MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

JUNE 22, 2023

Lead Author

Dante DeAntonio
Director

Asia Pacific

Katrina Ell
Dave Chia
Heron Lim

Europe

Ross Cioffi

U.S.

Matt Colyar
Briana Hardy
Steven Shields

Latin America

Juan Pablo Fuentes

Inside Economics Podcast:

Join the Conversation

Apple Podcasts
Google Podcasts
Spotify

Upside Surprises in U.S. Housing

Table of Contents

Top of Mind.. 3
Week Ahead in Global Economy..... 4
Geopolitical Risks............................. 5
The Long View
U.S. 6
Europe 11
Asia-Pacific 13
Latin America 14
Ratings Roundup 15
Market Data.................................... 18
CDS Movers 19
Issuance... 22

U.S. residential construction activity has not only bottomed, but its revival is shaping up to be stronger than expected during the second quarter, with implications for the U.S. baseline forecast. Homebuilder confidence, according to the NAHB Housing Market Index, increased 5 points to 55 in June, comfortably beating our slightly below-consensus forecast for no change.

June represents the sixth consecutive month in which builder confidence has increased. More important, this is the first month in which the index has risen above the 50-point threshold that marks positive building conditions since July 2022. The six-month change in the NAHB Housing Market Index tends to track the two-quarter percent change in real residential investment. Excluding the sharp rebound in builder confidence after the pandemic recession, the current six-month change in the NAHB Housing Market Index is the largest on record.

The Moody's Analytics baseline forecast pencils in a persistent, albeit ebbing drag on real GDP growth from real residential investment through early 2024. However, the NAHB Housing Market Index suggests that residential investment could turn supportive of growth sooner than we are expecting and even makes recent comments from Federal Reserve Chair Jerome Powell on housing's current revival sound too restrained. In his press conference June 14, Powell said, "We now see housing putting in a bottom and maybe even moving up a little bit."

The hard data on residential construction have also surprised to the upside. Total housing starts climbed nearly 22% from April, clocking in at 1.631 million annualized units in May. May's starts data exceeded our slightly above-consensus forecast for 1.41 million annualized units. Single-family starts were up 18.5%, the largest monthly increase since the initial recovery from the pandemic. Meanwhile, starts of multifamily properties increased 27.1%.

Housing permits also moved higher than expected in May, rising 5.2% above April's total. At 1.491 million annualized units, total permits exceeded even our above consensus forecast for 1.465 million annualized units. Single-family permits increased by 4.8%, while multifamily permits advanced by almost 5.9%. The steady rise in single-family permits since the start of the year is consistent with the improvement in builder confidence, which in turn points to another gain in June for single-family permitting. However, it is important to emphasize that the residential construction data are noisy, and a discrepancy between single-family permits and starts signals future revisions to May's single-family starts.

Fed Chair's testimony sticks to script

At June's meeting of the Federal Open Market Committee, policymakers opted to take a break from increasing the target range of the fed funds rate. The pause was well communicated ahead of time, and Moody's Analytics believes the current fed funds rate target of 5%-5.25% is high enough to bring inflation to the central bank's target. However, like the FOMC's communication after June's meeting, Powell made clear during Congressional testimony this week that the pause should be anticipated as more of a skip with further rate hikes still possible in the second half of the year. Our June baseline assumes no more rate hikes are in order, though we will revisit the subject in early July.

TOP OF MIND

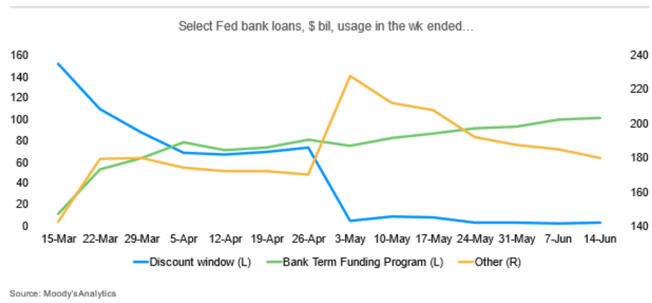
Banking Crisis Averted, For Now

BY MATT COLYAR and BRIANA HARDY

The banking crisis that began in March has been quelled by the muscular responses of the U.S. Treasury and Federal Reserve. Regulators moved quickly to backstop the depositors of struggling banks, even those above the $250,000 deposit insurance limit.

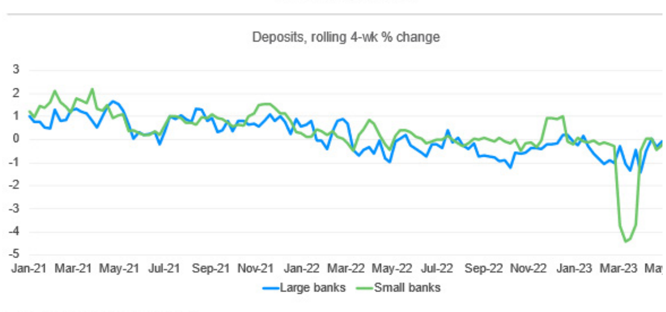
The Federal Reserve established the Bank Term Funding Program that allows banks to borrow from the Fed using their Treasury and mortgage-backed securities as collateral at their par value and not their much lower market value. Regulators have been quick to resolve banks when they are in trouble, hoping to convince everyone that all other banks are sound.

Fed Emergency Lending



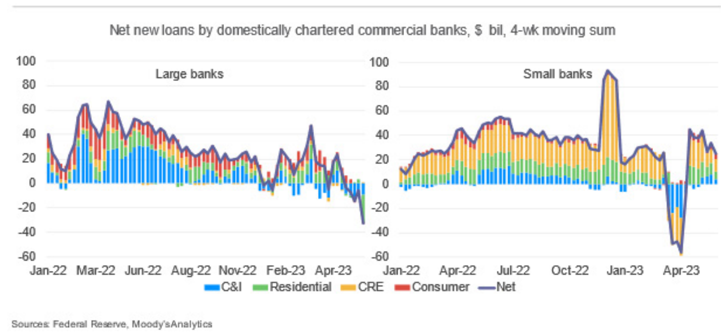
Bank deposits have stabilized for banks of all sizes, flows into money funds have slowed, the use of the BTFP has more-or-less stabilized near $100 billion, Federal Home Loan Bank advances have moderated, and bank stock prices are off bottom. Most important, there have been no bank failures since First Republic Bank on May 1.

