MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Energy Taints August Inflation

U.S. headline inflation in August was the strongest on a monthly basis since June 2022. The consumer price index rose 0.6% in August, which was in line with our and consensus expectations, and core inflation surprised to upside. However, all this strength was attributable to higher energy prices, and the Federal Reserve will look past this jump in energy prices, which are often determined by forces outside the central bank's control.

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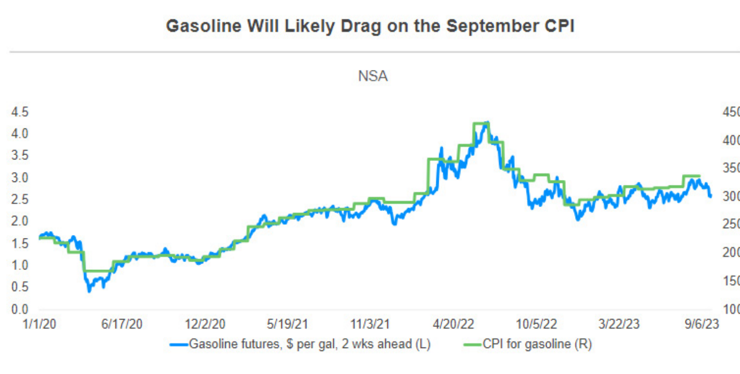
In this case, oil production cuts by Saudi Arabia and Russia, which will be extended through December, has boosted energy prices. Moreover, U.S. gasoline futures, a leading indicator of the CPI, are falling and suggest that gasoline will weigh on the CPI in September. For context, the CPI for gasoline added nearly 0.4 percentage points to August's increase in the headline CPI.

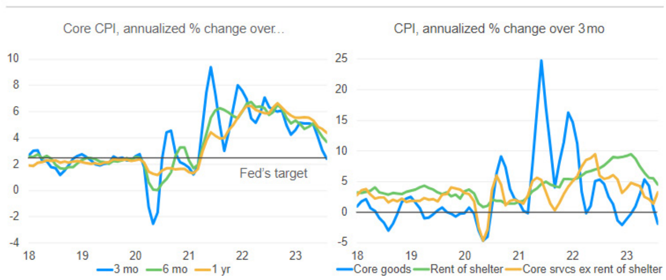
All told, we are still sticking to our baseline assumption that the Fed is done with interest-rate hikes for the current tightening cycle. The central bank views the labor market as the primary battleground in its fight against inflation, and signs are mounting that the labor market is indeed cooling. Fed funds pricing data suggest only a 3% probability of the central bank moving again in September.



At 0.3%, the core CPI posted its strongest monthly gain since May and even surprised to the upside relative to our and consensus expectations for a 0.2% increase. Transportation services seem to have played a large role in this upside surprise. In particular, the CPI for airline fares climbed 4.9% in August after plunging by 8.1% in the two preceding months; August was also the first month that airfares rose over the month since March. Though the core CPI strips out food and energy prices, higher energy prices, and specifically higher jet fuel prices, can still bleed into the core CPI through airfares. Jet fuel prices have risen steadily in the past three months, culminating in a 20% gain in August.

Elsewhere within transportation services, growth in the CPI for motor vehicle insurance accelerated from 2% to 2.4% in August, which is the highest on record excluding pandemic-era distortions. For perspective, auto insurance makes up nearly 3% of the CPI. Replacement costs for wrecked vehicles were higher last year than insurers had budgeted for, and they are now raising premiums. Also, highway accidents are elevated relative to pre-pandemic norms. However, the impulse to core CPI growth from auto insurance will eventually fade, as the past surge in new-vehicle prices fades into the background and regulators push back against sharp increases in auto insurance rates.

Long and Winding Road for Core CPI Disinflation



Sources: BLS, Moody's Analytics

Despite the upside surprise, core CPI inflation is decelerating. Annualized over the past three and six months, the core CPI is up 2.4% and 3.7%, respectively. On a year-ago basis, the core CPI is 4.4% higher. All these growth rates are well below their peaks in the prior two years. Moreover, the three-month annualized change in the core CPI is roughly consistent with the Fed's target and represents the slowest pace since March 2021.

Annualized over the past three months, core goods prices are down 1.9%, rent of shelter is up 4.6%, and prices tied to nonenergy services other than housing are up 3.3%. The three-month annualized change in the CPI for core services excluding housing was higher than its earlier pace of 1.4% in July due to the pickup in the cost of transportation services.

U.S. small businesses still face a rocky road

U.S.-based small businesses are still feeling the pressure of high inflation, elevated interest rates, tightening access to credit, cooling demand, and a slowing labor market. The economy is slowing, and expectations of further weakness remain high. The headline NFIB small business optimism index fell back 0.6 point in August to 91.3, reversing most of the gain from the previous month, as the expectations component retreated further into negative territory.

While the index remains weak by historical standards, there is some upward momentum that may very well carry forward, particularly as inflation comes down. But just as the race to 2% inflation is on a rocky road, so will be small-business sentiment. Despite the economy's resilience in the face of aggressive monetary policy, bank failures, and global trade disruptions, small businesses are feeling the brunt of these issues.

Sales are slowing, earnings are trending negative, qualified labor is hard to get, and credit access is tight. Plans to make capital investments remain positive but are starting to pull back, and only a thin majority of firms believe now is a good time to expand. Small businesses may be in a good position to ride the wave of resilience for at least the next several months, but growth prospects are limited.

Overall, it seems they are already riding the wave. If we break apart the index into its "hard" and "soft" components, it is clear that expectations are weighing down the headline. The NFIB defines the hard data components as plans to increase employment, job openings, inventory plans, earnings trends, and capital expenditure plans. Soft data components are expected business conditions, outlook on expansion, expected real sales, expected credit conditions, and assessment of current inventories. The hard data suggest that small businesses are faring as well as they were before the pandemic, though not as well as just following the crisis.

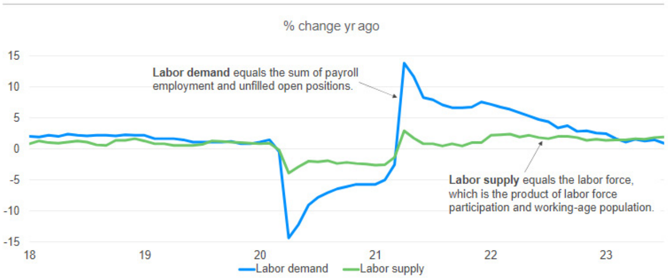
TOP OF MIND

Immigration to the Rescue

By DANTE DEANTONIO

U.S. job gains have throttled back in recent months. At the same time, we've seen continued buoyant growth in the labor force, as participation by prime-age workers and immigration have fully recovered from the pandemic. This rebalancing of labor demand and labor supply have provided some relief from what was a red-hot labor market.

Labor Supply Catches Up to Labor Demand



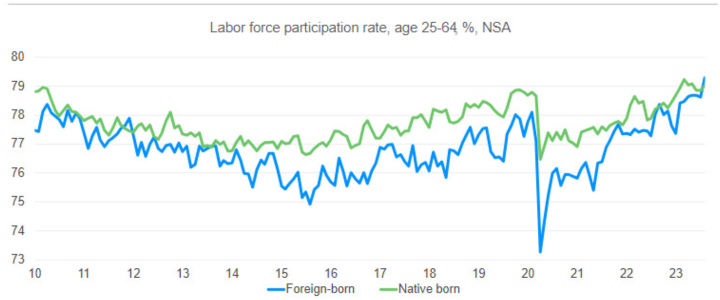
Sources: BLS, Moody's Analytics

Moreover, workers are no longer rushing to quit their jobs at the record pace of a year or so ago. The quit rate—the percent of the labor force voluntarily leaving jobs—has fallen to where it was pre-pandemic.

The rebalancing of supply and demand, along with the reduction in the quit rate, have resulted in slower wage growth. Labor compensation as measured by the employment cost index, which controls for the changing mix of industries and occupations, increased just over 4% annualized in the second quarter. This is down from a recent 5.5% peak and is closing in on the 3.5% pace thought to be consistent with the Federal Reserve's 2% inflation target and underlying productivity growth of 1.5% per annum.

