MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

APRIL 14, 2022

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Inside Economics Podcast:

Fed Girds for Stagflation

The Federal Reserve's seat is red-hot with the labor market tight and inflation extremely high. The central bank is going to respond aggressively, and the March CPI increases the odds of a 50-basis point rate hike in the target range for the fed funds rate at the May meeting of the Federal Open Market Committee. Financial markets are close to fully pricing in three 50-basis point rate hikes this year.

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The state of affairs

The U.S. economy is barreling toward full employment, and unless job growth cools, trouble is brewing. Fed Chair Jerome Powell, before the March employment report, described the labor market as tight to an unhealthy level. His assessment likely didn't improve with the new data, as the unemployment rate continues to decline quickly and labor supply is only gradually increasing.

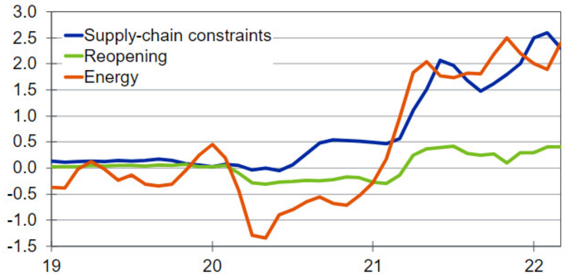
We assume a full-employment economy is one with a 3.5% unemployment rate, around a 62.5% labor force participation rate, and a prime-age employment-to-population ratio a little north of 80%. All of these conditions will be met by late this summer. The issue is the economy likely won't slow sufficiently enough to prevent the economy from overshooting full employment.

The labor market is only one of the Fed's problems; the other is alarmingly high inflation. The CPI increased 1.2% in March, leaving it up 8.5% on a year-ago basis. Energy provided a significant boost to inflation in March, adding 2.4 percentage points to year-over-year growth in the CPI, up from the 1.9-percentage point contribution in February.

Higher energy prices normally have a temporary effect on measures of U.S. inflation, and the Fed typically looks through it. This time is different for a couple of reasons. First, inflation is already running at its hottest since the early 1980s. Second, higher energy and food prices could boost inflation expectations even more.

Supply Chains and Energy Boosting CPI

Contribution to y/y growth in U.S. CPI, ppt



Sources: BLS, Moody's Analytics

Arguably more important, at least for the conduct of monetary policy, is the increase in inflation expectations. Investors in Treasury Inflation-Protected Securities, or TIPS, who put their money where their mouth is when forecasting inflation, are anticipating CPI inflation of 3.25% per annum over the next five years, up about half a percentage point since the Russian invasion. Using TIPS and inflation swaps, the derivatives exchange ICE has also calculated investors' forecast of inflation a year from now over the subsequent five-year period, and it too has risen to a high 2.8%. The upper end of the Fed's target for CPI inflation is 2.5%. Oil and gasoline prices have historically played an outsize role in people's thinking about inflation and where it is headed, because it is such a visible price.

Narrow path to soft landing

The odds of the Fed engineering a soft landing are declining. The Fed is behind the curve on inflation and the labor market is extremely tight. Therefore, tightening monetary policy to tame inflation without causing the unemployment rate to increase will be extremely difficult. There has never been an increase in the unemployment rate of more than 30 basis points, on a three-month moving average basis, that wasn't associated with a recession. Once the labor market overshoots full employment, it is extremely difficult for the Fed to pull off a soft landing.

Also, inflation expectations are climbing; inflation at 8.5% on a year-ago basis, compared with the 2.1% average growth in 2018 and 2019, is costing the average household an extra $327 per month to purchase the same basket of goods and services as they did last year. The Fed could face a situation where higher consumer prices begin to weigh on consumer spending, reducing GDP growth. The pandemic has not repealed the law of demand, which states that, all else equal, a higher price of a good or service reduces the quantity demanded.

The Fed needs financial market conditions to tighten. If they don't, the Fed will have to shock and awe markets to achieve a desired level of tightening. A hint of what the Fed could do came in the minutes of the Federal Open Market Committee's meeting, which signaled an aggressive amount of quantitative tightening.

We learned in past rounds of quantitative tightening that the Fed's balance sheet can be more powerful than increases in the target range for the fed funds rate in causing financial market conditions to tighten. The Fed may need to lean more on its balance sheet to calibrate the degree of quantitative tightening that is needed to tighten financial market conditions. This increases the risk of a policy error.

It is clear that this tightening cycle is going to be fast and furious, but will it work in taming inflation?

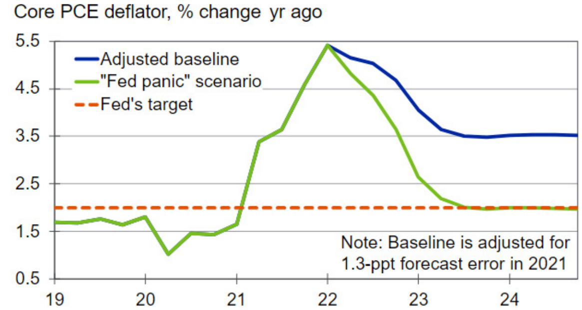
Scenario description

To answer, we constructed a scenario in which the Fed hikes interest rates even higher than markets are pricing in for the next year. In this scenario, the Fed panics and does whatever it takes to bring year-over-year growth in the core personal consumption expenditure deflator back down to the central bank's 2% target by the end of 2023. The core PCE deflator is the Fed's preferred measure of inflation. If we adjust our baseline outlook for core PCE inflation by the average forecast error for the series in 2021, then the core PCE deflator will decelerate from a peak of 5.4% in the first quarter of 2022 to 3.5% by this time next year. The rationale for adding the forecast error to the baseline to create an alternative baseline forecast was that the forecast was consistently low for inflation and risks are heavily weighted that this occurs again.

While this moderation provides a modicum of relief to U.S. households, core PCE inflation would still be uncomfortably above target. We therefore pulled various levers in the Moody's Analytics U.S. macro model to simulate a scenario of a Fed panic that ultimately paves the way for on-target inflation by the end of 2023.

Getting Inflation Back to Target Requires…

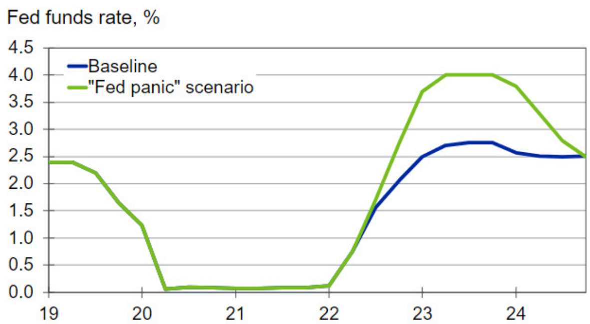
Core PCE deflator, % change yr ago



Sources: BEA, Moody's Analytics

The Fed is assumed to increase the target range for the fed funds rate by 50 basis points at each FOMC meeting, starting in May 2022 and wrapping up by the end of the first quarter of 2023. In such a way, the terminal rate—or the peak in the fed funds rate during this tightening cycle—would be 4%, significantly higher than the 2.75% terminal rate penciled into the current baseline. The Fed keeps the fed funds rate at 4% through 2023 before cutting rates. By the end of 2024, the fed funds rate returns to its long-run equilibrium rate, which we estimate to be 2.5%.

