

WEEKLY MARKET OUTLOOK

OCTOBER 7, 2021

Lead Authors

Ryan Sweet
Senior Director-Economic Research

Asia-Pacific

Katrina Ell
Senior Economist

Shahana Mukherjee
Economist

Europe

Ross Cioffi
Economist

U.S.

Adam Kamins
Director

Michael Ferlez
Economist

Ryan Kelly
Data Specialist

Podcast



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Kicking the Can Not Too Far Down the Road

U.S. Senate leaders have an agreement on a deal that extends the U.S. debt ceiling through early December. Therefore, we're going to be facing a similar situation in early December where the debt ceiling will likely need to be raised and there will be potential for a partial government shutdown.

It is unimaginable that lawmakers would allow the U.S. to breach the debt ceiling. Odds are rising that Democrats will address the debt limit through reconciliation, a special budget process by which fiscal legislation can pass without the threat of a filibuster. Still, forecasting the U.S. economy is easier than predicting what comes out of Washington DC. Therefore, we created an economic scenario where policymakers actually do fail to raise or suspend the limit before the Treasury runs out of cash and defaults on its obligations; interest rates will spike, with enormous costs to taxpayers, consumers and the economy.

Just how costly this can be is evident from a 1979 episode when the Treasury inadvertently missed payments on Treasury bills maturing that spring. The mishap was caused in part by fallout from a delay in raising the debt limit but also by problems with word processing equipment that the Treasury used at the time to pay investors. Even though investors received their payments with only a small delay, T-bill yields initially jumped by 60 basis points and remained elevated for several months thereafter. The cost to taxpayers was ultimately in the tens of billions of dollars.

President Biden spoke about the debt ceiling on Monday and pushed lawmakers to raise it this week. In response to a question, Biden said he couldn't guarantee that the U.S.

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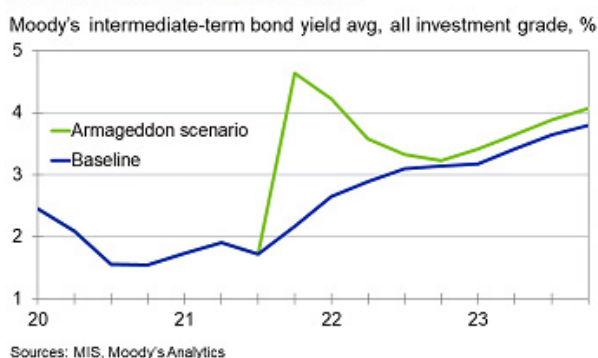
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won't breach the debt ceiling. The bond market responded. During the trading session, the yield on a Treasury bill maturing on October 21 rose to 0.12%, 7 basis points higher than bills maturing around it. This is the normal kink in the Treasury bill curve that occurs around the drop-dead date for the debt ceiling.

We have run scenarios through our U.S. macro model to assess the impact on the U.S. economy and financial markets if lawmakers fail to raise the debt ceiling. It is not difficult to craft a very dark scenario if the debt ceiling isn't raised and there is an impasse for a month.

A Path We Shouldn't Take



This economic scenario is cataclysmic. Based on simulations of the Moody's Analytics model of the U.S. economy, the downturn would be comparable to that suffered during the financial crisis. That means real GDP would decline almost 4% peak to trough, nearly 6 million jobs would be lost, and the unemployment rate would surge to close to 9%. Financial market conditions would tighten significantly, and the corporate bond market would not be immune. Interest rates up and down the credit ladder would jump relative to the baseline. Also, high-yield corporate bond spreads would surge immediately, which would slam the brakes on corporate bond issuance.

It is unlikely that lawmakers risk going down this dark path, but angst in financial markets will re-intensify in late November as attention shifts back to the debt ceiling.

Tracking U.S. supply-chain issues

Global supply-chain issues continue to plague the U.S. economy and have contributed to the acceleration in inflation. We don't have to look far to see clear evidence that supply-chain issues are having economic costs. Vehicle inventories are near record lows, driving prices higher. Consumers have responded with unit vehicle sales plunging recently. After running just shy of 19 million annualized units

in April, sales dropped to around 12 million in September. Anecdotes in the ISM manufacturing survey remain littered with comments about supply-chain issues.

Easing of the supply-chain bottlenecks is key to our near-term forecast for U.S. manufacturing production, inventory replenishing, and easing in inflationary pressures. To better track the amount of stress on U.S. supply chains, we identified a number of high-frequency metrics and combined them to create a U.S. Supply-Chain Stress Index.

The Supply-Chain Stress Index is comprised of 14 supply-side variables, and they fit into three broad categories: production, inventory and transportation. Among the variables in production are manufacturing capacity utilization, ISM manufacturing survey's supplier deliveries index, and buying policy from the ISM. For inventory, we include the ISM customer inventories index and a number of inventory-to-sales ratios. The I/S ratios help us assess not only how depleted inventories are but also how difficult it is to replenish stockpiles. For the transportation component of the SCSI we included freight shipments, intermodal, traffic job openings in transportation, warehousing, and manufacturing, among other variables. We will update the SCSI monthly.

The SCSI is indexed such that 100 is the average pre-pandemic stress in U.S. supply chains. Therefore, anything north of 100 indicates greater pressure on supply chains and vice-versa. The SCSI suggests there has been little improvement recently. All three components are well above 100. But, not surprisingly, transportation is where the most stress lies followed by production and then inventories.

Supply Chains Under Significant Pressure



We tested the relationship between changes in our SCSI and growth in our estimate of real monthly GDP. The correlation over the entire sample is low, at -0.1. This isn't surprising, as there were not many instances of significant stress in supply

chains between 2009 and mid-2019. One period of stress was in 2015 when 14,000 West Coast longshoremen went on strike, affecting 30 ports. This had some economic costs, but the strike was short. The current supply-chain issues dwarf those in 2015. Therefore, we looked at the correlation between changes in the SCSJ and real monthly GDP since the global pandemic intensified toward the end of 2019 and the correlation coefficient is -0.34.

Q3 U.S. GDP tracking keeps sinking

The U.S. nominal trade deficit widened more than either we or the consensus expected in August, and that put another dent in our high-frequency GDP model's estimate of third-quarter GDP growth.

The nominal trade deficit widened from \$70.3 billion in July to \$73.25 billion. The August trade deficit was the widest since the inception of the data in 1992. Nominal exports were up 0.5% after rising 1.2% in July. Nominal imports increased 1.4% after declining 0.1% previously.

Consumer goods imports rose by \$3 billion as a few things are at play, including the current wave of COVID-19 that has

shifted spending away from services and back to goods. Also, domestic retail inventories are extremely lean, requiring additional imports. Separately, the nominal surplus in services fell to \$16.2 billion in August, the smallest since late 2011.

The trade deficit remains wide but should narrow through the remainder of this year as consumer spending shifts away from goods and toward services. However, the current wave of the Delta variant of COVID-19 might delay this shift.

The August nominal trade deficit suggests net exports will subtract around 1 percentage point from third-quarter GDP growth. The new data lowered our estimate of third-quarter GDP growth from 3.9% to 2.6% at an annualized rate. Our tracking estimate of third-quarter GDP growth has been dropping steadily. Inventories are going to be the biggest support, and for the first time since we started tracking third-quarter GDP final sales are now seen as declining.

The State GDP Data Perspective

BY ADAM KAMINS

In the aftermath of the [COVID-19](#) pandemic, the U.S. regional labor market story has largely been written. The Northeast was decimated by severe outbreaks, while tourism hubs and big, expensive cities struggled badly. All of that remains true, but there are some additional details lying underneath the surface.

