MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

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Borrowing Restraint Likely Despite Lower Interest Rates

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

Credit Markets Review and Outlook

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

Borrowing Restraint Likely Despite Lower Interest Rates

According to the Federal Reserve's "Financial Accounts of the United States", first-quarter 2019's outstanding debt of U.S. nonfinancial corporations advanced by 8.1% year-over-year to a new record high of $9.926 trillion. Nonfinancial-corporate debt grew more rapidly than the accompanying first-quarter 2019 annual increases of 5.0% for nominal GDP, 5.0% for nonfinancial-corporate gross-value-added (or final corporate revenues that exclude sales of non-labor inputs), and 7.0% for nonfinancial-corporate core pretax profits.

In terms of moving yearlong ratios, nonfinancial-corporate debt rose from fourth-quarter 2018's 46.4% to first-quarter 2019's new record high 46.8% of nominal GDP, from fourth-quarter 2018's 92.2% to a new record high 94.8% of nonfinancial-corporate GVA, and from 713% to 715% of nonfinancial-corporate core pretax profits.

As inferred from consensus predictions for other aggregate estimates of corporate earnings, a likely slowdown by 2019's core pretax profits of nonfinancial corporations favors a further increase by the ratio of corporate debt to core profits. For example, early June's Blue Chip consensus projects only a 2.7% annual rise for 2019's core pretax profits of all U.S. corporations, which includes both financial institutions and nonfinancial companies. The same group of prognosticators looks for a smaller 2.3% uptick in 2020.

If the consensus expectation of back-to-back annual increases of less than 3% for core pretax profits proves correct, the 10-year Treasury yield will probably average something less than 2.5% through the end of 2020, while the effective federal funds rate may be no greater than 1.63% going into 2021.

The worsened outlook for core profits largely stems from a deceleration by business sales' year-over-year increase from the 5.8% of January-April 2018 to the 2.6% of January-April 2019. After excluding sales of identifiable energy products, January-April's annual increase for core business sales also ebbed from 2018's 4.7% to 2019's 2.7%.

Downwardly revised predictions for corporate earnings may encourage more companies to deleverage balance sheets, or at least slow the growth of their debt obligations relative to both prospective sales and cash flows. In turn, the annual growth rate of nonfinancial-corporate debt might be expected to slow considerably from first-quarter 2019's 8.1%.

Newly Rated Loans Plunge as Rated Bond Offerings Grow

First quarter 2019's 8.1% annual surge by nonfinancial-corporate debt owed much to an untenable 22.4% yearly lift-off by loan debt excluding mortgage debt, to $2.918 trillion of outstandings. The annual growth rate of such loan debt may soon slow considerably according to a recent deceleration by the yearly increase of bank-held commercial and industrial loans from the 10.1% of 2019's first quarter to April's 7.6%. Moreover, the newly rated loans of mostly high-yield U.S. nonfinancial companies plunged by 37.6% year-over-year during January-May 2019.

First-quarter 2019's remaining $7.008 trillion of outstanding nonfinancial-corporate debt rose by a much slower 3.2% annually. The latter included $6.166 trillion of outstanding corporate bonds and industrial revenue bonds that edged higher by 2.4% annually. January-May 2019's rated bond issuance by U.S. nonfinancial companies advanced by 16.5% year over year, wherein investment-grade bond offerings increased by 17.2% to $283 billion and high-yield bond supply increased by 14.2% to $81 billion. In stark contrast, calendar-year 2018 showed the rated bond issuance from U.S. nonfinancial companies contracting by 25.7% annually to $666 billion as investment-grade sank by 23.3% to $534 billion and high-yield plunged by 34.0% to $132 billion.

Credit Markets Review and Outlook

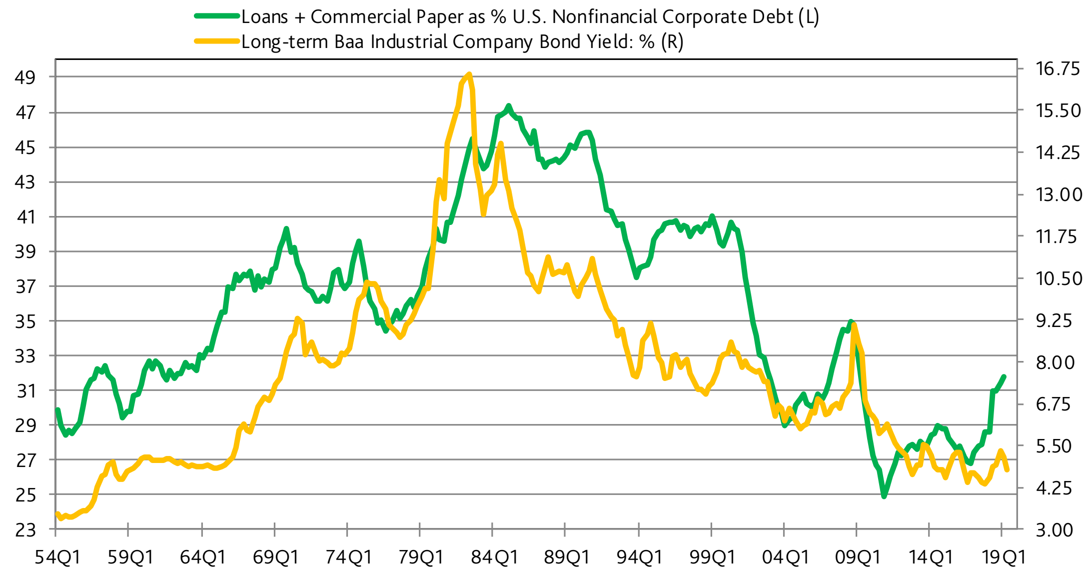
Loans' Share of Corporate Debt May Be Close to a Peak

The ongoing shrinkage of newly rated loan borrowings and the accompanying growth by nonfinancial-company bond issuance suggest the structure of outstanding nonfinancial-corporate debt may again be veering away from loans and commercial paper. To the degree investors expect the Fed to hike rates and issuers expect an eventual decline by corporate bond yields, loan and commercial paper debt will grow relative to bond debt. And that is precisely what occurred since the end of 2016. After bottoming at the 28.6% of 2016's final quarter, outstanding loans and commercial paper rose to 31.8% of nonfinancial-corporate debt by 2019's first quarter.

The share of corporate debt consisting of loans plus commercial paper set its record high at the 47.4% of 1985's first quarter, or when corporate borrowers correctly recognized that the then 13.11% average for Moody's long-term Baa industrial company bond yield was engaged in an extended slide. The 4.68% long-term Baa industrial company bond yield average of June 12, 2019 shows just how very correct that view was.

Figure 1: Downwardly Revised Outlook for Long-term Baa Industrial Company Bond Yield Favors a Lower Ratio of Loans + CP to Total Corporate Debt

sources: Moody's Analytics, Federal Reserve Financial Accounts of U.S.

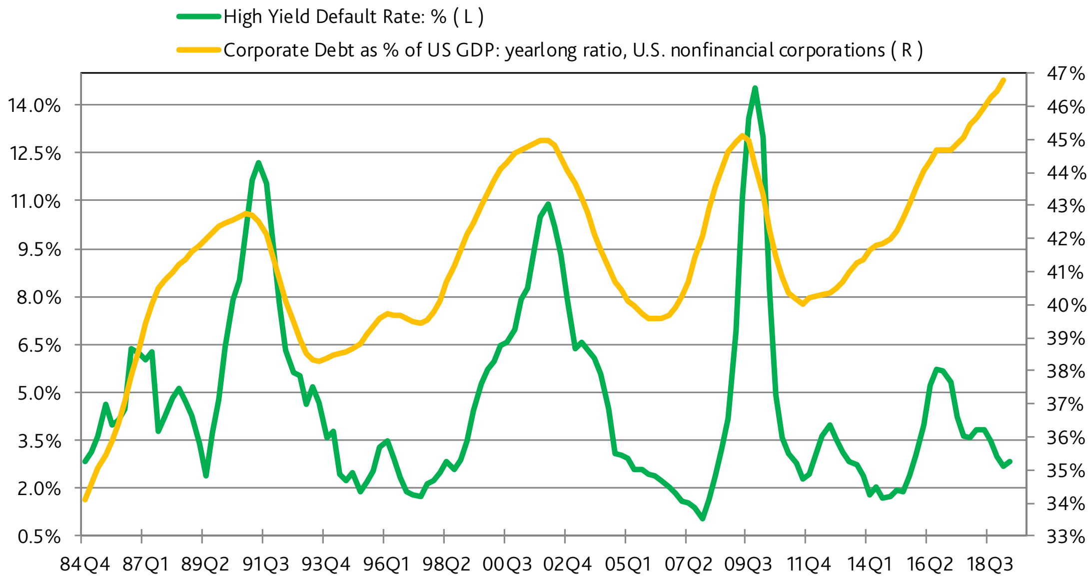


Ratio of Corporate Debt to GDP Is an Unreliable Near-Term Predictor of Defaults

Previous cycle high ratios of corporate debt to GDP were associated with recessions and a U.S. high-yield default rate above 10%. Both the ongoing business cycle upturn and a May 2019 default rate of 2.9% that is well below its long-term median of 3.8% hint of new record high ratios of corporate debt to GDP. Moreover, the latest drop by Treasury bond yields and the realization of an expected paring of the federal funds rate may sustain the faster growth of corporate debt relative to nominal GDP.