Deposits Growing



Despite the relative calm in the banking system, the economic fallout has just begun. The principal channel through which the banking crisis impacts the economy is through banks' lending standards and loan growth. If banks tighten their underwriting so aggressively that it impairs the credit businesses need to invest and run their operations, real estate operators require to finance commercial estate development and homebuilding, and households need for big purchases like houses and vehicles, then the economy suffers.

Lending at Small Banks Picks Up



To date, the banking crisis' impact on underwriting standards and loan growth has been muted. Outstanding commercial and industrial loans have effectively gone sideways, while commercial real estate and consumer loans outstanding are still growing, albeit at a somewhat slower pace than before the crisis.

However, some serious challenges remain for the banking system. Demonstrably higher delinquency and default rates are the most prescient concern. Credit quality has been good since the onset of the pandemic. This is because of extraordinary government support, forbearance, and the record-low interest rates businesses and households locked in before rates began rising. But this is no longer the case, and credit problems are on the rise. Even without a recession, the losses could overwhelm smaller and midsize banks with thinner capital bases, more skittish depositors and shareholders, and outsize commercial real estate portfolios, particularly loans secured by office buildings and retail space in hard-pressed large urban areas.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar picks up a bit next week. The Federal Reserve will be keeping a close eye on the core personal consumption expenditure deflator—the central bank's preferred measure of inflation—as it considers whether to restart rate hikes later this summer. We expect data for May to be in line with the previously released consumer price index in showing that inflation is moderating but not as quickly as the Fed would like.

Jobless claims will remain in focus, since they provide labor market insight with the shortest lag time. Initial claims for last week were stuck above 260,000 for the third straight period, and while still short of the break-even 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 likely would signal a deceleration in monthly job gains.

Other key data to be released next week include advanced durable goods, new-home sales, Conference Board consumer confidence, advanced international trade, pending home sales, personal income, and personal spending.

Europe

Next week's preliminary estimate of euro zone inflation will top headlines. Inflation is likely to decline to 5.7% year over year this month from 6% in May. Energy and food price inflation will decelerate, while we see core inflation popping back up to 5.6%, just shy of its record 5.7% in March. Part of the reason for core inflation's rebound will be base effects on transport service prices. The German government's stimulus last summer of significantly discounted summer public transport ticket will be the main source of this base effect.

We expect a minor decline in the business and consumer confidence index for the euro zone, where the economic sentiment indicator likely fell to 96.1 in June from 96.5 in May. In better news, we expect the euro zone unemployment rate to remain at its record low of 6.5%. Likewise, unemployment in the major European economies should be stable with the number of job seekers in France staying at 2.8 million, Germany's unemployment rate unchanged at 5.6%, and Italy's unemployment rate marginally higher at 7.9%.

GDP growth in the U.K. will likely be finalized at 0.1% quarter on quarter for the first three months of 2023, matching growth in the fourth quarter. The details will likely show that household spending stalled, while trade and public consumption each contracted considerably. Fixed investments will have driven the minor growth seen during the period.

Asia-Pacific

China's manufacturing PMI likely remained below the neutral threshold in June. We look for the headline to come in at 49 for June after notching 48.8 in May. New export orders were painfully soft in April and May because of weakened demand from the U.S. and Europe. Also, the domestic economic recovery has proved disappointing, prompting extra monetary stimulus in recent weeks. We expect targeted fiscal stimulus to increase imminently.

South Korea will post a suite of economic data. Its trade deficit likely shrank in June, although exports will have fallen in year-on-year terms amidst the downswing in the tech cycle and weakened demand from China and other major trading partners. The South Korean consumer is on a different path. Consumer sentiment likely held to its improving trend in June thanks to the extended pause in rate hikes and moderating inflation. Retail sales in May likely rose modestly month on month, partially reversing the 2.3% decline in April.

Latin America

In Mexico, we expect the index of economic activity to show an annual advance of 2.4% in April, after growth of 2.7% in March. Meanwhile, the Argentine economy likely contracted 0.5% year over year in April, after 1.3% in the previous month. Seasonally-adjusted, monthly GDP will have contracted an estimated 0.8% amid soaring inflation and persistent currency instability.

Retail sales in Chile likely contracted again in May amid a weak labor market, elevated inflation, and still-high interest rates. We see the top line index tracking retail and wholesale sales falling 2% on a year-ago basis, with declines in retail, wholesale, and automotive sales. While Chile's economy on whole is on the border of recovery, inflation-wracked consumers will continue to curb spending over the next few months, and the subsequent recovery will trail that of the broader economy.

Chile's unemployment rate likely averaged 8.7% in the rolling quarter ending in May, up from 7.8% a year earlier. In seasonally adjusted figures, unemployment likely averaged 8.4%, unchanged from the previous month. Brazil's unemployment rate likely declined to 8.3% in the rolling quarter ending in May from 8.5% in the previous three-month period. In Mexico, the unemployment rate likely increased slightly to 3% from 2.8% in the previous month.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
18-19-Jun	China	U.S. Secretary of State Antony Blinken visit	Low	Low
22-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	Spain	General election	Medium	Medium
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
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 Francisco, 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

Inflation Remains Key to Our Baseline Forecast

BY STEVEN SHIELDS

CREDIT SPREADS

Credit markets have yet to exhibit signs of heightened default risk. This can be attributed to healthy corporate balance sheets, which have kept default rates below their long-run historical average. At 147 basis points, the Moody's Investors Service long-term average corporate bond spread remains narrow and firmly below its 12-month high of 178 bps.

Meanwhile the high-yield option-adjusted spread in the U.S. Bloomberg/Barclays index hit a four-month low of 401 basis points last Friday and currently sits at 417 bps. Similarly, the ICE BofA U.S. high-yield option-adjusted bond spread closed yesterday at 432 bps and is comfortable below its peak of 522 bps recorded in March 2023. Historically, credit spreads and equity volatility have shared a strong connection.

Nevertheless, with the VIX at 13.4, it suggests the prevailing high-yield credit spreads are slightly narrower than what the fear gauge would imply. Tight credit spreads indicate that the market doesn't expect the Federal Reserve will increase rates to a degree that would cause a recession and lead to a surge in credit defaults.

GLOBAL DEFAULTS

Moody's Investors Service reported 16 corporate debt issuers defaulted in May, up from the revised count of 12 in April. May's default count matched March's, which was the highest monthly tally since March 2022. May also marked the fourth consecutive period during which the monthly default count was in the double digits.

