

Credit spreads offer bad news - SELL; China's Uber-ambitious National People's Congress; Global credit check: Brazil & Mexico dangerous

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Agenda:

- Fed firepower fizzles: Fed deposits grind to a halt as credit spreads widen. SELL
- PRC's NPC is WOW: Uber-ambitious goals amidst uncertainty. Stimulus package: 10% of GDP. Winner is in Tech - BABA, Baidu and Ping An
- Global bond credit check: Damage is in Developed Markets, falling from a greater height; BRA & MEX in dangerous waters - SELL

1. Page 5 of the PPT shows the change in the balance sheet last week — small change ALL coming from deposits. Forget about negative rates.

A. Banks continued to fob off excess cash to the Fed as not doing so would create negative rates.

Pages 6 - 8 show that almost the entire increase in the Fed balance sheet is excess deposits from banks. No one — neither the banks nor the Fed — is interested in negative rates as they all know that this will destroy the banking system. Euroland already made this mistake and it took two years to do a mea culpa. The Fed will never do this. If the Fed were to start charging negative rates to banks, then the deposits would presumably return to the banks and the banks would tell their deposit customers to take a hike and do something else with the cash. Presumably, these customers, scared to death by the fact of negative rates, are supposed to buy risk assets? No way.

B. The result of this anaemic buildup of deposits has caused less Fed firepower, so high yield minus IG spreads just won't budge lower. There is great pressure on high yield spreads as there is a deluge of fallen angel paper which is entering the scene and causing indigestion. Prices falling as quantity goes up — \$100 billion of fallen angel paper in 2 months! As long as this process continues, equities are stuck. The credit rating agencies can't downgrade fast enough. See part 3 to get a blow by blow of the carnage.

C. It also seems that the emerging markets emergency is over — for now. Page 8 shows that swap lines with foreign central banks peaked out at \$500 billion and are now going sideways. Foreign central banks are now finished with panicky purchases (\$500 billion in 10 days!) and things are calming down — for now. Countries in downgrade hell will see rates spike and will need to pay far higher refunding costs in USD or seek local currency loans. In the meantime, with local FX in the crapper, these companies receiving revenue in local FX will need to devote ever-larger local FX to repay USD debt even as revenues go down given recessions all over Latam. Turkey comes to mind. As do Brazil, Mexico and South Africa. Bad outcomes ahead.

2. China's daring 5-year plan is being rolled out at this week's National People's Congress (NPC). These next five years will focus on COVID-19, employment, AI technology, environment, legal reform and financial deregulation through accelerated fintech.

A. COVID-19 bonds. The government will roll out a 10 trillion CNY spending program (\$1.4 trillion USD or 10% of GDP). Page 15 shows the schedule. 4 trillion CNY will go towards local government spending programs. 4 trillion CNY will go to central government bonds. And 2 trillion CNY will go toward a fund called “anti-epidemic bonds”. More detail will come out on Thursday and Friday.

B. There is lots of language on national identity, strengthening of defence and fighting a complete digital war — automated armed forces and an AI military force. Second, there is a high priority on the environment. Third, the made in China 2025 agenda is going full speed ahead with special attention to AI and 5G. Fourth, there is a major push for an overhaul of universities to work closer with corporations in partnerships. Fifth, there is a major push in poverty alleviation in the rural sector. Sixth, there is a major push in reforming pension, insurance and retirement programs to make them standardised and more efficient.

C. In the area of financial sector reform, there will be a major push to clean up the capital markets. Second, China is (still) moving ahead with CNY convertibility. (Page 24 - 25). Third, there is a major push to revolutionise the financial sector through AI, big data, cloud, blockchain and 5G. Lastly, there is a push to expand its reach in Belt and Road with greater technology innovation via 5G, the digital currency and more integration with existing payments structures.

The page below shows how high yield minus IG spreads are stuck at high levels and actually rose last week despite intervention. High credit spreads create discount rates that reduce present values of equity. (This is due to major ratings actions which are creating a lot of fallen angel junk paper). MUCH more to come, so watch out!

Assets Movement Overview

Type	08/05/2020	15/05/2020	Difference
S&P 500 Index	2930	2864	-66.00
MSCI GEMs Index	912	901	-11.00
Gold (USD/Oz)	1702	1742	+40.00
USD / CNY	7.1	7.1	-
HY - IG	4.04	4.35*	+0.31
IG - 10 yr	2.79	2.79*	-
10 yr - 2 yr	0.53%	0.44%	-0.09%
Swiss 10 Yr	-0.55	-0.55	-
German 10 Yr	-0.53	-0.54	-0.01

* Denotes latest figures as of 14th May market close

In GEMs, Mexico presents a danger of the sovereign government tipping over to save corporates. Brazil is number 2 on the list as a wave of downgrades is coming and COVID-19 is moving savagely through the country. Chile and Colombia are on the hit list of the agencies. China's \$ debt is manageable.

Sovereign downgrades will affect corporate ratings

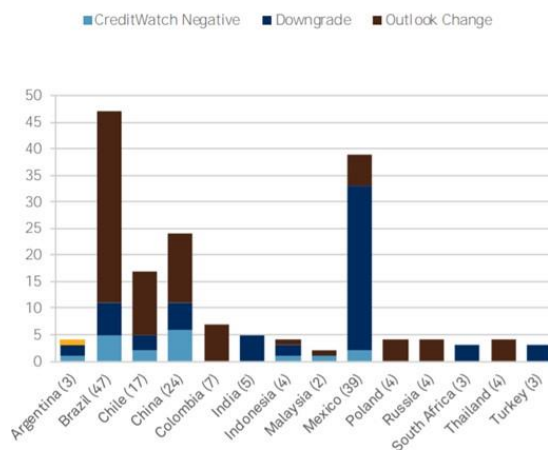
Highly dollarized markets will be more vulnerable due to self-financing concerns.

Mexico is faring worse than any other EM.

Country	Rating Action
Mexico	BBB → BBB-
Colombia	Stable → Negative (BBB-)
Brazil	Positive → Stable (BB-)
Argentina	CCC- → SD
Thailand	Positive → Stable (BBB+)
Indonesia	Stable → Negative (BBB)

Schulite Research

Corporate rating actions in EM countries.



Source: S&P Global Ratings. Data as of April 21, 2020.

3. Credit rating agencies are on the warpath: We focus on GEMs, but offer a global summary. Page 32 shows 7 sectors had more than 50% of their issuers hit by negative action. Of this action, 50% are downgrades. Hit worst have been automotive, media, transport, capital goods, retail, energy and hotel.

A. The reason high yield spreads are stuck despite major fed activity is that there is so much fallen angel paper. Page 35 shows \$120 billion in fallen angel paper. Estimates for more fallen angel paper go as high as \$500 billion. Of the major companies, the mighty that have fallen are Delta, Lufthansa, Oxy, Apache, Ford (\$170 billion!) Renault (\$60 billion). Next on the chopping block? DuPont, Boeing, Expedia, Hyatt, Marriott, Nordstrom and Carnival (pages 37-48).

B. Pages 50 - 60 show the big buildup of debt in GEMS in percent terms, though absolute numbers are much smaller than the US and Europe. Page 51 shows \$100 billion in outflows from GEMS in 8 weeks, which explains the massive swap lines with the Fed. Page 52 shows the damage by region — Latin America is the global epicentre of the bond crisis for sure, as 60% of its issuance has been affected by the downgrades. And the rating agencies have not gotten out the carving knife for Brazil yet!! Look at 53 which shows that most Brazilian paper is now on negative watch. Mexico has ALREADY been through downgrade hell. China has 13 corporates on downgrade watch.

C. On the country level, Mexico is close to junk status — again. Indonesia is BBB on negative watch. Are Colombia and Thailand next? Thai banks sure are trading that way! Strangely, China's real estate sector is either stable or no change. Jinmao has \$17 billion in debt and is BBB- on negative watch. That's one to watch. Wanda group is also unaffected (pages 56 - 57).

MEXICO: a) Pemex has \$106 billion in debt and has been thrown into the junk pile. b) ALL the Mexico banks including BBVA, Banorte, Citibanamex; HSBC (page 59); c) America Movil (\$41 billion).

SOUTH AFRICA: Anglo American (\$10 billion) and Growthpoint (\$3.6 billion).

BRAZIL: Most are on downgrade watch and I think Brazil will be the hardest hit country globally with COVID-19 (pages 61 - 62).

