MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Net Stock Buybacks and Net Borrowing Have Yet to Alarm

Moody's Analytics Research

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Credit Markets Review and Outlook *by John Lonski*

Net Stock Buybacks and Net Borrowing Have Yet to Alarm

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The Week Ahead

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

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The Long View

Full updated stories and key credit market metrics: Credit may benefit from slightly lower Treasury yields if, as expected, the Democrats gain the House, while Republicans hold the Senate.

Credit Spreads	Investment Grade: We see year-end 2018's average investment grade bond spread exceeding its recent 125 bp. High Yield: Compared to a recent 397 bp, the high-yield spread may approximate 425 bp by year-end 2018.
Defaults	US HY default rate: Moody's Default and Ratings Analytics team forecasts that the U.S.' trailing 12-month high-yield default rate will sink from September 2018's 3.06% to 2.0% by September 2019.
Issuance	In 2017, US$-denominated IG bond issuance grew by 6.8% to a record $1.508 trillion, while US$-priced high-yield bond issuance advanced by 33.0% to a new record calendar-year high of $453 billion. For 2018's US$-denominated corporate bonds, IG bond issuance may drop by 11% to $1.345 trillion, while high-yield bond issuance is likely to fall by 30.5% to $315 billion..

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Ratings Round-Up

Downgrade Trend Continues

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Market Data

Credit spreads, CDS movers, issuance.

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Moody's Capital Markets Research *recent publications*

Links to commentaries on: Volatility, defaults, Fed policy, yields, profits, corporate borrowing, U.S. investors, eerie similarities, base metals prices, debt to EBITDA, trade war, Investment grades, higher rates, credit quality, foreign investors, internal funds.

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THIS REPORT WAS REPUBLISHED NOVEMBER 5, 2018 TO UPDATE ECONOMIC FORECASTS FOR THE WEEK AHEAD

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

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Credit Markets Review and Outlook

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

Net Stock Buybacks and Net Borrowing Have Yet to Alarm

Recent outsized advances by equity prices probably owe something to either actual or anticipated buybacks of common stock. Both the relative steadiness of corporate credit quality and ample amounts of corporate cash now improve the outlook for equity buybacks.

In the Financial Accounts of the United States, the Federal Reserve supplies an estimate of net equity buybacks, where the estimate applies to net buybacks of both common and preferred equity. Because of an often heavy use of preferred stock by financial companies, net buybacks of nonfinancial-corporate equity are the preferred measure when analyzing the behavior of net equity buybacks over time. For example, the $55 billion of total net equity buybacks for the year-ended June 2018 consisted of $485 billion of net stock buybacks by U.S. nonfinancial companies and $281 billion of net equity issuance by U.S. financial institutions.

Net equity buybacks reduce the equity capital buffer protecting creditors. Thus, actual and anticipated increases in net stock buybacks can increase default risk and widen credit spreads. Moreover, the damage done to corporate credit quality by net stock buybacks will be amplified if equity buybacks are funded with increased debt.

The moving yearlong ratio of nonfinancial-corporate net stock buybacks to nonfinancial-corporate cash offers insight regarding the financial risks stemming from net stock buybacks. The lower net equity buybacks are relative to cash, the less downward pressure will equity buybacks put on corporate credit quality.

The moving yearlong sum of net nonfinancial-corporate buybacks is derived from Table F103 of the Financial Accounts of the United States, while nonfinancial-corporate cash is derived from Table L103 of the same publication. The definition of cash employed in this exercise excludes nonfinancial-corporate holdings of equity and mutual funds that are included in the Federal Reserve's broad version of liquid financial assets.

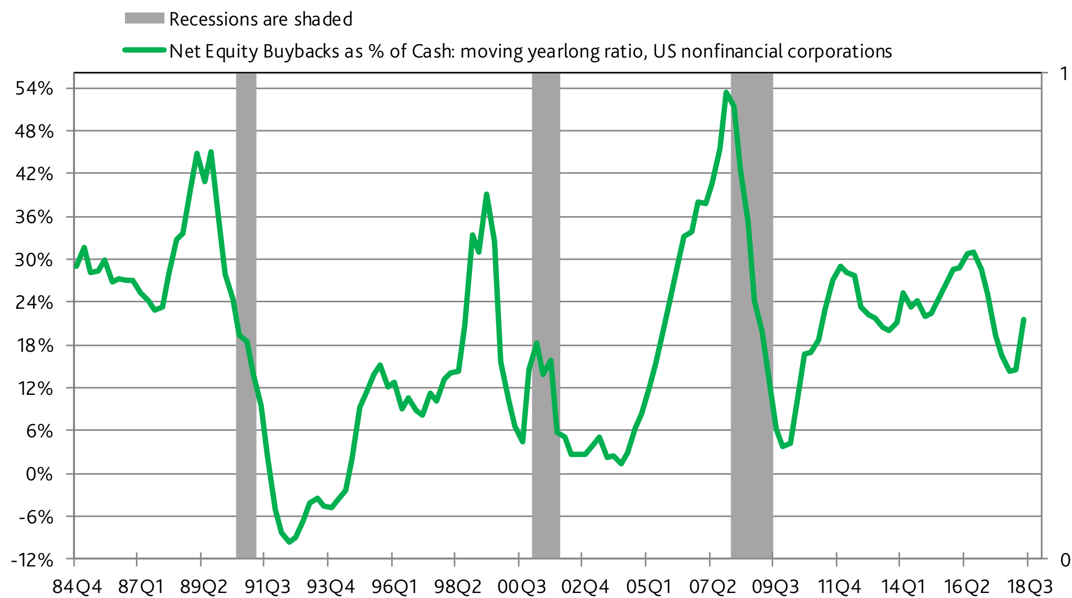
Latest Ratio of Net Stock Buybacks to Cash Does Not Warn of Bear Market

For the year-ended June 2018, the $485 billion of net buybacks of nonfinancial-corporate equity approximated 22% of the group's $2.186 trillion in cash. The latest ratio hardly differed from its 20% average of the 30-years-ended 2017.

In stark contrast, just prior to the outbreak of the Great Recession, December 2007's yearlong ratio of net stock buybacks to cash was a record high 53%. In the final quarter of 2007, the market value of U.S. common stock set a cycle high.

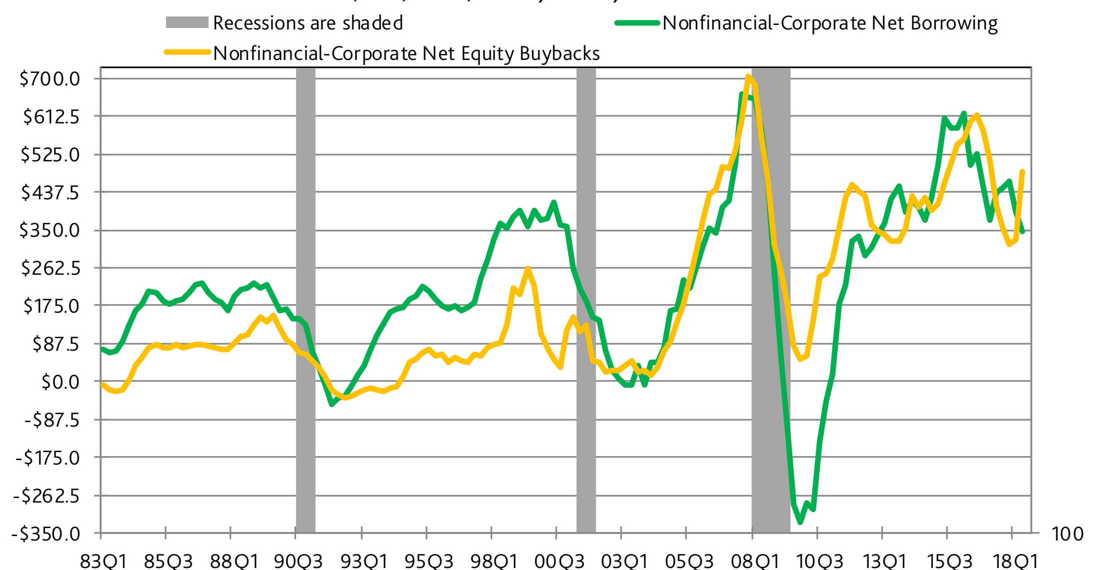
Moreover, the yearlong ratio of net equity buybacks to cash set previous cycle highs at the 39% of June 1999 and the 45% of September 1989. Not long thereafter, the U.S. equity market topped off in March 2000 and June 1990, respectively.

