Brazilian Federal Public Debt
Liability Management Presentation

October - 2018
Summary

1. Introduction
2. International Markets
3. Domestic Markets – Case Study
4. Concluding Remarks
Introduction
Why Using Liability Management?

LM operations **must** have a purpose

- **Enhance curve efficiency**
  - Add liquidity to benchmarks
  - Repurchase inefficient bonds
  - Establish sizable benchmarks

- **Mitigate refinancing risk**
  - Extend Duration
  - Buy back relevant volumes of short dated bonds

- **NPV Savings**

- **Combine refinancing exercise with cash component**

- **Signaling**
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International Markets
Liability Management: Which Alternatives Have Been Used by Brazil?

Public Transactions

- Tender Offer
- Exchange Offer
- Switch Tender Offer

Private Transactions

- Open Market Repurchase (OMR)
International Markets
Brazil Experience: What Have We Learned?

From Public Transactions

**Cash Tender Offer**
Offer to purchase bonds for cash

- Investors have the option to leave the credit efficiently;
- Higher premiums are expected to attract investors attention, or otherwise they could sell their eligible bonds in the secondary market.

**Exchange Tender Offer**
Offer to exchange existing notes into a new bond

- Reduces new issue concession;
- Limited participation: bondholders cannot exit the credit;
- Market risk: exposure during the period of the offer;
- Execution risk: investors must block bonds.

**Switch Tender Offer**
Switch Tender Offer

All options available
- Bondholders can exit the credit efficiently
- Bondholders can keep credit exposure
- Other investors have the cash component optionality

Intraday Execution
- Minimize market risk

Firstly introduced in 2012 (Global BRL);
Widely employed by other issuers since then;
Brazil USD transactions:
- 2013: Global 2025
- 2014: Global 2045
- 2017: Global 2028
Open Market Repurchase (OMR) – Continuous Buyback Program

- Executed at market prices (no premium);
- Opportunistic buying rather than having to set a target of how much to purchase;
- No additional costs: lawyers, dealer managers, underwriters;
- Timing flexibility;
- Disclosure is not required.

⚠️ Subject to secondary market liquidity;
⚠️ Moderate amount of debt retirement in the short term.

Since the beginning of the program, Brazil has bought back an average of USD 1.4 billion in face value per year.
International Markets
Brazil LM Results
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A pulverized investor base is conducive to a more resilient market dynamics;

However, the long part of the curve presents lower investor base diversification, being dominated by foreign investors. Market segmentation is a market failure, which could justify some action from the issuer, specially during periods of excess volatility.
Domestic Markets – Case Study
Nominal Curve

Nominal Curve - The Long End - Jan/2025

Volatility – Jan/2025
Domestic Markets – Case Study

Nominal Curve Steepness

bps

2-Jan 2-Feb 2-Mar 2-Apr 2-May 2-Jun 2-Jul 2-Aug 2-Sep 2-Oct

3y vs 5y 5y vs 10y
Domestic Markets – Case Study
Exchange Rate vs CDS
Domestic Markets – Case Study
Local Funds Performance Normalized (Base 100)
Domestic Markets – Case Study

Extraordinary repurchase auctions to cope with market disruption

- Brazilian Treasury has a cash cushion to be used as a buffer
- The goal was to smooth out repricing during the deleverage process, NOT to support any price level
- Coordinated action between the National Treasury and the Central Bank
  - Treasury: repurchase auctions in bond markets
  - Central Bank: FX swaps
Domestic Markets – Case Study
2018 Debt Management Strategy
Domestic Markets – Case Study
Nominal Curve

The Nominal Curve - Pre-DI Swaps
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Concluding Remarks

✓ Liability management operations are important tools for debt managers strategies

✓ External markets:
  • Switch Tender Offer seems to be the most efficient alternative among public transactions and it has been increasingly applied by issuers
  • Open Market Repurchase is a smart complementary tool

✓ Local markets:
  • LM transactions represent an important tool during volatile periods
  • Choosing the right entry and exit points is crucial in order to stabilize market prices
  • Coordination between Ministry of Finance and Central Bank makes a difference
  • Communication is key during the whole process
THANK YOU

For additional information access the National Treasury website:

www.tesouro.fazenda.gov.br

Or contact Institutional Relations area:

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