MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

Weekly Market Outlook Contributors:

Moody's Analytics/New York:
John Lonski
Chief Economist
1.212.553.7144
john.lonski@moodys.com

Yukyung Choi
Quantitative Research

Moody's Analytics/Asia-Pacific:
Shahana Mukherjee
Economist

Moody's Analytics/Europe:
Ross Cioffi
Economist

Moody's Analytics/U.S.:
Ryan Sweet
Economist

Michael Ferlez
Economist

Editor
Reid Kanaley

Contact: help@economy.com

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The Long View

Full updated stories and key credit market metrics: Corporate bond yields and spreads support a constructive pace for business borrowing.

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Credit Spreads	Investment Grade: Year-end 2020's average investment grade bond spread may be close to its recent 132 basis points. High Yield: The high-yield spread may be wider than its recent 518 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 September 2019's 3.4% to September 2020's 8.5% and may average 9.8% 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 51.0 for IG to a record 1.977 trillion, while high-yield supply may rise 25.9% to a record high $545 billion.

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Credit spreads, CDS movers, issuance.

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Moody's Capital Markets Research *recent publications*

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

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Credit Markets Review and Outlook

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

Credit Disputes Equities Gloom

The latest sell-off of equities anticipates a meaningful widespread drop in business sales brought on by COVID-19's second wave. Whether such a drop materializes remains to be seen.

As of October 29's afternoon trading, the market value of U.S. common stock had sunk by 4.0% since the close of Friday, October 23. Nevertheless, since the equity market formed its current cycle bottom on March 23, there have been several market slumps of comparable severity. For each of the post-March 23 slumps, the U.S. equity market managed to return to its current rising trend.

As recently as the four-days-ended September 8, the U.S. equity market had sunk by an even deeper 5.8%. However, by October 8, U.S. equities closed 4.6% above September 8's close.

Worry over a loss of business activity due to resurgent COVID-19 triggered the post-October 23 sell-off of U.S. equities. The number of new COVID-19 cases and related hospitalizations have risen sharply over the past several weeks.

Medical professionals claim that a second wave of COVID-19 will not exact the same toll in terms of hospitalizations and deaths if only because of what medicine has learned about treating the virus since it first struck. Thus, unless the virus mutates in a manner that leaves healthcare professionals at a loss regarding treatment, the U.S. may avoid the broad shutdowns that inflicted so much economic and financial damage in 2020's second quarter.

Election-Year Risks Weigh on Equities

Not only are COVID-19 risks on the rise, but uncertainties surrounding next week's elections now weigh on markets, businesses and consumers. More uncertainty will suppress hiring and capital spending by businesses, as well as household spending.

Some fret over heightened trade-related risks that may follow from a Trump victory. Others worry about the host of regulatory and tax-related uncertainties that may follow from a Democratic Party sweep. Of course, November 3's victors will have every opportunity to adjust their proposals in order to facilitate further declines by the unemployment rate that will require at least a steady equity market.

Treasury Bond Market Has Yet to Warn of a Major Slowdown

Thus far, debt markets have yet to signal an impending contraction of business activity. Despite the severity of late October's equity market plunge, the 10-year Treasury yield hardly moved from October 23's 0.84% to 0.83% as of October 29's afternoon. Had the $1.4 trillion drop in the market value of U.S. common stock since Friday, October 23 unambiguously signaled a major slowdown, the 10-year Treasury yield would be no greater than 0.65%. As inferred from the muted response of Treasury yields to lower share prices, the latest plunge by equities probably overstates any forthcoming deceleration of business activity.

Once Again, High-Yield Spread Shows Muted Response to Ultra-High VIX

One of the salient features of the recent drop by share prices was a jump by the VIX from October 23's already well above average 27.6 points to a recent 36.5 points. Nevertheless, the corporate credit market, thus far, has effectively shrugged off the dire warnings implicit to an ultra-high VIX. Unlike the latest VIX that exceeded 96% of its prior readings since September 2003, the recent high-yield bond spread of 510 basis points topped a smaller 62% of its prior reading. The equity market's high anxiety differs from the high-yield bond market's milder worry.

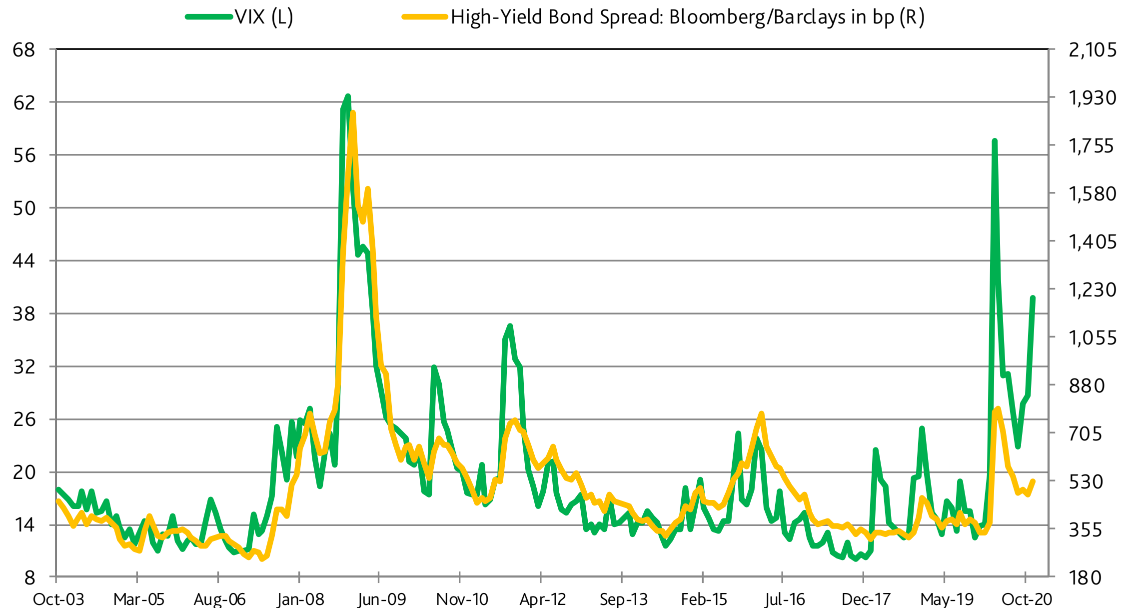
Ordinarily, the just mentioned 12.3-point rise by the VIX is accompanied by a 120 bp widening of the high-yield bond spread. However, the latest widening of Bloomberg/Barclays high-yield bond spread was a much thinner 42 bp, or from October 23's 468 bp to October 28's 510 bp. The high-yield spread barely exceeds its 495 bp average of August-September 2020 and is well under June-July's 567 bp average.

