MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Treasury Yields May Fall Short of Consensus Views

Moody's Capital Markets Research, Inc.

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Credit Markets Review and Outlook *by John Lonski*

Treasury Yields May Fall Short of Consensus Views.

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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, "Likely yearly percent changes for April's high-yield borrowing activity include a -22% drop for bond offerings and a +72% advance for new bank loan programs," begin on page 19.

Credit Spreads	Investment Grade: Year-end 2017 spread to exceed its recent 122 bp. High Yield: After recent spread of 385 bp, it may approximate 475 bp by year-end 2017.
Defaults	US HY default rate: after March 2017's 4.7%, Moody's Credit Policy Group forecasts it near 2.9% during 2018's first quarter.
Issuance	In 2016, US$-IG bond issuance grew by 5.6% to a record $1.412 trillion, while US$-priced high-yield bond issuance fell by -3.5% to $341 billion. For 2017, US$-IG bond issuance may rise by 2.6% to a new zenith of $1.449 trillion, while US$-priced high-yield bond issuance may increase by 16.6% to $397 billion but would still lag 2014's $435 billion record high.

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Ratings Round-Up *by Njundu Sanneh*

Energy Companies Among the Upgrades.

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Market Data

Credit spreads, CDS movers, issuance.

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Moody's Capital Markets Research *recent publications*

Links to commentaries on: France, improve, cycle, South Africa, yields, Venezuela, equity, eurozone, hike, global, profits, Korea, Caa, yes, hike, VIX, rates, France, demography.

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

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Credit Markets Review and Outlook

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

Treasury Yields May Fall Short of Consensus Views

Once again, the 10-year Treasury yield confounds the consensus. As of early April, the consensus had predicted that the benchmark 10-year Treasury would average 2.6% during 2017's second quarter. To the contrary, the 10-year Treasury yield has averaged a much lower 2.29% thus far in the second quarter, including a recent 2.30%. Moreover, the 10-year Treasury yield has moved in a direction opposite to what otherwise might be inferred from March 14's hiking of fed funds' midpoint from 0.625% to 0.875%. For example, April 27's 10-year Treasury of 2.30% was less than its 2.62% close of March 13, just prior to the latest Fed rate hike.

The latest decline by Treasury bond yields since March 14's Fed rate hike stems from a slower than anticipated pace for business activity that has helped to rein in inflation expectations. March's unexpectedly small addition of 98,000 workers to payrolls increases the risk of lower than expected household expenditures that could bring a quick end to the ongoing series of Fed rate hikes.

As inferred from the CME Group's FedWatch tool, the fed funds futures contract assigns a negligible 4.3% probability to a Fed rate hike at the May 3 meeting of the FOMC. However, the likelihood of a rate hike soars to 70.6% at June 14's FOMC meeting. Thus, do not be surprised if the policy statement of May 3's FOMC meeting strongly hints of a June rate hike. Nevertheless, a June rate hike probably requires the return of at least 140,000 new jobs per month, on average, for April and May.

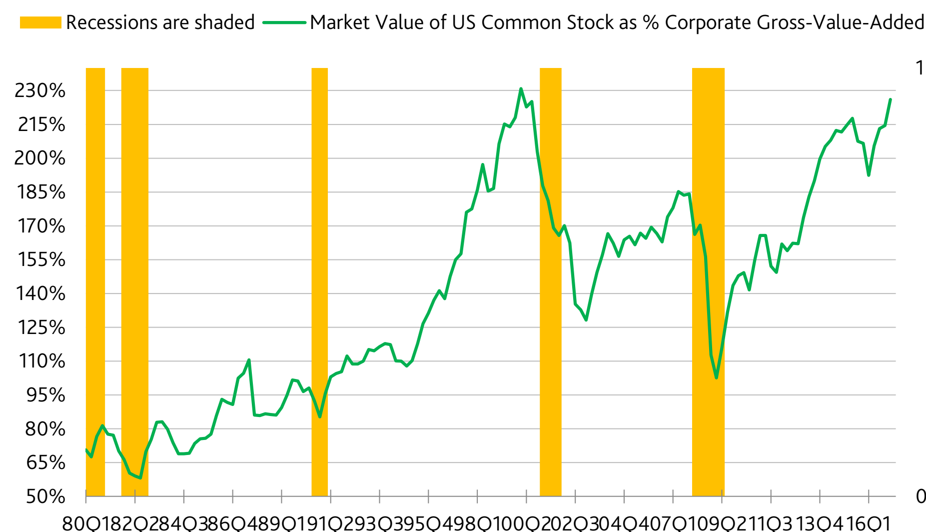
Unlike the Treasury bond market's more sober view of business prospects since the March 14 rate hike, equities have rallied and the high-yield bond spread has narrowed. Incredibly, the VIX index sank to 10.6 on April 27, which was less than each of its prior month-long averages. The closest was the 10.8 of November 2006, or when the high-yield bond spread averaged 330 bp. Thus, if the VIX index does not climb higher over the next several weeks, the high-yield bond spread is likely to narrow from an already thin 385 bp.

Market value of common stock nears record percent of revenues

As equity market overvaluation heightens the risk of a deep drop by share prices, Treasury bonds become a more attractive insurance policy in case the equity bubble bursts. This is especially true if the next harsh equity-market correction is triggered by a contraction of profits, as opposed to an inflation-inspired jump by interest rates.

Equities are now very richly priced relative to corporate gross-value-added, where the latter aggregates the value of the final goods and services produced by corporations. Basically, gross value added nets out the value of the intermediate materials and services from which final products are produced.

Figure 1: Equities Post Highest Valuation Vis-a-vis Corporate Gross-Value-Added (a proxy for revenues) Since 2000



Credit Markets Review and Outlook

The market value of US common stock now approximates 226% of the estimated gross value added of US corporations, where the latter is a proxy for corporate revenues. During the previous cycle, the ratio peaked at the 185% of Q2-2007 and then bottomed at the 103% of Q1-2009. The ratio is now the highest since the 231% of Q1-2000. Not only was the latter a record high, but it also coincided with a cycle peak for the market value of US common stock.

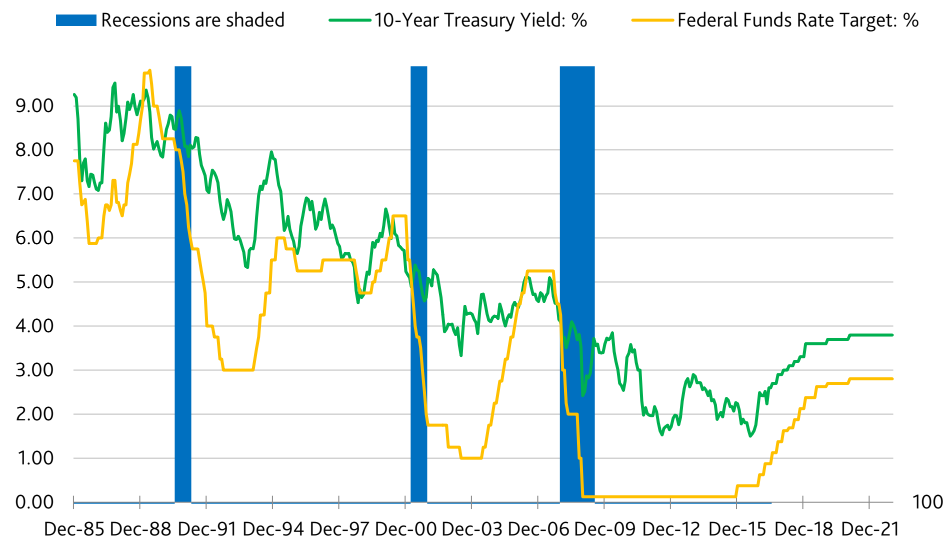
All else the same, the fair value of equities should decline as bond yields increase. Thus, the overvaluation implicit to Q1-2000's atypically high ratio of the market value of common stock to corporate gross value added was compounded by Q1-2000's relatively steep long-term Baa industrial company bond yield of 8.28%. Even if the market value of US common stock now matched Q1-2000's 231% of corporate gross value added, Q1-2000's equity market appears to be much more overvalued largely because the April 26, 2017 long-term Baa industrial company bond yield of 4.65% was well under the 8.28% of Q1-2000. (Figure 1.)

Consensus implicitly foresees record-long business upturn

Be it the Blue Chip or the Bloomberg survey, the consensus long-term outlook for interest rates suggests a great deal of confidence in the longevity of the current business cycle upturn. April's consensus projects a steady climb by fed funds and the 10-year Treasury yield into 2021, by which time the forecast looks for yearlong averages of 2.88% for the fed funds' midpoint and 3.6% for the 10-year Treasury yield.

