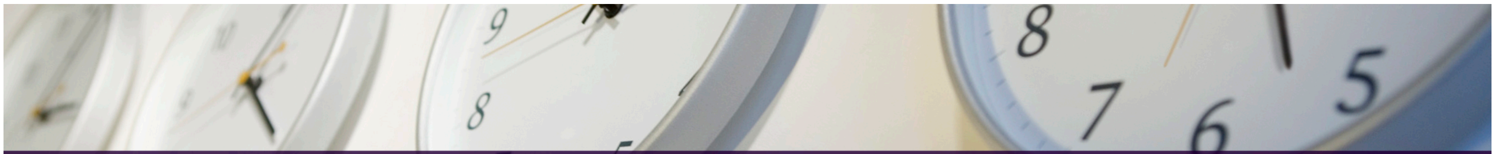

Credit Outlook

19 October 2020

NEWS AND ANALYSIS

CREDIT IN DEPTH

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Hargray Communications upsizes term loan following equity-funded acquisition, a credit positive

Originally published on 15 October 2020

On 15 October, Hargray Communications Group, Inc. (B2 stable) announced that it would upsize its proposed first-lien senior secured term loan by $100 million from the planned $60 million increase announced on 13 October. The term loan add-on follows the company's completed equity-funded acquisition on 1 October of Cable One, Inc's Alabama assets (CABO-AL). The add-on issuance and the CABO-AL acquisition are credit positive because the company has added a high quality network that is immediately accretive to earnings and modestly delevering even when considering the add-on issuance.

The recently acquired CABO-AL business generates approximately $20 million in annual EBITDA, which is a meaningful addition to Hargray's $93 million Moody's-adjusted last 12 months to 30 June EBITDA. Pro forma for the upsized $100 million incremental term loan and CABO-AL earnings, we estimate that last 12 months to June 2020 Moody's-adjusted debt/EBITDA will decline to 6.2x from 6.5x and pro forma debt/EBITDA will decline to 5.9x from 6.1x at fiscal year end, September 2020. This level of leverage is still high, and leaves limited cushion to pursue future debt-funded growth while still investing in its existing fiber and communication businesses or should the company experience execution challenges.

Furthermore, the incremental debt issuance enhances liquidity and de-risks funding needs for 2021 capital investments. We expect that Hargray will hold the proceeds on the balance sheet as cash and will over time use it to fund its capital needs, which the company projects to be close to $120 million in fiscal 2021, or at around 40% of revenue.

The acquisition of the high quality Cable One system is consistent with Hargray's strategy of pursuing bolt-on acquisitions in its target regions and "going deep" rather than "going wide". It adds residential and commercial customers to Hargray's expanding business in the South East and expands Hargray's meaningful presence in Alabama where the company already serves neighboring Pell City. The system enjoys a favorable competitive environment with AT&T being the only wireline competitor.

Hargray's credit profile remains constrained by its small scale, high leverage and limited free cash flow as a result of heavy capital intensity and an aggressive financial policy that tolerates high leverage driven by an appetite for debt-financed M&A. Hargray's network footprint is relatively small and geographically concentrated. Given negative free cash flow because of high capital investments, we expect that Moody's-adjusted debt to EBITDA will be close to 6x over the next 12-18 months.

The company is also constrained by high capital spending that we project will be around 40% of revenue in 2021 as management continues to invest in the business, with upgrades to its network, edge-outs, over-builds, metro-fiber builds, and other projects. This results is very weak free cash flow, that will be negative after success and strategic capital spending. The rating is supported by good growth in its high speed data (HSD) segment, strong competitive positioning across a service territory with favorable growth demographics, and commercial market expansion opportunities. This strength helps offset weakness in its voice business and allows it compete effectively with other players in its market.

Hargray Communications Group, Inc., headquartered in Hilton Head Island, South Carolina, is a southeastern regional telecommunications provider of commercial services and triple-play residential high-speed data, video, and voice services. Hargray is majority-owned and controlled by the Pritzker Organization, LLC, with Redwood Capital Investments, Stephens Hargray Cable LLC, and certain members of management holding minority interests.

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Syncsort's divestiture of Confirm business enhances liquidity

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On 14 October, Syncsort Incorporated (doing business as Precisely, B3 stable) announced that it plans to divest its Confirm business, an asset and infrastructure management platform, to Dude Solutions for $87 million, net of transaction expenses.

Despite the reduced scale and business diversity, the transaction is credit positive because it will bolster liquidity in the near term. The company expects to use a portion of net proceeds from the sale to repay the current outstanding balance under the revolver. Also, there is a potential for partial debt reduction after the revolver is paid, which would further improve credit metrics.

The transaction follows the company's December 2019 acquisition of the Software and Data (S&D) business from Pitney Bowes, Inc., which consisted of the Confirm business and other assets. Precisely viewed the Confirm business as a noncore asset resulting in the announced divestiture. We do not expect the sale to cause any significant execution risks, and expect the company to complete the divestiture by the end of the year.

Precisely's ratings and outlook are unaffected at this time because leverage is still high (7.7x debt/EBITDA Moody's adjusted for the last 12 months to 30 June 2020, excluding unrealized synergies and expensing software development) and integration risks remain as the company continues to combine the S&D business with Precisely's standalone business prior to the acquisition. While the company has made progress on its planned synergies, we still expect use of cash for restructuring costs through the end of the year. Once the transaction closes, we expect Precisely will have full availability under its $125 million revolving credit facility ($33 million outstanding as of June 30, 2020).

Headquartered in Pearl River, New York, Precisely is a global software company specializing in Big Data, high-speed sorting products, data protection, data quality and integration software and services, for mainframe, power systems and open system environments to enterprise customers. The company is majority owned by Centerbridge with remaining ownership stakes held by Clearlake and management. In December 2019, the company completed the acquisition of S&D business from Pitney Bowes for a cash purchase price of $704 million. In May 2020, the company was rebranded as Precisely. Pro forma for the acquisition, the company generated $599 million of revenue as of the last 12 months that ended 30 June 2020.

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JBS' settlement with US SEC and DOJ is credit positive

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On 14 October, JBS S.A. (Ba2 stable) announced that both the US Department of Justice (DOJ) and the US Securities and Exchange Commission (SEC) resolved their respective investigations of JBS controlling shareholder J&F Investimentos S.A., JBS and its indirect subsidiary Pilgrim's Pride Corporation (Ba3 stable) related to corruption cases in Brazil through three agreements.

The settlements are credit positive because they reduce the credit risks related to a series of judicial processes, investigations and litigations that can directly or indirectly involve JBS and its shareholders. They also eliminate the uncertainty related to a possible material effect of fines on JBS' liquidity position.

J&F Investimentos S.A. reached an agreement with the DOJ regarding violations of the US law on the facts that were the subject of the leniency agreement between J&F and Brazil's Federal Public Ministry and the plea bargain agreements by J&F controlling shareholders with Brazilian public prosecutors (PGR) in 2017 over corruption investigations. The plea agreement with the DOJ imposes a penalty of $256 million, but J&F will receive a credit for amounts already paid to the Brazilian authorities (the leniency agreement in Brazil was settled for BRL10.3 billion (or $1.8 billion at current exchange rate) in fines over 25 years.

JBS and J&F Investimentos reached an agreement with the SEC related to violations of US securities laws that resulted in Pilgrim's failure to maintain accurate books and records and internal accounting controls. JBS will pay $26.9 million in fines to the SEC and for three years will be required to report to the SEC the effectiveness of its (and any issuers of securities in the US that are under JBS control) anticorruption policies and procedures, internal accounting controls and financing reporting processes.

Pilgrim's entered a plea agreement with the DOJ Antitrust Division related to its sales of broiler chicken products in the US and agreed to pay $110.5 million.

JBS has taken a series of measures after the corruption scandals in 2017 to comply with J&F's leniency agreement and to improve compliance. In May 2019, the company implemented clear financial policies, set leverage targets and provided guidelines for liquidity and dividends distribution that limit dividend payments in certain conditions. Corporate governance standards have improved since 2017, but issues weighing on the company's credit profile persist. These include management structure and limited disclosures related to compensation, as well as the board of directors oversight and effectiveness, in particular its low level of independence, according to our governance assessment benchmark.

The settlements do not have a significant financial implication to the companies involved. JBS has a solid liquidity position, with BRL22.7 billion in cash as of June 2020, supported by strong free cash flow generation of BRL12.8 billion (as adjusted by Moody's) in the 12 months that ended June 2020.

Headquartered in São Paulo, JBS is the world’s largest protein producer in terms of revenue, slaughter capacity and production. The company is the leader in beef, chicken and leather, and it is the second-largest pork producer in the US. The company has a presence in over 190 countries, with large scale and diversification. For the 12 months ended June 2020, JBS reported consolidated revenue of BRL233.4 billion.

