MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Moody's Capital Markets Research, Inc.

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Leveraging Will Survive Corporate Tax Reform

Credit Markets Review and Outlook *by John Lonski*

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The Week Ahead

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

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The Long View

Check our chart here for forecast summaries of key credit market metrics. Full updated stories, "January's new bank loan programs graded Baa-or-lower were a record $91.42 billion, surpassing November 2007's old zenith of $81.80 billion," begin on page 15.

Credit Spreads	Investment Grade: Year-end 2017 spread to exceed its recent 120 bp. High Yield: After recent spread of 398 bp, it may approximate 450 bp by year-end 2017.
Defaults	US HY default rate: after December 2016's 5.7%, Moody's Credit Policy Group forecasts it near 3.9% by 2H 2017.
Issuance	In 2016, US$-denominated IG bond issuance grew by 5.5% to a record $1.411 trillion, while US$-priced high-yield bond issuance fell by -3.5% to $341 billion. For 2017, US$-denominated IG bond issuance may rise by 2.0%, while US$-priced high-yield bond issuance may increase by 6.0%.

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Ratings Round-Up *by Njundu Sanneh*

Upgrades Predominate in US, Downgrades in Europe.

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Market Data

Credit spreads, CDS movers, issuance.

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Moody's Capital Markets Research *recent publications*

Links to commentaries on: India, Turkey, risk, UK, deregulation, potential, BAC, optimism, Portugal, DB, revisions, outlook, US, great, China, Italy, inflation, OPEC, guidance, sovereigns, inflation.

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

Credit Markets Review and Outlook

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

Leveraging Will Survive Corporate Tax Reform

Analysts from a major bank believe that reducing the top corporate income tax rate from 35% to 20% will slow the average annual increase of US industrial company debt over the next 10 years from nearly 5% without a tax cut to roughly 2% with the tax cut. However, what happened after the slashing of the top corporate income tax rate from 1986's 46% to 1987's 40% and, then, to 1988's 34% questions whether prospective tax cuts will more than halve the growth of corporate debt over the next 10 years.

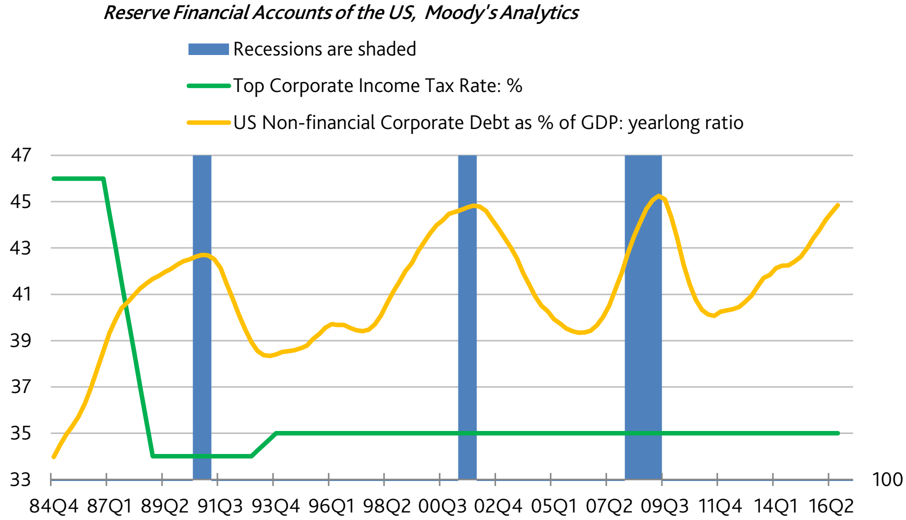
Nevertheless, business borrowing is likely to be noticeably lower if business interest expense is no longer tax deductible. Such tax-reform induced reductions in business borrowing will be most prominent among very low grade credits and during episodes of diminished liquidity, extraordinarily wide yield spreads for medium- and low-grade corporates, and exceptionally high benchmark borrowing costs.

The top corporate income tax rate probably will be cut from i 35% to either the 20% proposed by House Republicans or to the 15% offered by Trump's team. Assuming, for now, the continued tax deductibility of corporate interest expense, a lower corporate income tax rate increases the after-tax cost of corporate debt. However, a reduction by the corporate income tax rate may add enough to after-tax income to more than offset the burden of a higher after-tax cost of debt. In addition, today's relatively low corporate borrowing costs will mitigate the increase in the after-tax cost of debt stemming from a lowering of the corporate income tax rate.

Corporate debt sped past GDP and revenues despite tax cuts of 1987-1988

Thus, a lowering of the top corporate income tax rate probably will not have much of a discernible effect on corporate borrowing. Despite the lowering of the corporate income tax rate from 1986's 46% to 34% by 1988, the ratio of debt to the market value of net worth for US non-financial corporations rose from 1986's 38.6% to a mid-1994 high of 51.1%. Moreover, from year-end 1986 through year-end 1989, non-financial corporate debt advanced by 9.6% annually, on average, which was much faster than the accompanying average annual growth rates of 7.2% for nominal GDP and 7.0% for the gross value added of non-financial corporations. [Figure 1.]

Figure 1: Ratio of Corporate Debt to GDP Moves Independently of Top Corporate Income Tax Rate *yearlong ratios; source: World Tax Database, Office of Tax Policy Research, IRS, Federal Reserve Financial Accounts of the US, Moody's Analytics*



The supposed de-leveraging effect of corporate income tax cuts was further challenged by how debt outran both the economy and business sales despite still elevated corporate borrowing costs. For example, Moody's long-term Baa industrial company bond yield barely fell from 1986's 10.73% average to the still costly 10.55% of 1987-1989, while a composite speculative-grade bond yield actually rose from 1986's 12.44% to the 13.05% of 1987-1989.

Credit Markets Review and Outlook

It should be noted that the increase in the after-tax cost of debt was greater following 1987's corporate income tax cut because of the much higher corporate bond yields of that time and yet corporate debt still grew rapidly. In stark contrast, recent yields of 4.74% for the long-term Baa-grade industrials and 5.96% for speculative-grade bonds are substantially lower, which, in turn, lessens the degree to which corporate income tax cuts discourage balance-sheet leveraging.

Figure 2: Sum of Net Equity Buybacks plus Net Dividends Last Climbed Up to 78% of Internal Funds During Q1-2007

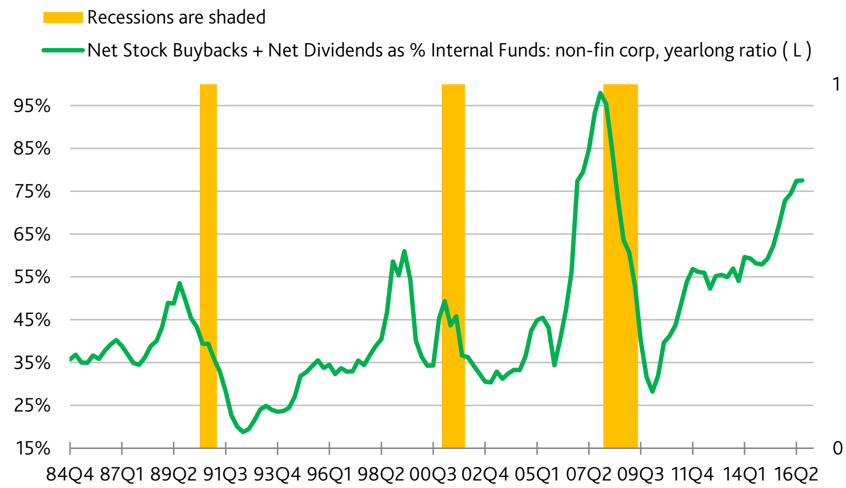
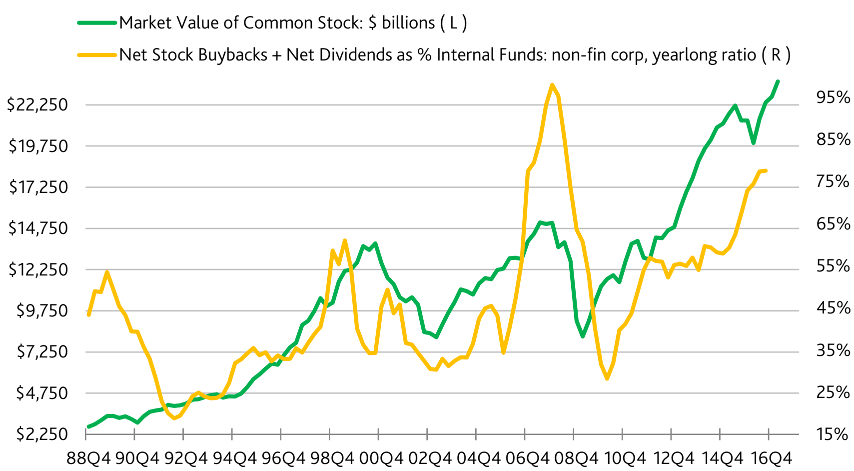


Figure 3: Last Two Peaks for the Ratio of Shareholder Compensation to Internal Funds Occurred Close to Cycle Highs for the Market Value of Common Equity



Stock buybacks soared following tax cuts of 1987-1988

Regardless of the taxation rate, the cost of debt is likely to remain cheaper than the cost of equity. Even at a top rate of 15% for corporate income taxes, leveraging will still be an attractive means of enhancing shareholder returns, especially when profitability ebbs during the latter stage of a business cycle upturn.

