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ANALYTICS

WEEKLY MARKET OUTLOOK

Capital Allocation and Low Bond Yields Reflect Aging Upturn

Moody's Capital Markets Research

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Credit Markets Review and Outlook

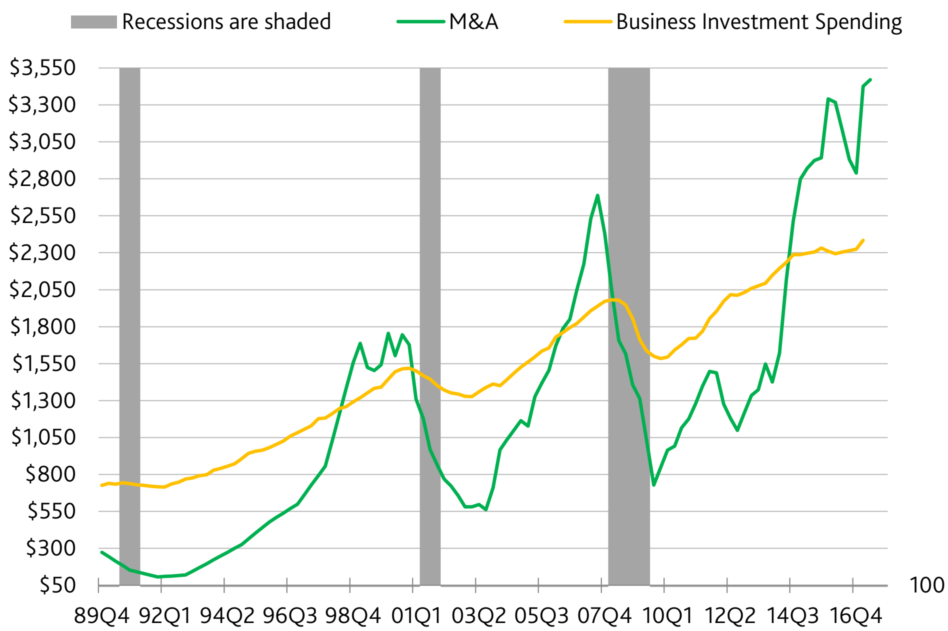
By John Lonski, Chief Economist, Moody's Capital Markets Research, Inc.

Capital Allocation and Low Bond Yields Reflect Aging Upturn

Not too long ago the value of mergers and acquisitions involving US businesses moving 12-month sum sank by -19% from February 2016's record high of $3.485 trillion to November 2016's most recent low of $2.811 trillion. This measure of M&A has since recovered to the $3.47 trillion of the 12-months-ended April 2017 and seems destined to soon establish a new zenith.

This US M&A moving yearlong sum now exceeds US business fixed investment spending of $2.385 trillion for the year-ended March 2017 by a record $1.042 trillion. In terms of moving yearlong sums, M&A has surpassed capital spending in each quarter since June 2014 by +30%, on average. By contrast, for a sample beginning with December 1989 and ending in March 2017, M&A instead trailed capital spending by -18%, on average. (Figure 1.)

Figure 1: Insufficient Returns from Capital Spending Compel Businesses to Turn to M&A for Future Earnings Growth ***moving yearlong sums in $ billions***



Both of the two previous episodes showing the dollar value of M&A topping that of capital spending either preceded or overlapped a recession. The most recent episode stretched from March 2006 through March 2008, or when M&A topped capital spending by 17%, on average. Prior to that, M&A exceeded capital spending by 14%, on average, from June 1998 through December 2000. Thus, M&A has topped capital spending by a record percentage since June 2014.

Why does M&A now exceed business fixed-investment spending by so wide of a margin? Basically, more companies now believe that the returns from acquisitions or divestments top the returns from newly acquired capital stock.

Businesses can grow earnings over time either by expanding their existing production capabilities via capital spending or by purchasing other businesses. As the business cycle matures, the expected returns from additional capital spending might be expected to fade. Granted that the introduction of successful new products could buck this tendency, but the cyclical depletion of pent-up consumer demand might be great enough to suppress expected returns from both new and existing products.

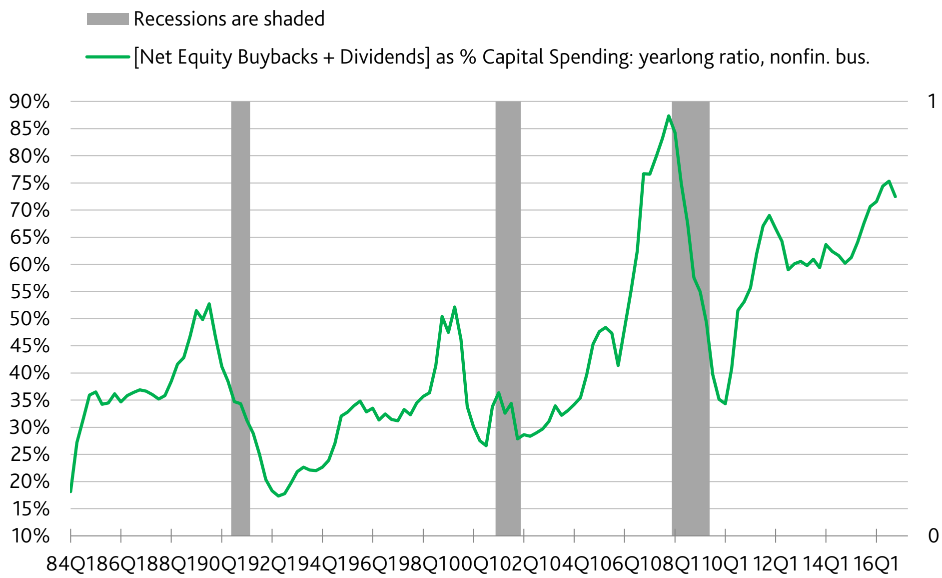
Thus, companies are more likely to attempt to sustain earnings growth late in the cycle via acquisitions or the divestment of underperforming business lines. Buyers often intend to improve the profitability of newly purchased businesses through cost-saving synergies. Here, the achievement of economies-of-scale is relied on to widen profit margins.

To boost future earnings, companies might lean more heavily on M&A than capital spending, the more subdued is the long-term outlook for operating profits from existing operations. To an important degree, M&A's heightened importance as a long-term driver of earnings growth has been enhanced by the dullest long-term outlook for US sales growth on record. For example, a projected 4.0% average annual rise by nominal GDP over the next 10 years equates to roughly a 3.7% average annual gain for corporate gross-value-added — a proxy for business sales of final products. By contrast, corporate gross-value-added grew by a faster 5.3% annualized, on average, during the 20-years-ended 2007.

Well above-trend ratio of shareholder compensation to Cap Ex

Just as M&A is now atypically high vis-a-vis total capital spending, shareholder compensation — the sum of net dividends plus net equity buybacks — is relatively ample when compared to the fixed investment spending of US nonfinancial businesses. For yearlong 2016, shareholder compensation equaled 72.5% of capital spending by nonfinancial businesses. Though the ratio dipped from its current cycle high of 75.3% from the year-ended September 2016, 2016's 72.5% surpassed both 2015's 70.6% and its 58.6% average of 2010-2014. (Figure 2.)

