MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Credit May Again Outshine Equities at Divining Markets' Near-Term Path

Credit Markets Review and Outlook *by John Lonski*

Credit May Again Outshine Equities at Divining Markets' Near-Term Path

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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: The latest bout of trade-related anxiety has weighed more heavily on equities than on corporate credit.

Credit Spreads	Investment Grade: We see year-end 2019's average investment grade bond spread above its recent 123 basis points. High Yield: Compared to a recent 407 bp, the high-yield spread may approximate 450 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 dropping from April 2019's actual 2.7% to a baseline estimate of 1.5% for April 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 1.3% for IG to $1.293 trillion, while high-yield supply grows by 11.0% to $308 billion. A significant drop by 2019's high-yield bond offerings would suggest the presence of a recession.

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Ratings Round-Up

U.S. Upgrades Headlined by Abbott Laboratories

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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: Upside risks, outstandings and ratings changes, high leverage, revenues and profits, Fed moves, riskier outlook, high-yield, defaults, confidence vs. skepticism, stabilization, growth and leverage, buybacks, volatility, monetary policy, yields, profits.

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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.

Credit May Again Outshine Equities at Divining Markets' Near-Term Path

During a week of heightened equity market volatility, the corporate credit market was relatively calm. As of May 8's close, the credit market had yet to sense much collateral damage from an intensification of the trade conflict between China and the U.S.

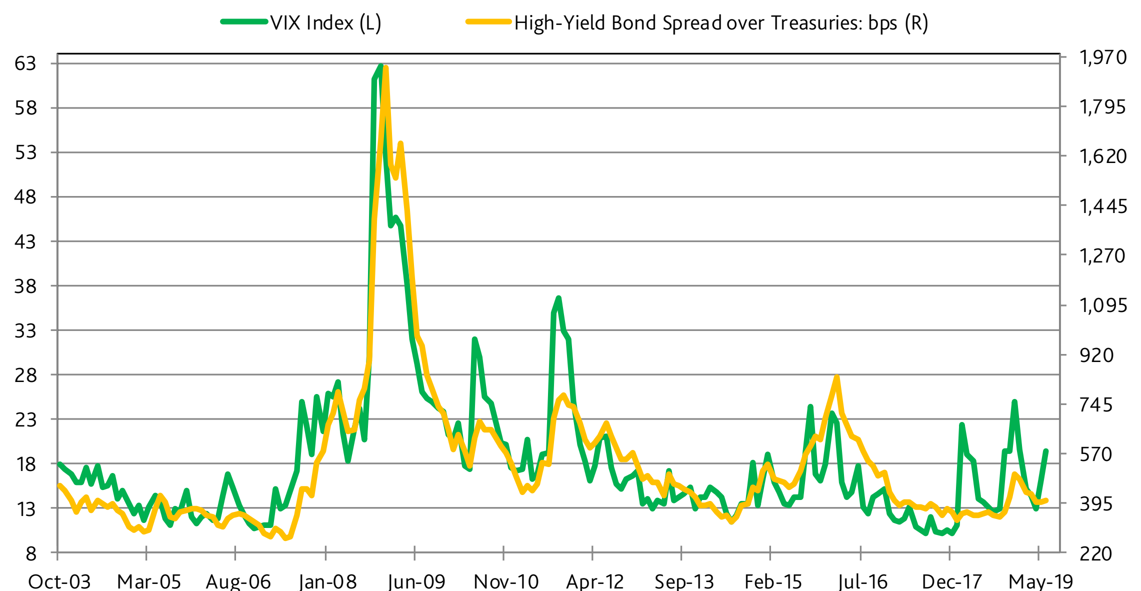
As inferred from the statistical record, the jump by the VIX from a Friday, May 3 close of 12.9 points to a recent 19.4 points could have been joined by a 160 basis point surge by a composite high-yield bond spread from May 3's 391 bp. Instead, the high-yield spread widened by a smaller 16 bp to May 8's 407 bp. Moreover, Moody's long-term Baa industrial company bond yield spread barely rose from May 3's 188 bp to May 8's 192 bp. In addition, the yield spread of JPMorgan's emerging market country bond index widened only slightly from May 3's 361 bp to May 8's 368 bp.

Apparently, the corporate credit market does not yet expect the latest bout of trade frictions to prompt a widespread contraction of core profits capable of significantly worsening the default outlook.

Coincidentally, 2018 was home to two spikes by the VIX's month-long average that were not joined by commensurate widenings of the high yield bond spread. The average VIX jumped from November 2018's 19.4 points to December's 25.0 points. Despite how the latter had historically been accompanied by a 690 bp midpoint for the high-yield bond spread, December's high-yield spread averaged a much narrower 499 bp.

Earlier in 2018, the VIX soared from January's 11.1 points to February's 22.5 points. Notwithstanding how a 22.5-point VIX was historically associated with a 650 bp midpoint for the high-yield spread, the high-yield bond spread averaged a very thin 361 bp in February 2018. In retrospect, for both February and December of 2018, the high-yield bond market far outperformed the VIX in terms of predicting the performance of financial markets over the next three months.

Figure 1: Will the Latest Jump by the VIX Again Overstate Any Deterioration of Financial Market Fundamentals?
sources: CBOE, Moody's Analytics



Credit Markets Review and Outlook

Survey of Bank Loan Officers Detects Greater Supply but Reduced Demand for Business Loans

Each quarter, the Federal Reserve surveys senior bank lending officers for the purpose of ascertaining changes in both bank lending standards and borrower demand for bank loans. Basically, bankers can reduce or tighten the supply of bank credit to borrowers by (i) firming loan standards or (ii) increasing the interest rate charged on bank loans relative to the cost of bank funds.

After jumping from yearlong 2018's average of -13.3 percentage points to the +2.8 points of 2019's first quarter, the net percent of bankers surveyed by the Fed who claimed to have tightened commercial and industrial loan standards fell to -4.2 points for the second quarter. Similarly, the net percent of surveyed banks widening spreads on C&I loans plunged from first-quarter 2019's 4.2 points to the second quarter's -27.5 points, where the latter was under the metric's -24.7-point average of calendar year 2018.

Despite both the easing of C&I loan standards and the narrowing of C&I loan spreads, the net percent of bankers reporting a stronger demand for C&I loans from business borrowers sank from the -8.3 points of 2019's first quarter to the -16.9 points of the second quarter. Perhaps bankers are easing standards and narrowing spreads in order to increase business borrowing from banks.

Ordinarily, the net percent of bankers reporting a stronger demand for C&I loans from business borrowers moves in a direction opposite to that taken by both the net percent of bankers tightening C&I lending standards and the net percent widening spreads charged on C&I loans.