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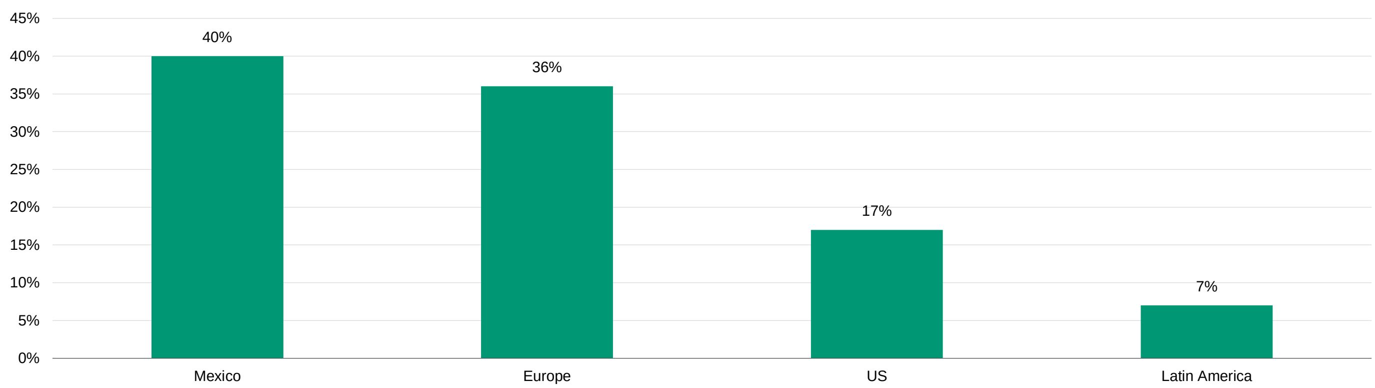
Mexico temporarily suspends sale of certain dairy products, a credit negative for Sigma

Originally published on 16 October 2020

On 13 October, Mexico's Secretaría de Economía (SE) ordered the immediate suspension of the sale of some dairy products of certain brands sold in Mexico, in particular cheese and yogurt, after determining that the products did not comply with the Normas Oficiales Mexicanas (NOMs) that set rules for the production of these products. Several companies including Sigma Alimentos, S.A. de C.V. (Baa3 stable), Grupo Lala, Mondelez International Inc. (Baa1 stable), and Danone (Baa1 stable) are affected by SE's decision. The decision is credit negative for Sigma because five of its products are included in the suspension. However, the SE's action does not affect Sigma's Baa3 senior unsecured rating or stable outlook.

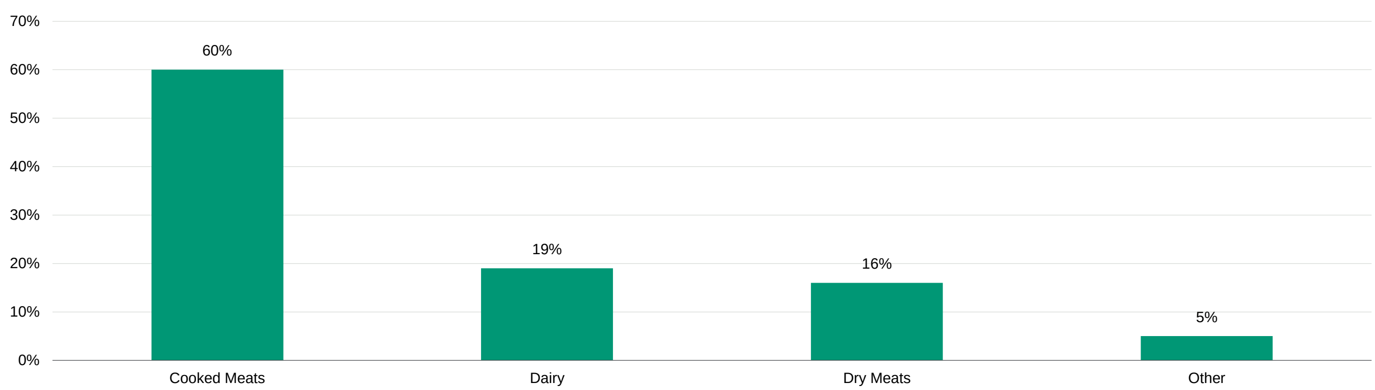
Although sales in Mexico account for 40% of Sigma's consolidated revenue (see Exhibit 1), the temporary suspension will have a minimum effect on Sigma because it affects only five SKUs from its product portfolio under the FUD and Nochebuena brands. Sales of these products contribute less than 1% to Sigma's annual consolidated revenue. Nonetheless, the company is in discussion with the authorities because, according to Sigma, all its products comply with Mexico's production and labeling requirements. Sigma's dairy products sales are the second-largest contributor to its consolidated revenue (see Exhibit 2).

Exhibit 1
Sales in Mexico account for 40% of Sigma's consolidated revenue



Source: Sigma Alimentos

Exhibit 2
Cooked meats are the largest contributor to Sigma's consolidated revenue, followed by dairy products



Source: Sigma Alimentos

According to the SE, Sigma's products included in this temporary sales suspension breach some of the following rules: the packages have net weights below those stated on the label and/or labels do not include the percentage of casein, a protein, added to the product.

Other cheese brands, from other market participants, included in the SE press release are Premier Plus Cuadritos, Zwan, Caperucita, Burr, Precissimo, Frankly, Selecto Brand, Galbani, Lala, El Parral, Portales, Walter, Sargento, Cremeria Covandonga, Aurrera, and Philadelphia. The SE also mentioned that two natural yogurt products breach the NOMs by adding sugar or failing to comply with the minimum content of milk. The two yogurt brands affected by this ban are Danone Bene Gastro and Danone Natural, none of which is produced by Sigma.

Sigma Alimentos is a multinational producer of branded refrigerated food in the following four broad categories: cooked meats, dry meats, dairy products, and other categories. The company operates in Europe (Spain, Portugal, Italy, the Netherlands, Belgium, France, Romania and Germany) and the Americas (Mexico, the US, Central America, the Dominican Republic, Ecuador and Peru). The company is a wholly owned subsidiary of Alfa, S.A.B. de C.V. (Baa3 stable). Sigma reported revenue of MXN131 billion (around $6 billion) over the 12 months that ended 30 June 2020.

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ArcelorMittal bondholders' acceptance of offers to repurchase notes is credit positive

Originally published on 15 October 2020

On 14 October, ArcelorMittal (Ba1 stable) announced bondholders' acceptance of its offers to repurchase in cash up to $2 billion equivalent of outstanding euro and US dollar notes due 2022, 2023 and 2025. The total amount of bonds tendered is around $716 million equivalent (based on a €1.175/$1 exchange rate on 14 October), which, together with applicable tender considerations and accrued and unpaid interest, ArcelorMittal will pay on the settlement date on 15 October 2020.

The repurchases, combined with a €231 million Schuldschein repayment earlier this week, are credit positive, because they will lead to an about 7% reduction in ArcelorMittal's reported debt as of 30 June 2020 and future interest cost savings of close to $30 million. The group's sizeable tender offers demonstrate its ambition to further reduce debt and, in our view, achieve an overall balanced financial policy.

While the announcements are credit positive, they do not affect ArcelorMittal's Ba1 rating or the stable outlook given that the total amount of bonds tendered does not require a material adjustment of our leverage and cash flow forecasts for the group. ArcelorMittal's Moody's-adjusted credit metrics are currently weak and after the redemption we still expect their levels to improve into our specified ranges for a Ba1 rating by the end of 2021 only. This includes, for instance, leverage as defined in Moody's-adjusted gross debt/EBITDA of not higher than 4x, or Moody's-adjusted cash flow from operations less dividends to debt ratios between 15%-20%.

Our assessment also takes into account the group's recent announcement of the complete sale of ArcelorMittal USA to Cleveland-Cliffs Inc. (Cliffs, B1 review for downgrade), which will comprise an around $1.2 billion transfer of Moody's-adjusted debt to Cliffs. At the same time, the group intends to distribute $500 million, an amount equal to an agreed upfront cash consideration from Cliffs, to its shareholders via share buybacks.

Although we had not expected the group to initiate significant shareholder distributions, especially in the currently challenging market environment, its sizeable tender offers and the related expected $716 million (equivalent) repayment of tendered notes due 2022 ($310 million equivalent), 2023 ($156 million equivalent) and 2025 ($250 million) support our view of an overall measured and prudent financial policy. Moreover, the cash needed to repay the tendered notes does not compromise our liquidity assessment for the group, which remains very strong, supported by a $5.6 billion cash position, the fully available committed revolving credit facility (maturing 2024) as of 30 June 2020, and our expectation of positive free cash flow generation this and next year.

Headquartered in Luxembourg, ArcelorMittal is one of the world's largest steel companies, with an annual production of around 90 million tons (mt) of crude steel, steel shipments of 84.5 mt, $71 billion revenue and company-adjusted EBITDA of $5.2 billion (7.4% margin) in 2019. The group operates in more than 60 countries worldwide, with steelmaking operations in 19 countries on four continents. The group also operates iron ore and coking coal mines in several geographies for its own consumption and external sales.

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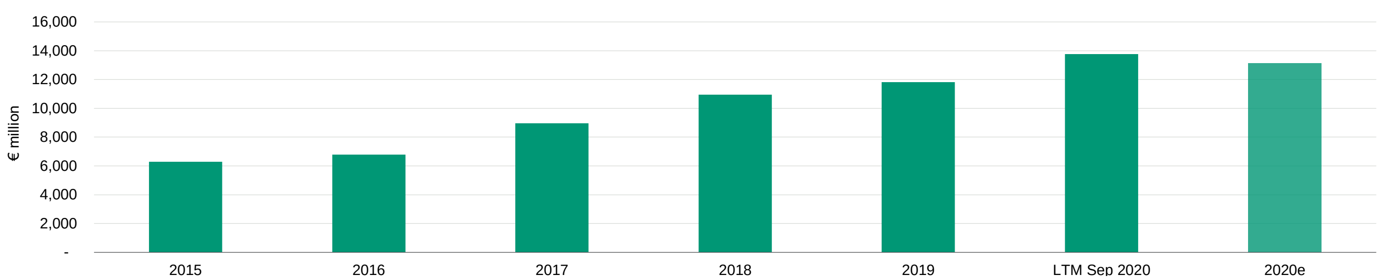
ASML's strong third-quarter 2020 results are credit positive

Originally published on 16 October 2020

On 14 October, ASML Holding N.V. (A3 stable) reported strong third-quarter 2020 financials supported by higher extreme ultraviolet (EUV) lithography machine sales and resilient operating margins. The quarterly report is credit positive because it improves our expectation for 2020 full year performance, despite the uncertainty around the economic effect of the coronavirus pandemic and the potential trade restriction between the US and China.

