MOODY'S
ANALYTICS

WEEKLY
MARKET OUTLOOK

Higher Bond Yields Could Depress Share Prices

Moody's Capital Markets Research

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Credit Markets Review and Outlook *by John Lonski*

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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, "For the corporate bond market, interest rate risks now outweigh credit risks," begin on page 19.

Credit Spreads	Investment Grade: Year-end 2017 spread to exceed its recent 105 bp. High Yield: After recent spread of 345 bp, it may approximate 400 bp by year-end 2017.
Defaults	US HY default rate: Compared to September 2017's 3.3%, Moody's Default and Ratings Analytics team forecasts that the US' trailing 12-month high-yield default rate will average 2.3% 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 5.4% to a new zenith of $1.488 trillion, while US$-priced high-yield bond issuance may increase by 27.6% to $434 billion, or a tad under 2014's $435 billion record high.

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Ratings Round-Up *by Njundu Sanneh*

More Positive in US and Europe.

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Market Data

Credit spreads, CDS movers, issuance.

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Moody's Capital Markets Research *recent publications*

Links to commentaries on: 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, European credit.

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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.

Higher Bond Yields Could Depress Share Prices

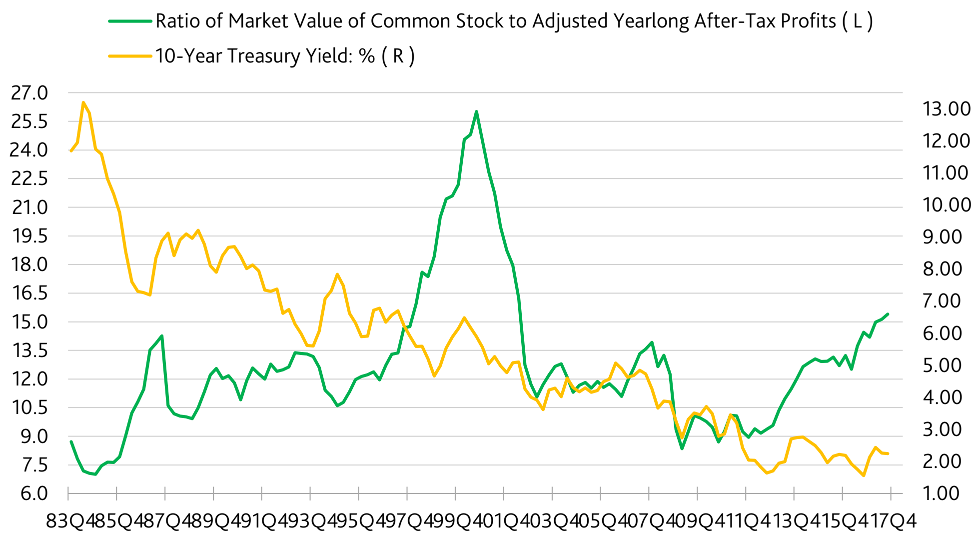
Any analysis regarding the appropriate valuation of a long-lived asset must account for the influence of interest rates. All else the same, a rise by the interest rates of lower-risk debt obligations, namely US Treasury debt, will reduce the prices of other financial and real assets. Whenever asset prices defy higher interest rates and rise, a worrisome overvaluation of asset prices may be unfolding. Today's high price-to-earnings multiples of equities and narrow yield spreads of corporate bonds have increased the vulnerability of financial asset prices to a widely anticipated climb by short- and long-term Treasury yields.

As of 2017's third quarter, the market value of US common stock was 15.4 times as great as the prospective moving yearlong average of US after tax profits. Third-quarter 2017's ratio of common equity's market value to yearlong after-tax profits was the highest since the 16.2:1 of second-quarter 2002. More importantly, the ratio last rose up to 15.4:1 in first-quarter 1998 and would ultimately peak at the 26.0:1 of third-quarter 2000. Stocks may be richly priced relative to after-tax profits, but that does not preclude a further overvaluation of equities vis-a-vis corporate earnings. (Note that the measure of after-tax profits employed in this discussion is from the National Income Product Accounts, excludes changes in the value of inventories and some extraordinary gains and losses, and uses economic depreciation instead of accounting depreciation.)

Today's equity market differs from that of 1998-2000 for reasons extending beyond 1998-2000's average aggregate price-to-earnings ratio (P:E) of 21.2:1, which was so much greater than the recent 15.4:1.

In addition, 1998-2000's equity market seems even more overpriced compared to the current market because the recent 2.43% 10-year Treasury yield was so much lower than its 5.64% average of 1998-2000. (Figure 1.)

Figure 1: Ten-Year Treasury Yield's Declining Trend Has Lent An Upward Bias to the Ratio of Common Equity's Market Value to Adjusted After-Tax Profits



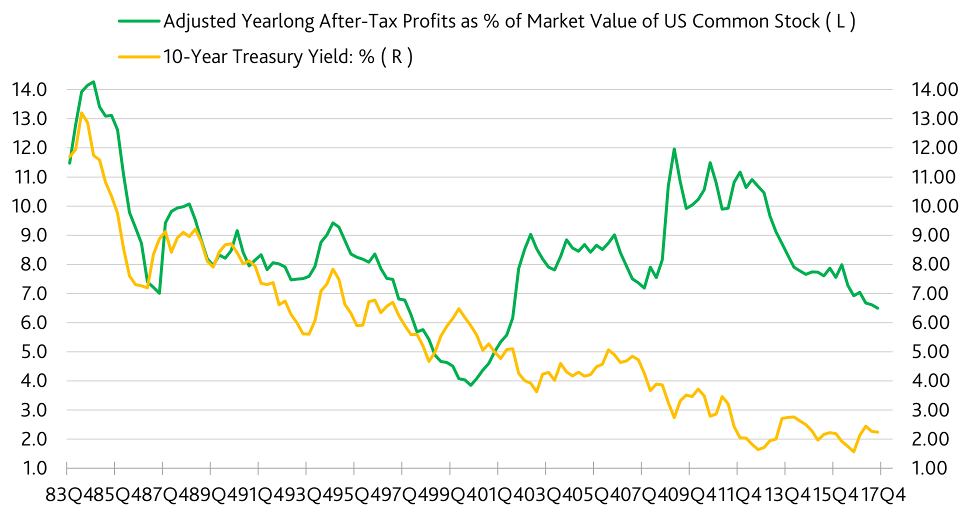
The valuation of equities very much depends on interest rates. Holding everything else constant, price-to-earnings multiples will climb higher as benchmark interest rates decline. If benchmark interest rates fall, the market will be willing to accept a lower earnings yield, or a lower ratio of earnings to the market value of common stock. At some level of corporate earnings, the attainment of a lower earnings yield will be achieved through an increase in share prices. To the contrary, a rise by interest rates will push the earnings yield higher. Barring a sufficient climb by after-tax profits, a higher earnings yield will require lower share prices.

Credit Markets Review and Outlook

One way of incorporating interest rates into the market valuation of common stock examines the difference between an aggregate earnings yield and the 10-year Treasury yield. (Note that the aggregate earnings yield is merely the inverse of the aggregate P:E multiple.) All else the same, equities are more attractively priced the greater is the percentage point difference between the earnings yield and the 10-year Treasury yield. In general stocks are more attractively priced if actual or expected profits increase, share prices decline, or interest rates fall.

The ratio of previously described yearlong after-tax profits to the market value of US common equity will serve as a proxy for the earnings yield. The latest aggregate earnings yield of an estimated 6.5% was a relatively ample +4.1 percentage points above the accompanying 2.43% 10-year Treasury yield. By contrast, during the US equity market's gross overvaluation of 1999-2000, the 4.3% earnings yield averaged -1.5 percentage points less than the 5.8% 10-year Treasury yield. (Figure 2.)

Figure 2: Ratio of After-Tax Profits to Market Value of Common Stock (Proxy for Earnings Yield) Still Tops 10-Year Treasury Yield by Historically Wide Gap



First-quarter 2000's earnings yield of 4.1% trailed the 10-year Treasury yield of 6.48% by a near record -2.4 percentage points. Immediately thereafter, the month-long average of the market value of US common stock would plunge by a cumulative -42.8% before bottoming in October 2002. Not until December 2006 did the market value of common equity return to its high of March 2000.

The record low shortfall of the earnings yield to the 10-year Treasury yield was set at the -3.3 percentage points of 1981's second quarter, when the aggregate price-to-earnings ratio was at a seemingly tolerable 9.6:1. As it turned out, the warning supplied by the record low gap between the earnings yield and the 10-year Treasury yield proved to be far more prescient than the benign signal emitted by a relatively normal market-wide P:E multiple. From April 1981's high to July 1982's trough, the market value of US common stock sank by -20.6%.

The deep equity market sell-off of 1987's final quarter also was accurately presaged by the gap between the earnings yield and the 10-year Treasury yield. After averaging +2.0 percentage points in 1986, the earnings yield would trail the 10-year Treasury yield by -1.9 points as of Q3-1987. The deterioration of the difference between the earnings and Treasury yields stemmed from a drop by the earnings yield from 1986's 9.7% average to the 7.0% of Q3-1987 and a corresponding jump by the 10-year Treasury yield from 7.7% to 8.9%. In response to the punishing combination of a lower earnings yield and a higher bond yield, the market value of common stock's month-long average plunged by -27.4% from an August 1987 high to a December 1987 low. The fundamentally unwarranted surge by the 10-year Treasury yield from a January 1987 low of 7.08% to the 10.12% of the week-ended October 16, 1987 was one of the driving forces behind the stock price crash of Monday, October 19, 1987.