Of the 16 defaulted companies in May, six were repeat defaulters. They were U.S.-based Envision Healthcare Corp., Monitronics International Inc., CIBT Global Inc., and Checkers Holdings Inc.; Germany-based Takko Fashion S.a r.l.; and Jamaica-based Digicel Group Holdings Limited. All had restructured via distressed exchanges in prior years except Monitronics International and Digicel, whose prior defaults were bankruptcies.

Envision was the largest default in May. The company is a leading provider of emergency medical services in the U.S. It filed for Chapter 11 along with its subsidiary Amsurg LLC with more than $7 billion of debt in total. Envision has entered into a restructuring support agreement aimed at deleveraging approximately $5.6 billion by equitizing or canceling all its debt except a revolving credit facility. The RSA was supported by more than 60% of the company's debt holders. Envision has operated with aggressive financial policies as reflected in very high debt levels. Although it had restructured its debt through distressed exchanges in 2020 and 2022, neither transaction reduced the company's debt materially, resulting in a capital structure that remained untenable.

Defaults last month pushed up the global speculative-grade default rate to 3.4% for the 12-month period ended in May, up from the 3.2% rate at the end of April. As central bank interest rates near their peaks for this cycle in most advanced and emerging market economies, higher borrowing costs and tighter lending are now permeating credit conditions and dampening investment, consumption and employment. This, together with still-elevated input costs, will set the stage for rising defaults among companies that struggle with weak earnings and heavy debt burdens, especially those that primarily borrow in the loan market.

Moody's Investors Service expects the global default rate to rise throughout the rest of this year and reach 4.6% by the end of 2023. If realized, the rate would be higher than the long-term average of 4.1%. In 2024, we predict the rate to rise to 5.0% by the end of April before easing to 4.9% by the end of May. Moody's Investors' baseline forecast assumes the U.S. high-yield spread will widen to 532 basis points over the next four quarters from about 460 bps at the end of May, and that the U.S. unemployment rate will rise to 4.8% from 3.7% in the comparable period.

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.

In the most recent week for which data was available, $52.3 billion worth of U.S. dollar-denominated investment-grade bonds were issued. The combined issuance of investment-grade debt this year equals $693.5 billion, marking a 12.6% decrease compared with last year. Conversely, high-yield debt issuance totaled $7.23 billion in the period, while the cumulative year-to-date figure stands at $96.26 billion, a 2.8% decline from 2022. Overall, total U.S. dollar-denominated corporate debt issuance has dropped 11.9% compared with the same time last year. Around a quarter of the funds raised during the second quarter were used for 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 considering 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.

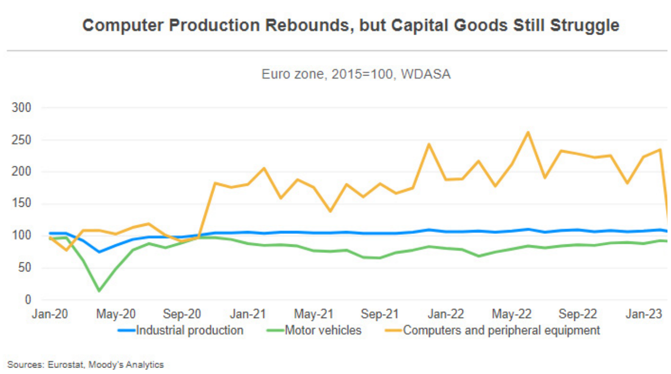
Moody's Analytics forecasts for commercial real estate prices were revised slightly this month, driven by small movements in recent performance data and interest rates, but continue to show double-digit peak-to-trough price declines through 2024. Property prices in some sectors such as industrial and 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.

Cautious Notes in Latest Euro Zone Data

BY ROSS CIOFFI

Euro zone industrial production recovered only slightly in April, by 1% month over month after the sharp 3.8% drop in March. Output recovered sharply in the computer and peripheral equipment sector, the cause for the previous month's deep contraction. But there was weakness throughout most of the rest of the release. We think manufacturing will pick up again in May and June as supply conditions recover, though the April release underperformed our expectations, and it does highlight the troubles the Continent's manufacturing sector is facing.

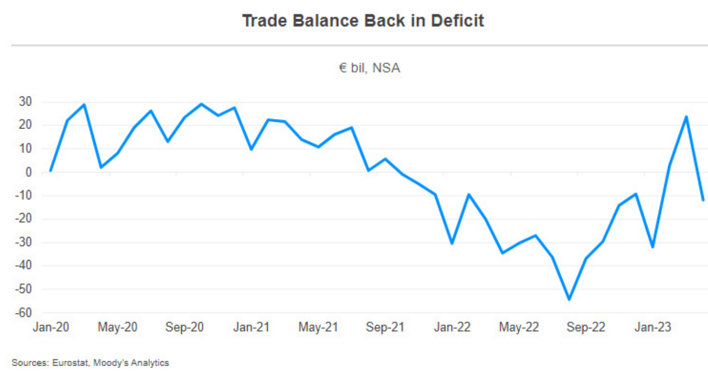
Supply lines are not immune to disruption, even if global conditions are significantly improved since last year. Meanwhile, demand is in the pits. PMI data continually point to shrinking new orders. If backlogs begin to run thin without replenishment with new orders, the sector will fall into recession.



Euro zone trade disappointed in April, with an unexpected return to deficit after two months in the green. In seasonally adjusted terms, the trade balance dropped to a deficit of €7.1 billion in April from a surplus of €14 billion in March, while in not seasonally adjusted terms, the deficit in goods tightened to €11.7 billion in April 2023 from a deficit of €34.5 billion in April 2022.

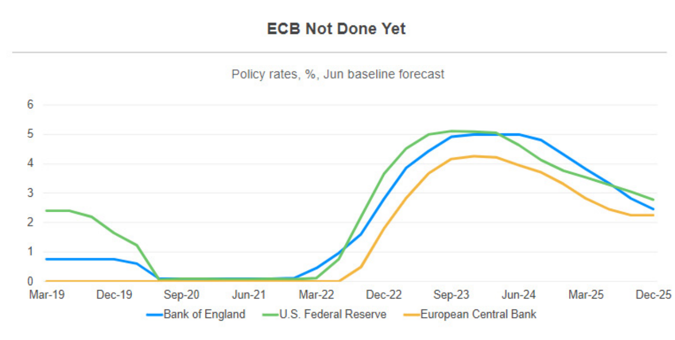
The results are in line with the supply disruptions that we saw hit industrial production during the same period. Imports dropped in March, which supercharged a surplus, but rebounded in April, provoking a deficit. Meanwhile, exports weakened in both months.

