Credit Benchmark®

Global Credit Chartbook

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Introduction

The past twelve months have seen political and economic factors driving some major changes in credit. Trade disputes, geopolitical tensions and climate change are all factors in the data discussed here.

This report is based on consensus credit data from around 40 financial institutions, giving a detailed overview on Corporate and Financial credit trends in 20 individual countries and associated regions.

Executive Summary

United States: The positive "Trump Effect" on Financial and Corporate credit risk seems to have run its course with recent data suggesting a possible turning point. Six out of nine industries improved in the past year, with Oil & Gas and Basic Materials at the top of the list.

Americas: Corporates and Financials show improvements in nearly all countries – only Brazilian Financials show a (marginal) deterioration. Brazil also has the highest credit risk in both Corporates and Financials.

United Kingdom: Following the Brexit vote, the majority of UK Industries have been deteriorating. Consumer Industries have been worst hit in the last year.

Europe: Seven of the 10 European Countries show overall improvements in Corporate credit risk in the last year, while nine out of 10 have had improvements in the Financial sector. UK has the highest credit risk level of Corporates and Italy has the highest credit risk level of Financials. Italian Financials are also a higher credit risk than Italian Corporates.

Asia: All countries show improving Corporate credit risk over the past year. Most Financials also have improving trends, with the exception of Singapore and India. Indian Financials, which has the highest credit risk in Asia, is showing possible signs of a turning point in the latest data.

UK and US Oil & Gas: The most recent data shows a dip in credit quality in both the UK and the US. The oil price is subject to a strategic glut (especially due to fracking) but tactical shortages (tension in the Gulf states), so the credit trend provides a useful gauge of the net impact of the two opposing influences.

United States Corporates v Financials

Figure 1.1: Credit Trends – United States Corporates and Financials

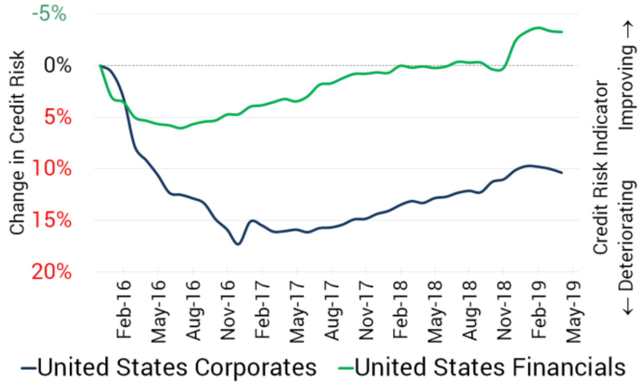
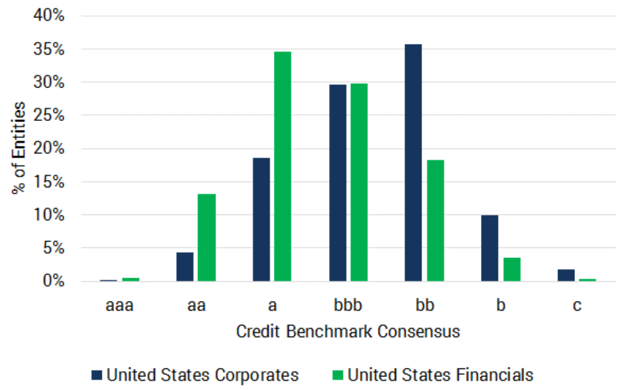


Figure 1.2: Credit Distribution (Apr '19) – United States Corporates and Financials



Both US Corporates and Financials credit deteriorated in H1 2016 (left hand chart); this was particularly severe for Corporates. Financials began to improve in Q3 2016, not long after Trump announced that he was running for President, with Dodd-Frank repeals on his agenda. Corporates turned positive in late 2017 after a drop of about 20%, improving nearly 6% between March '17 and January '19 as the Trump tax cuts took effect. Financials appear to have stalled, and may be at a turning point. Corporates also show signs that their recent positive trend may have run its course.

The distribution chart on the right shows that while **bb** is the largest single category for US Corporates, the majority of US Corporates are investment grade. US Financials are positively skewed, with nearly 35% in credit category **a**.

The chart below left shows that seven out of 10 US Corporate Industries have seen an increase in credit risk since December '15. The right-hand chart shows shorter term changes (April '18 to April '19); seven of the 10 industries have seen an improving trend over the last year.

