+--+

Ireland Leads Rise in Sovereign Credit Swaps on Burden Sharing
2010-11-01 13:20:34.835 GMT

By Abigail Moses

Nov. 1 (Bloomberg) -- Ireland and Greece led a surge in the cost of insuring European sovereign debt from default on concern bondholders will be forced to share the cost of future government bailouts.

Credit-default swaps on Ireland jumped 16.5 basis points to 490, matching the Sept. 27 record closing price, according to data provider CMA. Greece climbed 31.5 basis points to 818, the highest level since Sept. 20. The Markit iTraxx SovX Western Europe Index of swaps on 15 governments rose 2.5 basis points to a one-month high of 154.

Investors are speculating German Chancellor Angela Merkel will persuade European Union leaders to force burden sharing after governments pledged 860 billion euros ($1.2 trillion) of taxpayer money to stem the region's deficit crisis. Irish bonds declined, driving the extra yield investors demand to hold the securities instead of German debt to a record, on concern the nation will struggle to fund its budget gap.

"It has become apparent that it is possible that some kind of restructuring procedure may well be put in place and the reaction in the bond market has been what you would expect,"
Gary Jenkins, head of credit strategy at Evolution Securities Ltd. in London wrote in a note to investors.

Swaps linked to Portugal rose 8 basis points to 387, Spain increased 8 to 222.5 and Italy added 4.5 basis points to 176, CMA prices show.

Corporate Debt

The cost of insuring corporate bonds was little changed, with the Markit iTraxx Europe index of 125 investment-grade companies rising 0.25 basis points to 97.75 and the Markit iTraxx Financial Index linked to the senior debt of 25 banks and insurers up 0.5 at 125, according to JPMorgan Chase & Co.

The Markit iTraxx Crossover Index of 50 companies with mostly high-yield credit ratings declined 2 basis points to 456.

A basis point on a credit-default swap protecting 10 million euros ($14 million) of debt from default for five years is equivalent to 1,000 euros a year.

Credit-default swaps pay the buyer face value in exchange for the underlying securities or the cash equivalent should a company fail to adhere to its debt agreements. An increase signals deterioration in perceptions of credit quality.

For Related News and Information:
News on credit derivatives: NI CDRV <GO> Credit Markets stories: TOP CM <GO> Credit-Default Swaps Sector Graphs: GCDS <GO> World Credit-Default Swaps Pricing: WCDS <GO> Biggest Credit-Default Swaps Movers: CMOV <GO>

--Editor: Michael Shanahan, Paul Armstrong

To contact the reporter on this story:
Abigail Moses in London at +44-20-7673-2118 or Amoses5@bloomberg.net

To contact the editor responsible for this story:
Paul Armstrong at +44-20-7330-7185 or
Parmstrong10@bloomberg.net