WEEKLY MARKET OUTLOOK

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Lead Author

Ryan Sweet
Senior Director-Economic Research

Asia-Pacific

Christina Zhu
Economist

Shahana Mukherjee
Economist

Europe

Ross Cioffi
Economist

Evan Karson
Economist

U.S.

Adam Kamins
Director

Michael Ferlez
Economist

Ryan Kelly
Data Specialist

Podcast

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Corporate Bond Issuance Set to Moderate

Last year was another strong one for U.S. dollar-denominated investment-grade corporate bond issuance; it totaled $1.6 trillion, 17% above its pre-pandemic average. The strong rebound in the economy, solid growth in corporate profits, and tight spreads were all supportive for investment-grade corporate bond issuance.

We have updated the use of proceeds for the fourth quarter, but there weren't any material changes from the prior three months. The use of proceeds last year was dominated by debt refinancing and a noticeable increase in mergers and acquisitions. A similar dynamic remains this year. M&A will be strong as businesses are flush with cash.

A lot of attention has been on U.S. consumers' excess savings, but companies have also been in a saving mood, which bodes well for M&A this year and should help insulate firms from turbulence in the financial markets. In the third quarter, undistributed corporate profits, a proxy for corporate savings, were $1.2 trillion, or 5% of nominal GDP.

This year, U.S. dollar-denominated investment-grade corporate bond issuance is forecast to be $1.28 trillion, roughly in line with our December forecast of $1.3 trillion. Risks are weighted to the downside and centered on interest rates. Rates have jumped recently, and investment-grade issuance, which is a longer duration, is more sensitive to interest rates.

Twenty twenty-one was a record year for high-yield corporate bond issuance even though it ended with a dud. U.S. dollar-denominated high-yield corporate bond issuance totaled $622 billion, about 60% more than its pre-pandemic average.

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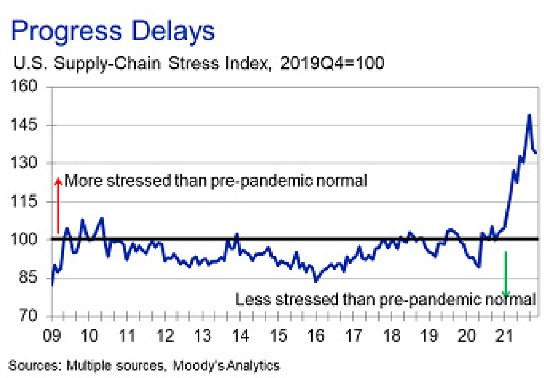
High-yield issuance won't be able to match last year. But we are off to a solid start even with some tightening in financial market conditions. High-yield issuance increased $10 billion last week, bringing the cumulative issuance this year to $23 billion. We are on a track early this year that's similar to each of the past couple of years. This is encouraging because issuance is highly seasonal—how it fares in the first half of the year can make or break the year.

Our forecast is for a 27% decline in issuance this year to $482 billion. This is toward the top end of the range of consensus estimates for high-yield issuance this year. The consensus is for $425 billion in high-yield issuance this year.

U.S. supply-chain update: moving sideways

Our U.S. Supply-Chain Stress Index is moving sideways. The latest reading shows a decline from 135.8 to 134.3 in November. The exponential rise in infections of COVID-19 due to the Omicron variant began in mid-December. This will likely lead to another month of only marginal improvement for the SCSI, though there are increasing signs that stress is easing—such as the reduced number of references to shortages in the Fed's Beige Book.

The issues with U.S. supply chains are both supply- and demand-related, therefore we could see some seasonal improvement now that the holiday shopping season is over. However, the Omicron variant of COVID-19 is likely disrupting production. Omicron's spread has caused daily infections to shatter previous highs. Self-isolating workers have left already stretched-thin firms short-staffed and caused operations to slow. Industrial production data for December showed a surprising 0.1% decline, weighed down by a reduction in manufacturing output.



Further reduction in supply-chain stress is needed to relieve some of the pressure on consumer prices. On a year-ago basis, the consumer price index was up 7% in December. Supply-chain issues added 2 percentage points to year-over-year growth in the CPI in December, compared with the 1.8-percentage point contribution in November. Supply-chain-constrained components have added 1 percentage point or more to growth in the CPI since April. Energy prices added 2.2 percentage points to year-over-year growth in the CPI in December. The core CPI was up 5.5% on a year-ago basis in December.

Improved vaccination rates, particularly in the Asia-Pacific region—a crucial starting point along global supply chains—will help reduce Omicron's impact and cause less disruption than the Delta variant. Additionally, businesses have had time to adapt to pandemic bottlenecks. Regional Fed manufacturing surveys, which are included in the SCSI, as well as the Institute for Supply Management show improvement in supplier delivery times. Still, zero-COVID policies, most notably in China, mean dislocated production and shortages while Omicron remains everywhere.

Earlier expectations that supply-chain headaches would begin to alleviate materially in early 2022 are unlikely to come to fruition. Producer prices remain elevated and intermediate inputs scarce. However, experience means businesses are better equipped to navigate waves of infections. Instead, early 2022 will likely be characterized as a period of paused progress.

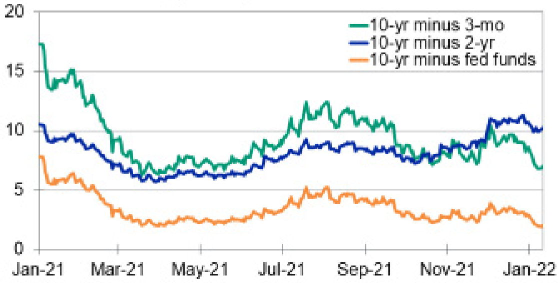
Fed has yield curve on its mind

The Federal Reserve is going to tighten monetary policy noticeably as the baseline forecast now assumes four 25-basis point rate hikes this year. The Fed seems eager to lean on its balance sheet as the tool to remove monetary policy accommodation and it is going to start shrinking the portfolio shortly after the first rate hike. The Fed could reduce its balance sheet by $750 billion per year.

The Fed does have the yield curve on its mind and the minutes from the December meeting of the Federal Open Market Committee suggest it could rely on the balance sheet more heavily if the yield curve flattens. The minutes noted that a few of the meeting participants raised concerns that a relatively flat yield curve could adversely affect interest margins for some financial intermediaries, which may raise financial stability risks. Therefore, given the room the Fed has on duration spreads before the yield curve inverts, it can rely more heavily on the balance sheet to remove policy accommodation.

Financial Markets Are Adjusting

Yield curve derived probability of U.S. recession in 12 mo, %



Sources: Treasury, Moody's Analytics

The Fed will want to avoid inverting the yield curve. Though there are reasons to be skeptical about the message that comes from the yield curve, there is a potential psychological impact. Yield curve inversions trigger recession concerns. Most of our probability of recession models suggest that the odds of a recession in the next 12 months are very low. With the recent flattening in the yield curve, the message from the bond market is that recession risks are low. We have daily probability of recession models based on different versions of the yield curve. The yield curve would put the probability of a recession in the next 12 months at 2% to 10%.

Harsh Light on Omicron-Stricken Regions

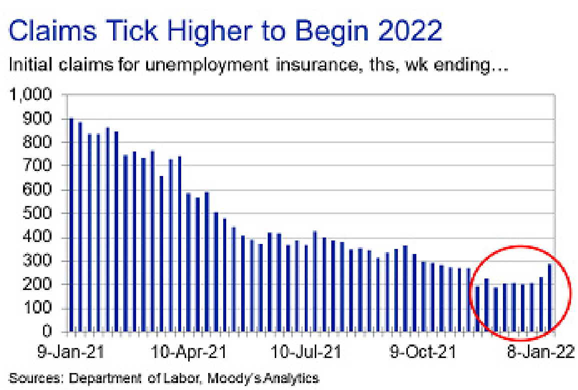
BY ADAM KAMINS

U.S. initial claims for unemployment insurance benefits were arguably the gold standard for real-time information on how state economies were performing until COVID-19 arrived. Over the past two years, their timeliness and geographic granularity have at times been supplanted by a handful of private sources, while seasonal patterns and innate volatility can introduce noise into the weekly figures.

