WEEKLY MARKET OUTLOOK

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Inflation and U.S. Recession Risks

The recent surge in U.S. inflation has made a mockery of interest rate projections, market-implied and professional forecasts alike. At the start of 2022, the CME's FedWatch tool, which uses fed funds futures contracts to infer the likelihood of changes in the key monetary policy rate, gave a zero chance of the policy rate reaching the 150 to 175 basis-point range announced at the Federal Reserve's June Federal Open Market Committee meeting and a 99% chance the rate would remain below 100 basis points. The swiftness with which the Fed has needed to act has continued to surprise markets; the steady release of bad inflation data has eroded faith in the Fed's mantra that inflation pressures from supply-chain and energy-supply shocks were temporary. By March, inflationary forces had forced the Fed to flip from a dovish to a hawkish stance.

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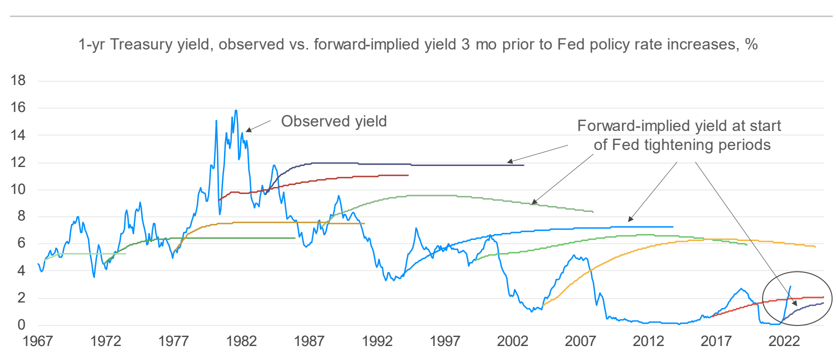
Markets Off More Than Usual in Anticipating Speed of Fed Hike



Sources: Federal Reserve, Moody's Analytics

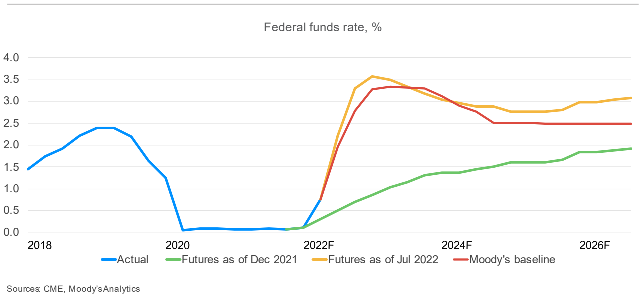
Investors and forecasters missing turning points in the policy rate is nothing new. In the three months leading up to every Fed tightening episode since the 1960s, investors rarely saw what was coming. If they did, they underestimated its impact on the path of interest rates. However, the current mismatch between expectations and reality is larger than average, only eclipsed by the oil shock induced tightening in the 1970s.

Compared with previous episodes of Fed tightening, the sharpness in the revision to the market-implied rate path from 3-months prior to 3-months after tightening begins is second only to the first Volcker era squeeze in 1980. In August 1979, when Volcker became chair of the Federal Reserve Board, the annual average inflation rate in the United States was 9%. Inflation had risen by 3 percentage points over the prior 18 months and would peak around 11% in early 1980. The effective fed funds rate went from 9% in 1980 to almost 20% in 1981. Both today and in 1980 investors had to sharply revise their expectations about how much and for how long rates would be higher.

Futures rollercoaster

Another striking feature of the current environment is the rollercoaster shaped path of the futures-implied fed funds rate as of early July. The market implied path for the fed funds rate has it rising rapidly, exceeding 3.6% in March 2023, then sharply reversing to around 2.7% at the end of 2024. The Moody's baseline forecast for July calls for a similar path with a more protracted duration at the peak and a slightly smaller decline. Reviewing forward-implied rate paths for the Treasury curve from prior Fed tightening episodes, there is nothing quite like this path even in the high inflation periods of the 70s and 80s.

A Hump in the Federal Funds Forecast Path



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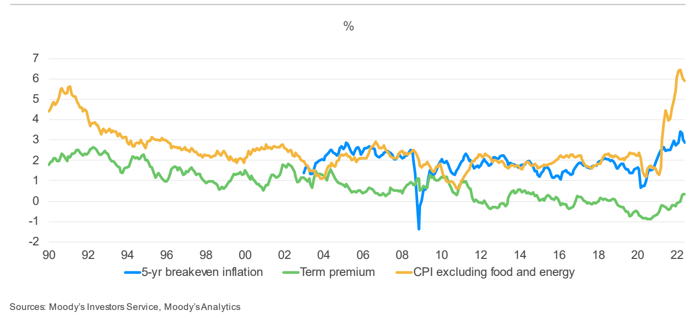
We can glean several things from the humped path of fed funds futures. First, the hump is broadly consistent with the median projection of FOMC members, a testament to the Fed's credibility, earned over decades of inflation fighting, and forward guidance.

Second, the path suggests market participants expect the Fed will get inflation under control in a bit more than a year and within a few years return interest rates to their neutral rate, which we and the Fed, estimate to be around 2.5%. This is supported by TIPS implied inflation and continued low yields on long-term Treasury bonds, whose prices are very sensitive to inflation perceptions. Furthermore, model-based estimates of the term premium—a forward-looking estimate of the amount that the return on long-run bonds exceeds the projected return from rolling over a sequence of short-term bonds—is now negative again having briefly spiked into positive territory back in March and April. Past periods with perceptions of high inflation risks in the U.S. have featured term premiums of 3% or more.

Term Premiums Usually Rise With Inflation Risk Perceptions



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Third, the market projects a decline in the funds rate to about 2.7% at the end of 2024, which is lower than the FOMC central tendency projection of 3.4%. The futures are likely pricing in the perception that the coming tightening has good odds of tipping the economy into recession, which would be accompanied by the Fed slashing the federal funds rate back to near zero.

A crude back of the envelope estimate of the odds of recession could be inferred from reducing the possibilities to two outcomes for the federal funds rate: no recession and a fed funds rate matching the median FOMC projection of 3.4%; or a recession and the rate going to near zero in 2024. To match July's futures-implied rate of 2.5% at the end of 2024 implies an odds of recession of around 25%. A statistical model driven off financial factors such as the slope of the yield curve, bond spreads, and stock market performance, also puts the odds of recession over 2 years in that range. However, adding real economy factors and, critically, the current rate of inflation to the model pushes the odds over 50%. Either way, recession risks currently appear more salient than the risk of runaway inflation.

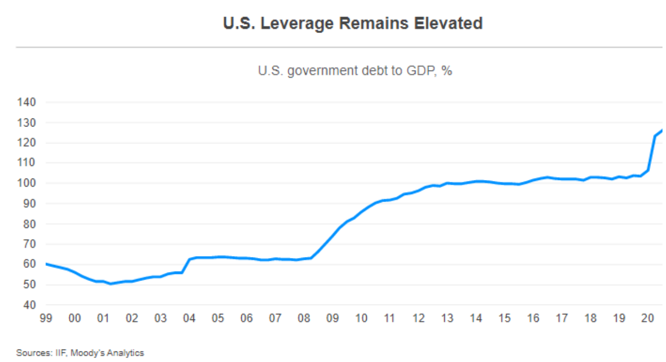
Debt: North America's Fiscal Policy Limits

BY STEVEN COCHRANE and MICHAEL FERLEZ

North America experienced deleveraging across all sectors in 2021 as stronger economic growth in Canada and the U.S. was more than enough to offset the continued accumulation of debt. Despite last year's broad-based deleveraging, however, leverage remains substantially above its pre-pandemic levels.