Figure 2: Default Rate Remains Well Below Long-Term Median of 3.8% Despite Yet New Record High Ratio of Corporate Debt to GDP

sources: Moody's Investors Service, Federal Reserve, BEA, Moody's Analytics

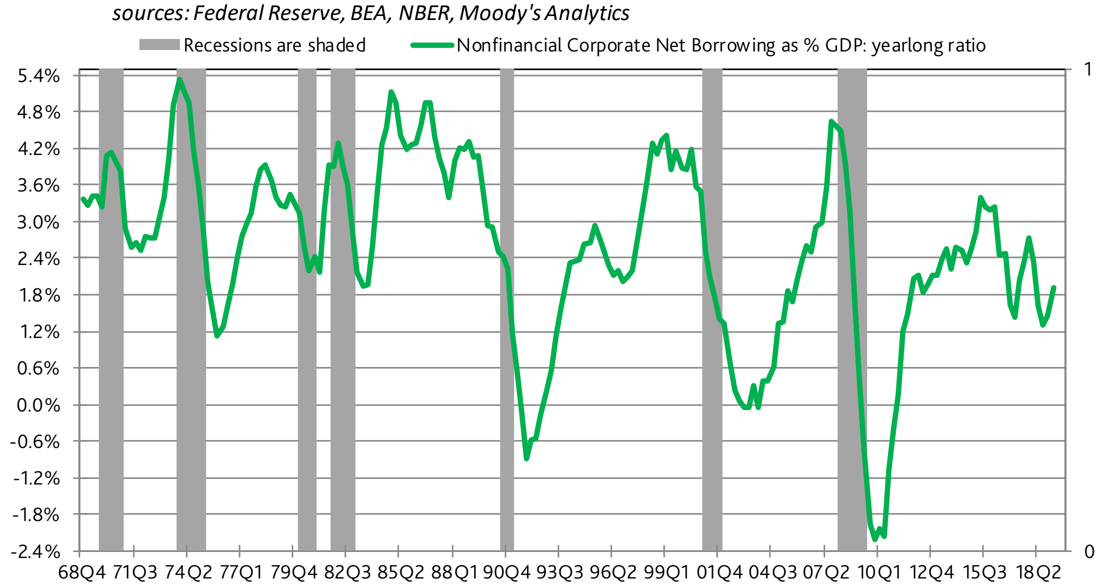


The default rate last fell amid a fast-rising ratio of corporate debt to GDP during 1988-1989. The decline by the default rate from the 5.1% of 1988's second quarter to the 2.6% cycle bottom of 1989's second quarter owed much to 1987-1988's 13% average annual advance by nonfinancial-corporate core pretax profits. Each of the three previous nearly coincident peaks for the ratio of corporate debt to GDP and the default rate occurred in the context of deep declines by core profits and outright recessions. And the record shows that recessions ordinarily are followed by pronounced declines for nonfinancial-corporate net borrowing that would lower the ratio of corporate debt to GDP.

Better yet, following the downturns of 2008-2009, 2001, and 1990-1991, deleveraging went so far as to reduce the outstandings of corporate debt. For example, after 2008-2009's Great Recession, nonfinancial corporate debt fell as low as 8.2% under its then record high of 2008's final quarter.

Figure 3: Each Recession since 1968 Was Followed by a Lower Ratio of Nonfinancial Corporate Net Borrowing as a % of GDP

sources: Federal Reserve, BEA, NBER, Moody's Analytics



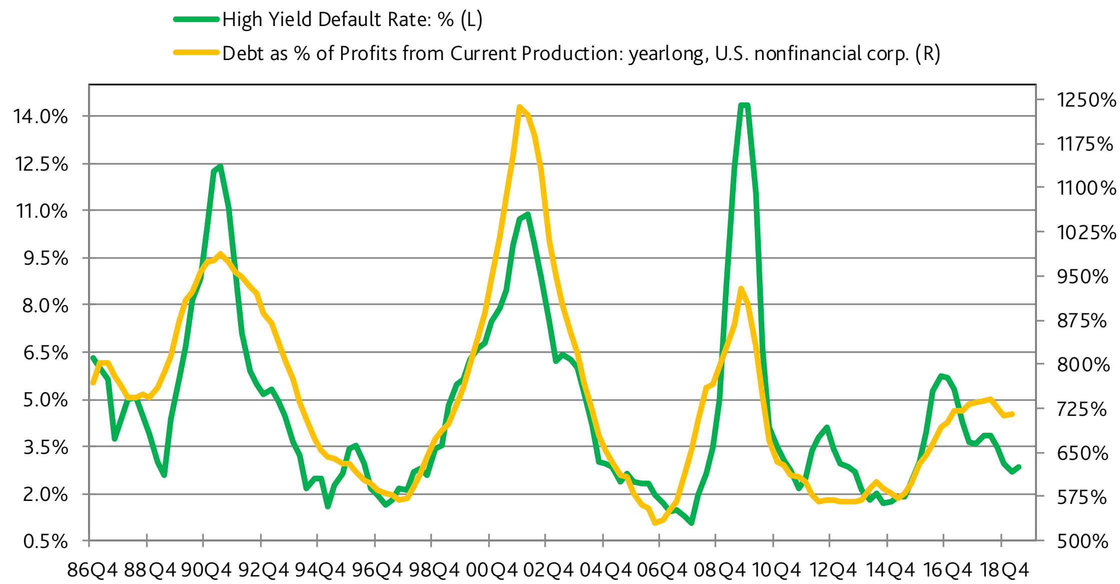
Deleveraging Becomes Imperative If Profits Barely Grow

If core pretax profits slow alongside GDP, the default rate may extend its current rise from March 2019's latest bottom of 2.6%. Worth noting is the slight rise by the yearlong ratio of nonfinancial-corporate debt to core pretax profits from fourth-quarter 2918's 713% to first-quarter 2019's 715%. The latter is slightly under its 720% sample median since 1986, which also revealed a sample median of 3.7% for the default rate.

For nonfinancial corporations, the latest cycle peak for the moving yearlong ratio of corporate debt to core pretax profits was set at the 930% of the span-ended September 2009. Thereafter, core profits outpaced debt and the ratio eventually set its current cycle bottom at September 2013's 566%. One year later, the default rate's calendar-quarter average bottomed at the 1.7% of 2014's third quarter. Following 2013, corporate debt outran core profits and the ratio would form its latest top at the 741% of the span-ended June 2018.

