MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

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Overvalued Equities Increase Corporate Credit's Downside Risk

THIS REPORT WAS REPUBLISHED JANUARY 10, 2020 WITH A REVISION ON PAGE 2 TO SAY THAT FOR A SAMPLE PERIOD THE VIX EXHIBITS A "SOMEWHAT STRONGER CORRELATION WITH THE BROAD CORPORATE BOND YIELD SPREAD AVERAGES THAN DOES THE MARKET VALUE OF COMMON STOCK'S ANNUAL PERCENT CHANGE." A PRIOR VERSION CALLED THE CORRELATION "MUCH STRONGER."

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.

Overvalued Equities Increase Corporate Credit's Downside Risk

An overvalued equity market increases the risk of a deep sell-off of equities that will damage corporate credit. Ironically, corporate credit may eventually suffer to the degree that debt-funded equity buybacks and dividends lifted equity values up to unsustainable heights.

A sinking equity market also increases the cost of corporate debt by making it much costlier, if not impossible, to replace debt capital with equity capital. Moreover, equity weakness reduces the amount of cash that can be raised via the sale of business assets.

All else the same, a broadly distributed equity price plunge lowers the market value of the business assets that collateralize outstanding corporate debt. the consequent drop in the market value of the net worth of businesses and a likely increase in the volatility in the market value of business assets will increase the likelihood of default.

For example, in terms of month-long averages, when the market value of U.S. common equity sank by 12.9% from May 2015's then record high to a February 2016 bottom, the Moody's Analytics long-term Baa industrial company bond yield spread widened from 190 basis points to 277 bp, a composite high-yield bond spread ballooned from 451 bp to 839 bp, and MA's average high-yield expected default frequency metric jumped from 3.43% to 7.79%, where the latter was slightly under January 2-16's now 10.5-year high of 7.99%. Meanwhile, the moving yearlong average of the ratio of downgrades per upgrade for U.S. high-yield credit rating revisions soared from June 2015's 1.01:1 to June 2016's 2.43:1.

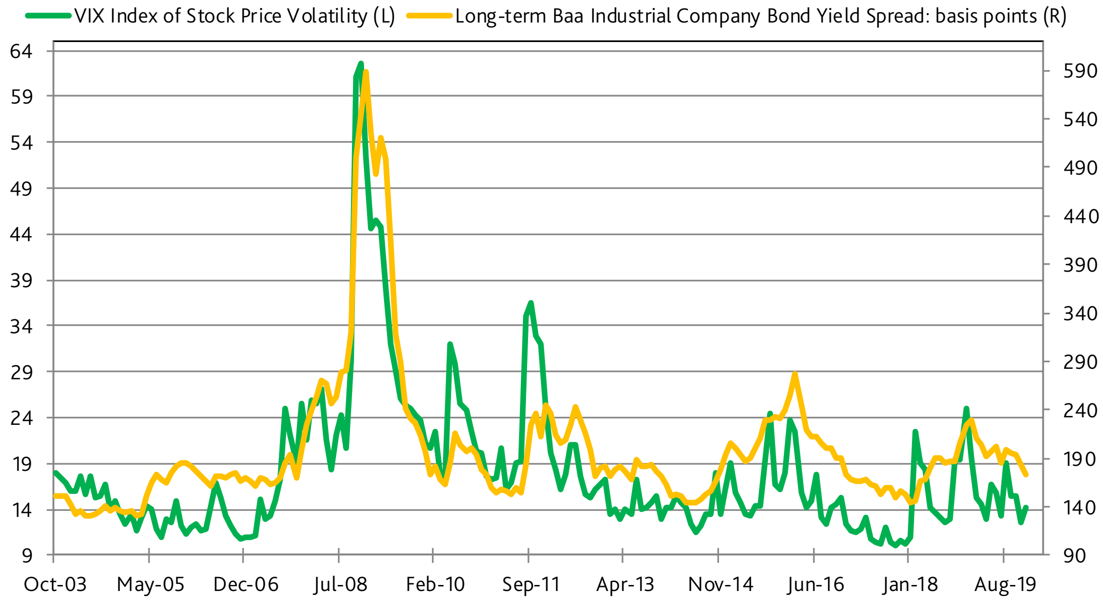
For the sample that begins in 1985, the inverse correlation between the U.S. equity market's yearly percent change and the broad averages of corporate bond yield spreads strengthens as bond credit ratings decline. According to a sample that begins with July 1985 and ends in December 2019, the U.S. equity market's yearly percent change supplies correlations of -0.46 with the long-term single-A industrial company bond yield spread, -0.55 with long-term Baa industrial bond yield spread, and -0.68 with the high-yield bond spread.

VIX Estimate of Equity Risk Shows High Correlations with Corporate Bond Yield Spreads

The VIX serves as an estimate of the perceived risks surrounding equity market performance. The VIX moves higher when market players assign an increased likelihood to a deep drop by the equity market.

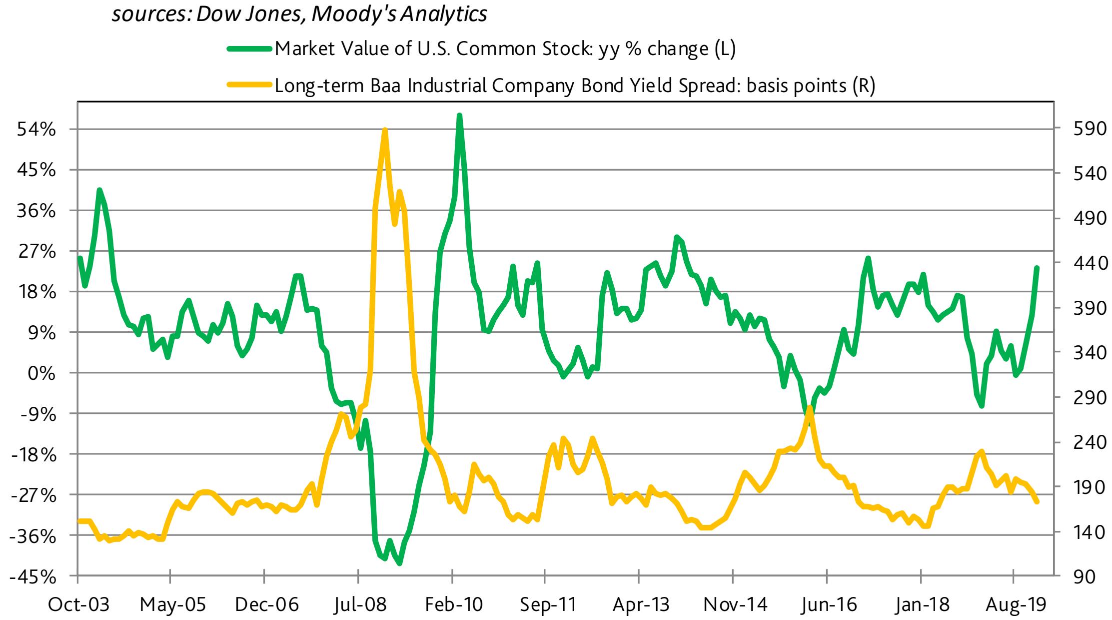
For a sample that begins with October 2003 and ends with December 2019, the VIX exhibits a somewhat stronger correlation with the broad corporate bond yield spread averages than does the market value of common stock's annual percent change. The starting date moves up to October 2003 because of a change in the VIX's estimation methodology that began in September 2003.

Figure 1: VIX Now Favors a Thinner Long-Term Baa Industrial Company Bond Yield Spread
month-long averages
sources: CBOE, Moody's Analytics



In terms of month-long averages, the VIX generates very high correlations of 0.84 with both the single-A and Baa long-term industrial-company bond yield spreads and 0.89 with a composite high-yield bond spread. By comparison, for the more recent sample that starts with October 2003, the market value of U.S. common stock's annual percent change generates inverse correlations of -0.81 with the single-A industrial spread, -0.83 with the Baa industrial spread, and -0.75 with high-yield spread. Thus, the correlation between the annual percent change of the U.S. equity market and corporate bond yield spreads may have strengthened during the past 15 years.