Credit Markets Review and Outlook

Since the end of 2009, there have been six distinctive jumps by the VIX which were not accompanied by a commensurate widening of the high-yield bond spread. Following each of the six episodes, the VIX receded and the high-yield bond spread either stabilized or narrowed. The muted response by the high-yield bond spread to the latest upswing by the VIX implies the corporate credit market is less than convinced that the recent surge in equity market volatility is the harbinger of a darker outlook for corporate earnings.

As statistically inferred from its highly significant long-term relationship with high-yield bond spread, the recent VIX of nearly 37 points favors a 1,020 bp midpoint for the high-yield spread, which doubles the actual high-yield spread of 510 bp.

Figure 1: High-Yield Bond Spread Has Yet to Confirm the Heightened Anxiety Implicit to a VIX of 37 points
sources: CBOE, Bloomberg, Barclays Capital, Moody's Analytics

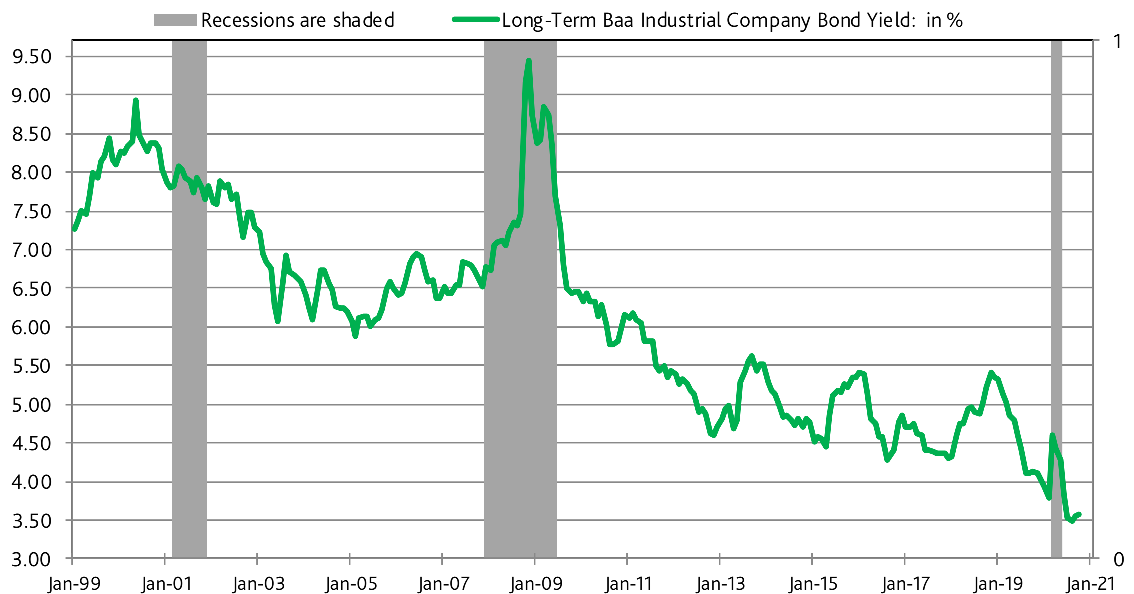


Even Baa-rated Yields Fell Despite Equities' Extreme Volatility

On balance, investment-grade corporate bonds performed well amid the latest equity-price plunge. From October 23 to October 28, Bloomberg/Barclays investment-grade bond yield dipped from 2.03% to 1.98%. Even medium-grade corporates managed to avoid a jarring climb by yields. For example, Barclays Baa corporate bond yield fell from October 23's 2.36% to October 28's 2.34%.

Moreover, Moody's Analytics long-term industrial company bond yields fell by 6 bp for single-A (to 2.79%) and five bp for Baa (to 3.57%) over the four-day span. It's time to worry more about prospects for corporate earnings when the business-cycle-sensitive Baa industrial company bond yield increases significantly amid a plunging U.S. equity market.

Figure 2: Long-Term Baa Industrial Company Bond Yield Has Been Indifferent to Recent Equity Market Plunge
sources: NBER, Moody's Analytics



Third-quarter Real GDP Far Exceeded Early August's Forecast

The substantial upward revision of various projections of third-quarter real GDP growth highlights the difficulty of forecasting amid an economic disruption dissimilar to anything of the last 100 years. We were warned of the difficulty of forecasting in the current environment by the very wide dispersion of third-quarter real GDP projections of just several months back.

For example, early-August 2020's Blue-Chip consensus forecast of a 19% annualized quarterly increase by third-quarter real GDP was bounded by a 10.5% average increase by the 10 lowest forecasts and a 28.0% average increase by the 10 highest forecasts. Prior to COVID-19, such ultra-wide gaps were nonexistent.

As it turns out, the initial estimate of third-quarter real GDP showed a much faster annualized sequential growth rate of 33.1%. Absent a mammoth $1 trillion annualized widening of the trade deficit, the rest of real GDP, or real gross domestic spending, expanded by an even faster 36.8% annualized from the second to third quarter.

In addition to a record widening of the trade deficit, third-quarter U.S. economic growth also overcame real government spending's unexpectedly low 4.5% annualized sequential contraction, wherein federal spending fell by 6.2% and state and local government spending dipped by 3.3%. Thus, it was the 48.8% annualized sequential lift-off by U.S. private-sector spending that gets all the credit for the lively third quarter rebound. Earlier, private-sector spending suffered back-to-back annualized declines of 36.1% in the second quarter and 7.8% in the first quarter.

Each of the three major categories of third-quarter private-sector expenditures exceeded lofty expectations. More specifically, the annualized second- to third-quarter growth rates were 40.7% for real consumer spending, 20.3% for real business capital spending, and a staggering 59.3% for real residential investment spending.

The major takeaway from the pronounced upward revisions third-quarter real GDP growth is that once COVID-19 risks have been sufficiently reduced, the return to trend by U.S. business activity may be surprisingly brisk. The third-quarter's record-smashing sequential growth rate is testimony to the private-sector's considerable resiliency.

