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WEEKLY MARKET OUTLOOK

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Credit Cycle Enjoys a Respite

Credit Markets Review and Outlook *by John Lonski*

Credit Cycle Enjoys a Respite.

» **FULL STORY PAGE 2**

The Week Ahead

We preview economic reports and forecasts from the US, UK/Europe, and Asia/Pacific regions.

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The Long View

Check our chart here for forecast summaries of key credit market metrics. Full updated stories, "A recent climb by the VIX index to its most risk averse reading since Election Day will help to slow bond issuance from Q1-2017's torrid pace," begin on page 15.

Credit Spreads	Investment Grade: Year-end 2017 spread to exceed its recent 126 bp. High Yield: After recent spread of 412 bp, it may approximate 480 bp by year-end 2017.
Defaults	US HY default rate: after March 2017's 4.7%, Moody's Credit Policy Group forecasts it near 2.9% during 2018's first quarter.
Issuance	In 2016, US$-IG bond issuance grew by 5.6% to a record \$1.412 trillion, while US\$-priced high-yield bond issuance fell by -3.5% to \$341 billion. For 2017, US\$-IG bond issuance may rise by 4.8% to a new zenith of \$1.468 trillion, while US\$-priced high-yield bond issuance may increase by 16.9% to \$398 billion but still lag 2014's \$435 billion zenith.

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Ratings Round-Up *by Njundu Sanneh*

Upgrade Ratio Still Positive.

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Market Data

Credit spreads, CDS movers, issuance.

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Moody's Capital Markets Research *recent publications*

Links to commentaries on: South Africa, yields, Venezuela, equity, eurozone, hike, global, profits, Korea, Caa, yes, hike, VIX, rates, France, demography, boom, Japan, reform, India.

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Click here for *Moody's Credit Outlook*, our sister publication containing Moody's rating agency analysis of recent news events, summaries of recent rating changes, and summaries of recent research.

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Credit Markets Review and Outlook

By John Lonski, Chief Economist, Moody's Capital Markets Research, Inc.

Credit Cycle Enjoys a Respite

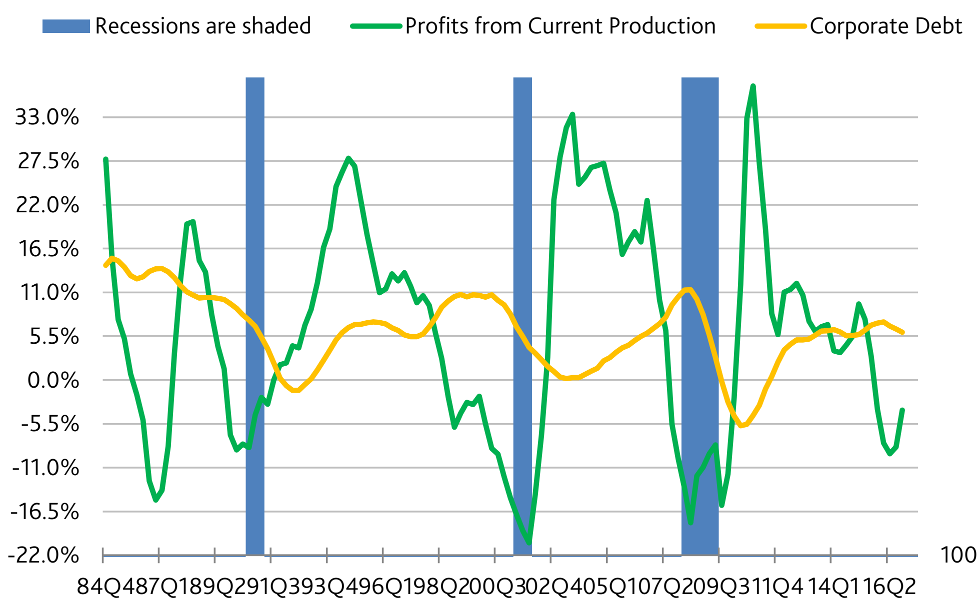
For the first time since 1987-1988, the US credit cycle has stabilized following a surge by credit rating downgrades relative to upgrades, a jump by the high-yield default rate, and a pronounced widening by corporate bond yield spreads. After six years at 49% of US high-yield credit rating revisions from July 2009 through June 2015, downgrades soared to 71% in the year-ended June 2016. Then downgrades eased to 58% for the year-ended March 2017 and sank to 48% during Q1-2017.

The much reduced relative incidence of downgrades was joined by a drop for the forward-looking high-yield EDF (expected default frequency metric from February 2016's current recovery high of 8.1% to a recent 3.7% and a narrowing by the high-yield bond spread from February 2016's nearly eight-year high of 839 bp to a recent 412 bp. In addition, after peaking at January 2017's 5.9%, the US high-yield default rate has eased to March's 4.7% and is projected to average 3.1% during 2017's final quarter.

Market expects profits to again outpace corporate debt

The deterioration of high-yield credit rating revisions comparing the six years ended June 2015 with the year ended June 2016 was linked to a dramatically different performance by nonfinancial-corporate profits from current production. After having advanced by 9.8% annually, on average, during the six years ended June 2015, profits from current production contracted by -9.2% annually during the year ended June 2016. The loss of financial flexibility to the shrinkage of profits was made worse by an acceleration of nonfinancial-corporate debt from the 2.5% average annualized rise of the six-years-ended June 2015 to the 6.8% year-over-year increase of the following 12 months. (Figure 1.)

Figure 1: Markets Sense Profits Will Again Outrun Corporate Debt *yy % changes of yearlong averages for US nonfinancial corporations*



Few broad-based trends weaken corporate credit quality more than the simultaneous contraction of earnings and expansion of debt. To the contrary, the faster growth of profits vis-a-vis debt typically lessens default risk significantly.

Fourth-quarter 2016 showed a narrowing of debt's faster expansion vis-a-vis profits. For the first time since Q1-2015's year-to-year increase of 12.0%, Q1-2017's profits from current production managed to grow from a year earlier by 3.0%. Previously, this measure of profits had contracted annually in each of the six quarters ended Q3-2016 by -7.0%, on average, which had been joined by an accompanying 6.8% average yearly increase for corporate debt. Though Q4-2016's 5.2% annual increase by corporate debt still outran profits' 3.0% rise, at least it occurred in the context of profits growth, as well as slowing noticeably from when profits shrank.

Credit often gets pummeled when profits shrink while debt grows

The last two times a year-long contraction by profits was accompanied by an acceleration of corporate debt, the imbalance eventually inflicted heavy damage on corporate credit. The two earlier episodes commenced in Q2-2007 and Q1-1998.

Ultimately, corporate bond yield spreads ballooned and the high-yield default rate climbed sharply higher. The high-yield bond spread swelled from the 283 bp of Q2-2007 and the 338 bp of Q1-1998 to cycle highs of 1,678 bp for Q4-2008 and 971 bp for Q4-2002. In addition, the default rate soared from Q2-2007's 1.5% and Q1-1998's 2.5% to cycle highs of 14.5% for Q4-2009 and 10.9% for Q1-2002.

Credit survived mid-1980s drop by profits amid rapid debt growth

However, when corporate debt's moving year-long average outran comparably measured profits beginning with Q2-1985 and ending in Q3-1987, both spread widening and the climb by the default rate were much more limited compared to 2007 and 1998. Better yet, unlike 1998 and 2007, 1986's simultaneous contraction of profits and expansion of debt did not eventually lead to a recession.

Markets now sense that the 2015-2016 bout of brisk debt growth amid shrinking profits will mimic what transpired in the mid-1980s and, thus, will be succeeded by a profits recovery that outpaces corporate debt. That is exactly what occurred from Q4-1987 through Q4-1988, when profits' 15.0% annualized advance well outran the still lively 10.3% annualized growth of corporate debt.

Nevertheless, the 1987-1988 reprieve was short lived. By year-long 1989, the unfavorable imbalance returned, as profits contracted by -6.9% annually while corporate debt grew by +9.6%.

The experience of the mid- to late-1980s warns against becoming too optimistic if, as the market implicitly expects, profits again outrun debt by late 2017. By itself, the current upturn's maturity suggests that pent-up demand has been mostly depleted. For example, despite the most attractive auto sales incentives since 2009, unit sales of light motor vehicles fell from a year earlier in 2017's first quarter. Elsewhere, a growing number of retail chains struggle with lower than expected sales.

The pace of home sales during housing's peak selling season of March through June will provide critical insight regarding the health of domestic expenditures. If home sales unexpectedly stall, profits may be incapable of outpacing corporate debt, which would widen spreads significantly and worsen the now benign outlook for defaults. Comparably to what transpired in the 1980s, corporate credit's current reprieve may not last much longer than a year. And that would be especially true if short- and long-term interest rates rose to heights that are too burdensome for financial markets and business activity.

High-yield downgrades eclipse upgrades when focusing on fundamentals

The US high-yield credit rating revisions of 2017's first quarter showed the most upgrades relative to downgrades since 2014's third quarter. A preliminary count revealed 89 upgrades and 83 downgrades. However, the accompanying revisions of investment-grade ratings showed three more downgrades (17) than upgrades (14).

