MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Inside Economics Podcast:

Slower but Higher?

The Federal Open Market Committee announced a unanimous three-quarter point increase to the target range of the fed funds rate. Though expected, this marks an extraordinary fourth consecutive 75-basis point increase to the fed funds rate and pulls the target range to 3.75% to 4%. An indefatigable labor market and strong household balance sheets have given the Federal Reserve cover to swiftly remove accommodative monetary policy in the face of persistent and elevated inflation. With November's rate hike taken as a given, eyes and ears were trained on any intimations from the Fed that the pace of the current tightening cycle was set to moderate.

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More gradual climb to a higher peak

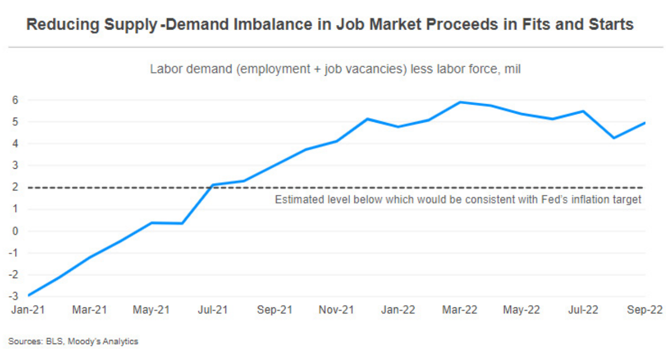
The Committee's inclusion of the comment that it will "take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments" was new and noteworthy. The comment, a dovish signal that the Fed is beginning to lay the groundwork for a slowdown in rate hikes, was quickly diminished by Fed Chair Jerome Powell in the post-meeting press conference. Powell stated that while rate increases may come at a slower clip, the outlook for the rate path is higher today than it was in September. Believing a pivot or pause was in store, financial markets rallied immediately following the release of the statement. By stressing that the central bank may be climbing more slowly to a higher peak, Powell's press conference initiated a quick turnaround.

September's Summary of Economic Projections from the FOMC pegged the median terminal rate, the high point for the fed funds rate reached during the tightening cycle, at 4.6%. Our October baseline takes the Fed at its word, peaking near that range in mid-2023. Upcoming data on job growth and inflation for October will be critical in assessing what the likely next steps are for the Fed. Without some meaningful moderation in the pace of job gains and inflation, it will be difficult for the Fed to slow the pace of rate hikes before the end of the year.

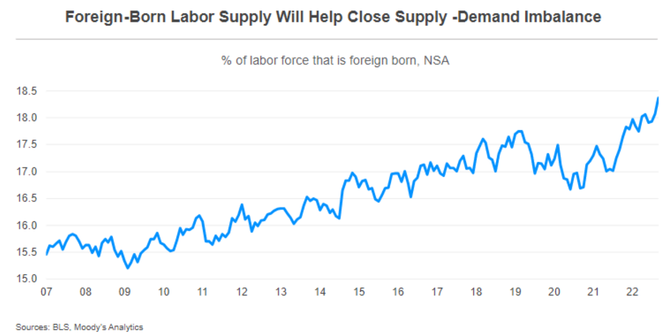
Job openings not in the Fed's favor

The September Job Openings and Labor Turnover Survey was not what the Fed 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.

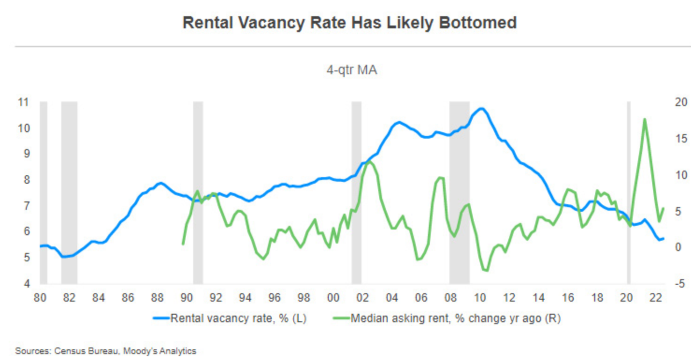
Labor demand, which we define as the sum of employment and job openings, continues to exceed labor supply, or the labor force. At its peak in March, the gap between available jobs and workers was nearly 6 million. It shrank to 4.3 million in August but reversed course in September, rising to 5 million. Moody's Analytics estimates that the jobs-to-workers gap needs to fall below 2 million to be consistent with the Fed's 2% inflation target, which would be characterized by 3.5% wage growth and underlying productivity growth of 1.5%. As a result, the September JOLTS was a step in the wrong direction from the Fed's perspective.



Our baseline forecast assumes that job gains will decelerate from their current trend of 370,000 per month to 100,000 per month by early next year as the aggressive stance of monetary policy is increasingly felt in the labor market. In turn, softer labor market conditions will allow for more employers to pull down their open job postings. In addition, the supply of foreign-born labor is swiftly making up ground that was lost during the pandemic thanks to a rebound in immigration. Consequently, the baseline assumption is that the labor market will increasingly rebalance, though likely not on a straight path, as the September JOLTS underscored. The risk is that the labor market is stronger and longer than expected, forcing the Fed to push even harder against the economy and induce a hard landing.



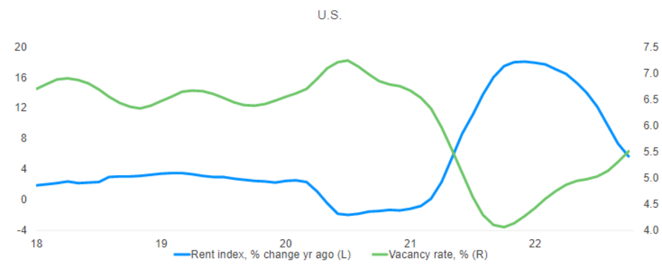
The Census Bureau's third-quarter report on housing vacancies and homeownership has taken on added importance for the Fed and close observers of the U.S. economy as the consumer price index for shelter is contributing roughly twice as much to overall CPI inflation as it did prior to the pandemic. During the pandemic, strong wage growth, combined with a housing shortage and a strong rebound in household formation after the initial COVID-19 lockdowns, propelled year-over-year growth in the median asking rent to its fastest pace on record, while the rental vacancy rate slid to its lowest level in decades.



The Census Bureau report provides some evidence that the rental market is slowing from its heady pace earlier in the pandemic. The rental vacancy rate is coming off a bottom and is nationally 0.2 percentage point above its year-ago level. Regionally, the rental vacancy rate is 0.8 percentage point higher in the Midwest, 0.3 percentage point higher in the West, and 0.1 percentage point higher in the South, compared with a year ago. The Northeast is the only region where the rental vacancy rate is lower on a year-ago basis.

Other private-sector measures also corroborate the cooldown in the rental market. According to Apartment List, the apartment vacancy rate had risen to 5.5% in October from a trough of 4.1% in late 2021. Meanwhile, year-over-year growth in the median rent paid for new leases downshifted from a little north of 18% in December 2021 to 5.7% in October. Nevertheless, rents are still rising faster than their average pre-pandemic pace of 2.8%.

Private-Sector Measures Dovetail With Census Bureau



Sources: Apartment List, Moody's Analytics

The baseline forecast calls for the national rental vacancy rate to rise nearly 0.9 percentage point over the next year and another 0.5 percentage point over the subsequent four quarters due to a combination of factors. The pace of multifamily housing completions will accelerate significantly, the unemployment rate will edge higher, and demographics will turn less favorable for rental demand.