Government debt

North American government leverage declined in 2021, but the enormous amount of fiscal spending needed to combat the pandemic will keep the debt burden elevated for years to come.



In the U.S. the odds of further large-scale fiscal spending projects this year have all but evaporated with pushback from moderate Democrats and the fast-approaching U.S. midterm elections making any deal unlikely. As a result, we removed our assumption for a $560 billion reconciliation package from our baseline. Our baseline forecast calls for U.S. government debt-to-GDP ratio to decline gradually through 2025.

Canadian government leverage also declined last year behind renewed economic growth. The government debt-to-GDP ratio fell 5.5 percentage points to 110.7% and is forecast to steadily decline throughout the forecast horizon.

Corporate debt

In aggregate, North American nonfinancial corporate debt increased $1.1 trillion in 2021. Canada's nonfinancial leverage fell 7.8 percentages points to 123.9%, while U.S. leverage declined by 3.9 percentage points to 80.9%

In the U.S., the decline in nonfinancial leverage was driven by a combination of stronger economic growth and slower growth in debt and loan liabilities. According to data from the U.S. Financial Accounts, growth in nonfinancial business debt liabilities slowed significantly in 2021 following the explosion in debt issuance during the pandemic. Loan growth also decelerated last year, with part of the slowdown likely a result of the expiration of the Paycheck Protection Program in May.

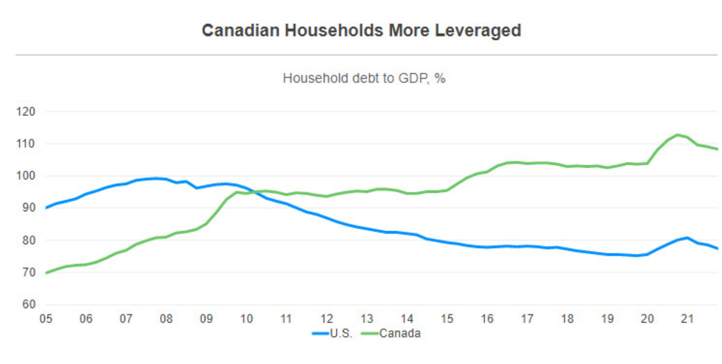
At 22% of total outstanding debt, nonfinancial business leverage edges out the household and financial sectors and is second only to the public sector. However, while U.S. household and financial sectors have undergone significant deleveraging since the 2008 Financial Crisis, nonfinancial corporate leverage has increased dramatically fueled by years of record-low interest rates.

Elevated U.S. business leverage will be an important factor to monitor as the Federal Reserve aggressively tightens monetary policy to fight inflation. While U.S. businesses have bolstered their balance sheets in recent quarters, higher borrowing costs could be crippling to businesses that have become reliant on cheap borrowing over the past decade.

Household debt

Household debt burdens declined last year as the robust U.S. economic growth was more than enough to offset the acceleration in household debt and loan liabilities. Robust growth in U.S. household debt was again driven by a red-hot housing market resulting in rapid expansion of mortgage credit. Meanwhile, broad-based economic growth combined with low interest rates and higher incomes helped boost household demand for consumer credit and other types of loans.

The story is much the same in Canada, where a strong Canadian housing market, low interest rates, and rising incomes helped drive the largest yearly increase in household liabilities since 2009. However, unlike in the U.S., household leverage is a much bigger problem in Canada, where the household debt-to-GDP ratio ranks fourth highest in the world.



Moreover, adjustable-rate mortgages tend to be a popular instrument in Canada and mortgage terms are shorter than in the U.S., which could put additional strain on Canadian households as interest rates rise.

Financial debt

After posting its first increase in over a decade in 2020, U.S. financial leverage declined last year despite a slight increase in debt growth. The U.S. remains the world's leading financial hub, accounting for roughly a fifth of global financial debt, though regulatory changes enacted after the global financial crisis have helped to fortify the U.S. financial system and drive down leverage.

However, one consequence of the increased regulation in the financial and banking sector has been the rise of the so-called shadow banking system, which falls outside the purview of most financial regulators. Given the limited regulation combined with its growing size and still limited understanding of linkages to the broader financial system and global economy make the shadow banking system a far greater risk to the economic outlook.

The Week Ahead in the Global Economy

U.S.

Next week will be very busy on the U.S. economic data and monetary policy fronts. Among key data coming will be second-quarter GDP, which our high-frequency GDP model shows is on track to fall 1% at an annualized rate. Before the advance estimate, some additional source data will be released, but it remains likely that GDP fell for a second consecutive quarter.

The GDP's weakness so far this year has been attributable to volatile and often mean-reverting components—net trade and inventories—while domestic final sales and gross domestic income have held up noticeably better. Also, GDP is only one of many variables that the National Bureau of Economic Research, the de facto arbiter of U.S. recessions, uses to define a recession as a "significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income and other indicators."

Outside of GDP, key data the NBER relies on have generally continued to increase, including nonfarm employment, real personal income excluding transfers, real consumer spending, industrial production, and weekly hours worked.

New data is due on new-home sales, pending-home sales, consumer confidence, personal income and spending along with the PCE deflators. We'll also get the Employment Cost Index for the second quarter, which will likely post another solid gain.

On monetary policy, the Federal Reserve is likely going to increase the target range for the fed funds rate by 75 basis points. There isn't any data released ahead of the meeting of the Federal Open Market Committee that's likely to push to committee to hike by 100 basis points.

Europe

Look out next week for the preliminary estimate of the euro zone's inflation rate for July. We expect that inflation decelerated to 8.4% y/y in July from 8.6% in June. Crude oil prices fell considerably during the month, which will cut the inflation rate for fuel and transportation prices considerably. Meanwhile, in the Netherlands a massive 12 ppt VAT cut to energy goods will also weigh on the aggregate rate. July's expected decline does not necessarily mean that the inflation rate peaked in June. Core inflation remains robust and there are negative risks, such as renewed supply disruptions or a repricing of gas contracts in Germany amid gas giant Uniper's bankruptcy.

Meanwhile, the euro zone's business and consumer sentiment indicator likely slumped to 102 in July from 104 in June. Consumer and business confidence are declining across countries as inflation continues to chip away at purchasing power, and thus aggregate demand. Supply conditions have also become increasingly uncertain with the realization dawning over the Continent that gas may be rationed this winter; the effect of this will likely weigh heavily on sentiment in August.

However, we expect labour markets remained relatively stable in June, a sign of the ongoing momentum from the post-pandemic rebound in Europe. In France the number of job seekers was likely unchanged from the previous month at 2.9 million, while the unemployment rate in Germany likely stayed at 5.3%. In Spain, we expect that the unemployment rate declined to 12.75% in the second quarter from 13.7% in the first. The situation in Spain will show more significant improvement due to the importance of the tourism industry in the economy, and the considerable rebound that began in the lead-up to the summer travel season.

We expect household consumption of goods pulled back by 0.1% m/m in France this June after a 0.7% increase in May. French consumer confidence decreased considerably during the month, and we suspect that households therefore held off on purchases. Meanwhile, retail sales likely grew 0.5% m/m in Spain, since households were supported by the tourism boom.

We forecast that France's GDP partially rebounded in the second quarter, by 0.1% q/q, after contracting 0.2% in the first. Private consumption likely ticked up after a dismal first quarter. The loosening of lockdown and social distancing measures will have boosted spending, but inflation likely moderated the rebound, with households able to spend less in real terms.

