MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Low Inflation May Suppress Bond Returns

Moody's Capital Markets Research

Weekly Market Outlook Contributors:
John Lonski
1.212.553.7144
john.lonski@moodys.com
Njundu Sanneh
1.212.553.4036
njundu.sanneh@moodys.com
Franklin Kim
1.212.553.4419
franklin.kim@moodys.com
Yuki Choi
1.212.553.0906
yukyung.choi@moodys.com

Moody's Analytics/Europe:
Tomas Holinka
+420 (221) 666-384
Tomas.holinka@moodys.com
Barbara Teixeira Araujo
+420 (224) 106-438
Barbara.TeixeiraAraujo@moodys.com

Moody's Analytics/Asia-Pacific:
Katrina Ell
+61 (2) 9270-8144
katrina.ell@moodys.com
Faraz Syed
+61 (2) 9270-8146
Faraz.syed@moodys.com

Editor
Dana Gordon
1.212.553.0398
dana.gordon@moodys.com

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Check our chart here for forecast summaries of key credit market metrics. Full updated stories, "For January-August 2017, newly issued US$ corporate bonds graded less-than-B2 grew by 73% annually, to $79 billion," begin on page 13.

Credit Spreads	Investment Grade: Year-end 2017 spread to exceed its recent 115 bp. High Yield: After recent spread of 370 bp, it may approximate 440 bp by year-end 2017.
Defaults	US HY default rate: Compared to August 2017's 3.4%, Moody's Default and Ratings Analytics team forecasts that the US' trailing 12-month high-yield default rate will average 2.8% during 2018's second quarter.
Issuance	In 2016, US$-IG bond issuance grew by 5.6% to a record $1.412 trillion, while US$-priced high-yield bond issuance fell by -3.5% to $341 billion. For 2017, US$-denominated IG bond issuance may rise by 8.5% to a new zenith of $1.531 trillion, while US$-priced high-yield bond issuance may increase by 24.9% to $426 billion, which lags 2014's $435 billion record high.

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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: Market triggers, hurricanes, data in sync, Harvey, inflation, yields, Korea, jobless rate, spreads, Saudi Arabia, lending, El Salvador, liquidity, CreditEdge, European credit, rates, sov risk, Qatar, equities, debt-to-GDP.

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

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Credit Markets Review and Outlook

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

Low Inflation May Suppress Bond Returns

A less accommodative US monetary policy may heighten market volatility near term. However, over time, the fundamentals that give direction to business activity and financial markets will prevail. For now, current trends involving demography, technology, regulation, and globalization favor the containment of core price inflation and still relatively low US Treasury bond yields.

Because price deflation is anathema to both profit margins and credit quality, a low enough rate of price inflation will adversely affect both equity prices and systemic financial liquidity. If US core consumer price inflation (which excludes volatile food and energy prices) now eases amid a relatively low and declining unemployment rate, what might become of core consumer prices once unemployment inevitably rises? Today's already sluggish rate of core consumer price growth increases the risk of outright price deflation if sales volumes endure a recessionary contraction.

US consumer price inflation lacks both the speed and breadth necessary for a lasting stay by a 10-year Treasury yield of at least 2.5%. Because the Fed's preferred inflation measure — the PCE price index — can be temporarily buffeted about by wide swings in food and energy prices, our focus is on the core PCE price index, which best captures consumer price inflation's underlying pace.

Pockets of price deflation warn against aggressive tightening

The annual rate of core PCE price index inflation was merely 1.4% in July. The accompanying -2.0% annual rate of consumer durables price deflation underscores the considerable risk of pushing too hard on the monetary brakes. Both persistent consumer durables price deflation and August 2017's -0.9% annual rate of core consumer goods price deflation (as measured by the CPI) warn that too rapid a rise by interest rates risks even lower prices among businesses already burdened by a loss of pricing power. Prolonged core consumer goods price deflation might yet thin profit margins by enough to necessitate layoffs.

The CPI tells roughly the same story as the PCE price index, where inflation gives way to deflation outside of consumer services. By far the fastest price growth has been posted by consumer services, whose pricing benefits from the category's relative immunity from global competition. For example, August 2017's 1.7% annual rate of core CPI inflation consisted of a 2.5% annual rate of consumer service price inflation that differed considerably from the aforementioned -0.9% annual rate of core consumer goods price deflation. Core consumer goods price deflation has held in each month since March 2013 and it posted its worst reading since August 2004's -1.2% in August 2017.

Moreover, consumer service price inflation has been skewed higher by the relatively rapid growth of shelter costs. After excluding August 2017's 3.3% yearly increase by the CPI's shelter cost component, the 1.7% annual rate of core CPI inflation drops to 0.5%, which was the slowest such rate since the 0.5% of January 2004.

Expectations of a 2% to 3% Return from Bonds May Become the Norm

Investment professionals now include expectations of a prolonged containment of price inflation in their long-term outlook for prospective returns. For example, a member of Vanguard Group's global investment-strategy team reiterated Vanguard's expectation of expected returns for the next decade of 5% to 8% for equities and 2% to 3% for bonds, according to Bloomberg News.

The expected 2% to 3% return from bonds during the next 10 years is at odds with both the FOMC's median projection of a 2.75% federal funds rate over the long-term and consensus forecasts of a 3% to 3.5% average for the 10-year Treasury yield during the next 10 years.

The cited Vanguard investment manager claimed that bond yields will be reined in by low price inflation stemming from demographic change, globalization, and technological progress. Aging populations will weigh on household expenditures. An aging population implies less in the way of household formation that otherwise accelerates spending vis-a-vis income and, by doing so, imparts a powerful multiplier effect.

Furthermore, the US workforce now ages in tandem with the overall population. According to the Labor Department's household survey of employment, the employment of Americans aged at least 55 years surged by a cumulative 31.2% since June 2009's end to the Great Recession through August 2017. Because the latter was so much faster than the accompanying 9.6% increase by total household-survey employment, the number of employees aged at least 55 years rose to a record 23.2% of household survey employment in August. The unprecedented aging of both the US workforce and population will limit the upsides for household expenditures, core consumer price inflation, benchmark interest rates, corporate earnings growth, and corporate debt growth.

Globalization has weakened the tendency of a tighter US labor market to quicken wage growth and, thereby, stoke consumer price inflation. Globalization exposes US workers to the often cheaper and increasingly skilled workforces of dynamic emerging market countries. Heightened labor-market competition implies that employee compensation will be more closely aligned with a worker's individual performance. Attractive across-the-board wage hikes are a thing of the past.

Meanwhile, technological progress will facilitate the production of higher quality products at lower costs. Thanks to technology, cost-push deflation may push aside cost-push inflation.

Faster price growth requires the sustenance of faster income growth

A recurring annual rate of consumer price inflation of at least 2% requires that consumers be able to afford such a steady and broadly distributed climb by prices. The atypically slow 2.6% annual rise by wage and salary income of the 12-months-ended July 2017 questions consumer spending's ability to sustain consumer price inflation at 2% or higher. An improving trend has yet to materialize according to July's merely 2.5% yearly increase by wages and salaries.

