MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Much Doubt Surrounds VIX Index's Optimism

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Credit Markets Review and Outlook

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

Much Doubt Surrounds VIX Index's Optimism

Financial markets were recently visited by a rarity. During the past week, the VIX index closed under 10 points on May 8 and 9. Since its start in 1990, the VIX index has closed under 10 points on only 11, or 0.1%, of the span's nearly 7,000 trading days.

Today's very low VIX index reflects a great deal of confidence that there won't be a deep sell-off by equities. Not only is there effectively little demand for insuring against a harsh correction, but sellers of such insurance are will to accept a low price for protection against a market plunge.

This insouciance seems odd given how richly priced the US equity market is relative to corporate earnings and the prospective returns from other assets such as corporate bonds. The current market value of US common stock — according to a model based on pretax profits from current production and Moody's long-term Baa industrial company bond yield — exceeds its midpoint valuation by a considerable 24%. During 1999-2000's memorable equity rally, the market value of US stocks first climbed 24% above its projected midpoint in 1999's first quarter and would remain at least that high through 2000's second quarter. During January 1999 through June 2000, the actual market value of US common stock exceeded its projected midpoint by 51%, on average.

Another comparison of the two periods shows a similarly striking difference between them. The earlier period averages of a 15.4:1 ratio for the market value of common stock to pretax operating profits and 8.05% for the long-term industrial company bond yield were far above the recent ratio of 11.7:1 and the latest Baa industrial yield of 4.68%.

In stark contrast to the current situation, during January 1999 through June 2000 the VIX index averaged a substantially higher 24.3 points when the market value of US common stock was at least 24% above its projected midpoint. Back then, the market had a greater appreciation of the considerable downside risk implicit in an overvalued equity market.

Two prior cases of a below-10 VIX index preceded vastly different outcomes

January 2007 and December 1993 were the two prior moments when the VIX index spent some time under the 10-point threshold. What followed them differed drastically.

January 2007 was merely 11 months before the December 2007 start to the worst recession since the Great Depression. In contrast, December 1993 was followed by 1994's 4.0% annual advance by real GDP that was the first of a seven year span that had real GDP growing by a now unheard of 4.0% annually, on average. Far different was 2007's 1.8% annual rise by real GDP that was at the start of what would be real GDP's 0.9% average annual rise of the seven-years-ended 2013.

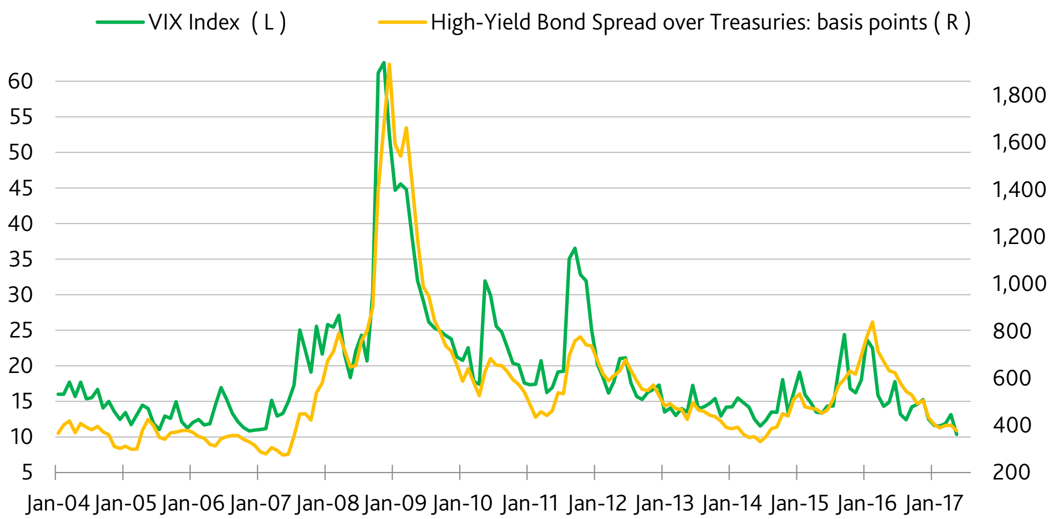
In the year following December 1993's ultra-low VIX score, the market value of US common stock fell by -3.2% despite 1994's 18.6% surge by pretax operating profits. A lift-off by the average 10-year Treasury yield from Q4-1993's 6.13% to Q4-1994's 7.96% was to blame for 1994's short-lived drop by share prices. Nevertheless, partly because of 1994's very strong showing by business activity, the earnings-sensitive high-yield bond spread narrowed from Q4-1993's 438 bp to Q4-1994's 350 bp.

For the year following January 2007's brief stay by a less than 10-point VIX index, a drop by the 10-year Treasury yield from January 2007's 4.64% to January 2008's 4.00% failed to stave off a -3.4% drop by the market value of US common stock largely because of yearlong 2007's -7.5% contraction of pretax operating profits. A swelling by the high-yield bond spread from January 2007's 287 bp to January 2008's 674 bp stemmed from the worsened outlook for business activity.

VIX Index and high-yield EDF differ drastically on yield spreads

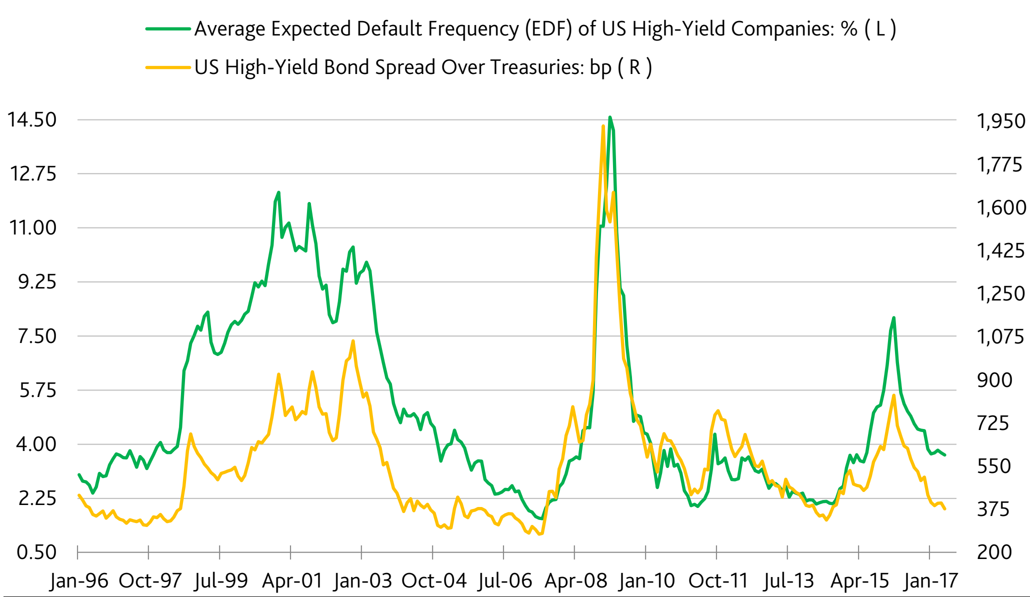
May-to-date's average VIX index of 10.4 points favors a 312 bp midpoint for the high-yield bond spread, which is much thinner than the recent actual spread of 377 bp. Throughout much of 2016, the VIX index proved to be a reliable leading indicator of where the high-yield spread was headed. Nevertheless, if only because the VIX index now resides in the bottom percentile of its historical sample, a higher VIX index is practically inevitable. Once the VIX index approaches its mean, the high-yield spread will be much wider than the recent 377 bp. (Figure 1.)

