MOODY'S ANALYTICS

The Weekly Market Outlook will not publish next week, November 28, due to the Thanksgiving Day holiday.

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

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Next Plunge by Profits to Drive Leverage Up to 2009 High

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.

Credit Markets Review and Outlook

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

Next Plunge by Profits to Drive Leverage Up to 2009 High

U.S. business activity has not been exceeding its reach, and that will help extend the long-lived bull market and record-long economic recovery. Too many businesses and/or consumers promising more than they can deliver is what helped to end business upturns in the past.

Speculative excess is now largely confined to loss-making, cash-burning entities that may never generate sufficient risk-adjusted returns from capital. Forthcoming layoffs by such companies may do more to prevent labor market overheating than to help trigger the next recession.

An atypically large number of businesses still complain about their inability fill current job openings. In September, the number of job openings exceeded the number of unemployed individuals by 1.3 million. By contrast, the final three months of 2002-2007's business cycle upturn showed the number unemployed exceeding job openings by a considerable 2.6 million, on average.

According to a survey conducted by the National Federation of Independent Business, October 2019's 34.1% of small businesses with hard-to-fill job openings well exceeded the 22.3% reporting hiring difficulties during the final three months of 2002-2007's recovery.

Interest-Sensitive Spending Gains Speed

Business sales will benefit in a typical lagged fashion from 2019's deep drop by benchmark interest rates. Lower interest rates compensate for the increased uncertainty and loss of spending due to the U.S. trade conflict with China.

October's moving three-month average for unit sales of existing homes was the liveliest since the three-months ended May 2018. After contracting year over year for 20 of the 21-months-ended July 2019, the number of existing homes sold during the three-months-ended October was up by 3.2% from a year earlier. It was in the winter of 2015 that the yearly increase of existing home sales' moving three months average last climbed to 3.6%. The annual increase of this metric ultimately peaked at the 8.8% of the span-ended April 2015. As inferred from the 12.4% yearly advance by November 15's moving four-week average for the MBA's index of mortgage applications for the purchase of a home, faster home sales growth is likely.

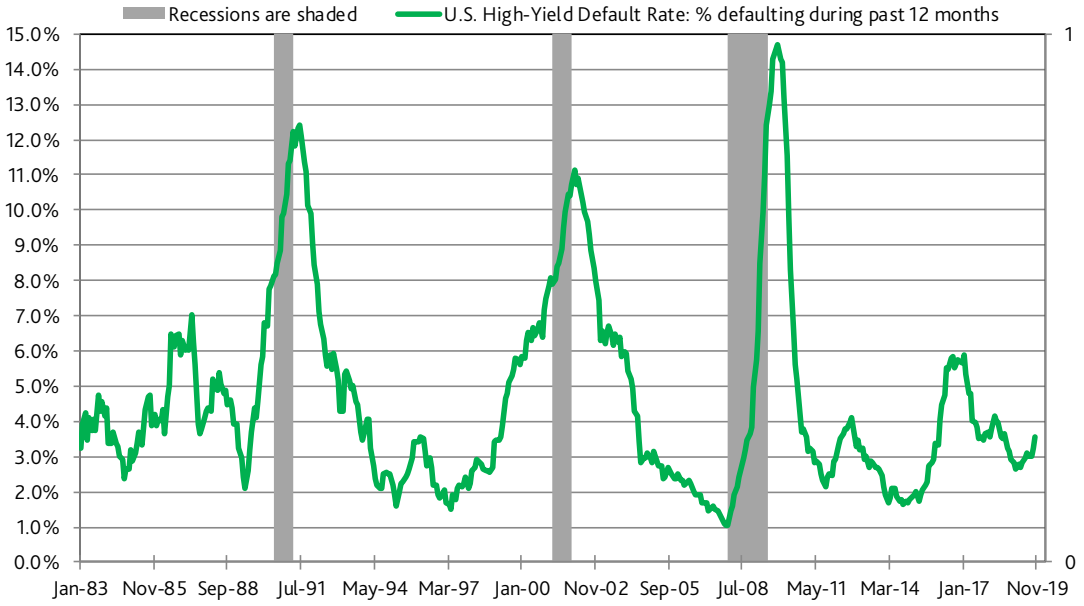
The latest year-over-year jump by homebuyer mortgage applications was abetted by an accompanying 118-basis-point plunge by the MBA's effective 30-year mortgage yield to 4.11%. The containment of recession risks requires the avoidance of a material increase by benchmark interest rates, especially if nominal GDP growth fails to top 5% on a recurring basis.

Rising default rates do not always precede recessions

The three recessions since 1982 overlapped a steep upturn by the U.S. high-yield default rate, where the three cycle peaks for the default rate averaged 12.7%. By contrast, the median default rate since 1982 equals 3.7%, which is close to October 2019's 3.6%.

During the months leading to the recessions of 1990-1991 and 2001, the default rate had been climbing sharply higher and averaged 8.1% for the month immediately preceding the start of the two recessions.

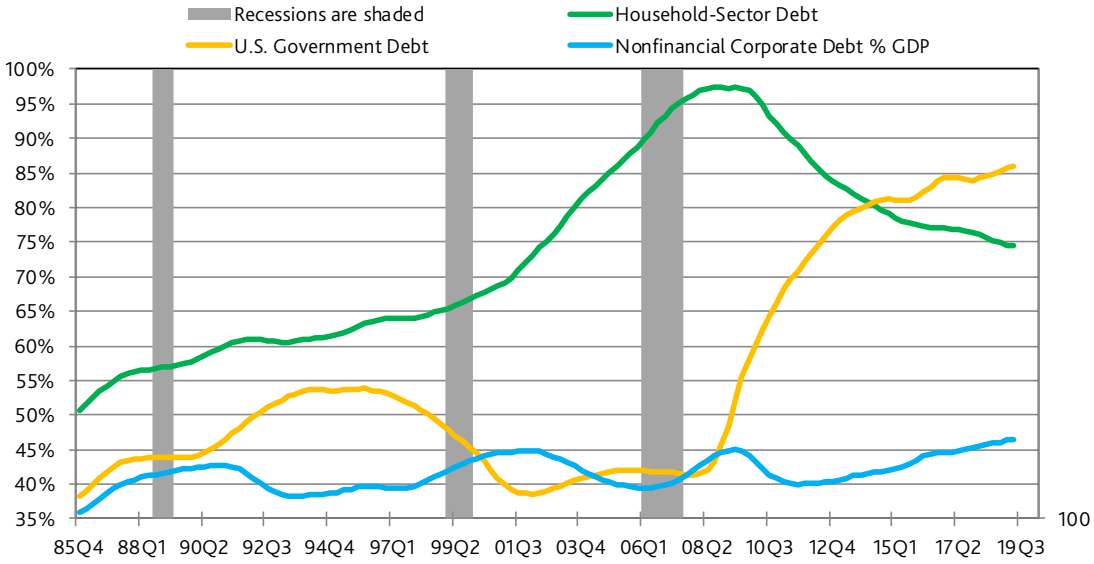
Figure 1: Each Recession since 1982 Drove the U.S. High-Yield Default Rate Above 11%
sources: Moody's Investors Service, NBER, Moody's Analytics



However, like the high-yield bond spread, the high-yield default rate is not a trustworthy leading indicator of a recession. For example, the default rate was declining during the 12 months prior to the Great Recession. In fact, the default rate was at its post-1982 low of 1.0% during the first month of the Great Recession, December 2007.

The slide by the default rate to a 38-year low at the start of the most severe economic downturn since the Great Depression highlights two critical aspects of the Great Recession. First, the Great Recession was mostly the offshoot of excessive leveraging by American households, as opposed to too much business-sector debt. Expressed as a moving yearlong ratio, household sector debt soared higher by 27 percentage points from 2000's 69% to 2007's 96% of GDP, as nonfinancial-corporate debt fell from 2000's 44.5% to 2007's 42.0% of GDP.

