MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Stabilization of Equities and Corporates Requires Treasury Bond Rally

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.

Stabilization of Equities and Corporates Requires Treasury Bond Rally

The world is now incapable of shouldering a 10-year Treasury yield above 3%. A remedial decline by the U.S.' benchmark interest rates will be critical to rejuvenating global business activity and stabilizing financial markets. Otherwise, the corporate earnings outlook might deteriorate by enough to sink the market value of U.S. common stock by another 20% and swell the now 552 basis point high yield bond spread to 800 bp.

Regardless of forthcoming increases in outstanding U.S. Treasury debt, recent Fed rate hikes, as well as the Fed's intention to passively inject annually as much as $360 billion of Treasury bonds and $240 billion of agency MBS debt into the publicly-traded bond market, the 10-year Treasury yield plunged from a November 8, 2018 high of 3.24% to a recent 2.57%. An unfolding slowdown by global business activity now more than offsets the upward pressure put on interest rates by the Fed's unprecedented firming of monetary policy on two fronts and a federal deficit inspired acceleration of U.S. Treasury debt relative to GDP.

In all likelihood, benchmark U.S. Treasury yields will continue to decline until interest-sensitive spending in the U.S. improves prospects by enough to materially increase risk tolerance. According to fourth-quarter 2018's 1.1% year-over-year drop by mortgage applications from potential homebuyers and December 2018's deepest monthly decline by the ISM index of U.S. manufacturing activity since October 2008, a bottom for Treasury bond yields does not yet impend.

As often is the case amid stable inflation expectations, benchmark interest rates function as a regulator of business activity. Notwithstanding the anticipated course of Fed policy and federal borrowing, benchmark interest rates will subside when expenditures slow and vice versa.

Fed's Data Dependency Is Open to Considerable Interpretation

Remember how 1999's widening of the federal budget surplus, a strong dollar exchange rate, and an ultra-low 1.4% annual rate of core PCE price index inflation did not prevent benchmark interest rates from rising in response to a quickening of global economic growth from 1998's 2.5% to 1999's 3.6% (wherein U.S. real GDP growth rose from an already rapid 4.5% to 4.8%), the U.S.' creation of 308,000 jobs per month (adjusted for the size of today's payrolls), and a 22% yearlong advance by the market value of U.S. common stock.

In the prior year of 1998, fed funds sank from the 5.50% of the year's first eight months to 4.75% by the end of November, while the 10-year Treasury yield's month-long average plunged from May's 1998 high of 5.65% to an October low of 4.53% despite U.S. real GDP growth of 4.3% and an adjusted average expansion by payrolls of 293,000 new jobs per month.

Deep Yearly Declines by Base Metals Price Index Favor Lower Treasury Yields

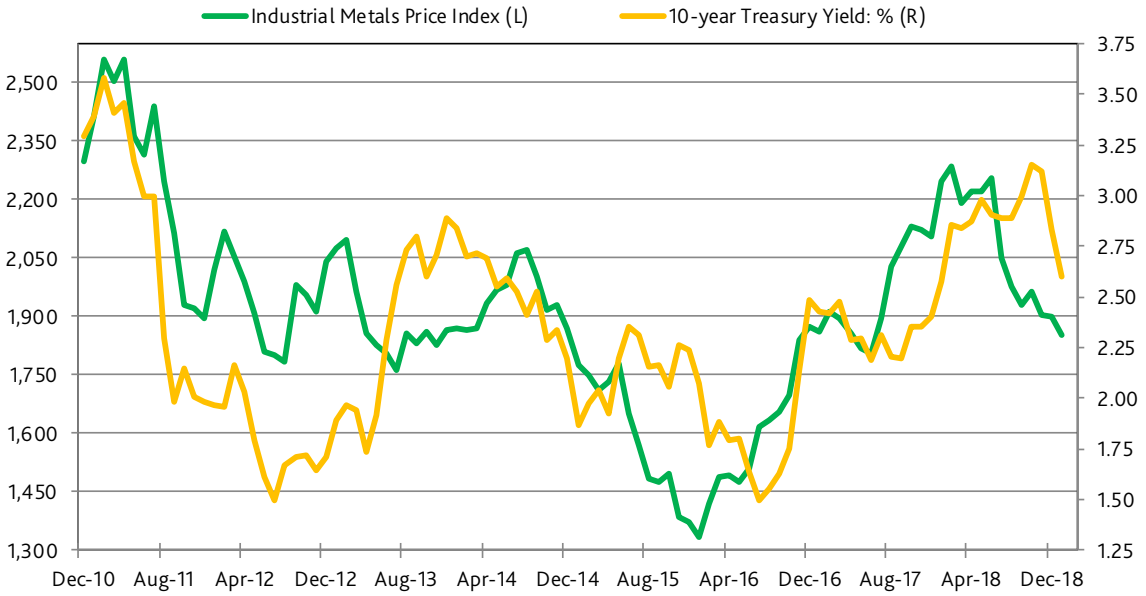
In 1998, U.S. interest rates took their cue from a jarring deceleration by world economic growth from 1997's 4.1% to 1998's 2.5% that complemented yearlong 1998's annual dives of 17% for Moody's industrial metals price index and 30% for the price of WTI crude oil. Industrial commodity price deflation helped to intensify financial stress in emerging market countries, especially Russia.

Recent year-to-year price setbacks of 25% for WTI crude oil and 16% for the base metals price index reflect a meaningful deceleration of global activity that, similar to 1998, is likely to be remedied by lower benchmark interest rates in the U.S.

Since the end of 1983, the month-long average of Moody's industrial metals price index posted a year-to-year decline of 5% or deeper in 139 months. In 116, or 83.5%, of those monthly setbacks, the 10-year Treasury yield's month-long average also sank from a year earlier. When the yearly drop by the base

metals price index sinks to 10% or deeper, the frequency of annual declines by the 10-year Treasury yield rises to 89.2%.

Figure 1: Industrial Metals Price Index's Latest Drop Favors Year-to-Year Declines by the 10-Year Treasury Yield
sources: Moody's Analytics

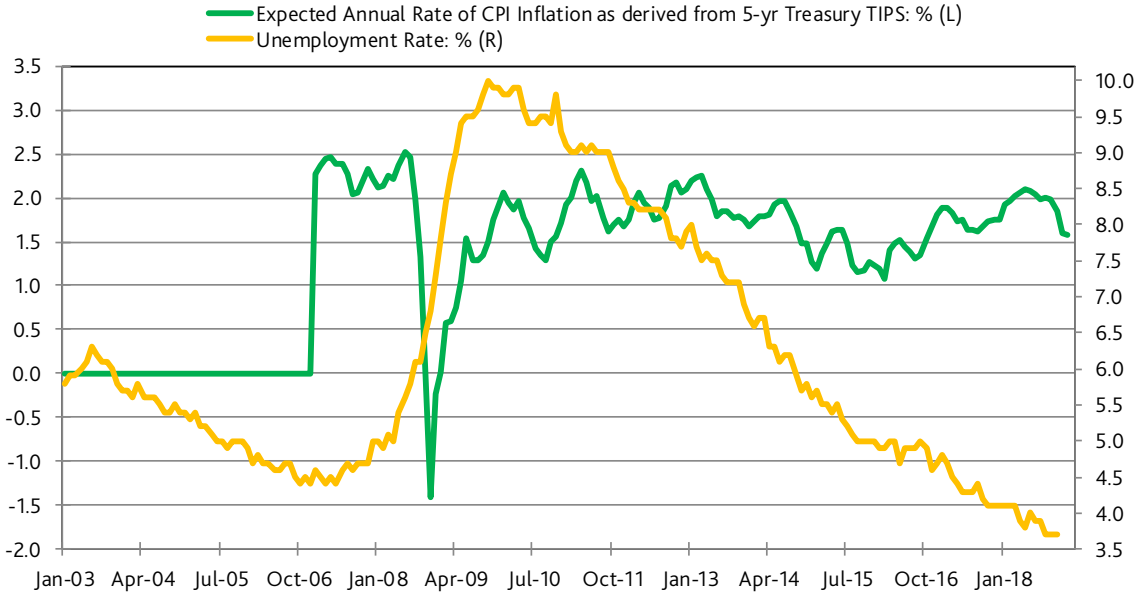


Jobless Rate's 50-Year Low Fails to Boost Inflation Expectations

Inflation expectations have recently declined despite November's nearly 50-year low of 3.7% for the U.S. unemployment rate. The five-year TIPS contract now puts year-end 2019's expected annual rate of CPI inflation at 1.6%.

