MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Moving in the Right Direction

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Consumers got more relief than expected on the inflation front in October, despite a rise in gasoline prices. The consumer price index rose 0.4%, less than either we or the consensus had anticipated. This comes on the heels of a similar 0.4% gain in September.

The October CPI surprised to the downside due to a variety of factors. Used vehicle prices posted their second largest monthly decline since late 2003, which the Manheim Used Vehicle Value Index—a leading indicator—had presaged. In addition, apparel prices fell to an even greater extent than in the preceding month amid rising inventories.

Finally, a methodological quirk led medical care services to weigh on CPI inflation in October. The CPI for health insurance fell 4% in October after steadily rising 2% or more monthly since March. The Bureau of Labor Statistics measures the price of health insurance based on health-insurer profits, which are reported with a 10-month lag. Therefore, the October CPI for health insurance represents what occurred to health insurers in 2021. In 2020, government-mandated lockdowns, stretched healthcare capacity, and consumers' health concerns, which kept them from receiving routine and elective medical procedures, all contributed to reduced healthcare outlays and in turn fewer benefits paid by insurers.

As a result, the retained earnings of health insurance companies jumped, which then showed up as soaring health insurance prices in the CPI. In September, the CPI for health insurance was up more than 28% from a year ago, adding nearly 0.3-percentage point to headline CPI inflation. In 2021, consumers began receiving elective and routine medical care again, which then put a crimp in health insurers' profit margins. Now, the health insurance CPI is poised to drag on the CPI in the next several months.

Moody's Analytics and Moody's Investors Service maintain separate and independent economic forecasts. This publication uses the forecasts of Moody's Analytics. Moody's Analytics markets and distributes all Moody's Capital Markets Research materials. Moody's Analytics does not provide investment advisory services or products. For further detail, please see the last page.

Our baseline forecast has the CPI rising 8.1% in 2022, 4.0% in 2023, and 2.4% in 2024. The assumptions around moderating inflation have not changed and include a reduction in U.S. supply-chain stress, below-potential GDP growth, falling global energy prices, and easing nominal wage growth.

A lot of comparisons have been made between today and the high inflation of the 1970s. However, unlike then, the Federal Reserve has a better grasp of the importance of inflation expectations. When households expect consumer price inflation to increase, they will demand even higher wages. When firms expect costs to increase, they will set higher prices. In such a way, inflation can be a self-fulfilling prophecy. Thus far, we observe no signs that household inflation expectations have become unanchored. We do not put too much stock in short-run inflation expectations, as these are largely influenced by what is happening today to food and energy prices. Instead, we pay more attention to long-run inflation expectations, which have inched higher during the pandemic but are still a far cry from the heights reached during the late 1970s. This suggests that an inflationary psychology in which households expect persistently high inflation has not taken over, which will make the Fed's job easier, compared to the era of Fed Chair Paul Volcker.

U.S. financial conditions still tightening

According to the latest Senior Loan Officer Opinion Survey, a significant percentage of banks tightened lending standards for commercial and industrial loans in the third quarter. Tightening was most common for premiums charged on riskier loans, costs of credit lines, and spreads of loan rates over the cost of funds. A large share of banks that reported tighter lending standards cited the uncertain macroeconomic outlook for doing so.

Lending standards tightened or were unchanged across residential real estate categories while demand weakened considerably. Lending standards tightened for credit card loans and other consumer loans while standards for auto loans remained unchanged.

Demand for residential loans slowed for the third consecutive quarter, and recent developments suggest this will continue as long as the Federal Reserve maintains its hawkish stance. The central bank has been steadfast in using various policy levers to combat persistently high rates of inflation. The Federal Open Market Committee raised the range for short-term rates by another 75 basis points this month. Mortgage rates have surged with the 30-year fixed mortgage rising above 7%. Higher borrowing costs, when combined with the rapid and ongoing increase in house prices, have squeezed affordability and pushed would-be borrowers out of the market. The baseline forecast expects first-mortgage originations to fall by more than 50% relative to year-ago levels during the second half of 2022 and by more than 30% during all of 2023.

Meanwhile, demand across consumer loan segments was mixed. The credit card loans segment was one of the few to report stronger demand in the third quarter. Demand for credit card loans will be less impacted, since policy tightening has less impact on consumer finance and credit cards. Delinquency rates remain anchored at historical lows, but with elevated inflation eating away at real incomes the likelihood of tighter standards, higher delinquencies, and demand deterioration will rise.

Macroeconomic implications of midterm elections

Though control of the U.S. Senate remained too close to call, odds favor Republicans winning back the House of Representatives, albeit by a smaller-than-expected margin. Historically, midterm elections have shaken up the balance of power in Congress, making it tougher for a president to achieve his legislative agenda. The same will likely be true for Biden, even though his party outperformed expectations on Election Day.

The baseline forecast had long assumed that Republicans would win back at least one chamber of Congress after the 2022 midterms, thereby rendering the Inflation Reduction Act the last major piece of fiscal legislation in Biden's current term. Tuesday's results so far do not warrant any change to our baseline forecast, which assumes policy gridlock in Washington DC over the next two years. Nevertheless, divided government poses both upside and downside risks to the U.S. macroeconomic outlook. Stock markets have historically rallied after midterm elections and, more important, performed best during periods of divided government—and best of all during Democratic presidencies with split Congresses, which is now the most likely outcome. However, divided government will likely lead to greater brinkmanship over government funding and the debt ceiling next year, which will incur needless costs for the economy.

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TOP OF MIND

Cautious Optimism on Skirting Recession

BY MATT COLYAR

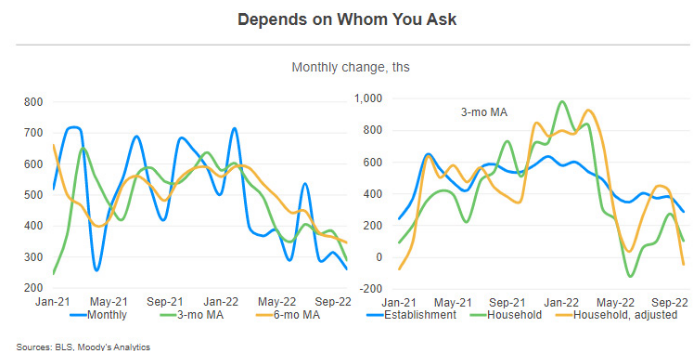
We are sticking to our baseline assumption that the Federal Reserve is able to engineer a soft landing that skirts a recession as inflation, over time, returns to the central bank's target. Though the U.S. is not in recession, the economic expansion is highly vulnerable to anything that might go wrong. After a global pandemic and war in Europe, the experience of the past few years makes it easy to envisage a major external shock rattling the economy and knocking it off course. However, if a downturn is in the cards for the U.S. economy, it is likely to come from a currently underappreciated weakness brought to light by the sharply rising cost of capital.

The Fed, at November's Federal Open Market Committee meeting, announced an extraordinary fourth consecutive 75-basis point increase to the fed funds rate. Forward guidance provided by the central bank in September showed a marked increase in the terminal rate, to 4.6%. After November's meeting, Fed Chair Jerome Powell said the committee sees rates going higher than that, albeit it a slower pace. The risk of overtightening seems to be one that the Fed is willing to stomach. Tightening accommodative policy, which acts on a lag, too quickly and by too much represents the most significant potential catalyst for a U.S. recession. Our baseline forecast calls for a 50-basis point increase to the fed funds rate in December, with a further deceleration in the pace of rate hikes to follow in 2023 before the Fed pauses.

