MOODY'S ANALYTICS

# WEEKLY MARKET OUTLOOK

# Lower Bond Yields Ward Off Wider Spreads

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# Credit Markets Review and Outlook

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

## Lower Bond Yields Ward Off Wider Spreads

Elevated political risk has slashed the likelihood of either tax reform or increased infrastructure spending taking effect in 2017. The much reduced probability of a stimulatory fiscal impulse implies interest rates will be significantly lower than otherwise.

When Hillary Clinton was widely expected to win the Presidency during the week prior to the November 8's Election Day, the 10-year Treasury yield averaged 1.82%. Thereafter, the 10-year Treasury yield climbed as high as 2.62% in anticipation of faster economic growth, heightened inflation risks, Fed rate hikes, and greater returns from equity capital. However, a slowdown by consumer spending and the fading prospects for fiscal stimulus lowered the 10-year Treasury yield to 2.3% even before the latest bout of political turmoil.

### Interest rates may approach pre-election expectations

Political turmoil will not lower share prices and widen corporate bond yield spreads if markets expect profits to grow despite the absence of fiscal stimulus, including corporate tax reform. In part, such expectations demand that interest rates reflect the much diminished likelihood of fiscal action.

Prior to November 8's Election Day, the Blue Chip consensus projected yearlong 2017 averages of 0.8% for the three-month Treasury bill rate and 2.1% for the 10-year Treasury yield. After Trump's surprise victory, yearlong 2017's projections averaged 0.9% for the Treasury bill rate and 2.7% for the benchmark Treasury yield, according to surveys taken in the first four months of 2017. As of early May, the consensus expected a slightly higher 1.0% average for 2017's three-month Treasury bill rate and a somewhat lower 2.6% average for the 10-year Treasury yield.

The three-month Treasury bill rate has averaged 0.68% thus far in 2017 and needs to average 1.19% for the remainder of 2017, if the projected yearlong average of 1.0% is to be realized. Getting to 1.19% for the rest of 2017 implicitly assumes two more Fed rate hikes for 2017, where the now 0.875% midpoint for fed funds needs to reach 1.375% by year's end. However, the federal funds futures contract now assigns only a 37% probability to fed funds' midpoint finishing 2017 above 1.125%, as inferred from the CME Group's FedWatch tool. Apparently, the futures market has priced in the likely absence of fiscal stimulus in 2017.

Thus far in 2017, the 10-year Treasury yield has averaged 2.40% and needs to jump up to its "taper tantrum" average of 2.70% of July 2013 through June 2014 in order to satisfy the consensus yearlong forecast of 2.6%. Nevertheless, a climb by the 10-year Treasury yield to 2.70% absent a major improvement in the earnings outlook would probably trigger an equity market plunge and a widening of corporate bond yield spreads that would be severe enough to eventually reverse a disruptive ascent by Treasury bond yields. Without fiscal stimulus, fourth-quarter 2017's average for the 10-year Treasury yield might be closer to the 2.3% that the consensus predicted prior to Election Day, as opposed to the 2.8% that the consensus predicted as of early May 2017.

### Current upturn's high-yield spread widens compared to previous recoveries

The persistently above-average downside risks of the now nearly eight-year-long business cycle upturn are reflected by the high-yield bond spread's above-trend 550 bp average for the current recovery to date. For example, since the end of 1982, the high-yield bond spread averaged 480 bp during the months overlapping an economic recovery. In fact, the high-yield bond spread's average during economic recoveries has been climbing higher since its 422 bp average of 1983-1990's upturn. After averaging 464 bp during 1991-2000's recovery, the high-yield spread averaged 487 bp for 2002-2007's upturn.

Spreads have widened over time because the high-yield market has been viewed as becoming riskier. However, the widening by high-yield spreads during economic recoveries over time cannot be largely ascribed to a convincing shift by outstanding high-yield bonds to the bottom rungs of the speculative-grade ratings ladder.

## Credit Markets Review and Outlook

In order to establish the stability of the high-yield bond market's risk profile, it's best to first see how the average one-year default rates vary across the US high-yield rating categories. As the following shows, the average one-year default rates jump sharply at the lowest ratings. For example, after rising from 1.0% of the Ba group to the 2.6% of B1 and the 3.5% of B2, the average one-year default rate then soars to the 8.0% of B3 and the roughly 11.0% of bonds graded less-than-B3. Thus, if the share of bonds graded B3 or lower rose significantly over time, the serial widening of high-yield spreads would be explained.

However, there is a lack of conclusive evidence to that effect. The percent of the US dollar amount of outstanding high-yield bonds rated B3 or lower has approximated 34% for the current upturn, which is barely under the 35% of 2002-2007's recovery. Not even the 33% share of outstanding high-yield bonds graded B3 or lower from 1991-2000's recovery was low enough relative to the current upturn to justify the wide gap between the average high-yield spreads of 464 bp for 1991-2000 and 550 bp for the current upturn.

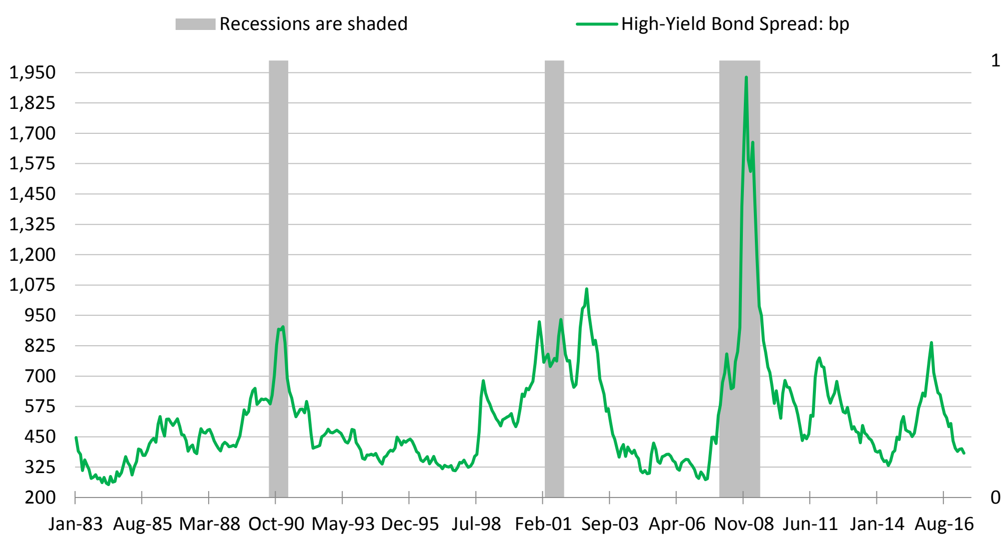
Instead, the serial widening of spreads across recoveries might be better explained by concerns emanating from a downshifting of pretax profits growth and doubts regarding the adequacy of systemic liquidity in times of stress.

### Current recovery rejects high-yield spread's ability to forecast recessions

At one time, some forecasters believed that the high-yield bond spread was a reliable indicator of the nearness of a recession. Basically, an economic slump was thought to be near whenever the high-yield bond spread's month-long average was wider than 700 bp. Indeed, prior to 2002's second half, recessions occurred each time the high-yield spread's monthly average broke above 700 bp. However, not even October 2002's 1,059 bp spread for high-yield bonds portended an impending recession and that was mostly because the market had underestimated the remedial powers of yearlong 2002's outsized 20.3% annual advance by pretax operating profits.

The current recovery is unique in that there have already been two episodes showing a wider-than-700 bp peak for the high-yield bond spread, where neither was followed by an economic downturn. For the current upturn's first extreme widening, the high-yield spread topped off at the 775 bp of October 2011; for the most recent, the spread crested at the 839 bp of February 2016. (Figure 1.)

