MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Medium-Grade Bond Yields May Lag Consensus Views

Moody's Capital Markets Research

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Medium-Grade Bond Yields May Lag Consensus Views.

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Check our chart here for forecast summaries of key credit market metrics. Full updated stories, "Looking ahead, default risk is a much bigger threat to corporate credit than is interest rate risk," begin on page 17.

Credit Spreads	Investment Grade: Year-end 2017 spread to exceed its recent 115 bp. High Yield: After recent spread of 407 bp, it may approximate 450 bp by year-end 2017.
Defaults	US HY default rate: Compared to July 2017's 3.6%, Moody's Credit Policy Group forecasts the US trailing 12-month high-yield default rate will average 2.9% during 2018's second quarter.
Issuance	In 2016, US$-IG bond issuance grew by 5.6% to a record $1.412 trillion, while US$-priced high-yield bond issuance fell by -3.5% to $341 billion. For 2017, US$-denominated IG bond issuance may rise by 8.2% to a new zenith of $1.528 trillion, while US$-priced high-yield bond issuance may increase by 24.6% to $425 billion, which lags 2014's $435 billion record high.

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

Credit Markets Review and Outlook

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

Medium-Grade Bond Yields May Lag Consensus Views

Though the number of new jobs has been plentiful, the quality of new jobs has not been great enough to improve the outlook for employment income. In order to compensate for lackluster employment-income prospects, interest rates must not increase significantly. The 10-year Treasury yield is unlikely to spend much time close to or above 2.5% anytime soon.

Recent declines by unit sales of new and existing homes bring attention to the now limited upside for interest rates. If home sales recede into 2017's final quarter, now elevated home prices will come under pressure.

Almost everyone expects the Fed to announce the start of a winding down of its reinvestment program for maturing bonds at the September 20 meeting of the FOMC. Nevertheless, the recent 10-year Treasury yield of 2.20% is less than the 2.4% average for 2017's third quarter as predicted by the Blue Chip consensus of early August.

As inferred from the Treasury bond market, inflation risks have ebbed and real economic growth prospects have faded compared to what held at the peak of the "taper tantrum". The 10-year Treasury yield has averaged 2.24% over the past 13 weeks. In stark contrast, during the "taper tantrum", the 10-year Treasury yield's moving three-month average peaked at the 2.81% of the span-ended January 2014.

Notwithstanding a plunge by the average unemployment rate from the 6.8% of the three-months-ended January 2014 to the 4.3% of the three-months-ended July 2017, the annual rate of core PCE price index inflation averaged the same, low 1.5% at both times.

Projections of future rates of unemployment and inflation now admit to the possible coexistence of less unemployment and lower consumer price inflation. Despite how the Blue Chip panel of forecasters lowered their predicted yearlong average for 2017's unemployment rate from the 4.7% just prior to November 2016 Presidential election to 4.4% as of early August, the accompanying forecast for yearlong 2017's average annual rate of CPI inflation dipped from 2.3% to 2.0%.

Baa category grows in terms of relative importance

In terms of both bond issuance and amounts outstanding, Baa-grade corporate bonds now stand out relative to other broad rating categories. Given the rise in their relative importance, the outlook for Baa bond yields and spreads merits attention.

During the five-years-ended July 2017, Baa-grade bonds approximated $2.770 trillion, or 43%, of the $6.507 trillion of US$-denominated investment-grade bond offerings. By contrast, for the five-years-ended December 2007, Baa-grade bonds supplied $891 billion, or a much smaller 23%, of the $3.917 trillion of US$-denominated investment-grade bond issuance.

Moreover, the estimated percent of outstanding US investment-grade corporate bonds rated Baa rose from the 24% of year-end 2007 to the 46% of Q2-2017. For the 10-years-ended Q2-2017, the 11.0% average annualized growth rate of the outstandings of Baa-rated US corporates (to $2.628 trillion) differed considerably from the -0.5% average annualized dip by higher-rated US investment-grade corporate bonds (to $3.094 trillion).

Also, for the 10-years-ended Q2-2017, the estimated outstandings of US high-yield corporate bonds rose by 3.6% annualized, to $1.261 trillion. As of year-end 2007, the $997 billion of outstanding Baa-grade bonds was 10% greater than the $904 billion of outstanding high-yield corporates. However, Q2-2017's $2.628 trillion of outstanding Baa-rated bonds towered 108% above the accompanying $1.261 trillion of speculative-grade bonds.

Consensus forecasts for Moody's Baa yield seem too high

On August 23, 2017, the long-term Baa industrial company bond yield average of 4.37% was joined by a spread of 162 bp over the 30-year Treasury yield. As derived from consensus forecasts compiled by the Philadelphia Fed's Survey of Professional Forecasters and the Blue Chip Financial Forecasts, the long-term

Credit Markets Review and Outlook

Baa industrial yield is expected to average 4.59% in the current third quarter, 4.77% in Q4-2017, and 5.16% for yearlong 2018.

Combining the aforementioned Baa yields with the actual and implied consensus projections for the 30-year Treasury yield produces forecast Baa industrial yield spreads of 162 bp for the current quarter and 172 bp for both Q4-2017 and yearlong 2018. In essence, the consensus looks for a higher Baa industrial bond yield going forward, more so because of expectations of higher benchmark Treasury yields as opposed to the anticipation of wider spreads.

For example, the implied consensus forecast look for a 77 bp jump by the Baa industrial yield from August 15's 4.44% to 2018's projected 5.16% average that is expected to be divided between a 10 bp widening of the Baa spread (to 172 bp) and a 67 bp jump by the 30-year Treasury yield (to 3.45%). Thus, the consensus believes that interest rate risk will outweigh credit risk through 2018.

Nevertheless, recent consensus forecasts have been on the high side both in terms of yields and spreads. As of August 2016, the consensus projected a 5.00% average for Q2-2017's Baa industrial company bond yield, which topped its actual average of 4.54%.

Looking ahead, consensus forecasts will probably again significantly overestimate Treasury bond yields. Unlike the consensus forecast of a 3.45% average for yearlong 2018, the 30-year Treasury yield may instead average 2.95%. If the Baa spread over Treasuries averages 172 bp, then Moody's long-term Baa industrial company bond yield will average 4.67% for all of 2018.

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The Week Ahead – US, Europe, Asia-Pacific

THE US

From Moody's Analytics - Economy.com and the Moody's Capital Markets Research Group
(Updates are made on Mondays.)

Summary, August 28: The August employment report will show that job growth slowed a notch. Adding 200,000 jobs per month will be difficult because the economy is at or close to full employment. Further reductions in slack will create labor supply issues. We looked at recent experiences of job growth in tight labor markets, and labor supply constraints are more binding in some months than others, including May and August.

Trend labor force growth has moderated, and to pull more workers back in, stronger wage growth is needed. Since the mid-1960s, changes in labor income have had a strong relationship with labor force growth. This also makes sense in theory: Workers normally have a sense of the minimum they will accept—a reservation wage—to take a job. That reservation wage can be affected by a variety of factors such as family and homeownership status, available jobless benefits, or household wealth.

One source of labor supply is those who are not in the labor force but want a job. This number has been steadily decreasing but moderated in July, falling only 11,000. Still, this could drop by an additional 1 million before being near that consistent with a full-employment economy. One concern is that some of the improvement in the labor force has been attributed to fewer workers leaving than entering. More need to enter or labor supply constraints could become more binding sooner than we anticipate.

On our checklist of conditions for full employment, we are unlikely to check any more off. As of July, four of the seven conditions have been satisfied. All told, the labor market is strong, but it's difficult to say we are at full employment.

Elsewhere, it's a busy week. We look for vehicle sales to have declined in August while the survey-based data should improve, including the ISM manufacturing index and Conference Board consumer confidence. New data on trade, inventories, vehicles, consumer spending and construction spending will all feed into our estimate of third quarter GDP. We expect second quarter GDP growth to be revised higher to 3% at an annual rate.

THURSDAY, AUGUST 24

Jobless claims (week ending August 19; 8:30 a.m. EDT)

Forecast: 240,000
We look for initial claims for unemployment insurance benefits to have risen by 8,000 to 240,000 in the week ending August 19, putting them at their prior four-week moving average. Revisions are normally small, but they will be for the August payroll reference week, therefore they take on added importance. As it stands now, initial claims were down 2,000 between the July and August payroll reference weeks. The four-week moving average fell around 4,000 between reference periods. Overall, initial claims are sending a favorable signal about the labor market.

Existing-home sales (July; 9:15 a.m. EDT)

Forecast: 5.44 million annualized units
Existing-home sales are forecast to have fallen from 5.52 million annualized units in June to 5.44 million in July. This would be the second consecutive monthly decline and the fourth in the past six months. Pending-homes sales, which lead existing sales by one to two months, rose 1.5% in June. However, this comes on the heels of three consecutive monthly declines.

If our forecast comes to fruition, existing-home sales in July would be below their second quarter average of 5.57 million annualized units. This wouldn't be favorable for residential investment this quarter, since existing-home sales feed into it via brokers' commissions. Still, looking through the ups and downs in existing-home sales, the trend remains decent and we look for sales to move higher over the course of the second half of this year.

FRIDAY, AUGUST 25

Durable goods orders (July; 8:30 a.m. EDT)

We will publish our forecast during the week.

