MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Inflation's Bad Breadth May Help Contain Interest Rates

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Credit Markets Review and Outlook

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

Inflation's Bad Breadth May Help Contain Interest Rates

Not too long ago, the high-yield bond spread swelled and the projected default rate soared. However, that intensification of credit stress would be quickly reversed mostly because debt repayment problems were largely confined to the oil and gas industry. In other words, the late 2015 and early 2016 worsening of corporate credit conditions lacked enough breadth to endanger both financial stability and the business cycle upturn.

Some still hold that inflation will come roaring back. For now, however, price inflation has been confined to housing, medical care, share prices, and industrial commodities (including energy). However, industrial commodity prices have softened of late. For example, Moody's industrial metals price index was recently -7.2% under its latest 52-week high of November 28, 2016 and was down by a deep -31.1% from its record high of April 2011. Moreover, the price of WTI crude oil was recently off by -12.2% from its latest 52-week high of February 23, 2017.

Another Plunge by Base Metals Prices Would Swell Default Risk

The average expected default frequency (EDF) metric of US/Canadian non-investment-grade companies shows a meaningful inverse correlation of -0.61 with Moody's industrial metals price index. Thus, another dive by the base metals price index would send both the high-yield EDF metric and the high-yield spread well above their recent readings of 3.6% and 381 bp, respectively.

When the industrial metals price index peaked during 2002-2007's recovery in May 2007, an extraordinarily low high-yield EDF metric of 1.6% was joined by an ultra-thin high-yield bond spread of 274 bp. At the base metals price index's Great Recession bottom of December 2008, the high-yield EDF metric soared to 11.1%, while the high-yield bond spread ballooned to 1,932 bp. When the base metals price index set its record high in April 2011, the high-yield EDF had sunk to a well below-average 2.0% and the high-yield spread had narrowed to 442 bp. To complete the symmetry, the industrial metals price index's most recent trough of January 2016 was joined by well above-trend readings of 7.7% for the high-yield EDF and 776 bp for the high-yield spread.

Inflation Is Less Responsive to a Lower Unemployment Rate

Today, some cite the recent climb by broad measures of price inflation as signaling the approach of significantly higher interest rates. With real GDP growth expected to sputter along in a range of 2% to 2.5% annually through 2018 how else can you explain expectations of a climb by the 10-year Treasury yield from its recent 2.35% to 3.3% by 2018's final quarter?

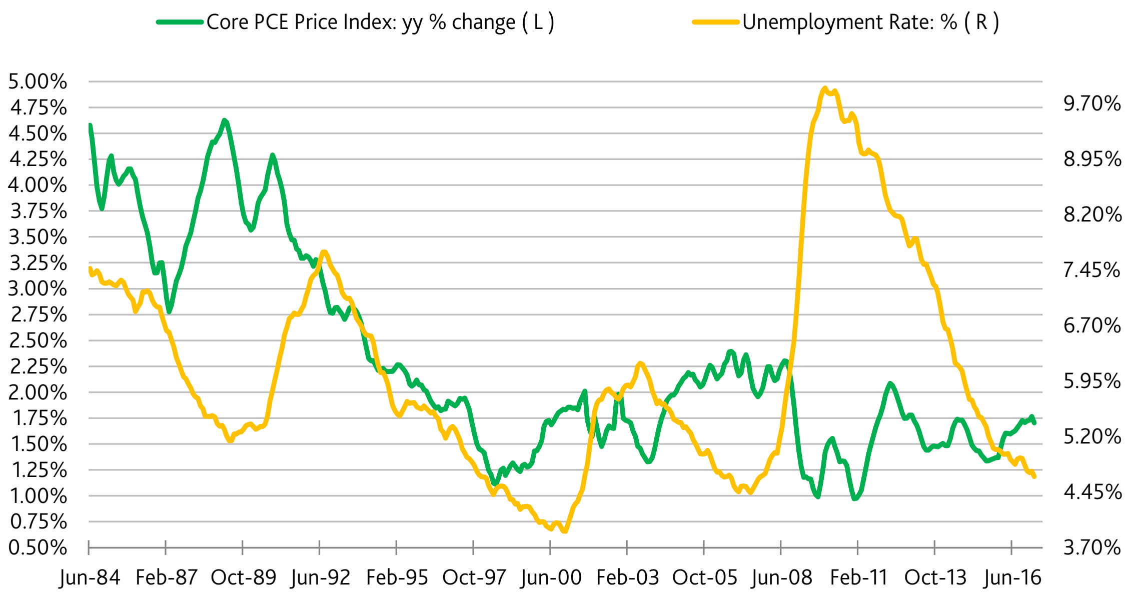
Often, reference is made to a tighter labor market for the purpose of invoking a sense of danger regarding a possible imminent return of runaway price inflation. According to one highly-respected economics group, " the U.S. economy has now reached full employment and is likely to overshoot meaningfully, a path that has often proven risky".

Nevertheless, large numbers of labor force dropouts suggest that the unemployment rate may be overstating labor market tightness. Nevertheless, large numbers of labor force dropouts suggest that the unemployment rate may be overstating labor market tightness. For example, though the unemployment rate plunged by -3.6 percentage points from Q1-2012's 8.3% to Q1-2017's 4.7%, the ratio of payrolls to the working-age population rose by a smaller +2.2 points from Q1-2012's 55.1% to Q1-2017's 57.3%. Coincidentally, despite how 2005-2007 showed a much higher 59.5% ratio of payrolls to the working-age population, by no means did any overheating by the labor market prove risky.

Put simply, the Phillips Curve is not what it used to be. A lower unemployment rate now supplies less of a lift to price inflation compared to the past. In fact, sometimes consumer price inflation slows notwithstanding a substantially lower jobless rate.

Despite the plunge by the US unemployment rate from Q1-2012's 8.3% to Q1-2017's 4.7%, the accompanying annual rate of PCE price index inflation slowed from 2.5% to 2.0%. Moreover, even after excluding food and energy prices, core PCE price index inflation also decelerated from Q1-2012's 2.1% to the 1.7% of Q1-2017.

Figure 1: Muted Response by Core PCE Price Index Inflation to Deep Drop by Unemployment Rate Implies 4.5% Unemployment Rate Now Overstates Job Market Tightening: ***moving 3-month averages***



Autos May Deepen Consumer Durables Price Deflation

The PCE price index is the Fed's favorite inflation metric. For March 2017, the PCE price index fell by -0.2% monthly, which lowered its annual rate of growth from February 2017's 2.1% to March's 1.8%.

March's core PCE price index, which excludes volatile food and energy prices, fell by -0.1% monthly. The latter was its first such setback since September 2001, or when it plunged by -0.5%. September 2001's monthly plunge by the core PCE price index was largely the offshoot of a -0.9% monthly plummet by the PCE price index for consumer durables, which may have included the deep price discounting of autos. Similarly, March 2017's drop by the core PCE price index owed something to an accompanying -0.6% monthly dive by the PCE price index for consumer durables, which was its deepest setback since the -0.7% of June 2016.

However, June 2016's core PCE price index still managed to grow by 0.1% monthly. The fact that March 2017's core PCE price index fell by -0.1% monthly hints of a broader softening of the fundamentals governing consumer price inflation. Put simply, financially stressed and aging middle-class Americans may simply lack the wherewithal to sustain core inflation at a rate faster than 2% annually.

The inability of sales incentives, or price discounting, to prevent first-quarter 2017's yearly drop in unit auto sales strongly hints of a softening by the underlying demand for motor vehicles. Perhaps US auto sales have relied too heavily on sales to consumers whose ability to service auto loans or leases was suspect from the start.

In view of the first quarter's sometimes harsh winter weather, the more mild second quarter may offer valuable insight as to whether discretionary consumer spending has peaked for the cycle. Because April's auto sales disappointed despite relatively clement weather, discretionary consumer spending may be past its cycle prime. If true, the 10-year US Treasury bond yield may not climb much higher than 2.5% regardless of what the Fed does.

