MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Jobless Rate's Waning Influence on Inflation and the Fed

Moody's Capital Markets Research

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Credit Markets Review and Outlook

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

Jobless Rate's Waning Influence on Inflation and the Fed

The minutes of the July 25-26 meeting of the FOMC indicated that Fed policymakers have become increasingly concerned about persistently soft consumer prices despite higher rates of resource utilization, including the lowest unemployment rate in 16 years. In response, fed funds futures recently assigned only a 44.4% likelihood to a year-end 2017 midpoint for the fed funds rate that is higher than its current 1.125%. Policymakers and some market participants worry that if underlying inflation slows when rates of resource utilization climb, then a destructive bout of price deflation might arrive once resource utilization rates inevitably ease.

Ordinarily, price inflation accelerates following a decline by the unemployment rate. However, despite a plunge by the unemployment rate's moving three-month average from July 2012's 8.2% to July 2017's 4.3%, the average annual rate of core PCE price index inflation also ebbed from 1.9% to 1.5%. In all likelihood, this is the slackest and most non-inflationary 4.3% jobless rate in history.

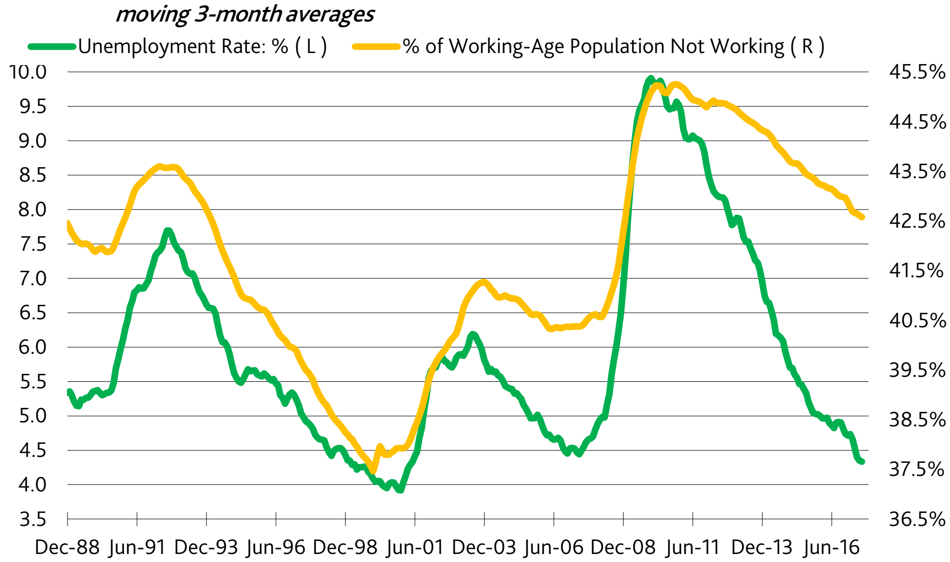
The unemployment rate's moving three-month average last fell to 4.3% for the span-ended February 1999. However, the 2.5% yearly increase by the average hourly wage of the three-months-ended July 2017 was noticeably slower than the 3.6% of the three-months-ended February 1999. Partly because of faster wage growth, the 4.3% jobless rate of early 1999 packed a lot more punch for consumer spending according to wage & salary income's 7.3% annual advance of the three-months-ended February 1999 compared to its much slower 2.6% prospective yearly rise of May-July 2017.

Other measures of labor market utilization dispute the meaning of a 4.3% jobless rate

The faster wage growth of the span-ended February 1999 can be partly explained by the then higher labor force participation rate of 67.2% versus the 62.8% of the three-months-ended July 2017. Also, jobs approximated a greater 61.9% of the working-age population during the span-end February 1999 compared to the 57.4% of May-July 2017.

The still relatively low readings for both the labor force participation rate and the ratio of payrolls to the working-age population imply that July's 4.3% unemployment rate overstates the tightness of the US labor market. In fact, from a purely statistical perspective, both the ratio of payrolls to the working-age population and the ratio's rise over the last three months have been consistent with a 6.4% a year-end 2017 midpoint for the unemployment rate. (Figure 1.)

Figure 1: Comparatively High Percentage of the Working-Age Population Not Working Suggest Unemployment Rate Overstates Labor Market Tightness
moving 3-month averages



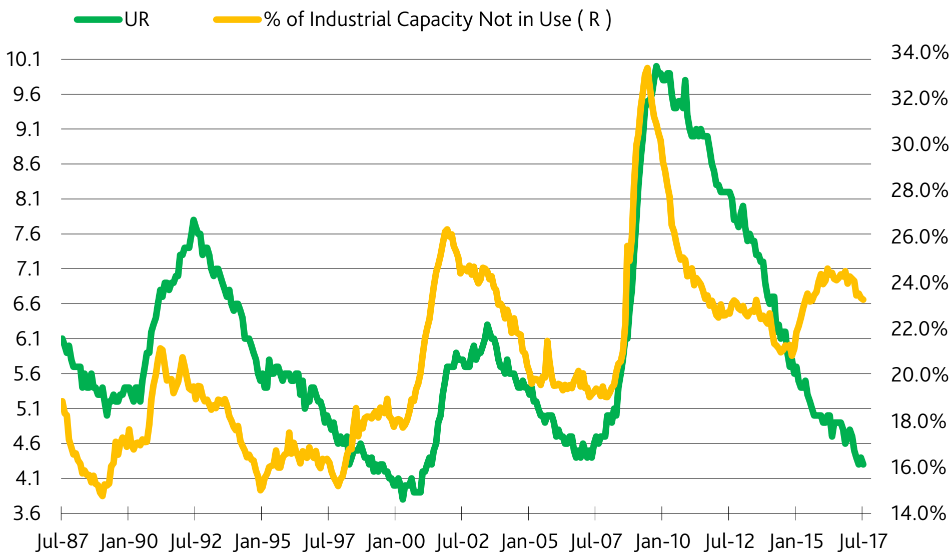
Credit Markets Review and Outlook

Oddly enough and with important implications for those fretting over the possibility of resurgent price inflation, the core PCE price index rose by only 1.3% annually during the three-months-ended February 1999, which was slower than the 1.5% of Q2-2017. Apparently, a lower jobless rate's ability to stoke price inflation has been diminishing for some time. Too many analysts cannot break free from a 1970s mindset that fails to recognize the disinflationary thrust of globalization and unprecedented technological change.

Resource utilization extends beyond the labor market

Resource utilization does not begin and end with the unemployment rate. The rate of industrial capacity utilization also helps to set price levels, especially for tangible goods and energy. Never before has the utilization of industrial capacity been as low as July's 76.7% in the ninth year of a business cycle upturn; for US manufacturers, the capacity utilization rate was an even lower 75.8%. Moreover, never before has the rate of industrial capacity utilization been so low in the context of a 4.3% unemployment rate. Today's low capacity utilization rate offsets the upward pressure being put on prices by a very low jobless rate. (Figure 2.)