For example, 1987's corporate income tax cut did not stop a surge by the net equity buybacks of US non-financial corporations from 1986's $85 billion to $127 billion, on average, during 1988-1989. In addition, a broad measure of shareholder compensation — the sum of net stock buybacks plus net dividends — rose from 1986's 40% to 1989's 49% of non-financial corporate internal funds.

For the latest available year-ended September 2016, the sum of net stock buybacks plus net dividends approximated 78% of non-financial-corporate internal funds, which is a current- cycle high. During 2002-2007's upturn, this ratio first reached 78% in Q1-2007. However, if 2017's profits conform to expectations and grow materially, the ratio may not quickly climb up to Q4-2007's record high of 98%. (Figure 2.)

Credit Markets Review and Outlook

Shareholder compensation has been of considerable importance to the stock market's late-cycle performance. The last two peaks for the ratio of shareholder compensation to internal funds were set in Q4-2007 at 98% and in Q2-1999 at 61%. Within one year of each peak, the market value of US common stock crested at a cycle high. (Figure 3.)

Ending deductibility of interest costs carries risks

The latest upturn by shareholder compensation was a byproduct of plentiful liquidity, which also helped to curb the latest climb by defaults. For example, the pronounced recovery by the issuance of high-yield energy-company bonds from Q4-2015's $2.3 billion to Q4-2016's $17.2 billion shows how well-functioning financial markets can supply critical relief to troubled credits.

Thanks to a recently completed Caa1-rated bond offering, the senior unsecured bond rating of a high-yield issuer that specializes in payday lending was recently upgraded from a perilously low Ca to a still vulnerable Caa3. Given the 12.5% offering yield of the new Caa1-rated bond, the issuer benefits considerably from the current tax deductibility of business interest expense. Absent such a deduction, the company's after-tax cost of debt capital would increase significantly.

In general, the increase by the after-tax cost of debt stemming from any loss of the tax deductibility of interest expense will be greater (i) at very low credit ratings, (ii) during bouts of financial market stress, and (iii) amid higher benchmark borrowing costs. Today's combination of healthy financial markets, comparatively narrow corporate bond yield spreads, and atypically low benchmark borrowing costs masks the ultimate costs of removing interest deductibility.

Refinancings of outstanding debt may lose interest deductibility

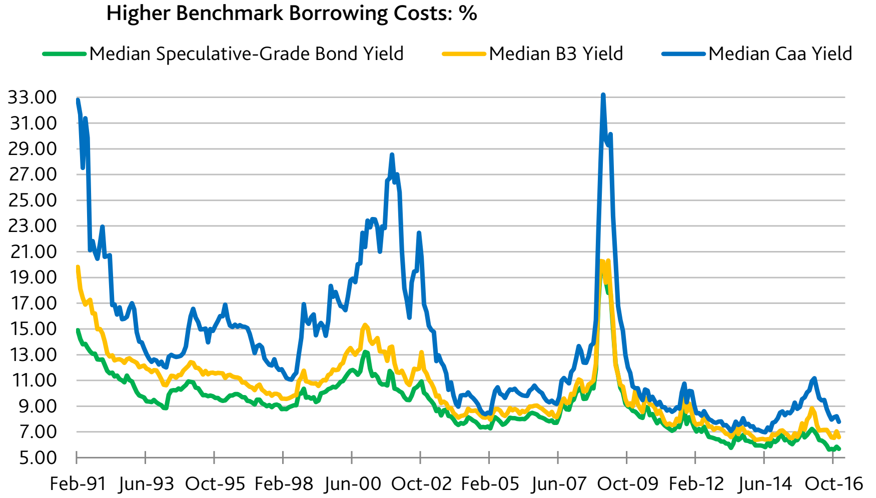
Though the interest costs of existing debt may be allowed to remain tax deductible, the refinancing of such debt will probably no longer be subject to such deductibility. Thus, a staggering amount of debt may eventually lose this tax preference. As of September 2016, the outstandings showed $8.44 trillion of non-financial corporate debt, $4.96 trillion of unincorporated-business debt, and $6.89 trillion of financial company obligations.

Interest deductibility's demise may soften equity prices

Over time, the elimination of the tax deductibility of business interest costs could significantly increase the after-tax cost of capital for many US businesses, where the impact will extend beyond the cost of debt. The increased after-tax cost of debt-funded acquisitions, stock buybacks, and dividends suggest the equity market's price-to-earnings ratios will be lower following the elimination of the tax deductibility of business interest expense.

Share prices are likely to sink if the deductibility of interest costs expires in the context of a notable weakening by pretax operating profits. Major revisions of the corporate tax code must recognize the transience of today's near optimal financial backdrop and consider how systemic liquidity, corporate yield spreads, and benchmark borrowing costs vary considerably over the cycle. (Figure 4.)

Figure 4: After-Tax Cost of Any Loss of the Tax Deductibility of Interest Expense Will Be Greater At Lower Credit Ratings, During Bouts of Market Stress, and Amid Higher Benchmark Borrowing Costs: %



Topic of the Week

By Ben Garber, Economist, Moody's Capital Markets Research, Inc.

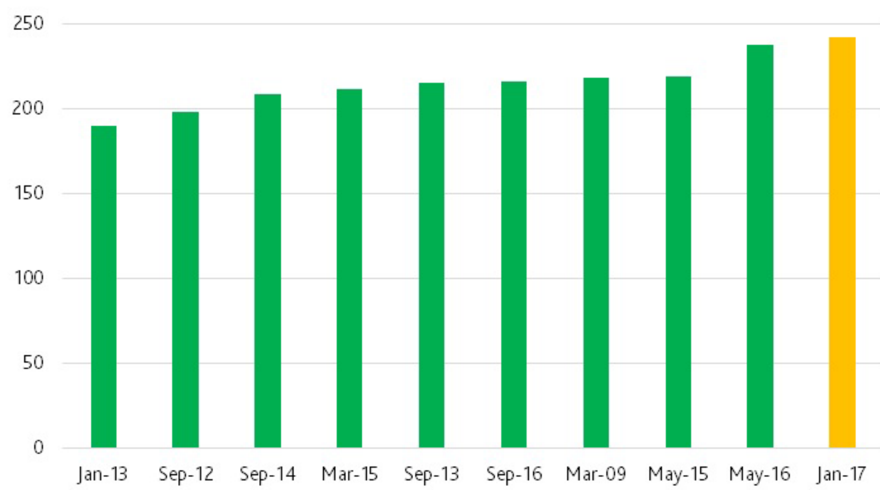
Bond Issuance Boom Precedes Policy Shifts

January's dollar corporate bond issuance was the largest monthly total on record. Ample liquidity and expectations of solid corporate profit growth are allowing a wide variety of borrowers to raise funds. Strong incentives to issue debt in US dollars stretch across the globe, aided by regulatory requirement and monetary easing. Yet possible changes to US tax policies cloud the outlook for the pace of future debt issuance growth.

High grade borrowers lead issuance surge

The $242 billion worth of rated and unrated USD-denominated financial and corporate bonds issued in January is the all-time peak, besting May 2016's $237 billion (Figure 1). Last month's total greatly outstrips the $160 billion issued in January 2016 — a period marked by substantial market turbulence. The recent borrowing binge is led by large, top-rated firms. Investment grade USD issuance totaled $188 billion in January, second only to May 2016's $189 billion for the largest total all-time.

Figure 1: The Largest Monthly Totals for USD Corporate Bond Issuance*



**In $billions, sources: Dealogic, Moody's Analytics*

Within that cluster of high grade issuance, three deals were for at least $10 billion: Microsoft at $17 billion, Broadcom at $13.55 billion, and AT&T at $10 billion. Each of these companies has been involved in major merger activity over the past year. The Microsoft deal is tied for the 8th largest USD nonfinancial bond deal of all-time. Those funds were raised not long after Microsoft was involved in the 5th largest deal ever, borrowing $19.75 billion last August within weeks of its acquisition of LinkedIn. Opportunities for more merger-related issuance are likely in medium-term. The $296 billion in US M&A activity in January as reported by Bloomberg is the most for that month in 17 years. That sum exceeds last year's monthly average of $239 billion, in what was a fairly solid year in merger volume.