Thus, the consensus implicitly expects that the current economic recovery (which is about to finish its eighth year in July 2017) will reach an exceptional 12th year in 2021. The implied expectation of a record long business cycle upturn is derived from the observation that each previous recession since 1979 has prompted significant declines by both fed funds and the 10-year Treasury yield. The absence of any predicted drop by the 10-year Treasury yield's yearlong average between now and the end of 2022 is tantamount to forecasting an economic recovery of record length. (Figure 2.)

Figure 2: Last Three Recessions Drove Interest Rates Sharply Lower, Thus Consensus Implicitly Expects Current Upturn Will Last Through 2022 actual & projected interest rates in %



The current record-holder among economic recoveries is the upturn of April 1991 through February 2001 that lasted about 9.75 years. In a distant second place is the upturn of December 1982 through June 1990 that covered roughly 7.5 years. If the consensus proves correct about the duration of the ongoing upturn, a seemingly overvalued equity market is far from exhausting its upside potential.

Long-term outlook on profits requires low long-term bond yields

The consensus also maintains positive views on the near- and long-term outlook for pretax profits from current production. April's Blue Chip consensus not only expects pretax operating profits to grow by 4.9% in 2017 and by 4.2% in 2018, but March's long-term outlook projected profits growth in each of the five-years-ended 2023 of 4.0% annually, on average. The realization of seven consecutive years of profits growth requires the avoidance of a possibly disruptive climb by interest rates. Thus, the 10-year

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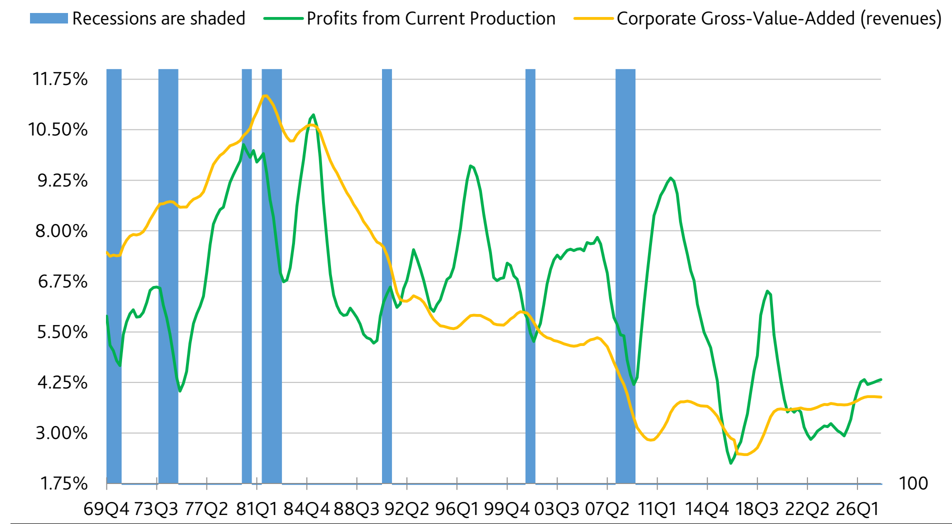
Treasury might well have difficulty spending much time above 3%, if, as expected, corporate gross value added's average annual growth rate is less than 4%. (Figure 3.)

Figure 3: Modest Long-Term Outlooks for Both Corporate Gross-Value-Added (revenue proxy) and Profits from Current Production 10-year average annual growth rates



The Week Ahead – US, Europe, Asia-Pacific

THE US

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

Summary, April 21: The first quarter can be full of surprises; during this expansion, first quarter GDP growth has come in short of consensus expectations every time, with an average absolute forecast error of 0.47 percentage point. Initially, disappointing first quarter GDP growth led some to question the durability of the expansion, but that should fade now that the issue of residual seasonality has come to the forefront.

Residual seasonality in GDP implies that there is a predictable seasonal pattern. This is clear in the first quarter, as GDP tends to be noticeably weaker than in the subsequent three quarters. The differences are frequent and large enough that they are unlikely a fluke. Also, residual seasonality is evident across many of the major components of GDP, including parts of services spending, exports, federal and state and local government expenditures, and nonresidential structures.

The Bureau of Economic Analysis has made adjustments to correct some of the issues related to residual seasonality, but it likely remains a sizable weight on GDP growth. Our high-frequency GDP model attempts to adjust for residual seasonality by using quarterly dummy variables. We expect GDP to come in weak in the first quarter, rising 0.8% at an annualized rate. Residual seasonality appears to be shaving 0.5 percentage point off first quarter GDP growth. There are other reasons for the weakness in the first quarter, including weather and possibly the delay in tax refunds.

We believe the Fed will look through the poor start of the year, as GDP will be inconsistent with other hard data, including employment. Still, sub-1% GDP growth could create a communication challenge for the Fed, since we still expect it to raise rates in June. Though GDP will be heavily scrutinized, the employment cost index for the first quarter could have greater influence on monetary policy. The Fed is worried that the tight job market will lead to a sudden acceleration in wages that would then boost inflation.

Other data will be mixed. We look for the soft data to weaken further, with the Conference Board Consumer Confidence index falling in April. As for the hard data, we look for a 0.8% gain in durable goods orders. Excluding transportation, orders likely rose 0.2%. Weather likely hurt new-home sales in March, and we expect a modest decline.

THURSDAY, APRIL 27

Jobless claims (week ending April 22; 8:30 a.m. EDT)

Forecast: 245,000
Initial claims are less reliable this time of year because of shifts in the timing of the Easter holiday and spring breaks. The four-week moving average fell by 4,250 to 243,000. We look for new filings to have risen by 1,000 to 245,000 in the week ended April 22. Meanwhile, continuing claims, which dropped 49,000 to 1.979 million in the week ended April 8, will include the household reference week.

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

Forecast: 0.8% (total)
We look for durable goods to have risen 0.8% in March following a 1.7% gain in February. Boeing orders increased in March, but they favored the less expensive planes. Therefore, we expect that to limit the gain in nondefense aircraft orders. The forecast also assumes an increase in nondefense aircraft, but we look for motor vehicle and parts orders to be a drag. Durable goods orders and inventories will be among the last inputs into our high-frequency GDP model ahead of the government's advance estimate of first quarter GDP.

FRIDAY, APRIL 28

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

Forecast: 0.8% at an annual rate

Our high-frequency GDP model estimates that first quarter GDP rose 0.8% at an annual rate. The risks have turned more balanced as the surge in utility output suggests that real consumer spending on services could come in a little stronger than our model anticipates. On the other hand, inventories continue to underwhelm, lending downside risk to first quarter GDP growth. The good news is that we will get more information on the March inventories before the government's advance estimate of GDP. The same can't be said about consumer spending on services.

The first quarter is clearly setting up to be a disappointment. Our high-frequency GDP model has had a tendency to overestimate the government's advance estimate of GDP. This would suggest that first quarter GDP could come in even weaker than currently expected. Since its inception in 2012, some of the model's largest errors were in the first quarter. The model's accuracy has improved since we incorporated dummy variables for residual seasonality. Residual seasonality appears to be shaving at least 0.5 percentage point off first quarter GDP growth. Weather is also a net negative for first quarter GDP growth.

Real consumer spending is expected to rise 0.6% at an annual rate in the first quarter following a 3.5% gain in the final three months of 2016. Weather hurt both services spending and durables. The East Coast snowstorm in March appears to have contributed to a decline in vehicle sales in the month. These sales will be made up in subsequent months, helping second quarter spending but coming at the expense of durable goods spending in the first quarter.

Real residential investment likely rose 9.1% at an annualized rate, boosted by brokers' commissions and home improvement spending. Nonresidential investment likely gained 3.7% in the first quarter. We look for equipment spending to have risen 5.1% at an annual rate. The inventory build likely totaled $19 billion at an annual rate, less than the roughly $50 billion increase in the fourth quarter.

Net exports should be roughly neutral for first quarter GDP growth. We expect federal government spending to have dropped while state and local spending rose.

We will finalize our estimate of first quarter GDP after the release of durable goods and the advance data on the goods deficit and inventories.

University of Michigan Survey (April-final; 10:00 a.m. EDT)

Forecast: 97.5

The University of Michigan's consumer sentiment index is expected to have come in at 97.5 in April, modestly below its preliminary estimate but still above March's 96.9. Stocks and gasoline will likely weigh on sentiment. Unlike other measures of sentiment, there isn't strong evidence of a political bias in any of the measures of consumer sentiment we closely monitor. Therefore, consumer sentiment may be too strong relative to underlying fundamentals. If sentiment weakens some, it wouldn't have a significant impact on the outlook.

