



Tenth Annual
OECD/World Bank/IMF
Bond Market Forum

Secondary Market Liquidity in Domestic Debt Markets

April 29–30, 2008
Washington, D.C. • IFC Auditorium

The views expressed in these papers and presentations are those of the author(s) only, and the presence of them, or of links to them, on the IMF website does not imply that the IMF, its Executive Board, or its management endorses or shares the views expressed in the papers or presentations.



May, 2008
WASHINGTON



Brazilian Federal Government Debt



Brazilian Federal Government Debt

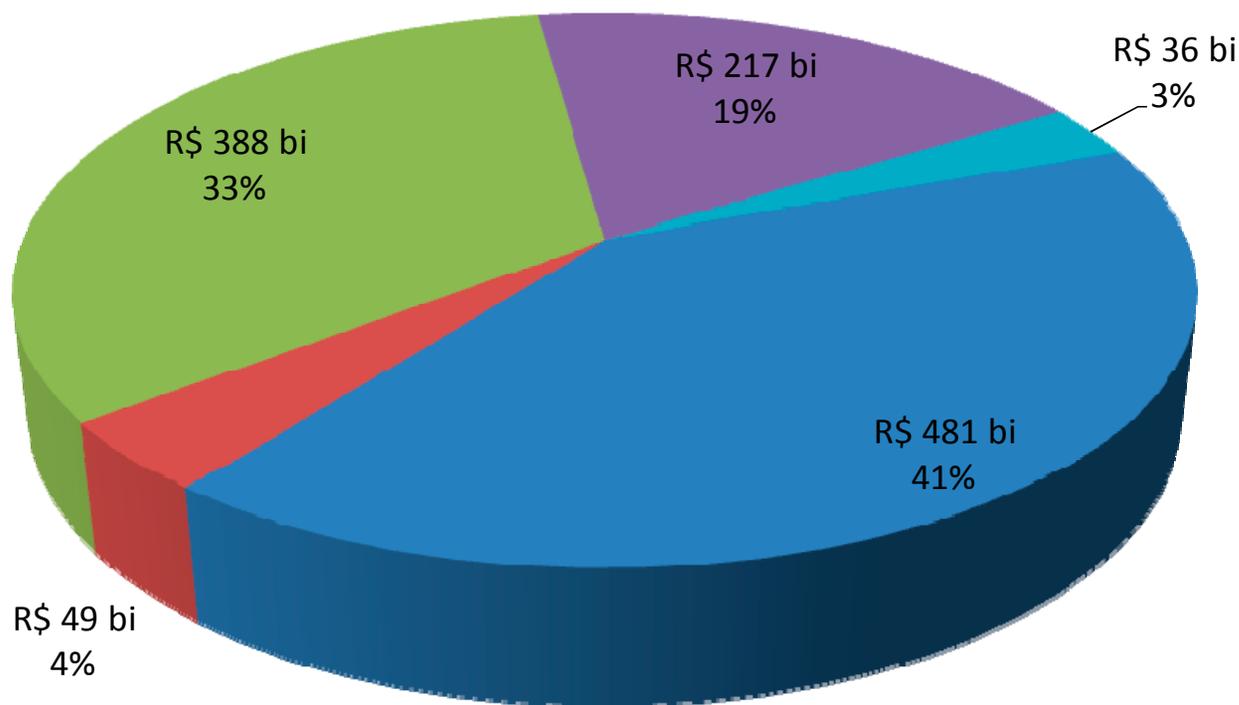
Investor Base

Secondary Market

Market Perspective

Challenges Ahead

Domestic Debt Holders



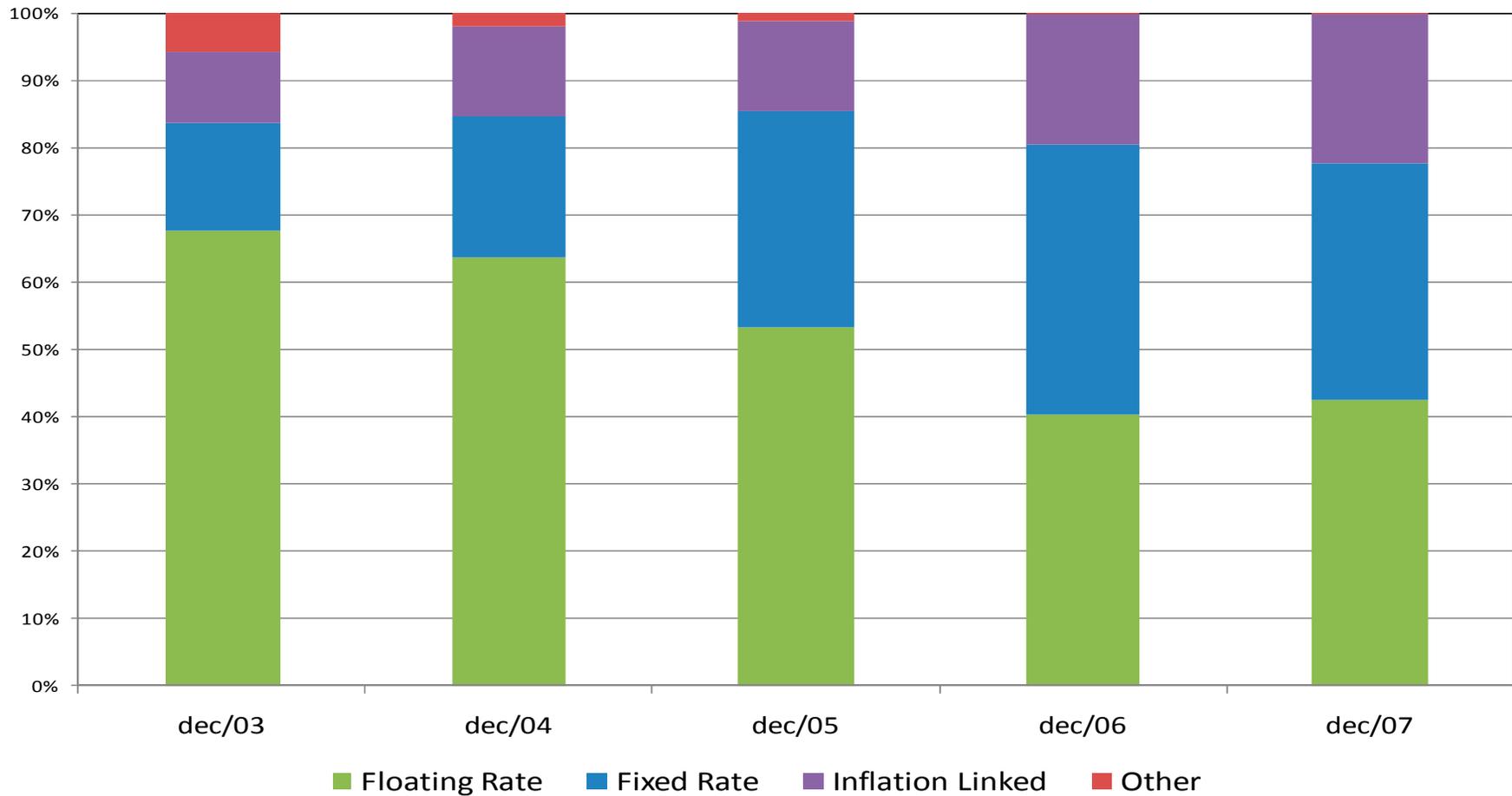
■ Financial Institutions ■ Foreign Investors ■ Mutual Funds ■ Pension Funds ■ Other

■ In a short period of time (less than 2 years) foreign investors became an important player in domestic debt market, helping to build liquidity to long term bonds.