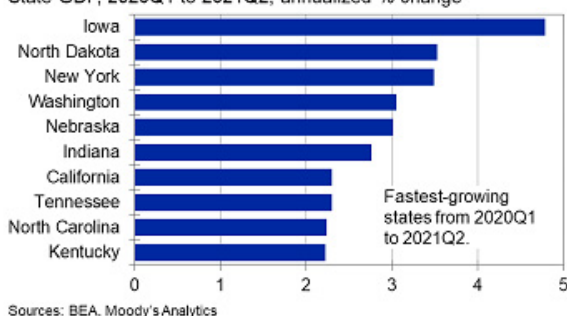
To see this, quarterly state output can be examined. Those figures, released late last week and running through the middle of the year, highlight that not all job losses are created equal. While they do not fundamentally alter the regional narrative, the GDP numbers highlight some under-the-radar regional trends.

Northeast, Midwest silver linings

Since the first quarter of 2020, state GDP has risen most rapidly in a handful of states that are hardly viewed as shining stars of the pandemic. Nowhere is this more pronounced than in the Farm Belt, which is home to four of the six fastest-growing states over that period. Iowa led the way, but North Dakota, Nebraska and Indiana are not far behind.

Midwest Output Has Grown Impressively

State GDP, 2020Q1 to 2021Q2, annualized % change



Increased output can be traced in large part to a rapid increase in farm incomes. With corn prices more than doubling this spring before settling in at a level far higher than that of recent years, agriculture-dependent states have reaped the benefits. The rising price environment has driven higher output per farm worker, creating the type of temporary surge in implied productivity that is coloring some state GDP trends.

A similar pattern holds in the Northeast, but the reasons are quite different. Despite the devastating economic and public health toll of COVID-19 last spring, the pandemic dented output less than it did nationally across much of the region.

New York and Massachusetts saw unemployment rise sharply, but output experienced one of the 10 smallest declines in the U.S. for each state. And Washington DC fared better than anywhere else, highlighting the more benign impact on cities than indicated in labor market figures.

This likely owes to a shift in job composition. As more workers transitioned to temporary remote arrangements, payrolls in highly productive office-using industries held relatively steady, albeit with some jobs being done elsewhere. But consumer industries were not so lucky, as the reduction in daytime population in big cities wreaked havoc with restaurants and retailers.

With more high-wage jobs retained, those positions that were lost made a much smaller dent in output than they did in total employment. This has kept states including California, New York and Washington, home to an inordinate share of finance and tech jobs, near the top of the list for the change in output from early 2020 to the middle of this year.

Wage tiers

The trends in the Northeast highlight the differential impact of the recession on various types of industries. High-wage positions are closing in on a return to pre-pandemic levels, while the least lucrative jobs are far below and slipping. This reflects the continued uneven impact of the recession, with consumer industry jobs decimated early and white-collar positions holding on. More recently, the trend has been exacerbated by a lack of available workers at restaurants and stores, many of whom are unwilling to stomach a combination of poor pay and elevated risk, keeping low-wage job growth in check.

Recoveries Diverge by Wage Tier

Payroll employment by tier, Feb 2020=100



As a result, the pendulum has tilted even more markedly toward higher-wage workers in states with pronounced early labor market struggles, including New York, Massachusetts and Hawaii. The former two reflect the type of compositional shift associated with reduced daytime populations. Some of this will persist as support positions in lucrative industries migrate to less-expensive locales at an accelerated clip with a physical office location mattering less.

The story for Hawaii is a bit different, since pivotal tourism took a major hit. This tilted the economy toward higher-wage jobs, but mostly as a result of weakness elsewhere, mitigating the type of offset seen in the Northeast. The potential downside of a shift toward high-wage industries was especially noticeable in Nevada, the nation's most hospitality-dependent state. Its job composition became more favorable, but that was no match for a sharp decline in tourism that has only been partially overcome, making it one of the few states for which output remains below its early 2020 levels.

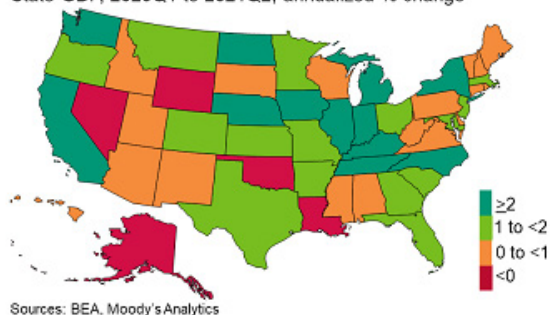
Lack of energy

Nevada's woes make it an exception when it comes to output declines given the common denominator among other states that have yet to return to pre-pandemic heights. Each of those relies heavily on energy extraction, which has faced a uniquely difficult set of challenges since the pandemic began.

Back then, steep oil price declines driven by tensions between Russia and Saudi Arabia were rapidly followed by reduced demand as travel ground to a halt. Those are both largely in the past, but the impact on drillers was profound. Active rigs have barely budged from their lows from last year, with producers exhibiting caution in the aftermath of two severe shocks in less than a decade. Reduced production has pushed prices higher of late, but there is little evidence that drilling is resuming at anything resembling its prior pace. This has had especially profound effects on Alaska, Louisiana, Oklahoma and Wyoming.

Energy States See Steepest Output Losses

State GDP, 2020Q1 to 2021Q2, annualized % change



Texas and North Dakota—the largest oil producers by volume and share of the economy—have fared better. The Lone Star State's more diverse economy and favorable migration trends have positioned it well. Meanwhile, particularly low drilling costs and high productivity in the Bakken Shale have kept North Dakota moving in the right direction, as has a sizable agriculture presence.

More broadly, mining jobs have been hurt not just by market conditions but the nature of the work. Their in-person presence was problematic early, and the infamous boom-bust cycles of the oil market have made the high-wage jobs associated with the energy industry far less stable than those of its white-collar counterparts. More recently, worker shortages may have begun to play a role as well given that the grueling nature of many mining jobs can make them less desirable—albeit more accessible—than high-wage office-using positions.

Drilling should begin to approach pre-pandemic levels, but the long-term shift toward renewable sources highlights the variety of risks facing energy states. This could represent a drag on output gains for years to come.

Productivity implications

These results have potentially meaningful implications for regional productivity. In short, steep job losses in the Northeast were accompanied by far milder output declines, which by definition suggests a more productive work force. Whether output per worker remains elevated as the economy continues to return to normalcy remains to be seen, but the hope is that increased employment will still provide a jolt to output.

On the other hand, for oil-producing states it will be difficult to get output back on track through the volume of new jobs created alone. They will need rising prices to provide a jolt to high-wage hiring, but there is some hope that drillers will begin to incorporate the 2021 uptick into net hiring soon.

Still, these findings and any analysis of output and income are colored by massive government support. Stimulus payments and enhanced unemployment insurance have had an equalizing effect, likely contributing to the relative overperformance of states that experienced widespread job losses. With additional fiscal support now lapsed, income and output could take a significant hit everywhere, making the encouraging productivity story a bit less compelling by the time third-quarter output data are released.

The Week Ahead in the Global Economy

U.S.

The key U.S. economic data due next week includes the September consumer price index. We also get data on import prices and producer prices. Financial markets will be sensitive to the incoming data on inflation, since there are some concerns that the transitory nature of the recent acceleration in inflation will prove more persistent.

Retail sales for September will help us assess the trajectory for consumer spending heading into this quarter. The trajectory for real consumer spending was on an unfavorable trajectory heading into the quarter as unit vehicle sales declined in September. The trajectory for consumer spending is important in normal times, but these are not normal times. It will take a strong start to the fourth quarter for real consumer spending to come anywhere close to our forecast for around a 7% annualized gain.

The mini reopening of the economy following the latest wave of COVID-19 would help, particularly for spending on consumer services. Earlier-than-normal holiday shopping will wreak havoc with the seasonal adjustment process. After seasonal adjustment, October and November retail sales could be very strong, but December would be a big dud. On the policy front, the minutes from the September Federal Open Market Committee meeting will be released.