With industrial production set to get back on track, we foresee the value of exports rising again later in the second quarter, as factories will be able to again fulfill their export orders.



Rising interest rates are a main reason for weakened demand in industrial goods. The higher cost of borrowing tightens disposable incomes and therefore demand for spending and investment. The issue will only grow with time, as more households and businesses are faced with the need to refinance loans taken out under significantly better conditions.

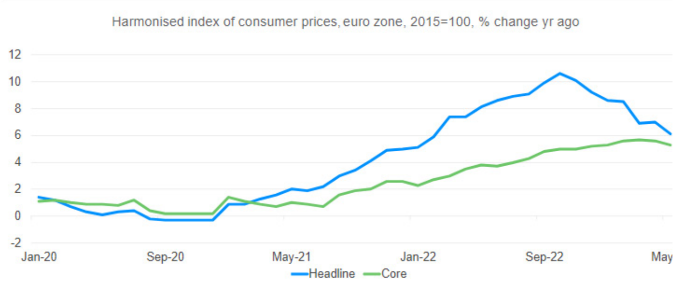
The European Central Bank, meanwhile, continues to hike interest rates as it seeks to bring inflation back into line with its 2% target. The policy committee last week announced a 25-basis point hike across its three policy rates; this brought the main refinancing operations target to 4%, the deposit rate to 3.5%, and the marginal lending rate to 4.25%. And in upgrading its inflation forecast for 2023 the ECB ensured another rate hike at the July committee meeting. More hawkish comments in the days since this latest meeting also raise the specter of a September hike, though our baseline expects the tightening cycle to end in July.



The good news on the inflation front is that headline and core inflation rates fell in May. Final estimates confirmed that the headline rate decelerated to 6.1% year over year in May from 7% in April. The energy segment was the main downward pull, with strong base effects driving down fuel, gas and electricity inflation. Food inflation lowered but remains menacing in the double digits. Meanwhile, the core inflation rate, which excludes energy and food prices, declined to 5.3% year over year from 5.6%.

That core inflation came down for both goods and services was a promising sign. Core inflation is still a main driver of inflation, now that the Continent has avoided an all-out energy crisis. Core inflation will be sticky and likely take the longest to fall to or below target.

Core Services and Goods Drive Inflation

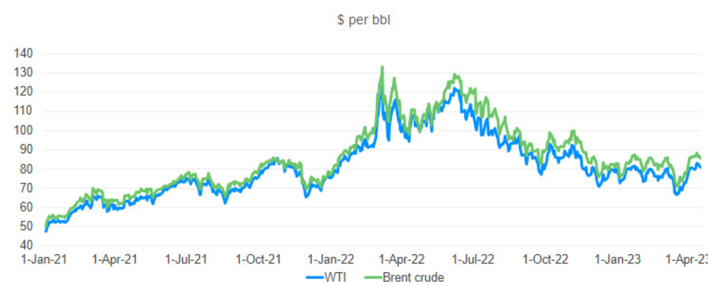


Sources: Eurostat, Moody's Analytics

Consumer energy prices as securely on a downward trend, even if the pass-through between wholesale markets and consumer markets is only gradual in many euro zone economies. That said, the recent increase in natural gas futures contract prices stands out. One-month forward TTF natural gas contracts have rebounded rapidly this month since slumping throughout May.

In May, contracts sank to levels unseen since 2021—levels that, although still higher compared with the 2019 average, were within range of pre-pandemic norms. Even now, the price is within range of the heights back in 2018, the previous time gas prices picked up.

Oil Prices Recover



Sources: EIA, Moody's Analytics

But the rebound does not come as a big surprise; rather, May's lows were more unexpected. Reserves in the EU had already been high for that time of year, but supply risks continue. This is highlighted by the recent news of Norway's outages at several of its gas fields, and that these will extend into July.

THE LONG VIEW: ASIA-PACIFIC

Don't Expect China to Use a Policy Bazooka to Ignite Growth

BY HERON LIM

The People's Bank of China cut its one- and five-year loan prime rates by 10 basis points on 20 June. The cuts, to 3.55% and 4.2%, respectively, were widely anticipated, but some market participants had been looking for larger cuts of 15 or more basis points. That was reflected in stock markets in China and Hong Kong, where prices fell on the news.

China's Loan Prime Rates a Downward Slope

Sources: People's Bank of China, Moody's Analytics

The monetary support continues the stabilising theme that the PBoC set out early in the year. However, given that overall consumer prices are at a virtual standstill and producer prices are falling, expectations are growing that the government will deploy more stimulus to ensure the country hits its 2023 growth target of 5%.

On the monetary front, that will mean a reduction in the required reserve ratio and an increase in bank loan quotas. However, monetary adjustments may be limited considering a competing mandate to keep the yuan relatively stable against international currencies—the yuan has been on a gradual depreciation path since the Lunar New Year. It has depreciated nearly 3.7% year to date against the dollar.

We also expect fiscal stimulus, but it will be lukewarm. On 16 June, the State Council said it planned to roll out "more forceful measures". Although it did not provide details, the council reiterated the past theme of targeted fiscal stimulus. With the long-term policy goal of high-quality growth, China's tried-and-tested formula—a debt-fuelled policy bazooka that focuses on infrastructure and property—looks improbable.

Instead, technology development incentives and national-level targeted consumption subsidies may be unveiled. Some local governments, including Shanghai and Shenzhen, have already unveiled new subsidies for car purchases, particularly for electric vehicles. Still, broader consumer confidence remains down, still shattered by the pandemic. In a sign of the times, the mid-year 618 shopping festival was marked by deep discounts from major e-commerce platforms; in value terms, sales growth looked to be weaker than in 2022.

THE LONG VIEW: LATIN AMERICA

Show of Strength Among Currencies

By JUAN PABLO FUENTES

Major currencies in Latin America have appreciated against the U.S. dollar this year despite deteriorating growth prospects for the region and softer commodity prices. Leading the charge is the Mexican peso, which has gained 14% against the dollar so far this year. Meanwhile, the Brazilian real and the Chilean peso have appreciated 12.2% and 6.6%, respectively, against the dollar since the beginning of the year.