Two different methods show two vastly different interpretations of relative valuation

Depending on the methodology and assumptions, today's US equity market is either dangerously overpriced or attractively priced. However, to degree the market is seen as being attractively priced because of the now wide spread between the earnings yield and the Treasury bond yield, one must be confident that the Treasury bond yield will not stage a disruptive ascent over the near term.

Credit Markets Review and Outlook

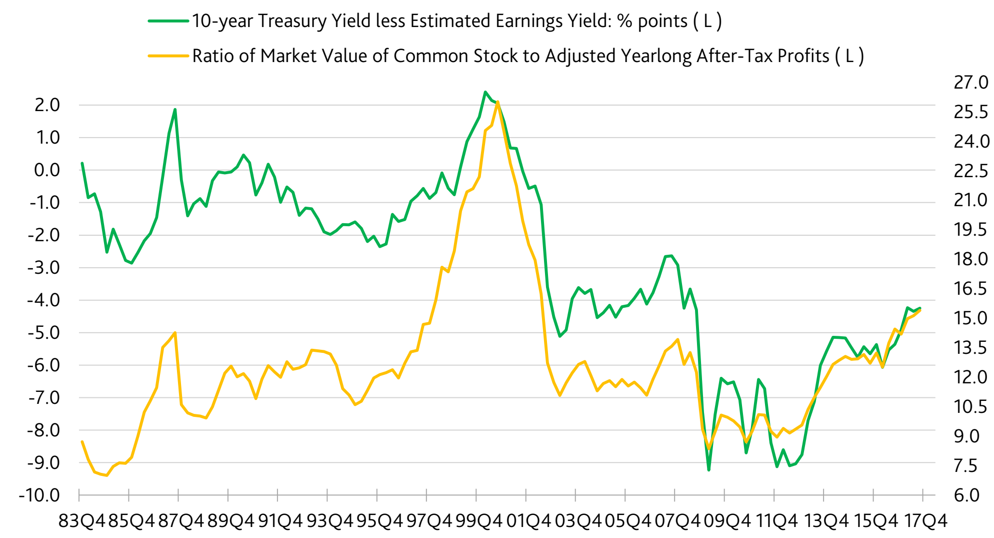
The latest premium of the earnings yield over the bond yield supports the current equity rally. Only 35% of prior quarterly observations were higher, or more attractive, than the latest +4.1 percentage point difference between the earnings yield and the 10-year Treasury bond yield.

In stark contrast, a now relatively high aggregate P:E ratio questions the durability of today's equity prices. For example, a considerable 86% of the prior quarters showed an aggregate P:E multiple that was less than, or more attractive, than, the latest ratio of 15.4:1.

Figure 3 exhibits the relationship between the aggregate price-to-earnings ratio and the difference, in this case, between the 10-year Treasury yield and the aggregate earnings yield. The equity market is said to be more richly priced the higher is the price-to-earnings ratio and the higher the 10-year Treasury yield is relative to the earnings yield. In order to facilitate comparisons with the aggregate P:E ratio, the difference between the 10-year Treasury yield less the earnings yield is used, as opposed to the difference between the earnings yield and the 10-year Treasury yield. (Figure 3.)

In conclusion, the path taken by interest rates will have much to say about the equity market's performance. The market may able to absorb a mild climb by Treasury bond yields. However, the danger of a costly sell-off would increase if the rally were to continue amid a declining earnings yield and a rising Treasury bond yield.

Figure 3: Recent Gap Between 10-year Treasry Yield and Earnings Yield Proxy Shows Only 35% of the Quarterly Markets since 1983 Were More Attractively Priced than Q3-2017's Equity Market



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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, October 30: The upcoming Federal Open Market Committee meeting will be uneventful. We don't anticipate any changes to interest rates and the balance sheet isn't scheduled for any adjustment—that will occur every three months. We don't anticipate any dissents.

All the attention will be on the statement and we look for only minor adjustments. The assessment of growth will remain upbeat as GDP has risen by at least 3% at an annualized rate for two consecutive quarters, the first time this has occurred since 2014. Employment fell in September but that was attributable to the hurricanes and the Fed may explicitly mention the storms. Also, the Fed is likely putting more emphasis on the unemployment rate, which hit 4.2%, comfortably below policymakers' estimate of full employment. Therefore, the statement should continue to sound reasonably upbeat on the labor market.

Though inflation continues to underwhelm, we don't expect any changes to the statement. The Fed will stick with its view that transitory factors continue to weigh on inflation. For the outlook on growth and inflation, the statement will note that inflation is expected to move toward the central bank's 2% objective. There is little reason for the Fed to adjust its description of the risks to the overall outlook as being roughly balanced.

It's premature for the Fed to make any reference to potential tax changes. There is considerable uncertainty about what and when tax legislation will pass, if at all. The Fed doesn't want to get whipsawed by changes in fiscal policy. The minutes from the meeting should provide more color on whether some policymakers are now incorporating a tax overhaul into their forecasts. We would be surprised if many are.

We doubt the Fed will strengthen its forward guidance to signal a rate hike in December. It did this with the first rate hike in 2015 but has abandoned that practice this year. Also, financial markets are almost pricing in a rate hike in December, therefore the Fed doesn't need to manage expectations. The statement will continue say that increases in the fed funds rate will be gradual.

Turning to the data, we expect employment to have bounced back in October as the impact of the hurricanes faded. We look for the unemployment rate to have risen from 4.2% to 4.4%. Vehicle sales likely fell in October, but they should remain above their pre-hurricanes trend. The ISM surveys will likely weaken some, mostly because of a drop in supplier deliveries. The Employment Cost Index should show some modest acceleration in wage growth.

THURSDAY, OCTOBER 26

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

Forecast: 235,000
Initial claims fell 22,000 to 222,000 in the week ended October 14, the fewest since 1973. Some of the decline was likely attributed to further declines in new filings in those states affected by the recent hurricanes. Also, claims can be noisy around holidays and we believe seasonal adjustment issues surrounding Columbus Day may have pushed new filings down in the week ended October 14. This support won't stick and we look for initial claims to have risen 13,000 to 235,000 in the week ended October 12.

The data on continuing claims and the insured unemployment rate will be for October 14, which includes the household reference week and could provide some guidance on possible changes in the

unemployment rate.

FRIDAY, OCTOBER 27

GDP (2017Q3-advance; 8:30 a.m. EDT)

Forecast: 3.4% at an annualized rate
We look for real GDP to have risen 3.4% at an annualized rate in the third quarter, a modest acceleration from the 3.1% in the second quarter. The composition of growth will be less impressive than in the prior three months. A larger inventory build in the third quarter will provide a noticeable boost to growth this quarter, adding 0.7 of a percentage point.

Real consumer spending likely rose 2% at an annualized rate in the second quarter. Within consumption, durable goods likely provided the biggest support while services spending is forecast to have risen only 1.6% at an annualized rate while nondurables likely edged lower. The forecast assumes a modest gain in real residential investment while nonresidential investment likely rose 6%. Equipment spending is forecast to rise 7% at an annualized rate in the third quarter. We look for net exports to be a small positive for second quarter GDP growth.

However, forecasting GDP is more difficult when a severe hurricane can cause big swings. To assess this, we look at the costliest hurricanes since 2004, including Ivan, Katrina/Rita, Wilma, Ike, Irene, Sandy and Matthew. The average forecast miss between the consensus estimate and the Bureau of Economic Analysis' advance estimate of real GDP growth is -0.5 percentage point in those quarters that a severe hurricane hit the U.S. (since 2004). The average error for all quarters since 2004 is -0.1 percentage point. However, there isn't a clear directional bias in the forecast errors. For example, GDP was only below consensus expectations in three of the seven instances since 2004. However, there were sizable forecast errors for Sandy and Wilma.

The next question is whether the advance estimate of GDP is less reliable. In other words, GDP growth is subject to larger than normal revisions. This is a fair question because when the BEA calculates the advance estimate, it doesn't have complete source data, with the largest gaps in data for the third month of the quarter. In particular, the advance estimate lacks complete source data on inventories, trade, and consumer spending on services, which could all be affected by a hurricane. Therefore, the BEA must make assumptions for these missing pieces based in part on past trends. As new and more complete data become available, it incorporates that information into the second and third GDP estimates along with the annual and benchmark revisions.

We turned back to the most recent costliest storms and looked at the revision between the BEA's advance and current estimate of real GDP growth. GDP was revised lower in six of the seven instances, with an average revision of -0.3 percentage point. This isn't enormous. For example, the average revision between the advance and current estimates between 2004 and now is -0.2 percentage point. For those quarters affected by hurricanes, the largest downward revisions were to those quarters when Hurricane Ike and Irene hit. It's important to note that Ike occurred during a recession and GDP is often revised lower during recessions.

We will finalize our forecast for third quarter GDP following new-home sales, durable goods, and the advance economic reports.