MONDAY, AUGUST 28

Business confidence (week ended August 25; 10:00 a.m. EDT)

Forecast: N/A

Global business confidence is strong and consistent with a global economy that is expanding at just over its potential. Sentiment among global businesses is strong, but it has softened a bit since the spring. Confidence has fallen back nearly to where it was just prior to the U.S. presidential election. While it is hard to draw any strong conclusions from this, it would be consistent with a growing sense that the new administration and Congress will not be able to come to terms on a major reform of the U.S. tax code, something that U.S. businesses have been especially excited about.

Our survey results are not as strong as various other surveys of business and consumer confidence, which have strengthened since the presidential election. According to a recent New York Federal Reserve study, sentiment surveys that depend on canvassing new respondents each time are probably somewhat biased, as those happy with the election results are more likely to respond.

The four-week moving average in our business confidence survey rose from 32 to 32.1 in the week ended August 18, but it was north of 33 as recently as early July.

TUESDAY, AUGUST 29

Conference Board Consumer Confidence (August; 10:00 a.m. EDT)

Forecast: 124.1

High-frequency measures of consumer confidence improved in August and we expect the Conference Board measure to follow. We look for the Conference Board index to have risen from 121.1 in July to 124.1 in August. The labor market is a clear positive for sentiment and the Conference Board survey is more sensitive than other measures. We believe gasoline prices were neutral for sentiment in August while stock prices were a small weight.

The improvement in sentiment is encouraging but it doesn't warrant a change to our forecast for consumer spending. The relationship between confidence and spending is fairly loose in the short run. Neither the University of Michigan or the Conference Board survey has a strong coincidental correlation with growth in consumer spending, and the relationship is also unstable. The correlation improves somewhat with a lag, and there is a causal relationship between changes in sentiment and growth in consumer spending with a one-quarter lag.

WEDNESDAY, AUGUST 30

ADP National Employment Report (August; 8:15 a.m. EDT)

Forecast: N/A

Private employment rose by 178,000 from June to July, according to the ADP National Employment Report. Small companies rebounded, growing payrolls by 50,000 in July and an upwardly revised 29,000 in June. Midsize companies have been the most consistent, adding 83,000 positions in July, exactly in line with their average in the 12 months prior. Small and large companies struggled most in goods-producing payrolls, shedding 3,000 and 6,000 jobs, respectively. Midsize goods producers avoided losses once again.

ADP's estimate underestimated the Bureau of Labor Statistics' estimate of private payroll employment in July by 17,000. The average absolute difference between the ADP and BLS estimates of private employment over the past six months is 71,000.

GDP (2017Q2-second estimate; 8:30 a.m. EDT)

Forecast: 3% at an annual rate

We look for second quarter GDP growth to be revised up to 3% at an annual rate, compared with the 2.6% in the government's advance estimate. There should be a noticeable revision to consumer spending. The Advance Quarterly Services Survey suggests that services spending in the second quarter was stronger than previously thought, including that for healthcare. Another source of upward revision to services consumption will be wireless telecommunications.

The QSS shows revenues for wireless communications were up about 4% annualized in the second quarter, compared with the 21% decline in the nominal spending on wireless communications. The QSS is used as source data for this component of spending. Total real consumer spending is now on track to rise nearly 3.3% at an annual rate for the second quarter. Intellectual property is tracking 2.5% at an annual rate, which would add 0.12 percentage point to second quarter GDP growth compared with the 0.06-percentage point contribution in the advance estimate.

Elsewhere, the revisions will be mixed. The QSS points toward a small upward revision to growth in intellectual property investment in the second quarter. Other source data suggest nonresidential structures investment and the inventory build will be revised higher. June construction spending and revisions to prior months are consistent with a downward revision to residential investment. We also expect a modest downward revision to net exports.

The second estimate of second quarter GDP will include our first look for corporate profit growth. Corporate profits fell 2.1% (not annualized) in the first quarter, so some payback is likely. The drop is misleading since legal settlement payments were issued. This won't hold back profits in the second quarter.

THURSDAY, AUGUST 31

Personal income and spending (July; 8:30 a.m. EDT)

Forecast: 0.3% (nominal income)
Forecast: 0.4% (nominal spending)
Forecast: 0% (core PCE deflator)

Nominal personal income is forecast to have risen 0.3% in July after being unchanged in June. June personal income was hurt by a 3% drop in dividend income in June, reversing most of May's 4.8% gain, which was boosted by a special dividend issued by Costco. The level of dividend income remains above trend, implying another decline is likely in July. Excluding dividend income, personal income rose 0.2% in June after being unchanged in May. The forecast assumes a solid gain in nominal wages and salaries. The labor income proxy, derived from the employment report, increased 0.5% in July.

Nominal consumer spending likely increased 0.4% in July. We don't expect autos or gasoline to provide any contribution to total nominal consumer spending growth in July. Consumer goods excluding autos and gasoline will add 0.1 percentage point to July consumption growth. The bulk of the boost will come from services, adding 0.2 percentage point. Within services, utility spending growth should be solid in July, consistent with data on utility production and weekly utility usage.

Based on the consumer and producer prices for July, we expect the core PCE deflator to have been unchanged from June to July. This would lower year-over-year growth from 1.5% in June to 1.4% in July.

Jobless claims (week ending August 26; 8:30 a.m. EDT)

Forecast: 238,000

We look for initial claims for unemployment insurance benefits to have risen by 4,000 to 238,000 in the week ending August 26, putting them at their prior four-week moving average. The four-week moving average of 238,000 is the second lowest this expansion. We don't anticipate that Hurricane Harvey had a noticeable impact on claims in the week ending August 26 as it hit late in the week. The hurricane will eventually boost initial jobless claims temporarily. However, as after other hurricanes, there will probably be some lag with many potential claimants either unable to file or be processed by the Labor Department.

FRIDAY, SEPTEMBER 1

Employment situation (August; 8:30 a.m. EDT)

Forecast 163,000 (nonfarm employment)
Forecast 4.3% (unemployment rate)
Forecast 0.1% (average hourly earnings)
We look for August employment to have risen by 163,000, weaker than the 209,000 gain in July but above the 100,000 needed to keep up with growth in the working-age population. Private employment is forecast to have increased 168,000 from July to August.

We have limited data on the labor market for August. We find the four-week moving average in U.S. initial claims during the payroll reference week useful in predicting changes in the Bureau of Labor Statistics' initial estimate of nonfarm employment. Based on this relationship since 1990, the four-week moving average in initial claims during the August 2017 payroll reference week would be consistent with a more than 300,000 increase in nonfarm employment. We believe the labor market's near-term prospects are decent, but job growth north of 300,000 in August seems overly optimistic, particularly given the tendency for the first print to fall short of expectations.

There are few guarantees, but a disappointing first print of August employment is one. August's first print tends to be soft for several possible reasons, including residual seasonality, a low response rate, and bad luck. The presence of an identifiable pattern in August employment suggests residual seasonality. This issue also shows up in September but less significantly than in August.

The recession could also have a lingering effect on the seasonal factors. We reran the seasonal adjustment process using proxies for the factors that would have been applied if the Bureau of Labor Statistics treated the recession as an outlier. The difference between our adjusted nonfarm payroll series and the BLS estimate is a rough estimate of the seasonal adjustment's impact on monthly nonfarm payrolls.

This exercise suggests that the seasonal adjustment used by the BLS inflated employment growth each winter and lowered it the following spring and summer. These issues appear to be lingering and have likely reduced job growth in August by 50,000 to 100,000, on average, since 2010.

Seasonal adjustment problems are visible in manufacturing. Auto manufacturers do their annual retooling in July before restarting in August. However, the duration and magnitude of the shutdowns vary each year. Therefore, focusing on the misses in total employment since 2010, some blame is on manufacturing, particularly autos.

Also, the response rate for the first print of August employment is lower than for most other months, likely because of vacations. This may explain why revisions are large. The bias toward upward revisions since 2010 is likely related to the business cycle, since revisions are normally positive during an expansion.

Bad luck is also a factor. Since 2010, the biggest surprises in the first prints were in 2011 and 2014. In 2011, Verizon workers went on strike and the effects from a natural disaster in Japan lingered. In 2014, a Northeast supermarket chain had a strike and auto manufacturing fell, payback for a strong July because plants didn't shut down.

One upside risk to our forecast is Amazon's aggressive hiring in early August. According to Amazon, there were 20,000 applications on Amazon Jobs Day and thousands of job offers were extended with plans to send more in subsequent days. It's difficult to assess how many of those who received job offers started before the end of the payroll reference period.

Turning to the household survey, we look for the unemployment rate to have remained at 4.3% in August. Average hourly earnings are forecast to have risen 0.1% with the workweek unchanged at 34.5. It's unlikely that we will be able to check off more conditions to boost our confidence that the economy is at full employment. We will finalize our employment and unemployment rate forecasts after the Conference Board survey of consumer confidence and the ADP National Employment Report.

ISM manufacturing survey (August; 10:00 a.m. EDT)

Forecast: 57.2

Manufacturing is doing reasonably well, even though the ISM manufacturing index fell 1.5 points to 56.3 in July. July's decline reverses about half of the increase in June, but the index remains near its first half average of 56.4. The details weakened, as new orders fell 3.1 points but remained solid at 60.4. Production and employment fell while inventories edged higher. The trade details were not overly favorable for growth early this quarter. The hard data on manufacturing production have not been as strong as the ISM, as auto production schedules weighed on manufacturing production in July, but this is temporary and attributed to the annual retooling. Outside of autos, fundamentals have improved as the global economy has strengthened and the U.S. dollar has depreciated. The regional Fed manufacturing surveys for August have been mixed. We look for the ISM index to have risen from 56.3 in July to 57.2 in August.

