

DEBT REPORT: LIQUIDITY RESERVES INCREASE BOOSTED BY ONE-OFFS IN JUNE

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- On July 27, the National Treasury published the Monthly Debt Report for June. Weekly bond issuances reached BRL21 billion through June, above the ~BRL20 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 the issuance standpoint, totaling BRL29.8 billion in June. In terms of redemptions, the month was marked by the low level of debt maturities, with total redemption reaching BRL4 billion, compared to an average of BRL107 billion in the last 12 months. The cost of new domestic issuances rose to 12% p.a. from 11.7% p.a. in May (in tandem with increases in the IPCA and the Selic).
- Non-residents registered a negative flow of BRL1.6 billion in June, totaling -BRL65.7 billion in the year and +BRL3.9 billion in the last 12 months, reducing the percentage of non-residents to 8.9% 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 (30.1%).
- Public debt liquidity reserves rose BRL113 billion, reaching BRL1,221 billion and reflecting the net issuances and some one-offs in the month: (i) the 2021 BCB result, in the amount of BRL73 billion; (ii) the de-earmarking of resources from public funds, amounting to BRL47 billion; and (iii) additional dividends from BNDES, already received, of R\$ 19 billion. This level of liquidity reserves covers close to 9.8 months of debt maturities.
- In our view, despite the comfortable levels of liquidity reserves to navigate uncertainties in 2022, the outlook for debt management remains challenging in the medium term, especially following the rise in the Selic rate and IPCA estimates.

Net issuances totaled +BRL67.3 billion, considering the low level of redemptions during the month. Debt issuances reached BRL71.3 billion in the month. This value was slightly below the last 12-month average of BRL103 billion. Weekly bond issuances reached BRL21.0 billion through June (BRL22.6 billion in May), slightly higher the level that we estimate is needed to keep liquidity reserves stable until the end of the year of ~BRL20 billion/week.

In the issuances, fixed rate bonds (43% of the total) stand out, totaling BRL29.8 billion and reaching 27.2% of total debt (PAF limits: 24%-28%). In terms of redemptions, the month was marked by the low level of debt maturities, with total redemption reaching BRL4 billion, compared to an average of BRL107 billion in the last 12 months.

The cost of domestic new issuances continued to rise, due to both inflation and Selic increase (12% in the last 12m, +0.3pp from May-22). The average cost of the outstanding debt accumulated in 12 months rose to 10.9% (from 9.9% in May). The NTN-B (inflation-linked bonds) cost in the last 12 months reached 17.1% p.y. (stable from May). The cost of LFT (floating rate) in 12 months increased to 8.8% (from 8.00% in May-22 and 4.5% in Dec-21), the Selic increase (currently at 13.25%) will add an additional pressure in debt costs in coming months. We expect the Selic rate at 14.25% by YE2022.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT.

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The average term of new issuance* fell to 4.3 years (from 5.0 years in May-22). The debt liquidity cushion went up 10% in nominal terms in June (+BRL113 bn from May | Totaling BRL1,221 bn), reflecting the net issuance result and some one-offs: (i) the 2021 BCB result, in the amount of BRL73 billion; (ii) the de-earmarking of resources from public funds, amounting to BRL47 billion; and (iii) additional dividends from BNDES, already received, of R\$19 billion. The liquidity reserves level is equivalent to almost 9.8 months of debt maturities (rising from 9.5 months in May).

Non-residents registered negative flow of BRL1.6 billion in June, totaling -BRL65.7 billion in the year and +BRL3.9 billion in the last 12 months. The percentage of debt holders that are non-residents fell to 8.9% (-1.7 pp from December 2021). Financial institutions continue to be the main holders (30.1%). The debt that is maturing totals BRL637 billion in 2H22. In 12-month, the total is BRL1,326 billion.