Figure 2: Latest Rise by Nonfinancial-Corporate Debt as % of GDP Seems Sustainable Vis-a-vis 2000-2007's Surge by Household Debt as % of GDP
debt as % GDP, yearlong ratio
sources: Federal Reserve, NBER, Moody's Analytics



Second, what had been a relatively mild recession was greatly exacerbated by the failure of policymakers to assure adequate systemic liquidity throughout September 2008. The policy error was so large that it preordained John McCain's defeat during November 2008's Presidential election.

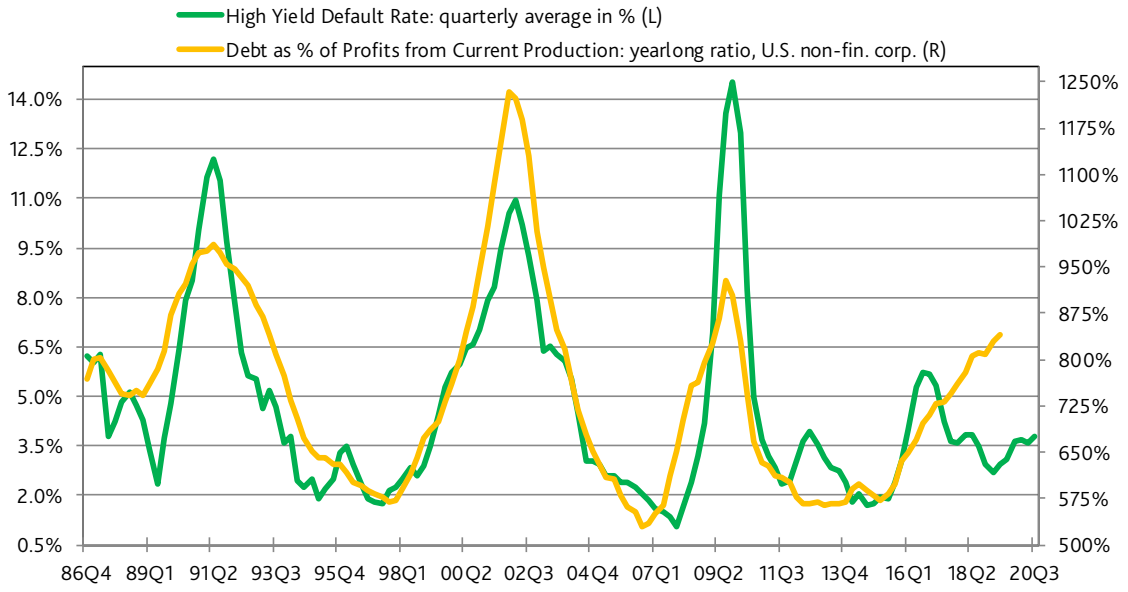
Moreover, the 10-year Treasury yield's averages of 3.86% and 3.25% for the third and fourth quarters of 2008 showed that policymakers were not alone in their misreading of the situation facing the U.S. economy during 2008's second half.

In all likelihood, the Federal Open Market Committee will be quick to cut fed funds in response to the next month-long inversion of the Treasury yield curve. The failure of a 50-year low for the unemployment rate to stoke a meaningful increase in inflation expectations enhances the Fed's ability to "cure" an inverted yield curve via rate cuts.

As of 2019's second quarter, household-sector debt has eased to 74% of GDP, while nonfinancial-corporate debt has risen to a record-high 46.5% of GDP. Unlike 2007's stratospheric ratio of household debt to GDP, the latest ratio of corporate debt to GDP may be sustainable.

Nevertheless, in view of how corporate debt was recently at a historically high 840% of the core pretax profits of U.S. nonfinancial companies, the combination of a 5% annual contraction of core pretax profits and a 5% annual increase by corporate debt would lift the ratio for the year-ended June 2020 up to 930%, matching third-quarter 2009's high for the Great Recession. Such a high ratio would probably be joined by spreads of at least 250 bp for long-term Baa-rated industrial company bonds and 750 bp for high-yield bonds. Moreover, the likely presence of a recession would likely drive the U.S. high-yield default rate above 7%.

Figure 3: Further Climb by Ratio of Corporate Debt to Core Pretax Profits May Be Joined by a Much Higher Default Rate
sources: Federal Reserve, BEA, Moody's Analytics

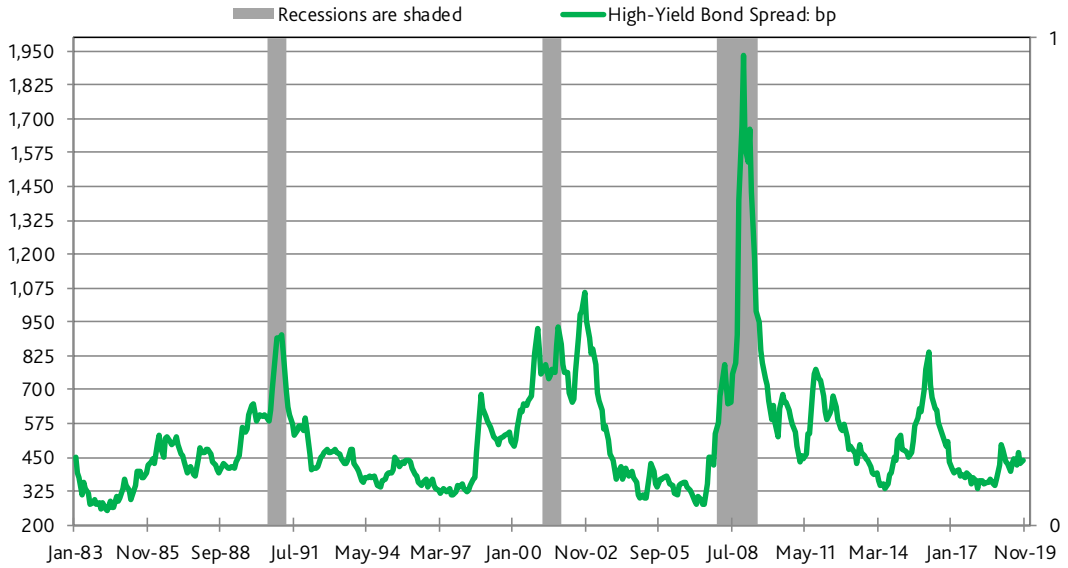


Recent High-Yield Spread Approximates Median Value of Economic Upturns

Since 1982, the median high-yield bond spread equaled 436 bp for the 405 months overlapping a business cycle upturn. The recent high-yield bond spread of 435 bp practically matched its 436 bp median of the economic-recovery months.

Also, since 1982, the median high-yield bond spread equaled 800 bp for 37 the months corresponding to a recession. For the three-month spans preceding the start of the three post-1982 recessions, the median high-yield bond spread was 602 bp.

Figure 4: Current Business Cycle Upturn Is the First To Include Two Peaks by High-Yield Bond Spread in Excess of 700 basis points
source: Moody's Analytics

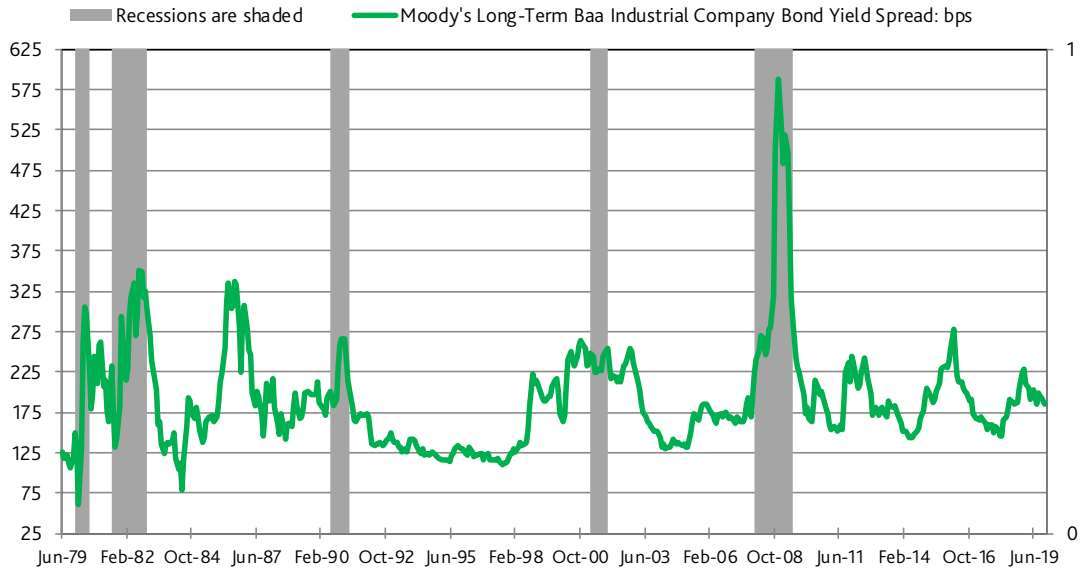


Coincidentally, recessions occurred in merely 37, or 8.4%, of the 442 months since the end of 1982. Regarding when the next recession might start, the odds assigned by early November's Blue-Chip consensus were 11% for 2019, 34.5% for 2020, and 37% for 2021. As inferred from the consensus view of recession risks, positive views of 2020-2021's business activity are marred by considerable uncertainty.

