MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Credit Improves as Debt Growth Slows and Equities Rally

Moody's Capital Markets Research, Inc.

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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, "After Q1-2017's 98.3% annual surge, US$ high-yield bond issuance is projected to grow by a much slower 16.8% for all of 2017," begin on page 19.

Credit Spreads	Investment Grade: Year-end 2017 spread to exceed its recent 122 bp. High Yield: After recent spread of 415 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 4.2% to a new zenith of $1.472 trillion, while US$-priced high-yield bond issuance may increase by 16.8% to $398 billion but still lag 2014's $435 billion zenith.

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Ratings Round-Up *by Njundu Sanneh*

Upgrades Rebound.

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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: Cycle, South Africa, yields, Venezuela, equity, eurozone, hike, global, profits, Korea, Caa, yes, hike, VIX, rates, France, demography, boom, Japan.

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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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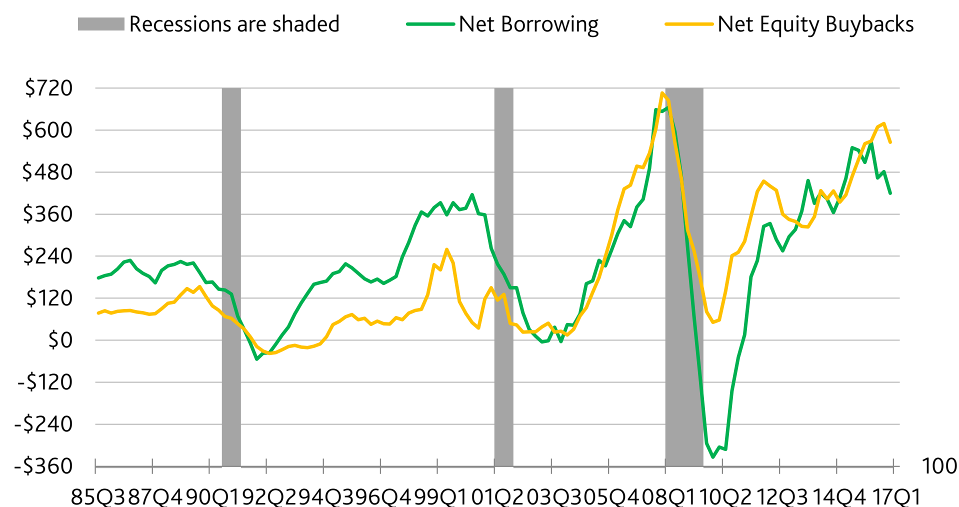
Credit Markets Review and Outlook

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

Credit Improves as Debt Growth Slows and Equities Rally

The worrisome overvaluation of US equities has benefits for credit. It firmed US corporate credit quality via an increase in the number of rating upgrades ascribed to mergers, acquisitions, divestitures, and infusions of common equity capital. And at the same time it reduced the frequency of downgrades stemming from highly leveraged takeovers, stock buybacks, and special dividends. As shown by Q4-2016's smallest amount of nonfinancial-corporate net borrowing since Q4-2010 and the lowest reading on net stock buybacks since Q2-2014, 2016's equity rally has effectively increased reliance on common equity capital, while dulling the incentive for companies to buy back their often richly priced equity shares. (Figure 1.)

Figure 1: Net Borrowing and Net Equity Buybacks Both Subside *moving yearlong averages for US nonfinancial corporations; source: Federal Reserve Financial Accounts of the US, table F103*



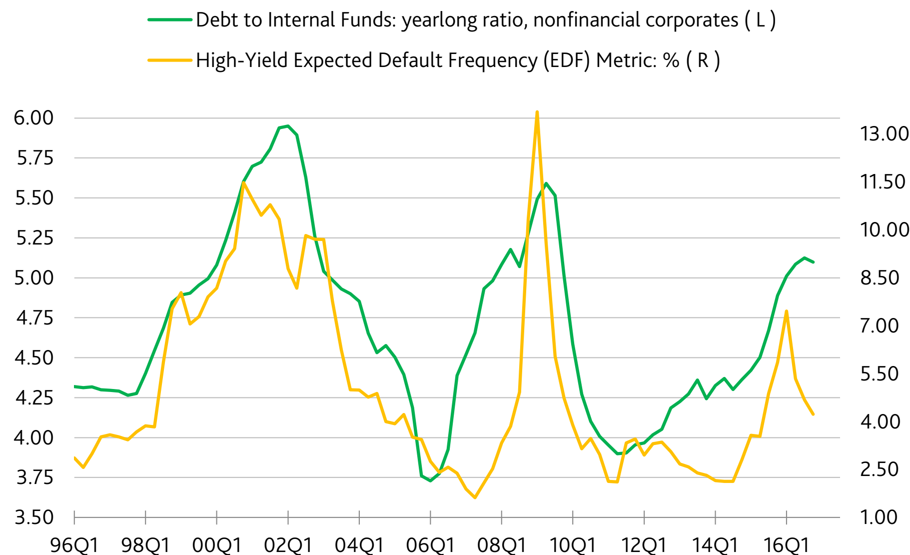
A recent pronounced deceleration by the outstandings of bank C&I loans hints of a continued slowdown by the growth of nonfinancial-corporate debt. The year-to-year growth rate of the outstandings of bank-originated commercial and industrial (C&I) loans slumped from March 2016's 10.5% to March 2017's 3.0%.

In turn, the year-to-year increase by nonfinancial-corporate debt probably did not accelerate relative to Q4-2016's 5.2%, which was well under its 6.6% average annual increase of the eight quarters ended September 2016. During the latter two-year span, the loss of financial flexibility to increased indebtedness was exacerbated by the accompanying -2.2% average annual shrinkage of nonfinancial-corporate internal funds. By contrast, Q4-2016's 7.5% yearly increase by internal funds outran the 5.2% growth of corporate debt for the first time since 2014's third quarter.

Credit quality will benefit if internal funds continue to outpace corporate debt. However, the next contraction by internal funds will be joined by a renewed ballooning of spreads, another plunge by now richly priced share prices, and, perhaps, the demise of the current business cycle upturn. The odds are against both credit and business activity again quickly recovering from the next material shrinkage of internal funds. (Figure 2.)

The slowing of bank business loan growth is consistent with a deceleration by business activity that has helped to drop the 10-year Treasury yield from 2.62% just prior to March 14's rate hike to a recent 2.25%. Thus, it is the underlying pace of business activity and not the fed funds rate that ultimately sets longer-term Treasury bond yields.

Figure 2: High-Yield Default Risks Ease Corporate Debt Slides Vis-a-vis Internal Funds

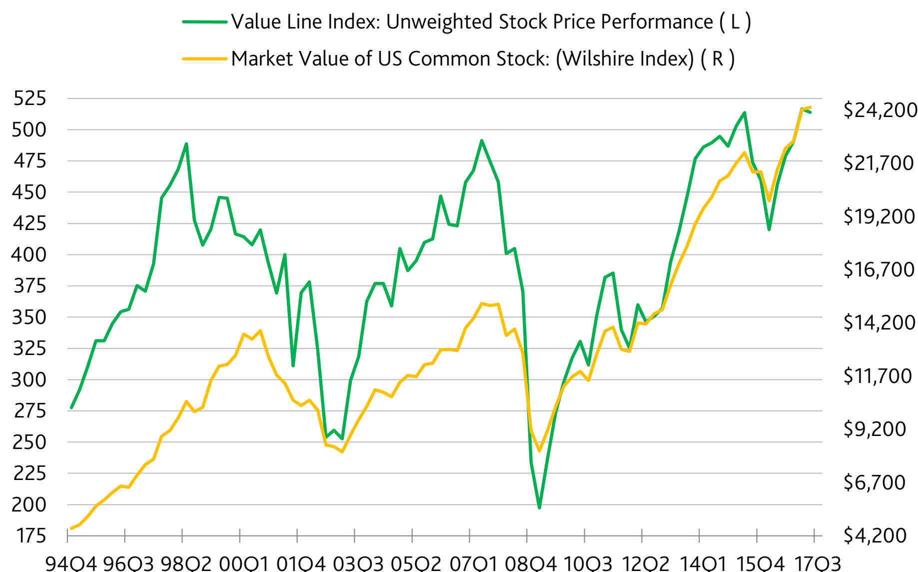


Breadth lends quality to latest equity rally

Not only do the equity market's current excesses still fall short of what transpired during 1999-2000, the latest equity rally has been more broadly distributed than that of 1998-2000. For example, unlike the +18.5% two-year average annualized advance by the market value of US common stock up to its cycle high of March 2000, Value Line's geometric stock price index incurred a comparably measured setback of -5.9%. because the Value Line index attempts to assign each share price an equal weight, the discrepancy suggests that the scintillating equity rally of the two-years-ended March 2001 was highly concentrated among highly capitalized companies, where small cap companies were left behind. Hence, downgrades' share of the total number of high-yield credit rating changes skyrocketed from Q1-1998's 45% to the 79% of Q1-2000. Moreover, the average EDF (expected default frequency) metric of US/Canadian non-investment-grade companies soared from Q1-1998's 3.9% to Q1-2000's 8.2%.

