WEEKLY MARKET OUTLOOK

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Worst of U.S. Inflation May Be Behind Us

Lead Author

Ryan Sweet
Senior Director-Economic Research

Asia-Pacific

Christina Zhu
Economist

Xiao Chun Xu
Economist

Katrina Ell
Senior Economist

Europe

Ross Cioffi
Economist

U.S.

Steven Shields
Economist

Ryan Kelly
Data Specialist

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The December U.S. consumer price index keeps the pressure on the Federal Reserve to remove some of its policy accommodation soon, but the good news is that inflation has likely peaked. The CPI increased 0.5% in December, in line with our forecast but a touch stronger than the consensus.

The CPI for food was up 0.5% while energy prices edged lower in December. Excluding food and energy, the CPI was up 0.6% in December, compared with the 0.5% gain in November. Used-car prices continue to boost the core CPI. They rose 3.5% in December after increasing 2.5% in each of the prior two months. New-vehicle prices, up 1% in December, also are not helping.

Airline fares increased 2.7% in December after rising 4.7% in November. Apparel prices were up 1.7% in December, the second consecutive monthly gain in excess of 1%.

Something we are watching closely is rents. The CPI for owners' equivalent rents rose a trend-like 0.4%. The CPI for rent of primary residence also increased 0.4%, matching the gain in November. Rents are normally fairly sticky but are set to accelerate later this year and peak in the summer. Industry measures of rents have jumped this year, but they normally affect the CPI with a lag. Stronger rental inflation, as measured by the CPI, will likely be more visible by next summer with rates up around 6% on a year-ago basis, which would be the strongest in decades.

On a year-ago basis, the CPI was up 7% in December. Supply-chain issues added 2 percentage points to year-over-year growth in the CPI in December, compared with the 1.8-percentage point contribution in November.

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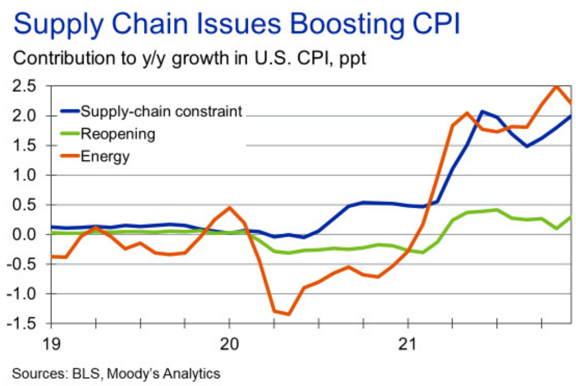
Supply-chain-constrained components have added 1 percentage point or more to growth in the CPI since April. Energy prices added 2.2 percentage points to year-over-year growth in the CPI in December. The core CPI was up 5.5% on a year-ago basis in December.



Having inflation at 7% on a year-ago basis, compared with the 2.1% average growth in 2018 and 2019, is costing the average household $250 a month. Looking across income cohorts, the cost of inflation differs. For example, those aged 35 to 44 are spending $303 more per month while those 45 to 54 are spending an additional $305 monthly. Those 65 years and older are spending $194 additionally per month.

China PPI will matter for U.S. inflation

China's producer price inflation cooled more than expected in December, rising 10.3% on a year-ago basis, compared with the 12.9% gain in November. Prices fell 1.2% between November and December. Price falls in some international bulk commodities such as crude oil, combined with government price-stabilization policies, were able to suppress producer prices. Coal supply continued to improve while mining costs substantially decreased during the month. We expect that prices will continue to moderate, but additional coal crunches cannot be entirely ruled out this winter. The Omicron variant of COVID-19 raises the risk of additional supply-chain logjams that will hike transportation and logistics costs.

Some softening in China's PPI will have implications for U.S. inflation by taking some of the edge off core goods prices. Fluctuations in China's PPI and U.S. nonfuel import prices closely track each other. Odds are the first place weaker growth in China's PPI will show up in the U.S. is in import prices, then producer prices, and finally consumer prices.

Fed Speaks, Bond Market Listens

There wasn't anything in Federal Reserve Chair Jerome Powell's prepared remarks or Q&A session this week that alters our near-term forecast or the subjective odds for either the central bank's balance sheet or interest rate policies. Powell was before the Senate Banking Committee on Tuesday for his nomination hearing, and he didn't fan the flames about the potential for the first rate hike occurring in March.

Other Fed officials have been more explicit about when they believe rates will begin to rise, but Powell was vague. He will likely let the incoming data determine when the Fed acts. Our subjective odds of a March rate hike have increased recently and the December consumer price index, released on Wednesday, and fourth-quarter Employment Cost Index, released later this month, could spook the Fed and cause it to raise rates soon.

Powell said that price stability is half the Fed's mandate and there is no basis in the law preferring price stability over maximum employment, or vice versa. This holds over time, but the Fed currently will preemptively fight any further deterioration in its price-stability mandate as opposed to preemptively supporting growth and the labor market. In other words, further acceleration in inflation will trump downside surprises in growth or the labor market. This change in the weight in its reaction function is temporary. However, Powell continues to reiterate that high inflation is a threat to achieving full employment.

On the balance sheet, Powell said that the tapering process will end in March and that the balance sheet will begin to shrink later this year in the process known as quantitative tightening. The balance sheet is currently $8.7 trillion, or around 37% of nominal GDP. We don't draw too many comparisons between the pending reduction in the balance sheet and that last time the Fed tried to shrink its portfolio. The upcoming reduction will be more aggressive, likely $750 billion per year, $250 billion more than last time.

The Fed isn't going to return its balance sheet to where it was pre-pandemic, but it will likely reduce it by $1.5 trillion to $2 trillion over the next few years, which would put it closer to 25% of nominal GDP. Before the pandemic, the balance sheet was around 20% of nominal GDP.

The Fed's recent hints about reducing the size of its balance sheet have pushed the 10-year real Treasury yield 40 basis points higher. Rates up and down the corporate credit ladder have also risen. There is some normalization in corporate bond yields, spreads remain tight, and the outlook for defaults is still very favorable. Solid fundamentals for the corporate bond market are also seen in the ratio of high-yield upgrades versus downgrades, which remains above the highest on record.

TOP OF MIND

Key Questions for 2022

BY RYAN SWEET

As we usher in a new year, we attempt to answer the key questions that could determine whether the U.S. economy deviates for better or worse from our expectations in 2022. We also provide our confidence level in our projections. Uncertainty is higher than normal because of the pandemic, fiscal/monetary policy, and global supply-chain issues.

Is the path of the U.S. economy still tied to the path of COVID-19 in 2022?
Projection: Yes
Confidence: High

The economy is already in the midst of another wave of COVID-19, and it will weigh on growth early this year, but we assume this wave will be less disruptive to the healthcare system and economy than the Delta wave, but this is a tenuous assumption. Omicron is substantially more contagious than previous variants of COVID-19, and even if it is much less virulent, it is already doing significant economic damage. But if the economy's performance this past year is any guide, we shouldn't be too pessimistic either. COVID-19 will likely be seasonal, but Omicron could delay further improvement in U.S. labor supply, disrupt global supply chains, and keep inflation higher early this year than anticipated.

Also, Omicron's rapid spread and reduced virulence point to a more synchronized wave across the globe. While case counts are currently concentrated in the U.S. and Europe, controls are not stringent enough to prevent the virus from spreading worldwide this quarter. This wave may place broader downward pressure on global growth and is unlikely to generate the concentrated regional weakness of earlier waves.

This is probably not the final wave of COVID-19. Therefore, it is hard to predict when the current situation shifts from a pandemic to endemic, but the outlook this year is still tethered to the COVID-19 situation.

Will the Build Back Better legislation pass?

Projection: No
Confidence: Medium

The baseline forecast includes the Build Back Better legislation, but subjective odds are that it won't be passed this year. U.S. Democratic Senator Joe Manchin publicly withdrew his support for the Build Back Better Act, effectively killing the legislation, at least in its current form. Though Manchin could return to the negotiation, it's difficult to find a reason for any sense of urgency. Maybe it's Biden's State of the Union address in February. If it is not passed before then, odds are it won't pass at all.

Will Republicans take control of both the House and Senate after the midterm U.S. elections?

