Moody's ANALYTICS

WEEKLY MARKET OUTLOOK

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Divergent Data On U.S. Economic Growth

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The U.S. economy is slowing. Real GDP rose by a weak 1.3% in the first quarter, according to the BEA's second estimate. GDP growth in the first quarter halved the growth rate reported for the final quarter of 2022. Fourth-quarter growth was also less than the 3.2% rate of expansion reported in the third.

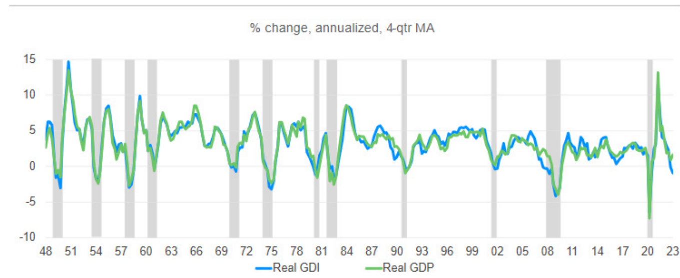
GDP, however, is an imperfect measure of economic growth. The indicator assesses economic growth by measuring the value of final goods and services produced in the U.S. Another measure of economic activity is gross domestic income. Real GDI, which instead measures the incomes earned and the costs incurred in production, contracted 2.3% in the first quarter of 2023 and 3.3% in the fourth quarter of 2022. In theory, GDP and GDI should equal each other, but the use of different source data in estimating each indicator often leads to statistical discrepancies. Specifically, GDP adds consumption, investment, government outlays and net exports while GDI adds labor compensation, business profits, and other sources of income such as from interest, rents and taxes. This muddles the interpretive waters when it comes to short-run economic growth. Although, over the long run, the difference in annualized growth between GDP and GDI levels out to about zero, implying that short-run disparities prove temporary, as the series converge over time.

While real GDP and real GDI growth tell the same story over longer periods of time, estimates since the onset of the pandemic have diverged by significantly greater magnitude than normal. Since the first quarter of 2020, the average divergence of annualized real GDI growth from real GDP growth is 0.7 percentage point; limiting the data from 2021 to the first quarter of 2023, the average divergence has increased to 1.6 percentage points. This compares with -0.1 percentage point in the 13 quarters preceding

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

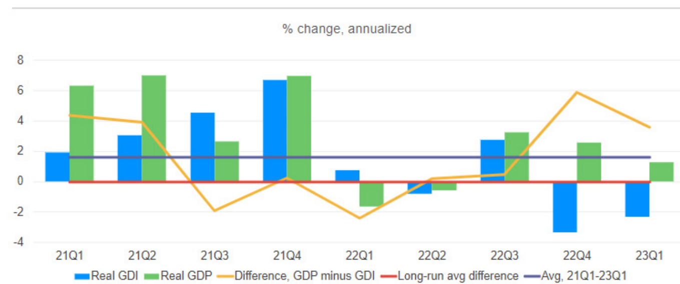
the pandemic—an equal number of quarters since the pandemic began—and 0.3 percentage point from 2015 to 2019. The average difference today is also the largest compared with all economic expansions dating to 1947. The second largest of -0.4 percentage point followed the recession of 1953-1954. The reason for the larger magnitude today is difficult to discern. Although, measurement since the pandemic has been tougher due to lower survey response rates. Also, higher price and wage inflation has made accurate estimates harder to pin down.

Short-Run Differences, Long-Run Parity



Sources: BEA, FRED, Moody's Analytics

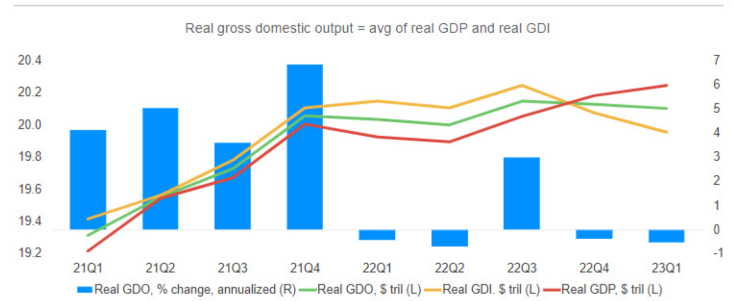
Differences Have Been More Pronounced Since 2020



Sources: BEA, FRED, Moody's Analytics

Perhaps a better measure of economic activity is real gross domestic output, calculated by taking the average of real GDP and real GDI. Research from the Council of Economic Advisors shows that growth in real GDO is a better predictor of future revisions to real GDP growth, and therefore serves as a more accurate real-time measure of current economic activity. Using this measure, economic activity contracted in the first quarter, as real GDO fell 0.5%. In fact, four of the previous five quarters experienced negative annualized percent changes in GDO—the third quarter of 2022 was the only exception.

What About GDO?



Sources: BEA, FRED, Moody's Analytics

To be sure, GDO is not without its own measurement challenges and, like GDP and GDI, is subject to potentially large revisions. Therefore, GDO alone is not the end-all, be-all for determining whether the economy is expanding or contracting. Indeed, no one measure of economic activity is perfect, but multiple perspectives on the state of the economy are nonetheless helpful, particularly in the post-pandemic era when different data sometimes seem to paint different pictures.

Baseline forecast changes little between May and June

Despite elevated interest rates and the banking crisis, the economy is showing significant resilience, consistent with our expectations. Consequently, we made only modest adjustments to the Moody's Analytics U.S. baseline forecast in June based on new data, the debt-ceiling agreement, and a small modification about our assumptions regarding actions by the Federal Reserve. Fundamentally, however, the outlook remains essentially the same and the pace of annual GDP growth is only modestly changed.

We still assume that the terminal fed funds rate has now been attained. Although oil and natural gas prices shifted downward again in the short term, the actions of OPEC+ and Saudi Arabia had little impact on the medium-term outlook for oil prices. If anything, these actions have reduced downside risks. The outlook for real business investment spending was essentially unchanged for 2023 and slightly lower in 2024. Fiscal policy assumptions changed modestly to incorporate the debt-limit extension agreement. The outlook for the 10-year Treasury is only a little changed and mostly in the very near term.

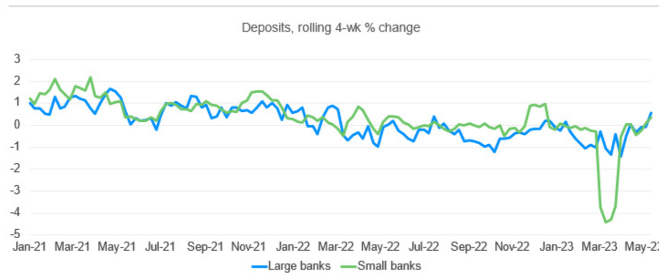
TOP OF MIND

Banking Update: Deposits Back to Growth

BY MATT COLYAR

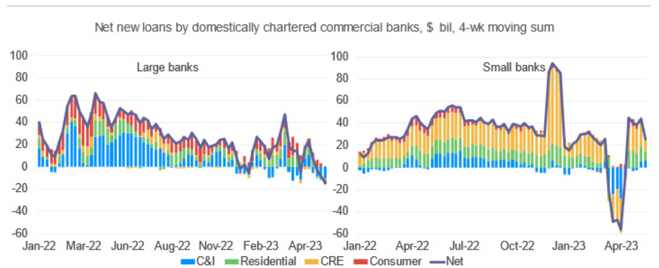
After plummeting in March, deposits at small and midsize banks stabilized in April and, as of May, had begun growing. Small banks, as well as their larger counterparts, saw steady deposit growth in May. Customer deposits are a key source of bank financing and ease the liquidity pressures that characterized the failures of Silicon Valley, Signature and First Republic banks.