MONDAY, OCTOBER 30

Personal income and spending (September; 8:30 a.m. EDT)

Forecast: 0.2% (nominal income) Forecast: 1% (nominal spending)
Forecast: 0.2% (core PCE deflator)
Nominal personal income is forecast to have risen 0.2% in September following a 0.2% increase in August and 0.3% gain in July. The labor income proxy, a product of average hourly earnings and hours worked, increased 0.4% in September, compared with a 0.3% gain in each of the prior two months. We expect nominal wages to add 0.3 percentage point to total income growth in September.

Nominal consumer spending likely rose 1% in September with the bulk of the gains in gasoline and autos. Higher gasoline prices will boost nominal spending on gasoline and should add 0.4 percentage

point to total nominal spending growth in September. Already-released data on unit and retail sales suggest that autos will add 0.3 percentage point to nominal spending growth in September. We have penciled in only a modest contribution from consumer goods excluding autos and gasoline. Nominal services spending will add 0.1 percentage point. Utility output rose in September but it was modest, therefore utility consumption is likely not going to add much, if anything, to growth in consumer spending.

The core PCE deflator is expected to rise 0.2% (0.16% unrounded) in September, leaving it up 1.4% on a year-ago basis.

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

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. South American business confidence, which has consistently languished in recent years, has improved in recent weeks.

It is too early to conclude that there has been a definitive downshift in business sentiment. There have been temporary wobbles in confidence in the past, and the natural disasters in the U.S. may be weighing on confidence temporarily. It is encouraging that the percentage of respondents who are upbeat about economic conditions going into next year also remains strong and firm.

The four-week moving average in our global business confidence index fell from 30.7 to 27.5 in the week ended October 20.

TUESDAY, OCTOBER 31

Consumer confidence (October; 10:00 a.m. EDT)

Forecast: 122.2
We look for the Conference Board's consumer confidence index to have risen from 119.8 in September to 122.2 in October. Fundamentals support a modest improvement in sentiment as the labor market continues to tighten, stock prices are rising, and gasoline prices have edged lower. Talk of personal income tax cuts may provide some lift to sentiment but less for the Conference Board than the University of Michigan. The Conference Board is more sensitive to labor market conditions while the Michigan survey's questions focus more on personal finances.

Other measures of confidence we track are mixed for October. The University of Michigan survey jumped while the weekly Bloomberg consumer comfort index weakened. One downside risk to our forecast is the tendency for the Conference Board index to fall in October. However, the forecast assumes that this limits the size of the increase in October rather than pushing it lower.

WEDNESDAY, NOVEMBER 1

ADP National Employment Report (October; 8:15 a.m. EDT)

Forecast: N/A
Though we find ADP useful in predicting the subsequent Bureau of Labor Statistics estimate, there is an important methodological difference related to active versus paid employees. ADP counts employees as working as long as they are on the payroll, but the BLS counts only those who worked at some point during the reference week. This becomes an issue when there are weather events, such as the recent hurricanes. Still, ADP likely captured some of the weather effect in September via the storms disrupting businesses' hirings and firings. The ADP National Employment Report showed private payrolls rose 135,000 between August and September. The ADP estimate may not be overly helpful in forecasting the BLS estimate of private employment because the ADP methodology uses lags of the BLS estimate, which will likely depress the ADP estimate for October.

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

Forecast: 60.1

We look for new-home sales to have fallen from 560,000 annualized units in August to 543,000 in September. Hurricane Irma will likely weigh on new-home sales in September, but this drag will be temporary. For projects in the Survey of Construction for which the Census Bureau didn't receive sales information in August, it assumed there was no change and counted the units previously listed as for sale as still for sale. Newly issued single-family permits are counted as for sale if the sales status cannot be determined. Though the recent hurricanes are weighing on sales, the pre-storm trend had begun to soften.

The ISM manufacturing index has improved noticeably and in September it reached its highest since 2004, but the implications for growth could be less than they appear. Once again, there's a noticeable disconnect between the ISM survey and the hard data on manufacturing. The ISM survey captures both changes in actual activity in manufacturing and confidence. Understanding what has been the primary catalyst behind the recent improvement in the ISM index helps us understand the discrepancy between the hard and soft data for manufacturing.

The hard-data and sentiment components of the ISM index aren't observable but can be estimated. To do so, we mapped the five components of the ISM manufacturing survey—new orders, production, supplier deliveries, inventories and employment—to hard data on manufacturing. We then modeled each component based on its respective hard data. The ISM's methodology for constructing its composite index is applied to these new subindexes to create a hard-data ISM index. In other words, an ISM index that is consistent with the actual data on employment, industrial production, new orders, inventories and supplier deliveries.

Our index based on hard data has tracked the official ISM manufacturing index well since 1995, with a correlation coefficient of 0.78. This isn't too surprising, but the value-added in this approach is that it allows us to back out a sentiment component of the ISM index, or the difference between the actual and our hard-data ISM index.

The results show that the bulk of the improvement in the ISM manufacturing index over the past several months has been attributed to an increase in sentiment. Rising stock prices could be boosting manufacturers' sentiment, but the correlation between our ISM sentiment index and year-over-year growth in the Standard & Poor's 500 isn't overly strong, with a correlation coefficient of 0.3. Another possible explanation is that manufacturers have turned more upbeat about the near-term prospects as they have been anticipating corporate tax reform and an increase in government spending. This could lift manufacturers' spirits but may not translate into increased economic activity until the expected fiscal policy changes come to fruition.

For October, we look for the ISM manufacturing index to have fallen to 60.1. We will finalize our forecast on Tuesday because we will get a couple of regional manufacturing surveys.

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

Forecast: 17.7 million annualized units

We look for unit vehicle sales to have fallen from 18.6 million annualized units in September to 17.7 million in October. September sales were strong because of replacement demand following the recent hurricanes. Based on the not seasonally adjusted sales for September, only some of the gain was attributed to replacement demand. Therefore, we expect sales to remain above their pre-storm trend over the next few months as more of the vehicles destroyed by the hurricanes are replaced. Even though sales likely fell in October, they will remain above their third quarter average of 17.2 million annualized units. Therefore, real durable goods spending likely got off to a good start this quarter.

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.

EUROPE

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

Summary, October 30: All eyes will be on the Bank of England, as the Monetary Policy Committee meets to decide on its stance. The above-consensus latest GDP numbers made us change our call for the first rate hike to next Thursday, instead of early next year. At its September meeting, the MPC had claimed that evidence was pointing to slack being absorbed a little faster than expected, which could in turn underpin a rate hike in coming months. The bank was at the time forecasting growth of 0.3% q/q in the third quarter, so at 0.4% the headline came in above expectations, giving the bank the green light to start tapering. Markets' implied probability of a rate hike by November 2 is now at an overwhelming 89%.

But in our view, to think that the economy is healthy enough to warrant such a move is misleading. With the yearly expansion stuck at a mere 1.5%, the U.K. is set to again be the slowest-growing G-7 economy in the third quarter, while other indicators of economic momentum are also lagging. First, leading data regarding investment remain in the doldrums, especially since there has been no actual progress in Brexit negotiations. Second, the outlook for the services sector remains clouded as inflation and wage data show that real disposable income will fall throughout the rest of the year before slightly rebounding in 2018. True, services production managed to remain steady at 0.4% q/q in the third quarter, but we caution that the main boost to services output came from business services and finance, and we don't expect this strength to carry on until the end of the year. We are already penciling in a sharp reversion in retail sales in October and November.

To that we add that a rate hike now would weigh on the already-clouded outlook for consumer credit. Banks' capital ratios are set to be raised again in the coming months, while the BoE already announced the scrapping of the Term for Funding Scheme by February next year. Both measures are expected to drive up consumers' borrowing costs sharply, while banks have also announced a reduction in the supply of credit over the coming quarters. So, with real wages dropping, credit becoming scarcer and more expensive, and with house prices slowing sharply or even falling in some regions, households' will to buy should remain muted over the coming months.

Elsewhere, manufacturing production is set to at least partially mean-revert in the fourth quarter, and so is mining and quarrying, implying that the 1% q/q rise in production likely won't be repeated. And we see little that would lift the depressed performance of the construction sector; demand for housing and real estate remains downbeat, particularly as Brexit woes are preventing households and companies from engaging in major investment decisions.

Taken together, we think that the U.K. economy is far too fragile to warrant tightening, though we still expect a majority of policymakers to vote for it next week. We caution, though, that we forecast this to be a one-off move, only reversing the cut it made shortly after the Brexit decision was announced in June 2016. Inflation is set to return to target next year, easing the pressure on the committee, while wages are unlikely to strongly pick up and uncertainty is expected to remain high, weighing on investment.

THURSDAY, OCTOBER 26

Spain: Unemployment (Q3; 8:30 a.m. BST)

Unemployment fell by a further 0.8 percentage point to 16.5% in the third quarter. But that pace is less spectacular than in the previous stanza, when the pool of unemployed shed 1.6 percentage point. We estimate that job creation slowed to 2.6% y/y in the three months to September, down from the stellar 2.8% in the second quarter, when tourism-related services propped up labour demand. Further, labour absorption capacity will reach its limit as the services sector won't be able

to employ the long-term unemployed. Without active labour market policies, Spain's high structural unemployment will likely linger, leaving unemployment at around 16% to 17%.

