MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Lead Author

Bernard Yaros
Economist

Asia-Pacific

Katrina Ell
Senior Economist

Jesse Rogers
Economist

Europe

Ross Cioffi
Economist

Andrea Pinelli
Economist

U.S.

Marisa Di Natale
Senior Director

Steven Shields
Economist

Matt Orefice
Data Specialist

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U.S. Budget Reconciliation Endgame

In an unexpected turn of events, Senator Joe Manchin and Senate Majority Leader Chuck Schumer reached an agreement Wednesday on a bill that would tackle climate change, healthcare coverage and tax reform. Known as the Inflation Reduction Act of 2022, the legislation would spend $433 billion on clean energy and climate investments, as well as an extension of recent enhancements to the Affordable Care Act. Meanwhile, it would more than offset the cost of these investments with $451 billion in revenue raised from higher taxes on corporations and wealthy, high-income households and $288 billion in prescription drug savings. As a result, the IRA of 2022 would reduce federal deficits cumulatively by a little more than $300 billion over the next decade.

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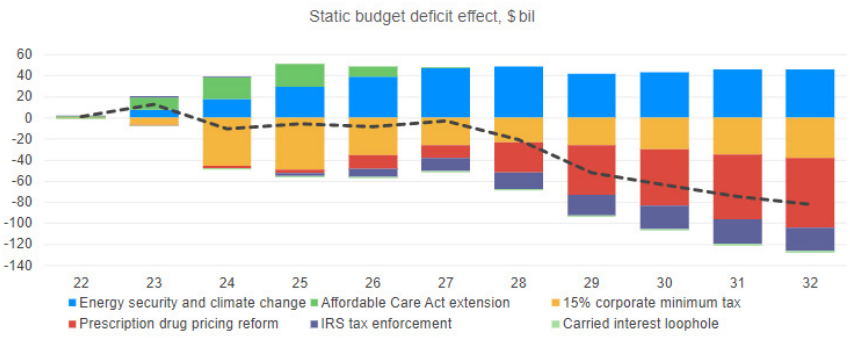
Inflation Reduction Act of 2022 Cuts Deficits by Over $300 Billion in 10 Years



Sources: CBO, JCT, Moody's Analytics

More detailed analysis about the macroeconomic and environmental consequences of the IRA of 2022 is forthcoming. That said, as we digest the surprise announcement by Manchin and Schumer, it is worth going through what is included in this bill.

Outlays: $433 billion

The main thrust of the bill's investments would be directed toward clean energy and climate resilience. Under the IRA of 2022, climate investments would total $369 billion, down from the $555 billion that the White House called for in October, but still a major fiscal response to climate change. Based on our preliminary analysis of the legislation's text, of the $369 billion, about 60% would take the form of tax credits. Most of these tax policies would extend, enhance or create tax incentives for electricity production from clean energy sources, investment in renewable energy technologies, and other activities addressing climate change such as carbon sequestration, renewable fuel production, and clean energy manufacturing. These tax expenditures would also lower the cost of investing in energy efficiency and purchasing electric vehicles for households and businesses.

The remaining 40% of climate investments would take the form of direct spending by the federal government. The IRA of 2022 would mitigate emissions from agriculture and forestry by supporting conservation practices. Grants, rebates and federal procurement would promote the adoption of clean energy technologies, as well as energy efficiency improvements in the residential and nonresidential sectors. Finally, the legislation would invest in the climate resilience of at-risk communities and address air pollution.

Besides climate investments, the IRA of 2022 would address healthcare coverage by extending the American Rescue Plan's enhancements to the ACA. The ARP expanded eligibility for the premium tax credits to people purchasing their own health insurance on the ACA marketplaces who have incomes above 400% of the federal poverty level. The law also increased the size of the premium subsidies, thereby reducing or eliminating out-of-pocket premiums for millions of ACA enrollees. These enhancements to the premium tax credits are only in effect during 2021 and 2022, but the IRA of 2022 would extend them through 2025, costing the U.S. Treasury $64 billion.

Such an extension would have real-world consequences for healthcare consumers and providers. If the enhanced premium tax credits lapse by the end of 2022, the number of uninsured people would increase by 3.1 million, and these individuals would consume less healthcare than if they remained insured, contributing to a $11.4 billion hit to spending on healthcare services and goods. (These estimates are based on research by the Urban Institute.) Meanwhile, those who continue to buy insurance on the ACA marketplaces would face much higher premiums. Most ACA enrollees have incomes between 150% and 400% of the federal poverty level—and in 2023, premiums for individuals in this group would be more than double than if the ARP's enhancements were extended.

Revenue raisers: $451 billion

To pay for these investments, the IRA of 2022 would principally raise tax revenue from large corporations and wealthy, high-income taxpayers. It would assess a 15% minimum tax on book income, which targets large companies that report high profits to investors but have little taxable income. This would raise $313 billion over 10 years, making it the single-largest revenue raiser in the bill. The IRA of 2022 would also invest in tax enforcement by the Internal Revenue Service to ensure greater taxpayer compliance at a time when the tax gap—the difference between taxes owed under law and revenue collected—is growing. On net, stronger IRS enforcement will raise $124 billion in revenue over the next decade. Finally, the legislation would treat the carried interest that general partners of investment funds receive for implementing investment management services as ordinary income, raising $14 billion in revenue.

Combined, these revenue raisers would represent the most significant tax hikes since the early 1990s. However, compared with all major tax legislation since World War I, the IRA of 2022's tax increases are not eye-popping.

Prescription drug savings: $288 billion

Besides higher taxes on large corporations and well-to-do households, the IRA of 2022 would include several measures that would, on net, reduce federal healthcare costs. Most notably, it would allow Medicare to negotiate lower prices for 10 of the single-source prescription drugs on which it spends the most, with these prices taking effect in 2026. Single-source drugs are only available as the original brand without competing generic equivalents from other manufacturers. By 2029, the number of drugs subject to such bargaining would climb to 20. In addition, the legislation would require drug companies, which raise prices for Medicare and private insurance above the rate of

inflation, to pay rebates to the federal government that cover the difference. Other prescription drug savings would come from repealing a Trump-era rule that would eliminate 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. Finally, other tweaks to Medicare would include capping annual out-of-pocket drug expenses for enrollees to $2,000; making vaccines free; and expanding eligibility for the Low-Income Subsidy, which helps beneficiaries pay for prescription drugs. On net, these federal healthcare policy changes would cumulatively reduce deficits through 2031 by $288 billion.