In Russia we forecast that the unemployment rate picked up to 4.3% in June in nonseasonally adjusted terms from the record low of 3.9% in May. This likely follows as we expect the situation for retail sales and industrial production to deteriorate. Industrial production was likely down 3.8% y/y in June following a 1.7% decline in May. There will be some volatility in industrial output as Russian firms adapt to new supply chains outside of Europe and the U.S. Russian retail sales likely tumbled 12% y/y in June from 10.1% previously.

Asia-Pacific

Australia's headline CPI growth likely hit 2.1% q/q in the second quarter on account of strong gains in food and fuel prices. Flooding in the eastern states disrupted food supplies and exacerbated price gains in some fresh produce. Meanwhile, fuel prices endured a renewed and sustained surge later in the second stanza. Price pressures have broadened beyond the supply side. Demand pressures have gathered pace, supported by an unemployment rate that is hovering around a 47-year low and accelerating wage growth. High job vacancies suggest the labour market will tighten, putting more upward pressure on wages in some industries in coming months. Importantly, the June-quarter CPI print will reveal the relative strength of demand- and supply-side price pressures. Core CPI is expected to have gathered pace. The Reserve Bank of Australia is pressing on with its most aggressive tightening cycle in history, and the June-quarter inflation print will likely cement in a hike of at least another 50 basis points for August.

The advance estimate is likely to show that South Korean GDP grew 0.5% q/q in the June quarter, in a touch from the 0.6% expansion in the March quarter. Household consumption has come under increased pressure in 2022 from the pickup in inflation for nondiscretionary goods. A temporary windfall came halfway through the quarter from a sales tax reduction that will remain in place through 2022. The Bank of Korea's unrelenting quest to tame inflation will be an increasing weight on domestic demand in this half of this year. Merchandise exports continue to benefit from strong demand for semiconductors, but auto production and exports are struggling.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
21-Jul	Mercosur	Mercosur 2022 Summit	Low	Low
4-Sep	Chile	Referendum on New Constitution	Medium	Low
2-Oct	Brazil	Presidential and congressional elections	High	Medium
Oct/Nov	China	National Party Congress	High	Medium
7-18-Nov	U.N.	U.N. Climate Change Conference 2022 (COP 27)	Medium	Low
15-16-Nov	G-20	G-20 Heads of State and Government Summit, hosted by Indonesia	Medium	Low
18-19-Nov	APEC	Economic Leaders' Meeting, hosted by Thailand	Low	Low

THE LONG VIEW: U.S.

Labor Market Holding Up

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond spread narrowed from 176 to 166 basis points over the past week. It's slightly wider than the 155 bp average in June. The long-term average industrial corporate bond spread widened by 9 bps to 149. It averaged 141 bps in June.

The ICE BofA U.S. high-yield option adjusted bond spread narrowed from 547 to 490 basis points. The Bloomberg Barclays high-yield option adjusted spread narrowed this past week from 533 to 480 bps. This compares with an average high-yield spread that averages 1,000 bps during recent recessions and an average of 350 outside of recessions. Spreads might not widen significantly from here. The latest Fed minutes noted that policymakers believe financial market conditions are roughly where they would want them to be. Therefore, the Fed may not want them to change appreciably from this point on.

The high-yield option adjusted bond spreads approximate what is suggested by the accompanying long-term Baa industrial company bond yield spread and but wider than that implied by a VIX of 23.3. The VIX dropped over the course of the past week.

DEFAULTS

Despite the drop in the default count from last month, the trailing 12-month global speculative-grade default rate held steady at 2.1% at the end of June, the same reading as at the end of May.

The default tally reached 43 in the first half of the year, up from 29 in the same period last year. Across sectors, Construction & Building remains the largest contributor to defaults with 11. The banking sector followed with eight. By region, North America had 18 defaults (17 in the U.S. and one in Canada). The rest were from Europe (12), Asia-Pacific (11), and Latin America (two).

In accordance with our credit conditions outlook, we lifted our one-year baseline global speculative-grade default rate forecast to 3.7% from last month's 3.3%. If realized, the new forecast will inch closer to the historical average of 4.1%.

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.

Issuance weakened in the second quarter of 2021 as worldwide offerings of corporate bonds revealed a year-over-year decline of 35% for investment grade. High-yield issuance faired noticeably better in the second quarter.

Issuance softened in the third quarter of 2021 as worldwide offerings of corporate bonds revealed a year-over-year decline of 5% for investment grade. U.S. denominated corporate bond issuance also fell, dropping 16% on a year-ago basis. High-yield issuance faired noticeably better in the third quarter.

Fourth-quarter 2021's worldwide offerings of corporate bonds fell 9.4% for investment grade. High-yield US$ denominated high-yield corporate bond issuance fell from $133 billion in the third quarter to $92 billion in the final three months of 2021. December was a disappointment for high-yield corporate bond issuance, since it was 33% below its prior five-year average for the month.

In the first quarter of 2022, worldwide offerings of investment grade corporate bonds totaled $901 billion, up 12% on a year-ago basis.

In the second quarter, corporate bond issuance weakened. Worldwide offerings of investment grade corporate bonds totaled $548 billion, down 21% on a year-ago basis. US$ denominated high-yield corporate bond issuance was $38 billion in the second quarter, down from $63 billion in the first three months of the year. High-yield issuance is down 79% on a year-ago basis.

In the week ended July 15, there wasn't any US$-denominated high-yield issuance. This kept the year-to-date total to $98.52 billion. Investment-grade bond issuance totaled $11.13 billion in the same week. This brings its year-to-date total to $831.2 billion. Issuance is still tracking that seen in 2018 and 2019.

U.S. ECONOMIC OUTLOOK

There were some material changes to the Moody's Analytics U.S. baseline forecast in July. These changes were larger than in June as we have altered our expectations for the path of the fed funds rate and have incorporated a larger drag from the tightening in financial market conditions into the baseline. GDP growth for 2022 and 2023 was revised lower, with it now rising just south of 2%.

Fiscal assumptions

The July baseline forecast expects the federal deficit to fall from 12.4% in fiscal 2021 to less than 4% in the current fiscal year, as federal pandemic aid has all but dried up. This will be the largest fiscal drag since the demobilization of U.S. armed forces after World War II. By our estimate, it will reduce real GDP growth in 2022 by 4.2 percentage points compared with what would have been the case if the federal pandemic aid offered the same amount of support as it did in 2021. In turn, this fiscal drag will cut headline inflation for 2022 by at least a full percentage point.

Just months after we removed our assumption that congressional Democrats would enact a slimmed-down version of President Biden's Build Back Better agenda, Senate Democrats are showing signs of momentum in cobbling together many prior BBB policies into a potential reconciliation package. The details of the legislation are not final, but it would likely raise $1 trillion in prescription drug savings and tax revenue. Of this amount, half would finance new spending, while the remainder would go toward deficit reduction.

Our forecasting philosophy is that there needs to be a two-thirds probability that a piece of fiscal legislation will get passed for Moody's Analytics to adopt it in the baseline. Though the likelihood of Democratic success in resurrecting a stalled BBB agenda has risen over the past few months, it still isn't high enough that we would reincorporate some version of the BBB agenda in the baseline. At the time of the July forecast's publication, political betting markets were ascribing only an approximately 40% probability that a reconciliation bill would pass the Senate by early September. Nevertheless, if Democrats do prevail, then future vintages will have to revise down our current forecast for federal budget deficits in the next decades.

COVID-19 assumptions

Changes to our epidemiological assumptions were small and the economic implications are modest as each wave of COVID-19 has a diminishing effect on the economy. Total confirmed COVID-19 cases in the U.S. will be 96.6 million, compared with 97.07 million in the July baseline. The seven-day moving average of daily confirmed cases has edged lower recently.