Even the Colombian peso has rebounded in recent months after coming under sustained pressure in late 2022 following the arrival of the Gustavo Petro administration. Indeed, the Colombian peso reached its highest level against the dollar since early 2022 last week. The peso has now appreciated 16% vis-á-vis the dollar since the beginning of the year.

Two main factors explain the surprising strength of Latin American currencies this year. First, central banks across the region started to hike interest rates aggressively starting in late 2021 or early 2022. Most central banks have now paused as inflation has come down, but policy rates stand well above that of the U.S. or Europe.

In Brazil, the policy rate currently stands at 13.75%, while inflation has come down to under 4%. This implies a real interest rate of about 10%, a very enticing return for foreign investors seeking short-term alternatives. In Mexico, the policy rate stands at 11.25%, with inflation reaching 5.8% in May. As in Brazil, Mexico's real interest rates are firmly in positive territory, which helps draw investors. In Colombia and Chile, real interest rates are somewhat lower because inflation remains elevated, but local currency returns remain attractive for local and foreign investors.

The second key factor is the improved trade balance in most countries this year. This is most notable in Brazil, where the trade surplus has soared this year thanks in part to declining imports. The same has happened in Chile, which has also benefited from still-high copper prices. In Colombia and Mexico, the trade deficit has narrowed somewhat, or at least stabilized.

Aside from interest rate differentials and trade balances, the other key to currency moves is expectations. Investors will normally only look to invest in local currency assets if they believe a currency will hold its value in the near future; a currency's sudden depreciation can wipe out any gain derived from higher real interest rates.

Despite a weak growth outlook for the region this year, and the arrival of new governments in Brazil and Colombia, investors do not see any serious economic or financial threats. This partly reflects markets' confidence in continued sound policymaking in inflation-targeting countries. Similarly, commodity prices seem poised to rebound in the second half of the year and into 2024, as global growth rebounds, led by China.

Those expectations should continue to support Latin American currencies in upcoming months. Central banks must be cautious when they decide to start lowering rates, however. An aggressive monetary easing could quickly put currencies under pressure.

Europe’s Corporate Credit Quality Mixed

BY STEVEN SHIELDS

U.S.

U.S. corporate credit downgrades outnumbered upgrades 9 to 2 in the latest weekly period. Of the changes, Advanced Micro Devices LLC’s senior unsecured rating was raised to A2 from A3, impacting approximately $9.75 billion in outstanding debt. According to the ratings action, the upgrade reflects AMD’s successful execution of its product roadmap and the manufacturing processes of its foundry partner TSMC. These factors have contributed to AMD's significant market share gains in the microprocessor segment in recent years.

Similarly, NVIDIA Corporation received an upgrade by Moody’s Investors Service in the period with its senior unsecured notes raised to A1 from A2. According to Moody’s analyst Raj Joshi, "The ratings upgrade reflects NVIDIA's dominant and sustainable market position in the rapidly growing discrete graphics processing unit market and its extensive portfolio of hardware and software technologies that power accelerated computing platforms.” Breakthroughs in capabilities of generative AI that benefited from significant improvements in GPU processing capabilities and self-supervised techniques for learning from vast amounts of data are driving a surge in demand for NVIDIA's products. It is difficult to estimate the adoption rates for generative AI over the intermediate term, but Moody's believes that generative AI and other scientific computing use cases that require significant computing resources will drive strong demand for NVIDIA's GPU-powered systems over the long-term.

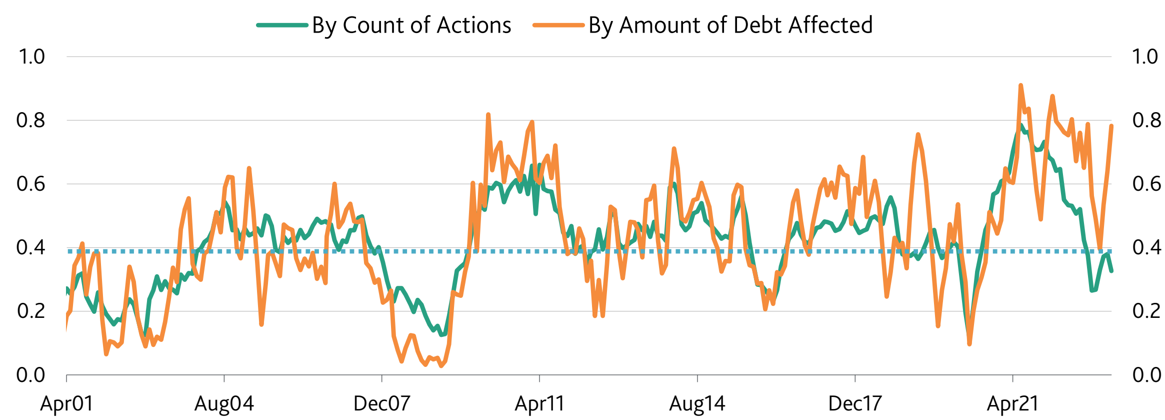
The most notable downgrade in the period was issued to Franklin Street Properties Corp. Moody’s lowered its Corporate Family rating and senior unsecured rating to B3 from Ba3. The downgrades reflect the REIT's strained liquidity position with significant debt maturities coming due in the fourth quarter of 2024. The company's high reliance on asset sales to repay upcoming debt is also challenging amid a slower transaction market, particularly for non-trophy, or older office buildings with leasing challenges. High office vacancy rates in Franklin Street's primary operating markets and higher interest rates are contributing to negative free cash flow and pressuring property prices. Moody’s Investors Service maintained Franklin Street’s negative outlook.

EUROPE

Corporate credit quality was mixed across Western Europe in the period. Following a periodic review for a group of manufacturers, Moody’s Investors Service upgraded Siemens Aktiengesellschaft’s issuer rating to Aa3 from A1. The credit improvement reflects Moody’s assessments that over the past several years the company’s business profile has become more robust to cope with economic cycles. Through ongoing portfolio optimization efforts, Siemens has shifted its focus to businesses with strong underlying growth prospects and increased the share of more stable and recurring revenue in its business mix. These efforts, together with a reduction of central costs, have also supported an improvement in its profitability, which Moody’s Investors Service expects Siemens to sustain. The ratings change affected approximately $46.9 billion, making it the largest ratings change in the period across both the U.S. and Europe.