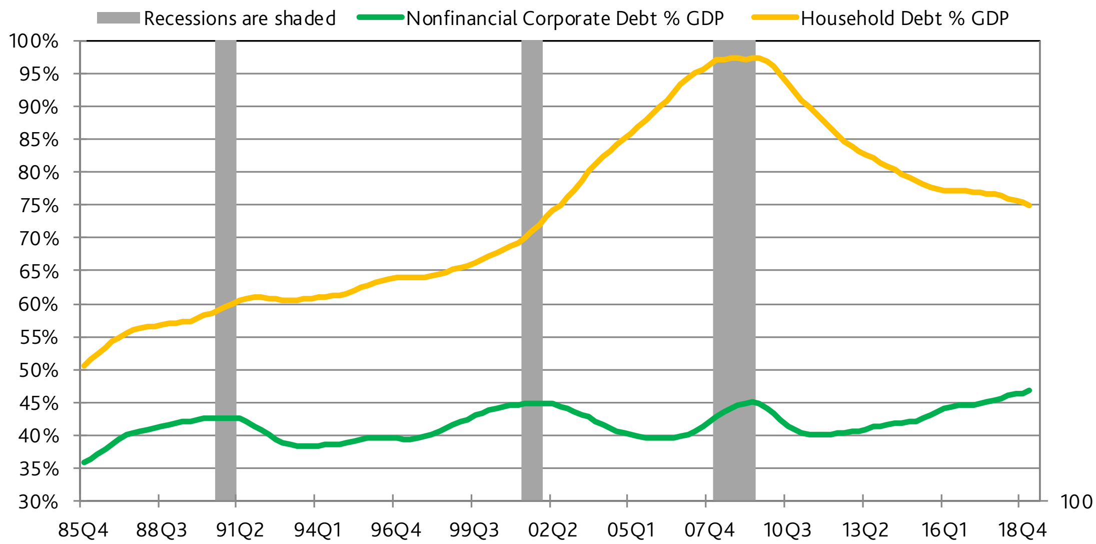
Figure 4: Ratio of Corporate Debt to Core Pretax Profits Shows Strongest Correlation of any Macro Metric with High-Yield Default Rate

sources: Moody's Analytics, Federal Reserve, BEA



The now record high-ratio of nonfinancial-corporate debt to GDP falls considerably short of representing the same danger to private-sector credit quality as did 2007's record high ratio of household-sector debt to GDP. During the 10-years-ended March 2019, the 4.0% average annualized rise by corporate debt barely outran nominal GDP's comparably measured growth rate of 3.5%. By contrast, household-sector debt's 9.7% average annual surge of the 10-years-ended 2007 sped past GDP's accompanying growth rate of 5.4%.

Figure 5: Mild Rise of Nonfinancial Corporate Debt to GDP Hardly Compares to Household Sector Debt's 1997-2007 Surge vis-a-vis GDP
yearlong ratios
sources: Federal Reserve, BEA, NBER, Moody's Analytics

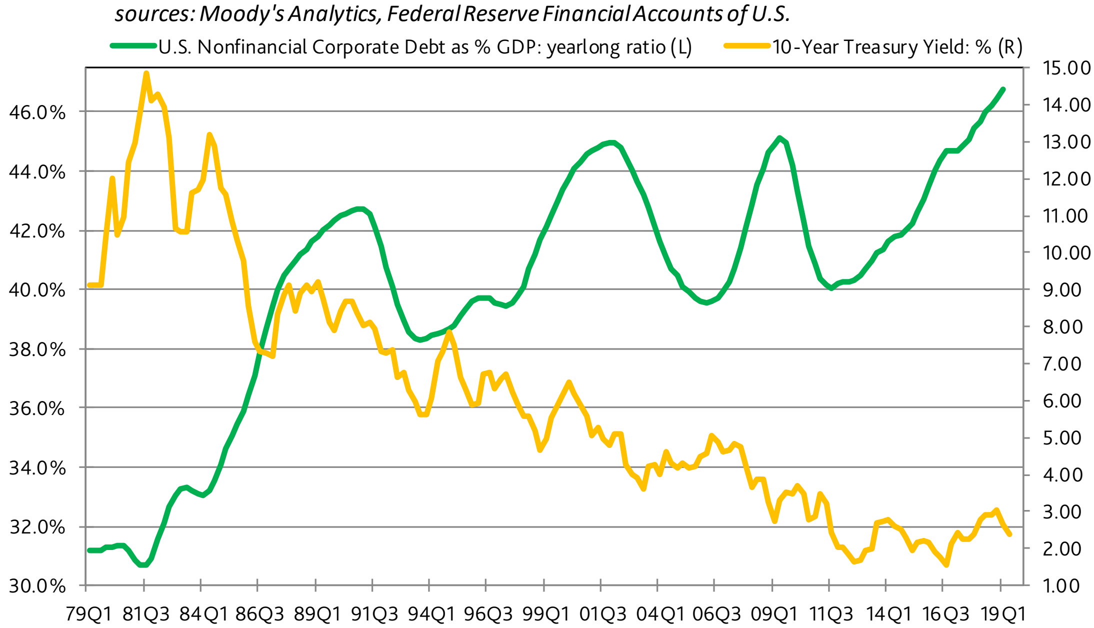


The slightly rising trend of nonfinancial-sector debt to GDP may be viewed as a rational response to a secular decline by benchmark interest rates, especially if interest rates are not expected to reverse course. As expectations regarding interest rates and core profits growth decline, companies are likely to utilize more debt in their capital structures.

The evidence increasingly favors an extended stay by historically low interest rates. It is not without good reason that the 10-year Treasury yield had difficulty remaining above 3% for long throughout the current business cycle upturn.

The unprecedented aging of both the population and the workforce portend historically slow growth rates for expenditures, consumer prices, and corporate earnings. Lasting upturns by benchmark interest rates are unlikely if, during the next 10-years, real GDP growth averages roughly 2% annually, PCE price index inflation falls short of 2%, and core pretax profits rise no faster than 4% annually, on average.

Figure 6: Secular Decline by Benchmark Interest Rates Facilitates Higher Ratio of Corporate Debt to GDP
sources: Moody's Analytics, Federal Reserve Financial Accounts of U.S.

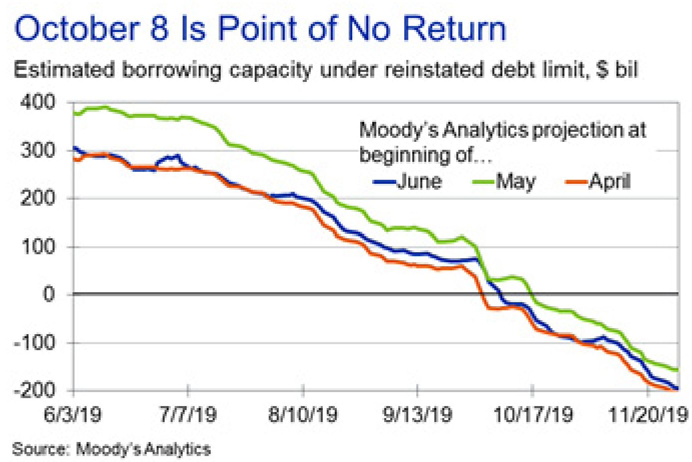


The Week Ahead – U.S., Europe, Asia-Pacific

THE U.S.
By Bernard Yaros of Moody's Analytics

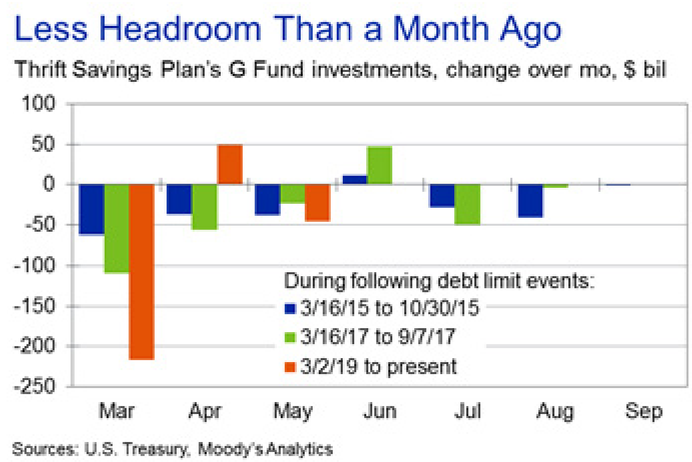
Back to Square One

The U.S. Treasury already has been operating under the debt limit, which is the legal maximum amount of outstanding Treasury debt, for more than three months. Yet, Congress has shown little urgency to address the debt limit, so far. That is because the Treasury has more than $475 billion in cash on hand along with remaining extraordinary measures to continue borrowing and paying for daily fiscal operations under the reinstated limit. But these resources at the Treasury's disposal do not last indefinitely. Moody's Analytics projects the Treasury will exhaust its borrowing capacity under the reinstated limit on October 8, which makes that the drop-dead date for Congress to address this issue.