Vehicle sales (August; 4:00 p.m. EDT)

Forecast: 16.55 million annualized units

The vehicle cycle is in a late-stage expansion, but there are risks that it could unwind more quickly than we expect. Unit sales have disappointed recently, totaling 16.76 million annualized units in July, only a touch above the 16.7 million in June and below the 16.85 million average in the second quarter. Stronger sales could be needed to work off inventories, which are climbing. Otherwise, manufacturers could have to adjust their production schedules for the remainder of this year, hurting manufacturing output. We don't anticipate any noticeable improvement in August, with sales coming in at 16.6 million annualized units. Still, vehicle sales are still running above that consistent with underlying demand. By our calculation, underlying demand is just under 16 million annualized units, but it could be lower, raising the potential for an eventually larger decline in sales. Some of the tailwinds for the industry are fading, which could push sales down to or even below 16 million annualized units. However, gauging the timing is difficult.

EUROPE

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

Summary, August 25: The week ahead will be dominated by indicators broadly related to the health of consumption across Europe. Data on retail sales in Spain and Germany and on household spending in France will give us important clues about how the major euro zone economies started off the third quarter. At the same time, the leading survey from the U.K. will elaborate on whether British consumers are opening their wallets.

In France, the consumer survey should show that households ramped up their spending in July. As the economy recovers, employment is bound to strengthen, which should fill the wallets of workers. That, in turn, should gradually lift domestic consumption. However, risks are tilted to the downside. An earlier report on French business confidence showed that firms are feeling downbeat about retail sales prospects. To some extent, this may be because companies are more risk averse after experiencing tumultuous times, prompting them to lower their expectations more aggressively when they see a decline in the short run. And GDP data from the second quarter gave them no reason to cheer: Consumer spending increased only slightly, and lately retail sales have ticked down a little despite a surge in consumer confidence.

We are bracing for a dour consumer sentiment report out of the U.K. The country's best asset has been buoyant domestic spending, but the U.K.'s exit decision has undermined consumer confidence. The latest GDP data from the second quarter underscore this, with household consumption cooling to 0.1% q/q, and we expect no signs of life in the forward-looking indicators. The uncertainty stemming from the final shape of the exit agreement spooked U.K. consumers, who are postponing the purchase of big-ticket items.

Next week will also bring August's preliminary inflation numbers for the euro zone countries and the currency area as a whole, ahead of the ECB meeting set for September 7. Although economic growth continued to tick along in the first half of the year, we did not see an uptick in underlying inflation for the euro zone as a whole. We expect that consumer price inflation held steady at 1.3%. The energy-related base effects have already abated, with crude oil prices only 24% higher in July compared with a year ago, well below the price boost they provided early this year. Without the volatile energy component, underlying inflation will stay muted. Cooling inflation leads us to believe that the ECB will not tweak monetary policy at its September meeting. The central bankers will refrain from withdrawing the stimulus until there is a sure sign of an upward trend in prices. Italy's second quarter GDP, if it remains unrevised from the preliminary figure, will come in at 0.4% q/q, keeping pace with the previous quarter. This rate of expansion hasn't been seen for the past six years.

THURSDAY, AUGUST 24

Spain: GDP (Q2; 8:30 a.m. BST)

We expect another fairly strong report out from Spain. Preliminary estimates showed that real GDP jumped by 0.9% q/q, which translates to 3.1% from a year ago. We upwardly revised our modest expectations from early this year, since the incoming data build a strong case for an expansion of 3% in 2017. We see solid export opportunities stemming from an upswing in global demand and stronger seasonal tourism which boosted services over the quarter. The strong expansion already shaved 1.6 percentage points from the headline unemployment figure, but we see no sign of strong recovery in wages. If employment keeps adding at this rate, the economy might pivot to a consumption-driven model.

U.K.: GDP Expenditure Breakdown (Q2; 9:30 a.m. BST)

We expect that the second estimate of the U.K.'s second quarter GDP growth will match the preliminary numbers, which showed that activity expanded by 0.3% q/q in the three months to June, up slightly from a 0.2% expansion in the first quarter. Risks are to the downside, though, since worse than forecast manufacturing and construction numbers for June mean that output in those sectors decreased by 0.6% q/q and 1.3%, respectively, both below the figures that fed into the preliminary estimate produced by the ONS. The expenditure details should show that consumer spending increased by only 0.2% q/q in the three months to June, slowing from a 0.4% increase in the first quarter, as real wages fell further into negative territory. Investment likely also disappointed; construction output fell sharply, and machinery and equipment capital expenditures should also have remained subdued given the poor results for factory growth, as well as the uncertainties surrounding Britain's exit from the EU. Net exports, meanwhile, are expected to have supported growth somewhat, rebounding from a drag of 0.8 percentage point at the start of the year; the volume of goods exports rose by 1.5% q/q in the three months to June, while goods import volumes increased by only 0.4%. In all, growth is expected to have been weak across the board in the second quarter.

France: Job Seekers (July; 5:00 p.m. BST)

France's job market is making progress despite a few speed bumps. We expect the number of job seekers dropped to 3.47 million in July after falling to 3.48 million in June. Annual numbers should maintain their downward trend as several reforms in 2015 and 2016 begin to bear fruit, including a tax credit and several measures to reduce labour costs. The labour market seems poised for a better year thanks to overall improvement in the economy and rising business and consumer confidence. Large year-over-year declines in youth unemployment are also encouraging. Additionally, President Emmanuel Macron's party, En Marche, has secured an absolute majority in France's National Assembly, giving it the political power to advance its labour market reforms, such as a revamp of hiring and firing legislation.

FRIDAY, AUGUST 25

Germany: GDP (Q2; 8:00 a.m. BST)

Preliminary estimates show that Germany's output growth motored along in the second quarter of the year. Real GDP grew by 0.6% q/q, after expanding by a revised 0.7% at the start of the year. The result slightly exceeded the Moody's Analytics forecast of a 0.5% gain. In year-ago terms, the expansion rate accelerated to 2.1% from an upwardly revised 1.9% in the three months to March. This is the fastest annual pace of growth since early 2014. Private and government consumption likely supported output growth. Fixed investment also increased compared with the first quarter, while net exports likely weighed on output growth. The outlook for this year is clouded, since the tailwinds supporting growth over the last few years will abate. But so far the German economy has been cruising through the turbulence of global geopolitics.many: GDP (Q2; 8:00 a.m. BST)

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MONDAY, AUGUST 28

France: Household Consumption Survey (July; 7:45 a.m. BST)

French household expenditures on goods likely ticked up 0.5% m/m in July, after subtracting 0.8% m/m in June. This should help push the yearly rate to 1.4%, above the past-year average of 0.9%. Energy consumption should have rebounded following a contraction in June, and so should have clothing and food spending. But the uptick was likely limited by July's rainy weather and the fall in temperatures, which should have kept a large part of consumers off the high street during the month. We expect further upside later in the year. Leading indicators have all been optimistic, confirming our expectations that spending in France is on a broadly upward trend despite seasonal ups and downs. Already, the retail PMI signaled another market rise in like-for-like sales in July, with sales exceeding expectations for the second consecutive month.

TUESDAY, AUGUST 29

No major indicators are scheduled for this date.

WEDNESDAY, AUGUST 30

No major indicators are scheduled for this date.

THURSDAY, AUGUST 31

Germany: Retail Sales (July; 8:00 a.m. BST)

German retail likely retreated somewhat in July following a sharp increase in the previous month. Sales are expected to have decreased by 0.4% m/m from June, when they jumped by 1.1%. In year-ago terms, the growth rate likely decelerated somewhat to around 2.5%. The Markit retail PMI retreated sharply in July to 50.7 from 54.5 in June, pointing to only marginal improvement in the sector during the month. On the other hand, the GfK consumer climate indicator for July improved, rising to 10.6 from 10.4 in the previous month, and to 10.8 in August. Consumption expenditure continued to support the country's expansion during the second quarter of this year and will likely continue to do so in the coming quarters. However, conservative German households will likely not increase their spending significantly in coming months because the outlook remains uncertain and because of accelerating inflation. Germany's annual consumer price growth ticked up to 1.7% in July.

Spain: Retail Sales (July; 8:05 a.m. BST)

We expect retail sales held steady at 2.5% y/y in July. The upswing in domestic private consumption should extend into the second half of the year. Although we expect Spain's GDP to clock in at 3% this year, the economy's stellar performance will not result in a profound wage increase, meaning consumption will be more sluggish than last year. The uptick in inflation early this year, due to higher energy prices, prompted households to tighten their belts. But yearly growth in retail has improved since April, a sign that household consumption is back on solid footing as inflation pressures abate, household indebtedness eases, and real disposable income improves. Should this continue for the rest of the year, retail should end 2017 at 2.8% y/y, still below the astonishing 3.6% increase recorded in 2016.

