MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Moody's Capital Markets Research

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Jobs, VIX and Defaults Move Together

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Credit Markets Review and Outlook

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

Jobs, VIX and Defaults Move Together

Consensus forecasts of corporate bond yields are hard to come by. However, the Blue Chip Financial Forecasts publication supplies a consensus outlook for the long-term Aaa and Baa corporate bond yields.

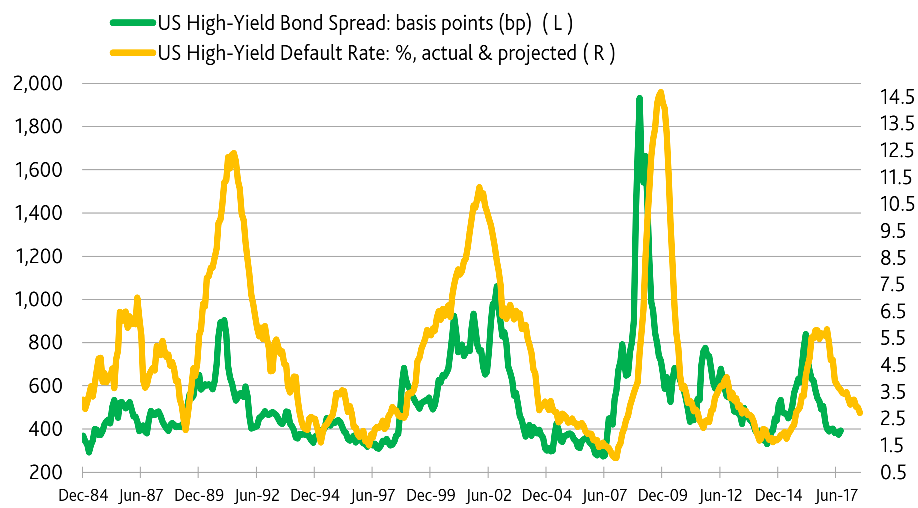
With the Baa category's prominent role in the corporate bond market, the consensus late August 2017 projection of a climb by the Baa yield from a recent 4.35% to a 5.44% average by 2018's final quarter deserves mention. As derived from the accompanying prediction of a climb by the benchmark 30-year Treasury yield from September 6's 2.72% to Q4-2018's 3.59%, the consensus implicitly foresees a widening by the Baa corporate bond yield spread from September 6's 166 bp to a Q4-2018 average of 185 bp.

In all likelihood, the consensus forecast of a 5.44% average for Q4-2018's long-term Baa yield may prove to be too high mostly because the accompanying benchmark Treasury bond yield may be considerably less than 3.59%. The projected jump by the long Treasury bond yield seems odd given the mildness of the expected rates of inflation and real economic growth. The consensus looks for GDP price index inflation to rise from 2017's 1.7% to 1.9% in 2018, as CPI inflation slows from 2.0% to 1.9%. Meanwhile, real GDP growth is projected to barely edge higher from 2017's 2.2% to 2018's 2.4%.

Another peculiarity of the consensus outlook for the Baa yield centers on the expected widening of the Baa spread, which contradicts the improved business outlook that is suggested by the Treasury bond yield's advance. To the contrary, a likely softening of business prospects implies prospective Q4-2018 averages of 185 bp for Baa-grade corporates and 2.80% for the 30-year Treasury bond yield, which equate to a 4.65% average for the long-term Baa corporate bond yield.

For now, however, the declining trend expected for the US high-yield default rate challenges forecasts of significantly wider yield spreads for medium- and speculative-grade corporate bonds.

Figure 1: High-Yield Bond Spread Reflects Expectations of a 3.2% Midpoint for the High-Yield Default Rate of 2018's First-Half



Liquidity, profits and industrial materials prices now steer default rate lower

The current cycle's trough for the US high-yield default rate averaged 1.8% from November 2014 through June 2015. The latter span was home to favorable fundamentals. For example, the moving yearlong average of nonfinancial-corporate profits from current production grew by 6.0% annually, on average, which was notably faster than the accompanying growth rates of 4.5% for nominal GDP and 5.0% for the gross-value-added of nonfinancial corporations. The somewhat faster growth of profits relative to gross-value-added widened profit margins to the benefit of corporate credit quality.

Credit Markets Review and Outlook

In response to a post-June 2015 bout of industrial commodity price deflation and a contraction by operating profits that extended beyond the hard-hit oil & gas industry, the high-yield default rate eventually peaked at the 5.82% of January 2017. A firming of industrial commodity prices, ample systemic liquidity, and a partial restoration of operating profits have since facilitated a slide by the default rate to the 3.6% of July 2017.

Nevertheless, the latest firming of industrial commodity prices has been uneven. Unlike the recent -10% discount of Moody's industrial metals price index to its record 12-month average of the span-ended September 2011, the recent price of WTI crude oil still trailed the current upturn's highest moving 12-month average (from the span-ended June 2014) by a much deeper -53%.

However, speculation, as opposed to end user demand, may be the primary driver behind the recent 29% year-to-year surge by Moody's base metals price index that includes a stunning 50% lift-off by copper's price. If true, then either an unwanted accumulation of base-metals' inventories or a renewed strengthening of the dollar exchange rate could send industrial metals prices noticeably lower.

Spreads reflect expectations of a lower default rate

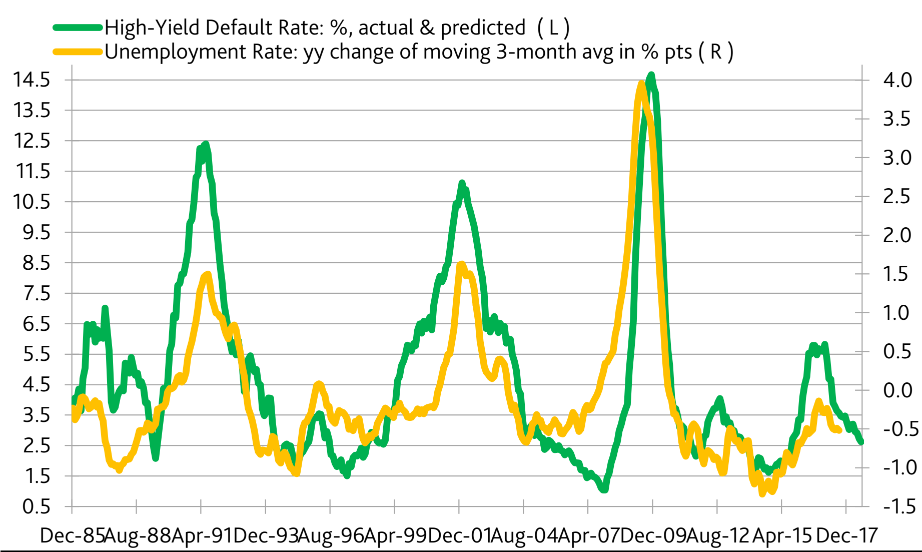
Both the analytical community and markets are confident of a further decline by the US high-yield default rate, though neither is willing to predict a return to the default rate's 1.8% average of November 2014 through June 2015. Moody's Default Research Group expects that the default rate will average roughly 3% during 2018's first half. In addition, the recent trend of a composite high-yield bond spread predicts a similar 3.2% midpoint for 2018's first half. (Figure 1.)

A composite high-yield bond spread serves as a useful, though less than perfect, predictor of the high-yield default rate six- to nine-months out. For example, the high-yield spread shows a correlation of roughly 0.77 with the default rate six to nine months hence. By contrast, the high-yield spread produces softer correlations of (i) 0.50 with the coincident default rate and (ii) 0.65 with the default rate of three months hence.

High-yield dreads yearly contractions by payrolls

Deep declines by core profits are not enough to guarantee a greater than 10% default rate and the presence of a recession. Only if the plunge by core profits triggers a yearlong shrinkage of payrolls and a yearlong climb by the unemployment rate will the combination of a double-digit percent default rate and a recession materialize.

Figure 2: High-Yield Default Rate Is Likely to Soar When the Unemployment Rate Rises Year-over-Year



The moving yearlong average of nonfinancial-corporate operating profits has sunk by at least -10% from its record high on five occasions since 1982. The high-yield default rate soared above 10% in only three of the five episodes showing a -10% drop by core profits from the relevant record high. What distinguishes the three episodes from the other two was an outright annual contraction by payrolls and a year-to-year increase by the unemployment rate. Not surprisingly, sustained contractions by employment and recurring climbs by the jobless rate constitute irrefutable evidence of recession.

Since nonfinancial-corporate core profits' yearlong average last peaked in Q2-2015, the jobless rate has dropped by -0.5 of percentage point annually on average, while payrolls have grown by 1.8% annually, on average. During the profits' slump of 1986-1987, the unemployment rate dipped by -0.2 of a percentage point, on average, as payrolls grew by 2.1% annually, on average.

By contrast, for those three episodes where the default rate climbed above 7.5% to a cycle peak in excess of 10%, the median annual changes were an increase of 1.3 percentage points for the jobless rate and a contraction of -0.6% for payrolls. (Figure 2.)

Thus, the damage inflicted by a contraction of profits on credit quality depends on labor market performance. For now, payrolls growth has been neither rapid enough to convincingly support a Fed rate hike nor slow enough to warn of a business cycle downturn.

