MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Earnings Slump Would Unmask Dangers of High Leverage

Moody's Analytics Research

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The Week Ahead

We preview economic reports and forecasts from the US, UK/Europe, and Asia/Pacific regions.

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The Long View

Full updated stories and key credit market metrics: To date in 2019's second quarter, 102 US$-denominated high-yield bond issues raised $50.6 billion, wherein Chinese issuers offered 31 bonds that secured $10.6 billion.

Credit Spreads	Investment Grade: We see year-end 2019's average investment grade bond spread above its recent 127 basis points. High Yield: Compared with a recent 442 bp, the high-yield spread may approximate 475 bp by year-end 2019.
Defaults	US HY default rate: Moody's Investors Service's Default Report has the U.S.' trailing 12-month high-yield default rate dropping from April 2019's actual 2.7% to a baseline estimate of 1.5% for April 2020.
Issuance	For 2018's US$-denominated corporate bonds, IG bond issuance sank by 15.4% to $1.276 trillion, while high-yield bond issuance plummeted by 38.8% to $277 billion for high-yield bond issuance's worst calendar year since 2011's $274 billion. In 2019, US$-denominated corporate bond issuance is expected to rise by 0.4% for IG to $1.245 trillion, while high-yield supply grows by 11.7% to $310 billion. A significant drop by 2019's high-yield bond offerings would suggest the presence of a recession.

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Ratings Round-Up

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Credit spreads, CDS movers, issuance.

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Moody's Capital Markets Research *recent publications*

Links to commentaries on: Divining markets, upside risks, outstandings and ratings changes, high leverage, revenues and profits, Fed moves, riskier outlook, high-yield, defaults, confidence vs. skepticism, stabilization, growth and leverage, buybacks, volatility, monetary policy.

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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.

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Credit Markets Review and Outlook

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

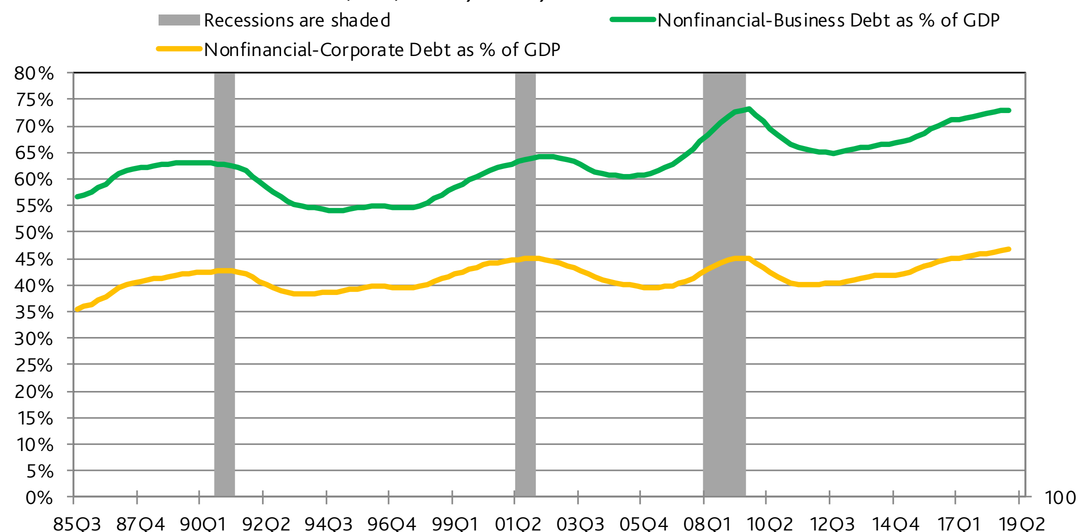
Earnings Slump Would Unmask Dangers of High Leverage

According to the Federal Reserve's "Financial Stability Report" of May 2019, not only has the outstanding debt of nonfinancial businesses outpaced nominal GDP during the past 10 years (or since 2008), but the growth of debt has been skewed toward riskier firms. However, the Fed's Financial Accounts of the United States showed the 3.6% average annual rate of growth for U.S. nonfinancial business debt during the 10 years ended 2018 barely outrunning the comparably measured 3.4% rise by nominal GDP. By contrast, during the 10 years ended 2008, the 7.9% average annual increase by nonfinancial business debt well outran nominal GDP's accompanying growth rate of 5.0%.

Perhaps, the better comparison would have focused on the climb by the outstandings of nonfinancial-business debt from 1998's 57.7% to 2018's near record 73.1% of nominal GDP. The ascent by the ratio of nonfinancial-business debt to GDP consisted of an increase by the ratio of nonfinancial-corporate debt to GDP from 1998's 41.7% to 2018's record 46.6% and a surge by the ratio of unincorporated business debt from 1998's 16.1% to 2018's 26.3% of GDP. However, the latter fell short of the record high 28.1% ratio of 2009's third quarter.

As of 2018's final quarter, the $15.243 trillion of outstanding nonfinancial-business debt was divided between $9.759 trillion of nonfinancial-corporate debt and $5.485 trillion of unincorporated business debt.

Figure 1: Relative to GDP, Nonfinancial-Business Debt Has Risen More Rapidly than Nonfinancial-Corporate Debt
yearlong ratios
sources: Federal Reserve, BEA, Moody's Analytics



The 4.7% average annualized increase by U.S. nonfinancial corporate debt of the 20-years-ended 2018 consisted of a 5.5% annualized growth for bond debt (including IRBs) to $6.059 trillion, a 3.8% annualized rise by loan debt (excluding mortgages) to $2.913 trillion, a 4.5% annualized gain for mortgage debt to $606 billion, and a 0.3% annualized drop by commercial paper to $181 billion.

Also during the 20-years-ended 2018, the core pretax profits of U.S. nonfinancial corporations rose by 4.4% annualized, on average, where the median of the 20 annual percent changes was a 4.9% increase. By comparison, the 4.7% average annualized growth of nonfinancial-corporate debt was between the 4.4% annualized increase by and the 4.9% median increase of core pretax profits for the 20 years ended 2018.

As inferred from the considerable volatility of the calendar-year percent changes for core pretax profits, assigning long-term significance to any year's change in profits is fraught with risk. For example, when core pretax profits declined annually in eight of the 20 years, the median annual setback was 10.4%. At the other extreme, the sample's 12 years of profits growth produced a median annual increase of 13.1%.

Loan and Mortgage Debt of Unincorporated Businesses Grew Rapidly During 1999-2018

By contrast, the same 6.6% average annualized advance by U.S. unincorporated business debt for the 20 years ended 2018 also applied to the average annual increases of both mortgage debt to $3.981 trillion and loan debt (excluding mortgages) to $1.504 trillion.

Unincorporated business' very large amount of outstanding mortgage debt underscores the real estate intensive nature of their asset structures. As of 2018's final quarter, the outstanding mortgage debt of unincorporated businesses included $1.947 trillion of commercial real estate mortgages, $1.320 trillion of multifamily mortgages, $529 billion of single-family mortgages, and $186 billion of farm mortgages.

A readily available measure of core pretax profits for unincorporated businesses does not exist. However, pretax proprietors income offers one way of approximating the earnings performance of unincorporated businesses.

As it turns out, the 4.6% average annualized increase by proprietors income during 1999-2018 resembled the accompanying 4.4% growth of nonfinancial-corporate pretax profits, wherein proprietors income's median annual increase of 4.9% exactly matched that of core pretax profits. However, unlike nonfinancial-corporate debt, the 6.6% average annual advance by unincorporated business debt was much faster than proprietors income's accompanying average and median annual increases. Thus, during the past 20 years, the protection offered by proprietors income to unincorporated business debt deteriorated by more than the protection supplied by core pretax profits to nonfinancial-corporate debt.

Nevertheless, proprietors income was far less volatile than core pretax profits. Proprietors income fell annually in only five of the 20 years ended 2018, wherein the median annual retreat was a mild 2.3%. For the 15 years showing an increase by proprietors income the median annual increase was 7.3%.