Never before has wage and salary income grown so slowly over a yearlong span more than three years into a business cycle upturn. Yes, it may be true that 2017's deceleration by wages and salaries reflects an attempt to delay receiving employment income until after possible income tax cuts take effect, but most workers are incapable of timing the receipt of income. Thus, to the extent any slowing of 2017's wage and salary income reflects a tax-driven postponement of such income, attention is brought to a distribution of income that may be increasingly skewed toward higher income individuals. If true, then any percent increase by wage and salary income will supply less of a boost to household expenditures and business pricing power compared to the past.

Today's dearth of personal savings and weakened financial state of America's lower- and middle-income classes subtract from business pricing power. Less personal savings leaves consumers with less of a buffer with which to absorb widespread price hikes. When savings are low or practically nonexistent, affected consumers may react to broadly distributed price hikes by cutting back on real consumer spending, which, in turn, leads to an accumulation of unwanted inventories and remedial price discounting.

When the core PCE price index averaged a rapid annual advance of 6.6% during 1971-1981, the US personal savings rate averaged 11.6% of disposable personal income. By contrast, since the end of 1995, the 1.7% average annual rate of core PCE price index inflation has been joined by a much lower average personal savings rate of 5.0%, where the personal savings rate was an even skimpier 3.9% during the 12-months-ended July 2017. Moreover, to the degree the distribution of income has become increasingly skewed toward the top, the personal savings rate of middle- to lower-income consumers may now be noticeably l

The FOMC now believes that the annual rate of core PCE price index inflation will remain under 2%, but only through 2018. However, core PCE price index inflation is likely to average something less than 2% annually through 2027, especially if employee compensation cannot sustain a pace faster than 4% annually.

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 18: All eyes are on the Federal Open Market Committee this week. We expect the FOMC to announce the beginning of the balance sheet normalization, which is a form of monetary policy tightening. The Fed has been spoon-feeding financial markets the process for normalizing the balance sheet and the timing shouldn't be surprising. Though the Fed will announce the process, it won't begin until October and will take several years to complete, shrinking the balance from $4.5 trillion to $3 trillion over the course of four years.

The Fed will make it official that the caps used to normalize the balance sheet with the initial runoff to be set at $6 billion for Treasuries and $4 billion for agency mortgage-backed securities. The caps will increase every three months, assuming the economy continues to evolve in line with the Fed's expectations.

We expect some changes to the statement, with an explicit mention of Hurricanes Harvey and Irma. The Fed will likely borrow liberally from the statement following Hurricane Katrina in 2005, when it noted that while Katrina increased uncertainty about the economy's near-term performance, the hurricane didn't pose a more persistent threat. We don't anticipate any changes to the Fed's assessment of inflation or inflation expectations. Also, we look for the statement to continue to describe the risks to the outlook as roughly balanced.

The Fed will release its updated economic and interest rate projections. Odds are some of the interest rate projections submitted by participants will come down because of the weaker inflation trend, but we don't believe the median estimates for this year or next will change, signaling one additional rate hike this year and three in 2018. The Fed will also provide our first look at its economic and interest rate forecasts for 2020. For rates, there will likely be one hike in 2020, putting the fed funds rate at its long-run equilibrium rate, which the Fed puts near 3%. However, we don't pay too much attention to the interest rate projections beyond this year, as it's unclear who will be leading the Fed next year.

The Fed's forecast for GDP growth this year and next could be revised up slightly. The unemployment rate projection will likely come down and the Fed could lower its estimate of the nonaccelerating inflation rate of unemployment. Given the incoming data, the Fed will lower its forecast for growth in the core PCE deflator this year and likely next.

Overall, we don't anticipate the September meeting to alter our near-term forecast for the fed funds rate. Our subjective odds of a December rate hike are 55%. One reason the odds are not higher is that the August CPI and producer prices suggest that the core PCE deflator, the Fed's preferred measure of inflation, will rise 0.1%, lowering year-over-year growth from 1.4% to 1.3%.

The incoming data will continue to be affected by recent hurricanes. We look for a noticeable increase in initial claims, but the bigger impact on housing data will be in September rather than August. We look for August housing starts to post a modest gain while existing-home sales slipped.

THURSDAY, SEPTEMBER 21

Jobless claims (week ending September 16; 8:30 a.m. EDT)

Forecast: 309,000
We look for initial claims to have risen by 25,000 to 309,000 in the week ending September 16. The impact of Hurricane Harvey on initial claims should fade but Hurricane Irma likely boosted new filings in Florida. Severe hurricanes normally force people out of work, but the storm prevents initial claims

from being filed and processed right away. Therefore, the number of filings is depressed at first. This backlog is worked off in subsequent weeks, temporarily boosting initial claims, which we believe occurred in the week ending September 16.

There is considerable uncertainty in the forecast for a couple of reasons. First the timing of an increase in new filings following Irma is unclear. Also, there could be substantial revisions to the prior week because the Department of Labor estimated initial claims for a number of states affected by Irma, including Florida.

FRIDAY, SEPTEMBER 22

No major releases scheduled

EUROPE

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

Summary, September 15: The week ahead will be fairly exciting for the U.K. economy. On Monday, investors will be closely watching Mark Carney's speech at the International Monetary Fund in Washington, looking for more clues on whether a rate rise in November is indeed to be expected. The Bank of England surprised markets on Thursday, substantially changing its rhetoric and claiming that a rate hike would probably be appropriate in coming months if slack continues to be eroded and inflation pressures rise gradually. Prior to this week, market-implied probabilities of a rate hike by the November meeting were only at 20%, and we were not penciling in a tightening before the beginning of 2019, so we are all curious to see how Mark Carney will justify this abrupt hawkish turn.

The governor had made it clear earlier this year that he wanted to see wage growth firm and Brexit uncertainty decline before voting for a tightening, but none of that has happened. Wage growth remains subdued, coming in at only 2.1% y/y in July, and little progress has been made on the U.K.-EU negotiations. Plus, there is little prospect that activity will rebound in months to come, while it also looks clear that production and net trade will, against the BoE's hope, ultimately fail to offset the slowdown in consumption that is under way. But we have to admit that, after the arch-dove Gertjan Vlieghe gave a surprisingly hawkish speech on Friday, we wouldn't be surprised if Mark Carney followed suit in his comments, providing further support for the pound.

Friday will then bring a highly anticipated speech by Theresa May. The prime minister will travel to Florence for a major address on Brexit, perhaps the most important speech about the EU since January. She is expected to give fresh details about the future relationship she wants the U.K. to build with the EU, providing updates on how the negotiations are going, before the fourth formal round of Brexit negotiations begin. As of now, delays have been plenty, and it looks extremely unlikely that the U.K. will be able to start talks on the future trade deal by October, as initially expected. The clock is ticking, and if trade talks start only by December—our baseline—this would leave the U.K. barely nine months to complete a comprehensive deal, which is clearly unfeasible. Both sides are nonetheless open to a transitional period, likely one during which the U.K. would be outside of the EU but would maintain the same basic terms that it currently enjoys with the EU. We expect that May will focus on the shape of this transitional period on Friday, and that she will likely try to make a breakthrough on the EU's demand for a divorce bill, which is clearly blocking progress in talks.

THURSDAY, SEPTEMBER 21

No major indicators are scheduled for this date.