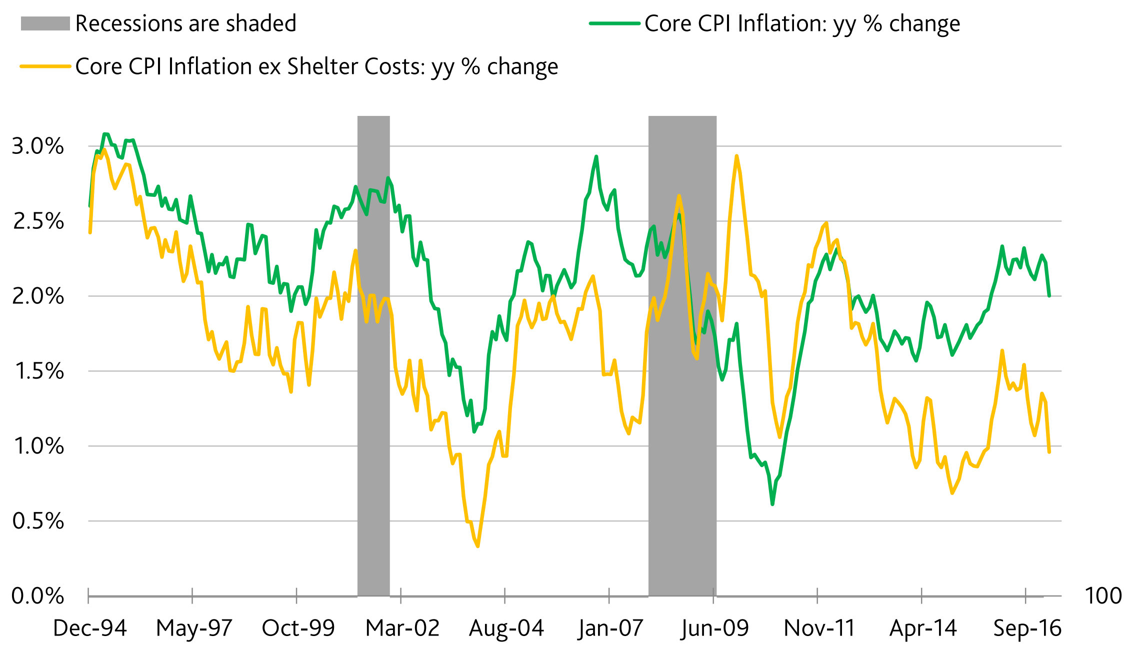
The failure of sales incentives to spur purchases of motor vehicles hints of a longer stay by consumer durable goods price deflation in the US. Low rates of manufacturing capacity utilization in the US and elsewhere help to explain the average -2.5% year-over-year drop by the US price index for consumer durable goods of the past six months.

Except for energy, the prices of globally traded goods should remain down from a year earlier, on average. Even if the US unemployment rate dips further, consumer price inflation's underlying pace may not accelerate by enough to drive short- and long-term interest rates substantially higher.

Core CPI Inflation Slows to 1% Excluding Shelter Costs

Excluding food and energy products, the US core consumer price inflation has been skewed higher by shelter costs. For example, March's 2.0% annual rate of core CPI inflation slowed to 1.0% after excluding a 3.5% annual jump by shelter costs that supply 42% of core CPI. And recent indications are that renters' rent inflation may soon slow owing to an abundance of new housing units coming on line in some of the US' largest metropolitan regions.

Figure 2: Inflation Lacks Breadth ... March's Annual Rate of Core CPI Inflation Sinks from 2.0% to 1.0% Excluding Shelter Costs



Though consumer price inflation is well contained, Fed policymakers cannot help but notice the potential threat to financial stability emanating from ongoing equity price inflation. As long as US equities become more richly priced relative to both current and prospective earnings, the Fed has more than enough reason to hike rates. A further swelling of the US equity bubble will increase Fed rate-hike risks.

The Week Ahead – US, Europe, Asia-Pacific

THE US

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

Summary, May 8: The strength of the labor market will cause the debate to heat up over whether the Fed is behind the curve. Based on policy rules, including the Taylor rule, it would appear the central bank is behind the curve. There are two important considerations. First, as with any Taylor rule, this one is sensitive to assumptions about the real long-run equilibrium fed funds rate and NAIRU. Estimates of the long-run equilibrium rate could be lower than the Fed anticipates. Another consideration is how the Fed views its inflation objective as a ceiling or a target. If the former, then monetary policy is clearly too loose.

However, the appropriate approach would be for the Fed to view its 2% inflation objective as an average target; in other words, inflation will sometimes be above it and sometimes below, with the goal of inflation averaging 2% in the medium term. Therefore, inflation will need to overshoot 2% over the next few years to make up for past misses.

The Fed will naturally turn more hawkish, as it is concerned the economy is going to blow past full employment. Incoming data on consumer prices will likely show that inflation isn't breaking out. We look for both the headline and core CPI to have risen 0.2% in April. Therefore, the Fed should stick with its current plan to raise rates two more times this year rather than trying to squeeze in another rate hike. Odds are rising that the Fed begins to normalize its balance sheet in December, which would be a further tightening in monetary policy. Given the difficulty in generating inflation over the past several years, the use of discretion is appropriate and we don't see any evidence that inflation is going to suddenly take off.

Elsewhere, retail sales likely rose 0.5% in April. This won't eliminate all our concerns about the consumer. Stronger wage growth is needed to help support spending going forward. Rising equity and house prices will help, but wages are the key.

FRIDAY, MAY 5

Employment Situation (April; 8:30 a.m. EDT)

Forecast: 180,000 (nonfarm employment) Forecast: 4.6% (unemployment rate)
Our preliminary forecast is for nonfarm employment to have risen by 180,000 between March and April. This would be better than the 98,000 added in March but near the 178,000 average monthly gain in the first quarter. We expect the unemployment rate rose from 4.5% in March to 4.6% in April. Average hourly earnings for all private workers likely rose 0.3% while the workweek was unchanged.

Some of April's strength is payback for weather that hurt job growth in March. Though the number of people unable to work because of weather wasn't significantly higher than recent March's, the regional data show the East Coast snowstorm likely disrupted hiring. Nonfarm employment fell around 38,000 in the Northeast in March, well shy of that over the past several months and the largest drop since May 2016. Within the Northeast, there were noticeable employment declines in Pennsylvania, New York and New Jersey, which were among the states impacted by the snowstorm during the payroll reference week. Employment in the Midwest dropped nearly 21,000 in March, which may also be weather-related. Elsewhere, job growth in the South moderated, with particularly weak gains in Texas and Florida. Nonfarm employment posted a slightly below-trend gain in the West.

Initial claims point toward stronger job growth. The four-week average in initial claims dropped around 4,000 between the March and April payroll reference week. However, claims are less reliable this April because of the timing of Easter and spring breaks, which can throw off the seasonal adjustment process. Easter is a wild card for employment. In those years in which Easter began or ended April's payroll reference week, the first prints underperformed consensus expectations.

Turning to the household survey, we expect some weakness. Household employment rose by an average of 296,000 per month last quarter, compared with 62,000 in the fourth quarter of 2016 and noticeably stronger than the payroll employment estimate. These estimates differ because the survey definitions of employment differ along with the sample size. For example, household employment is based on a small sample of 60,000 households while payroll employment includes 400,000 establishments. Therefore, it isn't surprising that they can send mixed messages. But the household survey can be adjusted to make an apples-to-apples comparison with the payroll estimate.