Starting with 1991's final quarter, the net percent of bankers reporting a stronger demand for C&I loans from business borrowers shows inverse correlations of -0.67 with the net percent of bankers tightening C&I loan standards and -0.70 with the net percent of bankers widening the spreads charged on C&I loans.

High-Yield Borrowers May Now Approach Debt with Greater Caution

Notwithstanding the business sector's reduced demand for bank loans according to the Federal Reserve's latest survey of bank loan officers, March's seasonally-adjusted outstandings of bank-held C&I loans grew by 7.5% annualized from December 2018 and was higher by 10.0% from a year earlier. However, the reported drop in the business sector's demand for bank loans complemented January-April 2019's estimated 28% year-over-year drop by new business loans rated Baa or lower—where the latter category captures loan borrowing by businesses having speculative-grade senior unsecured ratings.

The 2019-to-date drop by newly rated business loans immediately followed fourth-quarter 2018's plunge of 24%. Meanwhile, after plummeting by 78% annually in 2018's final quarter, high-yield bond issuance by U.S. companies shrank by 10% year over year during January-April 2019.

Speculative-grade borrowing activity's contraction since September 2018 hints of possible deleveraging by high-yield borrowers. Lightening the debt load now can help issuers better cope with any future shrinkage of cash flows. Consensus predictions for 2020 still foresee (i) slower than 2% real GDP growth, (ii) a meager 2.5% rise by core pretax profits, and (iii) a 35% likelihood of a recession. Neither investors nor issuers can afford to shrug off such warnings.

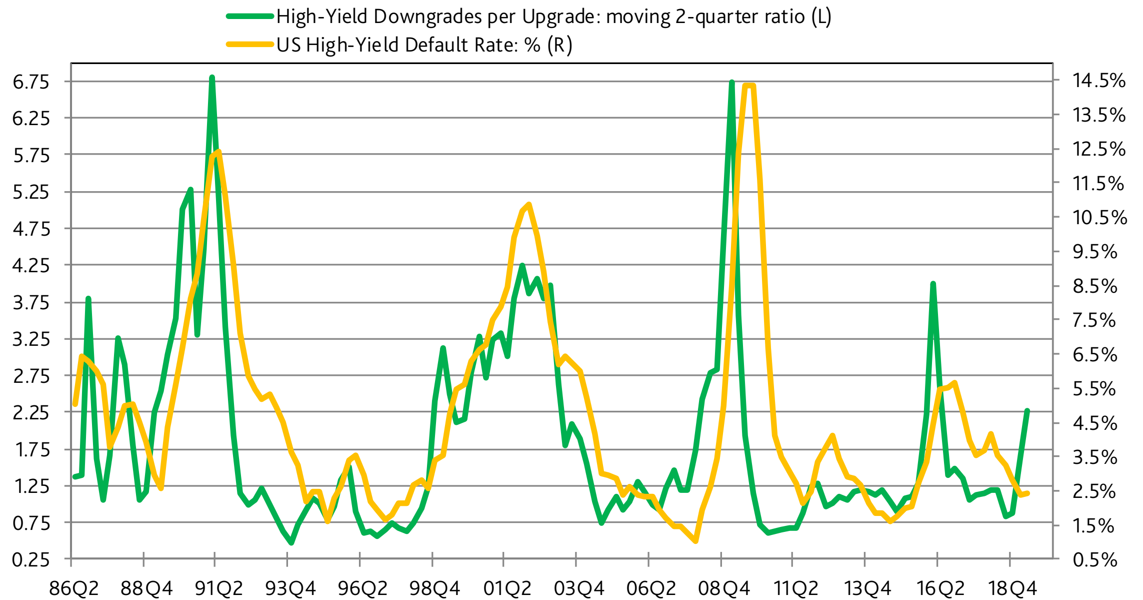
High-Yield Downgrades Double Upgrades Thus Far in 2019

A deterioration in the distribution of U.S. high-yield credit rating revisions may help to explain recent efforts to buttress corporate finances. Thus far in 2019, U.S. high-yield downgrades outnumber high-yield upgrades by a 2.28:1 margin.

For 2019's first half, the moving two-quarter version of high-yield's downgrade per upgrade ratio may rise above 2:1 for the first time since climbing from the 1.27:1 of the two-quarters ended September 2015 to the 2.23:1 of 2015's second half.

Back then, a composite high-yield bond spread swelled from a second-quarter 2015 average of 462 bp to the 648 bp of 2015's final quarter. Moreover, the U.S. high-yield default rate was in the process of widening from September 2014's current recovery low of 1.6% to January 2017's post-June 2010 high of 5.9%. The longer that high-yield downgrades double upgrades, the more likely are a pronounced widening of spreads and a worsened outlook for defaults.

Figure 2: Recent Upswing by High-Yield Downgrades per Upgrade Hints of Higher Default Rate by End of 2019
sources: Moody's Investors Service, Moody's Analytics

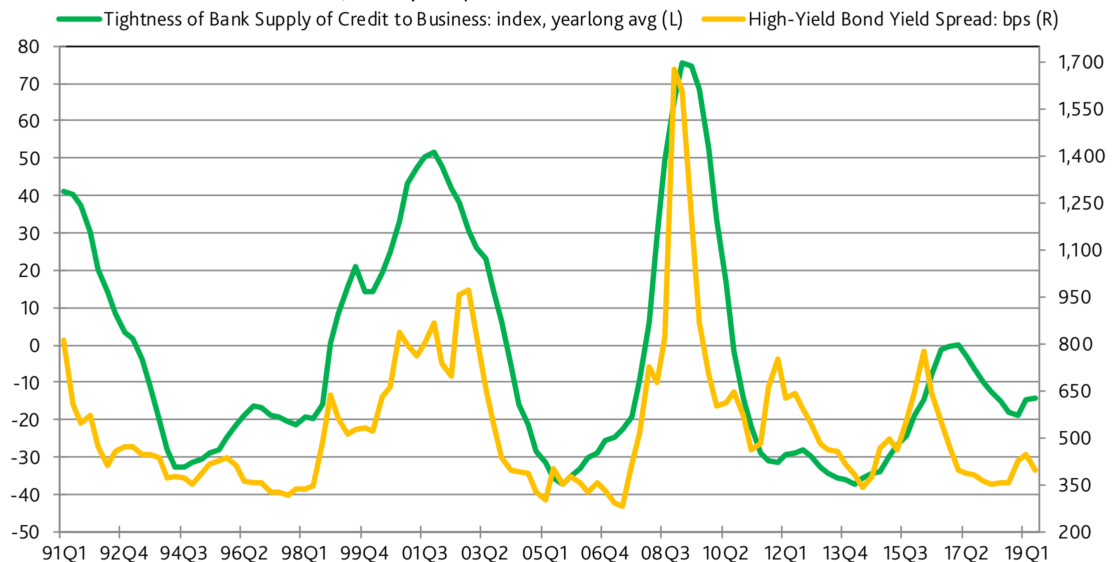


Bank Loan Officer Survey Hints of Wider High-Yield Spreads

An index describing the tightness of the supply of business credit from banks, or the unweighted average of the net percent tightening C&I loan standards and the net percent widening C&I loan spreads, fell from the 3.50 points of 2019's first quarter to the -15.85 points of the second quarter.

