MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Are Inflationists Finally Right, or Still Crying Wolf?

Credit Markets Review and Outlook *by Ryan Sweet*

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The Week Ahead

We preview economic reports and forecasts from the U.S., Europe and Asia/Pacific regions.

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The Long View

Full updated stories and key credit market metrics: Realized inflation is boosting inflation expectations, pushing long-term rates higher.

Credit Spreads	Investment Grade: Year-end 2021's average investment grade bond spread may be near its recent 100 basis points. High Yield: Even with a booming economy, a composite high-yield spread could be higher than its recent 336 bp by year-end 2021.
Defaults	US HY default rate: According to Moody's Investors Service, the U.S.' trailing 12-month high-yield default rate is forecast to be 5.7% in May before dropping below 5% in June and remaining there through 2021.
Issuance	For 2019's offerings of US$-denominated corporate bonds, IG bond issuance rose 2.6% to $1.309 trillion, while high-yield bond issuance surged by 58% to $440 billion. In 2020, US$-denominated corporate bond issuance soared 54% for IG to a record $2.012 trillion, while high-yield advanced 30% to a record-high $570 billion. For 2021, US$-denominated corporate bond offerings may decline 16% (to $1.684 trillion) for IG and increase 7% (to $607 billion) for high-yield, where both forecasts top their respective annual averages for the five years ended 2020 of $1.494 trillion for IG and $410 billion for high-yield, according to Moody's Analytics.

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Ratings Round-Up

Upgrade Affects $33 Billion in Amazon Debt

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Market Data

Credit spreads, CDS movers, issuance.

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Moody's Capital Markets Research *recent publications*

Links to commentaries on: Boom, volatility, leverage, stimulus, inflation, GDP, Treasury yields, rising prices, core profits, yield spreads, virus, Congress, misery, issuance, default rate, credit quality, record savings rates, demographic change, high tech, complacency, Fed intervention, speculation, risk, credit stress, optimism, corporate credit, VIX.

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Credit Markets Review and Outlook

By Ryan Sweet, Senior Director-Economic Research

Are Inflationists Finally Right, or Still Crying Wolf?

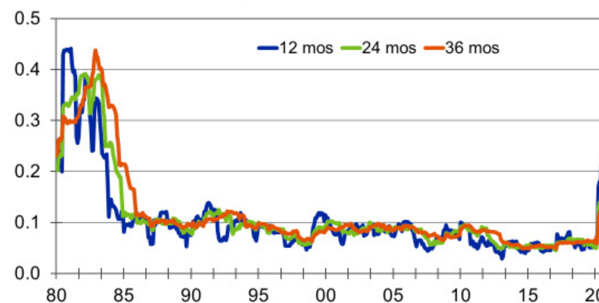
The April U.S. consumer price index was surprisingly strong but there are no implications for the timing of the Federal Reserve's tapering of its monthly asset purchase or first rate hike. Still, the acceleration in inflation has rattled financial markets. All three major averages nosedived Wednesday, the day of the CPI data release, and the 10-year Treasury yield rose to 1.69%.

Realized inflation is boosting inflation expectations, pushing long-term rates higher. However, the implications for corporate bond spreads should be modest. Corporate credit markets are more sensitive to default risk than inflation. An acceleration in inflation reduces nominal debt and is usually a symptom of stronger GDP growth; both reduce default risk. Therefore, we don't anticipate any significant fluctuations in corporate bond spreads because of heightened inflation concerns.

CPI jumps in April

The headline CPI rose 0.8% in April, noticeably more than our above-consensus forecast. April's gain leaves the CPI up 7.2% annualized over the prior three months, compared with 5% in March and the largest since 2008. The CPI was up 5% annualized over the prior six months. Year-over-year growth is being distorted by base effects. Therefore, it's better to compare April to February 2020, or pre-pandemic. This would show the CPI up 3.1%, stronger than the pre-pandemic trend but not strong enough to fan inflation worries.

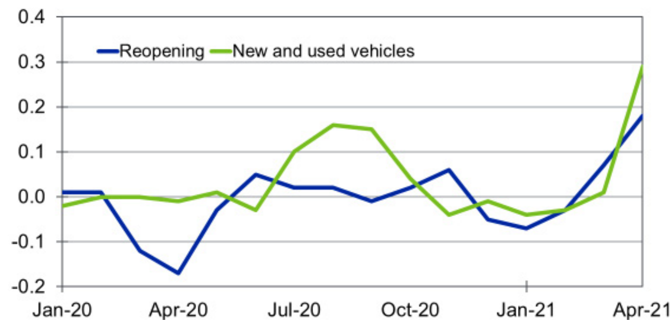
Excluding food and energy, the CPI rose 0.9%, the largest monthly gain since the early 1980s. April's gain put the core CPI up 5.6% annualized over the prior three months, compared with 1.9% in March. The core CPI was up 3.3% annualized over the prior six months in April.



Inflation volatility continues to climb. To highlight this, we looked at the 12-, 24- and 36-month moving average in the standard deviations of the core CPI. All are at their highest since the early 1980s and well out of the fairly narrow range that prevailed from the mid-1980s to 2019.

Reopening, stimulus and supply-chain issues

April's CPI doesn't alter our view that some of the acceleration in inflation is transitory. The reopening of the economy is a onetime event and that is boosting a number of components of the CPI. For example, lodging away from home jumped 7.6% in April and car and truck rental prices were up 16.2%. Also, airfares were up 10.2% in April. Similarly, the CPI for admissions to sporting and other events was up 3.4% between March and April. Based on their shares of the headline CPI, they added 0.17 percentage point to the gain in April.



Other onetime factors boosting inflation are the fiscal stimulus and global semiconductor shortage. Both have reduced the supply of new cars, leading to a 0.5% gain in new-car prices in April after being unchanged in each of the prior two months. With new-car inventories low, it has increased demand for used cars and trucks where prices jumped 10% in April. New- and used-vehicle prices added 0.3 percentage point to growth in the headline CPI. It's possible that the global semiconductor shortage extends into next year, but it would be surprising if used-car prices continue to rise by double digits.

Our back-of-the-envelope calculation is that transitory factors added 0.46 percentage point to the CPI in April.

