MOODY'S
ANALYTICS

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

Weekly Market Outlook Contributors:

John Lonski
1.212.553.7144
john.lonski@moodys.com

Njundu Sanneh
1.212.553.4036
njundu.sanneh@moodys.com

Franklin Kim
1.212.553.4419
franklin.kim@moodys.com

Yuki Choi
1.212.553.0906
yukyung.choi@moodys.com

Moody's Analytics/U.S.:

Ryan Sweet
1.610.235.5213
ryan.sweet@moodys.com

Moody's Analytics/Europe:

Barbara Teixeira Arajuo
+420.224.106.438
barbara.teixeiraarajuo@moodys.com

Moody's Analytics/Asia-Pacific:

Katrina Ell
+61.2.9270.8144
katrina.ell@moodys.com

Editor
Reid Kanaley
1.610.235.5273
reid.kanaley@moodys.com

Base Metals Price Drop Suggests All Is Not Well

Credit Markets Review and Outlook *by John Lonski*

Base Metals Price Drop Suggests All Is Not Well

» FULL STORY PAGE 2

The Week Ahead

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

» FULL STORY PAGE 6

The Long View

Full updated stories and key credit market metrics: US$-denominated investment-grade corporate bond issuance may incur its worst July since July 2014.

Credit Spreads	Investment Grade: We see year-end 2018's average investment grade bond spread resembling its recent 132 bp. High Yield: Compared to a recent 377 bp, the high-yield spread may approximate 425 bp by year-end 2018.
Defaults	US HY default rate: Moody's Default and Ratings Analytics team forecasts that the U.S.' trailing 12-month high-yield default rate will sink from May 2018's 3.7% to 2.0% by May 2019.
Issuance	In 2017, US$-denominated IG bond issuance grew by 6.8% to a record $1.508 trillion, while US$-priced high-yield bond issuance advanced by 33.0% to a new record calendar-year high of $453 billion. For 2018's US$-denominated corporate bonds, IG bond issuance may drop by 4.9% to $1.435 trillion, while high-yield bond issuance is likely to fall by 11.4% to $402 billion..

» FULL STORY PAGE 13

Ratings Round-Up

Positive Rating Revisions Up in U.S., Down in Europe

» FULL STORY PAGE 17

Market Data

Credit spreads, CDS movers, issuance.

» FULL STORY PAGE 20

Moody's Capital Markets Research *recent publications*

Links to commentaries on: Trade war, Investment grades, defaults, higher rates, profit growth, credit quality, foreign investors, internal funds, tariffs, borrowing restraint, corporate bonds, tax law changes, stocks and spreads, Greek drama, South Korea, Brazil sovereign credit.

THIS REPORT WAS REPUBLISHED JULY 23, 2018 TO UPDATE ECONOMIC FORECASTS FOR THE WEEK AHEAD.

» FULL STORY PAGE 25

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.

Moody's Analytics markets and distributes all Moody's Capital Markets Research, Inc. materials. Moody's Capital Markets Research, Inc is a subsidiary of Moody's Corporation. Moody's Analytics does not provide investment advisory services or products. **For further detail, please see the last page.**

Credit Markets Review and Outlook

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

Base Metals Price Drop Suggests All Is Not Well

Though it goes practically unmentioned, one of the more unexpected developments of late has been the stunning collapse of Moody's industrial metals price index. In part, the industrial metals price index's average of July-to-date is a deep 8.2% under its June 2018 average because of uncertainties stemming from trade-related issues. Since worries surrounding a trade war came to the fore following June 14's close, the base metals price index has sunk by 13.0%.

Nevertheless, the base metals price index's month-long average had peaked some time ago in February 2018, where the subsequent slide by the index through mid-June reflected a loss of momentum for global industrial activity.

Moreover, the base metals price index's improved performance since 2016 falls considerably short of its strong showing of 2010 and 2011. Though the industrial metals price index's latest 52-week moving average tops its contiguous 52-week moving average of the span-ended July 17, 2017 by 19.9%, it remains 8.8% under its current recovery high for the span ended September 20, 2011. The latter 52-week observation overlapped very brisk annual growth rates for the world economy of 5.4% for 2010 and 4.3% for 2011.