Consequently, a rising vacancy rate will prove an increasing headwind to shelter inflation. Historically, the higher the rental vacancy rate, the slower the CPIs for rent of primary residence and owners' equivalent rent are rising, and vice versa. The latter is the hypothetical rent that homeowners pay to themselves to live in their own homes and is imputed using the average rents paid for comparable rental housing within the same area. In particular, OER single-handedly makes up nearly a quarter of the overall CPI.

TOP OF MIND

More Than Meets the Eye in ISM Manufacturing Survey

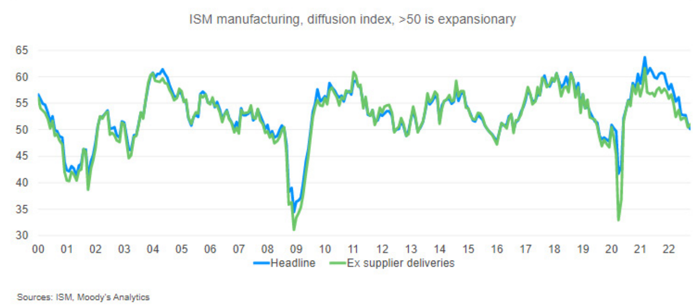
BY BERNARD YAROS

U.S. manufacturing activity is still expanding into the fourth quarter, though the breadth of growth continues to narrow. The ISM manufacturing index fell from 50.9 in September to 50.2 in October, slightly below our above-consensus forecast. More importantly, the headline index is treading just barely above its neutral threshold of 50 but is still comfortably above readings that would be consistent with recession. Since WWII, the ISM manufacturing index has averaged 43.2 during downturns.

The details were more favorable than the headline index would suggest. Though new orders contracted for the second month in a row, the breadth of the contraction was less than in September. The new orders index improved from 47.1 to 49.2, partially reversing the prior month's decline. New orders lead growth in the key core capital goods orders by a few months. The recent weakness in new orders points toward softer core capital goods orders in the fourth quarter. However, this is in large part by design, as the Federal Reserve is seeking to slow growth and inflation in the real economy. Elsewhere in the ISM manufacturing survey, the production index improved, coming in at 52.3. This compares with 50.6 in September. Also, the employment index rose from 48.7 to 50. Most notably, supplier deliveries have gone from artificially boosting the headline index to slightly weighing on it.

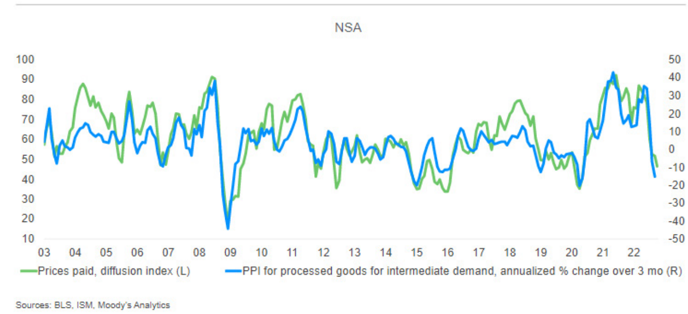
The supplier deliveries index tumbled from 52.4 to 46.8. A reading below 50 indicates faster deliveries, and a reading above 50 suggests slower deliveries. This was the first time that supplier deliveries hit "faster" territory since February 2016. During the pandemic, the positive gap between the ISM manufacturing index with and without the supplier deliveries index was the widest it had ever been since the 1973 oil crisis. However, this has come to a definitive end. Without the supplier deliveries index, the headline index would clock in at a higher 51 in October. This is the most that the supplier deliveries have weighed on the top-line index since March 2019.

Supplier Deliveries No Longer Artificially Boosting ISM Manufacturing Index



The Federal Reserve has reason to cheer faster supplier deliveries, as it is indicative of fading stress in U.S. supply chains, whose disruptions during the worst of the Delta variant of COVID-19 catalyzed stronger consumer goods inflation. The central bank likely also derived some reassurance from commodity prices. The prices paid index plunged into contraction territory for the first time since May 2020 due to easing energy markets, softer copper, steel, aluminum and corrugate markets, and hampered chemical and plastics demand. The prices paid index tracks closely with the producer price index for processed goods for intermediate demand. Therefore, producer price inflation will continue to relax into the fourth quarter, which will in time appear in consumer prices.

Producer Price Inflation Will Soften Further in Fourth Quarter



All told, key details in the ISM manufacturing survey ought to be heartening for the Fed, as it attempts to soft-land the economy amid the turbulence of uncomfortably high inflation. The Fed raised interest rates by 75 basis points this week and we expect another 50 basis points in December.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar will be light, with the main focus on October's consumer price index. The Fed will be watching closely for any sign that inflation is moderating after the central bank raised the fed funds rate by 75 basis points for the fourth consecutive time earlier this week. The NFIB small business survey will also provide some context of current labor market conditions and future hiring plans among small businesses. Other key data that we expect includes the senior loan officer opinion survey, initial jobless claims, and University of Michigan consumer sentiment.

Europe

We expect more bad news from the U.K. next week, specifically with a 0.1% m/m decrease in GDP in September. As this will come on top of previous declines, we also expect to see GDP pull back by 0.4% q/q during the whole stanza. Signals from retail sales and consumer confidence surveys point to weak household spending, while falling manufacturing PMIs point to contraction in the production sector. However, the service sector could surprise to the upside, since the services PMI kept its head above water during the quarter. But ongoing inflation, supply, and now demand issues are triggering recession risk in the U.K.

In the euro zone we expect that retail sales rebounded in September by 0.6% m/m after declining 0.3% in August. Data from countries including Germany and France surprised to the upside. But we are not holding our breath for a turnaround in consumer spending. Rather, we expect sales to contract through the rest of the year as inflation continues eroding purchasing power and dismal confidence cuts into demand.

Industrial production will likely fare worse. We expect output to retract 0.5% month on month in Germany and 0.2% in Italy. In each case manufacturing PMIs were in contractionary territory while business confidence floundered. High prices are limiting demand for new goods, among households and other businesses. The October manufacturing PMIs were even more downbeat, pointing to further pain in the sector. Still, improving supply conditions have allowed businesses to work through backlogs of orders, which will provide support.

Germany's CPI inflation rate is likely to be confirmed at 10.4% year over year for October. In line with the preliminary estimates released last week, we expect to see that energy and food inflation were the main drivers of the month's acceleration.

In contrast, we foresee Russia's inflation rate declining to 12.5% year on year from 13.7% previously, in line with the Central Bank of Russia's estimates from earlier the month. A stronger and stabler ruble has helped to tame inflation, though supply conditions remain strained as the country's firms seek out new value chains amidst the EU, U.K. and U.S. sanctions.

Asia Pacific

China's October exports likely slowed on an annual basis. Weaker conditions in major developed markets including Europe and, to a lesser extent the U.S. will increasingly impact manufacturers in 2023. China's October inflation data will also be in focus. We look for headline consumer price inflation to tick up to 2.9% y/y in October, from 2.8% in September. Elevated pork prices remain an important contributor. Underlying inflation remains subdued reflecting persistent weakness in domestic demand. Producer price growth will decelerate reflecting cooling in global commodity prices, a positive for downstream manufacturers, which were particularly exposed to the earlier spike in energy prices.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
3-Nov	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
3-Nov	Norway	Norges Bank monetary policy announcement	Medium	Low
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	APEC	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

No Dollar-Denominated High-Yield Issuance in the Latest Week

BY STEVEN SHIELDS

CREDIT SPREADS

Credit spreads narrowed last week and are now firmly off the highs experienced in September and October. Moody's long-term average corporate bond spread to the 10-year Treasury narrowed by 21 basis points to 164. Similarly, the long-term average industrial corporate bond spread narrowed from 164 basis points to 152 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 6 basis points to 199 basis points over the past week. Despite the slight decrease, the spread remains close to its highest level since the second quarter of 2020. Meanwhile, the ICE BofA U.S. high-yield option adjusted bond spread retreated to 462 basis points.