EUROPE

By the Dismal (Europe) staff in London and Prague

Summary, April 28: The coming week will bring the first estimate of the euro zone's first quarter GDP, which is more likely than not to surprise on the downside given the poor figures for both Germany and

France released on Friday. As of now, we are expecting growth to accelerate to 0.6% q/q, up from a 0.4% increase in the fourth quarter. But we wouldn't be at all surprised if the final number came in at 0.4% to 0.5%. France's first GDP estimate disappointed strongly, showing that the euro zone's second largest economy grew only by 0.3% q/q in the three months to March, as net exports dragged on growth and consumer spending slowed sharply. We are a little more upbeat about prospects for Germany, but downside risks for consumer spending are casting a shadow on our forecasts of growth accelerating to 0.6% q/q, from 0.4% previously. Data released on Friday showed that retail sales actually contracted by 0.1% q/q in the first quarter, down from a 0.8% increase at the closing quarter of 2016, adding downside risks to household consumption's performance at the start of the year. Strong construction and manufacturing numbers will nonetheless provide offset: Assuming that y/y growth in industrial production remained relatively steady in March, which requires a small monthly decrease, factory output would have still increased by around 2% in the first quarter, compared with a modest 0.1% fall in the December quarter. This will provide a big lift to GDP growth, mainly because of a huge jump in construction output as the warmer than average weather boosted homebuilding and infrastructure work in both February and March. But net exports should also have expanded, lifted by a recovery in external demand but also because of a cooldown in imports.

Elsewhere, though, a stellar performance in Spain is a major upside risk to the forecast. We have the impression that the Spanish economy doesn't get tired of amazing the markets; its GDP growth accelerated further in the first quarter to 0.8% q/q, following an already astonishing 0.7% rise in the fourth quarter. Details are not available yet, but we think a strong support from net trade and acceleration in both investment and consumer spending boosted the headline. By contrast, growth in Italy should have remained steady at only 0.2%, as household spending remained muted and investment again disappointed; Italy's economy is perhaps one the most fragile economies in the euro area, and it is having a hard time coming out of the doldrums. In all, we think weakness in France and Italy will contrast with stronger results for Germany, Spain, and other smaller economies such as Austria, Belgium and the Netherlands.

Euro zone March retail sales figures are also scheduled to be released next week. We are downbeat about the results. Country data already show that retail sales disappointed in the area's two main economies, and mean reversions in Ireland, Finland and Portugal's figures are also expected to drag on the headline. Survey data corroborate our expectations. The area's retail PMI fell to a four-month low of 49.5 in March, from 49.9 in February, signaling a slight decrease in sales. One of the assumptions of the PMI data was that retail sales in Germany had accelerated to a six-month high over the month, but data released on Friday proved that wrong. Retail sales actually increased by a marginal 0.1% m/m, while February's increase was revised sharply down, to 1.1% from 1.8%. We are penciling in a 0.3% decrease, but risks are tilted to the downside, especially those regarding Italy's performance.

FRIDAY, APRIL 28

France: GDP (Q1; 6:30 a.m. BST)

The French economy likely grew 0.3% q/q in the three months to March, decelerating slightly from 0.4% in the previous quarter. Household consumption likely drove the expansion, while net exports dragged on the final reading. The annual expansion rate accelerated to 1.3% from 1.1% in the three months to December, but lower than expected industrial production weighed on the number. French consumer and business confidence is slowly but surely improving. This reflects a strengthening labor market and a slowly firming recovery in the general economy, as well as fewer fears about the consequences of the U.K. vote to leave the EU. Still, with lack of productive investment and an ageing population, France currently lacks a real domestic growth engine. Also, the looming presidential elections pose both a threat and an opportunity for the country as progressive candidates are standing against populists, helped by Trump's victory in the U.S.

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

French household expenditures on goods likely ticked up 0.2% m/m in March, after subtracting 0.8% m/m in February, and continued to strengthen also in annual terms. Still-low oil prices as well as low prices of most goods, an improving labor market, and a firming, yet slow, recovery in the country are lifting consumption at least on a yearly basis. The retail PMI, however, dipped into contractionary territory, posting a mere 49.4 in March from 51.7 in the previous month. Although employment increased, gross margins were still squeezed chiefly by a pickup in the rate of wholesale price inflation. The PMI drop could also be attributed to uncertainty before the upcoming presidential elections, as most retailers failed to meet their sales target, so the outlook remains optimistic. Still, French households are prudent and their precautionary savings remain high at close to 15%, limiting discretionary spending.

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

German retail sales likely dipped in March following an unexpected spike in the previous month. We expect sales to have decreased by 0.5% m/m from February, when they increased by 1.8%. In year-ago terms they likely continued to grow, albeit at a slower rate than their buoyant expansion in February. The Markit retail PMI climbed further to 52.5 in March from 51.2 in the previous month, suggesting stronger growth of retail sales in coming months. Consumption expenditure powered the country's expansion last year, while the remaining GDP components were lackluster. However, conservative German households will likely not ramp up their spending in coming months, because the outlook remains uncertain and because of accelerating inflation. Although Germany's annual national measure of inflation decelerated to 1.7% in March from 2.1% in February, rising commodity prices and a weak euro should support price growth in coming months.

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

Germany's seasonally adjusted unemployment rate likely remained at 5.8% in April, after falling to this new record low in March. German businesses remain confident in the country's future expansion, increasing their labor force, despite the uncertainties and geopolitical tensions. Details of the latest Markit manufacturing PMI showed the rate of hiring accelerating to one the fastest since July 2011. The weak euro has also supported demand for German products from outside of the single-currency area, which should translate into higher employment. However, the unemployment rate is likely bottoming down and it is expected to increase somewhat later this year because of the vast inflow of refugees since mid-2015, some of whom will be entering the German labor force.

U.K.: GDP Production Breakdown (Q1; 9:30 a.m. BST)

We expect the U.K. economy slowed in the three months to March, coming in at 0.4% q/q after a 0.7% gain in the final quarter of 2016. In yearly terms, GDP should have posted 2.2% growth, slightly up from 1.9% in the fourth quarter, but even this was due mainly to base effects. Though the service sector likely still powered the expansion, we expect it contributed far less. Granted, we still have scant hard data regarding the sector's performance, but a 0.1% m/m decrease in the official measure of services output in January combined with dire retail sales figures for the quarter as a whole, when retail sales dropped by 1.4% q/q, imply that services output likely rose by a paltry 0.4% in the first quarter.

Manufacturing, in contrast, should have supported growth somewhat in the opening months. Even if industrial production was dampened by a steep drop in energy output in February, manufacturing output remained relatively steady over the month. Plus, we expect a strong mean-reversion in the volatile pharmaceuticals output in March, so manufacturing likely increased by around 0.2% q/q in the first quarter, which is nonetheless well below the 1.2% rate in the three months to December. Despite February's downbeat results, we still look for production to have increased 0.6% to 0.7% in the first stanza, boosting GDP by around 0.1 percentage point.

We are setting the bar lower for construction, however. Construction output declined by 1.7% in February following no growth in January, and Markit's PMI results for the sector in March are grim: Growth in output should ease to its joint slowest since expansion began in September 2016. Commercial and industrial construction were likely the main drags, but housebuilding also lost

ground. We expect the sector's output to have stalled or slightly declined over the quarter, doing nothing to lift growth.

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

Euro zone annual harmonized inflation likely accelerated to 1.6% in April from 1.5% in the previous month. Inflation should not spike too much in the longer term, and we think it has reached this year's high. Besides subdued headline figures, next week's release will likely show that core inflation remains low, especially in southern European countries. Softer wage growth due to elevated unemployment is creating a low-inflation environment. Therefore, we don't expect the ECB to turn hawkish before the last quarter of 2017 or until the political uncertainty eases and secondary-round inflation effects of higher commodity prices materialize.

MONDAY, MAY 1

No major economic releases are scheduled.

TUESDAY, MAY 2

Italy: Unemployment (March; 9:00 a.m. BST)

After the Italian unemployment rate dropped to 11.5% in February, we expect another decline in March. The return of seasonal workers likely improved the situation in the labor market. Forward-looking indicators, such as consumer confidence and purchasing managers' index, suggest that employment could increase in coming months. Despite cyclically led improvement, Italy's labor market remains rigid. The higher participation rate combined with fewer job openings and a skills mismatch has contributed to Italy's elevated joblessness. Italy's labor market has the highest share of under-skilled workers among all OECD countries, with the south of Italy clearly underperforming the north. Therefore we expect that Italy's unemployment is unlikely to fall sharply in coming quarters, with stagnating productivity, a dual labor market, and an uncertain outlook which keeps a lid on job openings.