Notwithstanding a drop by the average unemployment rate from 2013's 7.4% to 2018's 3.9%, the average rate of expected CPI inflation hardly budged from 1.9% to 2.0%. The Phillips curve has lost its bite.

Figure 2: TIPS-Derived Inflation Expectations Hardly Move Despite Unemployment Rate's Plunge from 2013's 7.4% to 2018's 3.9%
source: BLS, Moody's Analytics



U.S. businesses that overestimated pricing power now suffer from lower than expected revenues. In order to adjust to reality, such businesses may soon engage in price discounting and, if that fails to sufficiently spur sales, outright cutbacks in capital spending and staff may follow. A declining jobless rate no longer automatically enhances the pricing power of businesses.

Fed Futures Now Assign 0% Odds to a 2019 Rate Hike

Worsened prospects for world business activity have prompted much lower-than-anticipated interest rates. As recently as late December 2018, the Blue Chip Financial consensus predicted a climb by the average 10-year Treasury yield from 3.1% for 2019's first quarter to 3.3% by the year's final quarter. By contrast, the latest 10-year Treasury yield of 2.58% is less than the 2.9% average of the survey's lowest 10 forecasts for first-quarter 2019's 10-year Treasury yield.

On average, the roughly 44 participants in late December's Blue Chip Financial survey supplied an outlook for the federal funds rate that differs radically from the latest view of the financial markets. As of late December, 6.8% of the participants expected a single rate hike for 2019, 54.5% agreed with the Federal Open Market Committee's median forecast of December 19 and projected two rate hikes, while a surprisingly large 31.8% predicted three rate hikes. Only 6.8% of surveyed prognosticators believed fed funds' midpoint would finish 2019 at the 2.38% of year-end 2017.

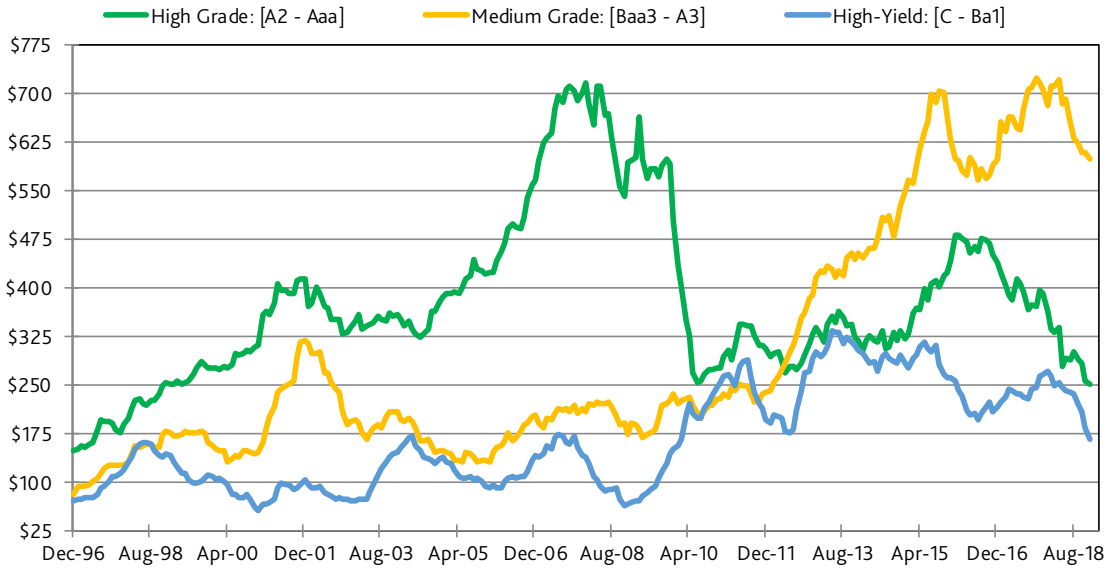
As inferred from the CME Group's FedWatch Tool, early January 2019's fed funds futures assigned an implicit probability of 65% to fed funds' midpoint finishing 2019 at its current 2.38%. Moreover, the futures contract also supplied a 35% implied likelihood to a year-end fed funds rate of less than 2.38%. And in a most shocking development, the futures market now puts the odds of just one rate hike in 2019 at 0%. In a manner that contradicts the latest available consensus view of professional Fed watchers, the futures market believes fed funds is much more likely to finish 2019 under rather over its current 2.38%.

Rated US Corporate Bond Issuance Incurs Deepest Percent Drop since 2010's Second Quarter

The depth of the drop by U.S. corporate bond issuance during 2018's final quarter hints of possible balance-sheet deleveraging. Fourth-quarter 2018's investment-grade corporate bond issuance by U.S.-domiciled corporations sank by 28.4% annually to $152.1 billion, where the latter was the lowest calendar quarter for such IG issuance since the $113.2 billion of 2011's final quarter.

In 2018, IG bonds offered by U.S. companies sank by 22.5% annually to $851 billion for the category's worst year since 2013's $771 billion. The slide by 2018's IG issuance included a 35.5% drop by high-grade offerings to $253 billion–the lowest since 1998's $253 billion–and a 15.3% decline by medium-grade issuance to $598 billion–the lowest since 2014's $549 billion.

Figure 3: 2018's -25.5% Annual Drop by Bond Issuance from US Companies Included Setbacks of -35.5% for High-Grade, -15.3% for Medium-Grade and -37.8% for High-Yield
12-month sums in $ billions (excludes ABS and MBS)



Worse yet, fourth-quarter 2018's high-yield bond issuance by U.S.-based companies plunged by 77.6% annually, to $14.9 billion, where the latter was the lowest calendar-quarter since the $9.6 billion of 2008's final quarter. For yearlong 2018, high-yield bond offerings plunged by 37.8% to $161 billion for the lowest such tally since 2009's $151 billion.

Total rated corporate bond issuance by U.S.-based companies plunged by 40.2% annually in 2018's final quarter for the metric's deepest year-to-year drop since the 50.2% decline of 2010's second quarter. In the second-quarter of 2010, the outstanding total indebtedness of U.S. nonfinancial corporations sank by 5.8% from a year earlier.

Though a year-to-year decline by U.S. nonfinancial corporate debt for 2018's final quarter is most unlikely, the annual increase by such debt should be much slower than the unexpectedly rapid 6.5% yearly gain of 2018's second quarter. A deceleration by private-sector debt may help to explain the latest descent by Treasury bond yields despite faster growth by the outstandings of publicly tradable U.S. Treasury bonds.

The year-to-year declines by the corporate bond offerings of 2018's final quarter were mostly the offshoot of substantially higher corporate bond yields. As derived from the Bloomberg-Barclays US$-denominated corporate bond yield indices, the average investment-grade yield climbed up by 105 bp from the 3.21% of 2017's final quarter to the 4.26% of 2018's final quarter. At the same time the average speculative-grade bond yield soared higher by 145 bp from 5.60% to 7.06%, respectively.

The advances by corporate bond borrowing costs largely stemmed from accompanying advances by Treasury bond yields. For example, the five-year Treasury yield rose by 82 bp from the 2.05% of 2017's final quarter to the 2.87% of 2018's final quarter, while the 10-year Treasury yield posted an accompanying gain of 66 bp from 2.37% to 3.03%.

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

THE U.S.

By Ryan Sweet, Moody's Analytics

Key Economic Questions for 2019

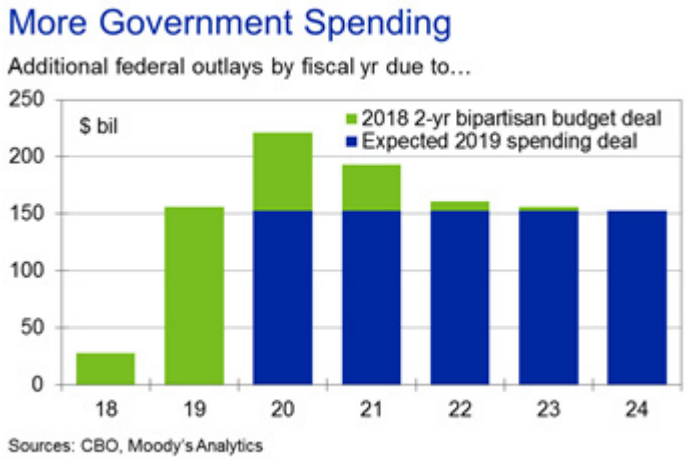
As we head into 2019, we attempt to answer the key economic questions that could determine whether the economy deviates, for better or worse, from our expectation. We also provide our confidence level in our projections. The economy could hit a milestone in the new year.

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

Projection: Yes.

Confidence: Medium.