Similarly, the Bloomberg Barclays high-yield option adjusted spread narrowed this past week from 483 to 446 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 implied by a VIX of 25. 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. High-yield issuance is down 79% on a year-ago basis.

In the week ended October 28, there was no US$-denominated high-yield issuance. This keeps the year-to-date total at $129.3 billion. Meanwhile investment-grade bond issuance totaled $38.03 billion in the same period. Investment-grade issuance year to date increased to $1.19 trillion. Total U.S. bond issuance has deteriorated throughout the year and is now tracking below the levels experienced in 2018 and 2019. 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 noticeable adjustments to the U.S. baseline forecast in October, as the economy is more vulnerable to falling into a recession next year than previously thought. Among the notable changes is monetary policy, since the Federal Reserve has signaled that it is going to keep hiking rates until it breaks inflation. Therefore, the new baseline forecast is for a 75-basis point rate hike in November, a 50-basis point increase in December, and a final 25-basis point hike in the first quarter of next year.

The terminal fed funds rate is a full percentage point higher than in the September baseline forecast, just north of 4.5%. In other words, the target range for the fed funds rate will peak this cycle at 4.5% to 4.75%. The effective fed funds rate, which is what is in the baseline forecast, has been trading at the low end of the target range.

Our baseline forecast is still for the Fed to engineer a soft landing and the economy to skirt a recession with inflation returning over time to the central bank's target. However, our new forecast is for real GDP to grow less than 1% next year. The economy is very vulnerable and may need some luck to avoid a recession.

Fiscal assumptions

The Treasury budget deficit will increase from 3.5% in fiscal 2022 to 5.1% in fiscal 2023. This increase in the budget shortfall is in large part due to President Biden's announcement on student debt cancellation in late summer. The Congressional Budget Office estimates that student loan forgiveness of up to $20,000 per eligible borrower will cost $400 billion. The cost of forgiveness will be recorded by the Office of Management and Budget as an increase in the deficit during the fiscal year that the terms of the loans are adjusted, which we expect to largely occur in fiscal 2023.

The 2022 midterms are just around the corner, and they will quietly determine the path that fiscal policy takes over the next two years. Our baseline assumption is that Republicans will win at least the House of Representatives, leading to divided government and political gridlock that makes the Inflation Reduction Act the last major fiscal package in Biden's current term in office.

Not only are the winds of history blowing against the president's party, but also key economic indicators. Year-over-year growth in real disposable income boasts the most statistically significant relationship with past midterm results for the House of Representatives and currently points to significant losses for House Democrats on Election Day. A divided government raises the risk of increased brinkmanship over government funding and the debt ceiling, but our assumption is that lawmakers will resolve these flashpoints in a reasonably graceful manner.

Energy price forecast and assumptions

OPEC+ announced a significant cut to its collective output limit, just as the U.S. economy is vulnerable and financial market conditions have tightened. The reduction of 2 million barrels per day is the largest since 2020 and will remain in place until the end of 2023, unless there are material changes in markets. A number of OPEC+ countries are already operating below their quota, therefore the hit to output should be less. However, OPEC would like to see oil trading around $90 per barrel.

The baseline forecast assumes West Texas Intermediate crude oil prices peaked in the second quarter, unchanged from the assumption in the September baseline. We expect WTI crude oil prices between $90 and $95 per barrel through mid-2023 before they steadily decline into 2025, when prices will bottom around $65 per barrel.

Prices could drop below our baseline forecast in 2023 if the global economy tilts into a recession, an increasingly palpable scenario. Yet, lingering supply disruptions and OPEC's apparent resolve to keep prices high limit the fall in prices under this scenario. Alternatively, prices could soar past our baseline projection if Russia's supply disruption is larger and lasts longer. In this risk scenario, Russia's oil supply disruption reaches 3 million to 4 million barrels per day as Russia's military aggression spreads beyond Ukraine.

Cutting the forecast for 2023

There were some noticeable revisions to the baseline forecast for GDP growth next year. First, the October baseline incorporates the annual revisions, and data between 2017 and 2022 were revised. The revisions show that the level of GDP was 1% higher than previously thought, with growth in 2021 stronger than initially reported, implying that the Fed will need the economy to grow below its potential either more significantly or for longer to close the output gap. The new data are in our October baseline.

One thing that stood out in the revisions is that GDP still fell in the first half of this year. Real gross domestic income, which totals income earned by households and businesses—and in theory should add up to real GDP—had been growing more quickly than GDP, but the revisions closed that gap. GDI was revised lower, particularly in the second quarter, because initial estimates overestimated gains in corporate profits and wages.

Prior to the revisions, we warned that compensation of employees, which includes wages and salaries, has historically tracked the labor income proxy, or the product of earnings and hours worked. But a noticeable gap between compensation of employees and the labor income proxy had developed. Therefore, the Bureau of Economic Analysis might overstate compensation of employees, which it appears that it did, considering the revisions.

We nudged our forecast higher for GDP growth in the third quarter of this year to 1.7% at an annualized rate, compared with 1.3% in the September baseline. Risks are tilted toward a larger increase. Through August, the nominal trade deficit averaged $68.95 billion in the third quarter compared with the $84.5 billion in the second quarter. Our high-frequency GDP model now has net exports adding 1.8 percentage points to third-quarter GDP growth. All told, third-quarter GDP growth is now on track to rise 2.2% at an annualized rate. Therefore, the risk bias, or the difference between our tracking estimate and the official forecast, is 0.5 percentage point.

The forecast is for little GDP growth in the final three months of this year, with it up 0.2% at an annualized rate compared with the 0.6% forecast previously. There were more noticeable revisions to GDP growth next year. We now forecast a rise of 0.7%, half the forecast in the September baseline. GDP is forecast to grow 2.3% in 2024, less than the 2.6% in the September baseline.

Our baseline forecast for real GDP growth for next year is identical to the Bloomberg consensus. The forecast for 2024 is 0.7 percentage point higher than the Bloomberg consensus of 1.6%.

Hurricane Ian

We anticipate about $45 billion to $55 billion in damage and $7 billion to $10 billion in lost output in Florida alone due to Hurricane Ian. These estimates are preliminary and will be revised as new information is available. Damage in the Carolinas will be less but will amount to at least a few billion, and additional costs could easily reach the 10s of billions.

The primary damage from natural disasters is done to productive capacity through the destruction of existing assets. This destruction is accounted for in the National Income and Product Accounts under the Changes in Net Stock of Produced Assets table but is not included directly in the GDP calculation. Therefore, the hurricane will likely shave 0.1 percentage point off third-quarter GDP growth rather than whole percentage points.

Business investment and housing

We didn't make changes to the forecast for real business equipment spending this year. It is expected to increase 3.8% compared with the 4.5% gain in the prior baseline. We changed the forecast for real business equipment spending in 2023; fundamentals have turned less supportive as financial market conditions have tightened and business confidence remains depressed. Also, expectations point to moderation in the coming quarters. Forward-looking measures of capex—which ask about capital spending plans either three or six months ahead—have declined sharply over the past couple of quarters but remain around their historical averages.