Germany: Unemployment (August; 9:00 a.m. BST)

Germany's seasonally adjusted unemployment rate likely remained at 5.7% in August for the fourth consecutive month, after it fell to this record low in May. German businesses remain confident in the country's future expansion and are increasing their labour forces, despite the uncertainties and geopolitical tensions. Details of the Flash Markit PMI for August showed that new work continued to expand strongly, but the pace of increase decelerated slightly from the previous month. However, the unemployment rate is likely bottoming out, and we expect it to increase somewhat later this year because of the vast inflow of refugees during the second half of 2015, some of whom will be entering the German labour force.

Euro Zone: Preliminary Consumer Price Index (August; 10:00 a.m. BST)

The euro zone's annual harmonized inflation likely remained unchanged at 1.3% in August from a month earlier. While the stronger euro and softer oil price growth weighed on the headline figure, the expanding economy should build up inflation pressure. Headline inflation will be volatile this year, but core inflation should steadily heat up. Yet the rise won't be strong enough to trigger a change in the ECB's monetary policy soon. After no change in forward guidance in July, we expect the ECB will announce plans on how it will taper asset purchases in coming months, but it will continue with the program until at least June 2018.

Euro Zone: Unemployment (July; 10:00 a.m. BST)

Euro zone unemployment likely held steady at an impressive 9.1% in July, its lowest reading since February 2009. Both leading and hard data show that the euro zone's momentum remained strong at the start of the third quarter after an already-impressive first half of the year, which should have given a further lift to the area's labour market. Accordingly, although Markit's PMI dipped slightly in July, new business again surged, testing capacity and helping push up job creation. Staffing levels are increasing at one of the quickest rates seen over the past decade, with gains recorded in all major countries, but notably in Germany and Italy. We expect the downward trend in joblessness to continue in quarters to come, on the back of improving economic conditions around the monetary bloc, labour market reforms, and stronger industrial bases in Spain, Ireland and Portugal.

FRIDAY, SEPTEMBER 1

Italy: GDP (Q2; 9:00 a.m. BST)

Italy performed exceptionally well in the first half of the year, with GDP likely growing 0.4% q/q in the three months to June, matching the first quarter's reading. According to the preliminary estimates, the economy grew 1.5% y/y, up from 1.2% in the first quarter of 2016. A recovering domestic economy and expanding euro zone, helped by ultra-loose monetary and fiscal policy and progress in the banking sector, likely did much to lift the headline figure. But the stellar performance of the first half may not last in the second. Tightening monetary conditions and a strongly appreciating euro could cool the broader euro zone economy, and thus Italy.

ASIA-PACIFIC

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

Japan's activity data for July should be upbeat; Chinese manufacturers remain optimistic on net

Japan's activity data for July should be upbeat. The unemployment rate will be steady at 2.8%. The labour market is showing signs of tightening. Total employment has been growing steadily throughout 2017 and the job-to-application ratio has increased. These conditions are finally starting to bear fruit in the form of higher wage growth. Japan's household expenditure growth for July should cool after June's astronomic 7.2% rise. The improvement in consumer spending is the result of the long awaited increase in income growth.

Japan's industrial output has been volatile of late because of the changing yen and uncertain domestic prospects. Electronics, especially related to smartphones, have grown steadily ahead of new products to be released globally later this year. But output of general machinery and chemicals, among others, has been soft.

India's GDP growth likely came in at 6.5% y/y in the June quarter after the March quarter's 6.1% pace. Growth has slowed from last year because of the effects of demonetisation. We expect the economy will bounce back in the second half of the year. Consumption kept powering growth in the June quarter, while investment is struggling at the hand of rising nonperforming loans.

Sentiment among Chinese manufacturers has softened but remains optimistic on net. Tech manufacturers are raising production as orders increase thanks to strong global demand. There are some signs of a peak as orders are fulfilled, but activity is likely to be elevated for the remainder of the year at least. Cooling producer price inflation is also helping margins and sentiment.

South Korea is amongst the first to release monthly trade data and is closely watched as a barometer for the rest of Asia. The trade surplus likely narrowed a little in August. Export shipments likely continued their burly pace amid increases in shipments of electronics products. Yet annual import growth likely accelerated on the back of improved domestic demand. Subdued commodity prices, especially for oil, have kept the import bill lower. The sustained trade surplus should boost top-line GDP growth for the third quarter.

Thailand's industrial production likely accelerated in July. Export-oriented manufacturers are benefiting from the surge in global demand. This has had the most significant impact on electronics production. Automobile output has been less consistently positive as the sector faces increased competitive pressures from other countries in the region.

THURSDAY, AUGUST 24

New Zealand – Foreign Trade – July

Time: 8:45 a.m. AEST (Wednesday, 10:45 p.m. GMT)

Forecast: NZ$550 million

New Zealand's monthly trade surplus likely widened a little to NZ$550 million in July, following the NZ$242 million surplus in June. Exports are powering ahead thanks to the surge in global prices. Volumes are also doing well (albeit at a slower pace) thanks to strong demand especially from China, the largest recipient of New Zealand's 'white gold'. Car imports, particularly of new vehicles, likely cooled a touch in July after the spike in June. However, we expect vehicle imports and consumer imports remained strong, reflecting upbeat domestic demand in an economy expanding roughly at potential.

Hong Kong – Foreign Trade – July

Time: 6:30 p.m. AEST (8:30 a.m. GMT)

Forecast: -HK$35 billion
Trade activity through Hong Kong's port showed signs of improvement in June, and this likely will carry through in the second half of 2017. Hong Kong's port still plays a big role in the region's tech supply chain, which expects high activity in the second half. Commodity imports are in a slump, though, as higher supplies in mainland China mute its demand. Hong Kong's trade deficit likely narrowed to HK$35 billion in July from HK$48.3 billion in June, in line with seasonal trends.

FRIDAY, AUGUST 25

South Korea – Consumer Sentiment Index – August
Time: 7:00 a.m. AEST (Thursday, 9:00 p.m. GMT)
Forecast: 103
The Bank of Korea's consumer sentiment index likely stayed in optimistic territory at 103 in August, following the brisk 111.2 recorded in July and 111.1 in June. July's survey was conducted before parliament approved the government's KRW11 trillion (US$9.9 billion) supplementary budget aimed at creating jobs, especially for the young, and lifting economic growth. However, already-heightened international tensions with North Korea escalated in August and probably caused households to become much less optimistic than they were in July, as has occurred in the past when tensions flared with the rogue state.

Japan – Consumer Price Index – July
Time: 9:30 a.m. AEST (Thursday, 11:30 p.m. GMT)
Forecast: 0.4% y/y
Japan's core consumer prices (excluding food) likely rose 0.4% y/y in July, unchanged from the pace in June and May. Headline CPI was likely also unchanged from June's pace at 0.3% y/y. Overall, Japan's inflation situation remains little changed, with prices barely rising but not falling into outright deflation either. Given the stubbornly mediocre wage situation and reluctance and limitations on the Bank of Japan to add stimulus measures, this is probably as good as it gets.

Singapore – Industrial Production – July
Time: 10:00 a.m. AEST (12:00 a.m. GMT)
Forecast: 9%
Singapore's industrial production growth is expected to have slowed to 9% y/y in July after 13.1% in June. Overall, the trend in manufacturing has remained strong throughout 2017 because of improvements in global demand. Electronics manufacturers have been the primary beneficiary, while the biomedical sector is also starting to experience an uptick in demand due to the improvements in the European economy. It also appears that the long run of declines in transport engineering output has come to an end, more because of low base effects than strengthening demand. A real turnaround will require a significant rise in oil prices, which we don't think is In the cards.

MONDAY, AUGUST 28
No major economic indicators are scheduled for release.

TUESDAY, AUGUST 29

Japan – Employment Situation – July
Time: 9:30 a.m. AEST (Monday, 11:30 p.m. GMT)
Forecast: 2.8%
We expect Japan's unemployment rate was steady at 2.8% in July. The labour market is showing multiple signs of tightening. Total employment has been growing steadily throughout 2017, and the job-to-application ratio has increased. These conditions are finally starting to bear fruit in the form of higher wage growth, the absence of which has been the main impediment to stronger domestic demand in recent years.

Japan – Household Expenditures Survey – July
Time: 9:30 a.m. AEST (Monday, 11:30 p.m. GMT)
Forecast: 3%
We expect Japan's household expenditure growth eased to 3% y/y in July after June's astronomic 7.2% rise. June's increase was the most rapid since March 2014. The improvement in consumer spending is the result of the long awaited increase in income growth in recent months thanks to a pickup in economic growth and a tightening labour market. With the economy expected to continue its strong showing in the rest of 2017, incomes and expenditure will rise solidly

WEDNESDAY, AUGUST 30

Japan – Retail Sales – July
Time: 9:50 a.m. AEST (Tuesday, 11:50 p.m. GMT)
Forecast: -1.7%
Japan's retail spending in June was little changed from 2005. Consumers were forced to open wallets in the past few months for higher energy costs, but that effect is fading. In any case, purchases of big-ticket items such as household appliances remain flat. Improvement in wage growth has helped a lot, including special bonuses paid in July, but we expect this lift to fade through the second half of the year. Retail spending likely fell 1.7% y/y in July after a 1.4% decline in June.

THURSDAY, AUGUST 31

Thailand – Industrial Production – July
Time: Unknown
Forecast: 1.5%
Thailand's industrial production is forecast to have increased 1.5% y/y in July after declining 0.2% in June. Export-oriented manufacturers are benefiting from the surge in global demand. This has had the most significant impact on electronics production. Meanwhile, automobile output has been less consistently positive, as the sector faces increased competitive pressures from other countries in the region. Weakness in domestic demand is also preventing a more sure-footed improvement in manufacturing.

