A technical issue prevented on-time publication of this Weekly Market Outlook. We apologize for the delay.

WEEKLY MARKET OUTLOOK
FEBRUARY 11, 2022

Lead Author

Ryan Sweet
Senior Director-Economic Research

Asia-Pacific

Shahana Mukherjee
Economist

Europe

Ross Cioffi
Economist

Barbara Teixeira Araujo
Economist

U.S.

Matt Colyar
Economist

Dante DeAntonio
Senior Economist

Steven Shields
Economist

Ryan Kelly
Data Specialist

Podcast

Join the Conversation

Supersize It?

The January U.S. consumer price index keeps the heat on the Federal Reserve to raise the target range for the fed funds rate in March and the central bank could be even more aggressive than we anticipate, increasing rates by 50 basis points. The Fed will have zero tolerance for any upside surprises to inflation this year.

The CPI increased 0.6% in January, stronger than our and consensus expectations for a 0.4% gain. The CPIs for food and energy were each up 0.9%. Excluding food and energy, the CPI was up 0.6%, the same gain it posted in December. Used-vehicle price inflation slowed to 1.5% m/m, while new-vehicle prices were unchanged. On a year-ago basis, the headline and core CPIs were up 7.5% and 6%, respectively.

Table of Contents

Inflation at 7.5% on a year-ago basis compared with the 2.1% average growth in 2018 and 2019 is costing the average household $276 per month. The uncomfortably high inflation also will ease quickly with the fading pandemic. The Delta wave that hit late last summer was especially disruptive to global supply chains. It was notably tough on what was at the time a lightly vaccinated Asia, where most of these chains begin. Factories shut down throughout much of Southeast Asia and China's no-COVID-19 policy resulted in widespread port closures. Shortages of everything from semiconductors to plumbing fixtures quickly developed, inventories evaporated, and goods prices soared.

Fortunately, the fast-moving Omicron wave appears to have done little further damage to supply chains. Asian vaccination rates are now among the highest in the world, and businesses have begun to address the most severe supply bottlenecks. Semiconductor production, for example, has picked up, allowing the chip-reliant vehicle industry to ramp up output. Vehicle inventories will start to build this spring, and vehicle prices will come back to earth soon thereafter. More broadly, global trade rebounded smartly at the end of last year, well ahead of production, suggesting supply-chain disruptions are easing.

This sanguine outlook for the coming year, with the economy returning to full employment and inflation moderating, depends on the Federal Reserve successfully calibrating monetary policy. To start, this means the Fed in the next few weeks will end its quantitative easing—the purchase of Treasury bonds and mortgage-backed securities to bring down longer-term interest rates. This will be followed by the policymaking committee of the Fed announcing at its mid-March meeting a 0.25-percentage-point increase in the federal funds rate, which has been at the zero lower bound since the pandemic struck nearly two years ago. We expect the Fed to raise the funds rate three additional times this year, once each quarter, by 0.25 percentage point each time. However, the odds of a supersized 50 basis point hike in March is quickly rising.

The Fed is also expected to begin quantitative tightening this summer. That is, the central bank will not replace the Treasury and mortgage securities it owns as they mature or prepay, allowing its balance sheet to slowly shrink and putting upward pressure on longer-term rates.

As rates rise, negative-yielding debt plunges

The jump in global interest rates has noticeably reduced the market value of bonds with negative yields and this could have some implications for U.S. long-term rates and corporate bond spreads. Negative-yielding bonds are bonds that cause bondholders to lose money when they mature, so that holders end up with less money than they used to purchase them.

As a share of total outstanding bonds, those with negative yields have dropped to 12%, down from around 20% late last year and among the lowest since 2018. Currently, the market value is around $8 trillion compared with the nearly $18 trillion at the end of 2020, according to Bloomberg.

The drop has coincided with the jump in interest rates globally, particularly in Europe. Rates should continue to steadily increase as central banks continue, or begin, to remove some of the policy accommodation that was implemented in response to the pandemic.

The adoption of negative interest rates by some central banks created an incentive for investors to turn to the U.S. in search of positive yields, particularly at the long end of the yield curve. Investors who were further down the credit ladder were also in search of yield. Now, rising interest rates and the declining number of bonds with negative yields could put upward pressure on U.S. long-term rates and cause some widening in high-yield corporate bond spreads as investors have less pressure to search for yield.

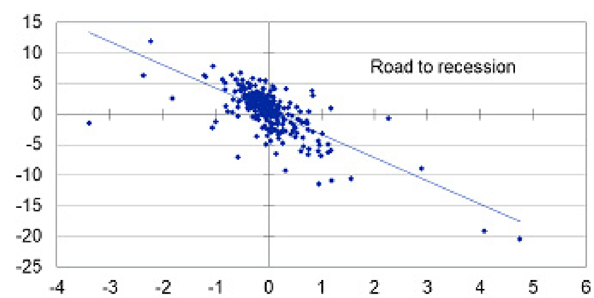
Stock-market problems reverberate in corporate bonds

The U.S. high-yield corporate bond market isn't immune to the recent volatility and drop in equity markets. The Bloomberg U.S. high-yield option-adjusted corporate bond spread has widened to 342 basis points compared with the 278-basis point spread at the beginning of the year and is the widest since early 2021. It is still around 100 bps tighter than the average spread over the past 10 years.

The widening in the high-yield corporate bond spread isn't surprising considering its strong negative correlation with changes in the S&P 500. In fact, the correlation coefficient between monthly changes in the high-yield corporate bond spread and changes in the S&P 500 is -0.71 since 2000. The relationship is still strong if we look at it on a weekly basis. Using no and various lags, Granger causality tests show changes in the S&P 500 cause changes in the high-yield corporate bond spread. The causal relationship runs in one direction.

Corporate Bond Market Feeling Stocks' Pain

X-axis: % chg S&P 500; Y-axis: chg in high-yield corp bond spread, bps



Sources: Bloomberg, Moody's Analytics

We built a fairly simple model to estimate what the high-yield corporate bond spread should be given the state of the economy, stock prices, and volatility in the bond market. The model suggests that the high-yield corporate bond spread should be 370 bps. Our baseline forecast is for the high-yield corporate bond spread to widen noticeably this year, ending the year at 520 bps. Risks are heavily weighted toward a narrower corporate bond spread.

TOP OF MIND

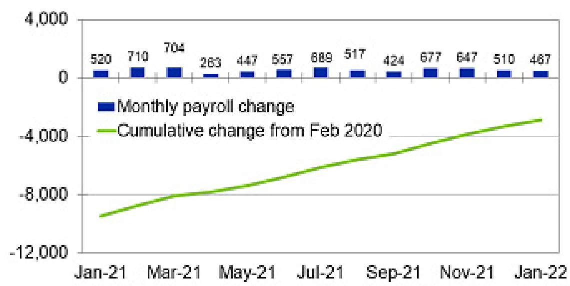
The U.S. Jobs Report Surprise

BY MATT COLYAR and DANTE DeANTONIO

The January jobs report delivered an upside surprise with gains totaling 467,000 and far exceeding expectations. After much concern, the impact of the Omicron virus variant on job growth was minimal, as January's total fell only slightly short of the impressive 555,000 average gain in 2021. Given that the Omicron wave has already begun to fade, the stage is set for substantial payroll gains to continue this year.