It is important to note that not all rating revisions are the consequence of changed fundamentals. For example, some rating revisions stem from changes in creditor protection owing to the issuance of new debt. Other revisions not viewed as fundamentally driven include stand-alone special-events such as mergers, acquisitions, divestitures, equity buybacks, special dividends, and infusions of common equity capital. Whenever fundamentals and special events simultaneously trigger a rating revision, the rating change is tallied as driven by fundamentals. Only when the influence of fundamentals is viewed as negligible is the revision deemed to be for some other reason.

Recognizing the impossibility of establishing unequivocally that a rating change was due only to fundamentals, fundamentals appear to have been responsible for 54 of Q1-2017's high-yield upgrades and 59 of the high-yield downgrades. Thus, when considering only rating changes caused by fundamental drivers, Q1-2017 was home to more high-yield downgrades than upgrades.

The first-quarter 2017 upgrade share of high-yield credit rating changes fell from 52% to 48% after limiting the sample to fundamentally-driven revisions. Fundamentals last figured in more high-yield upgrades than downgrades in 2014's third quarter, or when non-financial corporations posted lively year-to-year advances of 5.8% for gross-value-added and 11.3% for profits from current production, as the high-yield spread averaged a thin 376 bp.

Comparable revenue and earnings results for 2017's first quarter are not yet available, though the consensus looks for implied year-long 2017 gains of 4.3% for gross-value-added and 5.0% for pretax operating profits. First-quarter 2017's high-yield bond spread of 397 bp was much thinner than the 477 bp of Q4-2016, or when upgrades' share of high-yield rating changes fell from 32% overall to just 27% when limited to fundamentals.

A switch to the opposite direction held for investment-grade revisions, too, where the 11 upgrades led the eight downgrades when limiting the sample to fundamentally driven rating changes. Mergers and acquisitions (M&A) figured in nine of the 17 investment-grade downgrades, but entered into fewer three of the group's 14 upgrades.

No longer do the problems of the oil & gas industry skew the number of downgrades higher. In Q1-2017, the oil & gas industry figured in 12 upgrades and 12 downgrades — 11 apiece for high-yield and one each for investment grade. Ample liquidity and firmer energy prices account for why the frequency of oil & gas-related high-yield rating revisions improved from the per quarter averages of four upgrades and 57 downgrades from the year-ended June 2016.

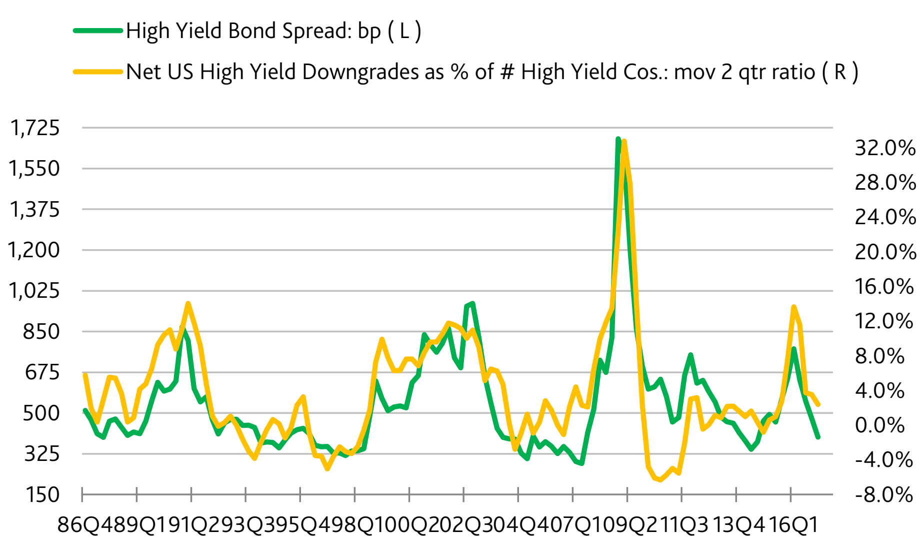
Recent high-yield spread implies the market expects more upgrades than downgrades

As derived from a sample that commences with 1986's final quarter, the quarter-long average of the US high-yield bond spread generates a relatively strong correlation of 0.80 with the moving two-quarter ratio of net high-yield downgrades as a percent of the number of high-yield issuers. Net high-yield downgrades, or the difference between the number of downgrades less upgrades, fell from Q4-2016's +53 to Q1-2017's -6. In turn, the moving two-quarter ratio of net high-yield downgrades dipped from Q4-2016's 3.6% to Q1-2017's 2.4% of the number of high-yield issuers.

The narrowing of the high-yield bond spread from the 551 bp of Q4-2016 to Q1-2017's 477 bp was qualitatively consistent with the accompanying drop by the relative incidence of net downgrades. First-quarter 2017's moving two-quarter net downgrade ratio was the lowest since the 1.0% of 2015's second quarter, or when the high-yield spread averaged 462 bp. When the net downgrade ratio last peaked at Q1-2016's 13.7%, the high-yield spread averaged a very wide 776 bp. (Figure 2.)

If high-yield downgrades equal upgrades over a two-quarter span, the long-term statistical relationship predicts a midpoint of 436 bp for the high-yield bond spread. Thus, the recent high-yield spread of 412 bp implicitly expects that upgrades will outnumber downgrades for a second straight quarter in Q2-2017.

Figure 2: High-Yield Spread Has Priced In a Second Straight Quarter of More High-Yield Upgrades than Downgrades (correlation = 0.80)



The Week Ahead – US, Europe, Asia-Pacific

THE US

From Moody's Analytics - Economy.com and the Moody's Capital Markets Research Group

Summary, April 14: Weather will remain a theme likely to influence some of the incoming U.S. economic data. Industrial production will look decent on the surface; we forecast it to have risen 0.4% in March. However, the strength will be isolated to a weather-related boost from utilities. Mining production will likely increase, consistent with rising rig counts. Manufacturing production will be weak and is forecast to have dropped 0.4% in March, held back by autos.

We also expect weather to have weighed on housing starts in March. Unseasonably warm weather in January and February likely boosted housing starts, but temperatures were more seasonably normal in March. Also, an East Coast snowstorm should have hurt starts temporarily. Other housing data will look better, as we expect existing-home sales to have risen from 5.48 million annualized units in February to 5.58 million in March.

The first two regional manufacturing surveys for April are expected to have weakened, generally consistent with other survey-based data that have begun to surrender some of their post-election gains. Investors appear to be paying more attention to the soft data. The rolling five-month correlation between changes in the Bloomberg U.S. economic surprise index and changes in the S&P 500 hit 0.34 in March, down from its peak this year of 0.69. However, the correlation has been fairly strong since late 2015. We chose a five-month rolling window since that is the amount of time since the presidential election.

Financial market conditions also bear watching. Long-term interest rates have slid, which is a positive for investment and housing. However, equity prices have struggled recently. Though the immediate implications are minor, further declines would lend more downside risk to our outlook for consumer spending. Volatility could continue to rise because of geopolitical tensions, particularly in Korea. Tensions are building between the U.S. and North Korea and our forecast does not include a military conflict. Odds favor this conflict being eased with China imposing economic sanctions on North Korea.

Our model implies that fundamentals would put the VIX at 15.4, lower than where it is currently trading. We wouldn't be surprised if the VIX continues to climb. The VIX curve is inverted. In other words, investors expect volatility to be higher in the near term but revert to lower levels in the longer term. Volatility is normal and the economic implications of the VIX rising to the level consistent with fundamentals are not significant. There would be economic costs of a sudden, significant and persistent increase in the VIX, which would weigh on hiring and investment.

FRIDAY, APRIL 14

Consumer price index (March; 8:30 a.m. EDT)

Forecast: -0.1% (headline)
Forecast: 0.2% (core)
The consumer price index is forecast to have fallen 0.1% in March following a 0.1% gain in February and 0.6% increase in January. This would be the first decline in the CPI since February 2016. We expect energy prices to have been a net drag on the CPI in March. The CPI for food and beverages rose 0.2% in February, the strongest since September 2013. We don't believe this pace is sustainable and expect growth to have moderated in March. Excluding food and energy, we look for the CPI to have risen 0.2% (0.15% unrounded) in March. Within core, the forecast anticipates a trend-like gain in rents, which are normally sticky. Growth in apparel prices should continue to moderate. New-car prices likely edged higher but used-car prices are forecast to have dropped, consistent with the message in the Manheim index.

The core CPI is expected to have been up 2.3% on a year-ago basis. Year-over-year growth in the core CPI has been running about 0.5 percentage point above the core PCE deflator over the past few months. The core PCE deflator is the Fed's preferred measure.

Retail sales (March; 8:30 a.m. EDT)

Forecast: -0.3% (total)
Forecast: 0.2% (ex auto)
We look for nominal retail sales to have dropped 0.3% in March following a 0.1% gain in February and 0.6% increase in January. We believe weather was likely a small negative for sales. Our past work has shown that snowstorms that hit a large population base have a tendency to depress retail sales initially but many of these lost sales, save for restaurants, are made up in subsequent months. There is some potential boost to non-store sales from the storm. Non-store sales have been contributing more to growth in control retail sales recently.

