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WEEKLY MARKET OUTLOOK

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Extended Yield Curve Inversion Would Presage Wide Spreads and Many Defaults

Credit Markets Review and Outlook *by John Lonski*

Extended Yield Curve Inversion Would Presage Wide Spreads and Many Defaults

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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: Despite heightened trade-related risks, May 2019's US$-denominated high-yield bond issuance should top May 2018's tally by at least 60%.

Credit Spreads	Investment Grade: We see year-end 2019's average investment grade bond spread above its recent 132 basis points. High Yield: Compared with a recent 460 bp, the high-yield spread may approximate 485 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 dip by 0.1% for IG to $1.275 trillion, while high-yield supply grows by 14.4% to $318 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 Outnumber Downgrades

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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: Unmasking danger, divining markets, upside risks, outstandings and ratings changes, high leverage, revenues and profits, Fed moves, riskier outlook, high-yield, defaults, confidence vs. skepticism, stabilization, buybacks, volatility, monetary policy.

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Credit Markets Review and Outlook

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

Extended Yield Curve Inversion Would Presage Wide Spreads and Many Defaults

Since May 3, or just prior to the latest episode of trade-related stress, the market value of U.S. common stock had plunged by 5.7% as of May 29's close for a paper loss of $1.735 trillion. Nevertheless, the VIX's 17.1-point average since May 3 did not convey a sense of panic. Only once, on May 13, has the VIX managed to close above 20 points. By contrast, the VIX averaged 25.0 points during December 2018.

Moreover, the investment-grade corporate bond market has held up fairly well at least through May 28. Moody's long-term Baa industrial company bond yield average actually dipped from May 3's 4.80% to May 29's 4.74%. Similarly, the yield of the Bloomberg/Barclays Baa corporate bond index fell from May 3's 3.95% to May 29's 3.86%.

Still, May 29's 205 basis points yield spread over Treasuries for the long-term Baa industrial company bond yield exceeded its 179 bp median of the last 25 years. By contrast, May 29's 460 bp spread for a composite speculative-grade bond yield was just under its 25-year median of 465 bp.

FOMC Can Quickly Cure an Inverted Yield Curve

A Fed rate cut is the quickest way to remedy an inverted Treasury yield curve. However, the FOMC can be slow to respond to an inverted Treasury yield curve. For example, a substantial inversion of the yield curve persisted in each of the 15 months ended August 2007. During that span the 5.25% federal funds rate exceeded the 10-year Treasury yield's 4.80% average by 45 bp on average. By contrast, May 2019's month-long averages will show fed funds falling short of the 10-year Treasury yield by approximately 3 bp.

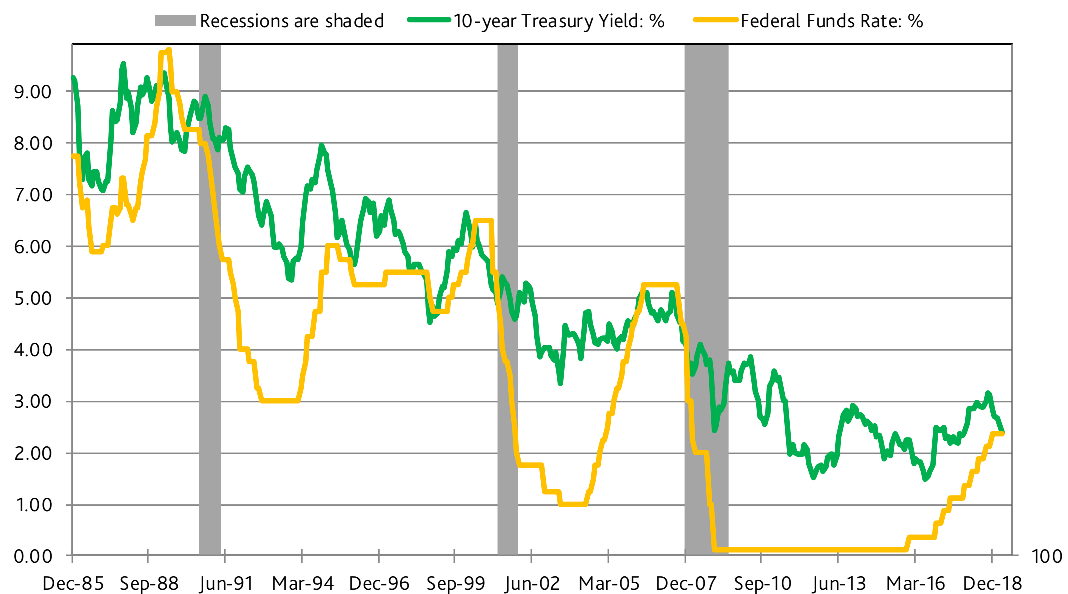
Thus, the Treasury yield curve has yet to supply the FOMC with compelling support for a rate cut. In all likelihood, the 10-year Treasury yield may have to average something no greater than 2.25% through August 2019 if the FOMC is to vote for a rate cut at some point over the next three months. Nevertheless, the Fed did cut rates in September 1998 after the yield curve had inverted for only two months. Back then, the high-yield bond spread's month-long average widened from June 1998's 370 bp to September 1998's 613 bp as the market value of U.S. common stock had dropped by 12% from its prior cycle high.

However, for now, markets have avoided the deep declines of the summer of 1998. May 29's composite high-yield bond spread of 460 bp is substantially wider than May 3's 391 bp, but it is still thinner than its January 2019 average of 481 bp. In addition, though the market value of U.S. common stock was recently 5.6% under its close of May 3, it was a relatively shallow 5.7% under its zenith of September 20, 2018. As shown by the latter comparison, the broadest estimate of the U.S. equity market nearly set a new apex on May 3, or the final trading day before the breakout of the latest episode of trade-related stress.

Recently, the 10-year Treasury yield was 11 bp under the fed funds rate. In terms of the month-long averages since 1984, there have been 42 months where the federal funds rate topped the 10-year Treasury yield by more than 10 bp. For 32, or 76%, of the 42 months, the 10-year Treasury yield was lower 12 months later. Moreover, in 40, or 95%, of the 42 months, the federal funds rate was lower 12 months later.

The latter statistic explains why markets now strongly expect a Fed rate cut by the end of 2019. As inferred from the CME Group's FedWatch Tool, the futures market implicitly assigns a probability of 57% to a rate cut at the September 18, 2019 meeting of the FOMC, where the implied likelihood of a less than 2.375% midpoint for fed funds soars to 84% at the December 11, 2019 meeting of the FOMC.

Figure 1: Latest Drop by 10-Year Treasury Yield Senses Approach of Fed Rate Cut...Prolonged Treasury Yield Curve Inversion Lifts Recession Risk



A Recession Has Yet to Immediately Follow the Start of an Inverted Yield Curve

The record suggests that a meaningful inversion of the Treasury yield curve will not be immediately joined by a convincing deterioration of business activity. (Yield curve inversions are said to be meaningful when the month-long averages show fed funds exceeding the 10-year Treasury yield by at least 10 bps.) For the three last recessions (including the Great Recession), the initial meaningful inversion of the Treasury yield curve led the arrival of a recession by a seemingly long 16 months, on average. Thus, if June 2019's month-long average shows the fed funds rate topping the 10-year Treasury yield by at least 10 bp, the next recession may not arrive until October 2020, or just in time for the next Presidential election.