Shrinkage of Cash Inflates Ratio of Net Corporate Debt to GDP

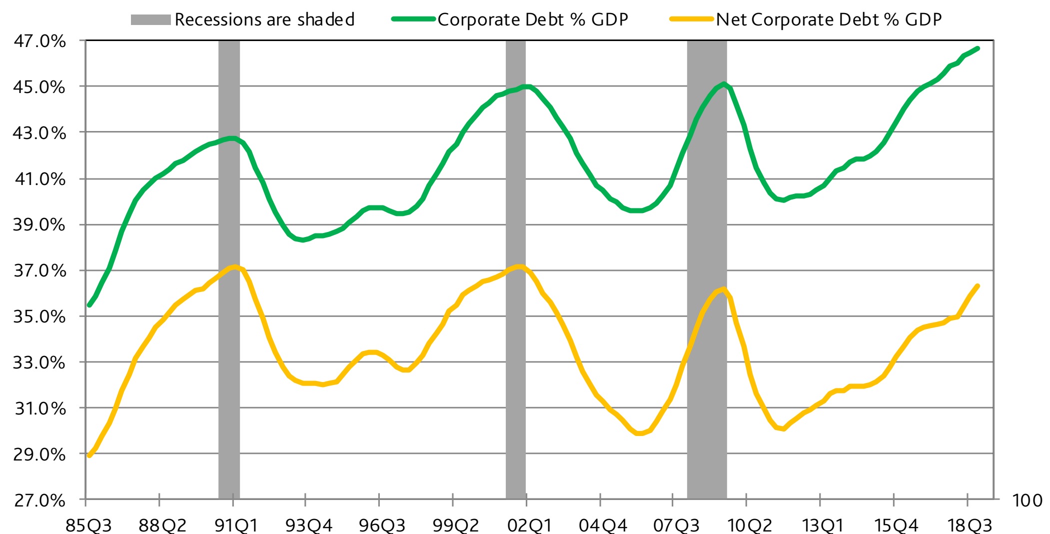
As measured by the Federal Reserve's Financial Accounts of the United States, the total liquid assets of U.S. nonfinancial corporations include common equity and mutual fund share holdings. However, in the following analysis, the common equity and mutual fund share holdings of corporations are excluded from total liquid assets, or cash.

Mostly because of how corporate tax reform facilitated the repatriation of cash held abroad, fourth-quarter 2018's liquid financial assets of U.S. nonfinancial corporations fell by 8.0% from a year earlier to $2.075 trillion. Fourth-quarter 2018's $179 billion year-to-year drop by corporate cash was dominated by a $140 billion, or 59.4%, plunge in the foreign bank deposits of U.S. nonfinancial companies.

In terms of moving yearlong averages, the annual increase of net nonfinancial corporate debt (or debt less cash) quickened from the 5.4% of 2017's final quarter to the 9.5% of 2018's final quarter. By contrast, the comparably measured annual increase of gross nonfinancial-corporate debt showed a much milder acceleration from fourth-quarter 2017's 6.3% to fourth-quarter 2018's 6.5%. Of course, the difference in the growth rates was entirely the consequence of a pronounced deterioration by the annual percent change of corporate cash from yearlong 2017's 12.7% expansion to 2018's 8.0% contraction.

The moving yearlong ratio of nonfinancial-corporate debt to GDP rose from fourth-quarter 2017's 45.9% to fourth-quarter 2018's new record high of 46.6%, while the moving yearlong ratio of nonfinancial corporate debt to GDP increased from 34.9% to 36.3%, respectively. Though the latter represents a new high for the current business cycle upturn, it still fell short of fourth-quarter 1990's record high of 37.2%.

Figure 2: As a % of GDP, Corporate Debt Sets New Zenith as Net Corporate Debt Approaches Its Record High
U.S. nonfin. corp., yearlong ratios
sources: Federal Reserve, BEA, Moody's Analytics



Core Pretax Profits Rein in Defaults Amid High Leverage

Previous cycle highs for the ratio of net nonfinancial-corporate debt to GDP were set at the 36.2% of 2009's second quarter and the 37.1% of 2001's final quarter. Note how each of the three previous cycle highs for the ratio of net nonfinancial-corporate debt to GDP was set amid a recession. Whether the ratio employed was gross or net corporate debt, the previous three cycle highs coincided with distressingly high default rates in excess of 10%.

By contrast, April 2019's U.S. high-yield default rate was a below-trend 2.7%. The previous peaks for the ratio of net corporate debt to GDP were amid pronounced contractions of core pretax profits. By contrast, because core profits are still on a rising trend, the default rate has been well contained.

According to the latest Blue Chip consensus, the core pretax profits of all U.S. corporations are expected to grow by 4.5% in 2019 and by 2.7% in 2020. Though both projected growth rates are slower than 2018's above-trend 7.8% advance, they compare most favorably with core pretax profits back-to-back annual declines of 2.9% for 2015 and 1.1% for 2016.

In response to 2015-2016's shrinkage of core profits, the high-yield bond spread's month-long average ballooned from a June 2014 low of 331 basis points to a February 2016 high of 839 bp, the long-term Baa industrial company bond yield spread widened from an April 2014 low of 144 bp to February 2016's 277 bp, and the high-yield default rate soared from September 2014's current recovery low of 1.6% to January 2017's post-2009 high of 5.9%.

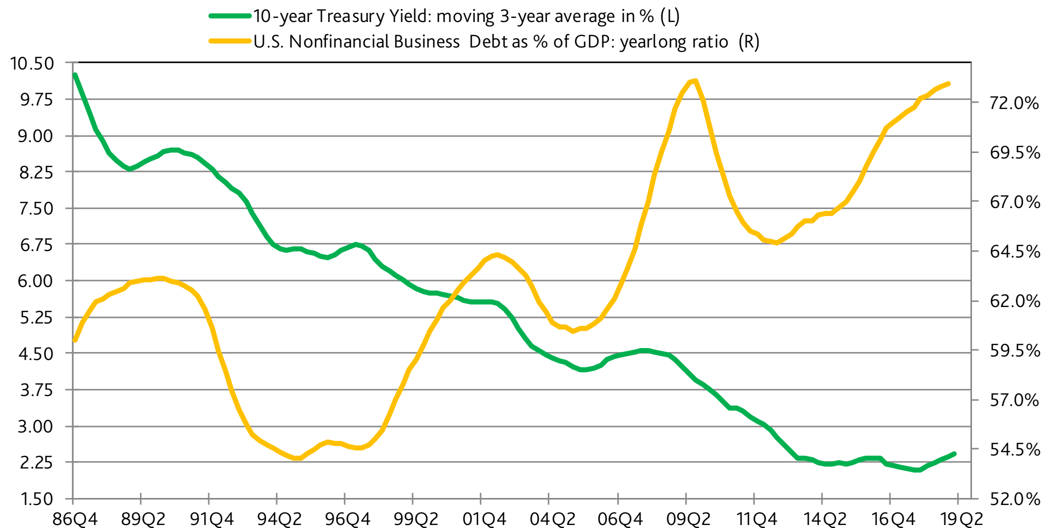
Invariably, the material shrinkage of core profits has been joined by the significant widening of medium- and speculative-grade bond yield spreads, both of which correctly foretold a much higher default rate. The dangers implicit in today's record-high ratio of nonfinancial-corporate debt to GDP will not become manifest until core profits' yearlong average shrinks by more than 5% from its current zenith.

Lower Benchmark Interest Rates Favor Higher Leverage

All too often, benchmark interest rates are overlooked when assessing appropriate ratios for (i) corporate debt to some measure of income or (ii) the market value of common stock to corporate earnings. All else the same, both corporate leverage and price:earnings multiples will be higher at lower interest rates. For example, the three previous peaks for the ratio of nonfinancial-corporate debt to GDP were preceded by moving three-year averages for the 10-year Treasury yield of 4.36% for the span-ended 2008, 5.64% for the span-ended 2000, and 8.63% for the three-years-ended 1990. By contrast, the 10-year Treasury yield averaged 2.36% during the three-years-ended 2018. Looking forward, it is unlikely that the 10-year Treasury yield's moving three-year average will approach 3%, never mind the 4.36% of 2006-2008.

