BRAZIL MACRO

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DATA ANALYSIS – FISCAL POLICY

DEBT REPORT: HIGH FIXED-RATE BOND MATURITY IN JULY

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- On August 29, the National Treasury published the monthly debt report for July. Weekly bond issuances reached R$20.9 billion through July, slightly below the ~R$22 billion per week that we estimate is needed to keep liquidity reserves stable until the end of the year. In August we have seen a higher level of debt issuance, yet we expect a high level of debt maturity of inflation-linked bonds.
- Floating rate (LFT) and fixed rate (LTN) bonds were the highlights from the issuance standpoint, both totaling ~R$26 billion in July. In terms of redemptions, the month was marked by higher level of debt maturities (especially fixed-rate bonds at R$111 billion) at R$140.7 billion, compared to the last 12-month average of R$115 billion.
- The cost of new domestic issuances remained stable at 12.1% p.a. vs. 12.0% p.a. in June. The debt cost of LFT bonds accumulated in the last 12 months increased to 9.5% (from 8.8% in June 2022 and 4.5% in December 2021) and the rise in Selic (currently at 13.25%) could likely add additional pressure on debt costs in the coming months, in our view. The debt maturing totaled R$504 billion in 2H22 (highest in August: R$197 billion) and R$1,404 billion in the last 12 months.
- Non-residents registered a positive flow of R$1.4 billion in July, totaling - R$64.2 billion in the year and +R$2.0 billion in the last 12 months, maintaining the percentage of non-residents close to 9.0% 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 holders at 29.6%.
- Public debt liquidity reserves dropped R$44 billion in July, reaching R$1,177 billion and reflecting net issuances with high level of fixed rate bond maturity. This level of liquidity reserves cover close to 9.5 months of debt maturities (from 9.8 registered in June).
- In our view, despite the comfortable levels of liquidity reserves to navigate uncertainties in 2022, the outlook for debt management remains challenging in the medium term, especially as we expect the Selic rate and IPCA to continue rising during the year.

Net issuances totaled -R$81.6 billion, considering the high level of redemptions of fixed rate bonds during the month. Debt issuances reached R$62.4 billion in July, slightly below the last 12-month average of R$95 billion. Weekly bond issuances reached R$20.9 billion through July (R$21.4 billion in June), slightly lower the level that we estimate is needed to keep liquidity reserves stable until the end of the year of ~R$22 billion/week. Interest appropriations totaled R$41.7 billion in July, compared to R$52.1 billion in June. In 2022 (YTD terms), the appropriate interest amounted to R$334 billion vs. R$419 billion in 2021.

LFT and LTN bonds were the highlights from the issuance standpoint, both totaling ~R$26 billion in July. In terms of redemptions, the month was marked by the higher level of debt maturities (especially fixed-rate bonds at R$111 billion) at R$140.7 billion vs. the last 12-month average of R$115. Considering the PAF value, we could observe more issuances in floating rate bonds in 2022, in our view.

The cost of domestic new issuances remained almost stable (12.1% in the last 12 months, +0.1 ppt from June 2022). The average cost of the outstanding debt accumulated in the last 12 months dropped to 10.8% (from 10.9% in June). The NTN-B (inflation-linked) bonds cost in the last 12 months reached 16.1% per year (down from 17.1% in Jun). The cost of LFT (floating rate) in the last 12 months increased to 9.5% (from 8.8% in June 2022 and 4.5% in December 2021) and the rise in Selic (currently at 13.25%) could add additional pressure in debt costs in coming months. We estimate the Selic rate at 14% by YE2022.

The average term of new issuance rose to 4.7 years (from 4.3 years in June). The volume of debt maturing in up to 12 months shifted from 23.7% in June to 25.3% in July. Fixed-rate bonds accounted for 42.9% of this total, followed by inflation-linked securities with 31.8% share of the total.

The debt liquidity cushion went down 3.6% in nominal terms in June (-R$44 billion from June; totaling R$1,177 billion), reflecting the net issuance result. The liquidity reserves level is equivalent of almost 9.5 months of debt maturities (reducing from 9.8 months in June),

Non-residents registered a positive flow of R$1.4 billion in July, totaling -R$64.2 billion in the year and +R$2.0 billion in the last 12 months, maintaining the percentage of non-residents close to 9.0% 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 holders (29.6%). The debt maturing totals of R$504 billion in 2H22 (highest amount in August: R$197 billion) and R$1,404 billion in accumulated in the last 12 months.

According to the Treasury: the fiscal authority 'concluded the process of evaluating the Annual Financing Plan - PAF, which highlighted that the execution is in line with the scenarios foreseen in the document, without the necessity of a formal review or change in funding strategy is required. The PAF evaluation process takes place traditionally in the months of April and August'.