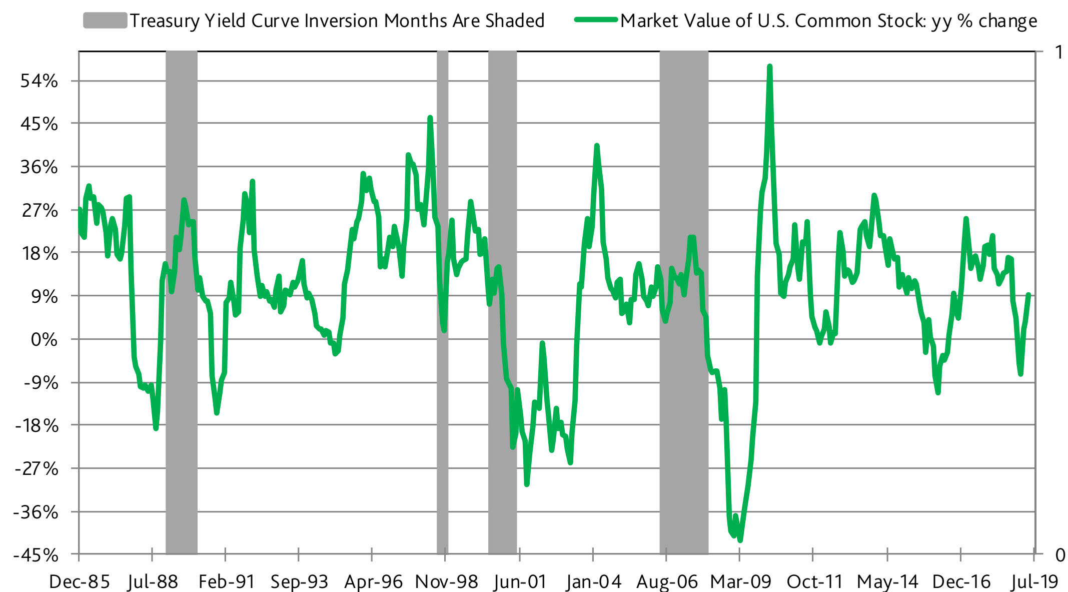
During the 2002-2007 business cycle upturn, the federal funds rate first topped the 10-year Treasury yield's month-long average by at least 10 bp in June 2006. Thus, 19 months elapsed between the initial meaningful inversion of the Treasury yield curve and the December 2007 start of the Great Recession.

Moreover, equities and high-yield bonds performed well throughout most of the June 2006 to September 2007 span. For example, from May 2006 through September 2007, the market value of U.S. common stock advanced by 15.3%. However, for each of 2007's yield-curve-inversion months, the market value of common stock would be lower 12 months later by a deep 15.2%, on average.

Inverted Yield Curves Warn of Lower Share Prices and Wider Spreads

Regarding the 42 yield-curve-inversion months since 1984, the broad U.S. equity market of 12 months later incurred a median annual decline of 6.9%. Moreover, the equity market was lower 12 months later for 26, or 62%, of the 42 months.

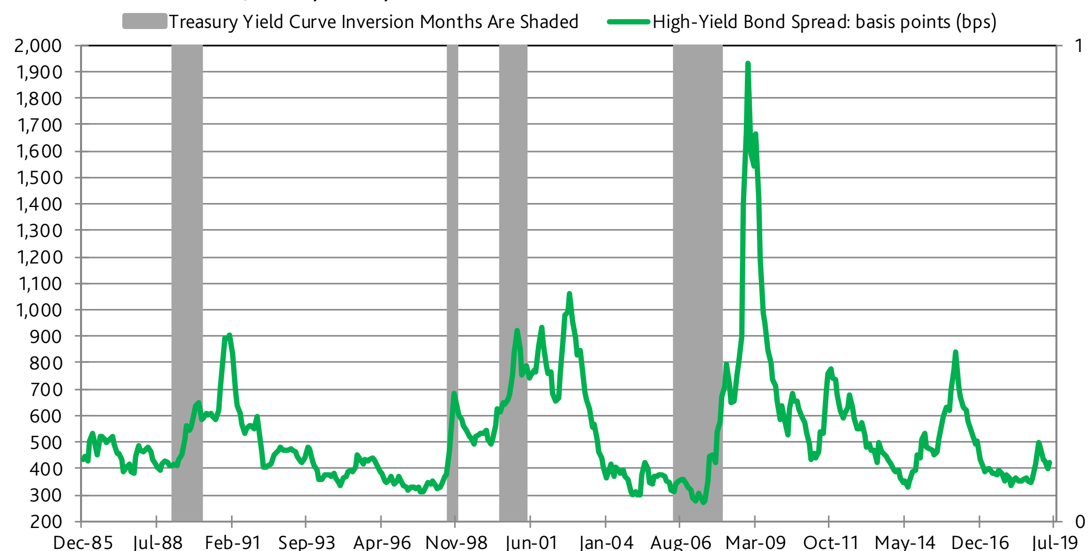
Figure 2: Equity Market Tends to Decline 12 Months After Treasury Yield Curve Inversions
sources: NBER, Moody's Analytics



For the 42 months since 1984 that were associated with at least a 10 bp shortfall of the 10-year Treasury yield relative to the fed funds rate, the high-yield bond spread was wider by 211 bp, on average, 12 months later. Even the median widening of the high-yield spread over the next 12 months was an ample 162 bp.

For those months showing a meaningful inversion of the Treasury yield curve, a wider spread 12 months later was much more likely than a lower market value for common stock according to how the high-yield spread of 12 months after the inversion was wider in 36, or 86%, or the 42 months.

Figure 3: High-Yield Bond Spread Was Wider by 211 bp, on average, 12 Months Following Previous Treasury Yield Curve Inversions
sources: NBER, Moody's Analytics



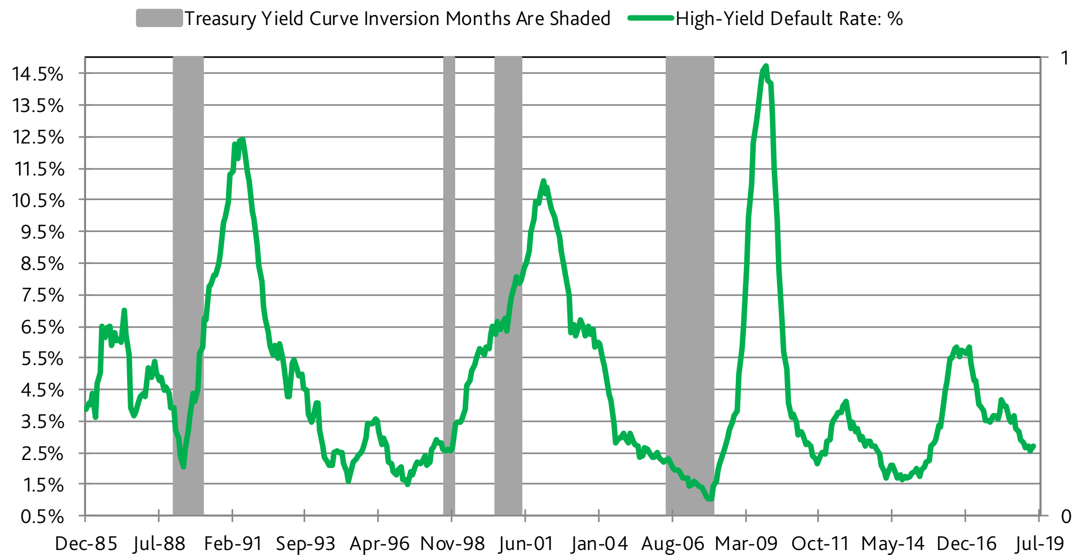
Meaningful Yield-Curve Inversion Favors a Higher than 5% Default Rate during 2020

The frequent widening of the high-yield bond spread in the months following an inverted Treasury yield curve often accurately anticipates a climb by the high-yield default rate. The default rate was higher 12 months later for 33, or 79%, of the 42 months showing a Treasury yield curve inversion.

Credit Markets Review and Outlook

The average increase by the default rate 12 months after a yield curve inversion was a considerable 2.4 percentage points. Moreover, the default rate's median increase of 2.8 percentage points was slightly greater than April 2019's actual default rate of 2.7%. All of this warns of a possibly greater than 5% default rate at some point in 2020.

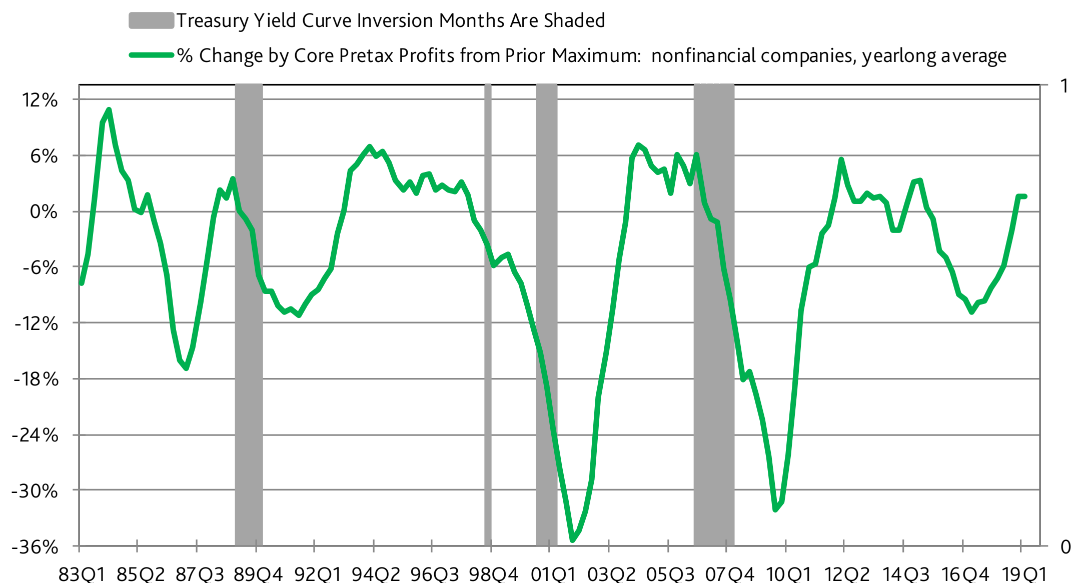
Figure 4: High-Yield Default Rate Is Higher by 2.4 Percentage Points, on average, 12 Months After Meaningful Inversion of Treasury Yield Curve
sources: Moody's Investors Service, NBER, Moody's Analytics



