MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Fewer Defaults Favor Even Pricier Equities

Credit Markets Review and Outlook *by John Lonski*

Fewer Defaults Favor Even Pricier Equities.

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The Week Ahead

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

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The Long View

Check our chart here for forecast summaries of key credit market metrics. Full updated stories, "The recent high-yield bond spread is inordinately narrow," begin on page 17.

Credit Spreads	Investment Grade: Year-end 2017 spread to exceed its recent 106 bp. High Yield: After recent spread of 370 bp, it may approximate 410 bp by year-end 2017.
Defaults	US HY default rate: Compared to October 2017's 3.2%, Moody's Default and Ratings Analytics team forecasts that the US' trailing 12-month high-yield default rate will average 2.2% during 2018's third quarter.
Issuance	In 2016, US$-IG bond issuance grew by 5.6% to a record $1.412 trillion, while US$-priced high-yield bond issuance fell by -3.5% to $341 billion. For 2017, US$-denominated IG bond issuance may rise by 7.3% to a new zenith of $1.515 trillion, while US$-priced high-yield bond issuance may increase by 23.5% to $421 billion, or less than 2014's $435 billion record high.

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Ratings Round-Up *by Njundu Sanneh*

Mostly Upgrades in Europe, Downgrades in the US.

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Credit spreads, CDS movers, issuance.

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Moody's Capital Markets Research *recent publications*

Links to commentaries on: credit/stocks, China, yields/prices, debt/growth, Spain, upside surprise, bulls, less fear, Fed & BoJ, inflation, market triggers, hurricanes, data in sync, Harvey, inflation, yields, Korea, jobless rate, spreads, Saudi Arabia, lending, El Salvador, liquidity, CreditEdge.

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

Credit Markets Review and Outlook

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

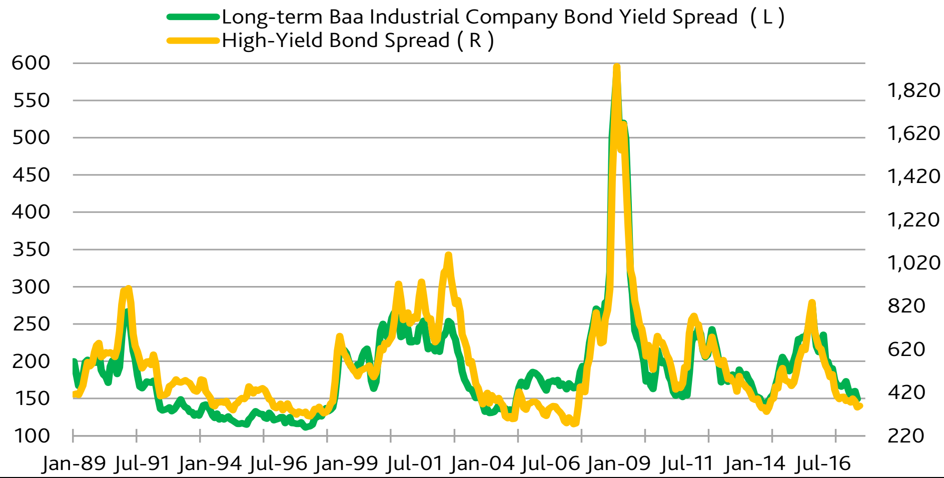
Fewer Defaults Favor Even Pricier Equities

The benign outlook for high-yield defaults now supports the US equity market. Moody's Default Research Group recently projected a decline by the US high-yield default rate from October 2017's 3.2% to 2.1% by October 2018.

Intuitively, a lower high-yield default rate should lend support to equity market performance and vice versa. Granted that not all corporations have speculative-grade credit ratings, but the direction taken by the default rate offers valuable insight regarding the direction being taken by corporate credit quality in general.

Lending support to this view are the high-yield bond spread's strong correlations with Moody's long-term Baa and single-A industrial company bond yield spreads of 0.92 and 0.87, respectively. Moreover, the month-long averages for the investment-grade and high-yield bond spreads supplied by Barclays Capital show a somewhat stronger correlation of 0.95. (Figure 1.)

Figure 1: Strong Correlation of 0.92 Between High-Yield and Moody's Long-Term Baa Bond Yield Spreads ... Recent Baa Spread of 156 bp Favors a 446 bp Midpoint for High-Yield Spread in bp



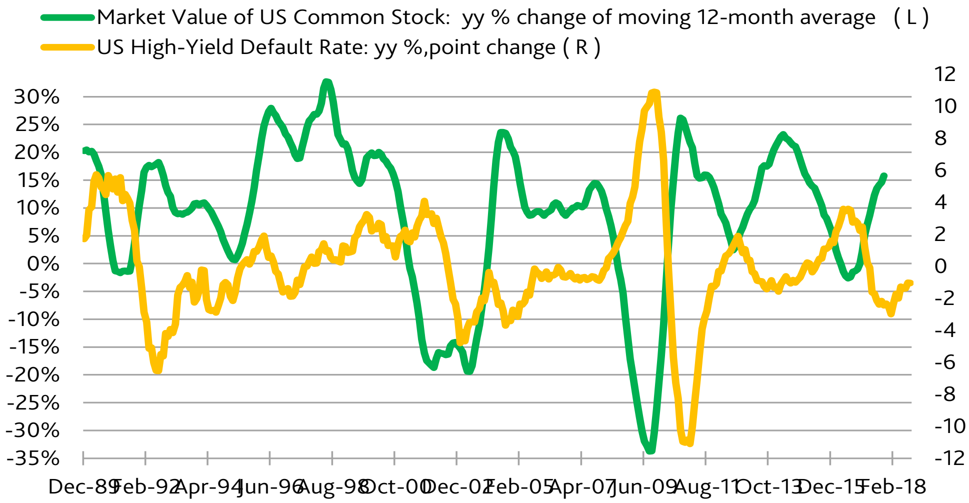
Coincidentally, the recent Baa industrial company spread of 156 bp has been statistically associated with a 446 bp midpoint for the high-yield spread, which is much wider than the now 370 bp composite high-yield bond spread. Similarly, Barclay Capital's recent investment-grade bond yield spread of 99 bp has been associated with a 400 bp midpoint for Barclays' high-yield spread that exceeds the latest actual yield gap of 350 bp.

Lower default rate puts odds of a higher equity market at 90%

For a sample of year-to-year changes that begins with January 1989, a very convincing 90.5% of the 189 year-to-year declines by the high-yield default rate were accompanied by year-over-year increases for the market value of US common stock. (The latter was approximated by the Dow Jones Total Stock Market Index, which also is known as the Wilshire 5000.) For those 189 months showing a yearly decline by the default rate, the average yearly changes were a -2.2 percentage point decline for the default rate and a +12.3% advance for the market value of common equity. Regarding the most recent month of October 2017, a relatively deep -2.5 percentage point yearly drop by the default rate (from October 2016's 5.7% to 3.2%) was accompanied by a +19.4% annual surge by the market value of common stock. (Figure 2.)

However, the response by the broad equity market to changes in the default rate has been far from symmetrical. Intuitively, yearly increases by the default rate might be expected to be joined by yearly declines for the market value of common equity. Much to the contrary, however, only 35% of the 157 yearly increases by the default rate since January 1989 were joined by a yearly retreat for the broad stock market. The averages for this sub-sample showed a +2.57 percentage point yearly increase by the default rate being accompanied by a 5.88% annual rise for the market value of US common stock. In other words, the record shows that though a year-to-year decline by the default rate bodes very favorably for the overall equity market, a yearly rise by the default rate does not convincingly warn of an accompanying slide by share prices.

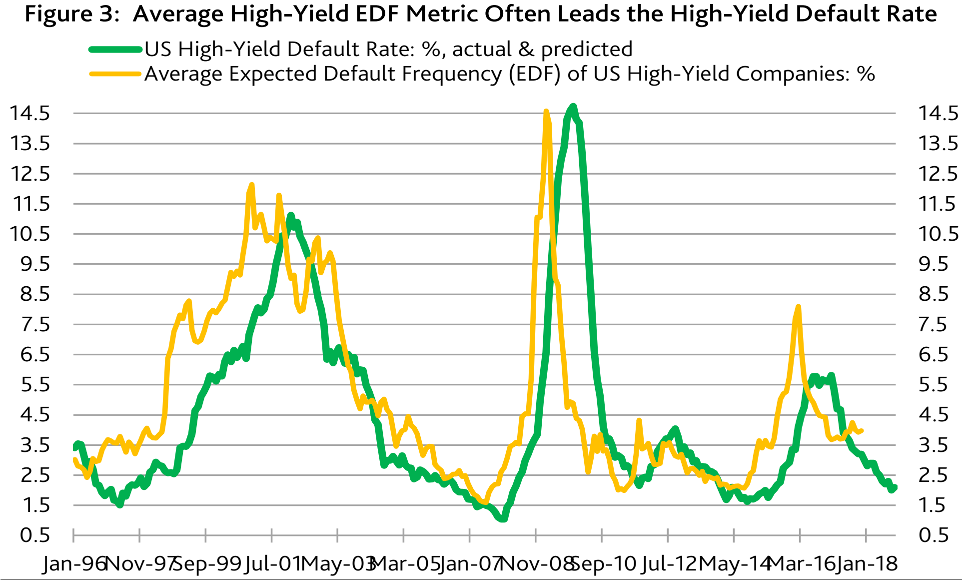
Figure 2: Broad Equity Market Rises Year-to-Year for 90.5% of the Year-to-Year Declines by the High-Yield Default Rate



Yearly change by today's high-yield EDF presages default rate's yearly change nine months hence

In addition to the projections supplied by Moody's Default Research Group, an aggregate estimate of high-yield default risk can be derived from EDF (expected default frequencies) metrics. In fact, the correlation between the year-to-year percentage point change of the average EDF metric of US/Canadian high-yield issuers and the year-to-year percentage point change of the high-yield default rate nine months later is a strong 0.90. (Figure 3.)

