DDA SPECIAL

Dutch State Treasury Agency
Ministry of Finance

Quarterly outlook

March 2016
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This special edition of the Quarterly outlook focuses on the launch of the new 10-year benchmark bond of the State of the Netherlands. This new 10-year bond will be launched on 22 March 2016 via a Dutch Direct Auction (DDA). This will be a special day for the DSTA as it was founded exactly 175 year ago in Amsterdam. For more information on this occasion, see the Outlook 2016. In addition to information on the upcoming DDA, this Quarterly outlook discusses the latest economic and budgetary projections for the Netherlands, presents an update of the borrowing requirement for 2016 and the issuance calendar for the second quarter of 2016.

New 10-year benchmark bond

A new 10-year benchmark bond is the cornerstone of the DSTA's annual funding plan. This year's issue, the DSL 15 July 2026, will be launched on Tuesday 22 March 2016. The DSTA has appointed ABN Amro Bank, Rabobank, and Royal Bank of Scotland as advisors for this DDA. The target amount to be raised during the DDA is set at € 4 - € 6 bn. The DSTA has a commitment to raise the outstanding amount to at least € 15 bn before the end of 2016. The coupon is set at 0.50%. The initial spread guidance vis-à-vis the reference bond, the DBR 0.50% 15 February 2026, will be announced on Monday 21 March, the day before the auction.

Key characteristics and time schedule DDA	
Bond	DSL 15 July 2026
Auction date	Tuesday 22 March 2016, starting at 10:00 CET
Settlement date	Thursday 24 March 2016
Maturity date	15 July 2026
Issuance size	€ 4 - € 6 bn
Reference bond	DBR 0.50% 15 February 2026
Coupon	0.50%
Initial spread guidance	To be announced on Monday 21 March 2016
Allocation	As soon as possible after closing of the book, preferably on the auction day, but no later than Wednesday 23 March 2016 9:00 CET
Pricing	At least 30 minutes after allocation, preferably on the auction day, but no later than Wednesday 23 March 2016 12:00 CET

The DDA process

The DDA method is used by the DSTA for the launch of its medium and long-dated benchmark bonds. The DDA was developed in-house by the DSTA to offer investors interested in high-quality, liquid bonds a clear and transparent auction technique. The DSTA employs a book building process via its Primary Dealers to obtain greater engagement with the international investment community during the auction.

The DDA is rule-based with the DSTA as the single book runner. The rules can be found on our website. Investors can submit their bids through one or more Primary Dealers of their choice.

List of Primary Dealers for 2016, in alphabetical order	
ABN Amro Bank	Jefferies
Barclays Capital	NATIXIS
Citigroup	Nomura
Commerzbank	Rabobank
Deutsche Bank	Royal Bank of Scotland
Goldman Sachs	Santander GB&M
HSBC France	Société Générale
ING Bank	

To guide investors in their bidding, an initial spread guidance vis-à-vis the reference bond is announced on the day prior to the DDA. Investors may place bids at a spread vis-à-vis the reference bond, or 'at best' to indicate they wish to obtain the bond at the cut-off spread. This cut-off spread is determined by the DSTA after closing of the book. The spread is translated into a uniform price at which all bonds are subsequently allocated according to clear and predetermined rules.

In the DDA, the DSTA distinguishes between two types of investors: 'real money' accounts that have a principle aim to buy DSLs for buy-and-hold purposes, and 'other accounts', which include market participants that obtain bonds primarily for trading purposes and thereby help to contribute to liquidity in the secondary market. Within these two categories, all investors are treated equally.

At the cut-off spread, real money accounts are prioritised in allocation over other accounts. The DSTA nevertheless reserves the right to allocate up to 35% of the total issue to 'other' accounts to help safeguard adequate liquidity of the bond.

Real money accounts	Other accounts
Asset and fund managers	Hedge funds
Central banks, agencies and supranationals	All accounts of banks, except treasury/ALM accounts and private banks
Insurance companies	Other trading desks
Pension funds	
Private banks	
Treasury/ALM accounts of banks	

As the single book runner, the DSTA is the only party with full insight in the book building process. Investor information is classified as confidential and is treated with the utmost discretion. After the auction, the DSTA will publish the auction results via a press release which includes, besides the auction results, aggregated statistical information on the geographical distribution of investors and the type of investors.

Further information on the rules and principles of the DDA can be found on the DSTA website (www.dsta.nl).

