

# Brazilian Federal Public Debt Liability Management Presentation

October - 2018

# Summary

- 1** Introduction
- 2** International Markets
- 3** Domestic Markets – Case Study
- 4** Concluding Remarks

## 1

# 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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## 2

## International Markets

### Liability Management: Which Alternatives Have Been Used by Brazil?

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#### Public Transactions

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- ✓ **Tender Offer**
- ✓ **Exchange Offer**
- ✓ **Switch Tender Offer**

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#### Private Transactions

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- ✓ **Open Market Repurchase (OMR)**

## 2

## 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

## 2

## International Markets

### Brazil Experience: What Have We Learned?

#### 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

## 2

## International Markets

### Brazil Experience: What Have We Learned?

#### From Private Transactions

#### 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.

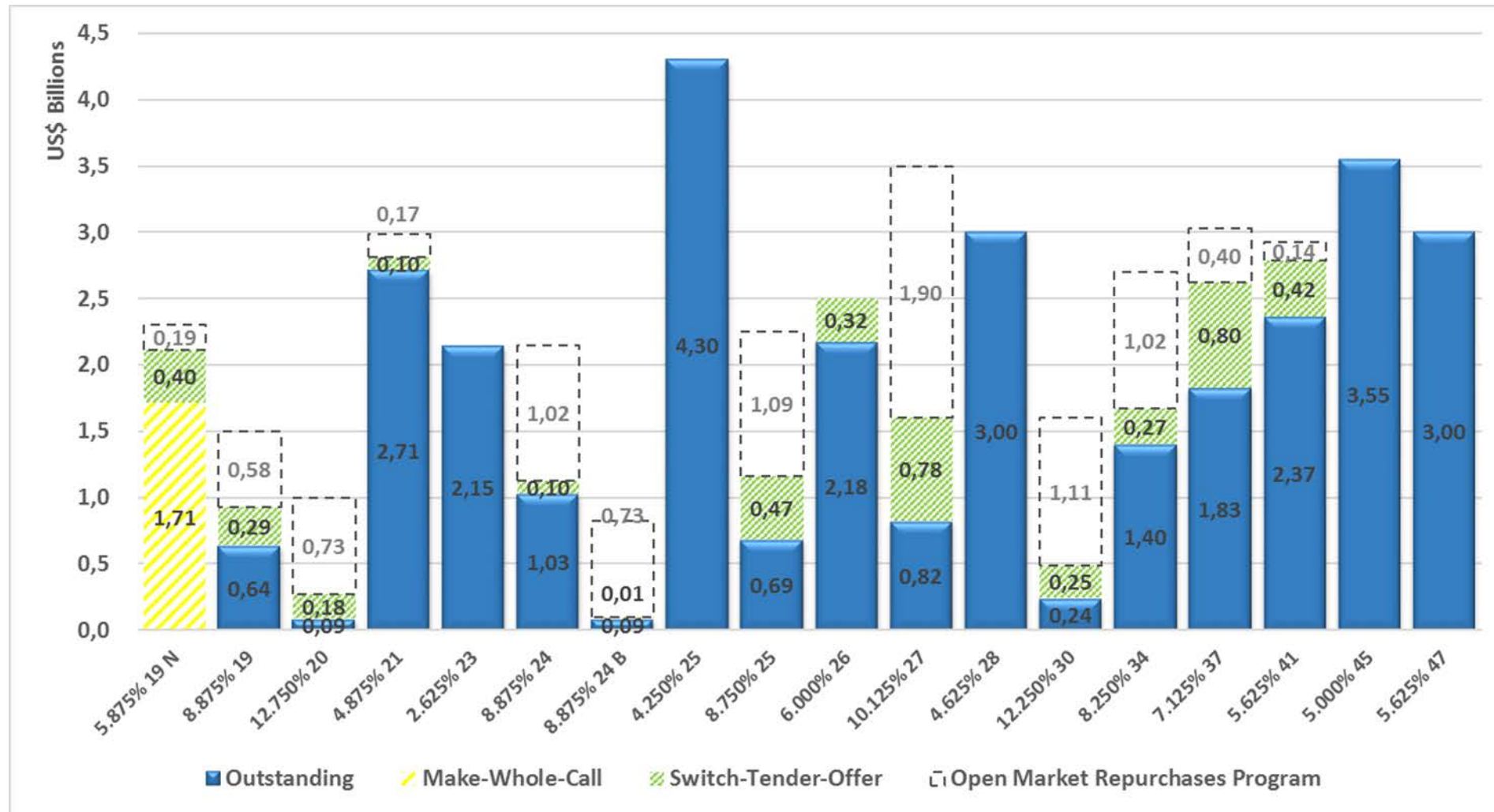
Since the beginning of the program, Brazil has bought back an average of USD 1,4 billion in face value per year.



