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WEEKLY MARKET OUTLOOK

What Might Trigger the Next Market Plunge?

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.

What Might Trigger the Next Market Plunge?

An overvalued equity market and an extraordinarily low VIX index offer no assurance of impending doom for US equities. Provided that interest rates do not rocket higher, expectations of corporate earnings growth should be sufficient for the purpose of avoiding a severe equity market correction that would doubtless include the return of corporate bond yield spreads in excess of 700 bp for high-yield and above 200 bp for Baa-rated issues.

For now, the good news is that early September's Blue Chip consensus expects core profits, or pretax profits from current production, to grow by 4.4% in 2017 and by 4.5% in 2018. Moreover, earnings-sensitive securities should be able to shoulder the 2.5% 10-year Treasury yield projected for 2017's final quarter. However, the realization of a projected Q4-2018 average of 3.0% for the 10-year Treasury yield could materially reduce US share prices.

Jarring corrections can occur amid rapid profits growth

Since 1982, there have been seven episodes when the month-long average of the market value of US common stock sank by at least -10% from its then record high. Only two of the seven were not accompanied by at least a -5% drop by core profits' moving yearlong average from its then record high.

The two exceptions occurred in the 1980s and were largely the consequence of extremely steep and disruptive advances by interest rates. For now, the good news is that core profits are expected to grow through 2018, while an increase by interest rates is not expected to be great enough to send the month-long average for the market value of US common stock down by -10% or deeper from its current month-long zenith.

The first deviation saw July 1984's market value of US common stock sink by -13.3% from its record high of July 1983. Nineteen months would pass before the market value of common equity set a new high in February 1985.

The primary drivers behind 1984's equity sell-off were twin lift-offs by the federal funds rate from a February 1983 bottom of 8.51% to an August 1984 high of 11.64% and by the 10-year Treasury yield from a May 1983 trough of 10.38% to June 1984's apex of 13.56%.

Shares prices incurred noteworthy declines in 1984 despite (i) phenomenal real GDP growth of 7.3% (the fastest since 1951's 8.1%), (ii) a 0.344% average monthly increase by payrolls that equates to 505,000 new jobs per month given the size of today's workforce, (iv) a relatively low average high-yield bond spread of 311 bp for 1984's second half, and (v) a nearly 21% yearlong surge by core profits.

The other exception saw the market value of US common stock bottom in December 1987 at -27.4% under its July 1987 top. Not until July 1989 did the market value of common equity set a new record high. From the perspective of most fundamentals, the great stock crash of 1987's final quarter seemed patently unwarranted. For one thing, as inferred from the high-yield bond spread's comparatively thin 395 bp average during the quarter prior to October 1987's stock price collapse, the balance sheets and earnings of US corporations were commendable.

Moreover, core profits were recovering smartly from their -8.5% annual contraction of 1986. After having climbed higher by +17% annually for the combined second and third quarters of 1987, core profits were in the process of posting a +23.5% yearly surge for 1987's final quarter. Amid the stirring recovery by profits, the annualized quarterly growth of real GDP averaged a stunning 5.0%, while, after adjusting for the greater size of today's workforce, payrolls expanded by a huge 400,000 jobs per month during the final nine months of 1987.

Interest-rate driven sell-offs ultimately send yields sharply lower

Among the primary culprits behind Q4-1987's jarring equity market correction were an ascent by the fed funds rate from an October 1986 average of 5.85% to an October 1987 peak of 7.29% and a jump by the 10-year Treasury yield's month-long average from January 1987's 7.08% to October 1987's 9.52%.

Credit Markets Review and Outlook

It was during October 19, 1987's stock market crash that the 10-year Treasury yield last posted a reading of at least 10%. Who would have dared to predict back in October 1987 that the 10-year Treasury yield would never again visit 10% at any time during the next 30 years? This brings attention to how interest-rate-inspired plunges by the broad equity market are ultimately remedied by substantially lower interest rates.

After peaking at June 1984's now 35-year high of 13.56%, the 10-year Treasury yield's month-long average eventually plummeted to April 1986's 7.30%, by which time the market value of US common stock had soared higher by 59.0% from its low of July 1984. Similarly, after cresting at October 1987's now 32-year high of 9.52%, the 10-year Treasury yield's month-long average quickly sank to February 1988's 8.21%. In response, the month-long average of the market value of common stock rebounded by 8.3% from its low of December 1987. Thus, if higher bond yields precipitate the next major sell-off of equities, chance are that bond yields will reverse course quickly enough.

Equity market plunged by -47%, on average, during last two recessions

The equity market's five other episodes of at least a -10% drop from the relevant record high followed peaks that were established in May 2015, October 2007, March 2000, June 1998, and June 1990. Two of the deep declines did not occur in the context of a recession, namely the most recent correction of 2015-2016 and the brief, but severe, setback of 1998's second half. Compared to their previous highs, the market value of common stock sank by -12.9% before bottoming in February 2016 and fell by -13.7% before bottoming in September 1998. In addition, 15 months passed before the equity market set a new record high in August 2016, while it took only five months for equities to establish a new high in December 1998.

Far more severe was the -50.6% cumulative plunge by the market value of US common stock from an October 2007 high to a March 2009 trough. Not until January 2013 did the market surpass its top of October 2007.

Even longer than the 63-month wait for the market's full recovery from its post-October 2007 drubbing was the 81-month long hiatus before the market returned to its high of March 2000. After topping off in March 2000, equities would trend lower by a cumulative -42.8% until bottoming in October 2002. But, not until December 2006 did the market set a new high.

Finally, a recession overlapped a -16.6% cumulative slide by the market value of common stock from June 1990's peak to September 1990's bottom. Unlike the next two recession-related sell-offs, equities recovered sharply and, by March 1991, the market surpassed its June 1990 high.

In conclusion, the rich valuation of today's US equity market very much warns of at least a -10% drop in the market value of US common stock in response to either unexpectedly high interest rates or a contraction of profits. Perhaps, the prudent investor should be braced for at least a -20% plunge in the value of a well-diversified portfolio at some point during the next 18 months.

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, September 18: All eyes are on the Federal Open Market Committee this week. We expect the FOMC to announce the beginning of the balance sheet normalization, which is a form of monetary policy tightening. The Fed has been spoon-feeding financial markets the process for normalizing the balance sheet and the timing shouldn't be surprising. Though the Fed will announce the process, it won't begin until October and will take several years to complete, shrinking the balance from $4.5 trillion to $3 trillion over the course of four years.

The Fed will make it official that the caps used to normalize the balance sheet with the initial runoff to be set at $6 billion for Treasuries and $4 billion for agency mortgage-backed securities. The caps will increase every three months, assuming the economy continues to evolve in line with the Fed's expectations.

We expect some changes to the statement, with an explicit mention of Hurricanes Harvey and Irma. The Fed will likely borrow liberally from the statement following Hurricane Katrina in 2005, when it noted that while Katrina increased uncertainty about the economy's near-term performance, the hurricane didn't pose a more persistent threat. We don't anticipate any changes to the Fed's assessment of inflation or inflation expectations. Also, we look for the statement to continue to describe the risks to the outlook as roughly balanced.

The Fed will release its updated economic and interest rate projections. Odds are some of the interest rate projections submitted by participants will come down because of the weaker inflation trend, but we don't believe the median estimates for this year or next will change, signaling one additional rate hike this year and three in 2018. The Fed will also provide our first look at its economic and interest rate forecasts for 2020. For rates, there will likely be one hike in 2020, putting the fed funds rate at its long-run equilibrium rate, which the Fed puts near 3%. However, we don't pay too much attention to the interest rate projections beyond this year, as it's unclear who will be leading the Fed next year.

The Fed's forecast for GDP growth this year and next could be revised up slightly. The unemployment rate projection will likely come down and the Fed could lower its estimate of the nonaccelerating inflation rate of unemployment. Given the incoming data, the Fed will lower its forecast for growth in the core PCE deflator this year and likely next.

Overall, we don't anticipate the September meeting to alter our near-term forecast for the fed funds rate. Our subjective odds of a December rate hike are 55%. One reason the odds are not higher is that the August CPI and producer prices suggest that the core PCE deflator, the Fed's preferred measure of inflation, will rise 0.1%, lowering year-over-year growth from 1.4% to 1.3%.