We're sticking with the concept of "effective immunity," which is a rolling number of infections plus vaccinations to account for the fact that immunity is not permanent. The forecast still assumes that COVID-19 will be endemic and seasonal.

Energy price forecast and assumptions

The baseline forecast now has West Texas Intermediate crude oil prices peaking higher than in the prior baseline forecast. However, the timing hasn't changed, and the forecast assumes oil prices peak in the second quarter, at $108.50 per barrel. The contours of the forecast haven't changed, and the July baseline still has oil prices steadily declining in the second half of this year and throughout next year. However, the decline is more gradual than in the prior baseline with West Texas Intermediate crude oil prices averaging $98.70 per barrel in the fourth quarter of this year, compared with $92.20 in the June baseline. Oil prices don't drop below $70 per barrel until 2024.

A key assumption is that even with the European ban, the global oil market will be roughly balanced by the end of 2022. Risks are that are it takes longer than expected. The EU ban will reduce Russian oil shipments to global markets by an additional 1 million bpd. The official bans cover about 4% of total global supply.

Cutting GDP forecast

Real GDP is expected to increase 1.9% this year, compared with 2.7% in the prior baseline. We have cut our forecast for U.S. GDP growth this year by a total of 160 basis points over the past few months. We nudged the forecast for GDP growth in 2023 down from 2.6% to 1.9%. The economy is now expected to be near its potential, which is likely around 2%.

There were revisions to first-quarter GDP, which declined 1.6% at an annualized rate (previously -1.5%). However, this masks significant revisions among the components, some more puzzling than others.

Real consumer spending is now shown to have added 1.2 percentage points to first-quarter GDP, compared with the 2.1-percentage point contribution in the government's second estimate. The big downward revision was concentrated to real consumer spending on services, which now added 1.3 percentage points to GDP growth, compared with the 2.1-percentage point contribution in the second estimate of first-quarter GDP.

Inventories rose $188.5 billion at an annualized rate in the first quarter, more than the $149.6 billion increase in the second estimate. This bodes ill for second-quarter GDP. For GDP, it's the change in the change in inventories that matters. Therefore, a smaller inventory increase relative to the first quarter could mean inventories are a bigger weight on growth in the second quarter.

The forecast has real GDP declining 0.5% at an annualized rate in the second quarter, consistent with our high-frequency GDP model's tracking estimate. This would be the second consecutive decline in GDP, but if the inventories are the main reason GDP declined in the second quarter, we wouldn't view this as a recession because it wouldn't be broad-based. Economic textbooks and the media often define a recession as two consecutive quarters of contracting GDP. But this is not quite accurate. In the U.S., GDP could decline in a quarter when the economy may not be in recession. The National Bureau of Economic Research's business cycle dating committee—which has become the de facto arbiter of recession in the U.S.—uses a more complex formula.

Declines in GDP during economic expansions have happened before. The three contractions in GDP occurring between the global financial crisis and the COVID-19 pandemic occurred because of some combination of a widened trade deficit and the quarterly oscillations of the inventory build. Consumption, the largest component of GDP, did not contract in those instances, nor did it in the first quarter and it is not expected to in the second quarter.

Our baseline forecast for real GDP growth this year is below the Bloomberg consensus of 2.4%. The forecast for next year is 0.1 percentage point stronger than the Bloomberg consensus of 1.8%.

Business investment and housing

There wasn't a material revision to the forecast for growth in real business investment this year. However, fundamentals have turned less favorable for the outlook as financial market conditions have tightened, including a noticeable widening in investment and high-yield corporate bond spreads. Therefore, we cut the forecast for growth in real business equipment spending next year, with it rising 4.1%, compared with 5.2% in the prior baseline.

There was a slight downward revision to housing starts as supply constraints and higher mortgage rates have started to bite into the housing market. Housing starts are expected to be 1.75 million, compared with 1.77 million in the prior baseline. Housing starts are expected to total 1.81 million next year, down from 1.86 in the prior baseline.

There are likely only so many homes that can be built each year because of labor-supply constraints and a lack of buildable lots. Some of the labor-supply issues will ease as the pandemic winds down, but the reduction in immigration is particularly problematic for homebuilders' ability to find workers. There were no material changes to the forecast for new- and existing-home sales this year. They are expected to total 6.59 million. We also cut the forecast for total home sales next year to 6.51 million, compared with 6.54 million in the June baseline. New-home sales account for about 10% of total new-home sales.

There were minor revisions to the forecast for the FHFA All-Transactions House Price Index this year and next. The June baseline has it rising 12.7% this year, compared with 11.3% in the prior baseline. The forecasts for 2023 and 2024 continue to expect little house price appreciation.

Labor market

The U.S. labor market remains strong even as job growth is moderating. Trend job growth is between 400,000 and 450,000 per month, but this isn't sustainable and needs to fall to around 150,000 per month later this year or the Federal Reserve's attempt to engineer a soft landing will become increasingly difficult.

Nonfarm employment increased by a net 372,000 in June, close to the gain in May and better than either we or the consensus anticipated. Trend job growth is likely running between 400,000 to 450,000. In the aftermath of the pandemic, revisions to monthly employment data remain larger than normal, but the direction of the adjustments has flipped. The back half of 2021 saw monthly job gains consistently revised upward with each subsequent estimate. Relative to their preliminary estimates, March, April and May now show 100,000 fewer jobs added to payrolls.

We have job growth averaging 359,000 per month this year before dropping to 133,000 in 2023. The unemployment rate is now expected to average around 3.5% in the fourth quarter of this year, 0.2 percentage point higher than in the June baseline. The unemployment rate is expected to continue increasing in the first half of next year until it hits 3.7% and then is little changed through the remainder of the year.

We assume a full-employment economy is one with approximately a 3.5% unemployment rate, around a 62.5%

labor force participation rate, and a prime-age employment-to-population ratio a little north of 80%. The labor force participation rate is close, but not at this threshold.

On the surface, there appears to be a disconnect between actual employment and GDP. Also, the forecast revision to GDP is larger than the one to the labor market. Beyond data issues, there are real differences in how output and the labor market respond during the business cycle. For example, firms normally adjust workers' hours before adding or subtracting staff, which can cause output to rise or fall before employment does. Also, if we factor in productivity growth, employment and GDP are telling different stories.

Monetary policy

The Federal Open Market Committee's June meeting, where the central bank jacked up interest rates by the most since 1994, showed a significant shift in the so-called dot plot and it tweaked the post-meeting statement strengthening its prioritization of taming inflation over nurturing the labor market. Following that, we're making material changes to the forecast.

The new forecast is for a 50-basis point rate hike at the July and September meetings. This will be followed by a 25-basis point rate hike at the November and December meetings. This is a cumulative 150 basis points in rate hikes by the end of the year. The Fed will then raise rates by 25 basis points at each of the first two meetings in 2023, putting the terminal fed funds rate at 3.5%, less than the median projection from the latest Summary of Economic Projections. The assumption is that the Fed will keep the fed funds rate at 3.5% for less than a year before gradually cutting by 100 basis points over the course of 2024, returning it to its neutral rate of 2.5%.

The 10-year Treasury yield has bounced around recently, but will average 3.33% in the final three months, compared with 3.14% in the prior baseline. We still have the 10-year Treasury yield averaging 3.5% in the fourth quarter of next year, compared with 3.25% in the June baseline. The forecast has the yield curve, or the difference between the 10- and two-year Treasury yields, remaining positive over the next few years.

