MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Moody's Capital Markets Research, Inc.

Weekly Market Outlook Contributors:
David W. Munves, CFA
1.212.553.2844
david.munves@moodys.com
John Lonski
1.212.553.7144
john.lonski@moodys.com
Ben Garber
1.212.553.4732
benjamin.garber@moodys.com
Njundu Sanneh
1.212.553.4036
njundu.sanneh@moodys.com
Yukyung Choi
1.212.553.0906
yukyung.choi@moodys.com
Irina Baron
1.212.553.4307
irina.baron@moodys.com
Franklin Kim
1.212.553.4419
franklin.kim@moodys.com
Xian (Peter) Li
1.212.553.1404
Xian.li@moodys.com

Moody's Analytics/Europe:
Tomas Holinka
+420 (221) 666-384
Tomas.holinka@moodys.com

Moody's Analytics/Asia-Pacific:
Jack Chambers
+61 (2) 9270-8118
Jackchambers@moodys.com
Emily Dabbs
+61 (2) 9270-8159
Emily.dabbs@moodys.com

Editor
Dana Gordon
1.212.553.0398
dana.gordon@moodys.com

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Low VIX and Thin Spreads Could Be on Thin Ice

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.

Low VIX and Thin Spreads Could Be on Thin Ice

The February 1 FOMC meeting minutes noted two interrelated developments. First, the narrowing by "corporate bond spreads for both investment- and speculative-grade firms" to widths that "were near the bottom of their ranges of the past several years." Secondly, some FOMC members were struck by how "the low level of implied volatility in equity markets appeared inconsistent with the considerable uncertainty attending the outlook for such policy initiatives."

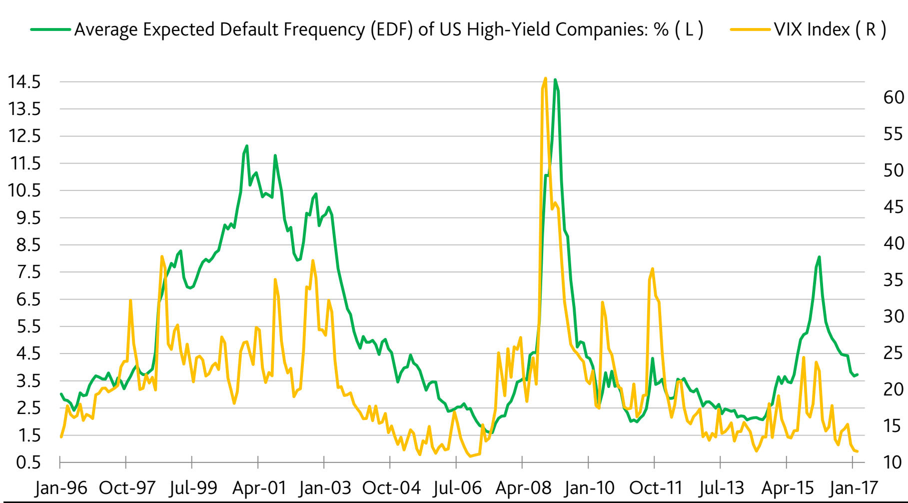
Thus, some high-ranking Fed officials sense that market participants are excessively confident in the timely implementation of policy changes that boost after-tax profits. And they may be right, according to Treasury Secretary Steven Mnuchin's recent comment that corporate tax reform legislation may not be passed until August 2017 at the earliest. The ongoing delay at remedying the Affordable Care Act warns of a possibly even longer wait for corporate tax reform and other fiscal stimulus measures.

Treasury bond yields declined in quick response to the increased likelihood of a longer wait for fiscal stimulus. Lower benchmark yields will lessen the equity market's negative response to any downwardly revised outlook for after-tax profits. Provided that profits avoid a replay of their year-to-year contraction of the five quarters ended Q2-2016 and that interest rates do not jump, a deeper than -5% drop by the market value of US common stock should be avoided.

The importance of interest rates to a richly priced and supremely confident equity market cannot be overstated. In fact, the rationale for an unduly low VIX index found in the FOMC's latest minutes contained a glaring error of omission. Inexplicably, no mention was made of how expectations of a mild and thus manageable rise by interest rates have helped to reduce the equity market's perception of downside risk. An unexpectedly severe firming of Fed policy would doubtless send the VIX index higher in a hurry.

Moreover, the FOMC's latest minutes failed to comment on the close linkage between the now below-trend spreads of corporate bonds and an exceptionally low VIX index. As inferred from long-term statistical relationships, the VIX index now supports the possibility of corporate bond yield spreads that are much narrower than what is suggested by the default outlook. For the purpose of quantifying the latter, an aggregate version of expected default frequencies will be employed.

Figure 1: Well Below-Trend VIX Index Differs Considerably on Risk from a Trend-Like High-Yield Expected Default Frequency (EDF) Metric



VIX Index and high-yield EDF metric differ on risk

Though the calculations of both the VIX index and EDF (expected default frequency) metrics are sensitive to asset price volatility, the messages delivered by each measure of risk can differ significantly. The 0.72

correlation between month-long averages of the VIX index and the aggregate EDF metric of US/Canadian high-yield issuers is statistically significant, but it is also far from perfect. For example, despite their relatively strong positive correlation, the VIX index and the high-yield EDF occasionally move in different directions.

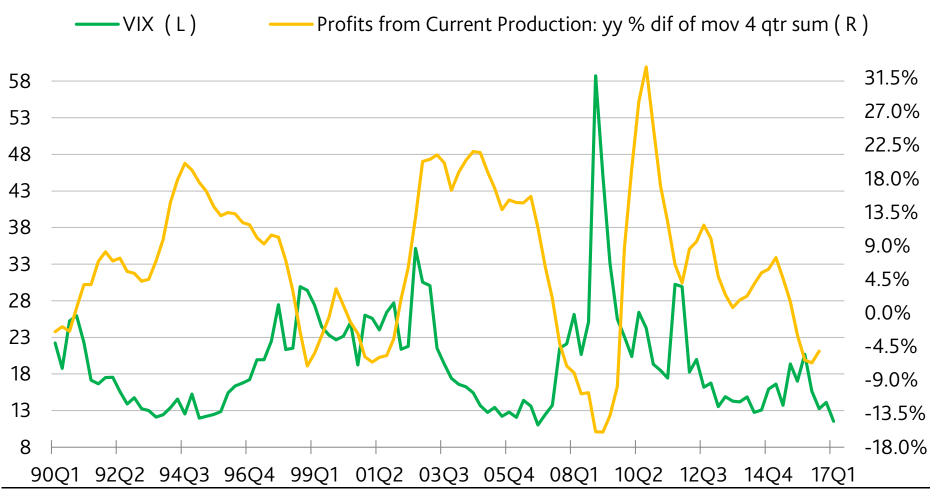
Since the January 1996 inception of the average high-yield EDF metric, the medians during business cycle upturns were 3.7% for the high-yield EDF and 17.9 for the VIX index. Recently, the high-yield EDF nearly matched its median of all recovery months since December 1995, while a VIX index of less than 13 was well under its comparably measured median. In other words, the high-yield EDF metric senses a good deal more financial market risk than the VIX index does.