Reconciliation endgame

The Manchin-Schumer deal marks a major breakthrough in Senate Democratic negotiations over passing some form of President Biden's Build Back Better agenda, which have dragged out for more than a year and had all but collapsed in December 2021. Odds are high and rising that Moody's Analytics will include the IRA of 2022 in the August baseline, but there could be potential setbacks to the deal if other Democratic senators object to it. For now, the IRA of 2022 is looking to be President Biden's last major piece of fiscal legislation before the midterm elections, in which Democrats are likely to lose unified control of Congress.

TOP OF MIND

Borrowers Hang in There

BY MARISA DI NATALE

U.S. consumer credit balances expanded 7.6% over the year in June and were up 7.8% in the second quarter. On a year-ago basis, this was the fastest pace of consumer credit expansion since the last quarter of 2007. The year-ago change in consumer credit balances has decelerated slightly over the past couple of months after peaking in April at 8%. The composition of credit continues to favor revolving credit as the number of trades for mortgages and autos slows and the usage of credit cards and consumer finance loans surges.

Across lines of credit, mortgage loan balances—the largest share of consumer credit—rose a healthy 8.1% in June, down from November's peak of 9.2% over the year. As the Federal Reserve raises short-term interest rates to combat inflation, the average 30-year fixed-rate mortgage rose to 5.72% in June, up from 3.3% at the end of 2021. This has caused mortgage demand to cool dramatically.

Home equity loans are rising for the first time in years as homeowners take advantage of the huge equity cushions built up since the start of the pandemic. Home equity lines of credit and loans rose 1.9% in June following a 0.24% increase in May. These were the first increases in year-over-year home equity loan balances since early 2009. House prices continue to rise despite cooling demand, given the inventory shortage in many markets across the country. The Federal Reserve estimates that owners' equity in real estate among U.S. households rose more than 42% between the start of the pandemic and the first quarter of 2022. Estimates of home equity per household reached an all-time high of $198,290 in the second quarter of 2022.

In the auto loan segment, credit balances rose 6.8% in June over the year, a slowdown from the peak of 7.6% in March. Student loan balances were up 0.9% over the year.

Unsecured credit categories are growing even faster as spending needs increase, prices rise, and pandemic savings are drawn down. Credit card balances were up 16.1%, marking an all-time year-over-year high. Retail, or store card, balances rose 4.8% and consumer credit loan balances—the combination of installment and revolving personal loans—were up a whopping 22% on the year, also an all-time high.

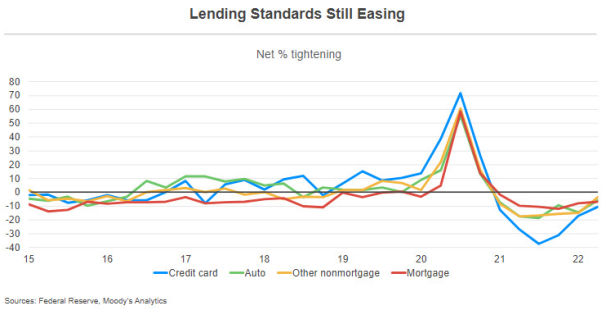
With credit usage normalizing, delinquency rates are also rising across most segments, though they are still quite low compared with pre-pandemic performance.

The total dollar delinquency rate across all products increased by 6 basis points to 1.16% in June; the total delinquency rate for accounts edged modestly higher to 1.95%. The total dollar delinquency rate of 1.16% in June compares with the 2019 annual average rate of 2.43%. Delinquency rates steadily increased every month from May 2021 through February 2022 as lenders loosened the credit spigot and conditions normalized. The decline in delinquency rates in March and April is likely a reflection of borrowers using tax refunds to pay down existing debt and not a reversal of trend. Now that fiscal stimulus programs and credit accommodations have ended, barring a recession, delinquency and default rates will gradually rise through mid-decade.

Lenders push ahead

Even with the risk of recession in the next 12 to 18 months rising, lenders do not yet seem to be sounding any alarm bells when it comes to their lending practices. Delinquency rates are extremely low, though they are rising. Utilization of credit lines is also pushing higher, likely because of rising prices as well as the increased need to rely on revolving credit to supplement spending as households' cash cushions built up during the pandemic are drawn down.

The latest survey of lenders from the Federal Reserve's Senior Loan Officer Opinion Survey shows that on net, lenders are still loosening lending standards across the board on consumer loans including mortgages, new and used autos, credit cards, and consumer installment loans. At the same time, lenders report that demand for these products is up since the start of the year.



Delinquency rates had fallen to unusual lows during the throes of the pandemic for several reasons, all of which are now fading: Households were unable to spend in usual ways, especially for services that were shut down during the pandemic; government stimulus payments padded the coffers of households even as many were spending less without that stimulus; and forbearance and deferral

programs on loans including mortgages, credit cards and student loans meant that households that needed to delay loan payments were able to do so through 2020 and much of 2021.

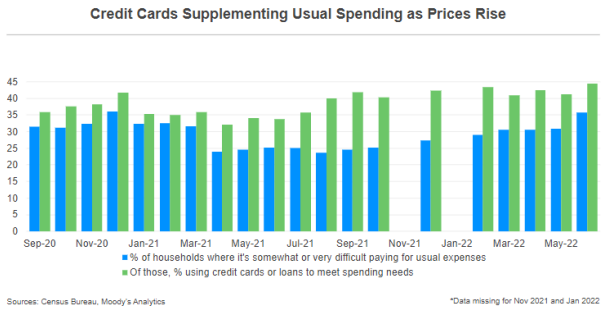
The absence of stimulus payments since early 2021, the reopening of the economy, the rising spending on services, and the end to most forbearance programs mean that things are returning to normal in the realm of credit. Still, with delinquency rates extremely low, lenders are happy to lend to qualified borrowers.

Moody's Analytics forecasts delinquency rates on all products to continue rising through mid-decade, but this assumes no recession. Lenders are likely to become more circumspect as recession risks rise.

Momentum on their side

Credit quality is not deteriorating quickly for the same reason: Despite rising fears of a recession, one has yet to materialize. The job market is in great shape and households still have more than $2.7 trillion in cumulative excess savings.