Mutual Funds

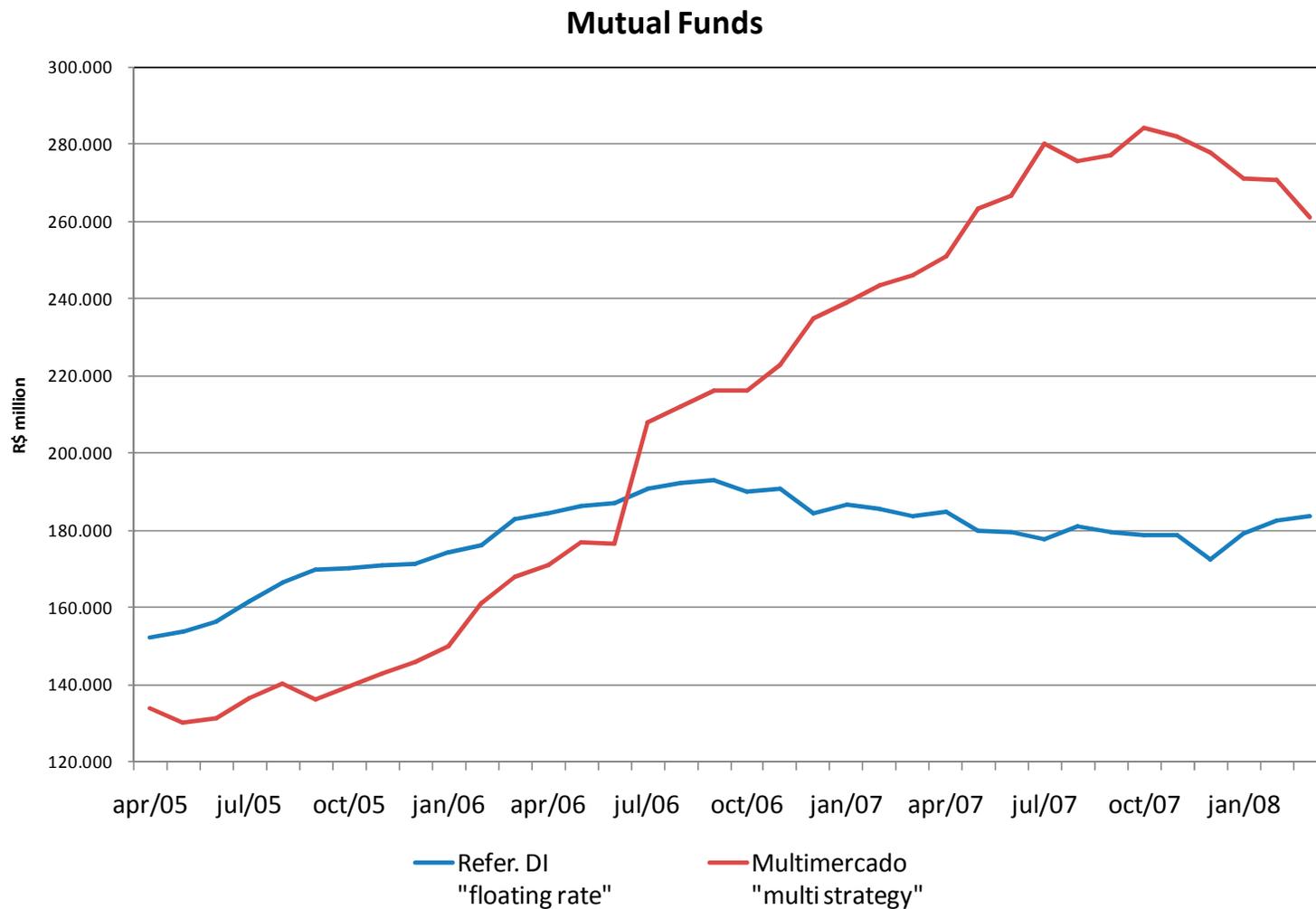
Mutual Funds' Domestic Bonds



■ During the last few years, mutual funds have considerably diversified their portfolio



Mutual Funds



- Multi strategy funds have gained relevance, as an evidence that investors are gradually accepting types of risks other than the floating rate.

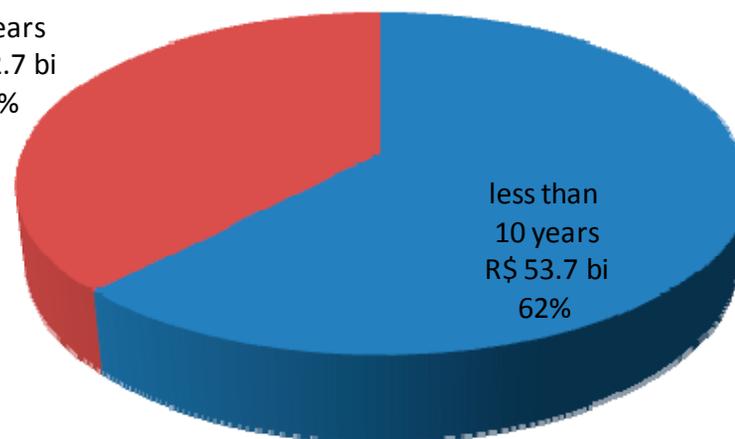
Pension Funds

December, 2007

- A great deal of the demand for inflation linked bonds come from Pension Funds.
- Specially for long term bonds.

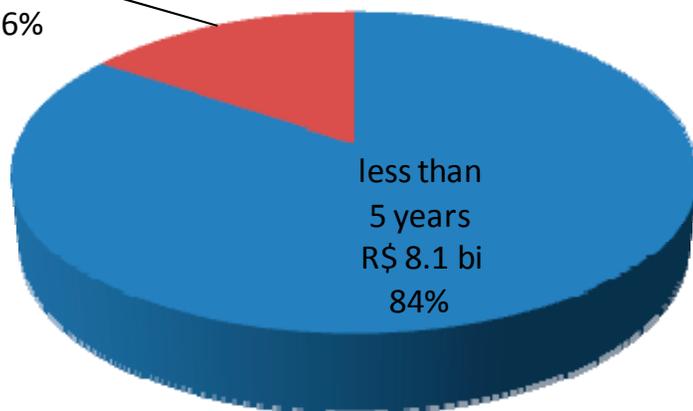
Inflation Linked - NTN-B

longer than
10 years
R\$ 32.7 bi
38%



Fixed Rate - NTN-F

longer than
5 years
R\$ 1.5 bi
16%



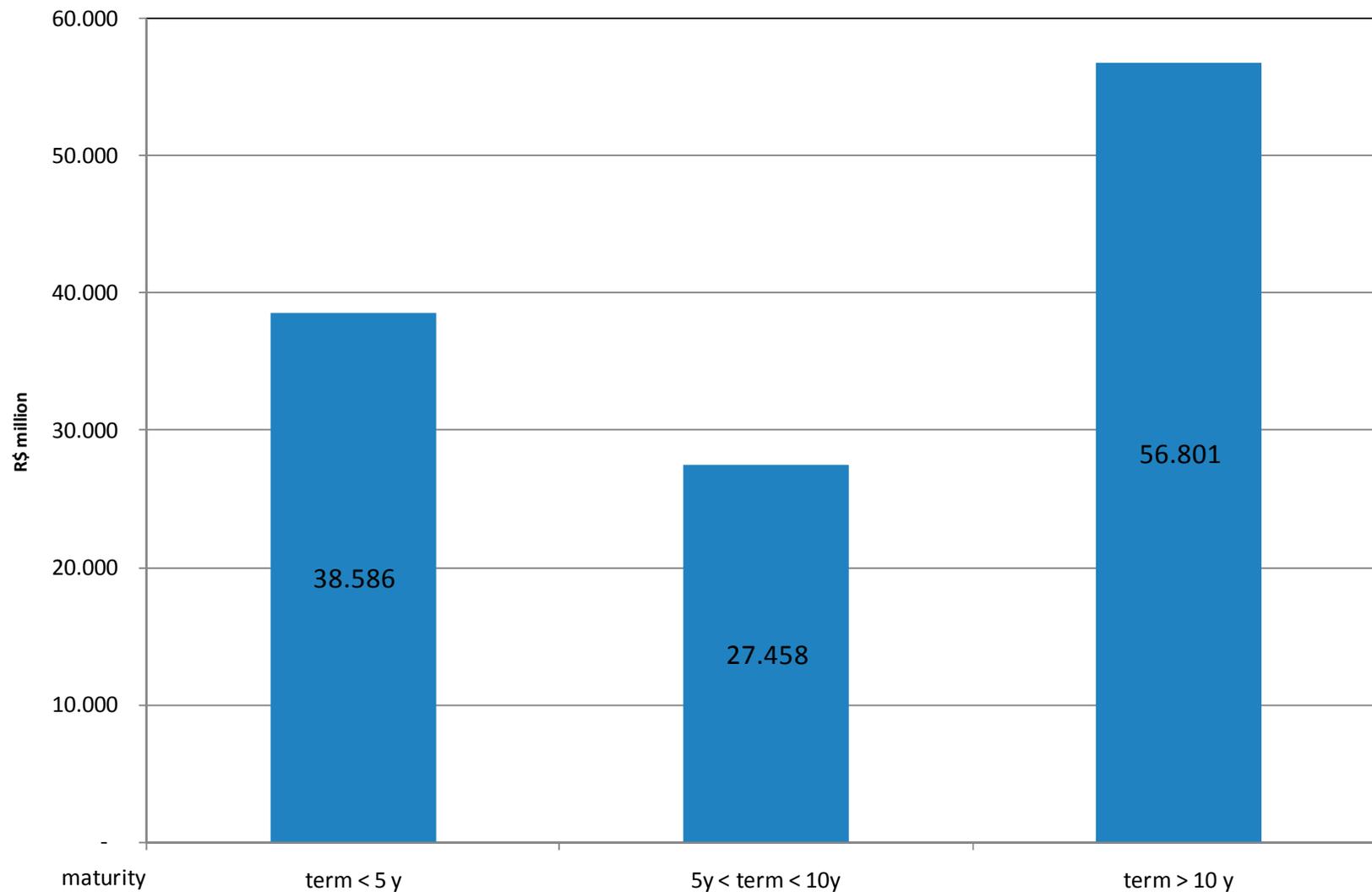
- But, the greater part of fixed rate bonds holded by pension funds have a relatively short maturity.