By way of simple regression analysis, the high-yield EDF metric now predicts an 18.3 midpoint for the VIX index, which is far above a recent reading of 12.2. Conversely, the VIX index predicts a 2.7% midpoint for the high-yield EDF metric that is less than the actual EDF of 3.7%. (Figure 1.)

The two broad measures of risk also now predict two vastly different midpoints for the US high-yield bond spread. Compared to the high-yield spread's recent 384 bp, the VIX index predicts a midpoint of 365 bp which is much thinner than the 462 bp predicted by the recent high-yield EDF and the EDF's three-month trend.

Both cannot be right. Nevertheless, the modest outlook for 2017's profits from current production suggests that the EDF's predictions for the VIX index and the high-yield spread may prove to be more accurate than the VIX index's projections for the high-yield EDF metric and spread. However as noted earlier, the realization of modest profits growth may be sufficient for the purpose of warding off a deep slide by share prices provided that the effective fed funds rate finishes 2017 no higher than 1.13%, while the 10-year Treasury yield's annual average for 2017 is no greater than 2.6%.

Figure 2: Consensus Forecast of 5.3% for 2017's Pretax Operating Profits Growth Supplies Projected Midpoint of Roughly 20 for the VIX Index's Yearlong Average



Modest profits growth favors a higher VIX Index

Including February 23's 12.5, the VIX index has averaged 11.5 thus far in 2017's first quarter. Right now, the VIX index is on track to post its lowest quarter-long average since the 11.0 of 2006's final quarter, or when the accompanying averages were 171 bp for the yield spread over long Treasuries of Moody's long-term Baa industrial company bond yield and 330 bp for the high-yield bond spread. By comparison, the recent spreads were 164 bp for long-term Baa industrial company bonds and 384 bp for high-yield bonds.

As derived from the VIX index's long-term statistical relationship with the yearlong percent change of pretax profits from current production, early February's Blue Chip consensus forecast of a 5.3% annual increase by 2017's profits from current production predicts a midpoint of roughly 20 for 2017's average VIX index. Getting to a yearlong average of 20 implies that the VIX index would need to average 21.6 for the re

Share prices would probably sink if the VIX index jumps up from its latest 12.5 to 21.6, on average, for the remainder of 2017. Though equities may set new record highs, an overvalued equity market necessarily entails considerable downside risk that warns of significantly wider bond spreads. (Figure 2.)

Taken together, both thin corporate bond yield spreads and a very low VIX index indicate an abundance of systemic liquidity that now does much to ward off defaults. In the event that spreads widen and the VIX index climbs higher, fewer distressed credits will be able to secure the financial capital necessary for the avoidance of default.

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 24

New Home Sales – January

Time: 10:00 am
Forecast: 571,000
New home sales are projected to rebound sharply in January after slumping to the ten-month low in December. Even with the December setback, the sales pace remains exceptionally strong at 25% year-over-year in the fourth quarter. Growth in new home sales can continue to be stellar as transaction volumes are still historically depressed. The most recent monthly sales pace is 26% under the average of the past 20 years.

University of Michigan Consumer Sentiment – February Final

Time: 10:00 am
Forecast: 96.0
The preliminary value of the Michigan Sentiment Index showed above average confidence despite slipping from January's 12-year high. Consumers are starting to feel the bite of higher gasoline prices, as short-term inflation expectations rose to equal the 23-month high. But long-term inflation expectations are muted at 2.5% annualized between five and ten years ahead, as a sustained acceleration in price growth is doubtful.

MONDAY, FEBRUARY 27

Durable Goods Orders – January

Time: 8:30 am
Forecast: 2.0% overall, 0.5% ex transportation
Durable goods orders are forecast to expand in January after being held back by the transportation sector in the two previous months. Core orders growth is steadily improving, rising 2.1% year-over-year in the fourth quarter for the largest gain in two years. The general strengthening of global growth prospects and the upturn in the commodity sector are lifting demand for US produced goods.

Pending Home Sales Index – January

Time: 10:00 am
Forecast: 0.9%
The Pending Home Sales Index is set to rise for the second straight month in January as the housing recovery remains firmly on track. Existing home sales rose to the ten-year high in January, lifting sales over the past three months by 6% year-over-year. The home sales pace is aided by rising home lending volume. The MBA index of mortgage applications for home purchases saw its moving four-week average reach the seven-month high in January before dipping a bit in February.

TUESDAY, FEBRUARY 28

GDP – Fourth Quarter (Second Estimate)
Time: 8:30 am
Forecast: 2.1%

Trade activity held back GDP growth in the fourth quarter and continued gains in imports may produce a similar result in the current quarter. But the underlying pace of consumer spending is holding firm, with retail sales excluding autos and gasoline rising 0.7% in January, equaling the 11-month high. Though annual growth for real GDP is still likely to top 2% this year, lowered expectations for fiscal stimulus reduce much of the potential upside.

S&P CoreLogic Case-Shiller Home Price Index – December

Time: 9:00 am
Forecast: 5.2% yearly change of 20-city index
Historically tight supply of existing home available for sales can keep the S&P CoreLogic Case-Shiller Home Price Index chugging along in excess of 5% annually to December. The four months' worth of inventory of existing homes at January's sales pace is near the record low. That has kept home prices rising significantly faster than broad inflation growth for over four years, as seen in the 6.9% yearly rise of the median price of existing homes sold in January.

Conference Board Consumer Confidence – February

Time: 10:00 am
Forecast: 110.9
The Conference Board measure of consumer confidence can continue to ease back a bit in February after reaching the 15-year high in December. Robust levels of confidence will not necessarily translate into a big burst of consumer spending, as the share consumers who indicated in January that they intend to buy a car or home lags the average of the past three years. Yet firmly positive income expectations still point to a solid pace of spending among other consumer goods and services.

WEDNESDAY, MARCH 1

Personal Income & Spending – January

Time: 8:30 am
Forecast: 0.3% income, 0.3% spending
Skimpy recent monthly gains in average hourly earnings hint of a restrained advance for personal income in January. The recent 2.5% annual advance in hourly earnings is not showing the break out in wages many expected, although some other indicators point to faster growth. Continued labor market progress will be needed to push annual income growth back above 4% for the first time since late 2015.

ISM Manufacturing Index – February

Time: 10:00 am
Forecast: 55.8
Heightened business sector confidence and positive output trends are forecast to keep the February ISM Manufacturing Index near January's two-year high. The new orders component of the index topped 60 in each of the past two months, a firm signal of rising demand. And manufacturing output's annual pace was positive in each of the three months ending January after declining on this basis throughout much of last year.

