MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

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Corporate Bond Issuance Reflects Business Activity's Heightened Sensitivity to Rates

Click here for *Moody's Credit Outlook*, our sister publication containing Moody's rating agency analysis of recent news events, summaries of recent rating changes, and summaries of recent research.

Credit Markets Review and Outlook

By John Lonski, Chief Economist, Moody's Capital Markets Research, Inc.

Corporate Bond Issuance Reflects Business Activity's Heightened Sensitivity to Rates

For January-October 2019, the corporate bond issuance by U.S. based businesses grew by 12.4% year over year to $871.0 billion for investment-grade obligations and increased by 15.2% annually to $186.5 billion for high-yield offerings.

By contrast, January-October 2019's newly rated loan programs rated Baa or lower sank by 28.2% year-over-year to $459.5 billion. Because loan creditors are ahead of bond creditors as far as claiming assets in the event of a borrower's bankruptcy, high-yield issuers having a corporate family rating of Ba have received loan program ratings of Baa. Thus, the loan debt of Ba-rated high-yield issuers can receive an investment-grade rating of Baa. January-October 2019's newly rated loan programs rated Baa increased by 8.9% annually to $88.6 billion, while new loans graded less than Baa plunged by 33.6% annually to $370.9 billion.

The sum of high-yield bond issuance from U.S. companies and newly rated loan programs graded Baa or lower contracted by 19.5% annually during 2019's first ten months. For calendar-year 2018, this aggregate shrank by 11.8%.

In terms of a moving 12-month sum, the estimated newly rated loan programs and bond issuance from U.S. high-yield companies of the span-ended October 2019 was a deep 28.4% under its zenith of the span-ended July 2018. By comparison, U.S. high-yield borrowing set what was then a new record high during the 12 months prior to the start of the Great Recession. The sum of the broadest measure of high-yield borrowing had soared higher by 33.9% annually for the 12-months-ended November 2007.

Lower Bond Yields Spur Bond Offerings

When the Bloomberg/Barclays US$-denominated investment-grade bond yield's annual average rose from 2017's 3.23% to 2018's 3.95%, investment-grade bond issuance by U.S. companies plunged by 22.5% annually in 2018. In a similar manner, a 76-basis point climb by the Bloomberg/Barclays speculative-grade bond yield to yearlong 2018's average of 6.41% helped to slash high-yield bond offerings by 37.8%.

Thus, to a considerable degree, the unanticipated vigor of 2019's U.S. corporate bond issuance can be ascribed to the lower 2019-to-date averages of 3.41% for the investment-grade bond yield and 6.21% for the speculative-grade bond yield. Stemming from a plunge by the 10-year U.S. Treasury yield from a fourth-quarter 2018 average of 3.03% to the 1.75% of fourth-quarter-2019-to-date, comparably measured corporate bond yields have sunk from 4.26% to 2.91% for investment-grade and from 7.06% to 5.68% for high-yield. Fourth-quarter 2019's U.S. corporate bond issuance should respond positively to the yearly plummet by fixed-rate borrowing costs, wherein high-yield bond offerings could soar higher by more than 200% annually, albeit from the exceptionally weak tally of a year earlier.

As LIBOR Falls, Newly Rated Loans Climb Higher

Including Baa-rated programs, 2018's leveraged loan borrowing dipped by 2.1% and, thus, largely withstood a climb by the annual average of the three-month LIBOR benchmark from 2017's 1.26% to 2.31%, where the rise by LIBOR was the offshoot of Fed rate hikes. After excluding a 30.9% annual surge by new Baa loan programs to $94.6 billion, 2018's loan programs graded less than Baa fell by 6.5% annually to $596.0 billion.

During 2019's first half, three-month LIBOR's 46 bp year-over-year increase to a 2.60% average helped to prompt a 38.9% year-over-year plunge by bank loan programs from mostly U.S. high-yield borrowers. However, since the Federal Open Market Committee began a series of three rate cuts at its July 31 meeting that has driven three-month LIBOR down to a recent 1.93%, new bank loan activity has picked up considerably. In response to a possible drop by three-month LIBOR from the 2.63% of 2018's final quarter to the prospective 1.95% of 2019's final quarter, new bank loans rated Baa or lower are expected to grow by 12% annually during 2019's final three months.

If only because of the importance of the refinancing of outstanding debt, interest rates matter greatly to the pace of business borrowing. Thus, if benchmark interest rates are relatively steady in 2020, business borrowing will not realize the same increases that it did in 2019's second half. The next big wave of corporate borrowing may not occur until after the next slowdown in business activity drives benchmark interest rates substantially lower.

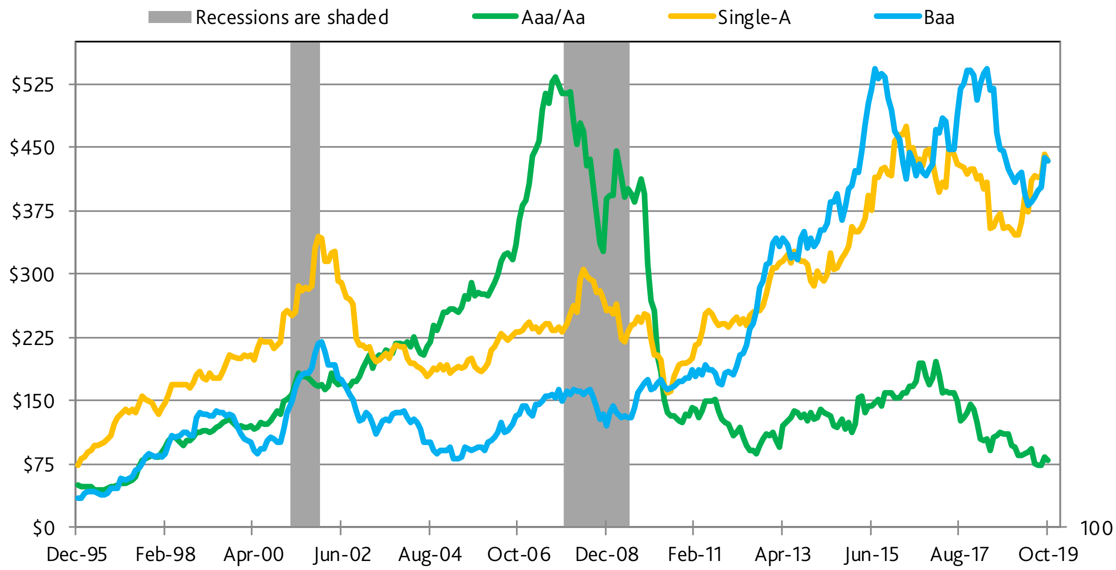
Baa Soars as Aaa/Aa Shrinks

The ratings distribution of U.S. investment-grade bond issuance has shifted noticeably lower since 2007. From December 2007 to October 2019, the moving 12-month sum of Aaa/Aa corporate bond offerings plummeted from the category's record high $513.5 billion to just $78.8 billion as single-A issuance advanced from $240.7 billion to $434.6 billion and Baa supply surged from $160.8 billion to $434.2 billion. Reductions in credit ratings help to explain the downshifting of the ratings distribution of U.S. investment-grade bond issuance.