Pension Funds

December, 2007

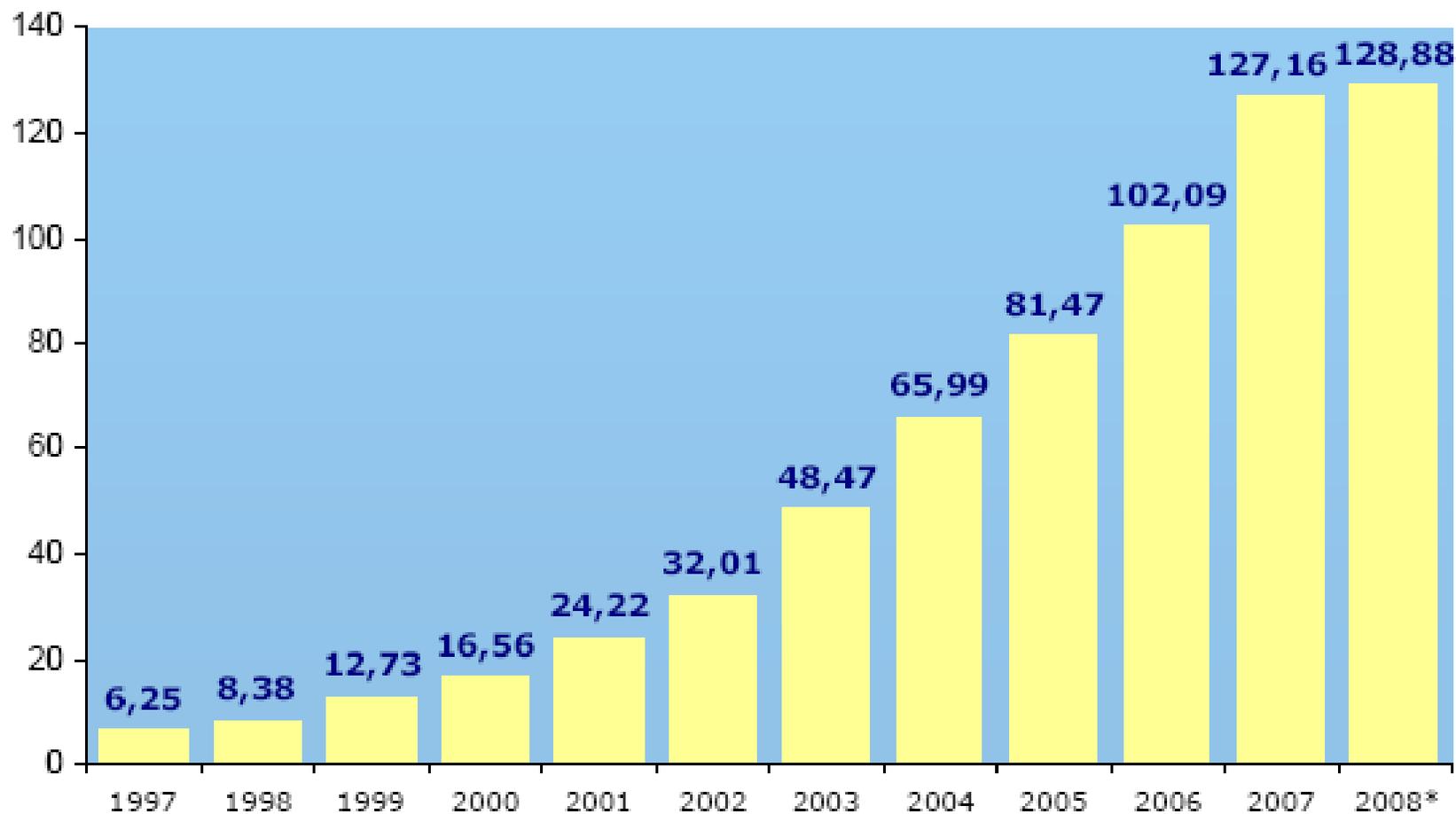
Pension Funds' Inflation Linked Bonds





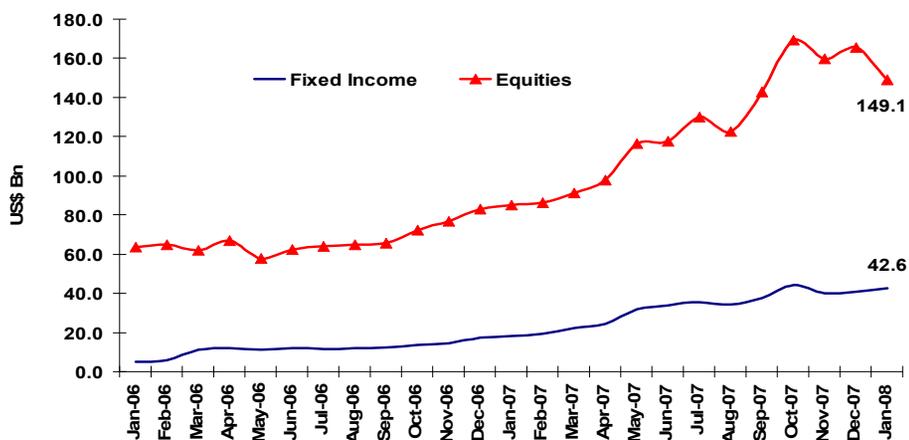
Private Retirement Plan

R\$ billion



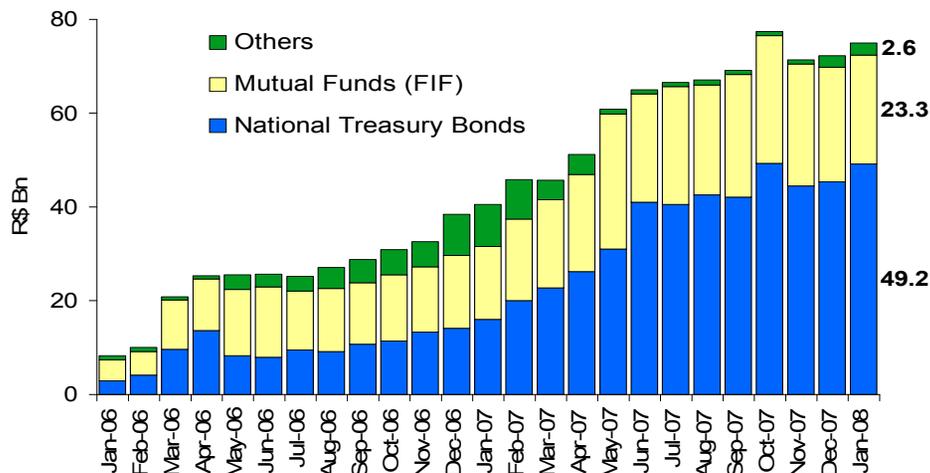
Foreign investors stance in domestic market

Foreigner's Investors: Portfolio level (US\$ bn)