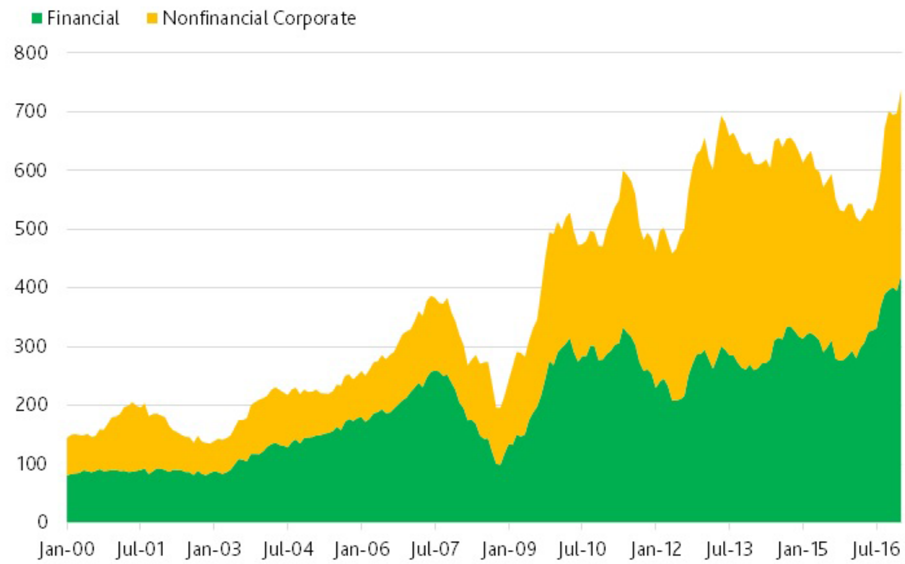
Financial firms lead record Yankee issuance

Firms outside of the US were heavy participants in the upsurge in dollar borrowing. Yankee issuance — bonds issued in dollars by non-US based firms — totaled $85 billion in January, the third-largest monthly total of all time. Over the year ending January, Yankee issuance reached the record high of $738 billion, rising 36% year-over-year (Figure 2). Financial firms accounted for 70% of the total in January and 57% over the past year. The skew toward financial firms comes from European banks that need to meet regulatory capital requirements. The ability of these banks to issue large volumes of dollar-denominated debt and swap their obligations into euros can give a sustained lift to origination totals.

Topic of the Week

Another slice of the Yankee bond market on the rise is issuance from Chinese firms. Over the past year, dollar bond issuance from China totaled $84 billion, the highest total in 16 months. Favorable debt terms on dollar bonds can entice more Chinese firms to issue on the global markets at a time when domestic financial regulators are seeking to tighten conditions in the onshore market.

Figure 2: Yankee* Bond Issuance by Sector in $billions

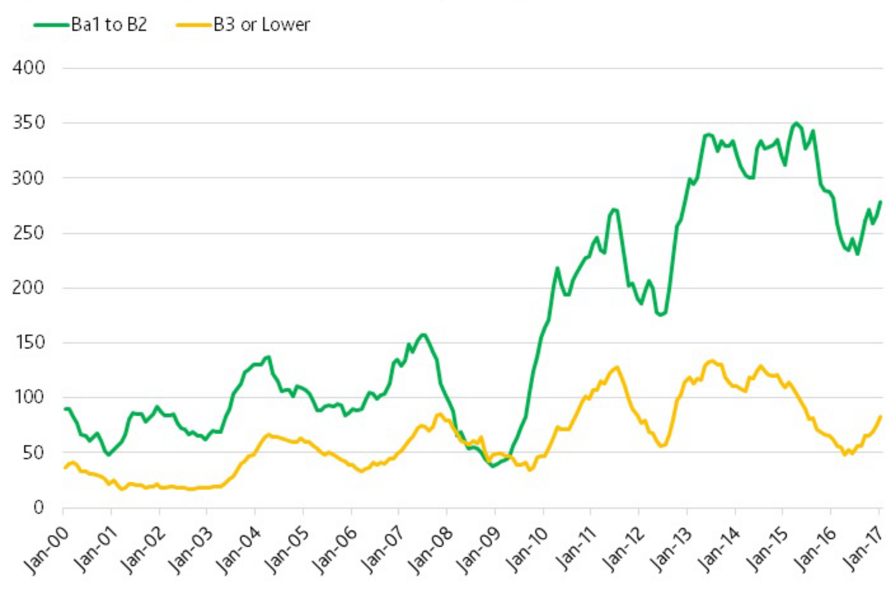


*USD-denominated issuance from Non-US domiciled issuers, sources: Dealogic, Moody's Analytics

Higher-risk borrowing is shifting higher

Though not to same degree as top-rated firms, high yield borrowing volumes are also on the rise. The $35 billion worth of high yield USD bonds issued in January is the second highest monthly total of the past eight months. For the year ending January, the $361 billion in high yield issuance is the largest sum of the past 16 months. This uptrend is particularly evident for borrowers at the bottom of the high yield rating scale. For issuers with especially elevated default risk rated B3 or lower, USD bond issuance for the year ending January rose to the 19-month high of $83 billion (Figure 3). Favorable market conditions for high yield issuers are seen in the steady decline in borrowing costs. The latest spread on US high yield bonds in the Bloomberg Barclays index of 384 bp is close to the multi-year low and far under last year's average of 569 bp.

Figure 3: USD High Yield Bond Issuance* by Rating



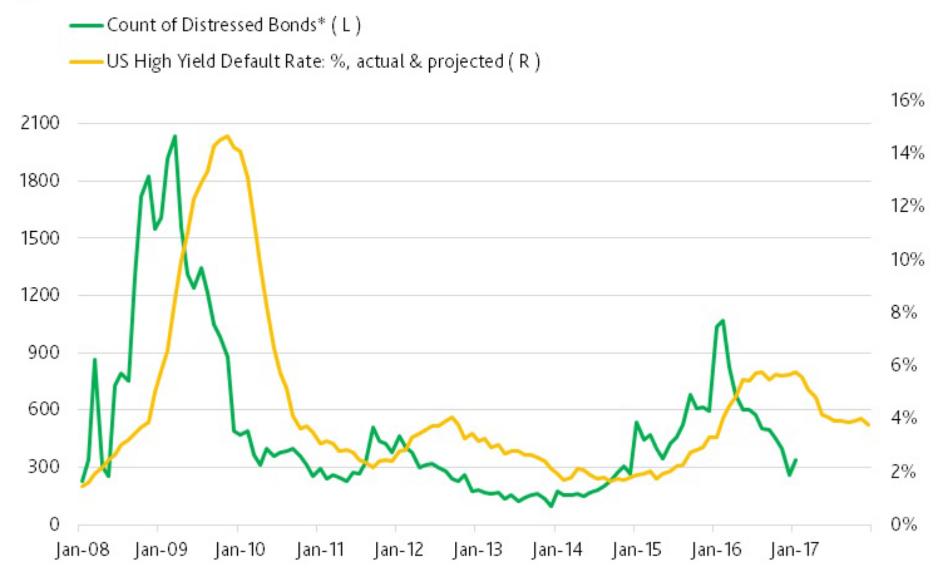
*Moving Yearlong sum in $billions, sources: Dealogic, Moody's Analytics

Topic of the Week

US policy changes may challenge issuance growth

Investor optimism about the outlook for profit growth is keeping demand healthy for corporate debt. The analyst consensus of 5% growth in US corporate profits from current production this year is a substantial step up from the lack of growth seen in 2016. Improved prospects for commodity sector firms give a significant lift to broad income growth trends and generally improve corporate credit quality. This outlook ties into projections for a declining corporate default rate and a reduced count of borrowers with distressed debt yields (Figure 4). And a potential cut in corporate tax rates would give a large boost to profits even absent an acceleration in economic growth. However, such policy shifts may serve to limit growth in the supply of corporate debt.

Figure 4: Count of Distressed Issues vs. Default Rate



Sources: Moody's Investors Service, Bloomberg, TRACE

Three major corporate-tax-related policy changes reportedly being considered by the US government could greatly shift the incentives for business borrowing. One, reducing the top federal marginal corporate tax rate from 35% to perhaps 20% would both bolster incomes and limit the need for leverage. As noted in an analysis from Barclays analysts, companies would have greater capacity to finance operations through rising earnings, spurning external fund raising for capital expenditures. Additionally, lower tax rates essentially raise the cost of debt financing by lowering the potential benefits of deducting corporate interest payments from income. How companies will adjust their borrowing levels with regard to tax rates is not entirely certain, as corporate debt has expanded at strong rates over several decades even as tax rates have generally trended lower.

If the second major potential policy shift, the elimination of the deduction from taxable income of interest payments on corporate debt, is implemented, the risks of carrying large sums of debt on corporate balance sheets would rise as the benefits obviously decline greatly. These clear negative effects on potential business fund raising and investment make such a law change significantly less likely than the reduction in tax rates.

The third possible regulatory shift that could restrain corporate borrowing is a repatriation tax holiday. Major global firms based in the US with large sums of cash parked overseas have issued substantial sums of debt to avoid taxes on repatriated funds. Allowing these funds to return to the US untaxed or at a greatly reduced rate would curtail such borrowings. Such a tax holiday would alter the borrowing plans for a handful of major issuers, though the broader long-term effects on corporate borrowing trends ultimately may be modest.