Figure 1.3: Credit Changes (Dec '15 to Apr '19) – United States Industries

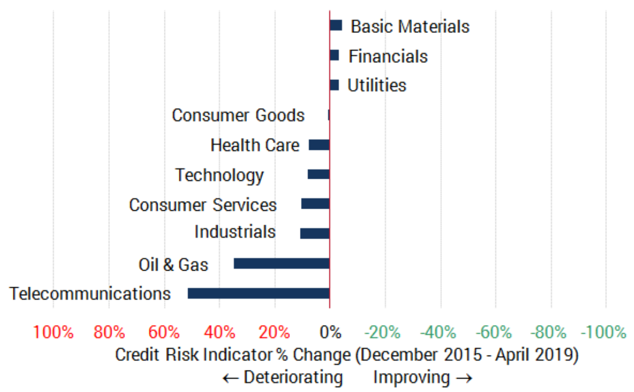


Figure 1.4: Credit Changes (Apr '18 to Apr '19) – United States Industries

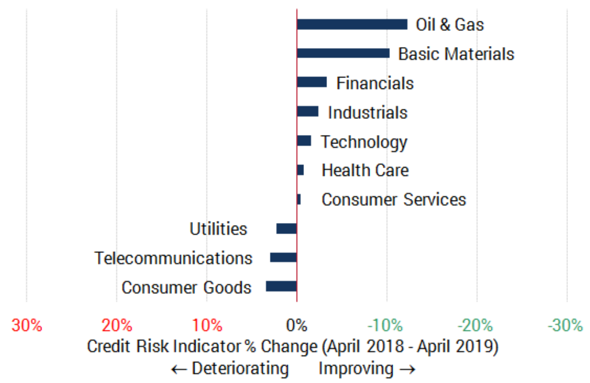
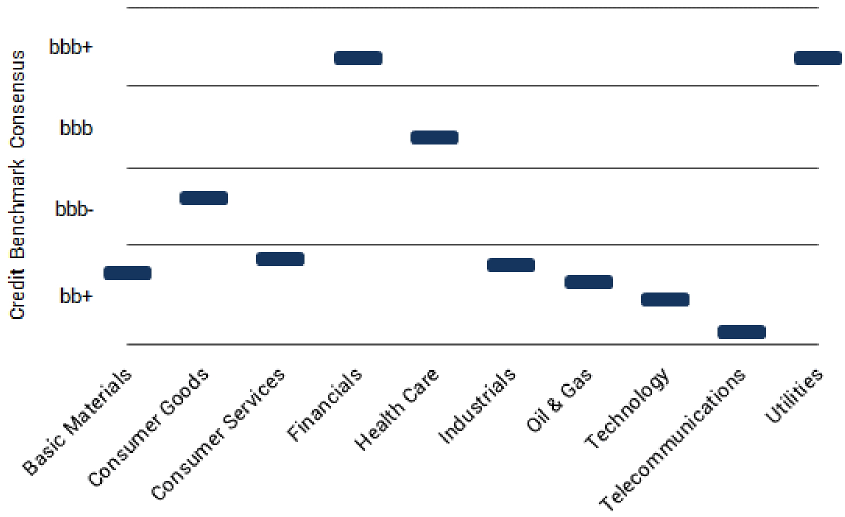


Figure 1.5: Credit Level (Apr '19) – United States Industries



US Telecommunications had the largest deterioration (over 50%) since December '15. Figure 1.5 (above centre) shows that this industry also has the lowest credit quality, with an average credit category of **bb+**, close to the **bb** boundary.

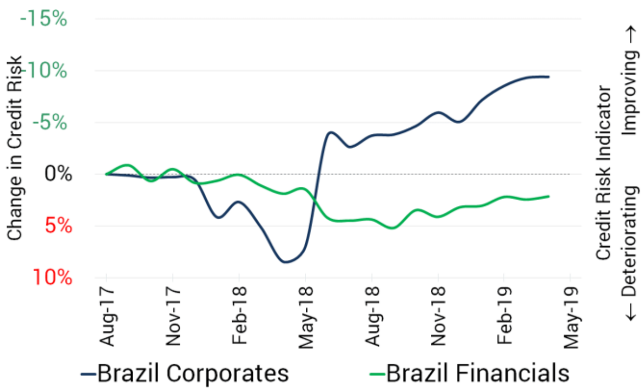
Although US Oil & Gas credit has deteriorated 35% since December '15, it has improved over the past year, and that improvements has been the most rapid of any US industry over the same period – reflecting the global oil price recovery during 2017 and 2018.

US Financials, Basic Materials and Utilities have all improved since December '15, helped by current Administration fiscal and tariff policies. Although Basic Materials continued their improvement in the past year (+10%), Utilities have started to deteriorate. But along with Financials they remain the strongest credits, with an average credit category of **bbb+.**

Investment grade industries also include Health Care and Consumer Goods.

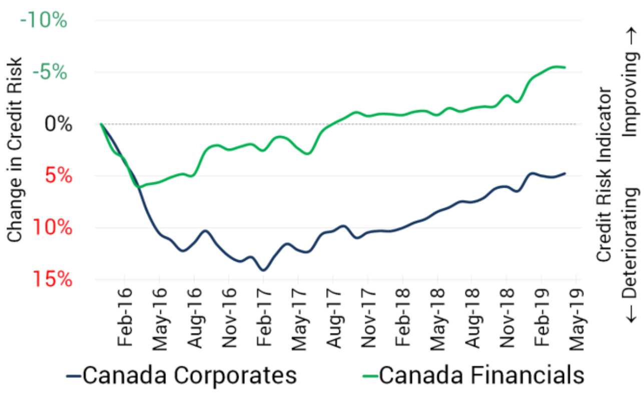
Americas (ex US) Corporates v Financials

Figure 2.1: Credit Trends – Brazil Corporates and Financials



Brazil was slowly coming out of its 2014 recession during the first half of 2017, and Figure 2.1 shows that credit risk remained stable during the second half of 2017. However, both Corporate and Financial credit risk deteriorated towards the end of 2017. Corporates show a steep decline, with credit risk increasing nearly 7% from November '17 until May '18. Financials moved in the same direction a quarter later. Since mid-2018, both Corporate and Financial credit risk have generally improved, coinciding with the successful Bolsonaro, campaign. However, Corporate credit risk improvements have slowed in in recent months, along with weak economic numbers.

Figure 2.2: Credit Trends – Canada Corporates and Financials



Canadian Financials deteriorated slightly in the first half of 2016, while Corporates had a more sustained deterioration of 4% until February '17. After their initial deterioration, both Financials and Corporates have seen a steady improvement, mirroring the trends in the US. Both have stabilized in recent months, possibly reflecting the risks in the US – China trade war; some Canadian exports to China have already been affected.

Figure 2.3: Credit Trends – Mexico Corporates and Financials

Mexican credit has been volatile, with Corporates improving 11% since December '15. Financials have been more stable, after an initial deterioration in the first half of 2016. Latest data shows a dip in both Corporate and Financial credit risk. Trump's latest announcement suggests a workable deal which could prevent further deterioration.

