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ANALYTICS

WEEKLY MARKET OUTLOOK

Broad Measures of Sales and Profits Are Mediocre

Moody's Capital Markets Research

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Credit Markets Review and Outlook

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

Broad Measures of Sales and Profits Are Mediocre

First-quarter 2017 revealed solid operating results for the S&P 500. Nevertheless, other broad measures of business-sector operations have been flat to lower.

The yearly percent change for the sales of the S&P 500's member companies improved from Q4-2016's 4.1% and Q1-2016's -1.4% to Q1-2017's prospective 7.1%, as derived from data supplied by Bloomberg News. However, Q1-2017's annual growth rate was skewed higher by the annual contraction of Q1-2016's revenues.

The Bloomberg consensus projects that the yearly increase of S&P 500 revenues will slow noticeably from Q1-2017's 7.1% to a 5.9% annual increase for the entirety of 2017. Previously, S&P 500 revenues rose modestly in 2016 and contracted in 2015. Thus, the magnitude of 2017's projected sales growth owes much to the weak showings of the two previous years.

A more comprehensive view of US business activity is supplied by the US GDP accounts that showed the gross value added of all US corporations growing by an uninspiring 3.0% yearly in Q1-2017. Granted that the latter was up from Q4-2016's 2.8% and Q1-2016's 2.1%, but the pace still fell considerably short of its 5.3% average annual increase of 2010-2012.

Following annual increases of 3.3% in 2015 and 2.7% in 2016, corporate gross-value-added growth may quicken to 3.8% in 2017 as inferred from early May's Blue Chip consensus forecast of a 4.1% GDP. (Corporate gross value added [GVA] aggregates the value of the final goods and services produced by companies in the US and serves as a proxy for business sales excluding sales of intermediate inputs that enter into the production of final products.)

Basically, the Bloomberg consensus believes 2017's sales by the S&P 500 companies will outrun nominal GDP for the first time since 2011. However, such an achievement will largely reflect the subpar performance by revenues of 2012 through 2016. Little in the S&P 500's first quarter revenues and the outlook for yearlong 2017 favors an inflationary firming of the current upturn's lackluster tone. In turn, the upside for benchmark interest rates remains limited.

Weak readings from a year earlier now inflate profits growth

The S&P 500's income from continuing operations excluding some gains and losses is likely to advance by 13.9% annually in 2017's first quarter, according to Bloomberg. However, Q1-2017's jump was skewed sharply higher by its -6.7% yearly plunge of Q1-2016. Perhaps, the 3.1% average annualized increase of the two-years-ended Q1-2017 is closer to the underlying pace of S&P 500 operating earnings.

The consensus looks for a 12.4% increase by 2017's S&P 500 operating income, after dipping on average in 2015 and 2016, for its best showing since 2011. By contrast, early May's Blue Chip consensus expects only a 4.6% annual increase by 2017's broader measure of pretax profits from current production for all US corporations, or core profits, which would still lag the metric's 5.8% average annual increase of 2012-2014. This version of core profits employs economic, as opposed to accounting, depreciation and excludes most extraordinary gains and losses and removes from profits any changes in the market value of inventories.

The current business cycle upturn may be getting long in the tooth, according to Q1-2017's unexpected -1.9% sequential decline by pretax profits from current production. Core profits had increased from the prior quarter by +2.3%, on average, in three of 2016's four quarters. By doing so, core profits' year-to-year increase recovered from Q1-2016's -6.6% setback to Q4-2016's outsized +9.3% advance. However, core profits yearly increase eased to +3.7% in 2017's first quarter.

In order to fulfill early May's consensus forecast of a +4.6% annual increase by 2017's core profits, profits need to grow by a very attainable +4.9% annually during the final nine months of 2017. Still, Q1-2017's slippage cast some doubt as to whether today's consensus view will eventually be confirmed.

Difference between growth rates of GVA and labor costs drives profits

The growth of core profits is very sensitive to the difference between the growth rates of corporate GVA (revenues) and employee compensation (costs). If a contraction by profits is to be avoided, it is imperative that corporate GVA's annual growth rate not fall too far behind corporate employee compensation's annual increase.

The annual percent change of yearlong core profits shows a very strong correlation of 0.86 with the difference between the annual percent changes of the yearlong averages of corporate GVA and employee compensation. In general, core profits are likely to avoid an annual contraction if corporate GVA growth trails employee compensation growth by no more than a percentage point. Moreover, core profits growth increases by +5.6 percentage points for each percentage point increase in the difference between the annual growth rates of corporate GVA and employee compensation. (The GDP accounts supply estimates of both corporate GVA and employee compensation.) [Figure 1.]

Figure 1: Profits Growth Quickens by 5.6 Percentage Points for Each Percentage Point Increase in the Difference Between Corporate Gross-Value-Added Less Employment Costs (correlation = 0.86)

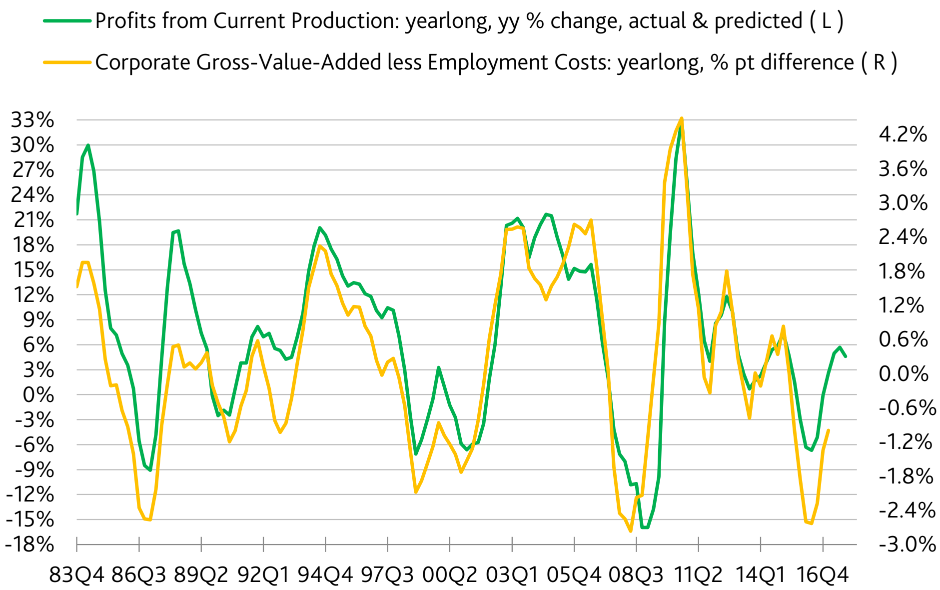
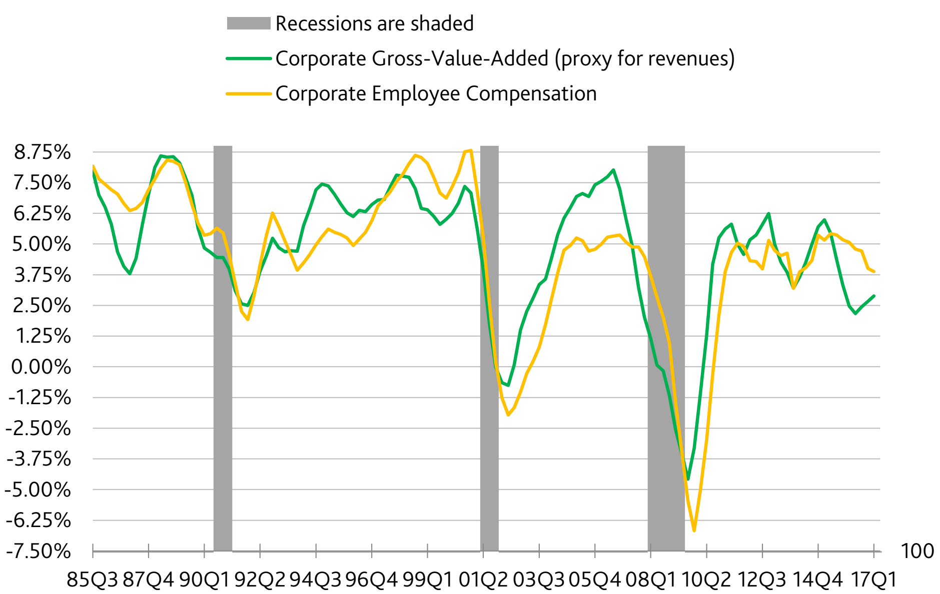