Deposits Growing



Sources: Federal Reserve, Moody's Analytics

Lending at Small Banks Picks Up



Sources: Federal Reserve, Moody's Analytics

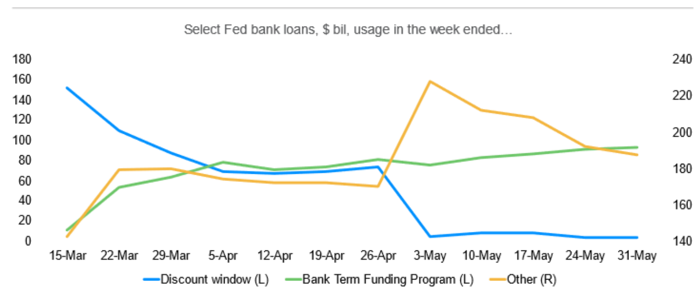
The potential for a slower-burning crisis has not disappeared, but the immediate fallout that began earlier this year has been contained. The inability to source credit will stymie business investment, hiring and consumer spending. This will hurt small businesses disproportionately. Larger firms have access to capital markets and funding that smaller firms simply do not.

Assessing the impact

The runup in interest rates since the beginning of 2022 has pressured bank liquidity, though aggressive government intervention has stabilized the situation. Through money markets and other fixed-income instruments, households can now get a meaningful and low-risk rate of return well above the yield on bank-held deposits. This led to outflows from banks, particularly smaller regional banks, reducing the stock of funds on hand to originate new loans.

Further, deteriorating performance over the last 18 months has diminished creditors' risk appetite, with banks and credit unions pulling back from riskier products and markets. Finally, the expectation of slower output and labor market growth has forced creditors to set aside funds for loss provisions, further sapping liquidity. These trends suggest it will be more difficult for households to tap credit sources in the near term. Given that a significant share of consumer spending is financed, this is ominous for overall growth. Our latest baseline forecast expects the banking chaos of 2023 to shave 0.5 percentage point from real GDP growth this year.

Fed Emergency Lending



Source: Moody's Analytics

In the week ended May 31, lending from the Fed's emergency facilities was again little changed from the week before. This has allowed the Fed's balance sheet to shrink modestly. Borrowing from the Bank Term Funding Program has inched up from $91.9 billion in the week ended May 24 to $93.6 billion in the week ended May 41. This increase has been offset by the sharp decline in discount window borrowing, the Fed's traditional facility for providing liquidity to banks. Discount window lending, which surged in early May, his since fallen to $4 billion.

It is encouraging that deposit outflows from small and midsize banks have begun to recover. Depositors appear less concerned with losing uninsured money, given the FDIC's blanket coverage in response to Silicon Valley Bank and First Republic's collapse. Instead, depositors are seeking a greater return on their money and parking it where the return is highest.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar is packed. The highlights will come Tuesday and Wednesday with the release of consumer price index data for May followed by the June meeting of the Federal Open Market Committee. We expect that inflation will continue to moderate, slowly, and the Federal Reserve will take this opportunity to pause interest rate hikes for the first time since the tightening cycle began.

The NY Empire State manufacturing survey and the Philly Fed survey will provide a first look at factory performance in June, and we expect a continuation of the weakness that has plagued the industry this year.

Jobless claims will remain in focus as they provide labor market insight with the shortest lag time. Initial claims jumped back above 260,000 last week after falling in recent reports. While still short of the breakeven level—which we currently estimate to be around 265,000—it will be important to note any sustained increase in the level of claims, which would likely signal a deceleration in monthly job gains.

Other key data will include the NFIB small business survey, producer price index, retail sales, industrial production, and the University of Michigan consumer sentiment survey.

Europe

We expect U.K. GDP to have rebounded 0.2% month over month in April following a 0.3% decline in March. Service sector activity likely drove the economy as tourism picked up over the Easter holiday. Manufacturing likely remained a weak spot. Meanwhile, unemployment in the three-months to April was likely unchanged at 3.9%. The labour market remains tight, even though we expect to see an upward creep through the year.

Industrial production in the euro zone likely partially recovered by 2% monthly in April after a 4.1% drop in March. Output likely rebounded in the computer sector, which was the main drag on production in March. We do think manufacturing will grow through the second quarter.

The euro zone's external trade balance in goods likely registered another surplus in April. The not seasonally adjusted surplus likely rose to €27 billion from a deficit of €34.5 billion one year earlier. In March, the surplus was €25.5. Better terms of trade and supply conditions will increase the value of exports in April compared with a year earlier.

We expect final estimates of the euro zone's harmonised index of consumer prices to confirm preliminary estimates for annual inflation of 6.1% in May, down from 7% in April. There will be lower inflation across each major segment, with energy doing the most work. Core inflation will be lower, though it may bounce higher in June due to base effects. Still, May looks to be the start of a downward trend.

The European Central Bank is expected to hike interest rates by 25 basis points at its June meeting. This would bring its policy rate, its main refinancing operations target, to 4%. Even if inflation is trending lower, the ECB will not be ready to pause or reverse rate hikes just yet. There is not enough irrefutable evidence that core inflation is safely on a downward path. Both core and headline inflation remain at multiples above the 2% target. We think the ECB is most likely to stop hiking after raising rates one more time in July.

Asia-Pacific

China's May activity data will likely reflect the country's uneven and bumpy recovery. Growth in industrial production and retail trade likely slowed, with base effects overstating the slowdown. Underlying cautiousness by businesses and consumers and weakened offshore demand will have also hurt the May readings.

The global tech cycle is in a downswing, and Asia's exporters are not immune. Singapore's nonoil domestic exports likely fell 12.3% year on year in May, building on April's 9.8% fall. Elsewhere, Japan's nominal trade deficit likely narrowed again in May. The deficit has narrowed considerably over the past several months, with falling global commodity prices lowering the nominal value of Japan's goods imports. Year on year, goods imports are falling, and exports are recording moderate growth.

Latin America

The upcoming week is a quiet one on the data front, with scheduled releases filling in a few more gaps on the performance of major Latin American economies in April and May. Headlining the week is industrial production in Uruguay, where we expect April to have shown modest gains.

Figures on April retail sales in Brazil and May inflation in Argentina will show the respective tribulations and trials of the region's first- and third-largest economies. We expect retail spending to have risen again in Brazil and for inflation in Argentina to move further into triple digit territory amid rising food prices, a weakening peso, and widespread indexation.

April industrial production in Colombia rounds out the calendar; we expect output to have fallen for a second consecutive month.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
8-Jun	U.S.	U.S. Treasury X-date	HIgh	High
15-Jun	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
15-Jun	EU	Eurogroup	Low	Low
16-Jun	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
25-Jun	Guatemala	General election	Low	Low
29-30-Jun	European Union	European Council summit	Low	Low
By Jul	Greece	General election	Medium	Low
23-Jul	Cambodia	General election	Low	Low
27-Jul	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
Aug	Thailand	Upper and lower houses vote on next prime minister	Low	Low
4-Aug	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
13-Aug	Argentina	Presidential primary, PASO	Medum	Low
20-Aug	Ecuador	Presidential election, first round	Medium	Low
1-Sep	France	Senatorial elections	Low	Low
9-10 Sep	G-20	India hosts G-20 summit	Low	Low
14-Sep	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
Sep	Singapore	Presidential election	Low	Low
Sep	U.N.	General Assembly, New York	Low	Low
22-Sep	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
By 12-Oct	Spain	General elections	Medium	Medium
14-Oct	New Zealand	General election	Low	Low
26-Oct	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
26-27-Oct	EU	European Council summit	Low	Low
29-Oct	Argentina	General election	Medium	Medium
29-Oct	Colombia	Regional elections	Low	Low
Oct/Nov	ASEAN	Indonesia to host ASEAN summit	Low	Low
Nov	Indonesia	Association of Southeast Asian Nations	Low	Low
Nov	APEC	Economic leaders' meeting, to be held in San Franciso, U.S.	Low	Low
3-Nov	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
6-17 Nov	U.N.	COP 28, to be held in Dubai, UAE	Low	Low
14-Dec	Euro zone	European Central Bank monetary policy announcement	Medium	Medium
14-15-Dec	EU	European Council summit	Low	Low
15-Dec	United Kingdom	Bank of England monetary policy announcement	Medium	Medium
13-Jan	Taiwan	Presidential election	Medium	Medium

Monetary Policy Assumptions Get a Tweak

BY STEVEN SHIELDS

CREDIT SPREADS

Credit markets are not exhibiting signs of elevated default risk. According to the Moody's Investors Service long-term average corporate bond yield, the spread to the 10-year U.S. Treasury decreased by 6 basis points in the past week, reaching 159 bps. Following two weeks of declines, spreads are comfortably below their 12-month high of 178bps.

