MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Surviving 2022's Yield Curve Inversion

The U.S. 10-year Treasury yield has been on a tear recently, and this is both good and bad. First the good news: The increase in the 10-year Treasury combined with the rise in the two-year Treasury yield means that the yield curve is no longer inverted. When the yield curve inverted recently, it fanned fears that the economy was barreling toward a recession. We were skeptical that the message from the yield curve was as strong as in the past.

Given the yield curve's track record in signaling recessions, it is dangerous to say that this time is different. Yet, there are a number of reasons why the recent inversion in the U.S. yield curve differed from past instances, including a negative term premium on the 10-year Treasury. Also, the Federal Reserve is a little more sensitive to inversions than in the past.

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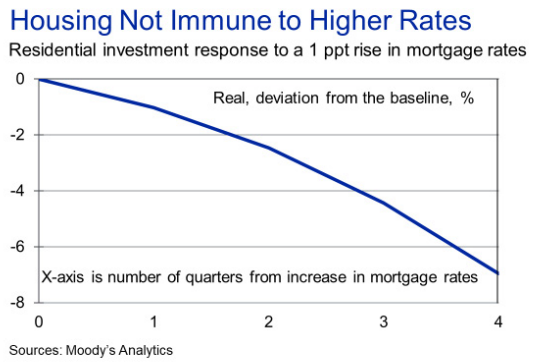
To highlight the Fed's response, we looked at the effective fed funds rate around inversions in the yield curve since 1962. Prior to 1990, there were plenty of Fed errors, either raising interest rates after the inversion in the yield curve or being too slow in cutting rates. Since the 1990s, the Fed has responded more quickly, but it will be interesting to see if the central bank buckles this time around as it needs to prioritize taming inflation versus avoiding a hard inversion in the yield curve.

Bad news for housing

The bad news is that higher long-term rates will weigh on certain parts of the economy. We find evidence that the housing market's sensitivity to mortgage rates is increasing, suggesting that residential investment could contribute less to GDP growth later this quarter or early next than we currently have penciled into our baseline forecast.



The 30-year fixed mortgage rate has risen more than 1 percentage point recently and will cut into real residential investment. In fact, we find evidence that the U.S. housing market's sensitivity to mortgage rates is increasing, suggesting that residential investment could contribute less to GDP growth this year than we currently have penciled into the baseline.

We used a fairly simple vector autoregression model and estimated residential investments' sensitivity to mortgage rates over a number of time periods. The results showed that residential investment has become a little more sensitive during this expansion. But history has shown this sensitivity is not constant and can change.

This won't be the peak for mortgage rates, since an increase in inflation expectations, further tightening by the Federal Reserve, and the rise in the term premium will push the 10-year Treasury yield higher. Mortgage rates will follow. To assess the impact, we ran through our U.S. macro model a scenario of a permanent increase in mortgage rates of 1 percentage point in the first quarter.

The results show that the hit to residential investment is noticeable over the course of the subsequent year; real residential investment would be 7% lower than the baseline—enough to shave 0.1 to 0.2 of a percentage point off GDP growth for the year. That's not enormous, but the assumption that mortgage rates rise by only 1 percentage point could be a little conservative.

All told, it won't be surprising if residential investment falls short of our expectation this year.

Fed signals what everyone expected

The minutes from the March Federal Open Market Committee meeting provided some color around the central bank's plan to reduce the size of its balance sheet. The minutes noted that the balance sheet reduction could start as early as May with monthly runoff caps of $60 billion on Treasuries and $35 billion for mortgage-backed securities. This is almost double the peak runoff rate of $50 billion a month the last time the Fed reduced its balance sheet from 2017 to 2019.

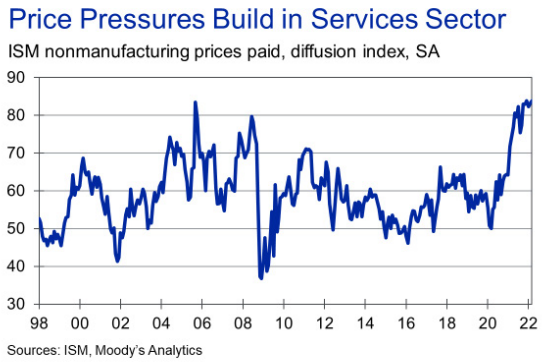
Participants also generally agreed that the caps could be phased in over a period of three months or modestly longer if market conditions warrant. Officials acknowledged that a passive runoff of mortgages may not be sufficient, with outright sales to be considered "after balance sheet runoff was well under way."

Participants agreed they had made substantial progress on the plan and that the committee was well placed to begin the process of reducing the size of the balance sheet as early as after the conclusion of its upcoming meeting in May.

The minutes said "many participants" noted that one or more 50-basis point increases in the target range for the fed funds rate could be appropriate at future meetings, particularly if inflation pressures remained elevated or intensified. Fed Chairman Jerome Powell has stressed that monthly growth rates in consumer prices need to moderate or the central bank could tighten more aggressively. This is unlikely to occur in the next couple of months, keeping a 50-basis point rate hike on the table.

Solid momentum for services

U.S. service sector activity is entering the second quarter on strong footing. The ISM nonmanufacturing composite index rose 1.8 percentage points to 58.3 in March, above its neutral threshold of 50 and its historical average of about 55. There was much to like in the details. The employment index drove the increase in the headline index, consistent with the strong March jobs report, as did new orders. The supplier deliveries index even fell 2.8 percentage points to 63.4, which is still high from a historical perspective but points to some easing in supply-chain bottlenecks.

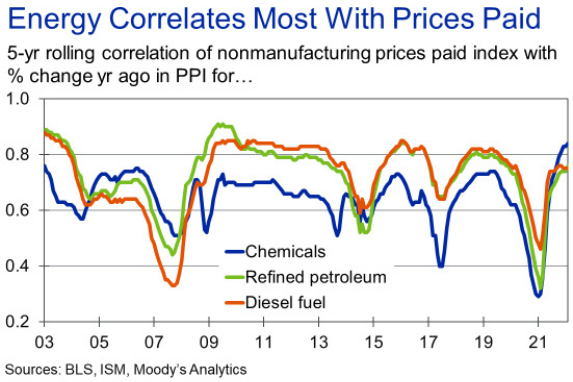


However, hopes for some alleviation in cost pressures in March were dashed as the prices paid index inched higher to

83.8, just 0.1 percentage point shy of its all-time high set in December.

Each month, respondents to the ISM services survey note which commodities are up or down in price and in short supply. To assess which commodities are the best bellwethers for overall cost pressures in the service sector, we looked at the five-year rolling correlation between the prices paid index and the year-over-year growth in the U.S. producer price index for the following commodity groups: chemicals, fuels, lumber and wood, metals, nonmetallic minerals, processed foods and feeds, pulp and paper, and rubber and plastics. Currently, the PPI for all major commodity groups is highly correlated with the prices paid index, which speaks to the sheer broad-based nature of producer price inflation today. However, the correlation between prices paid and most major commodity prices is historically unstable even in past environments of high inflation. There are a couple of exceptions—fuels and chemicals—whose PPIs have shown a consistently positive relationship with the prices paid index.

This finding wasn't overly surprising. Fuels power the economy. Diesel in particular is a critical fuel for trucking, shipping, construction and agriculture. Therefore, higher fuel costs will ripple across the supply chain, affecting service providers. In March, comments from respondents included, "Energy costs are putting a pinch on all suppliers. We have received many surcharge notices." The stable, positive relationship between the PPI for chemicals and the prices paid index stems in part from the use of petroleum in the manufacturing of pharmaceuticals, plastic resins, cosmetics and fertilizers.