Figure 1: Yearlong Sum of Baa-Grade U.S. Corporate Bond Issuance Has Sunk by -20% from Record High of Year-Ended April 2018

U.S. corporate bond issuance, 12-month sums in $ billions

sources: Dealogic, NBER, Moody's Analytics

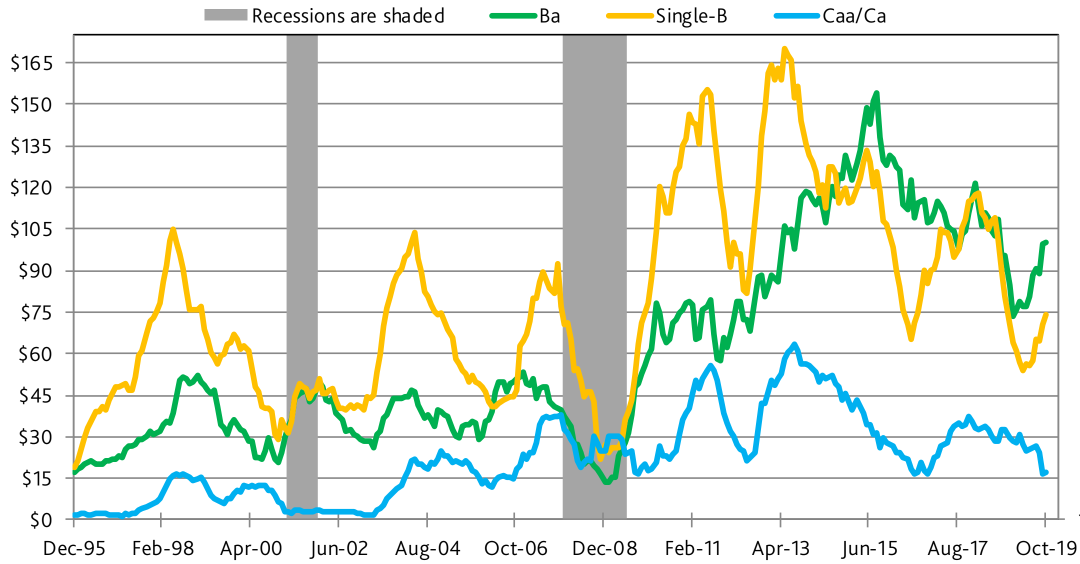


From 2007's final quarter to 2019's third quarter, the outstandings of U.S. corporate bonds plummeted from $1.882 trillion to $563 billion for Aaa/Aa, while advancing from $1.313 trillion to $2.652 trillion for single A and from $997 billion to $2.714 trillion for Baa. Spending on capital equipment and staff by medium-grade companies might be expected to be more sensitive to swings in business sentiment and interest rates than spending by high-grade corporations. As corporate credit quality declines, budgeting should become more conservative and, as a result, it will take less of an increase by benchmark borrowing costs to curb business outlays.

Upper-Tier Ba-Rated Credits Soar Vis-a-vis Single-B as Caa/Ca Shrink

Unlike investment-grade, the ratings distribution of U.S. high-yield bond offerings has improved considerably comparing 2019 with 2007. From December 2007 to October 2019, the moving 12-month sum of upper-tier Ba-rated corporate bond offerings advanced from $37.2 billion to $100.3 billion, while single-B issuance barely rose from $70.5 billion to $73.8 billion. Better yet, the moving 12-month issuance of high-yield bonds graded Caa or lower sank from December 2007's $32.7 billion to October 2019's $16.9 billion.

Figure 2: Current Ratings Distribution of U.S. Company High-Yield Bond Issuance Is Less Risky than that of 2007
moving yearlong sums of high-yield bond issuance by U.S. companies in $ billions
sources: Dealogic, NBER, Moody's Analytics



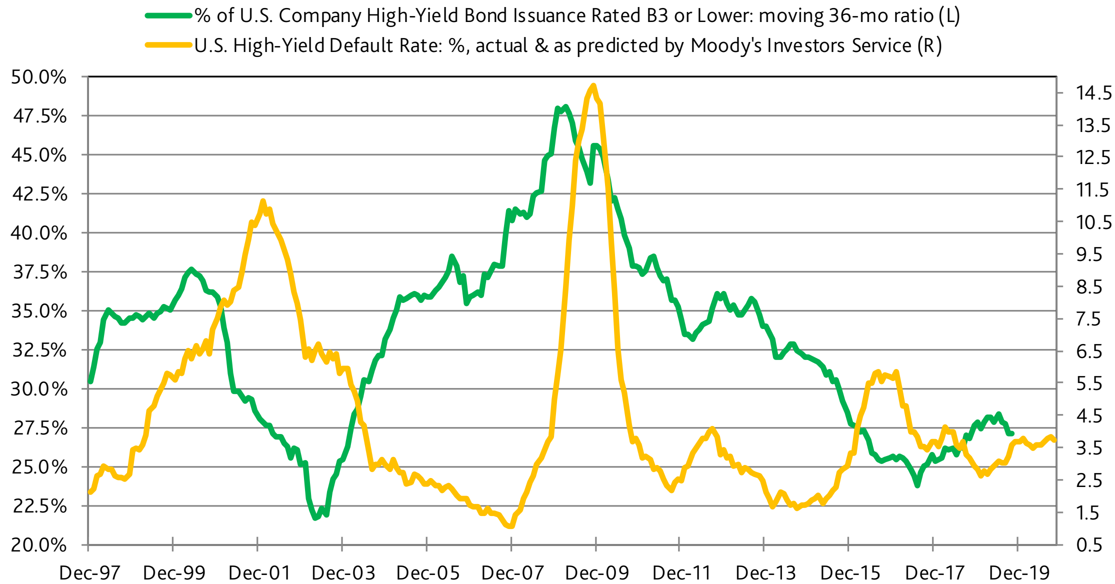
As of 2007's fourth quarter, the $348 billion of outstanding Ba-rated U.S. corporate bonds was slightly less than the $353 billion of single-B bonds. However, 2019's third quarter showed the $671 billion of outstanding Ba-grade bonds to be far above the $421 billion of single-B bonds. For the high-risk Caa and lower rating categories, the outstandings fell from the $203 billion of 2007's final quarter to the $166 billion of 2019's third quarter.

Owing to the relatively high default rates of bonds rated B3 or lower, the share of high-yield issuance carrying those very low ratings designations might offer insight regarding where the default rate is headed. Moreover, because high-yield bond offerings can fluctuate drastically from one year to the next, the moving three-year average of bond issuance might best capture changes in the credit-quality of the high-yield bond market.

In terms of a moving three-year ratio, bonds rated B3 or lower have risen from July 2017's 23.8% to October 2019's 27.1% of high-yield bond issuance. Nevertheless, the latter is still well under its major cycle peaks of 48.1% from March 2009 (that was followed by November 2009's post-Depression 14.7% peak for the U.S. high-yield default rate) and 37.6% from May 2000 (that was followed by the default rate's 11.1% peak of January 2002. The current distribution of high-yield bond credit ratings for both issuance and outstandings portends nothing worse than a mild rise by the default rate over the next 12 months.