Our current projection is more than a week earlier than the drop-dead date we forecasted at the beginning of May. What we have learned since then is that the April tax-day windfall was more fleeting than expected, and that the Treasury was even busier than expected using up its cash on hand during May. That the Treasury drew down its cash balance in May is not a surprise. It typically runs budget deficits in May. However, the Treasury drew down its cash balance by an eye-popping $190 billion in May. During the past two debt-limit standoffs, the Treasury drew down its cash on hand by no more than $82 billion during May. As a result, the Treasury's headroom under the reinstated limit in early June is actually spot on where we projected it to be in the forecast we published prior to the April 15 tax deadline. In that respect, the Treasury is back to square one.

We uncovered fewer surprises in May regarding the Treasury's extraordinary measures, or the accounting gimmicks it uses to limit the amount of debt outstanding that would otherwise count against the statutory limit. The most important of these accounting maneuvers is the suspension of daily reinvestments of Treasury securities held by the Thrift Savings Plan's G Fund—a federal employee retirement fund. In May, the Treasury slashed G Fund investments by $45 billion, effectively lowering the amount of remaining extraordinary measures. This was a steeper reduction in G Fund investments than we observed in May during the prior two debt-limit impasses, but not by much. However, it nearly fully offset the upside risk potential that emerged in April when the Treasury unexpectedly boosted G Fund investments by almost $50 billion.

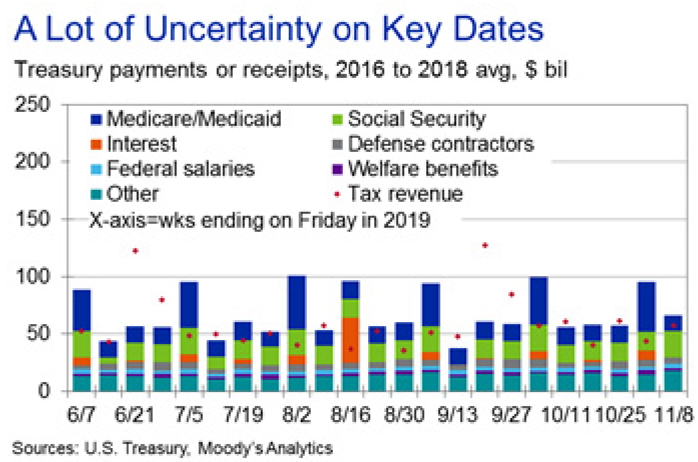


In June, we expect the Treasury will buy back more headroom under the reinstated limit by raising G Fund investments, just as it has done in the prior two debt-limit impasses. This is thanks to the mid-June windfall the Treasury receives from quarterly payments of 2019 estimated taxes. However, in the subsequent two months, the Treasury will most likely draw down G Fund investments, as it typically runs deficits in those months. Moreover, if the Treasury were still operating under the reinstated limit by the end of September, the Treasury would probably draw down G Fund investments to zero by then, just as it did during the 2015 debt-limit standoff.

Moody's Analytics has been forecasting the drop-dead date to address the debt limit for three months now, but our projection is still fraught with uncertainty, even though the all-important April tax season has come and gone. In the next months, there remain several key dates that can either push back or bring forward our projected drop-dead date.

Payments to Medicare Advantage and Medicare Part D plans occur on the first day of the month, and the Treasury disburses most Social Security benefits on the third day of the month. Interest payments in mid-August are among the largest during the fiscal year. The risks to these Treasury payments are uniformly stacked to the downside. An aging population is burdening the Treasury with an ever rising cost of supporting Medicare and Social Security. Also, a larger federal debt burden and higher interest rates than in recent years are boosting interest payments on Treasury debt.

Unlike Treasury payments, tax receipts between now and the projected drop-dead date are few and far between. The Treasury will receive a windfall in mid-June and mid-September from quarterly payments of estimated 2019 taxes by corporations and individuals who do not pay taxes through withholding. However, risks to these receipts are skewed to the downside following the tax cuts under the 2017 tax law.



Our drop-dead date of October 8 still affords breathing space to Congress. By October 1, lawmakers will have to agree upon new top-line spending numbers through fiscal 2021 and then fund the government for fiscal 2020. This deadline by itself will be taxing on congressional negotiators. Therefore, a drop-dead date in September would put Congress under an even greater time crunch to address all must-pass fiscal legislation, raising the risk of a policy misstep.

Our baseline forecast assumes that Congress will wrap a suspension of the debt limit into a two-year deal to raise the budget caps through fiscal 2021, which we expect to happen in September. If we are right and our current drop-dead date holds, then Congress will have addressed the debt limit at least a week before the Treasury is at risk of not meeting its obligations in full and on time. As Moody's Analytics continues updating its projected drop-dead date in the next months, we will develop a better sense of how urgent the debt limit will be when Congress returns from its summer recess in September.

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

EUROPE

By Brendan Meighan of Moody's Analytics

Implications of Boris Johnson's Early Lead for PM

Most of the major European economies have a quiet week coming up, with Italy, Spain, Germany and France having seen GDP, retail, CPI, and unemployment figures issued earlier in the month. However, the U.K., with one foot in and one foot out of the EU, Russia, the EU's perennial antagonist to the east, and the euro zone aggregates will all see major indicators released. Additionally, the U.K. will hold the next round of voting for leadership of the Conservative party, which will have major repercussions for how the U.K.'s exit from the EU will progress over the coming months.

Tory MP Boris Johnson jumped out to an early lead in the first round of voting, which was wrapped up on Thursday. With a commanding 114 votes, it is unclear who else could unseat him. However, the structure of the leadership voting procedures prevent a simple plurality of the votes from running away with the election. Instead, following each round of voting, the candidate who comes in last is eliminated from the next round of voting. Additionally, any candidate whose vote total does not surpass a specific threshold is eliminated. After the first round, three of the ten candidates failed to garner the required 17 votes to move on to the next round, which will take place on June 18, where the threshold will be raised to 33 votes. This process will continue until the end of June, when two candidates remain. While Boris Johnson is almost certain to be one of the two remaining, the runner up —who will face Johnson in a run off where all members of the party, not just MPs, are eligible to vote— is anyone's guess.

This has several implications for Brexit. First, Johnson—the odds on favorite to win at the moment—has made it clear that he opposes any more delays in the Brexit process, and, while he prefers an EU exit with an agreed upon deal, he is at least willing to entertain the idea of a no-deal Brexit. Despite extensive negotiations between the U.K. and the EU under Theresa May's prime ministership, nothing presented to parliament mustered a majority coalition to support it. The original deal agreed by the U.K. and the EU saw several votes, all of which went down in flames and ultimately led to the resignation of Theresa May. Johnson has thus far made no indication of how he plans on changing the political calculus of the U.K.'s parliamentarians and ultimately garner a majority for any sort of deal. However, by having the front runner take a more extreme stance, there is now room for a more moderate MP to ultimately make it to the run-off round of voting on the platform of no EU exit without a deal, thus further delaying Brexit. If a candidate were to stake out such a position, he would need to dodge charges of a Theresa May redux, but if successful, the Brexit process could be extended past October 31—the current deadline for the U.K. to leave the EU.

Our current baseline is that the U.K. leaves the EU under a negotiated deal that allows for certain trade and/or regulatory agreements to remain in place, offering a smoother exit than the dreaded no-deal Brexit. However, the distribution of likeliness among the various scenarios is becoming increasingly bi-model, with scenarios on the extremes becoming more likely to occur. In particular, the real possibility of Boris Johnson becoming prime minister makes a no-deal Brexit something that could soon become unavoidable. Conversely, Johnson's rise to prime minister could also bring forth an emboldened opposition which changes the balance of power in parliament and ultimately sees any Brexit delayed or canceled. We will not know the final outcome of the Tory leadership election until July 22.

All of this commotion has taken its toll on the U.K. economy. Monthly GDP data, which can be very volatile and subject to revisions, posted its second consecutive decline during April. Based on the growing uncertainty, CPI growth and retail sales are both forecast to decline during May. Surprisingly, the topline unemployment figures have remained at a 44-year low, and will be supported to some extent by the Bank of England holding rates steady following its upcoming meeting.