Americas (including US): Corporates and Financials

The two charts below plot changes in Corporate and Financial credit risk across the major economies in the Americas between April '18 and April '19. Corporates (on the left) have improved in the last year, with the largest improvement in Brazil (+16%, nearly four times higher than that of Canada).

Financials (right hand chart) show improvements in three of the four major economies and the Brazilian decline is negligible. Canada has had the highest improvement of the Financials, a 4% improvement. Figure 2.6, which shows the level of credit risk, illustrates that Canadian Financials have the lowest credit risk of all American Corporates and Financials, with a Credit Benchmark Consensus of **bbb+.**

Figure 2.4: Credit Changes – Americas Corporates

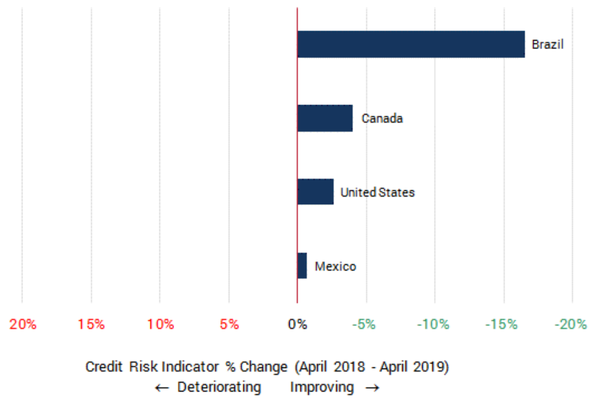


Figure 2.5: Credit Changes – Americas Financials

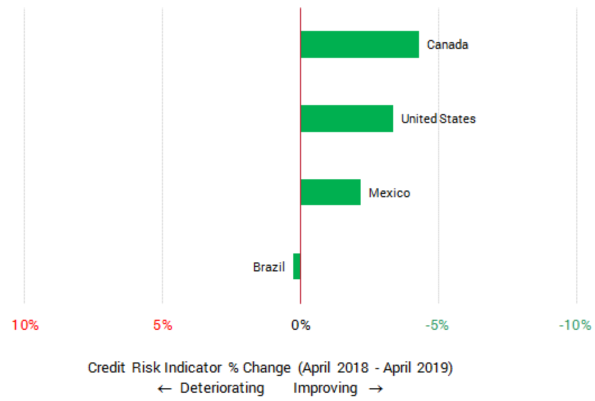
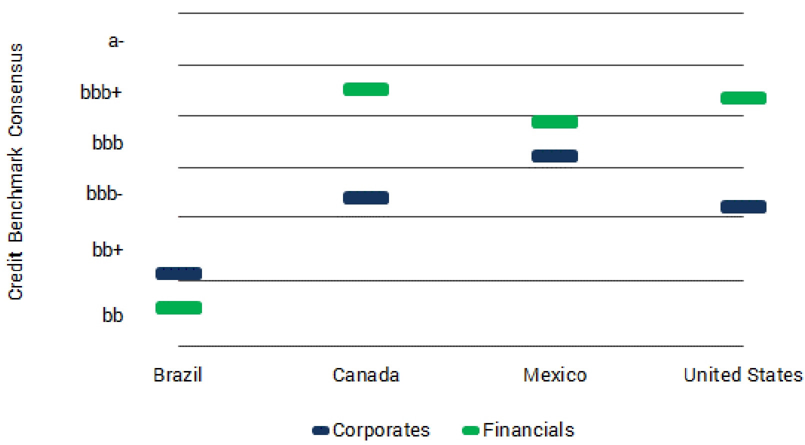


Figure 2.6: Credit Levels (Apr'19) – Americas Corporates and Financials



The chart directly above highlights Brazil as the lowest credit quality across Corporates and Financials (both are non-Investment Grade). Typically Financials are stronger credit quality than Corporates, but Brazil is one of the exceptions. Of the major economies in the Americas, Mexican Corporates surprisingly show the best credit quality, with an average Credit Benchmark Consensus of **bbb**. This suggests that – in some circumstances - global financial institutions will only extend credit to the highest quality companies when they are lending outside of their country of domicile.

United Kingdom Corporates v Financials

The chart below left shows a sustained deterioration in UK Corporates credit since December '15, down by 25%. Brexit-related uncertainty is likely to be the main factor, so further deterioration is possible until that is resolved.

Figure 3.1: Credit Trends – United Kingdom Corporates and Financials

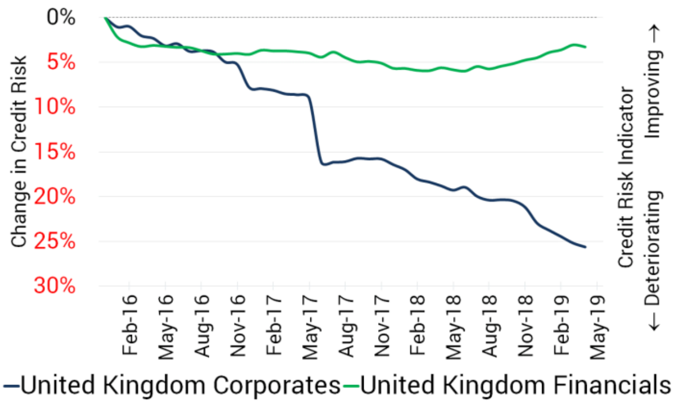
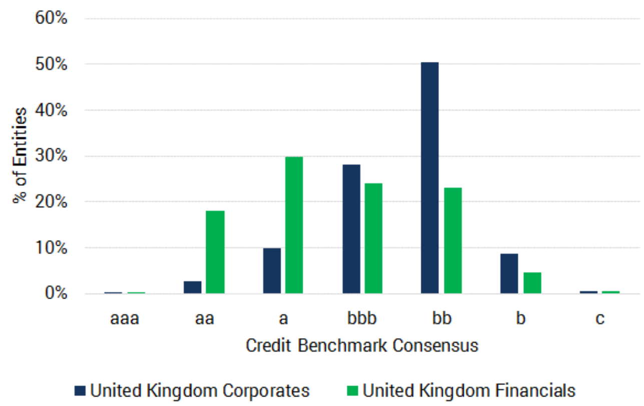


Figure 3.2: Credit Distribution (Apr '19) – United Kingdom Corporates and Financials



UK Financials also saw a decline of 6% until the beginning of 2018, albeit at a slower rate than Corporates. Since February '18 UK Financials have shown a recovery (mainly led by banks), suggesting that the impact of Brexit has already been anticipated and possibly neutralised.