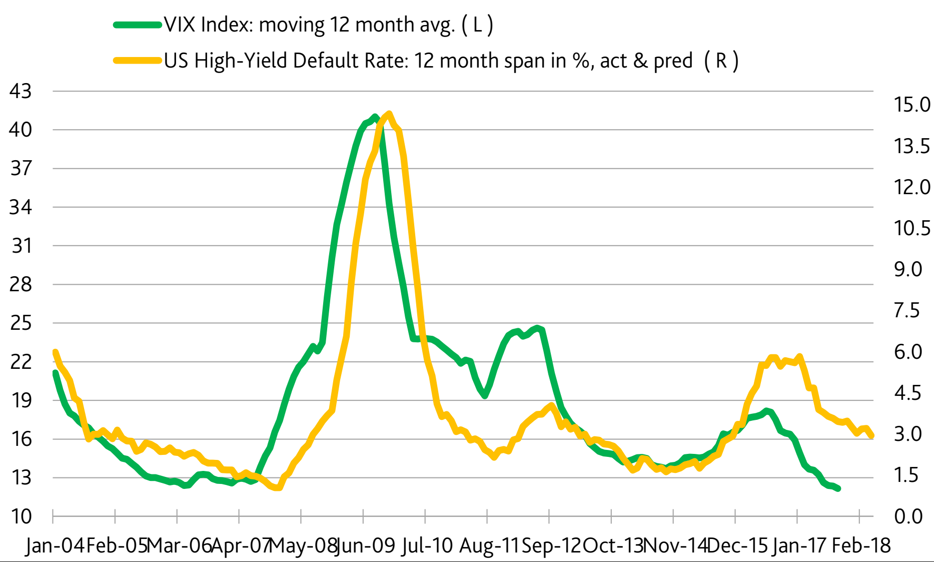
A very low VIX Index weighs against a higher default rate

The state of the equity market also helps to give direction to the default rate. A well-functioning equity market helps to assure ample liquidity. In the extreme case of infinite liquidity, defaults would be nonexistent.

To the degree business assets are attractively priced, financially-stressed firms will find it easier to obtain relief via injections of common equity capital. For example, firms can secure more cash through the divestment of business assets when equity markets thrive.

Thus, the record shows that the moving 12-month average of the VIX index tends to lead the high-yield default rate. Recently, the VIX index's moving 12-month average sank to a record low 12.2 points. As inferred from their long-term statistical relationship, if the VIX index's yearlong average remains under 13.25 points, the default rate is likely to dip under 2%. It may be premature to consider the possibility of a rising default rate until the VIX index's unprecedented slide is reversed. (Figure 3.)

Figure 3: High-Yield Default Rate May Dip Under 2% If the VIX Index's 12-Month Average Remains Under 13.25 Points



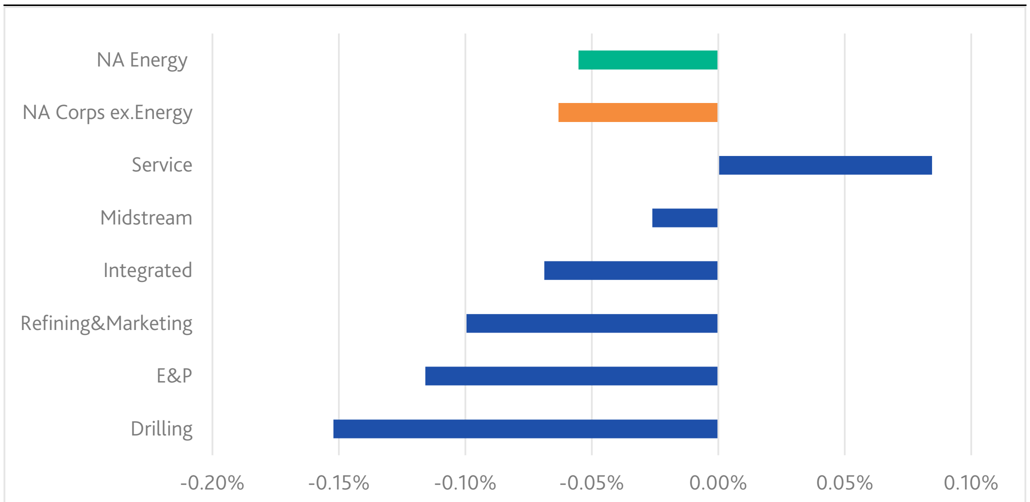
Topic of the Week

By David W. Munves, CFA, Managing Director, Moody's CreditEdge Research, Inc.
and Xian Li. Senior Research Analyst, Moody's CreditEdge Research, Inc.

Hurricane Harvey Update: Little Impact on US Energy Sector Default Risk

Although Hurricane Harvey unleashed devastation and human misery over large parts of Texas and Louisiana, it has had little impact on default risk in the North American energy sector, according to Moody's Analytics' public firm Expected Default Frequency (EDF™) probability of default metrics. The sector's average 1-year EDF has fallen by 0.06% from its level prior to Harvey's August 25 landfall, signaling a lower level of default risk. This is only slightly less than the drop for North American non-financial entities ex-energy over the same period — scarcely a sign of heightened risk. Most energy subsectors participated in the decline[1] (Figure 1).

Figure 1: Changes in average EDF levels for NA energy companies and NA non-financial entities ex-energy (Aug. 22-Sept. 5)



The sanguine picture of energy sector credit risk provided by EDFs is consistent with Moody's Analytics' view that, terrible as the storm's human and economic costs have been (the latter estimated at $108 billion in physical damage and lost production), the region's economy should bounce back relatively quickly. Moreover it's likely that Harvey will have only a minor impact on the US national economy.[2]

Harvey's impact on the energy sector

Southeastern Texas and Louisiana are home to 21% of the US's refining capacity. The region contains a large number of off- and onshore oil and gas wells, as well as shale energy rigs. So the headline focus on Harvey's impact on the energy sector is well placed.

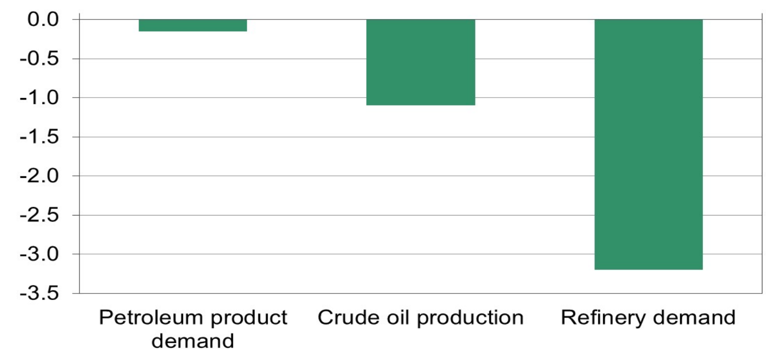
The hurricane caused an immediate drop of over three million barrels a day in refinery output (labeled "Refinery demand" in Figure 2), compared to smaller declines in the demand for petroleum products and crude oil production. But in keeping with the theme of rapid recovery, Moody's Analytics estimates that 45% of the refining capacity knocked out by Harvey is already back on line. This reflects the transitory nature of many of the issues affecting the facilities, such as loss of electric power and the difficulties many employees had in reaching their places of work immediately after the storm.

[1] All data is for North American energy firms (excluding coal operators) with annual sales of $50 million and above, and covers August 22 to September 5, 2017. All EDFs are 1-year metrics.

[2] The cost estimate and related conclusions cited here and elsewhere in this paper are from Mark Zandi and colleagues, as expressed on the September 5, 2017 Moody's Analytics webinar "The Economic Impact of Hurricane Harvey". The slide deck used in the presentation is available upon request.

Moody's Analytics expects that refinery profit margins will rise in the near term, benefiting entities in the Integrated and Refining & Marketing buckets. The main reason is that some refineries suffered more severe damage from Harvey, and will thus be slower to resume operations. The resulting reduction in industry capacity provides scope for the remaining players to increase prices for refined products. Indeed, consumers are already seeing the effect in the form of higher gasoline prices.[3]

Figure 2: Reduction in US energy sector activity post-Harvey (in millions of barrels per day)

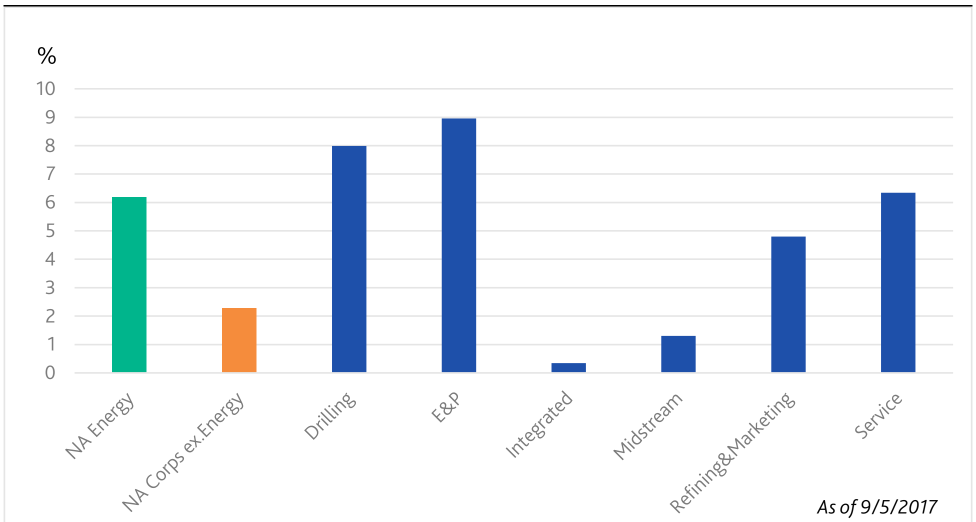


Sources: Goldman Sachs, Bloomberg, Moody's Analytics (from the slide deck for the presentation "The Economic Impact of Hurricane Harvey," Sept. 5, 2017).

