MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Record Ratio of Debt to GDP Contains Growth and Interest Rates

Moody's Capital Markets Research

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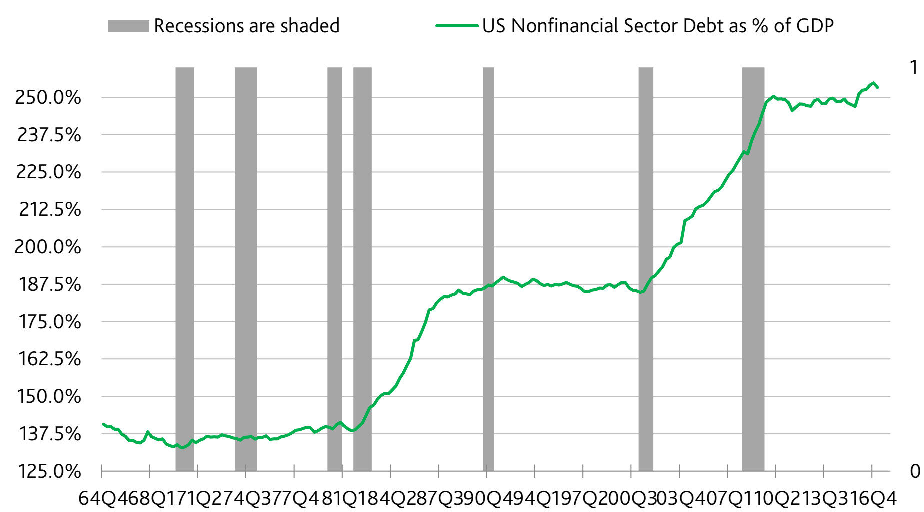
Credit Markets Review and Outlook

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

Record Ratio of Debt to GDP Contains Growth and Interest Rates

The leverage of the US nonfinancial sector has reached unprecedented heights according to the US's never before seen ratio of nonfinancial-sector debt to GDP. Nonfinancial-sector debt includes the credit obligations of households, nonfinancial businesses, state and local governments, and the US government. Though the ratio of US nonfinancial-sector debt to GDP's moving yearlong average dipped slightly from Q4-2016's record 255% to Q1-2017's 253%, the latter was considerably higher than year-end 2007's 230% that immediately preceded the Great Recession. (Figure 1.)

Figure 1: Record Ratio of US Nonfinancial-Sector Debt to GDP Warns That US Economy May Not Be Able to Shoulder Long-Term Projections of 3% for Fed Funds and 3.7% for 10-year Treasury Yield



However, the burden of debt repayment may have been greater during yearlong 2007 for several reasons. The first centers on the much higher interest rates of yearlong 2007 compared to mid-2017. For example, 2007 showed much higher annual averages of 4.63% for the 10-year Treasury yield (versus a now 2.27%), 5.00% for fed funds (versus a recent 1.125%), 6.34% for the 30-year mortgage yield (versus today's 3.90%), 5.80% for the investment-grade corporate bond yield (versus a current 3.15%) and 8.28% for the composite speculative-grade bond yield (compared to a now 5.72%).

Note also that 2007's borrowing costs were rendered more onerous by how the 5.00% fed funds topped the accompanying 4.63% 10-year Treasury yield. Time and again, inverted yield curves have correctly warned of approaching turmoil for corporate credit and overall business activity.

Moreover, because private-sector debt has been more susceptible to default than public-sector debt, year-end 2007's debt burden may have been skewed higher by private-sector debt's near record 168% share of GDP, compared to Q1-2017's 152%. Thus, we find that the jump by the ratio of public-sector debt from 2007's 62% to Q1-2017's 101% of GDP largely explains why total nonfinancial-sector debt advanced from 2007's 230% to the latest 253% of GDP. (Figure 2.)

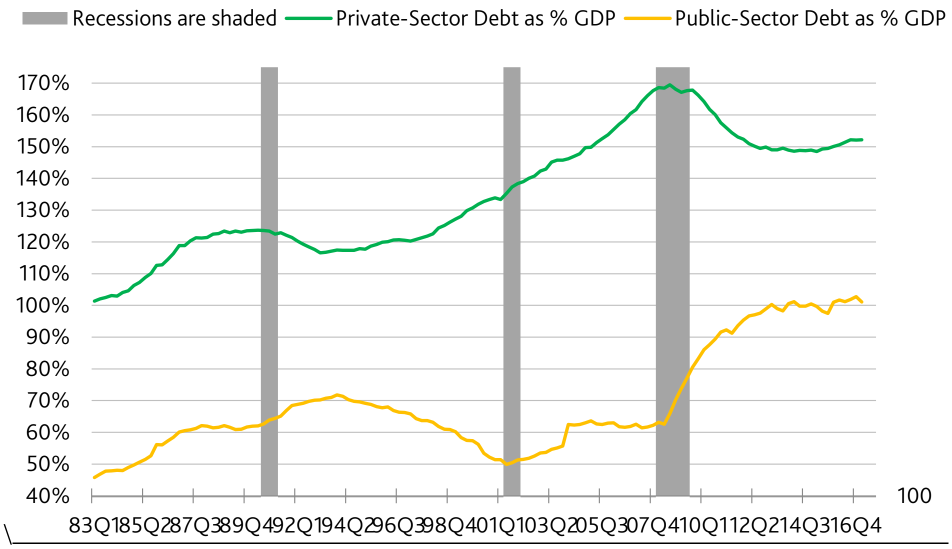
Massive debt limits upside for interest rates

In general, the higher is the ratio of total nonfinancial-sector debt to GDP, the more burdensome will higher borrowing costs be to business activity. This is but another reason not to expect a full "normalization" of interest rates during the next 10 years.

The slower growth of the US nonfinancial-sector debt has helped to rein in interest rates. The outstanding nonfinancial-sector debt of the US private and public sectors totaled $47.495 trillion as of 2017's first quarter and was up by 3.7% from a year earlier. The annual increase was slower than the

4.5% of Q4-2016 and the 5.0% of Q1-2016. During the five-years-ended March 2017, nonfinancial sector debt grew by 4.1% annually, on average, which was much slower than the metric's 9.1% average annual advance of the five-years-ended 2007, or the final five years of the previous economic recovery.