**Figure 1: Current Business Cycle Upturn Is The First To Show Two Peaks by the High-Yield Spread In Excess of 700 bp**



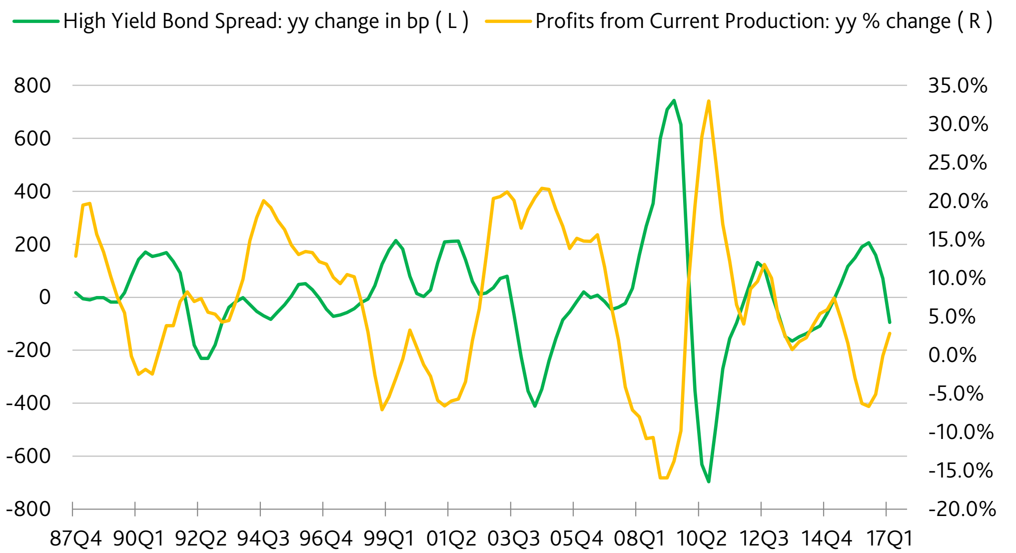

### Historically thin spreads are more likely to be wider than narrower one year out

Thus far in May 2017, the high-yield spread has averaged an atypically thin 383 bp, which is less than each of its previous month-long averages going back to the 350 bp of July 2014. The current spread does not constitute an attractive entry point for the high-yield bond market. May-2017-to-date's 383 bp average for the high-yield spread was exceeded by at least 10 bp in 70% of the months since 1982. In only 23% of the months since 1982 was the high-yield spread 372 bp or thinner.

## Credit Markets Review and Outlook

Even if profits continue to grow, today's ultra-thin high-yield bond spread is susceptible to a widening over the next 12 months. According to a sample of moving yearlong averages beginning with year-end 1987, when profits contract the high-yield spread conforms to expectations and widens 97% of the time. By contrast, when profits expand, the expected narrowing of spreads occurs with a much lower relative frequency of 69%. Though 2017's likely increase by pretax operating profits bodes favorably for high-yield credit quality, there is no assurance that an already thin high yield bond spread will narrow further over the next 12 months. (Figure 2.)

**Figure 2: When Profits Grow Annually, the High-Yield Bond Spread Narrows 69% of the Time; When Profits Shrink, the Spread Widens 97% of the Time** *moving yearlong observations*



# The Week Ahead – US, Europe, Asia-Pacific

## THE US

From Moody's Analytics - Economy.com and the Moody's Capital Markets Research Group

Summary, May 15: Inflation remains an obstacle for the Fed, but it won't prevent the FOMC from raising rates in June. The Fed won't ignore the recent weakness in core inflation, and we believe policymakers will maintain their mantra of gradually normalizing interest rates, even though the slide in the unemployment rate has some Fed officials worried that the labor market is set to overheat. The weakness in core inflation should keep the Fed's interest rate projections (to be updated in June) unchanged for this year, with the median pointing toward a total of three 25-basis point rate hikes this year.

The economic calendar is light. We look for housing starts to have bounced back in April after weather took a toll on them in March. The NAHB housing market index likely slipped in May, but it is a better gauge of the trend in single-family construction than of the level. Industrial production will post a modest gain, but the details will be more telling. We look for manufacturing output to post a solid gain in April, more than reversing the 0.4% decline of March. Still, the trend remains modestly encouraging and we look for further improvement over the next few months.

We are always on the watch for developments on fiscal policy. President Trump's decision to dismiss FBI Director James Comey has created a stir, and it has diminished the odds of corporate tax cuts occurring this year. We maintain the view that these tax cuts will be implemented but not necessarily until late this year or early next. There were already a number of hurdles, including the debt ceiling and the need to pass a budget by the end of September.

### THURSDAY, MAY 18

#### Jobless claims (week ending May 13; 8:30 a.m. EDT)

Forecast: 247,000

We look for initial claims to have risen 11,000 to 247,000 in the week ending May 13. This would reverse some of the 21,000 cumulative decline over the prior two weeks and would put new filings a touch above their prior four-week moving average of 243,500. The incoming data take on added importance, since they include the May payroll reference week. If our forecast comes to fruition, initial claims will be a touch above those in the April reference period.

#### Philadelphia Fed manufacturing survey (May; 8:30 a.m. EDT)

Forecast: 17.3

The Philadelphia Fed manufacturing surveys general business conditions index likely fell from 22 in April to 17.3 in May. This would bring the cumulative decline since February to 26 points and leave the index well below its first quarter average of 33.2. Sentiment appears to have gotten ahead of itself earlier this year, as it was inconsistent with the hard data. Therefore, the recent decline isn't too troubling and doesn't alter our view that factory conditions will gradually improve.

### FRIDAY, MAY 19

No major releases scheduled.

## EUROPE

By the Dismal (Europe) staff in London and Prague

Summary, May 12: The coming week will shed further light on the health of the U.K. economy. Downbeat first quarter data have spooked markets over the past few weeks, notably as dismal trade and industrial figures suggested that British manufacturing exports are unlikely to benefit much from the pound's depreciation and offset its negative impact on consumer spending. That's why next week's CPI, retail sales and unemployment data will be closely watched; they will either provide further evidence of weakness or bring hope that a strong labor market will support consumers' spending habits, despite the strong pickup in inflation.

The week will start with the release of CPI data on Tuesday. We are penciling in a much larger increase than the consensus, and see greater chances of an upside surprise that could drag on the pound. According to our forecasts, prices likely rose by 2.8% y/y in April, up sharply from 2.3% in March, boosted mainly by an Easter effect. The later timing of Easter this year than last year depressed annual price growth in transportation, accommodation and hotels, and package holidays in March, but it is expected to have driven prices up sharply in April. Food inflation should also accelerate, in line with the past spikes in import and producer food prices, which normally lead by four to seven months changes in consumer food prices. A strong boost will also come from utility prices, as the gas and electricity price hikes by two of Britain's big six energy suppliers towards the end March will show up in April's inflation figures. Overall, we expect core and noncore inflation to jump during the month, providing further evidence that the hit to consumers' purchasing power from soaring prices is not to be taken lightly.

Despite this price surge, we project that retail sales gathered momentum in April following a lackluster first quarter. We expect sales rose by 1.9% m/m, following a cumulative 1.4% decrease in the first stanza, which was the worst result in sales since the final quarter of 2013. Survey data indicate that sales rebounded over the month, supported not only by the Easter holidays but also by the decrease in fuel prices and the warm weather. We caution, however, that this increase was likely a blip, and that the trend will continue to the downside. Not only have rising prices weighed on consumer spending, but the slowdown in wage growth and in house prices should also be a main drag on households' living standards. Accordingly, labor market data due out next week are unlikely to show any meaningful rebound in wages. Although we expect employment rose at a rate of about 1%, firms are cautious about raising their labor costs in the face of the exit uncertainty, and employees' bargaining power has withered lately. Meanwhile, the April Jobs Survey report showed that the net balance of recruiters reporting that they were looking for permanent staff fell to an eight-month low, indicating further weakness ahead.