Credit Markets Review and Outlook

Figure 3: Secular Decline by Treasury Bond Yield May Warrant a Higher Ratio of Nonfinancial-Business Debt to GDP
sources: Federal Reserve, BEA, Moody's Analytics



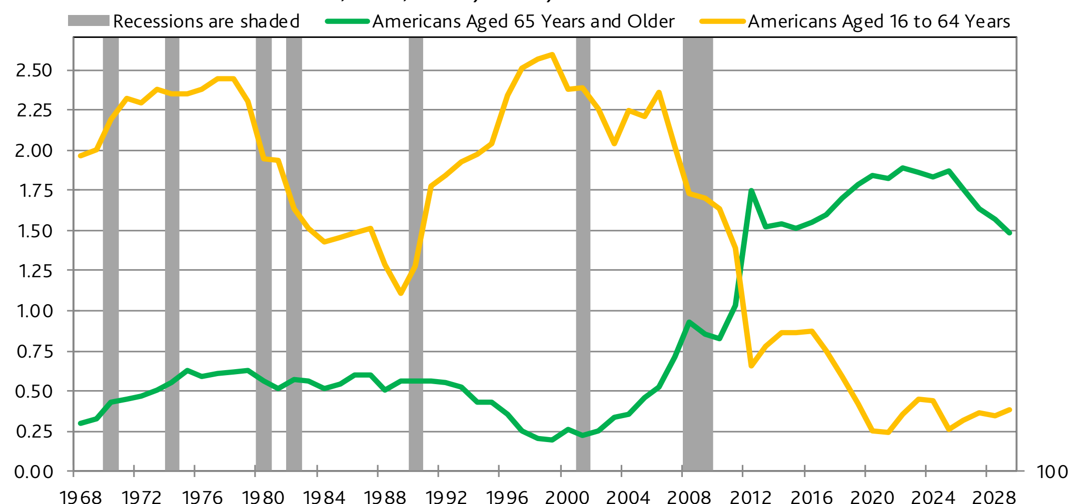
Ageing Population Will Help Keep Benchmark Interest Rates Low

Fed vice chairman Richard Clarida recently offered some reasons for a likely continuation of historically low interest rates. He stated that neutral interest rates have probably declined in the U.S. and abroad owing to (i) aging populations, (ii) changes in risk taking behavior and (iii) a slowdown in technology growth.

Demographic forecasts very much favor the continued aging of the U.S. population. A now record low U.S. fertility rate will only reinforce this trend.

The average annual increase in the number of Americans aged 16 to 64, or an age cohort that closely conforms to a traditional definition of the working age population, is expected to plummet from the 2.3 million individuals of the 10-years-ended 2007 to 280,000 over the next 10 years (2019 through 2028). In stark contrast, the average annual increase in the number of Americans aged 65 years and older is projected to soar from the 352,000 of the 10-years ended 2007 to 1.76 million for the 10-years-ended 2028. The fulfillment of these demographic projections favors slower growth for business activity, price inflation and profits, as well as relatively low benchmark interest rates.

Figure 4: Unprecedented Aging of U.S. Population May Profoundly Influence Financial Markets and Business Activity
actual & predicted annual increases in millions of people
sources: Census Bureau, NBER, Moody's Analytics



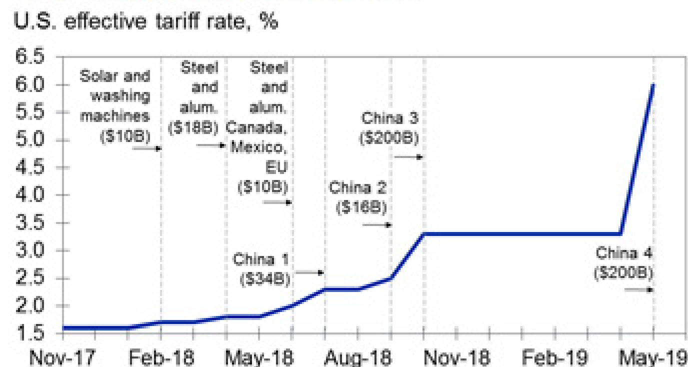
The Week Ahead – U.S., Europe, Asia-Pacific

THE U.S.
By Mark Zandi, Moody's Analytics

Will Trump Push Too Far?

President Trump has escalated the trade war with China, and nearly everyone has been wrong-footed by the move. Expectations were strong that an agreement ending the war, or at least putting it on hold, was imminent. Odds remain high that Trump and Chinese President Xi will soon come to terms. But suddenly a number of other scenarios seem possible, even one in which the U.S., China and global economy suffer a recession.

Trump upped the ante in the trade discussions with the Chinese last week when he increased the tariff on $200 billion in Chinese imports from 10% to 25%. An additional $50 billion in Chinese imports already have a 25% tariff. China said Monday that it will retaliate June 1 with higher tariffs on many imported U.S. goods.



The higher U.S. duties will impact more than 5,700 different Chinese goods imports but will not apply to goods already in transit to the U.S., only those that left China on or after May 10. It can take more than a month for ocean freight from China to reach the U.S., effectively providing a grace period for further negotiations. No additional trade talks with China are scheduled, but that could, and likely will, change quickly.

It is unclear what prompted Trump to up the ante with the Chinese. His administration suggests that the Chinese were backtracking on some provisions of the deal, most notably around subsidies provided to their large state-owned enterprises. Trump may also be engaged in some brinkmanship, as he appears emboldened by the resilient U.S. economy and stock market to extract more concessions from China.

Investor reaction to the surprising turn in the trade war has been modest, at least so far. Stock prices are down only a few percent from the record high set just prior to Trump's tariff hike. Widespread expectations remain strong that the U.S. and China will come to terms in the next few weeks. Chinese retaliation could ultimately increase the up to 10% tariffs the country has imposed on nearly $100 billion of U.S. imports to China to 25%, but that will be the extent of the tit-for-tat tariff hikes. And an agreement to end the war and roll back the tariffs, at least partially, will soon follow.

The baseline scenario

This is our most likely scenario as well. Given the difficult progress in the discussions up to now, the costs to the economy and stock market if the war drags on, and Trump's innate desire to deal, odds are good that some type of arrangement will be struck by the end of the grace period in mid-June. We attach a 60% probability to this baseline scenario.

The baseline also assumes that Trump does not open a new trade-war front involving vehicle imports into the U.S. The Commerce Department has ruled that vehicle imports are a national security threat, giving Trump the ability to increase tariffs. The president has long been upset with the large U.S. trade deficits with Germany, Japan and Korea, due in large part to the imports of vehicles and parts from these countries, but he will likely table this fight for another day.

The trade deal Trump struck with Canada and Mexico late last year has yet to make its way through Congress, and likely won't. The baseline thus assumes that the previous NAFTA rules will continue to apply, and that the president will not follow through with his threats to renege on NAFTA altogether or—even more serious—to increase tariffs on vehicle imports from Canada and Mexico, where the industry is important.

Under these baseline assumptions, the economic outlook will not change meaningfully. U.S. real GDP growth is expected to come in at 2.5% in 2019 and unemployment is expected to slowly but steadily decline throughout the year. Chinese growth is also not impacted, with real GDP growth of 6.3%, and the global economy continues to grow at close to its 3% potential.

Alternative scenario

An alternative scenario is that Trump can't find a way to shake hands with President Xi, and the higher 25% tariffs remain in place for longer, say through the end of the year. If longer than that, the trade war and its economic fallout would threaten to become a prominent part of next year's presidential election.

The higher tariffs will have a meaningful impact on the U.S., Chinese and global economies. Global businesses can navigate around the impact of a 10% tariff—they can reduce their profit margin, pass along some of the higher costs to their customers, and source their imports from places not facing tariffs—but navigating around a 25% tariff will prove impossible. Global supply chains will be disrupted, hurting business investment and manufacturing output.

This alternative scenario has a 30% probability, and would reduce U.S. real GDP growth this year by nearly half a percentage point to closer to 2%. The Federal Reserve will be tempted to cut interest rates given the uncertainty and weaker growth. However, we assume it ultimately won't do so, since growth remains close to potential and unemployment stable and low. Chinese real GDP growth will be reduced by approximately the same amount to just less than 6% this year, although Chinese authorities may ramp up their economic stimulus to offset the trade war's ill effects. They have shown a willingness and the ability to use their considerable monetary and fiscal tools to support growth.

Worst-case

A much more serious, worst-case, and increasingly plausible scenario is that Trump engages in an all-out trade war, following through on most of what he has threatened to do. This includes putting a 25% tariff on all Chinese imports to the U.S., which comes to some $520 billion for the past year, about one-fifth of all imports into the country. In this dark scenario, Trump also goes all-in on the 25% tariffs on vehicle imports and parts.