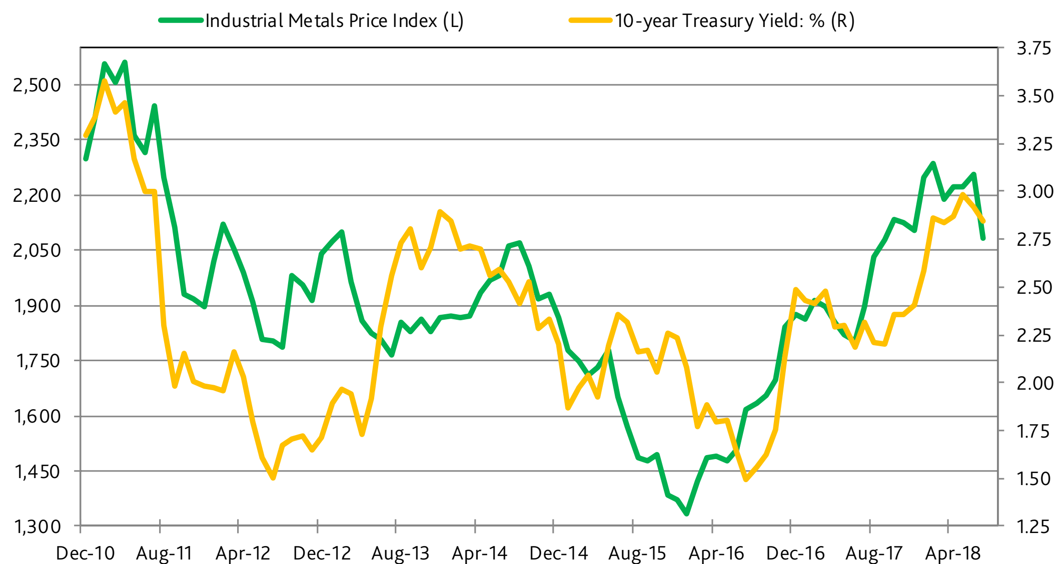
The roughly 10% average annual increase by China's real GDP of 2010-2011 goes far at explaining both 2010-2011's average annualized advances of 4.9% for world economic activity and 27% for the industrial metals price index. By contrast, current consensus expectations call for a slowing of China's economic growth from 2017's actual 6.9% to 6.6% in 2018 and 6.4% in 2019. In turn, the IMF expects the world economy to grow no faster than 3.9% in both 2018 and 2019 following 2017's 3.7% increase.

However, a consensus forecast compiled by Bloomberg News in mid-July projected slower rates of growth for world real GDP of 3.7% in 2018, 3.6% in 2019, and 3.3% in 2020. These projections for world growth seem to be inconsistent with the accompanying consensus forecast of a steady and uninterrupted climb by the 10-year U.S. Treasury yield from July 19's 2.85% to 3.55% by the end of 2020.

Lower Industrial Metals Price Index May Block Higher Treasury Yields

Throughout the current business cycle upturn, advances by the 10-year Treasury yield have been difficult to sustain without an accompanying upswing by the industrial metals price index. For example, when the 10-year Treasury yield's month-long average peaked for the current recovery at the 3.58% of February 2011, the base metals price index was merely 0.1% under its April 2011 high of the current upturn. In response to a 25% plunge by the base metals price index's moving three-month average from April 2011 to December 2011, the 10-year Treasury yield's accompanying three-month average sank from 3.48% to 2.05%, respectively.

Figure 1: Industrial Metals Price Index's Latest Dive Weighs Against an Impending and Extended Stay by 10-Year Treasury Yield Above 3%
source: Moody's Analytics



Until the base metals price index approaches its latest high of February 2018, the 10-year Treasury yield is unlikely to remain at or above 3% for long. In fact, there is a very real possibility that by later this summer, the industrial metals price index may begin to record year-to-year declines, which in the past were often accompanied by year-to-year declines for the 10-year Treasury yield. A year-to-year decline by the base metals price index could arrive fairly soon. For example, July 18's industrial metals price index was less than each of its previous month-long averages starting with August 2017. Over the course of just one month, the industrial metals price index's yearly increase sagged from the 26.2% of June 18, 2018 to the 6.0% of July 18.

2015's Bout of Industrial Commodity Price Deflation Swelled Spreads and Sank Equities

The last severe bout of base metals price deflation was linked to problems in China and an earlier run-up by U.S. Treasury bond yields, or the taper tantrum of 2013-2014. After setting a localized peak in August 2014, the industrial metals price index's month-long average would ultimately plunge by a cumulative 35.5% before bottoming in January 2016. In addition, an even deeper 71.0% plummet by crude oil's month-long average price from a June 2014 peak to a February 2016 bottom overlapped the slide by base metals prices.

