MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Record-High Savings Rate and Ample Liquidity May Fund an Upside Surprise

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.

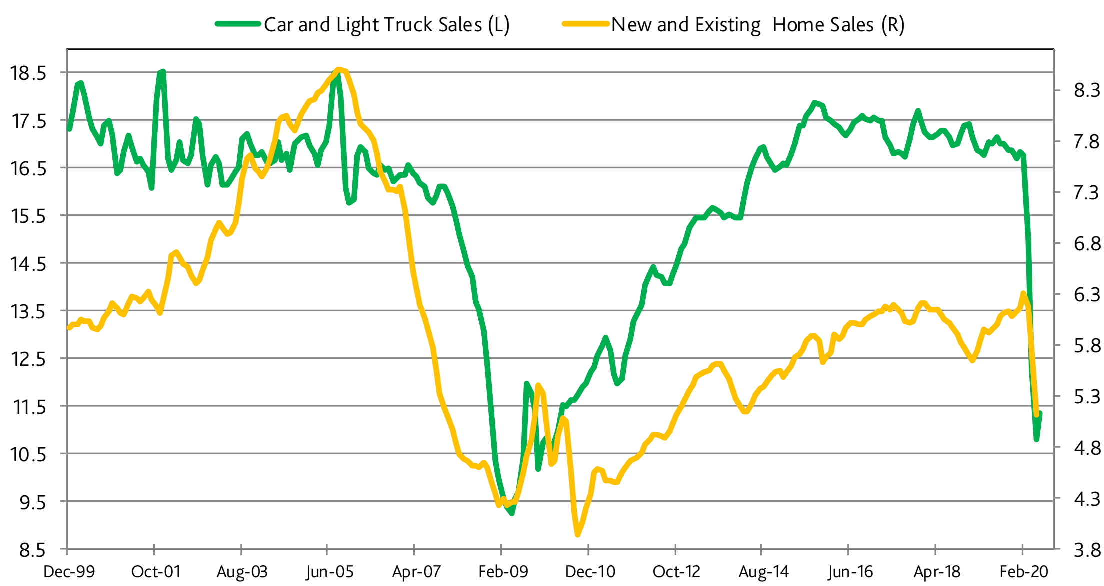
Record-High Savings Rate and Ample Liquidity May Fund an Upside Surprise

Recent equity market volatility stems from shifting views regarding whether current and future upturns by COVID-19 will prove manageable. It would have been foolish to predict that a reopening of the economy would not be accompanied by more cases of COVID-19. What remains to be seen is how much business activity will be lost to the increased incidence of COVID-19 and whether the healthcare system can absorb a jump in serious COVID-19 illnesses.

How much damage will the rise in COVID-19 cases inflict on consumer spending? Indoor sales at bars and restaurants have suffered as have commercial airline bookings. But it may be too early to tell whether other retail sales have stalled. What is not spent on indoor dining and air travel may fund purchases elsewhere.

Even after posting back-to-back monthly advances of 41.8% in May and 5.7% in June, June's 13.0-million units annualized pace for unit sales of cars and light trucks was far below its 17.1-million units annualized average of the three years ended 2019. As inferred from the latest shortfall of sales relative to trend, the upside potential for car and light truck sales is considerable.

Figure 1: Considerable Upside Potential for Unit Sales of Light Motor Vehicles and Housing
moving three-month averages, millions of annualized units
source: Moody's Analytics



As of June 2020, the 9.172 million jobs at bars and restaurants accounted for a significant 6.7% of U.S. nonfarm payrolls. By contrast, the 380,000 jobs at commercial airlines and the 1.305 million jobs at hotels comprised much smaller shares of 0.3% and 0.9% of total payrolls, respectively.

Mortgage applications hint of upturn by household expenditures

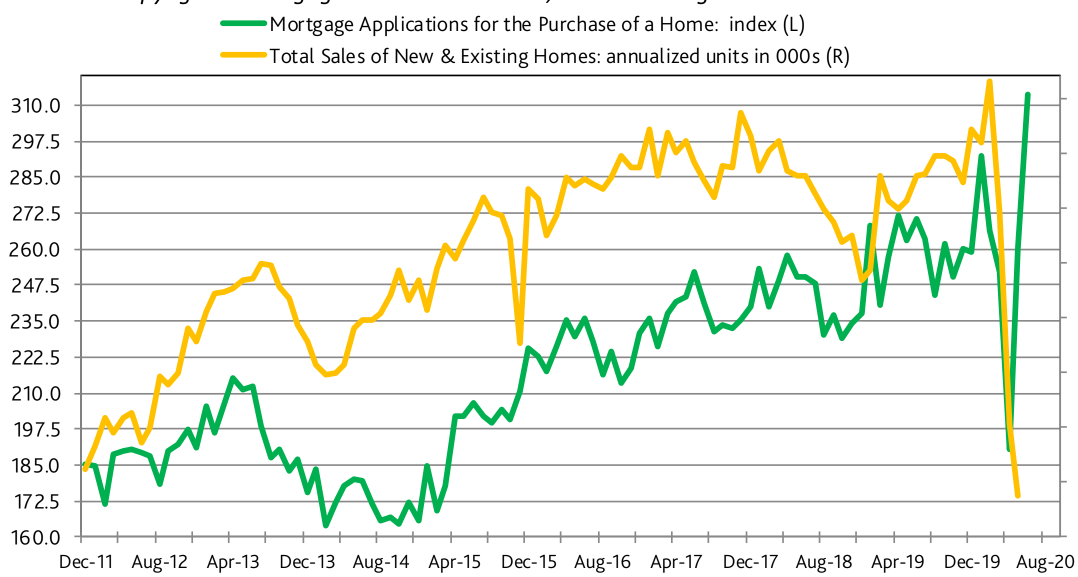
Whatever Americans are not spending on indoor dining or air travel may soon help to fund purchases of home-related goods and services. After COVID-19 inflicted back-to-back monthly setbacks of 21% in March and 22% in April, May's index of pending sales of existing homes advanced 44% from April's depressed score. Sill, May's index of pending home sales (which tally the number of contracts signed to purchase an existing home) trailed their seasonally-adjusted average of the 12-months-ended February 2020 by 7% and were down 10% from a year earlier prior to seasonal adjustment.

Mortgage applications for the purchase of a home favor a lively pace of home sales for June and July. June's average index of mortgage applications from potential homebuyers advanced 21% from May and 16% from June 2019 to a new record high, according to the current sampling procedure that was adopted in September 2011.

Moreover, the homebuyer mortgage applications index for the week-ended July 3 advanced 5.3% from the previous week to a new high for all weekly readings since September 2011. In addition, July 3's homebuyer mortgage applications index was up 18% from a year earlier.

July-to-date's 16% year-over-year increase in the lumber futures contract reinforces expectations of lively housing activity.