Figure 2: Never Before Has a 4.3% Jobless Rate Been Joined By Such a High Percentage of Industrial Capacity Not In Use



Consumer durable goods price deflation finishes its 22nd year

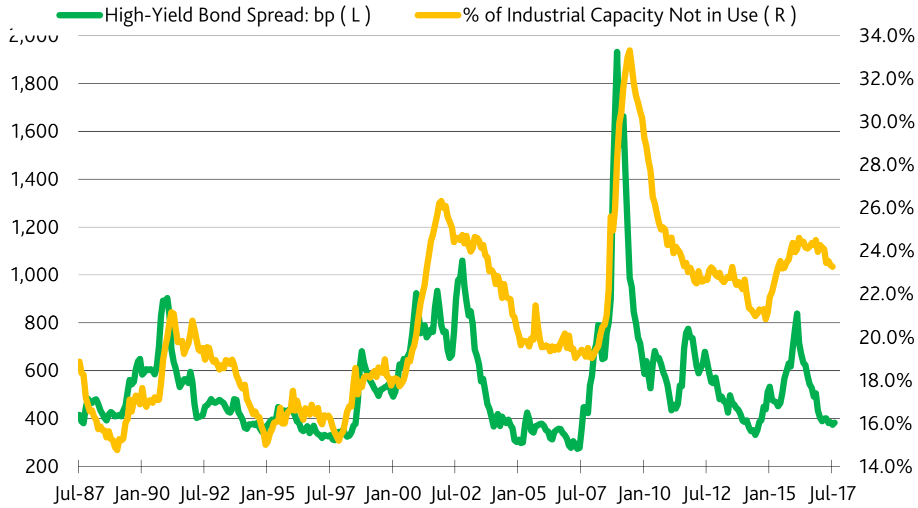
Moreover, low rates of capacity utilization are a global phenomenon, which intensifies the downward pressure placed on the prices of internationally traded goods. The considerable under-utilization of global production capacity help to explain July 2017's wide gap between the 2.4% annual rate of core consumer service price inflation and the -0.6% annual rate of core consumer goods price deflation.

Even more striking is the protracted 22-year stay by consumer durable goods price deflation. According to the US PCE price index, the price index for consumer durable goods declined from a year earlier in each of the 87 quarters since 1995's third quarter. The current quarter will mark the 22nd anniversary of consumer durable goods price deflation. This long-lived stay by declining prices stems not only from persistent excess production capacity worldwide, but also from the imperative to supply manufactured goods of higher quality at lower costs. Technological progress is the primary driving force behind the latter, where advancements in logistics and communications have even intensified price competition at the retail level.

Low capacity utilization warns of wider spreads

For now, operating profits have held up despite the often margin-squeezing pressures of low rates of capacity utilization. In turn, the US high-yield bond spread has been far narrower than what ordinarily occurs amid ample amounts of underutilized production facilities. For example, July 2017's 76.7% rate of industrial capacity utilization and its 0.8% increase from a year earlier have been statistically associated with a 568 bp spread for high-yield bonds, which is much wider than the spread's 402 bp average of the latest five-day span. (Figure 3.)

Figure 3: High-Yield Bond Spread Is Atypically Narrow Given the Relatively High Percentage of Industrial Capacity Not In Use



Again, we are reminded of how thin bond yield spreads owe much to an exceptionally low VIX index. Though a very low VIX index owes much to the suppression of interest rates by subdued price inflation, once earnings shrink, the VIX index will soar regardless of how meek price inflation might be.

Diminished financial flexibility of lower-income consumers suppresses inflation

The weakened financial condition of lower- and middle-income Americans now limits the pricing power of US businesses. To the degree that many Americans cannot afford broadly distributed price hikes, a widespread acceleration by consumer prices is more likely to prompt reductions in sales volumes.

All else the same, a higher rate of personal savings implies consumers are better able to absorb broadly distributed price hikes. After averaging 6.0% during the five-years-ended September 2016, the personal savings rate sagged to 3.9% of disposable personal income, on average, for October 2016 through June 2017. Accordingly, Americans may lack the financial wherewithal to either support or absorb significantly higher prices for long.

High rates of personal savings make it easier for consumers to absorb higher prices. When core PCE price index inflation averaged 6.4% during 1970-1981, the personal savings rate averaged 11.7%. By contrast, the averages of the year-ended May 2017 showed a 5.3% personal savings rate being accompanied by a 1.6% annual rate of core PCE price index inflation.

Finally, unprecedented globalization helps to explain why lower rates of unemployment do less to spur wage growth. Remember, when the Phillips Curve was all the rage during the 1960s and 1970s, American labor was not competing with workers from China, India and other emerging market economies. Also, from 1965 through 1980, the sum of real exports and real imports approximated 9.6% of real GDP, which was far less than Q2-2017's 29.1% ratio.

Both policymakers and markets will recognize the new reality of the diminished importance of the US labor market to domestic price inflation. Going forward, the monthly jobs report will wield less influence over interest rates than in the past.

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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, August 21: The U.S. economic calendar is light, and we look for mixed messages on home sales. Seasonality plays an important role in the housing market. Homebuying and selling are strongest during the spring and summer and trail off during the fall and winter. For perspective, between 1990 and 2016, the four heaviest home-selling months—May, June, July and August—account for 40% of an average year's single-family existing-home sales and 35% of new-home sales. We are toward the tail end of the key selling season and though sales have improved, it likely won't be strong enough for sales to meet our prior expectations for the entire year. Outside of housing, durable goods orders will likely drop following June's large gain, which was inflated by the volatile nondefense aircraft component.

With little data, attention could be on financial markets, particularly given the developments in Washington this week. A correction in the U.S. stock market is inevitable, but fundamentals are strong enough currently to make a bear market drop of 20% unlikely. The stock market is being supported by solid corporate earnings, improvement in the global economy, the depreciating U.S. dollar, and low global interest rates. Still, valuations suggest there is froth in the market and heightened geopolitical tensions and developments in Washington have markets questioning whether President Trump can push through his pro-business agenda, which could weigh on markets.

This week Trump ended two White House business councils and dropped plans to create an infrastructure council. It's difficult to identify anything of substance that came out of the councils that were eliminated, but their dismantling could lead markets to reduce the odds of corporate tax reform and other pro-business legislation.

The likelihood of a significant fiscal stimulus has been quickly declining as the administration opted to pursue healthcare legislation first, which has proven difficult and has taken up considerable time on the legislative agenda. Also, the probe into Russia's election interference and Trump's response to events in Charlottesville VA have cost him political capital, making it increasingly difficult to gather support for his agenda.

We don't expect comprehensive corporate tax reform this year, but a tax cut is still possible late this year or early next. Corporate tax reform is needed, as is infrastructure spending. Infrastructure spending should have bipartisan support, but a plan is unlikely to be passed until next year. As there is no such thing as a shovel-ready project, the boost to growth wouldn't occur until 2019.

Uncertainty surrounding U.S. fiscal policy and geopolitical tensions could weigh on investor sentiment. The S&P 500 has been trending sideways since mid-July.

MONDAY, AUGUST 21

Business confidence (week ended August 18; 10:00 a.m. EDT)

Forecast: N/A
Sentiment among global businesses is strong, but it has softened a bit since the spring. Confidence is back almost to where it was just prior to the U.S. presidential election. Although it is hard to draw any strong conclusions from this, it would be consistent with an increasing sense that the new administration and Congress will not be able to come to terms on a major reform of the U.S. tax code, something that U.S. businesses have been especially excited about.

Across the globe, the difference between the percentage of all positive responses and all negative responses to the nine survey questions came in at 29% last week and 32% on a four-week moving average basis. In the U.S., business confidence stood at 31% last week and 34% on a four-week moving average basis.

For historical context, when measurably less than 10% of responses are net positive, as was the case during much of 2008 and the first half of 2009, the economy is in recession. Readings between 20% and 30% are consistent with an economy that is expanding at potential. The global economy is expanding above potential with readings of more than 30%. The all-time low was -30% in December 2008, and the peak was 46% in April 2015.

The four-week moving average in our business confidence survey rose from 30.4 to 32 in the week ended August 11, but it was north of 33 as recently as early July.

TUESDAY, AUGUST 22

No major economic releases scheduled.

WEDNESDAY, AUGUST 23

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

Forecast: 617,000 annualized unit
We look for new-home sales to have risen from 610,000 annualized units in June to 617,000 in July. Seasonality plays an important role in the housing market. Homebuying and selling are strongest during the spring and summer and trail off during the fall and winter. For perspective, between 1990 and 2016, the four heaviest selling months—May, June, July and August—account for 40% of an average year's single-family existing-home sales and 35% of new-home sales. We are toward the tail end of the key selling season and though sales have improved, it likely won't be strong enough for sales to meet our prior expectations for the entire year.

