BRAZIL MACRO

June 28, 2022

DATA ANALYSIS – FISCAL POLICY

DEBT REPORT: MORE OF THE SAME - HIGHER DEBT COST, COMFORTABLE LIQUIDITY RESERVES

Ítalo Franca*
italo.franca@santander.com.br
+5511 3553 5235

- On June 28, the National Treasury published the Monthly Debt Report for April and May. The data from April not published last month due to the federal workers' strike. Weekly bond issuances reached BRL22.6 billion through May, above the amount of ~BRL21 billion per week that we estimate is needed to keep liquidity reserves stable until the end of the year.
- Fixed rate bonds (LTN) were the highlight from a redemption standpoint, totaling BRL126 billion in April, reflecting a large maturity of these bonds in the month. The cost of new domestic issuances rose to 11.7% p.a. from 10.5% p.a. in March (in tandem with increases in the IPCA and the Selic).
- Non-residents registered a negative flow of BRL1.9 billion in May, totaling -BRL67.3 billion in the year and +BRL9.9 billion in the last 12 months, reducing the percentage of non-residents to 9.1% of debt holders, compared to 10.6% in December 2021, 9.2% in December 2020, and 10.4% in December 2019. Financial institutions continue to be the main holders (29.6%).
- Public debt liquidity reserves rose BRL71 billion to BRL1,108 billion, reflecting the net issuances in the month. This level covers close to 9.5 months of debt maturities.
- In our view, despite the comfortable levels of liquidity reserves to navigate the 2022 uncertainties, the outlook for debt management remains challenging in the medium term, especially following the rise in the Selic rate and IPCA estimates.

This release includes the data from April that was not published due to the federal workers' strike. Net issuances totaled -BRL204.6 billion, with larger debt maturities (floating rate bonds) in the month. During the period (April to May), debt issuances reached BRL178 billion, implying an average of BRL89 bn in each month. This value was below the last-12-month average of BRL108 billion. Weekly bond issuances reached BRL22.6 billion through May, above the amount of ~BRL21 billion/week that we estimate is needed to keep liquidity reserves stable until the end of the year.

In terms of redemptions, the highlight was the fixed rate bonds (LTN) with a high level of debt maturity in April, totaling BRL126 billion (84.9% of the total during April-May period). In debt issuance the most part was also on fixed rate (BRL85.9 billion, 49% of total).

The cost of domestic new issuances continued to rise (11.7% per year) in the last 12 months, +1.2 pp from March), due to both higher inflation and Selic rate increases. The average cost of the outstanding debt accumulated in 12 months rose to 9.9% (from 8.5% in March). The NTN-B (inflation-linked bonds) cost in the last 12 months reached 17.2% per annum. The cost of LFT (floating rate) in 12 months increased to 8.0% (from 6.5% in March and 4.5% in December 2021), while increases in the Selic rate (currently at 13.25%) could create additional pressure on debt costs in coming months.

The average term of new issuances rose to 5.0 years (from 4.7 years in March). The debt liquidity cushion went up in May compared to April (+BRL71 billion, to BRL1,108 billion), reflecting the net issuance in the month. This amount is equivalent to almost 9.5 months of debt maturities.

Non-residents registered a negative flow of BRL1.9 billion in May, totaling -BRL67.3 billion in the year and +BRL9.9 billion in the last 12 months. The percentage of debt holders that are non-residents fell to 9.1% (-1.5 pp from December 2021). Financial institutions continue to be the main holders (29.6%). The debt that is maturing totals BRL629 billion in 2H22. In 12-month, the total is BRL1,310 billion.

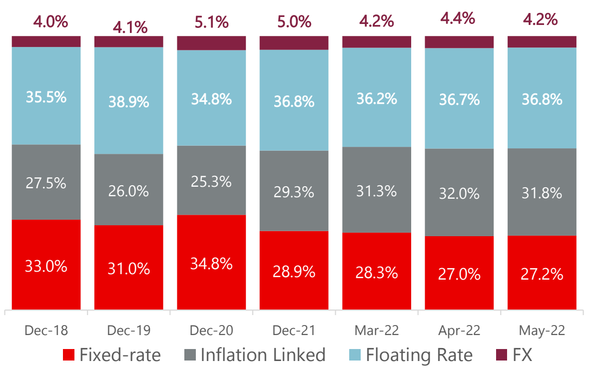
In our view, the outlook for debt management remains challenging in the medium term, especially after the increases in both the Selic and the IPCA, pressuring the cost of debt. The trajectory for debt management depends on maintaining the credibility of the fiscal framework, the level of liquidity reserves, and favorable market conditions. In the short term (i.e., 2022), the liquidity debt cushion is sufficient to navigate the uncertainties, in our view.