Given the small household survey sample, this measure is also more volatile than the payroll estimate. Using the 36-month rolling standard deviation of changes in employment to the adjusted household survey shows it to be more volatile now than in the late stages of the last expansion. All told, we believe the recent strength in adjusted household employment is more statistical noise than a sign that trend job growth is even stronger than it appears. We expect household employment to have moderated in April along with growth in the labor force. This will nudge the unemployment rate up to 4.6%.

MONDAY, MAY 8

Business confidence (week ending May 6; 10:00 a.m. EDT)

Forecast: N/A
Global business sentiment is rock solid. Confidence has been strong and remarkably stable since before last year's U.S. presidential election. This is consistent with buoyant global financial markets that have also exhibited extraordinarily low volatility in recent months. Businesses' biggest complaint is around regulatory and legal issues, with close to half of respondents saying it is their greatest worry—a record. One-fifth of respondents say the cost and availability of labor is their most serious problem.

The four-week moving average in our business confidence index rose from 33.3 to 34.5 in the week ended April 28.

TUESDAY, MAY 9

NFIB small business index (April; 6:00 a.m. EDT)

Forecast: 105.5
U.S. small-business optimism dipped in March but remained near its highest point in the past 43 years. The NFIB small business index fell from 105.3 in February to 104.7 in March, the second consecutive monthly decline. Expectations about the economy slipped in March, but this reversed little of the substantial increase since the November presidential election. Already-released data by the NFIB suggest the employment details were solid. Fifty-five percent of owners reported hiring or trying to hire in April, up 4 points. Forty-eight percent reported few or no qualified applicants for the positions they were trying to fill. The headline index also has a tendency to rise in April, therefore we look for it to have increased from 104.7 to 105.5.

WEDNESDAY, MAY 10

Import prices (April; 8:35 a.m. EDT)

Forecast: 0.2% (total)
Forecast: 0.2% (nonfuel)
We look for import prices to have risen 0.2% in March after falling 0.2% in January and rising 0.4% in February. The forecast assumes a modest gain in imported petroleum prices but that won't be sufficient to contribute anything to the overall gain in import prices. Rather, the bulk will come from nonfuel import prices, which are forecast to have risen a trend-like 0.2%. Rising Chinese producer prices should put additional upward pressure on nonfuel import prices. The U.S. dollar is important but doesn't appear to be a significant weight on nonfuel import prices.

THURSDAY, MAY 11

Jobless claims (week ending May 6; 8:30 a.m. EDT)

Forecast: 245,000

Initial claims are forecast to have risen from 238,000 to 245,000 in the week ended May 6. This would reverse only some of the prior week's 19,000 decline. Assuming no revisions to the prior week, the four-week moving average will increase from 243,000 to 246,000 in the week ended May 6. The trend in initial claims is solid. Elsewhere, continuing claims will likely remain below 2 million for the fourth consecutive week. Continuing claims fell 23,000 to 1.96 million in the week ended April 22.

FRIDAY, MAY 12

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

Forecast: 0.2% (total)
Forecast: 0.2% (core)

The CPI took a step back in March, but we believe the case for stronger inflation through the remainder of this year remains strong. The CPI fell 0.2% in March following a 0.1% gain in February. We expect the CPI to have bounced back some in April, rising 0.2%. Energy is expected to be neutral for the growth in the CPI. Excluding food and energy, we forecast the CPI to rise 0.25% in April after it fell 0.1% in March. Our forecast rounds to 0.2% but there is the potential for an increase in the cigarette tax in California to have a bigger impact on the core CPI than we are currently penciling in. California raised the cigarette tax in April by $2. In the past, large increases in the cigarette tax nationally have had some effect on the core CPI. We don't expect California's to have as big of an effect but it's a risk. We will revisit our CPI forecast after import and producer prices next week.

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

Forecast: 0.5% (total)
Forecast: 0.4% (nonauto)

We look for retail sales to have risen 0.5% in April, but our confidence in this forecast is low. There is the potential for seasonal adjustment issues as Easter shifted from March last year to April this year. Also, the relationship between gasoline prices and retail sales at gasoline stations is loose in April. The forecast assumes that gasoline stations added 0.1 percentage point to retail sales growth in April. Building material stores should also chip in, adding 0.1 percentage point. Unit vehicle sales were up 1.5% in April, which should provide a boost to retail sales. We expect autos to add 0.1 percentage point to retail sales growth. Nonauto retail sales likely rose 0.4% in April. Our high-frequency GDP model has real spending tracking 3.4% at an annual rate this quarter, but April retail sales will be a key input in assessing how consumption is doing early this quarter.

Michigan survey (May-preliminary; 10:00 a.m. EDT)

Forecast: 97.3

We look for the University of Michigan's consumer confidence to have risen from 97 in April to 97.3 in May, according to the preliminary survey. Fundamentals were generally supportive for sentiment in early May, including stock prices. We believe gasoline prices should also help nudge sentiment higher along with the health of the labor market. High-frequency measures of consumer sentiment suggest any improvement should be modest. Long-term inflation expectations warrant close watch, as they remain extremely low.

EUROPE

By the Dismal (Europe) staff in London and Prague

Summary, May 5: This weekend will bring closure to France's election campaign. Both Moody's Analytics and markets are expecting that Emmanuel Macron will win Sunday's ballot and become the next French president, as predicted by polls, but abstentions represent a strong downside risk to our forecast. While all of Marine Le Pen's voters are extremely likely to turn up on Sunday, the fact that Monday is a bank holiday in France could lead disillusioned voters from the country's two major parties—none of whom made it to the final round—to decide to take the long weekend off instead of to cast protest, or tactical, votes against Le Pen. This is worrying because we think that, in economic terms, a Le Pen victory would be extremely detrimental for France. During the head-to-head television debate between Le Pen and Macron, the National Front's candidate confirmed our fears of how unprepared she is on basic economic topics such as labor market and the currency reforms, especially when she announced that she planned to implement a rather unreal dual-currency system that would consist of the euro being used by banks and large firms, while the franc would be used in the domestic economy and in exports. Were Le Pen to win on Sunday, euro zone equities would likely crash, as would the bond markets and the euro. By contrast, were Macron to win, markets would remain relatively steady, as we think that his victory has already been priced in.

On the data front, the coming week will bring the first estimate of the Germany's first quarter GDP, which is more likely than not to surprise on the upside given the upbeat prospects for both manufacturing and construction investment at the start of the year. We are expecting the country's GDP to jump by 0.6% in the three months to March, up from 0.4% previously, boosted mainly by an acceleration in industrial production: Assuming that y/y factory growth remained relatively steady in March, which requires a small monthly decrease, factory output would have still increased by around 2% in the first quarter, compared with a modest 0.1% fall in the December quarter. Note that construction numbers are included in the industrial production headline, and the warmer-than-average weather should have provided a significant support to homebuilding and infrastructure work in February and March. The IFO sentiment index in the construction industry has accelerated strongly over the last few months, suggesting that the sector's growth is gathering incredible momentum, and that further upside is expected in the second quarter; April's index rose within a touching distance of all-time highs.

Monthly export and import figures are suggesting that net trade likely also made a positive contribution to growth in the first quarter, while fourth quarter figures should be revised higher as well. Rising demand from Germany's European partners, as well as from Asia, is expected to have underpinned a jump in exports, offsetting a weakening in demand from the U.K. Meanwhile, the main downside risks to our forecast come from consumer spending; disappointing retail sales figures indicate that sales likely remained flat in the first quarter, down from a 0.7% q/q rise in the fourth quarter. We are expecting that a jump in services spending provided some offset, but in case we are wrong, this could mean that final growth could come in at 0.5% q/q, instead of 0.6%.

Monday, May 8

No major economic releases are scheduled.