Revenue in the period from June to September was €4.0 billion, which is an increase of around 19% from second-quarter 2020 (see Exhibit 1). Growth was primarily driven by higher EUV sales, which increased by 115% to €2.0 billion. Management updated its 2020 full-year revenue guidance to between €13.3 billion and €13.5 billion from €13.0 billion previously. The improved revenue target is supported by an increase in net bookings, which rose to €2.9 billion in third-quarter 2020 from €1.1 billion in the previous quarter. The number of new lithography systems ordered increased to 67 from 28, highlighting the return to higher capital spending in the semiconductor industry. However, uncertainty remains around ASML's outlook because of the economic consequences of the pandemic and the US potentially black-listing some Chinese customers. Following the strong third-quarter 2020 results and ASML's updated fourth-quarter guidance, we have increased our 2020 revenue expectation to €13.1 billion from €11.5 billion.

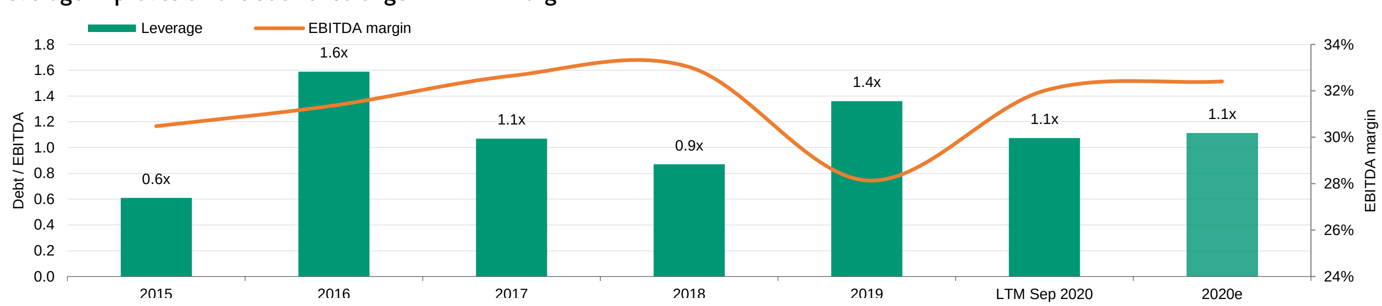
Exhibit 1
ASML reported strong revenue growth despite the coronavirus pandemic



Figures are based on a Moody's-adjusted basis; LTM September 2020 adjustments are preliminary; 2020e based on our expectation.
Sources: Company financial reports and Moody's Investors Service

Further, ASML's Moody's-adjusted EBITDA margin improved to 32.0% in the 12 months that ended September 2020, which is above our previous expectation. Over the same period, ASML generated Moody's-adjusted EBITDA of €4.4 billion compared to €3.3 billion in 2019. Leverage decreased to 1.1x from 1.4x in 2019. We expect leverage of around 1.1x for 2020 (see Exhibit 2).

Exhibit 2
Leverage improves on the back of stronger EBITDA-margin



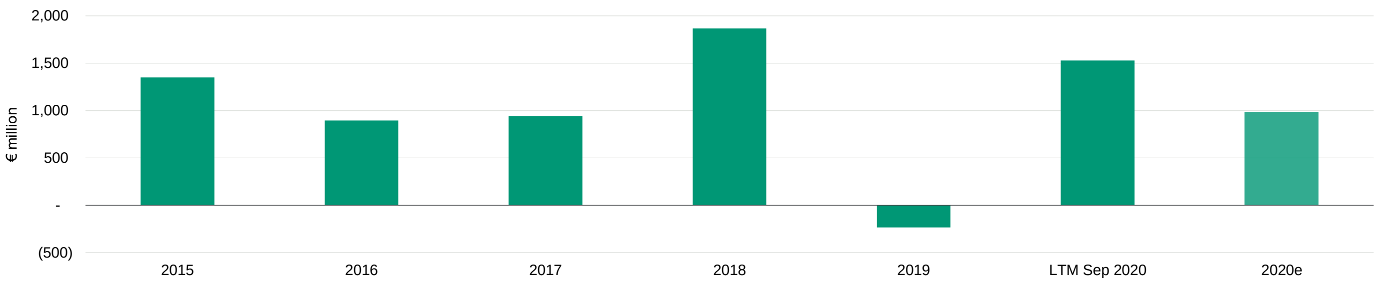
Figures are based on a Moody's-adjusted basis; LTM September 2020 adjustments are preliminary; 2020e based on our expectation.
Sources: Company financial reports and Moody's Investors Service

The company also reported that it would restart its share buyback program. ASML initially announced in January 2020 the buyback of €6 billion worth of shares over the course of 2020 to 2022. The company subsequently halted the program because of the pandemic. So far, €507 million worth of shares have been repurchased as part of the program. ASML did not repurchase any shares in third-quarter 2020. Additionally, the company announced an interim dividend of €1.20 per share, to be paid in November 2020, up from €1.05 last year. ASML's liquidity remains strong enough to support the future shareholder distributions with cash and equivalents amounting to €4.4 billion as of September. Overall, we continue to view ASML's financial policy as prudent.

Free cash flow (FCF) was negative €31 million in the third quarter, primarily because of significant increases in working capital. We expect 2020 FCF to be around €900 million. This considers the declared interim dividend payments but not the share buybacks.

Exhibit 3

ASML's solid free cash flow is likely in 2020 despite increased dividend payments



Figures are based on a Moody's-adjusted basis; LTM September 2020 adjustments are preliminary; 2020e based on our expectation.
Sources: Company financial reports and Moody's Investors Service

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Taiwan Semiconductor raises 2020 revenue guidance for second time

Originally published on 16 October 2020

On 15 October, Taiwan Semiconductor Manufacturing Co. Ltd. (TSMC, Aa3 stable) raised its 2020 revenue growth guidance for a second time in 2020 on strong demand for its advanced nodes (16-nanometer chips and below), especially for its 7-nanometer and 5-nanometer chips. This strong demand will drive TSMC's solid earnings growth in 2020, a credit positive. The company's revenue will increase by about 30% in US dollar terms, above its previous guidance of more than 20% year on year. Its revenue will grow faster than the market's overall growth rate in 2020.

In announcing its third quarter financial results, which were slightly better than our expectations, the company said that revenue increased 21.6% year on year to NTD356 billion ($12.1 billion) in third quarter 2020, supported by strong growth in its high performance computing segment, which grew by 55.2%, with its Internet of Things segment jumping by 21.6% and the smartphone segment up by 14.2%.

TSMC expects that the global market for foundry chipmaking (contract chip manufacturing) will grow nearly 20% in 2020 – which is higher than its previous guidance of a mid- to high-teen percentages – despite the continued impact from the coronavirus outbreak. The higher industry growth outlook will be driven by strong demand from the fifth-generation (5G) wireless technology, especially 5G smartphones, and high-performance computing.

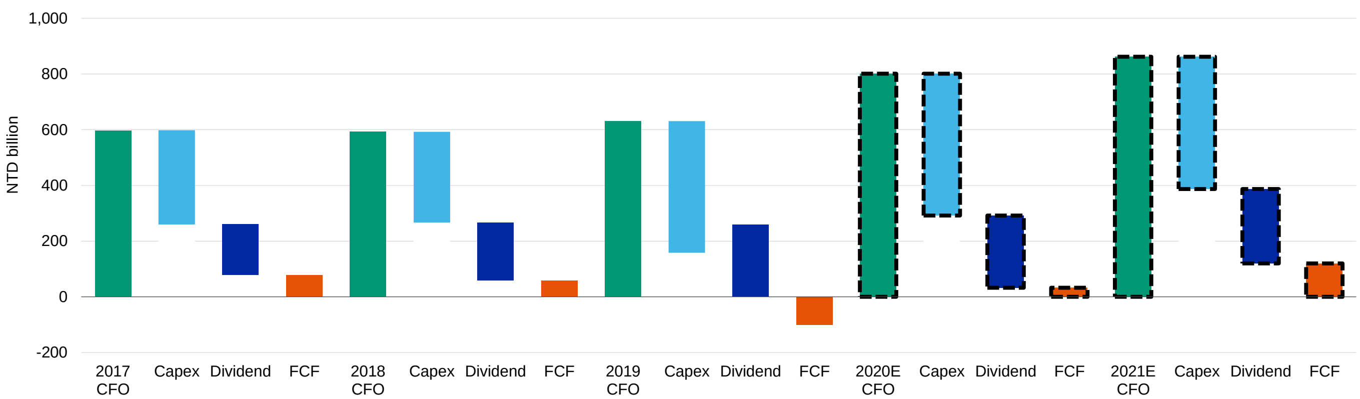
We have raised our revenue growth forecast to 26% to NTD1.35 trillion in 2020 from our previous projection of 21%. We maintain our 7.5% revenue growth rate for 2021. TSMC's solid revenue growth will be driven by strong demand in its smartphone, high-performance computing and Internet of Things segments and for its 7-nanometer and 5-nanometer chips, which were introduced ahead of its competitors and have gained significant market share as the most advanced nodes in the industry.