Funding and issuance

Updated borrowing requirement

The borrowing requirement for 2016 is currently expected to amount to € 73.7 bn. Due to buy-backs of DSLs maturing in 2017 and 2018 in the first two months of 2016, the borrowing requirement has increased compared to the borrowing requirement published early January.

Borrowing requirement 2016 (€ bn)	Update	Previous
Capital market redemptions 2016	28.1	28.1
Buy-backs DSLs 2017 and 2018 (in Jan/Feb)	3.4	
Money market ultimo 2015	15.2	15.2
Cash collateral ultimo 2015	19.4	19.4
Cash deficit 2016*	7.6	7.6
Total borrowing requirement	**73.7**	**70.3**

* The current official estimate for the cash deficit in 2016 does not take into account further inflows following possible additional sales of state owned enterprises.

In line with previous years, the money market will continue to act as the primary buffer for accommodating changes in the funding need during the year. The flexibility on the capital market, although relatively limited, provides an extra cushion for dealing with changes in the funding need.

Funding 2016 (€ bn)	
Capital market	25 - 30
Money market ultimo 2016	43.3 - 48.3
- o/w regular money market instruments	21.1 - 26.1
- o/w cash collateral*	22.2
Total funding	**73.7**

* Amount of cash collateral at the end of February and assuming cash collateral remains constant throughout the year.

Issuance calendar Q2

In the second quarter, two tap auctions are planned. First, the off-the-run 2.75% DSL 15 January 2047 will be reopened. Second, the new 10-year DSL will be reopened for the first time. The target amounts for each tap auction are shown in the table below. Besides these tap auctions, the DSTA will launch its new 5-year benchmark bond in June. As usual, this 5-year benchmark bond will be launched by means of a DDA. The details of this DDA will be announced in due time.

Month of issuance	Auction date	Details	Target volume (€ bn)
April	12	Reopening 2.75% DSL 15 January 2047	0.75 - 1.25
May	10	Reopening 0.50% DSL 15 July 2026	2 - 3
June	The date for the DDA will be announced in due time.	New 5-year DSL	The target volume will be announced in due time.

Note: announcement of all auction details is on the Wednesday prior to the auction date (t-6).

The second quarter has six auction dates in total for Dutch Treasury Certificates (DTCs). The DTC calendar follows the usual pattern.

Auction date	Settlement date	3-months programme	6-months programme
04-04-2016	06-04-2016	30-06-2016	30-09-2016
18-04-2016	20-04-2016	30-06-2016	30-09-2016
02-05-2016	04-05-2016	29-07-2016	31-10-2016
17-05-2016*	19-05-2016	29-07-2016	31-10-2016
06-06-2016	08-06-2016	31-08-2016	30-11-2016
20-06-2016	22-06-2016	31-08-2016	30-11-2016

* Tuesday, due to a national holiday on Monday.
Note: shaded fields indicate new programmes; announcement of all auction details is on the Wednesday prior to the auction date (t-5).

Economic outlook

Above-trend growth

The latest economic forecasts for the Netherlands predict GDP growth of 1.8% and 2.0% for 2016 and 2017 respectively. The official projections, as published by the independent Netherlands Bureau for Economic Policy Analysis (CPB), represent a continuation of the steady growth path the Dutch economy has followed since the middle of 2014. As was the case in 2015, growth will be supported by both the internal and external sectors. Employment growth will outpace the expected increase in labour supply over the forecast horizon. As a result, the unemployment rate is set to continue its downward trend, to a level of 6.5% in 2016 and 6.3% of the labour force in 2017. In part due to the fall in oil prices, inflation will remain subdued in 2016, at 0.3%, before picking up again to 1.0% in 2017.

Key economic figures for the Netherlands (% change y-o-y)

	2015	2016	2017
GDP	1.9	1.8	2.0
Household consumption	1.6	1.6	2.0
Government consumption	-0.3	2.0	0.2
Investment (including inventories)	7.2	6.0	4.2
Exports	4.2	3.6	4.1
Imports	4.9	5.0	4.5
Employment (labour years)	1.0	0.7	1.5
Unemployment (% labour force)	6.9	6.5	6.3
Inflation (HICP)	0.2	0.3	1.0

