MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

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Cheap Money in Action

Credit Markets Review and Outlook *by John Lonski*

Cheap Money in Action

» FULL STORY PAGE 2

The Week Ahead

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

» FULL STORY PAGE 6

The Long View

Full updated stories and key credit market metrics: Despite recent disruptions to the effective federal funds rate, the daily readings for the LIBOR benchmark hardly budged.

Credit Spreads	Investment Grade: We see year-end 2019's average investment grade bond spread marginally above its recent 125 basis points. High Yield: Compared with a recent 415 bp, the high-yield spread may approximate 465 bp by year-end 2019.
Defaults	US HY default rate: Moody's Investors Service's Default Report has the U.S.' trailing 12-month high-yield default rate rising from August 2019's actual 2.9% to a baseline estimate of 3.9% for August 2020.
Issuance	For 2018's US$-denominated corporate bonds, IG bond issuance sank by 15.4% to $1.276 trillion, while high-yield bond issuance plummeted by 38.8% to $277 billion for high-yield bond issuance's worst calendar year since 2011's $274 billion. In 2019, US$-denominated corporate bond issuance is expected to rise by 5.5% for IG to $1.346 trillion, while high-yield supply grows by 33.1% to $370 billion. The very low base of 2018 now lends an upward bias to the yearly increases of 2019's high-yield bond offerings.

» FULL STORY PAGE 10

Ratings Round-Up

U.S. and Europe Rating Activity Tilts Negative

» FULL STORY PAGE 13

Market Data

Credit spreads, CDS movers, issuance.

» FULL STORY PAGE 17

Moody's Capital Markets Research *recent publications*

Links to commentaries on: Corporate credit, Fed moves, spreads, yield collapse, inversions, unmasking danger, divining markets, upside risks, rating changes, high leverage, revenues and profits, riskier outlook, high-yield, defaults, confidence vs. skepticism, stabilization, volatility.

» FULL STORY PAGE 22

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.

Cheap Money in Action

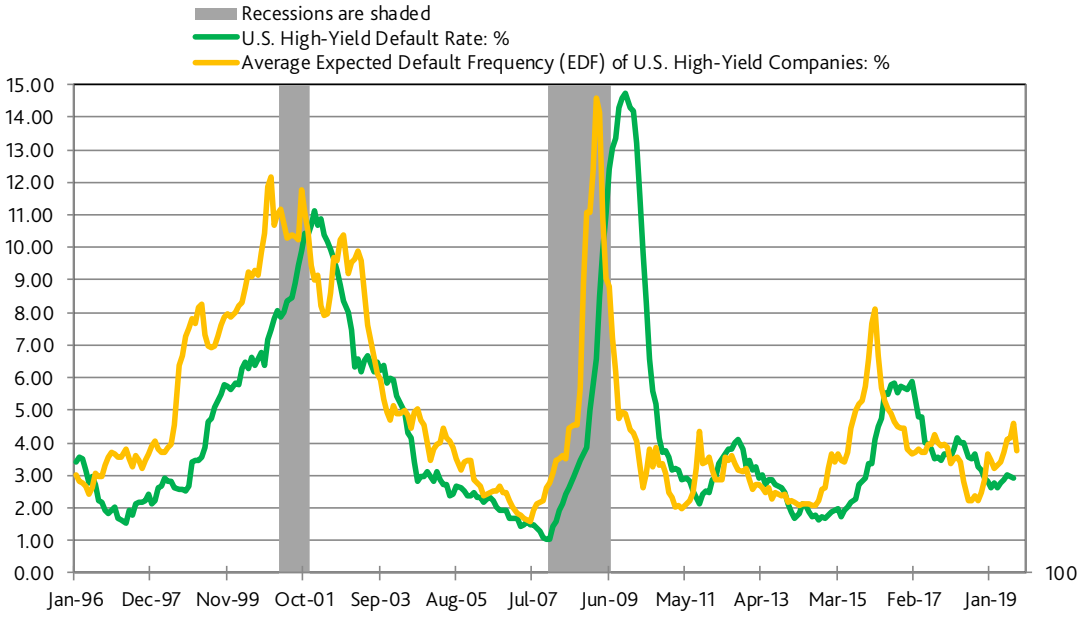
The corporate bond market has proven to be resilient amid recent equity market volatility. Moreover, despite a slew of bearish headlines, the market value of U.S. common stock's latest low of August 14 was still a huge 20.8% above its low of December 24, 2018, while August 2019's month-long average of 19.0 points for the VIX was well under the 25.0 points of December 2018.

On the credit front, though a composite high-yield bond spread's month-long average widened from July 2019's 422 basis points to the 468 bp of August. The latter hardly differed from its post-1983 median of 456 bp and was less than the 499 bp of December 2018.

September-to-date's narrowing of the high-yield bond spread has been consistent with a drop by the expected default frequency metric of US/Canadian high-yield issuers from August 2019's three-year high of 4.6% to a recent 3.75%. Nevertheless, the high-yield EDF metric is still too high for comfort. For example, going into 2015-2016's profits recession, the high-yield EDF metric's average rose from the 2.1% of the six-months-ended September 2014 to the 3.6% of 2015's first half. Immediately after the high-yield EDF metric peaked at January 2016's 8.0%, the high-yield bond spread's month-long average crested at February 2016's 839 bp.

Though half of a month's slide by the high-yield EDF metric hardly assures a lasting trend, the latest high-yield EDF now suggests a 3.2% midpoint for June 2020's U.S. high-yield default rate, which is down from the 4.0% default rate inferred from a 4.6% high-yield EDF.

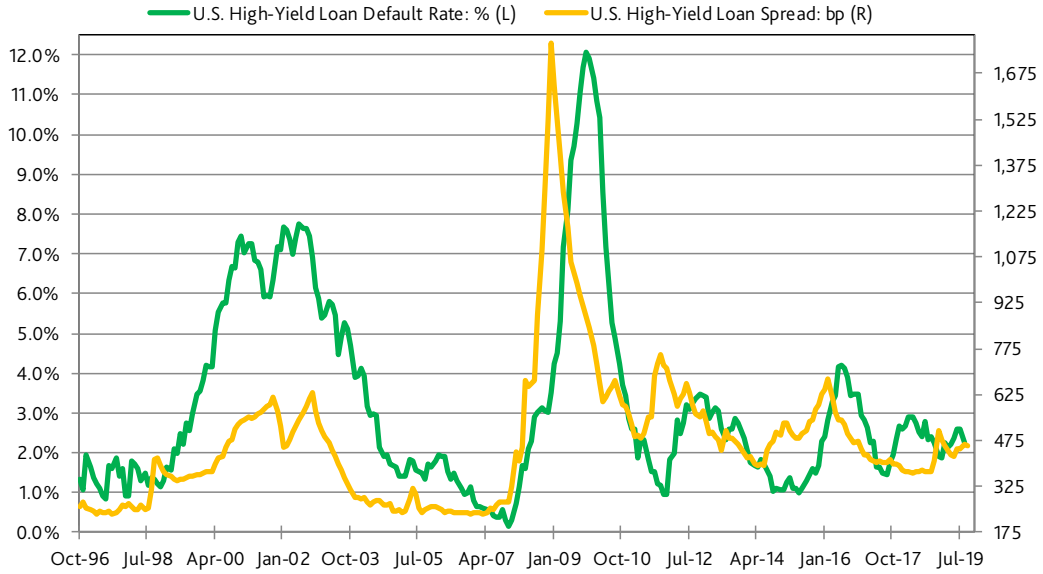
Figure 1: Latest Dip by High-Yield EDF Signals Only a Slight Rise by the High-Yield Default Rate
sources: NBER, Moody's Analytics



Even August 2019's estimated high-yield loan spread of 461 bp was well under December 2018's 506 bp. A recent high-yield loan spread of 456 bp favors a manageable rise by the U.S. high-yield loan default rate from August 2019's 2.3% to roughly 3% by June 2020. Nevertheless, leveraged loans are likely to stand out in terms of weakness during the next profits recession.