Today's equity market performance differs considerably from that of 1998-2000. In terms of recent year-over-year advances for moving 13-week averages, the +21.3% jump by the Value Line index resembles the +20.0% advance for the market value of US common stock. In turn, Q1-2017 showed that downgrades approximated only 48% of high-yield rating changes, while the high-yield EDF metric was a relatively low 3.7%. (Figure 3.)

Figure 3: Unlike 1998-2000, Value Line Stock Price Index Now Rallies Alongside Upturn by Market Value of US Common Stock



Credit Markets Review and Outlook

The continued overvaluation of US equity shares is likely to help keep systemic liquidity plentiful and by doing so limit any upturns by credit spreads and default rates. Nevertheless, the richly-priced nature of the US equity market warns of a destabilizing correction for earnings-sensitive securities if profits contract or interest rates surge to untenable heights. For example, in response to a -7.3% drop by the moving yearlong average of pretax operating profits from Q1-2015's record high to a Q2-2016 low, the market value of US common stock's month-long average sank by -12.9% from a May 2015 high to a February 2016 low, while the high-yield bond spread's accompanying average swelled from 451 bp to 839 bp. Meanwhile, the high-yield EDF metric surged from May 2015's 3.4% to the 8.1% of February 2016, which overlapped a lift-off by downgrades' share of high-yield credit rating changes from Q2-2015's 52% to Q1-2016's 82%.

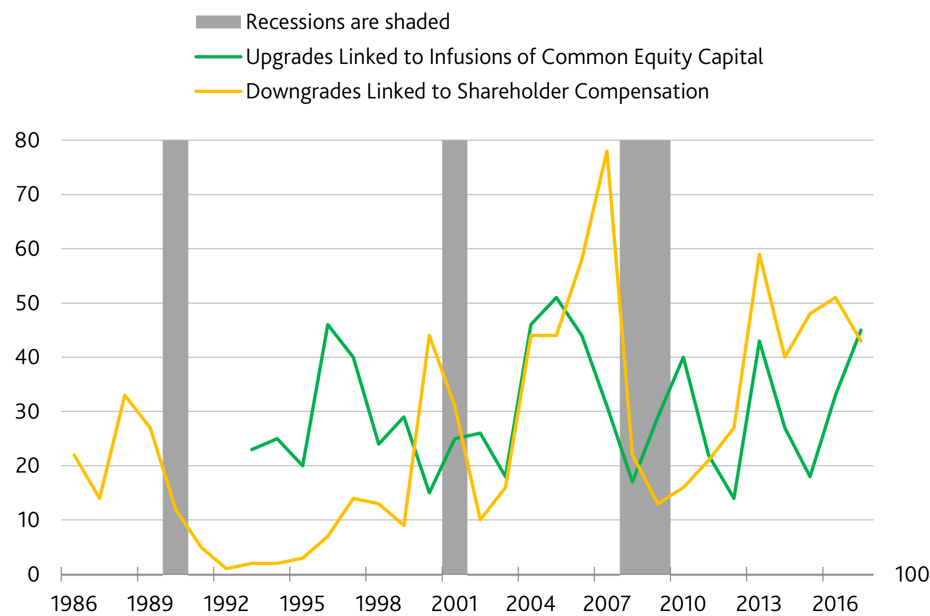
Latest equity rally pushes equity-infusion upgrades above shareholder-compensation downgrades

From early 2015 through early 2016, a lower equity market prompted more shareholder-compensation downgrades than common-equity-infusion upgrades. By contrast, the equity rally since early 2016 has been associated with more equity-infusion upgrades than shareholder-compensation downgrades.

Infusions of common equity capital were cited in 13 of Q1-2017's upgrades of US corporate credit ratings. The average number of common equity capital infusion upgrades jumped up from the 4.2 per quarter of April 2015 through June 2016, or when the market value of US common stock fell by -2%, to the 12.7 per quarter of July 2016 through March 2017, or when US equities advanced by +14%.

By contrast, stepped-up shareholder compensation via either equity buybacks or increased dividends contributed to nine of Q1-2017's rating downgrades. In turn, the average number of shareholder compensation downgrades sank from the 15.6 per quarter of April 2015 through June 2016 to the 8.7 per quarter of July 2016 through March 2017. (Figure 4.)

Figure 4: Equity-Infusion Upgrades Top Shareholder-Compensation Downgrades for First Time Since 2011 ***moving yearlong count***



M&A now figures in more upgrades than downgrades

Many of Q1-2017's 25 upgrades that were at least partly ascribed to mergers, acquisitions and divestitures owed something to the positive showings by the broad equity indices over the past year. Contrarily, Q1-2017's seven M&A-related downgrades stemmed from acquisitions that steepened leverage or reduced financial flexibility and from divestments that heightened business risk. Comparing the per quarter averages of April 2015 through June 2016 with those of July 2016 through March 2017 showed a drop in the number of M&A-related downgrades from 20.0 to 11.7 and an increase in the number of M&A-linked upgrades from 14.6 to 20.7. (Figure 5.)

The US high-yield credit rating revisions of 2017's first quarter showed mergers, acquisitions, and divestitures, or M&A, figuring in 21 upgrades and only seven downgrades. M&A was an atypical net

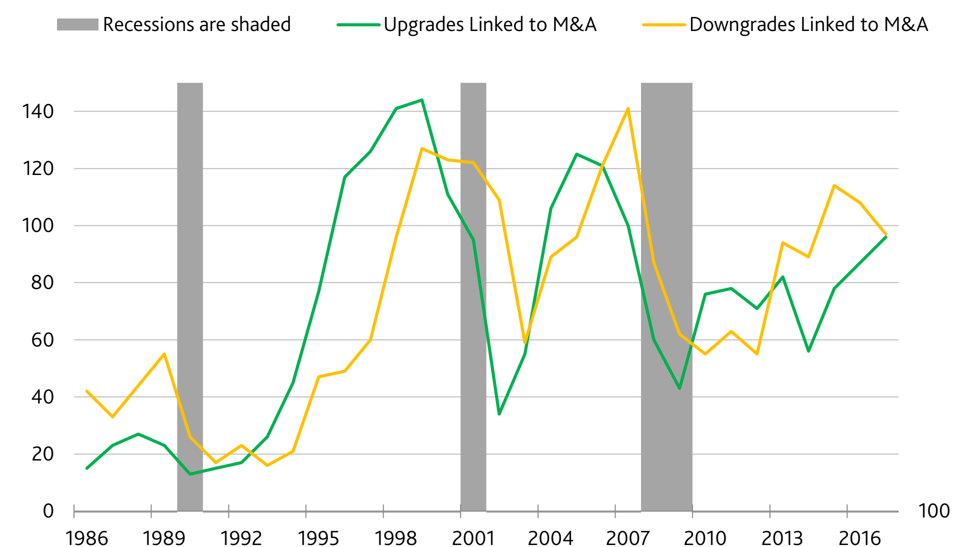
benefit to the high-yield rating changes of Q1-2017. For example, the comparable per quarter rating changes of year-long 2016 showed 17.0 upgrades and 16.0 downgrades, on average.

M&A-linked upgrades were ascribed to previous and recent mergers and acquisitions that enhanced credit quality, as well as to divestments whose proceeds funded the retirement of outstanding debt. The broadly based equity market rally of the past year facilitated M&A that steadied or improved the standing of high-yield credits.

Far different from upgrades' 75% share of Q1-2017's M&A-linked high-yield credit rating revisions, upgrades comprised only 29% of the accompanying M&A-linked revisions of investment-grade ratings. This imbalance has been in effect for a long time. Since the influence of M&A on rating revisions was first tallied in January 1986, upgrades accounted for 56% of the relevant high-yield rating changes and a much smaller 41% of the investment-grade changes.