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

The euro zone's unemployment likely slid to 9.4% in March, from 9.5% in the previous month. Compared with March 2016, the rate decreased from 10.2%. Growth in the euro area apparently gained more ground at the start of the second quarter following an impressive opening to the year. The Markit flash euro zone PMI edged higher to 56.7 in April from 56.4 in March, its highest reading in six years. Both the manufacturing and services indexes ramped up to 72-month highs, supported by a further increase in new work especially in the export-led share of manufacturing. The momentum combined with optimism about prospects, which now reads just shy of its record high, pushed job growth to its fastest in almost a decade. The downward trend in the joblessness should persist in coming months, with improving economic conditions around the monetary bloc, labor market reforms, and a stronger industrial base in Spain, Ireland and Portugal.

WEDNESDAY, MAY 3

Euro Zone: Preliminary GDP (Q1; 10:00 a.m. BST)

The euro zone's short-term outlook seems promising. High-frequency indicators point to accelerating growth at the beginning of 2017 thanks to strengthening domestic demand led by falling unemployment and rising wages in some euro area countries. Increasing external demand will also add to the expanding euro zone economy. A weaker euro combined with stronger foreign demand will help to drive up euro zone exports in coming months. Nevertheless, Britain's departure from the EU poses a real risk, and any fallout will likely be felt once the U.K. formally withdraws and starts renegotiating trade agreements. Yet accommodative monetary policy, which will keep the euro relatively cheap, could offset expected weaker shipments to the U.K. Political anxiety about the 2017 voting season hasn't sent the economy off the rails yet. Therefore, we expect the euro zone's real GDP likely expanded by 0.6% q/q in the first quarter, up from 0.4% in the previous stanza.

THURSDAY, MAY 4

Euro Zone: Retail Sales (March; 10:00 a.m. BST)

Euro zone retail sales likely decreased by 0.3% m/m in March, partially reversing the 0.7% increase recorded for February. Downbeat data for Germany and France were likely the main drags on the headline. They should have contracted slightly following much better results for February, which were in turn boosted by sharp increases in clothing spending thanks to aggressive and prolonged summer sales. But offset should have come from Spain, where preliminary national data show spending rose by a strong 0.6% q/q, building on a 0.4% increase in February. Italy's retail PMI, meanwhile, shows the headline index at a six-month low of 45.1. This means that Italy's official retail results, which are not out yet, could lend downside risks to our forecast, and there is a chance that the final headline for the euro zone could print lower, at -0.4% m/m.

FRIDAY, MAY 5

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

Spain's industrial production index added 0.1% m/m in March, offsetting part of the unexpected fall in the previous month. This implies a 1.4% increase from a year earlier, which would be the slowest annual growth since October 2016. Business confidence dipped into negative territory after a spike in sentiment in February, but it is still well above the 2016 average. Although Spain's PMI remained comfortably into expansion territory in March, the growth rate softened for the second month in a row. In contrast, the euro zone manufacturing PMI reached a six-year high in March and accelerated further in April. With the euro zone accounting for about 52% of Spain's exports, robust expansion in regional economic activity will boost demand for Spain's manufactured goods. Economic fundamentals remain healthy in Spain. The country outpaced its euro zone peers in recent years. After a 2.3% expansion in 2016, growth will likely moderate to more sustainable levels in the medium term. Industrial production will likely follow the GDP, but given that the current level of industrial output remains well below pre-crisis levels, there may be room to regain lost potential and to grow at a somewhat faster pace.

ASIA-PACIFIC

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

Strong global tech demand supports exports and boosts manufacturing conditions in Asia

Chinese manufacturing remains upbeat, dipping only slightly in April from March's five-year high. An upswing in the global tech cycle is supporting production of electronics and components, while softer demand for cars is keeping a lid on the gains. Chinese manufacturing will perform solidly in the coming months.

Strong global demand for electronics is also benefitting Korean exporters. Samsung's release of its newest smartphone will bolster shipment growth, which is already receiving a boost from increased shipments of electronic parts and components. Rising global commodity prices will push up the value of imports and keep a lid on the trade balance. Korean inflation is expected to receive a boost because of higher global prices, notably in energy. Headline inflation is expected to moderate slightly but still

expand above 2% y/y. Meanwhile, inflation in Taiwan is expected to strengthen because of rising food and energy prices. The headline CPI measure likely expanded 0.4% y/y, up from 0.2%.

The Reserve Bank of Australia will likely keep the overnight cash rate unchanged at its May monetary policy meeting. March quarter inflation data showed that headline CPI reach the lower bound of the bank's target range. But while underlying measures also improved, they failed to reach 2%. Improvement in full-time employment is also a positive sign for the RBA, while high household debt poses a downside risk to longer-term consumption and financial stability.

Rising iron ore prices likely supported Australian exports in March, which is a key reason the trade balance remains in surplus. Meanwhile, weather events may have dented shipments of coal. A weaker aussie is boosting export competitiveness, but this also likely pushed up the cost of imports over the month.

Elsewhere, labor market conditions in New Zealand continue to improve. The unemployment rate likely dipped to 5.1% from 5.2%. Despite strong employment growth, record high immigration is keeping the headline rate elevated.

The surge in Malaysia's trade surplus likely reversed in March as volatility surrounding the Lunar New Year fades. Exporters here are also benefitting from stronger global tech demand, while higher oil prices also boost export receipts.

FRIDAY, APRIL 28

New Zealand – Foreign Trade – March

Time: 8:45 a.m. AEST (Thursday 10:45 p.m. GMT
Forecast: -NZ$150 million
New Zealand's monthly trade deficit likely widened in March after February's NZ$18 million shortfall. New Zealand's trade balance is often affected by the import of one-off items such as planes and other transport equipment. The annual trade deficit ballooned in the year ended in February because of import of a drilling platform. Looking through the volatility of these bulky items, soft commodity exports are on the mend, especially for values, after weakness last year. In particular, exporters are receiving higher receipts for fewer dairy shipments than they were a year earlier.

South Korea – Industrial Production – March

Time: 9:00 a.m. AEST (Thursday 11:00 p.m. GMT)
Forecast: 5.4%
Manufacturing remains upbeat in Korea, supported by steady global demand for electronics. Industrial production likely softened slightly to a 5.4% y/y gain after February's 6.6% surge. The Lunar New Year tends to increase volatility during the first quarter. The release of Samsung's newest smartphone is likely to boost output over the coming months, while car production will continue to pick up because of low base effects. Increased uncertainty due to the May elections will likely dampen activity in the next couple of months.

South Korea – Retail Sales – March

Time: 9:00 a.m. AEST (Thursday 11:00 p.m. GMT)
Forecast: 0.1%
Korean consumption likely softened in March, rising just 0.1% over the month compared with February's 3.2% gain. Despite the weak figure, this would mark the first time that retail trade expanded for two consecutive months since June. The impeachment of President Park Geun-hye boosted consumer confidence, but high private debt and subdued employment growth will keep a lid on the gains. Improved manufacturing conditions have boosted hiring more recently, and this should support stronger spending in coming months.

Japan – Consumer Price Index – March

Time: 9:30 a.m. AEST (Thursday 11:30 p.m. GMT)

Forecast: 0.3%
Japan's core inflation likely ticked up to 0.3% y/y in March after a 0.2% rise in February. The rise in global commodity prices will drive up core inflation, which includes energy prices. A lower yen will also increase imported inflation. Japan likely will continue to rely on external energy sources such as natural gas rather than go back entirely to its nuclear power. This means that fluctuating commodity prices will likely play a greater role in domestic inflation over the coming year. Overall, relatively flat domestic demand means that inflation is unlikely to rise meaningfully and will remain below the central bank's 2% inflation target.

Japan – Employment Situation – March

Time: 9:30 a.m. AEST (Thursday 11:30 p.m. GMT)
Forecast: 2.8% unemployed
Wage growth in Japan remains absent despite the tight labor market. March's unemployment rate was likely unchanged from 2.8% in February. Japan's natural rate of unemployment is possibly lower. This makes sense for a declining population, especially one whose labor force is declining. The rise in Japan's female labor force, after favorable policy initiatives introduced by the government, is not likely to offset the ageing population over the coming year.