Projection: No
Confidence: Low

At the very least, Republicans are expected to win the House. Besides redistricting, Democrats are unlikely to elude a strong historical pattern in which the incumbent president's party suffers heavy losses in the House during midterms. The Senate map is favorable for Democrats in 2022, so they have a better chance of retaining control of the Senate. Nevertheless, without the House, this will prevent Democrats from being able to resort to the budget reconciliation process to pass fiscal legislation.

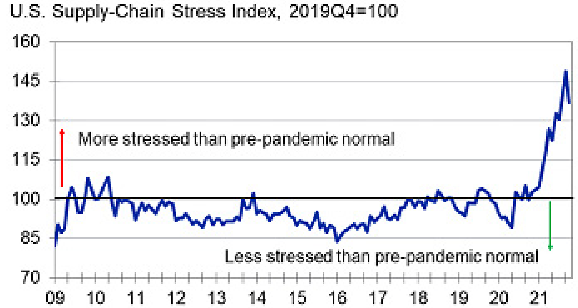
Will U.S. supply-chain issues be completely resolved by the end of the year?

Projection: No
Confidence: Medium

Stress in U.S. supply chains will ease this year, but the issues won't be completely resolved. To gauge progress, we will lean heavily on our U.S. Supply-Chain Stress Index, which shows stress is significantly higher than normal.

Stress Reduction

U.S. Supply-Chain Stress Index, 2019Q4=100



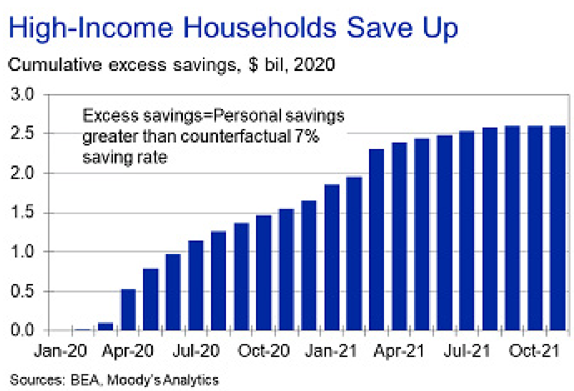
Sources: Multiple sources, Moody's Analytics

The issues with U.S. supply chains are both supply- and demand-related. On the demand front, wealth effects associated with rising asset prices, unprecedented fiscal stimulus, and fewer opportunities to spend on services led to an enormous increase in consumer goods spending. Control retail sales—total sales excluding autos, gasoline, building materials and restaurants—are 8.3% above what would have been if the pre-pandemic trend had continued. This demand will soften but waves of COVID-19 will likely prevent supply chains from returning to normal.

Will excess savings be less than $2 trillion by the end of this year?

Projection: No
Confidence: Medium

Excess savings is expected to be gradually reduced over time, but it will end this year north of $2 trillion. Excess savings is currently around $2.6 trillion and is forecast to drop to $2.2 trillion by the end of the year. Reminder, excess saving is on top of what households would have saved if the pandemic had not occurred and their saving behavior had been the same as in 2019, before the pandemic. As a result, it is potentially available for spending.



It is unlikely that huge amounts will be spent this year since much of the excess saving has been by high-income, high net worth, and older households. Many of these households are approaching retirement, or are already there, and having lived through the pandemic and the financial crisis may believe they have under saved, especially in the years leading up to the financial crisis. Hence, they are likely to treat the saving more like wealth than income. Wealth, even newfound wealth, is mostly held, not spent.

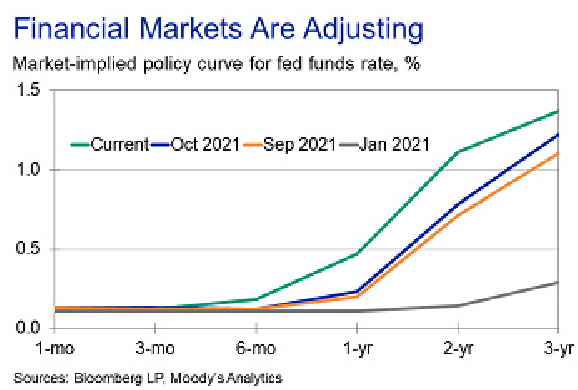
Also, the bulk of the excess savings is held by higher-income, older, more educated individuals with homes. More specifically, more than 70% of the excess savings is held by the top 20% of the income distribution and a similar amount is held by the college educated. Those aged 55 and older hold nearly 60%, with baby boomers holding almost half. Finally, homeowners are in possession of almost 90% of excess savings, with close to 85% among those without existing home equity lines of credit.

Also, excess savings is unlikely to be reduced meaningfully until more of the pent-up demand for consumer services is unleashed, and this is delayed with each wave of COVID-19. Longer term, we have excess savings declining by around 30% by the end of 2025.

Will the Fed increase the target range for the fed funds rate more than markets are currently pricing in?

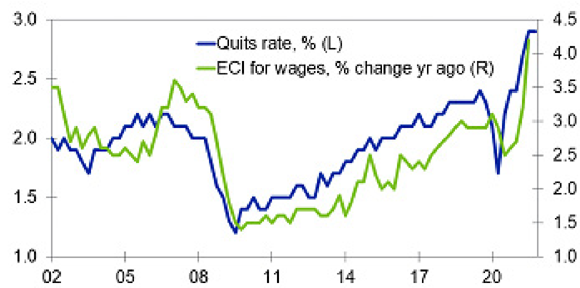
Projection: No
Confidence: Medium

Financial markets are pricing in three 25-basis point increases in the target range for the fed funds rate this year. This is in line with the Fed's assessment, according to its latest so-called dot plot. The December Summary of Economic Projections included the dot plot and it showed 10 of 18 Fed officials anticipated three rate hikes in 2022 while two were looking for four hikes.



Three rate hikes would be aggressive but there is the potential that the Fed tightens monetary policy even more than markets anticipate. For this scenario to come to fruition, inflation would need to peak higher and linger longer than anticipated because of the supply-chain issues and the past jump in energy prices, which will bleed into core prices via higher transportation costs. Also, strong wage growth could be inflationary. Our wage tracker suggests that growth has picked up in the third quarter, rising 3.5% on a year-ago basis, compared with the 1.8% gain in the prior three months.

ECI Could Spook the Fed Further



Sources: BLS, Moody's Analytics

Also, Powell's focus on nominal wage growth could have the Fed favoring earlier, and potentially more, rate hikes. The Omicron variant of COVID-19 could delay the return to the labor force for some, which would put upward pressure on nominal wage growth, particularly as businesses have more than 11 million open positions. The Fed was spooked by the third-quarter Employment Cost Index and it will keep an eye on nominal wage growth.

Will the Federal Reserve let its balance sheet contract?

Projection: Yes
Confidence: Medium

Aside from how and when the Federal Reserve will increase the target range for the fed funds rate, a key question is if it will allow its balance sheet to begin to contract, known as quantitative tightening. The hawkish shift by the Fed suggests that the balance sheet runoff may start earlier than previously thought and the Fed could be more committed to seeing it through than the last time it tried QT.

The runoff this time could be faster, as the Fed is more comfortable with the process, having done it before. This time around, the Fed has set up a backstop in the Standing Repo Facility. This is protection against the central bank overdoing it on QT because the New York Fed conducts daily overnight repo transactions under a Standing Repo Facility to support the effective implementation of monetary policy and smooth market functioning.

The implications for financial markets will likely be an increase in bond and equity market volatility. However, it's hard to say with any confidence if the equity market, which hit a bump when the Fed used QT last time, will repeat itself. One reason, at least initially, why it may appear that financial markets are brushing off QT is that there will still be a ton of excess liquidity, a little less than $1 trillion, when the central bank's balance sheet does begin to decline.

This excess liquidity will be reduced naturally as the economy is expected to grow noticeably more quickly than M2 money supply next year. Marshallian K, or the difference between year-over-year growth in M2 money supply and GDP, turned negative in the second quarter, but then was positive in the third quarter, and is set to steadily decline over the next year.

When the Fed does opt to use QT, the reduction will likely be faster than the last time around. One reason is that the Fed has a lot more Treasuries maturing, on average, next year of around $60 to $70 billion per month. This provides the Fed a lot of flexibility in adjusting the amount of QT.

QT isn't asset sales. Rather, it will be the Fed opting not to reinvest the proceeds from maturing assets, therefore its balance sheet will naturally begin to shrink. The next question is timing. Previously, the Fed has said that it wouldn't use QT until after the first rate hike. This likely still holds, but the lag has likely shortened to a few months, or less. In our baseline forecast, we have the first rate hike in September, but that might be brought forward. Therefore, QT likely won't commence until late next year when the bulk of the excess liquidity has been reduced.