ECB Makes the Unexpected Move

BY ROSS CIOFFI

The European Central Bank took the unexpected-but-not-shocking step of raising its policy rates by 50 basis points during its July meeting. As a result, the main refinancing rate is up at 0.5% and the deposit rate has finally exited negative territory, at 0%. The move to hike comes after a previous statement that the July increase would be the more standard 25-basis point size. While somewhat surprising, the risks of a larger hike were evident immediately after the last meeting, and a news report on Tuesday hinted at the 50-basis point hike, so market reaction has not been severe. The governing council has also announced its anti-fragmentation tool, the "Transmission Protection Instrument", with details to be provided later.

U.K. inflation accelerates

The U.K.'s CPI inflation was 9.4% in June. This was in line with our own expectation but higher than the Bank of England's forecast of 9.1% published in May. Energy and food comprise about one-quarter of the CPI and are contributing more than half of the headline inflation rate. Motor fuels saw a 42% rise in petrol prices on a year-ago basis.

Despite some recent moderation in agricultural prices—the UN's Food Price Index fell for a third month in a row in June—food price inflation is likely to remain unusually elevated for a while. Meanwhile, core CPI inflation (which excludes the volatile items of energy, food, alcohol, and tobacco) was 5.8% on a year-ago basis, ticking down from the prior month's 5.9% and from April's high of 6.2%. This slight moderation in core inflation may provide some limited reassurance that underlying price pressures in the economy may be softening, but it seems unlikely to persuade the BoE against a larger rate hike in August.

Dutch unemployment rising

The Netherlands' unemployment rate ticked up again in June, to 3.4% from 3.3% in May. The increase is the second in a row that brought the rate up from its nearly two-decade low of 3.2%. On the bright side, even with the increases of the past two months, the labour market is still tight—an important signal that consumers will be willing and able to spend money this summer. But the outlook is darkening, adding to the likelihood that the unemployment rate may inch up further in the coming months.

Sky-high inflation is eating away at consumers' and businesses' purchasing power. We expect post-lockdown demand for consumer services will keep the momentum up in the economy. But this will dry out come autumn, and spending habits may start to reflect the miserable outlook of households. The slump in activity, while costs remain so high for firms, will lead to more layoffs.

French businesses less upbeat

France's Business Climate Index declined to a reading of 103 in July from 104 in June. Firms' views on order books and on their past production deteriorated. This speaks to the slowdown in the economy and negative effects this may have on hiring. The silver lining in the survey is that the balance of opinion on expected selling prices fell significantly, to 35 from 53. The lower expectations could point to a turn in inflation pressures.

Nord Stream flowing

Gas is flowing again through the Nord Stream I pipeline. There was a concern that the tap would remain closed after its recent maintenance period. This has helped calm markets; at the time of writing, the price of Dutch one-month forward natural gas futures has declined by 0.7% to €154 per MWh. Flows through the pipeline are still below capacity, and Europe's capacity to refill its reserves for winter remains in question.

China's Challenging State of Play

BY KATRINA ELL and DENISE CHEOK

China's GDP data released last week confirm a turbulent and volatile first half of the year for the country's economy. Manufacturing and services faced significant challenges, particularly in April as aggressive and extended lockdowns in large cities took place. COVID-19 control measures caused significant disruptions and led to hefty falls in consumption, investment and production. Localised lockdowns since then have been disruptive to a lesser degree.

The second half of 2022 looks equally as challenging despite policymakers pledging support. The People's Bank of China's monetary policy is countercyclical to the global wave of monetary tightening. Although most other central banks are withdrawing monetary stimulus introduced at the height of the pandemic, the PBoC has pledged to do what it takes to improve demand. Fiscal policy has also been expansionary. But stimulus to date has had limited potency. The zero-COVID policy is an ongoing headwind because the threat of further lockdowns has increased near-term uncertainty, making businesses and households reluctant to invest and spend. Pandemic responses have repeatedly shown that stimulus cannot completely insulate economies from lockdowns. Despite this, China is prioritising public health concerns over economic consequences.

The property market is a useful example of stimulus lacking potency. Despite local governments easing buying curbs, cutting lending rates, and partially relaxing ownership rules, house price growth remains weak. We forecast China's house price index to fall 0.2% y/y in the June quarter following its modest 0.2% gain in the March quarter. The house price index is seasonally adjusted and based on the 70-cities sales price index from the National Bureau of Statistics. The property market is an important driver of China's economy, accounting for about 25% of GDP.

The latest concern in the property market is the rise in homebuyers ceasing or threatening to stop mortgage payments on delayed real estate developments. The China Banking and Insurance Regulatory Commission announced Sunday that loan payments will be available to property developers where circumstances are reasonable and if boycotting is an issue. There is speculation that the government will grant temporary mortgage payment relief for homebuyers caught by stalled property developments. We expect band-aid policy solutions to be introduced over the second half of 2022, but these are unlikely to be sufficient to reinvigorate the economy sufficiently to achieve the GDP growth target of 5.5%. In our August baseline, we will downwardly revise our full-year GDP growth forecast to south of 4%.

Malaysia's strong end to Q2

Malaysia's June trade numbers came in stronger than expected, with rising commodity prices spurring growth in mining and agriculture. Exports and imports surged by 38.8% y/y and 49.3%, respectively. This meant that export growth was strong enough to offset the rise in imports, allowing the trade surplus to widen to MYR21.9 billion in June from a revised MYR12.7 billion in May.

Exports of LNG and refined and crude petroleum skyrocketed in June as European sanctions on Russian exports caused oil prices to surge. The sixth package of sanctions, passed by the EU in early June, included a partial embargo on Russian oil, and this will likely cause oil prices to stay high until the end of the year. As a net exporter of oil, Malaysia's mining sector will benefit from elevated prices.

Exports of palm oil and related products rose more than 40% y/y, reflecting a more than 30% rise in value and about a 5% rise in volume. The pickup in export volume, however marginal, is encouraging. The palm oil sector has been constrained by a worker shortage, but the reopening of international borders has helped ease the supply crunch. Average unit value is expected to remain high because the Russian invasion of Ukraine is causing a shortage in edible oil. Indonesia, the world's largest palm oil exporter, also enacted a series of policy flip-flops to control exports of the commodity. So, large importers, including those in India and China, have started switching to Malaysian sources.

The key electronics sector continued to be supported by robust global demand of semiconductors. Electronics contribute close to 40% of exports, and the global semiconductor shortage has benefited Malaysia, the home of several major chip producers. We see the chip shortage extending into at least the first half of 2023, supporting demand for Malaysian exports. Lockdowns in China, which extended until June, resulted in a slowdown in exports to this major trade partner. Exports to all significant trade partners registered double-digit yearly growth except for China, which clocked a tepid 4.2% y/y increase from the previous month's 18.8% growth.

Imports saw an uptick across intermediate, capital and consumption goods, indicating a pickup in industrial production and retail spending. This latest trade reading bodes well for Malaysia's external-facing sector in the coming months. China's zero-COVID policy has been a drag on trade in the region, but high commodity prices and strong demand for Malaysian exports will help offset the hit from supply-chain disruptions.

Upgrades Dominate in U.S., More Weakening Seen in Europe

BY OLGA BYCHKOVA

U.S.

U.S. credit upgrades outnumbered downgrades in the latest weekly period. The changes issued by Moody's Investors Service spanned a diverse set of speculative-grade industrial firms and one investment-grade reinsurance company. Upgrades comprised eight of the 13 rating changes and 94% of affected debt.