Figure 2: Profits and Credit Fare Better the Faster Corporate Gross-Value-Added Grows Relative to Employee Compensation *yy % changes for yearlong averages*



Credit Markets Review and Outlook

Though the year-to-year increase of corporate GVA — a proxy for sales of final products — rose from Q4-2016's 2.8% to Q1-2017's 3.0%, the latter trailed the 3.9% yearly increase by employee compensation. Profits will suffer materially if corporate employee compensation were to outrun corporate GVA by a wider margin. For example, core profits sank by -6.2% year-over-year during the 12-months-ended June 2016 mostly because the span's +4.8% annual advance by corporate employee compensation well outran the accompanying +2.2% annual rise by corporate GVA. [Figure 2.]

Subpar sales and diminished pricing power contain labor costs

First-quarter 2017's 3.0% yearly increase by corporate GVA is consistent with the previously mentioned implied consensus forecast of a 3.8% annual increase for 2017's corporate GVA. Thus, attaining the 4.6% growth predicted for 2017's core profits suggests that employee compensation can grow no faster than 4% annually, which matches yearlong 2016's actual increase. The slowdown by employee compensation's annual increase from 2015's 5.2% to 2016's 4.0% was unusual in that it occurred despite a tightening of the US labor market as shown by the drop in the unemployment rate's yearlong average from 2015's 5.26% to 2016's 4.85%.

This seemingly antithetical deceleration of employee compensation amid a tighter labor market may continue for now. In terms of a moving 12-month average, the year-over-year growth rates of wages and salaries both overall and for the private-sector most recently peaked in June 2015 at +5.3% and +5.7%, respectively. Notwithstanding how the average unemployment rate fell from the 5.7% of the 12-months-ended June 2015 to the 4.7% of the 12-months-ended April 2017, the annual growth rates slowed to +3.8% for total wages and salaries and to +3.9% for private-sector wages and salaries during the 12-months-ended April 2017.

Other measures of labor utilization also tightened from the 12-months-ended June 2015 to the 12-months-ended April 2017. For example, the average ratio of payroll employment to the working-age population rose from 56.3% to 57.1%, while the U6 unemployment rate, or the underemployment rate, and fell from 10.0% to 9.4%.

Perhaps, a lack of pricing power warns businesses to proceed cautiously with employee compensation. For example, the average annual rate of core PCE price index inflation barely rose from the 1.5% of the 12-months-ended June 2015 to the 1.7% of the 12-months-ended April 2017.

Worse yet, suppliers of consumer durables still contend with price deflation. As revealed by the PCE price index, the average annual rate of price deflation for consumer durable goods deepened slightly from the -2.3% of the year-ended June 2015 to the -2.4% of the year-ended April 2017.

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 26: The Federal Reserve's current dilemma (tight labor market but low inflation) is similar to one in the 1999-2000 tightening cycle. Over the past couple of years, the FOMC has debated the case for hiking preemptively and concluded that it is justified as a prudent response to the threat of labor market overheating. Preemptive tightening was also an idea that factored in the tightening cycle from 1999 to 2000 and could provide a blueprint for the current dilemma.

When the Fed raised rates for the first time during that cycle, in June 1999, the unemployment rate was 0.9 percentage point below the Fed's 5.3% estimate of full employment. However, year-over-year growth in the core PCE deflator was only 1.4%. The Fed opted to raise rates as a preemptive step to reduce the perceived significant risk of stronger inflation. The Fed would continue to raise interest rates through May 2000 as the unemployment rate continued to fall but the pickup in inflation was modest, at best. By the end of the tightening cycle, year-over-year growth in the core PCE deflator was 1.7%.

Fed concerns then about labor market overheating are similar to today. There is an important lesson: it is extremely difficult to know in real time where the economy is relative to full employment. The Fed's estimate of full employment from the Greenbook in June 1999 was 5.2% but would be revised modestly lower in subsequent years. Even with the lower estimate, the Fed would still have seen the threat of labor-market overheating as real; its discussion often focused on wage growth rather than inflation, and growth in the employment cost index for wages for private workers was up 3.2% at the time of the June 1999 rate hike.

The May employment report will fan the Fed's fears. We look for nonfarm payrolls to have risen 183,000 and the unemployment rate to have remained at 4.4%, which is below the Fed's estimate of NAIRU. Average hourly earnings for private workers will disappoint in May but there are calendar issues. The Fed is putting emphasis on the labor market data and May's report could seal the deal for a June rate hike.

The core PCE deflator will highlight the other part of the Fed's conundrum as we look for it to have risen 0.1% in April, lowering year-over-year growth from 1.6% to 1.5%. We expect nominal personal income and spending to have risen 0.4% and 0.5%, respectively in April. Vehicle sales likely exceeded 17 million annualized units in May. Though April spending and May vehicle sales will be decent, we are growing concerned about the near-term prospects for consumer spending.

THURSDAY, JUNE 1

ADP National Employment Report (April; 8:30 a.m. EDT)

Forecast: N/A

The ADP National Employment Report showed private payrolls rose 177,000 between March and April. Job creation across the distribution of company sizes changed somewhat. Hiring slowed from March levels across all company sizes, but small and large companies were the most affected, while midsize companies held up well. Small companies with fewer than 50 workers struggled most in goods-producing payrolls, shedding 8,000 jobs. Companies with more than 500 workers increased payrolls by 38,000 workers but only 7,000 of those jobs were at companies with more than 1,000 workers. This slowdown was due to a drop-off in hiring at service-providing companies with more than 1,000 employees, where payrolls were flat.

The absolute difference between the ADP and the Bureau of Labor Statistics first estimates of private employment growth is 55,000, on average over the past six months.

Jobless claims (week ending May 27; 8:30 a.m. EDT)

Forecast: 238,000; Confidence (1)

Initial claims are expected to have risen from 234,000 to 238,000 in the week ended May 27, leaving them a touch above their prior four-week moving average of 235,250, which is a cyclical low. The incoming data is for the week before the Memorial Day Holiday, introducing significant uncertainty in the forecast. New filings are notoriously volatile around holidays. Therefore, a large swing in either direction should be taken with a grain of salt. Therefore, we will put more stock in the trend and it continues to paint a favorable picture of the labor market.

ISM manufacturing survey (May; 10:00 a.m. EDT)

Forecast: 54.6; Confidence (3)
We look for the ISM manufacturing index to have slipped from 54.8 in April to 54.6 in May. The survey captures changes in both actual activity in manufacturing and in confidence. Manufacturing production was solid early this year but it's due to weaken some. For example, the difference between ISM new orders and inventories—a proxy for future production—narrowed from 15.5 in March to 6.5 in April. This still points toward gains in factory production in the second quarter but not as strong as in the first three months. Forecasting the sentiment component of the ISM index is difficult. However, high-frequency measures of business confidence suggest that it has stabilized recently.