The chart on the right shows that 60% of UK Corporates are non-investment grade, with 50% in the **bb** category. The distribution of UK Financials peaked, and spread evenly from category **aa** to category **bb**. The largest single category is **a**, representing about 30% of the universe.

The charts below plot the credit changes since the end of 2015 (left) and over the past year (right).

Nine out of the 10 UK Corporate Industries have deteriorated since December '15. Oil & Gas shows the largest deterioration, more than 65%. Telecommunications is the only industry showing an improvement over the period time period, up 12%. This may be related to the 5G spectrum auction, which began in April '18

Figure 1.3: Credit Changes (Dec '15 to Apr '19) – United Kingdom Industries

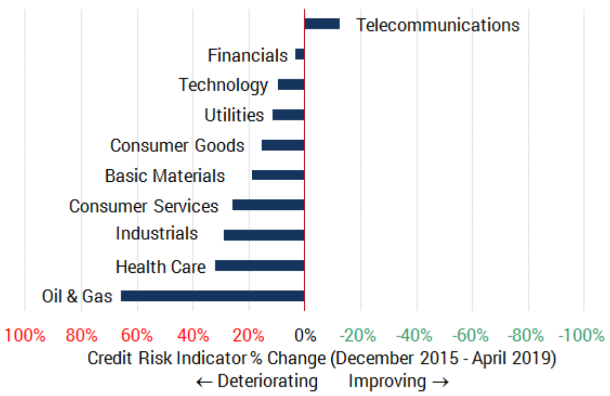


Figure 1.4: Credit Changes (Apr '18 to Apr '19) – United Kingdom Industries

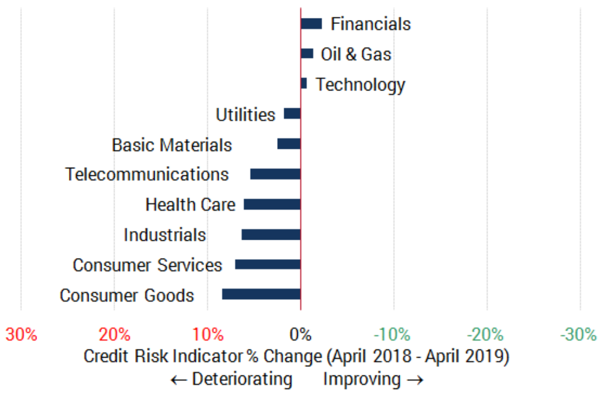
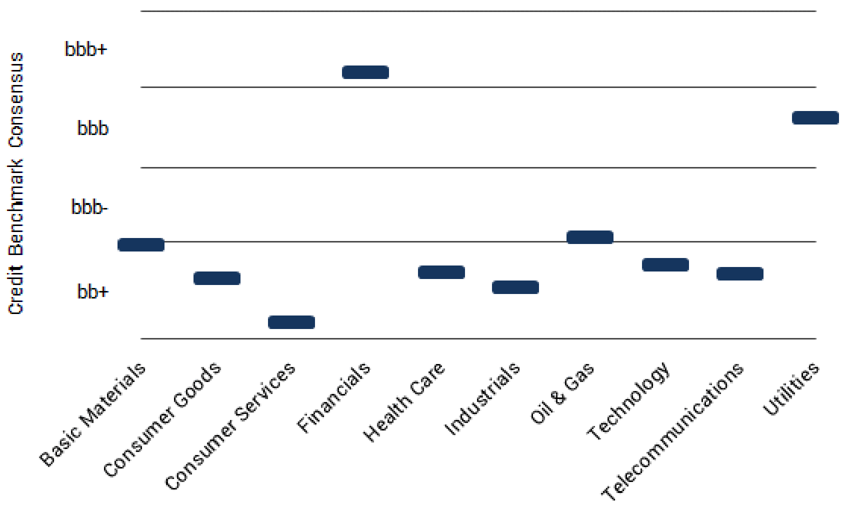


Figure 1.5: Credit Level (Apr '19) – United Kingdom Industries



The most recent changes (top right) show seven out of 10 industries still deteriorating. UK Financials, Oil & Gas and Technology are the only industries with any recent improvement, and these are marginal.

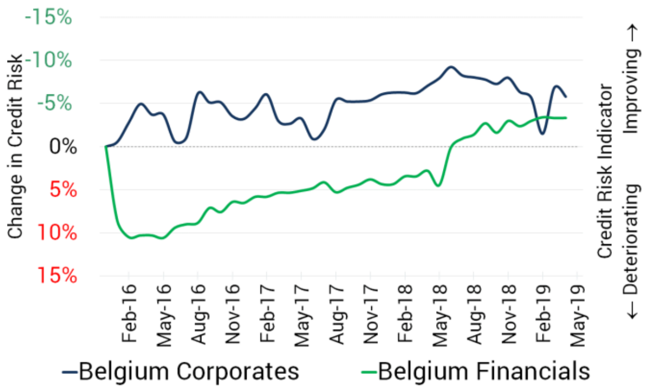
The largest deterioration in the past year (top right chart) has been in Consumer Industries (down 8%) and Consumer Goods (down 7%). This reflects the impact of austerity and Brexit uncertainty – the GfK Consumer Confidence[1] has been in negative territory since April '16. (A value below zero indicates consumer pessimism).