The largest upgrade, accounting for nearly half the debt affected in the period, was issued to Crown Holdings Inc. with its corporate family and probability of default ratings raised to Ba1 from Ba2. Crown significantly improved its debt to EBITDA ratio by using a part of the proceeds from the sale of its European tin-plate business to pay down its debt. The upgrade reflects Moody's Investors Service's expectation that Crown will maintain financial discipline by controlling future share repurchase. The rating outlook is stable, reflecting Moody's expectation that Crown's profit and cash flow will be supported by solid demand for the beverage cans business for the next 12-18 months and that the company will manage its cash outflow to restrain total debt and leverage. Moody's could upgrade the ratings if Crown sustainably improves its credit metrics within the context of a stable competitive environment and maintains good liquidity. An upgrade would also require a more streamlined debt capital structure and the flexibility of an unsecured capital structure. At the same time, if credit metrics, liquidity or the competitive environment deteriorate, Moody's could downgrade the ratings.

Other notable upgrades included PBF Holding Company LLC and Ferrellgas L.P. Meanwhile, downgrades were headlined by Cooper-Standard Automotive Inc., which saw its senior secured credit rating lowered to B3 from B2 and senior unsecured notes to Ca from Caa2, reflecting the increase in refinancing risk with heightened macroeconomic uncertainty, the rising interest rate environment and the term loan maturing close to the near-term window of within twelve months.

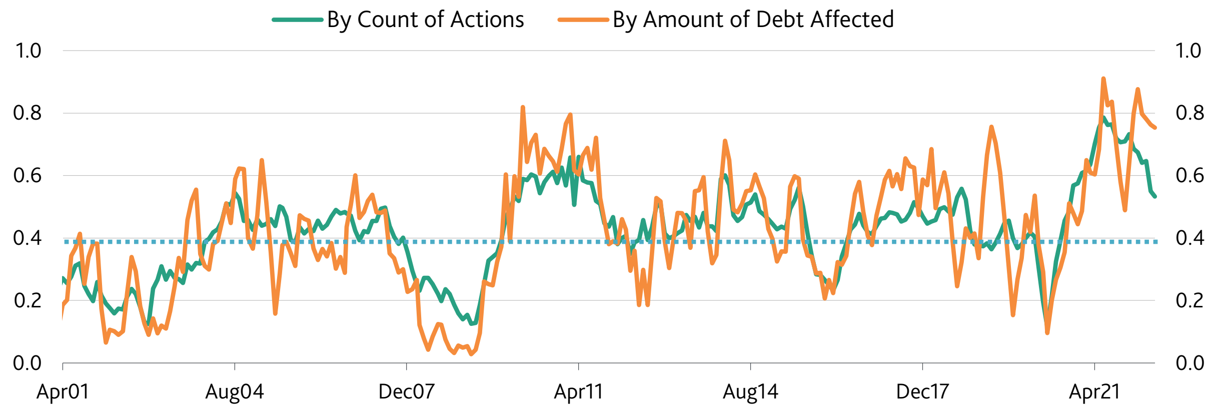
In line with the latest period, through the first half of this year U.S. rating changes were favorable with upgrades exceeding downgrades 203:142.

Europe

In contrast, European rating change activity was much weaker with downgrades outstripping upgrades 4:2 and comprising 97% of affected debt. The majority of ratings changes were issued to speculative-grade industrial firms. The largest downgrade last week was made to Lloyds Banking Group PLC, which saw its senior unsecured debt rating cut to A3 from A2, although maintaining the stable outlook. The downgrade was prompted by the expected reduction in the volume of loss-absorbing senior unsecured debt class, relative to the future size of the bank's balance sheet. This development results in a higher loss severity for senior debt under Moody's Advanced Loss Given Failure analysis. The change impacted more than $49 billion in outstanding debt.

RATINGS ROUND-UP

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
7/13/2022	FERRELL COMPANIES-FERRELLGAS, L.P.	Industrial	SrUnsec/LTCFR/PDR	1475.00	U	B3	B2	SG
7/13/2022	AMERICA MOVIL, S.A.B. DE C.V.-RIVOLI REINSURANCE COMPANY	Financial	IFSR		D	Baa1	Baa2	IG
7/13/2022	SEQUA CORPORATION	Industrial	LTCFR/PDR		U	Caa2	Caa1	SG
7/13/2022	PBF ENERGY COMPANY LLC-PBF LOGISTICS LP	Industrial	SrUnsec/LTCFR/PDR	2138.33	U	Caa1	B1	SG
7/13/2022	METROPOLITAN DETROIT AREA HOSPITAL SERVICES, INC.	Industrial	SrSec	48.40	U	A3	A2	IG
7/13/2022	INSPIRED ENTERTAINMENT, INC.	Industrial	SrSec/LTCFR/PDR	278.49	U	B3	B2	SG
7/13/2022	INW MANUFACTURING, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa2	SG
7/13/2022	HDT HOLDCO, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
7/14/2022	CROWN HOLDINGS, INC.	Industrial	SrUnsec/SrSec/BCF/ LTCFR/PDR	4794.06	U	Ba2	Ba1	SG
7/14/2022	COOPER-STANDARD HOLDINGS INC.-COOPER-STANDARD AUTOMOTIVE INC.	Industrial	SrSec/SrUnsec/BCF/ LTCFR/PDR	650.00	D	B2	B3	SG
7/15/2022	COMPASS MINERALS INTERNATIONAL, INC	Industrial	SrSec/BCF	750.00	U	Ba2	Ba1	SG
7/19/2022	PROFRAC HOLDINGS, LLC-PROFRAC HOLDINGS II, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
7/19/2022	A&V HOLDINGS HOLDCO, LLC-A&V HOLDINGS MIDCO, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG

Source: Moody's

FIGURE 4

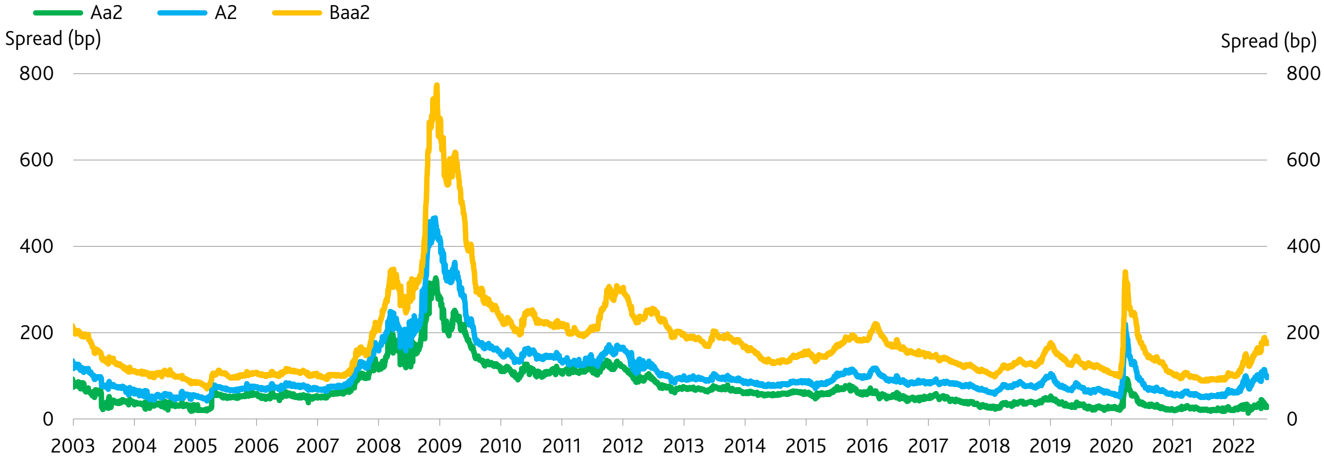
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
7/14/2022	PRESTIGEBIDCO GMBH	Industrial	LTCFR/PDR		U	B2	B1	SG	GERMANY
7/14/2022	DKT HOLDINGS APS	Utility	SrSec/SrUnsec/LTCFR/ PDR/MTN	3440.345	D	D	Caa2	SG	DENMARK
7/15/2022	CASTELLUM AB	Industrial	SrUnsec/LTIR/Sub/MTN	3074.256	D	Baa2	Baa3	IG	SWEDEN
7/15/2022	ESDEC SOLAR GROUP B.V.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG	NETHERLANDS
7/19/2022	LLOYDS BANKING GROUP PLC	Financial	SrUnsec/Sub/JrSub/MTN	49132.39	D	A2	A3	IG	UNITED KINGDOM
7/19/2022	SAIPEM S.P.A.	Industrial	SrUnsec/LTCFR/PDR/ MTN	2015.905	U	B1	Ba3	SG	ITALY