Europe

U.K. GDP is expected to have picked up again in August after slowing in July. GDP likely rose 0.6% m/m in August after growing just 0.1% in the month prior. The emergence of the Delta variant of COVID-19 struck spending on services during the month. While supply-side issues likely continued to hold back goods production in August, we expect consumer spending picked up again as the Delta outbreak remained under control. As a result, the labor market was likely stable in the August stanza with the unemployment rate unchanged at 4.6% from the preceding May quarter.

Industrial production in the euro zone likely contracted 0.8% m/m in August. Although industrial production plunged in Germany during the month, this was likely mitigated by growing output in other countries around the bloc, such as France, and we expect Italy's industrial production to rise 0.3% during the month.

Final estimates of national CPIs will be released next week as well. We expect no change from the preliminary estimates, so Spain's CPI was likely up 4% y/y in September, France's likely grew 2.1%, Italy's 2.6%, and Germany's 4.1%.

Finally, the euro zone and Russia's trade surpluses likely increased in August. The euro zone's nonseasonally adjusted trade balance likely rose to \$16.9 billion in August from \$13.9 billion a year earlier. Russia's was likely up to \$25.7 billion from \$23.2 billion. Russia's exports were likely supported by growing demand for natural gas and oil. In both the euro zone and Russia.

Asia-Pacific

Singapore's September quarter GDP will be the highlight on the economic calendar. We expect Singapore's economy to have grown 1.3% in quarterly terms following a 1.8% contraction in the June quarter. Singapore suffered a quarterly contraction as a resurgence of COVID-19 cases triggered tighter distancing restrictions and weighed on the domestic demand revival. A relatively strong net trade position is expected to have supported the third-quarter turnaround, but domestic consumption is likely to see only a moderate pickup from the last quarter.

China's annual inflation rate is likely to have remained stable at 0.8% in September, while China's producer price growth is likely to have inched up to 9.7% in September from 9.5% in August, reflecting some strain from the power shortage and resulting local disruptions. Australia's unemployment rate is likely to have risen to 5% in September from 4.5% in August, reflecting a sharper hit to employment from extended large-scale closures across New South Wales and Victoria.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
Oct	ASEAN	ASEAN summit	Low	Low
31-Oct	Japan	General elections	Low	Low
Nov	Asia-Pacific	Asia-Pacific Economic Cooperation forum	Medium	Low
Nov	China	Sixth plenary session of the Central Committee	Medium	Low
Nov	G-20	G-20 Summit	Medium	Low
7-Nov	Nicaragua	Presidential, congressional elections	Low	Low
14-Nov	Argentina	Legislative elections	Medium	Low
21-Nov	Chile	Presidential elections	Medium	Low
28-Nov	Honduras	Presidential, congressional and municipal elections	Low	Low
19-Dec	Hong Kong	Legislative Council elections	Low	Medium
10-Apr-22	France	General elections	Medium	Medium
29-May-22	Colombia	Presidential elections	High	Low
2-Oct-22	Brazil	Presidential and congressional elections	High	Medium
Oct/Nov-22	China	National Party Congress	High	Medium

Lawmakers Won't Allow a Debt-Limit Breach

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond spread is 97 basis points, 2 bp tighter than this time last week. This is below its high over the past 12 months of 132 bps and just above its lowest over the past year of 95 bps. This spread may be no wider than 117 bps by year-end 2021, and some of the recent tightening is attributable to financial markets settling down after China's corporate debt concerns and the U.S. debt ceiling rattled investor sentiment. The long-term average industrial corporate bond spread narrowed 1 bp over the past week to 88 bps. This is a hair above the low of 86 over the past 12 months and well below the high of 122 bps.

The long-term investment grade corporate bond spread was 129 basis points, compared with 130 bps last week. It remains well below its recent high of 169 bps. Investment-grade industrial corporate bond spreads narrowed from 133 bps to 132 bps.

The recent ICE BofA U.S. high-yield option adjusted bond spread of 329 basis points is 20 bps wider than at this point last week. The high-yield option adjusted bond spread approximates what is suggested by the accompanying long-term Baa industrial company bond yield spread and is tighter than that implied by a VIX of 19.65.

Defaults

Not only is issuance strong, but defaults remain very low. The latest Moody's monthly default report showed the trailing 12-month global speculative-grade default rate at 3% at the end of August. That is its lowest level since the end of February 2020, when it stood at 3.3% just before the start of the COVID-19 pandemic. August was the eighth consecutive month to register a decline in the default rate since it hit a cyclical peak of 6.8% in December 2020.

According to our Credit Transition Model, the global default rate will fall from the current rate of 3% to 1.6% by the end of December. After that, it will stabilize in the 1.5% to 1.7% range in the first half of 2022 before edging up to 1.9% by the end of August 2022. These forecasts incorporate our assumptions that the U.S. high-yield spread will gradually widen from about 300 basis points currently to 505 basis points over the course of the next

12 months. This will be offset by an improvement in the unemployment rate.

U.S. Corporate Bond Issuance

First-quarter 2020's worldwide offerings of corporate bonds revealed annual advances of 14% for IG and 19% for high-yield, wherein US\$-denominated offerings increased 45% for IG and grew 12% for high yield.

Second-quarter 2020's worldwide offerings of corporate bonds revealed annual surges of 69% for IG and 32% 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.

Fourth-quarter 2020's worldwide offerings of corporate bonds revealed an annual decline of 3% for IG and an annual advance of 8% for high-yield, wherein US\$-denominated offerings increased 16% for IG and 11% for high yield.

First-quarter 2021's worldwide offerings of corporate bonds revealed an annual decline of 4% for IG and an annual advance of 57% for high-yield, wherein US\$-denominated offerings sank 9% for IG and advanced 64% for high yield.

Issuance weakened in the second quarter of 2021 as worldwide offerings of corporate bonds revealed a year-over-year decline of 35% for investment grade. High-yield issuance fared noticeably better in the second quarter.

U.S. dollar denominated investment-grade issuance was \$22.8 billion in the week ended Wednesday, bringing the year-to-date total to \$1.315 trillion. High-yield corporate

bond issuance rose \$18.1 billion, bringing the year-to-date total to \$534 billion.

U.S. ECONOMIC OUTLOOK

Because of Democratic divisions over President Biden's Build Back Better agenda, we reduced the price tag of an assumed reconciliation package that funds a range of social investments from \$3 trillion in the August forecast to \$2.5 trillion in the September vintage. Specifically, we nixed \$500 billion in federal support of private industry, which included funding for manufacturing supply chains, R&D investments, and small-business support, among others. Our prior assumptions regarding investments in education, family leave, housing, and climate change initiatives, as well as household tax credits, are unchanged from August. The new baseline forecast assumes that all but \$500 billion of the reconciliation package will be paid for by higher taxes on corporations and high-income individuals. We did not make changes to our assumptions around the Infrastructure Investment and Jobs Act.

The baseline forecast assumes the debt ceiling is raised but the drop-dead date could be in October, rather than November. The bond market is showing a little angst about the debt ceiling. This isn't surprising, but it's important to note that the amount of concern is small because the bond market has been through numerous debt-ceiling episodes and knows how it will play out—it will ultimately be raised. Currently, all Treasury bills from late October to November, which is likely the drop-dead date for raising the debt ceiling, are trading a touch cheaper than other Treasury bills. This is similar to what happened leading up to prior debt-ceiling drop-dead dates.

COVID-19 assumptions

We adjusted our epidemiological assumptions to anticipate that total confirmed COVID-19 cases in the U.S. will be 47.9 million, compared with 41.1 million in the August baseline. The change is due to the recent increase in confirmed cases because of the Delta variant. The seven-day moving average of daily confirmed cases dropped recently but that is likely due to the Labor Day holiday, which reduced testing and reporting. Despite the recent drop, the seven-day moving average of confirmed COVID-19 cases remains well above 100,000.

The date for abatement of the pandemic has been pushed out to this November because of the Delta variant. Herd resiliency, which is a 65%-or-greater share

of the adult population being fully vaccinated or previously infected, was achieved on August 30, a few days earlier than the assumption of September 2 in the August baseline. Also, COVID-19 will be endemic and seasonal.