5G wireless technology-related and high-performance computing (HPC)-related applications will drive semiconductor content enrichment, increasing demand for TSMC's advanced technologies.

We expect that the company's adjusted EBITDA margin will improve to 67%-68% in 2020 and 2021 from 63.7% in 2019, as a higher capacity utilization rate from strong revenue growth will lead to a higher gross margin. However, the higher gross margin will be partially offset by the introduction of 5-nanometer technology with a weaker gross margin at the early production stage.

We also expect that TSMC will generate solid free cash flow in the next two years (see exhibit), driven by strong earnings growth and a relatively stable dividend policy, partially offset by higher capital spending. Specifically, we expect TSMC will generate NTD32.5 billion ($1.1 billion) and NTD120 billion ($4.0 billion) in adjusted free cash flow in 2020 and 2021, respectively (see exhibit). Its capital spending meanwhile will be around $17.0 billion in 2020 and $16.0 billion in 2021, up from $14.9 billion in 2019 to support advanced technologies developments, including 7-nanometer, 5-nanometer and 3-nanometer chips.

TSMC is likely to generate positive free cash flow in the next two years



Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

We expect that the company will maintain a strong net cash position over the next two years, which provides it with a strong buffer against industry cyclicality. Its strong free cash flow generation and prudent investment strategy will allow the company to further enhance its net cash position, with its adjusted net cash position set to increase to NTD402 billion in 2021 from NTD253 billion in 2019.

TSMC is the market leader in pure semiconductor foundry services. The company manufactures products for various platforms, covering a variety of smartphone, high performance computing, Internet of Things, automotive, and digital consumer electronics segments.

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Angamos' debt repayment is credit positive for Gener

Originally published on 15 October 2020

On 12 October, AES Gener S.A.'s (Baa3 stable) subsidiary Empresa Eléctrica Angamos SpA (Angamos, Baa3 negative) completed the early repayment of its outstanding local bank loan balance of around $135 million. The loan repayment and the 7 October redemption of around $310 million of tendered notes, reduced Angamos' outstanding debt around 85% from June 2020 to $81 million. The subsidiary's debt redemption along with Gener's repayment of its $90 million short-term loan reduced the consolidated debt by around 11% to nearly $3.7 billion, a credit positive for Gener.

We expect that Angamos' debt reduction and the group's scheduled debt repayments of nearly $155 million in the second half will reduce Gener's consolidated debt to EBITDA ratio of around 4.0x at year-end 2020, from 4.5x at 30 June 2020, including our standard adjustments for hybrid instruments, and help the company in its decarbonization strategy.

Angamos funded the early redemption of its debt with the payments of around $720 million (pre-taxes) received from its key off-takers, Minera Escondida Limitada (MEL, Baa2 stable) and Minera Spence SpA, to terminate their power purchase agreements (PPAs).

After the termination of the PPAs become effective in August 2021, Angamos' contracted EBITDA will drop by approximately $100 million to around $30 million on an annualized basis. Angamos' contracted revenue will largely consist of capacity payments from the Chilean power system and the fixed charges collected under its remaining 80 Megawatt (MW) PPA with Quebrada Blanca expansion. We expect the mine's key shareholders will continue to guarantee its contractual obligations until at least 2022-23, which mitigates Angamos' counterparty risk exposure. In addition to the capacity and the PPA payments, Angamos will continue to collect payments from its sister company Empresa Electrica Cochrane SpA (Cochrane, Ba1 stable) for operating their shared facilities.

We estimate that Angamos' contracted EBITDA, net of Cochrane's payments, will be less than 5% of Gener's consolidated EBITDA after 2021, compared to around 14% at year-end 2019. We expect the repayment of Angamos' debt, the group's total additional annual scheduled debt amortization of nearly $170 million in 2021-22, along with the incremental contracted EBITDA of Gener's new projects under construction, will help offset Angamos' reduced EBITDA on Gener's leverage ratio. We assume that the leverage ratio will further hover at around 4.0x, a level we consider appropriate for its credit quality.

Our calculations assume that the $390 million supplier financing provided by Strabag, the contractor of the 531 MW hydroelectric plant Alto Maipo, will become payable in 2022 after the plant's two units come online next year. In addition to the Alto Maipo facility, AES Gener is developing several solar, wind and energy storage projects that drive management's expectation that its EBITDA will be around $1 billion in 2024 compared to around $827 million of rhte last 12 months that ended 30 June 2020. The group's leverage will be aided by management's commitment that it will not incur any incremental debt until Alto Maipo achieves commercial operations and the approved $500 million capital increase, expected during the first quarter of 2021, to help fund its investments. In addition, AES Gener will use the $113.5 million proceeds received from the monetization, in September 2020, of a portion of the future dividends expected from its 60%-owned subsidiary Cochrane to meet its capital requirements.

Angamos' debt redemption along with AES Geners' investments to expand its renewables footprint also help to reduce the company's exposure to carbon transition risk. As the Angamos coal-fired facility becomes largely merchant in 2022 and its debt is repaid, we expect that AES Gener will seek to retire the plant, pending the electric systems' reliability requirements, which is line with the global strategy of its parent company, AES Corp. (The) (Ba1 stable). In addition, according to a 2019 agreement with the Chilean government, AES Gener plans to idle its less efficient coal-fired facilities, Ventanas Unit 1 and Unit 2, in 2022 and 2024 or sooner.

This decarbonization strategy is credit positive but not without risks. For example, in September 2020, AES Gener announced a $560 million impairment related to these two Ventanas Units and Angamos strategic assets as it ceased to deem them strategic. The non-cash impairment reduced AES Gener's equity book value. However, it will not affect the company's ability to meet all its financial covenants, including the requirement to record a minimum equity of $1.575 billion. AES Gener reported shareholders' equity of around $2.4 billion at 30 June 2020.

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Movement restrictions and airline distress are credit negative for Malaysia Airports Holdings Berhad

Originally published on 16 October 2020

On 12 October, the Government of Malaysia (A3 stable) announced that Kuala Lumpur, Selangor and Putrajaya will be placed under a Conditional Movement Control Order (CMCO) for two weeks from 14 October to curb the resurgence of coronavirus cases. The tightened restrictions, along with Malaysia Airlines' announcement of a potential shutdown of its operations if negotiations with its financers' fail, are credit negative for Malaysia Airport Holdings Berhad (MAHB, A3 negative).

Most of MAHB's revenue comes from passenger traffic volumes at its airports, with the exception of its property-related revenue. A slower-than-expected recovery brought on by the CMCO will further strain MAHB's cash flow and affect its credit metrics over the next two to three years.

Passenger traffic volume at MAHB's airports in Malaysia had shown early signs of recovery since the restart of commercial travel in late June, driven principally by the resumption of domestic travel. However, this recovery is likely to be disrupted or potentially reversed by the reintroduction of a CMCO.

The new restrictions (see Exhibit 1) are not as restrictive or as far reaching as those introduced during the June quarter. However, they will have a direct impact on interstate travel and travel to and from the capital, Kuala Lumpur.

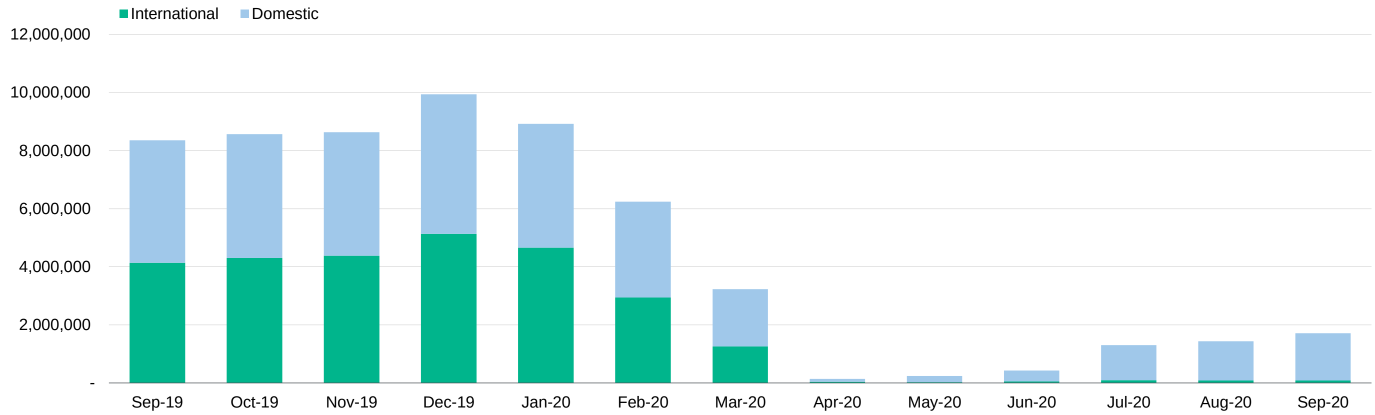
Exhibit 1
CMCO reintroduced in Kuala Lumpur and surrounding areas on 14 October

Key elements of the CMCO introduced from 14 October
Only two members from a household are permitted to leave home at one time for essential purchases.
Inter-district and inter-state travelling are not permitted except for emergencies and work. Visits to airport (including KLIA, KLIA2, and Subang International Airport) will require permission, particularly for inter-state travel.
Restaurants and food vendors can only operate from 6am to 10pm. Dine-ins will be limited to two patron per table.
All public transports are will continue to operate. But only two passengers will be permitted on e-hailing and taxis at the same time.

