MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK
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Fed Isn't Popping Champagne

U.S. consumers finally got a little relief on the inflation front in July because of a significant decline in gasoline prices, but the Federal Reserve isn't going to celebrate as one month isn't a trend.

The consumer price index was unchanged in July, compared with our forecast for a 0.1% gain and the consensus forecast for a 0.2% increase. This comes on the heels of a 1.3% gain in June.

The CPI for energy was down 4.6% in July after rising 7.5% in June. Within energy, the CPI for gasoline dropped 7.7%, shaving 0.4 percentage point off the monthly changes in the headline CPI. Food prices continue to rise at a rapid pace, up 1.1% in July, which is the third consecutive monthly gain of at least 1%.

Excluding food and energy, the CPI was up 0.3%, weaker than the 0.7% gain in June. Lower jet fuel prices cut into the CPI for airfares. The CPI for airfares fell 7.8% in July, the second consecutive monthly decline. Apparel prices slipped 0.1% in July after rising 0.8% in June.

The CPI for owners' equivalent rent rose 0.6%, a little softer than the 0.7% gain in June. The CPI for rent of primary residence increased 0.7%, softer than the 0.8% gain in June. Owners' equivalent rent was up 0.6%, compared with the 0.7% gain in June. Rents are normally fairly sticky but will likely accelerate in August, with growth peaking this summer.

All told, it was a better CPI report but inflation is still high and costly. With the CPI up 8.5% on a year-ago basis in July, the typical American household now needs to spend $460 more per month to buy the same goods and services as it did last year.

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Decomposing inflation

The issue facing the Fed is that, even though there is a lengthy list of forces driving inflation higher, the massive shocks to the supply side of the economy, including the

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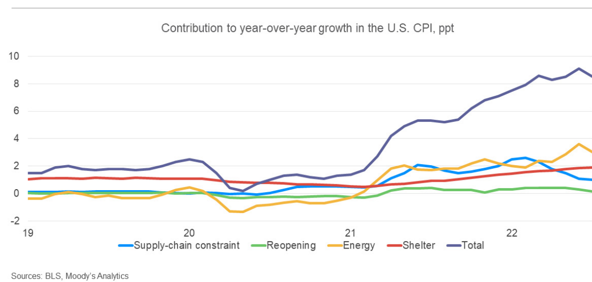
Russian invasion of Ukraine and the COVID-19 pandemic, are far and away the most important. The removal of monetary policy accommodation will not solve the supply-side issues that are behind our inflation problems.

There was a sizable decline in energy prices in July, particularly gasoline. However, energy is still adding a ton to year-over-year growth in the CPI. Energy prices added 3 percentage points to year-over-year growth in the CPI in July, compared with 3.5 percentage points in June.

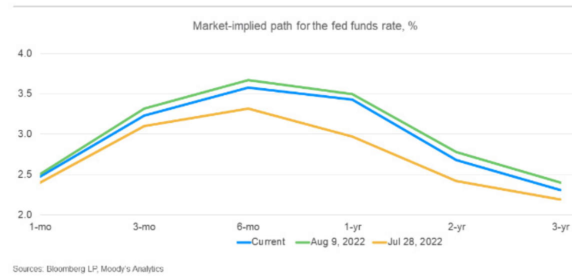
There was slightly better news on supply-chain-linked inflation. Supply-chain-constrained components of the CPI added 1 percentage point to year-over-year growth in the CPI in July, compared with the 1.1-percentage point contribution in June and was the smallest since April. Reopening-sensitive components of the CPI added 0.1 percentage point to growth in the CPI in July, less than the 0.3-percentage point contribution in the prior month. A drop in rental car prices helped reduce the contribution to growth in the CPI. Excluding energy, supply chains and reopening, year-over-year growth in the CPI in May would have been 4.3%, compared with 4.1% in June.



Energy is important to the inflation outlook. The forecast is for its contribution to year-over-year growth in the CPI to continue to decline. This is key as some of the stickier components of inflation are accelerating, including rents. The CPI for shelter added 1.9 percentage points to year-over-year growth in the CPI in July, the largest since the early 1990s. This is nearly double the contribution seen prior to the pandemic. Growth in rents hasn't peaked.

No change to our Fed call, markets rethinking

The July U.S. CPI has caused financial markets to modestly adjust their expectations for the path of the fed funds rate. Our baseline forecast is for the Fed to increase the target range for the fed funds rate by 50 basis points in September and then 25 basis points at each subsequent meeting until the fed funds rate hits 3.5%. Our subjective odds of a 75-basis point hike in September have declined following the July CPI, but a lot can still happen between now and the September meeting of the Federal Open Market Committee. However, the August CPI should also be tame because of the ongoing decline in energy prices. Therefore, we're increasingly comfortable with our baseline forecast.

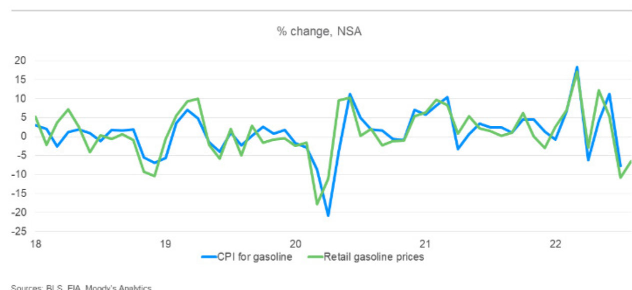


Markets have tweaked their expectations. Relative to Tuesday, markets now anticipate 20 basis points less of tightening over the next year. The expectation for the fed funds rate is 11 basis points lower over the next two years and 8 basis points lower over the next three years. The markets' estimate of the terminal rate, or the rate where the fed funds rate peaks this tightening cycle, fell from 3.67% to 3.58%. Though expectations have been lowered, the implied path for the fed funds rate is still noticeably higher than what was expected on July 28, the day after the July FOMC meeting.

The Fed isn't celebrating and one month isn't swaying them. Minneapolis Fed President Neel Kashkari said he hasn't altered his view that the fed funds rate should be 3.9% at the end of this year and 4.4% in 2023. Kashkari has moved from of the Fed's most dovish regional Fed presidents pre-pandemic to one of the most hawkish. Separately, Chicago Fed President Charles Evans described inflation as "unacceptably high" and anticipated that rate hikes will continue into next year.

August U.S. CPI should be another good one

It's never too early to start thinking about the next CPI report. There should be continued weakness in airfares, lodging away from home, and car rental prices as summer travel winds down. Energy will also be another big drag. Changes in retail gasoline prices closely track changes in the CPI for gasoline. Retail gasoline prices in August point toward a 6.5% decline in the CPI for gasoline in August, which would reduce monthly growth in the headline CPI by 0.3 percentage point.



This could be conservative as wholesale gasoline prices, which lead retail gasoline prices by one to two weeks, suggest that retail gasoline prices should be $4 per gallon toward the end of this month. Therefore, it wouldn't be surprising if gasoline prices fall 10% in August, which would reduce growth in the CPI by 0.5 percentage point.

Growth in the CPI for food at home should also moderate in August as there is a lag between changes in diesel prices and changes in prices at grocery stores. There are also signs that used-car prices have been falling in August. Depending on what happens with retail gasoline prices for the rest of August, early indications are that the headline CPI fell in August.

Q3 U.S. GDP on the rise

In each of the past two quarters, our U.S. high-frequency GDP model's tracking estimate steadily declined as new source data were released, but the opposite is occurring so far in the third quarter. There is still a ton of missing source data, but our tracking estimate has been climbing and is now at 1.5% at an annualized rate, compared with 1.3% prior to the new data on consumer prices and wholesale inventories.

The July CPI increased our tracking estimate of third-quarter real consumer spending to 1.8% at an annualized rate. Separately, wholesale inventories increased 1.8% in June following a 1.9% gain in May. This raised our estimate of the inventory build this quarter. It still won't duplicate the increase in the second quarter, but the drag on growth this quarter is smaller than previously thought. Inventories are on track to shave 0.6 percentage point off third-quarter GDP growth.

Translating Regional Inflation Differences

BY ADAM KAMINS

Regional differences in the rate of price growth are proving stubbornly persistent. The July Consumer Price Index revealed that the gap between the highest and lowest rates of inflation across the nation's four regions exceeded 2 percentage points for a second straight month. This represents just the third time this has happened since monthly tracking began nearly 35 years ago.