South Korea – Industrial Production – July
Time: 9:00 a.m. AEST (Wednesday, 11:00 p.m. GMT)
Forecast: 0.5%
South Korea's industrial production likely improved to 0.5% y/y in July after a 0.3% decline in June. Even though global tech demand is buoyant, Korean manufacturers have faced mediocre manufacturing growth, at best. This is surprising, as Korea has a strong presence in the tech space, especially for smartphones and tablets. We expect production to improve in the second half since domestic demand has improved and the global economy remains healthy.

South Korea – Retail Sales – July
Time: 9:00 a.m. AEST (Wednesday, 11:00 p.m. GMT)
Forecast: 0.5%
South Korean retail trade is on the mend following the government's generous stimulus program, which lifted consumer confidence. We expect a respectable 0.5% m/m expansion in July following the 1.1% gain in June. Yet elevated household debt is preventing Koreans from materially loosening their purse strings. Confidence may have taken a temporary hit from increased international tensions with North Korea, causing consumers to be a little more frugal with discretionary purchases in the September quarter.

Japan – Industrial Production – July
Time: 9:50 a.m. AEST (Wednesday, 11:50 p.m. GMT)
Forecast: 0.5%

Japan's industrial output has been volatile of late because of the changing yen and uncertain domestic prospects. Electronics, especially related to smartphones, have grown steadily ahead of new products to be released globally later this year. But output of general machinery and chemicals, among others, has been soft, as domestic demand has been disappointing and as the higher yen has made manufacturers less competitive. Production likely eked out a 0.5% gain in August after a flat July.

China – Manufacturing PMI – August

Time: 11:00 a.m. AEST (1:00 a.m. GMT)
Forecast: 52
Sentiment among Chinese manufacturers has softened of late but remains optimistic on net. Tech manufacturers are raising production as orders grow thanks to strong global demand. There are some signs of a peak as orders are fulfilled, but activity is likely to be elevated for the remainder of the year at least. Cooling producer price inflation is also helping margins and sentiment. The official PMI likely rose mildly to 52 for August from 51.4 in July.

South Korea – Monetary Policy – August

Time: Unknown
Forecast: 1.25%
The Bank of Korea will keep the policy rate unchanged at 1.25% at its August policy meeting. Soft economic growth alongside subdued inflation will keep the central bank on the sidelines through the remainder of 2017. Core inflation is oscillating around 1.5% y/y, below the central bank's 2% target. Further interest rate cuts are firmly off the cards despite below-potential growth. Private debt is elevated, particularly with households, and reigniting leveraging would cause further concerns about sustainability.

Japan – Housing Starts – July

Time: 3:00 p.m. AEST (5:00 a.m. GMT)
Forecast: -0.3%
Japan's volatile housing starts series likely fell by 0.3% m/m in July following a surprise 1.7% gain in June. Beyond the volatility, Japan's housing market is showing signs of slowing after a strong 2016. Over the last year, pockets of Tokyo have had a large increase in housing supply, as have other major cities such as Kyoto, and this has increased rental vacancy rates in the populated pockets.

Thailand – Private Consumption – July

Time: 5:30 p.m. AEST (7:30 a.m. GMT)
Forecast: 2.7%
Thailand's private consumption growth is expected to have slowed to 2.7% y/y in July from 3% in June. Uncertainty about the political and policy outlook is the main impediment to a consistent improvement in household spending. On the flip side, consumption has received a slight boost in recent months from higher incomes, as crop yields and farm gate prices increase. Spending by foreigners has also been a positive in 2017, as tourist arrivals have increased.

Thailand – Foreign Trade – July

Time: 5:30 p.m. AEST (7:30 a.m. GMT)
Forecast: US$3.3 billion
Thailand's July trade surplus is expected to widen to US$3.3 billion from US$2.9 billion in June. Export growth has been surging throughout 2017 thanks to the broad improvement in global demand. Shipments of electronics products in particular have picked up. Agriculture has also improved thanks to higher crop yields. Correspondingly, import growth has also increased in the year to date, as manufacturers source intermediate products and raw materials.

India – GDP – 2017Q2

Time: 10:00 p.m. AEST (12:00 p.m. GMT)
Forecast: 6.5%
India's GDP growth likely came in at 6.5% y/y in the June quarter after the March quarter's 6.1% pace. Growth has slowed from last year because of the effects of demonetisation, the removal of high-value

currency from circulation. We expect the economy will bounce back in the second half of the year. Consumption kept powering growth in the June quarter, while investment is struggling at the hand of rising nonperforming loans. Gross fixed capital formation fell 2% y/y in March, and only modest growth is expected in the second quarter.

FRIDAY, SEPTEMBER 1

South Korea – Foreign Trade – August

Time: Unknown
Forecast: US$10.1 billion
South Korea's monthly trade surplus likely narrowed in August to US$10.1 billion from the US$10.6 billion in July. Export shipments likely continued their burly pace amid increases in shipments of electronics products. Yet annual import growth likely accelerated on the back of improved domestic demand. The import bill has been kept relatively lower because of subdued commodity prices, especially for oil. The sustained trade surplus should boost top-line GDP growth for the third quarter after exports were a drag in the second stanza.

South Korea – GDP – 2017Q2

Time: Unknown
Forecast: 0.6%
Second estimates will likely show South Korea's GDP growth was 0.6% q/q in the June quarter, unchanged from the preliminary estimate and weaker than the March quarter's 1.1% pace. GDP growth was 2.7% y/y in the June quarter. Private consumption was the bright spot as households increased durable goods purchases such as smartphones and home appliances. This is a positive development, as consumption has long been the laggard. Exports were a drag, unable to maintain the burly March quarter pace, and South Korea has seemingly not benefited as strongly from buoyant global tech producers as others in the region.

South Korea – Consumer Price Index – August

Time: 9:00 a.m. AEST (Thursday, 11:00 p.m. GMT)
Forecast: 2%
South Korean headline consumer price growth likely cooled in August to 2% y/y from the 1.9% gain in July. Earlier adverse weather that affected fresh produce supplies has faded. Domestic demand has improved with the new government and its generous stimulus program. Consumer and business sentiment has improved and spending has already shown signs of improving. That being said, core inflation probably continued oscillating around 1.5% y/y in August, short of the Bank of Korea's 2% inflation target and enabling the central bank to keep rates on hold at 1.25% through the remainder of 2017.

Japan – Consumer Confidence – August

Time: 3:00 p.m. AEST (5:00 a.m. GMT)
Forecast: 43.5
Japan's consumer sentiment likely cooled a whisker in August as the lift from an increase in wages in May and June and special bonuses paid in July faded. We expect the consumer sentiment index reached 43.5 following the 43.8 in July and 43.3 in June. The subcategories of overall livelihood and willingness to buy durable goods has improved and should translate to modest gains in consumption in the second half of 2017.

The Long View

The US: Looking ahead, default risk is a much bigger threat to corporate credit than is interest rate risk

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
August 24, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 115 bp is under its 122-point mean of the two previous economic recoveries. Further narrowing by this thin spread may be limited by more cash- or debt-funded acquisitions, spin-offs, stock buybacks, and dividends. Subpar growth by business sales and pretax profits will also add to credit risk, as will a rising risk of high-yield defaults.

The recent high-yield bond spread of 407 bp is less than what is inferred from the spread's macroeconomic drivers and the high-yield EDF metric, and a somewhat higher VIX index. The implications for liquidity of regulatory changes merit scrutiny. If regulatory change enhances the market making capabilities of banks, corporate bond yield spreads may be thinner than otherwise.

DEFAULTS

After setting its current cycle high at January 2017's 5.82%, the US high-yield default rate has since eased to July's 3.6%. Moody's Default and Ratings Analytics team expects the default rate will average 3.1% in Q1-2018 and 2.9% in Q2-2018. A deeper slide to its 1.85% average of the 18-months-ended June 2015 is unlikely for now.

US CORPORATE BOND ISSUANCE

Yearlong 2016's US$-denominated bond issuance rose by 5.5% annually for IG, to $1.411 trillion and dropped by -3.5% to $341 billion for high yield. Across broad rating categories, 2016's newly rated bank loan programs from high-yield issuers advanced by 45% to $98 billion for Baa, rose by 2% to $212 billion for Ba, and soared by 43% to $208 billion for programs graded less than Ba.

Q4-2015's worldwide offerings of corporate bonds showed annual percent declines of -8.7% for IG and -51.4% for high-yield, wherein US$-denominated offerings dipped by +1.3% for IG and plunged by -45.1% for high yield.

Q1-2016's worldwide offerings of corporate bonds showed annual percent declines of -4.9% for IG and -51.4% for high-yield, wherein US$-denominated offerings rose by +1.3% from Q1-2015 for IG, but plunged by -45.1% annually for high yield.

Q2-2016's worldwide offerings of corporate bonds showed an annual increase of +6.3% for IG and an annual drop of -5.2% for high-yield, wherein US$-denominated offerings dipped by -2.2% for IG and sank by -6.3% for high yield.