Outside of the U.K., the trade surplus for the euro zone is expected have to declined slightly in April once the final numbers are tallied. Brexit, the impact of protectionist U.S. trade policies on the EU, and a global trade war could all curb euro zone exports in the coming months. While the euro has weakened, rising uncertainty and slowing global growth have blunted the advantage the euro zone would have otherwise gained.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 10:00 a.m.	Euro Zone: External Trade for April	bil euro	20.0	22.5
Tues @ 10:00 a.m.	Euro Zone: Consumer Price Index for May	% change yr ago	1.2	1.7
Tues @ 2:00 p.m.	Russia: GDP for Q1	% change yr ago	1.0	2.7
Tues @ 2:00 p.m.	Russia: Industrial Production for May	% change yr ago	4.6	4.9
Wed @ 9:30 a.m.	U.K.: Consumer Price Index for May	% change yr ago	1.6	2.1
Thur @ 9:30 a.m.	U.K.: Retail Sales for May	% change yr ago	3.6	5.2
Thur @ 12:00 p.m.	U.K.: Monetary Policy and Minutes for June	%	0.8	0.8
Thur @ 2:00 p.m.	Russia: Unemployment for May	%	4.8	4.7
Thur @ 2:00 p.m.	Russia: Retail Sales for May	% change yr ago	1.1	1.2

ASIA-PACIFIC

By Katrina Ell of Moody's Analytics

Asia's Central Banks Turn Dovish

Central banks in Asia have turned dovish over 2019. The Reserve Bank of India has already reduced the policy rate by a cumulative 75 basis points this year, while central banks in Australia, New Zealand, the Philippines and Malaysia have each delivered a 25-basis point interest rate cut in recent months. For most of these central banks, further easing is firmly in the pipeline for the remainder of 2019 as central banks respond to weakened global demand alongside heightened downside risks, particularly the U.S.-China trade war, to which these economies have a large exposure.

Bank Indonesia is likely to hop on the easing bandwagon shortly. Early June, Deputy Governor Dody Waluyo said that an interest rate cut will depend on timing, as policymakers want to maintain external stability. Bank Indonesia is acutely concerned about maintaining external stability, and this was the driving force for delivering 175 basis points worth of hikes in 2018 to stem capital outflows as emerging markets were falling out of favour. This concern is likely why BI hasn't yet followed its neighbours with at least starting to reverse some of the tightening of last year. The central bank is taking a cautious approach; we think that a 25-basis point reduction is likely in the third quarter and the likelihood of a reduction in June stands at 40%.

The Bank of Japan isn't actively releasing additional monetary stimulus and we expect the bank will maintain policy settings in June. But the BoJ is aware of the downside risks to growth and in April further reduced its growth and inflation forecasts. The inflation forecast for the fiscal year to March 2022 is 1.6%, remaining shy of the 2% target. There are whispers that the scheduled consumption tax hike in October could be delayed. The Bank of Japan pledged in April that interest rates would not be raised before spring 2020. Indeed, our long-held baseline is that the Bank of Japan Target Overnight Call Rate will remain on hold until 2021. Japan's core CPI growth likely continued languishing below 1% y/y in May. The slump in global oil prices will likely further ease already muted inflation pressures. If the planned October consumption tax hike from 8% to 10% goes ahead, consumer prices will temporarily spike. But prior tax hikes show that the risk of it derailing the already fragile expansion are extremely high.

Singapore's nonoil domestic exports likely continued contracting in annual terms in May. In April, electronics and nonelectronics exports contributed to the decline, falling by 16.3% and 7.9% y/y, respectively. But tech has been a source of weakness for over a year, while nonelectronics including pharmaceuticals and food production have generally held up well, albeit with volatility. Singapore's exports continue to suffer like those of several of its neighbour countries, and it seems global trading conditions will remain under pressure at least through the second quarter due to the recent escalation of the U.S.-China trade war.

	Key indicators	Units	Confidence	Risk	Moody's Analytics	Last
Mon @ Unknown	Singapore Foreign trade for May	% change yr ago	3	⬇	-8.5	-10.0
Mon @ Unknown	India Foreign trade for May	US$ bil	2	⬇	-12.4	-15.3
Wed @ 9:50 a.m.	Japan Foreign trade for May	bil	2	⬅	50.3	-110.9
Thurs @ 8:45 a.m.	New Zealand GDP for Q1	% change	3	⬅	0.4	0.6
Thurs @ Unknown	Japan Monetary policy for June	¥ tril	4	⬅	80	80
Thurs @ Unknown	Indonesia Monetary policy for June	%	4	⬅	6.0	6.0
Fri @ 9:30 a.m.	Japan Consumer price index for May	% change yr ago	3	⬅	0.8	0.9

The Long View

For April-May 2019, U.S. company bond issuance grew by 12% yearly for both investment- and speculative-grade, as newly rated loans plummeted by 52%.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
June 13, 2019

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 135 basis points exceeds its 122-point mean of the two previous economic recoveries. This spread may be no wider than 140 bp by year-end 2019.

The recent high-yield bond spread of 449 bp is thinner than what is suggested by both the accompanying long-term Baa industrial company bond yield spread of 206 bp and is close to what might be inferred by the recent VIX of 16.0 points.

DEFAULTS

May 2019's U.S. high-yield default rate of 2.9% was less than the 4.0% of May 2018. Moody's Investors Service now expects the default rate will average 2.9% 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 1.4% for IG and 12.5% 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 88% to a cutting of the federal funds rate at the July 31, 2019 meeting of the Federal Open Market Committee. In view of the underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global economy operates below trend, the 10-year Treasury yield may not remain above 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 Brendan Meighan of Moody's Analytics
June 13, 2019

UNITED KINGDOM

While certain U.K. economic indicators continue to defy expectations, U.K. politics are plodding along aimlessly, an unfortunately common theme from these past few years. Conservative Member of Parliament and former London Mayor Boris Johnson officially launched his campaign for leadership of the Conservative Party, following the departure of Theresa May earlier this month. Johnson actively championed Brexit in the runup to the vote in 2016 and kicked off his run for the leadership this week with a call to stick to the current October 31 deadline.

Johnson lacks the experience in Parliament of many of the other candidates running for the Tory leadership but has the highest number of cabinet backers of anyone running, making him the clear frontrunner for the leadership position. What is not clear, however, is how Johnson plans to pass a new deal through Parliament. May's time as prime minister was characterized by successive failures to pass her negotiated deal with the EU, drawing criticisms from both Conservative and Labour MPs alike.

Johnson claims not to want a no-deal Brexit, but given the lack of a coalition for the current negotiated plans, the chances of a no-deal Brexit are becoming increasingly high. Although our baseline remains that the U.K. will leave the EU through some sort of negotiated agreement, the probability of the different scenarios occurring is becoming increasingly polarized, with the two extremes—either a no-deal Brexit or the U.K. remaining in the EU indefinitely—gaining more likelihood than the baseline.

EURO ZONE

Euro zone industrial production fell by 0.5% m/m in April, and followed March's 0.4% slide and February's broad stagnation. April's decline built on March's disappointment and came without the caveats regarding corrections in particular subsectors. The main upside detail was that nondurable consumer goods output increased in yearly terms by 1.7% and has shown strong growth since the beginning of 2019, partly thanks to the warmer winter weather. Despite the declines in recent months, factory growth still managed to rise by 0.8% q/q in the first quarter of 2019, almost fully reversing the 1.1% decline for the fourth stanza of last year. Overall, however, April's report cast doubt that we have really reached a turning point in the industrial downturn the euro zone has suffered since the end of 2017.

Across countries, Germany's downturn over the second half of 2018 was compounded by its factory output during the opening months of 2019, although the situation is a bit complicated. Not only has German manufacturing been the hardest-hit by the EU's new rules for the automotive sector, but it is also suffering more than others from the global slowdown. That's because Germany is an export-focused economy, which means that easing demand from China and other major trading peers has the potential to offset most of the country's gains on the internal front. True, we do expect auto production to start stabilizing soon, but the performance of the country's manufacturing industry as a whole is likely to remain subdued over the next couple of months.

In Italy, production fell by 0.7%, despite a sharp rise of 1% q/q in the first quarter. We remain cautious about Italy's situation, however, because the country's economic momentum remains in the doldrums. For as long as uncertainty at home remains the word of the day, Italy's factory performance should remain fragile.