Japan – Household Expenditures Survey – March

Time: 9:30 a.m. AEST (Thursday 11:30 p.m. GMT)
Forecast: 0.3%
Japanese workers' household expenditure for March is expected to rise 0.3% y/y. Weak wage growth has crimped consumption, and the wage negotiations in March suggest that pay raises will likely be lower compared with previous years. Spending on necessities will likely strengthen, as lower wages means consumers will spend less on discretionary items.

Japan – Industrial Production – March

Time: 9:50 a.m. AEST (Thursday 11:50 p.m. GMT)
Forecast: 1.2%
Japan's industrial production has improved in 2017 thanks to the lower yen and improved global tech cycle. Production rose sharply in February because of the slowdown from Lunar New Year festivities in January. The strong pace is unlikely to be repeated in March, although the trend will likely remain firm. Manufactured goods, especially semiconductors, are expected to drive overall production. Japanese automakers are also set to release new car models over the coming months, and this will lift the overall production momentum.

Japan – Retail Sales – March

Time: 9:50 a.m. AEST (Thursday 11:50 p.m. GMT)
Forecast: 0.6%
Japan's retail sales likely increased 0.6%, driven by increased retail fuel spending. Rising commodity prices will put upward pressure on fuel costs. But as they filter through the economy, costs of other goods at the retail level should also increase. If retail volumes remain the same, then retail sales will likely rise over the coming months. That said, downside risks remain prevalent. Weak wage growth means that spending on discretionary items, particularly luxury goods, is unlikely to rise meaningfully over the coming months.

Taiwan – GDP – 2017Q1

Time: 10:30 a.m. AEST (12:30 a.m. GMT)
Forecast: 2.7%
Taiwan's economy started the year on steady footing, expanding 2.7% y/y in the March quarter after a 2.8% gain previously. Low base effects and strengthening global demand will ensure that exports add strongly to GDP in the March quarter. Taiwan's low interest rate environment is also likely to boost fixed investment, further supported by improved economic conditions. Meanwhile, private consumption is likely to be a soft spot in the data as tepid wage growth weighs on household budgets.

Singapore – Employment – 2017Q1

Time: 12:30 p.m. AEST (2:30 a.m. GMT)
Forecast: 2.1% unemployed
Singapore's unemployment rate is forecast to have dipped to 2.1% in the first quarter, compared with 2.2% in the three months to December. Economic conditions have improved markedly in recent months and this will flow through to the labor market. Improved global demand has buoyed manufacturing and services, both of which likely increased hiring. Conversely, construction likely shed more workers in the quarter as falling house prices weighed on building activity.

Japan – Housing Starts – March

Time: 3:00 p.m. AEST (5:00 a.m. GMT)
Forecast: 4%
Japanese housing starts likely rose 4% y/y in March after a decrease the month prior. With record low interest rates, housing activity has improved modestly. We expect strong gains to continue in the large cities such as Tokyo, while house price growth remains low in other prefectures. The gains in the big cities aren't altogether surprising because populations across rural Japan are declining at a sharper pace. Though housing starts rose solidly through 2016, a slowdown is expected over the long term as the population declines.

Thailand – Private Consumption – March

Time: 5:30 p.m. AEST (7:30 a.m. GMT)
Forecast: 2.4%
Thailand's private consumption growth is forecast to have slowed to 2.4% in March, down from 4% in February. Spending by residents has started 2017 on a weak note after it received a temporary boost from government stimulus measures at the end of 2016. Persistently weak income growth is inhibiting a more sustained improvement in household spending. Meanwhile, a clampdown on illegal tour operators has stifled growth in tourist arrivals and thus on spending by nonresidents.

Thailand – Foreign Trade – March

Time: 5:30 p.m. AEST (7:30 a.m. GMT)
Forecast: US$4.5 billion
Thailand's trade surplus is forecast to have expanded to US$4.5 billion in March, compared with US$4 billion in February. This will be driven by export growth exceeding that of imports. Thailand's exporters are benefiting from improvements in global demand. Electronics exports in particular have shown consistent growth. Automobile shipments will also continue to tick up, but the improvement will be less pronounced because of stronger competition from other countries in the region. Import growth will be concentrated in raw materials and intermediate goods that are used as inputs for domestic manufacturing.

MONDAY, MAY 1

South Korea – Foreign Trade – April

Time: Unknown
Forecast: US$7.8 billion
Korean trade likely picked up in April, buoyed by strengthening global demand for electronics. The monthly trade surplus is expected to widen to US$7.8 billion from US$6.6 billion in March. The release of Samsung's new smartphone in April likely boosted electronic shipments, adding to a strong performance in parts and components. Imports are also expected to rise steadily because of higher global commodity prices and low base effects.

China – Manufacturing PMI – April

Time: 11:00 a.m. AEST (1:00 a.m. GMT)
Forecast: 51.6
Manufacturing conditions in China reached a nearly five-year high in March. Firms are expecting greater orders, hiring and production over coming months. Sentiment is on net mildly positive, a sign that the

economy is growing at its potential. Strong global tech demand is the key lift for China's manufacturers. Domestically, slowing car sales will dampen sentiment a little.

TUESDAY, MAY 2

South Korea – Consumer Price Index – April

Time: 9:00 a.m. AEST (Monday 11:00 p.m. GMT)
Forecast: 2.1%
Korean inflation likely moderated slightly in April, still growing above 2%. Headline CPI is expected to expand 2.1% y/y, down from 2.2% in March. Food prices remain high because of supply shortages, while rising global commodity prices push up the cost of fuel and utilities. Measures of underlying inflation will be weaker. Household budgets are under pressure from tepid wage growth and high private debt. This is keeping a lid on domestic demand and limiting retailers' ability to increase prices.

Australia – Monetary Policy – May

Time: 2:30 p.m. AEST (4:30 a.m. GMT)
Forecast: 1.5%
The Reserve Bank of Australia will likely stand pat at its May monetary policy meeting. Tepid wage growth and high private debt are crimping domestic demand, but the March quarter CPI data indicate that inflation pressures are starting to build. Employment data have also been more promising of late, with consecutive months of full-time employment growth. Meanwhile, frothy housing markets in Sydney and Melbourne have prompted financial stability concerns. The central bank will refrain from cutting the overnight cash rate, as this would exacerbate strong demand for credit. The already-low interest rate will support improvement in the labor market and price growth.

WEDNESDAY, MAY 3

New Zealand – Employment Situation – 2017Q1

Time: 8:45 a.m. AEST (Tuesday 10:45 p.m. GMT)
Forecast: 5.1% unemployed
New Zealand's unemployment rate likely eased to 5.1% in the March quarter from 5.2% in the December stanza. The economy is performing around potential, but record high net migration has kept the unemployment rate relatively elevated given the high level of new entrants to the labour market. This situation will persist through 2017. Heavily populated Auckland is a particular hot spot of economic activity and employment growth, not least because of the buoyant property market that is only just starting to show signs of cooling.

THURSDAY, MAY 4

Australia – Foreign Trade – March

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: A$3.8 billion
Australia's trade balance is expected to have remained in surplus in March, ticking up slightly to A$3.8 billion from A$3.5 billion in February. Exporters are benefitting from higher commodity prices and a weaker aussie. Weather events in Queensland likely dented commodity shipments, but the full impact will be felt in April. Meanwhile, the currency's depreciation has likely pushed up the value of imports.

FRIDAY, MAY 5

Taiwan – Consumer Price Index – April

Time: 10:30 a.m. AEST (12:30 a.m. GMT)
Forecast: 0.4%

Taiwan's headline CPI likely strengthened to 0.4% y/y in April from 0.2% in March. Food prices are expected to drag on the headline figure, while transport costs will receive a boost from rising global energy prices. Domestic conditions are improving, although tepid wage growth and an ageing population will keep a lid on the gains. The central bank will likely keep rates on hold through the first half of 2017 to support the economy's recovery.

Malaysia – Foreign Trade – March

Time: 2:00 p.m. AEST (4:00 a.m. GMT)
Forecast: MYR6.5 billion
Malaysia's monthly trade surplus likely narrowed slightly in March following February's MYR8.7 billion surplus. The Lunar New Year drove the wider than expected surplus in February after shipments and production were delayed for the weeklong holiday in January. Exports are enjoying improved conditions thanks to the sustained uptick in the global tech cycle, for which Malaysian manufacturing is heavily invested. Higher global commodity prices, especially for oil, are an added lift to exporters.