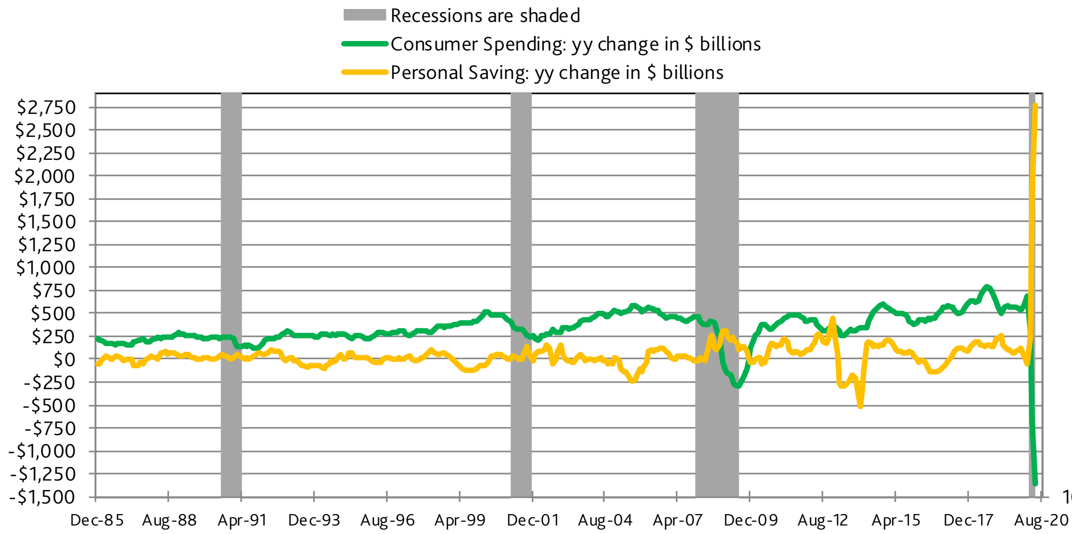
Figure 2: Recent Advance by Homebuyer Mortgage Applications Signals Forthcoming Jump by Sales of New and Existing Homes
sources: Mortgage Bankers Association, Census Bureau, Moody's Analytics



Record personal savings may fund the release of considerable pent-up demand

During March-May 2020, personal consumer spending dropped $1.36 trillion year-over-year, while disposable personal income expanded $1.36 trillion year-over-year. At the same time, personal savings soared higher by $2.76 trillion from a year earlier.

Figure 3: Never Before Has a $1.4 Trillion Yearly Contraction by Consumer Spending Been Accompanied by a $2.8 Trillion Yearly Surge by Personal Savings
moving three-month sums
sources: BEA, NBER, Moody's Analytics

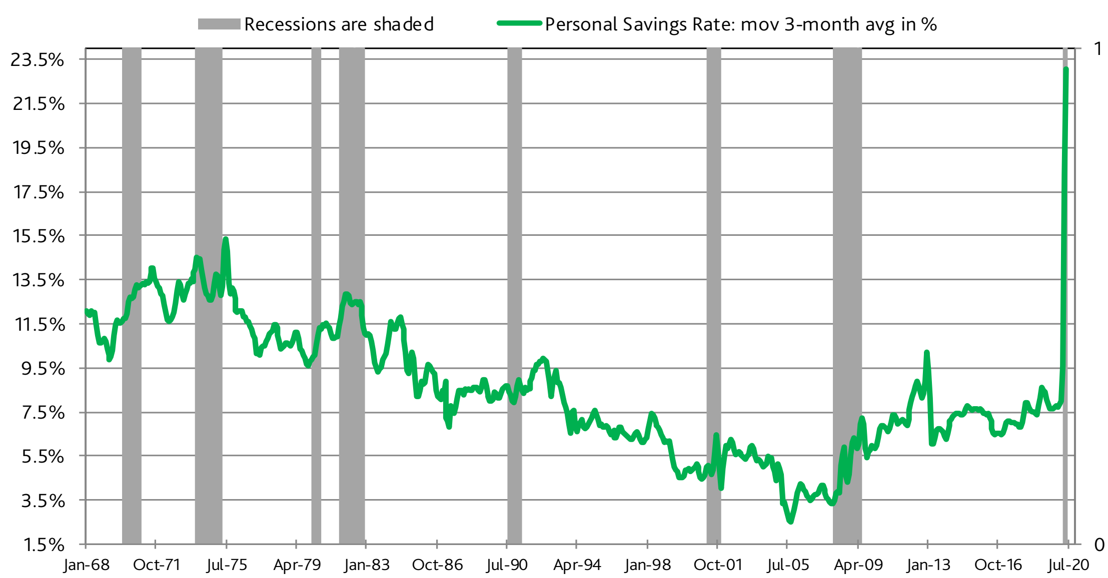


Such extremes are without any remotely similar precedent. Prior to 2020, the widest gap between a year-over-year increase by personal savings and a year-over-year contraction by consumer spending occurred near the end of 2008-2009's Great Recession. More specifically, for the three-months-ended May 2009, a $198 billion annual increase by personal savings was joined by consumer spending's $273 billion annual contraction.

In response to the record-high annual surge by personal savings and consumer spending's record-deep annual contraction, the personal savings rate soared up from March-May 2019's 8% to March-May 2020's 23%. The latter is without precedent. For example, prior to 2020, the highest moving three-month average for the personal savings rate is the 15.3% of the span-ended June 1975. The then ultra-high personal savings rate helps to explain why real consumer spending's yearly growth rate soared higher from second-quarter 1975's 1.4% to the 6.3% of 1976's first quarter.

As business activity reopens, some of the recent extraordinary increase in personal savings will fund an increase in consumer spending that is likely to surpass expectations.

Figure 4: Record-High Personal Savings Rate Will Help Fund Consumer Spending Near Term
sources: BEA, NBER, Moody's Analytics



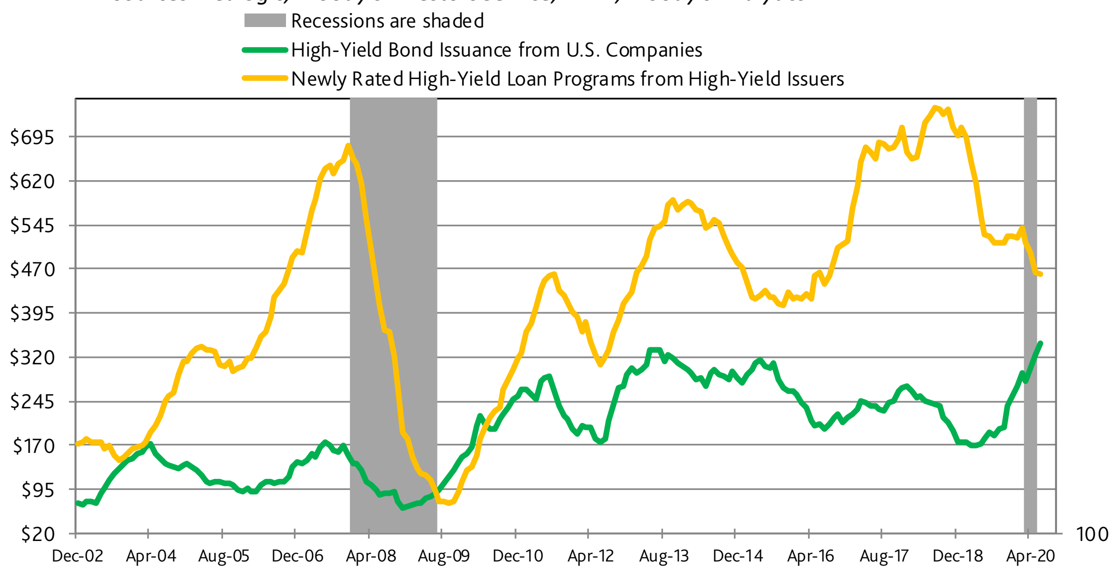
Credit Markets Review and Outlook

June's newly rated loans rise from low readings of March through May

After the comparatively low activity of the previous three months, newly rated loans from high-yield issuers stabilized in June. In part, loan borrowing has been suppressed by the relatively higher incidence of credit rating downgrades among high-yield borrowers with no bond debt outstanding compared with high-yield borrowers with some bond debt outstanding.

For the 12-months-ended June 2020, newly rated loans from high-yield issuers sank 13% annually to $461 billion, while high-yield bond offerings from U.S. companies soared higher by 89% annually to a record high $344 billion. As of June 2020, the moving 12-month sum of newly rated high-yield bank loan programs was 38% under its $745 billion zenith of the span-ended July 2018.

Figure 5: Yearlong Sum for High-Yield Bond Offerings from U.S. Issuers Sets New Record-High as Newly Rated Loans from High-Yield Issuers Sink
moving 12-month sums in $ billions
sources: Dealogic, Moody's Investors Service, NBER, Moody's Analytics



June's $31.9 billion of newly rated loans from mostly high-yield issuers was up from May 2020's $13.1 billion but less than June 2019's $33.7 billion. Though the Baa rating is investment-grade, loans graded Baa are primarily the obligations of companies having a speculative-grade corporate family, or senior unsecured, rating.