FRIDAY, SEPTEMBER 22

France: GDP (Q2; 6:30 a.m. BST)

Final GDP data are expected to confirm that the French economy grew by 0.5% q/q in the three months to June, matching the rate for the previous quarter. A jump in net exports is expected to have driven the headline, reversing the first quarter's big fall as manufacturing exports soared and oil refining imports fell as French refineries opened again after maintenance at the start of the year. But consumer spending also contributed—up by 0.3% q/q and improving on the first quarter's 0.1% rise, notably on the back of stronger goods spending—as did government spending. Investment, by contrast, slowed from a surge at the start of the year, though construction investment picked up to 0.8% q/q, from 0.6% previously.

Inventories were the major drag on the headline, shaving 0.6 percentage point off growth. This was due to a reduction in stocks of transport equipment, mostly in auto and aeronautics, and was mostly related to booming exports of transport equipment goods than to anything else. Inventories and imports had surged in the first quarter as a result of restocking, and this reverted in the second quarter as firms exported most of their stocks of transport equipment, especially of cars, planes and aeronautic parts, to the rest of the world.

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

Following weak trading activity in June, we expect that a strong rebound in imports led to a further deterioration in the trade deficit, to €1.7 billion, in July. At the same time, exports should have performed well over the month, as business sentiment was upbeat and the high-frequency data pointed toward strengthening. Air cargo was up 5.4% in July, while early estimates of port traffic showed that container shipments from Spanish ports rose 7.2% year on year, up from 2.2% in June. Barcelona, in particular, was busy over the month as total cargo was up 18.8% after falling 10.7% in June. This all points to robust exports, while the import bill fattened as oil prices started to climb and the strong euro buoyed import demand.

ASIA-PACIFIC

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

Japan's economy lost some momentum in August; expect a higher unemployment rate and slower core CPI

Japan's economy lost a little momentum in August, with most monthly activity indicators expected to cool. Japanese workers' household expenditure likely slowed in August. Low base effects have added to spending on a year-ago basis. Higher than expected wage growth midway through the year, along with bonuses paid out, boosted disposable income and thus spending. However, those one-off increases likely dissipated in August and spending likely slowed. Monthly housing starts likely recorded mediocre annual growth in August. Momentum in Japan's housing market has faded in 2017, partly due to fading

one-off effects in 2016 which encouraged housing investment. Since most of the investment is already accounted for, housing starts have been slow or declining in 2017. This trend is unlikely to change.

Japan's unemployment rate likely ticked up a notch in August to 2.9%, from July's 2.8%. The rise stems from a stabilisation in the participation rate after it previously fell. More Japanese are looking for jobs this year compared with last. Japan's monthly industrial production momentum remains uneven, but it likely recovered over August. A low yen, along with improved external demand, has boosted output from Japan's large export-oriented manufacturers. Production of electronic parts and equipment is expected to remain firm because of the tech cycle.

Japan's core inflation likely decelerated to 0.4% y/y in August after a 0.5% rise in July. Japan's price growth is showing clear signs of improving in 2017 after a year of deflation in 2016. That said, overall price pressures remain cool, and the Bank of Japan's 2% inflation target remains as elusive as ever. Most of the recent rebound in inflation has stemmed from higher commodity prices compared with last year.

Chinese manufacturing sentiment likely improved further in August. Manufacturers are optimistic on net because of the global consumer tech boom. Production and exports of electronics will rise by year's end as new products are shipped. Domestic demand for electronics and automobiles is also healthy. Manufacturers continue to point to higher orders, suggesting further gains in production ahead.

THURSDAY, SEPTEMBER 21

New Zealand – GDP – 2017Q2

Time: 8:45 a.m. AEST (Wednesday, 10:45 p.m. GMT)
Forecast: 0.7%
New Zealand's GDP growth likely ticked up a few notches to 0.7% q/q in the June quarter, from the March quarter's 0.5%. This brings annual growth to 2.2%, from 2% previously. Solid export performance, mainly on the back of higher dairy and other soft commodities, was an important driver. Even though values have soared, volumes have stayed robust amid buoyant Chinese demand and some supply impediments in Europe. Domestic demand is also upbeat, especially consumption, with spending and tourism receiving a lift over the quarter from various international sporting events. The low interest rate environment alongside still strong net migration is the backbone of solid consumption through the first half of the year.

Japan – Monetary Policy – September

Time: 2:00 p.m. AEST (4:00 a.m. GMT)
Forecast: ¥80 trillion
The Bank of Japan has slowed its pace of asset purchases in recent months. However, the central bank will keep its stimulus taps open by communicating that purchases of Japanese government bonds will continue monthly at an annualised rate of ¥80 trillion. The bank will also target long-term interest rates through its yield curve control policy, while a -0.1% interest rate on excess reserves will target the short-term rate. The pickup in inflation remains modest, and underlying inflation is still well under the central bank's 2% target. At the last meeting, the BoJ delayed the time frame to hit the 2% target. While it's unlikely to do so again, we don't see Japan hitting 2% inflation any time soon. Overall, we expect a relatively neutral monetary policy statement accompanying the BoJ's decision.

FRIDAY, SEPTEMBER 22

Indonesia – Monetary Policy – September

Time: Unknown
Forecast: 4.5%

Bank Indonesia will likely keep the policy rate on hold in September, after surprising markets and delivering a 25-basis point reduction in August to 4.5%. The central bank cut policy rates to lift domestic demand after June quarter GDP growth printed below expectations at 5% y/y, making achieving the full-year growth rate of 5.2% less likely. BI specifically mentioned in August's monetary policy statement that private consumption was behind the disappointing quarterly growth, so loan and deposit rates were cut by an average of 74 basis points in August. The central bank had the flexibility to reduce rates, as core inflation is sitting at the low end of the 3%-to-5% target band. We do not think further cuts are in the immediate pipeline, as the central bank is still worried about destabilizing its external position, which remains vulnerable given offshore, major central banks are in slow normalization mode.

Taiwan – Domestic Trade – August

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Forecast: -1.5%
Domestic spending remains weak in Taiwan. Despite a recovery in export manufacturing, households have been reluctant to ramp up spending. One reason is that unemployment has edged up in the last two months, while employment growth in the services sector has ebbed. Still, consumer confidence perked up in August, suggesting consumers could be about to lift spending. We expect domestic spending to have eased a further 1.5% y/y in August, from a 1.7% fall in July.

Taiwan – Industrial Production – August

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Forecast: 2.7%
Taiwan's manufacturing sector is one of the primary beneficiaries of the strong tech cycle. Exports of electronic components are up 14.7% y/y in the year to August, from growth of 1.6% in the same period last year. However, industrial output underperformed in July, mostly due to sluggish domestic demand and supply shortages. We expect industrial production growth edged up to 2.7% y/y in August from 2.4% in July, aided by the production of components to be assembled in China and sold globally in the fourth quarter of this year.

MONDAY, SEPTEMBER 25

No major economic indicators are scheduled for release.

