

Fitch: Argentina's Missed Coupon Payments Raises Possibility of Default

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View article @Fitch Rating's Web: click here 01 Jul 2014 2:24 PM (EDT)Fitch Ratings-New York: Argentina's entry into the grace period related to its coupon payments on foreign law exchanged securities, due on June 30, raises the specter of a possible default, according to Fitch Ratings. The grace period for these securities ends on July 30, 2014. Fitch currently rates Argentina's Foreign Currency IDR 'CC', which already incorporates a very high default risk. In addition, Fitch understands that coupon payments of exchanged bonds issued under local law that were also due on June 30 (Discount bonds denominated in USD and ARS) were made in a timely manner and without interruption. Fitch currently rates Argentina's local law bonds 'B-'. The legal process related to the dispute between Argentina and certain holdout creditors that did not participate in the 2005 and 2010 exchange offers culminated with the denial of Argentina's cert petition to the U.S. Supreme Court. As such, the U.S. Lower Court ruling holds, and prohibits Argentina from making payments to exchanged bond holders unless payments are also made to plaintiffs in the case. Fitch recognizes that negotiations could occur between the government of Argentina and holdout creditors, although the success and timing of such a process is difficult to predict. Fitch will continue to monitor developments in the coming weeks. Absent a negotiated settlement with the holdouts or a reinstatement of a stay order allowing Argentina to continue servicing its exchanged bond debt, there is a high risk that Argentina will not make the overdue coupon payment at the end of the grace period. In such a scenario, Fitch would downgrade Argentina's FC IDR to 'RD' (Restricted Default) and the bond ratings of the affected securities to 'D' (Default). Moreover, Argentina's Local Currency rating of 'B-' with a Negative Outlook could also face downward pressure in this scenario. On the other hand, a successful agreement with holdout creditors that settles this case definitively and reduces the risk of interruption in payments to exchanged bond holders would be credit positive.

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