Terrific Start to 2022

Nonfarm employment, ths

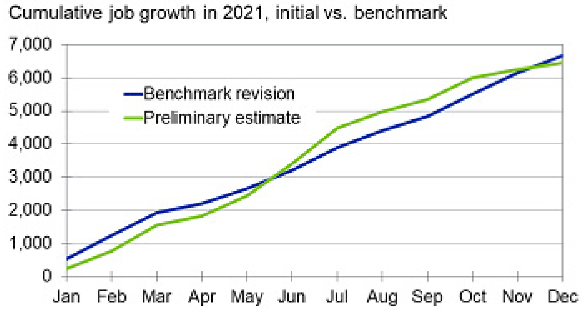


Sources: BLS, Moody's Analytics

Despite the impressive first print for January, the benchmark revisions to the prior years' data revealed far more volatility than usual. Job gains in the summer of 2021 were revised significantly lower, while the recent estimates for November and December more than doubled from the previous report. Ultimately, the net effect of the revisions over the course of 2021 was modest. Total job growth for the year now stands at 6.67 million, compared with 6.45 million in the prior estimate.

Benchmark Revisions

Cumulative job growth in 2021, initial vs. benchmark

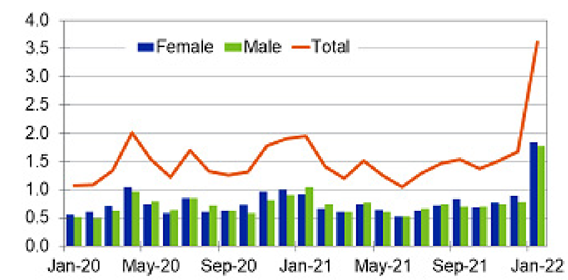


Sources: BLS, Moody's Analytics

The strong job gain reported for January remains a bit puzzling. All signs pointed to a temporarily weakened economy in the face of Omicron. Unemployment insurance claims were up between December and January and the number of temporary business closures reported in the Census Bureau's Pulse Survey also jumped. In addition, evidence from the jobs report itself showed a spike in the number of people who were not at work in January because of illness, which rose from 1.7 million in December to an all-time high of 3.6 million in January. This measure does not perfectly map to changes in the employment report since, even if workers are sick, they may be on paid leave or may not have missed the entire pay period, which covers the reference week. However, after spiking to nearly double the level at any other time during the pandemic, it seems unusual that there would be no adverse impact on job gains.

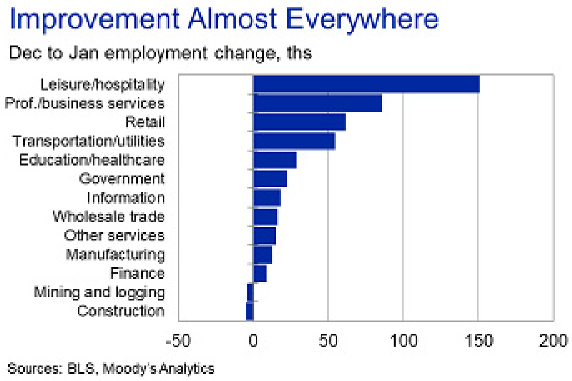
Absences Surge Due to Omicron

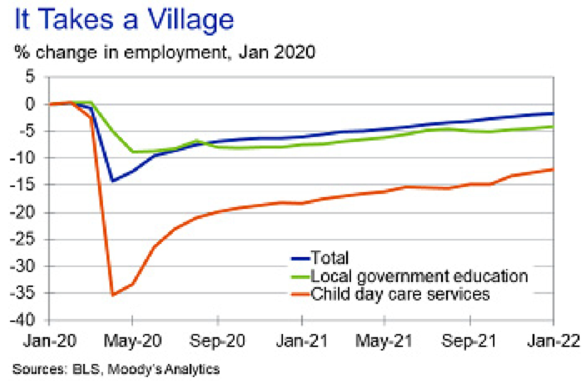
With a job, not at work due to own illness, mil



Sources: BLS, Moody's Analytics

January's increase of nearly half a million jobs was broad-based across industries. Leisure and hospitality led the charge with an increase of 151,000. On a not seasonally adjusted basis, the sector saw a reduction of 352,000 from December—slightly less of a contraction than the January average in the years leading up to the pandemic, helping explain the upward seasonal adjustment.





With the well-documented staffing issues of the post-pandemic labor market, employers appear fearful to reduce headcount the way they might have normally given seasonal trends or a temporary softening in demand. Average weekly hours ticked down from 34.1 in December to 33.9 in January—the lowest figure since the worst days of the pandemic in April 2020.

The reduction in hours is due to the more than 20 million Americans that tested positive for COVID-19 in January—triple the next-highest month of the pandemic. Though the headline jobs figure offers little evidence, the impact on the labor market of millions of employees and would-be customers in periodic self-isolation is visible in the January report.

Hours worked in sectors with the most remote-work capability were relatively unchanged from December to January while in-person industries, including construction and retail, saw average weekly hours curtailed.

The ability to self-quarantine from home offices left workers' schedules relatively undisrupted compared with employees in industries more likely to require physical closeness to co-workers and customers.

Public school teachers and faculty are stretched thin. There were 330,000 fewer local government education employees this January than in January 2020, before the pandemic—a 4.1% reduction. Child day care services face an even more grim situation—employment in January was 12% below its level of two years ago.

Understaffed schools and day cares pose a substantial downside risk to the labor market. In the near term, parents of young children struggling to find adequate day care may elect to make ends meet with one parent either not working or in a part-time capacity. For single-parent households, the situation is additionally precarious. Insufficiently staffed, public schools have been tempted to return to remote instruction or intermittently shut down. Both are inferior to in-person learning and constrain longer-term economic potential by way of reducing human capital.

Because the report was an overwhelmingly positive one, its only right to end on a positive note. At 79.1%, the prime-age employment-to-population ratio inched closer to 80%—our preferred measure of full employment.

After the financial crisis and ensuing recession in 2008, the prime-age employment-to-population ratio did not return to 79.1% until early 2018. The recovery from April 2020's low of 69.6% has been swift and signals that 2022 finds the economic recovery on an impressive trajectory.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar is fairly busy next week. We get new data on producer and import prices. Once the PPI is released (some of its details are source data for the core PCE deflator) we will have a pretty good idea how the Federal Reserve's preferred measure of inflation did in January. The Fed will have zero tolerance for any upside surprises to inflation this year, therefore the odds of a 50 basis point hike in March is on the rise. The minutes from the January Federal Open Market Committee minutes will be released. Other key data next week include retail sales, industrial production, initial claims for unemployment insurance benefits, and existing-home sales.

Europe

The U.K.'s unemployment rate was likely unchanged in the three months to December at 4.1%. The British labor market has been tight as firms look to fill positions. The tightening of measures in December may have led to some layoffs or people temporarily leaving the labor force, but the unemployment rate likely was stable over the final stanza. The situation was probably similar in January, but with the removal of social distancing measures, the unemployment rate should continue to recover.

Retail sales in the U.K. likely rebounded in January, growing 2% m/m after December's 3.7% decline. The British Retail Consortium reported strong sales growth in January despite the continuation of COVID-19 measures. Indeed, these may have stimulated demand for stay-at-home goods such as furniture and appliances.

We expect U.K. consumer price inflation to speed up to 5.5% y/y in January from 5.4% in December. Persisting supply issues likely heated up inflationary pressures in the core basket. Base effects will remain important, particularly in the services sector, since for example, a year earlier the tourism and travel sectors were still in lockdown. France's and Spain's final estimates for CPI will be released as well, and we are not expecting surprise changes from the preliminary estimates already out: in Spain inflation will have slowed to 6% y/y in January from 6.5% previously, while in France it will have inched up to 2.9% y/y from 2.8%.