Figure 1 – Summary – Monthly Debt Report

Annual Borrowing Plan (PAF 2022)										
	2020	2021	Apr-22	May-22	PAF 2022 range		PAF 2021 Revised (May21)		PAF 2021 (Jan-21)	
Outstanding volume (BRL billion)					Min	Max	Min	Max	Min	Max
Federal Public Debt	5,010	5,614	5,590	5,702	6,000	6,400	5,500	5,800	5,600	5,900
Composition (%)										
Fixed-rate	34.8	28.9	27.0	27.2	24	28	31	35	38	42
Inflation-linked	25.3	29.3	32.0	31.8	27	31	26	30	24	28
Floating-rate	34.8	36.8	36.7	36.8	38	42	33	37	28	32
FX	5.1	5.0	4.4	4.2	3	7	3	7	3	7
Maturity Structure										
% maturing in 12 months	27.6	21	20.5	23.4	19	23	22	27	24	29
Average maturity (years)	3.6	3.8	4.0	4.0	3.8	4.2	3.4	3.8	3.2	3.6

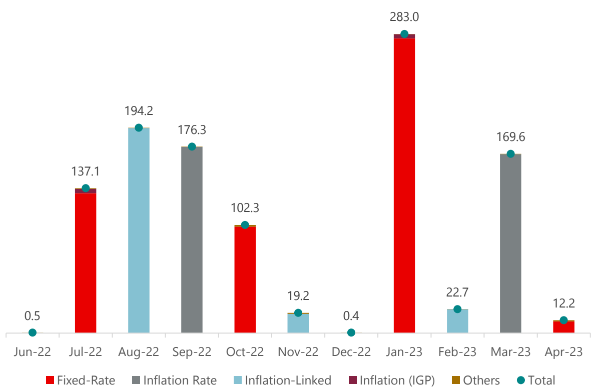
Sources: National Treasury, Santander.

Figure 2 – Debt Profile - %



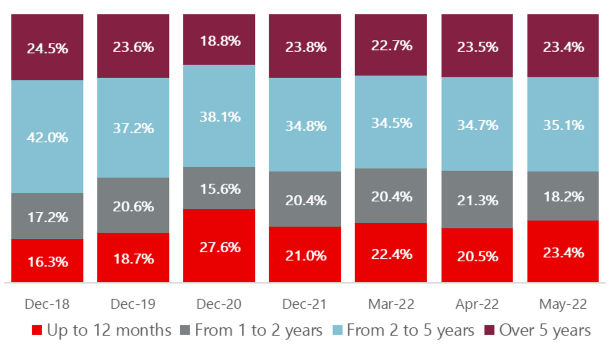
Sources: National Treasury, Santander.

Figure 3 – Debt Maturity in the Next 12 Months (BRL bn)



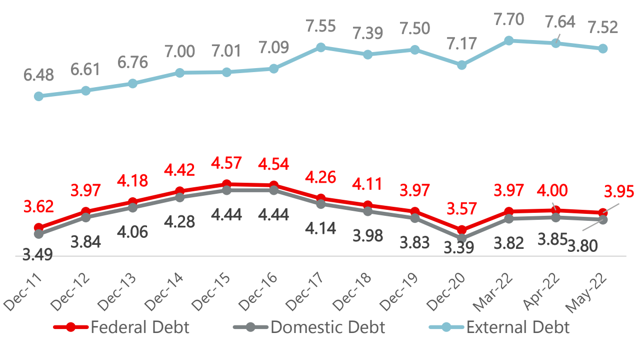
Sources: National Treasury, Santander.

Figure 4 – Debt Maturities - %



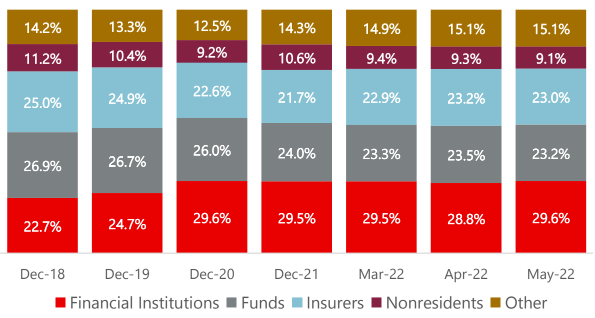
Sources: National Treasury, Santander.