Already released data showed that unit vehicle sales dropped 5.5% in March and though we anticipate a smaller drop in retail, autos will still shave 0.4 percentage point off total retail sales growth. Excluding autos we look for a 0.1% gain in retail sales. Gasoline will also be a drag on retail sales.
A late Easter adds uncertainty to the forecast. Easter is late this year after being early in 2016. The forecast assumes that the Census Bureau correctly adjusts for the shift in the timing of the Easter holiday. This year the majority of Easter sales should occur in April.

MONDAY, APRIL 17

Empire State manufacturing survey (April; 8:30 a.m. EDT)

Forecast: 15.8
The Empire State manufacturing survey's general business conditions index is expected to have dropped from 16.4 in March to 15.8 in April. This would be the second consecutive decline, but the index remains consistent with an improvement in factory conditions. The details in the March survey point toward further improvements as new orders rose from 13. 5 to 21.3. The gap between new orders and inventories—a proxy for future production—widened from 10.4 in February to 24 in March, the best since December. The general business conditions index captures changes in manufacturers' sentiment and given the diminishing odds of corporate tax reform this year, sentiment may weaken some.

Business confidence (week ending April 14; 10:00 a.m. EDT)

Forecast: N/A
Global businesses are upbeat. Sentiment has been strong and stable since before last year's U.S. presidential election. Our survey results aren't as strong as various other surveys of business and consumer confidence that have strengthened since the election. According to a recent New York Federal Reserve study, sentiment surveys that depend on canvassing new respondents each time are probably somewhat biased, as those happy with the election results are more likely to respond.

Across the globe, the difference between the percentage of all positive responses and all negative responses to the nine survey questions came in at 37% last week and 34% on a four-week moving average basis. In the U.S., business confidence stood at 40% last week and 39% on a four-week moving average basis.

NAHB housing market index (April; 10:00 a.m. EDT)

Forecast: 70
We look for the NAHB housing market index to have held onto a bulk of the gain in March, falling only 1 point to 70 in April. The NAHB housing market index can be sticky. Over the past 10 years, the index has risen by at least 4 points 15 times and fell only 5 times in the subsequent month. The forecast assumes that March is revised lower from 71 to 70, which would leave the index unchanged in April. Signs point toward little change in builder confidence as homebuilder stock prices have been relatively

flat over the past month. Mortgage rates have fallen but the NAHB index isn't overly sensitive to them. We believe the increase in mortgage purchase applications recently will offset the drag from heightened economic policy uncertainty.

TUESDAY, APRIL 18

Housing starts (March; 8:30 a.m. EDT)

Forecast: 1.211 million annualized units

Unseasonably warm and relatively storm-free January and February weather likely boosted housing starts and we anticipate some payback in March, with starts falling from 1.288 million annualized units to 1.211 million. Weather turned more seasonably normal in March and there was a snowstorm on the East Coast. This likely cost builders a few days as they would need to wait for the ground to dry before starting construction. A start is counted when ground is broken for the foundation. The weakness will be concentrated in single-family construction. Single-family starts in permitting places are running ahead of permits. Permits typically lead starts, therefore we anticipate this gap to narrow because of the drop in starts. The gap between starts in permitting places and starts is less of an issue for multifamily. Therefore, the forecast assumes a modest gain in multifamily housing starts.

Industrial production (March; 9:15 a.m. EDT)

Forecast: 0.4%

We look for industrial production to have risen 0.4% in March after being unchanged in February. Utilities will provide a significant boost to industrial production as weather shifted from unseasonably warm in February to more seasonably normal in March. We look for utility output to have risen 5% in March. Mining will also be a positive, around 1%. Active rotary rig counts have been rising and the employment data for mining have looked better.

Manufacturing output will be weak in March, falling 0.4%. Autos are mostly to blame as we look for motor vehicle and parts output to have dropped 3%. Excluding autos, manufacturing output is forecast to have fallen 0.1% in March. We expect the total capacity utilization rate to have risen from 75.4 in February to 76.

WEDNESDAY, APRIL 19

No major economic releases scheduled

THURSDAY, APRIL 20

Jobless claims (week ending April 15; 8:30 a.m. EDT)

Forecast: 242,000

Initial claims for unemployment insurance benefits are less helpful in gauging the health of the labor market at this time of year because of the seasonal adjustment issues surrounding the timing of Good Friday, the Easter holiday, and school spring breaks. New filings slipped by 1,000 to 234,000 in the week ended April 8. We look for initial claims to have reversed course, rising by 8,000 to 242,000 in the week ended April 15. There is considerable uncertainty in the forecast as the incoming data will include Good Friday and claims can swing wildly around holidays. If our forecast comes to fruition, initial claims will move to their prior four-week moving average of 247,250. The incoming data will include the April payroll reference week.

Philadelphia Fed manufacturing survey (April; 8:30 a.m. EDT)

Forecast: 25.5

The Philadelphia Fed manufacturing survey's general business conditions index has been strong over the past few months, but the strength is not likely to be sustainable. We look for the general business conditions index to have fallen from 32.8 in March to 25.5 in February. This would be the second consecutive decline, but it will remain comfortably above its fourth quarter average. The Philadelphia Fed's general business conditions survey, like its sister Empire State survey, captures changes in manufacturer sentiment. There has been some evidence that business sentiment has slipped some, which isn't alarming because confidence jumped following the election.

FRIDAY, APRIL 21

Existing-home sales (March; 10:00 a.m. EDT)
Forecast: 5.58 million annualized units
Existing-home sales are forecast to have risen from 5.48 million annualized units in February to 5.58 million in March, putting them closer to their cyclical high of 5.69 million in January. Pending home sales, which lead existing sales by one to two months, rose 5.5% in February following a 2.8% decline in January. We expect existing-home sales to follow pending sales higher. Assuming no revisions to prior months, the gain in March will raise the six-month moving average in existing-home sales from 5.547 million to 5.565 million. A significant improvement in trend sales will be difficult to muster because inventories remain lean.

EUROPE

By the Dismal (Europe) staff in London and Prague

Summary, April 14: Following Easter holidays, the week ahead should be rather quiet on the data front. The main highlight will be the release of March retail sales data for the U.K. These are being anxiously awaited by markets, since they could provide further evidence that household spending will slow sharply in 2017, dragging on total GDP growth. We are penciling in sales to have fallen by 0.5% in monthly terms, and for their yearly growth to have slowed to only 3.3%, from 3.7%, substantially lower than the 5% average rate for 2016. Survey data available at this point all suggest that spending at the high street lost momentum—especially now that inflation is picking up and wages are declining—but the BRC retail sales monitor was the most downbeat of them all, showing that like-for-like sales values fell by 1% y/y in March following a 0.4% decrease in February. But we caution that the BRC data are not adjusted for calendar effects, as is next week's official estimate. So, the BRC measure could be underestimating the spending momentum given the later timing of Easter this year compared with 2016. On the other hand, the BRC measures sales in values, while the ONS publishes sales in volumes; with prices picking up the pace, this means that sales in volumes should come in even lower than the survey's estimate. In fact, prices decreased by only 0.8% in March, softer than the 1% fall in February and the highest rate since December 2013. Elsewhere, data from the Confederation of British Industry, Visa, and BDO also suggested that sales were depressed. We see little chance that March sales could surprise on the upside, and if our forecasts are correct, March would round off the worst quarter for retail sales since the opening quarter of 2010.

Across the Channel, the only important data to be released will be final consumer inflation figures for the euro zone, which should confirm that price growth slowed markedly in March across the Continent, following extraordinarily high figures for February. But this loss of momentum has nothing do to with an easing in the underlying trend of core prices, since inflation was mostly hit by calendar effects related to Easter's timing this year. While Easter holidays fell in March last year, they fall in April this year; normally airline fares and accommodation prices rise around the holidays. So in yearly terms price growth will be depressed this year in March, and it will bounce back in April. Elsewhere, food price inflation also slowed following a weather-related jump in the two first months of the year, when harsh winter conditions dampened the supply of fresh food. In months to come, though, food inflation should rebound and continue on a slight upward trajectory. A third drag came from energy inflation, which slowed in line with the fading of base effects related to last year's jump in Brent prices. By contrast, non-energy goods inflation held steady, with further upside expected in the months to come..

THURSDAY, APRIL 13

Germany: Consumer Price Index (March; 7:10 a.m. BST)

Preliminary estimates show Germany's consumer prices rose by 1.6% y/y in March, not seasonally adjusted, slowing somewhat from the 2.2% increase in February, which was the fastest pace of increase since August 2012. Inflation of energy and food prices eased slightly. Energy prices rose 5.1% y/y, after jumping 7.2% in February. Growth of food prices slowed to 2.3% y/y from 4.4% previously. Meanwhile, the growth of prices of services almost halved to 0.7% from 1.3% in February.

The price pressures come mainly from higher commodity prices, not from any significant rebound in demand. The relatively weak euro has also been supporting inflation pressures. Higher prices for oil and metals, in particular, pushed input prices higher for German producers, with the rate of increase reaching almost a six-year high, according to Markit manufacturing PMI. We expect that the seasonally adjusted inflation was little changed at 2.1% in March.