But in recent weeks, a renewed uptick in claims has provided an important glimpse into the Omicron variant's impact on the labor market, both nationally and regionally. That increase is being driven largely by the Northeast, with states that have experienced some of the nation's largest surges seeing the adverse impact flow into their labor markets.

What's behind the increases

Initial claims since Christmas have surged since the new year began, including an unadjusted increase of more than 100,000 over the past week. Much of the recent increase can be traced to seasonal factors, as is common this time of year, but that is hardly the entire story. Seasonally adjusted figures, which are available nationally but not by state, indicate that initial claims were their highest in nearly three months last week.



In fact, adjusted claims over the past three weeks are up about 20% compared with the preceding three-week period. This stands in stark contrast to the past few years, when the pattern was relatively flat or declining, suggesting that something else is at play.

Comments provided by states each week reveal some hints as to what is behind an uptick in claims. One culprit is the continued impact of supply-chain disruptions, likely contributing to manufacturing layoffs that were widely cited. But this is hardly new; worries about bottlenecks and inflation did not drive claims meaningfully higher for most of the fall. The second reason involves reduced consumer activity, with accommodations and food services experiencing renewed weakness as Americans have again grown wary of venturing out amid rapidly rising cases.

To better see how profound the second impact is, one need look no further than the region that is driving recent increases. The Northeast, where sentiment remains more closely tethered to the pandemic and cases have surged most dramatically over the past month, has seen initial claims skyrocket. A comparison of the past three weeks to the preceding three shows average weekly claims rising sharply in New York, New Jersey and Pennsylvania. New England is also adding to the ranks of the unemployed more quickly than the rest of the nation with Connecticut hit especially hard and Massachusetts losing ground as new cases have surged.

Those results come as little surprise, reflecting the increased disruption to large urban areas, where an outsize share of office jobs makes remote work more prevalent during each wave, weighing on supporting consumer industries. A handful of fast-growing states including Utah and South Carolina have also experienced sharp gains. But each state either is or has been below average in terms of per capita initial claims for a while, suggesting that this may reflect weekly volatility more than a meaningful trend.

Continuing claims

While initial claims provide a timely look at changes, continuing claims represent a cumulative measure of recent state performance. They tell a similar story of late, rising most rapidly in the Northeast and Midwest. This suggests that more workers are finding their way off the sidelines with more ease in places such as the Southeast, Mountain West and Texas.

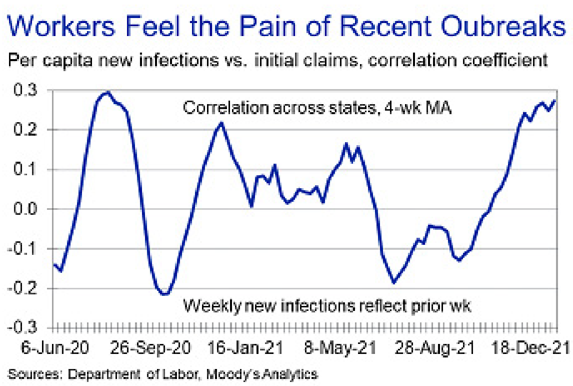
A rank ordering of state insured unemployment rates—continuing claims divided by the size of the labor force—reveals more similarities between today's rankings and those from a year ago than the order from this past summer and fall. This suggests that the combination of rebound effects and the impact of the Delta variant on the Sun Belt had northern states gaining ground for much of 2021—but any convergence has ground to halt for now.

As the Omicron variant peaks in the Northeast, the rest of the year should bring about a return to previous patterns. But the vulnerability of some states that were already in a deep economic hole has been made apparent by the current wave.

Claims and cases

The recent claims data also allow us to revisit a fundamental question that has persisted over the course of the pandemic: Do elevated case counts still pack much of an economic wallop?

Over the summer, Delta served as something of a check on growth, but the setback to harder-hit states relative to the rest of the nation was modest. But now the relationship between new cases and growth is stronger than it has been at any point since the early days of the pandemic.



This hardly reflects an increased sensitivity to the virus across the nation; if anything, the fact that life has largely gone on as usual suggests a willingness to coexist with COVID-19. Instead, it is because of the geographic footprint of Omicron, which has struck areas where a meaningful increase in cases tends to spook consumers and disrupt spending more. Whereas most of the South pressed on with in-person work and amenities over the summer despite surging cases, portions of the Northeast are now imposing some curbs, albeit modest ones, on behavior.

The results are evident in both hard data like claims and in surveys. Consumer sentiment nationally has slipped because of both price pressures and Omicron, while factory sentiment in New York fell precipitously in early January, according this month's Empire State Manufacturing Survey. Taken together, these patterns suggest a meaningful dent associated with rising cases, but one that looks different in some parts of the country than in others.

The Week Ahead in the Global Economy

U.S.

The economic calendar is packed. Among the key data next week are the Conference Board's consumer confidence, initial claims for jobless benefits, new-home sales, durable goods orders and fourth-quarter GDP. Our high-frequency GDP model currently has fourth quarter GDP on track to rise 5.4% at an annualized rate, but this will likely change as some key source data will be released ahead of the governments advance estimate of fourth-quarter GDP. We also get the PCE deflator for December, which will likely mark the peak in inflation. The Federal Open Market Committee will also meet. We will see a shake-up in voting members there. The annual rotation of regional Fed presidents is normal, but given financial markets' sensitivity to the outlook for inflation, the composition of the FOMC and future comments by the regional presidents who now have a voting seat could matter more than usual.

Our assessment is that the rotation of regional Fed presidents will not significantly alter our baseline forecast for the central bank's balance sheet or interest rate policies. However, on net, the rotation will give the hawks a louder voice. Out are the Fed presidents of Atlanta, Chicago, San Francisco and Richmond. Replacing them are Fed presidents for Kansas City, St. Louis, Cleveland and Boston (although Philadelphia Fed President Patrick Harker will temporarily fill the voting seat reserved for the Boston Fed president, as that bank doesn't have a full-time president yet).

Odds are that there will be more dissents at FOMC meetings this year. Esther George, president of the Kansas City Fed, is an uberhawk and has dissented half the times she's had a vote. Cleveland Fed President Loretta Mester is also a hawk, as is St. Louis Fed President James Bullard. Harker is more of a centrist.

The views of regional Fed presidents and those on the Board of Governors are not set in stone, and any shift could be significant. For example, if those members on the hawkish side of the spectrum suddenly sound dovish, or vice versa, it could signal a noticeable shift in the balance of power and that a potential change in the outlook could be on the way. We expect the January meeting to signal that a rate hike is coming soon, potentially as early as March.

Europe

We expect that the number of French job seekers declined again in December, to 3.08 million from 3.09 million in November. Gains will be harder to come by from here on out as the COVID-19 outbreak this winter has thrown a stick in the wheels of the recovery in the tourism sector. Survey data was upbeat, but there is a tangible risk that unemployment ticks up in the coming months.

Likewise, we expect that the unemployment rate in Spain decreased over the fourth quarter to 14.5% from 14.6% in the third. In Spain, COVID-19 has also chilled further progress, and the surge in utility costs this winter is another reason for businesses to be more cautious. Tourism flows will pick up as the pandemic abates and will spur stronger gains in the labor market later this year.

France's household consumption of goods likely grew 0.4% m/m in December after the 0.8% rise in November. The holiday season should have boosted sales during the month. The return of COVID-19 may also convince some to spend on new home entertainment or office supplies. That said, January will likely report a recoil in spending.