Figure 2: Equity Rally Helps to Narrow Long-Term Baa Industrial Company Bond Yield Spread
month-long averages
sources: Dow Jones, Moody's Analytics



Credit Markets Review and Outlook

Neither VIX nor Spreads Has Reacted Materially to Jump in Geopolitical Risk

Thus far, not one major indicator of market risk for earnings-sensitive securities has soared higher in anticipation of a disruptive and protracted military conflict.

Ordinarily, episodes of high market anxiety are accompanied by a VIX that is well above its post-2003 median of 15.6-points. Instead, the VIX closed no higher than January 3's 14.0 points, which barely topped the 13.8 points of year-end 2019. For all of 2019, the VIX averaged 15.4 points.

A composite high-yield bond spread finished no higher than January 3's relatively lean 376 bp that hardly differed from the 375 bp of year-end 2019. January 3's high-yield bond spread is considerably narrower than its post-2003 median of 468 bp and its 433 bp average of calendar-year 2019.

The spread over Treasuries of Moody's long-term Baa industrial company bond yield has barely widened from December 31, 2019's 22-month low of 164 bp to January 8's 170 bp. Though the latter was inflated by early 2020's surge in investment-grade corporate bond issuance, it was still well under the 197 bp average of calendar-year 2019.

Thus far, Moody's Analytics' average high-yield EDF metric has been indifferent to the latest rise in geopolitical risk. The high-yield EDF metric, which is a market and balance-sheet driven estimate of default risk, has eased from year-end 2019's 4.18% to a recent 4.27%, where the latter nearly matched the metric's 4.28% average of 2019's second half.

Overvalued Equity Market Has Yet to Reach Extremes of 2000

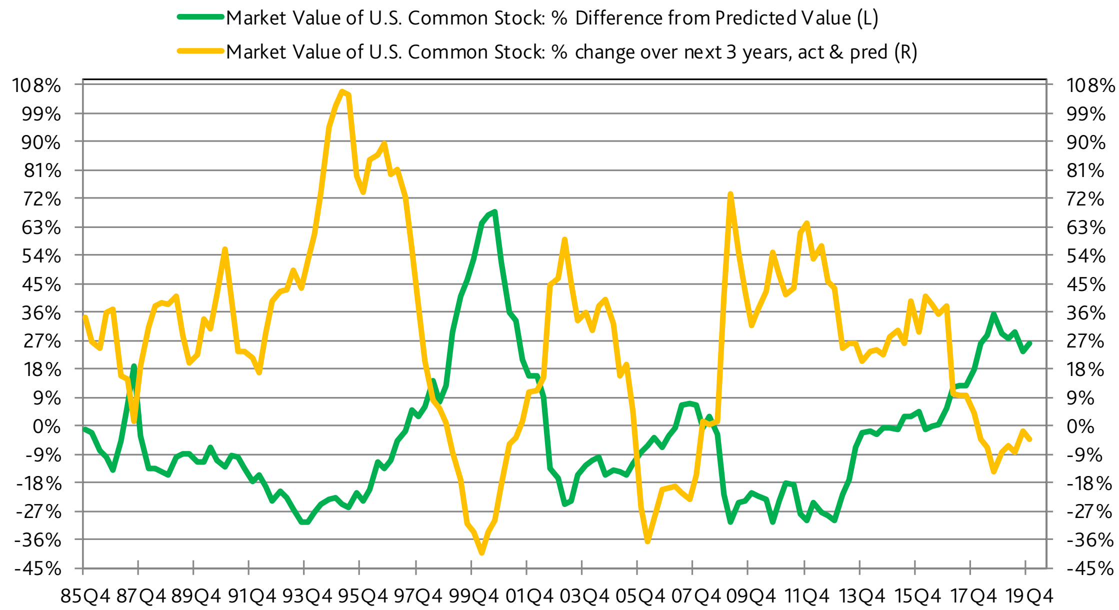
Because of overvaluation, the U.S. equity market will necessarily be more sensitive than otherwise to increases in perceived risk. To ascertain whether the market value of U.S. common stock is under- or overvalued, the overall valuation of U.S. equities can be explained in terms of the moving yearlong average of core after-tax profits and Moody's long-term Baa industrial company bond yield. This methodology suggests that the recent valuation of U.S. equities exceeds its predicted value by 26%. Though the latter is much greater than the equity market's 7% overvaluation of late 2007, it falls considerably short of the market's average 58% overvaluation of July 1999 through December 2000.

For a sample that starts and ends with the final quarters of 1986 and 2019. the percent difference between the actual and predicted market value of U.S. common equity exhibits increasingly meaningful inverse correlations with the cumulative percent change by the future market value of equity of -0.48 for one year later, -0.65 for two years later, and -0.70 for three years later. Thus, while the latest 26% estimated overvaluation of the U.S. equity market is equivocal about where U.S. equities will be a year from now, the market's current overvaluation favors a lower equity market three years hence.

The equity market's record high overvaluation was the 68% of 2000's third quarter. Thereafter, the market value of U.S. common stock was lower by 23.6% as of 2001's third quarter, 38.8% as of 2002's third quarter, and 30.2% as of 2003's third quarter.

At the other extreme, the U.S. equity market's record low undervaluation was the -31% of 2010's third quarter. Thereafter, the equity market was higher by 12.8% as of 2011's third quarter, 27.3% as of 2012's third quarter, and 54.8% as of 2013's third quarter.

Figure 3: Equity Market's Current Overvaluation Warns of Lower Equity Market Three Years Hence
sources: Moody's Analytics, Dow Jones



Year 2000's Overvaluation Was Made Worse by Higher Rates and Rising Defaults

During January-September 2000, the market value of U.S. common stock surpassed its predicted value by a patently unsustainable 66%, on average. Over the next three years, the U.S. equity market incurred a deep setback of -34.7%, on average.

In 1999-2000, the market failed to heed the warnings of significantly higher interest rates. From March 1999 to March 2000, the market value of U.S. common stock soared higher by 22.1% despite increases from March 1999 to March 2000 of 4.75% to 6.00% by the federal funds rate, of 5.57% to 6.24% by the 10-year Treasury yield, of 7.51% to 8.34% by Moody's long-term Baa industrial company bond yield, and of 9.92% to 11.83% by a composite speculative-grade bond yield.

Finally, the equity market's super surge of 1999-2000 mistakenly ignored a pronounced deterioration of corporate credit quality. For example, the averages of the 12 months leading up to the equity market's peak of March 2000 showed relatively wide spreads of 193 bp for the long-term Baa industrial company bond yield and 520 bp for high-yield bonds. Moreover, the high-yield EDF metric averaged a menacing 7.60%. These measures of credit risk correctly captured a climb by the U.S. high-yield default rate from March 1999's benign 3.6% to March 2000's disruptive 6.3%.

For now, the good news is that the market-derived estimates of corporate credit risk are well under their readings of 1999-2000's gross overvaluation of U.S. equities. Few, if any, expect the high-yield default rate to approach March 2000's 6.3% by the end of 2020.

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

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

Key Questions for the U.S. Economy in 2020

The U.S. economy weakened in 2019 and there were plenty of fears of a recession, but they didn't come to fruition. Now, how several key economic questions for the new year are eventually answered could see the economy deviate, for better or worse, from our expectation. Here are those questions. We also provide our confidence level in our projections.

Will a Phase Two trade deal be signed between the U.S. and China?