Figure 1: Throughout Much of 2016, VIX Index Correctly Hinted of a Thinner High-Yield Bond Spread... Recent VIX Index Favors a 312 bp Midpoint for High-Yield Spread Versus Actual 377 bp (*correlation = 0.90*)



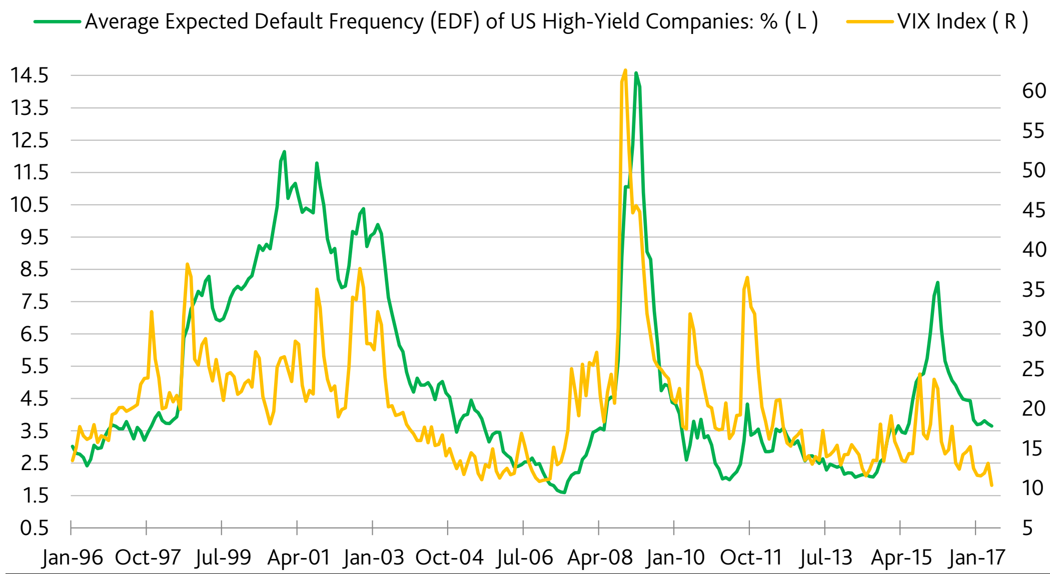
As well, all other primary drivers of the high-yield spread argue in favor of a spread that is significantly wider than its recent 377 bp. For example, the recent high-yield EDF (expected default frequency) metric of 3.6% and its slight decline over the past three months portend a 468 bp midpoint for the high-yield bond spread. The latest high-yield EDF metric and its three-month dip predict an 18-point midpoint for the VIX index. (Figure 2.)

Figure 2: Recent Average High-Yield EDF Metric of 3.6% and Its Three-Month Change Favor a 468 bp Midpoint for High-Yield Bond Spread



Unlike May-to-date's average for the VIX index which is at the very bottom of its 257 monthly readings since year-end 1995, May-to-date's average high-yield EDF metric topped 44% of its prior readings. For example, January 2007's month-long average of 11.0 points for the VIX index was joined by a comparatively low 2.0% average for the high-yield EDF metric. Thus, the VIX index now shows much more confidence in the outlook for financial markets than does the recent 3.6% high-yield EDF metric, where the latter is close to its norm for a business cycle upturn. (Figure 3.)

Figure 3: Now Bottom Percentile VIX Index Differs Considerably on Risk from a Trend-Like High-Yield Expected Default Frequency (EDF) Metric



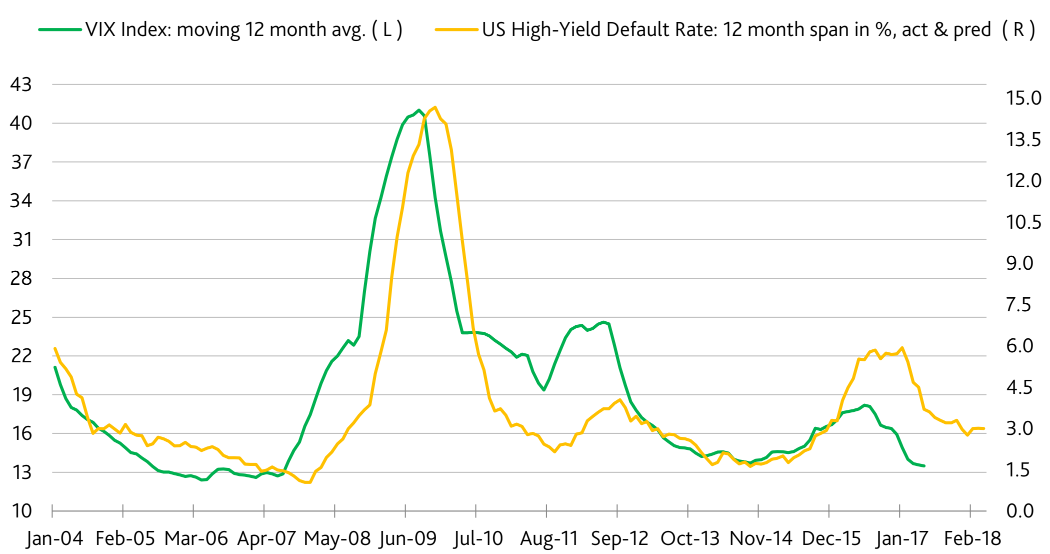
VIX Index predicts an unlikely drop by the default rate

The VIX index's moving yearlong average generates a very strong correlation of 0.89 with the high-yield default rate of three-months later. The VIX index's moving yearlong average recently dipped to 13.5 points, which was the lowest since the 12.9 of the span-ended July 2007. By October 2007, the default rate had eased to 1.1%, which was less than July 2007's 1.5%.

The VIX index's latest moving yearlong average of 13.4 points favors a 1.6% midpoint for August 2017's default rate, which is less than the 3.3% predicted by both May-to-date's high-yield EDF (expected default frequency) metric and Moody's Credit Policy Group. An August 2017 default rate of 1.6% seems improbable given April 2017's much higher default rate of 4.5%. (Figure 4.)

Profits growth is key to realizing lower default rates, as well as avoiding both a deep plunge by share prices and a ballooning of corporate bond yield spreads. Given how today's substantial overvaluation of equities heightens the vulnerability of earnings-sensitive markets to adverse developments, the imperative of achieving profits growth cannot be understated. For now, the weight of the available evidence suggests a mild rise of 2% to 7% for 2017's pretax profits from current production.

