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WEEKLY MARKET OUTLOOK

Overvalued Equities Boost Credit Ratings

Moody's Capital Markets Research

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Credit Markets Review and Outlook *by John Lonski*

Overvalued Equities Boost Credit Ratings.

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The Week Ahead

We preview economic reports and forecasts from the US, UK/Europe, and Asia/Pacific regions.

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The Long View

Check our chart here for forecast summaries of key credit market metrics. Full updated stories, "The year-over-year growth of US$ high-yield bond issuance is expected to slow from H1-2017's 45% to H2-2017's 5%," begin on page 15.

Credit Spreads	Investment Grade: Year-end 2017 spread to exceed its recent 117 bp. High Yield: After recent spread of 379 bp, it may approximate 425 bp by year-end 2017.
Defaults	US HY default rate: Compared to May 2017's 3.9%, Moody's Credit Policy Group forecasts the US trailing 12-month high-yield default rate to average 2.7% during the three-months-ended May 2018.
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 2.8% to a new zenith of $1.451 trillion, while US$-priced high-yield bond issuance may increase by 21.4% to $414 billion, which lags 2014's $435 billion record high.

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Ratings Round-Up *by Njundu Sanneh*

Downgrades Predominate in US; Europe Quiet.

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Market Data

Credit spreads, CDS movers, issuance.

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Credit Markets Review and Outlook

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

Overvalued Equities Boost Credit Ratings

Relatively narrow corporate bond yield spreads reflect confidence in the business outlook for 2017's second half. Apparently, corporate credit expects profits growth will be sufficient to avoid a worsening outlook for defaults.

Moreover, the corporate bond market believes that any forthcoming shrinkage of central bank balance sheets will not drive benchmark government bond yields up to levels that will adversely affect either systemic liquidity or business activity. In view of first-half 2017's -2.1% year-over-year dip by the US unit sales of light motor vehicles, the Fed cannot afford to allow the 10-year Treasury yield climb up to a level that suppresses home sales.

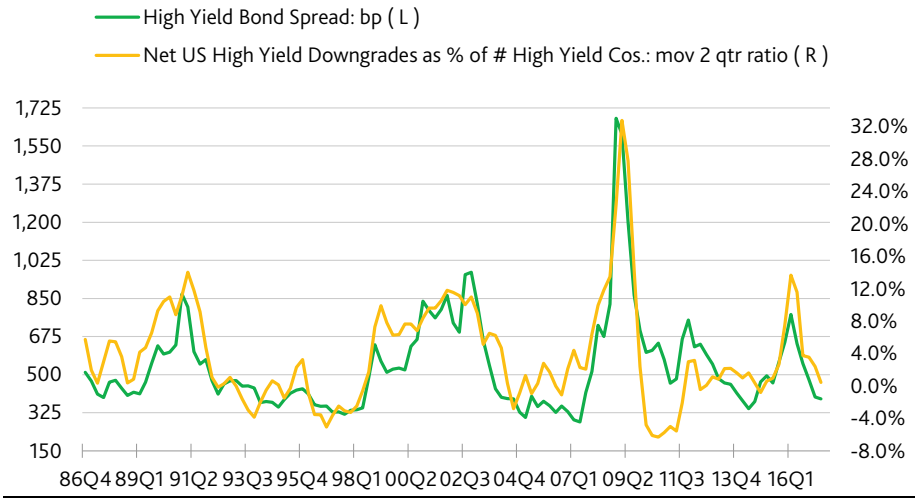
For now, June's 7.4% year-over-year increase by homebuyer mortgage applications bodes well for near-term home sales. However, the recent 2.38% 10-year Treasury yield was up noticeably from June 2017's 2.19% average.

Overvaluation rises at lower credit ratings

espec Lately, overvaluation has been skewed toward riskier corporate bonds. As a result, lower grade bonds are ially vulnerable to price declines once systemic liquidity tightens and default expectations rise.

The discount of corporate bond yield spreads to their respective long-term medians now deepens as corporate ratings descend. Moody's recent long-term single-A industrial bond yield spread of 111 bp hardly differed from its long-term median of 113 bp. Moreover, 52.5% of the single-A industrial spread's month-long averages since year-end 1987 topped 111 bp. The recent Baa industrial company bond yield spread of 159 bp was significantly under its long-term median of 174 bp and was exceeded by 66.3% of its month-long averages since 1987. Finally, early July's high-yield spread of 379 bp was nearly 100 bp thinner than its long-term median of 478 bp and was surpassed by 78.0% of its month-long averages since 1987.

Figure 1: High-Yield Spread Now Prices In More High-Yield Upgrades than Downgrades for 2017's Second-Half (*correlation = 0.80*)



High-yield spread is priced for more upgrades than downgrades

When expressed as a percent of the number of high-yield issuers, the moving two quarter sum of net high-yield downgrades generates a meaningful correlation of 0.80 with the quarter-long average of the high-yield bond spread. (Net downgrades equal the difference between the number of downgrades less upgrades.) Recently, net high-yield downgrades sank from 13.7% of high-yield issuers as of the six-months-ended March 2016 to the 0.5% as of the six-months-ended June 2017.

Credit Markets Review and Outlook

In response, the high-yield bond spread narrowed from Q1-2016's near eight-year high of 776 bp to Q2-2017's 389 bp. However, the statistical record suggests such a thin spread requires a net downgrade ratio of -1.8% (where the negative sign implies fewer downgrades than upgrades).

Apparently, the high-yield market has effectively priced in more high-yield upgrades than downgrades even though the recent trend suggests otherwise. For example, when limiting high-yield rating changes to those primarily driven by fundamentals, upgrades' share of credit rating revisions fell from Q1-2017's 48% to Q2-2017's 43%. The current narrowness of high-yield spread owes much to expectations that run counter to recent trends. (Figure 1.)

High-yield upgrades dip under downgrades in Q2-2017

Upgrades' share of the overall count of US high-yield credit rating changes dipped from Q1-2017's 52% to Q2-2017's 46%. Nevertheless, upgrades' share of high-yield rating changes improved considerably from H1-2016's 28% and H2-2016's 40% to the 49% of 2017's first half. The latter was the best such performance since the 53% of 2014's second half, or when the accompanying averages were 421 bp for the high-yield bond spread and 2.47% for the average high-yield expected default frequency (EDF) metric, and 0.26% for the median high-yield EDF metric.

Surprisingly, first-half 2017 showed a thinner 393 bp average for the high-yield spread notwithstanding H1-2017's lower upgrade ratio of 49%, but also in spite of H1-2017's higher average and median speculative-grade EDF metrics of 3.75% and 0.45%, respectively.

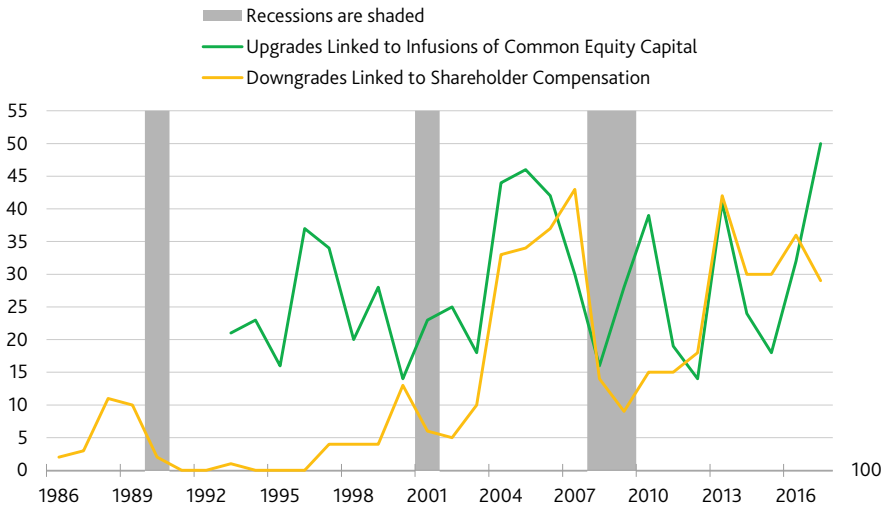
Perhaps the boost to systemic liquidity stemming from a broadly based equity rally and an extraordinarily low VIX index best explains why the average spread of H1-2017 was thinner than that of H2-2014. For example, the VIX index's 11.6-point average of 2017's first-half was less than its 14.5-point average of 2014's second half. Liquidity will be ample whenever the market is not only willing to pay dearly for a broad array of business assets, but when the market also shows above-average confidence in the near-term avoidance of a deep sell-off of equities.