Moody's Analytics forecasts that the price of energy will be higher in the months to come, due to the minimal drop in the demand for petroleum products per Figure 2, and the shutdown, mostly temporary in nature, of many offshore and shale oil and gas rigs. We believe that the demand for rigs will be strong, as higher energy prices will make it economical to resume drilling and production at many sites.

These factors underlie the falls in the average EDFs for most of the energy subsectors in Figure 1. However, the changes in EDF metrics shown in the Figure should be viewed in the context of the metrics' absolute levels (Figure 3).

Figure 3. Average EDF levels for NA energy and its subsectors, and NA non-financial corporates ex-energy (Sept. 5, 2017)

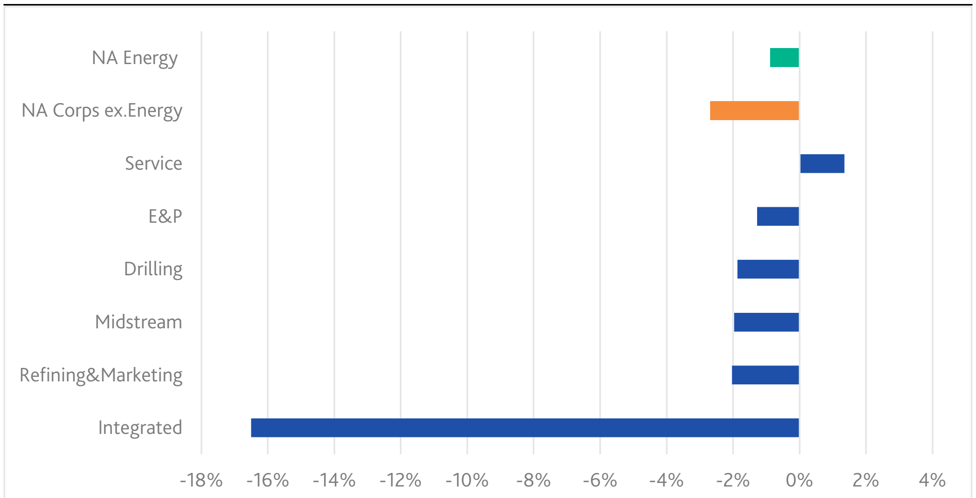


In particular, the Integrated sector's average EDF of 0.37% is the lowest of all the groups. Thus, despite the favorable outlook for such companies, its average sector EDF had a lot less room to fall in absolute

[3] The average price per gallon of gasoline has risen from $2.36 on August 21 to $2.68 on September 4 (US Energy Information Administration website https://www.eia.gov/petroleum/gasdiesel/)

terms compared to those for the Drilling and Exploration & Production groups. Putting the shifts in sector EDF changes on a percentage change basis (Figure 4) shows how favorably the markets have viewed Harvey-related developments for integrated players.

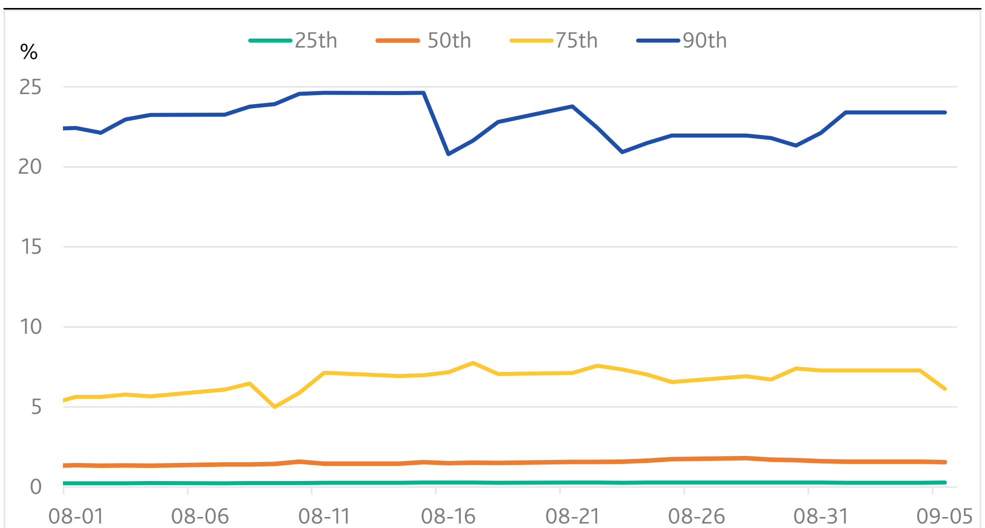
Figure 4. Average EDF level changes (on a percent change basis) for NA energy and its subsectors, and NA non-financial corporates ex-energy (Sept. 5, 2017)



Tail risk relatively unchanged

In past editions of Topics@CreditEdge we highlighted how CreditEdge clients can use the distribution of EDFs per sector to analyze the degree to which default risk is concentrated among the higher risk names, i.e., those in the "tail" of the distribution, and how this has changed over time.[4] We revisit this framework now, focusing on the Service subsector, the only one whose average EDF level has risen (Figure 5). While the sector's 90th percentile EDF level is indeed much higher than those for the other percentile bands — consistent with our findings that default risk is unduly concentrated in the tails of distributions, at least for the riskier sectors — the level has been in the same range since the beginning of August. This, of course, is in line with the conclusion set forth at the outset of this paper, namely that Harvey has had a minimal impact on US energy sector credit risk.

Figure 5: 25th, 50th, 75th, and 90th Percentile 1-year EDF levels for the Services subsector



[4] See, for example, Default Risk Rises in the Retail Sector (Munves and Choi, May 23, 2017) https://help.creditedge.com/hc/en-us/articles/115003494366-Topics-CreditEdge-Default-Risk-Rises-in-the-US-Retail-Sector, and Energy Sector EDF Measures Improve, Even as Oil Prices Remain Depressed (Munves and Choi, June 28, 2017) https://help.creditedge.com/hc/en-us/articles/115003477443-Topics-CreditEdge-Energy-Sector-EDF-Measures-Improve-Even-as-Oil-Prices-Remain-Depressed

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, September 4: The economic calendar is light. New data on factory orders and the trade deficit could have implications for second and third quarter GDP. Aside from the incoming data, we have second quarter GDP tracking 3.1% at an annual rate and the third quarter at 2.7%. We look for factory orders to have dropped 3.5% in July while the nominal trade deficit likely widened from $43.6 billion in June to $44.8 billion in July.

Initial jobless claims are set to spike because of Hurricane Harvey and will remain elevated for a few weeks. This may not occur for new filings in the week ending September 2, when we look for a 5,000 increase to 241,000. However, larger gains are coming. Hurricanes initially depress initial claims because they prevent claims from being filed and processed. This backlog is worked off in subsequent weeks, temporarily boosting initial claims. Because initial claims jump one to two weeks after a hurricane, we expect a sizable increase in initial claims because of Hurricane Harvey in the week ending September 9. Hurricane Harvey will affect a number of the high-frequency U.S. economic data.

Still, Hurricane Harvey's ultimate economic cost will not be accurately captured in either the regional or national statistics. For example, U.S. GDP will likely take only a small hit, if any, in the third quarter, and rebuilding will boost growth in the fourth quarter and early next year. This may seem at odds with current cost estimates of Harvey and past natural disasters, which can be enormous. For example, Hurricane Katrina's cost was 0.86% of U.S. GDP. However, there doesn't appear to be any discernable impact on actual GDP growth. That is because of what GDP measures. GDP is a measure of the nation's current production of goods and services. GDP is not directly affected by the loss of property, residential and nonresidential structures, or vehicles and equipment that were produced previously.

MONDAY, SEPTEMBER 4

No economic releases scheduled in observance of Labor Day

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TUESDAY, SEPTEMBER 5

Business confidence (week ended September 2; 10:00 a.m. EDT)

Forecast: N/A

Global business sentiment is strong and unwavering. As has been the case since before the U.S. presidential election, confidence is consistent with a global economy that is expanding above its potential. Indicative of businesses' optimism is that a strong 40% of responses to the nine questions posed in the survey are positive, while a very low close to 10% of the responses are negative. Sentiment remains strongest in the U.S. and Asia and weakest in South America.

Across the globe, the difference between the percentage of all positive responses and all negative responses to the nine survey questions came in at 34% last week and 32% on a four-week moving average basis. In the U.S., business confidence stood at 36% 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 of 20% to 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.