#### THURSDAY, MAY 18

### U.K.: Retail Sales (April; 9:30 a.m. BST)

U.K. retail sales should have mean-reverted in April following dismal figures for March, pushing the yearly rate of growth in sales up to 2.7%, from 1.7% previously but still 2.3 percentage points lower than its 2016 average. Leading indicators released in recent weeks were upbeat, suggesting a broad-based rebound in spending over the month on the back of the Easter holiday, the warm weather, and a drop in pump prices. Data from the Confederation of Business Industry showed that the balance of reported sales rose sharply to +38 in April, from +9 in March, well above the average balance of +18 recorded over the past three years. Similarly, the BDO survey showed that sales in value at the high street rose by 1.9% over the month, its highest since September 2015. The Visa Consumer Spending index was a little more downbeat, showing that sales were up by only 0.4% over the month, but we caution that Visa's indicator also includes service spending, which was reported to have been one of the main drags on sales over the month.

The details should reveal that food sales boosted the headline the most, as they do around the Easter holiday. Clothing sales should also have rebounded from a weak March. But we maintain that most of last autumn's strength in retail sales was because households tried to beat the expected jump in prices by frontloading purchases they would normally have made in 2017, and we expect retail sales to remain poor as higher inflation combined with limited wage growth erode real wages and consumers' purchasing power throughout the year, curbing households' will to spend.

### Russia: Industrial Production (April; 2:30 p.m. BST)

Industrial production in Russia should have picked up steam in April after a weak first quarter. Business confidence among manufacturing managers strengthened in April, and economic fundamentals suggest sustained improvement in the broader national economy. Inflation continues to cool, and employment growth rose in the first quarter. Domestic retail sales have tamped down their losses, though sales are still in negative year-over-year territory. Improving real wages should help consumption patterns over the next few months, increasing demand for industrial products.

FRIDAY, MAY 19

No major economic releases are scheduled.

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## ASIA-PACIFIC

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

# Higher external demand is boosting Asia's exports

Rising external demand has buttressed trade across Asia. In Japan, export growth over the year is expected to have risen for the fifth consecutive month. The yen's depreciation since November has helped. Large manufacturers are getting a better price in yen for their shipments overseas. This has boosted local business sentiment amongst export-facing manufacturers. Japanese automakers are also releasing new models, which will likely support shipments over the coming months.

The trend is expected to continue thanks to demand from the global tech cycle, though this will likely wane in a few months. Various electronics producers are releasing new models this year, and this has boosted demand for tech products across Asia. Hong Kong has also benefited, especially through a strong rise in re-exports. Moreover, China's cyclical upswing has also increased commodity shipments in value and volume terms. Similarly, New Zealand's trade balance is buttressed by a strong rise in exports, especially to mainland China.

Though exports are rising across the region, the trade balance will be relatively unchanged. The import bill is rising on the back of a rebound in most commodity prices. For example, Japan's core CPI will likely increase over the year thanks to imported inflation, although prices are unlikely to rise towards the central bank's 2% inflation target any time soon. Overall, rising commodity prices will prevent trade surpluses across Asia from rising sharply over the coming months.

Taiwan's economy is also riding the tailwind from global tech demand. The second estimate of GDP will be unchanged but show that exports remain the key driver of growth amidst sluggish private consumption.

THURSDAY, MAY 18

### Japan – GDP – 2017Q1

Time: 9:50 a.m. AEST (Wednesday 11:50 p.m. GMT)
Forecast: 0.8%
Japan's March quarter GDP likely accelerated to 0.8% q/q following December's 0.3% increase. The sharp increase in growth stems from improved global conditions, along with an uptick in the tech cycle that has boosted exports. The yen's depreciation has also increased export values and partially offset rising commodity prices. While net exports will drive growth, domestic demand will likely add less to growth because consumers and firms remain reluctant to spend.

### Australia – Employment Situation – April

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 5.8% unemployed
Australia's unemployment rate likely dipped slightly in April to 5.8% from 5.9% in the previous two months. Employment growth is expected to pick up slightly, expanding around 1.2% y/y for the second consecutive month. Business conditions are at a nine-year high, and this is supporting hiring. Job ads have been strong of late, which bodes well for employment growth. The volatility of the seasonal data makes it difficult to get a good handle on labor market conditions, especially the breakdown between full- and part-time positions. We will be looking closely to see if the trend in higher full-time positions continued in April.

### Philippines – GDP – 2017Q1

Time: 12:00 p.m. AEST (2:00 a.m. GMT)
Forecast: 6.9%
We expect the Philippine economy to have expanded 6.9% y/y in the first quarter, improving on the 6.6% rise in the prior quarter. Domestic demand continues to be the main driver, with private investment and consumption increasing rapidly. Positive demographic factors and rising incomes are supporting consumption. Net exports should also be a positive, as merchandise exports have recovered in recent months and service exports continue to perform well.

### Indonesia – Monetary Policy – May

Time: Unknown
Forecast: 4.75%
Bank Indonesia will keep the policy rate steady at 4.75% at its May meeting. The central bank should remain on the sidelines through 2017 even though inflation pressures are gradually rising because of administrative price adjustments and higher global commodity prices. Inflation is forecast to creep towards 5% over 2017, at the upper limit of the central bank's 3%-to-5% target range. Guarding against capital flight means further interest rate reductions are firmly off the table for 2017.

## FRIDAY, MAY 19

### Malaysia – GDP – 2017Q1

Time: 2:00 p.m. AEST (4:00 a.m. GMT)
Forecast: 4.6%
Malaysian GDP growth likely strengthened in the March quarter after rising to 4.5% y/y in the December quarter. Exports were likely behind the turnaround thanks to higher shipments of integrated circuits, reflecting the improved global tech cycle. Higher palm oil exports are also expected after earlier supply shortages fade. Private consumption remained robust thanks to the sustained low interest rate environment and the flow-on from upbeat global demand. Government spending was a drag in the December quarter, but this shouldn't be the case in the March quarter, as higher oil prices lifted government revenue and allowed the government to roll out planned infrastructure projects, including new railways in the capital. Export receipts will cool in the June quarter, reflecting commodity price falls, especially for crude oil.

## MONDAY, MAY 22

### Japan – Foreign Trade – April

Time: 9:50 a.m. AEST (Sunday 11:50 p.m. GMT)
Forecast: ¥300 billion
Japan's monthly seasonally adjusted trade surplus likely rose in April from March's ¥172.2 billion. Exports are expected to increase thanks to the yen's depreciation and improved demand for Japan's tech products. That said, the trade surplus will remain relatively low because of increased import costs and rising energy prices.

TUESDAY, MAY 23

### Taiwan – Domestic Trade – April

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Forecast: 0.4%
Taiwanese consumers are cautiously optimistic, with spending improving marginally in 2017. Retail trade likely slowed to a 0.4% y/y gain in April after March's 3.4% y/y rise. Higher global energy prices are pushing up the value of fuel, but other areas of spending remain subdued. Wages have been slow to pick up despite improved exports and manufacturing, and this is crimping spending in 2017. Stronger employment and steady growth in bonuses make the outlook slightly more upbeat.

### Taiwan – Industrial Production – April

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Forecast: 8.5%
Manufacturing is benefiting from strong export demand. Industrial production likely accelerated to 8.5% y/y in April from 3.2% previously. Electronic parts and components lead the way as an upswing in the global tech cycle supports demand. Manufacturing conditions remain upbeat, although rising raw material prices weigh on profit margins. We expect the cyclical upturn in Taiwan's manufacturing to persist through the first half of 2017.