Rising long-term interest rates create problems for corporations. Overleveraged firms, accustomed to the Fed's previous commitment to easy credit given inflation's generation-long absence, are set to come under pressure as rates rise. A string of corporate defaults or a significant widening of corporate bond spreads could dampen investor sentiment and soften investment. This would presage a turnaround in the labor market, which to this point has been relentlessly tight, and given the Fed cover to continue raising rates.

The September Job Openings and Labor Turnover Survey was not what the Federal Reserve wanted to see. It suggested in large part that the central bank's actions to date have not yet restrained activity in the labor market in any meaningful way. For the Fed, the job market is the primary battleground in its fight against uncomfortably high inflation. Job openings increased from 10.3 million in August to 10.7 million in September, reversing a good chunk of the prior month's decline. Further, layoffs declined from 1.5 million to 1.3 million as labor market conditions remain firm and employers seem reluctant to lay off workers for fear of being unable to rehire them once the current fog of economic uncertainty subsides.

October's employment report came in stronger than expected. The payroll survey showed employers added 261,000 jobs in the month, and revisions to September were positive and significant. The latest report from the Bureau of Labor Statistics brings the three-month moving average for job growth just below 300,000, or roughly half of the pace at the start of 2022. The U.S. labor market's strength continues and makes it hard to believe that an economic recession is knocking at the door.



There were, however, some conflicting signals within October's report that suggest things are beginning to weaken. According to the household survey, the unemployment rate rose from 3.5% to 3.7%. The uptick was owed to a reduction in jobs and the size of the labor force. Generally, we consider the payroll survey more credible because of its far-larger sample. The household survey, however, may hold some value when the labor market is at a turning point. The household survey, for example, can capture the impact of firm closures, something that the payroll survey is less successful in capturing.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar is busier next week. The producer price index serves as a good leading indicator of whether consumer price growth is likely to continue slowing in the near term. Retail sales data on Wednesday will be important in determining how well consumer spending is holding up in the face of high inflation and heightened economic uncertainty. Late in the week, we expect a continuation of subpar housing market data as high interest rates, and a lack of affordability are crushing transaction activity. Data on housing starts and permits will be important to determine how well the supply side of the market is holding up, which will be critical in the fight to rebalance affordability.

Europe

A trio of important euro zone releases are due. First will be the industrial production figures for September followed by the external trade balance in September and the final estimate of HICP inflation from October. We estimate a 0.2% month-over-month decline in industrial production for September, which will follow a 1.5% loss in August. There are wide differences between countries, with solid growth in Germany, the Netherlands and Ireland outweighed by losses in France, Italy and Spain. Unfortunately, we expect the weakness in the third quarter to extend to the fourth, with downbeat PMIs and confidence surveys pointing to falling output among manufacturers.

The euro zone's external trade deficit likely came in at €42.1 billion for September, compared with surplus of €6.8 billion in September 2021. The balance will likely improve, however, from the previous month, when it was at a record low of €50.9 billion. The improvement from August is going to be due to the decline in natural gas and oil prices. This will likely decrease the value of imports over the course of the month and ease the trade deficit. Yet, we do not expect the deficit to reverse anytime soon. Commodity import prices are still steep and the euro is still near historic lows. Export demand is also weakening amid the global slowdown.

For the final estimate of euro zone HICP inflation we do not expect changes from the preliminary release. The inflation rate will rise to 10.7% year over year in October from 9.9% in September. Inflation will increase across all major categories, but the acceleration will largely be due to faster increases of energy and food prices. October's core prices grew as well, and although we expect headline inflation to have peaked in October, the progress of core inflation in November will be important for the European Central Bank's December monetary policy decision.

Meanwhile, we expect the U.K.'s unemployment rate was unchanged in the three months to September at 3.5% compared with the August quarter. PMI surveys pointed to continued job growth during the month, but the unemployment rate is due to bottom out, as the same surveys reported weak job growth, and weakness in the economy persists. Retail sales, meanwhile, likely contracted 0.2% month over month in October, deepening a 1.4% contraction in September. Although the unemployment rate is low, consumer confidence is dismal, and inflation is rising fast, which has and will continue to weigh heavily on goods spending.

Finally, the U.K. inflation rate likely inched higher to 10.4% year over year in October from 10.1% in September. Although the fact that the gas and electricity price cap will not be hiked as previously expected, there will continue to be inflationary pressures from other components of the CPI, namely food, but also likely from the core basket.

Asia Pacific

We expect Japan's third-quarter GDP to have grown 0.5% from the second quarter, driven by stronger investment spending. Solid capex plans reported with the latest Tankan survey suggest capital spending is finding its footing. Although a record wave of COVID-19 infections dented household spending in the third quarter, the impact was less than initially expected. Production recovered off a low base, but net exports limped along.

China will release industrial production, retail sales and fixed-assets investment data. These will tell us where domestic demand is at for the first month of the December quarter. We expect slower growth in industrial production and retail sales of 5.3% y/y and 1.9% y/y, respectively. Fixed-asset investment likely increased 5.9% y/y.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
6-18-Nov	U.N.	U.N. Climate Change Conference 2022 (COP 27), hosted by Egypt	Medium	Low
8-Nov	U.S.	Midterm elections	High	Medium
10-13-Nov	ASEAN	ASEAN Summit, hosted by Cambodia	Medium	Low
15-16-Nov	G-20	G-20 Heads of State and Government Summit, hosted by Indonesia	Medium	Low
18-19-Nov	APAC	Economic Leaders' Meeting, hosted by Thailand	Low	Low
19-Nov	Malaysia	General election	Low	Low
24-Nov	Sweden	Riksbank monetary policy announcement	Medium	Low
7-Dec	Australia	Reserve Bank of Australia monetary policy announcement	Medium	Low
7-Dec	India	Reserve Bank of India monetary policy announcement	Medium	Low
13-14-Dec	U.S.	Federal Open Market Committee meeting	High	High
15-Dec	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
15-Dec	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
15-Dec	Switzerland	Swiss National Bank monetary policy announcement	Medium	Low
15-Dec	Norway	Norges Bank monetary policy announcement	Medium	Low
15-16-Dec	European Union	European Council summit	Low	Low
20-Dec	Japan	Bank of Japan monetary policy announcement	Medium	Low
18-Jan	Japan	Bank of Japan monetary policy announcement	Medium	Low
7-Feb	Australia	Reserve Bank of Australia monetary policy announcement	Medium	Low
8-Feb	India	Reserve Bank of India monetary policy announcement	Medium	Low
7-Mar	Australia	Reserve Bank of Australia monetary policy announcement	Medium	Low
10-Mar	Japan	Bank of Japan monetary policy announcement	Medium	Low
2-Apr	Finland	General election	Medium	Low
4-Apr	Australia	Reserve Bank of Australia monetary policy announcement	Medium	Low
28-Apr	Japan	Bank of Japan monetary policy announcement	Medium	Low
April	Solomon Islands	General election	Low	Low

Changes to Our Baseline Forecast

BY STEVEN SHIELDS

CREDIT SPREADS

Credit spreads were largely unchanged in the past week. Moody's long-term average corporate bond spread to the 10-year Treasury narrowed by 6 basis points to 170 basis points. Similarly, the long-term average industrial corporate bond spread narrowed from 152 basis points to 148 basis points in the period. It averaged 150 and 156 basis points in September and October, respectively.