Will productivity growth remain above its pre-pandemic trend?

Projection: Yes
Confidence: Medium

If there is one silver lining to the devastation caused by the COVID-19 pandemic, it is that productivity growth has soared after a decade of subpar performance. Businesses adopted technological solutions such as touchless payment systems and videoconferencing to not only keep their operations afloat during lockdowns and social-distancing efforts but to increase speed and efficiency.

Some reasons that productivity growth will remain above its pre-pandemic trend are structural rather than cyclical. Also, nominal spending on intellectual property products such as software has been rising in excess of 5% on a year-ago basis during the past several quarters. Businesses are devoting more of their information technology budgets to software and less to high-tech equipment. This is good news for productivity. Just as equipping labor with more-powerful computing capacity allows for rising output per hour, so too does providing workers with software that helps streamline processes.

Businesses will also spend more on research and development. R&D spending is an important source of productivity growth, particularly for product innovation. A pickup in productivity that is linked to technological progress and innovation contributes to our forecast for productivity growth this decade, and there are upside risks to the forecast for real R&D investment.

Still, it will take time to reap all of the benefits. A Granger causality test found evidence that growth in nominal intellectual property causes changes in productivity with a 16-quarter lag. Therefore, if the relationship between investment in intellectual property and productivity holds, productivity growth should remain above its pre-pandemic trend not only this year, but the next couple.

Will PCE core inflation be within 0.5 percentage point of the Fed's target by the end of the year?

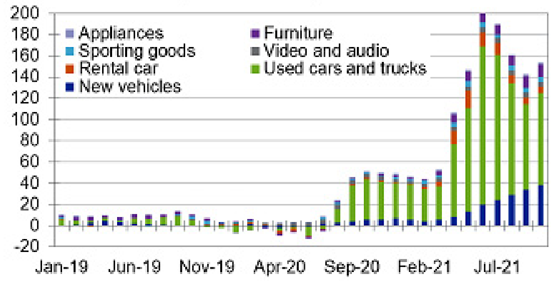
Projection: Yes
Confidence: Low

We assume that growth in core inflation has peaked or will very shortly. Growth in core inflation is forecast to moderate throughout this year but waves of COVID-19 lend upside risk to the forecast as further disruptions to global supply chains could cause inflation to remain higher for longer. For the Fed, the post-meeting statement no longer includes the note that the Fed will aim to achieve inflation moderately above 2% for some time—a recognition that its mandate has been met. Therefore, the Fed is aiming to get growth in the core PCE deflator down to 2%. For inflation to be within 0.5 percentage point of the central bank's target, monthly growth in the core PCE deflator will need to average 0.2% this year. Working in favor of moderating inflation are base effects, which are significantly more challenging this year than last.

There have been some signs that stress in U.S. supply chains is easing, and if sustained, this will be a significant source of disinflation for core inflation this year. Supply chains aside, inflation becomes a pernicious problem when there is widespread belief that inflation will remain high, and workers demand bigger wage increases to compensate. Businesses then pass on their higher labor costs in even higher prices. A dreaded wage-price spiral takes hold. This vicious cycle was behind the high inflation we suffered more than 30 years ago. The Fed views the risks of a regime of high inflation as greater than the downside risks of low inflation. This points toward a potential policy error by the Fed in tightening monetary policy too soon and/or too aggressively.

Not Sustainable

Contribution to Y/Y growth in CPI, bps



Sources: Federal Reserve, Moody's Analytics

We also expect the consumer price index to also moderate. The gains in a number of the supply-constrained components of the CPI will be disinflationary this year as the gains seen last year are not sustainable.

Does the labor market return to full employment by the end of the year?

Projection: No
Confidence: Medium

This is going to be one that will be heavily debated and difficult to determine whether it occurs or not. The nonaccelerating inflation rate of unemployment is economists' Loch Ness Monster; some claim they have seen it but lack evidence. NAIRU corresponds to the notion of full employment—the rate of unemployment that is consistent with a stable rate of inflation.

The issue is that it's not directly observable in real time and has historically been derived using the Phillips curve, which connects the change in inflation to the unemployment rate and other variables, including changes in productivity trends, oil price shocks, and wage and price controls. The problem is that the historical relationship between the unemployment gap and inflation growth fluctuates; it is stronger in some periods than in others.

Rather we should focus on the prime-age employment-to-population ratio. Historically, the prime-age employment-to-population ratio of 80% is consistent with an economy at full employment. Currently, we around 1 percentage point below this threshold, but if the current trend remains intact, the prime-age employment-to-population ratio will eclipse it in the second half of this year. This will need to coincide with solid wage growth, a noticeable decline for the long-term unemployed, and an unemployment rate in the mid-3% to make us confident that the economy is at full employment.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar is a little lighter, and the focus next week will be on manufacturing and housing. Among the key data to be released are housing starts and the NAHB housing market index. Also, we get the first two regional Fed manufacturing surveys for January. The supplier delivery details will be key in assessing if the Omicron variant of COVID-19 is causing problems for U.S. supply chains.

Elsewhere, initial claims for unemployment insurance benefits will take on added importance. They have moved higher recently, potentially because of surging COVID-19 cases. Also, the new data on initial claims will include the payroll reference period. Early signs are that job growth will be extremely weak or may even decline in January.

Europe

Keep an eye out next week for the final estimate of euro zone inflation. HICP inflation likely came in at 5% y/y in December, up from 4.9% in November. Energy will remain the most significant contributor to the headline rate, but core prices will continue growing at a solid pace. Supply chain dysfunction is pushing up core prices, while Europe's energy crisis has caused electricity bills to jump.

U.K. CPI inflation, meanwhile, likely picked up to 5.4% y/y in December from 5.1% in November. Naturally, the energy component has been a significant contributor to U.K. inflation as well, though core inflation has been playing a larger role than it is in the euro zone. The U.K. faces the same supply-side challenges as the euro zone, but its labor market has been tightened to a greater degree due to Brexit.

The U.K.'s unemployment rate was likely unchanged at 4.2% in the three months to November from the preceding stanza. Labor demand is high in the U.K. as the economy continues to rebound from the COVID-19 crisis. However, this winter's outbreak and tightening of social distancing measures will take some of the steam out of the labor market's recovery.

Given the overall good state of the labor market, we expect that U.K. retail sales continued growing in December, by 0.6% m/m, adding to November's 1.3% increase. Holiday shopping likely kept spending up even after the end of Black Friday sales in November. Consumer confidence inched down in December, however, with news of Omicron and rising utility bills. Indeed, at this point we expect spending to contract in January and remain sluggish for the rest of winter.

Russia's foreign trade surplus likely was strong in November at $19.5 billion, up from $7.4 billion a year earlier. The trade balance was squeezed tight throughout 2020 and in the first half of 2021 due to the pandemic. This makes the year-ago comparison particularly large. In addition, exports are likely being supported by strong demand for natural gas and oil. At the same time, Russia's own stronger economy is feeding imports.

Asia-Pacific

China's fourth-quarter national accounts will be the highlight on the economic calendar. GDP growth likely cooled to 2.4% y/y from the September quarter's 4.9%. Base effects explain the forecast slowdown. Seasonally adjusted, GDP growth likely gathered steam from the prior quarter. The September quarter was tough given the extreme weather, a widespread Delta-led virus outbreak, and a worsening power supply crunch. Exports will remain an important strength early in 2022.

China's monthly activity data for December will also be closely watched. We look for industrial production to notch a modest improvement in December. Progress is being made against the headwinds of property development curbs, energy disruptions, and supply-chain problems. Retail trade likely gathered pace in December after an early start to the Singles Day shopping festival boosted October's retail sales figures but turned into a drag in November. Consumption has been bumpy as virus outbreaks and ensuing lockdowns have temporarily suppressed demand, especially for services.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
9-Mar	South Korea	Presidential election	Medium	Medium
27-Mar	Hong Kong	Chief executive election	Low	Low
10-Apr	France	General elections	Medium	Medium
9-May	Philippines	Presidential election	Low	Low
29-May	Colombia	Presidential elections	Medium	Low
Jun	Switzerland	World Economic Forum annual meeting	Medium	Low
29-30 Jun	NATO	NATO Summit, hosted by Madrid	Medium	Medium
Jun/Jul	PNG	National general election	Low	Low
2-Oct	Brazil	Presidential and congressional elections	High	Medium
Oct/Nov	China	National Party Congress	High	Medium
7-Nov	U.N.	U.N. Climate Change Conference 2022 (COP 27)	Medium	Low

THE LONG VIEW: U.S.