Figure 4: VIX Index's 12-Month Average Predicts a 1.6% Midpoint for August 2017's Default Rate vs. Credit Policy Group's Forecast of 3.3%



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 8: The strength of the labor market will cause the debate to heat up over whether the Fed is behind the curve. Based on policy rules, including the Taylor rule, it would appear the central bank is behind the curve. There are two important considerations. First, as with any Taylor rule, this one is sensitive to assumptions about the real long-run equilibrium fed funds rate and NAIRU. Estimates of the long-run equilibrium rate could be lower than the Fed anticipates. Another consideration is how the Fed views its inflation objective as a ceiling or a target. If the former, then monetary policy is clearly too loose.

However, the appropriate approach would be for the Fed to view its 2% inflation objective as an average target; in other words, inflation will sometimes be above it and sometimes below, with the goal of inflation averaging 2% in the medium term. Therefore, inflation will need to overshoot 2% over the next few years to make up for past misses.

The Fed will naturally turn more hawkish, as it is concerned the economy is going to blow past full employment. Incoming data on consumer prices will likely show that inflation isn't breaking out. We look for both the headline and core CPI to have risen 0.2% in April. Therefore, the Fed should stick with its current plan to raise rates two more times this year rather than trying to squeeze in another rate hike. Odds are rising that the Fed begins to normalize its balance sheet in December, which would be a further tightening in monetary policy. Given the difficulty in generating inflation over the past several years, the use of discretion is appropriate and we don't see any evidence that inflation is going to suddenly take off.

Elsewhere, retail sales likely rose 0.5% in April. This won't eliminate all our concerns about the consumer. Stronger wage growth is needed to help support spending going forward. Rising equity and house prices will help, but wages are the key.

THURSDAY, MAY 11

Jobless claims (week ending May 6; 8:30 a.m. EDT)

Forecast: 245,000
Initial claims are forecast to have risen from 238,000 to 245,000 in the week ended May 6. This would reverse only some of the prior week's 19,000 decline. Assuming no revisions to the prior week, the four-week moving average will increase from 243,000 to 246,000 in the week ended May 6. The trend in initial claims is solid. Elsewhere, continuing claims will likely remain below 2 million for the fourth consecutive week. Continuing claims fell 23,000 to 1.96 million in the week ended April 22.

FRIDAY, MAY 12

Consumer price index (April; 8:30 a.m. EDT)

Forecast: 0.2% (total)
Forecast: 0.2% (core)
The CPI took a step back in March, but we believe the case for stronger inflation through the remainder of this year remains strong. The CPI fell 0.2% in March following a 0.1% gain in February. We expect the CPI to have bounced back some in April, rising 0.2%. Energy is expected to be neutral for the growth in the CPI. Excluding food and energy, we forecast the CPI to rise 0.25% in April after it fell 0.1% in March. Our forecast rounds to 0.2% but there is the potential for an increase in the cigarette tax in California to have a bigger impact on the core CPI than we are currently penciling in. California raised the cigarette tax in April by $2. In the past, large increases in the cigarette tax nationally have

had some effect on the core CPI. We don't expect California's to have as big of an effect but it's a risk. We will revisit our CPI forecast after import and producer prices next week.

Retail sales (April; 8:30 a.m. EDT)

Forecast: 0.5% (total)
Forecast: 0.4% (nonauto)
We look for retail sales to have risen 0.5% in April, but our confidence in this forecast is low. There is the potential for seasonal adjustment issues as Easter shifted from March last year to April this year. Also, the relationship between gasoline prices and retail sales at gasoline stations is loose in April. The forecast assumes that gasoline stations added 0.1 percentage point to retail sales growth in April. Building material stores should also chip in, adding 0.1 percentage point. Unit vehicle sales were up 1.5% in April, which should provide a boost to retail sales. We expect autos to add 0.1 percentage point to retail sales growth. Nonauto retail sales likely rose 0.4% in April. Our high-frequency GDP model has real spending tracking 3.4% at an annual rate this quarter, but April retail sales will be a key input in assessing how consumption is doing early this quarter.

Michigan survey (May-preliminary; 10:00 a.m. EDT)

Forecast: 97.3
We look for the University of Michigan's consumer confidence to have risen from 97 in April to 97.3 in May, according to the preliminary survey. Fundamentals were generally supportive for sentiment in early May, including stock prices. We believe gasoline prices should also help nudge sentiment higher along with the health of the labor market. High-frequency measures of consumer sentiment suggest any improvement should be modest. Long-term inflation expectations warrant close watch, as they remain extremely low.

EUROPE

By the Dismal (Europe) staff in London and Prague

Summary, May 5: This weekend will bring closure to France's election campaign. Both Moody's Analytics and markets are expecting that Emmanuel Macron will win Sunday's ballot and become the next French president, as predicted by polls, but abstentions represent a strong downside risk to our forecast. While all of Marine Le Pen's voters are extremely likely to turn up on Sunday, the fact that Monday is a bank holiday in France could lead disillusioned voters from the country's two major parties—none of whom made it to the final round—to decide to take the long weekend off instead of to cast protest, or tactical, votes against Le Pen. This is worrying because we think that, in economic terms, a Le Pen victory would be extremely detrimental for France. During the head-to-head television debate between Le Pen and Macron, the National Front's candidate confirmed our fears of how unprepared she is on basic economic topics such as labor market and the currency reforms, especially when she announced that she planned to implement a rather unreal dual-currency system that would consist of the euro being used by banks and large firms, while the franc would be used in the domestic economy and in exports. Were Le Pen to win on Sunday, euro zone equities would likely crash, as would the bond markets and the euro. By contrast, were Macron to win, markets would remain relatively steady, as we think that his victory has already been priced in.

On the data front, the coming week will bring the first estimate of the Germany's first quarter GDP, which is more likely than not to surprise on the upside given the upbeat prospects for both manufacturing and construction investment at the start of the year. We are expecting the country's GDP to jump by 0.6% in the three months to March, up from 0.4% previously, boosted mainly by an acceleration in industrial production: Assuming that y/y factory growth remained relatively steady in

March, which requires a small monthly decrease, factory output would have still increased by around 2% in the first quarter, compared with a modest 0.1% fall in the December quarter. Note that construction numbers are included in the industrial production headline, and the warmer-than-average weather should have provided a significant support to homebuilding and infrastructure work in February and March. The IFO sentiment index in the construction industry has accelerated strongly over the last few months, suggesting that the sector's growth is gathering incredible momentum, and that further upside is expected in the second quarter; April's index rose within a touching distance of all-time highs.

Monthly export and import figures are suggesting that net trade likely also made a positive contribution to growth in the first quarter, while fourth quarter figures should be revised higher as well. Rising demand from Germany's European partners, as well as from Asia, is expected to have underpinned a jump in exports, offsetting a weakening in demand from the U.K. Meanwhile, the main downside risks to our forecast come from consumer spending; disappointing retail sales figures indicate that sales likely remained flat in the first quarter, down from a 0.7% q/q rise in the fourth quarter. We are expecting that a jump in services spending provided some offset, but in case we are wrong, this could mean that final growth could come in at 0.5% q/q, instead of 0.6%.