Credit Markets Review and Outlook

Figure 2: Recent High-Yield Loan Spread Favors a 3.0% Midpoint for June 2020's Loan Default Rate
sources: Moody's Monthly Default Report, Credit Suisse, Moody's Capital Markets

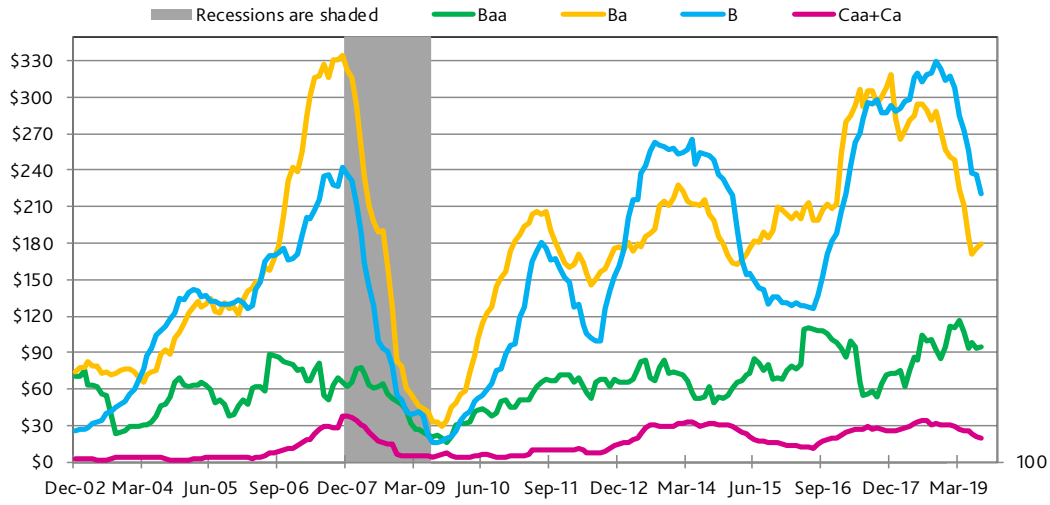


Corporate Borrowing Soars in September

After contracting by 34.0% year over year during January-August 2019, newly rated loans from mostly high-yield issuers, or those rated Baa and lower, might advance by 25% year to year in September. The 74 newly rated loan tranches graded Baa or lower of September 1-17, 2019 were up by 80% from the 41 of September 1-17, 2018. The available sample showed a 45% yearly increase, to $400 million, by the median dollar size of the tranches. Noting that the funds raised by a single tranche can serve more than one purpose, among September-to-date's 74 new tranches, the refinancing of outstanding debt was mentioned 46 times, while funding related to M&A was cited 47 times. For September 1-17, 2018, debt refinancing was cited among uses of loan proceeds for 12 tranches and M&A figured in 37 loans.

Despite September 2019's jump in loan issuance, the moving 12-month sum of new loans graded Baa or lower will remain well under July 2018's record high $745 billion. For the 12-months-ended August 2019, the $515 billion of newly rated loans from mostly high-yield issuers sank by 31% year-over-year and consisted of $94 billion of Baa loans (off by 5% annually), $180 billion of Ba loans (down 38%), $221 billion of single-B loans (down 31%) and $20 billion of loans rated either Caa or Ca (down 40%).

Figure 3: Referring to August 2019's Yearlong Sums, New Ba-Grade Loans Were 44% Under Their December 2017 High and New B-Rated Loans Were 33% Under Their October 2018 Zenith
12-mo sums in $ billions
sources: BEA, Moody's Analytics



September-to-date's pronounced year-over-year upturn by corporate borrowing extends well beyond leveraged loans. For US$-denominated corporate bonds, September-to-date's issuance was up by 44% annually to $132 billion for investment-grade obligations and by 109% annually to $29 billion for high-yield securities. The yearly surge in corporate bond issuance was mostly the offshoot of a plunge in corporate bond yields. Compared to their respective month-long averages of September 2018, the month-to-date average for Bloomberg/Barclays investment-grade yield sank by 111 bp to 2.94% as the accompanying speculative-grade bond yield plummeted by 60 bp to 5.67%.

FOMC Differs from Market on Need for Lower Fed Funds Rate

The stimulatory effect of substantially lower interest rates may now be taking effect. If the yearly percent increase of business sales stages a lasting climb, benchmark interest rates may turn higher. According to the Federal Open Market Committee's latest median forecast, the midpoint of the federal funds rate will bottom at the current 1.875%. And that projection is likely to hold if business activity persistently gains momentum.

Nevertheless, the recent U.S. Treasury yields of 1.75% at the 2-year maturity and 1.66% at the five-year maturity show that the bond market disagrees with the FOMC's latest forecasts. Moreover, the recent 2.23% 30-year Treasury yield is at odds with the FOMC's 2.5% median prediction for the "longer-run" federal funds rate.

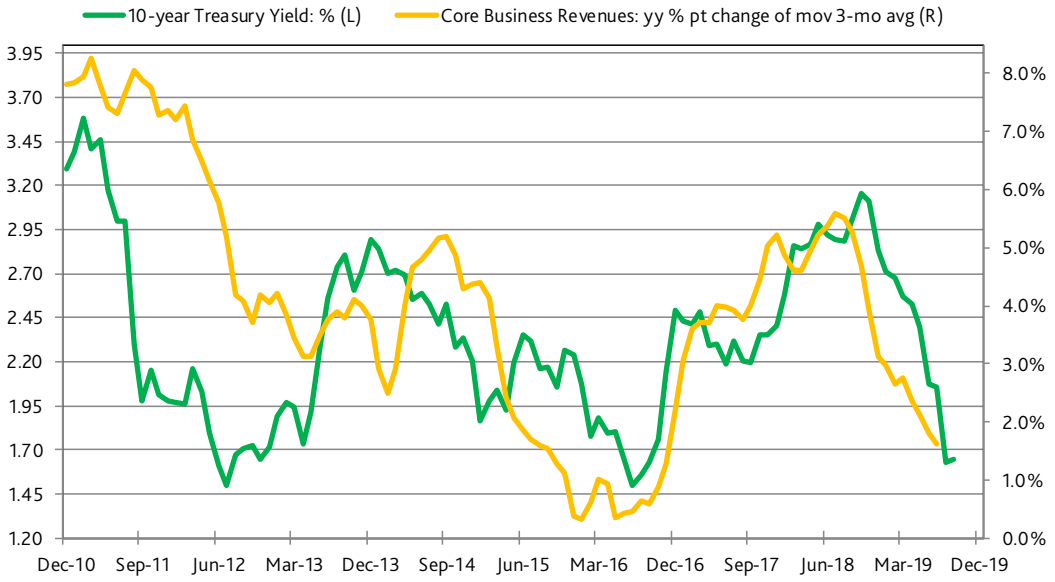
The FOMC's median projections for the federal funds rate do not reflect expectations of a rising risk of recession now shared by many economic forecasters. However, the FOMC's implied near-term view of the economy resembled the current implied sanguinity of the equity and corporate bond markets.