Construction Spending – January

Time: 10:00 am
Forecast: 0.8%
Sturdier growth in residential activity is expected to lift overall January construction spending after a decline in December. Housing starts rose 6% year-over-year in the three months ending January following lackluster results towards the middle of last year. And private commercial construction is also aiding the cause, rising 7% year-over-year last quarter.

Vehicle Sales – February

Forecast: 17.6 million

Vehicle sales may show little movement in February relative to January after falling sharply from December's 11-year high. Even including December's cyclical high, the yearly advance in the three months ending January was a mere 0.7%. While vehicle sales volume is likely to remain strong in 2017 amid improving consumer finances, sharp gains of the recent past leave little room for further growth.

FRIDAY, MARCH 3

ISM Non-Manufacturing Index – February

Time: 10:00 am
Forecast: 56.5
The ISM Non-Manufacturing Index is projected to hold onto its post-election bounce in February due to sturdy demand for domestic services. The sub-index measuring general business activity in the service sector topped 60 in each of the past three months, signaling a sustained upturn in sales growth. Yet businesses will have to contend with some rising cost pressures, as the Non-Manufacturing index reading on prices rose to the 30-month high in January.

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 24: A barrage of top-tier releases are expected to be published next week for the euro zone, and in the spotlight will be fourth quarter GDP expenditure breakdowns for both Italy and Spain. In Spain, we expect a similar story to that observed in France and Germany: Domestic demand will have been the main engine of growth, with both household spending and investment strongly contributing to the expansion. But the picture there is a little rosier than elsewhere, with net exports, which were a drag on growth in the euro zone's two biggest economies, likely also providing some support on top of a solid rise in foreign demand for Spanish goods. Spain's economy has been strongly rebounding over the past year, outpacing by far its major European peers, and next week's data should confirm that the country's GDP grew by an astonishing 3.2% in 2016, compared with estimates of 1.9% for Germany, 1.8% for the U.K., 1.1% for France, and 1% for Italy.

But the strength of the economy, and its outsize dependence on oil imports, means that inflation expectations there are building faster than in the currency area's other economies. Inflation in Spain was up to an eye-watering 3% in January, compared with a 1.8% reading for the euro zone as a whole. Yet there is persistent slack in the labor market; unemployment still reads above 17%. Soaring inflation combined with slow wage growth will dampen consumers' purchasing power and confidence, and the huge contribution to growth from consumer spending should lessen. We thus expect growth to slow to 2.5% in 2017, and further to 2.1% in 2018.

Preliminary inflation data for the euro zone, to be released Thursday, should confirm our view that inflation pressures will continue to build in February. We are expecting consumer price growth to have accelerated to 1.9% from 1.8% in January, but risks are tilted to the upside and we would not be surprised if the headline hit or even came in above the ECB's 2% target. Extremely severe weather conditions in Southern Europe have pushed fresh food prices sharply up at the beginning of 2017, and we expect prices to start declining only from March. Plus, base effects from last year's crash in oil prices imply that energy goods should have once again provided an outsize contribution to inflation in February, while core inflation should have remained subdued or accelerated slightly to 1% from 0.9% in January.

FRIDAY, FEBRUARY 24

No major economic indicators are scheduled for release.

MONDAY, FEBRUARY 27

No major economic indicators are scheduled for release.

TUESDAY, FEBRUARY 28

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

French household expenditures on goods likely ticked up 0.8% m/m in January after losing 0.8% m/m in December, and continued strengthening also in annual terms. Still-low oil prices as well as low prices of most goods, the improving labor market, and a firming, yet slow, recovery in the country are helping consumption to creep forward at least on an annual basis. The retail PMI rose to 53.1 in January from 50.4 in the previous month, while employment increased at its quickest pace in six years, though gross margins were still squeezed, chiefly because of a pickup in the rate of wholesale price inflation. Meanwhile, stock levels increased somewhat, despite lower purchasing activity. Also, the increase in promotional offers contributed to the expansion. Still, French households are prudent and their precautionary saving remains high at close to 15%, limiting discretionary spending.

France: GDP (Q4; 7:45 a.m. GMT)

The French economy failed to impress as it likely grew 0.4% q/q in the three months to December, after adding 0.2% in the previous quarter. Household consumption was the main driver of the increase, while net exports dragged on the final reading. The annual expansion slowed to 1.1% from a downwardly revised 0.9% in the three months to September. For all of 2016, the economy added 1.1%, after a 1.2% gain in 2015. French consumer and business confidence is slowly but surely improving. This reflects a strengthening labor market and a slowly firming recovery in the general economy, as well as fewer fears about the consequences of the U.K. vote to leave the EU. Still, with lack of productive investment and a slowly but surely ageing population, France is lacking a real domestic growth engine. Also, the upcoming presidential elections pose both threat and opportunity for the country as progressive candidates are standing against populists, helped by Donald Trump's victory.

Germany: Unemployment (January; 9:00 a.m. GMT)

Germany's seasonally adjusted unemployment rate likely remained at 5.9% in February for a second consecutive month, after it fell to this record low in January. German businesses remain confident in the country's future expansion, increasing their labor force, despite the uncertainties and geopolitical tensions. Details of the Markit manufacturing PMI showed the rate of hiring accelerating to the fastest since August 2011. The weakening euro, which boosted exports at the end of last year, should also increase demand for German products, which should translate into higher employment. However, the unemployment rate is likely bottoming and it is expected to increase somewhat this year because of the vast inflow of refugees, some of whom will be entering the German labor force.

WEDNESDAY, MARCH 1

Italy: GDP (Q4; 10:00 a.m. GMT)

Italy's economy continued to expand in the final quarter of 2016, according to the preliminary estimates. After relatively robust quarterly growth of 0.3% in the three months to September, the economy gained 0.2% in the fourth quarter. While soft domestic demand likely didn't support Italy's economy much, stronger net exports likely lifted the total number. The weaker euro, recovery in the U.S., and emerging markets have boosted the country's trade surplus. Nevertheless, besides the U.K.'s departure from the EU, possible snap elections after former Prime Minister Matteo Renzi quit as leader of Italy's ruling party, and the slow adjustment of the banking sector remain threats.

THURSDAY, MARCH 2

Spain: GDP (Q4; 8:30 a.m. GMT)

Spain's GDP likely expanded 3% y/y in the closing quarter of 2016, down from 3.2% y/y in the third quarter and in line with the preliminary estimate. In quarterly terms, this amounts to a 0.7% increase, the same rate as in the previous quarter. There is also some chance that the number will be revised upward because of positive developments in the economy. But considering the overall gradual moderation of growth to more sustainable levels, matching the preliminary estimate seems to be the most likely outcome. As acting Prime Minister Mariano Rajoy strengthened his position after prolonged political turmoil, producer and consumer sentiment has started to recuperate. With robust recovery in the labor market and Spain leading its euro zone partners with strong manufacturing and services PMI results in the final quarter of 2016 and beginning on 2017, economic activity is set to remain elevated. The revised fourth quarter national accounts release includes production and expenditures breakdown of the aggregate output. We expect domestic consumption and investment to maintain pace, while exports and imports will stage some recovery consistent with the external trade data for the quarter. In the coming quarters, mounting inflation pressures will likely weigh on consumer sentiment, with heightened uncertainty in the external markets persisting. Spain's aggregate real output gained 3.2% in 2016 overall, and Moody's Analytics projects growth of 2.5% in 2017 and 2.1% in 2018.