TUESDAY, SEPTEMBER 26

South Korea – Consumer Sentiment Index – September

Time: 7:00 a.m. AEST (Monday, 9:00 p.m. GMT)
Forecast: 109
We expect South Korea's consumer confidence index to slip to 109 in September, from 109.9 in August. Although consumer confidence has perked up in the first half of 2017, thanks to improving economic conditions and President Moon Jae-in's stimulus measures, confidence ebbed in August because of escalating tension with North Korea. Still, consumer confidence is likely to stay elevated relative to last year. Improved household confidence has started to spill over to consumer spending.

New Zealand – Foreign Trade – August

Time: 7:45 a.m. AEST (Monday, 9:45 p.m. GMT)
Forecast: NZ$350 million
New Zealand's monthly trade surplus likely widened in August to NZ$350 million, from July's NZ$85 million surplus. A usual seasonal lull in July typically drives trade deficits for that month but because of soaring dairy shipment values a surplus was maintained. The July rise in dairy was the largest for any month since March 2014, with the value of whole milk powder per tonne 30% higher than a year earlier, while the quantity rose 12%. Dairy price growth cooled a little in August to be up 33% y/y, from the 45% rise in July. This should have only a modest effect on overall milk shipments. Buoyant

domestic demand is keeping the import bill relatively solid, and we expect this will be maintained in August as strong net migration keeps demand for consumer goods high.

Singapore – Industrial Production – August

Time: 3:00 p.m. AEST (5:00 a.m. GMT)
Forecast: 15%
Singapore's industrial production growth is expected to have decelerated to 15% y/y in August after July's blistering 21%. Manufacturing has boomed throughout the year thanks to the broad-based improvements in economic conditions globally. Electronics have been leading the growth charge, expanding almost 50% in recent months. Transport engineering has also picked up, as the fall in demand for new oil rigs has passed its trough.

Hong Kong – Foreign Trade – August

Time: 6:30 p.m. AEST (8:30 a.m. GMT)
Forecast: -HK$28 billion
Trade activity through Hong Kong's port slowed slightly in July but remained fairly healthy. Growth in exports and imports grew in mid-single digits year on year. The port is seeing greater activity due to a combination of increased tech shipments globally and continued commodity demand for the mainland. The release of the latest iPhone will boost shipments later this year. Hong Kong's trade deficit likely narrowed to HK$28 billion in August from HK$29.6 billion in July.

WEDNESDAY, SEPTEMBER 27

Thailand – Monetary Policy – September

Time: 2:00 p.m. AEST (4:00 a.m. GMT)
Forecast: 1.5%
The Bank of Thailand will leave its policy rate unchanged at the record low of 1.5% at its September policy meeting. Rates have stood at this level since being lowered in April 2015. While the Thai economy outperformed expectations in the first half of the year, no movement in monetary policy is on the cards until mid-2018 at the earliest. While growth accelerated in the first half of 2017, this was largely because of government spending and improved exports. Domestic demand remains sluggish, as private investment and consumption are hamstrung by the uncertain political situation. Recent government public pressure to reduce interest rates to take the shine off the elevated baht are not expected to change the policy outcome in September.

THURSDAY, SEPTEMBER 28

New Zealand – Monetary Policy – September

Time: 5:00 a.m. AEST (Wednesday, 7:00 p.m. GMT)
Forecast: 1.75%
The Reserve Bank of New Zealand will keep the policy rate steady at 1.75% at its September monetary policy meeting. The economy is in a sweet spot with domestic demand upbeat thanks to solid population growth providing an added lift to consumption. The external sector is also doing well thanks to a sustained uptick in global prices in the all-important dairy sector, lifting export receipts and providing a broader income lift. The RBNZ doesn't need to be in a hurry to normalize rates, as inflation is forecast to only gradually creep higher through the 1%-to-3% target band. We expect the first interest rate hike around mid-2018.

FRIDAY, SEPTEMBER 29

Thailand – Industrial Production – August

Time: Unknown
Forecast: 2.4%

Thailand's industrial production growth is forecast to have slowed to 2.4% y/y in August after growing 3.7% in July. Improved global conditions have supported the sector's export-oriented aspects. This has been most clearly seen in higher production of electronics and automobiles. Food production has also improved markedly in 2017 as growing conditions have been consistently strong.

South Korea – Industrial Production – August

Time: 9:00 a.m. AEST (Thursday, 11:00 p.m. GMT)
Forecast: 0.5%
South Korean industrial production likely grew 0.5% y/y in August, up from 0.1% in July. Industrial production growth has slowed since February but showed some signs of stabilization in July. We expect that to continue, consistent with the Purchasing Managers' Index, which improved to 49.9 in August from 49.1 in the prior month, as new orders increased. South Korea is a key producer of electronics such as smartphones as well as semiconductors, and industrial production should continue to find support from firm global tech demand.

South Korea – Retail Sales – August

Time: 9:00 a.m. AEST (Thursday, 11:00 p.m. GMT)
Forecast: 0.6%
We expect South Korea's retail sales to have increased 0.6% m/m in August, up from 0.2% in July. Consumer confidence has perked up since the start of the year and households have started to spend a little more freely. Sales of durable goods such as cars and household appliances have picked up noticeably in recent months. However, given record high household debt, we do not expect retail sales to rebound sharply. Rising tension with North Korea is a risk to the outlook, as it could temporarily dent sentiment and spending.

Japan – Consumer Price Index – August

Time: 9:30 a.m. AEST (Thursday, 11:30 p.m. GMT)
Forecast: 0.4%
Japan's core inflation likely decelerated to 0.4% y/y in August after a 0.5% rise in July. Japan's price growth is showing clear signs of improving in 2017 after a year of deflation in 2016. That said, overall price pressures remain cool, and the Bank of Japan's 2% inflation target remains as elusive as ever. Most of the recent rebound in inflation has stemmed from higher commodity prices compared with last year. But the recent drop in global commodity prices likely caused fuel inflation to decelerate in August. Imported inflation has also added to overall prices because the yen has depreciated by more than 10% since late 2016 and has generally remained at that level since.

Japan – Employment Situation – August

Time: 9:30 a.m. AEST (Thursday, 11:30 p.m. GMT)
Forecast: 2.9% unemployed
Japan's seasonally adjusted unemployment rate likely ticked up a notch in August to 2.9%, from July's 2.8%. The rise stems from a stabilisation in the participation rate. More Japanese are looking for jobs this year compared with last. However, labour demand continues to outstrip labour supply. This is evidenced by the sharp rise in the jobs-to-application ratio throughout 2017. But overall, Japan's tight labour market has seen solid job gains across full- and part-time workers. On a year-ago basis, regular employees rose by 600,000 in July, while nonregular rose by 350,000. Wage growth has been steady in 2017, with May recording the highest year-ago increase in wages since the early 2000s. But recent data suggest that the pace of wage growth will likely be unsustainable.

Japan – Household Expenditures Survey – August

Time: 9:30 a.m. AEST (Thursday, 11:30 p.m. GMT)
Forecast: 1.6%
Japanese workers' household expenditures likely decelerated to 1.6% in August from July's 2.2%. Low base effects have added to spending on a year-ago basis. Higher than expected wage growth midway through the year, along with bonuses paid out, boosted disposable income and thus spending. However, those one-off increases likely dissipated in August and spending is expected to slow. The

Bank of Japan confirmed at the yearly central bankers' meeting that imminent policy tapering is off the cards and stimulus would remain in place for some time. However, until wage growth accelerates, spending and inflation are unlikely to significantly increase.

