

The Ratings Roundup feature does not appear in this week's edition. It will return next week.

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

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Liquidity Surge Hints of More Upside Surprises

[Credit Markets Review and Outlook](#) by John Lonski

Liquidity Surge Hints of More Upside Surprises

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[The Week Ahead](#)

We preview economic reports and forecasts from the US, UK/Europe, and Asia/Pacific regions.

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[The Long View](#)

Full updated stories and key credit market metrics: Thus far in August, corporate bond issuance has surpassed expectations thanks to ultra-low bond yields.

Credit
Spreads

Investment Grade: We see the year-end 2020's average investment grade bond spread to resemble its recent 132 basis points. **High Yield:** Compared with a recent 539 bp, the high-yield spread may approximate 550 bp by year-end 2020.

Defaults

US HY default rate: According to Moody's Investors Service, the U.S.' trailing 12-month high-yield default rate jumped from June 2019's 3.3% to June 2020's 7.3% and may average 11.9% during 2020's final quarter.

Issuance

For 2019's offerings of US\$-denominated corporate bonds, IG bond issuance rose by 2.6% to \$1.309 trillion, while high-yield bond issuance surged by 55.8% to \$432 billion. **In 2020**, US\$-denominated corporate bond issuance is expected to soar higher by 41.6% for IG to \$1.854 trillion, while high-yield supply may rise by 7.1% to \$464 billion.

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[Market Data](#)

Credit spreads, CDS movers, issuance.

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[Moody's Capital Markets Research](#) *recent publications*

Links to commentaries on: Unprecedented stimulus, bond yields, record savings rates, demographic change, high tech, complacency, Fed intervention, speculation, default risk, credit stress, rate cuts, optimism, coronavirus, corporate credit, spreads, leverage, VIX.

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Click [here](#) for *Moody's Credit Outlook*, our sister publication containing Moody's rating agency analysis of recent news events, summaries of recent rating changes, and summaries of recent research.

Credit Markets Review and Outlook

Credit Markets Review and Outlook

By John Lonski, Chief Economist, Moody's Capital Markets Research, Inc.

Liquidity Surge Hints of More Upside Surprises

The market value of U.S. common stock now approaches its February 19, 2020 zenith amid the sense that the U.S. is learning to better cope with its COVID-19 handicap. Ongoing price advances by earnings-sensitive securities owe much to fiscal and monetary stimuli aimed at offsetting the loss of business activity to COVID-19.

Historically unprecedented rates of growth for U.S. monetary aggregates highlight the degree to which Fed policy attempts to minimize the losses stemming from a global pandemic. Moreover, the Fed's willingness to purchase some of the U.S. government debt that now funds massive fiscal stimulus has reined in benchmark interest rates amid the largest federal budget deficits vis-a-vis GDP since World War II.

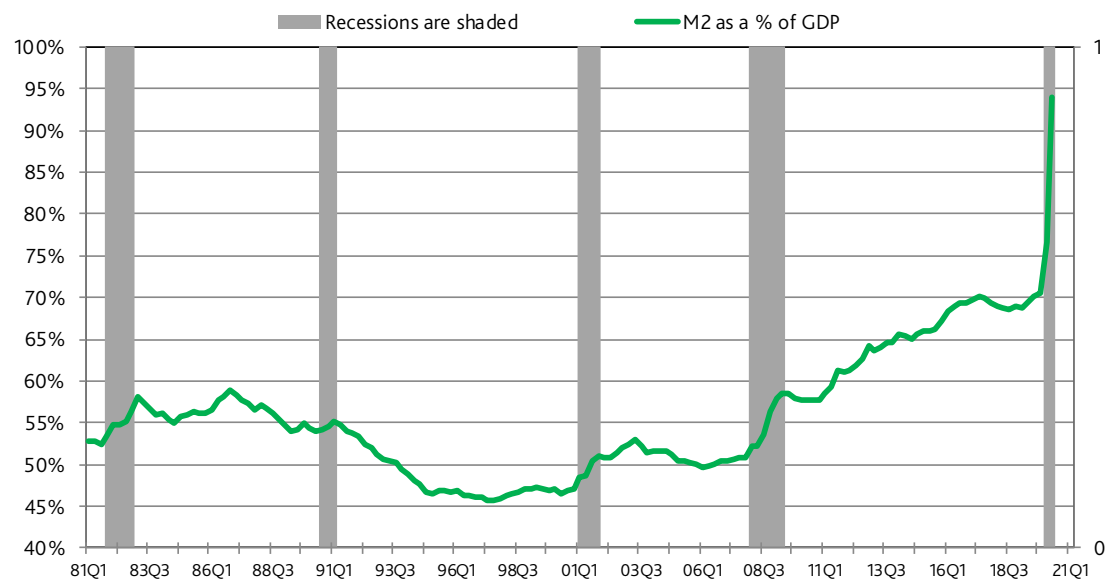
The long-term implications of second-quarter 2020's annualized 34.3% contraction by nominal GDP from the first quarter would have been much worse had the accompanying M2 measure of the U.S. money supply not expanded by a record fast 47.9% annualized from 2020's first quarter.

The M2 measure of the U.S. money supply averaged \$18.234 trillion in 2020's second quarter, which approximated a record high 94% of nominal GDP. Prior to 2020, M2 had peaked at 70% of GDP for each of 2017's first three quarters.

If M2 remains at \$18.234 trillion, the return of the former record high ratio of M2 to GDP of 70% requires a 34% increase by nominal GDP from its second-quarter 2020 reading. Though a 34% cumulative increase by nominal GDP is highly unlikely even over a three-year span, M2's now unrivalled heights vis-a-vis nominal GDP hint of substantial excess cash balances that will eventually fund the purchases of goods, services, and financial assets. The ratio of M2 to GDP now appears to be high enough to support at least a 6% average annual increase by nominal GDP over the next several years.

Figure 1: Record-High Ratio of Monetary Aggregate M2 to GDP Underpins Rallies by Stocks and Corporate Bonds and Favors Forthcoming Acceleration by Nominal GDP

sources: BEA, Federal Reserve, NBER, Moody's Analytics



Credit Markets Review and Outlook

Checkable Bank Deposits Expand at a Breakneck Pace

Checkable bank deposits are one of M2's major components. A good deal of today's excess cash balances is held as checkable bank deposits. Second-quarter 2020's \$3.426 trillion of checkable bank deposits were up by a record-fast 58% from 2019's second quarter and approximated a record-high 18% of GDP. By contrast second-quarter M2 was up by a smaller, but still record-fast, 23.2% from a year earlier. Also worth noting was the unrivaled 141% annualized lift-off by checkable deposits from the first to the second quarter.

During the 10-years-ended 2019, checkable deposits averaged a much smaller 9% of GDP, wherein the span's highest ratio was the 11% of the second and third quarters of 2017. Also, during the 10 years ending with 2019's final quarter, the average annualized growth rates showed checkable deposits' 10.6% leading both the 6.1% of M2 and 4.0% of nominal GDP by a wide margin.