The third chart shows that seven of 10 UK Industries are currently non-investment grade. Consumer Services has the highest credit risk level, close to the border of **bb**. Within the investment grade industries, excluding Financials, Utilities have the best average credit rating, well within **bbb**. Oil & Gas is very close to the non-investment grade boundary.

[1] Growth from Knowledge (2019). *UK Consumer Confidence drops one point in December to -14.* [online] Available at: https://www.gfk.com/en-gb/insights/press-release/uk-consumer-confidence-drops-one-point-in-december-to-14/ [Accessed 18 Jun. 2019].

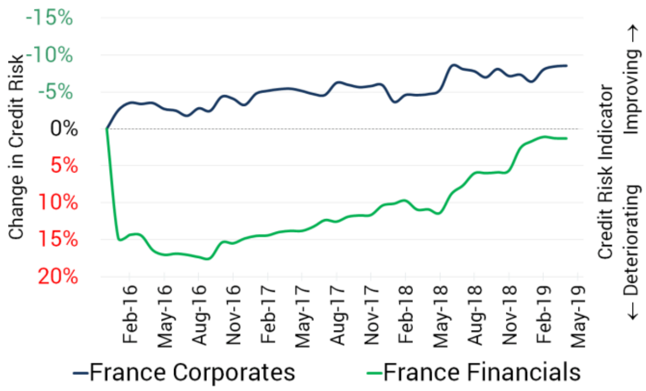
Europe (ex UK) Corporates v Financials

Figure 4.1: Credit Trends – Belgium Corporates and Financials



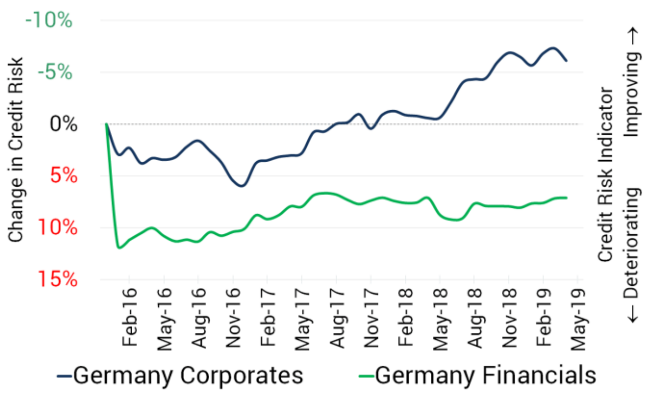
The credit risk of Belgian Corporates has improved by 7% since December '15, but increased in the past year. After an initial deterioration, Financial credit risk has shown a steady improving trend, stabilising in recent months. The Belgian Financial sector recovered from the 2008/09 crisis but bank credit growth has been accelerating since 2015, driven in part by residential mortgages.[2] However the Central Bank has recently raised concerns about imprudent mortgage lending and may impose restrictions.

Figure 4.2: Credit Trends – France Corporates and Financials



Although the credit risk of French Financials deteriorated in the first half of 2016, they have since seen a steady improvement, stabilizing in recent months. Since the Brexit vote, Paris has been successfully attracting financial business. Despite regular political protests in the capital and other major cities, French Corporates have also seen a sustained credit improvement of about 10% over this period.

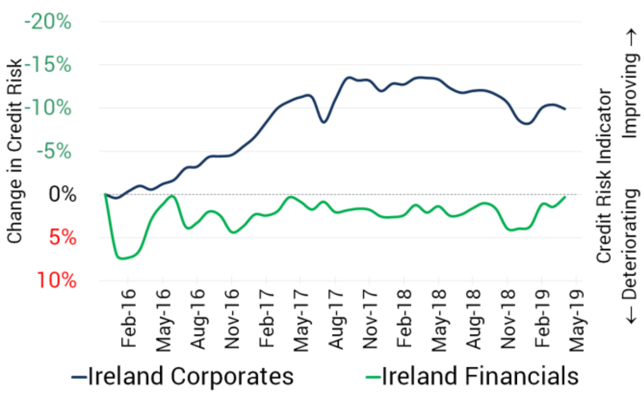
Figure 4.3: Credit Trends – Germany Corporates and Financials



Similar to France, German Financials have recovered from a sharp drop in 2016. They have been stable from mid-2017. Corporates also deteriorated in 2016 but show a sustained improvement since until late 2018. Recession concerns and political uncertainty may be responsible for the recent flattening of the trend.

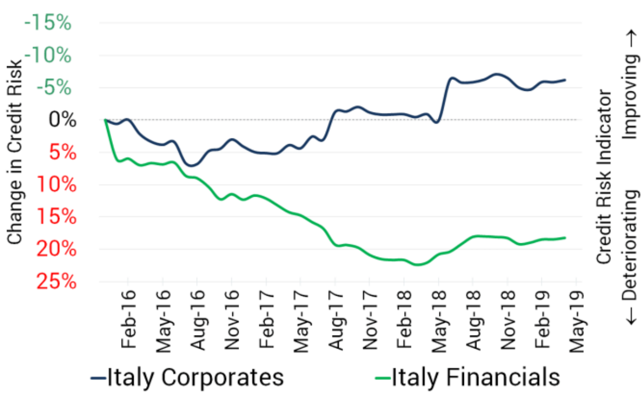
[2] Belgium: Financial System Stability Assessment. (2018). *IMF Staff Country Reports*, 18(67), p.8.