Figure 3: Low Moving 3-Year Ratio of Bonds Rated Less than B2 as % of U.S. High-Yield Bond Issuance May Limit Upside for Default Rate

sources: Moody's Investors Service, Moody's Analytics



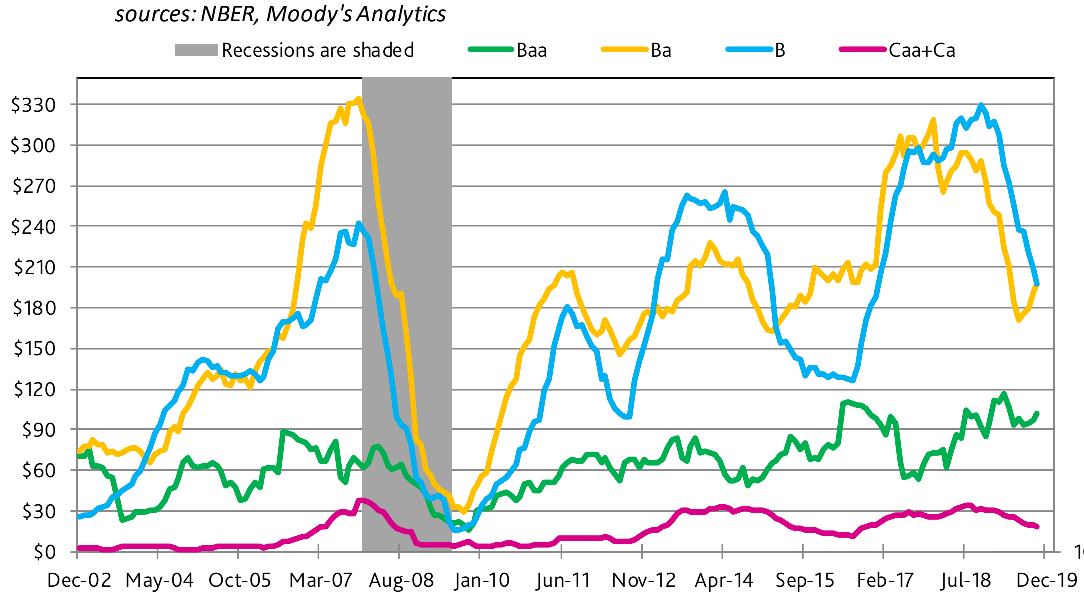
Ratings Distribution of New Loans Shows a Deep Drop by the Caa and Lower Category

Increasingly important newly rated bank loans show a distribution of credit ratings that is mixed when compared to December 2007. In terms of moving 12-month sums, October 2019's $101.8 billion of Baa-grade loans were up by 64% from December 2007. Though new loans graded Caa or lower plunged by 53% from December 2007 to October 2019 and single-B loans fell by 16% to $197.4 billion, Ba-rated loans incurred a relatively deep 39% drop from December 2007's $322.1 billion to October 2019's $197.3 billion. All of this warns that the default rate of loan-only issuers will top that of bond-only issuers one year from now.

Figure 4: Compared to December 2007's Yearlong Sums, October 2019's New Loans Were Up by 64% for Baa and Down Considerably for All Lower Rating Categories

12-month sums in $ billions

sources: NBER, Moody's Analytics



The Week Ahead – U.S., Europe, Asia-Pacific

THE U.S.
By Maria Cosma of Moody's Analytics

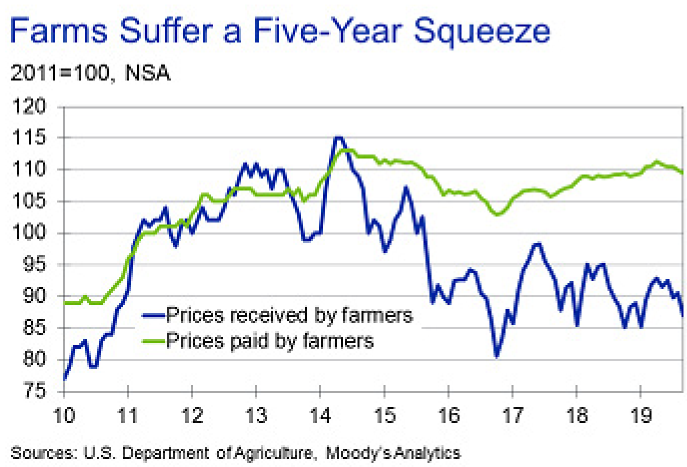
Trouble on the Farm

More than a year has passed since U.S. agriculture was hit with retaliatory tariffs from China, and the economic costs are becoming increasingly visible. Despite hefty subsidies from the U.S. federal government, many farms are still struggling to make ends meet, as some have been shut out of their most lucrative export market: China. The Trump administration is attempting to provide a future boost for farmers by making increased purchases of agricultural products from China a key tenet in negotiations of the phase-one trade deal, but it hasn't been signed yet. To provide some temporary relief, the Trump administration has provided some financial aid to farmers.

If domestic farmers would welcome a noticeable increase in Chinese purchases of U.S. agriculture products, then the trade war has already caused them significant harm.

Poor timing

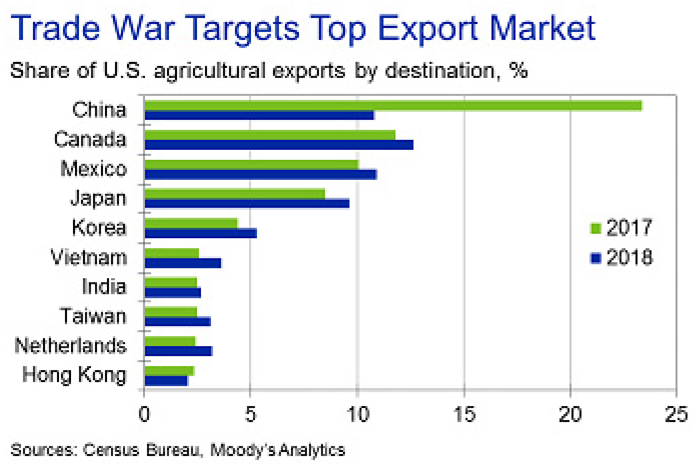
The trade war is not all that ails the farm sector, but the timing of retaliatory tariffs has exacerbated farmers' woes. Global commodity prices collapsed in 2014, and prices for key crops and livestock, including corn, soy and pork, have yet to recover. For the past five years, prices received by farmers for all products have fallen or remained low, while prices paid by farmers started to recover in 2017. Though this is not a perfect measure of farm profits, the diverging trends between prices paid and received certainly point toward a squeeze on farm profitability.



Indeed, farm incomes have hovered near their lowest point since the Great Recession over the past four years. Any help from federal subsidies has been more than countered by still-low commodity prices and falling exports.

Exports plunge

The trade war has been particularly rough on agricultural producers because up until last year, China had been the top destination for farm exports. In 2017, nearly a quarter of U.S. agricultural exports went to China. In 2018, that number dropped to 11% as retaliatory tariffs made U.S. products less competitive in Chinese markets. Also, China shifted its imports away from the U.S. For example, China began importing more soybeans from Brazil.



The decline in trade is even more shocking in terms of the value of farm exports to China. The Census Bureau's monthly export data by industry is not seasonally adjusted and particularly volatile, but a simple 12-month trend shows that the value of U.S. farm exports to China has fallen by nearly 70% since the first wave of retaliatory tariffs went into effect in July 2018.

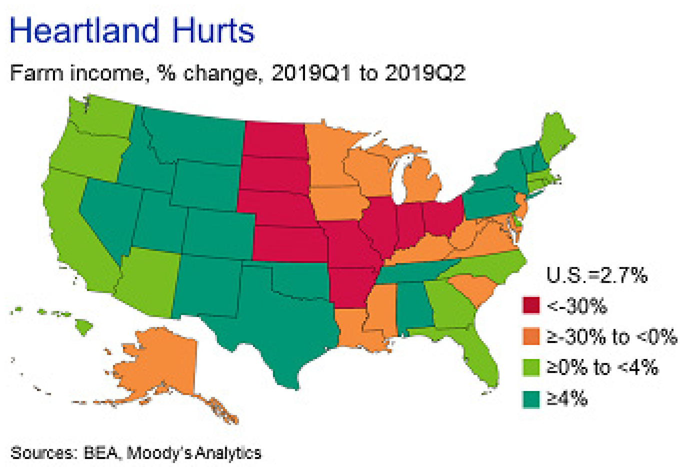
Farmers did expand into other markets to make up for weakness in the Chinese market. For example, farm exports heading to Canada, Mexico and Europe increased around the same time that exports to China started to decrease. However, this has not been enough to make up for weakness in trade with China.