Thus far, the current recovery shows a September 2016 top of 31% for the yearlong ratio of net stock buybacks to cash. Though the latest ratio of 22% is up from a December 2017 bottom of 14%, the ratio is low enough to suggest that many companies still have the financial resources with which to fund stock buybacks. In turn, it may be premature to declare the nearness of a long-lasting peak for the U.S. equity market.



Slide by Net Borrowing Offsets Climb by Net Stock Buybacks

Net equity buybacks offer only a limited measure of the change in a company's capital structure. A more comprehensive estimate of the change in capital structure would add net borrowing to net equity buybacks. In terms of moving yearlong averages, though net stock buybacks rose from the $405 billion of the span-ended Q2-2017 to the $485 billion of the span-ended Q2-2018, nonfinancial-corporate net borrowing eased from $435 billion to $347 billion, respectively. Had net borrowing not subsided, current prospects for credit quality would have been worse than otherwise and corporate credit spreads would have been wider. Note that prior to the onset of the Great Recession, the calendar year averages rose from 2006's $403 billion to 2007's record-high $658 billion for net borrowing and from 2006's $497 billion to 2007's current zenith of $706 billion for net equity buybacks. For now, at least, corporate net borrowing and net stock buybacks fall considerably short of what preceded the financial crisis.

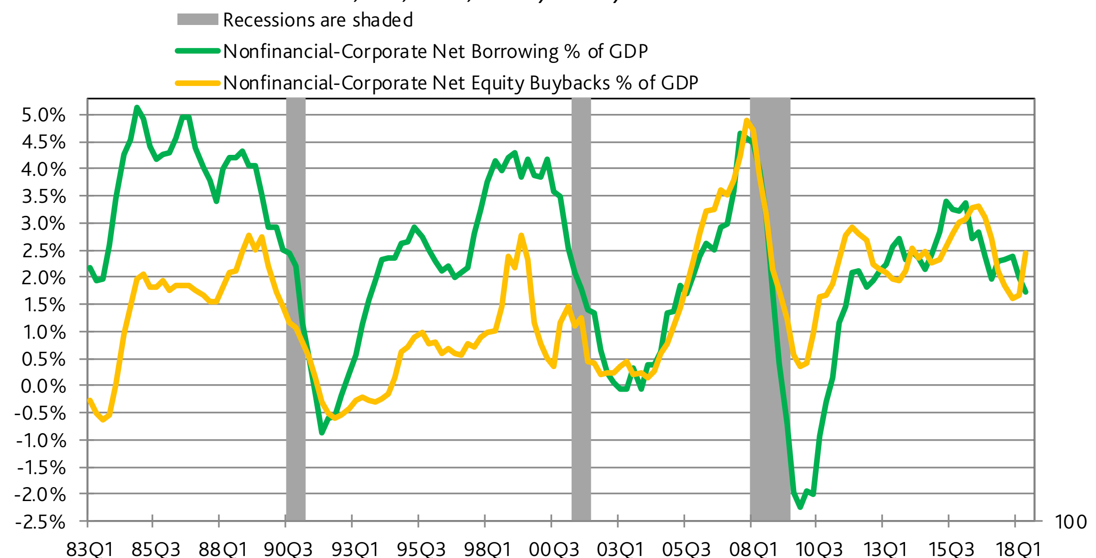


Ratios of Net Borrowing and Net Buybacks to GDP Fall Way Short of 2007's Highs

Relative to nominal GDP, nonfinancial-corporate net borrowing has been subdued, while net equity buybacks have topped their long-term trend. More specifically, during the 12-months-ended June 2018, nonfinancial-corporate net borrowing approximated 1.7% of nominal GDP, which was under its long-term median ratio of 2.4%. At the same time, June 2018's 2.4% yearlong ratio of nonfinancial-corporate net stock buybacks to GDP exceeded its long-term median of 1.6%.

The yearlong ratio of net borrowing to GDP set its record high in December 1984 at 5.1% and established its sample low at the -2.2% of December 2009. (Negative net borrowing implies that nonfinancial corporations reduced outstanding indebtedness.) In addition, the yearlong ratio of net stock buybacks to GDP set its zenith at December 2007's 4.9% and set multiple sample bottoms at the -0.6% of September 1983, December 1983, June 1992 and September 1992. (Negative net stock buybacks imply the issuance of common equity by nonfinancial companies exceeds the buyback, or retirement, of common equity.)

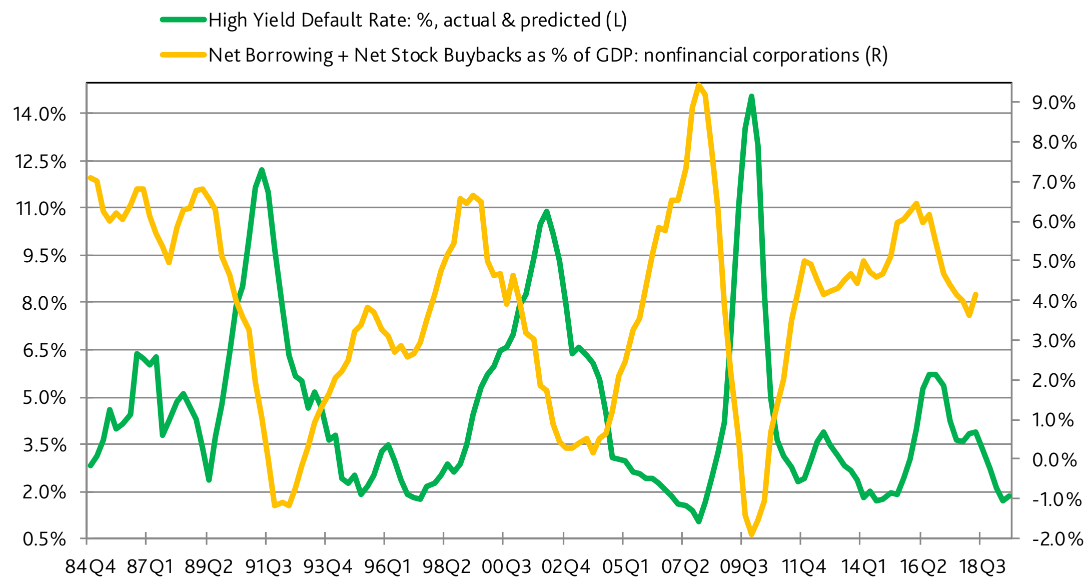
Figure 3: As Percent of GDP, Nonfinancial-Corporate Net Borrowing Is Below-Trend and Net Stock Buybacks Are Above-Trend
yearlong ratios in $ billions
sources: Federal Reserve, BEA, NBER, Moody's Analytics



Latest Net Leverage Ratio Complements a Still Benign Default Outlook

The sum of net borrowing as a percent of GDP plus net stock buybacks as a percent of GDP – or the net leverage ratio -- offers insight regarding the likely direction of corporate credit quality. However, some time may pass before an increase by net borrowing and net stock buybacks relative to GDP helps to trigger a disruptive ascent by the default rates. In fact, the high-yield default rate shows a coincident inverse correlation of -0.57 with the sum of net borrowing and net stock buybacks as a percent of GDP implying that the default rate declines as the net leverage ratio increases. Only by comparing the default rate with earlier net leverage ratios does the expected positive correlation emerge. For example, the default rate does not generate a positive correlation of at least 0.50 until the default rate is set against the net leverage ratio of seven quarters earlier. In fact, the default rate's peak correlation is 0.59 with the net leverage ratio of nine quarters earlier.

Figure 4: Latest Ratio of Net Borrowing plus Net Stock Buybacks to GDP Falls Short of What Preceded Previous Market Upheavals
sources: Moody's Investors Service, Federal Reserve, BEA, Moody's Analytics



For the year-ended June 2018, the net leverage ratio of 4.2% matched its long-term median of 4.2%, which is well under March 2016's 6.4% high for the current business cycle upturn. The yearlong net leverage ratio set its record high at the 9.4% of December 2007 and had been as high as 6.5% at the end of 2006. Earlier peaks for the yearlong net leverage ratio were set at June 1999's 6.6%, March 1989's 6.8%, December 1986's 6.8%, and December 1987's 7.1%.

Thus, the latest modest ratio of net borrowing and net stock buybacks to GDP complements the benign outlook for high-yield defaults. Nevertheless, history still warns of significantly wider corporate credit spreads that presage a prolonged and disruptive climb by the default rate.

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

THE U.S.
By Ryan Sweet, Moody's Analytics

Overshadowed by the Midterm Elections

The economic data will be overshadowed by the midterm elections. Our assumption is that the Democrats narrowly take control of the House of Representatives but Republicans hang on to the Senate. This would likely ensure legislative gridlock on economic policy for the next two years. Turning to the economic data, we expect the ISM nonmanufacturing index to drop in October after hitting a cyclical high in September. Initial claims should have edged lower as the impact of the recent hurricanes fades. On inflation, both the headline and core producer price indexes are forecast to have risen 0.2% between September and October.

