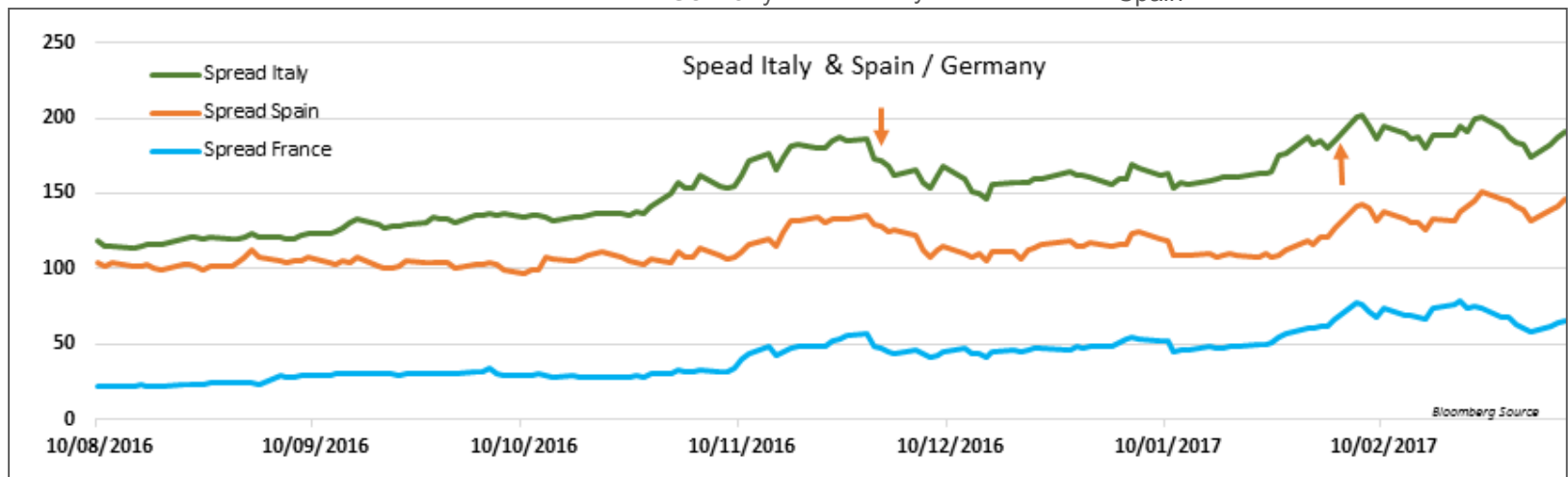


Spanish and Italian bond market also shows divergence with Germany

10-year euro area sovereign bond yields



Bloomberg Source



Bloomberg Source

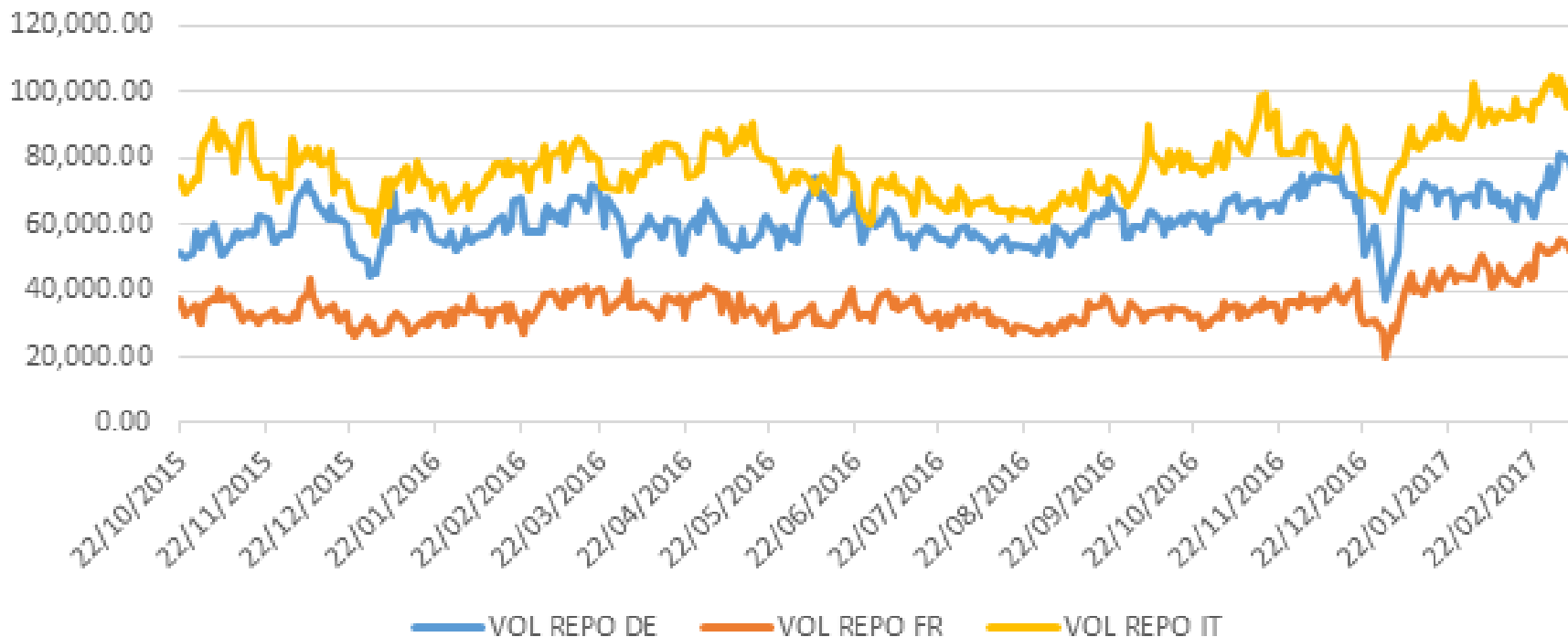
FRA/OIS spread (IMM2) and spot: mild widening in the context of wider bond yield spreads