The largest downgrade in terms of affected debt was given to Altice France Holding S.A., the parent company of French telecom operator Altice France S.A. The rating downgrade reflects the fact that Altice France Holding continues to operate with high leverage levels that exceed the maximum tolerance levels for the previous B2 rating category. Given that the competitive market conditions in France are constraining earnings growth and that cash flow generation remains weak, there is little visibility as to any deleveraging trajectory that could bring credit metrics more in line with the expectations for the previous rating, particularly when considering that debt maturities will likely be refinanced at higher rates.

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
6/14/2023	FRANKLIN STREET PROPERTIES CORP.	Industrial	SrUnsec/LTCFR	200	D	Ba3	B3	SG
6/14/2023	INSTANT BRANDS HOLDINGS INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa3	Ca	SG
6/14/2023	KCIBT HOLDINGS, L.P.	Industrial	LTCFR/PDR		D	Caa2	Caa3	SG
6/15/2023	PADAGIS LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	D	B2	SG
6/16/2023	MONOGRAM FOOD SOLUTIONS, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
6/16/2023	PARKWAY GENERATION, LLC	Industrial	SrSec/BCF		D	Ba3	B1	SG
6/20/2023	ADVANCED MICRO DEVICES, INC.	Industrial	SrUnsec/LTIR/CP	2500	U	A3	A2	IG
6/20/2023	NVIDIA CORPORATION	Industrial	SrUnsec	9750	U	A2	A1	IG
6/20/2023	CFS BRANDS, LLC	Industrial	SrSec/BCF		D	B3	Caa1	SG
6/20/2023	TJC SPARTECH ACQUISITION CORP.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
6/20/2023	CONFLUENCE TECHNOLOGIES, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG

Source: Moody's

FIGURE 4

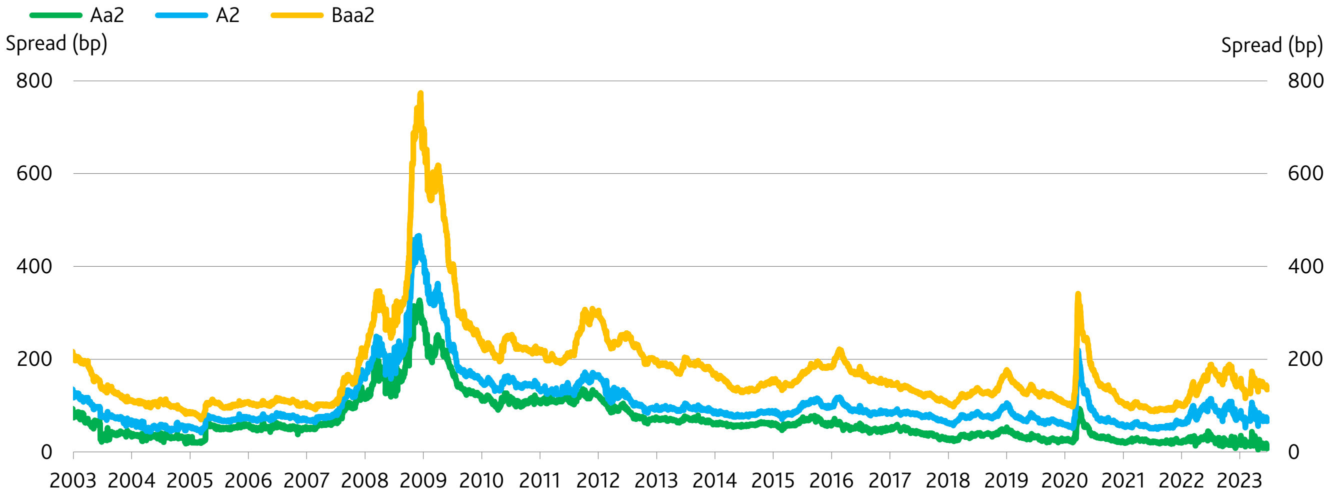
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
6/15/2023	ALTICE NV-ALTICE FRANCE HOLDING S.A.	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/PDR	11257.17	D	B2	B3	SG	LUXEMBOURG
6/15/2023	TECHNICOLOR CREATIVE STUDIOS SA	Industrial	PDR		U	Ca	Caa3	SG	FRANCE
6/16/2023	INOVIE GROUP	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG	FRANCE
6/16/2023	CLARANET INTERNATIONAL LIMITED-CLARANET GROUP LIMITED	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG	UNITED KINGDOM
6/19/2023	SIEMENS AKTIENGESELLSCHAFT	Industrial	SrUnsec/LTIR/MTN	46975.5	U	A1	Aa3	IG	GERMANY
6/19/2023	PLAYTECH PLC	Industrial	SrSec/LTCFR/PDR	382.3925	U	Ba3	Ba2	SG	ISLE OF MAN
6/19/2023	PRAESIDIAD GROUP LIMITED	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa3	SG	UNITED KINGDOM
6/20/2023	SECTOR ALARM HOLDING AS	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG	NORWAY