Medium-grade bond yield spreads also tend to be wider during and prior to recessions. Since 1982, the median long-term Baa industrial-company bond yield spreads were 172 bp during economic recoveries and 254 bp during recessions.

For the three-month spans immediately prior to the start of the three post-1982 recessions, the median long-term Baa industrial bond yield spread was 199 bp. The recent 186 bp long-term Baa industrial yield spread was almost midway between its pre-recession median of 199 bp and the 172 bp median of the months since 1982 coinciding with a business cycle upturn.

Figure 5: Long-Term Baa Industrial Company Bond Yield Spread Now Exceeds Its Median from Months Overlapping an Economic Recoveries
sources: BLS, NBER, Moody's Analytics



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

THE U.S.

By Bernard Yaros of Moody's Analytics

Federal Welfare Spending and the Next Recession

What happens to welfare spending when the jobless rate is at a 50-year low and the job market is adding more than enough jobs per month to absorb natural increases in the workforce? It will fall relative to the economy. Take, for example, unemployment insurance benefits, which have fallen to an all-time low relative to wages and salaries. Similarly, participation in the Supplemental Nutrition Assistance Program—also known as SNAP—has shrunk from a record high of 47.6 million in fiscal 2013 to 36 million.

Despite a sturdy economy that is reducing welfare spending, the federal deficit rose from 3.8% of GDP in fiscal 2018 to 4.6% in fiscal 2019. This is the highest deficit-to-GDP ratio since 2012, marking the fourth consecutive year in which the deficit has risen as a share of GDP. Factors unrelated to the business cycle are to blame, primarily an aging population.

Dollars and cents

Because of such structural pressures on the budget, the deficit will exceed $1 trillion in coming years, spooking many politicians. Therefore, when the next recession hits, fiscally conscious lawmakers will seek as cost-effective a stimulus package as possible.

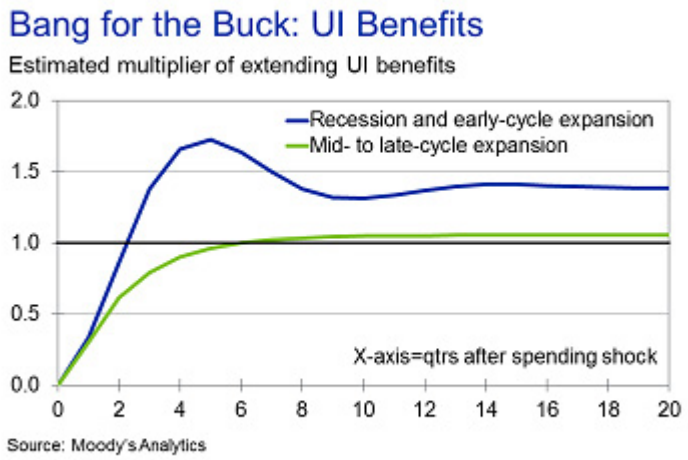
Moody's Analytics has estimated the multiplier across two different stages of the business cycle for two welfare programs that Washington DC has targeted in past stimulus packages: UI benefits and SNAP. A multiplier is defined as the dollar change in GDP for a given dollar increase in spending or decrease in taxes. This work shows that UI benefits and SNAP are some of the most cost-effective types of stimulus in a recession.

UI benefits

An extension of benefits for unemployed workers who exhaust their regular UI benefits has been a part of the federal response to past recessions. During the Great Recession, Congress enacted a temporary Emergency Unemployment Compensation program for the eighth time in its history. When this EUC program was initially authorized in June 2008, it provided only an additional 13 weeks of federally financed compensation to eligible individuals who had exhausted their regular UI benefits. Yet as labor market conditions deteriorated further, Congress extended and expanded the EUC program. At its most generous, it provided as many as 53 additional weeks of UI benefits through four tiers, with each tier further extending benefits after the prior one was exhausted. On top of the temporary EUC program, the permanent-law Extended Benefits program provides 13 or 20 additional weeks of UI benefits in states experiencing high jobless rates.

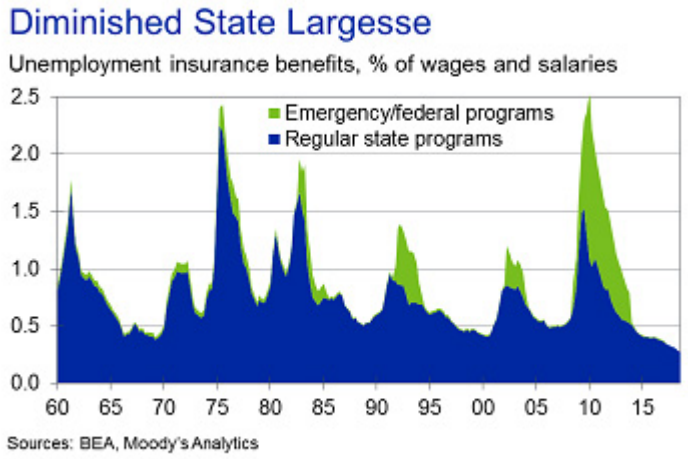
Extending UI benefits is one of the most effective policies Congress can enact. With the UI program already up and running, a benefit increase can be swiftly delivered to recipients. Moreover, the benefits go to individuals who will spend any financial aid they receive within a few weeks. As a result, the bang for the buck associated with extending UI benefits during downturns is large.

The estimated multiplier for UI benefits in recessions and early-cycle expansions peaks five quarters after the initial policy change at 1.7.



Even during a mid- to late-cycle expansion, the multiplier remains above unity, which cannot be said of other spending and tax multipliers. Unemployed recipients will be financially strained, no matter the state of the economy.

It is worth pointing out that the regular UI program is not a single national system, but rather a hodgepodge of 50 state programs adhering to a broad set of federal guidelines. Over the past eight recessions, state programs have progressively become less generous, forcing the federal government to pick up more slack.



Even during the Great Recession, benefits from state programs made up a smaller share of total wages and salaries than in the 1973-1975 and 1981-1982 recessions.

Regular UI benefits are funded by state payroll taxes and paid from the Unemployment Trust Fund accounts that states hold at the U.S. Treasury. During recessions, these accounts come under financial

strain, which has prompted states to curb UI payouts by reducing the maximum benefit amount or changing the underlying benefit calculations.