Tuesday, May 9

Germany: Foreign Trade (March; 8:00 a.m. BST)

Germany's trade surplus likely increased to €24 billion in March after rising to €21 billion in the previous month. The surplus was at €23 billion in March 2016. The monthly and annual increases were likely driven by a further strong recovery in exports due to the weak euro, which stood at $1.07 on average in March. Moreover, robust expansion in the U.S. and some recovery in Chinese growth have been supporting German exports. Still, foreign demand for German goods will likely be subdued because of the buildup of unfavorable external conditions. With rising geopolitical tensions in Europe and the U.S., upcoming difficult Brexit negotiations, weak recovery in the euro area, and a slowdown in emerging markets, external trade will likely contribute little to economic growth. Net exports weighed down on the economic expansions in 2016, subtracting 0.1 percentage point from GDP growth, and they will likely not contribute significantly to the expansion this year.

Germany: Industrial Production (March; 9:00 a.m. BST)

German industrial production likely fell in March, decreasing by 1% m/m from February, when it rose by 2.2%. However, in year-ago terms the rate of increase likely continued to be strong. Subdued demand will likely keep industrial production muted, although there has been some improvement. German manufacturing orders recovered somewhat in February, adding 3.4% m/m, after they plummeted unexpectedly in January. Meanwhile, Germany's Markit manufacturing PMI for March jumped to a 71-month high of 58.3, signaling stronger improvement in business conditions in coming months. Details of the report showed that new orders grew for the 27th consecutive month and at the fastest pace in almost six years. Demand increased from both domestic and foreign markets. Demand from outside the euro area should strengthen in the coming months, thanks to the weakness of the euro. However, the outlook remains uncertain as the expected protectionism of U.S. trade could curb the German manufacturing sector.

Italy: Retail Sales (March; 9:00 a.m. BST)

Retail sales remain weak because of elevated unemployment and tepid wage growth. Italy's jobless rate climbed to 11.7% in March from 11.5% in the previous month. Meanwhile, contractual wages rose 0.4% y/y in March. Labor productivity needs to shift into higher gear if wages and salaries are to rise. Although it has started to recover, labor productivity remains woefully low, undermining potential growth and hindering labor market improvements. Surging inflation may also unnerve households and erode their spending power, especially amid such soft wage growth. We predict that retail sales dropped by 0.1% m/m in March following a 0.3% decline in the previous month.

Wednesday, May 10

Italy: Industrial Production (March; 9:00 a.m. BST)

Italy's industrial production likely rose in March following a 1% increase in the previous month. Both high-frequency indicators suggest the recovery in manufacturing continues. The manufacturing Purchasing Managers' Index rose to 56.2 in April, the highest reading in more than six years, from 55.7 in March, while manufacturing confidence increased to 107.9, the highest since November 2007, from 107.2. The weaker euro, which increases the competitiveness of Italy's exporters, together with strengthening external demand, is benefiting the Italian economy and keeping businesses optimistic. Yet Britain's departure from the EU and a more protectionist trade stance by the U.S. administration pose real risks, since both countries are among the top four trading partners for Italy.

Thursday, May 11

U.K.: Industrial Production (March; 9:30 a.m. BST)

Industrial production in the U.K. likely retreated by 1% m/m in March, building on a sharp 0.7% drop in the previous month. In year-ago terms, production likely ticked down to 1.3%, its lowest since October, from 2.8% in February. We expect a mean-reversion in pharmaceuticals output to drive the headline over the month following a 4.4% plunge in February, but energy supply production should have nonetheless been a major drag, as March's unseasonably mild weather should have depressed demand for heating. The mining and quarrying industry likely didn't fare so well either, as oil producers reported falling output at the start of the month. Rising prices are expected to weigh on domestic demand and curb production of consumer goods in the medium term, offsetting the gains that the weaker pound should bring to the export-led manufacturing industry.

Friday, May 12

Germany: Preliminary GDP (Q1; 7:10 a.m. BST)

Germany's quarterly expansion rate likely accelerated somewhat at the start of this year. Real GDP is forecast to have increased by 0.5% q/q in the three months to March following 0.4% increase at the end of 2016. However, the annual expansion rate likely slowed to 1.5% from 1.8% in the previous quarter.

Private consumption likely continued to power output growth, thanks to the booming labour market. However, accelerating inflation, which reached 1.1% y/y on average in the first quarter, likely weighed on private spending's contribution to growth. Investment is expected to have continued to recover, while the continuously weak euro likely supported exports. Exports are expected to have contributed to the growth, following a drop in the previous quarter. The outlook for this year is clouded, as the tailwinds supporting growth over the last few years will subside and political uncertainty abroad and at home add to the risks. We forecast German GDP growth to slow to 1.6% this year.

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

Preliminary estimates by the federal statistics office show Germany's consumer prices rose by 2% y/y in April, not seasonally adjusted, accelerating from a 1.6% increase in the previous month, with this slight slowdown in March proving to be only temporary. Inflation of energy remained unchanged from the previous month at 5.1% y/y. Growth of food prices slowed further to 1.8% y/y from 2.3% previously. Meanwhile, the prices of services increased strongly, rising by 1.7% y/y following a 0.7% increase in March.

The pricing pressures come mainly from higher commodities prices, not from any significant rebound of demand. The relatively weak euro has also been supporting inflation pressures. Higher prices of commodities pushed input prices higher for German producers, with the rate of increase reaching the highest since May 2011, according to the German Markit Manufacturing PMI. We expect that seasonally adjusted inflation accelerated to 2.1% in April from 1.7% in the previous month.

ASIA-PACIFIC

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

Inflation is on the rise in China

China's cyclical upswing remains intact as evidenced by a rise in core consumer prices. It's no surprise that the uptick in global trade has coincided with an improved outlook for the Chinese economy. The buoyant housing market is part of the recent tailwind. House price growth, especially in the Tier 1 capital cities, has been on an upward trend. Sectors supporting the real estate market have also improved.

Producer prices will likely continue their upward trend. Though overcapacity continues to persist across various sectors, rebounding commodity prices suggest that the worst is behind. Prices of vegetables will likely ease further after a strong showing earlier in the year due to the Lunar New Year holidays.

The broad-based pickup in growth will cause the People's Bank of China to tighten its policy over the coming year. Our baseline is that the PBoC won't move until 2018; however, the government has sounded warnings over the recent housing upturn, which may cause the central bank to tighten earlier.

The uptick in China and in global conditions is also boosting the Hong Kong economy. Higher global tech demand is providing a tailwind for exporters, and sentiment has risen broadly. Gains in the housing market will support consumption, and wage growth has also begun recovering.

Elsewhere, prices in the Indian economy remain below the central bank's 4% target. Higher energy costs have been offset by low food inflation, which could fall further if the monsoon rains are normal. We expect the Reserve Bank of India will sit pat until we get further clarity on monsoon rains later in the year.

FRIDAY, MAY 5

Taiwan – Consumer Price Index – April

Time: 10:30 a.m. AEST (12:30 a.m. GMT)
Forecast: 0.4%
Taiwan's headline CPI likely strengthened to 0.4% y/y in April from 0.2% in March. Food prices are expected to drag on the headline figure, while transport costs will receive a boost from rising global energy prices. Domestic conditions are improving, although tepid wage growth and an ageing population will keep a lid on the gains. The central bank will likely keep rates on hold through the first half of 2017 to support the economy's recovery.

Malaysia – Foreign Trade – March

Time: 2:00 p.m. AEST (4:00 a.m. GMT)
Forecast: MYR6.5 billion
Malaysia's monthly trade surplus likely narrowed slightly in March following February's MYR8.7 billion surplus. The Lunar New Year drove the wider than expected surplus in February after shipments and production were delayed for the weeklong holiday in January. Exports are enjoying improved conditions thanks to the sustained uptick in the global tech cycle, for which Malaysian manufacturing is heavily invested. Higher global commodity prices, especially for oil, are an added lift to exporters.