While prior research into components by region or a subset of metro areas shed some light, not seasonally adjusted data for each of the nation's nine census divisions provide additional granularity, even if the time series dates back only a few years. This not only helps to better illustrate what is driving differences, but taken in concert with state-level expenditure data is used to construct rough estimates of inflation for each state.

Differing regional trajectories

Among 10 product categories for which there is close overlap between regional CPIs and personal consumption expenditures, the contribution to differences in inflation varies. But for a handful, the combination of pronounced price increases and regional differentiation indicate outsize importance.

Not surprisingly, one of those categories is motor fuel. Although July brought some long-awaited relief, on a year-over-year basis, skyrocketing gasoline prices have still resulted in by far the largest price increases of any category, ranging from approximately 40% in the West to nearly 50% elsewhere.

To some extent, these differences reflect the fact that regions started at different levels. The western U.S. is home to the nation's eight most expensive states for a gallon of unleaded, according to the American Automobile Association. Not coincidentally, the region has experienced a less pronounced rate of motor fuel price increases due to an elevated base.

Growth has been more pronounced in middle of the country and portions of the Sun Belt. In some ways, this is simply a function of the arithmetic, as gasoline prices that are nearly $2 lower in Texas than in California mean that a 50-cent increase in per-gallon prices represents around a 14% increase in the Lone Star State, compared with 9% in California.

Of course, simple math is not the only factor at play. Demand for gasoline has been supported by increased migration into the much of the southern U.S., also causing prices to rise more rapidly.

Similarly, the transportation services category has experienced well above-average growth throughout much of the Sun Belt. The cost of household furnishings, meanwhile, has risen most rapidly in the Mountain West. Both of these trends can be traced in some part to increasing demand, with the latter likely driven in part by the impact of coastal residents flocking to much cheaper states and suddenly needing to buy more household goods to fill their new, larger homes.

What moves the needle

While pronounced price increases for individual categories can drive regional discrepancies, more subtle differences can move the needle for especially important categories. To determine relative importance, CPI categories were matched with their PCE counterparts so that the share of spending associated with each could be calculated.

The consumption data suggest that these 10 categories account for about two-thirds of overall spending. Broadly, housing accounts for the largest share of household budgets followed by medical care; combined, the two represent more than half of all spending among the 10 categories examined. The other large category is food, which accounts for more than a fifth of spending when combining food consumed at home and away from home.

Fueled by favorable demographics, the Mountain West and Southeast are experiencing the most pronounced housing cost inflation, a finding consistent with an analysis from spring. Price gains are not as severe on the West Coast, but a historically elevated share of monthly spending on housing means more pain. Medical care costs are rising more rapidly not just on the West Coast, but also in relatively sparsely populated regions such the Plains and in oil patch states, where access to care can prove more challenging to access and costly to deliver to sparsely populated rural areas.

But of the two, housing matters far more because of an average rate of inflation that is nearly twice that of medical care. As house prices and rents begin to cool a tad, this suggests that cost pressures will be abate some—but for now, any leveling off has been modest. Medical care may not matter as much, but as an important driver of spending in the Midwest, it is having some impact on price gains there.

Food and beverage costs vary markedly as well, although their share of spending is fairly similar across regions. But more rapid increases in prices in the middle of the country

could reflect a lack of access to overseas shipping hubs and a low starting point.

Finally, while motor fuel is not a large category, price gains are so significant that its importance to regional inflation narratives rivals that of housing. The category accounts for an outsize share of spending in the driving-dependent Plains, the Mid-South, and the oil patch, suggesting that the story in those divisions has as much to do with vehicle usage as it does the vagaries of gasoline prices.

Translating to states

Linking the CPI and PCE makes it possible to not only determine regional reliance on various categories but to extend this to states. To do so, the share of expenditures for each state was calculated based on an eight-quarter average spanning 2019 and 2020, the most recent years for which data are available. Next, those shares were used as state weights for each CPI category and applied to the relevant census division's growth rates.

This provided a preliminary estimate of state CPI, but was incomplete because about a third of spending is associated with PCE series that do not map neatly to a CPI counterpart. So, to ensure an appropriate match, state CPI growth was "squeezed" to make sure that the population-weighted average equals the corresponding figure for each division.

The results, not surprisingly, closely tether states to their surrounding areas. If the Bureau of Labor Statistics estimated CPI growth at the state level, there would almost certainly be more variation, so these figures should not be interpreted in the same way that data for the roughly two dozen metro areas that are reported by the source. But by accounting for the composition of state economies and incorporating official regional figures, these estimates shed light on which states are experiencing the most and least pronounced cost pressures.

Takeaways

As noted, estimated state CPI growth as of July hews closely to regional patterns. The four oil patch states each rank in the top 10 for year-over-year CPI growth, with Oklahoma and Arkansas ranking first and second. The Mountain West and Sun Belt more generally dominate the list of states with the most severe price pressures, accounting for the entire top 20.

On the flip side, less severe inflation in the Northeast is clear when looking at the four states with the slowest price gains. New York is at the bottom of the list, consistent with figures for New York City, as the out-migration of residents in recent years weighs on house price growth and a reliance on public transit reduces the sting of high gasoline prices. Some of those dynamics are also at play in New Jersey, Massachusetts and Connecticut, where inflation is also more manageable than elsewhere.

While broader division-level dynamics are instrumental in determining state inflation, there are some exceptions. Price pressures in Maine are far stronger than for its neighbors, as the state's more rural nature makes it the only one in New England for which gasoline expenditures as a share of total are above the national average.

The story is similar, albeit a bit less extreme, in South Carolina, where car reliance is more pronounced than anywhere else in the Southeast division. Iowa's outsize reliance on agriculture is partly to blame for the nation's highest share of spending on motor fuel, causing it to struggle with inflation more than most of its neighbors; the dynamics in Nebraska are similar, but not as quite pronounced. Pennsylvania, meanwhile, is seeing prices grow much more rapidly than in nearby New York and New Jersey given those two states' lower fuel consumption, with a larger proportion of residents in the latter two states taking a train or bus to work.

In fact, the relative lack of miles driven per capita in New York places it comfortably beneath the Mid-Atlantic's relatively low inflation, a story that is mirrored to a lesser degree by Massachusetts in New England. Elsewhere, below-average gasoline and food consumption as a share of total in the Dakotas has put those states in a better position with respect to price gains than the rest of the Plains, as has an elevated reliance on healthcare spending, for which price gains have been more modest than almost any other category.

Florida and Hawaii are also ranked near the bottom for per capita gasoline consumption, suppressing inflation in both states. This makes sense given elevated population density due to the prevalence of vacationers and retirees, groups that are less likely to drive significant distances.

With state differences owing largely to structural characteristics, shifts in the coming months will reflect national and broader regional patterns. But the nuances will bear close watching in the months ahead, especially after 2021 state consumption figures are released later this year.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar is a little busier next week. Among the key data released are U.S. retail sales, industrial production, housing starts, existing-home sales, and initial claims for unemployment insurance benefits. Many of these data will feed into our high-frequency GDP model's tracking estimate of third-quarter GDP, which is currently 1.5% at an annualized rate. We will watch initial claims closely but they need to be interpreted carefully. Seasonal-adjustment issues and wild swings in new filings in Massachusetts and Connecticut are distorting the message. Unadjusted for seasonal fluctuations, initial claims are not alarming. In fact, they are running around that seen over the past several months. Not seasonally adjusted new filings are still near 200,000. Historically, not seasonally adjusted claims are north of 300,000 when the economy is headed into a recession. On the monetary policy front, the minutes from the July meeting of the Federal Open Market Committee will be released.

Europe

Look for the euro zone's trade balance release next week. We expect the situation remained grim with the nonseasonally adjusted deficit deepening to €28 billion in June from a surplus of €17.2 billion a year earlier and a deficit of €26.3 billion a month earlier. We expect imports strengthened disproportionately as countries attempted to fill their natural gas reserves and demand for fuel rose with the summer tourism season heating up.