Core Capital Goods Orders Have Best Month since September 2014

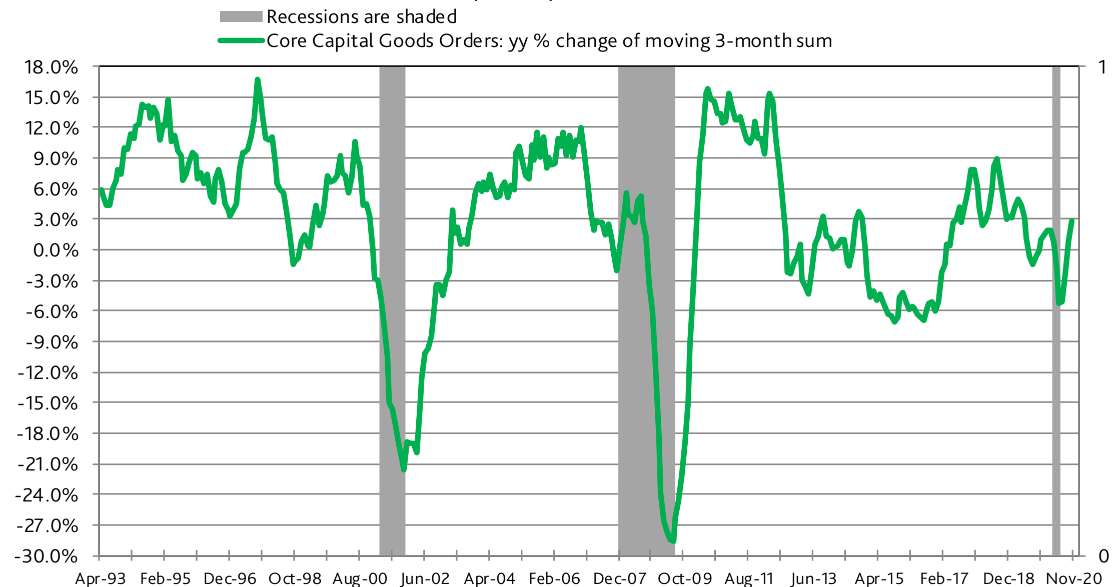
Forward looking core capital goods orders bode well for fourth-quarter outlays on capital equipment. Core capital goods orders have more than fully recovered from a sort-lived COVID-19 inspired slump.

Credit Markets Review and Outlook

September's 1.0% monthly increase marked the fourth consecutive monthly advance. In fact, October 2020's seasonally adjusted core capital goods orders posted their highest reading since September 2014.

After contracting by 19.5% annualized from 2020's first- to second-quarter, core capital goods orders expanded sequentially by 35.6% annualized in the third quarter. Before seasonal adjustment, core capital goods orders year-over-year percent change rebounded from their 5.0% drop of the second quarter with a 2.9% increase in the third quarter.

Figure 3: Core Capital Goods Orders Have Held Up Well Compared to Previous Two Recessions
sources: Census Bureau, NBER, Moody's Analytics



Fed District Banks' Regional Factory Indices Post Highest Average since July 2018 in October

Manufacturing's expansion continues. Because of COVID-19, consumers have switched from the consumption of experiences to the consumption of things.

The unweighted average of regional manufacturing indices compiled by five Federal Reserve District Banks—New York, Philadelphia, Richmond, Dallas and Kansas City—rose from September's 16.9 points to October's 22.9 points for its highest reading since the 24.2 points of July 2018.

If the U.S. can avoid another huge loss of business activity to resurgent COVID-19, fourth-quarter 2020's real GDP may grow at an annualized sequential pace of between 3% and 4%, which is fast enough to re-employ more in the way of now idle productive resources.

Fed's Municipal Liquidity Facility has plenty of 'dry powder'

According to the Fed, "the Federal Reserve established the Municipal Liquidity Facility (MLF) to help state and local governments better manage cash flow pressures in order to continue to serve households and businesses in their communities". In other words, the MLF intends to help state and local governments bridge cash flow shortfalls stemming from the loss of tax revenues and increases in health-related expenditures.

The facility has the authority to purchase up to $500 billion of short-term debt from state and local governments. Despite the many warnings of budgetary crises among state and local governments, only $1.65 billion, or 0.3%, of the $500 billion MLF was utilized as of October 21.

Any administration that wants to ease the financial pressures faced by state and local governments will want to avoid pursuing legislation that reduces share prices and, thereby, worsens the underfunding of pensions. As of 2020's second-quarter, state and local government pension funds held $2.9 trillion of equities and mutual fund shares, which approximates 59% of their liquid financial assets held by state and local government pensions.

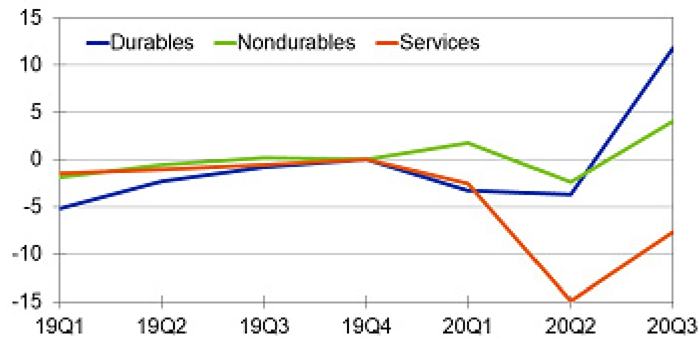
The Week Ahead – U.S., Europe, Asia-Pacific

THE U.S.
By Ryan Sweet of Moody's Analytics

Now, the Hard Work

The U.S. economy bounced back in the third quarter after COVID-19 and actions taken to contain it caused an enormous contraction in the second quarter. Real GDP rose 33.1% at an annualized rate in the third quarter, by far the largest on record. Growth in the third quarter was weaker than we expected but stronger than consensus expectations. Still, the economy hasn't recovered, as GDP is 3.5% below its peak in the fourth quarter of 2019. Also, the output gap, or the difference between actual GDP and potential output as a share of GDP, was -3.5% in the third quarter.

The economy got a boost in the third quarter from reopening and fiscal stimulus. Real consumer spending soared in the third quarter, rising 40.7% at an annualized rate, adding 25.3 percentage points to GDP growth. The composition of spending shifted significantly, favoring goods. Real spending on durable goods is 11.9% above its level in the final three months of last year. However, real spending on services is still 8% below that seen in the fourth quarter of last year. This isn't surprising, as services have been hit hardest by COVID-19 and a complete recovery will take time and could require broad-based distribution of a therapeutic or vaccine.



Business investment was also strong in the third quarter. Real business investment in equipment rose 70.1% at an annualized rate, adding 3.3 percentage points to GDP growth. Nonresidential structures investment declined along with intellectual property. Inventories boosted GDP by 6.6 percentage points in the third quarter.

Residential investment increased 59.3% at an annualized rate, adding 2.1 percentage points to third-quarter GDP growth. Housing led the economy out of this recession as low mortgage rates, pent-up demand, and demographics helped boost sales and led to a surge in construction. Separately, net exports were a bigger drag on growth than we expected, shaving 3.1 percentage points of growth in the third quarter.

Third-quarter GDP is backward-looking, but some components could provide clues to the economy's momentum. In an approach similar to that of the Council of Economic Advisers, we used simple regressions to gauge the ability of various components of GDP to predict the economy's performance the following quarter, measured by the R-squared. Since 1948, the category of final sales to private domestic purchasers—GDP less inventories, exports and government spending—has done the best but is far from perfect. This jumped in the third quarter and is within shot of its previous peak. This could be less useful, as the economy's performance will be heavily influenced by the coronavirus.