Destructive Contraction of Profits Followed Each Quarter-Long Inversion of the Yield Curve

Each previous climb by the default rate to 5% or higher was in the context of a contraction by core pretax profits. This brings attention to how each of the 14 calendar-quarter Treasury yield curve inversions since 1982 was followed by a contraction of core profits one year later. The median drop by the moving yearlong average of core pretax profits from its prior record high one year after a yield curve inversion was 12.2%, while the average drop by core profits from the preceding record high was a deeper 16.4%.

Figure 5: Each Treasury Yield-Curve Inversion Was Followed by a Contraction of Core Pretax Profits
sources: BEA, NBER, Moody's Analytics



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

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

Revisiting the Key Economic Questions for 2019

Heading into this year, we laid out a number of key questions for the U.S. economy. With the year's halfway mark quickly approaching, we are revisiting our original projections, providing our current comfort level with each call, and explaining any deviations. Where possible, we give a verdict on our forecasts.

Will the Trump administration's policies, excluding trade, be a net positive for the U.S. economy?

Original projection: Yes.
Confidence: Medium.
Verdict: Too early to call.

Fiscal policy added 0.7 percentage point to first quarter GDP growth, according to the Brookings Institution's Hutchins Center Fiscal Impact Measure. This was the largest contribution to GDP since the second quarter of 2018. However, the boost in the first quarter was attributed to state and local governments, which added close to 0.5 percentage point. State and local investments in structures, equipment and intellectual property by rose by 20% in the first quarter of 2019.

Federal government spending made no net contribution to GDP growth in the first quarter. Nondefense spending declined by 6% in the first quarter, partly reflecting the effects of the partial government shutdown. Increases in spending on national defense offset these declines, however, so that the net impact on GDP was about zero. There are some signs that federal spending on nonresidential structures has picked up but odds are rising that total federal government spending will add less to growth this year than we had previously expected.

Will the trade tensions between the U.S. and China de-escalate?

Original projection: Yes.
Confidence: Medium.
Verdict: Incorrect.

President Trump has escalated the trade war with China, and nearly everyone has been caught off-guard by the move. Expectations were strong that an agreement ending the war, or at least putting it on hold, was imminent. Trump upped the ante in the trade discussions with the Chinese this month when he increased the tariff on $200 billion in Chinese imports from 10% to 25%. An additional $50 billion in Chinese imports already have a 25% tariff. China said that it will retaliate on Saturday with higher tariffs on many imported U.S. goods.

We now put the odds of an agreement by the G-20 meeting in late June to end the trade war and roll back the tariffs, at least partially, at 40%, down from 60% a couple of weeks ago. It's growing more likely that an alternative scenario plays out in which Trump can't find a way to shake hands with President Xi Jinping. If the higher 25% tariffs remain in place for an extended period, the trade war and its economic fallout would threaten to become a prominent part of next year's presidential election.

The higher tariffs will have a meaningful impact on the U.S., Chinese and global economies. Global businesses can navigate around the impact of a 10% tariff—they can reduce their profit margin, pass along some of the higher costs to their customers, and source their imports from places not facing tariffs—but navigating around a 25% tariff will prove impossible. Global supply chains will be disrupted, hurting business investment and manufacturing output.

This alternative scenario now has a 40% probability, up from 30% previously, and would reduce U.S. real GDP growth this year by nearly half a percentage point to closer to 2%.

Will financial market conditions be a drag on the economy?

Original projection: Yes.
Confidence: High.
Verdict: Too early to call.

Financial markets have been on a roller-coaster ride since late last year. Financial market conditions tightened significantly heading into this year but the Fed's dovish pivot helped reverse that. The recent trade war escalation suggests financial market conditions will be a net drag on the economy, but things can change quickly.

Will the unemployment rate hit 3% in 2019?

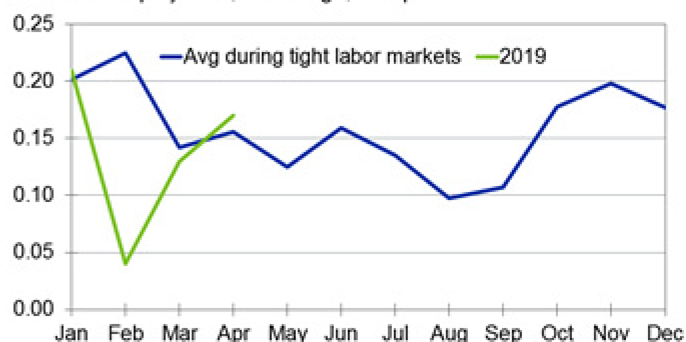
Original projection: No.
Confidence: Medium.
Verdict: Too early to call.

The unemployment rate was 3.6% in April and the odds of it hitting 3% this year are low. One reason is that the number of jobs needed to keep the unemployment rate stable is running higher than previously thought. This estimate is the function of the size of the civilian population, the labor force participation rate, the employment-to-labor force ratio, and the payroll-to-household employment ratio. The break-even rate of job growth isn't constant, and the key determinant will be the labor force participation rate.

Will a labor shortage cause the labor market to overheat?

Original projection: No.
Confidence: Medium.
Verdict: Too early to call.

We remain confident that the labor market won't overheat. Businesses are still grumbling that they are having trouble finding qualified workers. Solutions include raising wages, increasing training, and hiring workers who would not have been considered in the past. If labor shortages were a serious issue, nominal wage growth would be accelerating more quickly. Because this hasn't happened, the labor supply pool isn't completely dry. The prime-age labor force participation rate and the prime-age employment-to-population ratio have room to increase, which suggests that labor shortages are not an immediate threat.



Will new-home sales and single-family construction increase?

Original projection: Yes.
Confidence: Medium.
Verdict: Too early to call.

A key support for new residential construction is the drop in mortgage rates. Though it takes time for lower mortgage rates to boost home sales and residential construction, it's coming. New-home sales were up 7% on a year-ago basis in April but single-family starts were down.

Will inflation end the year above the Fed's 2% objective?

Original projection: Yes.
Confidence: Low.
Verdict: Too early to call.

Our baseline forecast is for the core PCE deflator to be up 2.03% on a year-ago basis at the end of this year, but risks are still weighted to the downside. To achieve that forecast, some of the drags on inflation will need to lift quickly.

To put our forecast into perspective, we looked at the distribution of monthly changes in the core PCE deflator over the past three years and applied assumed paths based on constant monthly changes. The forecast assumes that the core PCE deflator rises by an average of 0.18% per month from February to December. This would put growth in the monthly core PCE deflator in the 75th percentile since 2015. This means that inflation would have to be better than 75% of all monthly changes in the core PCE deflator since 2015.

Although this may appear unlikely, we identify three reasons that core inflation should accelerate through the remainder of this year and into next. Some of the weakness in core inflation is attributed to financial services, shelter and healthcare, with the latter being the most significant for the core PCE deflator. These shortfalls are not attributed to the business cycle.

For example, a good chunk of the weakness in healthcare prices is attributed to the direct and indirect effects of the Affordable Care Act. The drag on consumer prices from public-payer healthcare costs is fading and should soon be behind us. Also, the tight labor market and gradual acceleration in wage growth should boost prices for healthcare and should add 0.1 to 0.2 percentage point to year-over-year growth to core inflation late this year or early next.

Some of the weakness in the core PCE deflator in January was attributed to a drop in financial services prices, which are closely tied to changes in the Standard & Poor's 500. With the stock market recovering, this weight should lift fairly soon. Growth in the PCE deflator for housing should also accelerate this year as the drop in mortgage rates boosts housing demand. Also, rising construction costs will bleed into consumer prices.