The high-yield option-adjusted spread in the U.S. Bloomberg/Barclays index reached its lowest point since February, closing Wednesday at 422 basis points. Similarly, the ICE BofA U.S. high-yield option-adjusted bond spread closed at 433 bps, notably lower than its peak of 522 bps in March 2023. These high-yield option-adjusted bond spreads closely align with the corresponding long-term Baa industrial company bond yield spread. However, they are considerably wider than what would be anticipated given the current CBOE Volatility Index reading of just 13.7.

GLOBAL DEFAULTS

Moody's Investors Service reported 11 corporate debt issuers defaulted in April, down from the upwardly revised count of 16 in March. However, the trailing 12-month global speculative-grade default rate ticked up to 3.1% at the end of April from 3.0% at the end of March as the number of speculative-grade defaulters entering the 12-month window outpaced the number exiting.

The largest April default came from the corporate family of Light SA, a Brazil-based electricity generator and distributor. Other notable defaulters in the month were Bed Bath & Beyond Inc., CareerBuilder LLC, Rodan & Fields LLC, Skillz Inc., and Wahoo Fitness Acquisition LLC. North America is driving defaults with 29, more than doubling the count of 13 in the comparable period a year earlier. Across industries, three sectors stood at the top with four defaults each: business services; retail; and hotel, gaming and leisure.

Moody’s Investors Service predicts high interest rates, slowing economic growth, sticky inflation, and tighter financing conditions will uncover pockets of financial vulnerability, making it more difficult for low-rated companies to refinance and leading to rising defaults. Default risk will be particularly high among private equity-backed issuers that borrow heavily in the loan market, most of which have weak credit quality.

Moody’s Investors Service’s baseline forecast predicts the global default rate will end this year at 4.5% before rising to 4.9% by the end of April 2024, both higher than the long-term average of 4.1%. These predictions are based on assumptions such as a widening U.S. high-yield spread, rising unemployment, and a significant slowdown in global GDP growth this year.

CORPORATE BOND ISSUANCE

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 by 9% for IG and advanced by 64% for high yield.

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

In the third quarter of 2021, issuance softened 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 as 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 2022’s 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 2022's third quarter, issuance declined further as higher interest rates weighed on lending activity. Worldwide offerings of investment grade corporate bonds totaled $505 billion, down 30% year over year. US$ denominated high-yield corporate bond issuance clocked in at $21 billion in the second quarter. High-yield issuance has declined approximately 84% on a year-ago basis.

In the fourth quarter of 2022, corporate debt issuance remained suppressed. US$-denominated high-yield issuance ended the year at $2.47 billion, reflecting a drastic 77% decline from 2021. Meanwhile investment-grade bond issuance totaled $1.29 trillion in 2022, corresponding to a 20.8% decline from 2021. Over the past twelve months total US$-denominated issuance has tracked at a near-decade low.

The first quarter of 2023 saw a decline in global offerings of corporate bonds, with investment-grade offerings falling 7.9% and high-yield offerings dropping 10.1% year over year. US$-denominated IG issuance, which accounts for half of activity globally, decreased 15.04% on an annual basis. U.S. high-yield issuance also experienced a slow start at just $31.5 billion, marking its slowest start to a year since 2008 and posting a 15.0% decline compared to the first quarter of 2022.

During the latest weekly period, U.S.-dollar-denominated investment-grade debt issuance rose to $20.35 billion from $17.15 billion. Year-to-date investment-grade issuance has totaled $641.2 billion and reflects a 13.6% decrease compared with the previous year.

High-yield debt issuance amounted to a meager $0.13 billion during the same period. At $88.04 billion year-to-date, cumulative high-yield issuance has outperformed expectations and is down just 1.5% year over year.

Overall, total U.S.-dollar-denominated corporate debt issuance is 13.2% below where it stood at this time last year. Approximately a quarter of the proceeds received in the second quarter were allocated toward debt refinancing.

U.S. ECONOMIC OUTLOOK

Our baseline assumptions for monetary policy have changed slightly from the last update. As in the previous outlook, we expect that the Federal Reserve's May rate hike was the last of the current tightening cycle and that the policy rate will remain at its terminal range of 5% to 5.25% until the end of 2023. However, we now anticipate that the Federal Open Market Committee will not start lowering rates in January 2024, but instead will postpone its first cut to March because inflation remains more persistent than previously anticipated. While the FOMC will make further policy action contingent on the ongoing impact of monetary tightening on economic and financial conditions, we anticipate that the policy stance is sufficiently restrictive to reduce inflation to target over time. Monetary policy will remain restrictive through the end of 2025. The fed funds rate will return to its neutral rate in early 2026.

The Fed continues to balance inflation and labor market tightness against financial conditions. April personal consumption expenditure inflation came in higher than expected, with monthly core accelerating to 0.4% from March. The Fed's preferred inflation measure ticked up slightly on a year-over-year basis as well, and core inflation has remained stuck near 4.7% since last December. U.S. labor markets also remain resilient. In May, the jobless rate rose only marginally to 3.7%. While incoming data has increased the probability of further tightening, Fed officials for now strongly signal a June pause to assess the lagged impact of credit tightening after the March banking turmoil.

Overall, inflation remains the key to our baseline. The June vintage has year-ago consumer price inflation at 3.1% by the end of 2023, compared with 2.9% in the May vintage. Since inflation will approach the Fed's target toward the end of the first quarter of 2024, later than in our previous baseline, we anticipate that the Fed will keep rates elevated longer. We continue to expect that remaining inflationary pressures from shelter and other U.S. service industries will soften. We also still believe a soft landing to be the most likely outcome for the U.S. economy, thanks to the resilience of consumers and labor markets.

Financial conditions, meanwhile, will remain tight, reflecting ongoing monetary pressures. However, we expect near-term easing after the resolution of the debt-limit standoff. Stock prices already gained ground from early May to early June. While the 10-year Treasury yield rose to 3.7% during this period, the baseline outlook has the yield average 3.6% in the second quarter of this year, down by 15 basis points from the previous baseline. The yield will then peak in the second quarter of 2024 just shy of 4%, as in the previous baseline. We estimate the 10-year Treasury yield will then decline into 2025.

Foreign exchange markets also continue to relax as the Fed has approached the end of the current hiking cycle. On a real broad trade-weighted basis, the U.S. dollar is still up more than 5% from its pre-pandemic level, but in April had depreciated by more than 5% from its October peak.

Energy

Moody's Analytics has lowered its crude oil price forecast by $4 per barrel in the second and third quarters of 2023. We now expect Brent to average $83.02 in calendar year 2023 versus $85.45 a month ago. It has become clear that Russia

will be able to evade and bypass the massive oil sanctions levied upon them by Western powers for its invasion of Ukraine. Incredibly, Russia's oil exports are now higher than they were before the invasion of Ukraine. We had expected the bite from sanctions, especially the EU's oil import ban, to restrain Russia's exports and thus constrain supply to the global oil market. That has not happened, however—and if it has not happened yet, it might not happen at all. We have revised our expectation for Russian oil exports higher by 500,000 barrels per day, and risks are weighted to the upside. We had expected Russian oil exports to fall by 1,000,000 bpd when the West imposed 4.7 million bpd of oil sanctions.

The surprising strength of Russian oil exports has left the oil market oversupplied. OPEC announced production cuts—which took effect in May—to bring the market into balance, but that was not enough, so Saudi Arabia voluntarily cut output by an additional 1 million bpd. That is expected to take effect in July. Saudi Arabia will determine whether the cuts will be extended beyond July based on the market price of oil. Excess capacity excluding Russia and Iraq now stands at 4.1 million bpd, which is historically high. This could rise to as high as 5 million bpd once Saudi Arabia implements production cuts in July. Such a high level of oversupply provides a substantial buffer against rapid oil price appreciation, in a further nod to our forecast revision.