While the immediate damage of the trade war is fairly obvious, the longer-term impacts will be difficult to anticipate. Tariffs disrupted key negotiations and contracts between U.S. farmers and Chinese purchasers just as China began to develop an appetite for American crops and livestock. The U.S. had just emerged as China's leading provider of soy and pork when the trade conflict flared up. It will take time for businesses to re-establish ties, and some tabled deals are likely terminated.

The one piece of good news is that agricultural trade with Canada and Mexico, now the top two destinations for farm exports, has not been significantly disrupted. This is impressive considering elevated trade tensions during the United States-Mexico-Canada Agreement negotiations last year and the immigration dispute earlier this year.

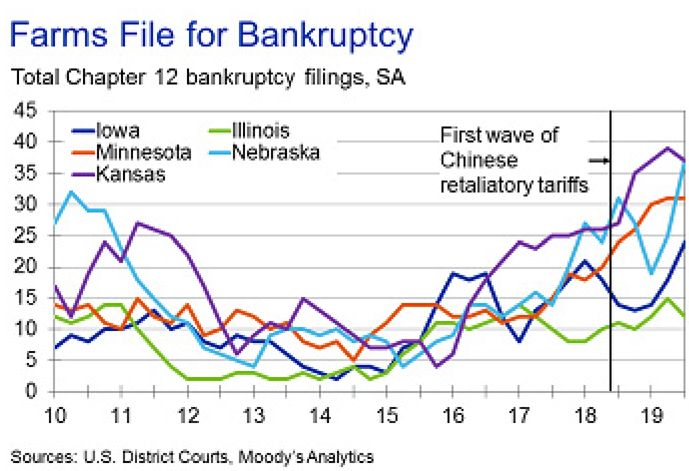
Heartland hurts

The trade war's impacts have been unevenly distributed across the country. The hardest-hit agricultural producers were those exposed to trade with China, namely soy and pork producers in the Midwest. In these areas, farm incomes have dropped by more than 30% between the first and second quarters of 2019.



Farmers are used to wild swings in incomes, and this is far from their first boom-bust cycle. Yet the anecdotes from the Federal Reserve's Beige Books over the past year that the current farm rout has been particularly bad are supported by the data.

Not only are farm incomes dropping, but farms are going out of business entirely. Filings for Chapter 12 bankruptcy, a type of bankruptcy that is restricted to family farmers and fishermen, are soaring in the states most impacted by the trade war. Chapter 12 filings in Iowa, Illinois, Minnesota, Nebraska and Kansas are above their Great Recession highs and rising.



The trend in the bankruptcy data is particularly telling. It confirms that farmers had already been struggling from the commodity rout when the tariffs hit and magnified the damage.

Subsidies soar

The Trump administration and the Department of Agriculture stepped in to help farmers to a historic degree. The Trump administration sought to provide immediate relief to farmers in the form of a $12 billion bailout program last year, released in two waves.

However, the relief was not immediate. The first wave of subsidies was only made available in September 2018, and payouts were slow because farmers could only start filling out applications when they began harvesting. For major U.S. crops such as corn and soybeans, this doesn't start in earnest until early October, and normally lasts through November. Farmers also argued that after so many lean years and considering the ongoing trade tensions, $12 billion was not nearly enough to support their incomes.

The USDA announced a second bailout program this year in July, valued at $16 billion, to be released in three waves. The first happened in August, a second is scheduled for November, and the third will come in January 2020.

However, $28 billion will not be the extent of government help for farmers. Applications for traditional farm subsidies have also soared. In all, the federal government shelled out about $50 billion for farmers from the fourth quarter of 2018 to the third quarter of 2019. It's likely this number will climb even higher, as farmers will primarily apply for relief in the fourth quarter.

In nominal terms, this level of government farm subsidies is unprecedented. The last time the government bailed out farmers to nearly this extent was in 2005, when soaring energy prices and low corn prices driven by a production glut depressed farm incomes.

The damage is done

The Trump administration is also seeking relief for farmers by making increased Chinese purchases of agricultural products a key point in trade negotiations. China has verbally agreed to do this several times before, although in the past, a fresh wave of U.S. tariffs derailed these efforts. The extent to which China will promise to increase purchases in the phase-one trade deal will not be clear until the agreement is signed and made public, most likely later this month. Even if China agrees to an aggressive increase, the relief will be a long time coming for farmers. The trade war's damage has already been done.

Next week

Next week's economic calendar is lighter, but the key data include existing-home sales, housing starts and initial claims. The minutes from the October Federal Open Market Committee meeting will also be released.

We will publish our forecasts for next week's data on Monday on [Economic View.]

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics

Data Should Confirm That Germany Ducked Recession

The only top-tier release for Europe in the coming week will be the final estimate of Germany's third quarter GDP, which will bring the expenditure and the production breakdown of growth. We expect it to confirm that activity rose by 0.1% q/q in the three months to September, following a downwardly revised 0.2% rise in the previous stanza, allowing the country to avoid entering the technical recession that had been widely feared.

The expenditure breakdown details should show that consumer spending did the heavy lifting, in line with Destatis comments that accompanied the preliminary release. We expect that spending rose by around 0.2%-0.3% q/q, improving on a 0.1% increase in the previous quarter. The story in Germany is similar to that in most other euro zone economies; despite the global slowdown, fundamentals for consumers across the currency area remain solid with unemployment extremely low and wages rising strongly (wages have long been a long-lagging indicator of growth). With interest rates still reading at record lows, euro zone consumers feel increasingly motivated to loosen their purse strings rather than save. And while we have little leading data regarding households' services spending for the third quarter, the retail sales data largely attest our view. German retailers recorded their fourth consecutive quarter of rising sales in the three months to September.

Destatis comments suggested that government spending also supported growth, and this will be a theme in coming quarters. Several German government officials have already hinted that fiscal stimulus may enter the pipeline for 2020, especially as Germany is under increased pressured by the European Central Bank to come to the rescue of its economy. We caution nonetheless that any sort of stimulus will be limited. There is strong opposition in Germany to abandoning the black zero rule that bans budget deficits outside of a crisis.

A key upside detail from the release may be that net trade actually contributed to the GDP headline, despite expectations that the drop in global demand would have depressed exports. Destatis comments suggest that exports actually rose over the quarter, even if not by much, while imports only held steady. This underperformance of imports is odd given the strength in consumer and government spending, but in our view the main drag to imports came from a drop in demand for intermediate and capital goods.

Accordingly, investment should have declined once again in the three months to September. Across sectors, the main drag is likely to have come from another drop in investment in machinery and equipment, which wouldn't strike us as surprising. German manufacturers are going through a rough time, with structural challenges (especially in the car industry) compounding the current global downturn. This means long-term capex decisions in the industry will be postponed until there is hope of a recovery, which could take a while. Elsewhere, it's good news that construction investment likely rose over the quarter on a solid performance from housebuilding.