More specifically, among Q1-2017's investment-grade rating revisions, M&A was cited in four upgrades and nine downgrades, both of which hardly differed from yearlong 2016's per quarter averages of 4.8 upgrades and 11.0 downgrades.

Figure 5: Fewer M&A-Linked Rating Changes Vis-a-vis Previous Upturns: ***moving yearlong count***



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 21: The first quarter can be full of surprises; during this expansion, first quarter GDP growth has come in short of consensus expectations every time, with an average absolute forecast error of 0.47 percentage point. Initially, disappointing first quarter GDP growth led some to question the durability of the expansion, but that should fade now that the issue of residual seasonality has come to the forefront.

Residual seasonality in GDP implies that there is a predictable seasonal pattern. This is clear in the first quarter, as GDP tends to be noticeably weaker than in the subsequent three quarters. The differences are frequent and large enough that they are unlikely a fluke. Also, residual seasonality is evident across many of the major components of GDP, including parts of services spending, exports, federal and state and local government expenditures, and nonresidential structures.

The Bureau of Economic Analysis has made adjustments to correct some of the issues related to residual seasonality, but it likely remains a sizable weight on GDP growth. Our high-frequency GDP model attempts to adjust for residual seasonality by using quarterly dummy variables. We expect GDP to come in weak in the first quarter, rising 0.8% at an annualized rate. Residual seasonality appears to be shaving 0.5 percentage point off first quarter GDP growth. There are other reasons for the weakness in the first quarter, including weather and possibly the delay in tax refunds.

We believe the Fed will look through the poor start of the year, as GDP will be inconsistent with other hard data, including employment. Still, sub-1% GDP growth could create a communication challenge for the Fed, since we still expect it to raise rates in June. Though GDP will be heavily scrutinized, the employment cost index for the first quarter could have greater influence on monetary policy. The Fed is worried that the tight job market will lead to a sudden acceleration in wages that would then boost inflation.

Other data will be mixed. We look for the soft data to weaken further, with the Conference Board Consumer Confidence index falling in April. As for the hard data, we look for a 0.8% gain in durable goods orders. Excluding transportation, orders likely rose 0.2%. Weather likely hurt new-home sales in March, and we expect a modest decline.

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.

MONDAY, APRIL 24

Business confidence (week ending April 21; 10:00 a.m. EDT)

Forecast: N/A
Global business sentiment has been strong and remarkably stable since October, consistent with an economy expanding at a rate that is above its potential. This is despite the unsettled geopolitical environment. Business confidence remains strongest in the U.S., and weakest in South America, while Asian and European businesses are cautious. Responses to all nine questions in the survey are generally upbeat, but hiring and investment are notably good.

Our survey results aren't as strong as various other surveys of business and consumer confidence, which have strengthened sharply since the presidential election. According to a recent New York Federal Reserve study, sentiment surveys that depend on canvassing new respondents each time are probably somewhat biased, since those happy with the election results are more likely to respond.

The four-week moving average in our global business sentiment index fell from 34 to 32.8 in the week ended April 14.

TUESDAY, APRIL 25

Conference Board Consumer Confidence (April; 10:00 a.m. EDT)

Forecast: 121.3
The Conference Board Consumer confidence index rose from 116.1 in February to 125.6 in March. The February number was revised up from the previous 114.8. The present situation index increased from 134.4 to 143.1. Expectations also improved, from 103.9 to 113.8. The labor market differential rose from 7 to 12.2, a new cyclical high and evidence that the job market is strong.

The Conference Board is noticeably outperforming the University of Michigan measure since the election. Though the Conference Board survey is consistent with real consumer spending north of 4% at an annual rate this quarter, we expect it to fall well short of that, hurt by warm weather. We are also not changing our forecast for spending over the next couple of quarters, as the noticeable gain in confidence hasn't been accompanied by a noticeable improvement in either income expectations or buying plans.

We expect sentiment to have surrendered some of March's gain, falling from 125.6 to 121.3 in April. Stocks and gasoline are negatives for sentiment in April. Initial claims remained low, a positive for the Conference Board measure.

New-home sales (March; 10:00 a.m. EDT)

Forecast: 578,000 annualized units

We look for new-home sales to have fallen from 592,000 annualized units in February to 578,000 in March. We look for a small upward revision to February, which has been the norm over the past few years. As for March, mortgage purchase applications increased but weather was less favorable, which may have hurt traffic of potential buyers. New-home sales are very volatile and unreliable from month to month.

WEDNESDAY, APRIL 26

No major economic releases scheduled

THURSDAY, APRIL 27

Jobless claims (week ending April 22; 8:30 a.m. EDT)

Forecast: 245,000
Initial claims are less reliable this time of year because of shifts in the timing of the Easter holiday and spring breaks. The four-week moving average fell by 4,250 to 243,000. We look for new filings to have risen by 1,000 to 245,000 in the week ended April 22. Meanwhile, continuing claims, which dropped 49,000 to 1.979 million in the week ended April 8, will include the household reference week.

Durable goods orders (March; 8:30 a.m. EDT)

Forecast: 0.8% (total)
We look for durable goods to have risen 0.8% in March following a 1.7% gain in February. Boeing orders increased in March, but they favored the less expensive planes. Therefore, we expect that to limit the gain in nondefense aircraft orders. The forecast also assumes an increase in nondefense aircraft, but we look for motor vehicle and parts orders to be a drag. Durable goods orders and inventories will be among the last inputs into our high-frequency GDP model ahead of the government's advance estimate of first quarter GDP.

FRIDAY, APRIL 28

GDP (2017Q1-advance; 8:30 a.m. EDT)

Forecast: 0.8% at an annual rate
Our high-frequency GDP model estimates that first quarter GDP rose 0.8% at an annual rate. The risks have turned more balanced as the surge in utility output suggests that real consumer spending on services could come in a little stronger than our model anticipates. On the other hand, inventories continue to underwhelm, lending downside risk to first quarter GDP growth. The good news is that we will get more information on the March inventories before the government's advance estimate of GDP. The same can't be said about consumer spending on services.

The first quarter is clearly setting up to be a disappointment. Our high-frequency GDP model has had a tendency to overestimate the government's advance estimate of GDP. This would suggest that first quarter GDP could come in even weaker than currently expected. Since its inception in 2012, some of the model's largest errors were in the first quarter. The model's accuracy has improved since we incorporated dummy variables for residual seasonality. Residual seasonality appears to be shaving at least 0.5 percentage point off first quarter GDP growth. Weather is also a net negative for first quarter GDP growth.

Real consumer spending is expected to rise 0.6% at an annual rate in the first quarter following a 3.5% gain in the final three months of 2016. Weather hurt both services spending and durables. The East Coast snowstorm in March appears to have contributed to a decline in vehicle sales in the month. These sales will be made up in subsequent months, helping second quarter spending but coming at the expense of durable goods spending in the first quarter.
Real residential investment likely rose 9.1% at an annualized rate, boosted by brokers' commissions and home improvement spending. Nonresidential investment likely gained 3.7% in the first quarter. We

look for equipment spending to have risen 5.1% at an annual rate. The inventory build likely totaled $19 billion at an annual rate, less than the roughly $50 billion increase in the fourth quarter. Net exports should be roughly neutral for first quarter GDP growth. We expect federal government spending to have dropped while state and local spending rose.

We will finalize our estimate of first quarter GDP after the release of durable goods and the advance data on the goods deficit and inventories.

University of Michigan Survey (April-final; 10:00 a.m. EDT)

Forecast: 97.5

The University of Michigan's consumer sentiment index is expected to have come in at 97.5 in April, modestly below its preliminary estimate but still above March's 96.9. Stocks and gasoline will likely weigh on sentiment. Unlike other measures of sentiment, there isn't strong evidence of a political bias in any of the measures of consumer sentiment we closely monitor. Therefore, consumer sentiment may be too strong relative to underlying fundamentals. If sentiment weakens some, it wouldn't have a significant impact on the outlook.