Source: Moody's

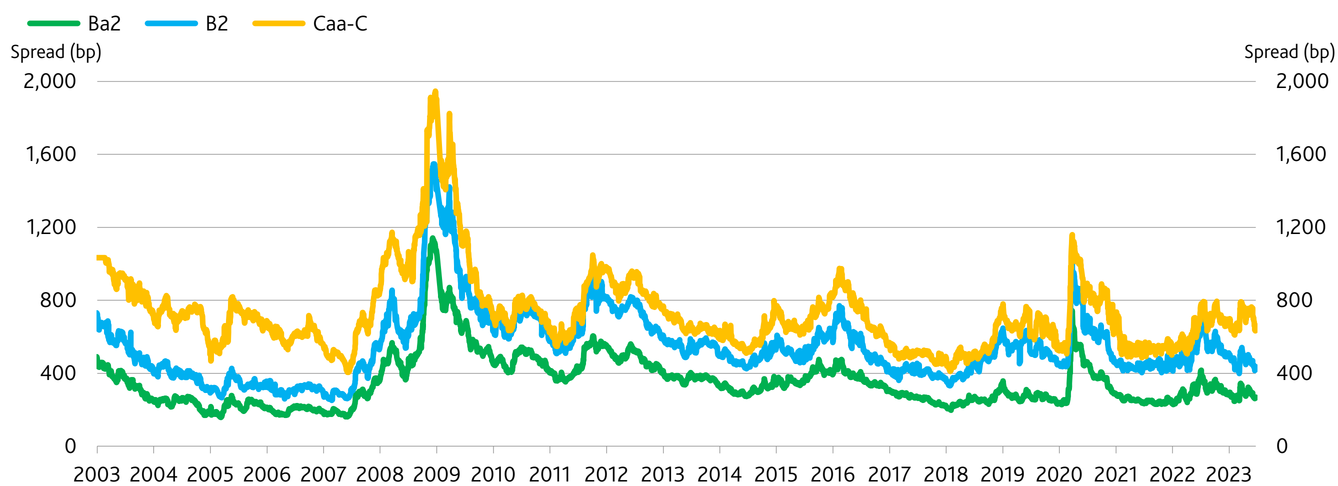
MARKET DATA

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



Source: Moody's

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



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (June 14, 2023 – June 21, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 21	Jun. 14	Senior Ratings
NiSource Inc.	A3	Baa2	Baa2
Ford Motor Company	Ba2	Ba3	Ba2
NextEra Energy Capital Holdings, Inc.	Baa1	Baa2	Baa1
Lowe's Companies, Inc.	Aa3	A1	Baa1
Bank of New York Mellon Corporation (The)	A3	Baa1	A1
Southern California Edison Company	Baa1	Baa2	Baa1
Enterprise Products Operating, LLC	A2	A3	Baa1
Cargill, Incorporated	A3	Baa1	A2
Target Corporation	Aa3	A1	A2
Dominion Energy, Inc.	A1	A2	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 21	Jun. 14	Senior Ratings
Philip Morris International Inc.	A2	Aa3	A2
CVS Health Corporation	A3	A2	Baa2
Amazon.com, Inc.	A1	Aa3	A1
Caterpillar Financial Services Corporation	A1	Aa3	A2
Kraft Heinz Foods Company	A3	A2	Baa2
Mondelez International, Inc.	Aa3	Aa2	Baa1
General Mills, Inc.	Aa3	Aa2	Baa2
Sempra	A2	A1	Baa2
Kroger Co. (The)	Baa1	A3	Baa1
ERAC USA Finance LLC	Baa2	Baa1	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 21	Jun. 14	Spread Diff
Staples, Inc.	Caa2	2,879	2,286	593
iHeartCommunications, Inc.	Caa1	1,754	1,474	281
Anywhere Real Estate Group LLC	B2	941	839	102
Liberty Interactive LLC	Caa2	2,759	2,666	93
Gap, Inc. (The)	B1	531	473	58
American Greetings Corporation	Caa1	613	568	45
CSC Holdings, LLC	B1	2,212	2,171	41
Carnival Corporation	B3	581	545	36
Macy's, Inc.	Ba2	419	385	34
Lumen Technologies, Inc.	Caa1	2,224	2,193	31

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 21	Jun. 14	Spread Diff
Dish DBS Corporation	B3	2,375	2,505	-130
Dish Network Corporation	B3	2,095	2,221	-126
United States Cellular Corporation	Ba2	337	419	-81
Freedom Mortgage Corporation	B2	656	717	-61
Encompass Health Corp.	B1	167	197	-30
SITE Centers Corp.	Baa3	203	227	-24
Avis Budget Car Rental, LLC	B1	345	366	-22
Smithfield Foods, Inc.	Ba1	162	182	-20
JBS USA Lux S.A.	Baa3	148	165	-17
NiSource Inc.	Baa2	66	81	-16

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (June 14, 2023 – June 21, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 21	Jun. 14	Senior Ratings
Hera S.p.A.	A3	Baa2	Baa2
Credit Agricole S.A.	A1	A2	Aa3
Greece, Government of	A3	Baa1	Ba3
DZ BANK AG	Aa3	A1	Aa2
Nationwide Building Society	A2	A3	A1
Dexia Credit Local	A2	A3	Baa3
Banca Monte dei Paschi di Siena S.p.A.	Ba3	B1	B1
Telecom Italia S.p.A.	B1	B2	B1
Autostrade per l'Italia S.p.A.	Baa2	Baa3	Baa3
Credit Suisse AG	Baa1	Baa2	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 21	Jun. 14	Senior Ratings
Solvay SA	Baa2	A3	Baa2
United Kingdom, Government of	Aa1	Aaa	Aa3
BNG Bank N.V.	Aa2	Aa1	Aaa
ABN AMRO Bank N.V.	A3	A2	A1
Commerzbank AG	Baa2	Baa1	A2
Danske Bank A/S	Baa1	A3	A3
Bayerische Motoren Werke Aktiengesellschaft	A3	A2	A2
Veolia Environnement S.A.	A2	A1	Baa1
ENGIE SA	A1	Aa3	Baa1
BASF (SE)	A3	A2	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 21	Jun. 14	Spread Diff
Casino Guichard-Perrachon SA	Ca	20,553	17,068	3,485
Boparan Finance plc	Caa3	2,634	2,371	263
Trinseo Materials Operating S.C.A.	B3	1,354	1,250	104
Stonegate Pub Company Financing 2019 plc	Caa2	639	548	91
Ardagh Packaging Finance plc	Caa1	671	613	58
INEOS Quattro Finance 2 Plc	B2	549	499	50
Iceland Bondco plc	Caa2	900	863	37
Carnival plc	B3	551	517	34
Lanxess AG	Baa2	180	151	29
United Group B.V.	Caa1	772	742	29

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 21	Jun. 14	Spread Diff
Vedanta Resources Limited	Caa2	1,743	1,821	-78
Telecom Italia S.p.A.	B1	339	380	-41
Bellis Acquisition Company PLC	Caa2	617	635	-18
CPI Property Group	Baa3	650	667	-17
Dufry One B.V.	Ba3	232	246	-15
Heathrow Finance plc	Ba2	127	142	-15
Picard Bondco S.A.	Caa1	543	557	-13
Autostrade per l'Italia S.p.A.	Baa3	98	109	-10
Hera S.p.A.	Baa2	70	79	-10
Close Brothers Group plc	A2	149	159	-10

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (June 14, 2023 – June 21, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 21	Jun. 14	Senior Ratings
SGSP (Australia) Assets Pty Ltd	A3	Baa2	A3
Korea, Government of	Aa1	Aa2	Aa2
Commonwealth Bank of Australia	A1	A2	Aa3
Australia and New Zealand Banking Grp. Ltd.	A1	A2	Aa3
NBN Co Limited	Baa1	Baa2	Aa3
Mizuho Financial Group, Inc.	A2	A3	A1
Export-Import Bank of China (The)	A2	A3	A1
Oversea-Chinese Banking Corp Ltd	Aa1	Aa2	Aa1
Shinhan Bank	Aa2	Aa3	Aa3
Transurban Finance Company Pty Ltd	Baa1	Baa2	Baa2