The incoming data will continue to be affected by recent hurricanes. We look for a noticeable increase in initial claims, but the bigger impact on housing data will be in September rather than August. We look for August housing starts to post a modest gain while existing-home sales slipped.

THURSDAY, SEPTEMBER 14

Jobless claims (week ending September 9; 8:30 a.m. EDT)

Forecast: 300,000
We expect initial claims to remain elevated because of Hurricane Harvey, but there is considerable uncertainty in our forecast. We look for new filings to have been 300,000 in the week ended September 9, an increase of 2,000. The advance estimates for initial claims showed that new filings in

Texas, where Harvey made landfall August 25, were 63,742 in the week ended September 2, easily the highest since the inception of the data in 1987. State-level advance claims are not seasonally adjusted and are not directly comparable to claims reported in prior weeks. Advance claims are reported by the state liable for paying the unemployment compensation, whereas previous weeks reported reflect claimants by state of residence. Still, initial claims in Texas were up 306% on a year-ago basis in the week ended September 2. New filings in Louisiana also appear to be affected by Hurricane Harvey.

Hurricane Irma will boost initial claims, but it's unclear when. Severe hurricanes normally force people out of work, the storm prevents initial claims from being filed and processed right away. Therefore, the number of filings is depressed at first and given the evacuations in Florida this may have occurred in the week ending September 9, but they could jump in subsequent weeks.

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

Forecast: 0.3% (headline)
Forecast: 0.2% (core)
We look for the CPI to have risen 0.3% in August following a 0.1% gain in July. Part of the weakness in July was attributable to a large decline in lodging away from home. This seems odd and will likely bounce back in August and September. Higher gasoline prices are also expected to help boost the CPI in August, but little is attributable to Hurricane Harvey. The boost to gasoline prices from Harvey will be more noticeable in September. Food prices are expected to increase a trend-like 0.1% in August. We look for the CPI to have risen 1.8% on a year-ago basis, compared with the 1.7% gain in July.

Excluding food and energy, the CPI likely rose 0.2% in August, leaving it up 1.6% on a year-ago basis, compared with the 1.7% gain in July. The core CPI will get a boost from a rebound in lodging away from home. We expect new vehicle prices to have slipped while used car and truck prices were likely little changed. Core goods prices have been weak recently but the depreciation in the U.S. dollar, fading effects from the surge in generic drugs in the second half of 2016, and gains in physician services prices should contribute to the turnaround in core goods prices over the next few months.

We don't anticipate that Hurricane Harvey will have a significant effect on the response rates for the CPI. Data for the CPI are collected throughout the entire reference month. For example, the BLS noted that more than 90% of the prices for August 2005 were collected prior to Hurricane Katrina. Hurricane Harvey hit the Gulf Coast around the same time of the month that Katrina did.

FRIDAY, SEPTEMBER 15

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

Forecast: 0.1% (total)
Forecast: 0.1% (ex auto)
Retail sales are forecast to have risen 0.1% in August. The forecast assumes that vehicles are a neutral for total retail sales growth in August. This may seem at odds with 3.7% decline in unit sales for the month. However, retail sales are reported in dollars, while auto sales are unit sales. Therefore, a change in the mix of vehicles sold can cause a disconnect between unit and retail sales. Also, unit sales figures incorporate only new vehicles, but dealer sales are new and used vehicles. Retail sales at auto and parts dealers encompass a broader set of goods—including boats, motorcycles, recreational vehicles and vehicle repairs—than do unit sales. Different seasonal adjustment factors are also used for each.

Retail sales at new-car dealers could be getting a boost from spending at the dealers' repair shops, particularly if they are stealing market share from automotive part, accessory and tire stores, where spending has been soft recently. Also, year to date, fleet car sales are down noticeably while light trucks, vans and SUVs have risen modestly. The shift in the mix of fleet sales is hurting unit sales more than retail sales. This is visible when comparing year-over-year growth in unit vehicle sales and retail sales at new-car dealers. The latter are holding up much better, but this is likely attributable to the composition of new car and fleet sales.

Away from autos, we look for retail sales to have risen 0.1%. Building material store sales were likely neutral for retail sales as they likely got a boost from Hurricane Harvey, offsetting the anticipated payback for solid gains in prior months. Retail gasoline prices rose in August but may not have a big positive impact on sales at gasoline stations.

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

Forecast: -0.3% (total)

We look for industrial production to have declined 0.3% in August. Hurricane Harvey led to factory shutdowns and disrupted energy production. This will likely shave a few tenths of a percentage point off in August. We look for utility production to decline but this isn't entirely Harvey-related. Temperatures were cooler than normal in the U.S. in August, which likely reduced utility production. For manufacturing, hours worked were soft in August, but we anticipate auto production bounced back following a difficult July.

University of Michigan survey (September-preliminary; 10:00 a.m. EDT)

Forecast: 93

Consumer confidence likely dropped in September, according to the preliminary University of Michigan survey. We look for the index to have fallen from 96.8 in August to 93 in September. This would be the fourth decline in the past five months. The Michigan survey is sensitive to retail gasoline prices, which have jumped because of Hurricane Harvey. The preliminary index fell 15.8 points following Hurricane Katrina, but that storm pushed gasoline prices above $3 per gallon for the first time ever, which likely magnified the impact on sentiment. Harvey has pushed gasoline prices near $2.80 per gallon, but consumers have seen worse at the pump, which should limit the hit to confidence. Modest gains in equity prices and a strong labor market will limit the decline in sentiment in early September.

MONDAY, SEPTEMBER 18

Business confidence (week ended September 15; 10:00 a.m. EDT)

Forecast: N/A

Last week's dip in confidence aside, business sentiment is strong and consistent with a global economy that is expanding above its potential. Perhaps most telling is that expectations regarding business conditions into next year suggest they will remain good and stable.

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

The four-week moving average in our global business confidence index fell from 32.8 to 30.5 in the week ended September 8.

NAHB housing market index (September; 10:00 a.m. EDT)

Forecast: 66

The NAHB housing market index is forecast to have dropped from 68 in August to 66 in September. This would reverse only half of the gain in August and leave it only a touch below its first half average of 66.8. Homebuilder sentiment could be affected by Hurricanes Harvey and Irma but there isn't a clear directional tendency following past major hurricanes.

The NAHB housing market index is more useful in assessing the trajectory of single-family housing starts rather than the level. Therefore, the NAHB index leaves us comfortable with our forecast for single-family housing starts to steadily increase through the remainder of the year.

TUESDAY, SEPTEMBER 19

Import prices (August; 8:30 a.m. EDT)

Forecast: 0.5%

Import prices likely increased 0.5% in August following a 0.1% gain in July and 0.2% decline in June. Global crude oil prices rose from the first half of July to August, which should boost imported crude oil prices. Nonfuel import prices likely increased 0.2% from July to August. The depreciation of the U.S. dollar recently should put some upward pressure on nonfuel import prices.

On a year-ago basis, total import prices were likely up 2.1% in August, compared with the 1.5% increase in July. August's gain would still be noticeably weaker than that seen earlier this year. Nonfuel import prices were likely up 0.9% on a year-ago basis in August, compared with July's 0.7%. The level of nonfuel import prices will remain well below its cyclical high in 2012.

Housing starts (August; 8:30 a.m. EDT)

Forecast: 1.183 million annualized rate

Housing starts will be hurt by the recent hurricanes but likely not until September. Hurricane Harvey hit late in August, limiting the hit to starts. We look for housing starts to have risen from 1.155 million annualized units in July to 1.183 million in August. This would be only the third increase this year.

WEDNESDAY, SEPTEMBER 20

Existing-home sales (August; 10:00 a.m. EDT)

Forecast: 0.3%

Existing-home sales are expected to have declined from 5.44 million annualized units in July to 5.43 million in August. Recent hurricanes will affect existing-home sales, but we expect this to be more significant in September than August. However, Hurricane Harvey lends downside risk to our forecast. Harvey hit in late August, a peak time of the month for home sales to close. Existing-home sales are counted when transactions are completed.