The ICE BofA BBB U.S. corporate option adjusted bond spread narrowed 3 basis points to 196 over the past week. Despite the slight decrease, the spread remains close to its highest level since the second quarter of 2020. The ICE BofA U.S. high-yield option adjusted bond spread increased to 479 basis points. Similarly, the Bloomberg Barclays high-yield option adjusted spread widened from 446 to 462 basis points. This compares with an average high-yield spread of 1,000 basis points during recent recessions and an average of 350 outside of recessions. The high-yield option adjusted bond spreads approximate what is suggested by the accompanying long-term Baa industrial company bond yield spread but is wider than that implied by the current VIX reading of 26. The VIX has come off its recent high of 33.6 over the past two weeks, coinciding with the strong recovery in equity markets.

DEFAULTS

Four Moody's-rated corporate issuers defaulted in September, down from 11 in August. The four September defaulters were Canada-based Bausch Health Companies Inc., U.S.-based Phoenix Services International LLC, U.K.-based Crown UK Holdco Limited and Germany-based Schur Flexible GmbH. The largest defaulter was Bausch Health, a global developer and manufacturer of pharmaceutical, medical device and over-the-counter products.

The year-to-date default tally climbed to 63 through September, which surpasses the count of 55 for all of 2021. The construction sector remains the largest contributor to defaults, with 16. Banking followed with eight, all of which were Ukrainian banks. By region, North America had 25 defaults (23 in the U.S. and two in Canada). The rest were in Europe (19), Asia-Pacific (16) and Latin America (three).

Under our baseline forecast, Moody's Credit Transition Model predicts that the default rate will rise to 2.9% at the end of 2022 and will climb to 4.3% in September 2023. The 4.3% rate, if realized, would exceed 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.

Third-quarter issuance declined further as higher interest rates weighed on lending activity. Worldwide offerings of investment grade corporate bonds totaled $505 billion, down 30% year over year. US$ denominated high-yield corporate bond issuance clocked in at $21 billion in the third quarter. High-yield issuance declined approximately 84% on a year-ago basis.

There was $1.5 billion in US$-denominated high-yield issuance in the week ended November 4. This brings the year-to-date total to $129.3 billion. Meanwhile, investment-grade bond issuance totaled $38.04 billion in the same week, bringing the year-to-date total to $1.19 trillion. Issuance has slowed considerably in the second half of the year and is trending at a four-year low. Global credit conditions will remain tight at the start of 2023 as persistent inflation, higher interest rates and bleaker GDP growth prospects cast a cloud over the borrowing environment.

U.S. ECONOMIC OUTLOOK

We made some adjustments to the U.S. baseline forecast in November. Among the notable changes is our forecast for global oil prices, which we revised higher through the second quarter of 2024 to account for OPEC+'s announcement that it would cut oil production by 2 million barrels per day. In addition, the outlook for housing deteriorated, as higher mortgage rates will lead to even larger house price declines from their 2022 second-quarter peak than previously projected. Changes to the forecast for employment, business investment, GDP, and the unemployment rate were not overly significant. Meanwhile, we are sticking to our prior baseline assumption for monetary policy, which includes rate hikes of 50 and 25 basis points in December and January, respectively. The baseline forecast is still for the Fed to engineer a soft landing and the economy to skirt a recession with inflation, over time, returning to the central bank's target.

Fiscal assumptions

The U.S. Treasury budget deficit is forecast to descend from 5.5% of GDP in fiscal 2022 to 3.9% and 4.2% in fiscal 2023 and 2024, respectively. Our forecast for the fiscal 2023 budget deficit is meaningfully different from October. Last month, we did not anticipate that the full present value cost of student debt forgiveness, as announced by President Biden in August, would be recorded in the fiscal 2022 budget deficit. Instead, our forecast had expected that the present value cost of student loan forgiveness would have been recorded in fiscal 2023, because the Biden administration had not gotten the program up and running by the end of September. Therefore, we were projecting in October a fiscal 2023 shortfall of $1.4 trillion, or 5.2% of GDP. However, because the entire multiyear cost of student debt relief was ultimately recorded up front in the fiscal 2022 deficit, we had to strip out this prior assumption. As a result, our forecast for the current fiscal year deficit is a lower $1 trillion.

The Biden administration estimates that recently announced student debt relief will cost $426 billion, and debt cancellation accounts for nearly the entirety of this amount. It is important to note that this figure does not include the cost of the creation of a new income-driven repayment plan. That cost will be recorded in the deficit once the new income-driven repayment plan is finalized by the Biden administration.

Energy price forecast and assumptions

Moody's Analytics has raised its forecast for global oil prices through the second quarter of 2024. The principal reason for the upgrade in the price forecast is OPEC+'s announcement that it would cut oil production by 2 million barrels per day. We think the effective cut will be closer to 1 million bpd. Still, the announcement has in our view added $5 to $8 per barrel to global crude oil prices. Risks are weighted to the upside. National governments are burning through their emergency stockpiles of crude oil, and the EU is set to implement a ban on the import of Russian crude oil. Our higher oil price forecast reflects these changes over the past month, but if anything, prices could come in on the high side in the near term.

We have also revised our near-term forecast for U.S. natural gas prices. The Henry Hub price is expected to be $7.10 in the fourth quarter of 2022, compared with $8.86 last month. The forecast also remains lower for the next two quarters before converging with the previous month's expectation in the third quarter of 2023.

There are two reasons for the change in the forecast. First, autumn has been mild in the Northern Hemisphere, reducing demand for space heating. Moreover, forecasts call for mild weather to persist. Second, U.S. liquefied natural gas tankers cannot dock in European ports and unload their cargoes because of a lack of infrastructure. The EU is frantically building out its capacity to process LNG imports, principally from the U.S., but this process will take months, if not years. The Russian invasion of Ukraine occurred not even a year ago, so Europe will likely be unable to fully transition away from Russian natural gas until 2024.

Minor changes to GDP growth

The revisions to the baseline forecast for GDP growth were modest this month relative to recent months. Annual growth this year and next was essentially unrevised. Growth in both 2024 and 2025 was revised down by 0.2 percentage point, but at 2.1% and 2.7%, respectively, suggests an economy returning to near potential growth.

The expansion in economic activity resumed in the third quarter after pausing in the first half of 2022. U.S. GDP rose 2.6% in the third quarter, reversing all the declines over the prior two quarters, according to the Bureau of Economic Analysis' preliminary estimate. Trade was a major, if temporary, support to growth with consumer spending and government spending also contributing. Inventories were a major drag on growth with fixed investment also falling. Real disposable income rose for the first time in a year and a half as the pace of inflation slowed. The saving rate inched down to 3.3% from 3.4%.

The forecast is for no GDP growth in the final three months of this year or the first three months of next year with GDP falling 0.1% at an annualized rate in the current quarter compared with a forecast of it rising 0.2% previously. For the first quarter, growth of 0.1% is now expected rather than the 0.1% decline forecast last month. GDP is forecast to grow 0.7% in 2023, the same as in the October baseline.

Business investment and housing

The outlook for total real business investment did not change much in the November baseline, with growth expected to be 3.5% on an annual average basis. However, the mix has changed. Real equipment spending in 2023 is expected to rise 2.6% on an annual average basis compared with 1% in the October forecast, based on the unexpected strength of transportation equipment spending, particularly light trucks and aircraft, as reported in the third-quarter GDP release. However, real structures spending has been revised down to 7% growth from more than 12% in the October baseline, as companies begin to make firmer decisions about limiting the need for office space.

Higher mortgage interest rates have precipitated a sharp decline in housing affordability for potential homebuyers, reducing demand and causing Moody's Analytics to revise its housing forecasts down.