The Week Ahead – US, Europe, Asia-Pacific

THE US

By John Lonski and Ben Garber
Moody's Capital Markets Research Group
Estimates are consensus views. Release times are US Eastern Daylight Time

FRIDAY, FEBRUARY 3

Employment Report – January

Time: 8:30 am
Forecast: 175,000 nonfarm payrolls, 4.7% unemployment rate
Job growth is projected to grow admirably in January, keeping new unemployment insurance claims near multi-decade lows. Though the yearly increase in nonfarm jobs has slowed to 2.2 million from the cycle high of 3.1 million, gains are more than keeping up with the rate of population growth. That trend will start to put more upward pressure on wages provided that the economic recovery persists.

ISM Non-Manufacturing Index – January

Time: 10:00 am
Forecast: 57.0
Steady demand for services can keep the January ISM Non-Manufacturing Index near December's 14-month high. Real spending on services lagged for much of the recovery, yet it has stayed above 2% since late 2014. That area of spending is likely to stay firm in the near-term, with the new orders component of the Non-Manufacturing Index reaching the 16-month high of 61.6 in December.

Factory Orders – December

Time: 10:00 am
Forecast: 0.7%
A dive in defense orders can cause overall growth in factory orders to fall short of expectations in December. However, last quarter brought strong results for core capital goods orders, growing 4.7% annualized. That raises the odds that real investment spending outside of inventories can quickly improve on the mild 0.5% gain yearly to the fourth quarter.

TUESDAY, FEBRUARY 7

Trade Balance – December

Time: 8:30 am
Forecast: -$45.0 billion
The advance report on trade in goods showed solid gains for both imports and exports in December, likely leaving the overall trade deficit little changed. Higher commodity costs and dollar strength helped turn trade in a major drag on last quarter's GDP, subtracting 1.7% from the real growth rate. Movements in the dollar will determine the long-term effectiveness in narrowing the trade deficit with regard to new policies seeking to boost domestic output.

FRIDAY, FEBRUARY 10

Import Price Index – January

Time: 8:30 am
Forecast: 0.2%
Gains in raw materials costs are projected to lift the Import Price Index in January for the fourth time in the past five months. Import prices have not been a major drag on broad price trends of late; the 1.8% yearly rise of the Import Index to December is the quickest pace in four years. While improved

prospects for the commodities sector are lifting inflation pressures, renewed dollar strength can moderate the ongoing acceleration in prices.

University of Michigan Consumer Sentiment – February Preliminary

Time: 10:00 am
Forecast: 97.9
Sentiment in the February Michigan survey is expected to dip after ascending to the 13-year high in January. Continued strong job gains and quicker income growth can keep confidence above the average level seen during the current recovery. Yet elevated expectations can be curbed a bit as some of the more overly optimistic projections for economic growth may fall short of the mark.

EUROPE

By the Dismal (Europe) staff in London and Prague
Editor's note: The Europe "Week Ahead" material is now provided on Friday, whereas our Weekly Market Outlook is published on Thursday. Accordingly, we will update this material after publication, online, on Friday or Monday.

Summary, February 3: Following disappointing December retail sales figures published the past week, the week ahead will shed light on how European factories fared at the end of 2016. We are expecting industrial production data for the euro zone's major countries to be broadly positive, even if a slowdown is still expected from November's astonishing leaps. Leading indicators for the last month of 2016 were all firmly upbeat: The euro zone manufacturing PMI jumped to a five-year high of 54.9 in December, with national data pointing to a broad-based improvement in operating conditions. Both new orders and production rose, but of particular interest was that new export business accelerated to its second-fastest pace since April 2011, boosted by the euro's recent depreciation against the dollar and a basket of other currencies.

We expect production to have increased in all major countries, particularly in the Netherlands, Austria and Germany. Although we are timid about our Germany forecast, we think that risks are tilted strongly to the upside, since an expected jump in construction could push the headline higher. Also, mean reversions in both capital and energy goods' production should provide some lift, as their outputs slumped in November. If our forecasts of a strong December are correct, this would mean GDP accelerated in the fourth quarter from a 0.2% q/q rise in the three months to September, supported by strong investment in machinery and equipment, and in construction. The latter accounts for almost half of total investment in the country and has been on a roll lately; the Ifo index climbed to a record high in the fourth quarter thanks to upticks in residential and nonresidential construction.

The story in France is a little different. We expect production to correct from a remarkably strong November, when factory output rocketed up 2.2% m/m. But the mean reversion should not be too strong, as leading indicators such as the PMI and INSEE's business confidence were suggesting that the momentum held on at the end of the fourth quarter. According to the Markit PMI, manufacturing output grew in December at its fastest pace since May 2011, while a jump in INSEE's new orders to inventory ratio indicates a healthy pickup in France's industrial sector. That's why we are forecasting output to slow to 0.4% m/m, and not to contract following November's spike.

A similar though little less upbeat picture applies to the U.K. Industrial production is expected to mean revert from November's 2.1% jump, which itself was thanks only to one-off developments such as the reopening of the North Sea's main oil field after several months of unseasonal maintenance, and a spike in the output of the volatile pharmaceutical sector. We expect industrial production to have contracted by 0.4% m/m in December, dragged down by a fall in energy demand due to above-average December temperatures, a correction in pharmaceuticals output, and a mean reversion in mining and quarrying.

MONDAY, FEBRUARY 6

No major economic indicators are scheduled for release.

TUESDAY, FEBRUARY 7

Germany: Industrial Production (December; 11:00 a.m. GMT)

German industrial production likely increased further in December compared with the previous month, when it rose by 0.4% m/m. In year-ago terms, production is expected to have increased at a slightly faster pace than in the previous month. Although manufacturing orders retreated 2.5% m/m in November after soaring by 5% in October, they still increased by a healthy 3.3% in year-ago terms. Moreover, Germany's Markit manufacturing PMI for December rose to a 35-month high of 55.6 from 54.3 in November, signaling strong improvement in the sector, despite uncertainties caused by the U.K. vote to leave the EU. According to the PMI, new business also rose markedly during December, with strong demand particularly from Asia, Europe and the U.S. thanks to the weaker euro. However, the outlook remains uncertain as the expected protectionism of U.S. trade could clamp down on Germany's manufacturing sector.

Russia: Consumer Price Index (January; 1:40 p.m. GMT)

January is traditionally uneventful in Russia. We expect a report of only mild inflation, around 0.6% in month-ago terms, with only services price indexation providing a temporary push. Additionally, the ruble appreciated during January, meaning no inflation pressures are coming from the country's external position, while the December retail sales data confirmed persistent demand shortfalls.

WEDNESDAY, FEBRUARY 8

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

Spain's industrial production likely expanded 2.7% y/y in December, slightly below the 3.2% y/y jump in November but still above the average growth rate of 2% y/y for all of 2016. The manufacturing PMI signaled robust improvement in business activity in December, as stronger domestic orders and export demand lifted output for the fourth consecutive month. Although business confidence dipped in December, it recovered most of the losses in January and we expect economic sentiment to improve further as the domestic political uncertainty seems to have abated. Preliminary GDP for the final three months of 2016 stood at 0.7% q/q, the same quarterly growth rate as the quarter to September. Annual growth still remained strong at 3.2% in 2016. Our forecast is for a 2.1% expansion in industrial production in 2016, which is below the reading of 3.2% for 2015 but consistent with slowing employment growth in the sector.

THURSDAY, FEBRUARY 9

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

Germany's trade surplus likely expanded further to €22 billion in December after increasing to €21.8 billion in the previous month. The surplus was at €19.5 billion in December 2015. The monthly and annual increases were likely driven by a further strong recovery in exports due to the sharp depreciation of the euro since U.S. presidential elections in early November. Moreover, robust expansion in the U.S. and some recovery in Chinese growth have been supporting German exports. Still, foreign demand for German goods will likely be subdued because of the buildup of unfavourable external conditions. With rising geopolitical tensions in Europe and the U.S., upcoming difficult Brexit negotiations, weak recovery in the euro area, and a slowdown in emerging markets, external trade will likely contribute little to economic growth. According to preliminary estimate, net exports weighed on the economic expansion in 2016, subtracting 0.1 percentage point from GDP growth.

FRIDAY, FEBRUARY 10

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

Italy's industrial production likely rose in December, but the gain should have been modest compared with a 0.7% expansion in November. High-frequency indicators suggest the recovery in manufacturing continues, albeit at a slightly slower pace. The Markit PMI for manufacturing fell to 53 in January, from a six-month high of 53.2 in the previous month. While rates of growth in output and export orders cooled, job creation picked up to its fastest in nine months. Meanwhile, manufacturing confidence rose to 104.8 in January, the highest since October 2015, from 103.7. Despite an expected Brexit-related slowdown in the U.K. in 2017 and 2018 amid withdrawal negotiations leading to a hard exit, U.S. President Donald Trump's fiscal stimulus and a strengthening euro area economy could be a boon to Italian exporters.