## 2

## International Markets

### Brazil LM Results



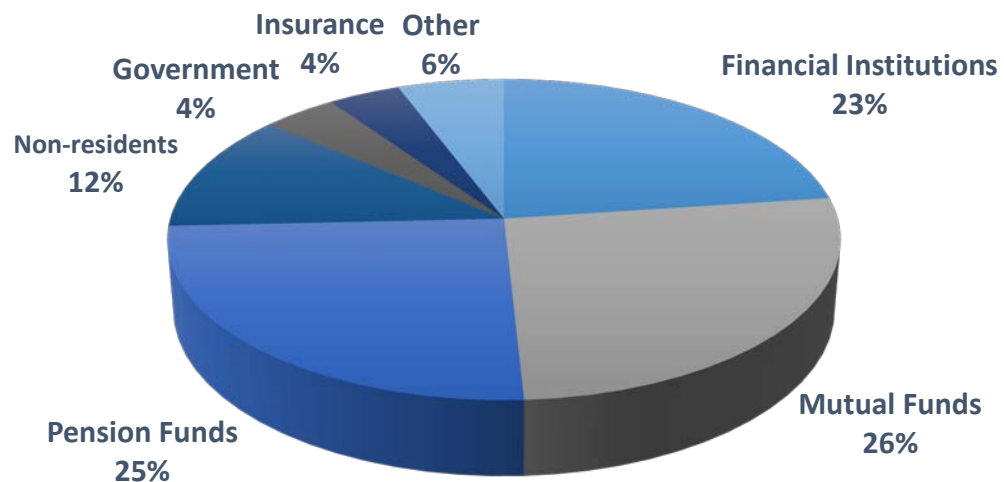
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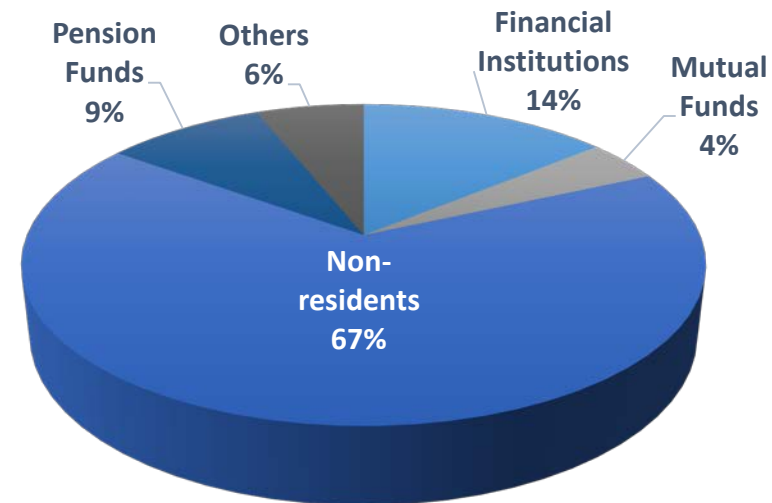
### 3 Domestic Markets – Case Study

#### Investor Base

Breakdown of Investor Base



Long Term Fixed Rate Bonds (7 and 10 years) Investor Base



- 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.

