

[Working Papers](#)

# Sovereign Credit Risk and Exchange Rates: Evidence from CDS Quanto Spreads

Patrick Augustin, Mikhail Chernov & Dongho Song

SHARE       

---

WORKING PAPER 24506

DOI 10.3386/w24506

ISSUE DATE April 2018

REVISION DATE June 2018

---

Sovereign CDS quanto spreads—the difference between CDS premiums denominated in U.S. dollars and a foreign currency—tell us how financial markets view the interaction between a country's likelihood of default and associated currency devaluations (the Twin Ds). A noarbitrage model applied to the term structure of quanto spreads can isolate the interaction between the Twin Ds and gauge the associated risk premiums. We study countries in the Eurozone because their quanto spreads pertain to the same exchange rate and monetary policy, allowing us to link cross-sectional variation in their term structures to cross-country differences in fiscal policies. The ratio of the risk-adjusted to the true default intensities is 2, on average. Conditional on the occurrence of default, the true and risk-adjusted 1-week probabilities of devaluation are 5% and 77%, respectively. The risk premium for the euro devaluation in case of default exceeds the regular currency premium by up to 0.3% per week.

Download a PDF

[Information on access](#)

Acknowledgements and Disclosures



Citation and Citation Data



Other Versions



## Published Versions

Patrick Augustin & Mikhail Chernov & Dongho Song, 2019. "[Sovereign credit risk and exchange rates: Evidence from CDS quanto spreads](#)," Journal of Financial Economics, .

## Related

### TOPICS

Econometrics  
Estimation Methods  
Macroeconomics  
Money and Interest Rates  
Financial Economics  
Portfolio Selection and Asset Pricing  
Financial Markets

### PROGRAMS

Asset Pricing

## More from the NBER

In addition to [working papers](#), the NBER disseminates affiliates' latest findings through a range of free periodicals — the [NBER Reporter](#), the [NBER Digest](#), the [Bulletin on Health](#), and the [Bulletin on Entrepreneurship](#) — as well as online [conference reports](#), [video lectures](#), and [interviews](#).



### Martin Feldstein Lecture, Summer Institute 2025 **The Fiscal Future**

N. Gregory Mankiw, Harvard University and NBER  
July 10, 2025

### **2025, 17th Annual Feldstein Lecture, N. Gregory Mankiw, "The Fiscal Future"**

FELDSTEIN LECTURE

PRESENTER: [N. GREGORY MANKIW](#)

N. Gregory Mankiw, Robert M. Beren Professor of Economics at Harvard University, presented the 2025 Martin Feldstein...



Methods Lecture, Summer Institute 2025  
**Uncovering Causal Mechanisms:  
Mediation Analysis and  
Surrogate Indices**

Raj Chetty, Harvard University and NBER  
Kosuke Imai, Harvard University  
July 24, 2025

**2025, Methods Lecture, Raj Chetty and Kosuke Imai, "Uncovering Causal Mechanisms:  
Mediation Analysis and Surrogate Indices"**

METHODS LECTURES

PRESENTERS: [RAJ CHETTY](#) & [KOSUKE IMAI](#)

SlidesBackground materials on mediationImai, Kosuke, Dustin Tingley, and Teppei Yamamoto. (2013). "Experimental Designs...



International Trade and Macroeconomics, Summer Institute 2025

**Panel on The Future of the Global Economy**

Oleg Itskhoki, Harvard University and NBER  
Paul Krugman, City University of New York and NBER  
Linda Tesar, University of Michigan and NBER  
July 8, 2025

**2025, International Trade and Macroeconomics, "Panel on The Future of the Global Economy"**

PRESENTERS: [OLEG ITSKHOKI](#), [PAUL R. KRUGMAN](#) & [LINDA TESAR](#)

Supported by the Alfred P. Sloan Foundation grant #G-2023-19633, the Lynde and Harry Bradley Foundation grant #20251294...

## **National Bureau of Economic Research**

### Contact Us

1050 Massachusetts Avenue  
Cambridge, MA 02138  
617-868-3900  
[info@nber.org](mailto:info@nber.org)  
[webaccessibility@nber.org](mailto:webaccessibility@nber.org)

### HOME PAGE

### Accessibility Policy

### Diversity Policy

### Privacy Policy

### FOLLOW

