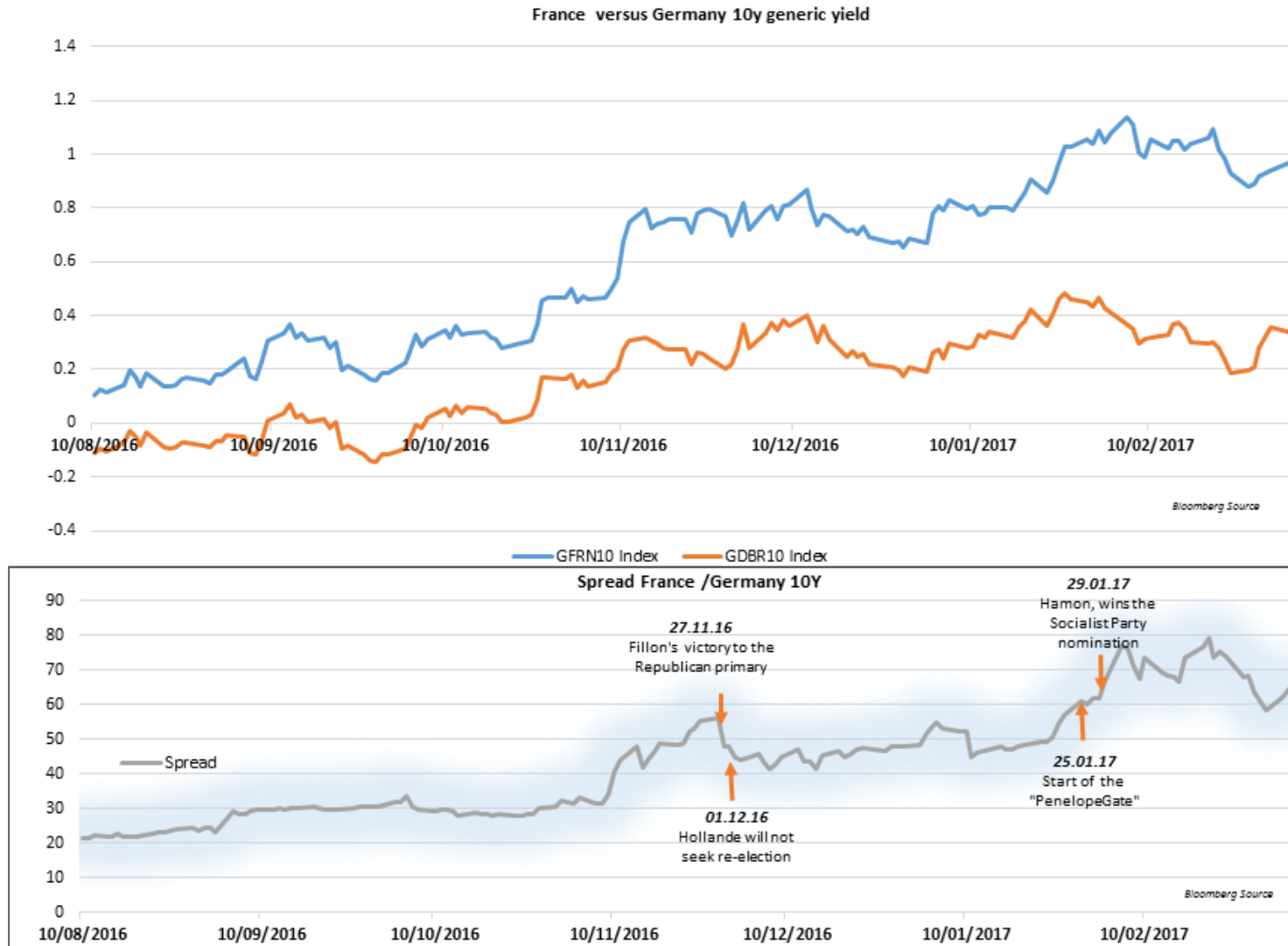


# **Impact of political developments in Europe on the euro area money market**

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