Figure 4.4: Credit Trends – Ireland Corporates and Financials



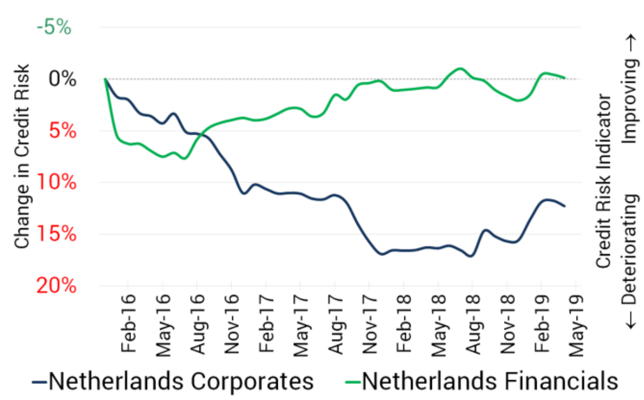
Irish Financials show an initial dip, a subsequent recovery and a recent period of stabilisation. Irish Corporates had a steady improvement until September '17 and have had a gradual deterioration since then. Overall, Corporates have improved by 10% since December '15.

Figure 4.5: Credit Trends – Italy Corporates and Financials



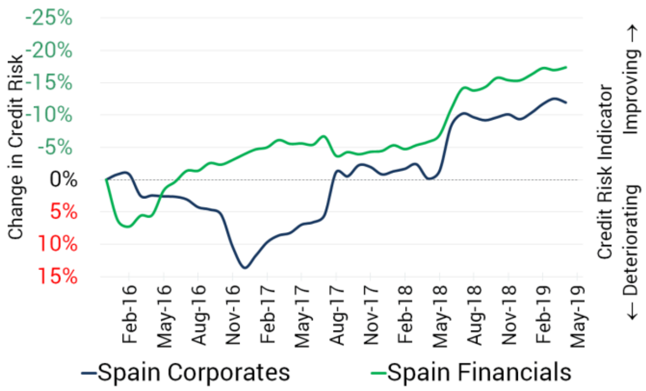
After initially deteriorating in lockstep, Italian Corporates and Financials diverged in August 2016, with Corporates beginning what has become a modest but sustained recovery while Financials continued to deteriorate, reaching their highest credit risk level in March '18 (a decline of 23%). This coincided with the Bank Monte dei Paschi crisis and bailout. From February '18, Financials credit risk initially improved, stabilizing in September '18.

Figure 4.6: Credit Trends – Netherlands Corporates and Financials



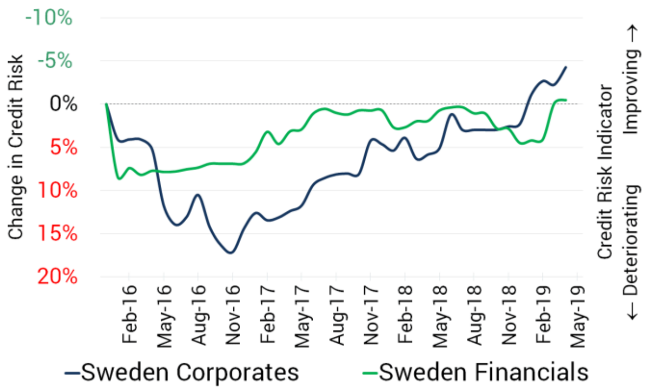
Dutch Corporates had a continuous decline of 17% for in the two years after December '15. Since December '17, they have recovered by 4%. Dutch Financials also showed an initial deterioration until July '17. They have been stable for more than a year after a mild improvement in late 2017.

Figure 4.7: Credit Trends – Spain Corporates and Financials



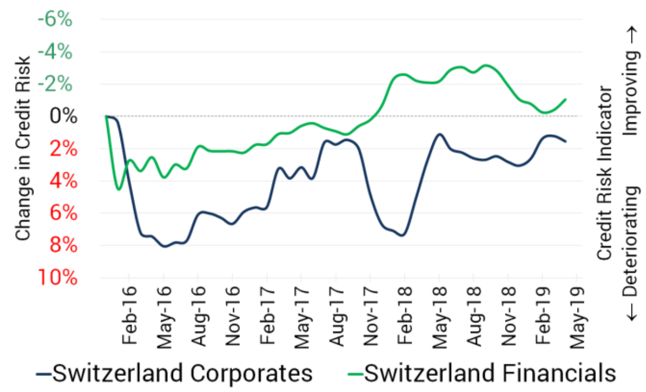
Spanish Financials having been steadily improving from January '16 onwards, up by 22%. Spanish Corporates declined in 2016 by nearly 14% but recovered to their original credit risk level by August '17. After a weak start in 2016, Corporates have also improved strongly. Spanish GDP growth is the fastest in the Eurozone with 2018 being the fifth consecutive year of expansion.[3]

Figure 4.8: Credit Trends – Sweden Corporates and Financials



Swedish Financials deteriorated sharply in early 2016 but had almost fully recovered by May '17.Credit risk stabilized into 2018 but has become more volatile recently. Swedish Corporate credit risk declined 17% throughout 2016, but have steadily improved since then.

Figure 4.9: Credit Trends – Switzerland Corporates and Financials



After an initial dip in 2016, Swiss Financial credit risk improved steadily until mid-2017. Credit risk has been more volatile in 2018 and has shown some recent signs of weakness. Swiss Corporates declined in H1 2016, recovering over the following 12 months. After a bout of volatility they have stabilised.

[3] Romei, V. (2019). Spain leads the way on eurozone growth. Financial Times. [online] Available at: https://www.ft.com/content/12155b0c-3f56-11e9-b896-fe36ec32aece [Accessed 24 Jun. 2019].

Europe (including UK): Corporates and Financials

The charts below show the one-year changes for Corporates and Financials respectively.

