Argentina Declared in Default by S&P as Talks Fail

By Camila Russo and Katia Porzecanski - Jul 30, 2014

Standard & Poor’s declared Argentina in default after the government missed a deadline for paying interest on $13 billion of restructured bonds.

The South American country failed to get the $539 million payment to bondholders after a U.S. judge ruled that the money couldn’t be distributed unless a group of hedge funds holding defaulted debt also got paid. Argentina, in default for the second time in 13 years, has about $200 billion in foreign-currency debt, including $30 billion of restructured bonds, according to S&P.

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Argentina and the hedge funds, led by billionaire Paul Singer’s Elliott Management Corp., failed to reach agreement in talks today in New York, according to the court-appointed mediator in the case, Daniel Pollack. In a press conference after the talks ended, Argentine Economy Minister Axel Kicillof described the group of creditors as “vulture funds” and said the country wouldn’t sign an accord under “extortion.”

“The full consequences of default are not predictable, but they certainly are not positive,” Pollack wrote in an e-mailed statement. “Default is not a mere ‘technical’ condition, but rather a real and painful event that will hurt real people.”

Kicillof, speaking at the Argentine consulate in New York, told reporters that the holdouts rebuffed all settlement offers and refused requests for a stay of the court ruling. He said Argentina couldn’t pay the $1.5 billion owed to the hedge funds because doing so would trigger clauses requiring the country to offer similar terms to other bondholders. He also criticized the judge in the case and ratings agencies.

Fruitless Effort

Prices for Argentina’s restructured bonds had soared today on speculation an agreement would be reached, with notes due 2033 jumping 10.1 cents to 95.57 cents on the dollar, the highest in three years. The rally was fueled partly by speculation that a group of Argentine banks would provide an alternate plan to appease the holdouts.

Sebastian Palla, head of investment banking at Banco Macro SA (BMA) in Buenos Aires, presented a proposal from members of the Adeba local banking association to buy the holdouts’ defaulted bonds, said a bank official who asked not to be identified because she isn’t authorized to speak publicly about
the plans.

Talks ended today without an agreement because the banks were unable to come up with a solution for a wider group of holdouts, according to the official. Ambito Financiero, a Buenos Aires-based daily, said discussions with officials from other Argentine banks and private companies would continue in New York tomorrow to try and reach a deal and cure the default.

Kicillof said today that all holdout claims would total $15 billion to $20 billion.

**Cross-Default**

The S&P announcement ends months of speculation on whether the country would be able to cut a deal with the holdouts in time to avoid a default on the country’s bonds due in 2033. As much as $29 billion of securities are subject to so-called cross-default clauses, allowing holders to demand immediate repayment. The amount is equal to the country’s foreign-currency reserves.

Argentina’s rating was cut from CCC- because “the grace period expired with bondholders not receiving their payment,” according to a statement from S&P.

If the country is able to undo the default, “we could revise our ratings on Argentina depending on our assessment at that time of Argentina’s residual litigation risk, its access to international debt markets and its overall credit profile,” S&P said.

Credit-default swaps to protect against losses from an Argentine default over the next three months had become the most expensive in the world, according to data compiled by CMA.

**Default Swaps**

The net notional outstanding amount of Argentine credit-default swaps was $1.04 billion as of July 25, data compiled by Depository Trust & Clearing Corporation show.

The occurrence of a credit-default event, its date and the date on which the derivatives are triggered would be determined by the International Swaps and Derivatives Association’s committee should holders of the contracts ask for a ruling.

Argentina may be able to undo the default in the next few days if an accord is reached over the missed $1.5 billion interest payment, Goldman Sachs Group Inc. said before the default was declared.

“An Argentina default is expected to be short-lived at this point and shouldn’t have any major implication for the country,” said Mauro Roca, a senior Latin America economist at Goldman Sachs in New York.

Argentine President Cristina Fernandez de Kirchner said in a televised speech last week in Buenos Aires that the country wouldn’t be in default on its obligations if the deadline passed, because her government had duly sent the $539 million payment to a trustee bank before they were blocked by the judge.
“People have created all kinds of euphemisms to describe this situation,” Kicillof said today. “But it can’t be a default if we’ve deposited the funds. We’ll continue to pay our debt.”

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