Euro Zone: Monetary Policy (October; 12:45 a.m. BST)

The European Central Bank will likely announce how much and for how long it will buy the government bonds and other assets at its October monetary policy meeting. Under the current plan, the ECB buys €60 billion a month until December. We expect the bank will likely cut monthly purchases to €40 billion starting in January but continue its bond-buying program until at least September 2018. This September's meeting minutes gave the impression that central bankers prefer to gradually dismantle the monetary stimulus because of still-weak inflation. The euro zone's annual harmonized inflation remained unchanged at 1.5% in September from a month earlier. Meanwhile, core inflation did not budge from 1.3% in August, a sign that demand-led inflation is not yet building. Tepid inflation and the still-strong euro are restraining a hike in interest rates, and we expect the ECB to raise the refinancing rate in the second quarter of 2019.

FRIDAY, OCTOBER 27

Spain: Retail Sales (September; 8:05 a.m. BST)

We expect that Spanish retail sales failed to impress again in September. Sales likely added 0.1% over the month, the same rate of increase as in August. The consumer confidence gauge shows that sentiment soured considerably from the second quarter, with the balance of opinions sinking into negative territory, to -1.1, down from 1.5 in the second quarter. The slowdown is driven by the softer increase in employment and sluggish rise in wages, which is keeping shopping lists shorter. For now, we see little risk of the Catalonian political crisis depressing consumers' mood. Instead, the broad-based moderation is largely because of a reversion to potential consumption.

Russia: Monetary Policy (October; 11:30 a.m. BST)

With year-over-year CPI inflation dropping to 3% in September, minimal inflation to date in October, and weakening supply-side indicators, the table is set for the Russian central bank to cut rates again this month. By its latest measure, inflation is a full point below target, creating another opening for policy normalization. Softening business sentiment and weaker growth in industrial production last month also signal the need for easier access to capital.

MONDAY, OCTOBER 30

Germany: Retail Sales (September; 8:00 a.m. GMT)

German retail likely remained little changed in September following a contraction in the previous two months. Sales are expected to have increased by 0.1% from August, when they dropped by 0.4%. In year-ago terms the growth rate likely recovered to 3%. The Markit retail PMI fell slightly in September, decreasing to 52.8 from 53 in August, but continued to point to strong improvement in the sector during the month. Meanwhile, the GfK consumer climate indicator for September improved, rising to 10.9 from 10.8 in the previous month, but retreated to 10.8 in October. Consumption expenditure continued to support the country's expansion during the second quarter and will likely continue to do so in the coming quarters. However, conservative German households likely will not increase their spending significantly in coming months because the outlook remains uncertain and because of accelerating inflation.

TUESDAY, OCTOBER 31

France: GDP (Q3; 6:30 a.m. GMT)

Preliminary GDP data are expected to show that the French economy grew by 0.4% q/q in the three months to September, slowing slightly from a 0.5% gain in the previous stanza. A sharp reversion in net exports in the third quarter is expected to weigh the most on the headline, after the component contributed 0.6 percentage point to second quarter growth, particularly as oil refining exports

should have stabilized and imports should have jumped to replenish inventories. By contrast, consumer spending is expected to have again increased, even if retail sales stepped back in August. We are penciling in a 0.2% q/q increase in consumption, following a 0.3% q/q rise in the previous quarter. Investment is also expected to have boosted the headline, especially in construction, though the recent production data point to strong growth in machinery and investment capital expenditure as well.

France: Household Consumption Survey (September; 7:45 a.m. GMT)

French household expenditures on goods likely ticked up 0.8% m/m in September, fully offsetting August's 0.3% decline. We expect that this increase will push the yearly rate to 2.1%, well above the past-year average of 1.1%. Energy consumption should have rebounded following a contraction in August, as temperatures dropped sharply over the month, boosting demand for heating. Similarly, food spending is also expected to have jumped following a plunge in the previous month. By contrast, car spending likely stepped back, and so did clothing and household goods spending. The flip side to the below-average temperatures is that households spend less on the high street, and this should be exacerbated by the fact that sales of most engineered goods were strong in August. Leading indicators have nonetheless all been optimistic, confirming our expectations that spending in France is on a broadly upward trend despite seasonal ups and downs.

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

We don't expect inflation to pick up quickly in coming months. Despite diminishing labour market slack—which 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. We expect the euro zone's consumer price index to add 1.6% this year before slowing to 1.5% in 2018. The ECB is now forecasting that inflation will likely slow to only 1.2% in 2018, from 1.5% this year, before gradually climbing to 1.5% in 2019. While base effects from oil prices are behind next year's slowdown, core inflation has been an extremely long-lagging indicator in the euro zone, while wage growth has remained soft in most major countries but Germany.

Euro Zone: Preliminary GDP (Q3; 10:00 a.m. GMT)

The euro zone economy looks headed for a strong second half of the year. After growth of 0.6% in the second quarter, we expect the economy expanded 0.5% quarter on quarter in the three months to September. Household consumption likely powered growth in the third quarter, supported by falling unemployment, while net exports probably contributed less than in the first half because of the strong euro. Our outlook is for investment to pick up further, though it remains below the precrisis peak of 2008. Diminishing political risks should provide relief for the broader economy. Although the situation in Spain is worrisome, we maintain that the risk of Catalonia unilaterally seceding is low. While the ECB has communicated slow normalization of monetary policy, the coming taper could drive up government bond yields further and trigger additional appreciation of the euro. Furthermore, the expected dismantling of monetary stimulus is weighing on credit standards across the euro area.

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

The euro zone's unemployment rate likely fell further to 9% in September, from 9.1% in August, its lowest reading since January 2009. Both leading and hard data show that the euro zone's momentum remained strong at the end of the third quarter after an already-impressive first half of the year, which should have given a further lift to the area's labour market. Accordingly, the Markit composite PMI accelerated further in September, as new business again surged, testing capacity and helping ramp up job creation. Staffing levels are increasing at one of the quickest rates seen over the past decade, with gains recorded in all major countries, but particularly in Germany, France, Italy, Spain and Ireland. We expect the downward trend in joblessness to continue in quarters to come, on the back of improving economic conditions around the monetary bloc, labour market reforms, and stronger industrial bases in Spain, Ireland and Portugal.

WEDNESDAY, NOVEMBER 1

No major releases are scheduled for this day.

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.

ASIA-PACIFIC

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

A suite of Japan's September activity data will likely show some promising signs

A suite of Japan's September activity data will likely show some promising signs. The unemployment rate likely rose a notch to 2.9% due to a stabilisation in the participation rate. It is important to look beyond the headline, as the details are pleasing: The jobs-to-application ratio has risen sharply throughout 2017. In the past three months alone, the economy added 460,000 new workers, and both full-time and part-time workers have made solid job gains. Industrial production has gained momentum. A low yen along with improved external demand has boosted output from Japan's large export-oriented manufacturers. Production of electronic parts and equipment is expected to remain firm because of the tech cycle.

It's the status quo at the Bank of Japan in October. The BoJ has slowed its pace of asset purchases in recent months. However, the central bank will keep its stimulus taps open by communicating that purchases of Japanese government bonds will continue monthly at an annualised rate of ¥80 trillion. The pickup in inflation remains modest, and underlying inflation is still well under the central bank's 2% target. The BoJ has already delayed the time frame to hit the 2% inflation target until 2020. While it's unlikely to do so again, we don't see Japan hitting 2% inflation any time soon. Meanwhile, retail trade is the laggard. We look for retail trade to have cooled in September as weaker wage growth catches up with households. Moreover, retail fuel costs have added to headline retail sales this year, and that will likely begin to fade because commodity prices have fallen in recent months.

Manufacturing optimism likely cooled in China after reaching a 66-month high in September. Manufacturing output continues expanding at a steady clip as tech firms raise production ahead of the holiday season and prepare for product releases late in 2017.

South Korea is the first cab off the rank to release October monthly foreign trade data. The trade surplus likely narrowed and annual export growth cooled, the latter as low base effects fade. As a leading producer of tech products, South Korea benefits more than most from a strong tech cycle. Yet, although that's helping the economy's export-oriented sectors, it has yet to flow through noticeably to local demand, with consumer spending and the labour market still relatively soft.

MONDAY, OCTOBER 30

Japan – Retail Sales – September

Time: 10:50 a.m. AEDT (Sunday, 11:50 p.m. GMT)
Forecast: 1.6%
Retail sales likely decelerated to 1.6% in September from August's 1.7% y/y gain. That said, Japanese retailers have enjoyed 2017 compared with the previous year. Most major subcategories have increased on a year-ago basis, but a slowdown is expected because wage growth hasn't been consistent in the second half of 2017. Moreover, retail fuel costs have added to headline retail sales this year, and that will likely begin to fade because commodity prices have fallen in recent months. Spending on discretionary items has improved in 2017, but the wage pulse isn't strong enough to suggest this will continue. Moreover, we expect general pullback through September because of increased risk aversion in recent months on the back of tensions in the Korean peninsula.

TUESDAY, OCTOBER 31

Thailand – Industrial Production – September

Time: Unknown
Forecast: 3.5%
Industrial production likely ticked up 3.5% y/y in September, after a 3.7% rise in August. Export manufacturing has benefited from firmer external demand this year. Electronics production has been a standout, in line with the strong tech cycle that has boosted exports elsewhere in the region. Although export manufacturing is doing well, weak private investment and consumer spending have held back locally oriented manufacturing.