This is shaping up to be another disappointing year for U.S. home sales, but it's a little early to throw in the towel. Most fundamentals support further gains in home sales through the remainder of the year, as the labor market is tightening, wage growth is accelerating, and mortgage rates have come down. However, inventories remain a constraint.

THURSDAY, AUGUST 24

Jobless claims (week ending August 19; 8:30 a.m. EDT)

Forecast: 240,000
We look for initial claims for unemployment insurance benefits to have risen by 8,000 to 240,000 in the week ending August 19, putting them at their prior four-week moving average. Revisions are normally small, but they will be for the August payroll reference week, therefore they take on added importance. As it stands now, initial claims were down 2,000 between the July and August payroll reference weeks. The four-week moving average fell around 4,000 between reference periods. Overall, initial claims are sending a favorable signal about the labor market.

Existing-home sales (July; 9:15 a.m. EDT)

Forecast: 5.44 million annualized units
Existing-home sales are forecast to have fallen from 5.52 million annualized units in June to 5.44 million in July. This would be the second consecutive monthly decline and the fourth in the past six months. Pending-homes sales, which lead existing sales by one to two months, rose 1.5% in June. However, this comes on the heels of three consecutive monthly declines.

If our forecast comes to fruition, existing-home sales in July would be below their second quarter average of 5.57 million annualized units. This wouldn't be favorable for residential investment this quarter, since existing-home sales feed into it via brokers' commissions. Still, looking through the ups and downs in existing-home sales, the trend remains decent and we look for sales to move higher over the course of the second half of this year.

FRIDAY, AUGUST 25

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

We will publish our forecast during the week.

EUROPE

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

Summary, August 18: Though the week ahead will be rather light on European data, we will get the much-awaited release of the U.K. GDP expenditure breakdown and second estimate of growth. We do not expect the initial estimate to be revised down from its current rate of 0.3% q/q in the second quarter, but the risks are tilted to the downside. Final estimates showed that construction and manufacturing output contracted by 1.3% and 0.6% q/q in the second quarter, respectively, both below the Office for National Statistics forecasts of 0.9% and 0.4% drops that fed into the initial estimate of quarterly growth. And though we do not have whole-quarter data on the service sector's performance, we think that the ONS forecast that service output growth accelerated to a healthy 0.3% m/m in June, from 0.2% in May and 0.1% in April, is just too optimistic. The past two-year average reads only at 0.2% m/m, and we don't think it's plausible to assume an above-trend rate of expansion at a time when real wages have started to fall, and that's despite the 0.6% m/m rebound in retail sales. Even if retail trade did rebound by 1.5% q/q in the June stanza, this was a mean reversion from a similar plunge at the start of the year, and we should not forget that retail sales account for only 7% of total service sector output.

Regarding the expenditure components, we expect that net trade rebounded from a drag of 0.8 percentage point in the three months to June and provided support to growth. But the boost was likely only modest, far below what markets had initially penciled in when taking into account the extent to which the pound depreciated since last year's Brexit vote. Exports of goods in volume rose by only 1.5% q/q in the second quarter, well below the 1.8% rise in the first quarter. Granted, they still outpaced growth in the volume of goods imports, which read only at 0.4% q/q in the second quarter, but that's mostly because imports were weak, not because exports performed well; the past-year average of growth in goods imports read much higher at 1.2%. Imports were dragged down by the inflation- and uncertainty-led cooling of domestic demand, and this should continue in quarters to come.

U.K. consumer spending is also expected to have disappointed and grown only modestly, likely by 0.2% q/q, despite the jump in retail sales. Not only is the relationship between retail sales and households' overall consumption weak, but the jump in retail sales was mainly a mean reversion from the previous quarter, while the long-term trend in sales growth remained rather subdued. Moreover, retail sales account for only 30% of total spending, and evidence is that consumers reduced their spending off the high street. Car sales plummeted in the three months to June, likely by 23% q/q, their biggest fall since 2010. Surveys of activity in the consumer services sector have also been weak; the Bank of England Agents' Summary of Business Conditions showed that growth in consumer services spending continued to ease in the second quarter, to a four-year low, notably on the back of a plunge in spending in restaurant and leisure.

Little relief likely came from investment and government spending. In line with surveys of intentions, heightened uncertainty remained a drag on businesses' willingness to invest in machinery and equipment. Construction investment is expected to have plunged, in line with the weak figures for production in the sector. We expect that business investment ticked up only slightly in quarterly terms, but by much less than the 0.6% rise recorded in the first quarter. Fiscal policy, meanwhile, is expected to have remained only mildly accommodative.

In all, we see little evidence that any other sector of the economy will manage to pick up the slack of consumer spending, which had been until 2016 the main engine of U.K. growth.

MONDAY, AUGUST 21

No major indicators are scheduled for this date.

TUESDAY, AUGUST 22

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

We expect Spain's monthly trade deficit to have widened to €1.8 billion in June. Exports likely slowed from the stellar 15% y/y they printed in May because of the dock workers strikes in major Spanish ports over the month. While the effects are hard to quantify, we expect that the disruptions may have slowed exports substantially, since 60% of Spanish products are shipped from Spanish ports. Meanwhile, imports likely stayed relatively robust in June: Capital goods should have posted another strong month, surging by around 10% y/y.

WEDNESDAY, AUGUST 23

No major indicators are scheduled for this date.

THURSDAY, AUGUST 24

Spain: GDP (Q2; 8:30 a.m. BST)

We expect another fairly strong report out from Spain. Preliminary estimates showed that real GDP jumped by 0.9% q/q, which translates to 3.1% from a year ago. We upwardly revised our modest expectations from early this year, since the incoming data build a strong case for an expansion of 3% in 2017. We see solid export opportunities stemming from an upswing in global demand and stronger seasonal tourism which boosted services over the quarter. The strong expansion already shaved 1.6 percentage points from the headline unemployment figure, but we see no sign of strong recovery in wages. If employment keeps adding at this rate, the economy might pivot to a consumption-driven model.

U.K.: GDP Expenditure Breakdown (Q2; 9:30 a.m. BST)

We expect that the second estimate of the U.K.'s second quarter GDP growth will match the preliminary numbers, which showed that activity expanded by 0.3% q/q in the three months to June, up slightly from a 0.2% expansion in the first quarter. Risks are to the downside, though, since worse than forecast manufacturing and construction numbers for June mean that output in those sectors decreased by 0.6% q/q and 1.3%, respectively, both below the figures that fed into the preliminary estimate produced by the ONS. The expenditure details should show that consumer spending increased by only 0.2% q/q in the three months to June, slowing from a 0.4% increase in the first quarter, as real wages fell further into negative territory. Investment likely also disappointed; construction output fell sharply, and machinery and equipment capital expenditures should also have remained subdued given the poor results for factory growth, as well as the uncertainties surrounding Britain's exit from the EU. Net exports, meanwhile, are expected to have supported growth somewhat, rebounding from a drag of 0.8 percentage point at the start of the year; the volume of goods exports rose by 1.5% q/q in the three months to June, while goods import volumes increased by only 0.4%. In all, growth is expected to have been weak across the board in the second quarter.

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

France's job market is making progress despite a few speed bumps. We expect the number of job seekers dropped to 3.47 million in July after falling to 3.48 million in June. Annual numbers should maintain their downward trend as several reforms in 2015 and 2016 begin to bear fruit, including a tax credit and several measures to reduce labour costs. The labour market seems poised for a better year thanks to overall improvement in the economy and rising business and consumer confidence. Large year-over-year declines in youth unemployment are also encouraging. Additionally, President Emmanuel Macron's party, En Marche, has secured an absolute majority in France's National Assembly, giving it the political power to advance its labour market reforms, such as a revamp of hiring and firing legislation.