There will likely not be any surprises from the Federal Open Market Committee this week. We expect the FOMC to keep the target range for the fed funds rate unchanged at 2% to 2.25%, consistent with market expectations. The meeting will be a yawner, since the only potential new information will be in the post-meeting statement.

We look for only cosmetic changes to the statement and nothing of substance. The statement will continue to describe the risks to the outlook as "roughly balanced" and to say that "further gradual increases" in the fed funds rate are likely. It's unlikely the statement makes any reference to the recent turbulence in financial markets. The tightening in financial market conditions hasn't been sufficient enough to alter the Fed's forecast or assessment of the risks to its outlook.

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence	index, 4-wk MA				30.2
Mon @ 10:00 a.m.	ISM Nonmanufacturing Index for October	diffusion index	58.7	59.3	57.9 to 61.5	61.6
Tues @ 10:00 a.m.	Job Openings and Labor Turnonver Survey for September					
Thur @ 8:30 a.m.	Jobless Claims for 11/3/18	ths	210	215	210 to 215	214
Thur @ 2:00 p.m.	FOMC Monetary Policy for November	%	2.00 to 2.25	2.00 to 2.25	N/A	2.00 to 2.25
Fri @ 8:30 a.m.	Producer Price Index for October	% change	0.2	0.2	0 to 0.5	0.2
	Core PPI	% change	0.2	0.2	0 to 0.4	0.2
Fri @ 10:00 a.m.	Michigan sentiment for November, preliminary	index	98.0	97.9	97 to 99.5	98.6

MONDAY, NOVEMBER 5

Business confidence (week ended November 2; 10:00 a.m. EDT)

The selloff in global stock markets and the ongoing trade war between the U.S. and China are weighing on global business sentiment. Confidence remains good but is well off from earlier in the year and consistent with a global economy that is growing just above its potential. Expectations about business conditions over the next six months have notably weakened and are as soft as they have been since the economic expansion began. Investment intentions have also weakened.

The four-week moving average in our global business confidence survey fell from 31.5 to 30.2 in the week ended October 26.

ISM nonmanufacturing survey (October; 10:00 a.m. EDT)

We forecast the ISM nonmanufacturing survey's composite index to have dropped to 58.7 in October, knocking it down from its cyclical high in September. Survey-based data have weakened recently and we believe this will be visible in the nonmanufacturing survey.

TUESDAY, NOVEMBER 6

No major economic releases are scheduled.

WEDNESDAY, NOVEMBER 7

No major economic releases are scheduled.

THURSDAY, NOVEMBER 8

Jobless claims (week ended November 3; 8:30 a.m. EDT)

Initial claims for unemployment insurance benefits are expected to have dropped from 214,000 to 210,000 in the week ended November 3. Hurricanes Florence and Michael continue to cause problems with initial claims. New filings in North and South Carolina remain above their pre-hurricane trend, and therefore some improvement is still ahead. Also, new filings in Florida and Georgia were recently boosted by Hurricane Michael, but we look for the biggest impact on claims to have already occurred.

FRIDAY, NOVEMBER 9

No major economic releases are scheduled.

EUROPE

By Barbara Teixeira Araujo of the Europe staff of Moody's Analytics in London and Prague

A Spotlight on U.K. GDP

The week will be lighter than last week on the data front. Front and center will be the much-awaited first estimate of the U.K.'s third-quarter GDP growth. We expect the figures to show that GDP grew by 0.6% q/q in the three months to September, accelerating from a 0.4% gain in the previous stanza, a bit stronger than the Monetary Policy Committee's expectations of 0.5% and its assessment of trend growth at 0.4%. However, this doesn't mean that the outlook for growth has moved up a gear; the acceleration in growth was mainly due to one-off factors, such as a further strong pickup in construction and retail activities on the back of the good weather, which warrants a correction in the fourth quarter. And while a 0.6% acceleration might raise fears that the Bank of England is set to rush into another rate hike, we caution that the MPC is likely to remain in wait-and-see mode until Brexit Day is past in March.

The U.K. breakdown should show that growth was broad-based across sectors. The focus should be on the construction sector, where growth is set to have added 1.4% q/q, even though we expect construction output to have declined further in September following August's correction. That's because the warm weather over the spring and summer boosted building, which is extremely weather-sensitive, and created a high base for construction growth. The bad news is that this implies a strong mean-reversion in the fourth quarter. The correction will be compounded by the fact that Brexit uncertainty will be at its highest in the run-up to Christmas, and for as long as no agreement on the withdrawal deal emerges.

Industrial production in the U.K. is also expected to have increased; we are penciling in a 0.8% q/q rise, which would fully offset a diametrically opposed decline in the second stanza. Although the warm weather depressed demand for heating and thus energy output in the second quarter, high temperatures are expected to have had an opposite effect during the summer. That's because temperatures in July and August climbed high enough above their long-term average to have significantly boosted demand for air conditioning. We are thus expecting electricity output to have increased by 1.3% q/q, following a 3.3% fall previously. The story for the manufacturing sector is also relatively optimistic—we are penciling in a 0.5% q/q increase—though the rise in the third quarter will still fail to reverse the previous stanza's 0.7% decline. The performance of the industry remains soft and below trend, hit by a slowdown in world trade and the ever looming Brexit uncertainties, while introduction of the EU's new emissions-testing rules represents a major downside risk to car production in September.

We expect that U.K. services activity rose by 0.5% q/q, following a 0.6% increase in the second quarter. High-frequency data show that retail sales picked up strong momentum in the three months to September—likely gaining 1.2% q/q—but the retail industry accounts for less than 10% of total services output. True, car sales are also expected to have increased strongly in July and August in anticipation of the introduction of the new EU emissions scheme, but this strength was almost fully offset by a plunge in auto sales in September. What's more, consumers usually cut back on services spending to finance more spending on goods, suggesting that sales in the consumer-facing industries was likely subdued. Similarly, leading data all suggest that growth in the rest of the services sector was unimpressive during the quarter.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 2:00 p.m.	Russia: Consumer Price Index for October	% change	3.8	3.4
Wed @ 7:00 a.m.	Germany: Industrial Production for September	% change	0.2	-0.3
Wed @ 9:00 a.m.	Italy: Retail Sales for September	% change	0.3	0.7
Wed @ 10:00 a.m.	Euro Zone: Retail Sales for September	% change	-0.3	-0.2
Thur @ 8:00 a.m.	Spain: Industrial Production for September	% change	0.5	0.7
Fri @ 7:45 a.m.	France: Industrial Production for September	% change	0.2	0.3
Fri @ 9:30 a.m.	U.K.: Monthly GDP for September	% change	0.0	0.0
Fri @ 9:30 a.m.	U.K.: GDP for Q3	% change	0.6	0.4
Fri @ 2:00 p.m.	Russia: Foreign Trade for September	$ bil	16.2	15.8

MONDAY, NOVEMBER 5

No major indicators are scheduled for release.

TUESDAY, NOVEMBER 6

No major indicators are scheduled for release.

WEDNESDAY, NOVEMBER 7

Germany: Industrial Production (September; 7:00 a.m. GMT)

German industrial production likely rose marginally at the end the end of third quarter, rising 0.2% m/m, after contracting in the previous three months. At the same time, in year-ago terms production likely rose around 0.5% after contracting in August by 0.4%. The Markit manufacturing PMI retreated further in September, reaching a 25-month low of 53.7, well below the peak in December and pointing to relatively weak momentum in the sector. Moreover, demand has remained muted in the middle of the third quarter, which could weigh on production in the coming months. Although German manufacturing orders jumped by 2% m/m in August, they still retreated also by 2.1% in year-ago terms. The outlook remains clouded; uncertainty caused by the Brexit negotiations and in particular the trade conflict between U.S. and China threaten to cause a global trade war and could hit German manufacturing.

Italy: Retail Sales (September; 9:00 a.m. GMT)

Italy's retail sales likely pulled back in September, expanding 0.3% m/m following a 0.7% m/m gain in August. Still, retail sales are expected to strengthen this year. Consumer confidence remains robust. Expectations for the future are high despite political uncertainty and slower economic growth this year. The labor market is strengthening, with the unemployment rate dropping to a six-year low in October. Improving wage dynamics and healthy household spending will support retail sales in the coming quarters.