June 2020's $5.815 billion of new Baa-grade loans were up from May's $4.2 billion but were less than June 2019's $7.0 billion. June's $26.1 billion of new loans rated less-than-Baa were substantially higher than May's $8.9 billion and were a bit under June 2019's $26.1 billion.

The year-over-year percent change for the supply of newly rated loans graded Baa or lower radically switched direction from the 16.8% advance of January-February 2020 to the 60.1% contraction of March-May 2020. June 2020's supply of such loans was off by a shallower 5.3% from a year earlier.

Record-breaking bond issuance helps reduce high-yield downgrades

June's recovery by leveraged loan issuance joined what was a record-breaking quarter for the issuance of high-yield bonds by U.S. companies. Second-quarter 2020's $128 billion of such high-yield bond offerings was up 101% from a year earlier. In terms of moving three-month sums, the high-yield bond issuance of U.S. companies previously peaked at the $107 billion of the span-ended May 2015.

Second-quarter 2020's surge in high-yield bond issuance enhanced high-yield liquidity by adding cash to the balance sheet or by lengthening maturities via the refinancing of shorter maturities. The Fed's unprecedented support of the corporate credit market and the second-quarter's record-fast growth rates for the M1 and M2 monetary aggregates now steady corporate credit amid very deep declines by corporate earnings.

Credit Markets Review and Outlook

Though it is far too early to pop open the bubbly (especially not in a bar), July-to-date's credit rating revisions of U.S. high-yield issuers show more upgrades (14) than downgrades (8). Though the now positive trend of U.S. high-yield credit rating revisions could deteriorate rapidly, the -6 net high-yield downgrade of July's first five business days is a big improvement over April 2020's record high 219 and May's 90 net high-yield downgrades. A preliminary count has net high-yield downgrades dropping to 44 in June.

During 2020's first quarter, net U.S. high-yield downgrades rose from January's -1 to February's very manageable 19 but then skyrocketed to March's short-lived zenith of 176. March's swelling of net downgrades was largely in response to the destructive force of COVID-19.

The average number of net high-yield downgrades per month were 17 for calendar-year 2019, 1 for 2018, 2 for 2017, 23 for 2016, and 13 for 2015.

Regarding 2015-2016's profits recession, the average number of net high-yield downgrades per month were 12 for 2015's third quarter, 30 for 2015's fourth quarter, 49 for 2016's first quarter, and 16 for 2016's second quarter.

For the Great Recession years, the average number of net high-yield downgrades per month equaled 42 in 2008 and 37 in 2009. Both were significantly higher than 2007's average of 10 net high-yield downgrades per month.

During the Great Recession, the average number of net high-yield downgrades per month peaked at the 76 of 2009's first quarter, which was well under second-quarter 2020's record-high of 118 net high-yield downgrades per month.

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

THE U.S.

By Adam Kamins of Moody's Analytics

COVID-19 Exposure: An Update and a Look Back

A disturbing inflection point has arrived for COVID-19 in the U.S. regions that reopened prematurely or find themselves in the midst of a spike in infections. Rapidly rising case counts and hospitalizations have forced many jurisdictions to either hit pause or, increasingly, walk back earlier decisions.

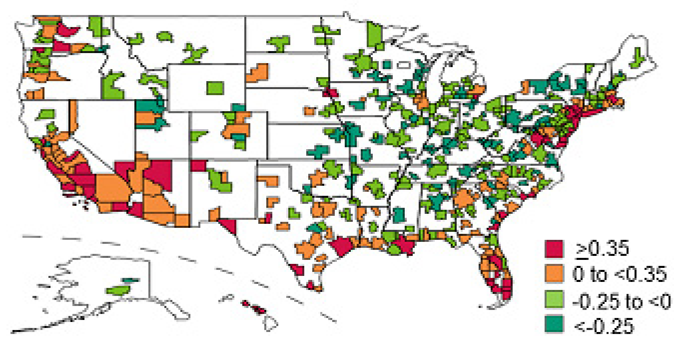
Whether unforced errors translate into a new wave of infections that overtakes the nation remains to be seen and will depend on a combination of better decision-making and luck. Still, the uncertainty reinforces just how important it is to understand how vulnerable various regions are, providing enough reason to continue updating the COVID-19 economic exposure index that was created back in the early days of the pandemic.

Updated z-scores

The structure of the index remains the same, driven by a combination of six factors. For each state or metro area, the following variables are included: exposure to the virus, demographics, trade/travel, dependence on tourism, economic vulnerability, and reliance on natural resource-based industries. Since financial services were replaced with a measure of vulnerability that includes small-business reliance and poverty rates, the only lever that changes from month to month is the incidence of COVID-19 by state and metro area, meaning that map generally looks similar to the way it did in previous months. This is largely because the index is designed to capture structural characteristics that reflect the economic impact of the pandemic from beginning to end; obviously, an index that considers only the effects from today forward would be quite different.

New Outbreaks Change Map Slightly

Avg z-score across rankings, 0=metro area avg, July 2020

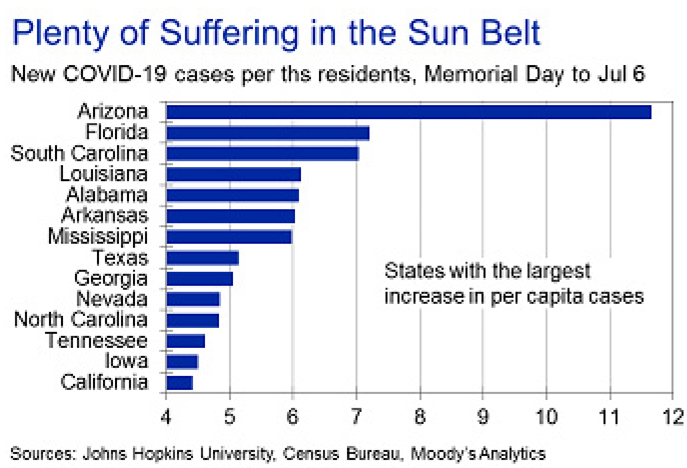


Source: Moody's Analytics

With that context in mind, three states experienced a particularly disturbing jump over the past month. Arizona's weighted average z-score, reflecting the distance from the mean for each of the categories above, increased more than that of any other state. This is hardly surprising given that the Grand Canyon State went from an infection rate of less than half that of the U.S. going into June to one that is more than 50% higher as of early July. The Phoenix area has received the most attention given its outsize population and economic importance, but other parts of the state have suffered as well. In fact, Yuma is home to the second-highest infection rate in the nation since the pandemic began, trailing only neighboring El Centro CA.

South Carolina also looks far worse than it once did. While its increase in cases is not as dramatic as Arizona's, the infection rate there has gone from well below the national average to about even with the U.S. A generally lax approach to shutting down has given rise to new cases in large metro areas such as Charleston, Columbia and Greenville. And with many tourist destinations taking fewer precautions than their peers elsewhere in the U.S., places such as Hilton Head and Myrtle Beach experienced spikes of their own, compounding their already-elevated vulnerability.

Florida has also moved noticeably higher. Although it climbed only one spot in the rankings, from sixth to fifth, it is beginning to close in on New York for the fourth spot. Outbreaks across the state, especially in Miami, have only amplified structural challenges. And as state leaders resist measures to restrict the virus's spread, it seems possible and even likely that Florida will keep moving higher on the exposure rankings.