Key to ensuring that this moderation continues is further slackening of the labor market—which is most likely to result from steady growth in the labor force as job gains slow to a crawl. Unfavorable demographic headwinds are weighing heavily against participation in the native-born population, but improvement in labor force participation for foreign-born workers has improved dramatically as the impact of the pandemic moves further into the rearview and immigration levels normalize. Prior to the pandemic, participation rates for native-born residents aged 25-64 were consistently higher than their foreign-born counterparts. However, that gap narrowed significantly over the last 18 months, with foreign-born participation hitting a new high in August as it moved ahead of native-born participation.

Foreign-Born Participation Surpasses Native-Born



Sources: BLS, Moody's Analytics

Even more impressive is that foreign-born residents have accounted for more than 80% of the total gain in the age 25-64 labor force over the past year despite representing just 20% of the overall labor force.

As the Fed remains keyed-in on moderating wage growth as a critical path toward getting inflation back to its 2% target, it's important not to lose sight of the underlying labor market dynamics that will help get there. Any significant pullback in the pace of immigration will make it less likely that labor supply can keep pace with labor demand, causing the labor market to tighten further and putting additional pressure on wage growth.

The Week Ahead in the Global Economy

U.S.

The U.S. economic calendar will ease up a bit, though eyes will be trained on the September meeting of the Federal Open Market Committee. We expect—and the consensus widely agrees—that the FOMC will keep the funds rate steady at 5.25%-5.5%. The somewhat unfavorable inflation report for August adds some downside risk, but it is likely that the Fed will wait until later in the year to implement further rate hikes, if any.

We will also get early readings on the housing market and manufacturing for September. The NAHB housing market index will likely show continued upbeat environment for homebuilders amid a dearth of existing-home inventory. Meanwhile, the Philadelphia Fed manufacturing survey is unlikely to show any meaningful turnaround in the factory sector.

Other key data to be released next week include new residential construction, jobless claims, and existing-home sales.

Asia-Pacific

The Bank of Japan is scheduled to review monetary policy settings on 22 September. Our best guess is that the disappointing run of data of late will see it hold major monetary policy levers steady. Second-quarter GDP data suggests Japan's post-pandemic recovery may have petered out prematurely, notwithstanding a glossy top-line result. Wage gains are trailing inflation and employment conditions are softening, challenging the notion that domestic demand can sustain price momentum long term. But the central bank's increased focus on the exchange rate makes coming decisions harder to call. With the currency close to ¥150 per dollar, the rate that last prompted forex intervention in October 2022, the risk of policy surprises and missteps has increased.

Europe

We expect the Bank of England to hike interest rates by 25 basis points next week. This will bring the Bank rate to 5.5%, the highest it has been in well over a decade. Inflation is still running hot—indeed, we forecast that the U.K. CPI inflation rate will inch higher in August to 6.9% annually from 6.8% in July. And nominal wage growth has been running even higher. As a result, we expect the BoE to feel the need to continue hiking even after this September meeting.

The euro zone's HICP inflation rate, meanwhile, was likely unchanged from July to August at an annual 5.3%. Although core and food inflation will tick lower, that will be balanced by energy prices rebounding from month to month on the back of higher petroleum products.

Meanwhile, U.K. retail sales likely recovered partially in August by 0.7% on a monthly basis after July's 1.2% decline. July's unseasonably rainy and cool weather held back consumers, so we expect sales to bounce back as things normalized in August. That said, consumer sentiment remained grim last month, so we are not expecting that they spent too big on retail goods.

We expect final estimates to confirm that Spain's GDP grew 0.4% in the second quarter from the prior stanza, when the economy saw a 0.5% increase. Preliminary estimates reported that household consumption rebounded handily during the latest quarter, while fixed investments picked up strongly from an already solid pace. Net trade had a significant negative impact as imports held up better than exports did. But all in all, Spain is proving to be in a better spot than many other euro zone economies thanks to the rebound in its tourism economy after the years of crippling lockdown and social distancing measures.

Latin America

The outlook for Latin America remains bifurcated. Upcoming data releases for Argentina, Mexico and Brazil will reveal deeper fissures between recession-wracked Argentina and the region's two largest economies, which have outperformed our modest expectations for growth this year.

With all of the hard data on the performance of the Argentine economy during the second quarter now in the books, we look for the economy to have contracted some 4.8% year on year. Retail and wholesale sales in Mexico likely remained robust in July, while we look for the central bank of Brazil to deliver its second consecutive rate cut amid waning inflation and slowing growth.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk	Risk Assessment
12-30 Sep	U.N.	General Assembly, New York	Low	Low	
1-Oct	United States	Potential government shutdown	Low	Low	Following a recent stand-off over the debt limit, risks of a standstill over next year's funding package lean to the upside, but history suggests the economic impact will be limited.
22-Oct	Switzerland	Federal elections	Low	Low	
26-27-Oct	EU	European Council summit	Low	Low	
29-Oct	Argentina	General election	Medium	Medium	The highly contested election might yield a drastic shift in economic policy and the country's political orientation. The ruling leftist coalition faces an uphill battle with two opposition candidates having strong showings in recent polls.
Oct/Nov	Poland	Parliamentary elections	Low	Low	
Nov	APEC	Economic leaders' meeting, to be held in San Francisco, U.S.	Low	Low	The APEC summit will be watched for the latest cooperation agenda between members on goods, services, investment and people.
6-17 Nov	U.N.	COP 28, to be held in Dubai, UAE	Low	Low	
22-Nov	Netherlands	General election	Medium	Low	After a volatile first half of 2023 for Dutch politics, this snap election will determine whether the growing populist, right-wing presence will cement itself in the nation's politics.
14-15-Dec	EU	European Council summit	Low	Low	
31-Dec	U.S.	Deadline for enactment of FY24 National Defense Authorization Act	Medium	Low	As the U.S. faces a growing set of national security challenges from competitors like China and military aggressors such as Russia, Iran and North Korea, appropriate funding has become increasingly necessary to combat external risks.
13-Jan	Taiwan	Presidential election	Medium	Medium	The election will have deep ramifications on the trajectory of U.S.-China relations.
14-Feb	Indonesia	General election (including presidential election)	Low	Low	
March	Russia	Presidential election	High	Medium	As the first presidential election in Russia since the war in Ukraine began and constitutional amendments were made in 2020, the election will be closely watched for internal instability and potential disruption, even as Vladimir Putin is highly likely to win re-election.
March	China	Two Sessions (Meetings of China's top legislative body and political advisory body)	High	Medium	The annual Two Sessions meeting sets the wider policy agenda along with economic and social goals for the world's second largest economy.
10-Apr	South Korea	General election	Low	Low	The election will determine whether President Yoon's policy agenda will continue to face opposition in the National Assembly.
May	India	Election (Lok Sabha, lower house)	Medium	Low	Prime Minister Narendra Modi is vying for a third term building India as an economic engine of the world, but the domestic focus is now towards inflation and economic inequality.

September Baseline Forecast Incorporates a Two-Week Government Shutdown

By OLGA BYCHKOVA

CREDIT SPREADS

Corporate credit spreads have narrowed further through the first half of September. Tight credit spreads show market participants remain confident in the creditworthiness of borrowers and see the overall economy as favorable. As a result, despite monetary policy tightening worldwide, market participants see a high likelihood for a “soft landing.” This has been underpinned by healthy corporate balance sheets, persistent strength in consumer spending, and a relatively low level of corporate defaults this year. The Moody's Investors Service long-term average corporate bond spread to the 10-year U.S. Treasury currently sits at 134 basis points, the same as the previous week, and remains below a 12-month low of 137 bps. In contrast, Moody’s long-term average industrial bond spread decreased 1 bp to 114 bps over the past week. That is less than a one-year low of 117 bps.

Low-grade credit spreads—the difference between the yield on high-yield or below-investment-grade corporate bonds and the risk-free 10-year Treasury yield—have also trended lower since spiking to over 500 basis points in the wake of the banking crisis in March. This yield spread represents the compensation investors demand for the risk that businesses they invest in could run into financial trouble and miss making timely principal and interest payments. The U.S. Bloomberg/Barclays high-yield option-adjusted spread increased to 374 bps from 371 bps the previous week, while the ICE BofA U.S. high-yield option-adjusted bond spread closed Wednesday at 385 bps, down 1 bp from its value last week. This compares with an average high-yield spread of 1,000 bps during recent recessions and an average 350 bps outside of recessions. The average spread since the high-yield market was established in the 1990s is about 500 bps.