Euro Zone: Retail Sales (September; 10:00 a.m. GMT)

Euro zone retail sales likely declined by 0.3% in monthly terms in September, building on a 0.2% decline in August. This should have pushed the yearly rate down to 0.1%, from 1.8% previously. Most of the available preliminary country data have disappointed; goods sales in France declined by a sharp

1.7% m/m, though we caution that this figure includes energy and car sales, both of which are excluded from the euro area's retail sales headline. And while plunging sales over the month likely exacerbated September's decline in French retail sales, nonfood and food sales also disappointed. Elsewhere, retail sales in Spain were down by 0.4% m/m, more than reversing the previous month's 0.2% rise, while sales in Germany rose by a meagre 0.1% m/m. Both we and the consensus were expecting sales in Germany to have risen, following an already-disappointing 0.3% decline previously. On the upside, the sharp rise in Ireland retailing numbers—which are rather volatile—is likely to have provided some offset.

THURSDAY, NOVEMBER 8

Spain: Industrial Production (September; 8:00 a.m. GMT)

Industrial production in Spain should have had a solid run in September propelled by the upsurge in energy demand. We forecast that the output expanded by 0.5% in month-ago terms. That amounts to 1.6% increase in year-ago terms up from 1.2% in the previous month and our projection suggests that industrial performance should linger around that level for the rest of the year. That means yearly growth will likely halve from last year to 1.6%. Risks are skewed to the downside. The latest PMI report still flashes a red sign. As new orders and job creation eased, the headline fell to 51.4 in September from 53 in August after hovering around 54.8 for the last year. Yet we think that the dismal reading does not pose an immediate threat this year as inventory levels are elevated and the energy sector picks up the summer slack.

FRIDAY, NOVEMBER 9

U.K.: Quarterly GDP (Q3; 9:30 a.m. GMT)

We forecast that U.K. GDP increased by 0.6% q/q in the three months to September, accelerating from a 0.4% rise in the previous stanza, a bit higher than the Monetary Policy Committee's expectations of 0.5% and its assessment of trend growth at 0.4%. However, this doesn't mean that the outlook for growth has moved up a gear; the acceleration in growth was mainly due to one-off factors—such as a further strong pickup in construction and retail activities during the good weather—which warrant a correction in the fourth quarter.

The breakdown should show that growth was broad-based across sectors. Focus should be on the construction sector, where growth is set to have increased by as much as 1.4% q/q, despite the fact that we expect construction output to have declined further in September following August's correction. Industrial production is also expected to have increased; we are penciling in a 0.8% q/q rise, which will have fully offset a diametrically-opposed decline in the second stanza. Across sectors, while the warm temperatures depressed demand for heating and thus energy output in the second quarter, high temperatures are expected to have increased energy demand during the summer. The story for the manufacturing sector is also relatively optimistic—we are penciling in a 0.5% q/q increase—though we caution that the rise in the third quarter will still have failed to reverse the previous stanza's 0.7% decline. Elsewhere, we expect that services activity rose by 0.5% q/q, slowing from a 0.6% rise in the second quarter.

ASIA-PACIFIC

By Katrina Ell and the Asia-Pacific staff of Moody's Analytics in Sydney

Tariffs Likely Narrowed China's Trade Surplus

The focus will be on China's foreign trade and inflation data for October. China's exports surprised on the upside in September, likely propped up by front-loading of shipments to the U.S., which were up 14% y/y, a seven-month high. The U.S. imposed a 10% tariff on US$200 billion worth of its Chinese goods imports in September, bringing the amount of Chinese goods now subject to U.S. import tariffs since July to US$250 billion, about half the value of Chinese imports to the U.S. in 2017. This should have cooled annual export growth in October, driving a narrower trade surplus.

Consumer price inflation has been on the rise since May and rose to a seven-month high in September, and we forecast a further pickup to 2.7% in October. Food prices are behind the upswing, mainly on the back of higher vegetable and fresh fruit prices. Flooding in food-producing areas is putting upward pressure on food prices, which we expect to stay relatively elevated in the near term. Excluding food and energy prices, inflation is subdued.

Indonesia's GDP growth likely cooled to 5.1% y/y in the third quarter, after surprising on the upside in the second quarter with 5.3%, its strongest pace since 2013. The deceleration is forecast on the back of aggressive monetary tightening constraining business activity and household spending, the latter of which was already on a relatively soft footing.

Monetary policy in Australia and New Zealand is a steady ship. Central banks in both countries are forecast to keep their respective policy rates on hold for at least another year. Subdued inflation and respectable growth mean that there's no rush for either to make a move soon.

	Key indicators	Units	Moody's Analytics	Last
Mon @ Unknown	Indonesia GDP for Q3	% change yr ago	5.1	5.3
Mon @ 3:00 p.m.	Malaysia Foreign trade for September	MYR bil	4.5	1.6
Tues @ 2:30 p.m.	Australia Monetary policy for November	%	1.5	1.5
Tues @ 7:00 p.m.	Taiwan Consumer price index for October	% change yr ago	1.7	1.7
Wed @ 8:45 a.m.	New Zealand Unemployment rate for Q3	%	4.5	4.5
Wed @ 7:00 p.m.	Taiwan Foreign trade for October	US$ bil	3.9	4.3
Thurs @ Unknown	China Foreign trade for October	US$ bil	28.4	31.7
Thurs @ 7:00 a.m.	New Zealand Monetary policy for November	%	1.75	1.75
Thurs @ 10:50 a.m.	Japan Machinery orders for September	% change	4.4	6.8
Thurs @ 1:00 p.m.	Philippines GDP for Q3	% change yr ago	6.3	6.0
Fri @ 12:30 p.m.	China Consumer price index for October	% change yr ago	2.7	2.5
Fri @ 12:30 p.m.	China Producer price index for October	% change yr ago	3.7	3.6

MONDAY, NOVEMBER 5

Indonesia: GDP (2018Q3; Unknown)

Indonesia's GDP growth likely cooled to 5.1% y/y in the third quarter, after surprising on the upside in the second quarter with 5.3%, its strongest pace since 2013. The deceleration is forecast on the back of aggressive monetary tightening constraining business activity and household spending; the latter was already on a relatively soft footing. Religious festivities encouraged higher consumption over the June quarter, which helped to cushion the earlier impacts of higher lending rates. Government spending will positively contribute as the election campaign dials up. The government recently reduced its full-year 2018 GDP growth target to 5.14% after the prior 5.2% forecast. GDP growth next year is forecast at 5.12%, from the previous 5.3% estimate. These revised forecasts are in line with our longer-held view.

Malaysia: Foreign Trade (September; 3:00 p.m. AEDT; 4:00 a.m. GMT)

Malaysia's trade surplus likely widened to MYR4.5 billion in September, after it narrowed markedly to MYR1.6 billion in August. We forecast annual export growth to return to modest growth after falling by 0.3% y/y in August, only the second time it has contracted all year. Palm oil exports were the major drag, falling by 22.9% y/y amid declines in both volumes and values. The contraction in palm oil shipments likely improved slightly in September, owing to higher prices. The other major sectors—tech and refined petroleum products—recorded modest gains, owing to high base effects and in the case of the tech sector, global demand being beyond its peak after a sustained upswing. This situation will continue through September.

TUESDAY, NOVEMBER 6

Australia: Monetary Policy (November; 2:30 p.m. AEDT; 3:30 a.m. GMT)

The Reserve Bank of Australia in November will keep the cash rate at 1.5%, where it has been since August 2016. The RBA is in a fortunate place because domestic economic conditions are broadly on a gradual improving trend. Wage growth has passed its trough, and forward indicators suggest persistent health in employment growth, although job creation has slowed from 2017. Inflation is subdued, meaning there's no rush to start hiking rates. The housing market is on an entrenched cooling trend and, with lending rates modestly rising independent of the cash rate, the once heated pockets (namely Sydney) will continue to soften. Rate hikes are unlikely to come into view until late 2019 at the earliest.

Taiwan: Consumer Price Index (October; 7:00 p.m. AEDT; 8:00 a.m. GMT)

Taiwan's headline consumer price index likely remained elevated in October at 1.7% y/y, unchanged from the pace in September. Strong food price growth is the main contributor owing to earlier supply disruptions due to adverse weather. Elsewhere, prices are expected to remain relatively subdued, including for transport and housing. The central bank is under no pressure to hike rates, with the first possible hike coming towards early next year at the earliest.

WEDNESDAY, NOVEMBER 7

New Zealand: Employment Situation (2018Q3; 8:45 a.m. AEDT; Tuesday, 9:45 p.m. GMT)

New Zealand's unemployment rate likely held at 4.5% in the September quarter. Slower net migration is dampening growth in the labour market and helping absorb slower employment growth. Wages grew 0.5% q/q in the June quarter, but this was due to the minimum wage hike, so they will cool in the third quarter. New Zealand's softer growth trajectory should see employment growth ease slightly in coming quarters, ensuring that the still-elevated underutilisation rate remains high by historical standards.

