MOODY'S ANALYTICS

Editor's note: The Weekly Market Outlook will not be published Thursday, November 23. It is the US Thanksgiving national holiday. Next issue: November 30.

WEEKLY MARKET OUTLOOK

Fewer Defaults Will Stave Off Much Wider Spreads

Moody's Analytics Research

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Credit Markets Review and Outlook *by John Lonski*

Fewer Defaults Will Stave Off Much Wider Spreads.

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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, "Refinancings continue to dominate the stated uses of proceeds from newly issued US$ corporate bonds," begin on page 16.

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*

US Upgrades Fly, Fueled by Energy Sector.

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Credit spreads, CDS movers, issuance.

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Moody's Capital Markets Research *recent publications*

Links to commentaries on: Saudi Arabia, defaults, 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.

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

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Credit Markets Review and Outlook

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

Fewer Defaults Will Stave Off Much Wider Spreads

The high-yield bond market recently incurred a jarring sell-off. On October 24, the composite speculative-grade bond yield and its spread over Treasuries bottomed at 5.46% and 340 bp, respectively. By November 15, the spec-grade yield had jumped up to 6.13%, while the spread swelled to 407 bp. Nevertheless, the latest widening of high-yield bond spreads more likely stems from a correction of under-compensation for default risk rather than from a deterioration of corporate credit quality.

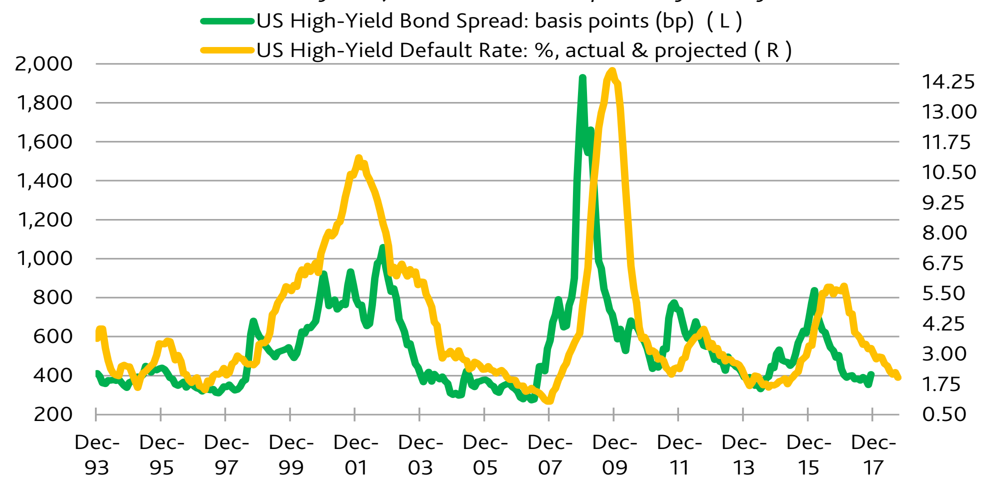
Neither current nor prospective credit rating revisions are signaling a noteworthy climb by default risk. Thus far in 2017's final quarter, both high-yield and investment-grade credit rating revisions show more upgrades than downgrades. In addition, since the end of June 2017, the number of improved outlooks for US corporate credit quality has surpassed the number of worsened outlooks.

The current outlook for US business activity weighs against an impending deterioration of corporate credit quality that otherwise might drive the high-yield bond spread well above its 454 bp median for the months overlapping economic recoveries since 1984. According to an early November survey of more than 50 forecasters that was conducted by Blue Chip Economic Indicators, the consensus looks for faster rates of growth for US real GDP and pretax operating profits in 2018. Moreover, early November's consensus assigned only a 19% probability to the likelihood of a recession starting in 2018.

Moody's Default Research Group now projects that the US default rate will ease to 2.1% by October 2018, as the avoidance of a contraction by profits would support expectations of fewer defaults. If profits grow and the default rate declines, both the US corporate bond and equity stock markets should avoid a harsh correction during the next 12 months. Overvaluation offers no assurance of impending doom. (Figure 1.)

Figure 1: Ballooning of the High-Yield Bond Spread Is Ultimately Incompatible with a Declining High-Yield Default Rate

source: Moody's Default Research Group, Moody's Analytics



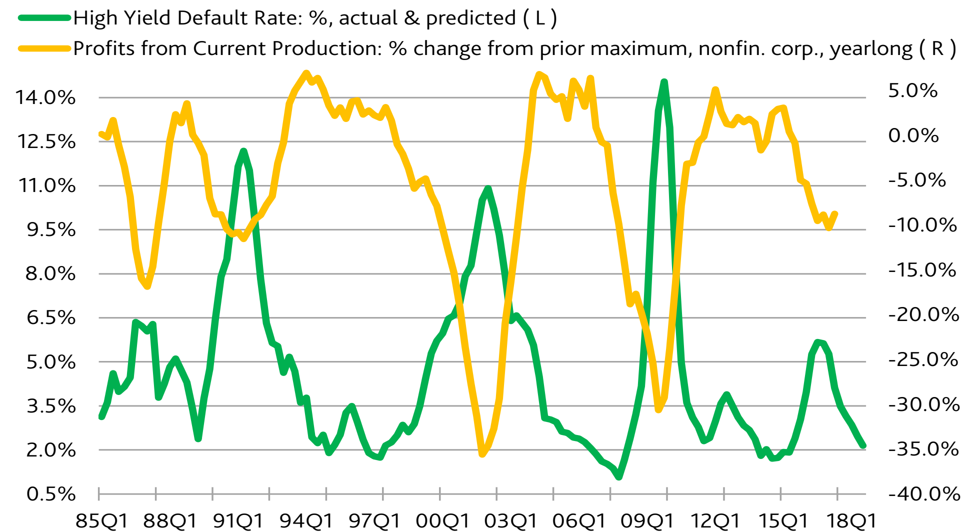
Profits growth will rein in high-yield spreads

Barring a fundamentally excessive climb by interest rates, the avoidance of a material shrinkage of operating profits should be enough to prevent a painful sell-off of earnings-sensitive securities. Each of the five episodes since 1982 where the moving yearlong average of nonfinancial-corporate pretax profits from current production sank by a least -5% from its then record high was joined by a high-yield default rate of 5% or higher. Upon reaching the 5% default rate, the high-yield bond spread's moving yearlong average revealed a median year-over-year increase of 143 bp. Thus, profits growth should significantly lessen the risk of a pronounced and extended widening by the high-yield bond spread. (Figure 2.)

Whether profits grow or shrink will have much to say about the likely direction of corporate bond yield spreads. In terms of moving yearlong averages since 1985, 73% of the annual increases by nonfinancial-

corporate pretax operating profits were accompanied by an annual contraction for the high-yield bond spread. In addition, 91% of the annual contractions by such profits, the high-yield spread widened.

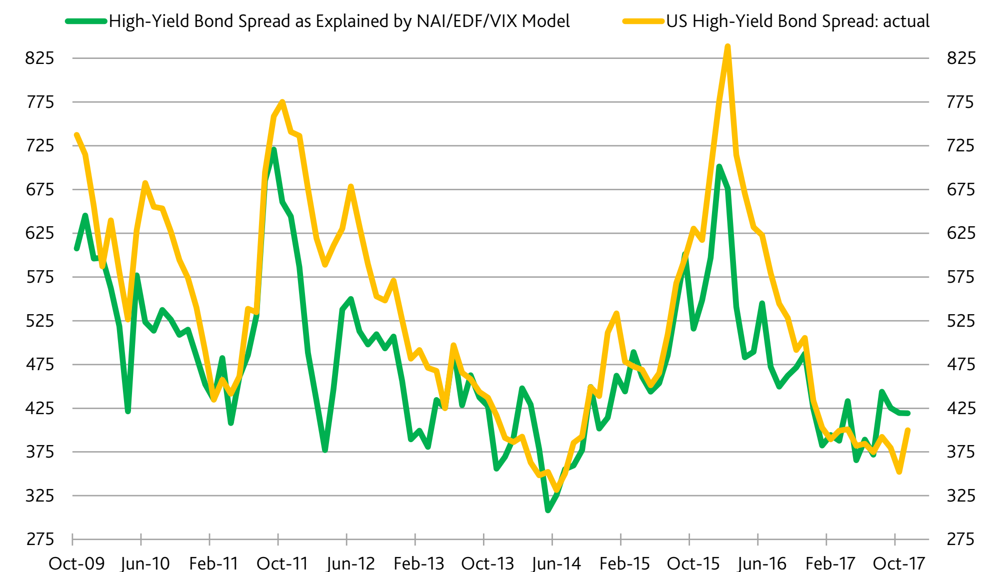
Figure 2: Each Deeper Than -5% Drop by Profits from Prior Cycle High Was Joined by a Greater Than 5% High-Yield Default Rate
source: Moody's Investors Service, National Income Product Accounts



