DDA SPECIAL

Dutch State Treasury Agency
Ministry of Finance

Quarterly outlook

September 2014
www.dsta.nl
dsta@bloomberg.net
Twitter: @DSTA_nl

This special edition of the DSTA Quarterly outlook focuses on the launch of the new 5-year benchmark bond of the State of the Netherlands. This new 5-year bond will be launched on 24 September 2014 via a Dutch Direct Auction (DDA). Furthermore, this outlook presents the issuance calendar for the fourth quarter of 2014 and discusses the latest economic and budgetary projections for the Netherlands.

New 5-year benchmark bond

The new 5-year benchmark bond, the DSL 15 January 2020, will be launched on Wednesday 24 September. The DSTA has appointed Citibank, Barclays, and Nomura as its advisors for this DDA. The target amount to be raised is set at a minimum of € 4 bn. The coupon and the initial spread guidance vis-à-vis the reference bond will be announced on Monday 22 September and Tuesday 23 September, respectively.

Terms and conditions	
Auction date	Wednesday 24 September 2014, starting at 10.00 CET
Settlement date	Monday 29 September 2014
Maturity date	15 January 2020
Issuance size	Minimum of € 4 billion
Reference bond	DBR 3.25% 4 January 2020
Coupon	To be announced Monday 22 September 2014
Initial spread guidance	To be announced Tuesday 23 September 2014
Allocation	As soon as possible after closing the book, no later than 25 September 2014 9:00 CET
Pricing	At least 1 hour after allocation, no later than 25 September 2014 12:00 CET

The DDA process

The DSTA uses the Dutch Direct Auction (DDA) methodology for the launch of its medium to 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 DDA is rule-based with the DSTA as the single book runner.

List of Primary Dealers for 2014 in alphabetical order	
ABN AMRO	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 communicated on the day prior to the DDA. Investors may submit their bids through one or more Primary Dealers of their choice. Bids are placed against a spread vis-à-vis the reference bond or 'at best'. By bidding 'at best', investors indicate that they want to obtain the DSL at the cut-off spread. This cut-off spread and the allocation are determined by the DSTA after closure of the book according to clear and predetermined rules.

For allocation purposes, the DSTA distinguishes between two types of investors: 'real money' (buy-and-hold) accounts and 'other' (trading) accounts. As of September 2014, the DSTA made a change to the investor classification. Treasuries and ALM accounts of banks are now classified as 'real money' accounts, whereas all remaining accounts of banks are classified as 'other' accounts. This change in classification reflects changes in regulation (such as Basel III) due to which treasuries and ALM accounts of banks are required to hold larger liquidity buffers. As highly rated sovereign bonds are an important asset class for liquidity purposes, the DSTA has decided to label bank treasuries (including ALM desks) as 'real money' investors. At the cut-off spread, real money accounts have priority in allocation versus other accounts. This way, the DSTA ensures a diverse investor base, safeguarding an adequate balance between tradability and buy-and-hold.

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

As the single book runner, the DSTA has exclusive 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 through a press release which includes, besides the auction results, an aggregated statistical breakdown of the allocation in the DDA by geographical location and type of investor.

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

Funding and issuance

Updated funding requirement

According to the latest budgetary projections in the Budget Memorandum 2015, as presented on 16 September, the cash deficit in the budget has slightly increased vis-à-vis earlier projections, from € 12.6 bn to € 13.8 bn. In addition to this adjusted cash deficit, the buy-backs of Dutch State Loans (DSLs) have led to an increase of the total external borrowing requirement for 2014 from € 91.3 bn to € 94.7 bn.

Borrowing requirement 2014 (€ bn)	Update	Previous
Capital market redemptions 2014	32.2	32.2
Buy-back DSLs 2015	7.1	4.9
Money market ultimo 2013*	41.6	41.6
Cash deficit	13.8	12.6
Total borrowing requirement	**94.7**	**91.3**

* including cash collateral

Since the money market serves as a buffer for financing adjustments over the course of the year, the increase in the borrowing requirement will be absorbed by the money market. The level of capital market funding remains fixed at approximately € 50 bn.

Funding 2014 (€ bn)	Update	Previous
Capital market	50.0	50.0
Money market ultimo 2014*	44.7	41.3
Total funding	**94.7**	**91.3**

* including cash collateral

As of 9 September, the DSTA has raised a total of € 39.7 bn on the capital market covering approximately 79% of the total targeted capital market funding for 2014.

Issuance calendar Q4 2014

The DSTA will hold three tap auctions in the last quarter of 2014. The 3- and 10-year benchmark bonds will be tapped to reach outstanding amounts of at least € 15 bn each by the end of the year. In addition, the DSL 15 January 2047 will be reopened. December is traditionally an auction-free month for DSLs. The preliminary target amounts for each auction are shown in the table below.