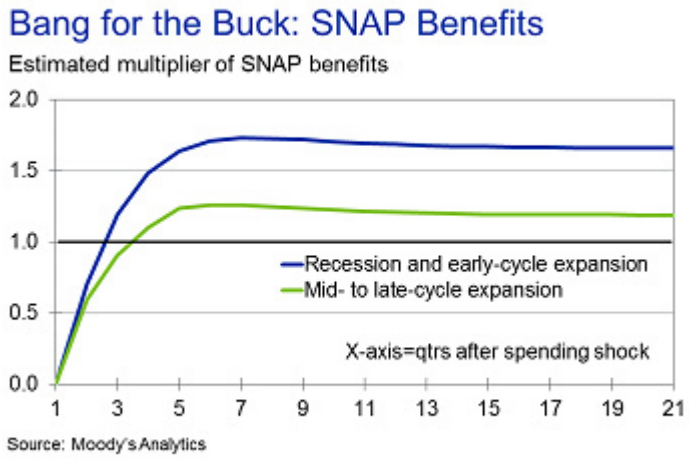
The severity of the Great Recession and the slow recovery thereafter put enormous pressure on state UI programs. According to the Department of Labor, 36 states exhausted the balance of their trust fund accounts and had to take out federal loans to continue paying benefits. In response, nine states cut the maximum benefit duration to fewer than 26 weeks, which had been the norm for all states from the 1960s to 2011. Others have tightened requirements for continuing eligibility. As a result, state UI benefits are at a record low relative to total wage income even though the jobless rate in the late 1960s was as low as it is now.

These state-level trends suggest the federal government will have to pick up even more slack when the next downturn hits. Therefore, timely enactment of another federally funded EUC program will be of the essence. The 1990-1991 recession is a particularly cautionary tale. The slump in consumer sentiment in late 1991, after the recession officially ended, may have been partly because of the first Bush administration's initial opposition to extending UI benefits.

SNAP

Expanding SNAP is the most cost-effective way to prime the economy's pump in a recession. It targets vulnerable individuals who risk falling through the cracks of other federal means-tested programs. For example, SNAP helps many low-income households that are ineligible for UI benefits, such as part-time workers.

Since most households redeem their monthly SNAP benefits quickly, the bang for the buck is large.



Moody's Analytics estimates the cumulative multiplier of SNAP peaks at more than 1.7 a year and a half after the initial policy change. Moreover, it remains firmly above 1.6 over the 20-quarter horizon, besting all other multiplier estimates, including that of UI benefits, which packs less of a punch after the first year.

The economic benefit of increased SNAP spending extends beyond higher food consumption at authorized retailers, which range from superstores to locally owned groceries and convenience stores. An increase in benefits also raises the overall purchasing power of participating households, freeing up cash to spend on other essential nonfood items. The increase in food and nonfood demand also benefits a whole host of upstream industries such as agriculture, food processing, logistics and wholesale trade.

Unlike UI benefits, SNAP spending relative to national output is still high compared with past expansions at such a mature stage. This should not daunt policymakers from a budgetary perspective, though. SNAP costs are a function of food price inflation and the size of the low-income population, which are cyclical and do not threaten to grow faster than the economy over the long run as do our nation's major entitlement programs.

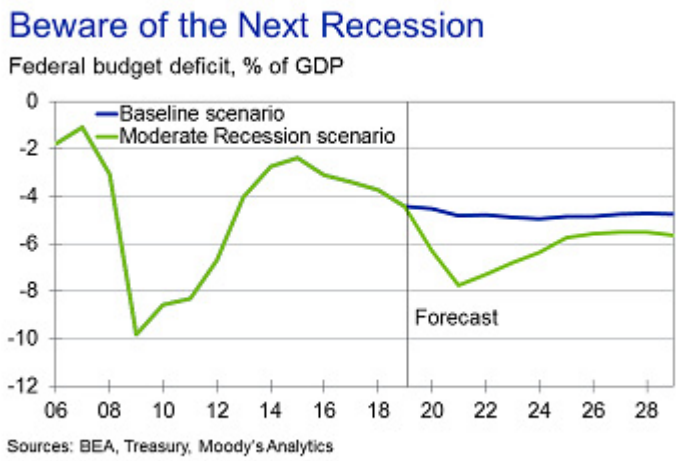
In the next downturn, SNAP will automatically increase, but Congress can do more. In the Recovery Act of 2009, for example, lawmakers temporarily increased the maximum benefit amount to recipients by 13.6% through fiscal 2014, leading to $40 billion more in SNAP spending than would have been spent automatically.

Outlook

The deficit will rise from $984 billion to just over $1 trillion in fiscal 2020. Over the next decade, the federal government will consistently incur trillion-dollar shortfalls.

Risks

If the economy were to fall into a moderate downturn in which real GDP declines cumulatively by more than 2% over the next year, the deficit-to-GDP ratio could reach as high as 7.8% in fiscal 2021, compared with 4.8% in the baseline projection.



This increase to the deficit reflects only the revenue declines and increased Medicaid and welfare spending that would both occur automatically in a recession. If Congress were to pass a stimulus package, the deficit-to-GDP ratio would rise even further. In today's rancorous political environment, the biggest risk is that lawmakers fail to deliver enough stimulus, making the next recession more painful than necessary.

Next week

The holiday shortened week will be busy. We get data on consumer confidence, durable goods, new-home sales, personal income/spending, PCE deflators, revisions to GDP, pending home sales and jobless claims.

We will publish our forecasts for next week's data on Monday on Economic View.

EUROPE

By Ross Cioffi of Moody's Analytics

French Consumers Do the Heavy Lifting

France and Italy will release their updated estimates for third quarter GDP next week. We aren't expecting any surprises. We foresee another quarter of 0.3% q/q growth in France and a marginal increase to 0.1% from zero growth in Italy. We'll likely see that domestic demand boosted French growth, with consumers doing most of the heavy lifting. Government consumption will continue to grow as the Macron government seeks to balance its reform agenda with expansionary measures that soften the blow of reforms and kick up some demand in the midst of weakness in the manufacturing sector. Despite the global slowdown, fundamentals for consumers remain solid with unemployment low and wages rising. We don't expect unemployment to increase as the number of job seekers stays at 3.32 million. With interest rates at record lows, consumers across the euro zone have an incentive to go in on big purchases. On that note, we expect French household consumption to rebound to 0.4% m/m growth in October after its 0.4% contraction in September. Exports outperformed our expectations, likely growing 0.3% q/q, but net trade will factor in negatively as imports grew at a faster rate.

However, the situation is different in Italy, where growth has been stalling since last year. Contributions from domestic demand remain weak due to slack in the labour market and stifled wage growth. We are expecting the unemployment rate to remain firm at 9.9% in October. The rate is low historically, but prospects on the Italian labour market remain grim, and the outlook is for unemployment to resume rising. Government consumption and net trade likely failed to contribute to third quarter GDP, while consumption and investment are what dragged growth rates just above zero. As the risk premium fell on sovereign debt in August and September, the savings should have lowered the cost of credit in the rest of the economy, thereby stimulating investment.

Things look worse in Spain as well, as retail sales are expected to shrink in monthly terms by 0.5%. Sales have been falling slowly since a high point of 0.8%m/m last May. Consumer confidence has plummeted over the same period, from a high of 102.3 in June to 73.3 in October. That dramatic deterioration will likely be reflected in worsening monthly retail sales.

Unemployment in the euro zone should have held steady at 7.5% in October, the lowest in over 11 years. The good news is tempered by the fact that the rate has also likely bottomed out. The euro zone rate held as unemployment was steady in the largest economies, France, Italy and Germany. However, unemployment did increase in some of the smaller economies, including Belgium and Austria. Unemployment will stay near its historically low rates in Germany, but survey data consistently point to falling hiring intentions, not just in manufacturing, but in the services sector as well. This is why we are expecting a slight increase in Germany's rate from 5.0% to 5.1% for November.

Finally, we're expecting to see some pickup in inflation in the euro zone. After softening to 0.7% y/y in October, the weakest in almost three years, there should be a slight increase to 0.8% in November. Food inflation should pick up slightly in November as a correction to October's depressed rates. We haven't seen much change in the price of oil, though, so energy will continue to drag on headline inflation.