Source: Moody's Investors Service

A slowdown in domestic travel (see Exhibit 2) will affect Malaysia's overall economic recovery because the government had earlier announced that international tourism related travel will not resume until at least the start of 2021.

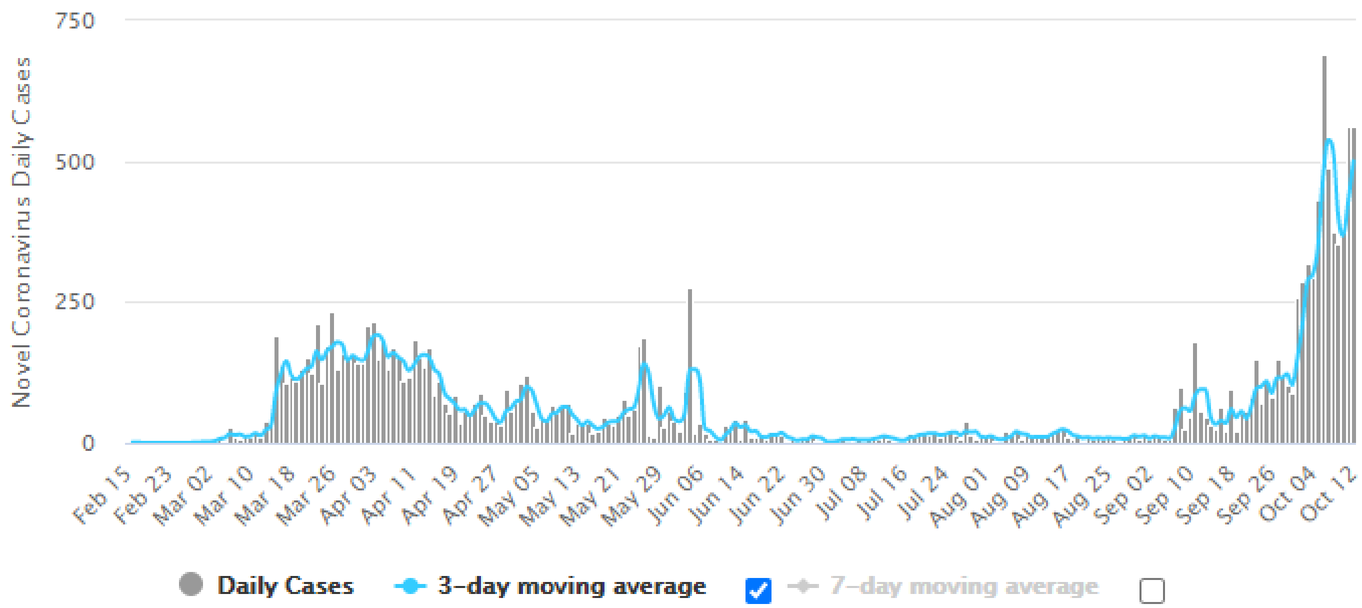
Exhibit 2
Passenger traffic at MAHB's airports in Malaysia has dropped dramatically



Source: MAHB

The CMCO is initially for only 14 days. However, the resurgence in the number of new coronavirus cases in Malaysia since late August (see Exhibit 3) means an extension of the order or even more severe restrictions could be needed if these measures do not yield government targets.

Exhibit 3
Number of new daily coronavirus infections in Malaysia have increased since early September



Source: Worldometers.info

Along with less travel demand, passenger traffic at MAHB's airports could be further reduced if Malaysia Airlines, the country's flag carrier, shuts down operations because of mounting financial pressure.

Malaysia Airlines initiated another round of restructuring negotiations with lenders and lessors over its liabilities in recent weeks. The airline has said that it does not expect to receive further financial support from its ultimate shareholder and Malaysia's sovereign wealth fund, Khazanah Nasional Berhad, if its financiers do not support a restructuring plan. Without recapitalization, the airline believes it might need to close its operations.

In 2019, Malaysia Airlines served 21.6% and 25.4% of the country's international and domestic passengers, respectively, at Kuala Lumpur International Airport (KLIA), making it the second largest airline in the country.

A subsequent 20%-25% reduction in seat capacity for airlines at MAHB's airports across Malaysia would make it more difficult for traffic to return to pre-coronavirus outbreak levels; or at least lengthen the time it takes to return to pre-outbreak levels. Furthermore, higher airline fares because of less competition and reduced connections at MAHB's airports, could also dampen travel demand.

We expect MAHB's funds from operations (FFO)/debt will fall below the tolerance level set for its baa3 Baseline Credit Assessment in 2020, with year-to-date passenger numbers at end September below the same period in 2019 by 54 million, or 70%. However, we do not rule out a return of MAHB's credit metrics above the tolerance level by 2022, driven by a gradual recovery in traffic numbers.

MAHB's rating could face a downgrade if there are indications of a prolonged delay in passenger-number recovery or additional stress on the airport's financial metrics as a result of an airline defaulting or a further travel restrictions introduced.

As we have seen in other markets, a shortfall in capacity is often offset by other airlines deciding to ramp up their operations, although it is likely to take longer to materialize under the current industry environment in Malaysia. If negotiations with financiers fail, Malaysia Airlines could continue to operate on an interim basis, potentially under the control of its financiers or under another license. Khazanah has also said it was considering an option to develop Firefly, a low-cost carrier also owned by Malaysia Airlines' parent entity, as the alternative national carrier.

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Five US global investment banks' capital rises and provisions drop, improving resilience amid economic uncertainty

Originally published on 15 October 2020

This report provides key take-aways from the Q3 2020 results of the five US-based Global Investment Banks (GIBs): Bank of America Corporation (BAC, A2 stable), Citigroup Inc. (C, A3 stable), The Goldman Sachs Group, Inc. (GS, A3 stable), JPMorgan Chase & Co. (JPM, A2 stable) and Morgan Stanley (MS, A2 stable). All comparisons are to Q3 2019 unless otherwise noted.

The five US GIBs navigated Q3 2020 successfully, reporting aggregate pretax profit of $28.3 billion, down 4% from $29.5 billion in Q3 2019 and up 53% from $18.5 billion in Q2 2020. All five also maintained strong liquidity and increased their risk-based capital ratios, while retaining most of the loan loss reserves built in the first half of 2020. This resiliency is important for bondholders, as the banks face unusually high uncertainty about the pace and extent of economic recovery in 2021 as the implications of the pandemic unfold.

Our coronavirus profitability shock scenario indicates that the GIBs are reasonably well placed to weather this year's downturn. Our current global macro outlook suggests that the G-20 economies will contract for the full year 2020, but we expect improvement in 2021, with risks tilted to the downside.

On 2 October, we upgraded Morgan Stanley's ratings with stable outlook, following the completion of its acquisition of E*TRADE Financial Corp. (A3 stable). The transaction is another deliberative step in MS's clear, consistent strategy to add more recurring, profitable revenue streams in wealth and investment management.

The key credit trends for the peer group in the third quarter included:

» A sequential rebound in profitability despite continuing pressure on net interest margins. The profit recovery was driven by a steep drop in loan loss provisions (and modest reserve releases at JPM and GS) compared with heavy reserve-building in the first half of 2020. And consumer segment profitability improved at the three universal banks (BAC, C and JPM) on generally stable consumer asset quality thanks to government stimulus and forbearance programs.

» Improved regulatory capital ratios compared with Q2 2020, as share repurchase restrictions continued.

» Strong demand for risk transfer that drove heavy client flows, leading once again to robust trading revenue (although down from very strong Q2 2020 levels)

» Solid results from less capital-intensive asset and wealth management franchises at BAC, GS, JPM and MS.

» A guarded outlook for charge-offs in 2021, depending on the course of the COVID-19 virus, the economy and the effectiveness of any further stimulus.

Click here for the full report.

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Brazil's Caixa renews relief as mortgage customers resume payments, and cuts rates on new loans

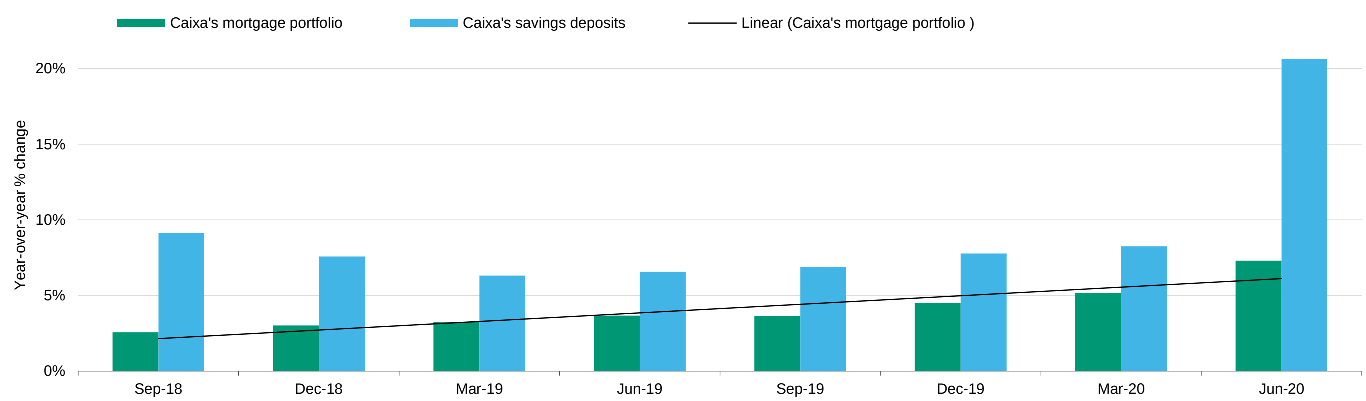
Originally published on 16 October 2020

On 14 October, Brazil's federal government mortgage lender, Caixa Economica Federal (Caixa, Ba2/Ba2 stable, ba3[1]), announced new measures to help mortgage holders resume their payment schedules, particularly targeting individuals struggling with weak job markets and the phasing out of the government's emergency income program. Caixa will offer customers the option of paying 75% of their next six monthly installments or 50%-75% of the monthly installment over the next three months.