The 2014-2015 episode of industrial commodity price deflation helped to shrink the moving yearlong sum of the pretax operating profits of U.S. nonfinancial corporations by 10.3% from a second-quarter 2015 top to a first-quarter 2017 trough. Even after excluding the especially hard hit petroleum and coal industries, the remaining operating profits of nonfinancial corporations sank by a cumulative 7.8% from 2015's second quarter to 2017's first quarter.

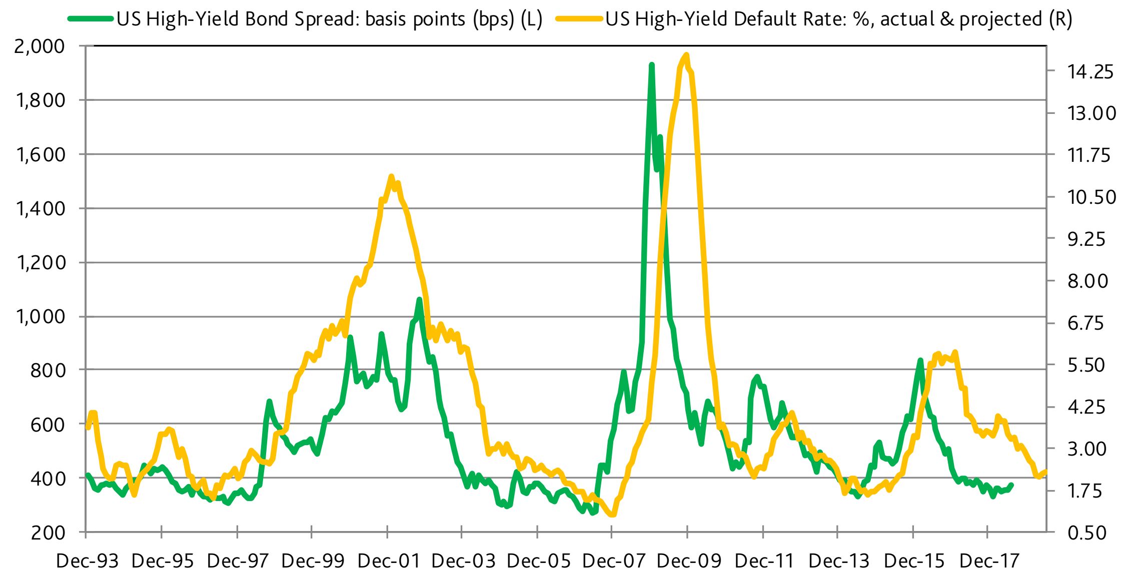
The combination of industrial commodity price deflation and the shrinkage of profits helped to drive the U.S.' high-yield default rate up from September 2014's now 10.5-year low of 1.6% to January 2017's eight-year high of 5.9%. Moreover, the month-long averages of the high-yield bond spread and the long-term Baa industrial company bond yield spread ballooned from the 331 basis points and the 145 bp, respectively, of June 2014 to the 839 bp and 277 bp of February 2016. In addition, the month-long average for the market value of U.S. common stock sank by a cumulative 12.9% from a May 2015 high to a February 2016 bottom.

A subsequent recovery by operating profits helped to lower the default rate to June 2018's 3.4%. And expectations of a further expansion of profits from current production now lend critical support to a likely continued slide by the default rate to 2.3% by June 2019.

Credit Markets Review and Outlook

Nevertheless, Moody's Default Research Group has upwardly revised its default forecast. The predicted U.S. high-yield default rate for 2019's first quarter has been ratcheted up from 1.9% as of April 2018 to 2.5% as of July. Still the latter would be significantly under the 3.8% average of 2018's first quarter. Not only do expectations of yearly declines by the default rate constructive for corporate credit quality, they also lend support to equity market performance and systemic liquidity.