The euro zone's industrial production like slumped 0.2% m/m in December. Germany's manufacturing output jumped during the month, mitigating much of the damage from stronger declines in Spain and Italy; output also inched down in France. Output of transport equipment has been recovering thanks to seemingly better supply conditions; how long this can last is still in doubt.

Finally, the euro zone's trade surplus is on course for another painful reading in December. We expect the trade balance tumbled to a deficit of €2 billion from a surplus €15.1 billion a year earlier as the rise in imports continued to outpace export growth. Part of the story is base effects, again from the fact that a year earlier much of Europe was in lockdown. There are also the current supply issues to contend with and Europe's desperate demand for energy-goods imports this winter.

Asia-Pacific

Japan's fourth quarter GDP will be the highlight on the economic calendar. We expect Japan's economy to have grown 1.6% q/q in the fourth quarter following a 0.9% contraction in the prior quarter. A record COVID-19 surge and reinstated emergency measures took a toll on household consumption and nonresidential investment in the third quarter. A notable decline in infection rates and hospitalizations allowed authorities to roll back restrictions in subsequent months, which supported some revival in spending. We expect a pickup in private consumption in the final months of 2021 to have driven the fourth quarter growth.

Australia's unemployment rate is likely to have inched up to 4.3% in January from 4.2% in December as the spread of the Omicron variant induced a drop in consumption, particularly in services spending. Fewer reinstated restrictions and tightness in the labour market suggest that employment losses would have been more limited and are likely to correct beyond February. The Philippines' central bank is expected to stand pat on its monetary policy when it meets next week and leave the benchmark policy rate unchanged at 2%. India's inflation is likely to have risen to 6% y/y in January from 5.6% in December on the back of higher energy prices as well as some upward pressure on consumer goods.

Geopolitical Calendar

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

THE LONG VIEW: U.S.

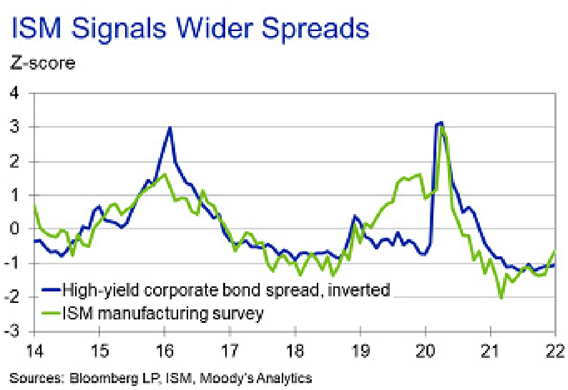
The Sanguine Outlook

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond spread is 127 basis points, 3 basis points wider than the 124 basis points at this time last week and wider than the 115 basis point average in January. Over the past 12 months, the highest average corporate bond spread was 127 basis points, while the low was 95. The long-term average industrial corporate bond spread widened by 3 basis points to 115. This is a new 12-month high.

The recent ICE BofA U.S. high-yield option adjusted bond spread narrowed over the past week by 9 basis points to 346 basis points. This below its recent high of 367 basis points in early December. The Bloomberg Barclays high-yield option adjusted spread has bounced around recently and is currently 334 basis points, compared with 326 at this time last week. The high-yield option adjusted bond spreads approximate what is suggested by the accompanying long-term Baa industrial company bond yield spread but a little tighter than implied by a VIX of 20.



The ISM manufacturing survey points toward some widening in high-yield U.S. corporate bond spreads, but nothing suggests that issuance would take a significant hit. To highlight this, we calculated z-scores. These measure the standard deviations above or below the mean for both the ISM manufacturing survey and the Bloomberg/Barclays high-yield corporate bond spread. This points toward some widening in the high-yield corporate bond spread.

Defaults

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

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

U.S. Corporate Bond Issuance

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

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

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

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

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

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

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

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

In the week ended January 28, US$-denominated investment grade corporate bond issuance was $7.2 billion, bringing year-to-date issuance to $164.8 billion. High-yield US$-denominated corporate bond issuance was $6.7 billion, bringing year-to-date issuance to $32.3 billion.

U.S. ECONOMIC OUTLOOK

There were some minor adjustments to our forecast between the January and February baselines. Bottom line: the most likely economic outlook is sanguine, characterized by full employment and comfortably low inflation by early next year. But it depends on the Federal Reserve successfully calibrating monetary policy, and this tightening cycle will be significantly different than the last one.

Smaller fiscal package

In the February vintage of the baseline forecast, Democrats pass a $1.2 trillion Build Back Better package of social safety net and climate investments in the first half of 2022. Some implementation will occur by the end of the second quarter. Most notably, this is less than the $1.8 trillion package assumed in prior baselines.

We dropped the following investments: $210 billion for home care, $150 billion for affordable housing, $135 billion for an expanded Earned Income Tax Credit, and $30 billion for higher education. As a result, the remaining initiatives are $560 billion for clean energy and the climate, $430 billion for healthcare coverage, $215 billion for universal preschool, and $45 billion for a fully refundable Child Tax Credit. The first three are provisions that West Virginia Democrat Joe Manchin has said he would support, while a fully refundable CTC would be a consolation prize for Democrats, who had sought to extend the enhanced CTC from the American Rescue Plan. Under our new assumption, gross BBB investments represent 0.1% of GDP in 2022, 0.3% in 2023, and 0.4% in 2024 before peaking at nearly 0.5% in 2026.

The cost of the BBB investments are nearly paid for by higher taxes on corporations and well-to-do households, as well as prescription drug savings. Because the dollar figure of BBB investments is lower than before, we have also jettisoned some of the pay-fors that we previously assumed. Specifically, we dropped a 15% corporate minimum tax on large corporations, as well as new surtaxes on the top 0.02% of earners.

Besides the two examples mentioned above, the rest of our BBB pay-fors are the same as before. The February forecast still includes the following changes to the personal tax code: ensuring high-income business owners pay either the 3.8% Medicare tax or the 3.8% net investment income tax, and limiting business loss deductions for noncorporate taxpayers. In addition, IRS funding would increase to improve tax compliance. On the corporate side, a new excise tax would apply to stock buybacks, and U.S. multinationals would face higher taxes on global intangible low-taxed income, among other international tax changes. Finally, we assume prescription drug savings would come from repealing a Trump-era rule that would eliminate safe harbor from a federal anti-kickback law for rebates paid by pharmaceutical manufacturers to health plans and pharmacy benefit managers in Medicare Part D.

That said, the longer it takes Democrats to rally around BBB, the closer we get to discarding BBB altogether from the baseline forecast. For now, we still assume Democrats will strive to pass some version of BBB in a bid to rally their base ahead of the 2022 midterm election. The State of the Union address on March 1 is an opportunity for Democrats to outline a resurrected BBB that President Biden can then tout during his address.

If we do not get any BBB clarity by the SOTU address, the March forecast will likely water down our assumption of a $1.2 trillion package to one costing about $600 billion. Moreover, we would delay the start of implementation from the second to the third quarter. An approximately $600 billion BBB package would largely revolve around green energy tax credits and climate investments. It could also include modest amounts of social safety net spending.

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

COVID-19 assumptions

We adjusted our epidemiological assumptions to anticipate that total confirmed COVID-19 cases in the U.S. will be 82.9 million, noticeably less than the January baseline assumption that cases would total 107.1 million. However, the number of assumed cases is still well above that assumed before the Omicron variant. The seven-day moving average of daily confirmed cases has dropped sharply recently and is around 250,000, below its recent peak of 807,000. The date for abatement of the pandemic, where total case growth is less than 0.05% per day, changed slightly; it is now April 4, a few weeks earlier than in the January baseline.