The strength in GDP may seem at odds with the labor market. However, the discrepancy is explained by strong productivity growth. Though we are on track for GDP next year to recoup all the drop during the recession, the labor market will take longer. Employment won't return to its pre-COVID-19 peak until late 2023 or early 2024. Still, the recovery from this recession will be faster than that following the Great Recession. The catalysts for the recession factor into the strength of the subsequent recoveries; recessions that include a financial crisis historically correlate with slower recoveries.

We hope the policy implications of third quarter GDP growth are minimal. The strong rebound won't deter the Fed from keeping its foot on the accelerator, but the risk is that the rebound reduces the urgency among lawmakers to pass fiscal stimulus. The economy needs additional fiscal support, as the easiest part of the recovery, the reopening of the economy, is behind us.

Our high-frequency GDP model gets a B- for the third quarter. The forecast error was 2.8 percentage points, significantly more than its historical average, but these are not normal times. The

model did will on consumer spending, equipment spending, and residential and nonresidential investment. The bulk of the model's forecast error was in net exports and government spending. The latter has also been difficult to pin down since there is little monthly source data.

Next Week

The Federal Open Market Committee will be meeting midweek, and we will release our estimate of October employment prior to the Labor Department numbers that are due next Friday. Risks to the labor market outlook are weighted heavily to the downside. Initial claims for unemployment insurance benefits fell more than we anticipated this week but remain very high. The unemployment rate stood at 7.9% for September.

The October release will be preceeded by ADP's private payroll report on Wednesday and the Challenger layoff report on Thursday. Other important economic indicators will include the ISM indexes, construction spending, factory orders, international and wholesale trade.

EUROPE

By Ross Cioffi of Moody's Analytics

BoE Is Likely to Hold Off

The most important release in the week ahead will be the Bank of England's monetary policy decision for November. However, we aren't expecting a policy change by the BoE at this meeting. The Bank is likely to hold off on stimulus until there is greater clarity on what will happen with Brexit and how the lockdown situation will develop.

We expect euro zone retail sales to fall 2% m/m in September following a 4.4% increase in August. Although the European economy was fine during the month, including improvements in the labor market in some of bloc's biggest economies, we don't think retail sales could have kept up the pace set in August. August sales were boosted by late-seasonal discounts, so September may suffer a negative base effect from the end-of-summer sales. This is why we think that retail sales in Italy will backtrack 2% m/m following an 8.2% jump in August.

We expect German industrial production grew just 0.2% m/m in September after a 0.2% decline in August. The September manufacturing PMI jumped to 56.4 during the month from 52.2 in August. Factory orders were also up on the previous month. But we aren't expecting particularly strong growth given underlying weakness in the economy from the pandemic. Meanwhile, we think Spanish industrial production lost ground in September, likely falling 6% below year-ago levels, after being down 5.7% in August.

Finally, we think Russian inflation sped up in October to 3.8% y/y from 3.7% on account of the sustained weakness in the ruble. A weak ruble causes prices to rise on many imported consumer goods. Meanwhile, surging wheat prices globally will push domestic food prices up as well.

	Key indicators	Units	Moody's Analytics	Last
Thur @ 12:00 p.m.	Euro Zone: Retail Sales for September	% change	-2.0	4.4
Thur @ 2:00 p.m.	U.K.: Monetary Policy and Minutes for November	%	0.1	0.1
Fri @ 9:00 a.m.	Germany: Industrial Production for September	% change	0.2	-0.2
Fri @ 10:00 a.m.	Spain: Industrial Production for September	% change	-6.0	-5.7
Fri @ 11:00 a.m.	Italy: Retail Sales for September	% change	8.2	-2.0
Fri @ 6:00 p.m.	Russia: Consumer Price Index for October	% change yr ago	3.8	3.7

Asia-Pacific

By Shahana Mukherjee of Moody's Analytics

Pandemic Could Dampen South Korea's Auto Exports

South Korea's exports likely contracted by 2.5% in yearly terms in October after a 7.7% rebound in September.

External demand has eased for South Korea, and the economy has also benefitted from the surging tech demand, especially in light of stricter restrictions on Chinese tech companies. The sharp rebound in September was also supported by a pickup in auto exports, though it remains to be seen if the turnaround is sustainable at a time when daily COVID-19 caseloads in the U.S. have increased and parts of Europe have been put under renewed restrictions. We expect the tech-led pickup to have extended through October, though the aggregate is likely to have been moderated by a weaker increase in auto and other manufacturing sales.

Indonesia's GDP is likely to have contracted by 4.5% in yearly terms in the September quarter, following a 5.3% decline in the prior quarter. Indonesia is among Southeast Asia's economies worst hit by the COVID-19 pandemic. The GDP contraction in the June quarter was led by a concurrent decline in domestic demand as the economy was placed under strict restrictions as well as in external conditions as exports slumped due to large-scale shutdowns in major economies. Even though the strain on its external position has eased since July, the intensifying domestic outbreak and the lockdown in Jakarta since mid-September are expected to have weighed heavily on domestic demand, giving rise to another quarter of contraction.

Australia's exports likely contracted by a narrower margin by 2.5% in monthly terms in September following a 4% decline in August. Despite recent improvements in overseas sales anchored by higher commodities demand from China, volatility in nonmonetary gold shipments and some weakness in mineral fuel exports have dampened the pickup. We expect higher gold shipments to have capped the decline in September, though the pace will still likely be moderated by generally weaker demand elsewhere.

	Key indicators	Units	Moody's Analytics	Confidence	Risk	Last
Mon @ 11:00 a.m.	South Korea Foreign Trade for October	US$ bil	7	3	↓	8.9
Tues @ 10:00 a.m.	South Korea CPI for October	% change yr ago	0.8	3	↓	1
Tues @ 2:30 p.m.	Australia Monetary Policy for October	%	0.25	3	←	0.25
Wed @ 11:30 a.m.	Australia Retail Sales for September	% change	-1.5	3	↓	-4
Thur @ 10:30 a.m.	Australia Foreign Trade for September	A$ bil	3.5	3	↓	2.6
Thur @ 3:00 p.m.	Indonesia GDP for Q3	% change yr ago	-4.5	4	↑	-5.3

The Long View

Corporate bond yields and spreads support a constructive pace for business borrowing.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
October 29, 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 exceeded its 116 basis-point median of the 30 years ended 2019. This spread may be no wider than 135 bp by year-end 2020.

The recent high-yield bond spread of 518 bp is thinner than what is suggested by the accompanying long-term Baa industrial company bond yield spread of 202 bp and the recent VIX of 36.4 points. The latter has been historically associated with a 988-bp midpoint for a composite high-yield bond spread.