The VIX index also reflects investor optimism: the index dropped to 13.5 points Wednesday, almost a whole point lower than the previous week. In the past, there has been a significant correlation between credit spreads and equity market volatility, as measured by the VIX. This relationship was disrupted in recent years, but the recent decline in the VIX has brought it back in line with high-yield spreads.

GLOBAL DEFAULTS

Moody's Investors Service reported nine corporate debt issuers defaulted in July, the second lowest this year, down from the upwardly revised count of 14 in June. Defaults fell in advanced markets but edged up in emerging markets, with stress among China's property developers resurfacing.

The six defaulters from advanced markets were Accuride Corporation, Anchor Glass Container Corporation, Exela Intermediate LLC, JP Intermediate B LLC, Mallinckrodt International Finance S.A., and Solocal Group S.A. All are from the U.S. except Solocal Group, which is based in France. Among these six defaults, half arose from distressed exchanges and the other half were due to missed payments. The three emerging markets defaulters in July were Brazil-based Azul S.A., Indonesia-based Agung Podomoro Land Tbk (P.T.), and China-based Greenland Holding Group Company Limited.

July’s defaulters increased the year-to-date tally to 92. Across sectors, business services are the largest contributor to year-to-date defaults, with 10. Healthcare & pharmaceuticals and telecommunications followed with eight each. By region, North America had 64 defaults (62 in the U.S. and two in Canada). The rest were from Europe (16), Latin America (8) and Asia-Pacific (4).

Despite the recent slowdown in monthly defaults, the trailing 12-month global speculative-grade default rate rose to 4% at the end of July from 3.9% a month earlier. Moody’s Investors Service forecast the rate to trend higher over the remainder of 2023, reaching 4.5% in December and surpassing the long-term average of 4.1%. In 2024, the credit agency expects the default rate to peak at 4.7% in March before easing to 4.3% in July. The peak rate forecast was revised downwards from 5.1% previously due to July's tightening in U.S. high-yield spreads and a downward revision in the high-yield spreads forecast for the second half of this year. Moody’s Investors Service’s latest baseline default rate forecasts incorporate the assumptions that the U.S. high-yield spread will widen to 528 bps over the next four quarters from about 370 bps at the end of July and that the U.S. unemployment rate will rise to 4.9% from 3.5% in the comparable period.

While U.S. economic activities remained resilient in the first half of this year, the U.S. economy is expected to slow in upcoming quarters. This slowdown will constrain aggregate demand, putting pressure on corporate earnings and cash flows. In addition, high interest rates have significantly raised companies' debt-service burdens, particularly those that rely heavily on floating rate loans. Although the fed funds rate is probably near its peak, Moody's Investors Service expects the Federal Reserve to maintain a tight monetary policy stance this year to facilitate further steady disinflation to the central bank's target. Low-rated companies will continue to struggle to meet refinancing and liquidity needs as they contend with interest rate pressure, tight lending conditions, and worsening operating performance as the economy slows.

CORPORATE BOND ISSUANCE

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

Corporate bond issuance proceeded to weaken in the second quarter of 2022. Worldwide offerings of investment-grade corporate bonds totaled $548 billion, down 21% on a year-ago basis. U.S. dollar-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 was down 79% on a year-ago basis.

Issuance declined further in the third quarter as higher interest rates weighed on lending activity. Worldwide offerings of investment-grade corporate bonds totaled $505 billion, down 30% year over year. U.S. dollar-denominated high-yield corporate bond issuance clocked in at $21 billion in the third quarter. High-yield issuance has declined approximately 84% on a year-ago basis.

Corporate debt issuance remained suppressed in the fourth quarter of 2022. U.S. dollar-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 12 months, total U.S. dollar-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. U.S. dollar-denominated investment-grade issuance, which accounts for half of activity globally, decreased 15% on an annual basis. U.S. high-yield issuance also experienced a slow start at just $31.5 billion, marking its slowest start to the year since 2008, and posting a 15% decline compared to the first quarter of 2022.

Issuance strengthened in the second quarter of 2023 as worldwide offerings of corporate bonds revealed a year-over-year increase of 26.8% for investment grade. High-yield issuance in the period nearly doubled the amount recorded in 2022. Approximately 60% of U.S. dollar-denominated high-yield proceeds in the period were allocated to debt refinancing.

U.S. dollar-denominated investment-grade debt issuance totaled $61 billion in the most recent week, bringing the year-to-date figure to $972.1 billion. This reflects an 9.8% decline compared with the same period in 2022.

Meanwhile, there was $3.1 billion in high-yield debt issued in the same period, raising the total to $133.2 billion this year. High-yield issuance has outstripped early-year expectations, increasing 14.1% relative to last year's pace. Total U.S. dollar-denominated corporate debt issuance now tracks 8.4% below where it stood in 2022 and is 35.9% lower compared with 2021.

U.S. ECONOMIC OUTLOOK

The U.S. economy continues to show significant resilience, consistent with our expectations. Consequently, we made only modest September adjustments to the U.S. baseline forecast largely in response to revised second-quarter data and high-frequency data showing a strong start to the third quarter despite recent data resulting in a slight weakening in the outlook for the job market.

Key assumptions changed little in September. Monetary policy assumptions were not changed at all. We did add a two-week federal government shutdown in October, but the impact on the broader economy is small. We still expect increases in demand from growing economies, and actions of OPEC+ and Saudi Arabia will push oil prices higher, and therefore did not change our price outlook much. Recent data slightly weakened the outlook for business investment, though it improved the outlook for house prices modestly. The outlook for the 10-year Treasury is slightly changed, reflecting the recent increase in the rate. Housing forecasts responded modestly to recent data showing lower existing-home supply and sales, shifting demand to new homes.

Fiscal policy

As of September, the baseline forecast explicitly assumes a two-week government shutdown. In June, President Biden signed into law the Fiscal Responsibility Act, which resolved the debt-limit crisis and established limits on federal discretionary spending for the next two years. Originally, it was assumed that these spending limits would have reduced, if not eliminated, the potential for brinkmanship around the federal budget for the coming fiscal year. We had expected that Congress would pass the 12 annual spending bills, which fund all federal government activities, in a reasonably graceful manner and that these 12 bills would sum up to the limits established by the FRA.

This assumption was partly correct. The Senate has passed all 12 annual spending bills and has heeded the letter of the law as written in the FRA. However, the same cannot be said of the House of Representatives. House Republicans are dissatisfied with the FRA, and they want to cut federal spending even more than agreed-upon limits in the FRA. In June, a small bloc of Republicans brought legislative action on the House floor to a weeklong halt. Unlike the Senate, the House has passed only one of the 12 annual spending bills. The House has returned from its August break and has only three weeks left to pass the remaining 11 spending bills and forge compromises with the Senate before current funding for federal government operations ends on September 30. We now assume that lawmakers will let government funding expire at the end September, leading to a two-week shutdown starting October 1.

In the national accounts, compensation of federal workers is counted as output by the federal government. However, there is an important difference in the way the Bureau of Economic Analysis treats real versus nominal compensation. Nominal compensation is the actual pay federal workers receive. Therefore, the back pay they traditionally get retroactively after a shutdown ends erases the shutdown's direct impact on nominal GDP. On the other hand, real compensation is calculated from hours worked. Since furloughed federal workers do not work overtime after a shutdown, hours that are not worked are permanently lost, raising the implicit cost of public services. Implied prices paid for federal government compensation is the ratio between nominal and real compensation. During past shutdowns, because there was a decrease in real compensation due to fewer hours worked without a corresponding decrease in nominal compensation, which was restored by retroactive back pay, implied prices for federal compensation shot up. In other words, the furlough's effect on the BEA's estimates was to lower the level of government services provided while maintaining the same cost of those services. In the September baseline forecast, Moody's Analytics has shocked the price deflator for federal government compensation to a similar degree as has been observed during past shutdowns. The result is a 0.2-percentage point reduction in annualized real GDP growth in the fourth quarter of 2023. Much of the reduction to fourth-quarter GDP growth due to productivity losses by furloughed federal workers will be made up in the first quarter of 2024 as work schedules return to normal. Therefore, we boosted our estimate of annualized real GDP growth in the first quarter of 2024 by a similar 0.2 percentage point.