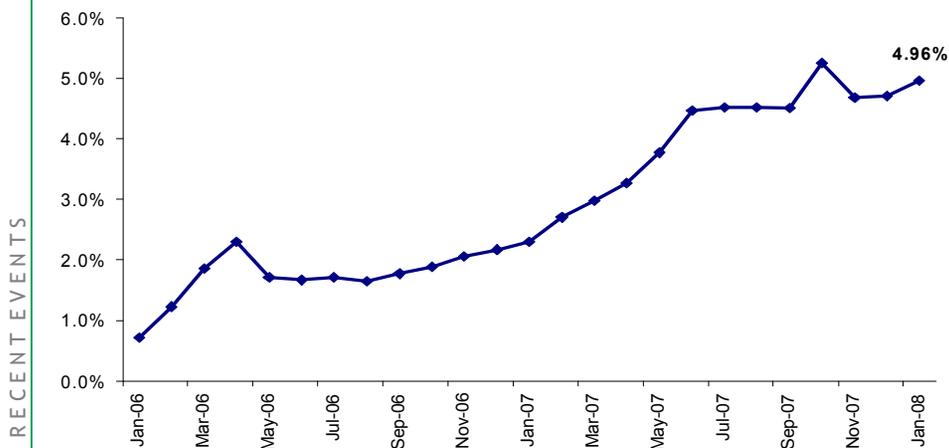
Source: CVM

Foreigner's Investors: Distribution among Fixed Income instruments (R\$ bn)



Source: CVM

Foreigner's Investors: Domestic Debt Participation



Source: CVM and SELIC

RECENT EVENTS

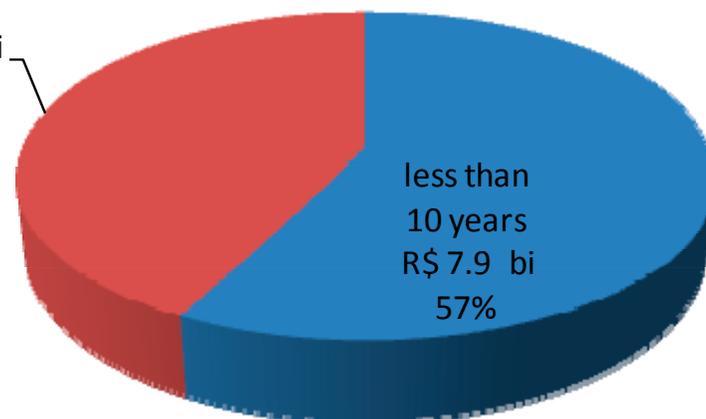
Foreign Investors

December, 2007

- Foreign investors are more interested in long term inflation linked and long fixed rate bonds.

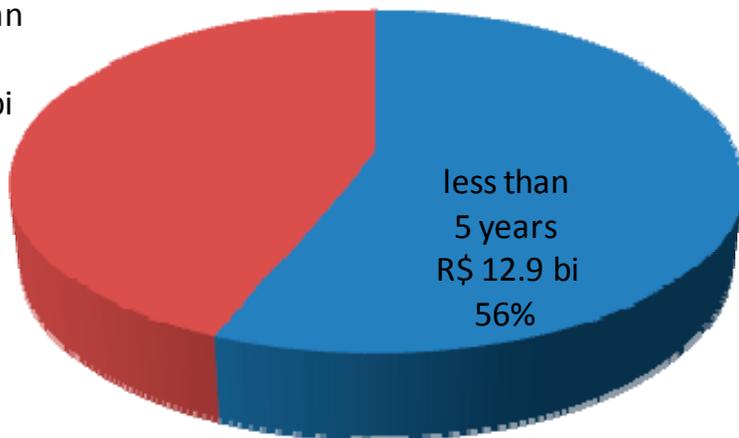
Inflation Linked - NTN-B

longer than
10 years
R\$ 5.9 bi
43%



Fixed Rate - NTN-F

longer than
5 years
R\$ 10.2 bi
44%



- Foreign investors and Pension Funds are important groups of investors. They increasingly add liquidity to the market.