Euro Zone: Preliminary CPI (February; 10:00 a.m. GMT)

Euro zone annual harmonized inflation likely accelerated further to 1.9% in February from 1.8% in the previous month. The recent pickup in prices has been driven mainly by higher commodity prices, while demand-led inflation continues to sag. Although accelerating economic growth together with increasing oil prices and the weaker euro will boost headline inflation, the modest rise in core inflation may continue in coming months, as we have yet to see a pass-through of higher commodity prices into headline inflation. Therefore, we don't expect the ECB to turn hawkish before the last quarter of 2017 unless the political uncertainty eases and second-round inflation effects of higher commodity prices materialize.

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

Euro zone unemployment likely slid to 9.5% in January from 9.6% in the previous month. The rate has fallen from 10.4% in January 2016. Nevertheless, headline and youth unemployment remain elevated, especially in periphery countries. The euro zone economy continued to expand at the outset of 2017 as February's Flash Composite PMI for the euro was at 56, up from the previous month—the highest reading in almost six years and higher than the 2012-2016 average of 51.6. Also, employment growth strengthened for the fourth month running, reaching its fastest rate since 2007. These latest figures attest to the resilience of the single-currency area, at least so far, despite the U.K. vote to leave the EU and market fears of a downturn. The downward trend in joblessness should continue in coming months, with improving economic conditions around the monetary bloc, labor market reforms, and a stronger industrial base in Spain, Ireland and Portugal.

FRIDAY, MARCH 3

No major economic indicators are scheduled for release.

ASIA-PACIFIC

By Jack Chambers and the Asia-Pacific economics team of Moody's Analytics

India's economy slowed dramatically in the fourth quarter of 2016

India's economy slowed sharply in the final quarter of 2016 as a result of the drag from demonetization. The push to reduce the amount of currency in circulation caused significant disruptions to the informal sector, which is largely cash-based. In other GDP data, Australia's economy likely bounced back as exports received a boost from the relatively weak aussie.

The monthly data dump for Japan will paint a broadly positive picture. Industrial production will expand thanks to the tailwind provided to export-oriented manufacturers by the weak yen. Household expenditure is also expected to pick up, as sentiment has improved to start 2017. However, this uptick will prove temporary if wage growth does not also improve.

FRIDAY, FEBRUARY 24

South Korea – Consumer Sentiment Index – February

Time: 8:00 a.m. AEDT (Thursday 9:00 p.m. GMT)
Forecast: 92.5
Korean consumers likely remained downbeat in February. Export growth has picked up and this is supporting a stronger view of the economic outlook, but elevated household debt and tepid wage growth are likely to keep a lid on spending plans. The political scandal involving President Park Geun-hye and major Korean conglomerates is likely to keep a lid on consumer sentiment through the first half of 2017.

Singapore – Industrial Production – January

Time: 4:00 p.m. AEDT (5:00 a.m. GMT)
Forecast: 15%
We expect Singapore's industrial production growth to have slowed to 15% y/y in January, down from December's astronomical 21.3%. Nevertheless, the trend remains strong, as Singapore's manufacturers have benefited from stronger demand and an upswing in the global tech cycle. The fastest-growing subsectors will be electronics and biomedicals. Transport engineering production remains weak, as demand for new oil rigs has not yet recovered.

MONDAY, FEBRUARY 27

Hong Kong – Foreign Trade – January

Time: 7:30 p.m. AEDT (8:30 a.m. GMT)
Forecast: -HK$17 billion
Hong Kong's export activity picked up in the final months of 2016, and this likely continued in early 2017 if trade results in mainland China are any guide. Global tech demand continues to drive trade, as does the commodity rebound, thanks to demand from China. Relatively weak demand from Europe remains a key risk to Asia's export outlook, as does the prospect of higher tariffs in the U.S.

Thailand – Industrial Production – January

Time: Unknown
Forecast: 2.4%
Thailand's industrial production growth is forecast to improve to 2.4% y/y in January after December's disappointing 0.5% result. Manufacturing is receiving a boost from stronger external demand. This will provide a lift to electronics and automobile manufacturers. Food production has also been growing strongly on account of good growing conditions.

TUESDAY, FEBRUARY 28

New Zealand – Foreign Trade – January

Time: 8:45 a.m. AEDT (Monday 9:45 p.m. GMT)
Forecast: -NZ$75 million
New Zealand's monthly trade deficit likely remained relatively small after December's unseasonably small NZ$41 million deficit. Improved export growth will likely be the driver as higher commodity prices, especially for dairy, are filtering through to higher export receipts. Meat export growth was relatively subdued in 2016 because of base effects from a bumper 2015. Now that prices and volumes are back to more sustainable levels we should see stronger annual export growth in 2017.

Japan – Industrial Production – January

Time: 10:50 a.m. AEDT (Monday 11:50 p.m. GMT)
Forecast: 1.4%
Japan's industrial production likely expanded 1.4% m/m in January. The low yen will provide a tailwind for manufacturing-oriented exporters, so production is set to increase in the first half of the year. But persistent uncertainty surrounding global developments will probably mean that production is unlikely to increase meaningfully over the year.

Japan – Retail Sales – January

Time: 10:50 a.m. AEDT (Monday 11:50 p.m. GMT)
Forecast: 1.1%
Retail sales likely expanded 1.1% y/y in January after a 0.6% increase the previous month. Retail fuel prices are rising as the yen depreciates, so this will add to retail growth over the coming months. Some uptick from luxury-good retailers is likely as the stock market rebounds.

Australia – Balance of Payments – 2016Q4

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)
Forecast: -A$9.56 billion
Australia's current account deficit likely narrowed in the December quarter. The rise in commodity prices is putting upward pressure on income outflows as companies send their profits abroad. But this was likely offset by stronger net exports as the volume of shipments improved over the quarter.

Japan – Housing Starts – January

Time: 4:00 p.m. AEDT (5:00 a.m. GMT)
Forecast: 3.3%
Housing starts will likely slow in 2017 after sustained growth in 2016. Though starts will increase, their pace of growth will likely be less in 2017. Low interest rates will buttress the housing market, particularly in the capital cities of Tokyo and Osaka. Elsewhere, growth in housing starts will ebb as the population declines and housing supply increases.