Figure 3: Average High-Yield EDF Metric Often Leads the High-Yield Default Rate



A sampling of year-to-year changes by the average high-yield EDF starts with January 1997. For 91% of the 118 yearly increases by the high-yield EDF, the high yield default rate of nine months later shows a year-to-year increase. Regarding the 118 instances of a yearly increase by the high-yield EDF, the average +2.1 percentage point yearly increase by the high-yield EDF was followed by an average +2.3 percentage point yearly increase by the default rate of nine months later.

Preserving the symmetry, about 90% of the 122 year-to-year declines by the average high-yield EDF metric since January 1997 were followed by a yearly decline for the default rate of nine months hence. To illustrate this tendency consider how January 2017's -4.0 percentage point yearly drop by the average high-yield EDF from January 2016's 7.7% to 3.7% correctly anticipated the yearly decline by October 2017's high-yield default rate from October 2016's 5.7% to 3.2%.

For those months showing a yearly decline by the high-yield EDF, the average -1.8 percentage point annual drop by the EDF was followed by an average -2.0 point annual decline by the default rate of nine months later.

In view of how the high-yield EDF posted yearly dips of roughly half of a percentage point for October 2017 and November-to-date, the default rate for the summer of 2018 is likely to be down from a year earlier. As derived from projections of Moody's Default Research group, the US high-yield default rate is expected to decline by approximately -1.3 percentage points annually during the summer of 2018, which is deeper than the -0.54 midpoint drop inferred from the long-term statistical relationship between the year-to-year changes of the default rate and the high-yield EDF of nine-months earlier.

Equities often rally when the high-yield EDF declines

The recent 4.0% average high-yield EDF metric was down from February 2016's month-long average high of 8.1%, but well above its latest moving 12-month average low of 2.2% from the span-ended September 2014.

When the average high-yield EDF metric climbed up from a March 2014 low of 2.1% to May 2015's 3.4%, the market value of US common stock still managed to climb up by 11.9%. Thereafter, the equity market descended as the average high-yield EDF metric extended its ascent. In conjunction with a climb by the high-yield EDF to February 2016's 8.1% high for the current recovery, the equity market's month-long average eventually sank by a cumulative -12.9% from its previous high of May 2015 to February 2016's now nearly four-year low.

Thus far in November, the average high-yield EDF metric has declined by -83 bp from a year earlier. At the same time, the market value of US common equity has soared by nearly 22% annually.

Equities tend to prosper when the high-yield EDF declines. For example, the market value of common equity increased from a year earlier in 88% of the 133 months since 1996 showing a year-to-year drop by the high-yield EDF. However, that ratio jumps up to 98% after excluding an odd stretch from November 2001 through November 2002, wherein the market value of US common stock sank by -14.5% annually despite an accompanying -14 bp average yearly drop by the high-yield EDF. Perhaps uncertainties following from September 11, 2001's terrorist attack on the World Trade Center in New York explain the market's indifference to reduced default risk then.

It should be noted that the equity market's atypical slide amid the declining default risk of the 13 months ended November 2002 owed something to 1998-2000's still unrivalled overvaluation of US equities. To better understand the degree of overvaluation, consider how the market value of common equity surged higher by 37.5% from March 1998 to March 2000 notwithstanding an accompanying jump by the high-yield EDF metric from 3.7% to 8.3%. Thus, investors would have strong reason fret over an eventual collapse by share prices if equities staged a lively rally amid another pronounced upturn by the high-yield EDF, but we see no signals of the latter phenomenon now.

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The Week Ahead – US, Europe, Asia-Pacific

THE US

From Moody's Analytics - Economy.com and the Moody's Capital Markets Research Group
(*Updates are made on Mondays.*)

Summary, November 6: The upcoming economic calendar is light. We look for initial claims to have risen from 229,000 to 230,000 in the week ending November 4, keeping them among the lowest since the 1970s. Though modest, this would be only the second increase in the past six weeks and leave new filings near their lows for the expansion. New filings in states affected by the recent hurricanes remain above their pre-hurricane levels. Further declines in these states should limit any increases in initial claims.

We expect the University of Michigan's consumer confidence index to have risen slightly in November, according to the preliminary report. A number of consumer confidence measures have improved recently, and while they don't warrant any change to our near-term forecast for consumer spending, they do remove some downside risk.

The Fed's Senior Loan Officer Survey will give us an update on lending standards. The net percent of banks tightening lending standards on commercial and industrial loans is an input into one of our probability of recession models. The odds of a recession occurring in the next 12 months remain extremely low.

THURSDAY, NOVEMBER 2

Jobless claims (week ended October 21; 8:30 a.m. EDT)

Forecast: 230,000
We forecast that initial jobless claims fell from 233,000 to 230,000 in the week ending October 28. There still appears to be some hurricane-related effect as new filings in those states affected by the storms remain above those seen before the storms. Therefore, we look for further declines in these states, pulling initial claims lower.

FRIDAY, NOVEMBER 3

Employment situation (October; 8:30 a.m. EDT)

Forecast: 313,000 (employment)
Forecast: 4.4% (unemployment rate)
Forecast: 0.2% (average hourly earnings)
We look for employment to have risen by 313,000 in October following a 33,000 decline in September. Excluding the hurricanes, it appears that job growth would still have been below trend in September. We are still not concerned. From time to time, there are identifiable quirks with monthly employment that have nothing to do with hurricanes. For example, depending on when in the month the payroll reference week occurs (early or late), it can bias the first print of employment in one direction or the other.

We believe the weather disruptions faded and rebuilding and clean-up should boost employment in October. The regional employment data confirm that the storms were very disruptive to job growth in Texas and Florida. Leisure/hospitality was hit hard in Florida as the hurricane prevented many from not working. These jobs will return in October, boosting employment.

We look for the unemployment rate to have risen from 4.2% to 4.4%. Average hourly earnings rose 0.5% between August and September, but the gain is very misleading. Average hourly earnings aren't adjusted for the composition of employment, therefore the large drop in leisure/hospitality employment—typically low-paying jobs—boosted average hourly earnings.

There was a solid increase in average hourly earnings for construction workers. This isn't surprising given the cleanup following Harvey and Irma, which boosted demand for construction workers. Upward pressure on construction workers' average hourly earnings should remain as rebuilding kicks into higher gear.

There is also a calendar quirk in September that would have biased average hourly earnings higher even without the hurricanes. The composition effect likely boosted average hourly earnings growth in July between 0.1 and 0.2 percentage point. Our past work suggests that the calendar quirk adds 0.15 percentage point to average hourly earnings growth.

As the impact of the storms fades in October, average hourly earnings will soften. We look for a 0.2% gain in average hourly earnings in October.

The forecast for employment is subject to revision as some labor market data will be released ahead of the employment situation data.

International trade (September; 10:00 a.m. EDT)

Forecast: -$43.2 billion
The nominal trade deficit likely widened from $42.4 billion in August to $43.2 billion in September. According to advance estimates, the nominal goods deficit widened from a revised $63.3 billion in August (previously $62.9 billion) to $64.1 billion in September. Nominal exports rose 0.7%, while imports increased 0.9%. We look for only a small improvement in the services surplus between August and September.

ISM nonmanufacturing survey (October; 10:00 a.m. EDT)

Forecast: 57.8
We expect the ISM nonmanufacturing survey fell 2 points in October to 57.8. This would reverse less than half of the increase in September. However, September's gain was partially attributed to a large increase in supplier deliveries, which was weather-related. With these disruptions fading, the suppliers delivery index should fall in October, pulling the composite index down with it.

Monday, November 6

Business confidence (week ended October 27; 10:00 a.m. EST)

Forecast: N/A
Global business sentiment has softened in recent weeks and is as low as it has been since before last year's U.S. presidential election. The softer readings are evident with regard to sales, pricing, hiring and even investment. Sentiment has turned lower across the globe, but particularly in the U.S. Recent natural disasters in the U.S. may be impacting the survey results, and if so, the survey responses should quickly improve in coming weeks as the rebuilding kicks in. Nonetheless, the weakening in sentiment bears close watching. It is also noteworthy that sentiment as measured by the trade group for small businesses, the National Federation of Independent Businesses, has shown a similar weakening. What hasn't changed is that businesses are increasingly fixated on regulatory and legal issues, as about one-half of businesses say they are their largest concern.

The four-week moving average in our global business confidence index inched up from 27.5 to 27.8 in the week ended October 27.

Tuesday, November 7

No major economic releases scheduled

Wednesday, November 8

No major economic releases scheduled

Thursday, November 9

Jobless claims (week ended November 4; 8:30 a.m. EST)
Forecast: 230,000
We look for initial claims for unemployment insurance benefits to have risen from 229,000 to 230,000 in the week ended November 4. Though modest, this would be only the second increase in the past six weeks and leave new filings near their lows for the expansion. New filings in states affected by the recent hurricanes remain above their relative to their pre-hurricane levels. Further declines in these states should limit any increases in initial claims. The four-week moving average is forecast to have fallen from 232,500 to 229,000, a new cyclical low.