The euro zone's business and consumer sentiment index likely rebounded slightly in January. We expect the ESI rose to a reading of 115.7 from 115.3. There are still causes for concern, such as rising inflation and utility bills and disrupted supply lines. Fortunately, the Omicron outbreak has proven to be less deadly than may have been initially feared in December; and we expect this news to have brightened the mood among businesses and households.

Asia-Pacific

South Korea's fourth-quarter growth will be the highlight on the economic calendar. We expect South Korea's economy to have grown by 4.1% year-on-year in the fourth quarter, following 4% growth in the prior quarter.

Manufacturers benefited from robust overseas demand through most of last year, but elevated commodity prices and a higher import bill moderated gains in South Korea's net trade in the final quarter. At the same time, domestic conditions were less favourable as the country contended with renewed distancing measures, which prevented a meaningful recovery in household consumption and dampened the employment revival. We expect moderate gains in domestic demand, together with a narrower trade surplus to have put their marks on fourth-quarter growth.

Australia's consumer price inflation is expected to have nudged up to 3.3% year-on-year in the fourth quarter on the back of higher fuel and food prices, up from 3% in the prior quarter. Singapore's inflation is likely to have inched up to 3.9% in December from 3.8% in November, driven by higher transport, electricity and food costs.

Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
9-Mar	South Korea	Presidential election	Medium	Medium
27-Mar	Hong Kong	Chief executive election	Low	Low
10-Apr	France	General elections	Medium	Medium
9-May	Philippines	Presidential election	Low	Low
29-May	Colombia	Presidential elections	Medium	Low
Jun	Switzerland	World Economic Forum annual meeting	Medium	Low
29-30 Jun	NATO	NATO Summit, hosted by Madrid	Medium	Medium
Jun/Jul	PNG	National general election	Low	Low
2-Oct	Brazil	Presidential and congressional elections	High	Medium
Oct/Nov	China	National Party Congress	High	Medium
7-Nov	U.N.	U.N. Climate Change Conference 2022 (COP 27)	Medium	Low

THE LONG VIEW: U.S.

High-Yield Issuance Disappoints for December

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond spread is 113 basis points, a touch wider than the 109 bps this time last week and now in line with the 113 average in December. Over the last 12 months, the highest average corporate bond spread was 113 bps, while the low was 95. The long-term average industrial corporate bond spread widened 4 bps to 101 bps. This is barely below the high over the past 12 months of 102 bps but above the low of 86.

The recent ICE BofA U.S. high-yield option adjusted bond spread widened over the past week by 5 basis point to 311 bps. This is below its recent high of 367 bps in early December. The Bloomberg Barclays high-yield option adjusted spread has bounced around recently and is now at 295 bps compared with 286 bps at this time last week. The high-yield option adjusted bond spreads approximate what is suggested by the accompanying long-term Baa industrial company bond yield spread and are roughly consistent with a VIX of 22.

Defaults

Defaults remain very low. According to the latest Moody's monthly default report, the global speculative-grade default rate fell to 1.7% for the trailing 12 months ended in December, from 2.0% the prior month. The rate has fallen steadily since touching a cyclical peak of 6.9% at the end of 2020 and remains below the pre-pandemic level of 3.3%. Under our baseline scenario, Moody's Credit Transition Model predicts that the global speculative-grade default rate will fall to a cyclical low of 1.5% in the second quarter of 2022 before gradually rising to 2.4% at year end.

We also expect default risk to remain low for speculative-grade companies as a whole because many have refinanced their debt in the last two years at very low interest rates, therefore mitigating their near-term default risks. However, some low-rated companies that are under liquidity or solvency stress could be vulnerable to default in the event of tighter liquidity, higher borrowing costs, and profit erosion.

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 faired noticeably better in the second quarter.

Issuance softened in the third quarter of 2021 as worldwide offerings of corporate bonds revealed a year-over-year decline of 5% for investment grade. U.S. denominated corporate bond issuance also fell, dropping 16% on a year-ago basis. High-yield issuance faired noticeably better in the third quarter.

Fourth-quarter 2022's worldwide offerings of corporate bonds fell 9.4% for investment grade. High-yield US$ denominated high-yield corporate bond issuance fell from $133 billion in the third quarter to $92 billion in the final three months of 2021. December was a disappointment for high-yield corporate bond issuance, since it was 33% below its prior five-year average for the month.

In the week ended January 14, US$-denominated investment grade corporate bond issuance was $51.3 billion, bringing year-to-date issuance to $114.8 billion. High-yield US$-denominated corporate bond issuance was $10.5 billion, bringing year-to-date issuance to $22.5 billion.

U.S. ECONOMIC OUTLOOK

There were some noticeable changes to our January U.S. baseline forecast, particularly assumptions around fiscal and monetary policy. The Federal Reserve's hawkish shift isn't just rhetoric, and it is gearing up to start removing monetary policy accommodation more quickly than we had assumed in the December baseline. There remains an enormous amount of uncertainty about Biden's Build Back Better agenda, but we don't think it's dead, so we are leaving a version of it in the baseline forecast.

Fiscal policy uncertainty climbs

The Build Back Better agenda is down but not out following the spectacular collapse in negotiations between Senator Joe Manchin and the White House in late December. During the holidays, there was no sign of talks. However, this likely reflects a desire on both sides to ratchet down tensions that came to a boil right before the holidays. We expect congressional Democrats and the White House will make progress on a revised version of a BBB package that is acceptable to Manchin by the president's State of the Union address in February. However, if no progress is made by then, we will most likely pull the plug on our BBB assumptions in the baseline forecast.

It would not be a game changer for the economy if the BBB failed to become law, but it will diminish the economy's growth prospects and ding the fortunes of lower- and middle-income households. Our outlook for real GDP growth in 2022 would be reduced by 0.75 percentage point, since BBB is front-loaded—with budget deficits in the near term and surpluses in the longer run that roughly net out over the 10-year budget horizon. Longer run, the economy's potential growth would be reduced by several basis points per year as the BBB agenda lifts labor force participation by lowering the cost of work, particularly for lower-income minority women.

However, Manchin has reportedly proposed a package costing a similar amount but with policies that do not sunset within the budget horizon. The senator argues that future lawmakers will not have the political fortitude to allow policies to actually expire, or to pay for them if they do not, and thus their cost will be substantially more than budgeted. To accommodate the senator's concern and pass BBB legislation, we assume the Biden administration and congressional Democrats will scale back the number of policies included in a BBB law and eliminate sunsets. The baseline forecast assumes a $1.8 trillion BBB package that permanently funds an expansion of healthcare coverage, clean-energy and climate investments, and universal preschool, among others. The bill will be nearly paid for by higher taxes on corporations and well-to-do households. The BBB package is assumed to pass by the end of the first quarter of 2022, with implementation occurring in the following quarter.

COVID-19 assumptions

When we updated the December baseline, information about the Omicron variant was lacking but it quickly became clear that a significant revision to our COVID-19 assumptions would be needed in January.

We adjusted our epidemiological assumptions to anticipate that total confirmed COVID-19 cases in the U.S. will be 107.1 million, nearly 50 million more than in the December baseline. The seven-day moving average of daily confirmed cases has jumped recently and is north of 700,000. The date for abatement of the pandemic, where total case growth is less than 0.05% per day, changed slightly; it is now May 13, a few of months later than in the prior baseline.

We have replaced the concept of herd immunity with "effective immunity," which is a rolling number of infections plus vaccinations to account for the fact that immunity is not permanent. The forecast still assumes that COVID-19 will be endemic and seasonal.