Perceptions about the economy and its actual performance are divorced right now—consumer confidence surveys show that households are more pessimistic about economic prospects now than at any point in the past two years. That pessimism seemingly stems from the rampant inflation that has pushed spending for the average household up considerably over the past year. With overall CPI inflation up 8.5% over the year in May, consumers are starting to feel stretched. According to the Census Bureau's latest Pulse Survey, which began in the early months of the pandemic to gauge households' well-being across a broad array of measures, 36% of households said that it was somewhat or very difficult to pay for usual household expenses in the latest iteration of the survey taken between June 1-13, compared with 25% a year prior. This likely correlates with the increased spending on and usage of credit cards and other revolving lines of credit.



At the same time, household balance sheets are still mighty—the debt service ratio at 9.5% is still about 0.5 percentage point below where it was prior to the pandemic. Estimates show that as of the first quarter of this year, U.S. households had accumulated $2.7 trillion in excess savings since the start of 2020. Though that is now being drawn down, the average household still has more than $21,000 in excess savings; even the lowest-income households have nearly $6,000 in excess savings. The strong job market is also bolstering the ability of households to withstand higher prices. It has been particularly helpful that service industries and occupations are experiencing the fastest wage growth. Those working in service jobs—retail, restaurants and the like—have seen wage growth of 8.6% over the past year, just offsetting price gains.

Outlook

As interest rates continue to rise over the next year or so, the credit cycle will slow. Balance growth is already at its peak; the largest slowdowns will come in the demand for mortgages and autos. Growth in unsecured products such as credit cards and personal loans, will fill some of the void. Delinquency rates will continue rising but even by the end of 2026 will not match their pre-pandemic rates. The prevalence of fixed-rate debt, especially mortgages, ensures that no foreclosure or default crisis is on the horizon, regardless of how the economy unfolds.

Risks

The largest risk to the outlook is the high and rising likelihood that the economy falls into a recession in the next 12 to 18 months. Those odds are currently around 40% to 50%, and if that happens, outcomes in the credit space will be worse than forecast.

The Week Ahead in the Global Economy

U.S.

It's another busy week on the U.S. economic data front. The main focus will the July employment report, which likely will show that job growth continued to moderate but remained sufficient to prevent the unemployment rate from rising. We also will be watching jobless claims closely. They continue to increase but are still below the 270,000 that would be consistent with no monthly job growth.

Other data include the ISM manufacturing and nonmanufacturing surveys. The tightening in financial market conditions in the first half of July would point toward additional declines in the ISM surveys. The trade deficit for June will also be released along with August vehicle sales. August vehicle sales will kick start our tracking of third-quarter GDP.

Europe

The euro zone's retail sales look primed to have fallen in June with downbeat releases published in a number of countries already. We expect retail sales slid 0.3% m/m, reversing a 0.2% rise in May. Retail likely declined as households switched to spending more on services than on goods, but there are also clear signs that demand is weakening too given the dismal confidence of both retailers and consumers.

Meanwhile, unemployment in the euro zone likely ticked up to 6.7% in June from 6.6% previously. The labour market remains tight, but firms are becoming more cautious about hiring given the more uncertain outlook. We also suspect there are still people entering the work force, motivated by rising prices.

On that note, with inflation rising ever higher in the U.K, we expect the Bank of England to hike its policy Bank Rate to 1.5% from 1.25%. Although the June CPI release reported a stronger-than-expected inflation rate, we expect the BoE to take a cautious approach. The squeeze on household finances looks set to intensify in the autumn more than was already expected, and downside risks to the economic outlook have increased.

Finally, we are expecting modest industrial production out of the core euro zone economies for June. Italy's industry likely rebounded 0.5% m/m, but this comes in response to a 1.1% fall in output in May. Meanwhile we expect 0.1% m/m growth in Germany, France and Spain. The deterioration in confidence among manufacturers as well as the weaker manufacturing PMIs during the month point to a low growth rate.

Asia-Pacific

The focus next week will be on central bank meetings in India and Australia. The Reserve Bank of Australia is expected to hike by 50 basis points, taking the cash rate to 1.85%. That would see cumulative hikes from May reach 175 basis points. We expect more hikes in the second half will take the cash rate to 2.6% by the end of 2022. The RBA is moving aggressively to tame inflation that has broadened well beyond the supply side. Demand-pull inflation is running high. The labour market is extremely tight, with the unemployment rate at a five-decade low of 3.9%. Job vacancies are also elevated and will put further downward pressure on unemployment in coming months.

The Reserve Bank of India is expected to also hike by 50 basis points in August, taking its policy rate to 5.4%. The central bank is moving to calm inflation, which remained at 7% y/y in June. Our baseline is that inflation peaked in mid-2022. Underlying this assumption is that oil prices have passed their peak but will remain high for the remainder of 2022, along with other commodity prices. Prices of other critical food products such as wheat and corn have eased from their peak amidst easing global-supply concerns.

Elsewhere, South Korea's export growth likely improved in July after slowing substantially to 5.4% y/y in June. The combination of fewer working days and a truckers' strike early in the month were the drivers of June weakness. Dark clouds hover over the near-term outlook for exports because of weaker growth trajectories in the U.S. and Europe. In addition, semiconductor prices have trended lower over 2022, softening export values.

Geopolitical Calendar

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

THE LONG VIEW: U.S.

Senate Democrats Cobble Together a Reconciliation Package

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond spread narrowed from 166 to 147 basis points over the past week. It is slightly narrower than the 155 basis-point average in June. The long-term average industrial corporate bond spread narrowed by 18 basis points to 131. It averaged 141 basis points in June.

The ICE BofA U.S. high-yield option adjusted bond spread widened from 490 to 507 basis points. The Bloomberg Barclays high-yield option adjusted spread widened this past week from 480 to 491 basis points. This compares to an average high-yield spread of 1,000 basis points during recent recessions and an average of 350 outside of recessions. Spreads might not widened significantly from here. The June Fed meeting minutes noted that policymakers believe financial market conditions are roughly where they would want them to be.

The high-yield option adjusted bond spreads approximate what is suggested by the accompanying long-term Baa industrial company bond yield spread and but wider than that implied by a VIX of 22.5. The VIX dropped over the course of the past week.

DEFAULTS

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

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

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

U.S. CORPORATE BOND ISSUANCE

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

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

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

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

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

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

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

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

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

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

In the week ended July 22, US$-denominated high-yield issuance totaled $760 million. This puts the year-to-date total to $99.3 billion. Investment-grade bond issuance totaled $52.5 billion in the same week. This brings its year-to-date total to $883.7 billion. Issuance is still tracking that seen in 2018 and 2019.