INDONESIA: Very little USD paper debt. Like the Thai Banks, Indo banks are trading terribly.

INDIA: ONGC and India Bulls (page 65). Lots of noise about serious credit issues in India.

BOTTOM LINE: Mexico by itself is big enough to trigger lots of global problems given massive dollar liabilities and a highly integrated banking system in New York, Madrid and London. America Movil, PEMEX and the banks have over \$250 billion in commercial paper. Brazil will enter downgrade hell by the summer as COVID-19 cases peak as well. I'm convinced Latin America will be the centre of the coming debt crisis. Chile and Colombia will be collateral damage.

PPS: It's also weird that real estate and builders were not hit — yet. They are next. SELL these.

Credit spreads offer bad news-SELL; China's Uber-ambitious NPC; Global credit check: Brazil & Mexico dangerous

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Part I - Asset Movement Overview and Federal Reserve Balance Sheet changes

Assets Movement Overview

Type	08/05/2020	15/05/2020	Difference
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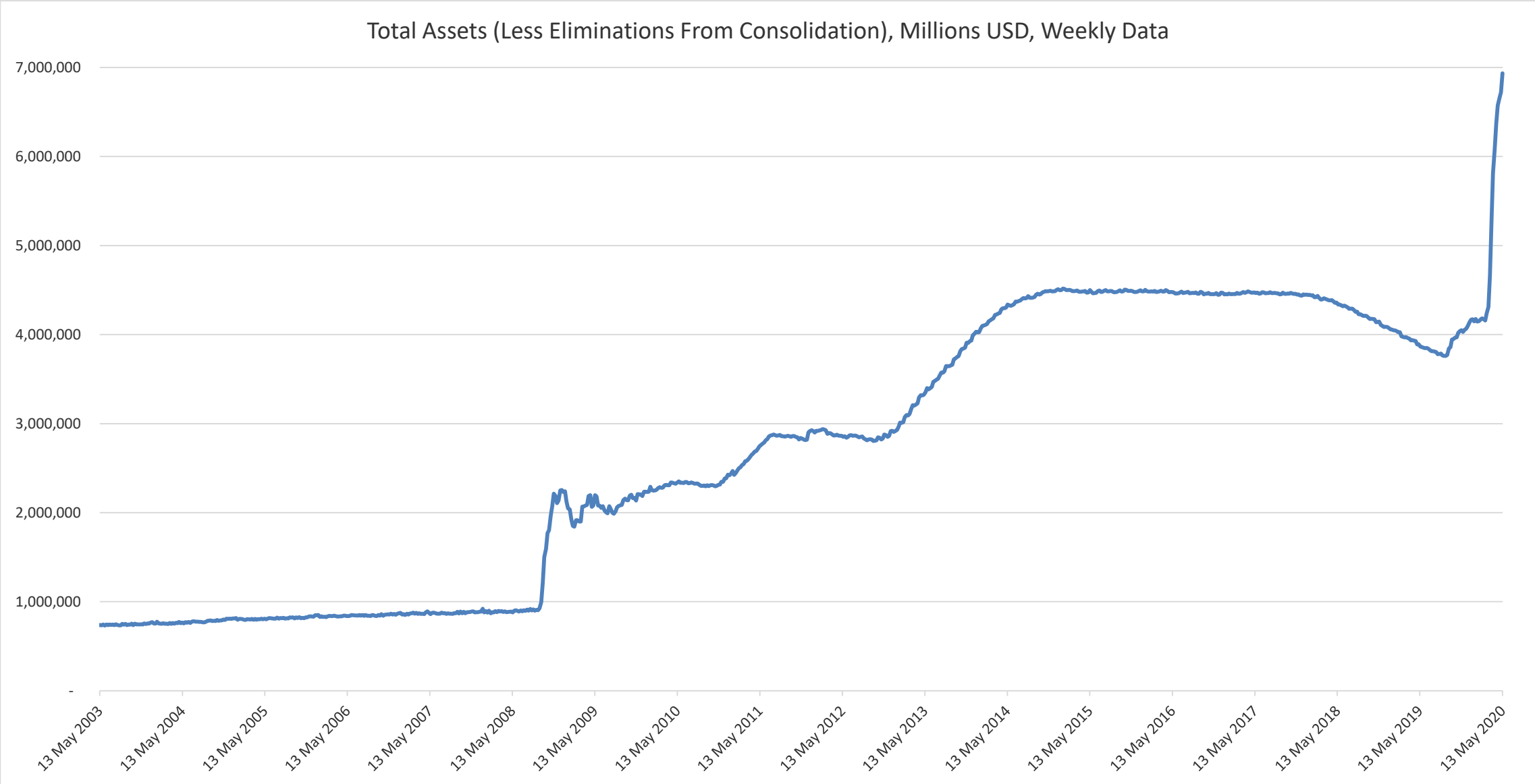
* Denotes latest figures as of **14th May** market close

Fed Balance Sheet Movement Overview

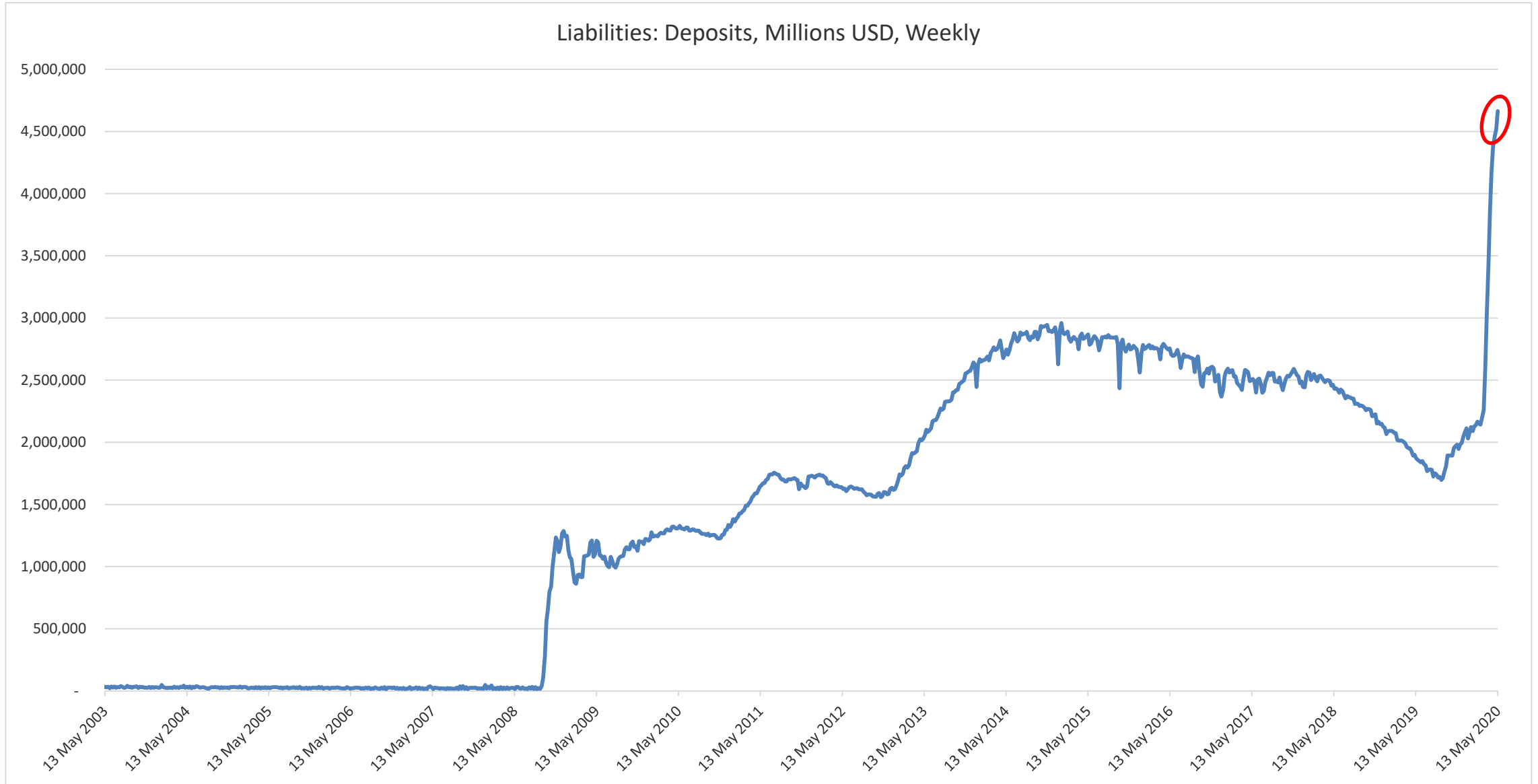
Millions, USD	06/05/2020	13/05/2020	Difference
Assets	6,721,420	6,934,227	+212,807
Central Bank Liquidity Swap	444,885	440,934	-3,951
Liabilities	6,682,549	6,895,336	+212,787
Federal Reserve Notes, Net of F.R. Bank Holdings	1,873,325	1,881,319	+7,994
Reverse Repurchase Agreements	265,206	281,150	+15,944
Deposits	4,518,539	4,663,966	+ 145,427
Deposits: Other Deposits Held by Depository Institutions	3,165,606	3,263,431	+97,825
Deposits: Other	193,329	246,034	+52,705