Heeding the Fed's Warning

The Federal Reserve recently released its Financial Stability Report and it warned that there was froth in equity markets and a shift in investor sentiment could cause prices to drop. The Fed highlighted the difference between the forward earnings-to-price ratio and the expected real yield on 10-year Treasury securities—a rough measure of the compensation that investors require for holding risky stocks known as the equity premium—has declined since November. This shows investors' appetite for investment in equity markets.

Aside from traditional valuation metrics, the central bank said a number of nonprice measures suggest that investor appetite for equity risk is elevated, highlighting the rising share of initial public offerings, special purpose acquisition companies, and high trading volumes and price volatility for so-called meme stocks.

Though not mentioned in the report, we have been watching daily call option trading volume, which has dropped noticeably over the past few days. Similarly, the put/call ratio has increased and is well above its 50- and 100-day moving average. There could be a subtle shift in investor sentiment as markets might reassess their expectations for growth after the April employment report. Also, markets are on edge about reflation.

Upgrades outnumber downgrades

In the week ended Tuesday, 75% of rating changes for either industrial, utility or subsovereign debt in the U.S. were upgrades. There were only three downgrades in the week ended Tuesday. U.S. dollar-denominated investment-grade issuance totaled $27.84 billion in the week ended Tuesday, bringing the year-to-date total to $658.52 billion. High-yield issuance totaled $13.7 billion, raising the year-to-date total to $278.93 billion. We are heading toward the summer and issuance normally is weak during that time of year.

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

THE U.S.

By Adam Kamins of Moody's Analytics

City Slackers? Yes and No

Over the past year, real-time metrics and numerous proxies have been used to try to answer a basic question: To what extent did city dwellers relocate in 2020? Finally, authoritative data have arrived in the form of the 2020 Census mid-year estimates for metro areas and counties. And the long-awaited answer is: Sort of.

Ultimately, the relationship between urbanity and population growth last year was strongly negative, but not as overwhelmingly so as initial estimates suggested. This is evident when simply comparing growth to density, or when updating the type of metro-by-metro comparisons that were previously done for real-time population proxies and labor market data.

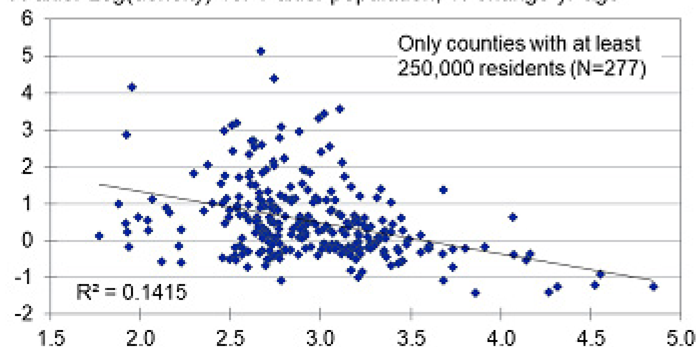
A flight from density

The most basic way to understand the impact of the pandemic on more urban areas is to simply compare population density by county to growth trends. Of course, very small counties can distort any analysis, so to more precisely understand the relationship, only those counties with at least 250,000 residents were considered.

In doing so, the negative relationship between density and population growth becomes clear immediately when examining some extreme cases. The five largest declines of 2020 occurred in counties that ranked in the top 11 for density among the 277 that qualified based on the size criteria. Three New York City boroughs—Manhattan, Queens and the Bronx—made the list, with San Francisco County and Baltimore City completing the bottom five.

Manhattan and San Francisco experienced by far the largest downward shift in their growth rates from 2019 to 2020 compared with the prior year. Given their density and high costs, this represents a clear manifestation of COVID-19's impact on big cities.

The flip side involves strength in less densely populated counties in the South and Mountain West. While the top of the list is not nearly as striking as the bottom in terms of the relationship between density and growth (or lack thereof), the relationship is also clear when looking at the top decile or so of fastest growers, most of which are less dense than average. Plotting density against population growth by county makes that clear.



So, how unusual was 2020? It is here where more nuance is introduced. On one hand, the correlation between density and job growth was by far the most negative that it has been at any point since the in-migration of millennials to cities began to strongly take hold about a decade ago. Further, a relatively slow pickup in this negative relationship accelerated noticeably over the past year, signaling that this was not simply the continuation of an existing trend. In fact, a plot that examines the change in one-year population growth instead of just the growth rate itself would look similar to the one shown above, signaling that the fortunes of more densely populated counties indeed took a turn for the worse last year.

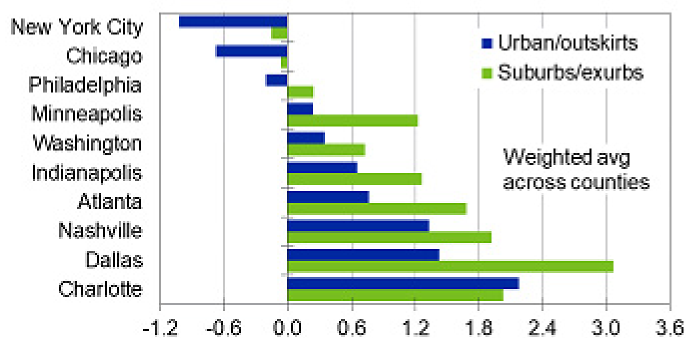
However, it is worth remembering that a pickup in suburban growth relative to that of cities did not emerge from out of the blue. It has been nearly a decade since more urban areas experienced faster growth than their more sprawling peers, reflecting both the millennial wave aging into its 20s and the aftermath of the Great Recession helping to keep prices and rents in check. The boom in cities also looks increasingly like the exception, rather than the rule. The relationship between urbanity and growth has been negative since 2013, and each year the out-migration from cities has picked up a little bit more.

In other words, the shift out of cities appears to owe at least partly to broader demographic trends. While the challenges facing urban areas were exacerbated by the COVID-19 downturn, it is clear that they did not originate with the pandemic.

Comparing metro areas

As with previous analysis of shifts out of cities associated with COVID-19, one can get a clearer sense of the trends by examining individual economies. Like similar analyses of demographic and economic impacts, we focus on 10 metro areas that are home to at least nine counties. These include a number of gateway metro areas on the East Coast including New York City, Philadelphia, and Washington DC, a few southern metro areas including Atlanta and Dallas, and midwestern economies such as Chicago, Minneapolis and Indianapolis. The only region that is somewhat overlooked is the West, given the sheer size of many counties in states such as California and Arizona, with Los Angeles and Maricopa counties, for example, encompassing both urban and suburban areas.