The calendar-quarter average of the high-yield bond spread shows a relatively strong correlation of 0.75 with the moving yearlong average of the tightness of the supply of business credit from banks. The -14.4-point average for the tightness of the supply of business credit for the year ending with 2019's second quarter favors a 471 bp midpoint for the high-yield bond spread, which is well above its latest spread of 407 bp.

When the index of the tightness of the supply of business credit from banks is greater than zero, the median high-yield bond spread is 660 bp. When the "tightness" index is less than zero, the median high-yield bond spread equals 397 bp, which is very close to the 407 bp of May 3.



Bank Loan Officer Survey Favors a Higher Default Rate by Year's End

The high-yield default rate shows a very strong correlation of 0.86 with the accompanying yearlong average for the index of the tightness of the bank supply of business credit. The correlation rises to 0.91 when the "tightness" index is lagged either one or two quarters and eases slightly when the "tightness" index is lagged three quarters. The "tightness" index's -14.4-point average of the year ending with 2019's second quarter favors a 3.4% midpoint for the high-yield default rate of 2019's final quarter.

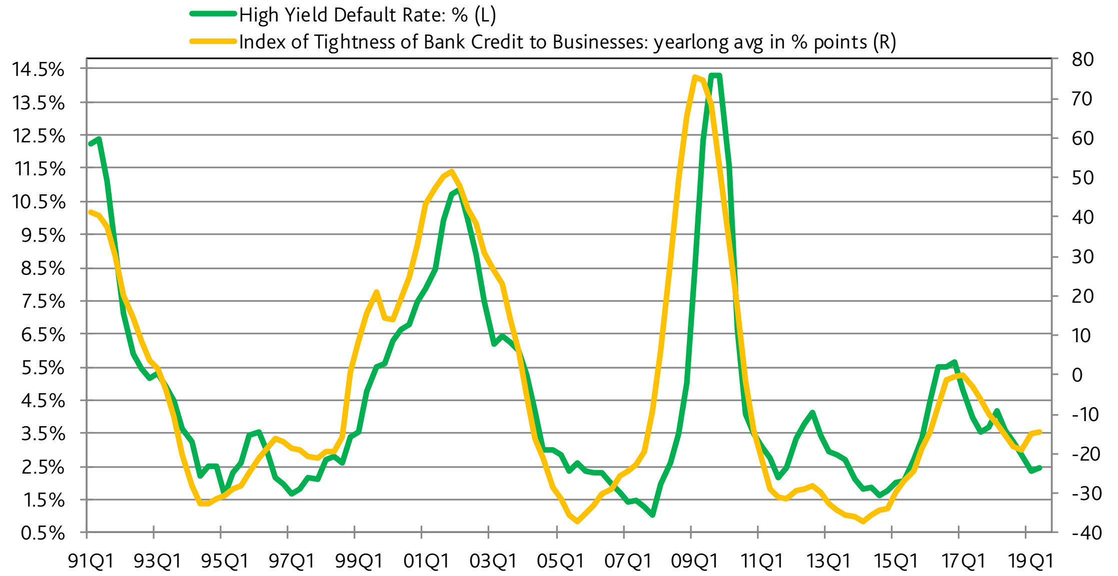
When the "tightness" index's yearlong average is greater than zero, the default rate's median equals 6.7%. When the "tightness" index's yearlong average is less than zero, the default rate's median sinks to 2.7%.

The strong correlations between the high-yield default rate and the index of the tightness of business credit from banks underscore the great importance of systemic liquidity to corporate credit quality. In other words, defaults will be lower than otherwise amid plentiful liquidity.

To the contrary, the simultaneous tightening of bank lending standards and widening of bank loan spreads can diminish systemic liquidity by enough to drive the default rate up to debilitating heights. In fact, the record high yearlong average of 75.4 points for the tightness of the bank supply of business credit was set during the span-ended March 2009, which overlapped the worst of the most severe financial crisis since the Great Depression. By November 2009, the default rate peaked at a post-depression high of 14.7%.

Figure 4: Latest Yearlong Average of Tightness of Bank Credit to Businesses Signal a Higher Default Rate by End of 2019

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



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

THE U.S.

By Ryan Sweet, Moody's Analytics

No Longer a Coin Flip

The odds are rising that the U.S. increases tariffs on China on Friday. In fact, we put the odds at 55% and if the tariffs were to remain in place, they would reduce GDP growth by a couple tenths of a percentage point. This captures the direct impact and not the likely spillover on tighter financial market conditions, lower business confidence, and weaker growth in China's economy.

One reason we boosted the odds is that on Wednesday morning the U.S. Trade Representative released a formal notice to implement the tariff increase. There were also reports that the USTR will release an additional notice to impose a 25% tariff on all remaining imports from China not covered by recent tariffs. China is preparing retaliatory actions if the U.S. follows through. Therefore, it's likely that the trade tensions will escalate quickly, which was not part of our baseline forecast. We had assumed that a deal between the U.S. and China would be agreed upon in the first half of this year, though it was likely to be more symbolic than substantive.

Given the potential for additional tariffs on China, we wanted to recap the tariffs that are already in place or which occurred last year. The first was an increase in tariffs on solar panels and washing machines in January 2018 and the impact on U.S. consumer prices was pretty quick as the CPI for laundry equipment jumped. There were also tariffs on steel and aluminum imports and only Australia, Brazil and Argentina received exemptions. Then the attention shifted to China. The U.S. put 25% tariffs on $50 billion in Chinese goods imports. Then 10% tariffs on $200 billion worth of imports were imposed in September. Combined, these caused the average U.S. tariff rate to nearly double to 2.9% and it would increase even further if the Trump administration follows through with raising the tariffs on China later this week.

Though the tariffs on China garner most of the attention, and rightfully so, there are other issues ahead. The Department of Commerce sent President Trump its report on the national security implications of auto imports on February 17. The law governing the Section 232 process requires a decision on the matter within 90 days of receiving the report, which will be next Saturday. Still, Trump has a few options on how to handle the auto tariffs. He could opt to impose them, decline to implement them, or delay the decision pending negotiations, primarily with the European Union and Japan.