Figure 2: From 2007 to March 2017, Private-Sector Debt Eased from 168% to 152% of GDP, as Public-Sector Debt Soared from 62% to 101% of GDP



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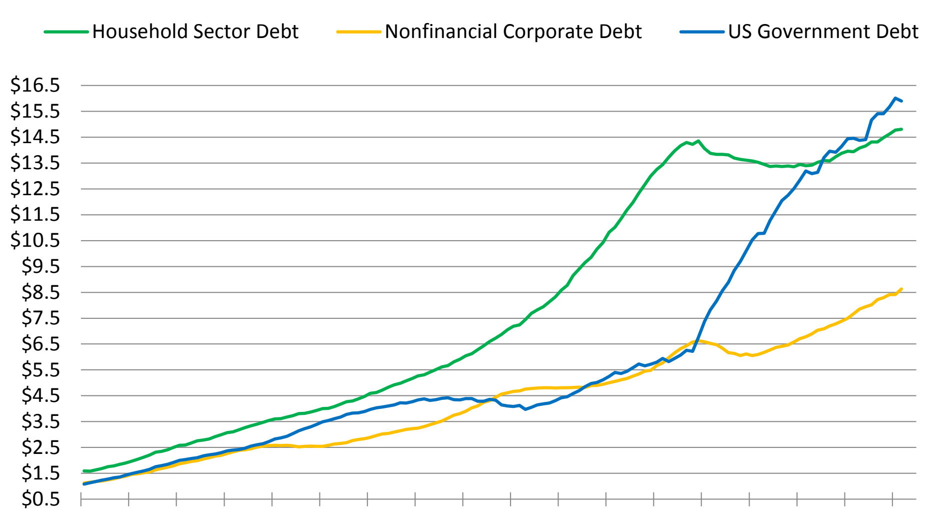
US government replaces household-sector as the US's biggest debtor

The US government is now the largest debtor of the US nonfinancial sector. First-quarter 2017's $15.898 trillion of outstanding US government debt more than doubles the $6.074 trillion of federal debt as of year-end 2007. The 11.0% average annualized surge by US government debt since 2007 raced past the accompanying 2.8% average annual rise by nominal GDP. Lately, federal debt has slowed considerably. First-quarter 2017's 3.2% yearly increase by federal debt was slower than the category's 5.7% average annualized increase of the five-years-ended March 2017.

The distribution of US nonfinancial-sector debt was far different at the end of 2007. Back then, household sector's $14.170 trillion of debt led all categories and was 133% greater than the roughly $6 trillion of US government debt. Since year-end 2007, household sector debt barely grew by 0.5% annualized, on average, to $14.801 trillion, where the latter now trails the nearly $16 trillion of federal debt by -6.9%. (Figure 3.)

Figure 3: Nonfinancial-Corporate Debt Approximated US Government Debt During 1998-2008 ... Corporate Debt Now Trails Federal Debt by -46%



It is hard to believe that during 1998 through 2008, the outstandings of nonfinancial-corporate debt and US government debt were roughly equivalent, on average. However, as of Q1-2017, the $8.623 trillion of nonfinancial-corporate debt was a deep -46% under the nearly $16 trillion of federal debt.

Huge federal debt caps fiscal stimulus

As derived from the definition federal debt employed by the Federal Reserve's "Financial Accounts of the United States," Q1-2017's nearly $16 trillion of US government debt approximates 85% of US GDP generated during the year-ended Q1-2017. The ratio of federal debt to GDP soared from year-end 2007's 42% to Q1-2017's 85% of GDP. In addition, the latter was far above federal debt's average 45% of GDP for the business cycle upturns of 2002-2007, 1991-2000, and 1983-1990.

Because the ratio of US government debt to GDP now exceeds its average of the previous three recoveries by a considerable 40 percentage points, the scope for additional fiscal stimulus is quite limited, especially in the context of an economic upturn. Critical pockets of unyielding Congressional resistance to a widening of the federal deficit are hardly surprising given that federal debt has not been so elevated vis-a-vis GDP since the funding of World War II temporarily drove federal borrowing skyward. By contrast, the forthcoming widening by the federal budget deficit will stem mostly from hard-to-reverse increases in mandatory federal spending on social security and medical care.

Thus, the funding of tax cuts and/or increased infrastructure spending may require a broadening of the tax base via either new taxes (i.e., the border adjustment tax) or a paring back of existing tax breaks, especially those affecting the deductibility of business interest expense, the deductibility of state and local income tax payments, and the exemption of municipal bond interest income.

Financially-stressed middle class hints of more mandatory federal spending

The political outcry against reducing the subsidies provided by the Affordable Care Act has been telling. To a considerable degree, the difficulty of cutting US government outlays on health care stems from the financial stress affecting a large number of households despite the supposed strength implicit to an exceptionally low unemployment rate of 4.3%.

Personal savings often function as a voluntary safety net. The current dearth of savings among younger households and low- to middle-income Americans suggests that more voters will demand that the government compensate for the inadequacy of voluntary safety nets. As more Americans are either incapable or unwilling to accumulate enough financial resources to help them get through difficult circumstances, such voters will ask government to help them emerge from trying times relatively intact. The degradation of middle-class living standards since 2004, when real median family income peaked, warns of future spending demands to be placed by voters on government.

However, the hard reality is that the public-sector will have considerable difficulty at compensating for the diminished financial flexibility of middle- to lower-income Americans. Given (i) an already exceptionally high ratio of US government debt to GDP, (ii) slower than expected tax-revenue growth, and (iii) the need to fund social security, pensions, and health care for a record number of retirees, any expansion of government entitlement programs will probably require higher and/or new taxes. The future imposition of something akin to value-added taxes seems inevitable. The interrelated combination of persistently below-trend economic growth and the perception of diminished opportunities for career advancement will compel adversely affected voters to demand more help from Washington.

Household debt slows, but remains elevated relative to income

Over time, household financial flexibility has been diminished by a rising ratio of household debt to GDP. Household debt has gone from averaging 72% of disposable personal income during the Reagan years to 105% as of the year-ended March 2017. But, at least household debt is down from 2007's record 135% of disposable personal income.

First-quarter 2017's $14.801 trillion of outstanding household debt rose by 3.4% yearly, which was above the 2.1% average annual increase of the last five years. In a stark and an ultimately destabilizing contrast, household debt advanced by an unsustainable 10.6% annualized during the five-years-ended 2007.

Nonfinancial-business debt grows, but state and local government debt shrinks

Credit Markets Review and Outlook

First-quarter 2017's $8.623 trillion of outstanding nonfinancial-corporate debt grew by a tolerable 4.9% yearly, which was slower than its 6.1% average annual increase of the last five years. By contrast, nonfinancial-corporate debt's 9.1% average annualized advance of the five-years-ended 2007 contributed to an ensuing climb by the US high-yield default rate from December 2007's 1.1% to a November 2009 high of 14.7%. The pronounced worsening of credit quality was joined by a ballooning of the high-yield bond spread from its 314 bp average of the 12-months-ended June 2007 to the 1,322 bp of the 12-months-ended June 2009.

The remainder of the US nonfinancial-sector debt for Q1-2017 revealed $5.109 trillion of unincorporated non-financial business debt that was up by 5.9% yearly and $3.064 trillion of outstanding state & local government that dipped by -0.1% yearly. The average annualized percent changes of the past five years showed +5.4% growth for unincorporated business debt and a -0.5% decline for state and local government debt. Both differed radically from their average annualized advances of the five-years-ended 2007 of 11.1% for unincorporated business debt and 15.2% for state & local government debt. Finally, the current shrinkage of state & local government debt stems from intractable financial constraints that now weigh on infrastructure spending.

