

## **DEBT MANAGEMENT: HITTING THE BRAKES WITH HIGHER VOLATILITY IN SEPTEMBER**

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

- Today (October 25), the National Treasury published its monthly debt report for September 2023. The report pointed to an all-time high net debt issuance (-BRL244.2 billion), on the heels of a high level of debt redemption in the month, with a large amount of floating rate maturing and fewer bond issuances. Debt issuance totaled BRL80 billion in September vs. an average of BRL116 billion/month this year. Weekly bond issuances reached BRL26.7 billion last month, above the level needed to keep liquidity reserves stable until the end of the year; and for the rest of 2023, we estimate that ~BRL7 billion in issuances per week will be required to maintain the reserves. We are seeing fewer bond issuances in October due to increasing market volatility, which has been amplified by the conflict in the Middle East. On the positive side, debt maturities are more concentrated in January (BRL300 billion), thereby easing pressure on debt management in the short term.
- The debt liquidity cushion dropped 20.9% MoM in nominal terms in September (-BRL214 billion from August, totaling BRL810 billion). Liquidity reserves are equivalent to almost 9.5 months' worth of debt maturities, up from 7.9 months in August, and much higher than the 6.9 registered in February 2023 and the 7.6 reported in January 2023. We still expect the level of liquidity reserves to vary in the months ahead as bonds mature and as issuances will depend on market appetite and volatility (this has increased in the last few months). However, we expect the liquidity level to remain at comfortable levels through the remainder of the year.
- The cost of new domestic issuances declined slightly to 11.9% p.a. in September vs. 12.0% p.a. in August. The average cost of outstanding debt accumulated in the last 12 months rose to 10.58% (+0.05 ppt). Thus, the cost of LFT (floating rate bonds) in the last 12 months reduced slightly to 13.6% and should gradually drop ahead considering the monetary easing cycle that started in August.
- Debt maturing through year-end totals BRL42 billion, while BRL1,232 billion is maturing in the next 12 months. The volume of domestic debt securities scheduled to mature in the next 12 months has dropped to 20.6% (-0.9 ppts).
- Non-resident debt holders increased their investments by BRL22.2 billion in September bringing total net investment flows to BRL46.5 billion in 2023 and BRL73.9 billion in the last 12 months. The percentage of debt held by non-residents reached 9.9% in September vs. 9.4% in December 2022 and 10.6% in December 2021. Financial institutions continue to be the main holders (28.6%, -0.4 ppt in the month).
- We observed better debt management numbers in the last few months with an increase in issuance. Now, with increased market volatility, the fiscal authority is reducing debt issuance. We continue to believe that the liquidity debt cushion is at a comfortable level and could help navigate the uncertainties. For the medium-term, the outlook for debt management remains challenging, considering the higher level of domestic debt, in context of an increase in the debt cost and the uncertainty around the fiscal consolidation ahead.

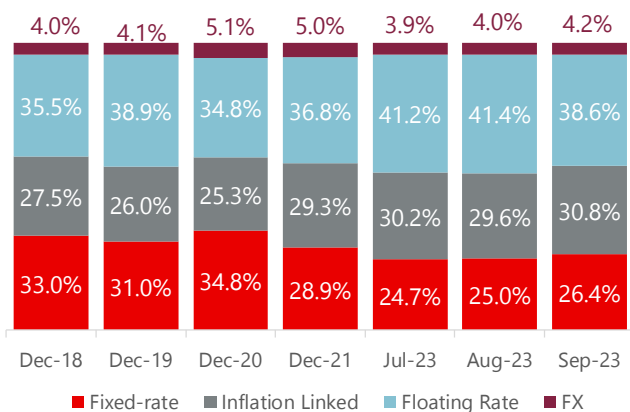


Figure 1 – Summary – Monthly Debt Report

Annual Borrowing Plan (PAF 2023)									
	2020	2021	2022	Aug-23	Sep-23	PAF 2023 range		PAF 2022 range	
Outstanding volume (BRL billion)						Min	Max	Min	Max
Federal Public Debt	5,010	5,614	5,951	6,265	6,075	6,400	6,800	6000	6400
Composition (%)									
Fixed-rate	34.8	28.9	27.0	25.0	26.4	23	27	24	28
Inflation-linked	25.3	29.3	30.3	29.6	30.8	29	33	27	31
Floating-rate	34.8	36.8	38.3	41.4	38.6	38	42	38	42
FX	5.1	5.0	4.4	4.0	4.2	3.0	7.0	3	7
Maturity Structure									
% maturing in 12 months	27.6	21	22.1	21.5	20.6	19	23	19	23
Average maturity (years)	3.6	3.8	3.0	4.1	4.1	3.8	4.2	3.8	4.2