The impact of the tariffs will be more noticeable in the CPI than in the personal consumption expenditure deflator, which is the Fed's preferred measure of inflation. The reason is CPI is constructed using a fixed-weighted basket while the PCE deflator weights change based on what consumers are buying. If consumers substitute away from goods that are subject to tariffs, the inflationary impact on the PCE will be tempered, unlike in the CPI.

Will the Fed pause?

Original projection: Yes.
Confidence: High.
Verdict: Correct.

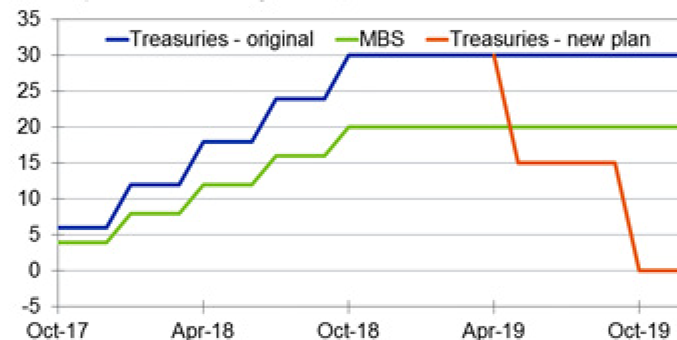
The Fed did pause this year and it is likely on hold for the foreseeable future. Minutes from the recent Federal Open Market Committee meeting showed the committee generally agreed that a "patient approach" to policy would be appropriate "for some time." This approach would remain warranted "even if global economic and financial conditions continued to improve," the minutes noted.

In the discussion of the policy implications of continued low inflation, the "transitory" interpretation of inflation developments was repeated. We didn't find overwhelming evidence that there was support for an insurance rate cut to address below-target inflation, but some weaker economic data may sway views on this, particularly as the Fed clearly does not want to be blamed for the next recession.

Will the Fed halt the normalization in its balance sheet?

Original projection: No.
Confidence: Medium.
Verdict: Incorrect.

Earlier this year, the Fed announced that the runoff in the balance sheet will end in October, a bit surprising but only a few months earlier than we expected. In addition, it tapered the pace of runoff of Treasuries in May. After September, caps go to zero, mortgage-backed securities' principal payments (below $20 billion per month) will be reinvested in Treasuries, and the overall size of the Fed's balance sheet will be unchanged.



After the Fed's balance sheet reaches its terminal aggregate size, there will be two changes to the composition of the portfolio—both of which have been discussed for years. The first is to sell mortgage-backed securities. The motivation is that returning to a primarily Treasury portfolio is likely to take a long time under passive runoff. Without sales, mortgage-backed securities would still represent more than 15% of Fed assets by the end of 2025. The second proposal is to shift the composition of the Fed's Treasury portfolio toward shorter maturities.

Will the Fed make a change to its policy framework?

Original projection: No.
Confidence: High.
Verdict: Too early to call.

The Federal Reserve is reviewing its policy framework this year, and though a change is unlikely until 2020, the discussions could already be influencing policymakers' views and likely fueled some of the recent dovish shift.

The Fed is reviewing its policy framework because of concerns that the central bank lacks sufficient ammunition to address the next recession in light of a lower long-run neutral fed funds rate. Since 1957, the average cumulative reduction in the fed funds rate during an easing cycle has been 275 basis points. However, in each of the past two easing cycles, the fed funds rate was cut by at least 500 basis points. The Fed is unlikely to have much firepower in the next downturn, when the burden will fall on monetary policy.

The U.S. will not have a large amount of fiscal space, potentially limiting fiscal policy's response. Under a hypothetical path for the fed funds rate if the recession were to occur now, the Fed would hit the zero lower bound within two quarters. Response to the next recession is only one consideration for reviewing its policy framework, as there is growing concern that inflation expectations could be anchored lower than the Fed considers optimal. The Fed has options, including nominal GDP or price-level targeting, average inflation targeting, and use of negative interest rates. So far, it appears that average inflation targeting is the front-runner.

Average inflation targeting should be fairly easy to communicate and prescribes that if inflation has been below target for a period, the Fed will aim for a stretch of above-target inflation so that inflation averages the target over the cycle. Though there has not been any formal change in the central bank's inflation-targeting approach, inflation targeting could be influencing some Fed officials' views now; a number of policymakers have voiced their support for allowing inflation to run above their 2% objective for a time.

New York Fed President John Williams, a fan of average inflation targeting, has said that under this approach, the Fed would aim for 2.25% inflation during expansions. If the Fed adopted this approach next year, it would move the goal posts and reduce the likelihood of rate hikes until inflation approaches that level.

The Fed could change how it attempts to manage the effective fed funds rate this year as it continues to trade above the interest on excess reserves. The central bank could consider ending the runoff of its balance sheet in the next couple of months, rather than waiting until the fourth quarter. Another option is for the Fed to inject more liquidity via open market operations. It also could lower the target range for the fed funds rate, move from a floor to corridor system, or create a standing repo facility. Of these options, the most likely are ending the balance sheet runoff sooner or launching a repo facility.

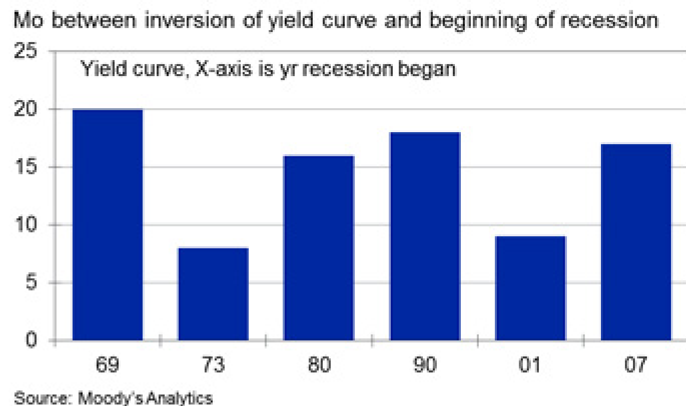
The idea is to have the repo facility operate only when market repo rates are elevated. Its mere presence would nonetheless suffice to limit banks' demand for reserves in normal times. The repo facility would also be a strong ceiling for the effective fed funds rate. The rationale is that banks would never have a reason to pay more for fed funds than it costs them to secure reserves from the repo facility, so the effective fed funds rate would never rise above the repo rate.

Will the yield curve invert?

Original projection: No.
Confidence: Very low.
Verdict: Incorrect.

Confidence was low because it wouldn't take much for the yield curve, or the difference between the 10-year Treasury and three-month yields, to invert. The yield curve inverted in March and again this month.

This has garnered attention because of its track record of being nearly perfect in predicting recessions since the mid-1960s. On average, a recession occurs 15 months after the yield curve inverts. The shortest time between an inversion and a recession was eight months in the early 1970s. The longest was 20 months in the late 1960s. An inversion has given only one false signal, in 1966, when a slowdown—but not an official recession—followed.



The bulk of the recent flattening and inversion in the yield curve is attributed to a drop in the 10-year U.S. Treasury yield. The decline in long-term rates has been driven by a reduction in the expected path of real short-term rates, lower inflation expectations, and a drop in the term premium. The lower term premium is attributed to the deceleration in realized U.S. inflation and negative long-term rates in other developed economies. Markets are betting on the fed funds rate being 50 basis points lower by the end of January 2020 and 75 basis points lower by the end of next year. Generally in past instances, long-term rates were fairly stable when the initial inversion occurred. Some exceptions include the inversion in the 2000s and the early 1980s.

The spread between the 10-year Treasury and three-month Treasury yield closed recently at -13 basis points. This would imply that the odds of a recession in the next 12 months are north of 40%. If we remove the term premium, the yield curve would suggest that the odds of a recession are noticeably lower, closer to 20%.

Still, the harder inversion in the yield curve raises concerns, since it could affect the economy by hurting business and consumer sentiment, beginning a negative feedback loop. We looked at the rolling correlation between the slope of the yield curve and various measures of consumer and business confidence. The correlations are unstable. However, one common theme is that correlations between the yield curve and confidence strengthen noticeably after the recession starts rather than when the curve inverts.

Further, we used Granger causality tests, and despite using various lags, there was no evidence that the yield curve Granger-caused changes in sentiment. Though there may not be a direct causal effect, the yield curve does Granger-cause changes in stock market returns, which by extension can affect business and consumer sentiment. Therefore, we are not completely discounting the psychological impact that an inversion in the yield curve could have, particularly given that businesses are already on edge because of the U.S.-China trade tensions.

Will there be a recession?