Projection: No

Confidence: High

A signing ceremony for the Phase One trade deal is being organized for mid-January. Therefore, the odds are high that it will be put to bed. The Phase One deal appears to resolve some of the easier rifts between the U.S. and China, but it doesn't resolve the main issues behind the trade tensions, including China's intellectual property theft, forced technology transfers, and China's industrial subsidies. The Phase Two deal would likely attempt to tackle some of these main issues, and it will be more difficult to strike a deal in 2020. If the U.S. economy and stock market continue to hold up, President Trump may not have a strong incentive to reach an agreement. China could be more willing if its economy continues to weaken, but Beijing may also want to see how the U.S. presidential election shakes out.

Will the U.S. effective tariff rate increase noticeably?

Projection: No

Confidence: Medium

The U.S. effective tariff rate has likely peaked. The Office of the U.S. Trade Representative recently released a two-page fact sheet around the unsigned Phase One trade deal. In return for China purchasing more U.S. agricultural products, the U.S. will reduce the tariff rate on $120 billion of goods put in place in September from 15% to 7.5% and will maintain the 25% tariff rate on approximately $250 billion rather than raise it to 30%. With progress toward a final agreement, the U.S. also postponed the tariffs that were scheduled to go into effect on December 15. It seems less likely that the U.S. will impose additional tariffs on China, but they could be threatened throughout the Phase Two process.

The Trump administration has proposed imposing tariffs on other countries, including Brazil and Argentina, though Trump later backed off on his Brazil threat. Even if they are implemented it wouldn't cause a noticeable rise in the effective tariff rate. Also, it doesn't appear likely that the U.S. will impose tariffs on imported autos.

Will U.S. GDP growth be above the economy's potential growth rate?

Projection: No

Confidence: Low

We forecast real GDP to increase 1.8% in 2020, a touch below our estimate of the economy's potential growth rate of 2%. The risks to the forecast are weighted to the upside and center around the potential boost to growth from past easing in financial market conditions.

The economy has become more sensitive to developments in financial markets. To assess the economy's sensitivity to changes in financial market conditions, we used a vector autoregression model to examine the relationship between the St. Louis Fed Financial Stress Index and four economic variables: nonfarm employment, the personal consumption expenditures deflator excluding food and energy, the shadow fed funds rate, and the Chicago Fed National Activity Index.

This approach allows us to examine the impulse response of a sudden deterioration in financial market conditions on measures of economic activity. A positive or negative shock to financial market conditions is assumed to have no effect on the economic variables in the first month but rather with a lag.

To determine whether the economy has become more or less sensitive to changes in financial market conditions, we split the data into two subsamples. The first subsample is from 1994 to 2006 and the second is from 2007 to 2019. The selection of these subsamples is arbitrary because of the limitations in the data. The first historical datapoint for the St. Louis Fed Financial Stress Index is December 1993.

The estimated responses of employment and the Chicago Fed National Activity Index to changes in financial market conditions have been larger since 2007. Similarly, the impact is both larger and more persistent in the second subset than in the first, evidence that the economy is more sensitive to financial market conditions.

Possible explanations are the increased size of the financial sector, financial innovation that expanded the channels entrepreneurs and firms use to raise external capital, increases in leverage, and the enhanced global linkages in financial markets.

Given the improvement in financial market conditions and the lagged impact on the economy, GDP growth could be stronger than some anticipate in 2020. Assuming financial market conditions remain as supportive as they are today, 0.5 percentage point could be added to GDP growth in 2020.

Will the labor force participation rate continue to increase?

Projection: No

Confidence: Medium

The labor force participation rate is forecast to decline to 63% by the end of 2020, compared with 63.2% in November 2019 (latest data available) but better than its cyclical low of 62.4%. There is the potential for a larger decline than we expect because demographics remain unfavorable. The median person among baby boomers will turn 66 in 2020, and the youngest person will be in the 55-59 cohort, a cohort when labor force participation rates begin to drop. Therefore, the demographic drag on labor force participation won't be lifting.

Away from the baby boomers, there is still room for improvement in the prime-age labor force participation rate, as it remains below its prerecession peak. The prime-age labor force participation rate has noticeably improved over the past couple of years, but it's been mostly driven by an increase in female participation. The male prime-age labor force participation rate has lagged behind and is nearly a full percentage point below its prerecession peak.

Will the unemployment rate increase?

Projection: Yes

Confidence: Low

The unemployment rate is forecast to average 3.8% in the fourth quarter of 2020, compared with 3.4% in November 2019. Risks favor a lower unemployment rate than what is penciled into our forecast. A key factor is the number of new jobs needed to keep the unemployment rate stable. 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. We estimate that the break-even level should drop below 100,000 per month next year.

Can single-family starts and new-home sales continue to build off their recent improvement?

Projection: Yes

Confidence: Low

Single-family housing starts are forecast increase from 2019 to 2020, but mortgage rates will need to remain low and months supply can't break 6.5 months. We look for only a modest gain in single-family starts in 2020, and it won't be surprising if the year gets off to a slow start. Single-family permits continue to run below starts. Mortgage rates are also key to new-home sales and we expect further improvement in sales in 2020. The mix of construction has been shifting toward more affordable new homes.

Will less trade policy uncertainty cause business investment to rebound meaningfully?

Projection: No

Confidence: High

Weak business investment in 2019 had more to do with fundamentals than with a spillover cost of the trade tensions between the U.S. and some of its major trading partners. To highlight this, we built a simple model in which real equipment spending is a function of after-tax corporate profits as a share of nominal GDP, the Baa-Aaa credit spread as a proxy for credit conditions, trend growth in the labor force, depreciation, and a dummy variable for recessions. All variables were statistically significant and had the correct signs.

The results were not overly surprising. There is a strong relationship between after-tax profits and equipment spending. Since 1950, larger after-tax corporate profits have coincided with capital expenditures contributing more to GDP growth. Given that profits struggled in 2019, this could continue to weigh on capital spending.

Though policy uncertainty may not boost investment, better financial market conditions and an increase in corporate profits' share of nominal GDP should. Therefore, business investment should improve in 2020, but it won't be booming.

Will inflation exceed 2% by the end of the year?

Projection: Yes

Confidence: Low

Some of the transitory drags on the core PCE deflator should lift in 2020, primarily the weight from financial services prices. Still, it wouldn't be surprising if core inflation ends 2020 a hair below 2%. Monthly growth in the core PCE deflator will need to average 0.17% in 2020 to put year-over-year growth in December 2020 at 2%. For perspective, the core PCE deflator rose an average of 0.1% in 2019 (through November).

Will there be a significant acceleration in nominal wage growth?

Projection: No

Confidence: Medium

A traditional wage Phillips curve that uses the unemployment rate as the basis for measuring labor market slack would suggest that wage growth should be much stronger than it is currently. However, a broader measure of labor market slack may be necessary to correctly interpret current conditions. Creating a Phillips curve using the prime-age nonemployment rate as opposed to the unemployment rate has fit the data rather well over the last 25 years and would suggest wage growth accelerating further beyond 3%.

By most measures, wages appeared to be making steady progress, reaching year-over-year growth of 3% or better by the end of 2018. The Employment Cost Index, the most reliable measure of wage growth for gauging the business cycle, reached a cyclical high in the fourth quarter of 2018. However, as of the third quarter of 2019, wage growth was essentially unchanged over the prior seven quarters, back to the beginning of 2018. This comes on the heels of a period from the beginning of 2016 through the first quarter of 2018 when wage growth accelerated briskly from 2% to 3%. This stalling of wage growth is consistent with employment growth over the last 12 months being more sluggish than initially reported. Therefore, some of the pressure on wages has decreased and they may improve only modestly in 2020.

Is the Fed going to cut interest rates in 2020?

Projection: No

Confidence: Medium

Most Fed officials believe monetary policy is in a "good place." This implies a consensus around the idea that the midcycle adjustment has likely been sufficient to help sustain the expansion. Our December baseline forecast has a rate cut occurring next June but this very likely will be removed from the baseline soon.

Will the Fed alter its policy framework?