Meanwhile, the euro zone's harmonized index of consumer prices likely rose by 8.9% on a year-ago basis in July, speeding up from 8.6% in June. Preliminary estimates have already been released, so we are not expecting a change. Despite crude oil prices easing in July compared to June, food and core inflation accelerated. Food prices will continue growing as global supplies remain disrupted and fertilizer shortages persist. Core prices are getting a boost from the frenzy of tourism this summer. The U.K. will publish an inflation reading for July. We foresee the inflation rate rising to 10% on a year-ago basis from 9.4% a month earlier. This will happen for similar reasons as in the euro zone, with food and core inflation providing the impetus. Furthermore, we do not expect that inflation has reached its peak yet in the euro zone or the U.K. The U.K. has much further to go as the electricity and gas price cap gets recalculated in October.

U.K. retail sales will likely fall by 0.2% month over month in July, deepening a 0.1% decline in June. The heatwave in July likely boosted sales of summer essentials like warm-weather clothing or fans and air conditioning units. But inflation is taking a toll and causing households to purchase fewer goods. Household's ever-dwindling disposable income is instead being used on essentials, like food and energy, and on services.

Asia-Pacific

Central bank decisions from New Zealand and the Philippines will be in focus next week. The Reserve Bank of New Zealand is expected to lift by 50 basis points to 3%. We put the odds of a 25-basis point hike in New Zealand at 40%. The RBNZ has already hiked the official cash rate by a cumulative 225 basis points, but inflation remains uncomfortably high. CPI grew by 7.3% on a year-ago basis through the June quarter, exceeding the central bank's forecast of 7%. Although price growth appears to have peaked, expectations for where inflation will sit two years from now are still above the RBNZ's range of 1% to 3%. With inflation expectations not yet anchored, it's important for the central bank not to let up.

In the Philippines, we look for Bangko Sentral ng Pilipinas to lift its policy rate by 50 basis points to 3.75%, building on its off-cycle 75-basis point increment in mid-July. The BSP is dealing with significant inflation pressures. Headline inflation reached 6.4% on a year-ago basis in July, the highest since October 2018. With commodity prices and supply-chain stress easing, inflation is likely near its peak. GDP growth for the June quarter came in below expectations at 7.4% year over year and contracted from the previous quarter.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
Aug	Papua New Guinea	Declaration of general election result	Low	Low
18-Aug	Norway	Norges Bank monetary policy announcement	Medium	Low
4-Sep	Chile	Referendum on new constitution	Medium	Low
6-Sep	Australia	Reserve Bank of Australia monetary policy announcement	Medium	Low
6-Sep	Chile	Banco Central Chile monetary policy announcement	Medium	Low
8-Sep	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
9-Sep	Peru	Banco Central de Reserva monetary policy announcement	Medium	Medium
11-Sep	Sweden	General election	Low	Low
15-Sep	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
20-Sep	Sweden	Riksbank monetary policy announcement	Low	Low
21-Sep	Brazil	Banco Central do Brasil monetary policy announcement	Low	Low
20-21-Sep	U.S.	Federal Open Market Committee meeting	High	High
22-Sep	Japan	Bank of Japan monetary policy announcement	Medium	Low
22-Sep	Switzerland	Swiss National Bank monetary policy announcement	Medium	Low
22-Sep	Norway	Norges Bank monetary policy announcement	Medium	Low
25-Sep	Italy	General election	Low	Low
29-Sep	Mexico	Banxico Monetary Policy announcement	Low	Low
30-Sep	India	Reserve Bank of India monetary policy announcement	Medium	Low
30-Sep	Colombia	Banrep monetary policy announcement	Low	Low
2-Oct	Brazil	Presidential and congressional elections	High	Medium
4-Oct	Australia	Reserve Bank of Australia monetary policy announcement	Medium	Low
20-21-Oct	European Union	European Council summit	Low	Low
27-Oct	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
28-Oct	Japan	Bank of Japan monetary policy announcement	Medium	Low
Oct/Nov	China	National Party Congress	High	Medium
1-Nov	Australia	Reserve Bank of Australia monetary policy announcement	Medium	Low
1-2-Nov	U.S.	Federal Open Market Committee meeting	High	High
3-Nov	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
3-Nov	Norway	Norges Bank monetary policy announcement	Medium	Low
7-18-Nov	U.N.	U.N. Climate Change Conference 2022 (COP 27)	Medium	Low
8-Nov	U.S.	Midterm elections	High	Medium
15-16-Nov	G-20	G-20 Heads of State and Government Summit, hosted by Indonesia	Medium	Low
18-19-Nov	APEC	Economic Leaders' Meeting, hosted by Thailand	Low	Low
24-Nov	Sweden	Riksbank monetary policy announcement	Medium	Low
7-Dec	Australia	Reserve Bank of Australia monetary policy announcement	Medium	Low
7-Dec	India	Reserve Bank of India monetary policy announcement	Medium	Low
13-14-Dec	U.S.	Federal Open Market Committee meeting	High	High
15-Dec	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
15-Dec	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
15-Dec	Switzerland	Swiss National Bank monetary policy announcement	Medium	Low
15-Dec	Norway	Norges Bank monetary policy announcement	Medium	Low
15-16-Dec	European Union	European Council summit	Low	Low
20-Dec	Japan	Bank of Japan monetary policy announcement	Medium	Low

Bond Spread Tightening Could Be Short-Lived

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond spread remained at 156 basis points. It's in line with the 156-basis point average in July. The long-term average industrial corporate bond spread widened by 1 basis point to 141 basis points. It averaged 141 basis points average in July.

The ICE BofA U.S. high-yield option-adjusted bond spread narrowed from 454 to 446 basis points. The Bloomberg Barclays high-yield option-adjusted spread narrowed this past week from 444 to 432 basis points. This compares to an average high-yield spread that averages 1,000 basis points during recent recessions and an average of 350 outside of recessions.

The recent tightening in high-yield corporate bond spreads could be short-lived. Equity volatility should increase as the VIX, as a share of realized volatility, is below its long-term average. This is odd considering monetary policy and geopolitical uncertainty. The volatility curve is steepening, as the spot VIX is dropping more quickly than its forward values. Also, banks are tightening lending standards on commercial and industrial loans. The correlation coefficient between the net percentage of banks tightening lending standards on C&I loans and the U.S. high-yield corporate bond spread is 0.73. With banks tightening the screws, odds are high that high-yield corporate bond spreads will resume widening.

The high-yield option-adjusted bond spreads approximate what is suggested by the accompanying long-term Baa industrial company bond yield spread and but wider than that implied by a VIX of 19.7. The VIX slipped over the course of the past week.

DEFAULTS

Despite the drop in the default count from last month, the trailing 12-month global speculative-grade default rate held steady at 2.1% at the end of June, the same reading as at the end of May.

The default tally reached 43 in the first half of the year, up from 29 in the same period last year. Across sectors, Construction & Building remains the largest contributor to defaults with 11. The banking sector followed with eight. By region, North America had 18 defaults (17 in the U.S. and one in Canada). The rest were from Europe (12), Asia-Pacific (11), and Latin America (two).

In accordance with our credit conditions outlook, we lifted our one-year baseline global speculative-grade default rate forecast to 3.7% from last month's 3.3%. If realized, the new forecast will inch closer to the historical average of 4.1%.

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.

Fourth-quarter 2021's worldwide offerings of corporate bonds fell 9.4% for investment grade. High-yield US$ denominated high-yield corporate bond issuance fell from $133 billion in the third quarter to $92 billion in the final three months of 2021. December was a disappointment for high-yield corporate bond issuance, since it was 33% below its prior five-year average for the month.

In the first quarter of 2022, worldwide offerings of investment grade corporate bonds totaled $901 billion, up 12% on a year-ago basis.

In the second quarter, corporate bond issuance weakened. Worldwide offerings of investment grade corporate bonds totaled $548 billion, down 21% on a year-ago basis. US$ denominated high-yield corporate bond issuance was $38 billion in the second quarter, down from $63 billion in the first three months of the year. High-yield issuance is down 79% on a year-ago basis.

In the week ended August 5, US$-denominated high-yield issuance totaled $5.55 billion, a significant increase from the prior week when it was less than $800 million. This puts the year-to-date total to $105.6 billion. Investment-grade bond issuance totaled $60.71 billion. This brings its year-to-date total to $966.7 billion. Issuance is still tracking that seen in 2018 and 2019.