WEDNESDAY, MAY 24

### Thailand – Monetary policy - May

Time: Unknown
Forecast: 1.5%
The Bank of Thailand will leave interest rates on hold at 1.5% at its May policy meeting. The Bank of Thailand has held rates at this record low since April 2015. While economic growth beat expectations in the first quarter, this does not signal an overall improvement in the economy's momentum. Private consumption remains tied to stimulus from the junta government, while private investment activity has been persistently weak in recent years. With this in mind, we expect the central bank to maintain its current ultra-accommodative policy stance through to 2018.

### New Zealand – Foreign Trade – April

Time: 8:45 a.m. AEST (Tuesday 10:45 p.m. GMT)
Forecast: NZ$75 million
New Zealand's trade balance likely recorded a smaller surplus in April than the NZ$332 million in March. Annual export growth is unlikely to maintain March's pace, when it surged 11% on strong gains in shipments to China, especially for dairy. China's cyclical upturn looks to have peaked, which will put downward pressures on soft commodity prices in coming months, especially for dairy, cooling exporter receipts. Imports should rise strongly thanks to buoyant economic demand; the economy is growing a little above potential and this is lifting consumer imports, a good barometer of domestic demand.

THURSDAY, MAY 25

### South Korea – Monetary Policy – May

Time: Unknown
Forecast: 1.25%
The Bank of Korea will likely stand pat at the May monetary policy meeting, leaving interest rates at 1.25%. Domestic conditions are weak despite improvement on the export front. Subdued employment growth is weighing on wages, and combined with high private debt, this is hampering spending. Further easing is off the cards, because it would spur demand for credit. Rising global interest rates will put downward pressure on the currency and raise the debt servicing cost of foreign-held debt. Overall, we expect the BoK to stand pat through 2017 before stronger inflation prompts hiking in 2018.

### Hong Kong – Foreign Trade – April

Time: 6:30 p.m. AEST (8:30 a.m. GMT)
Forecast: -HK$30.2 billion
Trade activity through Hong Kong's port is growing strongly. Broad-based export growth indicates that global trade is strengthening. Commodity shipments are being driven by China's investment recovery, which is boosting both values and volumes of shipments. Global tech demand is also driving tech component shipments through Hong Kong, although there are emerging signs of a slowdown. The monthly deficit likely narrowed to HK$30.2 billion in April, from HK$42.3 billion in March.

FRIDAY, MAY 26

### Singapore – GDP - Final – 2017Q1

Time: Unknown
Forecast: 2.7%
We look for the final estimate of Singapore's first quarter GDP growth to be revised up to 2.7% y/y, compared with the 2.5% advance estimate. This would still be lower than the prior quarter in which GDP rose 2.9%. Services will continue to be the main positive for the city-state's economy, benefiting from stronger global economic conditions and improving domestic consumption. Manufacturing also has received a boost from external demand. Construction will remain a weak point as falling house prices crimp building.

### South Korea – Consumer Sentiment Index – May

Time: 7:00 a.m. AEST (Thursday 9:00 p.m. GMT)
Forecast: 102.8
The Korean presidential election likely boosted consumer confidence further in May. The Bank of Korea's consumer sentiment index likely ticked up to 102.8 from 101.2 in April, as households feel more optimistic about future economic conditions. The election of President Moon Jae-in in May provides some clarity to government policy after a tumultuous political scandal in late 2016. This will likely boost both consumer and business confidence, supporting economic growth.

### Japan – Consumer Price Index – April

Time: 9:30 a.m. AEST (Thursday 11:30 p.m. GMT)
Forecast: 0.3%
Japan's core consumer price index was likely unchanged in April from March's 0.3% y/y. We expect prices to rise slowly over the coming months because of higher imported inflation. This will filter through the economy via transport costs and other ancillary products. Though core inflation will rise, it will remain well below the central bank's 2% inflation target. We don't see the Bank of Japan adjusting its policy levers any time soon, and the central bank's next move will likely be asset purchase tapering.

### Singapore – Industrial Production – April

Time: 3:00 p.m. AEST (5:00 a.m. GMT)
Forecast: 8%
Singapore's industrial production growth is forecast to have slowed to 8% y/y in April from 10.2% in March. Manufacturing has been buoyed in recent months by the rebound in global tech demand. This has resulted in a surge in electronics and precision engineering output. Biomedical production has also improved because of stronger demand from Europe. Whether manufacturing output can maintain the current pace of increase depends on global demand. On this front, the risks are weighed to the downside, as China's cyclical upswing appears to have reached its peak.

### Taiwan – GDP – 2017Q1

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Forecast: 2.6%
Taiwan's economy is riding the global tech demand wave. The second estimate of GDP growth in the March quarter is likely unchanged from the initial estimate of 2.6% y/y, down slightly from the December quarter's 2.9% y/y gain. Exports added strongly to the gain, while private consumption has lagged. Investment was also upbeat, as businesses feel more optimistic about the future. Strong export demand will remain a driver of growth in the coming quarter.

# The Long View

## The US: The funding of acquisitions now lends material support to a still brisk pace of new bank loan programs from high-yield issuers

By John Lonski, Chief Economist, Moody's Capital Markets Research Group, May 18, 2017

### CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 118 bp is less than 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 383 bp is less than what is inferred from the spread's macroeconomic drivers and the high-yield EDF metric, but is wider than what is implied by an ultra-low VIX index. The implications for liquidity of regulatory changes merit scrutiny. If regulatory change enhances the market making capabilities of banks, If regulatory change enhances the market making capabilities of banks, corporate bond yield spreads may be thinner than otherwise.

### DEFAULTS

After setting its current cycle high at January 2016's 5.9%, the US high-yield default rate has since eased to April's 4.5%. Moody's credit policy group edged up its predicted average default rate for Q4-2017 from April's 3.1% to a May's 3.2%. 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.

First-quarter 2017's worldwide offerings of corporate bonds showed annual percent increases of +7.7% for IG and +110.6% for high-yield, wherein US$-denominated offerings advanced by +17.1% for IG and by +98.3% for high yield.

## The Long View

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 dip by -1.2% annually for IG and may advance by + +16.4% 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 of Moody's Analytics
May 18, 2017

### Eurozone

The euro zone's economic recovery will continue in the three months to June. After solid quarterly growth of 0.5% in the first quarter, high-frequency indicators for April added to the upbeat picture, suggesting that growth entered the second quarter on a strong footing. The composite PMI—which combines the business activity in manufacturing and services—climbed from 56.4 in March to a six-year high of 56.8 in April. The PMI suggests that expansion should accelerate to 0.7% q/q in the second quarter from a 0.5% gain in the first quarter. Growth picked up sharply in Italy, with the PMI rising at the fastest rate in almost a decade. Business activity also accelerated in Spain and Ireland. Activity rose but slowed slightly in France and Germany, though it remains robust. Similarly, the European Commission's economic confidence index surged in April, climbing to its highest level in almost a decade. The upswing was broad-based across economic sectors and across countries. Cyclical labor market improvement combined with strengthening wage growth in some euro area countries will boost household spending, while the weak euro and a broad-based improvement in global demand will support euro area exports. Furthermore, political worries haven't harmed business and consumer confidence yet and the adverse impact of the U.K. exit from the EU hasn't materialized.

Fiscal policy in the euro area as a whole is predicted to be mildly stimulative and European Central Bank stimulus measures including record low interest rates and asset purchases will likely boost credit expansion. Although preliminary inflation data support earlier termination of asset purchases, we expect the ECB to change its guidance as a first step towards phasing out quantitative easing later this year. The outlook for wage growth is uncertain, inflation is not yet fully on track, and the banking sector remains fragile with high volumes of nonperforming loans. This is particularly true for Italy, but also for financial institutions in Greece, Portugal and Ireland.