The national FHFA purchase-only house price index is forecast to fall 7.5% from its 2022 second-quarter peak, versus 5.6% in the October vintage. The Case-Shiller index is forecast to fall 10.5% from its 2022 second-quarter peak, versus 7.5% previously. Mortgage rate increases have been faster than anticipated earlier this year and are causing significant demand destruction as would-be buyers retreat from the market. Lower-priced homes are expected to perform better than higher-priced homes given the underlying demand from young adults and the dearth of supply of starter homes.

The slowing real estate market is causing higher new-home inventories and homebuilders to pull back on construction. This has led us to lower the permits forecast over the next few years. We expect that in the medium term permits will increase, as there is still a significant housing deficit.

Moody's Analytics has also revised its office forecast down. Even as many companies are recalling workers back to their offices, it is becoming clear that there will be a significant number of companies that will remain remote or will have reduced demand for office space due to a switch to hybrid working conditions. We expect to see lower office demand per employee in office-using industries. We have revised our forecast to have more sluggish performance in the near term and to have lower overall long-run gains.

Labor market

The U.S. labor market is holding up much better than expected with job gains moderating only slowly. Nonfarm payrolls increased by 261,000 jobs in October, well above expectations, but down from a revised 315,000 in September, and well below the average of 423,000 for the first nine months of the year. Job gains for August and September were revised higher by a modest combined 31,000. Revisions are expected for October as the first print response rate of 66.5% was far below the 76.7% average for the past 10 years.

Underlying job gains consistent with growth in the labor force is around 100,000 to 150,000. Therefore, gains far higher than that indicate that the U.S. labor market is still in the process of normalizing from the shock of the pandemic. Even though employment well exceeds its pre-pandemic peak, it would have been about 1.5 million higher by now had the pandemic not occurred.

Goods-producing employment increased by 33,000 in October following a 48,000 gain in September. Manufacturing employment is performing remarkably well, adding 32,000 in October. Higher interest rates and resource constraints are beginning to bite construction. Payrolls advanced only 1,000 following the gain of 22,000 in September. Mining and natural resources were flat. Services expanded by 200,000, down from 271,000 in September. Leading the charge were healthcare, professional/business services, and leisure/hospitality, though net hiring moderated over the month. Financial services are slowing as loan demand eases.

Driven by local government gains, public-sector employment recouped its losses from September. Difficulty

with seasonally adjusting the beginning of the school year and challenges that the public sector has had finding employees accounted for the September losses. Public-sector payrolls are still more than 500,000 lower than prior to the pandemic.

The unemployment rate rose to 3.7%, from the post-pandemic low of 3.5% in September, as household employment declined by 328,000 in sharp contrast to the payroll survey, and the labor force edged lower. 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 above 80%. Therefore, it seems that the labor market backtracked slightly in October and could be considered near full employment. The labor force participation rate is 0.3 percentage point below this threshold and the prime-age employment-to-population rate has fallen back below 80%.

Since October starts a new quarter, the new data set the tone for the fourth quarter. The better-than-expected October report listed the fourth-quarter average monthly employment gains to 257,000 from 131,000 in the October forecast vintage. As a result, job growth now averages 406,000 monthly for 2022, up from 375,000. However, we still expect that employment growth will decelerate dramatically in 2023 as the U.S. economy teeters on the brink of recession. We now have even weaker average gains of only 76,000 monthly in 2023, down from 96,000 in the October vintage. However, we expect that the softening in the labor market will be brief. In 2024, monthly gains will average 105,000, slightly weaker than the 120,000 we expected in October. By 2024, we expect the labor market to be expanding consistently with underlying demographics.

Because of the slight increase in October unemployment, our fourth-quarter forecast for the unemployment rate is 3.7%, slightly higher than the 3.6% in the October baseline. Consistent with the dramatically weaker pace of job growth coupled with slightly higher labor force gains, the unemployment rate will increase through 2023, reaching 4.1% in the final three months of the year. This is unchanged for the past forecast vintage and just below the 50-basis point increase that has coincided with every recession. The unemployment rate falls in 2024, averaging 3.9% in the fourth quarter, slightly higher than in the October baseline.

Risks to our employment forecast are balanced. On the downside, per Okun's law, a 1-percentage point deceleration in GDP growth over the course of a year would amount to around 800,000 jobs per year. This would also increase the unemployment rate by about 0.5 percentage point. However, the Fed's latest Beige Book noted that employers keep hiring even as growth slows because they have a ton of open positions and need to make up for lost work. Labor demand has cooled, but it remains strong. Average hourly earnings growth has decelerated from the peak of 5.6% in March to 4.7% in October, but this is still far higher than is needed to cool inflation meaningfully. The key for the Fed is that labor demand weakens without translating into an increase in the unemployment rate. However, the Fed has a difficult balancing act. It is raising interest rates rapidly to try to cool the labor market so that inflation emanating from the labor market does not spiral out of control. However, sharply higher interest rates amid still-high inflation could weigh on consumer behavior and the labor market more than expected.

Monetary policy

The Federal Reserve remains committed to its tough course on inflation. At its November meeting, the Federal Open Market Committee unanimously hiked the target range for the fed funds rate by 75 basis points for a fourth consecutive time, raising the range from 3% to 3.25% to 3.75% to 4%. This was in line with our and consensus expectations. The Fed held on to its forward guidance that further rate hikes will be appropriate. However, uncertainty about the Fed's terminal target range by 2023 rose after the meeting, as Fed Chair Jerome Powell signaled rates might have to rise higher and for longer than previously expected to ensure inflation expectations remain anchored. Prior to the November meeting, markets predicted the funds rate to peak at 4.75% to 5% and to begin falling by this time next year. Immediately after the meeting, investors had rates peaking at 5% to 5.25% and not falling until 2024.

Our current baseline assumptions for the policy rate remain unchanged from our prior baseline and include 50- and 25-basis point increases in December and January, respectively. Our terminal fed funds rate projection, meanwhile, remains just north of 4.5%, matching the prior baseline and the FOMC's September signaling. We expect the Fed to start cutting interest rates in late 2023 and throughout 2024. Monetary policy will be restrictive through the end of 2025, when the fed funds rate will return to its neutral rate.

We leave these assumptions unchanged despite Powell's comments. The chairman is appropriately sending a tough message to financial markets where conditions had eased in recent weeks. The Fed is attempting to persuade businesses to be more cautious in managing their payrolls and investment and consumers to be more cautious in their spending. By taking this stance, the Fed makes it less likely that the FOMC will need to follow through on a more bearish interest rate outlook, thus raising the odds the economy can make its way through the next year without a recession. Avoiding a recession will be difficult, but ironically, Powell's hawkish comments make it more likely that we will.

The key for our monetary policy forecast remains inflation. The November baseline has the CPI rising 8.1% this year, 4% in 2023, and 2.4% in 2024, a rounding difference up from the prior baseline. The assumptions around moderating inflation haven't changed and include a reduction in U.S. supply-chain stress, below-potential GDP growth, declines in global energy prices, and moderating nominal wage growth.

After rising through much of October, the 10-year Treasury yield moved sideways during the past three weeks. We have the 10-year Treasury yield averaging 4.12% in the final three months of this year, compared with 3.94% in the September baseline. The 10-year Treasury yield averages 4.53% in the fourth quarter of next year, unchanged from the prior baseline. Since we estimate the equilibrium 10-year Treasury yield as 3.75%, the 10-year Treasury yield will decline in the second half of 2023 and into 2024.

On a real broad trade-weighted basis, the U.S. dollar is more than two standard deviations above its long-run average since it began to freely float in the early 1970s. The dollar's value will remain strong while U.S. rates are rising faster than those abroad, and the pandemic and Russian invasion persist as global economic threats.