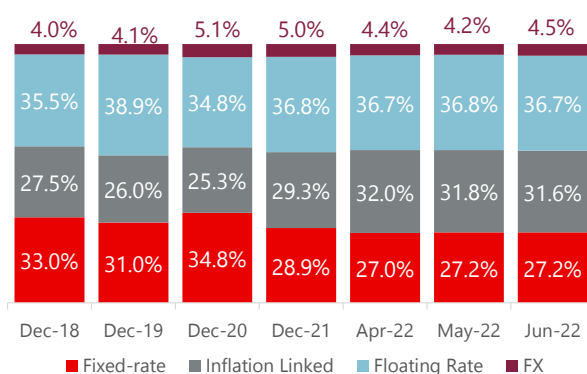
In our view, the outlook for debt management remains challenging in the medium term, especially after the increases in both the Selic and the IPCA, pressuring the cost of debt. The trajectory for debt management depends on maintaining the credibility of the fiscal framework, the level of liquidity reserves, 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	May-22	Jun-22	PAF 2022 range		PAF 2021 Revised (May21)		PAF 2021 (Jan-21)	
					Min	Max	Min	Max	Min	Max
Outstanding volume (BRL billion)										
Federal Public Debt	5,010	5,614	5,702	5,846	6,000	6,400	5,500	5,800	5,600	5,900
Composition (%)										
Fixed-rate	34.8	28.9	27.2	27.2	24	28	31	35	38	42
Inflation-linked	25.3	29.3	31.8	31.6	27	31	26	30	24	28
Floating-rate	34.8	36.8	36.8	36.7	38	42	33	37	28	32
FX	5.1	5.0	4.2	4.5	3	7	3	7	3	7
Maturity Structure										
% maturing in 12 months	27.6	21	23.4	23.1	19	23	22	27	24	29
Average maturity (years)	3.6	3.8	4.0	3.9	3.8	4.2	3.4	3.8	3.2	3.6

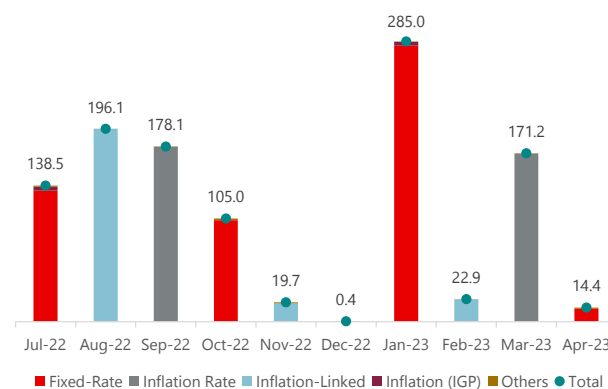
Sources: National Treasury, Santander.

Figure 2 – Debt Profile - %



Sources: National Treasury, Santander.

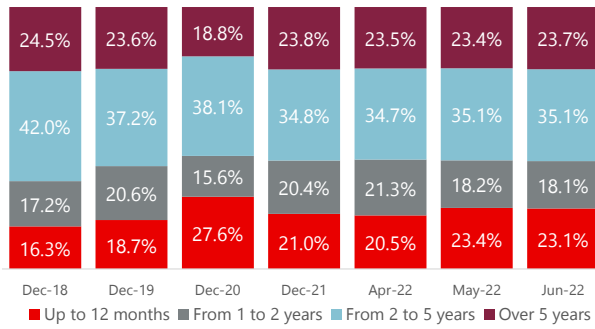
Figure 3 – Debt Maturity in the Next 12 Months (BRL bn)



Sources: National Treasury, Santander.

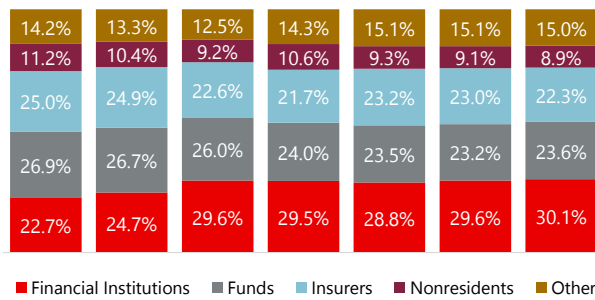


Figure 4 – Debt Maturities - %



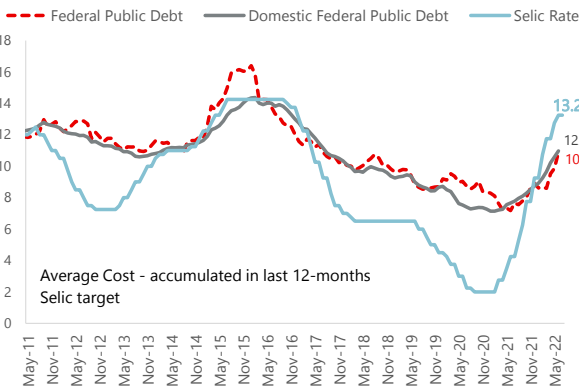
Sources: National Treasury, Santander.