Fiscal stimulus will power the economy, adding an estimated 0.6 percentage point to growth in 2019, but the composition will shift from support from personal income and corporate tax cuts to an increase in government spending. Government spending should soon ramp up as federal agencies finally get around to spending the increased monies that Congress appropriated almost a year ago.

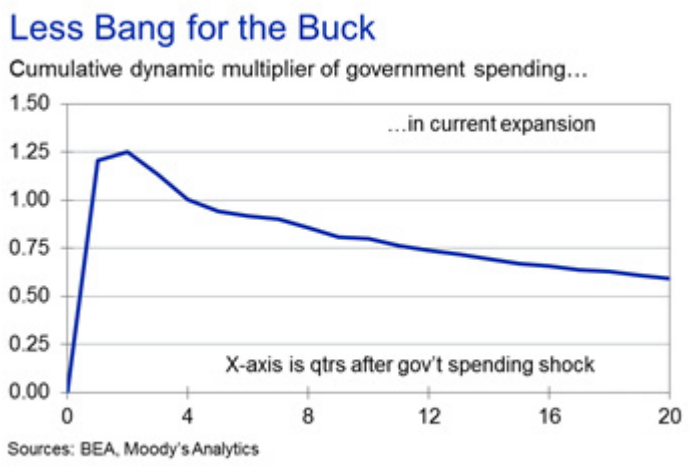


Our assumption for fiscal 2019 is that agencies will spend $130 billion of their combined increase in fiscal 2018 and 2019 funding. This will be subject to further revisions, pending incoming data on federal spending. Forecasting spending patterns during major policy changes is challenging.

One risk to our expectation for a positive contribution to GDP growth in 2019 from higher government spending is that the bang for the buck is less now than if the economy were in a recession or early expansion. In the current environment every $1 increase in government spending will provide little additional increase in economic output in the first year.

The state of the economy is important in assessing the size of the government spending multiplier. We assume that the multiplier is higher when the economy is in recession than in expansion. When the economy has slack, expansionary fiscal policy is needed to stimulate aggregate demand and less likely to displace private consumption and investment. The opposite is assumed when the economy is at full employment and with no output gap. We tested this hypothesis, focusing just on the fiscal multiplier tied to government spending.

We fitted a vector autoregressive model in which normalized U.S. real GDP was specified as a linear function of four of its own lags and a set of exogenous variables. We then computed estimates of the cumulative dynamic multipliers, which describe the impact of a permanent unit change in government spending on real GDP over time. Both the dependent variable—real GDP—and the shock—government spending—are normalized by dividing by the Congressional Budget Office's estimate of potential real GDP.



The results show that in a mid- to late-cycle expansion, the cumulative dynamic multiplier is lower than when the economy is in recession or early-cycle expansion. The cumulative dynamic multiplier for government spending in a mid- to late-cycle expansion is 1 after the first year, before falling below unity as the crowding-out effect kicks in. Our results are consistent with much of the literature. As the multiplier declines, the economic boost the economy receives from each additional dollar of government spending fades.

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

Projection: Yes.

Confidence: Medium.

The truce on tariffs reached in December increased the odds of a deal, but there is a long way to go, and some issues will be more difficult to address than others. The Trump administration gave Chinese officials a broad set of demands in 2018. The detailed list of 142 items has not been publicly released. The primary focus appears to be on intellectual property and technology transfer. The U.S. trade representative contended that ownership restrictions, licensing requirements, acquisition of U.S. cutting-edge technology, and cyber theft put U.S. industries at a disadvantage. Other areas of focus include market access, subsidies, and reducing the trade deficit.

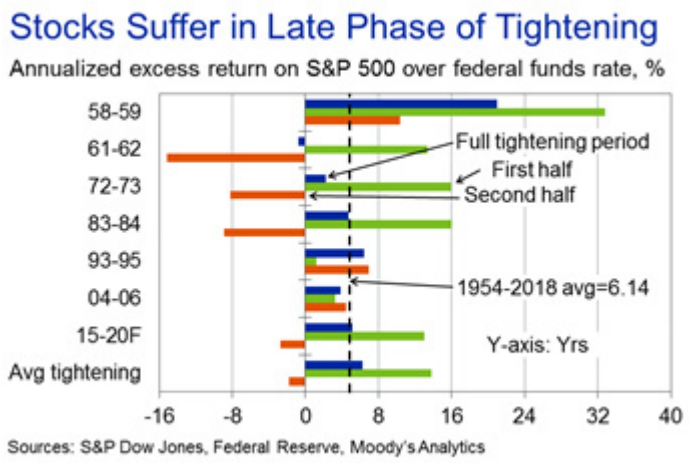
We don't believe all of these points will need to be addressed within the 90-day truce deadline, but some progress likely is needed to prevent the U.S. from raising the tariff rate. Odds are that some tentative, even not substantive deal, can be reached. By the end of 2019 the trade tensions between the U.S. and China will be less significant than they are now. Both sides will have incentives to reach a deal. The Trump administration uses the stock market as a barometer of policy success and the trade tensions have clearly weighed on U.S. equity markets. If the administration wanted to provide a boost to the stock market at any time in 2019, it could announce a deal with China.

Will financial market conditions be a drag on the economy?

Projection: Yes.

Confidence: High.

A simulation of our macro model implies that if the worst of the decline in stock prices has passed, and if stocks remain little changed in 2019, 0.75 to 1 percentage point would be shaved off GDP growth in 2019. Little change in stocks wouldn't be surprising since equity markets don't usually do well in the late stage of the Fed's normalization cycle.



A simulation of our model based on the recent change in long-term interest rates suggests the decrease, if sustained, adds 0.1 percentage point to GDP growth, while the recent appreciation in the U.S. dollar didn't have any noticeable impact on growth. However, the support from lower interest rates won't be sustained, as we anticipate short- and long-term rates to increase.

The volatility in equity markets is garnering most of the attention, but if the drop in oil prices sticks, some of the drag on growth from the decline in equity markets should be offset. Based on our past work, every $10 decline in crude prices boosts U.S. growth by 10 to 15 basis points, or 0.1 to 0.15 percentage point, over the subsequent year. West Texas Intermediate crude oil prices have dropped about $30 per barrel from their recent highs, which will add 0.3 to 0.45 percentage point to growth next year. Still, recent developments in financial markets would reduce GDP growth around 0.5 percentage point, which is a larger drag than a 25-basis point hike in the fed funds rate.

Will the unemployment rate hit 3% in 2019?

Projection: No.

Confidence: Medium.

The unemployment rate is forecast to hit 3.3% early in the fourth quarter, but risks are balanced. Monthly job growth is expected to average 156,000 in 2019. Though weaker than in 2018, it exceeds that needed to keep up with growth in the working-age population.

The number of jobs needed to keep the unemployment rate stable was running around 195,000 per month in the first half of 2018 but has dropped toward the end of the year and should be closer to 100,000 in 2019. 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 ratio of payroll to household employment. The break-even rate of job growth isn't constant, and the key determinant will be the labor force participation rate.

Our forecast is generally consistent with Okun's law, as we expect GDP growth to be nearly 1 percentage point above the economy's potential growth rate in 2019.

Will a labor shortage cause the labor market to overheat?

Projection: No.

Confidence: Medium.

The U.S. unemployment rate will likely continue to decline, raising concerns that the labor market may overheat and ignite wage and price inflation. These concerns are not misplaced, but premature; there won't be a labor supply shortage.

Businesses have been 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 potential supply of workers isn't officially estimated. However, we can estimate it based on the number of unemployed—who are willing and able to work now and thus reflect the existing potential labor pool—plus those who are not in the labor force but want a job. There are 5.4 million people not in the labor force but who want a job.

There are many reasons people who want a job are not in the labor force, including discouragement over job prospects, ill health or disability, being in school, and family issues. If circumstances changed, some would enter the labor force, increasing the labor supply. Of those not in the labor force but who want a job, 1.67 million are available to work now.

To pull more of the reserve supply into the labor force, stronger wage growth is needed. Since the mid-1960s, changes in labor income have had a strong relationship with labor force growth. This also makes sense in theory: Workers have a sense of the minimum they will accept—a reservation wage—to take a job. Factors such as family and homeownership status, available jobless benefits, or household wealth can affect the reservation wage.

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?

Projection: Yes.

Confidence: Medium.

Though we believe existing-home sales have peaked this cycle, fundamentals should continue to push new-home sales and single-family construction higher. The homeownership rate began to gradually rebound around the second quarter of 2016, after about a decade of steadily declining homeownership. It's even rebounding for younger households, which had shown the biggest declines.