Q1 and Q2 GDP tracking update

The nominal U.S. trade deficit widended from $49.3 billion in February to $50 billion in March. Separately, wholesale inventories fell 0.1% in march following a 0.4% gain in February. All told, the new data on trade in inventories left our tracking estimate of first quarter GDP at 3.1% at an annualized rate but cut our high-frequency GDP model's estimate of second quarter growth from 2% to 1.7% at an annualized rate.

Looking ahead

The economic calendar is busier next week and the key data will be retail sales, industrial production, business inventories, jobless claims and durable goods orders.

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

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics

Germany's GDP Should Defy the Survey Gloom

Germany's preliminary first quarter GDP figures take center stage in the week ahead. We expect the numbers to defy the gloom from the survey data and show that the country's economy rose by 0.2% q/q in the three months to March, following no growth in the previous stanza. Most of the hard data released until now have come in above forecasts, confirming our view that surveys have been overstating the extent to which political uncertainty and market volatility are dampening economic activity. This is notable in numbers for the construction industry—which showed a 4% q/q increase in output in the first quarter, building on a 0.7% increase in the fourth—and for retailing. Retail sales soared by as much as 1.6% m/m in the three months to March, building on a 0.7% increase in the fourth quarter. True, retailing accounts for only a small share of consumer spending, but the good news is that all leading indicators for consumer services spending have been upbeat and in line with the recent pickup in wage growth and the still-tight labour market.

By contrast, we expect German industrial output to have continued to disappoint, but we caution that most of the downside is likely to have been due to a plunge in energy production on the back of the quarter's extremely warm temperatures. Manufacturing is expected to have performed somewhat better, notably as we expect that stockbuilding of manufactured goods picked up strongly this quarter, after firms destocked during the final quarter of last year. The bad news is that this would warrant some mean reversion in the second stanza of this year. However, the breakdown details of the German GDP won't be available next week; we will have to wait a fortnight for them.

The story of a strong consumer in the face of a rather weak manufacturing industry is not just for Germany. It can be seen in most major European economies. And we expect that it will continue in the coming quarters, as wage growth should pick up further momentum and the unemployment rate should continue to decline, even if employment gains are forecast to slow somewhat in line with the loss of economic momentum. In the spotlight is the U.K. economy, where consumers have been doing the heavy lifting in recent quarters and have managed to offset most of the sharp drop in investment. U.K. unemployment is at a low 3.9% and should decline further over the course of this year assuming that a Brexit disaster is avoided. And while wage growth—which is reading at a decade-high of 3.5% y/y—shouldn't pick up much over the next few months, it is set to keep its resilience through the rest of the year. Data due next week should confirm that the unemployment rate held steady at 3.9% in the three months to March, while headline wage growth should have held remained at 3.5%.

We will get final April CPI numbers for the euro zone next Friday. We expect them to confirm that inflation pressures in the currency area gathered substantial momentum over the month, yet we would caution against reading too much into the uptick. It was mostly due to a one-off jump in services inflation—all because of the later timing of the Easter holidays this year—which warrants some sharp mean reversion in May. True, core goods and energy inflation also picked up. But developments in those sectors were only marginal and were expected. We maintain our view that below-target inflation will be the norm for 2019—especially given that base effects in oil prices should push energy inflation down from May—which confirms our dovish story for the European Central Bank.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 11:00 a.m.	OECD: Composite Leading Indicators for March		99.1	99.1
Tues @ 7:00 a.m.	Germany: Consumer Price Index for April	% change yr ago	1.8	1.6
Tues @ 8:00 a.m.	Spain: Consumer Price Index for April	% change yr ago	1.5	1.3
Tues @ 9:30 a.m.	U.K.: Unemployment for March	%	3.9	3.9
Tues @ 10:00 a.m.	Euro zone: Industrial Production for March	% change	0.0	-0.2
Wed @ 7:45 a.m.	France: Consumer Price Index for April	% change yr ago	1.4	1.3
Thur @ 10:00 a.m.	Euro Zone: External Trade for March	bil euro	25.0	17.9
Thur @ 10:00 a.m.	Italy: Consumer Price Index for April	% change yr ago	1.1	1.1
Fri @ 10:00 a.m.	Euro Zone: Consumer Price Index for April	% change yr ago	1.7	1.4
Fri @ 2:00 p.m.	Russia: Foreign Trade for February	$ bil	15.0	15.7

ASIA-PACIFIC

By Katrina Ell of Moody's Analytics

China's April Numbers Could Show Improvement

China's April activity data will likely show evidence of stabilization and improvement in pockets. We look for fixed asset investment to continue its upward climb, led by infrastructure investment, a reflection of the government upping the approvals of large-scale projects from the second half of 2018. Industrial production has been volatile of late but it will remain above the recent January-February trough of 5.5%. Additional reserve requirement ratio cuts will take effect over the second and third quarters and should continue to provide a piecemeal lift. The latest measures are targeted at small and private businesses that have been particularly exposed to slower conditions.

India's CPI growth likely continued to modestly climb higher in April, but will remain within the Reserve Bank of India's 4% midpoint target. Base effects from low food prices will likely drive further gains in headline inflation through to the second half of 2019. This is unlikely to stem the RBI from easing monetary policy settings further and we look for the next 25-basis point cut to occur in July, bringing cumulative interest rate cuts this year to 75 basis points.

We expect Malaysia's GDP growth slowed to 4.4% y/y in the March quarter after improving to 4.7% in the December stanza. Exports are more subdued, with tech shipments down from a year earlier. An additional drag is the slower infrastructure pipeline, as the government has sidelined a number of important infrastructure projects funded via foreign investment that were expected to gather steam this year, putting renewed focus on fiscal consolidation. Full-year GDP growth is expected at 4.5% after notching 4.7% in 2018, slower than 5.9% in 2017.

	Key indicators	Units	Confidence	Risk	Moody's Analytics	Last
Tues @ 10:00 p.m.	India CPI for April	% change yr ago	3	↑	3.1	2.9
Wed @ Unknown	Indonesia Foreign trade for April	US$ bil	2	←	0.22	0.54
Wed @ 10:00 a.m.	South Korea Unemployment rate for April	%	3	↓	3.8	3.8
Wed @ 12:00 p.m.	China Fixed asset investment for April	% change yr ago YTD	3	←	6.4	6.3
Wed @ 12:00 p.m.	China Industrial production for April	% change yr ago	2	↓	7.7	8.5
Wed @ 12:00 p.m.	China Retail sales for April	% change yr ago	3	←	8.7	8.7
Wed @ Unknown	India Foreign trade for April	US$ bil	2	↑	-8.5	-10.9
Thurs @ 11:30 a.m.	Australia Unemployment rate for April	%	3	←	5.0	5.0
Thurs @ Unknown	Indonesia Monetary policy for May	%	3	←	6.0	6.0
Thurs @ 2:00 p.m.	Malaysia GDP for Q1	% change yr ago	3	↑	4.4	4.7
Fri @ Unknown	Singapore Nonoil domestic exports	% change yr ago	2	←	-2.3	-11.7

The Long View

The latest bout of trade-related anxiety has weighed more heavily on equities than on corporate credit.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
May 9, 2019

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 123 basis points resembles its 122-point mean of the two previous economic recoveries. This spread may be no wider than 138 bp by year-end 2019.