Original projection: No.
Confidence: High.
Verdict: Too early to call.

Though the yield curve inverted, we don't believe a recession this year is likely. Although there is a strong correlation between the yield curve and recessions, it is not a causal relationship. The yield curve simply reflects conditions that lead to a recession. Generally, most U.S. recessions are caused by an asset bubble or the economy overheating, causing the Fed to aggressively raise interest rates until the economy breaks.

We broke down the catalysts of recessions, highlighting several causes in the post-World War II era:

- Inventory imbalances
- Oil supply shocks
- Overheating
- Monetary policy error
- Financial imbalances
- Fiscal tightening

None of these appear overly threatening now. Better inventory management and a structural shift from manufacturing to services significantly reduce the odds that an inventory imbalance will trigger the next recession. An oil supply shock is also less likely with the U.S. shale revolution and recent experience that a sharp drop in global oil prices won't lead to a recession. Overheating in the economy is a threat but not immediate, as the slope of the Phillips curve is flat and the Fed appears to be open to stomaching some above-target inflation.

Financial imbalances are also a concern, but this is difficult to identify in real time. No glaring financial market imbalances are apparent that would be enough to trigger a recession. Finally, fiscal policy is likely behind some of the recent slowing, but there would have to be a policy mistake (full blown trade war, sudden shift to austerity) to push the economy into recession.

Q1 and Q2 GDP tracking update

First quarter GDP growth was revised down a touch, coming in at 3.1% at an annualized rate, according to the government's second estimate. There was a notable downward revision to the core PCE deflator, which may catch the Fed's attention. Separately, the advance goods deficit for April widened while advance inventories were solid. All told, second GDP is still tracking 1.3% at an annualized rate.

Looking ahead

The economic calendar is full. The key data will be employment, ISM surveys, ADP National Employment Report, trade deficit and vehicle sales.

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

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics

More Reason for the ECB to Stand Pat

Preliminary May inflation figures for the euro zone will top the next busy week of releases in Europe. We expect that inflation pressures will have eased sharply in May in the currency area—in line with the flash country figures released over the past week—correcting from a sharp Easter-related jump in April. We are penciling in a decline to 1.4% y/y, from 1.7% in April. The late timing of Easter this year—Easter Sunday fell on April 21—gave a seasonal boost to air and rail fares as well as accommodation inflation this April compared with the same month in 2018 (the Easter holidays last year fell mostly in March). This pushed services inflation sharply above trend, to as much as 1.9% y/y, from 1.1% in April, warranting some significant mean-reversion in May. Adding to that, we expect energy inflation will also have fallen in May, to around 3%, in line with base effects in oil prices. And provided that the price of the Brent barrel remains steady at around its current value, energy inflation should continue falling until October. By contrast, we expect food inflation to have rebounded somewhat following two months of easing, since the below-average temperatures in the first three weeks of May are expected to have dented crop yields. Food inflation figures for the individual euro zone countries have been

nonetheless mixed, which means that food inflation could surprise on the downside and push the aggregate euro zone inflation rate even lower. We also expect nonenergy goods inflation to have accelerated slightly, boosted by higher clothing prices and by a pickup in durable goods inflation.

This will give the European Central Bank further reason to stand pat again in June. The bank's governing council is meeting Thursday to decide on its policy stance, and in the spotlight will be the release of further details on its new targeted longer-term refinancing operations, the TLTRO programme. We already know that as many as seven TLTRO operations will come between this September and March 2021, with banks able to borrow up to 30% of their outstanding loans to the economy with a maturity of two years. While the rate at which the banks will borrow from the ECB will now be indexed to the main refinancing rate—which is 0%—the rate could actually go lower than that depending on banks' lending positions. We expect Draghi to give further details on the specifics of the programme. In addition, there have been rumors that the bank could be discussing a system of tiered rates to alleviate the negative effects of negative interest rates on commercial banks. However, we aren't expecting any major announcement on the rolling out of such a system by next week. Elsewhere, all eyes will be on the bank staff's updated macroeconomic forecasts for June. While growth has surprised on the upside in the first quarter, the outlook remains extremely fragile, so we don't expect any major upward revisions to the numbers. Similarly, inflation forecasts aren't expected to have changed much, notably as the price of the Brent barrel has fallen back to around $68 (the same value as in March, when the latest forecasts were published).

Elsewhere, final first-quarter GDP figures for the euro zone are expected to confirm that the area's economy grew by 0.4% q/q in the three months to March, doubling its previous stanza's increase. The highlight of the report will be the publication of the expenditure breakdown, and we expect it to show that domestic demand drove growth at the start of the year; consumer spending is expected to have gained ground while investment is set to have remained strong. If individual country figures are anything to go by, net trade is a wild card, but we maintain our forecast that imports grew much faster than exports, causing net trade to drag.

In the U.K., the main highlight of the week will be Theresa May's expected resignation as Tory leader on Friday, June 7. We caution nonetheless that the prime minister will remain in office until a new leader is chosen, which should happen by mid-July (following two stages of voting). All eyes are on the candidates to replace her. As of now, Boris Johnson and Dominic Raab seem to be favorites—both of them are staunch Brexiteers—but as much as eleven politicians have already announced their candidatures. Most of them are pro-Brexit, which raises the chances of a no-deal Brexit happening in October. No major U.K. economic releases are scheduled for publication next week.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 9:00 a.m.	Italy: Unemployment for April	%	10.3	10.2
Tues @ 10:00 a.m.	Euro Zone: Preliminary Consumer Price Index for May	% change	1.4	1.7
Tues @ 10:00 a.m.	Euro Zone: Unemployment for April	%	7.7	7.7
Wed @ 7:00 a.m.	Spain: Industrial Production for April	% change	1.7	-1.2
Wed @ 10:00 a.m.	Euro Zone: Retail Sales for April	% change	0.3	0.0
Thur @ 10:00 a.m.	Euro Zone: GDP for Q1	% change	0.4	0.2
Thur @ 12:45 p.m.	Euro zone: Monetary Policy for June	%	0.0	0.0
Thur @ 2:00 p.m.	Russia: Consumer Price Index for May	% change	0.4	0.3
Fri @ 7:00 a.m.	Germany: Industrial Production for April	% change	0.2	0.5
Fri @ 7:45 a.m.	France: Industrial Production for April	% change	0.6	-0.9
Fri @ 9:00 a.m.	Italy: Retail Sales for April	% change	0.1	-0.3

ASIA-PACIFIC

By Katrina Ell of Moody's Analytics

First Quarter GDP Will Underscore Australia's Slowdown

Australia's economic slowdown will be cemented in the March quarter. We look for GDP growth to have hit 0.6% q/q, after the December quarter's 0.2%. This drags the annual pace down to 1.9% in the first stanza, from 2.3% in the fourth quarter and 2.8% in the third. Consumption was likely flat at best, with retail volumes contracting by 0.1% q/q in the March stanza after subtracting 0.2 percentage point in the prior quarter. We expect net exports will make only a modest contribution to GDP growth, at best, following the 0.1 percentage point contraction in the final quarter of 2018. Construction volumes were poor over the quarter, falling by 1.9% q/q, against expectations for a flat reading. Primary drags came from Western Australia amid lower mining and softness in residential construction, an ongoing consequence of the correction in prices around the most populated cities of Sydney and Melbourne.

The Reserve Bank of Australia's monetary policy meeting for June will be a nail biter. Financial markets are expecting the cash rate to be reduced from 1.5% to 1.25%; Moody's Analytics is also on board with this view. Weakness in consumption, alongside the broader softness in the economy in the past six months, will be the driving force. It has been a relatively swift evolution for the central bank, as only a few months ago policy tightening was on the medium-term horizon. Weak inflation alongside expectations that labour market tightening will slow will enable the RBA to act in June.

While we expect the RBA to cut rates in June, we don't necessarily agree that this is the correct policy response. The recent unexpected victory of the incumbent Coalition in the federal election on 23 May means that the housing market correction is even more likely to find a floor in the second half of this year, independent of RBA action. Also, the financial regulator announced the easing of residential property lending restrictions earlier in May, which will further encourage higher loan demand. Weakness in the housing market has been an important catalyst for weakness in consumption over the past six months. Breathing fresh life into the property market will over time lift consumption, without the need for the central bank to reduce the cash rate.