Goodbye 2021, hello 2022

Each passing wave is expected to be less disruptive. That doesn't mean that the economic costs are negligible. We reduced our forecast for first-quarter GDP growth 3.3 percentage points to 2.1% at an annualized rate. Risks are actually weighted toward a smaller hit to growth, as it will not be as significant as Delta because of autos. Delta roiled global supply chains, and that had an enormous impact on U.S. auto production and sales. Autos subtracted 2 percentage points from GDP growth during the Delta wave, something that is unlikely to be repeated during the Omicron wave. So far, COVID-19 cases in the Asia-Pacific region haven't surged like they have in North America and Europe.

Omicron will be a temporary drag on growth, and we revised growth higher in the second quarter from 3.3% to 6.1% at an annualized rate. Growth in the second half of the year saw very modest revisions. For all of 2022, we expect GDP to rise 4.1%, a little lighter than the 4.4% in the December baseline but still nearly double the economy's potential. A big support to GDP growth this year will be the replenishment of inventories. The Bloomberg consensus is for GDP to increase 3.9% this year.

There was a small upward revision to GDP growth in 2023. We now look for it rise 3.1%, compared with 2.9% in the December baseline. The consensus is for GDP growth next year to be 2.5%.

Global supply-chain issues remain a downside risk to the near-term forecast. The issues with U.S. supply chains are both supply- and demand-related. On the demand front, wealth effects associated with rising asset prices, unprecedented fiscal stimulus, and fewer opportunities to spend on services led to an enormous increase in consumer goods spending. Control retail sales—total sales excluding autos, gasoline, building materials and restaurants—are 8.3% above what would have been if the pre-pandemic trend had continued. This has magnified the issues with U.S. supply chains. The good news is that our U.S. Supply-Chain Stress Index has improved recently.

Business investment and housing

Fundamentals remain supportive for business investment as corporate credit spreads remain tight and corporate profit margins are fairly wide. Also, banks are easing lending standards and corporate credit spreads are very tight, supporting investment-grade and high-yield corporate bond issuance.

We have real business equipment spending rising 9.7% this year and 5.2% next. On net, this is stronger than the December baseline that had real business equipment spending rise 9.9% this year and 5.2% next.

The biggest downside risk is a sudden tightening in financial market conditions or a sudden and significant bout of economic policy uncertainty early this year because of the BBB and the Fed gearing up to remove some policy accommodation.

The real nonresidential structures forecast was not revised significantly this year. We still have it rising 17%. But we did revise the forecast higher for real nonresidential structures investment next year, with it now forecast to rise 11.5%, compared with 10.1% in the December baseline. Real nonresidential structures investment will recoup all of the decline during the pandemic in 2023. There were no material changes to the forecast for commercial real estate prices this year or next.

New data and revisions to prior months led us to revise the forecast for housing starts higher. Housing starts are now forecast to total 1.82 million units, compared with 1.765 million in the December baseline. Risks are heavily weighted to the downside. There are likely only so many homes that can be built each year because of labor-supply constraints and lack of buildable lots. Some of the labor-supply issues will ease as the pandemic winds down, but the reduction in immigration is particularly problematic for homebuilders' ability to find workers. Revisions to the forecast for new- and existing-home sales this year were minor.

We didn't make material changes to the forecast for the FHFA All-Transactions House Price Index to increase 8.9% this year, compared with 8.7% in the December baseline. House price growth moderates noticeably in 2023, as prices are forecast to rise 2.1%. This is attributable to rebalancing of supply and demand.

Seasonals mask improving labor market

U.S. job growth has been weaker than expected in each of the past two months, but this is misleading because seasonal adjustment issues have been enormous weights. The December employment report was strong. Indeed, not seasonally adjusted employment increased by 72,000, the first increase for any December since 1999. Normally, not seasonally adjusted employment declines by a few hundred thousand in December. The Bureau of Labor Statistics' seasonal adjustment was sliced in half this December. If the adjustment was similar to that used before the pandemic, nonfarm employment would have risen closer to 500,000.

Looking across industries, the seasonal adjustment for leisure/hospitality stands out. This December, the seasonal adjustment was a drag on leisure/hospitality employment for the first time for any December since 1998. Normally, the seasonal adjustment is positive. The seasonal adjustment for retail didn't seem odd, which was a little surprising, as that was our initial thought where the issues would be concentrated. One industry we're keeping a close eye on is child day care services, which had employment fall in December and is 11% below its pre-pandemic level.

Putting seasonal adjustment issues aside, the December employment report was strong. This is clear in the household survey, as the unemployment rate fell from 4.2% in November to 3.9%. There was a modest increase in the labor force. The prime-age employment-to-population ratio increased from 78.8% to 79%, leaving it on track to hit its pre-pandemic level by this spring. The number of people not in the labor force increased for the first time since August. About 63% of people not in the labor force are 55 years and older. Odds are that the steady increase among those 55 and older who are not in the labor force is due to retirements.

Forecast changes were modest in January. We expect average monthly job growth to be 360,000 this year, compared with 352,000 in the December baseline. Job growth slows next year, when the economy will be at or beyond full employment, and average job growth is expected to be 161,000, compared with 145,000 in the December baseline. We still have the unemployment rate averaging 3.5% in the fourth quarter of this year, but we cut the forecast for next year. The unemployment rate is now expected to average 3.3% in the fourth quarter of 2023, compared with 3.5% in the prior baseline. There were also no revisions to the forecast for productivity growth this year or next. Productivity is still expected to be stronger than its pre-pandemic trend.

Time has come

There were some material changes to the forecast for growth in the core PCE deflator. It is now expected to peak later and higher than in the December baseline. Year-over-year growth in the core PCE deflator is now expected to peak this quarter, slightly north of 4.5%. The peak in the December baseline was the fourth quarter of last year. Growth in core inflation is forecast to moderate throughout this year, but waves of COVID-19 lend upside risk to the forecast as further disruptions to global supply chains could cause inflation to remain higher for longer. For the Fed, the post-meeting statement no longer includes the note that the Fed will aim to achieve inflation moderately above 2% for some time—a recognition that its mandate has been met. Therefore, the Fed is aiming to get growth in the core PCE deflator down to 2%. We have year-over-year growth in the core PCE deflator returning to the Fed's target in mid-2023.

There was a material change to the forecast for monetary policy. We doubled the number of Fed rate hikes this year from two to four. The rate hikes are expected to occur at the May, July, September and December meetings of the Federal Open Market Committee. A probabilistic forecasting approach, which is based on the subjective probabilities of a fed hike versus a cut, would have the first hike occurring earlier than May. We didn't alter our estimate of the long-run equilibrium fed funds rate, which remained at 2.5%. The change in the January baseline is that the fed funds rate reaches 2.5% in mid-2024, compared with early 2025 in the December baseline.

We still expect the tapering process to end in March. Risks are that the Fed allows the balance sheet to shrink—a process known as quantitative tightening—later this year. The balance sheet is currently $8.7 trillion, or around 37% of nominal GDP. We don't draw too many comparisons with the pending reduction in the balance sheet to that last time the Fed tried to shrink its balance sheet. If the Fed does shrink its balance sheet, the reduction will be more aggressive, likely $750 billion per year, $250 billion more than last time.

Removing monetary policy accommodation isn't going to go smoothly. The Fed has signaled that it will allow its balance sheet to contract shortly after the first rate hike. It is unclear how rate hikes and quantitative tightening will interact with each other, which makes the odds of a policy error uncomfortably high.

There were no significant changes to the 10-year Treasury yield. The forecast is that the Dow Jones Industrial Average peaks this quarter. The rest of the contours of the forecast did not change, as we expect the Dow to steadily decline throughout this year and bottom in 2023.