Recognizing that the dispersion of individual committee member forecasts was wide, the median forecast for the year-end federal funds rate remained at 1.875% through 2020 and then increased to 2.125% for 2021 and 2.375% for 2022. In a manner that contradicts expectations of a flat-to-higher fed funds rate through 2022, the consensus, or average, forecast of prognosticators surveyed during early September by Blue-Chip economic indicators had the probability of a recession rising from 2019's 19% to the 38% of 2020 and the 41% of 2021. If these views on recession risk prove accurate, any 2019-2021 bottom for fed funds will be at least half of a percentage point under the FOMC's latest median projection of 1.875%.

FOMC Implicitly Foresees an Upturn by the Annual Growth Rate of Business Sales

Markets will probably remain skeptical of the FOMC's median interest rate outlook until the year-over-year growth rate for U.S. business sales trends higher decisively. Since the end of 2010, the 10-year Treasury yield has moved in the direction taken by the yearly percent change of core business sales. For example, the recent deceleration by the yearly growth rate of core business sales' moving three-month average from a July 2018 high of 5.6% to the 1.6% of July 2019 led the 10-year Treasury yield's 3.15% peak of October 2018 and subsequent drop to August 2019's 1.63%. If the 10-year Treasury yield climbs significantly above the now 1.875% midpoint of the federal funds rate, the rationale for further Fed rate cuts will have weakened.

Figure 4: Recovery by Core Business Sales Growth Will Lead Treasury Bond Yields Higher
sources: Census Bureau, Moody's Analytics



Housing Finally Responds to Low Mortgage Yields

Interest-rate-sensitive housing activity now turns higher. A livelier performance by housing will both lessen recession risk and lift Treasury bond yields. Unit sales of existing homes rose by 0.4% yearly during the three-months-ended August 2019 for the first such yearly increase since the 0.6% of the three-months-ended December 2017. The latter span corresponded to a cycle high for seasonally-adjusted unit sales of existing homes. Eventually, the moving three-month average of existing home sales bottomed 8.9% under December 2017's cycle high. As of the span-ended August 2019, the three-month average of existing home sales still trailed its December 2017 peak by 2.9%.

One leading indicator bodes well for home sales. After declining from the contiguous moving four-week average for each of the seven weeks ended September 6, the moving four-week average index of mortgage applications for the purchase of a home for the four-weeks-ended September 13 rose by 0.3% from its average of the four weeks ended August 16, 2019. Also, the year-over-year increase by the moving four-week average index of homebuyer mortgage applications rose from August 16's 7.4% to September 13's 7.6%.

Good news on housing also applied to residential construction. For August 2019, both forward-looking homebuilding permits and housing starts far exceeded expectations. From July to August, building permits advanced by 7.7%, and housing starts soared higher by 12.3%. If cheap money again works its magic, the wait for the next extended credit cycle slump can only lengthen.

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

THE U.S.

By Ryan Sweet and Damien Moore of Moody's Analytics

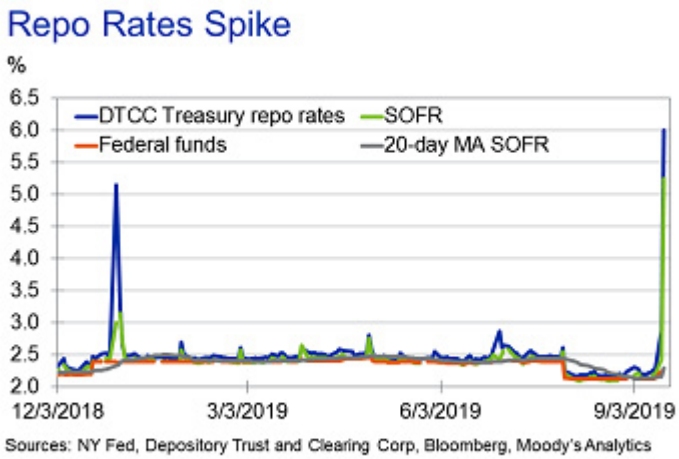
Anyone Know a Good Plumber?

The Fed delivered a rate cut that was widely expected, but markets have noticeably reduced the odds of another cut in October, possibly because of the dot plot. However, we are sticking with our forecast for a cut in October, because there was plenty of dovishness in the post-meeting statement and the dot plot. The forward guidance was unchanged, which is telling. The Fed noted that "uncertainties about this outlook remain," and the committee will "continue to monitor the implications" and "will act as appropriate," which all suggest that its bias hasn't changed.

The so-called dot plot showed the central tendency is that the fed funds rate will remain unchanged through the remainder of this year and in 2020. This may have contributed to the sharp reduction in fed funds futures, which now put the odds of an October rate cut at 45.5%, compared with 100% prior to the FOMC meeting. However, a number of Fed officials favor another cut this year, and others could easily be swayed to favor one if the data begin to weaken. Basically, the Fed is trying to strengthen its data dependence pledge, but we still believe prudent risk management is important in the Fed's reaction function, and it will be sensitive to developments in U.S. trade policy.

During his presser, Fed Chairman Jerome Powell said the issues in the repo market don't have macroeconomic or monetary policy implications. The repo market has had some major issues, but they're different from what occurred prior to the last recession. The recent increase in repo rates is likely attributed to bad timing and technical issues rather than a crisis of confidence.

On Tuesday, the New York Fed purchased $53.2 billion worth of Treasury and Agency debt to inject liquidity into the banking system. This open market operation was implemented to stabilize the effective federal funds rate, which had moved just outside its targeted range of 2% to 2.25%. Other key short-term rates had also jumped, causing the Fed to intervene.



In particular, the rates paid in some repurchase agreement transactions, so-call repos, spiked to more than 8% on Tuesday. (Repos are effectively an overnight loan secured by Treasury or Agency debt whose rates typically track the federal funds rate.) The New York Fed announced it would make up to

$75 billion worth of purchases Wednesday to inject additional liquidity into the financial system, if needed.