Changes to GDP growth

U.S. real GDP rose a healthy 2.1% in the second quarter, according to the BEA's second estimate. Although this was unexpectedly lower than the BEA's initial estimate of 2.4%, it was still the fourth consecutive quarter of growth near or above the economy's potential. The drag from inventories diminished and many components, including higher consumer spending, government spending, and total nonresidential business investment, and lower imports contributed to higher growth estimates with none dominating. However, the new data for exports, residential investment, business equipment investment, and intellectual property were lower than the first estimate. Upward revisions to state and local spending on structures were a modest offset.

Consumer spending remained a source of growth, but its contribution shrank a lot compared with the first quarter, which had been elevated by cost-of-living adjustments that had boosted after-tax income. Overall, consumer spending added 1.1 percentage points to growth. Nonresidential fixed investment improved, adding 0.8 percentage point to growth, its largest contribution since the third quarter of last year. Government contributed 0.6 percentage point with state and local spending leading the gain. Residential investment continued to slide, pulling growth down by 0.1 percentage point. Trade subtracted 0.2 percentage point from growth with a 1.3-percentage point drag from exports mostly offset by falling imports. Inventories reduced growth by 0.1 percentage point.

Despite the downward revision to second-quarter growth, high-frequency data suggest the economy had more momentum at the start of the third quarter than previously thought. Hence, growth is expected to accelerate briefly before slowing in the fourth quarter. We now expect that third-quarter real GDP growth will be higher than previously forecast, with upward revisions to consumer spending growth and international trade outweighing downward revisions to the contribution from investment and government spending. The net effect is slightly stronger real GDP projected for this year and next, followed by modestly weaker growth the next few years. On an annual average basis, growth is projected to be 2.1% in 2023 and 1.4% in 2024, compared with projections of 2% and 1.3%, respectively, in the August outlook. Growth returns to trend in 2025.

Monetary policy

Monetary policy assumptions are unchanged from the last update. We expect that the Fed's 25-basis point rate hike in

July was the last of the current tightening cycle and that the policy rate has reached its terminal range of 5.25% to 5.5%. Likewise, we still anticipate that the Federal Open Market Committee will start lowering rates by June. We expect that the Fed will relax monetary policy slowly, cutting rates by 25 basis points per quarter until reaching 2.75% by the fourth quarter of 2026, and 2.5% in 2027.

The Fed continues to balance inflation and labor market tightness against financial conditions. July inflation as measured by changes in the personal consumption deflator displayed a mild uptick from June, with year-ago core inflation rising from 4.1% to 4.2%. However, core inflation has stabilized below the 4.5% average seen earlier in the year. Meanwhile, U.S. labor markets slowed more significantly in August, with the pace of hiring near 150,000 payrolls on a three-month moving average basis, compared with 335,000 in January. The August jobless rate also saw an uptick to 3.8%, suggesting that labor market pressures on inflation are now fading. Concerns, meanwhile, stem from rising oil prices, which continued to increase throughout August. However, our baseline does not predict that energy prices will reignite inflation sufficiently for the Fed to hike rates further. Tighter financial conditions, meanwhile, will exert further downward pressures on demand and prices. Our baseline assumes that banks will continue to limit credit growth, but that the financial system overall remains stable.

Inflation remains the key to our outlook. The September vintage has consumer price inflation at 3% year over year by the end of 2023, a small drop from the previous outlook. As in the previous baseline, we anticipate inflation to approach the Fed's target range around the third quarter of 2024. Remaining inflationary pressures from shelter and other U.S. service industries will soften. We also 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. Amid higher oil prices, and the realization that the Fed will not likely cut rates in early 2024, the 10-year Treasury yield rose from 3.85% to 4.3% from July through early September. We anticipate that the yield will average 4.1% in the third quarter, and then ease slightly until 2025, averaging between 3.9% and 4%.

Foreign exchange markets have relaxed as the Fed has approached the end of the current hiking cycle, although the pace has slowed recently. On a real broad trade-weighted basis, the U.S. dollar is still up more than 5% from its pre-pandemic level. By August it had depreciated by more than 5% from its October 2022 peak.

Energy

Moody's Analytics has modestly raised its crude oil price forecast in the near term. The forecast is essentially unchanged for the remainder of 2023 but $1.67 higher in 2024. This change reflects the assumption that Saudi Arabia is prioritizing high prices and revenue over market share. Saudi Arabia is expected to keep its voluntary production cut at 1 million barrels per day through the end of the year and only gradually reduce its size in 2024.

Moreover, supply will also be restricted by the compounding effect of oil sanctions on Russia. Russia will have a more difficult time securing the capital, equipment and resources it needs to invest to ensure that its wells continue to produce. It will also struggle to invest in new sources of production. A similar story has played out on a larger scale in Venezuela.

Moody's Analytics has also lowered its forecast for natural gas prices. This reflects the assumption that arbitrage on the wide gap between U.S. and EU gas prices will take a long time to materialize.

Labor market

The August employment report was a mixed bag. Payroll employment rose by 187,000, slightly stronger than both our forecast and consensus expectations, despite the impact of a major business closure and a strike. However, the impact of revisions to prior months was significant and negative with the June and July figures revised lower by a combined 110,000. Job growth has now averaged just 150,000 over the last three months, compared with a pre-revision average of 218,000 in July. The unemployment rate jumped to 3.8%, though this was partly because of an outsize gain in the labor force.

The weakening of the labor market is underway and will continue through the end of the year. Monthly job gains in the second quarter came in weaker than previously expected given the downward revisions to prior months, and will ease further, averaging about 160,000 in the third quarter before dropping below 100,000 per month during the fourth quarter. Growth will ease further in 2024 as the risk of a recession remains elevated.

The unemployment rate forecast has shifted slightly given the jump to 3.8% in the August report. We now expect the unemployment rate to hit 3.9% by the end of this year, compared with 3.7% in the prior forecast The unemployment rate will rise a bit further next year and peak at 4.2%, unchanged from the prior forecast. Over the next year, the change in the unemployment rate will be right on the border of a 50-basis point increase. Historically, an increase of that size within a 12-month period has been an indicator that the economy is in a recession.

Business investment and housing

The BEA revised its estimate of second-quarter business investment downward in its August report. Real growth was 6.1% annualized compared with 7.7% in July. All major segments, equipment, structures and intellectual property were lower than the original estimate. Nonetheless, even the 6.1% figure was significantly more than had been forecast earlier in the year.

Equipment rose approximately 8% annualized compared with the first estimate of 11%. The bulk of the strength was in transportation equipment. Specifically, the largest contributor was aircraft, which rose more than 100% annualized to a record peak. Airlines are making up for time lost during the pandemic. Investment in light trucks was a bit less than previously estimated, but still jumped 70% annualized, reflecting purchases by car rental companies. A substantial proportion of new vehicles are SUVs, which are considered trucks. IT equipment spending was a lot lower than previously estimated, as new data confirm that spending by companies to support remote working has long since peaked.

Structures rose about 11% annualized, a bit more than the original estimate. All the growth was new factories, up more than 90% annualized, reflecting the booming construction of facilities to make semiconductor and EVs. The value of new factories put in place now exceeds that for office and retail. In contrast, spending on mining structures fell along with active drill rigs as oil prices declined through July, though they have rebounded in August.

High-frequency data have not been as sanguine. When adjusted for inflation, monthly data on shipments of nondefense, nonaircraft capital goods declined again in July and have been down for five of the past six months. Year over year, the contraction has been 1.9%. Moreover, inflation-adjusted new orders have declined for two months and are down 3.2% year over year.

The lower figure for second-quarter business investment contributes to a slightly lower outlook. Real fixed business investment will grow by 2.7% at an annual rate in 2023 compared with 3.1% in the August forecast.

The short-term trajectories for existing- and new-home sales were adjusted this month to account for recent trends. Existing-home sales are expected to remain low for several quarters as the supply of available homes for sale is depressed by interest rate lock-in effects. Conversely, new-home sales are expected to come in higher as more buyers turn to new construction to satisfy their demand.