Thursday, May 11

U.K.: Industrial Production (March; 9:30 a.m. BST)

Industrial production in the U.K. likely retreated by 1% m/m in March, building on a sharp 0.7% drop in the previous month. In year-ago terms, production likely ticked down to 1.3%, its lowest since October, from 2.8% in February. We expect a mean-reversion in pharmaceuticals output to drive the headline over the month following a 4.4% plunge in February, but energy supply production should have nonetheless been a major drag, as March's unseasonably mild weather should have depressed demand for heating. The mining and quarrying industry likely didn't fare so well either, as oil producers reported falling output at the start of the month. Rising prices are expected to weigh on domestic demand and curb production of consumer goods in the medium term, offsetting the gains that the weaker pound should bring to the export-led manufacturing industry.

Friday, May 12

Germany: Preliminary GDP (Q1; 7:10 a.m. BST)

Germany's quarterly expansion rate likely accelerated somewhat at the start of this year. Real GDP is forecast to have increased by 0.5% q/q in the three months to March following 0.4% increase at the end of 2016. However, the annual expansion rate likely slowed to 1.5% from 1.8% in the previous quarter.

Private consumption likely continued to power output growth, thanks to the booming labour market. However, accelerating inflation, which reached 1.1% y/y on average in the first quarter, likely weighed on private spending's contribution to growth. Investment is expected to have continued to recover, while the continuously weak euro likely supported exports. Exports are expected to have contributed to the growth, following a drop in the previous quarter. The outlook for this year is clouded, as the tailwinds supporting growth over the last few years will subside and political uncertainty abroad and at home add to the risks. We forecast German GDP growth to slow to 1.6% this year.

Germany: Consumer Price Index (April; 7:10 a.m. BST)

Preliminary estimates by the federal statistics office show Germany's consumer prices rose by 2% y/y in April, not seasonally adjusted, accelerating from a 1.6% increase in the previous month, with this slight slowdown in March proving to be only temporary. Inflation of energy remained unchanged from the previous month at 5.1% y/y. Growth of food prices slowed further to 1.8% y/y from 2.3% previously. Meanwhile, the prices of services increased strongly, rising by 1.7% y/y following a 0.7% increase in March.

The pricing pressures come mainly from higher commodities prices, not from any significant rebound of demand. The relatively weak euro has also been supporting inflation pressures. Higher prices of commodities pushed input prices higher for German producers, with the rate of increase reaching the highest since May 2011, according to the German Markit Manufacturing PMI. We expect that seasonally adjusted inflation accelerated to 2.1% in April from 1.7% in the previous month.

ASIA-PACIFIC

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

China and Japan enjoy cyclical upturns

China's cyclical spurt likely eased in April, though economic conditions have improved in early 2017 compared with the same time last year. Fixed asset investment is rising as the drag from mining begins to fade; heavy commodity-related industries have improved in early 2017.

Similarly, industrial production has been firm thanks to global tech demand increasing the need for electronic-related goods such as semiconductors. But manufacturing sentiment fell in April, which suggests that the tech cycle has almost run its course.

The overall rebalancing away from investment and towards consumption remains promising; retail sales continue to outpace industrial production and the trend will persist through 2017. The rebound in house prices, particularly in the Tier 1 capital cities, has likely peaked. Various government measures to cap the housing market mean that further gains are unlikely.

Elsewhere, GDP growth in Japan likely jumped 0.8% q/q in the March quarter. This is the preliminary estimate, and some downward revision can be expected once all the production data are made available. A statistically significant bias exists in which Japan's March quarter GDP tends to be higher than other quarters.

We expect net exports will remain the key driver of growth in the March quarter thanks to the tech cycle and the yen's depreciation. While strong export growth will offset the rising imported energy costs, Japan's domestic demand is unlikely to rise meaningfully. The services industry has improved in the first quarter, although consumer spending on discretionary items remains uneven..

THURSDAY, MAY 11

New Zealand – Monetary Policy – May

Time: 7:00 a.m. AEST (Wednesday 9:00 p.m. GMT)
Forecast: 1.75%
The Reserve Bank of New Zealand will keep the official cash rate on hold at 1.75% at its May policy meeting. The central bank is in no hurry to normalize monetary settings from their accommodative stance, especially as it is trying to keep upward pressure off the exchange rate, which is considered too high to achieve balanced growth in the economy. We expect the central bank will keep the policy rate on hold at least through 2017, even though inflation is edging higher on the back of higher fuel costs and base effects and has returned to the central bank's 1%-to-3% target range for the first time in two years.

Malaysia – Industrial Production – March

Time: 2:00 p.m. AEST (4:00 a.m. GMT)
Forecast: 4.5%
Malaysian industrial production likely remained buoyant in March, growing 4.5% y/y after February's 4.7% expansion. Manufacturing is doing well thanks to strong global tech demand. Malaysia is highly exposed to the tech cycle given its large integrated circuit sector. Oil production has also improved from last year thanks to higher prices for crude oil. Palm oil production is also doing better as the dry and hot conditions associated with El Niño that hurt production in 2016 fade.

FRIDAY, MAY 12

Hong Kong – GDP – 2017Q1

Time: 6:30 p.m. AEST (8:30 a.m. GMT)
Forecast: 0.8%
Hong Kong's recovery continued in the first quarter. The housing market has driven sentiment higher and boosted spending, as has the rising stock market. Housing transaction volumes in the first quarter have been driven by expectations of more restrictions. Exports have picked up on the back of global tech and commodities to China. These factors are helping wage growth recover, albeit at a modest pace.

India – Consumer Price Index – April

Time: 10:00 p.m. AEST (12:00 p.m. GMT)
Forecast: 3.9%
Food prices in India are keeping inflation under control. CPI inflation likely remained below the central bank's 4% target. Rising commodity prices, particularly for retail fuel, will likely be offset by low vegetable prices. Core inflation has been historically sticky in India, but it's shown signs of easing in recent months.

India – Industrial Production – March

Time: 10:20 p.m. AEST (12:20 p.m. GMT)
Forecast: 0.7%
India's production momentum remains weak, although it likely increased in March after a drop in February. The impact of demonetization is fading, although India's production momentum will remain weak into the second half of the year. Supply bottlenecks continue to crimp production, and industries remain reluctant to take on investment because of a hangover from excessive debt from the start of this decade.

MONDAY, MAY 15

Indonesia – Foreign Trade – April

Time: Unknown
Forecast: US$1.14 billion
Indonesia's monthly trade surplus likely narrowed in April after reaching US$1.23 billion in March. Lower commodity prices, especially for crude, will hit export receipts from May, as global prices slumped to a six-month low on supply glut concerns. It is unclear how long this will last and adversely impact net-oil exporter, Indonesia. Nonoil and gas exports should remain upbeat thanks to strength in global demand lifting manufactured goods.