Japan – Industrial Production – August

Time: 9:50 a.m. AEST (Thursday, 11:50 p.m. GMT)
Forecast: 1.1%
Japan's monthly industrial production momentum remains uneven, but it likely rose over August by 1.1%, after July's 0.8% drop. On a year-ago basis, production remains firm and is evidence that the economy is in better shape compared with 2016. A low yen, along with improved external demand, has boosted output from Japan's large export-oriented manufacturers. Production of electronic parts and equipment is expected to remain firm because of the tech cycle. Recent monthly Purchasing Managers' Index surveys also show a broad-based improvement in manufacturing from 52.1 in July to 52.2 in August. A reading above 50 indicates net expansion.

Japan – Retail Sales – August

Time: 9:50 a.m. AEST (Thursday, 11:50 p.m. GMT)
Forecast: 1.6%
Retail sales likely decelerated to 1.6% in August from July's 1.9% y/y gain. That said, Japanese retailers have enjoyed 2017 compared with the previous year. Most major subcategories have increased on a year-ago basis, but a slowdown is expected because wage growth hasn't been consistent in the second half of 2017. Moreover, retail fuel costs have added to headline retail sales this year, and that will likely begin to fade because commodity prices have fallen in recent months. Spending on discretionary items has improved in 2017, but the wage pulse isn't strong enough to suggest this will continue. Moreover, we expect general pullback through August because of increased risk aversion in recent months on the back of tensions in the Korean peninsula.

Japan – Housing Starts – August

Time: 3:00 p.m. AEST (5:00 a.m. GMT)
Forecast: 0.4%
Monthly housing starts likely rose 0.4% y/y in August after a 2.3% drop in July. Momentum in Japan's housing market has faded in 2017, partly because of fading one-off effects in 2016 which encouraged housing investment. Since most of the investment is already accounted for, housing starts have been slow or declining in 2017. This trend is unlikely to change. Japan's ageing population means that housing supply is expected to rise over the coming year. Housing demand in the capital cities has been somewhat better because of inter-migration from various prefectures to capital cities. Most of the job growth is in the major cities, and Japan's housing market is expected to increasingly become two-tier, with higher demand in capital cities versus rising supply elsewhere.

Thailand – Private Consumption – August

Time: 5:30 p.m. AEST (7:30 a.m. GMT)
Forecast: 2.1%
Thailand's private consumption growth likely slowed to 2.1% y/y in August after growing 2.3% in July. Household spending struggled to gain momentum in the first half of 2017 despite rises in farm incomes. Now, farm incomes are slowing, putting another roadblock to consumption growth. Tourism spending has also eased in recent months as tourist growth has hit a plateau after improving in the first part of the year.

Thailand – Foreign Trade – August

Time: 5:30 p.m. AEST (7:30 a.m. GMT)
Forecast: US$2.7 billion
Thailand's trade surplus likely widened to US$2.7 billion in August from US$1.3 billion in July. Thailand's exporters have been benefiting from rising demand from key trading partners. This has been most evident in consistently strong growth in manufacturing and electronics goods. Risks remain though, as regional competitors erode Thailand's competitiveness.

SATURDAY, SEPTEMBER 30

China – Manufacturing PMI – September

Time: 11:00 a.m. AEST (1:00 a.m. GMT)
Forecast: 52
Chinese manufacturers are optimistic on net because of the global consumer tech boom. Production and exports of electronics will rise by year's end as new products are shipped. Domestic demand for electronics and automobiles is also healthy. Manufacturers continue to point to higher orders, suggesting further gains in production ahead. Further employment gains in the U.S. and good wage growth in China will drive consumption over the coming year. The manufacturing PMI likely rose to 52 for September, from 51.7 in August.

The Long View

The US: For January-August 2017, newly issued US$ corporate bonds graded less-than-B2 grew by 73% annually, to $79 billion

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
September 21, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 115 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 370 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 5.8%, the US high-yield default rate has since eased to the 3.4% of August. Moody's Default and Ratings Analytics team expects the default rate will average 3.0% in Q1-2018 and 2.8% 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 -6.3% for IG and an increase of +8.3% for high-yield, wherein US$-denominated offerings fell by -6.4% for IG and grew by +5.8% for high yield.

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 4.5% annually for IG and may advance by 25.3% 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 (September 21, 2017)

The euro zone economy is on a roll. Although growth in the monetary bloc remains well behind China, it pulled slightly ahead of U.S. economic growth and well ahead of its island cousin, the U.K. The euro zone's real GDP growth from a year earlier picked up to 2.3% in the three months to June, from 2% in the opening stanza, while it accelerated only to 2.2% from 2% in the U.S. and slowed to 1.7% from 2% in the U.K. After many years of subdued economic growth or even contraction, the old continent has finally emerged as a major player to global economic expansion and may outperform other developed countries this year. Already, country data for Germany, France, Italy, Spain, the Netherlands and Austria show that the recovery is becoming entrenched and broad-based. The Netherlands outperformed most of its peers, expanding by a staggering 1.5% q/q; Spain's and Austria's GDP each gained 0.9% q/q, while the German economy grew by 0.6%. France and Italy, with the most rigid labour markets, expanded by 0.5% and 0.4%, respectively.

While all components contributed to the euro zone's growth in the first half of 2017, net exports led the way. Household consumption added 0.2 percentage point to quarterly growth on average this year, but net exports contributed 0.3 ppt. The resurgence in the global economy has boosted euro zone exports, and imports haven't subtracted from GDP growth too much. Although the outlook for net exports is uncertain, corporate investments may increase. Overall investment propensity has almost doubled from a year ago, with the strongest upswing among French firms. With a brightening economic outlook and diminishing political threats, corporations may ramp up investment.

Meanwhile, household spending will likely benefit from rising employment. Although considerable labour market slack remains in southern Europe, the situation is slowly improving. Leading the way is Spain, where employment grew 0.9% in the second quarter from 0.7% in the opening stanza. Employment gains in Italy and France were a more sobering 0.3%, as high structural unemployment continues to hamstring their recoveries. Still, the job market looks bright in the near term across most countries and advances in payrolls are within easy reach.

Stronger than expected GDP data for the second quarter prompted us to revise our GDP forecast upwards for many European countries. We expect euro zone GDP to expand by 2.2% in 2017, 0.2 ppt more than in the previous forecast, and Italy's GDP to grow by 1.4%, up sharply from the predicted

1.1%. Spain will top the growth chart at 3%, while Germany will advance by 2% and France by 1.7% this year, all of them accelerating from 2016. The improving growth prospects should help the single-currency union withstand some reduction of monetary stimulus. Despite below-target inflation, the European Central Bank will likely announce some sort of tapering in October. Although we will have to wait for asset purchases to be terminated or policy rates to rise, the central bank will likely change its forward guidance.