We now look for real business equipment spending to rise 1% next year, noticeably weaker than the 4.3% in the prior baseline. Equipment spending is forecast to rise 2.2% in 2024, less than the 3.9% growth in the September baseline.

The interest rate-sensitive segments of the economy have weakened, which is not surprising, since the Federal Reserve is front-loading rate hikes. Housing starts are expected to be 1.573 million compared with 1.577 million in the prior baseline. In 2023, we expect housing starts to total 1.491 million, down from 1.545 million in the September baseline. Housing starts are forecast to increase in 2024, totaling 1.648 million.

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 is some good news for homebuilders as supply-chain stress has eased and some construction costs have dropped noticeably, including lumber prices.

A decline in affordability has cut into our forecast for home sales, which are expected to total 5.89 million this year, identical to the forecast in September. However, sales continue to decline next year, totaling 5.77 million, compared with the 5.809 million in the September baseline. Home sales will come under pressure from higher mortgage rates, which are contributing to the deterioration in housing affordability. New-home sales account for about 10% of total sales and existing-home sales make up the remainder.

There were revisions to the forecast for the FHFA All-Transactions House Price Index this year and the subsequent two years. The September baseline has it rising 15.8% this year compared with 15.9% in the prior baseline. The revision is mostly attributable to the incoming historical data. The forecasts for 2023 and 2024 are for house prices to decrease 1.3% and 2.3%, respectively.

Labor market

The U.S. labor market remains very strong, but job growth has moderated. Nonfarm payrolls increased by 263,000 jobs, about as many as we had expected, down from an unrevised 315,000 in August. However, private industries performed better, while the deceleration came entirely from the public sector. Among interest rate-sensitive industries, only financial services receded.

Goods-producing employment increased 44,000 in September following a 35,000 gain in August. Within goods, construction employment continues to hold up even though it is interest rate-sensitive and residential investment has weakened recently. Construction payrolls rose by 19,000 in September after rising 11,000 in August. Manufacturing continues to make progress, adding 22,000 jobs in September.

The unemployment rate fell back to 3.5%, its post-pandemic low. However, the decline was due in part to a contraction of the labor force as the participation rate slipped by 0.1 percentage point to 62.3%. The household survey was not all bad news as employment increased 204,000, while the number of unemployed fell 261,000. Duration of unemployment rose, as did the labor force.

The new data were incorporated into the October baseline forecast. We have job growth averaging 374,000 per month this year before dropping to 96,000 in 2023 and then accelerating to 120,000 in 2024. Job growth next year is weaker than that needed to keep the unemployment rate stable.

Our forecast is for the unemployment rate to average 3.6% in the fourth quarter of this year, lower than the 3.7% in the September baseline. The unemployment rate rises next year, averaging 4.1% in the final three months of the year, identical to the September baseline and just below the 50-basis point increase that has coincided with every recession. The unemployment rate falls in 2024, averaging 3.8% in the fourth quarter, identical to that in the September baseline.

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 still 0.2 percentage point below this threshold. With nominal wage growth running north of 5%, it is pretty safe to say the economy is at full employment.

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 fewer new 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 remains very strong. The key for the Fed is that labor demand would weaken without translating into an increase in the unemployment rate.

Monetary policy

If there was any doubt that the Federal Reserve was serious about taming inflation, it should be gone after the September meeting of the Federal Open Market Committee, where policy makers hiked the target range for the fed funds rate by 75 basis points and signaled a noticeably higher terminal rate than previously thought. If the Fed follows through with its plan, it will raise the odds of a recession.

The FOMC unanimously raised the target range for the fed funds rate to 3% to 3.25%. This was in line with our and consensus expectations. The Fed held on to its forward guidance that further rate hikes will be appropriate and mentioned that spending and production have softened while job gains have been robust. Overall, the changes to the post-meeting statement were fairly minor. Of note, there hasn't been a dissent since June when Kansas City Fed President Esther George wanted a smaller rate hike.

The same can't be said for the so-called dot plot. There were major shifts in that gauge of policy makers' expectations. The dot plot now has the median projection for the fed funds rate at 4.4% at the end of this year with only two meetings remaining, implying a 75-basis point hike in November and a 50-basis point increase in December. The current baseline included 50- and 25-basis point increase in November and December, respectively. The Fed has rates peaking next year at 4.6%. The most hawkish dots, now six of them, showed policy makers' willing to raise rates to a target range of 4.75% to 5% in 2023. These dots are higher than the range implied by fed funds futures. The Fed expects to cut rates in 2024, ending the year at 3.9% and 2.9% in 2025. There were no changes to the central bank's estimate of the neutral fed funds rate, which remained at 2.5%. Therefore, monetary policy will be restrictive through the end of 2025.

The new baseline forecast is for a 75-basis point rate hike in November, 50-basis point increase in December, and a final 25-basis point hike in the first quarter of next year. The terminal fed funds rate is a full percentage point higher than in the September baseline forecast, now just north of 4.5%. In other words, the target range for the fed funds rate will peak this cycle at 4.5% to 4.75%. The effective fed funds rate, which is what is in the baseline forecast, has been trading at the low end of the target range. The Fed is expected to start cutting interest rates in late 2023 and throughout 2024. The fed funds rate ends 2024 at 3.5%, keeping it 100 basis points above its neutral rate of 2.5%. The fed funds rate returns to its neutral rate at the end of 2025.

We continue to use the approach for forecasting the fed funds rate on a monthly basis to better align changes with the fed funds rate and updates from the Federal Open Market Committee meetings. The monthly forecast is then rolled up into our quarterly forecast.

Inflation is the key for the forecast for monetary policy. Our October baseline has the CPI rising 8% this year and 3.9% in 2023 (3.8% in the prior baseline). The CPI is expected to rise 2.2% in 2024, identical to the September 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.

The 10-year Treasury yield has resumed rising, and this was incorporated into the new baseline. We have the 10-year Treasury yield averaging 3.94% in the final three months of this year, compared with 3.13% in the September baseline. The 10-year Treasury yield averages 4.42% in the fourth quarter of next year, nearly a full percentage point higher than in the prior baseline. The equilibrium 10-year Treasury yield is 3.75%, which is equal to nominal potential GDP growth. Therefore, the 10-year Treasury yield will decline in the second half of 2023 and into 2024.

With the new forecast for the fed funds rate, the difference between the 10-year and the fed funds rate doesn't invert until the fourth quarter of 2023, but it's a baby inversion and doesn't last long.

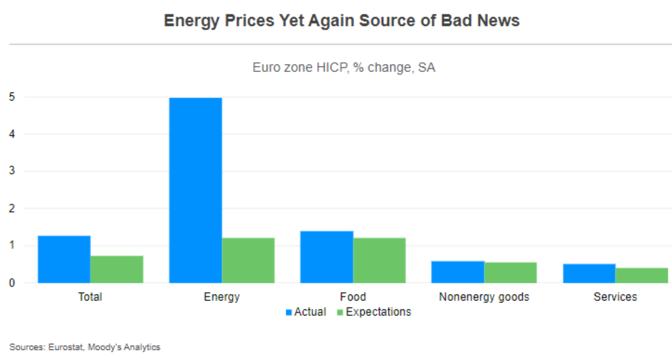
On a real broad trade-weighted basis, the U.S. dollar is more than half a standard deviation above its long-run average since it began to freely float in the early 1970s. The dollar's value will remain strong as long as the pandemic and Russian invasion persist as global economic threats. Even when these threats recede, the dollar should remain strong given other geopolitical uncertainties including the tensions between the U.S. and China. The dollar's reserve currency status will remain intact for the foreseeable future.