South Korea – Industrial Production – September

Time: 10:00 a.m. AEDT (Monday, 11:00 p.m. GMT)
Forecast: 3.2%
South Korean industrial production likely increased 3.2% y/y in September, up from 2.7% in August. South Korea's trade surplus increased to a record-high US$13.8 billion in September, thanks to a 35% surge in exports. Shipments of semiconductors and steel were especially strong, with both rising to record highs. However, although external demand is expected to remain firm, a high base effect could begin to curb export growth in coming months. That is expected to cap industrial production growth, keeping it relatively mild in coming months.

South Korea – Retail Sales – September

Time: 10:00 a.m. AEDT (Monday, 11:00 p.m. GMT)
Forecast: -0.3%
South Korean retail sales likely fell 0.3% m/m in September, after a 1% fall in August. Retail sales growth has been subdued in South Korea, as households have struggled with soft labour market conditions. Although consumer sentiment has improved in 2017, it has dimmed in recent months, as tensions over North Korea have escalated. However, provided consumer sentiment improves, President Moon Jae-in's pro-jobs agenda and expansionary fiscal policy are likely to lead to firmer consumer spending by next year. Elevated household debt remains a downside.

Japan – Employment Situation – September

Time: 10:30 a.m. AEDT (Monday, 11:30 p.m. GMT)
Forecast: 2.9% Unemployed
Japan's seasonally adjusted unemployment rate likely ticked up a notch to 2.9% in September from August's 2.8%. The rise stems from a stabilisation in the participation rate. More Japanese are looking for jobs this year compared with last. However, labour demand continues to outstrip labour supply. This is evidenced by the sharp rise in the jobs-to-application ratio throughout 2017. In the past three months alone, the economy added 460,000 new workers. That's a promising sign for the labour market. Both full-time and part-time workers have made solid job gains. On a year-ago basis, regular employees added 560,000 in August, while nonregular rose by 180,000. Wage growth has been steady in 2017, with May recording the highest year-ago increase in wages since the early 2000s. But recent data suggest that the pace of wage growth will likely be unsustainable.

Japan – Household Expenditures Survey – September

Time: 10:30 a.m. AEDT (Monday, 11:30 p.m. GMT)
Forecast: -0.1%
Japan's household consumption is taking a breather after solid gains over the last few months when bonuses were paid out. Workers' household nominal consumption was flat over the year in August, after a 2.1% rise in the prior month. We expect spending likely declined by 0.1% in September. The Bank of Japan confirmed at the yearly central bankers' meeting that imminent policy tapering is off the cards and stimulus would remain in place for some time. However, until wage growth accelerates, spending and inflation are unlikely to materialise.

Japan – Industrial Production – September

Time: 10:50 a.m. AEDT (Monday, 11:50 p.m. GMT)
Forecast: 0.6%
Japan's monthly industrial production has gained momentum after a 2.1% rise in August, likely rising 0.6% in September. On a year-ago basis, production remains firm, providing evidence that the economy is in better shape compared with 2016. A low yen along with improved external demand has boosted output from Japan's large export-oriented manufacturers. Production of electronic parts and equipment is expected to remain firm because of the tech cycle. Electronic and equipment products have been the most valuable export commodity from Japan in 2017. Recent monthly purchasing managers' index surveys also show a broad-based expansion.

China – Manufacturing PMI – October

Time: 12:00 p.m. AEDT (1:00 a.m. GMT)
Forecast: 51.7
Manufacturing optimism likely cooled in China to 51.7 in October, after reaching a 66-month high at 52.4 in September. Manufacturing output continues expanding at a steady clip as tech firms raise production ahead of the holiday season and prepare for product releases late in 2017. Some of September's improvement stemmed from reduced inventories among heavy industrial producers. The housing market has soaked up excess supplies of cement, steel and other products, and this is pushing up prices of those inputs and boosting cash flow amongst heavy industrial producers. This effect will likely fade in coming months as inventories are replenished and price growth flattens.

Japan – Monetary Policy – October

Time: Unknown
Forecast: ¥80 trillion
The Bank of Japan has slowed its pace of asset purchases in recent months. However, the central bank will keep its stimulus taps open by communicating that purchases of Japanese government bonds will continue monthly at an annualised rate of ¥80 trillion. The bank will also target long-term interest rates through its yield curve control policy, while a -0.1% interest rate on excess reserves will target the short-term rate. The pickup in inflation remains modest, and underlying inflation is still well under the central bank's 2% target. The BoJ has already delayed the time frame to hit its 2% inflation target until 2020. While it's unlikely to do so again, we don't see Japan hitting 2% inflation any time soon. Overall, we expect a relatively neutral monetary policy statement accompanying the BoJ's decision.

Japan – Housing Starts – September

Time: 4:00 p.m. AEDT (5:00 a.m. GMT)
Forecast: -1.1%
Monthly housing starts likely fell 1.1% y/y in September after a 2% drop in August. Momentum in Japan's housing market has faded in 2017, partly due to fading one-off effects in 2016, which encouraged housing investment. Since most of the investment is already accounted for, housing starts have been slow or declining in 2017. This trend is unlikely to change. Japan's ageing population means that housing supply is expected to rise over the coming year. Housing demand in the capital cities has been somewhat better because of migration from various prefectures to capital cities. Most job growth is in the major cities, and Japan's housing market is expected to increasingly become two-tier, with higher demand in capital cities versus rising supply elsewhere.

Thailand – Private Consumption – September

Time: 6:30 p.m. AEDT (7:30 a.m. GMT)
Forecast: 2.1%
Private consumption is expected to have grown 2.1% y/y in September, up marginally from 1.9% in the prior month. Solid services demand, backed by strong tourism and relatively firm durable goods demand, continues to underpin consumption growth. However, although consumer confidence has perked up in recent months and rose to a four-month high in September, we expect private consumption growth to remain subdued, in line with weak employment and wage growth. Elevated household debt is also likely to curb consumer spending.

Thailand – Foreign Trade – September

Time: 6:30 p.m. AEDT (7:30 a.m. GMT)
Forecast: US$3.8 billion
Thailand's trade surplus likely increased to US$3.8 billion in September, up from US$3.4 billion in August. Exports are likely to have surged thanks to strong demand for electronics. Exports of electronics have risen 12.9% y/y in the year to date to August, up from a 5.1% fall in the same period last year. Imports have also risen noticeably this year, largely on the back of an increase in demand for inputs for manufactured exports. Capital goods imports have also strengthened and should stay firm as government-led infrastructure projects begin to ramp up. Meanwhile, imports of consumer goods are expected to remain relatively subdued, in line with muted consumer spending growth.

Taiwan – GDP – 2017Q3

Time: 7:00 p.m. AEDT (8:00 a.m. GMT)
Forecast: 2.2%
Taiwan GDP likely grew 2.2% y/y in the September quarter, up from 2.1% in the prior quarter, thanks to a surge in exports during the quarter. However, although the improvement in external demand is boosting export manufacturing, especially the production of tech products and components such as semiconductors, local demand likely stayed relatively subdued. For the full year, we expect GDP growth to come in at 2.3%, up from 1.5% in 2016.

WEDNESDAY, NOVEMBER 1

South Korea – Foreign Trade – October

Time: Unknown
Forecast: US$10.9 billion
South Korea's trade surplus likely eased to US$10.9 billion in October, down from a record high US$13.7 billion in September. Exports surged 25% y/y in September, as exports of semiconductors and steel rose to record highs. However, as the low base effect fades, export growth is likely to moderate in coming months. As a leading producer of tech products, South Korea benefits more than most from a strong tech cycle. Yet, although that's helping the economy's export-oriented sectors, it has yet to flow through noticeably to local demand, with consumer spending and the labour market still relatively soft.

New Zealand – Employment Situation – 2017Q3

Time: 8:45 a.m. AEDT (Tuesday, 9:45 p.m. GMT)

Forecast: 5% Unemployed
New Zealand's unemployment rate likely rose to 5% in the September quarter, from 4.8% in the June quarter, its lowest rate since December 2008. An influx of visitors due to sporting events during the June quarter likely temporarily lifted employment, but this impact probably faded by the September quarter. Upward pressure remains on the unemployment rate, and downward pressure on the labour cost index remains from robust net migration. Newly elected Prime Minister Jacinda Ardern recently announced that net migration will be limited to 30,000 per year, after a record high 70,000 in 2016. Limiting migration will reduce upward pressure on the unemployment rate and should see wage growth rise from its mediocre 1.7% y/y.

South Korea – Consumer Price Index – October

Time: 10:15 a.m. AEDT (Tuesday, 11:15 p.m. GMT)
Forecast: 1.9%
Consumer price inflation likely eased to 1.9% y/y in October, down from 2.1% in September. Inflation has stayed above the Bank of Korea's 2% inflation target since July, as food, housing and transport prices have picked up. However, less volatile core inflation eased to 1.6% y/y in September, down from 1.8% in the prior two months. With underlying inflation pressure and inflation expectations still muted due to soft domestic demand, headline inflation will likely remain fairly subdued in coming months.