Friday, November 10

University of Michigan survey (November-prelim; 10:00 a.m. EST)
Forecast: 101.2
We expect the University of Michigan's consumer confidence index to have risen from 100.7 in October to 101.2 in November, according to the preliminary survey. Rising stock prices and the prospect for corporate and personal income tax cuts should support consumer sentiment in November. There is also a tendency for the preliminary survey to increase in November, having done so every year but three since 2001. Potentially limiting the gain in sentiment in November are gasoline prices, which remain higher than prior to the hurricanes and up on a year-ago basis.

One-year inflation expectations fell in October and the potential catalysts include declines in retail gasoline prices and weak growth in food prices. Long-term inflation expectations remain among the lowest this cycle but haven't worried the Fed too much.

EUROPE

By the Dismal (Europe) staff in London and Prague
(*Updates are made on Mondays.*)

Summary, November 6: Following the past week's barrage of data for the euro zone and the U.K., the next week will shed light on Europe's industrial performance at the end of the third quarter. We are confident that the figures will round off another solid stanza for factory growth in most of the Continent's major countries, and even better is that we expect that the fast momentum was carried over into the fourth quarter. In the euro zone, the standout will likely be Germany, though France's numbers are also set to come in strong. True, we are penciling in a 0.7% m/m decline in the industrial production headline in the area's major economy, but this is only expected following the punchy 2.6% m/m increase in August; despite the fall, the yearly rate should still read at a solid 4.4%, which is much higher than the 2.4% average for the past 12 months. If our forecast is right, over the quarter as a whole production will have risen by 1.1% q/q, which is an impressive result following an already-robust 1.9% expansion in the second quarter. And that's including construction, which has somewhat underperformed the manufacturing sector in recent months. Excluding construction, factory growth is expected to have jumped by 1.4% q/q in the third quarter, following a 1.7% rise in the second, with September's rise in energy production on the back of the below-average temperatures providing the main boost to the final headline.

The story is somewhat different in France, where industrial production surprised on the downside and fell by 0.3% q/q in August, following a 0.8% increase in July. We expect that output growth will have mean-reverted in September, rising by 0.9% m/m and pushing the yearly rate to a sturdy 3.4%, though we caution that risks are strongly tilted even further to the upside. Output in the volatile pharmaceuticals sector should have risen in September following a 13.2% decline in August, while we are also expecting a jump in machinery and equipment production following a 1.4% drop in the previous month. Meanwhile, we expect that a surge in energy production will have driven up the headline; already, consumer spending data showed that energy demand rose strongly over the month on the back of September's below-average temperatures, so we are expecting this number to be reflected in the energy production numbers. Over the quarter as a whole, then, we think that industrial production expanded by 0.6% q/q in France in the third quarter, building on a strong 1.1% rise in the previous stanza.

It is still a little early to be confident about specific figures for the fourth quarter, but leading data all point to a further gain of momentum, which is rather impressive given the upbeat results for the previous two quarters. The euro zone's manufacturing PMI for October climbed further to an impressive 58.5, with new orders and output both rising and with substantial work backlogs continuing to support a steady increase in employment. For France and Germany, the PMIs suggest that industrial production will grow briskly, by around 4% to 5% y/y in the final quarter.

Across the Channel, we also expect production in the U.K. to have jumped in the third quarter. Unlike in France and Germany, though, this should represent a mean-reversion from a weak first half of the year, not a further gain of momentum. Preliminary GDP figures already suggest that production rose by a strong 1% over the quarter as a whole, so we are penciling in a 0.3% m/m increase in September, which should build on a 0.1% rise in August. The main boost to the headline is expected to come from mining and quarrying, which fell by 2% q/q in August because of rigs closing up for maintenance. To that we add that pharmaceuticals are also expected to rise, but should be partially offset by a mean-reversion in transport equipment.

THURSDAY, NOVEMBER 2

Germany: Unemployment (October; 9:00 a.m. GMT)

Germany's seasonally adjusted unemployment rate likely remained at 5.6% in October, after it fell to this record low in September. German businesses remain confident in the country's future expansion, increasing their labour force, despite the uncertainties and geopolitical tensions. Details of the flash Markit PMI for October showed that new work continued to expand strongly, and the pace of increase was one of the fastest over the past 6½ years. However, the unemployment rate is likely bottoming out and it is expected to increase somewhat next year because of the vast inflow of refugees during the second half of 2015, some of whom will be entering the German labour force. Moreover, the euro has been gradually gaining against the dollar, which will likely weigh on German exports outside of the euro area.

FRIDAY, NOVEMBER 3

No major releases are scheduled for this day.

MONDAY, NOVEMBER 6

No major releases are scheduled for this day.

TUESDAY, NOVEMBER 7

Germany: Industrial Production (September; 9:00 a.m. GMT)

German industrial production likely retreated at the end of the third quarter, falling 0.7% m/m, after adding 2.6% in August. In year-ago terms the rate of increase is expected to have remained unchanged at around 4.5%. Robust demand likely supported production. German manufacturing orders surged 3.6% m/m in August. Both domestic and foreign orders rose strongly. In year-ago terms, factory orders climbed further, adding 7.9% thanks to improvements mainly in foreign demand, while domestic orders increased at a slightly slower pace than in July. The Markit manufacturing PMI surged to 60.6, the highest level since April 2011, and signaled continued strong momentum at the end of the third quarter. However, the outlook remains clouded as the uncertainty caused by the Brexit negotiations and appreciating euro could curb the German manufacturing sector.

Italy: Retail Sales (September; 9:00 a.m. GMT)

Italy's retail sales likely reversed August's drop, rising by 0.2% m/m in September. Improving sentiment indicators suggest that household consumption should have contributed to overall growth in the third quarter. Growing consumer confidence and an improving labour market outlook may support domestic demand. While the unemployment rate remained unchanged at 11.1% in August, forward-looking indicators suggest some improvements in coming months. This could reduce labour market slack, particularly elevated hidden unemployment—underemployed part-time workers and people out of work but not counted in official statistics because they are not actively looking for work. Still, subdued wage growth could drag on household spending, and it will take time for wages to rebound and boost household spending further.

Euro Zone: Retail Sales (September; 10:00 a.m. GMT)

Euro zone retail sales likely increased by 0.5% m/m in September, reversing a diametrically opposed decline in August The already-available preliminary country data for the area's major economies have been rather upbeat: Spending on goods rose by 0.9% m/m in France, by 0.5% in Germany, and by 0.4% in Spain. Figures for Portugal were also solid, showing that sales jumped by 0.8% m/m at the end of the quarter. We are still waiting on data for Italy, the Netherlands, Austria and Belgium; they should come in mixed, with small declines in Italy and the Netherlands offsetting much better results for Belgium and Austria, as well as Finland. The story is gloomier for the smaller economies, though, with sales falling sharply in Lithuania, Latvia, Estonia and Greece. We don't expect that to taint the area's aggregate results, though.

Across sectors, food sales likely did the most to boost the headline, though energy sales are also expected to have jumped, mainly because of September's below-average temperatures. Clothing sales should have remained steady on the back of the poor weather, while sales of other core goods, especially household appliances, should have recovered somewhat. Our forecast is in line with the area's Markit retail PMI, which shows that sales growth across the euro zone rebounded in September; the PMI data are not seasonally adjusted, however, and have repeatedly overstated growth in retail over the past year.

WEDNESDAY, NOVEMBER 8

Spain: Industrial Production (September; 8:05 a.m. GMT)

We expect that industrial production in Spain gained 0.8% m/m in September, a bit below the 1% increase in August but firmly above the dismal results in June and July. Equipment manufacturing and nondurable consumer goods should remain the highlights of the September report, while we expect a mild recovery in energy output. The near-term outlook appears promising as new orders edged up for the second consecutive month and stock of purchases advanced at record pace in October, according to business surveys. Nevertheless, we see a sizable risk in the medium term due to the political tensions in Catalonia, which may set back industry in the region and dampen confidence in Spain. Worsening sentiment can eat away at consumption and investment propensity, hurting GDP growth Prolonged political uncertainty in Catalonia may shave around 0.3 to 1 percentage point off growth next year.

THURSDAY, NOVEMBER 9

Germany: Foreign Trade (September; 8:00 a.m. GMT)

Germany's trade surplus likely narrowed to €21 billion in September after increasing to €21.7 billion in the previous month, but it was higher compared with the €20.6 billion in September 2016. Continued global geopolitical tensions, worries over the U.K. exit from the EU, and the shift towards protectionism in the U.S. will likely drag on foreign demand for German products this year. Moreover, the euro has been gradually gaining against the dollar, strengthening to $1.19 on average in September, 6.3% higher than in the same month last year, which likely weighed on German exports. At the same time, strengthening economic activity is boosting imports. German GDP grew 0.6% q/q in the second quarter of 2017. In year-ago terms, the growth rate accelerated to 2.1%, the fastest since early 2014. Net exports contracted in the second quarter because of a steep increase in imports, while exports rose to a much lesser extent and a similar development is expected for the third quarter.

FRIDAY, NOVEMBER 10

France: Industrial Production (September; 8:00 a.m. GMT)

France's industrial production rose by 0.9% m/m in September, following a 0.3% decline in August. This should have pushed the yearly rate to a sturdy 3.4%, though we caution that risks are strongly tilted even further to the upside. Output in the volatile pharmaceuticals sector should have risen in September following a 13.2% decline in August, while we are also expecting a jump in machinery and equipment production following a 1.4% decline in the previous month. Soaring energy production did the most to drive up the headline; already, consumer spending data showed that energy demand rose during the month on the back of September's below-average temperatures, so we look for these readings to be reflected in the energy production numbers. Over the quarter as a whole, then, we think that industrial production rose by 0.6% q/q in the third quarter, building on a strong 1.1% rise in the previous stanza.