Projection: Yes

Confidence: Medium

A change is coming but the timing is a little fuzzy. It would make the most sense to announce a change in January, when the Fed normally alters or reaffirms its Statement on Longer-Run Goals and Monetary Policy Strategy, but we don't think the Fed will be ready in a few weeks to make that change. Still, sometime in the second half of the year it won't be surprising if it does make an announcement that it is adopting average inflation targeting.

Average inflation targeting should be fairly easy to communicate and prescribes that if inflation has been below target for a period, then the Fed will aim for a stretch of above-target inflation, so that inflation averages the target over the cycle. Though there has not been any formal change in the central bank's inflation-targeting approach, it could be influencing some of the Fed officials' views now; a number of policymakers have publicly voiced their support for allowing inflation to run above their 2% objective for a time. Given Fed rhetoric, it seems policymakers would aim for 2.25% inflation during expansions. If the Fed were to adopt this approach next year, it would move the goal posts and likely delay rate hikes even further out in our baseline, which has a hike occurring in the first half of 2021.

Will the U.S. enter recession?

Projection: No

Confidence: Medium

We looked at the catalysts of recessions and broke them down, highlighting several causes in the post-WWII era:

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

None of these appear overly threatening now. Our probability of recession models have shown an increase in the probability of a recession in 2020 but they are nowhere near raising a red flag.

Is this the year productivity finally breaks out?

Projection: No

Confidence: Medium

Trend U.S. productivity growth has firmed recently but remains unimpressive. We don't believe a tight labor market is sufficient to provide a big boost to productivity growth. In our past work, we used a vector autoregression model to examine the relationship between business investment and unit labor costs. This approach allows us to examine the impulse response of a sudden acceleration in labor costs, but the boost to business investment was around 0.5 percentage point. Therefore, stronger wage growth will likely boost business investment, but the impact is likely to be modest. This would suggest that a quick turn in productivity growth is unlikely. Stronger productivity is coming but it may not be in 2020. Business investment in intellectual property has been strong over the past couple of years, and this boosts productivity but with a fairly long lag.

Will President Trump win re-election?

Projection: Yes

Confidence: Medium

Our Presidential Election Model currently has Trump easily winning re-election. The economic implication of the outcome of the election is for 2021 but our initial thoughts are if Trump is re-elected, he is likely to double down on his current economic policies. This means more deficit-financed tax cuts and government spending increases, renewed trade tensions with China and other nations, and tougher immigration policies. Also, he will likely not reappoint Fed Chairman Jerome Powell, replacing him with someone who shares Trump's views on monetary policy.

However, if a Democrat is elected, economic policy will be flipped on its head. At a minimum, the Trump tax cuts for higher-income and wealthy households will expire as they are set to do under current law in the next presidential term. While a Democratic president will take a hard stance in trade negotiations with China, the tariff wars are unlikely to continue.

Next week

Next week brings December consumer prices, producer prices, retail sales, housing starts and industrial production.

We will publish our forecasts for the next two weeks' data Monday on Economic View.

EUROPE

By Ross Cioffi of Moody's Analytics

U.K. Retail Sales Should Rebound

The week ahead brings another barrage of data for the euro zone and U.K. One standout will be the U.K.'s monthly GDP estimate. After a 0.7% m/m increase in October, output growth likely softened to 0.6% in November, which would result in zero growth in the three months to November. For one, uncertainty ruled throughout the month, as businesses and consumers prepared for the flash election over Brexit in early December. As a result, investment likely remained low. Also, as attested by retail sales figures for November, we know that British consumers held off on purchases, so the typical boost from consumer spending we've seen throughout 2019 won't factor in. However, retail sales figures for December are due next week, and we expect a healthy rebound. Not only will the sales from Black Friday get mixed into December's release, but households were due back in stores for the Christmas season.

Consumer price indexes will be released for the major euro zone economies and the U.K. next week, as well. Eurostat's preliminary estimate for December CPI inflation showed a solid pickup, from 1% in November to 1.3% y/y. Significantly, it wasn't all headline dynamics. Core inflation matched the 1.3% rate. Meanwhile, a main takeaway for next week is that energy prices rose in monthly and yearly terms for the first time in over four months. Though it remained marginal, at 0.2% m/m, this was a tangible improvement from the 3.1% and 3.2% month-on-month price decreases in October and September. Inflation in France, Spain, the U.K., Italy and Germany should therefore accelerate thanks to the slight upward pressure in energy stemming from rising oil prices. Otherwise, the story should stay the same as earlier in 2019: industrial goods prices will drag, while services support the core inflation rate.

Finally, euro zone and Russian foreign trade figures are due out for November. We expect the euro zone trade balance to fall to around €21.1 billion for November from €28 billion in October, following the decline in the German extra-EU trade balance by 3.5% m/m during November. However, mitigating the fall in German trade was the considerable improvement in the Italian trade balance during the month.

We expect the Russian balance of trade to improve slightly to $13.3 billion for November from $12.4 billion in October. Trade won't be out of its rough patch just yet, but we are expecting it to end the year on a positive note. As oil prices began to liven up in November, the value of exports should have improved, while imports should have tapered from their spike upward in October and September.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 9:30 a.m.	U.K.: Monthly GDP for November	% change 3-mo MA	0.0	0.0
Wed @ 7:45 a.m.	France: Consumer Price Index for December	% change yr ago	1.4	1.2
Wed @ 8:00 a.m.	Spain: Consumer Price Index for December	% change yr ago	0.8	0.4
Wed @ 9:30 a.m.	U.K.: Consumer Price Index for December	% change yr ago	1.5	1.5
Wed @ 10:00 a.m.	Euro Zone: External Trade for November	€ bil	21.1	28.0
Wed @ 10:00 a.m.	Euro Zone: Industrial Production for November	% change	-0.5	-0.5
Thur @ 7:00 a.m.	Germany: Consumer Price Index for December	% change yr ago	1.4	1.1
Fri @ 9:30 a.m.	U.K.: Retail Sales for December	% change yr ago	3.8	1.0
Fri @ 10:00 a.m.	Italy: Consumer Price Index for December	% change yr ago	0.4	0.2
Fri @ 11:00 a.m.	Euro Zone: Consumer Price Index for December	% change yr ago	1.3	1.0
Fri @ 1:00 p.m.	Russia: Foreign Trade for November	$ bil	13.3	12.4

ASIA-PACIFIC

By Katrina Ell of Moody's Analytics

A Slowdown for China and a Pause for Bank of Korea

China's GDP growth likely cooled to 5.9% y/y in the December quarter, from 6% in the September stanza. Economic activity cooled further in the fourth quarter from the already weakened third quarter, with industrial production and fixed asset investment particular weak spots, while retail trade showed some improvement late in the fourth quarter. Full-year GDP growth is on track to reach 6.1% in 2019, a marked slowdown from the 6.6% expansion in 2018.

December's activity data will also be released late in the week and are expected to be mediocre at best. Industrial production is expected to hit 5.9% y/y, following from November's 6.2% and 4.7% in October. Manufacturing has been relatively weak through 2019 as a direct consequence of the trade war, discouraging demand and causing supply chain redirection away from China to circumvent tariffs, accelerating an existing trend.

The Bank of Korea will sit pat at its first monetary policy meeting for 2020 and keep the policy rate at 1.25%. Modest signs of improvement at home in the labour market and in foreign demand will add to the central bank's desire to keep current accommodative settings in place. But with heightened downside risks at home and abroad, the BoK's easing bias remains.

India's CPI growth likely cooled a little in December, after surging above expectations to 5.5% y/y in November, well above the Reserve Bank of India's 4% midpoint target. November's jump was the strongest inflation rate since mid-2016 and was largely driven by food prices, particularly vegetables and pulses, as well as meat, fish and eggs. The results reflect a difficult monsoon season which has led to crop failures, food shortages, and skyrocketing prices for certain commodities such as onions. The Reserve Bank of India took a breather from easing monetary policy settings in December owing to high inflation, but if CPI growth shows a sustained easing trend, interest rate cuts will firmly return to the agenda.