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, June 23: The Fed has hinted that the normalization of its balance sheet will be announced in September, earlier than our December call. The signal was fairly strong and something that we couldn't ignore, therefore we are changing our forecast from December to September. Though it will be announced in September, the process won't begin until October. This has implications for the next rate hike and our subjective odds of a rate hike have changed as we put the odds of an increase at 10% for September, 15% for November and 50% for December. This puts the cumulative odds of another rate hike this year at 75%. The odds of September are low, because the Fed will avoid double tightening by keeping changes in its balance sheet and interest rate policies separate.

Consistent with the Fed's communication, we expect the central bank to announce a schedule of caps on the maturing Treasuries and mortgage-backed securities of $6 billion and $4 billion, respectively, in September. The monthly caps will increase every three months until they reach their fully phased-in levels. For Treasury securities, the cap will increase in $6 billion increments over 12 months until it reaches $30 billion per month. For mortgage-backed securities, the cap will increase in $4 billion increments over 12 months until it reaches $20 billion per month. The fully phased-in caps will remain in place until the committee judges the Fed is holding no more securities than is necessary to conduct monetary policy, which we put at close to $3 trillion. This process will take three years to complete.

The changes relative to our earlier projections are minor, with the balance sheet shrinking sooner than we expected and suggesting that the balance sheet will hit its equilibrium level in late 2020 rather than in 2021 as we previously thought. The decline in the balance sheet will be $30 billion this year and $420 billion in 2018.

The incoming data will highlight the Fed's struggle to hit its inflation target. We expect the core PCE deflator to have risen 0.1% in May, lowering year-over-year growth from 1.5% to 1.4%. This could give some of the Fed reason to pause with regards to hiking rates. Elsewhere, we look for a modest decline in durable goods orders and the Conference Board Consumer confidence index. First quarter GDP growth will likely be revised higher, thanks to stronger growth in consumer spending.

THURSDAY, JUNE 29

Jobless claims (week ending June 17; 8:30 a.m. EDT)

Forecast: 246,000
We look for initial claims to have risen by 5,000 to 246,000 in the week ended June 24, putting them slightly above their prior four-week moving average of 244,750. There is more uncertainty in the forecast than usual. Annual auto plant retooling usually occurs around early July, but there are suggestions that it could start earlier this year and be extended longer than normal for some domestic manufacturers. This could have implications for initial claims. Initial claims in states with intensive auto manufacturing account for the largest share of total initial claims in July. If the shutdowns occur earlier, they could boost new filings in late June. But this would be more noise than signal about the health of the labor market. Because of the shutdowns and upcoming July Fourth holiday, initial claims will be less reliable until August.

Continuing claims, for the week ending June 17, will be important, since they will be for the household reference week. Continuing claims rose 8,000 in the week ended June 10, their third consecutive weekly gain.

GDP (2017Q1-third estimate; 8:30 a.m. EDT)

Forecast: 1.4% at an annual rate

We anticipate a revision of first quarter GDP growth to 1.4% at an annual rate, better than the 1.2% in the government's second estimate. The final Quarterly Services Survey for the first quarter points toward stronger consumer spending and intellectual property investment growth. There should be a noticeable upward revision to consumer spending, which we look to have risen 1.3% at an annual rate, compared with the 0.6% in the government's second estimate. The upward revision should be concentrated in services, primarily healthcare. The QSS doesn't point to any significant revisions to first quarter intellectual property investment.

Revisions to other components will be mixed. Net exports will be revised lower and were likely neutral for first quarter GDP growth. Net exports added 0.1 of a percentage point to GDP growth in the government's second estimate. New data suggests that the inventory build was $3 billion heavier than previously reported but it will still subtract 1 percentage point from first quarter GDP growth. Growth in real equipment spending will likely be a touch weaker. Meanwhile, revisions to nonresidential structures and residential investment should be small. Similarly, real government spending will be revised to show a smaller decline than previously thought.

FRIDAY, JUNE 30

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

Forecast: 0.1% (nominal income)
Forecast: 0% (nominal spending)
Forecast: 0.1% (core PCE deflator)
We look for nominal personal income to have risen 0.1% in May following a 0.4% increase in April and 0.2% gain in March. The labor income proxy for all private workers, derived from the already released May employment report, rose 0.2%, but we are penciling a small gain in nominal wages and salaries. We expect nominal wage and salary income to have risen 0.1% in May.

Nominal consumer spending is forecast to have been unchanged in May. Lower gasoline prices will weigh on nominal spending. Autos are expected to be a drag based on already released data on unit and retail sales. Services spending is forecast to have risen a trend-like 0.3% in May, with a small lift coming from utilities.

Data from the May CPI and PPI suggest that the headline PCE deflator fell 0.1%. The core PCE deflator is expected to have risen 0.1%, lowering year-over-year growth from 1.5% in April to 1.4% in May.

University of Michigan confidence (June-final; 10:00 a.m. EDT)

Forecast: 94.2
We expect the University of Michigan's consumer sentiment index to have dropped to 94.2 in June, according to the final report. This would be below the preliminary survey's 94.5 and May's 97.1. The index will remain above that seen prior to the U.S. Presidential election. We believe consumer confidence got ahead of itself following the election. Just as the rise in sentiment following the election didn't justify a change to our spending forecast, the recent decline doesn't warrant a change either. Inflation expectations warrant close watch. Long-term inflation expectations rose in June, according to the preliminary survey but they remain low. Short-run inflation expectations may decline in June or July because of lower gasoline prices and tame food inflation.

EUROPE

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

Summary, June 23: The week ahead will shed light on consumer and business sentiment across Europe at the end of the second quarter. The measure for the euro zone is expected to have climbed further above its long-term average in June. The region's economy performed well at the start of the year, which together with high-frequency data suggesting more of the same in the three months to June, has been lifting sentiment. Confidence likely improved in Italy thanks to subsiding political risks. We do expect sentiment to have dipped in Germany, with the Ifo Business Climate Index retreating somewhat in June, but this is a correction after the index hit a record high in May. And a look at the labour market results makes it clear that German businesses remain confident the economy will steadily grow. Germany's seasonally adjusted unemployment rate fell to a record low of 5.7% in May, with the officially registered number of unemployed people dropping further during the month. We expect the jobless rate remained unchanged at 5.7% in June.

Meanwhile, consumer confidence in the U.K. likely retreated at the end of the second quarter. The unexpected loss of the Conservatives majority in the recent parliamentary election only added to the uncertainty caused by exit negotiations, which began on June 19. Overall confidence should remain subdued in 2017, weighed down by the major purchase index, households' sentiment about personal finances, and pessimism about the U.K.'s economic outlook. House prices in the U.K. have been disappointing in recent months, and the annual increase in the Nationwide HPI is expected to have cooled even further to 1.8% in June from 2.1% in the previous month. Excluding February's one-off monthly spike, the Nationwide data show a clear deterioration in price trend, which is corroborated by other gauges of the housing market. Households' living standards are expected to deteriorate further in coming months. The pound's slump should push up consumer prices, and wages are unlikely to follow suit, given our expectations for a weakening labour market. We therefore expect prices to stagnate or barely rise from now on.