DEFAULTS

September 2020's U.S. high-yield default rate of 8.5% was up from September 2019's 3.4% and may approximate 10.9% on average by 2021's first quarter.

US CORPORATE BOND ISSUANCE

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 43.7% for IG and grew 21.4% for high yield.

Second-quarter 2020's worldwide offerings of corporate bonds revealed annual surges of 69% for IG and 31% for high-yield, wherein US$-denominated offerings increased 142% for IG and grew 45% for high yield.

Third-quarter 2020's worldwide offerings of corporate bonds revealed an annual decline of 6% for IG and an annual advance of 44% for high-yield, wherein US$-denominated offerings increased 12% for IG and soared upward 56% 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 increases for 2020's worldwide corporate bond offerings are a 15.9% for IG and 19.6% for high yield.

US ECONOMIC OUTLOOK

Unacceptably high unemployment and other low rates of resource utilization 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 and election year risks recede, wider credit spreads are possible.

Europe

By Ross Cioffi of Moody's Analytics
October 29, 2020

GERMANY AND FRANCE

Social distancing measures are tightening in Europe as cases continue to mount and hospitalizations pick up at a faster pace. In response, Germany and France have imposed the harshest restrictions since last spring.

France, which has seen the worst of the second wave so far, has also introduced the most restrictive lockdown. Similar to last spring, the government has closed bars, restaurants and nonessential shops, while travel within France will be limited and people will need to show documentation when leaving home. The measures will last until at least 1 December. Germany's restrictions, which last until at least 2 December, shut recreational and entertainment facilities, closed hotels for tourist purposes, and shuttered restaurants and bars except for takeout; retail will remain open, but with strict social distancing requirements.

These restrictions will weigh heavily on GDP in the fourth quarter, and in the case of France they could lead to another contraction in output, albeit relatively small. There are three important differences between these lockdowns and those from last spring, however. Factories, construction sites and EU borders will remain open. This could change quickly, however, if the new lockdown measures don't lower the infection rate. But for now, this means that we will largely avoid the crushing supply disruptions seen last spring. Private demand will be much worse off than before, inevitably showing up in next quarter's GDP figures. But this won't be enough to create the same double-digit hits to production and consumption that shutting down factories and stopping trade for a month will.

At least both France and Germany have promised new stimulus for affected businesses. Although debt sustainability issues will emerge in the future, public stimulus measures are now preventing a catastrophe in Europe. New support will be necessary to stave off a spike in unemployment, but few businesses will be able to survive a second lockdown, so we expect unemployment to pick up again.

Although the European Central Bank left its monetary policy unchanged in October, the darkening outlook has it seriously thinking to expand measures at the November meeting.

EUROZONE

The euro zone bank lending survey for the third quarter was released Tuesday. As expected, lending conditions tightened significantly from the second quarter. On net, 19% of banks reported that they tightened credit standards to firms relative to the second quarter. This is a whopping increase from 1% in the second quarter and from the historical average of 9% since the survey started in 2003. The low cost of capital helped ease standards, but a heightened perception of risks, lower risk tolerance, and a worsening outlook on the economy caused more banks to tighten. Banks had already noted in the previous survey that they expected to toughen standards in the second half of the year as stimulus measures began winding down.

Loans to households and firms stayed strong in September, though. Loans to households rose 3.1% y/y during the month, adding to the 3% increases in July and August. Loans to companies rose by 7.1% y/y in September, the same as in August. The current loan growth isn't associated with a hot economy; monetary supply is growing because stimulus policies like state-backed credit guarantees and the European Central Bank's third targeted long-term repo operation scheme (TLTRO III) are allowing private banks to continue making loans. Back in June, 78% of banks surveyed had participated in TLTRO III, whereas in October, 35% of banks were using TLTROs and 17% planned on participating in the future.

The good news is that, despite the significant third-quarter tightening and expectations that it will continue in the fourth quarter, standards remain much looser than they were in the previous crisis. From the last quarter of 2007 to the first quarter of 2009, an average of 52% of banks per quarter reported that they tightened standards. Despite today's grave circumstances, massive stimulus and past macroprudential reforms are keeping credit supply flowing.

Asia Pacific

By Shahana Mukherjee of Moody's Analytics
October 29, 2020

SOUTH KOREA

A conditional recovery is underway for South Korea. The economy marked a notable comeback in the September quarter, with GDP rising by 1.9% in quarterly terms, following a 3.2% plunge in the prior quarter. Exports rebounded with a 15.6% quarterly increase in September, following a 16% plunge in the prior quarter, while government consumption increased by 0.1% after rising 1.1% in the prior quarter. However, fixed investment contracted by a sharper 1.9% over this period (after a 0.4% decline in the June quarter), while private consumption declined by 1.1% following a 1.5% pickup in the prior quarter.

The rebound for the trade-reliant economy was stronger than expected, and it pulled the economy out of its first technical recession since 2003.

A combination of factors has allowed South Korea to weather the COVID-19 storm. The return to growth was largely driven by the rebound in exports from the lows in the prior quarter, which came on the back of a surge in global tech demand and recovering production in China. South Korean manufacturing recorded a comeback with 7.6% quarterly growth after plummeting 8.9% in the prior quarter. At the same time, the government's fiscal push has aided domestic spending through the crisis, even though its contribution was relatively weaker during the third quarter.

Setback in consumer spending

It was the setback in consumer spending, however, that weighed on the domestic recovery, but this was largely due to the resurgence of domestic infections, which peaked around the end of August and led to the reimposition of social distancing rules. An effective containment of the second wave also meant that the loss in domestic demand, and eventually, domestic output, was capped at a relatively low level.

Even though South Korea's economy appears to be on course for recovery and is well ahead of most of its regional counterparts, the reliability of this recovery hinges on various factors. Chief among these is the evolution of the health crisis, domestically and abroad. On the domestic front, to the extent that new caseloads stay low, consumer spending will see a stronger revival over the December quarter, and likely will be aided by another fiscal push, which can strengthen the growth momentum.

However, the chances of sustaining the trade-led recovery are lower in the wake of rising global infections, which have led to the reimposition of restrictions across parts of Europe. With winter approaching, an acceleration in infections remains a key downside risk, which can moderate the net gains for South Koreas' exporters. The country's chipmakers are well-placed to continue leveraging on the increased dependency on technology as well as the on the tech battle against Chinese tech companies, but a more drawn-out revival in other segments such as auto and manufactured goods' industries as a result of the new Europe-centred restrictions will likely weaken the net external position in the short term.