U.S. ECONOMIC OUTLOOK

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

Fiscal assumptions

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

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

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

COVID-19 assumptions

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

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

Energy price forecast and assumptions

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

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

Cutting GDP forecast

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

There were revisions to first-quarter GDP, which declined 1.6% at an annualized rate (previously -1.5%). However, this

masks significant revisions among the components, some more puzzling than others.

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

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

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

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

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

Business investment and housing

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

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

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

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

Labor market

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

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

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

3.7% and then is little changed through the remainder of the year.

We assume a full-employment economy is one with approximately a 3.5% unemployment rate, around a 62.5% labor force participation rate, and a prime-age employment-to-population ratio a little north of 80%. The labor force participation rate is close, but not at this threshold.

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

Monetary policy

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

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

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

Risks for the Italian Economy

BY ANDREA PINELLI

In the wake of Prime Minister Mario Draghi's resignation, Italy is heading for early elections on 25 September. Draghi had prevailed in a confidence vote in the Senate on 20 July. However, senior governing coalition members from the right-wing Lega and Forza Italia parties and the 5-Star Movement deserted the vote after sparking a governmental crisis by boycotting the latest fiscal support package. The next day, Draghi went to President Sergio Mattarella to resign. Mattarella accepted and dissolved Parliament shortly thereafter, though Draghi will stay on as a caretaker until election day.

Outlook

This latest governmental crisis does not change our economic outlook for Italy's third quarter. Draghi will remain in charge to handle affairs until the new government takes office and could still pass emergency measures as Italy battles soaring inflation and a resurgence of COVID-19 infections. But much will depend on political parties, as the start of the electoral campaign in late August could lead to a policy stalemate.

And there are plenty of reasons to be gloomy about the fourth quarter of 2022 and the first quarter of 2023. Polling suggests that a right-wing coalition formed by the Lega, Forza Italia and the Brothers of Italy could win a large share of the votes, though it is unclear whether these parties would also have the numbers to control parliament.

A period of political uncertainty could cause the spread between Italian and German 10-year government bonds to rise, likely plunging Italy's economy into recession. When no clear winner emerged from the March 2018 general elections, spreads soared by almost 200 basis points and Italy's GDP stalled for two consecutive quarters. Consistent with this, the Moody's Analytics S3 scenario assumes that political turmoil would push the Italy-Germany 10-year spread up by 140 basis points in the fourth quarter of 2022. The spread would remain elevated at around 3% in the first quarter of 2023, before converging to a longer-term equilibrium just above 1% by 2024.

Even if a winner does emerge, the new government would immediately face two challenges: approving the 2023 budget by mid-October and furthering the structural reform agenda to avoid losing a new tranche of NextGenerationEU funds worth about €20 billion.

According to the Moody's Analytics baseline, Italy's budget deficit will come in at around 5% of GDP in 2022, from 7.3% in 2021. But the ongoing energy and humanitarian crises caused by Russia's invasion of Ukraine could prompt the government to pass additional stimulus measures in the next couple of months to ease pressure on households and firms. Meanwhile, interest expense as a share of GDP will increase as long-term government bond yields rise—making debt refinancing more costly and further constraining fiscal policy.

ECB in a bind

As Italy's political drama unfolded, the European Central Bank announced its first rate hike in more than a decade to combat record-high inflation in the euro zone and approved its latest asset purchase programme, the Transmission Protection Instrument. The TPI scheme will allow the ECB to purchase distressed countries' bonds in the secondary market, provided that certain fiscal and macroeconomic criteria are met.

Although TPI is not targeted to any specific euro zone country, Italy is a likely beneficiary, as its elevated public debt worried investors even before the latest governmental crisis. Foreign investors' holdings of Italian government bonds have been declining over the last 10 years, while the ECB currently makes up for about one-third of the Italian sovereign debt market. So far, this has limited the systemic impact of political instability in Italy and has helped prevent a new euro zone existential crisis.

However, if political turbulence sends Italy's government bond spreads through the roof in the next few quarters, the ECB could find itself in the difficult position of having to tailor TPI's implementation to the needs of a single member state instead of a group of countries that are subject to similar shocks. This would be even more difficult if a right-wing, anti-EU coalition wins Italy's September elections. All these factors endanger Italy's debt sustainability and cloud the country's growth prospects.

Say Goodbye to Low-Inflation Asia

BY JESSE ROGERS

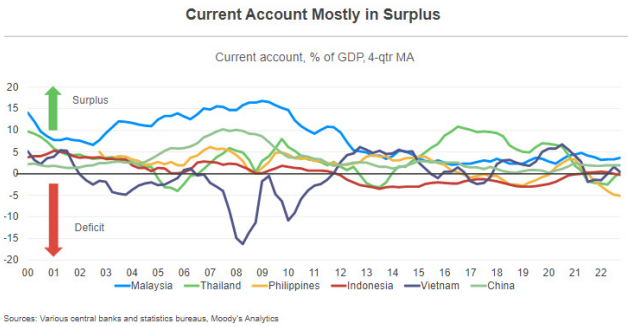
Low-inflation Asia is in for a rude awakening—and in many parts of the region, a new dawn of fast-rising consumer prices has already come. Long exempt from the price pressures plaguing the rest of the emerging world, emerging Asian economies are now face to face with the sharpest rise in consumer prices in more than a decade. Though inflation has taken longer to manifest in emerging Asia than in other emerging regions, its ugly knock-on effects will take a larger toll as the year progresses, weighing on growth for the remainder of this year and into 2023.

Not all is bleak. Even with the hit to China's economy from its zero-COVID policy and headwinds to growth in the U.S. and Europe, we still expect emerging Asian economies to grow this year and to do so with more haste than the rest of the emerging world. But the road forward will make for a rockier ride as central banks rush to recalibrate policy in the face of inflation's belated surge.

The end of low-inflation Asia

Inflation in most advanced and emerging Asian economies tends to be low to begin with. Abstracting from the currency crises that rippled across Southeast Asia in the late 1990s, consumer prices tend not to fluctuate very much. This is partly due to gains on the supply side of the economy, with growth in labor productivity helping the region absorb the pressures of a rising consumer class.

However, the main reason is that emerging Asian economies tend to accumulate the kinds of macro imbalances that hold prices down. Think large trade and current account surpluses; except for India, most Asian economies export more than they import. This means that on net they save more than they spend, sending surplus savings abroad instead of spending them down at home.