Our baseline forecast expects fuel costs to peak in the next few months. Specifically, U.S. No. 2 diesel retail prices are expected to average about $4.60 per gallon in the second quarter, which would be the highest on record. This increases the odds that the ISM nonmanufacturing survey's prices paid index will hover near or at all-time highs in the coming months. However, the baseline expects energy-induced price pressures for the service sector to ease after the second quarter as the fallout from Russia's invasion of Ukraine on global oil prices ameliorates.

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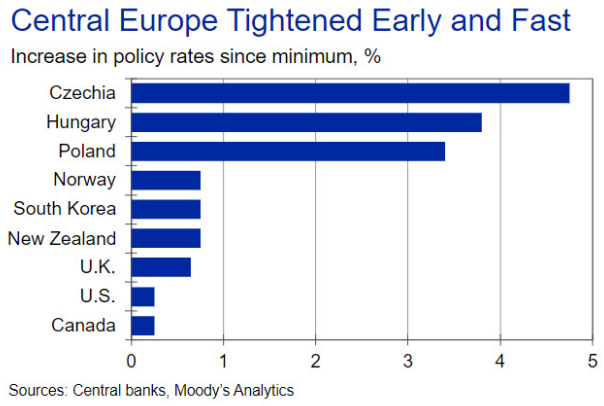
TOP OF MIND

Central Bank Tightening: Global Perspective

BY KAMIL KOVAR

After a decade in which monetary policy has been mostly predictable, bordering on boring, the early 2020s have brought back monetary policy that changes dramatically from month to month. As usual, the focus has been on the Federal Reserve, given the importance of the U.S. monetary policy stance for the global economy. The Fed has pivoted from expecting no rate hikes in 2022 to expecting nine, or possibly even more.

Although the U.S. central bank's moves have the biggest bearing on the global economy, central bankers in smaller developed countries have brought the biggest surprises. Take the Bank of England, which created expectations of a rate hike in November only to hold steady and then surprised markets again by hiking during the December meeting. It then followed with its first back-to-back hikes since 2007 during its winter meetings. And this is nothing in comparison to central banks in Central and Eastern Europe, which have engineered hardly imaginable tightening. For example, the Czech National Bank made several multi-step hikes in quick succession, taking policy rates from 0.25% to 5% in slightly more than half a year.

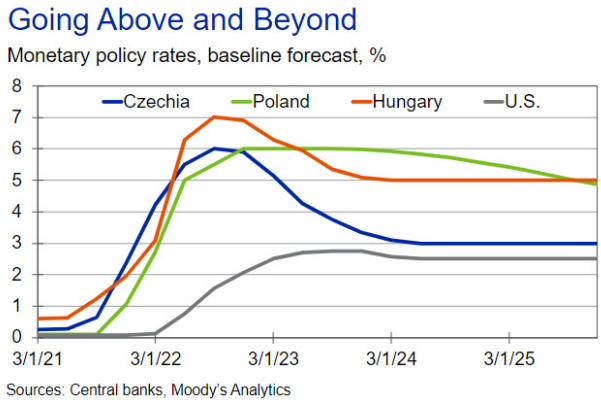


The main theme for monetary policy in developed countries is clear: central banks are on a path of rapid tightening. The only question is how fast and how far they will tighten. Although the answer will be specific in each country, we can observe some general themes.

The wolfs of the pack

Central European banks are furthest in the tightening process. The tightening in this region started in the middle of last summer when local central banks sensed that inflation was getting hot. Although initially the tightening seemed orderly, with a standard-sized hike every meeting, soon the Czech National Bank switched to abnormally large hikes: first 75 basis points, followed by 125 basis points. These abnormally large moves were later echoed by Hungarian and Polish central banks. Although policy rates can be more volatile in these smaller countries, we haven't witnessed anything like this since the chaotic 1990s. The CEE countries are not emerging markets in the true sense of the word, given that inflation expectations and hence exchange rates are relatively well anchored.

The other aspect of the tightening in this region is that all central banks have already taken the interest rates above what they consider to be the natural level in the long run. The central banks have communicated that the current excessive inflation requires an excessively tight policy stance to ensure that inflation expectations do not de-anchor. For example, the Czech central bank believes that policy rates will settle at 3% in the long run, but right now its main policy rate stands at 5% and is likely to increase further.



With hindsight, we recognize that both of these features—abnormally fast tightening and rates above long-run equilibrium—foreshadowed what central banks in other developed countries would do. A prime example is the latest guidance from the Fed that suggests 50-basis point hikes and rates above the long-run equilibrium in 2023. The latter feature also speaks to yield curve inversion that is currently the focus of commentary in the U.S. With policy rates in the CEE region way above their long-run equilibrium values, we are observing strong inversions in their respective yield curves. However, this does not suggest that recession is imminent in those countries; rather, these inversions are intentionally engineered by the central banks, and we might end up observing something similar in the U.S.

Western Europe is not Central Europe

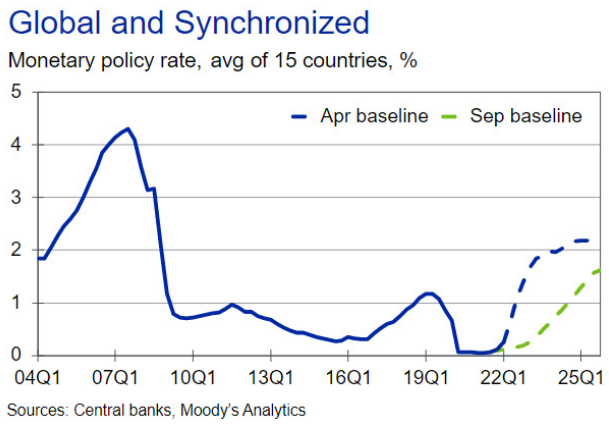
Western European central banks, such as the Bank of England or the central bank of Norway, are less aggressive. They have already started raising rates but are approaching it in a more orderly fashion, with a normal-sized hike at each meeting or every two meetings. However, a more rapid tightening with larger hikes cannot be ruled out. For example, during the February meeting, several BoE board members voted to hike by 50 basis points.

Even the European Central Bank is now expected to move this year. After insisting that rate hikes are unlikely in 2022, the ECB has shifted gears in response to rising inflation and in the face of further inflationary shocks due to the Russian invasion of Ukraine. During its March meeting, the bank opened the door to ending asset purchases in June, which we think is very likely given that the bank's inflation forecast will need another upgrade then. Hikes would then commence in September, followed by more in December and in March 2023. In contrast to the U.S., there is very little chance that the ECB will implement jumbo-sized hikes this year; instead it would rely on more frequent hikes, if needed. Neither the ECB nor the other Western European central banks are expected to go above their equilibrium rates.

The odd man out among European central banks with no expectations of rate hikes this year is the Swiss central bank. And of course, outside of Europe, there are no expectations that the Japanese central bank will raise rates this year. In both cases, this reflects the domestic situation, where entrenched low inflation expectations mean that inflation will have to become much more robust before the central banks will feel comfortable tightening. The other developed countries in Asia and Oceania—South Korea, Australia and New Zealand—are taking an approach similar to the Western European central banks, with orderly tightening that started last year.

Rapid global tightening

The next 18 months will bring monetary policy tightening that the world hasn't seen since the 1980s. The speed and synchronization of the tightening across the world means that the average monetary policy rate in the developed world—nine European countries with independent monetary policy, four developed countries in Asia and Oceania, together with the U.S. and Canada—will increase from close to 0% at the end of 2021 to 1.4% by the end of 2022 and 2.0% by the end of 2023. This pace of global tightening marks a dramatic shift from what was expected just half a year ago.