The economy is feeling the effects of the current wave of COVID-19 cases. Consumer sentiment dropped sharply in August and a number of high-frequency measures of economic activity we closely track have all weakened, including number of people passing through TSA checkpoints, seated diners from OpenTable, movie box-office revenues, and Google mobility.

We expect the variant to start fading soon, much like it has in the U.K., which seems to be leading the U.S. by a few weeks, and thus not affect the economy to an extent that we will need to downgrade our economic outlook.

Delta hits GDP

There were some changes to our forecast for GDP growth through the remainder of this year. We cut our forecast for third-quarter GDP growth from 8.2% at an annualized rate in the August baseline to 5% in the September vintage. Risks are weighted to the downside. Our high-frequency GDP model's tracking estimate of third-quarter GDP growth has been sinking like a rock lately. It also reflects only one piece of source data for August, which would capture the impact of the recent surge in COVID-19 cases. Though we don't expect that this wave of coronavirus will have significant economic costs, there is a lot less cushion now.

August vehicle sales delivered a big hit to our estimate of third-quarter GDP. Vehicle sales fell from 14.62 million to 13.06 million annualized units in August and are 16.6% below their second-quarter average. This bodes ill for real consumer spending in the third quarter. Our high-frequency GDP model has third-quarter GDP growth tracking at 3.9% at an annualized rate, less than the official forecast. The model anticipates inventories doing the bulk of the heavy lifting this quarter, and the Delta variant is causing supply-chain issues, which could slow the rebuilding of stockpiles. Also, Hurricane Ida is another potential issue for inventory rebuilding and trade. U.S. soybean exports plunged last week, and though they account for a small share of total exports, this highlights the hurricane's downstream effects.

The September baseline includes our assumptions about Hurricane Ida's economic costs. Though Ida was a severe hurricane and devastated some regional economies, it

likely won't be an enormous drag on U.S. GDP because of how GDP is calculated. The primary damage from natural disasters is done to productive capacity through the destruction of existing assets.

This destruction is accounted for in the National Income and Product Accounts under the Changes in Net Stock of Produced Assets table but is not included directly in the GDP calculation. Nonetheless, natural disasters will affect GDP through a number of channels. Rebuilding will be captured in the regular source data on residential and nonresidential construction.

The consumer spending component is also likely to be affected to the extent that federal aid and insurance payouts to households are a supplement to income rather than a replacement for lost income. As with Hurricane Katrina, Ida could have a more significant impact on GDP via higher energy prices. According to the Bureau of Safety and Environmental Enforcement, 95% of oil production and 94% of natural gas production were shut down because of Ida. Based on wholesale U.S. gasoline prices, relief at the pump is coming and this will limit Hurricane Ida's hit to U.S. GDP growth.

Though we cut GDP growth this quarter, the September baseline has stronger growth in the final three months of this year, with GDP rising 7.5% at an annualized rate, compared with 6.4% in the baseline forecast. Some of the lost economic activity because of the Delta variant and Hurricane Ida, like oil production, will be made up in the fourth quarter.

For all of 2021, we look for GDP to now rise 6%, a touch lighter than the 6.3% in the August baseline and in line with the Bloomberg consensus of 6.1%. We look for GDP to rise 4.3% in 2022, compared with the 4.5% in the prior baseline and identical to the Bloomberg consensus. Though growth slows next year because of the fading fiscal impulse and less boost from the reopening of the economy, growth will be nearly double the economy's potential growth rate.

Business investment and housing

There was a small downward revision to the forecast for real business equipment investment this year, but it is still booming. We now look for real business equipment spending to increase 15.3% this year, compared with the 15.7% in the August baseline. Growth in equipment spending was revised higher for next year to 9.4%, 0.3 percentage point stronger than the August baseline. Risks are roughly balanced to the forecast, as fundamentals,

including supportive financial market conditions and better after-tax corporate profits as a share of nominal GDP, should continue to support investment through the rest of this year and into next. Another favorable development for business investment is the strong rate of new business formations. The biggest downside risk is a sudden tightening in financial market conditions.

The real nonresidential structures forecast was revised slightly this year. It is forecast to drop 6.7%, a bit less than the 6.9% drop in the August baseline. This will be another rough year for real nonresidential structures investment. A modest recovery will begin next year.

There were no material changes to the commercial price index forecast, which is expected to rise 6.2% this year and 1.1% in 2022. We expect a rebasing of asset values across the board if interest rates begin to rise in the near term—retail and office will be hit hard because of longer-term evolutionary dynamics at work for these two property types.

Housing data are going to be volatile because of rebuilding after Hurricane Ida. This is normal after major hurricanes, but there is more uncertainty now about the timing because of high construction costs and shortages of materials and labor. The downward revision to the housing starts forecast in the baseline is mostly due to incoming data. We now look for starts to increase 16.3% this year compared with the 18.8% in the August baseline. Growth in starts will be stronger next year partly because of ongoing rebuilding, and we now look for them to rise 11.5%, compared with 8.6% in the prior baseline.

The gap between housing demand and supply led us to boost our forecast for house price growth this year and next. We have been steadily revising higher our forecast for house prices over the past several months. The forecast is for the FHFA All-Transactions Home Price Index to increase 10.5% this year and 5.8% next year. The August baseline had house prices rising 7.7% this year and 5.8% in 2022.

Death, taxes, and a disappointing August jobs report

The August U.S. employment report was a letdown. Nonfarm employment increased a net 235,000 in August following a revised 1.053 million (previously 943,000). Revisions have been noticeable recently; the net two-month revision to nonfarm employment was 134,000.

The Delta variant clearly weighed on the labor market. Daily confirmed cases were surging during the August

payroll reference week. According to the Bureau of Labor Statistics, 5.6 million people reported being unable to work because their employer closed or lost business due to the pandemic—that is, they did not work at all or worked fewer hours at some point in the prior four weeks due to the pandemic. Among these individuals, 13.9% received some pay from their employer for the hours not worked, up from 9.1% in July. Similar to July, there were 1.5 million individuals not in the labor force that were unable to look for work because of the pandemic.

There is a clear downward bias in August employment. The month's job growth normally comes in weaker than the consensus, and we don't see a reason why the pandemic would have altered this. The August bias is noticeable. Over the past five years, the initial estimate of August job growth has been revised higher by an average of 75,000 jobs between the initial and third estimates. Low response rates to the preliminary survey are the primary culprit behind the tendency for August job growth to come in weaker than the consensus. This struck again. The response rate for this August was 70.5%, compared with the 76.8% last August and the 75% average over the past prior five years.

The September baseline incorporates the August employment report. We anticipate some payback in subsequent months and average monthly job growth this year is forecast to average 543,000, compared with the 532,000 in the August baseline forecast. Odds are that August's job growth is revised higher.

The unemployment rate is forecast to average 4.5% in the fourth quarter, compared with the 4.6% in the prior baseline. The unemployment rate was revised lower for next year and is now expected to average 3.4% in the fourth quarter of 2022. Risks to the labor market forecast are weighted to the downside. The Delta variant could delay the return to the labor force for many because of childcare and health concerns. Lack of labor supply is the biggest problem; businesses had 10.9 million open positions at the end of July. Still, we expect the economy to hit full employment by the end of 2022 or early 2023.

Inflation and the Fed

New historical data and the Delta variant led us to revise higher our forecast for the core PCE deflator. It is now expected to rise 3.9% on a year-ago basis in the fourth quarter of this year, compared with 3.5% in the August baseline. We look for inflation to moderate next year, with the core PCE deflator up 2.2% on a year-ago basis in

the fourth quarter of 2022, only 0.1 of a percentage point higher than in the prior baseline.