Rising prices remain the main short-term risk to our forecast. Both headline and core inflation picked up in April, signaling slowly building demand-led inflation pressure. According to the PMI, input costs and selling prices increased, with inflation rising only a little more slowly than March's near six-year high. With a lot of slack in most of the major countries' labor markets, which curbs nominal wage growth, higher inflation will cut real wages, undermining household spending. In the longer term, the

U.K. exit and the shift towards protectionism could undermine growth prospects in Europe. As long as protectionist policies ride a wave of popularity, global trade will likely remain subdued, and a U.K. hard exit from the EU together with China's economic rebalancing and U.S. protectionist measures could torpedo the liberalization effort which had supported the global economy before the crisis. This would hurt the export-oriented German economy mainly, but also the whole of Europe.

Despite these risks we expect the euro zone economy to expand 1.7% this year, the same rate as in 2016, before slowing to 1.6% in 2018. Although the outcome of the French election on Sunday removed a key political risk for the euro zone, uncertainty about the U.K. exit negotiations and a more protectionist trade stance by the U.S. government will dominate in the second half of 2017. So far, the euro area seems healthy enough to overcome these threats.

### U.K.

The U.K. economy's growth likely recovered somewhat in the second quarter following a disappointing start to the year. Accordingly, our high-frequency GDP model has begun tracking second quarter growth at 1.6% in annualized quarterly terms and 0.4% not annualized, an acceleration from the official 1.2% preliminary estimate for the first quarter. However, this result does not remove our fears that the U.K. economy is set for a rough ride in 2017. Still, the recovery in industrial survey data in April brings some optimism. The latest U.K. Markit/CIPS manufacturing PMI rose to a three-year high of 57.3 from the four-month low of 54.2 recorded in March. The improvement was driven to large extent by stronger demand, which increased at the fastest rate since January 2014. New exports orders also rose at a solid pace, thanks to improvements in global economic conditions and weak sterling. However, in our view, the industrial sector will fail to have the momentum required to offset weakness in the service sector, which will be led by consumers clamping down on their spending as a response to the decline in their real incomes.

U.K. consumer confidence fell to a four-month low in April due to rising inflation and worsening labor market. Although the unemployment rate fell to a record low 4.6% in the first quarter and employment growth gained 0.4% q/q, wage gains lost further momentum in March; excluding bonuses, they slowed to 2.1% y/y from 2.2% in February. This slowdown in pay growth is worrisome, especially in light of the whopping 2.7% jump in inflation reported by the Office for National Statistics earlier this week. That's because higher prices combined with slower pay growth automatically mean households' real wages deteriorate: In monthly terms, real pay plunged by 0.5% y/y in the three months to March, its biggest drop in 2½ years. Given that we expect inflation to average 2.8% this year and peak at 3.1% later this year, household spending—the engine of U.K. growth—should pull back in line with the deterioration in consumers' purchasing power.

Despite the slump in sterling and associated rise in inflation, the weakening British economy is expected to keep the Bank of England on the sidelines. Moody's Analytics expects the Monetary Policy Committee to delay tightening policy until well after the EU exit, gradually raising the main policy rate from mid-2019. Fiscal policy will support the BoE's accommodative monetary policy. The government has abandoned its plan to close the budget deficit by 2020 and has confirmed plans to lower the corporate tax rate from the current rate of 20% to 17% by April 2020 and increase government spending to prop up waning economic activity.

The forthcoming exit negotiations and anxiety about the U.K.'s future at home and abroad should keep sentiment about the general economic outlook for the next year in negative territory, with risks tilted to the downside depending on how negotiations go. The June elections should lift households' and markets' moods somewhat; the elections will likely be seen as a sign that a softer exit could be negotiated if Theresa May were to have a larger majority in government. But despite a little rebound around election time, overall confidence should remain subdued in 2017. Real GDP growth is expected to decelerate from 1.8% in 2016 to around 1.5% in 2017 and 1% in 2018 before gradually strengthening to settle around 1.8%, its new post-exit potential growth rate, around 0.2 percentage point lower than it would have been were the U.K. to stay in the EU.

## ASIA PACIFIC

By Emily Dabbs and the Asia-Pacific Staff of Moody's Analytics
May 18, 2017

Australia's economy is expected to slow in the near term as household incomes stagnate and Chinese demand for commodities softens. The investment outlook shows promise, though, helped by the government's infrastructure program. Although the housing-driven construction boom will peak later this year, the drag from mining investment is expected to fade in 2018. The economy will grow around 2.2% in 2017 before accelerating to around 2.4% in 2018. The Reserve Bank will maintain its accommodative monetary policy stance to support domestic activity, with the cash rate on hold at 1.5% until early 2018.

Australia's monthly trade balance returned to surplus in November, as higher commodity prices pushed up the value of exports. Iron ore and coal prices skyrocketed in late 2016 as the cyclical upswing in China's housing market boosted demand. Although this trend reversed in the opening months of 2017—the iron ore spot price fell to an eight-month low in early May—prices are expected to remain above their 2015 trough over the medium term, and this will support export values.

Commodity volumes have also been picking up as more capacity comes on line. Cyclone Debbie hit the Queensland coast in March and damaged the nearby rail and shipping infrastructure. This may dampen commodity exports in the June quarter, but a rebound is expected in September. Outside iron ore and coal, liquid natural gas exports have also been increasing steadily. LNG exports accounted for only around 7% of total exports in 2016, but the sector is growing strongly, with shipments of the product rising 8.9% y/y in 2016.

However, growth may be curtailed in the near future because of government intervention. The Australian Energy Markets Operator released a report in March, indicating that without a substantial increase in domestic gas supply, electricity generators in the eastern states of Australia will face shortages from summer 2018. The domestic shortage is the result of slowing production growth in existing gas fields, coupled with an increase in export projects. The government is introducing export controls from 1 July 2017, placing export limits on companies that export more gas than they produce domestically.

Despite the improvement in commodity prices, mining investment remains sluggish. In 2016, private capital investment in mining declined 34.5%. Since its peak in 2012, mining investment has declined more than 50%, while nonmining investment has held up reasonably well.

Much of the growth in nonmining has been driven by housing. Strong demand is pushing up prices, prompting developers to ramp up construction. This is especially the case for apartments, with more than 100,000 units commenced in 2016. Looking ahead, the pipeline of work is slowing. Building approvals fell 20.3% y/y in March, marking the seventh consecutive month of declines. The regulator is working with banks to limit risky lending, with particular focus on investor- and interest-only loans. This is likely to dampen demand, putting downward pressure on prices and construction. We expect that dwelling construction will reach its peak in late 2017.

Government infrastructure spending is expected to pick up in the coming years, which will support investment. The 2017-2018 budget included a number of specific projects that will boost construction in the near term and boost economic growth in the long run. The boost from government infrastructure spending is less than first expected, with spending spread out over a 10-year horizon. This will help offset the drag from mining, with investment expected to add to growth in 2017 after four years of decline.

Consumer spending ended 2016 on a strong note, but subdued retail figures indicate the trend is unlikely to continue. Private consumption added 0.5 percentage point to quarterly growth in the December quarter, as households drew down on savings to increase their spending. In the first quarter of 2017, real quarterly retail spending increased just 0.1%. We expect private consumption to slow significantly in 2017 and 2018 as weak wage growth and rising debt servicing costs crimp household budgets.

Wage growth slowed to the weakest rate of growth on record in the December and March quarters, at 1.9% y/y. Although the unemployment rate drifted higher in late 2016 and early 2017, it is still well below the peak reached in 2015 when wage growth was still above 2%. This suggests that the headline unemployment rate is not the best measure of labor market slack. The underemployment rate—which measures the number of people working who would like more work—is more closely linked with wages. The correlation coefficient between wage growth and the underemployment rate is -0.75, where -1 is perfectly negatively correlated.