…An Even Higher Fed Funds Rate…

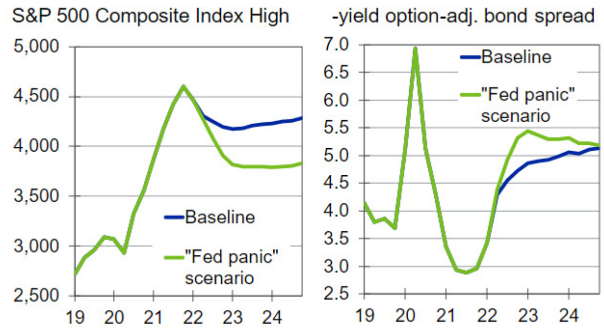


Sources: Federal Reserve, Moody's Analytics

Monetary policy's impact on the economy occurs via the cost and availability of credit, which is provided by financial markets and the financial system. Stock prices, corporate bond yields, mortgage rates, the value of the U.S. dollar, and the lending standards of banks and other financial institutions are important barometers of financial conditions. As the central bank raises the fed funds rate and begins quantitative tightening later this year, borrowing costs and the cost of capital will increase, slowing growth and inflation in the real economy. Besides setting the path of the fed funds rate, we made two additional overlays to the U.S. macro model to capture tighter financial conditions. We assume that the Standard and Poor's 500 stock price index corrects by 15% over the course of 2022. In addition, the nominal broad U.S. dollar index returns to the highs witnessed in the teeth of the pandemic-induced recession of 2020, as the Fed normalizes monetary policy faster than other global central banks.

All told, financial conditions are meaningfully tighter than in the baseline forecast. Besides lower stock prices and a stronger greenback, mortgage rates, which track the U.S. 10-year Treasury yield, are as much as a half-percentage point higher and crimp consumer demand for housing. The high-yield option-adjusted corporate bond spread widens by an additional 60 basis points and bodes ill for high-yield and leveraged loan issuance. Finally, the net percentage of banks tightening lending standards for commercial and industrial loans to large and middle-market firms is four times as high.

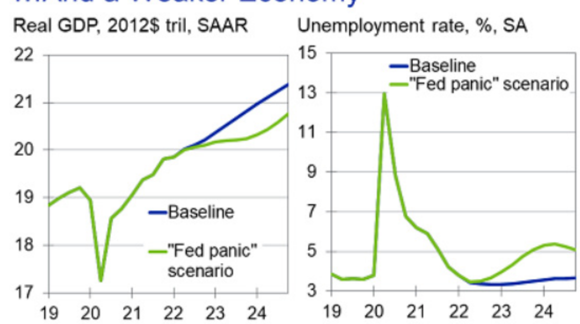
…Tighter Financial Conditions…



Sources: Bloomberg, Standard & Poor's, Moody's Analytics

Such tightening in financial conditions takes a significant toll on the economy, sufficient to break the back of above-2% inflation by the end of 2023. While there is no outright decline in real GDP, the economy suffers a so-called growth recession in 2023, as annualized real GDP growth grounds to a near halt. More important, the labor market goes from red-hot to lukewarm, and the unemployment rate rises from as low as 3.5% in the current quarter to more than 5% by the end of next year. In 2023, the jobless rate rises as much as 0.4 percentage point higher in a given quarter.

…And a Weaker Economy



Sources: BEA, BLS, Moody's Analytics

Our scenario allows us to monitor the broader economic impact of a panicked effort by the Fed to tame inflation by the end of 2023. More interest rate-sensitive corners of the economy—the housing market and vehicle and durable goods sales—take the shock on the chin.

Mortgage rates are more closely linked to the 10-year Treasury yield, not the fed funds rate. However, the central bank's monetary policy stance affects long-term rates via the expected path of the real fed funds rate. Therefore, a more aggressive tightening cycle will put some upward pressure on long-term rates.

In our scenario, mortgage rates follow changes in the 10-year Treasury yield. The 50-basis point rise in the 30-year fixed mortgage rate weighs on housing affordability, weakening demand and house price growth. Our official April baseline calls for a swift moderation in single-family house price growth in 2023 and 2024, easing toward neutral after two years of double-digit gains. The scenario we created where the Fed does what is needed to bring inflation back to target by the end of next year would subsequently cause a more than 1% reduction in house prices in both 2023 and 2024. Mortgage rates would converge with our baseline forecast by early 2026. In the interim, rising borrowing costs and softened demand would result in 400,000 fewer housing starts.

Elsewhere, softening demand for durable goods—particularly big-ticket, discretionary items where borrowing is key for consumption—results in weaker output growth and curtailed hiring. Relative to our baseline, the shortfall in employment in 2023 and 2024 in our panic scenario is disproportionately concentrated in goods-producing industries. In the U.S. recession of 1981-1982, the consequence of Fed Chair Paul Volcker's uncompromising and ultimately effective mission to stamp out double-digit inflation, construction and durable goods manufacturing accounted for roughly a quarter of employment but almost all of the lost jobs.

Today's economy is far removed from that of the early 1980s, and the Fed's more sophisticated array of tools will allow Powell a more targeted approach that was unavailable to Volcker.

Hobson's choice

The Fed could be faced with a Hobson's choice: Push the economy into a mild recession, similar to our scenario, to tame inflation or wait and cause a more significant recession, since a stagflation scenario is possible next year if the Fed isn't aggressive enough.

Some define stagflation as weaker growth and accelerating inflation. However, we believe this definition is too loose. Periods of stagflation occur when there is high unemployment and high inflation. This is clearly not the case today with the unemployment rate near its pre-pandemic low. However, if hiring moderates more quickly than anticipated and solid nominal wage growth pulls more people back into the labor force, the unemployment rate will increase. Though the unemployment rate would be rising for the right reason—more people entering the labor force—it could create the perception that the economy is experiencing stagflation.

No matter how stagflation occurs, the Fed would likely need to push the economy into a deeper recession than in our alternative scenario to address it. However, stagflation would be a nightmare for the Fed. To address high inflation, the central bank would need to tighten monetary policy, which would drive the unemployment rate higher. On the other hand, if it tries to address high unemployment by cutting interest rates, that would juice inflation. Therefore, the Fed may opt to have a minor recession to avoid stagflation..

TOP OF MIND

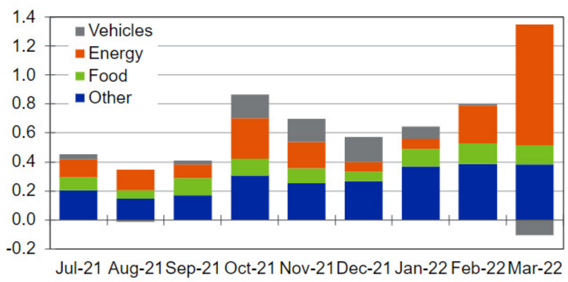
Energy Policy in a Global Context

BY EVAN KARSON

Higher energy prices put a jolt into March's U.S. consumer price index report, but inflation dynamics saw few changes otherwise. The headline CPI jumped ahead 1.2% m/m, matching our expectation and accelerating from February's 0.8% m/m increase. The blistering top-line number is only slightly deceiving; energy prices accounted for more than half the CPI's total gain, adding 80 basis points in March. Price pressures from food and beverages held steady despite turbulence in global commodity markets tied to the Ukraine-Russia military conflict. Russia's invasion poses a critical threat to international food supplies, in particular wheat and cooking oil. Food prices in the U.S. will heat up over the next few months.

Putting a Charge Into Inflation

Consumer price index, %



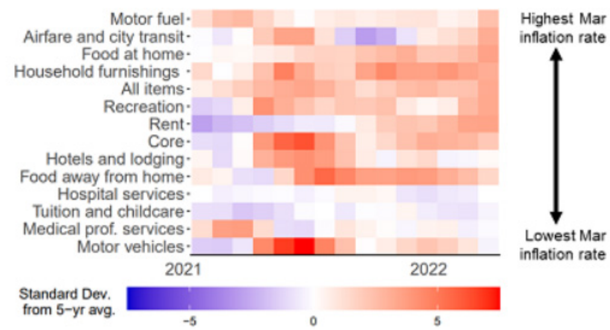
Sources: BLS, Moody's Analytics

Prices for new and used vehicles declined outright in March as auto sales dropped for the second month in a row. Vehicle prices in the U.S. are still up 21.5% on a year-ago basis, and dealer inventories remain thin. In March, vehicle prices shaved roughly 10 basis points off the headline inflation rate.

