

## **DEBT MANAGEMENT: COST OF NEW ISSUANCES REDUCING GRADUALLY**

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- Today, the National Treasury published its monthly debt report for August 2023. The report pointed to a slower pace in debt issuance compared to the last few months. Debt issuance totaled BRL93 billion in August, vs. an average of BRL120 billion/month for January-July this year. A variety of bonds were issued although fixed-rate bonds accounted for the largest portion (42%). Weekly bond issuances reached BRL28.3 billion last month, marking August as the fifth consecutive month in which weekly bond issuances was above the level needed to keep liquidity reserves stable until the end of the year. For the rest of 2023, we estimate ~BRL24 billion in issuances per week will be required. For September, due to increased market volatility, we are seeing fewer bond issuances. In addition, there will be a significant amount of debt redemption in the month, which is likely to result in a temporary decrease in liquidity reserves.
- In August, we observed a lower level of debt redemptions (BRL34 billion). Net issuance was +BRL59 billion, bringing the total to -BRL90 billion in YTD terms. The total outstanding debt rose 2% MoM and reached BRL6.26 trillion.
- The debt liquidity cushion rose 3.3% MoM in nominal terms in August (+BRL33 billion from August, totaling BRL1,025 billion). Liquidity reserves are equivalent to almost 7.9 months' worth of debt maturities, down from 8.3 months in July, yet much higher than the 6.9 registered in February 2023 and the 7.6 reported in January 2023. We still expect that the level of liquidity reserves will vary in the months ahead as bonds mature and issuance will depend on market appetite and volatility—which has increased in the last months. However, we expect the liquidity level to remain at comfortable levels through year end.
- The cost of new domestic issuances declined slightly to 12.0% p.a. in August vs. 12.2% p.a. in July. The average cost of the outstanding debt accumulated in the last 12 months rose to 10.53% (+0.46 ppt). Thus, the cost of LFT (floating rate bonds) in the last 12 months remained close to 13.7% and should gradually drop ahead considering the monetary easing cycle that started in August.
- Debt maturing through year-end totals BRL362 billion, while BRL1,327 billion is maturing in the next 12 months. We highlight the large maturity scheduled for September (BRL320 billion, mainly in LFT). The volume of domestic debt securities scheduled to mature in the next 12 months rose to 21.5% (+3.3 ppts).
- Non-resident debt holders reduced their investments by BRL12.4 billion in August bringing total net investment flows to BRL24.3 billion in 2023 and BRL68.3 billion in the last 12 months. The percentage of debt held by non-residents reached 9.3% in August vs. 9.4% in December 2022 and 10.6% in December 2021. Financial institutions continue to be the main holders (29%, -0.2 ppt in the month).
- In the last few months, we have seen better numbers compared with 1Q23, with increased debt issuance. We continue to believe that liquidity levels will be sufficient to navigate the ongoing economic uncertainties. For the medium term, the outlook for debt management remains challenging, given the higher level of domestic debt, an increase in the cost of debt, and uncertainty about the fiscal consolidation process ahead.