Figure 2: Moody's Default Research Group's Forecast of Q1-2019's Default Rate Has Been Revised Up from the 1.9% of April 2018 to the 2.5% of July
sources: Moody's Investors Service, Moody's Capital Markets



Profits Growth Keeps Leverage Benign

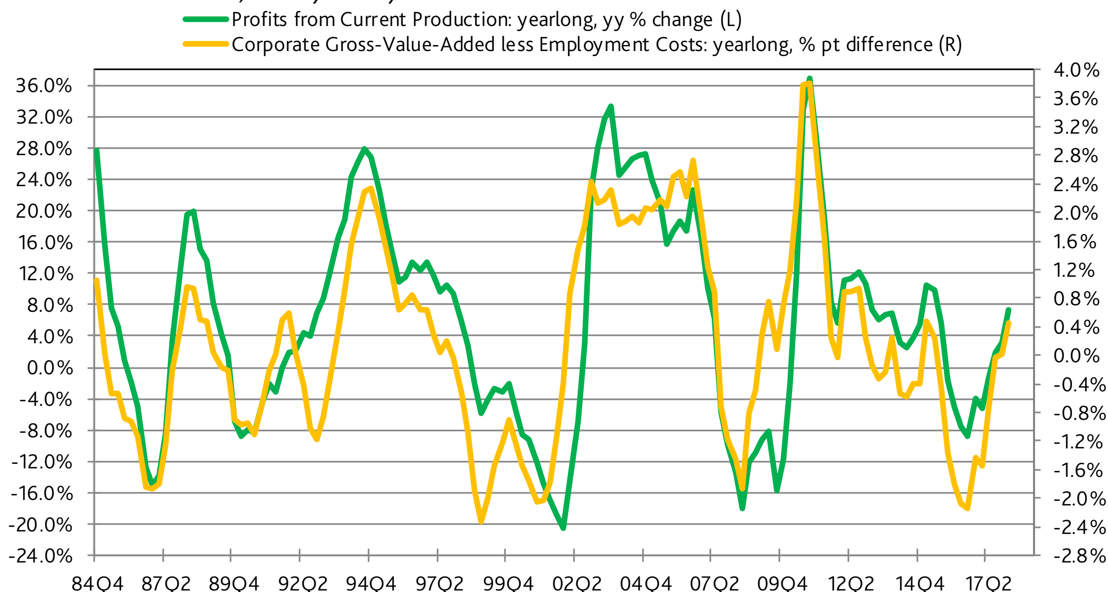
Today's seemingly manageable ratio of debt to operating profits can turn ugly in a hurry if operating profits shrink. Of additional importance is how contractions by corporate earnings often shrink the market value of the business assets collateralizing outstanding debt. Systemic liquidity can disappear quickly whenever uncertainty surrounding the underlying value of business assets soars. A jarring diminution of systemic liquidity is typically accompanied by a deep and widespread plunge in share prices that includes stratospheric readings for the VIX.

When predicting the likely direction of market-wide barometers of corporate credit quality, such as the high-yield default rate, high-yield bond spread and the Baa-grade bond yield spread, the Bureau of Economic Analysis' estimate of pretax profits from current production tends to outperform the S&P 500's earnings per share metric and readily available aggregate measures of corporate cash flow. This proxy for pretax operating income enters into the calculation of National Income and is found in the GDP or National Income Product Accounts under the formal heading of "corporate profits with inventory valuation and capital consumption adjustments."

All else the same, profits from current production will increase as corporate gross value added increases and decline as employee compensation or net interest expense increase. You might ask, where are the non-labor input costs? By definition, corporate gross value added is a proxy for net revenues. Thus, corporate GVA is net of non-labor inputs such as materials and energy. Corporate GVA aims to avoid the double-counting of business revenues and attempts to estimate the value of the final goods and services produced by corporations. For example, to the degree a tariff-induced jump in the cost of steel is less than fully passed on to the prices of final products using costlier steel, both corporate GVA and profits from current production will be lower than otherwise.