WEDNESDAY, SEPTEMBER 6

International trade (July; 8:30 a.m. EDT)

Forecast: -$44.8 billion
We look for the nominal trade deficit to have widened from $43.6 billion in June to $44.8 billion in July. Already, released data showed that the nominal goods deficit widened by $1.1 billion in July. Nominal goods exports decreased 1.3% following a 1.5% gain in June. Nominal goods imports fell 0.3% after dropping 0.2% in June. We look for the services surplus to have decline, albeit only slightly. Prior to the July nominal trade deficit, our high-frequency GDP model has net exports as a drag on third quarter GDP growth.

ISM nonmanufacturing index (August; 10:00 a.m. EDT)

Forecast: 56.1
The ISM nonmanufacturing index composite index fell from 57.4 in June to 53.9 in July. The index has been seesawing since the beginning of the year. Over the past few years, there have been instances when the index has posted a noticeable decline only to rebound in subsequent months. Also, the ISM survey captures changes in both services activity and sentiment. Confidence has weakened recently as the post-election boost has faded, so July's weakness may be capturing more changes in confidence than changes in actual economic activity. We expect the index to have recouped some of this decline, rising to 56.1 in August.

THURSDAY, SEPTEMBER 7

Jobless claims (week ending September 2; 8:30 a.m. EDT)

Forecast: 241,000
Initial jobless claims are set to spike because of Hurricane Harvey and will remain elevated for a few weeks. This may not occur for new filings in the week ending September 2, when we look for a 5,000 increase to 241,000. However, larger gains are coming. Hurricanes initially depress initial claims because they prevent claims from being filed and processed. This backlog is worked off in subsequent weeks, temporarily boosting initial claims. Because initial claims jump one to two weeks after a hurricane, we expect a sizable increase in initial claims because of Hurricane Harvey in the week ending September 9.

To get a sense of the timing and possible magnitude of the increase in new filings following Harvey, we look at how claims behaved following Superstorm Sandy (2012) and Hurricanes Katrina and Rita (2005). After these storms, new filings surged and remained elevated for some time. Therefore, initial claims likely will jump well above 300,000, potentially in the week ending September 9.

FRIDAY, SEPTEMBER 8

No major economic releases scheduled.

EUROPE

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

Summary, September 7: The strong euro currency poses an imminent threat to France's trade balance. Domestic consumption relies heavily on imported goods, and the stronger currency may cause imports to balloon. Latest estimates show that a €1 increase in domestic demand prompts 79 cents of increase in imports, leaving only 21 cents in the domestic economy. We think that the rally of the euro during July caused the trade deficit to slip somewhat. As France is not able to move up the value chain for most of its manufactured goods, its trade balance is currently in surplus only for services closely related to tourism, is marginally positive for agricultural products, and close to zero for intermediate goods.

The weak productivity numbers and modest employment increases mean the country's potential output growth is hovering around 1.1%, behind its euro zone peers such as Germany and Spain. Without structural reforms, firms have little incentive to invest into new technologies and foster industry automation, which would be critical to gain competitiveness and improve the external position.

The story is different for Germany. We believe that a bulk of German exports are more susceptible to exchange rate shocks, because they satisfy mainly non-euro zone demand. But not all of their exports are equally affected: Foreign demand for Germany's high-value-added exports in aircraft and motor vehicles doesn't react to changes in the exchange rate, which may partially offset the euro's effect on the trade balance. Against this background, we see a more moderate deterioration in Germany's trade surplus. We caution, though, that there is a chance that the strong sentiment might overstate the underlying trend of industrial production for Germany, so export prospects could be more modest as well. Imports should increase more quickly thanks to record high employment and the robust economy.

Off the release calendar, the coming week's highlight is the ECB meeting Thursday. We expect the bank will maintain its ultra-loose monetary policy mix of quantitative easing and zero interest rate. We do not see central bankers spelling out details about the future policy path just yet. They will likely turn a blind eye to the hike in headline inflation to 1.5% in August, and focus instead on anemic underlying inflation. The uptick in prices was largely due to volatile energy prices, while core inflation stood still at 1.3%. The unemployment rate, which held on at 9.1% in July, signals lingering spare capacities mainly in the periphery countries. We believe that the ECB will prepare the ground for gradual policy normalization by announcing in October its plan to taper asset purchases but to continue its bond-buying program until at least June 2018.

MONDAY, SEPTEMBER 4

No major economic releases are scheduled.

TUESDAY, SEPTEMBER 5

Euro Zone: GDP (Q2; 10:00 a.m. BST)

The euro zone's real GDP likely clocked at 0.6% q/q in the second quarter, up from 0.5% in the first. Aggregate demand should have led the gain, while net exports probably contributed less as the stronger euro hiked imports. Despite a tightening labour market, wages barely inched up in the euro area, and that could have dampened private consumption. We expect steady expansion for the rest of the year, with all euro zone economies predicted to tick along well. We forecast the euro zone to grow by 2.1% this year and 1.7% next year. In the longer term, the U.K. exit and a U.S. shift towards protectionism pose the greatest threats to growth.

Russian Federation: Consumer Price Index (August; 14:15 p.m. BST)

Prices likely remained tame in August, with little to no increase. We expect that inflation was slightly below the Bank of Russia's target in August. Early reports suggest that modest price deflation would not be out of the question. July data already confirmed that the one-off shock that hiked prices abated: Price inflation decelerated in July, with annual inflation dropping below the central bank's target policy rate. Absent of shocks, the strong ruble and weak domestic demand kept inflation muted over the month. The central bank's decision to hold rates seems to have done the job, with top-line inflation now back in line with the policy target. We stress that the seasonal food supply may have helped to keep inflation contained but that effect will fade in coming months, thus headline inflation may tick slightly up. Nevertheless, lack of price pressures is welcome news to the central bankers, who can deliberately cut the rates and provide stimulus to the economy while succeed in strengthening the public confidence in its policy framework.

WEDNESDAY, SEPTEMBER 6

No major economic releases are scheduled.

THURSDAY, SEPTEMBER 7

Germany: Industrial Production (July; 9:00 a.m. BST)

German industrial production likely recovered at the start of the third quarter, rising 0.5% m/m, after dropping by 1.1% in June. In year-ago terms the rate of increase is expected to have accelerated to 3% from 2.5% at the end of the second quarter. German manufacturing surprised on the upside, advancing by 1% m/m in July following a 1.4% drop in June. Domestic orders drove the improvement, while foreign orders fell during the month. The Markit manufacturing PMI slid to a five-month low of 58.1 in July from 59.6 in the previous month, but remained strong and continued to point to improvement in business conditions. Details of the survey showed that new orders rose strongly, albeit at a weaker rate than in the previous month. The outlook remains clouded as uncertainty caused by the Brexit negotiations and appreciating euro could curb the German manufacturing sector.

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

The ECB will likely make no significant changes to its monetary policy in September. We expect that central bankers will keep all three policy rates and monthly asset purchases unchanged. Subdued underlying inflation due to tepid wage growth, still-weak credit growth, and a strengthening euro has restrained the ECB from increasing its policy rates. The bank will likely announce plans in October to taper asset purchases but continue its bond-buying program until at least June 2018. The governing council is likely waiting for the staff report, which analyzes all options for possibly winding down monthly bond purchases. We don't expect the central bank to start raising the deposit rate back into positive territory before the second quarter of 2018, when it terminates its purchases.

FRIDAY, SEPTEMBER 8

France: Industrial Production (July; 7:45 a.m. BST)

France's industrial production likely bounced back 0.8% in July, following a 1.1% decline in June. We see a broad-based rebound in production, in no small part due to manufacturing returning to its underlying trend. The PMI for industry jumped to 55.8 in August from 54.9 in July, pointing to better prospects. July's upbeat numbers confirm our view that factory growth will gather pace in the second half of 2017, in line with the stellar survey data. If that is sustained for the rest of the third quarter, the French economy could keep a steady course in the second half of the year with around 0.5% quarterly GDP growth.

Spain: Industrial Production (July; 8:00 a.m. BST)

Industrial production likely flatlined in July, as the energy sector retreated during the month after being a boost in June. The recent appreciation of the euro warrants some cooling in industrial production as global demand slows. The latest GDP data suggest that Spain's stellar GDP growth had little to do with industrial output, which registered at 2% y/y in the three months to June, slower than the 3.1% surge in GDP. But we see signs of easing in the third quarter. Equipment investment already declined from 7% y/y from the opening stanza to 6.2% y/y in the second, while capacity utilization also ticked down. Industry confidence deteriorated to -1.8 percentage point in July, down significantly from the positive balance of 0.3 percentage point in the opening quarter.

U.K.: Industrial Production (July; 9:30 a.m. BST)

We forecast that U.K. industrial production stayed on track and rose by 0.3% in July. The healthy expansion is warranted by thriving sentiment in industry, with the European Commission's sentiment gauge staying close to its post-crisis high. Despite July's solid reading, we still expect that the lower pound will fail to provide much stimulus, as manufacturing is still down by around 1.2% since the start of the year. Rising prices and falling wages will keep a lid on aggregate demand and weigh on industrial production. We believe that foreign demand will not add much, since exporters hiked prices quickly after the referendum vote, offsetting any benefit the pound's depreciation would have had on the prices of U.K. goods in the world market.