Thailand – Private Consumption – January

Time: 6:30 p.m. AEDT (7:30 a.m. GMT)
Forecast: 3.2%
Thailand's private consumption growth is expected to have accelerated to 3.2% y/y in January, compared with 2.7% in December. Spending is starting to recover after being temporarily suppressed by the mourning period following the king's death. Another positive factor is that farm incomes have bounced back after being hammered by drops in production and low farm gate prices in the first half of 2016. The main weight on consumption growth will be the slowdown in tourist spending, as the increase in the number of foreign visitors has slowed.

Thailand – Foreign Trade – January

Time: 6:30 p.m. AEDT (7:30 a.m. GMT)
Forecast: US$3 billion
We expect Thailand's trade surplus for January to expand to US$3 billion, compared with US$2 billion in December. This will be driven by continued improvements in export volumes. Exporters, particularly of electronics and manufactured goods, are riding the wave of stronger global demand. Imports should

also increase, as stronger manufacturing activity boosts the need for intermediate goods and raw materials.

India – GDP – 2016Q4

Time: 11:00 p.m. AEDT (12:00 p.m. GMT)
Forecast: 4.6%
India's GDP growth likely decelerated sharply to 4.6% y/y in the December quarter, down from 7.1% in the prior quarter. This is on the back of demonetization—the removal 86% of the currency in circulation. This caused large disruptions across India's informal sector, as the majority of transactions are cash-based. We expect consumption slowed sharply, and investment likely declined for the fourth consecutive quarter. Net exports likely provided a small upshot to growth. We expect conditions to normalize after the first quarter in 2017.

WEDNESDAY, MARCH 1

South Korea – Foreign Trade – February

Time: Unknown
Forecast: US$5.8 billion
Korea's monthly trade surplus likely ticked up slightly in February as stronger exports outweighed an increase in imports. The Lunar New Year fell in late January and this dampened shipment activity, which is expected to have rebounded in February. Electronic components and parts continue to benefit from strengthening global tech demand, while rising commodity prices push up the value of imported raw materials.

Australia – GDP – 2016Q4

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)
Forecast: 0.8%
Australia's economy likely rebounded in the December quarter after the shock result in September. Exports are benefiting from stronger demand and a relatively low currency, while construction work likely recovered from weather-related delays in the previous quarter. Consumption is a weak spot, as high underemployment dampens wage growth and crimps household spending.

THURSDAY, MARCH 2

South Korea – Industrial Production – January

Time: 10:30 a.m. (Wednesday 11:30 p.m. GMT)
Forecast: 5.5%
Korean manufacturing likely expanded at a steady pace in January, supported by upbeat export demand for electronics. The Lunar New Year is expected to have disrupted production slightly in January but does not change the ongoing recovery in manufacturing. Operating conditions are still weak, and this will limit growth in manufacturing in 2017.

South Korea – Retail Sales – January

Time: 11:00 a.m. (12:00 a.m. GMT)
Forecast: -0.1%
Korean consumers likely started 2017 on a subdued note, with retail sales declining slightly in January. Difficult labor market conditions and high private debt are hurting household budgets despite low interest rates supporting loan servicing costs. Consumer sentiment has taken a hit from the scandal involving the impeached President Park Geun-hye.

Australia – Foreign Trade – January

Time: 11:30 a.m. (12:30 a.m. GMT)
Forecast: A$3.8 billion
Australia's monthly trade balance likely remained in surplus for January as export growth outpaced imports. Rising global commodity prices, especially for iron ore and coal, are pushing up export

receipts. Agriculture shipments and services exports are also expected to add to year-on-year export growth, supported by a weaker aussie. This is also pushing up the prices of imports, offsetting some of the gains on the export side.

FRIDAY, MARCH 3

South Korea – Consumer Price Index – February

Time: 10:00 a.m. AEDT (Thursday 11:00 p.m. GMT)
Forecast: 1.7%
Inflation pressures are building in Korea as global commodity prices rise. Headline CPI likely decelerated slightly in January to 1.7% from 2% previously, but this is still much stronger than price growth in early 2016. Domestic demand remains subdued, and this will dampen underlying inflation measures. Meanwhile, energy costs are likely to pick up as global oil prices strengthen.

Japan – Consumer Price Index – January

Time: 10:30 a.m. AEDT (Thursday 11:30 p.m. GMT)
Forecast: -0.1%
The yen's depreciation is putting upward pressure on the costs of imported goods. This will raise the overall headline and core CPI (excluding food) index. Moreover, rebounding energy prices will add to inflation over the coming months. However, domestic demand remains on the sidelines, so core-core inflation (excluding energy and food) is unlikely to rise substantially in the coming months. We expect core inflation will remain below the central bank's 2% target.

Japan – Employment Situation – January

Time: 10:30 a.m. AEDT (Thursday 11:30 p.m. GMT)
Forecast: 3% unemployed
Japan's unemployment rate was likely 3% in January. The number of jobs is currently outpacing the labor supply. But despite a tightening labor market, wage growth remains elusive. Female participation in the workforce has been on an upward trend and will likely increase over the coming years thanks to various measures by the government. But this will likely be offset by the ageing population as more workers enter retirement.

Japan – Household Expenditures Survey – January

Time: 10:30 a.m. AEDT (Thursday 11:30 p.m. GMT)
Forecast: 1.1%
Household expenditures likely expanded in January, a trend that will continue in the first few months of 2017. This is on the back of improved consumer sentiment as the yen's decline is boosting prospects for various export-oriented firms. Consumers will be happy to spend more if wage growth picks up. However, this is unlikely to happen and spending will ebb towards the second half of the year.

Malaysia – Foreign Trade – January

Time: 3:00 p.m. AEDT (4:00 a.m. GMT)
Forecast: MYR7.5 billion
Malaysia's monthly trade surplus likely remained fairly wide following December's MYR8.8 billion surplus in December. Higher energy prices, especially for oil and palm oil, are lifting exporters' bottom lines. We are expecting another month of double-digit annual export growth for refined and crude petroleum as well as palm oil. Shipments to some parts of Asia were likely temporarily disrupted by Lunar New Year celebrations late in January.

Japan – Consumer Confidence – February

Time: 4:00 p.m. AEDT (5:00 a.m. GMT)
Forecast: 44.1
Consumer confidence likely edged up in February. The solid gains in the stock market at the start of the year will boost overall confidence; Japanese wealth tends to be tied to the stock market. Inflation expectations are also set to increase in coming months because the falling yen and higher commodity prices will increase costs of imported goods and services.

The Long View

The US: First-quarter 2017's US$ high-yield bond issuance may expand by 49% annually from Q1-2016's low base

By John Lonski, Chief Economist, and Ben Garber, Economist, Moody's Capital Markets Research Group, February 23, 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 384 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

In January 2017, the US high-yield default rate returned to its latest 5.8% peak of July-August 2016. However, Moody's credit policy group predicts that the default rate will quickly ease to 3.7%, on average, during 2017's final quarter. A deeper slide 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.

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 edge up by 0.2% annually for IG and may grow by 5.4% for high yield.