One could counter that the rising rates do not really amount to tightening policy given that inflation is rising even faster than monetary policy rates and so real interest rates are actually dropping. Although there is some truth to this, the argument has limited bite in terms of forward-looking perspective, because it relies on a misleading measure of the real interest rate, the so-called ex-post real interest rate. This compares forward-looking interest rates with backward-looking measures of inflation. The resulting real interest rate then tells us that monetary policy has been easing over the last couple of quarters, as nominal interest rates have not kept up with the increase in inflation.

Instead, what matters for forward-looking economic decisions are forward-looking inflation expectations, and in terms of those, we are indeed witnessing significant tightening. Nominal interest rates will increase by more than short- and medium-term inflation expectations. This is underscored by the fact that relying on realized inflation is currently problematic given the nature of the inflation; a large share of the recent high inflation is due to the energy price shock, which does not benefit non-energy firms and hence does not decrease the real cost of borrowing.

Unprecedented balancing act

What does this tightening mean for the global economy? Unsurprisingly, the risk of a global recession toward the end of this year is rising rapidly. This is striking given that the global economy has not even completed the recovery from the pandemic-induced recession yet. To avoid recession, the central banks will need to pull off an incredible balancing act that has never been successfully done before.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar is packed next week and it will likely strengthen the case for the Federal Reserve to raise interest rates by 50 basis points at its next meeting. The March consumer price index will be ugly as higher gasoline prices will lead to a significant increase in the headline index. Fed Chair Jerome Powell has stressed that monthly growth rates in consumer prices need to moderate or the central bank could tighten more aggressively. The March CPI won't show any moderation.

We also get March retail sales and its not looking like a good month for consumer spending. Initial claims for unemployment insurance benefits will also be released for the week ending April 9. New filings are very low because businesses are reluctant to fire workers at a time when replacing them is extremely difficult. We also get data on import prices, business inventories and industrial production.

Europe

We are estimating a 0.5% m/m increase in U.K. GDP for February as tailwinds from the unwinding of COVID-19 restrictions continued to carry consumption forward. Downside risks are considerable though, with the increasing toll of inflation and ongoing supply disruptions. The outbreak of conflict in Ukraine also added a high degree of uncertainty, though we do not expect the invasion to show up much in the February figures.

That said, Russia's trade surplus will feel the hit. In nonseasonally adjusted terms, the surplus likely rose to $19 billion in February from $9.1 billion a year earlier. But consider that a month earlier in January the surplus was running at $21.2 billion. Sanctions likely cut exports sharply at the end of the month. But the real pain for the country will show up in March readings.

We are not expecting changes in the final readings of national CPIs next week. Germany's CPI inflation likely jumped to 7.3% y/y in March from 5.1% in February; in Spain inflation likely rose to 9.8% from 7.6%, in France it was likely increased at 4.5% from 3.6%, and in Italy at 6.7% from 5.7%. In each case, energy prices will be the major driver of the monthly and yearly price rises. That said core dynamics heated up. In the U.K. we estimate an inflation rate of 6.7% y/y for March, up from 6.2% previously. Energy prices are more under control thanks to the electricity and gas price cap (though it is due to jump over 50% in April). That said, rising oil prices will show up in March, and core inflation, already well above the Bank of England's target, likely continued its upward creep.

On that note, we do not expect any changes to the European Central Bank's monetary policy at its April meeting next week. Though the bank will be forced to toughen up its rhetoric given that its own inflation forecast for the quarter published at the March meeting will prove to have been a complete underestimation.

Asia-Pacific

China's March inflation data will be in the spotlight. With higher transport costs a key upside force, China's CPI growth likely picked up to 1.2% y/y in March from February's 0.9%. We expect the annual decline in food prices to have moderated. Substantial annual declines in pork prices have been contributing to overall falls in food prices. Core CPI growth will remain modest, a symptom of a lagging economic recovery that has experienced additional hurdles; infection outbreaks have triggered lockdowns in several cities, including Shanghai. Meanwhile, higher input prices flowing from the resurgence in commodity prices (including for energy) is behind expectations that China's producer price growth accelerated to 9.3% y/y in March after cooling to an eight-month low at 8.8% in February.

On the policy front, central banks in New Zealand and South Korea will deliver follow-up 25-basis point interest rate hikes in April. New Zealand's economy is butting up against capacity constraints and headline inflation that is at a multiyear high, so accommodative monetary settings are no longer appropriate. South Korea was Asia's first major central bank to hike the policy rate back in August. It will continue hiking rates in 2022 to tame inflation and keep downward pressure on household debt growth.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
10-Apr	France	General elections	Medium	Medium
8-May	Hong Kong	Chief executive election	Low	Low
9-May	Philippines	Presidential election	Low	Low
29-May	Colombia	Presidential election	Medium	Low
Jun	Switzerland	World Economic Forum annual meeting	Medium	Low
29-30-Jun	NATO	NATO Summit, hosted by Madrid	Medium	Medium
Jun/Jul	PNG	National general election	Low	Low
2-Oct	Brazil	Presidential and congressional elections	High	Medium
Oct/Nov	China	National Party Congress	High	Medium
7-Nov	U.N.	U.N. Climate Change Conference 2022 (COP 27)	Medium	Low

THE LONG VIEW: U.S.

Fed Tightening on the Way

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond spread is 133 basis points, 4 bps tighter than the 137 bps at this time last week and narrower than the 175 bps average in March. The long-term average industrial corporate bond spread narrowed 1 bp to 123. It averaged 161 bps in March.

The recent ICE BofA U.S. high-yield option adjusted bond spread is off its recent peak of 420 basis points but widened 15 bps over the past week to 348. The Bloomberg Barclays high-yield option adjusted spread has bounced around recently and is currently 327 bps compared with the 324 bps at this time last week. The high-yield option adjusted bond spreads approximate what is suggested by the accompanying long-term Baa industrial company bond yield spread and that implied by a VIX of 23.

Defaults

The trailing 12-month global speculative-grade default rate rose to 2% at the end of February from 1.8% in January. In Europe, the default rate jumped to 2.1% from 1.2%. Under our baseline scenario, Moody's Credit Transition Model predicts that the global speculative-grade corporate default rate will decline to 1.7% in the second quarter before rising to 2.8% at the end of February 2023. That rate would still be well below the long-term average of 4.1%.

Our baseline forecasts assume that the U.S. high-yield spread will widen from about 400 basis points currently to 548 bps over the next four quarters. This widening would be partially offset by improvement in the U.S. unemployment rate, which we assume will decline to 3.5% by the end of February 2023 from the current rate of 3.8%. Our baseline forecasts are underpinned by positive factors such as good corporate fundamentals, low refinancing risk in the near term, and the transition of the global economy from a tentative recovery toward more stable growth, bolstered by improvement in the COVID-19 health situation. However, risks have grown following the invasion of Ukraine and the subsequent sanctions on Russia. Although we expect the Fed to raise interest rates at a pace that will not severely disrupt the U.S. economic recovery and financing conditions, the Russia-Ukraine conflict could add substantial risk to the default outlook through multiple channels, especially in Europe.

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 week ended April 1, US$-denominated high-yield issuance totaled $3.7 billion, not a significant deviation from

the prior week. This brings the year-to-date total to $59.5 billion. Investment-grade bond issuance rose $38.75 billion in the same week, bringing its year-to-date total to $509 billion. Total US$-denominated issuance is currently tracking that seen in 2018 and 2019.