THURSDAY, NOVEMBER 2

Australia – Foreign Trade – September

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)
Forecast: A$230 million
Australia's monthly trade surplus likely narrowed to A$230 million in September, from A$990 million in August. Mining receipts likely took a hit in September from lower iron ore spot prices, which were down around 20% from their late-August peak, while coking coal prices have fallen by 10%. Capital imports probably kept softening in September. There has been a sharp pullback in telecommunication imports, which is likely related to the National Broadband Network rollout. These factors will keep downward pressure on the trade surplus into the December quarter, and keep the net export contribution to GDP growth muted compared with the June quarter.

Japan – Consumer Confidence – October

Time: 4:00 p.m. AEDT (5:00 a.m. GMT)
Forecast: 44.1
Japan's consumer confidence is improving despite recent risk aversion related to North Korea's missile testing. The overall consumer confidence index rose to 43.9 on a seasonally adjusted basis in September. We expect consumer confidence rose a further 0.2 point in October to 44.1, but there's considerable uncertainty around the forecast given that the survey took place midmonth while general elections were towards the end of the month. Inflation expectations are also expected to drop a little; the yen has appreciated in recent weeks while oil prices have eased compared with a few months ago. This will keep price pressures at bay.

FRIDAY, NOVEMBER 3

Australia – Retail Sales – September

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)
Forecast: 0.5%
Australian retail trade likely partially recovered in September and rose 0.5% m/m, following the 0.6% slump in August, its largest contraction since March 2013. Annual retail trade growth slowed from 3.5% in July to 2.1% in August. Prior to August's slump, retail trade was running at 3.2% y/y. The 8.9% q/q spike in the September quarter electricity costs could be partly to blame for the August slump in retail trade; for households, higher energy prices operate like a tax, as energy usage can typically be only marginally reduced. September retail trade data will show third quarter retail volumes, which will

firm our forecast for consumption contribution to GDP growth. That contribution is tracking at -0.1 to -0.2 percentage point at the moment.

Malaysia – Foreign Trade – September

Time: 3:00 p.m. AEDT (4:00 a.m. GMT)
Forecast: MYR8.1 billion
Malaysia's monthly trade surplus likely narrowed to MYR8.1 billion in September from MYR9.8 billion in August. Export growth likely cooled from its lofty 21.6% y/y expansion in August and 31.2% gain in July. Electronics are driving the solid growth, especially for smartphones being made available in late 2017. The electronics and electrical export category is the largest single component in merchandise exports and registered double-digit growth in August for an eighth straight month. Forward indicators including the Nikkei-Markit manufacturing PMI suggest Malaysian manufacturing will cool heading into 2018, likely a symptom of global tech demand passing its peak, and this should temper export growth.

The Long View

The US: For the corporate bond market, interest rate risks now outweigh credit risks

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
October 26, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 105 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 345 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 3.3% of September. Moody's Default and Ratings Analytics team expects the default rate will average 2.3% 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 -1.4% 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 3.1% annually for IG and may advance by 32.2% 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 (October 26, 2017)

The euro zone economy looks headed for a strong second half of the year. After growth of 0.6% in the second quarter, we expect the economy expanded 0.5% quarter on quarter in the three months to September. Household consumption likely powered growth in the third quarter, supported by falling unemployment, while net exports probably contributed less than in the first half because of the strong euro. Our outlook is for investment to pick up further, though it remains below the precrisis peak of 2008. The latest Deloitte European CFO Survey reports that European firms are poised to ramp up investment. The euro zone's investment propensity nearly doubled in the first quarter of 2017 from the third quarter of 2016, with the strongest reading among chief financial officers in Belgium, Austria and the Netherlands. In contrast, the net balance of firms expecting capital expenditure to rise over the next year was the lowest in Greece, followed by Italy and Spain. Improving revenue prospects and slowly rising operating margins supported the CFOs' optimism and helped lift investment propensity.

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.

Elevated debt is also hammering some euro zone countries. Weak inflation is partly to blame; it makes debt repayment difficult because its real value is actually decreasing only slowly. 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 European Central Bank won't rush to tighten the monetary conditions considerably. 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.

Meanwhile, reform efforts have stepped up in France, which shares with Italy a rigid labour market. To lose the label "sick man of Europe", French President Emmanuel Macron has begun mooting a set of significant reforms to help boost the economy. He cut expenditure in public administration, aims to gradually lower the corporate tax rate to 25%, made it easier for businesses to lay off staff, and introduced a law which allows workers and employers freer negotiation about salary and working hours. This should break collective bargaining and set the salary based on business performance in each city or region. If Macron succeeds, the unemployment rate should drop to 7% by 2022, boosting potential growth, and he will gain the confidence of European leaders to implement key proposals for the future of the European Union. However, this rosy future is too far off to do much for the French and euro zone economies. We expect real GDP growth in France will lag that of most other euro zone members, including Germany and Spain.

Furthermore, the French push for more integration may clash with the nascent German government. If the Greens and the neo-liberal Free Democrats, who are against closer integration and a euro-wide budget, form a coalition government with Angela Merkel's CDU/CSU, it would make EU and euro zone reforms more complicated and torpedo the cooperation between Merkel and Macron.

UK (October 26, 2017)
Third quarter GDP growth in the U.K. came in above our and the consensus expectations, making us change our call for the Bank of England's first rate hike to next week from early next year. At its September meeting, the bank's monetary policy committee had claimed that evidence was pointing to slack being absorbed a little faster than expected, which could in turn underpin a rate hike in coming months. The bank was at the time forecasting growth of 0.3% q/q in the third quarter, so at 0.4% the headline read above expectations, giving the bank the green light to start tapering. Markets' implied probability of a rate hike by November 2 is now at 88%.

But in our view, to think that the economy is healthy enough to warrant such a move is misleading. With the yearly expansion stuck at a mere 1.5%, the U.K. is set to again be the slowest-growing G-7 economy in the third quarter, while other indicators of economic momentum are also lagging. First, leading data regarding investment remain in the doldrums, especially since there has been no actual progress in Brexit negotiations. Second, the outlook for the services sector remains clouded as inflation and wage data show that real disposable income will fall throughout the rest of the year before slightly rebounding in 2018. True, services production managed to remain steady at 0.4% q/q in the third quarter, but we caution that the main boost to services output came from business services and finance, and we don't expect this strength to carry on until the end of the year. We are already penciling in a sharp reversion in retail sales in October and November.

To that we add that a rate hike now would weigh on the already-clouded outlook for consumer credit. Banks' capital ratios are set to be raised again in the coming months, while the BoE already announced the scrapping of the Term for Funding Scheme by February next year. Both measures are expected to drive up consumers' borrowing costs sharply, while banks already announced a reduction in the supply of credit over the coming quarters. So, with real wages dropping, credit becoming scarcer and more expensive, and with house prices slowing sharply or even falling in some regions, households' will to buy should remain muted over the coming months.

Elsewhere, manufacturing production is set to at least partially mean-revert in the fourth quarter, and so is mining and quarrying, implying that the 1% q/q rise in production likely won't be repeated. And we see little that would lift the depressed performance of the construction sector; demand for housing and real estate remains downbeat, particularly as Brexit woes are preventing households and companies from engaging in major investment decisions.

Taken together, we think that the U.K. economy is far too fragile to warrant tightening, though we still expect a majority of policymakers to vote for it next week. We caution, though, that we forecast this to be a one-off move, only reversing the cut it made shortly after the Brexit decision was announced in June 2016. Inflation is set to return to target next year, easing the pressure on the committee, while wages are unlikely to strongly pick up and uncertainty is expected to remain high, weighing on investment. Meanwhile, little support will come from the government, as we expect it to stick to its plans for tight fiscal policy in 2018.

ASIA PACIFIC

By Katrina Ell and the Asia-Pacific Staff of Moody's Analytics
October 26, 2017

China

China's Communist Party President Xi Jinping has settled into the top job for the long haul. The other six members of the Politburo Standing Committee have been announced, with no clear successor to Xi. Historically, party chiefs have stood down after two five-year terms and identified a successor by the halfway point, where Xi is currently at, to facilitate a steady power transfer. The five men appointed to join Xi Jinping and Premier Li Keqiang on the Politburo Standing Committee will be too old to rule for a decade after Xi's second term ends in 2022 if the retirement age of 68 years is observed. We think Xi is playing his cards right. Naming a successor would have weakened Xi's authority and mandate; this is undesirable given his elevated status by recently being included in the Communist Party constitution by name for his ideologies.

The politburo is China's top and most powerful governing body, meeting weekly to manage the affairs of around 20% of the world's population. The new politburo is surrounded by Xi loyalists, with often long-term relationships to the president. Now that Xi has consolidated his power base, the next step is to instill his vision for China with close allies at his side. During his address to congress, Xi said he envisions China will become a leading global powerhouse by 2050 with a thriving middle class, strong military, and environmentally sustainable growth. Reform and opening China's economy to more market-based determination are lower priorities than elevating China's position in the international arena.

It doesn't get much clearer than Xi setting the ambitious goal of becoming a "global leader" by mid-century. The timing is fortunate as other powerful global players have shifted focus. The U.S. under the leadership of President Donald Trump is touting an "America First" policy, while the European Union is preoccupied with Brexit. Meanwhile, China is forging ahead with its Belt and Road Initiative to bolster infrastructure investment and global linkages, particularly to developing economies.