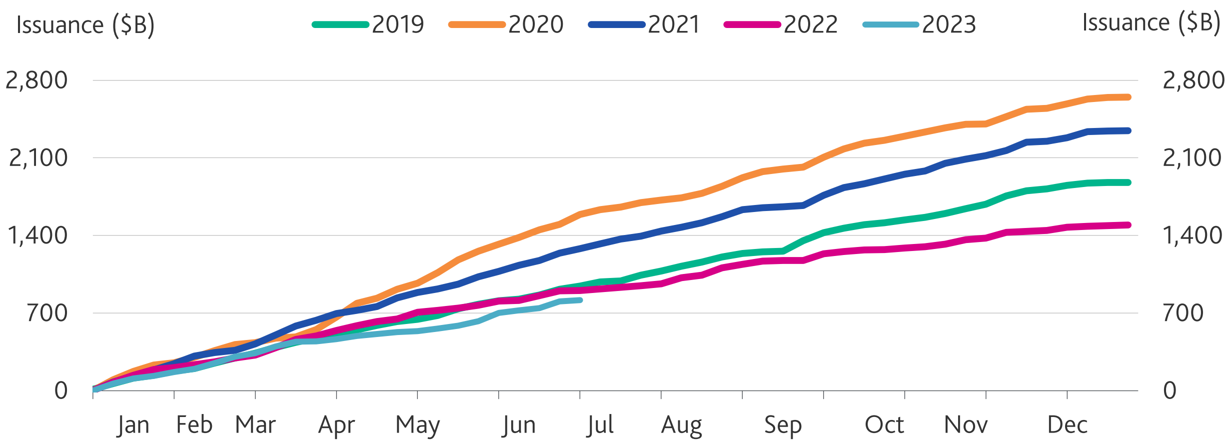
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 21	Jun. 14	Senior Ratings
Indonesia, Government of	Baa2	Baa1	Baa2
JFE Holdings, Inc.	Aa3	Aa2	Baa3
ICICI Bank Limited	Baa1	A3	Baa3
Boral Limited	Ba1	Baa3	Baa2
Japan, Government of	Aaa	Aaa	A1
China, Government of	A2	A2	A1
Australia, Government of	Aaa	Aaa	Aaa
India, Government of	Baa2	Baa2	Baa3
China Development Bank	A3	A3	A1
Mitsubishi UFJ Financial Group, Inc.	A1	A1	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 21	Jun. 14	Spread Diff
Pakistan, Government of	Caa3	4,810	4,291	519
SK Hynix Inc.	Baa2	165	151	15
Vanke Real Estate (Hong Kong) Company Limited	Baa2	406	393	13
RHB Bank Berhad	A3	127	116	11
Flex Ltd.	Baa3	137	129	8
Boral Limited	Baa2	153	147	7
Toyota Industries Corporation	A2	113	108	6
JFE Holdings, Inc.	Baa3	46	41	5
NIPPON STEEL CORPORATION	Baa2	42	37	5
LG Chem, Ltd.	A3	91	86	5

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 21	Jun. 14	Spread Diff
Adani Green Energy Limited	B2	761	791	-30
Tata Motors Limited	B1	153	181	-28
SGSP (Australia) Assets Pty Ltd	A3	69	83	-14
Sydney Airport Finance Company Pty Ltd	Baa1	92	105	-12
Lenovo Group Limited	Baa2	129	139	-10
SK Innovation Co. Ltd.	Baa3	241	250	-10
LG Electronics Inc.	Baa2	84	92	-8
Coca-Cola Amatil Limited	Baa1	43	51	-7
India, Government of	Baa3	87	93	-6
National Australia Bank Limited	Aa3	56	62	-6

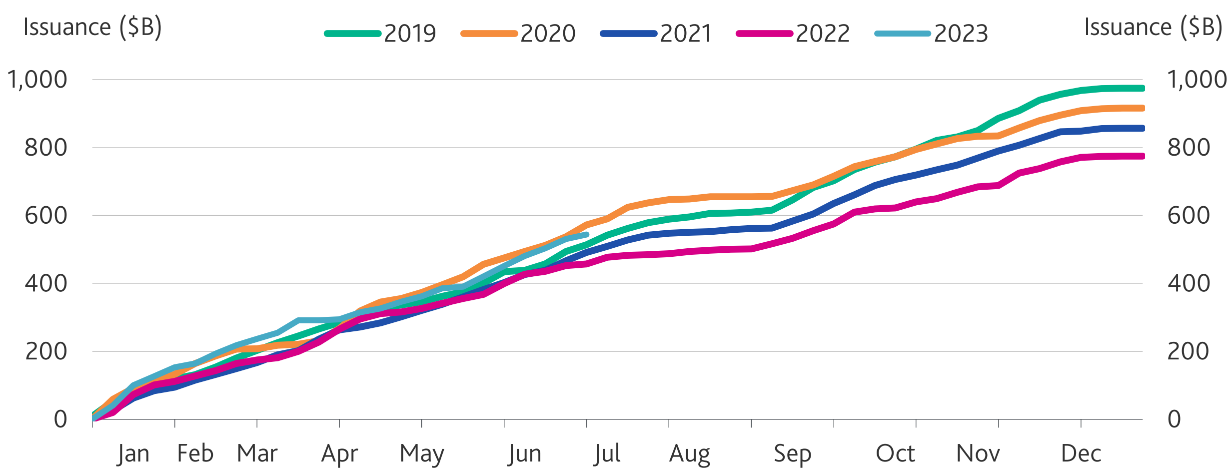
Source: Moody's, CMA

Figure 6. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

Figure 7. Market Cumulative Issuance - Corporate & Financial Institutions: Euro Denominated



Source: Moody's / Dealogic

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	12.191	1.095	13.484
Year-to-Date	705.688	97.358	817.308

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	10.778	1.852	12.966
Year-to-Date	489.376	35.908	543.977

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

To order reprints of this report (100 copies minimum), please call 212.553.1658.

Report Number: 1372576

Editor
Reid Kanaley
helpeconomy@moodys.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