The liquidity squeeze appears to have stemmed from an unusual combination of high corporate tax receipts and Treasury auction settlements, primarily from high levels of Treasury bill issuance, occurring on the same day, which drained bank reserves. That triggered a scramble for reserves by some financial institutions to meet regulatory or other requirements. This primarily pressured the repo markets that have become the de facto source of reserve funds, and the effects spilled over into other short-term funding markets such as the federal funds market in which banks loan each other reserve funds overnight, which ultimately triggered action by the Fed.

For the most part, these funding gaps are a technical problem in the financial plumbing that, provided they are rare, are unlikely to have systemic or macroeconomic consequences, given the Fed's ability to supply liquidity as necessary through open market operations. Regulation in the wake of 2008's financial crisis has put a high premium on liquidity, which has made it necessary for U.S. banks to hold at least $1 trillion more in reserve balances than required—so-called excess reserves—as a buffer for a variety of uses in the payment system. Some analysts propose that one way to reduce the risk of liquidity gaps is for the Fed to put in place more permanent liquidity release valves, such as repo facilities, and that is something we may see the Fed do.

Another potential concern here regards the fate of the secured overnight financing rate, or SOFR, which the Fed intends as a replacement for Libor, the current reference rate for hundreds of trillions of dollars of floating rate loan and derivative transactions. SOFR is calculated from the rates on certain Treasury repo transactions. If funding squeezes that induce volatility in repo rates become more common, they could shake confidence in SOFR as a reference rate.

However, this risk shouldn't be overblown, since SOFR does have some built-in safeguards. For example, SOFR drops extreme high and low transaction rates to make the published rates less vulnerable to volatile market conditions. Thus, while certain transactions traded over 8%, the published SOFR rate on Tuesday was closer to 5.25%, a jump of around 2.8% on the prior day. In financial contracts, that peak daily volatility would be further diminished by using month averages. Doing so has been shown to be considerably more stable.

All told, we are lowering our subjective odds of an October rate cut, but one is still more likely to occur than not. The incoming data, financial market conditions, and developments on the trade front will determine if the Fed cuts or not.

Looking ahead

The economic calendar is a little heavier next week. The key data include consumer confidence, personal income and spending, PCE deflators, advance goods deficit, advance inventories and durable goods.

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

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics

The Trade War, China Slowdown and Brexit Weigh on Europe

Few top-tier economic releases are scheduled for next week, but we will get a barrage of survey data for September. From the flash PMIs to the Ifo and the European Commission's economic sentiment gauges, our hands will be full of businesses' assessments of their current situations and their prospects for the future. We expect the data will show some improvement from August's nadir, but it is hard to become really optimistic regarding the European economy. That's because what is weighing the most on the euro zone momentum is weakness in the manufacturing sector, which has been driven by an easing in external demand for the currency area's finished products. This broad-based slowdown has been caused mainly by heightened political tensions related to the trade war, which has put a dent in Chinese growth—and subsequently in global growth, given the size of China's economy—and has raised risk aversion in financial markets. Brexit is also to blame. It has depressed the momentum in the U.K. and slashed euro zone exports to the country. Unfortunately, a solution to the Brexit impasse seems far off, while there are yet no signs that the trade war will ease in coming months, which should keep prospects for the broader world economy subdued.

Among the currency area countries, Germany has been hit the hardest. The country's economy is extremely export-dependent, especially with regard to high-quality manufactured goods, and the easing in Chinese demand has hit German businesses. The German manufacturing sector is in full-blown recession, with production having declined for several quarters. Domestic demand has managed to keep the economy afloat—the labour market remains extremely solid and wages are accelerating—but there are signs that the weakness in manufacturing is starting to spill into the other sectors. German GDP actually declined in the second quarter by 0.1% q/q, and it is worrisome that the hard and survey data point to yet another contraction in the third. That would push the economy into technical recession.

True, we were able to breathe a sigh of relief last week as the German ZEW indicator of economic sentiment solidly beat expectations, rising sharply to -22.4 from -44.1 in August. The reading was welcome, but it was certainly not a call for optimism on the German economy. Assessments of the current economic situation revealed continued uncertainty in the short run. Especially worrying is that the WTO reportedly ruled in favour of the U.S. in the long-standing dispute between Boeing and Airbus. This would give the U.S. the go-ahead to impose an expected $11 billion worth of punitive tariffs on European exporters. Agricultural products would be hit hardest, though industrial and aircraft products would be heavily targeted as well. Confirmation of the decision should come at the end of the month. Adding to that are the potential tariffs on European cars—they will be decided in November—which have the potential to take the German auto industry off the rails and adding to woes.

Across the Channel, Brexit chaos will continue. Parliament is prorogued until October 14, but lawmakers and the government are active in the media, sharing their opinions on the likely way forward. Also, it remains to be seen how the U.K. Supreme Court will rule on the legality of Boris Johnson's move to prorogue parliament. We are not sure if Johnson would call parliament back, if that was the court's ruling, since the prime minister has repeatedly refused to compromise on a course of action. In any case, this doesn't change our view that Article 50 will be postponed yet again before the end of October, and likely until the beginning of 2020. Either Johnson himself will ask for a Brexit delay, or opposition parties will call and win a no-confidence vote on the government in the second half of October. A Labour-led temporary government would then ask for an extension of the Brexit deadline before calling new elections.

	Key indicators	Units	Moody's Analytics	Last
Wed @ 5:00 p.m.	France: Job Seekers for August	mil, SA	3.38	3.39
Fri @ 8:00 a.m.	Spain: Retail Sales for August	% change	0.4	0.2
Fri @ 10:00 a.m.	Euro Zone: Business and Consumer Sentiment for September	index	102.9	103.1

ASIA-PACIFIC

By Katrina Ell of Moody's Analytics

Central Banks in Thailand and New Zealand Expected to Hold Steady

Asia's economic data calendar is relatively quiet. Monetary policy meetings in Thailand and New Zealand will be the highlight. Both the Bank of Thailand and Reserve Bank of New Zealand are expected to keep their policy rates steady in September, after surprising with larger-than-expected reductions in August.

The Reserve Bank of New Zealand surprised by cutting the Official Cash Rate by 50 basis points to 1% in August, bringing cumulative easing this year to 75 basis points. This latest move is a testament to the heightened downside risk floating around the global economy and the influence this has on New Zealand, particularly its important soft commodities. There is also emerging weakness in the domestic economy. The RBNZ needs to be swift with policy setting given the lag time for stimulus making an impact, particularly given the high prevalence of fixed-rate mortgages, delaying the benefit to households. Exerting downward pressure on the exchange rate is an important consideration for the RBNZ given the important export sector. The kiwi has depreciated around 6% against the U.S. dollar this year, helped by the central bank's easing bias. We expect the RBNZ to next move in November.

The Bank of Thailand cut its one-day repurchase rate by 25 basis points to 1.5% in August. The Monetary Policy Committee voted 5 to 2 to cut rates. Market consensus was overwhelmingly for the BoT to hold steady in August. The key driver of the surprise move was the baht, which has been Asia's strongest performer this year. Only recently the central bank had stated that cutting the policy rate would do little to stem the baht's strength, but given how dovish Asia's central banks have turned since the escalation in the trade war it seemed the BoT was backed into a corner.