EUROPE

By the Dismal (Europe) staff in London and Prague

Summary, April 21: On the political front, we will awaken Monday morning to the results of Sunday's first-round voting in the French presidential elections. A few weeks ago, we would have confidently stated that centrist Emmanuel Macron or far-right Marine Le Pen would garner the most votes and that in the second round on May 7 Macron would easily beat Le Pen. We were betting that tactical voting would prevent the National Front's far-right candidate from rising to power. But now, only two days before the elections, we are sure of nothing. Late charges from far-left Jean-Luc Melenchon and right-wing Francois Fillon have left the French presidential campaign with four major candidates who are barely three percentage points away from each other in the polls. Almost any outcome is possible. In economic terms, the worst-case scenario would be Melenchon facing Le Pen in the second round, as both candidates have extreme policies that include withdrawing France from the euro zone (Le Pen) and taxing French citizens at a rate of 100% on income over €400,000 a year (Melenchon). Though we think this faceoff is unlikely, pollsters have been proven wrong time and again over the past year—not only on Brexit and Trump's election, but also during the Dutch elections. Everything is up in the air until Monday morning. It is not for nothing that the spreads between French and German yields have soared over the past few weeks, and that the euro's volatility is on track for its steepest weekly jump on record. If the final runoff is between Macron and Le Pen, we expect the euro to soar and other financial instruments to do so as well, as markets would bet that the French would unite against Le Pen in the final round of voting.

On the economic front, next week brings several top-tier releases, but the most awaited is the U.K.'s first quarter GDP. We are pessimistic about Britain's performance in the first quarter. Why? Most of the hard data available so far have disappointed. Retail sales, which make up 5% of total GDP, have already slumped by 1.4% q/q in the three months to March, shaving 0.1 percentage point off total growth and dampening the performance of the service sector. Industrial production figures for January and February were similarly dire, with factory growth retreating by a cumulative 0.9% over the two months. Construction is also struggling, with output falling 1.7% m/m following no growth in January. To that we add the weak Markit PMI results for the economy's three main sectors for March, which, combined,

corroborate our view that the economy likely grew only 0.4% q/q in the opening quarter, down from 0.7% in the previous stanza.

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.

MONDAY, APRIL 24

No major economic releases are scheduled.

TUESDAY, APRIL 25

No major economic releases are scheduled.

WEDNESDAY, APRIL 26

No major economic releases are scheduled.

THURSDAY, APRIL 27

Spain: Unemployment (Q1; 8:30 a.m. BST)

Spain's seasonally adjusted unemployment rate likely dipped to 18% in the first quarter of 2017 from 18.6% in the previous quarter and 21% in the same quarter of 2016. The share of unemployed has dropped dramatically from the peak of 27.2% in mid-2013, but it is still relatively higher than

the other core euro zone countries, with plenty of room for improvement. Robust GDP growth in previous quarters and strong signals from the latest PMI data indicate that unemployment likely extended its long-term decline. Aggregate output added 0.7% in the final quarter of 2016 as private consumption, exports and investment gained momentum. Although in year-ago terms, growth slowed to 3% in the fourth quarter of 2016 from 3.2% in the previous quarter, Spain still outperformed its euro zone peers. And while the manufacturing PMI for Spain softened slightly in March, the overall quarterly performance pointed to solid expansion. The services PMI closed the first quarter at a 15-month high as companies stepped up hiring amid stronger sentiment on future growth. In the coming quarters, GDP growth will remain solid but should moderate to a more sustainable growth rate in the long term, while the labor market should tick along in line with aggregate output.

Euro Zone: Monetary Policy (April; 12:45 p.m. BST)

Subdued demand-driven inflation pressure, soft credit growth, and political uncertainty should keep monetary policy in the euro zone accommodative for an extended period. Nevertheless, after secondary-round inflation effects from higher commodity prices materialize and political risks moderate, we believe the ECB will change its rhetoric and cut its pace of monthly purchases later this year, arguably by €10 billion a month, while extending them beyond 2017. The normalization of monetary policy, however, has already started. Besides cutting asset purchases to €60 billion per month as of April, down from the previous €80 billion, the central bankers announced no new round of targeted long-term refinancing operations to financial institutions.

FRIDAY, APRIL 28

France: GDP (Q1; 6:30 a.m. BST)

The French economy likely grew 0.3% q/q in the three months to March, decelerating slightly from 0.4% in the previous quarter. Household consumption likely drove the expansion, while net exports dragged on the final reading. The annual expansion rate accelerated to 1.3% from 1.1% in the three months to December, but lower than expected industrial production weighed on the number. French consumer and business confidence is slowly but surely improving. This reflects a strengthening labor market and a slowly firming recovery in the general economy, as well as fewer fears about the consequences of the U.K. vote to leave the EU. Still, with lack of productive investment and an ageing population, France currently lacks a real domestic growth engine. Also, the looming presidential elections pose both a threat and an opportunity for the country as progressive candidates are standing against populists, helped by Trump's victory in the U.S.

France: Household Consumption (March; 7:45 a.m. BST)

French household expenditures on goods likely ticked up 0.2% m/m in March, after subtracting 0.8% m/m in February, and continued to strengthen also in annual terms. Still-low oil prices as well as low prices of most goods, an improving labor market, and a firming, yet slow, recovery in the country are lifting consumption at least on a yearly basis. The retail PMI, however, dipped into contractionary territory, posting a mere 49.4 in March from 51.7 in the previous month. Although employment increased, gross margins were still squeezed chiefly by a pickup in the rate of wholesale price inflation. The PMI drop could also be attributed to uncertainty before the upcoming presidential elections, as most retailers failed to meet their sales target, so the outlook remains optimistic. Still, French households are prudent and their precautionary savings remain high at close to 15%, limiting discretionary spending.

Germany: Retail Sales (March; 8:00 a.m. BST)

German retail sales likely dipped in March following an unexpected spike in the previous month. We expect sales to have decreased by 0.5% m/m from February, when they increased by 1.8%. In year-ago terms they likely continued to grow, albeit at a slower rate than their buoyant expansion in February. The Markit retail PMI climbed further to 52.5 in March from 51.2 in the previous month, suggesting stronger growth of retail sales in coming months. Consumption expenditure powered the country's expansion last year, while the remaining GDP components were lackluster. However, conservative German households will likely not ramp up their spending in coming months, because

the outlook remains uncertain and because of accelerating inflation. Although Germany's annual national measure of inflation decelerated to 1.7% in March from 2.1% in February, rising commodity prices and a weak euro should support price growth in coming months.

Germany: Unemployment (April; 9:00 a.m. BST)

Germany's seasonally adjusted unemployment rate likely remained at 5.8% in April, after falling to this new record low in March. German businesses remain confident in the country's future expansion, increasing their labor force, despite the uncertainties and geopolitical tensions. Details of the latest Markit manufacturing PMI showed the rate of hiring accelerating to one the fastest since July 2011. The weak euro has also supported demand for German products from outside of the single-currency area, which should translate into higher employment. However, the unemployment rate is likely bottoming down and it is expected to increase somewhat later this year because of the vast inflow of refugees since mid-2015, some of whom will be entering the German labor force.

U.K.: GDP Production Breakdown (Q1; 9:30 a.m. BST)

We expect the U.K. economy slowed in the three months to March, coming in at 0.4% q/q after a 0.7% gain in the final quarter of 2016. In yearly terms, GDP should have posted 2.2% growth, slightly up from 1.9% in the fourth quarter, but even this was due mainly to base effects. Though the service sector likely still powered the expansion, we expect it contributed far less. Granted, we still have scant hard data regarding the sector's performance, but a 0.1% m/m decrease in the official measure of services output in January combined with dire retail sales figures for the quarter as a whole, when retail sales dropped by 1.4% q/q, imply that services output likely rose by a paltry 0.4% in the first quarter.

Manufacturing, in contrast, should have supported growth somewhat in the opening months. Even if industrial production was dampened by a steep drop in energy output in February, manufacturing output remained relatively steady over the month. Plus, we expect a strong mean-reversion in the volatile pharmaceuticals output in March, so manufacturing likely increased by around 0.2% q/q in the first quarter, which is nonetheless well below the 1.2% rate in the three months to December. Despite February's downbeat results, we still look for production to have increased 0.6% to 0.7% in the first stanza, boosting GDP by around 0.1 percentage point.

We are setting the bar lower for construction, however. Construction output declined by 1.7% in February following no growth in January, and Markit's PMI results for the sector in March are grim: Growth in output should ease to its joint slowest since expansion began in September 2016. Commercial and industrial construction were likely the main drags, but housebuilding also lost ground. We expect the sector's output to have stalled or slightly declined over the quarter, doing nothing to lift growth.

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

Euro zone annual harmonized inflation likely accelerated to 1.6% in April from 1.5% in the previous month. Inflation should not spike too much in the longer term, and we think it has reached this year's high. Besides subdued headline figures, next week's release will likely show that core inflation remains low, especially in southern European countries. Softer wage growth due to elevated unemployment is creating a low-inflation environment. Therefore, we don't expect the ECB to turn hawkish before the last quarter of 2017 or until the political uncertainty eases and secondary-round inflation effects of higher commodity prices materialize.