THE LONG VIEW: EUROPE

Supply Chains Still Slowing German Auto Industry

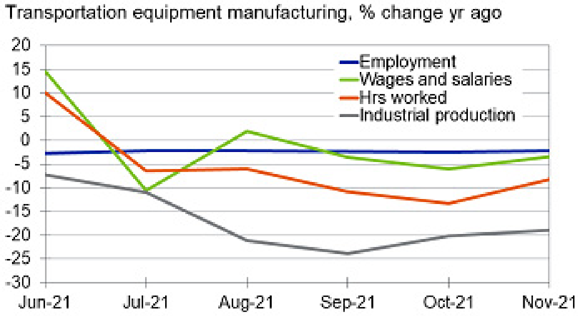
BY EVAN KARSON

“Gas geben” is how Germans say, “put the pedal to the metal.” And since early 2021, many have wished for Germany’s auto sector to find a higher gear. Instead, the auto industry has struggled amid deep semiconductor shortages and suffered sharp declines in production. Even though transportation equipment output perked up toward the end of the year, production remains close to 20% below year-ago levels. In a typical year, the industry accounts for approximately 5% of GDP, more than double the euro area average.

Thankfully, the impact on payrolls has been relatively mild so far, with employment in transportation equipment manufacturing falling just 2.1% below year-ago levels in November. Germany’s Kurzarbeit system has played a critical role in preventing deeper losses. The reduced-hours furlough scheme allows employers to spread declines in working hours across employees rather than laying off workers outright. The government provides partial compensation to workers who see their hours reduced this way, and in response to the pandemic, the government increased the generosity of these benefits. Although Kurzarbeit applications in manufacturing dropped in November and December, Germany’s auto sector is not out of the woods yet.

Factory Payrolls Weather Output Losses

Transportation equipment manufacturing, % change yr ago



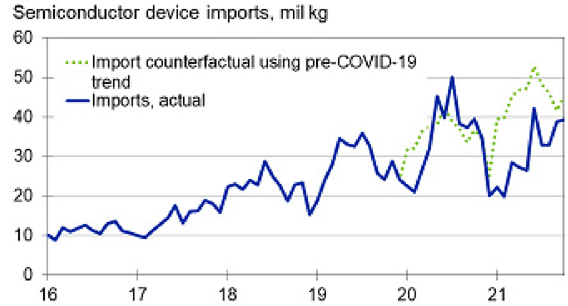
Sources: Bundesbank, Federal Statistics Office, Moody's Analytics

The Omicron variant presents a new threat to global supply chains and may prompt additional factory closures in Asia. Back in mid-2021, the Delta variant hit hard in Malaysia, Vietnam, Taiwan, Korea and Japan, which play important roles in the global supply chain for semiconductors. Ultimately, Omicron is expected to be less disruptive than Delta thanks to swift vaccine rollouts in these countries over the last six months.

The majority of Omicron-related disruption will likely come from China. The nation’s so-called zero-tolerance COVID-19 policy is expected to exacerbate bottlenecks as the government strives to stamp out infections with lockdowns and strict quarantine requirements. Localized lockdowns in Xi’an have already rattled production at Samsung and Micron facilities.

Chip Imports Rise but Lag Precrisis Trend

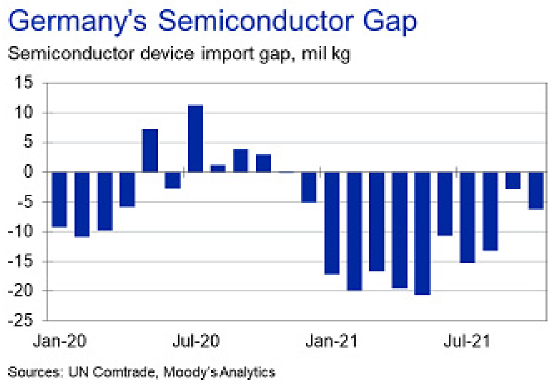
Semiconductor device imports, mil kg



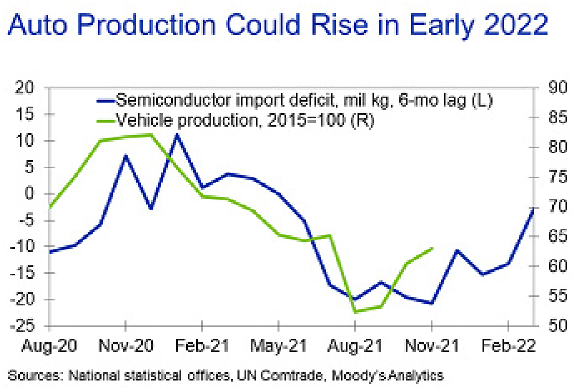
Sources: UN Comtrade, Moody's Analytics

German imports of semiconductor devices increased in fits and starts throughout 2021 but remained about 20% to 40% below where we would expect them to be based purely on pre-pandemic trends. We consider the difference between these two series—actual imports versus expected imports—to be Germany’s semiconductor gap. This gap emerged as a result of intermittent factory closures, logjams in shipping routes, and order cancellations issued by automakers during the depths of the pandemic.

Germany’s semiconductor gap reached a crescendo in the first half of 2021, when imports undershot their precrisis trend by more than 15 million kilograms for five consecutive months. Semiconductor device imports showed better results in the third quarter of 2021, and the gap nearly closed in October.



The semiconductor gap has served as a rough six-month-ahead predictor for vehicle production since mid-2020. A shrinking import gap in the summer of 2020 preceded a steady rise in factory output during the fall and early winter. Conversely, the gap began widening in the fall of 2020, and in the spring and summer of 2021, vehicle production plummeted.



Looking ahead, a modest narrowing in Germany's semiconductor gap portends slight improvement in auto manufacturing in early 2022. This forecast for only marginal near-term improvement aligns with the Moody's Analytics baseline scenario, which projects flat to marginal growth in industrial production over the first half of 2022. The baseline assumes that global supply chains will begin easing materially between August and October, at which point vehicle output could begin accelerating.

Data on semiconductor imports may give early indication if Omicron-related issues are causing bottlenecks to linger, but there are important limitations to consider with respect to predictive ability. For simplicity, our method treats semiconductors as homogeneous, whereas in reality, vehicles require a mixture of different devices. Shortages of one type of semiconductor may hamstring production, which means that the composition of imports matters in addition to the level of imports. Therefore, vehicle production may not rise with semiconductor imports on a one-for-one basis.

Forecast risks lean to the downside for Germany's auto sector over the near and medium term. Supply-chain disruptions could plausibly persist well into 2023 as successive COVID-19 waves prevent shipping routes and supply lines from fully normalizing. Production losses could lead to deeper job cuts, which would be especially painful for Germany's economy given that industry positions pay above-average wages. Retail, leisure/hospitality and construction would suffer the sharpest knock-on effects from a wave of layoffs in the auto sector.

China's property market presents another source of downside risk for German vehicle makers. China represents Germany's second-largest export destination and the top buyer of German transportation equipment, especially luxury cars. China's property market appears to be on slightly firmer footing than a couple of months ago, but the threat of a correction looms large. Chinese policymakers have been tightening levers on the property market for the past five years with the aim of reining in speculation. If property prices and construction activity collapse in China, factory orders and production would decline sharply in Germany.

China Growth Beats Expectations

BY CHRISTINA ZHU and SHAHANA MUKHERJEE

China's economy rebounded in the December quarter, with GDP growth accelerating to 1.6% quarter-on-quarter from a revised 0.7% expansion in the prior quarter. This translated into 4% year-over-year growth, beating market expectations for a 3.6% gain. The full-year growth for 2021 reached 8.1%, much higher than the "above 6%" target set by the government at the beginning of the year.

The pickup in the fourth quarter was mainly driven by a rebound in industrial production. China's industrial output expanded by a stronger-than-expected 0.4% month over month since October. This helped lift full-year growth in production to 9.6%, as the country made notable progress in addressing supply-side constraints towards the end of the year. Domestic power shortages have eased substantially, and the government's efforts to boost raw material supply and stabilise prices contributed to the rebound in factory activity in November and December. This in turn helped ease the inflation pressure on producer prices and encouraged businesses to rebuild inventories.