Taiwan: Foreign Trade (October; 7:00 p.m. AEDT; 8:00 a.m. GMT)

Taiwan's trade surplus likely narrowed to US$3.9 billion in October from US$4.3 billion in September, down from US$4.5 billion in August. Annual export growth is forecast to remain weak, after hitting 2.6% y/y in September and 1.9% in August. Although soft export growth is largely expected, given the rebound in trade last year, the worry for Taiwan is that trade tensions come at an unfortunate time in the global trade cycle. We expect export growth to remain modest in coming months.

THURSDAY, NOVEMBER 8

China: Foreign Trade (October; Unknown)

Despite an escalating trade war with the U.S., China's exports surprised on the upside in September, rising by 14.5% y/y after a 9.8% lift in August. Exports were likely propped up by some front-loading of shipments to the U.S., which were up 14% y/y, a seven-month high. The U.S. imposed a 10% tariff on US$200 billion worth of its Chinese goods imports in September, bringing the amount of Chinese goods now subject to U.S. import tariffs since July to US$250 billion, about half the value of Chinese imports to the U.S. in 2017. Still, with global trade growth already in a downswing and U.S. tariffs likely to drag on exports further, exports will come under increasing pressure in coming months. China's trade surplus likely narrowed to US$28.4 billion in October.

New Zealand: Monetary Policy (November; 7:00 a.m. AEDT; Wednesday, 8:00 p.m. GMT)

The Reserve Bank of New Zealand will keep the Official Cash Rate on hold at 1.75% at its November policy meeting. The RBNZ reiterated that the next move could be a rate cut or a hike, but that this was unlikely to come into view until mid-2020. The RBNZ is in a good spot because inflation is expected to modestly pick up through the medium term and the June quarter's thumping GDP growth won't be sustained, with growth likely cooling to a below-potential pace heading into 2019. We maintain that the next move will be a hike, and that it will be a gradual tightening cycle given households' high sensitivity amid elevated household debt and core inflation staying relatively modest.

Japan: Machinery Orders (September; 10:50 a.m. AEDT; Wednesday, 11:50 p.m. GMT)

Japan's machinery orders continued their upward trajectory in August after a rebound in July. Machinery orders were up 6.8% m/m in August following an 11% rebound in July. This follows an 8.8% fall in June. We expect machinery orders rose a further 4.4% in September. The topsy-turvy monthly data are difficult to make sense of; however, the trend has been rising in 2018 after a relatively firm performance in 2017. Overall, this bodes well for Japan's capital expenditure pipeline, as machinery orders generally lead investment by six to eight months.

Philippines: GDP (2018Q3; 1:00 p.m. AEDT; 2:00 a.m. GMT)

The Philippines' GDP growth likely hit 6.3% y/y in the September stanza following the 6% expansion in the June quarter. Manufacturing slowed in the third quarter, but investment and broader domestic demand were relatively upbeat, providing some offset. Despite softer GDP growth we expect the Bangko Sentral ng Pilipinas to deliver another 25-basis point interest rate hike by the end of the year to try to tame inflation, which is hovering near 7% y/y due to a combination of the weak peso, high oil prices, and earlier adverse weather disrupting fresh produce supplies.

FRIDAY, NOVEMBER 9

China: Consumer Price Index (October; 12:30 p.m. AEDT; 1:30 a.m. GMT)

Consumer price inflation has been on the rise since May and rose to a seven-month high of 2.5% y/y in September following the 2.3% reading in August. Food prices are behind the upswing, mainly on the back of higher vegetable and fresh fruit prices. Flooding in food-producing areas is putting upward pressure on food prices, which we expect to stay relatively elevated in the near term. Excluding food and energy prices, inflation is subdued, with core CPI inflation cooling to 1.7% y/y in September, from 2% previously. Consumer prices likely rose 2.7% y/y in October.

China: Producer Price Index (October; 12:30 p.m. AEDT; 1:30 a.m. GMT)

Chinese producer price growth likely remained subdued in October, forecast to hit 3.7% y/y after the 3.6% reading in September. Producer price inflation remains mild in China, partially a symptom of the more subdued conditions domestically. There is some upside heading into 2019 thanks to the government's piecemeal stimulus measures that have gathered pace in the second half of 2018 after momentum appeared to be lost at a faster rate than policymakers were comfortable with.

The Long View

Credit may benefit from slightly lower Treasury yields if, as expected, the Democrats gain the House, while Republicans hold the Senate.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
November 1, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 125 basis points is close to its 122-point mean of the two previous economic recoveries. This spread may be no wider than 130 basis points by year-end 2018.

The recent high-yield bond spread of 397 bp is less than what might be inferred from the spread's macroeconomic drivers and the long-term Baa industrial company bond yield spread of 197 bp. The adverse implications for liquidity of possibly significantly higher interest rates merit consideration.

DEFAULTS

September 2018's U.S. high-yield default rate of 3.06% was less than the 3.55% of September 2017. Moody's Default and Ratings Analytics team now expects the default rate will average 1.8% during 2019's third quarter.

US CORPORATE BOND ISSUANCE

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

Third-quarter 2017's worldwide offerings of corporate bonds showed an annual percent decline of 1.6% for IG and an increase of 6.6% for high-yield, wherein US$-denominated offerings dipped by 0.7% for IG and grew by 4.3% for high yield.

Fourth-quarter 2017 revealed year-over-year advances for worldwide offerings of corporate bonds of 17.6% for IG and 77.5% for high-yield, wherein US$-denominated offerings posted increases of 21.0% for IG and 56.7% for high yield.

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

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

Third-quarter 2018's worldwide offerings of corporate bonds showed year-over-year setbacks of 6.0% for IG and 38.7 % for high-yield, wherein US$-denominated offerings plunged by 24.4% for IG and by 37.5% for high yield.

For yearlong 2016, worldwide corporate bond offerings rose by 2.3% annually for IG (to $2.402 trillion) and sank by 7.8% for high yield (to $426 billion). During yearlong 2017, worldwide corporate bond offerings increased by 4.0% annually (to $2.499 trillion) for IG and advance by 41.2% for high yield (to $602 billion). The projected annual changes for 2018's worldwide corporate bond offerings are -4% for IG and -29% for high yield.

The financing of acquisitions and shareholder compensation will stand out among 2016's uses of funds obtained via bond issues and newly-rated bank loan programs. Companies will resort to acquisitions and divestitures in order to better cope with the U.S.'s subpar recovery. To the degree companies fear significantly higher bond yields, pre-fundings will rise.

The Long View

US ECONOMIC OUTLOOK

The consensus expects that the mid-point for the federal funds rate should finish 2018 at 2.125%. In view of the underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global economy operates below trend, the 10-year Treasury yield may not remain above 3% for long. A fundamentally excessive climb by Treasury bond yields and a pronounced slowing by expenditures in dynamic emerging market countries are among the biggest threats to the adequacy of economic growth and credit spreads.

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics
November 1, 2018

UNITED KINGDOM

November's Bank of England monetary policy decision conformed to expectations. The Monetary Policy Committee was unanimous in deciding to leave rates unchanged, after it raised them for the second time in a decade in August. At the same time, the MPC reaffirmed that it is in no rush to hike again in coming months—any increases in the bank rate are still expected to be at a gradual pace and limited. This aligns with the consensus and our expectations that the committee will wait until at least May before moving again, as Brexit talks should come to a climax in the next few weeks and the uncertainty related to the talks will allow little opportunity for the BoE to tighten.

Brexit took center stage at the press conference. For the first time, Mark Carney spent considerable time talking about the bank's different scenarios for the negotiations. Overall, though, there wasn't much news in the governor's comments. Like us, the government expects that reaching an agreement with the EU and the unlocking of a transition period—which is the bank's most likely scenario—would give a substantial boost to U.K. business investment and consumer spending in 2019, intensifying inflation pressures and warranting further tightening by the MPC. Carney even hinted that, since inflation is still projected to be above target at the end of the forecast period, there could be the need for even more than the market's three expected rate hikes over the next three years.

One key detail was the warning from Carney that the response to a disorderly Brexit—or a no-deal Brexit—is not automatic, meaning that rates could go either up or down depending on different factors. But we think it highly implausible that the MPC will choose to kick the economy when it is down—Carney made the same threat before the referendum and still lowered rates—and we maintain that the committee is likely to stimulate the economy in such a case, even if a shock to supply pushes inflation sharply up in the short term.