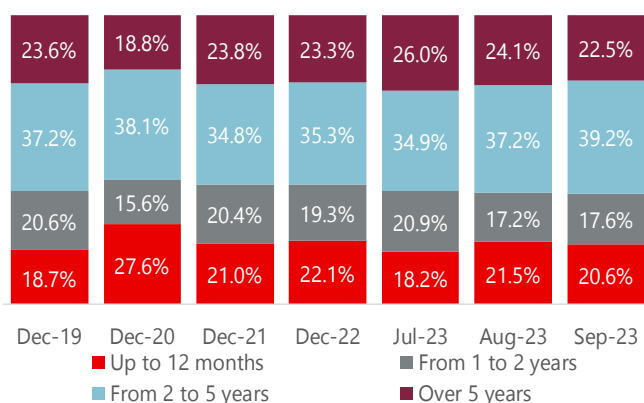
Sources: National Treasury; Santander

Figure 2 – Debt Profile - %



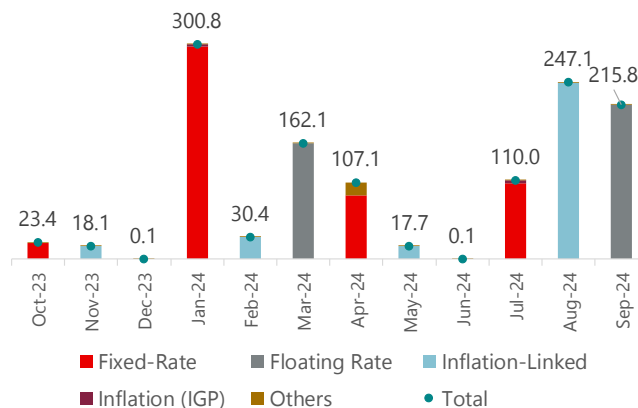
Sources: National Treasury, Santander.

Figure 4 – Debt Maturities - %



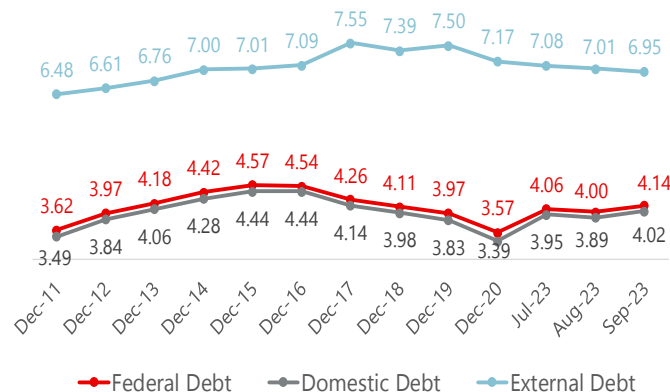
Sources: National Treasury, Santander.

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



Sources: National Treasury, Santander.

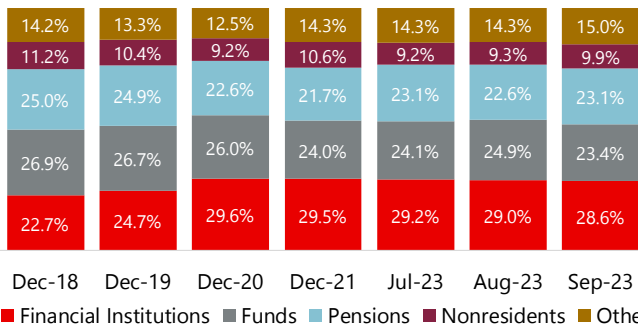
Figure 5 – Average Maturity (in years)



Sources: National Treasury, Santander.