DSL issuance calendar Q4 2014

Auction date		Details	Amount (€ bn)
October	14	Reopening 3-year DSL 15 April 2017	2.5 – 3.5
November	11	Reopening 30-year DSL 15 January 2047	1.0 – 2.0
	25	Reopening 10-year DSL 15 July 2024	1.5 – 2.5

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

The DTC issuance calendar for the fourth quarter of 2014 has been amended slightly as compared to the indicative calendar published in the DSTA Outlook 2014. The last DTC issuance will be cancelled due to the increased size of cash collateral, which reduces the need for DTCs and CP.

DTC issuance calendar Q4 2014

Auction date	Settlement date	3-month programmes	6-, 9-, 12-month programmes
06-10-2014	08-10-2014	06-01-2015	30-06-2015
20-10-2014	22-10-2014	30-01-2015	30-04-2015
03-11-2014	05-11-2014	30-01-2015	29-05-2014
17-11-2014	19-11-2014	27-02-2015	30-04-2015
01-12-2014	03-12-2014	27-02-2015	29-05-2015

Note: shaded fields indicate new programmes; announcement of all auction details is on the Wednesday prior to the auction date (t-5).

T+2 as standard settlement period for DSLs

As announced in the previous Quarterly outlook and following the new European regulation on Securities Settlement and Central Securities Depositories (CSDR), the Netherlands has decided to further harmonise the standard settlement period for OTC transactions on DSLs in primary issuances with secondary markets and thus in line with the T+2 settlement cycle. This measure will become effective as of 6 October 2014.

First estimate of funding need in 2015

In 2015, the DSTA's funding need is expected to be approximately € 98.3 bn. This is € 3.6 bn higher than in 2014. The difference is mainly explained by higher projected redemptions on the capital market. The projected cash deficit for 2015 is somewhat lower than the cash deficit 2014. An updated estimate for the borrowing requirement will be published in the DSTA Outlook 2015, together with the funding plan for the upcoming year.

First estimate borrowing requirement 2015 (€ bn)	
Capital market redemptions	41.4
Money market ultimo 2014*	44.7
Cash deficit	12.2
Total borrowing requirement	98.3

* including cash collateral

Economic outlook

Dutch economy back on track

Last year's Budget Memorandum predicted a return to economic growth for the Netherlands. This has indeed occurred since the end of 2013, despite the necessary balance sheet recovery and an increasingly challenging geopolitical landscape. The Dutch economy has proven to be resilient and able to overcome economic setbacks.

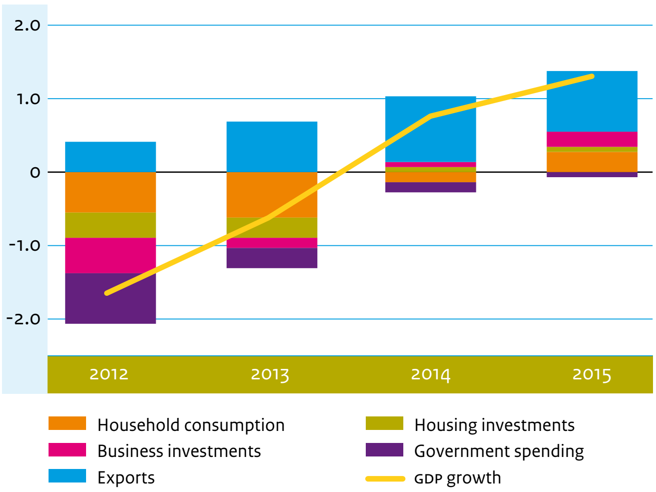
Key economic indicators for the Netherlands

% change (y-o-y)	2014	2015
GDP	¾	1¼
Household consumption	0	1
Investments (including inventories)	2¾	3¼
Government spending	- ¾	0
Exports	3¼	3¾
Imports	3	3¾
Unemployment (% of labour force)	7	6¾
Labour productivity	2	1¼
Inflation (HICP % change)	½	1

Source: CPB Netherlands Bureau for Economic Policy Analysis, September 2014

The latest economic forecasts from the independent Netherlands Bureau for Economic Policy Analysis (CPB), which form the basis for the Budget Memorandum, confirm the return to growth. The gradual trend follows the typical pattern for the Dutch economy. The recovery started in the highly competitive Dutch export sector, followed by an increase in business investments and production growth. Next year, the CPB projects household consumption to return to positive territory. The labour market traditionally lags behind although the unemployment rate is projected to decline somewhat in 2015.