Figure 2: Shareholder Compensation Remains Elevated Relative to Capital Spending, but Q4-2016 Drop by Net Equity Buybacks Eases Ratio



During the business cycle upturn that preceded the Great Recession, shareholder compensation soared from 2002's 29.7% to 2007's record high 87.4% of nonfinancial-business capital spending. The latter suggests that companies throughout much of 2007 expected the next recession would be relatively mild and largely confined to the housing industry. Many nonfinancial companies failed to grasp how devastating housing's collapse would be to both financial institutions and systemic liquidity.

Any climb by the ratio of shareholder compensation to capital spending is likely to be steeper, the more the projected returns from capital spending are deemed to be insufficient. However, a substantial overvaluation of US equities may discourage companies from buying back richly priced shares. The incentive to buyback equity will probably be stronger, the more management believes that its share prices are undervalued.

By 2016's second half, US equities had become materially overvalued and that may explain why the moving 12-month sum of net equity buybacks eased from September 2016's current cycle high of $619 billion to December 2016's $566 billion. The record high for the moving 12-month sum of net stock buybacks was set at the $706 billion of December 2007. Despite the harsh plunge awaiting equities as of year-end 2007, 2007's net stock buybacks exceeded those of today partly because the degree of market overvaluation was far less severe in 2007 than it is today. The overvaluation of today's US equity market rivals that of 1999. By 1999's second-half, net stock buybacks had entered into a declining trend.

Credit Markets Review and Outlook

Futures imply a 1.125% midpoint for year-end 2017's fed funds rate

The 10-year Treasury yield was recently at 2.25% and resembles its 2.26% average of November 2015, which was just before the first of three Fed rate hikes. Thus, despite a 75 bp hiking of fed funds from a 0.125% midpoint to the current 0.875%, the 10-year Treasury yield has hardly budged. Basically, the containment of inflation expectations and the lack of a broad-based acceleration by expenditures explain why the 10-year Treasury yield has been effectively indifferent to the 75 bp hiking of fed funds.

Following the release of the minutes pertaining to the FOMC's latest meeting of May 2-3, Treasury bond yields dipped. Nevertheless, the fed funds futures market now assigns an 83% probability to a June 14 hiking of fed funds midpoint to 1.125%. However, as inferred from analysis by the CME Group's FedWatch tool, the futures market now assigns only a 45% likelihood to a greater than 1.125% midpoint for fed funds following the FOMC's final meeting of 2017 that is scheduled for December 13.

The muted response by the 10-year Treasury yield to recent Fed rate hikes resembles what transpired during the monetary tightening of 2004-2006. Back then, fed funds was rapidly ratcheted upward from May 2004's 1.00% to a 5.25% cycle top by June 2006.

Despite the 425 bp hiking of fed funds, the 10-year Treasury yield's month-long average rose by merely 39 bp from May 2004's 4.72% to June 2006's 5.11%. Better yet, during June 2004 through June 2006, the 10-year Treasury yield averaged 4.42%, which was less than its May 2004 average of 4.72%.

Furthermore, when fed funds remained at 5.25% from June 2006 through August 2007, the 10-year Treasury yield averaged 4.80%. The inverted yield curve of that span correctly predicted the severe recession of 2008-2009. We doubt if the Fed is ready to tolerate another inversion of the Treasury yield curve. Thus, the 10-year Treasury yield will help to set a top for fed funds during the current cycle.

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 19: The U.S. labor market has tightened significantly but hasn't generated a ton of inflation pressures. In fact, year-over-year growth in the core consumer price index has softened recently, hitting 1.9% in April, compared with 2.3% in January and less than the 2.2% in April 2016. Because prices are more flexible than wages, in theory they should provide a telling sign whether the economy is at full employment. If it is, prices should be accelerating.

This creates a conundrum for the Fed. Low unemployment argues for tighter policy; low inflation argues for easier policy. The Fed has put more emphasis on the low unemployment, arguing the economy is close to or at full employment. This could be true, but it may not translate into a significant acceleration in core inflation—at least not immediately. We expect the minutes from the May Federal Open Market Committee meeting to show that the debate about whether the economy is at full employment or not has remained lively. The discussion of the balance sheet will be key. However, the Fed needs to be careful about how it communicates changes to its balance sheet. We don't anticipate the minutes to tip the Fed's hand on how or when it will begin to normalize the balance sheet. Still, the minutes could show whether a consensus is beginning to form.

As for the economic data, we expect first quarter real GDP growth to be revised up to 0.9% at an annual rate, better than the 0.7% in the government's advance estimate. We don't anticipate any revision to real consumer spending, but the composition will shift. Some of the upward revision will be in inventories, which is less favorable for growth this quarter. Existing-home sales are forecast to have fallen 2.5% to 5.57 million annualized units in April. New-home sales likely held onto the bulk of their recent gains in April. Durable goods orders likely fell 0.6% in April following a 0.7% gain in March. A good portion of the weakness will be in the volatile aircraft component.

FRIDAY, MAY 19

No major releases scheduled.

MONDAY, MAY 22

Business confidence (week ending May 19; 10:00 a.m. EDT)

Forecast: N/A

Global business sentiment is rock solid, particularly in the U.S., as it has been since before last year's presidential election. Confidence is consistent with a global economy that is expanding at a pace that is above its potential. Businesses' biggest complaint is regulatory and legal issues, with close to half of respondents, a record, saying these issues are their greatest worry. One-fifth of respondents say the cost and availability of labor is their most serious problem.

The four-week moving average in our global business confidence index rose from 33.9 to 34.6 in the week ended May 12.

TUESDAY, MAY 23

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

Forecast: 619,000 annualized units

Conditions have generally improving for the new-home market. Sales rose 5.8% to 621,000 annualized units in March, noticeably better than either we or the consensus expected. Revisions to prior months were positive, with a net improvement of 43,000. New homes listed for sale rose in March, nearly hitting 270,000. This is still insufficient to keep up with demand, as the inventory-to-sales ratio fell from 5.4 months in February to 5.2 months in March. We believe new-home sales held onto the bulk of the recent gains, coming in at 619,000 annualized units in April.

WEDNESDAY, MAY 24

Existing-home sales (April; 10:00 a.m. EDT)

Forecast: 5.57 million annualized units

We look for existing-home sales to have fallen 2.5% to 5.57 million annualized units in April. This would be a larger decline than is implied by pending-home sales, which fell 0.8% in March. Pending-home sales lead existing sales by one to two months. The trend in existing-home sales will likely soften, since the lack of inventory remains problematic. We look for inventories to have dropped on a year-ago basis in April, a support to house prices. Existing-home sales and house prices feed into GDP via broker commissions, which are counted in residential investment. Currently our high-frequency GDP model estimates real residential investment rose 3.2% at an annual rate.

THURSDAY, MAY 25

Jobless claims (week ending May 20; 8:30 a.m. EDT)

Forecast: 240,000

Initial claims have fallen for three consecutive weeks, but we expect the streak to end. New filings likely rose from 232,000 to 240,000 in the week ended May 20. That would reverse little of the 25,000 decline in initial claims over the prior three weeks. Continuing claims take on added importance because they include the May household reference week. Continuing claims fell 22,000 to 1.9 million in the week ended May 6 while the insured unemployment rate remained at 1.4%. We look for a modest gain in continuing claims in the week ended May 13.