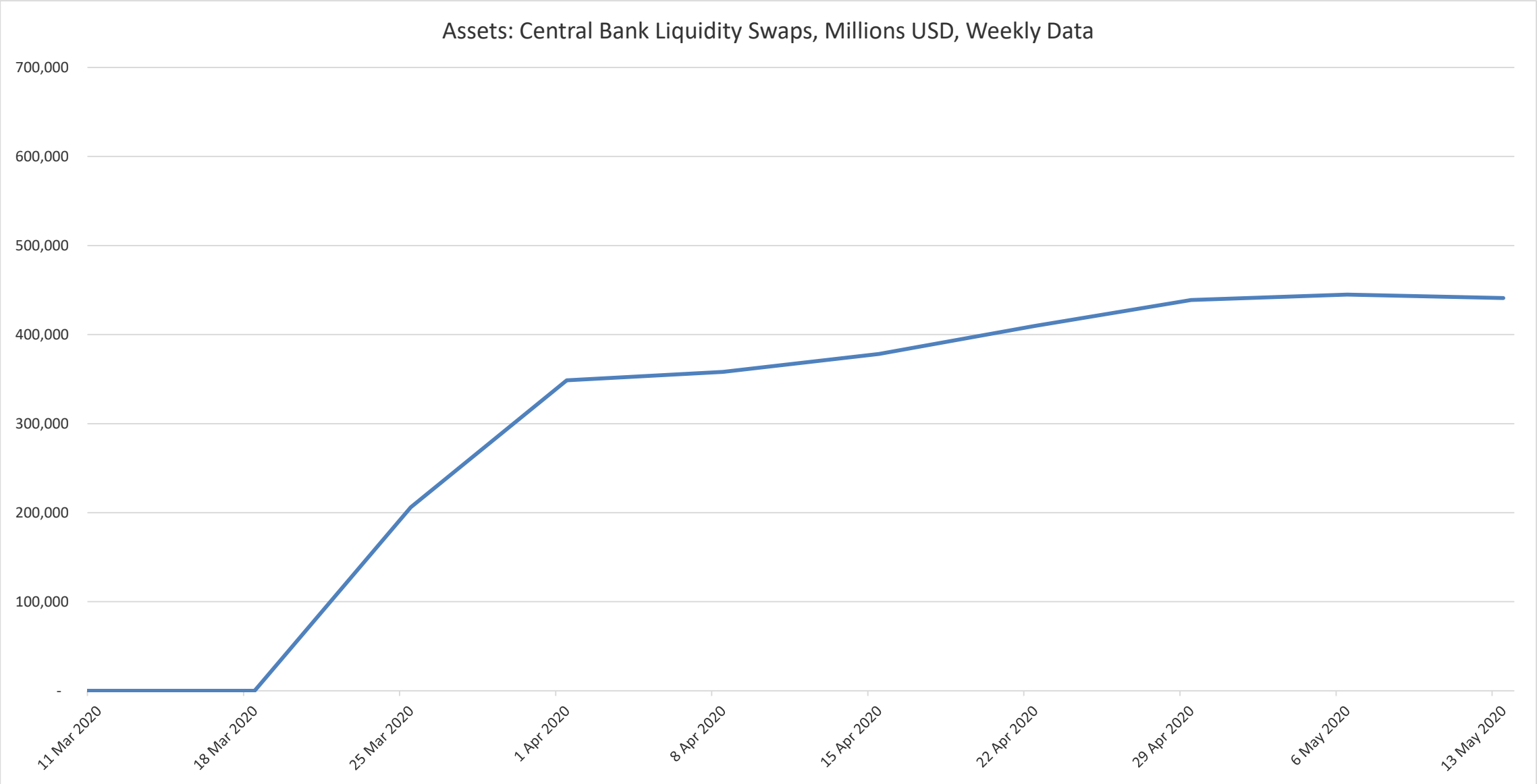
Total Federal Assets (Less Eliminations from Consolidation)



Liabilities: Deposits



Assets: Central Bank Liquidity Swaps



PART II: China's 14th Year Plan

Liabilities: Deposits: Other Deposits Held by Depository Institutions

Page	Description
11 – 14	What to expect from NPC & CPPCC
15	The 10 trillion fiscal stimulus plan
16 – 22	Proposals to be put forward in next five-year plan
23 – 28	The plan about finance for the next five-year

The "Two Sessions" from May 21st

National People's Congress & Chinese Political Consultative Conference

NPC & CPPCC refers to the National People's Congress and the Chinese Political Consultative Conference.

China's Constitution: the aim of the "two sessions" is to collect and sort out information and requirements obtained by the representatives of the people and convey them to the Party.

What to expect from the Two Sessions

- The "**Government Work Report**": indicators of economic and social development in 2020, such as GDP, employment, CPI, balance of payments, deficit ratio, etc.
- Measures to achieve the normalization of epidemic prevention and control.
- The two sessions of the National Congress will also review the "Civil Code of the People's Republic of China (Draft)". The form of the draft will be the first codified law in the history of New China.
- The direction of the "14th Five-Year Plan". Although the new plan **will not** be announced at the two sessions this year, the relevant discussions between the members will imply the trend and direction.

What to expect from the Two Sessions

What policy mix and reform measures will there be to stimulate the economy and promote domestic demand.

- On May 13, Any Lifeng, head of the National Development and Reform Commission, stated that TOP priority will be to hedge the impact of the epidemic.
- The federal deficit will increase via special anti-epidemic government bonds, as well as local government special bonds.
- Market expects deficit to be around 4% of GDP. Special national bonds issued to be about 1 TR yuan. Local government special bonds will be about 4 TR yuan.

The 10 trillion fiscal stimulus plan

- April 17th goal: "to build a well-off society in an all-round way". So targets for GDP 2020 of 5.5%. To achieve this goal, fiscal spending of 9 - 10 trillion.
- About 10 trillion yuan:
 - 4 trillion local special debts
 - 4 trillion central government deficits
 - 2 trillion special anti-epidemic bonds

China's 14th Five-Year Plan

Proposals: Ideology and Defence

- Strengthen ideological and cultural initiatives online. Cultivate a positive culture on the internet and “cleanse” its environment.
- Complete reforms for national defence and the armed forces by 2020.
- Emphasis on 1) mechanisation and automation in the armed forces & 2) the use of information technology to build a modern military.

Proposals: Environment

- Support green and clean manufacturing production.
- Develop green financing systems and create green development funds.
- Create a national real-time online system for monitoring the environment.
- Ban replanting large natural trees in cities.
- Ban commercial logging in natural forests
- Introduce a strict water resource management system via prices

Proposals: Internet

- Help drive the use of the internet. Improve internet speeds and decrease online fees.
- Reduce dependence on foreign technology. Achieve breakthroughs in innovative technology.
- **“Made in China” 2025**: 1) dominate robotics and AI plan; 2) dominate 5G in order to support , the growth of hundreds of other industrial sectors.

Proposals: Education

- Increase decision-making power of universities research institutes.
- Establish vocational education system in which schools form partnerships with businesses.
- Encourage some universities and colleges to become more pragmatic and career-oriented.

Proposals: Rural Development and Poverty

- China must address unbalanced growth: wealth gap between urban & rural areas.
- Cultivate a new class of professional farmer. Deepen agrarian land reform
- Increase investment and create financing channels to reduce poverty.

Proposals: Pensions and Retirement

- Reduce social insurance fees.
- Expand channels for using insurance funds, strengthen risk management, improve ROI.
- Allocate more SOE retained earnings to social security.
- Establish career and business annuities.