India – Foreign Trade – April

Time: Unknown
Forecast: -US$11.1 billion
India's trade deficit likely increased in April from March's US$10.4 billion. Although exports are rising after a two-year lull, the sharp increase in commodity prices is causing imports to rise faster. This trend will likely continue through the year because energy prices haven't peaked. That said, the rising export trend will be welcome, as it's expected to boost GDP growth towards year's end.

New Zealand – Retail Trade – 2017Q1

Time: 8:45 a.m. AEST (Sunday 10:45 p.m. GMT)
Forecast: 1.1%
New Zealand's retail trade volumes likely grew a respectable 1.1% q/q in the March quarter after rising 0.8% in the December stanza. Record high net migration in the 12 months to March is keeping spending buoyant as is the economy's expanding around potential at 3% y/y. Auckland is a particular bright spot because wealth effects from booming house prices are encouraging higher consumption. In the December quarter, car sales in Auckland were especially strong. The government has started to tighten skilled migration arrivals, which should dampen the benefits to consumption in coming months.

Australia – Housing Finance – March

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: -0.1%
Australia's housing market shows signs of slowing. The number of owner-occupied lending commitments likely dipped 0.1% over March, up slightly from a 0.5% decline in February. Investor lending is likely to experience a sharper slowdown as banks increase investor rates and limit the number of new investor loans. Sydney and Melbourne will continue to outpace other cities, while Perth experiences an ongoing slowdown. High private debt and weak wage growth are starting to weigh on demand, with house prices dipping slightly in April.

China – Fixed Asset Investment – April

Time: 12:00 p.m. AEST (2:00 a.m. GMT)
Forecast: 9.2%
Investment in fixed assets has accelerated of late, partly because of the removal of the drag from mining-related sectors. Manufacturing investment is picking up thanks to the recovery in global markets. However, investment in construction and raw materials is likely to cool as the restrictions on housing start to bite. We expect growth in fixed assets to remain unchanged in April from March's reading at 9.2% y/y.

China – Industrial Production – April

Time: 12:00 p.m. AEST (2:00 a.m. GMT)
Forecast: 7.9%
Improving global tech demand has been boosting electronics production, but this seems be entering a lull. Manufacturer sentiment cooled in April partly on falling new orders. Lower imports of tech components corroborate a softer pipeline of demand. Industrial production likely grew 7.9% y/y in April, up from 7.6% in March. Much of this comes from a weaker comparison from a year earlier.

China – Retail Sales – April

Time: 12:00 p.m. AEST (2:00 a.m. GMT)
Forecast: 11%
Retail spending in China continues to outpace industrial production and overall GDP growth, a sign of rebalancing toward consumption. But spending growth is likely to remain flat over the medium term. Lower subsidies for energy-efficient cars are reducing incentives to spend. The cooling housing market in Tier 1 cities will also moderate household sentiment and spending in related areas. Retail spending likely grew 11% y/y in April, a touch higher than the 10.9% seen in March, partly because of a lower base from a year earlier.

Thailand – GDP – 2017Q1

Time: 12:30 p.m. AEST (2:30 a.m. GMT)
Forecast: 2.3%
Thailand's GDP growth likely slowed to 2.3% y/y in the first quarter of 2017, compared with 3% in the prior period. Private consumption likely slowed in the three months to March after receiving a temporary boost from government stimulus measures in December. Private investment, which has been flat since the 2014 military coup, will remain weak. On the positive side, net exports likely improved in the first quarter, as stronger global demand supports Thailand's auto and electronics

exports. Government spending will also be a positive for the GDP figure as the junta government attempts to support the economy

India – Wholesale Price Index – April

Time: 4:45 p.m. AEST (6:45 a.m. GMT)
Forecast: 6%
Wholesale price inflation in India likely increased in April from March's 5.7%. The persistent rebound in various energy prices will filter through the economy and raise manufacturing prices too. That said, vegetable prices have cooled over the past year thanks to a good monsoon season and better food supply management. These factors will restrict wholesale prices from rising too sharply over 2017. The WPI will be rebased in April and will contain new categories. Therefore, there's considerable uncertainty around the forecast.

TUESDAY, MAY 16

Japan – Industry Activity Indexes – March

Time: 2:30 p.m. AEST (4:30 a.m. GMT)
Forecast: 0.1%
Tertiary activity in Japan likely decelerated in March after a 0.2% increase in February. Consumers remain reluctant to open their wallets for discretionary spending. Rising commodity prices have driven retail fuel activity, while the ageing population and spending on healthcare underpin the overall services sector. This trend is unlikely to change because Japan's population is set to decline further. We expect consumption growth will remain weak over 2017.

WEDNESDAY, MAY 17

Japan – Machinery Orders – March

Time: 9:50 a.m. AEST (Tuesday 11:50 p.m. GMT)
Forecast: 2%
Japan's core machinery orders likely accelerated in March from 1.5% in February. Growth will likely be driven by private spending and manufacturing thanks to a tailwind from the global tech cycle. Machinery orders are indicative of the capital expenditure pipeline, which has improved slightly in the first half of 2017. That said, we expect firms will remain reluctant to increase investment meaningfully throughout the year.

Singapore – Foreign Trade – April

Time: 10:30 a.m. AEST (12:30 a.m. GMT)
Forecast: 15%
We look for Singapore’s nonoil domestic export growth to have eased slightly, to 15% y/y in April, after rising 16.5% in February. The upswing in global tech demand has bolstered Singapore’s electronics exports in the opening months of 2017. This has also helped shipments of precision engineering equipment, since this is largely concentrated in the production of integrated circuit equipment. All of Singapore’s major trading partners are seeing improved conditions, with China in a cyclical upswing, the U.S. approaching full employment, and the European recovery improving.

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.

The Long View

The US: The year-to-year increase for the sum of new bank loan programs and US$-priced bonds from high-yield issuers slowed from Q1-2017's 123% to April's 34%

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
May 11, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 119 bp resembles its 122-point mean of the two previous economic recoveries. Any narrowing by this spread may be limited by more cash- or debt-funded acquisitions, spin-offs, stock buybacks, and dividends. Subpar growth by business sales and pretax profits will also add to credit risk, as will a rising risk of high-yield defaults.

The recent high-yield bond spread of 377 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 March's 4.7%. Moody's credit policy group lowered its predicted average default rate for Q4-2017 from March 2017's 3.3% to 3.1%. 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 -2.1% annually for IG and may advance by + +14.4% 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 11, 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. Job growth has slowed and the sharp depreciation in the British pound has increased consumer prices and dampened consumer spending. The slowdown in inward foreign direct investment will be one of the largest drags on the U.K. economy. Britain is one of the world's most attractive destinations for foreign investment—accounting for about 5% of the global total in recent years—and is currently the number two host country in the world for inward FDI stock, after the U.S. By leaving, the U.K. is set to lose its competitive advantage as the gateway to the EU market for non-EU countries. This means that Britain will not attract as much investment as it did before, and this will curb demand for sterling. The trade-weighted pound is expected to remain under pressure until the final trade agreement between the U.K. and the EU is approved, lingering around $1.20 and €1.16 in the coming quarters.