Moody's Analytics has also reduced its natural gas price forecast. Henry Hub natural gas prices are now expected to average $3.15, down from the $3.34 average we expected a month ago. The reopening of all three trains at the Freeport liquefied natural gas terminal has failed to arrest the decline in U.S. natural gas prices. Significant arbitrage opportunities remain for U.S. firms to process natural gas and export it to Europe. This will lower European gas prices over time and raise gas prices in the U.S. However, it will take longer for firms to arbitrage than we had previously expected.

GDP

U.S. GDP rose a weak 1.3% in the first quarter, according to the Bureau of Economic Analysis' second estimate, the third consecutive quarter of growth but confirmation that the weakening in growth will persist through the year. Growth was broad with consumer spending leading powerfully, supported by exports, government spending, and nonresidential business investment. Inventories were a major drag with imports and residential investment also weighing on growth. The baseline outlook remains that the Fed will accomplish its goal of slowing inflation without precipitating a recession.

Consumer spending remained a source of growth and its contribution grew to the largest in nearly two years as cost-of-living adjustments boosted after-tax income. It added 2.5 percentage points to growth. Nonresidential fixed investment, government, and trade were modest supports to growth in the quarter, with state and local spending leading the government gain. Prospects for trade will remain positive if the dollar weakens as expected.

Inventories were a huge drag on growth, reducing growth by 2.1 percentage points, its largest drag in two years. Fixed investment fell slightly, subtracting 0.03 percentage point from growth, with residential investment pulling growth down by 0.2 percentage point and structures and IP investment the strongest performers.

The change in the composition of growth in the first quarter was one of the factors affecting the outlook. The larger-than-previously reported inventory build in the first quarter is a negative for the near-term outlook because inventory accumulation will slow more rapidly than previously thought. By contrast, the faster consumer spending growth provides more momentum for the second quarter, before becoming a drag as growth slows more than previously expected. The net effect is little change to growth projected for this year, but a bit more slowing next year as the impact of debt-ceiling legislation takes its toll. On an annual average basis, growth is projected to be 1.6% in 2023 and 1.4% in 2024, compared with projections of 1.6% and 1.7%, respectively, in the May outlook. Growth still accelerates to around trend levels in 2025.

Labor market

Despite the Fed's best efforts, the U.S. job market remains hot. One must squint to see signs of a slowdown, though they are there. In May, nonfarm payroll employment yet again surprised to the upside, though the very strong job gains were accompanied by a sharp rise in the unemployment rate from 3.4% to 3.7% as millions of self-employed workers entered the market for other work. Claims for unemployment insurance have been stable over the past few weeks and have even moved a bit lower compared to where they were at the end of the first quarter. Job openings have come down, though there are still about 1.5 open jobs for every unemployed person. Quits have fallen, a sign that workers are perhaps less optimistic about their job market prospects than they once were. Wages, one of the more important indicators from the Fed's perspective, are also cooling off, albeit very slowly.

The strong jobs report in May means that the forecast for nonfarm payrolls over the next few years is a bit stronger than it was last month, given the higher jumping-off point. The forecast now does not expect a sub-100,000 per month increase in payrolls until the final quarter of this year. Not until 2024 will monthly job gains be very weak at fewer than

50,000 per month on average. The unemployment rate will rise to 3.8% by the end of the year as monthly job growth is enough to keep it from rising further. The rate will peak at 4.3% at the start of 2025 before slowly trending lower thereafter. Wage growth will continue to decelerate and by this time next year will be approaching 3.5% as measured by the Employment Cost Index, which is right around where it should be to reach the Fed's inflation target.

Fiscal policy

Over the Memorial Day weekend, President Biden and House Speaker McCarthy reached an agreement to limit federal spending over the next two years and suspend the debt limit until January 2025, which will effectively remove the debt limit as an issue until after the 2024 presidential election. The agreement, officially known as the Fiscal Responsibility Act, was signed into law in early June and is incorporated into the June vintage of the baseline forecast. The most important element of the FRA is the caps it imposes on federal defense and nondefense discretionary spending in fiscal 2024 and 2025.

As the law is written, the nondefense budget will shrink by 8% next year, and in the following year, growth in nondefense appropriations would be limited to just 1%. On the other hand, the defense budget will be allowed to grow by 3% next year, but in fiscal 2025, its growth would also be limited to 1%. The caps on discretionary spending will reduce federal budget deficits by $170 billion over the next two years. From fiscal 2026 onward, there are no enforceable caps on discretionary spending, and discretionary spending will grow in line with inflation. However, because discretionary spending in fiscal 2026 will start from a lower base than would have otherwise been the case without the debt-ceiling agreement, the Congressional Budget Office estimates that the budgetary savings tied to the FRA over the next decade will balloon to $1.5 trillion.

Nevertheless, these savings are unlikely to occur to the same extent as estimated by the CBO. There were a series of side deals that were made by negotiators and that are not written into the legislative text of the FRA. These side agreements effectively shift money around and will allow appropriators to maintain nominal nondefense spending roughly flat compared to current levels. The baseline forecast assumes that these side deals limit the cumulative deficit reduction in fiscal 2024 and 2025 to around $90 billion, as opposed to the $170 billion that would occur if the letter of the law were followed. Consequently, the macroeconomic consequences from the FRA are not as great. We anticipate that the FRA will lead to a 0.19% reduction in real GDP, a one-tenth of a percent increase in the unemployment rate, and a reduction to nonfarm employment of about 130,000 jobs. The peak of the drag from the FRA will occur in late 2024.

Business investment and housing

The second release of the BEA's first-quarter 2023 National Income and Product Accounts data essentially confirmed the initial reading on real investment spending. The small upward revision for the total from 0.7% annualized to 1.4% resulted from bigger gains in intellectual property, most of which is software. Yet that did not change the fundamental story of substantial deceleration overall compared to a gain of approximately 4% on average in 2022. Equipment led the weakness, falling 7% annualized, with declines in transportation, mining and construction equipment. Although structures rose, the gains were not in the commercial segment, where office fell once again. Instead, the increases were in new factories and mining structures.

High-frequency data do not yet suggest a turnaround. Although inflation-adjusted shipments for nondefense, non-aircraft capital goods rose modestly in April, they have trended down since October. So have new orders. Further, business capital plans are diminishing. According to the May Empire State Manufacturing Survey, the net percentage of companies expecting to invest more in six months shrunk to near zero.

Tight credit remains the driver of the weak performance, but conditions have not changed enough to revise the forecast materially. The June outlook is that real business investment will rise 1.9% on an annual average basis in 2023 compared to 1.8% in May. The bulk of the weakness will be in equipment spending.

Moody's Analytics updated its baseline forecast for single-family existing and new home sales in light of recent performance data. Existing sales in the first quarter proved to be more robust than many analysts had expected, as overall buyer demand and the strong labor market offset the effect of rising mortgage rates and weakening affordability.

Nonetheless, sales are expected to remain relatively low throughout the rest of 2023 due to "lock-in" effects. High interest rates and a lack of inventory available for sale is causing homeowners to remain in their homes rather than selling and moving. With more than 90% of mortgage borrowers estimated to have an interest rate lower than 6%, selling and buying another home would result in a significant payment shock. Even for homeowners who may be willing to move, the lack of inventory of homes for sale has exacerbated the situation as frustrated buyers decide to make do with their current living situation.

Low inventories of existing single-family homes have provided support to homebuilders as new homes do not face the same coordination problem. Moody's Analytics upgraded its forecast for new housing permits and starts for

2023 modestly as a result. The longer-term trajectory for single-family construction through the end of the decade remains favorable due to underlying demographic demand. Now in their mid- to late-thirties, millennials are the largest living generation today and are delaying life events such as marriage and starting families. As they eventually move through these stages, new household formations will continue to support the need for new-home construction.

House prices are being whipsawed. Low affordability and high overvaluation are reducing demand, putting downward pressure on prices. The restricted supply of homes available for sale is having the opposite effect, pushing prices upward. This tug-of-war is likely to continue throughout the year and will ultimately be decided by the labor market. If unemployment remains low as Moody's Analytics projects, then buyer competition will keep prices from falling significantly.