Vehicle sales (May; 4:00 p.m. EDT)

Forecast: 17.1 million annualized units
We expect vehicle sales to have risen from 16.9 million annualized units in April to 17.1 million in May. This would put sales above 17 million annualized units for the first time since February but keep them 7.1% below their cyclical peak. Potential hurdles for new-vehicle sales include rising interest rates, tighter lending standards, potential decline in miles driven, demographics, and the substitution effect. It is unlikely that auto financing can get incrementally better for the consumer given the already-low interest rate environment. Also, lending standards will tighten since auto delinquency rates have risen. Therefore, it's not surprising that there is a relationship between the auto delinquency rate and vehicle sales. In other words, an increase in delinquencies will reduce vehicle sales, likely through the tighter lending standards channel.

To double check, we used state auto delinquency rate data from CreditForecast.com and vehicle registrations. Though the relationship isn't as strong as nationally, there is evidence that those states that have seen increases in delinquency rates have also seen vehicle registrations fall. We used registrations as a proxy for state vehicle sales. The reason is that any time someone buys a new car, they need to get it registered at the local motor vehicle authority.

FRIDAY, JUNE 2

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

Forecast: 183,000 (total employment)
Forecast: 4.4% (unemployment rate)
Forecast: 0.1% (average hourly earnings)
Job growth appears to have been solid in May as we look for a 183,000 net gain, a touch stronger than the 176,000 average gain over prior six months. Private employment is expected to have risen 173,000 between April and May. Already released labor market data have been generally favorable; the four-week moving average in initial claims edged lower between the April and May payroll reference weeks. Across industries, the composition of growth should change appreciably. Government is a wildcard because of the seasonal adjustment surrounding education. The timing of the end of the school year for universities and high schools can throw off the seasonal adjustment. Elsewhere, we don't anticipate any significant improvement in retail hiring while manufacturing was likely little changed.

We look for the unemployment rate to have remained unchanged at 4.4%, snapping a streak of three consecutive monthly declines. The unemployment rate is below many economists' estimate of full employment, including the Fed's. We look for average hourly earnings for all private workers to have risen 0.1% in May following a 0.3% gain in April. A calendar quirk will weigh on average hourly earnings. There is a clear tendency for growth in average hourly earnings to be depressed when the 15th day of the month—the date when many workers are paid—falls outside the reference week, shaving 0.1 of a percentage point, on average, off average hourly earnings. If our forecast is correct, April's gain would leave average hourly earnings up 2.4% on a year-ago basis, compared with 2.5% in April. We look for the U-6 unemployment rate to have remained below 9% but will be keeping an eye on the number of people not in the labor force but want a job.

The monetary policy implications are fairly straightforward. A solid gain in employment and an unemployment rate below the Fed's estimate of NAIRU will make a June rate hike likely. We look for another rate hike in September. It's possible that if the job market continues to tighten quickly there could be discussion of trying to squeeze in a December hike. But we think the Fed will opt to use the December meeting to begin the process of normalizing its balance sheet, which is another way of tightening monetary policy.

Trade deficit (April; 8:30 a.m. EDT)

Forecast: $46.8 billion

The nominal trade deficit likely widened from $43.7 billion in March to $46.8 billion in April. Already released data showed nominal goods exports fell 0.9% in April while imports rose 0.7%. The wider goods deficit may not stick, as the appreciation in the U.S. dollar has moderated, which should help exports. Also, the global economy is picking up, another support to U.S. exports. The forecast assumes a small decline in the services surplus in April. Our high-frequency GDP model assumes that net exports will be a modest drag on second quarter GDP growth.

EUROPE

By the Dismal (Europe) staff in London and Prague

Summary, May 26: We will get May's preliminary inflation numbers for the euro zone countries and the currency area as a whole in the week ahead. We are expecting CPI price growth to have eased slightly to 1.7% y/y, from 1.9% in April, mainly due to a correction in the core rate following April's Easter-related jump. Transport and accommodation prices normally rise during the holidays; as Easter this year fell in April after it fell in March last year, the yearly change in the core rate was pushed higher in April to 1.2%, from 0.7% in March, on the back of a rise in services inflation to a six-year high of 1.8%. We are expecting services inflation to fall back to around 1.2% to 1.3% in May. Elsewhere, we are expecting energy-related base effects to continue to fade: Oil prices were only 9% higher in May compared with a year ago, far below the 33% reading recorded in April. By contrast, we are expecting food and goods core inflation to pick up slightly, in line with the recent rebound producer prices. We caution, though, that the core rate is normally a lagging indicator in the euro zone, so chances are that it could still take some time before picking up more sustainable momentum in line with the strong GDP numbers. Our forecast is that core inflation will rise to around 1.3% by the end of this year.

The labor market meanwhile has been incredibly reactive to the strengthening of the euro zone economy. We expect that the area's jobless rate fell further in April, to 9.4%, after it hit an eight-year low of 9.5% in February. Advanced figures from Germany show that the country's impressive labour market improved further at the start of the second quarter with unemployment claims falling by 15,000 following an already-solid 29,000 decrease in March. Leading indicators for the other euro zone countries are also suggesting an additional tightening: The PMIs show that the rate of job creation accelerated in France, Spain and Italy in April, notably in the manufacturing sector. For the area as a whole, employment growth was one of the best seen over the past decade despite decelerating slightly from March. In all we are expecting the labor market to continue to tighten throughout the rest of this year, especially in countries such as France, Spain and Ireland where there is still much slack to be absorbed. The picture in Italy is a little less bright—the country's jobless rate actually increased in March, to 11.7%—and we are penciling in only small improvements in months to come. In Germany, by contrast, it is hard to gauge how much lower the unemployment rate could still go, as it is already reading at an all-time low.

Elsewhere, we are expecting Italy's first quarter GDP growth to be confirmed at a modest 0.2% q/q, the same growth as in the previous quarter. From a year earlier, the economy likely grew by only 0.8%, down from 1% in the fourth quarter of 2016. Weaker industrial output detracted from growth, while stronger agriculture and services contributed. On the demand side, strengthening domestic demand is expected to have outweighed falling net exports, though only slightly. Italy is stuck with both the U.S. and the U.K. as the slowest expanding economies at the start of 2017, as prospects are not much brighter. Due to political uncertainty and structural rigidities, the economy is having a hard time coming out of the doldrums, and we are expecting GDP to expand only by 0.8% in 2017 as a whole. Private consumption is likely to moderate this year, as inflation rises and wages continue to be stuck in the mud, but investment could rebound somewhat from the extension of tax incentives.

THURSDAY, JUNE 1

Italy: GDP (Q1; 9:00 a.m. BST)

Italy's first quarter growth didn't impress, and the economy languished despite a brightening outlook for much of the euro zone. Italy expanded just 0.2% q/q in the three months to March, according to the preliminary estimate, following the same growth in the previous quarter. From a year earlier, the economy grew 0.8%, down from 1% in the fourth quarter of 2016. Weaker industrial output detracted from growth, while stronger agriculture and services contributed. On the demand side, strengthening domestic demand outweighed falling net exports, according to the statistical office. Although industrial output contracted 0.3% q/q in the first quarter, high-frequency indicators suggest a better second quarter. For the whole year we forecast the economy to expand by 0.8%, before accelerating to 1% in 2018. Political uncertainty and slow adjustments in the banking sector pose downside risks to the outlook.

FRIDAY, JUNE 2

No major economic releases are scheduled.