Frankfurt, 14 March 2017

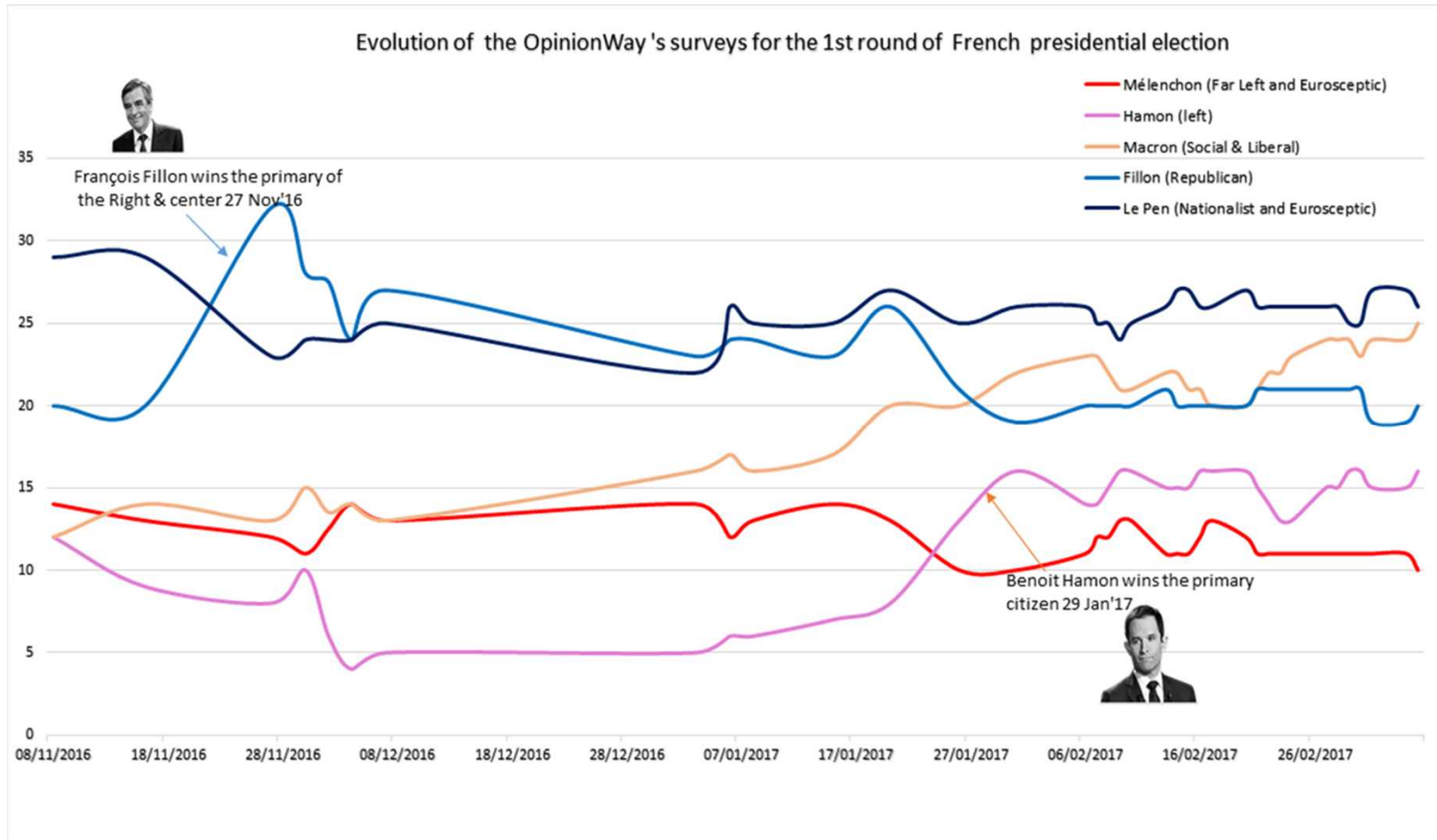
# French government bond market driven by political developments



