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60

Greek bond protection payout to hit $2.5bn

By David Oakley

Investors holding insurance-like products as a protection against a Greek default – the world's biggest sovereign debt restructuring – will receive about $2.5bn, according to market prices on Thursday.

An auction of credit default swaps next Monday will use the price of the new Greek 30-year bond to settle payouts as part of the restructuring.

These bonds are trading at a price of 23 cents on the euro, which means a payout of 77 per cent of the net outstanding amount of Greek default swaps in the market, which stands at just above $3bn, meaning a payout of about $2.5bn.

However, despite the likely recovery of some money from the auction, market participants warn that the CDS market may still suffer because of the Greek debt exchange, which saw investors agree to write off more than €100bn of debt in return for new Athens' bonds worth 31.5 per cent of the original investment.

One senior CDS trader at a European bank said: "We still don't know whether CDS will be worth anything if there are other sovereign defaults." He conceded, however, that the International Swaps & Derivatives Association, the industry body, had helped bring some confidence back to the CDS market as it had speeded up a date for an auction to settle the contracts.

Ciaran O'Hagan, head of European rates strategy at Société Générale, said: "ISDA's decisions will go some way to ensuring that sovereign CDS in Europe survive and prosper as an instrument of cover."

There were 4,369 swaps contracts covering a net $3.18bn of Greek debt outstanding as of March 9, according to the Depository Trust & Clearing Corp, the data warehouse.

The vast majority of Greek contracts will be cash settled at auction on March 19, with a small minority of investors exchanging their bonds for the full face amount, say analysts.

Elsewhere, Spain sold €3bn of bonds in a relatively successful debt offering.

The bid-to-cover ratio for the notes maturing in April 2016 was 4.13 compared with 2.21 when the notes were sold in January, the Bank of Spain said. The average yield on the notes was 3.37 per cent compared with 3.75 per cent in January.