U.S. ECONOMIC OUTLOOK

There were some adjustments to our forecast between the February and March baselines, as the latest incorporates new assumptions around the effect of the military conflict between Russia and Ukraine. There are many scenarios on how the Russian invasion of Ukraine will unfold, each darker than the next, but the most likely scenario is that Russian troops will go no farther than Ukraine and any disruptions to oil, natural gas and other commodity markets will be limited and temporary. If so, the impact of the Russian invasion on the U.S. economy will be on the margins.

The U.S. banking and trade exposure to either Russia or Ukraine is very small. The primary channels through which the military conflict will adversely impact the U.S. economy is oil prices and financial market conditions. Europe's economy will be hit harder, but its economic recovery will continue. Russia, however, will suffer a debilitating recession, and for Ukraine's economy this is a catastrophe.

Smaller fiscal package

President Biden renamed his economic agenda from "Build Back Better" to "Building a Better America." Prior to Biden's first State of the Union, we revised our BBA assumptions in the March forecast. We no longer assume Democrats pass a $1.2 trillion package of social safety net and climate policies through budget reconciliation, but rather a $600 billion legislation. We jettisoned the following two provisions that had been included in the February forecast: $400 billion in Affordable Care Act premium credits and $200 billion in universal preschool investments.

The BBA package would pass by the end of the third quarter, with implementation starting in the fourth quarter. It would center around $330 billion in clean energy tax credits and $230 billion in direct federal spending to address climate change. The reconciliation bill would also modestly expand the Child Tax Credit by $40 billion by making it fully refundable on a permanent basis. The BBA would be a virtual nonevent for the economy in 2022, but its gross fiscal support would amount to 0.1% of GDP in 2023, peak at 0.25% in 2026, and settle at less than 0.2% by the end of a 10-year budget horizon.

Because we have rolled back the number of BBA investments, the March forecast also assumes a smaller number of pay-fors. We removed the following offsets that were previously part of the February forecast: a new excise tax applying to stock buybacks, higher taxes on global intangible low-taxed income for U.S. multinationals, and other international tax changes.

The March forecast still includes the following changes to the personal tax code: ensuring high-income business owners pay either the 3.8% Medicare tax or the 3.8% net investment income tax and limiting business loss deductions for noncorporate taxpayers. In addition, IRS funding would increase to improve tax compliance. Finally, prescription drug savings would solely come from repealing a Trump-era rule eliminating safe harbor from a federal anti-kickback law for rebates paid by pharmaceutical manufacturers to health plans and pharmacy benefit managers in Medicare Part D. We do not assume Democrats implement other prescription drug reforms such as allowing the federal government to negotiate drug prices in Medicare or requiring drug companies to pay rebates when annual increases in drug prices for Medicare and private insurance exceed the rate of inflation.

In sum, the BBA would include $700 billion in tax increases on well-to-do households, as well as prescription drug savings. As a result, it would lead to a net deficit reduction of $100 billion over the next 10 years. Our BBA assumption in the March forecast is broadly in line with recent comments by Senator Joe Manchin.

COVID-19 assumptions

We adjusted our epidemiological assumptions to anticipate that total confirmed COVID-19 cases in the U.S. will be 81 million, less than the 82.9 million in the February baseline. However, the number of assumed cases is still well above that assumed before the Omicron variant. The seven-day moving average of daily confirmed cases dropped sharply recently and was around 39,000, below its recent peak of 807,000 and among the lowest since July. The date for abatement of the pandemic, where total case growth is less than 0.05% per day, changed slightly, as it has already occurred. We had expected it to abate on April 4.

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

Oil bites into GDP

The March baseline factors in the recent jump in energy prices, and that led us to revise our forecast lower for U.S. GDP growth by 0.2 of a percentage point to 3.5% this year. We nudged up the forecast for GDP growth in 2023 from 3% to 3.1%.

The bulk of the downward revision was in the second quarter, when real GDP is expected to rise 4.8% at an

annualized rate, compared with the 6.1% in the February baseline forecast. We now expect oil prices to peak in the second quarter, with West Texas Intermediate crude oil prices averaging $100 per barrel. Our rule of thumb is that every $10 increase in the per barrel price of oil increases U.S. retail gasoline prices by 30 cents a gallon. Every penny increase in retail gasoline prices reduces consumer spending by about $1.5 billion over the course of a year.

GDP growth in the second half of this year will average 2.7% at an annualized rate. The Bloomberg consensus is for real GDP to increase 3.6% this year and 2.4% in 2023.

Oil prices, financial market conditions, inventories, and global supply-chain issues remain downside risks to the near-term forecast. While inventories played an enormous role in the gain in fourth-quarter GDP, they are on track, along with net exports, to be a significant drag on growth early this year. Our high-frequency GDP model's tracking estimate of first-quarter GDP growth keeps heading south, but it has nothing to do with recent geopolitical events. Currently, first-quarter GDP is on track to rise 0.5% at an annualized rate.

Business investment and housing

Fundamentals have turned less supportive for business investment as corporate credit spreads continue to widen. However, corporate profit margins are fairly wide, and banks are easing lending standards.

We have real business equipment spending rising 7.3% this year, compared with 8.2% in the February baseline. The forecast is for real business equipment spending to increase 5.6% in 2023, a touch stronger than the 5.4% gain in the February baseline forecast.

Risks are weighted to the downside for nonenergy business investment, as financial markets could tighten more than we anticipate and corporate credit spreads widen further. The correlation coefficient between monthly changes in the high-yield corporate bond spread and changes in the S&P 500 is -0.71 since 2000. The relationship is still strong if we look at it on a weekly basis. Using no and various lags, the Granger causality tests showed changes in the S&P 500 caused changes in the high-yield corporate bond spread. The causal relationship runs in one direction.

The real nonresidential structures investment is now expected to increase 14.4% this year, compared with the 11% gain in the February forecast. Some of the upward revision is the boost to business investment from higher energy prices, primarily in mining exploration, shafts and wells. The Bureau of Economic Analysis uses the American Petroleum Institute's weighted average of footage drilled along with rotary rig counts from Baker Hughes in its current-quarter estimate of private fixed investment in mining exploration, shafts and wells. This segment now accounts for more than 10% of nominal private fixed investment in nonresidential structures. Therefore, a rise in energy prices would lead to an increase in the number of active rotary rigs.

Separately, growth in the Commercial Property Price Index was revised higher; it is now expected to increase 8.6% this year, compared with 5.2% in the February baseline. We raised the forecast next year from 2% to 7.7%.

Revisions to housing starts were small. Housing starts are expected to be 1.81 million, compared with 1.84 million in the February baseline. Revisions to housing starts next year were also modest. Risks are heavily weighted to the downside. There are likely only so many homes that can be built each year because of labor-supply constraints and 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. Revisions to the forecast for new- and existing-home sales this year were minor, as mortgage rates haven't risen either fast or high enough to cut noticeably into sales.

We nudged up the forecast for the FHFA All-Transactions House Price Index this year, with it rising 11.5%, compared with 9.8% in the February baseline. House price growth moderates noticeably in 2023, as prices are forecast to rise 2.3%, a touch weaker than the 2.4% in the February baseline. This is attributable to rebalancing of supply and demand.

Labor market

The February employment data are incorporated into the March baseline forecast. They led to minor tweaks to the forecast. We have job growth averaging 367,000 per month this year, compared with the February baseline forecast of 384,000. There weren't material changes to the forecast for the unemployment rate this year, as it is still expected to average 3.4% in the final three months of this year and 3.4% in the fourth quarter of next year.

We assume a full-employment economy is one with a 3.5% unemployment rate, around a 62.5% labor force participation rate, and an 80% prime-age employment-to-population ratio. All of these conditions will be met by late this year or early next.