The rest of the world doesn't take all this lying down, and retaliates in-kind to the U.S. actions. The Chinese could jack up tariff rates on all of the just over $100 billion in U.S. imports to their country, but more likely China will have a non-tariff response. China could make it more difficult for U.S. businesses to obtain regulatory approval for various business activities or delay the time it takes for U.S. goods to clear customs. It could even allow the yuan to depreciate further in value, as it did last year when the

trade war first broke out. An even more extreme step would be to altogether stop buying U.S. goods—like the Apple iPhone. The Chinese boycotted Japanese cars a few years ago in a spat with that nation.

Recipe for recession

The probability of this full-blown trade war scenario is 10%, and is the recipe for a U.S., Chinese and global recession later this year. The Federal Reserve will attempt to cushion the economic blow by cutting rates, and the Chinese will pump up monetary and fiscal stimulus, but these efforts will fall short. The length and depth of the downturn will depend on how long it takes Trump to call a truce, but given the fast approaching presidential election, it is difficult to imagine he would allow the war to continue much into next year.

There is good reason to engage China on its trade practices and generally poor behavior in international commerce. However, Trump's trade war is a costly and likely ineffective way of getting China to reform. The economic costs of a war are potentially too high. There is a general consensus that Trump won't push it too far. Once it does show up in lower stock prices and weaker U.S. growth, he will relent. This makes sense, but it is important to carefully consider alternative scenarios.

Q1 and Q2 GDP tracking update

U.S. retail sales fell 0.2% in April following a revised 1.7% gain in March (previously 1.6%). Sales have been seesawing between increases and declines since December 2018.

Temporary factors such as the partial government shutdown, slower tax refunds, and weather may have played a role at varying points in the volatility of sales. The weakness in April was broad-based, and control retail sales—total retail excluding vehicles, gasoline, building materials and food services—were unchanged. Control retail sales were up 3% annualized in April over the prior three months.

Retail sales account for about one-third of total consumer spending, and services will be hurt by a drop in household spending on utilities. Utility output dropped 3.5% in April, the first decline since December. Overall, April retail sales and industrial production lowered our high-frequency GDP model's estimate of second-quarter real consumer spending from 3.8% to 3% at an annualized rate.

Weaker consumer spending suggests that the inventory build will be larger than previously thought. The inventory build in the second quarter is now tracking at $82 billion, which will still shave 1.1 percentage points off GDP growth. Overall, second-quarter GDP is now on track to rise 1.3% at an annualized rate.

March business inventories and revisions to retail sales didn't alter our tracking estimate of first-quarter GDP but the annual revisions to factory orders did, suggesting a smaller invenotry build in the first quarter. We now have first quarter GDP tracking 3% at an annualized rate.

Looking ahead

The economic calendar is light next week and the key data will be new and existing-home sales. We also get the minutes from the recent Federal Open Market Committee meeting.

We will publish our forecasts for next week's data on Monday on Economy.com.

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics

U.K. Inflation Pressures Likely Gathered Steam

Next week won't bring much on either the data or the political front for the euro zone, but in the U.K. all eyes will be on the publication of April's CPI figures. We expect them to show that inflation

pressures gathered substantial momentum at the start of the second quarter, with the headline inflation rate likely rising back above target to 2.2% y/y, from 1.9% in March. While this would at first glance provide further reason for the Bank of England to raise rates before the end of the year, we would to caution against reading too much into the increase. As happened in the euro zone, we expect that most of the jump in U.K. inflation pressures in April was due to the late timing of Easter compared with 2018. Last year's Easter Sunday fell on April 1, boosting package holiday, accommodation and transport services during the month of March, while in 2019 all of the Easter holidays fell in late April. This should have boosted services inflation to around 2.7%-2.8% in April, from 2.5% in March, but the flip side is that a correction would be imminent in May. Elsewhere, we expect that core goods inflation rose only slightly to 0.9%, from 0.8% in March, as recreational goods inflation (which is extremely volatile) should have rebounded somewhat following a sharp decline in March, while the good weather is similarly expected to have helped further ease the deflation in clothing prices, as it boosted demand for retailers' spring and early-summer collections.

We expect that U.K. noncore goods inflation also rose, though here too we caution that the increase is to set to be only temporary. That's because while motor fuels inflation should have risen a bit further in April, base effects in oil prices should push it substantially down from May. It should then continue on a downward path until October, provided that the price of the Brent barrel remains steady at around its current value of $73. An expected rise in energy prices should be more long-lasting. Ofgem introduced a cap on Standard Variable Tariffs in January—making the contribution of electricity prices to headline inflation plunge at the start of the year. But it raised the cap as of April 1 by 10%. This means that electricity inflation will rise in April and boost the headline by around 0.3 percentage point. the boost will last at least until September, when Ofgem could again make changes to the cap. We expect nonetheless that the expected decline in motor fuels inflation will offset most of the rise in electricity inflation.

Last but not least, we expect that U.K. food inflation fell further over the month; the warm weather is expected to have again boosted crop yields and depressed fresh produce prices. Given that May's temperatures turned south, this drag isn't expected to last for long.

In other news, we expect that retail sales in the U.K. fell sharply in April—likely by 0.8% m/m—following an unsustainable 1.1% m/m jump in March, which had built on two months of strong increases. Sales in March were boosted by the warm weather and by stockpiling of goods by households before the Brexit deadlines, warranting a sharp correction in April. The flip side is that April's Easter holidays is expected to have provided some offset, as anecdotal evidence points to a strong performance of retailers during the Easter weekend.

Across the Channel, the only major piece of news will be the release of the expenditure breakdown of Germany's first-quarter GDP. We expect it to show that domestic demand drove most of the 0.4% q/q uptick over the quarter, as consumer spending and investment are expected to have risen strongly. Net trade, by contrast, is set to have dragged. The details should nonetheless be better than the headline. Exports and imports are each expected to have increased over the quarter. A rebound in exports is great news for Germany, which has suffered over the past few quarters from regulations-related disruptions to its outsized auto industry and from the slowdown in global trade, each of which dealt a severe blow to Germany's foreign performance. German government spending is expected to have declined, though a correction there was always expected following the unsustainable 1.6% q/q jump in the fourth quarter.

	Key indicators	Units	Moody's Analytics	Last
Wed @ 9:30 a.m.	U.K.: Consumer Price Index for April	% change yr ago	2.2	1.9
Wed @ 2:00 p.m.	Russia: Industrial Production for April	% change yr ago	1.5	1.2
Thur @ 8:00 a.m.	Germany: GDP for Q1	% change	0.4	0.0
Fri @ 9:30 a.m.	U.K.: Retail Sales for April	% change yr ago	4.1	6.6
Fri @ 2:00 p.m.	Russia: Unemployment for April	%	4.7	4.7
Fri @ 2:00 p.m.	Russia: Retail Sales for April	% change yr ago	1.9	1.6

ASIA-PACIFIC

By Katrina Ell of Moody's Analytics

Japan's Q1 GDP Likely Hit 0.4%; Consumer Sentiment Has Fallen

Japan's economy dominates the economic calendar. Japan's GDP growth likely reached 0.4% q/q in the first quarter of 2019, according to advance estimates. This follows from 0.5% in the fourth quarter. Growth decelerated to 0.8% in 2018 on the back of lower global trade, which created headwinds domestically. Monthly barometers of consumption suggest a mild expansion only in the first quarter. Consumer sentiment has fallen sharply over the past year, reflecting slower momentum, despite the labour market remaining its tightest in decades and continued albeit bumpy upward pressure on wage growth. That being said, the annual spring wage negotiations delivered a more modest average increase compared with last year, reflecting the broadly slower conditions and concerns about the downside risks plaguing the global economy. Capital expenditure was likely flat, at best, in the first quarter, but an inventory buildup could support overall investment. Although export growth remains weak, net exports were likely a mild positive to growth on the back of low oil prices cutting the import bill.