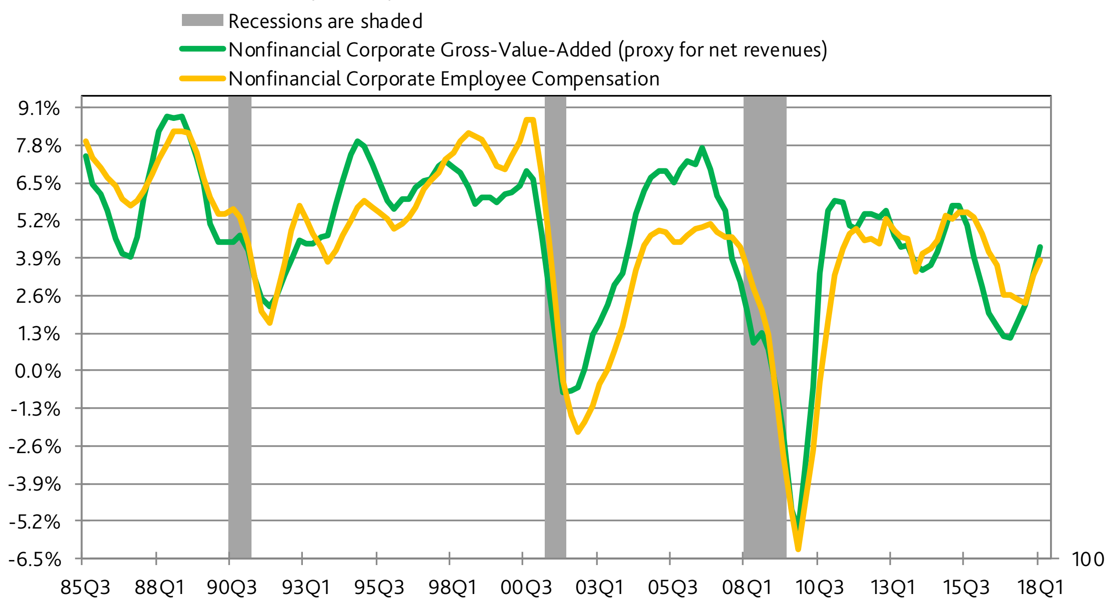
In terms of moving yearlong averages, the annual percent change of pretax operating profits generates a relatively strong correlation of 0.82 with the percentage point difference between the annual percent changes of corporate GVA less employee compensation. Basically, operating profits expand more rapidly the faster corporate GVA grows relative to employment costs.

Figure 3: In terms of Annual Growth Rates, Operating Profits Are Highly Correlated with the Difference Between Corporate Gross-Value-Added Less Employment Costs
sources: BEA, Moody's Analytics



For the year-ended March 2018, nonfinancial-corporate operating profits advanced by 7.2% annually as a 4.3% increase by GVA, or net revenues, outran an accompanying 3.8% increase by employee compensation. By contrast, operating profits shrank when the deceleration by GVA's yearlong growth rate from June 2015's 5.7% to March 2017's 1.1% was more pronounced than the accompanying slowdown by employee compensation from 5.5% to 2.6%.

Figure 4: Gross-Value-Added (Net Revenues) Now Accelerates Vis-a-vis Employment Costs
yy % changes for yearlong averages of US nonfinancial corporations
sources: BEA, Moody's Analytics



The avoidance of a disruptive contraction by operating profits requires sufficient growth by net revenues relative to employee compensation. For only the first quarter of 2018, net revenues' 5.4% yearly increase outran employee compensation's 5.0% yearly rise by enough to lift operating profits by 9.7% from a year earlier. Given the risks now facing international trade and business activity's loss of momentum outside the U.S., companies might be expected to do more to prevent a further acceleration of employee compensation.

The Week Ahead – U.S., Europe, Asia-Pacific

THE U.S.
By Ryan Sweet of Moody's Analytics

Getting a First Look at Second Quarter GDP

The week provides our first look at second quarter GDP growth. All indications are that growth was strong, but the key is whether it is sustainable. We are banking that it isn't. With second quarter GDP, the Bureau of Economic Analysis will release its comprehensive revisions.

Elsewhere, we look for existing-home sales to have dropped in June, adding to the evidence that they have peaked this cycle. The implications for our GDP forecast should be fairly modest. Existing-home sales impact GDP via brokers' commissions but they account for only 0.9% of GDP. New-home sales and construction are more important for GDP, and we don't believe either has peaked this cycle. We look for new-home sales to have surrendered some of their gains in May. We will release our durable goods forecast and GDP later in the week.