Fed sticks to its plan

Federal Reserve Chair Jerome Powell was explicit during his semiannual testimony to the House Committee on Financial Services. He took away all uncertainty about the outcome of March's Federal Open Market Committee meeting by

throwing his support behind a 25-basis point rate hike and saying that plans to reduce the size of the balance sheet will not be finalized.

Normally, Fed chairs avoid tipping their hands, as it could be seen as front-running the FOMC. However, Russia's invasion of Ukraine has caused a lot of volatility in financial markets and created new uncertainty. Therefore, Powell likely wanted to reduce any uncertainty about the Fed's intention at its upcoming meeting. Powell did leave the door open for larger rate hikes at future meetings.

He sounded optimistic that the Fed can engineer a soft landing, where it raises interest rates enough to curb inflation but not enough to tip the economy into recession. Powell floated the idea that this tightening cycle will end above his estimate of the neutral fed funds rate of 2% to 2.5%.

We maintained our assumption that the Fed raises the target range for the fed funds rate four times this year, 25 basis points each time. Markets are pricing in more hikes, just south of seven hikes over the next 12 months. The tightening in financial market conditions did some of the Fed's work for it. The primary channel through which monetary policy impacts the economy is financial markets. With financial market conditions tightening, the Fed doesn't need to do as much this year.

The Fed is also expected to begin quantitative tightening this summer. That is, the central bank will not replace the Treasury and mortgage securities it owns as they mature or prepay, allowing its balance sheet to slowly shrink, and putting upward pressure on longer-term rates.

Risks are weighted toward more rate hikes this year. Higher energy prices are going to cause inflation to peak higher than we had previously expected. We look for year-over-year growth in the consumer price index to be 7.4% in the first quarter, compared with 7% in the February baseline. The inflation forecast follows a similar trajectory as past baseline forecasts, just higher. Inflation moderates through the remainder of the year, returning to the Fed's target in the first half of next year. Key to this forecast is that oil prices average $100 per barrel in the second quarter, with that being the peak. Also, supply-chain issues are expected to ease, leading to significant disinflation in goods prices.

We didn't make significant changes to the forecast for the 10-year Treasury yield. The forecast is that the Dow Jones Industrial Average incorporates the recent developments. The new baseline will have the Dow Jones Industrial Average lower than its February baseline. The recent decline accounted for the bulk of the decline we expected to occur throughout the year. Therefore, the March baseline has another leg lower in equity prices, which we expect will remain within a tight range through the end of next year.

The Widespread Pain of New Sanctions

BY BARBARA TEIXEIRA ARAUJO

The European Commission proposed on Tuesday a fifth package of sanctions against Russia, including a ban on coal imports worth €4 billion per year. Imports of wood, cement, rubber, chemicals, and high-end foodstuffs were also targeted. Exports to Russia of some products such as advanced semiconductors and machinery and transport equipment—worth around €10 billion per year—would be prohibited, while Russian and Russian-operated vessels and trucks would be banned from entering the EU, although exceptions would be made for those carrying energy products, food and medicine. Adding to those, the proposal included further sanctions on transactions with Russian banks as well as bans on the participation of Russian companies in public procurement contracts.

Russia will get increasingly insular

There is little doubt that these additional sanctions, if approved by the European Parliament on Wednesday, will further isolate Russia and plunge its economy into contraction. But they won't come without a cost. Europe imports as much as 19% of its coal from Russia, which means it will have to source it elsewhere. Although we don't think the EU will face much trouble finding new suppliers, higher coal prices are a given, and this will add to the ongoing energy crisis. European households are already seeing their electricity and fuel bills soar by double digits on the back of higher oil and gas prices. Adding to the grim outlook for consumers, the European Commission hinted that it is working on a ban on oil imports from Russia—the EU imports around one-third of its oil from Russia—which could lead to a further increase in oil prices.

European businesses, households also to feel pain

Although dependency on Russian energy is the major problem the EU is facing right now, it is not the only one. The additional bans on exports and imports of nonenergy goods combined with sanctions on sea and road trade will also hurt European businesses and households, as these bans will result in further disruptions to supply chains and higher prices. This is coming at a time when prices of most manufactured goods are already extremely elevated due to COVID-19-related supply disruptions, as are industrial metal prices, as Ukraine and Russia are big exporters of metal commodities. High-frequency surveys are showing that prices of not only goods but also services are rising at the fastest pace on record across the EU, which means even higher inflation going forward.

France's industrial production falters

French industrial production took a fall in February. The indicator dipped by 0.9% month on month after an upwardly revised 1.8% increase in January, coming in well below market expectations of a 0.2% rise. The more downbeat headline was primarily the result of a fallback in manufacturing output, which was down 0.5% after significant 2.2% growth in the previous month. In February, the sector was pulled back specifically by manufacturing of transport equipment and other manufacturing. It is clear that despite some progress in January, industry output is still being held back by regional supply-chain issues and rising input prices. The bad news is that prospects aren't good. The military conflict in Ukraine has resulted in further increases in energy prices and has made supply-chain problems more acute, resulting in even higher input costs. Anecdotal evidence shows that some industries are already starting to curb production given the increase in costs. Furthermore, the conflict has resulted in a sharp drop in confidence, which should put a lid on most investment decisions going forward.

Zero-COVID Policy Takes a Toll in China

BY KATRINA ELL, DAVE CHIA, SONIA ZHU and GABRIEL TAY

China's services sector lost momentum in March as lockdowns snapped its recovery trajectory. The Caixin Services PMI slumped to 42 last month from 50.2 (slightly above the neutral threshold) in February. This was the sharpest fall in two years and was worse than expected. It coincided with a jump in COVID-19 cases that prompted lockdowns in several cities, restricting mobility and keeping the recovery in the broader services sector bumpy. Weakness in services has extended into April; a lockdown in Shanghai continues amidst high daily COVID-19 case numbers.

The broader economic impact of the Shanghai lockdown should not be overlooked. Shanghai is a critical manufacturing, financial and transport hub. Around 26 million people are currently subject to movement controls. Public transport is reduced, and non-essential businesses are closed. Importantly, the city's port is open, and some manufacturing plants are operating.

An alternate snapshot of the services sector is via the nonmanufacturing PMI, which wasn't as shabby as the Caixin survey. The nonmanufacturing PMI dropped to 48.4 in March from February's 51.6. The Caixin survey tracks smaller firms, while the official nonmanufacturing PMI better tracks larger firms, including construction businesses. The clear difference in results between the two surveys shows the disproportionate pain that small firms are experiencing under the government's zero-COVID policy. Contact-sensitive industries such as hospitality, domestic tourism and transport are amongst those particularly lagging in the recovery stakes.

Although much of the globe has been embracing endemic living, China is increasingly standing out for its aggressive movement controls to contain outbreaks. This means that China's economic recovery, particularly in the important services sector, is lagging relative to those elsewhere in the region where lockdowns are a thing of the past. The onus remains on the government to provide targeted policy support to manage the rising economic costs of the lockdowns. This is in addition to other headwinds facing China's economy, including efforts to stabilise the property market.

March CPI surprised on the upside

A suite of March inflation data was released this week, with upside surprises the unrelenting theme. South Korea's headline inflation rate rose to 4.1% year on year in March, surpassing market expectations for a 3.8% reading. Rising energy prices were behind the jump. This is the sixth straight month where inflation has exceeded 3% and the first time in a decade that it has surged beyond 4%. Core inflation, which excludes agricultural products and oil, was 3.3% y/y in March, higher than the 3.2% reading in February.

Thailand's March headline inflation jumped to 5.7% y/y from February's 5.3%, reaching a 13-year high. Higher fuel and food costs were the main culprits stoking inflation. Meanwhile, core inflation, which excludes raw food and energy items, rose to 2% y/y. Headline inflation rose to 0.7% m/m.