Our CPI heat map, which looks at three-month-ago inflation rates, shows that price pressures were broadly stable in March. Inflation for most goods and services remains stronger than their averages over the past 10 years. For instance, prices for groceries rose 3.9% from December to March, nearly nine times faster than the 10-year average of 0.44%. On the flip side, inflation for motor vehicles dipped below trend for the first time since March 2021.

Inflation Still Running Hot

Standard deviations from 10-yr MA



Sources: BLS, Moody's Analytics

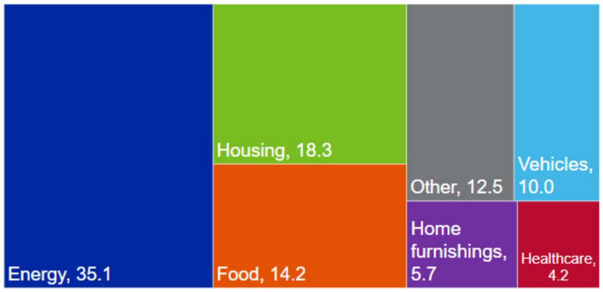
Energy continues to dominate inflation's month-to-month fluctuations. Over the last six months, energy accounted for more than 35% of the CPI's total increase. The sharp rise in prices will carry important knock-on effects for energy-intensive industries. For example, oil commodities and electricity account for over 12.5% of total costs in the production of aluminum and cement and intermediate goods, which are in high demand from U.S. builders and manufacturers.

Outlook

Energy prices can advance further in 2022, but March's 11% m/m rise will mark the sharpest monthly increase unless the Ukraine-Russia military conflict escalates qualitatively. This could happen if Russia launches a nuclear weapon or begins using chemical weapons openly, among other possibilities. In such a scenario, at least a handful of European countries would seriously consider stopping oil imports from Russia. More private companies would self-sanction against purchasing Russian oil as well. It is encouraging that global oil price benchmarks have declined so far in April, and retail gasoline prices in the U.S. have fallen in tandem.

Inside Inflation

Contribution to CPI over the last six mo, %



Sources: BLS, Moody's Analytics

Headline inflation likely peaked in March, but the Federal Reserve's position will only get more difficult in the months ahead. Core inflation may well accelerate through the second half of 2022 as energy market spillovers hit consumer goods prices and shortages of key industrial commodities such as nickel intensify. The Fed will have to thread a tight needle as it seeks to tamp down inflation without sending the economy into recession. Market expectations of three 50-basis point hikes later this year rose following the CPI release. Our April baseline forecast projects 225 basis points of tightening over the next four quarters.

Policy

Broadly speaking, fiscal policymakers in the U.S. have sought to address energy price pressures with supply-side tactics. Stockpiles from the Strategic Petroleum Reserve have been tapped to help compensate for lost Russian supply. The U.S. is working diplomatic relations with oil exporters in the Middle East and Latin America to encourage new production. And the Biden administration announced plans to ease fuel standards, allowing gasoline with higher ethanol content to be sold this summer.

In contrast, some European governments have pursued demand-side measures. Last month, Germany announced a raft of energy relief policies estimated to be worth €16 billion. These measures include one-off tax allowances for households alongside fuel tax reductions that will reduce gasoline prices by 10 to 30 cents per liter depending on fuel grade.

The difference in policy approaches reflects structural differences in U.S. and European energy consumption. For the U.S., energy price pressures have hit consumers largely through gasoline prices and other petroleum-related products. The relative ease with which oil can be sourced from alternative producers has allowed the U.S. to pursue a supply-focused energy strategy.

Conversely, Europe relies on Russia not just for oil but for natural gas as well. While oil shipments can be arranged with a tanker ship and two willing partners, natural gas deliveries come almost exclusively through heavy infrastructure pipelines, which require years of preparation and construction. As a result, Europe has few alternative supply options in terms of natural gas. Liquefied natural gas offers one possible substitute, but the regassification process can be complicated and requires infrastructure, equipment and expertise that is difficult to scale quickly. Germany, for example, does not have any operational LNG terminals, instead leaning on Belgian, Dutch and French facilities to take in LNG shipments. With limited supply alternatives, Germany has sought to cushion the blow for consumers with demand-side support.

It remains to be seen which approach will prove more effective. Germany's demand-side strategy poses more upside risk to inflation. That is, the boost to income and spending may keep inflation higher for longer. Germany's reliance on Russia natural gas leaves Europe's largest economy with little room to maneuver, and consumers are paying a price for the decision to transition away from nuclear power over the last half-decade.

The Week Ahead in the Global Economy

U.S.

The focus will be on the housing market in an otherwise light week. The expected key housing-related data are housing starts and existing-home sales. We will keep an eye on weekly initial claims for unemployment insurance benefits; the new data will include the April payroll reference period and will provide a clue on how the labor market is faring in the month.

We will get another look at manufacturing conditions in April, with the release of the Philadelphia Fed manufacturing survey. On the monetary policy front, there are a handful of Fed speeches. Odds are that policymakers will remain hawkish.

Europe

The final estimate of the euro zone's HICP is due. We are not expecting changes from the preliminary release. The inflation rate likely rose to 7.5% y/y in March from 5.9% in February on the back of price shocks to global oil, gas and wheat prices. Core pressures have picked up as well though, with the rate likely rising to 3% from 2.7%.

Industrial production, meanwhile, likely rebounded 0.8% m/m in the euro zone. Output picked up strongly in Italy, helping to outweigh the contraction in France. Production also rose in Spain and Germany, which will buoy the aggregate.

The euro zone external trade balance likely registered a deficit of €20 billion in February, improving only slightly on the January deficit. We expect exports grew with a bit more force during the month as industrial production picked up. The presumed increase in industrial production pointed to relatively better supply conditions, which would have allowed for better export-order fulfillment. That said, imports will continue to grow significantly above year-ago levels.

Finally, we expect U.K. retail sales remained weak in March, inching down 0.1% m/m after a 0.3% contraction in February. While the abatement of the pandemic is helping consumption, we expect most of the demand still was channeled into services. This will sap some spending on goods. For example, with more people going back to the office, people will eat out at restaurants and cafes more often and purchase less at supermarkets. Rising prices will also weigh on consumer demand.

Asia-Pacific

China's first quarter growth will be the highlight of the economic calendar. We expect the economy to have expanded 4.1% year-on-year in the March quarter following 4% growth in the prior quarter. China's manufacturing growth picked up in the early months of the year and bolstered industrial production. Spending also gained momentum over this period, aided by Lunar New Year festive sentiment. But movement restrictions imposed across important cities in response to a wave of COVID-19 cases and a narrowing trade surplus were downsides, dragging on domestic consumption and output toward the end of the quarter. These factors, together with easing base effects, will moderate year-on year GDP growth over the March quarter.

Disruptions caused by local mobility restrictions and higher energy prices will also likely translate into weaker year-on-year growth in China's industrial production and retail sales in March.

Bank Indonesia is expected to leave the benchmark policy rate unchanged at 3.5%. Indonesia's inflation has increased at a more moderate pace relative to other Asian economies. At 2.64% y/y in March, it remained well within the central bank's tolerance limits of 2% to 4%. The upside risks from higher inflation are increasing for Indonesia too, but the central bank is expected to delay the start of its rate hike cycle to June, allowing room for the domestic recovery to strengthen.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
8-May	Hong Kong	Chief executive election	Low	Low
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

We See 2022 Job Growth at 376,000 a Month

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond spread is 139 basis points, 6 bps wider than the 133 bps at this time last week and narrower than the 175 bps average in March. The long-term average industrial corporate bond spread widened 4 bps to 124. It averaged 161 bps in March.