The Long View

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 23, 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 2017 before slowing to 1.6% in 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 1.2% 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 23, 2017

Taiwan's economy is in a cyclical upswing as global tech demand supports the export-oriented economy. Political friction with China is a downside risk to growth given that the mainland is Taiwan's largest export destination and source of tourists. The labor market is struggling with high youth unemployment and a falling working-age population, which limits the growth outlook.

Exports are an important driver of economic activity, adding 1.5 percentage points to fourth quarter GDP growth. Government fiscal stimulus measures are supporting consumption, but weak wage growth is limiting spending. The Directorate General of Budget, Accounting and Statistics expects GDP growth to strengthen to 1.92% in 2017, up from 1.5% in 2016. We are slightly more optimistic, forecasting GDP to hit 2% this year. The central bank will support the economic recovery by maintaining an accommodative monetary policy stance through most of 2017.

Exports declined over the past two years, but conditions are improving, with shipments ending 2016 on an upbeat note. Strong global demand for electronics is boosting exports of components, which gained 23.4% in the second half of 2016. Despite government efforts to shift manufacturing into higher-value-added segments, electronic components remain a key growth driver, accounting for 33% of Taiwan's exports.

The upcoming release of Apple's iPhone 8 will provide further support for manufacturing and export activity in Taiwan. Foxconn—a Taiwanese manufacturer of electronic parts and the main assembler of the iPhone—is already benefiting as share prices surge on upbeat investor sentiment.

The main recipient of Taiwanese exports is China, with more than 25% of total shipments heading to the mainland in 2016. Increased friction between Taiwan's pro-independence government and authorities in China poses a downside risk to the export outlook.

President Tsai Ing-wen is pushing to develop trade relations outside China, but the plan is facing difficulties. Taiwan is not formally recognized as a country by the international community, which makes developing free-trade agreements nearly impossible. So far, Taiwan has only a handful of agreements outside of the economic cooperation framework agreement with China, and these are with minor trading partners.

China is an important source of tourist arrivals, and rising friction between the mainland and Taiwan is driving down visitor numbers. Nearly 50% of tourists to Taiwan come from China; Japan (17.7%) and Korea (8.3%) are the next biggest sources. Total visitors to Taiwan increased 2.4% in 2016, but the 10% decline in China offset strong rises in South-East Asian countries such as Vietnam.

Tourism is an important source of growth for retail and hospitality, with Chinese visitors spending big on restaurants and luxury goods. Despite the importance of tourism, it accounts for only around 2% of Taiwan's GDP. The government's southbound policy will help foster growth in arrivals from South-East Asia, but the buying power of these tourists is unlikely to offset the drag from a decrease in Chinese visitors.

Labor market conditions in Taiwan have failed to improve substantially despite the expansion of export-related activity. The unemployment rate averaged 3.92% in 2016, up from 3.78% in 2015. Worryingly, it is the younger population that is struggling in the labor market. The unemployment rate peaks at 12.62% for people age 20 to 24 years old before declining steadily for each age bracket thereafter.

Ironically, measures put in place to help graduates during the height of the 2008 financial crisis are now hurting them. The president at the time introduced a policy that gives government subsidies to companies that hire fresh graduates with a starting salary of TWD22,000. But as the cost of living has increased, this starting salary has not budged.

Taiwan's labor market also suffers from an ageing population which is limiting productivity growth and will dampen long-term economic potential. The working-age population is already declining, and the total population will start shrinking in 2024, according to National Development Council estimates.

Difficult and limited employment conditions are forcing many young people to search for jobs overseas, creating a brain drain and further exacerbating Taiwan's demographic woes.

The central bank has finished its easing cycle after cutting the monetary policy interest rate by 50 basis points over the last two years to 1.375% in June. Headline inflation pressures are building as global commodity prices rebound. The CPI ticked up 2.2% in January, the strongest result since February 2016. However, underlying measures of inflation remain subdued as tepid wage growth limits domestic demand.

We expect higher global interest rates and rising inflation will eventually prompt Taiwan's central bank off the sidelines in the December quarter.

Ratings Round-Up

By Ben Garber and Njundu Sanneh

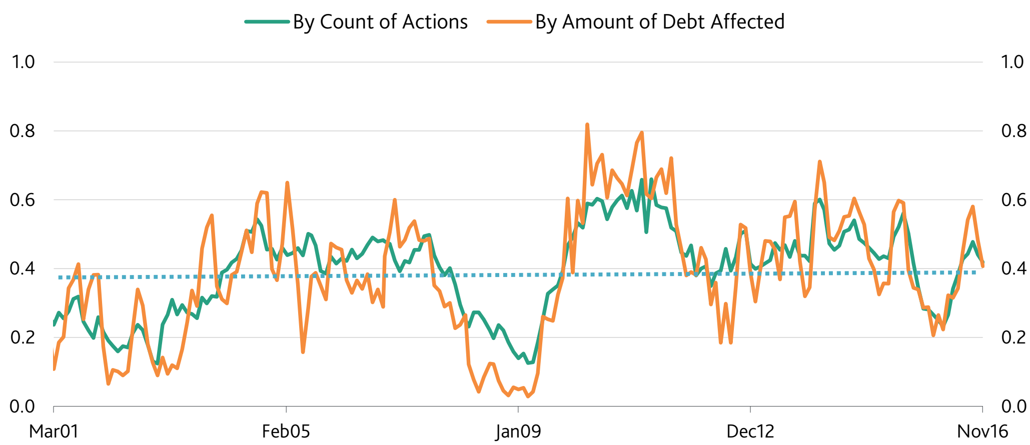
Aggressive Financial Policy Leads to Downgrades

Rating actions for US corporate and financial borrowers took on a decidedly negative skew last week, with downgrades accounting for all but one of nine total revisions. A common theme among these downgrades is firms taking an aggressive approach with their balance sheets to perform special events such as mergers and dividend payouts. M&A activity has gotten off to a very brisk pace to start the year, with the $299 billion in January merger volume in the US setting a record for that month in Bloomberg figures. Despite broadly accelerating, business sales growth remains modest, encouraging companies to expand through acquisitions. This trend will greatly influence rating changes and debt issuance in the months ahead, particularly with the potential for further interest rate increases.