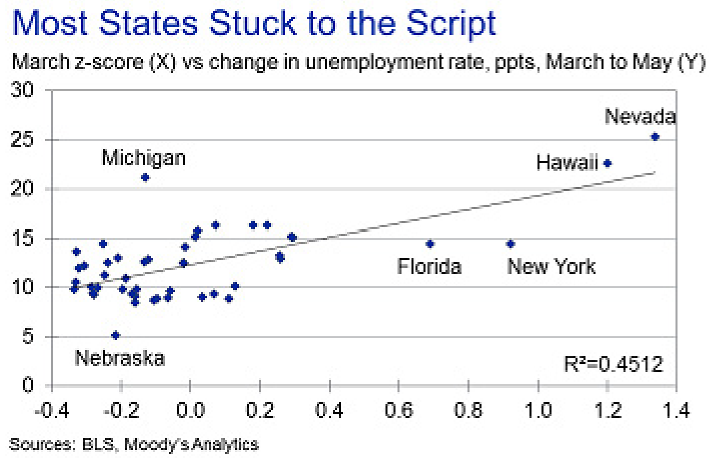
States like California and Texas also look a bit worse now than they did a month ago. Meanwhile, as cases come down in New York, its relative standing has improved. The same holds for Hawaii and Vermont, both of which have leveraged relative isolation—geographically, economically or both—into reduced COVID-19 positive tests.

A look back

In concert with this month's update, we undertook a forensic examination of how effectively early iterations of regional z-scores predicted impacts. To do this, the payroll and household survey numbers provided by the Bureau of Labor Statistics for May were compared to those of March. The change in each measure was ranked, and a comparison of those rankings to those implied by early spring scores was used to evaluate overall accuracy.

All told, the results indicate that the early rankings correctly identified most of the areas where the virus's impact would be most severe. For example, the two states to experience the largest upticks in their respective unemployment rates were Nevada and Hawaii, primarily because of their heavy reliance on highly cyclical tourism. Those states ranked first and second for economic exposure back in March.

A more systematic comparison involves a correlation between the initial exposure rankings and the change in both payroll employment and the unemployment rate from March to May. The correlation coefficients on each ranged from 0.35 to 0.45, signaling a strong fit between the expected and actual shock. For benchmarking purposes, this was compared against two other sets of rankings from other sources; in both cases, our index was noticeably more accurate.



The metro area scores also accurately captured the hardest-hit areas. In fact, the five highest unemployment rates in the nation as of May are for areas that ranked in the top 25 for vulnerability in the initial rankings. These include Las Vegas, Atlantic City NJ, and Kahului HI, all of which have been devastated by the collapse of tourism. Meanwhile, El Centro CA and Detroit were also flagged as two of the most vulnerable economies, reflecting their exposure to the virus and general cyclicality.

Once again, the correlation between the initial list and actual results was benchmarked against another source's ranking. And as with states, our index more accurately predicted both payroll employment losses and unemployment rate increases.

Some misses

While the early exposure rankings generally performed well, there were also a handful of misses. In some cases, these indicate that certain aspects of the recession were not fully captured; in others, they may simply signal that the pain is yet to come and is not yet reflected in the labor market data through May.

A handful of states have done better than expected so far. Much of Arizona and parts of Florida held up better than expected through the first two months of the pandemic. Arizona was especially striking, as the unemployment rate did not even double from February to May despite nearly quadrupling nationally. For both Arizona and Florida, shallower job losses than the nation as a whole over the past two months represent a pleasant surprise given that both states tend to be highly cyclical. But with COVID-19 sharply on the rise in both places, it appears increasingly likely that the bill for less draconian public health measures is now coming due, especially in Miami and Phoenix.

Energy states also did better than expected, with North Dakota and Wyoming overperforming in the spring. But reduced drilling generally flows slowly into mining employment, signaling that those places also may face more medium-term hurdles. However, another metro area with some energy presence is more nuanced. Denver has done far better than the z-score indicated, helped by financial markets that staged an impressive rally after March. The removal of that indicator in April helped to partially correct this, but the resilience of the Mile High City is also part of the story.

On the other end of the spectrum, the exposure index generally understated the harm to highly cyclical areas, particularly manufacturing-dependent states in the Midwest. This was partly by design, as the original intent of the scores was to layer an additional shock onto the cyclicality that would be predicted based on historical patterns. However, this may have implied that states such as Michigan, Ohio and Wisconsin would weather the pain better than they have.

This bit of context should be kept in mind when evaluating the rankings. So too should the knowledge that policy responses—or, in many cases, governors' mismanagement—may drive future economic exposure. While no objective measure for this exists, it will need to be considered alongside the structural factors that are quantified in the index.

Next week

The key data next week will be the consumer price index, industrial production, housing starts, retail sales, regional Fed manufacturing surveys, business iinventories and jobless claims.

EUROPE

By Ross Cioffi of Moody's Analytics

Euro Zone Inflation Likely Speeding Up

Next week will bring finalized data on consumer price inflation for the euro zone. We will also get euro zone aggregates for industrial production and external trade for May and the most recent estimate of British GDP. We expect the downward pressure on consumer prices triggered by the global pandemic to have eased in June and that although industrial production and external trade began to recover in May, they will grow more modestly than expected by the consensus.

We expect June CPI inflation sped up to 0.3% y/y in the euro zone from 0.1% in May. According to the preliminary report, the increase stems from easing energy price deflation. Optimism earlier in the month drove a modest recovery in oil prices, but the rally in oil seems to have leveled off. With the resurgence of COVID-19 in the U.S., upward pressure on commodity prices will wane. Although some sectors might see price increases in the near term because of pent-up demand for some goods and services like hairdressers, the drop in employment and incomes, the rise in precautionary savings, and the value-added tax cuts in some countries will keep a lid on inflation for the time being. On the country level we expect the same; softer energy price deflation supported prices in an otherwise disinflationary environment. We expect consumer prices in Spain, the European country hardest hit country by COVID-19, remained deflationary in June, falling 0.3% y/y instead of 0.9% as in May. Consumer prices in Italy were also likely deflationary in June, though we think the rate of decline was stable at 0.2% y/y. Things are looking slightly more positive in Germany and France. The inflation rate likely rose to 0.9% from 0.6% in Germany and to 0.7% from 0.4% in France.

External trade in the euro zone likely expanded to a surplus of €15.2 billion in May from €2.9 billion in April. We expect exports and imports each picked up from the month prior, but that a faster increase in exports will cause the currency bloc's surplus to widen. Yet, we are tempering our hopes due to Germany's underwhelming surplus in May, and the deterioration of the trade deficit in France. Lockdowns remained in effect in the euro zone for much of the month and the so-far weak industrial production data also signal that activity didn't pick up so rapidly in those last weeks of May. This is also why we are expecting a smaller rebound in industrial output than the consensus. We think that over the euro zone, industrial production will partially rebound—by 12.5% m/m after its 17.1% decline in April.

U.K. GDP in May will be released on Tuesday. We see a 5% m/m increase following the massive 20.4% decline in April. The increase in activity will owe nearly all to the base effects from reopening construction sites and factories. Lockdowns persisted throughout the month, meaning that the shift into recovery mode won't come until June at the earliest. Similarly, we are expecting a jump in the unemployment rate to 5.1% in the three months to May from 3.9% in the April stanza. The May reading from the KPMG and REC jobs report recovered only a little from April's trough, reflecting continued sharp declines in recruitment.