The recent slump in oil prices will likely tamp down price pressures in Europe after inflation accelerated strongly at the beginning of this year. In May, the euro zone's annual inflation rate pulled back sharply to 1.4% from 1.9% in the previous month, and we expect it stayed at 1.4% in June. The slowdown has been driven mainly by cooling growth of energy prices. Instability in the Middle East has caused oil prices to fluctuate wildly in recent weeks, and the sharp increase in supply by some non-OPEC countries pushed the Brent crude oil price below $45 this week, which is the lowest level since mid-November 2016.

THURSDAY, JUNE 29

Euro Zone: Business and Consumer Sentiment (June; 7:05 a.m. BST)

The euro zone's economic confidence indicator likely improved to 109.5 in June following a marginal dip in the previous month. Despite the drop in May, confidence remained well above the long-run average of 100 and slightly below the 10-year high in April. Following the strong first quarter, with year-ago growth the strongest since mid-2015, the outlook for the second quarter is bright. The composite PMI registered the fastest output expansion in six years in May, with economic activity gaining momentum in France and Germany. Although confidence has rallied after a trough in August last year, significant risks persist. The U.K.'s divorce from the EU adds to market jitters, while Italy's troubled banking sector also poses a significant risk to financial stability. A new immigration wave and continued tensions with Russia could also resurface. On the brighter side, the resolution of election-related uncertainty in France and the Netherlands will likely buoy sentiment.

FRIDAY, JUNE 30

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

German retail sales likely recovered in May following a marginal decrease in the previous month. Sales are expected to have increased by 0.6% m/m from April, when they fell by 0.2%. In year-ago terms, they likely continued to rise at a relatively stable rate close to 2%. Although the Markit retail PMI retreated slightly in May to 55 from 56.2 in the previous month, it continued to suggest strong growth of retail sales. Consumption expenditure supported the country's expansion during the start of this year and will likely do so in the coming quarters. However, conservative German households will probably not increase their spending significantly in coming months because the outlook remains uncertain and because inflation is heating up. Although Germany's annual national measure of inflation decelerated to 1.6% in May, seasonally adjusted, from 2.1% in April, it was still strong and will likely accelerate in the coming months.

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

The euro zone's annual harmonized inflation likely remained unchanged at 1.4% in June from a month earlier. Softer oil price growth and the base effect likely weighed on the headline figure. Core inflation, meanwhile, remained subdued because of tepid wage growth. Softening inflation pressure is in line with the PMI for manufacturing and services in May, which showed input costs beginning to ease. This could also drive down selling prices in coming months. After the temporary effect of lower energy prices disappears, however, inflation should pick up again. But we don't expect the headline reading to climb above the ECB's target of close to but below 2%. Although below-target inflation doesn't bode well for the central bank, slowing core inflation is more worrying and may delay the normalization of monetary policy. While we don't expect the ECB to change its forward guidance during the summer months, we do predict it will turn slightly hawkish later this year.

ASIA-PACIFIC

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

Japan's Tankan survey showed improvement in Q2, but further gains in the second half are unlikely

Japanese manufacturers are enjoying a moment in the sun. Sentiment among large manufacturers in Japan likely rose to 13 in the Tankan survey for the June quarter, up from 12 in the March quarter. Overall business conditions have improved in Japan thanks to the yen's depreciation and an uptick in the global tech cycle. We expect conditions are unlikely to improve much further, however. The tech cycle is fading and overall momentum in domestic demand, albeit improved since last year, remains low, capping further gains in sentiment.

The Reserve Bank of Australia is going nowhere quickly, despite some whispers that further interest rate cuts are on the horizon. The central bank will maintain its policy rate at 1.5% at its July meeting. Rates have sat at this record low since August 2016. Recent comments from the central bank have been broadly positive, indicating that it expects economic growth to pick up by the end of 2017. Meanwhile, the heated-in-pockets housing market has cooled in recent months, with a further slowdown likely, reducing the risks associated with private debt accumulation that the bank has previously noted with caution.

South Korea is the first in the region to release monthly trade data for June. We expect the trade surplus widened. Exports likely reaccelerated over the month. Forward indicators suggest that while demand is cooling, it is gradual and remains robust in year-on-year terms. Improved global demand and a fresh wave of new tech releases including the iPhone are buoying demand.

MONDAY, JULY 3

South Korea – Foreign Trade – June

Time: Unknown
Forecast: US$8.2 billion
South Korea's trade surplus likely widened to US$8.2 billion in June after narrowing to US$6 billion in May. We expect exports reaccelerated over the month. The tech cycle looks to have encountered a blip around May, but forward indicators suggest that although demand is cooling, it is gradual and remains robust in year-on-year terms. The substantial 57% y/y fall in mobile phone shipments should not be sustained. Improved global demand and a fresh wave of tech releases including the iPhone are buoying demand.

Japan – Tankan Survey – 2017Q2

Time: 9:50 a.m. AEST (Sunday, 11:50 p.m. GMT)
Forecast: 13
The sentiment among large manufacturers in Japan likely rose to 13 in the second quarter, up from 12 in the quarter prior. Overall business conditions have improved in Japan thanks to the yen's depreciation and an uptick in the global tech cycle. We expect conditions are unlikely to improve much further, however. The tech cycle is fading and overall momentum in domestic demand, albeit improved since last year, remains low. This will likely cap sentiment from further gains later in the year.

Japan – Consumer Confidence – June

Time: 3:00 p.m. AEST (5:00 a.m. GMT)
Forecast: 43.7
Japan's consumer confidence likely increased to 43.7 in June, up slightly from 43.6 the month prior. Consumers are feeling better this year compared with last year, but overall confidence remains below the neutral 50 mark. This means consumers are still more pessimistic than optimistic about future economic prospects. One reason for this pessimism is persistently low wage growth, despite a tight labour market. We expect optimism to increase over the coming year.

TUESDAY, JULY 4

South Korea – Consumer Price Index – June

Time: 9:00 a.m. AESTMonday, July 3
(Monday, 11:00 p.m. GMT)
Forecast: 2.1%
South Korea's headline inflation likely accelerated in June for a second straight month thanks to higher transport costs. We look for the CPI to have hit 2.1% y/y, up from 2% in May. Core inflation is heating up from its current 1.4% because of improved consumer sentiment that should soon translate to higher spending thanks to newly elected President Moon Jae-in and his promises to increase spending in a number of avenues including welfare and employment, especially for the young. Yet core inflation remains well shy of the central bank's 2% inflation target, enabling accommodative monetary settings to remain through 2017.

Australia – Retail Sales – May

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 0.3%
Australian retail trade growth likely slowed to 0.3% m/m in May after posting a blistering 1% jump in April. April's surge was largely payback for the preceding months' lackluster performance. Overall, economic conditions remain unconducive to a significant pickup in consumption. Despite signs of improvement in the labour market in recent months, underemployment remains at a record high and wage growth is persistently low. Until these issues are fixed, consumption will be muted.