	Key indicators	Units	Moody's Analytics	Last
Wed @ 11:00 a.m.	France: Job Seekers for October	mil, SA	3.3	3.3
Thu @ 9:00 a.m.	Spain: Retail Sales for October	% change	-0.5	0.1
Thu @ 11:00 a.m.	Euro Zone: Business and Consumer Sentiment for November	index	101.0	100.8
Fri @ 7:30 a.m.	France: GDP for Q3	% change	0.3	0.3
Fri @ 8:45 a.m.	France: Household Consumption Survey for October	% change	0.4	-0.4
Fri @ 9:55 a.m.	Germany: Unemployment for November	%	5.1	5.0
Fri @ 10:00 a.m.	Italy: Unemployment for October	% change	9.9	9.9
Fri @ 11:00 a.m.	Euro Zone: Preliminary Consumer Price Index for November	% change	0.8	0.7
Fri @ 11:00 a.m.	Euro Zone: Unemployment for October	%	7.5	7.5
Fri @ 12:00 p.m.	Italy: GDP for Q3	% change	0.1	0.0

ASIA-PACIFIC

By Katrina Ell of Moody's Analytics

Japan's Retail Data Should Reflect Pullback After Consumption Tax Hike

Japan's October activity data dump will likely show a sharp pullback across the board following the consumption tax hike on 1 October. We expect the decline will be most pronounced in the retail sector, after front-loading saw retail trade jump by 7.1% m/m in September, translating to a 9.1% y/y rise. This was the fastest expansion in almost six years, coincidentally back in early 2014 when the last consumption tax increase took place.

We expect Japan's unemployment rate held at 2.4% in October; labour market tightening has slowed, and weakness in domestic and external demand has been sustained. Industrial production likely contracted over October, following a 1.4% m/m gain in September. Industrial production is heavily influenced by manufacturing and external demand, and the latter has been struggling through 2019. Exports slumped in October for the 11th straight month and fell by 9.2%, the sharpest drop in three years.

India's third quarter GDP growth likely improved to 5.3% y/y, after the wildly disappointing 5% in the June quarter. This marked the slowest pace of growth in six years despite accommodative monetary and fiscal policies this year. A slowdown in agriculture and construction and a near-standstill in manufacturing were responsible for most of the subdued performance. Business investment improved slightly, but relative weakness in private consumption and government expenditure outweighed it.

China's official manufacturing PMI likely improved a little in November, following the renewed weakness in October, when the index dropped by 0.5 point to 49.3. The pause in escalation of the trade war would have had some positive impact on manufacturers, as would have speculation that some of the existing tariffs that the U.S. has imposed on Chinese imports may be rolled back. But the outlook is for ongoing softness given that more concrete steps towards a resolution of the trade war remain elusive.

	Key indicators	Units	Confidence	Risk	Moody's Analytics	Last
Wed @ 8:00 a.m.	South Korea Consumer confidence survey for November	Index	3	↓	98.3	98.6
Thurs @ 10:50 a.m.	Japan Retail sales for October	% change yr ago	3	↓	-6.5	9.1
Fri @ 10:00 a.m.	South Korea Retail sales for October	% change	2	↓	0.7	-2.2
Fri @ 10:30 a.m.	Japan Unemployment rate for October	%	3	←	2.4	2.4
Fri @ 10:50 a.m.	Japan Industrial production for October	% change	3	←	-1.9	1.4
Fri @ 12:00 p.m.	South Korea Monetary policy for November	%	3	←	1.25	1.25
Fri @ 4:00 p.m.	Japan Consumer confidence survey for November	Index	2	↓	35.4	36.2
Fri @ 6:30 p.m.	Thailand Foreign trade for October	US$ bil	2	←	2.5	2.7
Fri @ 11:00 p.m.	India GDP for Q3	% change yr ago	3	←	5.3	5.0
Sat @ 12:00 p.m.	China Official manufacturing PMI for November	Index	3	↑	49.7	49.3

The Long View

Dollar denominated high-yield bond offerings may increase by more than 200% yearly in 2019's final quarter.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
November 21, 2019

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 117 basis points was less than its 122-point mean of the two previous economic recoveries. This spread may be no wider than 128 bp by year-end 2019.

The recent high-yield bond spread of 435 bp is thinner than what is suggested by the accompanying long-term Baa industrial company bond yield spread of 186 bp, but wider than what might be inferred from the recent ultra-low VIX of 13.3 points.

DEFAULTS

October 2019's U.S. high-yield default rate of 3.6% may average 3.7% during 2020's first quarter, according to Moody's Investors Service.

US CORPORATE BOND ISSUANCE

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

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

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

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

Third-quarter 2019's worldwide offerings of corporate bonds revealed annual advances of 15.2% for IG and 56.8% for high-yield, wherein US$-denominated offerings soared higher by 36.8% for IG and 81.3% for high yield.

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

For 2018, worldwide corporate bond offerings sank by 7.2% annually (to $2.322 trillion) for IG and plummeted by 37.6% for high yield (to $376 billion). The projected annual percent increases for 2019's worldwide corporate bond offerings are 3.8% for IG and 40.4% for high yield. When stated in U.S. dollars, issuers based outside the U.S. supplied 60% of the investment-grade and 59% of the high-yield bond offerings of 2019's first 10 months.

US ECONOMIC OUTLOOK

As inferred from the CME Group's Fed Watch Tool, the futures market recently assigned implied probabilities of 0.0% to a cutting and 5.2% to a hiking of the federal funds rate at the December 11, 2019 meeting of the Federal Open Market Committee. In view of the underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global economy operates below trend, the 10-year Treasury yield may not remain above 2.00% for long. A fundamentally excessive climb by Treasury

bond yields and a pronounced slowing by expenditures in dynamic emerging market countries are among the biggest threats to the adequacy of economic growth and credit spreads.

EUROPE

By Ross Cioffi of Moody's Analytics
November 21, 2019

FRANCE

French business confidence held steady at 105 in November. The composite index has hovered around 105 to 106 since April. Although confidence is below its high of 111.4 in December 2017, it remains well above its long-run average of 100. The only negative details were slight dips in construction, to 111 from 112, and in wholesale trade, to 105 from 106. Offsetting these falls were gains in manufacturing, which rose to 100 from 99, and in retail trade, up to 107 from 105. Services was unchanged at 106. To top off the good news, the employment climate improved by 2 points, to 108, driving the index to its highest reading since August 2018.

Within manufacturing, sentiment improved across nearly all industries. Confidence in the automotive industry rallied from October, though it remains below the long-term average, while it also recovered in the equipment goods industry and in the other industries category. The agrofood industry declined, but the drop there is mostly due to a less favourable view on past production.

The gain in manufacturing sentiment is welcome, but we expect confidence to remain wobbly as the global slowdown suppresses demand for Europe's manufactured goods. Industrial production will likely remain below capacity in France, and there is still concern that the slowdown in industry will spill over into services. This is why it was a good sign that French service providers and retailers remained confident in November.

Within services, expected activity jumped, making up for the marginal declines in expected employment and prices. The increase in retail confidence owed to a rebound in ordering intentions and an improvement to the general outlook. Business confidence adds to our view that private consumption will support France's growth in the fourth quarter. Employment figures have steadily improved over the year, and expansionary fiscal policies will help buoy consumer demand.

French firms are right to be optimistic. Without ignoring the downside risks stemming from the global economy, which are by no means trivial, the outlook remains bright for the fourth quarter.

GERMANY

Germany's producer prices dropped again in October, extending the slump in Europe's largest economy. The fall was even worse than expected, down 0.2% from the previous month and 0.6% from a year earlier. Producer prices shed 0.1% in September, the first time they had decreased since October 2016. The slide in PPI mainly stemmed from energy prices, which dropped by 3.1% in yearly terms and 0.1% in monthly terms. Falling intermediate goods prices were also behind October's weak reading, sinking 1.7% lower than in October 2018 and 0.7% lower than in September this year. Otherwise, in yearly terms inflation picked up to 1.5% for capital goods, to 1.4% for durable consumer goods, and to 2.3% for nondurable consumer goods.

Weighing heavily on intermediate goods were declines in the prices for metallic secondary raw materials, which plunged by 23%, and electronic integrated circuits, down 13.1%. Petroleum prices fell 10.1% y/y while natural gas prices were 8.8% cheaper, which pushed down energy prices. Petrol prices have been dragging on inflation since the summer as global supply of oil outpaces demand. Low energy prices have tamped down consumer and producer price inflation across the euro zone, though core inflation rates remain below target as well. Stripping out energy, German PPI would have increased by 0.2% m/m and 0.3% y/y.