While we are not as pessimistic about the industrial outlook as we were late last year, our fears are beginning to mount. With Chinese activity continuing to slow and growth elsewhere remaining unimpressive, it is likely that factory performance of the broader euro zone will remain muted in 2019, following a 1% increase in 2018 (which itself was a sharp deceleration from 3% in 2017). The risks are weighted to the downside as the global trade war has intensified lately, while risks remain regarding the implementation of tariffs on Europe's auto exports to the U.S. Another risk to the headline is the broad-based rise in wages in most of the currency area; this is expected to chip away at the competitiveness of European manufacturers.

ASIA PACIFIC

By Katrina Ell of Moody's Analytics
June 13, 2019

AUSTRALIA

The Australian economy is travelling in a slow lane. GDP growth is forecast at 2% in 2019, potentially its weakest annual expansion since 2009 and following 2.8% in 2018. Consumption is an important weak spot and makes up around 60% of GDP. The housing market correction, weak wage growth, and stubborn spare capacity in the labour market are contributors.

Monetary stimulus will play an increased role over the next year, lifting domestic demand. The Reserve Bank of Australia reduced the cash rate by 25 basis points to 1.25% in June, marking the first movement since August 2016. Our baseline is for a cumulative 50 basis points worth of cuts by the end of 2019, but odds for a cumulative 75 basis points stand at 40%. The combination of increased monetary policy stimulus, expectations of the housing market reaching a trough in the third quarter of 2019, and fiscal policy playing a relatively supportive role including via income tax cuts should boost GDP growth to 2.8% in 2020.

Downside risks plague the forecast through 2020, especially from the geopolitical ructions offshore including the U.S.-Canada trade war. Further escalation would hurt global growth, and Australia wouldn't be immune.

A disappointing start to 2019

March quarter GDP data were symptomatic of the weakness in Australia's economy. GDP growth slowed to 1.8% y/y, well below estimated potential at 3%. An important source of weakness was household consumption, which rose by 1.7% y/y in the March quarter, the slowest pace in six years and below the 20-year historical average of 2.6%. Nominal household income was a weak 2.3% y/y, while average household earnings were an even weaker 1.4%.

Adding to the slump in consumption is that households are not dipping into savings to fund discretionary spending in an environment of weak wage growth to the same extent as they were early in 2018. The household saving ratio rose to 2.8% in the March quarter, from the December quarter's 2.6%, not materially off a 12-year low.

Public demand was a bright spot in the first quarter national accounts, rising by 5.7% y/y, with large contributions coming from public consumption and public investment. In sharp contrast was private demand, which was up just 0.4% y/y. Investment also showed divergent trends. The headline came in at a fall of 1% y/y, of which nonmining was up around 2% and mining contracted by 11%. The story here is that nonmining investment has improved but is not close to overshadowing the slump in mining investment as it continues its retreat from unprecedented highs in prior years.

Indeed, mining investment represented 1.9% of nominal GDP in 2018, down from its 6% peak in 2013. Meanwhile, the Other category has oscillated around 4% of nominal GDP for the past seven years, while manufacturing has been on a steady decline. The Other investment category is diverse and covers 12 industries including utilities, construction, wholesale, retail, transport, and various services such as accommodation and food and administrative support.

The Long View

The RBA's tripping on words

The Reserve Bank of Australia cut the cash rate by 25 basis points to 1.25% in June. Financial market pricing had the odds of a June cut at 95%. The reasons given for bringing the cash rate to a record low were stock standard. These included reducing spare capacity in the economy, achieving "more assured progress" towards the 2%-to-3% inflation target, and faster progress in reducing the unemployment rate. Headline CPI limped to 1.3% y/y in the March quarter, while core CPI was 1.4%.

In a speech on 4 June (the same day as the cash rate cut), RBA Governor Philip Lowe stated that the decision to reduce the cash rate wasn't due to weakness in the economy. This is a curious statement, particularly given the RBA's consistent downward revisions to GDP growth forecasts for this year. In 2018, the RBA's expectation was that GDP growth was to continue hovering above potential at 3.5% in the medium term, and now the RBA's central forecast for 2019 is 2%. That in itself is a sign of weaker conditions than initially thought. The RBA has shown itself as reactive to weaker conditions, rather than anticipating the slowdown.

The RBA hasn't given much away about future policy direction and this isn't surprising. It was only last year that the RBA was signaling that the next move would be a rate hike. Also, the RBA itself doesn't know how much more monetary stimulus will be needed. Our baseline is for cumulative easing this year at 50 basis points, but the odds of 75 basis points is high, particularly with Australia's largest lenders not expected to fully pass on the reduction to lenders.

Labour market is key

Australia's labour market is in a good spot. The trend unemployment rate was 5.1% in May, while employment growth was up by 2.5% y/y, above the 20-year average of 2%. In the year to April, 260,000 full-time and 50,000 part-time positions have been added.

The decent pace of employment growth, especially from full-time positions, has pushed the underemployment rate a little lower and wage growth a little higher. But neither has shown material improvements. This is concerning given that forward indicators suggest that labour market tightening has lost steam. For instance, ANZ job advertisements track employment growth fairly closely and have been on a downtrend for the past year.

But, while the labour market is healthy, there is room for improvement. The trend underemployment rate has decreased by 0.2 percentage point over the past year. This has led to a steady widening of the gap between the unemployment rate and the underemployment rate. The RBA is hoping that its additional monetary stimulus will make progress reducing that stubborn spare capacity.

We are skeptical of material improvements occurring given monetary policy cannot address the structural reasons for this widening gap. Notably, Australia's unit labour costs are high so there is a push to contain costs including moving away from permanent positions to contractors and offshoring.

The housing market correction

National housing values fell by an average of 1.8% in 2018 and are forecast to fall a further 7.7% in 2019. Sydney has been a key driver of the slowdown given the impressive runup in values in the past five years. Sydney home values fell 5.5% in 2018, and a further 9.3% decline is forecast this year.

Melbourne has become a greater drag in 2019. House values fell by 0.3% y/y in 2018 and are on track to fall by 11.3% in 2019. Brisbane has escaped the worst of the slowdown with a forecast 0.6% decline in house values in 2019. Canberra is also holding up relatively well, with no declines in 2018 and none forecast in 2019.

Ratings Round-Up

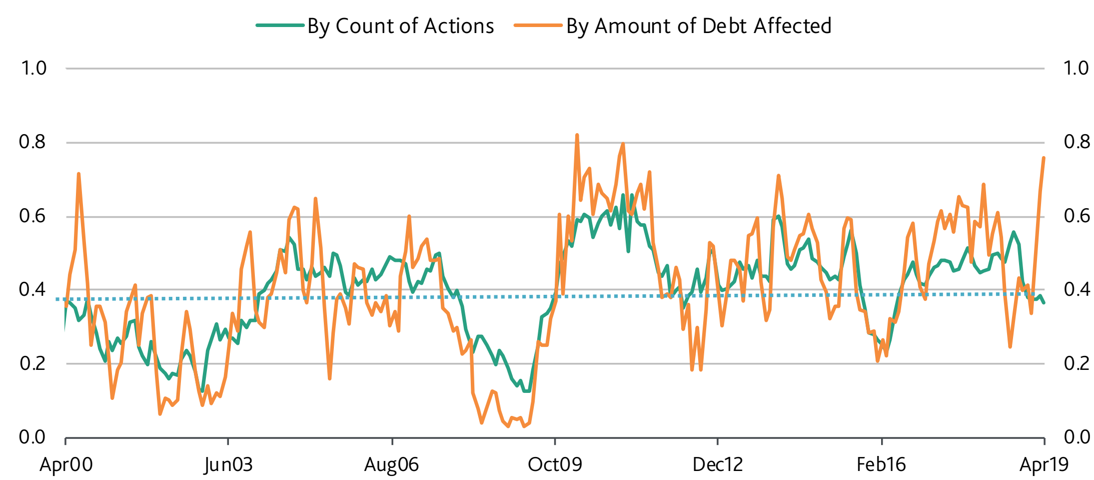
Upgrades Lead Rating Activity Across U.S. and Europe

By Steven Shields

U.S. credit rating changes were largely positive last week, with upgrades accounting for 62% of all rating activity. Positive rating changes also accounted for approximately 68% of the affected U.S. debt. NSTAR Electric Company's credit rating was upgraded to A1 from A2, reflecting its low-risk business profile as a regulated electric transmission and distribution utility, stable financial metrics, and low carbon transition risk. The upgrade impacted $3.3 billion in total debt, while the issuer outlook was changed to stable from positive. Moody's Investors Service upgraded Laureate Education Inc.'s corporate family rating (CFR) to B1 from B2. This marks the second consecutive upgrade since being downgraded in July 2015. The upgrade reflects the company's ability to reduce leverage via asset sales and is supported by the company's strong market position in the international for-profit educational segment. Coty Inc., a multinational beauty company, was one of the few notable downgrades this week. High financial leverage and weakened earnings contributed to the company's downgrade to B1. The U.S. economy is in good standing with none of the classic causes of past recessions—overheating risk, financial imbalances, shock to the economy's balance sheet—looking worrisome. The Fed's dovish pivot also reduces the risk that financial market conditions will suddenly tighten in the near term.

