HD **Moody's: Rating trend for non-financial Asian corporates now slightly negative for balance of 2014**

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Moody's Investors Service expects the rating trend for non-financial corporates in Asia Pacific (ex-Japan) to be slightly negative for the rest of 2014, after a negative first quarter.

"Our expectation of a mildly negative rating trend for 2014 reflects the softer growth in **China** and lower capital flows into Asia as a result of Fed tapering. A weaker pace of **Chinese** economic expansion will weigh on intra-Asia trade, especially in commodity trade-reliant economies such as Indonesia and Australia," says Clara Lau, a Moody's**Group** Credit Officer.

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"Nonetheless, we also expect an overall improvement in industrialized economies, namely a pickup in US economic growth and a return to expansion in the Euro area. This will be beneficial to issuers in export-oriented economies such as Korea and Taiwan, which are reliant on export demand from the US," adds Lau.

"Sectors likely to come under pressure for the rest of 2014 are the commodity-related and cyclical industries of metals and mining, shipping and consumer electronics," says Lau. "**Chinese** retailers are also facing an increasingly challenging operating environment and pressures on their operating margins. Moreover, **Chinese property** developers are experiencing more difficult market conditions given notably slower sales growth since the beginning of 2014 and tight liquidity."

Lau was speaking on the release of a Moody's report titled, Asian Corporate Ratings: Mildly Negative in 2014.

According to the report, Moody's portfolio of Asia Pacific (ex-Japan) corporate ratings saw 16 negative and 8 positive actions in 1Q 2014. Of these, 12 negative and 6 positive actions were related to issuers in Asia. By contrast, 7 negative and 6 positive actions were taken on Asian issuers in 4Q 2013. The increased negative rating actions quarter-on-quarter resulted in Moody's rating trend tracker falling to 0.5 in 1Q 2014 from 0.9 in 4Q 2013.

"Nonetheless, overall, the share of Asia Pacific (ex-Japan) corporate ratings with stable outlooks increased marginally to 73% at 31 March 2014 from 71% at 31 December 2013," says Lau. "However, while the share of ratings with negative implications declined slightly to 20% from 21% in the same periods, they were almost three times the 7% of ratings with positive implications," adds Lau.

As for Japanese non-financial firms, Moody's report says their rating outlooks should be stable, owing to continued domestic growth, demand from reconstruction investments, and an improving US economy. The weak yen will also support Japanese manufacturing export competitiveness. The share of Japanese corporate ratings with stable outlooks increased notably to 74% at end-1Q 2014 from 69% at end-4Q 2013. In addition, the share of ratings with negative implications fell to 26% from 31% over the same periods.

The report can be found at http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_164255.

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