This is not to say that emerging Asia is a total stranger to inflation. The last time global food and energy prices surged, in the runup to the 2008-2009 global financial crisis, inflation rose as well.

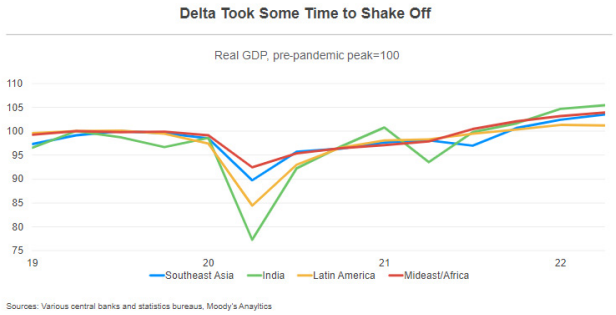
But this time is different.

Starting with a slow creep and swirling into a Category 5 hurricane, inflation will make itself felt across the region, landing later than in the rest of the emerging world and proving only slightly less disruptive.

What, where, when and why now?

Why inflation in emerging Asia has taken so long to show has sparked considerable debate. But pull back the binoculars, and a clearer picture comes into view. Although transitory forces have played a role in holding prices down—a major one being the inversion of food prices after the spread of swine flu in China, Indonesia and the Philippines—inflation's how, when and why is a demand-side story.

In short, inflation in Asia is rising—and rising now—precisely because, apart from China, the region's economies performed so well in the first half of the year. The Delta variant's blunt-force blow in India and Southeast Asia set the region's recovery back relative to the rest of the emerging world. When the Russian invasion of Ukraine broke out earlier this year, local labor markets had yet to claw their way back.



Now that the reopening process in India and Southeast Asia is nearly complete, the supply shock from the invasion of Ukraine and lingering supply-chain bottlenecks have crashed into demand. The result is higher inflation—the highest, in some cases, in more than two decades.

RATINGS ROUNDUP

T-Mobile Upgrade Affects $28.3B in Debt

BY STEVEN SHIELDS

U.S.

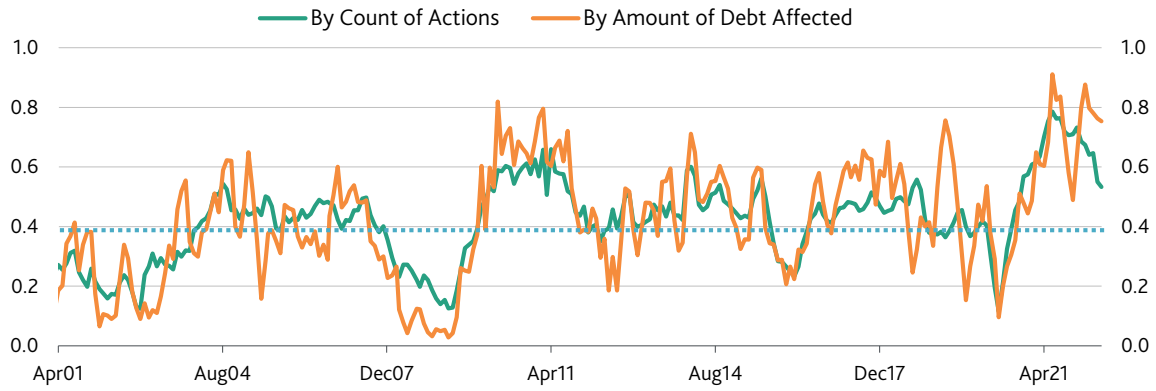
U.S. corporate credit quality was broadly positive in the latest period. Upgrades outnumbered downgrades 10-to-5 with positives changes accounting for two-thirds of the affected debt. T-Mobile USA Inc. was a rising star in the period with its senior unsecured notes lifted to an investment-grade rating of Baa3, impacting more than $28.3 billing in outstanding debt. According to the ratings action, the change reflects T-Mobile's accelerated achievement of higher-than-expected operating cost synergies following its April 2020 merger with Sprint, significant and nearly complete network and operations integration, and high visibility into the company's steady path towards sustained debt leverage. The largest downgrade in the period was issued to Bed Bath & Beyond, reflecting the impact of the retailer's steep decline in revenues and EBITDA on its liquidity, free cash flow, and credit metrics. Also considered were the challenges Bed Bath faces to restore its profitability. Inventory levels are not only elevated and misaligned with sales trends but are overweighted to private label product which must be cleared and replaced with national brands in the face of weaker consumer demand.

Europe

Corporate credit quality was weaker across Western Europe with downgrades accounting for six of the seven changes issued by Moody's. Of the changes, Telecom Italia S.p.A.'s corporate family rating and senior unsecured rating were lowered to B1 from Ba3. According to Moody's Investors Service Vice President Ernesto Bisagno, "The downgrade of Telecom Italia's ratings reflects our expectation that its leverage will remain high, and its free cash flow will remain negative over the next 2 to 3 years, due to the highly competitive market conditions in Italy and the high investment needs, combined with the expected macroeconomic slowdown." Telecom Italia's outlook remains negative. Meanwhile, Ocado Group plc's senior unsecured bond rating was lowered one-notch to B3 from B2, reflecting weak credit metrics that remain due to the combination of high debt and low profitability. The lone upgrade was issued to Neptune Energy Group Midco Ltd. Moody's Investors Service raised Neptune's corporate family rating to Ba2 from Baa3. Concurrently, Moody's also upgraded its senior unsecured notes issued by Neptune Energy Bondco Plc to Ba3 from B1.