In the euro zone and the U.K., May and June will be transition months as each recover from lockdowns imposed earlier in the spring. Retail sales proved to rebound more strongly, while industrial production and trade will move more slowly. Either way, we are still confident that the euro zone—the U.K. is facing stronger headwinds—is taking its first steps on the road to recovery.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 7:00 a.m.	Germany: Consumer Price Index for June	% change yr ago	0.9	0.6
Tues @ 8:00 a.m.	Spain: Consumer Price Index for June	% change yr ago	-0.3	-0.9
Tues @ 9:30 a.m.	U.K.: Monthly GDP for May	% change	5.0	-20.4
Tues @ 10:00 a.m.	Euro Zone: Industrial Production for May	% change	12.5	-17.1
Wed @ 9:00 a.m.	Italy: Consumer Price Index for June	% change yr ago	-0.2	-0.2
Wed @ 9:30 a.m.	U.K.: Consumer Price Index for June	% change yr ago	0.4	0.5
Thur @ 7:45 a.m.	France: Consumer Price Index for June	% change yr ago	0.7	0.4
Thur @ 9:30 a.m.	U.K.: Unemployment for May	%	5.1	3.9
Thur @ 10:00 a.m.	Euro Zone: External Trade for May	€ bil	15.2	2.9
Thur @ 1:00 p.m.	Russia: Industrial Production for June	% change yr ago	-7.5	-9.6
Fri @ 10:00 a.m.	Euro Zone: Consumer Price Index for June	% change yr ago	0.3	0.1

ASIA-PACIFIC

By Shahana Mukherjee of Moody's Analytics

China's Economic Activity Rebounds After the Shutdown

We expect China's June quarter GDP to have improved over the June quarter following a 6.8% y/y decline in March. The sharp contraction in output resulted from the large-scale damage inflicted by the COVID-19 outbreak, which prompted severe restrictions within borders to contain the localized spread. The regional shutdown, which lasted for nearly two months, dealt a significant hit to all sectors, with secondary industries having contracted by 9.6% in yearly terms, while tertiary industries declined by 5.2% and primary industries fell by 3.2%. China's economic activity has rebounded since the shutdown, with notable improvements in industrial activity and exports but a softer pickup in domestic demand. Overall, improved domestic consumption, foreign sales, and better employment prospects are expected to have supported GDP through the June quarter.

China's exports are expected to have risen by 1.2% in yearly terms in June, after falling 3.3% in May. The COVID-19 shock to global demand has been significant. It continued to cause record declines in shipments to major export destinations as the combined effect of domestic and international restrictions weighed heavily on aggregate demand. Even though China's exports have increased in value terms since the sharp decline in February, exports last month stayed below levels seen in May last year. With Western economies gradually opening up, the shock to global trade is likely to have bottomed out in May, and June should reflect a reversal in the annual decline.

Australia's unemployment rate is likely to have risen to 7.4% in June, following the increase to 7.1% in May. Even though the shock in overseas demand has been relatively less for Australia compared with its APAC counterparts, the domestic restrictions since late March and the hit to all tourism-exposed sectors from travel restrictions have had a significant impact on the domestic labour market. Employment levels declined by a record 5.4% in yearly terms in May, well exceeding the sharpest single-month decline of 3.5% seen in 1992 during the last recession. Even though domestic spending has revived in the post-restrictions phase, softness in employment conditions is likely to persist over the next two to three months.

The Bank of Korea is expected to lower the benchmark lending rate to 0.25% at its July meeting, from 0.5%. South Korea's economy faces considerable downside risks from weak external demand through the June quarter and soft domestic spending, which have cumulatively built up pressure on the domestic labour market. The central bank is expected to ease its benchmark rate to further lower borrowing costs and help cushion the economy from the COVID-19 shock.

The Week Ahead

	Key indicators	Units	Moody's Analytics	Confidence	Risk	Last
Mon @ 10:00 p.m.	India CPI for June	% change yr ago	5.20	2	↓	5.90
Tues @ 10:00 a.m.	Singapore GDP for Q2	% change yr ago	-10.2	2	↓	-0.7
Tues @ 1:00 p.m.	China Foreign Trade for June	US$bil	60.5	3	←	62.9
Wed @ 9:00 a.m.	South Korea Unemployment Rate for June	%	4.6	3	↑	4.5
Wed @ 2:00 p.m.	Indonesia Foreign Trade for June	US$bil	0.8	2	↓	2.09
Thur @ 12:00 a.m.	India Foreign Trade for June	US$bil	-4.4	2	↓	-3.15
Thur @ 8:45 a.m.	New Zealand CPI for Q2	% change	-0.30	3	↓	0.80
Thur @ 11:00 a.m.	South Korea Monetary Policy for July	%	0.25	3	↓	0.5
Thur @ 11:30 a.m.	Australia Unemployment Rate for June	%	7.4	3	↑	7.1
Thur @ 12:00 p.m.	China GDP for Q2	% change yr ago	-2.0	3	↑	-6.8
Thur @ 12:00 P.m.	China Industrial Production for June	% change yr ago	4.7	3	↓	4.40
Thur @ 12:00 p.m.	China Retail Sales for June	% change yr ago	2.4	2	↓	-2.50
Thur @ 12:00 p.m.	China Fixed Asset Investment for June	% change yr ago	-3.3	3	↓	-6.3
Thur @ 5:30 p.m.	Indonesia Monetary Policy for July	%	4.0	3	↓	4.25
Fri @ 10:30 a.m.	Singapore Non-oil Exports for June	% change yr ago	-3.60	3	↓	-4.50

The Long View

Second-quarter 2020's new zenith for high-yield bond offerings from U.S. issuers softened COVID-19's blow.

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

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 145 basis points far exceeded its 122-point mean of the two previous economic recoveries. This spread may be no wider than 140 bp by year-end 2020.

The recent high-yield bond spread of 640 bp is thinner than what is suggested by the accompanying long-term Baa industrial company bond yield spread of 229 bp and the recent VIX of 29.2 points. The latter has been statistically associated with a 760-bp midpoint for the high-yield bond spread.

DEFAULTS

May 2020's U.S. high-yield default rate of 6.4% was up from May 2019's 3.1% and may approximate 12.3%, on average, by 2021's first quarter.

US CORPORATE BOND ISSUANCE

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 329% for high-yield, wherein US$-denominated offerings dipped by 0.8% for IG and surged higher by 330% for high yield.

First-quarter 2020's worldwide offerings of corporate bonds revealed annual advances of 17.7% for IG and 26.5% for high-yield, wherein US$-denominated offerings increased by 43.7% for IG and grew by 21.4% for high yield.

For 2019, worldwide corporate bond offerings grew by 5.4% annually (to $2.447 trillion) for IG and advanced by 49.2% for high yield (to $561 billion). The projected annual percent changes for 2020's worldwide corporate bond offerings are an 8.6% rise for IG and a 1.3% drop for high yield.

US ECONOMIC OUTLOOK

An unfolding global recession will rein in Treasury bond yields. As long as the global economy operates below trend, 1.25% will serve as the upper bound for the 10-year Treasury yield. Until COVID-19 risks fade, substantially wider credit spreads are possible.

EUROPE

By Ross Cioffi of Moody's Analytics
July 9, 2020

GERMANY

Provisional data show that Germany's not seasonally adjusted trade surplus rose to €7.1 billion, barely a third of the €20.7 billion surplus registered last May. The seasonally adjusted trade surplus widened to €7.6 billion in May from €3.2 billion in April.

Following the rollback of lockdown measures across Europe, exports of goods increased by 9% m/m and imports gained 3.5%. The slower growth in imports helped widen the trade surplus, but the overall improvement was considerably below consensus expectations and the surplus remains well below its year-ago value. We're encouraged that trade is moving in the right direction, but there is still a long way to go. A rebound in exports is crucial to a sustained recovery for Germany. For now, we expect weak foreign demand will cause unemployment to climb through the remainder of the year. Export demand will lag as long as foreign firms hold back on new investments, a likely situation until a vaccine is found. We aren't so surprised that the trade balance grew only modestly in May, given that lockdowns persisted across Europe for most of the month. The risk to trade this summer comes from the resurgence of the virus in the U.S., Germany's largest export market.

The release shows just what the pandemic did to trade. Exports to China, where the virus had already abated by May, were down 12.3% in yearly terms, a slightly softer fall than the 12.6% decline in April. But exports of goods to the U.S. plunged by 36.5% y/y, even worse than the 35.8% slump in April. Exports to the rest of Europe grew in May, and we expect progress on this front. Overall, though, trade on the Continent remains considerably depressed.

UNITED KINGDOM

British Finance Minister Rishi Sunak has announced a £30 billion expansion to the government's stimulus efforts. The supplement to the budget will target employment, with job retention bonuses, infrastructure projects, tax reductions, an Eat Out to Help Out scheme, and a 'Kickstart Scheme' which will fund six-month work placement opportunities for 16- to 24-year-olds currently at risk of falling into long-term unemployment.