We altered our assumptions about when the Fed begins tapering its \$120 billion in monthly asset purchases. We now expect the Fed to start tapering in December by cutting its asset purchases by \$15 billion, to \$105 billion. The August baseline had tapering beginning in January 2022, so the change is fairly minor. We expect this process to be on autopilot and the assumption is for a \$15 billion reduction at each Federal Open Market Committee meeting, which would wrap it up before the end of next year. The Fed will then reinvest the proceeds from its maturing assets to ensure the balance sheet doesn't decline. We still assume the first rate hike in early 2023. The fed funds rate reaches its equilibrium rate, a touch above 2.5%, in the second half of 2025. Markets are pricing in a noticeably more gradual tightening cycle than our baseline. Tapering won't impact inflation. Though it won't be disinflationary, tapering could help keep market-based measures of inflation expectations anchored, since tapering is preamble to the Fed tighten monetary policy by allowing its balance sheet to decline and/or by increasing the target range for the fed funds rate.

Inflation expectations are also important in the future path of inflation. The Fed is keeping close tabs on various measures of inflation expectations, which appear to be anchored. The five-year, five-year forward inflation expectation rate is currently around 2.2%. This is based on the consumer price index, and if we adjust this for the tendency for the CPI to run ahead of the PCE deflator—the Fed's preferred measure of inflation—investors are expecting inflation to be on the Fed's target. One caveat is that the Fed could be distorting this a little, since the five-year, five-year forward inflation expectation rate incorporates Treasury Inflation-Protected Securities, and the Fed holds 2% of the TIPS market. As the Fed begins to taper, TIPS yields might climb. We didn't make any significant changes to the 10-year Treasury yield forecast. A bottom could be forming in long-term rates with the current yield below our estimate of the economic fair value of 1.58%. Also, seasonals favor an increase in the 10-year Treasury yield in September. On average, over the past several years, Treasury returns have declined in September. Further, the 10-year Treasury yield has risen in four of the last five Septembers. We don't anticipate a jump in interest rates this fall, but odds are rates will rise rather than continuing to drop.

German Industrial Production Falls

BY ROSS CIOFFI

German industrial production tumbled in August, dropping by 4% m/m and marking the sharpest month-on-month decline since the depths of the pandemic last year. Supply-chain disruptions hit especially hard in transportation equipment manufacturing, which saw production plunge by 15.7% m/m. Unfortunately, evidence points to supply chains remaining hard pressed well into 2022. Meanwhile, August's sharper-than-expected decrease will ding our estimate for third-quarter GDP.

However, not all countries saw output decline in August. Denmark, Ireland and Norway also posted industrial production releases on Thursday. Ireland's output tumbled by 2.8% m/m, but Denmark's was up 3.5% and Norway's grew by 2.7%. In Ireland, food production recoiled after strong growth in the previous month, and a steep decline in the manufacture of transport equipment, undoubtedly related to global supply shortages, dragged down the headline. In Denmark, a surge in pharmaceutical production lifted the headline figure, while in Norway, extraction of crude and natural gas saved the day.

U.K. house prices jump

According to the Halifax House Price Index, house prices in the U.K. jumped by 1.7% m/m in September, adding to a 0.8% increase in August. This was the fastest month-on-month increase in more than a decade, and it brought the index 7.4% above where it was a year earlier. Low borrowing costs are supporting demand for new housing, but we suspect demand may have spiked in September as the country's stamp-duty tax holiday came to an end. As taxes normalize, housing demand will moderate from highs of recent months. House prices will rise at a slower rate, but favorable financing conditions will prevent a steep drawback in prices.

Swiss labor market continues to improve

Swiss unemployment fell for the third consecutive month. The unemployment rate fell to 2.8% in September from 2.9% in August. Despite the improvement, unemployment rates remain above precrisis levels, suggesting the economy has yet to fully recover from the damage inflicted by COVID-19. Going into the fourth quarter, we expect unemployment will continue to inch downwards but won't return to precrisis levels until next year.

Euro zone retail sees slight gains

[Euro zone](#) retail sales excluding motor vehicles rose by 0.3% in August after a downwardly revised drop of 2.6% m/m in July. Sales of food, drinks and tobacco slumped by 1.7%, but this was outweighed by a 1.8% increase in nonfood sales. Consumer behavior has been volatile in the past months, clearly correlated with the progress of the pandemic in the member states.

That said, consumer fundamentals are broadly on a positive trend. The euro zone's business and consumer sentiment remained virtually flat at 117.8 in September from 117.6 in August. The unemployment rate, meanwhile, has been trending downward, standing at 7.5% in August, the same value as before the start of the pandemic. However, national policies are still responsible for holding down unemployment rates, and the unemployment rate decreased in August due to a shrinking labor force rather than a significant increase in employment.

Despite the caveats, consumer fundamentals point to continued spending. Whether households spend on retail goods or services, they will support third-quarter growth. Spending will slow in the fourth quarter, but this will not jeopardize the overall recovery.

Spain's industrial output contracts

Meanwhile, [Spain](#)'s industrial production contracted by 0.3% m/m in August, the third consecutive negative reading since June. Although the monthly drop was smaller relative to previous months, it hints that monthly output is being hampered by worldwide supply-chain bottlenecks. In year-ago terms, production increased by 1.8%, following the 3.4% gain in July. However, the yearly growth rate paints an incomplete picture given that production was still regaining its footing last summer following the lockdown measures implemented to contain the pandemic outbreak in 2020.

German factory orders drop

Finally, [Germany](#)'s factory orders dropped 7.7% m/m in August after increasing by 3.4% in July. The decline comes after months of solid order growth, and according to a recent Federal Statistics Office report, factories still have months of backlogs to work through.

RBA Anticipates Quarterly Contraction

BY KATRINA ELL and SHAHANA MUKHERJEE

The Reserve Bank of Australia kept all monetary settings steady in its October announcement, as anticipated. The cash rate was held at its record-low of 0.1%, and the parameters of the asset purchase program were left unchanged from September. Government securities will therefore continue to be purchased weekly at the rate of A\$4 billion until at least mid-February, and the target was maintained at 10 basis points for the April 2024 Australian Government bond.

In addition, the RBA maintained that the September quarter will have seen a decent contraction. The Moody's Analytics preliminary estimate is for a 1.5% quarterly contraction in the third stanza. The central bank also kept its stance that there is heightened uncertainty about the path of the recovery that temporarily paused with the extended lockdowns in New South Wales and Victoria states, which combined account for around half of the economy. Our base case is that the recovery will be much more subdued than the strong bounceback observed in 2020 after Australia emerged from its first lockdown. New South Wales and Victoria are slated to reopen later in October, but gradually. As a result, the improvement in household consumption and more broadly domestic demand will also be more measured. Australia is learning to live with COVID-19, and this new world will have bumps that will inevitably dent the economy along the way.

An important change in the October monetary policy statement compared with September was the wording around the housing market. The RBA has long maintained that its focus is on watching that sound lending standards are maintained. But this month the RBA acknowledged for the first time in a monetary policy statement that the Council of Financial Regulators (comprised of the Australian Prudential Regulation Authority, the RBA, the Australian Securities & Investments Commission, and the Treasury) have been monitoring housing market trends closely.

Australia's residential property market has thrived in the ultra-low borrowing cost environment, sending average house prices soaring by 18% to 20% in sought-after markets such as Sydney and Melbourne, raising concerns about the sustainability of the price boom, but more importantly, the longer term implications for the country's burgeoning household debt (at nearly 181% of disposable income). The significant growth has prompted APRA to intervene.

The prudential regulator has increased the minimum interest rate buffer that banks should use when assessing new home loan applications. Going forward, the interest rate needs to be at least 3 percentage points above the home loan rate. Previously the buffer was 2.5 percentage points. APRA expects this new rule will reduce the maximum mortgage for an average borrower by approximately 5%. The absolute change is not considerably large, but it is a clear signal to the market that more aggressive changes will be coming if lending standards do not improve.

Australian household debt is amongst the highest in the developed world. Other nations with similarly lofty household debt such as South Korea and New Zealand have already acted via macroprudential tools recently, demonstrating Australia isn't alone with this issue. South Korea ultimately hiked interest rates to rein in debt growth, as it didn't get the transmission mechanism right to deal with the leverage problem.