South Korea's foreign trade data for May will be closely watched, as trade in South Korea is a barometer for the outlook of neighbouring Asian countries. April data showed some modest improvement and we expect those conditions continued in May, but the tech sector remains a sore spot. In April, semiconductor exports, normally the country's biggest earner, slumped because of falling prices of chips, down 13.5% y/y after a 16.6% fall in March, reaffirming the belief that the tech cycle is truly on a sustained downswing. Samsung reported a 60% y/y decrease in operating profits for the first quarter to US$5.37 billion, the lowest since the third quarter of 2016.

	Key indicators	Units	Confidence	Risk	Moody's Analytics	Last
Mon @ 2:00 p.m.	Malaysia Foreign trade for April	MYR bil	3	←	11.2	14.4
Mon @ Unknown	South Korea Foreign trade for May	US$ bil	3	←	3.2	4.1
Tues @ 9:00 a.m.	South Korea Consumer price index for May	% change yr ago	3	←	0.7	0.6
Tues @ 11:30 a.m.	Australia Retail sales for April	% change	3	↑	0.2	0.3
Tues @ 2:30 p.m.	Australia Monetary policy for June	%	2	↑	1.25	1.5
Wed @ 11:30 a.m.	Australia GDP for Q1	Index	3	↓	0.6	0.2
Thurs @ 11:30 a.m.	Australia Foreign trade for April	A$ bil	3	←	4.7	4.95

The Long View

Despite heightened trade-related risks, May 2019's US$-denominated high-yield bond issuance should top May 2018's tally by at least 60%.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
May 30, 2019

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 132 basis points exceeds its 122-point mean of the two previous economic recoveries. This spread may be no wider than 140 bp by year-end 2019.

The recent high-yield bond spread of 460 bp is thinner than what is suggested by both the accompanying long-term Baa industrial company bond yield spread of 205 bp and the recent VIX of 17.6 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 11.2% 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.

The Long View

US ECONOMIC OUTLOOK

As inferred from the CME Group's FedWatch Tool, the futures market recently assigned an implied probability of 84% to a Fed rate cut by the end of 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 of Moody's Analytics
May 30, 2019

UNITED KINGDOM

The worst news on Thursday was that the U.K.'s car production plummeted by an alarming 44.5% y/y in April, deepening the 14.4% decline in March, amid heightened Brexit-related tensions. Production for the domestic and the export market each slumped, down by 43.7% and 44.7%, respectively. April was the 11th consecutive month of decline, helping push the plunge in year-to-date production down to 22.4%.

The headline isn't as bleak at it looks, though. A significant drop in output was always expected, because planned factory shutdowns had been brought forward to April as part of Brexit contingency planning. Firms decided to move the date of summer stoppages in the hope of ensuring that any disruption to supply lines around 29 March—the original date of Brexit—would happen while production lines were idling, thus minimizing the impact. A clearer picture of the underlying state of British car manufacturing should emerge in coming months, though there is no avoiding that Brexit uncertainty and the global slowdown are damaging the performance of the U.K.'s auto industry.

The drop in car production will certainly show in April's manufacturing output numbers, as the sector accounts for 9% of the overall manufacturing industry. This will only add to the expected declines in most manufacturing sectors following aggressive stockbuilding in the three months to March.

FRANCE

The April report on French household goods spending beat all expectations, showing that spending soared at the start of the second quarter and fully reversed the weakness of the previous two months. True, the main boost came from electricity consumption, which is volatile and depends on whether developments, but food spending finally rebounded following several months of declines and developments in the engineered goods spending sector were also better than we expected. The results confirm our view that French households are largely unfazed by the escalating trade war and by the slowdown in global growth, and that they are likely to continue to support the country's economy throughout the rest of this year. Even if spending holds only steady in May and June, it should still rise by 0.5% q/q in the second quarter, following no growth in the first stanza.

Energy spending rose strongly over the month but even better is that it has scope to increase a bit further in May. While temperatures came closer to seasonal norms in April compared with the unseasonably warm months of February and March, they still read 0.7 °C above their long-term averages, which likely helped keep a lid on demand for heating. We do not have the full-month meteorological data for May yet, but we expect that average temperatures dropped well below their seasonal norms and boosted electricity spending across the whole country.

Food spending similarly has scope to rebound further in May, as April's increase only partly reversed the puzzling cumulative decline since January. We expect that the easing in food inflation, especially that of fresh produce, will have boosted sales in supermarkets over the month.

EURO ZONE

Some good news came out of the euro zone on Tuesday. The European Commission's economic sentiment index for the area rose to 105.1 in May from a 32-month low of 103.9 in April, finally rebounding after 10 consecutive months of decline. Driving the increase the most was a pickup in consumer sentiment to a six-month high, but

industrial and services confidence each increased as well. This suggests that growth in the euro area will remain relatively steady in the second quarter of this year, likely slowing only slightly following an above-expectations 0.4% q/q in the first quarter. We are penciling in a 0.3% gain, with activity being driven by a further surge in consumer spending and by a buildup in inventories following destocking at the start of the year. Investment should slow marginally following an expected strong performance during the three months to March, while the performance of net trade should remain unimpressive given the heightened trade war-related tensions.

ASIA PACIFIC

By Faraz Syed of Moody's Analytics
May 30, 2019

INDIA

India's incumbent Bharatiya Janata Party stormed to a landslide victory in the general elections. Financial markets have largely reacted positively, as it signals policy continuity; the rupee rose and bond yields fell in the wake of the preliminary polls on Thursday and Friday. Prime Minister Narendra Modi is set to gain a greater majority than his 2014 election triumph, which suggests that the government could have a clearer path to economic reforms over the next few years. As it stands, the BJP has won 300 seats, comfortably above the 272 required for majority. Accounting for coalitions with minor parties, and additional vote counting, the incumbent government is set to cross the 336 seats it gained in the 2014 election.

Moreover, if the voting trends continue, the BJP will likely gain a majority in the Upper House for the next five years. The lack of cooperation in the Upper House has been cited as one of the reasons the government has failed to pass key reforms in its most recent term.

However, risks remain skewed to the downside for India's outlook. Consumption has flagged over the past six months, while the economy is persistently operating with a negative output gap. The ailing manufacturing sector is burdened by declining external demand, alongside inefficiencies in the domestic supply chain. Consequently, rising bad loans on bank balance sheets and increased corporate defaults have dented the investment cycle. The Reserve Bank of India has provided policy stimulus by cutting the policy repo rate by 50 basis points since January. And while the government increased cash handouts to the struggling agriculture sector, along with tax cuts to the middle class, we believe the output gap is unlikely to close.

The government now faces a tough economic task to pass key economic reforms, provide short-term stimulus to aid growth, and stay on the path of fiscal consolidation. Lowering the fiscal deficit is a credible signal to global investors that India is looking to ease its reliance on external funding, which can cause sharp turnarounds in capital inflows.

Our outlook for India is largely unchanged. First, our baseline had accounted for an incumbent victory. Second, until we see further clarity on the reform agenda, our baseline remains for GDP to expand 7.1% in 2019, followed by a deceleration to 6.9% in 2020. Continued domestic challenges and lower external demand will ensure the negative output gap persists through next year.

Ratings Round-Up

U.S. Upgrades Outnumber Downgrades

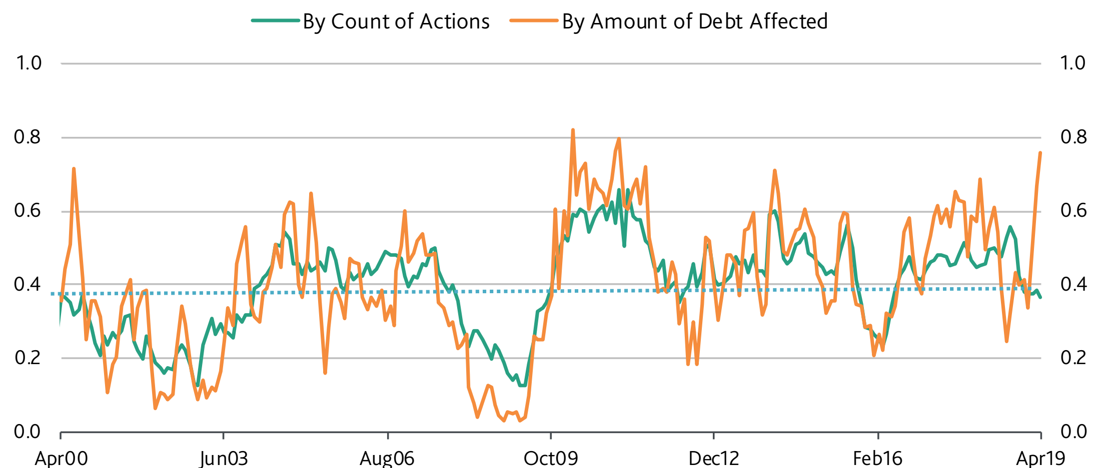
By Michael Ferlez

U.S. rating change activity improved for the latest week, with upgrades outnumbering downgrades. For the week ended May 28, positive rating changes accounted for 60% of total activity, up from 35% in the previous update. Despite accounting for the majority of total changes, upgrades comprised only 45% of affected debt. Moody's Investors Service upgraded Crownrock L.P.'s senior unsecured debt to B2 from B3. The upgrade reflects the U.S. oil company's growing production and reserves as well as its ability to maintain a favorable cost structure and capital efficiency. The upgrade affected debt totaling $1.2 billion. On the downgrade-side, Harland Clarke Holdings Corp. saw its senior secured rating cut to B2 from B1. The downgrade was the result of declines in the firm's overall performance, the approaching maturity of outstanding debt, and negative free cash flow over the past year. The downgrade affected $1.8 billion. This week notwithstanding, the broad trend in U.S. rating change activity has been steady. Downgrades consistently outnumber upgrades, but remain confined to smaller companies.