Fed Policy Uncertainty Climbs

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond spread is 109 basis points, a touch wider than the 111 bps this time last week and still tighter than the 113 average in December. Over the last 12 months, the highest average corporate bond spread was 113 bps, while the low was 95. The long-term average industrial corporate bond spread was little changed over the past week and is now 97 bps. This is below the high over the past 12 months of 102 bps but above the low of 86.

The recent ICE BofA U.S. high-yield option adjusted bond spread narrowed over the past week by 3 basis point to 306 bps. This is below its recent high of 367 bps in early December. The Bloomberg Barclays high-yield option adjusted spread has bounced around recently and is now at 286 bps. The high-yield option adjusted bond spreads approximate what is suggested by the accompanying long-term Baa industrial company bond yield spread and are roughly consistent with a VIX of 18.

Defaults

Defaults remain very low. According to the latest Moody's monthly default report, the global speculative-grade default rate fell to 1.7% for the trailing 12 months ended in December, from 2.0% the prior month. The rate has fallen steadily since touching a cyclical peak of 6.9% at the end of 2020 and remains below the pre-pandemic level of 3.3%. Under our baseline scenario, Moody's Credit Transition Model predicts that the global speculative-grade default rate will fall to a cyclical low of 1.5% in the second quarter of 2022 before gradually rising to 2.4% at year end.

We also expect default risk to remain low for speculative-grade companies as a whole because many have refinanced their debt in the last two years at very low interest rates, therefore mitigating their near-term default risks. However, some low-rated companies that are under liquidity or solvency stress could be vulnerable to default in the event of tighter liquidity, higher borrowing costs, and profit erosion.

U.S. Corporate Bond Issuance

First-quarter 2020's worldwide offerings of corporate bonds revealed annual advances of 14% for IG and 19% for high-yield, wherein US$-denominated offerings increased 45% for IG and grew 12% for high yield.

Second-quarter 2020's worldwide offerings of corporate bonds revealed annual surges of 69% for IG and 32% for high-yield, wherein US$-denominated offerings increased 142% for IG and grew 45% for high yield.

Third-quarter 2020's worldwide offerings of corporate bonds revealed an annual decline of 6% for IG and an annual advance of 44% for high-yield, wherein US$-denominated offerings increased 12% for IG and soared upward 56% for high yield.

Fourth-quarter 2020's worldwide offerings of corporate bonds revealed an annual decline of 3% for IG and an annual advance of 8% for high-yield, wherein US$-denominated offerings increased 16% for IG and 11% for high yield.

First-quarter 2021's worldwide offerings of corporate bonds revealed an annual decline of 4% for IG and an annual advance of 57% for high-yield, wherein US$-denominated offerings sank 9% for IG and advanced 64% for high yield.

Issuance weakened in the second quarter of 2021 as worldwide offerings of corporate bonds revealed a year-over-year decline of 35% for investment grade. High-yield issuance faired noticeably better in the second quarter.

Issuance softened in the third quarter of 2021 as worldwide offerings of corporate bonds revealed a year-over-year decline of 5% for investment grade. U.S. denominated corporate bond issuance also fell, dropping 16% on a year-ago basis. High-yield issuance faired noticeably better in the third quarter.

In the week ended January 7, US$-denominated investment grade corporate bond issuance was $63.5 billion after there was no issuance in the prior week. High-yield US$-denominated corporate bond issuance was $11.99 billion in the week ended January 7.

U.S. ECONOMIC OUTLOOK

There were some noticeable changes to our January U.S. baseline forecast, particularly assumptions around fiscal and monetary policy. The Federal Reserve's hawkish shift isn't just rhetoric, and it is gearing up to start removing monetary policy accommodation more quickly than we had assumed in the December baseline. There remains an enormous amount of uncertainty about Biden's Build Back Better agenda, but we don't think it's dead, so we are leaving a version of it in the baseline forecast.

Fiscal policy uncertainty climbs

The Build Back Better agenda is down but not out following the spectacular collapse in negotiations between Senator Joe Manchin and the White House in late December. During the holidays, there was no sign of talks. However, this likely reflects a desire on both sides to ratchet down tensions that came to a boil right before the holidays. We expect congressional Democrats and the White House will make progress on a revised version of a BBB package that is acceptable to Manchin by the president's State of the Union address in February. However, if no progress is made by then, we will most likely pull the plug on our BBB assumptions in the baseline forecast.

It would not be a game changer for the economy if the BBB failed to become law, but it will diminish the economy's growth prospects and ding the fortunes of lower- and middle-income households. Our outlook for real GDP growth in 2022 would be reduced by 0.75 percentage point, since BBB is front-loaded—with budget deficits in the near term and surpluses in the longer run that roughly net out over the 10-year budget horizon. Longer run, the economy's potential growth would be reduced by several basis points per year as the BBB agenda lifts labor force participation by lowering the cost of work, particularly for lower-income minority women.

However, Manchin has reportedly proposed a package costing a similar amount but with policies that do not sunset within the budget horizon. The senator argues that future lawmakers will not have the political fortitude to allow policies to actually expire, or to pay for them if they do not, and thus their cost will be substantially more than budgeted. To accommodate the senator's concern and pass BBB legislation, we assume the Biden administration and congressional Democrats will scale back the number of policies included in a BBB law and eliminate sunsets. The baseline forecast assumes a $1.8 trillion BBB package that permanently funds an expansion of healthcare coverage, clean-energy and climate investments, and universal preschool, among others. The bill will be nearly paid for by higher taxes on corporations and well-to-do households. The BBB package is assumed to pass by the end of the first quarter of 2022, with implementation occurring in the following quarter.

COVID-19 assumptions

When we updated the December baseline, information about the Omicron variant was lacking but it quickly became clear that a significant revision to our COVID-19 assumptions would be needed in January.

We adjusted our epidemiological assumptions to anticipate that total confirmed COVID-19 cases in the U.S. will be 107.1 million, nearly 50 million more than in the December baseline. The seven-day moving average of daily confirmed cases has jumped recently and is north of 700,000. The date for abatement of the pandemic, where total case growth is less than 0.05% per day, changed slightly; it is now May 13, a few of months later than in the prior baseline.

We have replaced the concept of herd immunity with "effective immunity," which is a rolling number of infections plus vaccinations to account for the fact that immunity is not permanent. The forecast still assumes that COVID-19 will be endemic and seasonal.

Goodbye 2021, hello 2022

Each passing wave is expected to be less disruptive. That doesn't mean that the economic costs are negligible. We reduced our forecast for first-quarter GDP growth 3.3 percentage points to 2.1% at an annualized rate. Risks are actually weighted toward a smaller hit to growth, as it will not be as significant as Delta because of autos. Delta roiled global supply chains, and that had an enormous impact on U.S. auto production and sales. Autos subtracted 2 percentage points from GDP growth during the Delta wave, something that is unlikely to be repeated during the Omicron wave. So far, COVID-19 cases in the Asia-Pacific region haven't surged like they have in North America and Europe.

Omicron will be a temporary drag on growth, and we revised growth higher in the second quarter from 3.3% to 6.1% at an annualized rate. Growth in the second half of the year saw very modest revisions. For all of 2022, we expect GDP to rise 4.1%, a little lighter than the 4.4% in the December baseline but still nearly double the economy's potential. A big support to GDP growth this year will be the replenishment of inventories. The Bloomberg consensus is for GDP to increase 3.9% this year.

There was a small upward revision to GDP growth in 2023. We now look for it rise 3.1%, compared with 2.9% in the December baseline. The consensus is for GDP growth next year to be 2.5%.

Global supply-chain issues remain a downside risk to the near-term forecast. The issues with U.S. supply chains are both supply- and demand-related. On the demand front, wealth effects associated with rising asset prices, unprecedented fiscal stimulus, and fewer opportunities to spend on services led to an enormous increase in consumer goods spending. Control retail sales—total sales excluding autos, gasoline, building materials and restaurants—are 8.3% above what would have been if the pre-pandemic trend had continued. This has magnified the issues with U.S. supply chains. The good news is that our U.S. Supply-Chain Stress Index has improved recently.