Source: CPB, 7 March 2016

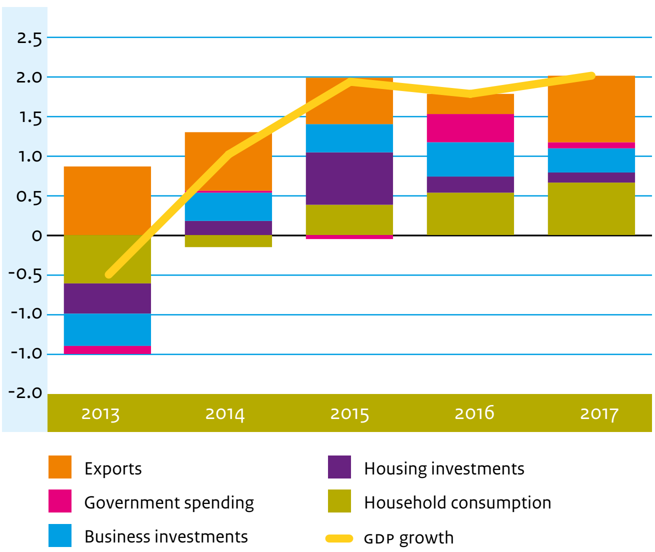
Exports contribute to growth

Dutch export performance is expected to remain strong this year and next. World trade growth is lower than projected at the end of 2015, but is still foreseen to improve gradually to 4.4% in 2017. This is somewhat higher than the long-term average for the years 2000-2015. The contribution of net exports to overall growth drops somewhat in 2016 due to lower gas exports. These lower exports are caused by production limits that have been imposed by the government following earth shocks in northern parts of the country where gas is produced. Due to international uncertainties, financial markets have been very volatile in the first two months of 2016. Though trade forecasts have been revised downward, a further deterioration of the international environment represents the main downside risk to the forecast.

Upward trend household consumption

Household consumption will significantly contribute to overall growth in both 2016 and 2017. The main factors behind the improvement of household consumption in recent years have been the substantial recovery in the housing market and the improvement in disposable income. The increase in real disposable income in 2016 is underpinned by a combination of moderate wage increases, low inflation and a € 5 bn (0.7% of GDP) tax relief package. In both 2016 and 2017, housing market developments will remain supportive of consumption growth. House price increases will pick up, supported by the current low interest rates. In January 2016, prices were 8% above the lowest point of the market in June 2013. They were, however, still 18% below the peak in August 2008. It must be noted that the differences between various regions and cities are quite large. In terms of numbers of transactions, the last two years have seen significant increases, bringing the level of transactions back up to pre-crisis levels.

Broad-based growth continues (contribution in %-points)



Source: CPB, 7 March 2016

Investment growth remains strong

Supported by positive developments in the housing and business sectors, investment is expected to contribute significantly to growth this year and next, as it did in 2015. The peak in housing investments in 2015 will gradually slow down to more sustainable levels in 2016 and 2017. An important driver behind business investments is the steady increase in capacity utilisation in recent years. On top of this, profit margins have improved as the decline in prices of energy and other commodities have not been passed on fully to end users. Low financing costs provide an additional stimulus. The strong (expected) investment growth of 2015 and 2016 will bring the investment quote back to its long-term average. This implies that investments are sufficient to keep capacity in line with demand. As a result, investment growth will slow down in 2017.

Gradual improvement labour market

In both 2016 and 2017, labour demand will increase significantly by 1.4% and 1.2% respectively. Nearly all of this increase stems from the market sector. At the same time, labour supply will increase as women and older workers continue to increase their supply, the retirement age increases gradually (to 67 in 2021) and the tax relief package for 2016 improves labour market incentives. The net effect of the increase in both labour demand and labour supply is a decrease in the unemployment rate to 6.5% in 2016 and 6.3% in 2017.

Outsourcing the strip facility

On Friday 18 March, the DSTA announced it will outsource all stripping activities to Euroclear Nederland starting 3 May 2016. The DSTA will accept strip and reconstitution requests from Primary Dealers up to and including 28 April 2016 12:00 CET. The following two days (29 April and 2 May), no strip and reconstitution requests can be accepted. From 3 May 2016 onward all stripping and reconstitution requests can be made to Euroclear Nederland.

Starting 3 May all new strips of Dutch bonds will be fungible if they are of the same type: non-CACS and CACS strips will not be interchangeable. The DSTA envisages this will increase the liquidity of both the strips and bonds itself. The new fungibility of the strips includes both interest and principal strips. In order to be able to reconstitute the current non fungible strips into Dutch bonds, investors first have to switch them into new fungible strips via a Primary Dealer.

For more information on the changes, costs and instructions for requesting strip and reconstitution activities we kindly refer to the newsletter from Euroclear Nederland on the website of the DSTA, www.dsta.nl.