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

Forecast: $64.2 billion

The advance goods deficit is forecast to have narrowed from $64.8 billion in March to $64.2 billion in April. The appreciation in the U.S. dollar remains a drag on trade, hurting exports while boosting imports. Within the details, we will be keeping an eye on autos. The vehicle cycle is showing signs of fatigue but doesn't put the expansion in serious jeopardy. The Bureau of Economic Analysis' measure of motor vehicle output—which includes the value added (including wages and salaries and commissions) from retail and wholesale margins (including sales taxes) for new and used domestic and imported vehicles—suggests motor vehicles have added a couple of tenths of a percentage point to GDP growth per year recently.

FRIDAY, MAY 26

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

Forecast: 0.9% at an annual rate

We expect first quarter real GDP growth to be revised up to 0.9% at an annual rate, better than the 0.7% in the government's advance estimate. We don't anticipate any revision to real consumer spending but the composition will shift. Annual revisions to retail sales suggest nondurable and durable goods consumption will be revised lower by a combined 0.2 percentage point. However, the advance Quarterly Services Survey for the first quarter points toward a small upward revisions to services spending. Elsewhere, we look for real equipment spending to be revised a touch lower, coming in at 8.8% at an annual rate, compared with the 9.1% in the government's advance estimate. Nonresidential structures investment will also be revised higher even after posting a 22.1% annualized gain in the advance estimate. Growth in real residential investment will be revised slightly higher.

The forecast assumes net exports were neutral for first quarter GDP growth, less than the 0.1-percentage point contribution in the advance estimate. The annual revisions to factory orders suggest inventories were a smaller drag on first quarter GDP than previously thought.

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

Forecast: -0.6%
Durable goods orders likely fell 0.6% in April following a 0.7% increase in March. The forecast assumes an upward revision to orders in March, which has been the norm recently. Weakness will be concentrated in aircraft, as we expect both defense and nondefense orders to have fallen in April. For nondefense, Boeing orders were soft in April. Defense aircraft orders have been strong recently, but payback is likely in April. Limiting the hit to orders will be a decent gain in motor vehicles and parts. The level of core capital goods orders, or nondefense orders excluding aircraft and parts, has been above shipments. Therefore, we look for a modest gain in core capital goods shipments in April.

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

Forecast: 97.7
The University of Michigan's consumer confidence index is forecast to have come in at 97.7 in May, according to the final estimate. This would be identical to the preliminary survey and slightly better than April's 97.7. The drivers of sentiment have been mixed. Stock prices are a small weight, but we believe the recent drop in equity prices occurred too late to have a big effect on sentiment. The labor market is a positive, as are gasoline prices. Inflation expectations warrant close watching as they remain very depressed.

EUROPE

By the Dismal (Europe) staff in London and Prague

Summary, May 19: The publication of second GDP estimates for most euro zone countries and the U.K. will headline the coming week. We aren't forecasting any major revisions to the preliminary data, so we still expect the euro zone's aggregate GDP to come in at 0.5% q/q in Q1, the same rate as in Q4, and U.K. GDP to lag at 0.3%, down from a 0.7% increase previously. But the lack of downside or upside risks to the first numbers does not mean that markets won't be closely watching the releases, which will bring the expenditure breakdown of growth and shed light on the health of the economies as a whole. For the euro zone, we expect that construction and manufacturing investment, as well as net exports, were the main engines of the expansion. Warmer than average temperatures in February and March likely boosted both housebuilding and infrastructure work across the Continent, and both external and internal demand helped factory growth and exports to a strong start to the year. Across major economies, Germany and Spain likely did the heavy lifting to offset a sharp slowdown in France, mainly because of a strong slowdown in consumer spending, and broadly poor numbers for Italy. Portugal and Finland are also expected to have overperformed, while Greece officially entered recession with its GDP falling for the second quarter running.

The U.K.'s picture, meanwhile, is much less upbeat. The preliminary estimate of GDP, based on the production breakdown of growth, showed the service sector as the main culprit of the marked slowdown at the start of 2017. But it hardly carries all the blame. Construction and production output also lost substantial momentum. Plus, industrial production data for March, which were not available at the time the preliminary estimate was put together, showed that production likely increased by only 0.1% q/q in the first quarter, below ONS's assumption of a 0.3% rise. We do not think, however, that this disappointment in production will be enough to push growth down to 0.4%.

In the expenditure breakdown, consumer spending was likely the big letdown. Output in consumer-focused industries, such as the distribution, hotels and restaurants sector, and transport and communication, fell sharply in Q1. So did retail sales, which plunged 1.4% q/q in the three months to March. Our base-case scenario is that spending likely mean-reverted from the extraordinary Q4 results, when consumers brought forward planned 2017 purchases in anticipation of soaring prices. But this does not mean that spending should bounce back in the second quarter: The sharp acceleration in prices due to the lower pound, combined with a further slowdowns in wage growth, is weighing heavily on consumers' finances. We expect a mounting loss of momentum in consumer spending to be the main drag on growth in 2017.

Consumer spending will not have been the only poor performer. Little support likely came from investment. Machinery and equipment capital expenditures likely contracted, given the poor results of the production industry. Only a small offset should have come from construction investment, even though warmer than average temperatures were supposed to provide a strong boost to the sector. We expect investment in private industrial construction to have been the main drag, suggesting that producers are likely postponing capital expenditures until they have more clarity on terms of the U.K.'s exit from the EU.

Net trade meanwhile likely will have made a negative contribution to growth, as growth in volume of goods and services that the U.K. imported in the three months to March strongly outpaced exports. Exports are struggling because exporters are raising their sterling prices rapidly: Since June's referendum vote, foreign-currency prices of U.K. goods have barely dipped, as exporters raised their selling prices by around 10%, offsetting most of sterling's double-digit plunge against the euro and the dollar. Plus, the degree of import substitution following the pound's depreciation is reduced by the U.K.'s low industrial base, meaning that imports will remain strong even if they cost more. In all, we see little scope for net trade to increase its contribution to GDP growth substantially in 2017.

MONDAY, MAY 22

No major economic releases are scheduled.

TUESDAY, MAY 23

Germany: GDP (Q1; 8:00 a.m. BST)

Preliminary estimates show German output advanced 0.6% q/q in the first quarter after expanding 0.4% in the previous stanza. In year-ago terms, the growth rate decelerated to 1.7% from 1.8%. Private and government consumption likely supported output growth. Fixed investment probably recovered in the first quarter, mainly thanks to strengthening construction, but a rebound in machinery and equipment investment is also expected. Net exports gained further in the three months to March, as imports rose more slowly than exports. The weaker euro and improving global economy supported German exports, but the buildup of unfavorable external conditions will prevent trade from supporting growth significantly this year. The outlook for 2017 is clouded, as the tailwinds supporting growth over the last few years will abate. Political turbulence abroad and at home adds to the already-high level of uncertainty. We expect German GDP to grow 1.7% this year and 1.6% in 2018.

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

We expect exports will improve in the near term as demand from Spain's main EU partners gains momentum. Major export sectors will benefit from the stronger than expected rebound in the single-currency region. Higher global oil prices, however, will weigh on the import bill because Spain relies heavily on energy imports. We therefore expect the trade deficit hovered around €2.8 billion in March, nearly the same as in February, as imports still outpaced exports. The U.K. exit from the EU could alter Spain's growth projections, but its impressive GDP growth of around 2.8% this year will speed up capacity utilization and put the export sector on a solid footing.