Carney acknowledged the recent barrage of data—some good, some bad—and warned that uncertainty related to the referendum was expected to keep volatility high in coming months, making it hard for the bank to read the economy's underlying condition. We think the MPC will continue to look past the current results until more clarity has emerged over the reaching of a Brexit deal.

EURO ZONE

The euro zone's unemployment rate held steady at 8.1% in September, its lowest since the end of 2008. Although economic figures have disappointed lately and growth has slowed, markets shouldn't fear a deterioration in the unemployment numbers soon. The labour market is normally a lagging indicator of activity, which means that employment gains could remain solid even as GDP growth is easing. We are thus penciling in further gains throughout the rest of this year and in 2019, and we expect the euro area's jobless rate to close the year at around 7.8% to 7.9%.

Preliminary CPI figures for October were also released for the euro zone. They surprised on the upside, showing that inflation pressures intensified further at the start of the third quarter despite our expectations they would remain steady. Headline inflation for October read above the European Central Bank's 2% target for the third time this year, and at 2.2% it was the highest since the end of 2012.

Core inflation finally showed signs of strength, in line with the tightening of the labour market and the fact that growth has been reading above potential for several quarters already, even if it remained well below the ECB's

target. We expect core inflation will pick up further in coming months and end the year at around 1.2% to 1.3%, though cooling energy inflation will ensure that the headline rate slows to 1.9% to 2% by December.

ASIA PACIFIC

By Veasna Kong of Moody's Analytics
November 1, 2018

INDONESIA

Bank Indonesia kept its benchmark interest rate at 5.75% in October, after a cumulative 150-basis point increase since mid-May. BI has been on the front foot over recent months, aggressively tightening monetary policy to stabilize local markets. This is in keeping with Governor Perry Warjiyo's pledge to be ahead of the curve, a reference to monetary policy normalization in the U.S. and the instability that this might cause in local financial markets amid increased capital outflow pressures.

Emerging markets have come under significant pressure this year, as economic frailties in Argentina and Turkey have hurt sentiment towards other emerging markets, especially those that run persistent external deficits. Indonesia has not been immune, with the rupiah down about 10% against the dollar this year, making it one of Asia's worst performing currencies in 2018. However, the rupiah has been relatively stable in recent weeks. BI had already raised rates five times in as many months, so there was less pressure for the bank to lift rates again in October.

The improved trade balance, which swung back into surplus in September, also helped, as did expectations for a smaller budget deficit this year, 1.83% to 2.04% of GDP, down from an initial forecast of 2.19%. These factors likely helped to improve investor sentiment and attract net inflows of US$3.7 billion into government bonds in the third quarter, after a net outflow in the three months to June.

Another rate hike is on the cards

The 2013 taper tantrum, when investors pulled out of emerging markets on expectations of U.S. Federal Reserve asset purchase tapering, remains a painful memory in Indonesia. As investors shunned emerging markets, Indonesia, with its widening current account deficit, accelerating inflation, and declining foreign exchange reserves at the time, was one of the worst affected. To stem the capital outflows, BI increased its policy rate by 175 basis points over the six months to November 2013. However, the rupiah still plunged 22% over that period, ending 2013 26% lower than a year earlier.

With the Federal Reserve now firmly committed to monetary policy normalization, BI has clearly signaled that it stands ready to avoid a repeat of the taper tantrum. BI's first two rate hikes in this cycle came in May, prior to the Fed's decision to lift rates in June. Similarly, the fourth rate hike in this tightening cycle occurred the month before the fed funds rate increase in September. Given these precedents, and Governor Warjiyo's statements about the need to raise interest rates ahead of the Fed to avoid significant capital outflows, BI likely will hike its policy rate again before year's end. We expect the Fed to raise rates further in December.

The differential between BI's key policy rate and the midpoint of the fed funds target rate steadily declined in the lead-up to the first rate hike in May, and in the absence of the tightening cycle would have slid to 2.125 percentage points in September, 1.5 percentage points below the current spread. In the absence of BI's preemptive front-loading of policy rate hikes, the rupiah likely would have come under even more depreciation pressure from capital outflows.

Rising fed funds rate

Ten-year U.S. Treasury yields have risen considerably this year on the back of a rising fed funds rate and strength in the U.S. economy. This has encouraged capital outflows from Indonesia, which along with emerging market risk aversion, has hurt the rupiah. By the March quarter, the spread between Indonesian 10-year government bond yields and their U.S. equivalent was approaching lows not seen since the 2013 taper tantrum. But since BI's aggressive rate hike cycle started in May, the spread has shot back up to 2017 levels, making Indonesian bonds more attractive to investors and helping to shore up the rupiah.

However, it is not just monetary policy that is doing the heavy lifting. BI has dipped into foreign reserves to shore up the rupiah and smooth volatility. Foreign reserves have fallen 13% since January, which has reduced Indonesia's import cover to about seven months, still well above the three months deemed adequate by the International Monetary Fund. In an effort to ease pressure on the external balances, the government has also increased import taxes on a variety of goods including luxury cars, introduced mandated biodiesel use to reduce the oil import bill, and delayed significant infrastructure projects to lower capital goods imports.

This time is different

Deputy BI Governor Mirza Adityaswara noted that further action will depend on the current account deficit, exchange rate, and inflation. We think inflation is the least concern of these three; CPI growth cooled to its slowest pace in over two years at 2.9% y/y in September, at the lower end of the central bank's 2.5%-to-4.5% target band. This is somewhat surprising given the fall in the rupiah and higher oil prices compared with a year ago, and partly reflects the government's efforts to stabilize food and energy prices. It is nonetheless welcome and is a stark contrast to 2013, when inflation rose from 4.3% y/y to 8.4% in the space of a year.

Indonesia's current account deficit widened to 3% of GDP in the June quarter, its largest in almost four years, as raw materials, especially oil, and consumer and capital goods imports surged. This is larger than Indonesia would like. Persistent current account deficits, while not unusual for a developing economy, remain a source of vulnerability for Indonesia, as they leave the economy exposed to swings in investor sentiment and portfolio flows.

Foreigners hold 38% of Indonesia's government bonds, having reduced their holdings by 3.3% in the June quarter. It is notable, however, that the current account balance is well down on the 4.2% deficit that was reached during the 2013 taper tantrum.

The rupiah's depreciation this year—to levels not seen since 1997—has invoked memories of the Asian Financial Crisis and led some to question whether Indonesia is facing another financial crisis. Although the rupiah has depreciated significantly this year, this pales in comparison with 1997, when it slumped 54.2% over the same period as the currency was unpegged from the U.S. dollar. Moreover, the rupiah's fall is broadly consistent with that of other emerging market currencies, and has as much to do with dollar strength as it has to do with risk aversion from emerging markets.

Overall, Indonesia's economy is in better shape today than it was during previous episodes of rupiah weakness. Reducing the current account deficit is likely to remain a challenge, but foreign reserves are still relatively elevated, and proactive monetary policy and improved policy coordination among government agencies provide some confidence that Indonesia can withstand the recent bout of volatility. We expect the economy to expand 5% in 2018, slightly weaker than the 5.1% recorded in 2017.

Ratings Round-Up

Downgrade Trend Continues

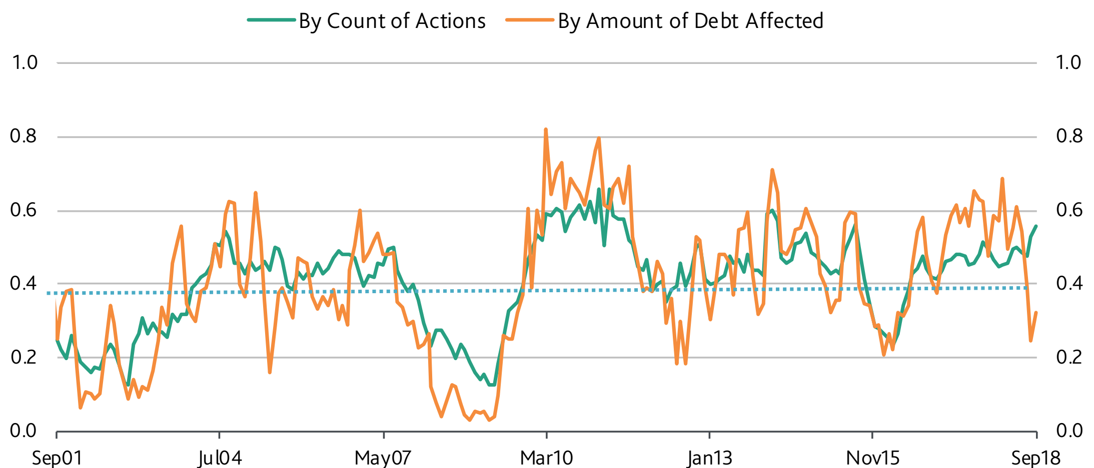
By Michael Ferlez

Rating change activity worsened last week, with positive rating change activity accounting for only 30% of total activity, down from 45% last week. This continues the recent trend in which the number downgrades exceeded upgrades. Activity was concentrated in the industrial sector and spread across a number of different industries. Downgrades included, Consolidated Edison, INC., which had its unsecured credit rating cut from A2 to A3 and affecting roughly $15 billion in debt. Although downgrades outnumber upgrades, there were several important upgrades, most notable being JPMorgan Chase & Co. The U.S.'s largest bank by assets was upgraded to Aa2 from Aa3, impacting $210 billion in debt. Discover Financial Services also saw its senior unsecured credit rating upgraded. Rounding out U.S. upgrades was Chesapeake Energy Corporation. The U.S. oil firm was upgrade from Caa1 to B3 reflecting a broader trend of upgrades in the U.S. oil sector.