Stabilization of equities may end spread widening

Models that include a measure of equity market conditions now favor a limited widening by the high-yield bond spread. According to a regression model — which explains the high-yield bond spread in terms of the average high-yield EDF (expected default frequency) metric, the change in the EDF from three-months earlier, the VIX index, and the moving three-month average of the Chicago Fed's national activity index — the high-yield spread's latest predicted midpoint is 420 bp. However, when excluding the VIX index from the explanatory model, the remaining variables favor a much wider 490 bp midpoint for the high-yield bond spread. Thus, if growing worry over a possibly deep slump by share prices pushes the VIX index significantly higher, the high-yield spread will probably climb well above its recent 407 bp. (Figure 3.)

Figure 3: According to an Explanatory Model, the High-Yield Bond Spread Has Been Unduly Thin since the End of July 2017 *in bp*



The regression model generates a very meaningful adjusted r-square statistic of 0.89. However, the current upturn's divergence between the actual high-yield bond spread and the model's estimated spread has differed from previous recoveries. In the ongoing upturn, the averages since September 2009 show

the actual high-yield spread of 531 bp exceeding its expected average of 485 bp by +53 bp. By contrast, for the prior months overlapping previous economic recoveries since 1995, the actual spread's 485 bp average was -33 bp less than the 518 bp average of the expected high-yield spread.

Since the end of July 2017, the actual high-yield spread has been less than the regression model's estimated value. And that difference may be unsustainable according to the actual spread's tendency to exceed its model-derived value throughout most of the current upturn. More specifically, after the actual high-yield spread exceeded its expected value by +49 bp, on average, during the 36 months ended July 2017, the actual spread has subsequently averaged -46 bp less than the expected spread.

Given how the recent gap diverged considerably from the current recovery's norm, the high-yield spread's recent widening seems inevitable. Not since the span-ended April 2014 was the actual high-yield spread less than the estimated spread for at least three consecutive months. January-April 2014's average high-yield bond spread of 372 bp was -39 bp under its expected value. However, the high-yield spread's 401 bp average of 2014's remaining eight months topped its estimated value by +28 bp.

The current recovery's wider-than-expected high-yield spread might be ascribed to a perceived loss of liquidity to regulatory changes that limit the ability of major financial institutions to own corporate bonds and, thus, make markets for those securities. As derived from the Fed's "Financial Accounts of the United States", the percent of outstanding corporate bonds held by security brokers and dealers fell from the 3.6% of 2004-2007 to 0.7% since the end of 2014. If corporate bonds owned by holding companies and funding corporations are added to those of brokers and dealers, this broader category's percent share of outstanding corporates also sinks from 2004-2007's 4.8% to 1.6% since 2014.

Thus, in an attempt to limit the exposure of individual financial institutions to corporate default risk, regulators effectively heightened the liquidity risk of corporate bonds. During the next bout of widespread financial stress, the corporate bond market's diminished liquidity warns of lower corporate bond prices and wider spreads than otherwise. In turn, investors ought to demand additional yield as compensation for risks stemming from the market's possibly reduced ability to stabilize corporate bond prices.

In summary, the fundamentals do not yet favor a protracted widening of corporate bond yield spreads. Nevertheless, the high-yield bond spread's primary drivers favor a wider than 400 bp yield gap over comparably dated Treasuries. For now, the good news is that the two biggest dangers facing earnings-sensitive securities remain hypothetical. They are (i) a climb by interest rates that weighs heavily on business activity and (ii) widely distributed price hikes that exceed what consumers can afford. Until either risk materializes, broad sell-offs of equities and corporate bonds should be short-lived.

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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 13: The upcoming economic calendar is busy. We look for the headline consumer price index to have risen 0.1% in October. This is our preliminary forecast and will be finalized after producer prices on Tuesday. For the CPI, we expect gasoline prices to have weighed on the headline index in October. The forecast pencils in a 2.1% decline in the CPI for gasoline. Food prices likely rose 0.1% in October. Excluding food and energy, we expect the CPI to have risen 0.2% (0.17% unrounded) in October. We expect retail sales to have slipped in October while we expect some weather-related payback for industrial production. Housing starts should bounce back in October.

Data aside, we will also be keeping an eye on the developments in Washington DC and financial markets. U.S. economic policy uncertainty will remain elevated in light of the dynamics in Washington DC. Thursday was a perfect example, as the Senate's proposed tax plan calls for a delay of the corporate tax cut until 2019 while the House version calls for implementation in 2018. The Senate plan preserves all seven individual tax brackets, which is also at odds with the House plan.

Our assumption is that interest rates are likely to increase regardless of whether the tax cuts, if implemented, boost growth or inflation. We would expect the yield curve to flatten, stock prices to rise, and the U.S. dollar to appreciate if the tax plan supports real GDP growth in the near term, while the opposite would be more likely if tax cuts lead mostly to higher inflation. The outcome isn't clear-cut, as the tax cut would occur at a time when the output gap is positive.

Further flattening in the yield curve would fan concerns that the expansion is in jeopardy. The yield curve, or the difference between the 10-year Treasury yield and the three-month yield, has flattened over the past few years and is just above 100 basis points. However, a flat yield curve doesn't always correspond with weakness in the economy. For example, the yield curve was also flat from 1995 to 1999, but the economy continued to grow above its potential. On the other hand, an inversion rather than a simple flattening in the yield curve would raise a red flag. The economic case for an inverted yield curve isn't overly compelling. U.S. GDP growth is above trend, and some of the major weight depressing long-term rates should begin to lift, helping prevent the yield curve from inverting.

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.

MONDAY, NOVEMBER 13

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

Forecast: N/A
Global business sentiment is strong—consistent with a global economy that is expanding at the high end of its potential—but it is as weak as it has been since just before last year's U.S. presidential election. 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 these issues are their number one concern. Another one-fifth of businesses say finding qualified labor is their biggest problem. Concerns with the strength of their sales and taxes have significantly receded.

The four-week moving average in our global business confidence index inched increased from 27.8 to 28.3 in the week ended November 3.

TUESDAY, NOVEMBER 14

NFIB small business index (October; 6:00 a.m. EST)

Forecast: 104
The NFIB small business confidence index took a small step back in September, but it remains elevated and consistent with solid GDP growth. The NFIB small business index fell from 105.3 in August to 103 in September, a larger decline than we had anticipated. This puts the index a touch below its first half average of 104.7. The details were mixed, as expectations for the economy to improve fell but remain elevated. Hiring plans inched higher, but the uncertainty index increased, potentially reflecting what has been going on in Washington DC.

Turning to October, we look for the NFIB index to have risen 1 point to 104. Already, released data by the NFIB showed the labor market measures improved between September and October.

WEDNESDAY, NOVEMBER 15

Consumer price index (October; 8:30 a.m. EST)

Forecast: 0.1% (headline)
Forecast: 0.2% (core)
We look for the headline consumer price index to have risen 0.1% in October. This is our preliminary forecast and will be finalized after producer prices on Tuesday. For the CPI, we expect gasoline prices to have weighed on the headline index in October. The forecast pencils in a 2.1% decline in the CPI for gasoline. Food prices likely rose 0.1% in October. Excluding food and energy, we expect the core CPI to have risen 0.2% (0.17% unrounded). Within this core, we look for some firming in rents while lodging away from home likely fell following a solid and likely hurricane inflated gain in September. For transportation, new vehicle prices are forecast to have slipped slightly in October while the Manheim index points toward a small gain.