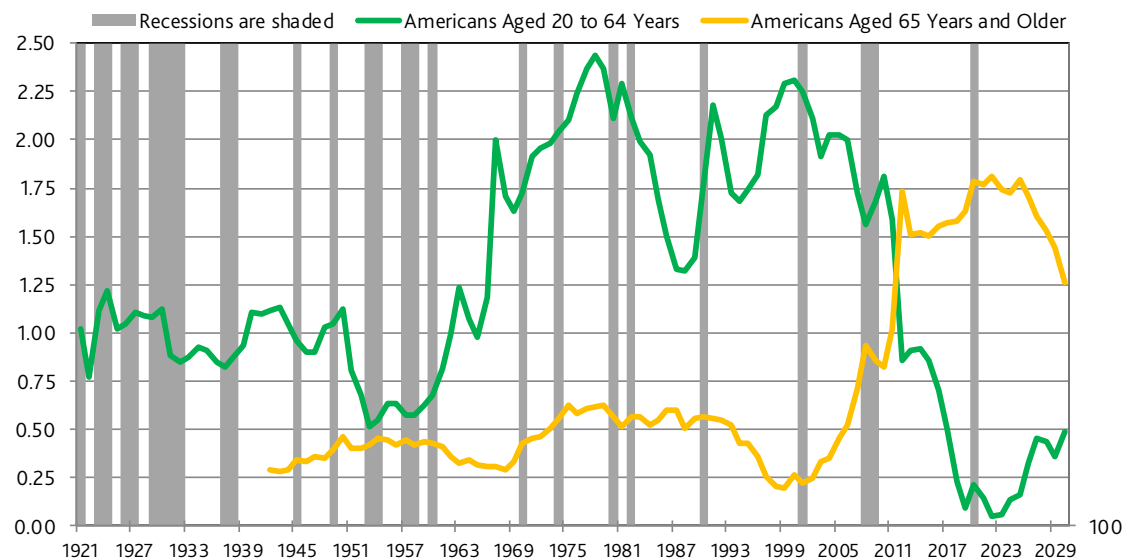
Pre-Virus Outlook Warns Post COVID Surge in Activity Will Fade

The persistently faster growth rate of M2 relative to GDP underscores the need of an often-accommodative monetary policy for the purpose of countering fundamental changes that are inimical to sustaining sufficient economic growth. Sufficient economic growth might be approximated by the rate of growth necessary to avoid a widespread deterioration of living standards.

The relentless aging of both the U.S. population and the workforce constitutes one of the major drags on U.S. economic growth relative to growth's long-term trend. During the 30-years-ended 2005, the number of Americans aged 20 to 64 years grew by 2 million per annum, on average, while the number aged at least 65 years rose by 460,000, on average. According to demographers, during the next 10 years ended 2030, the 20- to 64-year age cohort may slow to an average annual increase of merely 300,000, while the 65-years and older age cohort expands by 1.65 million annually, on average.

Figure 2: Unprecedented Aging of U.S. Population Will Rein In Growth, Inflation, and Interest Rates
Post COVID-19 Recession

actual & predicted annual increases in millions of people
sources: Census Bureau, NBER, Moody's Analytics



If only because of the unprecedented aging of the population, the U.S. will probably be incapable of sustaining 3% real GDP growth on a recurring basis. Thus, well before the arrival of COVID-19 roiled the U.S. economy, the private-sector consensus, the Federal Reserve, and the Congressional Budget Office had lowered their long-term growth forecasts for the U.S. economy to a range of 1.8% to 2.0%. In response to the diminished upside potential for long-term growth in the U.S. economy, the range for U.S. benchmark interest rates is likely to be historically low. Under normal conditions during the next 10 years, the federal funds rate may remain in a range of 1.5% to 2%, while the 10-year Treasury yield stays between 1.75% to 2.25%.

Credit Markets Review and Outlook

Some of July's Indicators Defied COVID-19's Resurgence

July's upturns by COVID-19 in the heavily populated states of California, Texas, and Florida prompted expectations of an especially dull month for business activity. Nevertheless, some of July's monthly indicators revealed an improved performance. On Monday, it was reported that the monthly percent increase by seasonally adjusted unit sales of cars and light trucks rose from June's 7.0% to July's 11.2%.

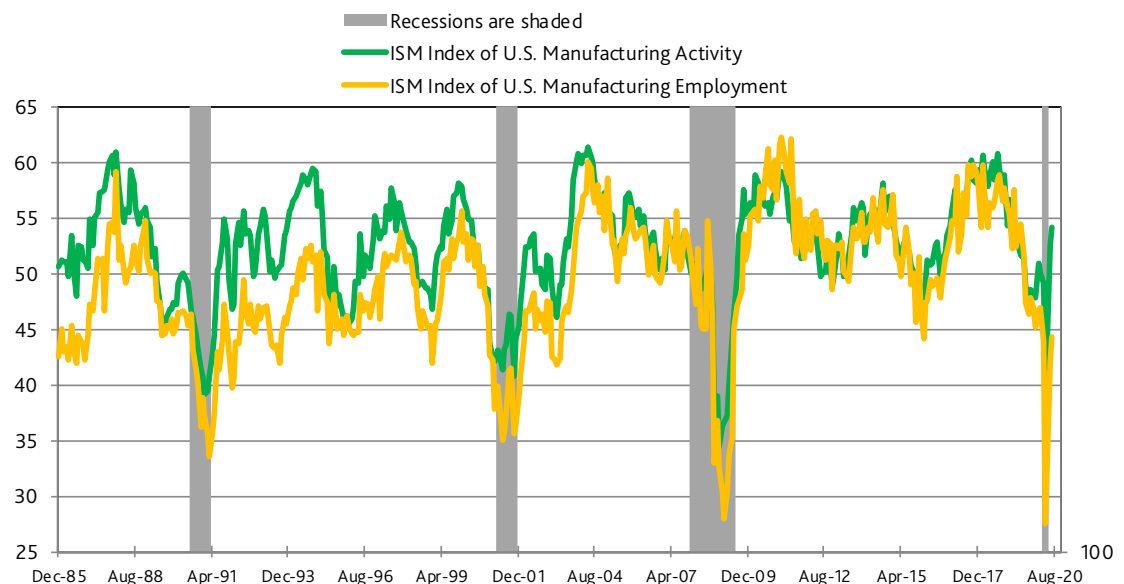
Also, on Monday came news of a rise by the ISM's July index of U.S. manufacturing activity from June's 52.6 points to July's 54.2 points. The latter was up from the 51.3 of July 2019, which favors a shallower year-over-year contraction by operating profits.

July's livelier pace of U.S. manufacturing activity was led by a 62.1-point score for the sub-index describing production (a proxy for sales) and the 61.5 points of the new orders component. The manufacturing production index was the highest since September 2018's 63.9 points and the forward-looking component describing new orders received by manufacturers was the highest since November 2018's 61.8 points.

Nevertheless, the ISM's manufacturing employment index merely improved to a less contractive score of 44.3 points in July. July 2019's 51.7 points was the last expansionary reading achieved by the manufacturing employment index.

Figure 3: ISM's Expansionary U.S. Manufacturing Index Masks Still Contractive Readings on Manufacturing Hiring Activity

sources: ISM, NBER, Moody's Analytics



Service-Sector Index Shines in July Despite Weaker Jobs Component

The jump by ISM's index of non-manufacturing, or service-sector, activity from June's 57.1 points to July's 58.1 points. By contrast, the ISM services index had been expected to drop to 55.0 points in July because COVID-19's return was supposed to subtract much from activities such as indoor dining and drinking, commercial airline flights, and visits to typically crowded resorts and theme parks.

July 2020's ISM service-activity score was the highest since the 59.7 points of February 2019. Moreover, July 2020's reading was up from the 53.7 points of July 2019.

Sales, or the production, of services led July's ISM service index higher. July 2020's reading of 67.2 points for the production of services was second only to January 2004's record-high 67.7 points. In July 2019, the production component of the ISM services index was a significantly lower 53.1 points.

The component describing new orders received by the service-sector industry jumped to a new record-high of 67.7 points in July. The former zenith was the 66.9 points of August 2003.