The Long View

The US: Likely yearly percent changes for April's high-yield borrowing activity include a -22% drop for bond offerings and a +72% advance for new bank loan programs

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
April 27, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 122 bp matches 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 385 bp is less than what is inferred from the spread's macroeconomic drivers and the high-yield EDF metric, and the VIX index. The implications for liquidity of regulatory changes merit scrutiny. If regulatory change enhances the market making capabilities of banks, If regulatory change enhances the market making capabilities of banks, corporate bond yield spreads may be thinner than otherwise.

DEFAULTS

After setting its current cycle high at January 2016's 5.9%, the US high-yield default rate has since eased to March's 4.7%. Moody's credit policy group lowered its predicted average default rate for Q4-2017 from March 2017's 3.3% to 3.1%. A deeper slide to its 1.85% average of the 18-months-ended June 2015 is unlikely for now.

US CORPORATE BOND ISSUANCE

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

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

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

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

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

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

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 1.0% annually for IG and may advance by 16.4% for high yield.

The Long View

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
April 27, 2017

Eurozone

The euro zone's short-term outlook seems promising, despite moderate threats. High-frequency indicators point to accelerating growth at the beginning of 2017 thanks to strengthening domestic demand, a pickup in exports even to the U.K., and a falling unemployment rate in many countries. Yet joblessness hasn't dropped enough to generate stronger wage growth in southern European countries, which together with mounting inflation pressures may undermine fragile household spending. Structural rigidities, mainly in southern Europe, are also restraining faster adjustments in the labor market, while fewer job openings and a skills mismatch could upset the balance between labor demand and supply, pushing the unemployment rate up and limiting wage growth. Differences among countries are stark. Households in Germany, Austria and the Netherlands benefit from higher wage rises thanks to lower unemployment, but average annual wage growth over the last year was lower in Spain, Italy and France, where joblessness is elevated.

Increasing external demand will also add to the expanding euro zone economy. A weaker euro combined with stronger foreign demand will help to drive up euro zone exports in coming months. Nevertheless, failed negotiations of the U.K. exit from the EU, a struggling banking sector, a new wave of protectionism, and tensions with Russia remain significant downside risks. Political anxiety about the 2017 voting season hasn't sent the economy off the rails yet. The Dutch election concluded with a win for Mark Rutte's pro-globalist and pro-European VVD party over the rising populist contender, the Freedom Party of Geert Wilders. Meanwhile, support for Germany's Eurosceptic right-wing Alternative for Germany party is dwindling, and ultra-right National Front leader Marine Le Pen seems unlikely to win the second round of French presidential elections.

The European Central Bank surprised neither markets nor us by keeping all three policy rates on hold and maintaining asset purchases at the monthly pace of €60 billion this week. Slowing inflation; political risks, though less pronounced than a month ago; and a sluggish credit market restrained the bank from tightening monetary conditions. We think the bank will wait until underlying inflation and credit growth heat up before changing its policy stance. But while we expect the ECB to shift its rhetoric later this year, subdued inflation may postpone any monetary policy adjustments. While slow wage growth in southern European countries and stiffer competition, especially in services, will soften demand-driven inflation pressure, firming growth should boost underlying inflation.

We expect the euro zone economy to expand 1.7% this year, the same rate as in 2016, before slowing to 1.6% in 2018. But uncertainty about the U.K. exit negotiations and a more protectionist trade stance by the U.S. government will dominate in the second half of 2017. So far, the euro area seems healthy enough to overcome these threats.

U.K.

The U.K. ended 2016 as the world's fastest growing advanced economy. But the impact of the British public's decision to leave the European Union is becoming visible in the economy. Job growth has slowed and the sharp depreciation in the British pound has increased consumer prices and dampened consumer spending. Economic activity in the U.K. is expected to slow in the coming quarters as the resulting uncertainty impacts businesses' hiring and investment decisions. The combination of higher oil prices and soaring import prices is threatening households' living standards. Furthermore, nominal wages growth is expected to stutter this year in the face of exit-related uncertainties. While the pound's depreciation should be good news for the country's exporters, firms are choosing to raise prices, erasing most competitiveness gains from the lower currency and failing to offset the negative effects on domestic demand from imported inflation.

The slowdown in inward foreign direct investment will be one of the largest drags on the U.K. economy. Britain is one of the world's most attractive destinations for foreign investment—accounting for about 5% of the global total in recent years—and is currently the number two host country in the world for inward FDI stock, after the U.S. By leaving, the U.K. is set to lose its competitive advantage as the gateway to the EU market for non-EU countries. This means that Britain will not attract as much investment as it did before, and this will curb demand for sterling. The trade-weighted pound is expected to remain under pressure until the final trade agreement between the U.K. and the EU is approved, lingering around $1.20 and €1.16 in the coming quarters.

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

U.K. economic growth is projected to slow sharply in the coming quarters amid exit negotiations, as the resulting uncertainty impacts businesses' hiring and investment decisions. Real GDP growth is expected to decelerate from 1.8% in 2016 to around 1.5% in 2017 and 0.9% in 2018 before gradually strengthening to settle around 1.8%, its new post-exit potential growth rate, around 0.2 percentage point lower than it would have been were the U.K. to stay in the EU.

ASIA PACIFIC

By Emily Dabbs and the Asia-Pacific Staff of Moody's Analytics
April 27, 2017

China's economy began the year on a strong note. The booming housing market was a key driver of production and spending activity in the March quarter. Meanwhile, manufacturing activity and investment are benefiting from strong global tech demand and improved domestic conditions. Credit growth remains strong, driven mostly by mortgage lending. Government measures to rein in risky lending have made some progress, but high credit growth is a risk to the outlook.

Our GDP tracking model estimated that China's economy would expand just 6.3% y/y, well below the actual 6.9% y/y rate, which is the fastest pace since September 2015. This was mostly because of the stronger than expected March activity, which offset a slow start to the year. Retail sales, fixed investment, industrial production and net exports all strengthened in the final month of the quarter.

Fixed investment growth accelerated in the first quarter to 9.2% y/y, which is the strongest rate of growth since May. Investment in manufacturing has improved steadily since late 2016 because of stronger global demand for electronics. Mining investment, however, dipped again as authorities continue efforts to reduce overcapacity in heavy industry. A bright spot is the ongoing strength of

private investment, which has been accelerating since mid-2016. The transition to stronger private investment indicates that businesses are feeling optimistic about the outlook for China's economy.

Industrial production expanded a steady 6.8% y/y in the March quarter, receiving a boost from stronger global demand for electronics. Manufacturing of machinery and information and communication technology equipment expanded at a double-digit year-on-year pace. Car sales rebounded steadily over the quarter despite the boost from energy-efficient subsidies fading. Car sales are generally a good indicator of domestic demand, suggesting that private consumption will have a good year. The weak spot in the data was mining production, which continues to decline as authorities focus on reducing overcapacity in heavy industry.

Retail spending outpaced other sectors of China's economy in the March quarter, growing 10% y/y. After a soft start to the year, spending surged 10.9% y/y in the final month of the quarter. The improvement was relatively broad-based, with household goods such as furniture and appliances benefiting from a booming housing market. The outlook for consumer spending over the medium term is upbeat: Wages continue to outpace headline GDP, with nominal per capita disposable income expanding 8.5% y/y in the March quarter.

Chinese house prices continue to expand, but the rate of growth looks to have reached a peak. The slowdown in Tier One cities has dampened price growth nationally, even as prices in the lower-tier cities continue accelerating. After loosening lending restrictions in 2015 to support the housing market, authorities have now turned to a tightening bias to rein in excessive price growth. Tier One cities reached peak growth rates in early 2016, but it has taken longer to filter down to other areas.

The strength of the housing market has also been boosting money supply as mortgage lending creeps higher. But tighter lending restrictions are also starting to show up in headline credit growth, with the money supply expanding 10.6% y/y, the slowest rate since the dip in July 2016. The People's Bank of China has introduced a mild easing bias by tightening some lending rates. The official cash rate will likely stay put for now to support business activity, but tighter monetary policy in the second half of the year is in the cards.