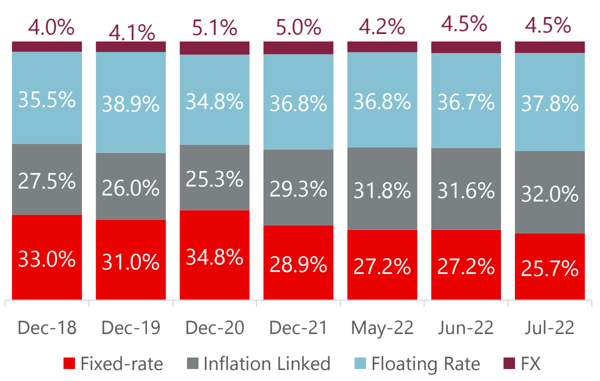
In our view, the outlook for debt management remains challenging in the medium term, especially after the increases in both the Selic and the IPCA, pressuring the cost of debt. The trajectory for debt management depends on maintaining the credibility of the fiscal framework, the level of liquidity reserves, and favorable market conditions. In the short term (i.e., 2022), the liquidity debt cushion is sufficient to navigate the uncertainties, in our view.

Figure 1 – Summary – Monthly Debt Report

Annual Borrowing Plan (PAF 2022)								
	2020	2021	Jun-22	Jul-22	PAF 2022 range		PAF 2021 Revised (May21)	
Outstanding volume (BRL billion)					Min	Max	Min	Max
Federal Public Debt	5,010	5,614	5,846	5,804	6,000	6,400	5,500	5,800
Composition (%)								
Fixed-rate	34.8	28.9	27.2	25.7	24	28	31	35
Inflation-linked	25.3	29.3	31.6	32.0	27	31	26	30
Floating-rate	34.8	36.8	36.7	37.8	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	23.1	24.6	19	23	22	27
Average maturity (years)	3.6	3.8	3.9	3.9	3.8	4.2	3.4	3.8

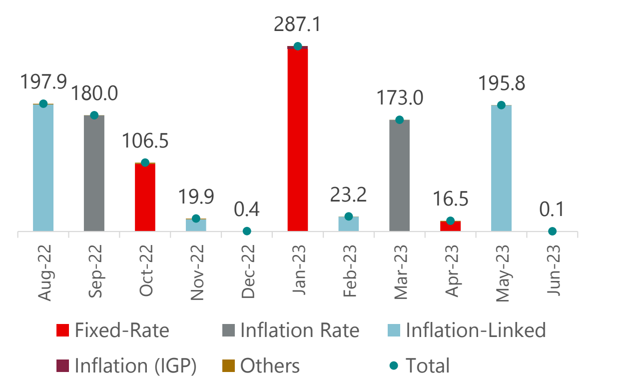
Sources: National Treasury, Santander.

Figure 2 – Debt Profile - %



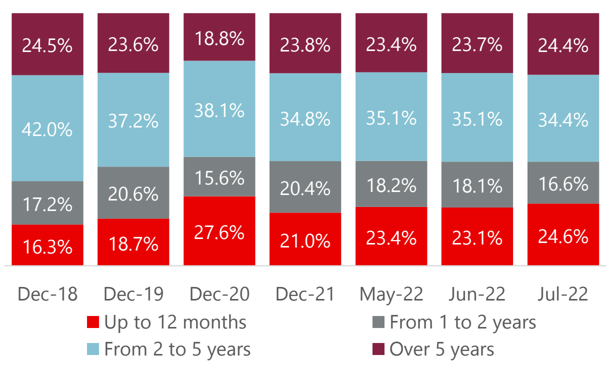
Sources: National Treasury, Santander.

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



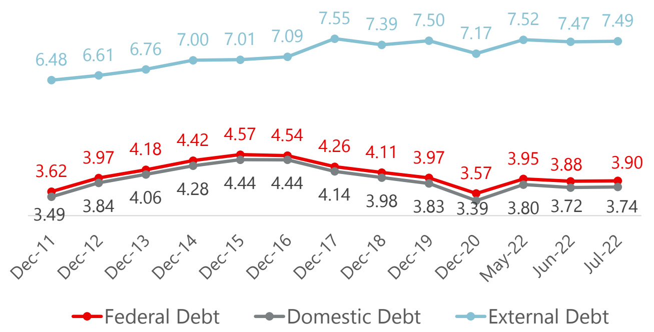
Sources: National Treasury, Santander.

Figure 4 – Debt Maturities - %



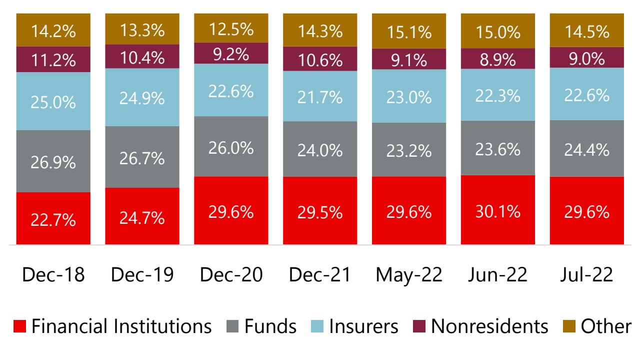
Sources: National Treasury, Santander.