However, the ISM's employment index for the service sector fell from June 2020's already contractive score of 43.1 points to July's 42.1 points. July 2019's index of service-sector hiring activity was a much higher and

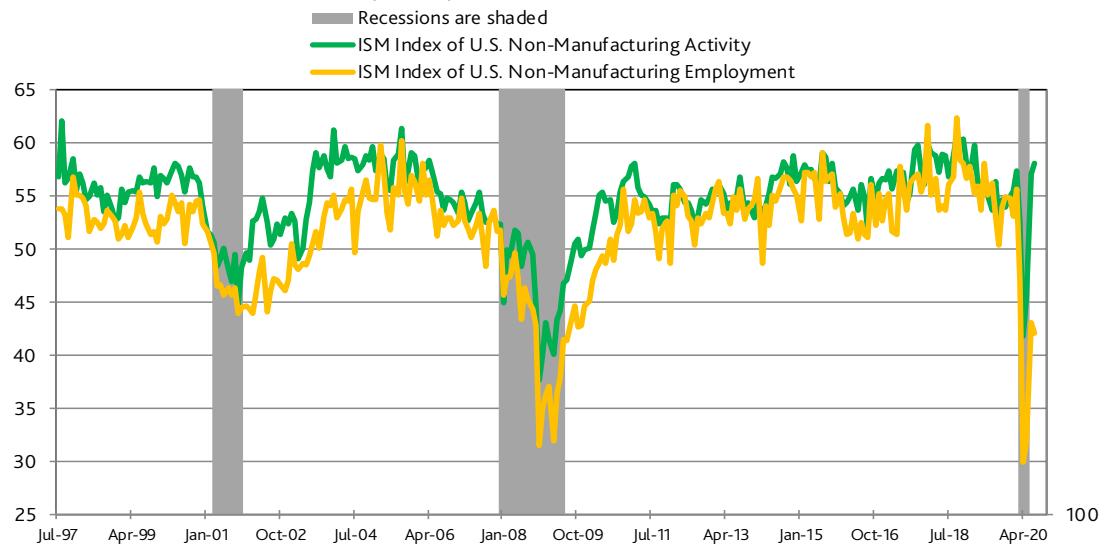
Credit Markets Review and Outlook

expansionary 56.2 points. Moreover, July's service-employment index of 42.1 points was a record 16.0 points under the accompanying 58.1 points for the ISM's composite service-sector index.

Apparently, the unknown course of COVID-19 now limits the re-hiring of laid-off workers. Nevertheless, the longer the ISM activity indices remain in an expansionary mode, the more likely is the return of expansionary readings for the ISM's employment components.

Figure 4: ISM's Service Employment Index Trails ISM's Overall U.S. Service Activity Index by Record Deep -16.0 Points

sources: ISM, NBER, Moody's Analytics

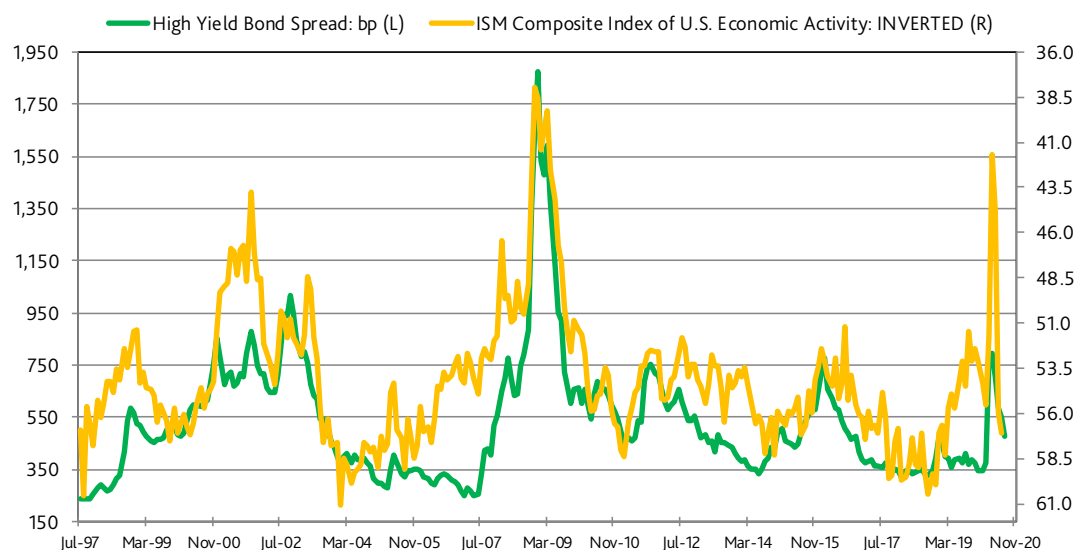


ISM Indices Signal Possibly Thinner Bond Yield Spreads

A weighted average of the ISM indices of U.S. manufacturing and service-sector activity lends support to the recent narrowing of the high-yield bond spread. The weighted average of the ISM indices shows a high and meaningful inverse correlation of -0.80 with the high-yield bond spread. As inferred from the historical record, July's weighted average ISM index of 57.1 points favors a 405 basis-point midpoint for the high-yield bond spread. Given August 5's high-yield bond spread of 472 bp, a further narrowing of the high-yield bond spread is likely if the weighted-average ISM index remains above 55.0 points.

Figure 5: Recovery by Weighted Average of ISM's Manufacturing and Service-Sector Indices (INVERTED) Complements Narrowing of High-Yield Bond Spread

sources: Bloomberg/Barclays, ISM, Moody's Analytics



The Week Ahead – U.S., Europe, Asia-Pacific

THE U.S.

By Mark Zandi of Moody's Analytics

Lower- and Middle-Income Households Suffer Most if Lawmakers Fail

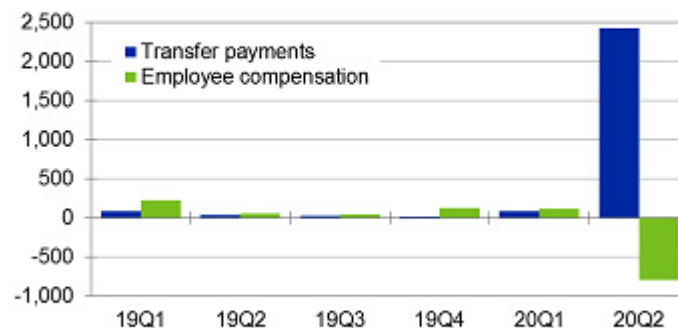
The depth of the hole in the U.S. economy created by the COVID-19 pandemic was confirmed last week with the release of second-quarter GDP. Real GDP collapsed by 11% between the fourth quarter of last year and this year's second quarter. To compare, the peak-to-trough decline during the financial crisis was 4%, which prior to the pandemic was the most severe drop since the 1930s Great Depression.

There weren't too many surprises in the GDP numbers, which itself was a surprise given the havoc the pandemic has caused for government statistical agencies. Real GDP was down 33% annualized in the second quarter, precisely what we had anticipated. The upside—if there was one—was the much sharper contraction in inventories during the quarter. Inventories declined by a far-and-away record of more than \$300 billion annualized in the quarter, reflecting the shutdowns in manufacturing and global trade. This augurs well for growth during the second half of this year, when businesses will need to produce more to restock store shelves and warehouses.

The GDP report put in clear relief how important government support was to holding the economy together to the extent that it did hold. Given the collapse in the job market, total employee compensation, including wages and benefits, declined by almost \$800 billion annualized in the second quarter. However, government transfer payments, including expanded unemployment insurance, stimulus checks and other income assistance, increased by \$2.4 trillion annualized. The importance of the aggressive fiscal policy response is highlighted by the deeper contractions in much of the rest of the world, where the response was more muted. European real GDP declined peak-to-trough by an estimated 17%. Although it is also worth noting European unemployment has risen by much less than in the U.S. as most European countries had effective wage subsidy programs. The Paycheck Protection Program, our analogue to these efforts, was much less effective in keeping unemployment down.