RATINGS ROUND-UP

FIGURE 1
Rating Changes - US Corporate & Financial Institutions: Favorable as a % of Total Actions



* Trailing 3-month average

Source: Moody's

FIGURE 2
Rating Key

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

FIGURE 3
Rating Changes: Corporate & Financial Institutions - US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG
7/20/2022	GEO GROUP, INC.	Industrial	SrUnsec/SrSec/BCF/ LTCFR	875.29	D	Caa1	Caa2	SG
7/20/2022	T-MOBILE US, INC.-T-MOBILE USA, INC.	Industrial	SrUnsec	28305.00	U	Ba2	Baa3	SG
7/20/2022	BED BATH & BEYOND INC.	Industrial	SrUnsec/LTCFR/PDR	2400.02	D	B3	Caa3	SG
7/20/2022	CVR PARTNERS, LP	Industrial	SrSec/LTCFR/PDR	550.00	U	B2	B1	SG
7/20/2022	SIGNAL INTERMEDIATE, INC.-SIGNAL PARENT, INC.	Industrial	SrUnsec/SrSec/BCF/ LTCFR/PDR	300.00	D	Caa1	Caa2	SG
7/21/2022	MGIC INVESTMENT CORPORATION	Financial	SrUnsec/JrSub/IFSR		U	Ba1	Baa3	SG
7/21/2022	RADIAN GROUP INC.	Financial	SrUnsec/SrSub/Sub/IFSR		U	Ba1	Baa3	IG
7/21/2022	GENWORTH FINANCIAL, INC.-GENWORTH HOLDINGS, INC.	Financial	SrUnsec/LTIR/Sub/JrSub/ IFSR		U	B1	Ba2	SG
7/21/2022	QUESO HOLDINGS, INC.-CEC ENTERTAINMENT, LLC	Industrial	SrSec/LTCFR/PDR	1300.00	U	Caa1	B3	SG
7/21/2022	NMI HOLDINGS, INC.	Financial	SrSec/IFSR		U	Ba2	Ba1	SG
7/21/2022	ALPHA METALLURGICAL RESOURCES, INC.	Industrial	LTCFR/PDR		U	B3	B2	SG
7/21/2022	NSA INTERNATIONAL, LLC-JP INTERMEDIATE B, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
7/25/2022	SOPHOS INTERMEDIATE I LIMITED-SOPHOS HOLDINGS, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
7/26/2022	WORTHINGTON INDUSTRIES, INC.	Industrial	SrUnsec/LTIR	450.00	U	Baa3	Baa2	IG
7/26/2022	WEBER-STEPHEN PRODUCTS LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG

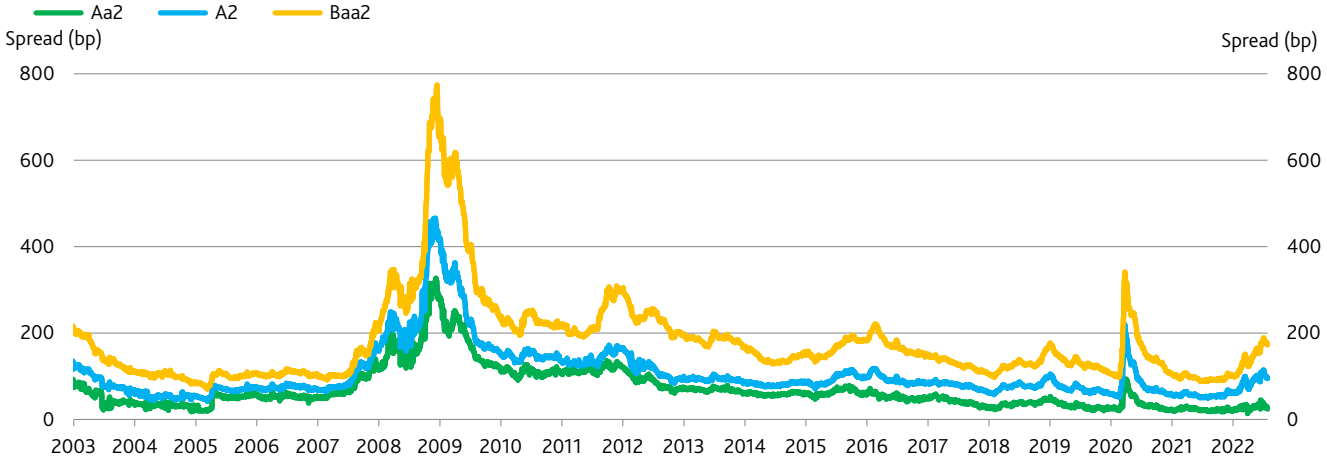
Source: Moody's

FIGURE 4
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
7/20/2022	BANCO COMERCIAL PORTUGUES, S.A.-BANK MILLENNIUM S.A.	Financial	STD/LTD/MTN		D	Baa1	Baa3	SG	POLAND
7/20/2022	SILICA S.A.S.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG	FRANCE
7/21/2022	OLIVETTI S.P.A. [OLD]-TELECOM ITALIA S.P.A.	Industrial	SrUnsec/LTCFR/PDR/ MTN	18155.95	D	Ba3	B1	SG	ITALY
7/21/2022	VUE INTERNATIONAL BIDCO PLC	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa3	SG	UNITED KINGDOM
7/21/2022	NEPTUNE ENERGY GROUP MIDCO LTD.	Industrial	SrUnsec/LTCFR/PDR	850	U	B1	Ba3	SG	UNITED KINGDOM
7/25/2022	OCADO GROUP PLC	Industrial	SrUnsec/LTCFR/PDR	602.076	D	B2	B3	SG	UNITED KINGDOM
7/25/2022	MANGROVE LUXCO III S.A R.L.	Industrial	SrSec/LTCFR/PDR	364.4444	D	Caa1	Caa2	SG	LUXEMBOURG