Although the surge in inflation was widely anticipated, the Bank of Thailand's Monetary Policy Committee voted unanimously just last week to keep the benchmark rate at 0.5%. This indicates that the central bank is prioritising economic recovery over inflation risk at the moment.

RATINGS ROUNDUP

Greek Banks See Upgrades

BY STEVEN SHIELDS

U.S.

U.S. credit rating changes were distributed evenly in the period with upgrades accounting for 56% of the total affected debt. All eight downgrades were issued to speculative grade firms, including SL Green Realty Corp.'s senior unsecured notes, which had previously received an investment grade rating. The notable change in terms of affected debt was issued to MGM Resorts International with its Corporate Family Rating and senior unsecured notes reduced to B1 from Ba3. The downgrade reflects the slow recovery in Macau and the high leverage level the company is expected to carry following several deals that are already completed or near completion. The recovery in the company's regional and Las Vegas operations has been strong and is expected to continue, but improvement will not offset MGM's increased leverage.

All told the rating action affected nearly $7.3 billion in outstanding debt issuance. Meanwhile CF Industries Inc. headlined the credit upgrades in the period with Moody's Investors Service raising the firm's senior unsecured rating to Baa3 from Ba1. The transition into investment grade territory reflects CF's meaningful reduction in debt which has positioned the company to better weather the next cyclical downturn and pursue future growth opportunities.

Europe

European rating activity was light in the week with all upgrades issued to Greek banks. Moody's Investors Service upgraded the senior unsecured ratings of National Bank of Greece S.A. and Eurobank S.A. to B1 from B3, Alpha Services and Holdings S.A. to B2 from B3 and Piraeus Financial Holdings S.A. to B3 from Caa1. The outlook on the deposit ratings for all four banks remains positive. The ratings action was driven by strengthened institutional and governance conditions in the country as well as improved asset quality and recurring profitability by all four banks. The positive outlook reflects the rating agency's expectation that Greek banks will continue to improve their credit profiles over the next 12-18 months and be in a good position to manage any new problem loans which may emerge because of the coronavirus pandemic and recent inflationary pressures.
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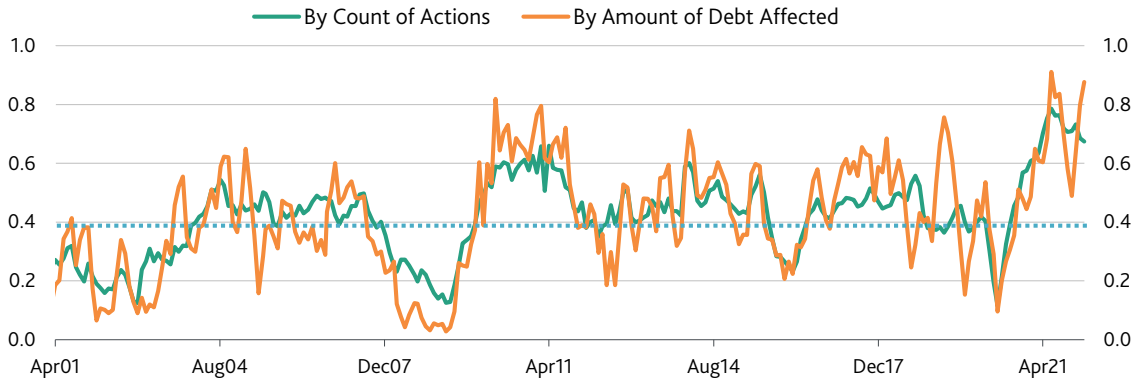
RATINGS ROUND-UP

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
3/30/2022	AGREE REALTY CORPORATION	Industrial	SrUnsec/LTIR/PS	1175.00	U	Baa2	Baa1	IG
3/30/2022	SL GREEN REALTY CORP.	Industrial	SrUnsec/Sub/PS	1030.00	D	Baa3	Ba1	IG
3/30/2022	SUGARHOUSE HSP GAMING PROP. MEZZ, L.P.	Industrial	SrSec/LTCFR/PDR	300.00	U	Caa1	B2	SG
3/30/2022	EPV MERGER SUB INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B3	SG
3/31/2022	PULTEGROUP, INC.	Industrial	SrUnsec	1996.77	U	Baa3	Baa2	IG
3/31/2022	MGM RESORTS INTERNATIONAL	Industrial	SrUnsec/LTCFR/PDR	7250.00	D	Ba3	B1	SG
3/31/2022	CAESARS ENTERTAINMENT, INC.-CBAC GAMING, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa2	Caa1	SG
3/31/2022	DYNASTY ACQUISITION CO., INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa1	B3	SG
3/31/2022	STL HOLDING COMPANY LLC	Industrial	SrUnsec/LTCFR/PDR	225.00	U	B3	B2	SG
3/31/2022	GORDIAN MEDICAL, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
4/1/2022	SCRIPPS (E.W.) CO. (OLD)-SCRIPPS (E.W.) COMPANY (THE)	Industrial	SrUnsec/LTCFR/PDR	1000.00	U	Caa1	B3	SG
4/1/2022	SCIENTIFIC GAMES CORPORATION-SCIENTIFIC GAMES INTERNATIONAL, INC.	Industrial	SrUnsec/LTCFR/PDR	1200.00	U	Caa2	B3	SG
4/1/2022	CF INDUSTRIES HOLDINGS, INC.-CF INDUSTRIES, INC.	Industrial	SrUnsec	3500.00	U	Ba1	Baa3	SG
4/1/2022	KINDER MORGAN, INC.-RUBY PIPELINE, LLC	Industrial	PDR		D	Ca	D	SG
4/1/2022	TRIBE BUYER LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa2	SG
4/4/2022	M&T BANK CORPORATION-PEOPLE'S UNITED FINANCIAL INC.	Financial	SrUnsec/LTIR/LTD/Sub/PS	1150.00	U	Baa2	A3	IG
4/4/2022	CITY BREWING COMPANY, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
4/5/2022	AES CORPORATION (THE)-AES EL SALVADOR TRUST II BIS	Utility	SrUnsec/LTCFR	310.00	D	B3	Caa1	SG
4/5/2022	PGT INNOVATIONS, INC.	Industrial	SrUnsec/LTCFR/PDR	575.00	U	B2	B1	SG
4/5/2022	DTI TOPCO, INC.-DTI HOLDCO, INC.	Industrial	LTCFR/PDR		U	Caa1	B3	SG