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

A little less balmy

The new fiscal policy assumptions about the Omicron variant of COVID-19 led to a downward revision to the forecast for real GDP growth this year; it is now expected to be 3.7% at an annualized rate, compared with 4.1% in the January baseline. The bulk of the downward revision was in the first quarter, as real GDP is expected to rise 0.5% at an annualized rate. Our high-frequency GDP model now has first-quarter GDP on track to rise 0.8% at an annualized rate. Risk bias, or the difference between our high-frequency GDP model's estimate of fourth-quarter GDP growth and our official forecast, is 0.3 percentage point. It's early in tracking first-quarter GDP, as there isn't a lot of source data released.

We expect GDP growth to bounce back in the second quarter, similar to the pattern seen during the Delta wave. The forecast is for GDP to rise 6% at an annualized rate in the second quarter, but it will be south of 3% at an annualized rate in the second half of the year. We look for GDP to rise 3% next year, a touch lighter than the 3.1% in the January baseline. The Bloomberg consensus is for real GDP to increase 3% this year and 2.5% in 2023.

Inventories and global supply-chain issues remain a downside risk to the near-term forecast. The level of real GDP is currently 0.6% lower than if the recession didn't happen and the pre-pandemic trend had continued; that gap will be closed later this year, but inventories are a risk. Inventories played an enormous role in the gain in fourth-quarter GDP. Inventories jumped by $173.6 billion at an annualized rate in the fourth quarter after falling in each of the prior three months. Inventories added 4.9 percentage points to fourth-quarter GDP growth, among the largest gains since the 1980s.

The sizable inventory build could be an issue for first-quarter GDP growth because it is unlikely to be duplicated. For GDP, it's the change in the change in inventories that matters. In other words, inventories would need to increase more than that seen in the fourth quarter to add to first-quarter GDP growth. That seems unlikely because of the Omicron variant and its impact on supply chains.

Also, supply chains remain a downside risk. The issues with U.S. supply chains are both supply- and demand-related. On the demand front, wealth effects associated with rising asset prices, unprecedented fiscal stimulus, and fewer opportunities to spend on services led to an enormous increase in consumer goods spending. The good news is that our U.S. Supply-Chain Stress Index has improved recently along with our Asia-Pacific region SCSI.

Business investment and housing

Fundamentals remain supportive but less so than in January, for business investment as corporate credit spreads have widened. However, corporate profit margins are fairly wide, and banks are easing lending standards.

We have real business equipment spending rising 8.2% this year, compared with 9.7% in the January baseline. The forecast is for real business equipment spending to increase 5.4% in 2023, a touch stronger than the 5.2% gain in the January baseline forecast.

Risks are weighted to the downside, as financial markets could tighten more than we anticipate and corporate credit spreads widen further. The correlation coefficient between monthly changes in the high-yield corporate bond spread and changes in the S&P 500 is -0.71 since 2000. The relationship is still strong if we look at it on a weekly basis. Using no and various lags, the Granger causality tests showed changes in the S&P 500 caused changes in the high-yield corporate bond spread. The causal relationship runs in one direction. Also, now that interest rates are rising and the market value of global bonds with negative yields is declining, it could put some upward pressure on U.S. long-term rates and cause some widening in high-yield corporate bond spreads as investors have less pressure to search for yield.

The real nonresidential structures investment was cut this year and next. We now look for real nonresidential structures investment to rise 11% this year (17% in the January baseline) and 10.7% in 2022 (11.5% in the January baseline). The downward revision to the forecast was broad-based across components, including structures investment in commercial/healthcare and manufacturing. We did revise higher the forecast for structures investment in mining exploration, shafts and wells because of the rise in energy prices. The Bureau of Economic Analysis uses the American Petroleum Institute's weighted average of footage drilled along with rotary rig counts from Baker Hughes in its current-quarter estimate of private fixed investment in mining exploration, shafts and wells. This segment now accounts for more than 10% of nominal private fixed investment in nonresidential structures. Therefore, a sudden rise in energy prices would lead to an increase in the number of active rotary rigs. Separately, growth in the Commercial Property Price Index was revised higher by 30 basis points this year and next, to 1.7% and 2.3%, respectively.

Revisions to housing starts were small. Housing starts are expected to be 1.84 million, compared with 1.82 million in the January baseline. Revisions to housing starts next year were also modest. Risks are heavily weighted to the downside. There are likely only so many homes that can be built each year because of labor-supply constraints and lack of buildable lots. Some of the labor-supply issues will ease as the pandemic winds down, but the reduction in immigration is particularly problematic for homebuilders' ability to find workers. Revisions to the forecast for new- and existing-home sales this year were minor, as mortgage rates haven't risen either fast or high enough to cut noticeably into sales.

We nudged up the forecast for the FHFA All-Transactions House Price Index this year, with it rising 9.8%, compared with 8.9% in the January baseline. House price growth moderates noticeably in 2023, as prices are forecast to rise 2.4%, a touch stronger than the 2.1% in the January baseline. This is attributable to rebalancing of supply and demand.

Labor market weathers Omicron

The January jobs report delivered an upside surprise with gains totaling 467,000, which far exceeded expectations. After much concern, the impact of the Omicron virus variant on job growth was minimal, as January's total fell only slightly short of the impressive 555,000 average gain in 2021. Given that the Omicron wave has already begun to fade, the stage is set for substantial payroll gains to continue this year.

The January employment data are incorporated into the February baseline forecast. They led to minor tweaks to the forecast. We have job growth averaging 384,000 per month this year, better than the 360,000 in the January baseline forecast. There wasn't any material change to the forecast for the unemployment rate this year, but it's now expected to bottom at 3.3% next year, compared with 3.2% in the baseline forecast.

We assume a full-employment economy is one with a 3.5% unemployment rate, around a 62.5% labor force participation rate, and a prime-age employment to population ratio of 80%. All of these conditions will be met by late this year or early next.

Marching toward March

The Federal Open Market Committee used its January meeting to tee up the potential for the first increase in the target fed funds rate as early as March. The post-meeting statement noted that it "will soon be appropriate" to raise the target range for the fed funds rate. The inflation criteria for raising interest rates had already been met, but the Fed was waiting for further improvement in the labor market, and the market appears closer to meeting the threshold. The statement described the labor market as "strong." This was absent in the December statement. It looks as if the tapering process will end a week earlier; the statement said the process will be wrapped up in early March rather than mid-month. The statement subtly hints that the balance sheet will eventually shrink.

Given Fed communication, new data on inflation, and job growth, we have pulled our first rate hike forward to March. We expect the Fed to raise the funds rate three additional times this year, once each quarter, by 0.25 percentage point each time. The Fed is also expected to begin quantitative tightening this summer. That is, the central bank will not replace the Treasury and mortgage securities it owns as they mature or prepay, allowing its balance sheet to slowly shrink, and putting upward pressure on longer-term rates. We didn't make significant changes to the forecast for the 10-year Treasury yield.

The forecast is that the Dow Jones Industrial Average was unchanged between the January and February baseline forecasts, and it still calls for stocks to steadily decline this year, bottoming in early 2023.