Year-ended June 2017 sees near record number of equity infusion upgrades

The equity market's positive influence on high-yield credit quality could be discerned from a jump in the number of upgrades stemming from infusions of common equity capital and the reduction in downgrades attributed to shareholder compensation. Infusions of common equity capital include initial and secondary offerings of common stock, as well as private equity investment. Shareholder compensation can take the form of dividends and equity buybacks.

First-half 2017's 25 high-yield upgrades that were linked to infusions of common-equity capital matched the 25 of 2016's second half. Moreover, the 50 high-yield upgrades of the year-ended June 2017 that were ascribed to infusions of common equity capital were second only to the record 51 of the year-ended June 2005.

Figure 2: Latest Surge by Equity-Infusion Upgrades and Drop by Shareholder-Compensation Dwongrades Imply Ample Liquidity Helps Extend the Upturn *US high-yield rating revisions, moving yearlong count*



Shareholder-compensation downgrades sink

Richly-priced shares may have reduced the incentive to enhance equity returns via leveraging. Not only did high-yield's number of equity-infusion upgrades increase from the 14 of the 12-months-ended June 2016 to the 50 of the 12-months-ended June 2017, but the number of high-yield downgrades at least partly ascribed to shareholder compensation also fell from 42 to 29, respectively. Thus, for US high-yield credit rating revisions, net equity infusion upgrades, or the difference between equity infusion upgrades less shareholder compensation downgrades, increased from the record low -28 of the year-ended June 2016 to the +21 of the year-ended June 2017. The previous record low was the -16 of the year-ended March 2007, while spec-grade's record high for net equity infusions remains the +37 of yearlong 1996. In fact, during 1993-1999, net equity infusions averaged +24 per annum. (Figure 2.)

The much improved performance of the US equity market explains why equity capital went from being a drag on high-yield credit quality during the year-ended June 2016 to being a net benefit to such credit quality for the year-ended June 2017.

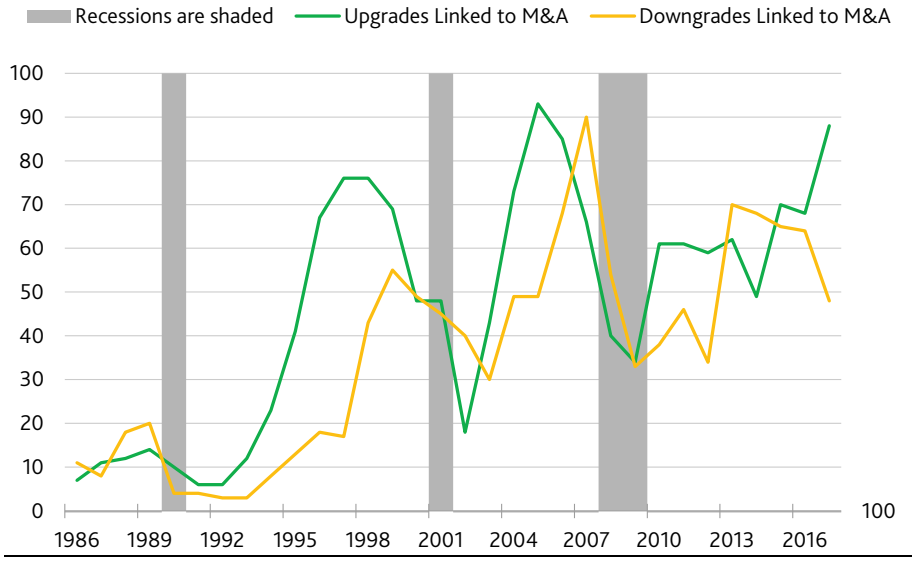
June 2016's market value of US common stock fell by -2.9% year-to-year. Moreover, during the 12-months-ended June 2016, the VIX index averaged 18.2 points. By contrast, June 2017's market value of US common stock advanced by +17.4% year-to-year. In addition, the VIX index averaged an exceptionally low 12.6 points during the 12-months-ended June 2017.

M&A switches from being a net detriment to a net benefit for high-yield rating changes

For Q2-2017, mergers, acquisitions and divestitures (M&A) figured in 26 of the US's high-yield upgrades and in only 13 of its downgrades. Regarding the high-yield rating revisions of 2017's first half, M&A entered into 47 upgrades and 20 downgrades, which left the totals for the year-ended June 2017 at 88 upgrades and 48 downgrades. In striking contrast, M&A was mentioned in 48 high-yield upgrades and 79 high-yield downgrades during the year-ended June 2016.

Never before have M&A-linked revisions of high-yield ratings moved in a similar fashion more than seven years into a business cycle upturn. For the year-ended June 2017, the number of M&A-linked upgrades soared higher by 83% year-over-year, while comparable downgrades plunged by -39%. Perhaps the exceptional thinness of high-yield spreads owes something to the benefits now flowing to credit quality via M&A. The jump in M&A-driven upgrades reflects the positive impact of earlier M&A, as well as the enhancement of corporate finances through M&A. In summary, companies may be heeding the modest outlook for business activity by avoiding the purposeful diminution of credit quality. (Figure 3.)

Figure 3: M&A-Linked High-Yield Rating Changes Show an 83% Jump by Upgrades and a -39% Plunge by Downgrades *moving yearlong count*



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, July 7: Our call for a December rate hike has greater uncertainty than our expectation for the announcement on the balance sheet to be made in September. The inflation data have underwhelmed, and though Fed Chair Janet Yellen appears to be looking through it, others on the Fed are increasingly concerned. The Fed isn't misguided, in that some transitory factors have weighed on inflation over the past few months. Still, even after adjusting for these temporary weights, growth in core inflation remains weak. However, this may not deter the Fed. Policymakers are wedded to the Phillips curve, and if the labor market continues to tighten and financial market conditions remain overwhelmingly supportive for growth, the Fed will opt to remain on the offensive. But it needs to be careful not to lose sight of the lack of inflation or this tightening cycle will veer off course. The June employment report should fan the debate about the relationship between unemployment and inflation.

Therefore, the focus in the coming week will be on inflation and Yellen's testimony before Congress. We look for the CPI to have been unchanged in June as energy prices were likely a drag. The core CPI will likely rise 0.2% but year-over-year growth will remain below the Fed's objective.

Elsewhere, we look for retail sales to have risen 0.1% in June. Excluding autos, retail sales are expected to have gained 0.2%. Industrial production will post a modest gain in June, but the road ahead is bumpy.

Yellen's testimony will likely toe the Federal Open Market Committee line but lean a little hawkish. She is likely in the camp favoring a reduction in the balance sheet soon. The Fed released its Monetary Policy Report ahead of Yellen's congressional testimony next week and it noted that valuation pressures across a range of assets have increased over the past few months.

MONDAY, JULY 10

Business confidence (week ending July 7; 10:00 a.m. EDT)

Forecast: N/A
Global business confidence remains strong and remarkably stable, as it has been since before last year's U.S. presidential election. Responses to all nine questions in the survey are upbeat. Sentiment is consistent with buoyant global financial markets that have exhibited extraordinarily low volatility in recent months, and with a global economy that is expanding above its potential.

While business confidence is very good, it remains well off of its record highs achieved in spring 2015. Moreover, our survey results are not as strong as various other surveys of business and consumer confidence, which have strengthened sharply 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 fell from 33.6 to 32.8 in the week ended June 30.

TUESDAY, JULY 11

No major economic releases are scheduled.

WEDNESDAY, JULY 12

NFIB small business survey (June; 6:00 a.m. EDT)

Forecast: 104Small-business confidence didn't budge in May and remains high, but our expectation for the economy's near-term prospects hasn't appreciably changed. The NFIB small business index remained at 104.5 in May, only a touch below its first quarter average of 105.3 but well above that seen prior to the U.S. presidential election and the 95.3 average in 2016. Though small businesses remain optimistic, it doesn't justify a change to our forecast. One reason we put more stock in what businesses do rather than say is that some surveys, including the NFIB, can lean politically in one direction. Respondents to the NFIB survey tend to favor Republicans, which isn't surprising since Republicans, more than Democrats, tend to be more pro-business.

We look for a small decline in the NFIB index in June, falling from 104.5 to 104. Already-released data by the NFIB show small businesses reduced their hiring plans. The net percent of respondents raising compensation also fell 4 percentage points to 24% in June. Compensation plans were unchanged between May and June, which is surprising given that finding qualified workers is a significant problem for small firms.