	Key indicators	Units	Confidence	Risk	Moody's Analytics	Last
Mon @ 11:00 p.m.	India Consumer price index for December	% change yr ago	3	←	5.2	5.5
Tues @ Unknown	India Foreign trade for December	US$ bil	2	←	-11.3	-12.1
Wed @ 10:00 a.m.	South Korea Unemployment rate for December	%	3	↑	3.5	3.6
Thurs @ 10:50 a.m.	Japan Machinery orders for November	% change	2	←	1.9	-6.0
Fri @ Unknown	Singapore Nonoil domestic exports for December	% change yr ago	3	↓	-4.9	-5.9
Fri @ 1:00 p.m.	China GDP for Q4	% change yr ago	3	←	5.9	6.0
Fri @ 1:00 p.m.	China Fixed asset investment for December	% change yr ago YTD	3	↓	5.3	5.2
Fri @ 1:00 p.m.	China Retail sales for December	% change yr ago	3	←	7.9	8.0
Fri @ 1:00 p.m.	China Industrial production for December	% change yr ago	3	←	5.9	6.2
Fri @ Unknown	Indonesia Foreign trade for December	US$ bil	2	↓	-0.8	-1.3
Fri @ Unknown	South Korea Monetary policy for January	%	4	←	1.25	1.25

The Long View

Opportunistic refinancings have helped to power an early-2020 surge by investment-grade corporate bond issuance.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
January 9, 2020

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 109 basis points was less than its 122-point mean of the two previous economic recoveries. This spread may be no wider than 115 bp by year-end 2020.

The recent high-yield bond spread of 375 bp is thinner than what is suggested by the accompanying long-term Baa industrial company bond yield spread of 170 bp, but wider than what might be inferred from the recent below-trend VIX of 12.9 points.

DEFAULTS

November 2019's U.S. high-yield default rate of 3.9% may average 3.9% during 2020's first quarter, according to Moody's Investors Service.

US CORPORATE BOND ISSUANCE

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.

Fourth-quarter 2019's worldwide offerings of corporate bonds revealed annual advances of 15.3% for IG and 323% for high-yield, wherein US$-denominated offerings dipped by 0.9% for IG and surged higher by 322% for high yield.

For 2019, worldwide corporate bond offerings grew by 5.4% annually (to $2.447 trillion) for IG and advanced by 48.6% for high yield (to $559 billion). The projected annual percent increases for 2020's worldwide corporate bond offerings are 5.1% for IG and 3.3% for high yield.

US ECONOMIC OUTLOOK

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
January 9, 2020

EURO ZONE

Euro zone unemployment remained unchanged during November, at 7.5%. This marks a 137-month low in the rate. We'll take this as a victory, as low unemployment will continue to support European household spending into 2020. Private consumption has been a driving source of growth in the currency area throughout 2019, and a tight labor market is to thank.

Bright spots in the release were that the harmonized unemployment rate inched down in both France and Spain. The services sectors in these countries has been going strong, and relative to Germany their manufacturing sectors have held up better to the global slowdown. By contrast, joblessness increased in Germany and Italy.

Indeed, we advise against getting too comfortable. The unemployment rate should start to increase slowly in the coming months as job gains in services slow further and job losses in manufacturing continue. This should be the case in Germany at least, where, although showing signs of having bottomed out, the manufacturing recession has persisted.

German industrial production rose 1.1% m/m in November, but signs are not looking up for the sector. Casting a pale over the monthly increase was the fact that in yearly terms, manufacturing output fell for the 13th month in a row. And it fell by 4% y/y, just below the average 4.2% contraction for that period. The best news in the release was another solid month of construction output, which does get factored into the headline industrial production figure. Construction output rose by 2.6% m/m and 5.4% y/y.

The situation isn't looking better for December. Not only did factory orders fall in November, but December's manufacturing PMI disappointed. After rising to a five-month high of 44.1 in November, the German manufacturing PMI fell to 43.7 in December, citing falling output, capacity utilization and employment. Luckily, however, the construction PMI is pointing to another month of strong growth, as the index reached ever higher, from 52.5 in November to 53.8 in December.

SPAIN

Spain is ending a year of political impasse. On Tuesday, Members of Parliament voted in favour of a coalition government between the acting Prime Minister Pedro Sanchez's Socialist party (PSOE) and the populist-left Podemos party. The coalition was narrowly approved by two votes.

Spain was without a government for most of 2019 thanks to two inconclusive elections in April and November. The gridlock deferred regional spending and the formation of a new budget. Despite these political problems, though, the Spanish economy performed well in 2019. Now, among the coalition's first pledges is to raise the minimum wage and hike taxes on high earners and large businesses. Sanchez will also pursue new dialogue with Basque and Catalan separatist movements.

The coalition is forged on shaky ground, however. Although a similar coalition mixing a more centrist and a more radical left has lasted for a few months in Italy, the Spanish coalition has a rockier road ahead. Tuesday's victory depended on 18 Catalan and Basque separatists abstaining from the vote, and these lawmakers may expect more in return than what Sanchez can offer, given how unpopular the separatists' causes are in the rest of Spain.

ASIA PACIFIC

By Katrina Ell of Moody's Analytics
January 9, 2020

AUSTRALIA

Australia is in the midst of its worst drought in decades, with some parts experiencing very dry conditions for the past three years. This has fueled the worst bushfires in recent history across the eastern states since November.

Australia is prone to drought and bushfires. According to the Australian Institute of Criminology, from 1967 to 1999 Australia was affected by 23 bushfires where the insurance cost per bushfire was more than A$10 million. Over the same period, total bushfires, including thousands of smaller ones, in Australia were crudely estimated to have cost A$654 million.

Putting the current disaster in context

But the latest fires have occurred earlier in the warmer months and have been more severe than usual. As of 6 January, almost 6,000 insurance claims amounting to A$375 million are related to the bushfires, according to the Insurance Council of Australia. The damage bill will rise significantly as the extent of devastation becomes clearer, and fires are still burning across several states.

This bushfire season has months to run and could easily surpass the costliest recent fires, the Black Saturday fires in Victoria in 2009, which cost an estimated A$4.4 billion. In those fires, 450,000 hectares of land were destroyed. For comparison, 6.3 million hectares of land have burnt in the current blazes.

It's important to appreciate that bushfires in Australia have not tended to have an aggregate impact on the economy; instead there have been severe localized impacts. But the risk of there being broader macroeconomic spillovers this season are high given the scale of the fires as well as the fact that it is still early in the bushfire season and the existing fires are yet to be contained.

Direct economic costs

The bushfires are having a direct impact on regional communities already suffering from prolonged drought. Rural exports barely rose in 2019 as poor growing conditions stifled production at an aggregate level. Now a variety of crops have been further damaged by fire and can take years to recover. Damage to fresh produce will put upward pressure on consumer prices, given that most fresh fruit and vegetables consumed at home are sourced locally.

Bushfires across the eastern states have dealt a significant hit to the peak local tourism season. Visitor numbers are significantly down in summer hot spots as smoke haze and uncertainty about safety keep local and international travelers away. Dollar losses in tourism are estimated in the "hundreds of millions" during the peak season, according to the Tourism Council.

Costs of pollution

The economic costs of higher air pollution are significant. At least 30% of Australia's population has been impacted by sustained poor air quality since November. The OECD estimated in 2016 that rising levels of air pollution globally are expected to reduce economic output by 1% by 2060, up from 0.3% in 2015. The impacts materialize via reduced worker productivity, increased health spending, and lower crop yields. Other impacts include disruption to transport services from poor visibility and hospitality impacts from abandoned outdoor dining services during the peak retail spending period.

Disruption is another economic cost. Many homes and businesses have had water and power supplies cut off in addition to significant road closures and evacuations. Meanwhile, financial services are impacted, particularly insurance companies and banking services with large exposure to regional communities.