The recent high-yield bond spread of 407 bp is much thinner than what is suggested by the accompanying long-term Baa industrial company bond yield spread of 192 bp and is slightly narrower than what is suggested by the recent VIX of 19.5 points.

DEFAULTS

April 2019's U.S. high-yield default rate of 2.7% was less than the 4.0% of April 2018. Moody's Investors Service now expects the default rate will average 2.0% during 2020's first quarter.

US CORPORATE BOND ISSUANCE

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

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

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

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

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

First-quarter 2019's worldwide offerings of corporate bonds revealed annual setbacks of 0.5% for IG and 3.6% for high-yield, wherein US$-denominated offerings fell by 2.3% for IG and grew by 7.1% for high yield.

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

For 2018, worldwide corporate bond offerings sank by 7.2% annually (to $2.322 trillion) for IG and plummeted by 37.6% for high yield (to $376 billion). The projected annual percent increases for 2019's worldwide corporate bond offerings are 1.4% for IG and 10.0% for high yield. When stated in U.S. dollars, issuers based outside the U.S. supplied 60% of the investment-grade and 61% of the high-yield bond offerings of 2019's first quarter.

US ECONOMIC OUTLOOK

As inferred from the CME Group's FedWatch Tool, the futures market recently assigned an implied probability of 0.0% to at least one Fed rate hike in 2019. 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 and Brendan Meighan of Moody's Analytics
May 9, 2019

EURO ZONE

In the spotlight Tuesday was the release of the European Commission's updated forecasts for the euro zone and the broader global economy. The news was on balance disappointing. The key downside detail was that the commission slashed its 2019-2020 growth forecasts for the currency area and the broader EU. Following a 1.9% expansion in 2018, the euro zone's GDP is expected to grow by only 1.2% this year and by 1.5% next year, down from previous estimates of 1.3% and 1.6%, respectively. This is also below our estimates for a 1.5% gain in 2019 and 1.7% growth in 2020.

The main culprits of the sharp downward revisions were Germany and Italy. The commission now expects Germany's GDP to grow only 0.5% this year, more than halving 2018's 1.4% reading and well below the previous estimate of 1.1%. Although we agree that Germany has suffered more than its major peers from a slowdown in global growth—especially in demand from the U.S. and China—because the country's economy is heavily export-oriented, we are not as pessimistic as the commission. The hard data have until now fared much better than the soft data suggest, and of note is how well consumer spending is performing on the back of higher wages and a still-tight labour market. We thus continue to expect GDP to expand 1.1% this year and accelerate to 1.6% next year as global uncertainty fades.

The situation in Italy is more worrying. Political unrest has pushed consumer and business confidence sharply down over the past few quarters, and the economy is barely keeping afloat. This pushed the commission to slash its 2019 forecasts further to only 0.1%, down from a previous estimate of 0.2%. This is slightly below our forecast of 0.3%. Investment growth will bear the brunt of policy uncertainty, so it is expected to slow sharply this year and drag the most on the headline. But the recent deterioration in the labour market should also keep a lid on consumer spending, offsetting most of the support from easing inflation pressures. The good news is that the commission expects the situation to improve in 2019, with GDP growth picking up to 0.7%.

Although the euro zone's retail sales figures flatlined in March, that reading was expected following two months of solid gains. March still rounded off an upbeat quarter for the area's retail sector; sales were up by a strong 0.7% q/q in the first stanza of 2019, which is a great result given that it built on a 0.8% gain in the fourth quarter. This further alleviates fears that the currency area is heading towards an economic downturn. It shows a resilient consumer in the face of slowing growth in industrial output.

It was likely February and March's above-average temperatures that led retail sales to perform so well over those two months. Retail sales are strongly correlated with weather conditions, and the spring-like temperatures in the middle of winter undoubtedly prompted consumers to head outside to the High Street. We were thus not surprised to see that nonfood sales fell only slightly in March, reversing less than one-fifth of the cumulative rise since January. Of note is that household goods sales increased for the third consecutive month and clothing sales for the second, likely because the warm weather further boosted demand for retailers' spring collections and for sport and gardening equipment.

The story in food sales was also upbeat; sales in the sector rose strongly in March, while data for the previous months were revised upwards. Here too we expected that the good weather played some role, as it depressed fresh produce prices. The only true downside detail from the release was the further drop in fuel sales, though such a

result was already expected as pump prices in the euro area climbed further in March, by an average of more than 3%.

Overall, prospects for retail in 2019 remain upbeat, even if confidence numbers have deteriorated markedly lately. That's because consumer fundamentals are still solid: Inflation is decelerating on the back of moderating energy inflation, wages are rising, and unemployment remains at record lows. This should warrant continued growth in retail sales in the coming quarters.

ASIA PACIFIC

By Steven Cochrane of Moody's Analytics
May 9, 2019

CHINA

President Trump on Sunday raised the possibility that tariffs would be raised on Friday from 10% to 25% on $200 billion in Chinese imports. This is the same threat that was made prior to his December 1 summit with President Xi Jinping of China. But Trump also upped the ante by saying he would impose 25% tariffs on the remaining $325 billion of Chinese goods imported into the U.S.

Worst-case scenario

Forgetting that it may be difficult to do any of this without some consultation of interested industry groups in the U.S., these two measures threaten to take the trade war to the worst-case "conflagration" scenario that we considered last year. This scenario was based on the assumption that all goods imported by the U.S. from China faced a 25% tariff, and that China responded in kind with tariffs on all U.S. imports to China. It also assumed increased administrative and procedure roadblocks to U.S. trade in order to level the impacts given that China imports much less from the U.S. than does the U.S. bring in from China.

It is hard to know the strategy behind the American negotiating position. It has been clear that each side has wished to negotiate from a position of strength. Indeed, Trump offered in December to postpone the imposition of tariffs as the U.S. and global economies were looking somewhat precarious. The robust April U.S. jobs report, issued Friday, in which the unemployment rate dropped to a nearly 50-year low of 3.6%, may well have been the signal to the president that he could ratchet up his demands. But similarly, the Chinese economy looks as if it has responded well to targeted stimulus policy, as a number of economic indicators for March paint a picture of stable growth. And China's central bank issued a note Monday that the reserve requirements ratio for smaller banks will be decreased again in mid-May, adding further liquidity to the economy.

