BRAZIL MACRO

September 28, 2022

DATA ANALYSIS – FISCAL POLICY

DEBT REPORT: HIGH MATURITIES FOR INFLATION-LINKED BONDS IN AUGUST

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

- On September 28, the National Treasury published the monthly debt report for August. Weekly bond issuances reached R$21.5 billion through August, a tad higher than the ~R$19.5 billion per week that we estimate is needed to keep liquidity reserves stable until the end of the year. For September, R$181.8 billion in floating rate (LFT) debt maturities are expected, according to the fiscal authority's data.
- Fixed rate (LTN) and floating rate (LFT) bonds were the highlights in August from an issuance standpoint, totaling ~R$59 billion and R$48.9 billion, respectively. For redemptions, the month was marked by a higher level of debt maturities at R$200.6 billion (especially inflation-linked bonds, at R$196.6 billion), compared to the last-12-month average of R$123.8 billion.
- The cost of new domestic issuances remained stable at 11.9% p.a. vs. 12.1% p.a. in July. The debt cost of LFT bonds accumulated in the last 12 months increased to 10.4% (from 9.5% in July and 4.5% in December 2021), and the recent rise in the Selic rate (currently at 13.25%) could create additional pressure on debt costs in the coming months, in our view. The debt maturing through year-end totals R$312 billion (with the highest amount in September: R$183 billion), while R$1,243 billion is maturing in the next 12 months.
- Non-residents registered a negative flow of R$11.3 billion in August, totaling -R$75.5 billion year-to-date and -R$21.4 billion in the last 12 months, reducing the percentage of non-residents to 8.8% 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 debt holders at 30.2%.
- Public debt liquidity reserves dropped R$31.6 billion in August, reaching R$1,146 billion and reflecting net issuances with a high level of bond maturities in the month. This level of liquidity reserves covers close to 10.2 months of debt maturities (from 9.5 in July).
- In our view, despite the comfortable levels of liquidity reserves to weather uncertainties in 2022 and part of 2023, the outlook for debt management remains challenging in the medium term, especially given market volatility and the recent increase in debt costs, in the context of popular demand for larger outlays for social programs.

Net issuances totaled -R$56.6 billion, considering the high level of redemptions of inflation-linked bonds during the month. Debt issuances reached R$143.9 billion in August, higher than the last-12-month average of R$101.9 billion. Weekly bond issuances reached R$21.5 billion through August, a tad higher than the ~R$19.5 billion per week that we estimate is needed to keep liquidity reserves stable until the end of the year. For September, R$181.8 billion in floating rate (LFT) debt maturity is expected, according to the fiscal authority data. Interest appropriations totaled R$33.6 billion in August, compared to R$39.3 billion in August 2021. In 2022 (YTD terms), the interest appropriations amounted to R$380 billion vs. R$419 billion in 2021.

Fixed rate (LTN) and floating rate (LFT) bonds were the highlights from an issuance standpoint in August, totaling ~R$59 billion and R$48.9 billion, respectively. For redemptions, the month was marked by a higher level of debt maturities at R$200.6 billion (especially inflation-linked bonds at R$196.6 billion), compared to the last 12-month-average of R$123.8 billion. Considering the amount in the Annual Borrowing Plan (PAF), we could observe more issuances of floating rate bonds in 2022, in our view.

The cost of new domestic issuances remained stable at 11.9% p.a. vs. 12.1% p.a. in July. The debt cost of LFT bonds accumulated in the last 12 months increased to 10.4% (from 9.5% in July and 4.5% in December 2021), and the recent rise in the Selic rate (currently at 13.25%) could create additional pressure on debt costs in the coming months, in our view. Debt maturing through year-end totals R$312 billion (with the highest amount in September: R$183 billion), while R$1,243 billion is maturing in the next 12 months.

The average term of new issuance rose to 5.0 years (from 4.7 years in July). The volume of debt maturing in up to 12 months declined to 21.9% in August, from 24.6% in July.

Debt liquidity fell 2.7% in nominal terms in August (-R$31.6 billion from July; totaling R$1,146 billion), reflecting net issuance. Liquidity reserves are equivalent to almost 10.2 months of debt maturities (down from 9.5 months in July),

Non-residents registered a negative flow of R$11.3 billion in August, totaling -R$75.5 billion in the year and -R$21.4 billion in the last 12 months, reducing the percentage of non-residents to 8.8% 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 debt holders at 30.2%.