Looking ahead, while monetary settings are forecast to stay conducive to growth through 2022, the coming months may see APRA take steps to tighten prerequisites or limits for home loans (conditional on borrowers' debt serviceability) and eventually moderate house price growth.

U.S. Changes Overwhelmingly Positive

BY MICHAEL FERLEZ

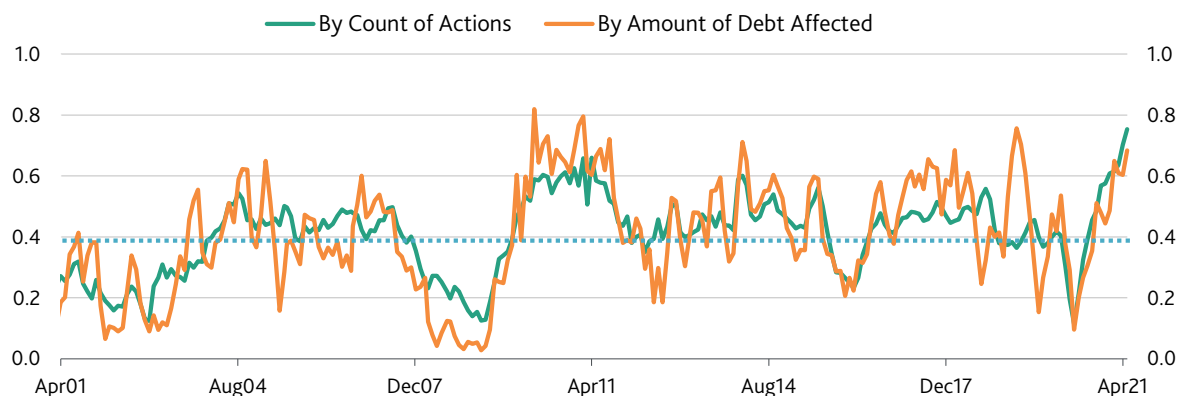
U.S. rating change activity was overwhelming positive in the latest period, with upgrades accounting for majority of rating actions and affected debt. U.S. rating activity has held strong this year, with upgrades well outpacing downgrades. Although rating change activity continues to be concentrated among speculative-grade companies, Texas Instruments Inc. and Bunge Limited, both investment-grade firms, saw their ratings upgraded last week. Texas Instruments was the largest upgrade in terms of affected debt. The U.S. semiconductor company saw its senior unsecured rating rise to Aa3 from A1, affecting \$7.8 billion in debt. Moody's Investors Service cited governance considerations in its credit rating upgrade, noting the company's "improving product mix (more higher margin industrial and auto revenue) and ongoing cost efficiencies from producing more chips on larger 300-millimeter wafers" that helped to expand TI's adjusted gross margins to about 66% from 50% ten years ago.

Europe

Western European rating changes were mixed last week. Although upgrades accounted for over 80% of total rating changes, they represented just 20% of the affected debt. Geographically, Austria led all countries with seven rating changes. All seven involved banks and member institutions of the Raiffeisen Banking Group. The largest upgrade in terms of affected debt was made to Raiffeisen Bank International AG, which saw its long-term senior unsecured debt and deposit ratings rise to A2 from A3 among other upgrades. In its rating action, Moody's Investors Service cited an improved assessment of the joint financial strength of the Austrian RBG for the numerous upgrades. For RBI, Moody's Investors Services specifically cited a number of reasons, including its expectation of stable capitalization and improving profitability in upgrading BCA's as well as the bank's solid and balanced liquidity and funding profile. The largest downgrade for the week was made to DZ Bank AG and several of its subsidiaries. The downgrade affected \$61 billion in debt.

RATINGS ROUND-UP

FIGURE 1
Rating Changes - US Corporate & Financial Institutions: Favorable as a % of Total Actions



* Trailing 3-month average

Source: Moody's

FIGURE 2
Rating Key

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

FIGURE 3
Rating Changes: Corporate & Financial Institutions - US

Date	Company	Sector	Rating	Amount (\$ Million)	Up/Down	Old LTD Rating	New LTD Rating	IG/SG
9/29/2021	JPW INDUSTRIES LUX ACQUISITIONS HOLDINGS S.A R.L.-JPW INDUSTRIES HOLDING CORPORATION	Industrial	SrSec/LTCFR/PDR	280.0	U	Caa1	B3	SG
9/30/2021	RITE AID CORPORATION	Industrial	SrSec/SrUnsec/SrSec/BCF/LTCFR/PDR	1610.9	U	Caa1	B3	SG
9/30/2021	STANDARD INDUSTRIES INC.	Industrial	SrUnsec/LTCFR/PDR	4977.7	D	Ba2	B1	SG
9/30/2021	BUNGE LIMITED	Industrial	SrUnsec/LTIR/PS	5517.7	U	Baa3	Baa2	IG
9/30/2021	AHERN RENTALS INC.	Industrial	LTCFR/PDR		D	B3	Caa1	SG
9/30/2021	MARVEL PARENT, LLC-MONOTYPE IMAGING HOLDINGS INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
9/30/2021	NORTHWEST FIBER, LLC	Utility	SrUnsec/SrSec/BCF/LTCFR/PDR	550.0	D	Caa1	Caa2	SG
10/1/2021	CF INDUSTRIES HOLDINGS, INC.-CF INDUSTRIES, INC.	Industrial	SrUnsec	2750.0	U	Ba2	Ba1	SG
10/1/2021	AEGIS TOXICOLOGY SCIENCES CORPORATION	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
10/4/2021	TEXAS INSTRUMENTS, INCORPORATED	Industrial	SrUnsec	7800.0	U	A1	Aa3	IG
10/4/2021	THOR INDUSTRIES, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	Ba3	Ba2	SG
10/4/2021	WINNEBAGO INDUSTRIES, INC.	Industrial	SrSec/LTCFR/PDR	300.0	U	B1	Ba3	SG
10/4/2021	SITEONE LANDSCAPE SUPPLY HOLDING, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B1	Ba3	SG
10/4/2021	BROADSTREET PARTNERS, INC.	Financial	SrUnsec/LTCFR/PDR		D	Caa1	Caa2	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
9/29/2021	RAIFFEISENLANDESBANK NIEDEROESTERREICH - WIEN	Financial	SrUnsec/LTIR/LTD/Sub/MTN	2150.4	U	Baa1	A3	IG	AUSTRIA
9/29/2021	RAIFFEISENLANDESBANK OBEROESTERREICH AKTIENGESELLS	Financial	SrUnsec/LTIR/LTD	803.3	U	Baa1	A3	IG	AUSTRIA
9/29/2021	RAIFFEISEN-LANDESBANK STEIERMARK AG	Financial	LTIR/LTD		U	Baa1	A3	IG	AUSTRIA
9/29/2021	RAIFFEISEN-LANDESBANK TIROL AG	Financial	LTIR/LTD		U	Baa1	A3	IG	AUSTRIA
9/29/2021	RAIFFEISENVERBAND SALZBURG	Financial	LTIR/LTD		U	Baa1	A3	IG	AUSTRIA
9/29/2021	RAIFFEISENLANDESBANK VORARLBERG	Financial	LTIR/LTD		U	Baa1	A3	IG	AUSTRIA
9/29/2021	RAIFFEISEN BANK INTERNATIONAL AG	Financial	SrUnsec/LTIR/STD/LTD/SrSub/Sub/MTN	12082.8	U	A3	A2	IG	AUSTRIA
9/29/2021	SIG COMBIBLOC GROUP AG	Industrial	SrUnsec/LTCFR/PDR	1159.6	U	Ba2	Ba1	SG	SWITZERLAND
10/1/2021	DZ BANK AG DEUTSCHE ZENTRAL-GENOSSENSCHAFTSBANK	Financial	SrUnsec/LTIR/LTD/Sub/MTN	60988.3	D	Aa1	Aa2	IG	GERMANY
10/1/2021	BANK URALSIB	Financial	LTD		U	B2	B1	SG	RUSSIA
10/1/2021	BREEZE FINANCE S.A.	Industrial	SrSec/Sub	430.2	D	B2	B3	SG	LUXEMBOURG
10/1/2021	JSC HOLDING COMPANY METALLOINVEST-METALLOINVEST FINANCE D.A.C.	Industrial	SrUnsec	800.0	U	Ba1	Baa3	SG	IRELAND
10/1/2021	IBERCAJA CAJATRES-IBERCAJA BANCO SA	Financial	LTD/Sub	579.8	U	Ba2	Ba1	SG	SPAIN
10/4/2021	HOIST FINANCE AB (PUBL)	Financial	MTN		U	Ba3	Ba2	SG	SWEDEN
10/5/2021	SEB AB	Financial	SrUnsec/LTIR/LTD/MTN	11371.1	D	Aa2	Aa3	IG	SWEDEN
10/5/2021	NORD GOLD PLC	Industrial	SrUnsec/LTCFR/PDR	400.0	U	Ba2	Ba1	SG	UNITED KINGDOM