Weak domestic demand

Domestic private consumption, however, remained a weak spot. Demand was volatile, as lingering virus outbreaks and China's zero-tolerance stance on COVID-19 were highly disruptive to consumer spending. This was reflected in December retail sales growth, which dipped to 1.7% year on year from an already moderate 3.9% increase in November. An equally important risk is that the disruptions caused by preventive measures weigh on service spending, adding to weakness in domestic demand. The rapidly cooling property market triggered a liquidity crunch for some developers, causing real estate investment to slump and dragging down fixed-asset investment. But the good news is that regulators have started easing restrictions on the sector to ease the credit strain, which should help property sales and investment to stabilise and gradually recover this year.

China's trade performance was robust in the December quarter, benefiting from persistent demand for a range of consumer goods and tech equipment and rebounding domestic production capacity. Exports will continue to drive near-term growth, although the Omicron variant as well as monetary policy normalisation in some advanced economies such as the U.S. represent potential risks to the recovery and add uncertainty to the next few quarters.

The year ahead

We remain upbeat about China's economic performance this year, as policy support is expected to play a more active role in stimulating domestic demand and safeguarding financial stability. The People's Bank of China will likely lower financing costs for businesses via liquidity injections and make way for interest rate cuts. The one-year loan prime rate was cut by 10 basis points to 3.7% in the latest announcement while the five-year loan prime rate was cut by 5 basis points to 4.6%, with the latter marking the first reduction in almost two years, as the central bank looked to cushion the fallout from softer growth amid ongoing pandemic-related uncertainty. More rate cuts may follow in coming months. The government will also speed up fiscal spending and infrastructure investment. These measures, coupled with a new round of tax and fee cut policies, is expected to shore up consumer spending, help struggling businesses to stay afloat, and protect jobs.

RATINGS ROUNDUP

A Shift to Neutral in U.S. Change Activity

BY MICHAEL FERLEZ

U.S.

U.S. rating change activity was neutral for the week ended January 18, though downgrades accounted for a greater share of the affected debt. The most notable upgrade last week was to Microchip Technology Inc., which saw its senior unsecured rating upgraded to Baa2 from Baa3. In the rating action, Moody's Investors Service said the upgrade reflected "the release [of] the collateral and guarantees pledged to the secured bonds and revolving credit facility." The upgrade affected $1.2 billion worth of debt.

Meanwhile, downgrades were headlined by NortonLifeLock Inc., which received numerous rating adjustments. Among the changes, Moody's Investors Services downgraded NortonLifeLock Inc.'s senior unsecured credit rating to B1 from Baa3. In their rating action, Moody's Investors Service noted this action concludes its review of NortonLifeLock Inc. that was initiated following the firm's announced acquisition of Avast plc last summer. In total ,the downgrade affected $3 billion in outstanding debt.

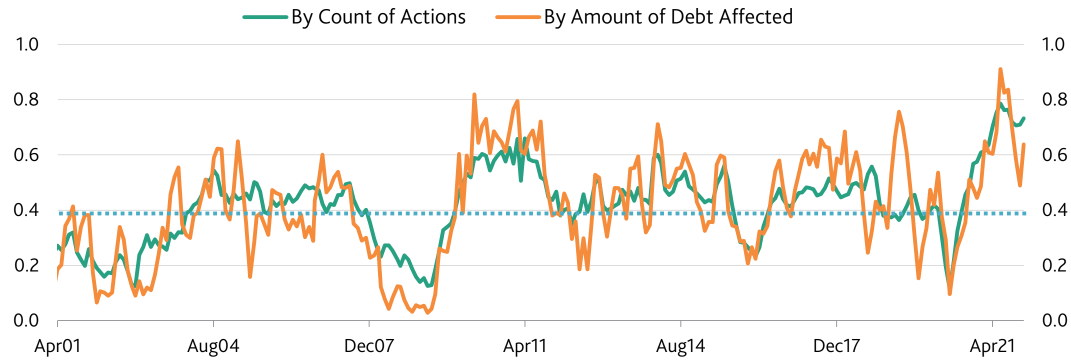
Despite last week's weaker credit performance, U.S. rating activity remains in excellent shape. Upgrades accounted for over 70% of rating change activity and affected debt last year.

Europe

Western European rating change activity was credit positive for the latest period, with upgrades accounting for 60% of the total rating changes and 56% of affected debt. Rating change activity in Western Europe started the year strong, following a disappointing December in which downgrades outnumbered upgrades for the first time since June. Last week's rating change activity was headlined by Suedzucker International Finance B.V., which saw its ratings outlook change to stable along with that of its parent Suedzucker AG. Additionally, Moody's Investors Service upgraded Suedzucker International Finance B.V.'s guaranteed junior subordinated notes ("the hybrid") to B1 from B2. In the Moody's Investors Service rating action, Paolo Leschiutta, a Moody's Senior Vice President and lead analyst for Suedzucker, was cited as saying, "The upgrade of the rating on the hybrid notes reflects our expectations that a breach of the cash test covenant (consolidated Cash Flow less than 5% of consolidated revenues) is today less likely given Suedzucker's improved cash flow generation."

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
1/12/2022	LANDRY'S GAMING, INC.-GOLDEN NUGGET, LLC	Industrial	SrSec/SrSec/BCF	1000.00	D	B1	B2	SG
1/13/2022	MICROCHIP TECHNOLOGY INC.	Industrial	SrUnsec	1200.00	U	Baa3	Baa2	IG
1/13/2022	NORTONLIFELOCK INC.	Industrial	SrUnsec	3000.00	D	Ba3	B1	SG
1/13/2022	SORENSON COMMUNICATIONS, LLC	Industrial	LTCFR		D	B2	B3	SG
1/14/2022	EWT HOLDINGS III CORP.	Industrial	SrSec/BCF/LTCFR/PDR		U	B1	Ba3	SG
1/14/2022	APPLOVIN CORPORATION	Industrial	SrSec/BCF/LTCFR/PDR		U	B1	Ba3	SG

Source: Moody's

FIGURE 4

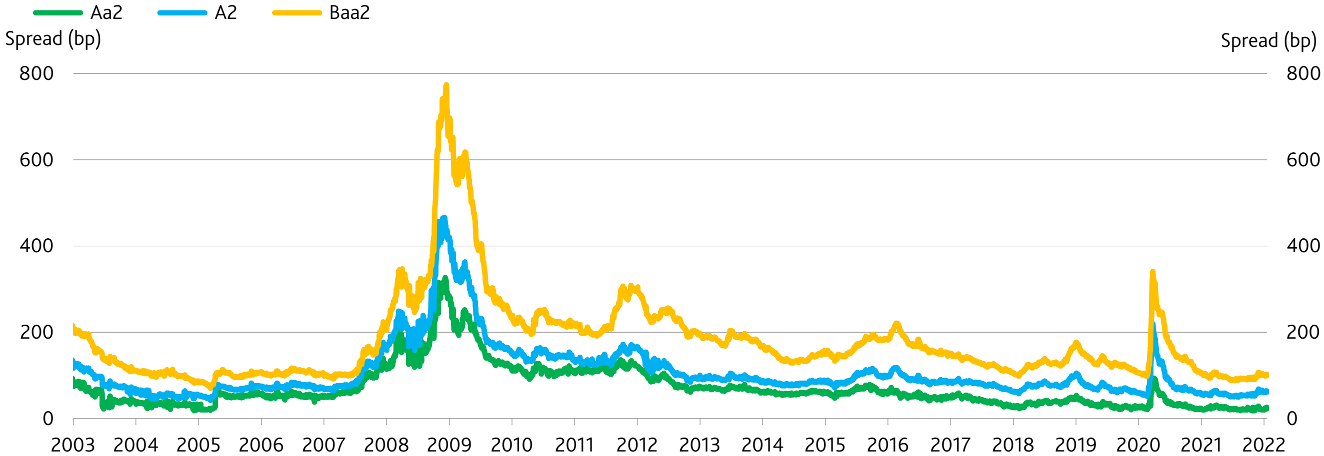
Rating Changes: Corporate & Financial Institutions - Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
1/13/2022	ELIOR GROUP S.A.	Industrial	SrUnsec/LTCFR/PDR	640.56	D	Ba3	B1	SG	FRANCE
1/13/2022	CREDITO EMILIANO HOLDING S.P.A.-CREDITO EMILIANO S.P.A.	Financial	STD/LTD		U	P-3	P-2	SG	ITALY
1/14/2022	FINANCIERE VERDI II S.A.S.-FINANCIERE VERDI I S.A.S.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG	FRANCE
1/17/2022	SUEDZUCKER AG-SUEDZUCKER INTERNATIONAL FINANCE B.V.	Industrial	JrSub	815.25	U	B2	B1	SG	NETHERLANDS
1/18/2022	GARRETT MOTION INC.	Industrial	LTCFR/PDR		U	Ba3	Ba2	SG	SWITZERLAND