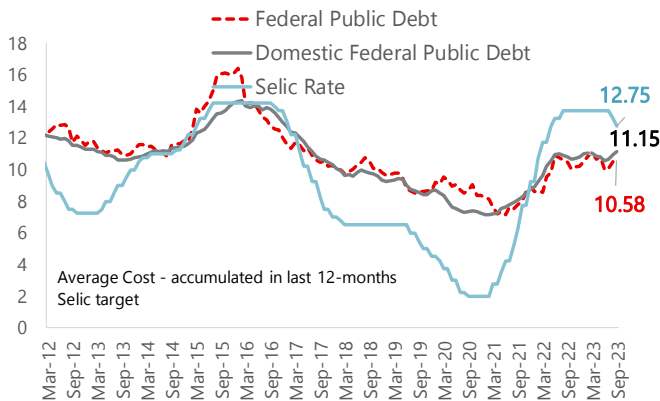


**Figure 6 – Debt Holders - %**



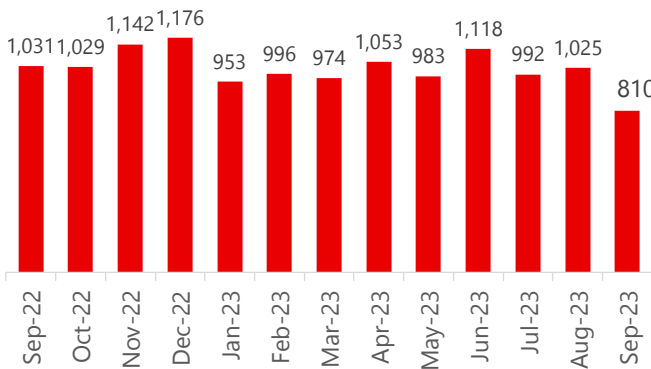
Sources: National Treasury, Santander.

**Figure 8 – Debt Cost - %**



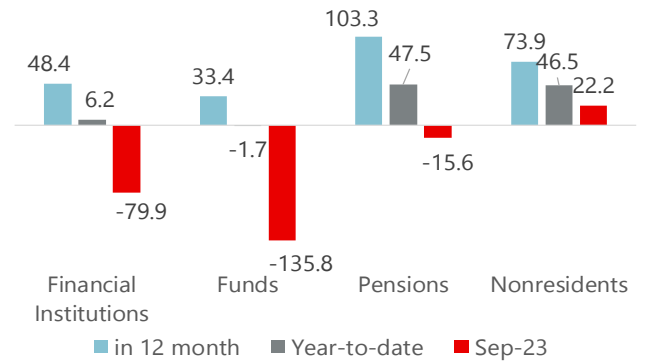
Sources: National Treasury, Santander.

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



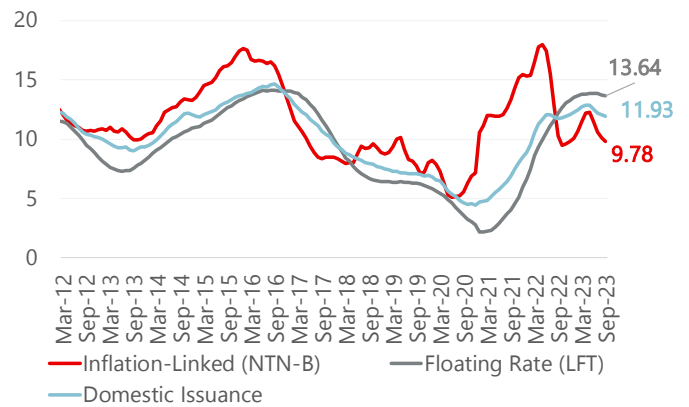
Sources: National Treasury, Santander.

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



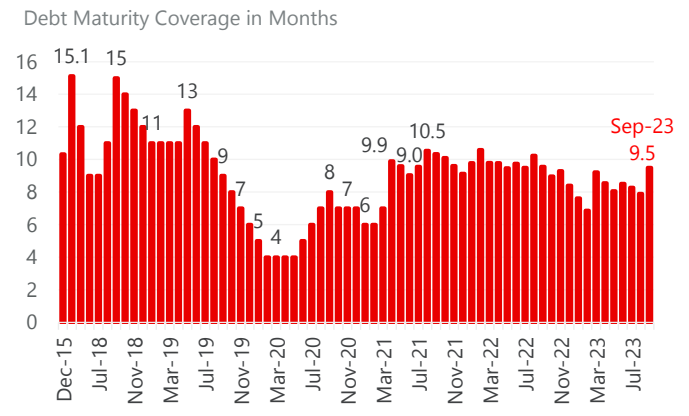
Sources: National Treasury, Santander.

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



Sources: National Treasury, Santander.

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



Sources: National Treasury, Santander.



## CONTACTS / IMPORTANT DISCLOSURES

### Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Adriano Valladao Ribeiro*	Economist – Inflation	adriano.ribeiro@santander.com.br	5511-3553-7495
Ana Julia Carvalho*	Economist – Special Projects	ana.carvalho.silva@santander.com.br	5511-3553-8071
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Activity	gabriel.couto@santander.com.br	5511-3553-8487
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327
Henrique Danyi Correia*	Economist – Credit / Monetary Policy	henrique.danyi@santander.com.br	5511-3553-7350
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Rodolfo Pavan*	Economist – Special Projects	rodolfo.almeida@santander.com.br	5511-3553-8071
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520

### 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
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
Aline de Souza Cardoso*	Head, Brazil	aline.souza.cardoso@santander.com.br	5511-3553-1684

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