The recent ICE BofA U.S. high-yield option adjusted bond spread is off its recent peak of 420 basis points but widened 27 bps over the past week to 375. The Bloomberg Barclays high-yield option adjusted spread has bounced around recently and is currently 354 bps compared with 327 bps 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 and narrower than implied by a VIX of 21.

Defaults

The trailing 12-month global speculative-grade default rate rose to 2% at the end of February from 1.8% in January. In Europe, the default rate jumped to 2.1% from 1.2%. Under our baseline scenario, Moody's Credit Transition Model predicts that the global speculative-grade corporate default rate will decline to 1.7% in the second quarter before rising to 2.8% at the end of February 2023. That rate would still be well below the long-term average of 4.1%.

Our baseline forecasts assume that the U.S. high-yield spread will widen from about 400 basis points currently to 548 bps over the next four quarters. This widening would be partially offset by improvement in the U.S. unemployment rate, which we assume will decline to 3.5% by the end of February 2023 from the current rate of 3.8%. Our baseline forecasts are underpinned by positive factors such as good corporate fundamentals, low refinancing risk in the near term, and the transition of the global economy from a tentative recovery toward more stable growth, bolstered by improvement in the COVID-19 health situation. However, risks have grown following the invasion of Ukraine and the subsequent sanctions on Russia. Although we expect the Fed to raise interest rates at a pace that will not severely disrupt the U.S. economic recovery and financing conditions, the Russia-Ukraine conflict could add substantial risk to the default outlook through multiple channels, especially in Europe.

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 April 8, US$-denominated high-yield issuance totaled $5.2 billion, slightly more than in the prior week. This brings the year-to-date total to $64.7 billion. Investment-grade bond issuance rose $30.9 billion in the same week, bringing its year-to-date total to $539.9 billion. Total US$-denominated issuance is currently tracking that seen in 2018 and 2019.

U.S. ECONOMIC OUTLOOK

Adjustments to our forecast in April were more significant than in prior months. The larger downward revision to the baseline forecast for U.S. GDP growth this year is mostly attributed to the larger adverse impact of the military conflict between Russia and Ukraine on the European economy, global energy prices, and U.S. financial market conditions.

One link between the Russian invasion and the global economy is through financial market conditions. To gauge the effect of geopolitical risk on U.S. financial markets, we leaned on a vector autoregression model that allowed us to estimate the response of equity prices, oil prices, the VIX, and high-yield corporate bond spreads. We also included some measures of economic activity. A sudden increase in geopolitical risk had a greater impact on financial markets than the economy. However, the tighter financial market conditions, with a lag, weigh on the economy.

Some other variables included in our VAR were the Federal Reserve's geopolitical risk index and economic policy uncertainty. There are two periods where both geopolitical risk and U.S. policy uncertainty increased, including the Gulf War and 9/11. The VAR used monthly data since January 1995 and included a few lags.

Our VAR results revealed that financial market conditions have tightened in line with that implied by the rise in geopolitical risk. However, the increase in volatility and widening high-yield corporate bond spreads are sticky and will have a larger drag on growth than previously thought. Also, oil prices have been a little higher than we anticipated in the prior baseline.

Window is closing

There is still a window of opportunity for Democrats to pass a reconciliation bill, but it is closing. The new baseline forecast assumes Democrats pass a $560 billion package that is solely focused on clean-energy tax credits and climate resilience investments. Previously, we assumed Democrats would also modestly expand the Child Tax Credit by making it fully refundable on a permanent basis, but this assumption was removed in April, reducing the size of spending under reconciliation by about $50 billion over 10 years. There were no changes to our assumptions on the pay-for side. The package is still assumed to feature more than $700 billion in higher taxes on well-to-do households and prescription drug savings. As a result, the reconciliation bill would lead to a net reduction of more than $150 billion in cumulative deficits over the next decade.

For now, we are setting Memorial Day as a deadline for Democrats to arrive at some agreement over a reconciliation framework. Otherwise, we will remove this reconciliation package from the June baseline. By that time, it will be very tough for Democrats to negotiate a reconciliation package from scratch with the midterms rapidly approaching. Therefore, April and May will be crucial months in determining whether Democrats can rally around a reconciliation bill. Though the confirmation of Judge Ketanji Brown Jackson for the Supreme Court is over, there will be other priorities such as a $10 billion COVID-19 funding bill and legislation to boost U.S. economic competitiveness with China that could distract from negotiations on a reconciliation bill. Further, getting all Democrats to agree on a reconciliation bill, no matter how slimmed down it is, could prove tricky. To get Senator Joe Manchin on board, any Democratic reconciliation bill would likely need to include investments in fossil fuel infrastructure, something that would be anathema to progressives.

COVID-19 assumptions

Changes to our epidemiological assumptions were minor in April. Total confirmed COVID-19 cases in the U.S. will be 81.35 million, compared with the 81 million in the March baseline. 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 stabilized around 30,000 for the past several weeks.

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. However, each passing wave is assumed to have a diminishing economic effect.

Energy price assumptions

Our assumption is that the oil supply disruption from Russia's military conflict with Ukraine will be between 2 million and 3 million barrels per day. The anticipated loss in Russian supply will be largely offset by increasing OPEC and non-OPEC output, demand destruction due to higher prices, and the flexibilization of sanctions on Iran and Venezuela. Our baseline forecast assumes that the global oil market remains mostly balanced throughout the year, allowing oil prices to gradually drop. The price of West Texas Intermediate crude oil averages $85 per barrel in the year's final quarter, down from $105 in the second quarter. Prices continue to fall in 2023 as Russia's oil supply starts to recover. Assumptions around oil prices are becoming crucial to the evolution of the baseline forecast.

Nudging GDP lower

The April baseline factors in increasing costs of higher global energy prices and tighter financial market conditions. We now expect real GDP to rise 3.2% this year, compared with the 3.5% in the March baseline. Over the past three months we have shaved 0.5 of a percentage point off our forecast for GDP growth for this year. We cut the forecast for GDP growth in 2023 from 3.1% to 2.7%. The economy is still expected to grow above its potential, which is likely between 2% and 2.5%.

The forecast for first-quarter GDP growth was nudged higher from 0.7% to 0.9% at an annualized rate, not a significant deviation from our high-frequency GDP model's estimate. For the second consecutive month, the bulk of the downward revision for this year was in the second quarter, as real GDP is now expected to increase 3.4% at an annualized rate, compared with the 4.8% annualized gain in the March baseline. Growth in the third quarter was also cut from 2.5% to 1.6% at an annualized rate. The forecast for GDP growth in the final three months of this year was revised lower by 0.5 of a percentage point to 2.3% at an annualized rate.

A good chunk of the downward revision to GDP growth this year is because of softer real consumer spending than in the March baseline. Our rule of thumb is that every $10 increase in the price of oil increases U.S. retail gasoline prices by 30 cents a gallon. Every penny increase in retail gasoline prices reduces consumer spending by about $1.5 billion over the course of a year.

Our baseline forecast for real GDP growth this year is close to the Bloomberg consensus of 3.3%. The forecast for next year is 0.5 percentage point stronger than the Bloomberg consensus of 2.2%.

Business investment and housing

Heightened geopolitical uncertainty and tighter financial market conditions are weighing on real business investment in equipment. We have real business equipment spending rising 6% this year, compared with 7.3% in the March baseline. The forecast is for real business equipment spending to increase 4.6% in 2023, a percentage point weaker than in the March baseline. Other parts of business investment will do better, including nonresidential structures, now forecast to rise 14.7% this year (14.4% in the March baseline) and 11.6% in 2023 (10.9% in the March baseline). A good chunk of this is attributable to mining exploration, shafts and wells. 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 rise in energy prices would lead to an increase in the number of active rotary rigs. Rig counts have risen but are still lower than pre-pandemic and less than implied by global oil prices.