The majority of European countries have seen an improvement in both Corporate and Financial credit risk. In Corporates, only three out of 10 countries have deteriorated in the past year. UK shows the largest decline (down 6%), with Ireland close behind. This probably reflects Brexit uncertainty; the credit improvements in the other main European Corporates suggest that the Brexit effect is so far mainly confined to the UK and Ireland.

The chart on the right shows that European Financials have remained strong across the past year, with all but Switzerland showing an overall improvement between April '18 and April '19. Spain has the largest improvement (+12%).

Figure 4.10: Credit Changes – Europe Corporates

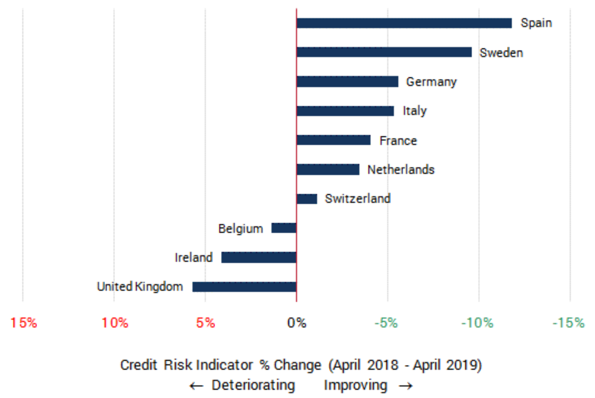


Figure 4.11: Credit Changes – Europe Financials

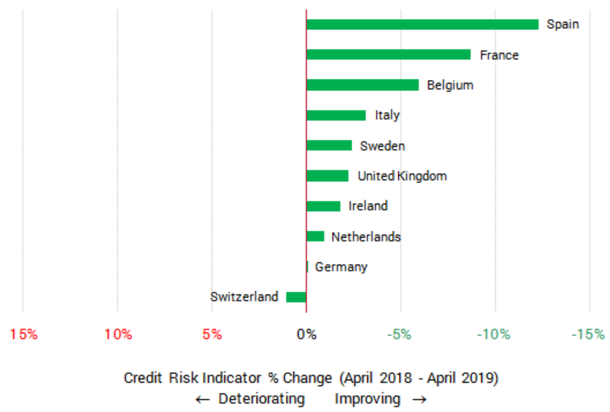
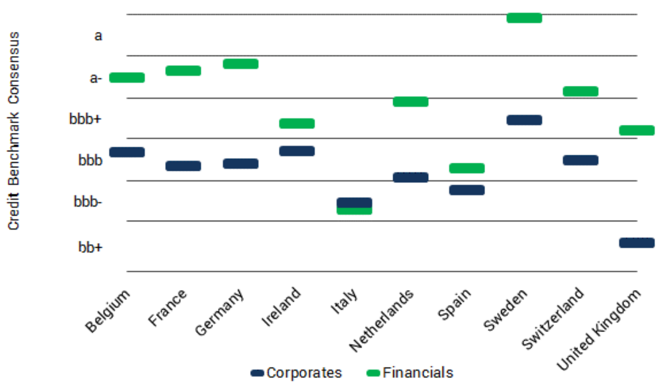


Figure 4.12: Credit Level (Apr'19) – Europe Corporates and Financials



As the chart above shows, in most countries Financial credit risk is materially better than Corporates. The exception here is Italy, and the difference is small; both are in **bbb-** category (Spain is slightly higher with Financials one notch above Corporates).

Italian Financials are the lowest quality in Europe; Swedish Financials are the best (**a** / **a+**). Germany is a full notch lower, just ahead of Belgium and France; all in category **a-**. Corporates for all three countries are in category **bbb**. Corporates and Financials in these countries have generally seen an improvement in credit risk since April '18.

Within this group of European countries, UK Corporates are the only group that is not investment grade.

Asia: Corporates and Financials

The left-hand chart below shows that Asian Corporates have all improved in credit risk across the last year, with Singapore Corporates showing the largest improvement (8%). However, the right hand chart shows that Financials in India and Singapore both show modest deterioration.