U.S. ECONOMIC OUTLOOK

There were some significant changes to the U.S. baseline forecast in August. We cut the forecast for GDP growth in the second half of this year, which will bleed into the unemployment rate. We also made an adjustment to our fiscal policy assumptions, incorporating the Inflation Reduction Act, but the implications for the near-term forecast for both GDP and inflation were on the margin.

Fiscal assumptions

The Inflation Reduction Act, which passed the Senate recently, has been incorporated in the soon-to-be-published August baseline forecast, as the legislation is all but certain to advance through the House and onto the president's desk.

To obtain the support from Arizona Senator Kyrsten Sinema, Senate Democrats nixed a provision that would have taxed more carried interest that general partners of investment funds receive for carrying out investment management services as ordinary income, limited the scope of the 15% corporate minimum tax by exempting certain accelerated cost recovery expenditures, and added extra funding for drought resiliency. To make up for the loss of revenue, Senate Democrats revived a 1% excise tax on stock repurchases, which had been included in the House-passed Build Back Better Act from November. The Senate parliamentarian ruled that the reconciliation bill could not require drugmakers to pay the government a rebate if drug prices increase faster than the rate of U.S. inflation in the commercial market. The inflation rebate will still apply to Medicare. Prior to final passage, an amendment was adopted to extend for two years the limitation on Section 461(l) business loss deductions of noncorporate taxpayers, which is scheduled to sunset after 2026 under current law.

The macroeconomic implications are likewise broadly unchanged. The IRA is estimated to reduce U.S. inflation, as measured by the consumer price index, by 3.3 basis points per year on average over the next 10 years. Also, the legislation will add 2 basis points per year to real GDP growth on average during the same period.

The baseline forecast does not assume that any further major piece of fiscal legislation will get passed during President Biden's current term in office. Republicans are poised to seize control of at least the House, which will slam the door shut on budget reconciliation as an avenue for Democrats to pass additional areas of the president's Build Back Better agenda.

COVID-19 assumptions

Confirmed case counts are elevated but remain below their January peak. The prevalence of at-home testing and asymptomatic or mild cases results in significant undercounting of infections in official statistics. We also assume that hospitalizations ebb and flow but remain below prior peaks due to widespread vaccinations and new treatments. Hospitals are able to manage the demand without compromising other services. Daily deaths attributable to COVID-19 remain in the low hundreds or 1.5 per million U.S. residents.

Energy price forecast and assumptions

The baseline forecast still assumes West Texas Intermediate crude oil prices peaked in the second quarter. The August baseline forecast includes the recent slide in West Texas Intermediate crude oil prices in July and early August. Therefore, oil prices are now forecast to average $97.25 per barrel this quarter, compared with $101.93 per barrel in the July baseline. Recession concerns, appreciation in the U.S. dollar, and a number of countries releasing some of their oil reserves have helped to push global oil prices lower recently. The forecast assumes a modest increase in oil prices in the fourth quarter before they steadily decline in 2023 and the first half of 2024. Oil prices bottom in 2024, a touch below $65 per barrel.

A key assumption is that even with the European ban, the global oil market will be roughly balanced by the end of 2022. Risks are that it takes longer than expected. The EU ban will reduce Russian oil shipments to global markets by an additional 1 million bpd, but it has been slow to be implemented. The official bans cover about 4% of total global supply.

Cutting GDP forecast

The August baseline incorporates the new data on second-quarter GDP. Real GDP fell 0.9% at an annualized rate in the second quarter, the second consecutive decline. GDP is only one of many variables that the National Bureau of Economic Research, the de facto arbiter of U.S. business cycles, uses to define a recession. Its stated definition is a "significant decline

in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income and other indicators." Outside of GDP, the other key data the NBER relies on have generally continued to increase, including nonfarm employment, real consumer spending, industrial production, and weekly hours worked. Even real personal income—excluding transfers, another variable it watches—is flat to increasing.

A large portion of the weakness in GDP is due to a dramatic widening in the trade deficit. This reflects the strength of the U.S. economy compared with its trading partners and the strength of the U.S. dollar, which is at its highest in decades against many currencies. Another portion comes from slowing inventory accumulation, a temporary phenomenon caused by businesses adjusting to wild swings in demand as the economy shut down and reopened. Domestic demand, including consumer spending and fixed business investment, remains sturdy. Moreover, real gross domestic income, which totals up the income earned by households and businesses—and in theory should add up to real GDP—continues to grow. The difference between real GDP and real GDI, also known as the statistical discrepancy, has never been as large as it is now. It would not be surprising if the Bureau of Economic Analysis is having an especially difficult time accurately measuring real GDP during the pandemic given the resulting big swings in global trade and inventories; real GDP could ultimately be revised higher to be more consistent with real GDI.

Real GDP growth increases in the second half of this year, but for all of 2022, it is now expected to increase 1.6%, compared with 1.9% in the July baseline. We have cut our forecast for U.S. GDP growth this year by a total of 190 basis points over the past several months. We nudged the forecast for GDP growth in 2023 down from 1.9% to 1.5%. The economy is now expected to be below its potential this year and next, which is likely around 2%.

Our baseline forecast for real GDP growth this year is below the Bloomberg consensus of 2%. The forecast for next year is 0.2 percentage point stronger than the Bloomberg consensus of 1.5%.

Business investment and housing

We lowered the forecast for growth in real business equipment spending this year, as it is now expected to increase 4.6%, compared with the 6.4% gain in the prior baseline. Fundamentals have turned less favorable for the outlook as financial market conditions have tightened this year, but there has been some recent relief as investment-grade and high-yield corporate bond spreads have narrowed noticeably. This is unlikely to have a noticeable impact on business investment as spreads should widen soon. The share of banks tightening lending standards on commercial and industrial loans breached the threshold that has been consistent with a recession in the past. We doubt recession fears will vanish soon and this should boost high-yield corporate bond spreads. Another reason why spreads will widen is that corporate profit margins are coming under pressure. Productivity plunged in the first half of this year while until labor costs surged. This isn't a good combination for corporate profit margins.

The interest rate-sensitive segments of the economy have weakened, which is not surprising as the Federal Reserve is front-loading rate hikes. Housing starts are expected to be 1.65 million, compared with 1.75 million in the prior baseline. Housing starts are expected to total 1.56 million next year, down from 1.81 million in the July baseline. Housing starts are forecast to increase in 2024, totaling 1.64 million.

There are likely only so many homes that can be built each year because of labor-supply constraints and a 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.

A decline in affordability has cut into our forecast for home sales, which are expected to total 6.27 million this year, less than the 6.46 million in the July baseline. We also cut the forecast for total home sales next year to 6.14 million, compared with 6.52 million in the prior baseline. New-home sales account for about 10% of total sales and existing-homes make up the remainder.

There were minor revisions to the forecast for the FHFA All-Transactions House Price Index this year and next. The July baseline has it rising 12.9% this year, compared with 12.7% in the prior baseline. The forecasts for 2023 and 2024 continue to expect little house price appreciation.

Labor market

The U.S. labor market remains very strong, but job growth is set to moderate. Nonfarm employment increased by a net 528,000 in July, and the net revision to the prior two months was 28,000. The total number of employed women rose by 327,000 last month, accounting for more than half of the 528,000 increase in overall payrolls.

July's gain and the revisions to prior months put employment above its pre-pandemic level. The seasonal adjustment factors boosted job growth less than normal for July. Also, not seasonally adjusted employment fell 385,000 in July, compared with the 1.13 million decline that normally occurred prior to the pandemic.

We have job growth averaging 370,000 per month this year before dropping to 110,000 in 2023. Job growth next year is weaker than that needed to keep the unemployment rate stable. The unemployment rate fell from 3.6% in June to

3.5% in July. The forecast is for the unemployment rate to gradually increase in the second half of this year, averaging 3.7% in the fourth quarter. The unemployment rate keeps rising in 2023 because of below-potential GDP growth and job growth that will be weaker than that needed to keep the unemployment rate stable. Therefore, the unemployment rate is expected to average 4% in the fourth quarter of 2023.