Italy: Industrial Production (September; 9:00 a.m. GMT)

Italy's industrial output likely continued to grow in September. High-frequency indicators suggest the recovery in manufacturing remained robust. Business sentiment climbed to more than a 10-year high in October, and the manufacturing PMI remained close to a 6½-year peak. Strong exports and reviving domestic demand powered the industrial production. After averaging 0.4% growth in the first half of this year, Italy's real GDP expanded 0.4% in the third quarter, suggesting that real GDP growth for this year may be the strongest since 2010. Although we are optimistic about the strengthening economy, there is a need for caution. The strengthening euro, which has appreciated by 14% since the beginning of 2017, and weak credit growth because of a large share of bad loans, poses some risk to the short-term outlook.

U.K.: Industrial Production (September; 9:30 a.m. GMT)

We forecast that U.K. industrial production rose by 0.3% in September, building on August's 0.1% increase. This should push the yearly rate in production to a strong 2%, up from 1.6% in August, higher than the 1.5% average over the past year. Across sectors, we expect that mining and quarrying largely boosted the headline, mean-reverting from a 2% fall in the previous month on the back of oil rigs closing up for pre-winter maintenance. Already, Bloomberg's loading estimates for Brent and Fortier oil fields point to a 1.5% m/m rise in output in the sector. Some offset should come from energy production, which should retreat somewhat given that September's average temperatures in the U.K. returned to their seasonal norm.

We expect the performance of the manufacturing sector to be mainly about mean-reversions. Output in the volatile pharmaceuticals sector rose sharply in August, so it should edge down in September, though this will likely be offset by a decline in transport equipment production. Leading data from the Society of Motor Manufacturers already suggest that car production in September fell by around 4.1% because of a plunge in domestic sales. Machinery and equipment production should have remained stable.

Over the quarter as a whole, production is expected to have expanded by 0.9% q/q, reversing the second stanza's 0.3% decline. We are less upbeat about fourth quarter performance, though, since we still expect that the lower pound will fail to provide much stimulus to factory growth.

ASIA-PACIFIC

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

Japan's GDP growth likely hit 0.3% q/q in the third quarter, weaker than the burly 0.6% pace in Q2

All eyes will be on Japan's preliminary estimate of third quarter GDP. We look for a 0.3% q/q expansion, weaker than the June quarter's burly 0.6%. External demand is the main growth engine, although a steady pickup across consumption and investment also bodes well for domestic demand. That said, slow wage growth will keep a lid on consumption. Households could begin to increase their savings again if wage growth doesn't accelerate soon. Japan's preliminary estimate tends to be revised heavily because of additional data available later on fixed investment.

China's October activity data will likely indicate some cooling. Industrial production is forecast to slow, as iron ore production has started declining. Steel, cement and other housing-related sectors will show softer growth on account of the weaker housing market. Manufacturing sentiment surveys also showed a deterioration in production for October. Investment in fixed assets in China is decelerating on account of falling mining-related investment, namely for coal and iron ore. Investment in manufacturing assets continues to grow at a stable pace thanks to continued global tech demand. Retail trade is a bright spot and likely accelerated, although the Golden Week holiday may have dampened results a little.

A handful of Southeast Asian third quarter GDP data will be mixed. The Philippine economy likely grew 6.6% y/y after a 6.5% lift in the June quarter. Domestic demand likely remained firm, as consumers benefited from steady inflows of overseas worker remittances and a healthy job market, and investment stayed firm on the back of government-led infrastructure projects. Malaysia's traveling in a slower lane, as GDP growth likely cooled to 5% y/y from the June quarter's surprise 5.8% jump. Private consumption has shifted into a slower gear. Manufacturing made a strong contribution to second quarter growth, a reflection of buoyant global tech demand, although electronics production looks to have peaked so will be a smaller lift in the second half of the year.

THURSDAY, NOVEMBER 9

New Zealand – Monetary Policy – November

Time: 7:00 a.m. AEDT (Wednesday, 8:00 p.m. GMT)
Forecast: 1.75%

The Reserve Bank of New Zealand will keep the policy rate steady at 1.75% at its November monetary policy meeting. The external sector is doing well thanks to a sustained uptick of global prices in the all-important dairy sector, raising export receipts and providing a broader income lift. The RBNZ doesn't need to be in a hurry to normalize rates, as inflation is forecast to only gradually creep higher through the 1% to 3% target band. We expect the first interest rate hike around mid-2018. The newly elected centre-left coalition government led by Jacinda Ardern brings uncertainty, with recently announced policies appearing to favour environmental sustainability over economic growth. It's too early to assess the impact of the proposal to cut immigration by 30,000 per year on consumption. In 2016 household spending surged following the record 71,000 arrivals that year.

Japan – Machinery Orders – September

Time: 10:50 a.m. AEDT (Wednesday, 11:50 p.m. GMT)
Forecast: -1.7%

Japan's core-machinery orders are volatile, and the sharp rises in August (3.4%) and July (8%) point to orders declining in September by 1.7% m/m. Export-facing large manufacturers have benefited from the yen's depreciation. This is especially so for tech companies involved in the production of semiconductors, batteries, and other integrated circuits. The recent upswing in the tech cycle has aided demand in these industries. However, orders are expected to fade from here on after most of the uptake in capital machinery for 2017 is complete.

Malaysia – Industrial Production – September

Time: 3:00 p.m. AEDT (4:00 a.m. GMT)
Forecast: 4.9%
Malaysian industrial production probably cooled in September to 4.9% y/y following a 6.8% gain in August and 6% rise in July. The August acceleration was driven by the more volatile mining category, while manufacturing remained strong at 7.6% after an 8% gain in July due to buoyancy in electronics demand, mainly offshore. Forward indicators suggest cooling in the near term from foreign manufacturing demand, which should start to weigh on soaring exports. The Nikkei-Markit manufacturing PMI dipped to 49.9 in September, from 50.4 in August and below the neutral 50 that separates expansion from contraction. New business was down for a fifth straight month amid weaker domestic and overseas demand. It was surprising that firms continued to increase employment, according to the survey, with the lull in demand. If demand cools further, employment growth likely will not be maintained.

Australia – Housing Finance – September

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)
Forecast: -0.5%
Australian owner-occupied housing finance likely contracted by 0.5% m/m in September, after a 1% jump in August. The August rise was due to increased incentives to first-home buyers. In original terms, the number of first-home buyer commitments as a percentage of total owner-occupied housing finance commitments rose to 17.2% in August from 16.6% in July. We expect the higher contribution from first-home buyers to fade over coming months as those who were on the cusp of entering the property market are now able to do so. Other housing market indicators show the national housing market has cooled, particularly in the most heated markets of Sydney and to a lesser extent Melbourne. Lending to owner-occupiers and investors has become more restricted on the back of increased regulation; this will affect demand for housing finance through the remainder of 2017.

China – Consumer Price Index – October

Time: 12:30 p.m. AEDT (1:30 a.m. GMT)
Forecast: 1.4%
Consumer price inflation has decelerated thanks to lower food prices. Core inflation pressures have been rising, albeit slowly. These trends are likely to reverse in coming months. Food inflation will rebound as polluting farms are shut down. Core inflation will peak as the housing market cools and producer price inflation fades. CPI growth likely decelerated to 1.4% y/y in October.

China – Producer Price Index – October

Time: 12:30 p.m. AEDT (1:30 a.m. GMT)
Forecast: 5.8%
Producer price inflation reaccelerated because of higher commodity prices, but this likely reversed in October. The sharp drop in key commodity prices recently, such as by 20% for spot iron ore in late September, will cut producers' input costs. The slowing housing market will remove a key support to raw material prices. Producer price inflation likely decelerated to 5.8% in October, from 6.9% in September.

FRIDAY, NOVEMBER 10

China – Monetary Aggregates – October

Time: Unknown
Forecast: 9%

Credit growth in China remains buoyant, as the government tacitly allowed more lending to boost economic growth ahead of the Congress. Credit has gone mostly into housing, as higher prices draw in more homebuyers and as developers roll loans. China's M2 money supply likely grew 9% y/y in October, down from the 9.2% pace in September.

Philippines – Industrial Production – September

Time: Unknown
Forecast: 4.1%
Industrial production in the Philippines likely grew 4.1% y/y in September, after a 2.7% lift in August. Although the Philippines has a small export-manufacturing sector compared with other economies in the region, industrial production has still benefited from the upswing in global demand. Exports of electronics and components are up 10.9% y/y in the year to August, after a 1.8% rise in the same period last year. Firm external demand along with strong investment, which is driving up production of products such as cement, are expected to continue supporting industrial production.

Japan – Industry Activity Indexes – September

Time: 3:30 p.m. AEDT (4:30 a.m. GMT)
Forecast: -0.1%
Japan's industrial activity indexes likely declined 0.1% in September following August's 0.2% decline. However, year-ago increases will likely continue, confirming that momentum has improved in 2017. Fragile wage growth will weigh on overall spending, but business services will continue to expand thanks to a broad-based increase in activity throughout 2017. Rising fuel costs also pose a downside risk. If wage growth doesn't accelerate in line with the recent pickup in inflation—core consumer prices rose 0.7% y/y in September—spending on discretionary items could ebb. The net impact will eventually depend on whether wage growth can accelerate for the remainder of the year.

Hong Kong – GDP – 2017Q3

Time: 7:30 p.m. AEDT (8:30 a.m. GMT)
Forecast: 0.6%
Hong Kong's economic momentum remained healthy in the third quarter. The buoyant housing market continued lifting household sentiment and spending. Trade flows are similarly picking up, thanks to the global tech upswing and commodity demand from China. GDP likely grew 0.6% in the third quarter, after a 1% gain in the second.