FRIDAY, AUGUST 25

Germany: GDP (Q2; 8:00 a.m. BST)

Preliminary estimates show that Germany's output growth motored along in the second quarter of the year. Real GDP grew by 0.6% q/q, after expanding by a revised 0.7% at the start of the year. The result slightly exceeded the Moody's Analytics forecast of a 0.5% gain. In year-ago terms, the expansion rate accelerated to 2.1% from an upwardly revised 1.9% in the three months to March. This is the fastest annual pace of growth since early 2014. Private and government consumption likely supported output growth. Fixed investment also increased compared with the first quarter, while net exports likely weighed on output growth. The outlook for this year is clouded, since the tailwinds supporting growth over the last few years will abate. But so far the German economy has been cruising through the turbulence of global geopolitics.many: GDP (Q2; 8:00 a.m. BST)

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ASIA-PACIFIC

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

Japan's mediocre inflation picture is little changed; soft wages make further gains unlikely

Japan's mediocre inflation picture is little changed; prices are barely rising though not falling into outright deflation either. Given the stubbornly soft wage situation and reluctance and limitations on the Bank of Japan to add further stimulus measures, this is probably as good as it gets.

The Bank of Korea's consumer sentiment index likely stayed in optimistic territory in August thanks to parliament's approving the government's KRW11 trillion (US$9.9 billion) supplementary budget aimed at creating jobs, especially for the young, and lifting economic growth during the survey period. However, already-heightened international tensions with North Korea escalated in August and probably caused households to become less upbeat, as has occurred in the past when tensions flared with the rogue state.

Household consumption and investment dragged on Thailand's second quarter. GDP likely slowed to 3% y/y from the March quarter's 3.3%. Private consumption and investment are both suppressed by the uncertainty surrounding the political and policy landscape. On the positive side, exports performed well in the second quarter, so net export growth will be a positive for headline GDP.

Bank Indonesia will keep the policy rate at 4.75% at its August policy meeting. The central bank has the flexibility to keep rates on hold through the remainder of 2017, even as other major central banks turn hawkish, because of its improved external position. We'll see if the central bank sticks a little closer to schedule in August, rather than keeping the public waiting for hours longer than usual as it did in July.

Thursday, August 17

Japan – Foreign Trade – July

Time: 9:50 a.m. AEST (Wednesday, 11:50 p.m. GMT)
Forecast: ¥150 billion
Japan's monthly trade surplus likely widened in July to ¥150 billion after it narrowed in the prior month to ¥81 billion. We expect export growth to continue accelerating but import growth to decelerate as commodity prices come off the boil. This should buttress the trade balance. Overall, improved global demand, particularly in the key markets of North America and China, is also boosting export values on a year-ago basis. The global tech cycle is in full swing, and Japan's tech firms are well-placed to deliver electronic goods across the supply chain.

Singapore – Foreign Trade – July

Time: 10:30 a.m. AEST (12:30 a.m. GMT)
Forecast: 9%
We expect Singapore's nonoil domestic export growth to have improved to 9% y/y in July, from 8.2% in June. Exports from the city-state have been growing strongly year to date thanks to stronger tech demand boosting electronics production. With a new wave of product launches scheduled, this trend will persist in the remainder of the year. Biomedical and specialty chemical exports should improve in the coming months as well.

Australia – Employment Situation – July

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 5.6% Unemployed
Australia's unemployment rate likely held steady at 5.6% in July. The Australian labour market has improved in the year to date, with jobs growth picking up. Particularly encouraging has been the uptick in full-time job creation. Given this, we look for the July jobs report to show that the underemployment rate fell from its record high. This will be the first step towards reducing the labour market slack that has suppressed wage growth in recent years.

Friday, August 18

Malaysia – GDP – 2017Q2

Time: 10:00 a.m. AEST (12:00 a.m. GMT)
Forecast: 5.1%
Malaysia's economy has lost a little steam from the burly pace in the March quarter. GDP growth likely cooled to 5.1% y/y in the June quarter, from 5.6% previously. We expect manufacturing growth cooled, after accelerating by 0.9 percentage point in the previous quarter to 5.6% y/y. Malaysia's economy is heavily exposed to the tech cycle so the bulk of the manufacturing gains were driven by tech, which is unlikely to have maintained that pace in June. Softer manufacturing should have flowed through to weaker consumption and export performance. For instance, Malaysian exports hit a six-month low in June. Full-year growth is forecast at 4.8% in 2017.

Philippines – GDP – 2017Q2

Time: 12:00 p.m. AEST (2:00 a.m. GMT)
Forecast: 6.8%
Philippine GDP growth likely accelerated to 6.8% y/y in the second quarter, compared with 6.4% in the opening three months of the year. The main boost will come from exports, which have been expanding rapidly in recent months largely because of stronger shipments of electronics. Meanwhile, domestic factors have remained conducive to strong growth. Private consumption will grow rapidly for the foreseeable future thanks to rising incomes and favorable demographics. Investment will also expand rapidly as a result of a mixture of private and government projects.

Taiwan – GDP – 2017Q2

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Forecast: 2.4%

Taiwan's economy has been somewhat sluggish, but data for the final month of the second quarter show signs of recovery. Exports of tech components were strong, and industrial production growth accelerated as a result. Taiwan's economy is feeling the rising tide across the Asia supply chain. Second estimates for Taiwan's second quarter GDP are likely to be upwardly revised to 2.4%, from the advance 2.1% estimate.

MONDAY, AUGUST 21

Thailand – GDP – 2017Q2

Time: Unknown
Forecast: 3%
Thailand's output growth likely slowed to 3% y/y in the second quarter after it expanded 3.3% in the three months to March. The slowdown will be driven by the weakness in private domestic demand. The uncertainty surrounding the political and policy landscape is suppressing private consumption and investment. On the positive side, exports performed well in the second quarter, so net export growth will be a positive for headline GDP.

TUESDAY, AUGUST 22

Indonesia – Monetary Policy – August

Time: Unknown
Forecast: 4.75%
Bank Indonesia will maintain the policy rate at 4.75% at its August policy meeting. The central bank has the flexibility to keep rates on hold, even as other major central banks turn hawkish, as a result of its improved external position. This is reflected in the improved performance of the stock market and rupiah and is the result of measures to foster narrower current account deficits, higher foreign exchange reserves, and a slower rise in private external debt. We'll see if the central bank sticks a little closer to schedule in August rather than keeping the public waiting for hours longer than usual as it did in July. There were suspicions the central bank was waiting to see what the European Central Bank, which was also meeting at the same time, would do, although official statements from BI said there was "no linkage to the ECB".

WEDNESDAY, AUGUST 23

Taiwan – Industrial Production – July

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Forecast: 3.8%
The regional tech upswing has boosted Taiwan's industrial sector. Manufacturers are producing components for assembly in China and for sale globally later this year. This may dissipate as orders are fulfilled later this year, but for now it is full steam ahead for component makers, as corroborated by positive sentiment surveys. Production likely rose 3.8% y/y, accelerating mildly from a 3.1% increase in June.

Taiwan – Domestic Trade – July

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Forecast: 0.5%
Taiwan's domestic spending faltered in June, but a recovery was likely in July. Household spending is likely to rebound on account of the improving economy, led by exports and the housing market. Consumer confidence is receiving a boost from the tech sector's resurgence, and this will encourage spending through the remainder of the year. Spending likely rose 0.5% in July, after a 1.8% drop in June.