## **French elections - an overview**

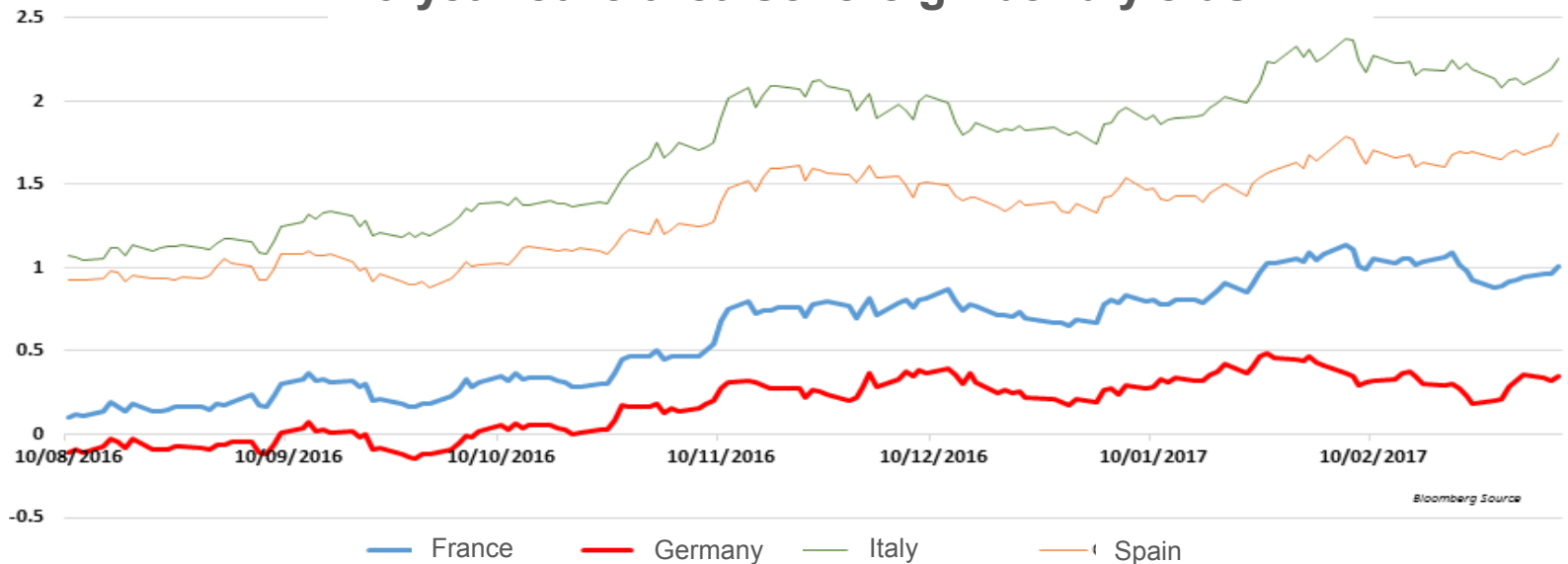
- The first round of the 2017 French presidential election will be held on 23 April 2017 and the run-off election between the top two candidates will be held on 7 May 2017
- Marine Le Pen the far right and Eurosceptic candidate has led the opinion polls for the first round since the beginning of the 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