Source: Moody's

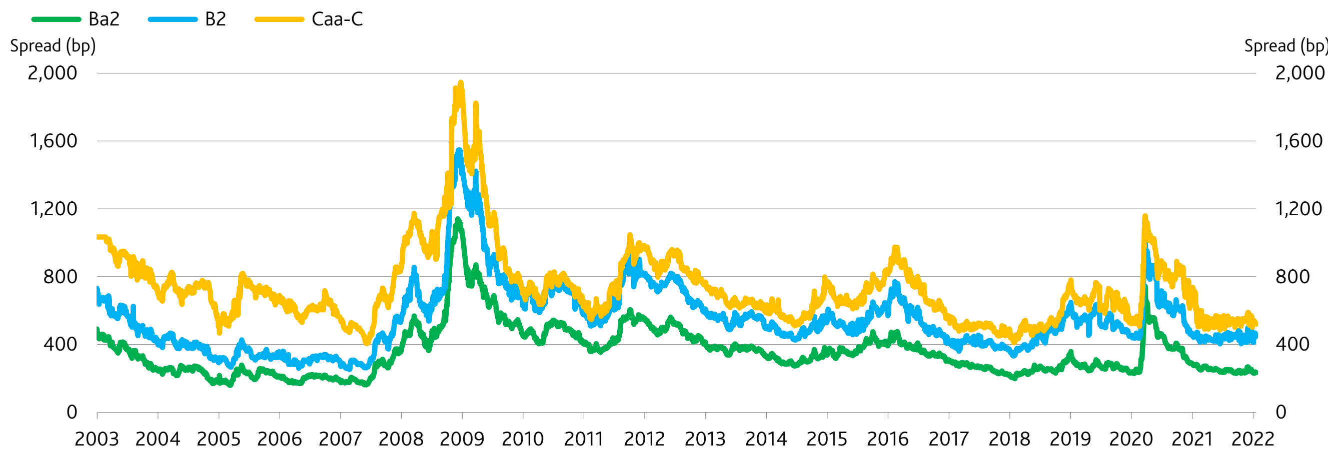
MARKET DATA

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



Source: Moody's

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



Source: Moody's

CDS MOVERS

Figure 3. CDS Movers - US (January 12, 2022 – January 19, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 19	Jan. 12	Senior Ratings
Toyota Motor Credit Corporation	Aa2	Aa3	A1
Ford Motor Credit Company LLC	Ba1	Ba2	Ba2
Exxon Mobil Corporation	Aa2	Aa3	Aa2
Amazon.com, Inc.	Aa3	A1	A1
Bank of New York Mellon Corporation (The)	Aa3	A1	A1
Nissan Motor Acceptance Company LLC	Ba1	Ba2	Baa3
Becton, Dickinson and Company	A3	Baa1	Baa3
Welltower Inc.	A2	A3	Baa1
Kimberly-Clark Corporation	A1	A2	A2
CenterPoint Energy, Inc.	A3	Baa1	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 19	Jan. 12	Senior Ratings
CenterPoint Energy, Inc.	Baa2	A3	Baa2
PepsiCo, Inc.	A2	A1	A1
Philip Morris International Inc.	A2	A1	A2
General Electric Company	Baa3	Baa2	Baa1
Eli Lilly and Company	Aa2	Aa1	A2
FirstEnergy Corp.	Baa3	Baa2	Ba1
Emerson Electric Company	Baa1	A3	A2
Danaher Corporation	A3	A2	Baa1
Archer-Daniels-Midland Company	A2	A1	A2
United Rentals (North America), Inc.	Ba2	Ba1	Ba2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 19	Jan. 12	Spread Diff
Rite Aid Corporation	Caa2	1,002	921	82
Iron Mountain Incorporated	Ba3	204	169	35
Gap, Inc. (The)	Ba3	249	214	35
Bath & Body Works, Inc.	Ba2	201	168	34
American Airlines Group Inc.	Caa1	748	714	34
R.R. Donnelley & Sons Company	B3	181	153	28
Kohl's Corporation	Baa2	196	168	28
TEGNA Inc.	Ba3	390	365	25
United Airlines Holdings, Inc.	Ba3	416	394	23
Carnival Corporation	B2	417	395	22

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 19	Jan. 12	Spread Diff
Talen Energy Supply, LLC	Caa1	4,096	4,370	-274
Textron Inc.	Baa2	147	176	-29
Staples, Inc.	Caa1	1,019	1,041	-22
Travel + Leisure Co.	B1	154	165	-11
Marathon Oil Corporation	Baa3	103	113	-10
Occidental Petroleum Corporation	Ba2	162	166	-4
PPG Industries, Inc.	A3	49	53	-4
Highwoods Realty Limited Partnership	Baa2	47	51	-4
Meritage Homes Corporation	Ba1	124	128	-4
Illinois Tool Works Inc.	A2	26	29	-3

Source: Moody's, CMA

CDS Movers

Figure 4. CDS Movers - Europe (January 12, 2022 – January 19, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 19	Jan. 12	Senior Ratings
Banco Bilbao Vizcaya Argentaria, S.A.	A2	A3	A3
Banque Federative du Credit Mutuel	Aa3	A1	Aa3
UniCredit S.p.A.	Baa2	Baa3	Baa1
NatWest Group plc	A3	Baa1	Baa1
NatWest Markets Plc	A3	Baa1	A2
Piraeus Financial Holdings S.A.	Caa1	Caa2	Caa2
Telecom Italia S.p.A.	Ba3	B1	Ba2
Bayer AG	Baa1	Baa2	Baa2
Holcim Ltd.	Baa2	Baa3	Baa2
Deutsche Lufthansa Aktiengesellschaft	Ba3	B1	Ba2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 19	Jan. 12	Senior Ratings
de Volksbank N.V.	A3	A1	A2
BNP Paribas	A1	Aa3	Aa3
ABN AMRO Bank N.V.	A2	A1	A1
Electricite de France	Baa2	Baa1	A3
Danske Bank A/S	A1	Aa3	A3
Veolia Environnement S.A.	Aa3	Aa2	Baa1
Air Liquide S.A.	Aa2	Aa1	A3
National Grid Electricity Transmission plc	A2	A1	Baa1
HSBC Bank plc	A1	Aa3	A1
Orsted A/S	Aa3	Aa2	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 19	Jan. 12	Spread Diff
Boparan Finance plc	Caa1	1,377	1,331	47
Casino Guichard-Perrachon SA	Caa1	618	572	45
Novafives S.A.S.	Caa2	644	607	37
Vedanta Resources Limited	B3	809	774	35
Iceland Bondco plc	Caa2	575	554	21
Electricite de France	A3	61	49	12
Banca Monte dei Paschi di Siena S.p.A.	Caa1	263	251	12
UPC Holding B.V.	B3	186	176	10
Premier Foods Finance plc	B3	198	189	10
Ardagh Packaging Finance plc	Caa1	274	265	9