Growth is broadly based (%-points of GDP)



Source: CPB Netherlands Bureau for Economic Policy Analysis, September 2014

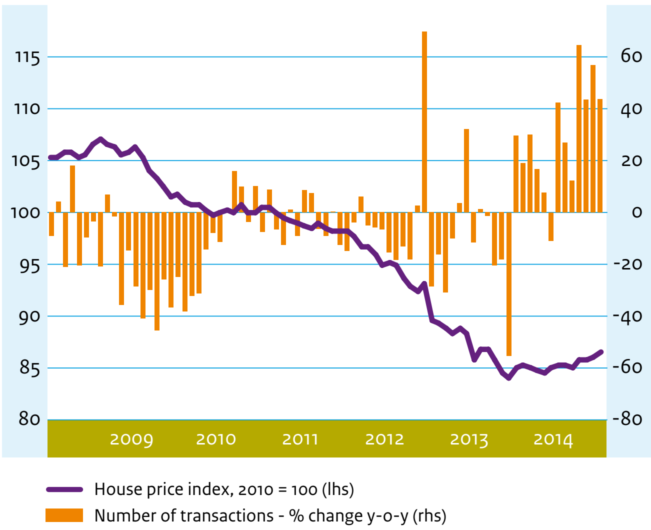
Domestic demand returning

Increasing domestic demand is pivotal for future economic growth. The crisis revealed vulnerabilities of the Dutch economy, such as the long balance sheet of households. These balance sheet issues proved to be a severe drag on overall growth, but the trend is now turning for the better. Both consumer and producer confidence are increasing. The CPB estimates that household consumption and private investment will each add ¼%-point to GDP growth in 2015. The increase in consumption is underpinned by an increase in purchasing power.

Housing market recovers

Besides the increase in purchasing power, the improving housing market is another important factor behind the projected increase in household consumption. Government policies have been targeted at mitigating the effects of price declines in the short term, while simultaneously addressing structural problems. Supported by the current high affordability of housing, these policies have started to take effect and the revival of the housing market is gaining momentum. Both the house prices and number of sales are picking up.

Housing market is picking up



Source: Statistics Netherlands (CBS)

As stated earlier, the labour market is lagging the recovery, which is common after an economic recession. However, positive developments are emerging. Since a peak at the beginning of this year, the number of people unemployed has decreased by 44,000. Furthermore, the number of vacancies is growing and, according to the CPB, more companies are signaling an increase in hiring going forward.

Strong export despite geopolitical challenges

Finally, the highly competitive export sector continues to be important for Dutch economic growth. In 2014 exports are expected to grow by 3¼% and growth will accelerate to 3¾% in 2015. However, the export sector is subject to risks from geopolitical tensions, such as those between Russia and Ukraine. Nonetheless, the CPB estimates that a further escalation followed by a severe decrease in total exports to Russia will only have a limited and temporary effect on the Dutch economy and will not send it back to negative growth territory. All sanctions already deployed against Russia have no effect on the current projections for 2014 and 2015.

Budgetary outlook

The government presented its Budget for 2015 on 16 September[1]. The necessary budgetary measures taken by successive governments to put public finances back on a solid footing are paying off. As such, the European Commission acknowledged last June that the excessive deficit in the Netherlands has been corrected. The Netherlands is therefore no longer under review by the European Commission as part of the Excessive Deficit Procedure.

Budgetary figures show gradual improvement

The Budget projects a (EMU) deficit of 2.9% of GDP for 2014 and a resulting increase in the (EMU) debt to GDP ratio to 69.8%. The deficit shows a slight deterioration compared to that of 2013, as the latter was lower due to one-off factors, including a large auction of telecom licenses (0.6% of GDP). Also, income from natural gas sales will be slightly lower in 2014 due to the recently implemented production ceiling. For 2015 the deficit is projected to decline to 2.2% of GDP, well below the 3% threshold of the Stability and Growth Pact. As a result, the debt to GDP ratio will increase slightly to 70.0%.

Key budgetary figures (% of GDP)

	2013	2014	2015
EMU-balance	-2.3	-2.9	-2.2
EMU-debt	68.6	69.8	70.0

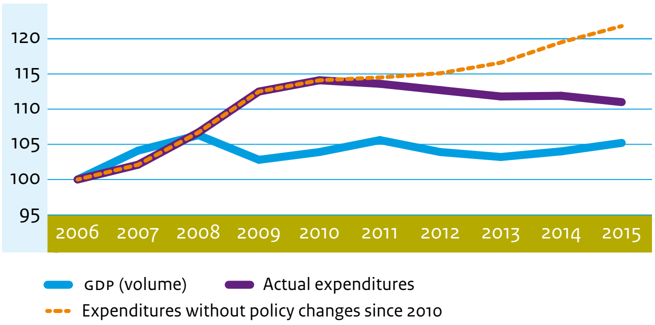
Source: Budget Memorandum, September 2014

1 The figures in this paragraph are based on the new ESA-2010 methodology to measure GDP. Since the GDP was revised upwards for the Netherlands, the denominator effect for debt and deficit ratios has a dampening effect on all figures.