WEDNESDAY, MAY 24

France: Job Seekers (April; 5:00 p.m. BST)

France's job market is modestly improving and we expect the number of job seekers fell to 3.49 million in April after a poor showing in March. Annual numbers should maintain their downward trend thanks to several measures to reduce labor costs that were introduced in 2015 and 2016, including a tax credit. A slower growth of the labor force at the start of 2017, coupled with a stronger overall economy, should help to drive down unemployment. Moreover, Emmanuel Macron's recent presidential win opens up the possibility of more labor market reforms, such as rethinking the strictly regulated 35-hour workweek. But reform efforts will likely focus on the sustainability and quality of new jobs rather than on sheer job creation.

THURSDAY, MAY 25

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

The Spanish economy likely posted a stellar performance in the first quarter, at 3% y/y. The major boost to growth likely stemmed from household spending, as consumer confidence appears to be firming. Our forecast envisages some in the second half of the year, however, since industrial production is expected to peak in the second quarter. Nonetheless, the expansion will bolster employment, and the absorption of lingering slack should keep on at a swift rate. Wages are not expected to keep up, though.

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

We expect that the second estimate of the U.K.'s first quarter GDP growth will match the preliminary numbers, which showed that activity expanded by 0.3% q/q in the three months to March, slowing markedly from a 0.7% rise in Q4. Risks lie to the downside, since worse than forecast industrial production numbers for March mean that production increased by only 0.1% q/q in the first quarter, below the 0.3% rise which fed into the preliminary estimate produced by the ONS. The expenditure details should show that the main culprit of the slowdown was a marked loss of momentum in consumer spending, which likely was down to 0.3% q/q, from 0.7% in Q4 and an average of 0.8% in 2016. Behind this slowdown is the fact that consumer real wages started to decrease in yearly terms in February, and that this plunge accentuated itself in March, as wage growth slowed further while price increases gathered pace on the back of the lower pound, raising prices of imported goods. Investment likely also disappointed; growth in construction was sluggish and machinery and equipment capital expenditures likely fell over the quarter given the poor results for factory growth at the start of the year, as well as the uncertainties surrounding Britain's exit from the EU. Net exports, meanwhile, are expected to have subtracted from growth; the volume of exports barely rose in the three months to March, while import volume increased by a strong 3.3% q/q. In all, little support is expected to come from any of the expenditure divisions in Q1.

FRIDAY, MAY 26

No major economic releases are scheduled.

ASIA-PACIFIC

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

Japanese consumers remain constrained by weak wages

Japan's economy is performing well in 2017. A weak yen is supporting export-facing manufacturers, although the boost from the global tech cycle is fading. Housing starts have slowed from their rapid pace in 2016, but investment in residential property will remain firm in 2017. Consumer confidence is expected to rebound in May as geopolitical risks ease. Nominal spending is expanding strongly, supported by higher fuel costs. Employment growth is upbeat and the labor market continues to tighten. But firms remain reluctant to increase spending on their employees, and this is crimping wage growth and keeping a lid on real spending activity.

Korea's economy is starting 2017 on steady footing, with the second estimate of March quarter GDP expanding 0.9% q/q. Industrial production likely improved in April as strong global demand supports production of electronic parts and components. However, tension with China will weigh on export orders and dampen growth in the coming months. The monthly trade balance likely moderated in May as export growth slowed and import prices picked up. Stronger consumer sentiment will support spending in April, although high private debt and weak wage gains continue to crimp growth. The subdued domestic environment is weighing on underlying inflation, despite high global energy prices pushing up the cost of transport and utilities.

Manufacturing in Thailand likely rebounded in April after a weak showing in March. Strong global tech demand and improved auto production will support headline industrial production growth. But tepid domestic demand remains a downside risk to the outlook. The monthly trade surplus is expected to expand in April, driven by improved global demand. Imports are also gaining traction as manufacturers demand more intermediate goods and raw materials.

India's economy continues to expand steadily, despite the demonetization shock late last year. Consumption is a key driver of growth, supported by a good monsoon season and government stimulus measures, while investment remains a weak spot.

Australian consumers are unwilling to spend, as weak wage growth and rising debt servicing costs hurt budgets. Retail trade likely ticked up a measly 0.1% m/m in April after a comparable decline in March. The outlook is for more of the same until stronger wage growth supports spending.

Chinese manufacturing conditions likely improved marginally in May, recovering slightly from the steady deterioration in April. Demand is waning, and this is translating to weaker production. However, the fall in the previous month was likely overdone, hence a slight recovery in May.

THURSDAY, MAY 25

South Korea – Monetary Policy – May

Time: Unknown
Forecast: 1.25%
The Bank of Korea will likely stand pat at the May monetary policy meeting, leaving interest rates at 1.25%. Domestic conditions are weak despite improvement on the export front. Subdued employment growth is weighing on wages, and combined with high private debt, this is hampering spending. Further easing is off the cards, because it would spur demand for credit. Rising global interest rates will put downward pressure on the currency and raise the debt servicing cost of foreign-held debt. Overall, we expect the BoK to stand pat through 2017 before stronger inflation prompts hiking in 2018.

Hong Kong – Foreign Trade – April

Time: 6:30 p.m. AEST (8:30 a.m. GMT)
Forecast: -HK$30.2 billion
Trade activity through Hong Kong's port is growing strongly. Broad-based export growth indicates that global trade is strengthening. Commodity shipments are being driven by China's investment recovery, which is boosting both values and volumes of shipments. Global tech demand is also driving tech component shipments through Hong Kong, although there are emerging signs of a slowdown. The monthly deficit likely narrowed to HK$30.2 billion in April, from HK$42.3 billion in March.

FRIDAY, MAY 26

Singapore – GDP - Final – 2017Q1

Time: Unknown
Forecast: 2.7%
We look for the final estimate of Singapore's first quarter GDP growth to be revised up to 2.7% y/y, compared with the 2.5% advance estimate. This would still be lower than the prior quarter in which

GDP rose 2.9%. Services will continue to be the main positive for the city-state's economy, benefiting from stronger global economic conditions and improving domestic consumption. Manufacturing also has received a boost from external demand. Construction will remain a weak point as falling house prices crimp building.

South Korea – Consumer Sentiment Index – May

Time: 7:00 a.m. AEST (Thursday 9:00 p.m. GMT)
Forecast: 102.8
The Korean presidential election likely boosted consumer confidence further in May. The Bank of Korea's consumer sentiment index likely ticked up to 102.8 from 101.2 in April, as households feel more optimistic about future economic conditions. The election of President Moon Jae-in in May provides some clarity to government policy after a tumultuous political scandal in late 2016. This will likely boost both consumer and business confidence, supporting economic growth.

Japan – Consumer Price Index – April

Time: 9:30 a.m. AEST (Thursday 11:30 p.m. GMT)
Forecast: 0.3%
Japan's core consumer price index was likely unchanged in April from March's 0.3% y/y. We expect prices to rise slowly over the coming months because of higher imported inflation. This will filter through the economy via transport costs and other ancillary products. Though core inflation will rise, it will remain well below the central bank's 2% inflation target. We don't see the Bank of Japan adjusting its policy levers any time soon, and the central bank's next move will likely be asset purchase tapering.