Australia – Monetary Policy – July

Time: 2:30 p.m. AEST (4:30 a.m. GMT)
Forecast: 1.5%

The Reserve Bank of Australia will maintain its policy rate at 1.5% at its July meeting. Rates have sat at this record low since they were cut in August. Recent comments from the central bank have been broadly positive, indicating that it expects economic growth to pick up by the end of the year. This sentiment, or at least attempt to improve household and business sentiment, all but rules out another rate cut in the near term. Some of the pressure has come off the housing market in recent months, decreasing the risks associated with private debt accumulation that the bank has previously noted with caution.

WEDNESDAY, JULY 5

Taiwan – Consumer Price Index – June

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Forecast: 0.8%
Taiwan's consumer prices likely accelerated to 0.8% in June from 0.6% y/y in May. Higher food prices are behind the expected uptick due to torrential rain damaging most crops in central and southern Taiwan in early June. Leafy green vegetables were amongst the most affected. Apart from higher vegetable prices, inflation is fairly subdued, a symptom of the economy's tepid domestic demand and broader softness in wage growth. Inflation is expected to only gradually creep towards the central bank's 2% target in 2017, ensuring accommodative policy settings will remain for the rest of the year.

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.

The Long View

The US: Defaults may rise if the federal funds rate increases by more than what markets now implicitly expect

By John Lonski, Chief Economist, Moody's Capital Markets Research Group, June 29, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 118 bp hardly differs from 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 386 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.

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 2.2% annually for IG and may advance by 21.7% 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 55.7 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 details brought even better news, showing that booming manufacturing orders are raising work backlogs and lifting job creation to its fastest in over 10 years, as firms expand capacity to meet the rise in demand. Meanwhile, the euro zone's unemployment rate unexpectedly fell to 9.3% in April, from a downwardly revised 9.4% in March and from 10.2% in April 2016, the lowest rate since March 2009. Cyclical labor market improvement combined with strengthening wage growth in some euro area countries will boost household spending, while broad-based improvement in global demand will support euro area exports. Nevertheless, the jobless rate would be higher if discouraged and underemployed part-time workers were added. The falling unemployment rate could thus mislead, and corporations have no reason to increase wages because of still-high labor underutilization. This is restraining wage growth and widening income inequalities.

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. Final data of U.K. GDP show the service sector as the main culprit of the slowdown in the first quarter, though construction and production output also lost some momentum. In the expenditure breakdown, consumer spending pulled back sharply and is the main drag on growth in 2017.

In June monetary policy meeting, the European Central Bank 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. The ECB didn't make any changes to rates or QE. 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.

Results of the French and Dutch elections removed key political risks to financial markets and calmed investors. French president Emmanuel Macron's party, En Marche, has secured an absolute majority in France's National Assembly, giving it the political power to advance its liberal, market- and globalization-friendly reform agenda. The political situation is also brightening in Italy. The Eurosceptic Five Star Movement suffered heavy losses in municipal elections in early June, casting doubt on whether it can win parliamentary elections next year. Furthermore, without agreement on electoral law reform, the odds of snap elections being called this September are worsening. Early elections seem off the table, and Italians will vote next May. This should give former prime minister and ruling party leader Matteo Renzi enough time to consolidate the party and prepare it for the next general election.

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 1.9% in annualized quarterly terms and 0.5% not annualized, an acceleration from a mere 0.2% growth in 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 May brings some optimism. The latest U.K. Markit/CIPS manufacturing PMI fell only to 56.7 from three-years high of 57.3 recorded in April, and signaled an improvement in operating conditions. Meanwhile, U.K. consumer confidence unexpectedly rose in May to -5 from -7 in April. We find it hard to understand this optimism since it contrasts sharply with our view that the pound's depreciation, the subsequent soar in inflation, and the slowdown in nominal wages will hurt consumer spending throughout 2017. We expect this to be just a blip, likely related to June's elections. The June 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. So in months to come, we expect households to shift focus from politics to the state of their finances. Households' expectations about their future financial situation will likely deteriorate sharply and turn negative by the second half of the year, in line with the decline in real wages. We already see evidence that households are tightening their purse strings: Retail sales figures for the past three months have been weak, and advanced indicators for May suggest that the first quarter's weakness likely carried over into the second.

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.

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% 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 Katrina Ell and the Asia-Pacific Staff of Moody's Analytics
June 29, 2017

New Zealand is one of Asia's quiet achievers, enjoying uninterrupted GDP growth for almost four years. The solid performance is forecast to continue with New Zealand on track to perform around potential—which we estimate to be around 3%—into 2018. This will be driven by strong population growth due to record high net migration, sustained low interest rates, and upbeat exports fuelled by strong offshore demand for soft commodities, especially dairy.

The Reserve Bank of New Zealand's June monetary policy statement released this week expectedly reaffirmed its neutral bias. It doesn't get much clearer than: "Monetary policy will remain accommodative for a considerable period." This is identical to May's paragraph. We expect the central bank will keep the official cash rate at an accommodative 1.75% for the next year. Financial markets are on board with this view.

Domestic inflation pressures are muted and have granted the central bank the breathing space to keep rates low for an extended period. Nontradables inflation is subdued because of sluggish wage growth, partially helped by record high net migration keeping labour supply relatively high. In the March quarter, wage growth was just 1.5% y/y.

We expect nontradables inflation to only gradually creep towards the midpoint of the central bank's 1% to 3% inflation target over the next year. Tradables inflation has been high on the back of higher food prices and low base effects from higher fuel prices, and these base effects will fade in coming months. In the March quarter, tradables inflation was 2.5%, while nontradables was 1.6%, the strongest growth rate since mid-2011.

A key reason for the central bank's sustained and explicit neutral stance is a desire to keep upward pressure off the exchange rate. The trade-weighted index has appreciated around 3% since May on the back of higher commodity prices. Further appreciation is likely with further dairy price gains expected through to the second half of the year. Dairy prices were up 52% y/y in May, according to the ANZ commodity price index, outstripping the headline index, which was up 26%.

A Granger causality test confirmed a one-way causal relationship with a 95% confidence interval. That is, dairy prices drive changes in the exchange rate but not the other way around. Dairy prices are expected to remain buoyant on the back of strong Chinese demand and to a lesser extent, some global supply shortages. The central bank will be hoping that its explicit neutral stance alongside the hawkish U.S. Federal Reserve will dampen the appreciation.

It's worth remembering dairy is critical to New Zealand's economy; dairy represented 18% of total goods and services exports in the 12 months to June 2016. New Zealand exports around 95% of what it produces. An interesting development has been increased demand for butter and milk fat. Cakes and cream are being consumed more often by wealthy Asians, and some poorer nations are also developing a taste for butter and milk fat, providing a structural lift to demand. China is the largest market for New Zealand's dairy exports.

House price growth has begun cooling in New Zealand as the central bank has deployed an artillery of measures in recent years, including tighter loan-to-value restrictions. More recently, mortgage rates have been creeping higher independent of the central bank. For instance, two-year fixed mortgage rates have been edging up slowly over the last year or so, rising from about 5.04% in May 2016 to 5.27% in

April. This has been driven by increased bank funding costs, rising interest rates offshore, and higher capital requirements in Australia for the big four banks that dominate New Zealand's banking sector.