ASIA-PACIFIC

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

Cyclical momentum is uneven in Japan

Consumers are unlikely to feel Japan's cyclical upswing on the back of rebounding exports. Though consumer confidence is up in 2017, it remains well below the neutral level. Pessimistic Japanese consumers are unlikely to increase spending meaningfully over the coming year because of weak wage growth.

Rising energy costs are the catalyst for increased retail spending in Japan. But demand for luxury goods remains on hold, as gains across the stock market have been choppy. Therefore, underlying inflation will remain well below the central bank's 2% target. March's inflation is expected to pick up largely due to rebounding commodity prices.

Household income has contracted over 2016, a trend unlikely to change. The recent shunto, or spring wage negotiations, in March suggests that corporate Japan will increase base wages at the slowest pace in the past four years. Thus, household purse strings will remain tight, and the savings rate is expected to increase.

Weak wages and low spending are incongruent to the tight labor market. Japan's unemployment rate is expected to remain steady at multi-decade lows in March. The labor force has shown resilience in recent months thanks to an uptick in female worker participation. But this is unlikely to offset the ageing and declining population.

Meanwhile, the uptick in the global tech cycle, along with automakers' releasing new car models, will likely lift industrial production for March. Overall, despite the uneven cyclical momentum, the Bank of Japan is expected to keep its powder dry in the March monetary policy meeting. Low interest rates are buttressing the housing market, and housing starts likely rose at a sanguine pace in March.

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.

MONDAY, APRIL 24

Taiwan – Domestic Trade – March

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Forecast: 0%
Retail spending was likely flat in March, recovering slightly after plunging 8.4% y/y in February. Base effects from the Lunar New Year were behind February's disappointing performance, but underlying domestic demand remains weak because of subdued wage growth. Rising global commodity prices will continue to push up the nominal value of fuel spending, which will likely outpace spending in other sectors.

Taiwan – Industrial Production – March

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Fore
Manufacturing in Taiwan is expected to have strengthened further in March, rising 13.1% y/y after a 10.6% gain in February. An upswing in the global tech cycle is supporting production of electronics and their components, and this is further boosted by China's strong economic performance. The release of new smartphones will continue to boost production in the coming months, although rising competition from China will limit longer-term growth.

TUESDAY, APRIL 25

Hong Kong – Foreign Trade – March

Time: 6:30 p.m. AEST (8:30 a.m. GMT)
Forecast: -HK45 bil
Trade activity through Hong Kong's port has recovered strongly after the Lunar new year. Commodity shipments are being driven by China's investment recovery, which is boosting both values and volumes of shipments. Improving global tech demand is also driving tech component shipments through Hong Kong.

South Korea – Consumer Sentiment Index – April

Time: 7:00 a.m. AEST (Monday 9:00 p.m. GMT)
Forecast: 98.5
Consumer confidence continues to improve in Korea as the drag from the political bribery scandal fades. The Bank of Korea's consumer sentiment index likely ticked up to 98.5 in April from 96.7

previously. Pessimists still outnumber optimists, mostly because of concerns around debt, wages and current conditions. The outlook is upbeat, as a rebound in export demand supports manufacturing and hiring. Presidential elections in May will create some uncertainty and weigh on sentiment, but the impact is likely to be minimal after the impeachment process earlier in the year.

WEDNESDAY, APRIL 26

Australia – Consumer Price Index – 2017Q1

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 0.3%
Headline inflation pressures are picking up in Australia. The quarterly change in consumer prices was likely subdued, with the not seasonally adjusted CPI increasing just 0.3% compared with the previous quarter's 0.5% gain. But year-on-year growth likely picked up to around 1.9% on the back of low base effects and rising commodity prices. Underlying inflation is curtailed by tepid wage growth and rising debt, which will keep the Reserve Bank of Australia's preferred measure of inflation below the 2% target through 2017.

Singapore – Industrial Production – March

Time: 3:00 p.m. AEST (5:00 AM GMT)
Forecast: 15%
Singapore's industrial production growth likely accelerated to 15% y/y in March, compared to an increase of 12.6% in February. Singapore's manufacturers have benefited from improvements in demand from the city-state's major trading partners. The electronics and precision engineering clusters have performed particularly well due to the upswing in the global tech cycle. Pharmaceuticals output, while volatile month to month, should trend up throughout 2017 due to improvements in demand from its largest export market-Europe. Transport engineering will continue to be the laggard as oil prices aren't expected to increase drastically, curbing demand for new oil rigs.

THURSDAY, APRIL 27

South Korea – GDP – 2017Q1

Time: 9:00 a.m. AEST (Wednesday 11:00 p.m. GMT)
Forecast: 0.9%
Korea's economy is expected to start the year on a strong note after a disappointing end to 2016. Export growth has picked up in recent months thanks to strengthening global demand and an upswing in the global tech market. The Bank of Korea has kept interest rates low, and this is supporting investment. The weak spot in the data will be consumption, as high household debt weighs on spending.

Japan – Monetary Policy – April

Time: 2:00 p.m. AEST (4:00 a.m. GMT)
Forecast: ¥80 trillion
The Bank of Japan is set to keep its monetary policy unchanged for the third time this year. The recent uptick in commodity prices has caused inflation to rise for the first time since 2015, although inflation is unlikely to reach the BoJ's 2% target. Moreover, the yen's depreciation is boosting exports, and consumer and business sentiment has improved slightly. Thus, the central bank will keep its monthly bond purchases unchanged at an annualized pace of ¥80 trillion. We also expect the BoJ to keep its yield curve control policy of targeting the 10-year bond at 0% unchanged. Outside its current policy, the BoJ has little scope for further stimulus.

FRIDAY, APRIL 28

New Zealand – Foreign Trade – March

Time: 8:45 a.m. AEST (Thursday 10:45 p.m. GMT

Forecast: -NZ$150 million
New Zealand's monthly trade deficit likely widened in March after February's NZ$18 million shortfall. New Zealand's trade balance is often affected by the import of one-off items such as planes and other transport equipment. The annual trade deficit ballooned in the year ended in February because of import of a drilling platform. Looking through the volatility of these bulky items, soft commodity exports are on the mend, especially for values, after weakness last year. In particular, exporters are receiving higher receipts for fewer dairy shipments than they were a year earlier.

South Korea – Industrial Production – March

Time: 9:00 a.m. AEST (Thursday 11:00 p.m. GMT)
Forecast: 5.4%
Manufacturing remains upbeat in Korea, supported by steady global demand for electronics. Industrial production likely softened slightly to a 5.4% y/y gain after February's 6.6% surge. The Lunar New Year tends to increase volatility during the first quarter. The release of Samsung's newest smartphone is likely to boost output over the coming months, while car production will continue to pick up because of low base effects. Increased uncertainty due to the May elections will likely dampen activity in the next couple of months.

South Korea – Retail Sales – March

Time: 9:00 a.m. AEST (Thursday 11:00 p.m. GMT)
Forecast: 0.1%
Korean consumption likely softened in March, rising just 0.1% over the month compared with February's 3.2% gain. Despite the weak figure, this would mark the first time that retail trade expanded for two consecutive months since June. The impeachment of President Park Geun-hye boosted consumer confidence, but high private debt and subdued employment growth will keep a lid on the gains. Improved manufacturing conditions have boosted hiring more recently, and this should support stronger spending in coming months.

Japan – Consumer Price Index – March

Time: 9:30 a.m. AEST (Thursday 11:30 p.m. GMT)
Forecast: 0.3%
Japan's core inflation likely ticked up to 0.3% y/y in March after a 0.2% rise in February. The rise in global commodity prices will drive up core inflation, which includes energy prices. A lower yen will also increase imported inflation. Japan likely will continue to rely on external energy sources such as natural gas rather than go back entirely to its nuclear power. This means that fluctuating commodity prices will likely play a greater role in domestic inflation over the coming year. Overall, relatively flat domestic demand means that inflation is unlikely to rise meaningfully and will remain below the central bank's 2% inflation target.

Japan – Employment Situation – March

Time: 9:30 a.m. AEST (Thursday 11:30 p.m. GMT)
Forecast: 2.8% unemployed
Wage growth in Japan remains absent despite the tight labor market. March's unemployment rate was likely unchanged from 2.8% in February. Japan's natural rate of unemployment is possibly lower. This makes sense for a declining population, especially one whose labor force is declining. The rise in Japan's female labor force, after favorable policy initiatives introduced by the government, is not likely to offset the ageing population over the coming year.