Further fiscal consolidation necessary

The underlying improvement of the deficit is supported by a decline in public expenditure. This is set to fall by 0.3%-points this year, to 47.2% of GDP. For next year, a further reduction to 46.3% is foreseen. An important factor in this downward trend is the reduction in public sector employment. Nevertheless, public expenditure is still about 10% higher than before the financial crisis, while GDP growth over the same period was significantly lower. Therefore, the Dutch government remains committed to align expenditure with GDP growth and achieve budgetary balance in the longer run.

Fiscal consolidation not yet finished (2006 = 100)



Source: Budget Memorandum, September 2014

Save the date!

The DSTA will present its Outlook 2015 on **11 December 2014** in The Hague.

Invitations will be sent out in November.

Outstanding debt

DSL position per ultimo August 2014

Isin code	DSL	Volume in issue (€)
NL0009213651	2.75 pct DSL 2009 due 15 January 2015	10,916,440,000
NL0010055703	0.75 pct DSL 2012 due 15 April 2015	13,313,400,000
NL0000102242	3.25 pct DSL 2005 due 15 July 2015	14,254,765,000
XS0827695361	0.25 pct DSL USD 2012 due 12 September 2015	2,792,722,413
NL0010364139	0.00 pct DSL 2013 due 15 April 2016	15,238,000,000
NL0000102283	4.00 pct DSL 2006 due 15 July 2016	14,728,467,000
NL0009819671	2.50 pct DSL 2011 due 15 January 2017	15,638,920,000
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	12,413,000,000
NL0006007239	4.50 pct DSL 2007 due 15 July 2017	14,654,990,000
NL0010200606	1.25 pct DSL 2012 due 15 January 2018	15,472,425,000
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	14,056,398,000
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	11,382,212,000
NL0000102077	7.50 pct DSL 1993 due 15 January 2023	2,687,276,737
NL0010418810	1.75 pct DSL 2013 due 15 July 2023	15,825,963,000
NL0010733424	2.00 pct DSL 2014 due 15 July 2024	11,643,132,000
NL0000102317	5.50 pct DSL 1998 due 15 January 2028	13,028,814,230
NL0010071189	2.50 pct DSL 2012 due 15 January 2033	10,048,900,000
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 due 15 January 2047	3,725,187,000
	Inscription registers	22,072,491
	Private placements	4,421,353,551
Total		**325,023,385,535**

ECP per ultimo August 2014

Currency	Volume in original currency	Volume in euros
ECP in euro	200,000,000.00	200,000,000
ECP in US dollar	8,375,000,000.00	6,303,235,391
Total		**6,503,235,391**

DTC per ultimo August 2014

Isin code	Maturity date	Volume in issue (€)
NL0010730636	DTC 2014-09-30	4,470,000,000
NL0010762050	DTC 2014-10-31	4,120,000,000
NL0010763595	DTC 2014-11-28	3,540,000,000
NL0010661880	DTC 2015-01-06	3,920,000,000
NL0010800991	DTC 2015-01-30	2,220,000,000
NL0010858445	DTC 2015-02-27	2,210,000,000
NL0010832267	DTC 2015-06-30	1,110,000,000
Total		**21,590,000,000**

Dutch State Treasury Agency
Agentschap van de Generale Thesaurie
van het ministerie van Financiën
www.dsta.nl

Korte Voorhout 7
PO Box 20201
2500 EE The Hague
Netherlands
dsta@bloomberg.net
Twitter: @DSTA_nl

Agent
Niek Nahuis
+31 (0)70 342 80 03

Cash Management, Issuance and Trading
Peter A. Nijsse
+31 (0)70 342 40 81

Policy and Risk Management
Emile Spijkerman
+31 (0)70 342 86 81

Treasury and Debt Operations
Ids Tijsseling
+31 (0)70 342 80 27

Additional online information on DSLs, DTCs and ECP can be obtained from:
Reuters - DSTAMENU
Bloomberg - DSTA

The cut-off date is 19 September 2014 (unless mentioned otherwise)

Colophon
Design Studio Tint, The Hague