National house prices grew 6.2% y/y in May, while they grew 4.4% in Auckland. Other measures show buoyancy has cooled. For instance, the national sales volume was down 22.2% y/y in May, led by Auckland at 31.2%. Excluding Auckland, sales volumes were down 17%. The median days to sell nationally increased by five to 37 days, compared with 32 days in May 2016.

The moderation in house price growth, especially in Auckland, has been a welcome development for the central bank. It is unclear whether cooler house price growth will last given strong population gains putting constant pressure on already-tight supply, but for now cooler prices take the pressure off the central bank needing to hike rates sooner than they would like.

Tourism recently overtook dairy as New Zealand's top export earner. Tourism represented 17.4% of exports, according to the ASB, while dairy products accounted for 17.2% of exports in 2016. This compares with 16.9% and 18.2%, respectively, in 2015. The tourism boom is being driven by a number of factors. First, access to New Zealand is easier and cheaper thanks to growth in the number of flights and airlines. The 2015 Cricket World Cup helped boost arrivals and globally showcase New Zealand. It is also considered a relatively safe destination to visit, far removed from geopolitical tensions that can plague traditionally large tourist destinations such as the U.S. and Europe. The World Masters Games in Auckland in April are providing an additional boost.

Ratings Round-Up

By Njundu Sanneh

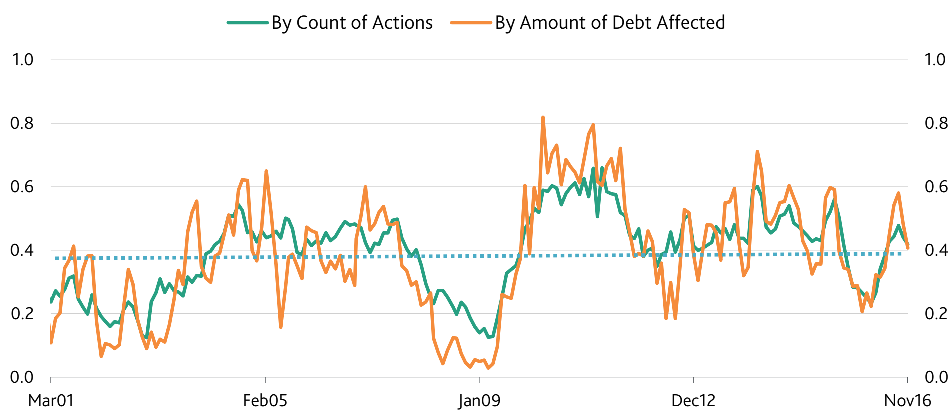
Many Financial Upgrades in Europe

It was a busy week for rating revisions as the counts for both the US and Europe were above the usual weekly averages, with the US recording 15 rating revisions and Europe 20. Financials which accounted for 16 of the 20 in Europe, propelled the contribution of positive rating changes there to 90%. All the financial companies in the list were upgraded. A point of note is that most of these were speculative grade financial companies from Greece, Slovenia, Bulgaria and Kazakhstan. The Greek financial upgrades were a result of the upgrade of the government of Greece which led to the upgrade of the senior debt ratings of the country's large banks. Usually financial upgrades in Europe are associated with investment grade institutions but this time around the speculative grade financials account for most of the rating upgrades.

The US rating revisions count was 15 with a 40% contribution rate for positive rating changes. This is in line with the long-term average for the series but adds to the trend toward depressed levels of positive rating changes for the past four weeks. The upgrade of three housing related companies speaks to the strength of the housing sector. Building material companies Eagle Materials, Inc. and LSF9 Cypress Holdings LLC and home building and property development firm Taylor Morrison Communities, Inc., a unit of Taylor Morrison Home Corporation, were all upgraded and they account for three of the six upgrades in the past week. Project/power finance, retail, and media sectors account for the bulk of the US downgrades.

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
6/21/17	IMMUCOR, INC.	Industrials	SrUnsec/LTCFR/PDR	400	U	Caa3	Caa2	SG
6/22/17	PIONEER UK MIDCO 1 LIMITED - Packaging Coordinators Midco, Inc.	Industrials	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
6/22/17	U.S. RENAL CARE, INC.	Industrials	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
6/22/17	VINCE HOLDING CORP. - Vince, LLC	Industrials	LTCFR/PDR		D	Caa1	Caa2	SG
6/23/17	CHIEF POWER FINANCE, LLC	Industrials	SrSec/BCF		D	B2	B3	SG
6/23/17	COVANTA HOLDING CORPORATION	Utility	SrUnsec/LTCFR/PDR	1,200	D	Ba3	B1	SG
6/26/17	NFP INTERMEDIATE HOLDINGS A CORP. - NFP Corp.	Financial	SrSec/BCF		D	B1	B2	SG
6/26/17	SANDY CREEK ENERGY ASSOCIATES, LP	Industrials	SrSec/BCF		D	B2	B3	SG
6/27/17	ALPHA MEDIA LLC	Industrials	LTCFR/PDR		D	B2	B3	SG
6/27/17	BURLINGTON STORES, INC. - Burlington Coat Factory Warehouse Corp	Industrials	SrSec/BCF/LTCFR/PDR/SGL		U	Ba3	Ba2	SG
6/27/17	EAGLE MATERIALS INC.	Industrials	SrUnsec	350	U	Ba1	Baa3	SG
6/27/17	LONGVIEW INTERMEDIATE HOLDINGS C, LLC	Industrials	SrSec/BCF		D	B3	Caa2	SG
6/27/17	LSF9 CYPRESS HOLDINGS LLC	Industrials	SrSec/LTCFR/PDR	575	U	Caa1	B3	SG
6/27/17	TAYLOR MORRISON HOME CORPORATION - Taylor Morrison Communities, Inc.	Industrials	SrUnsec/LTCFR/PDR	1,250	U	B2	B1	SG
6/27/17	W3 TOPCO LLC	Industrials	LTCFR/PDR		U	Caa3	B3	SG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

