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Sovereign Credit-Default Swaps Surge on Hungarian Debt Crisis
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By Kate Haywood

June 4 (Bloomberg) -- Credit-default swaps on sovereign bonds surged on speculation Europe's debt crisis is worsening after Hungary said it's in a "very grave situation" because a previous government lied about the state of the economy.

The cost of insuring against losses on Hungarian sovereign debt jumped 83.5 basis points to 391.5, according to CMA DataVision prices. Swaps on France, Austria, Belgium and Germany also rose, sending the Markit iTraxx SovX Western Europe Index of contracts on 15 governments 10 basis points higher to 163, and close to the all-time high of 167 on May 6.

Hungary's bonds fell after a spokesman for Prime Minister Viktor Orban said talk of a default is "not an exaggeration" because a previous administration "manipulated" figures. The country was bailed out with a 20 billion-euro ($24 billion) aid package from the European Union and International Monetary Fund in 2008.

"The comments out of Hungary have really spooked the market," said Rajeev Shah, a credit strategist at BNP Paribas SA in London. "Investors are interpreting it as bad sign for trying to tackle Europe's debt crisis."

The euro dropped below $1.21 for the first time since April 2006, stocks tumbled and the cost of insuring against corporate default rose on speculation Hungary will weaken the EU's willingness to rescue the region's indebted nations.

Swaps on Spanish government debt jumped 39.5 basis points to a record 295.5, according to CMA. Contracts on Portugal rose 37 to 376, Ireland was up 38 basis points at 298, and Italian swaps climbed 30 basis points to an all-time high of 264.
Contracts on Greece rose 61 basis points at 787.

'Something Serious'

The Markit iTraxx Crossover Index of swaps linked to 50 companies with mostly high-yield credit ratings jumped 21 basis point to 557, according to Markit Group Ltd.

"Are we on the brink of something more serious?" Deutsche Bank AG strategist Jim Reid wrote in a note to clients today.
"We've little doubt that the authorities have no appetite for imminent peripheral defaults but we do see the situation getting worse before it gets better. This leaves markets vulnerable until there is more certainty surrounding the structure of the peripheral funding bail-out."

Credit-default swaps pay the buyer face value in exchange for the underlying securities or the cash equivalent should a borrower fail to adhere to its debt agreements. A basis point on a contract protecting $10 million of debt from default for five years is equivalent to $1,000 a year.

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