Macroeconomic implications of midterms

Though control of the House of Representatives and the Senate remained too close to call on Wednesday, odds favor Republicans winning back the House, albeit by a smaller-than-expected margin. Historically, midterm elections have shaken up the balance of power in Congress, making it tougher for a president to achieve his legislative agenda. The same will likely be true for Biden, even though his party outperformed expectations on Election Day.

The baseline forecast had long assumed that Republicans would win back at least one chamber of Congress after the 2022 midterms, thereby rendering the Inflation Reduction Act the last major piece of fiscal legislation in Biden's current term. Tuesday's results so far do not warrant any change to our baseline forecast, which assumes policy gridlock in Washington DC over the next two years. Nevertheless, divided government poses both upside and downside risks to the U.S. macroeconomic outlook. Stock markets have historically rallied after midterm elections and, more important, performed best during periods of divided government—and best of all during Democratic presidencies with split Congresses, which is now the most likely outcome. However, divided government will likely lead to greater brinkmanship over government funding and the debt ceiling next year, which will incur needless costs for the economy.

ECB Pushes Back on Dovish Rumors

BY ROSS CIOFFI

European Central Bank policymakers have been refuting reports that the ECB may take a dovish pivot. Importantly, ECB President Christine Lagarde said last week that a "mild recession" in the euro zone would not be enough to conquer inflation alone.

If it would take more than a mild recession, then the central bank will have to continue hiking rates even if there is a negative GDP print in the fourth or first quarters. In an interview with Politico earlier this week, ECB Vice President Luis de Guindos reiterated the bank's more hawkish position by explaining that the only way forward for monetary policy is to continue hiking rates, even though this means that tightening will reduce aggregate demand.

We forecast at least a 50-basis point hike at the December meeting, but there could be a stronger 75-basis point hike. This will likely depend on how core inflation reacts. We expect base effects to prevent a further acceleration in the headline rate this November. But core inflation may accelerate again, and this would greatly strengthen the odds of a 75-basis point hike at the December meeting.

The December meeting could also bring some further clarity regarding the ECB's balance sheet, which is flush with nearly €5.1 trillion in purchased bonds through its Asset Purchase Programme and Pandemic Emergency Purchase Programme. In the Politico interview, De Guindos stated that quantitative tightening should begin in 2023, but it would likely start with an end to reinvestments, rather than selling off bonds, and that the stop to reinvestments could then be phased in. The current policy is for PEPP reinvestment to continue "until at least the end of 2024", but there is no set date regarding APP holdings.

More ambitious green regulations incoming

On 8 November, leaders in the European Council and European Parliament reached a provisional agreement for stricter emissions targets. The provisional deal puts forward an emissions reduction target of 40% of 2005 levels of emissions by 2030 for sectors not currently covered by the EU Emissions Trading System. This includes road and maritime transport, construction, agriculture, waste management and small industries. Individual countries are set annual targets and limits, and there is some flexibility in the form of emissions trading, or 'banking and borrowing'—if emissions come in below target for a year, then emissions can be above-target the following year, and vice-versa.

Carbon credits can also be generated by removing greenhouse gases through forestry. The news implies greater investment funds but also a bringing-forward of transition risks, which revolve around how sectors can compete amidst the rising costs of doing business.

U.K. RICS survey points to lower house prices

The RICS U.K. Residential Market Survey reported a balance of -2% this October, down from 30.5% in September. The negative balance shows a slight majority of property surveyor respondents reported decreasing house prices between September and October. This is the first negative balance since June 2020. The survey also reported that new buyer enquiries fell for the sixth month in a row.

Mortgage rates in October jumped to 5.4% from 5.1% in September and 3.6% a year earlier. This was undoubtedly a factor in squelching demand for housing, triggering prices to ease. However, thanks to lower gilt yields following the nomination of a new chancellor of the exchequer and the reversal on tens of billions of unfunded tax cuts promised in the September mini-budget, November may bring some relief on mortgage rates. But this won't change much. Over the fourth quarter, demand for housing and house prices will continue to fall. Even with a decline in average mortgage rates, financing costs are up significantly, and consumer confidence remains near all-time lows.

IP drops in Italy, bounces back in Netherlands

After two consecutive months of rises, Italy's industrial production fell by 1.8% month over month in September. This brought overall industrial output down 0.5% from the year-ago level. Capital goods production inched higher month over month but was outweighed by zero growth among consumer goods and large declines in intermediate and energy goods production.

By contrast, industrial production in the Netherlands rebounded 1.7% month over month this September after a 1.7% contraction in August. This meant that in year-ago terms, output was 2.6% higher. As in Italy, the manufacturing PMI is in contractionary territory, signalling future weakness. Business confidence is also in the pits, resulting in worsening demand. Factories still have backlogs of work to get through but weakening new orders will show less and less upside in future releases. Indeed, we expect industrial output will contract in the fourth quarter across the euro zone.

Shipping Costs Drive China Supply-Chain Stress Index Higher

BY ILLIAN JAIN

The Moody's Analytics China Supply-Chain Stress Index ticked up for a second month in a row in October. It ended the month at 104.7 points, up from 102.2 in September. The increase came as a result of stronger PMI figures and a notable increase in shipping costs. A fall in producer and commodity prices were offsetting influences.

The China SCSI comprises 10 supply-side variables that fit into three broad categories: production, inventory and transportation. It is indexed so that 100 is the average of pre-pandemic stress on China's supply chains, using October 2019 as the yardstick. A reading above 100 indicates increased stress on supply chains relative to October 2019 and vice versa.

Purchasing managers in the manufacturing sector reported an increase in raw material prices from September and longer supplier delivery times. There were also notable increases in nonmanufacturing intermediate input prices. But a blowout in shipping costs was the main reason the index moved north. The Baltic Dry Index, which measures the cost of shipping bulk materials, increased by almost 50% from September.

Producer prices and global commodity prices were lower in October than September, keeping the CSCSI from going even higher than it did. The PPI fell 4.3% in October from September. Producers may find it hard to secure higher prices for their goods in the near term because of slowing domestic and external demand. Commodity prices fell October from September. This was led by gas and coal, which helped energy producers and will assist in keeping production costs down for businesses. Iron ore and steel prices also eased as the outlook for global demand turned bleaker.

We expect the index to hover around the neutral 100 mark for the next few months. The broader story remains—a slowdown in demand both domestically and internationally has hurt demand for raw materials and final goods. Supply-chain pressure will ease simply because there is less material that needs moving.

Deterioration in U.S. Credit Quality

BY STEVEN SHIELDS

U.S.

U.S. credit quality continued to deteriorate in the latest week. Downgrades comprised eight of 11 rating changes and roughly 94% of the affected debt. The most notable downgrade, accounting for 75% of debt affected in the period, was issued to Dish Network Corp. Moody's Investors Service assigned Dish's new $2 billion secured notes Ba3 ratings and downgrade the company's senior unsecured convertible notes to B3 from B2 and its probability of default rating to B2-PD from B1-PD. The downgrade to the firm's unsecured convertible notes is due to the issuance of the new secured notes, which will result in effective subordination of the unsecured notes and potential disproportionate loss absorption relative to the new secured notes in a default scenario, according to Moody's.