Transfers More Than Cover Lost Income

Annualized change, \$ bil

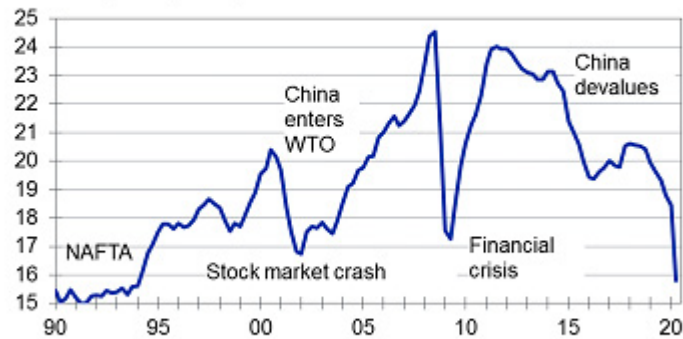


Sources: BEA, Moody's Analytics

The most significant downside surprise in the GDP report was the severity of the collapse in global trade. Exports plus imports of goods plunged to nearly one-sixth of GDP—its lowest in 30 years, since prior to NAFTA. For context, trade (and globalization more broadly) peaked just prior to the financial crisis at close to one-fourth of GDP. Trade is sure to remain depressed until the pandemic is over, as countries won't open up for fear of exacerbating the virus, particularly to countries like the U.S. where the pandemic is uncontained. Foreign tourism, immigration and investment have also been hammered and will likely take even longer than goods trade to revive after the virus recedes.

Global Trade Collapses

Goods exports plus imports as % of GDP

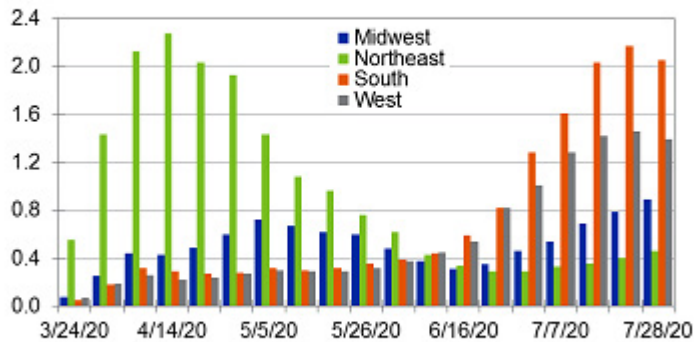


Sources: BEA, Moody's Analytics

The economy is unlikely to gain any traction until there is an effective vaccine for COVID-19 that is widely adopted. Real GDP will increase in the current (third) quarter, but this reflects the bounce in activity in May and early June as businesses reopened. Since mid-June, the economy has gone flat; the reopenings happened too quickly, reigniting the virus and forcing many states to backtrack on reopenings. This has been most pronounced in the South and West, but infections now appear to be intensifying in the Midwest, which up until now has been spared the worst of the health crisis. The Midwest job market, which has held up better than the rest of the country during the pandemic, is weakening.

Shifting Hot Spots

New weekly COVID-19 cases per 1,000 residents



Sources: Census Bureau, Johns Hopkins University, Moody's Analytics

Just how much damage the re-intensification of the virus is doing to the economy will become more evident this Friday with the release of the Bureau of Labor Statistics' job report for July. Overall employment is expected to increase by 750,000 jobs, but this entirely reflects a big gain in teachers. No, school districts didn't add a lot of teachers in July. Indeed, teachers typically drop from payrolls in June, and primarily July, when schools typically close for the summer. But because of the pandemic, many schools shut early this year, and teachers left their jobs in April and May. This creates big problems for the seasonal adjustment process the BLS uses to account for these swings in employment. The upshot is that the decline in teacher jobs this spring was overstated, and the increase in teacher jobs in July will be similarly overstated.

Also, federal government employment will get a 25,000 bump in jobs in July due to temporary hiring by the Census Bureau to conduct the decennial census. Census will hire close to 400,000 additional temporary workers in August, all of whom will go away in September and October once the census-taking is complete. The September job numbers, to be released in early October, just a few weeks before the election, are stacking up to be particularly weak.

The Week Ahead

The key number to watch in the July employment report this week will be private sector employment, which should be largely unchanged. Arguing for a small employment gain are modestly lower continuing and initial unemployment insurance claims over the past month. Initial claims remain extraordinarily high at more than 2 million per week, but hiring has been strong enough to bring continuing claims down a bit. Arguing for a small decline is the weekly Census Pulse Survey, which indicates a big decline in employment, and private sector sources such as Homebase and Kronos, which suggest a smaller decline. An estimate of private sector employment from human-resource company ADP (whose report we put together) will be released Wednesday. Flat private sector employment in July would be a big disappointment, since as of June the economy was still down 15 million jobs from its pre-pandemic peak. When appropriately measured, July unemployment is also expected to remain largely unchanged at a stratospheric level near 12%.

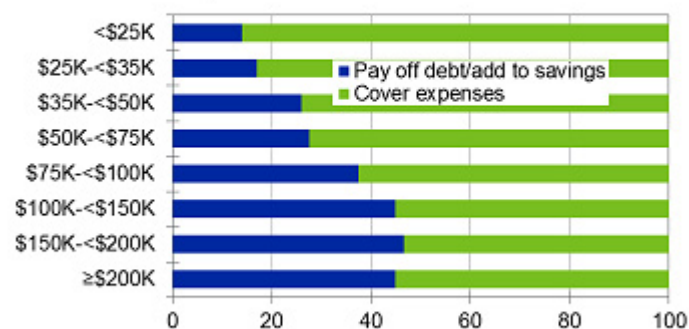
The poor July jobs numbers should be enough to convince Congress and the Trump administration they need to quickly agree on another substantial fiscal rescue package. We are assuming they will agree to a \$1.5 trillion package before Congress goes on its August recess. Of this package, just over one-third will go to more unemployment insurance and another round of stimulus checks, just under one-third to various to help fill state and local government budget holes, and the remainder to a range of needs from more testing and tracing to additional funds for PPP. This will be just enough support to offset the ill effects of the ongoing pandemic and ensure the economy doesn't slide back into recession with outright job losses and rising unemployment. However, this assumes that infections don't continue to mount from their current rate close to 65,000 per day. A good rule of thumb is that for every 10,000 increase in daily confirmed infections, an additional \$100 billion in fiscal support is needed to forestall recession.

What lawmakers do in the next week or two is also critical to stock and bond markets and, by extension, the broader economy. Stock investors have bid up prices nearly to their pre-pandemic highs, and bond investors are aggressively buying the debt of even low-rated companies, in large part on anticipation of more government support. Companies with Baa-rated debt—the lowest investment grade rating—were able to borrow last week at the lowest interest rate recorded in the 65 years of available history. The Federal Reserve's zero-interest policy, quantitative easing, and credit facilities are necessary backstops for investors, but they also have fully discounted another large round of fiscal support. If this support isn't forthcoming, markets will almost surely sell off, which will have its own serious economic knock-on impacts. Negative wealth effects—the pull-back in spending by well-off households spooked by their declining net worth—were a serious concern early the pandemic, when markets were selling off. They haven't been much of an issue recently as markets rallied, but that will quickly change if Washington doesn't come through soon. Wealthier households, particularly baby boomers in their 50s, 60s and 70s who are already skittish given the health risks posed by the virus to their age group, are especially important to driving consumer spending. Boomers account for almost half of all spending, and thus broader economic growth.