Permits and starts for single-family construction are expected to be modestly higher in the near term as a result. However, multifamily permits and starts are expected to retreat to pre-pandemic levels given tighter lending standards for CRE construction loans and the record number of projects under construction.

House prices are forecast to trend down slightly through late 2025. Limited inventory will support prices in the near term, but lack of affordability will lead to modest price declines longer term given expectations for persistently high interest rates.

The outlook for CRE prices remains pessimistic but is largely unchanged except for apartment buildings. The Moody's Analytics CRE Price Index registered a 17% drop in the second quarter for apartments, which has been incorporated into the September outlook.

THE LONG VIEW: EUROPE

One Last Hike for the ECB

By ROSS CIOFFI and OLIA KURANOVA

After leaving options widely open, the European Central Bank decided to hike policy rates by 25 basis points instead of pausing. The main refinancing rate was lifted to 4.5%, and the deposit rate moved up to 4%. However, the meeting was dovish. The governing council's monetary policy statement made it clear that this is likely the last hike of the current tightening cycle.

The move is in line with the ECB downgrading its growth forecasts. As the economy weakens, doves will have a stronger say. GDP growth forecasts were downgraded from 0.9% to 0.7% for this year, and from 1.5% to 1% next year. This is roughly in line with our own forecasts, if slightly higher.

Since our baseline anticipated the September hike to be ECB's last, this won't affect our short-term monetary policy outlook.

Euro zone on the struggle bus

Industrial production in the euro zone tumbled 1.1% month over month in July, well ahead of our expectations of a 0.3% decline and following a 0.4% increase in June. The culprit behind the July reading was the capital goods segment, where production dropped 2.7%month over month. By contrast, consumer and intermediate goods, and energy production grew. The sharpness of the hit to capital goods production may reflect some supply disruptions, but demand for industrial goods on the whole has been dismal for many months.

We are not surprised to see continued weakness for euro zone industry. Recent industrial production reports from individual countries in the euro zone have been disappointing. Production fell in Germany and Italy, putting the onus on services such as tourism to support economic growth. Germany, in particular, is emerging as a notably vulnerable area, weakened by decreased demand from China and an ongoing energy crisis.

Looking ahead, we do not expect a quick turnaround. August's HCOB Eurozone Manufacturing PMI printed a slight increase to 43.5 from 42.7 in July, which is encouraging. Manufacturing employment fell for the third month in a row in August, but the pace of decline remained minor, pointing to the fact that firms still want to hold on to labour. Backlogs are pulling back rapidly, but there is still enough work to be done to support firms' demand for labour.

Still, a persistently weak demand environment, contractionary PMI scores from across the region, and falling new orders signal that road ahead is not without obstacles. As such, we expect euro zone industrial production will likely contract further in the third quarter.

Strikes and weather pull down the U.K.

The U.K. economy slumped 0.5% month over month in July, worse than market forecasts of a 0.2% decline. July's dip also marks the largest decline so far in 2023 and has single-handedly reversed the 0.5% growth seen in June. However, we caution against reading too much into the contraction; a correction was expected following June's too-good-to-be-true results.

Let's take a closer look. The biggest culprit in July was the service sector, which sagged 0.5%, dragged down by a 3.4% fall in the human health activities sector, which was weighed down by NHS strikes that prompted the cancellation of appointments and procedures. The next largest contributor was a 3.4% decline in computer programming, consultancy and related activities.

Two primary factors contributed to the subdued performance of the service sector. First, the sector was negatively impacted by exceptionally poor summer weather—even by British standards. Secondly, labour disruptions due to industrial actions by professionals including senior and junior doctors, radiographers, teachers, and rail workers further hindered growth. As such, we are more inclined to say this month's dip is circumstantial, though that is not to imply that the U.K. economy is faring well. There should be some rebound in August, as temperatures rose above average, rainfall fell back to seasonal norms, and strikes normalised.

Still, July's results for the other sectors of the economy, while not so bad, were lacklustre. Weak results for industrial production stole the spotlight, with declines in output in most industrial subsectors erasing most of the previous month's gains.

By all accounts, the U.K. economy is still on very fragile footing, and we expect growth to remain extremely weak for the rest of the year. Consumer confidence is still in the pits, and it will be long before purchasing power fully recovers.

A Little Shine in Japan's Q2 Growth Numbers

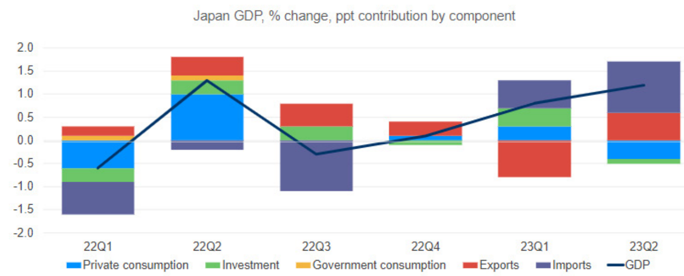
By STEFAN ANGRICK

Japan's economy grew more slowly than initially expected in the second quarter. Continuing a streak of fairly large revisions, the updated estimate showed output rising 1.2% quarter on quarter, 0.3 percentage point less than in the initial estimate. Typically, the second estimate is within 0.1 to 0.2 percentage point of the first reading. Growth in the second quarter was surprisingly strong, notwithstanding Friday's downward revision. But the glossy top-line figure masked significant weakness in domestic demand and a fragile outlook for the quarters ahead.

The revision was largely due to weaker business investment and private consumption results. Private consumption shaved 0.4 percentage point off growth, compared with 0.3 before. Business investment fell on the quarter, shaving 0.2 percentage point off growth. The initial estimate showed capex spending unchanged from the first quarter. The latest survey of corporate financial statements—which factors into the second estimate of GDP—showed that capital expenditure fell more than expected. Spending by nonmanufacturers was particularly weak. Government investment was also revised down, continuing a trend of disappointing results that raises questions about progress on the government's various investment plans. Private residential investment, government consumption and net exports were broadly unchanged.

The revised estimate confirms that growth in the second stanza was driven almost entirely by better net exports. The fading impact of supply-chain disruptions helped lift shipments of goods, particularly cars, while the resurgence of foreign visitors coming to Japan boosted service exports. But most of the improvement in net exports was due to dwindling imports—hardly an indicator of an economy that is humming along.

Dwindling Imports Boosted Second -Quarter GDP Growth



Sources: Cabinet Office, Moody's Analytics

With household and business spending falling, it's hard to escape the impression that Japan's post-pandemic recovery has fizzled out prematurely.

As domestic weakness adds to an unsteady external backdrop, GDP may lose recent gains in the quarters ahead. The fall in imports in the second quarter was an anomaly by historical standards and is not likely to repeat. The recovery in goods exports and tourism has largely run its course. And with China's economy stuck in low gear and U.S. consumers looking for holidays rather than goods, prospects for a renewed bounce in exports look slim. Household spending will struggle while wages trail inflation.

Wage Growth Is Always Just Around the Corner

Sources: MHLW, Moody's Analytics

Broader weakness in demand will cap investment gains. All of this points to a fragile outlook which, in principle, speaks against monetary policy tweaks. But given the Bank of Japan's recent strategy of "signalling left, turning right", surprises are a risk.

THE LONG VIEW: LATIN AMERICA

Brazil's Economy Defies the Political Cycle

By ALFREDO COUTINO

Brazil's economy challenged the negative effects of the usual political cycle at the start of the new administration as GDP rebounded instead of slowing in the first quarter.

Typically, Latin American countries undergo two phases of a political cycle during a change of administrations. The first phase is expansionary in the last year of an administration; this is when Brazil holds a presidential election and public and private spending increase to finance the electoral process and campaigns.

The second phase is contractionary and hits the economy at the start of a new administration when the change of political and economic teams introduces delays in the execution of the federal budget.

Based on this, we were expecting the Brazilian economy to start 2023 with the traditional significant deceleration or even contraction. However, the economy expanded thanks to the positive climate generated by the new leftist government regarding its economic program that combines free-market policies with more social content.

The economy expanded at a solid rate in the first quarter, posting annual growth of 4% after advancing only 1.9% in the last quarter of 2022. With respect to the previous quarter, GDP grew 1.8% after almost no growth in the previous quarter. The main engines propelling the economy were household consumption and exports.