Germany: Foreign Trade (July; 9:00 a.m. BST)

Germany's trade surplus likely narrowed to €20.5 billion in July after expanding to €21.2 billion in the previous month, and it was lower compared with €29.4 billion in July 2016. Continued global geopolitical tensions and worries over the U.K. exit from the EU will likely drag on foreign demand for German products this year. Moreover, the euro has been gradually gaining against the dollar, strengthening to $1.15 in July from $1.12 in the previous month and exceeding the $1.1 in July 2016, which likely weighed on German exports. At the same time, strengthening economic activity is boosting imports. Germany's GDP grew 0.6% q/q in the second quarter of 2017, following an upwardly revised 0.7% gain previously. In year-ago terms, the growth rate accelerated to 2.1%, the fastest since early 2014. Net exports contracted in the second quarter because of a steep increase in imports, while exports rose to a much lesser extent.

ASIA-PACIFIC

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

China's activity data likely bounced back in August

China's activity data likely bounced back in August after July's sudden momentum loss. The uptick in industrial production is corroborated by August's official Purchasing Managers' Index, which rose further into expansionary territory. The main positive for production in recent months has been the electronics sector, driven by the upswing in the global tech cycle. Motor vehicle production has also been robust, thanks to a surge in domestic SUV demand. Retail trade also likely improved in August. Consumers likely increased purchases of big-ticket items such as automobiles and furniture after a surprisingly strong pullback in July. The medium-term consumption outlook has softened amid cooling activity in Tier 1 and Tier 2 housing markets, as buoyant housing demand was lifting spending on household items.

Australia's unemployment rate was likely steady at 5.6% in August. The labour market has improved throughout the year to date, mainly on stronger growth in full-time jobs. August's employment report will also contain the quarterly underemployment rate. When it was last published, the rate was at a record high. Given the improvement in full-time job growth, we look for labour market underutilization to have fallen slightly.

Japan's machinery orders likely increased in July, partially reversing June's decline. The annual trend in machinery orders has improved in 2017 thanks to the pickup in global demand. The uptick in the global tech cycle will buttress export orders, although investment is unlikely to rise sharply. Machinery orders generally lead capital investment by six to eight months.

India's consumer price inflation likely accelerated slightly in August. India's disinflation trend has likely troughed, and base effects will come into play that will increase the consumer price index in coming months. That said, low food and energy prices will ensure that inflation remains below the Reserve Bank of India's 4% target.

THURSDAY, SEPTEMBER 7

Australia – Foreign Trade – July

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: A$1.2 billion

Australia's trade surplus likely widened to A$1.2 billion in July from A$960 million in June. Exports growth likely rebounded after easing in June. The overall trend in shipments from Australia has been strong in the year to date as global demand has picked up. However, the recent appreciation of the Australian dollar could be an impediment to exports because of the increase in the relative cost of Australian goods. Import demand has been strong as well.

Australia – Retail Sales – July

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 0.5%
Australian retail sales growth likely accelerated to 0.5% in July from 0.3% in the prior month. The overall trend in household consumption has been positive in the year to date. Underlying this uptick has been the improvement in labour market conditions. Full-time job growth has been much improved in 2017 after a disappointing 2016. For the positive pattern in consumer spending to be maintained, jobs growth will need to continue over the next 18 months, bringing down the record high unemployment rate and pushing up wage growth.

FRIDAY, SEPTEMBER 8

China – Foreign Trade – August

Time: Unknown
Forecast: US$49 billion
Trade activity is growing at a robust pace, thanks to recovering global demand and steady domestic demand. Exports of tech products will increase further since global tech demand is strong, and this is lifting the trade surplus. Further gains are expected as the holiday season draws near, as foreshadowed by higher imports of tech components. The trade surplus likely rose to US$49 billion in August, from US$46.7 billion in July.

Japan – GDP – 2017Q2

Time: 9:50 a.m. AEST (Thursday, 11:50 p.m. GMT)
Forecast: 0.8%
Japan's second estimate of the June quarter will likely be revised down from 1% q/q to 0.8%. The downward revision stems from more data being available on capital investment, which will likely lower private investment from its surge in the first estimate. Overall, despite a downward revision, the economy remains in a healthy place, especially compared with the previous year.

Australia – Housing Finance – July

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 0.3%
Growth in owner-occupied housing finance commitments likely eased to 0.3% in July from 0.5% in June. Financing commitments having been softening throughout the year. This is consistent with a housing market that has cooled slightly from 2016's blazing pace, reflecting increased regulatory scrutiny and tighter macroprudential standards for investors and restrictions on foreign buyers. On a geographical basis, Sydney and Melbourne will continue to be the most consistent sources of new financing commitments for the next 18 months. Longer term, there is uncertainty about how the incoming supply of apartments will affect the market.

Taiwan – Foreign Trade – August

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Forecast: US$5.1 billion
Export growth, after reaching a recent peak of 27.6% in February in year-ago terms, has faded in recent months. With exports expected to moderate further, in line with softening export orders and weaker demand from China, and imports likely to lift as domestic demand improves, we expect the August trade surplus to ease towards US$5.1 billion from US$5.4 billion in July.

SATURDAY, SEPTEMBER 9

China – Consumer Price Index – August
Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 1.6%
Consumer price inflation in China has been quiescent on account of low energy costs and stabilising housing-related inflation. A rebound in food inflation is pushing up prices, but outside of food, inflation is stable. Producer price inflation is cooling now that domestic commodity suppliers have ramped up output. Consumer prices likely rose 1.6% y/y in August, after a 1.4% increase in July.

China – Producer Price Index – August
Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 5.3%
China's producer price inflation has been steady over the last few months, with higher commodity prices offsetting lower food inflation. That dynamic looks to be reversing as domestic commodity producers boost output. The government's cooling measures on housing are also dampening demand for raw materials. Producer prices likely rose 5.3% in August, after 5.5% in July.

MONDAY, SEPTEMBER 11

Japan – Machinery Orders – July
Time: 9:50 a.m. AEST (Sunday, 11:50 p.m. GMT)
Forecast: 2.2%
Japan's machinery orders likely increased 2.2% in July after June's 1.9% m/m drop. The monthly series is volatile and generally leads capital investment by six to eight months. Looking past the recent weakness, the year-ago trend in machinery orders has increased in 2017 thanks to the pickup in global demand. The uptick in the global tech cycle will buttress export orders, although investment is unlikely to rise sharply.

Malaysia – Industrial Production – July
Time: 2:00 p.m. AEST (4:00 a.m. GMT)
Forecast: 4.3%
Malaysian industrial production likely picked up in July to 4.3% y/y from a 4% gain in June. Manufacturing is the bright spot thanks to strong global tech demand and Malaysia's exposure given its large integrated circuit sector. This is helping offset softness and volatility in the petroleum, chemical and rubber sector, which is struggling with softness in commodity prices, especially for crude. Food and beverages are expanding at a decent clip and are a good barometer of domestic demand, which is hovering around where we estimate potential to be.

Japan – Industry Activity Indexes – July
Time: 2:30 p.m. AEST (4:30 a.m. GMT)
Forecast: 0.3%
Japan's industrial orders likely rose 0.3% m/m in July after a flat reading the month prior. Year-ago gains remain consistent because the economy is in a better position this year compared with last year. Wholesale trade has risen on the back of higher energy prices, which have been compounded by the yen's recent depreciation. Higher costs of imported goods are adding to wholesale prices.

TUESDAY, SEPTEMBER 12

India – Consumer Price Index – August
Time: 10:00 p.m. AEST (12:00 p.m. GMT)
Forecast: 2.7%
India's consumer price inflation likely accelerated slightly in August to 2.7% y/y after a 2.4% gain in July. Overall, India's disinflation trend has likely troughed, and base effects will come into play that will increase the consumer price index in coming months. That said, low food and energy prices will ensure that inflation remains below the Reserve Bank of India's 4% target.

India – Industrial Production – July

Time: 10:20 p.m. AEST (12:20 p.m. GMT)
Forecast: 2.2%
India's industrial production likely rebounded to 2.2% y/y in July after June's 0.1% drop. The decline in production stems from persistent supply bottlenecks and the inability of corporations to take on more investments as they struggle to pay off previous debts. It's been a double whammy for manufacturing, which is still reeling from demonitisation late last year while adjusting to the new goods and services tax.

Philippines – Industrial Production – July

Time: Unknown
Forecast: 7.3%
While industrial production growth has eased through the first half of 2017, the medium-term outlook for the Philippines' manufacturing sector remains bright. In large part, that reflects a likely pick up in capital expenditure, which should provide a boost to local manufacturing. Domestic demand also remains on a solid footing, keeping food production buoyant, the largest component of the industrial production survey. Industrial production on a volume basis, is likely to lift 7.3% y/y in August from 8.1% y/y in July.

WEDNESDAY, SEPTEMBER 13

South Korea – Employment – August

Time: 9:00 a.m. AEST (Tuesday, 11:00 p.m. GMT)
Forecast: 3.8% unemployed
South Korea's unemployment rate has edged lower in recent months on the back of firmer economic growth in the first half of 2017. However, employment growth has ebbed recently, in line with dimming consumer confidence on labour market prospects. We expect the unemployment rate to have edged up to 3.8% in August from 3.6% in July.