Revisions to housing starts were small. Housing starts are expected to be 1.818 million, compared with 1.811 million in the March baseline. There were no revisions to housing starts next year. There are likely only so many homes that can be built each year because of labor-supply constraints and a lack of buildable lots. Some of the labor-supply issues will ease as the pandemic winds down, but the reduction in immigration is particularly problematic for homebuilders' ability to find workers. We cut the forecasts for new- and existing-home sales this year because of higher mortgage rates.

We nudged up the forecast for the FHFA All-Transactions House Price Index this year, with it rising 12%, compared with 11.5% in the March baseline. House price growth moderates noticeably in 2023, as prices are forecast to be little changed. This is attributable to rebalancing of supply and demand, which increases the risk of an outright decline in house prices.

Labor market

We have job growth averaging 376,000 per month this year, compared with the March baseline forecast of 367,000. Job growth has averaged around 600,000 per month over the past six months. If sustained, it would take nine months to close the employment gap, or the difference between the actual level of employment and where it would have been if the recession hadn't occurred and prerecession job growth was maintained. Job growth was broad-based in March, as the only major industries notching a decline in employment were transportation/warehousing and utilities. However, labor supply is key to our near-term forecast for monthly job growth.

There was a modest change to the forecast for the unemployment rate this year; it is expected to average 3.2% in the final three months of 2022 and 3.5% in the fourth quarter of next year. 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 a little north of 80%. All of these conditions will be met by late this summer.

Fast and furious

Because of the rise in global energy prices, there was a noticeably upward revision to year-over-year growth in the headline CPI. The forecast is for year-over-year growth to be around a full percentage point higher over the next few quarters than in the March baseline. There was also an upward revision to the forecast for growth in the PCE deflator, the Fed's preferred measure of inflation.

With the new inflation forecast and the Fed's hawkish rhetoric, we noticeably altered our forecast for the fed funds rate. The effective fed funds rate is now forecast to average 2.1% in the fourth quarter of this year, compared with 0.9% in the March baseline. We have a 50-basis point rate hike penciled into the forecast for May, as the Fed has clearly signaled that this is likely to occur. Fed Chair Jerome Powell described the labor market as unhealthily tight. Add inflation that hasn't peaked yet, and that is going to lead to an aggressive tightening cycle. The terminal fed funds rate, or where rates peak this cycle, is now 2.75%, 30 basis points higher than in the March baseline. Also, the terminal rate has been hit nearly a year earlier than in the March baseline. The Fed is expected to start cutting rates in late 2024, as it will need to return the fed funds rate to its long-run equilibrium rate, which we estimate to be 2.5%, close to the central bank's estimate of 2.4%.

On the balance sheet, the minutes from the March Federal Open Market Committee meeting provided some color around the central bank's plan to reduce the size of its balance sheet. The minutes noted that the balance sheet reduction could start as early as May with a cap on Treasuries of $60 billion and $35 billion for mortgage-backed securities. This is almost double the peak rate of $50 billion a month the last time the Fed reduced its balance sheet, from 2017 to 2019.

A more aggressive Fed and higher inflation led to an upward revision to our forecast for the 10-year Treasury yield, now expected to end this year around 3%, 60 basis points higher than in the March baseline. It is forecast to average 3.3% in the final three months of next year, compared with 3.1% in the March baseline. The 10-year yield converges with the March baseline in 2024. Changes to the forecast for the Dow Jones Industrial Average were modest. We incorporate the first-quarter actual data into the April baseline.

THE LONG VIEW: EUROPE

Austria on a Tightrope

BY ILIR HYSA and ROSS CIOFFI

Austria remains among a very few European countries to claim neutrality in the Russia-Ukraine military conflict. That's understandable when considering that countries like Austria have no comprehensive near-term alternative solution to their energy dependency and have a significant stake in maintaining normal relations with Russia. Austria is walking a fine line between keeping up with its EU obligations and pursuing its best economic interests, which is why Austria has reportedly opposed any EU sanctions on Russian oil and gas and has been questioning the EU's move to blacklist some Russian oligarchs, while sending humanitarian aid to Ukraine. Sanctions on Russian gas would have a devastating effect on the Austrian economy, which imports some 80% of its gas from Russia. It is among the top Russia-reliant countries in Europe. Such imports are essential to Austria's industry and its power plants.

Further, Austria's OMV is Gazprom's partner in Nord Stream 2, and Austria owns nearly one-third of OMV. Equally important, Austria's hesitancy to cut business ties with Russia is also understandable when considering that there are other reasons to maintain the status quo. Russia is also the biggest market for Vienna-based Raiffeisen Bank International, the largest Austrian corporate and investment bank.

The leverage afforded to Austria as a neutral party was the reason for Austria's recent attempt to bring both sides in the conflict to the negotiating table, though to no avail. A recent visit by Austria's chancellor to Russia—the first face-to-face meeting a western leader has had with Russian President Vladimir Putin since the invasion of Ukraine—was skeptically viewed as a long-shot attempt to stop the hostilities. All the skepticism was justified. Chancellor Karl Nehammer's meeting with Putin, after meeting earlier with Ukrainian President Volodymyr Zelenskyy, was characterized as "not a friendly meeting" and didn't yield any results. Nehammer is reported to have brought up the devastation and alleged war crimes in Bucha, Ukraine, but received no reaction from Putin. Nehammer's confrontation of Putin could cause Austria to lose its neutral position in the eyes of the Kremlin and be listed among "unfriendly" nations. Such nations have been asked to pay in Russian rubles for their gas and oil imports, though Austrian officials have stated that they plan to honor the contract and pay in euros.

Moreover, the Austrian government is preparing for the eventuality of gas interruptions over a potential payment standoff with Russia, signaling to its population potential gas rationing. In fact, if embraced more broadly in Europe, such a move could help end the energy crisis. The impact of high prices on the demand aside would be the first measure to limit energy consumption and counter the earlier energy subsidy move, which aimed to ease the pain among Austrians but served as a demand booster, highlighting the difficult nature of the current situation and exacerbating Europe's dependence on Russian energy.

ECB makes no move for now

The European Central Bank made no changes to its monetary policy at its meeting Thursday. The main refinancing operations rate target remains at 0% and its Asset Purchase Program will continue with net purchases of €40 billion in April, €30 billion in May, and €20 billion in June. The ECB did strike a more hawkish tone, however, by stating in its press release that the APP "should" conclude in the third quarter. The ECB still says that interest rate hikes will only come "some time after" the end of net purchases, making a July hike unlikely. In our April baseline, we now expect 25-basis point hikes at the September and December meetings.

Since there were no new macroeconomic projections, the ECB is still operating based on its March projections. These, however, were already outdated when they were published, which was confirmed by the preliminary CPI data for March. As a result, the projections that will be prepared for the June meeting will bring another large upward revision, and we believe that this will prompt an announcement of the end to purchases. The last month with purchases will be either June or July.

U.K. sees record inflation

The U.K. CPI jumped to another record high of 7% y/y in March from 6.2% in February. Soaring transportation and energy costs were the main culprits, as petrol and diesel pump prices surged in March in line with the increase in global oil prices. But rises were recorded across almost all other sectors as well, attesting to the fact that inflation pressures are becoming increasingly more broad-based. Indeed, core inflation, which excludes energy, food, alcoholic beverages and tobacco, rose to 5.7% y/y from 5.2% previously. The core basket was energized by stronger demand for certain goods and services, now with the pandemic abating. Prices for clothing and footwear and restaurant and hotel services picked up pace in March.