The unemployment rate, which in the U.K. is reported using a three-month moving average, will be released next week, and we expect the rate jumped to 5.1% in May from 3.9% in April. Furthermore, Wednesday's KPMG and REC Report on Jobs painted a grim picture for June. The index rose to 31.9 from 19.1, but this is still well below the break-even reading of 50. Overall, the decline in hiring softened from May, but according to the 400 recruitment consultancies surveyed, demand for new staff continued to fall sharply while the supply of job seekers rose at the steepest rate since January 2009.

The hit to employment in the U.K. will be worse than in Europe. The pandemic lockdown lasted longer in the U.K. than in Europe, with nonessential shops reopening only in mid-June as opposed to mid-May in much of the EU. The U.K.'s Job Retention Scheme, which subsidizes the wages of 9 million furloughed workers, will help prevent a spike in unemployment, but the scheme is more restrictive than its counterparts in Europe. Lagging employment will weigh on consumer confidence, dragging domestic demand down with it.

The good news is that the labor market should stabilize in the third quarter, though it will be a long time before joblessness reaches its pre-pandemic rate. We are encouraged by the government's efforts, but in the short run and amid the COVID-19 and Brexit uncertainty, there is little reason to expect British firms will rush into hiring.

EURO ZONE

The European Commission published its summer forecasts for the euro zone Tuesday morning. The commission is even more pessimistic than it was in its spring forecast, with expectations of an 8.7% contraction for 2020, down from the spring forecast of a 7.7% slump. The commission's forecast for inflation remains the same as in spring, with the harmonized index of consumer prices expected to rise just 0.3% this year. Growth in GDP should pick up to 6.4% and inflation to 1.1% in 2021.

The commission's outlook resonates with our view that although lockdowns pummeled the economy in the first half of the year, recovery will gain traction heading into the third quarter. Upbeat retail sales in May were the first sign that the worst of the crisis is over, though judging by Germany's industrial production figures in May, manufacturing will take longer to regain its footing.

ASIA PACIFIC

By Shahana Mukherjee of Moody's Analytics
July 9, 2020

AUSTRALIA

In its monetary policy decision for July, the Reserve Bank of Australia left its cash rate unchanged at a record low 0.25%, while the three-year bond yield target was also kept intact at 0.25%. This decision was consistent with market expectations and marks the fourth month since the central bank eased its settings with a substantial 50-basis point rate cut and introduced a quantitative easing program to maintain liquidity flow.

Governor Philip Lowe's policy statement clearly reflected the heightened uncertainty that characterises Australia's economic outlook. Yet the underlying sources of uncertainty continue to evolve.

The downside risks facing the Australian economy were more prominent a month earlier as the effects of domestic and international restrictions and the resulting shock to employment from the slump in demand were reflected clearly in the high-frequency indicators. They showed a 17.7% monthly decline in retail sales in April, and an alarming rise in the unemployment rate from 5.2% to an upwardly revised 6.4% over this period, underpinned by a 3.4% yearly decline in employment, a three-decade low. With the domestic health crisis largely brought under control, an earlier-than-expected easing of restrictions created a favourable setup; domestic spending revived on the back of pent-up demand and the considerable income support provided by fiscal stimulus to impacted households. Retail sales reversed their decline, rising by 16.9% in May, but employment conditions continued to worsen, with the unemployment rate rising further to 7.2% and employment levels being driven down to 5.4% below levels seen a year ago.

New risks to growth

The risks to growth now stem from a combination of improving consumption but a slower than expected revival in employment levels. This will be the case for some time, as the employment loss caused by the hit to tourism-exposed industries is unlikely to be fully absorbed by improved domestic consumption. However, the bigger worry now is the sudden rise in COVID-19 cases in Victoria, which has prompted a lockdown in parts of Melbourne and led to the closure of the shared border with New South Wales. This will set back household spending, weaken the pace of employment generation, and delay the speed of recovery. While Australia's merchandise exporters have weathered the storm better than those of its APAC counterparts and the worst for global trade is over, regional trade dynamics will remain uneven through the September quarter. Large economies such as the U.S., India, Russia and Latin America, among others, continue to face disruptions while China, Australia's biggest trade partner, is experiencing moderate recovery in new overseas orders.

Under these circumstances, the RBA is expected to play a supportive role and continue to complement the fiscal efforts targeted at reviving a sharp slowdown. The latest surge in coronavirus cases, paired with weaker prospects of a revival, have expectedly strengthened the case for an extension of fiscal support, with the outcome that the Australian government has confirmed plans for a new phase of the current JobKeeper-type scheme for the most impacted sectors beyond September, with potentially more stringent qualifying criteria. This announcement falls in line with the central bank's call for additional fiscal stimulus, but the sustainability of such support, considering that Australia's stimulus package already had one of the largest shares globally dedicated to direct spending, will prove challenging. Overall, while the cautious optimism regarding Australia's outlook can be reasonable, the high degree of uncertainty stemming from multiple factors weighs unfavourably against the possibility of a quick and visible turnaround, or a V-shape recovery, for Australia.

Ratings Round-Up

U.S. Change Activity Mixed for Latest Week

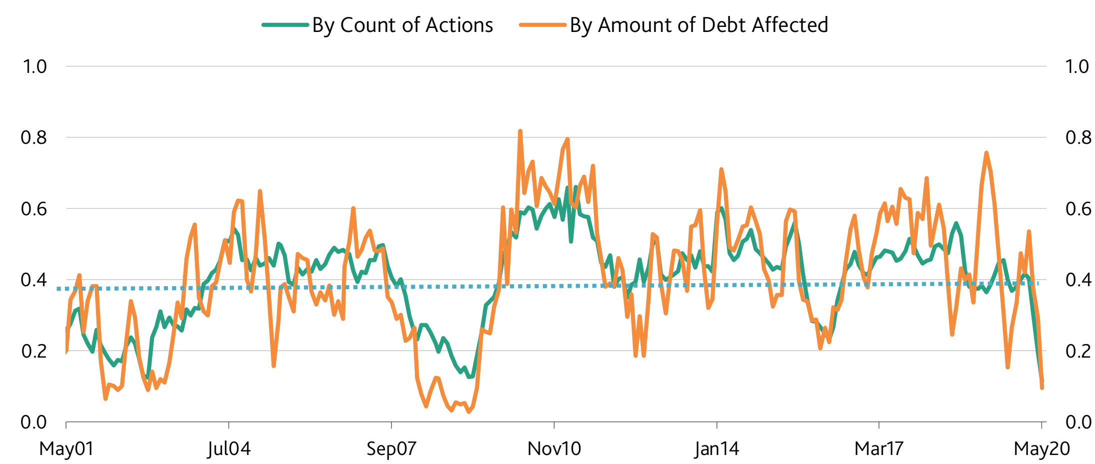
By Michael Ferlez

U.S. rating change activity was mixed last week, but the effects of the recession continue to weigh heavily on corporate credit quality. For the week ended July 7, U.S. rating change activity was evenly split between upgrades and downgrades. However, despite the even split in rating actions, downgrades accounted for all $4.8 billion in affected debt. Upgrades were confined to speculative-grade companies and were split evenly across a diverse set of industries. Similarly, downgrades were also confined to speculative-grade companies, though the industry impact was more concentrated, with exploration and production firms accounting for two of the five downgrades. The most notable change was made to Denbury Resources Inc., which saw its senior secured credit rating cut two-notches from Caa2 to Ca. Moody's Investors Service downgrade of Denbury reflects the high probability the firm will be forced to default on its debt after electing not to make an interest payment due June 30. The downgrade impacts $3.5 billion in debt.