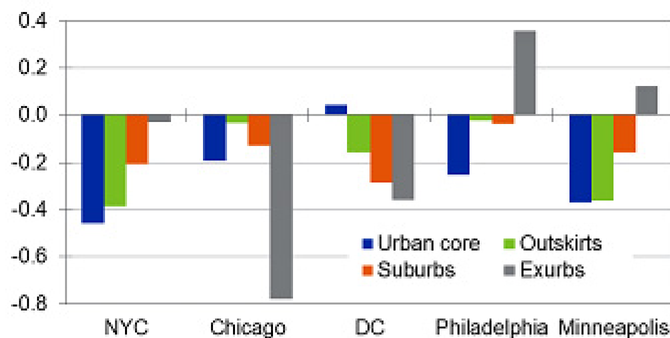
Across metro areas, there were some key similarities and striking differences. On the former point, the vast majority of the metro areas examined experienced sharper population declines from 2019 to 2020 in their core urban counties—based on relative population density—than in less densely populated outposts. In cases such as New York City, Minneapolis and Dallas the advantage enjoyed by suburbs and exurbs was overwhelming. The only exception to this rule was Charlotte, whose urban core is less densely populated than that of many of its peers.

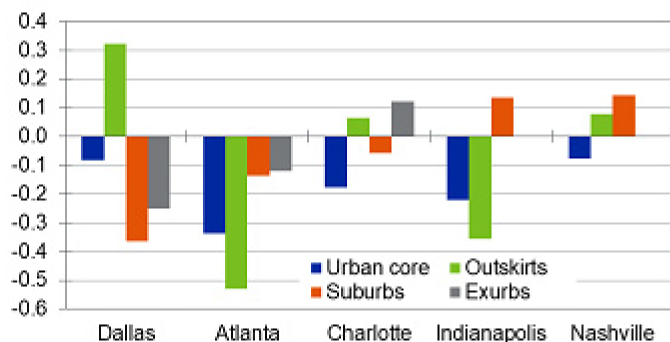


But when comparing the change in last year's growth rate to the prior year to control for preexisting trends, the findings become more blurred. In fact, a small majority of metro areas examined—six of 10—experienced a sharper decline in a category other than its urban core.

In many cases, the downtowns of older, northeastern cities fared worse. New York City is the prime example, with the change from the prior year growing less pronounced farther away from the urban core. The story in Philadelphia was similar, although generally all counties started from a higher base than in the Big Apple. Nashville exhibited a similar pattern to New York but featured smaller declines in growth.

In a few cases, the urban core performed noticeably better than the metro area as a whole. The federal government and an influx of skilled workers have helped the District of Columbia to sustain an edge over surrounding counties in Maryland and Virginia. Meanwhile, the relative affordability of downtown Dallas, which is generally less residential than some of its peers, has not compelled too many residents to leave and seek to work from elsewhere.





The story when it comes to pandemic-induced demographic shifts has yet to be written, but the population data shed new light on what the narrative may ultimately look like. Foremost is the loss of residents from cities over the past year, accompanied by relatively strong growth in outskirts and suburbs. However, exurban counties are more mixed, generally overperforming cities but struggling mightily in a few metro areas, most notably Chicago. This highlights an important consideration: A rising suburban tide may lift many boats, but not all. Much depends on the economic structure of a metro area and the orientation of suburban and exurban areas in terms of cost and geography.

More broadly, of course, the movement of residents out of big cities represents the partial continuation of existing trends. Further, with pandemic impacts coinciding with civil unrest around the time that these

estimates were measured, it is possible that numerous other factors pushed cities in the wrong direction last year.

Daytime population

Regardless, more decisive weakness uncovered by real-time measures and labor market struggles signal that daytime population may tell a clearer story than overall population. Real-time mobility data in particular may be picking up the fact that would-be commuters remained home, but there was no mass exodus from many urban areas, with the a few large exceptions such as Manhattan. Still, with so many white-collar workers avoiding cities over the course of the pandemic, consumer industries and commercial real estate—among other segments—have struggled in those places.

The result is a story that revolves more short-term movements than long-term ones, as people remained home temporarily but tended not to flee most cities. While there were some exceptions, most notably New York City, population growth tended to remain consistent with what had occurred in the years leading up to 2020, as high costs and a surge in the 30-something population drove a shift out of expensive urban areas and toward suburbs.

Put it together and this represents a possible silver lining for cities. With a less dramatic permanent shift out of urban areas, combined with the continued willingness of young, skilled workers to live in cities, a return to relative normalcy may not be as far off as feared. With herd resiliency set to take hold this summer, leading to the reopening of offices and the full-fledged return of traditional amenities, many cities may not face as steep a climb as initially feared.

Next Week

Housing data due next week should test the resilience of that key sector early in the second quarter. April reads on existing-home sales, new residential construction, and the NAHB Housing Market Index, and the latest weekly survey data on mortgage applications are expected. Demand for existing housing had moderated in March after slowing somewhat in February. New residential construction, meanwhile, had bounced back in March after a tough February and was expected to remain solid through the year.

EUROPE

By Ross Cioffi of Moody's Analytics

A Look at Inflation in the U.K. and Euro Zone

The U.K.'s and the euro zone's consumer price releases will be the big news next week. The inflation rate in the U.K. is expected to reach 1.4% y/y in April while it should speed up to 1.7% for the euro zone. CPI inflation in each economy is being pushed up via the energy component. Oil and fuel prices in particular are behind the rapid acceleration in the inflation rate. We will likely see some stronger core dynamics in the U.K. as the economy had already begun to reopen in April. But in the euro zone, the economy has only started coming out of hibernation in May. This means base effects are still the main movers of inflation. This will change this summer, when the post-lockdown surge in demand combines with global supply shortages—that is, rising producer costs—and galvanizes core dynamics. The European Central Bank and Bank of England have consistently stated that they will not be lifting rates this year. We believe them, since we expect inflation rates to normalize below their targets in 2022. Base effects will wear off, the post pandemic spending sprees will be exhausted, and supply channels should be flowing more smoothly.