The bank doesn't need to rush to adjust its policy stance. Although central bankers are convinced of ongoing economic expansion in the euro zone, they are not so sure about strengthening underlying inflation. Without higher wages and lower labor market underutilization, core inflation won't gain traction. Also, tightening financial conditions are the last thing the ECB wants. The euro has appreciated around 14% this year. Although the stronger euro versus the dollar barely registers on core inflation, it could undermine the euro zone's exports and the broader recovery. Our analysis shows that the euro's strengthening will likely weigh on exports later this year and early in 2018. Nevertheless, we expect that faster inflation in the euro zone than in the U.S., and a falling euro interest rate relative to the U.S. dollar interest rate, should weaken the euro.

UK (September 21, 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 overall outlook for retail sales remains subdued. With inflation running at 2.9% and wage growth stuck at around 2%, it's hard to see how households would finance robust growth in spending this year. Already, average store prices ticked up to 3.2% y/y in July, well above the 2.1% y/y rise in wages recorded for that month. And with inflation looking set to peak in coming months as retailers rapidly pass higher import prices from the pound's slump on to consumers, households' purchasing power will be depressed 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.

Meanwhile, the weighted average of the manufacturing, services and construction PMI fell to an 11-month low in August, dashing hopes that growth could accelerated from the second quarter in the current quarter. In our view, little points to a gain of momentum in this second half of the year, and as of now we are expecting that GDP will increase by only 1.5% in 2017, below the committee's forecast of 1.7%. Furthermore, we think that wage growth will disappoint in coming months and recent pickup in inflation was mainly due to a recovery in oil prices and a faster than expected pass-through of higher import prices.

We therefore maintain our forecast that rates won't be raised this year, but we can't ignore that the odds of a November hike have risen considerably. We normally assume that any major move by the BoE comes together with the publication of an inflation report, and the next one will be released in November, followed by February and May 2018. While much will happen before mid-2018 that could impact the MPC's assessment of the economy, especially regarding exit negotiations, the truth is that September's minutes show that the bank's tolerance for higher inflation has diminished, and that it won't take much prodding for the committee to act.

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 1.2% in mid-September to around 3.5% by the end of this decade.

ASIA PACIFIC

By Katrina Ell and the Asia-Pacific Staff of Moody's Analytics
September 21, 2017

Yuan

China's yuan has had a stellar run in 2017, appreciating 6% year to date to around 6.55 per U.S. dollar. The gains have been driven by a number of factors. China's economy has expanded at a respectable clip this year with earlier growth fears abating. Alongside more restrictions on overseas investment, capital outflows have significantly reduced. The yuan fell 5.5% against the dollar over 2016 as bearish economic sentiment encouraged Chinese investors to diversify abroad. The currency has also been buoyed by a weaker U.S. dollar as the Federal Reserve is following a less aggressive interest rate normalization path than initially anticipated.

Ongoing appreciation coincides with Beijing announcing in June a change to the methodology for setting the currency's daily fixing rate to use a "counter-cyclical adjustment" factor. Further explanation was not provided, but it is speculated that Beijing was signaling it didn't want the yuan to weaken again.

There are economic benefits to yuan appreciation. A stronger yuan discourages capital outflows and prompts investors to seek returns at home. It also puts China in a more favourable position globally against those who claim Beijing artificially keeps the value of its currency low to maintain export price competitiveness.

We modelled the impact of the yuan rising an additional 4 percentage points against the greenback over the remainder of 2017, holding all else constant. By the December quarter of 2017 the exchange rate is hovering around 6.2 per U.S. dollar, bringing full-year depreciation in 2017 to 9.95%. This is a severe scenario but demonstrates the important implications of exchange rate movements.

We found that GDP growth slowed from our baseline forecast of 6.8% in 2017 to 6.73% in the appreciation scenario. The government's "around 6.5%" growth target remains intact. The impact was more pronounced in 2018, with full-year GDP growth hitting 6.38%, lower than our baseline projection of 6.63%.

The impact on exports was more distinct. According to our baseline, exports are forecast to grow 7.4% y/y in 2017 but would rise by only 6.7% under the appreciation scenario. In 2018, baseline exports are forecast at 5.66%, but only 3.19% under the more severe appreciation scenario.

Beijing has recently started taking steps that will stem appreciation pressure, unsurprising given the forecast economic costs of the yuan continuing to strengthen. In mid-September, the People's Bank of China scrapped a rule that made it more costly for traders to short the yuan. The move ends a deposit requirement on currency forwards, which makes it less expensive to buy dollars while selling the yuan. This had been in place for two years.

The PBoC has also removed the reserve requirement on foreign bank yuan deposits. This should allow more yuan into the offshore yuan market in Hong Kong, which could make it easier for offshore investors to bet against the yuan. Since these actions the currency has not appreciated further.

Ratings Round-Up

By Njundu Sanneh

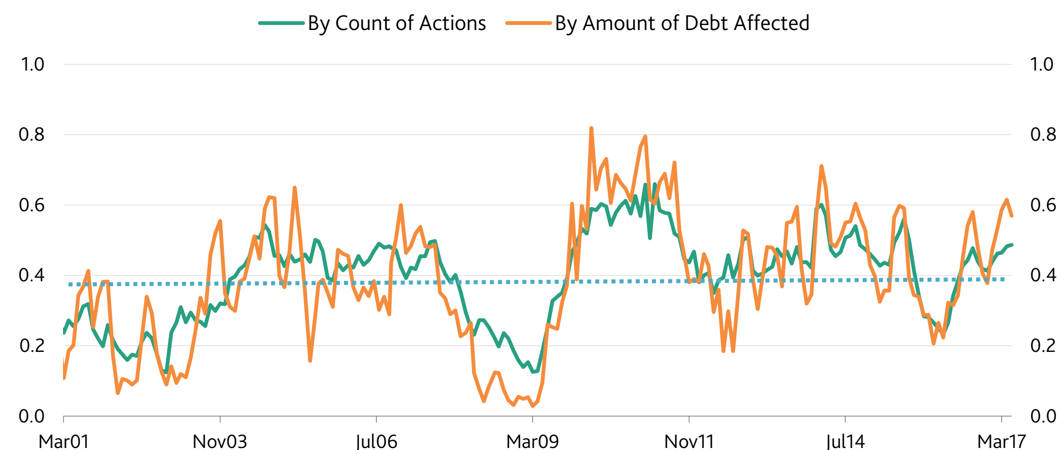
Eighty Percent Positive

Positive rating changes at 80% for both the US and Europe continues the recent trend of upgrades besting downgrades. The upgrade of the government of Ireland and three Irish companies highlighted the past week's rating change activity for Europe, with three of the five rating revisions coming from Ireland. Only one of the three rating changes, that of the utility company Electricity Supply Board, was associated with the upgrade of the sovereign. Fly Leasing's upgrade was the result of a downdraft in the aircraft fleet risk as it sold older aircraft and bought newer ones, in the process increasing average lease term and reducing average age of its fleet. The third company, Allegion PLC, was upgraded on improvements in capital structure and relatively higher margins.

In the US the energy sector was prominent, accounting for three of the 11 rating changes. The upgrade of two of the three energy companies including an oil services firm speaks to the improvements in the industry credit quality, but there are still major headwinds, not least of which is the pause in price gains. The steady if slow economic growth in the US is also aiding housing and leisure sectors as we see upgrades in these areas as well.