We assume a full-employment economy is one with approximately a 3.5% unemployment rate, around a 62.5% labor force participation rate, and a prime-age employment-to-population ratio a little north of 80%. The labor force participation rate is close but still 0.4 of a percentage point below this threshold.

On the surface, there appears to be a disconnect between employment and GDP. The correlation coefficient between average monthly job growth in a given quarter and annualized growth in real GDP since 2000 is 0.71. Granger causality tests show that the causation between job and GDP growth runs both ways. The results didn't change when using different lags. This isn't surprising. Still, job growth has been stronger than GDP growth—but the disconnect between it and employment isn't unusual. Initial reports are volatile and subject to revision, and thus don't always tell similar stories.

Beyond data issues, there are real differences in how output and the labor market respond during the business cycle. For example, firms normally adjust workers' hours before adding or subtracting staff, which can cause output to rise or fall before employment does. Also, if we factor in productivity growth, it doesn't appear that employment and GDP are telling different stories.

Risks to our employment forecast are weighted to the downside. Per Okun's law, a 1-percentage point deceleration in GDP growth over the course of a year would amount to around 800,000 jobs per year. This would also increase the unemployment rate by about 0.5 percentage point.

Monetary policy

The Federal Reserve continues to quickly remove monetary policy accommodation as it attempts to tame inflation. The Federal Open Market Committee unanimously raised the target range for the fed funds rate by 75 basis points to 2.25% to 2.5% at the July meeting. The Fed has raised the target range for the fed funds rate by 150 basis points over the past two meetings. There were very few changes to the statement. The Fed didn't alter its forward guidance but did mention that spending and production have softened while job gains have been robust.

There was only a slight change in the forecast for the fed funds rate. The new forecast wasn't attributed to any changes to our assumptions. Rather, we adopted a new approach for forecasting the fed funds rate on a monthly basis to better align changes with the fed funds rate and updates from the FOMC meetings. The monthly forecast is then rolled up into our quarterly forecast.

The forecast is for a 50-basis point hike at the September meeting. This will be followed by a 25-basis point rate hike at the November and December meetings. The terminal fed funds rate remained at 3.5%, less than the median projection from the latest Summary of Economic Projections. The assumption is that the Fed will keep the fed funds rate at 3.5% for less than a year before gradually cutting by 100 basis points over the course of 2024, returning it to its neutral rate of 2.5%.

The 10-year Treasury yield has dropped recently and we incorporated this into the August baseline. The 10-year Treasury yield is now forecast to average 3.1% in the fourth quarter of this year, compared with 3.33% in the July baseline. The 10-year averages 3.48% in 2023, 3 basis points lower than in the prior baseline. The July and August baseline forecasts for the 10-year Treasury yield converge in early 2024. The forecast has the yield curve, or the difference between the 10- and two-year Treasury yields, remaining inverted for the remainder of this year. The August baseline has the difference between the 10-year and three-month Treasury yields flattening but avoids inverting.

THE LONG VIEW: EUROPE

Drought, Heat Cause More Problems

BY ROSS CIOFFI

Over the past year, Europe has fallen victim to uncooperative weather. During the summer of 2021, sluggish wind speeds slashed energy output, which triggered natural gas shortages that afflicted the economy. Now we are looking at the effects of a particularly dry year as droughts mess with the Continent's energy supply while creating physical trade disruptions on internal waterways.

The Rhine river is back in the headlines as water in the key artery is close to reaching unnavigable levels. In 2018, the Rhine dropped to levels where transport was halted, costing nearly €5 billion in damage, according to estimates from ABN Amro Bank. Meanwhile, the Danube river, which connects Central Europe to the Black Sea, is also running low. The Danube is used to transport grain and other commodities out of Ukraine as Black Sea ports are still stuck in the crossfire of the Russia-Ukraine military conflict. Waterways are a major source of trade in Europe, transporting an estimated 1 tonne of freight for each EU resident annually. An interruption in trade along these rivers may result in shortages of shipped material and higher shipping costs.

Meanwhile, France's utility giant, Électricité de France, was forced to cut power production at nuclear plants along the Rhone and Garonne rivers this month as heat waves brought the water temperature higher, making it less effective at cooling the generators and more likely to harm fish and the delicate ecosystems in the river. EDF now expects power output in 2022 to be its lowest in over 30 years. Droughts have also been stunting the ability of hydroelectric plants to produce electricity. This has been an issue in Portugal: Between January and June, energy production fell, on average, by 12.3%, on a yearly basis. Norway has also been struggling because of its heavy reliance on hydroelectric plants to produce energy. Norway is typically a massive electricity exporter, but the country is now discussing limits on electricity exports in light of water levels falling so low in reservoirs. The goal is to secure the domestic energy supply and alleviate energy price inflation, which has averaged 55.8% year on year over the past 12 months.

What does all this bad weather mean for the European economy? Price pressures will heat up, increasing the likelihood of recession in the bloc. Already we've been expecting consumers to retrench at the end of this summer as prices continue growing, but they have already spent big over the past months on satisfying pent-up demand for services and travel. With the prospect that inflation will peak at a higher level because of these further disruptions to energy supply or shipping, the effect on consumers and firms will be even stronger. As of our August baseline forecast, we do not have a recession pencilled in, though we do expect a 0.3% quarter-on-quarter contraction in euro zone GDP during the fourth quarter and minor growth in the first quarter of 2023.

Industrial production has mixed results

Industrial production in Austria dropped by 2.1% month over month this June, breaking a five-month streak of growth. Output fell considerably in each of the main industrial groupings, except for capital goods. In the Netherlands, industrial production also declined, by a more modest 0.5%, but this comes after a 1.8% decline in May. In contrast, output rose in Finland and Sweden. In Finland, industrial production gained by 1.3% in June, on top of a 0.4% increase in May. In Sweden, industrial production rose 1.8% after a 0.1% increase previously.

Despite the good news in Finland and Sweden, the overall view is quickly darkening in Europe. Inflation and short supplies of inputs have been significant pains for firms over the past year. But they also benefitted from resilient client demand. Survey data are reflecting a change in this situation, however, with consumer demand faltering. Manufacturing PMIs and confidence indexes have been trending lower because of worsening views on incoming orders. Inflation and dismal confidence are starting to weigh on consumer and other businesses' demands for industrial goods.

In Ireland, industrial production soared by 22.7% on a year-ago basis in June, following a 6.5% increase in May. In monthly terms, output was 6.7% higher in June as a 12% rise in manufacturing outweighed a 20.6% drop in electricity, gas, steam and air conditioning supply. Despite the strong monthly and yearly change in June, over the second quarter, industry weakened by 0.1% quarter over quarter and 6.7% year over year. Unfortunately, Ireland's industrial sector will have a hard go of it later this year. The dependence on exports will leave businesses open to slowing global demand.

Rising Prices and Falling Confidence

BY HARRY MURPHY CRUISE

Russia's invasion of Ukraine, mounting geopolitical tensions, lockdowns in China, cost-of-living pressures, and rising borrowing costs are making households anxious. Measures of consumer confidence have accordingly fallen. In New Zealand, confidence is at near-record lows. In Australia, Japan and South Korea, surveys show a steady decline, while in India, Hong Kong and Thailand, confidence is well below historic levels, albeit with some improvement in recent months.

With households nervous, fears of a global recession have grown. Google searches for "recession" in July reached their highest level since March 2020. But the tentacles of fear haven't reached each country equally. In the U.S., searches for "recession" were higher than at the peak of the pandemic. Likewise, searches spiked in Russia and Eastern Europe. In the Asia-Pacific region, this search is highest in Sri Lanka, Myanmar and Thailand. In Australia and New Zealand, households seem far less fazed by the global goings-on, at least according to their Google search histories.

Prices: Up, up and away

Rising prices are driving the confidence collapse. Supply-chain frustrations and elevated energy costs have pushed up inflation across the globe. Prices in Australia and New Zealand are rising at their fastest rate since the early 1990s. In India, prices are more than 15% higher than pre-pandemic levels. In Cambodia and the Philippines, prices are up more than 10%.

But others have been more sheltered from the price party. Vietnam and Malaysia have seen price growth just half that of their neighbours, shielded by government subsidies and domestic food supplies. In Japan and China, weak domestic demand has meant prices have barely budged over the past two-and-a-half years.