	Key indicators	Units	Confidence	Risk	Moody's Analytics	Last
Wed @ 12:00 p.m.	New Zealand Monetary policy for September	%	3	←	1.0	1.0
Wed @ 5:05 p.m.	Thailand Monetary policy for September	%	2	←	1.5	1.5
Thurs @ 7:00 a.m.	South Korea Consumer confidence survey for September	Index	3	↑	92.3	92.5

The Long View

Despite recent disruptions to the effective federal funds rate, the daily readings for the LIBOR benchmark hardly budged.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
September 19, 2019

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 slightly wider than its 122-point mean of the two previous economic recoveries. This spread may be no wider than 130 bp by year-end 2019.

The recent high-yield bond spread of 415 bp is thinner than what is suggested by both the accompanying long-term Baa industrial company bond yield spread of 193 bp but is wider than what typically accompanies the recent VIX of 14.1 points.

DEFAULTS

August 2019's U.S. high-yield default rate was 2.9%. The high-yield default rate may average 3.4% during 2020's first quarter, according to Moody's Investors Service.

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.

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

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

Fourth-quarter 2018's worldwide offerings of corporate bonds incurred annual setbacks of 23.4% for IG and 75.5% for high-yield, wherein US$-denominated offerings plunged by 26.1% for IG and by 74.1% for high yield.

First-quarter 2019's worldwide offerings of corporate bonds revealed annual setbacks of 0.5% for IG and 3.6% for high-yield, wherein US$-denominated offerings fell by 3.0% for IG and grew by 7.1% for high yield.

Second-quarter 2019's worldwide offerings of corporate bonds revealed an annual setback of 2.5% for IG and an annual advance of 17.6% for high-yield, wherein US$-denominated offerings sank by 12.4% for IG and surged by 30.3% for high yield.

During yearlong 2017, worldwide corporate bond offerings increased by 4.1% annually (to $2.501 trillion) for IG and advanced by 41.5% for high yield (to $603 billion).

For 2018, worldwide corporate bond offerings sank by 7.2% annually (to $2.322 trillion) for IG and plummeted by 37.6% for high yield (to $376 billion). The projected annual percent increases for 2019's worldwide corporate bond offerings are 3.2% for IG and 23.6% for high yield. When stated in U.S. dollars, issuers based outside the U.S. supplied 60% of the investment-grade and 57% of the high-yield bond offerings of 2019's first half.

US ECONOMIC OUTLOOK

As inferred from the CME Group's Fed Watch Tool, the futures market recently assigned an implied probability of 45% to a cutting of the federal funds rate at the October 30, 2019 meeting of the Federal Open Market Committee. In view of the underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global economy operates below trend, the 10-year Treasury yield may not remain above 2.00% 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
September 19, 2019

UNITED KINGDOM

September's Bank of England monetary policy meeting was a snoozer. The MPC left all of its policy instruments unchanged over the month, though we have long claimed that the bank would never move now that we are just a couple of months away from the Brexit deadline. The minutes of the meeting were not particularly hawkish or dovish. On the dovish side, the bank acknowledged a further deterioration in growth momentum, related mainly to Brexit uncertainty and to escalating trade tensions. On the hawkish side, it didn't remove the reference to the need for future rate hikes to keep inflation in check, in line with the buildup of excess capacity, though it made it conditional on a resolution of the Brexit impasse.

As expected, the main story was that Brexit is making a mess of U.K. forecasts and leaving the BoE in a bind. The bank noted that if uncertainty remains the word of the day, demand growth should remain below potential and domestic inflation pressures should soften. This suggests that the bank would leave rates on hold for longer, which is in line with our forecast. Our baseline scenario implies no decision on Brexit in coming quarters as Article 50 is repeatedly extended, which means that uncertainty wouldn't fade any time soon and would thus warrant no move from the BoE.

This is especially the case because the bank's current forecasts do not consider the fiscal boost that the new chancellor has promised for next year. We are expecting a giveaway budget in the autumn, and the BoE would have to respond accordingly to the further stimulus. This makes it more likely that the BoE would stand pat even if growth rates remained subdued.

By contrast, we still expect the central bank would cut rates were a no-deal Brexit to take place, even if Mark Carney insists that the response to a no-deal is not automatic since such a supply shock would send inflation soaring. It could also cut rates if the global outlook deteriorated further, sending the U.K. into a small recession. But if a deal is reached and the transition period unlocked, rates would probably remain unchanged for the rest of this year and into next, but the BoE would start to gradually hike rates from 2021.

The main story for this meeting, then, is that the BoE hammered home that the situation in the U.K. is not comparable to those of the euro zone or the U.S. There is a lot of pent-up demand in the country following two years of uncertainty-driven loss of momentum, so markets shouldn't assume that the BoE will follow the footsteps of the Fed and the ECB this year. But the truth is that excluding the possibility of a no-deal exit from the bank's scenarios makes them uncertain, which means that the next inflation report could bring completely different growth and inflation numbers, especially as it is due only on November 7.

ASIA PACIFIC

By Shahana Mukherjee of Moody's Analytics
September 19, 2019

JAPAN

The Bank of Japan left its monetary policy unchanged at the September meeting. While the central bank's decision to keep rates unchanged is broadly in line with market expectations, it comes at a time of a gradual slowing in domestic conditions and heightened global uncertainty. But the interesting development was Governor Haruhiko Kuroda signaling at the press conference that the central bank is closer to easing than it was in August.

Japan's economy continues to be shaped by a unique combination of domestically driven changes and shifting external headwinds. In light of this, the Bank of Japan's decision on monetary policy will be shaped by three important considerations. The first of these is the relatively subdued domestic economic conditions. GDP performance in the second quarter was underwhelming, as the economy grew at 0.3% on a quarterly basis. While the pressure from weakened exports persisted, the underperformance was marked by a significant downtick in nonresidential investment, which rose by 0.2%, as opposed to an initial estimate of 1.5%. Inflation remained at 0.6%, far from the central bank's 2% target. While domestic consumption held up and has supported growth so far this year, the risk is that this is likely to change once the consumption tax hike comes into effect in October. While the impact of the tax increase may not be as severe this time around as in the past, spending will soften temporarily as consumers become wary, which will place further downward pressure on domestic demand in the next quarter.

Continued uncertainty

Second, the uncertainty stemming from external conditions is yet to settle. The U.S-China trade war has extended for over a year, severely denting global trade and investor sentiment. While recent gestures ahead of the scheduled trade talks between the U.S. and China in October have created some room for optimism, the chances of a stable resolution appear weak at this stage. Subdued global demand has continued to weigh heavily on Japan, as exports fell by 8.2% in August, relative to a year ago. Additionally, the threat from the U.S.'s overarching protectionist stand extending to Japan has not entirely subsided, even as the two nations arrive a trade deal that could protect Japan's auto exports from higher tariffs. Moreover, the recent attack on Saudi Arabia's oil facilities, which wiped out 5% of global oil-supply and sent prices soaring, poses an additional threat.