Japan – Household Expenditures Survey – March

Time: 9:30 a.m. AEST (Thursday 11:30 p.m. GMT)
Forecast: 0.3%
Japanese workers' household expenditure for March is expected to rise 0.3% y/y. Weak wage growth has crimped consumption, and the wage negotiations in March suggest that pay raises will likely be lower compared with previous years. Spending on necessities will likely strengthen, as lower wages means consumers will spend less on discretionary items.

Japan – Industrial Production – March

Time: 9:50 a.m. AEST (Thursday 11:50 p.m. GMT)
Forecast: 1.2%
Japan's industrial production has improved in 2017 thanks to the lower yen and improved global tech cycle. Production rose sharply in February because of the slowdown from Lunar New Year festivities in January. The strong pace is unlikely to be repeated in March, although the trend will likely remain firm. Manufactured goods, especially semiconductors, are expected to drive overall production. Japanese automakers are also set to release new car models over the coming months, and this will lift the overall production momentum.

Japan – Retail Sales – March

Time: 9:50 a.m. AEST (Thursday 11:50 p.m. GMT)
Forecast: 0.6%
Japan's retail sales likely increased 0.6%, driven by increased retail fuel spending. Rising commodity prices will put upward pressure on fuel costs. But as they filter through the economy, costs of other goods at the retail level should also increase. If retail volumes remain the same, then retail sales will likely rise over the coming months. That said, downside risks remain prevalent. Weak wage growth means that spending on discretionary items, particularly luxury goods, is unlikely to rise meaningfully over the coming months.

Taiwan – GDP – 2017Q1

Time: 10:30 a.m. AEST (12:30 a.m. GMT)
Forecast: 2.7%
Taiwan's economy started the year on steady footing, expanding 2.7% y/y in the March quarter after a 2.8% gain previously. Low base effects and strengthening global demand will ensure that exports add strongly to GDP in the March quarter. Taiwan's low interest rate environment is also likely to boost fixed investment, further supported by improved economic conditions. Meanwhile, private consumption is likely to be a soft spot in the data as tepid wage growth weighs on household budgets.

Singapore – Employment – 2017Q1

Time: 12:30 p.m. AEST (2:30 a.m. GMT)
Forecast: 2.1% unemployed
Singapore's unemployment rate is forecast to have dipped to 2.1% in the first quarter, compared with 2.2% in the three months to December. Economic conditions have improved markedly in recent months and this will flow through to the labor market. Improved global demand has buoyed manufacturing and services, both of which likely increased hiring. Conversely, construction likely shed more workers in the quarter as falling house prices weighed on building activity.

Japan – Housing Starts – March

Time: 3:00 p.m. AEST (5:00 a.m. GMT)
Forecast: 4%
Japanese housing starts likely rose 4% y/y in March after a decrease the month prior. With record low interest rates, housing activity has improved modestly. We expect strong gains to continue in the large cities such as Tokyo, while house price growth remains low in other prefectures. The gains in the big cities aren't altogether surprising because populations across rural Japan are declining at a sharper pace. Though housing starts rose solidly through 2016, a slowdown is expected over the long term as the population declines.

Thailand – Private Consumption – March

Time: 5:30 p.m. AEST (7:30 a.m. GMT)
Forecast: 2.4%
Thailand's private consumption growth is forecast to have slowed to 2.4% in March, down from 4% in February. Spending by residents has started 2017 on a weak note after it received a temporary boost from government stimulus measures at the end of 2016. Persistently weak income growth is inhibiting a more sustained improvement in household spending. Meanwhile, a clampdown on illegal tour operators has stifled growth in tourist arrivals and thus on spending by nonresidents.

Thailand – Foreign Trade – March

Time: 5:30 p.m. AEST (7:30 a.m. GMT)
Forecast: US$4.5 billion
Thailand's trade surplus is forecast to have expanded to US$4.5 billion in March, compared with US$4 billion in February. This will be driven by export growth exceeding that of imports. Thailand's exporters are benefiting from improvements in global demand. Electronics exports in particular have shown consistent growth. Automobile shipments will also continue to tick up, but the improvement will be less pronounced because of stronger competition from other countries in the region. Import growth will be concentrated in raw materials and intermediate goods that are used as inputs for domestic manufacturing.

The Long View

The US: After Q1-2017's 98.3% annual surge, US$ high-yield bond issuance is projected to grow by a much slower 16.8% for all of 2017

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
April 20, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 122 bp matches 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 413 bp is less than what is inferred from the spread's macroeconomic drivers and the high-yield EDF metric, and the 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 rise by 0.1% annually for IG and may advance by 15.7% 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 1.125%. 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 20, 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 Faraz Syed and the Asia-Pacific Staff of Moody's Analytics
April 20, 2017

Consumer prices in both China and India remain steady thanks to low food prices, but rising energy prices will provide an offset for the remainder of 2017. China's consumer prices ticked up slightly to 0.9% y/y growth in March, while India's inflation remained steady at 3.9%. Meanwhile, producer prices in China accelerated to 7.6% y/y on the back of a resurgence in global commodity prices. India's wholesale prices are also expected to rise 6.8% in March.

Low food prices, which account for around 30% of the CPI basket, have caused headline inflation to remain relatively muted over the past few months. In China, food prices fell for the second consecutive month, down 4.4% y/y in March. Vegetable prices led the decline by dropping 7.9% over the month in March. The sharp drop in food prices over the month is largely due to the Lunar New Year festivities in February. Overall, core inflation in China, which excludes food and energy prices, lifted 2%, up from 1.8% in the prior month.

The upward trend in core inflation suggests that China is in the midst of a cyclical lift. Economic prospects have improved in 2017, compared with early 2016 where financial market volatility clouded the outlook.

Similarly, low food prices in India are keeping inflation below the central bank's 4% target. Food prices are arguably the most important price item in India because they make up around half of the CPI basket. And food prices tend to be dictated by the monsoon season, which runs between June and September. After two poor monsoon seasons in 2014 and 2015, India was lucky with strong rains replenishing crops and food supply in 2016. This has kept inflation under the lid; food prices have grown at an average of around 5% over the past year.

India's inflation depends on the upcoming monsoon rains. Though official forecasts for the monsoon season will be released soon, various private weather forecasters suggest that there could be a rainfall deficit in 2017. This poses a downside risk to India's outlook, because it will lower rural production and raise food prices.

Rising commodity prices are putting upward pressure on producer prices in China. Prices of hard commodities, particularly iron ore and coal, have risen through 2016 after they fell precipitously in the prior year. Overall, prices in the mining sector increased more than 33%.

Moreover, the input side of producer prices rose 10%, up from 9.9% in the prior month. This means that the cost of inputs is rising faster than the price that producers are able to sell their goods. This will likely dent profit margins over the coming months. We expect producer prices will remain stable as commodity prices have likely peaked, for now.

Similarly, India, one of the top three importers of oil has seen energy costs rise in early 2017. In the low-tech rural sector, machinery relies heavily on diesel, so rising fuel costs can hamper overall economic activity.

Overall, consumer prices in China are expected to rise 1.9% in 2017. Prices across India will likely firm to 4.5% in 2017, which is around the central bank's 4% target.

Ratings Round-Up

By Njundu Sanneh

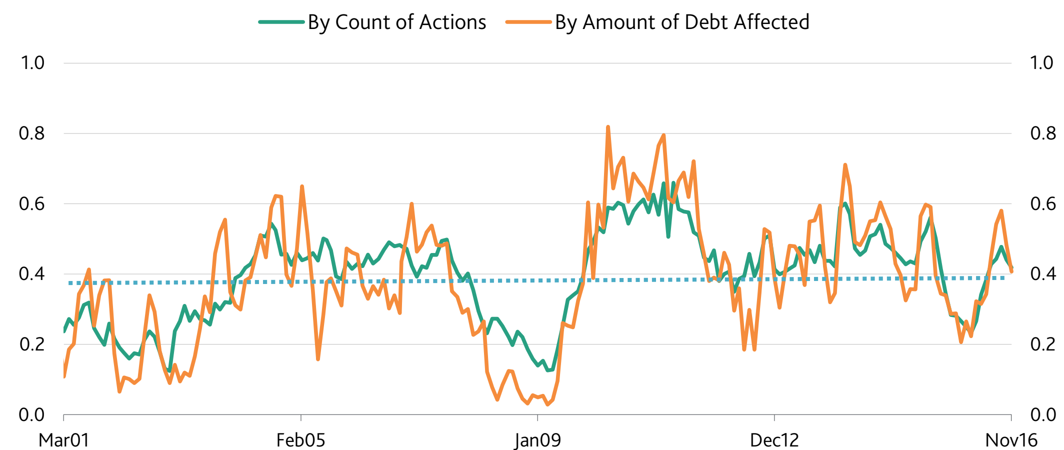
Upgrades Rebound

Rating changes over the past week were dominated by positives in both the US and Europe. Upgrades rebounded to 64% for the US and 86% for Europe following drops the previous week to 47% and 50%, respectively. Even the downgrade of several retail entities was not enough to dampen the strong showing. Three of the five downgraded companies in the US are from the retail sector, with the energy and pharmaceutical sectors contributing one each. The Fresh Market, Inc., Men's Wearhouse (a unit of Tailored Brands), and Rue21, Inc. were the retail companies that were downgraded in the past week.