Reform in the financial sector: Pressing ahead

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Proposals: Finance

- Speed up reforms of the financial system.
- Developing an open, transparent and healthy capital market.
- Ensure the renminbi steadily achieves capital account convertibility.
- Join IMF's SDR reserve currency; make it freely usable currency.
- Create structures to mitigate risk.

Finance: One focus of the 14th Five Year Plan

Improve the adaptability of the financial industry:

- Promote **financial technology standardization**, enrich financial products and standards
- Strengthening the **basic standards of securities and futures**
- Deepen the advancement of green finance standardization projects
- Encourage banks to build & standardise corporate credit indicators

Finance: One focus of the 14th Five Year Plan

Improve the competitiveness of the financial industry:

- Internally, create core fintech standards in **AI, big data, cloud computing, blockchain & 5G**.
- Core standard systems in fintech, fintech standard service platform, and innovation scenarios.
- Externally, promote mutual comparison & adoption to build a more open compatible system.
- Focus on countries along the “**Belt and Road**”, strengthen communication & share best practices in financial standardization.

Finance: One focus of the 14th Five Year Plan

Promote the inclusive financing development:

- Implement financial standards in rural inclusive finance and targeted poverty alleviation.
- Improve financial services for small and micro enterprises rural poverty-stricken areas.
- Improve the agricultural social service system.

Finance: One focus of the 14th Five Year Plan

Promote the financial industry supervision:

- Prioritize major standardization tasks in the fields of fintech and regtech
- Focus on **data governance, legal digital currency, financial industry network security**
- Increase the authority and binding power of financial industry standards
- Incorporate financial national standards into legal and policy systems

Part III – The Credit Massacre

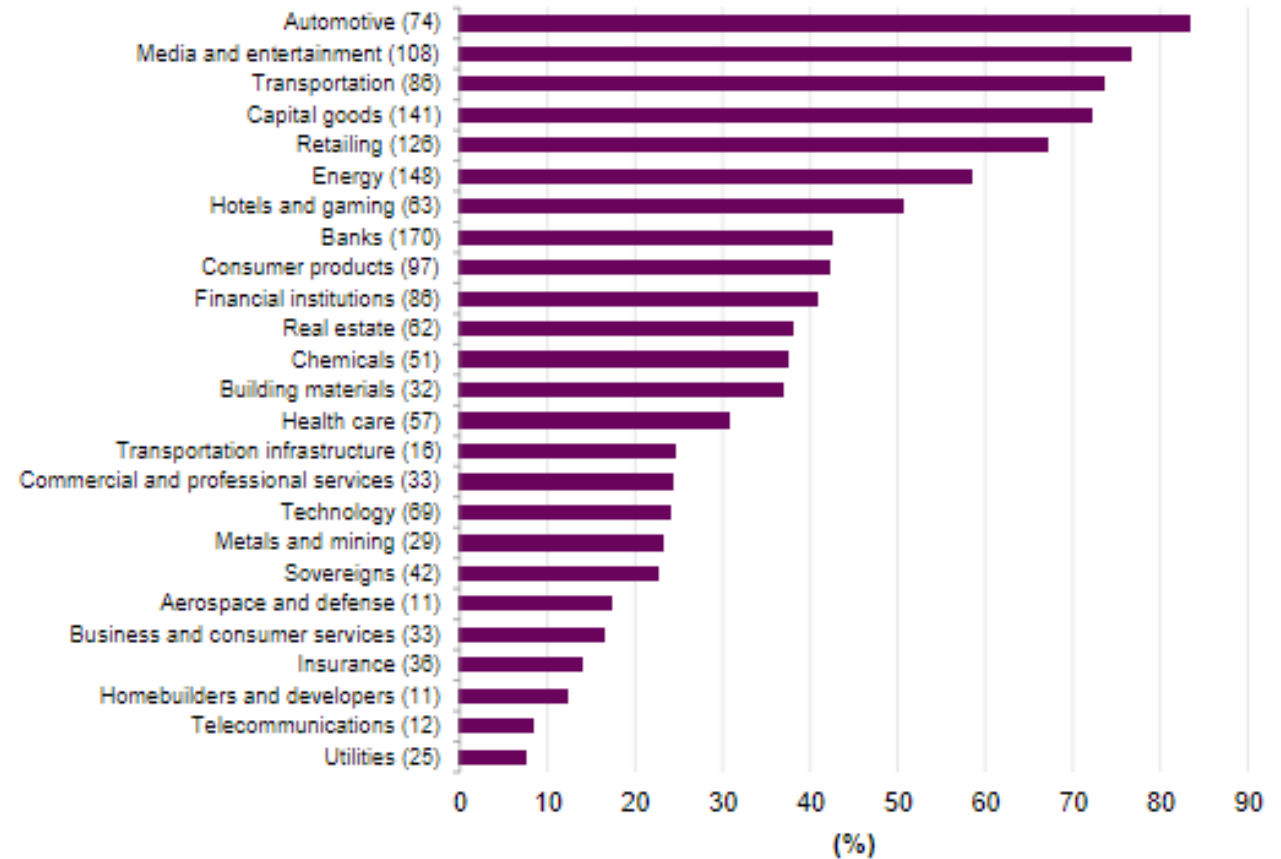
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Grim Outlook for Global Fixed Income in 2020: Global Summary

7 sectors globally with >50% of their issuers hit by negative rating actions due to COVID-19

Percent of issuers affected as of May 5, 2020



Banks (170), energy (148), and retail (141) combine for almost 30% of all affected issuers.

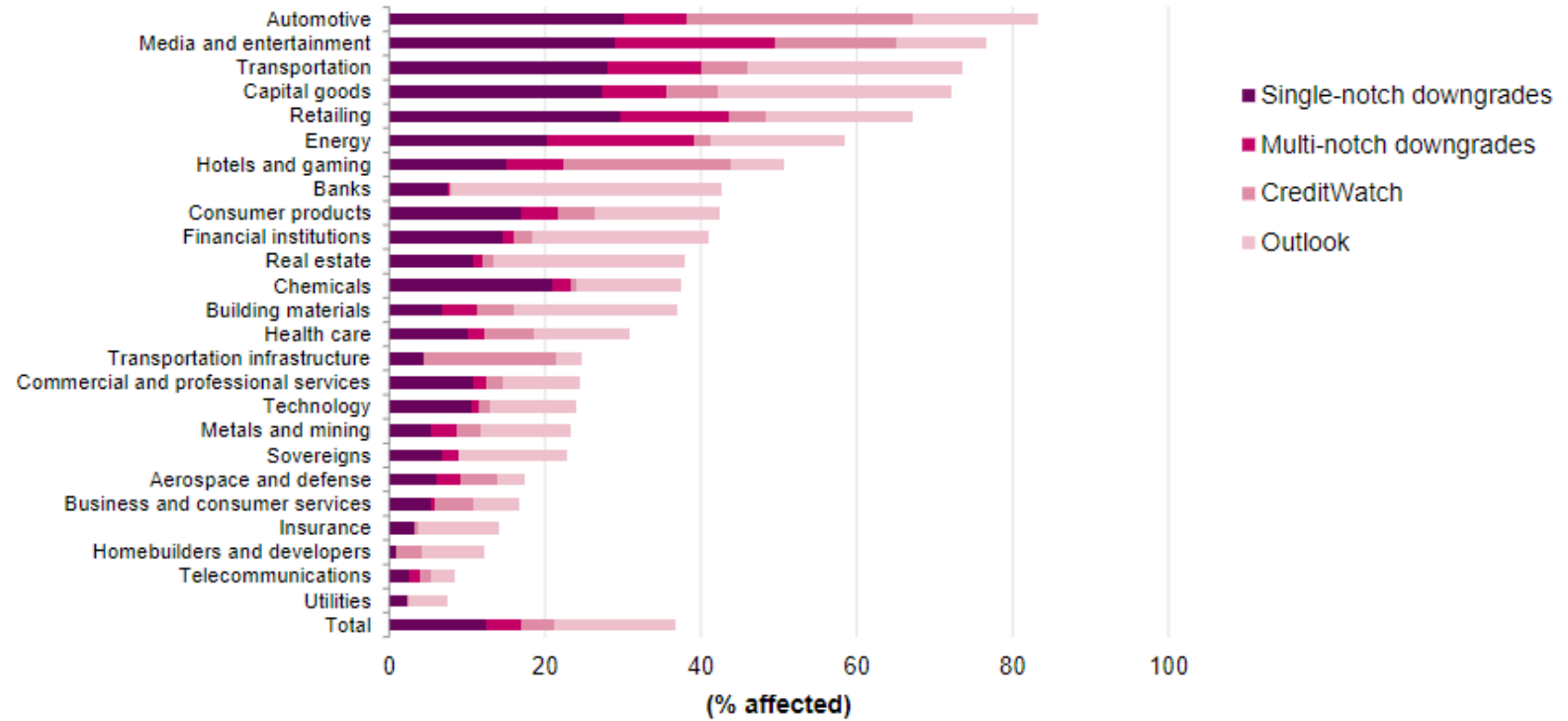
X axis: % of all issuers in sector.