Process of negotiation?

Of course, these all remain threats and may be nothing more than part of the process of negotiation. But Moody's Analytics has already modeled the impact of this worst-case scenario. Originally our subjective probability on this scenario was 10%, which we further reduced to 5% after the December 1 postponement of any new tariffs.

In this scenario real GDP growth in the U.S. is reduced by 1.8 percentage points at its nadir one year into the scenario. The unemployment rate rises to well over 5%. The rest of the global economy suffers, although a stronger U.S. dollar moderates the blow somewhat, easing the hit to China. In the scenario, equity markets suffer. The model predicts that GDP growth in Asia slows by nearly 1 percentage point, and in China growth slows by 1.2 percentage points, putting growth near 5% one year into the scenario. Other Asian nations also slow, although by about 0.3 percentage point. No Asian country is unscathed; no country escapes the impact as global growth and global commodity prices come under pressure.

Cooler heads

It still seems likely that this scenario will not come to pass, that cooler heads will prevail. Without this trade war scenario, it already appears likely that the U.S. and Chinese economies will slow in the coming year. The U.S. will face friction from an extremely tight labor market. China will not be able to implement fiscal and

The Long View

monetary stimulus indefinitely. Therefore, it is in the interests of both sides to bring the trade negotiations to a close and focus on policies appropriate for economic stability.

One may ask, however, what's next? Even if an agreement is reached, do Trump's tactics imply that his desire for tariffs will extend, say, to auto imports from Europe, Japan and Korea? Our assumption is no, but Sunday's announcement of a possible imposition of tariffs on all imports from China would be a game changer if fully implemented.

Ratings Round-Up

U.S. Upgrades Headlined by Abbott Laboratories

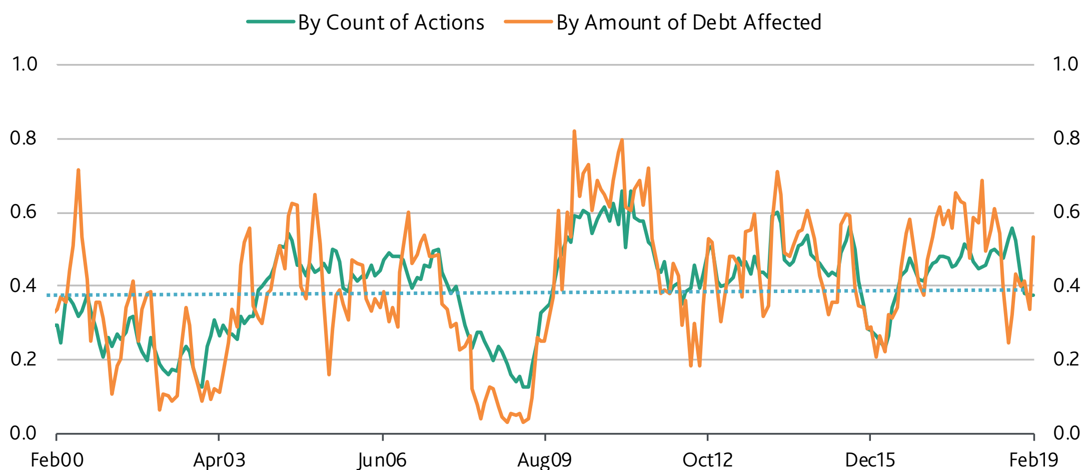
By Steven Shields

U.S. rating change activity was primarily negative for the period ending May 7. Positive rating changes accounted for just 31% of total activity, down from 64% in the week prior. Although downgrades outnumbered upgrades more than 2:1, the former were responsible for 81% of the total affected debt. The discrepancy was because negative credit rating changes were largely limited to smaller, more speculative companies with no reported debt. Upgrades were headlined by healthcare company Abbot Laboratories, which saw its senior unsecured credit rating lifted to A3 from Baa1, affecting roughly $19 billion in debt. Abbott's rating change alone accounted for 66% of affected debt this week. The rating change reflects Moody's expectation that Abbott will continue to operate with moderate financial leverage and maintain its recent record of robust organic revenue growth. Meanwhile, American tire manufacturer, The Goodyear Tire & Rubber Co., was the key downgrade this week with its senior unsecured notes changed to B1 from Ba3. The change reflected higher leverage and higher industry pressures including stagnant replacement tire volume in the U.S. In total, $3.3 billion in debt was affected.

European activity was limited to just one credit rating change this week. BCP VII Jade Holco (Cayman) was downgraded to B2 from B1, reflecting high adjusted gross leverage and a deterioration in operating profitability. The company's outlook was also downgraded to negative from stable.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

FIGURE 2

Rating Key

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

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
5/1/19	GOODYEAR TIRE & RUBBER COMPANY (THE)	Industrial	SrUnsec/SrSec/BCF/ LTCFR/PDR	3,312	D	Ba3	B1	SG
5/1/19	JABIL INC.	Industrial	SrUnsec	1,400	U	Ba1	Baa3	SG
5/1/19	MHE US HOLDINGS, LLC-MCGRAW-HILL GLOBAL EDUCATION HOLDINGS, LLC	Industrial	SrUnsec /SrSec/BCF	400	D	Caa1	Caa2	SG
5/2/19	PLAYPOWER, INC.	Industrial	SrSec/BCF		D	B2	B3	SG
5/2/19	SUNGARD AVAILABILITY SERVICES CAPITAL INC.	Industrial	PDR		D	Ca	D	SG
5/2/19	VERISIGN, INC.	Industrial	SrUnsec /LTCFR/PDR	1,800	U	Ba2	Ba1	SG
5/2/19	COVIA HOLDINGS CORPORATION	Industrial	SrSec/BCF /LTCFR/PDR		D	Ba3	B1	SG
5/3/19	ABBOTT LABORATORIES	Industrial	SrUnsec	18,962	U	Baa1	A3	IG
5/3/19	COEUR MINING, INC.	Industrial	SrUnsec /LTCFR/PDR	500	D	B1	Caa1	SG
5/3/19	ALBAUGH, LLC	Industrial	SrSec/BCF /LTCFR/PDR		U	B1	Ba3	SG
5/3/19	CHINOS INTERMEDIATE HOLDINGS A, INC.-J.CREW BRAND, LLC	Industrial	SrSec /PDR	694	D	Caa1	Caa2	SG
5/3/19	VERDESIAN LIFE SCIENCES LLC	Industrial	SrSec/BCF /LTCFR/PDR		D	Caa1	Caa3	SG
5/3/19	VERIFONE SYSTEMS, INC.	Industrial	SrSec/BCF		D	B1	B2	SG
5/6/19	PVH CORP.	Industrial	SrUnsec/BCF		D	Baa2	Baa3	IG
5/6/19	MARTIN MIDSTREAM PARTNERS L.P.	Industrial	SrUnsec /LTCFR/PDR	400	D	Caa1	Caa2	SG
5/7/19	EAGLE HOLDING COMPANY II, LLC-JAGUAR HOLDING COMPANY II	Industrial	SrUnsec	1,125	U	Caa1	B3	SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