THE LONG VIEW: EUROPE

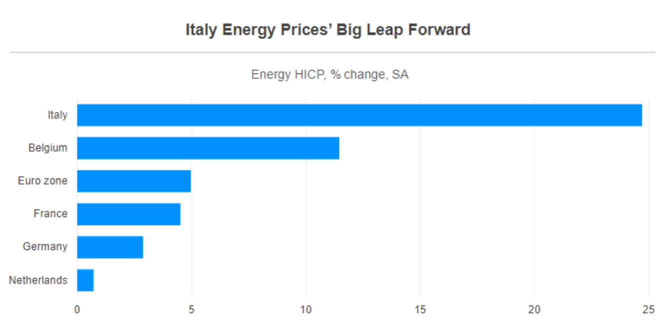
Euro Zone’s Nasty Inflation Surprise

BY KAMIL KOVAR

The October preliminary CPI report for the euro zone brought yet another nasty surprise. Yet again, the surprise was limited to energy prices, with other categories mostly sticking to the script. Whatever the details, it is the overall number that will capture both the headlines and minds of policymakers, given that it jumped decidedly into double-digit territory with a reading of 10.7%. This was a sharp increase from the 9.9% recorded in September. October brought the second-highest seasonally adjusted monthly increase, with only March of this year coming in hotter.



While by now we should probably not be surprised by energy price spikes, it is ironic that bad news in retail energy prices came in a month when Europe finally got a dose of good news on wholesale prices. Wholesale natural gas and electricity prices declined substantially over the last two months after reaching stratospheric heights at the end of August, and natural gas prices even contracted on a short-term basis. However, retail prices reflect the wholesale prices with long, varying and country-specific lags, something that was on display this time: Italy's regulator increased regulated prices of electricity by roughly half, causing Italian energy prices to jump by a quarter over the previous month. This alone was responsible for half of the monthly rise in euro zone energy prices.



While the rise in food prices was not far off our expectations, it does not change the fact that food prices recorded their second-worst month on record, with only June of this year showing a larger monthly jump. More worrying is that food price growth accelerated for the second month in a row despite significantly lower global agriculture prices.

True, European farm gate prices did not record the same decrease as global agricultural prices, but they are no higher than in the spring, which should have taken some edge off the rapid food price increases we saw earlier in the year. The fact that the opposite happened suggests trouble ahead, but we will have to see more monthly data before we can conclude that this will continue past the fall harvest season that was heavily affected by high fertilizer prices.

This means that only core prices provided some solace to policymakers, and only relative at that, since both goods and services prices increased over the summer. While the absence of further acceleration is good news, the pace of increases is far too high and consistent with core inflation above 6%—triple the inflation target.

Therefore, this report unambiguously suggests further aggressive moves by the European Central Bank. Before the report, there was a chance the ECB would shift to more normal, 25-basis point hikes. The debate now will not be between 25 basis points and 50 basis points, but rather between 50 basis points and 75 basis points.

We still expect the October print will mark the inflation peak, as November will bring several favorable factors. Mainly, the base effect from last year is sizable, which would require another very hot monthly print to yield a further rise in inflation. This will be hard to achieve without something similar happening—like October’s jump in Italian energy prices. Moreover, with significantly lower wholesale prices we should see some moderation in retail price growth, and even declines in some rapid pass-through countries such as the Netherlands. Therefore, our baseline expects a 50-basis point hike in December. But if the November print will be anywhere as bad as the October print, a 75-basis point hike will become the default.

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China’s Disappointing October

BY HERON LIM and HARRY MURPHY CRUISE

China's manufacturing PMI unexpectedly declined to 49.2 in October from 50.1 in September. The weakness in headline PMI was broad-based, with all five components below the neutral reading of 50. The only component that saw a slight improvement from September was raw material inventory, but both current output and new orders declined.

Large companies proved resilient by maintaining orders, but the manufacturing PMIs were contractionary for small and medium-size firms. This would worry Chinese policymakers because SMEs employ up to 80% of China's nongovernment labour force. Even though export sales improved by 0.6 points to 47.6, they held below 50, suggesting poor external conditions. Input prices increased to 53.3, suggesting the pain for downstream manufacturers is set to continue after a respite in recent months from receding input costs. Higher producer prices do not automatically translate to higher consumer prices, but we will still watch out for China's CPI growth, which is set to exceed the central bank's target of 3% in 2023. This may explain why the People's Bank of China is in a holding pattern on monetary stimulus.

October’s manufacturing PMI reinforces our view that China is heading into rockier territory in 2023. Domestic headwinds from the zero-COVID policy as well as the correcting property market are still a drag on the economy, but the combination of fiscal and monetary stimulus is stabilising domestic demand. At the minimum, we are not expecting further declines in domestic demand next year, but the cautious Chinese consumer will cap recovery prospects. The important export channel is growing softer by the day as weak conditions in major developed markets outside of the Asia-Pacific region take hold. Persistent high inflation, higher terminal interest rates, and early signs of a looser labour market globally point to a weaker export picture in 2023. There is to be no V-shaped recovery in China this time round.

Australia’s central bank keeps hiking

The Reserve Bank of Australia lifted the cash rate by 25 basis points at its November meeting, taking official interest rates to 2.85%. The rate on exchange settlement balances was lifted by an equal amount to 2.75%. This is the RBA’s seventh hike in as many months. The move comes as inflation remains at uncomfortable levels; headline inflation reached 7.3% y/y in the September quarter, while underlying inflation topped 6.1%. We expect the RBA to lift rates to 3.1% in December. We see the benchmark peaking at 3.35% in the first quarter of 2023.

Supply constraints continue to explain the majority of price pressures; energy prices are elevated because of Russia’s invasion of Ukraine, while domestic food prices are higher from repeated floods along the east coast. But it’s the role of demand that’s causing the RBA the most headaches. Retail figures for September show households remain willing and able to spend. The exceptionally tight labour market is helping to buoy this buying boom.

That’s not to say the RBA has lost the inflation tussle. Interest rate hikes take time to work their way through the economy. Earlier rate hikes are only beginning to work their magic. Coming months will see the effects of the RBA’s more recent hikes hitting domestic demand as higher borrowing costs snowball. Indeed, Tuesday’s monetary policy statement noted: “The Board recognises that monetary policy operates with a lag and that the full effect of the increase in interest rates is yet to be felt in mortgage payments”.

U.S. Credit Changes Break Even

BY OLGA BYCHKOVA

U.S.

In the latest weekly period, U.S. rating change activity saw as many credit upgrades as downgrades, issued to a diverse set of speculative-grade industrial firms. Upgrades comprised four of the eight rating changes and 52% of affected debt.