Singapore Manufacturing Declines

BY DENISE CHEOK and SHAHANA MUKHERJEE

Singapore's first quarter GDP opened the year with a whimper, coming in below market expectations. The economy grew 0.4% q/q, moderating from 2.3% in the prior quarter. This translated into year-on year growth of 3.4% after a stronger 6.1% expansion in the prior quarter. The key manufacturing sector declined in quarterly terms (down 1.2% q/q) after robust growth in the previous stanzas. Within manufacturing, output from the pharmaceutical, marine and offshore engineering sectors contracted in the first two months of the year. However, electronics and precision engineering continued to rally on strong global demand for semiconductors.

Construction remained below pre-pandemic levels, weighed down by labour shortages. The sector is heavily reliant on migrant workers. Travel restrictions and vaccination requirements have kept many migrant workers abroad. However, with international borders reopening, the labour squeeze should ease in coming quarters.

Services industries were a mixed bag. Wholesale and retail trade benefited from an easing of COVID-19 measures at the start of the year that boosted domestic demand. However, finance and IT saw some pullback from the robust growth of preceding quarters.

Downside risk builds

Although Singapore's economy is still expected to record above-trend growth for the year, downside risks have built since the last release. Russia's invasion of Ukraine has thrown a wrench in the economy's rebound, putting supply chains under additional stress. Singapore has little direct trade with Russia or Ukraine, but the disruptions to supply chains will reverberate through global trade lines, upon which Singapore is highly dependent. Increasing uncertainty will also weigh on consumer and business sentiment, dampening growth in professional services.

Immediate risks from the COVID-19 pandemic have largely receded, but supply-chain bottlenecks persist. China's strict zero-COVID stance stands in stark contrast with most of the world, which has largely transited to living with the virus. Key ports in Shanghai and Jilin have been affected by lockdowns, which are causing lengthy delays in delivery times.

Monetary policy

Separately, the Monetary Authority of Singapore tightened monetary policy as expected. The central bank pulled a one-two punch on Thursday, simultaneously raising the slope of the policy band and recentering the mid-point upwards. This will allow the Singapore dollar to appreciate against a trade-weighted basket of goods and mitigate rising imported inflation. The central bank seldom adjusts more than one policy parameter at a time—the last time it did so was March 2020 at the peak of the COVID-19 pandemic. MAS also sharply raised its inflation outlook for the year. Headline inflation is now forecast to rise by 4.5% to 5.5%, up from an earlier projection of 2.5% to 3.5%. Core inflation is expected to come in at 2.5% to 3.5%, up from an earlier forecast of 2% to 3%.

Singapore's GDP growth will likely moderate from last year, with external shocks weighing on the highly trade-reliant economy. The domestic sector, however, will pick up as the country eases COVID-19 measures and transitions to treating the virus as endemic. This should boost the long-dormant hospitality and tourism sectors.

U.S. Energy Firms See Upgrades

BY MICHAEL FERLEZ

U.S.

U.S. rating change activity was credit positive for the week ended April 12. Upgrades accounted for 67% of rating changes and the same share of affected debt. Rating change activity was split across an array of industries, with energy-related firms accounting for three of the six upgrades.

The most notable change in terms of affected debt was made to a U.S.-based data center REIT, Equinix Inc. Moody's Investors Service upgraded Equinix's senior unsecured debt ratings to Baa2 impacting $13.5 billion in debt. In the rating action, Moody's Investors Service cited Equinix's strong market position and fixed charge coverage ratio as well as prudent capital and liquidity management and the strong demand for data center space as rationales for the upgrade.

Europe

Western European rating change activity was mixed last week. Upgrades represented only one quarter of total rating changes but 79% of the affected debt. The week's rating activity was split evenly across countries with firms in Germany, Italy, Jersey and the U.K. each accounting for one rating action. Weekly rating change activity was headlined by Atlantia S.p.A. The Italian-based firm saw its long-term Corporate Family Rating and senior unsecured ratings raised to Ba1 and Ba2, respectively. Other actions included Moody's Investors Service's upgrade of Atlantia's senior unsecured EMTN program ratings to (P)Ba2 as well as an upgrade of the firm's senior unsecured and backed senior unsecured ratings to Ba1.

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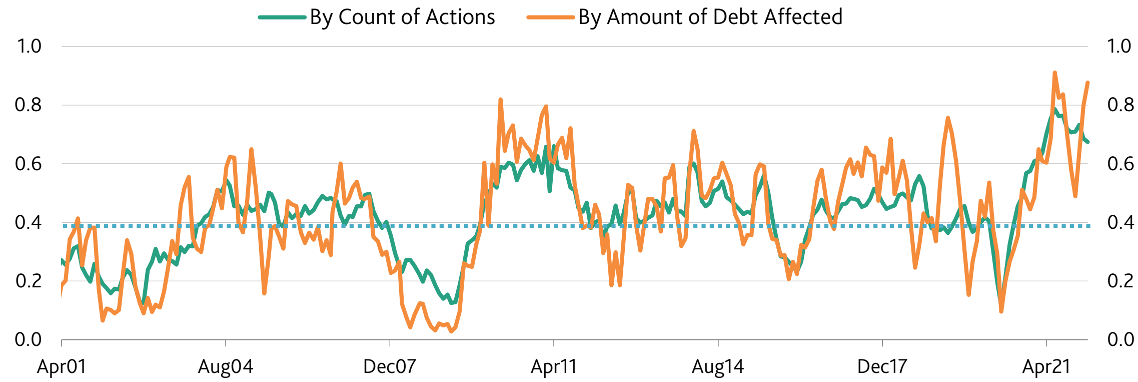
FIGURE 1
Rating Changes - US Corporate & Financial Institutions: Favorable as a % of Total Actions



* 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
4/6/2022	SM ENERGY COMPANY	Industrial	SrSec/SrUnsec/LTCFR/ PDR	2502.15	U	B1	Ba3	SG
4/6/2022	RODAN & FIELDS, LLC	Industrial	SrSec/BCF/LTCFR/ PDR		D	Caa2	Caa3	SG
4/6/2022	HF SINCLAIR CORPORATION-HOLLY ENERGY PARTNERS, L.P.	Industrial	SrUnsec	600.00	U	B1	Ba3	SG
4/7/2022	EQUINIX, INC.	Industrial	SrUnsec	13495.76	U	Baa3	Baa2	IG
4/7/2022	TC ENERGY CORPORATION- TC PIPELINES, LP	Industrial	SrUnsec	850.00	U	Baa2	Baa1	IG
4/8/2022	SIRVA, INC.-SIRVA WORLDWIDE, INC.	Industrial	SrSec/BCF/LTCFR/ PDR		U	B3	B2	SG
4/11/2022	BIOGEN INC.	Industrial	SrUnsec	8613.09	D	Baa1	Baa2	IG
4/12/2022	PLAYPOWER, INC.	Industrial	SrSec/BCF/LTCFR/ PDR		D	B3	Caa1	SG
4/12/2022	CONSTELLATION CLUB HOLDINGS, INC.- CLUBCORP HOLDINGS, INC.	Industrial	SrUnsec/SrSec/BCF/ LTCFR/PDR	425.00	U	Caa3	Caa2	SG