Singapore – Industrial Production – April

Time: 3:00 p.m. AEST (5:00 a.m. GMT)
Forecast: 8%
Singapore's industrial production growth is forecast to have slowed to 8% y/y in April from 10.2% in March. Manufacturing has been buoyed in recent months by the rebound in global tech demand. This has resulted in a surge in electronics and precision engineering output. Biomedical production has also improved because of stronger demand from Europe. Whether manufacturing output can maintain the current pace of increase depends on global demand. On this front, the risks are weighed to the downside, as China's cyclical upswing appears to have reached its peak.

Taiwan – GDP – 2017Q1

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Forecast: 2.6%
Taiwan's economy is riding the global tech demand wave. The second estimate of GDP growth in the March quarter is likely unchanged from the initial estimate of 2.6% y/y, down slightly from the December quarter's 2.9% y/y gain. Exports added strongly to the gain, while private consumption has lagged. Investment was also upbeat, as businesses feel more optimistic about the future. Strong export demand will remain a driver of growth in the coming quarter.

MONDAY, MAY 29

No major economic indicators are scheduled for release.

TUESDAY, MAY 30

Japan – Employment Situation – April

Time: 9:30 a.m. AEST (Monday 11:30 p.m. GMT)
Forecast: 2.8% unemployed
Japan's labor market is expected to remain tight, and the jobless rate will likely be unchanged from March's 2.8%. Full-time jobs have increased over the past year, and growth in part-time jobs also remains strong. That said, wage gains remain dismal because firms are still pessimistic and reluctant to increase spending. Growth in the female workforce will likely remain strong over the coming year.

Japan – Household Expenditures Survey – April

Time: 9:30 a.m. AEST (Monday 11:30 p.m. GMT)
Forecast: 0.5%
Nominal workers' household expenditures are rising on the back of increased retail fuel costs. Expenditure is expected to rise again in April after March's 0.7% gain. However, diving deeper into consumption, both real incomes and expenditures remain a concern. Households are losing purchasing power because of the yen's depreciation, which has been compounded by a rise in fuel costs. These factors will likely see nominal expenditures increase, but if not matched by higher incomes, real spending will continue to decline over the coming year.

Japan – Retail Sales – April

Time: 9:50 a.m. AEST (Monday 11:50 p.m. GMT)
Forecast: 1.5%
Retail spending will likely remain firm in April after a 2.1% y/y increase in March. However, most of the increase stems from low base effects last year. Spending on fuel has risen sharply on the back of rebounding commodity prices. This will likely keep retail spending bloated over the coming months. That said, spending on discretionary items remains persistently low because of weak wage growth.

WEDNESDAY, MAY 31

Thailand – Industrial Production – April

Time: Unknown
Forecast: 1.5%
We expect Thailand's industrial production growth to improve to 1.5% y/y in April after it contracted 0.5% in March. The main driver of the improvement will be electronics as Thai producers receive a boost from stronger global demand. Likewise, auto production should also improve in the coming months. Growth in food production will also benefit from low base effects as the agriculture sector has recovered after a severe drought hurt output in the opening months of 2016. The main drag on manufacturing output will be soft domestic demand. Private investment has been persistently weak, while consumption growth is largely tied to ad hoc stimulus measures from the junta government.

South Korea – Industrial Production – April

Time: 9:00 a.m. AEST (Tuesday 11:00 p.m. GMT)
Forecast: 6.9%
Korean manufacturing remains upbeat, with growth accelerating to 6.9% y/y in April from 3% y/y previously. Strong global demand for electronics is supporting production of semiconductors and components. The auto sector remains a weak spot, likely dragging on headline activity. Manufacturing conditions deteriorated in April, as export orders from China fell sharply. Chinese authorities are unhappy with the deployment of a U.S. missile defense system in Korea, and this is manifesting in weaker trade and business activities between the two countries.

South Korea – Retail Sales – April

Time: 9:00 a.m. AEST (Tuesday 11:00 p.m. GMT)
Forecast: 0.4%
Korean consumers likely started the second quarter on a slightly stronger note, with retail sales expanding 0.4% m/m in April after remaining flat in March. Sentiment has improved since the election of President Moon Jae-In, and this will support spending decisions in the coming months. However, high private debt and stubbornly low wages remain downside risks to the outlook.

Japan – Industrial Production – April

Time: 09:50 a.m. AEST (Tuesday 1:50 p.m. GMT)
Forecast: 1.1%
Production momentum in Japan remains uneven. The upswing in the tech cycle is fading, which caused production to drop in month-ago terms by 2.1% in March. That drop is unlikely to be repeated in April, and production will likely increase over the month. On an over-the-year basis, production has risen consistently. The tailwind from the yen's depreciation has also propelled large manufacturers in early

2017. Business sentiment has firmed, and we expect export-facing large manufacturers to see large corporate profits later this year.

China – Manufacturing PMI – May

Time: 11:00 a.m. AEST (1:00 a.m. GMT)
Forecast: 51.3
Manufacturing sentiment in China declined in April. Sentiment fell across a broad range of categories, suggesting that conditions are not as good as had been thought. A dip in imports also confirms that manufacturers are seeing lower demand and slowing their production as a result. That said, the decline in April seems overdone. The official PMI likely rose to 51.3 in May from 51.2 previously.

Japan – Housing Starts – April

Time: 3:00 p.m. AEST (5:00 a.m. GMT)
Forecast: 3%
Housing starts in Japan have slowed in early 2017, but that's not surprising after the strong increase in 2016. We expect the pace will likely quicken in April after a 0.2% y/y increase in March. The housing market was always unlikely to keep the pace through 2017, although investment in residential property remains firm. The declining population and ageing workforce will likely see housing activity remain cool over the coming years.

Thailand – Private Consumption – April

Time: 5:30 p.m. AEST (7:30 a.m. GMT)
Forecast: 2.7%
Thailand's private consumption growth will slow to 2.7% y/y in April from 3% in March. Income growth is the main impediment to a more consistent increase in household consumption. Compounding this is the uncertainty surrounding Thailand's political situation. As a result, durable goods spending will slow in the near term as consumers are reluctant to commit to the purchase of big-ticket items. One positive in the data will be spending by foreigners. The tourism sector has bounced back in recent months as the growth in visitors has started to pick up.

Thailand – Foreign Trade – April

Time: 5:30 p.m. AEST (7:30 a.m. GMT)
Forecast: US$3.6 billion
Thailand's trade surplus is expected to widen to US$3.6 billion in April after coming in at US$2.9 billion in March. The main driver of this will be an improvement in exports as external conditions continue to benefit Thai manufacturers. In particular, electronics and auto exports have been increasing thanks to the widespread improvement in global demand. Imports have also been expanding rapidly as manufacturers require more intermediate goods and raw materials as their output increases.

India – GDP – 2017Q1

Time: 10:00 p.m. AEST (12:00 p.m. GMT)
Forecast: 7%
Forecasting India's GDP growth remains difficult because of the impact of the demonetization shock over the past few months. The removal of 86% of currency from circulation didn't cause much shock in the December quarter, when GDP expanded 7% y/y. We expect this pace will be unchanged in the March quarter, though some slowdown in nominal GDP is expected. The new wholesale price index is lower than its previous iteration, and this will boost overall headline GDP growth. Consumption will remain the key driver of growth, with improvements in the rural sector thanks to a good monsoon season last year and government support. Investment remains weak, and with bank balance sheets not looking much brighter, we expect this will remain the case in March. Some positives will likely be seen from a rise in export values, although their contribution to overall GDP growth will be partially offset by 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.

