Argentine stocks sink on Supreme Court decision - MarketWatch

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Argentine stocks sink on Supreme Court decision
Volatility likely to continue in the near-term, economist says

By Ben Eisen, MarketWatch

NEW YORK (MarketWatch) — A decision by the U.S. Supreme Court to stay away from a decade-old legal feud involving Argentina sent the South American nation’s stock market tumbling and prices of its sovereign debt protection soaring on Monday.

The highest court in the U.S. left intact a lower court decision that forces Argentina to pay in full a group of creditors who had objected to their treatment in a debt restructuring after a 2001 default. The holdouts, which include hedge funds led by Paul Singer’s NML Capital, have been engaged in a bitter feud with the government for years. The hedge funds argued, in reasoning that ultimately prevailed, that failing to make good on the sovereign debt violated a law requiring all bondholders be treated equally.

The court’s decision had a swift effect on the nation’s stocks. The Argentina Merval index (BUE:AR:MERV) shed over 9% in Monday trading. The Buenos Aires Stock Exchange (BUE:XX:BURCAP) sank almost 8%.

The spread on Argentine credit default swaps, which protect against nonpayment on sovereign debt, jumped to 2,251 basis points from 1,714 basis points, according to Markit, the financial information services company. Nonetheless, the spread remained below its peak of over 4,000 basis points in 2013.

“I think in the near term there will be a lot of volatility both in the stock market and the bond market until we have a clear view of the steps the government will take,” said Elena Resk, economist at Moody’s Analytics.

Since defaulting on its debt at the beginning of the century, Argentina’s relationship with the capital markets has been frayed. For that reason, the impact beyond Argentina may be muted.

“The good news is that Argentina has been such a pariah in international capital markets since the 2001 default that there is a fairly low risk of a wider EM contagion,” said Win Thin, head of emerging-market currency strategy at Brown Brothers Harriman & Co., in a note to clients.

The court’s decision puts Argentina in a tight spot ahead of a looming June 30 debt payment. The government had said that it could default on its debt if it is forced to give full payments to the holdout creditors in addition to paying debt that had been restructured after the initial default. The government had separately raised the possibility of negotiating with creditors, but little time remains before the debt payment is due at the end of the month.

“There is no clear resolution to this, and Argentina has no one to blame but itself. Nearly 15 years after defaulting, there is simply no excuse for this saga to be continuing now,” Thin wrote.

Resk noted that Argentina had been working toward accessing international capital markets for its financing needs, a proposition made more difficult by the possibility of a potential default. If Argentina does forego payments, it could “force them to make the adjustments they were putting off,” pushing forward a quick round of fiscal belt-tightening.

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