Rating change activity in Europe continued to be dragged down by the recent downgrade of Italy's sovereign credit rating. Six Italian banks, including UniCredit S.P.A and Deutsche Bank S.P.A., the Italian subsidiary of German-based Deutsche Bank AG., had their senior unsecured credit ratings cut. In total, eight European firms had their senior unsecured credit ratings cut, with Banco de Credito Social Cooperativo, S.A. receiving the sole upgrade.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

Ratings Round-Up

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	Old STD Rating	New STD Rating	IG/ SG
10/25/18	JPMORGAN CHASE & CO.	Financial	SrUnsec/LTIR/LTD/ Sub/JrSub /CP/MTN/PS	210,024	U	Aa3	Aa2	P-2	P-1	IG
10/25/18	DYCOM INDUSTRIES, INC.	Industrial	SrUnsec	485	D	Ba3	B1			SG
10/26/18	NABORS INDUSTRIES, LTD. -NABORS INDUSTRIES INC.	Industrial	SrUnsec	3,725	D	Ba3	B1			SG
10/26/18	NEIMAN MARCUS GROUP LTD LLC	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	1,685	D	Caa3	Ca			SG
10/29/18	ALORICA INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	B1	B3			SG
10/30/18	CHESAPEAKE ENERGY CORPORATION	Industrial	SrUnsec /LTCFR/PDR	14,900	U	Caa1	B3			SG
10/30/18	CONSOLIDATED EDISON, INC.	Utility	SrUnsec/LTIR/CP	14,715	D	A2	A3	P-2	P-1	IG
10/30/18	DISCOVER FINANCIAL SERVICES	Financial	SrUnsec/LTIR /STD/LTD/Sub/PS	11,592	U	Ba1	Baa3	P-2	P-1	SG
10/30/18	NORTH AMERICAN LIFTING HOLDINGS, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	B3	Caa1			SG
10/30/18	NVA HOLDINGS, INC.	Industrial	SrSec/BCF		D	B1	B2			SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

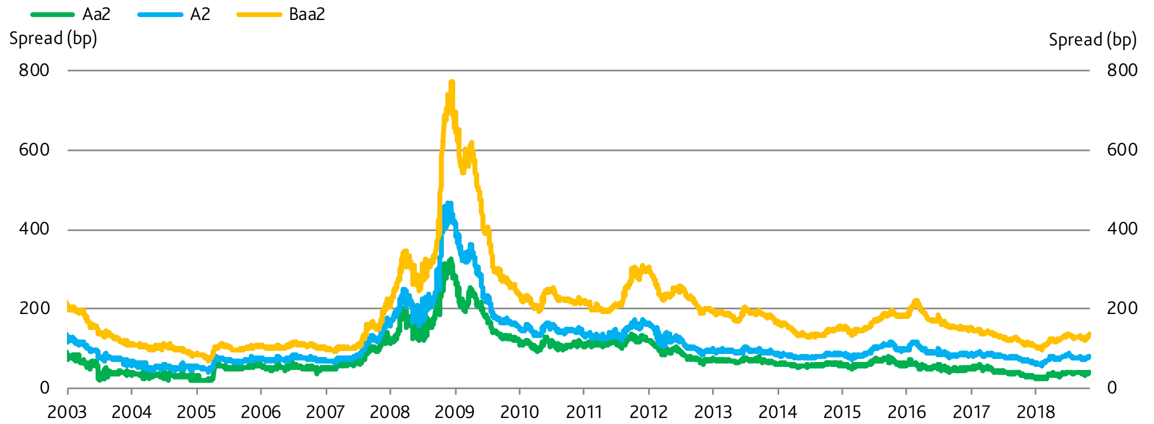
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
10/24/18	UNICREDIT S.P.A.	Financial	SrSec		D	Aa2	Aa3			IG	ITALY
10/24/18	DEUTSCHE BANK AG -DEUTSCHE BANK S.P.A.	Financial	SrSec		D	Aa2	Aa3			IG	ITALY
10/24/18	GROUPE CREDIT AGRICOLE-CREDIT AGRICOLE CARIPARMAS.P.A.	Financial	SrSec		D	Aa2	Aa3			IG	ITALY
10/24/18	UNIONE DI BANCHE ITALIANE S.P.A.	Financial	SrSec		D	Aa2	Aa3			IG	ITALY
10/24/18	COMPAGNIA VALDOSTANA DELLE ACQUE S.P.A.	Utility	LTIR		D	Baa1	Baa2			IG	ITALY
10/24/18	CREDITO EMILIANO S.P.A.	Financial	Srsec		D	Aa2	Aa3			IG	ITALY
10/25/18	ATLANTIA S.P.A.	Industrial	SrUnsec /LTIR/MTN	14,334	D	Baa1	Baa2			IG	ITALY
10/26/18	NOVA KREDITNA BANKA MARIBOR D.D.	Financial	STD/LTD		U	Ba2	Baa3	NP	P-3	SG	SLOVENIA
10/26/18	ABANKA D.D.	Financial	STD/LTD		U	Ba1	Baa2	NP	P-2	SG	SLOVENIA
10/26/18	BANCO DE CREDITO SOCIAL COOPERATIVO, S.A.	Financial	SrSec		U	Baa3	A3			IG	SPAIN
10/26/18	VUE INTERNATIONAL BIDCO P.L.C.	Industrial	SrSec /LTCFR/PDR	805	D	B2	B3			SG	UNITED KINGDOM
10/29/18	WERELDHAVE N.V.	Industrial	SrUnsec /LTIR/MTN	87	D	Baa1	Baa2			IG	NETHERLANDS

