

## **DEBT MANAGEMENT: JULY WAS MARKED BY HIGHER LEVEL OF FIXED-RATE MATURITY**

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- Today, the National Treasury published its monthly debt report for July. The report showed a steady pace of debt issuance over the last few months. Debt issuance totaled BRL134.4 billion in July, compared to an average of BRL123 billion/month over the year. A variety of bonds were issued although floating rate bonds accounted for the largest portion (44%). Weekly bond issuances reached BRL28.9 billion in July, rising from BRL28 billion in June. This was the fourth 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 that ~BRL24 billion in issuances per week will be required.
- A large amount (BRL217billion) of LTN (fixed-rate bonds) matured in June. As a result, the share of fixed-rate bonds dropped to 24.7% in July, from 27% in June a month which saw strong demand for fixed-rate bonds. For August, fewer bonds are set to mature (BRL30 billion). However, we expect to see record maturities in September (BRL315 billion in floating rate (LFT) bond maturities). Net issuance was -BRL92 billion in July, bringing the total to -BRL149 billion in YTD-terms. The total outstanding debt dropped 0.8% MoM and reached BRL6.14 trillion.
- Debt liquidity cushion went down 11.3% MoM in nominal terms in July (-BRL126 billion from June, totaling BRL992 billion). Liquidity reserves are equivalent to almost 8.3 months' worth of debt maturities, down from 8.5 months in June, but much higher than the 6.9 registered in Feb-23 and the 7.6 reported in Jan-23. 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. However, we expect it to remain at comfortable levels through year end.
- The cost of new domestic issuances declined slightly to 12.2% p.a. in July vs. 12.5% p.a. in June. The average cost of the outstanding debt accumulated in the last 12 months rose slightly to 10.07% (+0.07 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 totals BRL387 billion, while BRL1,198 billion is maturing in the next 12 months. We highlight the large maturity scheduled for September (BRL315 billion, mainly in LFT). The volume of domestic debt securities scheduled to mature in the next 12 months dropped to 18.2% (-1.5 p.p.).
- Non-resident debt holders reduced their investments by BRL19.4 billion in July bringing total net investment flows to BRL11.9 billion in 2023 and BRL44.6 billion in the last 12 months. The percentage of debt held by non-residents fell to 9.2% in July vs. 9.4% in December 2022 and 10.6% in December 2021. Financial institutions continue to be the main holders (29.2%, flat MoM).
- 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.