The largest upgrade, accounting for 38% of debt affected in the period, was issued to Mattel Inc. with its guaranteed senior unsecured ratings raised to Baa3 from Ba1 and its unguaranteed senior unsecured ratings increased to Ba1 from Ba2. Moody's Investors Service also withdrew the company's Ba1 corporate family rating, Ba1-PD probability of default rating, and SGL-1 speculative grade liquidity rating. The outlook is stable. According to Charlie O'Shea, Moody's Investors Service vice president and senior credit officer, "The upgrades recognize the significant progress Mattel has made in its transformation, with improvements in operating performance and key credit metrics. Through greater investment in its own intellectual property, strategic entertainment partnerships, product development, operational restructuring and cost discipline, Mattel has meaningfully increased operating income, its operating margin, and free cash flow. Mattel's successful new business wins and operating execution including reacquiring the Disney Princess and Frozen licenses should allow the company to maintain or improve operating income in 2023 despite a challenging economic environment. The company's commitment to a conservative financial profile, including its restraint around the dividend is a positive governance factor that is a key driver of the upgrades." The ratings are also supported by the company's status as one of the largest toy makers in the world, a strong brand portfolio, and good geographic diversification.

Downgrades were headlined by Twitter Inc., which saw its corporate family, probability of default, and senior unsecured notes ratings lowered to B1 from Ba2 following the closing of the acquisition of Twitter by Elon Musk for $54.2 per share, or about $44 billion total, in a leveraged buyout financed with a combination of debt and equity. The downgrades reflect Moody's Investors Service's expectation of a substantial increase in funded debt and reduction of cash balances at closing, which will result in a material increase in leverage and weakening of other credit metrics. Governance is a major driver of this rating action. The credit ratings remain on review for further downgrade.

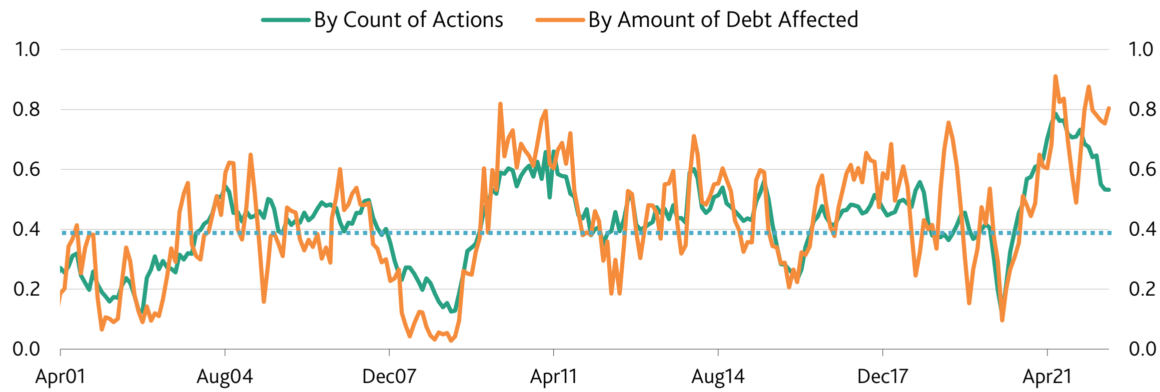
Europe

European rating change activity was much weaker with downgrades outstripping upgrades 4:1 and comprising nearly all affected debt. The changes issued by Moody's Investors Service spanned a diverse set of speculative- and investment-grade bonds and industrial and financial companies.

The largest downgrade last week, accounting for 74% of affected debt, was made to Credit Suisse Group AG, which saw its long-term counterparty risk assessment, long-term senior unsecured debt and deposit ratings lowered to A3 from A2 and its baseline and adjusted baseline credit assessment ratings cut to ba1 from baa3. All short-term ratings were downgraded to P-2 from P-1. The ratings downgrades and negative outlook reflect Moody's Investors Service's view that the announced strategic plan entails execution risk due to its breadth and complexity. Although these strategic developments could be positive in the long run and lead to a substantially de-risked, more efficient and simplified bank, with materially lower leverage and dependence on the more volatile capital markets and investment banking earnings, the credit agency believes that the associated complexity of carving out an independent investment bank, while also winding down a non-core unit and managing ancillary disposals will require a lengthy timeline and lead to high talent and client attrition risk. In addition to the drivers mentioned above, Moody's notes the added challenges of executing this plan in a deteriorating markets and macroeconomic environment.

The lone upgrade, accounting for less than 1% of debt affected in the period, was issued to Portuguese speculative-grade financial company Caixa Economica Montepio Geral, CEB, S.A. Moody's Investors Service raised the company's long-term deposit ratings to Ba3 from B1, senior and junior unsecured MTN program ratings to (P)B2 from (P)B3, baseline and adjusted baseline credit assessment ratings to b2 from b3, long-term counterparty risk assessment to Ba2 from Ba3. The outlook on the long-term deposit ratings remains stable. The upgrades reflect Banco Montepio's improved credit profile as a result of the restructuring of its operations and the continued de-risking of its balance sheet over recent years. In upgrading the ratings, Moody's Investors Service considered Banco Montepio's improved asset quality metrics, its enhanced solvency levels, and the positive profitability trends.

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
10/26/2022	VAIL RESORTS, INC.	Industrial	SrUnsec/LTCFR/PDR	600	U	B1	Ba3	SG
10/26/2022	INNOVATE CORP.	Industrial	SrSec/LTCFR/PDR	330	D	Caa1	Caa2	SG
10/28/2022	ASTRO INTERMEDIATE HOLDING II CORPORATION-ASTRO ONE ACQUISITION CORPORATION	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa2	Caa3	SG
10/31/2022	TWITTER, INC.	Industrial	SrUnsec/LTCFR/PDR	1700	D	Ba2	B1	SG
10/31/2022	MARVEL PARENT, LLC-MONOTYPE IMAGING HOLDINGS INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG
11/1/2022	LOUISIANA-PACIFIC CORPORATION	Industrial	SrUnsec	350	U	Ba2	Baa3	SG
11/1/2022	MATTEL, INC.	Industrial	SrUnsec	2600	U	Ba2	Ba1	SG
11/1/2022	FXI HOLDINGS, INC.	Industrial	SrSec/LTCFR/PDR	1300	D	B3	Caa2	SG

Source: Moody's

FIGURE 4

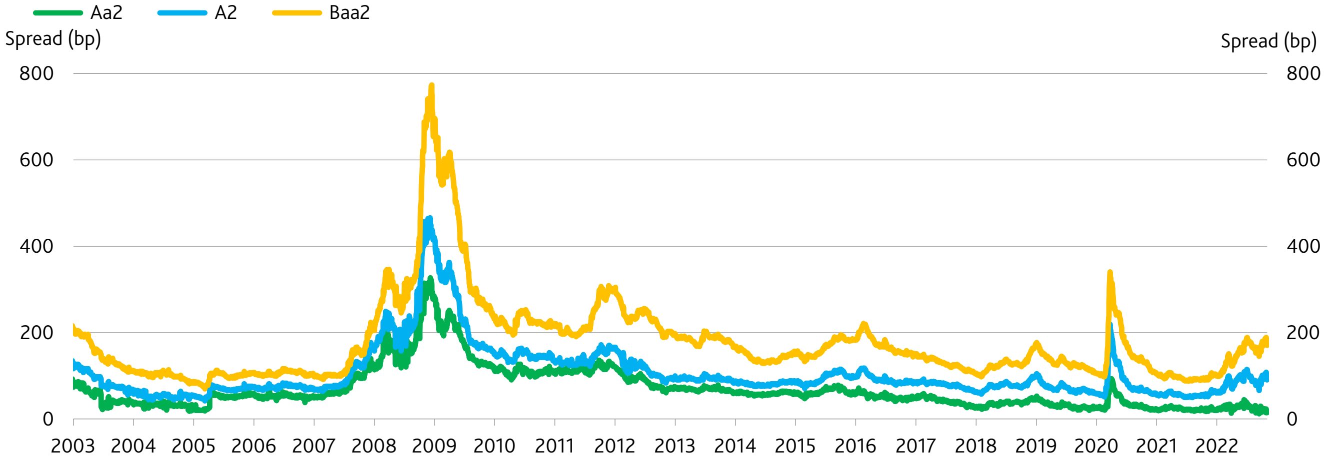
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
10/26/2022	CAIXA ECONOMICA MONTEPIO GERAL, CAIXA ECONOMICA BA	Financial	LTD/Sub/MTN	198.98914	U	B1	Ba3	SG	PORTUGAL
10/31/2022	VEDANTA RESOURCES LIMITED	Industrial	SrUnsec/LTCFR	2500	D	B3	Caa1	SG	UNITED KINGDOM
11/1/2022	CREDIT SUISSE GROUP AG	Financial	SrUnsec/LTIR/STD/LTD/ Sub/MTN/CP	45621.058	D	A2	A3	IG	SWITZERLAND
11/1/2022	VONOVIA SE	Industrial	SrUnsec/LTIR/MTN	12739.851	D	A3	Baa1	IG	GERMANY
11/1/2022	ATENTO S.A.-ATENTO LUXCO 1	Industrial	SrSec/LTCFR	500	D	Ba3	B2	SG	LUXEMBOURG