THURSDAY, AUGUST 24

New Zealand – Foreign Trade – July

Time: 8:45 a.m. AEST (Wednesday, 10:45 p.m. GMT)
Forecast: NZ$550 million
New Zealand's monthly trade surplus likely widened a little to NZ$550 million in July, following the NZ$242 million surplus in June. Exports are powering ahead thanks to the surge in global prices. Volumes are also doing well (albeit at a slower pace) thanks to strong demand especially from China, the largest recipient of New Zealand's 'white gold'. Car imports, particularly of new vehicles, likely cooled a touch in July after the spike in June. However, we expect vehicle imports and consumer imports remained strong, reflecting upbeat domestic demand in an economy expanding roughly at potential.

Hong Kong – Foreign Trade – July

Time: 6:30 p.m. AEST (8:30 a.m. GMT)
Forecast: -HK$35 billion
Trade activity through Hong Kong's port showed signs of improvement in June, and this likely will carry through in the second half of 2017. Hong Kong's port still plays a big role in the region's tech supply chain, which expects high activity in the second half. Commodity imports are in a slump, though, as higher supplies in mainland China mute its demand. Hong Kong's trade deficit likely narrowed to HK$35 billion in July from HK$48.3 billion in June, in line with seasonal trends.

FRIDAY, AUGUST 25

South Korea – Consumer Sentiment Index – August

Time: 7:00 a.m. AEST (Thursday, 9:00 p.m. GMT)
Forecast: 103
The Bank of Korea's consumer sentiment index likely stayed in optimistic territory at 103 in August, following the brisk 111.2 recorded in July and 111.1 in June. July's survey was conducted before parliament approved the government's KRW11 trillion (US$9.9 billion) supplementary budget aimed at creating jobs, especially for the young, and lifting economic growth. However, already-heightened international tensions with North Korea escalated in August and probably caused households to become much less optimistic than they were in July, as has occurred in the past when tensions flared with the rogue state.

Japan – Consumer Price Index – July

Time: 9:30 a.m. AEST (Thursday, 11:30 p.m. GMT)
Forecast: 0.4% y/y
Japan's core consumer prices (excluding food) likely rose 0.4% y/y in July, unchanged from the pace in June and May. Headline CPI was likely also unchanged from June's pace at 0.3% y/y. Overall, Japan's inflation situation remains little changed, with prices barely rising but not falling into outright deflation either. Given the stubbornly mediocre wage situation and reluctance and limitations on the Bank of Japan to add stimulus measures, this is probably as good as it gets.

Singapore – Industrial Production – July

Time: 10:00 a.m. AEST (12:00 a.m. GMT)
Forecast: 9%
Singapore's industrial production growth is expected to have slowed to 9% y/y in July after 13.1% in June. Overall, the trend in manufacturing has remained strong throughout 2017 because of improvements in global demand. Electronics manufacturers have been the primary beneficiary, while the biomedical sector is also starting to experience an uptick in demand due to the improvements in the European economy. It also appears that the long run of declines in transport engineering output has come to an end, more because of low base effects than strengthening demand. A real turnaround will require a significant rise in oil prices, which we don't think is In the cards.

The Long View

The US: The average high-yield EDF metric recently closed at 4.31% — the highest finish since November 17, 2016's 4.32%, when the high-yield spread was at 501 bp

By John Lonski, Chief Economist, Moody's Capital Markets Research Group, August 17, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 112 bp is under its 122-point mean of the two previous economic recoveries. Further narrowing by this thin spread may be limited by more cash- or debt-funded acquisitions, spin-offs, stock buybacks, and dividends. Subpar growth by business sales and pretax profits will also add to credit risk, as will a rising risk of high-yield defaults.

The recent high-yield bond spread of 399 bp is less than what is inferred from the spread's macroeconomic drivers and the high-yield EDF metric, and a now higher VIX index. The implications for liquidity of regulatory changes merit scrutiny. If regulatory change enhances the market making capabilities of banks, corporate bond yield spreads may be thinner than otherwise.

DEFAULTS

After setting its current cycle high at January 2017's 5.82%, the US high-yield default rate has since eased to July's 3.6%. Moody's Default and Ratings Analytics team expects the default rate will average 3.1% in Q1-2018 and 2.9% in Q2-2018. 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.

The Long View

Second-quarter 2017's worldwide offerings of corporate bonds showed an annual percent decline of -6.7% for IG and an increase of +7.5% for high-yield, wherein US$-denominated offerings fell by -6.2% for IG and grew by +4.9% 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 2.8% annually for IG and may advance by 23.6% 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
August 17, 2017

Eurozone

The euro area's GDP growth neither surprised nor disappointed. The economy expanded 0.6% q/q in the three months to June, following downwardly revised 0.5% growth in the first quarter. Accelerating expansion in Spain and robust growth in Germany, France and also Italy contributed the most to the gain. German output continued to advance strongly in the second quarter, growing by 0.6% q/q, after expanding by a revised 0.7% at the start of the year. Italy performed exceptionally well in the first half of the year with the economy growing 0.4% q/q in the three months to June, double our forecast of 0.2% and matching the first quarter's reading. Growth was broad-based across all major components. Booming exports drove the headline, in line with the strengthening global economy, though domestic demand likely helped considerably. Political risks are subsiding, reform efforts are under way in France after Emmanuel Macron's party won the general election, and Italy's banking crisis seems contained for now.

The euro zone performed exceptionally well in the first half of 2017, but it would be unwise to think that the economy will keep expanding at this rate. The area's composite PMI for manufacturing and services suggests that the recent growth spurt lost momentum for a second month running in July. This could be a warning sign. Tightening monetary conditions may halt the economic recovery, while persistent labour market slack could keep household spending growth relatively subdued. The euro has strengthened by 12% against the dollar so far this year, undermining the price competitiveness of the euro zone's exports, while 10-year German government bond yields, a European benchmark, surged around 30 basis points over recent months.

Although the euro zone's jobless rate dropped in June to an 8½-year low of 9.1%, the high share of underemployed part-time workers and discouraged population of those unable to find work remain a concern. Without more job openings and a lower unemployment rate, wages won't increase much and domestic consumption will stay in the doldrums. . Although we have seen no signs of slowing trade with the U.K., despite the British decision to leave the EU, this may change in coming years after the U.K. formally withdraws from the EU and starts renegotiating trade deals. Similarly, though U.S.

President Trump has not yet introduced any measures against Germany or other European countries, the U.S. protectionist rhetoric poses a threat. Despite these headwinds, we expect the euro zone economy to expand 1.9% this year, surpassing the 2016 rate, before slowing to 1.6% in 2018.

With a higher true unemployment rate tamping down wage growth, core inflation could continue to surprise on the downside, delaying normalization of the ECB's monetary policy. After no change in forward guidance in July, we expect the ECB will likely announce its plans to taper asset purchases in September or October but continue its bond-buying program until at least June 2018. We don't expect the bank to start raising the deposit rate back into positive territory before the second quarter of 2018, when it terminates its purchases.

UK

Preliminary second quarter GDP numbers added to the increasing evidence that Britain's economic momentum will slow sharply this year following 2016's shocking EU-exit vote. Although real GDP expanded by 0.3% q/q in the second quarter, accelerating slightly from a 0.2% increase at the start of the year, we still assume that gains will average only 0.2% q/q in the second half of 2017. The details showed that growth depended entirely on services, while factory growth and construction declined. What's worrying is that the momentum in service is not expected to last, since its growth was mainly supported by a mean reversion in retail sales, which had plunged in the first quarter. Meanwhile, the decline in manufacturing confirms our fears that the economy will fail to rebalance from consumption towards foreign trade and investment.