The Long View

The US: The early funding of the latest surge by M&A has relied much more on bank loans than on bond offerings

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
May 25, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 121 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 380 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.

The Long View

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

In 2017, worldwide corporate bond offerings may dip by -1.3% annually for IG and may advance by + +16.5% 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
May 25, 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. This raises upside risks to euro zone unemployment figures to be released next week: We expect that the labor market's performance continued to impress in April and that the unemployment rate fell to an eight-year low of 9.4%, raising the outlook for consumer spending in 2017. Cyclical labor 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' labor 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. Although the outcome of the French election on Sunday removed a key political risk for the euro zone, 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 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 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 labor market. 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 earlier this week. 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. 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 Emily Dabbs and the Asia-Pacific Staff of Moody's Analytics
May 25, 2017

China's economy started the second quarter on a soft note. Industrial production, fixed-asset investment, and retail trade all softened in April after a strong performance in March. Consumer spending is still outperforming other sectors as rising wages support demand. The housing market has likely reached its peak, and slower price growth is filtering down to investment. Meanwhile, the government's efforts to reduce overcapacity in heavy industry is hitting the mining sector.

The Moody's Analytics high-frequency GDP tracking model estimates China's economy is growing around 7.1% annualized, down from 7.5% before April data were released. This would put year-on-year growth at around 6.8%, slightly softer than the March quarter's 6.9% gain. The estimate is generally quite accurate after the second month of data for the quarter, where we expect another a slight dip in the estimate.

Consumer spending continues to outpace other sectors of the economy as strong wage growth supports demand. Retail trade expanded 10.7% y/y in April, down slightly from 10.9% in March. Despite the recent slowdown, growth is still up compared to this time last year as wage growth remains steady. Disposable wage growth, as reported in the national accounts data, is up 8.8% y/y in the March quarter, stronger than the previous quarter's 8% gain. However, government officials stated that average wage growth is closer to 10%. Either way, steady wages are supporting spending.

The slowdown in April was mainly due to weaker auto sales as the boost from government subsidies fades. Chinese authorities introduced generous subsidies for electric and hybrid cars in 2016, aiming to support the auto industry and reduce heavy pollution. But after widespread corruption of the program, the government tightened criteria and raised standards for applicants. This will likely limit any further boost to retail trade from the auto sector in 2017.

Fixed-asset investment slowed in April as housing comes off the boil and overcapacity in mining continues to drag. Headline growth decelerated to 10.5% y/y from 10.7% previously. China's housing market has reached its peak, with price growth in Tier 1 and Tier 2 cities slowing in 2017. This has filtered through to investment in real estate, which grew at the slowest pace since September. We expect investment in this sector to slow as tighter lending and purchasing restrictions dampen demand.

The drag from mining investment continues to bite, declining 9.5% y/y. This is the second consecutive month that mining has detracted from growth after a brief gain in the January-February period. The decline has decelerated from the double-digit falls experienced in 2016 as low base effects fade. It is not only mining investment that is struggling, with mining production also declining. Mining production of petroleum, natural gas and metals continues to decline, although mining support services surged in April.

Manufacturing was a bright spot in late 2016 and the first quarter of 2017, as an upswing in the global tech cycle supported demand for electronics. However, this boost has started to fade as the tech cycle reaches a peak. Manufacturing of information and communication technology equipment slowed to 13% y/y, the slowest rate of growth since November. The boost from auto subsidies is also fading, weighing on production in the sector. These trends will likely continue over the coming months.

Ratings Round-Up

By Njundu Sanneh

Lower US Upgrade Ratio

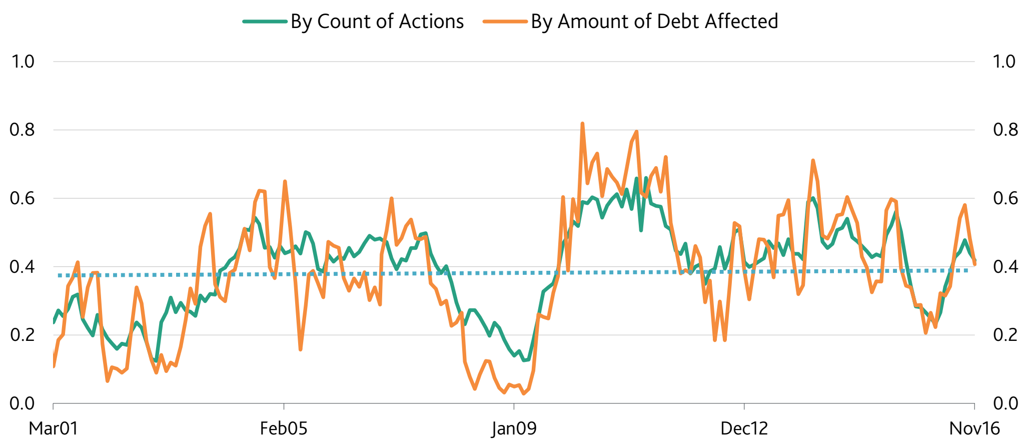
In the past week the ratio of upgrades to total rating changes fell substantially in the US, while Europe saw a slight increase. The 47% ratio of US positive rating changes to total rating changes was less than the 60% for the week earlier, but above the long-term 3-month trailing average of 40%. This steadily high level of rating changes is reflective of an improving corporate credit cycle.

In the US retailers and business/consumer services were conspicuous on the downgrade side, with technology/software and aerospace and defense sectors feature among upgrades. The fortunes of the energy sector were split, with one upgrade and one downgrade. The oilfield service sector continues to be under pressure with the downgrade of Schlumberger adding to the recent trend of adverse rating changes in the sector.

In Europe rating change activity was sparse with only four changes compared to 13 the week before. Two of the four were from the UK, along with one each from Finland and Switzerland.

FIGURE 1

Rating Changes - US Corporate & Financial Institutions: Favorable as % of Total Actions



* Trailing 3-month average

Source: Moody's

FIGURE 2

Rating Key

BCF	Bank Credit Facility Rating	MM	Money-Market
CFR	Corporate Family Rating	MTN	MTN Program Rating
CP	Commercial Paper Rating	Notes	Notes
FSR	Bank Financial Strength Rating	PDR	Probability of Default Rating
IFS	Insurance Financial Strength Rating	PS	Preferred Stock Rating
IR	Issuer Rating	SGLR	Speculative-Grade Liquidity Rating
JrSub	Junior Subordinated Rating	SLTD	Short- and Long-Term Deposit Rating
LGD	Loss Given Default Rating	SrSec	Senior Secured Rating
LTCF	Long-Term Corporate Family Rating	SrUnsec	Senior Unsecured Rating
LTD	Long-Term Deposit Rating	SrSub	Senior Subordinated
LTIR	Long-Term Issuer Rating	STD	Short-Term Deposit Rating