The fall in producer prices showed up in the October manufacturing PMI for Germany. Firms reported lower input costs and steep reductions in buying so as to unwind stocks and inventories. In other words, October's PPI figures indicate that demand will remain low among Germany's industrial producers at the start of the fourth quarter.

ASIA PACIFIC

By Katrina Ell of Moody's Analytics
November 21, 2019

JAPAN

Japan's September quarter was mediocre, but the details are important. GDP growth slowed to 0.1% q/q, its weakest pace in a year, following an upwardly revised 0.4% in the June quarter. Domestic demand helped offset further deterioration in the external sector. Annual growth improved to 1.4% in the third quarter, mainly on low base effects from the 0.8% gain in the prior quarter.

Private consumption slowed to 0.4% q/q in the third quarter from 0.6% in the second. The slowdown in private consumption was disappointing given that there was evidence of consumers front-loading purchases ahead of the consumption tax hike from 8% to 10% taking effect on 1 October. Retail sales jumped to 9.1% y/y in September, their fastest pace since 2014 (the period prior to the last value-added-tax increase). Consumers splurged on durables such as refrigerators, computers, electronics and clothing. Over the month, retail trade rose by 7.1% m/m in September following a 4.6% gain in August. In prior months, monthly spending growth had been broadly flat in 2019.

Outside of the third-quarter improvement in household spending, there hasn't been much going right for Japan's economy. Export volumes fell by 0.7% over the third quarter following a 0.5% gain in the June stanza. Japan's export values have consecutively contracted since December 2018. In the third quarter, export values were down by 5% y/y. Manufacturing has followed the same downtrend; after peaking in late 2017, the annual growth rate has been on a bumpy downslope. The correlation coefficient between exports and the manufacturing subcomponent of industrial production was 0.8 from January 2016 to September 2019.

Palpable export weakness

Geopolitical tensions have hurt Japan's exports. The U.S.-China trade war has accelerated the existing cyclical downturn in global demand. It has further weakened global demand and caused significant disruption to supply chains, including large manufacturing hubs such as Japan; these hubs have closely linked supply chains across the globe, traditionally benefiting from the just-in-time production model to maximise efficiency. The uncertainty of the trade war has been a particularly damaging channel that has had far-reaching impacts on investment plans, employment growth, and expectations of future conditions.

A more recent drag has been from the trade dispute with South Korea. Consumers and manufacturers on each side have shunned the other side's goods, resulting in a significant fall in two-way trade. Japan's exports to South Korea were down by 23.1% y/y in October following a 15.9% fall in September. There have been notable causalities, including beer exports to South Korea being down by 99.9% y/y in September. Although both sides have indicated a willingness to work towards a resolution, near-term prospects for tensions to diffuse are low.

Short-term outlook isn't pleasant

It's a slam dunk that Japan's economy will contract in the December quarter, just as it has done in all prior episodes of consumption tax hikes, including 2014 and 1997. Our high-frequency GDP tracker suggests a 0.95% annualized contraction over the December quarter. This estimate will evolve as more data for the fourth quarter become available.

The question is how long the contraction and loss of momentum will last. If the contraction continues through the March quarter and forces the economy back into recession, the Bank of Japan will be forced to act as it has promised to do and increase stimulus. But the effectiveness of further monetary stimulus is limited given the artillery of measures that have already been implemented by the central bank, with no evidence of the elusive virtuous cycle of rising prices, wages and consumption coming to pass. After the initial spike in inflation fades by early 2020, we expect core CPI will go back to being south of 1% y/y.

Adding downside risk to Japan's outlook is concern about the health of the global economy. The U.S.-China trade war is yet to be resolved, and though there has been speculation recently around some existing tariffs being removed, nothing has happened. Nor has progress been made on the sticky issues around the treatment of intellectual property and foreign investment. Odds that the trade war will move back to the escalation phase are nontrivial.

Ratings Round-Up

Energy Firms Headline U.S. Downgrades

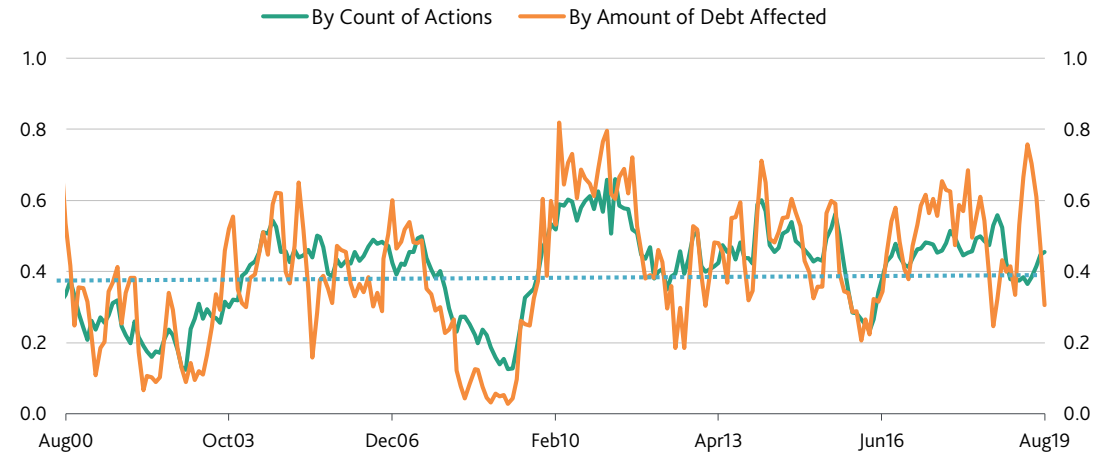
By Steven Shields

U.S. rating activity ramped up with several large firms receiving downgrades in the latest week. For the period ending November 19, negative rating changes accounted for nearly 80% of total debt affected. Moody's Investors Service downgraded Chesapeake Energy Corp. senior unsecured debt from B3 to Caa2 on Tuesday, and this was by far the largest change in terms of debt impacted. The rating change affects nearly $18 billion in debt and reflects the firm's high risk of a distressed exchange or other restructuring. Chesapeake's rating also reflects its high debt leverage, weak asset coverage, the company's expected production decline resulting from a materially reduced capital budget in 2020 and exposure to natural gas price weakness as it continues to attempt to transition to an oil-focused production mix. Meanwhile, Dominion Energy Gas Holdings, saw its senior secured debt rating downgraded to Baa1 from A3. The change affected $3.4 billion in total debt. Rounding out the rating changes to energy firms, Unit Corp. and Laredo Petroleum Inc. both received downgrades in the week. Moody's Investors Service's outlook for global exploration and production from July 2019 indicates earnings growth will be limited in 2020 as volatile oil prices, weak natural gas prices, and the slowing global economy all pose risk to earnings. The week's downgrades are largely the result of idiosyncratic factors and are not indicative of weakness in the broader U.S. economy. The most notable upgrade during the period was to Prestige Brands. The healthcare company's long-term rating was lifted to B2, supported by strong and stable cash flow from its over-the-counter product segment. However, high financial leverage, low organic growth in its OTC segment, and significant retail concentration are risks to its credit profile.