This all but crushes the Bank of England Monetary Policy Committee's current expectations. And we cannot come up with a happier story: Unlike the MPC, we believe manufacturing will get little support from the slump in the pound. The uncertainty surrounding exit negotiations is sure to prevent investment from picking up strongly despite the weaker pound making U.K. assets more profitable for foreigners, while the fact that U.K. exporters raised prices sharply offset most of the competitiveness gains brought by the weaker currency. Leading and hard export data released since the start of the year have all disappointed, and that's despite the pickup in world trade, suggesting that sterling's latest depreciation has done practically nothing. In line with our expectations, the Bank of England kept its policy stance unchanged in August, leaving the bank rate at the record low of 0.25% and its target for asset purchases at £435 billion. The decision was supported by downward revisions to the outlook for growth and wages, while inflation expectations were raised only at the margin. With growth expected to disappoint in coming quarters, as real wages fall and Brexit-related uncertainty persists, the bank likely won't raise rates until at least the beginning of 2019. Fiscal policy will support the BoE's accommodative monetary policy. The government has abandoned its plan to close the budget deficit by 2020 and has confirmed plans to lower the corporate tax rate from the current rate of 20% to 17% by April 2020 and increase government spending to prop up waning economic activity.

Rising inflation and worsening labor market will weigh on household spending. Labour market figures added to the gloom of the previous data barrage, as they showed that real wages plunged further into negative territory in the quarter to May. Including bonuses, real pay growth shed 0.7% q/q, as nominal wage growth slowed to only 1.8% from 2.1% previously, and inflation peaked at 2.9% in May. It's true that, excluding bonuses, the drop in real wages was less pronounced, but we caution that this was because of distortions caused by the financial sector; wages deteriorated in all other sectors of the economy. Given that we expect inflation to average 2.8% this year and peak at 3.1% later this year, household spending—the engine of U.K. growth—should pull back in line with the deterioration in consumers' purchasing power. The outlook for wages, meanwhile, is dire. All hiring surveys point to a deterioration in pay settlements, especially for first hires, while anecdotal evidence shows that firms are unwilling to raise wages until they know more about the future relationship between the U.K. and the EU.

The forthcoming exit negotiations and anxiety about the U.K.'s future at home and abroad should keep sentiment about the general economic outlook for the next year in negative territory, with risks tilted to the downside depending on how negotiations go. Real GDP growth is expected to decelerate from 1.8% in 2016 to around 1.5% in 2017 and further to 1.2% in 2018 and settle around 1.8%, its new post-exit potential growth rate, around 0.2 percentage point lower than it would have been were the U.K. to stay in the EU.

ASIA PACIFIC

By Alaistair Chan and the Asia-Pacific Staff of Moody's Analytics
August 17, 2017

Broadly speaking, China's economy is performing adequately so far in 2017, but there are a number of risks on the horizon. The economy's strong performance in the first half of the year has prompted the International Monetary Fund to raise its 2017 GDP forecast for China to 6.7%, from 6.2% previously.

China's economy had a strong second quarter, but July data show a soft start to the third. Industrial production grew 6.4% year over year in July, after a 7.6% increase in June. Growth in investment in fixed assets also slowed, while retail sales grew 10.4% year over year, the slowest pace since October 2016.

As a result of the weak July data, our tracking model puts third quarter GDP growth at 6.1% year over year, down from a 6.9% expansion in the second. However, this is likely to be revised upwards with later data, as a number of factors suggest that the July slowdown was a temporary phenomenon. Tech manufacturers are in full production ahead of new products to be launched later this year. Manufacturer sentiment surveys point to growing orders and production, as do higher imports of tech components.

With the economy broadly performing as expected the government has mostly kept policy unchanged. That said, there have been a number of policy tweaks under the surface, seemingly to address certain risks in the economy. These measures have had the effect of turning away from market measures and more towards the official direction of the economy.

On the monetary side, the People's Bank of China has left its benchmark one-year deposit rate at 1.5% since rates were last reduced in October 2015 while banks' reserve ratios have held at 17% since March 2016. But there has been some movement behind the scenes. Since the start of 2016, the PBoC has been increasingly interventionist in interbank markets via open market operations, and so far this year it has been using OMOs to drain funds from the market. In 2016 the PBoC added CNY1.9 trillion to markets via OMOs, while so far in 2017 it has withdrawn CNY660 billion.

This has steadily pushed up interbank funding costs since late 2016: The overnight Shibor has risen 80 basis points to 2.8% since mid 2016. This has squeezed the supply of funds in the nonofficial banking sector. The nonofficial banking sector comprises, among other things, short-term financing vehicles such as entrusted lending, which can be used for productive purposes such as bridging finance, but can also be used to prop up over-indebted companies and roll bad debt indefinitely. The central bank has made clamping down on this practice a key goal. It is also deciding on more regulation for wealth management products, which offer higher interest rates for lenders but funds of which have been used for a variety of speculative purposes.

The yuan has also appreciated 3.7% against the dollar so far this year, although that likely reflects a lower dollar due to market expectations of delayed Fed tightening due to low U.S. inflation rather than yuan strength.

On the fiscal front, although government spending remains steady (it seems on track to stay close to its 3% budget deficit to GDP target for the year), administrative measures have had the effect of tightening nonofficial spending and investment. This can be seen most clearly in housing and heavy industry. Local governments have been steadily ramping up administrative measures on housing, and the central government continues its efforts to force consolidation in steel, coal and other sectors with overcapacity.

To offset the implicit tightening from these administrative measures, the government has ramped up infrastructure spending. Infrastructure spending as a share of total investment reached 22% in June, higher than the post-2008 crisis share.

Meanwhile, although the housing market is cooling, there are reasons to believe that conditions will heat up again. Transaction volumes have been falling, but recent high demand means that property developers' unsold inventories have been run down significantly. Inventories reached a 33-month low in July and could conceivably reach zero in a year. This again highlights the tough choices the government must make in either cooling the housing market or allowing it to run hot to soak up excess capacity in heavy industry.

Geopolitical issues are coming to the fore after a period of calm. Along with simmering tensions in the South China Sea, the potentially escalating conflict with North Korea is a key risk. The other key geopolitical risk is one of a trade war with the United States. The U.S. may potentially raise tariffs on Chinese imports in response to possible intellectual property violations. Although President Donald Trump has since downplayed the likelihood of a trade war, some targeted action on steel or other sectors could be in the cards.

Ratings Round-Up

By Njundu Sanneh

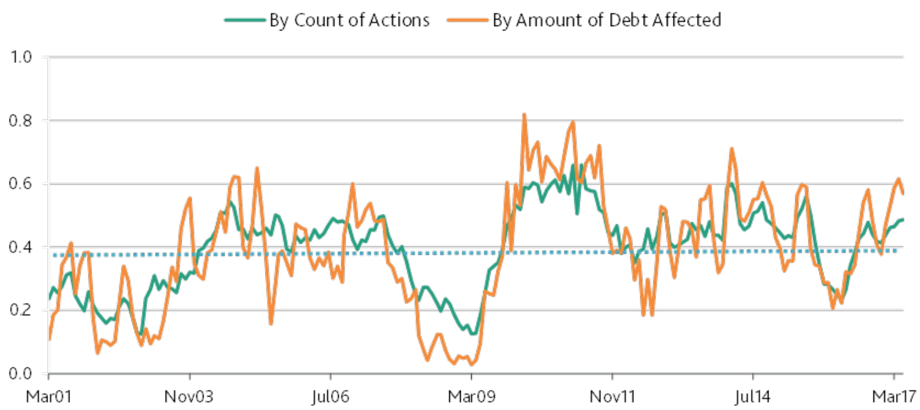
Strength in Corporate Credit Markets

The weekly rating changes continue to project strength in corporate credit markets, with the contribution of upgrades above the long-term historical average of 40% — 47% for the US and 100% for Europe. The deleveraging in the banking system in Europe is finally bearing fruit as banks have started obtaining more balanced funding structures, improved asset quality, and increased profitability. This was manifest in the upgrade of two Romanian banks last week. Commerzbank Finance & Covered Bond S.A. a subsidiary of Commerzbank and BRD – Groupe Societe Generale, a unit of Societe Generale were both upgraded, in part on account of the deleveraging over the past few years and improvements in asset quality and funding structure.