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
9/13/17	CAST & CREW PAYROLL, LLC	Industrial	LTCFR/PDR		U	B3	B2	SG
9/13/17	ISTAR INC.	Financial	SrUnsec/SrSec/BCF/LTCFR	3,290	U	Ba3	Ba2	SG
9/15/17	ENDEAVOR ENERGY RESOURCES, L.P.	Industrial	SrUnsec/LTCFR/PDR	800	U	Caa2	B3	SG
9/18/17	DUPONT FABROS TECHNOLOGY, INC.	Financial	SrUnsec/PS	1,025	U	Ba1	Baa2	SG
9/18/17	NEW ACADEMY FINANCE COMPANY LLC - Academy, Ltd.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
9/18/17	TD AMERITRADE HOLDING CORPORATION	Financial	SrUnsec/LTIR	2,550	U	A3	A2	IG
9/18/17	WEIGHT WATCHERS INTERNATIONAL, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
9/19/17	ABACO ENERGY TECHNOLOGIES LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa3	Caa1	SG
9/19/17	CUSTOM ECOLOGY, INC. - Stafford Logistics, Inc.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa1	Caa3	SG
9/19/17	HOLLYFRONTIER CORP. - Holly Energy Partners, L.P.	Industrial	SrUnsec	400	D	B1	B2	SG
9/19/17	NORWEGIAN CRUISE LINE HOLDINGS LTD. - NCL Corporation Ltd.	Industrial	SrUnsec/LTCFR/PDR	700	U	B2	B1	SG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

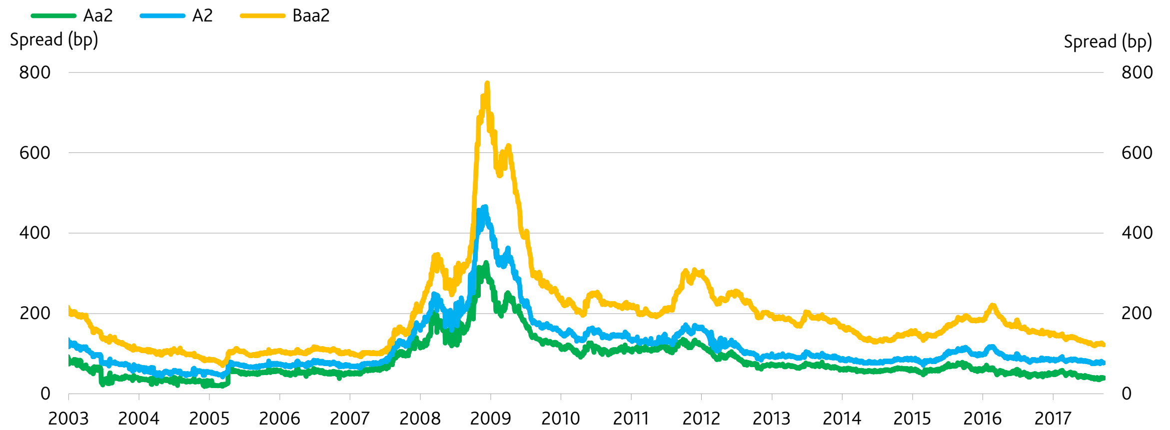
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	New LGD	IG/ SG	Country
9/13/17	ALLEGION PLC	Industrial	SrUnsec	600	U	Ba2	Baa3		SG	IRELAND
9/15/17	FLY LEASING LIMITED	Financial	SrUnsec/SrSec/BCF/LTCFR	700	U	B2	B1		SG	IRELAND
9/19/17	ELECTRICITY SUPPLY BOARD (ESB)	Utility	SrUnsec/LTIR/MTN	2,904	U	Baa1	A3		IG	IRELAND
9/15/17	VERISURE MIDHOLDING AB	Industrial	SrUnsec/SrSec/LTCFR/PDR/BCF	1,507	U	Caa1	B3		SG	SWEDEN
9/18/17	HERO ACQUISITIONS LIMITED	Industrial	LTCFR/PDR	185	D	B1	B2		SG	UNITED KINGDOM

Source: Moody's

Market Data

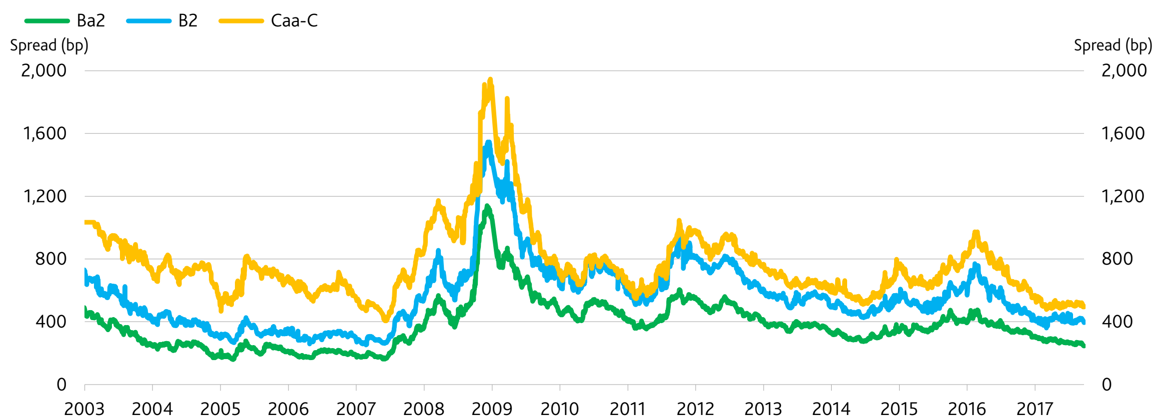
Spreads

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 (September 13, 2017 – September 20, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 20	Sep. 13	Senior Ratings
Exxon Mobil Corporation	Aa2	A1	Aaa
XTO Energy, Inc.	Aa2	A1	Aaa
United States of America, Government of	Aa1	Aa2	Aaa
American Express Credit Corporation	Aa1	Aa2	A2
Oracle Corporation	Aa3	A1	A1
PepsiCo, Inc.	Aa3	A1	A1
U.S. Bancorp	Aa1	Aa2	A1
Medtronic, Inc.	Aa1	Aa2	A3
Burlington Northern Santa Fe, LLC	Aaa	Aa1	A3
Capital One Financial Corporation	Baa2	Baa3	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 20	Sep. 13	Senior Ratings
Penney (J.C.) Corporation, Inc.	C	Caa2	B3
Chesapeake Energy Corporation	C	Caa2	Caa2
International Business Machines Corporation	A2	Aa3	A1
21st Century Fox America, Inc	A3	A1	Baa1
Marriott International, Inc.	A2	Aa3	Baa2
Hertz Corporation (The)	Ca	Caa2	B3
Omnicom Group, Inc.	A2	Aa3	Baa1
Starwood Hotels & Resorts Worldwide Inc.	A2	Aa3	Baa2
JPMorgan Chase & Co.	Baa1	A3	A3
Goldman Sachs Group, Inc. (The)	Baa3	Baa2	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 20	Sep. 13	Spread Diff
Sears Roebuck Acceptance Corp.	Caa3	4,090	3,326	764
Windstream Services, LLC	B2	2,021	1,673	348
Sears Holdings Corp.	Caa3	3,695	3,468	227
McClatchy Company (The)	Caa2	1,129	1,026	103
Frontier Communications Corporation	B2	1,247	1,147	99
Hertz Corporation (The)	B3	747	681	65
Staples, Inc.	B3	427	364	63
Rite Aid Corporation	B3	516	454	62
Penney (J.C.) Corporation, Inc.	B3	855	799	57
iStar Inc.	B1	276	219	57