France: Consumer Price Index (March; 8:15 a.m. BST)

France's annual EU-harmonized consumer prices likely rose 1.1% in March, down a touch from February, but added 0.5% on a month-ago basis. The annual number decelerated due to lower prices of manufactured products, while prices of services remained strong. Meanwhile, annual prices of tobacco added close to 3% in March and prices of energy likely rose nearly 10%. Core inflation also remains firmly in positive territory. We should see inflation strengthen in the months ahead, supported by stronger demand-pull and cost-push inflation pressures, and slowly but surely approach the ECB's inflation target within about half a year.

FRIDAY, APRIL 14

No indicators are scheduled for this date.

MONDAY, APRIL 17

No major economic releases are scheduled.

TUESDAY, APRIL 18

No major economic releases are scheduled.

WEDNESDAY, APRIL 19

Euro Zone: External Trade (February; 10:00 a.m. BST)

The euro zone's external trade likely returned to surplus in February after recording a deficit at the start of 2017 for the first time since January 2014. However, the surplus will likely be lower than the €1.8 billion surplus in February 2016. Yet strengthening economic activity, with the euro zone Markit manufacturing PMI rising to a 70-month high of 55.4 in February, is boosting imports, and this is weighing on the trade balance. The weaker euro since the U.S. presidential election has supported exports outside of the single-currency area, as expected fiscal stimulus by the Trump administration is propping up the greenback. But the outlook remains uncertain, especially for exports, following the U.K.'s decision to leave the EU and a shift toward greater protectionism in the U.S. In 2016, the U.S. and the U.K. were key euro zone trading partners.

Euro Zone: Consumer Price Index (March; 10:00 a.m. BST)

Euro zone annual harmonized inflation slowed to 1.5% in March from a four-year high of 2% in the previous month, according to preliminary estimates. Inflation should not spike too much in the longer term, and we think it has reached this year's high. Besides lower headline figures, the release showed that core inflation eased to 0.7% from 0.9% previously, signaling that underlying inflation pressure remains subdued. Softer wage growth, especially in southern European countries due to elevated unemployment, is creating a low-inflation environment. We therefore don't expect the ECB to turn hawkish before the last quarter of 2017 until the political uncertainty eases and secondary-round inflation effects of higher commodity prices materialize.

Russia: Retail Sales (March; 3:00 p.m. BST)

Weakness in private consumption has been the key element in Russia's recent economic problems. Household consumption has been the worst component of GDP, which is weighing on retail sales. Russian consumers remain reluctant to open their wallets, curbing demand for retail. We thus expect retail sales will continue to fall. However, the economy is showing some signs of turning around. Declines in household consumption have been slowing consistently, with a tightening labour market helping ease some of the strain for Russian consumers. Imports have been recovering, indicating stronger domestic demand for foreign goods. These trends will help moderate the decline in retail sales to its slowest pace in two years, but will not be enough for a full-fledged turnaround.

THURSDAY, APRIL 20

No major economic releases are scheduled.

FRIDAY, APRIL 21

U.K.: Retail Sales (March; 9:30 a.m. BST)

U.K. retail sales should have mean-reverted in March following a surprising increase in February, pushing the yearly rate of growth in sales down to 3.3%, 1.7 percentage points lower than its 2016 average. Leading indicators released in recent weeks were particularly poor, suggesting a broad-based slowdown in spending. The data from the Confederation of Business Industry showed that the balance of reported sales remained steady at 9 in March, significantly lower than the average balance of 18 recorded over the past three years. Similarly, the BDO survey showed that sales in value at the high street did not budge over the month, implying that sales in volume actually fell given that prices rose sharply. The Visa Consumer Spending index was even more downbeat, showing that sales were down by 0.7% over the month following no growth in February.

The details should reveal that nonfood sales were the main drag on the headline, particularly clothing sales, corroborating our belief that most of last autumn's strength in retail sales was because households tried to beat the expected jump in prices by frontloading purchases they would normally have made in 2017. Food sales, meanwhile, should have remained a little stronger, but still anemic following supermarkets' decision to start hiking prices following several quarters of declines. We expect retail sales to remain poor as higher inflation combined with limited wage growth erode real wages and consumers' purchasing power throughout the year, curbing households' will to spend.

Spain: Foreign Trade (February; 9:30 a.m. BST)

Spain's monthly trade deficit likely widened to €2.4 billion in February from €1.8 billion a year earlier. The strong growth in export and import volume of the previous month likely carried into February, but the spike in oil prices in the first months of the year combined with Spain's dependence on energy imports likely added to the nominal import bill, widening the nominal deficit. The PMI results for February signaled robust expansion in manufacturing both in Spain and its euro zone trade partners. Although the PMI number for Spain softened in March, core euro zone countries continued to post solid readings. This will boost demand for Spanish exports in the coming months. Domestic demand also remains healthy, but we do not expect strong acceleration as the signals from consumer and business confidence remain mixed. On the nominal side, Brent crude in euro terms gained about 73% y/y in February, down from an 83% y/y increase in the previous month. Deterioration in the terms of trade will likely keep the import bill elevated at least in the short term.

ASIA-PACIFIC

By Katrina Ell and the Asia-Pacific economics team of Moody's Analytics

China begins the year on stronger footing

China's cyclical upswing will likely remain intact with upbeat GDP growth in the first quarter. Consumption should rise on the back of low volatility and stable financial conditions. which are improving the short-term outlook for households. Housing is also looking brighter, especially in the Tier 1 capital cities. Government subsidies for autos over the past year have further aided consumption.

Overall, the Chinese economy is on a stronger footing at the start of 2017 than in the previous year. The uptick in the global tech cycle will buttress external demand, although rising commodity prices will provide a small offset. Manufacturing has picked up across China thanks to stronger U.S. consumers leading the tech cycle. With new smartphone launches expected later in the year, manufacturing will likely remain buoyant over the coming months.

Trade across Asia is improving. Exports in Indonesia and India are expected to have risen in March. Although the recent increases are partially attributable to low base effects, global demand has been on a stronger footing in early 2017. However, the trade balances will likely be suppressed by the looming increases in the import bill on the back of rising global commodity prices.

Similarly, exports in Japan are expected to have risen in March. The uptick in the global tech cycle, along with increased international competitiveness because of the yen's depreciation, are driving Japan's exports after a lull through the first half of 2016. Exports will likely remain firm because automakers will be releasing new vehicle models over the coming months. While Japan's external demand is looking promising, domestic demand prospects have also improved. Tertiary activities likely expanded in the first quarter because of rising consumer and business confidence.

THURSDAY, APRIL 13

China – Foreign Trade – March

Time: Unknown
Forecast: US$24.4 billion
Chinese trade activity remained solid in March. The monthly trade balance likely returned to surplus after dipping into deficit in February. Export growth continues to strengthen on the back of increasing U.S. demand, while the import bill ticks up on higher global commodity prices. We expect trade activity will continue to grow steadily in the coming months, although the anti-trade rhetoric from the new U.S. administration poses a downside risk to the outlook.

South Korea – Monetary Policy – April

Time: 11:00 a.m. AEST (1:00 a.m. GMT)
Forecast: 1.25%
The Bank of Korea is expected to stand pat again in April, keeping the official cash rate on hold at 1.25% for the ninth consecutive month. Stronger global demand for Korean electronics is supporting the export-oriented economy, and rising global commodity prices are putting upward pressure on headline inflation. However, there are downside risks to the outlook. Rising tension with China and

increased competitiveness in global manufacturing could derail the export rebound. High household debt loads will likely weigh on domestic demand and keep a lid on underlying inflation. The central bank is unlikely to ease monetary policy further in support of economic activity given the risk to financial stability. Furthermore, rising global interest rates could result in capital outflows. We expect the BoK will maintain its current stance until the final quarter of 2017.

Australia – Employment Situation – March

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 5.9% unemployed
Australia's unemployment rate is likely to remain at 5.9% in March for the second consecutive month. This is the highest the rate has been since January 2016, as employment growth falls behind an increasing labor market. The volatility of the job data makes it difficult to get a good handle on the labor market. But the record high underemployment rate in February combined with disappointing full-time employment numbers suggests plenty of slack remains in the job market. This is hurting wage growth and crimping spending.

FRIDAY, APRIL 14

Singapore – GDP - Advanced – 2017Q1

Time: Unknown
Forecast: 1.8%
The advanced estimate of Singapore's first quarter GDP is expected to show that economic growth slowed to 1.8% y/y compared with the 2.9% rise in the final three months of 2016. However, this difference is misleading and because of differing base effects. Abstracting from this, the data will show that the city-state's economy continued to perform well in the first three months of 2017. In particular, manufacturing output will grow strongly as a result of improved global demand. The service sector will likely also improve. The laggard will be construction output, as falling residential property prices continue to weigh on building activity.

India – Wholesale Price Index – March

Time: 4:45 p.m. AEST (6:45 a.m. GMT)
Forecast: 6.8%
India's wholesale price inflation likely continued rising in March after February's 6.6% y/y expansion. Higher global fuel prices are the culprit. Low base effects from low oil prices in 2016 are also bloating the headline. As India is one of the largest net importers of oil, an uptick in global fuel prices tends to reverberate through the economy. As core inflation remains low by historical standards, there's still room for monetary easing, and at least one 25-basis point interest rate cut is expected in the second half of 2017.