US rating changeswere dominated by the business and consumer services sector which accounted for five of the 17 total rating changes. Four out of the five business and consumer services companies were downgraded. Among the notable business consumer services companies was SeaWorld Parks & Entertainment, Inc. which was downgraded as a result of lower attendance and lower guidance. The company continues to struggle with its branding as it stops raising orcas and changes its show settings.

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

FIGURE 3 Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
8/9/17	BOISE CASCADE COMPANY	Industrial	SrUnsec/LTCFR/PDR	350	U	B1	Ba3	SG
8/9/17	FTS INTERNATIONAL INC.	Industrial	SrSec/LTCFR/PDR/BCF	787	U	B3	B1	SG
8/9/17	IHEARTCOMMUNICATIONS, INC. - Clear Channel International B.V.	Industrial	SrUnsec	450	D	B2	B3	SG
8/9/17	MCCORMICK & COMPANY,	Industrial	SrUnsec/MTN	1,055	D	A2	Baa2	IG
8/9/17	PC NEXTCO HOLDINGS, LLC - Party City Holdings Inc.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	350	U	B3	B2	SG
8/10/17	EXTENDED STAY AMERICA, INC. (NEW) - ESH Hospitality, Inc.	Industrial	SrUnsec/SrSec/BCF/LTCFR	1,300	U	B2	B1	SG
8/10/17	LONESTAR RESOURCES, INC. - Lonestar Resources America Inc.	Industrial	SrUnsec/LTCFR/PDR	152	U	Caa3	Caa2	SG
8/10/17	MKS INSTRUMENTS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	Ba2	Ba1	SG
8/10/17	NEUSTAR, INC	Industrial	LTCFR/PDR		D	Ba3	B1	SG
8/10/17	SEAWORLD ENTERTAINMENT, INC. - SeaWorld Parks & Entertainment, Inc.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
8/11/17	INC RESEARCH HOLDINGS, INC.	Industrial	LTCFR	405	D	Ba2	Ba3	SG
8/11/17	INC RESEARCH HOLDINGS, INC. - inVentiv Group Holdings, Inc.	Industrial	SrUnsec	405	U	Caa2	B2	SG
8/11/17	LSF9 ATLANTIS HOLDINGS, LLC	Industrial	SrSec/BCF		D	Ba3	B1	SG
8/14/17	AMERICAN ROCK SALT COMPANY LLC	Industrial	SrSec/BCF		D	B2	B3	SG
8/14/17	ELECTRO RENT CORPORATION	Industrial	SrSec/BCF		U	B3	B2	SG
8/14/17	STAPLES, INC.	Industrial	SrSec/BCF		D	Ba3	B1	SG
8/15/17	FLUOR CORPORATION	Industrial	SrUnsec	1,587	D	A3	Baa1	IG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

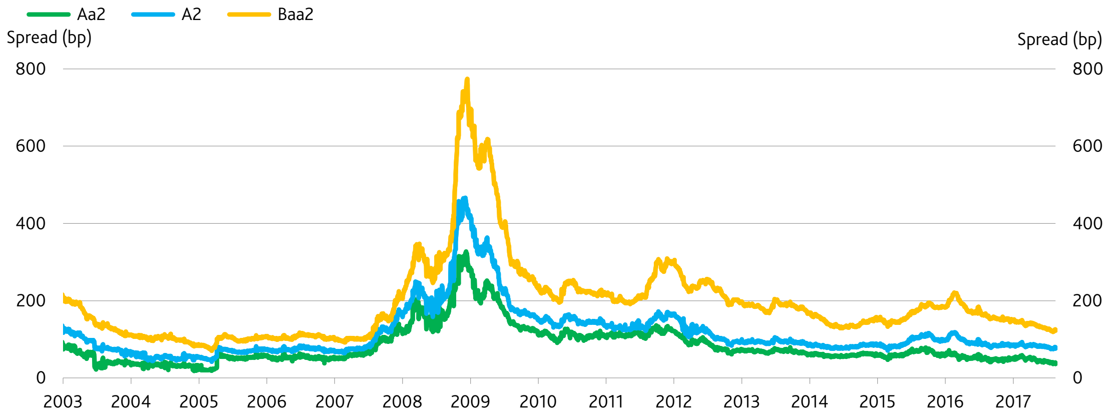
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	Old LGD	New LGD	IG/ SG	Country
8/10/17	NOVARTEX S.A.S.	Industrial	LTCFR/PDR	587	U	Ca	Caa3					SG	FRANCE
8/11/17	IENERGIZER LIMITED	Industrial	SrSec/BCF/LTCFR		U	Caa1	B3					SG	GUERNSEY
8/15/17	COMMERZBANK AG - Commerzbank Finance & Covered Bond S.A.	Financial	LTIR		U	Baa3	Baa1					IG	LUXEMBOURG
8/10/17	VEON LTD.- GTH Finance B.V.	Industrial	SrUnsec/LGD	2,400	U	Ba3	Ba2			LGD-4	LGD-3	SG	NETHERLANDS
8/9/17	ERSTE GROUP BANK AG - Banca Comerciala Romana S.A.	Financial	SLTD		U	Ba1	Baa3	NP	P-3			SG	ROMANIA
8/9/17	SOCIETE GENERALE - BRD - Groupe Societe Generale	Financial	SLTD		U	Baa3	Baa2	P-3	P-2			IG	ROMANIA