MONDAY, MAY 8

Indonesia – GDP – 2017Q1

Time: Unknown
Forecast: 5%
Indonesia likely grew a respectable 5% y/y in the March quarter, a little stronger than the December stanza's 4.9%. Exports are stronger thanks to higher global prices, especially for crude oil, lifting receipts. Domestic demand is upbeat, helped by accommodative monetary policy. Consumers and businesses are generally upbeat with the low interest rate environment. The government sector is unlikely to contribute to March quarter GDP growth given its resounding commitment to keeping its external position healthier, which includes reducing its budget deficits and lifting foreign reserves.

China – Foreign Trade – April

Time: Unknown
Forecast: US$35 billion
China's trade has rebounded thanks to the global tech cycle and the domestic investment recovery. Slightly weaker manufacturer sentiment for April could point to a slight deceleration in exports, but continued demand for electronics from the U.S., Europe and other markets will bolster exports over the medium term. The housing recovery will also continue providing demand for commodity imports.

Japan – Consumer Confidence – April

Time: 3:00 p.m. AEST (5:00 a.m. GMT)
Forecast: 43.2
Consumer confidence likely dropped slightly to 43.2 in April, down from 43.9 in March. Geopolitical risks intensified in April, especially around the Korean peninsula. This caused the yen to rise and the stock market gains were mum. Moreover, consumers are unlikely to feel upbeat about their wage conditions despite a record low unemployment rate. Inflation expectations also likely dipped in April.

Taiwan – Foreign Trade – April

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Forecast: US$4.822 billion
Taiwan's monthly trade surplus is expected to widen to US$4.8 billion in April from US$3.9 billion in March. Exports are surging, driven by strong demand for electronic parts and components, especially semiconductors. Machinery exports are also expanding strongly after a number of difficult years, driven mostly by stronger global conditions. Government support for the sector is also helping the rebound. On the import front, higher global commodity prices are pushing up the value of material imports. But there will also be steady growth in electronic parts and machinery used to produce final products that are later shipped overseas.

TUESDAY, MAY 9

Australia – Retail Sales – March

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 0.1%
Australian consumers are expected to have ended the quarter on a subdued note, with retail sales ticking up 0.1% over March after a 0.1% decline previously. Increased retail competition is likely to keep a lid on clothing sales, while the housing market slowdown may limit household goods sales. Australian households have taken on a large amount of housing-related debt as low interest rates spurred demand for credit. Combined with weak wage growth due to high underemployment, household budgets are under pressure, and this is limiting spending. The March data will also include the volume of retail sales over the quarter, an important input to GDP figures.

WEDNESDAY, MAY 10

China – Monetary Aggregates – April

Time: Unknown
Forecast: 11%
Credit growth in China remains relatively strong thanks to household demand for mortgages. Government measures to rein in lending to Tier 1 cities will likely dampen credit growth in coming months. March data nonetheless also show an increase in nonbank lending, possibly indicating that firms are regaining confidence in business conditions.

Philippines – Industrial Production – March

Time: Unknown
Forecast: 11.4%
Philippine industrial production growth is expected to have accelerated to 11.4% y/y in March after growing 10.7% in February. Manufacturing strength has been fairly broad-based among the subsectors, with food production doing particularly well. We look for electronics output to continue to rally in the coming months because of improved external conditions. Even with this, the main driver of production growth will be booming domestic demand as rising incomes and infrastructure projects drive consumption and investment.

South Korea – Employment – April

Time: 9:00 a.m. AEST (Tuesday 11:00 p.m. GMT)
Forecast: 3.6% unemployed
Korea's unemployment rate likely dipped to 3.6% in April from 3.7% in March. Strong export demand for manufactured goods is supporting hiring, with employment growth likely to pick up to the fastest pace in more than a year. But the outlook still has some downside risks. The May 9 presidential election has caused some unease about future policy direction, and this has likely weighed on business decisions. Youth unemployment is a problem in Korea, and the unemployment rate for people aged 15 to 29 likely remained elevated in April.

China – Consumer Price Index – April

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 1%
Consumer price pressures are building in China, as seen in steadily growing core inflation. The buoyant housing market is boosting spending in related areas, but inflation is also rising across a range of sectors including clothing and transportation. Higher inflation could compel the People's Bank of China to tighten policy later in the year, although early 2018 remains our base forecast for a hike in deposit rates.

China – Producer Price Index – April

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 7.4%
Producer price inflation has climbed rapidly as rising commodity prices pushed up raw material costs. However, this effect is fading. Some of the increase reflects a recovery from prior declines. The housing market shows signs of reaching a top, especially in Tier 1 cities, as the government imposes more stringent requirements.

THURSDAY, MAY 11

New Zealand – Monetary Policy – May

Time: 7:00 a.m. AEST (Wednesday 9:00 p.m. GMT)
Forecast: 1.75%
The Reserve Bank of New Zealand will keep the official cash rate on hold at 1.75% at its May policy meeting. The central bank is in no hurry to normalize monetary settings from their accommodative stance, especially as it is trying to keep upward pressure off the exchange rate, which is considered too high to achieve balanced growth in the economy. We expect the central bank will keep the policy rate on hold at least through 2017, even though inflation is edging higher on the back of higher fuel costs and base effects and has returned to the central bank's 1%-to-3% target range for the first time in two years.

Malaysia – Industrial Production – March

Time: 2:00 p.m. AEST (4:00 a.m. GMT)
Forecast: 4.5%
Malaysian industrial production likely remained buoyant in March, growing 4.5% y/y after February's 4.7% expansion. Manufacturing is doing well thanks to strong global tech demand. Malaysia is highly exposed to the tech cycle given its large integrated circuit sector. Oil production has also improved from last year thanks to higher prices for crude oil. Palm oil production is also doing better as the dry and hot conditions associated with El Niño that hurt production in 2016 fade.

FRIDAY, MAY 12

Hong Kong – GDP – 2017Q1

Time: 6:30 p.m. AEST (8:30 a.m. GMT)
Forecast: 0.8%
Hong Kong's recovery continued in the first quarter. The housing market has driven sentiment higher and boosted spending, as has the rising stock market. Housing transaction volumes in the first quarter have been driven by expectations of more restrictions. Exports have picked up on the back of global tech and commodities to China. These factors are helping wage growth recover, albeit at a modest pace.

India – Consumer Price Index – April

Time: 10:00 p.m. AEST (12:00 p.m. GMT)
Forecast: 3.9%
Food prices in India are keeping inflation under control. CPI inflation likely remained below the central bank's 4% target. Rising commodity prices, particularly for retail fuel, will likely be offset by low

vegetable prices. Core inflation has been historically sticky in India, but it's shown signs of easing in recent months.

India – Industrial Production – March

Time: 10:20 p.m. AEST (12:20 p.m. GMT)
Forecast: 0.7%
India's production momentum remains weak, although it likely increased in March after a drop in February. The impact of demonetization is fading, although India's production momentum will remain weak into the second half of the year. Supply bottlenecks continue to crimp production, and industries remain reluctant to take on investment because of a hangover from excessive debt from the start of this decade.

The Long View

The US: April's US$-denominated corporate bond issuance sank from a year earlier by -33% for investment-grade and by -11% for high-yield.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
May 4, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 119 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 381 bp is less than what is inferred from the spread's macroeconomic drivers and the high-yield EDF metric, but is wider than what is implied by an ultra-low 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 1.1% annually for IG and may advance by 16.6% for high yield.