EU Inflation Seen Below Target Next Year

BY BARBARA TEIXEIRA ARAUGO and ROSS CIOFFI

The European Commission released its quarterly forecasts on Thursday, and the main highlight of the publication was the inflation figures for the euro zone. The EC expects that euro area inflation will peak in the first quarter—the preliminary data showed that the headline CPI rose to a record high of 5.1% y/y in January—owing to the sky-high energy prices and persisting supply-chain bottlenecks. But the institution expects that inflation will start to moderate from the second quarter, averaging 2.1% in the fourth quarter and falling below target at the start of 2023.

This confirms that the European Central Bank is caught between a rock and a hard place. Politically, the ECB is under pressure to start tightening soon and avoid falling behind the curve, but economic fundamentals might not be there just yet. It is possible, of course, that the EC forecasts are underestimating the second-round effects of the current price rises. Indeed, according to our February baseline, we see inflation peaking only in the second quarter and averaging 4% in 2022, higher than the EC's forecast of 3.5%. But the truth is that none of the other major euro zone forecasters, including the ECB itself, see inflation above target in either 2023 or 2024. And a medium-term outlook of below-target inflation is just not consistent with a removal of stimulus. On the contrary, at least in theory, it is consistent with an increase in policy support.

Our view remains that the ECB will announce at least some tightening in the next few months, likely consisting of a faster reduction in asset purchases. The central bank is spooked by the fact that labor shortages are alive and well in the currency area, which means that risks to the inflation outlook are likely tilted heavily to the upside given the possibility of a wage-price spiral. As of now, however, the country data on wage settlements suggest only moderate pay gains of around 2% to 3% y/y in January, although these data are lagging and should be taken with a grain of salt.

On growth, the EC expects that the euro area's GDP will increase by 4% in 2022, following a 5.3% increase in 2021. The Omicron-led weakening in momentum during the last quarter of 2021 and at the start of 2022 is expected to be only temporary, with growth set to gather pace from spring. This should allow output to surpass the pre-pandemic level in all euro area economies by the end of 2022. Consumer spending will remain the main driver of the expansion, and that's despite the inflation-led decline in purchasing power. In 2023, the EC expects growth to slow to 2.7% in a further movement toward normalcy.

German industrial production slips

Germany's industrial production index decreased by 0.3% m/m in December, with construction spoiling the result. Even though manufacturing production expanded by a healthy 1.1% m/m, construction output slumped 7.3% m/m, dragging the headline index lower. The all-important auto sector turned in a bumper performance to end the year; transportation equipment production grew 9.4% m/m. This spoke to some of the improvements in supply conditions that factories benefited from in the remaining months of the year.

With output of motor vehicles recovering in the later months of the year, implied supply conditions began to improve. Although this is no guarantee of future gains, the increases this fall were a positive signal that German industry may be past the worst of it. Furthermore, manufacturers are showing slightly more confidence about future conditions, according to the Ifo Institute. The think-tank's business outlook index for manufacturing improved for the third month in a row in January 2022, supported by robust demand.

Supply conditions evidently were not improving for the construction sector. Shortages of building materials and labor hampered output in the sector. In December, 25% to 30% of construction contacts reported trouble sourcing building materials, according to the Ifo Institute. Meanwhile, more than one-third of respondents struggled to hire skilled workers, as per the latest estimates. Finding skilled construction workers is a long-time problem, as even during normal times about 20% of builders report shortages of skilled labor.

Meanwhile, Norway's industrial production (which does not include construction) partially rebounded by 2.9% m/m in December, after contracting 3% in the previous month. Extraction and related services carried the month, as manufacturing, particularly of capital and durable consumer goods, dropped. Increased demand for energy products in the rest of Europe is supporting demand and overall production.

RBI: Accommodative Policy 'As Long as Necessary'

BY SHAHANA MUKHERJEE

The Reserve Bank of India, as we expected, kept its benchmark policy rate unchanged at 4% in its February announcement. The central bank also maintained the reverse repo rate (the rate at which the RBI absorbs liquidity from lenders) and the marginal standing facility rate at 3.35% and 4.25%, respectively.

The RBI statement noted that the pandemic-related policy actions had yielded the desired results and the central bank has now moved to rebalancing liquidity on a dynamic basis. The system liquidity remains in large surplus, though it has moderated since August. But the central bank would conduct variable rate repo operations of varying tenors as and when the situation warranted. The RBI once again reiterated its commitment to an accommodative monetary policy for "as long as necessary" to achieve a more durable and broad-based recovery.

The decision to leave the reverse repo rate unchanged surprised markets, with many participants anticipating a hike to realign the rate more closely with short-term money market rates. The extended pause, however, signals a clear and unwavering stance on supporting domestic recovery until the broader risks subside.

The policy statement acknowledged the potential downside risks to recovery from the Omicron-led resurgence. It noted that while the transmission rate is moderating and the hit from the latest resurgence is likely to be less severe, it has resulted in some loss of momentum in domestic activity, weighing on manufacturing as well as goods' consumption. The statement took note of inflation and the increasing risk from higher global oil prices, but also observed that muted demand-pull forces were a counter to the elevated cost pressures. The central bank expects inflation to moderate beyond the March quarter, allowing more room for the continuation of its accommodative stance.

The RBI's dovish outlook on inflation (which it expects to drop to 4.5% in fiscal year 2022-23 from 5.3% in the current fiscal year) and the lack of urgency in targeting inflation is surprising, particularly as several other leading central banks are considering bringing forward their normalization cycle, in line with the Fed's anticipated moves. But this signals the central bank's priorities, which are to enable a meaningful pickup in private consumption and contact-sensitive services (which lag pre-pandemic levels), strengthen investment, and stabilise the domestic growth drivers before proceeding with a gradual tightening. Such a stance has the potential to yield favourable growth outcomes this year and next, provided supply side bottlenecks, commodity prices, or demand conditions do not exacerbate price pressures. But these are factors fueling higher inflation in several economies and could well necessitate an earlier than expected interest rate tightening by the RBI.

India's recently announced federal budget (worth nearly US$530 billion) will see another year of capital and infrastructure-focused spending aimed at boosting economic growth. With a fiscal deficit target of 6.4% set for FY 2022-23, the RBI will need to maintain a careful and calibrated approach to ensure that the stimulus does not stoke inflation beyond the central bank's comfort levels.

Moody's Analytics expects India's inflation to rise over 6% this quarter on the back of higher oil prices and upward pressure on consumer goods. The RBI, however, is likely to remain patient in the first half of this year. We see the odds of a 15-25 basis point increase in the reverse repo rate in the April announcement as being balanced/equal at this stage. But we expect the first increase in the benchmark repo rate to be announced in the June-September period.

Mostly Upgrades for Latest U.S. Changes

BY STEVEN SHIELDS

U.S.

U.S. corporate credit changes were mostly positive in the latest week. For the period ended February 9, upgrades comprised 12 of 14 ratings changes issued by Moody's Investors Service and nearly all the affected debt. The most notable upgrade in the period was issued to Boardwalk Pipelines, LP. The energy firm's senior unsecured notes were raised to Baa2 from Baa3. Moody's also upgraded the ratings of its subsidiaries, Gulf South Pipeline Co. LLC and Texas Gas Transmission LLC. This rating action reflects Boardwalk's large debt reduction, high revenues supported by long-term contracts, low capital intensity and consistent free cash flow generation that bolster its capacity to withstand negative credit impacts from carbon transition risks.