ASIA-PACIFIC

By Emily Dabbs and the Asia-Pacific economics team of Moody's Analytics

Demonetisation is expected to hurt Indian manufacturers and prompt monetary easing

The Reserve Bank of India is expected to cut interest rates as short-term growth prospects take a hit from demonetisation and the disinflation trend continues. Industrial production is also expected to suffer from the removal of the currency notes, with the auto sector hit the hardest.

The Reserve Bank of Australia and Reserve Bank of New Zealand are expected to stand pat in February. Inflation pressures are building in both countries, and the hot housing markets remain a concern. The Bank of Thailand is also likely to maintain its current monetary policy settings as the economy benefits from improved export conditions and government stimulus measures.

Australian households kept a lid on spending in the final month of 2016. While low interest rates and booming house prices are providing some support to spending, this is offset by tepid wage growth and high underemployment. Housing finance commitments are also expected to tick up, but trend growth continues to slow because of tightening measures in the housing market.

The depreciation of the yen is supporting export-facing companies in Japan. Machinery orders are expected to have strengthened in December, painting a promising picture for investment in 2017. Tertiary activity is also picking up, although base effects come into play.

Chinese exporters likely recovered from the poor end to 2016, with growth picking up in January. However, seasonality due to the Lunar New Year increases uncertainty around the estimate. Malaysian exporters are also improving, thanks mostly to rising global commodity prices and the upswing in the tech cycle. Improved export demand is supporting industrial production, which is expected to remain upbeat in December. Taiwanese exporters also continue to benefit from an upswing in the global tech cycle, which is boosting shipments of electronic parts and components. This is translating into improved domestic conditions, and combined with rising energy prices, putting upward pressure on inflation.

Indonesia's economy continued to grow at a steady clip in the December quarter, driven by upbeat consumption and accommodative monetary policy. Exports and manufacturing remain below potential and this will dampen the gain

FRIDAY, FEBRUARY 3

No major economic indicators are scheduled for release

MONDAY, FEBRUARY 6

Australia – Retail Sales – December

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)
Forecast: 0.3%
Australian consumers likely ended 2016 on a subdued note as weak wage growth hurts household budgets. Low interest rates are providing some support through lower debt servicing costs, and the housing boom in Sydney and Melbourne supports spending through wealth effects. Overall, though, labor market conditions remain difficult as jobs shift towards part-time employment, and this is crimping domestic demand.

TUESDAY, FEBRUARY 7

Indonesia – GDP – 2016Q4

Time: Unknown
Forecast: 5.1%
Indonesia's GDP growth likely hit 5.1% y/y in the December quarter, up from 5% previously. Consumption remained the main growth driver thanks to robust domestic demand, helped by earlier monetary easing. Manufacturing is below potential and low commodity prices have hurt export growth. Higher palm oil export prices from earlier supply disruptions will have only a modest positive impact overall.

Australia – Monetary Policy – February

Time: 2:30 p.m. AEDT (3:30 a.m. GMT)
Forecast: 1.5%
The Reserve Bank of Australia is expected to stand pat at the February meeting, keeping interest rates at 1.5%. Inflation pressures remain weak because of tepid wage growth, but rising commodity prices and a weaker aussie will provide a boost in the coming 12 months. The unemployment rate remains below 6%, although there has been a shift towards part-time employment, which is obscuring the amount of spare capacity in the labor market. The central bank is closely monitoring the housing market, as highly leveraged households pose a risk to financial stability. We expect the RBA will maintain its current policy stance to support economic growth without increasing risks to the financial sector.

Taiwan – Foreign Trade – January

Time: 7:00 p.m. AEDT (8:00 a.m. GMT)
Forecast: US$4.557 million
Taiwan's monthly trade surplus likely narrowed in January as imports rose more strongly than exports. Exporters continue to benefit from the global tech cycle upswing, with shipments of electronic components and machinery driving growth again in January. Imports are also expected to strengthen, especially those products that are inputs to final export goods. The trade outlook remains upbeat, but rising tension with China and the anti-trade sentiment in the U.S. pose a downside risk to growth.

WEDNESDAY, FEBRUARY 8

Taiwan – Consumer Price Index – January

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)
Forecast: 2.1%

Headline inflation likely strengthened in the opening month of 2017, bolstered by rising food prices and increased energy costs. Domestic demand is still hamstrung by weak labor market conditions and tepid wage growth. A stronger export performance will likely translate into improved domestic conditions, but this will take time. Core inflation is expected to remain muted through most of 2017.

Malaysia – Foreign Trade – December

Time: 3:00 p.m. AEDT (4:00 a.m. GMT)
Forecast: MYR8.7 billion
Malaysia's trade surplus likely narrowed in December following November's MYR9 billion surplus. Exports are slowly on the mend thanks to improving global commodity prices, especially for oil-refined petroleum and palm oil. The latter has staged an impressive rebound, growing at double digits in annual terms after earlier supply disruptions from poor weather damaged supply. Exports should continue improving with higher commodity prices.

Thailand – Monetary Policy – February

Time: 6:30 p.m. AEDT (7:30 a.m. GMT)
Forecast: 1.5%
The Bank of Thailand will leave interest rates unchanged at their record low 1.5% at its first meeting of 2017. Interest rates have held steady since April 2015. We don’t expect any changes in the official interest rate until the beginning of 2018. Recent months have seen some improvements for Thailand’s exporters thanks to stronger electronics demand globally. Consumers are also receiving a boost from stimulus measures enacted by the junta government.

India – Monetary Policy – February

Time: 8:00 p.m. AEDT (9:00 a.m. GMT)
Forecast: 6%
The Reserve Bank of India will likely cut its official repo rate by 25 basis points at the February monetary policy meeting. Inflation is running well below the central bank's 5% target, and short-term growth prospects have taken a severe hit on the back of the government's move to abolish 86% of currency notes in circulation. Both lower growth prospects and the recent disinflation trend suggest that the RBI has room to cut rates further in 2017.

THURSDAY, FEBRUARY 9

New Zealand – Monetary Policy – February

Time: 7:00 a.m. AEDT (Wednesday 8:00 p.m. GMT)
Forecast: 1.75%
The Reserve Bank of New Zealand has shifted to a neutral bias and will keep the policy rate steady following its February meeting. Inflation pressures are building on higher commodity prices alongside the already frothy property market. Macroprudential measures like limiting investor credit have done little to cool the overheated housing pockets like Auckland that remain attractive given low borrowing costs and high foreign investment.

Japan – Machinery Orders – December

Time: 10:50 a.m. AEDT (Wednesday 11:50 p.m. GMT)
Forecast: 3.1%
Machinery orders likely rose in December on the back of improving business sentiment because of the yen's depreciation. Overall, Japan's capital expenditure pipeline is looking dry on the weak machinery orders throughout 2016. Machinery orders tend to lead capital investment by six to eight months. We should see a slight improvement in the economy in the first half of 2017, but it's unlikely to be sustained towards year's end.

FRIDAY, FEBRUARY 10

China – Foreign Trade – January

Time: Unknown
Forecast: US$58 billion
China's exports likely recovered at the beginning of 2017 because of higher manufacturing shipments, while imports likely rose further thanks to higher commodity prices. This year's relatively later Lunar New Year could distort year-on-year comparisons. But the trend is likely to show improvement thanks to the improving global economy and the rise in commodity prices.

Philippines – Industrial Production – December

Time: Unknown
Forecast: 12%
Philippine industrial production growth likely slowed slightly to 12% y/y in December from 14.6% in the prior month. The main drag will come from food manufacturing, reflecting the negative effects that Typhoon Lawin had on crop output. Nevertheless, the overall story for the industrial sector remains positive. Electronics manufacturing will accelerate in the coming months thanks to stronger global demand.

Australia – Housing Finance – December

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)
Forecast: 1%
Australian housing finance commitments for owner-occupiers likely expanded at a modest pace in December. Trend figures will indicate that growth has peaked and the slowdown continues. Tighter lending requirements combined with interest rate hikes out of step with the central bank are weighing on demand. Furthermore, increased supply over the next year is expected to limit price growth, and this is cooling the frenzy of demand in cities such as Sydney and Melbourne.

Japan – Industry Activity Indexes – December

Time: 3:30 p.m. AEDT (4:30 a.m. GMT)
Forecast: 0.7%
Tertiary activity likely increased in December as business and consumer sentiment advanced after the yen's depreciation. Activities related to business in the export-oriented sectors will likely rise over the coming months. That said, low base effects will also come into play because tertiary activity was dormant in 2016.

India – Industrial Production – December

Time: 11:20 p.m. AEDT (12:20 p.m. GMT)
Forecast: -1.1
India's industrial production likely fell in December on the back of the government's scheme to remove 86% of currency notes in circulation. Manufacturing sectors such as autos will be hit hard, while the rural, retail and construction sectors will also feel the pinch of the currency removal. Therefore, we expect industrial production to have declined in December. The trend will likely continue in the early months of 2017.