ASIA-PACIFIC

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

Australia's GDP growth dialed back

Australia's March quarter GDP growth was likely dialed back to 0.2% q/q, after the December quarter's 1.1% jump. Earlier in the week, balance of payments data will show that net exports likely contracted from GDP growth in the March quarter. Export receipts have increased, but probably at a much slower pace than what the monthly values suggest. Moreover, the December quarter's pace was unsustainable because it was magnified by temporary halts in economic activity in the September quarter. That said, Australia will equal the Dutch record for 103 quarters without a technical recession.

But underlying economic foundations have become less resilient. High household debt has crimped consumption despite record gains in the housing market. The problem has been weak wage growth, which has recently hit a record trough. A cyclical upturn in wages remains unlikely at this stage. Thus, we expect consumption growth to add very little to the March quarter GDP. Moreover, the mining downturn will continue to drag on private investment, while the boost from residential investment is expected to fade.

Despite the weaker March quarter GDP, the Reserve Bank of Australia is expected to stay on the sidelines in June. The RBA has been reluctant to cut rates amidst ballooning private debt. However, a more dovish tone could be expected due to weakness in the consumption cycle and hopes that regulatory measures to curb mortgage lending will prove effective over the coming months.

In another key rate decision, the Reserve Bank of India will likely keep its policy levers unchanged in June. Despite consumer inflation decelerating in early 2017, the monetary policy committee will play the waiting game to see if the monsoon season delivers normal rains. A good season will keep a lid on food prices, which account for nearly half of the consumer price basket.

Elsewhere, Chinese inflation will likely take a breather, after a recent uptick in prices. The housing market is cooling on the back of tighter restrictions, which suggests that China's economy has likely peaked for now. This is also evidenced by other cyclical indicators which suggest that economic activity is unlikely to churn faster over the coming months. Producer price inflation is also moderating on the back of fading commodity prices.

Japan's second estimate of March quarter GDP will confirm the cyclical upswing that the economy experienced at the start of the year. Consumption and private investment are expected to add to headline growth, with smaller contributions from net exports because of the rising import bill.

THURSDAY, JUNE 1

South Korea – Foreign Trade – May

Time: Unknown
Forecast: US$11 billion
Korean exporters are benefiting from stronger global demand, although growth is starting to slow. Korea's monthly trade balance likely moderated from April's record high US$13.2 billion to around US$11 billion in May. Exports and imports continue to expand at a double-digit pace. The surge in electronic components has started to moderate as the global tech cycle reaches a peak. Cars and electronics remain weak spots compared with last year's performance, while higher global commodity prices push up the value of petrochemical shipments. Korea faces some difficulties on the export front, as Chinese anger over the deployment of a U.S. missile defense system hurts trade with Korea's largest export destination. This could dampen export growth in the coming months.

South Korea – Consumer Price Index – May

Time: 9:00 a.m. AEST (Wednesday 11:00 p.m. GMT)
Forecast: 1.9%
Korea's headline inflation continues to receive support from higher global commodity prices. CPI likely expanded 1.9% y/y for the second consecutive month in May. Transport and utility costs will remain the drivers of price growth, while underlying measures of inflation struggle with subdued domestic demand. Improved consumer sentiment, combined with stronger production and export conditions, should bolster domestic demand in the final months of 2017. Until then, growth in core CPI will be limited.

Australia – Retail Sales – April

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 0.1%
Australian consumers continue to keep a tight grip on the purse strings in April. Retail spending is expected to have improved marginally from March's 0.1% m/m decline, but the 0.1% m/m rise in April will keep a lid on the annual growth rate. Household budgets are crimped by low wages, higher prices for energy, and rising debt servicing costs. Spending will remain lackluster through most of 2017 until stronger wage growth alleviates budget pressures in 2018.

FRIDAY, JUNE 2

South Korea – GDP – 2017Q1

Time: 9:00 a.m. AEST (Thursday 11:00 p.m. GMT)
Forecast: 0.9%

Korea's economy started 2017 on steady footing. The second estimate of GDP growth for the March quarter is likely little changed from the initial 0.9% q/q gain. This is much stronger than December's 0.5% rise, driven by a strong export performance. Consumption remains the weak spot as stronger manufacturing and export conditions take time to filter down to improved labor market outcomes. Investment received a boost from strong construction activity, which usually occurs during the first quarter of the year after a dip in December.

Japan – Consumer Confidence – May

Time: 3:00 p.m. AEST (5:00 am. GMT)
Forecast: 43.7
Japan's consumer confidence likely bounced back up from April's 43.2. The drop in April was largely because of increased geopolitical risks; tensions in the Korean Peninsula saw a risk-off appetite as the yen rose and the stock market declined. These concerns have eased in May, so confidence likely improved. That said, weak wage growth means that confidence remains below the neutral 50 mark. Inflation expectations have also increased in early 2017 thanks to an increase in oil prices.

MONDAY, JUNE 5

Malaysia – Foreign Trade – April

Time: 2:00 p.m. AEST (4:00 a.m. GMT)
Forecast: MYR4.9 billion
Malaysia's monthly trade surplus likely narrowed in April after the MYR5.4 billion surplus in March. Strong tech demand lifted Malaysian shipments through the March quarter but that appears to be cooling, with major tech hubs such as China slowing in the second quarter. Malaysian exports reasonably follow the global tech cycle given their large integrated circuit sector. Oil prices struggled in April, another drag on Malaysian exporter receipts. Some relief came from palm oil, with higher shipment volumes expected as earlier supply disruptions from poor weather fade.

TUESDAY, JUNE 6

Taiwan – Consumer Price Index – May

Time: 10:30 a.m. AEST (12:30 a.m. GMT)
Forecast: 0.3%
Inflation remains muted in Taiwan, with headline CPI expanding just 0.3% y/y in May, up slightly from the previous month's 0.1% gain. Falling food prices are the main drag on headline growth, while high global energy prices are pushing up the cost of fuel and lubricants. Stripping out these volatile items, underlying inflation remains subdued as domestic demand struggles with weak wage growth. The outlook is more upbeat, and core inflation should strengthen in the second half of the year.

Australia – Balance of Payments – 2017Q1

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: -A$200 million
Australia's current account will likely remain in deficit, if only marginally. The balance of payments deficit likely narrowed to A$200 million in the March quarter from the December quarter's A$3.9 billion. The balance of goods and services remains in surplus as higher commodity prices boost export receipts. Net exports will likely detract slightly from growth, as much of the gain in the March quarter was due to higher export prices.

Australia – Monetary Policy – June

Time: 2:30 p.m. AEST (4:30 a.m. GMT)
Forecast: 1.5%
The Reserve Bank of Australia is expected to stand pat at its June monetary policy meeting, leaving interest rates on hold at 1.5%. The economy ended 2016 on a strong note, but there are some signs of softness. Commodity exports are benefiting from increased capacity in liquefied natural gas and coal, while improved global demand and a slightly weaker aussie support broader demand for Australian

wares. However, the export sector's strength has yet to trickle down to consumption. Employment growth has picked up, but mostly in part-time positions, and underemployment remains high. This is keeping a lid on wage growth, crimping spending and dampening underlying inflation. The central bank is unlikely to provide further assistance through lower rates given the high level of private debt associated with the booming housing market. For now, the RBA will likely adopt a wait-and-see approach in 2017.

WEDNESDAY, JUNE 7

Australia – GDP – 2017Q1

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 0.2%
Australia's economy is expected to start 2017 on steady footing. GDP growth likely moderated to 0.2% q/q in the March quarter from December's 1.1% surge. The strength of the December performance was due in part to a rebound from temporary halts to economic activity in the September quarter. Exports likely ticked up steadily, although at a slower pace than the monthly values suggest. The mining downturn will continue to drag on private investment, and the boost from residential building is likely to fade. The weak spot in the data will be consumption, as weak wage growth and rising debt servicing costs limit spending. Overall, Australia's economy will likely slow in 2017 as the boom in housing peaks and consumption continues to underwhelm.