Figure 5 – Average Maturity



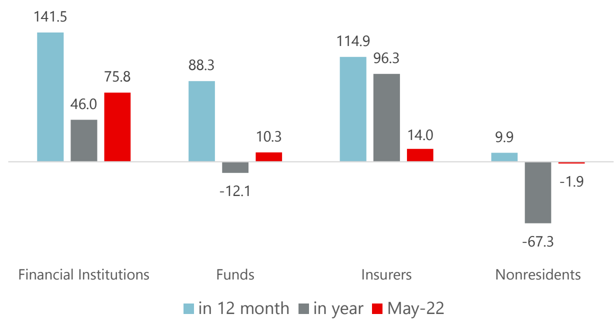
Sources: National Treasury, Santander.

Figure 6 – Debt Holders - %



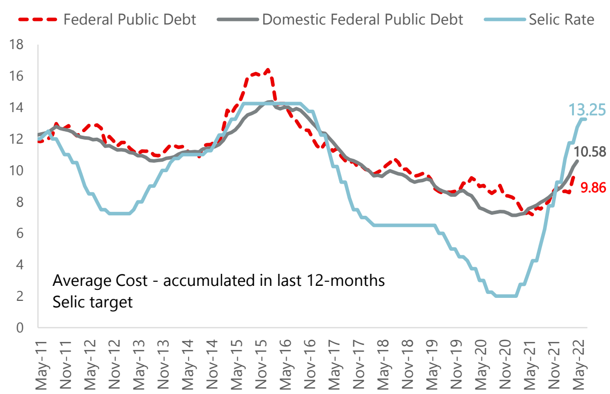
Sources: National Treasury, Santander.

Figure 7 – Change in Holders Debt Stock (BRL bn)



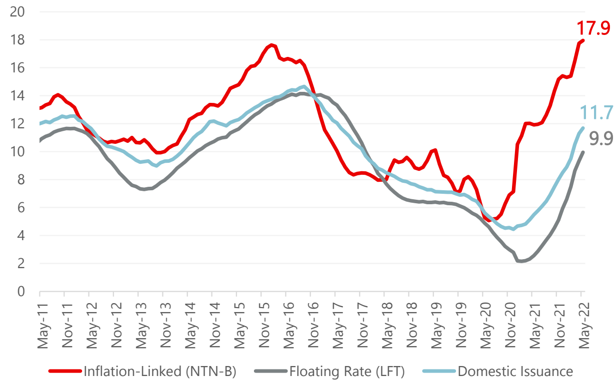
Sources: National Treasury, Santander.

Figure 8 – Debt Cost - %



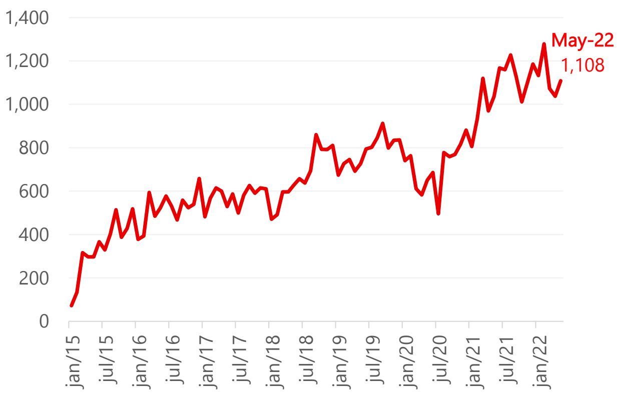
Sources: National Treasury, Santander.

Figure 9 – Debt Cost of New Issuances - %



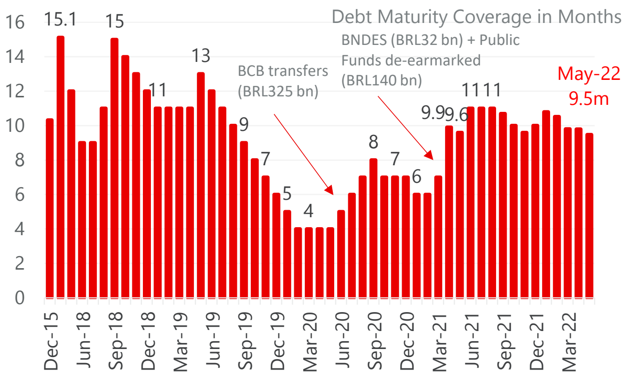
Sources: National Treasury, Santander.

Figure 10 – Debt Liquidity Reserve (BRL bn)



Sources: National Treasury, Santander.

Figure 11 – Liquidity Coverage of Debt Maturity



Sources: National Treasury, Santander.

CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research			
Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Fabiana Moreira*	Economist – Credit	fabiana.de.oliveira@santander.com.br	5511-3553-6120
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327
Global Macro Research			
Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Rodrigo Park *	Economist – Argentina	rpark@santander.com.ar	54-11-4341-1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500
Fixed Income Research			
Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778
Equity Research			
Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511-3553-1684
Murilo Riccini*	Head, Chile	murilo.riccini@santander.cl	56 22336 3359

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