Recent rating activity in Europe was sparse. Last week's count of rating changes in the region found two downgrades to one upgrade. This is a respite from the many rating changes recently occurring in the financial sector, as European banks respond to challenging economic conditions and increased regulations

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

FIGURE 2

Rating Key

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

Ratings Round-Up

FIGURE 3 Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	Old LGD	New LGD	IG/SG
2/15/17	CENGAGE LEARNING HOLDINGS II L.P. - Cengage Learning, Inc.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	620	D	Caa1	Caa2					SG
2/15/17	CLEARWATER PAPER CORPORATION	Industrial	SrUnsec/SGL	575	D	Ba2	Ba3	SGL-2	SGL-3			SG
2/15/17	HOUGHTON MIFFLIN HARCOURT COMPANY - Houghton Mifflin Harcourt Publishers Inc.	Industrial	SrSec/BCF/LTCFR/PDR/LGD/SGL		D	B2	B3	SGL-2	SGL-3	LGD-3	LGD-4	SG
2/15/17	OM GROUP, INC. - Duke Finance, LLC	Industrial	LTCFR/PDR		D	B2	B3					SG
2/16/17	NGL ENERGY PARTNERS LP	Industrial	LTCFR/PDR		D	Ba3	B1					SG
2/17/17	LENNAR CORPORATION - WCI Communities,	Industrial	SrUnsec	250	U	B3	Ba1					SG
2/17/17	PAPERWORKS INDUSTRIES, INC.	Industrial	SrSec/LTCFR/PDR	360	D	B3	Caa1					SG
2/21/17	AFFINITY GAMING CORPORATION	Industrial	LTCFR/PDR		D	B1	B2					SG
2/21/17	AVANTOR, INC. - Avantor Performance Materials Hldgs S.A.R.L.	Industrial	LTCFR/PDR		D	B1	B2					SG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

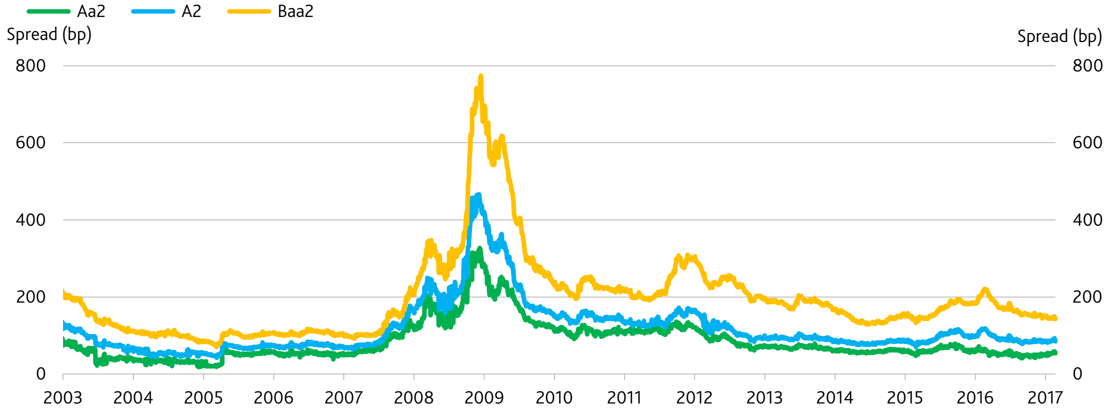
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
2/16/17	HECKLER & KOCH GMBH	Industrial	SrSec/LTCFR/PDR	234	U	Caa3	Caa1	SG	GERMANY
2/15/17	CO-OPERATIVE BANK PLC	Financial	SrUnsec/MTN	497	D	Caa2	Ca	SG	UNITED KINGDOM
2/16/17	NEW LOOK RETAIL GROUP LIMITED	Industrial	SrUnsec/SrSec/LTCFR/PDR	1,531	D	Caa1	Caa2	SG	UNITED KINGDOM

Source: Moody's

Market Data

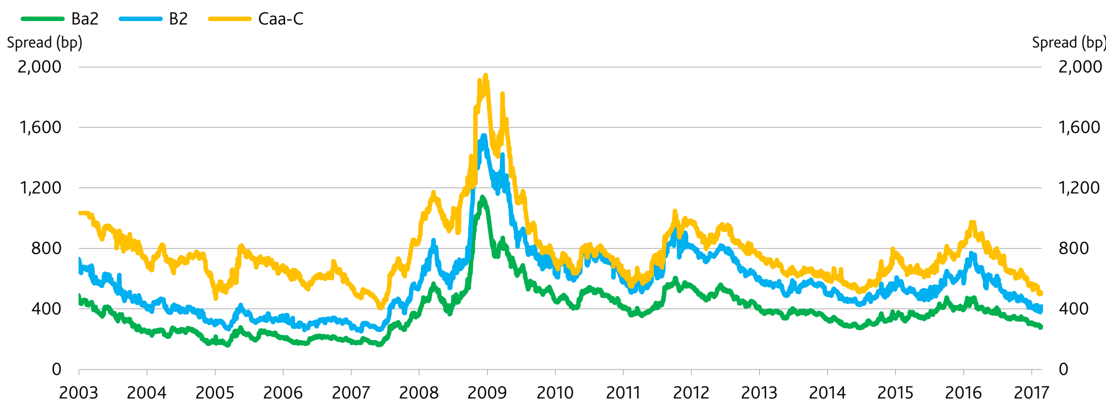
Spreads

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 (February 15, 2017 – February 22, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 22	Feb. 15	Senior Ratings
United States of America, Government of	Aa2	Aa3	Aaa
American International Group, Inc.	Baa2	Baa3	Baa1
General Electric Company	A1	A2	A1
Prudential Financial, Inc.	Baa1	Baa2	Baa1
Abbott Laboratories	A3	Baa1	Baa3
Berkshire Hathaway Inc.	Baa1	Baa2	Aa2
Sprint Communications, Inc.	B2	B3	B1
American Express Company	Aa3	A1	A3
United Parcel Service, Inc.	Aa1	Aa2	A1
Reynolds American Inc.	Aa3	A1	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 22	Feb. 15	Senior Ratings
Allergan, Inc.	Baa1	A2	Baa3
Apple Inc.	A1	Aa3	Aa1
Oracle Corporation	A2	A1	A1
CCO Holdings, LLC	Ba2	Ba1	B1
Welltower Inc.	Ba1	Baa3	Baa1
Duke Energy Carolinas, LLC	Aa2	Aa1	A1
Neiman Marcus Group LTD LLC	Ca	Caa3	Caa2
Dean Foods Company	Ba3	Ba2	B2
Alliant Energy Corporation	A2	A1	Baa1
Union Carbide Corporation	Ba2	Ba1	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 22	Feb. 15	Spread Diff
Avon Products, Inc.	B1	624	517	107
Nine West Holdings, Inc.	Ca	4,949	4,861	87
Neiman Marcus Group LTD LLC	Caa2	995	918	77
Freeport Minerals Corporation	Ba2	358	324	34
Freeport-McMoRan Inc.	B2	339	307	32
Hertz Corporation (The)	B2	581	550	31
Chesapeake Energy Corporation	Caa3	600	578	22
Univision Communications, Inc.	Caa1	391	374	17
Allergan, Inc.	Baa3	66	48	17
Weatherford International, LLC (Delaware)	Caa1	341	329	12