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Mon @ 10:00 a.m.	Existing-Home Sales for June	mil, SAAR	5.35	5.47	5.35 to 5.55	5.43
Wed @ 10:00 a.m.	New-Home Sales for June	ths, SAAR	660	670	650 to 692	689
Thur @ 8:30 a.m.	International Trade for June	$ bil	-65.3	-65.5	-70.7 to -62.0	-64.8
Thur @ 8:30 a.m.	Jobless Claims for July 21	ths	220	216	207 to 600	207
Thur @ 8:30 a.m.	Advanced durable goods orders for June	% change		2.8	1.0 to 5.3	-0.4
	Excluding Transportation	% change		0.4	0.0 to 1.3	-0.3
Fri @ 8:30 a.m.	GDP for 2018 Q2	% change, SAAR		4.0	3.0 to 4.8	2.0
Fri @ 10:00 a.m.	Michigan sentiment for May, final	index	97.3	97.3	96.8 to 98.0	97.1

MONDAY, JULY 23

Business confidence (week ended July 20; 10:00 a.m. EDT)
Forecast: N/A

Global business sentiment remains strong, but is well off its highs of earlier in the year. Behind the strong sentiment are healthy sales and hiring, and pricing has firmed. Weighing on sentiment are expectations about business prospects, which are about as weak as they have been since early in the economic expansion. Businesses may be becoming wary of the escalating global trade war.

Businesses' other big concern is regulatory and legal issues, although it is receding with about one-third of respondents saying these issues are their greatest concern. Worries about the cost and availability of labor are on the rise and those issues are now the top concern of nearly one-fourth of respondents.
The four-week moving average in our business confidence index fell from 35.6 to 34 in the week ended July 13.

Existing-home sales (June; 10:00 a.m. EDT)
Forecast: 5.35 million annualized units

We look for existing-home sales to have declined from 5.43 million annualized units in May to 5.35 million in June. This would be the third consecutive monthly decline and the fourth in the past six months. The forecast assumes that existing-home sales follow pending-home sales, which have softened. Pending-home sales normally lead existing by one to two months. Existing-home sales appear to have peaked for the cycle.

TUESDAY, JULY 24

No major economic releases scheduled

WEDNESDAY, JULY 25

New-home sales (June; 10:00 a.m. EDT)

Forecast: 660,000 annualized units

New-home sales in May rose 6.7% to 689,000 annualized units. There were downward revisions to April, as sales are now shown to have been 646,000 annualized units (previously 662,000). The revision to March was minimal. Through the ups and downs, the trend strengthens, bucking that in the existing-home market where single-family sales have been trending sideways. New-home sales are expected to have dropped to 660,000 annualized units in June.

THURSDAY, JULY 26

Jobless claims (week ended July 21; 8:30 a.m. EDT)

Forecast: 220,000

We look for initial claims for unemployment insurance benefits to have risen by 13,000 to 220,000 in the week ending July 21. Claims are volatile this time of year because of the Fourth of July holiday and the annual auto plant retooling. Continuing claims and the insured unemployment rate will be important because the data are for the week ended July 14, which includes the household reference period.

Durable goods orders (June; 10:00 a.m. EDT)

We will release our forecast early in the week.

FRIDAY, JULY 27

GDP (2018Q2; 8:30 a.m. EDT)

We will release our forecast on Thursday because data early in the week will affect our high-frequency GDP model's estimate. Currently, the model has GDP tracking 4% at an annualized rate, but this will likely change.

EUROPE

By Barbara Teixeira Arajuo of the Europe staff of Moody's Analytics in London and Prague

ECB's Meeting Could Be Tedious

Following a busy week for the U.K. economy, in the spotlight will be the euro zone. Among the major releases will be France's first estimate of second quarter GDP growth, which is expected to show that the country's economy rebounded slightly in the three months to June from the first stanza's disappointing performance. Investors' focus should nonetheless be on the European Central Bank, whose monetary policy committee is expected to meet Thursday to decide on the single-currency area's policy path. In our view, the meeting will be a rather tedious affair. The ECB already shook its forward guidance foundations during its last meeting in June, so we expect the bank will only stick to its previous guidance. The bank should confirm that it intends to end its quantitative easing programme by reducing its asset purchases to €15 billion in October, from €30 billion currently, and then by outright stopping them in January.