Taiwan – Foreign Trade – May

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Forecast: US$2.073 billion
The boost to Taiwan's trade balance from the global tech cycle is starting to fade. The monthly trade surplus likely narrowed slightly to US$2.1 billion in May from US$2.8 billion in April. Exports continue to tick up steadily but have decelerated from the double-digit gains experienced earlier in the year. This trend is likely to continue through the rest of the year. Higher global commodity prices are boosting import receipts.

India – Monetary Policy – June

Time: 11:00 p.m. AEST (1:00 p.m. GMT)
Forecast: 6.25%
The Reserve Bank of India will likely remain on the sidelines in June despite decelerating inflation. The policy repo rate will likely be unchanged at 6.25%. We reckon the monetary policy committee will wait for the monsoon season to unfold. Moreover, with major reforms such as the goods and services tax set to be unleashed soon, the RBI will opt for a wait-and-see approach.

THURSDAY, JUNE 8

Japan – GDP – 2017Q1

Time: 9:50 a.m. AEST (Wednesday 11:50 p.m. GMT)
Forecast: 0.6%
Japan's second estimate of the March quarter GDP was likely revised up from 0.5% to 0.6%. Consumption growth outperformed in the first quarter, although private investment was relatively mute. We expect a further increase in private investment because more data will be made available, which will likely show the investment number was pushed up.

Australia – Foreign Trade – April

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: A$2.5 billion
Australia's trade surplus likely took a hit in April because of disruptions from Cyclone Debbie. The monthly trade surplus likely dipped to A$2.5 billion from A$3.1 billion in March. Commodity shipments were disrupted during the month as coal freight facilities were recovering from the severe cyclone in

Queensland. On the positive side, steady demand from China and high global prices continue to support annual growth in exports. Meanwhile, weak domestic demand is keeping a lid on imports.

FRIDAY, JUNE 9

Philippines – Industrial Production – April

Time: Unknown
Forecast: 12%
Philippine industrial production growth likely accelerated to 12% y/y in April from 11.1% in March. The archipelago's manufacturing sector has received a boost in recent months from the uptick in global demand. In particular, this should boost electronics manufacturers. Domestic demand continues to be the main driver of production growth though, as rising incomes fuel consumer spending. Infrastructure projects, both public and private, are supporting industrial production.

Australia – Housing Finance – April

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 1.2%
Australia's booming housing market has lost some steam in recent months, but demand remains upbeat. The number of owner-occupied finance commitments likely ticked up a steady 1.2% in April after March's 0.5% decline. However, the number of commitments is still down compared with the same period last year. Auction clearance rates and house prices have started to cool in the Sydney and Melbourne markets, while the downturn in Perth is starting to reach a trough. Out-of-cycle interest rate hikes, weak wage growth, and stricter lending criteria will likely limit mortgage demand in 2017.

China – Consumer Price Index – May

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 1.1%
Consumer price pressures have steadily risen, but there are signs that the trend will flatten. The housing market is cooling because of ever tighter restrictions. Producer price pressures look to have peaked as commodity supply increases. Outside of food, inflation pressures likely stabilized in May.

China – Producer Price Index – May

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 5.9%
Producer price inflation has climbed rapidly as rising commodity prices pushed up raw material costs. However, this effect is dimming. Producer price inflation is moderating as the boost from commodity prices fades, due to both sated demand and higher supply. The housing market is cooling and this is reducing demand for key inputs.

Malaysia – Industrial Production – April

Time: 2:00 p.m. AEST (4:00 a.m. GMT)
Forecast: 4.2%
Malaysian industrial production likely cooled in April after the 4.5% y/y expansion in March. Production of integrated circuits is easing as the global tech cycle appears to have peaked in the March quarter. Integrated circuits represent around 20% of Malaysian manufacturing and typically follow the tech cycle. Oil production cooled and was a drag on mining output in March, while natural gas was a bright spot. Further weakening is expected for April and May given softer global prices. In particular, oil prices temporarily slumped to a six-month low in May due to global supply glut fears.

Japan – Industry Activity Indexes – April

Time: 2:30 p.m. AEST (4:30 a.m. GMT)
Forecast: -0.1%
Japan's tertiary activities likely declined 0.1% in April following a 0.2% m/m decline in March. Though the overall momentum in services remains uneven, we expect that lower consumer sentiment in April may have caused a lull in spending across various services. Japan's ageing population means that services related to medical health will keep overall spending afloat.

The Long View

The US: The annual growth rate of US$ high-yield bond issuance may slow from the 43% of January-May 2017 to 2% for June-December 2017

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
June 1, 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 hardly differs from 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 378 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 April's 4.5%. Moody's credit policy group edged up its predicted average default rate for Q4-2017 from April's 3.1% to a May's 3.2%. 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.

First-quarter 2017's worldwide offerings of corporate bonds showed annual percent increases of +7.7% for IG and +110.6% for high-yield, wherein US$-denominated offerings advanced by +17.1% for IG and by +98.3% 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 1.5% annually for IG and may advance by + 19.5% for high yield.

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

US ECONOMIC OUTLOOK

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

EUROPE

By Tomas Holinka of Moody's Analytics
June 1, 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 May added to the upbeat picture, suggesting that growth entered the second quarter on a strong footing. The area's composite PMI held steady at 56.8 in May, unchanged from April's six-year high and far above the average of 55.6 recorded in the three months to March. This is consistent with growth picking up further in the second quarter, to around 0.6% to 0.7%, following an already-strong 0.5% q/q expansion in the first quarter. The impressive momentum is being supported mainly by a stellar manufacturing performance. The details brought even better news, showing that booming manufacturing orders are raising work backlogs and lifting job creation to its fastest in over 10 years, as firms expand capacity to meet the rise in demand. Meanwhile, the euro zone's unemployment rate unexpectedly fell to 9.3% in April, from a downwardly revised 9.4% in March and from 10.2% in April 2016. This is the lowest rate since March 2009. Cyclical labor market improvement combined with strengthening wage growth in some euro area countries will boost household spending, while broad-based improvement in global demand will support euro area exports. The results of the French and Dutch elections removed key political risks and the euro zone's fundamentals surprise on the upside. Nevertheless, rising prices and strengthening euro are the main short-term risks to our forecast.

European Central Bank stimulus measures including record low interest rates and asset purchases will likely boost credit expansion. Although harmonized euro zone inflation slowed more than expected in May, with CPI rising just 1.4% from a year earlier, it doesn't change our view on the ECB's monetary policy. Low inflation, tepid wage growth, and labor slack may keep the ECB from tightening. While we don't expect the ECB to change its forward guidance next week, we do predict it will turn slightly hawkish later this year. The ECB is mainly concerned about poor wage growth, which can be explained by persistent slack in the labor market. Although the unemployment rate has been falling since 2013, it isn't enough to boost wages. Labor may be far more underutilized than the recent unemployment rate would suggest. A rising number of part-time jobs, a higher share of inactive population who are not actively seeking work, and surging employment in services, where the average salary is lower, restrain wage growth and undermine demand-led inflation. We therefore see little chance the bank will normalize monetary policy.

Mildly stimulative fiscal policy should also support the rebound in investment, which remains below the pre-crisis level as firms expect demand to stay soft. After slightly less restrictive fiscal policy in 2016, government stimulus will likely boost most euro zone economies this year. While fiscal stimulus to GDP will jump in Germany, France and Italy, fiscal policy will subtract from expansion in Spain, the Netherlands and Portugal, though less so than in 2016.