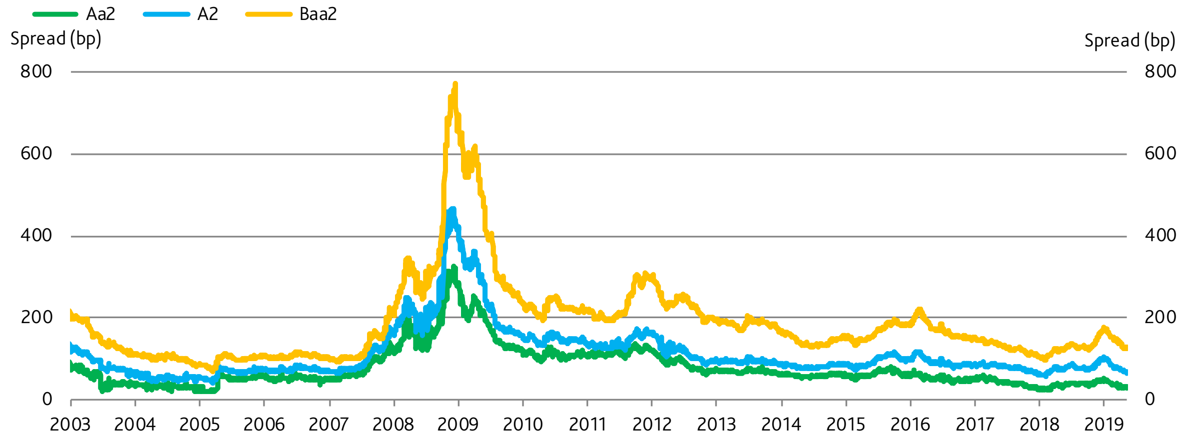
Date	Company	Sector	Rating	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
5/7/19	BCP VII JADE HOLDCO (CAYMAN) LTD	Industrial	SrSec/BCF /LTCFR/PDR	D	B1	B2	SG	LUXEMBOURG

Source: Moody's

Market Data

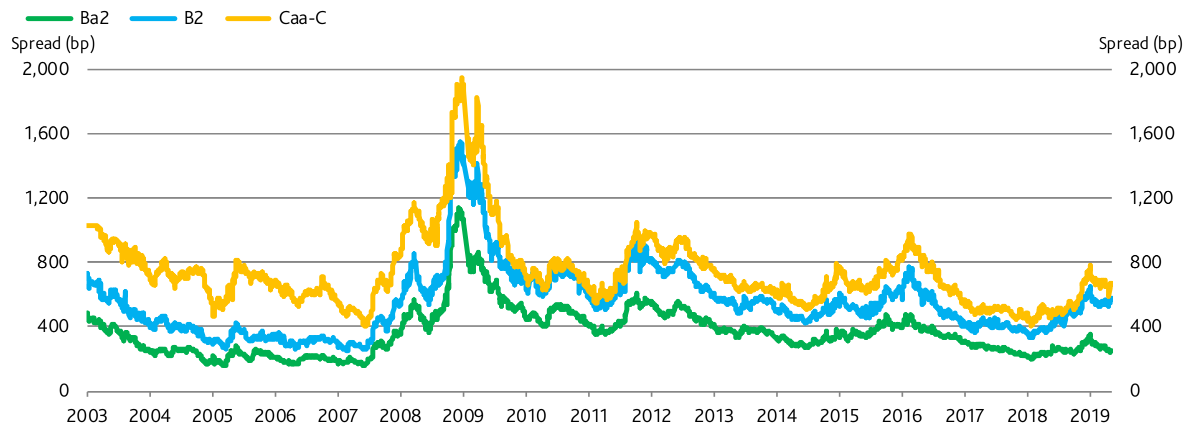
Spreads

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 (May 1, 2019 – May 8, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 8	May. 1	Senior Ratings
PepsiCo, Inc.	Aa2	A1	A1
Republic Services, Inc.	A1	A3	Baa2
Owens Corning	Ba1	Ba3	Ba1
Toyota Motor Credit Corporation	Aa3	A1	Aa3
Apple Inc.	Aaa	Aa1	Aa1
Oracle Corporation	Aa2	Aa3	A1
Coca-Cola Company (The)	Aa1	Aa2	A1
Caterpillar Financial Services Corporation	A2	A3	A3
Bank of New York Mellon Corporation (The)	A2	A3	A1
Exxon Mobil Corporation	Aa2	Aa3	Aaa

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 8	May. 1	Senior Ratings
ConocoPhillips	A2	Aa3	A3
Comcast Corporation	A3	A2	A3
International Business Machines Corporation	Baa1	A3	A1
Bristol-Myers Squibb Company	A2	A1	A2
CSC Holdings, LLC	Ba2	Ba1	Ba3
Kinder Morgan Energy Partners, L.P.	A1	Aa3	Baa2
National Rural Utilities Coop. Finance Corp.	A1	Aa3	A2
Conagra Brands, Inc.	Baa3	Baa2	Baa3
Tenet Healthcare Corporation	Caa1	B3	Caa1
Occidental Petroleum Corporation	Baa1	A3	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 8	May. 1	Spread Diff
Penney (J.C.) Corporation, Inc.	Caa2	3,008	2,826	182
Realogy Group LLC	B2	602	469	133
Frontier Communications Corporation	Caa1	2,650	2,537	113
R.R. Donnelley & Sons Company	B3	803	708	95
Weatherford International, LLC (Delaware)	Caa3	1,538	1,459	79
Rite Aid Corporation	Caa1	1,409	1,356	53
Beazer Homes USA, Inc.	B3	400	355	45
Staples, Inc.	B3	626	584	41
Unisys Corporation	B3	299	260	39
Pitney Bowes Inc.	Ba2	479	443	37