Business investment and housing

Fundamentals remain supportive for business investment as corporate credit spreads remain tight and corporate profit margins are fairly wide. Also, banks are easing lending standards and corporate credit spreads are very tight, supporting investment-grade and high-yield corporate bond issuance.

We have real business equipment spending rising 9.7% this year and 5.2% next. On net, this is stronger than the December baseline that had real business equipment spending rise 9.9% this year and 5.2% next.

The biggest downside risk is a sudden tightening in financial market conditions or a sudden and significant bout of economic policy uncertainty early this year because of the BBB and the Fed gearing up to remove some policy accommodation.

The real nonresidential structures forecast was not revised significantly this year. We still have it rising 17%. But we did revise the forecast higher for real nonresidential structures investment next year, with it now forecast to rise 11.5%, compared with 10.1% in the December baseline. Real nonresidential structures investment will recoup all of the decline during the pandemic in 2023. There were no material changes to the forecast for commercial real estate prices this year or next.

New data and revisions to prior months led us to revise the forecast for housing starts higher. Housing starts are now forecast to total 1.82 million units, compared with 1.765 million in the December baseline. Risks are heavily weighted to the downside. There are likely only so many homes that can be built each year because of labor-supply constraints and lack of buildable lots. Some of the labor-supply issues will ease as the pandemic winds down, but the reduction in immigration is particularly problematic for homebuilders' ability to find workers. Revisions to the forecast for new- and existing-home sales this year were minor.

We didn't make material changes to the forecast for the FHFA All-Transactions House Price Index to increase 8.9% this year, compared with 8.7% in the December baseline. House price growth moderates noticeably in 2023, as prices are forecast to rise 2.1%. This is attributable to rebalancing of supply and demand.

Seasonals mask improving labor market

U.S. job growth has been weaker than expected in each of the past two months, but this is misleading because seasonal adjustment issues have been enormous weights. The December employment report was strong. Indeed, not seasonally adjusted employment increased by 72,000, the first increase for any December since 1999. Normally, not seasonally adjusted employment declines by a few hundred thousand in December. The Bureau of Labor Statistics' seasonal adjustment was sliced in half this December. If the adjustment was similar to that used before the pandemic, nonfarm employment would have risen closer to 500,000.

Looking across industries, the seasonal adjustment for leisure/hospitality stands out. This December, the seasonal adjustment was a drag on leisure/hospitality employment for the first time for any December since 1998. Normally, the seasonal adjustment is positive. The seasonal adjustment for retail didn't seem odd, which was a little surprising, as that was our initial thought where the issues would be concentrated. One industry we're keeping a close eye on is child day care services, which had employment fall in December and is 11% below its pre-pandemic level.

Putting seasonal adjustment issues aside, the December employment report was strong. This is clear in the household survey, as the unemployment rate fell from 4.2% in November to 3.9%. There was a modest increase in the labor force. The prime-age employment-to-population ratio increased from 78.8% to 79%, leaving it on track to hit its pre-pandemic level by this spring. The number of people not in the labor force increased for the first time since August. About 63% of people not in the labor force are 55 years and older. Odds are that the steady increase among those 55 and older who are not in the labor force is due to retirements.

Forecast changes were modest in January. We expect average monthly job growth to be 360,000 this year, compared with 352,000 in the December baseline. Job growth slows next year, when the economy will be at or beyond full employment, and average job growth is expected to be 161,000, compared with 145,000 in the December baseline. We still have the unemployment rate averaging 3.5% in the fourth quarter of this year, but we cut the forecast for next year. The unemployment rate is now expected to average 3.3% in the fourth quarter of 2023, compared with 3.5% in the prior baseline. There were also no revisions to the forecast for productivity growth this year or next. Productivity is still expected to be stronger than its pre-pandemic trend.

Time has come

There were some material changes to the forecast for growth in the core PCE deflator. It is now expected to peak later and higher than in the December baseline. Year-over-year growth in the core PCE deflator is now expected to peak this quarter, slightly north of 4.5%. The peak in the December baseline was the fourth quarter of last year. Growth in core inflation is forecast to moderate throughout this year, but waves of COVID-19 lend upside risk to the forecast as further disruptions to global supply chains could cause inflation to remain higher for longer. For the Fed, the post-meeting statement no longer includes the note that the Fed will aim to achieve inflation moderately above 2% for some time—a recognition that its mandate has been met. Therefore, the Fed is aiming to get growth in the core PCE deflator down to 2%. We have year-over-year growth in the core PCE deflator returning to the Fed's target in mid-2023.

There was a material change to the forecast for monetary policy. We doubled the number of Fed rate hikes this year from two to four. The rate hikes are expected to occur at the May, July, September and December meetings of the Federal Open Market Committee. A probabilistic forecasting approach, which is based on the subjective probabilities of a fed hike versus a cut, would have the first hike occurring earlier than May. We didn't alter our estimate of the long-run equilibrium fed funds rate, which remained at 2.5%. The change in the January baseline is that the fed funds rate reaches 2.5% in mid-2024, compared with early 2025 in the December baseline.

We still expect the tapering process to end in March. Risks are that the Fed allows the balance sheet to shrink—a process known as quantitative tightening—later this year. The balance sheet is currently $8.7 trillion, or around 37% of nominal GDP. We don't draw too many comparisons with the pending reduction in the balance sheet to that last time the Fed tried to shrink its balance sheet. If the Fed does shrink its balance sheet, the reduction will be more aggressive, likely $750 billion per year, $250 billion more than last time.

Removing monetary policy accommodation isn't going to go smoothly. The Fed has signaled that it will allow its balance sheet to contract shortly after the first rate hike. It is unclear how rate hikes and quantitative tightening will interact with each other, which makes the odds of a policy error uncomfortably high.

There were no significant changes to the 10-year Treasury yield. The forecast is that the Dow Jones Industrial Average peaks this quarter. The rest of the contours of the forecast did not change, as we expect the Dow to steadily decline throughout this year and bottom in 2023.

Euro Zone Industrial Production on Rise

BY ROSS CIOFFI

The euro zone's industrial production rebounded 2.3% m/m in November, following a significantly downwardly revised 1.3% decline in October. Output grew across each major industrial grouping; consumer and capital goods registered the fastest growth.

Supply conditions were favorable in November. This was made clear by the continued recovery of motor vehicles manufacturing. Meanwhile, consumer goods production was boosted by a jump in pharmaceuticals production, likely in the midst of the COVID-19 outbreak unfolding during the month.

Survey data reported solid demand in November and the following months. The manufacturing PMI rose to 58.4 in November and slid to just 58 in December. Both issues reported growing orders, production and employment. We expect demand to remain strong despite the current outbreak of COVID-19 and accompanying social distancing measures, because firms and households are looking through it to the end of the pandemic.

The problem is that supply channels are still disrupted. European inventories of semiconductors and other key inputs will likely run short again before global supply chains fully recover. A new outbreak of COVID-19 infections in China is threatening to gum up global supply chains again. China's zero-COVID policy will lead to quarantines, lockdowns, and reduced productive capacity in some of the world's most important ports and factories.

Looking ahead, supply issues are going to cause volatility in the production figures. Rising production costs, mainly due to energy prices, are also going to work against output this winter. On the upside, demand should hold on, supporting prospects for the continued recovery in the euro zone.

Focus on Italy's IP improvement

Italy's industrial production picked up by 1.9% m/m in November after a 0.5% decline in October. As a result, the headline index was up 6.2% in year-earlier terms, and it remained above pre-pandemic levels. Output increased across goods types: The fastest increase was registered for capital goods (2% m/m), followed by consumer goods (1.7%) and intermediate goods (0.8%).

The return of the pandemic and the tightening of public health restrictions present some risks. The Omicron variant of COVID-19 will likely hurt the clothing industry through lower consumer spending. On the upside, prolonged stay-at-home measures will support demand for IT and household items. The chemical and pharmaceutical sectors will also likely benefit from the situation.

Italy's industrial sector outperformed in 2021, partly due to its greater isolation from global supply shocks. It is not immune, however, particularly given its tight trading relations with Germany. We expect that overall, Italy's goods-producing industries will support growth and aggregate investment. That said, supply-chain issues remain a key downside risk, and the spread of Omicron will dampen demand in relevant sectors. Business confidence declined for the second consecutive month in December, as ISTAT's business confidence index fell to 113.1 from 114.8 previously; the decline was mainly caused by the manufacturing sector. This time, on top of the typical supply issues, firms reported more pessimistic assessments of output and new orders.