Third-quarter 2016's worldwide offerings of corporate bonds showed an annual advances of +19.5% for IG and +42.8% for high-yield, wherein US$-denominated offerings soared higher by +34.1% for IG and by +46.4% for high yield.

Fourth-quarter 2016's worldwide offerings of corporate bonds showed annual percent changes of -10.2% for IG and +24.9% for high-yield, wherein US$-denominated offerings fell by -8.5% for IG and advanced by +24.9% for high yield.

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

Second-quarter 2017's worldwide offerings of corporate bonds showed an annual percent decline of -6.7% for IG and an increase of +7.5% for high-yield, wherein US$-denominated offerings fell by -6.2% for IG and grew by +4.9% for high yield.

The Long View

For yearlong 2016, worldwide corporate bond offerings rose by 2.3% annually for IG (to $2.402 trillion) and sank by -7.8% for high yield (to $426 billion). In 2017, worldwide corporate bond offerings may rise by 2.8% annually for IG and may advance by 23.6% for high yield.

The financing of acquisitions and shareholder compensation will stand out among 2016's uses of funds obtained via bond issues and newly-rated bank loan programs. Companies will resort to acquisitions and divestitures in order to better cope with the US's subpar recovery. To the degree companies fear significantly higher bond yields, pre-fundings will rise.

US ECONOMIC OUTLOOK

The mid-point of the range for fed funds should finish 2017 no greater than 1.375%. In view of the considerable underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global economy operates below trend, the 10-year Treasury yield may not remain above 2.45% for long. A fundamentally excessive climb by Treasury bond yields and a pronounced slowing by expenditures in dynamic emerging market countries are among the biggest threats to the adequacy of economic growth and credit spreads going forward.

EUROPE

By Tomas Holinka and Barbara Teixeira Araujo of Moody's Analytics

Eurozone (August 17, 2017)

The euro area's GDP growth neither surprised nor disappointed. The economy expanded 0.6% q/q in the three months to June, following downwardly revised 0.5% growth in the first quarter. Accelerating expansion in Spain and robust growth in Germany, France and also Italy contributed the most to the gain. German output continued to advance strongly in the second quarter, growing by 0.6% q/q, after expanding by a revised 0.7% at the start of the year. Italy performed exceptionally well in the first half of the year with the economy growing 0.4% q/q in the three months to June, double our forecast of 0.2% and matching the first quarter's reading. Growth was broad-based across all major components. Booming exports drove the headline, in line with the strengthening global economy, though domestic demand likely helped considerably. Political risks are subsiding, reform efforts are under way in France after Emmanuel Macron's party won the general election, and Italy's banking crisis seems contained for now.

The euro zone performed exceptionally well in the first half of 2017, but it would be unwise to think that the economy will keep expanding at this rate. The area's composite PMI for manufacturing and services suggests that the recent growth spurt lost momentum for a second month running in July. This could be a warning sign. Tightening monetary conditions may halt the economic recovery, while persistent labour market slack could keep household spending growth relatively subdued. The euro has strengthened by 12% against the dollar so far this year, undermining the price competitiveness of the euro zone's exports, while 10-year German government bond yields, a European benchmark, surged around 30 basis points over recent months.

Although the euro zone's jobless rate dropped in June to an 8½-year low of 9.1%, the high share of underemployed part-time workers and discouraged population of those unable to find work remain a concern. Without more job openings and a lower unemployment rate, wages won't increase much and domestic consumption will stay in the doldrums. . Although we have seen no signs of slowing trade with the U.K., despite the British decision to leave the EU, this may change in coming years after the U.K. formally withdraws from the EU and starts renegotiating trade deals. Similarly, though U.S. President Trump has not yet introduced any measures against Germany or other European countries, the U.S. protectionist rhetoric poses a threat. Despite these headwinds, we expect the euro zone economy to expand 1.9% this year, surpassing the 2016 rate, before slowing to 1.6% in 2018.

With a higher true unemployment rate tamping down wage growth, core inflation could continue to surprise on the downside, delaying normalization of the ECB's monetary policy. After no change in forward guidance in July, we expect the ECB will likely announce its plans to taper asset purchases in September or October but continue its bond-buying program until at least June 2018. We don't expect the bank to start raising the deposit rate back into positive territory before the second quarter of 2018, when it terminates its purchases.

UK (August 24, 2017)

We do not expect the U.K.'s initial GDP estimate to be revised down from its current rate of 0.3% q/q in the second quarter, but the risks are tilted to the downside. Final estimates showed that construction shed 1.3% q/q and manufacturing output fell 0.6% in the three months to June, both exceeding the Office for National Statistics forecasts of 0.9% and 0.4% declines that fed into the initial estimate of quarterly growth.

Although we do not have whole-quarter data on the service sector's performance, we think the ONS forecast that service output growth accelerated to a healthy 0.3% m/m in June, from 0.2% in May and 0.1% in April, is too optimistic. The past two-year average reads only at 0.2% m/m, and we don't think it's plausible to assume an above-trend rate of expansion at a time when real wages have started to fall, and that's despite the 0.6% m/m rebound in retail sales. Retail sales account for only 7% of total service sector output.

Thursday's report will bring growth's much-awaited expenditure breakdown. We expect that net U.K. trade recouped the first quarter's drag of 0.8 percentage point and supported growth in the second quarter. However, the boost was likely well below what markets had penciled in when taking into account the extent to which the pound depreciated since last year's Brexit vote. Exports of goods in volume rose by only 1.5% q/q in the second quarter, down from the 1.8% rise in the first. Granted, they still outpaced growth in the volume of goods imports, which read only at 0.4% q/q in the second quarter, but that's mostly because imports were weak, not because exports performed well; the past-year average of growth in goods imports reads much higher, at 1.2%.

U.K. consumer spending is also expected to have disappointed and grown only modestly, likely by 0.2% q/q, despite the 1.5% q/q jump in retail sales. Not only is the relationship between retail sales and households' overall consumption weak, but the jump in retail sales was mainly a mean reversion from the previous quarter, while the long-term trend in sales growth remained rather subdued. Already, evidence is that consumers reduced their spending off the high street over the last quarter; car sales plummeted in the three months to June, likely by 23% q/q, their biggest fall since 2010, while surveys of activity in consumer services have also been weak. The Bank of England Agents' Summary of Business Conditions showed that growth in consumer services spending continued to ease in the second quarter, to a four-year low, notably on the back of a plunge in spending in restaurant and leisure.

Little relief likely came from investment. In line with surveys of intentions, heightened uncertainty remained a drag on businesses' willingness to invest in machinery and equipment. Construction investment is also expected to have plunged, in line with the weak figures for production in the sector. We expect that business investment ticked up only slightly in quarterly terms, but by much less than the 0.6% rise in the first quarter.

In all, we see little evidence that any other sector of the economy will manage to pick up the slack of consumer spending, which had been until 2016 the main engine of U.K. growth.

ASIA PACIFIC

By Katrina Ell, Jack Chambers, and the Asia-Pacific Staff of Moody's Analytics
August 24, 2017

Japan's economy is enjoying an extended moment in the sun. A revival in domestic demand drove GDP to its sixth consecutive quarter of expansion, the longest period of uninterrupted growth since 2006.

Preliminary data show GDP grew 1% q/q in the June quarter, building on an upwardly revised 0.4% gain (previously reported as 0.3%) in the March quarter. Private consumption, which accounts for about two-thirds of GDP, rose 0.9% from the previous quarter, more than the median estimate of 0.5% growth. That marked the fastest expansion in more than three years as shoppers splashed out on durable goods. Capital expenditure jumped by 2.4% in April-June from the previous quarter, versus the median estimate for a 1.2% increase. That was the fastest growth in business investment since January-March 2014.

Exports declined over the quarter, but that was payback after strong growth in the previous stanza. External demand remains strong, evidenced by a sharp rise in exports on a year-ago basis. Much of the gain in investment has been geared towards export-facing manufacturers. The auto and the electronic manufacturing industries have had the most to gain from the recent uptick in regional demand and the tech cycle. We expect this momentum will continue in coming months, although the pace of industrial output will likely decelerate.

Japan's preliminary GDP figures are typically a good indicator of final GDP, although investment is not captured well in preliminary data and is typically the cause of revisions. Our estimates suggest preliminary data have overstated the contribution from investment to second quarter GDP. Business capital expenditure rose 2.4%, the largest expansion since the first quarter in 2014 and added 0.4 percentage point to second quarter GDP growth. We are expecting final investment to be downwardly revised and contribute 0.2 percentage point. This brings our estimate for final second quarter GDP to 0.8% q/q, still a solid outcome for Japan.

High-frequency GDP tracker

Our high-frequency GDP tracker jumped around quite a bit over the June quarter and for a while was predicting a contraction in annualized terms, but when all available data were in ahead of the GDP figures, it did a decent job predicting the result.

The tracker was expecting a 3.6% annualized expansion, not too far off the 4% annualized growth achieved but well above market expectations of 2.5%.

Wage tracker

A sustained pickup in worker wages was undoubtedly the catalyst for a rise in private consumption. Nominal wages have made consistent, if not noteworthy, gains throughout 2017, a product of the tightening labour market finally starting to bear fruit in the form of higher worker wages. The jobs-to-application ratio hit 1.51 in June; this has not been seen since the 1970s.