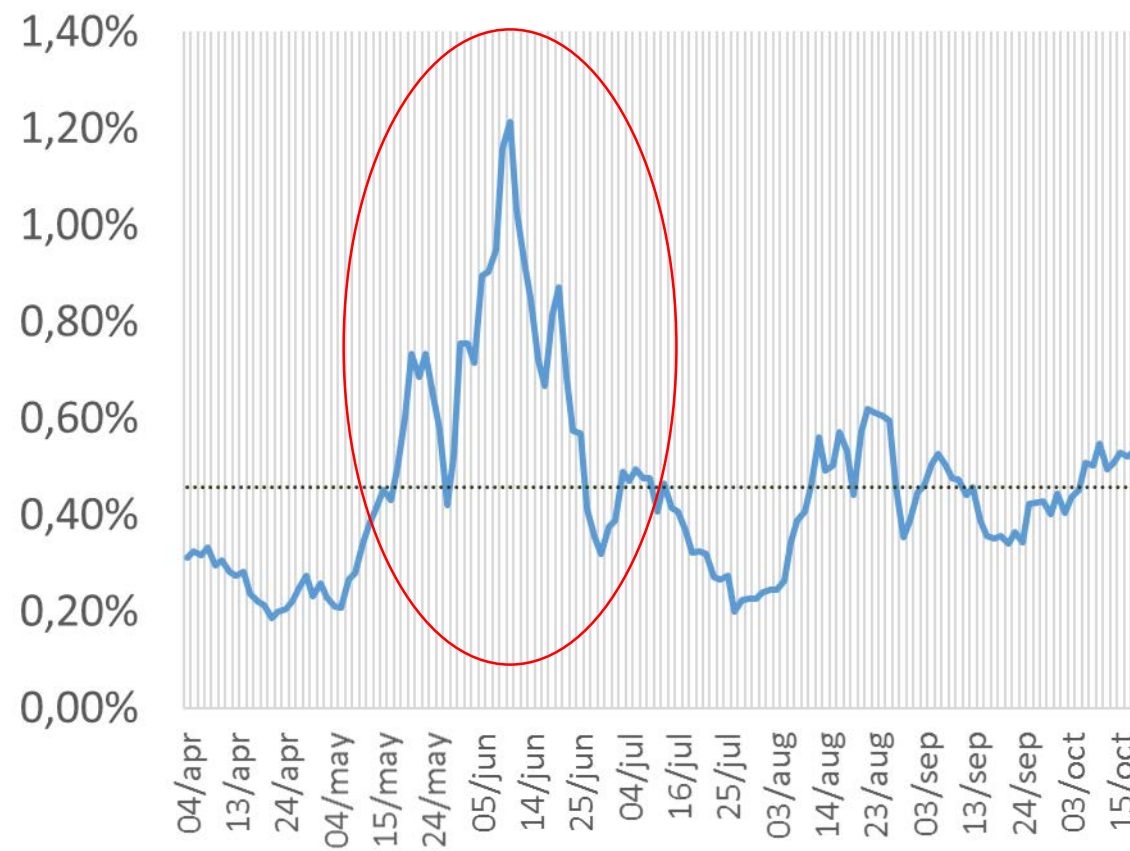
### 3 Domestic Markets – Case Study Nominal Curve

