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Credit Risk Declines to Lowest Since August 2008

By The Moscow Times

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The cost of insuring government debt against default fell to the lowest level since August 2008, according to CMA prices for credit-default swaps.

Credit-default swaps decreased 4.5 basis points to 122 basis points Monday. That equates to a drop of $4,500 to $122,000 a year to insure $10 million of debt for five years. The yield on Russian bonds is 94 basis points less than the average for emerging markets, down from a 15-month high of 105 in February 2010, according to JPMorgan Chase & Co. indexes.

Uprisings across North Africa and the Middle East have driven the price of crude oil above $100 a barrel in New York during the past two weeks, a boon for Russia, which depends on oil and natural gas for about a quarter of its gross domestic product. Market volatility, as measured by the Chicago Board Options Exchange Volatility Index, or VIX, so far this year has traded near the lows of the past 14 months.

"Russia is in a sweet spot of low volatility and high oil, because when the VIX goes to 40, Russia's not going to do well regardless of what kind of oil prices we see," said Alvin Ying, an emerging-market strategist at UBS AG in London.

The government, which planned a record 1.7 trillion rubles ($60 billion) of debt issuance to plug its deficit this year, will scale back domestic bond sales by 500 billion rubles as higher oil revenue reduces borrowing needs, Finance Minister Alexei Kudrin said, RIA-Novosti reported Feb. 22.

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