

## **DEBT MANAGEMENT: POSITIVE WINDOW FOR FIXED-RATE BONDS ISSUANCE IN JUNE**

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- Today, the National Treasury published its monthly debt report for June. Debt issuance remained high in the month, totaling BRL151 billion, compared to an average of BRL104 billion in the last 12 months. Issuance was concentrated in fixed rate (~58%) bonds, mainly due to higher demand given the expected monetary easing cycle ahead. Considering this, weekly bond issuances reached BRL28 billion through June, rising from BRL27 billion through May; this was the third consecutive month in which weekly bond issuances were above the level needed to keep liquidity reserves stable until the end of the year. For 2023, we estimate that ~BRL25.4 billion in issuances per week will be required.
- June was also marked by a lower level of debt redemptions (BRL7.1 billion), compared to an average of BRL122 billion in the last 12 months. In addition, net issuance was +BRL144 billion in June, implying -BRL57 billion in YTD terms and -BRL212 billion in the last 12 months. Total outstanding debt rose 3% MoM, reaching BRL6.2 trillion.
- Considering the net issuance result, public debt liquidity reserves rose 13.8% MoM in nominal terms (+BRL135 billion from May), reaching BRL1,118 billion. This level of liquidity reserves covers close to 8.5 months of debt maturities (from 8.1 in May, 6.9 in February, and 8.4 in December).
- The cost of new domestic issuances declined slightly to 12.5% p.a. in June vs. 12.8% p.a. in May. The average cost of the outstanding debt accumulated in the last 12 months dropped to 10% (-0.9 p.p.). Thus, the cost of LFT (floating rate bonds) in the last 12 months remained close to 13.7%.
- Debt maturing through year-end totaled BRL603 billion, while BRL1,199 billion is maturing in the next 12 months. We highlight the large maturity scheduled for September (BRL311 billion, mainly in LFT). The volume of domestic debt securities scheduled to mature in the next 12 months dropped to 19.7% (-0.3 p.p.).
- Non-resident debt holders registered positive flow in June (+BRL13.7 billion), reaching BRL31.3 billion so far in 2023 and BRL65.5 billion in the last 12 months. The percentage of non-resident debt holders remained close to 9.5% in June vs. 9.4% in December 2022 and compared to 10.6% in December 2021. Financial institutions continue to be the main holders (29.2%, +0.5 p.p. in the month).
- In the last months we have seen better numbers compared with 1Q23, with increased debt issuance. We continue to believe that liquidity debt is at a comfortable level to navigate the ongoing economic uncertainties. For the medium term, the outlook for debt management remains challenging, considering the higher level of domestic debt in the context of an increase in the cost of debt and uncertainty about the fiscal consolidation process ahead.

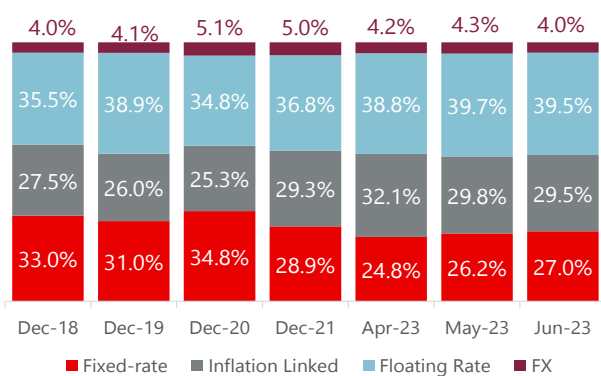


Figure 1 – Summary – Monthly Debt Report

Annual Borrowing Plan (PAF 2023)									
	2020	2021	2022	May-23	Jun-23	PAF 2023 range		PAF 2022 range	
Outstanding volume (BRL billion)						Min	Max	Min	Max
Federal Public Debt	5,010	5,614	5,951	6,014	6,192	6,400	6,800	6000	6400
Composition (%)									
Fixed-rate	34.8	28.9	27.0	26.2	27.0	23	27	24	28
Inflation-linked	25.3	29.3	30.3	29.8	29.5	29	33	27	31
Floating-rate	34.8	36.8	38.3	39.7	39.5	38	42	38	42
FX	5.1	5.0	4.4	4.3	4.0	3.0	7.0	3	7
Maturity Structure									
% maturing in 12 months	27.6	21	22.1	20	19.7	19	23	19	23
Average maturity (years)	3.6	3.8	3.0	4.1	4.0	3.8	4.2	3.8	4.2