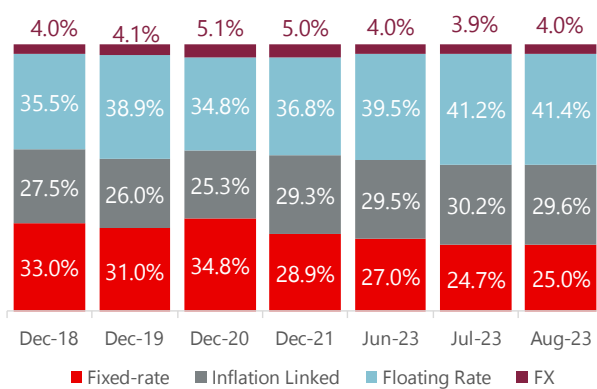


**Figure 1 – Summary – Monthly Debt Report**

| Annual Borrowing Plan (PAF 2023) |       |       |       |        |        |                |       |                |      |
|----------------------------------|-------|-------|-------|--------|--------|----------------|-------|----------------|------|
|                                  | 2020  | 2021  | 2022  | Jul-23 | Aug-23 | PAF 2023 range |       | PAF 2022 range |      |
| Outstanding volume (BRL billion) |       |       |       |        |        | Min            | Max   | Min            | Max  |
| Federal Public Debt              | 5,010 | 5,614 | 5,951 | 6,142  | 6,265  | 6,400          | 6,800 | 6000           | 6400 |
| Composition (%)                  |       |       |       |        |        |                |       |                |      |
| Fixed-rate                       | 34.8  | 28.9  | 27.0  | 24.7   | 25.0   | 23             | 27    | 24             | 28   |
| Inflation-linked                 | 25.3  | 29.3  | 30.3  | 30.2   | 29.6   | 29             | 33    | 27             | 31   |
| Floating-rate                    | 34.8  | 36.8  | 38.3  | 41.2   | 41.4   | 38             | 42    | 38             | 42   |
| FX                               | 5.1   | 5.0   | 4.4   | 3.9    | 4.0    | 3.0            | 7.0   | 3              | 7    |
| Maturity Structure               |       |       |       |        |        |                |       |                |      |
| % maturing in 12 months          | 27.6  | 21    | 22.1  | 18.2   | 21.5   | 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  |

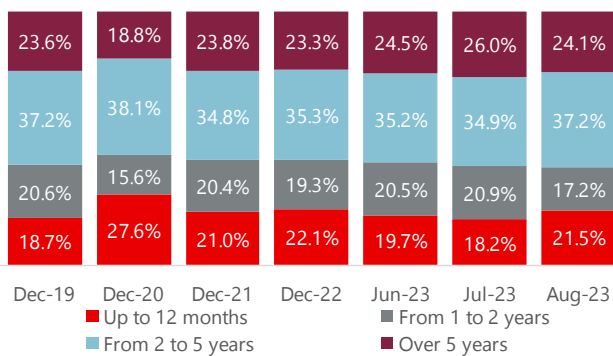
Sources: National Treasury, Santander

**Figure 2 – Debt Profile - %**



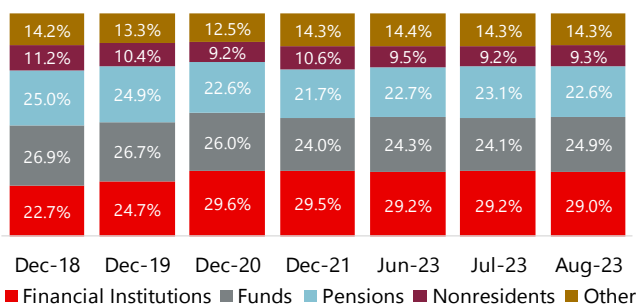
Sources: National Treasury, Santander.

**Figure 4 – Debt Maturities - %**



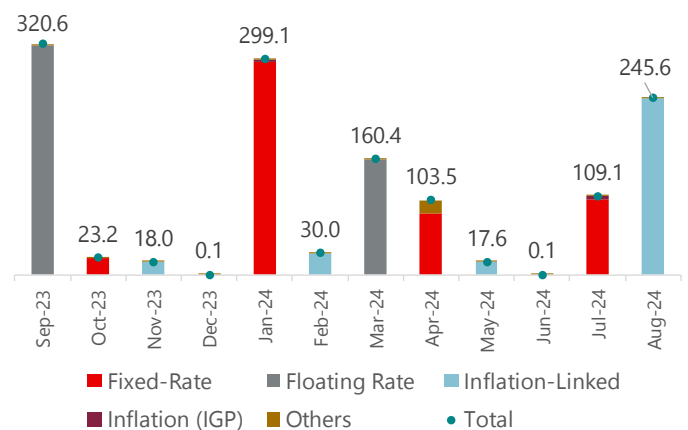
Sources: National Treasury, Santander.

**Figure 6 – Debt Holders - %**



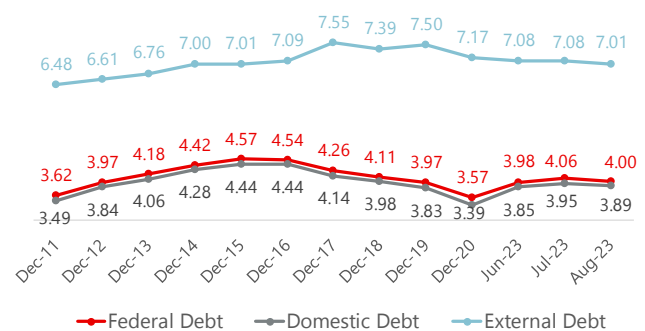
Sources: National Treasury, Santander.