The measures are credit positive because they will help Caixa mitigate credit risk as loan deferrals end this month and low-income borrowers face reduced government aid that will end in December. Mortgages accounted for more than two thirds of Caixa's total loans as of June 2020. About 34% of the bank's loanholders entered deferral programs, particularly mortgage holders, who were granted a six-month grace period on their loans.

Despite depressed demand for credit in general, Caixa has consistently increased mortgage origination. Mortgage demand has benefitted from Brazil's low interest rate environment and the better-than-expected performance of the homebuilding sector, despite the mild recovery in economic activity since May. Caixa's mortgage portfolio grew 7.2% in the 12 months that ended June 2020. New origination rose by 19%, largely funded by savings deposits, which increased 20.6% over the period (see exhibit).

Caixa's strong mortgage growth is supported by a high balance of low-cost savings deposits and low interest rates stimulating demand
Mortgages and savings balances, annual change per quarter



Sources: Caixa's financial statements and Moody's Investors Service

Caixa is Brazil's leading housing bank, with a 69.3% share of the mortgage market, and according to the bank, the pace of mortgage growth remained strong in the third quarter. The segment has been supported by increased household savings as a result of reduced consumption during the pandemic and stable real estate prices.

Caixa also announced a rate cut on new residential mortgages funded by savings deposits, which will decline by up to 50 basis points. The bank will offer rates of between 6.25% and 8% plus the reference rate (TR[2]) per year, down from 6.5% to 8.5%. In addition, for new loans originated until December, the bank will extend a six-month grace period for the first payment. The interest rate cut is credit positive for Caixa because it will increase loan origination volume for the bank's core product in a segment where competition has intensified in the past month. Caixa's decision to lower mortgage rates is based on the decline in policy rates to a historic low of 2% per year, with low inflation that supports market expectations of a lower-for-longer interest rate environment.

Brazil's other largest banks, such as Itau Unibanco S.A. (Ba2/(P)Ba2 stable, ba2) and Banco Santander (Brasil) S.A. (Ba1/(P)Ba2 stable, ba2), recently announced mortgage rate cuts to increase their share in the low risk and underdeveloped housing market.

Endnotes

1 The bank ratings shown in this report are the bank's domestic deposit rating, senior unsecured debt rating and Baseline Credit Assessment.

2 Created in the 1990s, the TR is currently included in the yield calculation of government securities and personal savings deposits. The central bank sets the TR, which factors in the monthly weighted average of fixed-rate time deposits provided by 30 financial institutions.

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Curfew will hit France's hospitality and leisure sectors, a credit negative for their lenders

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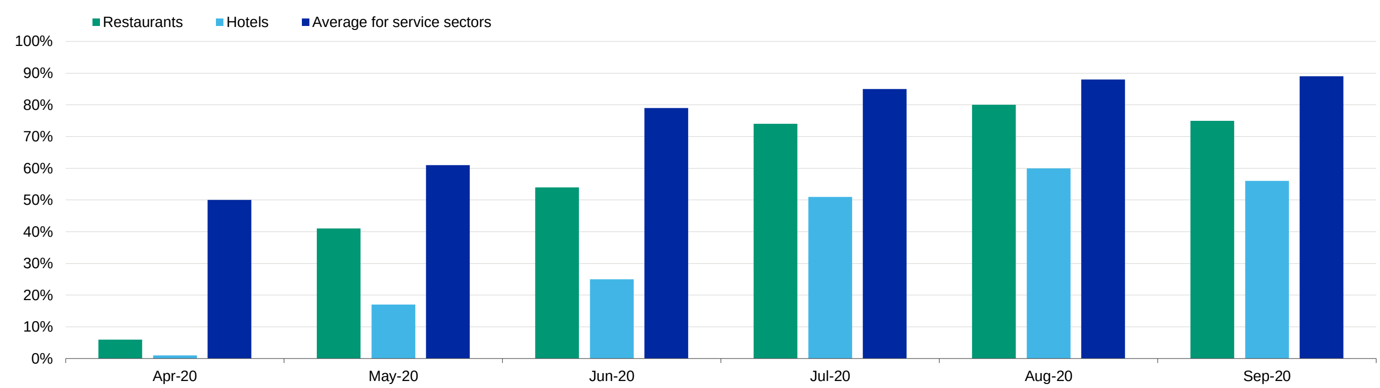
On 14 October, France's (Aa2 stable) President Emmanuel Macron announced the introduction of curfews in Paris and eight other major French cities starting 17 October for a period of four weeks that could be extended to six. The curfews aim to curb the spread of the COVID-19 pandemic, but will further hit the activity of hotels, cafes, restaurants and leisure companies, many of which have not yet recovered from the previous lockdown. For French banks, the curfews will be credit negative because the curfews will deteriorate the quality of loans made to these companies.

Hotels and restaurants were among the sectors the most severely affected by the two-month lockdown period from mid-March to mid-May (see exhibit). Based on monthly business surveys published by Banque de France, the central bank, hotels reported that their activities during this period collapsed to just 1% of their normal business volume, while restaurants' activities declined to 6%. The recovery since May has been more modest on average compared to other service sectors, with activities returning to only 56% of normal business activity for hotels and 75% for restaurants in September.

Based on business survey, hotels and restaurants are among the hardest hit service companies
Business leaders' assessment of monthly activity as a percentage of normal business volumes



Source: Banque de France

Hospitality and leisure companies represent 4% of total domestic corporate debt, which is equal to their contribution to 2019 GDP. These sectors together account for less than 2% of large French banks' loan books. Hence, the marginal cost of risk implied by worsened financial conditions at these firms will likely remain within limits that the banks can absorb with their recurring earnings.

Other mitigating factors include reinforced government support measures aimed at supporting the hotel and restaurant sector. These measures will at least partly alleviate these companies' liquidity tensions caused by further declines in activities during the curfews. As such, hotels, cafes and restaurants with fewer than 50 employees will benefit from allowances worth up to €10,000 from the Solidarity Fund[1] if their revenues fall by more than 50%, instead of 70% previously. The allowances will no longer be limited to 60% of companies' revenues. Losses in revenues will also entitle these companies to partial exemption from payroll taxes.

The state-guaranteed loans program[2] will be extended for companies of all sectors from year-end 2020 to 30 June 2021. The government and banks are contemplating extending the maximum repayment period for these loans to six years (after a grace period of one year) from five years currently in case of need. The determination of the maximum loan amount had already been changed earlier this year for companies in the tourism and restaurant sector to the sum of the three best monthly revenues of 2019 from a flat 25% of 2019 revenue to take into account the seasonality of their activities.

Endnotes

1 The Solidarity Fund aims to provide support of up to €1,500 (or up to €10,000 in certain cases) to small businesses.

2 The French state-guaranteed loan program has been in place since 25 March.

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Merger of Indonesian state-owned banks' Islamic subsidiaries will be credit positive for Islamic banking

On 12 October, Bank Negara Indonesia (P.T.) (BNI, Baa2 stable, baa3[1]), Bank Raykat Indonesia (P.T.) (BRI, Baa2 stable, baa2) and Bank Mandiri (P.T.) (Mandiri, Baa2 stable, baa3), together with their Islamic subsidiaries, signed a conditional agreement that will merge the subsidiaries to create the largest Islamic bank in Indonesia. This will be credit positive for Islamic banking in the country because it will create an Islamic entity with a significantly enlarged franchise that will drive overall efficiency and competitiveness of the sector.

BRI's publicly listed subsidiary, PT Bank BRIsyariah Tbk, will be the surviving entity, with BNI, BRI and Mandiri remaining as shareholders (although the shareholding details are yet to be disclosed). We estimate that the combined assets account for around 2% of total banking assets in Indonesia and 40% of the country's Islamic banking assets as of 30 June 2020. The proposed merger, which the parties expect to complete by February 2021, would create the seventh-largest bank in Indonesia by assets.