On a year-ago basis, we look for the CPI to have been up 2% in October following a 2.2% gain in September. The core CPI was likely up 1.7% on a year-ago basis, matching that seen over the past several months.

Retail sales (October; 8:30 a.m. EST)

Forecast: -0.1% (headline);
Forecast: 0% (core)
Nominal retail sales are forecast to have fallen 0.1% in October following a 1.6% gain September. The key supports for retail sales in September reversed in October. Lower gasoline prices will weigh on nominal spending at gasoline stations, which is expected to shave 0.2 of a percentage point off total nominal retail sales growth. Vehicles won't help. Unit sales fell 2.6% in October and we believe this will cut 0.1 of a percentage point off growth in retail sales. Therefore, retail sales excluding autos were likely unchanged. Elsewhere, building material store sales were likely a neutral for total retail sales in October but the risks are weighted to the downside side as there could be some hurricane-related payback in October.

THURSDAY, NOVEMBER 16

Jobless claims (week ended November 11; 8:30 a.m. EST)

Forecast: 235,000

We look for initial claims for unemployment insurance benefits to have fallen from 239,000 to 235,000 in the week ending November 11. This reverse some of the 10,000 increase in the prior week. The trend in initial claims will remain favorable as the four week moving average will come in at 234,250, up from 231,250 in the prior week but still among the lowest this cycle.

Import prices (October; 8:30 a.m. EST)

Forecast: 0.5%

Import prices likely rose 0.5% in October, leaving them up 2.7% on a year-ago basis. Imported crude oil prices likely rose following the increase in West Texas Intermediate and Brent crude in early October. Other fuel prices will limit the gain in import prices as the forecast includes a decline in natural gas and fuel oil prices. Excluding fuels, import prices likely increased 0.2% in October, leaving them up 1.5% on a year-ago basis.

Industrial production (October; 9:15 a.m. EST)

Forecast: 0.7%

We look for industrial production to have risen 0.7% in October. Autos and hurricane-related payback will provide a big boost to industrial production. Motor vehicle production is expected to have risen 3% between September and October. Meanwhile, the Fed reported that September industrial production was reduced by 0.25 of a percentage point because of the hurricanes. These disruptions should have faded in October, therefore the drag in September should be reversed by a like amount, if not more. Utilities production likely rose 2% in October but mining production appears to have been unchanged.

FRIDAY, NOVEMBER 17

Housing starts (October; 8:30 a.m. EST)

Forecast: 1.206 million annualized units
Housing starts fell 4.7% to 1.127 million annualized units in September. It would be easy to quickly blame the hurricanes, but they likely had only a small impact. For one, according to the Census Bureau, the FEMA disaster declaration counties account for 8.9% of total U.S. units in 2016. For projects in the Survey of Construction for which the Census Bureau doesn't receive information in September, the bureau assumes that there was no change and counts the units in their previous status as not started or under construction. Newly issued permits are counted as not started if the start status cannot be determined. All the FEMA disaster counties in Florida are part of the Survey of Construction, but Puerto Rico isn't.

For October, we look for housing starts to have risen from September's 1.127 million annualized units to 1.206 million.

EUROPE

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

Summary, November 13: Next week will be busy on the data front for both the U.K. and the euro zone. First, industrial production figures should show that factory growth retreated slightly in the currency area at the end of the third quarter, though we caution that this does not represent a change in the zone's upward trend. Given how industrial production figures have been volatile over the past year, a correction is all but expected following the previous month's 1.4% m/m rise, notably in Germany, where sales had jumped by a staggering 3% m/m in August. We are penciling in a 0.4% m/m contraction in September in the area's aggregate indicator. Already released country figures have been mixed, though. Excluding construction, industrial production rose by a strong 0.6% m/m in France at the end of Q3, pushing the quarterly rate to 0.6% q/q, following a 1.1% rise in the second quarter. In Germany, by contrast, the headline fell by 1.8% m/m over the month, but quarterly growth remained solid at 1.1% q/q, building on a 1.7% increase previously. The picture was similar in Italy, where industrial production was down by 1.3% m/m in September but still pushed the yearly expansion to 1.4% q/q, up from a 1.2% rise previously. In Spain, factory growth rose by only 0.1% in September after a 1% jump in August. Across sectors and for the area as a whole, we expect that it was mainly a jump in energy production that supported the headline on the back of September's below-average temperatures across the Continent, but this support is expected to have been offset by a sharp mean-reversion in manufacturing. Over the quarter as a whole, industrial production likely rose by 1.1% q/q, about the same rate as in the previous stanza.

Across the Channel, inflation, unemployment and retail sales numbers will keep investors busy as well. At first glance, they will likely make the Bank of England monetary policy committee's trade-off even harder, as they are expected to show that inflation jumped further over the month but that wage growth remained subdued and retail sales disappointed strongly. We forecast that CPI rose to 3.2% in October, from 3% in September, which will mean that Governor Mark Carney will have to write a letter to the government explaining why the BoE has let inflation slip more than 1 percentage point above target, and that for the first time since May 2012. One of the main boosts to inflation likely came from higher electricity prices, as British Gas hiked electricity rates by 12.5% on September 15 and this will be included in October's figures. The core rate is also expected to have jumped over the month, as clothing and household goods inflation rates are expected to have accelerated following September's pullback while services inflation should have gained some ground. Elsewhere, food inflation should come in at 3.5% in October, up from 3.4% in September and still markedly up from its previous year average, as supermakerts have started to pass higher import prices on to consumers. Fuel inflation should fall back, as pump prices declined by around 1% over the month.

Wage growth likely remained stuck at around 2.2% in the three months to September. Surveys with recruiters are showing that growth in starter salaries is gaining ground, but consumer confidence remains too muted to allow for significant job-to-job flows, whlle uncertainties regarding Brexit will continue to keep firms from investing in their workforce. We expect that salaries will accelerate only slightly through the rest of this year and the next even though recruitment difficulties have soared over the past few months.

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.

MONDAY, NOVEMBER 13

No major economic indicators are scheduled for release.

TUESDAY, NOVEMBER 14

Germany: Preliminary GDP (Q3; 7:10 a.m. GMT)

Germany's quarterly expansion rate likely retreated in the third quarter. Real GDP is forecast to have increased by 0.3% q/q in the three months to September after the second quarter's 0.6% increase. The annual expansion rate likely held steady at 2.1%. Private consumption likely continued to power output growth thanks to a booming labour market; the unemployment rate fell to a record low 5.6% in September. Investment is expected to have continued to recover, while the appreciating euro likely weighed on exports. The average Markit manufacturing PMI reading for the third quarter was the highest in six years, reaching 59.3, pointing to economic growth of around 2% y/y. Despite strong momentum, the outlook for this year is clouded. The tailwinds supporting growth over the last few years will subside and political uncertainty abroad and at home adds to the risks.

Germany: Consumer Price Index (October; 7:10 a.m. GMT)

Preliminary estimates show that Germany's yearly inflation decelerated in October from the previous month, falling below the European Central Bank's target of close to but below 2%. Consumer prices likely rose 1.6% y/y, not seasonally adjusted, in October after a 1.8% increase in the previous month. Food prices rose 4.3% y/y, up from 3.6% previously, while growth of energy prices slowed to 1.2% y/y from 2.7% in September. This is despite further increase in oil prices, as Brent crude rose above $60 per barrel in late October. The euro weakened slightly to $1.18 on average in October from $1.19 in September but was still higher than $1.10 in October 2016. The Markit manufacturing PMI for October showed that input inflation pressures accelerated further, reaching their fastest pace since April. The seasonally adjusted CPI likely rose 1.6% y/y in October as well.

Spain: Consumer Price Index (October; 8:05 a.m. GMT)

In Spain, inflation likely rose by 1.6% y/y in October, down from 1.8% previously. The moderation in the year-on-year figure is due to a slower increase in fuel prices compared with last year. Based on the latest data, we believe inflation will close the year above the government 1% forecast for the year. Over the month, prices accelerated by 0.9%, which adds to the evidence that the underlying pressure may have started to build.