Moody's Investors Service also downgraded Spirit AeroSystems Inc.'s second lien senior secured notes due 2025 to B2 from B3. According to the ratings action, the downgrade of the second lien senior secured notes reflects the incremental first lien senior secured debt that comes from the refinancing and the resultant reduction in unsecured debt cushion supporting the second lien notes. The downgrade also reflects the large and growing amount of first lien obligations and the likelihood that if Spirit were to enter into a revolving credit facility, that facility would be senior to the second lien notes, Moody's noted.

Over the past 12 months Moody's Investors Service has issued 285 upgrades and 217 downgrades to U.S. firms. However, downgrades have accounted for more than half of the rating changes issued in the past two months.

Europe

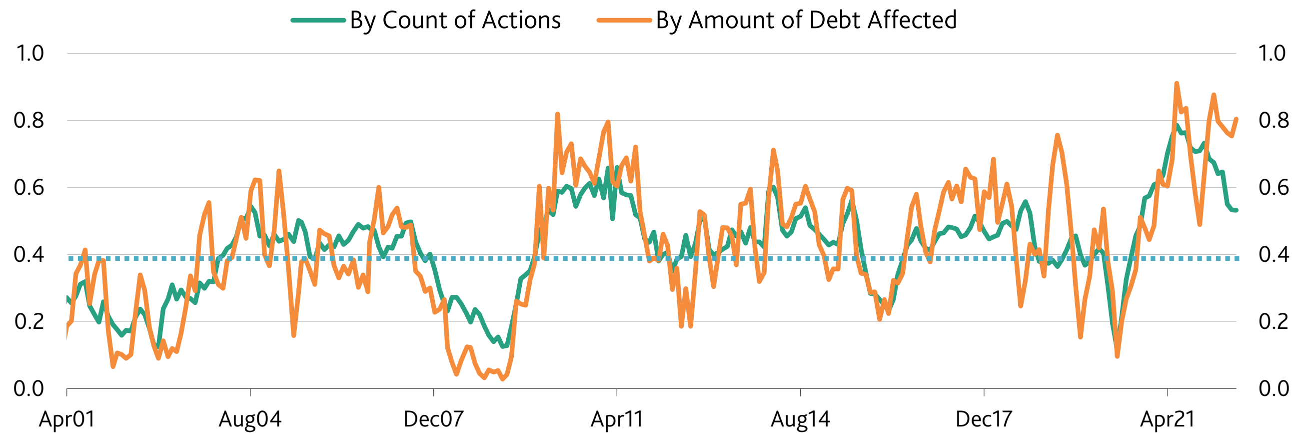
European credit quality strengthened in the period with upgrades outnumbering downgrades 12:2. The changes issued by Moody's Investors Service spanned a diverse set of speculative- and investment-grade bonds and industrial and financial companies. The most notable upgrade was made to Heineken N.V. with its senior unsecured ratings and long-term issuer rating raised to A3 from Baa1. According to Paolo Leschiutta, a senior vice president and lead analyst for Heineken at Moody's Investors Service, "The long-term ratings upgrade reflects the company's strong track record in maintaining a conservative financial policy while progressively improving its business profile and resilience." Moody's outlook on Heineken's ratings remains stable.

Moody's Investors Service also issued an upgrade to Italian toll operator Autostrade per l'Italia S.p.A.'s senior unsecured ratings to Baa3 from Ba1. The rating action reflected the commitment of ASPI and its shareholders to maintaining a robust financial profile and stable strategy, in the context of Moody's expectation of a balanced financial policy and strengthening metrics.

Meanwhile, on November 7, Moody's Investors Service raised the long-term deposit ratings of six Greek banks by either one or two notches, as well as the standalone baseline credit assessment of three of those banks. The outlook for the long-term deposit ratings for two banks was changed to stable from positive following their upgrades, while the outlooks for the long-term deposit ratings for the remaining four banks remain positive. Alpha Services and Holdings S.A. was the largest change by debt affected at $2.28 billion, followed by Piraeus Financial Holdings S.A. at $1.98 billion.

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
11/2/2022	DISH NETWORK CORPORATION	Industrial	SrUnsec/PDR	6000	D	B2	B3	SG
11/2/2022	POWER STOP, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG
11/2/2022	EXACTECH, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa2	SG
11/3/2022	NEW INSIGHT HOLDINGS, INC.-RESEARCH NOW GROUP, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
11/3/2022	INFRASTRUCTURE & ENERGY ALTERNATIVES, INC.-IEA ENERGY SERVICES LLC	Industrial	SrUnsec/LTCFR/PDR	300	U	B3	Ba1	SG
11/4/2022	AIR METHODS CORPORATION	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	500	D	Caa2	Ca	SG
11/4/2022	ATHLETICO HOLDINGS, LLC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
11/4/2022	THOUGHTWORKS HOLDING, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B1	Ba3	SG
11/7/2022	SPIRIT AEROSYSTEMS HOLDINGS, INC.-SPIRIT AEROSYSTEMS, INC.	Industrial	SrSec	1200	D	B2	B3	SG
11/7/2022	MAD ENGINE GLOBAL, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
11/8/2022	TTF HOLDINGS, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG

Source: Moody's

FIGURE 4

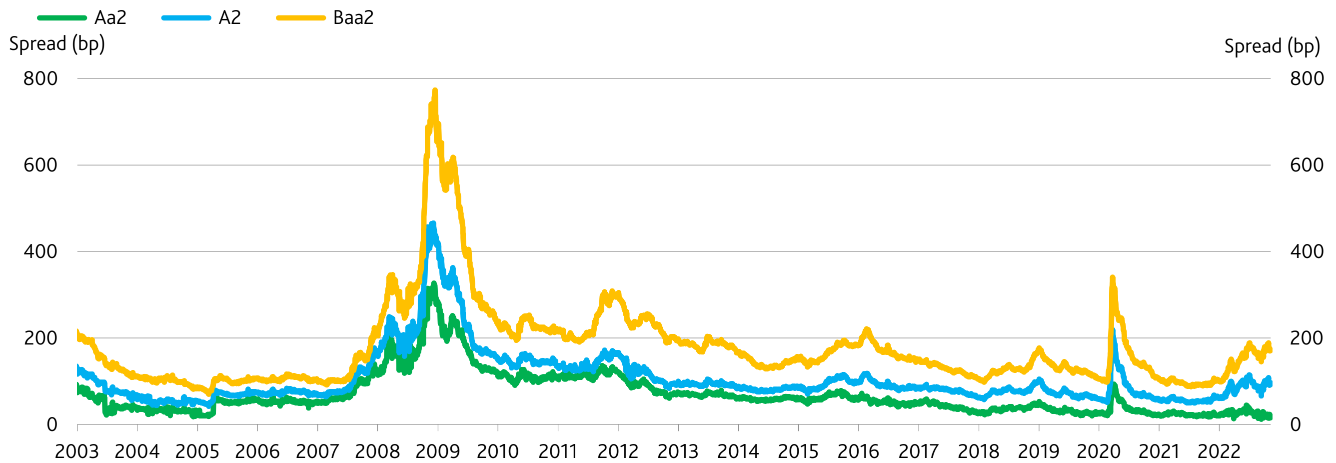
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
11/3/2022	KETER GROUP B.V.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG	NETHERLANDS
11/3/2022	AI MISTRAL HOLDCO LTD	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa2	Caa1	SG	UNITED KINGDOM
11/7/2022	HEINEKEN N.V.	Industrial	SrUnsec/LTIR/MTN	12854.81	U	Baa1	A3	IG	NETHERLANDS
11/7/2022	NATIONAL BANK OF GREECE S.A.	Financial	SrUnsec/LTD/MTN	494.7752	U	B1	Ba3	SG	GREECE
11/7/2022	ALPHA SERVICES AND HOLDINGS S.A.	Financial	SrUnsec/LTIR/LTD/Sub/MTN	2275.966	U	B2	Ba3	SG	GREECE
11/7/2022	EUROBANK ERGASIAS SERVICES AND HOLDINGS S.A.-EUROBANK S.A.	Financial	SrUnsec/LTD/MTN	1484.326	U	B1	Ba3	SG	GREECE
11/7/2022	PIRAEUS FINANCIAL HOLDINGS S.A.	Financial	SrUnsec/LTIR/LTD/Sub/MTN	1979.101	U	B3	B1	SG	GREECE
11/7/2022	ATTICA BANK S.A.	Financial	LTD		U	Caa2	Caa1	SG	GREECE
11/7/2022	ARMORICA LUX S.?R.L.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG	LUXEMBOURG
11/7/2022	PANCRETA BANK S.A.	Financial	LTD		U	Caa2	B3	SG	GREECE
11/7/2022	PEARLS (NETHERLANDS) BIDCO B.V.	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG	NETHERLANDS
11/8/2022	AUTOSTRADE PER L'ITALIA S.P.A.	Industrial	SrUnsec/MTN	8260.036	U	Ba1	Baa3	SG	ITALY