Central banks are taking their time

To combat rising prices, central banks around the world are tightening monetary policy. But many in the APAC region are dragging their feet, and rate hikes there have been substantially slower than elsewhere. Some central banks haven't crossed the starting line. In Japan, Indonesia and Thailand, interest rates are still at emergency COVID-19-support levels.

New Zealand has been the most aggressive in the region, raising borrowing costs by 225 basis points since October. South Korea, Hong Kong, Australia and the Philippines have delivered consecutive rate hikes as policymakers look to stamp on inflation. Even still, these central banks have lagged the Fed's movements.

Budgets under pressure

COVID-19 threw a pandemic-sized spanner in government budgets. At the peak of the crisis, policymakers announced a raft of spending supports for families and businesses as lockdown restrictions ground economies to a halt.

Revenues also took a hit, with falling company profits and elevated unemployment shrinking tax receipts. Even today, revenues for many countries are well below pre-pandemic levels. But some countries have been luckier. In Australia, soaring commodity prices are boosting company profits (and thereby tax receipts), while the country's job bonanza has increased the pool of income tax revenue. In India, a crackdown on tax compliance has given the country's tax receipts a boost. Rising prices are also playing a role. Although inflation is pinching households, it's boosting sales tax receipts.

Disparate labour market recoveries

At the onset of the pandemic, many feared long-term scarring of the labour market would see younger and disadvantaged workers excluded. It's a trend we've seen in downturns past; it took more than six years for jobs in the U.S. to return to pre-Global Financial Crisis levels. But for some countries, the opposite has occurred with COVID-19. Buoyed by massive fiscal stimulus programs and elevated domestic demand, employment in Australia, New Zealand and South Korea has soared. That's also driven participation rates higher and unemployment rates to near-record lows.

These pressures have been severe enough to cause labour shortages, particularly in Australia and New Zealand. Both economies rely heavily on overseas workers to fill key labour gaps. Closed international borders for the better part of two years have left many businesses struggling to fill open roles.

Other countries in the region haven't seen the same labour market recovery. Economies that have experienced longer and more frequent lockdowns have struggled to regain jobs momentum. Likewise, economies tied closely to tourism and international travel are struggling to regain the employment losses of the last two-and-a-half years.

Downgrades in U.S., Europe Credit Improves

BY OLGA BYCHKOVA

U.S.

U.S. credit downgrades outnumbered upgrades in the latest weekly period. The changes issued by Moody's Investors Service spanned a diverse set of speculative-grade industrial firms and one investment-grade financial company. Downgrades comprised six of the nine rating changes and 61% of affected debt.

The largest downgrade, accounting for 35% of debt affected in the period, was issued to Carnival Corporation with its senior secured note and senior secured credit facility ratings lowered to Ba3 from Ba2. The company has lowered select prices to drive higher occupancy amid increased cancellations due to the Omicron variant of COVID-19, Russia's invasion of Ukraine, materially higher fuel costs, and food cost inflation. The downgrade reflects a weaker-than-expected recovery, which will result in Carnival generating negative EBITDA this year, and the risk around the company's ability to generate sufficient free cash flow to materially reduce debt, particularly in a rising interest rate environment. The rating outlook is negative, reflecting Moody's concerns that the company will not be able to generate sufficient cash flow to reduce debt. Moody's could further downgrade the ratings if liquidity weakened in any way, including a slower-than-anticipated earnings recovery, which could raise refinancing risk, or if the company was not able to consistently produce positive free cash flow. An upgrade would require material debt reduction or earnings expansion with consistently positive free cash flow and maintenance of good liquidity.

Upgrades were headlined by Citigroup Global Markets Holdings Inc., which saw its senior debt ratings raised to A2 from A3 and accounted for 36% of debt affected in the period, reflecting the company's status change to become a Material Legal Entity and a beneficiary of the secured support agreement within Citigroup's Resolution Plan, which in Moody's view now credibly results in incremental protection and a lower severity of loss for its senior creditors in the event of the company's failure.

Europe

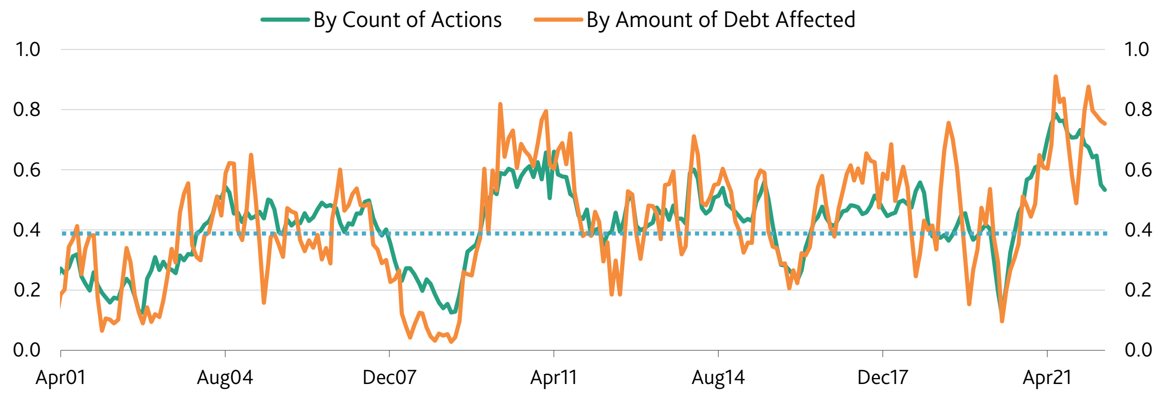
Corporate credit rating change activity was much stronger across Western Europe with upgrades outstripping downgrades 2:1 and comprising 96% of affected debt.

The largest upgrade was made to Stellantis N.V., which saw its long-term issuer and senior unsecured instrument ratings raised to Baa2 from Baa3. The upgrade was motivated by Stellantis' progress in terms of margin and leverage improvements to levels that meet Moody's criteria for the upgrade and the continued realization of synergies following the merger between Fiat Chrysler Automobiles N.V. and Peugeot S.A., which should provide sufficient headroom even in a weaker macroeconomic environment.

The lone downgrade was issued to Fly Leasing Limited. Moody's Investors Service cut Fly's corporate family rating to B3 from B1 and its senior unsecured rating to Caa2 from B3. The downgrade was prompted by the lack of a meaningful turnaround in the company's profitability and cash-generating capacity and the level of uncertainty concerning its ability to generate sufficient cash to satisfy or refinance its debt obligations. This uncertainty includes the timing and valuation of aircraft sales that appear to be necessary to alleviate its liquidity needs. The company's financial flexibility is further limited by its high reliance on secured funding, leaving little in the form of unencumbered assets, and its lack of a committed revolving credit facility. All of these factors create refinancing risk for Fly's $400 million senior unsecured notes that mature in October 2024.

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
8/3/2022	HARBOR FREIGHT TOOLS USA, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Ba3	B2	SG
8/4/2022	CITIGROUP INC.-CITIGROUP GLOBAL MARKETS HOLDINGS INC.	Financial	SrUnsec/LTIR/MTN	14729.64	U	A3	A2	IG
8/4/2022	CENTURY COMMUNITIES, INC.	Industrial	SrUnsec/LTCFR/PDR	1000.00	U	Ba3	Ba2	SG
8/4/2022	SHINGLE ACQUISITION HOLDINGS, INC.-SRS DISTRIBUTION INC.	Industrial	SrSec/BCF	650.00	D	B2	B3	SG
8/5/2022	CAST & CREW LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG
8/8/2022	CARNIVAL CORPORATION	Industrial	SrSec/SrUnsec/BCF/ LTCFR/PDR	14299.81	D	Ba2	Ba3	SG
8/8/2022	ROYAL CARIBBEAN CRUISES LTD.	Industrial	SrSec/SrUnsec/LTCFR/ PDR	9920.00	D	Ba2	Ba3	SG
8/8/2022	NEOVIA LOGISTICS INTERMEDIATE HOLDINGS, LP-NEOVIA LOGISTICS, LP	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Ca	SG
8/8/2022	CPV SHORE HOLDINGS, LLC	Industrial	SrSec/BCF		D	Ba2	Ba3	SG