Source: Moody's

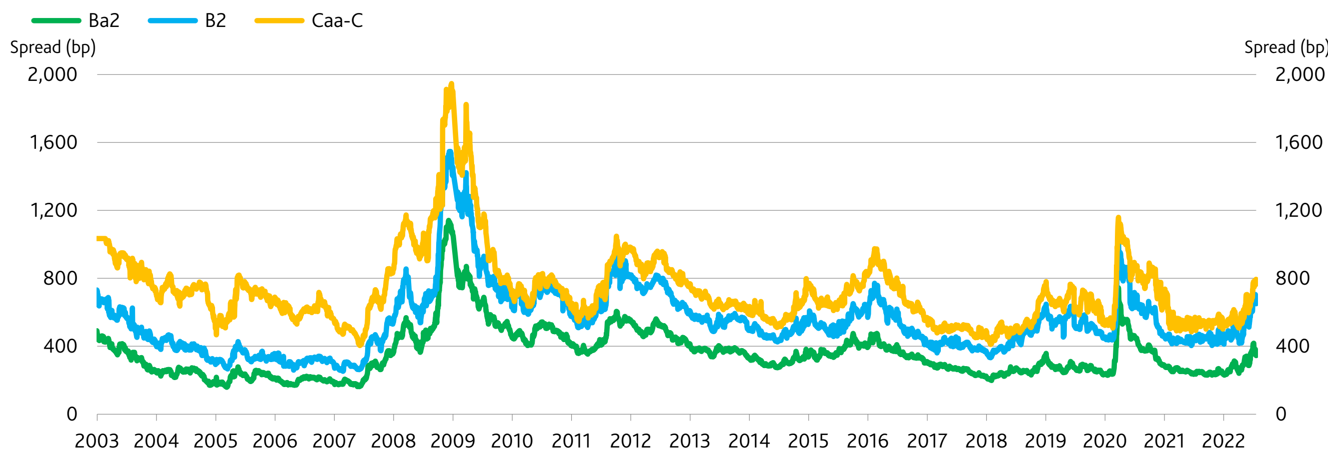
MARKET DATA

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



Source: Moody's

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



Source: Moody's

CDS MOVERS

Figure 3. CDS Movers - US (July 13, 2022 – July 20, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 20	Jul. 13	Senior Ratings
The Terminix Company, LLC	Baa1	Baa3	B1
Motorola Solutions, Inc.	A3	Baa1	Baa3
Ford Motor Company	Ba2	Ba3	Ba2
Merck & Co., Inc.	A1	A2	A1
Occidental Petroleum Corporation	Baa3	Ba1	Ba1
Carnival Corporation	Caa2	Caa3	B2
CCO Holdings, LLC	Ba1	Ba2	B1
Target Corporation	Aa3	A1	A2
Calpine Corporation	B1	B2	B2
Kroger Co. (The)	A1	A2	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 20	Jul. 13	Senior Ratings
John Deere Capital Corporation	A2	Aa3	A2
Agilent Technologies, Inc.	Baa2	A3	Baa2
Walgreen Co.	Baa2	A3	Baa2
Toyota Motor Credit Corporation	Aa3	Aa2	A1
Bristol-Myers Squibb Company	Aa2	Aa1	A2
Pfizer Inc.	Aa2	Aa1	A2
Coca-Cola Company (The)	Aa3	Aa2	A1
Bank of New York Mellon Corporation (The)	A2	A1	A1
Intel Corporation	Aa3	Aa2	A1
Walt Disney Company (The) (Old)	Aa1	Aaa	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 20	Jul. 13	Spread Diff
Walgreen Co.	Baa2	121	84	37
Scripps (E.W.) Company (The)	B3	252	219	34
Agilent Technologies, Inc.	Baa2	110	82	28
John Deere Capital Corporation	A2	64	51	13
AutoNation, Inc.	Baa3	167	157	10
Plains All American Pipeline L.P.	Baa3	243	234	9
Mattel, Inc.	Ba2	301	293	8
Philip Morris International Inc.	A2	155	148	7
Kellogg Company	Baa2	66	59	7
Wendy's International, LLC	Caa2	292	285	7

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 20	Jul. 13	Spread Diff
Carnival Corporation	B2	1,129	1,544	-415
Staples, Inc.	Caa2	1,848	2,080	-232
Gap, Inc. (The)	Ba3	640	770	-130
Royal Caribbean Cruises Ltd.	B2	1,278	1,407	-129
American Airlines Group Inc.	Caa1	1,332	1,454	-122
Beazer Homes USA, Inc.	B3	666	762	-96
Liberty Interactive LLC	B2	1,582	1,676	-94
Rite Aid Corporation	Caa2	1,912	1,998	-86
Pitney Bowes Inc.	B3	919	1,004	-85
Bath & Body Works, Inc.	Ba2	594	678	-84

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (July 13, 2022 – July 20, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 20	Jul. 13	Senior Ratings
Electricite de France	Baa1	Baa2	Baa1
Standard Chartered Bank	A1	A2	A1
Vodafone Group Plc	A2	A3	Baa2
TotalEnergies SE	A1	A2	A1
Unibail-Rodamco-Westfield SE	Ba1	Ba2	Baa2
Anheuser-Busch InBev SA/NV	A3	Baa1	Baa1
BASF (SE)	Baa2	Baa3	A3
BAWAG P.S.K. AG	Baa2	Baa3	A2
Veolia Environnement S.A.	A2	A3	Baa1
Vinci S.A.	A1	A2	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 20	Jul. 13	Senior Ratings
France, Government of	Aa1	Aaa	Aa2
Spain, Government of	A2	A1	Baa1
CaixaBank, S.A.	Baa1	A3	Baa1
Bayerische Landesbank	A2	A1	Aa3
Portugal, Government of	A2	A1	Baa2
Landesbank Baden-Wuerttemberg	A1	Aa3	Aa3
Svenska Handelsbanken AB	A2	A1	Aa2
UniCredit Bank AG	Baa2	Baa1	A2
DNB Bank ASA	A2	A1	Aa2
Nationwide Building Society	A3	A2	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 20	Jul. 13	Spread Diff
Hamburg Commercial Bank AG	Baa1	260	190	71
Casino Guichard-Perrachon SA	Caa1	1,697	1,660	37
Wienerberger AG	Ba1	288	268	20
Banco Comercial Portugues, S.A.	Baa3	281	270	11
UniCredit Bank AG	A2	105	95	9
UniCredit Bank Austria AG	Baa1	95	86	9
Italy, Government of	Baa3	148	140	7
Evonik Industries AG	Baa2	141	134	7
Bank of Ireland	A1	138	133	6
Bankinter, S.A.	Baa1	158	152	6