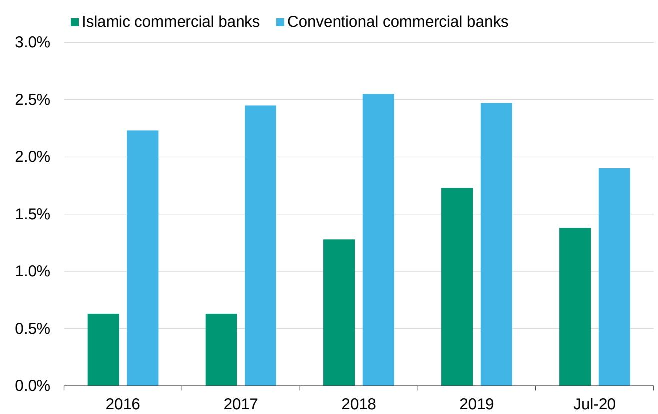
In addition to greater economies of scale, the enlarged franchise will help raise awareness of Islamic banking and spur further demand for shariah-compliant financial products and services. Moreover, it will also entice banking talents who have avoided working for smaller banks on pay and career concerns, a perennial problem among existing Islamic banks.

The surviving entity will also be able to diversify its financing mix and funding sources for risk management purposes. Because of its enlarged capital, it can expand more toward larger corporates, which are generally less risky compared to smaller companies. The bank will also have a better chance of accessing the global sukuk market with its bigger presence.

The proposed merger is part of the Indonesian government's plan to develop its Islamic economy. Despite having a large, Muslim-majority population, Islamic banking in Indonesia is underpenetrated compared to its regional peers such as Bangladesh, Brunei and Malaysia. The sector's assets accounted for only 6% of total banking assets as of 31 July 2020.

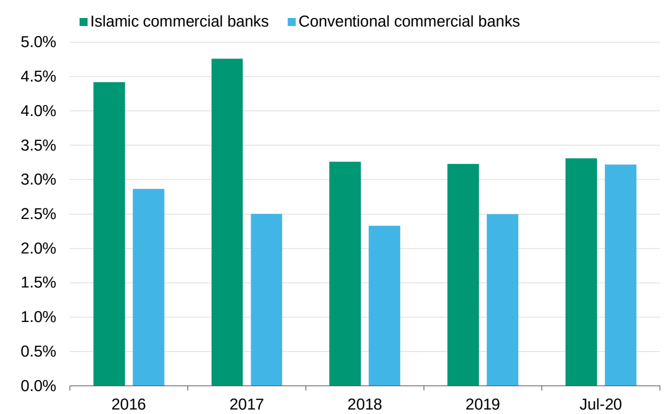
Among other reasons, the penetration of Islamic banking in Indonesia is low because the Islamic banks are individually small and therefore unable to generate strong awareness and demand for shariah-compliant financial products. They also lack the economies of scale that their conventional peers enjoy. Islamic banks are therefore less profitable than conventional banks as they are less cost-efficient and rely more on costlier time deposits for funding (Exhibit 1). Meanwhile, their asset quality has improved in recent years (Exhibit 2), although the coronavirus pandemic will likely disrupt the improving trend.

Exhibit 1
Islamic banks are less profitable than their conventional peers
Return on assets %



Note: Data for Islamic banks exclude sharia business units of conventional banks.
Source: Otoritas Jasa Keuangan

Exhibit 2
Asset quality of Islamic banks has improved in recent years
Nonperforming financing ratio %



Note: Data for Islamic banks exclude sharia business units of conventional banks.
Source: Otoritas Jasa Keuangan

Nevertheless, any deterioration in asset quality will be evident only in 2021, because of a one-year relaxation on debt restructuring – that allows restructured loans to be classified as current – introduced by the domestic financial regulator in March 2020.

Endnotes

1 The bank ratings shown in this report are the bank's deposit rating and Baseline Credit Assessment.

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Cboe's acquisition of Bids Trading is credit positive

Originally published on 16 October 2020

On 16 October, Cboe Global Markets, Inc. (A3 stable) announced that it will acquire Bids Trading, an operator of a dark pool. The acquisition is credit positive because it will reinforce Cboe's market share in US equities trading, particularly in the anonymous block trading segment. Although the transaction will be fully funded with debt, we expect Cboe's leverage to only increase to 1.4x-1.5x from 1.2x as of June 2020 upon the transaction's completion in early 2021.

Bids Trading generated $42 million in net revenue for the last 12 months that ended June 2020 and has a profitable and solid franchise that will further diversify Cboe's earnings and provide it with a solid footing in the growing off-exchange market. We expect Cboe's net revenue from proprietary products – which include SPX options and VIX options and futures – to represent around 38% of total net revenue after the transaction, down from around 40%, slightly reducing its concentration in these key products.

Bids Trading is a leader in executing block trades, which are orders for 10,000 shares or more. Trading large order sizes on a dark pool offers asset managers with a number of benefits, notably facilitating the matching of the orders with minimum market impact. This service is highly sought after by institutional investors and asset managers looking to execute large trades frequently and at low cost.

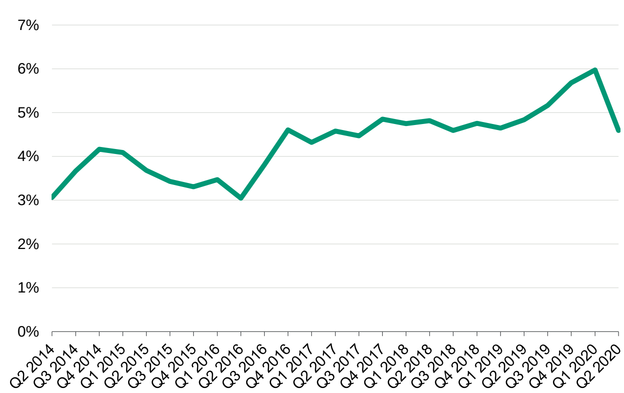
Cboe and Bids Trading are already partnering in Europe, where Cboe has licensed Bids Trading's matching engine technology to power Cboe's European block-trading platform. The Cboe/Bids Trading European connection carries over from Cboe's acquisition of Bats Global Markets, which had the same arrangement with Bids Trading in Europe. Bats itself was a dark pool in the US before becoming a licensed exchange and in February 2017 being acquired by Cboe.

Acquiring Bids Trading will be Cboe's second acquisition of a dark pool this year, the first being its purchase of MatchNow, a Canada-based alternative trading system. Dark pools are a type of off-exchange trading venue that institutional investors actively use because they provide anonymous execution and minimize market effects. Dark-pool trades remain subject to national market system regulatory requirements, chief among them that trades must be executed at or better than the national best bid-offer price – the price that corresponds to the most competitive, publicly visible resting order on so-called bright venues such as exchanges.

As of second quarter 2020, dark pools processed around 10% of all US equity trading volume. Bids Trading handles about 5% of US shares traded on dark pools and has the leading market position among US dark pools in block trades (see Exhibits 1 and 2).

Exhibit 1

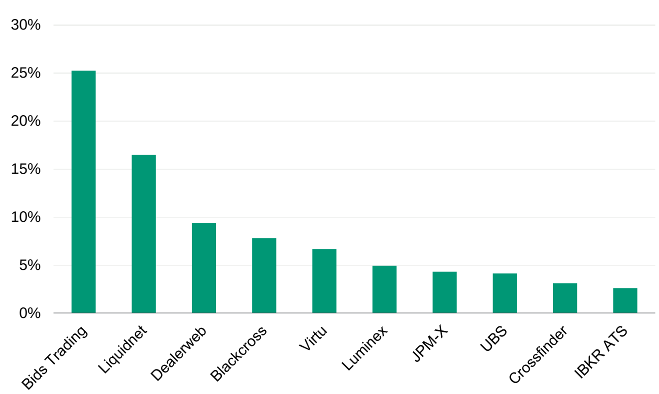
Bids Trading's market share among all dark-pool trading
Second-quarter 2014 to second-quarter 2020



Measured using count of shares traded
Sources: Financial Industry Regulatory Authority and Moody's Investors Service

Exhibit 2

Dark pool by market share for block volume traded as of August 2020



A block is defined as 10,000-plus shares
Sources: Financial Industry Regulatory Authority's OTC Transparency and Moody's Investors Service

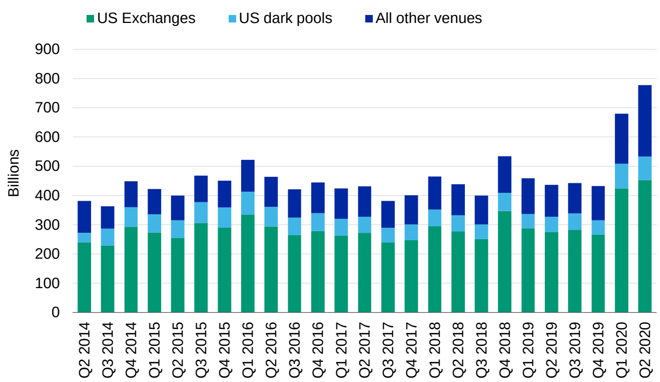
The acquisition will be the second prominent dark pool acquisition announcement this last week, the first being TP ICAP plc's [acquisition](#) of [Liquidnet Holdings, Inc.](#) (Ba3 review direction uncertain) for $575-$700 million.

The US off-exchange ecosystem has garnered tremendous growth and market-share gains during 2020, fueled by rising trading volumes across both institutional and retail investors (see Exhibits 3 and 4). Cboe's entry into the off-exchange trading segment provides it with the ability to compete on all venues, diversify its revenue and position itself for the possibility of an extended trend of [trading migration away from securities exchanges](#). The transaction will be subject to regulatory approval and Cboe plans to operate Bids Trading as an independently managed trading venue from Cboe's US securities exchanges.