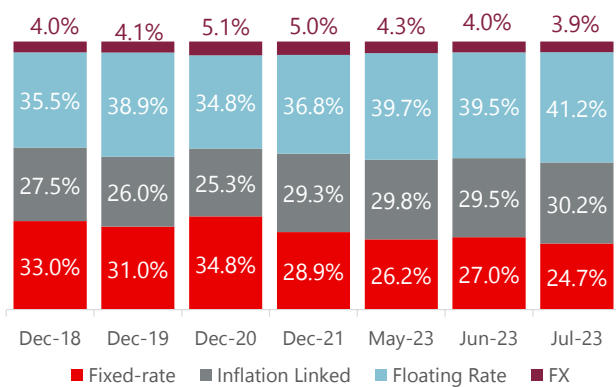


**Figure 1 – Summary – Monthly Debt Report**

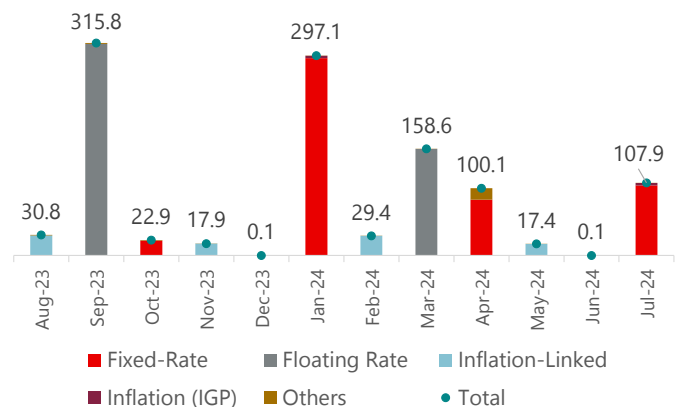
Annual Borrowing Plan (PAF 2023)									
	2020	2021	2022	Jun-23	Jul-23	PAF 2023 range		PAF 2022 range	
						Min	Max	Min	Max
Outstanding volume (BRL billion)									
Federal Public Debt	5,010	5,614	5,951	6,192	6,142	6,400	6,800	6,000	6,400
Composition (%)									
Fixed-rate	34.8	28.9	27.0	27.0	24.7	23	27	24	28
Inflation-linked	25.3	29.3	30.3	29.5	30.2	29	33	27	31
Floating-rate	34.8	36.8	38.3	39.5	41.2	38	42	38	42
FX	5.1	5.0	4.4	4.0	3.9	3.0	7.0	3	7
Maturity Structure									
% maturing in 12 months	27.6	21	22.1	19.7	18.2	19	23	19	23
Average maturity (years)	3.6	3.8	3.0	4.0	4.1	3.8	4.2	3.8	4.2

Sources: National Treasury, Santander

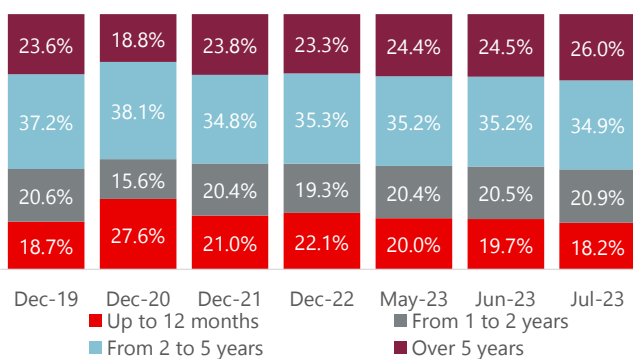
**Figure 2 – Debt Profile - %**



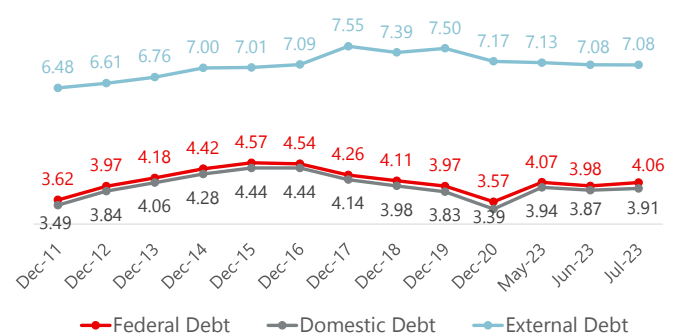
**Figure 3 – Debt Maturity in the Next 12 Months (BRL bn)**



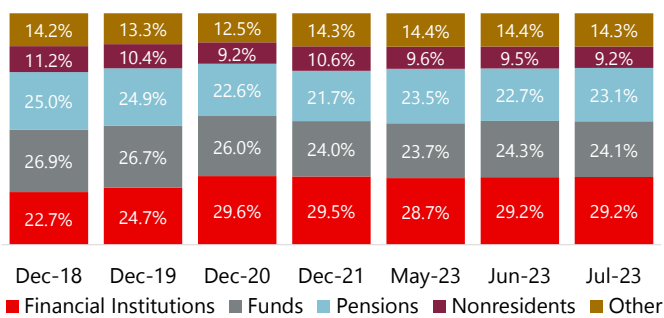
**Figure 4 – Debt Maturities - %**



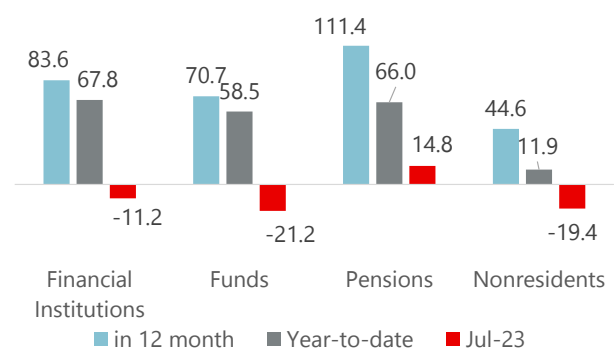
**Figure 5 – Average Maturity (in years)**