Source: Moody's

MARKET DATA

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

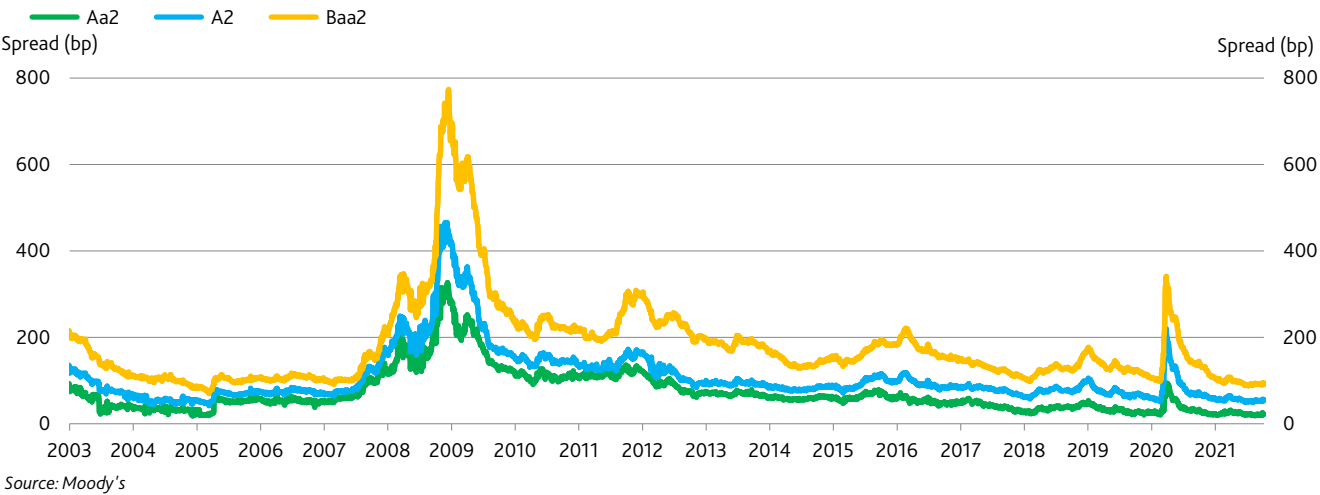
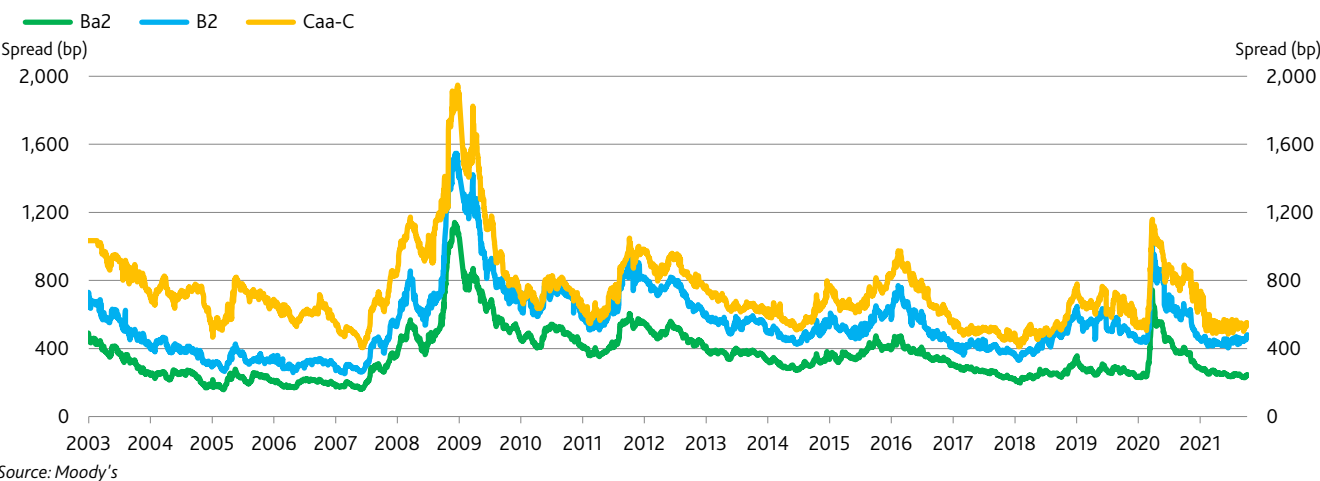


Figure 2: 5-Year Median Spreads-Global Data (High Yield)



CDS MOVERS

Figure 3. CDS Movers - US (September 29, 2021 – October 6, 2021)

CDS Implied Rating Rises		CDS Implied Ratings	
Issuer	Oct. 6	Sep. 29	Senior Ratings
Illinois Tool Works Inc.	Aa2	A1	A2
Burlington Resources LLC	Aa3	A2	A3
PepsiCo, Inc.	A1	A2	A1
Intel Corporation	Aa2	Aa3	A1
Occidental Petroleum Corporation	Ba2	Ba3	Ba2
NextEra Energy Capital Holdings, Inc.	A2	A3	Baa1
Southern California Edison Company	Baa3	Ba1	Baa2
Eli Lilly and Company	Aa1	Aa2	A2
Consolidated Edison Company of New York, Inc.	A2	A3	Baa1
Becton, Dickinson and Company	A3	Baa1	Baa3

CDS Implied Rating Declines		CDS Implied Ratings	
Issuer	Oct. 6	Sep. 29	Senior Ratings
Emerson Electric Company	A2	Aa3	A2
Clorox Company (The)	A2	Aa3	Baa1
Bank of America Corporation	Baa1	A3	A2
McDonald's Corporation	Aa2	Aa1	Baa1
Walmart Inc.	Aa2	Aa1	Aa2
Amazon.com, Inc.	Aa3	Aa2	A1
Coca-Cola Company (The)	Aa3	Aa2	A1
Bristol-Myers Squibb Company	Aa2	Aa1	A2
Raytheon Technologies Corporation	A1	Aa3	Baa1
Bank of New York Mellon Corporation (The)	Aa3	Aa2	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Oct. 6	Sep. 29	Spread Diff
Macy's Retail Holdings, LLC	Ba3	307	237	70
Staples, Inc.	Caa1	991	930	61
K. Hovnanian Enterprises, Inc.	Caa3	784	741	43
Rite Aid Corporation	Caa2	981	943	38
NRG Energy, Inc.	Ba2	197	161	36
Pitney Bowes Inc.	B1	469	434	35
Nordstrom, Inc.	Ba1	281	246	35
TEGNA Inc.	Ba3	356	321	34
United States Steel Corporation	B3	401	367	34
Kohl's Corporation	Baa2	161	129	32