U.K.: Consumer Price Index (October; 9:30 a.m. GMT)

The U.K.'s annual headline CPI should have jumped to 3.2% in October, from 3% in September, on the back of rises mostly in prices for its core components. Clothing and household goods inflation is expected to have accelerated further at the beginning of the fourth quarter following a pullback in September. According to the European Commission, firms continue to report they intend to raise prices over the next few months, so we haven't changed our forecast that import prices will continue to make their way through to retail prices the rest of this year and in the first half of next year. Services inflation is also expected to have edged up following disappointing results for the previous month, even though we expect air fares to mean-revert from a statistical-quirked boom in September, while transport prices are also expected to pull back.

Results will be mixed for noncore components. Electricity prices are expected to jump following the British Gas 12.5% hike in electricity prices, but fuel inflation will likely fall back as separate data already show that pump prices fell by around 1% over the month. Food inflation is a wild card, but we expect it to have jumped in line with the data available for other European economies.

Euro Zone: Industrial Production (September; 10:00 a.m. GMT)

Industrial production likely contracted by 0.4% m/m in September, but this is all but expected following August's 1.4% rise. Already released country figures have been mixed. Excluding construction, industrial production rose by a strong 0.6% m/m in France at the end of Q3, pushing the quarterly rate to 0.6% q/q, following a 1.1% rise in the second quarter. In Germany, by contrast, the headline fell by 1.8% m/m over the month, but quarterly growth remained solid at 1.1% q/q, building on a 1.7% increase previously. The picture was relatively similar in Italy, where industrial production was down by 1.3% m/m in September but pushed the yearly expansion to 1.4% q/q, up from a 1.2% rise previously. In Spain, factory growth rose only slightly by 0.1% in September, following a 1% jump in August. Across sectors and for the area as a whole, we expect that it was

mainly a jump in energy production that supported the headline on the back of September's below-average temperatures across the Continent, but this support is expected to have been offset by a sharp mean-reversion in manufacturing. Over the quarter as a whole, industrial production likely rose by 1.1% q/q, roughly the same rate as in the previous stanza.

WEDNESDAY, NOVEMBER 15

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

The U.K.'s headline unemployment rate was likely unchanged at 4.3% in the three months to September, its lowest since 1975. The number of employed is expected to have again increased while the number of unemployed likely fell further, building on the strong gains over the past months. Survey data show that both permanent and temporary job placements continued to rise in September, though the rate of growth eased slightly compared with previous months, while vacancies remained elevated.

Wages should have at best remained steady, since firms are freezing salaries instead of laying off staff. The BoE's Agents Summary of Business Conditions showed that pay awards remained clustered at around 2.5% to 3% at the end of September despite recruitment difficulties edging further up. Similarly, XperHR reported that median private-sector pay settlements held steady at only 2%. On a brighter note, Markit reported that growth in starting salaries was the second highest in 22 months in September, lower only than that recorded for August. Nonetheless, starting salaries are not reflective of the whole U.K. economy, since few people are choosing to move jobs given the recent Brexit-related uncertainty. We still expect the outlook for wages to remain subdued and for the outlook for jobs to soften somewhat in the fourth quarter. The labour market responds with a lag to shocks in the economy, and anecdotal evidence shows that firms are scaling back on hiring plans and choosing productivity improvements and automation over job creation, while vacancies have fallen in September for the second consecutive month.

Euro Zone: External Trade (September; 10:00 a.m. GMT)

The euro zone's external trade surplus likely expanded in September to €22 billion after decreasing to €16.1billion in August. However, the surplus will likely be somewhat lower than the €24.5 billion surplus recorded in September 2016. The strengthening of the euro has likely been weighing on exports outside of the single-currency area. The euro has been gradually strengthening this year; it appreciated by 0.9% on average in September to $1.19 from August, and was significantly higher than $1.12 reached in September 2016. Meanwhile strengthening economic activity, with the euro zone's composite PMI soaring to 56.7 in September from 55.7 in August, supports imports growth, weighing on the trade balance. The outlook remains uncertain, especially for exports, following the U.K.'s decision to leave the EU and the U.S. shift towards greater protectionism. The U.S. and the U.K. have been key euro zone trading partners.

THURSDAY, NOVEMBER 16

Euro Zone: Consumer Price Index (October; 10:00 a.m. GMT)

Euro zone annual harmonized inflation slowed to 1.4% in October, according to preliminary estimates, from 1.5% in the previous month. While food inflation accelerated, energy and services inflation moderated. The biggest contributors to higher food prices were unprocessed food prices, which jumped to 2.8% y/y from 1.5% in September. Core inflation, which strips out volatile components, cooled to 1.1% y/y from 1.3% previously. We don't expect inflation to pick up quickly in coming months. Despite diminishing labour market slack—which still remains high in some southern European countries—wage growth may be tempered by increasing automation. Subdued core inflation will likely prevail for some time, and the ECB won't rush to tighten monetary conditions considerably.

FRIDAY, NOVEMBER 17

No major economic indicators are scheduled for release.

ASIA-PACIFIC

By Katrina Ell and the Asia-Pacific staff of Moody's Analytics in Sydney

Japan's export sector has had a stellar year

Japan's external sector will remain jovial into 2018. Machinery and electronic export values will likely rise by double digits, as they have for much of the year. Motor vehicle exports are also expected to rise solidly over the coming months. Overall, manufacturers continue to enjoy record profits, in part thanks to the yen's depreciation. We also expect tech demand to be firm until year's end as various new smartphone products are released into the global market. Higher fuel costs are adding to the import bill and have taken some shine off the trade surplus.

Thailand's economy has enjoyed improved conditions in 2017. The economy has struggled in recent years, as political uncertainty and weak private investment have undermined economic activity. However, the synchronized upturn in global demand helped the economy expand 3.5% y/y in the first half of 2017. On the back of a 9.3% year-to-date lift in exports compared with the same period last year, Thailand's economy likely expanded 4% y/y in the September quarter, up from a 3.7% lift in the June quarter.

South Koreans continue to brush off geopolitical tensions with the North. We expect consumer sentiment climbed higher in November. Improved economic conditions and President Moon Jae-in's policies, including a pledge to create 810,000 public sector jobs during his five-year term and a 16% increase in the minimum wage next year, are lifting sentiment. Provided North Korea tensions don't escalate further, sentiment should stay upbeat.

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 17

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.

MONDAY, NOVEMBER 20

Japan – Foreign Trade – October

Time: 10:50 a.m. AEDT (Sunday, 11:50 p.m. GMT)
Forecast: ¥344 billion
Japan's monthly trade surplus likely increased to ¥344 billion from September's ¥240.3 billion. Export growth has been firm this year and that's expected to continue. We expect a broad-based rise in export value and volumes thanks to improved global demand. Machinery and electronic export values will likely rise by double digits, as they have for much of the year. Motor vehicle exports are also expected to rise solidly over the coming months. Overall, manufacturers enjoy record profits, in part thanks to the yen's depreciation in 2017. We also expect tech demand to remain firm until year's end as various new smartphone products are released into the global market. This will likely bode well for exports and the trade balance despite rising import costs due to the fuel bill.

Thailand – GDP – 2017Q3

Time: 1:30 p.m. AEDT (2:30 a.m. GMT)
Forecast: 4%
The Thai economy has struggled in recent years, as political uncertainty and weak private investment have undermined economic activity. However, the synchronized upturn in global demand helped the economy expand 3.5% y/y in the first half of 2017 after a 3.1% rise in the second half of 2016. On the back of a 9.3% year-to-date lift in exports compared with the same period last year, Thailand's economy likely expanded 4% y/y in the September quarter, up from a 3.7% lift in the June quarter.

TUESDAY, NOVEMBER 21
No major economic indicators are scheduled for release.

WEDNESDAY, NOVEMBER 22
No major economic indicators are scheduled for release.