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 20	Sep. 13	Spread Diff
Nine West Holdings, Inc.	Ca	6,982	7,414	-433
PSEG Power LLC	Baa1	176	201	-25
Stanley Black & Decker, Inc.	Baa1	80	99	-19
Talen Energy Supply, LLC	B1	1,087	1,103	-16
YRC Worldwide Inc.	Caa1	679	691	-12
HealthSouth Corporation	B1	346	352	-6
Western Union Company (The)	Baa2	92	98	-5
Embarq Corporation	Ba1	168	174	-5
Louisiana-Pacific Corporation	Ba2	70	75	-5
Interval Acquisition Corp	Ba3	185	190	-5

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (September 13, 2017 – September 20, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 20	Sep. 13	Senior Ratings
Wm Morrison Supermarkets plc	Aa2	A3	Baa3
Safeway Limited	Aa2	A2	Baa3
Societe Generale	Aa2	A1	A2
Lloyds Bank Plc	Aa3	A2	A1
Telekom Austria AG	Aa2	A1	Baa2
Italy, Government of	Ba2	Ba3	Baa2
Belgium, Government of	Aaa	Aa1	Aa3
Rabobank	Aa1	Aa2	Aa2
Austria, Government of	Aaa	Aa1	Aa1
BNP Paribas	Aa2	Aa3	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 20	Sep. 13	Senior Ratings
HSBC Holdings plc	A3	A2	A1
Vodafone Group Plc	Baa2	Baa1	Baa1
Orange	A3	A2	Baa1
Fresenius SE & Co. KGaA	Baa2	Baa1	Baa3
CNH Industrial N.V.	Ba1	Baa3	Ba2
HeidelbergCement AG	Baa3	Baa2	Baa3
Vivendi SA	Baa2	Baa1	Baa2
Swiss Reinsurance Company Ltd	A3	A2	Aa3
SES S.A.	Baa3	Baa2	Baa2
Fortum Oyj	Baa1	A3	Baa1

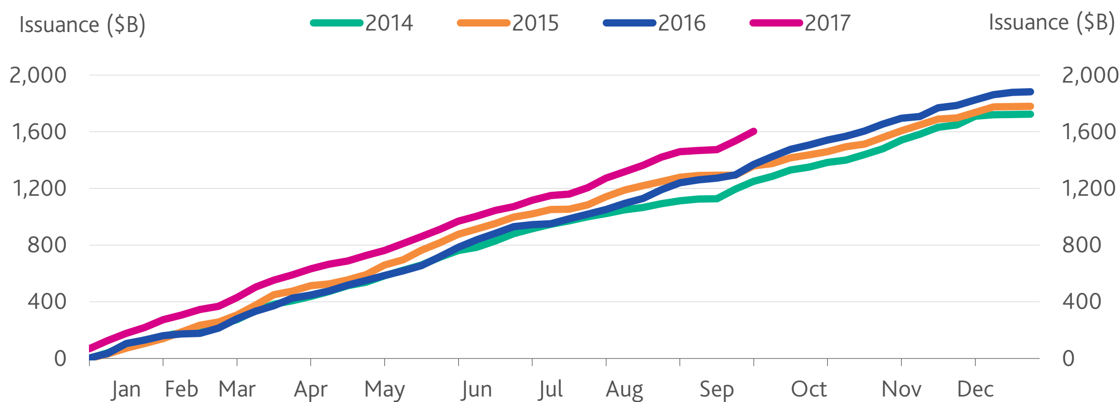
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 20	Sep. 13	Spread Diff
Eurobank Ergasias S.A.	Caa3	1,511	1,200	310
Piraeus Bank S.A.	Caa3	1,511	1,200	310
Alpha Bank AE	Caa3	1,100	874	226
PizzaExpress Financing 1 plc	Caa1	950	874	76
Eksportfinans ASA	Baa3	516	488	28
Jaguar Land Rover Automotive Plc	Ba1	157	134	23
Stena AB	B3	612	590	22
Premier Foods Finance plc	Caa1	359	341	18
Altice Finco S.A.	B3	255	238	17
Vue International Bidco p.l.c.	B3	242	225	17

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 20	Sep. 13	Spread Diff
Novo Banco, S.A.	Caa2	1,072	1,174	-102
Novafives S.A.S.	B3	269	323	-54
Matalan Finance plc	Caa2	554	590	-36
Banco Comercial Portugues, S.A.	B1	175	209	-34
Astaldi S.p.A.	B3	725	755	-29
Unipol Gruppo S.p.A.	Ba2	131	152	-20
Portugal, Government of	Ba1	132	151	-19
CMA CGM S.A.	B3	359	378	-19
Care UK Health & Social Care PLC	Caa1	251	270	-19
Storebrand ASA	Ba1	168	186	-18

Source: Moody's, CMA

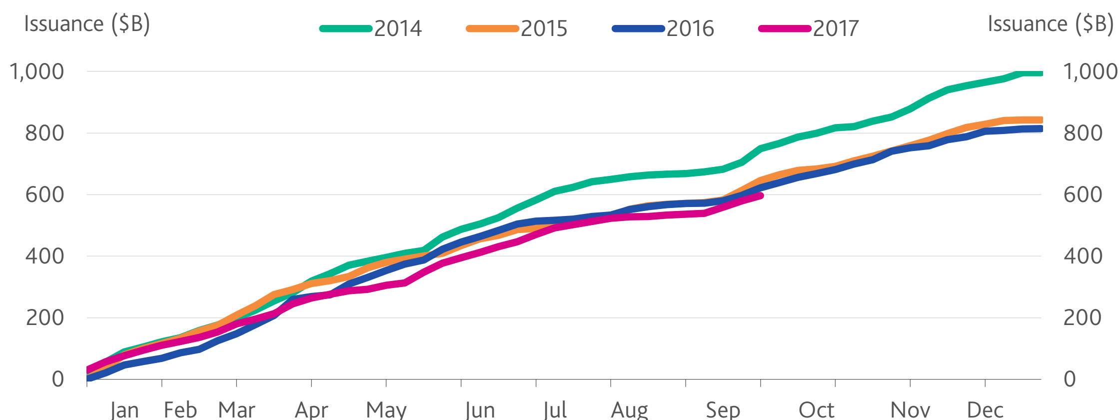
Issuance

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	41.008	23.825	67.538
Year-to-Date	1,151.587	320.018	1,602.259

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	10.101	5.355	16.961
Year-to-Date	492.693	71.803	596.639

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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Report Number: 197460

Editor
Dana Gordon

Contact Us

Americas :	1.212.553.4399
Europe:	+44 (0) 20.7772.5588
Asia:	813.5408.4131

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