European rating activity shared a similar trend as upgrades accounted for the majority of rating changes. The most noteworthy credit rating change was to Aker BP Asa which saw its senior unsecured bonds lifted to BA1 from Ba2 on June 7. The oil exploration and development firm had $1.9 billion in debt affected. Meanwhile, Senvion S.A. led European downgrades. Moody's Investors Service applied a limited default designation following the missed interested payment due on senior secured note on May 2. The firm's long term corporate family rating was lowered to Ca, citing declining profitability as a result of fierce competition in the wind turbine space and an unsustainable capital structure. The outlook for the company remained negative.

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
6/5/19	EVERSOURCE ENERGY-NSTAR ELECTRIC COMPANY	Utility	SrUnsec /LTIR/PS	3,278	U	A2	A1	IG
6/5/19	SYNOVUS FINANCIAL CORP.-SYNOVUS BANK	Financial	LTIR/LTD		U	Ba1	Baa3	SG
6/5/19	LAUREATE EDUCATION, INC.	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	1,600	U	Caa1	B3	SG
6/5/19	LIVE NATION ENTERTAINMENT, INC.	Industrial	SrUnsec /LTCFR/PDR	1,125	U	B1	Ba3	SG
6/5/19	SOUTHERN GRAPHICS INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3	SG
6/5/19	MCAFEE, LLC	Industrial	SrSec/BCF		D	B1	B2	SG
6/6/19	TMK HAWK PARENT, CORP.	Industrial	SrSec/BCF /LTCFR/PDR		D	B3	Caa1	SG
6/6/19	GENTIVA HEALTH SERVICES, INC. (NEW)	Industrial	LTCFR/PDR		U	B2	B1	SG
6/10/19	HARSCO CORPORATION	Industrial	SrSec/BCF		U	Ba1	Baa3	SG
6/11/19	GALLERIA CO.-COTY INC.	Industrial	SrUnsec /LTCFR/PDR	1,457	D	B3	Caa1	SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

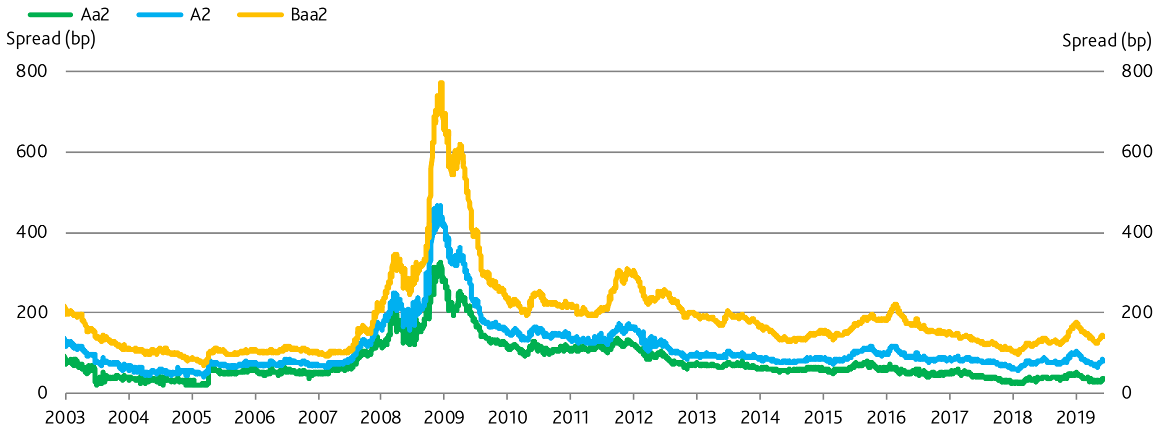
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
6/5/19	CASTELLUM AB	Industrial	SrUnsec /LTIR/MTN	567	U	Baa3	Baa2	IG	SWEDEN
6/5/19	SENVION S.A.	Industrial	SrSec/LTCFR	907	D	Ca	C	SG	LUXEMBOURG
6/5/19	NANNA MIDCO II AS	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3	SG	NORWAY
6/5/19	JEWEL UK MIDCO LTD	Industrial	SrSec /LTCFR/PDR	338	U	B2	B1	SG	UNITED KINGDOM
6/7/19	CANAL DE ISABEL II, S.A.	Utility	SrUnsec/LTIR	567	D	Baa1	Baa2	IG	SPAIN
6/7/19	AKER BP ASA	Industrial	SrUnsec	1,800	U	Ba2	Ba1	SG	NORWAY
6/7/19	RAIFFEISEN BANK INTERNATIONAL AG -RAIFFEISENBANK, A.S.	Financial	LTD		U	Baa1	A3	IG	CZECH REPUBLIC
6/7/19	IDEMIA GROUP	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3	SG	FRANCE
6/7/19	MONETA MONEY BANK, A.S.	Financial	STD/LTD		U	Baa2	A2	IG	CZECH REPUBLIC
6/7/19	ALPHA GROUP SARL	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3	SG	GERMANY
6/11/19	SOCIETE GENERALE -PJSC ROSBANK	Financial	SrSec/SrUnsec /STD/LTD	324	U	Ba1	Baa3	SG	RUSSIA
6/11/19	CYFROWY POLSAT S.A.	Industrial	LTCFR/PDR		U	Ba2	Ba1	SG	POLAND