Budgetary outlook

Budget deficit improving

On the back of continued economic growth and after accounting for the tax relief package, the EMU-balance will improve from -1.9% of GDP in 2015 to -1.7% in 2016 and -1.2% in 2017. With the economy growing and the unemployment rate falling, tax income increases and unemployment benefit spending decreases. On the other hand, lower gas production and gas prices reduce government income in 2016. Overall, a small budgetary improvement remains for 2016, with a more substantial decline foreseen in 2017. The figures for 2017 include an additional € 0.7 bn to house refugees.

Key budgetary figures for the Netherlands (% of GDP)

	2015	2016	2017
EMU-balance	-1.9	-1.7	-1.2
EMU-debt (year-end)	66.3	65.4	64.1

Source: CPB, 7 March 2016

Downward path debt ratio

The debt to GDP ratio shows a steady decline over the forecast horizon. After a 2%-point decline in 2015 from a peak of 68.2% in 2014, this year and next are projected to show another cumulative decline of just over 2%-points. For the estimated debt figures, the CPB has made the technical assumption that in 2016 another 20% of ABN Amro Bank shares will be sold by the government, following the sale of 23% at the end of 2015. In practice, the shares will not be sold before the end of the lock-up period of 180 days after the IPO on 20 November 2015.

Outstanding debt

DSL position per ultimo February 2016

Isin code	DSL	Volume in issue
NL0010364139	0.00 pct DSL 2013 due 15 April 2016	11,917,000,000
NL0000102283	4.00 pct DSL 2006 due 15 July 2016	13,396,467,000
NL0009819671	2.50 pct DSL 2011 due 15 January 2017	10,931,920,000
XS0749484217	1.00 pct DSL USD 2012 due 24 February 2017	2,511,619,113
NL0010661930	0.50 pct DSL 2014 due 15 April 2017	12,096,000,000
NL0006007239	4.50 pct DSL 2007 due 15 July 2017	13,046,990,000
NL0010200606	1.25 pct DSL 2012 due 15 January 2018	14,712,425,000
NL0011005137	0.00 pct DSL 2015 due 15 April 2018	15,338,000,000
NL0006227316	4.00 pct DSL 2008 due 15 July 2018	15,081,020,000
NL0010514246	1.25 pct DSL 2013 due 15 January 2019	15,321,224,000
NL0009086115	4.00 pct DSL 2009 due 15 July 2019	14,671,398,000
NL0010881827	0.25 pct DSL 2014 due 15 January 2020	15,318,184,000
NL0009348242	3.50 pct DSL 2010 due 15 July 2020	15,069,615,000
NL0009712470	3.25 pct DSL 2011 due 15 July 2021	16,493,985,000
NL0010060257	2.25 pct DSL 2012 due 15 July 2022	15,252,147,000
NL0000102275	3.75 pct DSL 2006 due 15 January 2023	4,263,000,000
NL0000102077	7.50 pct DSL 1993 due 15 January 2023	8,241,488,737
NL0000103000	Principal 15 January 2023	1,565,000,000
NL0010418810	1.75 pct DSL 2013 due 15 July 2023	15,825,963,000
NL0010733424	2.00 pct DSL 2014 due 15 July 2024	15,315,132,000
NL0011220108	0.25 pct DSL 2015 due 15 July 2025	15,220,159,000
NL0000102317	5.50 pct DSL 1998 due 15 January 2028	13,028,814,230
NL0010071189	2.50 pct DSL 2012 due 15 January 2033	12,463,900,000
NL0000102234	4.00 pct DSL 2005 due 15 January 2037	13,697,427,000
NL0009446418	3.75 pct DSL 2010 due 15 January 2042	15,331,910,000
NL0010721999	2.75 pct DSL 2014 due 15 January 2047	10,156,187,000
	Inscription registers	13,486,755
	Private placements	4,268,271,897
Total		**330,548,733,732**

No outstanding ECP in euro or foreign currency per ultimo February 2016

DTC position per ultimo February 2016

Isin code	Maturity date	Volume in issue
NL0011509286	DTC 2016-03-31	4,620,000,000
NL0011543665	DTC 2016-04-29	4,330,000,000
NL0011610332	DTC 2016-06-30	2,430,000,000
NL0011678511	DTC 2016-07-29	2,300,000,000
Total		**13,680,000,000**

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Additional online information on DSLs, DTCs and ECP can be obtained from:
Bloomberg - dsta
www.dsta.nl

The cut-off date is 16 March 2016 (unless mentioned otherwise)

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