A stronger won

A stronger won also presents a short-term downside risk for domestic exporters, but intervention by the Bank of Korea is likely to cap the impact on export competitiveness and revenues. Further, how U.S.-China trade dynamics evolve after the U.S. elections will have sizeable implications for global trade, and particularly for South Korea, given the latter's dominant position in the global tech industry and its heavy trade reliance on China.

The COVID-19-induced recession has weakened economic fundamentals, so the return to growth has not reduced the need for policy support. Employment conditions have deteriorated considerably, weighing acutely on temporary workers in services-oriented industries. The number of unemployed people rose by 13.6% in September, taking the jobless rate to 3.9%, up 0.5 percentage point from August.

Even though the government has mobilised significant resources through four supplementary budgets, additional support may be required in the near term to aid job creation and protect household purchasing power. Years of fiscal prudence has meant that the South Korean government is still relatively better

positioned than most countries to accommodate further fiscal expansion, despite its rising deficit (likely to reach 4.4% of GDP in 2020, from 0.7% in 2019), should the shortfall in domestic demand persist. We expect an extended phase of fiscal support through the first half of 2021, while monetary policy complements these efforts through a conducive low-cost borrowing and high-liquidity environment.

Overall, the South Korean economy is gradually recovering after the second wave, but the many risks arising from its exposure to global volatility are expected to moderate the revival through early 2021. Our forecast is for real GDP to contract by 1.1% in 2020, but strengthening external headwinds could cause a sharp setback through the December quarter.

Ratings Round-Up

U.S. Upgrade Trend Continues

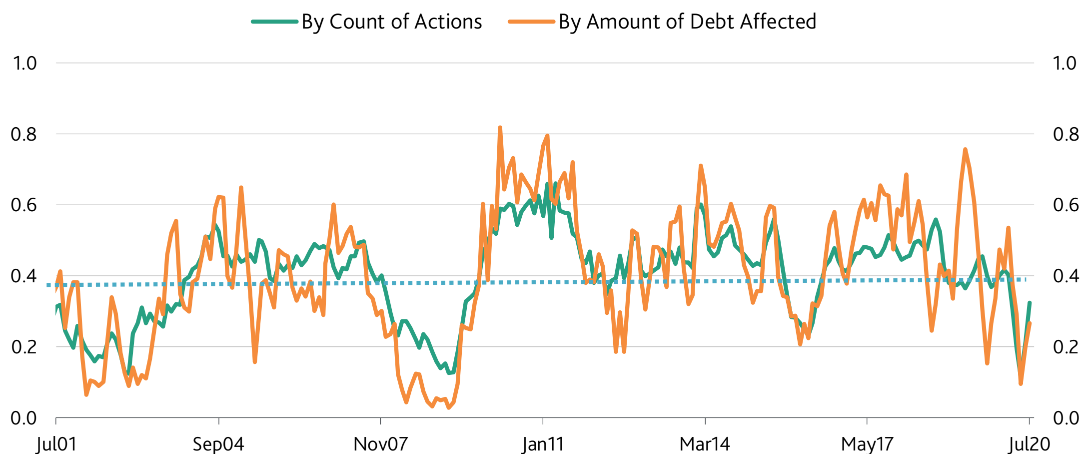
By Michael Ferlez

U.S. rating change activity finished the latest period mainly credit positive. For the week ended October 27, upgrades outnumbered downgrades 6 to 1 and accounted for 67% of affected debt. Upgrades were concentrated most heavily in the broad business services sector. The most notable upgrade was made to Third Coast Midstream LLC [American Midstream Partners LP]. Moody's Investors Service upgraded the firm's senior unsecured credit rating to Caa1 from Caa2 while also affirming the company's Corporate Family Rating at B3 and its Probability of Default Rating at B3-PD. According to Moody's Investor Service, the upgrade of Third Coast's senior unsecured notes follows the extension of a secured revolver and a reduction in the size and secured debt outstanding. The rating change affected $850 million in debt. Last week's positive rating change activity extends the trend in U.S. corporate credit quality which continues to gradually improve alongside the rest of the economy. For the month-ended in September, upgrades accounted for 57% of total U.S. rating changes, the highest share of upgrades since the recession started.

European rating change volume declined last week, and rating actions remained largely credit negative. Downgrades outnumbered upgrades three to one. Despite being outnumbered, the lone upgraded accounted for 52% of affected debt. Geographically, the United Kingdom led the way with two rating actions, followed by Spain and Luxembourg with one each. Luxembourg-based Garfunkelux Holdco 2 S.A. was the recipient of the lone upgrade, with Moody's Investors Services upgrading both the firm's Corporate Family Rating and its senior secured debt to B2 from B3. Moody's upgrade of Garfunkelux's Corporate Family Rating reflects the improvement in the firm's credit profile from a capital contribution, as well as the refinancing of firm's existing senior secured notes. Moody's subsequently upgraded Garfunkelux's senior secured debt reflecting the application of Moody's Loss Given Default for Speculative-Grade Companies methodology and the priorities in Garfunkelux's pro-forma liability structure. The upgrade affected $2.4 billion in debt.

FIGURE 1

Rating Changes - US Corporate & Financial Institutions: Favorable as % of Total Actions



* Trailing 3-month average

Source: Moody's

Ratings Round-Up

FIGURE 2
Rating Key

BCF	Bank Credit Facility Rating	MM	Money-Market
CFR	Corporate Family Rating	MTN	MTN Program Rating
CP	Commercial Paper Rating	Notes	Notes
FSR	Bank Financial Strength Rating	PDR	Probability of Default Rating
IFS	Insurance Financial Strength Rating	PS	Preferred Stock Rating
IR	Issuer Rating	SGLR	Speculative-Grade Liquidity Rating
JrSub	Junior Subordinated Rating	SLTD	Short- and Long-Term Deposit Rating
LGD	Loss Given Default Rating	SrSec	Senior Secured Rating
LTCF	Long-Term Corporate Family Rating	SrUnsec	Senior Unsecured Rating
LTD	Long-Term Deposit Rating	SrSub	Senior Subordinated
LTIR	Long-Term Issuer Rating	STD	Short-Term Deposit Rating

FIGURE 3
Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG
10/21/20	UNISYS CORPORATION	Industrial	SrUnsec	427	D	B3	Caa1	SG
10/23/20	I-LOGIC TECHNOLOGIES BIDCO LIMITED	Industrial	LTCFR/PDR		U	B3	B2	SG
10/26/20	CAMBREX CORPORATION	Industrial	LTCFR/PDR		U	B3	B2	SG
10/26/20	CABLE ONE, INC.	Industrial	PDR		U	B1	Ba3	SG
10/26/20	GOODRX HOLDINGS, INC.-GOODRX, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG
10/27/20	QUIKRETE HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B1	Ba3	SG
10/27/20	AMERICAN MIDSTREAM PARTNERS, LP	Industrial	SrUnsec	850	U	Caa2	Caa1	SG