The Reserve Bank of Australia is supporting household budgets through accommodative monetary policy. With underlying inflation slowing as domestic demand struggles, the central bank re-entered an easing cycle in 2016. The monetary policy rate was lowered by 50 basis points over the year to a record low 1.5% in August. This has kept a lid on interest payments as a proportion of disposable income, but record low interest rates also stoked demand for credit. The household debt to disposable income ratio reached around 190% by the end of 2016.

Although official interest rates have trended lower over the past five years, the spread between the overnight cash rate and mortgage rates has widened. All the major banks have increased investor interest rates out of step with the RBA, and many have also started to push up owner-occupied lending rates. With global interest rates rising, and pushing up funding costs of Australian banks, this trend is likely to persist over the coming year. This will hurt household spending, as loan servicing costs rise despite the RBA keeping rates at a record low 1.5% into 2018.

# Ratings Round-Up

By Njundu Sanneh

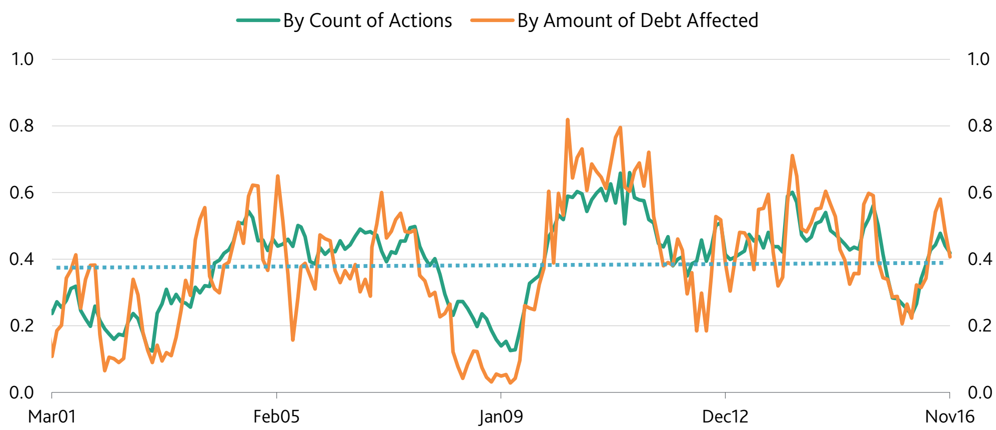
## Upgrades and Rating Activity Lively

Rating change activity bumped up last week, with 15 changes in the US and 13 in Europe. Upgrades outnumbered downgrades in both the US and Europe, reflecting the improved corporate credit quality environment. Upgrades were 69% of total for Europe and 60% for the US, both well above the trailing long-term 3-month moving average of 40%. Conclusion of the review of Spanish banks led to rating activity on 10 banks, with the ratings affirmed for four and revised upwards for six. The positives were the improving Spanish economic environment and the banks' gains in credit metrics and assets. Financial companies account for seven of the nine European upgrades (the Spanish banks plus the International Bank of Azerbaijan).

US rating change activity was spread across several industries, especially business and consumer services, project finance, and manufacturing. Upgraded companies include AES Corporation, Suncoke Energy, Inc., and Cheniere Energy Partners, L.P. On the downgrade side were Ashland Global Holdings, Inc., Finaxa, and Production Resource Group, Inc.

*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 | IG/SG |
|---|---|---|---|---|---|---|---|---|---|---|
| 5/10/17 | API HEAT TRANSFER THERMASYS | Industrial | SrSec/BCF/LTCFR/PDR | | D | B2 | B3 | | | SG |
| 5/10/17 | BLUE BUFFALO PET PRODUCTS, INC. - Blue Buffalo Company, Ltd | Industrial | SrSec/BCF/LTCFR/PDR | | U | Ba3 | Ba2 | | | SG |
| 5/10/17 | FINAXA | Financial | SrUnsec/IFSR/Sub/JrSub/PS | 350 | D | A2 | Baa1 | | | IG |
| 5/10/17 | MAGNACHIP SEMICONDUCTOR CORPORATION | Industrial | SrUnsec/LTCFR/PDR | 225 | U | Caa1 | B3 | | | SG |
| 5/10/17 | SEQUA CORPORATION | Industrial | SrUnsec/LTCFR/PDR | 28 | U | C | Caa3 | | | SG |
| 5/11/17 | CALCEUS ACQUISITION, INC. | Industrial | SrSec/BCF/LTCFR/PDR | | D | B3 | Caa1 | | | SG |
| 5/11/17 | PRINTPACK HOLDINGS, INC. | Industrial | SrSec/BCF/LTCFR/PDR | | U | B2 | B1 | | | SG |
| 5/11/17 | PRODUCTION RESOURCE GROUP, INC. | Industrial | SrUnsec/LTCFR/PDR | 168 | D | Caa3 | C | | | SG |
| 5/12/17 | AMAG PHARMACEUTICALS, INC. | Industrial | SrUnsec | 1,000 | U | B3 | Ba3 | | | SG |
| 5/15/17 | AES CORPORATION, (THE) | Utility | SrUnsec/LTCFR/PDR/PS | 4,481 | U | Ba3 | Ba2 | | | SG |
| 5/15/17 | ASHLAND GLOBAL HOLDINGS INC. | Industrial | SrUnsec/Jrsub | 4,544 | D | Ba2 | Ba3 | | | SG |
| 5/15/17 | ASTORIA ENERGY LLC | Industrial | SrSec/BCF | | D | Ba3 | B1 | | | SG |
| 5/15/17 | CHENIERE ENERGY PARTNERS, L.P. - Sabine Pass Liquefaction LLC | Industrial | SrSec | 13,650 | U | Ba1 | Baa3 | | | SG |
| 5/15/17 | GARDNER DENVER HOLDINGS, INC. - Gardner Denver, Inc. | Industrial | LTCFR/PDR | | U | B3 | B2 | | | SG |
| 5/16/17 | SUNCOKE ENERGY, INC. | Industrial | SrUnsec/LTCFR/PDR/SGL | 45 | U | Caa1 | B3 | SGL-3 | SGL-2 | SG |