Exhibit 3

Trading volumes increased significantly in 2020

Total shares traded



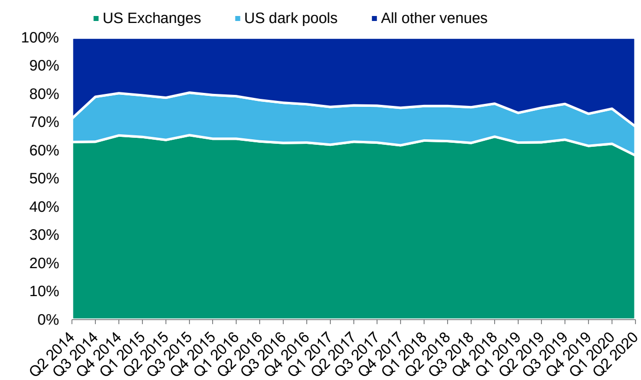
All other venues includes wholesalers and internalizers

Sources: Cboe Global Markets, FINRA and Moody's Investors Service

Exhibit 4

Market share of exchanges have declined

Total shares traded by category



Sources: Cboe Global Markets, FINRA and Moody's Investors Service

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Low for longer rates will intensify pressure on Spanish banks' margins

Originally published on 16 October 2020

Despite the prolonged period of low interest rates, Spanish banks' net interest margins have held up so far, as declining deposit costs and cheap access to European Central Bank (ECB) funding have counterbalanced low lending rates. However, we expect the pressure on margins to intensify as a result of the weak operating environment, the continued competition in the market and the limited room to decrease funding costs further. This will challenge Spanish banks' profitability, which was already modest, although better than the average for European peers. In line with the approach set out in our global report (see blue box below), we have reviewed five key aspects of the Spanish banking system to assess the impact of low rates on net interest margins and profitability.

Interest rates will stay low for longer. The coronavirus-induced economic contraction, and the monetary and fiscal stimulus deployed to combat it, will very likely lead to rates staying lower for longer than we previously anticipated.

Weak macroeconomic conditions will challenge banks' earnings. We expect banks' new lending will be very limited due to the uncertain macroeconomic outlook in Spain (-12.5% GDP contraction in 2020). These subdued business volumes, the continued pressure on margins and rising loan loss provisions will challenge banks' profitability.

Intense competition and limited room to reduce funding costs are further headwinds. Intense competition will continue to limit the ability of banks to increase loan spreads. In addition, banks have limited room to reduce the cost of deposits further, which represent the bulk of their funding. The issuance of more costly instruments to comply with the EU's minimum requirement for own funds and eligible liabilities (MREL) requirements will increase funding costs in the longer term.

Flattening yield curve will have a limited impact on banks' margins. A flatter yield curve will have relatively limited impact on Spanish banks' margins going forward, as they have on average a high exposure to floating-rate loans with a shorter average interest rate duration than that of their liabilities.

Overall pressure on margins will encourage mitigating actions. Banks are trying to diversify their revenue streams and somewhat reduce their high dependence on net interest income. They have also changed their portfolio mix with a shift toward more profitable business segments. Increased digitalisation will also add investment costs in the short-term, but we believe it will improve banks' efficiency in the long term.

Five key factors determine the impact of low rates on bank margins

In our report, Flat yield curves are key threat to bank margins as rates stay low for longer, we identify five key factors that influence the impact of low rates and flat yield curves on bank net interest margins (NIMs), a key component of their profitability. These are the operating environment, competitive dynamics, banks' funding structure, the gap between the duration of banks' assets and liabilities, and any mitigating actions that the banks take. These factors can make banking systems more or less vulnerable to low rates and flattening yield curves. The table below summarises how each of these factors affects the Spanish banking system.

FACTORS	PERFORMANCE TO DATE	UP TO NOW	}	LOOKING FORWARD	MOODY'S FORWARD-LOOKING VIEW
Overall Impact	Spanish banks' NIMs have been resilient so far despite low interest rates, although earnings have declined as a result of subdued lending activity.	●	↘	●	Pressure on NIMs will intensify as rates stay low for longer than previously anticipated, the operating environment deteriorates and competitive conditions continue in the market.
Operating Environment	Despite the robust real GDP growth in Spain during the 2014-19 period, its private sector has undergone significant deleveraging which has negatively impacted banks' earnings.	●	↘	●	Weak macroeconomic conditions in 2020-21 will make Spanish banks' profitability more vulnerable to the current low interest rate environment.
Competitive Dynamics	Intense competition is hindering the ability of Spanish banks to increase loan spreads.	●	↘	●	Competition will continue to add to margin and earnings pressure.
Funding Structure	Spanish banks have protected their NIMs so far from low rates by lowering the cost of their high share of deposit funding. Access to cheap ECB funding has also positively contributed to banks' NIM.	●	↘	●	ECB funding will continue to positively contribute to banks' NIM. On the negative side, the scope for further reductions in deposit funding costs is severely limited, which will put pressure on banks' NIMs.
Maturity Gap	Prolonged low rates have put pressure on Spanish banks' NIMs as they have on average a high exposure to floating-rate loans with semiannual or annual repricing.	●	↗	●	Flattening yield curves unlikely to impact floating-rate loan margins, although any reinvestment of maturing liquidity portfolios or other long-term loans could be a drag on overall margins.
Mitigating Actions	Spanish banks have changed their portfolio mix and tried to diversify revenue sources to support profit. They have also tried to bring down costs. A very low cost of credit has also supported banks' profitability over the last two years.	●	↓	●	Spanish banks will continue to focus on cost reduction, although regulatory and compliance costs may constrain any further efficiency gains. Increased digitalisation will add investment costs, but will improve banks' efficiency in the long-term.

● POSITIVE The factor puts upward pressure on NIMs as rates stay lower for longer (LFL).	● MODERATELY POSITIVE The factor puts some upward pressure on NIMs in an LFL environment.	● NEUTRAL The factor is neutral for NIMs in an LFL environment.	● MODERATELY NEGATIVE The factor puts some downward pressure on NIMs in an LFL environment.	● NEGATIVE The factor puts pressure on NIMs in an LFL environment.

Click here for the full report.

CREDIT IN DEPTH

US banks' asset quality performance is unexpectedly strong so far despite weak employment

Originally published on 15 October 2020

In this report,[1] we provide key take-aways from the quarterly consumer loan results of the largest US retail banks.[2]

Consumer loan asset quality remained solid in Q3 despite still elevated unemployment and the July expiration of the $600 expansion in unemployment benefits. This unexpectedly strong performance reflects forbearance programs, substantial consumer fiscal stimulus and reduced consumer spending.

However, with unemployment likely to remain high, we expect consumer asset quality to deteriorate over coming quarters, with credit card and auto loan charge-offs to peak in the second half of 2021 at 50%-75% above 2019 levels of around 3.5% for the large credit card lenders and around 0.75% for the large bank auto lenders. We expect residential mortgage asset quality to deteriorate far less, given overall solid underwriting quality since the financial crisis and only a modest forecast decline in home prices after years of solid appreciation.

» **Credit card charge-offs were 3.30% in Q3 2020, down six basis points (bps) from Q3 2019.** With retail spending down and consumers using some of the fiscal stimulus to pay down higher-cost debt, card balances declined 12.3% from Q3 2019.

» **Auto loan charge-offs declined 0.68% from Q3 2019 to just 0.20%**. The exceptionally strong Q3 performance in large part reflected forbearance plans that materially reduced the pipeline of pre-repossession delinquencies. Performance was also aided by stimulus, rising used car prices, and borrowers' reduced spending and financial discipline. With new and used car sales picking up, annual growth increased to 4.9%.

» **Residential mortgage charge-offs increased 11 bps from a year ago but remain very low.** Banks' residential mortgage portfolios declined 1.8% versus Q3 2019.

Charge-offs down for auto and credit cards; up for residential mortgages
Average year over year (YoY) change in charge-offs and three-year loan growth rates

	Average change in chargeoffs			Average loan growth rate		
	Q3 2020 YoY Increase	Q2 2020 YoY Increase	Q3 2019 YoY Increase	Q3 2020 YoY growth rate	Q2 2020 YoY growth rate	3-year annualized
Credit Cards	-0.06%	0.24%	0.08%	-12.3%	-10.3%	-0.7%
Auto Loans	-0.68%	0.09%	-0.17%	4.9%	3.6%	-0.2%
Resi Mortgages	0.11%	0.07%	-0.07%	-1.8%	-0.5%	-0.4%

Averages are weighted by Q2 2020 loan balances. The Q3 auto loan averages above exclude Bank of America Corp., which has not yet reported third quarter auto loan detail. The Q3 residential mortgage charge-off average above excludes Citigroup Inc., which has not yet reported third quarter residential mortgage loan charge-off detail.
Sources: Company disclosures and Moody's Investors Service

Click here for the full report.

Endnotes

1 Each quarter we publish three pulse of the US consumer reports analyzing: consumer loan performance in the current quarter for the largest US banks, senior loan officer survey results and the New York Federal Reserve Bank's Household Debt and Credit report results.

2 American Express Company (AXP, A3 negative); Bank of America Corporation (BAC, A2 stable); Capital One Financial Corporation (COF, Baa1 negative); Citigroup Inc. (C, A3 stable); Discover Financial Services (DFS, Baa3 stable); JPMorgan Chase & Co. (JPM, A2 stable); U.S. Bancorp (USB, A1 stable); Wells Fargo & Company (WFC, A2 stable).

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