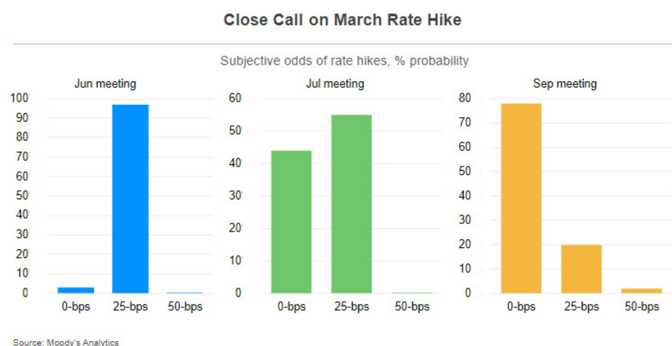
If unemployment should rise, then not only will demand drop off as buyers retreat, but a rise in foreclosures would put downward pressure on prices. Consistent with the baseline economic forecast calling for economic weakness that narrowly avoids recession, Moody's Analytics forecasts national house prices to decline by 5% to 10% over the next 12 to 18 months. Trends will vary regionally, with some areas experiencing sharp price declines while other areas continue to appreciate due to shifting demographics and preferences.

Moody's Analytics forecasts for commercial real estate prices were revised slightly this month, driven by small movements in recent performance data and interest rates, but continue to show double-digit peak-to-trough price declines through 2024. Property prices in some sectors such as industrial and hotels are expected to hold up better, given a focus on reshoring and a recovery in demand for travel services. Office buildings will see their values fall by 25% or more in some markets as businesses shift to hybrid work arrangements. Tightening lending standards on commercial real estate mortgages as well as higher interest rates will further pressure the finances of property owners. In addition, the additional supply of apartment buildings expected to come online in 2023 and 2024 will be a further drag on prices.

ECB Preview: A Hike Is Likely, but What's Next?

BY KAMIL KOVAR

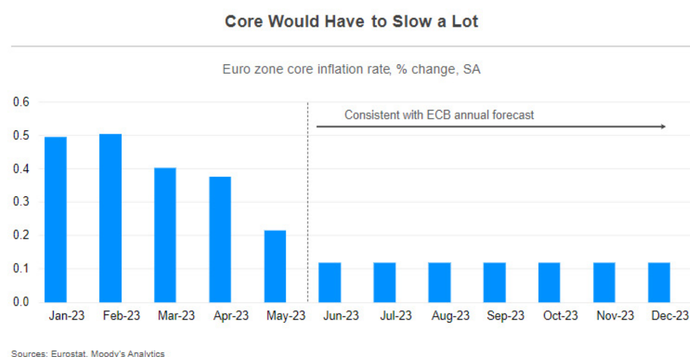
The June meeting of European Central Bank is likely to be uneventful in terms of decisions but potentially significant in terms of implications and outlook for meetings to follow. After downshifting to a "normal-size" rate increase in May, we do not expect any change in pace of tightening for the meeting next week, which will most likely bring another 25-basis point increase in policy rates. We put the odds of such a hike at above 95%, with the remainder accounting for no hike at all. In other words, it would be surprising to see the ECB not hike at all, and outright shocking to see it return to large hikes.



The central bank will also likely confirm its guidance on reinvestments of proceeds from maturing bonds purchased as part of the Asset Purchase Program. At its last meeting, the ECB indicated that it will likely stop reinvesting these proceeds starting in July. While stopping the reinvestments sounds like a big step, it will amount to increasing the monthly pace of shrinking the bank's balance sheet from €15 billion to €25 to €30 billion. This is still far from a rapid pace of shrinkage. More important for the development of the size of the balance sheet is the maturing of long-term refinancing operations, with almost €500 billion being repaid this month.

Rather than focusing on decisions, the spotlight will be on the communication from the central bank and what it will mean for future meetings. In this context, new projections from the central bank will be important.

While inflation evolved mostly in line with our forecast—core and food inflation peaked in March as we expected—the central bank will have to update its own prognostications. Relative to the March projections, core and food inflation has been hotter, while energy inflation was markedly cooler. Overall, we expect core and headline inflation for 2023 to go up in the bank's projections, but the more significant question is by how much. If the upgrade will once again be insufficient, then our subjective odds of a September hike will increase.



We put the odds of July hike at 55%, which means one is more likely than not. But considering the recent inflation data, it is not a done deal. Meanwhile, the odds of September hike are much lower. We believe it would take some upside surprises in core inflation during the summer to tip the balance in favour of a hike. That said, it is still clearly a possibility. Given the unusual uncertainty about the coming meeting, the press conference and off-the-record comments next week will likely provide us with an updated view of the power balance between the hawks and the doves.

Australia's Soft Start

BY HARRY MURPHY CRUISE

The Aussie economy is petering out as rising borrowing costs, elevated prices, and weak global demand squeeze households and businesses. Growth of just 0.2% quarter on quarter through the opening three months of 2023 was below market expectations but in line with our forecasts. Strong population growth saved GDP from falling. Stripping out the artificial boost gained by simply having more people, per capita GDP fell 0.2%.

With inflation surging and borrowing costs leaping ever higher, all eyes were on households. Although spending inched up 0.2% from the fourth quarter, this was the weakest quarterly expansion of household consumption outside of lockdowns since September 2019.

Higher prices are forcing households to spend more of their income on basic needs. On top of that, with interest rates surging—most recently to 4.1% at the Reserve Bank of Australia's June meeting— higher mortgage repayments are eroding homeowner savings. The household saving ratio has fallen to 3.7% from 4.4%, marking the lowest level since mid-2008.

On the back of falling property prices and higher borrowing costs, dwelling investment fell again. And the forward pipeline doesn't instil much hope that this will change soon; new residential building approvals are trending lower. On top of that, sales have tumbled, pushing ownership transfers down 5% through the quarter.

Businesses are keener to investment than households. Business spending rose 3.4% from the December quarter, more than reversing the decline experienced in the last three months of 2022. The surge came from a flurry of spending on machinery and equipment. Elsewhere, imports jumped more than exports, leading net trade to subtract 0.2 of a percentage point from the quarter's growth. A 4% quarter-on-quarter fall in import prices helped to push the terms of trade 2.8% higher.

Economic gains are going to be hard to come by. The RBA's hawkish tone at its June meeting suggests future interest rate hikes are on the cards. This is not necessary. The economy is slowing, household confidence is shot, spending is going sideways, and unemployment is rising. That combination will see inflation ease through this year and next without the need for more rate hikes.

If the Reserve Bank Board pushes ahead with tightening, families could suffer more than necessary. For many, it would feel like an economic recession, even if population growth prevents aggregate GDP from falling. All in all, we anticipate the Aussie economy will grow 1.5% through 2023 and by a similar pace in 2024.

Mexifest Destiny

By JESSE ROGERS

"So far from God, so close to the United States" goes a familiar refrain lamenting Mexico's proximity to its powerful neighbor to the north. But in today's economic climate, closeness to the U.S. is proving to be a good thing, with surging exports and record remittances helping Mexico outgrow the rest of Latin America over the past year and making the Mexican peso a leader among emerging market currencies. Despite some very real challenges on the policy front, including the recent decision by the Mexican government to seize parts of a strategic railway in the country's south, Mexico's increasingly interwoven economy will be a source of strength and a key differentiator in performance vis-à-vis the rest of Latin America.

Mexico is Latin America's sole competitive exporter of manufactured goods and is a heavyweight globally, ranking as the world's 10th-largest goods exporter and the fifth-largest exporter of autos and parts. Proximity to the U.S. is a big factor in Mexico's export dynamism, but geography on its own hasn't always guaranteed success. In the early 2000s, less than a decade after the signing of NAFTA, Mexico's exports to the U.S. were overtaken by China, whose accession to the World Trade Organization and low labor costs undercut Mexican manufacturers.

Today, Mexico has retaken pole position, bolstered by three major forces. First, Mexico has grown more cost-competitive, with labor costs now just half those of China. Second, the successful renegotiation of NAFTA in the form of the United States-Mexico-Canada Agreement has preserved Mexico's preferential access to the U.S. market. Finally, the geopolitical and trade frictions reshaping the global economy have propelled investments in U.S.-allied economies: Foreign direct investment in Mexico, the majority of which originates in the U.S., was the highest in 2022 in nearly a decade, propelled by manufacturing, transportation and financial services.