European rating change activity is also suffering as a result of the recession. Downgrades accounted for all eight rating changes last week. Combined, downgrades impacted over $2 billion in corporate debt. Germany and Luxembourg had the most downgrades at two each, followed by France, Jersey, Sweden, and United Kingdom, each with one. The most notable change last week was to Aston Martin Capital Holdings Limited. The Jersey-based automaker saw its senior secured credit rating cut to Caa2 from Caa1. The downgrade reflects Moody's Investors Service view that the existing secured notes positioning in the capital structure has faded as a result of the firm's weak corporate family rating and the rising amount of debt ahead of downgraded notes. The downgrade affects $1.1 billion outstanding debt.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

FIGURE 2
Rating Key

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

FIGURE 3
Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG
7/1/20	BROOKFIELD ASSET MANAGEMENT INC. -BROOKFIELD PROPERTY REIT INC.	Industrial	SrSec/BCF/LTCFR	1,000	D	Ba3	B1	SG
7/1/20	DENBURY RESOURCES INC.	Industrial	SrSec/LTCFR/SrSub/PDR	3,581	D	Caa2	Ca	SG
7/1/20	CRYOLIFE, INC.	Industrial	SrSec/BCF		U	B2	B1	SG
7/1/20	NPC INTERNATIONAL, INC.	Industrial	PDR		D	Ca	D	SG
7/1/20	CPG INTERNATIONAL LLC	Industrial	LTCFR/PDR		U	B3	B1	SG
7/1/20	COVIA HOLDINGS CORPORATION	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Ca	SG
7/1/20	II-VI INCORPORATED	Industrial	SrSec/BCF/LTCFR/PDR		U	B1	Ba3	SG
7/2/20	LONESTAR RESOURCES, INC. -LONESTAR RESOURCES AMERICA INC.	Industrial	SrUnsec/LTCFR/PDR	250	D	Ca	C	SG
7/2/20	WILLIAMS SCOTSMAN INTERNATIONAL INC.	Financial	LTCFR		U	B2	B1	SG
7/7/20	AGROFRESH, INC.	Industrial	LTCFR/PDR		U	Caa1	B3	SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

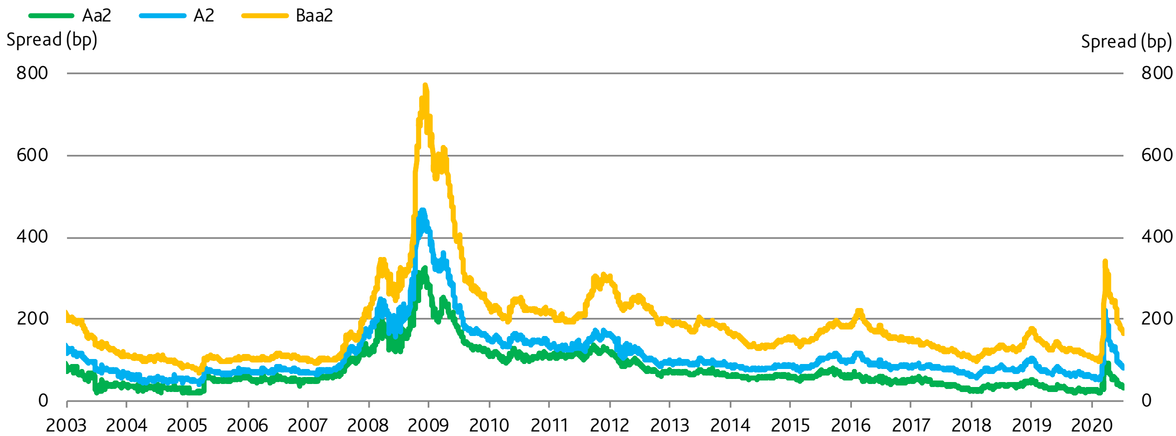
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	New LGD	IG/SG	Country
7/1/20	AI MISTRAL HOLDCO LTD	Industrial	SrSec/BCF /LTCFR/PDR		D	B3	Caa1		SG	LUXEMBOURG
7/1/20	ASTON MARTIN LAGONDA GLOBAL HOLDINGS PLC-ASTON MARTIN CAPITAL HOLDINGS LIMITED	Industrial	SrSec	1,095	D	Caa1	Caa2		SG	JERSEY
7/2/20	DEUTSCHE LUFTHANSA AKTIENGESELLSCHAFT	Industrial	SrUnsec/LTCFR /PDR/MTN	562	D	Ba1	Ba2		SG	GERMANY
7/2/20	AMPRION GMBH	Utility	LTIR		D	A3	Baa1		IG	GERMANY
7/3/20	SAGA GROUP PLC-SAGA PLC	Financial	SrUnsec/LTCFR/PDR		D	Ba2	B1		SG	UNITED KINGDOM
7/3/20	ODYSSEY EUROPE HOLDCO S.à.R.L.	Industrial	SrSec/LTCFR/PDR	450	D	B2	Caa1		SG	LUXEMBOURG
7/6/20	TECHNICOLOR S.A.	Industrial	SrSec/BCF/PDR		D	Caa3	Ca		SG	FRANCE
7/6/20	SAS AB	Industrial	LTCFR/PDR		D	Caa1	Caa2		SG	SWEDEN

Source: Moody's

Market Data

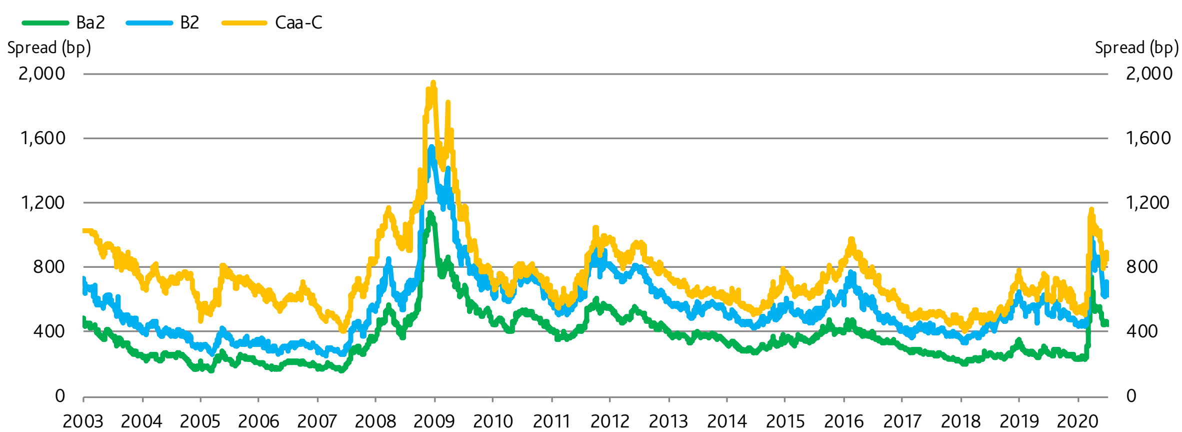
Spreads

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 (July 1, 2020 – July 8, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 8	Jul. 1	Senior Ratings
Avis Budget Car Rental, LLC	Caa2	Ca	B3
JPMorgan Chase & Co.	A3	Baa1	A2
Bank of America Corporation	A3	Baa1	A2
HCA Inc.	Ba1	Ba2	Ba2
Altria Group Inc.	A2	A3	A3
Dow Chemical Company (The)	Baa2	Baa3	Baa2
CCO Holdings, LLC	Baa3	Ba1	B1
Nissan Motor Acceptance Corporation	Ba3	B1	Baa3
NIKE, Inc.	Baa1	Baa2	A1
Springleaf Finance Corporation	B2	B3	Ba3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 8	Jul. 1	Senior Ratings
Colgate-Palmolive Company	Aa3	Aa1	Aa3
Delhaize America, LLC	A1	Aa2	Baa1
Oracle Corporation	A1	Aa3	A3
John Deere Capital Corporation	A2	A1	A2
PepsiCo, Inc.	Aa3	Aa2	A1
Bristol-Myers Squibb Company	Aa1	Aaa	A2
3M Company	Aa2	Aa1	A1
Intel Corporation	A3	A2	A1
Merck & Co., Inc.	Aa2	Aa1	A1
Philip Morris International Inc.	A3	A2	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 8	Jul. 1	Spread Diff
American Airlines Group Inc.	Caa1	3,758	3,095	663
United Airlines Holdings, Inc.	Ba3	1,276	1,156	120
United Airlines, Inc.	Ba3	1,085	984	101
Energy Transfer Operating, L.P.	Baa3	193	153	40
UDR, Inc.	Baa1	611	580	30
Sunoco, Inc.	Baa3	145	114	30
AutoNation, Inc.	Baa3	436	406	29
Meritage Homes Corporation	Ba2	268	244	24
DPL Inc.	Ba1	344	324	20
Murphy Oil Corporation	Ba3	400	386	15