Source: Moody's

Market Data

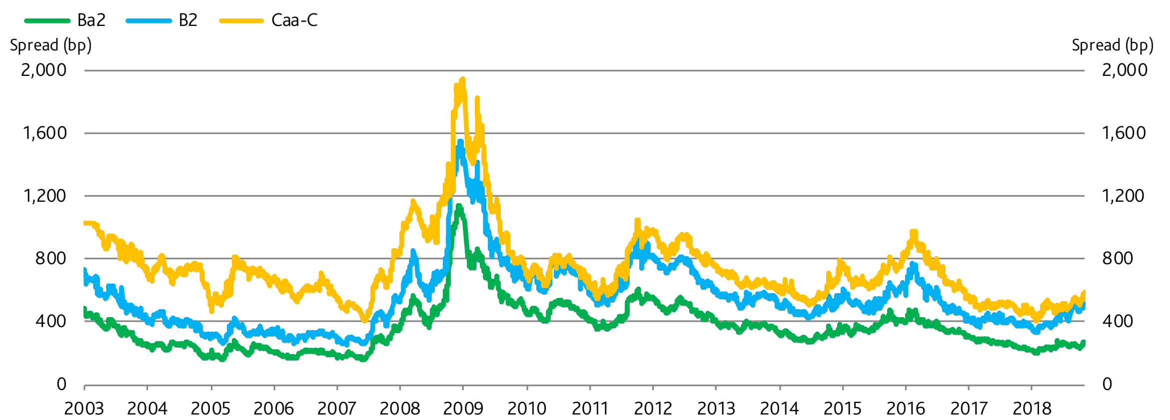
Spreads

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



Source: Moody's

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



Source: Moody's

Market Data

CDS Movers

Figure 3. CDS Movers - US (October 24, 2018 – October 31, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Oct. 31	Oct. 24	Senior Ratings
Citigroup Inc.	A3	Baa1	Baa1
Toyota Motor Credit Corporation	A1	A2	Aa3
Ford Motor Credit Company LLC	Ba3	B1	Baa3
General Motors Company	Ba2	Ba3	Baa3
Ford Motor Company	Ba3	B1	Baa3
HSBC Finance Corporation	A2	A3	Baa1
Kinder Morgan Energy Partners, L.P.	A2	A3	Baa3
Simon Property Group, L.P.	Baa1	Baa2	A2
National Rural Utilities Coop. Finance Corp.	A2	A3	A2
Sempra Energy	A2	A3	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Oct. 31	Oct. 24	Senior Ratings
Amazon.com, Inc.	A2	Aa3	Baa1
United States of America, Government of	Aa2	Aa1	Aaa
Microsoft Corporation	Aa3	Aa2	Aaa
American Express Credit Corporation	A2	A1	A2
Coca-Cola Company (The)	Aa3	Aa2	Aa3
Caterpillar Financial Services Corporation	Baa1	A3	A3
Johnson & Johnson	Aa2	Aa1	Aaa
International Business Machines Corporation	A3	A2	A1
Chevron Corporation	A1	Aa3	Aa2
General Electric Company	Ba1	Baa3	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Oct. 31	Oct. 24	Spread Diff
Parker Drilling Company	Caa2	2,147	1,776	371
Weatherford International, LLC (Delaware)	Caa1	1,163	814	349
AK Steel Corporation	B3	621	488	133
Windstream Services, LLC	Caa2	2,618	2,531	87
Nabors Industries Inc.	B1	438	386	52
Frontier Communications Corporation	Caa1	1,796	1,751	45
Neiman Marcus Group LTD LLC	Ca	1,314	1,269	45
Baker Hughes, a GE company, LLC	A3	170	127	43
Dell Inc.	Ba2	241	202	39
General Electric Company	Baa1	144	108	36

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Oct. 31	Oct. 24	Spread Diff
Penney (J.C.) Corporation, Inc.	Caa2	2,861	3,064	-204
Talen Energy Supply, LLC	B2	666	771	-105
R.R. Donnelley & Sons Company	B3	638	736	-98
Beazer Homes USA, Inc.	B3	614	700	-86
Genworth Holdings, Inc.	B2	450	491	-42
American Axle & Manufacturing, Inc.	B2	343	383	-41
Hertz Corporation (The)	B3	950	990	-40
KB Home	B1	306	347	-40
Hilton Worldwide Finance, LLC	Ba2	166	206	-39
General Motors Company	Baa3	154	192	-38

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (October 24, 2018 – October 31, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Oct. 31	Oct. 24	Senior Ratings
Old Mutual Plc	Aaa	Aa2	Ba1
Italy, Government of	B1	B2	Baa3
Bayerische Motoren Werke Aktiengesellschaft	A3	Baa1	A1
Iberdrola International B.V.	A3	Baa1	Baa1
Centrica plc	Baa1	Baa2	Baa1
CNH Industrial N.V.	Baa3	Ba1	Ba2
United Utilities PLC	Baa1	Baa2	Baa1
Jaguar Land Rover Automotive Plc	B3	Caa1	Ba2
Renault S.A.	Baa3	Ba1	Baa3
Eksportfinans ASA	B3	Caa1	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Oct. 31	Oct. 24	Senior Ratings
Societe Generale	A3	A2	A1
CaixaBank, S.A.	Baa3	Baa2	Baa1
Nationwide Building Society	A3	A2	Aa3
Natixis	A2	A1	A1
Allied Irish Banks, p.l.c.	A3	A2	Baa3
Deutsche Bahn AG	Aa1	Aaa	Aa1
UniCredit Bank AG	Baa1	A3	A2
AstraZeneca PLC	A1	Aa3	A3
Credit Suisse AG	Baa1	A3	A1
Bank of Ireland	A1	Aa3	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Oct. 31	Oct. 24	Spread Diff
Galapagos Holding S.A.	Caa3	6,575	5,107	1,468
Novo Banco, S.A.	Caa2	751	677	74
Vedanta Resources plc	B2	419	365	54
Banca Monte dei Paschi di Siena S.p.A.	B3	426	384	42
Ardagh Packaging Finance plc	B3	285	264	22
Heathrow Finance plc	Ba2	181	166	15
Unione di Banche Italiane S.p.A.	Baa3	287	273	14
Casino Guichard-Perrachon SA	Ba1	471	461	10
Altice Finco S.A.	B3	483	473	10
Iceland, Government of	A3	62	55	7

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Oct. 31	Oct. 24	Spread Diff
Boparan Finance plc	Caa1	676	727	-51
Jaguar Land Rover Automotive Plc	Ba2	462	492	-29
PizzaExpress Financing 1 plc	Caa1	1,672	1,700	-29
RCI Banque	Baa1	115	135	-21
Virgin Media Finance PLC	B2	193	214	-21
Peugeot S.A.	Ba2	133	151	-18
Matalan Finance plc	Caa1	836	854	-18
Fiat Chrysler Automobiles N.V.	Ba3	173	189	-16
Unipol Gruppo S.p.A.	Ba2	191	207	-16
LafargeHolcim Ltd	Baa2	130	145	-15

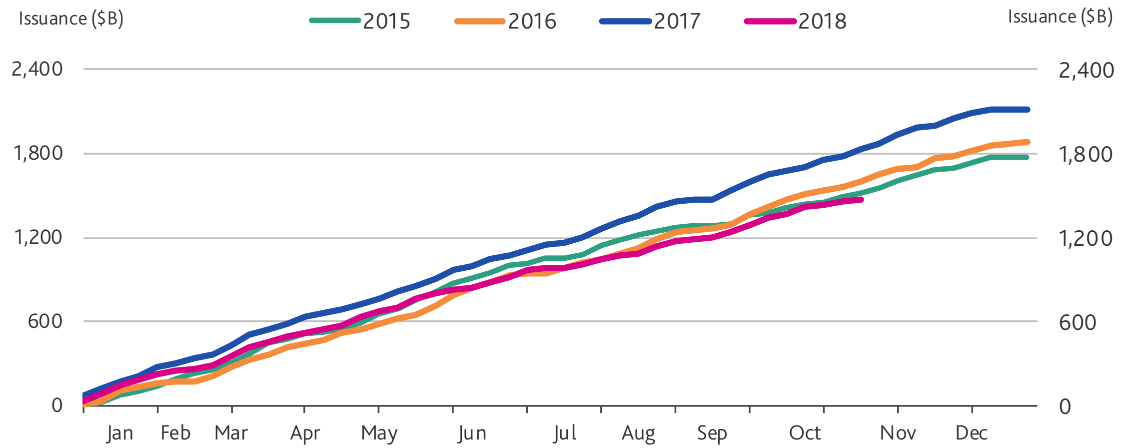
Source: Moody's, CMA

Market Data

Issuance

FIGURE 5

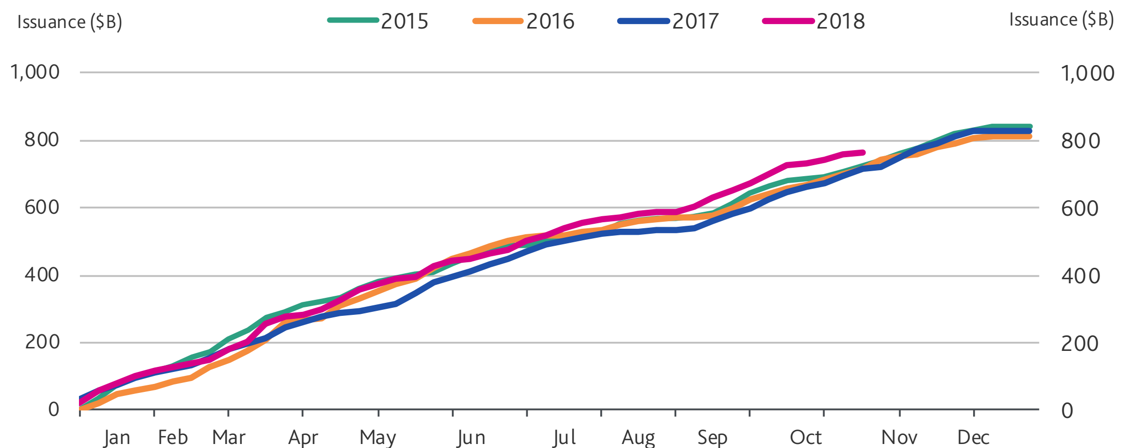
Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

FIGURE 6

Market Cumulative Issuance - Corporate & Financial Institutions: EURO Denominated



Source: Moody's / Dealogic

Market Data

FIGURE 7

Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	6.515	3.245	10.490
Year-to-Date	1,136.332	260.146	1,468.884

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	6.750	1.264	9.339
Year-to-Date	650.245	82.550	765.077

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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