India – Industrial Production – September

Time: 11:20 p.m. AEDT (12:20 p.m. GMT)
Forecast: 3.8%
India's industrial production remains uneven despite a pickup to 4.3% y/y in August. Production in a large economy such as India's should be expanding at nearly a double-digit pace, but India is far from achieving that. In September likely reached 3.8%. Supply bottlenecks crimp production. Last year's demonetisation has also caused sentiment to fall across India. The economy has lost steam in 2017 despite a pickup in external demand. Corporate India remains on the sidelines by not increasing investment. However, as the ill effects of demonetisation fade, a pickup in production should occur towards year's end.

MONDAY, NOVEMBER 13

India – Consumer Price Index – October

Time: 11:00 p.m. AEDT (12:00 p.m. GMT)
Forecast: 3.6%
Higher food prices and increasing fuel costs have lifted India's inflation in the second half of 2017. CPI inflation rose 3.3% y/y in September, unchanged from the previous month. We expect inflation to have accelerated to 3.6% in October on the back of higher fuel and food costs. Prices of key vegetables likely increased because of the poor Kharif crop season that just passed. This will likely weigh on food supply

and thus lead to higher prices over the coming months. Accelerating inflation will likely keep the Reserve Bank of India on hold for now, with further rate cuts unlikely for remainder of the year.

TUESDAY, NOVEMBER 14

China – Fixed Asset Investment – October

Time: 1:00 p.m. AEDT (2:00 a.m. GMT)
Forecast: 7.3%
Investment in fixed assets in China is decelerating on account of falling mining-related investment, namely for coal and iron ore. Investment in manufacturing assets continues to grow at a stable pace thanks to continued global tech demand, while investment in agriculture sectors is strong, albeit down from the peak earlier in the year. The recent drop in commodity prices will likely put further downward pressure on mining investment. Total fixed asset investment likely grew 7.3% in the year to October.

China – Industrial Production – October

Time: 1:00 p.m. AEDT (2:00 a.m. GMT)
Forecast: 6.2%
Manufacturing output has been growing as the tech sector boosts production ahead of the holiday season. That said, some factors likely weighed on industrial output in October. Iron ore production has started declining, as seen in the drop in spot iron ore prices in late September. Steel, cement and other housing-related sectors will show a slowdown on account of the slowing housing market. Manufacturing sentiment surveys also showed a deterioration in production for October. Industrial production likely grew 6.2% y/y in October, down from 6.6% in August.

China – Retail Sales – October

Time: 1:00 p.m. AEDT (2:00 a.m. GMT)
Forecast: 10.8%
Retail spending picked up in September thanks to robust auto sales and higher fuel spending. Although the housing market is cooling, households remain willing to spend on electrical appliances and furniture. The Golden Week holiday may have skewed results, but the underlying strength of household spending should see that retail sales likely rose 10.8% y/y in October from 10.3% in September.

India – Wholesale Price Index – October

Time: 5:45 p.m. AEDT (6:45 a.m. GMT)
Forecast: 3.2%
India's wholesale price inflation likely edged up to 3.2% y/y in October, following September's 2.6% rise. Higher food prices, in particular vegetables are the main driver. This year's monsoon rains have been below average the long-term average and rainfall has been concentrated in certain areas, causing flooding. This is putting upward pressure on food prices, the largest component in India's wholesale price index. Wholesale prices could accelerate further as supply shortages continue.

WEDNESDAY, NOVEMBER 15

India – Foreign Trade – October

Time: Unknown
Forecast: -US$11.2 billion
Imports likely increased sharply in October on the back of higher oil prices. We look for a widening of the trade deficit to US$11.2 billion, after the $9 billion deficit in September. The rise in imports will offset the rise in exports over the coming months. Strong export demand from India's major trading partners helped exports of major commodities such as engineering goods. India is a Top Three oil importer in Asia, and higher crude oil prices, especially diesel prices which feed into agriculture machinery, will increase costs for rural India in coming months. We expect the overall trade balance to remain contained, with oil imports offset by stronger external demand.

South Korea – Employment – October

Time: 10:00 a.m. AEDT (Tuesday, 11:00 p.m. GMT)
Forecast: 3.7% unemployed
South Korea's unemployment rate likely stayed at 3.7% in October. The labour market has made modest gains in the year to date. The unemployment rate has edged down from 4% in April, and employment has steadily increased in year-ago terms. The youth unemployment rate, although still elevated, has fallen to an 11-month low of 9.2%. President Moon Jae-in's stimulus package is expected to support further employment gains over the remainder of 2017.

Japan – GDP – 2017Q3

Time: 10:50 a.m. AEDT (Tuesday, 11:50 p.m. GMT)
Forecast: 0.3%
Japan's preliminary estimate of the September quarter GDP likely decelerated to 0.3% q/q after June's 0.6% increase. External demand remains the main growth engine, although a steady pickup across consumption and investment also bodes well for domestic demand. That said, slow wage growth will keep a lid on consumption. Households could begin to increase their savings again if wage growth doesn't accelerate soon. Japan's preliminary estimate tends to be revised heavily because of additional data available later on fixed investment. Thus, we'll take our forecast with a grain of salt, with revisions likely in the second estimate.

Indonesia – Foreign Trade – October

Time: 3:00 p.m. AEDT (4:00 a.m. GMT)
Forecast: US$1.53 billion
Indonesia's monthly trade surplus likely narrowed to US$1.53 billion in October, following September's US$1.76 billion surplus. September exports rose 16% y/y, thanks to a 36% surge in crude oil and other oil product shipments over the month. Global crude oil prices surged over September, lifting export receipts. The spot price in October was more volatile and lower, ensuring October's oil and gas shipments will not enjoy the same lofty gains as they did in September, hurting export values early in the December quarter.

THURSDAY, NOVEMBER 16

Australia – Employment Situation – October

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)
Forecast: 5.5% unemployed
Australia's labour market is on a roll. The seasonally adjusted unemployment rate likely held at 5.5% in October. The trend unemployment rate fell to 5.5% in September, its lowest in four years. Prior to September, the trend unemployment rate oscillated between 5.6% to 5.8% for almost two years. We expect full-time employment growth to continue outpacing part-time positions, keeping the underemployment rate edging lower. Forward indicators suggest this will remain the case into 2018, eventually delivering much-craved stronger income growth.

Philippines – GDP – 2017Q3

Time: 1:00 p.m. AEDT (2:00 a.m. GMT)
Forecast: 6.6%
The Philippine economy likely grew 6.6% y/y in the September quarter after a 6.5% lift in the June quarter. Domestic demand likely remained firm, as consumers benefited from steady inflows of overseas worker remittances and a healthy job market, and investment stayed firm on the back of government-led infrastructure projects. Nonresidential construction permits were up 16.8% y/y in the first half of 2017 after a 7.8% rise in the same period last year. Exports also likely boosted GDP growth, as demand for semiconductors and electronics was firm during the quarter.

Indonesia – Monetary Policy – November

Time: Unknown
Forecast: 4.25%
Bank Indonesia will keep the policy rate on hold at 4.25% in November. This follows interest rate reductions in August and September to move monetary settings to a level that it perceives as neutral in a bid to lift GDP growth, particularly consumption, in the final months of 2017. Consumption remained broadly unchanged at 5% y/y in the third quarter. Further rate cuts are unlikely in the near term, as Bank Indonesia has shifted focus to the external risks from easier monetary policy, including higher capital outflows and currency depreciation, given major central banks offshore are in tightening mode.

FRIDAY, NOVEMBER 16

Singapore – Foreign Trade – October

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)
Forecast: 8.3%
Singapore's exports likely grew 8.3% y/y in October after a 1.1% dip in September. Export growth surprised on the downside in September, as electronics shipments fell 7.9% y/y, a 14-month low. The slowdown in electronics demand was broad-based, as exports of consumer electronics, PCs, and diodes and transistors fell in year-ago terms. Even as external demand is expected to stay firm, especially for electronics, a high base from a year earlier is likely to cap export growth.

Malaysia – GDP – 2017Q3

Time: 3:00 p.m. AEDT (4:00 a.m. GMT)
Forecast: 5%
Malaysia's third quarter GDP growth likely cooled to 5% y/y, from the June quarter's surprise 5.8% jump. Private consumption has shifted into a slower gear, after it accelerated by 0.5 percentage point to 7.1% y/y in the third quarter. Manufacturing also made a strong contribution to second quarter growth, a reflection of buoyant global tech demand. However, electronics production looks to have peaked so will be a smaller lift in the second half of the year, including to exports. Full-year growth is broadly on track to hit 5.1% y/y in 2017, stronger than 4.2% in 2016.

The Long View

The US: The recent high-yield bond spread is inordinately narrow

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
November 9, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 106 bp is far under its 122-point mean of the two previous economic recoveries. This spread is more likely to be wider, as opposed to narrower, a year from now.

The recent high-yield bond spread of 370 bp is less than what is inferred from the spread's macroeconomic drivers and the high-yield EDF metric. The adverse implications for liquidity of possibly significantly higher interest rates merit consideration.

DEFAULTS

After setting its current cycle high at January 2017's 5.8%, the US high-yield default rate has since eased to the 3.2% of October. Moody's Default and Ratings Analytics team expects the default rate will average 2.2% in Q3-2018. A deeper slide to its 1.85% average of the 18-months-ended June 2015 is unlikely for now.

US CORPORATE BOND ISSUANCE

Yearlong 2016's 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.

Second-quarter 2017's worldwide offerings of corporate bonds showed an annual percent decline of -6.3% for IG and an increase of +8.3% for high-yield, wherein US$-denominated offerings fell by -6.4% for IG and grew by +5.8% for high yield.