THURSDAY, SEPTEMBER 14

Australia – Employment Situation – August

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 5.6% unemployed
Australia's unemployment rate was likely steady at 5.6% in August. The labour market has improved throughout the year to date. This has been characterized by a rebound in full-time job growth after a 2016 in which new jobs were concentrated in part-time roles. The improvement has pushed down the jobless rate and pushed up the proportion of employed working-age people, both signs of a tighter labour market. August's employment report will also contain quarterly figures on the underemployment rate. When it was last published, the rate was at a record high. Given the improvement in full-time job growth, we look for labour market underutilization to have fallen slightly. But for this to continue and for wage growth to pick up, the improvements in labour market conditions will need to be sustained into 2018.

China – Fixed Asset Investment – August

Time: 12:00 p.m. AEST (2:00 a.m. GMT)
Forecast: 8.4%
We expect China's fixed asset investment to have nudged up, to 8.4% y/y, in the year to August, compared with 8.3% in July. July's slowdown was overstated, as there was a slowdown in all subindexes. The main driver of investment growth in the year to date has been manufacturing, which is benefiting from the general improvement in global demand. Another positive will be mining-related investment, which has passed its trough amid efforts to reduce overcapacity. Over the rest of the year, though, we anticipate that investment growth will ease more as the government's focus shifts increasingly towards financial stability, which will restrict the investment of state-owned enterprises.

China – Industrial Production – August

Time: 12:00 p.m. AEST (2:00 a.m. GMT)
Forecast: 6.6%
China's industrial production growth likely bounced back to 6.6% y/y in August after July's 6.4%. The uptick in growth is corroborated by August's official Purchasing Managers' Index, which rose further into expansionary territory. The main positive for production in recent months has been electronics, driven by the upswing in the global tech cycle. Motor vehicle production has also been robust, thanks to a domestic surge in SUV demand. The main risk to production the rest of the year will be from construction, as easing residential property prices may put downward pressure on building activity.

China – Retail Sales – August

Time: 12:00 p.m. AEST (2:00 a.m. GMT)
Forecast: 10.8%
China's retail trade likely accelerated to 10.8% y/y in August after a 10.4% gain in July. Consumers likely increased purchases of big-ticket items such as automobiles and furniture after a surprisingly strong pullback in July. The medium-term consumption outlook has softened amid cooling activity in Tier 1 and Tier 2 housing markets, as buoyant housing demand was lifting spending on household items. Momentum in housing is shifting to lower-tier cities, and consumers there are unlikely to be able to raise spending sufficiently to offset more cautious consumers in big cities.

India – Wholesale Price Index – August

Time: 4:45 p.m. AEST (6:45 a.m. GMT)
Forecast: 2.5%
India's wholesale price inflation likely accelerated in August to 2.5% y/y from July's 1.9% rise. Base effects which caused inflation to decelerate sharply are over, and the overall index will likely rise on a year-ago basis. Food inflation will likely remain capped because vegetable prices have been low thanks to ample food supply. Energy prices have risen in 2017 but will likely ebb for remainder of the year since global commodity prices have fallen again.

FRIDAY, SEPTEMBER 15

China – Monetary Aggregates – August

Time: Unknown
Forecast: 9.2%
China's M2 money supply growth likely came in at 9.2% y/y in August, unchanged from the pace in July. Money supply has been cooling since mid-2016, although lower base years will start to disguise the softening trend. Slower credit growth suggests reduced investment and GDP growth next year. This slowdown appears officially sanctioned as the government and central bank continue to dissuade growth in shadow financing, especially related to heavy-industrial producers. Credit growth is remaining relatively high due to continued bank lending, but nonbank credit growth is under pressure partly because of increased government scrutiny.

Indonesia – Foreign Trade – August

Time: Unknown
Forecast: US$1.45 billion
Indonesia's monthly foreign trade balance likely rose back into surplus at US$1.45 billion in August after the US$270 million deficit in July. That was Indonesia's first deficit in 19 months and was largely due to the earlier timing of Ramadan, which occurred in June this year. The holiday disrupted shipments, with falls particularly in crude oil volumes. We expect a return to usual export and import annual growth in August, but crude oil values will keep struggling, a reflection of ongoing softness in prices.

India – Foreign Trade – August

Time: Unknown
Forecast: -US$11.2 billion
India's trade deficit likely narrowed in August to US$11.2 billion from July's deficit of US$11.5 billion. Exports continue to grow on a year-ago basis although they have slowed in recent months. Imports

remain firm, especially on the back of higher fuel costs and increased gold imports. During tougher economic conditions, Indian consumers tend to hoard gold. The recent economic slowdown could be one reason why gold imports have risen.

The Long View

The US: September's investment-grade bond issuance got off to a vigorous start

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
September 7, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 119 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 396 bp is less than what is inferred from the spread's macroeconomic drivers and the high-yield EDF metric, and a somewhat 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.

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.

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 3.9% annually for IG and may advance by 23.3% 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 (August 31, 2017)

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, 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. After stellar growth in the second quarter, the expansion should moderate a bit in current quarter. The area's composite PMI shrank slightly so far in the third quarter compared with the reading the three months to June, though it remains robust. Weaker data suggest that the recent growth spurt lost some momentum and may be a warning sign. Tightening monetary conditions could halt the economic expansion, while persistent labour market slack could tamp down household spending growth. The euro has appreciated by 14% against the dollar this year, undermining the price competitiveness of the euro zone's exports.

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. Despite these headwinds, we expect the euro zone economy to expand 2% this year, surpassing the 2016 rate, before slowing to 1.7% in 2018. 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.

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. The ECB will likely postpone its announcement of changes to its asset-purchase program until October, given the strong euro and dovish speech by ECB President Mario Draghi in Jackson Hole WY. Draghi has repeatedly said that the bank will decide in the autumn, and although that could mean September or October, we don't expect the ECB will change its forward guidance in September. Instead, he may express concern over the euro's strength. If Draghi were to announce an exit from quantitative easing in September, the euro would likely appreciate to $1.20 or even higher. This would tighten monetary conditions, derail progress on inflation, and hold back economic growth. In October, however, central bankers will have to be clear on how they want to adjust the asset purchases after 2017. We expect the bank will steadily cut the monthly amount of QE from its current €60 billion by possibly €10 billion a month, and extend purchases beyond 2017. The bank should gradually phase out purchases from January to June.

UK (August 31, 2017)

Britain's preliminary second quarter GDP numbers added to the increasing evidence that economic momentum will slow sharply this year following 2016's unexpected EU-exit vote. The country's GDP expanded by 0.3% q/q in the second quarter, accelerating slightly from a mere 0.2% increase at the start of the year. The impact of the British public's decision to leave the EU will increasingly become visible in the economy. The sharp depreciation in the British pound has increased consumer prices and dampened consumer spending. The pullback in spending will dent growth in consumer-related services, as real wages decline. Furthermore, U.K. banks have started to restrict the supply of unsecured credit and the Bank of England's Term Funding Scheme, which was put in place in August 2016, will finish by February. This should restrict the amount of lending to the economy further.

Britain's manufacturing will get little support from the slump in the pound, as manufacturers have raised prices rapidly to compensate for higher import costs, offsetting most gains to U.K. competitiveness from the weaker currency and failing to offset the negative effects on domestic demand from imported inflation. The labour market is expected to gradually deteriorate over the next few years as weak economic growth narrows profit margins, prompting companies to scale back hiring, causing the headline ILO-harmonized unemployment rate to grind higher from around 4.5% in mid-2017 to more than 5% by the end of the two-year negotiation period. Deteriorating corporate earnings will also drag on stock prices, with the FTSE 100 underperforming for the next two years.

Despite the slump in sterling and the associated rise in inflation, the weakening British economy is expected to keep the BoE on the sidelines. With U.K. economic growth projected to disappoint in the coming quarters amid exit negotiations, as the resulting uncertainty impacts businesses' hiring and investment decisions, we expect the central bank to keep the key monetary policy rate at 0.25% until the beginning of 2019. Meanwhile, 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 and increase government spending to prop up waning economic activity. Although lower revenues and higher spending will mean Britain will take several more years to balance its books, the BoE's ultra-accommodative monetary policy will help to temper the rise in borrowing costs in the next few years, with the U.K. 10-year government bond yield only gradually rising from around 1% in mid-2017 to around 3.5% by the end of this decade.

The U.K.'s real GDP growth is expected to decelerate from around 1.8% in 2016 to around 1.5% in 2017 and 1.2% in 2018 before gradually strengthening to settle around 1.8%, its new post-exit potential growth rate, around 0.2 percentage point lower than it would have been had the U.K. stayed in the EU.

ASIA PACIFIC

By Katrina Ell and the Asia-Pacific Staff of Moody's Analytics
September 6, 2017

First Build a Road

China's Belt and Road initiative is a throwback to the old Chinese proverb "if you want to grow rich, first build a road."

The project is about developing a global network of infrastructure such as railways and ports that will bolster trade. The plan will help connect the world's second-largest economy with Central Asia, Europe and Africa. It will be completed via a series of bilateral agreements. This includes developing the China-Pakistan economic corridor and a railway that will link China with Laos, Thailand, Malaysia and Singapore.

The Asian Development Bank estimated that emerging Asian economies need US$1.7 trillion annually in infrastructure to maintain growth and improve economic development. The World Pensions Council had a similar ballpark figure, estimating that Asia, excluding China, will need around US$900 billion in infrastructure investments annually for the next decade.