Source: Moody's

FIGURE 4

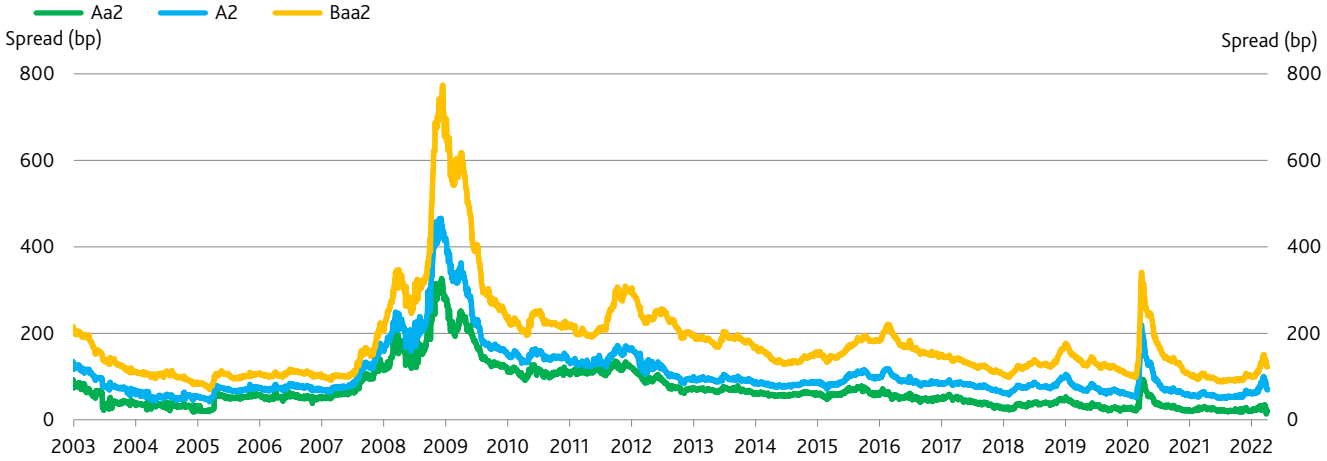
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
3/30/2022	NATIONAL BANK OF GREECE S.A.	Financial	SrUnsec/LTD/Sub/MTN	1048.18	U	B3	B1	SG	GREECE
3/30/2022	ALPHA SERVICES AND HOLDINGS S.A.	Financial	SrUnsec/LTIR/LTD/Sub	2198.39	U	B3	B2	SG	GREECE
3/30/2022	EUROBANK ERGASIAS SERVICES AND HOLDINGS S.A.-EUROBANK S.A.	Financial	SrUnsec/LTD/MTN	1164.65	U	B3	B1	SG	GREECE
3/30/2022	PIRAEUS FINANCIAL HOLDINGS S.A.	Financial	SrUnsec/LTIR/LTD/Sub/MTN	2324.70	U	Caa1	B3	SG	GREECE

Source: Moody's

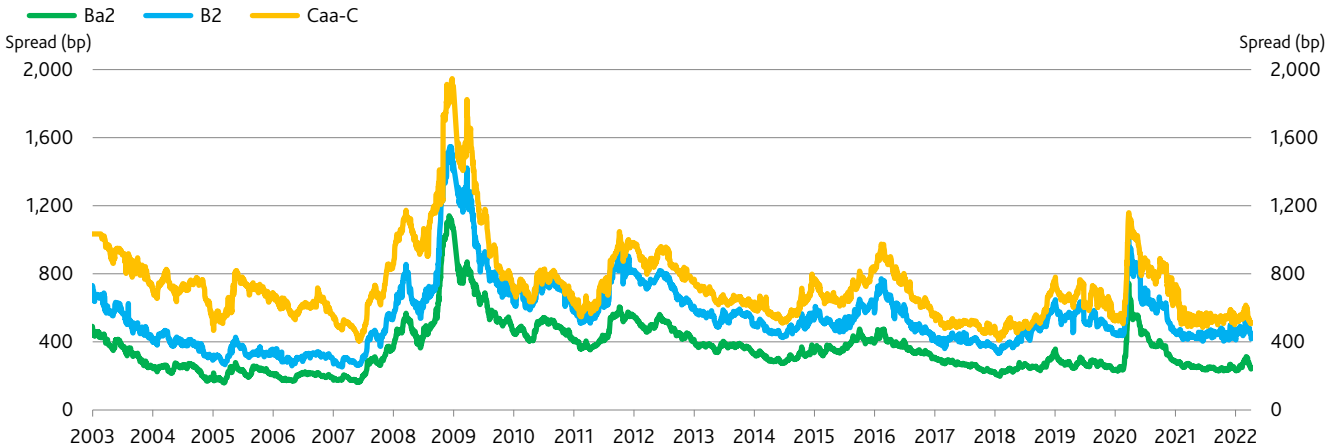
MARKET DATA

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 (March 30, 2022 – April 6, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 6	Mar. 30	Senior Ratings
CMS Energy Corporation	Aa2	A2	Baa2
John Deere Capital Corporation	A2	A3	A2
CVS Health Corporation	A1	A2	Baa2
Coca-Cola Company (The)	Aa1	Aa2	A1
Charles Schwab Corporation (The)	A1	A2	A2
U.S. Bancorp	Aa3	A1	A2
Enterprise Products Operating, LLC	A3	Baa1	Baa1
American Tower Corporation	Baa3	Ba1	Baa3
Southern California Edison Company	Baa2	Baa3	Baa2
PNC Financial Services Group, Inc.	Aa3	A1	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 6	Mar. 30	Senior Ratings
CenterPoint Energy, Inc.	Baa2	A3	Baa2
PepsiCo, Inc.	A2	A1	A1
Philip Morris International Inc.	A2	A1	A2
General Electric Company	Baa3	Baa2	Baa1
Eli Lilly and Company	Aa2	Aa1	A2
FirstEnergy Corp.	Baa3	Baa2	Ba1
Emerson Electric Company	Baa1	A3	A2
Danaher Corporation	A3	A2	Baa1
Archer-Daniels-Midland Company	A2	A1	A2
United Rentals (North America), Inc.	Ba2	Ba1	Ba2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 6	Mar. 30	Spread Diff
Rite Aid Corporation	Caa2	1,716	1,353	363
American Airlines Group Inc.	Caa1	1,115	1,018	98
United Airlines Holdings, Inc.	Ba3	685	616	69
Realogy Group LLC	B2	467	411	56
United Airlines, Inc.	Ba3	637	589	48
K. Hovnanian Enterprises, Inc.	Caa3	988	942	46
Beazer Homes USA, Inc.	B3	516	470	46
KB Home	Ba2	297	262	36
Stanley Black & Decker, Inc.	Baa1	74	48	26
Highwoods Realty Limited Partnership	Baa2	92	67	26

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 6	Mar. 30	Spread Diff
Talen Energy Supply, LLC	Caa2	8,103	15,906	-7,803
Qwest Corporation	Ba2	177	227	-50
Southern California Edison Company	Baa2	86	108	-22
Carnival Corporation	B2	460	480	-21
CMS Energy Corporation	Baa2	34	51	-18
Embarq Corporation	Ba2	284	301	-18
Service Properties Trust	B1	259	276	-17
DPL Inc.	Ba1	145	160	-16
American Tower Corporation	Baa3	125	141	-15
Avis Budget Car Rental, LLC	B2	294	309	-15

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (March 30, 2022 – April 6, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 6	Mar. 30	Senior Ratings
Raiffeisen Bank International AG	A2	Baa3	A2
Coca-Cola HBC Finance B.V.	Aa3	A3	Baa1
DZ BANK AG	A1	A2	Aa2
Swedbank AB	Aa3	A1	Aa3
Vodafone Group Plc	A3	Baa1	Baa2
Bayerische Motoren Werke Aktiengesellschaft	A3	Baa1	A2
UniCredit Bank Austria AG	A2	A3	Baa1
Banco Sabadell, S.A.	Baa2	Baa3	Baa3
Bank of Ireland	Baa2	Baa3	A2
Veolia Environnement S.A.	A1	A2	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 6	Mar. 30	Senior Ratings
Landesbank Hessen-Thueringen GZ	A2	Aa3	Aa3
BASF (SE)	A3	A1	A3
Vinci S.A.	A2	Aa3	A3
Italy, Government of	Baa3	Baa2	Baa3
BNP Paribas	A3	A2	Aa3
Credit Agricole S.A.	A1	Aa3	Aa3
Credit Agricole Corporate and Investment Bank	A2	A1	Aa3
Natixis	A3	A2	A1
Electricite de France	Baa3	Baa2	Baa1
Orange	A1	Aa3	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 6	Mar. 30	Spread Diff
Boparan Finance plc	Caa1	1,478	1,277	202
Casino Guichard-Perrachon SA	Caa1	998	896	101
thyssenkrupp AG	B1	358	294	64
National Bank of Greece S.A.	B1	338	282	56
Vedanta Resources Limited	B3	765	718	47
Iceland Bondco plc	Caa2	654	613	41
Stagecoach Group Plc	Baa3	109	71	38
UPC Holding B.V.	B3	234	200	34
CMA CGM S.A.	B2	376	350	26
Deutsche Lufthansa Aktiengesellschaft	Ba2	300	283	17