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 11, 2017

The Reserve Bank of Australia is happy with the economy's performance so far in 2017, although there are some risks to the outlook. The central bank stood pat at the May monetary policy meeting, leaving the overnight cash rate at 1.5% for the ninth consecutive month. The RBA struck a neutral tone in the decision's accompanying statement, indicating that it is broadly happy with the economy's performance.

Inflation pressures picked up in the March quarter, with headline inflation reaching the lower bound of the central bank's 2% to 3% range. However, as noted by the RBA at its May meeting, underlying inflation remains low. The central bank noted that underlying inflation is likely to remain weak for some time, as household spending is crimped by sluggish wage growth and soaring debt.

Despite the headline unemployment rate trending lower over the past year, underemployment—which measures the number of people working who would like more work—reached an all-time high in late 2016. This means there is more slack in the labor market than the unemployment rate would suggest, and this is driving down wage growth.

Household budgets are under further pressure from high debt levels. Record low interest rates spurred demand for credit, with the household debt-to-disposable income ratio nearing 190% at the end of 2016. In a speech this week, Governor Philip Lowe said that the increase in household debt relative to income makes the economy less resilient to shocks. Mortgage rates are already starting to rise, so we can expect household spending to remain subdued until wages pick up.

There are signs that Australia's frothy housing markets are reaching their peaks. The CoreLogic home value index for capital cities increased just 0.1% in April, up 11.2% y/y. The big surprise in the monthly data was flat price growth for Sydney, which lowered annual growth to 16% from 18.9% in March. Annual growth in Melbourne prices also moderated, but only mildly.

Rising mortgage rates and tighter lending requirements will weigh on demand in the coming years. Price growth in Sydney and Melbourne is expected to slow in 2017 before dipping slightly in 2018, according to the CoreLogic-Moody's Analytics home value index forecast. Sydney apartments are also expected to experience a slowdown in growth as supply comes on line.

The AI Group's performance indicators for the manufacturing, services and construction industries all strengthened in April. This marks two consecutive months that the service industry has been expanding after a dip in February, and a strong seven-month streak for manufacturing expansion. Construction is also on a run, above the neutral 50 mark for three months in a row.

Manufacturing conditions stormed ahead in April, reaching the second highest level in seven years. The performance index increased 1.7 points to 59.2. All major sub-indexes continued to expand, with production and employment accelerating over the month. Despite a dip in new orders, the sub-index was 61.5 which is well above the neutral 50 mark that separates expansion from contraction. Rising agriculture and commodity prices are supporting conditions in these sectors, although Cyclone Debbie has dampened activity in Queensland and New South Wales

Australia's construction industry expanded at a stronger pace in April, although activity was mixed across the sectors. The headline performance index ticked up 0.7 point to 51.9. Apartments and engineering activity picked up over the month such that these subsectors returned to expansion. Meanwhile, the housing and commercial sectors declined. Housing still remains in expansion territory, although it now lags apartments and engineering. New orders strengthened in April, which is a promising sign for future construction activity.

The performance of services index rose 1.3 points to 53 in April, the highest level in three months. Sales and new orders accelerated over the month, but there was some weakness in employment. The property and business services sector strengthened over the month, while the employment heavy retail trade and health services shrank. Wage prices accelerated over the month, but subdued demand has kept a lid on selling prices.

Ratings Round-Up

By Njundu Sanneh

Rating Changes and Moody's Monthly Default Report

The weekly rating changes have swung back to upgrades slightly besting downgrades after downgrades prevailed the week earlier. Upgrades accounted for seven of the 13 rating changes in the US while the list was evenly split at two apiece for Europe. The upgrade column was boosted by consumer/business services and utilities, while retail and diversified tech are among the downgrades.

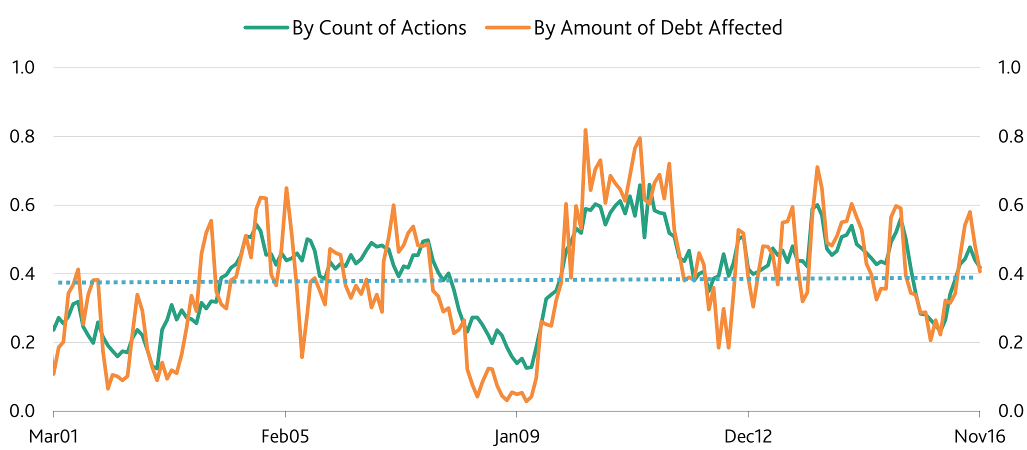
Traditional retail outfits continue to be under the most pressure in the US, as evidenced by the high incidence of adverse rating changes over the past few months. According to the just released Moody's April Monthly Default Report, 14% of the retail sector is in distress.

According to the Default Report, the one year global speculative grade default rate is expected fall to 2.6% by December from 3.6% at present. The bulk of the 29 defaults through April are still from the commodity sector, though down by nearly half from the 57 at the same point last year. Expectations are that gains in energy prices and cost cutting will ease the sector's default rate further in 2017.

In Europe rating changes were scant, divided equally between upgrades and downgrades, and spread across several countries. The Default Report projects that the advertising, printing, and publishing sectors are the most challenged, followed by the retail sector.