The Long View

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
May 4, 2017

Eurozone

The euro zone's economic recovery will continue in the three months to June. After solid quarterly growth of 0.5% in the first quarter, high-frequency indicators for April added to the upbeat picture, suggesting that growth entered the second quarter on a strong footing. The Markit PMI for manufacturing edged higher to 56.7 in April from 56.2 in the previous month, its highest reading in six years. Expansion was led by Germany, with the PMI at 58.2, followed by Austria and the Netherlands. Growth also accelerated in Italy, France, Spain and even Greece, though that country is mired in contractionary territory. Similarly, the European Commission's economic confidence index surged in April, climbing to its highest level in almost a decade. The upswing was broad-based across economic sectors and across countries. Cyclical labour market improvement combined with strengthening wage growth in some euro area countries will boost household spending, while the weak euro and a broad-based improvement in global demand will support euro area exports. Furthermore, political worries haven't harmed business and consumer confidence yet and the adverse impact of the U.K. exit from the EU hasn't materialized.

Fiscal policy in the euro area as a whole is predicted to be mildly stimulative and European Central Bank stimulus measures including record low interest rates and asset purchases will likely boost credit expansion. Although preliminary inflation data support earlier termination of asset purchases, we expect the ECB to change its guidance as a first step towards phasing out quantitative easing later this year. The outlook for wage growth is uncertain, inflation is not yet fully on track, and the banking sector remains fragile with high volumes of nonperforming loans. This is particularly true for Italy, but also for financial institutions in Greece, Portugal and Ireland.

Rising prices remain the main short-term risk to our forecast. Both headline and core inflation picked up in April, signaling slowly building demand-led inflation pressure. According to the PMI, input costs and selling prices increased, with inflation rising only a little more slowly than March's near six-year high. With a lot of slack in most of the major countries' labour markets, which curbs nominal wage growth, higher inflation will cut real wages, undermining household spending. In the longer term, the U.K. exit and the shift towards protectionism could undermine growth prospects in Europe. As long as protectionist policies ride a wave of popularity, global trade will likely remain subdued, and a U.K. hard exit from the EU together with China's economic rebalancing and U.S. protectionist measures could torpedo the liberalization effort which had supported the global economy before the crisis. This would hurt the export-oriented German economy mainly, but also the whole of Europe.

Despite these risks 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. economy's growth likely recovered somewhat in the second quarter following a disappointing start to the year. Accordingly, our high-frequency GDP model has begun tracking second quarter growth at 1.6% in annualized quarterly terms and 0.4% not annualized, an acceleration from the official 1.2% preliminary estimate for the first quarter. However, this result does not remove our fears that the U.K. economy is set for a rough ride in 2017. Still, the recovery in industrial survey data in April brings some optimism. The latest U.K. Markit/CIPS manufacturing PMI rose to a three-year high of 57.3 from the four-month low of 54.2 recorded in March. The improvement was driven to large extent by stronger demand, which increased at the fastest rate since January 2014. New exports orders also rose at a solid pace, thanks to improvements in global economic conditions and weak sterling. However, in our view, the industrial sector will fail to have the momentum required to offset weakness in the service sector, which will be led by consumers clamping down on their spending as a response to the decline in their real incomes.

U.K. consumer confidence fell to a four-month low in April due to rising inflation and worsening labour market. Job growth has slowed and the sharp depreciation in the British pound has increased consumer prices and dampened consumer spending. 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.

The forthcoming exit negotiations and anxiety about the U.K.'s future at home and abroad should keep sentiment about the general economic outlook for the next year in negative territory, with risks tilted to the downside depending on how negotiations go. The June elections should lift households' and markets' moods somewhat; the elections will likely be seen as a sign that a softer exit could be negotiated if Theresa May were to have a larger majority in government. But despite a little rebound around election time, overall confidence should remain subdued in 2017. Real GDP growth is expected to decelerate from 1.8% in 2016 to around 1.5% in 2017 and 1% 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
May 4, 2017

The Bank of Japan is unlikely to add further to its large arsenal of monetary stimuli. Asset purchases of ¥80 trillion per year, a negative interest rate on excess reserves, and yield curve control policies are unlikely to become more accommodative. Small improvements in domestic demand in early 2017 will only strengthen the case that the BoJ will keep its policy levers unchanged; its next move will likely be asset tapering in 2018.

The Long View

Japan's March data dump this week showed that the cyclical upturn remains intact, although price pressures and wage growth remain weak.

However, risks are downwardly skewed. Although the yen has depreciated compared with November 2016, recent geopolitical tensions caused the currency to rise again. Speculative positions on the yen, as indicated by net noncommercial futures, suggest an increase in buyers over the last month, after dropping sharply in November. An increase in buyers suggests that more speculators expect the yen to rise than fall. Overall, the yen's volatility adds to uncertainty, as Japan remains heavily reliant on export-driven growth.

Underlying inflation remains weak, but it's still better than last year. The rebound in global commodity prices is causing energy prices to rebound. And the yen's depreciation since November is also adding to increased cost pressures. This has helped lift the core CPI, which excludes fresh food, to 0.2% y/y in March.

Production data have been choppy in the first quarter, but it has gained compared with the previous year. Production has risen on a year-ago basis for five consecutive months, with a latest increase of 3.3% y/y in March. The global tech upswing has been the catalyst for higher manufacturing, as various tech firms revamp their products and launch new models. This is expected to persist through the first half of 2017.

That said, consumers are unlikely to feel the gains. Firms remain reluctant to increase wages, despite the jobless rate sitting at multidecade lows of 2.8% in March. And while retail spending rose 2.1% y/y in March, it's from a low base, with higher retail fuel prices the catalyst for increased spending. Similarly, nominal household expenditures increased 0.7% y/y in March, but a drop in real income and the average propensity to consume suggests that spending likely increased only because of higher energy costs.

Overall, our high-frequency tracking model points to a 0.9% q/q growth in the March quarter. Prior to this week's data dump, this was 0.8%. A high first quarter GDP in Japan is not surprising; issues around seasonality suggest that there is a statistical bias because the March quarter outperforms the rest.

The Bank of Japan has become increasingly optimistic about the economy. The central bank was comfortably on hold this week, but upwardly revised its growth projections. This has been a trend over the last six months. The BoJ is likely overly optimistic, but it does suggest that the central bank has no plans to add any monetary stimulus soon.

Most of BoJ's policy levers have been stretched to the limit. It's difficult to see what other type of stimulus the central bank could add. Indeed, financial market pricing is also in line with our assumption of no further easing. The money market implied yield curve is a proxy for interest rate expectation. The current yield curve is higher than it was six months ago, which suggests that the odds of further easing in Japan are lower.

Ratings Round-Up

By Njundu Sanneh

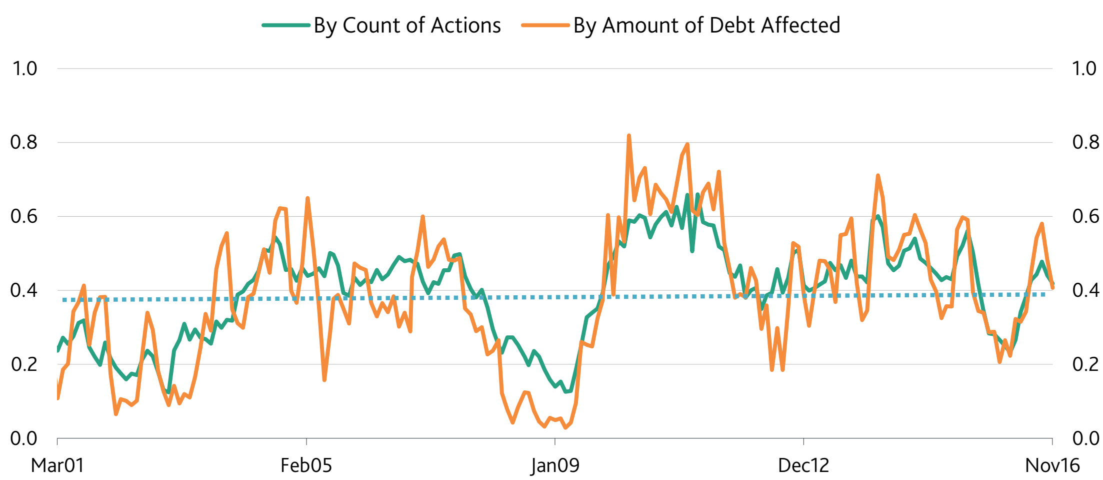
Poor operating performance Leads to Downgrades in Retail Sector.