All in, the main story from the GDP release will be that resilient domestic demand has until now managed to offset weakness from abroad. The question for 2020 will be if this trend will persist. We now see two possible scenarios for 2020. Either the manufacturing industry will start stabilizing as uncertainties subsided, leading to a recovery in growth, or the continued industrial downturn will spill into job losses, leading consumers to rein-in spending and plunging the whole economy into recession. Our baseline is the first option, but given how fragile the situation is, we have to watch the incoming data closely.

If there is any upward revision to the German third-quarter GDP numbers—growth was actually 0.08% q/q—chances are that euro zone GDP will also be revised up, since individual country data suggest growth in the overall currency area was very close to 2.5%. Revisions in the GDP aren't uncommon, which means that risks are clearly tilted to the upside.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 2:00 p.m.	Russia: Industrial Production for October	% change yr ago	2.6	3.0
Wed @ 2:00 p.m.	Russia: Retail Sales for October	% change yr ago	1.4	0.7
Wed @ 2:00 p.m.	Russia: Unemployment for October	%	4.6	4.5
Fri @ 8:00 a.m.	Germany: GDP for Q3	% change	-0.1	-0.1

ASIA-PACIFIC

By Katrina Ell of Moody's Analytics

Japan's Core CPI Likely Accelerates After Tax Hike

Thailand's economic growth likely improved in the September quarter. We expect that GDP growth rose by 2.7% y/y, up from the June quarter's 2.3%, which was its slowest pace since mid-2014. The June quarter marked a slowdown in both domestic and offshore demand. We expect that domestic conditions showed some improvement in the third quarter, with earlier monetary easing helping to support higher consumption.

Japan's core CPI growth likely jumped in October, following the consumption tax hike from 8% to 10% on 1 October. We look for core CPI growth to pick up to 1.8% y/y, from September's 0.3%. Inflation will remain elevated through the December quarter, before starting to ease back to being south of 1%, well shy of the Bank of Japan's 2% target.

Singapore's nonoil domestic exports contracted by 8.1% y/y in September and a 7.6% fall is forecast for October. Electronics are the main and consistent drag through 2019, but nonelectronics have lost momentum in recent months, adding to the somber export conditions.

	Key indicators	Units	Confidence	Risk	Moody's Analytics	Last
Mon @ Unknown	Singapore Nonoil domestic exports	% change yr ago	-7.6	⬇	-7.6	-8.1
Mon @ 1:30 p.m.	Thailand GDP for Q3	% change yr ago	3	⬅	2.7	2.3
Wed @ 10:50 a.m.	Japan Foreign trade for October	¥ bil	2	⬇	-92.4	-123.0
Fri @ 10:30 a.m.	Japan Consumer price index for October	% change yr ago	3	⬅	1.8	0.3

The Long View

A less-than-2% 10-year Treasury yield bodes well for systemic liquidity.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
November 14, 2019

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 113 basis points was less than its 122-point mean of the two previous economic recoveries. This spread may be no wider than 128 bp by year-end 2019.

The recent high-yield bond spread of 420 bp is thinner than what is suggested by the accompanying long-term Baa industrial company bond yield spread of 180 bp, but wider than what might be inferred from the recent ultra-low VIX of 13.0 points.

DEFAULTS

October 2019's U.S. high-yield default rate of 3.6% may average 3.7% during 2020's first quarter, according to Moody's Investors Service.

US CORPORATE BOND ISSUANCE

Third-quarter 2018's worldwide offerings of corporate bonds showed year-over-year setbacks of 6.0% for IG and 38.7 % for high-yield, wherein US$-denominated offerings plunged by 24.4% for IG and by 37.5% for high yield.

Fourth-quarter 2018's worldwide offerings of corporate bonds incurred annual setbacks of 23.4% for IG and 75.5% for high-yield, wherein US$-denominated offerings plunged by 26.1% for IG and by 74.1% for high yield.

First-quarter 2019's worldwide offerings of corporate bonds revealed annual setbacks of 0.5% for IG and 3.6% for high-yield, wherein US$-denominated offerings fell by 3.0% for IG and grew by 7.1% for high yield.

Second-quarter 2019's worldwide offerings of corporate bonds revealed an annual setback of 2.5% for IG and an annual advance of 17.6% for high-yield, wherein US$-denominated offerings sank by 12.4% for IG and surged by 30.3% for high yield.

Third-quarter 2019's worldwide offerings of corporate bonds revealed annual advances of 15.2% for IG and 56.8% for high-yield, wherein US$-denominated offerings soared higher by 36.8% for IG and 81.3% for high yield.

During yearlong 2017, worldwide corporate bond offerings increased by 4.1% annually (to $2.501 trillion) for IG and advanced by 41.5% for high yield (to $603 billion).

For 2018, worldwide corporate bond offerings sank by 7.2% annually (to $2.322 trillion) for IG and plummeted by 37.6% for high yield (to $376 billion). The projected annual percent increases for 2019's worldwide corporate bond offerings are 3.9% for IG and 37.0% for high yield. When stated in U.S. dollars, issuers based outside the U.S. supplied 60% of the investment-grade and 59% of the high-yield bond offerings of 2019's first 10 months.

US ECONOMIC OUTLOOK

As inferred from the CME Group's Fed Watch Tool, the futures market recently assigned an implied probability of 3.4% to a cutting of the federal funds rate at the December 11, 2019 meeting of the Federal Open Market Committee. In view of the underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global economy operates below trend, the 10-year Treasury yield may not remain above 2.00% for long. A fundamentally excessive climb by Treasury bond yields and a pronounced slowing by expenditures in dynamic emerging market countries are among the biggest threats to the adequacy of economic growth and credit spreads.

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics
November 14, 2019

UNITED KINGDOM

There is no denying that the U.K.'s October CPI report could bolster the doves at the Bank of England's Monetary Policy Committee. Inflation fell further below the bank's 2% target over the month, to its lowest in almost three years. But we caution against reading too much into the month's drop, as it was only because of expected declines in noncore inflation pressures; motor fuels, electricity and gas as well as food prices all plunged in October. Core inflation, by contrast, managed to hold steady and would have even accelerated were it not for the unimpressive results in the volatile computer games subsector, as prices there remained in deflation for the second consecutive month mainly because of best-seller charts—we expect a sharp rebound in November. It is also worth noting that the BoE had already penciled in the headline's drop in its latest Monetary Policy Report, which suggests that October's results aren't telling the MPC members anything that they didn't already know.

The main drag on the headline came from the electricity and gas subsector. Prices there are regulated by the government, and Ofgem reduced its energy and gas price caps at the start of October, pushing consumers' electricity bills sharply down. Given that this cap will remain until the end of March, we expect that the electricity and gas sector will continue to drag heavily on headline inflation throughout the first quarter of 2020.

But on the upside, the trend in motor fuels inflation, which has declined since April on the back of base effects in oil prices, should return to growth in December. Adding to that, services and core goods inflation should gradually pick up in coming months, in line with this year's acceleration in wage growth and with the past depreciation of the pound. Headline inflation will remain contained over the next six months due to the electricity cap and the freeze in alcohol and tobacco duties, but it should reach target by mid-2020.

We are thus maintaining our baseline of no rate hikes in coming months, since we expect the BoE will continue to look past any downward movements in noncore inflation pressures. Granted, growth is tepid, but our view is that the bank's forecasts for 2020 are too pessimistic and that the numbers will surprise on the upside, regardless of which party wins the upcoming general elections.