THURSDAY, SEPTEMBER 21

Jobless claims (week ending September 16; 8:30 a.m. EDT)

Forecast: 309,000

We look for initial claims to have risen by 25,000 to 309,000 in the week ending September 16. The impact of Hurricane Harvey on initial claims should fade but Hurricane Irma likely boosted new filings in Florida. Severe hurricanes normally force people out of work, but the storm prevents initial claims from being filed and processed right away. Therefore, the number of filings is depressed at first. This backlog is worked off in subsequent weeks, temporarily boosting initial claims, which we believe occurred in the week ending September 16.

There is considerable uncertainty in the forecast for a couple of reasons. First the timing of an increase in new filings following Irma is unclear. Also, there could be substantial revisions to the prior week because the Department of Labor estimated initial claims for a number of states affected by Irma, including Florida.

FRIDAY, SEPTEMBER 22

No major releases scheduled

EUROPE

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

Summary, September 15: The week ahead will be fairly exciting for the U.K. economy. On Monday, investors will be closely watching Mark Carney's speech at the International Monetary Fund in Washington, looking for more clues on whether a rate rise in November is indeed to be expected. The Bank of England surprised markets on Thursday, substantially changing its rhetoric and claiming that a rate hike would probably be appropriate in coming months if slack continues to be eroded and inflation pressures rise gradually. Prior to this week, market-implied probabilities of a rate hike by the November meeting were only at 20%, and we were not penciling in a tightening before the beginning of 2019, so we are all curious to see how Mark Carney will justify this abrupt hawkish turn.

The governor had made it clear earlier this year that he wanted to see wage growth firm and Brexit uncertainty decline before voting for a tightening, but none of that has happened. Wage growth remains subdued, coming in at only 2.1% y/y in July, and little progress has been made on the U.K.-EU negotiations. Plus, there is little prospect that activity will rebound in months to come, while it also looks clear that production and net trade will, against the BoE's hope, ultimately fail to offset the slowdown in consumption that is under way. But we have to admit that, after the arch-dove Gertjan Vlieghe gave a surprisingly hawkish speech on Friday, we wouldn't be surprised if Mark Carney followed suit in his comments, providing further support for the pound.

Friday will then bring a highly anticipated speech by Theresa May. The prime minister will travel to Florence for a major address on Brexit, perhaps the most important speech about the EU since January. She is expected to give fresh details about the future relationship she wants the U.K. to build with the EU, providing updates on how the negotiations are going, before the fourth formal round of Brexit negotiations begin. As of now, delays have been plenty, and it looks extremely unlikely that the U.K. will be able to start talks on the future trade deal by October, as initially expected. The clock is ticking, and if trade talks start only by December—our baseline—this would leave the U.K. barely nine months to complete a comprehensive deal, which is clearly unfeasible. Both sides are nonetheless open to a transitional period, likely one during which the U.K. would be outside of the EU but would maintain the same basic terms that it currently enjoys with the EU. We expect that May will focus on the shape of this transitional period on Friday, and that she will likely try to make a breakthrough on the EU's demand for a divorce bill, which is clearly blocking progress in talks.

THURSDAY, SEPTEMBER 14

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

France's annual EU-harmonized consumer prices likely rose 1% in August, accelerating a little from July, but added 0.5% on a month-ago basis. The yearly number went up, driven by higher prices of energy and most services, while prices of manufactured goods remained weaker. Energy prices were stronger mainly due to regular upward revisions in energy tariffs. Meanwhile, annual prices of tobacco likely added close to 2.4% in August and prices of products rose close to 0.6%. Also, core inflation remains firmly in positive territory. We should see inflation strengthen in the months ahead, supported by stronger demand-pull and cost-push inflation pressures. Still, the rate will likely not approach the ECB target in 2017.

Italy: Consumer Price Index (August; 9:00 a.m. BST)

Italy's annual EU-harmonized inflation likely remained subdued in August. Meanwhile core inflation, which excludes energy and seasonal food products, should signal weak demand-led inflation. Soft wage growth due to labour market slack and restrained household spending will weigh on inflation in coming quarters. With high so-called "hidden" unemployment—including the discouraged population of those unable to find suitable work and underemployed part-time workers—both wage growth and underlying inflation will be tepid. The hourly wage index rose only 0.4% y/y in the first half of 2017, undermining household spending. Without more job openings and a lower unemployment rate, wages won't increase and inflation will remain sluggish.

U.K.: Monetary Policy (September; 12 p.m. BST)

We expect the monetary policy committee to keep the monetary stance unchanged despite prices ticking higher recently. But central bankers will look past the uptick as domestic demand softens, while industrial production fails to rebound to past standards. Longer term, unemployment may increase with a lag after economic activity already slowed this year. That said, the Bank of England would not be comfortable to withdraw the outsize stimulus now. Wage growth is one of the MPC's favored measures of domestically generated inflation, so its weakness will likely help keep the bank from tightening this year or next. Facing a rough ride ahead as Brexit nears, this year is not the time to shake off the ultra-loose policy.

FRIDAY, SEPTEMBER 15

Russia: Industrial Production (July; 14:30 p.m. BST)

We expect industrial production printed at 2.5% y/y in August, reversing some of the weakness in July thanks to the stock of unfinished products and the buildup of inventories in July. A decent outlook for the national economy is warranted by the stable oil prices and exchange rate. Improvements in consumer spending should help manufacturing get back into expansionary territory. Russia has emerged from its two-year recession, and preliminary second quarter GDP data showed the economy reached its fastest yearly growth since 2013.

MONDAY, SEPTEMBER 18

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

The euro zone's annual harmonized inflation strengthened to 1.5% in August from 1.3% a month earlier, according to the preliminary estimates. Nevertheless, core inflation was flat at 1.2%, largely due to tepid wage growth and sizable labour market slack in the periphery. While headline inflation will be volatile this year, core inflation should slowly heat up. Yet the rise won't be strong enough to trigger a change soon in the European Central Bank's monetary policy. After no change in forward guidance in September, we expect the ECB will shed some light on its future steps in October. Although we will have to wait for asset purchases to be terminated or policy rates to rise, the central bank will likely change its forward guidance.

TUESDAY, SEPTEMBER 19

Russia: Retail Sales (August; 3:00 p.m. BST)

Russian consumer spending and retail sales are now in a full-fledged recovery. Consumption contributed the most to GDP growth in the first quarter. Preliminary estimates of second quarter GDP are encouraging, portending an increase in consumer spending and retail sales. Inflation has also slowed to 3.3%, below the Central Bank of Russia's target. The CBR has already lowered interest rates twice this year, and slowing inflation could lead them to cut rates again. Lower prices and cheaper lending will improve consumer sentiment and spending. These factors will allow growth in retail sales to accelerate to 1.3% year over year in August.

WEDNESDAY, SEPTEMBER 20

No major indicators are scheduled for this date.

THURSDAY, SEPTEMBER 21

No major indicators are scheduled for this date.

FRIDAY, SEPTEMBER 22

France: GDP (Q2; 6:30 a.m. BST)

Final GDP data are expected to confirm that the French economy grew by 0.5% q/q in the three months to June, matching the rate for the previous quarter. A jump in net exports is expected to have driven the headline, reversing the first quarter's big fall as manufacturing exports soared and oil refining imports fell as French refineries opened again after maintenance at the start of the year. But consumer spending also contributed—up by 0.3% q/q and improving on the first quarter's 0.1% rise, notably on the back of stronger goods spending—as did government spending. Investment, by contrast, slowed from a surge at the start of the year, though construction investment picked up to 0.8% q/q, from 0.6% previously.

Inventories were the major drag on the headline, shaving 0.6 percentage point off growth. This was due to a reduction in stocks of transport equipment, mostly in auto and aeronautics, and was mostly related to booming exports of transport equipment goods than to anything else. Inventories and imports had surged in the first quarter as a result of restocking, and this reverted in the second quarter as firms exported most of their stocks of transport equipment, especially of cars, planes and aeronautic parts, to the rest of the world.