In the meantime, we expect a 2.5% m/m increase in retail sales in the U.K. for April. This rise will come after a 5.4% jump in March, when the first round of lockdown easing came. Looser social distancing in April will allow for sustained gains in purchases and sales. We expect some consumers still held back as COVID-19 remained a health concern and shops were still operating under capacity limits. Retail will remain strong through to the summer, as consumers vent demand pent up demand in the pandemic era.

The three-month average unemployment rate in the U.K. was likely unchanged at 4.9% in the three months to April. We expect many workers were reemployed during the month as shops and services reopened. But labor demand will not have recovered fully, because the reopening was only partial. Moreover, upward pressure on the unemployment rate will remain as individuals who temporarily left the labor force during the lockdown reenter it now that prospects are improving. Reabsorption won't be immediate, so the unemployment rate could increase even with the labor market in recovery mode.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 10:00 a.m.	Italy: Consumer Price Index for April	% change yr ago	1.1	0.8
Tues @ 8:00 a.m.	U.K.: Unemployment for March	% 3-mo MA	4.9	4.9
Tues @11:00 a.m.	Euro Zone: External Trade for March	€ bil	26.5	29.1
Wed @ 8:00 a.m.	U.K.: Consumer Price Index for April	% change yr ago	1.4	0.7
Wed @11:00 a.m.	Euro Zone: Consumer Price Index for April	% change yr ago	1.7	1.3
Fri @ 8:00 a.m.	U.K.: Retail Sales for April	% change	2.5	5.4

Asia-Pacific

By Katrina Ell of Moody's Analytics

Japan's exports can't buoy weak domestic demand

Preliminary figures will likely show Japan's economy contracted in the March quarter. GDP is forecast to fall by 0.8% quarter over quarter, following the 2.8% expansion in the December quarter. Domestic demand will remain the laggard, while exports will be the bright spot. Household consumption was hurt by emergency measures introduced to curtail rising COVID-19 infections in large prefectures. The country has struggled to contain local infections, and its vaccination drive has been relatively slow, with less than 1% of the population having already received both shots.

Although Japan's exports have performed well of late, export demand is not enough to completely offset the renewed weakness at home. Seasonally adjusted exports rebounded in March with a 4.5% month-over-month expansion, following the 4.8% decrease in February. Japan's export engine performed well in the final months of 2020, and that was a key driver of its better-than-expected December-quarter GDP data.

China's monthly data barrage for April will also be a highlight with industrial production, fixed asset investment, and retail trade all due for release. We expect that annual comparisons will continue at a blistering double-digit pace due to low base effects from 2020, when the economy was still amerced by the pandemic and economic activity was severely slowed.

While seasonally adjusted monthly comparisons are not readily available, we expect that April will show decent expansions across the board as the economy is largely back on its feet and demand from its trading partners has picked up along with their respective vaccination drives. Pressure points have emerged, most notably from high input costs due to elevated commodity prices and this is starting to squeeze margins, some of which is being passed down to the consumer.

	Key indicators	Units	Moody's Analytics	Confidence	Risk	Last
Mon @ 10:30 a.m.	Singapore Nonoil Domestic Exports for April	% change yr ago	8.9	4	↑	12.1
Mon @ 12:00 p.m.	China Fixed Asset Investment for April	% change yr ago YTD	19.0	3	↑	25.6
Mon @ 12:00 p.m.	China Industrial Production for April	% change yr ago	9.7	3	↑	14.1
Mon @ 12:00 p.m.	China Retail Trade for April	% change yr ago	25.0	4	←	34.2
Mon @ 12:30 p.m.	Thailand GDP for Q1	% change yr ago	-3.0	2	↑	-4.2
Tues @ 9:50 a.m.	Japan GDP for Q1 Preliminary	% change	-0.8	3	↓	2.8
Thurs @ 9:50 a.m.	Japan Foreign Trade for April	bil	454.0	4	←	663.7
Thurs @ 11:30 a.m.	Australia Unemployment Rate for April	%	5.6	3	↓	5.6
Thurs @ 2:00 p.m.	Indonesia Foreign Trade for April	US$ bil	1.1	3	↑	1.6
Fri @ 9:30 a.m.	Japan Core CPI for April	% change yr ago	0.0	4	↑	-0.2
Fri @ 1:30 p.m.	Thailand Foreign Trade for April	US$bil	0.9	2	↓	0.7

The Long View

After hot start to the year, high-yield corporate bond and leverage loan issuance has cooled.

By Ryan Sweet, Senior Director-Economic Research
May 13, 2021

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 98 basis points, up 2 basis point from last week. This is below its high over the past 12 months of 153 bp and a hair above its low of 95 bp. Still, the investment grade corporate bond yield is lower than its 116 bp median of the 30 years ended 2019. This spread may be no wider than 112 bp by year-end 2021.

The recent composite high-yield bond spread of 336 bp approximates what is suggested by the accompanying long-term Baa industrial company bond yield spread of 134 bp and is around what would be inferred from the recent VIX of 24.4 points.

DEFAULTS

According to Moody's Investors Service, the U.S.' trailing 12-month high-yield default is forecast to be 5.7% in May before dropping below 5% in June and remaining there through 2021.

U.S. CORPORATE BOND ISSUANCE

First-quarter 2020's worldwide offerings of corporate bonds revealed annual advances of 14% for IG and 19% for high-yield, wherein US$-denominated offerings increased 45% for IG and grew 12% for high yield.

Second-quarter 2020's worldwide offerings of corporate bonds revealed annual surges of 69% for IG and 32% for high-yield, wherein US$-denominated offerings increased 142% for IG and grew 45% for high yield.

Third-quarter 2020's worldwide offerings of corporate bonds revealed an annual decline of 6% for IG and an annual advance of 44% for high-yield, wherein US$-denominated offerings increased 12% for IG and soared upward 56% for high yield.

Fourth-quarter 2020's worldwide offerings of corporate bonds revealed an annual decline of 3% for IG and an annual advance of 8% for high-yield, wherein US$-denominated offerings increased 16% for IG and 11% for high yield.

First-quarter 2021's worldwide offerings of corporate bonds revealed an annual decline of 4% for IG and an annual advance of 57% for high-yield, wherein US$-denominated offerings sank 9% for IG and advanced 64% for high yield.