Source: Moody's

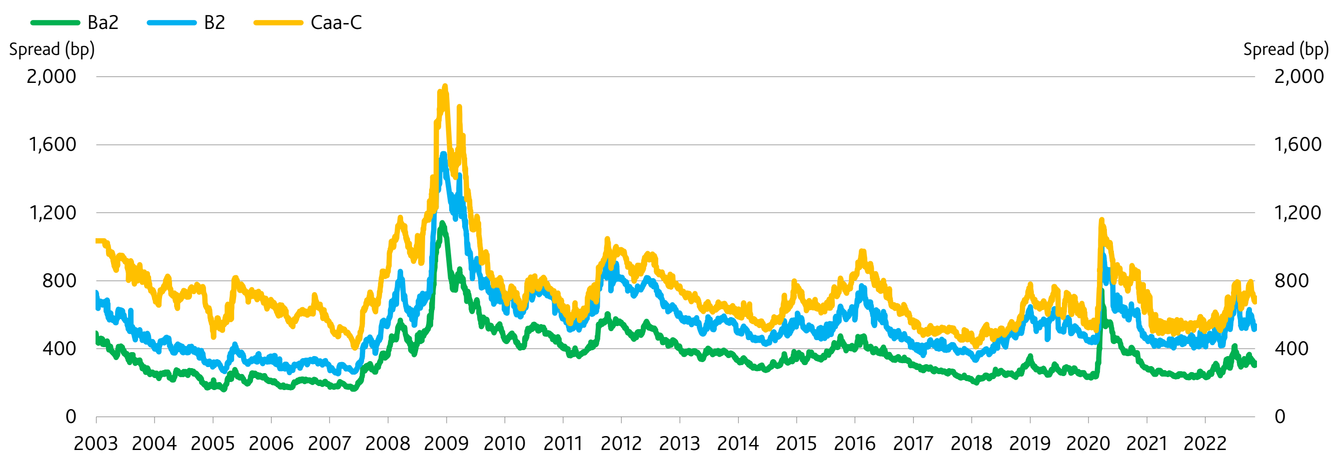
MARKET DATA

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 (November 2, 2022 – November 9, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 9	Nov. 2	Senior Ratings
Hewlett Packard Enterprise Company	A2	Baa1	Baa2
Dana Incorporated	Ba1	Ba3	B1
Toyota Motor Credit Corporation	Aa2	Aa3	A1
Bank of New York Mellon Corporation (The)	A1	A2	A1
Philip Morris International Inc.	Baa2	Baa3	A2
Visa Inc.	A2	A3	Aa3
Nissan Motor Acceptance Company LLC	Ba3	B1	Baa3
JBS USA Lux S.A.	Baa3	Ba1	Baa3
S&P Global Inc.	A3	Baa1	A3
Prologis, L.P.	A3	Baa1	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 9	Nov. 2	Senior Ratings
Unisys Corporation	Caa3	B3	B3
Kimco Realty Corporation	A2	Aa3	Baa1
Campbell Soup Company	A1	Aa3	Baa2
AT&T Inc.	Baa3	Baa2	Baa2
Comcast Corporation	A3	A2	A3
Apple Inc.	Aa1	Aaa	Aaa
Johnson & Johnson	Aa1	Aaa	Aaa
Altria Group Inc.	Baa1	A3	A3
CSC Holdings, LLC	Caa2	Caa1	Ba3
State Street Corporation	A1	Aa3	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 9	Nov. 2	Spread Diff
Unisys Corporation	B3	1,073	650	423
Liberty Interactive LLC	B2	1,687	1,341	346
Dish DBS Corporation	B3	1,411	1,192	218
CSC Holdings, LLC	Ba3	873	693	180
Anywhere Real Estate Group LLC	B2	1,244	1,107	136
Rite Aid Corporation	Caa2	3,759	3,654	104
Staples, Inc.	Caa2	1,898	1,810	88
Credit Suisse (USA), Inc.	A3	375	305	70
Embarq Corporation	Caa2	884	824	59
PennyMac Financial Services, Inc.	Ba3	513	458	55

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 9	Nov. 2	Spread Diff
American Axle & Manufacturing, Inc.	B2	478	587	-109
Dana Incorporated	B1	248	329	-81
Domtar Corporation	Ba3	830	882	-52
Royal Caribbean Cruises Ltd.	B3	824	872	-48
Deluxe Corporation	B3	583	626	-43
Uber Technologies, Inc.	B2	282	319	-38
Nissan Motor Acceptance Company LLC	Baa3	374	410	-36
American Greetings Corporation	Caa1	554	590	-36
Range Resources Corporation	Ba3	196	231	-35
Pactiv LLC	Caa1	653	685	-33

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (November 2, 2022 – November 9, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 9	Nov. 2	Senior Ratings
Spain, Government of	Aa3	A1	Baa1
Credit Agricole S.A.	A1	A2	Aa3
Portugal, Government of	Aa3	A1	Baa2
Credit Agricole Corporate and Investment Bank	A1	A2	Aa3
UniCredit S.p.A.	Baa2	Baa3	Baa1
Dexia Credit Local	Aa1	Aa2	Baa3
Vodafone Group Plc	A3	Baa1	Baa2
ENGIE SA	A2	A3	Baa1
Equinor ASA	Aa1	Aa2	Aa2
Telecom Italia S.p.A.	B1	B2	B1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 9	Nov. 2	Senior Ratings
Proximus SA de droit public	A3	A1	A1
DNB Bank ASA	A2	A1	Aa2
Credit Suisse Group AG	Ba3	Ba2	Baa2
Santander UK plc	A3	A2	A1
Bayerische Motoren Werke Aktiengesellschaft	Baa1	A3	A2
UniCredit Bank Austria AG	A3	A2	Baa1
Norddeutsche Landesbank GZ	A3	A2	A3
Barclays Bank PLC	Baa3	Baa2	A1
Santander Financial Services plc	A3	A2	A1
Alpha Services and Holdings S.A.	B2	B1	B1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 9	Nov. 2	Spread Diff
Vedanta Resources Limited	Caa1	2,538	2,030	507
CPI Property Group	Baa3	721	565	156
Credit Suisse Group AG	Baa2	326	265	61
Credit Suisse AG	A3	269	218	51
Avon Products, Inc.	Ba3	392	355	37
CECONOMY AG	Ba3	1,163	1,141	22
Proximus SA de droit public	A1	77	61	16
Nidda Healthcare Holding GMBH	Caa2	607	594	13
TDC Holding A/S	B3	131	119	13
thyssenkrupp AG	B1	529	517	12