Source: Moody's

FIGURE 4

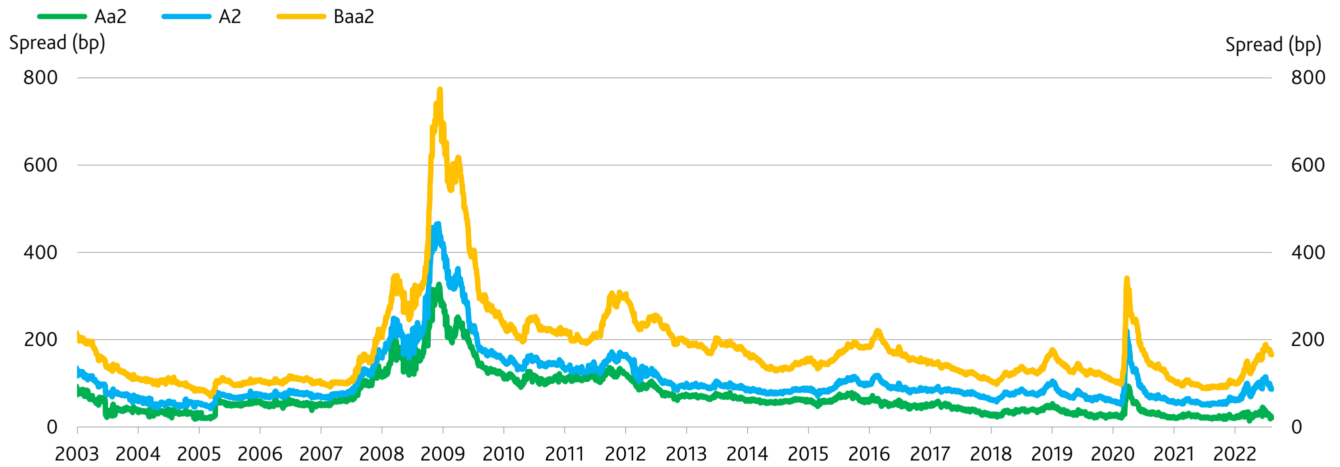
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
8/4/2022	FLY LEASING LIMITED	Financial	SrUnsec/SrSec/BCF/ LTCFR	700.00	D	B3	Caa2	SG	IRELAND
8/5/2022	STELLANTIS N.V.	Industrial	SrUnsec/LTIR/MTN/CP	17274.24	U	Baa3	Baa2	IG	NETHERLANDS
8/5/2022	FERROGLOBE PLC-FERROGLOBE FINANCE COMPANY, PLC	Industrial	SrSec	690.00	U	Caa1	B3	SG	UNITED KINGDOM

Source: Moody's

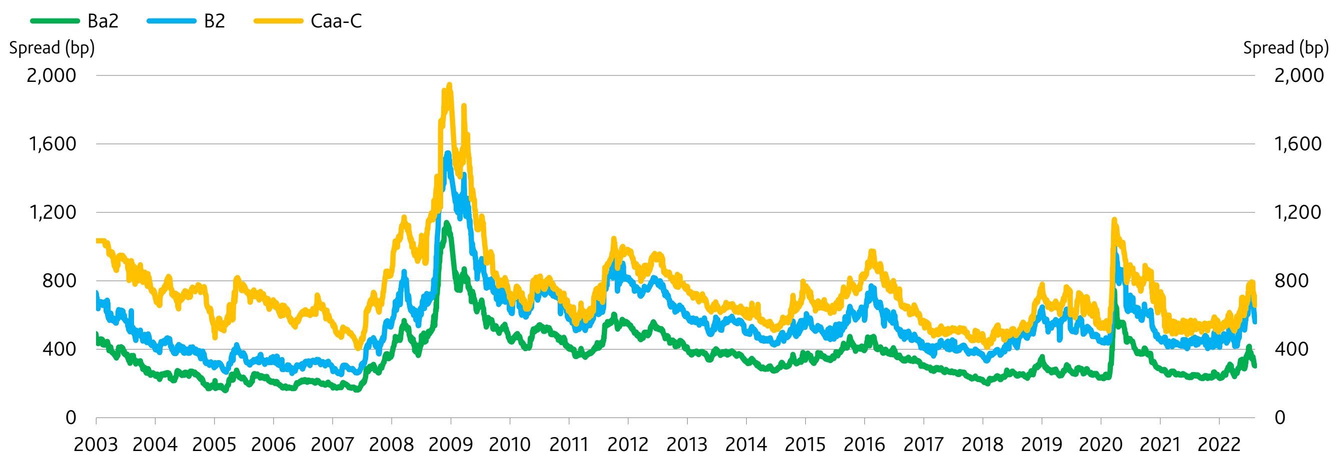
MARKET DATA

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 (August 3, 2022 – August 10, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Aug. 10	Aug. 3	Senior Ratings
JPMorgan Chase & Co.	A3	Baa1	A2
Comcast Corporation	A2	A3	A3
Citibank, N.A.	Baa2	Baa3	Aa3
Home Depot, Inc. (The)	Aa1	Aa2	A2
Lowe's Companies, Inc.	A1	A2	Baa1
FedEx Corporation	A2	A3	Baa2
Kinder Morgan, Inc.	Baa1	Baa2	Baa2
Duke Energy Carolinas, LLC	Aaa	Aa1	A2
FirstEnergy Corp.	Baa1	Baa2	Ba1
Cisco Systems, Inc.	Aa1	Aa2	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Aug. 10	Aug. 3	Senior Ratings
Cargill, Incorporated	A3	A1	A2
Toyota Motor Credit Corporation	Aa3	Aa2	A1
John Deere Capital Corporation	A3	A2	A2
Microsoft Corporation	Aa2	Aa1	Aaa
Coca-Cola Company (The)	A1	Aa3	A1
Merck & Co., Inc.	A1	Aa3	A1
Amgen Inc.	Aa3	Aa2	Baa1
Raytheon Technologies Corporation	Aa3	Aa2	Baa1
Enterprise Products Operating, LLC	A2	A1	Baa1
Nissan Motor Acceptance Company LLC	Ba3	Ba2	Baa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 10	Aug. 3	Spread Diff
Nabors Industries, Inc.	Caa2	667	593	75
Pitney Bowes Inc.	B3	1,176	1,136	40
Ball Corporation	Ba1	233	206	27
Unisys Corporation	B3	436	423	13
Bunge Limited Finance Corp.	Baa2	132	124	9
Mohawk Industries, Inc.	Baa1	161	152	9
Meritage Homes Corporation	Ba1	213	204	9
Corning Incorporated	Baa1	90	82	8
Cargill, Incorporated	A2	66	59	7
Hershey Company (The)	A1	47	40	7

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 10	Aug. 3	Spread Diff
Staples, Inc.	Caa2	1,518	1,759	-241
Rite Aid Corporation	Caa2	1,509	1,702	-193
Pactiv LLC	Caa1	650	813	-163
Liberty Interactive LLC	B2	1,279	1,429	-150
American Airlines Group Inc.	Caa1	1,291	1,431	-140
Anywhere Real Estate Group LLC	B2	617	730	-113
Carnival Corporation	B3	916	1,014	-99
TRW Automotive Inc.	Ba1	359	448	-89
DPL Inc.	Ba1	182	269	-87
Royal Caribbean Cruises Ltd.	B3	957	1,032	-75

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (August 3, 2022 – August 10, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Aug. 10	Aug. 3	Senior Ratings
Banco Bilbao Vizcaya Argentaria, S.A.	A3	Baa1	A3
Commerzbank AG	Baa1	Baa2	A2
Veolia Environnement S.A.	A1	A2	Baa1
Orsted A/S	Aa3	A1	Baa1
Iceland, Government of	A1	A2	A2
Pearson plc	Baa1	Baa2	Baa3
ENGIE Alliance	Baa1	Baa2	Baa1
United Kingdom, Government of	Aaa	Aaa	Aa3
Italy, Government of	Baa3	Baa3	Baa3
Germany, Government of	Aaa	Aaa	Aaa

