

# Breakup and Default Risks in the Great Lockdown

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discussion by Paul Ehling

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- ▶ When both contracts are available we can decompose the risk traded in CDS into redenomination and default risk.
- ▶ *Redenomination is likely to come before default for some countries while others might not default after redenomination.*
- ▶ One of the main findings: an increase in the redenomination risk in one country is associated with an increase in default premia and bond spreads in other Eurozone countries.

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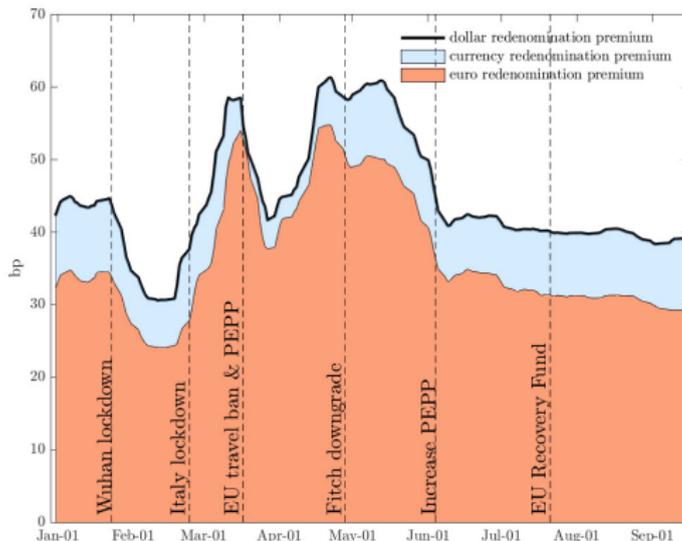
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- ▶ Has denomination risk increased over time?

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- ▶ Since this is hard to disentangle it is hard to interpret some of the results
- ▶ 'Redenomination risk is mostly idiosyncratic to each Eurozone sovereign.'
- ▶ Shocks to France are associated with a higher default premium for Germany, Italy and the Netherlands; shocks to Germany are associated with a higher default premium for the Netherlands; and shocks to Italy are associated with a higher default premium for Germany