Although the euro zone's outlook remains upbeat, weaker performance in the U.K. may drag on growth. Preliminary estimates of U.K. GDP show the service sector as the main culprit of the slowdown in the first quarter, though construction and production output also lost some momentum. In the expenditure breakdown, we expect consumer spending to pull back sharply and be the main drag on growth in 2017. Other risks are receding after the Greek parliament agreed to a new round of austerity, securing another payment from creditors to meet its upcoming debt obligation. In the longer term, however, the austerity measures will likely hinder the economy's ability to expand and could worsen the country's political climate. To eliminate possible political turmoil ahead of the next parliamentary election in September 2019, creditors need to agree on additional debt relief.

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 1.9% in annualized quarterly terms and 0.5% not annualized, an acceleration from a mere 0.2% growth in 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 May brings some optimism. The latest U.K. Markit/CIPS manufacturing PMI fell only to 56.7 from three-years high of 57.3 recorded in April, and signaled an improvement in operating conditions. Meanwhile, U.K. consumer confidence unexpectedly rose in May to -5 from -7 in April. We find it hard to understand this optimism since it contrasts sharply with our view that the pound's depreciation, the subsequent soar in inflation, and the slowdown in nominal wages will hurt consumer spending throughout 2017. We expect this to be just a blip, likely related to June's elections. The June 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. So in months to come, we expect households to shift focus from politics to the state of their finances. Households' expectations about their future financial situation will likely deteriorate sharply and turn negative by the second half of the year, in line with the decline in real wages. We already see evidence that households are tightening their purse strings: Retail sales figures for the past three months have been weak, and advanced indicators for May suggest that the first quarter's weakness likely carried over into the second.

Rising inflation and worsening labor market will weigh on household spending. Although the unemployment rate fell to a record low 4.6% in the first quarter and employment growth gained 0.4% q/q, wage gains lost further momentum in March; excluding bonuses, they slowed to 2.1% y/y from 2.2% in February. This slowdown in pay growth is worrisome, especially in light of the whopping 2.7% jump in inflation reported by the Office for National Statistics in mid-May. That's because higher prices combined with slower pay growth automatically mean households' real wages deteriorate: In monthly terms, real pay plunged by 0.5% y/y in the three months to March, its biggest drop in 2½ years. Given that we expect inflation to average 2.8% this year and peak at 3.1% later this year, household spending—the engine of U.K. growth—should pull back in line with the deterioration in consumers' purchasing power.

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. 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 Alaistair Chan and the Asia-Pacific Staff of Moody's Analytics
June 1, 2017

China's economy in the near term is expected to grow close to its potential. The housing market has started cooling, thanks to the government's restrictions, and while the improving trend in manufacturing output has leveled off, growth remains healthy. Policy is likely to remain unchanged before the leadership reshuffle to be unveiled at the 19th Party Congress later this year.

Manufacturing output has grown thanks to improving global tech demand and steady domestic consumer demand. This improvement has tempered in recent months, however, and there are signs that further gains will be more limited. Purchasing manager sentiment dipped in April, with particularly sharp declines in sentiment on new orders and near-term business expectations. Imports of electrical and high-tech components also declined in year-on-year terms in April, suggesting slower production and sales in coming months.

Both global and domestic demand have hit constraints in recent months. Although the U.S. labor market continues tightening, wage growth there has yet to accelerate. Demand from Europe remains flat. As a result, mechanical/electrical and high tech exports rose just 2% and 1.5% y/y, respectively, in April. Domestically, although wage growth remains healthy—at least 7% annually on a nominal basis since 2011—policy moves such as caps on subsidies on energy-efficient vehicles and restrictions on credit growth have crimped household spending.

These factors will weigh on manufacturing output in the near term, although a renewed mobile phone upgrade cycle later this year, driven by new models from major producers, could give production of high-tech goods a fillip. Reduced fear of a trade war with the U.S. is also giving exporters more confidence to invest.

The buoyant housing market has been a key pillar of the economy over the past two years, but there is mounting evidence that the market has peaked. This is mostly the result of steady tightening of various rules and restrictions in many cities by local governments.

Many property developers in lower-tier cities remain plagued with excess inventory. Because of this the central government has been loath to enact broader tightening measures and is content to allow cities to manage policy as they see fit. This has generally resulted in tightening in Tier 1 cities—Beijing, Guangzhou, Shanghai, Shenzhen—and somewhat looser rules in lower-tier cities.

Enough momentum has shifted to some Tier 2 and Tier 3 cities that local governments there are now also tightening restrictions. In March the eastern city of Hangzhou raised down payments for second homes to 60%, and barred the selling of new apartments to those who already own property. At the same time, Xiamen, a city in the southeast coast, tightened rules on foreigners (those without local household registration, or hukou) from purchasing property. This follows a wave of tightening in October, when 17 cities raised down payment requirements and barred multiple purchases, among other rules.

These regulations are already starting to take momentum out of the market. Price growth in Tier 2 cities peaked at 12.9% y/y in November 2016 and has since decelerated to 11.2%. Price increases in Tier 3 and Tier 4 cities also appear to be flattening.

Moreover, China's commercial property market could be entering a period of oversupply. The cyclical economic recovery tends to drive commercial property activity. In China, the bulk of this has been in

Tier 1 cities, given their wealth and greater concentration of tertiary industry activities. China's broad transition away from heavy industry towards domestic consumption and services has given many developers confidence to build more supply. This may be true over the medium to long term, but demand may take time to absorb the coming wave of supply.

For instance, in Shanghai supply equivalent to 18% of its total stock is expected to come on line. Continued high demand should keep vacancies stable at 15%, but rents could fall. Shenzhen similarly is expecting very high supply growth—reportedly more than 1 million square meters or 10.8 million square feet for 2017—that could push vacancies higher, possibly to 19% by year end, from 13% currently.

The central bank tacitly allowed credit growth to jump by nearly one-fifth in early 2016, which enabled the economy to grow 6.7% that year. Credit growth remains elevated, although there has not been a credit spike similar to that in 2009 or 2012. The PBoC remains skeptical about the need for higher credit growth in general. It tightened monetary conditions without swinging broader tools such as lifting official deposit rates or bank reserve ratios, such as by raising repo rates in January.

Given the boost from credit growth, the momentum still in housing, and the relatively benign export environment, a steady near-term outlook is assured. This is all well as the government prepares for the 19th National Congress in autumn. There, President Xi Jinping is expected to unveil changes to the Standing Committee with new members more amenable to his views. This could mean more economic reform, although that prospect remains murky. Despite his five-year tenure, Xi's views on economic reform remain somewhat enigmatic.