Nominal Curve - The Long End - Jan/2025

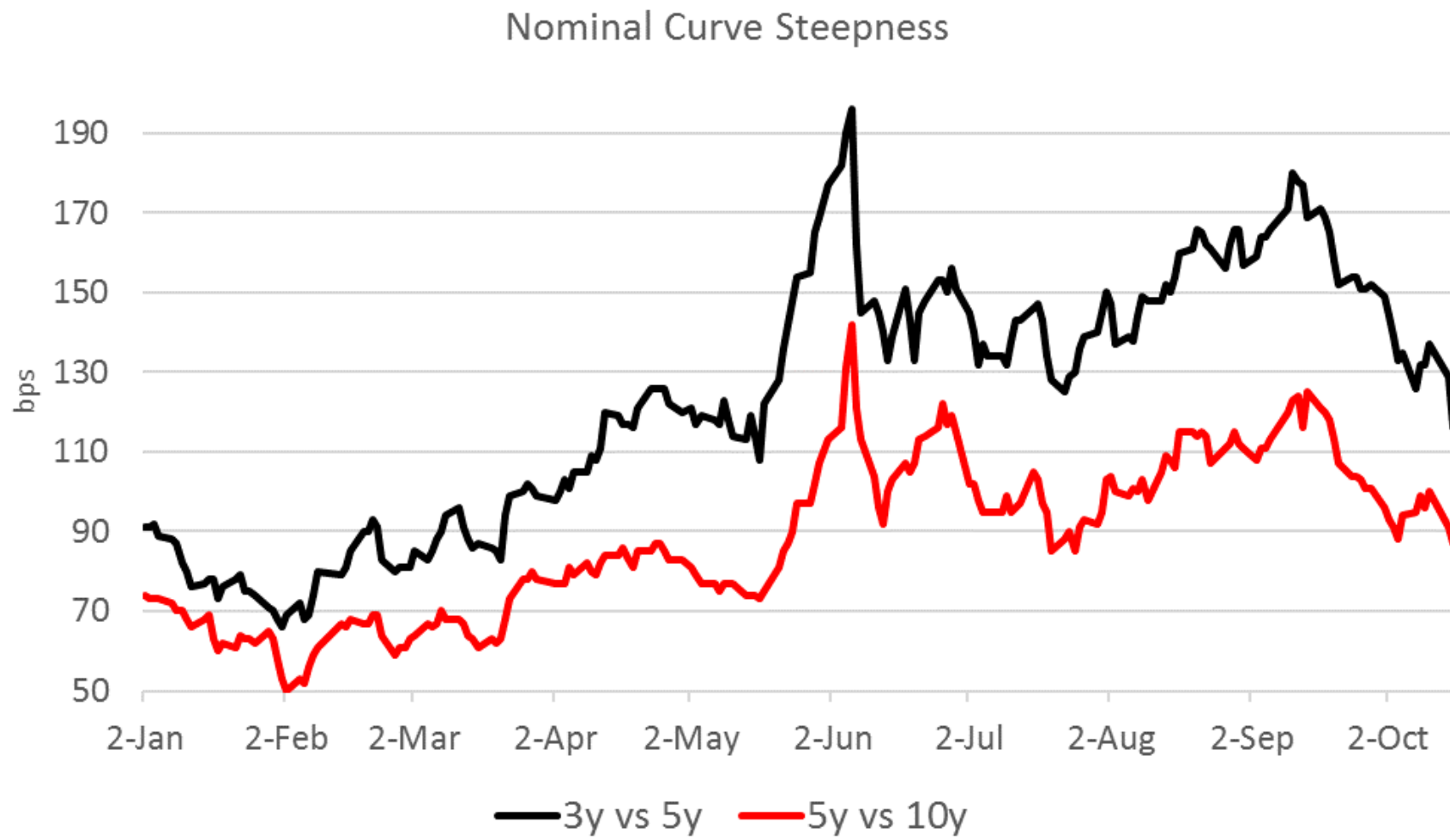


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Volatility – Jan/2025



### 3 Domestic Markets – Case Study



## 3