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
5/3/17	AVON PRODUCTS, INC.	Industrial	SrUnsec/LTCFR/PDR	1,398	D	B1	B3					SG
5/3/17	INTERNATIONAL BUSINESS MACHINES CORPORATION	Industrial	SrUnsec/LTIR	42,142	D	Aa3	A1					IG
5/4/17	CONFIE SEGUROS HOLDING II CO.	Financial	SrSec/BCF/LTCFR/PDR		D	B2	B3					SG
5/4/17	ONEMAIN HOLDINGS, INC.	Financial	SrUnsec/LTIR/LTCFR/Sub/JrSub/MTN/PS	8,068	U	B2	B1					SG
5/4/17	TENNECO INC.	Industrial	SrUnsec/LTCFR/PDR	725	U	Ba3	Ba2					SG
5/5/17	CONSOL ENERGY INC.	Industrial	SrUnsec/LTCFR/PDR	2,445	U	Caa1	B3	SGL-2	SGL-1			SG
5/5/17	HT INTERMEDIATE HOLDINGS CORP. - Hot Topic, Inc.	Industrial	SrSec	680	D	B1	B2			LGD-3	LGD-4	SG
5/8/17	EMERALD EXPOSITIONS HOLDING, INC.	Industrial	LTCFR/PDR		U	B2	B1					SG
5/8/17	TOWN SPORTS INTERNATIONAL HOLDINGS, INC. - Town Sports International, LLC	Industrial	SrSecBCF		U	Caa2	Caa1					SG
5/9/17	FIRSTENERGY CORP. - American Transmission Systems, Incorporated	Utility	SrUnsec	1,800	U	Baa2	Baa1					IG
5/9/17	HERTZ CORPORATION (THE)	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	4,735	D	B2	B3					SG
5/9/17	IBERDROLA S.A. - Rochester Gas & Electric Corporation	Utility	SrSec/LTIR	484	U	A2	A1					IG
5/9/17	NATIONAL CINEMEDIA, LLC	Industrial	SrUnsec/SrSec/LTCFR/PDR/BCF	650	D	B2	B3					SG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

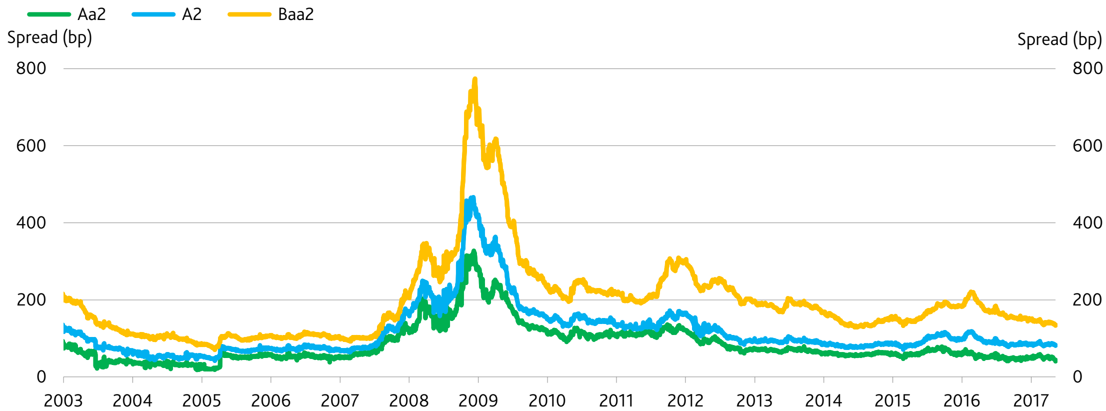
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
5/2/17	JH-HOLDING GMBH - Progroup AG	Industrial	SrSec	621	D	Ba2	Ba3	SG	GERMANY
5/2/17	CRH PLC	Industrial	SrUnsec/LTIR/MTN	8,000	U	Baa2	Baa1	IG	IRELAND
5/2/17	COGNITA BONDCO PARENT LIMITED	Industrial	SrSec/LTCFR/PDR	420	D	B2	B3	SG	UNITED KINGDOM
5/2/17	STANDARD CHARTERED PLC	Financial	SrUnsec/LTIR/LTD/Sub/JunSub/MTN/PS	41,285	D	A1	A2	IG	UNITED KINGDOM

Source: Moody's

Market Data

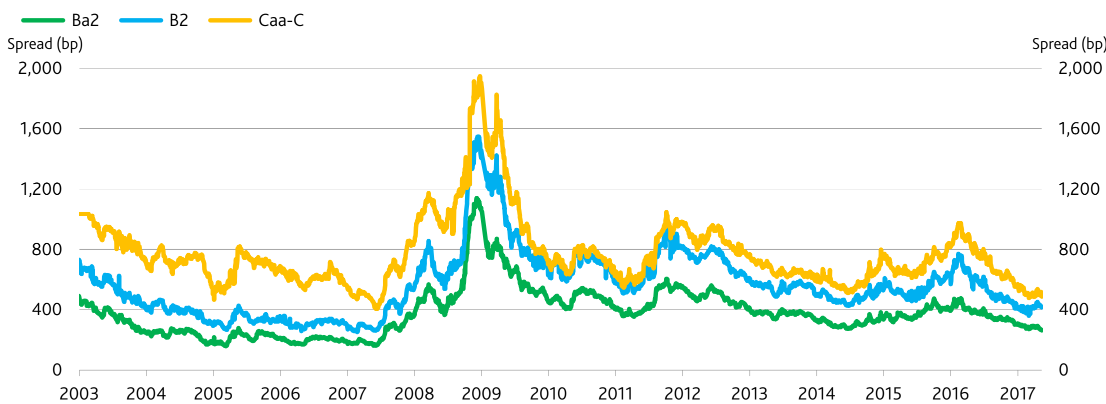
Spreads

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 3, 2017 – May 10, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 10	May. 3	Senior Ratings
Kate Spade & Company	Baa3	B2	B1
Newell Brands	A3	Baa2	Baa3
Clorox Company (The)	A3	Baa2	Baa1
Comcast Corporation	A2	A3	A3
American International Group, Inc.	Baa2	Baa3	Baa1
Berkshire Hathaway Inc.	A3	Baa1	Aa2
Dow Chemical Company (The)	Baa1	Baa2	Baa2
Univision Communications, Inc.	B2	B3	Caa1
E.I. du Pont de Nemours and Company	A2	A3	A3
Xerox Corporation	Ba1	Ba2	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 10	May. 3	Senior Ratings
Coca-Cola Company (The)	A1	Aa3	Aa3
Johnson & Johnson	Aa2	Aa1	Aaa
Bank of New York Mellon Corporation (The)	Baa1	A3	A1
United Technologies Corporation	A1	Aa3	A3
Burlington Northern Santa Fe, LLC	Aa2	Aa1	A3
CBS Corporation	Baa2	Baa1	Baa2
Sprint Communications, Inc.	B3	B2	B1
Frontier Communications Corporation	Ca	Caa3	B1
Viacom Inc.	Ba1	Baa3	Baa3
Dish DBS Corporation	B3	B2	Ba3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 10	May. 3	Spread Diff
GenOn Energy, Inc.	Caa3	2,292	2,048	244
Frontier Communications Corporation	B1	927	788	138
Hertz Corporation (The)	B3	984	851	133
Windstream Services, LLC	B2	737	613	124
McClatchy Company (The)	Caa2	806	691	115
Avon Products, Inc.	B3	638	536	102
Calpine Corporation	B2	419	363	56
Neiman Marcus Group LTD LLC	Caa3	1,501	1,447	54
Sears Roebuck Acceptance Corp.	Caa3	3,446	3,399	48
Sears Holdings Corp.	Caa3	3,319	3,273	46