Our call for the U.S. economy to avoid recession this year is a key pillar in our conviction that Mexico's economy will outperform. But even if the outlook for the U.S. darkens, increased remittances from a burly U.S. labor market and a growing Mexican diaspora counter some of the historic volatility that has accompanied previous U.S. recessions. And if sustained, growth in manufacturing and remittances could help resolve thornier challenges such as the large informal economy and the divide in economic performances across Mexican states.

There is no denying that business confidence has taken a tangible hit following the recent expropriation of a section of Grupo Mexico's southern railway. But Mexico is really a story of two business climates: the energy and infrastructure sectors, where President Andrés Manuel López Obrador has sought to restore the state's once preeminent role, and the manufacturing sector, where the government has taken a mostly laissez-faire approach. Despite occasional disagreements with the U.S. over trade policy, policymakers seem to have arrived at a tacit agreement that the best opportunity to grow the economy lies in a shared border.

Changes Are Split in Europe, Downgrades Dominate in U.S.

BY STEVEN SHIELDS

U.S.

U.S. corporate credit downgrades outnumbered upgrades 10 to 3 in the latest weekly period.

Of the changes, Republic Services Inc.'s senior unsecured rating was raised to Baa1 from Baa2, impacting approximately $9.1 billion in outstanding debt. According to the ratings action rating upgrade and stable outlook for Republic reflects the expectation for continued growth in earnings and solid cash flow for the company. This positive outlook is attributed to Republic's focused execution on pricing and cost management, as well as its strategy of making accretive tuck-in acquisitions. Additionally, the essential nature of demand for solid waste services translates into a resilient operating model in the face of weakening economic conditions.

The most notable downgrade in the period was issued to Kennedy-Wilson Inc., with its corporate family rating and senior unsecured debt ratings lowered to B2 from B1. The ratings downgrades reflect deterioration in KW's credit metrics, including high leverage and weak fixed charge coverage, due to the current environment for commercial real estate.

Meanwhile, Diebold Nixdorf Inc. was downgraded to C to Ca following the company's filing of a petition for relief under Chapter 11 of the U.S. Bankruptcy Code this month. Moody's Investors Service has since withdrawn the ratings due to Diebold's bankruptcy filing.

Last month U.S. credit downgrades accounted for more than two-thirds of rating actions.

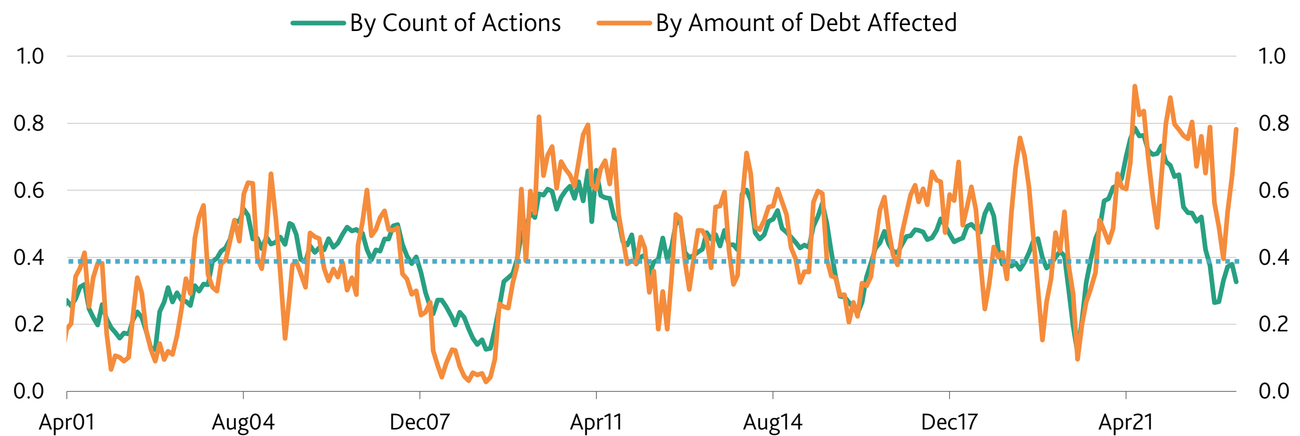
EUROPE

Corporate credit quality was mixed across Western Europe in the period. Rating changes were split evenly across upgrades and downgrades at five each, but upgrades accounted for the largest share of the affected debt.

Affecting approximately $36.4 billion in outstanding debt, Moody's Investors Service upgraded Macquarie Group Limited's ratings including its senior unsecured debt and long-term issuer ratings to A2 from A3 and short-term issuer ratings to P-1 from P-2, based on its very strong profitability, supported by the evolution of its business mix to more stable income sources and its conservative risk and balance sheet settings reflected by its high levels of liquidity and strong capital adequacy.

Moody's Investors Service affirmed the Baa1 long-term issuer rating and senior secured ratings of Electricite de France, but downgraded EDF's baseline credit assessment rating to Ba1 from Baa3. A number of other firms based in France received downgrades in the period including Casino Guichard-Perrachon SA, Financiere Labeyrie Fine Foods SAS, and Elior Group SA.

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
5/31/2023	REPUBLIC SERVICES, INC.	Industrial	SrUnsec	9116.474	U	Baa2	Baa1	IG
5/31/2023	PHOTO HOLDINGS, LLC-SHUTTERFLY, LLC	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/PDR	1085	D	B2	Caa1	SG
6/1/2023	AT HOME GROUP INC.	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/PDR	1300	D	Caa1	Caa3	SG
6/1/2023	SAFE FLEET HOLDINGS LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG
6/1/2023	MVK INTERMEDIATE HOLDINGS, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Ca	SG
6/1/2023	RXB BUYER INC.-RXB HOLDINGS, INC.	Industrial	SrSec/BCF		D	B2	B3	SG
6/1/2023	PETCO HEALTH AND WELLNESS COMPANY, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
6/2/2023	FORTUNE BRANDS INNOVATIONS, INC.	Industrial	SrUnsec/CP	2700	U	Baa3	Baa2	IG
6/2/2023	COVANTA HOLDING CORPORATION	Utility	SrUnsec/SrSec/BCF/LTCFR/PDR	1165	D	B2	B3	SG
6/5/2023	DIEBOLD NIXDORF, INC.	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/PDR	1809.391	D	Ca	C	SG
6/5/2023	KENNEDY-WILSON HOLDINGS, INC.-KENNEDY-WILSON, INC.	Industrial	SrUnsec/LTCFR	2050	D	B1	B2	SG
6/6/2023	AES CORPORATION (THE)-AES PUERTO RICO, L.P.	Utility	SrSec		D	Caa2	Caa3	SG
6/6/2023	CYXTERA DC HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa2	Caa3	SG