## Domestic Markets – Case Study

### Exchange Rate vs CDS



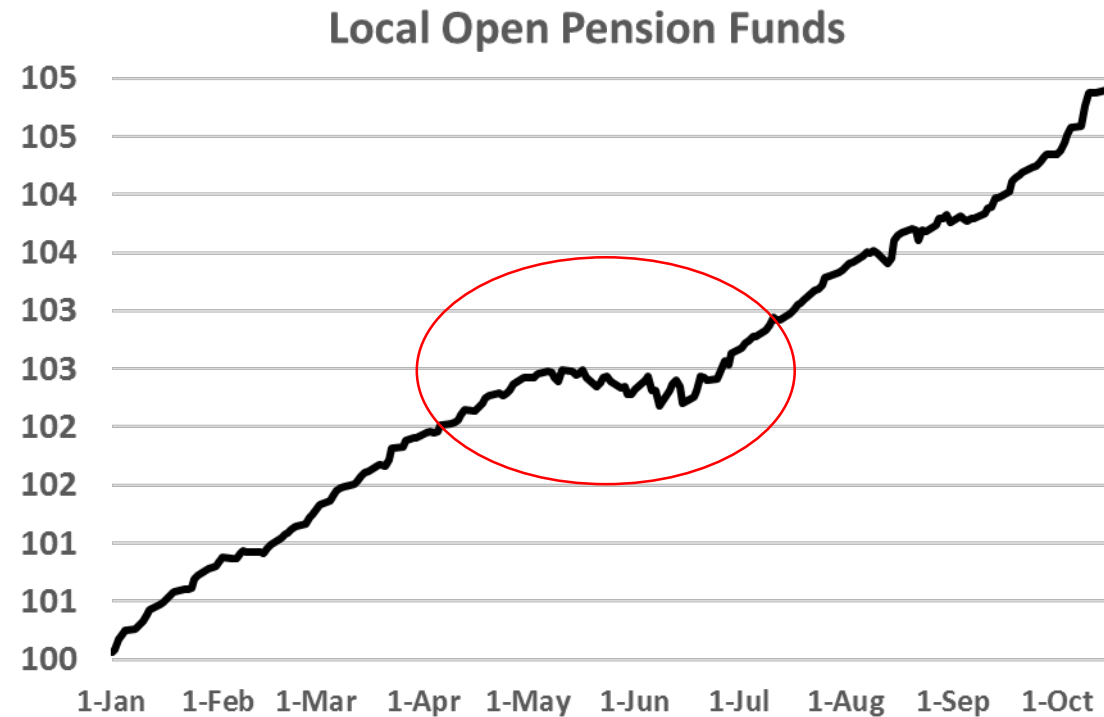
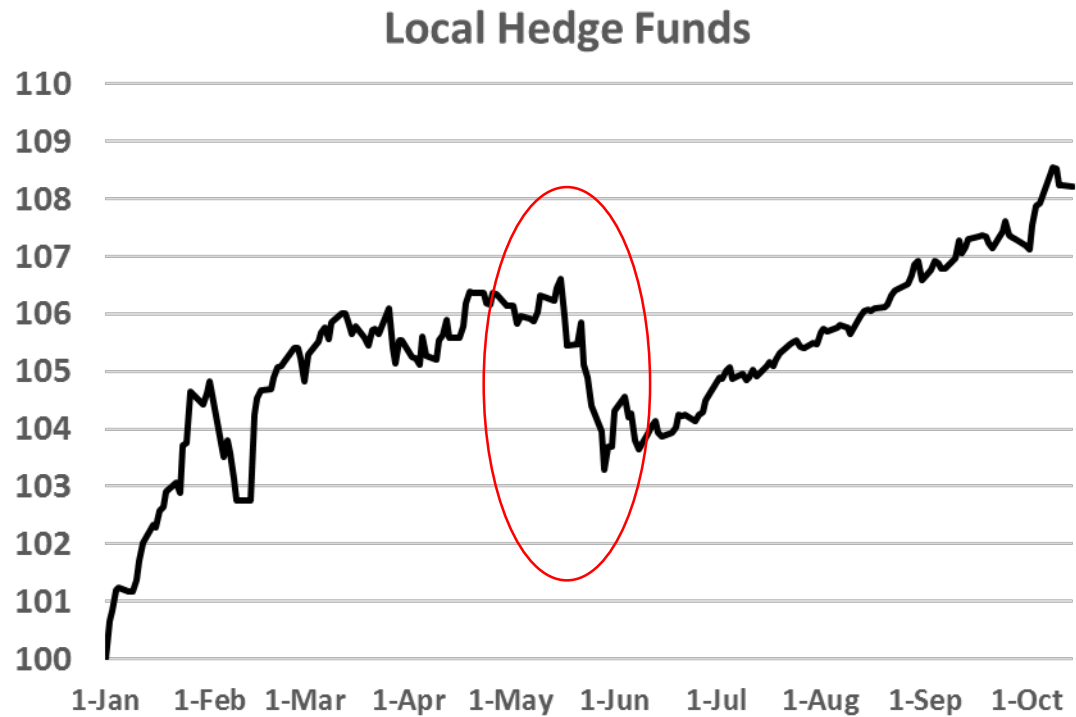
BRL Currency (Brazilian Real Spot) Daily 01JAN2018-18OCT2018