Source: Moody's

Market Data

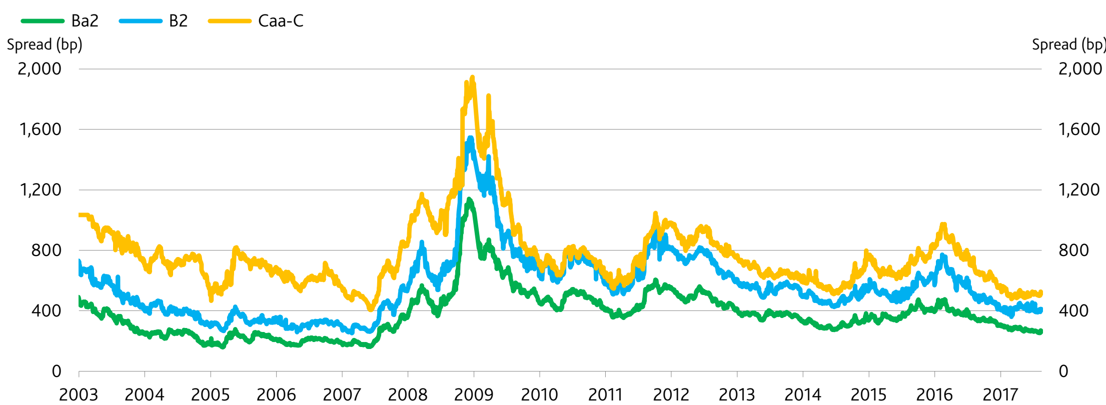
Spreads

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 (August 9, 2017 – August 16, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Aug. 16	Aug. 9	Senior Ratings
Altria Group Inc.	Aa3	A2	A3
Danaher Corporation	Aa3	A2	A2
JPMorgan Chase & Co.	A3	Baa1	A3
Verizon Communications Inc.	Baa2	Baa3	Baa1
Bank of America, N.A.	A3	Baa1	A1
John Deere Capital Corporation	A2	A3	A2
Comcast Corporation	A1	A2	A3
International Business Machines Corporation	A1	A2	A1
Exxon Mobil Corporation	Aa2	Aa3	Aaa
United Technologies Corporation	Aa2	Aa3	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Aug. 16	Aug. 9	Senior Ratings
Penney (J.C.) Corporation, Inc.	Ca	Caa2	B3
Toyota Motor Credit Corporation	Baa2	Baa1	Aa3
Enterprise Products Operating, LLC	Ba1	Baa3	Baa1
CCO Holdings, LLC	B1	Ba3	B1
CSC Holdings, LLC	B2	B1	Ba1
Apache Corporation	Ba2	Ba1	Baa3
Welltower Inc.	Ba2	Ba1	Baa1
McKesson Corporation	A3	A2	Baa2
United Rentals (North America), Inc.	B1	Ba3	Ba3
Applied Materials Inc.	Ba1	Baa3	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 16	Aug. 9	Spread Diff
Nine West Holdings, Inc.	Ca	7,163	6,141	1,022
Penney (J.C.) Corporation, Inc.	B3	871	698	173
McClatchy Company (The)	Caa2	1,178	1,122	57
K. Hovnanian Enterprises, Inc.	Caa3	1,022	973	49
Chesapeake Energy Corporation	Caa2	866	821	45
Neiman Marcus Group LTD LLC	Caa3	1,920	1,883	37
MBIA Insurance Corporation	Caa2	689	662	27
HealthSouth Corporation	B1	334	310	25
Dean Foods Company	B2	239	219	20
Weatherford International, LLC (Delaware)	Caa1	514	493	20

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 16	Aug. 9	Spread Diff
Sears Holdings Corp.	Caa3	3,484	3,637	-153
Sears Roebuck Acceptance Corp.	Caa3	3,342	3,489	-147
Hertz Corporation (The)	B3	898	987	-90
Frontier Communications Corporation	B2	1,081	1,130	-48
Avis Budget Car Rental, LLC	B1	352	392	-40
United States Steel Corporation	Caa1	373	402	-29
AK Steel Corporation	B3	379	405	-27
Sprint Communications, Inc.	B1	217	237	-20
CA, Inc.	Baa2	132	151	-19
Dell Inc.	Ba2	235	253	-18

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (August 9, 2017 – August 16, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Aug. 16	Aug. 9	Senior Ratings
KBC Bank N.V.	Aa3	A3	A1
Credit Agricole Corporate and Investment Bank	Aa2	A1	A1
Astaldi S.p.A.	Caa2	Ca	B3
Societe Generale	A1	A2	A2
Credit Agricole S.A.	Aa2	Aa3	A1
BNP Paribas	Aa3	A1	A1
Banco Popular Espanol, S.A.	Baa1	Baa2	Ba1
Telecom Italia S.p.A.	Ba1	Ba2	Ba1
Allianz SE	Aa1	Aa2	Aa3
AXA	Aa3	A1	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Aug. 16	Aug. 9	Senior Ratings
Danone	A2	Aa2	Baa1
Carlsberg Breweries A/S	A2	Aa3	Baa2
Finland, Government of	Baa2	Baa1	Aa1
Natixis	A1	Aa3	A2
Bayerische Landesbank	Aa3	Aa2	A1
Standard Chartered Bank	A3	A2	A1
Anheuser-Busch InBev SA/NV	A3	A2	A3
ENEL S.p.A.	Baa2	Baa1	Baa2
Vodafone Group Plc	Baa2	Baa1	Baa1
Deutsche Telekom AG	A2	A1	Baa1

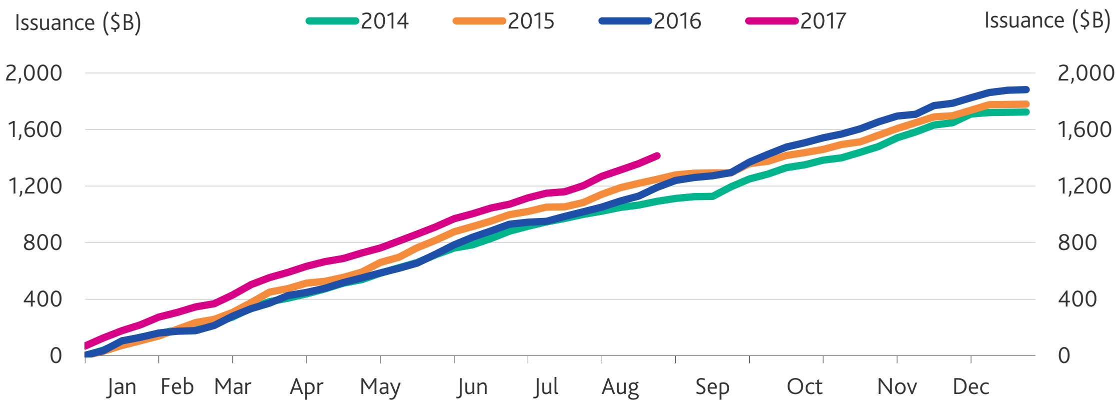
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 16	Aug. 9	Spread Diff
Jaguar Land Rover Automotive Plc	Ba1	147	122	25
Banco BPI S.A.	Ba3	223	202	21
Caixa Geral de Depositos, S.A.	B1	219	200	19
Tesco Plc	Ba1	135	126	8
Danone	Baa1	38	30	7
Banco Comercial Portugues, S.A.	B1	228	221	7
Rexel SA	Ba3	129	122	7
Bankia, S.A.	Ba1	81	75	6
Telefonaktiebolaget LM Ericsson	Ba1	142	136	6
Novafives S.A.S.	B3	322	317	6

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 16	Aug. 9	Spread Diff
Novo Banco, S.A.	Caa2	1,188	1,245	-56
Astaldi S.p.A.	B3	798	829	-31
KBC Group NV	Baa1	91	117	-26
Vedanta Resources plc	B3	424	442	-17
Fiat Chrysler Automobiles N.V.	B1	206	221	-14
Banco Popular Espanol, S.A.	Ba1	55	66	-11
CMA CGM S.A.	B3	449	460	-11
Evraz Group S.A.	B1	270	282	-11
KBC Bank N.V.	A1	33	42	-9
Barclays Plc	Baa2	71	79	-8

Source: Moody's, CMA

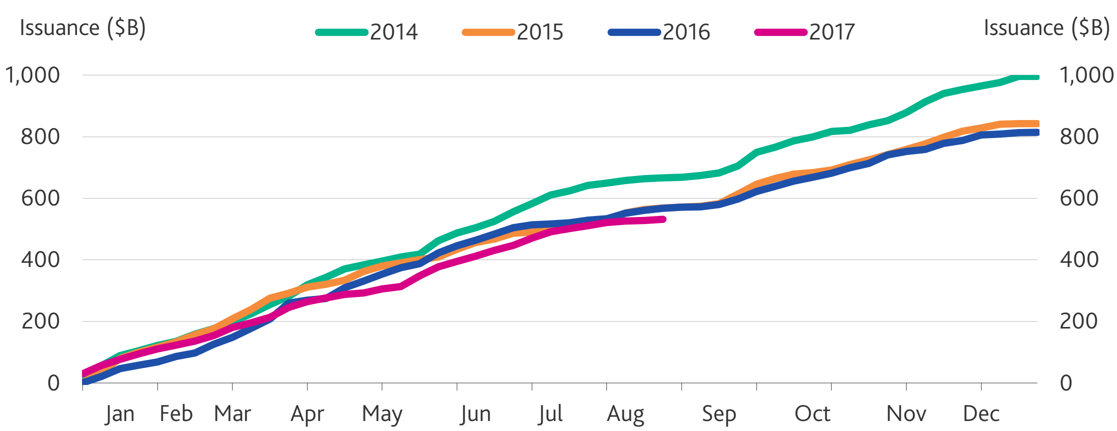
Issuance

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	42.816	8.795	55.788
Year-to-Date	1,009.209	282.453	1,413.810

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	3.966	0.000	4.017
Year-to-Date	442.421	61.483	531.480

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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