Rebuild efforts are important during natural disasters and can ultimately help absorb the economic costs. But in this circumstance, rebuilding could be delayed for months, since many fires are still burning, and this is only the start of the usual bushfire season. It could be some months before efforts move from fire containment to rebuilding. In addition, the widespread impacts and scale of devastation will add to insurance processing times.

Indirect impacts

The indirect impacts are also significant. The devastating social impacts of the fires mean that already-fragile consumer confidence will take an added hit. The Australian consumer was already shying away from discretionary spending and the widespread air pollution and devastation are further deterrents.

The Melbourne Institute-Westpac consumer confidence index deteriorated by 1.9 points to 95.1 in December, moving the index further below the neutral 100 mark. The five major subcategories of the index deteriorated over the month. The Melbourne Institute-Westpac Unemployment Expectations Index rose by 1.1 points to 138, its highest reading since June 2017, indicating consumers expect the labour market to cool.

Household final consumption makes up around 55% of GDP. With households buckling down further and expectations that the local economy will continue to weaken, the odds rise that consumer concerns will grow into self-fulfilling prophecy. This has flow-on impacts to businesses. Domestic-facing firms already are struggling. Their concerns about the future are causing reluctance to invest, even though lending rates are at historical lows.

Policy implications

Odds were already high that the Reserve Bank of Australia will cut interest rates at its next meeting, in February, to bring the cash rate to 0.5%. The fires increase those odds. It is too early to determine whether the fires will lead to more direct monetary easing measures. This is because the fires are still burning, and the federal and state government responses are still being determined. They will heavily influence the macroeconomic impact. During a disaster, a fiscal response tends to be more appropriate than monetary easing. Fiscal measures can target the particular areas concerned, whereas monetary policy has a blunt impact.

On Monday, the Liberal government announced a A$2 billion commitment over two years to bushfire recovery. This is in addition to the existing natural disaster recovery fund to facilitate speedy recovery from natural disasters. Also, because of the bushfires the government has lowered its commitment to restoring the federal budget to surplus within the current financial year. This potentially gives the government more flexibility to support the rebuild efforts and the broader economy. The projected budget surplus was already reduced to A$5 billion in the 2019-2020 financial year under the midyear economic and fiscal outlook that was released on 20 December.

Ratings Round-Up

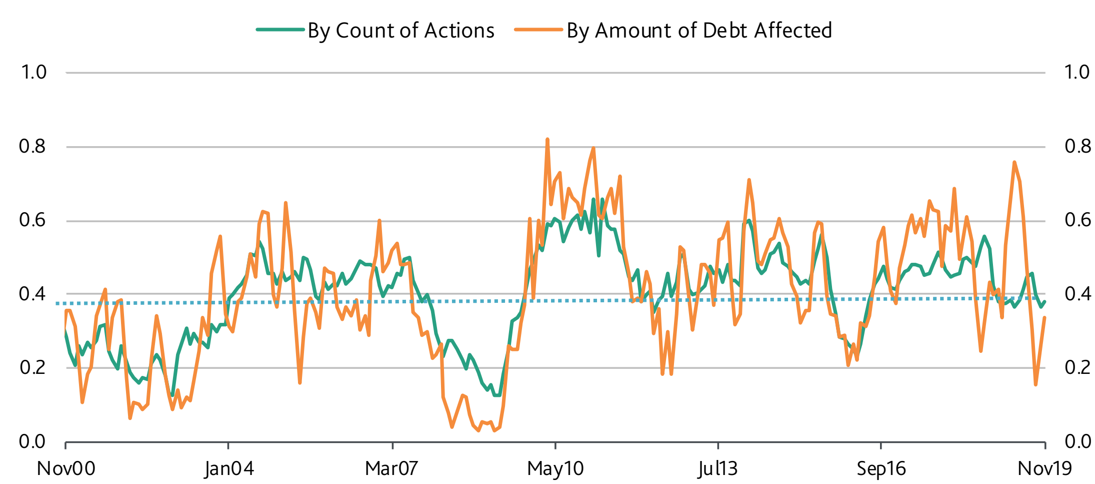
Downgrades Outnumber Upgrades

By Steven Shields

U.S. rating change activity was weak to begin the new year with downgrades outnumbering upgrades. For the week ended January 7, all three rating changes were downgrades with activity largely confined to speculative-grade energy companies. Hunt Oil Co. received a downgrade from B1 to B2. Hunt is in a refinancing process to replace its senior unsecured revolving credit facility that matures in July 2020. As part of this effort, Hunt has been engaged in discussions with its noteholders to obtain necessary amendments allowing for a senior secured borrowing base revolving credit facility, with the necessary pledging of U.S. proved reserves to back the facility. The negotiations have been prolonged, and the company has identified alternative approaches to secure the necessary financing. Meanwhile, Tapstone Energy LLC's corporate family rating was downgraded to Ca. The change to highly speculative reflects the company's unsustainable debt load, weak liquidity, and the company's skipped coupon payment on December 2. Other energy firms received ratings on proposed notes. Moody's assigned a Ba2 rating to Nabors Industries Inc.'s proposed $800 million senior guaranteed unsecured notes, and B1 ratings to WPX Energy's proposed two tranches of senior unsecured notes totaling $900 million. The net proceeds from WPX Energy's notes issuance will be used to finance a portion of the cash consideration for the acquisition of Felix Energy Holdings II LLC.

European rating activity was also light, with just three ratings changes in the period. Downgrades outnumbered upgrades 2 to 1 and accounted for most of the affected debt. Two of the downgrades last week were made to Italian industrial firms. Atlantia S.p.A. was downgraded to Baa3 from Baa2 due to the firm facing heightened downside risks following the collapse of the Polcevera viaduct in August 2018. The incident will result in additional costs and potentially strain credit metrics at a time when Atlantia's financial profile is already stretched due to the acquisition of Abertis Infraestructuras S.A. The ratings change impacts approximately $12.1 billion in outstanding debt. Moody's Investors Service also downgraded Officine Maccaferri S.p.A.'s corporate family rating to Ca from Caa3 after the company missed the payment of its interest following the expiration of the grace period.

FIGURE 1
Rating Changes - US Corporate & Financial Institutions: Favorable as % of Total Actions



* Trailing 3-month average
Source: Moody's

FIGURE 2
Rating Key

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

Ratings Round-Up

FIGURE 3
Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/SG
12/18/19	BOEING COMPANY (THE)	Industrial	SrUnsec/CP	D	A2	A3	P-1	P-2	IG
12/18/19	VOYA FINANCIAL, INC.-SECURITY LIFE OF DENVER INSURANCE COMPANY	Financial	IFSR	D	A2	A3			IG
12/18/19	LEARFIELD COMMUNICATIONS, INC. -LEARFIELD COMMUNICATIONS, LLC	Industrial	SrSec/BCF /LTCFR/PDR	D	Caa1	Caa2			SG
12/18/19	AT HOME GROUP INC.-AT HOME HOLDING III INC.	Industrial	SrSec/BCF /LTCFR/PDR	D	B3	Caa1			SG
12/19/19	ALLY FINANCIAL INC.	Financial	SrUnsec /MTN/PS	U	Ba2	Ba1			SG
12/19/19	TC ENERGY CORPORATION -COLUMBIA PIPELINE GROUP, INC.	Industrial	SrUnsec	U	Baa1	A3			IG
12/19/19	ATKORE INTERNATIONAL, INC.	Industrial	SrSec /LTCFR/PDR	U	B2	Ba3			SG
12/19/19	OUTERSTUFF LLC	Industrial	SrSec/BCF /LTCFR/PDR	D	Caa2	Caa3			SG
12/19/19	ACCURIDE CORPORATION	Industrial	SrSec/BCF /LTCFR/PDR	D	Caa1	Caa2			SG
12/19/19	LTI HOLDINGS, INC. (BOYD)	Industrial	SrSec/BCF /LTCFR/PDR	D	B3	Caa1			SG
12/20/19	OWENS & MINOR, INC.	Industrial	SrSec/BCF /LTCFR/PDR	D	B2	B3			SG
12/20/19	SUPERIOR ENERGY SERVICES, INC. -SESI, L.L.C.	Industrial	SrUnsec/BCF /LTCFR/PDR	D	B3	Caa1			SG
12/20/19	4L HOLDINGS CORPORATION -4L TECHNOLOGIES INC.	Industrial	SrSec/BCF /LTCFR/PDR	D	Caa3	Ca			SG
12/20/19	WEEKLEY HOMES, LLC	Industrial	SrUnsec /LTCFR/PDR	U	B3	B1			SG
12/20/19	ASP PRINCE INTERMEDIATE HOLDINGS, INC.-PMHC II, INC	Industrial	SrSec/BCF /LTCFR/PDR	D	Caa2	Caa3			SG
12/22/19	TOMS SHOES, LLC	Industrial	SrSec/BCF /LTCFR/PDr	D	Caa3	Ca			SG
1/7/20	HUNT OIL COMPANY	Industrial	LTIR	D	B1	B2			SG
1/7/20	TAPSTONE ENERGY, LLC	Industrial	PDR	D	Ca	D			SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