Third, pressure is building to join leading economies in adopting a pro-easing bias to preempt a global slowdown. This aspect in particular has gained momentum in recent weeks, as the European Central Bank reduced one of its key interest rates to -0.5%, followed by the Federal Reserve's decision this week to cut the benchmark rate by 25 basis points. This, along with visibly loose monetary policy adopted by South Korea, India and China, signals an urgent need to proactively take steps to correct a widening slowdown in the face of multiple near-term risks.

Notwithstanding this, the immediate risks to Japan's economy are from the sales tax increase, a trade deal with the U.S. that offers limited protection to Japan's auto exports from higher tariffs, and the increase in oil prices, which combined with a stronger yen can threaten to raise costs and erode competitiveness. The BoJ is likely to wait for the initial signs of the impact of the sales tax increase to surface and other factors to play out over the next month before adopting a more definitive easing stance, in the event of a deeper downturn in Japan's prospects.

Ratings Round-Up

U.S. and Europe Rating Activity Tilts Negative

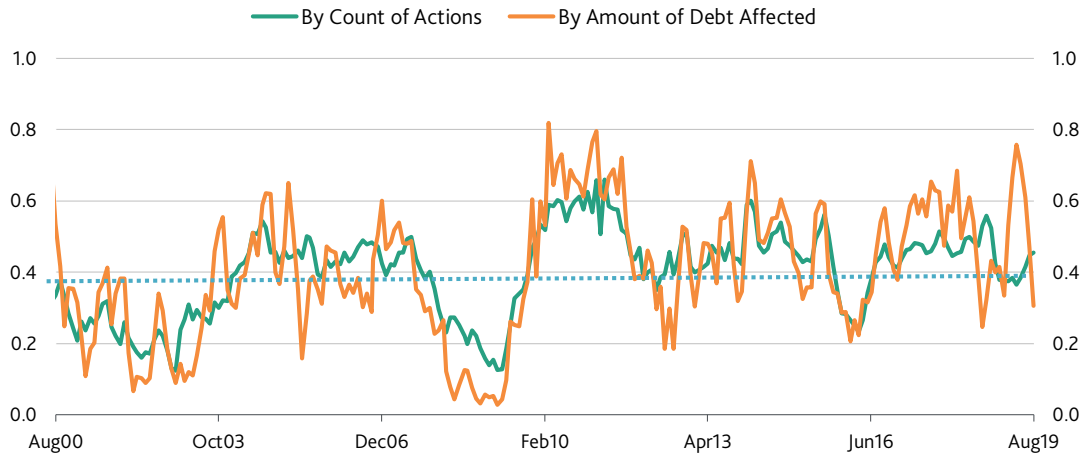
By Steven Shields

In the United States, credit rating downgrades outnumbered upgrades with 23 firms receiving a rating change. For the period ending September 17, negative rating changes accounted for 61% of all activity and 72% of the total affected debt. Rating activity was headlined by the EP Energy LLC. The oil & gas exploration firm saw its senior secured notes fall to Ca from Caa2 following the expiration of its 30-day grace period related to the firm's interest payment due August 15. The company recently announced that it entered forbearance agreements with noteholders and lenders. The company's rating outlook is negative, supported by weak liquidity, high leverage, and potential for continued negative free cash flow through the rest of 2019. Cyrusone L.P. was among the most sizeable upgrade during the period, followed by Topaz Solar Farms LLC and Advanced Micro Devices Inc.

Rating revisions were lighter across Europe with only nine changes: two upgrades and seven downgrades. Among the downgraded companies was Spanish gaming operator Codere S.A., which was downgraded to B3 from B2. The other notable downgrade was to Bahia De Las Isletas, S.L, downgraded from B1 to B2 and impacting $645 million in debt.

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

Ratings Round-Up

FIGURE 3

Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
9/11/19	CROCKETT COGENERATION, LP	Utility	SrSec	135	U	Caa3	Caa1	SG
9/11/19	PANOCHE ENERGY CENTER, LLC	Industrial	SrSec	266	U	Caa2	Caa1	SG
9/11/19	TOPAZ SOLAR FARMS LLC	Industrial	SrSec	1,100	U	Caa2	Caa1	SG
9/11/19	INSTALLED BUILDING PRODUCTS INC.	Industrial	SrSec/BCF		U	B1	Ba3	SG
9/11/19	CORE & MAIN HOLDINGS, LP -CORE & MAIN LP	Industrial	SrUnsec /LTCFR/PDR	500	D	Caa1	Caa2	SG
9/12/19	ALTA MESA HOLDINGS, LP	Industrial	PDR		D	Ca	D	SG
9/12/19	MERRILL COMMUNICATIONS LLC	Industrial	PDR		U	B3	B2	SG
9/12/19	OUTERSTUFF LLC	Industrial	SrSec/BCF /LTCFR/PDR		D	B3	Caa2	SG
9/12/19	CHILL PARENT, INC. -ARCTIC GLACIER U.S.A., INC.	Industrial	SrSec/BCF/LTCFR		D	B2	B3	SG
9/13/19	ADVANCED MICRO DEVICES, INC.	Industrial	SrUnsec /LTCFR/PDR	666	U	B1	Ba3	SG
9/13/19	NPC INTERNATIONAL, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3	SG
9/13/19	PINNACLE OPERATING CORPORATION	Industrial	SrSec/BCF /LTCFR/PDR	196	D	Caa3	Ca	SG
9/13/19	RSH GAMMA HOLDINGS CORP. -UTEX INDUSTRIES, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	B3	Caa1	SG
9/13/19	84 LUMBER COMPANY	Industrial	LTCFR/PDR		U	B2	B1	SG
9/16/19	CYRUSONE INC.-CYRUSONE L.P.	Industrial	SrUnsec/LTCFR	1,200	U	Ba2	Ba1	SG
9/16/19	EPE HOLDINGS LLC-EP ENERGY LLC	Industrial	SrSec/SrUnsec /LTCFR/PDR	8,014	D	Caa2	Ca	SG
9/16/19	THOR INDUSTRIES, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	Ba2	Ba3	SG
9/16/19	CHECKERS HOLDINGS, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	B3	Caa1	SG
9/17/19	EL PASO ELECTRIC COMPANY	Utility	SrUnsec/LTIR	1,000	D	Baa1	Baa2	IG
9/17/19	HOLLYFRONTIER CORP. -HOLLY ENERGY PARTNERS, L.P.	Industrial	SrUnsec /LTCFR/PDR	500	U	B2	B1	SG
9/17/19	FTS INTERNATIONAL, INC.	Industrial	SrSec/BCF /LTCFR/PDR	437	D	B3	Caa1	SG
9/17/19	CHINOS INTERMEDIATE HOLDINGS A, INC.-J.CREW GROUP, INC.	Industrial	PDR		D	Caa2	Caa3	SG
9/17/19	OLIVE MERGER SUB, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	Caa1	Caa3	SG