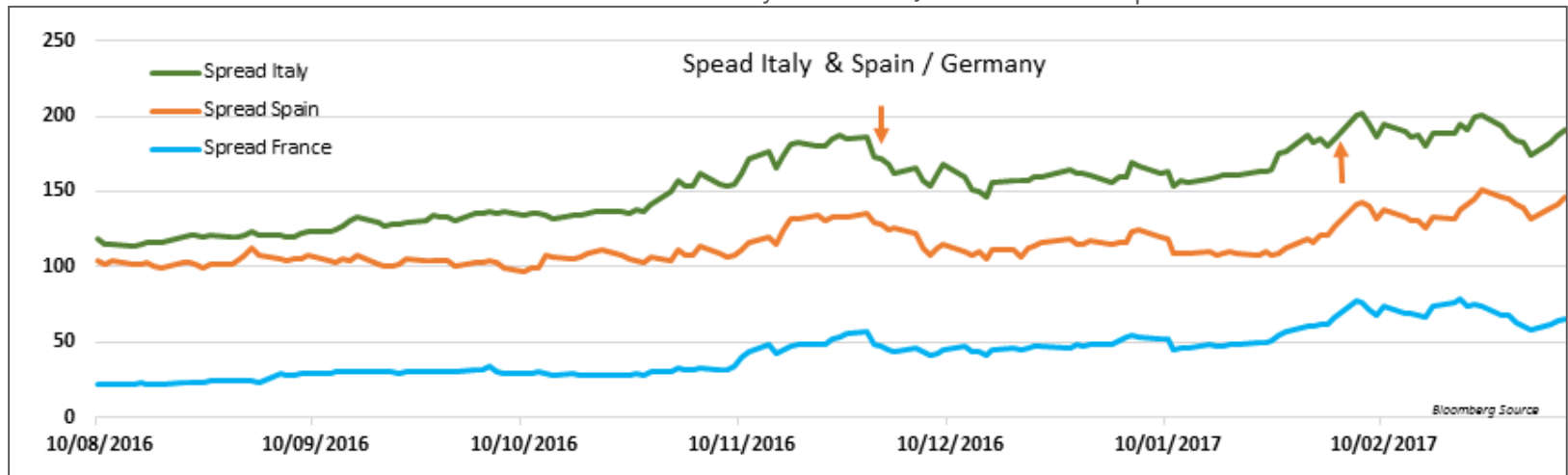


# Spanish and Italian bond market also shows divergence with Germany

## 10-year euro area sovereign bond yields



Bloomberg Source



Bloomberg Source

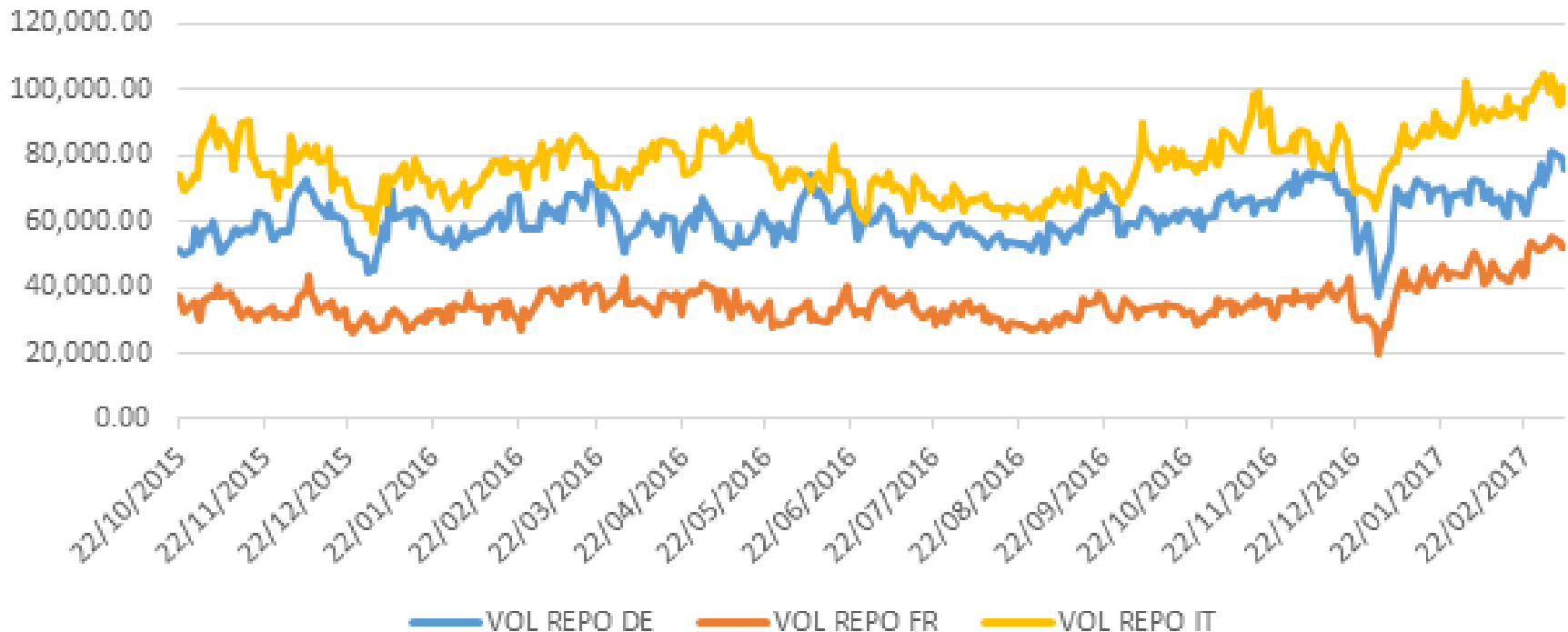
## FRA/OIS spread (IMM2) and spot: mild widening in the context of wider bond yield spreads



## 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