European rating change activity picked up after no changes in the previous period. Upgrades outnumbered downgrade 3-to-2. Schneider Electric SE received a one-notch upgrade on its senior unsecured debt from Baa1 to A3, reflecting the company's strong operating performance of late and improved profitability. Moody's Investors Service upgraded French specialty chemical producer Arkema to Baa1 from Baa2 on a continued rebalancing of its portfolio toward specialty chemicals, which tend to be less prone to cyclical swings and carry a higher EBITDA margin.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

Ratings Round-Up

FIGURE 2

Rating Key

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

Ratings Round-Up

FIGURE 3
Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG /S G
11/13/19	UNIT CORPORATION	Industrial	LTCFR /SrSub/PDR	650	D	B3	Caa1	SG
11/13/19	VECTOR GROUP LTD.	Industrial	SrUnsec	650	D	B2	Caa1	SG
11/13/19	LAREDO PETROLEUM, INC.	Industrial	SrUnsec	800	D	B2	B3	SG
11/13/19	PGX HOLDINGS, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	B3	Caa1	SG
11/13/19	CAA HOLDINGS, LLC -CREATIVE ARTISTS AGENCY, LLC	Industrial	PDR		U	B3	B2	SG
11/13/19	APC AUTOMOTIVE TECHNOLOGIES, LLC	Industrial	PDR		U	Caa3	Caa2	SG
11/13/19	INFRASTRUCTURE & ENERGY ALTERNATIVES, INC. -IEA ENERGY SERVICES, LLC	Industrial	SrSec/BCF /LTCFR/PDR		U	Caa2	B2	SG
11/14/19	PROVIDENT FUNDING ASSOCIATES, L.P.	Financial	SrUnsec	325	D	B1	B2	SG
11/14/19	CSG SYSTEMS INTERNATIONAL, INC.	Industrial	LTCFR/PDR		U	Ba3	Ba2	SG
11/14/19	TOWN SPORTS INTERNATIONAL HOLDINGS, INC.-TOWN SPORTS INTERNATIONAL, LLC	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	Caa1	SG
11/14/19	ENERSYS	Industrial	SrUnsec /LTCFR/PDR	300	D	Ba2	Ba3	SG
11/15/19	DOMINION ENERGY, INC. -DOMINION ENERGY GAS HOLDINGS, LLC	Utility	SrUnsec	3,400	D	A3	Baa1	IG
11/15/19	PRESTIGE CONSUMER HEALTHCARE, INC. -PRESTIGE BRANDS, INC.	Industrial	SrUnsec	1,000	U	Caa1	B3	SG
11/15/19	MB AEROSPACE HOLDINGS II CORP.	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3	SG
11/18/19	BOYD GAMING CORPORATION	Industrial	SrSec/BCF /LTCFR/PDR		U	Ba3	Ba2	SG
11/18/19	ALLEGHENY TECHNOLOGIES INCORPORATED	Industrial	SrUnsec /LTCFR/PDR	1,150	U	B3	B2	SG
11/18/19	CF INDUSTRIES HOLDINGS, INC.	Industrial	SrSec/SrUnsec /LTCFR/PDR	4,250	U	Baa3	Baa2	IG
11/19/19	CHESAPEAKE ENERGY CORPORATION	Industrial	SrUnsec /LTCFR/PDR	17,973	D	B3	Caa2	SG
11/19/19	QUORUM HEALTH CORPORATION	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	400	D	Caa2	Caa3	SG

Source: Moody's

Ratings Round-Up

FIGURE 4
Rating Changes: Corporate & Financial Institutions – Europe

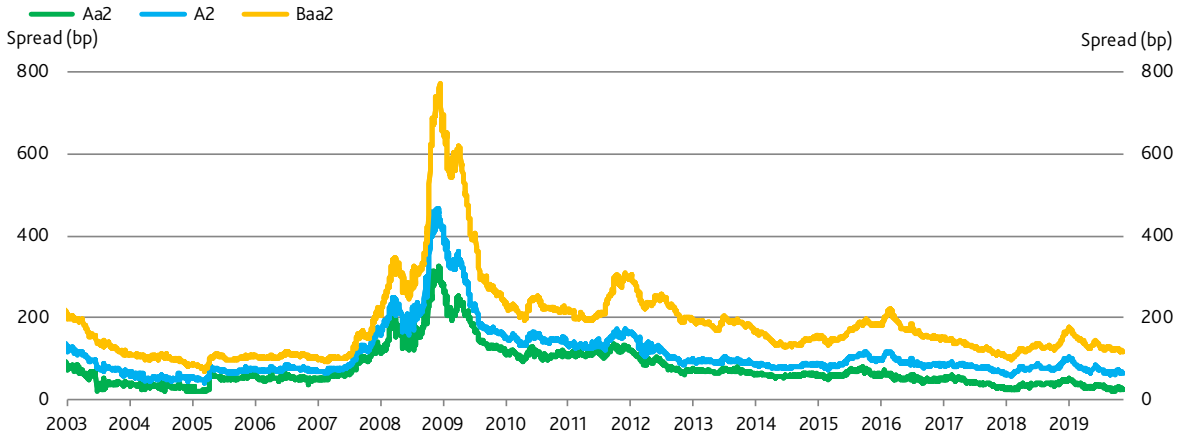
Date	Company	Sector	Rating	Up/ Down	Old LTD Rating	New LTD Rating	IG /S G	Country
11/13/19	ARKEMA	Industrial	SrUnsec/LTIR /JrSub/MTN	U	Baa2	Baa1	IG	FRANCE
11/14/19	JACOBS DOUWE EGBERTS HOLDINGS B.V.	Industrial	SrSec/BCF /LTCFR/PDR	U	Ba2	Ba1	SG	NETHERLANDS
11/15/19	SCHNEIDER ELECTRIC SE	Industrial	SrUnsec/LTIR	U	Baa1	A3	IG	FRANCE
11/18/19	PIZZAEXPRESS FINANCING 1 PLC	Industrial	SrSec/Srunsec /LTCFR/PDR	D	B3	Caa1	SG	UNITED KINGDOM
11/19/19	L1R HB FINANCE LIMITED	Industrial	SrSec/BCF /LTCFR/PDR	D	B2	B3	SG	UNITED KINGDOM

Source: Moody's

Market Data

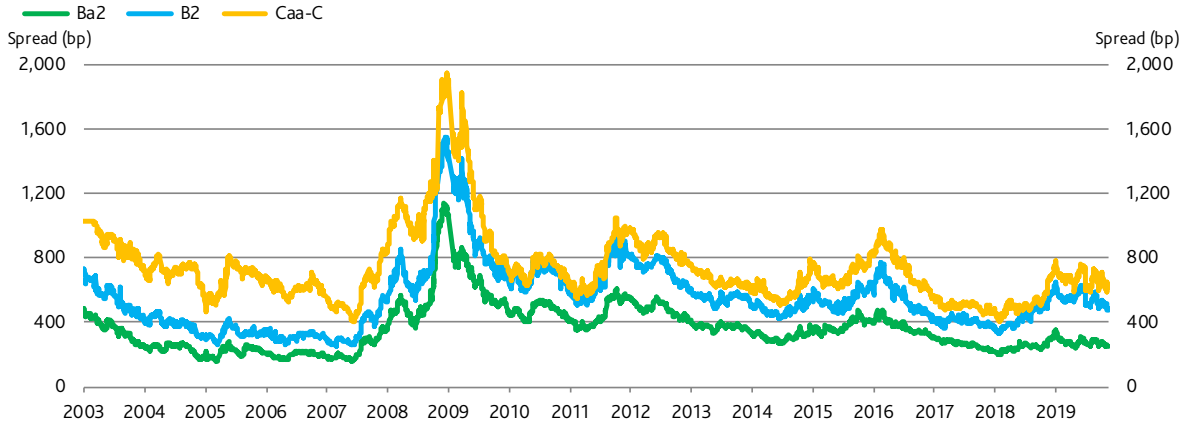
Spreads

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



Source: Moody's

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



Source: Moody's

Market Data

CDS Movers

Figure 3. CDS Movers - US (November 13, 2019 – November 20, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 20	Nov. 13	Senior Ratings
Huntsman International LLC	Aa3	A2	Baa3
Avon Products, Inc.	Ba3	B2	B3
Apple Inc.	Aaa	Aa1	Aa1
United Technologies Corporation	Aa2	Aa3	Baa1
Merck & Co., Inc.	Aa3	A1	A1
Honeywell International Inc.	Aaa	Aa1	A2
Kinder Morgan Energy Partners, L.P.	Aa3	A1	Baa2
Roche Holdings Inc.	Aaa	Aa1	Aa3
Northrop Grumman Corporation	Aaa	Aa1	Baa2
Target Corporation	Aa1	Aa2	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 20	Nov. 13	Senior Ratings
Expedia Group, Inc.	Baa2	A2	Baa3
JPMorgan Chase & Co.	A1	Aa3	A2
Ford Motor Credit Company LLC	B2	B1	Ba1
Verizon Communications Inc.	A3	A2	Baa1
American Express Credit Corporation	Aa3	Aa2	A2
Ford Motor Company	B2	B1	Ba1
Bank of America, N.A.	A2	A1	Aa2
American Tower Corporation	B1	Ba3	Baa3
Simon Property Group, L.P.	A3	A2	A2
Sprint Communications, Inc.	B3	B2	B3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 20	Nov. 13	Spread Diff
Frontier Communications Corporation	Caa3	10,808	9,846	961
McClatchy Company (The)	C	2,175	1,271	904
Penney (J.C.) Corporation, Inc.	Caa3	3,039	2,732	307
Diamond Offshore Drilling, Inc.	B3	784	755	29
Expedia Group, Inc.	Baa3	67	44	23
Gap, Inc. (The)	Baa2	125	103	22
Talen Energy Supply, LLC	B3	810	788	21
K. Hovnanian Enterprises, Inc.	Caa3	1,517	1,496	21
Cablevision Systems Corporation	B3	389	372	17
YRC Worldwide Inc.	Caa1	824	809	15