The household consumption boost resulted from an economy starting to rehire workers and the start of the new government's social agenda. Net exports reported a sizable improvement because of not only the expansion of primary exports but also the prolonged weakness of imports.

After overcoming the influence of the political cycle in the first quarter, the second-quarter economy began to show mild signs of easing as the cycle's negative effects vanished. Subsequently, domestic demand began feeling the monetary restriction. Policy restriction introduced moderation not only in second-quarter household consumption but also in investment decisions as reflected in the year-over-year contraction in the volume of fixed investment.

Beyond the auspicious start, the economy is performing under the policy restraints imposed on domestic demand and the ongoing deceleration in the global economy. Affirmatively, the economy remains in positive territory thanks to the administration's social spending agenda and the disinflation process that has brought inflation back to target, providing some relief to consumer spending. Also, Brazil's trade balance continues to benefit from favorable commodity prices while the demand for some manufacturing products continues to expand.

We expect the economy to stay in positive territory in 2023, though growth in the rest of the year will moderate. Monetary policy will remain restrictive, though the monetary relaxation cycle has begun, since the policy rate will decline gradually. Domestic demand will continue to be restrained and employment will report some gains. Net growth will marginally ease in 2023.

Downgrades Up in U.S., Europe Credit Improves

By OLGA BYCHKOVA

U.S.

U.S. credit downgrades outnumbered upgrades in the latest weekly period. The changes issued by Moody's Investors Service spanned a diverse set of speculative- and investment-grade bonds and industrial companies. Downgrades comprised five of the eight rating changes and 53% of affected debt.

Downgrades were headlined by an office real estate investment trust Brandywine Operating Partnership L.P., with its senior unsecured notes ratings lowered to Ba1 from Baa3, impacting 42% of debt affected in the period, due to the expectation that the REIT's net debt to EBITDA and fixed charge coverage ratios will remain weak. At the same time, Moody's Investors Service assigned a Ba1 corporate family rating and an SGL-3 speculative-grade liquidity rating to Brandywine. The outlook remains negative, reflecting the potential for deterioration in the REIT's liquidity and fixed charge coverage over the next four to six quarters due to the modest retained cash flow relative to the bond maturity in October 2024 and the resulting reliance on asset sales and new capital to refinance the notes in difficult financing conditions for commercial real estate.

The largest upgrade, accounting for 47% of debt affected in the period, was issued to IT management software tools provider Boxer Parent Co. Inc with its corporate family rating raised to B2 from B3. The upgrade reflects the company's scale and stability as well as Moody's Investors Service's expectation of modest growth and deleveraging over the next several years. Though BMC experiences moderate swings in revenue and cash flow driven largely by timing of the renewal cycle and of certain large contracts in particular, the rating agency considers the company's mainframe and workforce automation business to be exceptionally "sticky". The outlook is stable, motivated by the credit agency's expectation of stable performance through renewal cycles supported by a moderately growing mainframe business.

BMC's B2 corporate family rating incorporates the company's high leverage as a result of the KKR buyout and Compuware acquisition as well as its aggressive financial policies. BMC also benefits from its market position as a leading independent provider of IT systems management software solutions, large scale, the resiliency of the high-margin mainframe and workforce automation software businesses, and resultant cash generating capabilities.

In August, 60% of ratings actions issued by Moody's Investors Service were credit downgrades, though these comprised only 33% of the total affected debt. Similarly, through the first eight months of the year U.S. rating changes were predominantly negative with downgrades exceeding upgrades 351:210.

Europe

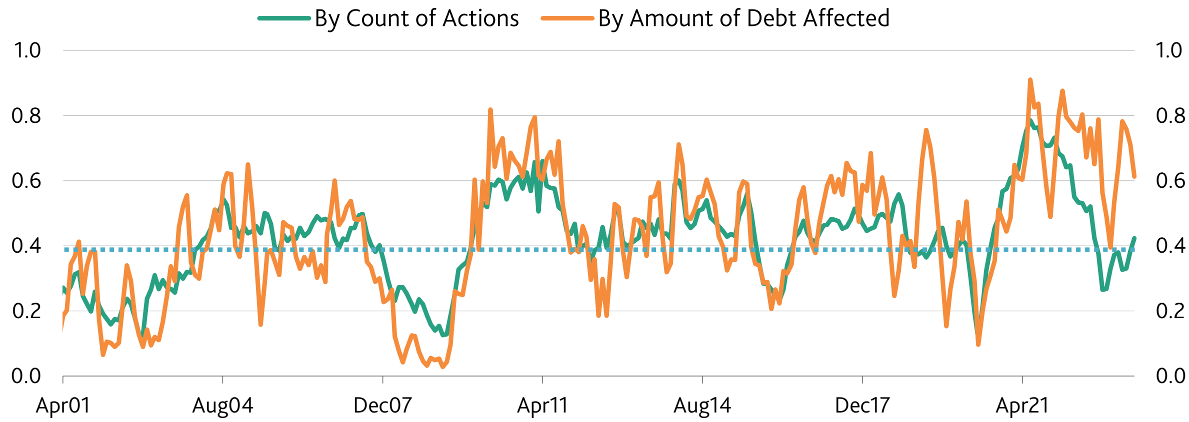
Corporate credit rating change activity was lighter but much stronger across Western Europe with two upgrades issued to Norwegian investment-grade financial firm and French speculative-grade industrial company.

The largest upgrade last week was made to the second-largest home equipment retailer in France, Mobilux 2 SAS, which saw its corporate family rating raised to B1 from B2 and its probability of default rating increased to B1-PD from B2-PD. At the same time, Moody's Investors Service upgraded to B2 from B3 the instrument rating of the €500 million backed senior secured notes due 2028, issued by Mobilux Finance SAS. The change impacted 100% of debt affected in the period. The outlook on both entities remains stable. According to the rating agency, Mobilux's B1 corporate family rating is supported by the company's strong business profile before and after the pandemic, which together with management's good execution has allowed continued Moody's adjusted EBITDA margin gains since fiscal 2019, and a significant outperformance over the French furniture market. The rating factors the company's extensive store network in France, its good brand recognition and growing market share in the fragmented French home equipment industry, where Mobilux is the second-largest firm. The rating also takes into consideration Mobilux's exposure to the home furniture market, which is discretionary with a level of cyclicality, and its moderate size with high concentration in the French market, the credit agency added.

The stable outlook reflects Moody's Investors Service's expectation that the company's performance will remain stable over the next 12 to 18 months and that it will generate positive free cash flow to debt ratio, trending towards 10% over this period, while maintaining good liquidity. The outlook also assumes that management will not embark on any material debt-funded acquisitions or dividend recapitalisations, the rating agency noted.

Contrastingly to the U.S., in August, 61% of ratings actions issued by Moody's Investors Service in Western Europe were credit upgrades, which comprised almost 96% of total affected debt. Nevertheless, from January to August this year Western Europe rating changes were mostly negative with downgrades exceeding upgrades 129:114.