In Europe, rating change activity weakened from the prior week but remained positive. Upgrades accounted for 56% of total activity, but only 45% of affected debt. The most notable upgrade was to Belifus Financing Company S.A. The Luxembourg bank was upgraded to A1 from A2, affecting $3.3 billion in debt. On the downgrade side Commerzbank AG's junior senior unsecured was downgraded to Baa2 from Baa1 reflecting a reduction in the volume of the instrument class. The downgrade affected $8 billion.

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

FIGURE 3
Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
5/22/19	RENT-A-CENTER, INC.	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	543	U	B3	B2	SG
5/22/19	AIP/HARDWOODS FUNDING, INC.-NORTHWEST HARDWOODS, INC.	Industrial	SrSec /LTCFR/PDR	435	D	Caa2	Caa3	SG
5/22/19	EXELA INTERMEDIATE LLC	Industrial	SrSec/BCF/LTCFR	1,000	D	B3	Caa1	SG
5/23/19	HARLAND CLARKE HOLDINGS CORP.	Industrial	SrSec/SrUnsec /BCF/LTCFR/PDR	1,784	D	B1	B2	SG
5/23/19	CNG HOLDINGS, INC.	Financial	SrSec/LTCFR	710	U	Caa2	B3	SG
5/23/19	CROWNROCK, L.P.	Industrial	SrUnsec /LTCFR/PDR	1,185	U	B3	B2	SG
5/24/19	WENCOR GROUP LLC. -JAZZ ACQUISITION, INC.	Industrial	LTCFR/PDR		U	Caa1	B3	SG
5/28/19	ZIONS BANCORPORATION	Financial	LTIR/STD/LTD/PS	240	U	Baa3	Baa2	IG
5/28/19	WALL STREET SYSTEMS INC. -WALL STREET SYSTEMS DELAWARE, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3	SG
5/28/19	GO DADDY OPERATING COMPANY, LLC	Industrial	SrSec/BCF		U	Ba2	Ba1	SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

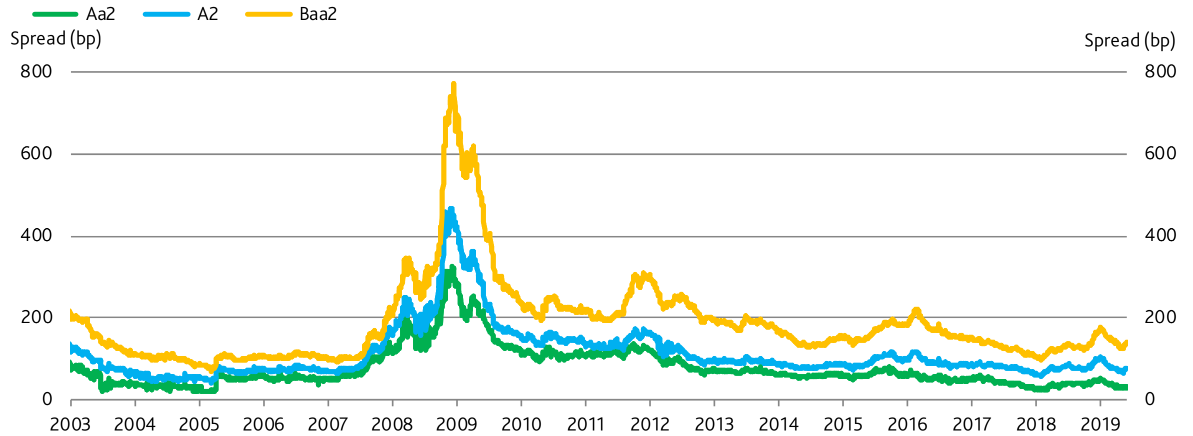
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
5/23/19	ONTEX GROUP NV	Industrial	LTCFR/PDR		D	Ba2	Ba3			SG	BELGIUM
5/23/19	SOCIETE GENERALE -PJSC ROSBANK	Financial	SrUnsec/BCF /STD/LTD	155	U	Ba1	Baa3			SG	RUSSIA
5/23/19	THOMAS COOK GROUP PLC	Industrial	SrUnsec /LTCFR/PDR	1,288	D	B3	Caa2			SG	UNITED KINGDOM
5/24/19	COMMERZBANK AG -MBANK S.A.	Financial	LTD		U	Baa1	A3			IG	POLAND
5/24/19	BELFIUS BANK SA/NV -BELFIUS FINANCING COMPANY S.A	Financial	SrUnsec/JrSrUnsec /LTD/Sub /JrSub/MTN/PS	3,865	U	A2	A1			IG	LUXEMBOURG
5/27/19	COMMERZBANK AG - DRESDNER BANK AG	Financial	SrUnsec /JrSrUnsec /MTN	8,142	D	Baa1	Baa2			IG	GERMANY
5/27/19	BRIGHT BIDCO B.V.	Industrial	SrSec/BCF /LTCFR/PDR		D	B1	B3			SG	NETHERLANDS
5/28/19	MKB BANK ZRT.	Financial	LTD		U	B2	B1			SG	HUNGARY
5/28/19	BANCO BPM S.P.A.	Financial	STD/LTD /Sub/MTN/PS	3,625	U	Ba1	Baa3	NP	P-3	SG	ITALY