The retail and chemicals sectors headlined the weekly rating changes for the US that showed a relatively low number of total rating revisions. Land's End and Ascena Retail Group, Inc. were the retail sector downgrades, whilst Ashland Global Holdings, Inc. and Sherwin Williams company represent the two chemicals sector companies. The downgrades of the two retail companies were associated with poor operating performance stemming from a difficult sales environment made worse by rising labor costs. Merger and acquisition activity was behind the downgrades of both chemical companies as the sector consolidates. Both companies are financing their acquisitions through increased leverage. With the preponderance of downgrades (seven out of the nine total rating changes were downgrades) the two positive rating changes were from the gaming sector, Caesar Entertainment and a subsidiary of business serves company Eagle Holding Company, II LLC. Caesar's upgrade was based on improved performance as traffic to the Vegas Strip increased and Atlantic City operations stabilized. For Eagle, the addition of more junior capital to the capital structure prompted the upgrade of its senior secured bank credit facilities.

European rating changes were also few in number, wherein the UK accounted for three of the seven rating changes. The three upgrades did mildly better but were still outpaced by Europe's four downgrades.

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
4/26/17	ASHLAND GLOBAL HOLDINGS INC.	Industrial	SrUnsec/LTCFR/PDR/BCF	2,319	D	Ba1	Ba2			SG
4/26/17	CAESARS ENTERTAINMENT CORPORATION - Caesars Entertainment Resort Properties, LLC	Industrial	SrSec/LTCFR/PDR/BCF	1,150	D	B2	B1			SG
4/26/17	MOTIVA ENTERPRISES LLC	Industrial	SrUnsec/ST/CP	2,000	D	A2	Baa1	P-1	P-2	IG
4/27/17	EAGLE HOLDING COMPANY II, LLC - Jaguar Holding Company II	Industrial	SrSec/BCF		U	B1	Ba3			SG
4/27/17	FUSE MEDIA, INC. - Fuse, LLC	Industrial	SrSec/LTCFR/PDR	240	D	B3	Caa1			SG
4/27/17	LANDS' END, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3			SG
4/28/17	ASCENA RETAIL GROUP, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Ba2	Ba3			SG
5/2/17	AMERIFORGE GROUP, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa2	Ca			SG
5/2/17	SHERWIN-WILLIAMS COMPANY (THE)	Industrial	SrUnsec/CP	1,957	D	A3	Baa3	P-2	P-3	IG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

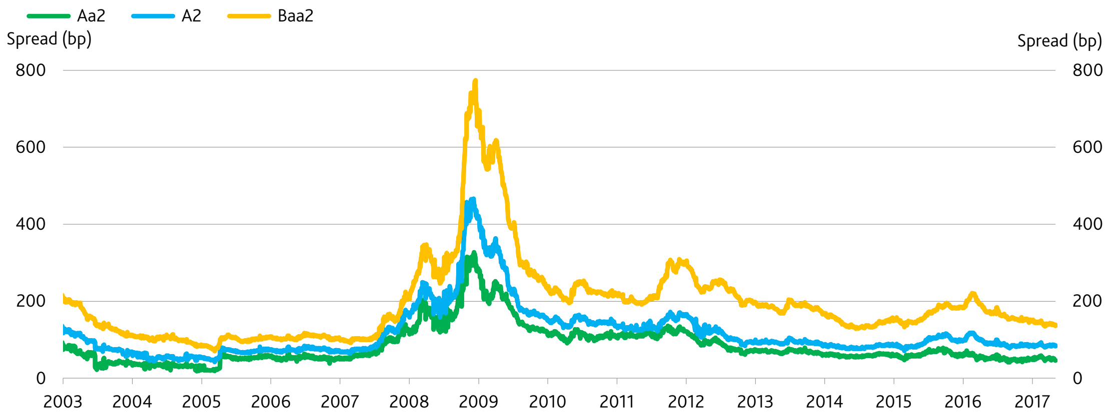
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
5/2/17	JH-HOLDING GMBH - Progroup AG	Industrial	SrSec	621	D	Ba2	Ba3	SG	GERMANY
5/2/17	CRH PLC	Industrial	SrUnsec/LTIR/MTN	8,000	U	Baa2	Baa1	IG	IRELAND
5/1/17	WIND ACQUISITION HOLDINGS FINANCE S.P.A.	Industrial	Srunsec/LTCFR/PDR	4,706	U	Caa1	B3	SG	ITALY
4/26/17	RAIFFEISEN ZENTRALBANK OESTERREICH AG - AO RAIFFEISENBANK	Financial	SrUnsec/LTD	351	U	Ba2	Ba1	SG	RUSSIA
4/27/17	JOHNSTON PRESS PLC	Industrial	SrSec/LTCFR/PDR	291	D	Caa2	Caa3	SG	UNITED KINGDOM
5/2/17	COGNITA BONDCO PARENT LIMITED	Industrial	SrSec/LTCFR/PDR	420	D	B2	B3	SG	UNITED KINGDOM
5/2/17	STANDARD CHARTERED PLC	Financial	SrUnsec/LTIR/LTD/Sub/JunSub/MTN/PS	41,285	D	A1	A2	IG	UNITED KINGDOM