THURSDAY, JULY 13

Jobless claims (week ending July 1; 8:30 a.m. EDT)

Forecast: 243,000

We look for initial claims to have fallen by 5,000 to 243,000 in the week ending July 8 but the four-week moving average will still tick higher. While they are among our favorite indicators, we put less stock in initial claims this time of year because of seasonal adjustment issues around both the annual auto retooling and July Fourth holiday. For example, the Department of Labor estimated initial claims for six states along with Puerto Rico in the week ended July 1. Therefore, there could be larger than normal revisions to the prior week, though the direction of the revision is unclear. Anecdotes suggest that the auto retooling started earlier than normal for some manufacturers, but that's not visible in the state-level claims data. Still, we anticipate that temporary layoffs because of the annual retooling will boost new filings but perhaps not in the week ending July 8. Because of the shutdowns and July Fourth, initial claims will be less reliable until August.

FRIDAY, JULY 14

CPI (June; 8:30 a.m. EDT)

Forecast: 0% (headline) Forecast: 0.2% (core)

The consumer price index is forecast to have been unchanged in June following a 0.1% decline in May and a 0.2% increase in April. The Fed can shrug off a poor month of inflation, but a trend is beginning to emerge. The CPI will have been unchanged, on average, over the past three months and up 0.1% per month since the beginning of the year.

Oil and gasoline prices fell in June and we believe this will be a drag on the headline CPI. Food prices have firmed recently and we look for a trend-like 0.2% gain in June. The core CPI, which excludes food and energy, is expected to have risen 0.2% in June. Within core, we anticipate trend-like gains in rents. New-vehicle prices were likely unchanged while used-car prices inched higher. Medical care prices have been running soft, but we look for a modest gain in June.

Year-over-year growth in the headline CPI will have decelerated from 2.5% in January to 1.7% in June. This is a notable. Through May, a good chunk of the deceleration was in year-over-year transportation. Also, communication prices have been a drag. Telephone services prices have fallen sharply because of new cellular deals. This drag on core inflation won't be persistent. Medical care prices have also been less supportive and may be attributed to new generic drug launches.

Not all of the drags will lift quickly. For example, rents and owner equivalent rent growth could moderate and would be an issue, since rent has provided an outside contribution to year-over-year growth in the CPI. Rents are a sizable and sticky component of the CPI. Considering the rental vacancy rate has likely bottomed and additional supply will hit the rental market, rent growth may weaken.

There have been temporary supports to inflation. For example, tobacco and smoking product prices were up 4.2% between March and April, the largest gain since 2009. Prices were little changed in May.

Tobacco prices were boosted by the increase in taxes in California—a onetime lift. But tobacco and smoking products have added several basis points to year-over-year growth in the CPI.

We expect the core CPI to have risen 1.8% on a year-ago basis in June.

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

Forecast: 0.1% (total)
Forecast: 0.2% (ex autos)
We look for nominal retail sales to have risen 0.1% in June, reversing some of May's 0.3% decline. Unit vehicle sales fell 0.9% in June and this, coupled with aggressive discounting, is expected to hurt nominal spending at automobile and other motor vehicle dealers. Autos are forecast to shave 0.1 percentage point off total retail sales growth in June. We look for better results in the other main categories, save for gasoline. Control retail sales, or total excluding autos, gasoline, building materials and restaurants, are expected to have risen 0.3% in June. Control retail sales were soft in May and we believe some modest payback is due. Retail gasoline prices fell in June, which we expect to shave 0.1 percentage point off total retail sales growth.

June retail sales will help us assess the trajectory of consumer spending heading into the third quarter. Control retail sales were up 2.3% annualized over the prior three months in May, noticeably weaker than that seen at the beginning of the year.

Industrial production (June; 9:15 a.m. EDT)

Forecast: 0.2% (total)
Industrial production was unchanged in May but we anticipate a slight improvement in June. In May, manufacturing output dropped 0.4% following a 1.1% gain in April and a 0.8% decline in March. Manufacturing will remain bumpy over the next few months; there are anecdotes that domestic manufacturers are lengthening the annual retooling process. We believe the retooling will be a bigger issue for manufacturing production in July. For June, the ISM manufacturing survey and hours worked from the employment report showed varying strength. Away from manufacturing, mining production likely increased in June as the sector still benefited from past gains in energy prices. Meanwhile, utilities should be an enormous factor in June, as weather was near seasonal norms. All told, we look for industrial production to have risen 0.2% in June.

University of Michigan Survey (July-prelim; 10:00 a.m. EDT)

Forecast: 94.7
The University of Michigan's consumer sentiment index is forecast to have slipped from 95.1 in June to 94.7 in July, according to the preliminary report. There is a clear bias for the preliminary estimate to decline in July, but we expect lower gasoline prices to limit the slide. The Michigan survey is sensitive to gasoline prices, and they continue to buck their normal seasonal pattern and consumers likely have noticed. The labor market is another positive, but it would provide a bigger boost if wage growth was accelerating. We expect the stock market to be a slight drag on sentiment. High-frequency measures of consumer confidence, including the weekly Bloomberg survey, also support a decline in the Michigan survey in early July. The key detail will be long-term inflation expectations, which remain low and there is the risk that they Fed could anchor them there.

EUROPE

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

Summary, July 6: The week ahead brings May's industrial production figures for the euro zone, which we expect to be outstanding. Individual country data released on Friday showed that factory growth in Germany, France and Spain all beat the consensus by far, corroborating our view that the area's economic momentum is likely to accelerate even further in the second quarter, following already-solid results for the three months to March. We expect growth was broad-based across sectors, but soaring production of capital and consumer goods probably drove the headline. Transport equipment likely stole the spotlight, but clothing production also should have rebounded, especially in France. French demand for apparel plunged in the first quarter because of aggressive summer discounting, and a correction likely took place in the three months to June. Elsewhere, food production should have increased sharply as warm weather boosted spending in restaurants and cafes, while energy production is expected to have risen slightly, though by less than in April.

Data for Italy are not available yet, but risks are tilted to the downside. Production in the euro zone's third biggest economy has faltered lately, and we expect it gained only 0.3% m/m in May. Italy's manufacturing PMI slid to 55.1 over the month, from April's 56.2 reading, mainly because of softer growth in consumer goods production. But 55.1 is still high by past standards, so we do not rule out the possibility that production in Italy will follow the indicators for the country's major peers and surprise on the upside in May as well.

In the U.K., all eyes will be on May's labour market figures to be released Wednesday. The report will likely bring the same developments as those observed over the past couple of months; growth in employment probably continued to pick up, while wages languished. This time, though, we are penciling in that employment increased sharply, in contrast with softer numbers for April. All leading surveys suggest that permanent staff placements grew at one of the fastest rates recorded over the past two years in May, while temporary employment also jumped. Similarly, we are also penciling in a further increase in vacancies, as candidate availability is expected to have declined in most sectors of the economy. The unemployment rate likely held steady at the record low of 4.6%, but risks are tilted to the upside and it could have fallen to 4.5%. Normally this should lead to stronger wage growth, but we are skeptical; in light of the Brexit uncertainty, firms are reluctant to hike wages. We expect wage growth held steady at 1.7% q/q excluding bonus pay in the three months to May.

FRIDAY, JULY 7

France: Industrial Production (May; 8:00 a.m. BST)

France's industrial production likely rebounded by 0.6% m/m in May, following a rather downbeat -0.5% reading in April. A strong mean-reversion in manufacturing output should have provided the main boost to the headline, notably in the transport and machinery sectors. But oil refining and energy production should also have continued to recover from first quarter weakness. The latter was hit by the warmer-than-average weather denting demand for heating at the start of the year, but temperatures have since normalized. The brightest spot should be construction output, which leading indicators suggest is on a strong upward trend, with production picking up in both the residential and nonresidential sectors. All survey data for May corroborate our optimism, notably the further increase in INSEE's new orders-to-inventories ratio.

Spain: Industrial Production (May; 8:05 a.m. BST)

We expect that industrial production was at 0.4% m/m in May after it faltered early this year: Production contracted in February and March and grew a mere 0.1% in April. While the first quarter was dragged down by the underperforming energy sector, we expect that the sector broadly recovered and will contribute to second quarter growth, as demand for the sector's output edged up at 3.8% y/y in the first two months of the quarter. Capacity utilization increased by 0.7 percentage point compared with the first quarter, an encouraging sign of expansion. The main driver of industrial production will remain the rebound in external demand. Nevertheless, the recent deterioration in industrial confidence indicates possible downward skews to our forecast.