The need for infrastructure likely explains why many Asian and Eastern European countries were keen to join the Belt and Road initiative. China is expected to spend up to US$1 trillion over the next five years in participating countries to improve infrastructure. For example, Chinese money is already being used to build power plants in Pakistan to address electricity shortages.

The initiative is not purely due to Chinese benevolence. The initiative bolsters China's ‘soft power’ by spreading prosperity and championing global cooperation just as the U.S. and parts of Europe have turned nationalistic.

Second, it increases markets for Chinese goods, helping solve the problem of chronic overcapacity. President Xi Jinping announced the initiative in September 2013 when growth was slowing at home; China is still producing more steel, cement and machinery than needed locally, so it is looking abroad to keep its economic engine powering ahead. Indirectly, offshore commodity exporters could benefit; greater infrastructure spending lifts commodity demand, while strengthening regional incomes should bolster consumer demand.

The Belt and Road initiative is not without risk. China should be careful to avoid replicating domestic infrastructure misfires on a larger scale, putting undue pressure on China's already-strained banking sector and potentially leaving host countries burdened with debts for unproductive assets.

This global initiative is unprecedented but has been compared to the Marshall Plan, also known as the European Recovery Program, where the U.S. gave more than US$13 billion (US$132 billion in 2017 dollars) in economic support to assist rebuilding allied European economies after the end of World War II. History views the four-year spending program, which began in 1948, a success..

Ratings Round-Up

By Njundu Sanneh

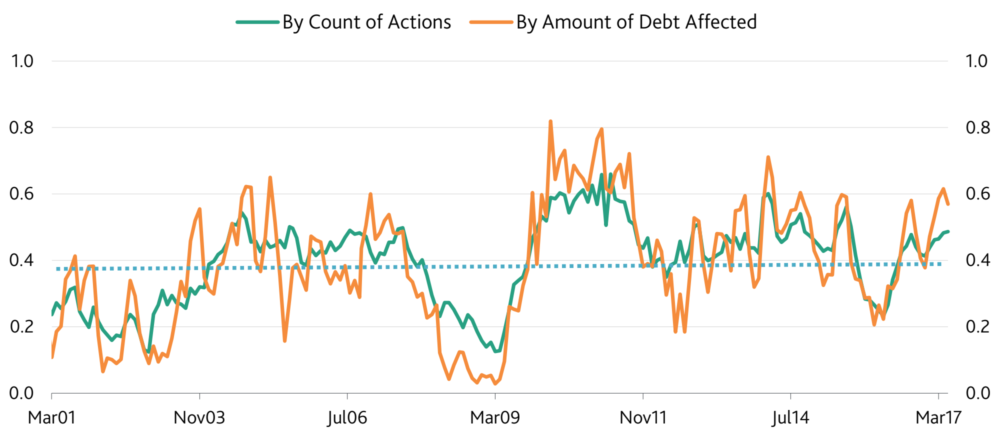
More Upgrades than Down

The weekly rating changes continue to be shaped by the upgrade of the government of Ukraine on August 25, which influenced the upgrades of seven Ukrainian banks. This helped maintain the weekly contribution of positive rating changes at 75%, well above the 40% long-term average for the series for the second week in a row. The Ukrainian banks' improved operating environment ranged from lower geo-political risks to better funding as deposits rose. The higher growth level of 2.55 forecast for the Ukrainian economy and lower interest rates are also likely to foster loan demand from the banks. The other five European rating-change entities included two from Germany.

The count of rating changes for the US continues unusually low, with only seven total rating changes following five last week. The upgrade of two REITS and SBC Communications Corporation and Education Realty Trusts, Inc. helped increase the positive rating changes to 57% from 40% the week before. In rare good rating news for the retail sector, Whole Foods Market, Inc., newly acquired by Amazon, was upgraded to Baa1, the rating level of its parent company on completion of the acquisition. In other M&A related activity, Avantor, Inc. was downgraded for increasing leverage due to its recent spate of acquisitions including VWR Corporation. Attempts at lowering leverage through divestitures were not enough to prevent a rating downgrade for Community Health Systems, Inc. as it faces headwinds in its operating environment.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

FIGURE 2

Rating Key

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

Ratings Round-Up

FIGURE 3 Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
8/30/17	AMAZON.COM, INC. - Whole Foods Market, Inc.	Industrial	SrUnsec	1,000	U	Baa3	Baa1	SG
8/30/17	SBA COMMUNICATIONS CORPORATION	Financial	SrUnsec	1,850	U	B3	B2	SG
8/31/17	EDUCATION REALTY TRUST, INC.	Financial	SrUnsec/PS	250	U	Baa3	Baa2	IG
8/31/17	ZOETIS INC.	Industrial	SrUnsec	4,500	U	Baa2	Baa1	IG
9/5/17	BROCK HOLDINGS III, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG
9/5/17	AVANTOR, INC.	Industrial	LTCFR/PDR		D	B2	B3	SG
9/5/17	COMMUNITY HEALTH SYSTEMS, INC.	Industrial	SrUnsec/LTCFR/PDR	6,125	D	Caa1	Caa2	SG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

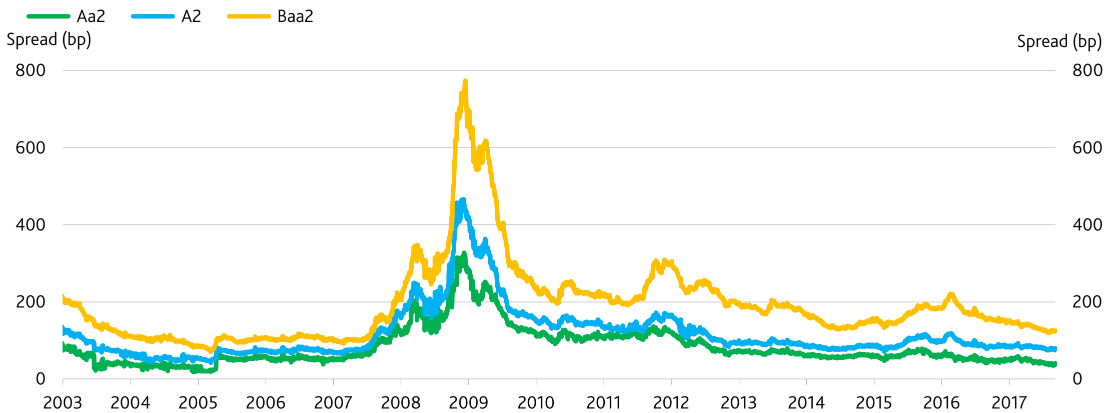
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
9/1/17	VOLKSWAGEN AKTIENGESELLSCHAFT	Industrial	SrUnsec/STIR/MTN/CP	18,664	D	A2	A3	P-1	P-2	IG	GERMANY
9/5/17	LANDESBANK HESSEN-THUERINGEN GZ	Financial	SrUnsec/Sub	270	U	Aa1	Aaa			IG	GERMANY
9/5/17	ALCOA CORPORATION - Alcoa Nederland Holding B.V.	Industrial	SrUnsec/LTCFR/PDR	1,250	U	Ba3	Ba2			SG	NETHERLANDS
9/5/17	BANK OTKRITIE FINANCIAL CORPORATION PJSC	Financial	SrUnsec/LTD/Sub	2,074	D	Ba3	B2			SG	RUSSIA
8/30/17	PIVDENNYI BANK, JSCB	Financial	LTD		U	Ca	Caa3			SG	UKRAINE
8/30/17	PRIVATBANK	Financial	LTD		U	Ca	Caa3			SG	UKRAINE
8/30/17	RAIFFEISEN ZENTRALBANK OESTERREICH AG - Raiffeisen Bank Aval	Financial	LTD		U	Ca	Caa3			SG	UKRAINE
8/30/17	SAVINGS BANK OF UKRAINE	Financial	LTD	1,278	U	Caa3	Caa2			SG	UKRAINE
8/30/17	SBERBANK - Sberbank PJSC	Financial	LTD		U	Ca	Caa3			SG	UKRAINE
8/30/17	UKREXIMBANK	Financial	SrUnsec/LTD/Sub	1,475	U	Caa3	Caa2			SG	UKRAINE
8/30/17	VNESHECONOMBANK - Prominvestbank	Financial	LTD		U	Ca	Caa3			SG	UKRAINE
9/4/17	ICELAND TOPCO LIMITED - Iceland VLNCo Limited	Industrial	PDR		D	B1	B2			SG	UNITED KINGDOM