Premier Li Keqiang has been in his role since 2012 and is a reform advocate, but his influence appears relatively weak, taking a backseat to Xi, rather than working in unison. Li began his political career with the Communist Youth League, the reformist wing of the Communist Party that also saw Xi's predecessor Hu Jintao rise through the ranks.

China's "new era" has the Communist Party playing a more prominent role in economic activity. The Communist Party has supposedly gained the credibility to do this via its far-reaching an ongoing anti-graft campaign that has coincidentally purged Xi rivals.

Beyond the bravado, Xi has his work cut out for him. Steering the economy through a transition away from exports and manufacturing, the traditional backbone of the economy, towards greater consumption is no mean feat. This is to occur while managing the pockets of worryingly high debt, chronic overcapacity in some state-owned enterprises, an aging population, and slowing GDP growth. Being a greater influence internationally means China can't turn a blind eye to issues like North Korean antagonism as it has in the past.

Ratings Round-Up

By Njundu Sanneh

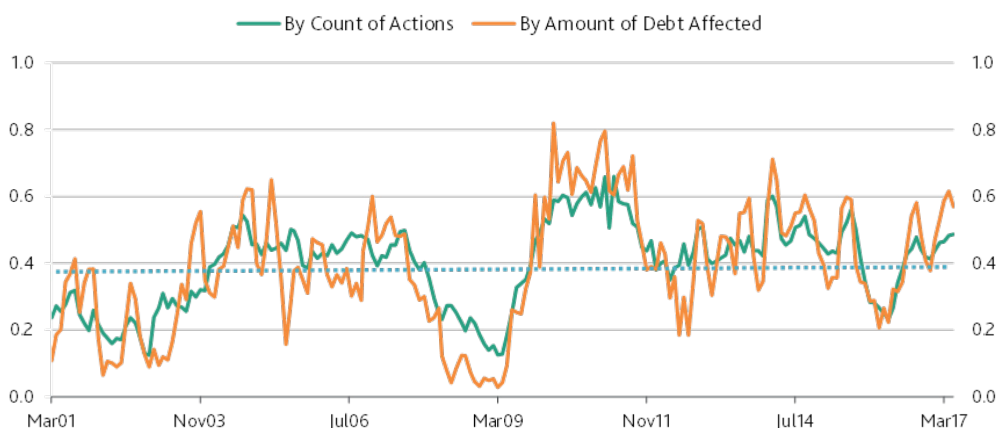
More Positive in US and Europe

Total US weekly rating changes were 13, with eight upgrades, making for a substantial 62% positive rating changes, driven by upgrades in the solar electricity production, transportation services, specialty chemicals, and transactions processing sectors. Some of the noteworthy firms that were upgraded include XPO Logistics, Inc., Solar Star Funding, LLC, and Live Nation Entertainment, Inc. On the downgrade side were Oak Parent, Inc. and Hartford Financial Services Group, Inc., an apparel/shoe company and an insurance company, respectively. The strong contribution of upgrades reflects the improving trend in US corporate credit quality.

In Europe upgrades were again on the ascendancy with only one downgrade out of a total of seven rating changes. Financials were the dominant sector, accounting for five of the seven. In a rare upgrade in the beleaguered retail sector, Takko Fashion, a German outfit, was upgraded due to its strong performance and improvements in credit metrics, aided by a refinancing event that helped improve its capital structure.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

FIGURE 2

Rating Key

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

Ratings Round-Up

FIGURE 3 Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	Old LGD	New LGD	IG/ SG
10/18/17	MEDIACOM COMMUNICATIONS CORPORATION	Industrial	SrUnsec/LTCFR/PDR	500	U	B2	B1					SG
10/19/17	BIOVENTUS LLC	Industrial	SrSec/BCF/LTCFR/PDR	3,500	U	B3	B2					SG
10/19/17	HUNTINGTON INGALLS INDUSTRIES, INC.	Industrial	SrSec/BCF	1,200	D	Baa2	Baa3					IG
10/19/17	HUNTINGTON INGALLS INDUSTRIES, INC.	Industrial	SrUnsec	1,200	U	Ba2	Baa3					SG
10/19/17	OAK HOLDINGS, LLC - Oak Parent, Inc.	Industrial	SrSec/BCF/LTCFR/PDR/LGD		D	B1	B2			LGD-3	LGD-4	SG
10/20/17	XPO LOGISTICS, INC.	Industrial	SrUnsec/LTCFR/PDR/SGL	2,724	U	B2	B1	SGL-2	SGL-1			SG
10/23/17	HARTFORD FINANCIAL SERVICES GROUP, INC. (THE)	Financial	SrUnsec/SLIFSR	10	D	Baa3	Ba1	P-2	P-3			IG
10/23/17	KMG CHEMICALS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1					SG
10/23/17	REXNORD CORPORATION - RBS Global, Inc.	Industrial	SrSec/BCF/LTCFR/PDR		U	B1	Ba3					SG
10/23/17	SOLAR STAR FUNDING, LLC	Industrial	SrSec	1,323	U	Baa3	Baa2					IG
10/23/17	TOPAZ SOLAR FARMS LLC	Industrial	SrSec	1,100	U	Baa2	Baa1					IG
10/24/17	COMFORT HOLDING, LLC	Industrial	SrSec/LTCFR/PDR/LGD		D	B2	B3			LGD-3	LGD-4	SG
10/24/17	LIVE NATION ENTERTAINMENT, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	825	U	B3	B1					SG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

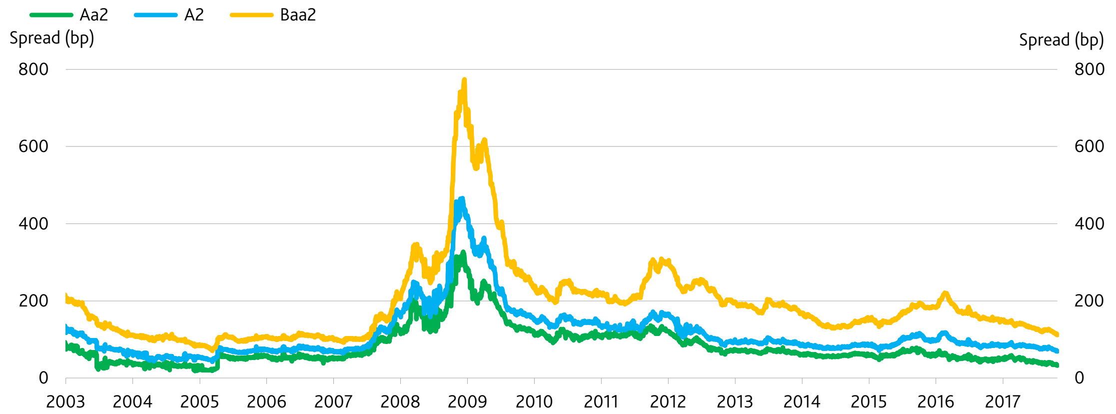
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
10/24/17	TAKKO FASHION S.A R.L.	Industrial	LTCFR/PDR		U	Caa1	B2			SG	GERMANY
10/19/17	OTP BANK NYRT	Financial	SLTD/JrSub	589	U	Baa3	Baa2	P-3	P-2	IG	HUNGARY
10/20/17	KBC GROUP NV = Kereskedelmi & Hitel Bank Rt.	Financial	SLTD		U	Ba1	Baa3	NP	P-3	SG	HUNGARY
10/24/17	BPER BANCA S.P.A.	Financial	SrUnsec/LTIR/MTN		D	Ba2	Ba3			SG	ITALY
10/23/17	SIAULIU BANKAS, AB	Financial	SLTD		U	Ba1	Baa3			SG	LITHUANIA
10/19/17	INEOS GROUP LIMITED	Industrial	SrUnsec/SrSec/LTCFR/PDR/BCF	2,174	U	B2	B1			SG	LUXEMBOURG
10/20/17	AVIVA PLC	Financial	SrUnsec/SrSec/BCF/MTN/Sub/JrSub/PS/CP	11,383	U	A3	A2	P-3	P-2	IG	UNITED KINGDOM