Third-quarter 2017's worldwide offerings of corporate bonds showed an annual percent decline of -2.8% for IG and an increase of +6.0% for high-yield, wherein US$-denominated offerings dipped by -1.3% for IG and grew by +3.8% 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 rise by 1.8% annually for IG and may advance by 29.5% 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 and Barbara Teixeira Araujo of Moody's Analytics

Eurozone (November 9, 2017)

The second half of 2017 is looking extremely good for the euro zone economy. Real GDP expanded 0.6% q/q in the third quarter of 2017, slightly above our expectation of 0.5%, and down only slightly from an upwardly revised 0.7% growth in the second quarter (previously 0.6%). On a year-ago basis, growth also picked up strongly, accelerating to 2.5% from 2.3% in the second quarter. Though the GDP release did not include the expenditure details for growth, we expect that household consumption likely powered this quarter's expansion, supported by falling unemployment, while investment should also have jumped. By contrast, a strong euro likely weighed on net exports, notably in Germany and France. We have country numbers for only Spain and France, but they both surprised strongly on the upside; Spain's economy grew by a hefty 0.8% q/q, while France's GDP jumped by 0.5%, above our expectation of 0.4%. Looking into the fourth quarter, survey data suggest the third quarter momentum will be sustained in the near term.

Diminishing political risks should provide relief for the broader economy. After elections in the Netherlands, France and Germany passed without incident, European integrity is intact for now and politicians can focus on the economy. Although the Italian general election in May 2018 may increase nervousness, we don't expect this will spill over to the markets. Nevertheless, the latest presidential and general elections showed that populism is on the rise and that Europe must find a way to defeat it. Future steps should address migration, terrorism, income equality, and remedies for social exclusion, or else populists could score big victories in the next elections.

Besides the growth figures, Tuesday brought other good news. The euro zone unemployment rate fell to 8.9%—its lowest since January 2009—from a revised 9% in August (previously 9.1%). The reasons underlying the decline over the month were favorable. The number of unemployed fell by a solid 96,000, on the heels of a 947,000 drop since the start of the year. Furthermore, the details showed a broad-based improvement across countries; the jobless rate remained stable or fell everywhere except in Austria. The standouts were France and Spain, whose number of unemployed plunged by 23,000 each. Improving economic conditions around the monetary bloc, labour market reforms, increasing employment, and participation rates in Germany and the Netherlands, and a strengthening industrial base and competitiveness in Spain, Portugal and Ireland will keep euro zone unemployment trending downward over the next six to nine months.

An improving labour market with rising employment will push wages higher eventually, but as of now core inflation remains far away from target. That the euro area's inflation headline fell to 1.4% in October was expected, notably as base effects related to oil prices are set to depress inflation throughout the rest of the year. But the standout detail from Tuesday's CPI report was a fall in the core rate, which we didn't see coming. Core inflation fell to 0.9%, from 1.1% in September as both services inflation and nonenergy goods inflation dipped. We expect that subdued core inflation will likely prevail for some time, but we caution that the cyclical trend remains up. The latest result will nonetheless mean that the European Central Bank was rightin late October to reinforce its dovish bias, and we don't expect it to tighten monetary conditions much further in 2018.

In late October, the ECB delivered on its promise and announced how it plans to unwind its quantitative easing programme. While the bank's asset purchases will continue at €60 billion a month until December, they will be cut in half to €30 billion from January and will last until September 2018, or beyond if necessary. The size of the reduction was bigger than our expectation that purchases would be lowered to €40 billion, but the bank left its programme open-ended and said it could boost stimulus if conditions warrant. We thus do not expect an abrupt halt to QE in September.

UK (November 9, 2017)

U.K. GDP surprised on the upside and expanded by 0.4% q/q in the third quarter, up from 0.3% growth in the second quarter, prompting the Bank of England to hike its rate. November's MPC meeting brought the BoE first rate hike in more than a decade. The minutes of the meeting nonetheless confirmed our view that Thursday's rise does not mark the start of a tightening cycle, as all members agreed that future rate hikes are to be gradual and limited. What's more, the committee dropped its previous guidance that interest rates may need to be tightened a little more than markets expect. This pushed the pound lower following the decision.

Accordingly, the MPC's updated forecasts are consistent with only two further 25-basis point rises over the next three years. During his press conference, BoE Governor Mark Carney confirmed that the bank broadly agrees that the two implied rate hikes would manage to bring inflation close to target by the end of the forecast period, while at the same time still providing a substantial support to growth. But while markets are expecting an additional rate hike to come roughly by the middle of 2018, we remain less optimistic and fail to see the bank acting again before the end of next year.

That's because we think inflation will moderate in 2018 faster than the bank currently implies, just as it soared this year faster than what the MPC had expected. We believe the bank is underestimating how the sterling-led import shock on prices will fade, just as it underestimated how hard it would hit. While the MPC still sees inflation remaining above target at the end of the forecast period—which is the fourth quarter of 2020—we expect it to cool to 2% by the end of next year.

To that we add that the bank is likely overestimating the economy's momentum next year; in its inflation report, the bank actually raised its 2018 forecast to 1.64%, from 1.6% in August. By contrast, we are penciling in a more subdued 1.3% rate of expansion. That's because even if inflation returns to target and eases consumers' real pay squeeze next year, wages should continue to rise only slowly, borrowing is about to become more expensive—not only because of the rise in the bank rate, but also because of next year's scrapping of the Term for Funding Scheme—and the housing market will continue to struggle, prompting consumers to save more.

And while consumption will fail to bounce back, investment should also remain subdued. One major point of Carney's press conference was his insistence on how Brexit uncertainty is damaging the economy, particularly investment, and how future developments on the negotiation front could make the bank recalibrate its monetary policy in the quarters to come. He repeated that the current situation is exceptional and didn't rule out a further cut should talks turn more sour than expected. He also noted that the MPC still sees considerable risks to the forecast, and that this is a main reason the bank is now working to bring inflation back to target on a longer three-year forecast period rather than the bank's normal 18 to 24 months.

Another key point is that the bank now claims that the remaining slack has narrowed primarily because it has revised down the U.K.'s potential GDP growth. This is because of the repeated disappointments in productivity growth, which Carney claimed were only exacerbated by Brexit. This reduction in the outlook for growth in supply capacity limits the pace at which output can expand without generating inflation pressures; according to Carney, that means now is the right time to take the bank's foot off of the accelerator if inflation is to return to target over the forecast period.

ASIA PACIFIC

By Katrina Ell and the Asia-Pacific Staff of Moody's Analytics
November 9, 2017

Australia

The Reserve Bank of Australia kept the cash rate on hold at 1.5% in November as expected and is going nowhere quickly. The disappointing retail trade picture that has formed in the second half of 2017 means the RBA will not be in a hurry to begin hiking, and subdued inflation pressures mean that it doesn't have to be. Our preliminary estimates suggest consumption made a nil contribution, at best, to third quarter GDP, after adding 0.4 percentage point in the June quarter.

Our expectation late in October was that the RBA would start hiking from mid-2018 but that now seems unlikely because it would risk derailing consumption, which we expect will still be soft and sensitive to policy tightening. Adding to the sensitivity is the high level of household debt, running at almost 120% of nominal GDP. This is heavily tied to the property market and household budgets are already stretched, despite low borrowing costs. For this reason, we have pushed out the beginning of gradual rate normalization to the first quarter of 2019.

The Australian dollar is also important. The exchange rate is up around 6.2% year to date against the dollar, and although it has eased a bit in the past month, it is still fairly high at US$0.766. The RBA has noted that it is weighing on the outlook for improved employment and output. Our own analysis has found that if the exchange rate were to appreciate a further 3 percentage points in 2017 we would see GDP growth in 2018 cool from our 2.52% forecast to 2.3%. Slower GDP growth has far-reaching consequences. Our expectation that the labour market will continue tightening, eventually delivering stronger wage growth, seems unlikely. Delaying policy normalization keeps upward pressure off the currency and could aid depreciation given major central banks offshore beginning to tighten.

Another reason for the RBA to remain on the sidelines is the more subdued inflation outlook. The Australian Bureau of Statistics released new consumer price index weights on 6 November that will be used to compile the December quarter CPI, due for release on 31 January. The last time the CPI was reweighted was in 2011. We applied the new CPI weights to the third quarter data, and headline CPI is around 20 basis points weaker at 1.6% y/y, down from its previous 1.8% estimate. In addition to the more subdued consumption picture and alongside the strong Australian dollar, headline CPI is forecast to rise to 2.25% y/y by the December quarter of 2018, softer than our previous 2.42% estimate.

There were changes in weights across the major CPI categories, reflecting changes in household expenditure since the last reweighting in 2011.

Some notable changes include:

- The housing expenditure weighting has increased, driven by higher rents and utilities. There's been an increase in the proportion of renters and rental price growth has lifted household expenditure on rent. Utilities expenditure has increased, with households spending more on electricity, gas, and water and sewerage charges.
- Food and non-alcoholic beverages remain a large component of household expenditure, although the proportion spent on this category has fallen compared with when the last reweighting was undertaken in 2011. This is because of increased competition putting downward pressure on prices.
- The situation is similar for clothing, where the expansion of fast-fashion retailers from offshore has increased competition and put downward pressure on prices.

- The furnishings, household equipment and services weighting has increased. A higher weighting on child-care costs (from 0.69 percentage point to 1.35 percentage points) was an important driver as households are spending more on child-care costs that cannot be easily substituted for other forms of care. Incoming government changes to child-care subsidies and rebates will disproportionately benefit lower-income earners, who would spend a higher proportion of the household budget on child care.