Source: Moody's

FIGURE 4
Rating Changes: Corporate & Financial Institutions – Europe

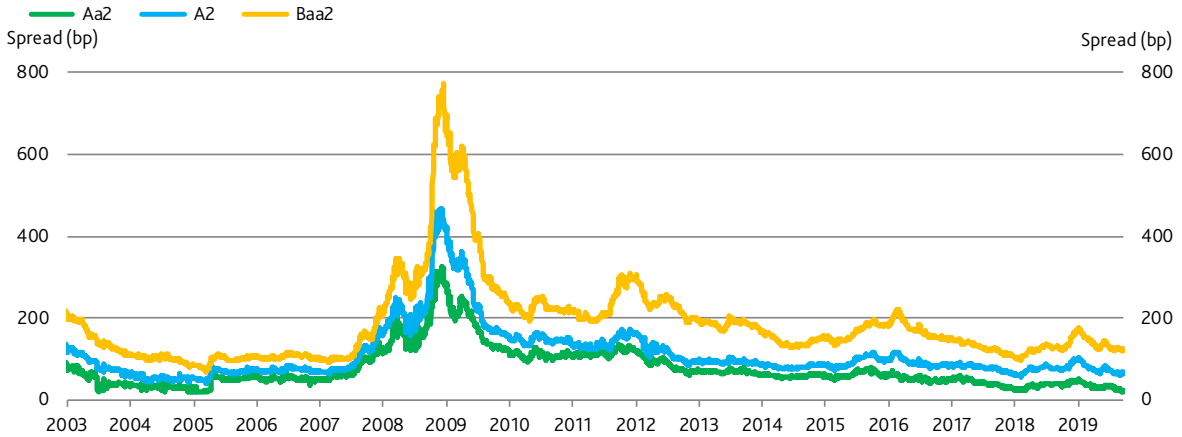
Date	Company	Sector	Rating	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
9/11/19	CODERE S.A.	Industrial	SrSec /LTCFR/PDR	D	B2	B3	SG	SPAIN
9/11/19	AMEY LAGAN FERROVIAL CONSORTIUM-AMEY ROADS NI FINANCIAL PLC	Industrial	SrSec/BCF	U	Baa1	A3	IG	UNITED KINGDOM
9/11/19	ION TRADING TECHNOLOGIES LIMITED	Industrial	SrSec/BCF /LTCFR/PDR	D	B2	B3	SG	IRELAND
9/11/19	FERROGLOBE PLC	Industrial	SrUnsec /LTCFR/PDR	D	Caa1	Caa2	SG	UNITED KINGDOM
9/13/19	BRITAX GROUP LIMITED	Industrial	SrSec/BCF /LTCFR/PDR	D	Caa1	Caa3	SG	UNITED KINGDOM
9/13/19	BAHIA DE LAS ISLETAS, S.L.	Industrial	SrSec /LTCFR/PDR	D	B1	B2	SG	SPAIN
9/13/19	BORMIOLI PHARMA S.P.A.	Industrial	SrSec/LTCR/PDR	D	B2	B3	SG	ITALY
9/16/19	WEST CHINA CEMENT LIMITED	Industrial	LTCFR	U	Ba3	Ba2	SG	JERSEY
9/17/19	DONCASTERS GROUP LTD	Industrial	SrSec/BCF /LTCFR/PDR	D	Caa1	Caa3	SG	UNITED KINGDOM

Source: Moody's

Market Data

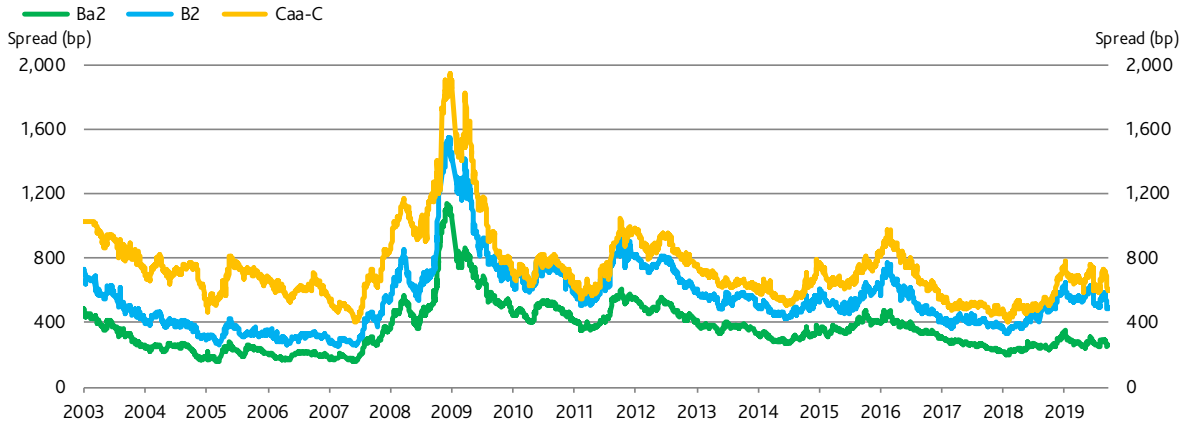
Spreads

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



Source: Moody's

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



Source: Moody's

Market Data

CDS Movers

Figure 3. CDS Movers - US (September 11, 2019 – September 18, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 18	Sep. 11	Senior Ratings
Southern Company (The)	Aa3	A2	Baa2
Burlington Resources, Inc.	A1	A3	A3
Philip Morris International Inc.	Baa1	Baa2	A2
Intel Corporation	A2	A3	A1
Chevron Corporation	A1	A2	Aa2
NextEra Energy Capital Holdings, Inc.	Baa2	Baa3	Baa1
Southern California Edison Company	Baa1	Baa2	Baa2
Kinder Morgan Energy Partners, L.P.	A1	A2	Baa2
Valero Energy Corporation	Baa1	Baa2	Baa2
Anadarko Petroleum Corporation	Baa3	Ba1	Ba1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 18	Sep. 11	Senior Ratings
JPMorgan Chase Bank, N.A.	A1	Aa2	Aa2
Altria Group Inc.	Baa1	A2	A3
Bank of America, N.A.	A2	Aa3	Aa2
JPMorgan Chase & Co.	A2	A1	A2
Citigroup Inc.	Baa1	A3	A3
Bank of America Corporation	A2	A1	A2
Wells Fargo & Company	A2	A1	A2
Morgan Stanley	Baa2	Baa1	A3
Citibank, N.A.	Baa3	Baa2	Aa3
John Deere Capital Corporation	Baa1	A3	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 18	Sep. 11	Spread Diff
Frontier Communications Corporation	Caa3	6,152	4,618	1,533
Neiman Marcus Group LTD LLC	Ca	5,667	5,190	477
Dean Foods Company	Caa3	3,533	3,145	388
Penney (J.C.) Corporation, Inc.	Caa3	3,638	3,361	276
Rite Aid Corporation	Caa2	2,167	2,073	94
R.R. Donnelley & Sons Company	B3	592	564	28
SLM Corporation	Ba2	263	237	26
United States Steel Corporation	B3	553	529	24
AK Steel Corporation	B3	850	827	22
ServiceMaster Company, LLC (The)	B2	220	202	18