MONDAY, APRIL 17

Indonesia – Foreign Trade – March

Time: 3:00 p.m. AEST (5:00 a.m. GMT)
Forecast: US$1.52 billion
Indonesia's monthly trade surplus likely widened in March from US$1.32 billion in February. Oil and gas exports are driving the rebound, thanks to higher global prices after weakness through 2015 and 2016. Commodity exports should remain buoyant through 2017, helped by a low base. Nonoil exports are also faring better, helped by China's cyclical upswing providing a broader regional lift that doesn't seem to be losing steam.

India – Foreign Trade – March

Time: Unknown
Forecast: -US$11.1 billion
India's trade deficit likely widened to US$11.1 billion in March. Export growth is rebounding, but it's coming from a low base. While global growth remains uneven, there have been some improvements in

the euro zone, one of India's major trade partners. Moreover, the trade balance will come under pressure from rebounding commodity prices, which are set to increase the import bill over the coming months.

Singapore – Foreign Trade – March

Time: 10:30 a.m. AEST (12:30 a.m. GMT)
Forecast: 15%
Singapore's nonoil domestic exports are forecast to have increased 15% y/y in March after rising 21.5% in February. The upswing in global tech demand is a boon for Singapore's electronics manufacturers, with exports of integrated circuits and semiconductors increasing rapidly in recent months. This is also helping the precision engineering sector, which is focused on producing electronics-related equipment.

China – Fixed Asset Investment – March

Time: 12:00 p.m. AEST (2:00 a.m. GMT)
Forecast: 9%
China's fixed asset investment for March is expected to accelerate slightly to 9% y/y for the year to date, after increasing 8.9% y/y in the combined January-February period. Mining investment will likely be a positive for the headline figure again after a long run of declines. But this is deceptive, as it is largely due to low base effects, with actual investment growth limited by overcapacity. A more definitive positive will be investment in manufacturing, which is benefiting from stronger global demand.

China – GDP – 2017Q1

Time: 12:00 p.m. AEST (2:00 a.m. GMT)
Forecast: 6.7%
China's GDP was likely 6.7% y/y in the March quarter, which would confirm that the economy is in the midst of a cyclical upswing. Stable financial market conditions at the start of 2017, along with improved global prospects in various major economies, suggest that China's economy is on a stable ground. This is despite the government's efforts to curb overcapacity across various heavy industries. First quarter consumption and investment will likely remain solid, while imports will likely rise because of rising commodity prices.

China – Industrial Production – March

Time: 12:00 p.m. AEST (2:00 a.m. GMT)
Forecast: 6.4%
Manufacturing likely remained solid in March, rounding off a solid first quarter for the Chinese economy. Improving global tech demand is also boosting electronics production, and higher imports of tech components suggest that production will increase further in coming months. The main drag remains raw materials processing, although even here signs point to recovery. Higher construction activity thanks to the buoyant housing market will boost demand for cement and steel.

China – Retail Sales – March

Time: 12:00 p.m. AEST (2:00 a.m. GMT)
Forecast: 10.2%
Spending is expected to have picked up in March after a subdued start to the year. Retail trade likely expanded 10.2% y/y, faster than the combined January-February period's 9.5% gain. The booming housing market will support spending in related sectors, while car sales remain a weak spot as the boost from energy efficiency subsidies fades. Online spending is expected to expand at a steady pace as Chinese consumers look online for the best deals.

TUESDAY, APRIL 18

No major economic indicators are scheduled for release.

WEDNESDAY, APRIL 19

No major economic indicators are scheduled for release.

THURSDAY, APRIL 20

New Zealand – Consumer Price Index – 2017Q1

Time: 8:45 a.m. AEST (Tuesday 10:45 p.m. GMT)
Forecast: 0.5%
New Zealand consumer price growth likely accelerated to 0.5% q/q in the March quarter, from 0.4% previously. Annual price growth hit 1.8%, from 1.3% in the December quarter and near the midpoint of the central bank's 1% to 3% target range. Base effects from low energy prices in 2016 were likely the main driver, followed by housing-related costs. The housing market has shown signs of cooling, especially in Auckland, but activity remains heated. We expect the central bank will keep rates steady at least through 2017, after cutting rates through 2016. The Reserve Bank of New Zealand is keen to keep upward pressure off the exchange rate, so lately it has been explicit of its intention to keep the policy rate steady for a while.

Japan – Foreign Trade – March

Time: 9:50 a.m. AEST (Tuesday 11:50 p.m. GMT)
Forecast: ¥800 billion
Japan's trade surplus was likely ¥800 billion in March, up from ¥680 billion in February. Exports are rising on the back of the lower yen and the upswing in the global tech cycle. Overall, the currency was relatively stable in March, after declining 15% since November. We expect this will buttress the trade balance over the coming months. However, large persistent trade surpluses remain unlikely this year because Japan imports energy in the absence of nuclear power.

Indonesia – Monetary Policy – April

Time: 2:00 p.m. AEST (4:00 a.m. GMT)
Forecast: 4.75%
Bank Indonesia is comfortable on the sidelines and will keep the policy rate at an accommodative 4.75% at its April meeting. The central bank is expected to hold steady through 2017, even though higher administration prices will lift inflation through the first half of the year and inflation will creep closer to the central bank's 3% to 5% target range for 2017. Domestic demand is still soft, but further interest rate reductions are off the agenda, as that could encourage capital outflows, which Indonesia has been vulnerable to in the past.

FRIDAY, APRIL 21

Japan – Industry Activity Indexes – February

Time: 2:30 p.m. AEST (4:30 a.m. GMT)
Forecast: 0.2%
Japan's industrial activity likely expanded 0.2% in February after a flat reading in January. The rise stems from improved consumer confidence, which has ticked up in early 2017 thanks to the yen's depreciation and improved domestic prospects. Further, demand for medical and health-related services will remain buoyant thanks to Japan's ageing population.

The Long View

The US: A recent climb by the VIX index to its most risk averse reading since Election Day will help to slow bond issuance from Q1-2017's torrid pace

By John Lonski, Chief Economist, and Ben Garber, Economist, Moody's Capital Markets Research Group, April 13, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 126 bp resembles its 122-point mean of the two previous economic recoveries. Any narrowing by this spread may be limited by more cash- or debt-funded acquisitions, spin-offs, stock buybacks, and dividends. Subpar growth by business sales and pretax profits will also add to credit risk, as will a rising risk of high-yield defaults.

The recent high-yield bond spread of 412 bp is less than what is inferred from the spread's macroeconomic drivers and the high-yield EDF metric, and a now near-trend VIX index. The implications for liquidity of regulatory changes merit scrutiny. If regulatory change enhances the market making capabilities of banks, If regulatory change enhances the market making capabilities of banks, corporate bond yield spreads may be thinner than otherwise.

DEFAULTS

After setting its current cycle high at January 2016's 5.9%, the US high-yield default rate has since eased to March's 4.7%. Moody's credit policy group lowered its predicted average default rate for Q4-2017 from March 2017's 3.3% to 3.1%. A deeper slide to its 1.85% average of the 18-months-ended June 2015 is unlikely for now.

US CORPORATE BOND ISSUANCE

For 2016, US$-denominated bond issuance rose by 5.5% annually for IG, to $1.411 trillion and dropped by -3.5% to $341 billion for high yield. Across broad rating categories, 2016's newly rated bank loan programs from high-yield issuers advanced by 45% to $98 billion for Baa, rose by 2% to $212 billion for Ba, and soared by 43% to $208 billion for programs graded less than Ba.

Q4-2015's worldwide offerings of corporate bonds showed annual percent declines of -8.7% for IG and -51.4% for high-yield, wherein US$-denominated offerings dipped by +1.3% for IG and plunged by -45.1% for high yield.

Q1-2016's worldwide offerings of corporate bonds showed annual percent declines of -4.9% for IG and -51.4% for high-yield, wherein US$-denominated offerings rose by +1.3% from Q1-2015 for IG, but plunged by -45.1% annually for high yield.

Q2-2016's worldwide offerings of corporate bonds showed an annual increase of +6.3% for IG and an annual drop of -5.2% for high-yield, wherein US$-denominated offerings dipped by -2.2% for IG and sank by -6.3% for high yield.

Third-quarter 2016's worldwide offerings of corporate bonds showed an annual advances of +19.5% for IG and +42.8% for high-yield, wherein US$-denominated offerings soared higher by +34.1% for IG and by +46.4% for high yield.

Fourth-quarter 2016's worldwide offerings of corporate bonds showed annual percent changes of -10.2% for IG and +24.9% for high-yield, wherein US$-denominated offerings fell by -8.5% for IG and advanced by +24.9% for high yield.

For yearlong 2016, worldwide corporate bond offerings rose by 2.3% annually for IG (to $2.402 trillion) and sank by -7.8% for high yield (to $426 billion).

In 2017, worldwide corporate bond offerings may dip by -0.3% annually for IG and may advance by 15.6% for high yield.