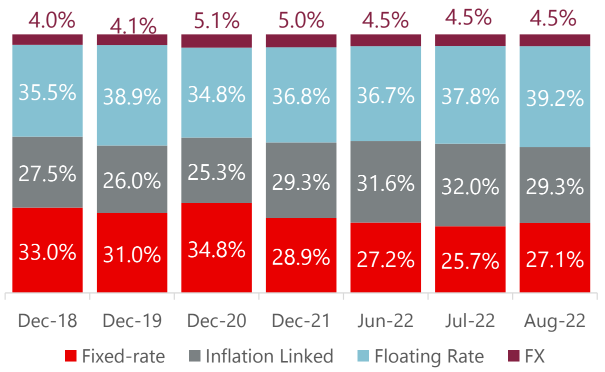
In our view, the outlook for debt management remains challenging in the medium term, especially after the increase in the debt cost. The debt management trajectory depends on maintaining the credibility of the fiscal framework, the level of liquidity reserves, and favorable market conditions. In the short term (i.e., the rest of 2022), the liquidity debt cushion is at a comfortable level to support the country as it faces these uncertainties.

Figure 1 – Summary – Monthly Debt Report

Annual Borrowing Plan (PAF 2022)								
	2020	2021	Jul-22	Aug-22	PAF 2022 range		PAF 2021 Revised (May21)	
Outstanding volume (BRL billion)					Min	Max	Min	Max
Federal Public Debt	5,010	5,614	5,804	5,781	6000	6400	5,500	5,800
Composition (%)								
Fixed-rate	34.8	28.9	25.7	27.1	24	28	31	35
Inflation-linked	25.3	29.3	32.0	29.3	27	31	26	30
Floating-rate	34.8	36.8	37.8	39.2	38	42	33	37
FX	5.1	5.0	4.5	4.5	3	7	3	7
Maturity Structure								
% maturing in 12 months	27.6	21	24.6	21.9	19	23	22	27
Average maturity (years)	3.6	3.8	3.9	4.0	3.8	4.2	3.4	3.8

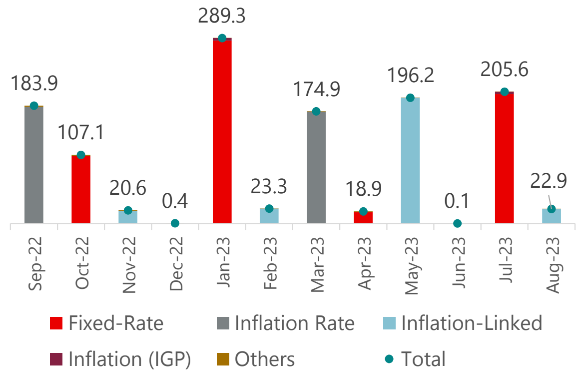
Sources: National Treasury; Santander

Figure 2 – Debt Profile - %



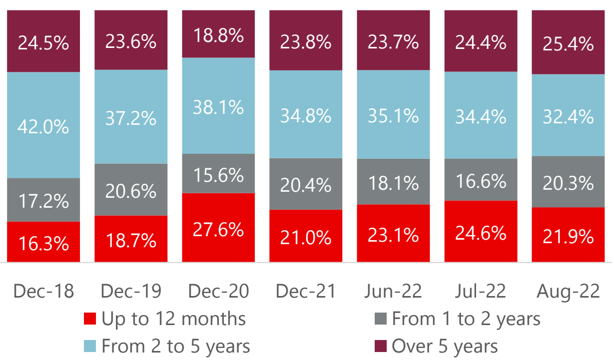
Sources: National Treasury, Santander.

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



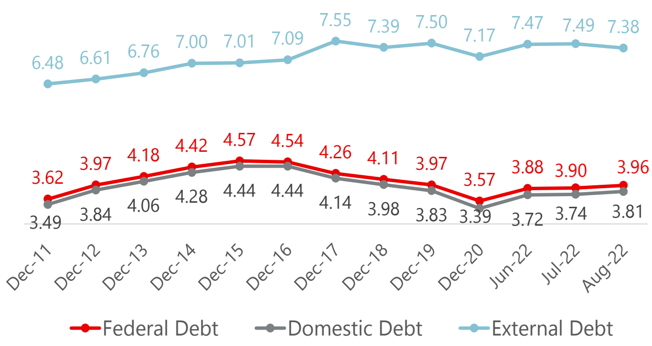
Sources: National Treasury, Santander.

Figure 4 – Debt Maturities - %



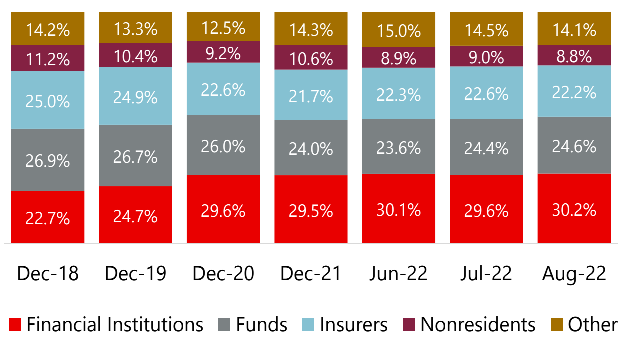
Sources: National Treasury, Santander.