Japan's core CPI growth likely held at 0.8% y/y in April. In the fiscal year to March, core CPI growth was up 0.8%, following last year's 0.7% gain. This marked the second consecutive year that Japan has seen CPI growth, but it is well shy of the Bank of Japan's 2% inflation target. The October consumption tax hike from 8% to 10% will yield a temporary spike. Core-core CPI (excludes fresh food and energy) held at 0.4% y/y in March and an unchanged result is expected in April. The BoJ is expected to stay quiet in 2019, with limited space for further stimulus, although the March monetary policy minutes revealed some appetite from a few board members for upping the stimulus ante.

Thailand's GDP growth likely slowed to 2.8% y/y in the March quarter, from 3.7% in the December stanza. Private consumption has been on a softer footing and exports remain under pressure amid weaker conditions offshore, hurt by added uncertainty surrounding the trade war. All told, Thailand had a relatively strong 2018, with full-year GDP growth coming in at 4.1%, its fastest pace in six years. This year is forecast at a slower 3.7%.

	Key indicators	Units	Confidence	Risk	Moody's Analytics	Last
Mon @ 9:50 a.m.	Japan GDP for Q1 - Advance estimate	% change	3	↓	0.4	0.5
Tues @ Unknown	Thailand GDP for Q1	% change yr ago	2	←	2.8	3.7
Wed @ 9:50 a.m.	Japan Foreign trade for April	¥ bil	3	←	-265	-178
Wed @ 9:50 a.m.	Japan Machinery orders for March	% change	3	←	-0.5	1.8
Fri @ 9:30 a.m.	Japan Consumer price index for April	% change yr ago	2	↓	0.8	0.8

The Long View

To date in 2019's second quarter, 102 US$-denominated high-yield bond issues raised $50.6 billion, wherein Chinese issuers offered 31 bonds that secured $10.6 billion.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
May 16, 2019

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 127 basis points eclipses its 122-point mean of the two previous economic recoveries. This spread may be no wider than 138 bp by year-end 2019.

The recent high-yield bond spread of 442 bp is thinner than what is suggested by the accompanying long-term Baa industrial company bond yield spread of 196 bp but is wider than what may be inferred from the recent VIX of 15.5 points.

DEFAULTS

April 2019's U.S. high-yield default rate of 2.7% was less than the 4.0% of April 2018. Moody's Investors Service now expects the default rate will average 2.0% during 2020's first quarter.

US CORPORATE BOND ISSUANCE

Yearlong 2017's US$-denominated bond issuance rose by 6.8% annually for IG, to $1.508 trillion and soared by 33.0% to $453 billion for high yield. Across broad rating categories, 2017's newly rated bank loan programs from high-yield issuers sank by 26.2% to $72 billion for Baa, advanced by 50.6% to $319 billion for Ba, soared by 56.0% to $293 billion for programs graded single B, and increased by 28.1% to $25.5 billion for new loans rated Caa.

First-quarter 2018's worldwide offerings of corporate bonds incurred year-over-year setbacks of 6.3% for IG and 18.6% for high-yield, wherein US$-denominated offerings posted sank by 14.4% for IG and 20.8% for high yield.

Second-quarter 2018's worldwide offerings of corporate bonds eked out an annual increase of 2.8% for IG, but incurred an annual plunge of 20.4% for high-yield, wherein US$-denominated offerings rose by 1.6% for IG and plummeted by 28.1% for high yield.

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 2.3% for IG and grew by 7.1% 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 0.5% for IG and 10.6% for high yield. When stated in U.S. dollars, issuers based outside the U.S. supplied 60% of the investment-grade and 61% of the high-yield bond offerings of 2019's first quarter.

US ECONOMIC OUTLOOK

As inferred from the CME Group's FedWatch Tool, the futures market recently assigned an implied probability of 0.0% to at least one Fed rate hike in 2019. 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 3% 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 and Brendan Meighan of Moody's Analytics
May 16, 2019

EURO ZONE

Thursday was light on the data front for Europe, with the main piece of news being the euro zone's trade figures for March. They confirmed our view that the currency area's trade surplus would fall further at the end of the first quarter, in line with the slowdown in global growth. Accordingly, the euro zone's not seasonally adjusted surplus narrowed to €22.5 billion in March from €26.9 billion in March 2018, as imports rose by 6% y/y, outpacing the 3.1% gain in exports. The seasonally adjusted surplus also shrank, down to €17.9 billion in March from €20.6 billion in February.

The quarterly figures painted a similar picture, showing that not seasonally adjusted imports increased by 4.8% y/y in the first stanza while exports were up by a lesser 3.9%. Although the strength in imports clearly attests to the solid performance of the area's domestic demand in the three months to March—in line with the advanced reports published by the major countries' statistical offices—the rise in exports shouldn't be discounted. Given the recent trade disputes and the dismal survey data, we were expecting exports would fall off a cliff instead of increase. The good news corroborates our view that euro zone factories are still open for business despite the recent slowdown in external demand, especially from China and the U.S.

We expect the euro zone's trade deficit will continue to decline over the rest of the year, since domestic demand is set to remain strong, especially consumer spending, while exports will continue to be depressed by the global trade war. A major risk is that the U.S. hikes tariffs on auto imports; this would deal a heavy blow to Germany's outsize auto industry.

GERMANY

Preliminary first quarter GDP figures for Germany brought cheerful news. They beat expectations, showing that the euro zone's largest economy grew a strong 0.4% q/q in the opening stanza of 2019, far better than the zero growth recorded for the three months to December and exceeding the consensus forecast for a less impressive gain. The expenditure breakdown details haven't been made available yet, but the country's statistical office noted that domestic demand drove most of the uptick, in line with our expectations, as consumer spending and investment each rose strongly.

Net trade, by contrast, dragged. But the details were better than the headline, as exports and imports are each expected to have increased over the quarter. A rebound in exports is great news for Germany, which has suffered over the past few quarters from regulations-related disruptions to its outsize auto industry and from the slowdown in global trade, both of which dealt a severe blow to Germany's foreign performance.

Government spending is also expected to have declined, though a correction here was always expected following the unsustainable 1.6% q/q jump in the fourth quarter. But given Germany's large fiscal surplus, our view remains that the government has scope to lift its current and investment expenditures sharply this year—especially as interest rates are still at record lows—giving a much-needed boost to the country's growth potential.

The figures have confirmed our view that all is not bad in the German economy, even if the survey data remain in the doldrums. And while we expect some slowdown in the second quarter on the back of a correction in

inventories, we still forecast that the country's GDP will continue to grow in coming months. Consumer spending should remain the main driver of growth, as unemployment is at a record low and wage growth is surging, but investment should also support the momentum, especially in the construction industry.

ASIA PACIFIC

By Katrina Ell of Moody's Analytics
May 16, 2019

CENTRAL BANKS

Several central banks in Asia cemented their dovish shift last week. The Philippines, Malaysia and New Zealand each cut their benchmark policy rates by 25 basis points, as we had expected. This brings the tally of central banks in Asia that have cut policy rates so far this year to four. India was the first off the bench, and has already cut by a cumulative 50 basis points in 2019.

Further monetary easing remains in the pipeline for Asia this year. Weaker economic growth and inflation outlooks, downside global risks including the trade war and Brexit adding to policy uncertainty, and the implications of the dovish pivot by the Federal Reserve and European Central Bank are contributing factors.

The other most likely contender to ease policy settings is Australia, with interest rate cuts expected in the second half of 2019. It will be a sealed deal if the unemployment rate starts rising. But the fact that the trend unemployment rate held at 5% for a fifth straight month in March while employment growth remains above average kept the central bank on the sidelines at its May meeting, despite financial markets betting on a rate cut.

Elsewhere, the Bank of Japan's March monetary policy minutes show that there was consideration of whether to ramp up stimulus. While the majority in the nine-member board is comfortable remaining on the sidelines, there were concerns about what should happen if growth and price expectations deteriorate, not least given the lack of progress so far lifting inflation to the elusive 2% target. Our baseline is that the BoJ will not take the road to further easing this year.

Bangko Sentral ng Pilipinas

The Bangko Sentral ng Pilipinas cut the key policy rates by 25 basis points in May, bringing the Overnight Borrowing Rate to 4.5% and the Overnight Deposit Rate to 4%. This begins to reverse the 175 basis points' worth of hikes introduced in 2018 to tame both inflation and capital outflow pressure. The peso has appreciated 0.7% against the dollar so far this year, an improvement on 2018, when it slumped to a 13-year low in September. Headline inflation settled down to 3% in April, within Bangko Sentral ng Pilipinas' 2%-to-4% target range, after averaging 5.2% y/y last year.