Of course, lower- and middle-income households will suffer the most if lawmakers fail to come through. Even prior to the pandemic, when the economy was at full employment, more than one-third of households were living paycheck to paycheck.

What People Did With Stimulus

% of households by income that used checks to...



Sources: Census Bureau, Moody's Analytics

The Week Ahead

Now, those without jobs have no option but to stop paying their bills and curtail what spending they are doing—unless they receive more income support from the government. Seeing that happen will unnerve many of those who are still working. They will rightly worry what would happen if they lost their own jobs or hours, the possibility of which is real as long as there is a pandemic.

Next week

Key indicators will include Monday's release of the Job Openings and Labor Turnover Survey for June and Tuesday's NFIB Small Business Survey. We will also see July industrial production, producer prices, CPI and import-export prices, along with productivity numbers and National Association of Realtors metro prices for the second quarter.

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics

U.K. Likely to See Its Worst GDP Numbers on Record

The coming week will bring a barrage of releases for the European economies, but the U.K.'s preliminary estimate of second-quarter GDP will undoubtedly steal the spotlight. We expect that GDP fell by around 20% q/q in the three months to June, the worst slump on record, owing largely to the COVID-19 lockdown and quarantine measures that were put in place by the U.K. government at the end of March. They ensured that several parts of the British economy ground to a halt during April, May and June. Some sectors were allowed to return to business as usual from mid-May, but others (such as restaurants and hotels) remained closed until July. Our forecast for the U.K. compares with a much less steep decline for the euro zone—initial estimates suggest the currency area's GDP fell by 12.1% q/q in the second quarter. The reasoning is that the restrictions measures in the U.K. lasted longer (and were stricter) than in most euro zone countries. Notably, retail shops and restaurants had begun to reopen in several euro zone economies by end April or during May. In the U.K., nonessential retail stores were closed until June 15, while restaurants did not reopen until July 4.

We expect that the picture was horrid across sectors. U.K. consumer spending will have slumped on the back of declines in goods and services spending, with the latter suffering the majority of the blow. Goods spending was likely supported by sustained food sales and an increase in online sales—which is expected to have partially offset the slump in brick-and-mortar spending. Even so, the high-frequency retail data suggest that retail sales fell as much as 9.5% q/q over the quarter. But retail sales represent only about a third of household spending and, given that most of the consumer-faced services business were closed during the lockdown, the results there are expected to have been even worse. Travel and accommodation activity likely all but collapsed over the quarter as tourism was restricted, but retail and food services were also hit hard. All in, we wouldn't be surprised if services spending fell by a third during the quarantine period.

We have less high-frequency data available on U.K. business spending, but our view is that investment fell off a cliff over the quarter. The heightened uncertainty and lack of clarity over future prospects meant firms (and households) will have put on hold all big-ticket projects, which is normal in times of crisis. Indeed, investment normally falls by more than GDP during most economic downturns. Machinery and equipment investment likely fell the most—as attested by the high-frequency industrial production data on capital goods—but services investment was likely also halted in many sectors. Similarly, construction investment should have slumped, especially as the government put a ban on real estate transactions during some of the lockdown.

Government spending, by contrast, has the scope to have increased over the quarter and provided some offset to the decline in private domestic demand. This is so especially since the U.K. government announced a bold fiscal package in response to the crisis and given that from March it was paying the salaries of around 9 million workers. But the preliminary data for the euro zone countries shows that government spending actually fell over the quarter in some countries despite the same measures having been taken there. We don't think that makes much sense, so we are still betting on an increase in government expenditures in the U.K., even if small.

The Week Ahead

U.K. net trade is expected to have subtracted from growth as exports likely slumped faster than imports, in line with evidence from other euro zone countries. The pandemic dealt a blow to world trade, with demand from all global economies slumping. But we wouldn't be surprised if net trade actually made only a neutral contribution to U.K. growth, since the country's longer lockdown measures probably meant that domestic demand—and subsequently imports—fell at a sharper rate there than in the other euro zone economies.

Last but not least, inventories are a wild card, but we expect they supported U.K. growth, even if only slightly. The drop in demand is expected to have offset the supply disruptions, leading many firms to find themselves with surplus stock.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 11:00 a.m.	OECD: Composite Leading Indicators for June		97.5	95.7
Tues @ 9:30 a.m.	U.K.: Unemployment for June	%	4.1	3.9
Tues @ 2:00 p.m.	Russia: Foreign Trade for June	\$ bil	5.1	3.7
Wed @ 9:00 a.m.	Italy: Consumer Price Index for July	% change yr ago	-0.3	-0.2
Wed @ 9:30 a.m.	U.K.: Monthly GDP for June	% change	8.0	1.8
Wed @ 9:30 a.m.	U.K.: GDP for Q2	% change	-19.7	-2.2
Wed @ 10:00 a.m.	Euro Zone: Industrial Production for June	% change	2.9	12.4
Thur @ 7:00 a.m.	Germany: Consumer Price Index for July	% change yr ago	-0.1	0.9
Thur @ 8:00 a.m.	Spain: Consumer Price Index for July	% change yr ago	-0.6	-0.3
Fri @ 7:45 a.m.	France: Consumer Price Index for July	% change yr ago	0.8	0.2
Fri @ 10:00 a.m.	Euro Zone: External Trade for June	€ bil	15.0	9.4

ASIA-PACIFIC

By Shahana Mukherjee of Moody's Analytics

Second Wave Slows Australia's Road to Recovery

Australia's unemployment rate is expected to have risen to 7.6% in July, from 7.4% in June. The Australian economy had been on a recovery course since COVID-19-related restrictions were eased in May, reviving domestic spending after a nearly two-month pause. On the external front, Australia remained one of the relatively less impacted economies, as it continued to benefit from China's ongoing recovery and the rising global appetite for gold. However, the resurgence of a second wave of infections, centred almost entirely in the state of Victoria, has altered the economy's prospects. Containment efforts were stepped up in the state, with Melbourne placed under a strict lockdown. With the second wave emerging stronger than the first, the state restrictions requiring businesses to temporarily close and fears of contagion will likely cause households to turn cautious once again. The strain on an already fragile labour market is expected to have intensified through July.

Malaysia's GDP is likely to have contracted by 6% in yearly terms over the June quarter. On the domestic front, the economy suffered a significant setback due to the Movement Control Order, which undermined household spending and affected production. On the external front, exports declined by 24% in April and 25% in May in yearly terms. Domestic activity has started to pick up, with industrial production and retail sales having risen in May by 18.2% and 26.3%, respectively, and in June exports rose by 8.8%. However, the sharp decline in aggregate demand through most of the June quarter is expected to have significantly undermined growth.

China's industrial production is likely to have increased by 5.5% in yearly terms in July, following a 4.8% increase in June. Domestic production has consistently improved since March, supported by conducive credit conditions and the government's stabilization policies. Taken together with a gradual moderation in overseas conditions, the July reading should reflect the effects of the domestic recovery as well as an improved exports position. However, some disruption in the pace of recovery in industrial activity is likely to have taken place due to floods in parts of southern China.