Number in parentheses signify the number of issuers hit with rating actions

Downgrades constitute half of all rating actions globally

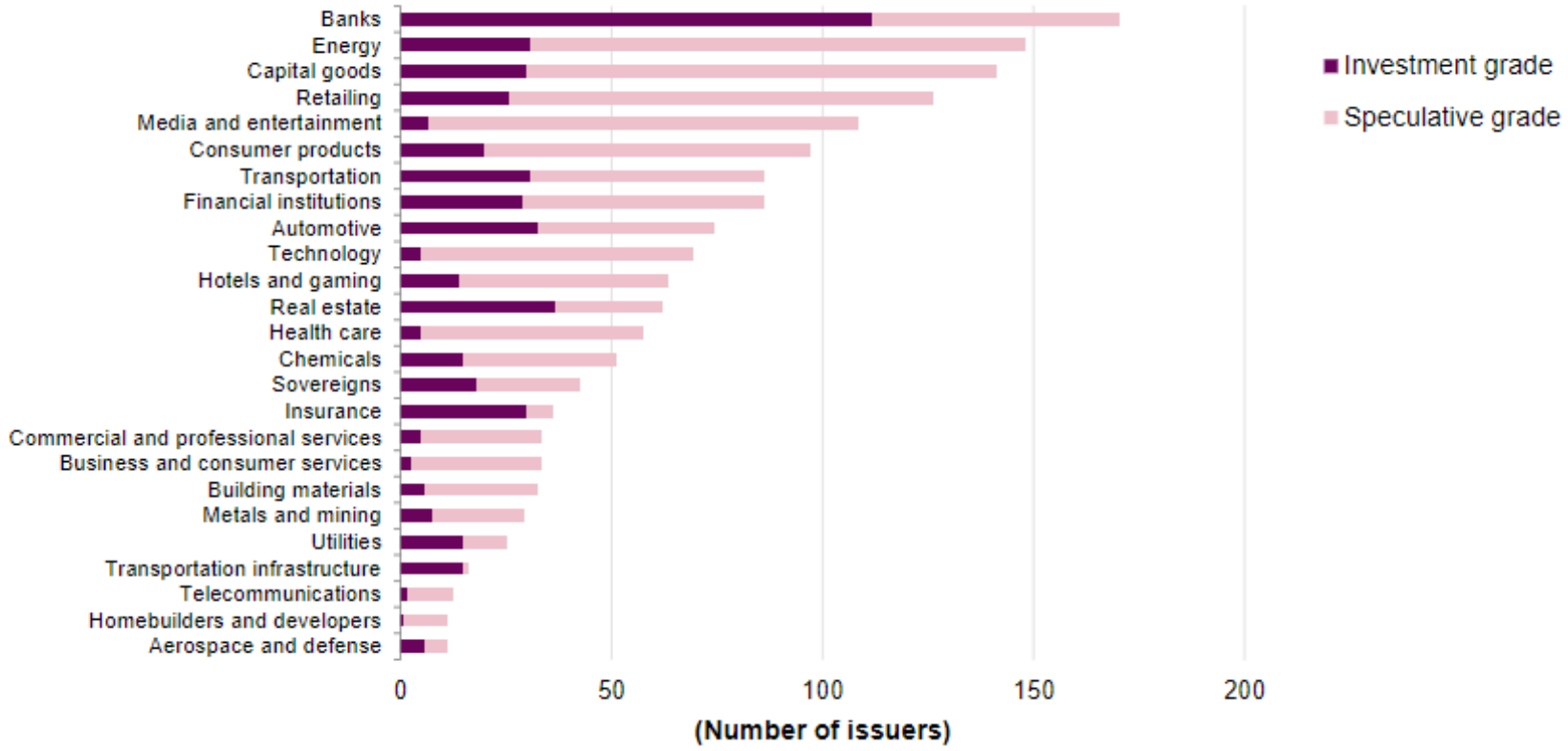
- Roughly half of all media and entertainment issuers are hit by downgrades
- Almost 20% of all issuers are affected by single and multiple notch downgrades.

Percent of issuers affected by COVID-19 and oil prices



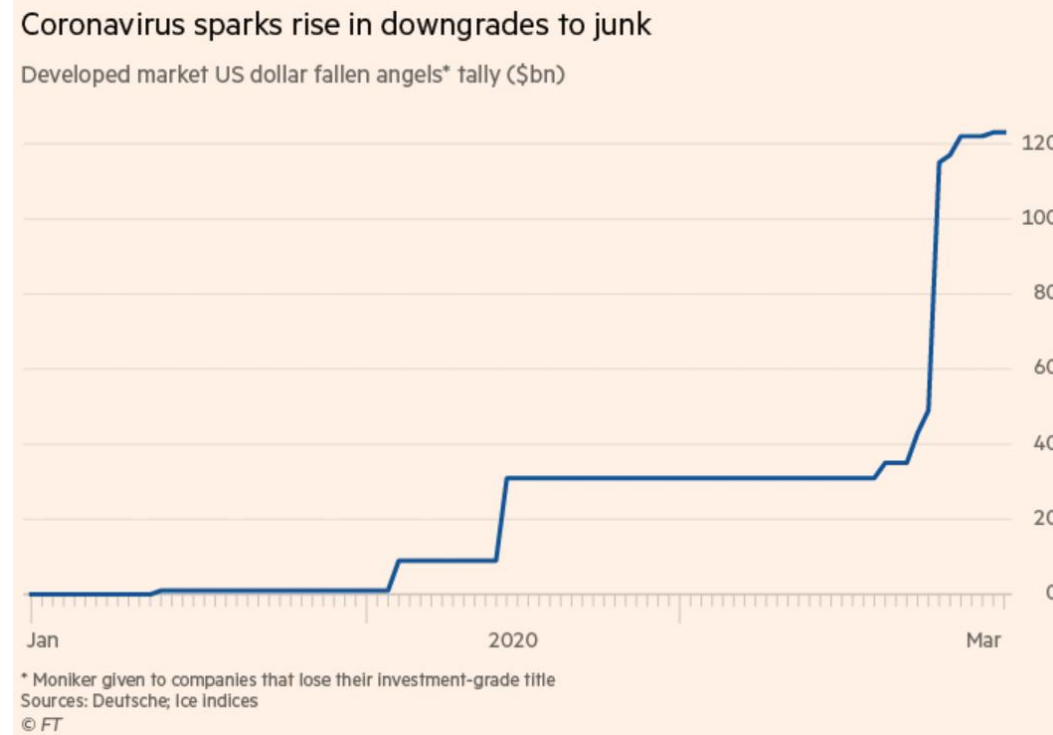
Both investment grade and junk bonds are affected worldwide

The vast majority of downgraded bonds are junk into deeper junk.










The number of fallen angels has risen sharply

- 23 fallen angels as of April 16th, up from 2 in January.
- More than \$120bn already downgraded to junk.
 - \$90bn worth of fallen angels in March, mostly from Ford, Macy's, and Occidental.
- JP Morgan predicts \$500bn to be downgraded from IG to junk this year globally.
 - \$215bn in the US and \$100bn in Europe.
- Investors will be forced to reallocate portfolios that contain fallen angels.



