Subject: Fw: (BN) Aurelius Presses Petrobras as Default Odds Climb: Brazil Cr
From: Daniel Sabba <[redacted]>
To: "Jeffrey Epstein" <jeevacation@gmail.com>
Sent: Tuesday, January 6, 2015 2:28:28 AM

Classification: Public

This is very much in line with your thinking.

----- Original Message -----
From: "Daniel Sabba (DEUTSCHE BANK SECURI)" [redacted]
Sent: 01/06/2015 02:26 AM GMT
To: undisclosed-recipients:
Subject: (BN) Aurelius Presses Petrobras as Default Odds Climb: Brazil Cr

(BN) Aurelius Presses Petrobras as Default Odds Climb: Brazil Cr
edit

This has been prepared solely for informational purposes. It is not an offer, recommendation or solicitation to buy or sell, nor is it an official confirmation of terms. It is based on information generally available to the public from sources believed to be reliable. No representation is made that it is accurate or complete or that any returns indicated will be achieved. Changes to assumptions may have a material impact on any returns detailed. Past performance is not indicative of future returns. Price and availability are subject to change without notice. Additional information is available upon request.

+--+

Aurelius Presses Petrobras as Default Odds Climb: Brazil Credit
2015-01-05 10:33:30.703 GMT

(To be sent this column, click SALT BZCREDIT. For credit-market news, click on TOP CM.)

By Katia Porzecanski and Paula Sambo

(Bloomberg) -- Aurelius Capital Management LP's bid to declare Petroleo Brasileiro SA in default underscores just how far the state-controlled oil producer has fallen in the eyes of bond investors.

The cost to protect against a Petrobras non-payment for one year has soared to the highest since the aftermath of the financial crisis, after the New York-based hedge fund said in a letter obtained by Bloomberg News last week that the company had violated debt contracts by failing to report third-quarter results. Under rules governing some of its $53.6 billion of bonds, Petrobras had until Dec. 29 to announce earnings, Aurelius said.

Petrobras has twice delayed reporting results to assess the impact of a federal investigation into alleged bribes the oil producer received from construction companies in what has become Brazil's biggest corruption scandal. Aurelius, which has fought countries such as Argentina and companies including General

Motors in U.S. courts, is trying to enlist holders of at least 25 percent of a series of Petrobras notes, the threshold needed for the default notice to be valid.

"They only have a window to make this happen and they may get other investors to join them," Jorge Piedrahita, chief executive officer of New York-based brokerage Torino Capital LLC, said in an e-mail. "Institutional long-only investors just want this to be over and keep receiving their coupons."

Failure 'Indefensible'

Rio De Janeiro-based Petrobras said in a Dec. 30 regulatory filing that it would release unaudited earnings in January. The company's press office didn't reply to e-mail or telephone messages seeking comment on Aurelius's letter and the rising costs of insuring its debt against default.

Brian Schaffer, a spokesman for Aurelius at public-relations firm Prosek Partners, declined to comment on why the hedge fund sent the letter and whether it's received any responses.

"Holders of the bonds should immediately take the prudent precaution of giving formal notice," Aurelius said in the letter. "While mere notice of default should not itself cause a crisis, bondholders cannot avoid a crisis merely by sticking their heads in the sand and accepting Petrobras's assurances as a certainty."

Petrobras Writedowns

Creditors were asked to disclose their holdings to Aurelius before hiring legal counsel.

Petrobras's failure to post results 90 days after the end of the third quarter constitutes an event of default, said Aurelius. If the company hasn't reported earnings within 60 days of accepting the notice of default, holders of at least 25 percent of any bond issued by Petrobras can demand immediate repayment, which is known as acceleration, according to the bond contracts.

Petrobras delayed its earnings last month as board members differed on the size of writedowns stemming from graft-related costs, a person who asked not to be identified because the information isn't public said Dec. 12. The company said in a statement that day that creditors waived the reporting requirements until the end of January.

In its letter, Aurelius said that waiver only applied to one of Petrobras's credit facilities.

If Petrobras holders demand immediate repayment, investors can ask the International Swaps and Derivatives Association to rule that an event of default has occurred. If the ISDA agrees, $4.1 billion in net notional outstanding of credit-default swaps could be triggered, according to data compiled by the Depository Trust & Clearing Corporation.

Swaps Soar

Since Petrobras failed to report results by a Nov. 14

deadline, the net notional amount of Petrobras contracts has jumped 23 percent, DTCC data show.

The price of Petrobras's one-year contracts has almost quadrupled over that period to 5.06 percentage points and is now the highest since March 2009, according to CMA data.

In 2011, Dallas-based Energy Future Holdings Corp. accused Aurelius of trying to manipulate the credit-default swaps market to its advantage after the hedge fund unsuccessfully claimed the company was in default.

In September of that year, the ISDA rejected Aurelius's assertion that the company had triggered payouts on $1.2 billion of derivatives.

While the cost of insuring Petrobras debt has soared, the implied probability of default over the next 12 months is just 8 percent, according to one-year CDS.

'Fragile Company'

"These vultures are clearly seizing the opportunity to pressure a fragile company while its controlling shareholder, the Brazilian government, seems to be baffled," Adriano Pires, head of Rio de Janeiro-based energy consulting firm CBIE, said by telephone. Still, "it has this sort of implicit guarantee by the government that some investors are betting on."

Traders betting the cost of Petrobras's default swaps will jump may profit even if Aurelius's efforts fail, according to David Tawil, co-founder of New York-based hedge fund Maglan Capital LP.

"If based on Aurelius's letter, the ratings agencies consider downgrading the company, the cost of the CDS should move higher," he said in an e-mail.

For Related News and Information:
Top Stories:TOP<GO>

--With assistance from Mary Childs in New York and Peter Millard in Rio de Janeiro.

To contact the reporters on this story:
Katia Porzecanski in New York at +[redacted] or
kporzecansk1@bloomberg.net;
Paula Sambo in Sao Paulo at +[redacted] or
psambo@bloomberg.net
To contact the editors responsible for this story:
Brendan Walsh at +[redacted] or
bwalsh8@bloomberg.net;
Michael Tsang at +[redacted] or
mtsang1@bloomberg.net
Lester Pimentel

Deutsche Bank does not render legal or tax advice, and the information contained in this communication should not be regarded as such.