Spain: Foreign Trade (July; 9:30 a.m. BST)

Following weak trading activity in June, we expect that a strong rebound in imports led to a further deterioration in the trade deficit, to €1.7 billion, in July. At the same time, exports should have performed well over the month, as business sentiment was upbeat and the high-frequency data pointed toward strengthening. Air cargo was up 5.4% in July, while early estimates of port traffic showed that container shipments from Spanish ports rose 7.2% year on year, up from 2.2% in June. Barcelona, in particular, was busy over the month as total cargo was up 18.8% after falling 10.7% in June. This all points to robust exports, while the import bill fattened as oil prices started to climb and the strong euro buoyed import demand.

ASIA-PACIFIC

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

Japanese exports stayed buoyant in August; the BoJ policy statement will be neutral in September

The economic data calendar is light. Japan's trade surplus likely widened in August because of the continued pickup in export growth. Imports likely eased, as energy prices have declined in recent months. Export growth remains firm thanks to a broad-based improvement in global demand. Major markets of North America and China remain critical to Japan's export growth, and these economies have performed well in 2017.

Elsewhere, New Zealand's GDP growth likely ticked up a few notches in the June quarter. Solid export performance, mainly on the back of higher dairy and other soft commodities, was an important driver. Even though values have soared, volumes are doing well amid buoyant Chinese demand and some supply impediments in Europe. Private consumption is solid, underpinned by strong population growth and low interest rates.

On the policy front, the Bank of Japan has slowed its pace of asset purchases in recent months. However, the stimulus taps remain open. The pickup in inflation remains modest, and underlying inflation is still well under the central bank's 2% target. At its last meeting the BoJ delayed the time frame to reach its 2% target. While it's unlikely to do so again, we don't see Japan hitting 2% inflation any time soon. Overall, we expect a relatively neutral monetary policy statement accompanying the BoJ's decision.

Bank Indonesia will likely keep the policy rate on hold in September, after surprising markets and delivering a 25-basis point reduction in August to 4.5%. The central bank cut policy rates to lift domestic demand, after June quarter GDP growth printed below expectations. We do not think further cuts are in the immediate pipeline, as the central bank remains worried about destabilizing its external position, which remains vulnerable given that offshore, major central banks are in slow normalization mode.

THURSDAY, SEPTEMBER 14

Australia – Employment Situation – August

Time: 11:30 a.m. AEST (1:30 a.m. GMT)
Forecast: 5.6% unemployed
Australia's unemployment rate was likely steady at 5.6% in August. The labour market has improved throughout the year to date. This has been characterized by a rebound in full-time job growth after a 2016 in which new jobs were concentrated in part-time roles. The improvement has pushed down the jobless rate and pushed up the proportion of employed working-age people, both signs of a tighter labour market. August's employment report will also contain quarterly figures on the underemployment rate. When it was last published, the rate was at a record high. Given the improvement in full-time job growth, we look for labour market underutilization to have fallen slightly. But for this to continue and for wage growth to pick up, the improvements in labour market conditions will need to be sustained into 2018.

China – Fixed Asset Investment – August

Time: 12:00 p.m. AEST (2:00 a.m. GMT)
Forecast: 8.4%
We expect China's fixed asset investment to have nudged up, to 8.4% y/y, in the year to August, compared with 8.3% in July. July's slowdown was overstated, as there was a slowdown in all subindexes. The main driver of investment growth in the year to date has been manufacturing, which is benefiting from the general improvement in global demand. Another positive will be mining-related investment, which has passed its trough amid efforts to reduce overcapacity. Over the rest of the year, though, we anticipate that investment growth will ease more as the government's focus shifts increasingly towards financial stability, which will restrict the investment of state-owned enterprises.

China – Industrial Production – August

Time: 12:00 p.m. AEST (2:00 a.m. GMT)
Forecast: 6.6%
China's industrial production growth likely bounced back to 6.6% y/y in August after July's 6.4%. The uptick in growth is corroborated by August's official Purchasing Managers' Index, which rose further into expansionary territory. The main positive for production in recent months has been electronics, driven by the upswing in the global tech cycle. Motor vehicle production has also been robust, thanks to a domestic surge in SUV demand. The main risk to production the rest of the year will be from construction, as easing residential property prices may put downward pressure on building activity.

China – Retail Sales – August

Time: 12:00 p.m. AEST (2:00 a.m. GMT)
Forecast: 10.8%
China's retail trade likely accelerated to 10.8% y/y in August after a 10.4% gain in July. Consumers likely increased purchases of big-ticket items such as automobiles and furniture after a surprisingly strong pullback in July. The medium-term consumption outlook has softened amid cooling activity in Tier 1 and Tier 2 housing markets, as buoyant housing demand was lifting spending on household items. Momentum in housing is shifting to lower-tier cities, and consumers there are unlikely to be able to raise spending sufficiently to offset more cautious consumers in big cities.

India – Wholesale Price Index – August

Time: 4:45 p.m. AEST (6:45 a.m. GMT)
Forecast: 2.5%

India's wholesale price inflation likely accelerated in August to 2.5% y/y from July's 1.9% rise. Base effects which caused inflation to decelerate sharply are over, and the overall index will likely rise on a year-ago basis. Food inflation will likely remain capped because vegetable prices have been low thanks to ample food supply. Energy prices have risen in 2017 but will likely ebb for remainder of the year since global commodity prices have fallen again.

FRIDAY, SEPTEMBER 15

China – Monetary Aggregates – August

Time: Unknown
Forecast: 9.2%
China's M2 money supply growth likely came in at 9.2% y/y in August, unchanged from the pace in July. Money supply has been cooling since mid-2016, although lower base years will start to disguise the softening trend. Slower credit growth suggests reduced investment and GDP growth next year. This slowdown appears officially sanctioned as the government and central bank continue to dissuade growth in shadow financing, especially related to heavy-industrial producers. Credit growth is remaining relatively high due to continued bank lending, but nonbank credit growth is under pressure partly because of increased government scrutiny.

Indonesia – Foreign Trade – August

Time: Unknown
Forecast: US$1.45 billion
Indonesia's monthly foreign trade balance likely rose back into surplus at US$1.45 billion in August after the US$270 million deficit in July. That was Indonesia's first deficit in 19 months and was largely due to the earlier timing of Ramadan, which occurred in June this year. The holiday disrupted shipments, with falls particularly in crude oil volumes. We expect a return to usual export and import annual growth in August, but crude oil values will keep struggling, a reflection of ongoing softness in prices.

India – Foreign Trade – August

Time: Unknown
Forecast: -US$11.2 billion
India's trade deficit likely narrowed in August to US$11.2 billion from July's deficit of US$11.5 billion. Exports continue to grow on a year-ago basis although they have slowed in recent months. Imports remain firm, especially on the back of higher fuel costs and increased gold imports. During tougher economic conditions, Indian consumers tend to hoard gold. The recent economic slowdown could be one reason why gold imports have risen.

MONDAY, SEPTEMBER 18

Singapore – Foreign Trade – August

Time: 10:30 a.m. AEST (12:30 a.m. GMT)
Forecast: 8.1%
Singapore's nonoil domestic export growth likely slowed to 8.1% y/y in August after rising 8.5% in the prior month. With exports increasing in eight of the nine months preceding August, Singapore's exporters have had a sterling year. This is largely attributable to a rebound in electronics exports, as the global tech cycle has been in a persistent upswing. Nonelectronics also are turning positive. Demand for biomedical output has been drifting higher thanks to improving conditions in Europe, Meanwhile, exports of oil rigs, while not improving markedly, are no longer a drag on the headline growth figure.

TUESDAY, SEPTEMBER 19

No major economic indicators are scheduled for release.

WEDNESDAY, SEPTEMBER 20

Japan – Foreign Trade – August

Time: 9:50 a.m. AEST (Tuesday, 11:50 p.m. GMT)
Forecast: ¥450 billion
Japan's trade surplus likely widened to ¥450 billion in August thanks to the continued pickup in export growth. Imports likely eased, as energy prices have declined in recent months. Export growth remains firm thanks to a broad-based improvement in global demand. Major markets of North America and China remain critical to Japan's export growth, and these economies have performed well in 2017. By commodity, exports of autos and electronic-related manufactured goods will remain the key driver of overall exports. The global tech upswing has continued into the second half of the year and it is entering the production/shipment phase. This means exports will likely remain firm for the remainder of the year.