U.S. ECONOMIC OUTLOOK

We now look for real GDP to rise 6.8% this year, compared with the 6.4% in the April baseline. We have been consistently revising our forecast higher for GDP this year because of changes to our fiscal policy assumptions, but the adjustment in May reflects the advance estimate of first-quarter GDP. Real GDP rose 6.4% at an annualized rate in the first quarter.

The fiscal stimulus impact is evident all over first-quarter GDP. Real consumer spending jumped 10.7% at an annualized rate compared with the 2.3% gain in the prior three months. This is among the largest increases since the 1960s. The strength in consumer spending isn't surprising because of the 61.3% annualized gain in disposable income in the first quarter. Disposable income got a big boost from government transfer payments, including Economic Impact Payments that boosted incomes by $1.929 trillion at an annualized rate. Expanded unemployment programs also added $275 billion at an annualized rate.

Inventories subtracted 2.6 percentage points from first-quarter GDP. Some of this is likely attributable to supply chain disruptions and the global semiconductor shortage. As these fade, businesses will need to replenish inventories, which should be a positive for manufacturing and GDP.

The Long View

We cut our forecast for GDP growth in 2022 from 5.3% to 4.8%. Risks to the forecast are weighted to the upside because of the lack of inventory build this year. The global semiconductor shortage bit into inventories during the first quarter and will likely continue to do so through the remainder of this year. Inventories lend a downside risk to our forecast for GDP this year but are an upside for 2022 and 2023. There is the potential that supply issues become a big problem, particularly for autos. Autos industrial production is trailing sales. Therefore, inventories could continue to decline. We didn't make any changes to our forecast for the change in private inventories over the next few years, but this may need to be revisited as lean inventories need to be replenished, and that could add more to GDP growth next year than we currently anticipate.

The consensus has begun to catch up with our forecast for this year, but we remain higher. The Bloomberg consensus is for real GDP to rise 6.3% this year. The range of forecasts for GDP growth this year is 2.2% to 8%. Our May baseline also has GDP growth stronger than the consensus for next year. The median estimate is for GDP to rise 4% in 2022 and the range is from 2% to 6.1%.

Europe

By Ross Cioffi of Moody's Analytics
May 13, 2021

IRELAND

Ireland's consumer price inflation jumped to 1.1% y/y in April from zero in March. This acceleration is the first registered since April 2020, when the CPI declined by 0.1% y/y. From that point on, Ireland's CPI had been in decline at an average rate of 0.7% y/y. Base effects have had an important role in heating up price dynamics. So too has greater activity in the consumer economy, thanks to gradually loosening social distancing requirements.

Base effects are present throughout the CPI, as few components of the basket have been immune from the pandemic. But those behind energy prices, and fuel and oil in particular, have been driving the rapid recovery in inflation this year. When compared with the pandemic-induced lows reached last spring, fuel prices soared by 28.5% y/y in April. This growth rate is spreading throughout the consumer basket; absent energy products, Ireland's CPI would have increased by only 0.4% y/y in April.

Base effects are exerting downward pressure on inflation as well. For instance, food and beverage prices fell by 0.7% y/y in April, after surging last spring as lockdowns and changed consumption patterns drove up prices at supermarkets. Removing energy and unprocessed food from the headline rate leads to a core inflation rate of 0.6% y/y in April.

As lockdowns and social distancing restrictions ease further, we expect stronger inflation in Ireland. As households release pent-up consumer demand, this will allow firms to normalize their prices from the pandemic. This will also give firms the opportunity to pass on some of the higher costs they are facing due to global supply shortages in inputs and freighting. Segments that are still struggling, like clothing and footwear and accommodation services, will be able to start registering price growth after over a year of pandemic; naturally, base effects will boost inflation rates here as well.

UNITED KINGDOM

According to preliminary estimates, the U.K.'s first quarter GDP slumped by 1.5% q/q in the three months to March. This brought output 6.1% lower than it was in the same quarter a year earlier. Naturally, the pandemic weighed heavily on domestic and foreign demand. Brexit disrupted trade flows considerably as well, though net trade contributed to GDP as imports plunged by nearly 22% q/q and exports fell by only 11%.

Household consumption tumbled by 3.9% q/q during the quarter and is still below pre-pandemic levels. Decreased spending on services, in particular, has kept consumption from fully recovering, though retail took a hit during the stanza as well. Gross fixed capital formation fell by 2.3% q/q as both business investment and investment in transport equipment nose-dived. Government consumption, meanwhile, increased by 2.6% amid the health crisis. Social supports such as the country's Job Retention Scheme were reflected in an 11.4% q/q jump in subsidies. Use of the scheme surged at the start of the year as the country re-entered lockdown; according to the Business Insights and Conditions Survey, one in four businesses had to temporarily close in January.

We expect a turnaround in the second quarter. Already in March, when measures were eased slightly, spending and output increased. Government programs like the JRS have supported incomes and job security, allowing for a consumer rebound as health measures ease. Firms will also start investing again with the confidence that they are not returning to lockdown. Trade flows to the EU have also been normalizing and will improve as demand on the Continent increases thanks to the gradual loosening of lockdown and social distancing measures there as well.

Asia Pacific

By Christina Zhu and Xiao Chun Xu of Moody's Analytics
May 13, 2021

CHINA

Consumer prices in China rose by 0.9% year over year in April, up from 0.4% in March. This is the second consecutive month of yearly growth in the year, driven by a surge in transportation and communication prices. The prices for vehicle fuels soared by nearly 20% compared with the level a year ago amid rising global oil prices.

Despite the rising yearly inflation, consumer prices dipped by 0.3% compared with the previous month. Cooling food prices, led by large declines in pork and fresh vegetables, were the main driver. Softening demand and increasing vegetable supply amid warmer weather contributed.

Core inflation excluding food and energy picked up on the back of the recovery of service prices. Successful COVID-19 containment and persistently low domestic infections over the past few months strengthened travelers' confidence and boosted tourism recovery. The prices of airfare, travel agency services, vehicle rental and accommodation all soared over the month.

Chinese consumers also started to feel the pain of global input shortages, as they saw prices of home appliances and electronic devices surging in April. China's manufacturers have been grappling with soaring input prices for months, and some have started passing on the costs to consumers.

China's CPI will continue to rise, with prices of services and transportation and communication being the main driver, as vaccination accelerates and global commodity prices continue to rise. Cooling food inflation, however, will keep the pace moderate in the near term. Even so, inflation will be a real risk if supply disruption persists and will pose severe challenges to central banks around the world in terms of balancing growth and risks.