The financing of acquisitions and shareholder compensation will stand out among 2016's uses of funds obtained via bond issues and newly-rated bank loan programs. Companies will resort to acquisitions and divestitures in order to better cope with the US's subpar recovery. To the degree companies fear significantly higher bond yields, pre-fundings will rise.

US ECONOMIC OUTLOOK

The mid-point of the range for fed funds should finish 2017 no greater than 1.375%. In view of the considerable underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global economy operates below trend, the 10-year Treasury yield may not remain above 2.45% for long. A fundamentally excessive climb by Treasury bond yields and a pronounced slowing by expenditures in dynamic emerging market countries are among the biggest threats to the adequacy of economic growth and credit spreads going forward.

EUROPE

By Tomas Holinka of Moody's Analytics
April 13, 2017

Eurozone

The euro zone's short-term outlook seems promising, despite moderate threats. High-frequency indicators point to accelerating growth at the beginning of 2017 thanks to strengthening domestic demand, a pickup in exports even to the U.K., and a falling unemployment rate in many countries. Yet joblessness hasn't dropped enough to generate stronger wage growth in southern European countries, which together with mounting inflation pressures may undermine fragile household spending. Structural rigidities, mainly in southern Europe, are also restraining faster adjustments in the labor market, while fewer job openings and a skills mismatch could upset the balance between labor demand and supply, pushing the unemployment rate up and limiting wage growth. Differences among countries are stark. Households in Germany, Austria and the Netherlands benefit from higher wage rises thanks to lower unemployment, but average annual wage growth over the last year was lower in Spain, Italy and France, where joblessness is elevated.

Increasing external demand will also add to the expanding euro zone economy. A weaker euro combined with stronger foreign demand will help to drive up euro zone exports in coming months. Nevertheless, Britain's departure from the EU poses a real risk, and any fallout will likely be felt once the U.K. formally withdraws and starts renegotiating trade agreements. How individual countries will fare depends on the trade deals they strike. Although EU countries should coordinate and approve common rules, some countries that trade heavily with the U.K. will probably negotiate better conditions and sign deals sooner. But any agreements will take time to hammer out, which will heighten uncertainty and weigh on trade in the meantime.

Yet accommodative monetary policy, which will keep the euro relatively cheap, and reorienting exports to new markets could offset expected weaker shipments to the U.K. Subdued demand-driven inflation pressure and soft credit growth relative to the stage of the business cycle should keep the monetary stance accommodative until late 2017. Nevertheless, after secondary-round inflation effects from higher energy prices materialize, the ECB will change its rhetoric and cut its pace of monthly purchases in October, arguably by €10 billion a month, while extending them beyond 2017. With the ECB expected to shift to a more hawkish monetary policy stance, the sovereign bond yields of fiscally troubled countries could spike. This would prompt governments to implement less expansionary fiscal policy in 2018.

Despite these headwinds, we expect the euro zone economy to expand 1.7% this year, the same rate as in 2016, before slowing to 1.6% in 2018. But uncertainty about the U.K. exit negotiations and a more protectionist trade stance by the U.S. government will dominate in the second half of 2017. So far, the euro area seems healthy enough to overcome these threats.

U.K.

The U.K. ended 2016 as the world's fastest growing advanced economy. But the impact of the British public's decision to leave the European Union is becoming visible in the economy. Job growth has slowed and the sharp depreciation in the British pound has increased consumer prices and dampened consumer spending. Economic activity in the U.K. is expected to slow in the coming quarters as the resulting uncertainty impacts businesses' hiring and investment decisions. The combination of higher oil prices and soaring import prices is threatening households' living standards. Furthermore, nominal wages growth is expected to stutter this year in the face of exit-related uncertainties. While the pound's depreciation should be good news for the country's exporters, firms are choosing to raise prices, erasing most competitiveness gains from the lower currency and failing to offset the negative effects on domestic demand from imported inflation.

The slowdown in inward foreign direct investment will be one of the largest drags on the U.K. economy. Britain is one of the world's most attractive destinations for foreign investment—accounting for about 5% of the global total in recent years—and is currently the number two host country in the world for inward FDI stock, after the U.S. By leaving, the U.K. is set to lose its competitive advantage as the gateway to the EU market for non-EU countries. This means that Britain will not attract as much investment as it did before, and this will curb demand for sterling. The trade-weighted pound is expected to remain under pressure until the final trade agreement between the U.K. and the EU is approved, lingering around $1.20 and €1.16 in the coming quarters.

Despite the slump in sterling and associated rise in inflation, the weakening British economy is expected to keep the Bank of England on the sidelines. Moody's Analytics expects the Monetary Policy Committee to delay tightening policy until well after the EU exit, gradually raising the main policy rate from mid-2019. Fiscal policy will support the BoE's accommodative monetary policy. The government has abandoned its plan to close the budget deficit by 2020 and has confirmed plans to lower the corporate tax rate from the current rate of 20% to 17% by April 2020 and increase government spending to prop up waning economic activity.

U.K. economic growth is projected to slow sharply in the coming quarters amid exit negotiations, as the resulting uncertainty impacts businesses' hiring and investment decisions. Real GDP growth is expected to decelerate from 1.8% in 2016 to around 1.5% in 2017 and 0.9% in 2018 before gradually strengthening to settle around 1.8%, its new post-exit potential growth rate, around 0.2 percentage point lower than it would have been were the U.K. to stay in the EU.

ASIA PACIFIC

By Jack Chambers and the Asia-Pacific Staff of Moody's Analytics
April 13, 2017

The Philippines is one of Asia's fastest growing economies. GDP growth is forecast at 7.1% in 2017, even stronger than 2016's already-impressive 6.8%. Strong domestic demand is the main driver, followed by improvements in global conditions.

The longer-term growth outlook is similarly upbeat, with growth expected to average 7.3% y/y from 2018 to 2020. Underpinning this forecast are the positive demand pressures that will flow from the demographic dividend and the productivity gains from infrastructure improvements.

Philippine consumption has consistently posted growth rates above 5% y/y since 2010. Underpinning this has been a steady rise in the population. The demographic changes accompanying this are favorable to the economic outlook over the longer term as well. Unlike many of its peers in the Asia-Pacific region, the Philippines will see continued growth in its working-age population in the coming decades. The working-age population isn't expected to peak until after 2050, in absolute terms and relative to the total population. Therefore, consumption will rise and the dependency ratio will fall.

The rise in domestic demand from the expanding population should fuel a virtuous cycle, whereby increased consumption boosts increased investment and industrial production. This in turn pushes up the demand for labor, supporting wages, which are already improving, as average and minimum wages increase.

One side effect that we anticipate from the increase in domestic wages is that Philippine families will become less dependent on remittances as a supplementary source of funds. Since the beginning of 2000, remittances from Filipinos working abroad have increased 215% as workers have moved overseas temporarily or permanently for higher-paying jobs. However, as wages in the Philippines increase, the gap between them and international wages is closing, decreasing the incentive to move abroad.

While domestic conditions were a positive for the economy in 2016, external demand was a mixed story. On the one hand, service exports performed well, averaging 16.9% y/y growth throughout the year. This was due to the ongoing expansion in the business process outsourcing sector, in which foreign firms outsource certain operational duties such as call centers and accounting tasks to the Philippines. In contrast, goods exports were soft in 2016, decreasing 1.1%, reflecting broad-based weakness in global conditions.

Philippine goods exports have started 2017 on a positive note, with growth accelerating to 11% y/y in February. Although this is partly due to low base effects, it also reflects improved demand from the Philippines' major trading partners. Electronics are faring particularly well due to the upswing in the tech cycle. As a result, we expect goods exports to be a positive for GDP growth.

The Philippines' poor infrastructure is dampening potential output and could impede a more rapid recovery in merchandise trade this year. The World Economic Forum measure ranks Philippine infrastructure as 95th globally, well below its ASEAN-5 counterparts. The weak infrastructure hinders the potential efficiency of the archipelago's economy, as it increases the likelihood of supply-chain bottlenecks and the potential fallout from the frequent natural disasters, such as Typhoon Lawin in 2016.

In an attempt to make inroads on this problem, President Rodrigo Duterte's government has announced plans to continue the increases in infrastructure spending that occurred under the previous administration. For 2017, the government has included a 13.8% increase in infrastructure spending, which will amount to about a quarter of total outlays.

To partially offset the planned increases in expenditure, the government is planning changes to the tax system in a bid to improve efficiency and increase revenues. These changes entail a decrease in income tax rates and an increase in the taxes levied on fuel and cars. Additionally, a focus is being put on improving compliance by increasing surveillance of possible tax evasion and offering a temporary amnesty for people found to have been deliberately avoiding paying tax.

The emphasis on these tax measures is an attempt to maintain the credibility that the previous government obtained in fiscal discipline. As a proportion of GDP, government debt has fallen from about 18% in 2009 to less than 11% in 2016.

Although the levels of government debt are not an issue, and we do not expect them to become one, an area worth noting is the government's currency risk. About three-quarters of Philippine government debt is denominated in the peso, while the remainder is issued mostly in U.S. dollars. This means that if the peso depreciates against the greenback, the peso-denominated servicing costs for the government increase.