Notable fallen angels (so far)

Sector	Company	Latest Rating Action	Altman Z Score	Average Altman Z	Total Debt (\$B)	Average Debt (\$B)
Travel	 DELTA AIR LINES	BBB- → BB	1.13	1.16	17.9	13.5
	 Lufthansa	Baa3 → Ba1	1.19		9.0	
Energy	 OXY Occidental Petroleum Corporation	Baa3 → Ba1	0.55	0.10	36.8	22.55
	 Apache	BBB → BB+	-0.35		8.3	
Auto	 Ford	BBB- → BB+	0.82	0.69	168.7	79.5
	 RENAULT	BBB- → BB+	0.55		59.0	
	 ZF	BBB- → BB+	N/A		10.7	

Lots of companies on the cusp (BBB-)






Negative outlooks; signifying very possible future downgrades:

- Expedia
- Hyatt
- Marriott
- Nordstrom
- Carnival








Developed Market Sector Outlooks

Travel companies downgraded with negative outlooks

Company	Latest Rating Action	Credit Rating 2019 2020	Altman Z Score	Total Debt (\$B)
 DELTA	BBB- → BB	IG J	1.13	17.9
 Lufthansa	Baa3 → Ba1	IG J	1.19	9.0
 Southwest	BBB+ → BBB	IG IG	2.38	2.8
 Royal Caribbean INTERNATIONAL	B3 → Caa2	J J	1.13	9.0
 Carnival	BBB → BBB-	IG IG	1.45	9.7






Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

Energy is suffering from record low oil prices

Company	Latest Rating Action	Credit Rating 2019 2020	Altman Z Score	Total Debt (\$B)
 Occidental Petroleum Corporation	Baa3 → Ba1	IG J	0.55	36.8
	AAA+ → AA	IG IG	3.15	31.6
	CCC+ → CCC	J J	0.05	8.6
	BBB → BB+	IG J	-0.35	8.3
 Southwestern Energy*	BB → BB-	J J	0.72	2.4





Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

Auto companies are drowning in debt

Company	Latest Rating Action	Credit Rating 2019 2020	Altman Z Score	Total Debt (\$B)
	BBB- → BB+	IG J	0.82	168.7
 RENAULT	BBB- → BB+	IG J	0.55	59.0
	BBB- → BB+	IG J	N/A	10.7
 HONDA	A2 → A3	IG IG	1.79	38.4
	Baa2 → Baa3	IG IG	1.27	35.4




Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

Media companies go from junk to deeper junk

Company	Latest Rating Action	Credit Rating 2019 2020	Altman Z Score	Total Debt (\$B)
	B → CCC-	J J	0.28	9.7
	Ba3 → B1	J J	1.18	20.1
	BB- → B	J J	0.72	5.56
	B+ → B-	J J	N/A	N/A





Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

Gaming industry is losing steam

Company	Latest Rating Action	Credit Rating 2019 2020	Altman Z Score	Total Debt (\$B)
 SCIENTIFIC GAMES®	B2 → B3	J J	0.31	8.84
 BOYD GAMING™	B1 → B2	J J	1.16	4.6
 inspired entertainment	CCC+ → C	J J	-1.34	0.28




Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

Casinos are in deep distress

Company	Latest Rating Action	Credit Rating 2019 2020	Altman Z Score	Total Debt (\$B)
	Ba2 → Ba3	J J	N/A	N/A
	Negative outlook (Ba3)	J J	1.18	20.4
	Negative outlook (BB)	J J	1.05	11.4
	B+ → B	J J	-0.09	19.2




Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

Many fallen angel industrials with more to come

Company	Latest Rating Action	Credit Rating 2019 2020	Altman Z Score	Total Debt (\$B)
	BBB → BBB-	IG IG	1.43	38.9
HILLENBRAND, INC.	BBB- → BB+	IG J	1.11	1.9
	BBB- → BB+	IG J	1.37	1.4
BOMBARDIER	CCC+ → CCC	J J	0.01	13.9
	BBB- → BB+	IG J	0.92	0.74






Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

Already distressed retail exacerbated

Company	Latest Rating Action	Credit Rating 2019 2020	Altman Z Score	Total Debt (\$B)
	BBB- → BB+	IG J	2.85	2.2
NORDSTROM	BBB → BBB-	IG IG	1.72	4.6
	BBB- → BB+	IG J	1.37	1.4
	BBB- → BB+	IG J	2.00	6.5
Lbrands	Ba2 → Ba3	J J	1.32	8.5




Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

Hotels are on the cusp of falling to junk territory

Company	Latest Rating Action	Credit Rating 2019 2020	Altman Z Score	Total Debt (\$B)
	BBB → BBB-	IG IG	2.17	12.0
	BBB → BBB-	IG IG	2.53	2.4
	BB+ → BB	J J	1.15	10.4
	BB+ → BB	J J	1.36	2.8
	B2 → B3	J J	N/A	N/A

Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

Other companies fell to junk or are close

Company	Latest Rating Action	Credit Rating 2019 2020	Altman Z Score	Total Debt (\$B)
	BBB- → BB+	IG J	0.78	32.8
	A- → BBB+	IG IG	3.15	31.6
	BBB- → BB+	IG J	0.18	6.1

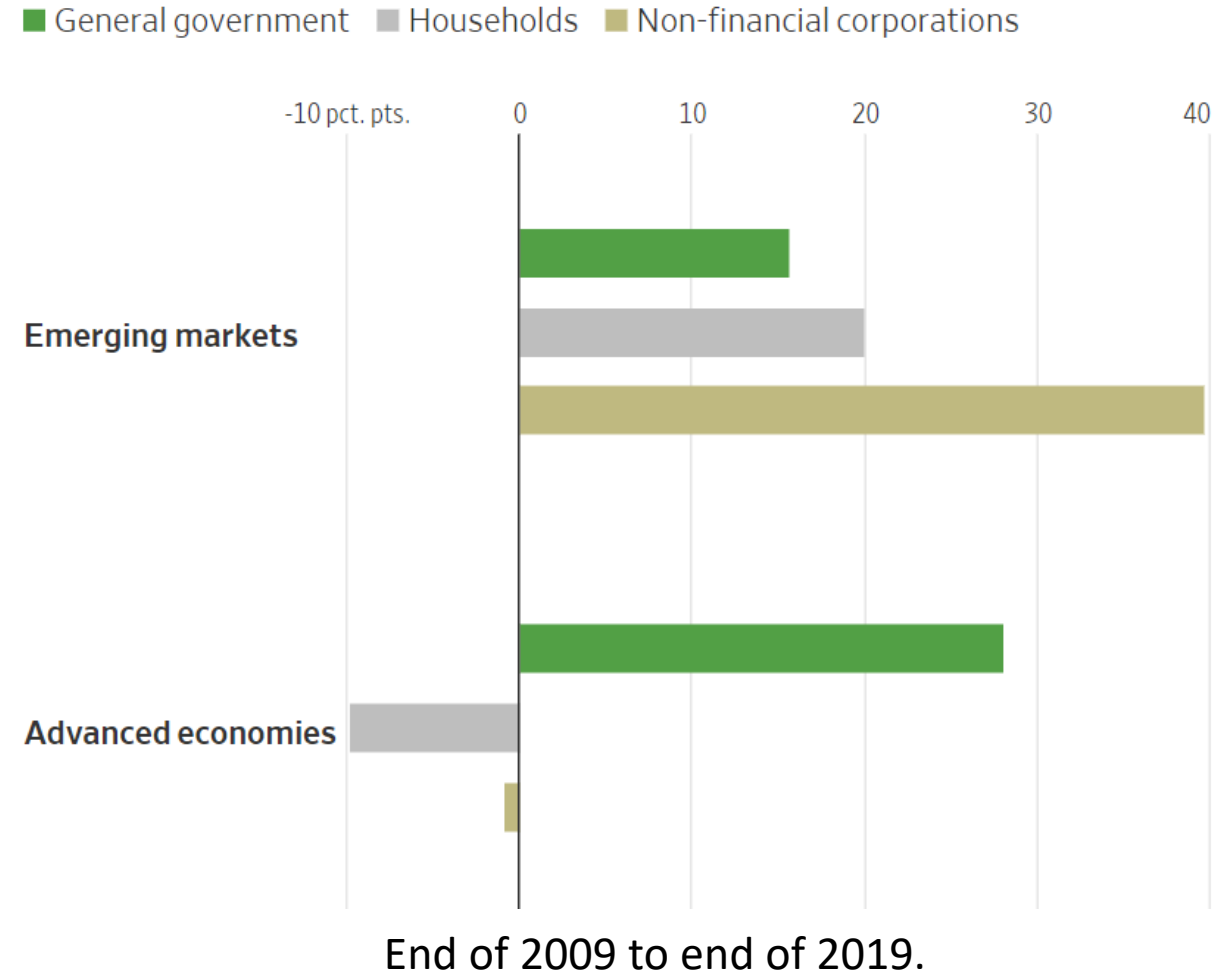
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Emerging Market Bonds: A different ball game: less problematic with Brazil and Mexico in trouble

