Investor Relations and Reporting: Lessons from the turmoil

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Investor Relations Office- Manager
Underlying context

The impact on IR activities within debt management

“Out of the box” activities
A quick glance at Brazil when the crisis hit its shores

IR under Stressful Scenarios

**Before oct-08**
- Brazilian growth supported by strong credit supply (both domestic and external)
- High employment
- Increased real wages
- High confidence in consumers, investors and business

**After oct-08**
- Abrupt and sharp drop in domestic confidence
- Sharp and sudden drop in credit supply with more demanding conditions
- Rising global aversion
- Extraordinary fall in interbank credit support and strong deleveraging
Example: Proactive Measures to Contain the Effects of the Credit Crisis

- Brazil has been successfully proactive, and yet cautious, in addressing the impacts of the global crisis. So far the Government has used monetary policy, as well as direct intervention in the FX market (From Sep-08 to Mar-09):

**Monetary Policy BRL 80.6 bn**

- Bonds: 12.5 bn
- Cash: 68.1 bn

**FX Intervention USD 66.1 bn**

- FX spot sale: 14.3 bn
- Repo Agreements: 12.8 bn
- Export-directed loans: 6.0 bn
- Swaps*: 33.0 bn

Impact on FX-reserves

No impact on FX-reserves

*Source: Central Bank

*Swaps: Reverse swaps not rolled over  ** Reserve Requirement
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Events in Public Debt Management

The Effects on the Domestic Medium Term Fixed Rated Bonds

- A 500 bps upward shifting in only two months
- A few auctions were cancelled in order to avoid sanctioning the distortions arisen
- Lowest financing requirement for that year - a result of the strategic planning activities in the past years
Evolution of Borrowing Requirement

Net Borrowing Requirement (R$ billion)
Net Borrowing Requirement (% do GDP)
Events in Public Debt Management

NTN-F (fixed rate) Spread auctions

- The Treasury performed four simultaneous auctions amidst the high volatility in the financial market;

- The purpose was to assure, to market participants, price parameters and avoid the deterioration of the correlated bond markets due to increasing premium at the time.

- Early redemption of R$ 206 mn, R$ 1.14 bn and R$ 228.7 mn respectively in the first three auctions and R$ 309.8 mn in the last auction.

- The overall result was a net redemption of R$ 1.78 bn in four auctions.

- This allowed few investors to unwind their positions without compromising the portfolio of those who intended to hold their securities.

NTN-F yield curves before and after the auctions

Source: Andima
Underlying Context

The impact on IR activities within debt management

“Out of the box” activities
Alongside with the Debt Management activities, many other aspects came to the IR Unit to address

- Because the level of uncertainty was so high, people were interested in all potential sources of unbalances, while the crisis effects were unfolding

- Strong unwinding positions due to fear and need to recur to “safe havens”

- Then the IR Unit had to tackle topics far from its main stream activities
  - ✓ Challenges: lack of consolidated information/data
  - ✓ Short-time frame for responses
  - ✓ Coordination with Central Bank
Alongside with the Debt Management activities, many other aspects came to the IR Unit to address

Examples

- Strength of the National Financial System
- Excessive Operations with “FX hedging” by a number of Brazilian Corporates
- Public Banks activities
- The role of Treasury’s lending to the local development bank - BNDES
- Change in reserve requirement
- FX-reserves management
- Mortgage markets in Brazil
Example 1: Some investors often transposed Brazil to the US reality

Credit and Mortgage as % of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>Mortgage Credit to GDP Ratio</th>
<th>Total Credit to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>88%</td>
<td>26%</td>
</tr>
<tr>
<td>Chile</td>
<td>74%</td>
<td>16%</td>
</tr>
<tr>
<td>Hungary</td>
<td>81%</td>
<td>11%</td>
</tr>
<tr>
<td>Mexico</td>
<td>33%</td>
<td>11%</td>
</tr>
<tr>
<td>Cz. Rep</td>
<td>58%</td>
<td>6%</td>
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<tr>
<td>Poland</td>
<td>57%</td>
<td>5%</td>
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<tr>
<td>India</td>
<td>78%</td>
<td>2%</td>
</tr>
<tr>
<td>Brazil*</td>
<td>45%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Global Property Guide (May/2009), Moodys, Central Bank
* Total Credit / GDP data for Brazil as of June 2010. For the other countries as of December 2008.
Example 2: Proactive Measures to Contain the Effects of the Credit Crisis

Credit/GDP per origin - Jun/00 to Aug/08 (Jun/00 = 100)

- Before the crisis, the credit supplied by the private sector has always surpassed the credit offered by the public sector.

- Then, sharp and sudden drop in credit supply.
- Public banks provided the funding required to keep the investments in the economy.

Source: Central Bank for all charts.
Final Remarks

- In such fast-moving environment, *perceptions* can affect market action as much, if not more than, the fundamentals.

- In this context, an IR Unit should have a systematic approach to articulate the strength of the buffers that it has to counter the market environment under a stressful scenario.

- Finding out investors’ needs.

- Active behavior in identifying key aspects in a given moment.
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