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 9	Nov. 2	Spread Diff
Novafives S.A.S.	Caa2	1,800	2,064	-264
Casino Guichard-Perrachon SA	Caa1	3,074	3,185	-111
Garfunkelux Holdco 3 S.A.	Caa2	1,443	1,504	-61
Iceland Bondco plc	Caa2	1,297	1,354	-58
Picard Bondco S.A.	Caa1	814	872	-58
Piraeus Financial Holdings S.A.	B2	475	532	-57
Volvo Car AB	Ba1	321	369	-48
National Bank of Greece S.A.	Ba3	377	422	-45
Hamburg Commercial Bank AG	Baa1	224	268	-44
Vue International Bidco plc	C	606	644	-38

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (November 2, 2022 – November 9, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 9	Nov. 2	Senior Ratings
China, Government of	Baa1	Baa2	A1
Korea, Government of	A1	A2	Aa2
India, Government of	Baa2	Baa3	Baa3
Indonesia, Government of	Baa2	Baa3	Baa2
Korea Development Bank	A1	A2	Aa2
Export-Import Bank of Korea (The)	A1	A2	Aa2
Export-Import Bank of China (The)	Baa1	Baa2	A1
Development Bank of Japan Inc.	A1	A2	A1
Singapore, Government of	Aa1	Aa2	Aaa
Kookmin Bank	A1	A2	Aa3

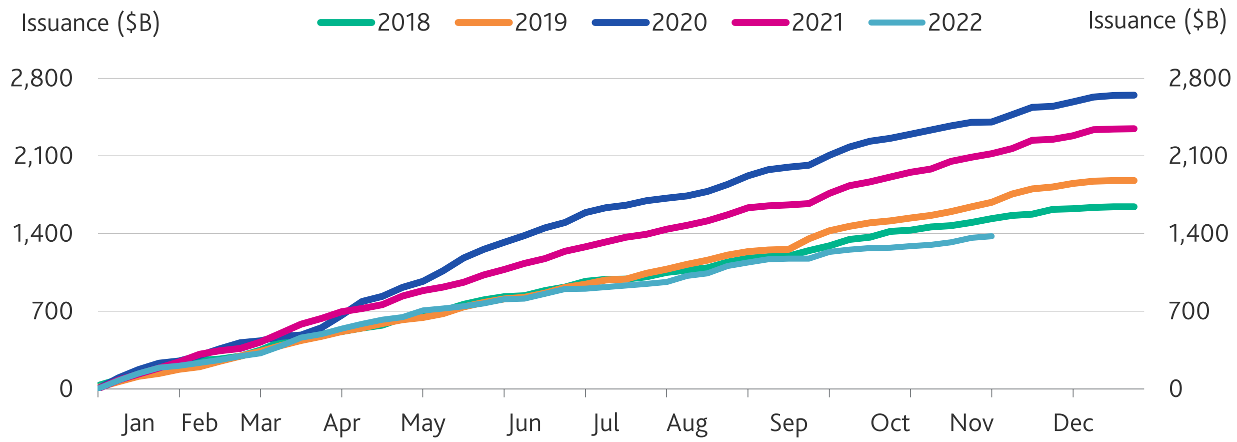
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 9	Nov. 2	Senior Ratings
SK Innovation Co. Ltd.	B1	Ba1	Baa3
Japan, Government of	Aa1	Aaa	A1
Commonwealth Bank of Australia	A3	A2	Aa3
Suncorp-Metway Limited	Baa1	A3	A1
Oversea-Chinese Banking Corp Ltd	Aa3	Aa2	Aa1
Hong Kong SAR, China, Government of	Aa2	Aa1	Aa3
Bank of Queensland Limited	Baa1	A3	A3
Hyundai Capital Services, Inc.	Baa1	A3	Baa1
Australia, Government of	Aa1	Aa1	Aaa
Westpac Banking Corporation	A3	A3	Aa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 9	Nov. 2	Spread Diff
Pakistan, Government of	Caa1	4,309	3,935	373
SK Innovation Co. Ltd.	Baa3	383	234	149
Halyk Savings Bank of Kazakhstan	Ba2	474	463	11
Flex Ltd.	Baa3	115	106	9
Korea Gas Corporation	Aa2	112	105	6
SK Hynix Inc.	Baa2	201	195	6
Hong Kong SAR, China, Government of	Aa3	43	38	5
Development Bank of Kazakhstan	Baa2	196	191	5
Hyundai Capital Services, Inc.	Baa1	89	85	4
Oversea-Chinese Banking Corp Ltd	Aa1	49	46	3

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 9	Nov. 2	Spread Diff
Vanke Real Estate (Hong Kong) Company Limited	Baa2	1,114	1,281	-167
GMR Hyderabad International Airport Limited	Ba3	371	422	-50
SoftBank Group Corp.	Ba3	407	454	-48
CITIC Group Corporation	A3	148	179	-32
CITIC Limited	A3	120	151	-31
Bank of China (Hong Kong) Limited	Aa3	126	156	-30
Export-Import Bank of China (The)	A1	88	117	-29
China Development Bank	A1	101	129	-28
CNAC (HK) Finbridge Company Limited	Baa2	230	258	-28
Industrial & Commercial Bank of China Ltd	A1	108	135	-27

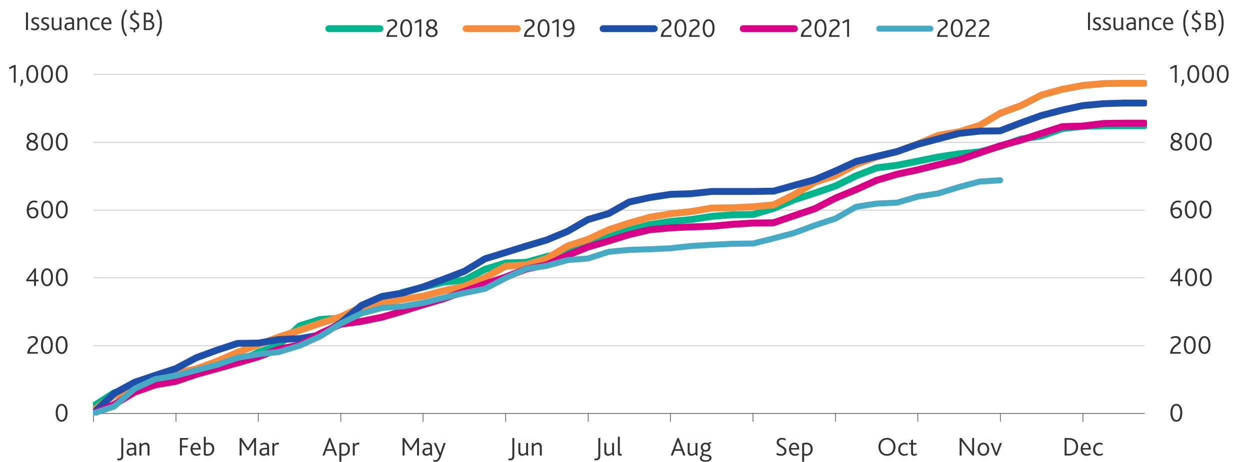
Source: Moody's, CMA

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	12.828	1.500	14.915
Year-to-Date	1,201.304	130.774	1,375.640

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	3.809	0.056	3.994
Year-to-Date	641.113	35.560	688.477

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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