THURSDAY, SEPTEMBER 21

New Zealand – GDP – 2017Q2

Time: 8:45 a.m. AEST (Wednesday, 10:45 p.m. GMT)
Forecast: 0.7%
New Zealand's GDP growth likely ticked up a few notches to 0.7% q/q in the June quarter, from the March quarter's 0.5%. This brings annual growth to 2.2%, from 2% previously. Solid export performance, mainly on the back of higher dairy and other soft commodities, was an important driver. Even though values have soared, volumes have stayed robust amid buoyant Chinese demand and some supply impediments in Europe. Domestic demand is also upbeat, especially consumption, with spending and tourism receiving a lift over the quarter from various international sporting events. The low interest rate environment alongside still strong net migration is the backbone of solid consumption through the first half of the year.

Japan – Monetary Policy – September

Time: 2:00 p.m. AEST (4:00 a.m. GMT)
Forecast: ¥80 trillion
The Bank of Japan has slowed its pace of asset purchases in recent months. However, the central bank will keep its stimulus taps open by communicating that purchases of Japanese government bonds will continue monthly at an annualised rate of ¥80 trillion. The bank will also target long-term interest rates through its yield curve control policy, while a -0.1% interest rate on excess reserves will target the short-term rate. The pickup in inflation remains modest, and underlying inflation is still well under the central bank's 2% target. At the last meeting, the BoJ delayed the time frame to hit the 2% target. While it's unlikely to do so again, we don't see Japan hitting 2% inflation any time soon. Overall, we expect a relatively neutral monetary policy statement accompanying the BoJ's decision.

FRIDAY, SEPTEMBER 22

Indonesia – Monetary Policy – September

Time: Unknown
Forecast: 4.5%
Bank Indonesia will likely keep the policy rate on hold in September, after surprising markets and delivering a 25-basis point reduction in August to 4.5%. The central bank cut policy rates to lift domestic demand after June quarter GDP growth printed below expectations at 5% y/y, making achieving the full-year growth rate of 5.2% less likely. BI specifically mentioned in August's monetary policy statement that private consumption was behind the disappointing quarterly growth, so loan and deposit rates were cut by an average of 74 basis points in August. The central bank had the flexibility to reduce rates, as core inflation is sitting at the low end of the 3%-to-5% target band. We do not think further cuts are in the immediate pipeline, as the central bank is still worried about destabilizing its external position, which remains vulnerable given offshore, major central banks are in slow normalization mode.

Taiwan – Domestic Trade – August

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Forecast: -1.5%
Domestic spending remains weak in Taiwan. Despite a recovery in export manufacturing, households have been reluctant to ramp up spending. One reason is that unemployment has edged up in the last two months, while employment growth in the services sector has ebbed. Still, consumer confidence perked up in August, suggesting consumers could be about to lift spending. We expect domestic spending to have eased a further 1.5% y/y in August, from a 1.7% fall in July.

Taiwan – Industrial Production – August

Time: 6:00 p.m. AEST (8:00 a.m. GMT)
Forecast: 2.7%
Taiwan's manufacturing sector is one of the primary beneficiaries of the strong tech cycle. Exports of electronic components are up 14.7% y/y in the year to August, from growth of 1.6% in the same period last year. However, industrial output underperformed in July, mostly due to sluggish domestic demand and supply shortages. We expect industrial production growth edged up to 2.7% y/y in August from 2.4% in July, aided by the production of components to be assembled in China and sold globally in the fourth quarter of this year.

The Long View

The US: A likely tapering of the Fed's bond reinvestment program has yet to roil the corporate and Treasury bond markets

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
September 14, 2017

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 117 bp is under its 122-point mean of the two previous economic recoveries. Further narrowing by this thin spread may be limited by more cash- or debt-funded acquisitions, spin-offs, stock buybacks, and dividends. Subpar growth by business sales and pretax profits will also add to credit risk, as will a rising risk of high-yield defaults.

The recent high-yield bond spread of 395 bp is less than what is inferred from the spread's macroeconomic drivers and the high-yield EDF metric, and a somewhat higher VIX index. The implications for liquidity of regulatory changes merit scrutiny. If regulatory change enhances the market making capabilities of banks, corporate bond yield spreads may be thinner than otherwise.

DEFAULTS

After setting its current cycle high at January 2017's 5.8%, the US high-yield default rate has since eased to the 3.4% of August. Moody's Default and Ratings Analytics team expects the default rate will average 3.0% in Q1-2018 and 2.8% in Q2-2018. A deeper slide to its 1.85% average of the 18-months-ended June 2015 is unlikely for now.

US CORPORATE BOND ISSUANCE

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

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

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

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

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

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

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

Second-quarter 2017's worldwide offerings of corporate bonds showed an annual percent decline of -6.3% for IG and an increase of +8.3% for high-yield, wherein US$-denominated offerings fell by -6.4% for IG and grew by +5.8% 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 4.8% annually for IG and may advance by 23.6% for high yield.

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

US ECONOMIC OUTLOOK

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

EUROPE

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

Eurozone (September 14, 2017)

The euro zone's growth rate accelerated in the three months to June on a quarterly and yearly basis. Real GDP growth picked up to 0.6% q/q from 0.5% in the opening stanza. Already, country data for Germany, France, Italy, Spain, the Netherlands and Austria have been buoyant, showing that the recovery is finally becoming entrenched and broad-based. The Netherlands outperformed most of its peers, expanding by a staggering 1.5% q/q; Spain's and Austria's GDP rose 0.9% q/q, and the German economy expanded by 0.6%. France and Italy, with the most rigid labour markets, expanded by 0.5% and 0.4%, respectively. The Netherlands and Estonia grew the fastest compared with the previous quarter. No economy contracted.

After stellar growth in the second quarter, the expansion should moderate a bit in the current quarter. The area's composite PMI has dipped in the third quarter compared with the reading in the three months to June, though it remained robust. Weaker data suggest that the recent growth spurt lost some momentum and may be a warning sign. Tightening monetary conditions could halt the economic expansion, while persistent labour market slack could tamp down household spending growth. The euro has already appreciated by 14% against the dollar this year, undermining the price competitiveness of the euro zone's exports.

Although the euro zone's jobless rate dropped in June to an 8½-year low of 9.1%, the high share of underemployed part-time workers and discouraged population of those unable to find work remain a concern. Without more job openings and a lower unemployment rate, wages won't increase much and domestic consumption will stay in the doldrums. Despite these headwinds, we expect the euro zone economy to expand 2% this year, surpassing the 2016 rate, before slowing to 1.7% in 2018. Although we have seen no signs of slowing trade with the U.K., despite the British decision to leave the EU, this may change in coming years after the U.K. formally withdraws from the EU and starts renegotiating trade deals. Similarly, though U.S. President Trump has not yet introduced any measures against Germany or other European countries, the U.S. protectionist rhetoric poses a threat.

As widely expected, the European Central Bank didn't make any changes to its interest rate or balance sheet policies in September. The central bank maintained asset purchases at €60 billion a month until December and reiterated its pledge to increase the size or duration if the economy worsens. It left interest rates unchanged and repeated that it expects rates to remain unchanged until well past the end of its quantitative easing program. Overall, the central bank is proceeding cautiously and attempting to retain maximum flexibility, but changes are coming. We expect the ECB to announce plans to taper asset purchases in October but keep the program running until at least June next year.

The bank doesn't need to rush to adjust its policy stance. Although central bankers are convinced of ongoing economic expansion in the euro zone, they are not so sure about strengthening underlying inflation. Without higher wages and lower labor market underutilization, core inflation won't gain traction. Also, tightening financial conditions are the last thing the ECB wants. The euro has appreciated around 14% this year. Although the stronger euro versus the dollar barely registers on core inflation, it could undermine the euro zone's exports and the broader recovery. Our analysis shows that the euro's strengthening will likely weigh on exports later this year and early in 2018. Nevertheless, we expect that faster inflation in the euro zone than in the U.S., and a falling euro interest rate relative to the U.S. dollar interest rate, should weaken the euro.