Homeownership taking this long to begin rebounding should not be a big surprise given the magnitude of the housing bubble, and given how long labor markets have taken to recover. Higher mortgage rates and the impact of the tax legislation passed in late 2017 will likely limit but not prevent an increase in new home sales and single-family construction.

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

Projection: Yes.

Confidence: Low.

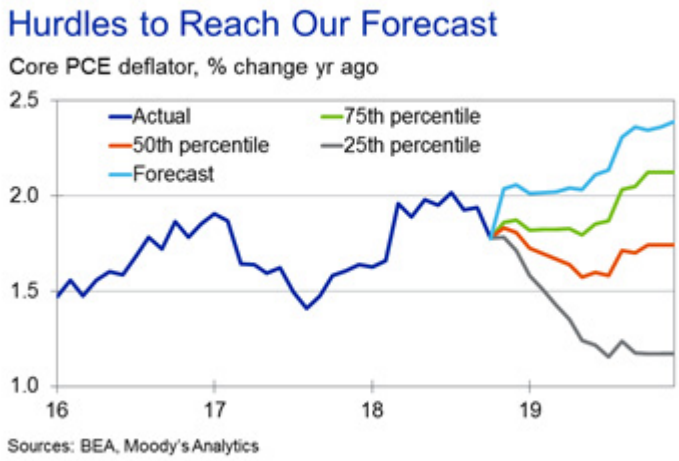
Though we expect a tighter labor market to put upward pressure on inflation, odds are rising that U.S. core inflation will likely fall short of our forecast next year. The recent slide in global oil prices will bleed

into core inflation via lower transportation costs. Also, the potential boost from higher U.S. tariffs on imported Chinese goods will likely be postponed until after the 90-day negotiation window. In addition, it's possible that the U.S. won't follow through with the threatened higher tariffs on China, which would have added 0.1 percentage point to year-over-year growth in the core PCE deflator. Therefore, it will likely take time before growth in core inflation returns to the Federal Reserve's 2% objective, which may give the central bank reason to pause its tightening in 2019.

The core PCE deflator was up 1.9% on a year-ago basis in November. There are a few ways to look at GDP, including the level and the first and the second derivatives. The first derivative is the rate of change in the level of the PCE deflator, showing whether it has risen on a year-ago basis. The second derivative tells us whether growth is accelerating or decelerating.

In November, year-over-year growth in the core PCE deflator was up 0.3 percentage point compared with the same time in 2017. Therefore, inflation is still accelerating. Yet this appears set to change, and the bar for inflation returning to 2% is fairly high.

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. If we assume that the core PCE deflator increases by 0.175% per month, which is stronger than 75% of the monthly changes since 2015, year-over-year growth won't hit 2% until next August. A constant 0.144% monthly gain, which is stronger than 50% of the changes since 2015, would keep year-over-year growth below 2% throughout 2019.



We currently look for the core PCE deflator to be up 2.3% on a year-ago basis in December 2019.

Will the Fed pause?

Projection: Yes.

Confidence: High.

The Federal Open Market Committee has stressed that it is data-dependent, and the data supported a rate hike in December 2018, but a cause for a pause in early 2019 is building. The Fed has turned a little dovish, putting our subjective odds of March 2019 rate hike at 35%. Our subjective odds of a June move are at 55%.

The Fed will turn more cautious in early 2019. A more risk-management approach is needed, as the tightening in financial market conditions will weigh on growth. Fed Chairman Jerome Powell said in early 2018 that a significant and lasting correction in financial markets could cause the Fed to tighten more slowly. Also, the March FOMC meeting will be around the time the U.K. is scheduled to break

from the European Union and when the negotiating window between the U.S. and China closes. The Fed may not want to hike ahead of these without more clarity on the potential implications for the U.S. economy.

If the Fed pauses, it should make the pause count. We ran a few simulations through our U.S. macro model to gauge the impact of a Fed pause based on its duration. Under all simulations, the pause occurred in the first quarter of 2019, and we assumed a resumption of gradual rate hikes, one per quarter, after the pause. A quick pause, lasting three months, had no material impact on GDP growth, inflation or the unemployment rate in 2019 or 2020.

Next, we assumed the Fed pauses for six months; this puts the unemployment rate 0.04 percentage point lower than our baseline for 2019 and 0.15 percentage point less than our forecast for 2020. A six-month pause adds 0.05 and 0.14 percentage point to GDP in 2019 and 2020, respectively. The impact on core inflation is small. A 12-month pause lowered the unemployment rate by 0.08 and 0.18 percentage point in 2019 and 2020, respectively. GDP growth is boosted by 0.1 and 0.25 percentage point in 2019 and 2020, respectively.

One important assumption is that the Fed won't hike more aggressively than once per quarter after a pause. If, for example, a hike came at each meeting, all of the economic benefits from the pause and more would be wiped away. An additional 100 basis points of tightening in 2021 would reduce GDP growth by 0.5 percentage point over the subsequent year.

Will the Fed halt the normalization in its balance sheet?

Projection: No.

Confidence: Medium.

Our best guess remains that runoff will end with bank reserves of $500 billion to $1 trillion, with the top end of that range being achieved in early 2020. The balance sheet will fall to $3 trillion to $3.5 trillion but this won't be completed in 2019, and we believe the bar for slowing the pace of normalization is high.

Will the Fed make a change to its policy framework?

Projection: No.

Confidence: High.

The Fed will be debating its policy framework but no change is expected. The size of the balance sheet factors into the long-run framework of conducting monetary policy. The Fed has shifted from the corridor system, pre-Great Recession, to the floor system. Under the floor system, the central bank uses the interest rate on excess reserves, called the IOER, and the offering rate of the overnight reverse repurchase agreement facility to control the effective fed funds rate. The debate will not be lively, since the consensus within the FOMC has shifted toward keeping the floor system.

The floor system requires reserves to be abundant (meaning many more reserves than regulations require banks to hold) and hinges on the Fed's ability to use IOER. An oversupply of reserves could push the effective fed funds rate toward the low end of the range or even beyond it. To prevent this, the Fed uses the IOER, making it crucial to the conduct of monetary policy, and Powell went out of his way to stress its importance during the chairman's semiannual prepared remarks before Congress.

With the corridor system, reserves would likely be well below their present level, and the federal funds rate would be managed by frequent open market operations. Powell has long supported the floor system because he believes it's more likely to be relatively simple and efficient to administer and easier to communicate. Powell's support for the floor system suggests that the administered rates of IOER and the overnight reverse repo rate will remain in place and the balance sheet may remain larger than anticipated. How large will depend on the amount of reserves needed to effectively and efficiently

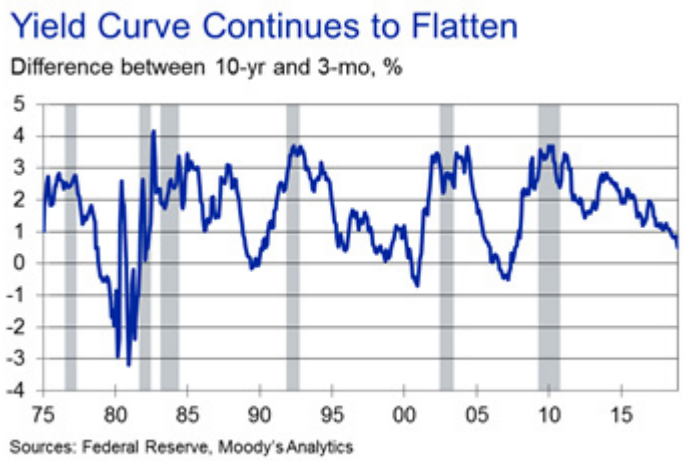
conduct monetary policy. In other words, to control the effective fed funds rate, it's unclear what level of reserves will be needed, since the Fed has to feel that out as it normalizes interest rates.

Will the yield curve invert?

Projection: No.

Confidence: Very low.

The yield curve, which we define as the difference between the 10-year and three-month Treasury yields, is not forecast to invert in 2019 but there is a material risk that we are wrong. The current spread is less than 40 basis points. Long-term rates face some headwinds, including lower inflation expectations and a reduction in the expected path of short-term rates. Also, inflation likely will moderate early in the year and that could reduce the term premium. On the short end, the Treasury will likely continue on its Treasury bill issuance binge next year, putting some upward pressure on the three-month Treasury yield.



Will there be a recession?

Projection: No.

Confidence: High.

Recession risks will increase but we don't believe a recession will occur. While recession often is defined as two consecutive quarters of GDP contraction, this is not quite accurate, at least in the U.S. The National Bureau of Economic Research's business cycle dating committee—which has become the de facto arbiter of recession in the U.S.—uses a more complex formula. The committee defines a recession as a "significant decline in economic activity spread across the economy, lasting more than a few months."