PRODUCER PRICES UP

Rising commodity prices continued to push up producer prices in China. Double-digit rises in metal materials and fuel prices flowed through to increase overall producer prices by 6.8% year over year, or 0.9% month over month, seasonally adjusted. Part of the strong yearly growth can be attributed to the low base caused by prices dropping at the outset of the pandemic as industries struggled to kick-start the economy after the initial COVID-19 shock.

The rise in producer price inflation is an increasing concern for policymakers domestically and abroad. The Chinese government pledged to control raw material prices to relieve pressure for companies that experience substantial input cost inflation. These effects will also rein in the recoveries in global economies by increasing costs of commodities or imported goods from China.

Ratings Round-Up

Upgrade Affects $33 Billion in Amazon Debt

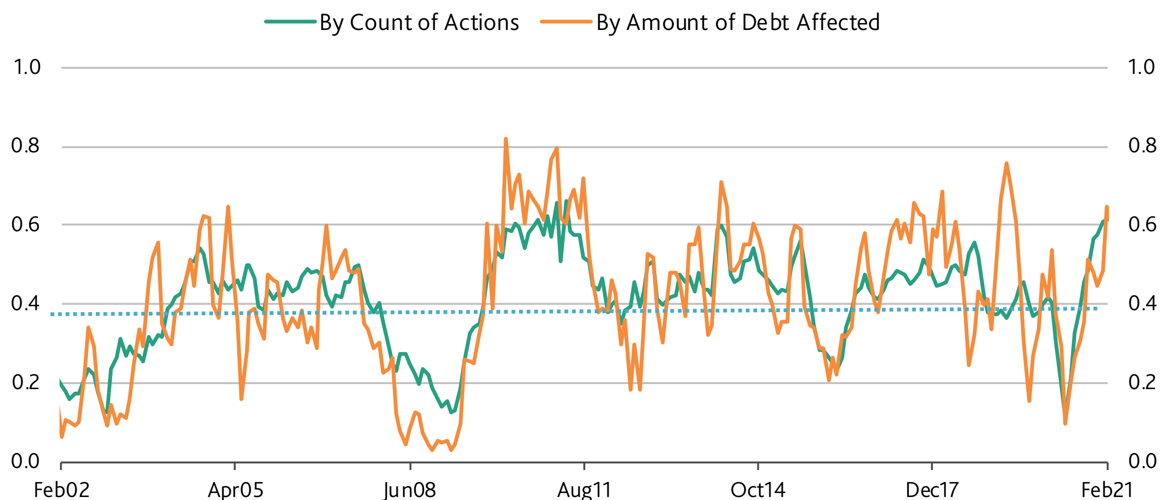
By Michael Ferlez
May 13, 2021

Upgrade Affects $33 Billion in Amazon Debt
U.S. rating change activity was overwhelmingly positive in the latest period. Upgrades account for nine of the eleven rating changes and nearly all the affected debt in the week ended Tuesday. While speculative-grade companies accounted for the bulk of rating changes, the week's activity was headlined by two investment-grade companies, most notably Amazon.com Inc. Moody's Investors Service upgraded Amazon's senior unsecured rating to A1 from A2. Moody's also affirmed Amazon's Prime-1 commercial paper rating and assigned an A1 rating to its proposed senior unsecured debt offering. In the rating action, Moody's Vice President Charlie O'Shea was cited saying, "Today's rating actions recognize the continuing strength in Amazon's operating performance in all three of its operating segments, both from revenue growth and margin improvement perspectives, which is impressive given the surge in retail volumes due to the pandemic." The upgrade affected $33 billion in debt.

Western Europe rating change activity was light in the period, registering only two upgrades for the week ended Tuesday. Overall, the trend in western European rating changes continue to be positive, with upgrades outnumbering downgrades over the past several months. The most notable change last week was made to Gas Networks Ireland. On May 7, Moody's Investors Service upgraded the firm's long-term issuer and senior unsecured ratings to A2 from A3. Moody's also upgraded the firm's senior unsecured MTN Program rating to (P)A2 and changed the GNI's outlook to stable from positive. In the upgrade of GNI, Moody's Investors Service citied its expectation that GNI and parent Ervia will maintain financial metrics consistent with the ratio guidance for an A2 rating. Moody's also citied its expectation for a drop in dividend payments from Ervia as well as the stable and predictable regulation by the Commission for Regulation of Utilities. The upgrade affected $1 billion in debt.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

FIGURE 2
Rating Key

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

FIGURE 3
Rating Changes: Corporate & Financial Institutions - US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG
5/5/21	AGILITI HEALTH, INC.	Industrial	LTCFR/PDR		U	B2	B1	SG
5/5/21	BROWN MIDCO LIMITED-SIGNATURE AVIATION US HOLDINGS, INC.	Industrial	SrUnsec	650	D	Ba3	B1	SG
5/7/21	LAM RESEARCH CORP.	Industrial	SrUnsec/CP	5,800	U	A3	A2	IG
5/7/21	VIRTUS INVESTMENT PARTNERS, INC.	Financial	SrSec/BCF/LTCFR/PDR		U	Ba2	Ba1	SG
5/10/21	AMAZON.COM, INC.	Industrial	SrUnsec	33,250	U	A2	A1	IG
5/10/21	GREAT LAKES DREDGE & DOCK CORPORATION	Industrial	LTCFR/PDR		U	B2	B1	SG
5/10/21	PGX HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa3	Caa2	SG
5/10/21	HILTON GRAND VACATIONS, INC-HILTON GRAND VACATIONS BORROWER LLC	Industrial	SrUnsec/LTCFR/PDR	300	D	Ba3	B2	SG
5/10/21	HAYWARD HOLDINGS, INC.-HAYWARD INDUSTRIES, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
5/10/21	ATKORE INC.-ATKORE INTERNATIONAL, INC.	Industrial	LTCFR/PDR		U	Ba3	Ba2	SG
5/11/21	FRONTDOOR, INC.	Industrial	LTCFR/PDR		U	Ba3	Ba2	SG