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 6	Mar. 30	Spread Diff
Raiffeisen Bank International AG	A2	51	119	-68
Banca Monte dei Paschi di Siena S.p.A.	Caa1	399	439	-40
Novafives S.A.S.	Caa2	887	906	-20
Coca-Cola HBC Finance B.V.	Baa1	38	55	-17
Bank of Ireland	A2	79	95	-16
Caixa Geral de Depositos, S.A.	Baa2	91	99	-8
Pearson plc	Baa3	109	115	-6
ASML Holding N.V.	A2	26	31	-5
Swedbank AB	Aa3	40	43	-4
Greece, Government of	Ba3	121	124	-3

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (March 30, 2022 – April 6, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 6	Mar. 30	Senior Ratings
Westpac Banking Corporation	A1	A2	Aa3
Suncorp-Metway Limited	A3	Baa1	A1
Export-Import Bank of India	Baa2	Baa3	Baa3
Bank of East Asia, Limited	Baa1	Baa2	A3
Reliance Industries Limited	Baa2	Baa3	Baa2
Mitsui & Co., Ltd.	Aa1	Aa2	A3
Sumitomo Corporation	Aa1	Aa2	Baa1
Kia Corporation	A3	Baa1	Baa1
Hyundai Capital Services, Inc.	A1	A2	Baa1
Hutchison Whampoa International (03/33) Ltd.	A3	Baa1	A2

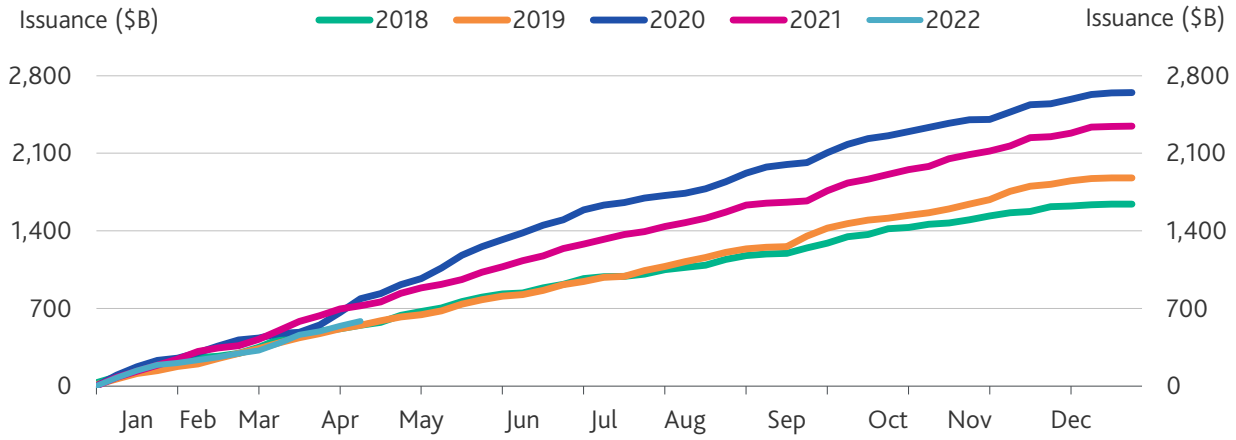
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 6	Mar. 30	Senior Ratings
Thailand, Government of	Aa3	Aa2	Baa1
Norinchukin Bank (The)	A3	A2	A1
SK Innovation Co. Ltd.	Baa3	Baa2	Baa3
Japan, Government of	Aaa	Aaa	A1
China, Government of	A3	A3	A1
Australia, Government of	Aaa	Aaa	Aaa
India, Government of	Baa3	Baa3	Baa3
Indonesia, Government of	Baa2	Baa2	Baa2
Korea, Government of	Aa1	Aa1	Aa2
Sumitomo Mitsui Banking Corporation	Aa2	Aa2	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 6	Mar. 30	Spread Diff
SK Innovation Co. Ltd.	Baa3	129	84	46
Nissan Motor Co., Ltd.	Baa3	160	142	18
Holcim Finance (Australia) Pty Ltd	Baa2	122	110	12
Norinchukin Bank (The)	A1	59	52	7
Indonesia, Government of	Baa2	85	78	6
Philippines, Government of	Baa2	79	74	6
Vietnam, Government of	Ba3	106	100	5
Tata Motors Limited	B1	287	283	5
China, Government of	A1	61	57	4
Malaysia, Government of	A3	66	62	4

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 6	Mar. 30	Spread Diff
Pakistan, Government of	B3	894	964	-70
Halyk Savings Bank of Kazakhstan	Ba2	406	455	-49
SoftBank Group Corp.	Ba3	313	351	-38
Development Bank of Kazakhstan	Baa2	211	237	-25
Reliance Industries Limited	Baa2	87	94	-7
Kia Corporation	Baa1	58	65	-7
India, Government of	Baa3	97	102	-5
ICICI Bank Limited	Baa3	104	109	-5
Hyundai Capital Services, Inc.	Baa1	43	48	-5
Hitachi, Ltd.	A3	21	25	-5

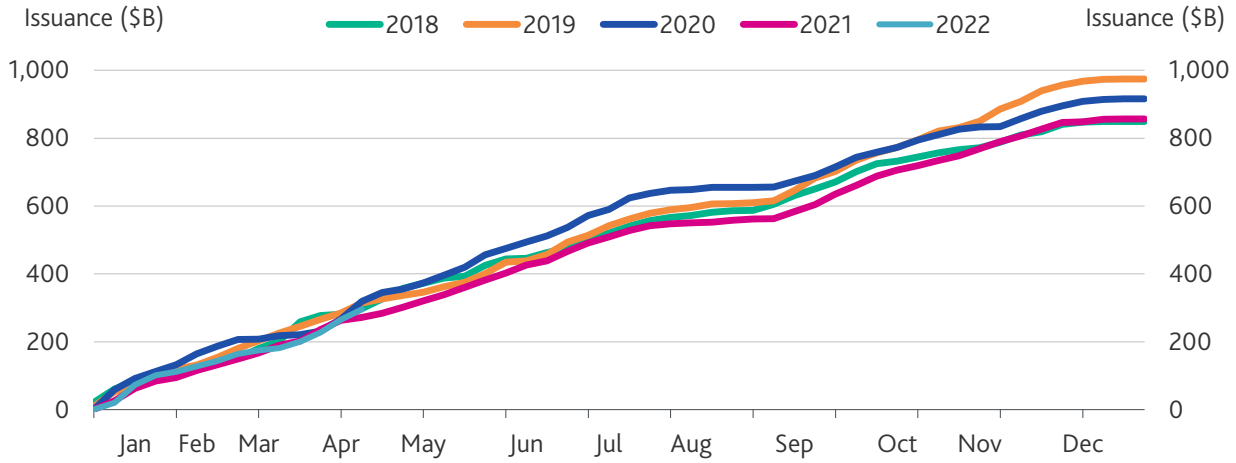
Source: Moody's, CMA

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	38.750	3.710	43.904
Year-to-Date	509.033	59.506	586.286

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	26.146	1.929	30.396
Year-to-Date	268.534	20.626	295.560

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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