UK (September 14, 2017)
Britain's preliminary second quarter GDP numbers added to the increasing evidence that economic momentum will slow sharply this year following 2016's unexpected EU-exit vote. The country's GDP expanded by 0.3% q/q in the second quarter, accelerating slightly from a mere 0.2% increase at the start of the year. The impact of the British public's decision to leave the EU will increasingly become visible in the economy. The sharp depreciation in the British pound has increased consumer prices and dampened consumer spending. The pullback in spending will dent growth in consumer-related services, as real wages decline. Furthermore, U.K. banks have started to restrict the supply of unsecured credit and the Bank of England's Term Funding Scheme, which was put in place in August 2016, will finish by February. This should restrict the amount of lending to the economy further.

Britain's manufacturing will get little support from the slump in the pound, as manufacturers have raised prices rapidly to compensate for higher import costs, offsetting most gains to U.K. competitiveness from the weaker currency and failing to offset the negative effects on domestic demand from imported inflation. The labour market is expected to gradually deteriorate over the next few years as weak economic growth narrows profit margins, prompting companies to scale back hiring, causing the headline ILO-harmonized unemployment rate to grind higher from around 4.5% in mid-2017 to more than 5% by the end of the two-year negotiation period. Deteriorating corporate earnings will also drag on stock prices, with the FTSE 100 underperforming for the next two years.

Despite the slump in sterling and the associated rise in inflation, the weakening British economy is expected to keep the BoE on the sidelines. Construction activity fell extremely short of expectations and plunged again in July, offsetting any positive contributions to growth from the small rises in industrial production and retail sales. Meanwhile, the weighted average of the manufacturing, services and construction PMI fell to an 11-month low in August, dashing hopes that growth could accelerated from the second quarter in the current quarter. In our view, little points to a gain of momentum in this second half of the year, and as of now we are expecting that GDP will increase by only 1.5% in 2017, below the committee's forecast of 1.7%. Furthermore, we think that wage growth will disappoint in coming months and recent pickup in inflation, with CPI rising by 2.9% in August, was mainly due to a recovery in oil prices and a faster than expected pass-through of higher import prices. Therefore, after the Bank of England kept its policy stance unchanged in September, we still maintain our forecast that rates won't be raised this year.

Meanwhile, 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 and increase government spending to prop up waning economic activity. Although lower revenues and higher spending will mean Britain will take several more years to balance its books, the BoE's ultra-accommodative monetary policy will help to temper the rise in borrowing costs in the next few years, with the U.K. 10-year government bond yield only gradually rising from around 1% in mid-2017 to around 3.5% by the end of this decade. The U.K.'s real GDP growth is expected to decelerate from around 1.8% in 2016 to around 1.5% in 2017 and 1.2% in 2018 before gradually strengthening to settle around 1.8%, its new post-exit potential growth rate, around 0.2 percentage point lower than it would have been had the U.K. stayed in the EU.

ASIA PACIFIC

By Faraz Syed and the Asia-Pacific Staff of Moody's Analytics
September 14, 2017

India

The brakes are on for the Indian economy; GDP growth has decelerated for three consecutive quarters, with the June quarter having the sharpest slowdown at 5.7% y/y. The economy hasn't grown at this rate since 2012, and overall, this is well below its trend rate of around 7.5%. The slowdown is mostly due to the removal of 86% of currency from circulation in November. The process known as demonetisation, caused short-term disruptions for the Indian economy which are still lingering.

Meanwhile, the implementation of key reforms such as the goods and services tax failed to boost sentiment. Conversely, the complex nature of the GST caused short-term sentiment to fall. In response to the cyclical slowdown, the Reserve Bank of India delivered a 25-basis point rate cut in August, but further cuts remain unlikely. Moody's Analytics expect a slight recovery in the second half of 2017, but overall GDP growth will likely be capped at 6.2%.

First, demonetisation is one cause of India's cyclical slowdown. The removal of high-valued currency—500 and 1,000 rupee notes—from circulation was aimed at curbing corruption and stemming the rise of undeclared income. However, it's questionable whether demonetisation has had its desired effect. Recent data released from the RBI show that almost 99% of the invalidated notes were returned. While those returning the notes may be new entrants into India's tax base, it's difficult to quantify the overall benefits of demonetisation.

Most of transactions in India are cash based, and the informal sector of the economy has been hit hard. Data on the informal sector are not readily available, and enter the national accounts with a few quarter lags. This is why GDP growth has decelerated throughout 2017, rather than a one-off decline in the December quarter of 2016 when demonetisation was introduced. The largest drags on growth have been in industries such as construction and manufacturing that rely heavily on cash-based transactions.

Second, India's cyclical slowdown began prior to demonetisation. Private sector investment has been anemic—decelerating or declining over the past two years—and it's unlikely to change. Overall, investment has fallen from nearly 40% to 30% as a share of GDP since 2010. The reason for poor investment is the hefty debts corporate India took on to finance investment at the start of this decade. However, because of India's supply bottlenecks and overenthusiastic assumptions about returns to investment, corporate India has struggled to repay its debts. This has also caused bad loans to rise on commercial bank balance sheets.

And finally, there's been a drop in business sentiment in India following the introduction of the goods and services tax. The rollout of the tax on July 1 has disrupted supply and distribution links. The PMI for service sector activity, which accounts for around 60% of GDP, dropped in July to 45.9, its lowest level since September 2013 and down from 53.1 in June. The manufacturing PMI slumped by the most since 2009.

While the GST will improve India's business environment over the long term, its short-term costs stem from the complex structure. Unlike in other countries where a single tax rate is applied, India's tax has four tax brackets: 5%, 12%, 18% and 28%. For example, rubber goods are taxed at 12%, while sporting goods have an 18% rate. But businesses are unsure how to tax a sporting good with rubber components. These uncertainties are prevalent across various industries. The business environment will likely improve next year after businesses adjust to the new tax regime.

Low food prices have caused India's inflation to hit record lows in recent months. Both wholesale and consumer price inflation slowed sharply in the first half of 2017; consumer inflation decelerated to 1.5% y/y while wholesale inflation went to as low as 0.9%. Despite a pickup last month, both measures remain below the central bank's 4% target.

Low inflation allowed the RBI to cut rates in early August. And we expect prices will remain within the central bank's target for the remainder of the year. Monsoon rains in India were around their long-term average, which means that crop sowing has been relatively stable compared with last year. A stable harvest means that food inflation, which accounts for around half of the CPI basket, is unlikely to rise sharply over the coming year.

Moreover, imported inflation has been steady and the trend is expected to persist. One cause for lower imported inflation is the newfound stability in the Indian rupee. The currency has appreciated on a trade-weighted basis thanks to continued demand for rupee-denominated assets. A stable currency keeps the cost of imported inflation low.

Overall, we believe that the RBI will keep rates steady for remainder of the year. However, downside risks persist, and another rate cut could occur this year if growth in the September quarter doesn't rebound. We believe the economy has troughed for now, so the RBI will likely maintain a hold and wait approach prior to cutting again.

Ratings Round-Up

By Njundu Sanneh

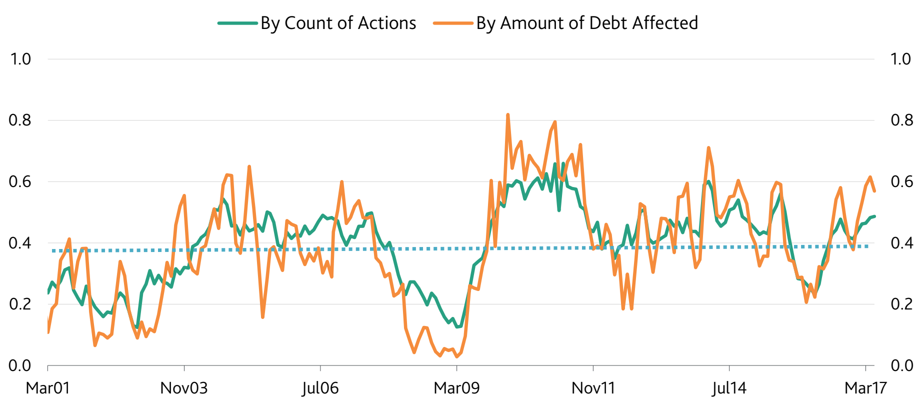
Upgrades on the Upswing

The gaming and energy sectors contribute most to the positive rating changes for the US in the past week. They account for five of the 12 upgrades out of a total of 19 changes. The upgrades of three gaming companies reflect the improvements in consumer discretionary spending as the US economy maintains a steady if sluggish growth cycle and a tight labor market with the unemployment rate at a low 4.4%. The steady revenue stream, lack of new supply, and debt reduction measures are likely to lead to advances in the credit metrics for this sector. Energy companies continue to use capital structure management to improve credit metrics, notwithstanding the challenges facing the sector as prices linger at relatively moderate levels.