We welcomed that the U.K.'s unemployment rate dropped to its lowest since 1974 in the September quarter, but we caution against reading too much into the decline because it masks the rest of the report's not-so-upbeat details. Although unemployment fell, the decline still failed to reverse the previous stanza's rise, which was the sharpest since the final quarter of 2017. Adding to that, employment also decreased over the quarter for the first time in two years, and at its quickest rate in eight years. Also worrying was the sharp rise in inactivity, which more than doubled the decline from the previous stanza, as well as the further drop in vacancies in October (vacancy data are one month ahead of the ILO data), which pushed vacancies to their lowest since the fall of 2017.

But we have long claimed that employment gains would slow in the second half of this year. Leading evidence had warned of a deteriorating trend as higher wages and Brexit uncertainty weighed on hiring intentions. But although gains will slow, we don't think they will fall off a cliff; vacancy numbers suggest that employment growth will stall, not fall. This is a relief following the disappointing growth numbers released earlier this week and corroborates our view that the Bank of England will stay clear of a rate cut for now.

Attesting to this were the wage numbers. Although pay growth slowed slightly during the quarter—both including and excluding bonuses—it remained at one of its strongest in a decade and well above its post-referendum average. Adding to that, the acceleration in nominal wages allowed real regular wages to rise for the 22nd consecutive month at a rate double that for 2018.

Our view is that a still-tight labour market will ensure that wages continue to grow above 3% y/y in 2019, up from an average of 2.9% in 2018—the year-to-date average currently stands at 3.6%. This is in line with the BoE's forecast, which suggests that there is still little case for cutting rates in the coming months, especially since it looks increasingly likely that the Conservatives will win the elections and that Prime Minister Boris Johnson will manage to ratify his withdrawal deal, which would lift Brexit uncertainty. If Labour wins, chances of Brexit being reversed will soar, and this would also boost activity.

ASIA PACIFIC

By Shahana Mukherjee and Katrina Ell of Moody's Analytics
November 14, 2019

JAPAN

Japan's real GDP on a seasonally adjusted basis grew at 0.1% on a quarterly basis in the September quarter, down from 0.4% in the June quarter. However, the relatively weaker growth is not entirely discouraging in the current economic setting. Private consumption played an expectedly important role in supporting the aggregate, as consumers increased their purchases ahead of the sales tax increase in October. Equally important was the pickup in nonresidential investment, which expanded by 0.9% on a quarterly basis. Coupled with steady consumption expenditure, that helped neutralize the downward pressure from weak exports, which slid by 0.7% over the same period.

While the latest reading marks four consecutive quarters of growth, it is also the slowest pace of growth since the contraction a year ago. Going ahead, the downside risks to Japan's economy from a significant domestic policy change and continued external headwinds are likely to become more pertinent. While private consumption expenditure grew ahead of the sales tax increase and supported domestic economic activity, we expect this trend to reverse in the months ahead. The previous tax increase had an adverse effect on domestic consumption and triggered a contraction back in 2014, and there are fears of history repeating itself.

That being said, the impact on spending is likely to be less severe this time round, as consumers have priced in this increase. Also, a number of fiscal initiatives, including tax breaks, are already in place to cushion the overall impact. Moreover, business investment has been strong through the September quarter, a sign that producers are likely (cautiously) optimistic regarding near-term consumer spending.

In addition, the ongoing trade tensions between the U.S. and China, and self-initiated frictions with South Korea are other sources of risks to Japan's economy. The hard-fought trade war between the U.S. and China has weighed heavily on global trade and dented Japan's trade position through most of 2019. With a firm resolution to the conflict yet to come through, the near-term risks to domestic producers remains firmly in place and threatens to drag further on growth. In this setting, we expect growth to weaken in the December quarter as household spending moderates and exports continue to suffer from subdued global conditions.

NEW ZEALAND

The Reserve Bank of New Zealand went against market expectations and kept the official cash rate at 1% in November. The central bank simply turned back to the economics and noted that "economic developments since the August Statement do not warrant a change to the already stimulatory monetary setting at this time." The RBNZ is sitting back and waiting to see what impact the earlier 75 basis points of interest rate reductions will have on the economy before moving again.

The expectation is that domestic demand will improve from 2020 with lower lending rates flowing through. It takes up to a year for the full impact to materialise given the relatively high proportion of households on fixed, rather than floating, mortgages. Alongside higher government spending we should also see a rise in investment and income growth, and eventually improved consumption. The latter has been trending downwards for the past two years as net migration has passed its peak.

The RBNZ maintained its firmly dovish tone in November, noting that it is prepared to act swiftly if conditions deteriorate. This is necessary given the downside risks facing the global economy. Global growth is on a downswing and if this downturn deepens then New Zealand's small, open economy will not be immune.

The Long View

The U.S.-China trade war is no longer in an escalation phase, but odds are good that planned tariffs will be implemented, which would be a blight on the global economy.

An important support to New Zealand's economy has been the exchange rate. The kiwi has fallen almost 5% year to date against the dollar since the start of 2019, and this has boosted the export sector. But the unexpected decision to hold steady in November saw the kiwi jump by 1.3%. The RBNZ needs to tread carefully and maintain a dovish tone to keep downward pressure on the exchange rate, as appreciation is not desirable.

Ratings Round-Up

U.S. Activity Led by Downgrade of Energy Exploration and Production Firms

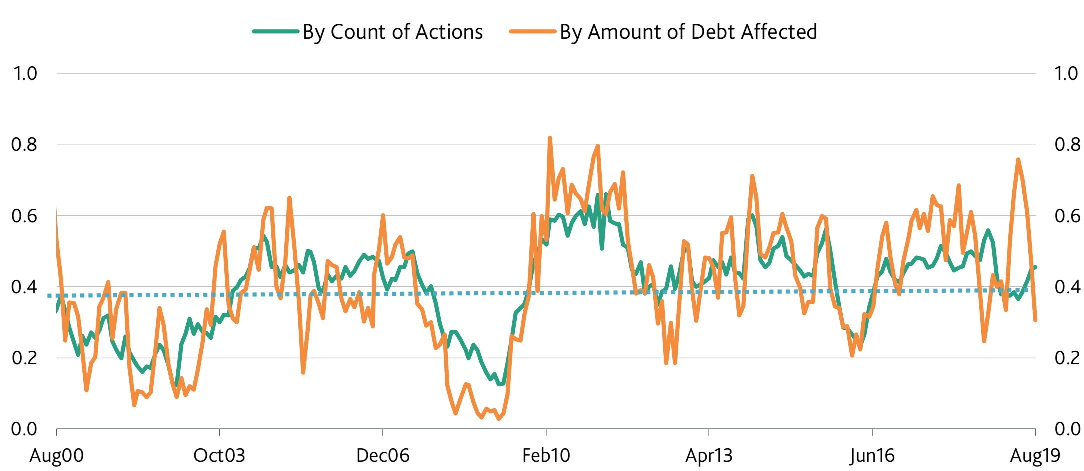
By Michael Ferlez

Downgrades continued to dominate U.S. rating change activity. Twelve firms received rating changes with downgrades accounting for two-thirds of the changes in the week ended November 12. However, in a break from the recent trend, downgrades also accounted for the majority of the affected debt. The week's rating change activity was headlined by the downgrade of two energy exploration and production companies: Chesapeake Energy Corporation and Gulfport Energy Corporation. Chesapeake Energy Corporation's senior unsecured credit rating cut one notch to B3 reflects Moody's Investors Service's concern that the firm will be unable to improve its credit metrics following a cut to capital spending. Similarly, Moody's Investors Service cut Gulfport's credit rating by two notches to B3 based on the expectation the firm's financial profile will weaken in the current low natural gas price environment. Combined, the two downgrades affected $11 billion in debt. The downgrades of Chesapeake Energy Corporation and Gulfport Energy Corporation are consistent with headwinds facing energy exploration companies this year. Through the first three-quarters, 28 energy exploration firms received downgrades, second most of any industry.