Figure 5 – Average Maturity



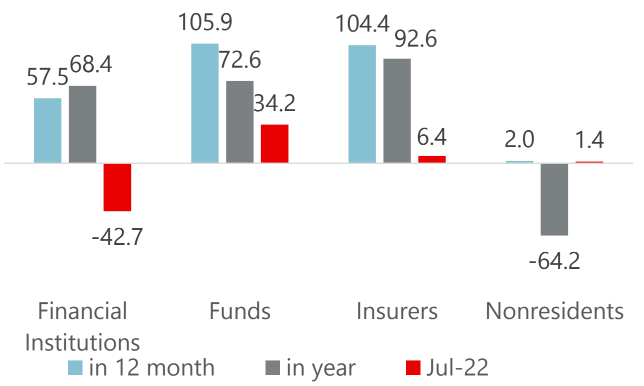
Sources: National Treasury, Santander.

Figure 6 – Debt Holders - %



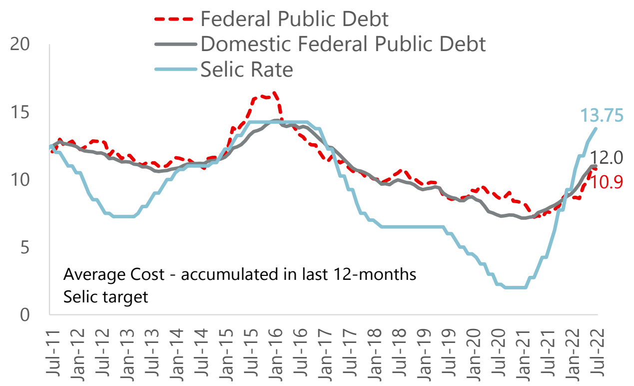
Sources: National Treasury, Santander.

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



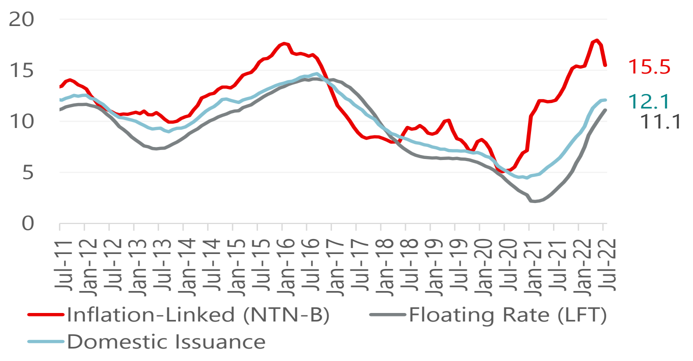
Sources: National Treasury, Santander.

Figure 8 – Debt Cost - %



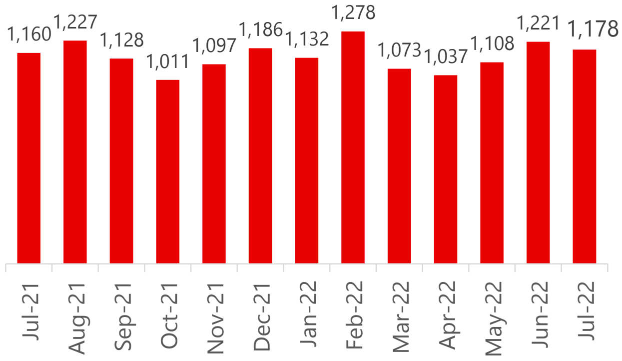
Sources: National Treasury, Santander.

Figure 9 – Debt Cost of New Issuances - %



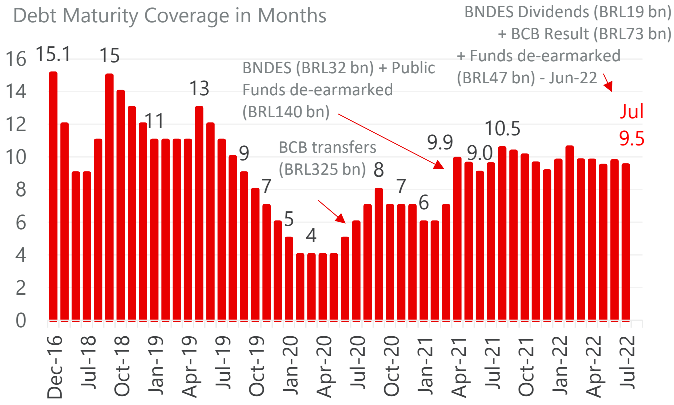
Sources: National Treasury, Santander.

Figure 10 – Debt Liquidity Reserve (BRL bn)



Sources: National Treasury, Santander.

Figure 11 – Liquidity Coverage of Debt Maturity



Sources: National Treasury, Santander.

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