Repo market volumes rose significantly since the beginning of the year

- The increase is not specific to France. This increase is observed on the mains countries within the euro zone.

REPO VOLUME DE vs FR & IT vs FR



**Repo French GC prices more expensive than January.
Same trend on the German GC prices.**

CORE GC FR	07-Mar	03-Mar	17-Feb	18-Jan	16-Dec	17-Nov
1w	-0.70	-0.55	-0.52	-0.50	-0.57	-0.6
1m	-0.70	-0.7	-0.61	-0.56	-0.64	-0.65
2m	-0.68	-0.68	-0.61	-0.56	-0.64	-0.68
3m	-0.65	-0.65	-0.6	-0.56	-0.62	-0.7
4m	-0.64	-0.64	-0.6	-0.56	-0.61	-0.69

CORE GC DE	07-Mar	03-Mar	17-Feb	18-Jan	16-Dec	17-Nov
1w	-0.62	-0.62	-0.60	-0.55	-0.60	-0.60
1m	-0.78	-0.78	-0.65	-0.63	-0.72	-0.65
2m	-0.75	-0.75	-0.67	-0.63	-0.71	-0.68
3m	-0.72	-0.72	-0.68	-0.63	-0.69	-0.70
4m	-0.71	-0.71	-0.68	-0.63	-0.68	-0.69

Evolution of CTD repo prices over contract deliveries

- OAT 3 1/2 04/25/26 and German DBR 3 1/4 07/04/42 trading more expensive to June. OAT CTD traded below -4.5% on 6 March.

	M7	M7	H7	H7	H7	Z6
French Fut. Delivery CTD	07-Mar	03-Mar	17-Feb	18-Jan	16-Dec	17-Nov
5y BTA	-0.60% / -0.65%	-0.60% / -0.65%	-0.60% / -0.65%	-0.60% / -0.65%	-0.64% / -0.76%	-0.65% / -0.73%
10y OAT	-1.1% / -1.25%	-1.1% / -1.25%	-0.81% / -0.90%	-0.70% / -0.77%	-0.84% / -0.94%	-0.73% / -0.80%
	M7	M7	H7	H7	H7	Z6
German Fut Delivery CTD	07-Mar	03-Mar	17-Feb	18-Jan	16-Dec	17-Nov
2y DU	-0.88% / -0.95%	-0.88% / -0.95%	-0.75% / -0.82%	-0.70% / -0.85%	-0.80% / -1.00%	-0.65% / -0.80%
5y OE	-0.95% / -1.10%	-0.95% / -1.10%	-0.75% / -0.85%	-0.85% / -0.95%	-1.10% / -1.35%	-1.00% / -1.10%
10y RX	-1.50% / -1.70%	-1.50% / -1.60%	-1.15% / -1.30%	-1.45% / -1.60%	-1.50% / -1.75%	-1.15% / -1.50%
30y UB	-1.35% / -1.55%	-1.35% / -1.55%	-1.40% / -1.70%	-1.35% / -1.45%	-1.20% / -1.75%	-1.20% / -1.50%

Additional factors for consideration

- Access to USD funding
- Rebalancing of holdings of French government bonds in banks and other investors' portfolios
- Research and analysts reports cover the whole spectrum of possible outcomes not disregarding even very tail risks