Brazilian Federal Government Debt

Investor Base

Secondary Market

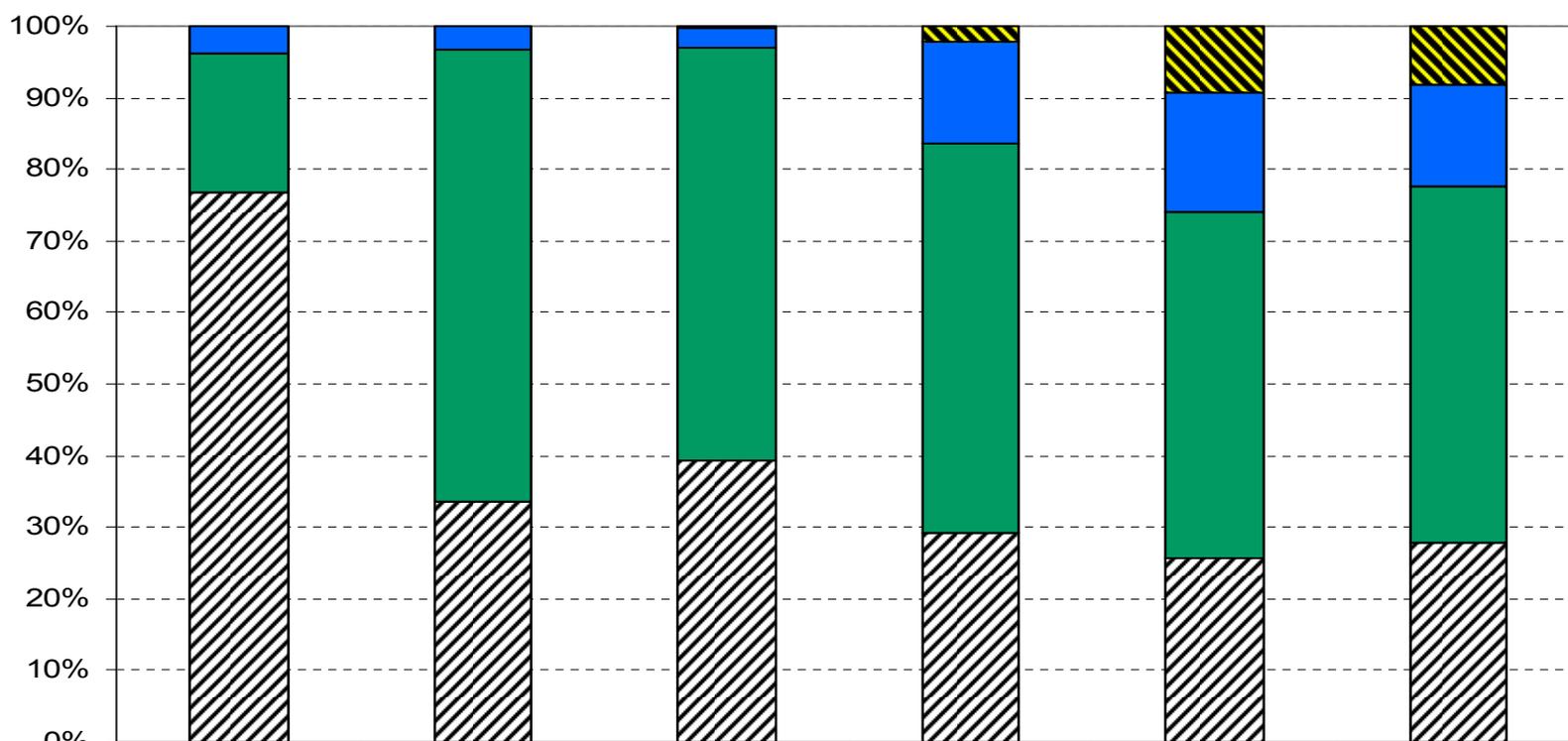
Market Perspective

Challenges Ahead

Secondary Market P

■ Increase in NTN-B and Fixed Rate Bonds

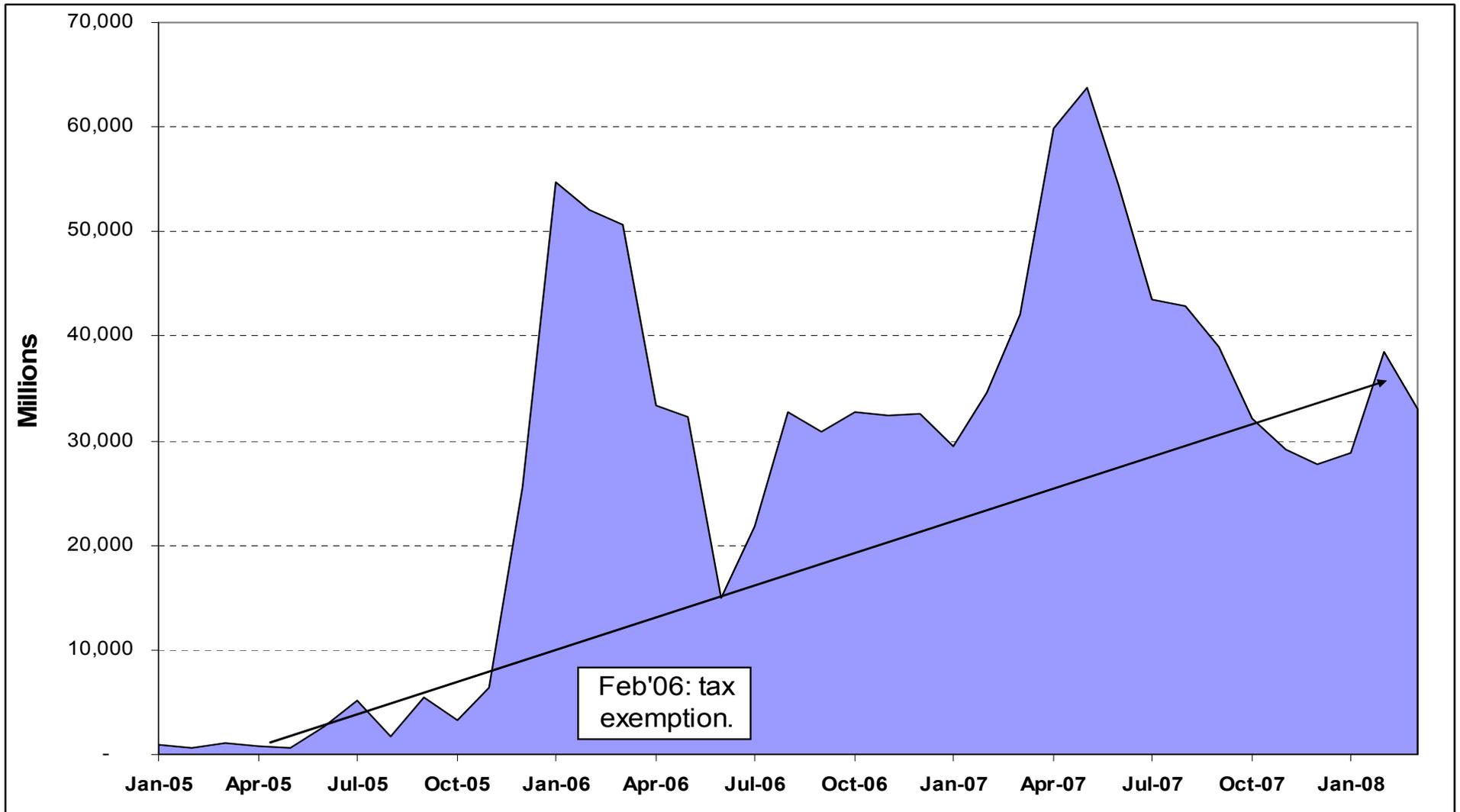
■ Decrease in Floating Rate Bonds



■ Fixed Linked (NTN-F)	0%	0%	0%	2%	9%	8%
■ Inflation Linked	4%	3%	3%	14%	17%	14%
■ Fixed Linked (LTN)	19%	63%	58%	54%	48%	50%
■ Selic Linked	77%	34%	39%	29%	26%	28%

