
Argentina sceptically awaits debt default court hearing

01/08/2014



Latin America's No. 3 [economy](#) defaulted on its debt for the second time in 12 years after failing to cut a deal with holdout creditors suing it for full payment on [bonds](#) bought at a steep discount after a \$100 billion debt default in 2002.

Argentine bond prices extended losses early on Friday before holding steady, after sharp declines in its [bonds](#), stock [markets](#) and peso currency a day earlier. The blue chip Merval stock index was down just 0.45 percent. On international markets, Argentina's dollar-demonintated bond due in 2033 slipped 3.842 points, or about 4.5 percent, to a bid price of 84.184 on Friday.

Prices on Argentina's credit default swap contracts - the price of insuring Argentine debt - held steady early on Friday.

"The market is placing a very high probability on [Argentina](#) reaching an agreement with the holdouts within the next 6 months in which case ... the actual market impact could be short-lived," said Ander Faergemann, senior emerging debt fund manager at PineBridge Investments in London.

The government maintains it has not defaulted because it made a required interest payment to a bank intermediary on one of its bonds. But U.S. District Court Judge Thomas Griesa blocked that deposit in June, saying it violated his ruling that [Argentina](#) settle their dispute with holdout investors first.

As a result, holders of more than \$28 billion in Argentine bonds did not receive the interest coupon payment by a July 30 deadline, thus defaulting on that obligation in standard financial parlance.

"We can't hold any positive expectations because (Judge Griesa) has always held the view of someone who is partial," Cabinet chief Jorge Capitanich told reporters in Buenos Aires.

On Thursday, Capitanich branded Griesa an "agent" of the litigating New York [hedge funds](#). Griesa is scheduled to hold Friday's hearing at 11 a.m. (1500 GMT).

DECLARATION COMMITTEE

Argentina had argued it needed to await the Dec. 31 expiry of a legal clause barring it from paying better terms to the holdouts than those taken by restructured debt holders before changing its negotiating terms, Faergemann said.

"In the best case scenario, the Argentine government will find a middle man to pay out the holdouts in the near term to allow the sovereign to focus on paying the claim in January and continue servicing its other debts," Faergemann said.

A formal declaration of a default could come as soon as Friday from a committee of buy- and sell-side investment firms organized by the International Swaps and Derivatives Association (ISDA). They will decide if a side-bet made on insuring Argentine government debt is payable.

Argentine banks had scrambled to put together a proposal to buy out the holdouts' non-performing debt and avert the default. That attempt at a deal collapsed in the final hours.

Some Argentine newspapers reported that JPMorgan Chase & Co and other banks might be involved in a private-sector deal with the holdouts to help resolve the default. A JPMorgan spokesman said the U.S. investment bank had "no comment".

One of the lead holdout funds, Aurelius Capital Management, said it had received no proposals on a private-sector debt purchase "worthy of serious consideration."

Argentines already grappling with an [economy](#) in recession and one of the highest rates of inflation in the world took the default calmly, with many saying economic crises were the norm.

For now, there are no signs the debt crisis is heightening discontent with the government. Instead, many approve of its stand-off with the funds it calls "vultures".

(Additional reporting by Walter Bianchi in Buenos Aires and [Carolyn Cohn](#) in London; Writing by Richard Lough; Editing by W Simon)