	Key indicators	Units	Moody's Analytics Confidence	Risk	Last
Mon @ 11:30 a.m.	China CPI for July	% change yr ago	2.7	2	↑ 2.5
Mon @ 11:30 a.m.	China PPI for July	% change yr ago	-2.7	2	↓ -3.0
Tues @ 10:00 p.m.	India Industrial Production for June	% change yr ago	-15.5	2	↓ -34.7
Wed @ 9:00 a.m.	South Korea Unemployment for July	%	4.2	3	↑ 4.3
Wed @ 2:00 p.m.	Malaysia GDP for Q2	% change yr ago	-6.0	2	↓ 0.7
Wed @ 10:00 p.m.	India CPI for July	% change yr ago	6.2	2	↓ 6.09
Thur @ 11:30 a.m.	Australia Unemployment for July	%	7.6	2	↑ 7.4
Fri @ 12:00 p.m.	China Industrial Production for July	% change yr ago	5.5	3	↑ 4.8
Fri @ 12:00 p.m.	China Fixed-Asset Investment for July	% change yr ago	-1.9	3	↑ -3.1
Fri @ 12:00 p.m.	China Retail Sales for July	% change yr ago	1.5	3	↑ -1.8

The Long View

Thus far in August, corporate bond issuance has surpassed expectations thanks to ultra-low bond yields.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
August 6, 2020

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 132 basis points far exceeded its 122-point mean of the two previous economic recoveries. This spread may be no wider than 135 bp by year-end 2020.

The recent high-yield bond spread of 539 bp is thinner than what is suggested by the accompanying long-term Baa industrial company bond yield spread of 214 bp and the recent VIX of 22.9 points. The latter has been statistically associated with a 650-bp midpoint for the high-yield bond spread.

DEFAULTS

June 2020's U.S. high-yield default rate of 7.3% was up from June 2019's 3.3% and may approximate 12.3%, on average, by 2021's first quarter.

US CORPORATE BOND ISSUANCE

First-quarter 2019's worldwide offerings of corporate bonds revealed annual setbacks of 0.5% for IG and 3.6% for high-yield, wherein US\$-denominated offerings fell by 3.0% for IG and grew by 7.1% for high yield.

Second-quarter 2019's worldwide offerings of corporate bonds revealed an annual setback of 2.5% for IG and an annual advance of 17.6% for high-yield, wherein US\$-denominated offerings sank by 12.4% for IG and surged by 30.3% for high yield.

Third-quarter 2019's worldwide offerings of corporate bonds revealed annual advances of 15.2% for IG and 56.8% for high-yield, wherein US\$-denominated offerings soared higher by 36.8% for IG and 81.3% for high yield.

Fourth-quarter 2019's worldwide offerings of corporate bonds revealed annual advances of 15.3% for IG and 329% for high-yield, wherein US\$-denominated offerings dipped by 0.8% for IG and surged higher by 330% for high yield.

First-quarter 2020's worldwide offerings of corporate bonds revealed annual advances of 17.7% for IG and 26.5% for high-yield, wherein US\$-denominated offerings increased by 43.7% for IG and grew by 21.4% for high yield.

For 2019, worldwide corporate bond offerings grew by 5.4% annually (to \$2.447 trillion) for IG and advanced by 49.2% for high yield (to \$561 billion). The projected annual percent changes for 2020's worldwide corporate bond offerings are a 7.0% advance for IG and a 0.7% rise for high yield.

US ECONOMIC OUTLOOK

An unfolding global recession will rein in Treasury bond yields. As long as the global economy operates below trend, 1.00% will serve as the upper bound for the 10-year Treasury yield. Until COVID-19 risks fade, substantially wider credit spreads are possible.

The Long View

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics
August 6, 2020

UNITED KINGDOM

We had expected the Bank of England to stand pat at its latest meeting, since we don't see the bank moving the needle on monetary policy before it has more information on the state of the economy and on the path of the recovery. What stole markets' focus this time were the bank's updated economic forecasts, and they were mixed.

On the growth front, we welcomed that the bank raised its expectations for GDP in 2020; the bank now expects activity to decline by "only" 9.5% this year, better than its previous forecast of 14%. This will still be the worst rate of contraction in 99 years. But we always thought the BoE was too pessimistic on growth; we have for months forecast that the decline in GDP would be around 8.5% to 9.5%. The bank claimed that the downturn in the second quarter was likely less severe than it initially feared, largely because the lockdown measures have been almost fully relaxed already (the BoE had expected they would be gradually eased between June and September). Also, high-frequency indicators are pointing to a sharper than expected recovery in retail spending and in the housing market.

But all is not roses. Although growth will be stronger in the short term, the BoE now expects GDP to return to precrisis levels only by the end of 2021 instead of the previous forecasts for mid-2021. We are a bit less optimistic on this front. We see GDP returning to end-2019 levels only by mid-2022, since we expect that Brexit uncertainty will put a lid on the recovery. Adding to that, the bank remains pessimistic regarding the labour market. Although there is evidence that some employees already returned to their jobs from furlough, the high-frequency data continue to point towards a material deterioration in employment. The winding down of the furlough scheme from August (it should end in October) suggests that numerous employees won't have a job to return to, while the slower than expected recovery should result in further job losses and in fewer employment gains. The bank expected the unemployment rate to peak at the end of the year at almost twice its current values, which is in line with our forecast.

Regarding the inflation forecasts, the central bank is still gloomy about short-term price pressures given the subdued energy prices and the cuts to VAT for hospitality, holiday accommodation and attractions, but it has revised up its long-term forecasts. It expects inflation will rise above its 2% target already by the end of 2022, which in our view is too optimistic given our weaker recovery path. Also, the message that the BoE sends with these inflation forecasts is that no further stimulus is needed this year or at the start of next year.

EURO ZONE

Wednesday brought a barrage of good news for the European economies. The services and the composite PMIs confirmed that the recovery gathered strong momentum in July across the Continent, with the index signaling that output rose at its sharpest pace in two years in the euro zone, and at its fastest rate in five years in the U.K. But while the rebound is welcome, the details of the release hid a less optimistic story, which is the further decline in employment. Firms in the manufacturing and the services sectors reduced payroll numbers in July because of the continued uncertainty, and the problem is that the jobless recovery is unlikely to go very far.

Short-term work schemes put in place by European governments during the height of the pandemic will start to be wound down soon, which means that numerous workers are unlikely to have a job to return to after the crisis and will join the ranks of the unemployed. Our forecast is that the jobless rate will continue to rise for the rest of the year and to peak at the start of 2021. This will put a lid on the pace of the rebound across most countries, with the U.K. in the spotlight as Brexit woes will likely deepen in coming months.

The retail sales figures for the euro zone also took center stage on Wednesday. The results for June confirmed that the retail sector was one of the few to experience a V-shape recovery from the COVID-19 crisis. The figures were resoundingly upbeat; sales managed to exceed their February levels in June, and that's despite the fact that tourism and travel were still restricted across most member countries. But we caution against reading too much into this increase, however. Not only were the results uneven across sectors, but June's momentum can be largely attributed to pent-up demand and to a turn away from services spending, both of which should start to fade from July.

Households were finally able to complete purchases that they had to postpone during the lockdown in June, while the retail sector benefited as consumers temporarily turned to goods spending from services spending while restaurants, cafes, and several consumer-facing services facilities remained closed during the month. Travel and tourism were restricted too, which added to the woes and increased forced savings. We thus think that June's strength won't carry over into the rest of the summer.

The Long View

ASIA PACIFIC

By Shahana Mukherjee of Moody's Analytics
August 6, 2020

INDONESIA

More evidence of the significant economic damage inflicted by nationwide COVID-19 restrictions emerged this week. Indonesia's real GDP contracted by a sharp 5.3% in yearly terms over the June quarter, following a 3% increase in the prior quarter. This marks the first contraction for Indonesia since the Asian financial crisis in 1998 and was much stronger than market expectations.

All components of expenditure contracted through June. While private consumption shrank by a significant 5.5% in yearly terms, following a 2.8% increase in March, gross fixed capital formation fell by 8.6% in June, following 1.7% growth in the prior quarter. Expectedly, the trade components were the worst performers, with exports and imports contracting by 11.7% and 17% in yearly terms, respectively, following a 0.2% and -2.2% reading, respectively, in the prior quarter. In a rare showing, government spending, too, fell by 6.9% over the June quarter, after rising by 3.7% in March.