Elsewhere, upgrades were headlined by Viacom Inc., which saw its senior unsecured debt upgraded from Baa3 to Baa2, affecting $10 billion in debt. The upgrade reflects Moody's Investors Service's expectation that Viacom and CBS will be able to complete their merger, and that it will be credit positive.

There was no European rating change activity last week.

FIGURE 1
Rating Changes - US Corporate & Financial Institutions: Favorable as % 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
11/6/19	HASBRO, INC.	Industrial	SrUnsec/CP	1,710	D	Baa1	Baa3	IG
11/6/19	VIACOM INC.	Industrial	SrUnsec /JrSub/CP	10,228	U	Baa3	Baa2	IG
11/6/19	APC AUTOMOTIVE TECHNOLOGIES, LLC	Industrial	SrSec /BCF/PDR		D	Caa1	Caa3	SG
11/7/19	CHESAPEAKE ENERGY CORPORATION	Industrial	SrUnsec /LTCFR/PDR	8,987	D	B2	B3	SG
11/7/19	GULFPORT ENERGY CORPORATION	Industrial	SrUnsec /LTCFR/PDR	2,050	D	B1	B3	SG
11/12/19	HOVNANIAN ENTERPRISES, INC.	Industrial	SrSec /LTCFR/PDR	840	D	Caa2	Caa3	SG
11/12/19	DEAN FOODS COMPANY	Industrial	SrUnsec /LTCFR/PDR	700	D	Caa3	Ca	SG
11/12/19	SCIENTIFIC GAMES CORPORATION -SCIENTIFIC GAMES INTERNATIONAL, INC.	Industrial	SrSec/BCF	1,608	D	Ba3	B1	SG
11/12/19	ASGN INCORPORATED	Industrial	SrSec /BCF/PDR		U	Ba2	Ba1	SG
11/12/19	KBR, INC.	Industrial	SrSec/BCF /LTCFR/PDR		U	Ba3	Ba2	SG
11/12/19	24 HOUR FITNESS WORLDWIDE, INC.	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	500	D	Caa1	Caa2	SG
11/12/19	DIPLOMAT PHARMACY, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	B3	Caa1	SG

Source: Moody's

FIGURE 4
Rating Changes: Corporate & Financial Institutions – Europe

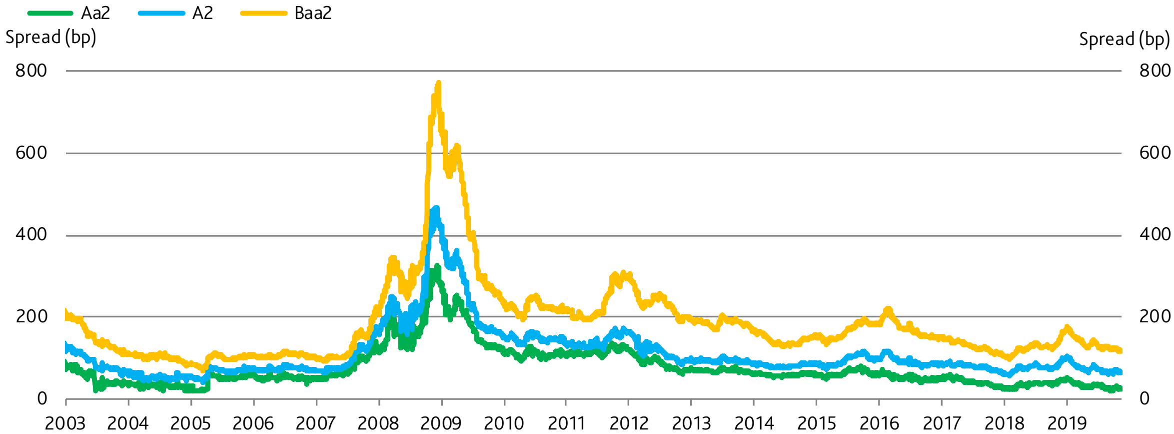
Date	Company	Sector	Rating	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
------------No Changes-----------								

Source: Moody's

Market Data

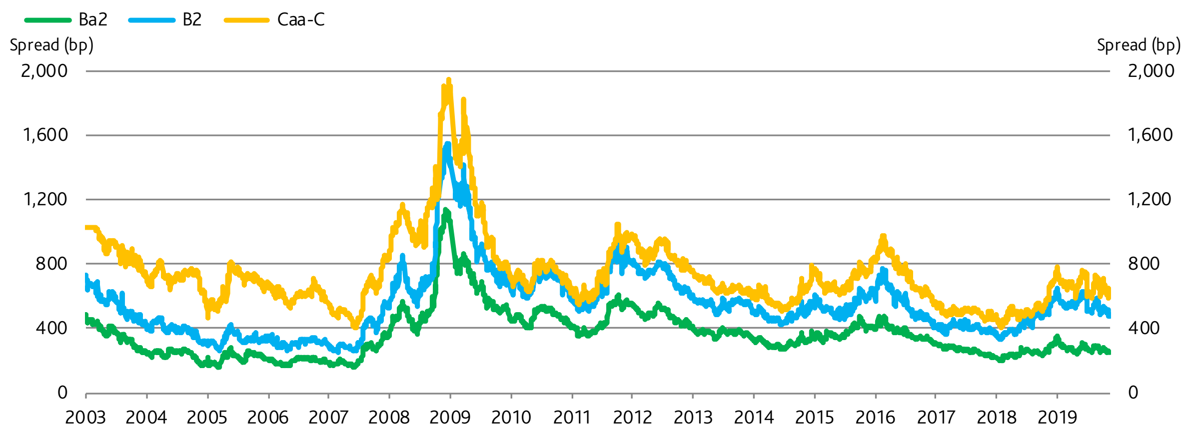
Spreads

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

Market Data

CDS Movers

Figure 3. CDS Movers - US (November 6, 2019 – November 13, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 13	Nov. 6	Senior Ratings
Huntsman International LLC	Aa3	A2	Baa3
Avon Products, Inc.	Ba3	B2	B3
Apple Inc.	Aaa	Aa1	Aa1
United Technologies Corporation	Aa2	Aa3	Baa1
Merck & Co., Inc.	Aa3	A1	A1
Honeywell International Inc.	Aaa	Aa1	A2
Kinder Morgan Energy Partners, L.P.	Aa3	A1	Baa2
Roche Holdings Inc.	Aaa	Aa1	Aa3
Northrop Grumman Corporation	Aaa	Aa1	Baa2
Target Corporation	Aa1	Aa2	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 13	Nov. 6	Senior Ratings
Expedia Group, Inc.	Baa2	A2	Baa3
JPMorgan Chase & Co.	A1	Aa3	A2
Ford Motor Credit Company LLC	B2	B1	Ba1
Verizon Communications Inc.	A3	A2	Baa1
American Express Credit Corporation	Aa3	Aa2	A2
Ford Motor Company	B2	B1	Ba1
Bank of America, N.A.	A2	A1	Aa2
American Tower Corporation	B1	Ba3	Baa3
Simon Property Group, L.P.	A3	A2	A2
Sprint Communications, Inc.	B3	B2	B3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 13	Nov. 6	Spread Diff
Frontier Communications Corporation	Caa3	10,808	9,846	961
McClatchy Company (The)	C	2,175	1,271	904
Penney (J.C.) Corporation, Inc.	Caa3	3,039	2,732	307
Diamond Offshore Drilling, Inc.	B3	784	755	29
Expedia Group, Inc.	Baa3	67	44	23
Gap, Inc. (The)	Baa2	125	103	22
Talen Energy Supply, LLC	B3	810	788	21
K. Hovnanian Enterprises, Inc.	Caa3	1,517	1,496	21
Cablevision Systems Corporation	B3	389	372	17
YRC Worldwide Inc.	Caa1	824	809	15