Germany: Industrial Production (May; 9:00 a.m. BST)

German industrial production likely fell by 0.7% in May from April, when it rose by 0.8%. Still, in year-ago terms the rate of increase continued to be strong, accelerating to 3%. There has been gradual increase in demand for German products in the last couple of months. Although German manufacturing orders fell in April from the previous month, they jumped 3.3% from the same month last year, thanks mostly to the continuing strong expansion in foreign demand. The Markit manufacturing PMI jumped to a 73-month high of 59.5 in May from 58.2 in the previous month. Details of the survey showed that new orders rose at the fastest pace since April 2011. Demand increased from both domestic and foreign markets. However, the outlook remains clouded as expected U.S. protectionism and uncertainty caused by the Brexit negotiations could curb German manufacturing.

Italy: Retail Sales (May; 9:00 a.m. BST)

Although subdued wage growth and elevated hidden unemployment—underemployed part-time workers and people out of work but not counted in official statistics because they are not actively looking for work—are bad news for households, the bailout of Monte dei Paschi and two other Veneto banks should not hit their income. Progress in the banking sector together with subsiding political risks should boost household confidence and retail sales. Nevertheless, high frequency data are mixed. While Italy's consumer confidence improved in June, retail PMI signaled sharper contraction in coming months. We predict the retail sales rose by 0.1% m/m in May, following a 0.1% drop in the previous month

MONDAY, JULY 10

No major economic indicators are scheduled for release.

TUESDAY, JULY 11

Italy: Industrial Production (May; 9:00 a.m. BST)

Italy's industrial output likely reversed April's decline and expanded by 0.3% m/m in May. High-frequency indicators suggest the recovery in manufacturing picked up a bit. The manufacturing PMI rebounded to 55.2 in June from a three-month low of 55.1 in the previous month, rounding out the strongest quarterly performance in more than six years. Strengthening gains in output and new orders supported the overall number. Meanwhile, manufacturing confidence climbed to 107.3 in June from 106.9 in May. The strengthening euro zone and U.S. economies will boost Italy's exports, while ultra-loose monetary and fiscal policy should keep things on track this year. Progress in the banking sector together with subsiding political risks is benefiting the economy, though the appreciating euro is weighing on Italy's exports.

WEDNESDAY, JULY 12

U.K.: Unemployment (May; 9:30 a.m. BST)

The U.K.'s headline unemployment rate was likely unchanged at 4.6% in the three months to May, its lowest since records began in 1975. The number of employed is expected to increase and the number of unemployed to fall further, building on the strong gains over the past quarter. The number of vacancies remained elevated in May, while survey data pointed to strong labour market gains in the middle of the second quarter. They signaled further growth in permanent and temporary job placements, with the rate of growth picking up from the previous months; according to Markit, growth in permanent staff placements was the strongest in 25 months.

But wages should have at best remained steady, or even further eased, since firms are choosing to freeze salaries instead of laying off staff. On the bright side, Markit reported that growth in permanent starting salaries should soon start to rebound. But we still expect the outlook for wages to remain subdued, and for the outlook for jobs to soften somewhat in the second half of the year. The labour market responds with a lag to shocks in the economy, and anecdotal evidence shows

that firms are scaling back on hiring plans. With uncertainty surrounding Britain's exit from the EU, fewer businesses will likely see fit to launch new projects and step up hiring. We thus expect employment and self-employment to lose ground in 2017.

Euro Zone: Industrial Production (May; 10:00 a.m. BST)

Industrial production likely expanded an impressive 1.2% in May, building on an already-solid 0.5% increase in April. Individual country data released on Friday showed that factory growth in Germany, France and Spain all beat the consensus by far, following robust results for the three months to March. Industrial production added 1.2% m/m in Germany and an even stronger 1.9% in Spain, while numbers for Spain were also stellar. Data for Italy are not out yet, but we expect output increased there as well, though by a lesser extent than in its major peers.

Although we expect growth was broad-based, soaring production of capital and consumer goods likely drove the headline. Transport equipment probably stole the spotlight, but clothing production should have also rebounded, particularly in France. Demand for apparel in the country plunged in the first quarter because of aggressive summer discounting, and a correction is happening in the June quarter. Food production is also expected to have increased sharply, as the warm weather boosted spending in restaurants and cafes, while energy production likely increased as well, though by less than in April.

Russia: Foreign Trade (May; 2:00 p.m. BST)

Russia's trade balance remains historically low, although it has recovered some from its 2016 nadir. The trade balance will move higher throughout the year, but headwinds remain. A stronger ruble is encouraging imports and discouraging exports; a falling interest rate is improving spending power; healthier consumption trends are boosting demand for foreign goods; and low oil prices and production are hampering exports. Nonetheless, exports dropped 17% in April, an unsustainable amount. With exports returning to trend, we expect the trade balance to have risen modestly to $9 billion in May.

THURSDAY, JULY 13

France: Consumer Price Index (June; 7:45 a.m. BST)

France's annual harmonized inflation is expected to have moderated to 0.7% y/y as energy prices likely cooled and services inflation remained depressed. Subdued household income is hurting demand and also keeping prices low. In the context of slow wage growth, we see no significant price pressures in the medium term.

Spain: Consumer Price Index (June; 8:05 a.m. BST)

Headline consumer prices are expected to have risen 1.5% y/y in June. The number of registered unemployed dropped by a record 10.73% y/y over the month, which likely propped up domestic demand. However, consumption data are still alarming. The story told by retail sales and consumer goods imports reinforces the view of cooling inflation. Retail sales gained 3% y/y in May, down from the average of 3.6% in 2016, while imports of consumer goods contracted by 8.6% y/y. Going forward, the underlying weakness stemming from soft purchasing power of households will keep a lid on prices. Inflation will likely stay below the ECB's target before gradually accelerating in the medium term.

FRIDAY, JULY 14

Italy: Foreign Trade (May; 9:00 a.m. BST)

France's industrial production likely rebounded by 0.6% m/m in May following a rather downbeat -0.5% reading in April. A strong mean-reversion in manufacturing output should have provided the main boost to the headline, notably in the transport and machinery sectors. But oil refining and energy production should have also continued to recover from first quarter weakness. The latter was hit by the warmer than average weather denting demand for heating at the start of the year, but

temperatures have since normalized. The brightest spot should be construction output, which leading indicators suggest is on a strong upward trend, with production picking up in both the residential and nonresidential sectors. All survey data for May corroborate our optimism, especially the further increase in INSEE's new orders-to-inventories ratio.

ASIA-PACIFIC

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

China's June data dump will show the economy capped off the second quarter on a respectable note

China's June data dump will show the economy capped off the second quarter on a respectable note. China's trade activity continues to benefit from the global tech cycle and the domestic investment recovery. Purchasing managers' sentiment recovered in June, with manufacturers pointing to a stronger pipeline of export orders. Domestic demand remains robust and is driving strong gains in imports of crude oil, coal and iron ore.

China's consumer prices are steady, outside of food. The cooling housing market, especially in Tier 1 cities, will put downward pressure on inflation and enable the government to keep policy on hold for the remainder of the year. Upstream prices are cooling. Producer price inflation is decelerating on the back of fading commodity prices. Global raw materials prices have passed their cyclical peak.

Beijing's various financial market restrictions are causing money supply growth to cool. Yet credit growth remains elevated. Bank lending for mortgages continues to drive credit growth. The clampdown on housing activity in Tier 1 cities is spreading to lower-tier cities, and this is working to slow bank lending to the sector. Outside bank lending, credit growth in 'shadow' forms of financing such as entrusted lending continue to be monitored by the government and are hence growing relatively slowly.

Japan's manufacturing sector is looking upbeat. Machinery orders likely continued growing in June. The recent uptick in manufacturing stems from the continued production in the electronics sector, while the upcoming release of new-car models has kept the auto sector firm, too. Machinery orders lead business investment by six to eight months.

THURSDAY, JULY 6

Australia – Foreign Trade – May
Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: -A$300 million
We expect Australia's trade balance fell back into deficit at -A$300 million in May after posting a surplus of A$560 million in April. This would break the streak of six consecutive monthly trade surpluses. Commodity prices have come off the boil in recent months, which means that iron ore and coal will contribute less to growth in the value of exports. Import growth will likely slow as well, with consumption goods suppressed by the weakness in household spending.

FRIDAY, JULY 7

Malaysia – Foreign Trade – May
Time: 2:00 p.m. AEST (4:00 a.m. GMT)
Forecast: MYR6.9 billion

Malaysia's trade surplus likely narrowed in May to MYR6.9 billion from MYR8.8 billion in April. We expect annual export growth remained buoyant thanks to robust tech demand alongside higher palm oil shipments. Refined petroleum likely struggled on lower values after a poor performance in April due to lower volumes. We expect electronics shipments to cool in coming months, as the global tech cycle appears to have peaked and is gradually cooling.