*Source: Moody's*

**FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE**

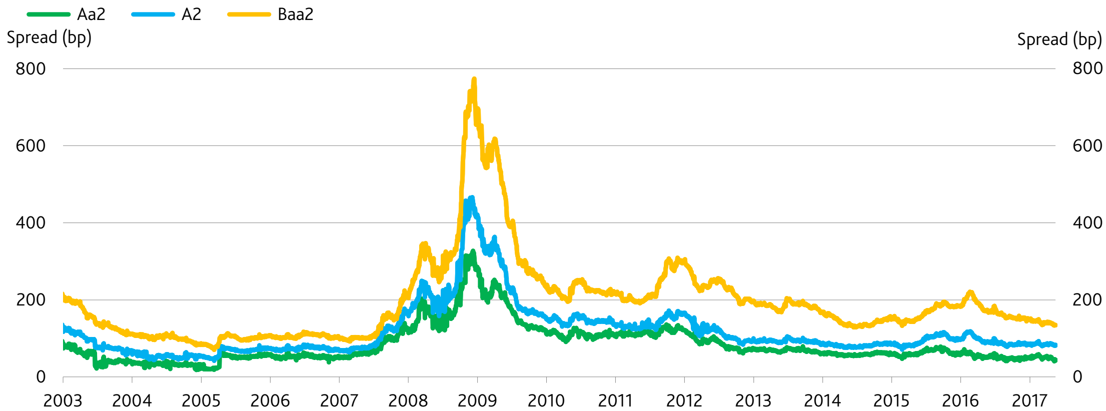
| Date | Company | Sector | Rating | Amount ($ Million) | Up/ Down | Old LTD Rating | New LTD Rating | Old STD Rating | New STD Rating | IG/ SG | Country |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 5/15/17 | INTERNATIONAL BANK OF AZERBAIJAN | Financial | SrUnsec | 948 | D | B1 | Caa3 | | | SG | AZERBAIJAN |
| 5/16/17 | SOLOCAL GROUP S.A. | Industrial | LTCFR | | U | Caa1 | B3 | | | SG | FRANCE |
| 5/11/17 | FRESENIUS MEDICAL CARE AG & CO. KGAA | Industrial | SrUnsec/LTIR | 5,425 | U | Ba2 | Baa3 | | | SG | GERMANY |
| 5/12/17 | INTERNATIONAL AUTOMOTIVE COMPONENTS GROUP, S.A. | Industrial | SrSec/LTCFR/PDR | 300 | D | Caa1 | Caa3 | | | SG | LUXEMBOURG |
| 5/10/17 | ABANCA CORPORACION BANCARIA, S.A. | Financial | LTD | | U | B2 | Ba3 | | | SG | SPAIN |
| 5/10/17 | ASOCIACION ESPANOLA DE CAJAS RURALES (AECR) - Banco Cooperativo Espanol, S.A. | Financial | SLTD | | U | Ba1 | Baa3 | NP | P-3 | SG | SPAIN |
| 5/10/17 | BANCA MARCH GRUPO FINANCIERO - Banca March S.A. | Financial | LTD | | U | Baa1 | A3 | | | IG | SPAIN |
| 5/10/17 | BANKIA, S.A. | Financial | SrUnsec/SLTD/MTN | | U | Ba3 | Ba1 | | | SG | |
| 5/10/17 | IBERCAJA CAJATRES - Ibercaja Banco SA | Financial | LTD/Sub/PS | 862 | U | B1 | Ba3 | | | SG | SPAIN |
| 5/10/17 | KUTXABANK, S.A | Financial | SrUnsecSLTD/Sub/MTN | 55 | U | Ba1 | Baa3 | NP | P-3 | SG | SPAIN |
| 5/12/17 | SYNGENTA AG | Industrial | SrUnsec/SLTIR/MTN/CP | 2,863 | D | A2 | Baa2 | P-1 | P-2 | IG | SWITZERLAND |
| 5/15/17 | DUFRY AG | Industrial | SrUnsec/LTCFR/PDR | 1,311 | U | Ba3 | Ba2 | | | SG | SWITZERLAND |
| 5/10/17 | CADENT GAS LIMITED | Utility | LTIR | 4,686 | D | A3 | Baa1 | | | IG | UNITED KINGDOM |

*Source: Moody's*

# Market Data

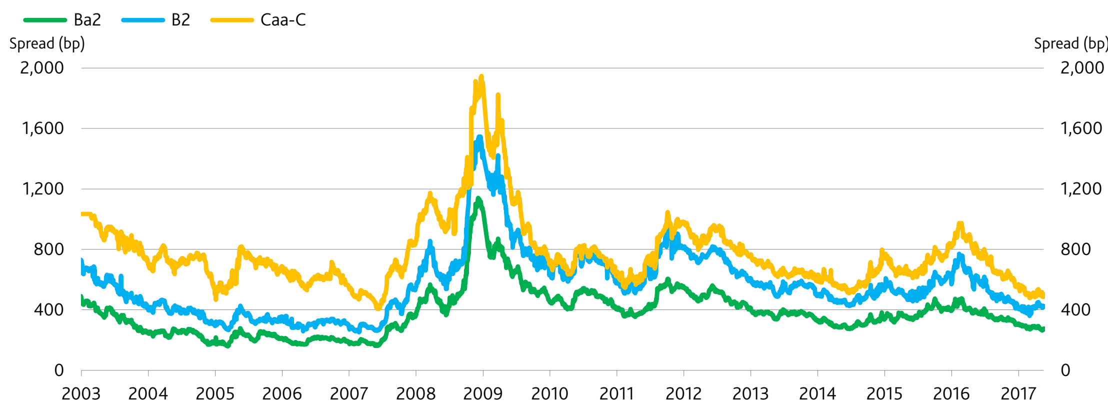
## Spreads

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 (May 10, 2017 – May 17, 2017)**

| CDS Implied Rating Rises | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | May. 17 | May. 10 | Senior Ratings |
| Coca-Cola Company (The) | Aa3 | A1 | Aa3 |
| Intel Corporation | Aa3 | A1 | A1 |
| Kinder Morgan Energy Partners, L.P. | Baa2 | Baa3 | Baa3 |
| United Airlines, Inc. | B2 | B3 | Baa1 |
| Frontier Communications Corporation | Caa3 | Ca | B1 |
| Dish DBS Corporation | B2 | B3 | Ba3 |
| CSX Corporation | Aa3 | A1 | Baa1 |
| Anadarko Petroleum Corporation | Ba1 | Ba2 | Ba1 |
| Calpine Corporation | B3 | Caa1 | B2 |
| NiSource Finance Corporation | Baa2 | Baa3 | Baa2 |

| CDS Implied Rating Declines | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | May. 17 | May. 10 | Senior Ratings |
| Clorox Company (The) | Baa2 | A3 | Baa1 |
| Walt Disney Company (The) | A1 | Aa3 | A2 |
| HCA, Inc. | Ba3 | Ba2 | B1 |
| Procter & Gamble Company (The) | Aa3 | Aa2 | Aa3 |
| General Motors Company | Ba3 | Ba2 | Baa3 |
| Kraft Heinz Foods Company | Baa2 | Baa1 | Baa3 |
| Simon Property Group, L.P. | Ba1 | Baa3 | A2 |
| Target Corporation | Baa2 | Baa1 | A2 |
| Colgate-Palmolive Company | A1 | Aa3 | Aa3 |
| Xerox Corporation | Ba2 | Ba1 | Baa3 |

| CDS Spread Increases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | May. 17 | May. 10 | Spread Diff |
| Sears Roebuck Acceptance Corp. | Caa3 | 3,827 | 3,446 | 381 |
| Sears Holdings Corp. | Caa3 | 3,686 | 3,319 | 367 |
| GenOn Energy, Inc. | Caa3 | 2,562 | 2,292 | 270 |
| Neiman Marcus Group LTD LLC | Caa3 | 1,673 | 1,501 | 172 |
| Nine West Holdings, Inc. | Ca | 5,318 | 5,156 | 162 |
| Penney (J.C.) Corporation, Inc. | B3 | 793 | 688 | 106 |
| Hertz Corporation (The) | B3 | 1,083 | 984 | 99 |
| McClatchy Company (The) | Caa2 | 903 | 806 | 97 |
| Avis Budget Car Rental, LLC | B1 | 553 | 472 | 80 |
| Rite Aid Corporation | B3 | 342 | 287 | 56 |

| CDS Spread Decreases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | May. 17 | May. 10 | Spread Diff |
| K. Hovnanian Enterprises, Inc. | Caa3 | 1,463 | 1,616 | -153 |
| Frontier Communications Corporation | B1 | 846 | 927 | -81 |
| Windstream Services, LLC | B2 | 700 | 737 | -37 |
| PolyOne Corporation | Ba3 | 138 | 164 | -26 |
| Pride International, Inc. | B1 | 469 | 495 | -26 |
| NiSource Finance Corporation | Baa2 | 66 | 91 | -24 |
| Diamond Offshore Drilling, Inc. | Ba2 | 346 | 367 | -20 |
| Talen Energy Supply, LLC | B1 | 865 | 885 | -19 |
| Murphy Oil Corporation | B1 | 222 | 241 | -19 |
| Advanced Micro Devices, Inc. | Caa1 | 235 | 254 | -19 |