The Bangko Sentral ng Pilipinas had a straightforward 2016 in setting monetary policy. With inflation low, thanks to low oil prices, and economic growth strong, the central bank was able to maintain the same accommodative policy setting throughout the year. More notable was that the bank changed its monetary policy framework in an attempt to improve the transmission of policy changes.

In 2017 though, the bank will not be able to stay on the sidelines. Inflation has already reached the midpoint of the BSP's target band. In March, the headline consumer price index increased 3.4% y/y, the most rapid increase since November 2014. With output growth expected to remain strong, demand-side pressure on prices will be robust. Moreover, the U.S. Federal Reserve is expected to hike rates a few more times in 2017, which will put pressure on capital outflows from the Philippines.

As a result, we expect the Philippine central bank to start hiking interest rates in the third quarter. By the end of 2018, we anticipate that the policy rate will be increased by a total of 125 basis points.

Ratings Round-Up

By Njundu Sanneh

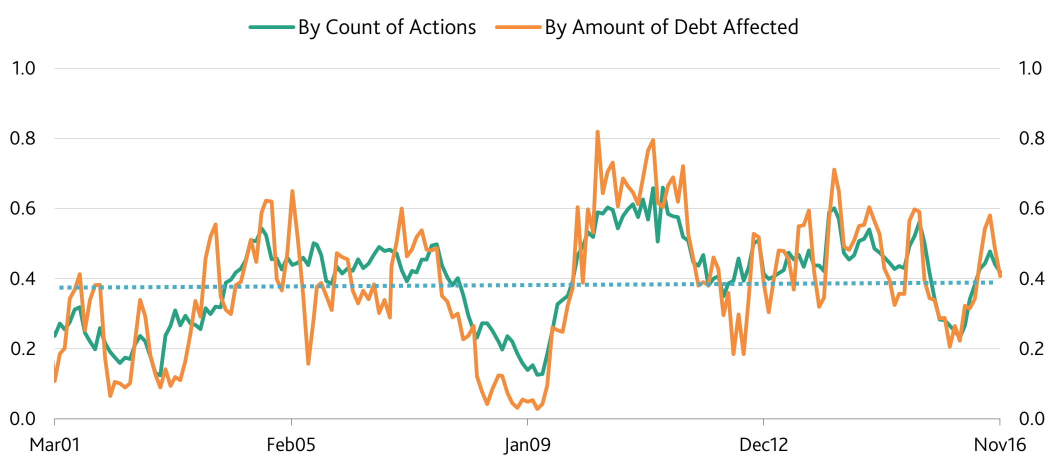
Upgrade Ratio Still Positive

The weekly rating changes continue to reflect the improving corporate credit environment as spreads remain fairly low and growth in the global economy inches up. Upgrades continue above the long term average of 40% for the three-month trailing moving average of the series. with 47% of total changes for the US and 50% for Europe. These are slightly less than last week but still well above the long term average of the series. Moody's Monthly Default Report for March forecasts that the global speculative grade default rate will decline to 2.4% over the next year from the current level of 3.8%. The US speculative grade default rate will end the year at 3% from 4.7% now and Europe at 2% from 2.5% now. The gains in energy prices underline the improvements in the commodity sector, but the sector is still the main contributor to default rates.

The retail sector is facing headwinds; its 14% level of distressed issuers portends more defaults. Retail entities are increasingly showing up in the downgrade column of our weekly rating changes and the past week was no exception.

FIGURE 1

Rating Changes - US Corporate & Financial Institutions: Favorable as % 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	Old STD Rating	New STD Rating	IG/SG
4/5/17	ENTERGY CORPORATION	Utility	SrUnsec/LTIR/CP	1,850	U	Baa3	Baa2	P-3	P-2	IG
4/5/17	FERRARA CANDY COMPANY HOLDINGS, INC. - Candy Intermediate Holdings, Inc.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3			SG
4/5/17	JACK COOPER ENTERPRISES, INC. - Jack Cooper Holdings Corp.	Industrial	SrSec	750	D	Caa3	Ca			SG
4/5/17	PAYLESS INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Ca			SG
4/5/17	TRINET GROUP, INC. - TriNet HR Corporation	Industrial	SrSec/BCF/LTCFR/PDR		U	B1	Ba3			SG
4/6/17	HCR HEALTHCARE LLC	Industrial	LTCFR/PDR		D	B3	Caa1			SG
4/6/17	KB HOME	Industrial	SrUnsec/LTCFR/PDR	2,465	U	B2	B1			SG
4/6/17	MARTIN MARIETTA MATERIALS, INC.	Industrial	SrUnsec/CP	1,355	U	Ba1	Baa3	NP	P-3	SG
4/6/17	SSH HOLDINGS, INC. - Spencer Gifts LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2			SG
4/6/17	TCH-2 HOLDINGS, LLC	Industrial	SrSec/BCF		D	B1	B2			SG
4/6/17	UNISYS CORPORATION	Industrial	SrUnsec	427	D	B2	B3			SG
4/7/17	CIT GROUP INC.	Financial	SrUnsec/LTIR/SLTD/PS/Sub/MTN	12,003	U	Ba3	Ba2			SG
4/10/17	BRIGHT HORIZONS FAMILY SOLUTIONS LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B1	Ba3			SG
4/10/17	STATION CASINOS LLC	Industrial	SrSec/BCF		D	Ba3	B1			SG
4/11/17	CUMULUS MEDIA INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	610	D	Caa3	Ca			SG
4/11/17	DAVITA INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	4,500	U	B1	Ba3			SG
4/11/17	IPAYMENT HOLDINGS, INC	Industrial	LTCFR/PDR	296	U	B1	B3			SG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

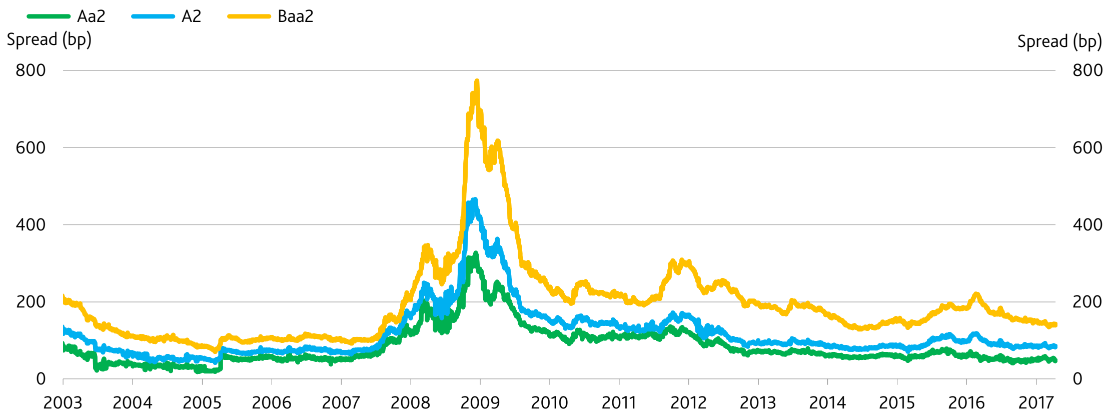
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
4/7/17	EVN AG	Utility	SrUnsec/MTN	504	U	A3	A2	IG	AUSTRIA
4/11/17	ADRIA GROUP BV- Agrokor D.D.	Industrial	SrUnsec/LTCFR/PDR	964	D	Caa1	Caa2	SG	CROATIA
4/7/17	ASTALDI S.P.A.	Industrial	SrUnsec/LTCFR/PDR	796	D	B2	B3	SG	ITALY
4/11/17	ROSENERGOBANK	Financial	LTD		D	Caa2	C	SG	RUSSIA
4/7/17	FERREXPO PLC	Industrial	SrUnsec/LTCFR/PDR	346	U	Caa3	Caa2	SG	SWITZERLAND
4/7/17	PRIVATBANK	Financial	SrUnsec/LTD	175	D	Ca	C	SG	UKRAINE
4/7/17	PETERBOROUGH (PROGRESS HEALTH) PLC	Industrial	SrSec/BCF	1,106	U	Ba3	Ba2	SG	UNITED KINGDOM
4/10/17	SKIPTON BUILDING SOCIETY	Financial	SrUnsec/Sub/MTN/LTD/PS	143	U	Baa2	Baa1	IG	UNITED KINGDOM