Source: Moody's

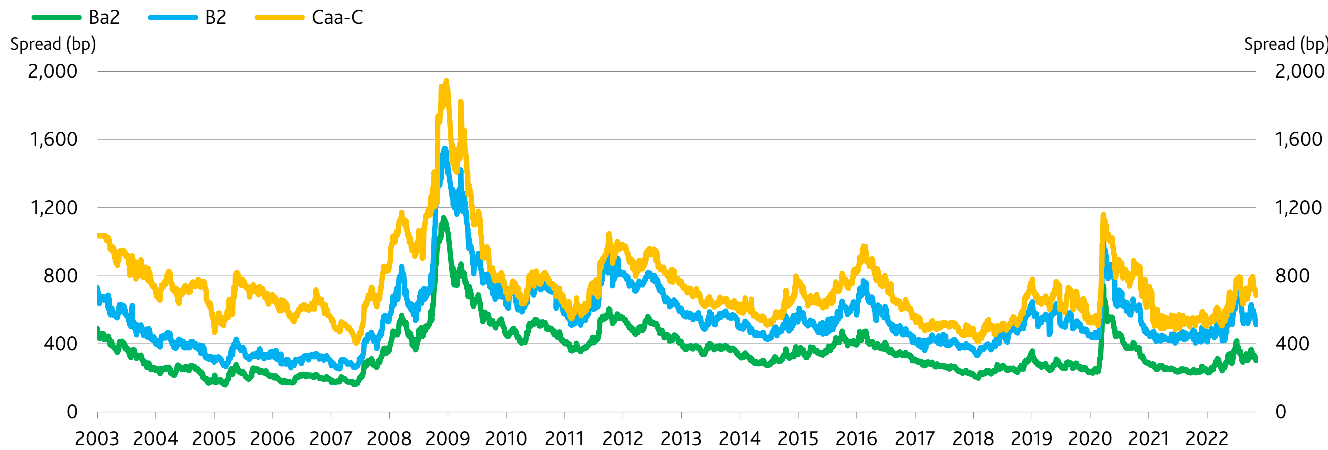
MARKET DATA

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 (October 26, 2022 – November 2, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 2	Oct. 26	Senior Ratings
State Street Corporation	Aa3	A2	A1
Bristow Group Inc.	Ba3	B2	B3
Campbell Soup Company	Aa3	A1	Baa2
AT&T Inc.	Baa2	Baa3	Baa2
Ford Motor Credit Company LLC	Ba3	B1	Ba2
Oracle Corporation	Baa1	Baa2	Baa2
Ford Motor Company	Ba3	B1	Ba2
Merck & Co., Inc.	A1	A2	A1
FedEx Corporation	Baa1	Baa2	Baa2
Cargill, Incorporated	A2	A3	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 2	Oct. 26	Senior Ratings
NVIDIA Corporation	Baa1	A2	A2
Exxon Mobil Corporation	Aa2	Aa1	Aa2
Coca-Cola Company (The)	Aa3	Aa2	A1
Pfizer Inc.	Aa2	Aa1	A2
Intel Corporation	A1	Aa3	A1
American Express Company	A2	A1	A2
NextEra Energy Capital Holdings, Inc.	Baa1	A3	Baa1
Lowe's Companies, Inc.	A1	Aa3	Baa1
Dominion Energy, Inc.	A2	A1	Baa2
Duke Energy Carolinas, LLC	Aa2	Aa1	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 2	Oct. 26	Spread Diff
Rite Aid Corporation	Caa2	3,654	3,302	352
ATI Inc.	B2	345	263	82
Nordstrom, Inc.	Ba1	597	519	78
Buckeye Partners, L.P.	B1	283	214	69
American Airlines Group Inc.	Caa1	1,269	1,212	57
United States Steel Corporation	B1	660	610	50
DaVita Inc.	B1	375	325	49
Staples, Inc.	Caa2	1,810	1,764	46
Freedom Mortgage Corporation	B2	1,078	1,034	44
Cleveland-Cliffs Inc.	Ba3	479	439	40

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 2	Oct. 26	Spread Diff
Bristow Group Inc.	B3	362	479	-117
Deluxe Corporation	B3	626	738	-112
OneMain Finance Corporation	Ba2	517	618	-100
SBA Communications Corporation	B1	211	305	-94
Hertz Corporation (The)	Caa1	518	600	-82
K. Hovnanian Enterprises, Inc.	Caa2	1,542	1,623	-81
Avis Budget Car Rental, LLC	B2	417	494	-77
Embarq Corporation	Caa2	824	901	-76
Terex Corporation	B2	226	300	-74
Lumen Technologies, Inc.	B2	663	724	-61

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (October 26, 2022 – November 2, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 2	Oct. 26	Senior Ratings
BPCE	A2	Baa1	A1
France, Government of	Aaa	Aa1	Aa2
Commerzbank AG	Baa1	Baa2	A2
Danske Bank A/S	A2	A3	A3
TotalEnergies SE	Aa3	A1	A1
Bayerische Motoren Werke Aktiengesellschaft	A3	Baa1	A2
Mercedes-Benz Group AG	Baa1	Baa2	A3
Piraeus Financial Holdings S.A.	B2	B3	Caa1
Siemens Aktiengesellschaft	A2	A3	A1
Bank of Ireland	Baa2	Baa3	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 2	Oct. 26	Senior Ratings
Alliander N.V.	A1	Aa2	Aa3
Barclays PLC	Baa3	Baa2	Baa2
ING Groep N.V.	Baa1	A3	Baa1
Landesbank Baden-Wuerttemberg	Aa3	Aa2	Aa3
DZ BANK AG	A1	Aa3	Aa2
Svenska Handelsbanken AB	A2	A1	Aa2
Lloyds Bank plc	A3	A2	A1
Dexia Credit Local	Aa2	Aa1	Baa3
UniCredit Bank AG	A3	A2	A2
NatWest Group plc	Baa2	Baa1	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 2	Oct. 26	Spread Diff
Garfunkelux Holdco 3 S.A.	Caa2	1,504	1,046	458
Volvo Car AB	Ba1	369	302	67
Alpha Services and Holdings S.A.	B3	444	412	31
Investec plc	Baa1	193	163	30
Virgin Money UK PLC	Baa1	342	313	29
LyondellBasell Industries N.V.	Baa2	145	117	28
ZF Europe Finance B.V.	Ba1	486	460	26
CPI Property Group	Baa3	565	540	25
Fresenius SE & Co. KGaA	Baa3	195	171	24
Stena AB	B2	639	618	21