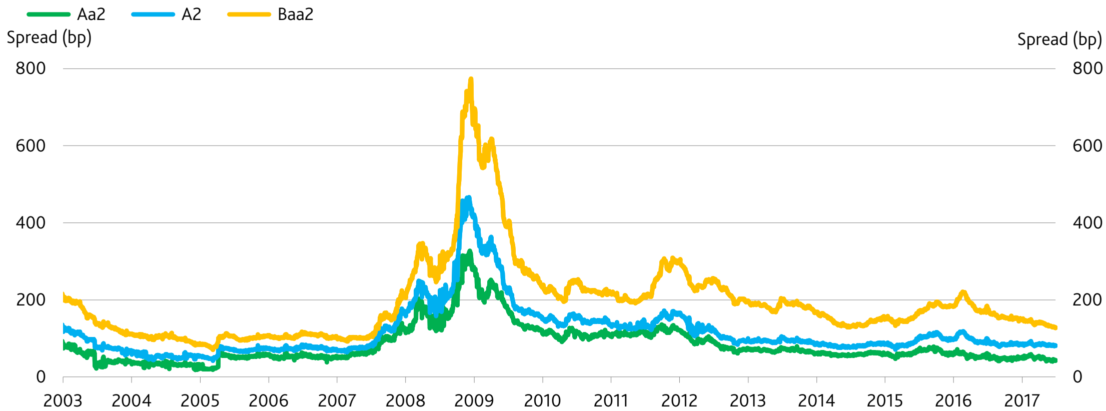
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
6/21/17	LSF9 BALTA ISSUER S.A.	Industrials	SrSec/LTCFR/PDR	325	U	B2	B1			SG	BELGIUM
6/26/17	MUNICIPAL BANK AD	Financial	LTD		U	B1	Ba3			SG	BULGARIA
6/26/17	RAIFFEISEN ZENTRALBANK OESTERREICH AG - Raiffeisenbank (Bulgaria) EAD	Financial	SLTD		U	Ba2	Baa3	NP	P-3	SG	BULGARIA
6/23/17	BANK OF CYPRUS PUBLIC COMPANY LIMITED	Financial	SrUnsec/MTN/Sub/JrSub	280	U	Caa2	Caa1			SG	CYPRUS
6/27/17	METRO AG	Industrials	SrUnsec/MTN/CP	2,801	D	Baa3	Ba1	P-3	NP	IG	GERMANY
6/26/17	ALPHA BANK AE	Financial	SrUnsec/Sub/MTN	1,231	U	Ca	Caa3			SG	GREECE
6/26/17	EUROBANK ERGASIAS S.A.	Financial	SrUnsec/MTN/Sub	1,299	U	Ca	Caa3			SG	GREECE
6/26/17	HELLENIC TELECOMMUNICATIONS ORGANIZATION	Industrials	SrUnsec/LTCFR/PDR/MTN	1,882	U	Caa2	B3			SG	GREECE
6/26/17	NATIONAL BANK OF GREECE S.A.	Financial	SrUnsec/MTN		U	Caa3	Caa2			SG	GREECE
6/26/17	PIRAEUS BANK S.A.	Financial	SrUnsec/Sub/MTN		U	Ca	Caa3			SG	GREECE
6/23/17	MKB BANK ZRT.	Financial	LTD		U	B3	B2			SG	HUNGARY
6/22/17	THE ROYAL BANK OF SCOTLAND GROUP PLC - Ulster Bank Ireland DAC	Financial	SLTD/SLTIR		U	Baa3	Baa2			IG	IRELAND
6/27/17	HALYK SAVINGS BANK OF KAZAKHSTAN	Financial	LTD		U	Ba2	Ba1			SG	KAZAKHSTAN
6/27/17	KAZKOMMERTSBANK	Financial	SrUnsec/LTD/MTN	400	U	Caa2	B1			SG	KAZAKHSTAN
6/27/17	LOCK LOWER HOLDING AS	Financial	SrUnsec/SrSec/LTCFR/BCF	2,128	U	Caa1	B1			SG	NORWAY
6/21/17	ABANKA D.D.	Financial	LTD		U	Ba3	Ba1			SG	SLOVENIA
6/21/17	NOVA KREDITNA BANKA MARIBOR D.D.	Financial	LTD		U	B2	Ba2			SG	SLOVENIA
6/21/17	NOVA LJUBLJANSKA BANKA D.D.	Financial	LTD		U	Ba3	Ba1			SG	SLOVENIA
6/21/17	DONCASTERS GROUP LTD	Industrials	LTCFR/PDR		D	B2	B3			SG	UNITED KINGDOM
6/27/17	ASSURED GUARANTY LTD.	Financial	IFSR		U	Baa2	Baa1			IG	UNITED KINGDOM

Source: Moody's

Market Data

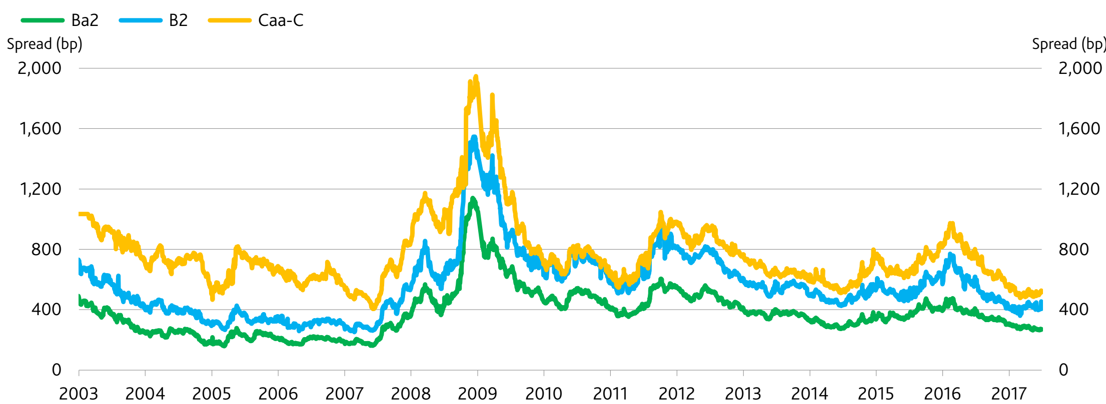
Spreads

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



Source: Moody's

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



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (June 21, 2017 – June 28, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 28	Jun. 21	Senior Ratings
PHH Corporation	Ba1	B1	B1
Kinder Morgan Energy Partners, L.P.	Baa2	Ba1	Baa3
Anadarko Petroleum Corporation	Ba3	B2	Ba1
Devon Energy Corporation	Ba2	B1	Ba1
Wells Fargo & Company	A2	A3	A2
Amgen Inc.	A1	A2	Baa1
UnitedHealth Group Incorporated	Aa2	Aa3	A3
First Data Corporation	Ba2	Ba3	B3
Kinder Morgan Inc.	Ba1	Ba2	Baa3
Penney (J.C.) Corporation, Inc.	Caa2	Caa3	B3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 28	Jun. 21	Senior Ratings
Verizon Communications Inc.	Baa3	Baa2	Baa1
Apple Inc.	A1	Aa3	Aa1
Comcast Corporation	A2	A1	A3
Exxon Mobil Corporation	A2	A1	Aaa
Philip Morris International Inc.	A3	A2	A2
Bank of New York Mellon Corporation (The)	Baa1	A3	A1
Nissan Motor Acceptance Corporation	Baa1	A3	A2
Altria Group Inc.	A1	Aa3	A3
Consolidated Edison Company of New York, Inc.	A3	A2	A2
Thomson Reuters Corporation	Baa3	Baa2	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 28	Jun. 21	Spread Diff
Nine West Holdings, Inc.	Ca	5,925	5,406	519
Parker Drilling Company	Caa1	1,053	888	165
Neiman Marcus Group LTD LLC	Caa3	1,768	1,679	89
McClatchy Company (The)	Caa2	916	846	70
Staples, Inc.	Baa2	319	263	56
Nordstrom, Inc.	Baa1	304	264	39
Sears Roebuck Acceptance Corp.	Caa3	3,397	3,365	33
Sears Holdings Corp.	Caa3	3,382	3,350	32
Arconic Inc.	Ba2	171	140	31
CA, Inc.	Baa2	203	171	31