**Figure 6 – Debt Holders - %**

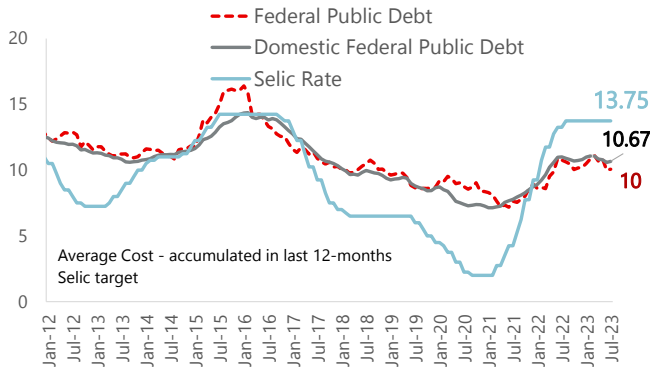


**Figure 7 – Change in Holders Debt Stock (BRL bn)**



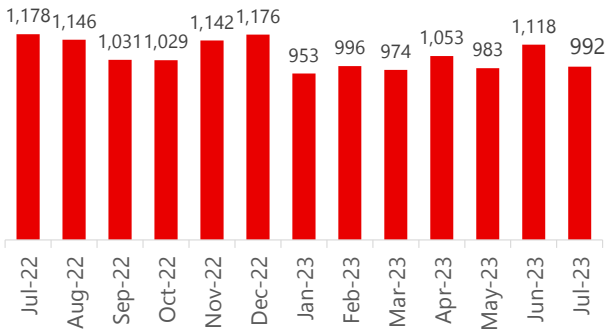


**Figure 8 – Debt Cost - %**



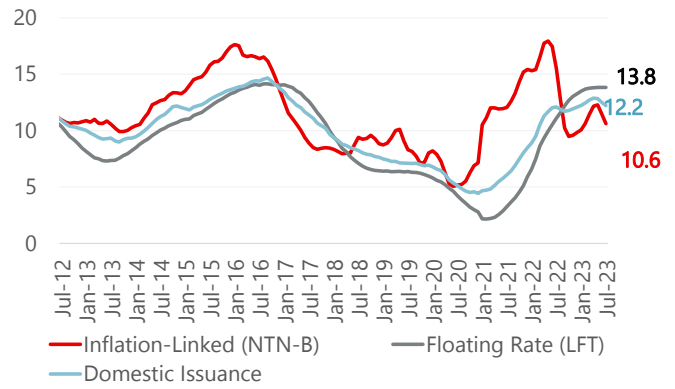
Sources: National Treasury, Santander.

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



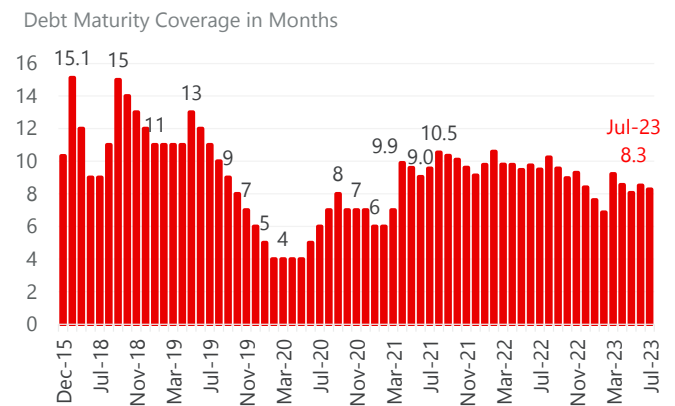
Sources: National Treasury, Santander.

**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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