Ratings Round-Up

By Njundu Sanneh

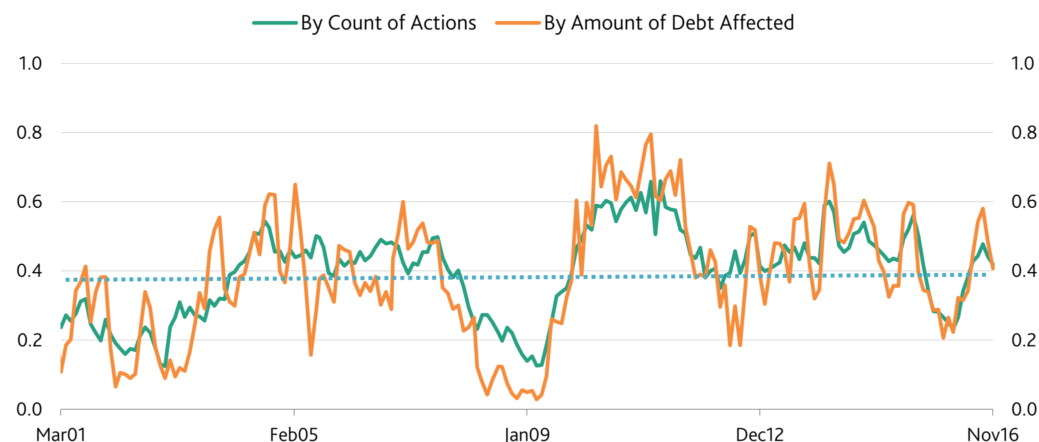
Energy Companies Among the Upgrades

Rating changes in the past week were concentrated in the energy sector, where one-third of both the US and European changes took place. The seven energy companies out of total of 21 changes for the US tilted the distribution of changes slightly towards upgrades as four of the seven were upgraded. The skew of the energy companies towards upgrades underscores the impact of: 1., the improved, albeit now stagnant, oil prices from the decades' low levels experienced last year; 2., the progress made by these companies in using balance sheet management; and 3., techniques including capital structure management to contain the challenges presented by low oil prices. The downgraded companies were Hunt Oil Company, Vine Oil& Gas LP, and CSI Compresco LP. In the upgrade column were SM Energy Company, Devon Energy Corporation, Enlink Midstream Partners, LP, and Bill Barrett Corporation. Business and consumer services companies were also very also prominent accounting for four of the 21 total US rating changes.

A dearth of rating changes in Europe, with only three; two were upgrades. The lower credit spreads even for the speculative grade sector underscore the positive corporate credit cycle.

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

FIGURE 3 Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rati	New LTD Ratin	Old STD Rati	New STD Rati	Old FS	New FSR	Old LGD	New LGD	IG/SG
4/19/17	CT TECHNOLOGIES INTERMEDIATE HOLDINGS, INC.	Industrial	SrSec/BCF		U	B3	B2							SG
4/19/17	NEW ASURION CORPORATION	Financial	SrSec/BCF/LTCFR/PDR		U	B1	Ba3							SG
4/19/17	SM ENERGY COMPANY	Industrial	SrUnsec/LTCFR/PDR	2,807	U	B3	B2							SG
4/20/17	AES CORPORATION, (THE) - AES El Salvador Trust II bis	Utility	LTCFR	310	D	B2	B3							SG
4/20/17	HUNT OIL COMPANY	Industrial	LTIR		D	Ba3	B1							SG
4/20/17	KOMATSU LTD. - Joy Global Inc.	Industrial	SrUnsec	650	U	Ba3	A2							IG
4/20/17	ROYAL CARIBBEAN CRUISES LTD.	Industrial	SrUnsec	1,100	U	Ba1	Baa3							SG
4/20/17	VINCE HOLDING CORP. - Vince, LLC	Industrial	SrUnsec/LTCFR/PDR		D	Caa1	Caa2							SG
4/20/17	VINE OIL & GAS, LP	Industrial	SrSec/BCF		D	Caa1	Caa2							SG
4/21/17	AIR MEDICAL GROUP HOLDINGS, INC.	Industrial	SrSec/BCF	370	D	B2	B3							SG
4/21/17	DEVON ENERGY CORPORATION	Industrial	SrUnsec/LTCFR/PDR/Sub/	6,825	U	Ba2	Ba1							SG
4/21/17	ENLINK MIDSTREAM PARTNERS, LP	Industrial	SrUnsec/LTCFR/PDR	3,163	U	Ba2	Ba1							SG
4/21/17	WHITEWAVE FOODS CO	Industrial	SrUnsec	500	U	B1	Baa1							SG
4/24/17	BILL BARRETT CORPORATION	Industrial	SrUnsec/LTCFR/PDR	715	U	Caa3	Caa2							SG
4/24/17	DAYCO, LLC - Dayco Products, LLC	Industrial	SrSec/BCF		D	B1	B2							SG
4/24/17	EMG UTICA, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1							SG
4/24/17	SPANISH BROADCASTING SYSTEM, INC.	Industrial	SrSec/LTCFr/PDR/SGL	350	D	Caa2	Ca							SG
4/25/17	CSI COMPRESSCO LP	Industrial	LTCFR/PDR		D	B2	B3							SG
4/25/17	DIGICERT INTERMEDIATE HOLDINGS, INC. - Digicert Holdings, Inc.	Industrial	SrSec/BCF		U	B2	B1							SG
4/25/17	GLOBAL EAGLE ENTERTAINMENT, INC.	Industrial	SrSec/BCF/LTCFR/PDR/S		D	B1	B2							SG
4/25/17	WORLD AND MAIN, LLC	Industrial	SrSec/BCF		U	Caa2	Caa1							SG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

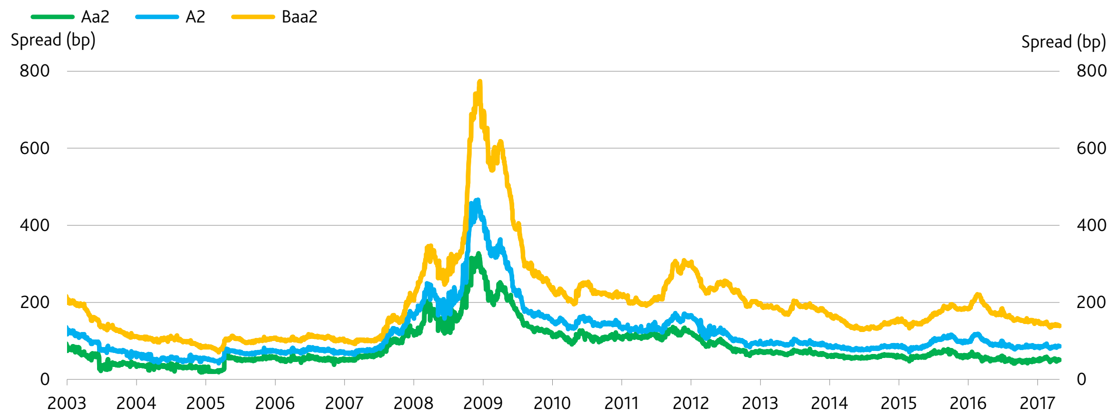
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	Old FSR	New FSR	Old LGD	New LGD	IG/SG	Country
4/20/17	BAWAG P.S.K.	Financial	SrUnsec/SLTIR/SLTD	1210	U	A3	A2	P-2	P-1					IG	AUSTRIA
4/19/17	MISYS NEWCO 2 S.A R.L.	Industrial	LTCFR/PDR		D	B2	B3							SG	LUXEMBOURG
4/25/17	RUSSNEFT PJSC	Industrial	LTCFR/PDR	215	U	B2	B1							SG	RUSSIA