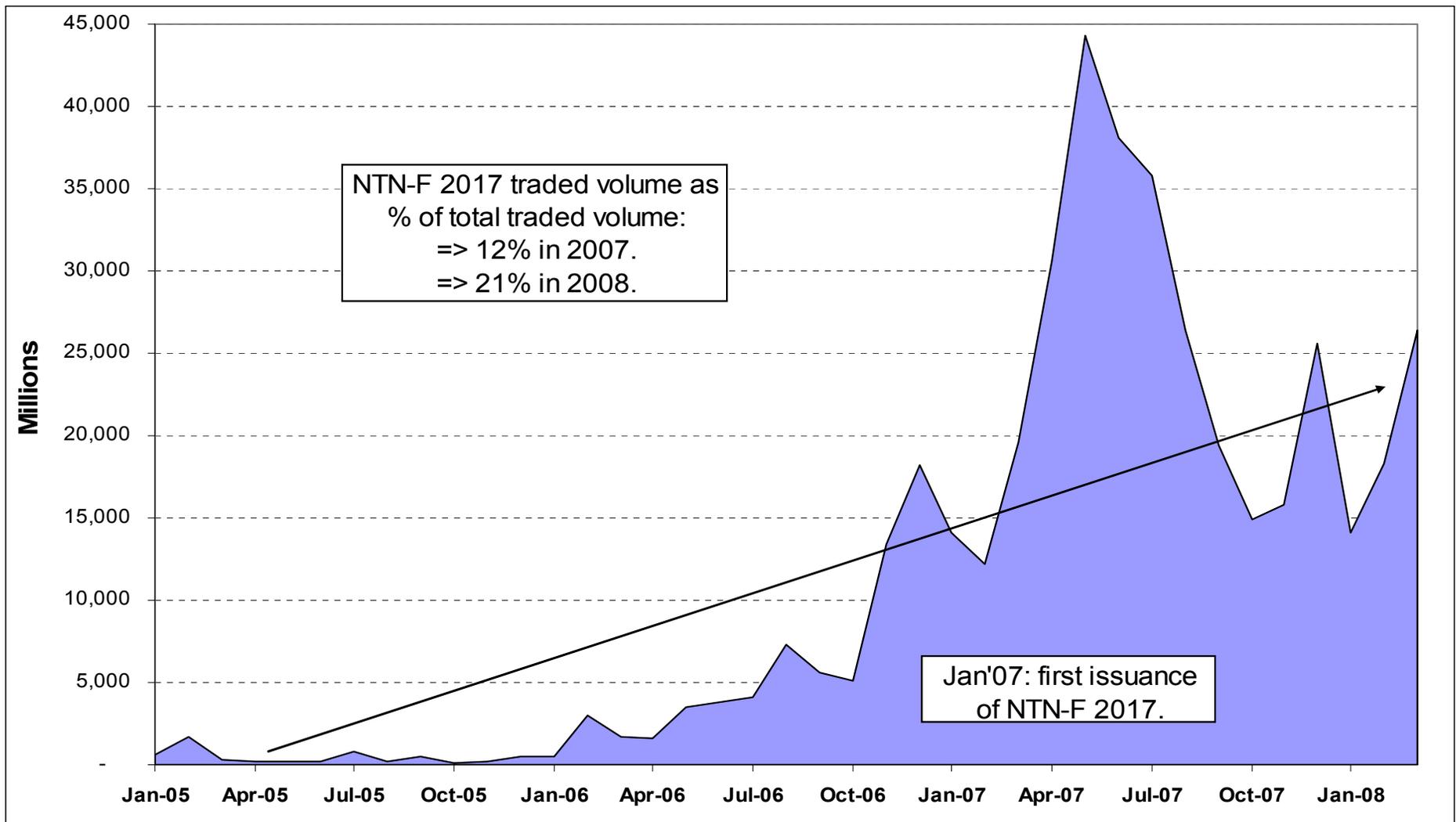


NTN-B Secondary Market





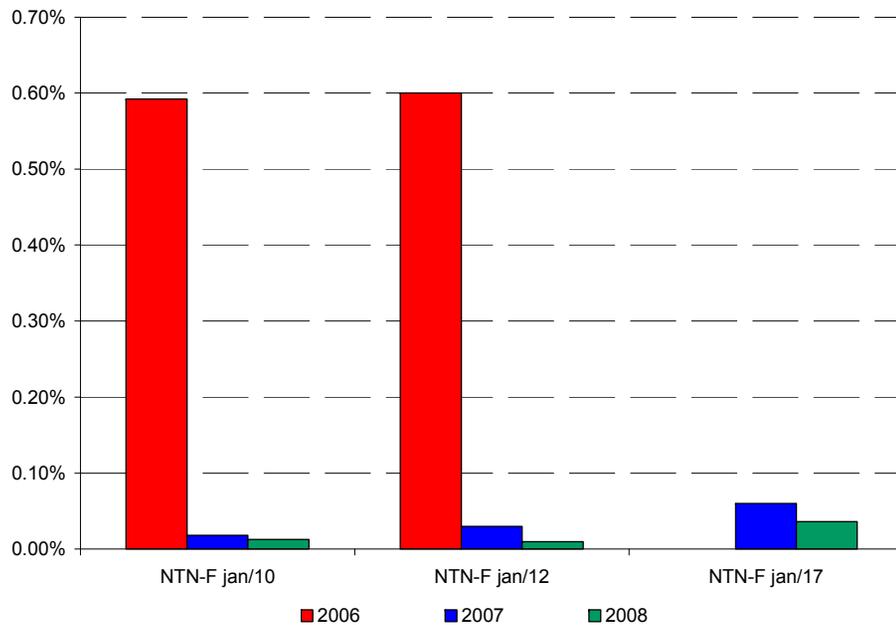
NTN-F Secondary Market



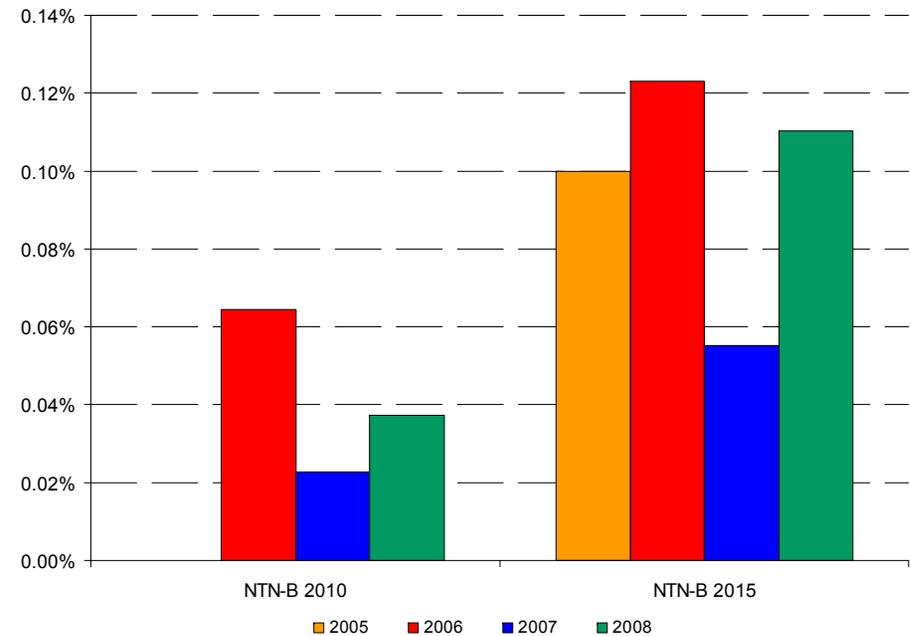


Bid-Ask Spreads in the Markets of NTN-F (fixed rate) and NTN-B (inflation linked)

- Fixed rate bonds bid-ask spreads were significantly tightened.



- Inflation linked bonds bid-ask spreads are fairly priced, in spite of increased market volatility in 2008.





Brazilian Federal Government Debt

Investor Base

Secondary Market

Investor Base and Liquidity

Challenges Ahead

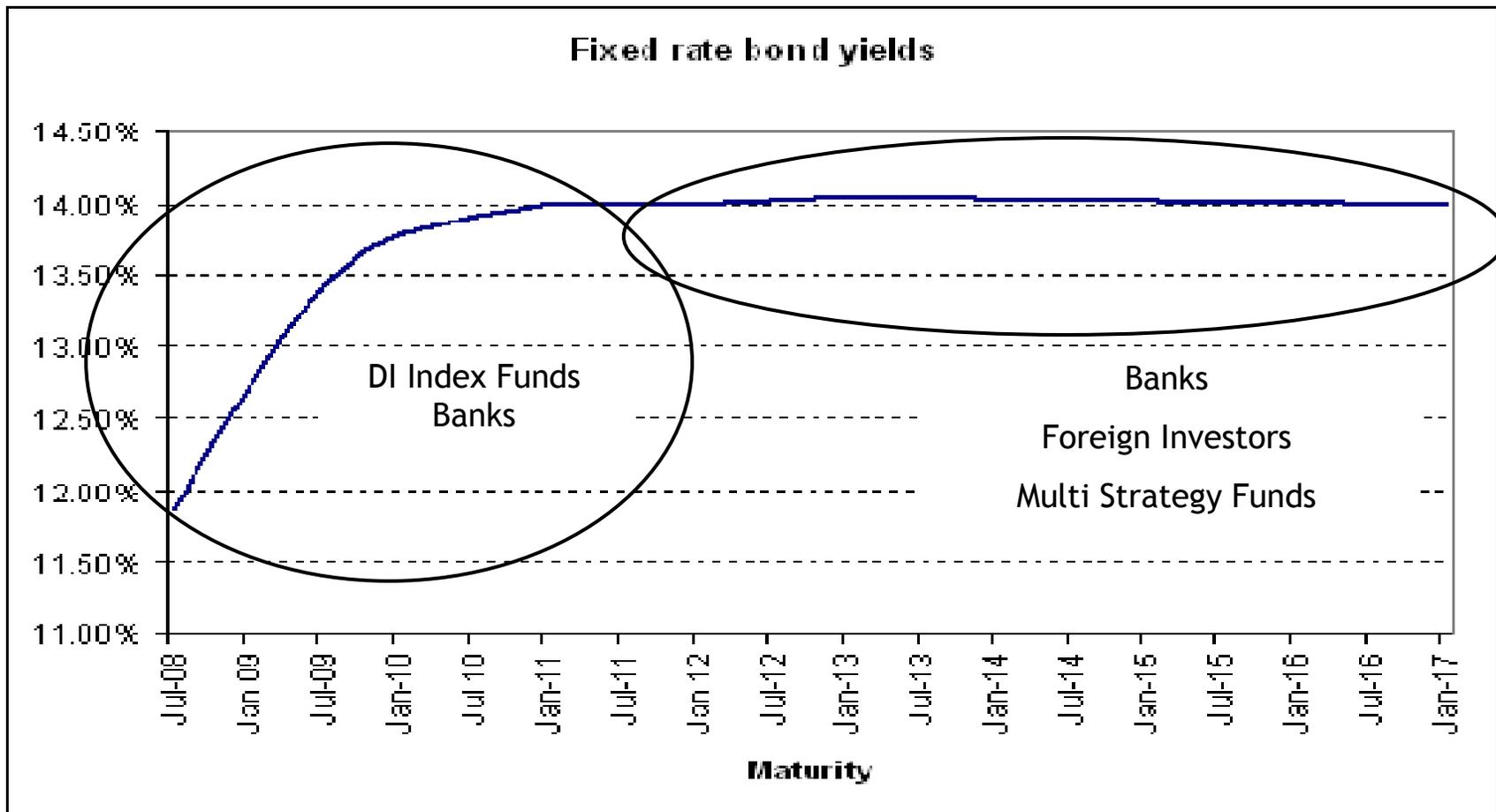


Secondary Market and Investor Base

- Pension funds, foreign investors, mutual funds and banks constitute a diversified group of investors.
- Growing interest for inflation linked and long term fixed rate bonds.
- Heterogeneous objectives and perspectives regarding federal bonds trading, what, in general, provides balanced number of buyers and sellers.