In Europe financial companies accounted for five of the seven companies on the rating change list. Germany accounted for three of those five. German bank efforts to improve financial and credit fundamentals by increasing capitalization and asset quality, as with Bayerische Landesbank, are bearing fruit.

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

Ratings Round-Up

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	Old LGD	New LGD	IG/SG
4/12/17	BMC STOCK HOLDINGS, INC.	Industrial	SrSec/LTCFR/PDR/SGL	350	U	B3	B2	SGL-3	SGL-2			SG
4/12/17	CAESARS GROWTH PARTNERS, LLC - Caesars Growth Properties Holdings, LLC	Industrial	SrSec/LTCFR/PDR/BCF	675	U	Caa2	Caa1					SG
4/12/17	NASDAQ, INC.	Financial	SrUnsec/LTIR	3,245	U	Baa3	Baa2					IG
4/12/17	RADIO SYSTEMS CORPORATION	Industrial	LTCFR/PDR		U	B2	B1					SG
4/12/17	RUE21, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR/LGD	500	D	Caa2	C			LGD-5	LGD-6	SG
4/13/17	ACE CASH EXPRESS, INC.	Financial	SrSec/LTCFR	332	U	Ca	Caa3					SG
4/13/17	IMPAX LABORATORIES, INC.	Industrial	LTCFR/PDR		D	B1	B2					SG
4/13/17	PHI, INC.	Industrial	SrUnsec/LTCFR/PDR/SGL	500	D	B2	B3	SGL-1	SGL-2			SG
4/13/17	TAILORED BRANDS, INC. - Men's Wearhouse, Inc. (The)	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	575	D	B2	B3					SG
4/14/17	FRESH MARKET, INC. (THE)	Industrial	SrSec/LTCFR/PDR/BCF	800	D	B2	B3					SG
4/17/17	BOOZ ALLEN HAMILTON INC.	Industrial	SrSec/BCF		U	Ba2	Ba1					SG
4/18/17	CMS ENERGY CORPORATION	Utility	SrUnsec/SrSec/PS/BCF	7,448	U	Baa2	Baa1	P-2	P-1			SG
4/18/17	TTM TECHNOLOGIES, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	Ba2	Ba1	SGL-2	SGL-1			SG
4/18/17	VEREIT, INC.	Financial	SrUnsec/PS	2,250	U	Ba1	Baa3					SG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

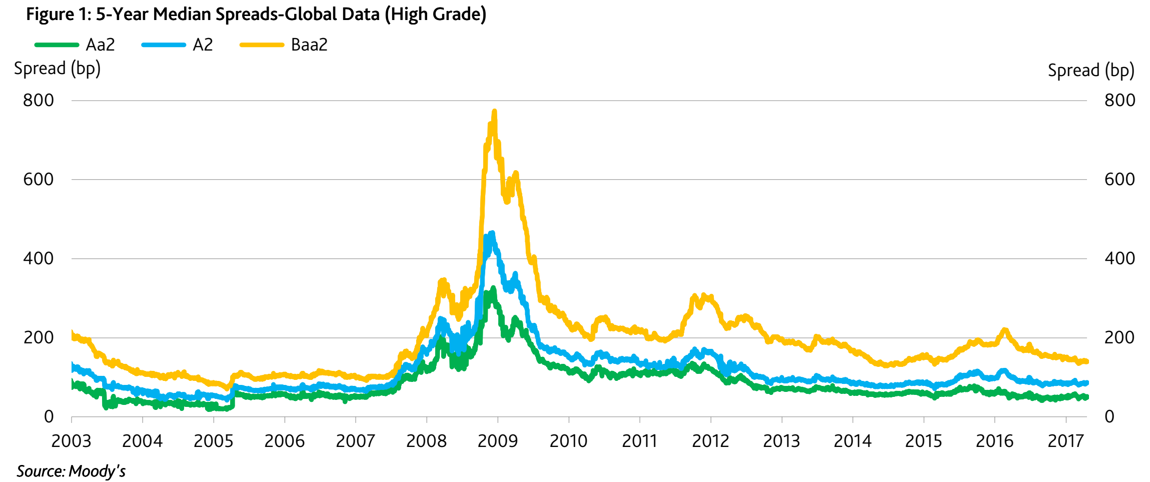
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
4/14/17	TRANSPORTATION INVESTMENTS HOLDING LIMITED - Globaltrans Investment PLC	Industrial	LTCFR/PDR		U	Ba3	Ba2	SG	CYPRUS
4/13/17	BAYERISCHE LANDESBANK	Financial	SrUnsec/LTIR/LTD/Sub/JrSub/MTN	52,242	U	A2	A1	IG	GERMANY
4/18/17	BAYERISCHE LANDESBANK - Deutsche Kreditbank AG	Financial	SrUnsec/LTD	531	U	A3	A2	IG	GERMANY
4/18/17	NORDDEUTSCHE LANDESBANK GZ	Financial	SrSrUnsec/SrUnsec/LTD/Sub/MTN/PS	33,416	D	A3	Baa1	IG	GERMANY
4/18/17	SC CITADELE BANKA	Financial	LTD	936	U	B1	Ba2	SG	LATVIA
4/13/17	POLSKI KONCERN NAFTOWY ORLEN S.A.	Industrial	SrUnsec/LTI		U	Baa3	Baa2	IG	POLAND
4/12/17	METKOMBANK	Financial	LTD		U	B3	B2	SG	RUSSIA