Meanwhile, Boyd Gaming Corp.'s senior unsecured notes were raised to B3 from Caa1. Boyd's Corporate Family Rating also rose to B1 from B2. According to the ratings rationale, the upgrade of Boyd's CFR to B1 reflects its improved operating performance since the company's casinos have reopened, very strong free cash flow generation, and reduction in debt outstanding versus pre-pandemic levels. The changes impacted approximately $2.5 billion in outstanding debt.

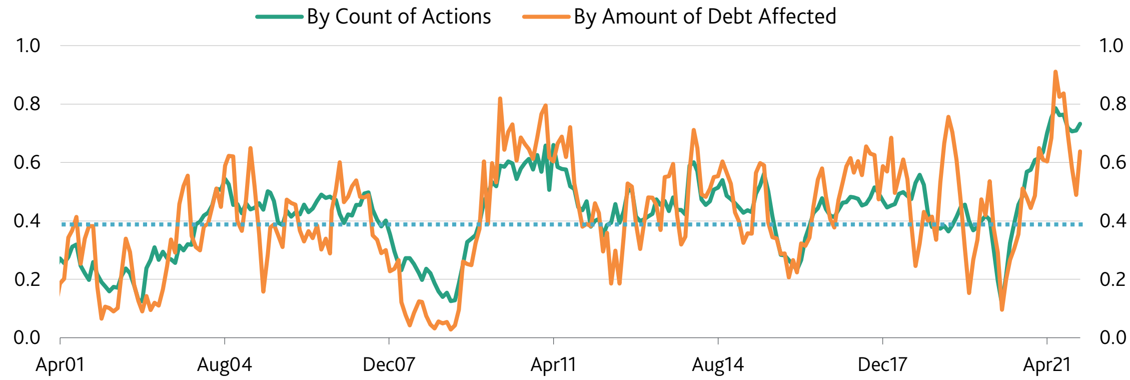
AMC Entertainment Holdings Inc.'s senior secured notes were raised one notch to Caa1, reflecting Moody's expectation for improved operating performance thanks to growing attendance levels at the global box office combined with an expectation for a strong movie slate in 2022. This will be supported by the planned release of numerous blockbuster and franchise titles as well as Moody's belief that most of the big studios will adhere to the new 45-day theatrical window for major film releases before distribution to video-on-demand streaming platforms. This month AMC sold $950 million of bonds to finance existing debt, nearly twice the $500 million that was planned initially thanks to robust investor demand.

Europe

European ratings activity was far more mixed in the period. Upgrades comprised three of the six rating changes, while the downgrades accounted for nearly 90% of affected debt. The bulk of the affected debt stems from a downgraded issued to Saipem S.p.A. On February 2, Moody's Investors Service lowered Saipem's senior unsecured notes to B1 from Ba3. The action follows Saipem's announcement that its statutory financial statements in 2021 are likely to show a loss for more than one third of its equity, which triggers the application of Article 2446 of the Italian Civil Code. This event increases default risk because lenders could accelerate repayment of certain loans outstanding absent shareholder support, which could also trigger a cross default to other debt instruments. Moody's also placed all the ratings under review for downgrade and the outlook has been changed from stable to ratings under review.

RATINGS ROUND-UP

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



* Trailing 3-month average

Source: Moody's

FIGURE 2
Rating Key

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

FIGURE 3

Rating Changes: Corporate & Financial Institutions - US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG
2/2/2022	AMC ENTERTAINMENT HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR	2309.00	U	Caa2	Caa1	SG
2/2/2022	CITADEL SECURITIES LP	Financial	SrSec/BCF/LTIR		U	Ba1	Baa3	SG
2/3/2022	THE KNOT WORLDWIDE INC.	Industrial	LTCFR/PDR		U	B3	B2	SG
2/4/2022	OHIO VALLEY ELECTRIC CORPORATION	Utility	SrUnsec	745.00	U	Ba1	Baa3	SG
2/4/2022	BOYD GAMING CORPORATION	Industrial	SrUnsec/SrSec/BCF/ LTCFR/PDR	2500.00	U	Caa1	B3	SG
2/4/2022	ALVOGEN LUX HOLDINGS S.A.R.L.-ALVOGEN PHARMA US, INC.	Industrial	LTCFR/PDR		D	B2	B3	SG
2/4/2022	ASP NAPA HOLDINGS, LLC.-NAPA MANAGEMENT SERVICES CORPORATION	Industrial	LTCFR/PDR		U	Caa1	B2	SG
2/7/2022	GTEL ACQUISITION CORP.-GLOBAL TEL*LINK CORPORATION	Industrial	SrSec/BCF		U	B2	B1	SG
2/7/2022	GREYSTAR REAL ESTATE PARTNERS, LLC	Industrial	SrSec/LTCFR/PDR	590.00	U	B1	Ba3	SG
2/7/2022	TKC MIDCO 1, LLC-TKC HOLDINGS, INC.	Industrial	SrUnsec	675.00	U	Caa2	Caa1	SG
2/8/2022	LOEWS CORPORATION-BOARDWALK PIPELINES, LP	Utility	SrUnsec	3350.00	U	Baa3	Baa2	IG
2/8/2022	RAYMOND JAMES FINANCIAL, INC.	Financial	SrUnsec/LTIR	2050.00	U	Baa1	A3	IG
2/8/2022	NEWS CORPORATION	Industrial	SrUnsec	1000.00	U	Ba2	Ba1	SG
2/8/2022	ALL DAY ACQUISITIONCO LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa3	SG

Source: Moody's

FIGURE 4

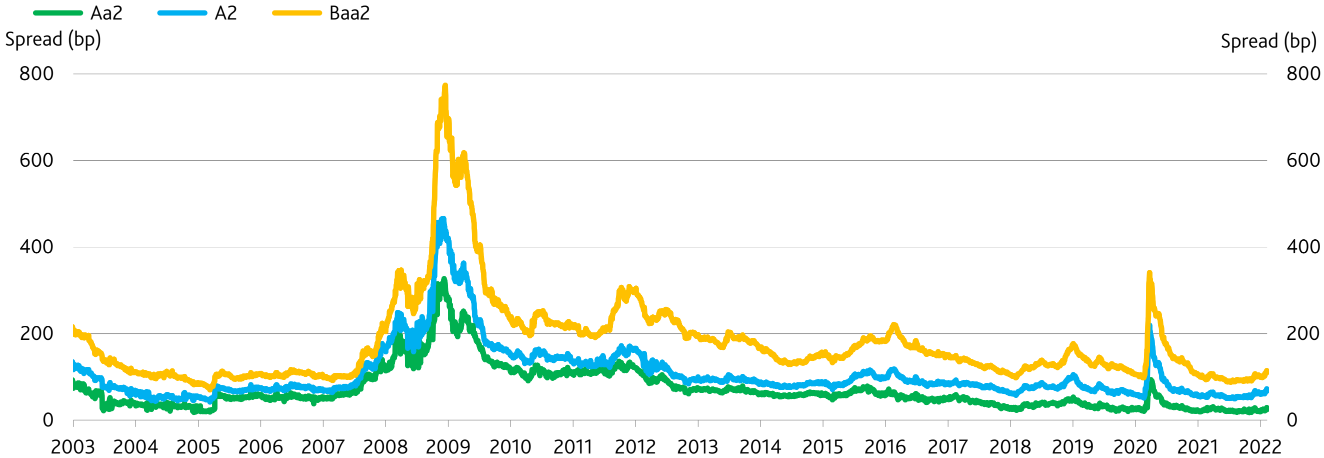
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
2/2/2022	SAIPEM S.P.A.	Industrial	SrUnsec/LTCFR/PDR/MT	2911.62	D	Ba3	B1	SG	ITALY
2/4/2022	SPAREBANK 1 NORD-NORGE	Financial	SrUnsec	261.73	D	A2	A3	IG	NORWAY
2/4/2022	CASTELLUM AB-KUNGSLEDEN AB	Industrial	LTIR		U	Baa3	Baa2	IG	SWEDEN
2/4/2022	HIBU GROUP LIMITED-YELL BONDCO PLC	Industrial	SrSec/LTCFR/PDR	309.88	D	Caa2	Caa3	SG	UNITED KINGDOM
2/4/2022	COVIS MIDCO 2 S.A R.L.-COVIS FINCO S.A	Industrial	SrSec/BCF		U	B2	B1	SG	LUXEMBOURG
2/7/2022	ANACAP FINANCIAL EUROPE S.A. SICAV-RAIF	Financial	SrSec	358.13	U	B3	B2	SG	LUXEMBOURG