The economy will slow, but that differs from a recession. Neither overheating risks, shock to the economy's balance sheet, nor financial imbalances—the classic causes of U.S. recessions—look worrisome in 2019. As a result, the expansion is on course to become the longest in U.S. history in 2019.

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

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics in Prague

U.K. Construction Likely Key in Latest GDP Results

The week ahead will bring a bit more excitement on the data front. Several top-tier figures for the euro zone countries and the U.K. are scheduled for release, and the spotlight will be on the U.K.'s monthly GDP numbers for November, as well as retail sales and unemployment data for the euro zone for the same month along with industrial production figures for several of the area's major countries. We expect the results to come in rather mixed. First, we forecast that the U.K. economy grew by 0.1% m/m in November, the same as in October, pushing the three-month on three-month rate down to 0.3%, from the previous 0.4%.

The key downside factor was likely the U.K. construction sector, which is expected to have been further hit by Brexit uncertainty. We expect that output in the sector fell by a further 1% m/m, building on a 0.2% decline in October, in line with leading indicators. The bad news is that, for as long as there is no guarantee that the transition period will be implemented following Brexit day, construction companies and households will continue to delay major investment decisions and push them into 2019. The implication is that activity in the sector will remain subdued in December and January.

U.K. manufacturing activity should to have by contrast rebounded somewhat following the sharp 0.9% m/m drop in October, and we expect it was mainly driven by the clothing and the pharmaceutical sector. Textile production declined in October for the third month running, but we don't expect this grim trend to have carried over into November, notably as Black Friday sales probably provided at least some boost to demand from retailers. Regarding pharmaceuticals, production in the sector is incredibly volatile—sales rose by a cumulative 4.8% between August and September, then crashed by 5% m/m in October—so it is more likely than not that they will have corrected in November. Elsewhere, we expect that transport equipment production recovered somewhat, after it was dented in September and October by the introduction of the EU's new emissions testing rules (which went into effect on September 1).

In U.K. industrial production, we expect that energy output fell for yet another month, as temperatures in November remained 1.1°C above their long-term average, depressing demand for heating. Mining and quarrying is similarly expected to have decreased, following a jump in October, which was itself due to the fact that oil and gas fields returned to full output after maintenance shutdowns in August and September. In all, we expect industrial production to have risen by around 0.2% m/m, following a 0.6% decline in October.

Regarding services, we expect that activity in the sector slowed to 0.1% m/m, from 0.2% previously. October's services results were boosted by an unsustainable rebound in car sales following declines over the previous two months—themselves related to the new EU emission scheme—so we expect a correction in November. Results elsewhere in the services subsectors are expected to have been subdued, in line with leading indicators, though some support should have come from the Black Friday boost to retail sales.

Across the Channel, we expect that euro zone's unemployment and retail sales figures for November will be better. The area's unemployment rate should have edged further down, to only 8%, from 8.1% in October. Gains should have been broad-based across countries, but we expect that a sharp drop in Italy's headline will have provided the most support to the reduction in the number of the area's jobseekers. We caution nonetheless against reading too much into Italy's results, as they have been incredibly volatile lately; for several months now, sharp drops in the country's joblessness have been followed by increases. Overall, the situation of the country's labour market remains challenging, and gains are expected to remain very contained over the next few months. Regarding the retail sales results, we are penciling in a sharp increase in the currency area's aggregate result as goods spending in

the month was boosted by Black Friday across most of the area's major countries. Accordingly, we expect that the gains were broad-based across all countries.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 7:00 a.m.	Germany: Retail Sales for November	% change	1.3	-0.3
Mon @ 10:00 a.m.	Euro Zone: Retail Sales for November	% change	0.8	0.3
Tues @ 7:00 a.m.	Germany: Industrial Production for November	% change	1.8	-0.5
Tues @ 10:00 a.m.	Euro Zone: Business and Consumer Sentiment for December	index	108.9	109.5
Wed @ 9:00 a.m.	Italy: Unemployment for November	%	10.4	10.6
Wed @ 10:00 a.m.	Euro Zone: Unemployment for November	%	8.0	8.1
Thur @ 7:45 a.m.	France: Industrial Production for November	% change	-1.0	1.2
Thur @ 9:00 a.m.	Italy: Retail Sales for November	% change	0.3	0.1
Thur @ 2:00 p.m.	Russia: Consumer Price Index for December	% change	4.0	3.8
Fri @ 8:00 a.m.	Spain: Industrial Production for November	% change	0.8	1.2
Fri @ 8:00 a.m.	Spain: Consumer Price Index for December	% change yr ago	1.2	1.7
Fri @ 9:00 a.m.	Italy: Industrial Production for November	% change	0.3	0.1
Fri @ 9:30 a.m.	U.K.: Monthly GDP for November	% change	0.1	0.1

ASIA-PACIFIC

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

No Relief Expected for China's Export Sector in December

November was tough for China's export sector and relief is unlikely in December. Annual export growth slowed sharply to 5.4% y/y in November, after October's 15.6%. Export growth is expected to remain in the single digits in December. Worryingly, shipments to most major markets, including the U.S., slowed in November, as the earlier lift from front-loading purchases ahead of tariffs being implemented has faded. The trade war with the U.S. is likely a partial driver for the slowdown in shipments, but a broader slowdown in global demand from the expansion passing its peak is another catalyst.

Trade discussions between the U.S. and China will heat up next week, as both sides appear genuinely looking for a longer-lasting truce, given the rising downside risks impacting both sides from the escalating tariffs.

Credit growth in China has been volatile recently. We expect M2 money supply growth improved to 8.1% y/y in December, following November's 8% reading. Total social financing growth slumped to 9.9%, a record low and weaker than October's 10.2%, and December's reading is more unpredictable than usual. The bottom line is that Beijing has only loosened the stimulus tap and efforts are ongoing to reduce riskier lending, keeping broader credit growth subdued.

Inflation is the least of policymakers' problems in China. We forecast CPI growth remained a soft 2.2% y/y in December. Food prices are behind the soft print and have been cooling since the September peak at 3.6%. Unusual weather through mid-2018 seems to have increased price fluctuations in fresh produce during the year and has been the primary driver of price swings, most recently to the upside. Subdued inflation is keeping the light green for further stimulus in 2019 to prop up domestic demand, which is cooling below comfort levels.

The Week Ahead

China's producer price inflation likely continued its cooling trend in December. We forecast PPI growth hit 2.5% y/y, following the 25-month low of 2.7% in November. Producer price growth decelerated in November for a fifth straight month. Softer commodity prices are a key driver here as is the broader slowdown in the local industrial sector.

	Key indicators	Units	Confidence	Risk	Moody's Analytics	Last
Tues @ 11:30 a.m.	Australia Foreign trade for November	US$ bil	3	←	1.9	2.3
Tues @ 4:00 p.m.	Japan Consumer confidence for December	Index	3	←	42.8	42.9
Wed @ 12:30 p.m.	China Consumer price index for December	% change yr ago	3	↓	2.2	2.2
Wed @ 12:30 p.m.	China Producer price index for December	% change yr ago	3	↓	2.5	2.7
Thurs @ Unknown	China Monetary aggregates for December	% change yr ago	2	↑	8.1	8.0
Thurs @ Unknown	China Foreign trade for December	US$ bil	2	↓	39.8	44.8
Fri @ 11:30 a.m.	Australia Retail sales for November	% change	4	←	0.3	0.3
Fri @ 11:00 p.m.	India Industrial production for November	% change yr ago	2	↓	6.9	8.1

The Long View

The FOMC may take its cue from the market and more closely align fed funds with the needs of a global slowdown.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
January 3, 2019

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 149 basis points exceeded 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 552 bp is wider than what might be inferred from the spread's principal drivers, but is thinner that what is suggested by the accompanying long-term Baa industrial company bond yield spread of 240 bp and a VIX of 24.6 points. The adverse implications for liquidity of possibly significantly higher interest rates merit consideration.

DEFAULTS

November 2018's U.S. high-yield default rate of 2.9% was less than the 3.7% of November 2017. Moody's Default and Ratings Analytics team now expects the default rate will average 2.2% during 2019's third quarter.

US CORPORATE BOND ISSUANCE

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

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

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

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

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

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.

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 $2.321 trillion) for IG and plummeted by 37.7% for high yield (to $376 billion). The projected annual percent changes for 2019's worldwide corporate bond offerings are -5.0% for IG and +5.0% for high yield.