Commercial flights still recovering

Tourism remains a large speed bump on the euro zone's road to recovery. The past summer marked significant progress in the recovery of tourism flows, but with the outbreak of COVID-19 this winter, Europeans are once again staying at home. The situation is much improved from the same time in the previous year, though, given the fact that in December 2020, borders were locked down. Social distancing measures are in effect and there are border controls, but travel is still permitted under many circumstances.

This was reflected in the numbers for commercial flights. The number of commercial flights in the EU was up 130% y/y this December, although when compared with the pre-pandemic level in December 2019, the number of flights was 24% lower. Austria has the largest divergence between the number of flights in December 2021 and the number before the pandemic. When looking at the entire year of 2021, the number of commercial flights was 47.8% lower than the number in 2019.

China CPI Eases

BY CHRISTINA ZHU, XIAO CHUN XU and KATRINA ELL

China's headline consumer inflation eased in December as year-over-year price increases softened to 1.5% from 2.3% in November. Food prices fell 1.2% year on year, almost entirely reversing the prior month's 1.6% increase. A near 40% y/y fall in pork prices kept downward pressure on food prices. Underlying inflation pressures held steady; core CPI remained subdued 1.2% y/y, reflecting broader weakness in demand.

Consumer prices declined 0.3% month on month following a 0.4% increase in November. Cooling food and energy prices drove much of the month-over-month decline. The energy price rally hit a pause button in December as global oil prices came off the November peak. China's transportation costs dropped 1.3% month on month on the back of cheaper fuel prices.

China's headline inflation is expected to trend lower in the next couple of months as food and energy prices level off and a higher base effect kicks in.

Producer prices also cool

Meanwhile, China's producer price inflation cooled more than anticipated to 10.3% year on year in December from 12.9% in November. We expected an 11% reading. The easing reflected price falls in some bulk commodities including crude oil, and price stabilisation policies. In particular, coal supplies improved because of government intervention.

Paths of PBoC, Fed diverge

China's more subdued inflation picture heading into 2022 keeps the door firmly open for ongoing monetary easing. The People's Bank of China announced a second cut to the required reserve ratio for 2021 in December, a month after M1 growth accelerated thanks to a CNY134.8 billion liquidity injection. Regulators ordered banks to ease lending criteria to safeguard property market stability. A suite of tools could be deployed in coming weeks, including a reduction in the benchmark policy rate or further easing of lending criteria.

The PBoC is on a contrary path from the Federal Reserve, which no longer views inflation as transitory and is gearing up for a hike in the federal funds rate by May.

The threat of the Omicron variant and the arrival of winter raises the risk of a resumption of high producer price inflation in the near term. In addition, China's zero-COVID strategy could mean stronger producer prices in coming months, as the strategy could lead to abrupt lockdowns in locations that are critical to supply chains. We expect that prices will continue to moderate, but additional coal crunches cannot be entirely ruled out this winter. The Omicron variant also raises the risk of additional supply-chain logjams that hike transportation and logistics costs.

RATINGS ROUNDUP

Upgrades Continue to Outstrip Downgrades

BY STEVEN SHIELDS

U.S.

The stretch of U.S. credit upgrades outstripping downgrades extended into the new year. For the period ended January 11, upgrades accounted seven of the nine changes issued by Moody's Investors Service and approximately 80% of the affected debt. The most notable upgrade in the period was issued to CDW LLC. The information technology firm's senior unsecured notes were raised to Ba1 from Ba2 following the refinancing of the company's secured credit facilities with an unsecured revolver and term loan.

Moody's also upgraded Deutsche Postbank Funding Trust I and III, which serve as funding vehicles for Deutsche Bank AG. The rating action was driven by a change in the legal insolvency rank of these instruments under German law, following the end of their grandfathering as regulatory capital effective 1 January 2022, which prompted a reassessment of the loss severity for these hybrid instruments under Moody's Advanced Loss Given Failure analysis applied to Deutsche Bank.

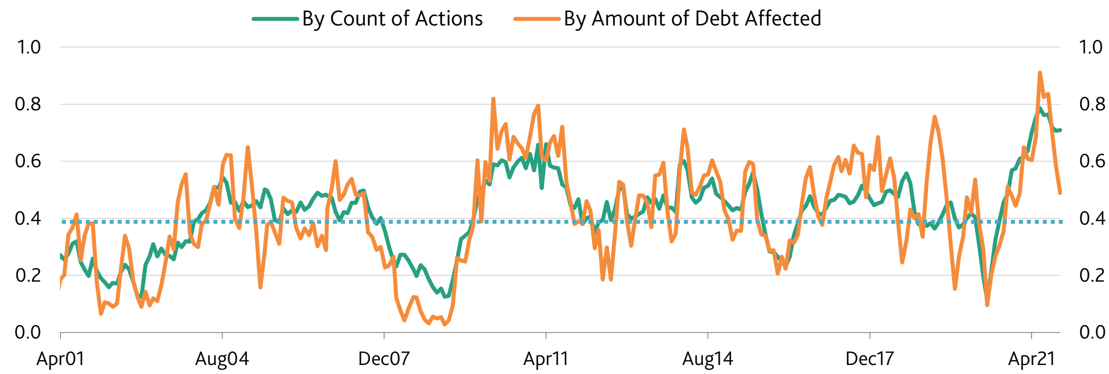
Meanwhile, Griffon Corporation served as the largest downgrade in the week. Its senior unsecured notes were lowered to B3 from B2, reflecting changes in the capital structure following the issuance of the proposed $750 million first lien term loan. The much higher mix of secured debt weakens recovery prospects for the unsecured notes in the event of a default.

Europe

Rating activity was light across Europe in the period. The sole rating change was issued to Dresdner Funding Trust I, a funding vehicle of Commerzbank AG. Moody's Investors Service upgraded Dresdner's Tier 1 instruments to Baa3 from Ba1. The rating action was driven by a change in the legal insolvency rank of these instruments under German law, following the end of their grandfathering as regulatory capital effective on January 1, 2022. Commerzbank's ratings were unaffected by the action.

RATINGS ROUND-UP

FIGURE 1
Rating Changes - US Corporate & Financial Institutions: Favorable as a % of Total Actions



* Trailing 3-month average

Source: Moody's

FIGURE 2
Rating Key

BCF	Bank Credit Facility Rating	MM	Money-Market
CFR	Corporate Family Rating	MTN	MTN Program Rating
CP	Commercial Paper Rating	Notes	Notes
FSR	Bank Financial Strength Rating	PDR	Probability of Default Rating
IFS	Insurance Financial Strength Rating	PS	Preferred Stock Rating
IR	Issuer Rating	SGLR	Speculative-Grade Liquidity Rating
JrSub	Junior Subordinated Rating	SLTD	Short- and Long-Term Deposit Rating
LGD	Loss Given Default Rating	SrSec	Senior Secured Rating
LTCF	Long-Term Corporate Family Rating	SrUnsec	Senior Unsecured Rating
LTD	Long-Term Deposit Rating	SrSub	Senior Subordinated
LTIR	Long-Term Issuer Rating	STD	Short-Term Deposit Rating

FIGURE 3

Rating Changes: Corporate & Financial Institutions - US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG
1/5/2022	DEUTSCHE BANK AG-DEUTSCHE POSTBANK FUNDING TRUST III	Financial	PS	698.79	U	Ba3	Ba2	SG
1/6/2022	GRIFFON CORPORATION	Industrial	SrUnsec	2000.00	D			SG
1/6/2022	LANDRY'S GAMING, INC.-GOLDEN NUGGET, LLC	Industrial	LTCFR/PDR		U	Caa1	B3	SG
1/7/2022	TOLL ROAD INVESTORS PARTNERSHIP II, L.P.	Industrial	SrUnsec	40.90	U	Baa2	A2	IG
1/7/2022	CROCS, INC.	Industrial	SrUnsec	700.00	D	B1	B2	SG
1/7/2022	THOUGHTWORKS HOLDING, INC.-THOUGHTWORKS, INC.	Industrial	SrSec/BCF		U	B2	B1	SG
1/10/2022	CIENA CORPORATION	Industrial	SrSec/BCF		U	Ba1	Baa3	SG
1/10/2022	CDW CORPORATION-CDW LLC	Industrial	SrUnsec	9950.00	U	Ba2	Ba1	SG
1/11/2022	MIWD HOLDING COMPANY LLC AND SUBSIDIARIES-MIWD HOLDCO II LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	Ba3	SG