- The transport category has a reduced weighting due to the lower cost of purchasing motor vehicles and lower automotive fuel amid more subdued global prices.

- Health costs have stayed relatively steady. This is because of ongoing and significant government subsidization of medicines, services and equipment absorbing price increases. This is a rising burden on public coffers given the ageing population demanding more and higher-quality medical services.

Australia's consumer price index is a ‘fixed weight’ index that takes detailed price estimates based on expenditure at some base period. Around every six years, the Australian Bureau of Statistics updates these weights to reflect changed spending patterns including shifts in tastes and preferences, the introduction of new goods and services, or the shift to cheaper items, as captured by the household expenditure survey.

The ABS has found that the net impact on forecast estimates is typically negative due to a ‘substitution effect' where consumers' spending tends to rise for items where relative prices have declined. Similarly, consumer spending falls for items where relative prices have risen. In other words, the fixed weighting system with a specified base period overstates the price change of the basket, as it's not able to take account of the substitution consumers make in response to relative price change and changes in preferences, resulting in substitution bias.

The ABS calculated the average substitution bias that occurs in each year after the reweighting takes place and it is significant, by the fourth year, CPI is overstated by an average 0.18 percentage point and by the fifth year, 0.2 percentage point.

The International Labour Organization recommends published CPI weights be updated at least every five years. The ABS currently updates weights every six years. The ABS has noted the benefits of doing more frequent updates but has cited funding constraints as its major limitation. Australia, along with New Zealand, is one of only a few countries to release quarterly inflation data, most released monthly. These factors are worrisome, as CPI data are a critical barometer of economic performance and input into policy setting.

Ratings Round-Up

By Njundu Sanneh

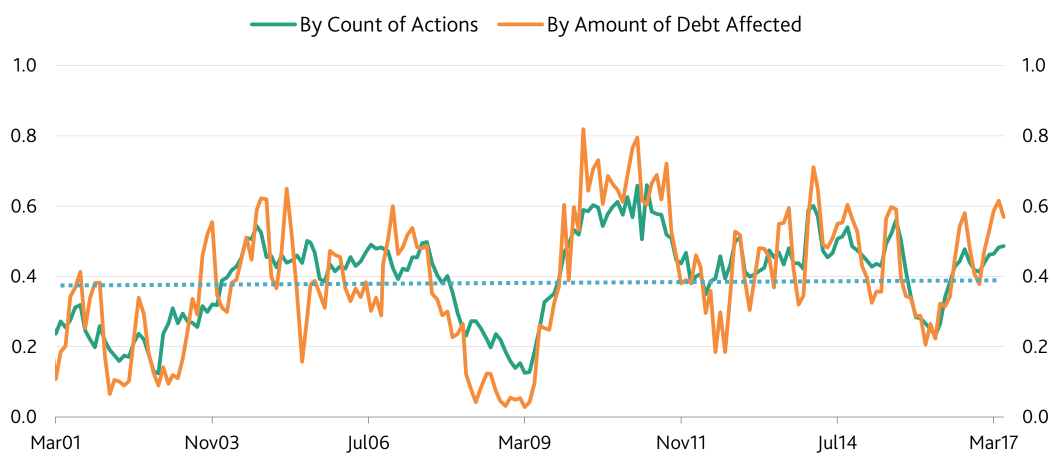
Mostly Upgrades in Europe, Downgrades in the US

Downgrades were prominent in the US and rating revisions were from a range of sectors, nevertheless including the usual suspects of retail and energy. Wireline telecom and retail account for five of the 11 rating changes. The downgrades of Windstream Services, LLC, and Frontier Communications Corporation, two major wireline outfits, were the result of poor revenue and profit growth and a challenging operating environment likely to put pressure on credit metrics in the near term. Rackspace Hosting, Inc., another telecom company in the data center business, was downgraded as well. In the retail space BI-LO Holding Finance LLC, a retail food grocery company, was affected by near-term maturities challenging its liquidity position, and by competition in the industry, increasing the likelihood of a default or debt restructuring. A rare upgrade in the retail sector was that of National Vision, Inc. an optical retail firm that experienced a rise in ratings as a result of debt reduction using proceeds from its IPO.

In Europe 10 rating changes were equally distributed between financials and industrials. The list was all upgrades except for the downgrade of a Netherlands bank. Three of the nine upgrades were for three Austrian banks, based mainly on higher affiliate support. Finland and the Netherlands also each had two rating changes.

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
11/1/17	ENTEGRIS INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	720	U	B1	Ba3	SG
11/1/17	RACKSPACE HOSTING, INC.	Industrial	SrSec/BCF		D	Ba2	Ba3	SG
11/1/17	UNDER ARMOUR, INC.	Industrial	SrUnsec	600	D	Baa2	Baa3	SG
11/2/17	FRONTIER COMMUNICATIONS CORPORATION	Industrial	SrUnsec/SrSec/BCF/:TCFR/PDR	12,793	D	B2	B3	SG
11/2/17	HUNTSMAN CORPORATION	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR		U	B1	Ba2	SG
11/3/17	BI-LO HOLDING FINANCE, LLC	Industrial	SrUnsec/SrSec/LTCFR/PDR	900	D	Caa2	Ca	SG
11/3/17	NATIONAL VISION, INC.	Industrial	LTCFR/PDR		U	B2	B1	SG
11/3/17	WINDSTREAM SERVICES, LLC	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	3,013	D	B2	B3	SG
11/6/17	LIBBEY INC. - Libbey Glass Inc.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
11/7/17	PETROLEOS DE VENEZUELA, S.A. - CITGO Holding, Inc.	Industrial	SrSec/BCF/LTCFR	2,150	D	Caa1	Caa2	SG
11/7/17	TREEHOUSE FOODS, INC.	Industrial	SrUnsec	2,350	U	Ba3	Ba2	SG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

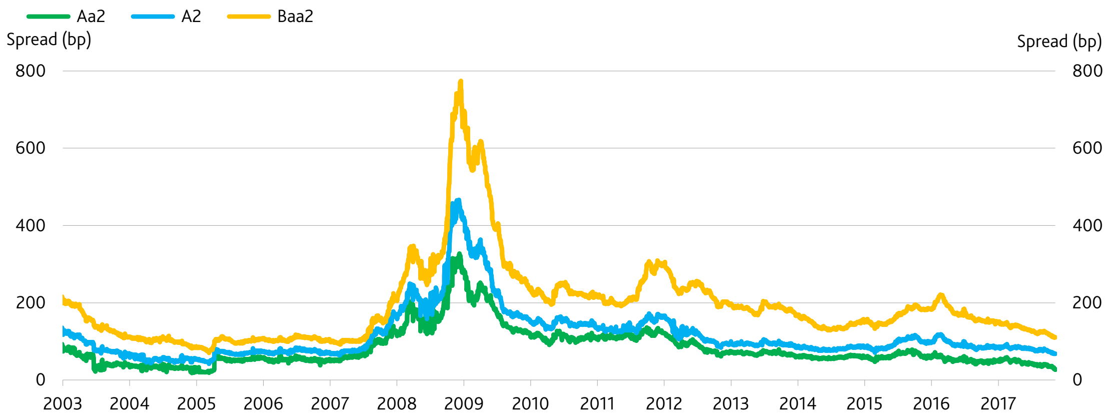
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
11/3/17	RAIFFEISEN ZENTRALBANK OESTERREICH AG	Financial	SrUnsec/LTD SrSub/Sub/PS	7,014	U	Baa1	A3			IG	AUSTRIA
11/3/17	RAIFFEISENLANDESBANK NIEDEROESTERREICH - WIEN	Financial	SrUnsec/LTIR/LTD/Sub/MTN	4,830	U	Baa2	Baa1			IG	AUSTRIA
11/3/17	RAIFFEISENLANDESBANK OBEROESTERREICH AKTIENGESELLS	Financial	SrUnsec/LTIR/LTD	425	U	Baa2	Baa1			IG	AUSTRIA
11/7/17	RAIFFEISEN ZENTRALBANK OESTERREICH AG - Raiffeisenbank (Bulgaria) EAD	Financial	SLTD		U	Baa3	Baa2	P-3	P-2	IG	BULGARIA
11/2/17	UPM-KYMMENE	Industrial	SrUnsec/LTIR	625	U	Baa3	Baa2			IG	FINLAND
11/6/17	OUTOKUMPU OYJ	Industrial	SrSec/LTCFR/PDR	581	U	B1	Ba3			SG	FINLAND
11/7/17	BORETS INTERNATIONAL LTD	Industrial	SrUnsec/LTCFR/PDR	463	U	B1	Ba3			SG	IRELAND
11/6/17	NAVIOS MARITIME HOLDINGS, INC.	Industrial	SrUnsec/SrSec/LTCFR/PDR	941	U	Ca	Caa3			SG	MARSHALL ISLANDS
11/1/17	PROMSVYAZ CAPITAL B.V.	Financial	SrUnsec/LTIR/LTD/Sub/MTN	939	D	Ba3	B2			SG	NETHERLANDS
11/7/17	PLAYA HOTELS AND RESORTS, B.V. - Playa Resorts Holding B.V.	Industrial	LTCFR		U	B3	B2			SG	NETHERLANDS