Source: Moody's

Market Data

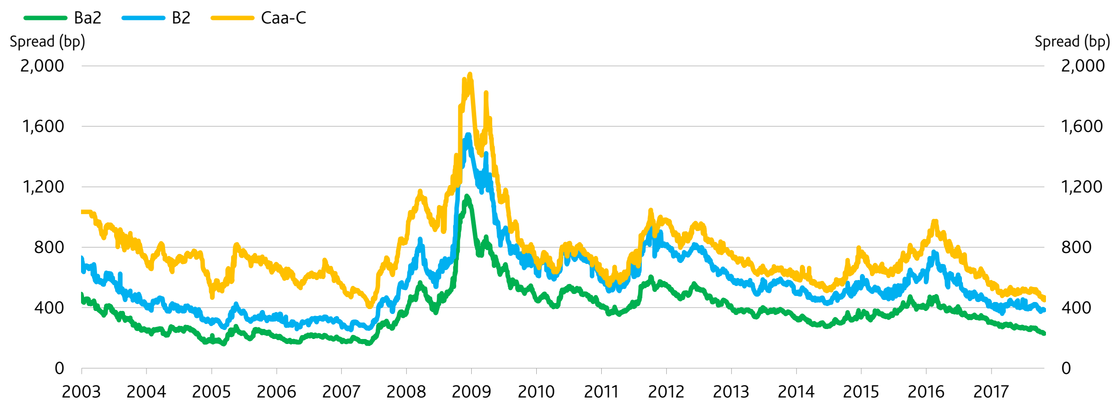
Spreads

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



Source: Moody's

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



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (October 18, 2017 – October 25, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Oct. 25	Oct. 18	Senior Ratings
Exxon Mobil Corporation	Aa2	A1	Aaa
Apple Inc.	Aa1	Aa2	Aa1
Ford Motor Credit Company LLC	Baa3	Ba1	Baa2
Comcast Corporation	A2	A3	A3
American International Group, Inc.	Baa1	Baa2	Baa1
Walt Disney Company (The)	A1	A2	A2
Johnson & Johnson	Aaa	Aa1	Aaa
Ford Motor Company	Baa3	Ba1	Baa2
General Motors Company	Baa3	Ba1	Baa3
U.S. Bancorp	Aa1	Aa2	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Oct. 25	Oct. 18	Senior Ratings
Chesapeake Energy Corporation	Ca	Caa2	Caa2
SUPERVALU Inc.	Ca	Caa2	B3
Bank of America Corporation	Baa1	A3	Baa1
United Airlines, Inc.	B3	B2	Baa1
Freeport-McMoRan Inc.	B2	B1	B2
Tenet Healthcare Corporation	Caa2	Caa1	Caa1
ONEOK Partners, L.P.	Ba1	Baa3	Baa3
Whirlpool Corporation	Baa3	Baa2	Baa1
R.R. Donnelley & Sons Company	Caa2	Caa1	B2
Nabors Industries Inc.	Caa1	B3	B1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Oct. 25	Oct. 18	Spread Diff
MBIA Inc.	Ba1	1,150	871	279
Nine West Holdings, Inc.	Ca	8,283	8,156	127
MBIA Insurance Corporation	Caa2	1,016	890	126
Windstream Services, LLC	B2	1,746	1,643	103
Weatherford International, LLC (Delaware)	Caa1	528	438	90
Staples, Inc.	B3	634	546	88
Frontier Communications Corporation	B2	1,255	1,217	38
Nabors Industries Inc.	B1	386	349	37
Hertz Corporation (The)	B3	674	640	34
SUPERVALU Inc.	B3	742	711	31

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Oct. 25	Oct. 18	Spread Diff
Neiman Marcus Group LTD LLC	Caa3	1,348	1,611	-264
McClatchy Company (The)	Caa2	1,059	1,236	-177
Sears Roebuck Acceptance Corp.	Caa3	3,756	3,930	-174
Sears Holdings Corp.	Caa3	3,340	3,495	-155
Parker Drilling Company	Caa1	918	1,002	-84
Talen Energy Supply, LLC	B1	739	818	-79
K. Hovnanian Enterprises, Inc.	Caa3	1,016	1,088	-72
Rite Aid Corporation	B3	726	785	-59
Penney (J.C.) Corporation, Inc.	B3	999	1,047	-48
Murphy Oil Corporation	Ba3	162	186	-24

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (October 18, 2017 – October 25, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Oct. 25	Oct. 18	Senior Ratings
Galapagos Holding S.A.	Caa2	C	Caa2
Old Mutual Plc	A2	Baa1	Ba1
Italy, Government of	Ba2	Ba3	Baa2
Rabobank	Aa1	Aa2	Aa2
Austria, Government of	Aaa	Aa1	Aa1
Barclays Bank PLC	A3	Baa1	A1
Belgium, Government of	Aaa	Aa1	Aa3
Deutsche Bank AG	Baa3	Ba1	Baa2
Portugal, Government of	Ba2	Ba3	Ba1
Banque Federative du Credit Mutuel	Aa1	Aa2	Aa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Oct. 25	Oct. 18	Senior Ratings
Astaldi S.p.A.	Ca	Caa2	B3
Credit Agricole S.A.	Aa3	Aa2	A1
The Royal Bank of Scotland plc	Baa2	Baa1	A3
Credit Agricole Corporate and Investment Bank	A1	Aa3	A1
DZ BANK AG	Baa3	Baa2	Aa3
EDP - Energias de Portugal, S.A.	Baa2	Baa1	Baa3
Scottish Power UK plc	Ba1	Baa3	Baa1
Publicis Groupe S.A.	Baa2	Baa1	Baa2
Telefonica S.A.	Baa3	Baa2	Baa3
Swedish Match AB	Baa2	Baa1	Baa2

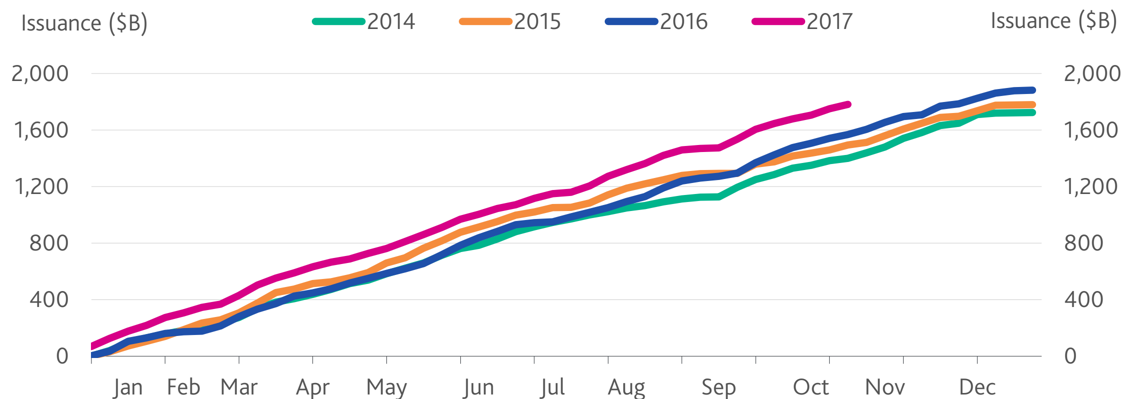
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Oct. 25	Oct. 18	Spread Diff
Boparan Finance plc	B2	713	645	68
Astaldi S.p.A.	B3	770	731	39
PizzaExpress Financing 1 plc	Caa1	858	841	17
Premier Foods Finance plc	Caa1	353	346	8
Storebrand ASA	Ba1	187	181	7
GKN Holdings plc	Baa3	95	90	5
Eksportfinans ASA	Baa3	519	515	4
Telefonica S.A.	Baa3	70	66	4
Iceland Bondco plc	Caa1	302	297	4
Swedish Match AB	Baa2	57	54	3

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Oct. 25	Oct. 18	Spread Diff
Galapagos Holding S.A.	Caa2	730	881	-151
Stena AB	B3	498	525	-26
Matalan Finance plc	Caa2	383	404	-21
Telefonaktiebolaget LM Ericsson	Ba2	147	164	-17
Banco Comercial Portugues, S.A.	B1	133	145	-12
Old Mutual Plc	Ba1	38	49	-11
Unipol Gruppo S.p.A.	Ba2	119	130	-11
Vue International Bidco p.l.c.	B3	208	218	-10
ArcelorMittal	Ba1	127	136	-9
MAN SE	A3	76	85	-9

Source: Moody's, CMA

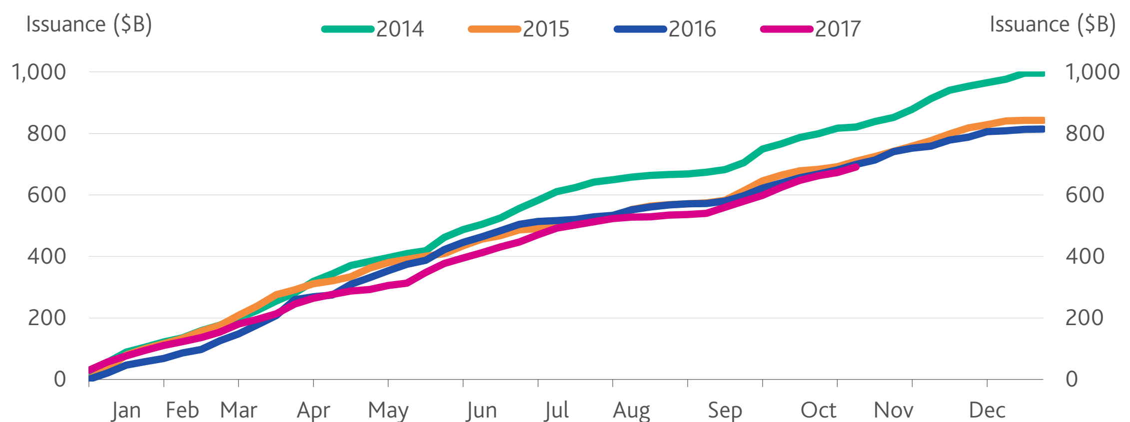
Issuance

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	20.850	7.135	30.349
Year-to-Date	1,266.835	374.168	1,781.611

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	15.237	1.592	17.696
Year-to-Date	568.477	85.476	690.648

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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