Ratings Round-Up

By Njundu Sanneh

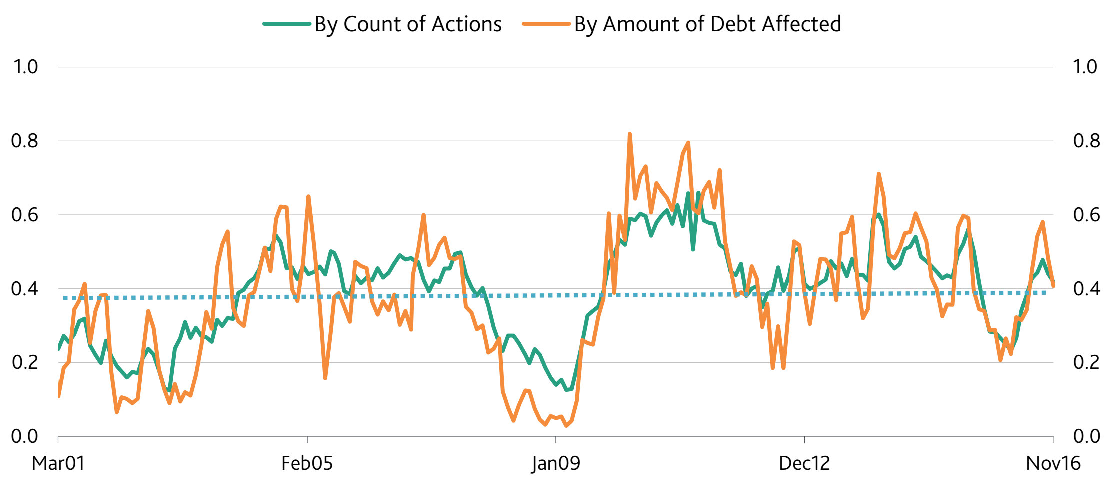
Manufacturer Downgrades in US; Finance Upgrades in Europe

Amidst a sharp drop to an unusually low count of six US rating changes, the ratio of positive to total rating changes also fell deeply, to 17%. The manufacturing sector accounted for three out of the six. The downgrades of Artesyn Embedded Technologies, Inc., Crosby Worldwide Ltd, and the Manitowoc Company, Inc. are precipitated by poor operating performance driven by weak capital spending over the past few years. The other downgrades were of Chalotte Russe Holdings, Inc., a specialty retail entity and Vista Outdoor, a durable consumer products maker. Denbury Resources, Inc. an oil & gas exploration and production company was the only upgraded US company over the past week and the upgrade was the result of improvements in capital structure as it reduced debt levels through debt exchanges and buybacks.

Europe had a much higher incidence of positive rating changes at 60%. The upgrades of three financial companies is a good sign for future positive rating changes. The count of rating changes continues to be relatively low for Europe.

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	IG/SG
5/25/17	ARTESYN EMBEDDED TECHNOLOGIES, INC.	Industrial	SrSec/LTCFR/PDR	233	D	B2	B3	SG
5/25/17	CHARLOTTE RUSSE HOLDING INC. - Charlotte Russe, Inc.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG
5/25/17	CROSBY WORLDWIDE LTD. - Crosby US Acquisition Corp.	Industrial	LTCFR/PDR		D	Caa1	Caa2	SG
5/25/17	DENBURY RESOURCES INC.	Industrial	SrSec/Srsub/LTCFR/PDR	2,232	U	Caa1	B3	SG
5/30/17	MANITOWOC COMPANY, INC. (THE)	Industrial	SrSec/LTCFR/PDR	520	D	B2	Caa1	SG
5/30/17	VISTA OUTDOOR INC.	Industrial	SrUnsec/LTCFR/PDR	350	D	B1	B2	SG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

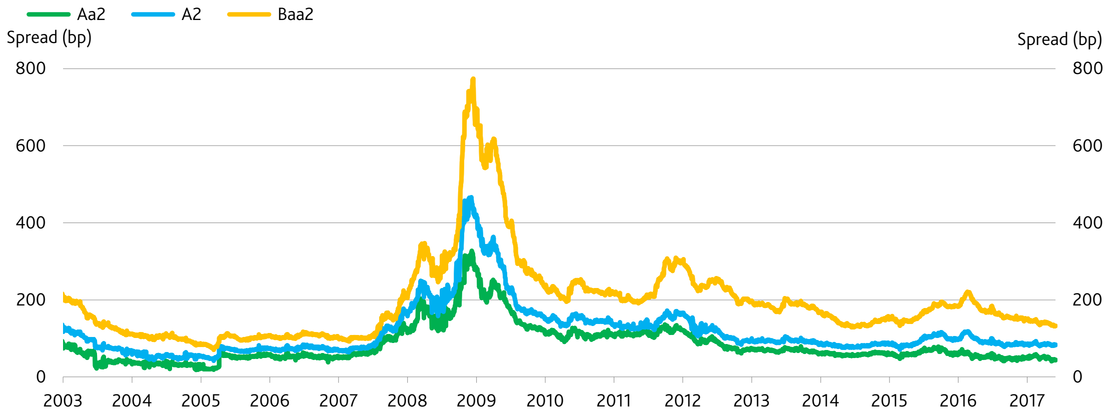
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
5/26/17	INTERNATIONAL BANK OF AZERBAIJAN	Financial	SrUnsec/LTD		D	B1	Caa3			SG	AZERBAIJAN
5/24/17	ENBW ENERGIE BADEN-WUERTTEMBERG AG	Utility	SrUnsec/LTIR/Sub/MTN	5,466	D	A3	Baa1			IG	GERMANY
5/24/17	ABH FINANCIAL (ALFA) -Alfa-Bank	Financial	Sub	1,000	U	B1	Ba3			SG	RUSSIA
5/24/17	INTERNATIONAL PARK HOLDINGS B.V. - PAESA Entertainment Holding, S.L.	Industrial	LTCFR/PDR	470	U	B3	B2			SG	SPAIN
5/26/17	HOIST KREDIT AB (PUBL)	Financial	SrUnsec/SLTIR/Sub/MTN	425	U	Ba1	Baa3	NP	P-3	SG	SWEDEN

Source: Moody's

Market Data

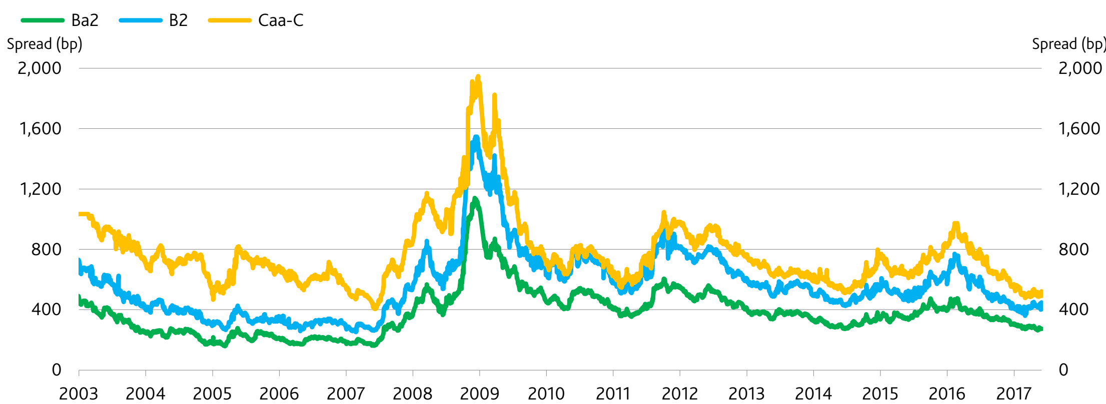
Spreads

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 (May 24, 2017 – May 31, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 31	May. 24	Senior Ratings
Applied Materials Inc.	Baa1	Baa3	A3
Agilent Technologies, Inc.	A2	Baa1	Baa2
John Deere Capital Corporation	A3	Baa1	A2
Walt Disney Company (The)	Aa3	A1	A2
Bank of New York Mellon Corporation (The)	A3	Baa1	A1
Becton, Dickinson and Company	Baa3	Ba1	Baa2
Dominion Energy, Inc.	Aa3	A1	Baa2
Nissan Motor Acceptance Corporation	A3	Baa1	A2
United Airlines, Inc.	B2	B3	Baa1
CSC Holdings, LLC	B1	B2	Ba1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 31	May. 24	Senior Ratings
Apple Inc.	A1	Aa3	Aa1
United Technologies Corporation	A1	Aa3	A3
General Motors Company	Ba3	Ba2	Baa3
Kinder Morgan Energy Partners, L.P.	Baa3	Baa2	Baa3
Anadarko Petroleum Corporation	Ba2	Ba1	Ba1
Halliburton Company	Baa2	Baa1	Baa1
Chesapeake Energy Corporation	Caa2	Caa1	Caa2
Amazon.com, Inc.	A3	A2	Baa1
Colgate-Palmolive Company	A2	A1	Aa3
Bear Stearns Companies LLC. (The)	A2	A1	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 31	May. 24	Spread Diff
Nine West Holdings, Inc.	Ca	5,692	5,480	212
Chesapeake Energy Corporation	Caa2	647	578	69
Neiman Marcus Group LTD LLC	Caa3	1,620	1,555	66
Nabors Industries Inc.	Ba3	330	291	39
Talen Energy Supply, LLC	B1	976	946	30
Windstream Services, LLC	B2	724	695	29
Weatherford International, LLC (Delaware)	Caa1	327	305	22
HealthSouth Corporation	B1	325	304	21
Meritage Homes Corporation	Ba2	215	194	21
PHH Corporation	B1	350	331	19