Multiple challenges

Indonesia is facing multiple challenges. Consistent with most economies in the region, the collapse in overseas demand caused by large-scale lockdowns across most economies through April and May impacted its exports, with the pause on tourism deepening the slowdown. That said, it was a significant decline in domestic final consumption, which makes up close to 67% of national output, that weighed heavily and dragged on growth through the June quarter. Indonesia's social-distancing restrictions have affected consumer confidence and undermined household spending, even though the gradual relaxation of these restrictions from June has allowed economic activity to resume in varying capacities.

Indonesia's road ahead will depend on a variety of factors. First, domestic COVID-19 cases have trended upwards since restrictions were eased in June. While a prolonged first wave may be the natural progression for several countries, the medium-term risks and the pandemic's implications for Indonesia's overwhelmed health infrastructure, and weakened consumer and investor confidence, cannot be taken lightly. Containment efforts must therefore be given top priority. Second, the Chamber of Commerce and Ministry indicated that nearly 6.4 million jobs have been lost in manufacturing industries since the pandemic started, a development that threatens to push several households into poverty. With this figure expected to get worse before a turnaround takes place, the true extent of damage inflicted and how long it takes for labour market conditions to ease will determine the depth of the downturn.

Significant stimulus

Third, even though lending conditions have eased through multiple rate cuts by Bank Indonesia and the government has provided significant fiscal stimulus worth US\$47.6 billion towards business and employment protection and consumption support, the effectiveness rests crucially on timely and transparent disbursement. Finally, the shock to global demand has levelled out and Indonesian exports returned to growth in June. But the uncertainty stemming from prolonged first waves in large economies such as India, Russia and the U.S., and a prominent second wave gathering momentum in parts of the Asia-Pacific region, including Australia, Hong Kong, Japan and the Philippines, threaten to disrupt the pace of recovery in trade volumes.

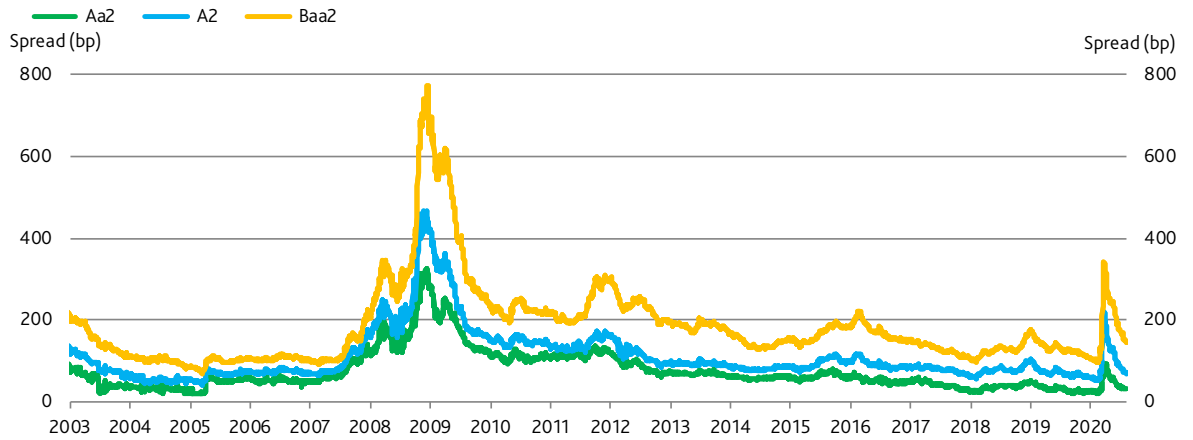
In the current setting, the downside risks arising from a sustained fear from the yet-to-be controlled health crisis on the domestic front, and a gradual recovery in overseas demand on the external front, are likely to weigh unfavourably on the Indonesian economy's growth prospects, with an increasing likelihood that the economy will slip into a recession in the September quarter.

Market Data

Market Data

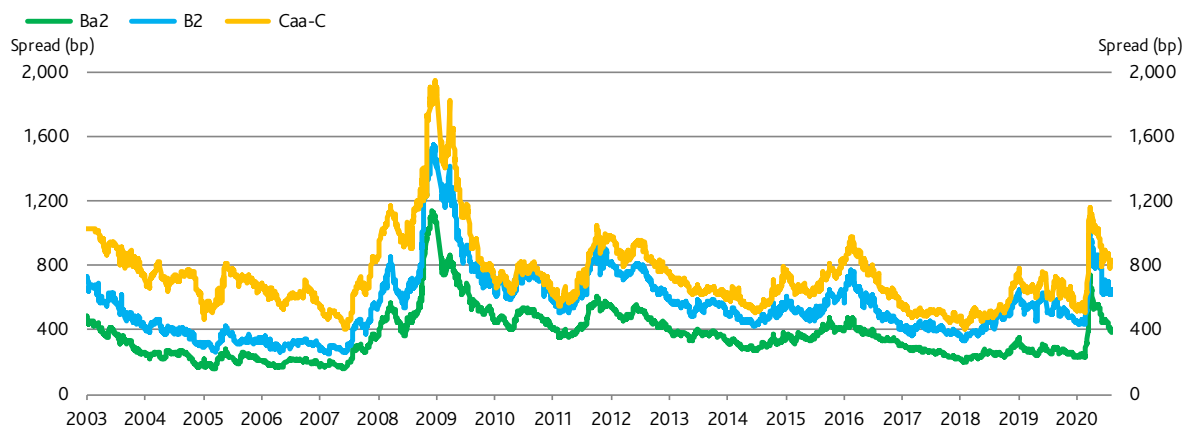
Spreads

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

Market Data

CDS Movers

Figure 3. CDS Movers - US (July 29, 2020 – August 5, 2020)

CDS Implied Rating Rises		CDS Implied Ratings		
Issuer		Aug. 5	Jul. 29	Senior Ratings
Pitney Bowes Inc.		Caa1	Ca	B1
McKesson Corporation		Aa2	A1	Baa2
Laboratory Corporation of America Holdings		A3	Baa2	Baa2
Best Buy Co., Inc.		Aa2	A1	Baa1
Advanced Micro Devices, Inc.		A2	Baa1	Ba3
Verizon Communications Inc.		A2	A3	Baa1
McDonald's Corporation		Aaa	Aa1	Baa1
CVS Health		Aa2	Aa3	Baa2
John Deere Capital Corporation		A1	A2	A2
Caterpillar Financial Services Corporation		Aa2	Aa3	A3

CDS Implied Rating Declines		CDS Implied Ratings		
Issuer		Aug. 5	Jul. 29	Senior Ratings
JPMorgan Chase Bank, N.A.		A2	A1	Aa2
Oracle Corporation		A2	A1	A3
Chevron Corporation		A3	A2	Aa2
Bank of America, N.A.		A3	A2	Aa2
Consolidated Edison Company of New York, Inc.		Baa1	A3	Baa1
Waste Management, Inc.		A3	A2	Baa1
Nissan Motor Acceptance Corporation		B3	B2	Baa3
Kinder Morgan, Inc.		Baa2	Baa1	Baa2
Illinois Tool Works Inc.		Baa2	Baa1	A2
Kimberly-Clark Corporation		Baa1	A3	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 5	Jul. 29	Spread Diff
Nabors Industries, Inc.	B3	2,989	2,772	216
Nissan Motor Acceptance Corporation	Baa3	415	347	68
Expedia Group, Inc.	Baa3	233	202	31
Nordstrom, Inc.	Baa3	526	495	31
Avis Budget Car Rental, LLC	B3	624	599	25
Host Hotels & Resorts, L.P.	Baa3	173	152	21
Meritage Homes Corporation	Ba2	203	186	17
Carnival Corporation	Ba2	946	933	13
General Electric Company	Baa1	177	165	12
Boeing Company (The)	Baa2	280	269	11