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Oct. 6	Sep. 29	Spread Diff
Talen Energy Supply, LLC	Caa1	2,773	2,836	-63
Southern California Edison Company	Baa2	88	123	-35
Nabors Industries, Inc.	Caa2	595	608	-12
PSEG Power LLC	Baa1	61	73	-12
SITE Centers Corp.	Baa3	104	115	-11
Illinois Tool Works Inc.	A2	28	38	-9
Expedia Group, Inc.	Baa3	87	93	-6
Avis Budget Car Rental, LLC	B3	250	256	-6
Devon Energy Corporation	Ba1	95	101	-6
Hess Corporation	Ba1	96	102	-6

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (September 29, 2021 – October 6, 2021)

CDS Implied Rating Rises		CDS Implied Ratings	
Issuer	Oct. 6	Sep. 29	Senior Ratings
Santander UK plc	A1	Baa1	A1
Santander Financial Services plc	A1	Baa1	A1
CaixaBank, S.A.	A2	A3	Baa1
Dexia Credit Local	Baa2	Baa3	Baa3
TotalEnergies SE	Aa1	Aa2	A1
Banca Monte dei Paschi di Siena S.p.A.	Ba2	Ba3	Caa1
KBC Bank N.V.	Aa3	A1	A1
National Grid Electricity Transmission plc	A1	A2	Baa1
Scottish Power UK plc	A3	Baa1	Baa1
Rolls-Royce plc	Ba2	Ba3	Ba3

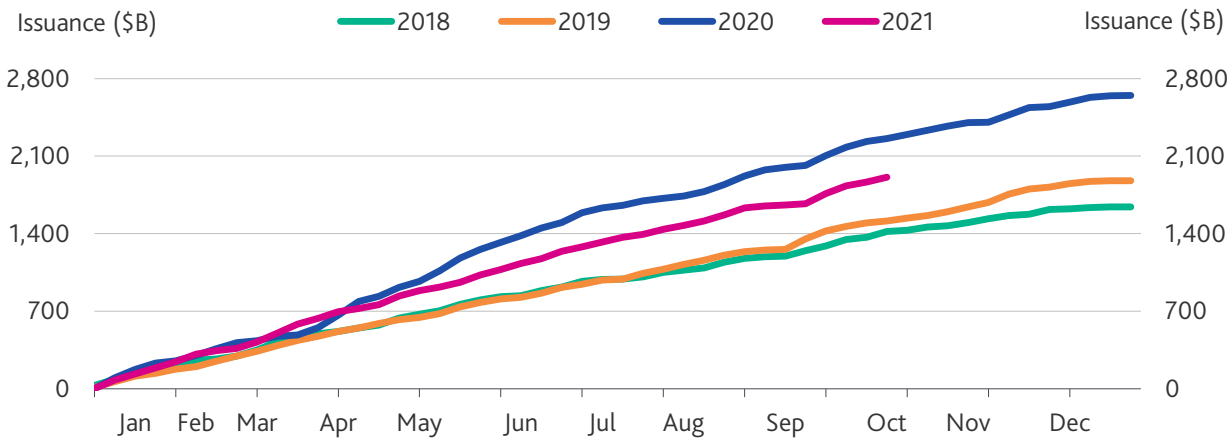
CDS Implied Rating Declines		CDS Implied Ratings	
Issuer	Oct. 6	Sep. 29	Senior Ratings
France, Government of	Aa1	Aaa	Aa2
Natixis	A1	Aa3	A1
BNP Paribas	A1	Aa3	Aa3
Societe Generale	A1	Aa3	A1
Deutsche Bank AG	A3	A2	A2
Banco Santander S.A. (Spain)	Aa3	Aa2	A2
Banco Bilbao Vizcaya Argentaria, S.A.	A1	Aa3	A3
HSBC Holdings plc	Baa2	Baa1	A3
Banque Federative du Credit Mutuel	A1	Aa3	Aa3
Credit Agricole Corporate and Investment Bank	Aa3	Aa2	Aa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Oct. 6	Sep. 29	Spread Diff
Vedanta Resources Limited	B3	801	695	106
Boparan Finance plc	Caa1	1,065	986	79
Novafives S.A.S.	Caa2	690	644	46
Stena AB	Caa1	460	414	46
CMA CGM S.A.	B2	334	289	45
Ardagh Packaging Finance plc	Caa1	262	226	35
Casino Guichard-Perrachon SA	Caa1	576	542	34
Iceland Bondco plc	Caa2	536	506	30
Ineos Group Holdings S.A.	B2	248	221	28
UPC Holding B.V.	B3	192	165	27

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Oct. 6	Sep. 29	Spread Diff
Vue International Bidco plc	Ca	634	650	-16
Sappi Papier Holding GmbH	Ba2	309	324	-15
Rolls-Royce plc	Ba3	171	185	-14
Santander UK plc	A1	38	51	-13
Santander Financial Services plc	A1	39	52	-13
Piraeus Financial Holdings S.A.	Caa2	555	565	-10
Banca Monte dei Paschi di Siena S.p.A.	Caa1	179	189	-9
Scottish Power Limited	Baa1	50	58	-8
Scottish Power UK plc	Baa1	45	53	-7
Iceland, Government of	A2	57	63	-6

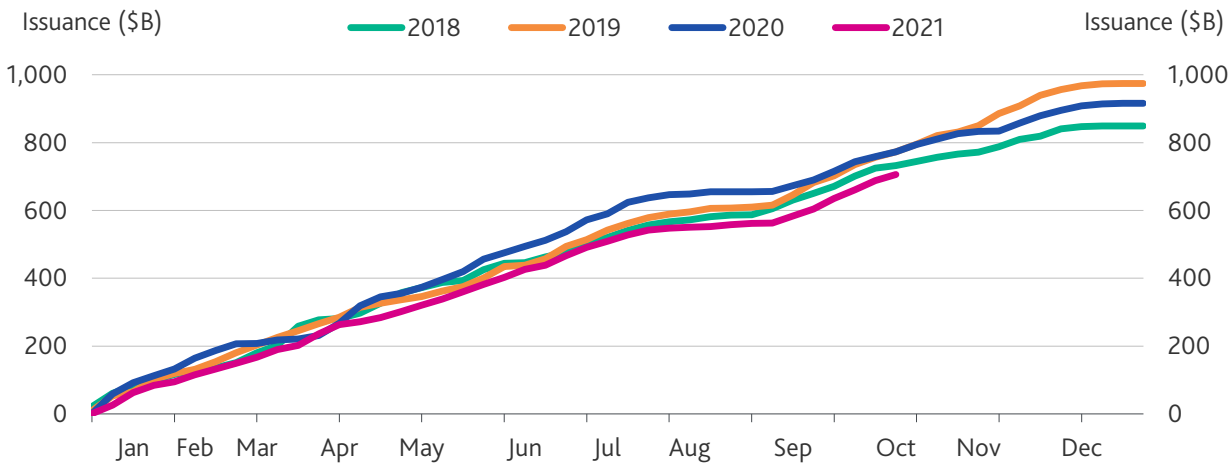
Source: Moody's, CMA

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

Figure 7. Issuance: Corporate & Financial Institutions

USD Denominated			
	Investment-Grade	High-Yield	Total*
	Amount	Amount	Amount
	\$B	\$B	\$B
Weekly	22.807	18.077	42.574
Year-to-Date	1,314.451	534.017	1,909.128

Euro Denominated			
	Investment-Grade	High-Yield	Total*
	Amount	Amount	Amount
	\$B	\$B	\$B
Weekly	16.163	0.875	17.767
Year-to-Date	559.513	127.328	705.654

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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Report Number: 1305793

Editor

Reid Kanaley

help@economy.com

Contact Us

Americas

+1.212.553.1658

clientservices@moodys.com

Europe

+44.20.7772.5454

clientservices.emea@moodys.com

Asia (Excluding Japan)

+85 2 2916 1121

clientservices.asia@moodys.com

Japan

+81 3 5408 4100

clientservices.japan@moodys.com

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