We have created a wage tracker using four different income measures: the wage index, average cash earnings, disposable income and household expenditure survey—family income. In statistical jargon, the tracker is defined as the "first principal component" of four wage measures. The tracker shows that across the various indicators, income growth picked up in the second quarter but has slowed in July. The tracker is volatile because wages are volatile, so we need a few more months to see whether the improving trend remains.

Hard to not be skeptical

It was interesting that Japanese markets were not rejoicing over the impressive GDP result. The Nikkei225 was down 1% on Monday afternoon, hours after the GDP data were released. We interpret this to reflect that markets are not viewing this GDP report as a turning point for Japan's economy. We are on board with this, as inflation is still mediocre, with core and headline around 0.3% y/y to 0.4% y/y, well short of the Bank of Japan's 2% target.

Since launching quantitative easing in 2013, the Bank of Japan has pushed back the timing for reaching its 2% inflation target six times. There have been positive developments such as improved wage growth and spending, but the virtuous cycle of rising spending, prices and wages still hasn't been achieved.

Financial markets may also be concerned that improved GDP data mean the central bank is more inclined to begin tapering sooner rather than later.

The second-stage hike in the consumption tax has been delayed from April 2018 to October 2019. It is hoped that by then the economy will be in a better place to handle it. Initially the hike was scheduled for April 2017. The postponement has drawbacks, as the government needs to finance growing social welfare measures and debt servicing costs alongside an aging population. However, there is little benefit from hiking the consumption tax if it plunges Japan back into perennial stagnation. The consumption tax hike in 2014 from 8% to 10% derailed consumption gains, resulting in a steep two-quarter slowdown.

Ratings Round-Up

By Njundu Sanneh

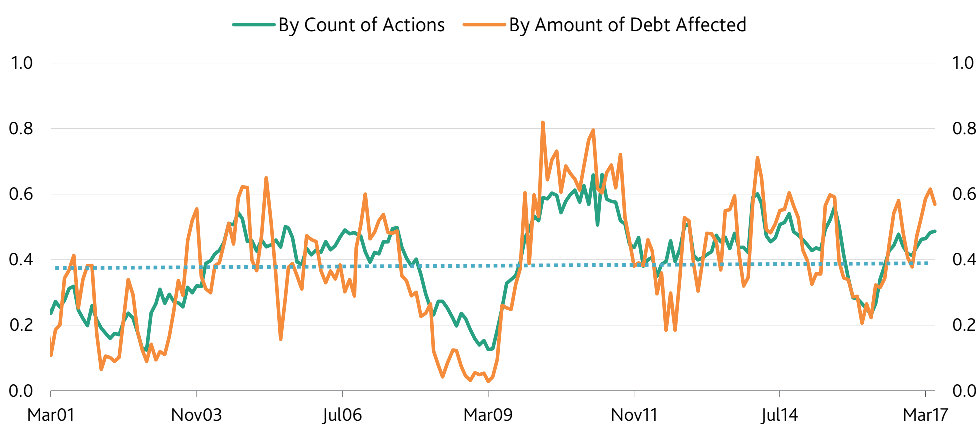
US Housing and Europe Improve

Upgrades in the US fell below 40% of total rating changes over the past week. But housing sector improvements bode well for mortgage insurers, with Moody's upgrading about five mortgage insurers (counting the three US subsidiaries of Mortgage Guaranty Insurance Corporation). The US economy is advancing gradually and, coupled with the tight labor market, underpins the housing market. The Philadelphia Housing Index has risen 15% year-to-date. The mortgage insurers continue to benefit from macroeconomic conditions and have experienced increased business volumes, higher profitability, and higher capital ratios. The negative rating actions which dominated in the US reside mainly among the broader service sector. The major downgraded companies for the US included the California Public Employees Retirement System, the California Teacher's Retirement System, and Nabors Industries LTD, an oil services company. The downgrade of Nabors highlights the continued challenges facing the energy services firms even as energy prices remain steadily well above the lows of 2015.

Positive rating changes remain prevalent in Europe, with upgrades as four of the five on the list. The rising economic growth in Europe and the improvements in the bank balance sheets are positive for corporate credit ratings.

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
8/16/17	BEAVER-VISITEC INTERNATIONAL HOLDINGS, INC.	Industrial	SrSec/BCF/LGD		D	B2	B3			LGD-5	LGD-4	SG
8/16/17	FOSSIL GROUP, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR		D	B1	B2					SG
8/16/17	KUEHG CORP.	Industrial	SrSec/BCF		D	B1	B2					SG
8/17/17	ACL I CORPORATION - Commercial Barge Line Company	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3					SG
8/17/17	ARCH CAPITAL GROUP LTD.	Financial	IFSR		U	Baa1	A3					IG
8/17/17	ESSENT GUARANTY, INC.	Financial	IFSR		U	Baa2	Baa1					IG
8/17/17	GIBSON BRANDS, INC.	Industrial	SrSec/LTCFR/PDR	375	D	Caa3	Ca					SG
8/17/17	MGIC INVESTMENT CORPORATION	Financial	SrUnsec/IFSR/Sub/JrSub	682	U	Ba3	Ba2					SG
8/18/17	NABORS INDUSTRIES, LTD.	Industrial	SrUnsec/LTCFR/PDR	4,100	D	Ba2	Ba3					SG
8/18/17	NAVEX ACQUISITION, LLC	Industrial	SrSec/BCF/LGD		D	B2	B3			LGD-3	LGD-4	SG
8/18/17	SABRE COMMUNICATIONS HOLDINGS - Sabre Industries, Inc.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa1	B3					SG
8/18/17	WESCO AIRCRAFT HOLDINGS, INC. - Wesco Aircraft Hardware Corp.	Industrial	SrSec/BCF/LTCFR/PDR/SGL		D	B1	B2	SGL-3	SGL-4			SG
8/21/17	CARE CAPITAL PROPERTIES, LP	Financial	SrUnsec	500	D	Baa3	Ba1					IG
8/21/17	SABRA HEALTH CARE REIT, INC.	Industrial	SrUnsec/LTCFR/PS	844	U	Ba3	Ba1					SG
8/22/17	CACTUS WELLHEAD, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa1	B3					SG
8/22/17	CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM	Financial	LTIR		D	Aa2	Aa3					IG
8/22/17	CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM	Financial	LTIR		D	Aa2	Aa3					IG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

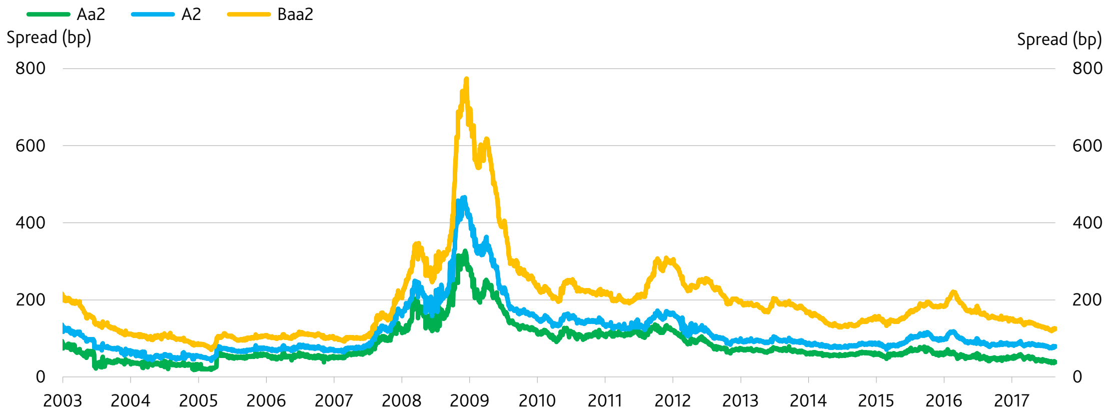
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
8/16/17	DANSKE BANK A/S	Financial	SrUnsec/LTIR/LTD/JrSub/PS	15,478	U	A2	A1	IG	DENMARK
8/18/17	METSA BOARD CORPORATION	Industrial	SrUnsec/LTCFR/PDR	264	U	Ba2	Ba1	SG	FINLAND
8/18/17	JAZZ PHARMACEUTICALS PLC	Industrial	SrSec/BCF		U	Ba2	Ba1	SG	IRELAND
8/21/17	SBAB BANK AB (PUBL)	Financial	SrUnsec/LTIR/LTD/JrSub/PS/MTN	8,314	U	A2	A1	IG	SWEDEN
8/16/17	NEW LOOK RETAIL GROUP LIMITED	Industrial	SrUnsec/SrSec/LTCFR/PDR	1,615	D	Caa2	Caa3	SG	UNITED KINGDOM