Source: Moody's

Market Data

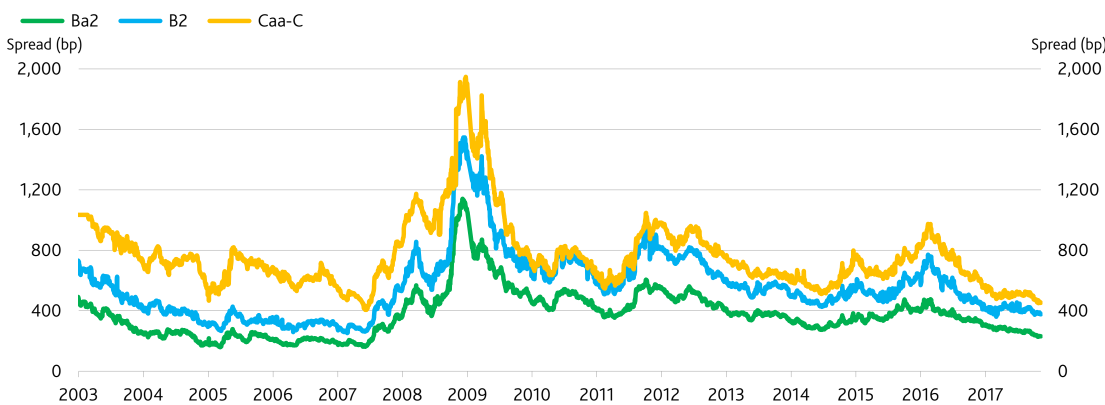
Spreads

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 (November 1, 2017 – November 8, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 8	Nov. 1	Senior Ratings
Colgate-Palmolive Company	Aa2	A1	Aa3
John Deere Capital Corporation	A2	A3	A2
PepsiCo, Inc.	Aa3	A1	A1
Caterpillar Financial Services Corporation	A2	A3	A3
Chevron Corporation	Aa3	A1	Aa2
Exxon Mobil Corporation	A1	A2	Aaa
Intel Corporation	Aa1	Aa2	A1
U.S. Bancorp	Aa1	Aa2	A1
21st Century Fox America, Inc	A2	A3	Baa1
Kinder Morgan Energy Partners, L.P.	A2	A3	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 8	Nov. 1	Senior Ratings
Office Depot, Inc.	Caa2	B2	B2
Hertz Corporation (The)	Ca	Caa2	B3
Bank of America Corporation	Baa1	A3	Baa1
Wells Fargo & Company	Baa1	A3	A2
JPMorgan Chase Bank, N.A.	A2	A1	Aa3
Toyota Motor Credit Corporation	Baa3	Baa2	Aa3
Ally Financial Inc.	Ba2	Ba1	Ba3
Verizon Communications Inc.	Baa3	Baa2	Baa1
Ford Motor Credit Company LLC	Ba1	Baa3	Baa2
American International Group, Inc.	Baa2	Baa1	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 8	Nov. 1	Spread Diff
Windstream Services, LLC	B3	2,093	1,617	476
Office Depot, Inc.	B2	600	198	402
Nine West Holdings, Inc.	Ca	12,607	12,220	387
Sears Roebuck Acceptance Corp.	Caa3	4,233	3,956	278
Sears Holdings Corp.	Caa3	3,765	3,518	247
Frontier Communications Corporation	B3	1,526	1,309	216
Rite Aid Corporation	B3	1,027	833	194
Avon Products, Inc.	B3	1,022	858	164
Hertz Corporation (The)	B3	794	658	137
Neiman Marcus Group LTD LLC	Caa3	1,517	1,408	109

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 8	Nov. 1	Spread Diff
McClatchy Company (The)	Caa2	957	1,036	-79
MBIA Insurance Corporation	Caa2	845	903	-58
Parker Drilling Company	Caa1	839	869	-30
NRG Energy, Inc.	B1	180	202	-22
Pactiv Corporation	Caa1	155	176	-21
L Brands, Inc.	Ba1	192	212	-20
Calpine Corporation	B2	313	330	-16
HCP, Inc.	Baa2	126	140	-14
Huntsman International LLC	Ba2	61	75	-14
Diamond Offshore Drilling, Inc.	Ba3	236	250	-14

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (November 1, 2017 – November 8, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 8	Nov. 1	Senior Ratings
Galapagos Holding S.A.	Caa2	Ca	Caa2
France, Government of	Aaa	Aa1	Aa2
Abbey National Treasury Services plc	A3	Baa1	Aa3
Total S.A.	Aa1	Aa2	A1
Landesbank Baden-Wuerttemberg	A2	A3	A1
Greece, Government of	B3	Caa1	Caa2
Heineken N.V.	Aa3	A1	Baa1
Eni S.p.A.	A3	Baa1	Baa1
RWE AG	A2	A3	Ba1
EnBW Energie Baden-Wuerttemberg AG	Aa2	Aa3	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 8	Nov. 1	Senior Ratings
Lloyds Bank Plc	A1	Aa3	Aa3
The Royal Bank of Scotland Group plc	Ba1	Baa3	Baa3
Bankia, S.A.	Baa3	Baa2	Ba1
CaixaBank, S.A.	Baa3	Baa2	Baa2
Banque Federative du Credit Mutuel	Aa2	Aa1	Aa3
Electricite de France	Baa1	A3	A3
Banco Popular Espanol, S.A.	Baa1	A3	Baa3
Bank of Scotland plc	A3	A2	Aa3
Deutsche Telekom AG	A2	A1	Baa1
Allianz SE	Aa1	Aaa	Aa3

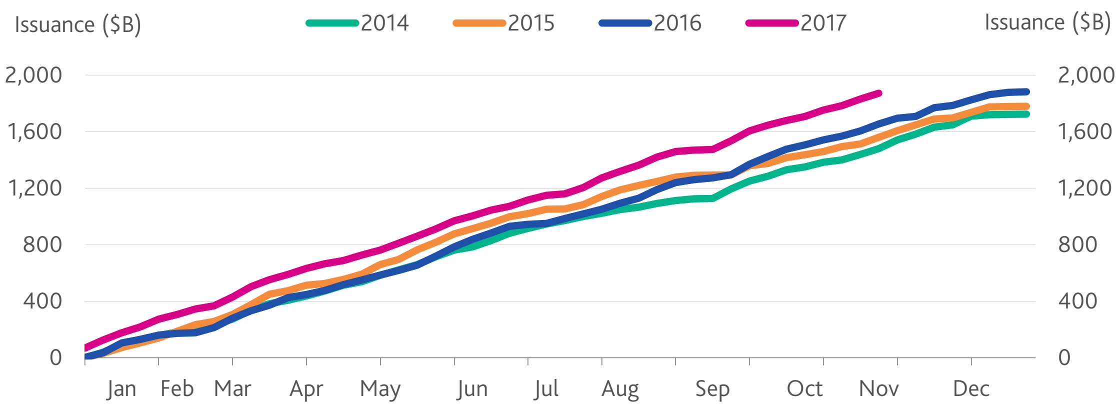
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 8	Nov. 1	Spread Diff
Astaldi S.p.A.	B3	994	812	182
Boparan Finance plc	B2	748	618	130
Altice Finco S.A.	B3	296	237	60
PizzaExpress Financing 1 plc	Caa1	862	813	49
Stena AB	B3	513	469	44
Iceland Bondco plc	Caa1	322	294	28
Premier Foods Finance plc	Caa1	360	338	23
CMA CGM S.A.	B3	328	308	21
Matalan Finance plc	Caa2	375	357	19
Galapagos Holding S.A.	Caa2	722	706	16

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 8	Nov. 1	Spread Diff
Greece, Government of	Caa2	407	429	-22
Evraz Group S.A.	B1	264	277	-13
Dexia Credit Local	Baa3	115	125	-10
Ensco plc	B3	578	584	-6
NXP B.V.	Ba1	73	78	-5
Wm Morrison Supermarkets plc	Baa3	74	78	-4
Telefonaktiebolaget LM Ericsson	Ba2	142	145	-4
Portugal, Government of	Ba1	116	119	-3
Landesbank Baden-Wuerttemberg	A1	40	43	-3
Bankinter, S.A.	Baa2	71	74	-3

Source: Moody's, CMA

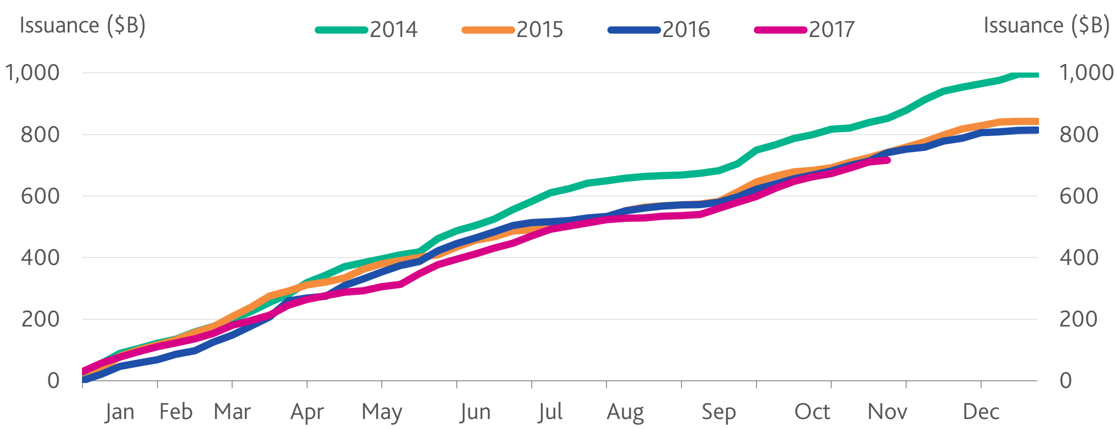
Issuance

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	33.605	6.435	41.314
Year-to-Date	1,340.585	387.968	1,871.608

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	3.321	0.465	4.934
Year-to-Date	583.322	95.511	715.912

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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