Emerging markets are even more vulnerable than advanced economies

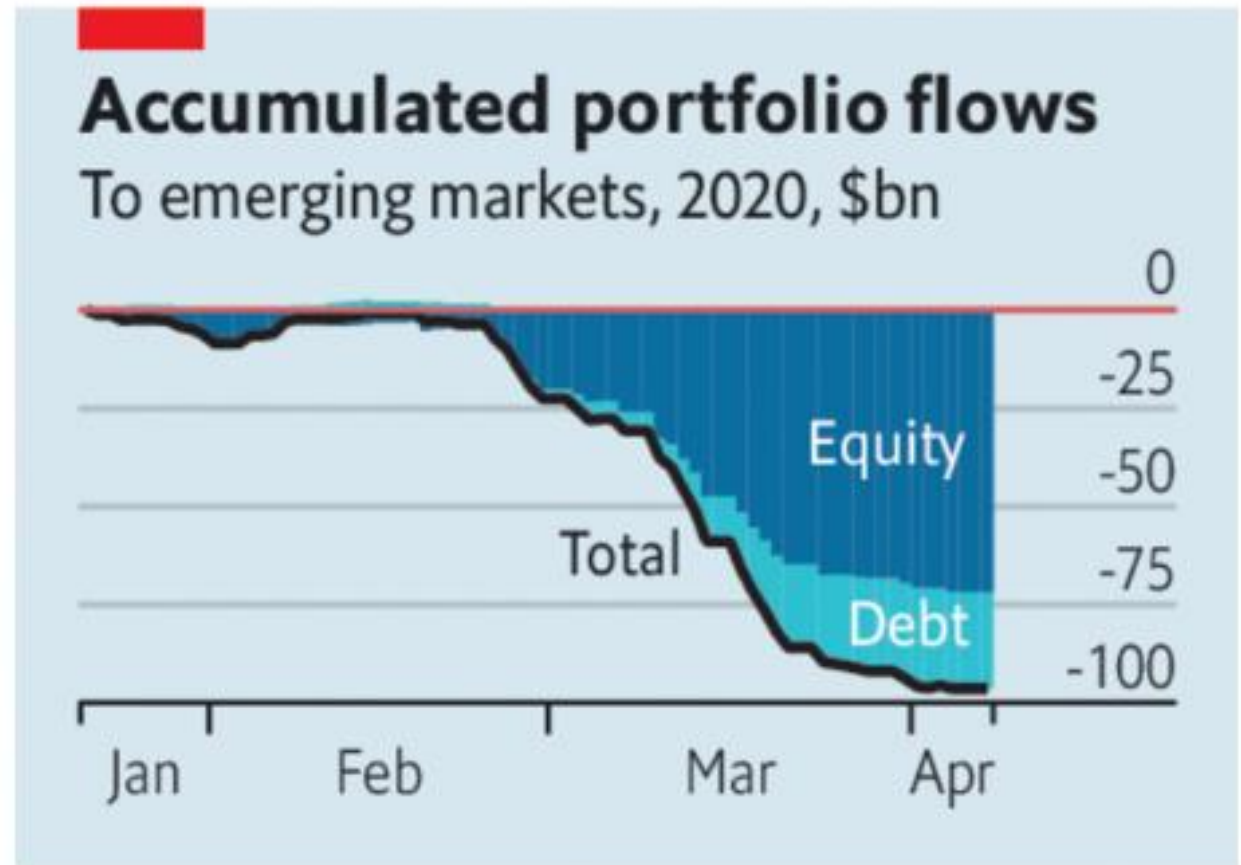
- Corporate debt in emerging markets increased at much higher rate than that in advanced economies.
- Emerging markets governments are less likely to introduce large stimulus packages.
 - They are more susceptible to solvency and inflation issues.

10-year change in debt as a percentage of GDP by sector



Emerging markets are in trouble

- Investors have already pulled \$96bn from emerging equity and debt markets.
 - Roughly 75% is equity, 25% is debt.

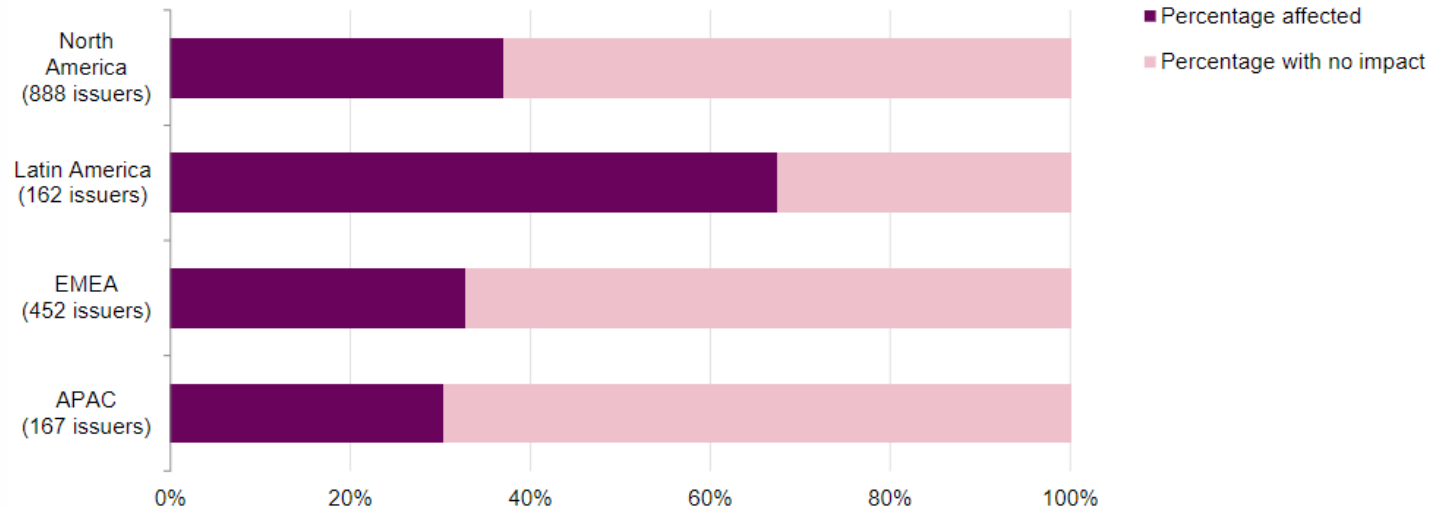


The Economist

Latin America has the highest proportion of affected issuers

- No region escaped the downgrades.
- North America has the highest absolute number of affected issuers.

Regional Breakdown Of Corporate And Sovereign Issuers Affected By COVID-19 And Oil Prices



Data as of May 8, 2020. Source: S&P Global Ratings Research.

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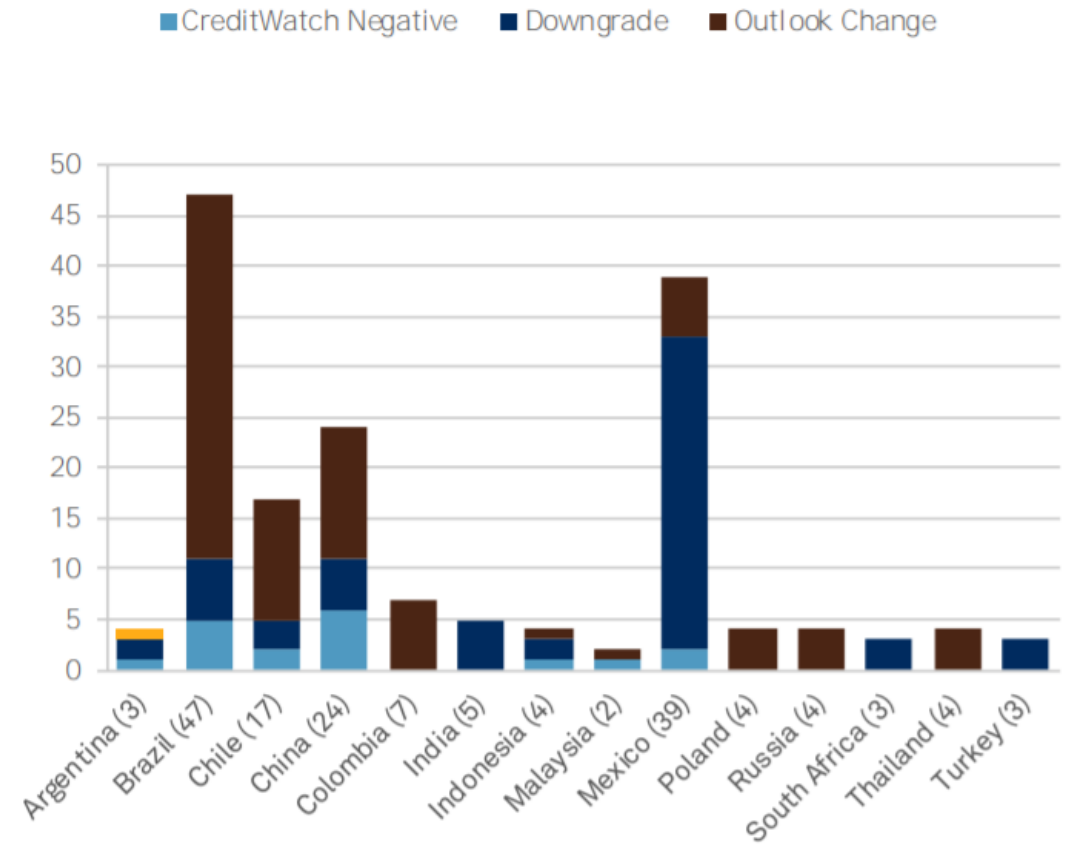
Sovereign downgrades will affect corporate ratings