US ECONOMIC OUTLOOK

As inferred from the CME Group's FedWatch Tool, the futures market implicitly now assigns a 0% probability to a year-end 2019 federal funds rate that exceeds its current 2.375%. In view of the underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global

economy operates below trend, the 10-year Treasury yield may not remain above 3% for long. A fundamentally excessive climb by Treasury bond yields and a pronounced slowing by expenditures in dynamic emerging market countries are among the biggest threats to the adequacy of economic growth and credit spreads.

EUROPE

By Barbara Teixeira Araujo and Brendan Meighan of Moody's Analytics
January 3, 2019

UNITED KINGDOM

The first week of the year is bringing little on the top-tier data front, but at least we have some survey figures to keep us busy. On Thursday, in the spotlight was the release of the U.K.'s construction PMI for December. As expected, it brought little cheer. The gauge declined to 52.8, from 53.4 in November—its lowest in three months—confirming our fears that construction firms had a disappointing end to 2018. Across sectors, a further deceleration in housing and commercial activity growth more than offset a rebound in civil engineering, weighing on business activity growth for yet another month.

That new business volumes barely picked up in December suggests that a significant improvement in coming months is unlikely. That isn't surprising, though; as construction firms noted, heightened political uncertainty amid Brexit is continuing to delay spending decisions among clients, especially regarding commercial development projects. This is keeping a lid on demand and easing pressure on the supply side, while delivery times for materials lengthened at their slowest pace in two years in December.

The good news is that U.K. confidence about the year ahead has rallied recently, to its highest since April, pointing to a broad-based improvement over 2019 as a whole. And while this is contingent upon the U.K. and the EU passing the withdrawal agreement and unlocking the transition period, we think it more likely that both parties will compromise and find a viable conclusion to the Brexit saga.

Some big-ticket transport and energy infrastructure projects are scheduled for 2019, pointing to further upside for the U.K. construction sector this year.

EURO ZONE

Elsewhere, manufacturing continues its decline. December manufacturing PMI data show European manufacturing ending the year on a low note. The final euro zone figure hit 51.4, down from 51.8 in November and the lowest since 2016. Germany, Spain and France all posted their lowest manufacturing PMI numbers in more than two years, although the Netherlands and Italy showed some modest signs of improvement.

RUSSIA

Russia's third-quarter GDP report is not a good look for the country. Consumer spending will remain the primary support for the economy and the main driver of growth in the near term, but the labor market will be stretched at the seams before too long as the labor force shrinks. The pool of workers and consumers will shrink and take consumer spending with it. Government spending declined in the third quarter, with national financial reserves depleted after years of low oil prices. The government has fewer means to offset energy price declines, which are likely to hit hard in the fourth quarter. The nation's chronic under-investment remains a large concern, with firms unable to make the necessary investments in the face of the ongoing sanctions against the country.

ASIA PACIFIC

By Katrina Ell of Moody's Analytics
January 3, 2018

CHINA

Accepting slower growth has long been a challenge for Beijing. For the last few years, the task has been balancing the need to address risks in the financial system against pressure to stabilize economic growth. This balancing act came to the fore in 2018. But unlike previous downturns, the stimulus Beijing delivered over 2018 is measured and piecemeal.

Total social financing growth slowed to a record-low 9.9% y/y in November, following the 10.2% expansion recorded in October. Total social financing includes riskier and more opaque lending, such as loans from trust companies, to which the government has been trying to reduce exposure. This adds evidence to the view that China's objective of reducing financial risks is still intact.

But there is evidence of stimulus. In the year to November, fixed asset investment was up 5.9% y/y, improving from a 5.7% rise in October and 5.4% in September. The recent uptrend in fixed asset investment growth is encouraging and suggests that earlier stimulus measures, such as reserve requirement ratio cuts and restarting some infrastructure projects, are helping to stabilize investment. This should provide a broader, albeit measured, lift in 2019.

We expect more measured monetary and fiscal stimulus will occur in 2019 to keep the growth engine on track. The conclusion of the Economic Work Conference on 21 December provided more details. "Significant" cuts to taxes and fees will be introduced. We expect further reserve requirement ratio cuts in 2019, alongside further increases infrastructure spending. Our baseline does not include benchmark interest rate reductions, as Beijing has shown a clear preference for piecemeal and targeted adjustments at this stage.

ASIA

An unexpected development in 2018 was the pace at which some central banks in Asia tightened monetary policy to stem capital outflows and shore up external positions. Bank Indonesia was amongst the most aggressive in the region, delivering hikes totaling 175 basis points since mid-May. The central bank took a breather in December and kept the policy rate at 6%, but Indonesia's large fourth quarter trade deficit adds to pressure on the already wider current account deficit and makes it too early to say with confidence that Indonesia's tightening cycle is over.

Bangko Sentral ng Pilipinas delivered the same magnitude of hikes in 2018. Unlike Indonesia, the primary motivator was to temper inflation from its decade high after poor weather and excise tax changes caused it to spike.

The Bank of Thailand hiked rates in December for the first time since August 2011, and the Bank of Korea moved in December after also not hiking for seven years. Thailand's December move was viewed as a "dovish hike" with further movements unlikely in the first half of 2019, given subdued inflation and slower GDP growth.

While financial conditions remain easy in most economies in Asia, we expect monetary tightening to gather pace in 2019 and 2020. The tightening cycle will be gradual given the elevated debt that some pockets are carrying. In particular, household debt as a proportion of GDP is elevated by historical standards in Australia, New Zealand, South Korea and Malaysia, making economies more sensitive to higher interest rates than prior tightening cycles. Central banks in Australia and New Zealand are not forecast to commence normalization until mid-2020 given the slowing growth outlook and subdued inflation.

INDIA

The Reserve Bank of India is likely to be an exception to the forecast tightening over the next year or so. The RBI turned dovish from December, with the mandate to bolster domestic demand appearing a greater priority than previously. This stance has been enabled by softer inflation, which cooled in November to a 17-month low at 2.3% y/y, below the RBI's 4% medium-term target for a fourth straight month.

The Long View

Our baseline is for the RBI to keep the repo rate at 6.5% in 2019, but the odds of easing have increased after 50 basis points' worth of hikes in 2018 to help shore up the rupee. The currency has struggled amidst emerging market outflows in 2018.

Ratings Round-Up

Ukraine Banks See Upgrades

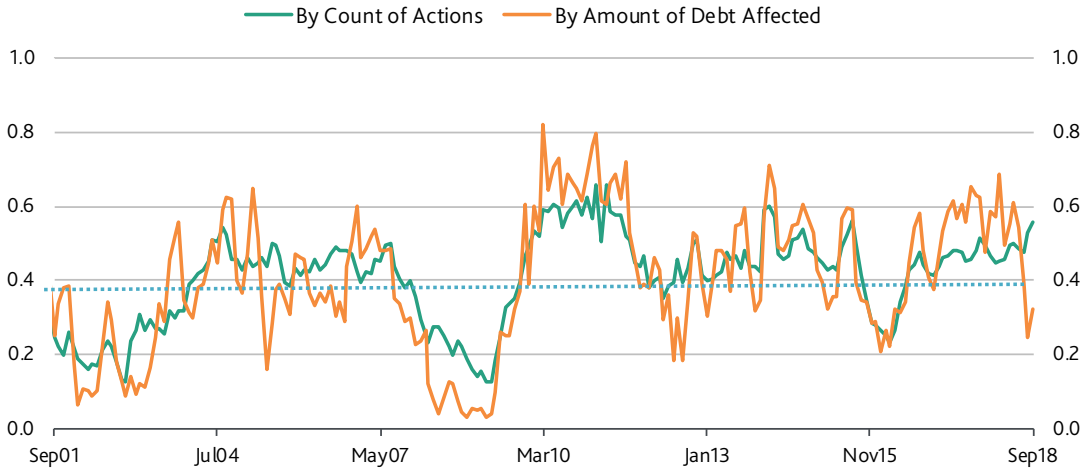
By Michael Ferlez

A total of just eight U.S. firms saw rating changes over the past two weeks, and only two of the changes were upgrades. The weak performance continues a negative streak in rating activity extending back to early November. Notable downgrades include Cigna Holding Company. The insurance company had its senior unsecured debt downgraded from Baa1 to Baa2 reflecting the firms increased financial leverage following the acquisition of Express Scripts Holding Company. The rating change impacts $25 billion in unsecured debt. Other downgrades included oil firms Traverse Midstream Partners LLC and Ulta Petroleum Corp. The only notable upgrade for the week was CBOE Global Markets Inc., which was upgraded from Baa1 to A3 affecting $950 million in debt.