Figure 6 – Debt Holders - %



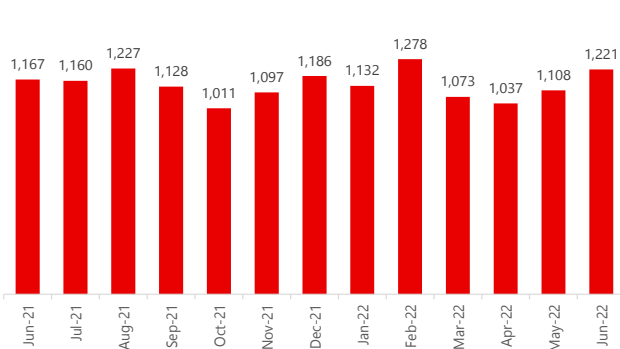
Sources: National Treasury, Santander.

Figure 8 – Debt Cost - %



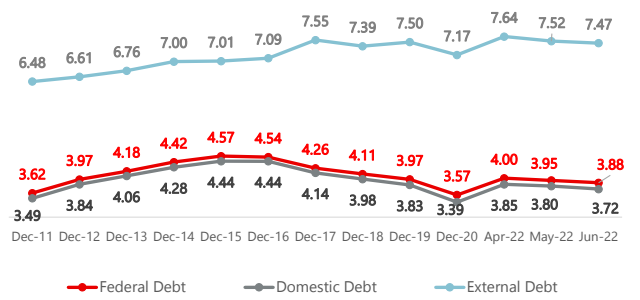
Sources: National Treasury, Santander.

Figure 10 – Debt Liquidity Reserve (BRL bn)



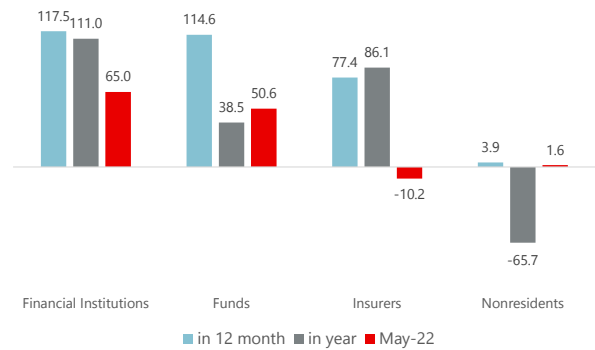
Sources: National Treasury, Santander.

Figure 5 – Average Maturity



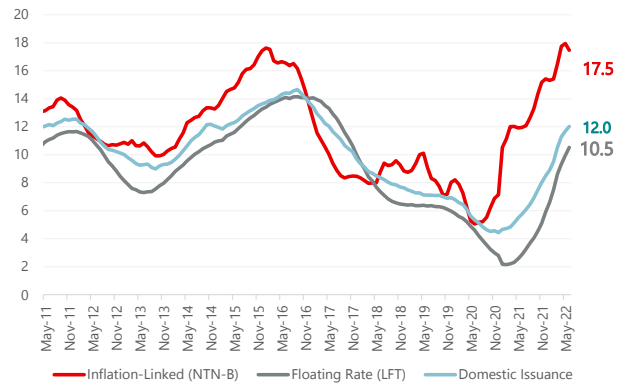
Sources: National Treasury, Santander.

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



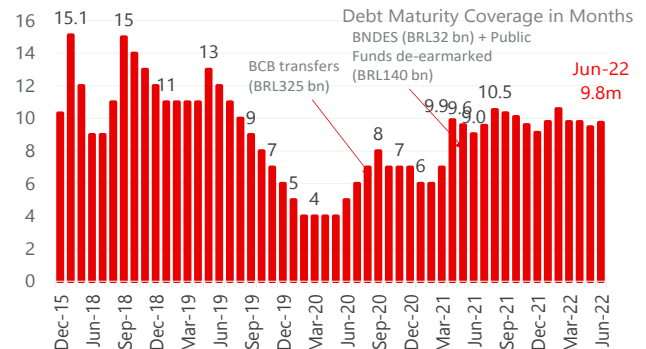
Sources: National Treasury, Santander.

Figure 9 – Debt Cost of New Issuances - %



Sources: National Treasury, Santander.

Figure 11 – Liquidity Coverage of Debt Maturity



Sources: National Treasury, Santander.



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