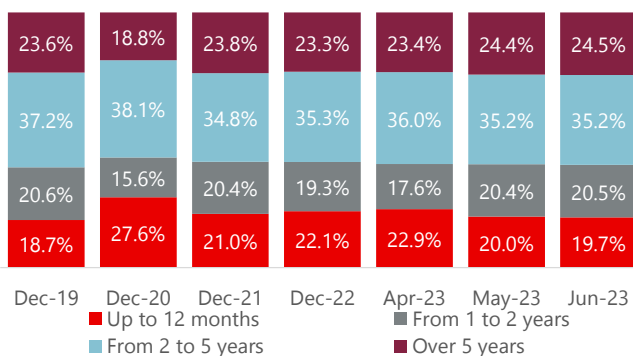
Sources: National Treasury, Santander

Figure 2 – Debt Profile - %



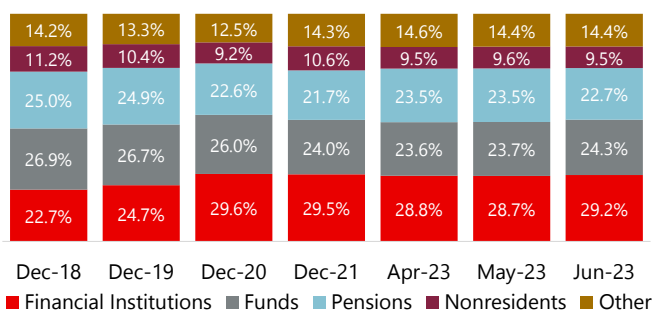
Sources: National Treasury, Santander.

Figure 4 – Debt Maturities - %



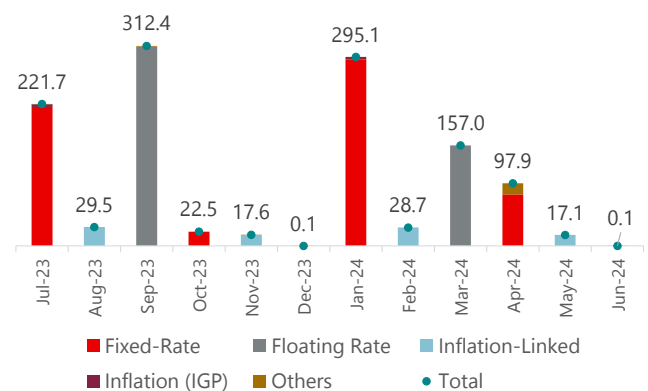
Sources: National Treasury, Santander.

Figure 6 – Debt Holders - %



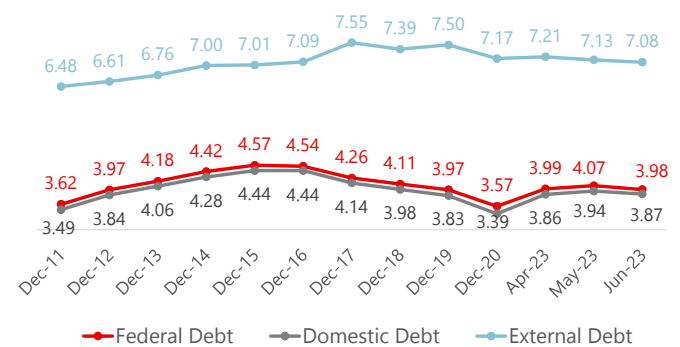
Sources: National Treasury, Santander.

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



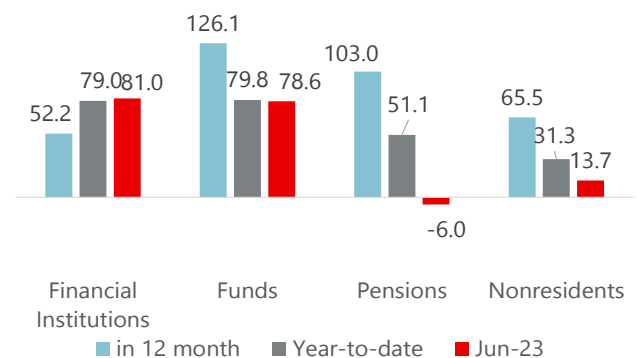
Sources: National Treasury, Santander.