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 20	Nov. 13	Spread Diff
Chesapeake Energy Corporation	B3	2,091	2,316	-225
Realogy Group LLC	B3	592	669	-77
Avon Products, Inc.	B3	155	232	-77
Unisys Corporation	B2	384	448	-64
United States Steel Corporation	B3	569	601	-31
Hertz Corporation (The)	B3	317	345	-27
Tenet Healthcare Corporation	Caa1	314	340	-25
Dish DBS Corporation	B1	389	413	-25
Neiman Marcus Group LTD LLC	Ca	6,000	6,025	-25
American Axle & Manufacturing, Inc.	B2	321	346	-25

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (November 13, 2019 – November 20, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 20	Nov. 13	Senior Ratings
Societe Generale	Aa2	Aa3	A1
Ireland, Government of	Aa1	Aa2	A2
Lloyds Bank plc	Aa3	A1	Aa3
Vinci S.A.	Aa1	Aa2	A3
Autoroutes du Sud de la France (ASF)	Aa1	Aa2	A3
Vivendi SA	A1	A2	Baa2
United Utilities PLC	A3	Baa1	Baa1
NXP B.V.	Baa3	Ba1	Baa3
Leonardo S.p.A.	Baa3	Ba1	Ba1
Airbus SE	Aa2	Aa3	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 20	Nov. 13	Senior Ratings
Italy, Government of	Ba2	Ba1	Baa3
Standard Chartered PLC	Baa1	A3	A2
ENEL S.p.A.	Baa2	Baa1	Baa2
Telecom Italia S.p.A.	Ba3	Ba2	Ba1
RCI Banque	Ba2	Ba1	Baa1
Eurobank Ergasias S.A.	Ca	Caa3	Caa1
Piraeus Bank S.A.	C	Ca	Caa2
Atlantia S.p.A.	B1	Ba3	Baa3
Telia Company AB	Aa2	Aa1	Baa1
Banco BPI S.A.	Ba2	Ba1	Ba1

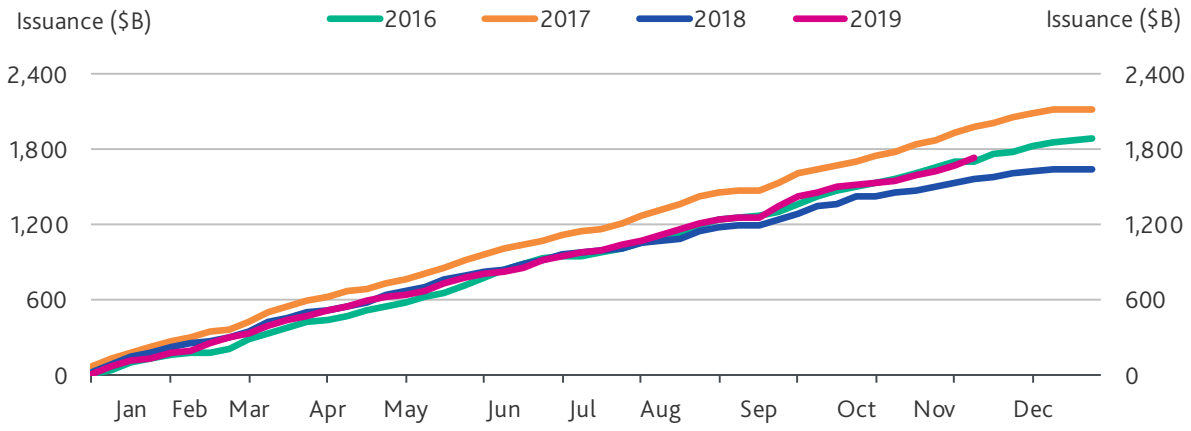
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 20	Nov. 13	Spread Diff
Boparan Finance plc	Caa1	2,658	2,582	75
Novafives S.A.S.	Caa2	725	702	24
UPC Holding B.V.	B2	119	103	17
Italy, Government of	Baa3	120	109	12
RCI Banque	Baa1	126	114	12
Renault S.A.	Baa3	120	108	12
Virgin Media Finance PLC	B2	115	107	9
SES S.A.	Baa2	65	57	8
Ziggo Secured Finance B.V.	Caa1	133	125	8
Ziggo Bond Company B.V.	B3	130	122	8

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 20	Nov. 13	Spread Diff
PizzaExpress Financing 1 plc	Caa2	5,493	6,211	-718
CMA CGM S.A.	Caa1	1,410	1,494	-85
Casino Guichard-Perrachon SA	B3	654	693	-40
Valaris plc	Caa1	1,163	1,182	-19
Jaguar Land Rover Automotive Plc	B1	491	503	-13
Stena AB	B3	495	508	-13
NXP B.V.	Baa3	87	98	-11
Stonegate Pub Company Financing plc	Caa1	128	138	-10
Matalan Finance plc	Caa1	776	784	-9
Hammerson Plc	Baa1	158	167	-8

Source: Moody's, CMA

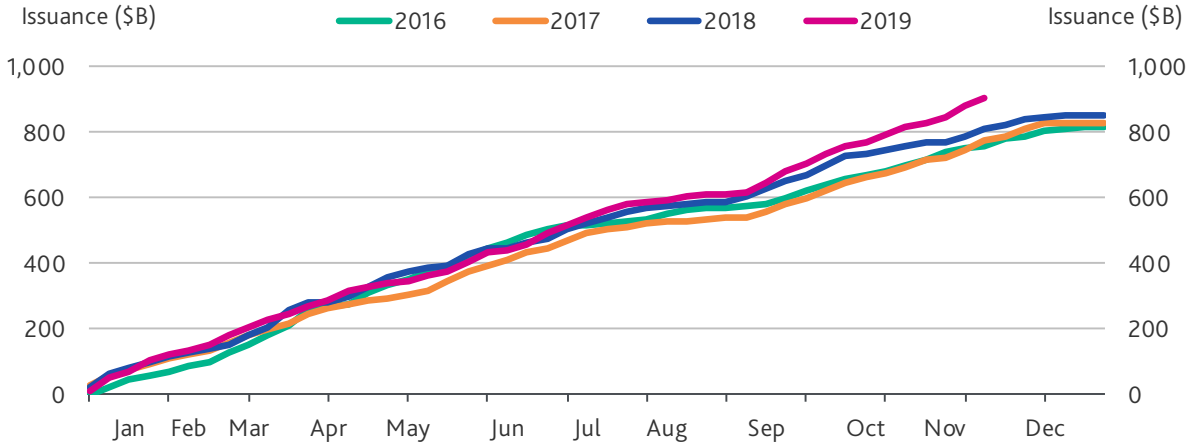
Issuance

Figure 5. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

Figure 6. Market Cumulative Issuance - Corporate & Financial Institutions: Euro Denominated



Source: Moody's / Dealogic

Market Data

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	51.635	16.532	70.467
Year-to-Date	1,259.917	386.828	1,740.063

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	12.452	5.257	19.256
Year-to-Date	773.010	101.614	901.642

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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