Source: Moody's

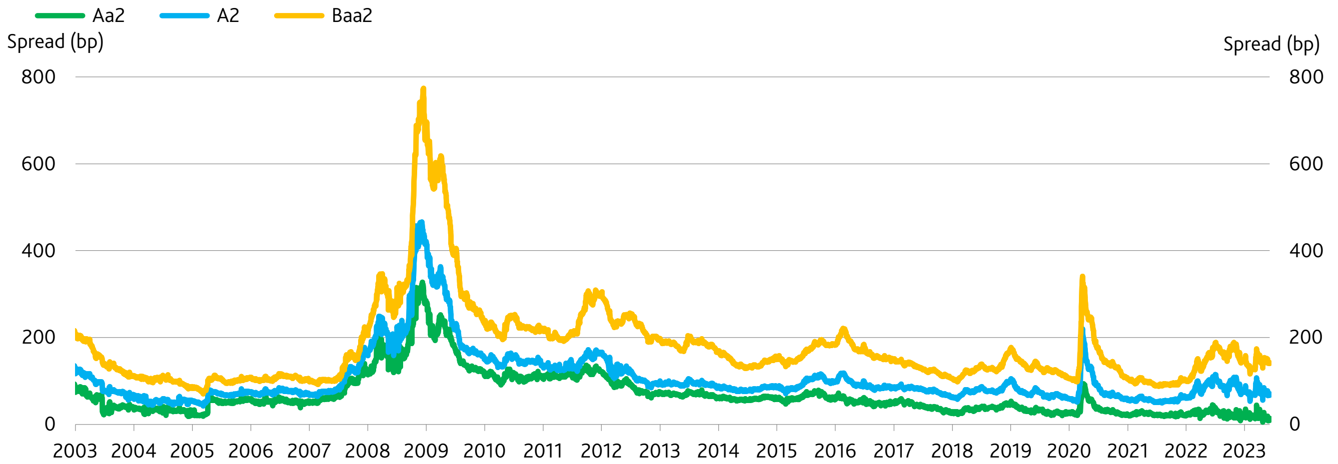
FIGURE 4

Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Ratin	IG/ SG	Country
5/31/2023	CASINO GUICHARD-PERRACHON SA	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/Sub/PDR	5297.31	D	B3	Caa2	SG	FRANCE
5/31/2023	SAMSONITE INTERNATIONAL S.A.-SAMSONITE IP HOLDINGS S.AR.L	Industrial	SrSec/BCF		U	Ba2	Ba1	SG	LUXEMBOURG
6/1/2023	ELECTRICITE DE FRANCE	Utility	JrSub	12416	D	Ba1	Ba2	SG	FRANCE
6/1/2023	LILAS FRANCE SAS-FINANCIERE LABEYRIE FINE FOODS SAS	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG	FRANCE
6/1/2023	CCP LUX PARENT S.A.-CCP LUX HOLDING S.A.R.L.	Industrial	LTCFR/PDR		U	B3	B2	SG	LUXEMBOURG
6/1/2023	COVIS HOLDCO S.A R.L-COVIS FINCO S.A R.L.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa2	Caa1	SG	LUXEMBOURG
6/2/2023	CMA CGM S.A.	Industrial	LTCFR/PDR		U	Ba2	Ba1	SG	FRANCE
6/2/2023	MACQUARIE GROUP LIMITED-MACQUARIE BANK LIMITED, LONDON BRANCH	Financial	SrUnsec/LTIR/LTD/Sub/MTN/CP	36402.12	U	A2	A1	IG	UNITED KINGDOM
6/2/2023	ELIOR GROUP S.A.	Industrial	SrUnsec/LTCFR/PDR	589.9009	D	B2	B3	SG	FRANCE
6/2/2023	MAXEDA DIY GROUP BV-MAXEDA DIY HOLDING B.V.	Industrial	SrSec/LTCFR/PDR	1008.194	D	B2	B3	SG	NETHERLANDS

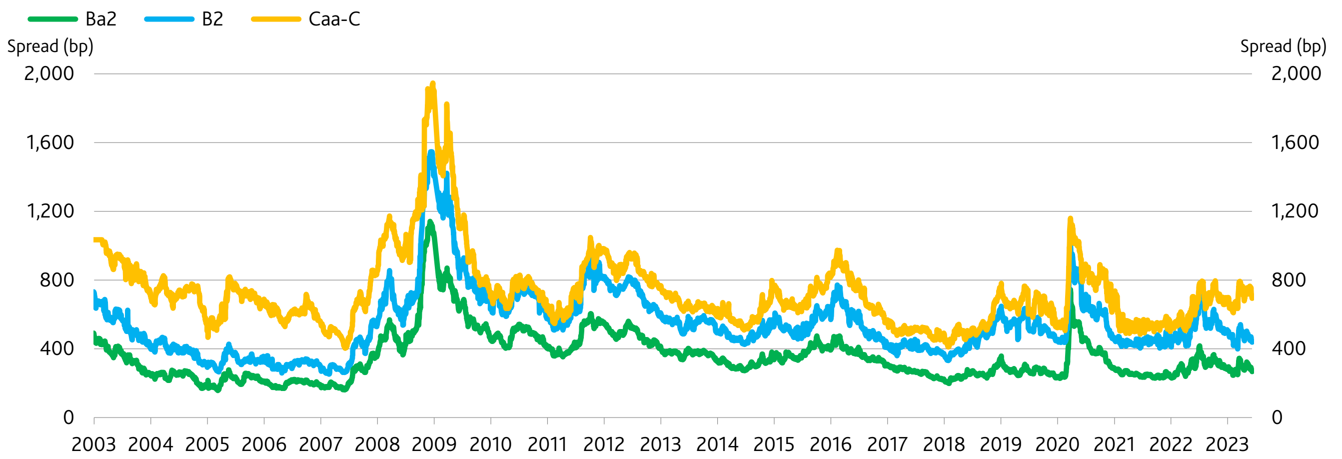
Source: Moody's

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 (May 31, 2023 – June 7, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 7	May. 31	Senior Ratings
United States of America, Government of	Aa1	Aa2	Aaa
JPMorgan Chase & Co.	A2	A3	A1
Citigroup Inc.	Baa1	Baa2	A3
Ally Financial Inc.	Ba2	Ba3	Baa3
Comcast Corporation	A1	A2	A3
John Deere Capital Corporation	Aa3	A1	A2
American Honda Finance Corporation	A1	A2	A3
Ford Motor Credit Company LLC	Ba2	Ba3	Ba2
Microsoft Corporation	Aa2	Aa3	Aaa
CVS Health Corporation	A2	A3	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 7	May. 31	Senior Ratings
Thermo Fisher Scientific Inc.	A3	A1	A3
BlackRock, Inc.	A1	Aa2	Aa3
Verizon Communications Inc.	Baa3	Baa2	Baa1
T-Mobile USA, Inc.	Baa3	Baa2	Baa2
Bank of New York Mellon Corporation (The)	Baa2	Baa1	A1
Southern California Edison Company	Baa2	Baa1	Baa1
Truist Financial Corporation	Baa3	Baa2	A3
CCO Holdings, LLC	B1	Ba3	B1
Consolidated Edison Company of New York, Inc.	Baa3	Baa2	Baa1
Target Corporation	A1	Aa3	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 7	May. 31	Spread Diff
Rite Aid Corporation	Ca	6,025	5,818	206
Brandywine Operating Partnership, L.P.	Baa3	712	680	31
AutoNation, Inc.	Baa3	205	178	27
Graphic Packaging International, LLC	Ba2	184	163	22
NNN REIT, Inc.	Baa1	165	146	19
Interpublic Group of Companies, Inc. (The)	Baa2	141	123	18
Owens Corning	Baa2	132	115	17
Brunswick Corporation	Baa2	160	143	17
Elme Communities	Baa2	313	297	17
Federal Realty OP LP	Baa1	125	109	16

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 7	May. 31	Spread Diff
iHeartCommunications, Inc.	Caa1	1,858	2,292	-435
CSC Holdings, LLC	B1	2,338	2,634	-296
Pitney Bowes Inc.	B3	1,292	1,522	-231
Carnival Corporation	B3	584	756	-172
Dish DBS Corporation	B3	2,379	2,513	-135
Dish Network Corporation	B3	2,109	2,236	-126
K. Hovnanian Enterprises, Inc.	Caa2	775	884	-109
Gap, Inc. (The)	B1	510	613	-104
Lumen Technologies, Inc.	Caa1	2,377	2,476	-99
Anywhere Real Estate Group LLC	B2	821	918	-97