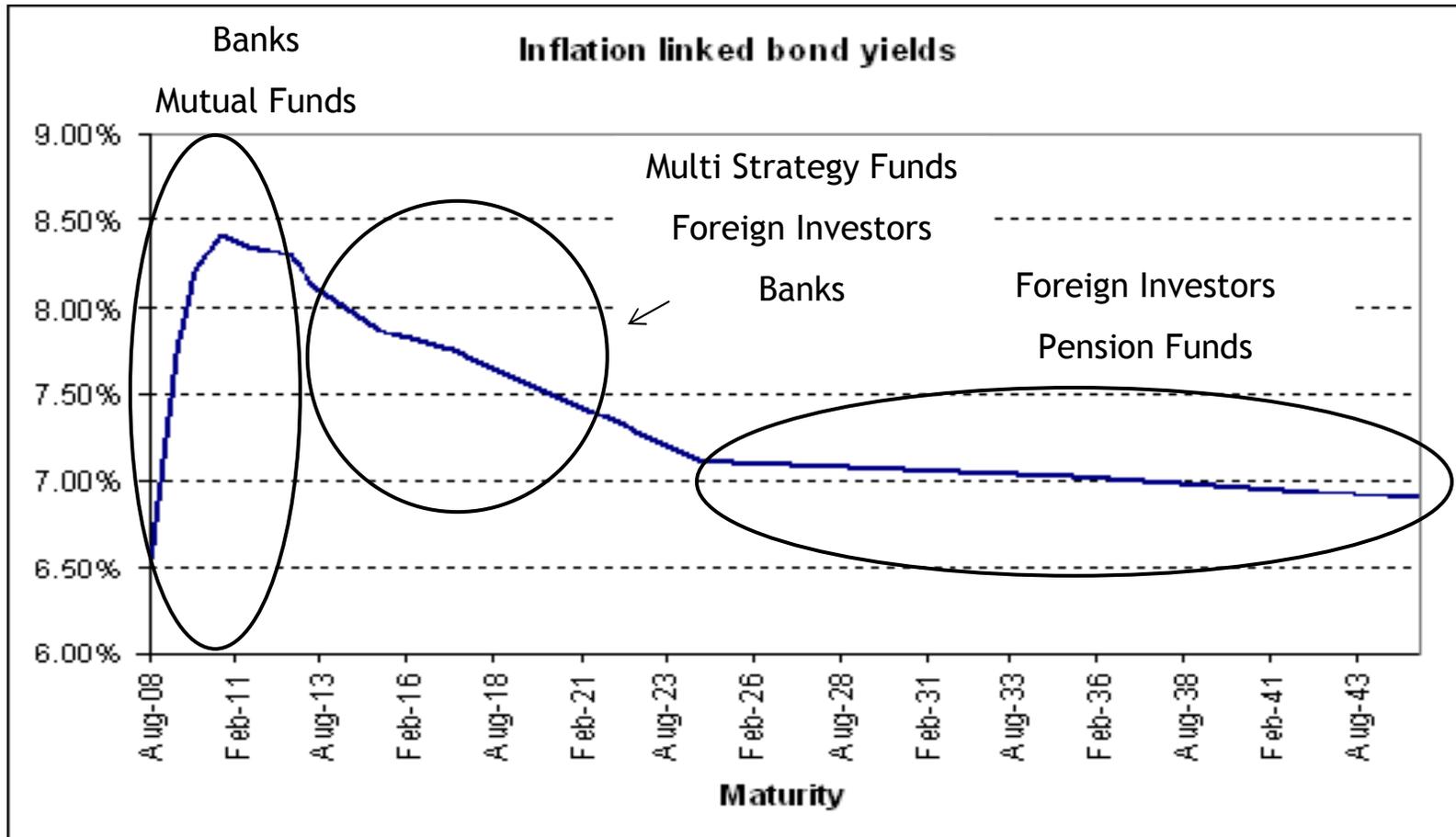


Fixed Rate Bond Secondary Market





Inflation Linked Bond Secondary Market





Changes in the secondary market 2006/2007

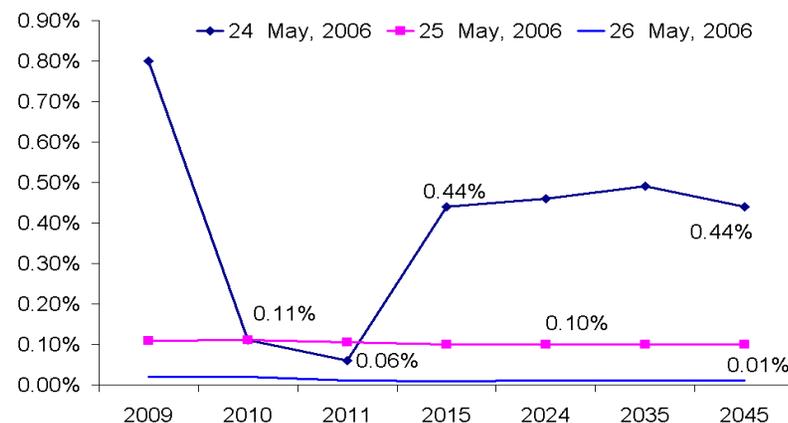
- In May 2006, following increased fears of US interest rate hikes, liquidity in the local secondary market decreased. Inflation linked notes were more negatively affected.
- Investors, specially foreign ones, tried to reduce their exposure by selling bonds. However there were not enough buyers of these assets.
- Pension funds, under investigation by authorities at that time, had limited access to the secondary market because of compliance issues. Even though bond ask prices were very attractive in the secondary market, these funds limited themselves to Treasury auctions.
- Noticing the lack of linkage between potential buyers and sellers, the National Treasury decided to conduct auctions in which it simultaneously issued and redeemed the same bonds (bid-ask auctions). As a result, after the third auction, the anxieties of sellers vanished.

National Treasury intervenes in unstable market

The Brazilian National Treasury carried through, on May 24, 25 and 26, simultaneous auctions to buy and sell NTN-Bs:

- National Treasury considers the foreign investor an important partner to the improvement and lengthening of the public debt's composition;
- The interventions' guideline was providing prices' parameters to the market in a very unstable scenario;
- Historically, when facing strong fluctuation on market indicators, the National Treasury acts as a market stabilizer agent;
- The auctions' results, in terms of amounts bought and sold, confirm that the Treasury managed to bring the market back to calm levels.

Buy and Sell Auction `s Spreads



	24 May, 2006	25 May, 2006	26 May, 2006	Total
	Treasury's Financial Result R\$ mn	Treasury's Financial Result R\$ mn	Treasury's Financial Result R\$ mn	
2006			(144.67)	(144.67)
2007		(23.03)		(23.03)
2008	0.67		44.44	45.10
2009	48.33	(315.42)	42.54	(224.54)
2010	(303.65)	75.34	(656.78)	(885.09)
2011	207.79	(26.44)	185.62	366.97
2015	(24.20)	191.32	(256.89)	(89.77)
2024	(283.93)	(227.43)	19.41	(491.95)
2035	(168.44)	22.00	116.82	(29.61)
2045	(542.93)	(121.88)	489.97	(174.83)
Total	(1,066.35)	(425.54)	(159.53)	(1,651.42)

NET ISSUANCE

NTN-B Auctions

	2005	2006 ¹
Issuance	23.47	31.47
Redemption	(2.08)	(4.53)
Early Redemption*	(8.70)	(8.97)
Exchange	27.28	46.23
Buy and Sell Auction	-	(1.65)
Issuance	-	2.33
Early Redemption	-	(3.98)
Net Issuance	39.96	62.56

¹ Until May 2006

* It includes the NTN-B received as payment on the Exchange auctions

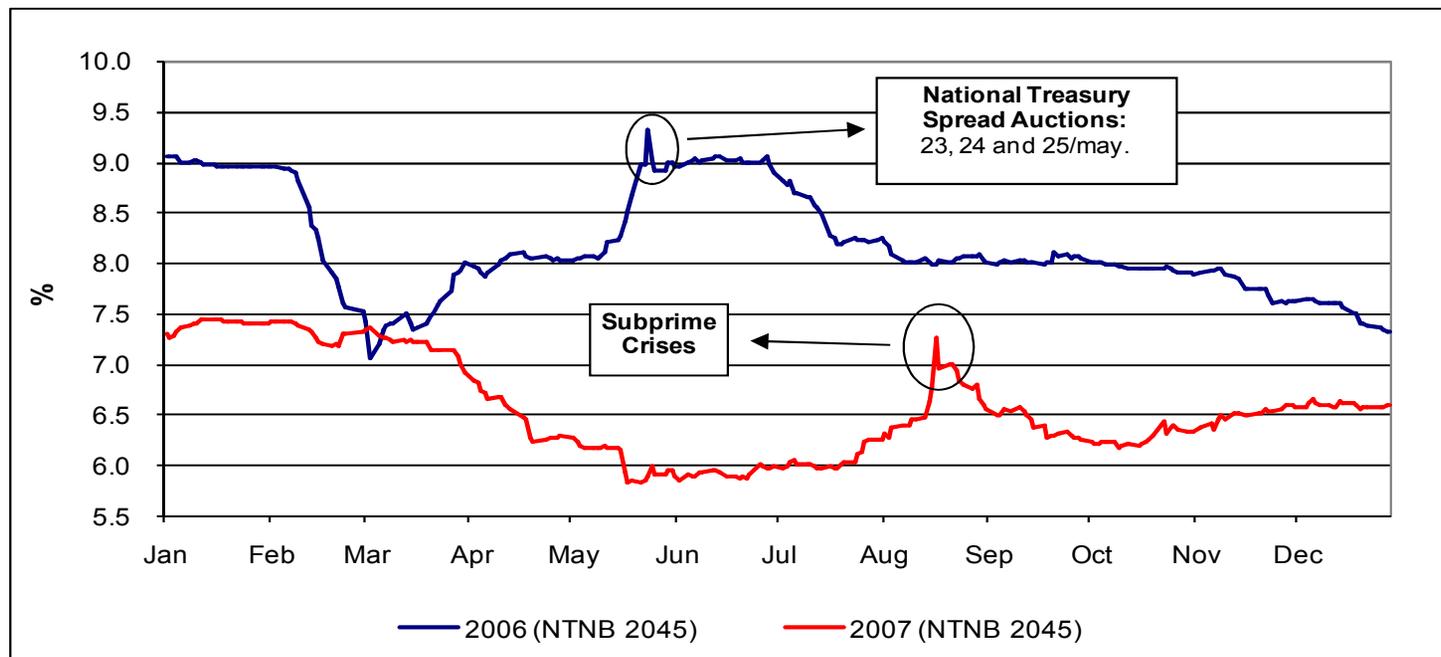


The National Treasury intervenes to stabilize markets

In August 2007, during the days of spiking volatility caused by the subprime crisis, the National Treasury did not intervene