Source: Moody's

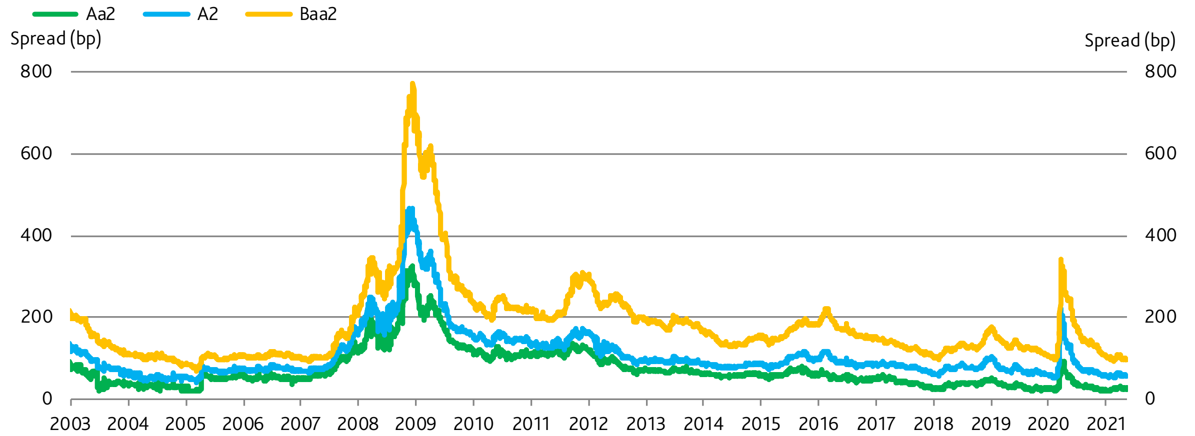
FIGURE 4
Rating Changes: Corporate & Financial Institutions - Europe

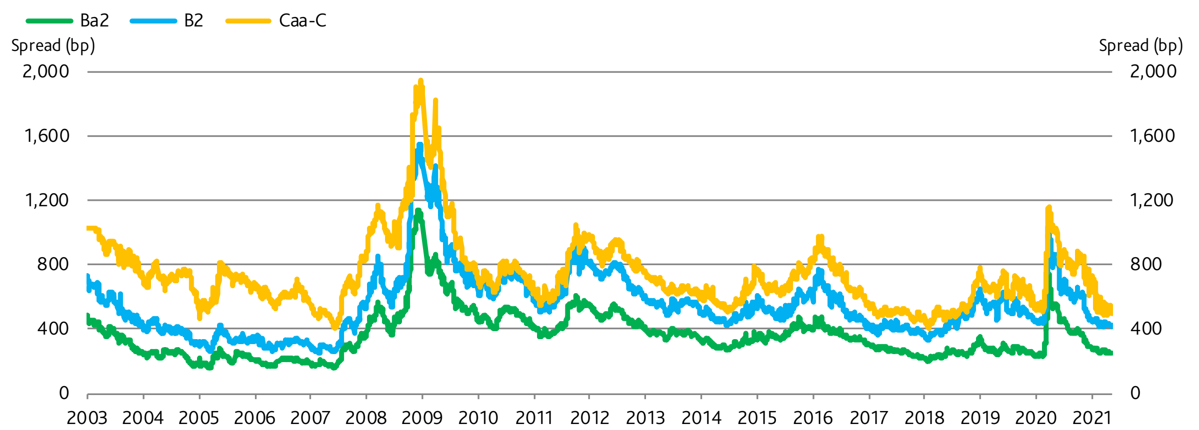
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
5/7/2021	ERVIA-GAS NETWORKS IRELAND	Utility	SrUnsec/LTIR/MTN	1123.132	U	A3	A2	IG	IRELAND
5/7/2021	SYNLAB AG-SYNLAB BONDCO PLC	Industrial	SrSec/BCF		U	B2	Ba2	SG	UNITED KINGDOM

Source: Moody's

Market Data

Spreads





Market Data

CDS Movers

Figure 3. CDS Movers - US (May 5, 2021 – May 12, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 12	May. 5	Senior Ratings
Verizon Communications Inc.	A3	Baa1	Baa1
Altria Group Inc.	Baa1	Baa2	A3
United Airlines, Inc.	Caa1	Caa2	Ba3
Burlington Northern Santa Fe, LLC	Aa3	A1	A3
Williams Companies, Inc. (The)	Baa2	Baa3	Baa3
Waste Management, Inc.	Baa1	Baa2	Baa1
Welltower Inc.	Baa1	Baa2	Baa1
Constellation Brands, Inc.	Baa2	Baa3	Baa3
Ventas Realty, Limited Partnership	Baa2	Baa3	Baa1
Corning Incorporated	Baa3	Ba1	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 12	May. 5	Senior Ratings
Domtar Corporation	Ba3	Ba1	Baa3
Goldman Sachs Group, Inc. (The)	Baa2	Baa1	A2
Oracle Corporation	A2	A1	Baa2
McDonald's Corporation	A1	Aa3	Baa1
International Business Machines Corporation	A2	A1	A2
Ford Motor Company	B1	Ba3	Ba2
Home Depot, Inc. (The)	Aa3	Aa2	A2
Raytheon Technologies Corporation	A2	A1	Baa1
American Express Company	A2	A1	A3
Cox Communications, Inc.	A3	A2	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 12	May. 5	Spread Diff
Domtar Corporation	Baa3	208	115	93
Carnival Corporation	B2	395	343	52
R.R. Donnelley & Sons Company	B3	552	510	42
Staples, Inc.	Caa1	737	701	36
Occidental Petroleum Corporation	Ba2	285	254	31
MGM Resorts International	Ba3	226	197	29
Univision Communications Inc.	Caa2	353	326	27
L Brands, Inc.	Ba3	170	144	25
Calpine Corporation	B2	345	323	22
Service Properties Trust	Ba2	231	210	22

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 12	May. 5	Spread Diff
Talen Energy Supply, LLC	B3	1,022	1,105	-84
Meritage Homes Corporation	Ba1	132	165	-33
Murphy Oil Corporation	Ba3	365	396	-31
International Game Technology	B3	264	280	-16
American Axle & Manufacturing, Inc.	B2	422	435	-13
Mattel, Inc.	Ba2	223	236	-13
Dillard's, Inc.	Baa3	164	177	-13
The Terminix Company, LLC	B1	217	226	-9
Kimco Realty Corporation	Baa1	62	69	-7
SITE Centers Corp.	Baa3	128	134	-7