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 31	May. 24	Spread Diff
GenOn Energy, Inc.	Caa3	1,888	2,562	-674
Hertz Corporation (The)	B3	1,003	1,062	-60
Sprint Communications, Inc.	B1	234	268	-34
United States Steel Corporation	Caa1	518	545	-27
Western Union Company (The)	Baa2	107	133	-26
Becton, Dickinson and Company	Baa2	80	105	-25
Liberty Mutual Group Inc	Baa2	113	138	-25
Best Buy Co., Inc.	Baa1	126	150	-24
Applied Materials Inc.	A3	60	83	-23
McClatchy Company (The)	Caa2	801	825	-23

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (May 24, 2017 – May 31, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 31	May. 24	Senior Ratings
Nationwide Building Society	Baa1	Baa2	Aa3
Natixis	A3	Baa1	A2
Electricite de France	Baa1	Baa2	A3
Deutsche Bahn AG	Aaa	Aa1	Aa1
Tesco Plc	Ba2	Ba3	Ba1
NXP B.V.	Baa2	Baa3	Ba1
Novo Banco, S.A.	Ca	C	Caa2
SES S.A.	Baa2	Baa3	Baa2
Metro AG	Baa3	Ba1	Baa3
Alliander N.V.	A3	Baa1	Aa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 31	May. 24	Senior Ratings
Italy, Government of	Ba3	Ba2	Baa2
Banco Santander S.A. (Spain)	Baa3	Baa2	A3
Standard Chartered PLC	Baa3	Baa2	A2
Danske Bank A/S	A2	A1	A2
Banco Popular Espanol, S.A.	B3	B2	B2
Bank of Scotland plc	Baa1	A3	A1
Switzerland, Government of	Aa3	Aa2	Aaa
Greece, Government of	Caa2	Caa1	Caa3
Telia Company AB	A3	A2	Baa1
Bertelsmann SE & Co. KGaA	A2	A1	Baa1

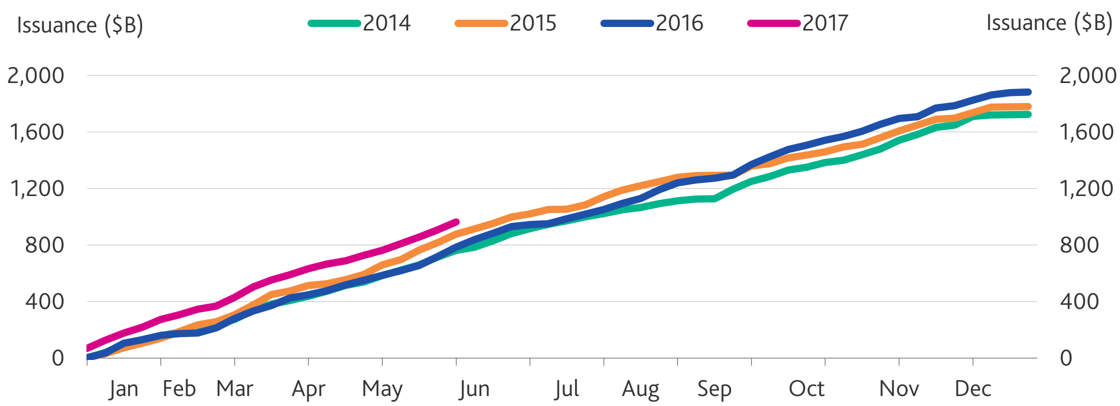
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 31	May. 24	Spread Diff
Norske Skogindustrier ASA	Caa3	10,356	10,130	225
Banco Popular Espanol, S.A.	B2	349	257	92
Astaldi S.p.A.	B3	752	716	36
Greece, Government of	Caa3	598	568	31
Vedanta Resources plc	B3	444	426	18
Fiat Chrysler Automobiles N.V.	B1	301	287	14
CMA CGM S.A.	B3	540	526	14
PizzaExpress Financing 1 plc	Caa1	609	595	14
Assicurazioni Generali S.p.A	Baa2	113	102	11
Eksportfinans ASA	Baa3	528	517	11

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 31	May. 24	Spread Diff
Matalan Finance plc	Caa2	992	1,100	-108
Novo Banco, S.A.	Caa2	987	1,033	-47
Selecta Group B.V.	Caa2	398	435	-37
Novafives S.A.S.	B3	346	368	-22
Stonegate Pub Company Financing plc	Caa1	242	255	-13
Care UK Health & Social Care PLC	Caa1	372	382	-10
Jaguar Land Rover Automotive Plc	Ba1	170	179	-9
Natixis	A2	52	58	-6
Portugal, Government of	Ba1	194	199	-5
Telefonaktiebolaget LM Ericsson	Ba1	112	117	-5

Source: Moody's, CMA

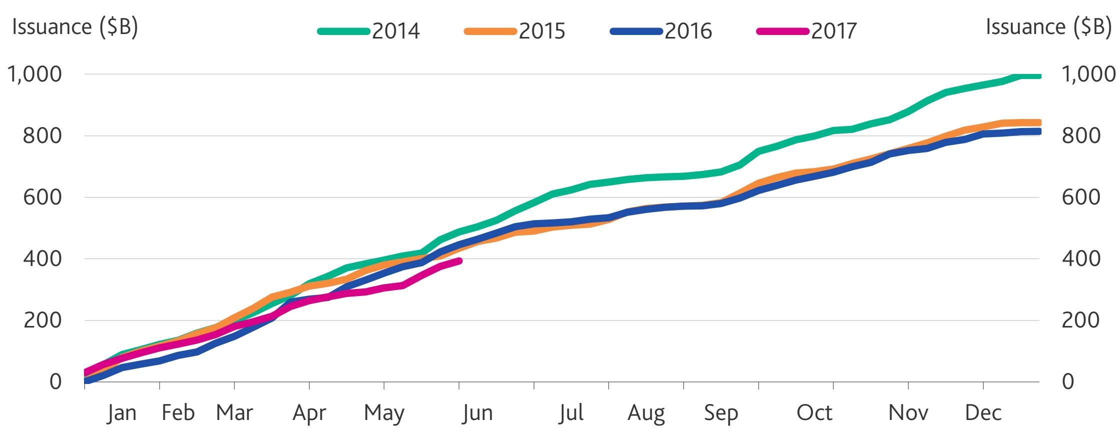
Issuance

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	39.495	14.130	55.278
Year-to-Date	696.842	199.448	962.582

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	13.868	1.458	17.288
Year-to-Date	334.680	42.071	392.777

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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