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 8	May. 1	Spread Diff
Dean Foods Company	Caa1	2,499	2,920	-421
Neiman Marcus Group LTD LLC	Ca	2,672	3,013	-341
Owens Corning	Ba1	122	223	-101
Hertz Corporation (The)	B3	624	650	-26
Xcel Energy Inc.	Baa1	72	95	-23
Newell Brands	Baa3	191	206	-15
Sprint Communications, Inc.	B1	367	381	-14
Nabors Industries Inc.	B1	426	441	-14
Iron Mountain Incorporated	Ba3	91	98	-7
TEGNA Inc.	Ba2	139	147	-7

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (May 1, 2019 – May 8, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 8	May. 1	Senior Ratings
Bayerische Landesbank	Aa2	A1	Aa3
Bankinter, S.A.	Baa1	Baa3	Baa2
Coca-Cola HBC Finance B.V.	Aa3	A2	Baa1
Spain, Government of	A3	Baa1	Baa1
Societe Generale	Aa2	Aa3	A1
Ireland, Government of	Aa1	Aa2	A2
Landesbank Hessen-Thueringen GZ	A2	A3	Aa3
NatWest Markets Plc	Baa2	Baa3	Baa2
Finland, Government of	A3	Baa1	Aa1
Banco Santander S.A. (Spain)	A1	A2	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 8	May. 1	Senior Ratings
UniCredit S.p.A.	Ba1	Baa3	Baa1
Telecom Italia S.p.A.	B2	B1	Ba1
Fiat Chrysler Automobiles N.V.	Ba2	Ba1	Ba3
Credit Suisse AG	Baa1	A3	A1
Eni S.p.A.	Baa1	A3	Baa1
CNH Industrial N.V.	Baa3	Baa2	Baa3
thyssenkrupp AG	B1	Ba3	Ba2
Jaguar Land Rover Automotive Plc	Caa2	Caa1	Ba3
Iceland, Government of	Baa2	Baa1	A3
Bouygues S.A.	A3	A2	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 8	May. 1	Spread Diff
PizzaExpress Financing 1 plc	Caa2	2,748	2,675	73
Jaguar Land Rover Automotive Plc	Ba3	630	565	65
TUI AG	Ba3	296	254	42
Telecom Italia S.p.A.	Ba1	282	246	36
thyssenkrupp AG	Ba2	251	216	35
Selecta Group B.V.	Caa2	299	268	32
Altice Finco S.A.	Caa1	434	403	31
Novafives S.A.S.	B3	538	510	28
Ardagh Packaging Finance plc	B3	227	202	25
Casino Guichard-Perrachon SA	Ba3	492	468	24

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 8	May. 1	Spread Diff
Galapagos Holding S.A.	Caa3	7,984	10,091	-2,106
Boparan Finance plc	Caa1	1,513	1,580	-67
Bankinter, S.A.	Baa2	61	81	-20
Bankia, S.A.	Baa3	80	96	-15
Banco Sabadell, S.A.	Baa3	96	112	-15
CaixaBank, S.A.	Baa1	79	86	-7
Banca Monte dei Paschi di Siena S.p.A.	Caa1	377	383	-6
Fresenius SE & Co. KGaA	Baa3	68	70	-3
Caixa Geral de Depositos, S.A.	Ba1	114	117	-3
Coca-Cola HBC Finance B.V.	Baa1	39	43	-3

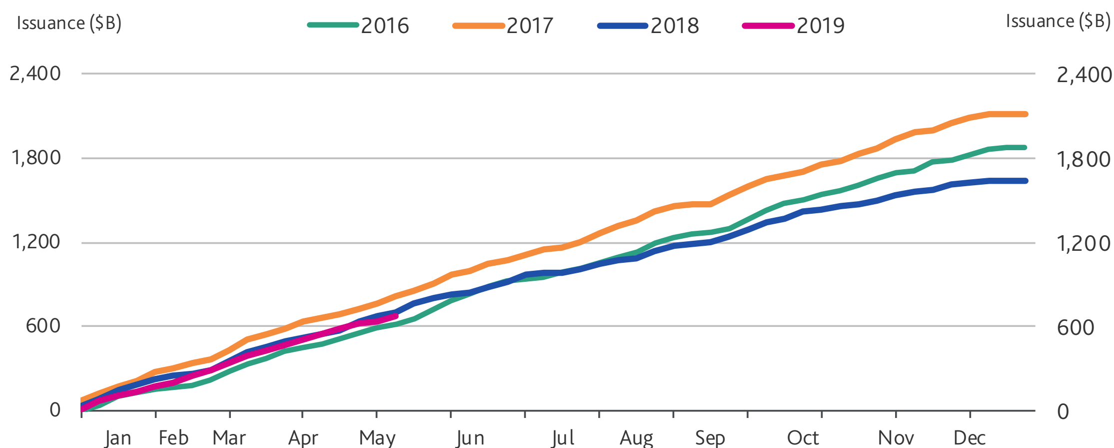
Source: Moody's, CMA

Market Data

Issuance

FIGURE 5

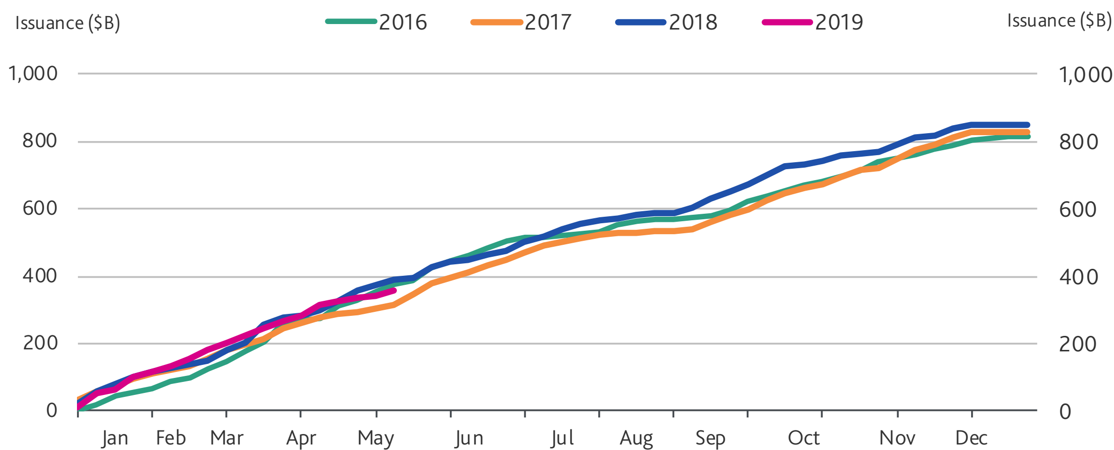
Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



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	23.870	5.405	30.642
Year-to-Date	490.482	147.744	671.007

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	11.781	3.438	15.353
Year-to-Date	315.477	36.732	358.933

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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