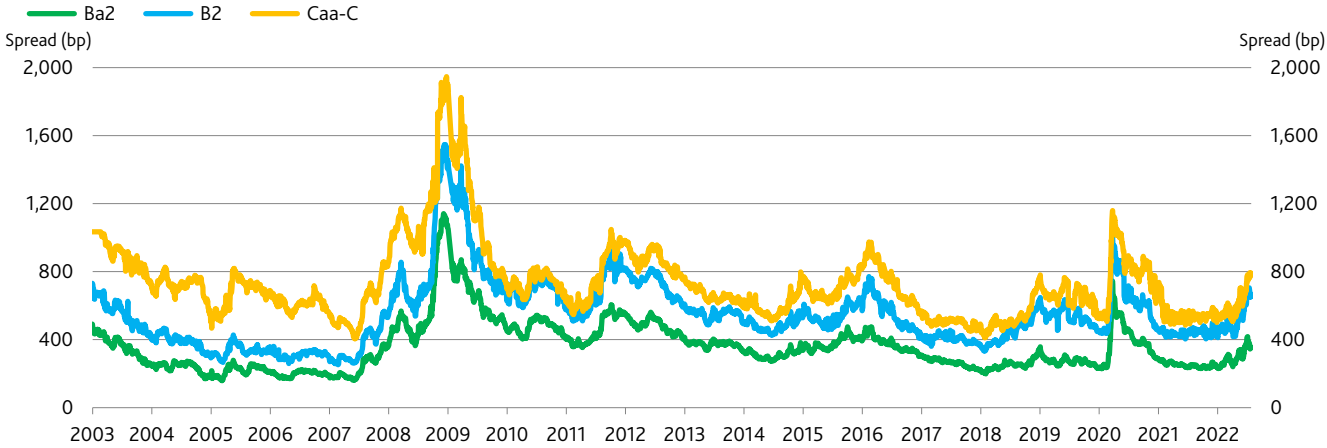
Source: Moody's

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



Source: Moody's

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



Source: Moody's

CDS MOVERS

Figure 3. CDS Movers - US (July 20, 2022 – July 27, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 27	Jul. 20	Senior Ratings
Tenet Healthcare Corporation	Ba3	B2	B3
Toyota Motor Credit Corporation	Aa2	Aa3	A1
Boeing Company (The)	Baa3	Ba1	Baa2
McDonald's Corporation	Aa1	Aa2	Baa1
Bristol-Myers Squibb Company	Aa1	Aa2	A2
Pfizer Inc.	Aa1	Aa2	A2
HCA Inc.	Baa3	Ba1	Baa3
Amgen Inc.	Aa2	Aa3	Baa1
Walt Disney Company (The) (Old)	Aaa	Aa1	A2
CSC Holdings, LLC	B2	B3	B3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 27	Jul. 20	Senior Ratings
Eaton Corporation	Baa1	A2	Baa1
Ford Motor Company	Ba3	Ba2	Ba2
Merck & Co., Inc.	A2	A1	A1
United Airlines, Inc.	Caa1	B3	Ba3
Kroger Co. (The)	A2	A1	Baa1
Delta Air Lines, Inc.	B2	B1	Baa3
Air Products and Chemicals, Inc.	A2	A1	A2
Service Properties Trust	B2	B1	B1
Nucor Corporation	Baa3	Baa2	Baa1
Goodyear Tire & Rubber Company (The)	B2	B1	B2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 27	Jul. 20	Spread Diff
American Airlines Group Inc.	Caa1	1,523	1,332	191
United Airlines, Inc.	Ba3	874	751	124
United Airlines Holdings, Inc.	Ba3	910	788	122
Carnival Corporation	B2	1,190	1,129	61
Rite Aid Corporation	Caa2	1,953	1,912	41
Delta Air Lines, Inc.	Baa3	481	446	35
Gap, Inc. (The)	Ba3	675	640	35
Juniper Networks, Inc.	Baa2	161	131	31
United States Cellular Corporation	Ba2	269	238	30
Embarq Corporation	Ba2	661	630	30

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 27	Jul. 20	Spread Diff
Nabors Industries, Inc.	Caa2	736	871	-135
Bath & Body Works, Inc.	Ba2	497	594	-97
Tenet Healthcare Corporation	B3	407	498	-92
CSC Holdings, LLC	B3	543	631	-88
Liberty Interactive LLC	B2	1,501	1,582	-82
United States Steel Corporation	B1	622	691	-69
Dish DBS Corporation	B3	1,304	1,370	-66
TEGNA Inc.	Ba3	760	816	-56
TRW Automotive Inc.	Ba1	456	506	-50
SLM Corporation	Ba1	557	606	-48

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (July 20, 2022 – July 27, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 27	Jul. 20	Senior Ratings
Autoroutes du Sud de la France (ASF)	A1	A3	A3
ING Bank N.V.	Aa2	Aa3	A1
ING Groep N.V.	A3	Baa1	Baa1
Dexia Credit Local	Aa1	Aa2	Baa3
ENGIE SA	Baa1	Baa2	Baa1
Sanofi	Aa1	Aa2	A1
BNP Paribas Fortis SA/NV	A2	A3	A2
GSK plc	Aa1	Aa2	A2
AstraZeneca PLC	Aa2	Aa3	A3
Merck KGaA	Aa1	Aa2	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 27	Jul. 20	Senior Ratings
Intesa Sanpaolo S.p.A.	Baa3	Baa2	Baa1
Vodafone Group Plc	A3	A2	Baa2
TotalEnergies SE	A2	A1	A1
UniCredit Bank Austria AG	Baa2	Baa1	Baa1
ENEL S.p.A.	Baa3	Baa2	Baa1
Telecom Italia S.p.A.	B1	Ba3	B1
BASF (SE)	Baa3	Baa2	A3
Veolia Environnement S.A.	A3	A2	Baa1
HeidelbergCement AG	Ba1	Baa3	Baa2
Deutsche Lufthansa Aktiengesellschaft	B2	B1	Ba2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 27	Jul. 20	Spread Diff
Casino Guichard-Perrachon SA	Caa1	1,837	1,697	140
Banca Monte dei Paschi di Siena S.p.A.	Caa1	714	644	70
Piraeus Financial Holdings S.A.	Caa1	1,029	978	51
Telecom Italia S.p.A.	B1	434	409	25
Wienerberger AG	Ba1	312	288	24
CECONOMY AG	Ba1	620	600	20
BASF (SE)	A3	129	110	19
Italy, Government of	Baa3	166	148	18
British American Tobacco p.l.c.	Baa2	120	106	15
Deutsche Lufthansa Aktiengesellschaft	Ba2	478	464	14

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 27	Jul. 20	Spread Diff
Vue International Bidco plc	C	1,061	1,316	-256
Novafives S.A.S.	Caa2	1,410	1,599	-188
Vedanta Resources Limited	B3	1,871	1,988	-116
Ardagh Packaging Finance plc	Caa1	992	1,042	-51
Jaguar Land Rover Automotive Plc	B1	971	1,021	-50
Sappi Papier Holding GmbH	Ba2	346	383	-37
Rexel SA	Ba3	343	370	-27
Fortum Oyj	Baa2	248	273	-25
RWE AG	Baa2	120	139	-19
Hamburg Commercial Bank AG	Baa1	245	260	-15

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (July 20, 2022 – July 27, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 27	Jul. 20	Senior Ratings
Japan, Government of	Aaa	Aa1	A1
Australia, Government of	Aaa	Aa1	Aaa
Korea, Government of	Aa2	Aa3	Aa2
Indonesia, Government of	Baa2	Baa3	Baa2
Korea Development Bank	Aa2	Aa3	Aa2
Export-Import Bank of Korea (The)	Aa3	A1	Aa2
Export-Import Bank of China (The)	A3	Baa1	A1
Mitsubishi Corporation	Aa2	Aa3	A2
Kansai Electric Power Company, Incorporated	Aa1	Aa2	A3
Mizuho Bank, Ltd.	A1	A2	A1