Ratings Round-Up

FIGURE 3 Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/SG
5/17/17	FULLBEAUTY BRANDS HOLDINGS CORP.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2			SG
5/17/17	HOOVER GROUP, INC. (NEW) - Hoover Group, Inc.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2			SG
5/17/17	IMAGINE! PRINT SOLUTIONS, LLC	Industrial	LTCFR/PDR		D	B2	B3			SG
5/17/17	MICHAEL BAKER HOLDINGS LLC	Industrial	SrUnsec/SrSec/LTCFR/PDR	500	D	Caa2	Caa3			SG
5/18/17	CAPSTONE LOGISTICS ACQUISITION, INC.	Industrial	SrSec/BCF		D	B1	B2			SG
5/18/17	HYLAND SOFTWARE, INC.	Industrial	SrSec/BCF		U	B2	B1			SG
5/19/17	COEUR MINING, INC.	Industrial	LTCFR/PDR		U	B2	B1			SG
5/19/17	DELTA TUCKER HOLDINGS, INC. - DynCorp International Inc.	Industrial	SrSec/BCF/LTCFR/PDR	371	U	B1	Ba3			SG
5/22/17	ARMOR HOLDCO, INC. - Armor Holding II LLC	Financial	SrSec/BCF		U	B2	B1			SG
5/22/17	CONVERGEONE HOLDINGS CORP.	Industrial	LTCFR/PDR		U	B3	B2			SG
5/22/17	EVEREST HOLDINGS, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa1	Caa2			SG
5/22/17	FRONTIER COMMUNICATIONS CORPORATION	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	14,315	D	B1	B2			SG
5/22/17	KAR AUCTION SERVICES, INC	Industrial	SrSec/BCF/LGD		U	Ba3	Ba2			SG
5/22/17	LONESTAR GENERATION LLC	Industrial	SrSec/BCF		D	B1	B2			SG
5/22/17	TEXTRON INC.	Industrial	SrUnsec/Sub/JrSub/MTN/BCF/CP	2,994	U	Baa3	Baa2	P-3	P-2	IG
5/23/17	CHESAPEAKE ENERGY CORPORATION	Industrial	SrUnsec	4,926	U	Caa3	Caa2			SG
5/23/17	SCHLUMBERGER LTD - Schlumberger Holdings Corporation	Industrial	SrUnsec/LTIR	7,257	D	A3	Baa1			IG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

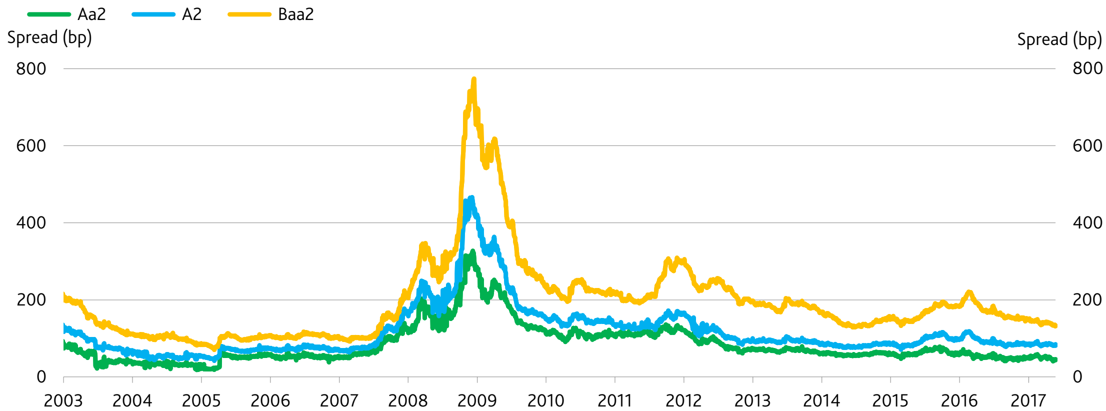
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
5/22/17	OUTOKUMPU OYJ	Industrial	SrSec/LTCFR/PDR	560	U	B2	B1	SG	FINLAND
5/22/17	CLIENTIS AG	Financial	LTD		U	A2	A1	IG	SWITZERLAND
5/23/17	CADENT GAS LIMITED	Utility	SrUnsec/LTIR	391	D	A3	Baa1	IG	UNITED KINGDOM
5/23/17	SOLUTIONS 4 NORTH TYNESIDE (FINANCE)	Industrial	SrUnsec	100	U	Baa3	Baa1	IG	UNITED KINGDOM

Source: Moody's

Market Data

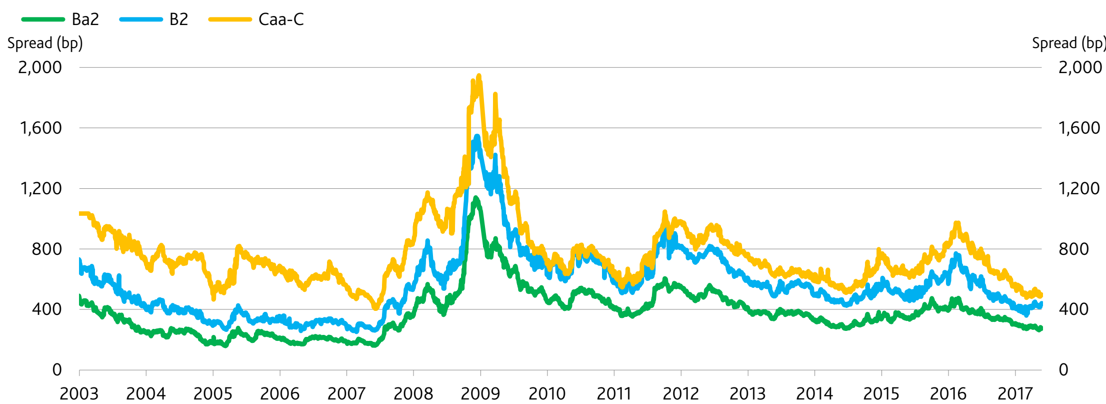
Spreads

Figure 1: 5-Year Median Spreads-Global Data (High Grade)



Source: Moody's

Figure 2: 5-Year Median Spreads-Global Data (High Yield)



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (May 17, 2017 – May 24, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 24	May. 17	Senior Ratings
United States of America, Government of	Aa2	Aa3	Aaa
HCA, Inc.	Ba2	Ba3	B1
United Technologies Corporation	Aa3	A1	A3
Procter & Gamble Company (The)	Aa2	Aa3	Aa3
General Motors Company	Ba2	Ba3	Baa3
Kraft Heinz Foods Company	Baa1	Baa2	Baa3
Capital One Bank (USA), N.A.	A1	A2	Baa1
CenturyLink, Inc.	B2	B3	Ba3
Sprint Communications, Inc.	B2	B3	B1
Arconic Inc.	Ba2	Ba3	Ba2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 24	May. 17	Senior Ratings
Frontier Communications Corporation	Ca	Caa3	B2
United Airlines, Inc.	B3	B2	Baa1
Occidental Petroleum Corporation	Baa2	Baa1	A3
Penney (J.C.) Corporation, Inc.	Caa3	Caa2	B3
General Mills, Inc.	A2	A1	A3
Liberty Mutual Group Inc	Ba2	Ba1	Baa2
Hertz Corporation (The)	C	Ca	B3
AutoZone, Inc.	Baa2	Baa1	Baa1
Genworth Holdings, Inc.	Caa3	Caa2	Ba3
Talen Energy Supply, LLC	Ca	Caa3	B1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 24	May. 17	Spread Diff
Nine West Holdings, Inc.	Ca	5,480	5,318	162
Talen Energy Supply, LLC	B1	946	865	80
Avon Products, Inc.	B3	702	671	31
Frontier Communications Corporation	B2	869	846	23
Liberty Mutual Group Inc	Baa2	138	120	18
Western Union Company (The)	Baa2	133	117	17
United Airlines, Inc.	Baa1	285	271	15
United Continental Holdings, Inc.	Ba3	289	275	14
Genworth Holdings, Inc.	Ba3	750	739	11
Dell Inc.	Ba2	255	245	10