- In 2006 there was need for an intervention to fix the linkage between buyers and sellers of public bonds. In 2007 such an intervention was not needed, given the greater development of the secondary market.
- Market was supported by the extension and diversification of the investor base. While foreign investors sold their assets in order to face losses in other countries, local pension funds and banks were able to provide fair bids. The banks that were short were specially willing to buy bonds and square their positions.

NTN-B 2045 in 2006 and 2007





Developing Regulatory Structure in Line with Debt Management Objectives

- Federal bonds held by pension funds and investment institutions can be classified as:
 - I - Trading
 - II - Hold to Maturity

- Pension funds regulator created incentives to the electronic dealing, in accordance with National Treasury efforts to promote it.

- Such assets can be also used for lending. Though, detailed regulation is still needed. National Treasury is working with market participants towards that.



Trading on Electronic Platforms

- New rules for dealers:
 - Incentives for providing bid-ask spreads in specific intervals at market opening and close in electronic trading systems.

The screenshot displays the SISBEX trading platform interface, version 3.84.7. It features several windows showing market data for different instruments and trading sessions (Roda).

Roda NG05: DEFINITIVA A TERMO - LTN - SISBEX - MERC...

Instrumento	Comora	Quantidade	Venda	Quantidade
LTN 010408 001		11.18	11.18	50,000
LTN 010708 001		11.355	11.355	10,000
LTN 010110 001	12.49	10,000	12.48	10,000

Roda NG06: DEFINITIVA A TERMO - SELI...

Instrumento	Comora	Quantidade	Venda	Quantidade
NTB 150810 001	7.59	10,000	7.56	10,000
NTB 150511 001	7.61	10,000	7.6	10,000
NTB 150812 001	7.63	10,000	7.6 < 7.59	10,000
NTB 150545 001	6.62	10,000	6.58	10,000

Roda NG18: DEFINITIVA A TERMO - NTN - F - SISBEX - MERCA...

Instrumento	Comora	Quantidade	Venda	Quantidade
NTF 010110 001	12.5	10,000	12.465	10,000
NTF 010112 001	12.68	10,000	12.62	10,000
NTF 010114 001	12.705	10,000	12.695 < 12.685	10,000
NTF 010117 001	12.695	10,000	12.665	10,000

Roda NG07 - Linha 760199 20110515NTB 150511001

DEFINITIVA A TERMO - IGPM/IPCA
SISBEX - MERCADO DE TÍTULOS PÚBLICOS

Instrumento	Comora	Quantidade	Venda	Quantidade
NTB 150511 760199	7.61	10,000	7.6	10,000
NTB 150511 760199	7.61	10,000	7.59	10,000
NTB 150511 760199	7.62	10,000	7.59	10,000
NTB 150511 760199	7.62 < 7.61	10,000	7.59	10,000
NTB 150511 760199	7.63	10,000	7.59	10,000
NTB 150511 760199	7.64	10,000	7.59	10,000

Roda NG05 - Linha 100000 20100101LTN 010110001

DEFINITIVA A TERMO - IGPM/IPCA
SISBEX - MERCADO DE TÍTULOS PÚBLICOS

Instrumento	Comora	Quantidade	Venda	Quantidade
LTN 010110 100000	12.49	10,000	12.48	10,000
LTN 010110 100000	12.49	10,000	12.475	10,000
LTN 010110 100000	12.49	10,000	12.475	20,000
LTN 010110 100000	12.49 < 12.48	10,000	12.47	10,000
LTN 010110 100000	12.49 < 12.48	10,000	12.47	10,000
LTN 010110 100000	12.495	10,000	12.47	10,000
LTN 010110 100000	12.495 < 12.48	10,000	12.47	10,000
LTN 010110 100000	12.5 < 12.49	10,000	12.47	10,000

Roda NG13: COMPROMISSADAS

Instrumento	Tomador	Quantidade
Volume Operado		
Tipo Neg: Todas		
Espécie: Todas		
Rodas:		
Todas	Roda	Total
NG01	NG05	227,393,813.77
NG02	NG07	99,030,307.72
NG03	NG19	3,730,000,000
NG04	TRD	50,000,000
NG05		
NG06		
NG07		
MICRO		

Vol. op en BME: 4.106.424.121 Reais

12/02/2008 15:42:03



Electronic Trading of Public Bonds

BGVT P396 n Index BGVT




Praca Antonio Prado 48
Sao Paulo, SP 01010-901
Brazil

COTACOES EM TEMPO REAL REAL TIME QUOTES	PREÇOS DE REFERENCIA REFERENCE PRICES
1) BGVR Sisbex Repo Rates	4) LFT - Selic Linked
2) BGVF Sisbex Forward Rates	5) LTN - Pre Fixed
3) BGVC Sisbex Cash Rates	6) NTN-B - IPCA Linked
	7) NTN-C - IGP-M Linked
INFORMACAO ADICIONAL	ADDITIONAL INFORMATION
8) Leiloes Tesouro Nacional	Brasil Treasury Auctions
9) Sobre a pagina BGVT	Disclaimer
10) Solicitar Informacoes	To Request Information

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2008 Bloomberg Finance L.P.
6391-1002-3 06-Mar-2008 18:49:29

- Real time effective prices from electronic platform are available on Bloomberg...
- Soon on Reuters

Warning: Infrequent Updater - Prices may not update every day Index BGVC

200<Go> to view in Launchpad

18:49 NTN-B CASH RATES PAGE 1 / 2

NTN-B	DESCRIPTION	BID	ASK	LAST	OPEN	HIGH	LOW	TIME
1)	BNTNB 6 08/08							
2)	BNTNB 6 05/09		7.02					12:49
3)	BNTNB 6 11/09	7.30						2/26
4)	BNTNB 6 08/10	7.60	7.55					15:48
5)	BNTNB 6 05/11	7.59	7.53					15:45
6)	BNTNB 6 08/12	7.40	7.30	7.38	7.34	7.38	7.34	15:59
7)	BNTNB 6 11/13	7.30						2/28
8)	BNTNB 6 05/15	7.15	7.05					3/05
9)	BNTNB 6 05/17	7.12	7.00					3/03
10)	BNTNB 6 03/23							
11)	BNTNB 6 08/24	6.95	6.80					16:41
12)	BNTNB 6 11/33							
13)	BNTNB 6 05/35							
14)	BNTNB 6 05/45		6.42					10:54

TO SEE BM&F CASH RATES ON ANALYTICAL FUNCTIONS USE PCS BMFZ

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2008 Bloomberg Finance L.P.
6391-1002-3 06-Mar-2008 18:49:10



Measures for the secondary market

Government measures to develop the secondary market

- Concentration of maturities;
- Meetings with market participants such as pension funds and asset managers;
- Income tax exemption for foreign investors;
- Implementation of mechanisms that permit short selling of government bonds (under development; market currently makes use of Central Bank's longer term repos)
- Incentives for transparency: bond price information systems and electronic trading systems.



Brazilian Federal Government Debt

Investor Base

Secondary Market

Market Perspective

Challenges Ahead



Challenges Ahead

- Market structure still strongly driven by the floating rate “heritage” (immediate liquidity perspective)
- Market potential
 - Market size
 - Heterogeneous perspectives of investors already existent
 - Balanced composition of portfolios still to be reached
 - Economic stability