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Aug. 10	Aug. 3	Senior Ratings
EWE AG	Baa3	A1	Baa1
SES S.A.	Ba1	Baa2	Baa2
France, Government of	Aa1	Aaa	Aa2
Spain, Government of	A1	Aa3	Baa1
Credit Agricole S.A.	A2	A1	Aa3
ING Bank N.V.	Aa3	Aa2	A1
Electricite de France	Baa2	Baa1	Baa1
Sanofi	Aa2	Aa1	A1
KBC Bank N.V.	Aa3	Aa2	A1
GSK plc	Aa2	Aa1	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 10	Aug. 3	Spread Diff
Casino Guichard-Perrachon SA	Caa1	2,387	2,261	126
EWE AG	Baa1	115	55	60
Vedanta Resources Limited	B3	1,920	1,867	53
SES S.A.	Baa2	165	114	51
Credit Suisse Group AG	Baa2	198	192	6
Banco Sabadell, S.A.	Baa3	136	131	5
Credit Suisse AG	A2	163	157	5
Coca-Cola HBC Finance B.V.	Baa1	109	104	5
CECONOMY AG	Ba1	625	620	5
de Volksbank N.V.	A2	98	94	4

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 10	Aug. 3	Spread Diff
Vue International Bidco plc	C	759	968	-209
Novafives S.A.S.	Caa2	1,236	1,329	-93
Ardagh Packaging Finance plc	Caa1	910	977	-66
Boparan Finance plc	Caa3	1,754	1,817	-62
Piraeus Financial Holdings S.A.	Caa1	880	932	-52
Deutsche Lufthansa Aktiengesellschaft	Ba2	419	469	-50
Stena AB	B2	518	565	-48
Jaguar Land Rover Automotive Plc	B1	855	896	-41
Premier Foods Finance plc	B2	329	368	-40
Ziggo Bond Company B.V.	B3	426	464	-37

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (August 3, 2022 – August 10, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Aug. 10	Aug. 3	Senior Ratings
Export-Import Bank of China (The)	A3	Baa1	A1
Korea Electric Power Corporation	Aa2	Aa3	Aa2
Mitsui & Co., Ltd.	Aa2	Aa3	A3
ICICI Bank Limited	Baa2	Baa3	Baa3
KT Corporation	Aa2	Aa3	A3
State Bank of India	Baa2	Baa3	Baa3
Japan, Government of	Aaa	Aaa	A1
China, Government of	A3	A3	A1
Australia, Government of	Aaa	Aaa	Aaa
Korea, Government of	Aa2	Aa2	Aa2

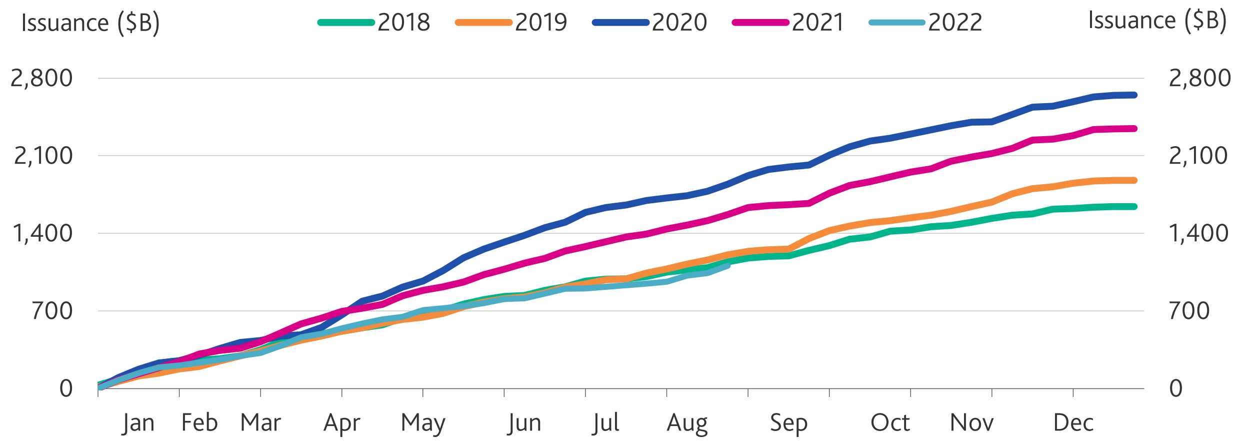
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Aug. 10	Aug. 3	Senior Ratings
National Australia Bank Limited	A3	A2	Aa3
SoftBank Group Corp.	B2	B1	Ba3
MUFG Bank, Ltd.	A1	Aa3	A1
Kansai Electric Power Company, Incorporated	Aa2	Aa1	A3
Telstra Corporation Limited	A1	Aa3	A2
Toyota Motor Corporation	Aa1	Aaa	A1
Japan Tobacco Inc.	A1	Aa3	A2
Tokyo Electric Power Company Holdings, Inc.	Baa1	A3	Ba1
Mitsui Fudosan Co., Ltd.	Aa1	Aaa	A3
Woolworths Group Limited	Baa1	A3	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 10	Aug. 3	Spread Diff
SK Hynix Inc.	Baa2	144	129	15
Tokyo Electric Power Company Holdings, Inc.	Ba1	82	76	6
SP PowerAssets Limited	Aa1	40	35	5
Flex Ltd.	Baa3	135	130	5
Suncorp-Metway Limited	A1	104	100	4
Hong Kong SAR, China, Government of	Aa3	29	25	4
SoftBank Group Corp.	Ba3	452	449	4
Telstra Corporation Limited	A2	55	50	4
Mitsui Fudosan Co., Ltd.	A3	26	24	2
Australia, Government of	Aaa	24	23	1

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 10	Aug. 3	Spread Diff
Pakistan, Government of	B3	1,748	3,544	-1,796
Kazakhstan, Government of	Baa2	261	284	-23
Indonesia, Government of	Baa2	97	115	-18
LG Electronics Inc.	Baa2	100	117	-18
SK Innovation Co. Ltd.	Baa3	154	171	-17
Philippines, Government of	Baa2	92	104	-13
Tata Motors Limited	B1	318	331	-13
Malayan Banking Berhad	A3	82	94	-12
India, Government of	Baa3	124	135	-11
Reliance Industries Limited	Baa2	109	121	-11

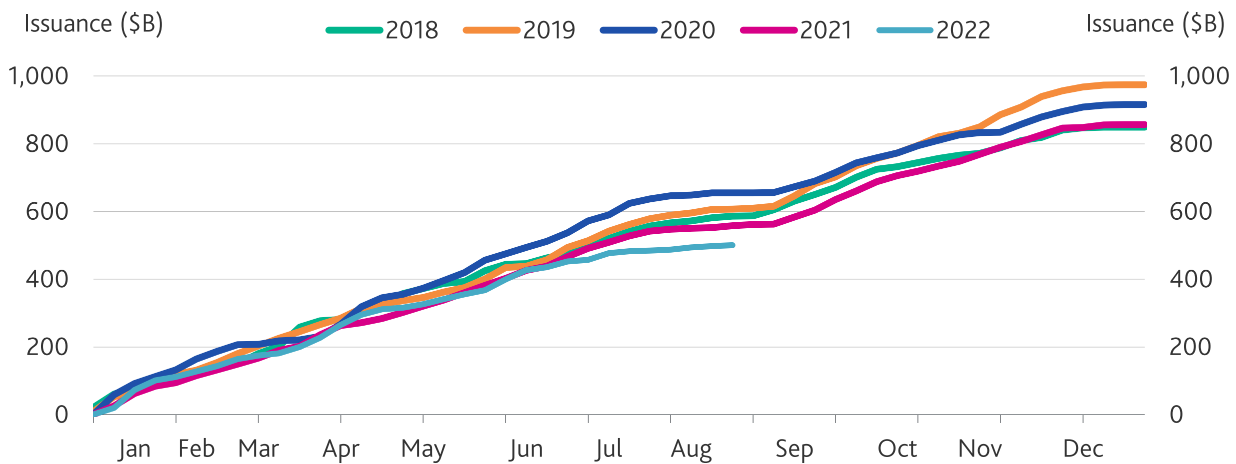
Source: Moody's, CMA

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

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	60.709	5.550	66.678
Year-to-Date	966.698	105.559	1,107.080

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	3.124	0.000	3.198
Year-to-Date	464.798	28.087	500.941

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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