Malaysia – Industrial Production – December

Time: 11:00 a.m. AEDT (12:00 a.m. GMT)
Forecast: 5.3%
Malaysian industrial production likely cooled in December, after surging by an unsustainable 6.2% y/y in November due to volatile electricity production. A sustained upswing in the global tech cycle is buoying electronics production and it should remain a bright spot at least through the opening months of 2017. Palm oil production is on the mend after earlier supply disruptions.

The Long View

The US: January's new bank loan programs graded Baa-or-lower were a record $91.42 billion, surpassing November 2007's old zenith of $81.80 billion

By John Lonski, Chief Economist, and Ben Garber, Economist, Moody's Capital Markets Research Group, February 2, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 120 bp resembles its 122-point mean of the two previous economic recoveries. Any narrowing by this 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 398 bp is less than what is predicted by the spread's macroeconomic drivers and the high-yield EDF metric, but it is wider than what might be inferred from a now below-trend VIX index. The implications for liquidity of regulatory changes merit scrutiny. If regulatory change enhances the market making capabilities of banks, If regulatory change enhances the market making capabilities of banks, corporate bond yield spreads may be thinner than otherwise.

DEFAULTS

After most recently peaking at August 2016's 5.8%, Moody's credit policy group predicts that the US high-yield default rate will ease from December 2016's 5.7% to 3.9%, on average, during 2017's second half. A return to its 1.85% average of the 18-months-ended June 2015 is unlikely for now.

US CORPORATE BOND ISSUANCE

For 2016, 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.

The Long View

For yearlong 2016, worldwide corporate bond offerings rose by 2.2% annually for IG (to $2.401 trillion) and sank by -7.8% for high yield (to $426 billion).

In 2017, worldwide corporate bond offerings may rise by 0.8% annually for IG and may grow by 4.1% 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 1.125%. 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 of Moody's Analytics
February 2, 2017

Eurozone

The euro zone economy will likely expand in 2017 at a growth rate similar to last year, driven by stronger exports to the U.S. Higher demand from the U.S. thanks to Trump's fiscal expansion, plus a weakening euro, will bolster European exports. With a gradually increasing fed funds rate due to rising inflation, and a zero interest rate in the euro zone, the euro will weaken close to parity with the dollar by early 2018. This will support the euro area and real GDP is expected to expand by 1.7% in both 2017 and 2018.

Nevertheless, a protracted negotiation and likely 'hard Brexit' could undermine Britain's economic growth even more than expected, dimming the prospects for euro area exports. Other EU countries are unlikely to grant Britain favorable terms of access to the EU's single market if the U.K. insists on limiting free movement of labor. Although the British government will trigger Article 50 in March, the country might not strike a trade deal with the EU, which is crucial for the U.K., until mid-2020. This is beyond the two-year negotiation window, after which trade restrictions are automatically imposed.

Domestic demand, supported by a falling unemployment rate, may propel growth in many euro area countries. The region's corporates overcame their nervousness from the U.K. exit vote and U.S. presidential election surprisingly well. Rising business confidence thanks to a strengthening global economy and loose monetary policy will encourage firms to hire additional workers, which should ramp up household spending. More generous fiscal policy should also drive up domestic demand. An improving fiscal stance due to lower interest payments should encourage EU governments to enact slightly expansionary fiscal policy in 2017.

The strengthening European economy combined with rising commodity prices and a weakening euro will continue to boost inflation pressures, since stronger demand will help reduce oversupply and prices will climb. Euro zone annual harmonized inflation approached the ECB's target at the start of this year, rising by 1.8% y/y, up from a 1.1% increase in December. Higher energy and unprocessed food prices contributed the most to the headline. Without these volatile components, however, inflation remained muted, with core inflation gaining just 0.9%.

Despite accelerating inflation, we don't expect the European Central Bank will cut monthly asset purchases in coming months. Until core inflation increases more sharply, the ECB will maintain its ultra-accommodative policy. Therefore, additional reduction of asset purchases wasn't discussed at the January monetary policy, and we expect that the ECB will buy €80 billion in assets monthly until March, and then €60 billion from April until the end of this year or beyond. Nevertheless, rising inflation in Germany and diverging inflation across the euro zone countries may prompt the ECB to start tightening in late 2017.

Stricter regulatory requirements and deepening political woes could increase the volatility in financial markets and weigh on banks' profits and credit creation. Besides ongoing immigration, which has moderated compared with 2015, Europe is challenged by the rising popularity of anti-establishment and anti-European parties. Although a new Italian government was formed promptly after Prime Minister Matteo Renzi's resignation, a push for a snap election in spring 2017 is growing. The surge of protest voices could boost the populist and far-right parties not only in Italy, but also in the Netherlands, France and Germany, where regular parliamentary and presidential elections will be held.

U.K.

U.K. economic growth is expected to ease to 1% this year and 0.8% next year from predicted 2% growth in 2016. The British economy has so far withstood the referendum blow remarkably well and put to rest most economists' doomsday scenarios. Investment will remain subdued given the risks associated with exit negotiations and weak construction. The country carried on with business as usual; even if confidence tumbled in the aftermath of the vote, it soon rallied despite no one having a clue about the U.K.'s future ties with the EU. Although the economic data are certainly encouraging, we do not think that the country will sail through the exit unscathed. We expect the weakness in sterling to be a key theme over the next few months.

Higher inflation due to weaker pound will equal or slightly exceed the rise in nominal wages, leading real income growth to stall or even go into reverse in 2017. The labor market is expected to falter as a result of the heightened uncertainty over the U.K.'s future, and this could hamper employees' bargaining power and further limit wage growth. Besides weaker households spending, investment will remain subdued given the risks associated with exit negotiations and weak construction, while net exports will benefit little from the weaker currency. Given the weaker than expected expansion in exports and the low level of import substitution, we expect net trade will do little for growth in 2017.

The Bank of England kept its policy rate and asset purchase program unchanged at its February monetary policy committee meeting. The decision was unanimous, and reflects the bank's willingness to look through a temporary spike in inflation in order to continue supporting the economy. Despite market expectations that the bank would adopt a more hawkish tone in view of the buoyant fourth quarter growth figures released earlier this week and the higher-than-expected inflation data, the bank reiterated that monetary policy could move in either direction, and that it is seeking to return inflation to target over a somewhat longer period than usual.

Meanwhile, the bank's quarterly inflation report brought some big surprises: Growth figures for this year were revised up sharply, as were those for 2018 and 2019. The MPC is now expecting the economy to expand by 2% in 2017, up from a forecast of 1.4% in November and of 0.8% in August. But even if the outlook for demand was upgraded, the outlook for inflation remained broadly the same. That's not the norm, since usually higher demand means higher prices. But behind this was a downward revision of the bank's assumptions of the amount of slack in the economy. Accordingly, it revised down the equilibrium unemployment rate to 4.5%, from 5% previously. The bank is expecting prices to rise by 2.4% in 2017 and 2018, and to peak at 2.7% by the first half of 2018.

We think that the bank is overestimating growth and underestimating inflation. Evidence shows that import prices are feeding into import prices much faster than the bank originally estimated, and that inflation should peak at over 3% already in the first half of this year, and average 2.9% in the year as a whole. Similarly, recently published GDP data showed that the economy is almost fully dependent on consumers' will to spend, and the expected slowdown in consumption should hurt the economy more severely than the bank expects.

ASIA PACIFIC

By Katrina Ell and the Asia-Pacific Staff of Moody's Analytics
February 2, 2017

Inflation in Oceania heated up in the December quarter. CPI growth in Australia edged closer to the central bank's target range, while New Zealand inflation returned to target for the first time in more than two years. Headline inflation in Australia rose to 1.5% y/y, from 1.3%. In New Zealand, it jumped to 1.3%, from 0.4% previously.

Housing contributed to the annual inflation jump. Australia and New Zealand housing costs are running above headline CPI, despite regulator attempts to cool the frothy spots. Dwelling prices in Australia's most populated cities—Sydney and Melbourne—are rising. Dwelling prices year over year were up 15.5% and 13.7%, respectively, in December. Strong demand in Sydney and Melbourne has lifted rental costs and pushed up prices of new dwellings, both captured in the CPI basket.

House prices are driving the gains, as apartment prices have cooled substantially. Sydney apartments were up 9.6% and Melbourne units up 1.2%. Melbourne apartment supply has increased substantially in recent years, while Sydney apartment supply is still coming on line and should dampen prices into 2018. Auction clearance rates in Sydney are a good indicator of market demand, and clearance rates cooled in December. The uptick is not enjoyed nationwide; prices in mining-exposed Perth dropped 4.3% y/y in December.

Disparity is also occurring across the Tasman in New Zealand. National property values rose 13.5% y/y in December and are more than 25% above the previous market peak of late 2007. Auckland prices have outperformed the national average for more than two years and were up 14% in December, fuelled by strong net migration and low interest rates.

