

From: Vahe Stepanian <[REDACTED]>
To: "jeffrey E." <jeevacation@gmail.com>
CC: Daniel Sabba <[REDACTED]>, Ariane Dwyer <[REDACTED]>, Paul Morris <[REDACTED]>, Stewart Oldfield <[REDACTED]>, Richard Kahn <[REDACTED]>
Subject: RE: FW: (BN) Brazil Already Junk as Swaps Traders Front-Run Cut Amid Turmoil [C]
Date: Tue, 11 Aug 2015 16:27:48 +0000
Attachments: 182298_20150810_20150811_1.pdf
Inline-Images: image001.jpg

Classification: **Confidential**

Understood, I will include MTM going forward.

In terms of your Brazil CDS position – per today's valuation statement (attached; as of 8/10), your MTM is +\$837k.

Thank you,
Vahe

From: jeffrey E. [mailto:jeevacation@gmail.com]
Sent: Tuesday, August 11, 2015 12:17 PM
To: Vahe Stepanian
Cc: Daniel Sabba; Ariane Dwyer; Paul Morris; Stewart Oldfield; Richard Kahn
Subject: Re: FW: (BN) Brazil Already Junk as Swaps Traders Front-Run Cut Amid Turmoil [C]

in the future please always include a mark to market on the position. always . thanks

On Tue, Aug 11, 2015 at 10:06 AM, Vahe Stepanian <[REDACTED]> wrote:

Classification: **Confidential**

Jeffrey – please find below the current Brazil 5y CDS chart (i.e. on the run), which is currently near its five year historical high.

Recall you entered into the following transaction back in January 2015:

```
BraSov default swap with SOUTHERN FINANCIAL LLC DB Sells default protection on FEDERATIVE REPUBLIC OF BRAZIL
NOTIONAL           : USD 10,000,000
TRADE DATE         : 13-Jan-2015
IM%                : 1
EFFECTIVE          : 14-Jan-2015
TERMINATION        : 20-Mar-2020
REF OB             : BRAZIL 12.25% OF 03/30 ISIN: US105756AL40
CREDIT EVENTS      : Failure to Pay, R, Repudiation/Moratorium
ISDA Definition    : 2014
PRICE              : 205 bps per annum (COUPON: 100 bps per annum)
```

Note that 5y Brazil CDS saw its high of ~3900bps back in 2002.

Please let us know how you would like to proceed.

Thank you,
Vahe

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EFTA00848947

cid:image003.jpg@01D0D42E.22821940

-----Original Message-----

From: Daniel Sabba (DEUTSCHE BANK SECURI) [mailto: [REDACTED]]
Sent: Tuesday, August 11, 2015 11:52 AM
Subject: (BN) Brazil Already Junk as Swaps Traders Front-Run Cut Amid Tur

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Brazil Already Junk as Swaps Traders Front-Run Cut Amid Turmoil

2015-08-07 19:01:41.781 GMT

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(To be sent this Brazil Credit column, click SALT BZCREDIT. For more debt-related news, see TOP CM.)

By Paula Sambo and Julia Leite

(Bloomberg) -- As far as swaps traders are concerned, Brazil is already a junk-rated country.

The South American nation -- mired in recession and scandal

-- is now riskier than nine countries with speculative grades by Standard & Poor's, including Turkey, Vietnam and Cyprus, according to trading in credit-default swaps.

Bond investors are relegating Brazil to junk as the biggest contraction in 25 years and growing support for impeaching President Dilma Rousseff increase the chances its investment grades will be slashed. Just last week, S&P joined Moody's Investors Service in revising its outlook on Brazil's rating to negative.

"The assessment of Brazil's creditworthiness has deteriorated significantly," Camila Abdelmalack, an economist at CM Capital Markets, said by telephone from Sao Paulo. "The scenario keeps getting increasingly bleak from both the political and economic standpoints."

The cost of protecting Brazil's bonds against nonpayment using five-year credit-default swaps rose to 3.26 percentage points Friday, the highest since March 2009. The real ended a six-day losing streak, climbing 0.7 percent to 3.5096 per dollar at 3:01 p.m. in New York.

Rousseff's latest effort to shore up Brazil's finances was rebuffed when the lower house of Congress voted to approve salary increases on Thursday. The move came after two parties broke from her ruling coalition.

Impeachment Push

A growing number of legislators in Brazil's largest party now see impeachment as an option to pull the country out of its deepening economic and political crisis. One-third of the Brazilian Democratic Movement Party in the lower house is working toward such a move within a constitutional framework, said Darcisio Perondi, a deputy leader of the party.

Support for Rousseff is also falling among Brazilians. In an Aug. 4-5 poll by Datafolha, 66 percent of respondents say Congress should open impeachment proceedings. Her approval rating fell to a record low 8 percent in the poll, and 71 percent said her presidency has been bad or terrible.

The presidential press office declined to comment on impeachment speculation.

"There is obviously a lack of confidence as seen in Rousseff's approval rating and the inability to get through fiscal-consolidation measures and structural reforms," said George Hogue, a Boston-based strategist at State Street Global Advisors, which has \$2.4 trillion under management.

Rating Outlook

Moody's, which met with officials in Brazil last month, cited the country's economic woes and deteriorating finances when it put the Baa2 rating on negative outlook in September.

The ratings company predicted in a July 16 report that the economy will contract 1.8 percent this year.

The country's problems have only mounted since then, with a bribery probe into a state-owned oil producer ensnaring more and more of the nation's companies. On Monday, Brazilian police arrested Jose Dirceu, who served as chief of staff under former President Luiz Inacio Lula da Silva, saying he helped put into place an alleged system of kickbacks at the oil company.

An S&P downgrade would push Brazil back into junk since the company rates the country BBB-, one level below Moody's.

“Brazil sticks out like a sore thumb in terms of its perceived riskiness, and its creditworthiness is set to deteriorate further in the coming months because of the plethora of domestic and external vulnerabilities,” Nicholas Spiro, a managing director at advisory firm Spiro Sovereign Strategy, said by e-mail from London.

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