THURSDAY, NOVEMBER 23

New Zealand – Retail Trade – 2017Q3

Time: 8:45 a.m. AEDT (Wednesday, 9:45 p.m. GMT)
Forecast: 0.6%
New Zealand's retail trade likely cooled to 0.6% q/q in the September quarter following the burly 2% expansion in the June quarter. An influx of spectators and competitors to New Zealand for the World Masters Games in late April and rugby's Lions series beginning in June was behind the solid second quarter gain. Retail spending should cool heading into 2018 as net migration cools. It has been a key ingredient keeping consumption upbeat in 2017. The newly elected centre-left Labour government plans to reduce net migration to 20,000 to 30,000 per year amid increasing discomfort with the record number of inflows in 2016, although it is unclear when this will start taking effect.

Taiwan – Domestic Trade – October

Time: 7:00 p.m. AEDT (8:00 a.m. GMT)
Forecast: 3.8%
Taiwan retail sales likely grew by 3.8% y/y in October after a 3.2% rise in September. Retail sales have perked up in the last two months. They likely gained further in October on the back of the sustained upswing in consumer confidence, which was near a two-year high. The economic upturn, a pay raise for public servants next year, a rising stock market, and improved confidence about household finances have consumers feeling more upbeat, and that bodes well for retail sales.

Taiwan – Industrial Production – October

Time: 7:00 p.m. AEDT (8:00 a.m. GMT)
Forecast: 4.6%
Industrial production in Taiwan likely grew 4.6% y/y in October, down from 5.2% in the prior month. It has been a particularly strong year for electronic components manufacturing in Taiwan, with shipments of components up 14.9% year to date compared with the same period last year. However, total export growth slowed to a 13-month low of 3% y/y in October, well below September's 28.1% increase. Although a high base from a year earlier could start to inhibit industrial production growth, healthy demand for semiconductors and other tech products should support manufacturing output in coming months.

FRIDAY, NOVEMBER 24

South Korea – Consumer Sentiment Index – November

Time: 8:00 a.m. AEDT (Thursday, 9:00 p.m. GMT)
Forecast: 109.8
South Korean consumer confidence likely edged up to 109.8 in November, after ticking up to 109.2 in the prior month. Consumer sentiment was surprisingly resilient in October. Improved economic conditions and President Moon Jae-in's policies, including a pledge to create 810,000 public sector jobs during his five-year term and a 16% increase in the minimum wage next year, are lifting sentiment. Provided North Korea tensions don't escalate further, sentiment should stay relatively upbeat on the back of Moon's populist policies and the improved economic conditions.

New Zealand – Foreign Trade – October

Time: 8:45 a.m. AEDT (Thursday, 9:45 p.m. GMT)
Forecast: -NZ$920 million
New Zealand's monthly trade balance likely was in deficit in October, as it has been since August. We look for a NZ$920 million deficit following the NZ$1.1 billion shortfall in September. The trade balance historically hovers in deficit through the third quarter and early fourth. Beyond the seasonal issues, merchandise exports are doing well thanks to high dairy prices, with butter a particular bright spot recently. Soaring Chinese demand is the critical driver; almost 80% of New Zealand's milk and cream is exported there. Volumes aren't doing as well, likely crimped by the often soaring prices. Dairy volumes were down in August and September.

Singapore – GDP - Final – 2017Q3

Time: Unknown
Forecast: 4.6%
Singapore's economy expanded 4.6% y/y in the September quarter according to an advance estimate, the fastest pace since the first quarter of 2014. We expect little to no change in the final estimate. Although the synchronized upturn in the global demand is boosting the export-oriented sectors of the economy, construction and services remain relatively soft. Construction output has fallen for five consecutive quarters, even as government-led construction is being supported by a number of major projects, such as the expansion of the Changi airport.

Singapore – Industrial Production – October

Time: 4:00 p.m. AEDT (5:00 a.m. GMT)
Forecast: 13.2%
Singapore industrial production likely increased 13.2% y/y in October, after a 14.6% increase in September. Despite cooling in the last two months, industrial production has risen for 14 consecutive months, thanks to the synchronized upturn in global demand. Electronics production has been especially strong, increasing at a double-digit pace for 16 months. Still, 6,800 manufacturing jobs were cut in the first half of 2017. Although external demand is expected to stay firm and support manufacturing, a high base from a year earlier is likely to start inhibiting production growth.

Taiwan – GDP – 2017Q3

Time: 7:00 p.m. AEDT (8:00 a.m. GMT)
Forecast: 3.1%
Taiwan's economy grew 3.1% y/y in the September quarter according to an advance estimate, and we expect little change in the second estimate. The acceleration in GDP growth largely reflects the upturn in exports. Foreign demand for electronic components and machinery has been especially firm and helped to lift exports 11.2% y/y during the September quarter. However, private consumption and gross capital formation remained weak. Private consumption was up just 1.9% y/y from a 2.1% rise in the prior quarter. Gross capital formation dipped 7.75% y/y, after edging up 0.2% in the prior quarter.

The Long View

The US: Refinancings continue to dominate the stated uses of proceeds from newly issued US$ corporate bonds

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
November 16, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 113 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 407 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.

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 2.5% annually for IG and may advance by30.8% 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 16, 2017)

The euro zone economy looks headed for a strong second half of the year. Germany and Italy reported strong economic growth in the third quarter and continued to beat Moody's Analytics and market expectations. Germany, Europe's powerhouse, expanded by 0.8% q/q in the third quarter, up from 0.6% growth in the previous stanza, but Italy's real GDP increased by 0.5%, following an downwardly revised 0.3% rise previously. We had expected that both economies expanded by 0.3% q/q in the three months to September.

German numbers are amazing and suggest that potential growth could increase in the following quarters. It is exactly what the German economy needs. Unlike in the previous quarter, net exports contributed to growth, despite the appreciating euro, while fixed investment, particularly in machinery and equipment, also gained. It seems that German exports are immune to the strengthening euro and that companies stepped up investment. Nevertheless, this may change in coming months. Although we are confident in rising investment, the outlook for net exports is uncertain. Higher imports ahead of the Christmas shopping season and the delayed impact of the strong euro on exports may reduce net exports.

Italy's third quarter data are also cheerful. Although we don't have the GDP component breakdown, annual growth accelerated to 1.8%, the highest since the first quarter of 2011. Astonishing performance should continue in the current quarter, as all forward-looking indicators paint a rosy picture. Business sentiment climbed past a 10-year high in October, while the manufacturing Purchasing Managers' Index rose to a new 6½-year peak of 57.8 from 56.3 in September, signaling a solid rate of improvement in business activity.

Although Italian and German data surprised on the upside, they didn't boost preliminary growth in the euro zone. Revised data showed that real GDP expanded by 0.6% q/q in the three months to September, down from 0.7% in the previous quarter. Weaker growth in Spain and France outweighed stronger growth in Italy and Germany. Stronger than expected GDP data for the third quarter will likely prompt us to revise our GDP forecast upward for Germany and Italy, and thus for the whole euro zone. 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.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 16, 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 16, 2017

ASEAN OUTLOOK: COMING DOWN FROM A HIGH

Southeast Asian economies have had a good run in 2017, mostly due to improved global demand driving stellar export and manufacturing performance. Global demand is cooling heading into 2018 and we expect the ASEAN-5, consisting of Thailand, Indonesia, Malaysia, Singapore and the Philippines to also experience cooler conditions next year. Household consumption is mixed across the region and in most cases will not pick up the slack from weaker export growth. Reflecting this, we expect GDP growth for the ASEAN-5 to hit 4.8% in 2017, before slowing to 4.6% in 2018. This follows the 4.4% posted in 2016.

ASEAN's economic performance is highly attuned to global conditions, with exports and manufacturing critical to economic success, to varying degrees. In 2016, soft global demand was a drag on the ASEAN-5, which had an average decline in exports of 0.9% over the year. However, the tide turned and export growth across the five countries has been in double-digits on average through 2017.

While a positive for now, the sustainability of the improvement is not equal across countries. For instance, the sustained tech upswing has benefited Philippines, Thailand and Malaysia, in particular in 2017. However, as the product release schedule clears after the peak holiday season, we will see slower manufacturing. Singapore is an interesting case. It is traditionally a large tech exporter but has been moving towards higher-value-added products to make better use of its highly educated workforce. This has resulted in an expansion in the specialized chemical industry as well as biomedical products like pharmaceuticals.