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 2	Oct. 26	Spread Diff
Casino Guichard-Perrachon SA	Caa1	3,185	4,226	-1,041
Boparan Finance plc	Caa3	1,990	2,408	-418
Novafives S.A.S.	Caa2	2,064	2,375	-311
CECONOMY AG	Ba3	1,141	1,396	-256
Ardagh Packaging Finance plc	Caa1	927	1,040	-113
Jaguar Land Rover Automotive Plc	B1	944	1,003	-59
CMA CGM S.A.	Ba3	477	535	-58
Iceland Bondco plc	Caa2	1,354	1,410	-55
thyssenkrupp AG	B1	517	564	-47
International Game Technology PLC	Ba2	414	459	-45

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (October 26, 2022 – November 2, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 2	Oct. 26	Senior Ratings
China Development Bank	Baa2	Baa3	A1
Commonwealth Bank of Australia	A2	A3	Aa3
Australia and New Zealand Banking Grp. Ltd.	A2	A3	Aa3
Macquarie Group Limited	Baa2	Baa3	A3
SoftBank Group Corp.	B1	B2	Ba3
JFE Holdings, Inc.	A2	A3	Baa3
Indian Railway Finance Corporation Limited	Baa2	Baa3	Baa3
Export-Import Bank of India	Baa2	Baa3	Baa3
Japan Tobacco Inc.	A2	A3	A2
Sumitomo Corporation	Aa2	Aa3	Baa1

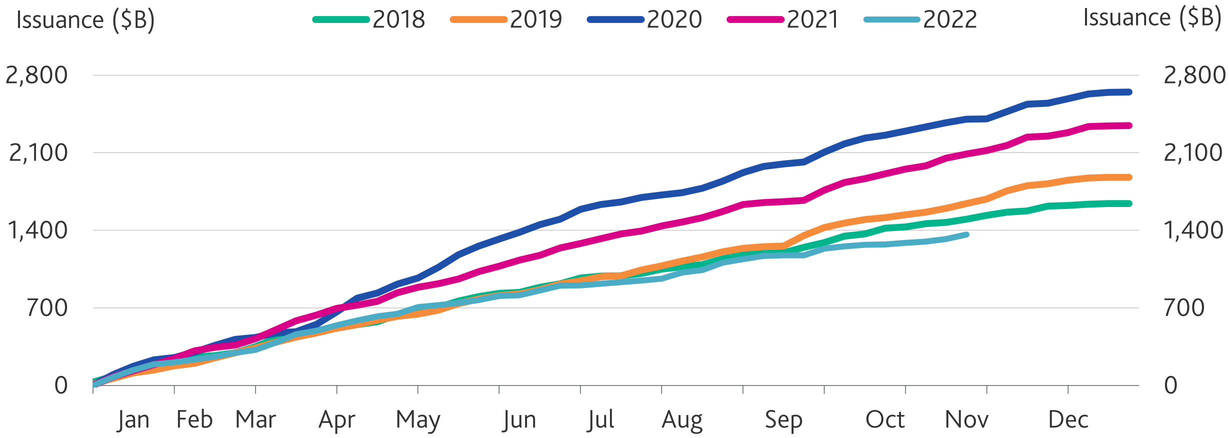
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 2	Oct. 26	Senior Ratings
Vanke Real Estate (Hong Kong) Company Limited	Ca	Caa1	Baa2
Korea, Government of	A2	A1	Aa2
Export-Import Bank of Korea (The)	A2	A1	Aa2
Suncorp-Metway Limited	A3	A2	A1
Kookmin Bank	A2	A1	Aa3
Kansai Electric Power Company, Incorporated	Aa2	Aa1	A3
Toyota Motor Corporation	Aa1	Aaa	A1
Korea Gas Corporation	Baa2	Baa1	Aa2
Woori Bank	A2	A1	A1
Industrial Bank of Korea	A2	A1	Aa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 2	Oct. 26	Spread Diff
Vanke Real Estate (Hong Kong) Company Limited	Baa2	1,281	691	590
Development Bank of Kazakhstan	Baa2	191	178	13
Korea Expressway Corporation	Aa2	73	60	13
Suncorp-Metway Limited	A1	87	77	10
SK Hynix Inc.	Baa2	195	185	10
Korea Water Resources Corporation	Aa2	114	106	8
Korea, Government of	Aa2	66	62	5
Flex Ltd.	Baa3	106	101	5
Amcor Pty Ltd	Baa2	157	152	5
Tata Motors Limited	B1	370	364	5

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 2	Oct. 26	Spread Diff
Halyk Savings Bank of Kazakhstan	Ba2	463	497	-34
GMR Hyderabad International Airport Limited	Ba3	422	448	-26
SoftBank Group Corp.	Ba3	454	479	-24
India, Government of	Baa3	137	158	-21
Canara Bank	Ba1	195	216	-21
Tenaga Nasional Berhad	A3	97	117	-20
CITIC Limited	A3	151	169	-18
IDBI Bank Ltd	Ba2	141	159	-18
State Bank of India	Baa3	142	158	-16
Sydney Airport Finance Company Pty Ltd	Baa1	220	234	-15

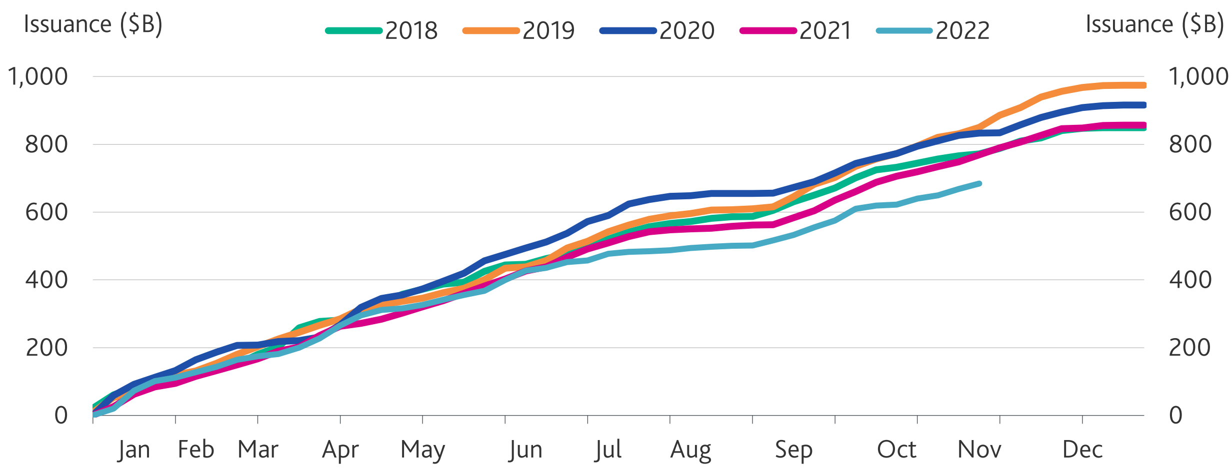
Source: Moody's, CMA

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	38.039	0.000	38.564
Year-to-Date	1,188.477	129.274	1,360.724

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	15.419	0.273	15.791
Year-to-Date	637.303	35.504	684.483

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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