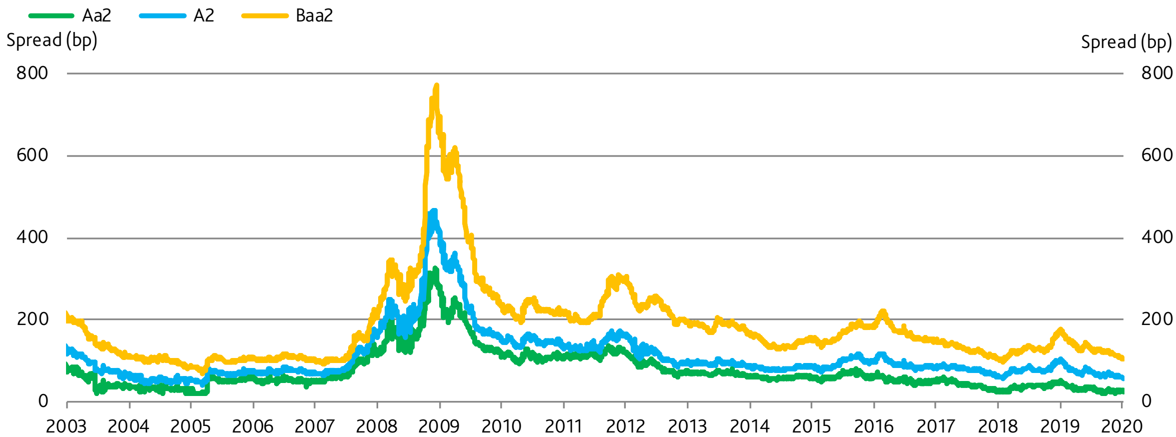
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
12/19/19	PRO-GEST S.P.A.	Industrial	SrUnsec /LTCFR/PDR	279	D	Caa1	Caa2	SG	ITALY
12/20/19	STATKRAFT SF -STATKRAFT AS	Utility	SrUnsec /LTIR/MTN	2,972	U	Baa1	A3	IG	NORWAY
12/20/19	TUI AG	Industrial	SrUnsec /LTCFR/PDR	335	D	Ba2	Ba3	SG	GERMANY
12/20/19	NOVARTEX S.A.S.	Industrial	LTCFR/PDR		U	Ca	Caa1	SG	FRANCE
12/20/19	MOBY S.P.A.	Industrial	SrSec /LTCFR/PDR	335	D	Caa2	Caa3	SG	ITALY
12/20/19	NANNA MIDCO II AS	Industrial	SrSec/BCF /LTCFR/PDR		D	B3	Caa1	SG	NORWAY
12/24/19	BANCA CARIGE S.P.A.	Financial	LTIR		U	Caa3	Caa2	SG	ITALY
12/27/19	KIRK BEAUTY ONE GMBH	Industrial	SrSec/SrUnsec /BCF/LTCFR /PDR	709	D	B1	B2	SG	GERMANY
1/3/20	ATLANTIA S.P.A.	Industrial	SrSec /SrUnsec/MTN	12,094	D	Baa2	Baa3	IG	ITALY
1/6/20	AFFLELOU-3AB OPTIQUE DEVELOPPEMENT	Industrial	SrSec /LTCFR/PDR	463	U	B3	B2	SG	FRANCE
1/7/20	OFFICINE MACCAFERRI S.P.A.	Industrial	SrUnsec /LTCFR/PDR	212	D	Caa3	Ca	SG	ITALY

Source: Moody's

Market Data

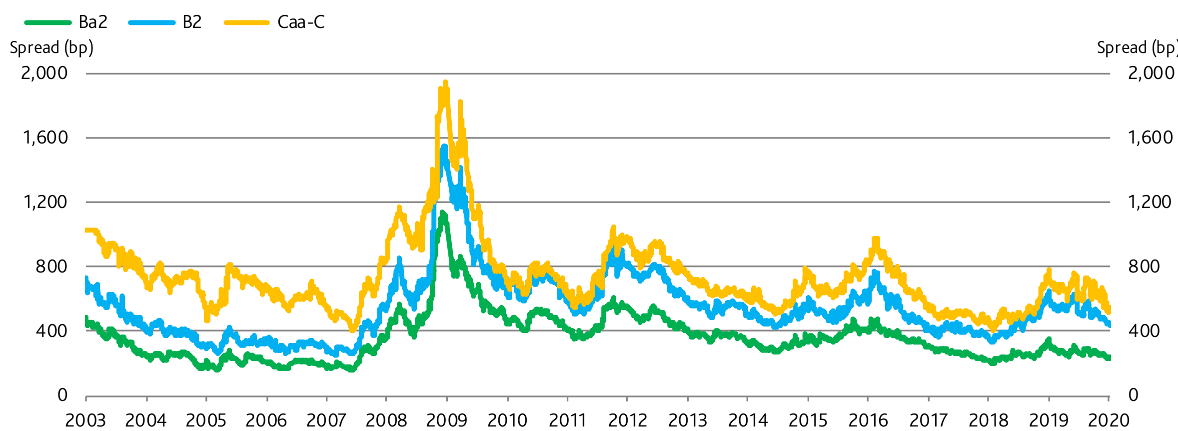
Spreads

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



Source: Moody's

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



Source: Moody's

Market Data

CDS Movers

Figure 3. CDS Movers - US (January 2, 2020 – January 8, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 8	Jan. 1	Senior Ratings
International Business Machines Corporation	A2	A3	A2
Altria Group Inc.	A3	Baa1	A3
Chevron Corporation	A1	A2	Aa2
NextEra Energy Capital Holdings, Inc.	Baa1	Baa2	Baa1
Calpine Corporation	Ba2	Ba3	B2
Dish DBS Corporation	B3	Caa1	B1
Illinois Tool Works Inc.	Baa1	Baa2	A2
Praxair, Inc.	A2	A3	A2
Newmont Corporation	A2	A3	Baa2
Stanley Black & Decker, Inc.	Baa1	Baa2	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 8	Jan. 1	Senior Ratings
JPMorgan Chase & Co.	A1	Aa3	A2
JPMorgan Chase Bank, N.A.	Aa3	Aa2	Aa2
Morgan Stanley	Baa1	A3	A3
Ford Motor Credit Company LLC	B1	Ba3	Ba1
Microsoft Corporation	A1	Aa3	Aaa
McDonald's Corporation	Aa2	Aa1	Baa1
Walmart Inc.	Aa1	Aaa	Aa2
Bristol-Myers Squibb Company	Aa2	Aa1	A2
HCA Inc.	Baa3	Baa2	Ba2
Ford Motor Company	B1	Ba3	Ba1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 8	Jan. 1	Spread Diff
Frontier Communications Corporation	Caa3	7,123	6,542	582
McClatchy Company (The)	C	2,021	1,741	280
Chesapeake Energy Corporation	Caa3	2,226	2,157	70
Pitney Bowes Inc.	Ba3	546	509	37
Xerox Corporation	Ba1	138	104	34
Sprint Communications, Inc.	B3	342	317	25
United States Steel Corporation	B3	590	565	25
Hertz Corporation (The)	B3	318	295	23
American Axle & Manufacturing, Inc.	B2	299	276	23
Realogy Group LLC	B3	566	544	22