In contrast to most of Southeast Asia, solid domestic demand in the Philippines will largely offset weaker export conditions expected in 2018. The Philippines is one of Asia's fastest growing economies and will remain that way next year. GDP growth is forecast at 7.1% in 2017 and 6.8% in 2018. The Philippines' longer-term growth outlook is similarly upbeat, with growth expected to average around 7% y/y from 2018 to 2020.

Demographics is important

Philippine consumption has consistently posted growth rates above 5% y/y since 2010. Underpinning this has been a steady rise in the population, in particular, the working age population. The demographic changes accompanying this are favourable to the economic outlook over the longer term as well. Unlike many of its peers in the Asia-Pacific region, the Philippines will see continued growth in its working-age population in the coming decades. The working-age population isn't expected to peak until after 2050. Therefore, consumption will rise and the dependency ratio will fall. The rise in domestic demand from the expanding working age population should fuel a virtuous cycle, whereby increased consumption boosts increased investment and industrial production. This in turn pushes up the demand for labour, supporting wages, which are already improving, as average and minimum wages increase. This should make inroads to lowering inequality, which is also relatively high.

Singapore, with the region's highest per capita income, lies at the other end of the demographic spectrum. Its demographics are similar to that of other wealthy nations, typified by an ageing population. The ratio of working age population to total population started to decline in 2012. With the old-age dependency ratio steadily rising, this raises the possibility that total output could start to fall toward the middle of the century.

Thailand has the worst demographic position among the five. Although it has made solid progress on its economic development over the past 30 years, it is yet to achieve high-income status, and the poverty rate lingers at around 10% of the total population. But, unlike the Philippines, demographics are set to become a drag on economic growth, with the working-age population peaking in absolute terms in 2018. As a proportion of the total population, the working-age cohort has already peaked.

Subdued inflation

Inflation pressures are generally subdued across ASEAN, in several cases inflation is hovering at the low end or below central banks' target ranges. Major central banks offshore beginning to normalize policy has kept most of Asia's central banks on the sidelines and prevented them from cutting interest rates further, due to the capital outflow implications. We've seen the emergence of net capital outflows in several Asian economies in the third quarter. We expect most central banks will continue to hold steady until mid-2018, when gradual interest rate normalization is forecast to begin, at the earliest.

Indonesia is the exception here. Bank Indonesia cut the policy rate in August and again in September by a cumulative 50 basis points, taking markets by surprise. This was to help lift GDP growth closer to target, after it disappointed in the June quarter. GDP growth again disappointed in the third quarter, but we expect a moderate lift to consumption, in the fourth quarter, bringing growth within the government's 5.1% to 5.4% target range.

Bank Indonesia held steady in October and we don't expect further interest rate reductions. The central bank has now shifted focus to the external risks from easier monetary policy. In particular, Indonesia's rupiah has lost around 3% in the past month against the U.S. dollar as local interest rate cuts have squashed capital inflows; prior to the interest rate reductions, the currency was fairly stable. A lot of work has been done to improve Indonesia's external position since the 2013 taper tantrum, when Indonesia was amongst the worst affected in Asia by destabilizing capital outflows, following comments by Federal Reserve Chairman Bernanke that U.S. bond purchasing would begin winding down. Indonesia does not want these efforts to be eroded.

Geopolitical outlook

China is playing a more prominent role in Southeast Asia. Closer ties to China in the form of increased infrastructure investment and development assistance have begun from China's Belt and Road Initiative. ASEAN requires significant infrastructure development, and China is responding with billions in investment. In 2016, ASEAN won some US$30 billion in Chinese investment contracts. This will likely make some countries in the region beholden to China's interests. For example, under President Duterte, the Philippines has already swung away from its historically close links with the U.S. and toward China, as the mainland has committed billions of infrastructure investment in the Philippines.

While higher infrastructure spending could be a long-term boon for growth, it can undermine ASEAN's bargaining power geopolitically, such as on the South China Sea, where China has competing claims on the resource rich body of water. This is despite the permanent court of arbitration at the Hague ruling in 2016 that China had no maritime entitlements in the South China Sea.

Local politics

Local tensions are heightened with several important elections forthcoming. The death of Thailand's King Bhumibol Adulyadej brings uncertainty. King Bhumibol was a powerful moderating force in Thailand's fractious political landscape. Thus far, the military Junta has been able to contain any dissent and simmering tensions between the populist red shirts and urban elite yellow shirts through a mix of political suppression and efforts to revive growth.

Thailand's junta has been in government since taking power in a coup in 2014, and will remain in control even after general elections are held next year to return Thailand to a democratically elected government. The junta's new constitution ensures the military has control over future elected governments. It remains to be seen whether that will be accepted over the medium term.

Elections for governor in Indonesia's capital, Jakarta in April 2017 highlighted that race and religion have become more powerful forces in Indonesian politics. Indonesia's reputation as a tolerant, multicultural nation was threatened with the Jakarta elections as religious tensions were high. The race for governor is a good barometer for the 2019 national elections. There's a risk that heightened racial and religious divisions in the lead up to that general election undermines business and consumer sentiment, in turn adversely impacting economic growth via a number of channels including business investment, consumer spending and foreign inflows.

Malaysia's next general election will take place within 180 days, according to Deputy Prime Minister Ahmad Zahid Hamidi even though the ruling Barisan Nasional party's five-year term is not due to end until June 2018. The incumbent is in a solid position and likely called the election early to ride the coattails of Malaysia's recent upbeat economic performance, stronger ringgit, and upbeat stock market.

Ratings Round-Up

By Njundu Sanneh

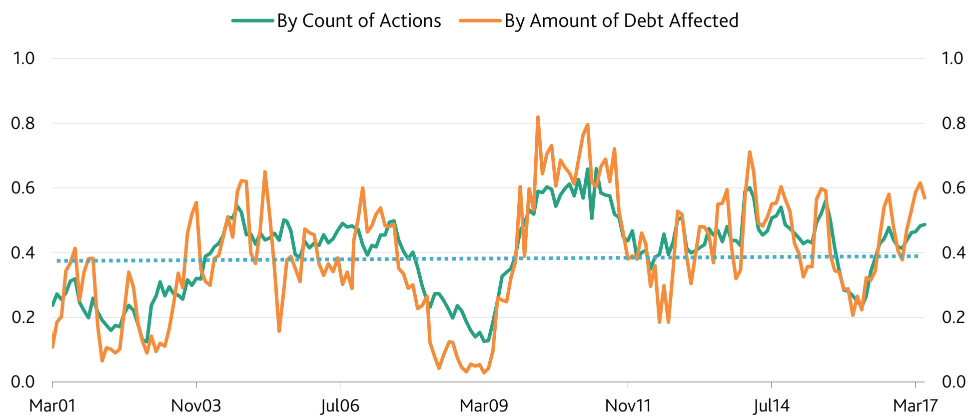
US Upgrades Fly, Fueled by Energy Sector

Energy companies were the big story in rating changes the past week as they accounted for five of the nineteen US changes and contributed immensely to the dominance of positive over adverse rating changes. Upgrades accounted for 63% of the total US rating changes and all energy service compan changes were on the upgrade side. The recent jump in oil prices after a considerable period of very modest movement bodes well for the energy sector. It is still yearning for some upward trend in oil prices to solidify the gains made in credit metrics through substantial capital structure management activities. Financial services companies also contributed to upgrades even though the results were mixed for this sector.

In Europe rating change activity was mixed with six downgrades and five upgrades. The United Kingdom accounted for the largest group, with three rating changes, followed by Netherlands and Sweden with two apiece. Industrials were in the forefront as there was only one financial services company on the European list.