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 28	Jun. 21	Spread Diff
K. Hovnanian Enterprises, Inc.	Caa3	856	1,011	-154
Hertz Corporation (The)	B3	1,002	1,117	-115
Chesapeake Energy Corporation	Caa2	758	849	-91
Weatherford International, LLC (Delaware)	Caa1	484	573	-89
PHH Corporation	B1	98	186	-88
Avis Budget Car Rental, LLC	B1	495	557	-62
Penney (J.C.) Corporation, Inc.	B3	781	830	-49
Hess Corporation	Ba1	188	232	-44
Avon Products, Inc.	B3	644	686	-42
Nabors Industries Inc.	Ba3	438	479	-41

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (June 21, 2017 – June 28, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 28	Jun. 21	Senior Ratings
RCI Banque	Baa3	Ba3	Baa1
Barclays Bank PLC	A2	Baa1	A1
The Royal Bank of Scotland plc	A3	Baa2	A3
Abbey National Treasury Services plc	A2	Baa1	Aa3
Santander UK PLC	A3	Baa2	A3
Nationwide Building Society	A2	Baa1	Aa3
Standard Chartered Bank	A2	Baa1	A1
Standard Chartered PLC	A3	Baa2	A2
Unione di Banche Italiane S.p.A.	Ba2	B1	Baa3
Alliance & Leicester plc	A1	A3	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 28	Jun. 21	Senior Ratings
Banque Federative du Credit Mutuel	A1	Aa3	Aa3
SEB	A2	A1	Aa3
Eurobank Ergasias S.A.	Ca	Caa3	Caa3
AstraZeneca PLC	A2	A1	A3
British Telecommunications Plc	Baa2	Baa1	Baa1
Piraeus Bank S.A.	Ca	Caa3	Caa3
Telia Company AB	A3	A2	Baa1
Vivendi SA	Baa1	A3	Baa2
Gecina SA	Baa1	A3	A3
Pernod Ricard S.A.	A3	A2	Baa2

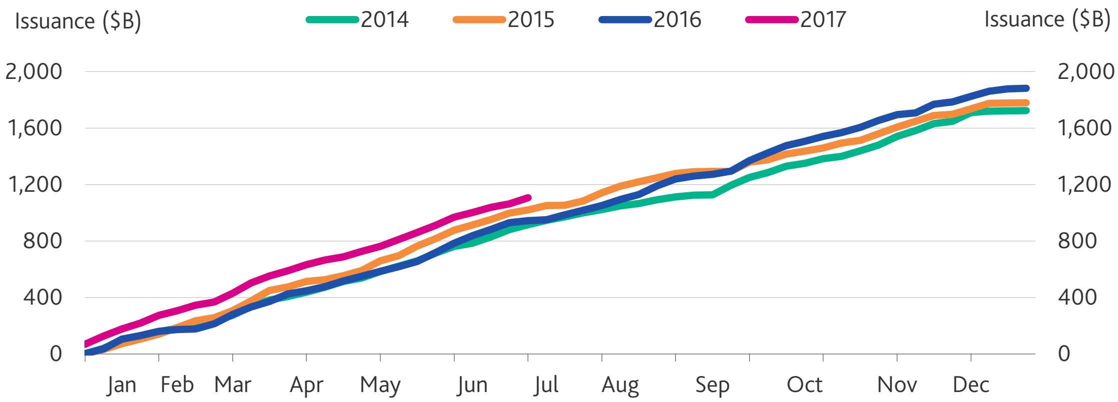
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 28	Jun. 21	Spread Diff
Norske Skogindustrier ASA	C	31,750	27,300	4,450
Eurobank Ergasias S.A.	Caa3	1,054	893	162
Piraeus Bank S.A.	Caa3	1,054	893	162
Alpha Bank AE	Caa3	768	650	118
Boparan Finance plc	B2	465	395	70
Matalan Finance plc	Caa2	773	712	60
Astaldi S.p.A.	B3	972	914	58
Ensco plc	B2	590	558	32
PizzaExpress Financing 1 plc	Caa1	716	687	29
Galapagos Holding S.A.	Caa2	805	785	20

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 28	Jun. 21	Spread Diff
Banca Monte dei Paschi di Siena S.p.A.	B3	240	312	-72
RCI Banque	Baa1	92	153	-61
Evraz Group S.A.	B1	280	331	-51
Novo Banco, S.A.	Caa2	1,145	1,194	-49
Unione di Banche Italiane S.p.A.	Baa3	150	187	-37
Standard Chartered PLC	A2	45	68	-23
UniCredit S.p.A.	Baa1	96	116	-20
Standard Chartered Bank	A1	39	59	-20
Banco Sabadell, S.A.	Baa3	89	109	-20
Dexia Credit Local	Baa3	127	147	-19

Source: Moody's, CMA

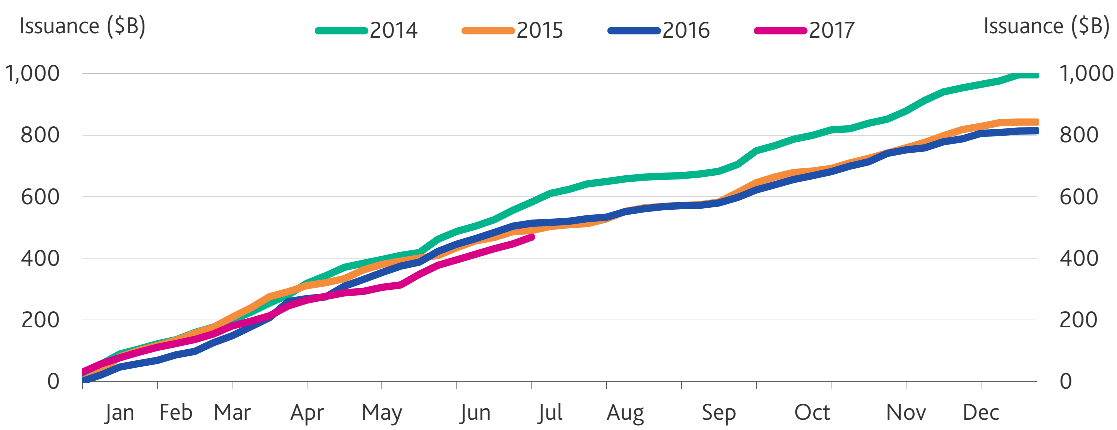
Issuance

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	21.509	11.379	43.249
Year-to-Date	787.815	229.643	1,107.417

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	18.602	0.714	21.358
Year-to-Date	393.879	51.109	468.268

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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