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 8	Jul. 1	Spread Diff
Avis Budget Car Rental, LLC	B3	819	1,062	-244
K. Hovnanian Enterprises, Inc.	Caa3	2,439	2,625	-187
Staples, Inc.	B3	1,857	2,008	-151
Macy's Retail Holdings, Inc.	B1	952	1,033	-81
Occidental Petroleum Corporation	Ba2	564	643	-79
L Brands, Inc.	B2	610	680	-71
Royal Caribbean Cruises Ltd.	Ba2	1,533	1,600	-67
Marathon Oil Corporation	Baa3	355	409	-54
Ford Motor Company	Ba2	479	531	-51
Springleaf Finance Corporation	Ba3	376	425	-49

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (July 1, 2020 – July 8, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 8	Jul. 1	Senior Ratings
Barclays PLC	Baa2	Baa3	Baa2
Banco Bilbao Vizcaya Argentaria, S.A.	A1	A2	A3
Portugal, Government of	A3	Baa1	Baa3
Norddeutsche Landesbank GZ	Baa2	Baa3	A3
Bayerische Landesbank	A2	A3	Aa3
Vodafone Group Plc	A3	Baa1	Baa2
Bayerische Motoren Werke Aktiengesellschaft	Baa1	Baa2	A2
Fiat Chrysler Automobiles N.V.	Ba3	B1	Ba2
Unibail-Rodamco-Westfield SE	Ba1	Ba2	A3
Fresenius SE & Co. KGaA	Baa1	Baa2	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 8	Jul. 1	Senior Ratings
Bank of Scotland plc	A1	Aa2	Aa3
Banque Federative du Credit Mutuel	A1	Aa3	Aa3
Nordea Bank Abp	Aa2	Aa1	Aa3
Landesbank Hessen-Thueringen GZ	A1	Aa3	Aa3
Nationwide Building Society	A2	A1	A1
Landesbank Baden-Wuerttemberg	A2	A1	Aa3
E.ON SE	Aa2	Aa1	Baa2
ENGIE SA	Aa2	Aa1	A3
KBC Group N.V.	Baa2	Baa1	Baa1
BNP Paribas Fortis SA/NV	A1	Aa3	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 8	Jul. 1	Spread Diff
PizzaExpress Financing 1 plc	C	28,706	16,234	12,472
Selecta Group B.V.	Caa2	5,156	4,357	799
Deutsche Lufthansa Aktiengesellschaft	Ba2	338	304	34
Hammerson Plc	Baa2	529	499	30
Wienerberger AG	Ba1	355	339	16
Permanent tsb p.l.c.	Baa2	218	207	11
Piraeus Bank S.A.	Caa2	851	841	9
Bank of Scotland plc	Aa3	48	39	9
Erste Group Bank AG	A2	79	71	8
Leonardo S.p.A.	Ba1	223	215	8

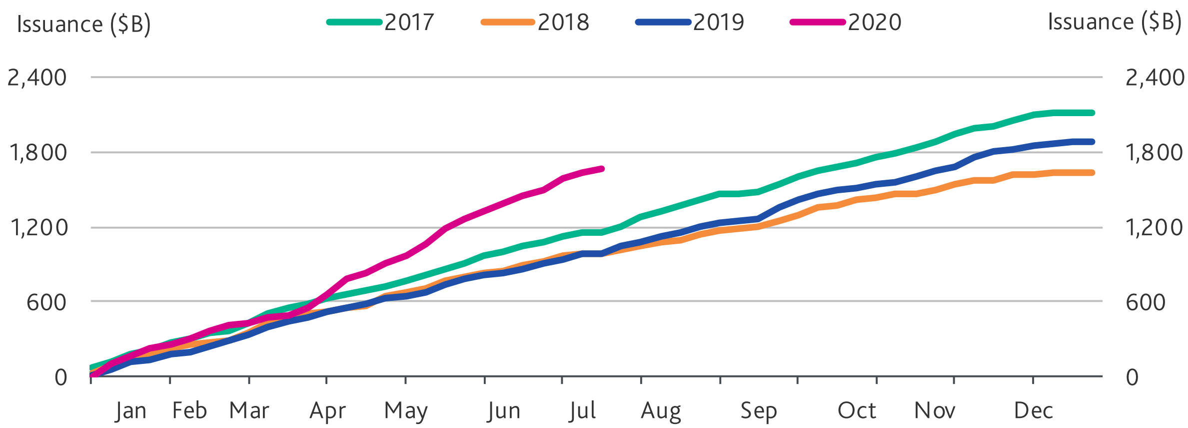
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 8	Jul. 1	Spread Diff
TUI AG	Caa1	1,154	1,295	-141
CMA CGM S.A.	Caa1	970	1,046	-77
Novafives S.A.S.	Caa2	1,040	1,116	-76
Vedanta Resources Limited	B3	1,270	1,339	-68
Stena AB	Caa1	689	718	-28
Boparan Finance plc	Caa1	651	676	-25
Peugeot S.A.	Baa3	203	218	-15
Valeo S.A.	Baa3	175	189	-14
Virgin Media Finance PLC	B2	214	227	-14
Ineos Group Holdings S.A.	B2	318	331	-13

Source: Moody's, CMA

Market Data

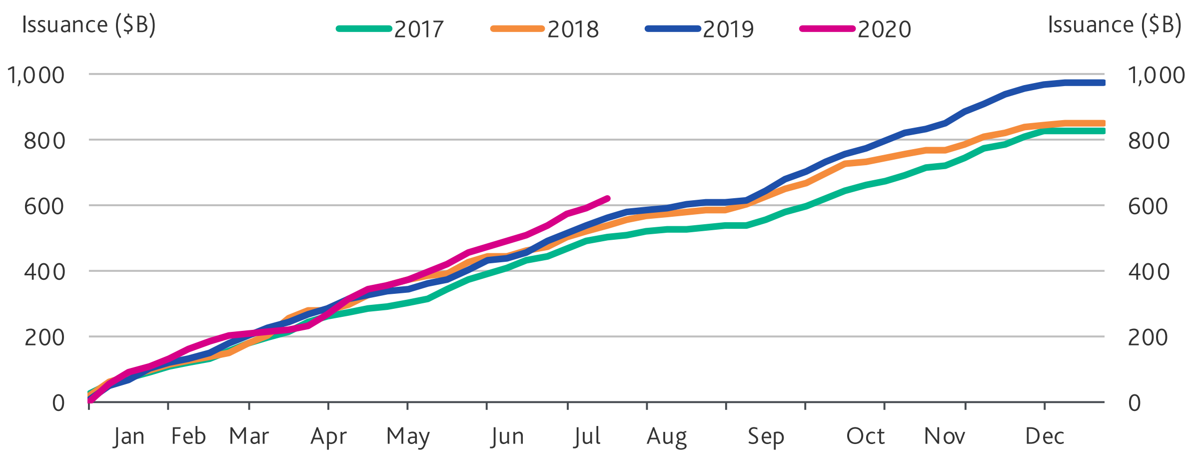
Issuance

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	15.975	6.295	24.651
Year-to-Date	1,314.498	288.519	1,656.277

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	21.905	9.423	33.943
Year-to-Date	540.779	62.480	623.716

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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