Source: Moody's

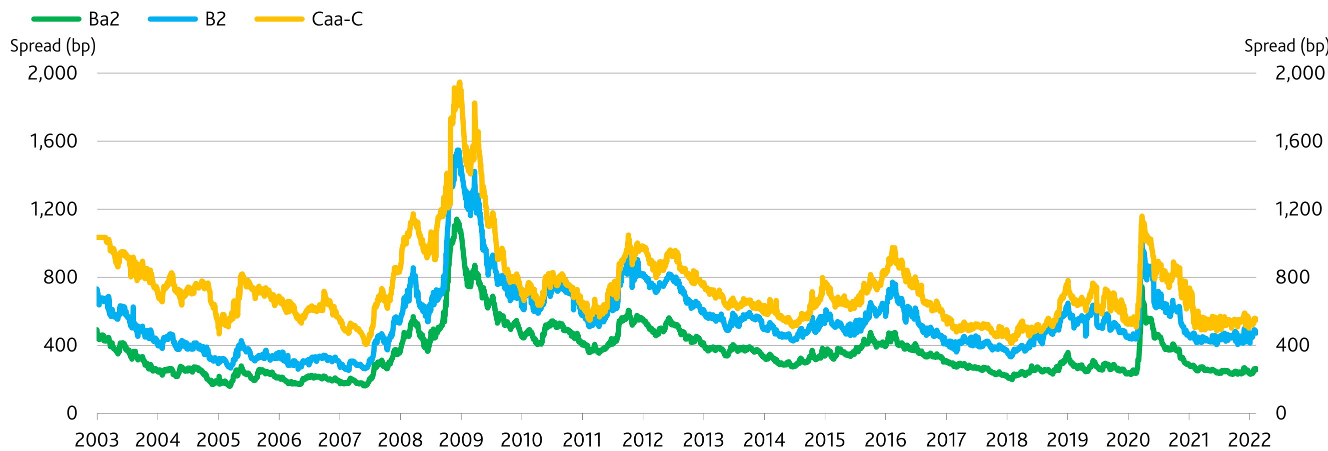
MARKET DATA

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



Source: Moody's

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



Source: Moody's

CDS MOVERS

Figure 3. CDS Movers - US (February 3, 2022 – February 10, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 10	Feb. 3	Senior Ratings
Wells Fargo & Company	Baa1	Baa2	A1
Comcast Corporation	A3	Baa1	A3
Boeing Company (The)	Baa3	Ba1	Baa2
Philip Morris International Inc.	A1	A2	A2
Enterprise Products Operating, LLC	Baa1	Baa2	Baa1
Cargill, Incorporated	A2	A3	A2
Archer-Daniels-Midland Company	A1	A2	A2
Royal Caribbean Cruises Ltd.	B2	B3	B2
Texas Instruments, Incorporated	A1	A2	Aa3
United Rentals (North America), Inc.	Ba1	Ba2	Ba2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 10	Feb. 3	Senior Ratings
CenterPoint Energy, Inc.	Baa2	A3	Baa2
PepsiCo, Inc.	A2	A1	A1
Philip Morris International Inc.	A2	A1	A2
General Electric Company	Baa3	Baa2	Baa1
Eli Lilly and Company	Aa2	Aa1	A2
FirstEnergy Corp.	Baa3	Baa2	Ba1
Emerson Electric Company	Baa1	A3	A2
Danaher Corporation	A3	A2	Baa1
Archer-Daniels-Midland Company	A2	A1	A2
United Rentals (North America), Inc.	Ba2	Ba1	Ba2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 10	Feb. 3	Spread Diff
Talen Energy Supply, LLC	Caa2	4,202	3,969	232
Rite Aid Corporation	Caa2	1,073	991	82
Dish DBS Corporation	B3	542	500	42
TEGNA Inc.	Ba3	437	398	39
International Game Technology	B3	266	232	35
Ventas Realty, Limited Partnership	Baa1	88	54	34
Gap, Inc. (The)	Ba3	289	257	32
Liberty Interactive LLC	B2	531	505	26
Beazer Homes USA, Inc.	B3	370	345	26
Nordstrom, Inc.	Ba1	383	361	22

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 10	Feb. 3	Spread Diff
American Airlines Group Inc.	Caa1	720	788	-68
Nabors Industries, Inc.	Caa2	567	630	-62
Carnival Corporation	B2	421	456	-34
Royal Caribbean Cruises Ltd.	B2	368	397	-29
United Airlines Holdings, Inc.	Ba3	429	453	-23
Textron Inc.	Baa2	112	133	-21
Wendy's International, LLC	Caa2	136	155	-19
United Airlines, Inc.	Ba3	446	461	-16
United States Steel Corporation	B1	384	396	-13
Delta Air Lines, Inc.	Baa3	237	248	-12

Source: Moody's, CMA

CDS Movers

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

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 10	Feb. 3	Senior Ratings
DZ BANK AG	A2	A3	Aa2
Landesbank Hessen-Thueringen GZ	Aa3	A1	Aa3
British Telecommunications Plc	Baa3	Ba1	Baa2
Orsted A/S	Aa3	A1	Baa1
ASML Holding N.V.	A2	A3	A2
SKF AB	A3	Baa1	Baa1
Iceland Bondco plc	Caa1	Caa2	Caa2
United Kingdom, Government of	Aaa	Aaa	Aa3
Italy, Government of	Baa3	Baa3	Baa3
France, Government of	Aaa	Aaa	Aa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 10	Feb. 3	Senior Ratings
Spain, Government of	Aa3	Aa2	Baa1
Rabobank	Aa2	Aa1	Aa2
BNP Paribas	A1	Aa3	Aa3
Banco Santander S.A. (Spain)	A2	A1	A2
Barclays PLC	Baa2	Baa1	Baa2
ABN AMRO Bank N.V.	A2	A1	A1
CaixaBank, S.A.	Baa1	A3	Baa1
Banco Bilbao Vizcaya Argentaria, S.A.	A3	A2	A3
Lloyds Bank plc	A1	Aa3	A1
Portugal, Government of	Aa3	Aa2	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 10	Feb. 3	Spread Diff
Boparan Finance plc	Caa1	1,339	1,236	103
Novafives S.A.S.	Caa2	801	720	81
Casino Guichard-Perrachon SA	Caa1	744	681	62
thyssenkrupp AG	B1	257	220	37
Stena AB	Caa1	454	418	36
Banca Monte dei Paschi di Siena S.p.A.	Caa1	322	294	29
Ardagh Packaging Finance plc	Caa1	334	308	26
CMA CGM S.A.	B2	342	318	25
Marks & Spencer p.l.c.	Ba1	191	169	22
Eksportfinans ASA	Baa1	369	350	20