The benchmark reduction in May was on the heels of the weaker-than-expected March quarter GDP print, released on 9 May. GDP growth slowed to a four-year low at 5.6% y/y, down from 6.3% in the fourth quarter. Part of the weak number was on the back of a slump in government consumption, due to delays in passing the 2019 national budget. The delay in the budget passage also caused a contraction in public construction, which in turn caused a slowdown in overall construction and fixed capital formation. Finance Secretary Carlos Dominguez III reportedly said that the government was prevented from spending an additional US$13.4 million every day that the country operated under a re-enacted budget, bringing the total government underspending in the first quarter of 2019 to US$899.6 million.

Net exports were also an important drag in the March quarter, continuing the trend of recent quarters. Net exports subtracted 2.6 percentage points from the GDP growth rate. Weaker offshore demand, alongside the government's large-scale infrastructure push, drove the external balances into deficit. Imports of capital goods have been surging, contributing to a widening trade deficit and current account deficit.

There was no change to the commercial banks' reserve requirement ratio in May, which remains at 18%. Our expectation is the BSP continues loosening benchmark policy rates over 2019, with a cumulative 75-basis point reduction as our baseline scenario over the year. We also expect cuts to reserve requirement ratios over the year, after 200 basis points were delivered in 2018.

The Long View

Reserve Bank of New Zealand

The Reserve Bank of New Zealand delivered a rate cut for the first time since November 2016. The Official Cash Rate was reduced by 25 basis points to 1.5% in May. The RBNZ didn't mince words when justifying the cut, noting that weaker global growth has eased "demand for New Zealand's goods and services." The small open economy has consequently seen weaker GDP growth and inflation and tepid business confidence. Also, more recently, the labour market has cooled. Employment growth has been on a steady cooling path since the December quarter of 2016 when it hit 6.1% y/y. In the latest March quarter reading employment growth was 1.6%, its weakest in three years.

A pleasing development for the central bank following the rate reduction was that the New Zealand dollar dropped to a six-month low at US$0.6525. The exchange rate is an important ingredient in the RBNZ's monetary policy decision, given the impact on its important soft commodity sector, which is export-oriented. The RBNZ signaled its intention to cut rates in March, noting that "the more likely direction of our next OCR move is down." Since this statement, the kiwi has lost 4.4% against the dollar and has fallen almost 2% year to date.

Our baseline has another 25-basis point cut penciled in for the third quarter, but this is a line ball call.

Bank Negara Malaysia

Bank Negara Malaysia reduced the Overnight Policy Rate by 25 basis points to 3% in May, the first cut since July 2016. The May move reverses the 25-basis point hike introduced in January 2018, bringing the OPR to 3.25% to begin normalizing settings. It was a 50:50 call whether BNM would reduce in May. In the end the cut was on the back of the downside risks plaguing the domestic and global economies, in particular, trade tensions and the associated heightened policy uncertainties. Another factor is the "extended weakness in commodity-related sectors." Palm oil prices have been struggling for months, while West Texas Intermediate crude has fallen around 10% in the past year.

The central bank had the flexibility to reduce policy settings given subdued inflation. Headline CPI growth was 0.2% y/y in March after a 0.4% fall in February, given the lingering impact of the goods and services tax removal last year and eventual replacement with the sales and services tax. The likelihood of further reductions in coming months is remote, unless global economic conditions deteriorate markedly.

Investment has cooled since the government of Prime Minister Mahathir Mohamad sidelined large infrastructure projects associated with the Belt and Road Initiative after it came to power in May 2018, but this should improve from the second half of the year, a positive development for domestic demand, which is travelling on a softer footing compared with early 2018. Initially with the arrival of Mahathir, it appeared that Malaysia had gone cold on all existing BRI projects. It has since become clearer that the government is open to participating in the projects, where it deems the terms are favourable. Achieving more favourable terms seems more important than what was observed in the prior Najib Razak administration given the higher focus on reducing Malaysia's debt levels. Government debt-to-GDP was 51% in 2018, up from 40% in 2007, according to the Bank for International Settlements.

A good case in point is the evolution of the East Coast Rail Link project, which began construction in 2017 and connects Malaysia's largest port with Thailand, and two gas pipelines worth US$2.3 billion. It was sidelined in July 2018 but in April 2019 was given the go-ahead after terms were renegotiated. This included reducing the price tag, altering the length and direction of the railway and the completion deadline. It is not in Malaysia's interest to permanently axe all projects given the associated high cancellation costs. Ultimately, improving infrastructure in Malaysia is a necessity.

Ratings Round-Up

U.S. Changes Remain Subpar

By Michael Ferlez

U.S. rating change activity remained subpar for the period ending May 14. Positive rating changes accounted for 33% of total activity, up slightly from the previous week. Of the 10 downgrades, only one was to an investment-grade company. Despite again being outnumber, upgrades accounted for 69% of total affected debt. Last week's upgrades featured MPLX LP, a subsidiary of Marathon Petroleum, which saw its senior unsecured debt rating upgraded to Baa2 from Baa3. The rating change reflects firm's financial strength and expected benefits from a planned merger with Andeavor Logistics LP. The upgrade affected $14 billion in debt. Meanwhile, the notable downgrade last week was American Energy-Permian Basin LLC. The U.S. oil company saw its corporate family rating cut to Ca from Caa3 and its senior secured first lien notes cut to B3 from B2. The downgrade follows the firm's non-payment of interest on its Floating Rate Senior Notes due 2019, Senior Notes due 2020, Senior Notes due 2021 and the Exchangeable Junior Subordinated Notes due 2022. The recent trend in rating change activity is indicative of an economy in the late stages of economic expansion. Over the past year, weekly rating changes have been mostly concentrated among smaller, speculative-grade companies. Although these rating actions have been mostly negative, the downgrades are largely the result of idiosyncratic factors and not a weakness in the broader economy.

Rating change activity increased in Europe, split evenly between upgrades and downgrades. However, upgrades were responsible for 99% of total affect debt during the period. The notable upgrade was to AB Volvo. The Swedish carmaker saw its senior unsecured credit rating upgraded to A3 from Baa1. Volvo's upgrade reflects improvements in the firm's financial performance and credit metrics. The company's outlook was also changed from stable to positive.

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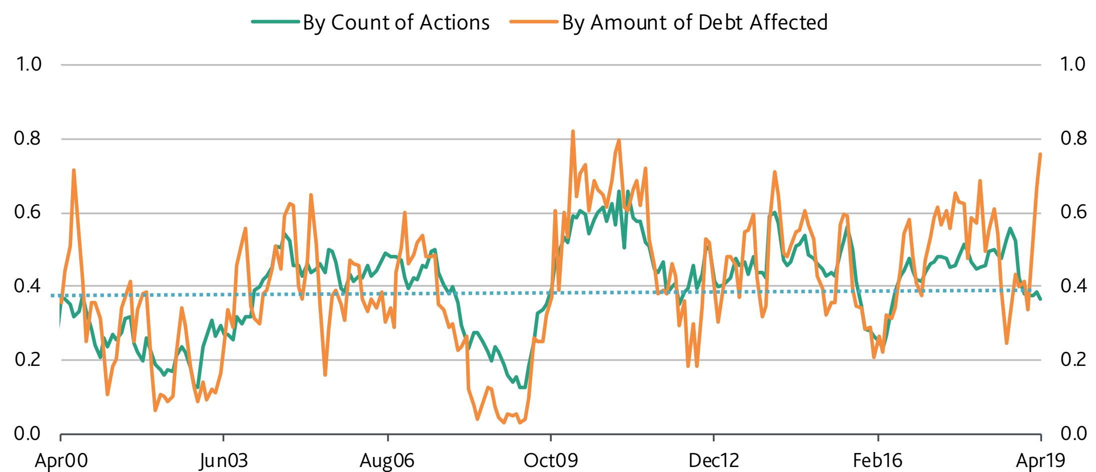
FIGURE 1
Rating Changes - US Corporate & Financial Institutions: Favorable as % of Total Actions