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 20	Jul. 13	Spread Diff
Boparan Finance plc	Caa3	1,911	2,163	-252
Novafives S.A.S.	Caa2	1,599	1,802	-203
Jaguar Land Rover Automotive Plc	B1	1,021	1,197	-176
Stena AB	B2	597	738	-141
Iceland Bondco plc	Caa2	1,080	1,217	-137
Deutsche Lufthansa Aktiengesellschaft	Ba2	464	572	-109
Banca Monte dei Paschi di Siena S.p.A.	Caa1	644	740	-97
thyssenkrupp AG	B1	552	633	-80
Rolls-Royce plc	Ba3	422	479	-57
CMA CGM S.A.	Ba3	550	605	-55

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (July 13, 2022 – July 20, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 20	Jul. 13	Senior Ratings
SoftBank Group Corp.	B1	B2	Ba3
Nomura Holdings, Inc.	Baa1	Baa2	Baa1
Nissan Motor Co., Ltd.	Baa3	Ba1	Baa3
Tokyo Electric Power Company Holdings, Inc.	Baa1	Baa2	Ba1
Nippon Telegraph and Telephone Corporation	Aaa	Aa1	A1
Hitachi, Ltd.	Aaa	Aa1	A3
Japan, Government of	Aa1	Aa1	A1
China, Government of	A3	A3	A1
Korea, Government of	Aa3	Aa3	Aa2
India, Government of	Baa3	Baa3	Baa3

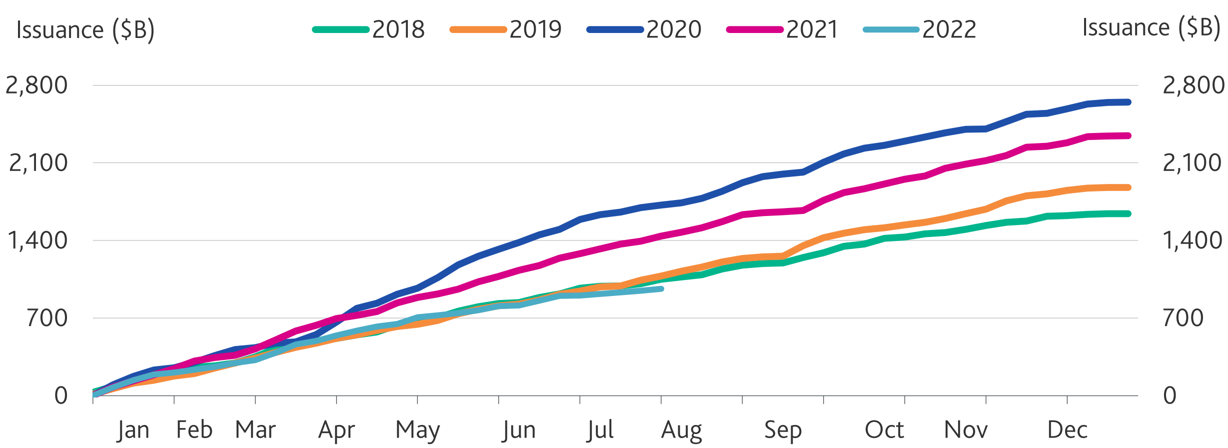
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 20	Jul. 13	Senior Ratings
Bank of China Limited	Baa2	A3	A1
Pakistan, Government of	C	Caa3	B3
Australia, Government of	Aa1	Aaa	Aaa
China Development Bank	Baa1	A3	A1
Sumitomo Mitsui Banking Corporation	A1	Aa3	A1
Westpac Banking Corporation	A3	A2	Aa3
National Australia Bank Limited	A3	A2	Aa3
Export-Import Bank of Korea (The)	A1	Aa3	Aa2
MUFG Bank, Ltd.	A1	Aa3	A1
Export-Import Bank of China (The)	Baa1	A3	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 20	Jul. 13	Spread Diff
Pakistan, Government of	B3	2,287	1,516	771
Kazakhstan, Government of	Baa2	307	283	24
Bank of East Asia, Limited	A3	105	92	13
Industrial & Commercial Bank of China Ltd	A1	103	91	12
Bank of China Limited	A1	101	90	11
China Development Bank	A1	97	87	9
Export-Import Bank of China (The)	A1	88	78	9
Suncorp-Metway Limited	A1	101	92	8
Halyk Savings Bank of Kazakhstan	Ba2	510	503	7
IDBI Bank Ltd	Ba2	145	138	7

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 20	Jul. 13	Spread Diff
SoftBank Group Corp.	Ba3	471	521	-50
Tokyo Electric Power Company Holdings, Inc.	Ba1	95	125	-29
Nissan Motor Co., Ltd.	Baa3	184	212	-28
Nomura Holdings, Inc.	Baa1	91	112	-21
Indonesia, Government of	Baa2	137	151	-14
Philippines, Government of	Baa2	123	135	-12
Malayan Banking Berhad	A3	111	122	-12
Kansai Electric Power Company, Incorporated	A3	35	47	-12
Malaysia, Government of	A3	93	103	-10
SK Innovation Co. Ltd.	Baa3	155	163	-9

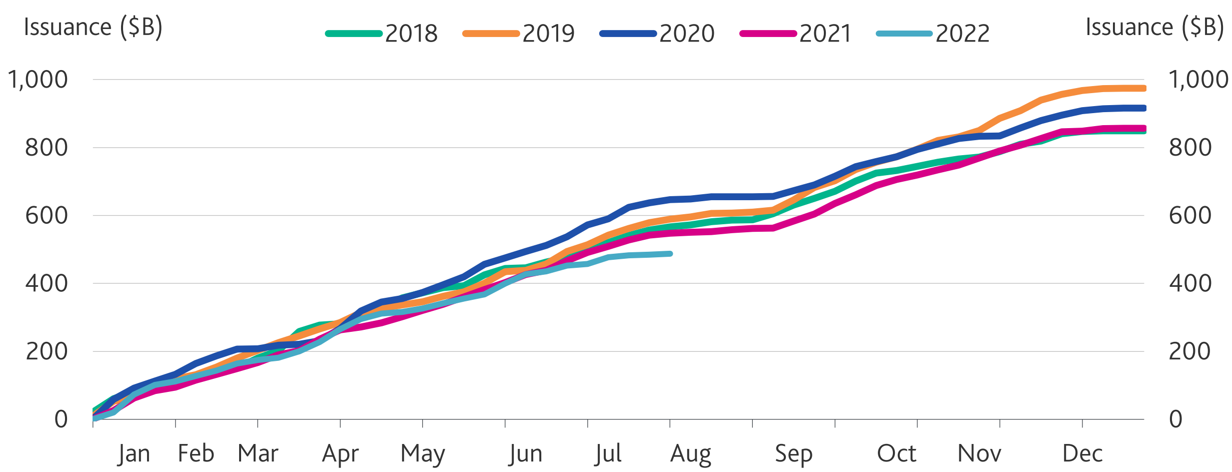
Source: Moody's, CMA

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



Source: Moody's / Dealogic

Figure 7. Market Cumulative Issuance - Corporate & Financial Institutions: Euro Denominated



Source: Moody's / Dealogic

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	11.130	0.000	16.848
Year-to-Date	831.235	98.524	963.307

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	3.035	0.000	3.040
Year-to-Date	452.337	27.785	487.828

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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