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



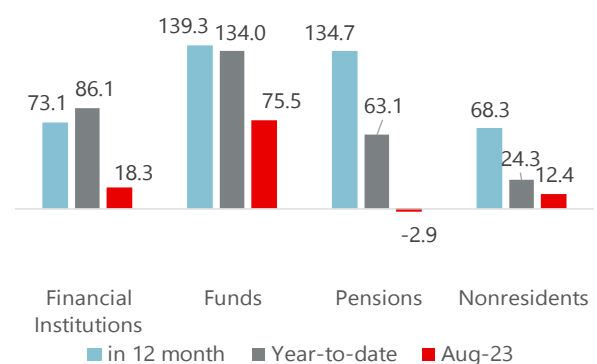
Sources: National Treasury, Santander.

**Figure 5 – Average Maturity (in years)**



Sources: National Treasury, Santander.

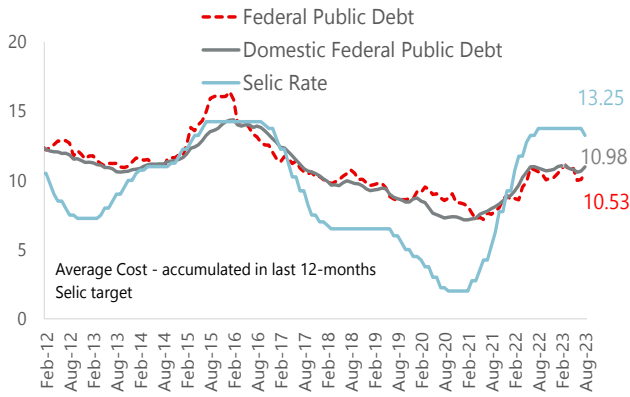
**Figure 7 – Change in Holders Debt Stock (BRL bn)**



Sources: National Treasury, Santander.

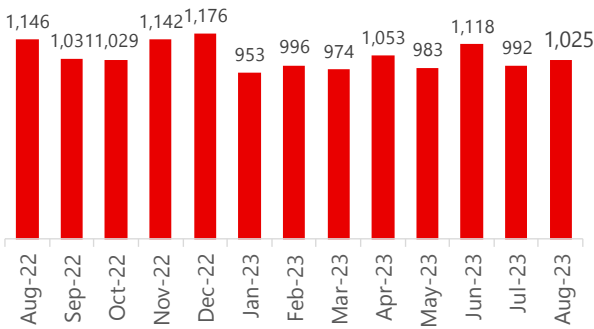


**Figure 8 – Debt Cost - %**



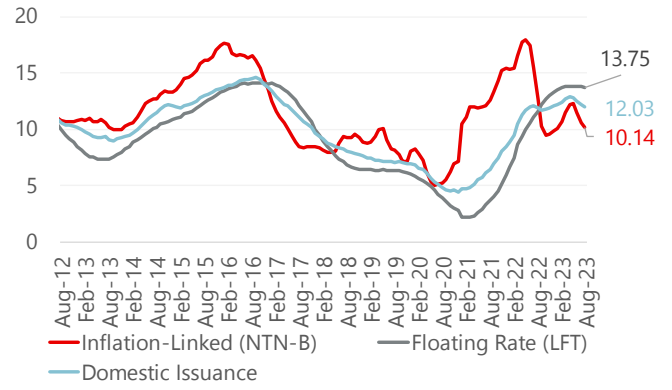
Sources: National Treasury, Santander.

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



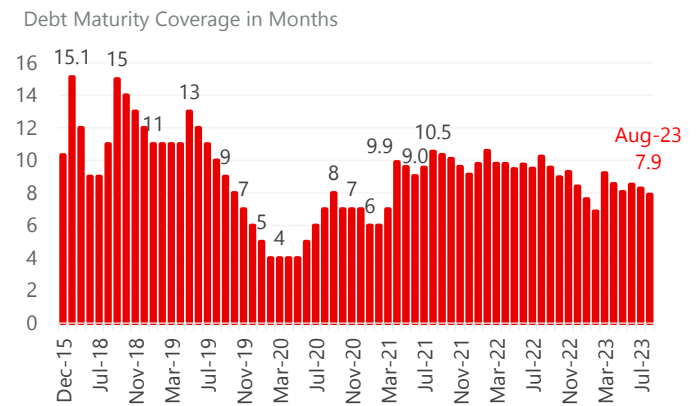
Sources: National Treasury, Santander.

**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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