Source: Moody's

Market Data

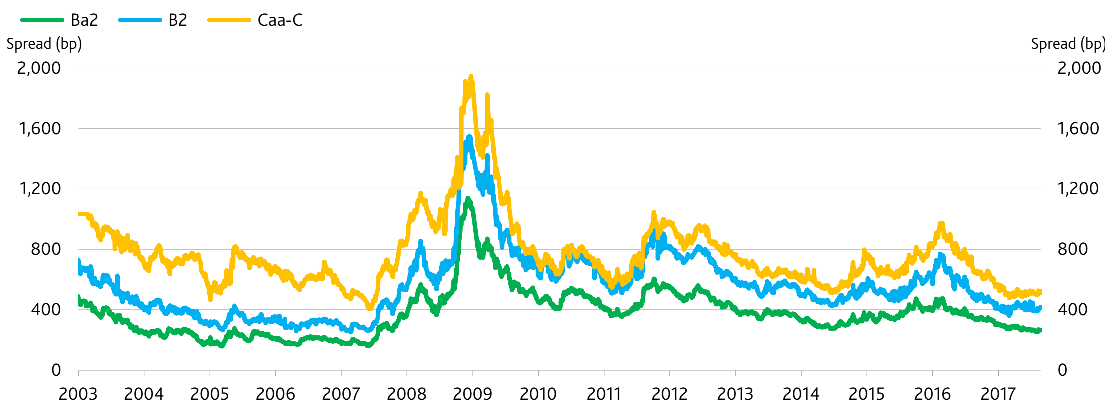
Spreads

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



Source: Moody's

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



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (August 16, 2017 – August 23, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Aug. 23	Aug. 16	Senior Ratings
Texas Instruments, Incorporated	Aa3	A3	A1
Penney (J.C.) Corporation, Inc.	Caa2	Ca	B3
AT&T Inc.	Baa2	Baa3	Baa1
General Electric Company	Aa3	A1	A1
PepsiCo, Inc.	Aa2	Aa3	A1
Bank of New York Mellon Corporation (The)	A2	A3	A1
U.S. Bancorp	Aa1	Aa2	A1
Anthem, Inc.	A1	A2	Baa2
Altria Group Inc.	Aa2	Aa3	A3
CSC Holdings, LLC	B1	B2	Ba1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Aug. 23	Aug. 16	Senior Ratings
Exxon Mobil Corporation	A2	Aa2	Aaa
Amazon.com, Inc.	A3	A1	Baa1
Caterpillar Inc.	A1	Aa2	A3
JPMorgan Chase & Co.	Baa1	A3	A3
Goldman Sachs Group, Inc. (The)	Baa3	Baa2	A3
Bank of America, N.A.	Baa1	A3	A1
John Deere Capital Corporation	A3	A2	A2
Comcast Corporation	A2	A1	A3
McDonald's Corporation	Aa2	Aa1	Baa1
Chevron Corporation	Baa1	A3	Aa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 23	Aug. 16	Spread Diff
Windstream Services, LLC	B2	1,663	1,254	409
Neiman Marcus Group LTD LLC	Caa3	2,156	1,920	236
K. Hovnanian Enterprises, Inc.	Caa3	1,159	1,022	137
Frontier Communications Corporation	B2	1,170	1,081	89
Pride International, Inc.	B1	622	547	75
Sears Holdings Corp.	Caa3	3,556	3,484	71
Sears Roebuck Acceptance Corp.	Caa3	3,410	3,342	69
McClatchy Company (The)	Caa2	1,245	1,178	67
Hertz Corporation (The)	B3	962	898	64
Parker Drilling Company	Caa1	1,036	980	56

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 23	Aug. 16	Spread Diff
Nine West Holdings, Inc.	Ca	6,787	7,163	-376
Tenet Healthcare Corporation	Caa1	471	511	-40
FCA US LLC	Ba2	126	155	-29
Unisys Corporation	B3	565	590	-25
Freeport Minerals Corporation	Ba2	239	261	-22
Freeport-McMoRan Inc.	B2	226	247	-21
DDR Corp.	Baa2	172	186	-15
CSC Holdings, LLC	Ba1	179	193	-14
Cablevision Systems Corporation	B3	372	384	-13
Texas Instruments, Incorporated	A1	36	45	-10

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (August 16, 2017 – August 23, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Aug. 23	Aug. 16	Senior Ratings
Landesbank Hessen-Thueringen GZ	A1	A3	A1
Alpha Bank AE	Caa2	Ca	Caa3
Belgium, Government of	Aaa	Aa1	Aa3
Finland, Government of	Baa1	Baa2	Aa1
HSBC Holdings plc	A1	A2	A1
Bayerische Landesbank	Aa2	Aa3	A1
Natixis	Aa3	A1	A2
Standard Chartered Bank	A2	A3	A1
Erste Group Bank AG	Baa2	Baa3	A3
UniCredit Bank Austria AG	Baa2	Baa3	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Aug. 23	Aug. 16	Senior Ratings
Italy, Government of	Ba3	Ba2	Baa2
United Kingdom, Government of	Aa1	Aaa	Aa1
Societe Generale	A2	A1	A2
BNP Paribas	A1	Aa3	A1
Banco Bilbao Vizcaya Argentaria, S.A.	Baa2	Baa1	Baa1
Intesa Sanpaolo S.p.A.	Ba1	Baa3	Baa1
UniCredit S.p.A.	Ba1	Baa3	Baa1
Banco Santander S.A. (Spain)	Baa1	A3	Baa1
Electricite de France	Baa1	A3	A3
Commerzbank AG	Baa3	Baa2	Baa1

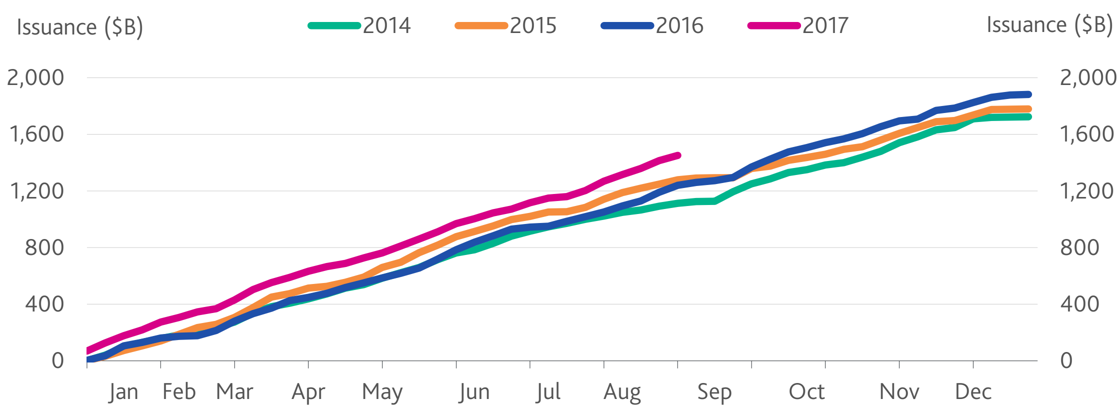
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 23	Aug. 16	Spread Diff
Ensco plc	B2	637	560	77
PizzaExpress Financing 1 plc	Caa1	1,005	951	54
Astaldi S.p.A.	B3	832	798	34
Novo Banco, S.A.	Caa2	1,220	1,188	32
Vue International Bidco p.l.c.	B3	208	179	29
Boparan Finance plc	B2	502	481	21
Premier Foods Finance plc	Caa1	359	338	21
Galapagos Holding S.A.	Caa2	891	871	21
Intesa Sanpaolo S.p.A.	Baa1	89	78	11
UniCredit S.p.A.	Baa1	92	81	11

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 23	Aug. 16	Spread Diff
Banco BPI S.A.	Ba3	198	223	-25
Caixa Geral de Depositos, S.A.	B1	197	219	-22
Fiat Chrysler Automobiles N.V.	B1	187	206	-19
Greece, Government of	Caa2	497	516	-19
Evraz Group S.A.	B1	256	270	-14
Eksportfinans ASA	Baa3	514	525	-11
Raiffeisen Bank International AG	Baa1	88	99	-10
CMA CGM S.A.	B3	441	449	-8
Banca Monte dei Paschi di Siena S.p.A.	B3	160	167	-7
Sappi Papier Holding GmbH	Ba2	349	356	-7

Source: Moody's, CMA

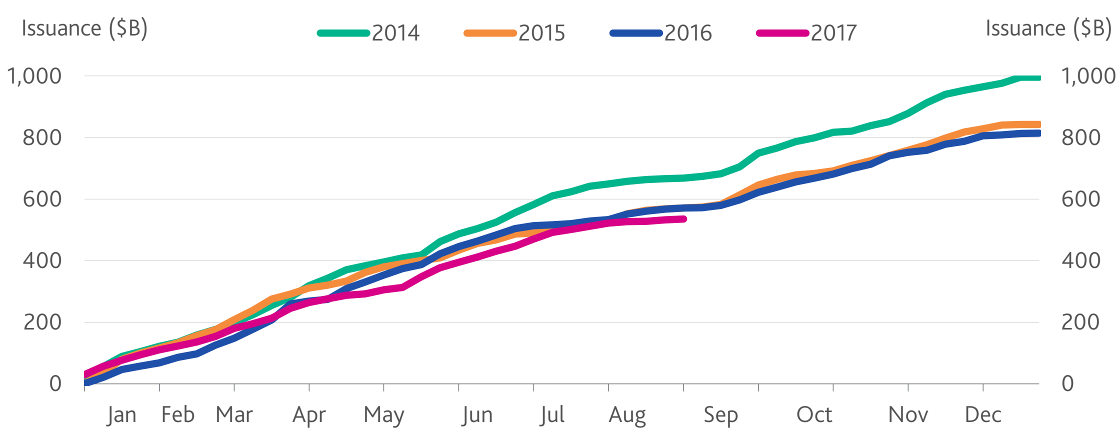
Issuance

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	29.918	4.425	36.280
Year-to-Date	1,044.835	287.381	1,450.873

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	2.430	0.000	2.548
Year-to-Date	445.854	61.483	535.103

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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