Figure 5 – Average Maturity



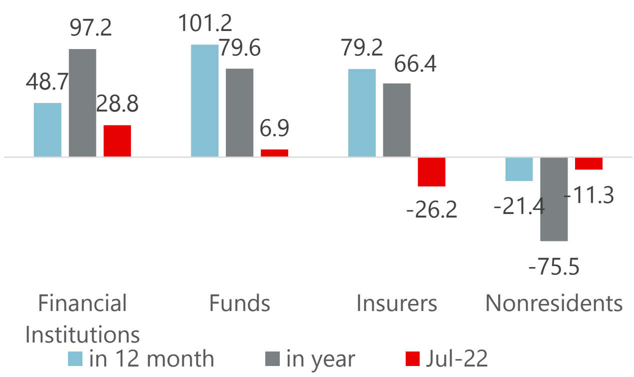
Sources: National Treasury, Santander.

Figure 6 – Debt Holders - %



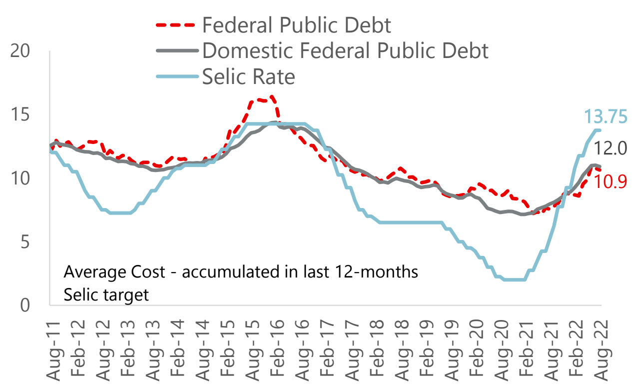
Sources: National Treasury, Santander.

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



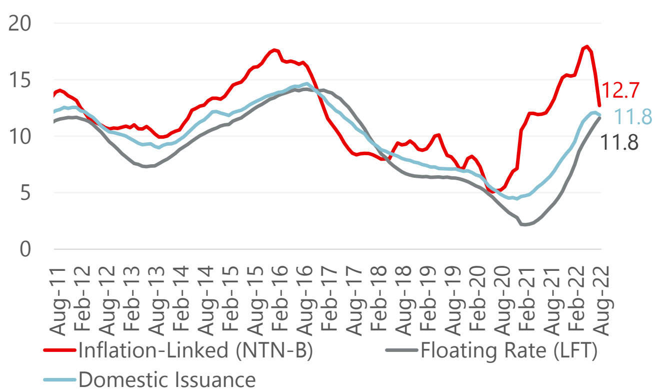
Sources: National Treasury, Santander.

Figure 8 – Debt Cost - %



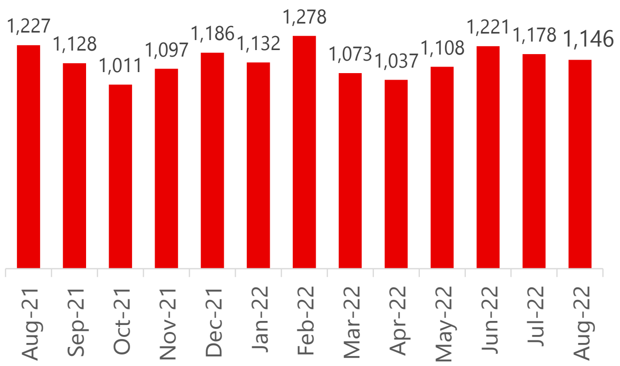
Sources: National Treasury, Santander.

Figure 9 – Debt Cost of New Issuances - %



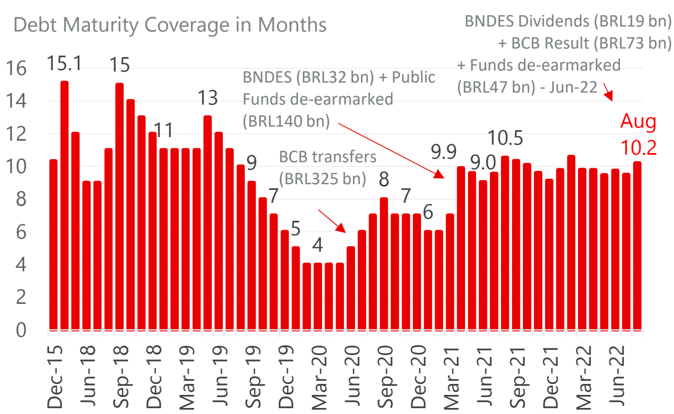
Sources: National Treasury, Santander.

Figure 10 – Debt Liquidity Reserve (BRL bn)



Sources: National Treasury, Santander.

Figure 11 – Liquidity Coverage of Debt Maturity



Sources: National Treasury, Santander.

CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research			
Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Fabiana Moreira*	Economist – Credit	fabiana.de.oliveira@santander.com.br	5511-3553-6120
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327
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
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
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
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511-3553-1684
Electronic			
Bloomberg		SIEQ <GO>	
Reuters		Pages SISEMA through SISEMZ	

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. (“Santander Investment Bolsa”), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Italo Franca*.

*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice. Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.