Source: Moody's

FIGURE 4

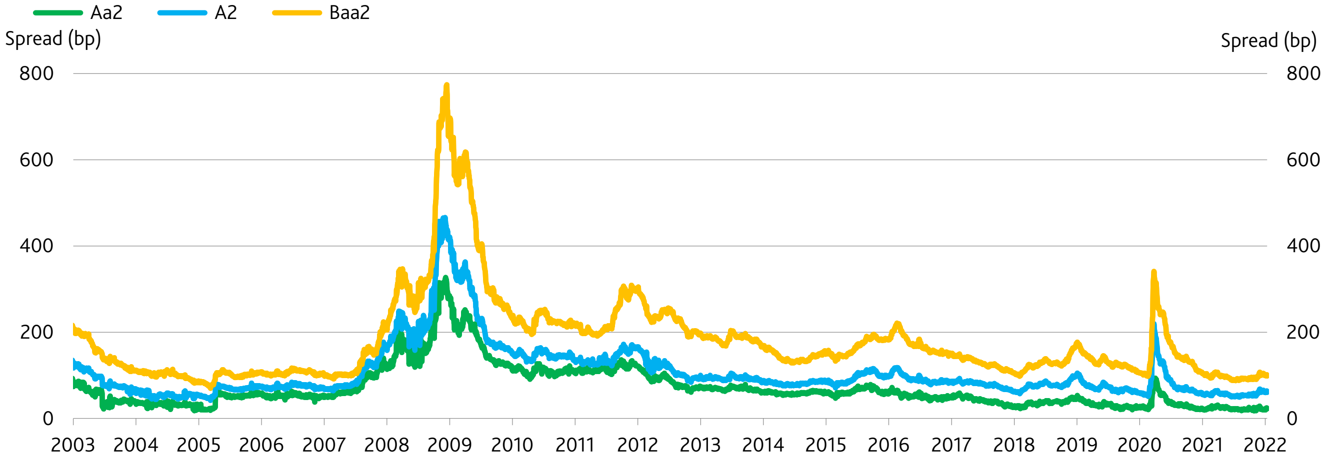
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
1/5/2022	COMMERZBANK AG-DRESDNER FUNDING TRUST I	Financial	PS	1000.00	U	Ba1	Baa3	SG	GERMANY

Source: Moody's

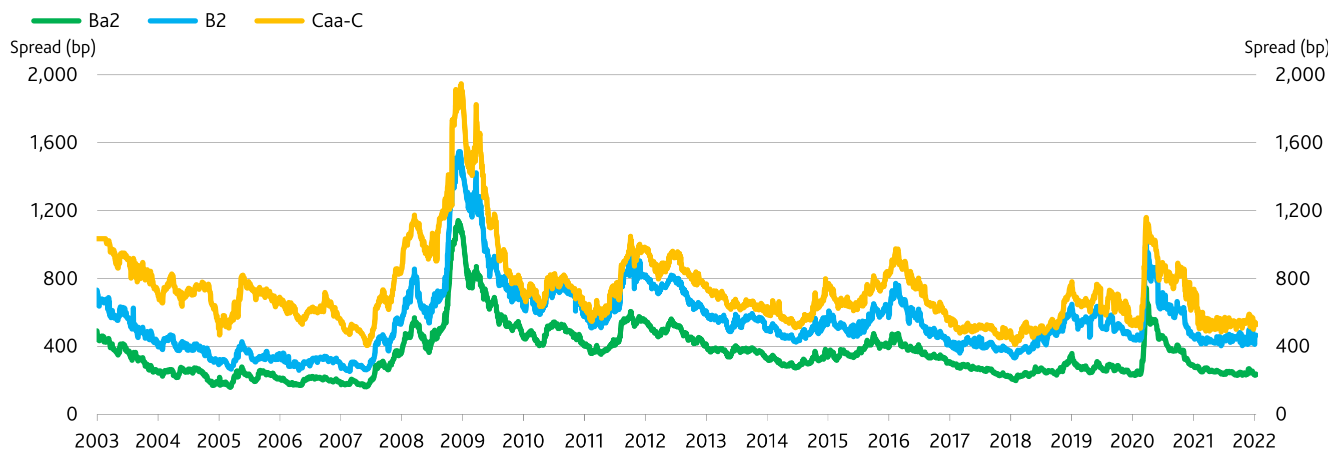
MARKET DATA

Figure 1: 5-Year Median Spreads-Global Data (High Grade)



Source: Moody's

Figure 2: 5-Year Median Spreads-Global Data (High Yield)



Source: Moody's

CDS MOVERS

Figure 3. CDS Movers - US (January 5, 2022 – January 12, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 12	Jan. 5	Senior Ratings
Bank of New York Mellon Corporation (The)	A1	A3	A1
Consolidated Edison Company of New York, Inc.	A1	A3	Baa1
JPMorgan Chase & Co.	A3	Baa1	A2
JPMorgan Chase Bank, N.A.	A2	A3	Aa2
Charles Schwab Corporation (The)	Baa1	Baa2	A2
U.S. Bancorp	Aa3	A1	A2
Kinder Morgan Energy Partners, L.P.	A3	Baa1	Baa2
Sysco Corporation	Baa2	Baa3	Baa1
Tyson Foods, Inc.	A3	Baa1	Baa2
DTE Energy Company	Aa3	A1	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 12	Jan. 5	Senior Ratings
CenterPoint Energy, Inc.	Baa2	A3	Baa2
PepsiCo, Inc.	A2	A1	A1
Philip Morris International Inc.	A2	A1	A2
General Electric Company	Baa3	Baa2	Baa1
Eli Lilly and Company	Aa2	Aa1	A2
FirstEnergy Corp.	Baa3	Baa2	Ba1
Emerson Electric Company	Baa1	A3	A2
Danaher Corporation	A3	A2	Baa1
Archer-Daniels-Midland Company	A2	A1	A2
United Rentals (North America), Inc.	Ba2	Ba1	Ba2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 12	Jan. 5	Spread Diff
Rite Aid Corporation	Caa2	921	880	41
Talen Energy Supply, LLC	Caa1	4,370	4,339	30
Beazer Homes USA, Inc.	B3	308	281	27
Macy's Retail Holdings, LLC	Ba3	239	214	25
RPM International Inc.	Baa3	75	51	24
Avis Budget Car Rental, LLC	B2	230	208	22
KB Home	Ba2	174	155	19
Bath & Body Works, Inc.	Ba2	168	151	17
R.R. Donnelley & Sons Company	B3	153	138	15
Service Corporation International	Ba3	135	122	13

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 12	Jan. 5	Spread Diff
Staples, Inc.	Caa1	1,041	1,142	-101
Nabors Industries, Inc.	Caa2	635	685	-49
Dish DBS Corporation	B3	451	494	-43
American Airlines Group Inc.	Caa1	714	751	-38
The Terminix Company, LLC	B1	66	89	-24
Carnival Corporation	B2	395	417	-22
Service Properties Trust	Ba2	221	241	-21
Realogy Group LLC	B2	326	346	-19
First Industrial, L.P.	Baa2	122	140	-18
iStar Inc.	Ba3	288	303	-15

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (January 5, 2022 – January 12, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 12	Jan. 5	Senior Ratings
France, Government of	Aaa	Aa1	Aa2
Banque Federative du Credit Mutuel	A1	A2	Aa3
de Volksbank N.V.	A1	A2	A2
Unione di Banche Italiane S.p.A.	Baa2	Baa3	Baa3
adidas AG	A1	A2	A2
Elisa Corporation	Baa1	Baa2	Baa2
NIBC Bank N.V.	Baa1	Baa2	Baa1
Atlas Copco AB	Aa3	A1	A2
United Kingdom, Government of	Aaa	Aaa	Aa3
Italy, Government of	Baa3	Baa3	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 12	Jan. 5	Senior Ratings
UniCredit S.p.A.	Baa3	Baa2	Baa1
ING Groep N.V.	A2	A1	Baa1
Standard Chartered Bank	Aa3	Aa2	A1
Orange	Aa3	Aa2	Baa1
ENGIE SA	Aa3	Aa2	Baa1
E.ON SE	A1	Aa3	Baa2
BNP Paribas Fortis SA/NV	Aa3	Aa2	A2
UBS AG	Aa3	Aa2	Aa3
ArcelorMittal	Ba2	Ba1	Baa3
Jaguar Land Rover Automotive Plc	B3	B2	B1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 12	Jan. 5	Spread Diff
Vedanta Resources Limited	B3	774	722	52
Jaguar Land Rover Automotive Plc	B1	367	341	26
Piraeus Financial Holdings S.A.	Caa2	563	544	20
Novafives S.A.S.	Caa2	607	586	20
Boparan Finance plc	Caa1	1,331	1,312	19
Banca Monte dei Paschi di Siena S.p.A.	Caa1	251	238	13
UPC Holding B.V.	B3	176	163	13
Permanent tsb p.l.c.	Baa2	218	205	13
Iceland Bondco plc	Caa2	554	544	10
thyssenkrupp AG	B1	201	195	7