Taiwan – Foreign Trade – June

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Forecast: US$3.67 billion
Taiwan's monthly trade surplus likely hit US$3.67 billion in June, slightly larger than the US$3.46 billion surplus in May. Forward-looking export orders suggest global tech demand remains robust and is cooling only gradually. Shipments of electronics and information and communication products, which include smartphones and tablet, are going strong ahead of product launches later in the year.

MONDAY, JULY 10

China – Monetary Aggregates – June

Time: Unknown
Forecast: 9.5%
Money supply growth in China is slowing, but credit growth remains elevated. Bank lending for mortgages continues to drive credit growth. The clampdown in housing activity in Tier 1 cities is spreading to lower-tier cities, and this is working to slow bank lending to the sector. Outside bank lending, credit growth in 'shadow' forms of financing such as entrusted lending continue to be monitored by the government and are hence growing relatively slowly.

Japan – Machinery Orders – May

Time: 9:50 a.m. AEST (Sunday 11:50 p.m. GMT)
Forecast: 0.4%
Japan's machinery orders likely expanded 0.4% m/m in May, up from a 3.1% decline in April. Machinery orders lead business investment by six to eight months, and they tend to be volatile. The recent uptick in manufacturing stems from the continued production in the electronics sector, while the upcoming release of new-car models has kept the auto sector firm, too.

China – Consumer Price Index – June

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 1.6%
Consumer price inflation in China has risen thanks to a recovery in food prices. Outside food, inflation pressures are steady and close to the government's target. The cooling housing market, especially in Tier 1 cities, will put downward pressure on inflation and enable the government to keep policy on hold for the remainder of the year.

China – Producer Price Index – June

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 5%
Producer price inflation is decelerating on the back of fading commodity prices. Global raw materials prices have passed their cyclical peak. The government's cooling measures on housing have also constrained a key source of demand, and likely caused producer price inflation to decelerate to around 5% y/y in June.

TUESDAY, JULY 11

Philippines – Industrial Production – May

Time: Unknown
Forecast: 7.8%

The Philippines' industrial production is expected to grow 7.8% y/y in May after rising 5.9% in April. The archipelago's manufacturers are receiving a boost from improved global demand, which is supporting the export-oriented electronics industry. But the main driver of manufacturing growth will continue to be domestic demand. Both private investment and consumption are rising rapidly thanks to favorable demographics and ample investment opportunities that will leave the Philippines as one of the fastest growing economies globally for the foreseeable future.

Australia – Housing Finance – May

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 0.3%
We look for Australian housing finance commitments to rise slightly—0.3%—in May after plummeting 1.9% in April. The expected rise is based on the assumption of some payback in finance commitments which have dropped for three consecutive months. Overall though, the trend remains weak, as stricter macroprudential regulations start to drag on borrowing conditions. The slack in the labour market will also impede housing finance in the near term.

WEDNESDAY, JULY 12

South Korea – Employment – June

Time: 9:00 a.m. AEST (Tuesday 11:00 p.m. GMT)
Forecast: 3.8%
South Korea's unemployment rate likely rose to 3.8% in June after a surprise 0.4-percentage point drop to 3.6% in May. The fall in May was driven by a decline in the economically active population, rather than improved labour demand. Domestic demand remains subdued in Korea but should start improving over the second half of the year, helped by strong global growth alongside generous spending programs from newly elected President Moon.

Malaysia – Industrial Production – May

Time: 2:00 p.m. AEST (4:00 a.m. GMT)
Forecast: 4%
Malaysian industrial production likely remained relatively subdued in May following the 4.1% y/y gain in April. Electronics likely remained the strong point because of sustained upbeat tech demand. Yet production was likely dampened by slower oil production, especially for crude. It's expected that sluggish global prices are crimping manufacturing, a situation that will persist into the second half of the year.

Japan – Industry Activity Indexes – May

Time: 2:30 p.m. AEST (4:30 AM GMT)
Forecast: 1.4%
Japan's industrial activity index likely rose 1.4% m/m in May after April's 1.2% rise. Month-to-month momentum in the services sector remains uneven, but year-ago increases have been consistent throughout the year. That said, gains in retail trade, which makes up most of the tertiary index, are up largely because of higher energy prices. The overall consumption trend remains weak in Japan, and slack wage growth will ensure this trend persists.

India – Consumer Price Index – June

Time: 10:00 p.m. AEST (12:00 p.m. GMT)
Forecast: 2.5%
India's consumer price inflation decelerated to a record low of 2.2% in May, and it will likely rebound only a little to 2.5% in June. Low food inflation, which accounts for half of the consumer price index, is causing headline inflation to recoil. Food inflation has also come down on the back of demonetisation, which caused various disruptions to food supply chains. This will likely rebound in coming months, so we expect inflation to rise more than 3%. That said, if monsoon rains are normal, then food prices will be capped. This will likely see the Reserve Bank of India cut rates by 25 basis points in the August monetary policy meeting.

India – Industrial Production – May

Time: 10:20 p.m. AEST (12:20 p.m. GMT)
Forecast: 2.2%
Factory production across India remains weak despite the 2.5% uptick in April. But for a large economy such as India's, production should be growing at double digits consistently. But it doesn't, and it's unlikely to do so because of various supply bottlenecks that crimp the economy. The introduction of the new goods and services tax could improve the supply bottlenecks, but that's unlikely until 2018.

THURSDAY, JULY 13

China – Foreign Trade – June

Time: Unknown
Forecast: US$43 billion
China's trade activity continues to benefit from the global tech cycle and the domestic investment recovery. Purchasing managers' sentiment recovered in June, with manufacturers pointing to a stronger pipeline of export orders. Domestic demand remains robust and is driving strong gains in crude oil, coal and iron ore imports. The trade surplus likely rose to US$43 billion in June from US$40.8 billion in May.

South Korea – Monetary Policy – July

Time: Unknown
Forecast: 1.25%
The Bank of Korea will keep the policy rate unchanged at 1.25% following its July policy meeting. The central bank is in no hurry to raise rates with core inflation only gradually creeping higher amid expectations of improving domestic demand. In May, core inflation held steady at 1.4% y/y, far from the central bank's 2% target for 2017. We expect interest rate normalization will begin from early 2018. It will occur gradually as elevated household debt will put undue pressure on budgets that could have broader adverse consequences with higher debt servicing costs.

FRIDAY, JULY 14

Singapore – GDP - Advanced – 2017Q2

Time: Unknown
Forecast: 3.2%
We look for the advance estimate of Singapore's second quarter GDP figures to show the city-state's economy grew 3.2% y/y, improving on the 2.7% result in the three months to March. The export-oriented economy has benefited in 2017 from the widespread improvement in global demand. This has supported manufacturing and service activity in Singapore. There are also signs of improvement in construction after a long spell of weakness resulting from the persistent falls in house prices. Though construction may not be a positive for the economy in the three months to June, it will cease being a large drag.

India – Wholesale Price Index – June

Time: 4:45 p.m. AEST (6:45 a.m. GMT)
Forecast: 1.8%
India's wholesale prices likely decelerated to 1.8% in June after a 2.2% rise in May. India's disinflation across consumer and wholesale prices means that the odds of rate cuts remain high. Food prices are declining as a result of the good monsoon season last year. Stockpiles also rose after demonetisation, which disrupted food supply chains because vendors were unable to offload their goods.

The Long View

The US: The year-over-year growth of US$ high-yield bond issuance is expected to slow from H1-2017's 45% to H2-2017's 5%

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
July 6, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 117 bp is under 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 379 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, 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 May's 3.9%. Moody's credit policy group expects a 2.8% average for the default rate of 2018's first quarter. A deeper slide to its 1.85% average of the 18-months-ended June 2015 is unlikely for now.

US CORPORATE BOND ISSUANCE

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

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

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

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

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

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

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$-denominated offerings advanced by +17.1% for IG and by +98.3% for high yield.
Second-quarter 2017's worldwide offerings of corporate bonds showed an annual percent decline of -7.8% for IG and an increase of +7.3% for high-yield, wherein US$-denominated offerings fell by -7.1% for IG and grew by +5.3% 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 rise by 2.6% annually for IG and may advance by 23.3% for high yield.

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

US ECONOMIC OUTLOOK

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

EUROPE

By Tomas Holinka of Moody's Analytics
June 29, 2017

Eurozone

The euro zone recorded its fastest growth rate in two years in the March quarter. The real GDP expanded by 0.6% q/q in the first quarter, stronger than preliminary estimates and the December stanza's 0.5% pace. High-frequency indicators suggest this buoyant pace will persist through the June quarter. Although the area's composite PMI fell to 56.3 in June from six-year high of 56.8 in the previous month, the euro zone businesses enjoyed the best quarter for six years. This is consistent with growth picking up further in the second quarter, to around 0.6% to 0.7%. The impressive momentum is being supported mainly by a stellar manufacturing performance. The euro zone's manufacturing PMI soared to a six-year high of 57.4 in June, from 57 in May. Gains were broad-based across countries, but jumps in France and Italy were most welcome. Soaring new orders helped push job growth to an impressive 20-year high. The results bode well for euro zone factory growth in the second and third quarters, and we see no signs that this impressive performance will end anytime soon.