The December quarter Massey University Home Affordability Report shows further declines in affordability across New Zealand. Auckland remained the country's least affordable at 56% less affordable than the rest of New Zealand.

The Reserve Bank of New Zealand introduced macroprudential measures in 2013 to cool housing activity and has been amending and toughening its stance since. The RBNZ's latest policy was introduced in October and required a minimum of 40% deposit for investment properties, from the previous 30%, reflecting the flurry of investor activity happening in Auckland. Yet this policy does little to dampen the high level of foreign investment, where funding is typically sourced overseas.

Higher petrol prices were an important contributor to the quarterly CPI gain in Australia and New Zealand. Fuel accounts for 5% to 10% of household budgets; 65% of all Australian and New Zealand workers commute via private vehicle, and more than 80% of the population over 18 owns a car.

Australian pump prices per litre were up 28.4% over the quarter, according to the Australian Automobile Association. In New Zealand, petrol prices made the largest upward contribution to CPI for the quarter, up 4.1%. The average price of a litre of 91-octane petrol in the December 2016 quarter was NZ$1.82, up from NZ$1.75 in the September quarter.

Australia and New Zealand growth and inflation paths tend to track each other closely since the economies have a similar structure. They import almost half of their goods, commodity exports are a key growth driver, and exchange rates usually follow a similar trend. The correlation coefficient between Australia and New Zealand CPI was 0.86 for the past 26 years.

With inflation forecast to warm over 2017 we expect both central banks will remain on the sidelines; the Reserve Bank of Australia will keep the cash rate at 1.5% and the Reserve Bank of New Zealand will remain steady at 1.75%.

In New Zealand nontradables inflation is already uncomfortably strong on account of the housing market, and with global commodity prices rising including for transport, tradables inflation is likely to heat up too. It is a similar circumstance in Australia.

A simple regression showed that if the RBA kept its easing bias and cut rates by an additional 50 basis points in the first half of 2017, bringing the cash rate to 1%, consumer price growth would be 0.7

percentage point higher cumulatively this year. This is undesirable given that inflation is already forecast to almost reach the central bank's midpoint target of 2.5% by the end of the year with policy rates remaining steady. Further, the RBA would be reluctant to cut rates because of concern over adding to already-elevated household debt, substantially attached to the housing market.

Ratings Round-Up

By Njundu Sanneh

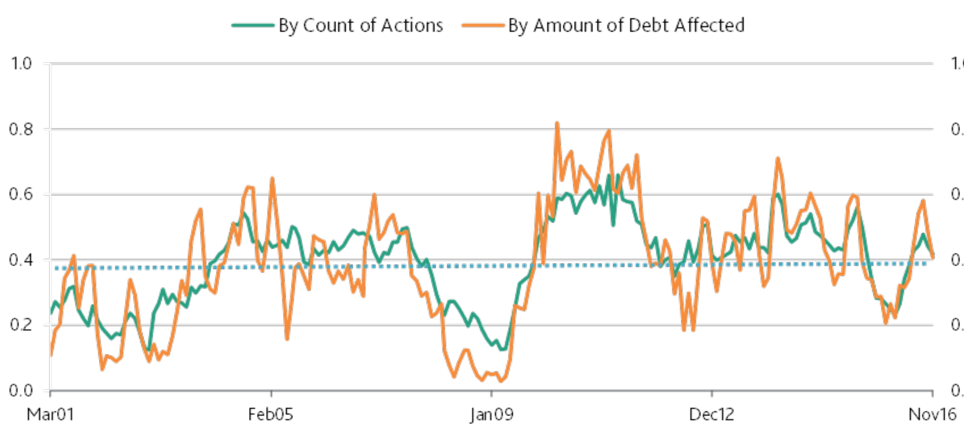
Upgrades Predominate in US, Downgrades in Europe

The weekly rating changes continue to be relatively sparse this year with 10 in the US and two in Europe over the past week. The downgrade of Novartex S.A.S. of France reflects the challenges of the retail sector in Europe. Moody's believes that the retail sector is expected to be among those affected most by defaults in 2017. The downgrade follows the restructuring proposal that includes the conversion of some of the debt to common equity. The other European downgrade was that of Tigerluxone S.A.R.L. of Luxembourg.

In the US the 10 rating revisions were in the gaming, automotive and software sectors. Six of the 10 rating revisions were upgrades. As in Europe all the US rating change entities were industrial companies. The preponderance of speculative grade companies endures with only one non-speculative company in the list. The upgrade of the Caesar's is in recognition of the conclusion of the chapter eleven bankruptcy proceedings.

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
1/25/17	KUEHG CORP.	Industrial	SrSec/BCF		D	B1	B2	SG
1/25/17	NATIONAL VISION, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG
1/26/17	APPVION, INC.	Industrial	SrSec/LTCFR/PDR/BCF	250	D	B3	Caa2	SG
1/26/17	WD WOLVERINE HOLDINGS, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
1/27/17	HORIZON GLOBAL CORPORATION	Industrial	SrSec/BCF		U	B2	B1	SG
1/27/17	HYLAND SOFTWARE, INC.	Industrial	LTCFR/PDR		U	B3	B2	SG
1/30/17	CAESARS ENTERTAINMENT CORPORATION - Caesars Entertainment Resort Properties, LLC	Industrial	SrSec/LTCFR/PDR/BCF	2,150	U	B3	B2	SG
1/30/17	CAESARS GROWTH PARTNERS, LLC	Industrial	SrSec/LTCFR/PDR/BCF	675	U	Caa3	Caa2	SG
1/31/17	ADOBE SYSTEMS INCORPORATED	Industrial	SrUnsec	1,900	U	Baa1	A3	IG
1/31/17	OM GROUP, INC.	Industrial	SrSec		D	Ba3	B1	SG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

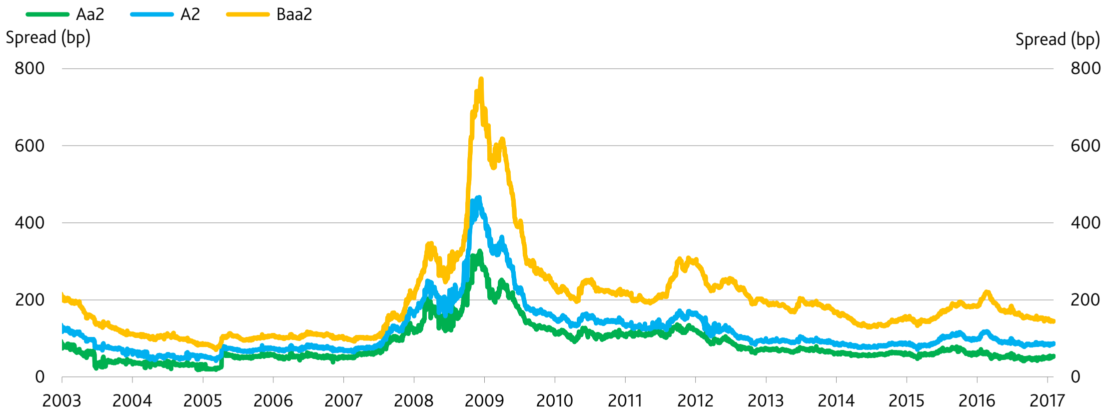
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old LGD	New LGD	IG/ SG	Country
1/31/17	NOVARTEX S.A.S.	Industrial	SrSec/LTCFR/BCF	535	D	Ca	C	LGD-4	LGD-6	SG	FRANCE
1/30/17	TIGERLUXONE S.A.R.L.	Industrial	LTCFR/PDR	200	D	B2	B3			SG	LUXEMBOURG