Source: Moody's

Market Data

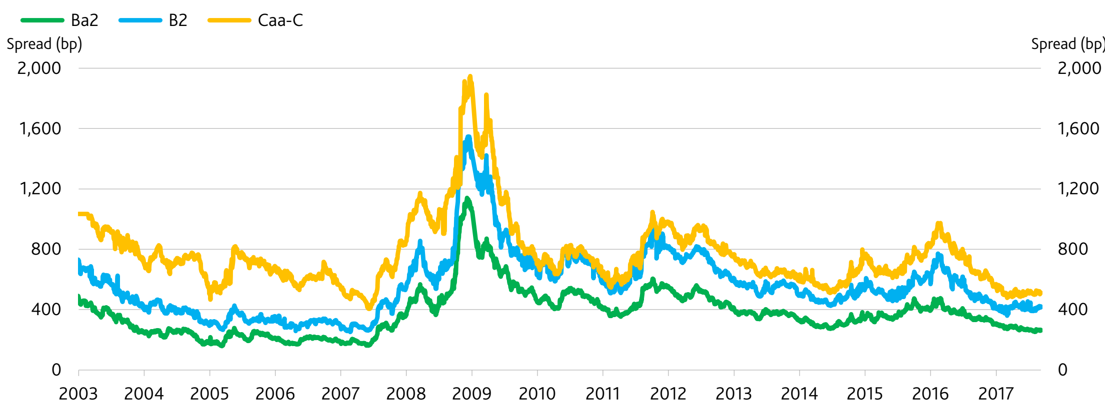
Spreads

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



Source: Moody's

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



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (August 30, 2017 – September 6, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 6	Aug. 30	Senior Ratings
Ford Motor Credit Company LLC	Ba1	Ba2	Baa2
McDonald's Corporation	Aa1	Aa2	Baa1
Wal-Mart Stores, Inc.	Aa2	Aa3	Aa2
Exxon Mobil Corporation	Aa3	A1	Aaa
Ford Motor Company	Ba1	Ba2	Baa2
Enterprise Products Operating, LLC	Baa3	Ba1	Baa1
Kinder Morgan Energy Partners, L.P.	Baa1	Baa2	Baa3
Altria Group Inc.	Aa2	Aa3	A3
Cardinal Health, Inc.	A2	A3	Baa2
Marriott International, Inc.	Aa3	A1	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 6	Aug. 30	Senior Ratings
Citigroup Inc.	Baa2	Baa1	Baa1
Bank of America Corporation	Baa2	Baa1	Baa1
Comcast Corporation	A1	Aa3	A3
Oracle Corporation	A1	Aa3	A1
General Electric Company	A1	Aa3	A1
International Business Machines Corporation	Aa3	Aa2	A1
PepsiCo, Inc.	Aa3	Aa2	A1
Cisco Systems, Inc.	Aa2	Aa1	A1
U.S. Bancorp	Aa2	Aa1	A1
21st Century Fox America, Inc	A1	Aa3	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 6	Aug. 30	Spread Diff
Windstream Services, LLC	B2	1,506	1,438	68
Frontier Communications Corporation	B2	1,087	1,041	46
Neiman Marcus Group LTD LLC	Caa3	1,945	1,901	44
K. Hovnanian Enterprises, Inc.	Caa3	1,219	1,191	28
Sears Holdings Corp.	Caa3	3,517	3,491	26
PolyOne Corporation	Ba3	137	111	26
Sears Roebuck Acceptance Corp.	Caa3	3,373	3,348	25
Pitney Bowes Inc.	Ba1	191	168	23
Talen Energy Supply, LLC	B1	1,096	1,074	22
McClatchy Company (The)	Caa2	1,062	1,046	16

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 6	Aug. 30	Spread Diff
Nine West Holdings, Inc.	Ca	6,646	7,340	-693
Hertz Corporation (The)	B3	794	866	-71
Weatherford International, LLC (Delaware)	Caa1	526	559	-33
Diamond Offshore Drilling, Inc.	Ba3	370	400	-30
Chesapeake Energy Corporation	Caa2	868	895	-27
Nabors Industries Inc.	B1	408	431	-23
Parker Drilling Company	Caa1	985	1,009	-23
Penney (J.C.) Corporation, Inc.	B3	827	848	-21
Genworth Holdings, Inc.	Ba3	631	650	-19
Pride International, Inc.	B1	596	615	-19

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (August 30, 2017 – September 6, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 6	Aug. 30	Senior Ratings
Barclays Bank PLC	A2	A3	A1
Societe Generale	Aa3	A1	A2
BNP Paribas	Aa2	Aa3	A1
The Royal Bank of Scotland plc	A3	Baa1	A3
Lloyds Bank Plc	A1	A2	A1
UniCredit S.p.A.	Baa3	Ba1	Baa1
Commerzbank AG	Baa2	Baa3	Baa1
Natixis	Aa3	A1	A2
Bayerische Landesbank	Aa2	Aa3	A1
Daimler AG	Baa1	Baa2	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 6	Aug. 30	Senior Ratings
ING Groep N.V.	A2	Aa2	Baa1
Alpha Bank AE	Ca	Caa2	Caa3
Austria, Government of	Aa1	Aaa	Aa1
Swiss Reinsurance Company Ltd	A3	A2	Aa3
Electrabel SA	Ba1	Baa3	Baa1
Legal & General Group Plc	Baa3	Baa2	A3
EWE AG	Ba2	Ba1	Baa1
Old Mutual Plc	Baa2	Baa1	Ba1
Lafarge SA	Aa3	Aa2	Baa2
Italy, Government of	Ba3	Ba3	Baa2

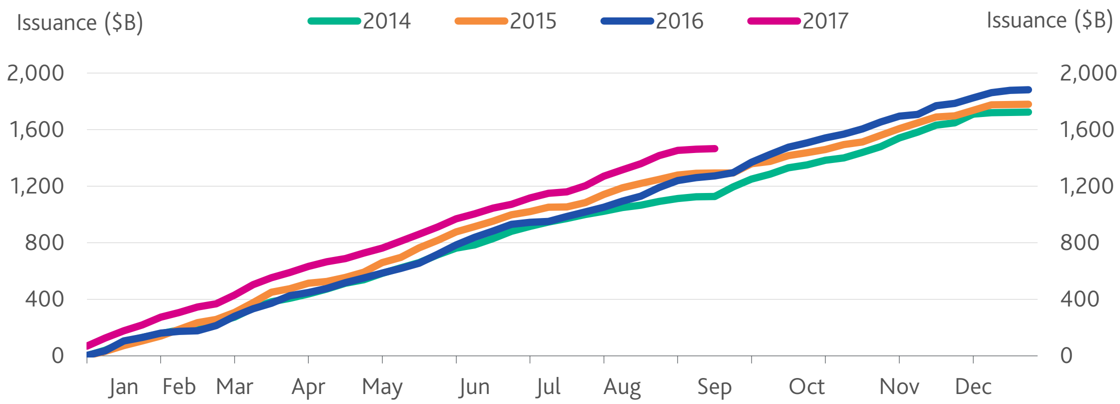
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 6	Aug. 30	Spread Diff
Galapagos Holding S.A.	Caa2	940	916	23
ING Groep N.V.	Baa1	41	27	14
Evraz Group S.A.	B1	275	263	12
Vue International Bidco p.l.c.	B3	223	214	9
Swiss Reinsurance Company Ltd	Aa3	45	39	6
Munich Reinsurance Company	A1	32	28	4
Nordea Bank AB	Aa3	23	20	3
EDP Finance B.V.	Baa3	84	81	3
The Royal Bank of Scotland Group plc	Baa3	95	92	2
Dexia Credit Local	Baa3	123	122	2

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 6	Aug. 30	Spread Diff
PizzaExpress Financing 1 plc	Caa1	871	903	-32
Eksportfinans ASA	Baa3	486	512	-26
Stena AB	B3	623	648	-25
Ensco plc	B2	610	629	-19
Greece, Government of	Caa2	484	500	-16
Banco BPI S.A.	Ba3	211	226	-16
Caixa Geral de Depositos, S.A.	B1	207	222	-15
Matalan Finance plc	Caa2	606	621	-15
Astaldi S.p.A.	B3	823	838	-14
Care UK Health & Social Care PLC	Caa1	286	300	-14

Source: Moody's, CMA

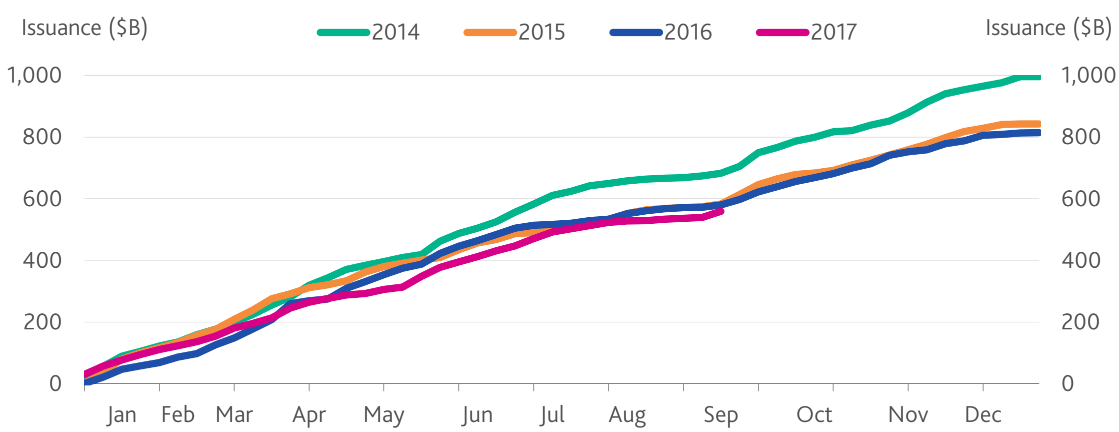
Issuance

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	3.660	0.000	4.180
Year-to-Date	1,056.279	287.781	1,465.953

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	16.836	2.685	19.580
Year-to-Date	466.326	64.168	558.892

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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