The negative rating trend also continued in Europe. Positive rating changes accounted for 27% of total changes, up from 24% for the period ending December 18. Negative rating change impacted roughly $29 billion in debt compared to the $3 billion affected by upgrades. European downgrades included British companies Standard Charted PLC and SSE PLC. Upgrades were mostly the result of an upgrade to Ukraine's sovereign credit rating to Caa1 from Caa2. Ukraine's sovereign upgrade was followed by rating upgrades for several Ukrainian banks.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

Ratings Round-Up

FIGURE 2

Rating Key

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

FIGURE 3

Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
12/19/18	GLASS MOUNTAIN PIPELINE HOLDINGS, LLC	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3	SG
12/20/18	CIGNA HOLDING COMPANY	Financial	SrUnsec/IFSR /Sub/JrSub /MTN/PS	25,150	D	Baa1	Baa2	IG
12/20/18	AVISTA CORP.	Utility	SrSec/LTIR /MTN/PS	1,260	D	A2	A3	IG
12/20/18	CBOE GLOBAL MARKETS, INC.	Financial	SrUnsec/BCF	950	U	Baa1	A3	IG
12/20/18	APC AUTOMOTIVE TECHNOLOGIES, LLC	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3	SG
12/20/18	TRAVERSE MIDSTREAM PARTNERS LLC	Industrial	SrSec/BCF /LTCFR/PDR		D	B1	B2	SG
12/21/18	CYPRESS SEMICONDUCTOR CORPORATION	Industrial	SrSec/BCF /LTCFR/PDR		U	Ba2	Ba1	SG
12/21/18	ULTRA PETROLEUM CORP.-ULTRA RESOURCES, INC.	Industrial	SrUnsec /SrSec/BCF	2,400	D	Caa2	Caa3	SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

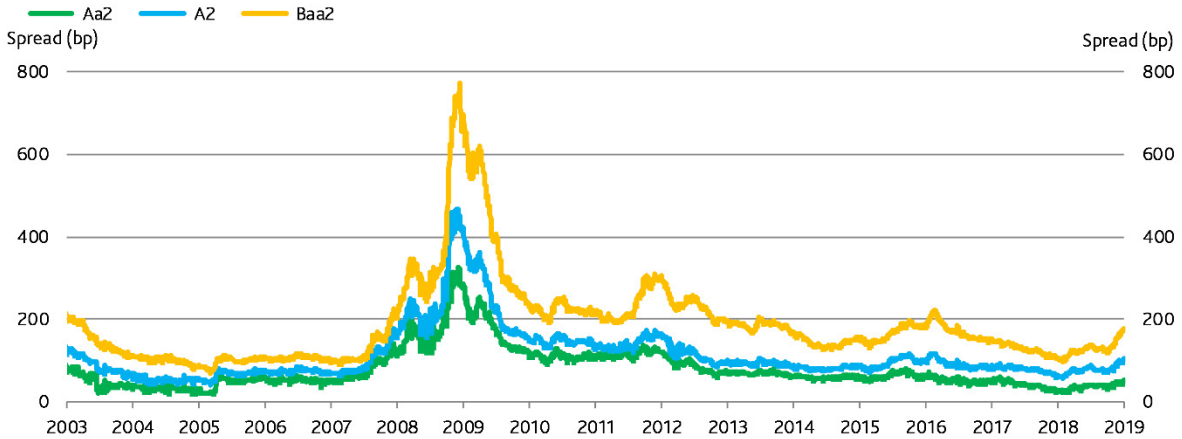
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
12/19/18	INTRALOT S.A.	Industrial	SrUnsec /LTCFR/PDR	856	D	B2	B3	SG	GREECE
12/20/18	SSE PLC	Utility	SrUnsec/LTIR /JrSub/MTN/PS	9,979	D	A3	Baa1	IG	UNITED KINGDOM
12/20/18	HORNBACH BAUMARKT AG	Industrial	SrUnsec /LTCFR/PDR	285	D	Ba1	Ba2	SG	GERMANY
12/20/18	DISTRIBUIDORA INTERNACIONAL DE ALIMENTACION, S.A.	Industrial	SrUnsec/LTCFR /PDR/MTN	1,255	D	B2	Caa1	SG	SPAIN
12/20/18	MOBY S.P.A.	Industrial	SrSec/LTCFR/PDR	342	D	B3	Caa1	SG	ITALY
12/21/18	STANDARD CHARTERED PLC	Financial	Sub/MTN	14,665	D	Baa1	Baa2	IG	UNITED KINGDOM
12/21/18	NYRSTAR NV-NYRSTAR NETHERLANDS (HOLDINGS) B.V.	Industrial	SrUnsec	959	D	Caa1	Caa2	SG	NETHERLANDS
12/21/18	COOPERATIVA MURATORI E CEMENTISTI C.M.C. DI RAVENN	Industrial	SrUnsec /LTCFR/PDR	656	D	Caa2	Ca	SG	ITALY
12/27/18	VNESHECONOMBANK -PROMINVESTBANK	Financial	LTD		U	Caa3	Caa2	SG	UKRAINE
12/27/18	RAIFFEISEN ZENTRALBANK OESTERREICH AG-RAIFFEISEN BANK AVAL	Financial	LTD		U	Caa3	Caa2	SG	UKRAINE
12/27/18	SBERBANK -SBERBANK PJSC	Financial	LTD		U	Caa2	Caa1	SG	UKRAINE
12/27/18	UKREXIMBANK	Financial	SrUnsec /LTD/Sub	1,475	U	Caa2	Caa1	SG	UKRAINE
12/27/18	PRIVATBANK	Financial	LTD		U	Caa2	Caa1	SG	UKRAINE
12/27/18	SAVINGS BANK OF UKRAINE	Financial	SrUnsec/LTD	1,273	U	Caa2	Caa1	SG	UKRAINE
12/27/18	PIVDENNYI BANK, JSCB	Financial	LTD		U	Caa2	Caa1	SG	UKRAINE
12/27/18	MHP SE	Industrial	LTCFR/PDR		U	Caa1	B3	SG	CYPRUS
12/27/18	METINVEST B.V.	Industrial	LTCFR/PDR		U	Caa1	B3	SG	NETHERLANDS
12/27/18	FERREXPO PLC	Industrial	SrUnsec /LTCFR/PDR	254	U	Caa1	B3	SG	SWITZERLAND