Source: Moody's

Market Data

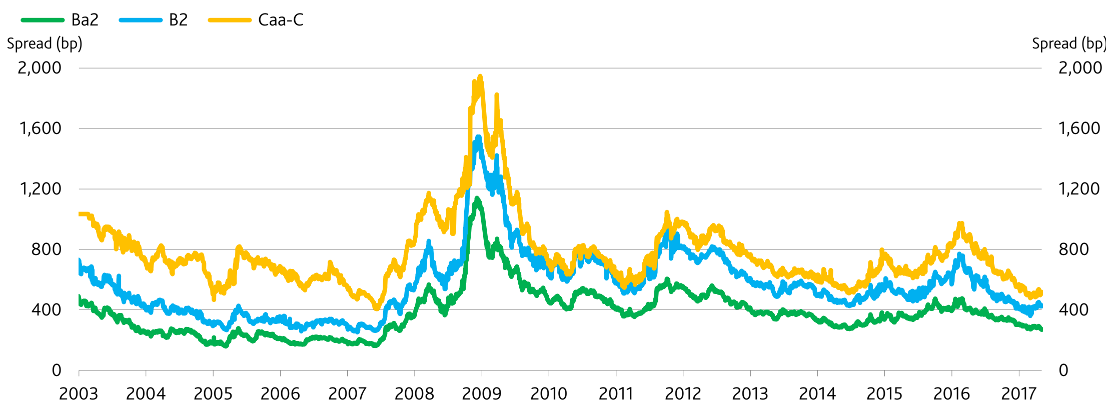
Spreads

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 26, 2017 – May 3, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 3	Apr. 26	Senior Ratings
Johnson & Johnson	Aa1	Aa2	Aaa
Caterpillar Financial Services Corporation	Baa1	Baa2	A3
United Technologies Corporation	Aa3	A1	A3
Home Depot, Inc. (The)	Aa3	A1	A2
United Airlines, Inc.	B3	Caa1	Baa1
National Rural Utilities Coop. Finance Corp.	Aa3	A1	A2
Sherwin-Williams Company (The)	Baa2	Baa3	Baa3
Ventas Realty, Limited Partnership	Baa3	Ba1	Baa1
Whirlpool Corporation	Baa1	Baa2	Baa1
Weyerhaeuser Company	A3	Baa1	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 3	Apr. 26	Senior Ratings
Becton, Dickinson and Company	Baa3	A3	Baa2
Hertz Corporation (The)	Ca	Caa2	B2
Radian Group Inc.	Ba3	Ba1	Ba3
John Deere Capital Corporation	Baa1	A3	A2
CVS Health	A3	A2	Baa1
Intel Corporation	A1	Aa3	A1
Honeywell International Inc.	Aa3	Aa2	A2
Capital One Financial Corporation	Baa3	Baa2	Baa1
Frontier Communications Corporation	Caa3	Caa2	B1
Thomson Reuters Corporation	Baa3	Baa2	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 3	Apr. 26	Spread Diff
Nine West Holdings, Inc.	Ca	5,129	4,992	136
Hertz Corporation (The)	B2	851	767	84
MBIA Inc.	Ba1	425	381	43
AutoNation, Inc.	Baa3	441	405	36
K. Hovnanian Enterprises, Inc.	Caa3	1,618	1,584	34
NRG Energy, Inc.	B1	362	329	33
Advanced Micro Devices, Inc.	Caa1	247	213	33
Becton, Dickinson and Company	Baa2	80	50	30
Genworth Holdings, Inc.	Ba3	714	685	30
Radian Group Inc.	Ba3	162	132	30

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 3	Apr. 26	Spread Diff
United Airlines, Inc.	Baa1	289	427	-139
Tenet Healthcare Corporation	Caa1	491	569	-78
R.R. Donnelley & Sons Company	B2	443	498	-55
Neiman Marcus Group LTD LLC	Caa3	1,447	1,484	-37
Avon Products, Inc.	B3	536	566	-30
Pitney Bowes Inc.	Baa3	182	208	-26
Cablevision Systems Corporation	B3	387	411	-24
CSC Holdings, LLC	Ba1	232	254	-22
Navistar International Corp.	Caa1	426	447	-21
Noble Energy, Inc.	Baa3	133	153	-19

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (April 26, 2017 – May 3, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 3	Apr. 26	Senior Ratings
Netherlands, Government of	Aa2	Aa3	Aaa
Rabobank	A2	A3	Aa2
The Royal Bank of Scotland Group plc	Ba1	Ba2	Ba1
Credit Agricole S.A.	A3	Baa1	A1
Deutsche Bank AG	Baa3	Ba1	Baa2
ING Bank N.V.	A2	A3	A1
Landesbank Hessen-Thueringen GZ	Baa1	Baa2	A1
Bankinter, S.A.	Baa3	Ba1	Baa2
Bank of Scotland plc	A3	Baa1	A1
Statoil ASA	Aa3	A1	Aa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 3	Apr. 26	Senior Ratings
Nordea Bank AB	A2	A1	Aa3
ABN AMRO Bank N.V.	A3	A2	A1
Erste Group Bank AG	Ba1	Baa3	Baa1
Tesco Plc	Ba3	Ba2	Ba1
Deutsche Bahn AG	Aa1	Aaa	Aa1
NXP B.V.	Baa3	Baa2	Ba1
Novo Banco, S.A.	C	Ca	Caa2
VERBUND AG	Baa1	A3	Baa2
Vedanta Resources plc	Caa1	B3	B3
Alliander N.V.	A3	A2	Aa2

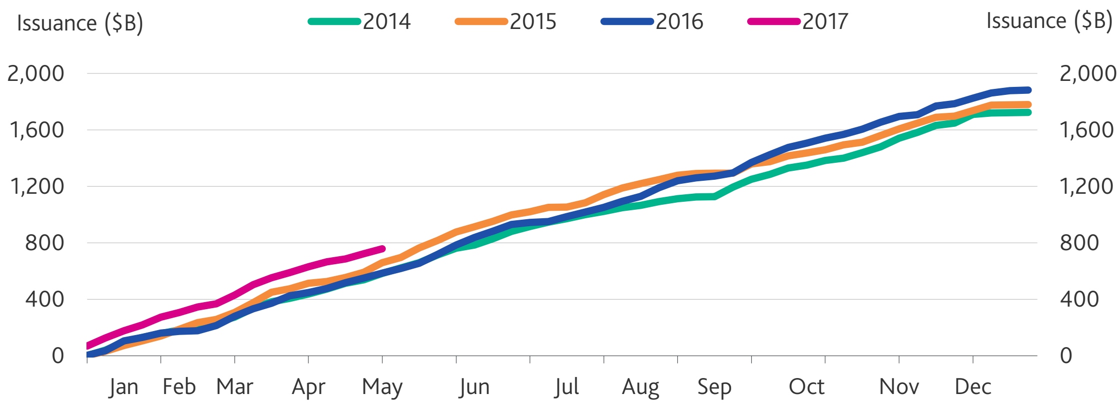
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 3	Apr. 26	Spread Diff
Norske Skogindustrier ASA	Caa3	10,499	9,432	1,067
Vedanta Resources plc	B3	429	395	34
Novo Banco, S.A.	Caa2	1,039	1,017	22
Permanent tsb p.l.c.	B1	203	186	16
Storebrand ASA	Ba1	189	173	15
Banco Popular Espanol, S.A.	B2	265	255	10
Fiat Chrysler Automobiles N.V.	B1	272	262	10
Stena AB	B3	579	570	9
Electrabel SA	Baa1	87	80	7
Ensco plc	B2	494	488	7

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 3	Apr. 26	Spread Diff
Matalan Finance plc	Caa2	1,266	1,476	-210
Greece, Government of	Caa3	675	766	-91
Galapagos Holding S.A.	Caa2	697	785	-88
Care UK Health & Social Care PLC	Caa1	536	574	-38
Selecta Group B.V.	Caa2	521	555	-34
Banco Comercial Portugues, S.A.	B1	369	398	-29
Iceland Bondco plc	Caa1	251	279	-28
Novafives S.A.S.	B3	374	390	-16
Boparan Finance plc	B2	395	408	-13
Portugal, Government of	Ba1	218	231	-12

Source: Moody's, CMA

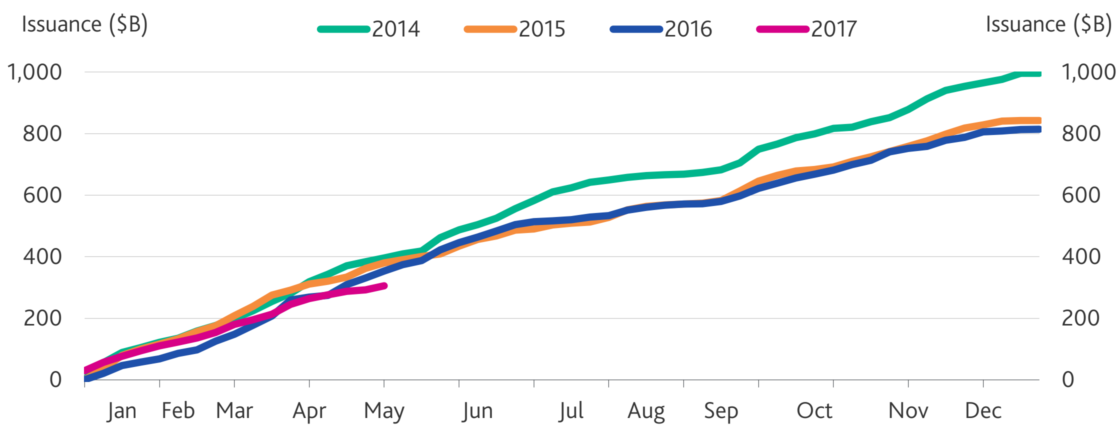
Issuance

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	24.586	7.975	34.833
Year-to-Date	539.329	159.105	757.935

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	10.109	1.787	12.879
Year-to-Date	258.437	35.386	305.199

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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