Meanwhile, the euro zone's unemployment rate remained steady at an eight-year low of 9.3% in May. Gains were recorded in all countries but France and Italy; the largest came from Spain, whose jobless rate fell to 17.7%, from 17.8%. May's figures are another sign that the euro zone's labour market is on a roll and is likely to gain further momentum in coming months. Nevertheless, the jobless rate would be higher if discouraged and underemployed part-time workers were added. Labour may thus be far more underutilized than the recent unemployment rate would suggest, and this larger labour market slack is keeping a lid on wage growth. The softer wage rise has undermined demand-led inflation, and with a higher true unemployment rate and more labour slack tamping down wage growth, core inflation could continue to surprise on the downside.

Ultra-loose monetary policy and mildly stimulative fiscal policy should also support the rebound in investment, which remains below the pre-crisis level as firms expect demand to stay soft. After slightly less restrictive fiscal policy in 2016, government stimulus will likely boost most euro zone economies this year. While fiscal stimulus to GDP will jump in Germany, France and Italy, fiscal policy will subtract from the expansion in Spain, the Netherlands and Portugal, though less so than in 2016. Although the euro zone's outlook remains upbeat, weaker performance in the U.K. may drag on growth.

The lack of underlying inflation pressure complicates monetary policy, since it restrains the European Central Bank from quickly normalizing interest rates and winding down its asset purchases. In June monetary policy meeting, the ECB took a small but symbolically important step toward changing its

policy stance, taking future rate cuts off the table for now. The ECB noted that policy rates would remain at present levels for an extended period and well past the horizon of quantitative easing. This is a small change from past forward guidance that said rates would remain at present or lower levels. There remains a bias for extending QE, as the central bank sees this rather than interest rates as their preferred tool to boost inflation. There is plenty of work to be done on the inflation front and we believe the central bank should proceed cautiously as many developed central banks have found it difficult to get inflation to their targets. Before the ECB starts normalizing its monetary policy, it needs to see that wages and core inflation are trending upward. The ECB's June press conference kept mum on the lack of pass-through from oil prices to core inflation, and on the weak relationship between the euro and inflation. But the ECB did hone in on the labour market, a sign that central bankers realize just how important it is to price pressures. Our baseline is that the ECB should turn slightly more hawkish later this year, likely announcing its plans for tapering its asset purchases in September but continuing its bond-buying program until at least June 2018. Normalizing the deposit rate should start by the middle of next year, while the repo rate should remain at its current settings at least until the second quarter of 2019.

UK

After a mere 0.2% q/q growth in the first quarter, the U.K. economy's growth likely remained weak in the three months to June. High-frequency data for manufacturing shows the story in the U.K. was even more dire than expected. The country's PMI plunged to a three-month low of 54.3, from 56.3 in May, exceeding the consensus. The dismal reading challenges both markets and the Bank of England's views that the lower pound would have boosted British factory growth and exports by now. According to the survey, they couldn't have been more wrong; the export orders balance again declined over the month, to just 52.6 from 53.4 in May, continuing to read well below the total orders balance at 54.9. To that we add that domestic orders also sagged and that the slowdown was broad-based across the consumer, intermediate and goods sectors, which in turn has dampened growth in all categories of manufacturing firms. We repeatedly argued that the other sectors of Britain's economy could not take the lead, though. The uncertainty surrounding exit negotiations is sure to prevent investment from picking up strongly despite the weaker pound making U.K. assets more profitable for foreigners, while the fact that U.K. exporters raised prices sharply offset most of the competitiveness gains brought by the weaker currency. Leading and hard export data released since the start of the year have all disappointed, and that's despite the pickup in world trade, suggesting that sterling's latest depreciation has done practically nothing.

Rising inflation and worsening labor market will weigh on household spending. Although the unemployment rate fell to a record low 4.6% in the April quarter and employment growth gained 0.4% q/q, wage gains lost further momentum in April; excluding bonuses, they slowed to 1.7% y/y from a downwardly revised 1.8% in the March stanza. This slowdown in pay growth is worrisome, especially in light of the whopping 2.9% jump in inflation reported by the Office for National Statistics in mid-June. That's because higher prices combined with slower pay growth automatically mean households' real wages deteriorate: In monthly terms, real pay plunged by 0.6% y/y in the three months to April, its biggest drop since mid-2014. Given that we expect inflation to average 2.8% this year and peak at 3.1% later this year, household spending—the engine of U.K. growth—should pull back in line with the deterioration in consumers' purchasing power. The outlook for wages, meanwhile, is dire. All hiring surveys point to a deterioration in pay settlements, especially for first hires, while anecdotal evidence shows that firms are unwilling to raise wages until they know more about the future relationship between the U.K. and the EU.

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. Real GDP growth is expected to decelerate from

1.8% in 2016 to around 1.5% in 2017 and 1.2% 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 Faraz Syed and the Asia-Pacific Staff of Moody's Analytics
July 6, 2017

The Japanese economy will sustain its momentum from the first quarter into second. Rising exports, strong retail activity, and a pickup in sentiment, as evidenced by the rising Purchasing Managers' Index, suggest that Japan is set for a sixth consecutive expansion in the June quarter, something not seen since 2006.

Data released this week were mixed, but our GDP tracking model predicts that the economy is still set for an expansion. Retail activity expanded 2% y/y in May, although most of the increase was on the back of rising retail fuel costs. Production fell over the month but was up on a year-ago basis. Overall, this suggests that the momentum in 2017 has improved; CPI inflation also rose, to 0.4% y/y in May, although this was largely because of higher fuel costs.

One downside surprise was the sharp increase in the unemployment rate from 2.8% to 3.1%. However, the overall jobless rate is still low, as more Japanese workers are entering the workforce. Overall, our high-frequency Japan model tracks GDP growth nicely; we expect the economy will expand 0.4% q/q in June after the 0.3% growth in the quarter prior.

Those unfamiliar with Japan's economy would praise the labour market conditions. After all, the unemployment rate is low, and the labour force has increased thanks to more female workers. Moreover, the jobs-to-application ratio just hit a 43-year high: For every 100 applicants, around 149 jobs are available. That suggests labour demand is strong.

But is it too good to be true? Under those rosy numbers, we find that wages across Japan remain stagnant. Firms have been reluctant to raise wages meaningfully, despite the labour market's tightening. Usually, when labour demand outstrips labour supply, firms entice workers with higher wages. But this hasn't been the case in Japan. Indeed, real wage growth has been flat in 2017. This is partially why Japanese household spending, particularly on big-ticket items, remains weak.

Labour market duality, the gap between regular and nonregular workers, has been touted for the lack of wage growth. After the introduction of Abenomics, the economic policies of Prime Minister Shinzo Abe, job growth was stronger in the nonregular segment of the workforce. These workers tend to be paid much less, and enjoy fewer benefits than their full-time counterparts. However, over the past year, regular employees have grown at a faster pace. Growth in regular workers is a good sign, because workers in this segment are more likely to have better wage negotiations.

Measures such as the work-style reforms, which look to reduce inefficiencies across Japan's labour market, could help wage growth over the coming year. But odds for a meaningful wage increase remain low.

We reckon the persistent weak wage growth is one of the main reasons for Japan's struggle to reflate. While inflation has turned positive in 2017 thanks to rebounding energy prices, the overall momentum in prices remains weak. Japan's core inflation, which excludes food prices, rose 0.4% y/y in May. While this is the Bank of Japan's preferred price gauge, the core-core measure, which excludes energy and food prices, remains flat. This proves that despite Japan's cyclical upswing in 2017, a meaningful increase in prices remains unlikely until wage growth reignites.