Europe's corporate credit profile has been on an upward trend with upgrades outnumbering downgrades consistently over the past few months. For the past week upgrades numbered seven out of eight total rating revisions. The financial sector leads in the positives, but industrials are not far behind.

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
9/6/17	PITNEY BOWES INC.	Industrial	SrUnsec/Sub/PS/CP	3,325	D	Baa3	Ba1	IG
9/6/17	STEEL DYNAMICS, INC.	Industrial	SrUnsec	2,350	U	Ba2	Ba1	SG
9/7/17	AIR MEDICAL GROUP HOLDINGS, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	740	U	Caa2	Caa1	SG
9/7/17	CROSSMARK HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG
9/7/17	FELCOR LODGING TRUST INC. - FelCor Lodging Limited Partnership	Financial	SrUnsec/LTCFR/PDR	1,000	U	B2	B1	SG
9/7/17	MGM RESORTS INTERNATIONAL	Industrial	SrUnsec	6,350	U	B1	Ba3	SG
9/7/17	PIKE CORPORATION	Industrial	SrSec/BCF		D	B1	B2	SG
9/7/17	STATION CASINOS LLC	Industrial	SrSec/BCF		U	B1	Ba3	SG
9/7/17	TRONOX LIMITED	Industrial	SrUnsec/LTCFR/PDR	600	U	Caa1	B3	SG
9/8/17	FLOWORKS INTERNATIONAL LLC	Industrial	LTCFR/PDR		D	Caa3	Ca	SG
9/8/17	WABASH NATIONAL CORPORATION	Industrial	SrSec/BCF		U	B1	Ba2	SG
9/11/17	ALLISON TRANSMISSION, INC.	Industrial	SrSec/BCF		U	Ba1	Baa3	SG
9/11/17	CPI HOLDINGS I, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
9/11/17	DAVID'S BRIDAL, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG
9/11/17	ELDORADO RESORTS, INC. - Eagle II Acquisition Company LLC	Industrial	SrSec/BCF/LGD		U	Ba3	Ba2	SG
9/11/17	PAPERWORKS INDUSTRIES, INC.	Industrial	SrSec/LTCFR/PDR	360	D	Caa1	Caa3	SG
9/12/17	CONCHO RESOURCES INC.	Industrial	SrUnsec	2,750	U	Ba2	Ba1	SG
9/12/17	GRUPO FRIBOI - Pilgrim's Pride Corporation	Industrial	SrUnsec/SrSec/BCF	500	U	B2	B1	SG
9/12/17	TALLGRASS ENERGY PARTNERS, LP	Industrial	SrUnsec	750	U	B1	Ba3	SG

Source: Moody's

FIGURE 4 Rating Changes: Corporate & Financial Institutions – EUROPE

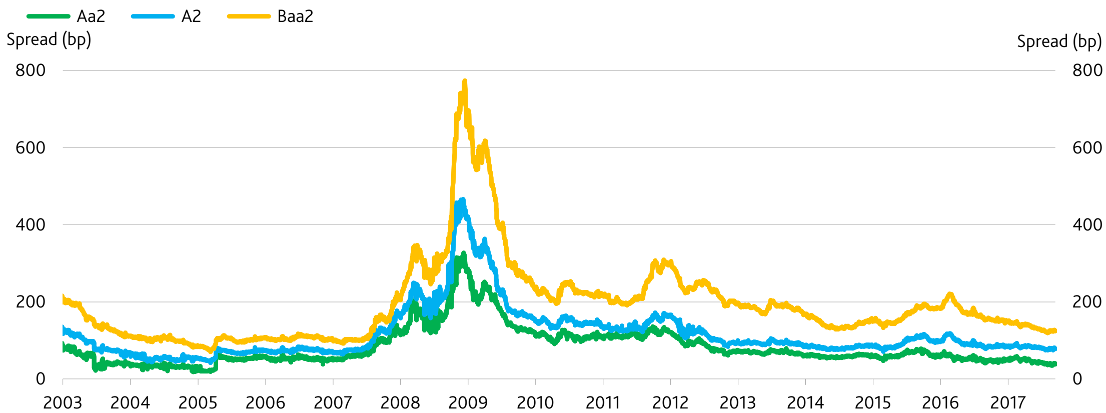
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	New LGD	IG/ SG	Country
9/8/17	AVOLON HOLDINGS LIMITED	Financial	SrUnsec/SrSec/BCF/LTCFR	3,000	U	B1	Ba3		SG	IRELAND
9/12/17	CASSA DI RISPARMIO DI BOLZANO S.P.A.	Financial	LTIR/LTD		D	Ba2	B1		SG	ITALY
9/7/17	GRAND CITY PROPERTIES S.A.	Financial	SrUnsec/LTIR/MTN/JrSub	2,765	U	Baa2	Baa1		IG	LUXEMBOURG
9/8/17	RUSHYDRO, PJSC	Utility	LTCFR/PDR		U	Ba2	Ba1		SG	RUSSIA
9/6/17	YORKSHIRE BUILDING SOCIETY	Financial	SrUnsec/MTN	2,150	U	Baa1	A3		IG	UNITED KINGDOM
9/7/17	CO-OPERATIVE BANK PLC	Financial	SrUnsec/MTN	527	U	Ca	Caa2		SG	UNITED KINGDOM
9/7/17	MONDI PLC	Industrial	SrUnsec/LTIR/MTN	1,202	U	Baa2	Baa1		IG	UNITED KINGDOM
9/12/17	ASTON MARTIN HOLDINGS (UK) LIMITED	Industrial	SrSec/LTCFr/PDR	703	U	B3	B2		SG	UNITED KINGDOM