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 12	Jan. 5	Spread Diff
Wienerberger AG	Ba1	94	99	-5
Vue International Bidco plc	Ca	567	571	-4
Stagecoach Group Plc	Baa3	73	77	-3
Banque Federative du Credit Mutuel	Aa3	36	37	-2
Dexia Credit Local	Baa3	57	59	-2
Norddeutsche Landesbank GZ	A3	64	65	-2
Hammerson Plc	Baa3	196	199	-2
adidas AG	A2	37	39	-2
3i Group plc	Baa1	95	97	-2
Rexel SA	Ba3	134	136	-2

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (January 5, 2022 – January 12, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 12	Jan. 5	Senior Ratings
Macquarie Bank Limited	Aa3	A1	A2
Macquarie Group Limited	A3	Baa1	A3
Telstra Corporation Limited	A2	A3	A2
JFE Holdings, Inc.	A1	A2	Baa3
Japan Tobacco Inc.	Aaa	Aa1	A2
MTR Corporation Limited	Aa2	Aa3	Aa3
SP PowerAssets Limited	Aa3	A1	Aa1
SK Innovation Co. Ltd.	Baa3	Ba1	Baa3
Japan, Government of	Aaa	Aaa	A1
China, Government of	A2	A2	A1

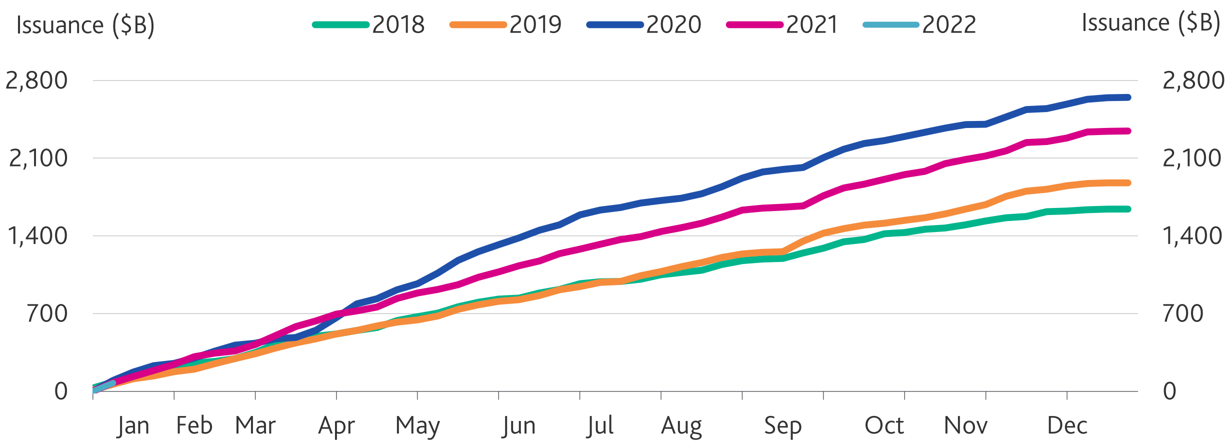
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 12	Jan. 5	Senior Ratings
Westpac Banking Corporation	A1	Aa2	Aa3
Philippines, Government of	Baa2	Baa1	Baa2
Thailand, Government of	Aa2	Aa1	Baa1
Export-Import Bank of China (The)	A2	A1	A1
Malayan Banking Berhad	Baa2	Baa1	A3
Kazakhstan, Government of	Baa3	Baa2	Baa2
Bank of China Limited	Baa2	Baa1	A1
Tenaga Nasional Berhad	A3	A2	A3
PTT Global Chemical Public Company Limited	Aa2	Aa1	Baa2
Telekom Malaysia Berhad	A3	A2	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 12	Jan. 5	Spread Diff
SoftBank Group Corp.	Ba3	272	256	16
Kazakhstan, Government of	Baa2	77	62	15
Pakistan, Government of	B3	367	357	9
Development Bank of Kazakhstan	Baa2	150	143	7
Indonesia, Government of	Baa2	75	71	4
Malayan Banking Berhad	A3	56	52	4
LG Electronics Inc.	Baa2	78	73	4
Tenaga Nasional Berhad	A3	44	40	4
Petroliam Nasional Berhad	A2	53	49	4
Telekom Malaysia Berhad	A3	43	38	4

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 12	Jan. 5	Spread Diff
MTR Corporation Limited	Aa3	29	34	-5
SK Innovation Co. Ltd.	Baa3	92	95	-3
Macquarie Group Limited	A3	45	47	-2
Telstra Corporation Limited	A2	40	42	-2
Macquarie Bank Limited	A2	35	36	-1
Hong Kong SAR, China, Government of	Aa3	25	26	-1
Toyota Motor Corporation	A1	15	16	-1
Flex Ltd.	Baa3	72	73	-1
Tata Motors Limited	B1	243	244	-1
Sumitomo Mitsui Banking Corporation	A1	26	26	0

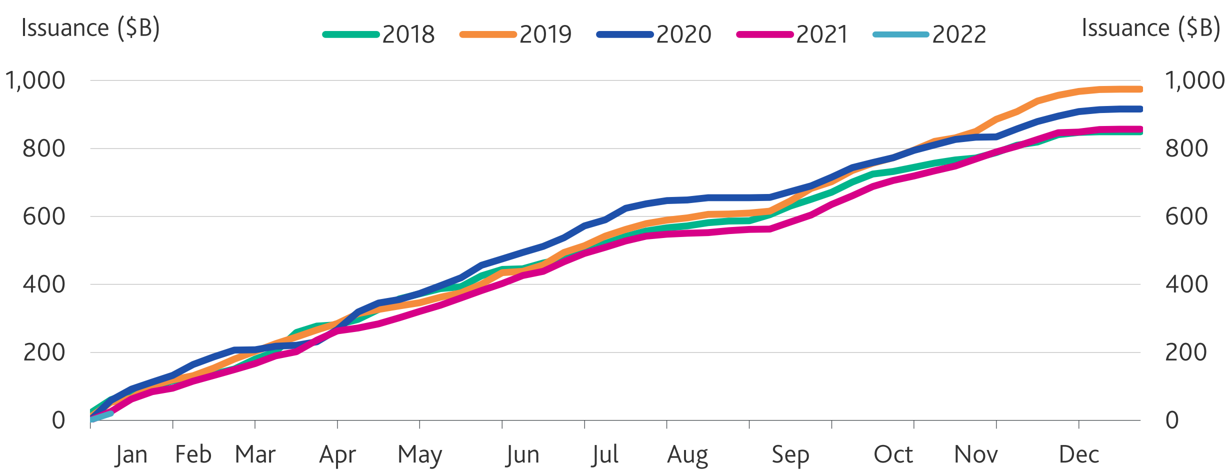
Source: Moody's, CMA

Figure 6. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

Figure 7. Market Cumulative Issuance - Corporate & Financial Institutions: Euro Denominated



Source: Moody's / Dealogic

ISSUANCE

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	63.535	11.990	75.825
Year-to-Date	63.535	11.990	75.905

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	18.825	0.848	19.729
Year-to-Date	18.825	0.848	19.729

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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Editor
Reid Kanaley
help@economy.com

Contact Us
Americas
+1.212.553.1658
clientservices@moodys.com

Europe
+44.20.7772.5454
clientservices.emea@moodys.com

Asia (Excluding Japan)
+85 2 2916 1121
clientservices.asia@moodys.com

Japan
+81 3 5408 4100
clientservices.japan@moodys.com