Figure 5 – Average Maturity (in years)



Sources: National Treasury, Santander.

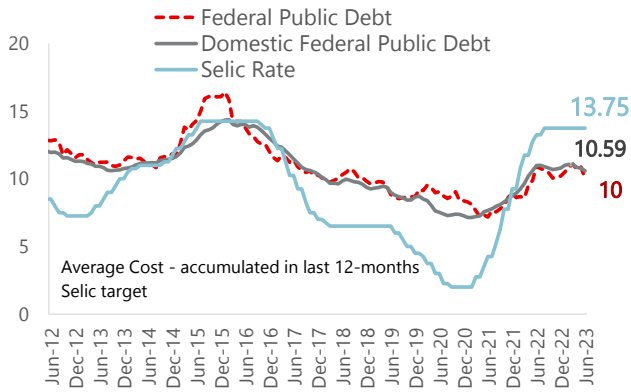
Figure 7 – Change in Holders Debt Stock (BRL bn)



Sources: National Treasury, Santander.

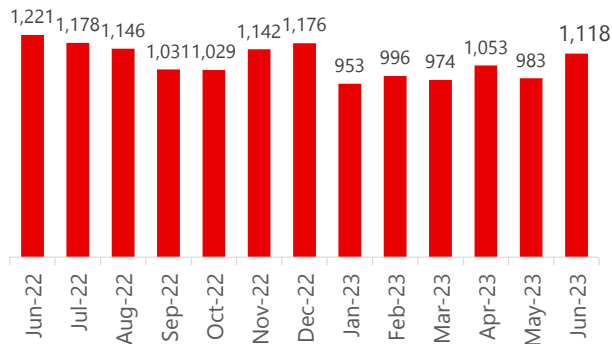


**Figure 8 – Debt Cost - %**



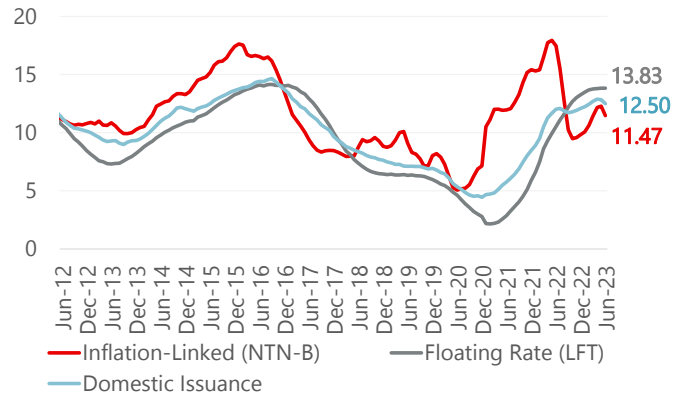
Sources: National Treasury, Santander.

**Figure 10 – Debt Liquidity Reserve (BRL bn)**



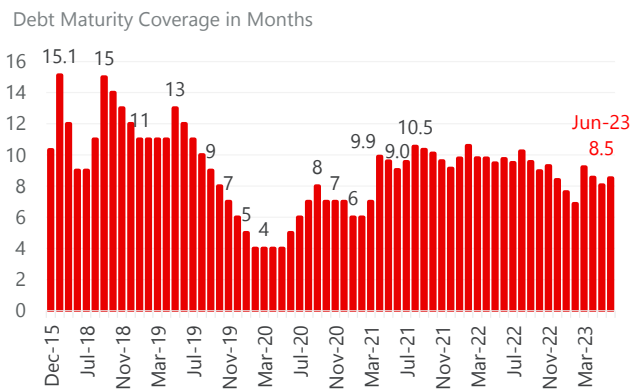
Sources: National Treasury, Santander.

**Figure 9 – Debt Cost of New Issuances - %**



Sources: National Treasury, Santander.

**Figure 11 – Liquidity Coverage of Debt Maturity (Maturity Schedule/Liquidity Reserves)**



Sources: National Treasury, Santander.



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