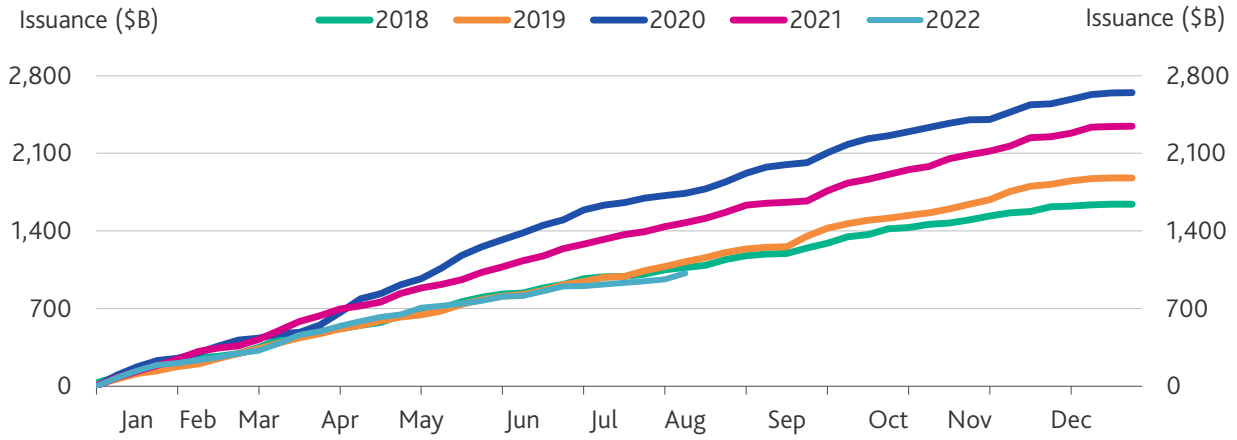
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 27	Jul. 20	Senior Ratings
Coca-Cola Amatil Limited	A2	Aa2	Baa1
Commonwealth Bank of Australia	A3	A2	Aa3
Thailand, Government of	A3	A2	Baa1
Telstra Corporation Limited	A2	A1	A2
Flex Ltd.	Baa3	Baa2	Baa3
Woolworths Group Limited	Baa1	A3	Baa2
China, Government of	A3	A3	A1
India, Government of	Baa3	Baa3	Baa3
China Development Bank	Baa1	Baa1	A1
Sumitomo Mitsui Banking Corporation	A1	A1	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 27	Jul. 20	Spread Diff
Pakistan, Government of	B3	3,262	2,287	975
Coca-Cola Amatil Limited	Baa1	60	34	26
SK Innovation Co. Ltd.	Baa3	167	155	12
Tata Motors Limited	B1	336	325	10
Flex Ltd.	Baa3	134	126	7
Nomura Holdings, Inc.	Baa1	94	91	3
PTT Global Chemical Public Company Limited	Baa2	79	76	3
PTT Public Company Limited	Baa1	75	72	3
Qantas Airways Ltd.	Baa2	192	189	2
ORIX Corporation	A3	65	63	2

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 27	Jul. 20	Spread Diff
SoftBank Group Corp.	Ba3	444	471	-27
Reliance Industries Limited	Baa2	129	150	-21
India, Government of	Baa3	147	162	-16
ICICI Bank Limited	Baa3	135	151	-16
Halyk Savings Bank of Kazakhstan	Ba2	495	510	-16
Tenaga Nasional Berhad	A3	83	99	-15
Telekom Malaysia Berhad	A3	81	96	-15
Petroliam Nasional Berhad	A2	95	108	-14
State Bank of India	Baa3	135	149	-14
Development Bank of Kazakhstan	Baa2	363	375	-12

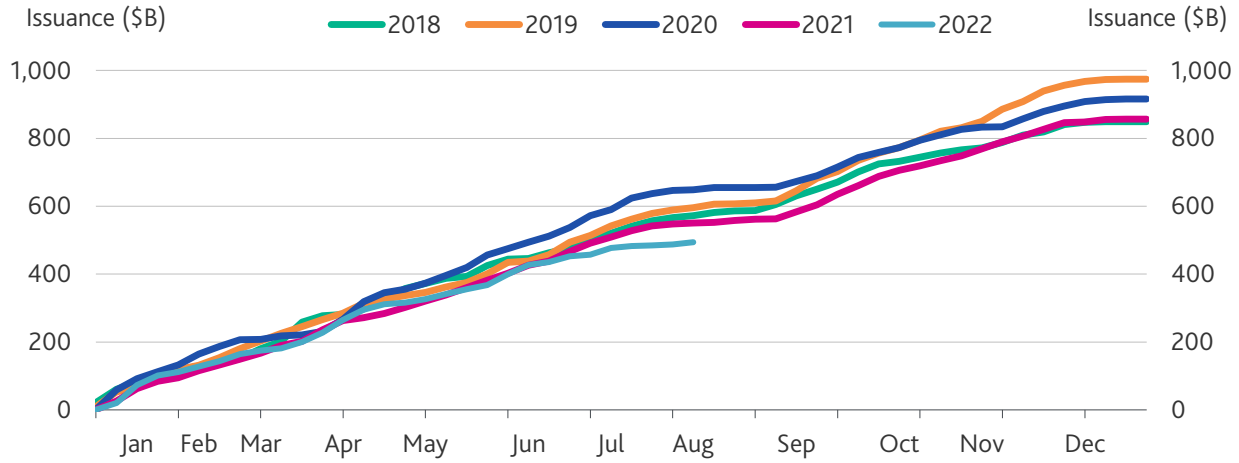
Source: Moody's, CMA

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	52.460	0.760	53.943
Year-to-Date	883.695	99.284	1,017.250

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	5.680	0.303	6.070
Year-to-Date	458.017	28.087	493.898

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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Report Number: 1337698

Editor
Reid Kanaley
help@economy.com

Contact Us
Americas
+1.212.553.1658
clientservices@moodys.com

Europe
+44.20.7772.5454
clientservices.emea@moodys.com

Asia (Excluding Japan)
+85 2 2916 1121
clientservices.asia@moodys.com

Japan
+81 3 5408 4100
clientservices.japan@moodys.com