

Default Correlation at the Sovereign level: Evidence from some Latin
American Markets

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Abstract

Using the eruption of Argentina debt crisis in 2001 as a natural experiment, we investigated the correlated default at the sovereign level for some Latin American countries. Daily closing market quotes for sovereign Credit Default Swaps (CDS) of Argentina, Brazil, Mexico and Venezuela were obtained from CreditTrade database. Using copula approach, we observed increased dependences among sovereign CDS markets during the crisis period. Their dependence structures were found to be asymmetric. Moreover, the degree of credit contagion was related to the creditworthiness of the country. This study also discussed the implications of these findings for policymakers.

Keyword : Credit contagion; Sovereign credit default swaps; Copula