Source: Moody's

FIGURE 4
Rating Changes: Corporate & Financial Institutions – Europe

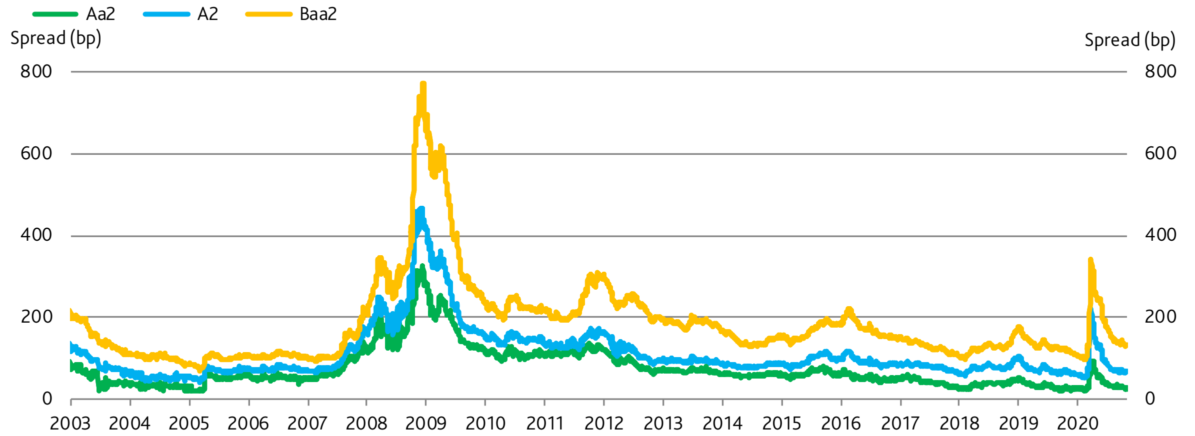
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG	Country
10/21/20	ICICI BANK LIMITED-ICICI BANK UK PLC	Financial	SrUnsec/LTD/Sub/MTN	399	D	Baa1	Baa2	IG	UNITED KINGDOM
10/21/20	GARFUNKELUX HOLDCO 2 S.A.	Financial	SrSec/LTCFR	2,433	U	B3	B2	SG	LUXEMBOURG
10/22/20	JOYE MEDIA S.L.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG	SPAIN
10/22/20	MOTION MIDCO LIMITED	Industrial	SrSec/SrUnsec /BCF/LTCFR/PDR	1,840	D	B1	B2	SG	UNITED KINGDOM

Source: Moody's

Market Data

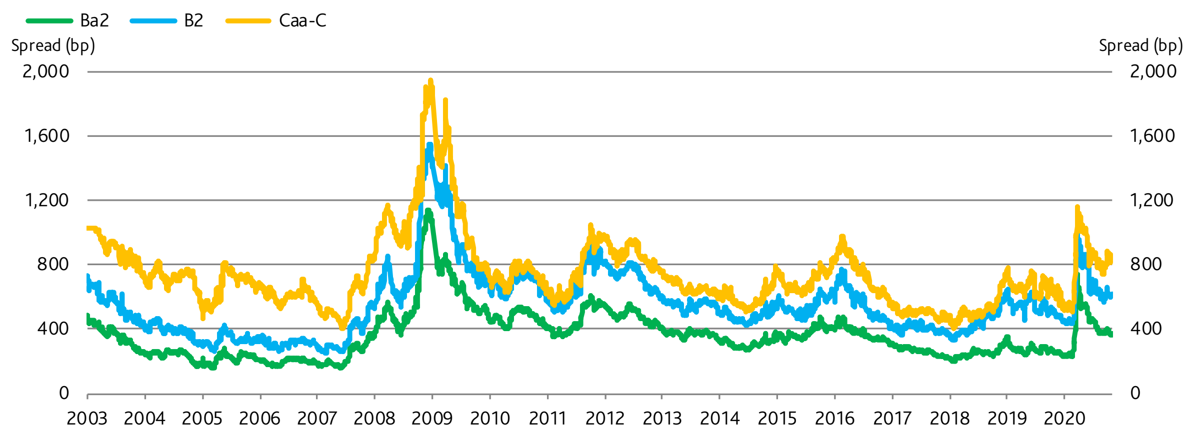
Spreads

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 (October 21, 2020 – October 28, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Oct. 28	Oct. 21	Senior Ratings
Intel Corporation	Aa2	Baa2	A1
Linde Inc.	Aa2	A3	A2
Constellation Brands, Inc.	Baa2	Ba2	Baa3
John Deere Capital Corporation	Aa2	A1	A2
3M Company	Aa2	A1	A1
Charles Schwab Corporation (The)	Aa3	A2	A2
Eversource Energy	Aa1	Aa3	Baa1
Delhaize America, LLC	Aa2	A1	Baa1
JPMorgan Chase Bank, N.A.	Aa2	Aa3	Aa2
Toyota Motor Credit Corporation	Aa1	Aa2	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Oct. 28	Oct. 21	Senior Ratings
Kellogg Company	Baa2	A2	Baa2
CVS Health	A3	A2	Baa2
Exxon Mobil Corporation	A1	Aa3	Aa1
Occidental Petroleum Corporation	Caa3	Caa2	Ba2
United Airlines, Inc.	Ca	Caa3	Ba3
Delta Air Lines, Inc.	Caa2	Caa1	Baa3
Carnival Corporation	C	Ca	B2
Calpine Corporation	Ba3	Ba2	B2
Dish DBS Corporation	Caa1	B3	B2
Ball Corporation	Baa3	Baa2	Ba1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Oct. 28	Oct. 21	Spread Diff
American Airlines Group Inc.	Caa1	3,066	2,580	487
Nabors Industries, Inc.	Caa1	2,993	2,517	476
Carnival Corporation	B2	1,222	993	229
Macy's Retail Holdings, Inc.	B1	1,250	1,063	187
Talen Energy Supply, LLC	B3	1,729	1,544	185
Royal Caribbean Cruises Ltd.	B2	1,215	1,083	132
Nordstrom, Inc.	Baa3	692	564	128
United Airlines Holdings, Inc.	Ba3	1,115	986	128
Murphy Oil Corporation	Ba3	736	623	113
United Airlines, Inc.	Ba3	951	842	109

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Oct. 28	Oct. 21	Spread Diff
Constellation Brands, Inc.	Baa3	64	176	-112
Unisys Corporation	Caa1	371	419	-48
Nissan Motor Acceptance Corporation	Baa3	411	437	-26
Intel Corporation	A1	39	63	-24
Federal Realty Investment Trust	A3	81	105	-24
Magellan Midstream Partners, L.P.	Baa1	75	96	-21
Mohawk Industries, Inc.	Baa1	77	97	-20
Enbridge Energy Limited Partnership	Baa2	126	143	-16
Embarq Corporation	Ba2	296	307	-10
United States Steel Corporation	Caa2	999	1,006	-8