Source: Moody's

Market Data

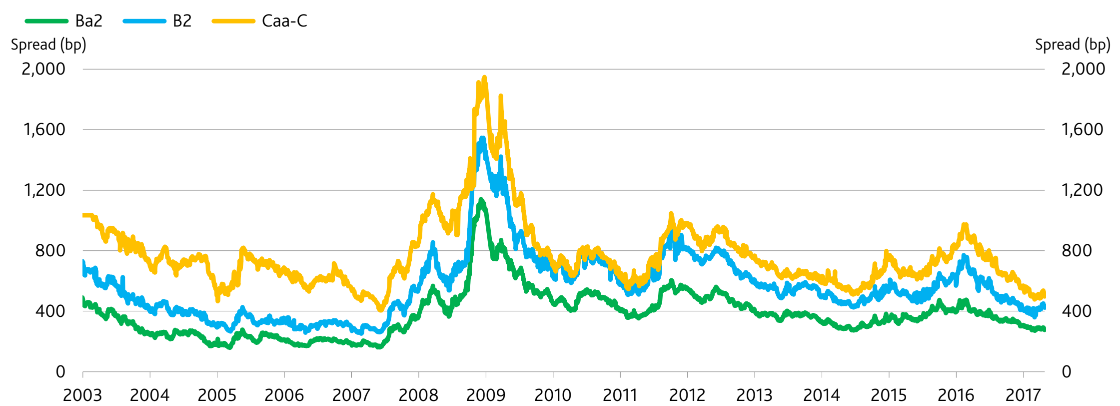
Spreads

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 (April 19, 2017 – April 26, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 26	Apr. 19	Senior Ratings
Wal-Mart Stores, Inc.	A1	A2	Aa2
Medtronic, Inc.	Aa3	A1	A3
Honeywell International Inc.	Aa2	Aa3	A2
Caterpillar Inc.	A2	A3	A3
Boeing Company (The)	Aa2	Aa3	A2
Rockwell Collins, Inc.	A3	Baa1	Baa2
Bear Stearns Companies LLC. (The)	A1	A2	A3
Hertz Corporation (The)	Caa2	Caa3	B2
Cigna Corporation	A1	A2	Baa1
Sempra Energy	Aa3	A1	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 26	Apr. 19	Senior Ratings
Verizon Communications Inc.	Baa3	Baa2	Baa1
International Business Machines Corporation	A2	A1	Aa3
Bank of New York Mellon Corporation (The)	A3	A2	A1
Citibank, N.A.	Baa2	Baa1	A1
Home Depot, Inc. (The)	A1	Aa3	A2
Capital One Bank (USA), N.A.	A2	A1	Baa1
3M Company	Aa3	Aa2	A1
Southern Company (The)	Baa2	Baa1	Baa2
United Airlines, Inc.	Caa1	B3	Baa1
Univision Communications, Inc.	B3	B2	Caa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 26	Apr. 19	Spread Diff
United States Steel Corporation	Caa1	563	483	80
K. Hovnanian Enterprises, Inc.	Caa3	1,584	1,528	56
Neiman Marcus Group LTD LLC	Caa3	1,484	1,451	33
Frontier Communications Corporation	B1	765	745	19
Parker Drilling Company	Caa1	765	746	19
Mattel, Inc.	Baa2	153	139	15
Calpine Corporation	B2	338	329	9
NRG Energy, Inc.	B1	329	320	9
Beazer Homes USA, Inc.	B3	383	375	8
USG Corporation	Ba2	237	229	8

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 26	Apr. 19	Spread Diff
Nine West Holdings, Inc.	Ca	4,992	5,098	-105
SUPERVALU Inc.	B3	512	578	-66
Hertz Corporation (The)	B2	767	830	-63
Avis Budget Car Rental, LLC	B1	424	481	-56
Avon Products, Inc.	B1	566	618	-52
SLM Corporation	Ba2	347	398	-51
R.R. Donnelley & Sons Company	B2	498	543	-45
Talen Energy Supply, LLC	B1	846	888	-43
AutoNation, Inc.	Baa3	405	447	-42
Sears Roebuck Acceptance Corp.	Caa3	3,408	3,447	-38

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (April 19, 2017 – April 26, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 26	Apr. 19	Senior Ratings
France, Government of	A1	A3	Aa2
Societe Generale	Baa1	Baa3	A2
BNP Paribas	Baa1	Baa3	A1
Credit Agricole Corporate and Investment Bank	Baa1	Baa3	A1
BNP Paribas Fortis SA/NV	Baa1	Baa3	A2
Italy, Government of	Ba2	Ba3	Baa2
Barclays Bank PLC	Baa1	Baa2	A1
Nordea Bank AB	A1	A2	Aa3
Credit Agricole S.A.	Baa1	Baa2	A1
Ireland, Government of	A2	A3	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 26	Apr. 19	Senior Ratings
Netherlands, Government of	Aa3	Aa2	Aaa
Abbey National Treasury Services plc	Baa2	Baa1	Aa3
Landesbank Hessen-Thueringen GZ	Baa2	Baa1	A1
Swedbank AB	A2	A1	Aa3
Bank of Scotland plc	Baa1	A3	A1
Swedish Export Credit Corporation	Aa2	Aa1	Aa1
ArcelorMittal	B2	B1	Ba1
Lanxess AG	Baa2	Baa1	Baa3
Caixa Geral de Depositos, S.A.	B3	B2	B1
Lafarge SA	A2	A1	Baa2

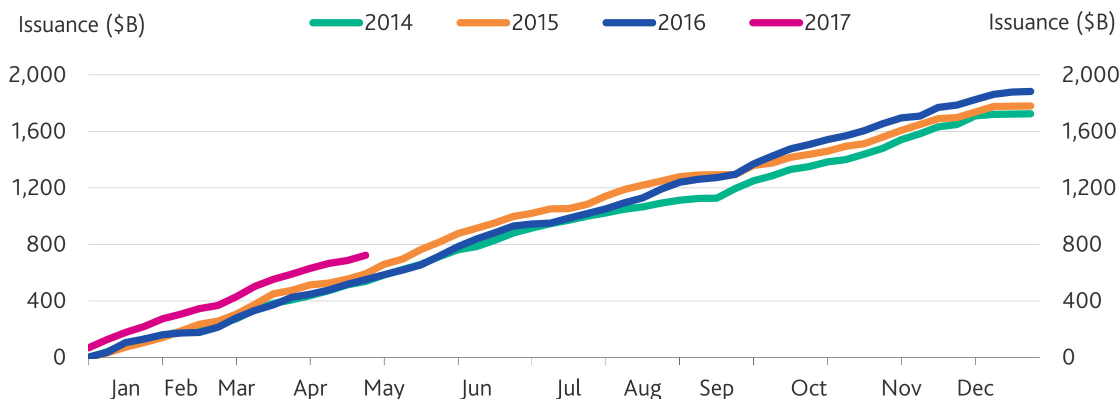
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 26	Apr. 19	Spread Diff
Norske Skogindustrier ASA	Caa3	9,432	5,926	3,507
Unipol Gruppo Finanziario S.p.A.	Ba2	182	180	2
Santander UK PLC	A3	77	76	1
Landesbank Hessen-Thueringen GZ	A1	70	69	1
DNB Bank ASA	Aa2	53	52	1
Alliance & Leicester plc	A3	58	57	1
Sweden, Government of	Aaa	20	20	0
Eurobank Ergasias S.A.	Caa3	1,155	1,155	0
Swedish Export Credit Corporation	Aa1	18	18	0
Piraeus Bank S.A.	Caa3	1,155	1,155	0

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 26	Apr. 19	Spread Diff
Matalan Finance plc	Caa2	1,476	1,596	-120
Care UK Health & Social Care PLC	Caa1	574	646	-73
PizzaExpress Financing 1 plc	Caa1	574	646	-72
Stena AB	B3	570	616	-46
Selecta Group B.V.	Caa2	555	598	-43
Iceland Bondco plc	Caa1	279	321	-42
Vedanta Resources plc	B3	395	434	-39
CMA CGM S.A.	B3	545	582	-37
Fiat Chrysler Automobiles N.V.	B1	262	297	-35
Boparan Finance plc	B2	408	441	-33

Source: Moody's, CMA

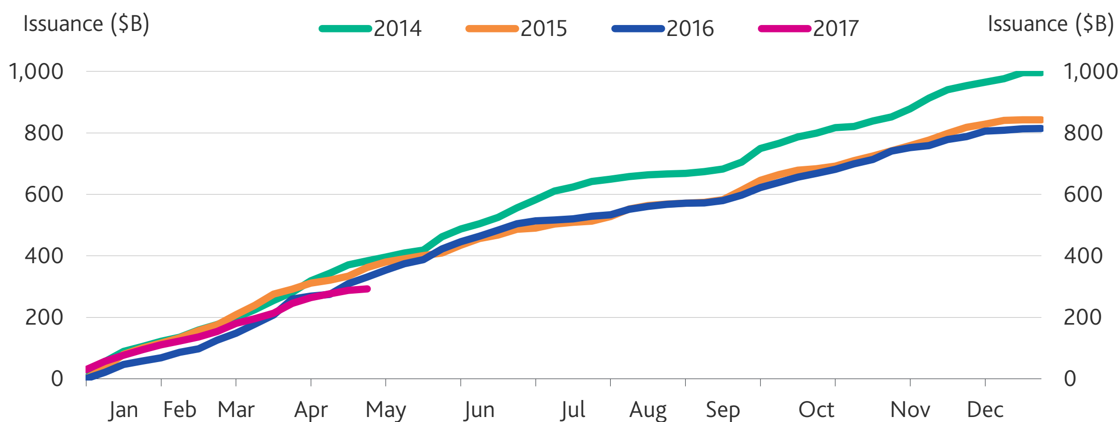
Issuance

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	30.264	6.400	37.122
Year-to-Date	514.577	151.130	722.846

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	3.836	0.984	5.086
Year-to-Date	248.328	33.333	292.320

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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