Figure 5.7: Credit Changes – Asia Corporates

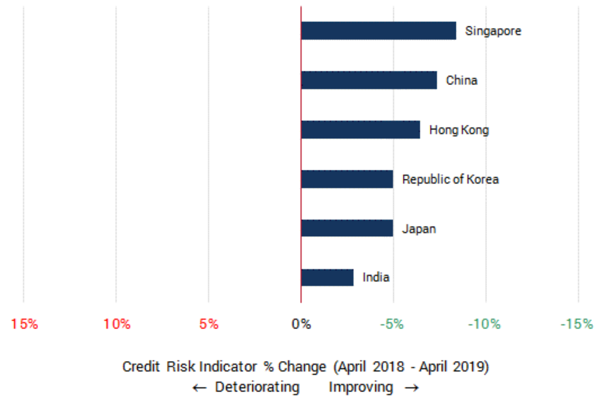


Figure 5.8: Credit Changes – Asia Financials

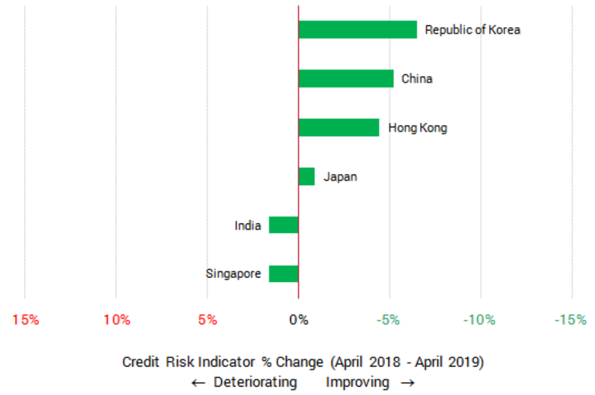


Figure 5.9: Credit Changes (Apr'19) – Asia Corporates and Financials

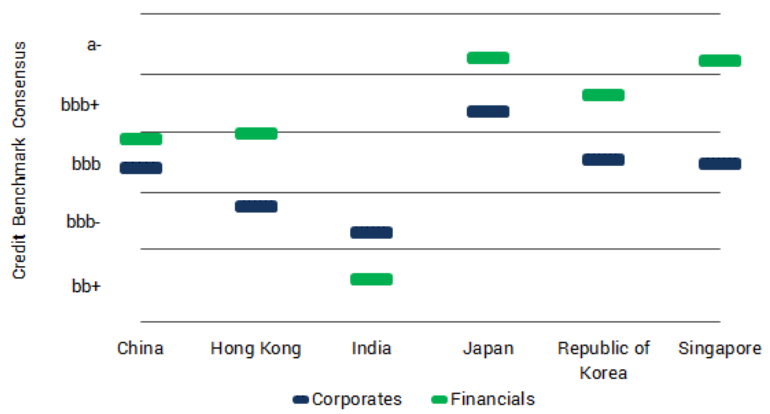


Figure 5.9 shows that India is the only Asian country in this set where Financials have a lower credit level than Corporates, similar to Brazil in the Americas and Italy in Europe. Indian Financials have the lowest credit level of all Asian Corporates or Financials, being the only group that is non-investment grade.

Indian Financials are in the **bb+** category, two notches lower than China, and had the largest deterioration apart from Singapore. Indian Corporates also have the lowest credit quality of this set of Asian countries, at **bbb-**.

Japan has the highest quality Corporates (**bbb+**) and Financials (**a-**). Singapore and South Korea are one notch below.

Industry in Focus – Oil & Gas in the UK and US

The left-hand chart below shows the credit trends of UK and US Oil & Gas from December ’15 onwards. Both deteriorated in 2016, with US Oil & Gas showing a particularly sharp decline. This was the period when crude oil prices fell to $26, the lowest price since 2003. April ’17 was a turning point with credit risk 90% higher than its December ’15 level. US Oil & Gas saw a steady improvement for the rest of 2017 and throughout 2018, recovering by about two-thirds. The last three months show possible signs of another turning point, especially if the impact of the strategic oil glut outweighs short term tensions in the Middle East.

Figure 6.1: Credit Trends – United Kingdom and United States Oil & Gas

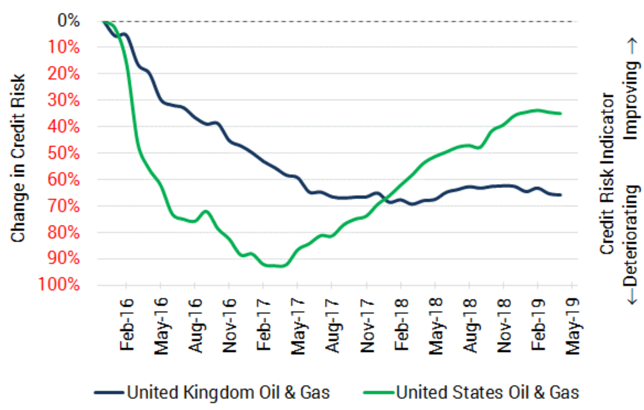
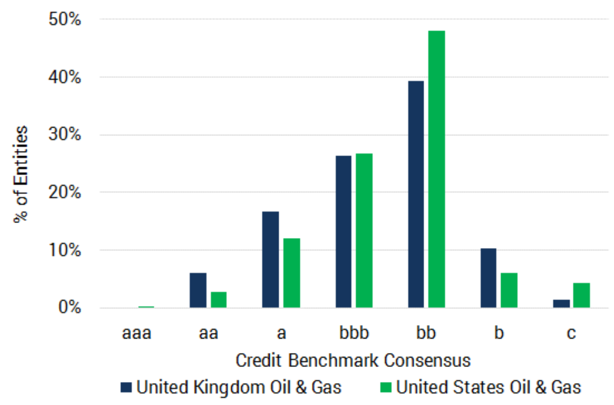


Figure 6.2: Credit Distribution (Apr ’19) – United Kingdom and United States Oil & Gas



The deterioration in UK Oil & Gas began to slow in mid-2017, about a month after the turning point in US Oil & Gas. Although the previous decline was shallower than the US, there has been no real recovery leaving UK credit risk at a level that is about 65% higher than December ’15.

The chart on the right shows that the current credit distributions of UK and US Oil & Gas entities are very similar, and very broad. In both countries, the largest single category is **bb**. About 50% of UK entities are non-investment grade, with the US closer to 60%.

Conclusion

Some key findings based on the data of the last year are:

US Corporates are starting to see an increase in credit risk and **Financials** look to have stalled, but are still in the strong position that followed the major fiscal stimulus and the financial reforms.

Financials in **Brazil**, **India** and **Italy** have poorer credit risk than their Corporate counterparts, counter to the pattern seen in most major economies.

Corporates are mainly on improving trends, with the **UK** and **Ireland** as major exceptions, probably due to Brexit-related uncertainty; Brexit does not, so far, seem to have had a negative impact on other EU countries.

Financials have been broadly positive, and there have been no major Financial declines.

Consumer Goods in both the **UK** and **US** show major deterioration.

India Financials are stabilising after years of deterioration.

Oil and Gas in the **UK** and **US** are currently stable but could be close to a turning point.

*Credit Benchmark publish consensus credit ratings on 50,000 individual borrowers. There are 21 separate rating categories (**aaa,aa+…cc,c**), and 7 summary categories (**aaa,aa…c**). The 50,000 published consensus ratings are based on a broader database of 780,000+ monthly credit updates contributed by 40+ major global banks. This broader database supports the calculation of aggregates such as credit risk time series, as well as the credit transition matrices. The current history spans more than 4 years.*

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