Ratings Round-Up

By Njundu Sanneh

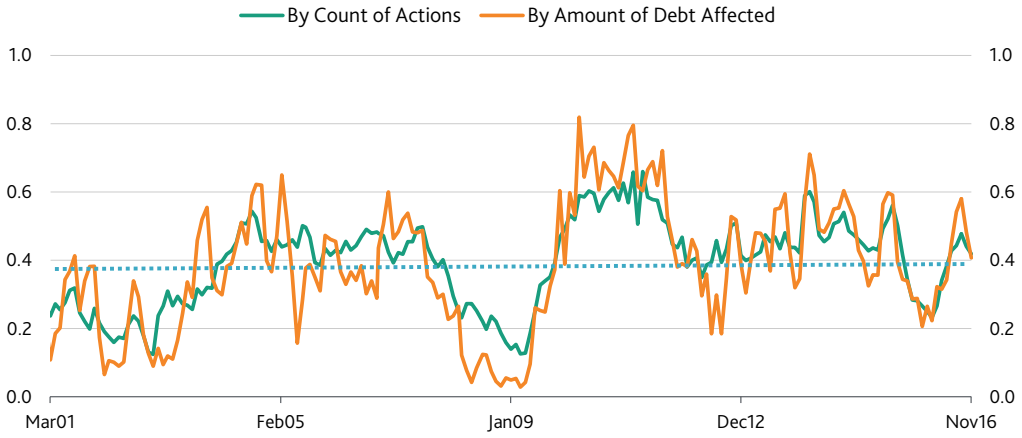
Downgrades Predominate in US; Europe Quiet

The past week's rating changes amounted to 15 for the US and two for Europe. As the US maintained the same level of rating activity as in the recent past, Europe's dropped precipitously to two from 15 in the week prior. The count aside, the contribution of positive rating changes to total rating changes in the US remains subdued in the range of the long-term average after several months of sustained levels above the average. US positive ratings changes were 33% of total rating changes in the past week, following the previous week's 40% mark. The usual suspects of retail, energy, and media companies were among the downgraded. The entry of Amazon into the food retail sector through the proposed acquisition of Whole Foods will only add to the pressure on this sector. Fairway Group Holdings Corporation, which just came back from bankruptcy in 2016, and Bluestem Brands, Inc. were among the downgraded retail companies. The difficult competitive environment in the sector will continue to challenge them. In the energy sector, two propane firms, Ferrellgas Partners LP and Suburban Propane Partners LP, were downgraded owing to mild winter seasons.

Europe's rating changes were evenly split between one upgrade and one downgrade.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

FIGURE 2

Rating Key

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

Ratings Round-Up

FIGURE 3 Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/SG
6/28/17	AMKOR TECHNOLOGY, INC.	Industrial	SrUnsec	925	U	B2	B1	SG
6/28/17	CARECENTRIX, INC.	Industrial	SrSec/BCF		D	Ba3	B1	SG
6/28/17	CARECENTRIX, INC.	Industrial	LTCFR/PDR		U	B2	B1	SG
6/28/17	CENVEO, INC.	Industrial	SrSec/LTCFR/PDR	1,036	D	B3	Caa1	SG
6/28/17	EXELA INTERMEDIATE LLC	Industrial	SrSec/PDR/BCF	525	D	B2	B3	SG
6/28/17	FGI HOLDING COMPANY, INC. - Remington Outdoor Company, Inc.	Industrial	SrSec/LTCFR/PDR/BCF	250	D	Caa2	Caa3	SG
6/28/17	GEORGIA-PACIFIC HOLDINGS LLC - Georgia-Pacific LLC	Industrial	SrUnsec	6,150	U	Baa1	A3	IG
6/28/17	OMNIMAX HOLDINGS, INC. - OmniMax International, Inc.	Industrial	SrSec/LTCFR/PDR	385	U	Caa2	Caa1	SG
6/28/17	VERDESIAN LIFE SCIENCES LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG
6/29/17	AIP/HARDWOODS FUNDING, INC. - Northwest Hardwoods, Inc.	Industrial	SrSec/LTCFR/PDR	435	D	Caa1	Caa2	SG
6/29/17	BLUESTEM BRANDS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	Caa1	SG
6/29/17	FAIRWAY GROUP HOLDINGS CORP.	Industrial	LTCFR/PDR		D	Caa1	Caa2	SG
6/29/17	FERRELL COMPANIES - Ferrellgas Partners L.P.	Industrial	SrUnsec/LTCFR/PDR	357	D	Caa1	Caa2	SG
6/29/17	MURRAY ENERGY CORPORATION	Industrial	SrSec/LTCFR/PDR	1,300	U	Caa3	Caa2	SG
6/29/17	SUBURBAN PROPANE PARTNERS, L.P.	Industrial	SrUnsec/LTCFR/PDR	1,125	D	Ba3	B1	SG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

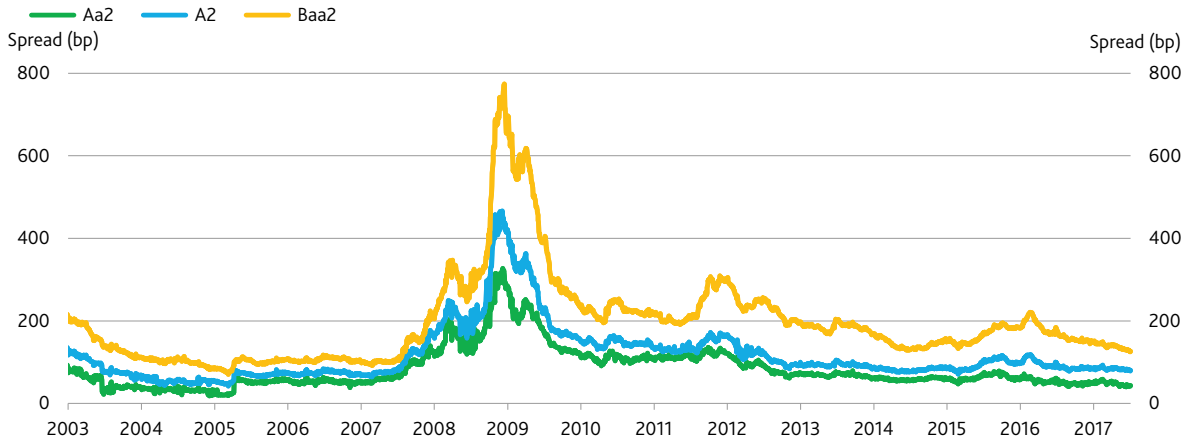
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
6/30/17	NORDDEUTSCHE LANDESBANK GZ	Financial	SrUnsec/LTIR/LTD/Sub/MTN	39,293	D	Baa2	Baa3			IG	GERMANY
6/30/17	RWE AG	Utility	SrUnsec	11,973	U	Baa3	Baa2			IG	GERMANY