Source: Moody's

Market Data

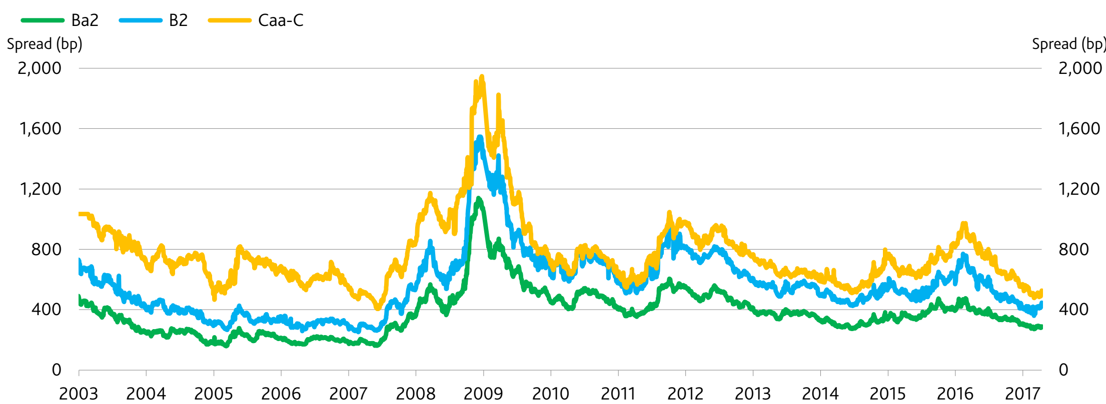
Spreads

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 (April 5, 2017 – April 12, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 12	Apr. 5	Senior Ratings
Comcast Corporation	A2	A3	A3
McDonald's Corporation	Aa3	A1	Baa1
CVS Health	A2	A3	Baa1
Kinder Morgan Energy Partners, L.P.	Baa2	Baa3	Baa3
Univision Communications, Inc.	B2	B3	Caa1
Caterpillar Inc.	A3	Baa1	A3
Halliburton Company	A3	Baa1	Baa1
Rite Aid Corporation	B2	B3	B3
Deere & Company	A1	A2	A2
AmerisourceBergen Corporation	A2	A3	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 12	Apr. 5	Senior Ratings
KeySpan Corporation	A2	Aa3	Baa1
John Deere Capital Corporation	Baa1	A3	A2
MetLife, Inc.	Baa3	Baa2	A3
Allstate Corporation (The)	A1	Aa3	A3
Xerox Corporation	Ba2	Ba1	Baa3
MGM Resorts International	Ba3	Ba2	B1
Hertz Corporation (The)	Caa3	Caa2	B2
Travelers Companies, Inc. (The)	A3	A2	A2
Progress Energy, Inc.	Aa3	Aa2	Baa2
Hospitality Properties Trust	Ba2	Ba1	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 12	Apr. 5	Spread Diff
Nine West Holdings, Inc.	Ca	5,025	4,415	610
Talen Energy Supply, LLC	B1	808	727	81
Hertz Corporation (The)	B2	851	779	72
Unisys Corporation	B2	513	473	40
Avis Budget Car Rental, LLC	B1	505	475	30
Cablevision Systems Corporation	B3	448	420	28
Freeport Minerals Corporation	Ba2	361	334	28
Freeport-McMoRan Inc.	B2	342	316	26
Windstream Services, LLC	B2	613	592	21
United Airlines, Inc.	Baa1	444	425	19

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 12	Apr. 5	Spread Diff
GenOn Energy, Inc.	Caa3	2,050	2,243	-194
Sears Holdings Corp.	Caa3	3,487	3,617	-130
Rite Aid Corporation	B3	273	320	-47
K. Hovnanian Enterprises, Inc.	Caa3	1,527	1,561	-33
Avon Products, Inc.	B1	620	642	-22
MBIA Insurance Corporation	Caa2	699	720	-21
United States Steel Corporation	Caa1	451	471	-19
Beazer Homes USA, Inc.	B3	386	406	-19
Chesapeake Energy Corporation	Caa3	557	575	-18
KB Home	B1	230	248	-18

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (April 5, 2017 – April 12, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 12	Apr. 5	Senior Ratings
Finland, Government of	A3	Baa1	Aa1
Svenska Handelsbanken AB	A1	A2	Aa2
Sanofi	A1	A2	A1
Swedish Export Credit Corporation	Aa1	Aa2	Aa1
Siemens Aktiengesellschaft	Aa3	A1	A1
Airbus Group SE	A2	A3	A2
Henkel AG & Co. KGaA	Aa1	Aa2	A2
Wm Morrison Supermarkets plc	A2	A3	Baa3
Sappi Papier Holding GmbH	B2	B3	Ba2
Royal Dutch Shell Plc	A3	Baa1	Aa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 12	Apr. 5	Senior Ratings
Italy, Government of	Ba3	Ba2	Baa2
Germany, Government of	Aa2	Aa1	Aaa
Netherlands, Government of	Aa3	Aa2	Aaa
The Royal Bank of Scotland Group plc	Ba3	Ba2	Ba1
Credit Agricole S.A.	Baa3	Baa2	A1
Banco Bilbao Vizcaya Argentaria, S.A.	Ba1	Baa3	Baa1
Intesa Sanpaolo S.p.A.	Ba2	Ba1	Baa1
Barclays Plc	Ba1	Baa3	Baa2
ING Bank N.V.	Baa1	A3	A1
Daimler AG	A3	A2	A2

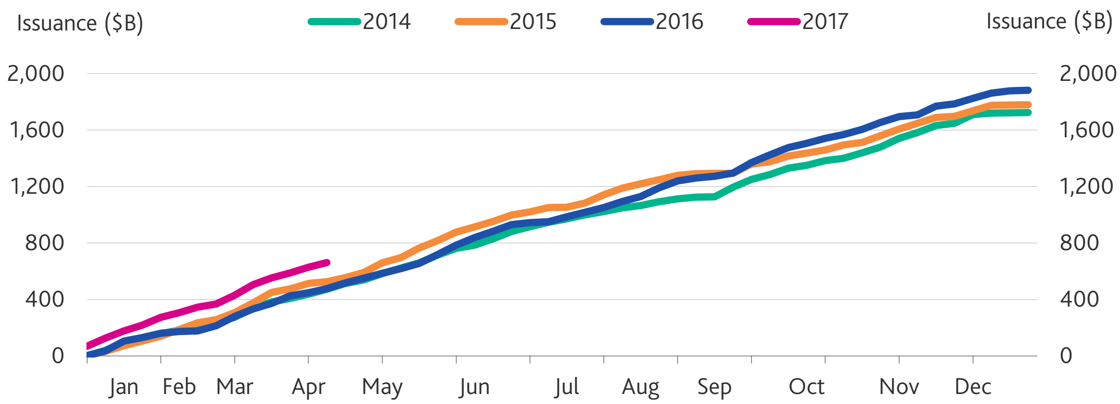
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 12	Apr. 5	Spread Diff
Norske Skogindustrier ASA	Caa3	5,494	4,623	870
CMA CGM S.A.	B3	581	519	62
Astaldi S.p.A.	B3	749	692	57
Greece, Government of	Caa3	800	770	30
Evraz Group S.A.	B1	323	305	18
Selecta Group B.V.	Caa2	593	576	17
PizzaExpress Financing 1 plc	Caa1	650	633	17
Galapagos Holding S.A.	Caa2	813	797	16
Fiat Chrysler Automobiles N.V.	B1	296	282	13
Novo Banco, S.A.	Caa2	1,010	1,000	10

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 12	Apr. 5	Spread Diff
Sappi Papier Holding GmbH	Ba2	302	354	-52
Premier Foods Finance plc	Caa1	344	361	-17
Stena AB	B3	609	625	-16
Banco Popular Espanol, S.A.	Ba3	255	266	-11
Sky plc	Baa2	60	67	-8
Unipol Gruppo Finanziario S.p.A.	Ba2	181	189	-7
Banca Monte dei Paschi di Siena S.p.A.	B3	364	369	-6
Ensco plc	B2	502	508	-6
Wm Morrison Supermarkets plc	Baa3	47	51	-4
Safeway Limited	Baa3	45	49	-4

Source: Moody's, CMA

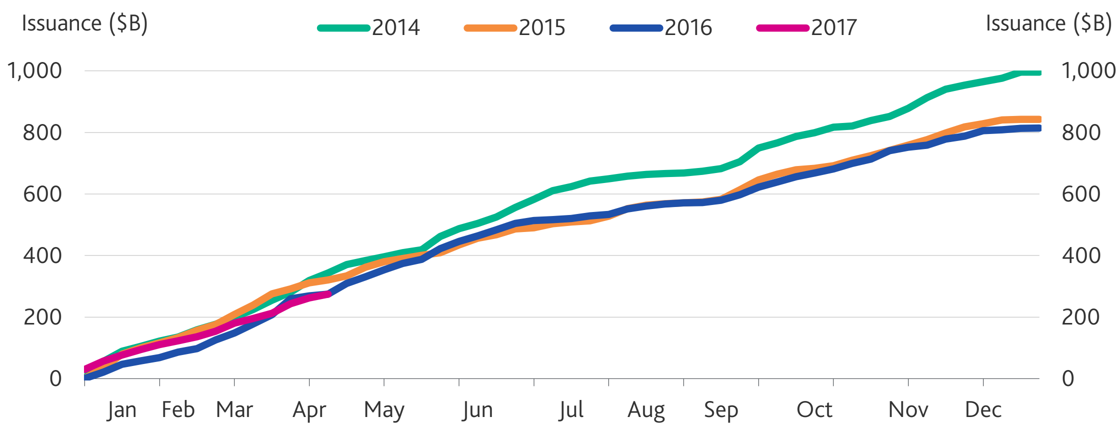
Issuance

Figure 5. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	0.000	12.110	32.521
Year-to-Date	468.470	139.355	660.192

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	10.285	1.334	12.169
Year-to-Date	234.065	30.317	274.179

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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