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (May 5, 2021 – May 12, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 12	May. 5	Senior Ratings
BNP Paribas	A1	A2	Aa3
CaixaBank, S.A.	A3	Baa1	Baa1
UniCredit S.p.A.	Baa2	Baa3	Baa1
ING Groep N.V.	A2	A3	Baa1
NatWest Group plc	Baa1	Baa2	Baa2
NatWest Markets Plc	A3	Baa1	A3
Landesbank Hessen-Thueringen GZ	A2	A3	Aa3
Banca Monte dei Paschi di Siena S.p.A.	Ba2	Ba3	Caa1
Raiffeisen Bank International AG	A1	A2	A3
Anglo American plc	Baa3	Ba1	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 12	May. 5	Senior Ratings
ENGIE SA	A2	A1	Baa1
Bertelsmann SE & Co. KGaA	A1	Aa3	Baa2
Proximus SA de droit public	A2	A1	A1
Atlas Copco AB	A3	A2	A2
Italy, Government of	Baa3	Baa3	Baa3
France, Government of	Aa2	Aa2	Aa2
United Kingdom, Government of	Aaa	Aaa	Aa3
Germany, Government of	Aaa	Aaa	Aaa
Spain, Government of	A1	A1	Baa1
Belgium, Government of	Aaa	Aaa	Aa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 12	May. 5	Spread Diff
Boparan Finance plc	Caa1	799	708	91
Novafives S.A.S.	Caa2	831	745	86
TUI AG	Caa1	881	838	43
Jaguar Land Rover Automotive Plc	B1	380	356	24
Piraeus Financial Holdings S.A.	Caa3	543	519	24
Iceland Bondco plc	Caa2	437	413	24
Ardagh Packaging Finance plc	Caa1	221	203	19
Ziggo Bond Company B.V.	B3	253	234	19
Virgin Media Finance PLC	B2	268	250	18
Casino Guichard-Perrachon SA	Caa1	525	508	17

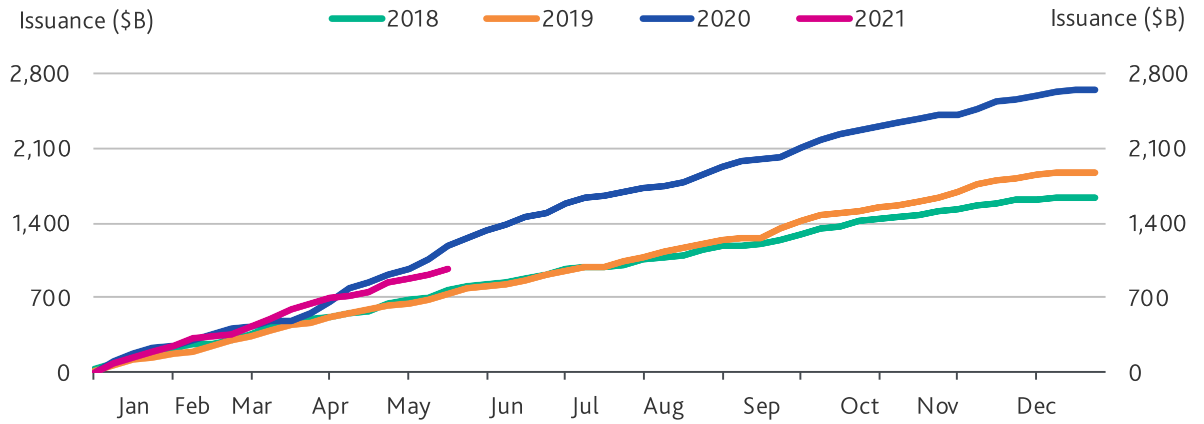
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 12	May. 5	Spread Diff
Vedanta Resources Limited	Caa1	707	778	-70
Banca Monte dei Paschi di Siena S.p.A.	Caa1	185	191	-6
Raiffeisen Bank International AG	A3	37	40	-3
Hammerson Plc	Baa3	212	216	-3
CaixaBank, S.A.	Baa1	47	48	-2
UniCredit S.p.A.	Baa1	66	68	-2
Banco Comercial Portugues, S.A.	Ba1	178	180	-2
Nokia Oyj	Ba2	96	98	-2
SES S.A.	Baa2	85	86	-2
United Kingdom, Government of	Aa3	11	12	-1

Source: Moody's, CMA

Market Data

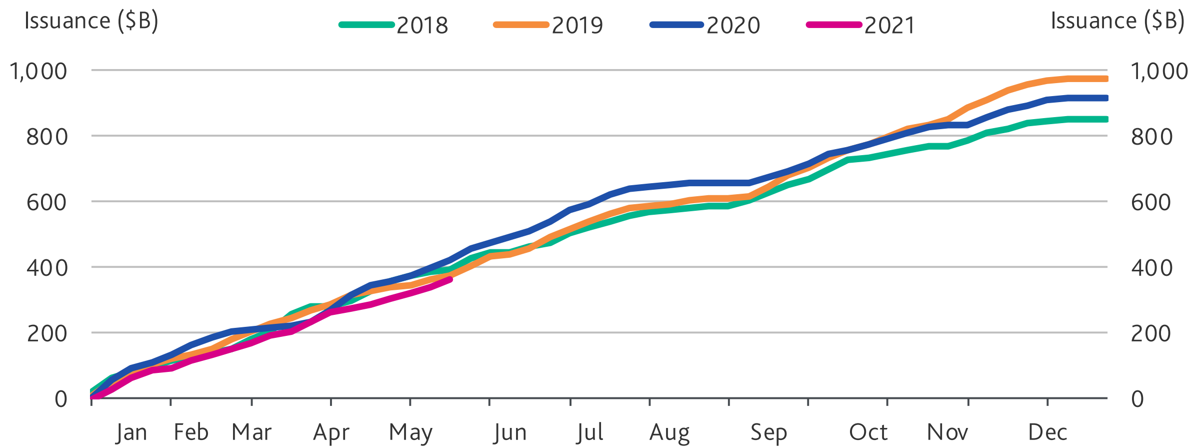
Issuance

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	27.840	13.700	42.650
Year-to-Date	658.517	278.929	960.058

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	16.892	4.966	21.883
Year-to-Date	285.260	65.078	360.448

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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