*Source: Moody's, CMA*

**Figure 4. CDS Movers - Europe (May 10, 2017 – May 17, 2017)**

| CDS Implied Rating Rises | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | May. 17 | May. 10 | Senior Ratings |
| Erste Group Bank AG | Baa3 | Ba1 | Baa1 |
| Nationwide Building Society | Baa1 | Baa2 | Aa3 |
| Danske Bank A/S | A1 | A2 | A2 |
| Alpha Bank AE | Caa2 | Caa3 | Ca |
| Swedbank AB | A1 | A2 | Aa3 |
| Total S.A. | A1 | A2 | A1 |
| Greece, Government of | Caa1 | Caa2 | Caa3 |
| KBC Bank N.V. | A2 | A3 | A1 |
| KBC Group NV | A2 | A3 | Baa1 |
| Air Liquide S.A. | A1 | A2 | A3 |

| CDS Implied Rating Declines | CDS Implied Ratings | | |
|---|---|---|---|
| Issuer | May. 17 | May. 10 | Senior Ratings |
| France, Government of | A1 | Aa3 | Aa2 |
| The Royal Bank of Scotland Group plc | Ba2 | Ba1 | Ba1 |
| Banco Bilbao Vizcaya Argentaria, S.A. | Baa3 | Baa2 | Baa1 |
| Santander UK PLC | Baa2 | Baa1 | A3 |
| UniCredit S.p.A. | Ba2 | Ba1 | Baa1 |
| Standard Chartered Bank | Baa2 | Baa1 | A1 |
| Natixis | Baa1 | A3 | A2 |
| FCE Bank plc | Ba2 | Ba1 | Baa2 |
| Bankinter, S.A. | Ba1 | Baa3 | Baa2 |
| ENEL S.p.A. | Baa3 | Baa2 | Baa2 |

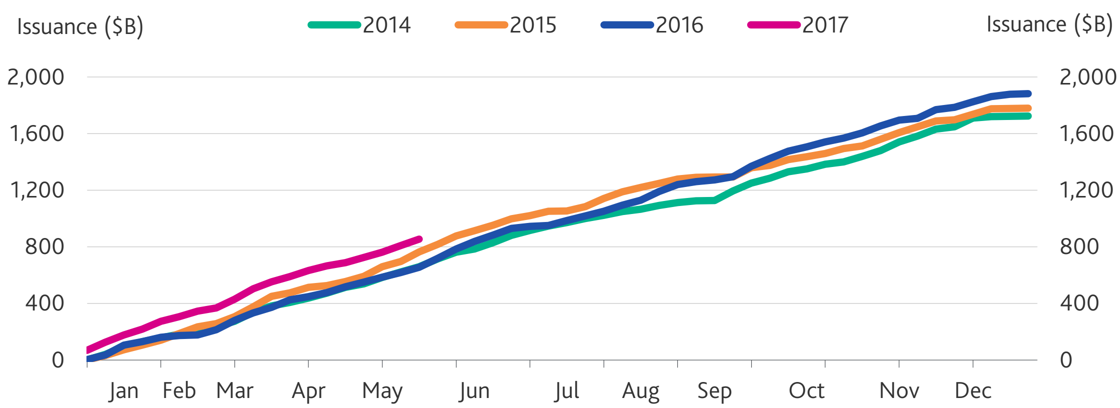
| CDS Spread Increases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | May. 17 | May. 10 | Spread Diff |
| PizzaExpress Financing 1 plc | Caa1 | 602 | 579 | 22 |
| CMA CGM S.A. | B3 | 552 | 532 | 20 |
| Astaldi S.p.A. | B3 | 711 | 693 | 19 |
| Bankinter, S.A. | Baa2 | 104 | 92 | 12 |
| Norske Skogindustrier ASA | Caa3 | 9,719 | 9,709 | 10 |
| Standard Chartered PLC | A2 | 74 | 65 | 9 |
| Banco Bilbao Vizcaya Argentaria, S.A. | Baa1 | 80 | 73 | 8 |
| Standard Chartered Bank | A1 | 65 | 57 | 8 |
| DNB Bank ASA | Aa2 | 56 | 48 | 8 |
| AEGON N.V. | A3 | 88 | 80 | 8 |

| CDS Spread Decreases | | CDS Spreads | | |
|---|---|---|---|---|
| Issuer | Senior Ratings | May. 17 | May. 10 | Spread Diff |
| Banco Comercial Portugues, S.A. | B1 | 317 | 346 | -29 |
| Caixa Geral de Depositos, S.A. | B1 | 278 | 307 | -29 |
| Care UK Health & Social Care PLC | Caa1 | 453 | 481 | -28 |
| Ensco plc | B2 | 480 | 507 | -27 |
| Selecta Group B.V. | Caa2 | 467 | 491 | -25 |
| Evraz Group S.A. | B1 | 292 | 311 | -19 |
| Greece, Government of | Caa3 | 601 | 619 | -18 |
| Banco BPI S.A. | Ba3 | 250 | 264 | -14 |
| Raiffeisen Bank International AG | Baa1 | 105 | 116 | -12 |
| Matalan Finance plc | Caa2 | 1,177 | 1,189 | -12 |

*Source: Moody's, CMA*

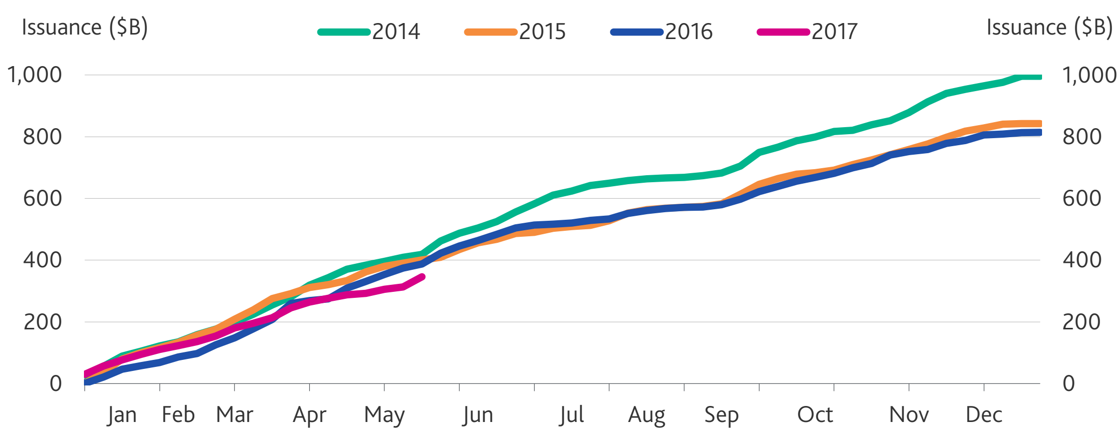
## Issuance

**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 | 32.165 | 12.252 | 46.491 |
| Year-to-Date | 615.060 | 176.682 | 854.684 |

| | Euro Denominated | | |
|---|---|---|---|
| | Investment-Grade | High-Yield | Total* |
| | Amount $B | Amount $B | Amount $B |
| Weekly | 30.252 | 0.822 | 33.636 |
| Year-to-Date | 294.391 | 37.483 | 346.353 |

* Difference represents issuance with pending ratings.

*Source: Moody's/ Dealogic*

## Moody's Capital Markets Research *recent publications*

Sovereign Risk Report: Sovereign Risk Lessens Broadly

Much Doubt Surrounds VIX Index's Optimism (Capital Markets Research)

Sovereign Risk Report: Lower Oil Prices Add To Venezuela's Economic Woes

Inflation's Bad Breadth May Help Contain Interest Rates (Capital Markets Research)

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