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 8	Jan. 1	Spread Diff
Neiman Marcus Group LTD LLC	Ca	4,544	4,773	-230
Penney (J.C.) Corporation, Inc.	Caa3	2,958	3,120	-162
Rite Aid Corporation	Caa3	921	1,023	-102
K. Hovnanian Enterprises, Inc.	Caa3	1,146	1,245	-99
Apache Corporation	Baa3	106	125	-19
AK Steel Corporation	B3	409	421	-12
GATX Corp.	Baa2	116	125	-10
Office Depot, Inc.	B3	510	519	-9
Murphy Oil Corporation	Ba2	130	138	-8
Cablevision Systems Corporation	B3	406	414	-8

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (January 2, 2020 – January 8, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 8	Jan. 1	Senior Ratings
Spain, Government of	A1	A2	Baa1
HSBC Holdings plc	A2	A3	A2
CaixaBank, S.A.	Baa2	Baa3	Baa1
Standard Chartered PLC	A2	A3	A2
Landesbank Hessen-Thueringen GZ	A1	A2	Aa3
UniCredit Bank Austria AG	A3	Baa1	Baa1
Alpha Bank AE	Caa2	Caa3	Caa1
Allied Irish Banks, p.l.c.	Baa2	Baa3	A2
KBC Group N.V.	Baa1	Baa2	Baa1
British Telecommunications Plc	Baa2	Baa3	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 8	Jan. 1	Senior Ratings
BNP Paribas	Aa2	Aa1	Aa3
Vodafone Group Plc	Baa2	Baa1	Baa2
Norddeutsche Landesbank GZ	Baa3	Baa2	Baa2
Iberdrola International B.V.	Aa3	Aa2	Baa1
Vinci S.A.	Aa2	Aa1	A3
BNP Paribas Fortis SA/NV	Aa2	Aa1	A2
Hamburg Commercial Bank AG	Ba2	Ba1	Baa2
NXP B.V.	Baa1	A3	Baa3
Evonik Industries AG	Baa3	Baa2	Baa1
Airbus SE	Aa3	Aa2	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 8	Jan. 1	Spread Diff
PizzaExpress Financing 1 plc	Ca	5,995	5,215	780
Iceland Bondco plc	Caa2	594	546	48
TUI AG	Ba3	291	257	34
Jaguar Land Rover Automotive Plc	B1	475	450	25
Novafives S.A.S.	Caa2	653	631	22
Matalan Finance plc	Caa1	678	657	22
Casino Guichard-Perrachon SA	B3	669	654	16
Stena AB	B3	428	416	12
ArcelorMittal	Baa3	147	138	9
Sappi Papier Holding GmbH	Ba1	305	296	9

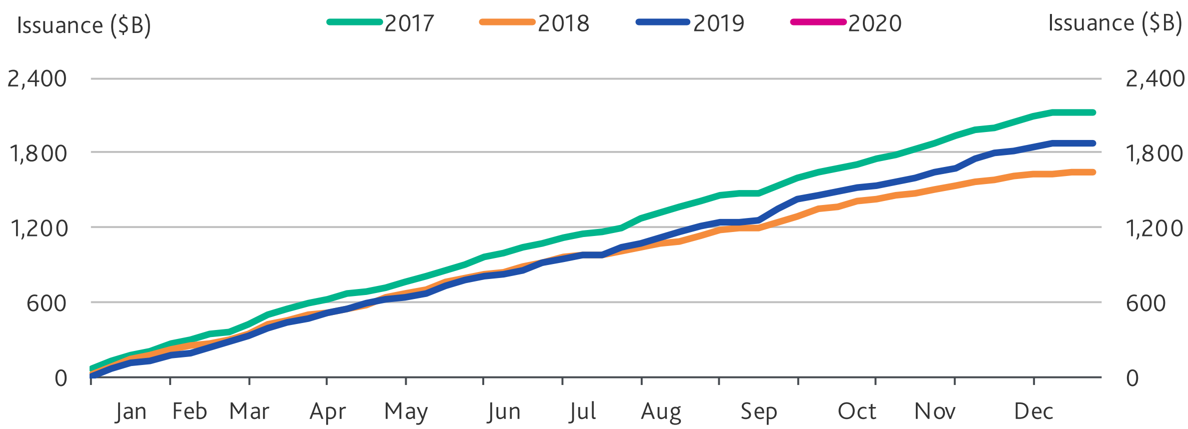
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 8	Jan. 1	Spread Diff
Boparan Finance plc	Caa1	1,239	1,342	-103
Altice Finco S.A.	Caa1	213	246	-34
Banca Monte dei Paschi di Siena S.p.A.	Caa1	275	292	-16
METRO Finance B.V.	Ba1	121	134	-13
Caixa Geral de Depositos, S.A.	Ba1	62	73	-12
CaixaBank, S.A.	Baa1	58	68	-9
Unione di Banche Italiane S.p.A.	Baa3	119	129	-9
Banco Comercial Portugues, S.A.	Ba1	109	116	-7
Bankia, S.A.	Baa3	63	69	-6
Allied Irish Banks, p.l.c.	A2	62	66	-4

Source: Moody's, CMA

Market Data

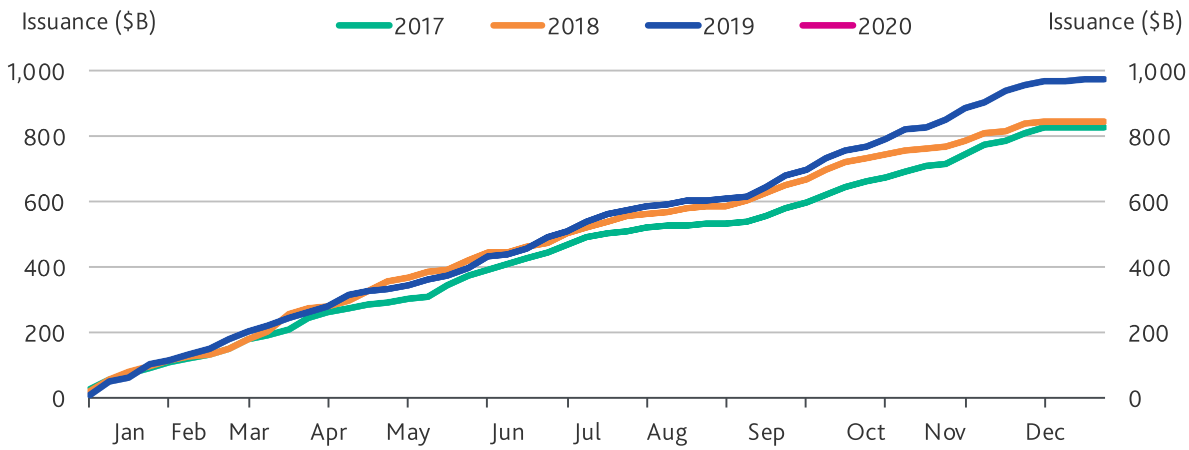
Issuance

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



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

Market Data

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	0.000	0.000	0.000
Year-to-Date	0.000	0.000	0.000

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	0.101	0.000	0.101
Year-to-Date	0.101	0.000	0.101

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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