Source: Moody's

Market Data

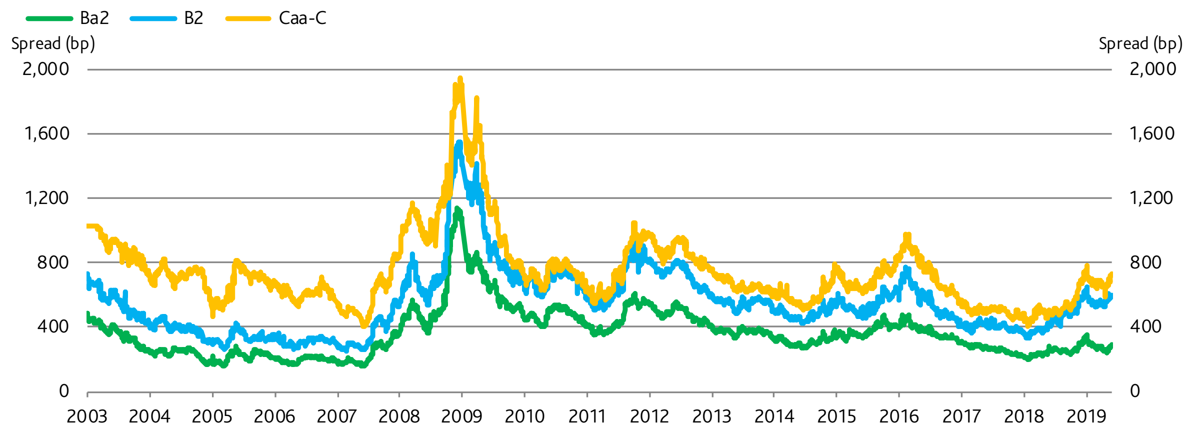
Spreads

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 22, 2019 – May 29, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 29	May. 22	Senior Ratings
NextEra Energy Capital Holdings, Inc.	Baa1	Baa3	Baa1
Toyota Motor Credit Corporation	Aa2	Aa3	Aa3
Apple Inc.	Aaa	Aa1	Aa1
Bristol-Myers Squibb Company	Aa3	A1	A2
Coca-Cola Company (The)	Aa1	Aa2	A1
PepsiCo, Inc.	Aa2	Aa3	A1
Merck & Co., Inc.	Aa1	Aa2	A1
Intel Corporation	Aa3	A1	A1
Home Depot, Inc. (The)	Aa1	Aa2	A2
American Express Company	Aa2	Aa3	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 29	May. 22	Senior Ratings
Praxair, Inc.	A1	Aa2	A2
JPMorgan Chase & Co.	A3	A2	A2
JPMorgan Chase Bank, N.A.	A2	A1	Aa2
Ford Motor Credit Company LLC	B1	Ba3	Baa3
Citibank, N.A.	Baa3	Baa2	Aa3
John Deere Capital Corporation	A3	A2	A2
Caterpillar Financial Services Corporation	A3	A2	A3
Energy Transfer Operating, L.P.	Ba1	Baa3	Baa3
Kraft Heinz Foods Company	Ba1	Baa3	Baa3
Bank of America, N.A.	A3	A2	Aa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 29	May. 22	Spread Diff
Weatherford International, LLC (Delaware)	Ca	20,279	19,522	757
Penney (J.C.) Corporation, Inc.	Caa2	4,775	4,305	470
Dean Foods Company	Caa2	2,385	2,059	327
Nabors Industries Inc.	B1	686	527	159
AK Steel Corporation	B3	1,114	979	135
Rite Aid Corporation	Caa2	1,753	1,629	124
Diamond Offshore Drilling, Inc.	B3	599	480	120
K. Hovnanian Enterprises, Inc.	Caa3	2,091	1,996	95
United States Steel Corporation	B2	628	534	94
Chesapeake Energy Corporation	B2	762	681	81

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 29	May. 22	Spread Diff
Neiman Marcus Group LTD LLC	Ca	2,831	3,162	-331
Frontier Communications Corporation	Caa1	2,411	2,589	-178
NextEra Energy Capital Holdings, Inc.	Baa1	65	92	-27
ServiceMaster Company, LLC (The)	B2	181	204	-23
USG Corporation	Ba2	218	237	-19
Liberty Interactive LLC	B2	185	202	-17
Sprint Communications, Inc.	B3	322	336	-14
L Brands, Inc.	Ba1	335	349	-14
PolyOne Corporation	Ba3	122	129	-6
Merck & Co., Inc.	A1	30	35	-5

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (May 22, 2019 – May 29, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 29	May. 22	Senior Ratings
Deutsche Bank AG	Baa3	Ba1	A3
Ireland, Government of	Aa1	Aa2	A2
Portugal, Government of	A3	Baa1	Baa3
Credit Agricole S.A.	Aa2	Aa3	A1
Nationwide Building Society	A3	Baa1	Aa3
Electricite de France	A2	A3	A3
Bayerische Landesbank	Aa2	Aa3	Aa3
Standard Chartered Bank	Aa3	A1	A1
Commerzbank AG	A3	Baa1	A1
Bankinter, S.A.	A3	Baa1	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 29	May. 22	Senior Ratings
Italy, Government of	B1	Ba3	Baa3
Barclays Bank PLC	Baa2	Baa1	A2
UniCredit Bank AG	Baa1	A3	A2
Iberdrola International B.V.	A2	A1	Baa1
National Grid Gas Plc	A2	A1	A3
Fresenius SE & Co. KGaA	Baa2	Baa1	Baa3
BNP Paribas Fortis SA/NV	Aa3	Aa2	A2
Ziggo Secured Finance B.V.	Ba3	Ba2	Caa1
Renault S.A.	Ba1	Baa3	Baa3
Virgin Media Finance PLC	Ba2	Ba1	B2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 29	May. 22	Spread Diff
Boparan Finance plc	Caa1	2,653	1,850	804
PizzaExpress Financing 1 plc	Caa2	3,339	2,975	363
Galapagos Holding S.A.	Caa3	8,304	8,144	160
CMA CGM S.A.	B3	864	748	116
Virgin Media Finance PLC	B2	164	126	39
Matalan Finance plc	Caa1	639	604	36
thyssenkrupp AG	Ba2	233	205	28
Altice Finco S.A.	Caa1	422	399	23
Telecom Italia S.p.A.	Ba1	271	250	21
ArcelorMittal	Baa3	202	181	21

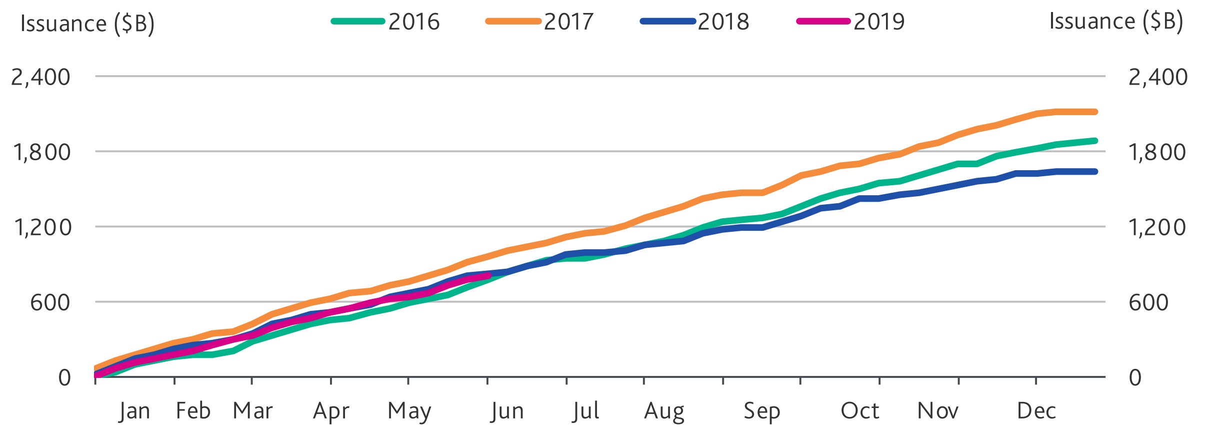
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 29	May. 22	Spread Diff
Casino Guichard-Perrachon SA	Ba3	581	643	-61
Fiat Chrysler Automobiles N.V.	Ba2	133	151	-17
Greece, Government of	B1	297	310	-13
Bankia, S.A.	Baa3	75	81	-6
Commerzbank AG	A1	58	63	-6
Bankinter, S.A.	Baa2	55	61	-6
Novafives S.A.S.	Caa1	547	551	-4
Nationwide Building Society	Aa3	59	62	-3
Raiffeisen Bank International AG	A3	74	77	-3
CaixaBank, S.A.	Baa1	77	79	-2

Source: Moody's, CMA

Market Data

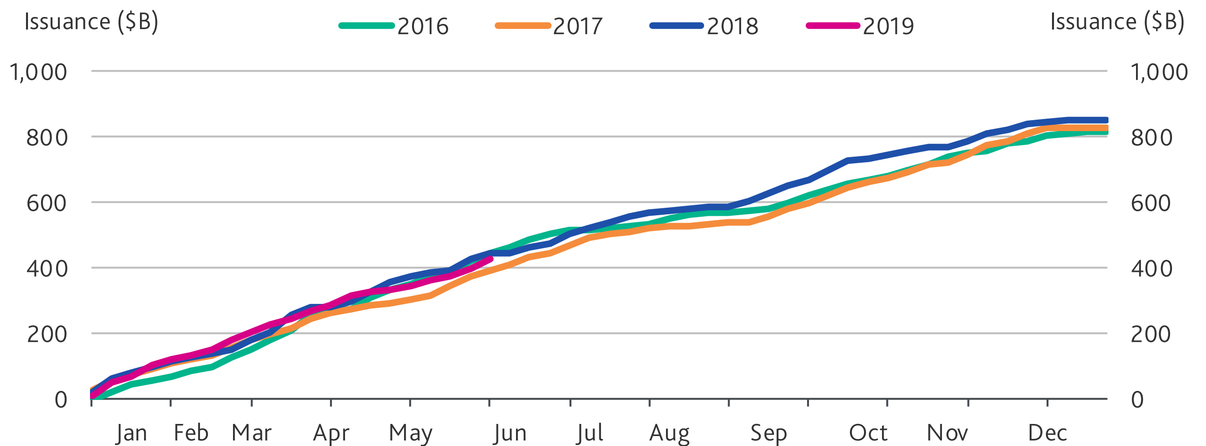
Issuance

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	22.794	5.260	29.509
Year-to-Date	593.533	173.357	802.649

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	27.094	2.455	32.155
Year-to-Date	378.402	40.588	429.218

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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