* 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
5/8/19	ANDEAVOR-ANDEAVOR LOGISTICS LP	Industrial	SrUnsec/PS	4,600	U	Ba1	Baa3	SG
5/8/19	TALEN ENERGY SUPPLY, LLC	Utility	SrSec/BCF	1,671	D	Ba2	Ba3	SG
5/8/19	MARATHON PETROLEUM CORPORATION-MPLX LP	Industrial	SrUnsec	13,827	U	Baa3	Baa2	IG
5/9/19	JEFFERIES FINANCIAL GROUP-JEFFERIES FINANCE LLC	Financial	SrUnsec	1,850	D	B1	B2	SG
5/9/19	PRUDENTIAL FINANCIAL, INC.	Financial	SrUnsec/LTIR/Sub /JrSub/MTN/IFSR/PS		U	Baa1	A3	IG
5/9/19	CATALENT, INC.-CATALENT PHARMA SOLUTIONS, INC.	Industrial	SrSec/BCF		D	Ba2	Ba3	SG
5/10/19	FLUOR CORPORATION	Industrial	SrUnsec	1,662	D	Baa1	Baa2	IG
5/10/19	NORWEGIAN CRUISE LINE HOLDINGS LTD.-NCL CORPORATION LTD.	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	700	U	B1	Ba2	SG
5/13/19	BRISTOW GROUP INC.	Industrial	SrUnsec/PDR	803	D	Ca	C	SG
5/13/19	PREFERRED PROPPANTS, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa2	C	SG
5/13/19	LINEAGE LOGISTICS HOLDINGS, LLC-LINEAGE LOGISTICS, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
5/13/19	CLOUD PEAK ENERGY INC. -CLOUD PEAK ENERGY RESOURCES LLC	Industrial	LTCFR/PDR		D	Ca	C	SG
5/14/19	MONEYGRAM INTERNATIONAL, INC.	Industrial	SrSec/BCF/LTCFR		D	B2	B3	SG
5/14/19	SPRINT HOLDINGS, INC.-SPRINT INDUSTRIAL HOLDINGS LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa3	C	SG
5/14/19	AMERICAN ENERGY-PERMIAN BASIN, LLC	Industrial	SrSec/SrUnsec /LTCFR/PDR	2,425	D	B2	B3	SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

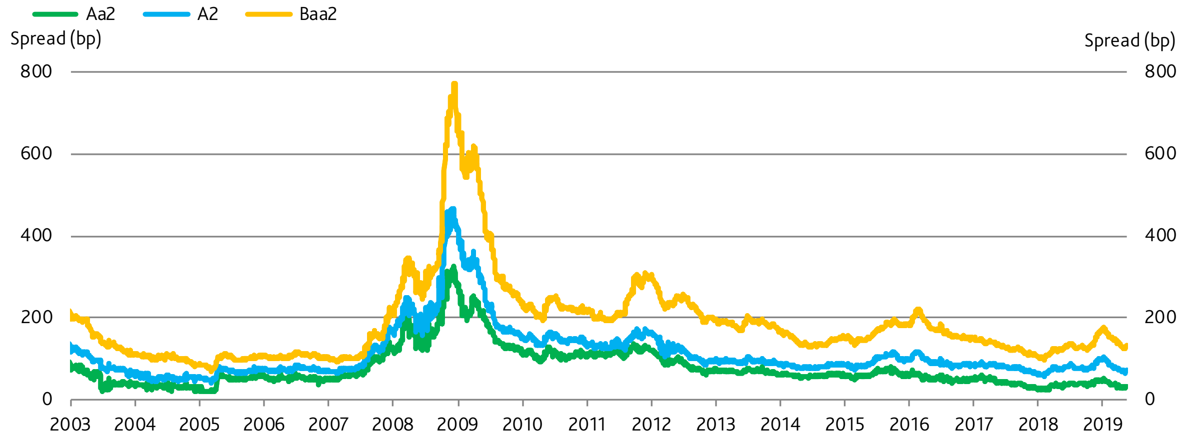
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
5/9/19	NEXI S.P.A.	Industrial	SrSec /LTCFR/PDR	2,474	U	B1	Ba3	SG	ITALY
5/10/19	AB VOLVO	Industrial	SrUnsec/LTIR /JrSub/MTN	9,858	U	Baa1	A3	IG	SWEDEN
5/10/19	NEW LOOK RETAIL GROUP LIMITED	Industrial	LTCFR/PDR		U	Ca	Caa2	SG	UNITED KINGDOM
5/13/19	DEOLEO S.A.	Industrial	SrSec/BCF /LTCFR/PDR		D	Caa1	Ca	SG	SPAIN
5/13/19	EVERGREEN SKILLS INTERMEDIATE LUX S.A R.L.-EVERGREEN SKILLS LUX S.A R.L.	Industrial	SrSec/BCF /LTCFR/PDR		D	Caa3	Ca	SG	LUXEMBOURG
5/13/19	MOBY S.P.A.	Industrial	SrSec /LTCFR/PDR	337	D	Caa1	Caa2	SG	ITALY
5/14/19	GETIN NOBLE BANK S.A.	Financial	LTD		D	B2	Caa1	SG	POLAND
5/14/19	DLG ACQUISITIONS LIMITED	Industrial	LTCFR/PDR		U	B3	B2	SG	UNITED KINGDOM

Source: Moody's

Market Data

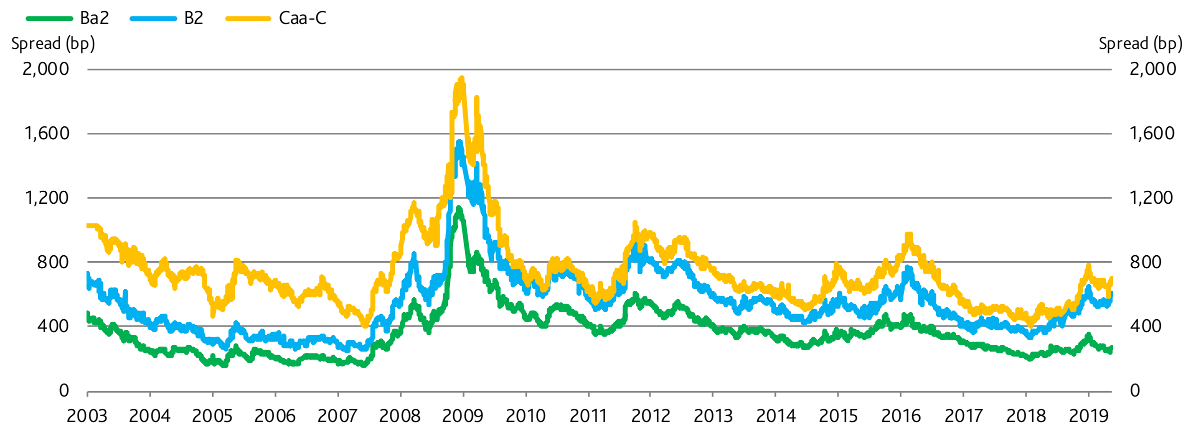
Spreads

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 (May 8, 2019 – May 15, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 15	May. 8	Senior Ratings
JPMorgan Chase & Co.	A2	A3	A2
John Deere Capital Corporation	A2	A3	A2
Bristol-Myers Squibb Company	A1	A2	A2
Intel Corporation	A1	A2	A1
Enterprise Products Operating, LLC	Baa1	Baa2	Baa1
United Parcel Service, Inc.	A2	A3	A1
Bank of America, N.A.	A2	A3	Aa2
Abbott Laboratories	A2	A3	A3
Cargill, Incorporated	A3	Baa1	A2
International Paper Company	Baa1	Baa2	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 15	May. 8	Senior Ratings
Pioneer Natural Resources Company	Baa1	A2	Baa2
Apple Inc.	Aa1	Aaa	Aa1
McDonald's Corporation	Aa2	Aa1	Baa1
PepsiCo, Inc.	Aa3	Aa2	A1
Ford Motor Company	Ba3	Ba2	Baa3
Union Pacific Corporation	Aa2	Aa1	Baa1
Honeywell International Inc.	Aa2	Aa1	A2
Dominion Energy, Inc.	A1	Aa3	Baa2
Northrop Grumman Corporation	Aa2	Aa1	Baa2
Target Corporation	A2	A1	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 15	May. 8	Spread Diff
Weatherford International, LLC (Delaware)	Ca	20,606	1,538	19,069
Penney (J.C.) Corporation, Inc.	Caa2	3,384	3,008	376
Rite Aid Corporation	Caa1	1,559	1,409	150
McClatchy Company (The)	Caa2	821	736	85
AK Steel Corporation	B3	948	876	72
R.R. Donnelley & Sons Company	B3	867	803	65
Chesapeake Energy Corporation	B2	652	589	63
Beazer Homes USA, Inc.	B3	446	400	46
American Axle & Manufacturing, Inc.	B2	353	311	42
Talen Energy Supply, LLC	B3	490	448	42