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 18	Sep. 11	Spread Diff
Chesapeake Energy Corporation	B2	981	1,032	-51
McClatchy Company (The)	Caa2	1,516	1,567	-51
Nabors Industries Inc.	B1	695	722	-27
Talen Energy Supply, LLC	B3	762	786	-25
Arconic Inc.	Ba2	97	119	-22
Avon Products, Inc.	B3	263	284	-21
Realogy Group LLC	B3	849	867	-18
Western Union Company (The)	Baa2	95	110	-15
Marathon Oil Corporation	Baa3	90	103	-14
Pitney Bowes Inc.	Ba2	479	493	-14

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (September 11, 2019 – September 18, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 18	Sep. 11	Senior Ratings
Spain, Government of	A1	A2	Baa1
Danske Bank A/S	Aa3	A1	A2
Standard Chartered PLC	Baa1	Baa2	A2
Bayerische Landesbank	A1	A2	Aa3
Greece, Government of	B1	B2	B1
Bayerische Motoren Werke Aktiengesellschaft	A2	A3	A1
Credit Suisse Group AG	A2	A3	Baa2
Bank of Ireland	A3	Baa1	A2
National Grid Gas Plc	A2	A3	A3
Eni S.p.A.	Aa3	A1	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 18	Sep. 11	Senior Ratings
Societe Generale	Aa3	Aa2	A1
Banco Santander S.A. (Spain)	Aa3	Aa2	A2
Nationwide Building Society	Baa2	Baa1	Aa3
ENGIE SA	Aa2	Aa1	A3
Danone	Aa1	Aaa	Baa1
Atlantia S.p.A.	Ba2	Ba1	Baa3
Vinci S.A.	Aa2	Aa1	A3
Autoroutes du Sud de la France (ASF)	Aa2	Aa1	A3
Bertelsmann SE & Co. KGaA	Aa1	Aaa	Baa1
Telenor ASA	Aa1	Aaa	A3

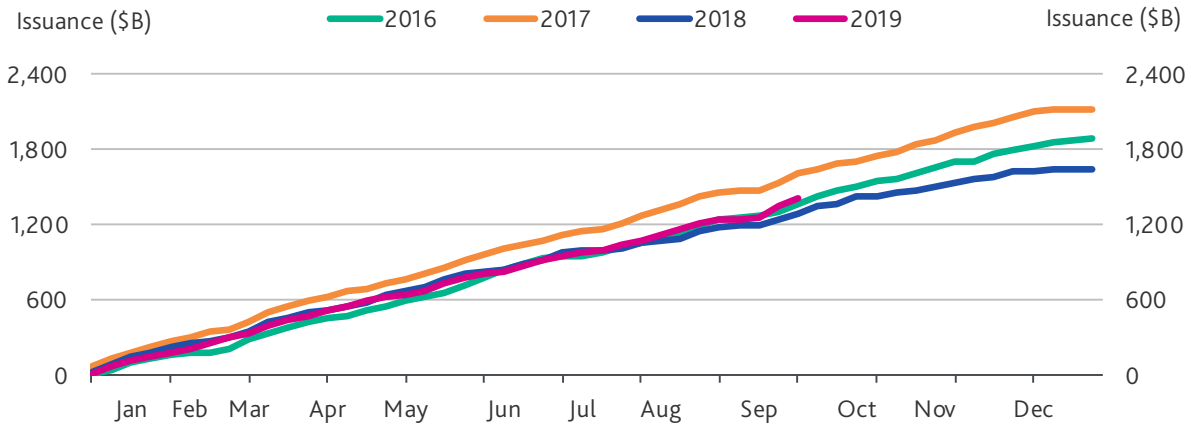
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 18	Sep. 11	Spread Diff
Atlantia S.p.A.	Baa3	121	104	17
UPC Holding B.V.	B2	77	63	14
Novafives S.A.S.	Caa1	526	511	14
Iceland Bondco plc	Caa2	434	422	12
Royal DSM N.V.	A3	23	18	5
HeidelbergCement AG	Baa3	62	59	4
Telenor ASA	A3	20	16	4
Unitymedia GmbH	B3	46	42	4
Nationwide Building Society	Aa3	56	53	3
Hammerson Plc	Baa1	180	176	3

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 18	Sep. 11	Spread Diff
PizzaExpress Financing 1 plc	Caa2	6,247	6,699	-451
Boparan Finance plc	Caa1	2,312	2,387	-76
CMA CGM S.A.	B3	1,271	1,328	-57
Jaguar Land Rover Automotive Plc	B1	668	703	-35
Greece, Government of	B1	193	222	-29
TUI AG	Ba2	272	294	-22
Stena AB	B3	525	544	-20
thyssenkrupp AG	Ba3	198	216	-18
Matalan Finance plc	Caa1	812	829	-17
Italy, Government of	Baa3	117	131	-15

Source: Moody's, CMA

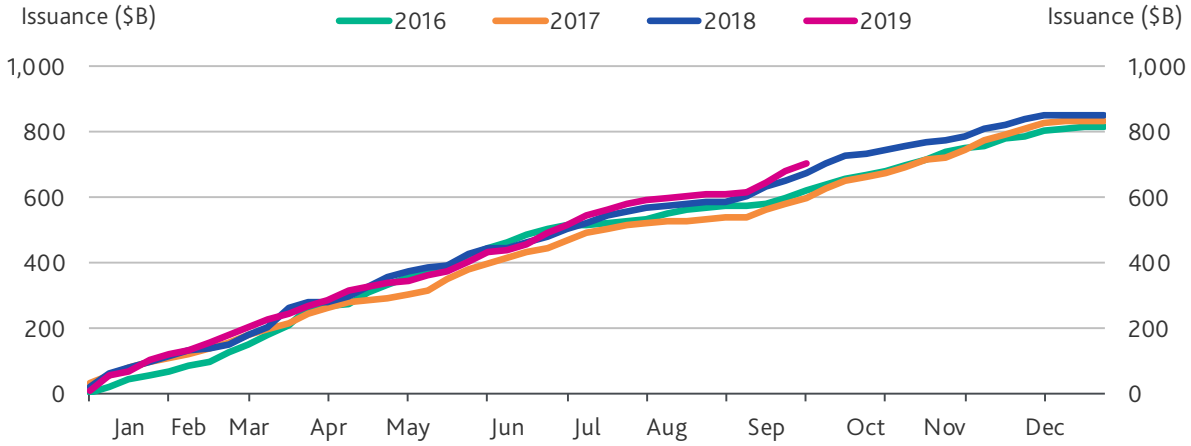
Issuance

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	49.536	18.095	69.955
Year-to-Date	1,037.623	305.830	1,415.088

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	15.003	4.110	19.130
Year-to-Date	615.783	65.349	700.414

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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