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
11/8/17	B&G FOODS, INC.	Industrial	SrUnsec	1,200	U	B3	B2	SG
11/8/17	PIONEER ENERGY SERVICES CORP.	Industrial	SrUnsec/LTCFR/PDR/LGD	300	U	Ca	Caa3	SG
11/8/17	SUMMIT MIDSTREAM PARTNERS, LLC	Industrial	SrUnsec	800	U	B2	B1	SG
11/8/17	WEIGHT WATCHERS INTERNATIONAL, INC.	Industrial	LTCFR/PDR		U	B2	B1	SG
11/9/17	AVAYA INC.	Industrial	SrSec/BCF/LTCFR			B1	B2	SG
11/9/17	CALIFORNIA RESOURCES CORP.	Industrial	SrUnsec/SrSec/LTCFR/PDR	2,807	U	Ca	Caa3	SG
11/9/17	EQUITY COMMONWEALTH	Financial	SrUnsec/PS	548	U	Baa3	Baa2	IG
11/9/17	MACK-CALI REALTY CORPORATION - Mack-Cali Realty, L.P.	Financial	SrUnsec	825	D	Baa3	Ba1	IG
11/9/17	NEUBERGER BERMAN GROUP LLC	Financial	SrUnsec/LTIR	580	U	Baa3	Baa2	IG
11/9/17	SEAHAWK HOLDINGS LIMITED	Industrial	SrSec/BCF		D	B1	B2	SG
11/9/17	SRC ENERGY INC.	Industrial	SrUnsec	80	U	Caa1	B3	SG
11/10/17	NXT CAPITAL, INC	Financial	SrSec/BCF/LTCFR		U	B1	Ba3	SG
11/10/17	T-MOBILE US, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	17,450	U	Baa3	Baa2	IG
11/13/17	EVERTEC, INC. - EVERTEC Group, LLC	Industrial	SrSec/BCF/LTCFR/PDr		D	B1	B2	SG
11/13/17	MICROSEMI CORPORATION	Industrial	SrUnsec/LTCFR	450	U	B2	B1	SG
11/13/17	PDC ENERGY	Industrial	SrUnsec/LTCFR/PDR	1,100	U	B2	B1	SG
11/14/17	EXGEN TEXAS POWER, LLC	Utility	SrSec/BCF		D	Caa3	Ca	SG
11/14/17	FINAXA	Financial	SrUnsec/LTIRIFSR/Sub/JrSub/PS	350	D	Baa1	Baa2	IG
11/14/17	POLARIS INTERMEDIATE CORP. - MPH Acquisition Holdings	Industrial	LTCFR/PDR		D	B2	B3	SG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

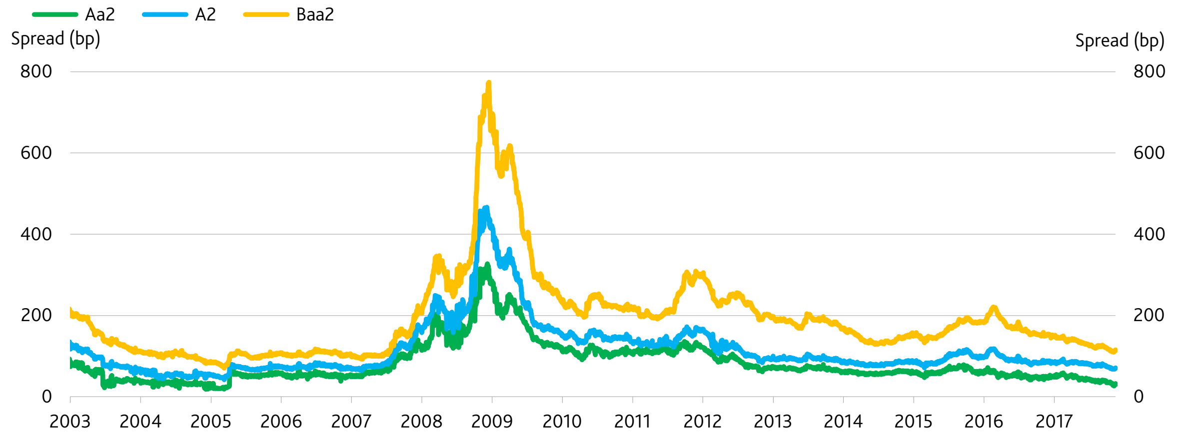
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
11/14/17	ATF BANK	Financial	LTD		U	Caa2	B3			SG	KAZAKHSTAN
11/14/17	PACIFIC DRILLING S.A.	Industrial	SrSec/LTCFR/PDR/BCF	750	D	Caa3	Ca			SG	LUXEMBOURG
11/10/17	IHS HOLDING LIMITED - IHS Netherlands Holdco B.V.	Industrial	SrUnsec/LTCFR/PDR	800	D	Ba3	B1			SG	NETHERLANDS
11/13/17	LIBERTY GLOBAL PLC	Industrial	SrUnsec/SrSec/LTCFR/PDR/BCF	6,279	D	B2	B3			SG	NETHERLANDS
11/8/17	RAIFFEISEN ZENTRALBANK OESTERREICH AG - Raiffeisen Bank SA	Financial	SLTD		U	Baa3	Baa2	P-3	P-2	IG	ROMANIA
11/14/17	KAMAZ PTC	Industrial	LTCFR/PDR		U	B1	Ba3			SG	RUSSIA
11/9/17	VERISURE MIDHOLDING AB	Industrial	SrSec/LTCFR/PDR/BCF	735	D	Ba3	B1			SG	SWEDEN
11/13/17	SAS AB	Industrial	SrUnsec/LTCFR/PDR/MTN/Sub	128	U	B3	B2			SG	SWEDEN
11/9/17	MISSOURI TOPCO LIMITED	Industrial	SrSec/LTCFR/PDR	635	U	Caa3	B2			SG	UNITED KINGDOM
11/10/17	BOPARAN HOLDINGS LIMITED	Industrial	SrUnsec/LTCFR/PDR	1,117	D	B2	B3			SG	UNITED KINGDOM
11/10/17	DOUBLEPLAY I LTD	Industrial	SrSec/BCF/LTCFR/PDR	2,150	D	B1	B3			SG	UNITED KINGDOM