Source: Moody's

Market Data

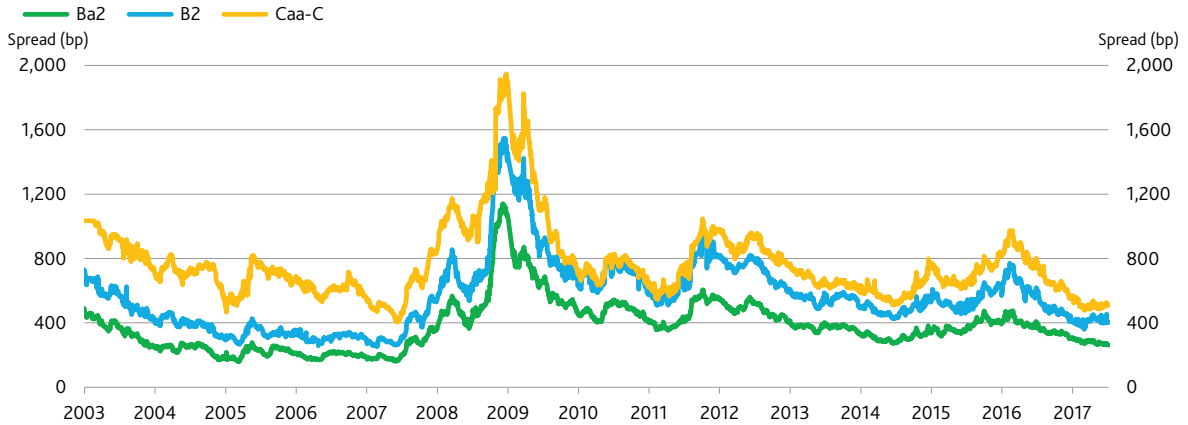
Spreads

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 (June 28, 2017 – July 5, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 5	Jun. 28	Senior Ratings
Bank of New York Mellon Corporation (The)	A3	Baa1	A1
Abbott Laboratories	A2	A3	Baa3
Frontier Communications Corporation	Caa3	Ca	B2
United Airlines, Inc.	B2	B3	Baa1
Anadarko Petroleum Corporation	Ba2	Ba3	Ba1
Ventas Realty, Limited Partnership	Baa3	Ba1	Baa1
Noble Energy, Inc.	Ba2	Ba3	Baa3
Sempra Energy	Aa3	A1	Baa1
Danaher Corporation	A2	A3	A2
Realogy Group LLC	B1	B2	B1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 5	Jun. 28	Senior Ratings
EOG Resources, Inc.	Ba1	A3	Baa1
Agilent Technologies, Inc.	Baa2	A2	Baa2
PNC Financial Services Group, Inc.	Baa1	A2	A3
Johnson & Johnson	Aa2	Aa1	Aaa
Amgen Inc.	A2	A1	Baa1
Capital One Bank (USA), N.A.	A2	A1	Baa1
American Express Company	A1	Aa3	A3
Archer-Daniels-Midland Company	Baa3	Baa2	A2
Boeing Company (The)	Aa3	Aa2	A2
Ball Corporation	Ba1	Baa3	Ba1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 5	Jun. 28	Spread Diff
Nine West Holdings, Inc.	Ca	6,339	5,925	414
McClatchy Company (The)	Caa2	995	916	79
EOG Resources, Inc.	Baa1	106	44	62
Neiman Marcus Group LTD LLC	Caa3	1,829	1,768	62
Rite Aid Corporation	B3	513	460	53
Sears Holdings Corp.	Caa3	3,414	3,382	32
Sears Roebuck Acceptance Corp.	Caa3	3,429	3,397	32
Genworth Holdings, Inc.	Ba3	694	670	25
Mattel, Inc.	Baa2	149	126	23
Magellan Midstream Partners, L.P.	Baa1	91	70	21

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 5	Jun. 28	Spread Diff
Staples, Inc.	Baa2	268	319	-50
Avis Budget Car Rental, LLC	B1	457	495	-38
Parker Drilling Company	Caa1	1,023	1,053	-30
YRC Worldwide Inc.	Caa1	715	744	-29
Ventas Realty, Limited Partnership	Baa1	80	104	-24
Murphy Oil Corporation	B1	255	277	-22
SUPERVALU Inc.	B3	592	613	-21
Noble Energy, Inc.	Baa3	151	170	-19
United States Steel Corporation	Caa1	479	495	-15
MBIA Insurance Corporation	Caa2	666	681	-15

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (June 28, 2017 – July 5, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 5	Jun. 28	Senior Ratings
Nordea Bank AB	Aa3	A2	Aa3
Landesbank Hessen-Thueringen GZ	A3	Baa2	A1
The Royal Bank of Scotland Group plc	Baa3	Ba1	Baa3
UniCredit S.p.A.	Baa3	Ba1	Baa1
Electricite de France	A3	Baa1	A3
Svenska Handelsbanken AB	Aa3	A1	Aa2
Royal Bank of Scotland N.V.	A2	A3	A3
Banca Monte dei Paschi di Siena S.p.A.	B1	B2	B3
EDP - Energias de Portugal, S.A.	Baa3	Ba1	Baa3
EDP Finance B.V.	Ba1	Ba2	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 5	Jun. 28	Senior Ratings
KBC Group NV	Ba1	A2	Baa1
Standard Chartered PLC	Baa2	A3	A2
ABN AMRO Bank N.V.	Baa1	A3	A1
Banco Santander S.A. (Spain)	Baa1	A3	Baa1
Alpha Bank AE	Caa3	Caa2	Caa3
Eurobank Ergasias S.A.	C	Ca	Caa3
Daimler AG	A3	A2	A2
Piraeus Bank S.A.	C	Ca	Caa3
Prudential Public Limited Company	Baa2	Baa1	A2
Swiss Reinsurance Company Ltd	A2	A1	Aa3

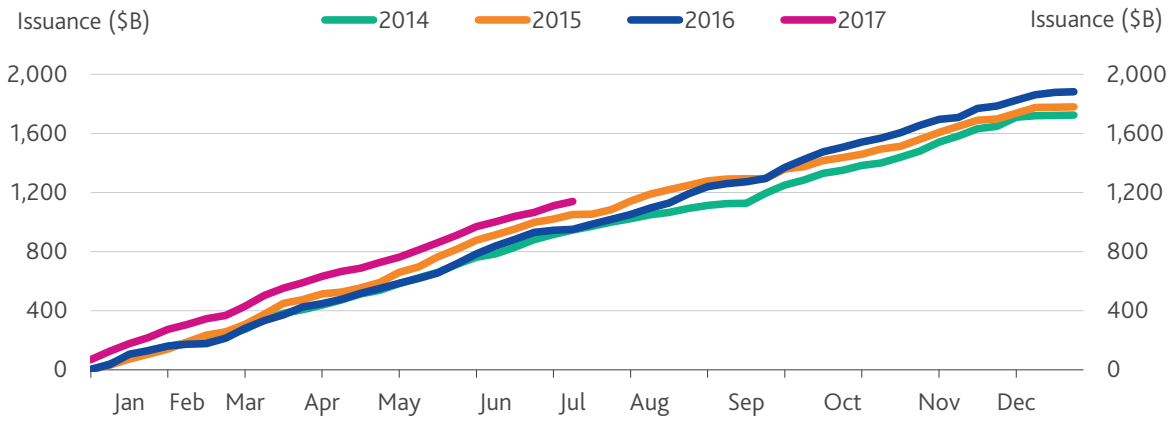
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 5	Jun. 28	Spread Diff
Novo Banco, S.A.	Caa2	1,324	1,145	179
Eurobank Ergasias S.A.	Caa3	1,161	1,054	106
Piraeus Bank S.A.	Caa3	1,161	1,054	106
Alpha Bank AE	Caa3	845	768	77
KBC Group NV	Baa1	114	38	76
Galapagos Holding S.A.	Caa2	847	805	42
Standard Chartered PLC	A2	71	45	27
Novafives S.A.S.	B3	331	312	19
Evraz Group S.A.	B1	298	280	18
Stena AB	B3	693	675	17

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 5	Jun. 28	Spread Diff
Norske Skogindustrier ASA	C	24,455	31,750	-7,296
Astaldi S.p.A.	B3	878	972	-94
Banca Monte dei Paschi di Siena S.p.A.	B3	193	240	-48
Greece, Government of	Caa2	514	545	-31
Banco Comercial Portugues, S.A.	B1	290	312	-22
Landesbank Hessen-Thueringen GZ	A1	44	65	-21
Caixa Geral de Depositos, S.A.	B1	258	278	-20
EDP Finance B.V.	Baa3	108	128	-19
Premier Foods Finance plc	Caa1	307	325	-19
EDP - Energias de Portugal, S.A.	Baa3	93	110	-17

Source: Moody's, CMA

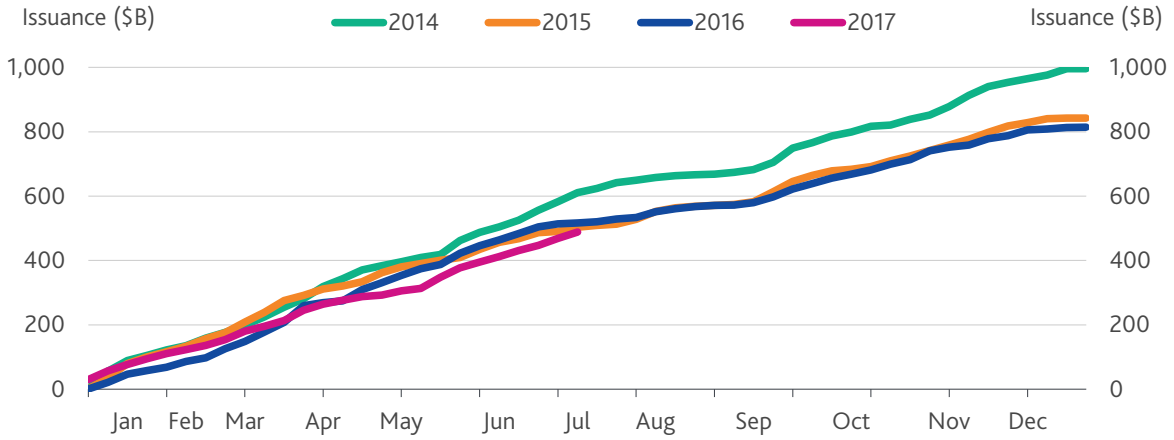
Issuance

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	16.088	10.325	28.971
Year-to-Date	805.127	241.668	1,138.926

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	16.761	2.392	19.846
Year-to-Date	410.424	53.501	488.589

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

Moody's Capital Markets Research *recent publications*

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Energy Sector EDF Measures Improve, Even as Oil Prices Remain Depressed (CreditEdge Research)

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Sovereign Risk Report: Market-Based Sovereign Risk Measures Decline in the Philippines

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

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