Source: Moody's

Market Data

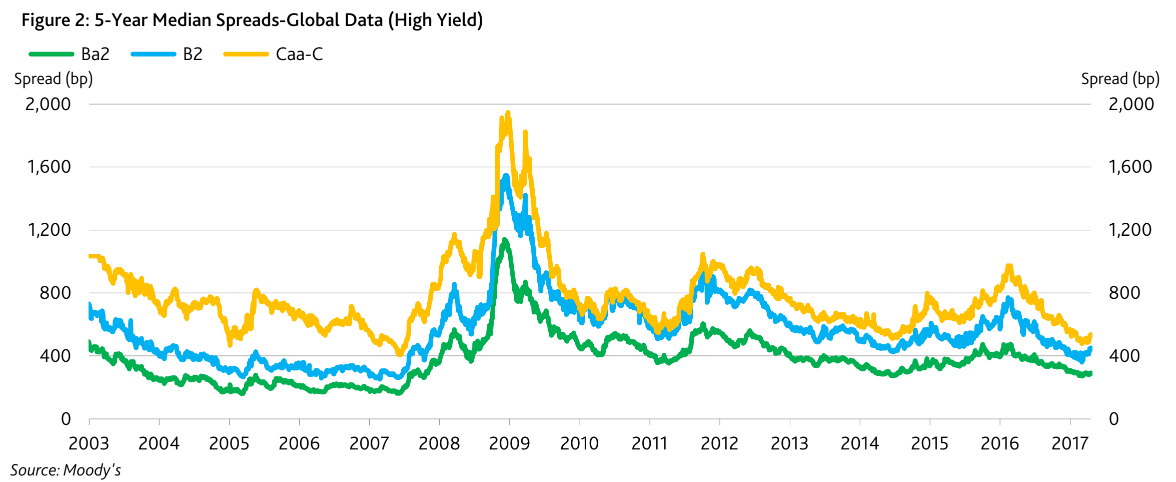
Spreads

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 12, 2017 – April 19, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 19	Apr. 12	Senior Ratings
John Deere Capital Corporation	A3	Baa1	A2
Bank of New York Mellon Corporation (The)	A2	A3	A1
HSBC Finance Corporation	Aa3	A1	Baa1
Procter & Gamble Company (The)	Aa2	Aa3	Aa3
Citibank, N.A.	Baa1	Baa2	A1
MetLife, Inc.	Baa2	Baa3	A3
Nissan Motor Acceptance Corporation	Baa1	Baa2	A2
Anthem, Inc.	A2	A3	Baa2
Thomson Reuters Corporation	Baa2	Baa3	Baa2
Becton, Dickinson and Company	A2	A3	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 19	Apr. 12	Senior Ratings
Comcast Corporation	A3	A2	A3
Kinder Morgan Energy Partners, L.P.	Baa3	Baa2	Baa3
Calpine Corporation	B3	B2	B2
Halliburton Company	Baa1	A3	Baa1
NRG Energy, Inc.	B3	B2	B1
ONEOK Partners, L.P.	Ba1	Baa3	Baa2
Cigna Corporation	A2	A1	Baa1
Cardinal Health, Inc.	A1	Aa3	Baa2
Talen Energy Supply, LLC	Caa3	Caa2	B1
HealthSouth Corporation	B3	B2	B1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 19	Apr. 12	Spread Diff
Talen Energy Supply, LLC	B1	888	808	80
Neiman Marcus Group LTD LLC	Caa3	1,451	1,375	76
Nine West Holdings, Inc.	Ca	5,098	5,025	72
Chesapeake Energy Corporation	Caa3	607	557	51
Unisys Corporation	B2	560	513	47
HealthSouth Corporation	B1	347	308	39
Tenet Healthcare Corporation	Caa1	571	533	38
United States Steel Corporation	Caa1	483	451	31
MBIA Insurance Corporation	Caa2	726	699	27
Calpine Corporation	B2	329	303	26

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 19	Apr. 12	Spread Diff
Sears Holdings Corp.	Caa3	3,319	3,487	-168
Sears Roebuck Acceptance Corp.	Caa3	3,447	3,492	-46
Avis Budget Car Rental, LLC	B1	481	505	-24
Hertz Corporation (The)	B2	830	851	-21
McClatchy Company (The)	Caa2	717	732	-15
Sprint Communications, Inc.	B1	290	304	-14
CenturyLink, Inc.	Ba3	281	294	-13
American Financial Group, Inc.	Baa1	309	321	-13
Mattel, Inc.	Baa2	139	150	-12
MGM Resorts International	B1	160	171	-11

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (April 12, 2017 – April 19, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 19	Apr. 12	Senior Ratings
Germany, Government of	Aa1	Aa2	Aaa
Rabobank	A3	Baa1	Aa2
Netherlands, Government of	Aa2	Aa3	Aaa
The Royal Bank of Scotland Group plc	Ba2	Ba3	Ba1
Credit Agricole S.A.	Baa2	Baa3	A1
Abbey National Treasury Services plc	Baa1	Baa2	Aa3
Banco Bilbao Vizcaya Argentaria, S.A.	Baa3	Ba1	Baa1
Barclays Plc	Baa3	Ba1	Baa2
ING Bank N.V.	A3	Baa1	A1
Landesbank Hessen-Thueringen GZ	Baa1	Baa2	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 19	Apr. 12	Senior Ratings
Atlantia S.p.A.	Baa3	Baa2	Baa2
Wm Morrison Supermarkets plc	A3	A2	Baa3
Old Mutual Plc	A3	A2	Baa3
Care UK Health & Social Care PLC	Caa2	Caa1	Caa1
Italy, Government of	Ba3	Ba3	Baa2
France, Government of	A3	A3	Aa2
United Kingdom, Government of	Aa3	Aa3	Aa1
Spain, Government of	Baa2	Baa2	Baa2
Barclays Bank PLC	Baa2	Baa2	A1
Belgium, Government of	Aa3	Aa3	Aa3

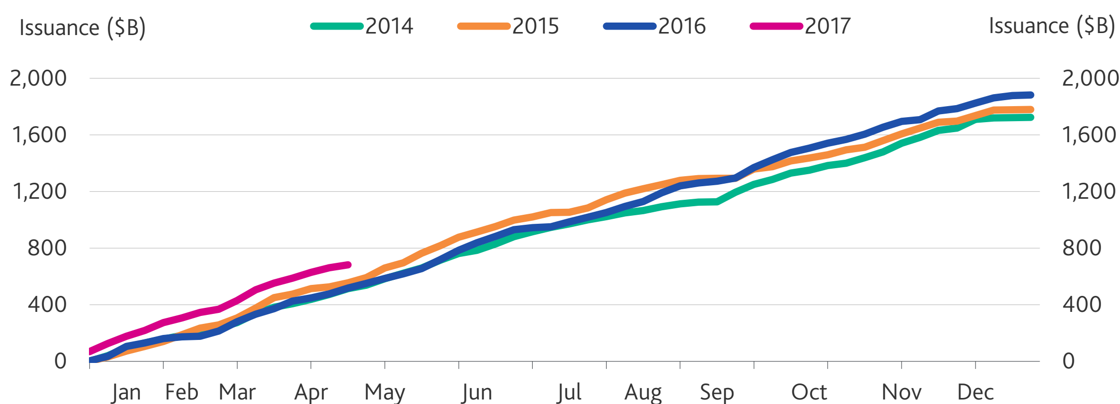
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 19	Apr. 12	Spread Diff
Norske Skogindustrier ASA	Caa3	5,926	5,494	432
Matalan Finance plc	Caa2	1,596	1,530	66
Novo Banco, S.A.	Caa2	1,028	1,010	18
ArcelorMittal	Ba1	242	225	17
Caixa Geral de Depositos, S.A.	B1	308	299	9
Anglo American plc	Ba2	191	183	9
Atlantia S.p.A.	Baa2	87	80	7
thyssenkrupp AG	Ba2	149	142	7
Jaguar Land Rover Automotive Plc	Ba1	222	215	7
Dexia Credit Local	Baa3	166	160	6

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 19	Apr. 12	Spread Diff
Lock Lower Holdings AS	Caa1	157	174	-17
Evraz Group S.A.	B1	310	323	-12
Eksportfinans ASA	Baa3	496	504	-8
Vedanta Resources plc	B3	434	441	-7
Portugal, Government of	Ba1	246	252	-6
Greece, Government of	Caa3	794	800	-6
Abbey National Treasury Services plc	Aa3	70	74	-5
Santander UK PLC	A3	76	81	-5
DNB Bank ASA	Aa2	52	57	-5
Alliance & Leicester plc	A3	57	62	-5

Source: Moody's, CMA

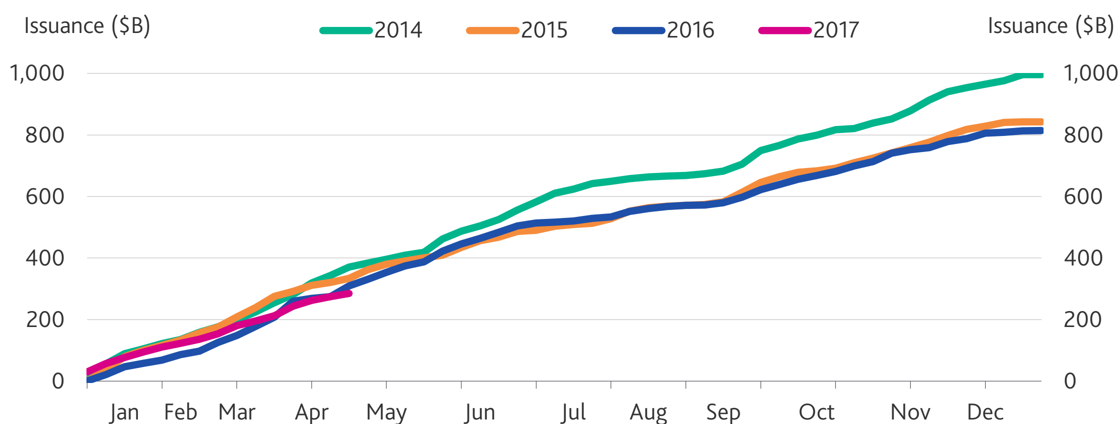
Issuance

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	15.501	4.300	21.097
Year-to-Date	483.972	143.655	681.288

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	8.290	2.032	10.704
Year-to-Date	242.355	32.349	284.883

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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