Source: Moody's

FIGURE 4

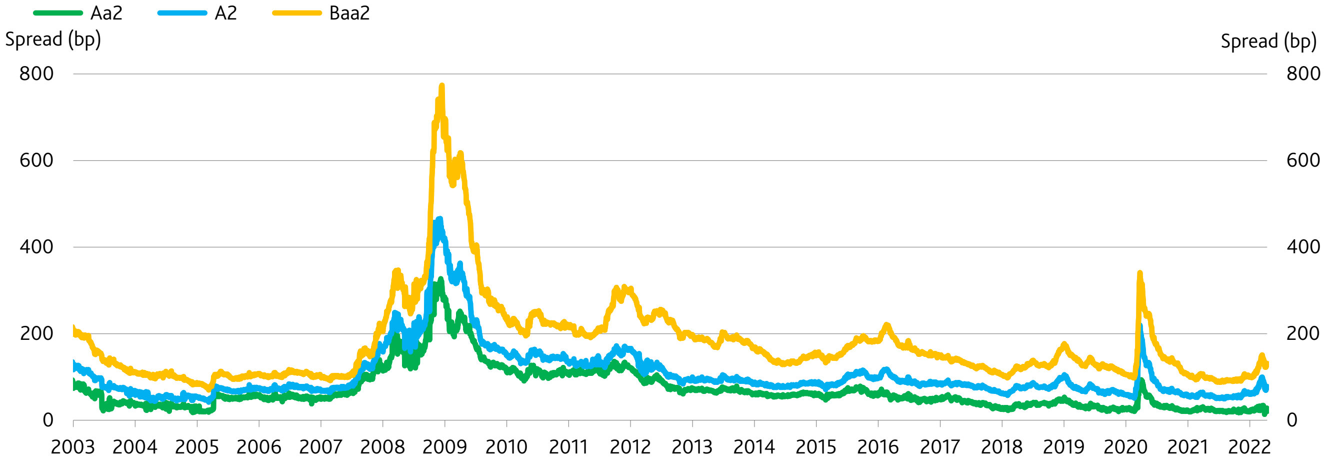
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
4/6/2022	ATLANTIA S.P.A.	Industrial	SrUnsec/LTCFR/MTN	13599.06	U	Ba2	Ba1	SG	ITALY
4/6/2022	GAZIT - GLOBE LTD.-ATRIUM EUROPEAN REAL ESTATE LIMITED	Industrial	SrUnsec/Sub	1746.97	D	Baa3	Ba2	IG	JERSEY
4/8/2022	WITTUR INTERNATIONAL HOLDING GMBH	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG	GERMANY
4/11/2022	MARKET HOLDCO 3 LIMITED-WM MORRISON SUPERMARKETS LIMITED	Industrial	SrUnsec/MTN	1926.32	D	Ba1	B1	SG	UNITED KINGDOM

Source: Moody's

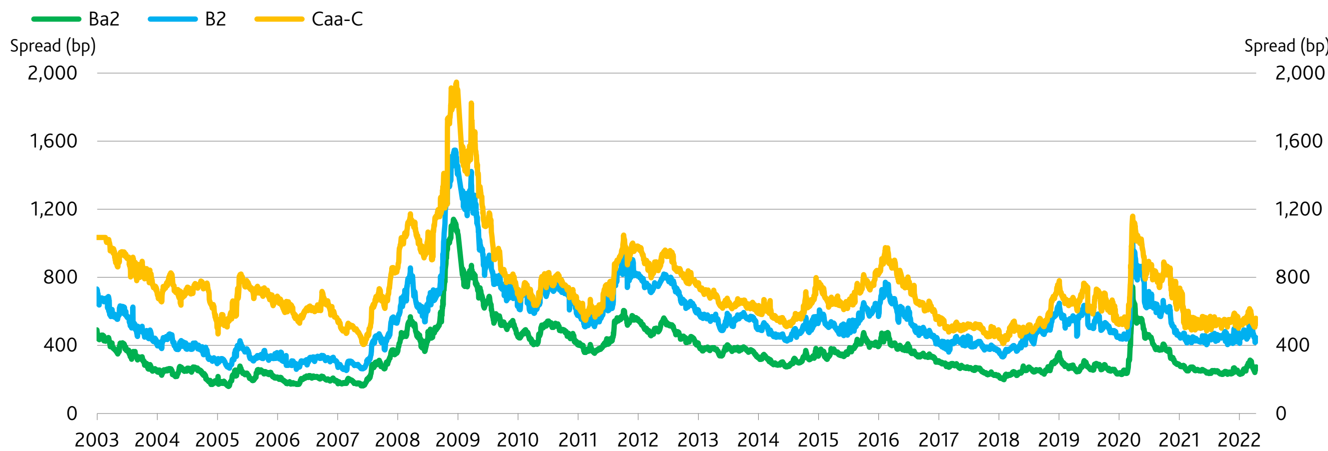
MARKET DATA

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



Source: Moody's

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



Source: Moody's

CDS MOVERS

Figure 3. CDS Movers - US (April 6, 2022 – April 13, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 13	Apr. 6	Senior Ratings
Caterpillar Financial Services Corporation	Aa3	A1	A2
Southern Company (The)	A2	A3	Baa2
Crown Castle International Corp.	Baa2	Baa3	Baa3
Sempra Energy	A2	A3	Baa2
Kinder Morgan, Inc.	Baa1	Baa2	Baa2
Welltower OP Inc.	Baa1	Baa2	Baa1
Conagra Brands, Inc.	Baa2	Baa3	Baa3
Kinder Morgan Energy Partners, L.P.	A1	A2	Baa2
HP Inc.	Baa2	Baa3	Baa2
ONEOK, Inc.	Baa2	Baa3	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 13	Apr. 6	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	Apr. 13	Apr. 6	Spread Diff
Talen Energy Supply, LLC	C	8,346	8,103	242
American Axle & Manufacturing, Inc.	B2	597	530	67
Realogy Group LLC	B2	509	467	41
Gap, Inc. (The)	Ba3	389	350	39
Pitney Bowes Inc.	B3	711	676	36
Brandywine Operating Partnership, L.P.	Baa3	105	69	35
United Airlines, Inc.	Ba3	672	637	34
KB Home	Ba2	331	297	34
OneMain Finance Corporation	Ba2	375	345	30
Ryder System, Inc.	Baa2	135	105	30

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 13	Apr. 6	Spread Diff
American Airlines Group Inc.	Caa1	982	1,115	-133
United Airlines Holdings, Inc.	Ba3	622	685	-63
Rite Aid Corporation	Caa2	1,670	1,716	-46
Delta Air Lines, Inc.	Baa3	308	350	-42
Staples, Inc.	Caa2	1,138	1,172	-34
Encompass Health Corp.	B1	171	189	-18
Olin Corporation	Ba2	221	236	-15
Ashland LLC	Ba1	178	191	-13
Xcel Energy Inc.	Baa1	83	96	-12
Brunswick Corporation	Baa2	139	149	-10

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (April 6, 2022 – April 13, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 13	Apr. 6	Senior Ratings
Italy, Government of	Baa2	Baa3	Baa3
BNP Paribas	A2	A3	Aa3
CaixaBank, S.A.	A2	A3	Baa1
Credit Agricole Corporate and Investment Bank	A1	A2	Aa3
Natixis	A2	A3	A1
NatWest Markets Plc	A3	Baa1	A2
Standard Chartered Bank	Aa3	A1	A1
Standard Chartered PLC	Baa1	Baa2	A3
Nationwide Building Society	A2	A3	A1
BNP Paribas Fortis SA/NV	A2	A3	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 13	Apr. 6	Senior Ratings
Santander UK plc	A2	Aa2	A1
Santander Financial Services plc	A2	Aa2	A1
Banque Federative du Credit Mutuel	Aa3	Aa2	Aa3
Norddeutsche Landesbank GZ	Baa2	Baa1	A3
Vodafone Group Plc	Baa1	A3	Baa2
Bayerische Motoren Werke Aktiengesellschaft	Baa1	A3	A2
Mercedes-Benz Group AG	Baa2	Baa1	A3
Piraeus Financial Holdings S.A.	Caa2	Caa1	Caa1
Sanofi	Aa2	Aa1	A1
Casino Guichard-Perrachon SA	Ca	Caa3	Caa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 13	Apr. 6	Spread Diff
Boparan Finance plc	Caa1	1,767	1,478	289
Casino Guichard-Perrachon SA	Caa1	1,144	998	147
Vue International Bidco plc	Ca	1,049	950	100
Atlantia S.p.A.	Ba2	208	138	70
Vedanta Resources Limited	B3	819	765	54
CMA CGM S.A.	B2	416	376	40
Jaguar Land Rover Automotive Plc	B1	554	527	27
UPC Holding B.V.	B3	258	234	24
Rexel SA	Ba3	211	188	23
Novafives S.A.S.	Caa2	909	887	22