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 5	Jul. 29	Spread Diff
Pitney Bowes Inc.	B1	527	1,169	-643
K. Hovnanian Enterprises, Inc.	Caa3	2,084	2,549	-465
American Airlines Group Inc.	Caa1	3,028	3,370	-342
Staples, Inc.	B3	1,838	1,986	-148
Realogy Group LLC	Caa1	507	595	-88
United Airlines Holdings, Inc.	Ba3	1,006	1,091	-85
Navistar International Corp.	B3	299	382	-83
Ford Motor Company	Ba2	305	377	-72
United Airlines, Inc.	Ba3	859	931	-72
Delta Air Lines, Inc.	Baa3	697	749	-52

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (July 29, 2020 – August 5, 2020)

CDS Implied Rating Rises		CDS Implied Ratings		
Issuer		Aug. 5	Jul. 29	Senior Ratings
VERBUND AG		A1	Baa2	A3
ABB Ltd		Aa2	A1	A3
Societe Generale		Aa3	A1	A1
BNP Paribas		Aa3	A1	Aa3
ING Groep N.V.		A2	A3	Baa1
Lloyds Bank plc		Aa2	Aa3	Aa3
Natixis		Aa2	Aa3	A1
Danske Bank A/S		Aa2	Aa3	A3
Erste Group Bank AG		Baa2	Baa3	A2
Vodafone Group Plc		A1	A2	Baa2

CDS Implied Rating Declines		CDS Implied Ratings		
Issuer		Aug. 5	Jul. 29	Senior Ratings
Proximus SA de droit public		Baa1	A2	A1
Portugal, Government of		Baa1	A3	Baa3
HSBC Holdings plc		Baa2	Baa1	A2
Svenska Handelsbanken AB		Aa2	Aa1	Aa2
UniCredit Bank AG		Baa2	Baa1	A2
ENEL S.p.A.		A3	A2	Baa2
British Telecommunications Plc		Baa3	Baa2	Baa2
Iberdrola International B.V.		Aa3	Aa2	Baa1
Bank of Ireland		A3	A2	A2
Bankinter, S.A.		Baa3	Baa2	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 5	Jul. 29	Spread Diff
PizzaExpress Financing 1 plc	C	37,163	31,500	5,663
TUI AG	Caa1	1,451	1,293	158
Vue International Bidco plc	Caa2	979	871	109
Piraeus Bank S.A.	Caa2	894	861	33
Bankinter, S.A.	Baa1	99	74	24
Novafives S.A.S.	Caa2	1,060	1,036	24
Deutsche Lufthansa Aktiengesellschaft	Ba2	338	317	21
RCI Banque	Baa2	232	219	13
Renault S.A.	Ba2	224	211	13
Unibail-Rodamco-Westfield SE	A3	200	188	12

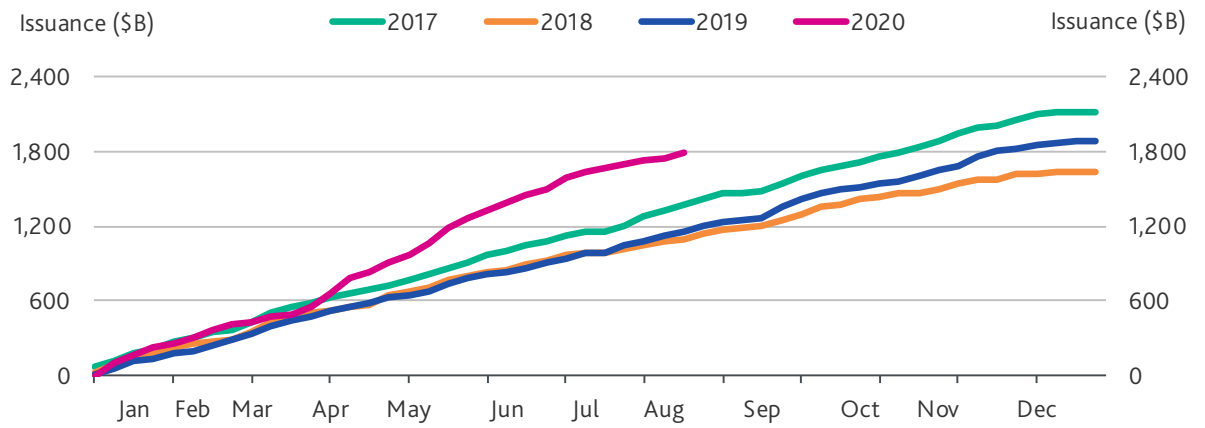
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 5	Jul. 29	Spread Diff
Selecta Group B.V.	Caa3	5,170	5,510	-340
Valaris plc	Ca	24,331	24,658	-327
CMA CGM S.A.	Caa1	729	803	-74
Jaguar Land Rover Automotive Plc	B1	830	867	-37
Sappi Papier Holding GmbH	Ba2	403	428	-25
ArcelorMittal	Ba1	215	233	-19
Dexia Credit Local	Baa3	78	96	-18
Casino Guichard-Perrachon SA	B3	783	801	-18
VERBUND AG	A3	46	62	-16
Stena AB	Caa1	667	683	-16

Source: Moody's, CMA

Market Data

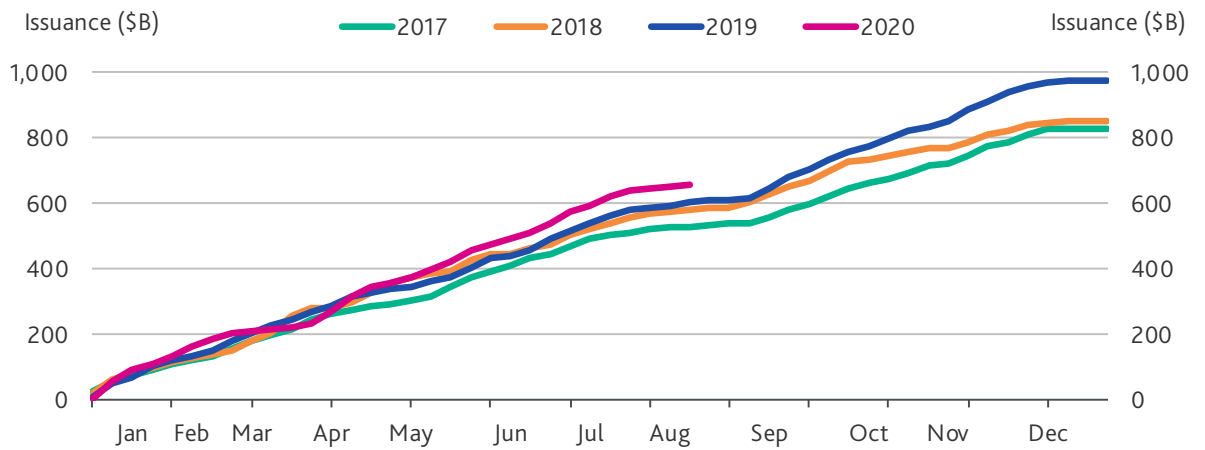
Issuance

Figure 5. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

Market Data

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount \$B	Amount \$B	Amount \$B
Weekly	32.207	8.230	41.187
Year-to-Date	1,397.207	322.959	1,779.967

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount \$B	Amount \$B	Amount \$B
Weekly	3.724	1.946	6.022
Year-to-Date	559.980	72.373	654.937

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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