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 19	Jan. 12	Spread Diff
Piraeus Financial Holdings S.A.	Caa2	540	563	-23
Telecom Italia S.p.A.	Ba2	228	239	-11
Deutsche Lufthansa Aktiengesellschaft	Ba2	223	233	-9
Bank of Scotland plc	A1	44	46	-2
Leonardo S.p.A.	Ba1	149	151	-2
VERBUND AG	A3	31	33	-2
CaixaBank, S.A.	Baa1	50	51	-1
Banque Federative du Credit Mutuel	Aa3	34	36	-1
Heineken N.V.	Baa1	25	26	-1
Rolls-Royce plc	Ba3	160	161	-1

Source: Moody's, CMA

CDS Movers

Figure 5. CDS Movers - APAC (January 12, 2022 – January 19, 2022)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 19	Jan. 12	Senior Ratings
Tokyo Electric Power Company Holdings, Inc.	A2	A3	Ba1
ITOCHU Corporation	Aaa	Aa1	A3
Woolworths Group Limited	Baa1	Baa2	Baa2
SK Hynix Inc.	Baa2	Baa3	Baa2
Chorus Limited	Baa2	Baa3	Baa2
Japan, Government of	Aaa	Aaa	A1
Australia, Government of	Aaa	Aaa	Aaa
India, Government of	Baa3	Baa3	Baa3
Indonesia, Government of	Baa3	Baa3	Baa2
Korea, Government of	Aa1	Aa1	Aa2

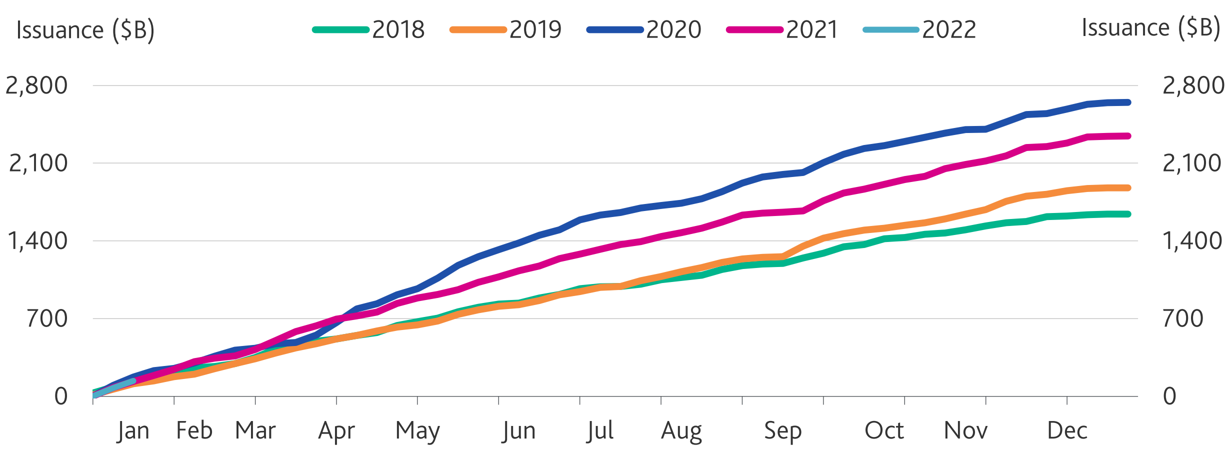
CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 19	Jan. 12	Senior Ratings
Nomura Securities Co., Ltd.	Baa2	A3	A3
China, Government of	A3	A2	A1
Malaysia, Government of	Baa1	A3	A3
Suncorp-Metway Limited	A3	A2	A1
China Development Bank	Baa2	Baa1	A1
Export-Import Bank of China (The)	A3	A2	A1
NIPPON STEEL CORPORATION	Aa3	Aa2	Baa2
Mitsui Fudosan Co., Ltd.	Aa1	Aaa	A3
Hutchison Whampoa International (03/33) Ltd.	A3	A2	A2
Tenaga Nasional Berhad	Baa1	A3	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 19	Jan. 12	Spread Diff
Pakistan, Government of	B3	403	367	36
Nomura Securities Co., Ltd.	A3	67	43	25
Tata Motors Limited	B1	259	243	16
SoftBank Group Corp.	Ba3	287	272	15
Halyk Savings Bank of Kazakhstan	Ba2	286	275	11
Tenaga Nasional Berhad	A3	52	44	8
Telekom Malaysia Berhad	A3	50	43	8
Indonesia, Government of	Baa2	82	75	7
Philippines, Government of	Baa2	63	56	7
Malayan Banking Berhad	A3	63	56	7

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 19	Jan. 12	Spread Diff
SK Hynix Inc.	Baa2	66	72	-7
Development Bank of Kazakhstan	Baa2	146	150	-4
Daiwa Securities Group Inc.	Baa1	59	60	-2
Australia, Government of	Aaa	13	14	-1
Nomura Holdings, Inc.	Baa1	76	76	-1
Japan, Government of	A1	17	17	0
Sumitomo Mitsui Banking Corporation	A1	26	26	0
Korea Development Bank	Aa2	23	23	0
Export-Import Bank of Korea (The)	Aa2	23	23	0
MUFG Bank, Ltd.	A1	28	29	0

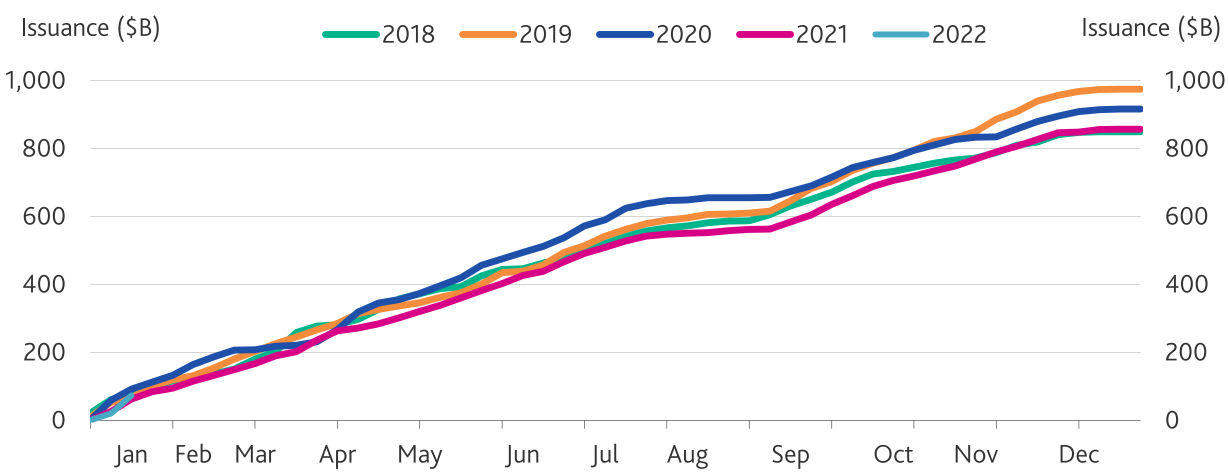
Source: Moody's, CMA

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



Source: Moody's / Dealogic

Figure 7. Market Cumulative Issuance - Corporate & Financial Institutions: Euro Denominated



Source: Moody's / Dealogic

Figure 8. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	51.308	10.525	63.695
Year-to-Date	114.843	22.515	139.600

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	49.406	2.824	52.724
Year-to-Date	68.231	3.672	72.453

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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Report Number: 1317251

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