Highly dollarized markets will be more vulnerable due to self-financing concerns.

Mexico is faring worse than any other EM.

Country	Rating Action
Mexico	BBB → BBB-
Colombia	Stable → Negative (BBB-)
Brazil	Positive → Stable (BB-)
Argentina	CCC- → SD
Thailand	Positive → Stable (BBB+)
Indonesia	Stable → Negative (BBB)

Corporate rating actions in EM countries.



Source: S&P Global Ratings. Data as of April 21, 2020.

COVID-19 has affected hundreds of billions of dollars in emerging markets

- Emerging market countries already have hundreds of billions of dollars in downgrades.
- Countries such as Brazil will likely see more downgrades in the coming weeks.

Country	\$ Debt Affected
China	137.7
Mexico	292.3
South Africa	19.5
Brazil	15.6
Indonesia	4.7
Turkey	3.1
India	26.8
Total	499.7

Dollar amounts are only for corporate bonds included in this presentation, not all rating actions by rating agencies.

Country Outlooks

China has the most debt and highest potential to disrupt global markets

Sector	Company	Latest Rating/Action	Debt (\$B)	Total Debt (\$B)
Real Estate	Evergrande	B1 Stable	18.0	76.4
	Kaisa	B Stable	17.2	
	China Jinmao	Stable → Negative (BBB-)	17.1	
	Zhenro	B+ Stable	9.2	
	BJ Capital	BBB-	6.8	
	Sunshine 100	CCC+ → CCC-	4.0	
	Yida China	Caa1 → Caa2	2.4	
	Oceanwide	CCC+	1.7	
Capital Goods	Xinjiang Goldwind	BBB-	5.2	5.2

Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

China has the most debt and highest potential to disrupt global markets

Sector	Company	Latest Rating/Action	Debt (\$B)	Total Debt (\$B)
Conglomerates	Yihua Group	CCC → SD	Default	20.9
	Wanda Group	B1 → B3	15.8	
	Tahoe Group	B3 → Caa1	5.1	
Healthcare	Yestar	Ba3 → B1	0.3	0.3
Materials	Tianqi Lithium	B2 → Caa1	4.5	16.9
	China Hongqiao	Positive → Stable (B2)	12.4	
Textiles	Shandong Ruyi	Caa1 → Caa3	0.2	0.2
Auto	China Grand	BB- → B+	11.9	17.8
	Geely	Downgrade Review (Baa3)	1.1	
	BAIC	Downgrade Review (Baa2)	4.8	

Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

Mexico's sovereign downgrade dragging corporates

Sector	Company	Latest Rating/Action	Debt (\$B)	Total Debt (\$B)
Materials	Elementia	Ba2 → Ba3	0.8	0.8
Hotels	Grupo Posadas	B2 → Caa1	0.5	0.5
Energy	PEMEX	Baa3 → Ba2	106	108.7
	ENOVA	Baa1 → Baa2	2.7	
Tele-communications	America Movil	Stable → Negative (A3)	40.6	40.6
Travel	Aeroméxico	B1 → B2	2.7	2.7
Media	Grupo Televisa	Stable → Negative (Baa1)	7.1	7.1
Food	Coca-Cola	Stable → Negative (A2)	3.9	3.9

Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

Mexico's banking sector hit hard

Sector	Company	Latest Rating/Action	Deposits (\$B)	Total Deposits (\$B)
Banking	BBVA	A3 → Baa1	16.1	128.0
	Banorte	A3 → Baa1	30.2	
	Banco Santander	A3 → Baa1	33.8	
	Citibanamex	A3 → Baa1	30.8	
	HSBC	A3 → Baa1	17.1	

Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

South Africa's fallen angels

Sector	Company	Latest Rating/Action	Debt (\$B)	Total Debt (\$B)
Materials	Anglo American	Stable → Negative (Baa2)	9.9	9.9
Industrials	Barloworld	Baa3 → Ba1	0.5	0.5
Real Estate	Growthpoint Properties	Baa3 → Ba1	3.6	5.8
	Redefine Properties	Baa3 → Ba1	2.2	
Tele-communications	Telkom SA	Baa3 → Ba1	0.9	0.9
Conglomerate	The Bidvest Group	Baa3 → Ba1	1.6	1.6
Transport	Transnet SOC	Baa3 → Ba1	0.8	0.8

Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

Brazil has few downgrades but lots of downgrade risk

Sector	Company	Latest Rating/Action	Debt (\$B)	Total Debt (\$B)
Industrials	Embraer	Ba1 → Ba2	0.1	1.9
	AB Concessões'	Stable → Negative (Ba3)	N/A	
	Votorantim	Stable → Negative (Ba1)	1.8	
Transport	Linha Amarela	Downgrade Review (B3)	N/A	2.9
	MetroRio	B3 → Caa1	0.2	
	Azul	Ba3 → B1	2.7	
Energy	Ultrapar	Stable → Negative (Ba1)	2.7	2.7
Materials	Gerdau	Positive → Stable (Ba1)	3.8	5.2
	Eldorado	Ba3 → B1	1.4	

Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

Brazil has few downgrades but lots of negative outlooks

Sector	Company	Latest Rating/Action	Debt (\$B)	Total Debt (\$B)
Travel	Gol	Downgrade Review (B1)	2.9	2.9
Water and Sewage	Aguas de Itapema	Stable → Negative (Ba3)	N/A	N/A

Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

Downgrades hit Indonesia's junk bonds

Sector	Company	Latest Rating/Action	Debt (\$B)	Total Debt (\$B)
Energy	Bumi Resources	B3 → Caa1	1.8	2.4
	Saka Energi	Ba2 → B1	0.6	
Real Estate	Alam Sutera	B3 → Caa1	0.5	1.8
	Agung Podomoro Land	B2 → B3	0.7	
	Modernland	B2 → B3	0.6	
Auto	Gajah Tunggal	B3 → Caa1	0.5	0.5

Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

Turkey's important tourism and travel sectors in distress

Sector	Company	Latest Rating/Action	Debt (\$B)	Total Debt (\$B)
Travel	Turkish Airlines	B1 → B2	3.1	3.1
	Global Liman	B2 → B3	N/A	

Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

India

Sector	Company	Latest Rating/Action	Debt (\$B)	Total Debt (\$B)
Energy	ONGC	Baa1 → Baa2	13.2	14.1
	Nayara Energy	Ba2 → Ba3	0.9	
Real Estate	Indiabulls	B2 → B3	12.7	12.7

Lowest Investment Grade Rating: Baa3 (Moody's) BBB- (S&P, Fitch)

Appendix

Credit Rating Scales by Agency, Long-Term

Moody's	S&P	Fitch	
Aaa	AAA	AAA	Prime
Aa1	AA+	AA+	High grade
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	Upper medium grade
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	Lower medium grade
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	Non-investment grade speculative
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	Highly speculative
B2	B	B	
B3	B-	B-	
Caa1	CCC+	CCC	Substantial risk
Caa2	CCC		Extremely speculative
Caa3	CCC-		Default imminent with little prospect for recovery
Ca	CC	CC	
	C	C	
C	D	D	In default
/			
/			

"Junk"