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 10	May. 3	Spread Diff
Kate Spade & Company	B1	89	225	-135
Beazer Homes USA, Inc.	B3	333	380	-46
Springleaf Finance Corporation	B2	370	405	-35
American Airlines Group Inc.	B1	270	295	-25
Pitney Bowes Inc.	Baa3	160	182	-22
Penney (J.C.) Corporation, Inc.	B3	688	705	-17
Univision Communications, Inc.	Caa1	264	279	-16
American Axle & Manufacturing, Inc.	B2	350	367	-16
iStar Inc.	B2	302	318	-16
SUPERVALU Inc.	B3	487	502	-16

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (May 3, 2017 – May 10, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 10	May. 3	Senior Ratings
Alliance & Leicester plc	A2	Baa1	A3
France, Government of	Aa3	A1	Aa2
Societe Generale	A3	Baa1	A2
BNP Paribas	A3	Baa1	A1
Abbey National Treasury Services plc	Baa1	Baa2	Aa3
Banco Bilbao Vizcaya Argentaria, S.A.	Baa2	Baa3	Baa1
Portugal, Government of	B1	B2	Ba1
Santander UK PLC	Baa1	Baa2	A3
UniCredit S.p.A.	Ba1	Ba2	Baa1
Bayerische Landesbank	A2	A3	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 10	May. 3	Senior Ratings
Austria, Government of	Aa3	Aa2	Aa1
Finland, Government of	Baa1	A3	Aa1
Landesbank Hessen-Thueringen GZ	Baa2	Baa1	A1
Total S.A.	A2	A1	A1
Statoil ASA	A1	Aa3	Aa3
Unione di Banche Italiane S.p.A.	B1	Ba3	Baa3
Swedish Export Credit Corporation	Aa2	Aa1	Aa1
Centrica plc	Baa3	Baa2	Baa1
Norway, Government of	Aa2	Aa1	Aaa
Sky plc	Baa1	A3	Baa2

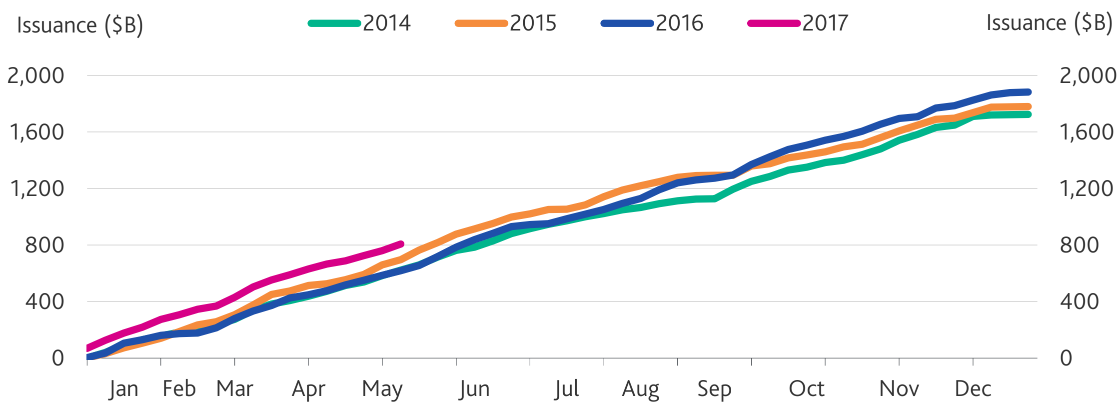
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 10	May. 3	Spread Diff
Sappi Papier Holding GmbH	Ba2	357	267	90
Stena AB	B3	604	579	25
ArcelorMittal	Ba1	254	232	22
Evraz Group S.A.	B1	311	290	21
Caixa Geral de Depositos, S.A.	B1	307	293	13
Anglo American plc	Ba2	184	170	13
Ensco plc	B2	507	494	13
thyssenkrupp AG	Ba2	148	139	9
Dexia Credit Local	Baa3	154	146	8
Banco BPI S.A.	Ba3	264	256	8

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 10	May. 3	Spread Diff
Norske Skogindustrier ASA	Caa3	9,709	10,499	-790
Matalan Finance plc	Caa2	1,189	1,266	-77
Greece, Government of	Caa3	619	675	-56
Care UK Health & Social Care PLC	Caa1	481	536	-55
Astaldi S.p.A.	B3	693	725	-33
Selecta Group B.V.	Caa2	491	521	-29
Telecom Italia S.p.A.	Ba1	159	185	-26
Banco Comercial Portugues, S.A.	B1	346	369	-23
Portugal, Government of	Ba1	203	218	-16
Pearson plc	Baa2	94	110	-15

Source: Moody's, CMA

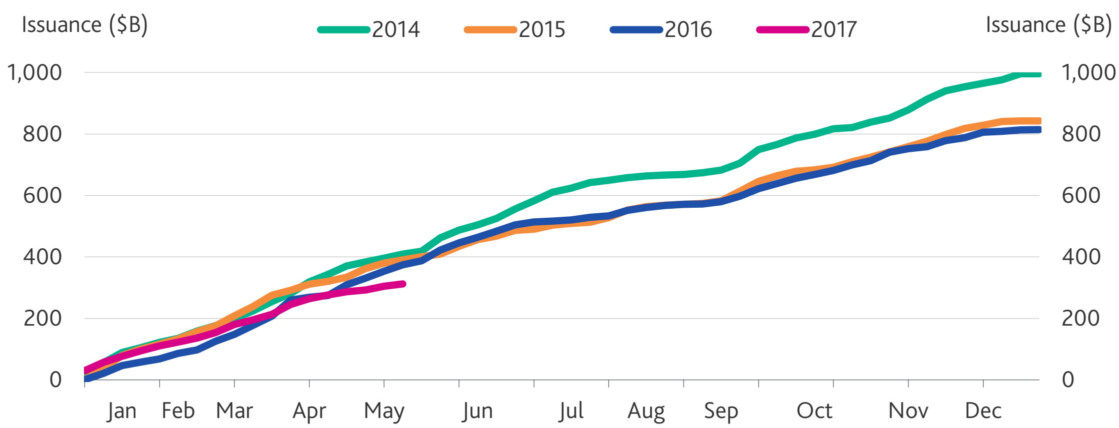
Issuance

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	39.707	5.325	45.965
Year-to-Date	582.146	164.430	806.378

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	5.565	1.190	6.964
Year-to-Date	263.652	36.661	312.018

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

Moody's Capital Markets Research *recent publications*

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

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

VIEWPOINTS: Estimating US Credit Risk Under the Fed's CCAR 2017 Severely Adverse Scenario

Sovereign Risk Report: Optimistic Forecasts by ECB and BOJ; Global Sovereign Credit Risk Lower

Treasury Yields May Fall Short of Consensus Views (Capital Markets Research)

Sovereign Risk Report: France's Market-Based Sovereign Risk Remained Elevated Ahead of Election

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Credit Cycle Enjoys a Respite (Capital Markets Research)

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