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### 3 Domestic Markets – Case Study

#### Local Funds Performance Normalized (Base 100)



## 3 Domestic Markets – Case Study

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Extraordinary repurchase auctions to cope with market disruption

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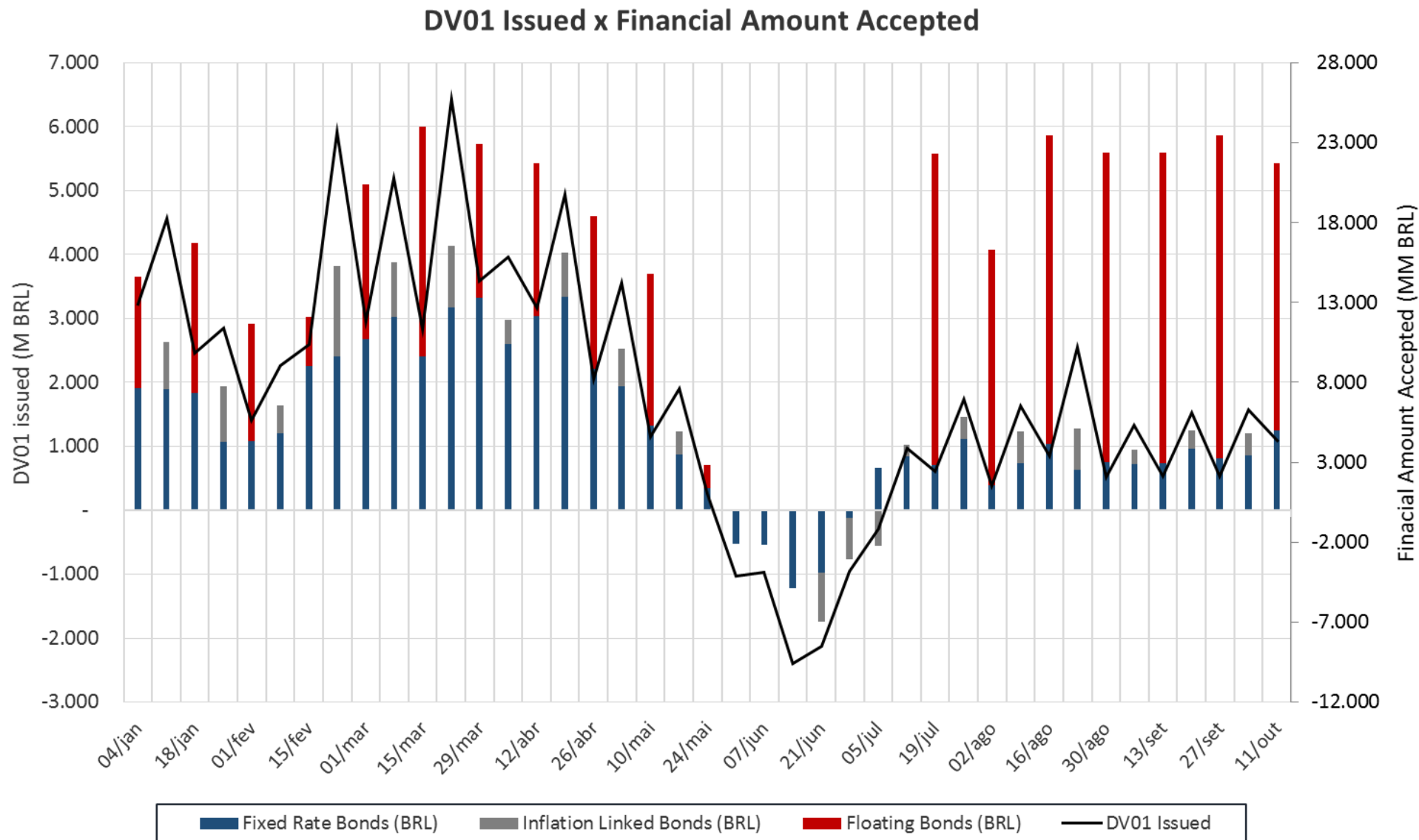
- ✓ **Brazilian Treasury has a cash cushion to be used as a buffer**
  