Source: Moody's

Market Data

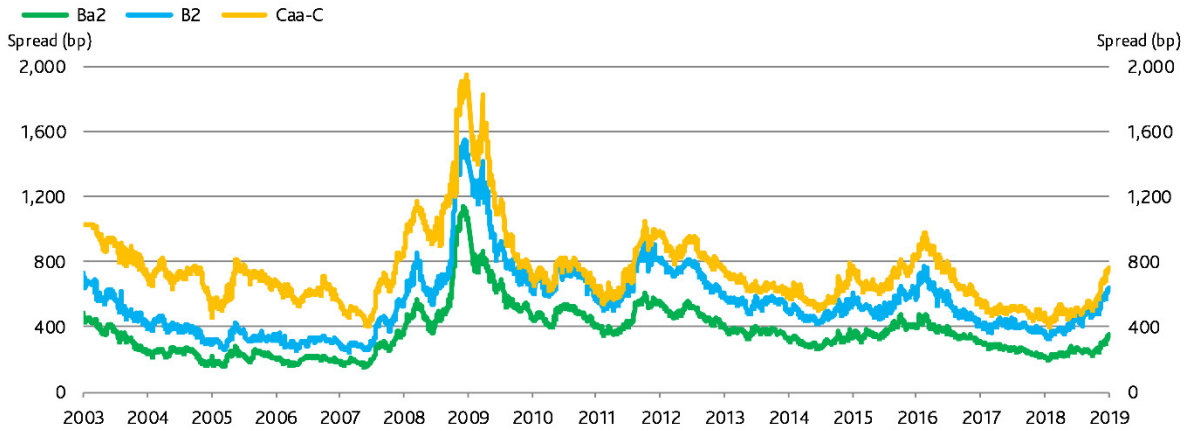
Spreads

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

CDS Movers

Figure 3. CDS Movers - US (December 26, 2018 – January 2, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 2	Dec. 26	Senior Ratings
Hertz Corporation (The)	Caa2	Ca	B3
Talen Energy Supply, LLC	Caa1	Caa3	B3
AK Steel Corporation	Caa2	Ca	B3
AT&T Inc.	Baa3	Ba1	Baa2
Philip Morris International Inc.	A2	A3	A2
Dish DBS Corporation	Caa1	Caa2	B1
Kroger Co. (The)	Baa2	Baa3	Baa1
Crown Castle International Corp.	Baa3	Ba1	Baa3
Plains All American Pipeline L.P.	Baa3	Ba1	Ba1
Praxair, Inc.	Aa2	Aa3	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 2	Dec. 26	Senior Ratings
Cigna Corporation	A2	Aa2	Baa1
Radian Group Inc.	B2	Ba2	Ba2
MGIC Investment Corporation	B2	Ba2	Ba2
Ford Motor Company	B2	Ba3	Baa3
CSC Holdings, LLC	B2	Ba3	B2
Altria Group Inc.	Baa2	A3	A3
Sprint Communications, Inc.	B3	B1	B3
Xerox Corporation	B3	B1	Ba1
MGM Resorts International	B2	Ba3	Ba3
Exelon Corporation	A1	Aa2	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 2	Dec. 26	Spread Diff
Penney (J.C.) Corporation, Inc.	Caa2	3,618	3,121	497
Weatherford International, LLC (Delaware)	Caa1	2,100	1,701	399
Windstream Services, LLC	Caa2	3,087	2,873	214
K. Hovnanian Enterprises, Inc.	Caa3	2,639	2,425	214
Frontier Communications Corporation	Caa1	2,440	2,259	181
Neiman Marcus Group LTD LLC	Ca	1,887	1,722	166
Chesapeake Energy Corporation	B3	800	668	133
Dean Foods Company	B3	876	753	124
Rite Aid Corporation	Caa2	1,241	1,140	101
Diamond Offshore Drilling, Inc.	B3	613	526	87

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 2	Dec. 26	Spread Diff
General Electric Company	Baa1	186	202	-17
Arconic Inc.	Ba2	397	411	-15
Baker Hughes, a GE company, LLC	A3	112	123	-10
Talen Energy Supply, LLC	B3	730	737	-7
Meritor, Inc.	B1	302	308	-6
NRG Energy, Inc.	Ba3	135	139	-4
FCA US LLC	Ba2	129	134	-4
Comcast Cable Communications, LLC	A3	42	46	-4
International Game Technology	Ba2	255	259	-4
TRW Automotive Inc.	Baa3	47	51	-4

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (December 26, 2018 – January 2, 2019)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 2	Dec. 26	Senior Ratings
Alpha Bank AE	Caa1	Caa3	Caa2
UniCredit Bank Austria AG	Aa3	A2	Baa1
Piraeus Bank S.A.	Caa2	Ca	Caa2
National Bank of Greece S.A.	Caa1	Caa3	Caa2
CMA CGM S.A.	Caa1	Caa3	B3
Novafives S.A.S.	Caa1	Caa3	Caa1
Spain, Government of	Baa1	Baa2	Baa1
Intesa Sanpaolo S.p.A.	Ba1	Ba2	Baa1
Deutsche Bank AG	Ba1	Ba2	A3
UniCredit S.p.A.	Ba1	Ba2	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 2	Dec. 26	Senior Ratings
Natixis	A2	Aa2	A1
Nationwide Building Society	Baa1	A2	Aa3
Bank VTB, PJSC	B2	Ba3	Ba1
Unipol Gruppo S.p.A.	B2	Ba3	Ba2
Virgin Media Finance PLC	B2	Ba3	B2
Evraz Group S.A.	B2	Ba3	Ba2
Premier Foods Finance plc	B3	B1	Caa1
Lloyds Bank plc	Baa1	A3	Aa3
Abbey National Treasury Services plc	A3	A2	Aa3
Turkey, Government of	B3	B2	Ba3

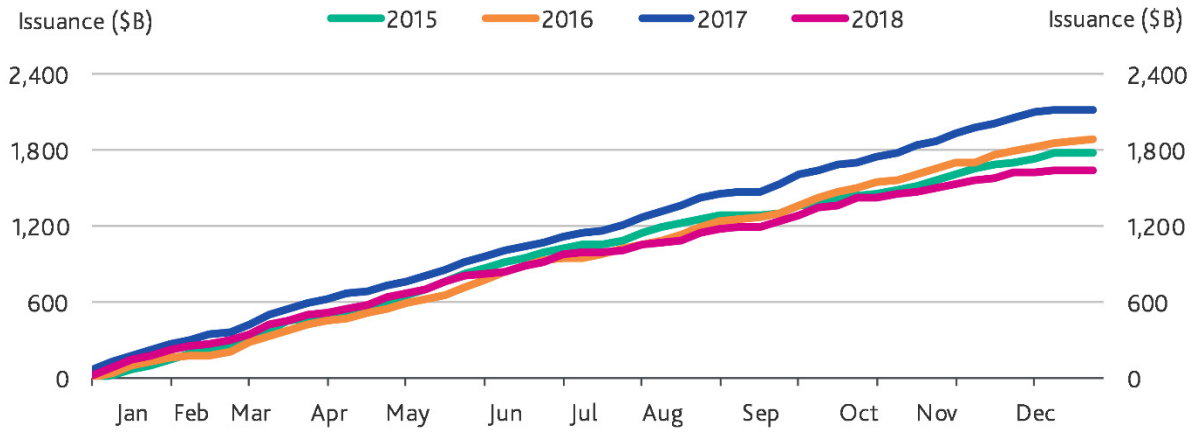
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 2	Dec. 26	Spread Diff
Galapagos Holding S.A.	Caa3	6,093	5,429	664
Marks & Spencer p.l.c.	Baa3	221	183	38
Matalan Finance plc	Caa1	948	913	35
Russian Standard Bank	Caa2	1,102	1,068	34
Stena AB	B3	657	624	32
Suedzucker AG	Baa3	165	136	30
NEXT plc	Baa2	158	131	27
CMA CGM S.A.	B3	739	718	20
Metsa Board Corporation	Ba1	106	86	20
Eurobank Ergasias S.A.	Caa2	945	930	15

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 2	Dec. 26	Spread Diff
PizzaExpress Financing 1 plc	Caa2	2,696	2,778	-82
Sappi Papier Holding GmbH	Ba2	288	352	-64
Boparan Finance plc	Caa1	1,227	1,273	-46
Care UK Health & Social Care PLC	Caa1	172	205	-33
Turkey, Government of	Ba3	341	366	-25
Intesa Sanpaolo S.p.A.	Baa1	161	179	-18
Akbank TAS	B1	457	473	-17
UniCredit S.p.A.	Baa1	160	175	-16
Banco Sabadell, S.A.	Baa3	118	134	-16
Novo Banco, S.A.	Caa2	964	980	-16

Source: Moody's, CMA

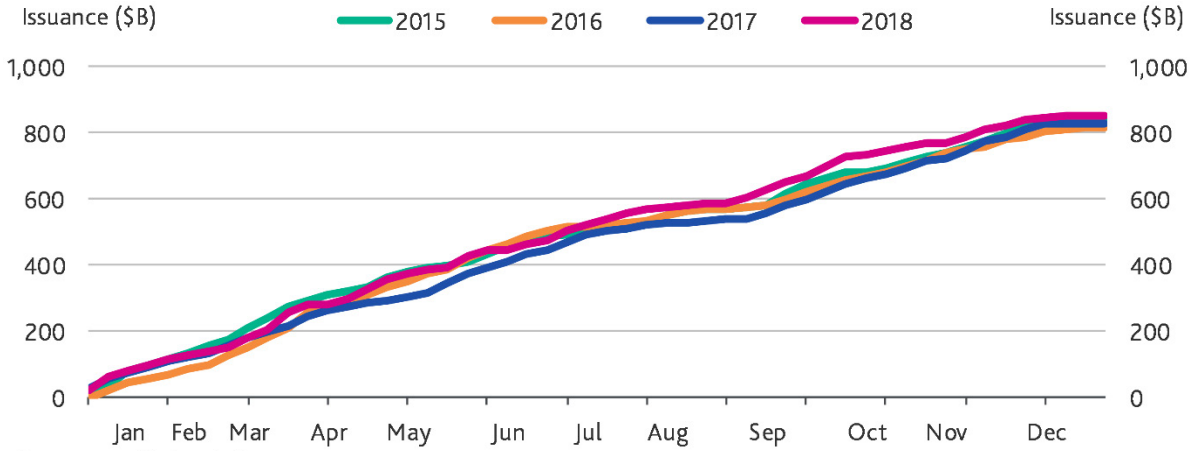
Issuance

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	0.050	0.110	0.448
Year-to-Date	1,275.677	277.421	1,640.220

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	0.000	0.000	0.023
Year-to-Date	692.553	85.837	849.547

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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