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (May 31, 2023 – June 7, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 7	May. 31	Senior Ratings
Landesbank Hessen-Thueringen Girozentrale	Aa3	A2	Aa3
Dexia Credit Local	A2	Baa1	Baa3
Spain, Government of	Aa3	A1	Baa1
BNP Paribas	A2	A3	Aa3
BPCE	A3	Baa1	A1
Societe Generale	A3	Baa1	A1
Banco Santander S.A. (Spain)	A2	A3	A2
HSBC Holdings plc	A3	Baa1	A3
Ireland, Government of	Aaa	Aa1	Aa3
ING Groep N.V.	A3	Baa1	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 7	May. 31	Senior Ratings
DZ BANK AG	Aa3	Aa2	Aa2
Bayerische Landesbank	Aa3	Aa2	Aa3
Hamburg Commercial Bank AG	Ba1	Baa3	A3
Telecom Italia S.p.A.	B2	B1	B1
Eurobank Ergasias Services and Holdings S.A.	Ba2	Ba1	B2
CPI Property Group	Caa1	B3	Baa3
Bank of Scotland plc	A1	Aa3	A1
ASML Holding N.V.	Aa3	Aa2	A2
Alliander N.V.	Aa3	Aa2	Aa3
ZF Europe Finance B.V.	B2	B1	Ba1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 7	May. 31	Spread Diff
Casino Guichard-Perrachon SA	Ca	16,577	10,513	6,064
Boparan Finance plc	Caa3	2,522	2,266	256
Trinseo Materials Operating S.C.A.	B3	1,219	1,126	93
NIBC Bank N.V.	Baa1	210	182	28
Virgin Money UK PLC	Baa1	224	199	25
Stagecoach Group Limited	Baa3	226	204	22
Hamburg Commercial Bank AG	A3	158	141	17
Close Brothers Group plc	A2	139	121	17
Close Brothers Finance plc	Aa3	140	122	17
Bankinter, S.A.	Baa1	104	88	16

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 7	May. 31	Spread Diff
Vedanta Resources Limited	Caa2	2,053	2,479	-426
Carnival plc	B3	553	717	-163
Novafives S.A.S.	Caa2	521	624	-103
United Group B.V.	Caa1	755	846	-91
Jaguar Land Rover Automotive Plc	B1	592	655	-63
Iceland Bondco plc	Caa2	929	986	-57
Ardagh Packaging Finance plc	Caa1	662	715	-53
Constellium SE	B1	269	315	-46
Stonegate Pub Company Financing 2019 plc	Caa2	563	606	-44
thyssenkrupp AG	Ba3	271	308	-38

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (May 31, 2023 – June 7, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 7	May. 31	Senior Ratings
China, Government of	A2	A3	A1
Australia, Government of	Aaa	Aa1	Aaa
China Development Bank	A3	Baa1	A1
Mitsubishi UFJ Financial Group, Inc.	A1	A2	A1
National Australia Bank Limited	A2	A3	Aa3
Philippines, Government of	Baa1	Baa2	Baa2
Sumitomo Mitsui Trust Bank, Limited	A3	Baa1	A1
Development Bank of Japan Inc.	A1	A2	A1
Malaysia, Government of	A2	A3	A3
Kookmin Bank	Aa2	Aa3	Aa3

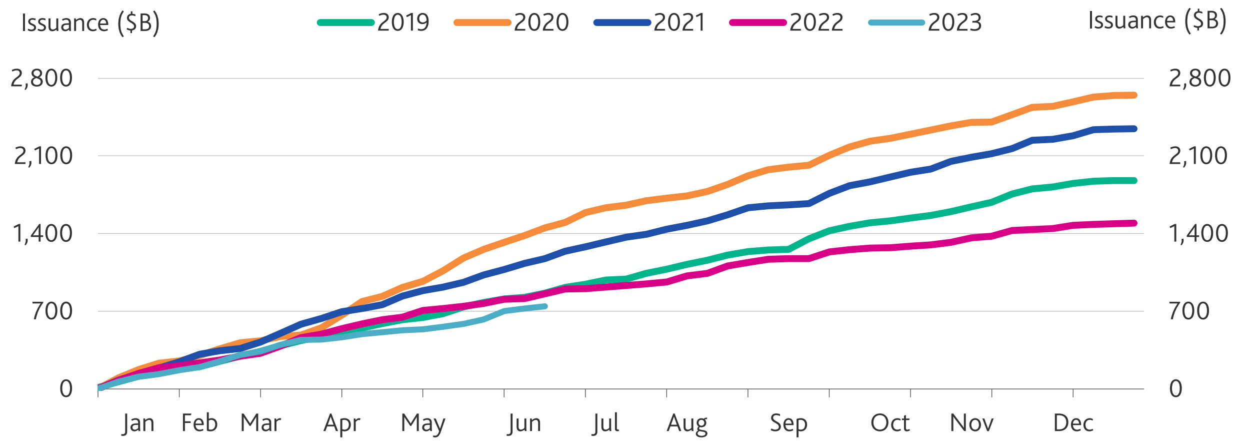
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 7	May. 31	Senior Ratings
Mizuho Financial Group, Inc.	A3	A2	A1
Hong Kong SAR, China, Government of	Aa3	Aa2	Aa3
Lenovo Group Limited	Ba1	Baa3	Baa2
JSC Halyk Savings Bank of Kazakhstan	B3	B2	Ba2
Japan, Government of	Aaa	Aaa	A1
Korea, Government of	Aa2	Aa2	Aa2
Commonwealth Bank of Australia	A2	A2	Aa3
India, Government of	Baa2	Baa2	Baa3
Indonesia, Government of	Baa2	Baa2	Baa2
Westpac Banking Corporation	A3	A3	Aa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 7	May. 31	Spread Diff
SK Innovation Co. Ltd.	Baa3	286	257	29
RHB Bank Berhad	A3	141	119	22
Amcor Pty Ltd	Baa2	130	110	20
Flex Ltd.	Baa3	136	122	15
JSC Halyk Savings Bank of Kazakhstan	Ba2	472	457	15
LG Chem, Ltd.	A3	98	85	13
Lenovo Group Limited	Baa2	155	144	11
Toyota Industries Corporation	A2	124	114	10
Mizuho Financial Group, Inc.	A1	68	61	7
NBN Co Limited	Aa3	88	82	5

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 7	May. 31	Spread Diff
Adani Green Energy Limited	B2	809	827	-18
Development Bank of Kazakhstan	Baa2	201	216	-15
Kookmin Bank	Aa3	37	46	-10
CNAC (HK) Finbridge Company Limited	Baa2	201	209	-9
Malayan Banking Berhad	A3	68	74	-7
SK Hynix Inc.	Baa2	172	179	-7
Malaysia, Government of	A3	56	62	-6
Woori Bank	A1	40	47	-6
CITIC Group Corporation	A3	98	105	-6
Philippines, Government of	Baa2	77	82	-5

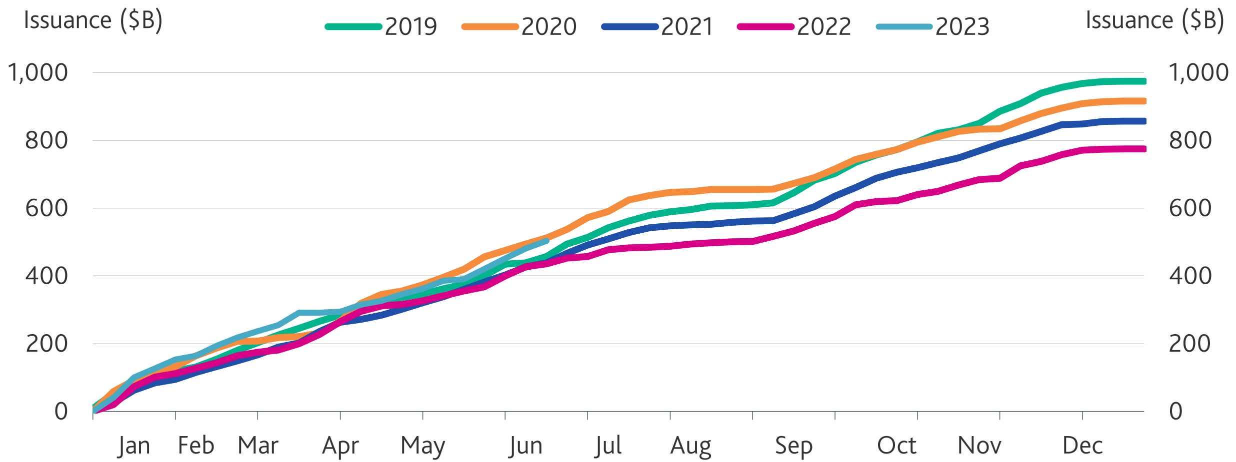
Source: Moody's, CMA

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	20.350	0.125	20.475
Year-to-Date	641.202	89.038	743.244

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	21.331	0.000	21.760
Year-to-Date	451.746	33.147	502.982

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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