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 15	May. 8	Spread Diff
Dean Foods Company	Caa1	2,019	2,499	-480
Neiman Marcus Group LTD LLC	Ca	2,609	2,672	-64
Avon Products, Inc.	B3	343	376	-33
Ashland LLC	Ba3	85	101	-15
Corning Incorporated	Baa1	61	71	-9
Murphy Oil Corporation	Ba2	135	141	-6
Enterprise Products Operating, LLC	Baa1	67	72	-5
Level 3 Parent, LLC	B1	164	169	-5
Cooper Tire & Rubber Company	B1	130	135	-5
Xerox Corporation	Ba1	229	233	-4

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (May 8, 2019 – May 15, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 15	May. 8	Senior Ratings
Deutsche Bank AG	Baa3	Ba2	A3
Commerzbank AG	A3	Baa2	A1
Bouygues S.A.	A1	A3	A3
Electricite de France	A3	Baa1	A3
Alpha Bank AE	Caa1	Caa2	Caa1
Landesbank Baden-Wuerttemberg	A1	A2	Aa3
Allied Irish Banks, p.l.c.	Baa1	Baa2	Baa3
Eurobank Ergasias S.A.	Caa3	Ca	Caa1
Bank of Ireland	A2	A3	A3
National Grid Gas Plc	A2	A3	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 15	May. 8	Senior Ratings
Italy, Government of	Ba3	Ba2	Baa3
Societe Generale	Aa3	Aa2	A1
Ireland, Government of	Aa2	Aa1	A2
BNP Paribas	Aa3	Aa2	Aa3
NatWest Markets Plc	Baa3	Baa2	Baa2
Bayerische Landesbank	Aa3	Aa2	Aa3
HSBC Holdings plc	Baa1	A3	A2
Standard Chartered Bank	Aa3	Aa2	A1
NatWest Markets N.V.	Aa3	Aa2	Baa2
Orange	Aa3	Aa2	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 15	May. 8	Spread Diff
PizzaExpress Financing 1 plc	Caa2	2,916	2,748	169
Galapagos Holding S.A.	Caa3	8,152	7,984	167
Boparan Finance plc	Caa1	1,562	1,513	50
Casino Guichard-Perrachon SA	Ba3	534	492	42
Stena AB	B3	573	547	26
Sappi Papier Holding GmbH	Ba1	310	287	23
Intesa Sanpaolo S.p.A.	Baa1	147	126	22
Italy, Government of	Baa3	205	186	19
Novafives S.A.S.	B3	558	538	19
UniCredit S.p.A.	Baa1	134	117	18

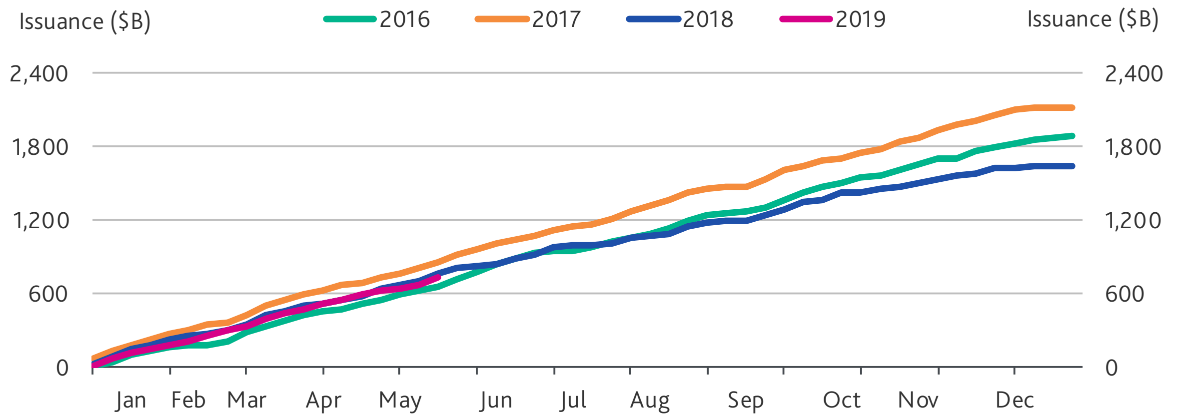
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 15	May. 8	Spread Diff
Jaguar Land Rover Automotive Plc	Ba3	552	630	-78
Deutsche Bank AG	A3	99	168	-69
thyssenkrupp AG	Ba2	203	251	-49
CMA CGM S.A.	B3	766	794	-28
Commerzbank AG	A1	57	77	-21
Banco BPI S.A.	Baa2	110	128	-18
Anglo American plc	Baa2	135	145	-10
Virgin Media Finance PLC	B2	134	144	-10
Stonegate Pub Company Financing plc	Caa1	190	199	-8
Altice Finco S.A.	Caa1	428	434	-6

Source: Moody's, CMA

Market Data

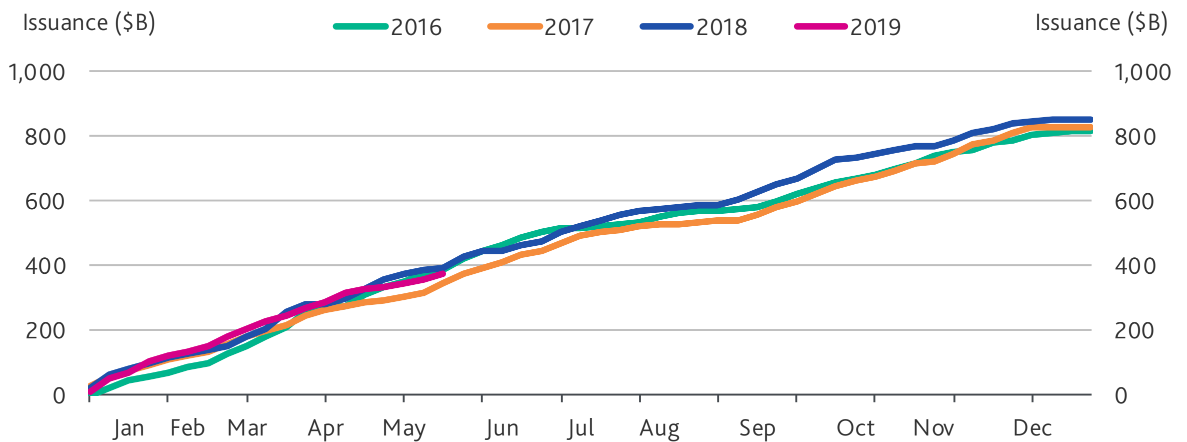
Issuance

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	47.860	12.970	61.340
Year-to-Date	540.237	160.714	734.692

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	11.759	0.616	12.587
Year-to-Date	327.600	37.348	371.958

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

Moody's Capital Markets Research recent publications

Credit May Again Outshine Equities at Divining Markets' Near-Term Path (Capital Markets Research)

Not Even the Great Depression Could Push the Baa Default Rate Above 2% (Capital Markets Research)

Benign Default Outlook Implies Profits Will Outrun Corporate Debt (Capital Markets Research)

Upside Risks to the U.S. Economy (Capital Markets Research)

Outstandings and Rating Changes Supply Radically Different Default Outlooks (Capital Markets Research)

High Leverage Offset by Ample Coverage of Net Interest Expense (Capital Markets Research)

Subdued Outlook for Revenues and Profits Portend Lower Interest Rates (Capital Markets Research)

Fed Will Cut Rates If 10-Year Yield Breaks Under 2.4% (Capital Markets Research)

Riskier Outlook May Slow Corporate Debt Growth in 2019 (Capital Markets Research)

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