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 22	Feb. 15	Spread Diff
Sears Holdings Corp.	Caa3	3,440	3,668	-228
Sears Roebuck Acceptance Corp.	Caa3	3,182	3,388	-205
Parker Drilling Company	Caa1	611	714	-103
Tenet Healthcare Corporation	Caa1	485	558	-73
GenOn Energy, Inc.	Caa3	1,790	1,854	-65
Cablevision Systems Corporation	B3	353	398	-45
Sprint Communications, Inc.	B1	266	308	-42
Genworth Holdings, Inc.	Ba3	626	647	-21
Spectra Energy Capital, LLC	Baa2	112	131	-20
Springleaf Finance Corporation	B3	391	410	-19

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (February 15, 2017 – February 22, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 22	Feb. 15	Senior Ratings
Sappi Papier Holding GmbH	B1	B3	Ba2
ABN AMRO Bank N.V.	A2	A3	A1
Svenska Handelsbanken AB	A1	A2	Aa2
Bayerische Landesbank	A3	Baa1	A2
Swedbank AB	A1	A2	Aa3
SEB	A1	A2	Aa3
Eurobank Ergasias S.A.	Caa3	Ca	Caa3
DNB Bank ASA	A3	Baa1	Aa2
Siemens Aktiengesellschaft	Aa3	A1	A1
National Grid Electricity Transmission plc	A2	A3	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 22	Feb. 15	Senior Ratings
Italy, Government of	Ba3	Ba2	Baa2
France, Government of	Baa1	A3	Aa2
Germany, Government of	Aa3	Aa2	Aaa
Societe Generale	Baa3	Baa2	A2
The Royal Bank of Scotland Group plc	Ba2	Ba1	Ba1
Ireland, Government of	Baa2	Baa1	A3
BNP Paribas	Baa3	Baa2	A1
Credit Agricole Corporate and Investment Bank	Baa3	Baa2	A1
ING Groep N.V.	Baa2	Baa1	Baa1
Banco Popular Espanol, S.A.	B2	B1	Ba3

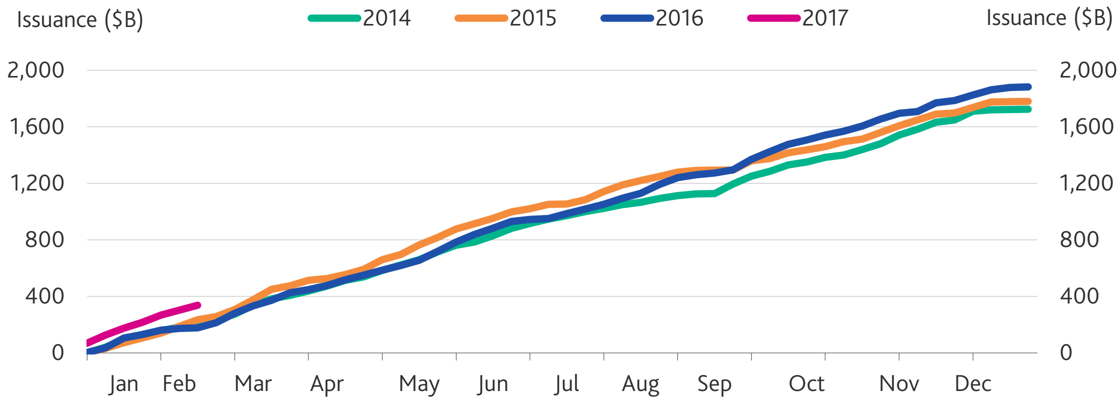
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 22	Feb. 15	Spread Diff
Norske Skogindustrier ASA	Caa3	3,750	3,515	235
Matalan Finance plc	Caa2	1,542	1,454	88
Banco Popular Espanol, S.A.	Ba3	260	218	42
PizzaExpress Financing 1 plc	Caa1	585	553	32
CMA CGM S.A.	B3	634	606	28
Galapagos Holding S.A.	Caa2	767	742	25
Care UK Health & Social Care PLC	Caa1	637	613	24
Jaguar Land Rover Automotive Plc	Ba1	194	176	18
Lock Lower Holdings AS	Caa1	154	136	18
Boparan Finance plc	B2	473	456	17

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 22	Feb. 15	Spread Diff
Eurobank Ergasias S.A.	Caa3	894	983	-89
Piraeus Bank S.A.	Caa3	894	983	-89
Sappi Papier Holding GmbH	Ba2	222	297	-76
Novo Banco, S.A.	Caa1	982	1,057	-75
Alpha Bank AE	Ca	651	715	-65
Selecta Group B.V.	Caa2	763	803	-40
Novafives S.A.S.	B3	474	513	-39
NIBC Bank N.V.	Baa1	185	223	-38
Astaldi S.p.A.	B2	836	854	-17
ArcelorMittal	Ba2	182	196	-13

Source: Moody's, CMA

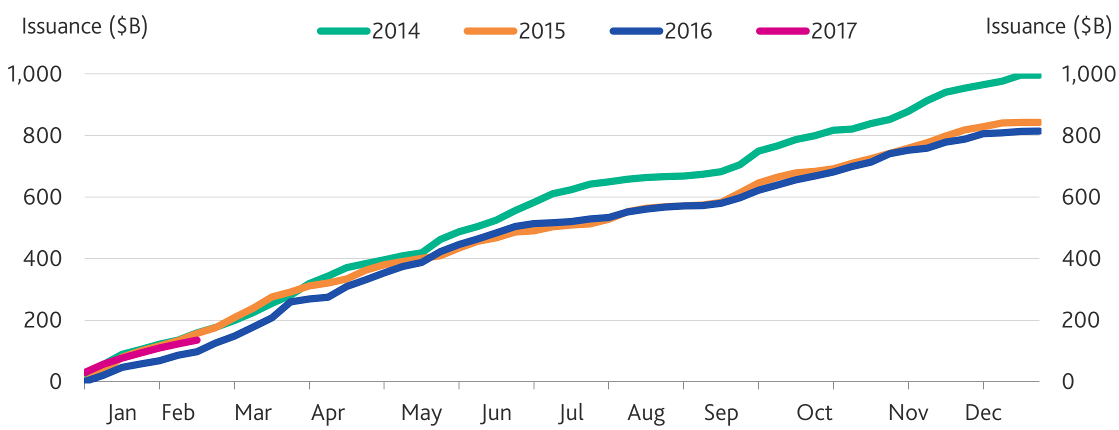
Issuance

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	27.632	2.580	35.692
Year-to-Date	249.276	58.545	336.876

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	11.223	0.159	12.241
Year-to-Date	121.157	8.302	134.574

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

Moody's Capital Markets Research *recent publications*

US Interest Rate Outlook: The Storm Before the Calm (Capital Markets Research)

Sovereign Risk Report: Politics Influence France's Sharp Rise in Market-Based Sovereign Risk

Demography Is Destiny for Debt (Capital Markets Research)

Operating Lease and Pension Interest Rates - February 2017 (Capital Markets Research)

Market Comment: Bond Issuance Boom Precedes Policy Shifts

Sovereign Risk Report: Japan Challenged by Geopolitical Risks Despite Faster Growth

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Editor
Dana Gordon

Contact Us

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