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (October 21, 2020 – October 28, 2020)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Oct. 28	Oct. 21	Senior Ratings
adidas AG	Aa3	A3	A2
UniCredit Bank AG	Aa2	A1	A2
Nationwide Building Society	Aa2	A1	A1
HSBC Bank plc	Aa2	A1	A1
Investor AB	Aa2	A1	Aa3
National Grid Gas Plc	Aa2	A1	A3
BNP Paribas	Aa2	Aa3	Aa3
Societe Generale	Aa2	Aa3	A1
Bayerische Landesbank	Baa1	Baa2	Aa3
Ireland, Government of	Aaa	Aa1	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Oct. 28	Oct. 21	Senior Ratings
Lanxess AG	Baa2	A3	Baa2
Banco Bilbao Vizcaya Argentaria, S.A.	Baa1	A3	A3
Commerzbank AG	A2	A1	A1
ING Groep N.V.	A3	A2	Baa1
Santander UK plc	Baa3	Baa2	A1
NatWest Group plc	Baa3	Baa2	Baa2
Standard Chartered PLC	Baa2	Baa1	A2
Bayerische Motoren Werke Aktiengesellschaft	Baa1	A3	A2
Credit Suisse Group AG	A3	A2	Baa2
Anheuser-Busch InBev SA/NV	Baa2	Baa1	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Oct. 28	Oct. 21	Spread Diff
TUI AG	Caa1	1,692	1,419	273
Stena AB	Caa1	714	648	66
thyssenkrupp AG	B1	402	357	45
Ineos Group Holdings S.A.	B2	411	366	45
Jaguar Land Rover Automotive Plc	B1	781	737	44
CMA CGM S.A.	Caa1	679	637	42
Leonardo S.p.A.	Ba1	275	248	28
Premier Foods Finance plc	B3	206	178	28
Rexel SA	Ba3	155	128	27
Peugeot S.A.	Baa3	154	128	26

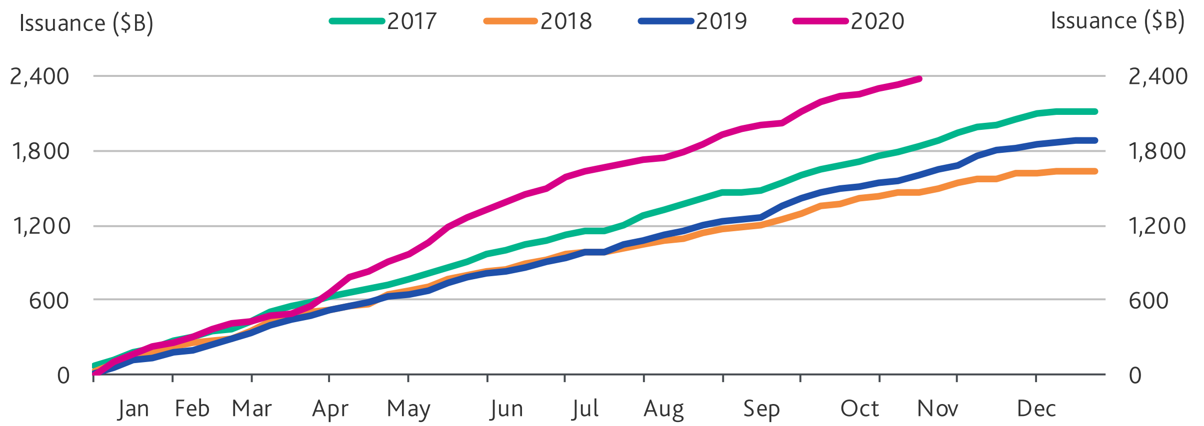
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Oct. 28	Oct. 21	Spread Diff
Iceland Bondco plc	Caa2	531	548	-17
Boparan Finance plc	Caa1	537	552	-15
Piraeus Bank S.A.	Caa2	822	831	-8
adidas AG	A2	45	52	-7
Heathrow Finance plc	Ba1	85	92	-7
Allied Irish Banks, p.l.c.	A2	66	72	-6
Gecina SA	A3	88	92	-4
Banco Comercial Portugues, S.A.	Ba1	153	156	-3
Netherlands, Government of	Aaa	10	10	-1
NXP B.V.	Baa3	78	79	-1

Source: Moody's, CMA

Market Data

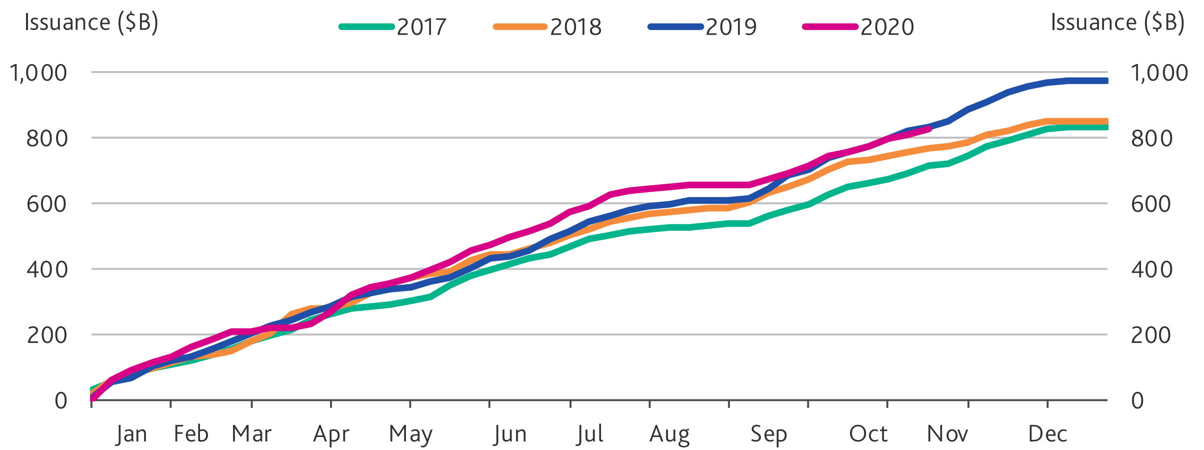
Issuance

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	27.975	9.680	38.575
Year-to-Date	1,827.844	467.934	2,371.090

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	11.225	3.869	15.805
Year-to-Date	688.410	105.420	826.251

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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Report Number: 1252011

Editor
Reid Kanaley
help@economy.com

Contact Us

Americas:	1.212.553.4399
Europe:	+44 (0) 20.7772.5588
Asia:	813.5408.4131

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