Source: Moody's

Market Data

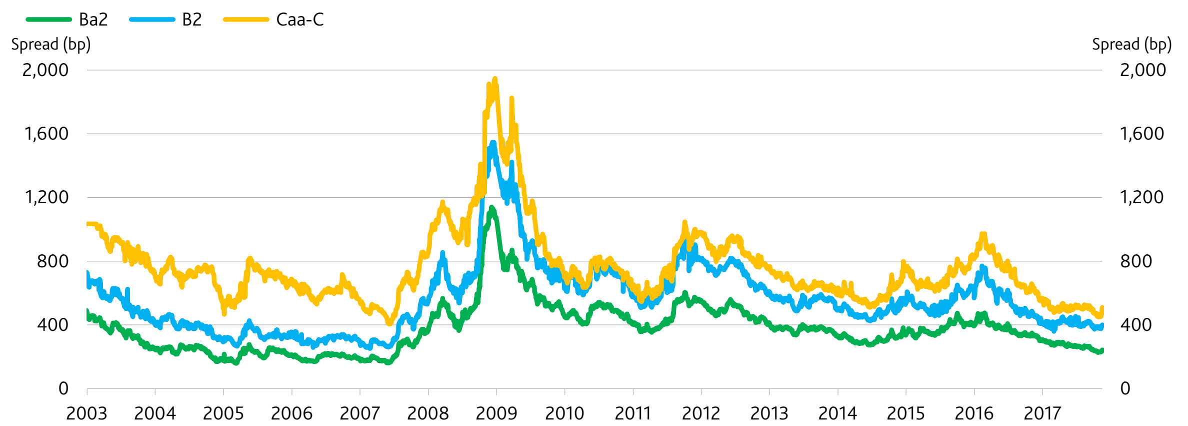
Spreads

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 (November 8, 2017 – November 15, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 15	Nov. 8	Senior Ratings
NiSource Finance Corporation	A3	Ba1	Baa2
Occidental Petroleum Corporation	Aa3	A2	A3
Mattel, Inc.	B1	B3	Baa3
Ally Financial Inc.	Ba1	Ba2	Ba3
Toyota Motor Credit Corporation	Baa2	Baa3	Aa3
Verizon Communications Inc.	Baa2	Baa3	Baa1
Walt Disney Company (The)	A1	A2	A2
HCA, Inc.	Ba3	B1	B1
Bank of New York Mellon Corporation (The)	A1	A2	A1
Enterprise Products Operating, LLC	Baa2	Baa3	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 15	Nov. 8	Senior Ratings
ConocoPhillips	A2	Aa3	Baa1
Burlington Resources, Inc.	A3	A1	Baa1
JPMorgan Chase & Co.	Baa1	A3	A3
General Electric Company	Baa2	Baa1	A1
Time Warner Inc.	Baa1	A3	Baa2
HSBC Finance Corporation	Aa1	Aaa	Baa1
21st Century Fox America, Inc	A3	A2	Baa1
Kinder Morgan Energy Partners, L.P.	A3	A2	Baa3
Reynolds American Inc.	Aa2	Aa1	Baa2
Freeport-McMoRan Inc.	B1	Ba3	B2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 15	Nov. 8	Spread Diff
Nine West Holdings, Inc.	Ca	14,632	12,607	2,025
K. Hovnanian Enterprises, Inc.	Caa3	1,625	1,064	561
MBIA Inc.	Ba1	1,093	918	175
Sears Roebuck Acceptance Corp.	Caa3	4,404	4,233	171
Sears Holdings Corp.	Caa3	3,917	3,765	152
CenturyLink, Inc.	B2	620	475	145
Frontier Communications Corporation	B3	1,657	1,526	131
MBIA Insurance Corporation	Caa2	970	845	125
Pitney Bowes Inc.	Ba1	513	406	107
Embarq Corporation	Ba2	300	193	107

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 15	Nov. 8	Spread Diff
Penney (J.C.) Corporation, Inc.	B3	1,301	1,388	-88
Mattel, Inc.	Baa3	244	326	-82
NiSource Finance Corporation	Baa2	42	98	-56
Nordstrom, Inc.	Baa1	258	279	-21
Kohl's Corporation	Baa2	212	231	-19
Gap, Inc. (The)	Baa2	163	181	-18
Bunge Limited Finance Corp.	Baa2	153	170	-17
Calpine Corporation	B2	300	313	-14
Genworth Holdings, Inc.	B2	670	683	-14
Murphy Oil Corporation	Ba3	125	135	-9

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (November 8, 2017 – November 15, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Nov. 15	Nov. 8	Senior Ratings
Finland, Government of	Baa1	Baa2	Aa1
CaixaBank, S.A.	Baa2	Baa3	Baa2
Banque Federative du Credit Mutuel	Aa1	Aa2	Aa3
Natixis	Aa3	A1	A2
Banco Popular Espanol, S.A.	A3	Baa1	Baa3
Bank of Scotland plc	A2	A3	Aa3
DNB Bank ASA	Aa1	Aa2	Aa2
DZ BANK AG	Baa2	Baa3	Aa3
KBC Bank N.V.	Aa2	Aa3	A1
Bank of Ireland	A2	A3	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Nov. 15	Nov. 8	Senior Ratings
Old Mutual Plc	A2	Aa2	Ba1
Barclays Bank PLC	Baa1	A3	A1
Lloyds Bank Plc	A2	A1	Aa3
The Royal Bank of Scotland plc	Baa2	Baa1	A3
Standard Chartered Bank	A3	A2	A1
Electricite de France	Baa2	Baa1	A3
Total S.A.	Aa2	Aa1	A1
Royal Bank of Scotland N.V.	Baa1	A3	A3
Landesbank Baden-Wuerttemberg	A3	A2	A1
Daimler AG	A3	A2	A2

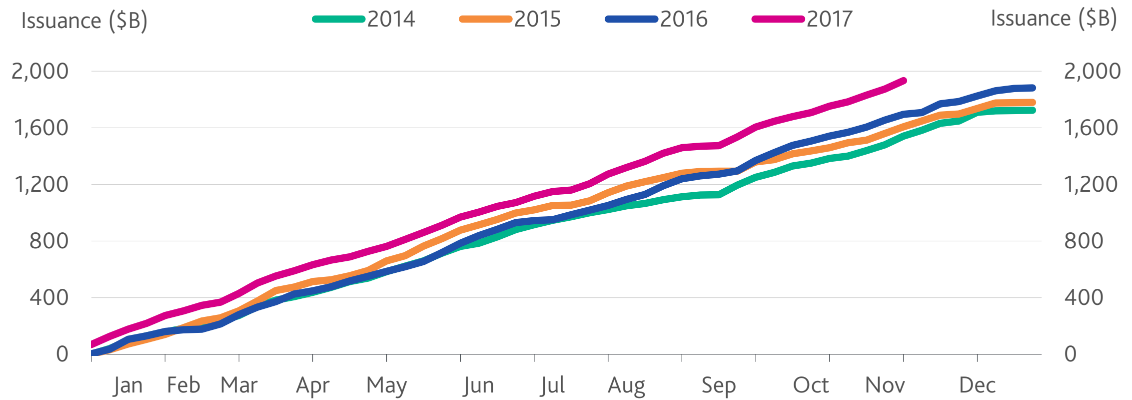
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Nov. 15	Nov. 8	Spread Diff
Astaldi S.p.A.	B3	3,745	994	2,750
PizzaExpress Financing 1 plc	Caa1	1,014	862	152
Boparan Finance plc	B3	870	748	122
Iceland Bondco plc	Caa1	380	322	58
Altice Finco S.A.	B3	353	296	57
Galapagos Holding S.A.	Caa2	776	722	54
Matalan Finance plc	Caa1	416	375	41
Stena AB	B3	552	513	40
Ensco plc	B3	611	578	34
Leonardo S.p.a.	Ba1	105	72	33

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Nov. 15	Nov. 8	Spread Diff
Bank of Scotland plc	Aa3	39	45	-6
SEB	Aa3	26	31	-5
Sappi Papier Holding GmbH	Ba2	351	356	-5
Raiffeisen Bank International AG	A3	75	79	-4
Bank of Ireland	Baa1	39	43	-4
Erste Group Bank AG	A3	48	51	-3
Banco Sabadell, S.A.	Baa3	74	77	-3
Societe Generale	A2	28	30	-2
Credit Agricole S.A.	A1	27	29	-2
BNP Paribas	Aa3	28	30	-2

Source: Moody's, CMA

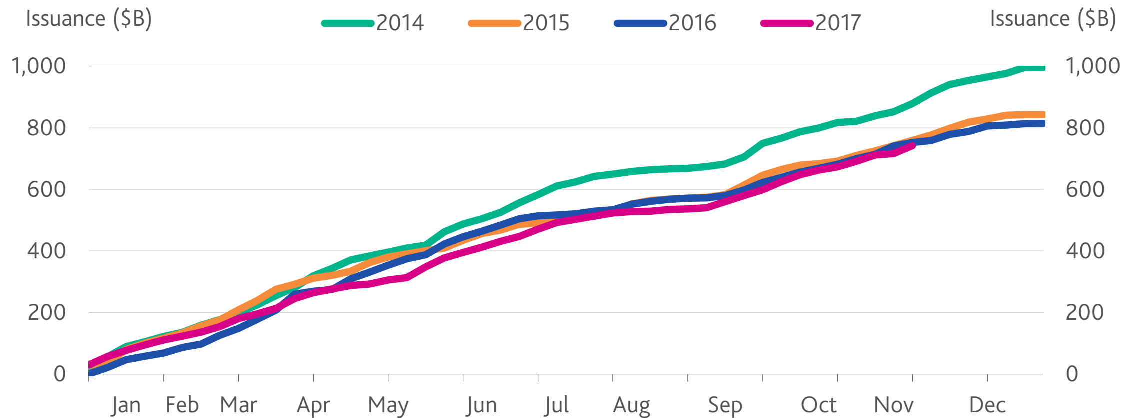
Issuance

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	50.475	8.563	59.603
Year-to-Date	1,391.150	396.631	1,932.713

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	18.642	2.612	25.146
Year-to-Date	602.173	98.449	741.619

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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