Source: Moody's

Market Data

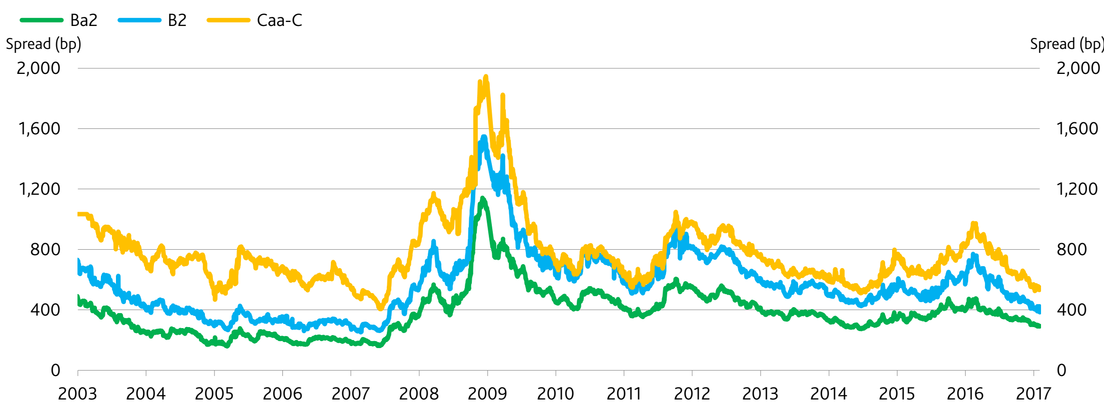
Spreads

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 (January 25, 2017 – February 1, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 1	Jan. 25	Senior Ratings
ONEOK, Inc.	Ba2	B2	Ba1
Amazon.com, Inc.	A2	Baa1	Baa1
Ally Financial Inc.	Ba3	B1	Ba3
Bank of New York Mellon Corporation (The)	A2	A3	A1
Time Warner Inc.	A1	A2	Baa2
First Data Corporation	Ba3	B1	B3
Dominion Resources Inc.	A1	A2	Baa2
National Rural Utilities Coop. Finance Corp.	A1	A2	A2
CCO Holdings, LLC	Ba1	Ba2	B1
Becton, Dickinson and Company	A2	A3	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 1	Jan. 25	Senior Ratings
NiSource Finance Corporation	Baa1	A2	Baa2
Magellan Midstream Partners, L.P.	Baa2	A3	Baa1
Comcast Corporation	A3	A2	A3
Wal-Mart Stores, Inc.	A3	A2	Aa2
Philip Morris International Inc.	A2	A1	A2
Kraft Heinz Foods Company	Baa2	Baa1	Baa3
United Parcel Service, Inc.	Aa2	Aa1	A1
Target Corporation	Baa1	A3	A2
Valero Energy Corporation	Ba1	Baa3	Baa2
Consolidated Edison Company of New York, Inc.	A2	A1	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 1	Jan. 25	Spread Diff
Sears Holdings Corp.	Caa3	3,864	3,175	690
Sears Roebuck Acceptance Corp.	Caa3	3,615	2,970	645
Parker Drilling Company	Caa1	806	720	86
MBIA Insurance Corporation	Caa2	750	668	82
Genworth Holdings, Inc.	Ba3	729	677	52
Penney (J.C.) Corporation, Inc.	B3	665	620	45
Pitney Bowes Inc.	Baa3	202	168	34
Chesapeake Energy Corporation	Caa3	582	550	32
Mattel, Inc.	Baa1	178	146	32
Weatherford International, LLC (Delaware)	Caa1	459	427	32

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 1	Jan. 25	Spread Diff
GenOn Energy, Inc.	Caa3	1,816	2,003	-187
ONEOK, Inc.	Ba1	165	258	-93
ONEOK Partners, L.P.	Baa2	115	152	-38
United States Steel Corporation	Caa1	436	467	-31
Nine West Holdings, Inc.	Ca	4,764	4,792	-28
Enbridge Energy Limited Partnership	Baa2	174	198	-25
Royal Caribbean Cruises Ltd.	Ba1	113	137	-24
Ally Financial Inc.	Ba3	201	224	-23
CCO Holdings, LLC	B1	150	172	-22
Murphy Oil Corporation	B1	252	274	-22

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (January 25, 2017 – February 1, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 1	Jan. 25	Senior Ratings
Old Mutual Plc	A2	Baa1	Baa3
Nordea Bank AB	A2	A3	Aa3
Svenska Handelsbanken AB	A1	A2	Aa2
Erste Group Bank AG	Baa3	Ba1	Baa1
Eurobank Ergasias S.A.	Caa3	Ca	Caa3
Bank of Scotland plc	A3	Baa1	A1
SEB	A1	A2	Aa3
Greece, Government of	Caa3	Ca	Caa3
Bank of Ireland	Ba1	Ba2	Baa2
Merck KGaA	Aa3	A1	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 1	Jan. 25	Senior Ratings
Italy, Government of	Ba2	Ba1	Baa2
France, Government of	A2	A1	Aa2
Germany, Government of	Aa2	Aa1	Aaa
Credit Agricole S.A.	Baa2	Baa1	A1
ING Groep N.V.	Baa1	A3	Baa1
UniCredit S.p.A.	Ba2	Ba1	Baa1
Bankinter, S.A.	Ba1	Baa3	Baa2
DNB Bank ASA	Baa1	A3	Aa2
Orange	Baa1	A3	Baa1
Telecom Italia S.p.A.	B1	Ba3	Ba1

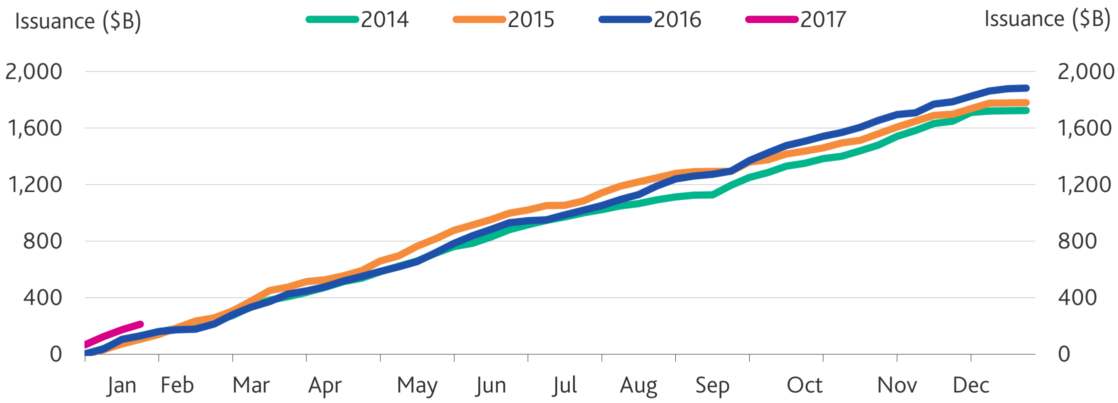
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 1	Jan. 25	Spread Diff
Novo Banco, S.A.	Caa1	1,397	1,265	132
Matalan Finance plc	Caa2	1,447	1,344	103
Astaldi S.p.A.	B2	886	805	81
Norske Skogindustrier ASA	Caa3	2,805	2,743	62
PizzaExpress Financing 1 plc	Caa1	577	542	34
NIBC Bank N.V.	Baa1	223	191	31
CMA CGM S.A.	B3	632	604	27
Selecta Group B.V.	Caa2	929	903	26
Boparan Finance plc	B2	466	441	25
Novafives S.A.S.	B3	524	502	23

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 1	Jan. 25	Spread Diff
Vedanta Resources plc	B3	341	462	-121
Care UK Health & Social Care PLC	Caa1	599	674	-75
Galapagos Holding S.A.	Caa2	799	820	-22
Telefonaktiebolaget LM Ericsson	Baa3	124	145	-21
Unipol Gruppo Finanziario S.p.A.	Ba2	192	207	-15
Old Mutual Plc	Baa3	49	62	-13
Banco Comercial Portugues, S.A.	B1	589	600	-12
Iceland Bondco plc	Caa1	404	416	-12
Svenska Handelsbanken AB	Aa2	41	50	-9
Greece, Government of	Caa3	927	937	-9

Source: Moody's, CMA

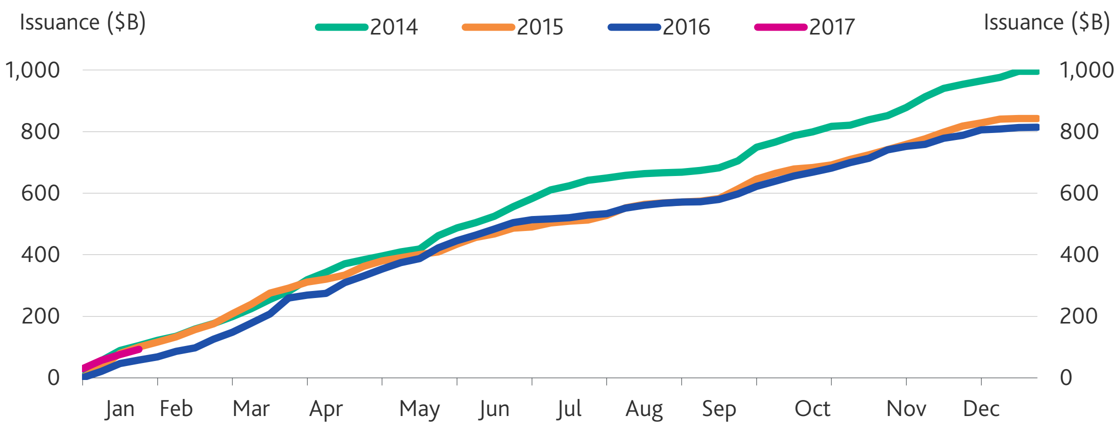
Issuance

Figure 5. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

Figure 6. Market Cumulative Issuance - Corporate & Financial Institutions: Euro Denominated



Source: Moody's / Dealogic

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	23.619	11.560	38.292
Year-to-Date	155.291	34.743	211.612

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	15.264	0.000	17.047
Year-to-Date	81.916	5.777	92.721

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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