Source: Moody's

Market Data

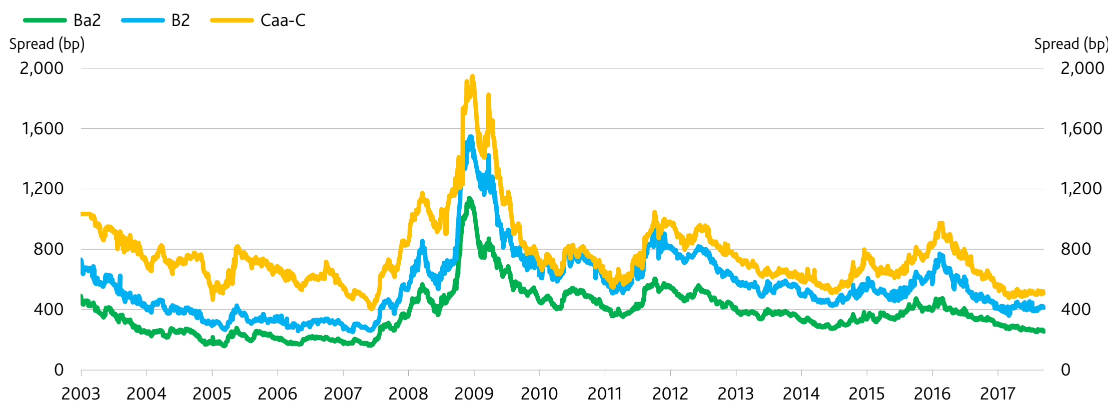
Spreads

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



Source: Moody's

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



Source: Moody's

CDS Movers

Figure 3. CDS Movers - US (September 6, 2017 – September 13, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 13	Sep. 6	Senior Ratings
JPMorgan Chase & Co.	A3	Baa1	A3
Citigroup Inc.	Baa1	Baa2	Baa1
Bank of America Corporation	Baa1	Baa2	Baa1
Goldman Sachs Group, Inc. (The)	Baa2	Baa3	A3
JPMorgan Chase Bank, N.A.	A2	A3	Aa3
Bank of America, N.A.	A3	Baa1	A1
Citibank, N.A.	Baa2	Baa3	A1
General Motors Company	Ba1	Ba2	Baa3
Prudential Financial, Inc.	Baa1	Baa2	Baa1
Energy Transfer Partners, L.P.	Baa3	Ba1	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 13	Sep. 6	Senior Ratings
United States of America, Government of	Aa2	Aa1	Aaa
Apple Inc.	Aa2	Aa1	Aa1
Comcast Corporation	A2	A1	A3
Walt Disney Company (The)	Aa3	Aa2	A2
PepsiCo, Inc.	A1	Aa3	A1
Intel Corporation	Aa2	Aa1	A1
United Technologies Corporation	A1	Aa3	A3
Abbott Laboratories	A3	A2	Baa3
Medtronic, Inc.	Aa2	Aa1	A3
Burlington Northern Santa Fe, LLC	Aa1	Aaa	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 13	Sep. 6	Spread Diff
Nine West Holdings, Inc.	Ca	7,414	6,936	479
Windstream Services, LLC	B2	1,673	1,529	144
Nordstrom, Inc.	Baa1	296	236	60
Frontier Communications Corporation	B2	1,147	1,124	24
Rite Aid Corporation	B3	454	432	22
HealthSouth Corporation	B1	352	330	22
Freeport Minerals Corporation	Ba2	211	198	13
Freeport-McMoRan Inc.	B2	200	188	12
PolyOne Corporation	Ba3	127	118	9
United Airlines, Inc.	Baa1	284	276	8

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 13	Sep. 6	Spread Diff
Hertz Corporation (The)	B3	681	746	-64
Weatherford International, LLC (Delaware)	Caa1	472	519	-47
Chesapeake Energy Corporation	Caa2	808	854	-46
K. Hovnanian Enterprises, Inc.	Caa3	1,187	1,226	-39
Avis Budget Car Rental, LLC	B1	276	310	-34
Sears Holdings Corp.	Caa3	3,468	3,497	-29
Sears Roebuck Acceptance Corp.	Caa3	3,326	3,354	-28
Macy's Retail Holdings, Inc.	Baa3	219	246	-27
Diamond Offshore Drilling, Inc.	Ba3	339	366	-27
United Rentals (North America), Inc.	Ba3	118	144	-26

Source: Moody's, CMA

Figure 4. CDS Movers - Europe (September 6, 2017 – September 13, 2017)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 13	Sep. 6	Senior Ratings
Portugal, Government of	Ba3	B1	Ba1
Bankia, S.A.	Baa2	Baa3	Ba1
Daimler AG	A3	Baa1	A2
Orange	A2	A3	Baa1
Vodafone Group Plc	Baa1	Baa2	Baa1
Tesco Plc	Ba2	Ba3	Ba1
SSE plc	A3	Baa1	A3
EDP - Energias de Portugal, S.A.	Baa2	Baa3	Baa3
CNH Industrial N.V.	Baa3	Ba1	Ba2
RWE AG	A3	Baa1	Ba1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 13	Sep. 6	Senior Ratings
Landesbank Hessen-Thueringen GZ	Baa1	A1	A1
Landesbank Baden-Wuerttemberg	A3	Aa3	A1
Rabobank	Aa2	Aa1	Aa2
Austria, Government of	Aa1	Aaa	Aa1
Societe Generale	A1	Aa3	A2
Lloyds Bank Plc	A2	A1	A1
Ireland, Government of	Aa3	Aa2	A3
BNP Paribas	Aa3	Aa2	A1
The Royal Bank of Scotland plc	Baa1	A3	A3
Banque Federative du Credit Mutuel	Aa2	Aa1	Aa3

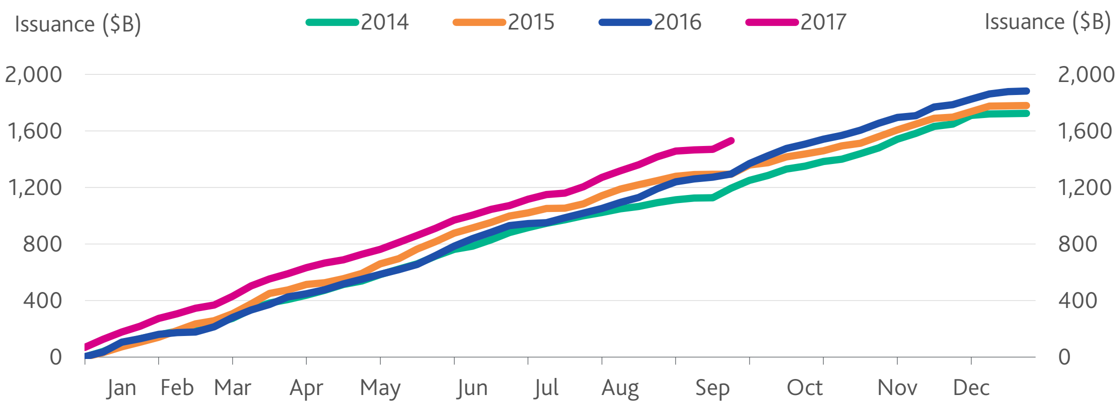
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 13	Sep. 6	Spread Diff
Galapagos Holding S.A.	Caa2	958	934	24
Landesbank Hessen-Thueringen GZ	A1	53	37	16
Banco BPI S.A.	Ba3	223	209	14
Caixa Geral de Depositos, S.A.	B1	219	206	14
Landesbank Baden-Wuerttemberg	A1	42	35	8
NN Group N.V.	Baa2	61	56	5
Vue International Bidco p.l.c.	B3	225	222	3
United Kingdom, Government of	Aa1	22	21	2
Barclays Plc	Baa2	72	70	2
ING Groep N.V.	Baa1	43	41	2

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 13	Sep. 6	Spread Diff
Novo Banco, S.A.	Caa2	1,174	1,252	-79
Astaldi S.p.A.	B3	755	825	-71
CMA CGM S.A.	B3	378	403	-25
Stena AB	B3	590	614	-24
Ensco plc	B2	579	602	-23
Greece, Government of	Caa2	456	472	-16
Stonegate Pub Company Financing plc	Caa1	236	252	-16
Evraz Group S.A.	B1	262	277	-15
Trionista HoldCo GmbH	B2	94	106	-12
Matalan Finance plc	Caa2	590	602	-12

Source: Moody's, CMA

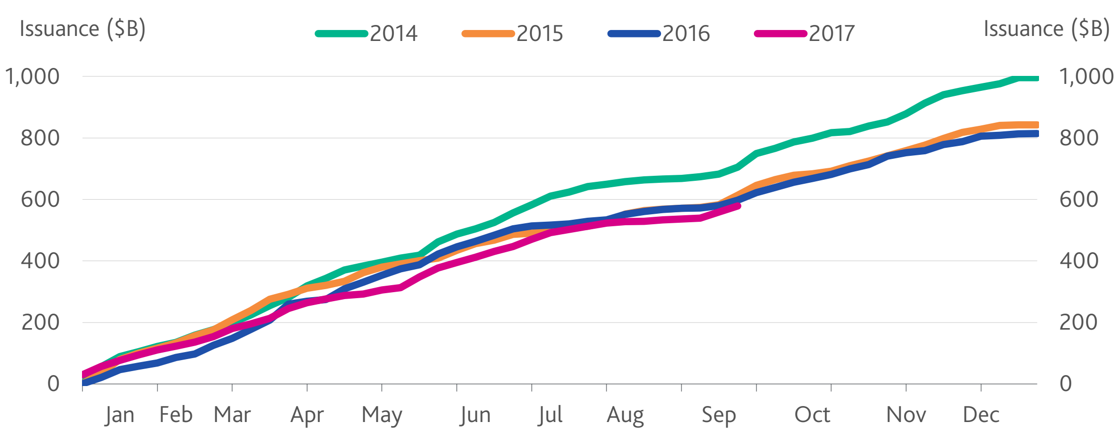
Issuance

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	52.140	7.125	61.162
Year-to-Date	1,109.868	296.156	1,530.609
	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	16.836	2.279	20.036
Year-to-Date	482.387	66.447	579.171

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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