

BRAZIL LAUNCHES A NEW 10-YEAR BENCHMARK IN A LIABILITY MANAGEMENT OPERATION IN THE EXTERNAL DEBT MARKET

On October 3rd, The National Treasury of Brazil announced a new ten-year benchmark offering, in conjunction with an intraday tender offer. The new bond, a global USD 2028, was priced at 99.603% of its face value, with an annual coupon of 4.625% and yield of 4.675%, what corresponded to a spread-over-treasury of 235 basis-points. The bookrunners syndicate was composed of Deutsche Bank, Itaú BBA and Santander.

The National Treasury took advantage of the positive tone on the Emerging Market credits and high levels of liquidity, to print the transaction at the recent past historic lows of Brazil's Credit Default Swap (CDS). This positive trend underscores the improvement in investors' perception towards Brazil, what was validated by the 2.5x new cash book oversubscription.



Source: Bloomberg

The transaction also included a liability management component, allowing investors to sell eligible shorter duration debt securities back to the Brazilian Treasury. By doing that, investors were given the opportunity to sell, higher coupon, more illiquid non-benchmarks and get an allocation on the new Brazil's 10-year USD benchmark, a highly appreciated optionality, which is always very well bid by the most sophisticated investors. During the intraday transaction, a tender for cash was also made available.

As a result, out of the USD 3 bn Global 2028 issued, USD 2.1 bn were used to buyback old bonds, of which about 1.5 were constituted of preferred tender order, in which the investors switched old bonds for Global 2028, and approximately 580 million were constituted of a tender, in which the investor handed over old bonds for cash. The net final value of the operation, approximately 884 million after deduction of discounts and commissions on Global 2028 issuance, will be used to pay the call option of the Global 2019N.

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Thus, the Republic achieved the objectives of constituting a full-size new 10-year benchmark with a one-time intraday market access, in addition to retiring less liquid, high-dollar-price, off-the-run bonds, improving the USD Brazilian curve profile.

Security	Maturity	Coupon %p.y.	Repurchase (Face Value)		Price ^{2(c)}	Total (Financial) ^(d)	Remaining outstanding ¹
			with bonds ^{1(a)}	with cash ^{1(b)}			
Global 2019 Novo	15/01/2019	5.875	52.370	-	105.21%	55.100	1,710.832
Global 2019	14/10/2019	8.875	9.275	124.530	114.25%	152.868	639.043
Global 2020	15/01/2020	12.750	3.143	40.000	124.71%	53.805	86.645
Global 2021	22/01/2021	4.875	103.559	-	107.19%	111.008	2,713.192
Global 2024	15/04/2024	8.875	35.980	9.382	129.28%	58.642	1,029.030
Global 2024	15/04/2024	8.875	-	-	129.61%	-	85.557
Global 2025	04/02/2025	8.750	119.143	120.215	130.35%	311.991	688.201
Global 2026	07/04/2026	6.000	323.755	-	111.27%	360.249	2,176.245
Global 2027	15/05/2027	10.125	511.560	0.115	146.55%	749.844	837.939
Global 2030	06/03/2030	12.250	1.000	125.208	168.04%	212.079	240.314
Total			1,159.785	419.450		2,065.586	10,206.998

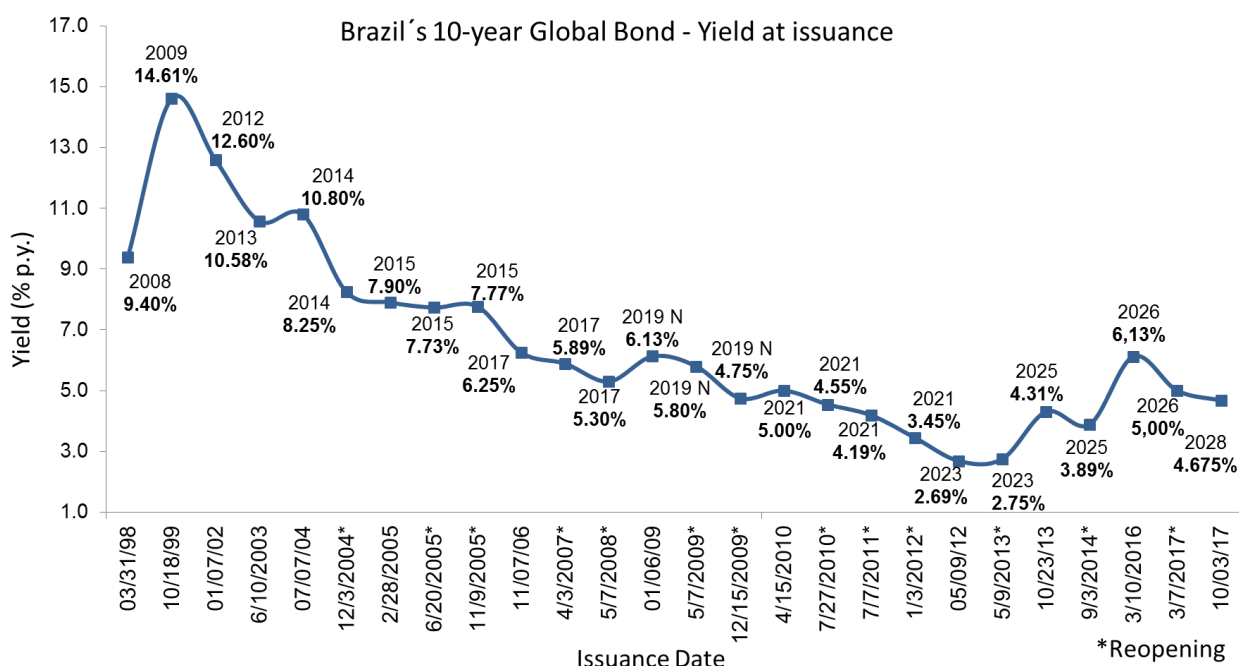
Source: National Treasury

(1) The face value accepted for the repurchase and the remaining outstanding stock are subject to revision at the final settlement.

(2) Price paid by the National Treasury for each security repurchased. The price does not include accrued interest.

(d) = [(a)+(b)] *(c)

As a reference, the chart below shows the historic 10-year benchmark issuance yields.



Source: National Treasury

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This issuance follows the guidelines taken by the National Treasury regarding the improvement of the external debt profile through the consolidation of the external yield curve in US Dollars by maintaining reference points (benchmarks). In addition to improving the sovereign bonds curve, the creation and maintenance of well-priced liquid securities serve as a reference for external operations for Brazilian private companies, increasing their possibilities of obtaining long-term funds at lower costs.

Characteristics of the Global 2028 Issuance

Issuance date	10/3/2017
Term	10 years
Maturity	1/13/2028
Interest coupon	4.625% p.y.
Issuance price	96.603% of face value
Yield	4.675% p.y.
Spread	235 bps over the US Treasury 2028
Principal payment	single payment, at maturity
Interest payment	semi-annual payments
Issued at Global Market	US\$ 3 bn

Source: National Treasury

Concurrently to this transaction's announcement, the Republic of Brazil also communicated its intention to use the proceeds to fund part or all of the make-whole call of 5.875% Notes due 2019, whose outstanding value before this transaction was USD 1,763,202,000.



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