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 24	May. 17	Spread Diff
Sears Roebuck Acceptance Corp.	Caa3	3,421	3,827	-407
Sears Holdings Corp.	Caa3	3,294	3,686	-392
K. Hovnanian Enterprises, Inc.	Caa3	1,255	1,463	-208
Neiman Marcus Group LTD LLC	Caa3	1,555	1,673	-119
McClatchy Company (The)	Caa2	825	903	-78
United States Steel Corporation	Caa1	545	600	-55
Chesapeake Energy Corporation	Caa2	578	623	-45
AK Steel Corporation	B3	440	485	-45
Avis Budget Car Rental, LLC	B1	528	553	-25
L Brands, Inc.	Ba1	227	252	-25

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (May 17, 2017 – May 24, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 24	May. 17	Senior Ratings
Bank of Ireland	Baa3	Ba3	Baa2
France, Government of	Aa3	A1	Aa2
Austria, Government of	Aa2	Aa3	Aa1
The Royal Bank of Scotland Group plc	Ba1	Ba2	Ba1
Credit Agricole Corporate and Investment Bank	A3	Baa1	A1
Royal Bank of Scotland N.V.	Baa1	Baa2	A3
Commerzbank AG	Baa2	Baa3	Baa1
Orange	A3	Baa1	Baa1
Switzerland, Government of	Aa2	Aa3	Aaa
DNB Bank ASA	A3	Baa1	Aa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 24	May. 17	Senior Ratings
Nationwide Building Society	Baa2	Baa1	Aa3
Alpha Bank AE	Caa3	Caa2	Ca
UniCredit Bank Austria AG	Baa3	Baa2	Baa1
KBC Bank N.V.	A3	A2	A1
KBC Group NV	A3	A2	Baa1
Prudential Public Limited Company	Baa3	Baa2	A2
Novo Banco, S.A.	C	Ca	Caa2
SES S.A.	Baa3	Baa2	Baa2
TDC A/S	Ba1	Baa3	Baa3
Metro AG	Ba1	Baa3	Baa3

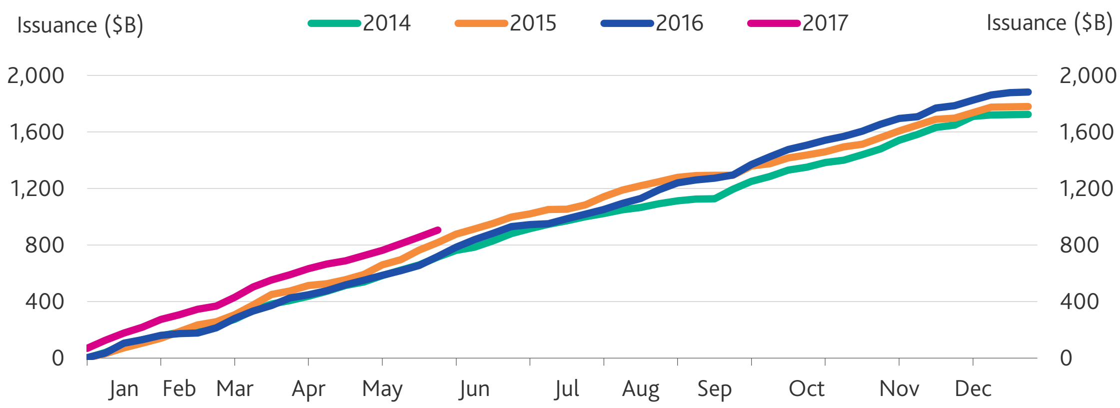
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 24	May. 17	Spread Diff
Norske Skogindustrier ASA	Caa3	10,130	9,719	411
Eksportfinans ASA	Baa3	517	489	28
Caixa Geral de Depositos, S.A.	B1	291	278	13
Banco Popular Espanol, S.A.	B2	257	246	12
Sappi Papier Holding GmbH	Ba2	365	353	12
Fiat Chrysler Automobiles N.V.	B1	287	276	11
Ensco plc	B2	491	480	11
Galapagos Holding S.A.	Caa2	688	678	11
3i Group plc	Baa1	114	104	10
UniCredit Bank AG	Baa1	95	86	9

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 24	May. 17	Spread Diff
Matalan Finance plc	Caa2	1,100	1,177	-77
Care UK Health & Social Care PLC	Caa1	382	453	-70
Bank of Ireland	Baa2	90	158	-68
Greece, Government of	Caa3	568	601	-33
Selecta Group B.V.	Caa2	435	467	-32
CMA CGM S.A.	B3	526	552	-26
Lock Lower Holdings AS	Caa1	110	127	-17
ArcelorMittal	Ba1	231	246	-15
Stena AB	B3	592	606	-14
thyssenkrupp AG	Ba2	134	145	-11

Source: Moody's, CMA

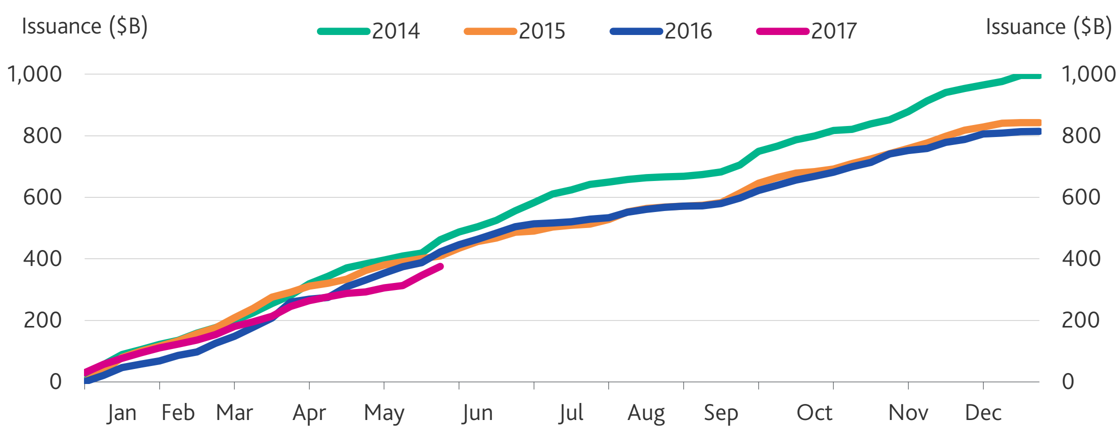
Issuance

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	41.535	7.385	50.276
Year-to-Date	656.893	185.083	906.286
	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	23.702	3.130	28.517
Year-to-Date	320.280	40.613	374.947

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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