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
9/6/2023	BRIGHTVIEW HOLDINGS, INC.-BRIGHTVIEW LANDSCAPES, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG
9/6/2023	BOXER PARENT COMPANY INC. (BMC)	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/ PDR	1669.513	U	B2	B1	SG
9/7/2023	FOOT LOCKER, INC.	Industrial	SrUnsec/LTCFR/PDR	400	D	Ba2	Ba3	SG
9/7/2023	MAVERICK GAMING LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	Ba3	B1	SG
9/8/2023	DIGITAL MEDIA SOLUTIONS, INC.-DIGITAL MEDIA SOLUTIONS, LLC	Industrial	PDR		U	D	Caa3	
9/8/2023	UTZ BRANDS, INC-UTZ QUALITY FOODS, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
9/11/2023	OLAPLEX HOLDINGS, INC.-OLAPLEX, INC.	Industrial	SrSec/BCF		D	B2	B3	SG
9/12/2023	BRANDYWINE OPERATING PARTNERSHIP, L.P.	Industrial	SrUnsec	1500	D	Baa3	Ba1	IG

Source: Moody's

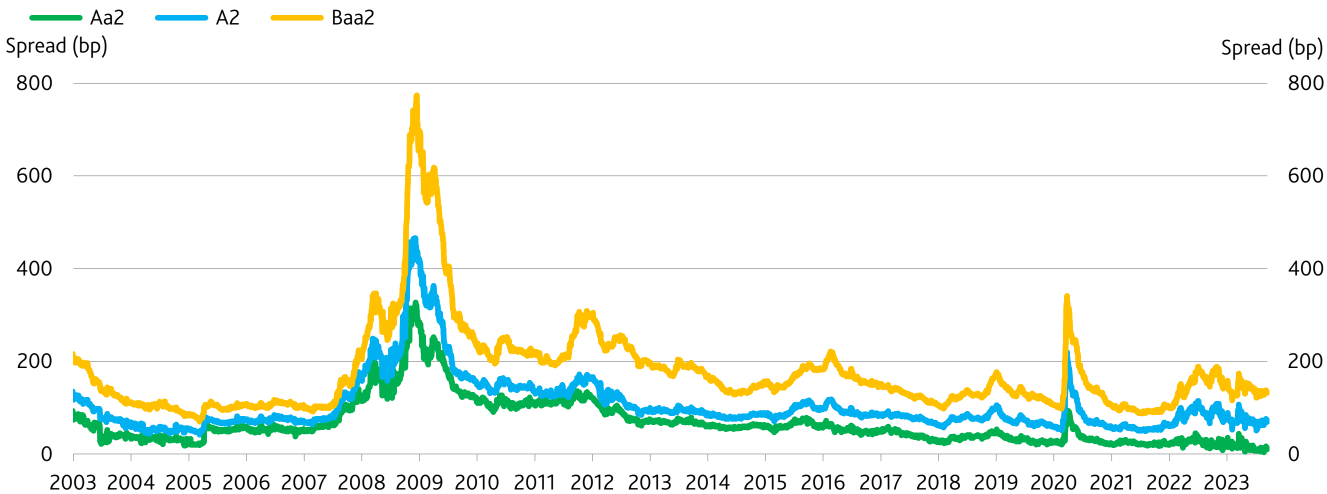
FIGURE 4

Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
9/8/2023	STOREBRAND GROUP-STOREBRAND ASA	Financial	LTIR/Sub/IFSR		U	Baa2	Baa1	IG	NORWAY
9/12/2023	MOBILUX 2 SAS-MOBILUX FINANCE SAS	Industrial	SrSec/LTCFR/PDR	535.7506	U	B3	B2	SG	FRANCE

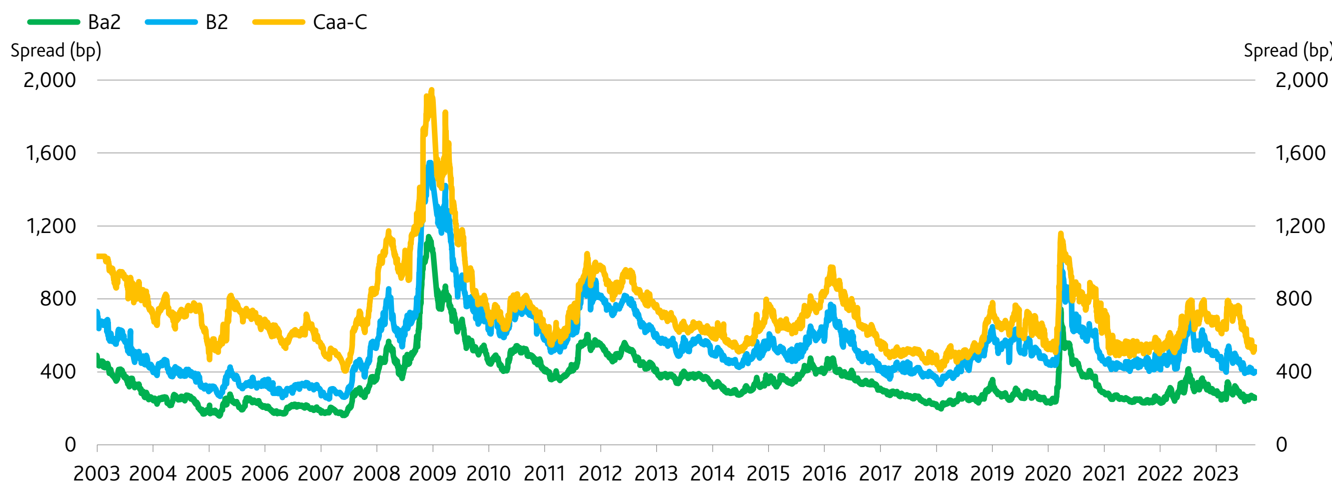
Source: Moody's

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 (September 6, 2023 – September 13, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 13	Sep. 6	Senior Ratings
Westrock MWV, LLC.	Aa2	Baa1	Baa2
Thermo Fisher Scientific Inc.	Aa2	A1	A3
Cargill, Incorporated	A2	Baa1	A2
Hershey Company (The)	Aa2	A1	A1
Toyota Motor Credit Corporation	Aa1	Aa2	A1
Philip Morris International Inc.	A2	A3	A2
Ford Motor Company	Ba3	B1	Ba1
Pfizer Inc.	Aa1	Aa2	A1
Lowe's Companies, Inc.	Aa2	Aa3	Baa1
Exxon Mobil Corporation	Aa2	Aa3	Aa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 13	Sep. 6	Senior Ratings
Bank of New York Mellon Corporation (The)	A3	A1	A1
WEC Energy Group, Inc.	A2	Aa3	Baa1
Costco Wholesale Corporation	A1	Aa2	Aa3
Wisconsin Electric Power Company	A2	Aa3	A2
Microsoft Corporation	Aa1	Aaa	Aaa
Brunswick Corporation	Ba2	Ba1	Baa2
Truist Financial Corporation	Baa3	Baa2	A3
State Street Corporation	A3	A2	A1
Visa Inc.	Aa2	Aa1	Aa3
Fidelity National Information Services, Inc.	Baa2	Baa1	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 13	Sep. 6	Spread Diff
Rite Aid Corporation	Ca	30,274	22,893	7,381
American Airlines Group Inc.	B3	823	749	74
Liberty Interactive LLC	Caa2	2,530	2,471	59
Brandywine Operating Partnership, L.P.	Ba1	479	430	49
Kohl's Corporation	Ba3	560	512	48
iHeartCommunications, Inc.	Caa1	1,540	1,502	38
Freedom Mortgage Corporation	B2	674	643	31
Nordstrom, Inc.	Ba1	549	521	29
Macy's Retail Holdings, LLC	Ba2	419	390	28
Carnival Corporation	B3	494	467	27

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 13	Sep. 6	Spread Diff
Lumen Technologies, Inc.	Caa3	3,673	4,328	-655
Embarq Corporation	Caa2	2,960	3,485	-525
CSC Holdings, LLC	B2	1,596	1,970	-374
Qwest Corporation	B3	1,644	1,936	-292
Staples, Inc.	Caa2	2,556	2,839	-282
Dish DBS Corporation	Caa2	1,569	1,781	-211
Dish Network Corporation	Caa2	1,336	1,516	-180
Unisys Corporation	B3	916	962	-46
Domtar Corporation	Ba3	847	892	-45
Anywhere Real Estate Group LLC	B3	908	951	-42