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 13	Nov. 6	Spread Diff
Chesapeake Energy Corporation	B3	2,091	2,316	-225
Realogy Group LLC	B3	592	669	-77
Avon Products, Inc.	B3	155	232	-77
Unisys Corporation	B2	384	448	-64
United States Steel Corporation	B3	569	601	-31
Hertz Corporation (The)	B3	317	345	-27
Tenet Healthcare Corporation	Caa1	314	340	-25
Dish DBS Corporation	B1	389	413	-25
Neiman Marcus Group LTD LLC	Ca	6,000	6,025	-25
American Axle & Manufacturing, Inc.	B2	321	346	-25

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (November 6, 2019 – November 13, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 13	Nov. 6	Senior Ratings
Societe Generale	Aa2	Aa3	A1
Ireland, Government of	Aa1	Aa2	A2
Lloyds Bank plc	Aa3	A1	Aa3
Vinci S.A.	Aa1	Aa2	A3
Autoroutes du Sud de la France (ASF)	Aa1	Aa2	A3
Vivendi SA	A1	A2	Baa2
United Utilities PLC	A3	Baa1	Baa1
NXP B.V.	Baa3	Ba1	Baa3
Leonardo S.p.A.	Baa3	Ba1	Ba1
Airbus SE	Aa2	Aa3	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 13	Nov. 6	Senior Ratings
Italy, Government of	Ba2	Ba1	Baa3
Standard Chartered PLC	Baa1	A3	A2
ENEL S.p.A.	Baa2	Baa1	Baa2
Telecom Italia S.p.A.	Ba3	Ba2	Ba1
RCI Banque	Ba2	Ba1	Baa1
Eurobank Ergasias S.A.	Ca	Caa3	Caa1
Piraeus Bank S.A.	C	Ca	Caa2
Atlantia S.p.A.	B1	Ba3	Baa3
Telia Company AB	Aa2	Aa1	Baa1
Banco BPI S.A.	Ba2	Ba1	Ba1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 13	Nov. 6	Spread Diff
Boparan Finance plc	Caa1	2,658	2,582	75
Novafives S.A.S.	Caa2	725	702	24
UPC Holding B.V.	B2	119	103	17
Italy, Government of	Baa3	120	109	12
RCI Banque	Baa1	126	114	12
Renault S.A.	Baa3	120	108	12
Virgin Media Finance PLC	B2	115	107	9
SES S.A.	Baa2	65	57	8
Ziggo Secured Finance B.V.	Caa1	133	125	8
Ziggo Bond Company B.V.	B3	130	122	8

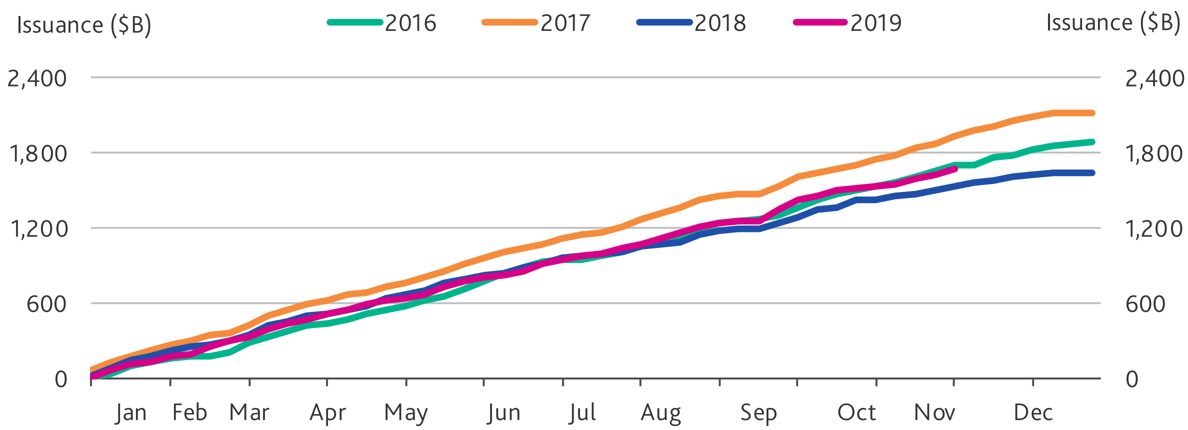
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 13	Nov. 6	Spread Diff
PizzaExpress Financing 1 plc	Caa2	5,493	6,211	-718
CMA CGM S.A.	Caa1	1,410	1,494	-85
Casino Guichard-Perrachon SA	B3	654	693	-40
Valaris plc	Caa1	1,163	1,182	-19
Jaguar Land Rover Automotive Plc	B1	491	503	-13
Stena AB	B3	495	508	-13
NXP B.V.	Baa3	87	98	-11
Stonegate Pub Company Financing plc	Caa1	128	138	-10
Matalan Finance plc	Caa1	776	784	-9
Hammerson Plc	Baa1	158	167	-8

Source: Moody's, CMA

Market Data

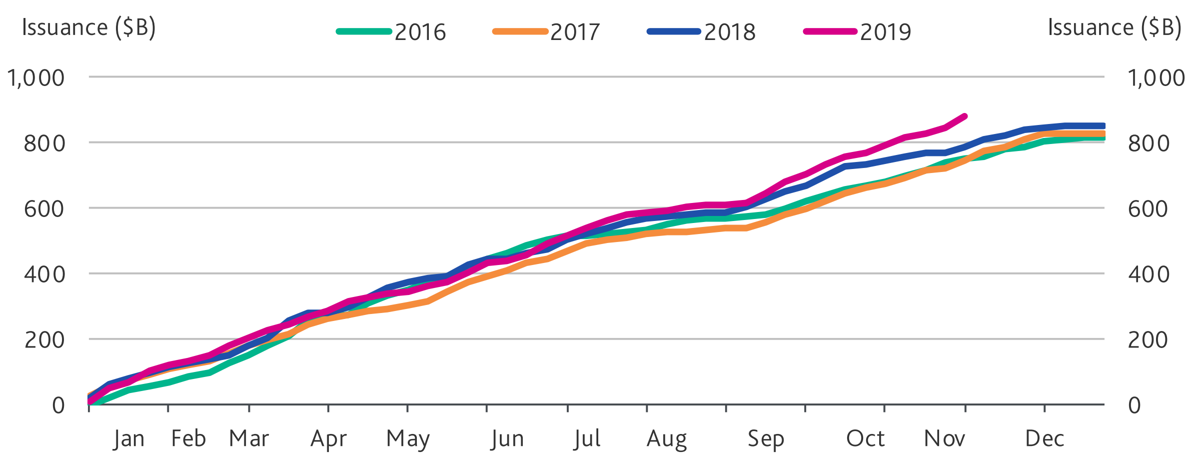
Issuance

Figure 5. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

Market Data

FIGURE 7

Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	24.283	12.800	37.833
Year-to-Date	1,207.857	370.296	1,669.156

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	26.232	6.375	34.075
Year-to-Date	758.222	95.194	879.223

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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