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 10	Feb. 3	Spread Diff
Vedanta Resources Limited	B3	761	824	-63
Iceland Bondco plc	Caa2	548	591	-43
Piraeus Financial Holdings S.A.	Caa2	534	547	-13
Wienerberger AG	Ba1	96	103	-8
British Telecommunications Plc	Baa2	107	111	-3
ASML Holding N.V.	A2	45	47	-3
Landesbank Hessen-Thueringen GZ	Aa3	37	39	-2
SKF AB	Baa1	51	52	-2
Orsted A/S	Baa1	36	37	-1
VERBUND AG	A3	28	29	-1

Source: Moody's, CMA

CDS Movers

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

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 10	Feb. 3	Senior Ratings
Mitsubishi Corporation	Aaa	Aa1	A2
Suncorp-Metway Limited	A2	A3	A1
Oversea-Chinese Banking Corp Ltd	Aa3	A1	Aa1
Daiwa Securities Group Inc.	Baa1	Baa2	Baa1
Nomura Holdings, Inc.	Baa2	Baa3	Baa1
Nissan Motor Co., Ltd.	Baa2	Baa3	Baa3
JFE Holdings, Inc.	A1	A2	Baa3
Kazakhstan, Government of	Baa2	Baa3	Baa2
NIPPON STEEL CORPORATION	Aa3	A1	Baa2
Japan Tobacco Inc.	Aaa	Aa1	A2

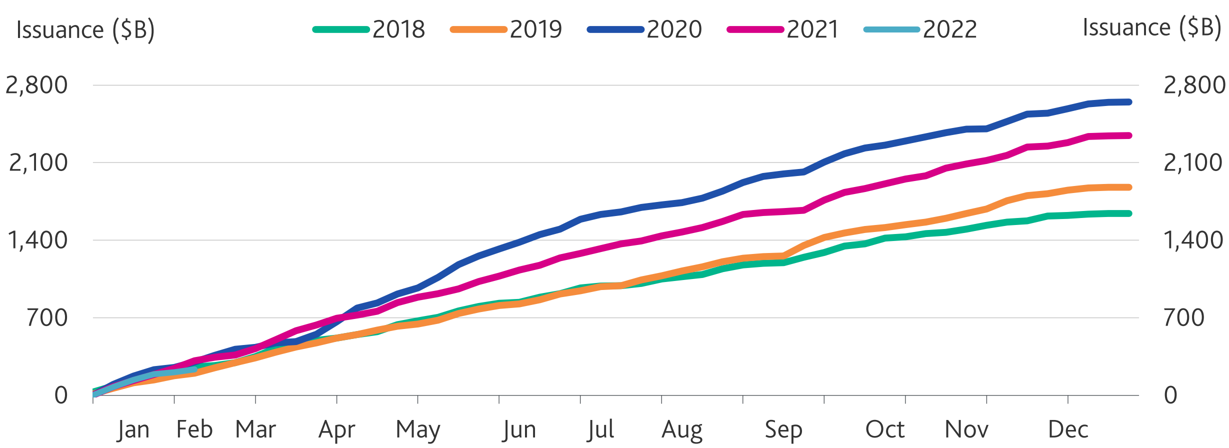
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 10	Feb. 3	Senior Ratings
China Development Bank	Baa2	Baa1	A1
SoftBank Group Corp.	B2	B1	Ba3
Shinhan Bank	Aa2	Aa1	Aa3
SK Hynix Inc.	Baa3	Baa2	Baa2
Korea Electric Power Corporation	Aa2	Aa1	Aa2
SK Telecom Co., Ltd.	Aa2	Aa1	A3
Hitachi, Ltd.	Aa1	Aaa	A3
Japan, Government of	Aaa	Aaa	A1
China, Government of	A3	A3	A1
Australia, Government of	Aaa	Aaa	Aaa

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 10	Feb. 3	Spread Diff
SK Innovation Co. Ltd.	Baa3	107	96	11
SK Hynix Inc.	Baa2	79	72	6
Petroliam Nasional Berhad	A2	68	62	6
Holcim Finance (Australia) Pty Ltd	Baa2	91	85	6
Philippines, Government of	Baa2	74	70	5
Tenaga Nasional Berhad	A3	60	54	5
Telekom Malaysia Berhad	A3	58	53	5
China Development Bank	A1	62	59	4
SoftBank Group Corp.	Ba3	312	308	4
Malayan Banking Berhad	A3	72	68	4

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 10	Feb. 3	Spread Diff
Halyk Savings Bank of Kazakhstan	Ba2	306	315	-9
Development Bank of Kazakhstan	Baa2	137	145	-8
Tata Motors Limited	B1	252	258	-7
Kazakhstan, Government of	Baa2	76	79	-3
Nissan Motor Co., Ltd.	Baa3	77	79	-2
Mizuho Bank, Ltd.	A1	28	30	-1
Nomura Holdings, Inc.	Baa1	74	76	-1
Japan, Government of	A1	17	17	0
MUFG Bank, Ltd.	A1	29	29	0
New Zealand, Government of	Aaa	15	15	0

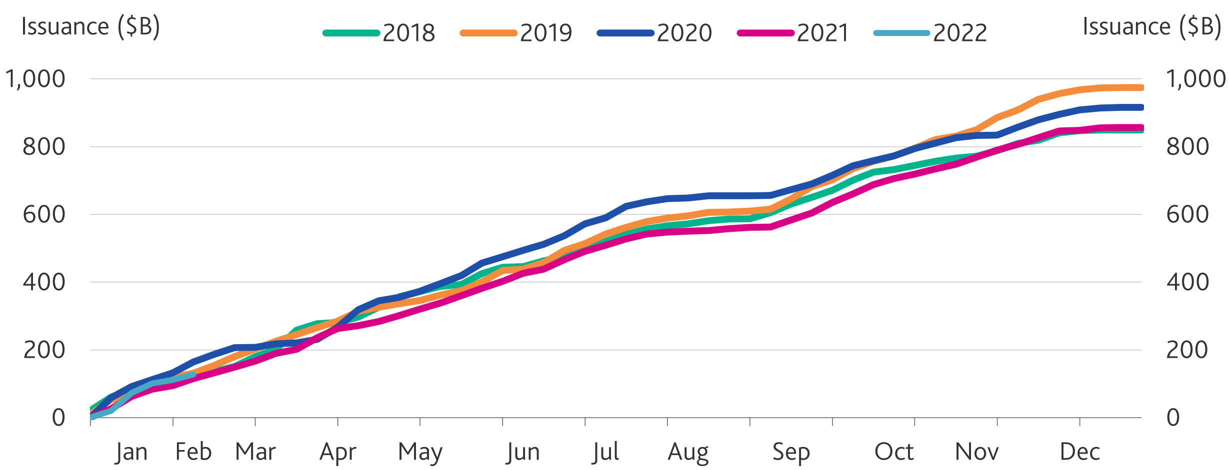
Source: Moody's, CMA

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



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	20.950	5.176	26.829
Year-to-Date	185.713	40.421	234.988

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	12.830	3.030	16.028
Year-to-Date	115.105	11.352	127.282

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

To order reprints of this report (100 copies minimum), please call 212.553.1658.

Report Number: 1318999

Editor
Reid Kanaley
help@economy.com

Contact Us
Americas
+1.212.553.1658
clientservices@moodys.com

Europe
+44.20.7772.5454
clientservices.emea@moodys.com

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

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