- ✓ **The goal was to smooth out repricing during the deleverage process, NOT to support any price level**
  
- ✓ **Coordinated action between the National Treasury and the Central Bank**
  - Treasury: repurchase auctions in bond markets
  - Central Bank: FX swaps



## 3

## Domestic Markets – Case Study

### 2018 Debt Management Strategy

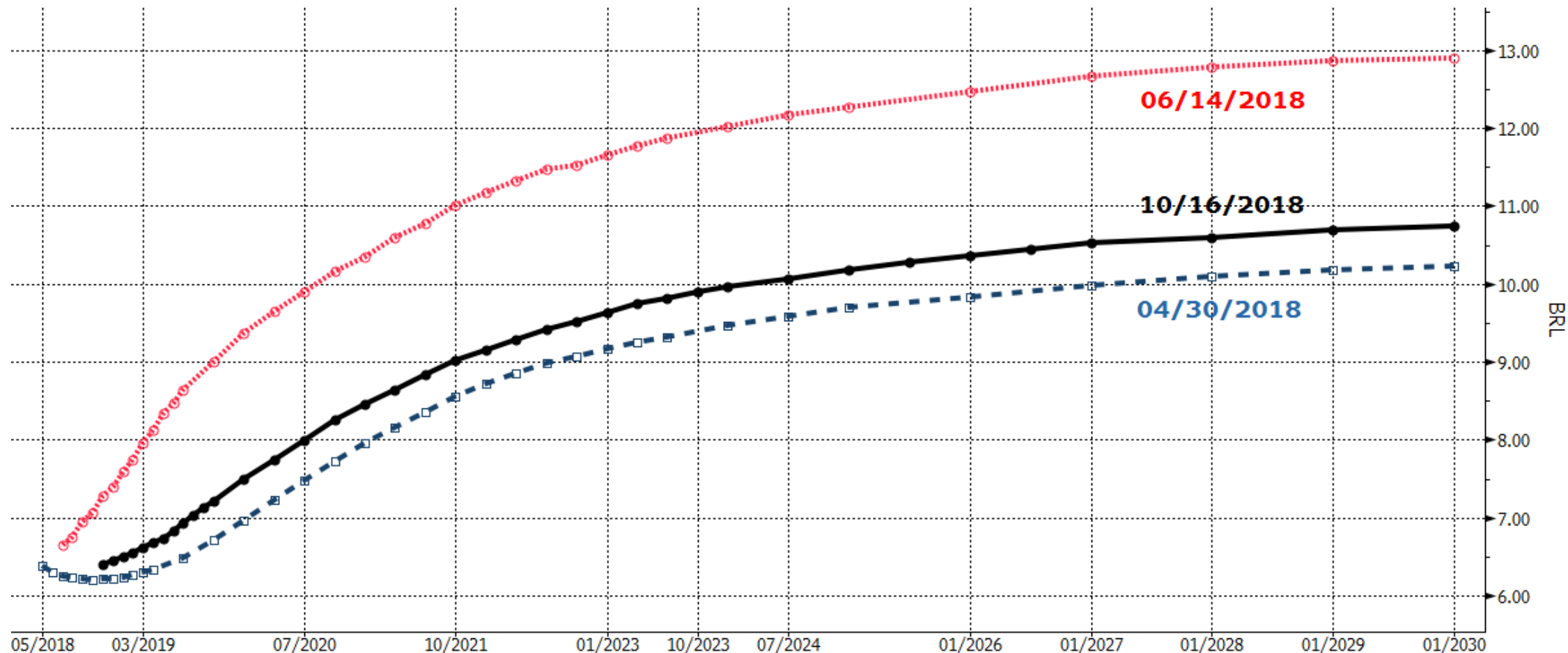


## 3

## Domestic Markets – Case Study

### Nominal Curve

#### The Nominal Curve - Pre-DI Swaps



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## 4

## 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](http://www.tesouro.fazenda.gov.br)

Or contact Institutional Relations area:

[brazildebt@fazenda.gov.br](mailto:brazildebt@fazenda.gov.br)

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