Source: Moody's

Market Data

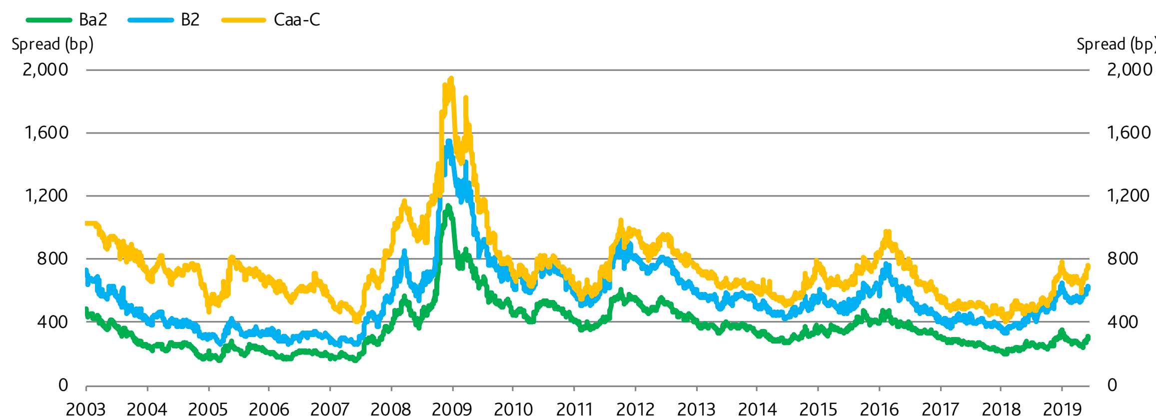
Spreads

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 (June 5, 2019 – June 12, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 12	Jun. 5	Senior Ratings
United Technologies Corporation	Aa2	A3	Baa1
Iron Mountain Incorporated	A3	Baa2	Ba3
AK Steel Corporation	Caa2	Ca	B3
American Express Credit Corporation	Aa2	Aa3	A2
International Business Machines Corporation	A3	Baa1	A1
Bristol-Myers Squibb Company	Aa2	Aa3	A2
Amgen Inc.	A2	A3	Baa1
United Parcel Service, Inc.	Aa3	A1	A1
Lockheed Martin Corporation	Aa1	Aa2	Baa1
Mondelez International, Inc.	A2	A3	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 12	Jun. 5	Senior Ratings
First Data Corporation	A1	Aa2	B2
Apple Inc.	Aa1	Aaa	Aa1
3M Company	Aa2	Aa1	A1
PepsiCo, Inc.	Aa3	Aa2	A1
Johnson & Johnson	Aa2	Aa1	Aaa
Ford Motor Company	B2	B1	Baa3
Intel Corporation	A1	Aa3	A1
Amazon.com, Inc.	A1	Aa3	A3
American Tower Corporation	Ba3	Ba2	Baa3
Sprint Communications, Inc.	B3	B2	B3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 12	Jun. 5	Spread Diff
Frontier Communications Corporation	Caa1	2,923	2,452	471
Penney (J.C.) Corporation, Inc.	Caa3	4,842	4,649	192
Neiman Marcus Group LTD LLC	Ca	3,231	3,056	174
McClatchy Company (The)	Caa2	1,065	977	88
Office Depot, Inc.	B3	471	430	41
Newfield Exploration Company	Ba1	283	252	31
Weatherford International, LLC (Delaware)	Ca	5,856	5,837	20
Realogy Group LLC	B2	678	659	19
ServiceMaster Company, LLC (The)	B2	209	191	18
Sysco Corporation	A3	98	84	15

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 12	Jun. 5	Spread Diff
AK Steel Corporation	B3	927	1,056	-130
K. Hovnanian Enterprises, Inc.	Caa3	2,032	2,144	-113
Staples, Inc.	B3	591	670	-79
Dean Foods Company	Caa2	2,278	2,339	-61
Hertz Corporation (The)	B3	640	699	-59
Dish DBS Corporation	B1	476	531	-55
Beazer Homes USA, Inc.	B3	453	502	-50
United States Steel Corporation	B2	614	660	-46
AutoNation, Inc.	Baa3	413	458	-45
Freeport Minerals Corporation	Baa2	231	274	-43

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (June 5, 2019 – June 12, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 12	Jun. 5	Senior Ratings
Spain, Government of	A1	A2	Baa1
Societe Generale	Aa2	Aa3	A1
Standard Chartered PLC	Baa1	Baa2	A2
Vodafone Group Plc	Baa1	Baa2	Baa2
Daimler AG	Baa1	Baa2	A2
Bankinter, S.A.	A3	Baa1	Baa2
ENEL S.p.A.	Baa2	Baa3	Baa2
Iberdrola International B.V.	A1	A2	Baa1
Danone	Aa1	Aa2	Baa1
Fresenius SE & Co. KGaA	Baa1	Baa2	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 12	Jun. 5	Senior Ratings
UniCredit Bank AG	Baa1	A3	A2
Landesbank Baden-Wuerttemberg	A1	Aa3	Aa3
Bayerische Landesbank	Aa3	Aa2	Aa3
Swedbank AB	A2	A1	Aa2
Erste Group Bank AG	A1	Aa3	A2
UniCredit Bank Austria AG	A3	A2	Baa1
DZ BANK AG	Baa1	A3	Aa1
ArcelorMittal	B1	Ba3	Baa3
Coca-Cola HBC Finance B.V.	A2	A1	Baa1
Eksportfinans ASA	Caa1	B3	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 12	Jun. 5	Spread Diff
Galapagos Holding S.A.	Caa3	16,947	5,221	11,726
Casino Guichard-Perrachon SA	B1	660	626	34
Sappi Papier Holding GmbH	Ba1	306	296	10
Eksportfinans ASA	Baa1	504	495	9
Iceland Bondco plc	Caa2	410	403	7
Matalan Finance plc	Caa1	656	650	5
Fiat Chrysler Automobiles N.V.	Ba2	131	127	4
Netherlands, Government of	Aaa	12	11	2
Total S.A.	Aa3	29	27	2
Raiffeisen Bank International AG	A3	74	72	2

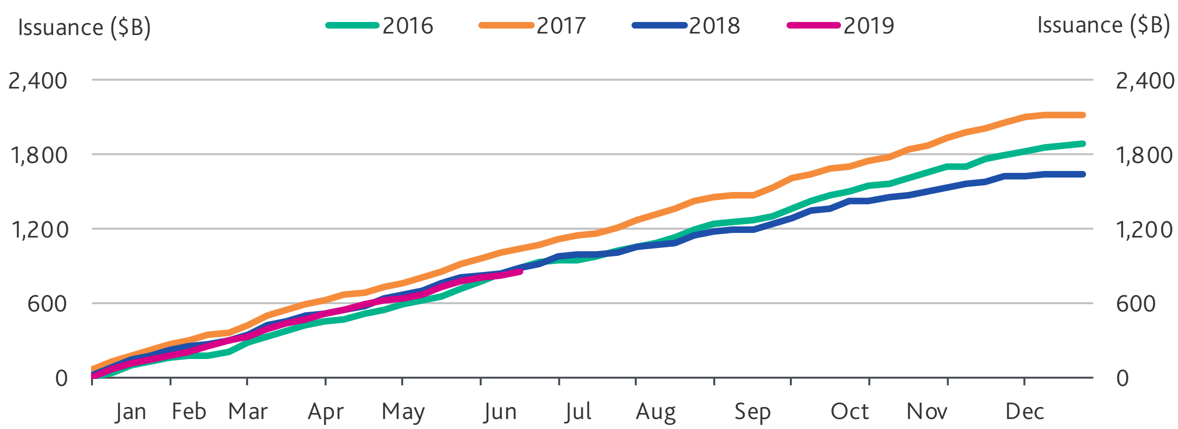
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 12	Jun. 5	Spread Diff
PizzaExpress Financing 1 plc	Caa2	3,395	3,843	-449
Boparan Finance plc	Caa1	2,602	2,703	-102
CMA CGM S.A.	B3	1,124	1,174	-49
Novafives S.A.S.	Caa1	498	537	-38
TUI AG	Ba2	314	349	-35
Vedanta Resources Limited	B2	522	548	-26
Altice Finco S.A.	Caa1	413	436	-23
Vue International Bidco plc	B3	259	281	-21
Premier Foods Finance plc	Caa1	186	207	-20
Heathrow Finance plc	Ba1	206	225	-19

Source: Moody's, CMA

Market Data

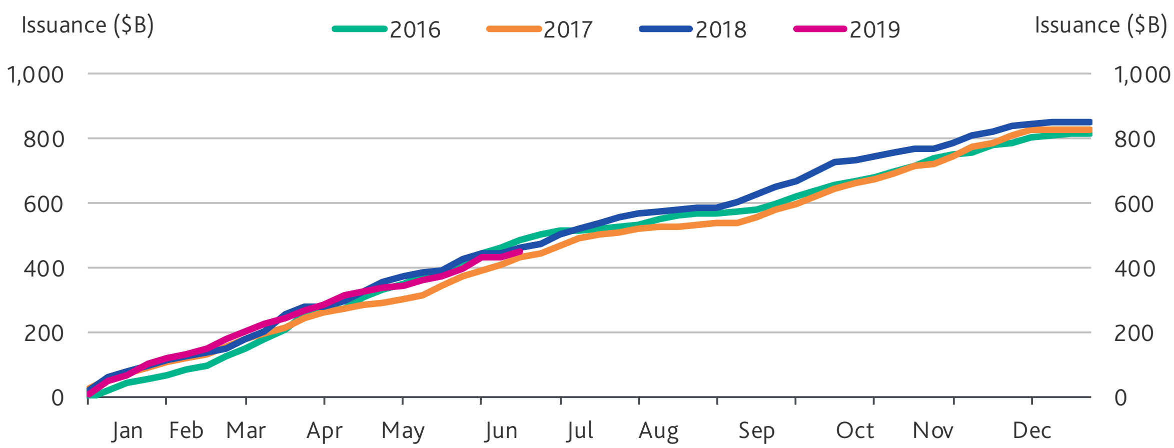
Issuance

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	28.473	7.230	36.668
Year-to-Date	632.666	185.362	854.888

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	16.010	1.182	18.201
Year-to-Date	400.288	42.388	453.878

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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