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (September 6, 2023 – September 13, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 13	Sep. 6	Senior Ratings
Nordea Bank Abp	Aa3	A2	Aa3
BNP Paribas	A1	A2	Aa3
BPCE	A2	A3	A1
ING Groep N.V.	A3	Baa1	Baa1
Danske Bank A/S	A3	Baa1	A3
Svenska Handelsbanken AB	A3	Baa1	Aa2
Swedbank AB	A3	Baa1	Aa3
Standard Chartered Bank	Aa3	A1	A1
Deutsche Telekom AG	Aa3	A1	Baa1
Merck KGaA	Aa1	Aa2	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 13	Sep. 6	Senior Ratings
ING Bank N.V.	Aa3	Aa2	A1
Norddeutsche Landesbank Girozentrale	Baa3	Baa2	A3
BAWAG P.S.K. AG	Baa2	Baa1	A1
United Utilities PLC	A1	Aa3	Baa1
Yorkshire Building Society	A3	A2	A3
Lanxess AG	Ba2	Ba1	Baa2
Scottish Power Limited	Aa2	Aa1	Baa1
Bertelsmann SE & Co. KGaA	Aa2	Aa1	Baa2
Hera S.p.A.	Baa2	Baa1	Baa2
British American Tobacco p.l.c.	Baa3	Baa2	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 13	Sep. 6	Spread Diff
Boparan Finance plc	Caa3	1,700	1,624	76
Garfunkelux Holdco 3 S.A.	Caa2	1,331	1,286	45
Carnival plc	B3	469	443	25
Jaguar Land Rover Automotive Plc	B1	530	514	16
Trinseo Materials Operating S.C.A.	B3	1,165	1,151	13
LyondellBasell Industries N.V.	Baa2	89	77	12
3i Group plc	Baa1	99	87	12
Norddeutsche Landesbank Girozentrale	A3	93	82	11
Hera S.p.A.	Baa2	74	64	11
Schaeffler AG	Baa3	219	208	10

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 13	Sep. 6	Spread Diff
Vedanta Resources Limited	Caa2	3,128	3,343	-215
Stena AB	B1	306	333	-26
FCE Bank plc	Baa2	154	176	-22
Novafives S.A.S.	Caa2	546	565	-19
Virgin Media Finance PLC	B2	390	405	-15
Eurobank Ergasias Services and Holdings S.A.	B2	200	213	-14
United Group B.V.	Caa1	581	594	-13
Lorca Telecom Bondco, S.A.U.	B3	370	383	-12
thyssenkrupp AG	Ba3	170	182	-12
Hamburg Commercial Bank AG	A3	109	121	-11

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (September 6, 2023 – September 13, 2023)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 13	Sep. 6	Senior Ratings
Mizuho Financial Group, Inc.	Aa3	A2	A1
Mizuho Bank, Ltd.	Aa2	A1	A1
PTT Public Company Limited	A1	A3	Baa1
Australia, Government of	Aaa	Aa1	Aaa
India, Government of	Baa1	Baa2	Baa3
Philippines, Government of	Baa1	Baa2	Baa2
Mitsubishi UFJ Financial Group, Inc.	Aa2	Aa3	A1
Sumitomo Mitsui Trust Bank, Limited	A1	A2	A1
NBN Co Limited	A2	A3	Aa3
Thailand, Government of	Aa3	A1	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 13	Sep. 6	Senior Ratings
Vanke Real Estate (Hong Kong) Company Limited	Caa1	B3	Baa2
Panasonic Holdings Corporation	Aa1	Aaa	Baa1
Japan, Government of	Aaa	Aaa	A1
China, Government of	Baa1	Baa1	A1
Commonwealth Bank of Australia	Aa3	Aa3	Aa3
Indonesia, Government of	Baa2	Baa2	Baa2
China Development Bank	Baa2	Baa2	A1
Export-Import Bank of Korea (The)	Aa2	Aa2	Aa2
Westpac Banking Corporation	A2	A2	Aa3
Sumitomo Mitsui Banking Corporation	Aa2	Aa2	A1

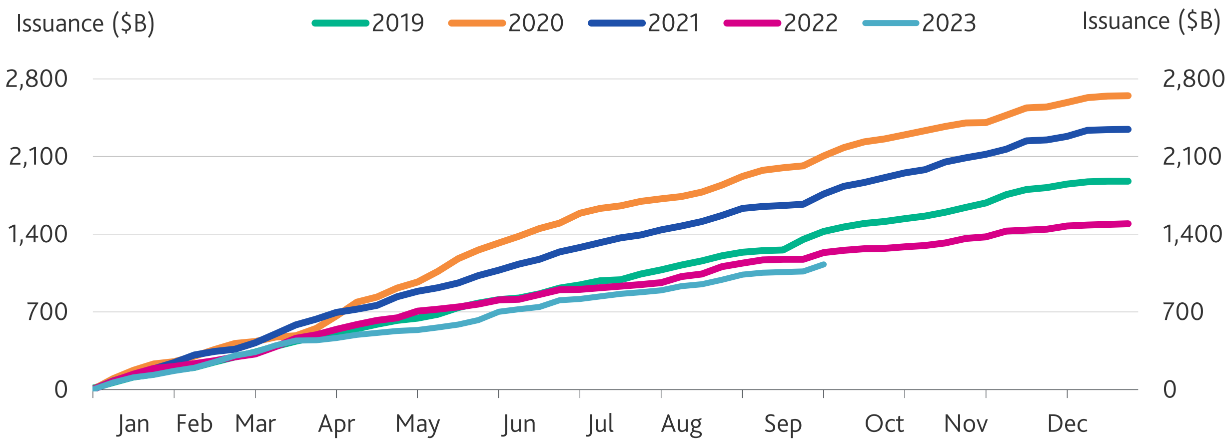
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 13	Sep. 6	Spread Diff
Vanke Real Estate (Hong Kong) Company Limited	Baa2	651	545	106
Nissan Motor Co., Ltd.	Baa3	110	101	9
LG Chem, Ltd.	A3	86	82	4
Panasonic Holdings Corporation	Baa1	24	21	4
Tokyo Electric Power Company Holdings, Inc.	Ba1	58	55	3
Japan Finance Corporation	A1	41	39	2
JSC Halyk Savings Bank of Kazakhstan	Ba2	379	378	2
Japan, Government of	A1	21	20	1
Singapore, Government of	Aaa	26	25	1
SoftBank Group Corp.	Ba3	234	233	1

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 13	Sep. 6	Spread Diff
Pakistan, Government of	Caa3	3,209	3,229	-20
BDO Unibank, Inc.	Baa2	110	128	-17
Boral Limited	Baa2	121	138	-17
Mizuho Financial Group, Inc.	A1	42	52	-10
SGSP (Australia) Assets Pty Ltd	A3	72	82	-10
RHB Bank Berhad	A3	93	103	-10
Mizuho Bank, Ltd.	A1	37	46	-9
Toyota Industries Corporation	A2	99	108	-9
India, Government of	Baa3	64	73	-8
LG Electronics Inc.	Baa2	81	89	-8

Source: Moody's, CMA

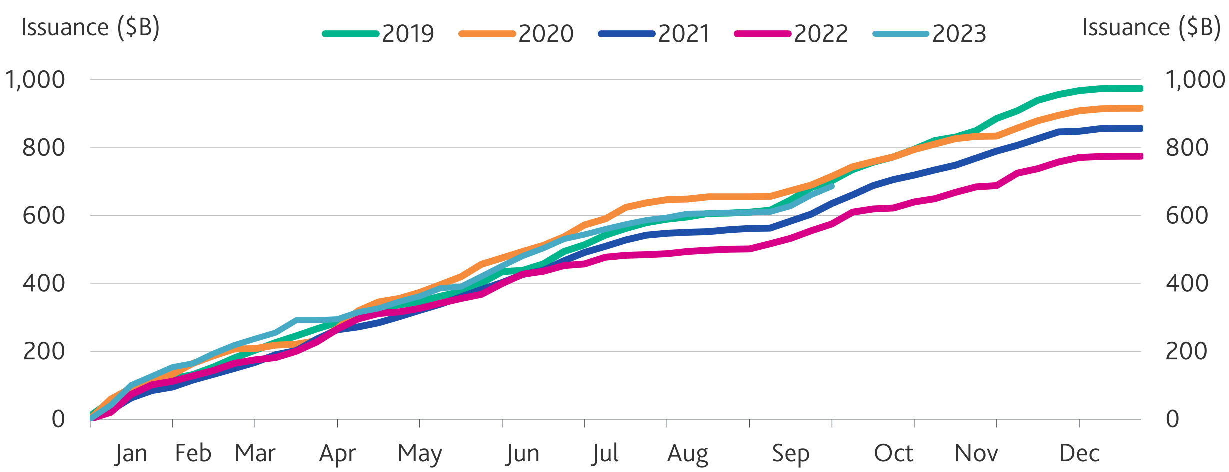
ISSUANCE

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	61.030	3.145	64.624
Year-to-Date	972.094	133.208	1,129.088

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	20.759	3.929	25.145
Year-to-Date	611.777	50.968	685.860

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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