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 13	Apr. 6	Spread Diff
Wienerberger AG	Ba1	99	114	-15
Stena AB	B2	495	499	-5
Italy, Government of	Baa3	94	98	-4
Societe Generale	A1	58	62	-4
BAWAG P.S.K. AG	A2	63	67	-4
United Kingdom, Government of	Aa3	11	14	-3
France, Government of	Aa2	24	28	-3
Ireland, Government of	A2	16	19	-3
Banca Monte dei Paschi di Siena S.p.A.	Caa1	397	399	-3
Greece, Government of	Ba3	119	121	-2

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (April 6, 2022 – April 13, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 13	Apr. 6	Senior Ratings
Mitsubishi Corporation	Aaa	Aa1	A2
DBS Bank Ltd.	Aa3	A1	Aa1
Macquarie Group Limited	Baa1	Baa2	A3
Macquarie Bank Limited	A1	A2	A2
Nomura Holdings, Inc.	Baa1	Baa2	Baa1
Tokyo Electric Power Company Holdings, Inc.	A2	A3	Ba1
East Japan Railway Company	Aa1	Aa2	A1
Woolworths Group Limited	A3	Baa1	Baa2
Nomura Securities Co., Ltd.	Baa1	Baa2	A3
GPT RE Limited	A1	A2	A2

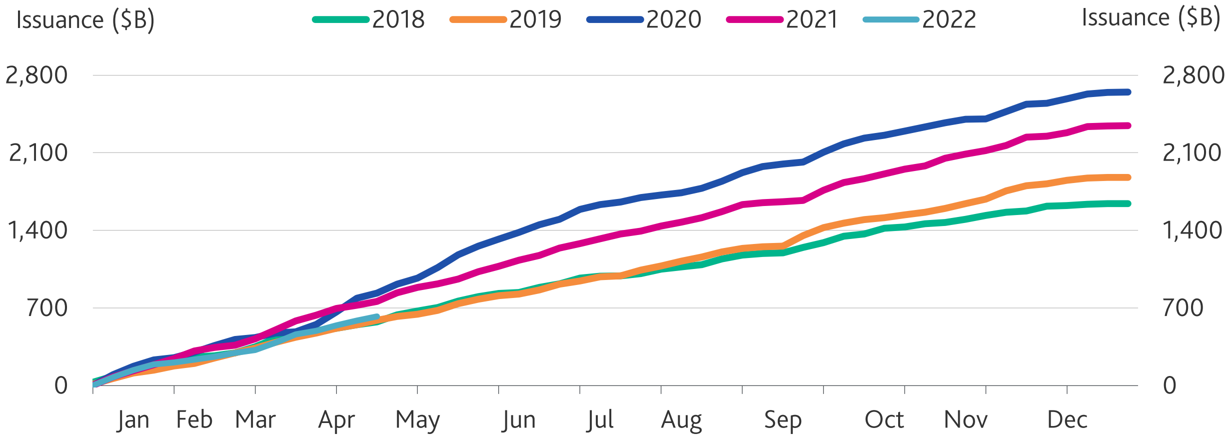
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 13	Apr. 6	Senior Ratings
Korea, Government of	Aa2	Aa1	Aa2
Export-Import Bank of Korea (The)	Aa2	Aa1	Aa2
Korea Development Bank	Aa2	Aa1	Aa2
MUFG Bank, Ltd.	Aa3	Aa2	A1
Suncorp-Metway Limited	Baa1	A3	A1
China Development Bank	Baa2	Baa1	A1
Kookmin Bank	Aa2	Aa1	Aa3
Industrial & Commercial Bank of China Ltd	Baa2	Baa1	A1
Pakistan, Government of	Ca	Caa3	B3
Bank of East Asia, Limited	Baa2	Baa1	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 13	Apr. 6	Spread Diff
Pakistan, Government of	B3	1,017	894	123
Halyk Savings Bank of Kazakhstan	Ba2	432	406	26
SoftBank Group Corp.	Ba3	332	313	19
Suncorp-Metway Limited	A1	73	61	12
Vietnam, Government of	Ba3	117	106	11
Malayan Banking Berhad	A3	89	78	10
Tenaga Nasional Berhad	A3	69	59	10
Tata Motors Limited	B1	297	287	10
Telekom Malaysia Berhad	A3	68	58	10
Indonesia, Government of	Baa2	94	85	9

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 13	Apr. 6	Spread Diff
Development Bank of Kazakhstan	Baa2	204	211	-7
Nomura Securities Co., Ltd.	A3	72	75	-3
Australia and New Zealand Banking Grp. Ltd.	Aa3	39	40	-1
Mitsubishi Corporation	A2	21	22	-1
Macquarie Group Limited	A3	74	74	-1
Hong Kong SAR, China, Government of	Aa3	33	34	-1
Mitsubishi Estate Co., Ltd.	A2	17	18	-1
Tokyo Electric Power Company Holdings, Inc.	Ba1	55	56	-1
East Japan Railway Company	A1	29	30	-1
Qantas Airways Ltd.	Baa2	158	159	-1

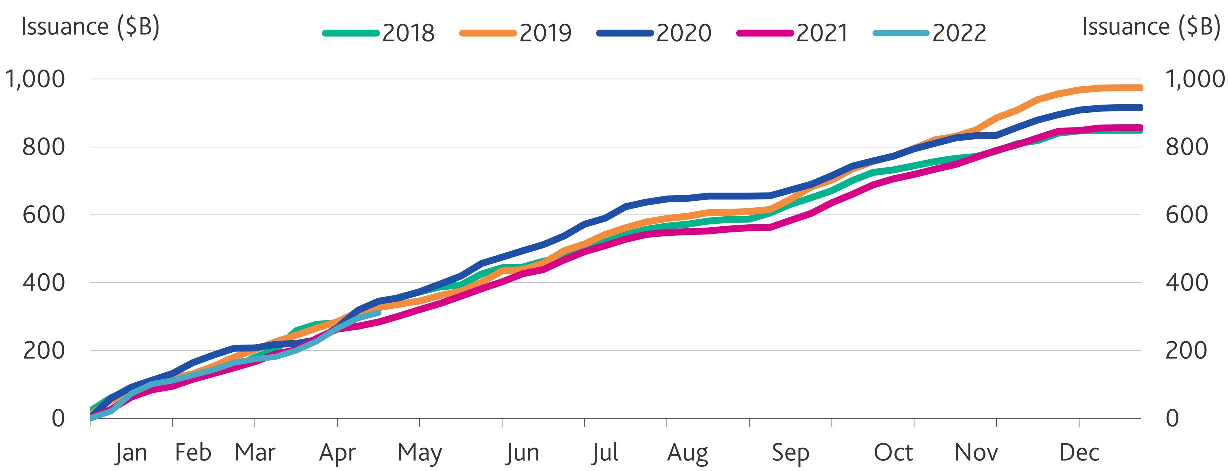
Source: Moody's, CMA

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	30.900	5.235	36.291
Year-to-Date	539.933	64.741	622.577

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	15.677	0.330	16.041
Year-to-Date	284.211	20.956	311.600

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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Report Number: 1326007

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