The recent jump in the euro area's headline inflation rate provides enough cover for the ECB to proceed with its tapering plans. Final CPI figures released Wednesday confirmed that inflation accelerated to the bank's 2% target in June, from 1.9% in May on the back of increases in energy and food inflation. And the CPI data are unlikely to give the MPC any summer breather. The recent rise in Brent prices will ensure that energy inflation climbs higher in July and remains elevated in August, leading the headline rate to jump past 2%, likely peaking at around 2.3%. True, services inflation cooled in June, pushing the core rate down to only 0.9%, from 1.1% in May, but that was only because of an Easter-related correction in transportation and package holidays inflation. Our view is that services inflation will gradually pick up from July, in line with the developments in the labour market and with the higher costs of motor fuels inflation, while the trend in core goods and food inflation is also to the upside. We expect core goods inflation will reach 1.3% by the end of the year, even if base effects will ensure that the CPI headline declines to around 1.6% by December.

The ECB is thus likely to be wary of delaying action on QE now that inflation is at target and growth remains solid, and of losing this window of opportunity. The prospect of rate hikes next year, however, is slim. The ECB announced in June that it intends to keep rates unchanged through the summer of 2019 or longer, if necessary. With President Mario Draghi set to leave by October 2019, it is unlikely that he will take action on interest rates. That ball will be in his successor's court, but we still don't know which candidates will be the front-runners for Draghi's position. The main risk is that the ECB's new leadership will decide to target headline inflation—which is the bank's official mandate—instead of core inflation, the measure preferred by Draghi. The Taylor rule implies that the ECB's current monetary stance should be much tighter than it is, so such a situation would raise the risks of a faster than expected rate hiking cycle. We think that the chances of this happening are small, though, and we maintain our forecast that the ECB will lift the deposit rate only once, in the fourth quarter of next year.

	Key indicators	Units	Moody's Analytics	Last
Wed @ 5:00 p.m.	France: Job Seekers for June	mil, SA	3.4	3.4
Thur @ 8:30 a.m.	Spain: Unemployment for Q2	%	16.5	16.7
Thur @ 12:45 p.m.	Euro Zone: Monetary Policy for July	%	0.0	0.0
Fri @ 7:45 a.m.	France: Household Consumption Survey for June	% change	1..5	0.9
Fri @ 7:45 a.m.	France: GDP for Q2	% change	0.3	0.2
Fri @ 8:00 a.m.	Spain: Retail Sales for June	% change	0.2	-0.1
Fri @ 11:30 a.m.	Russia: Monetary Policy for July	%	7.25	7.25

MONDAY, JULY 23

No major economic indicators are scheduled for release.

TUESDAY, JULY 24

No major economic indicators are scheduled for release.

WEDNESDAY, JULY 25

France: Job Seekers (June; 5:00 p.m. BST)

France's labour market is moving in the right direction despite weaker economic growth at the start of the year. We expect the number of job seekers held relatively steady at 3.44 million in June after a slight uptick in May. Although the French Flash Composite PMI rose modestly in June, factory activity fell to a 16-month low. Weaker business confidence and a slowdown in manufacturing have been limiting monthly declines in the number of job seekers, but the figure is still sliding notably on a year-ago basis. Reforms will likely help boost the nation's relatively rigid labour market and send the unemployment rate lower this year following the unexpected uptick in the first quarter.

THURSDAY, JULY 26

Spain: Unemployment (Q2; 8:30 a.m. BST)

We expect Spain's joblessness shed 0.2 percentage point to 16.5% in the second quarter. There's no denying that May and June are the best months for the labour market as the tourism-related sectors ramp up their hiring. The monthly labour records, which are usually noisier than the quarterly accounts, showed that unemployment shed 6% from a year earlier in May, setting a new low. But those figures likely overstate the final employment figures, and we expect more moderate gains. Our forecast is that unemployment will become sticky in 2018 because of headcount losses induced by the minimum wage legislation and by less dynamic GDP growth. Low-quality job creation and a skills mismatch will considerably slow the tightening of the labour market, while a looming trade war represents a clear risk to employment. The booming export sector has been the major driver of falling unemployment by creating around 46,000 jobs early in the recovery cycle and with export-oriented firms hiring on a full-time, permanent basis.

Euro Zone: Monetary Policy (July; 12:45 p.m. BST)

We don't expect the European Central Bank's July meeting to excite markets. First, rates should be kept unchanged as should the bank's quantitative easing program. Second, after announcements rattled markets in June, we don't expect President Mario Draghi to make any further changes to forward guidance or to the bank's plans to end quantitative easing by the end of this year. The latest economic data mostly confirmed our expectations, showing that the euro zone economy rebounded somewhat at the end of the second quarter following unimpressive results previously, while inflation data confirmed that the monetary policy committee won't get any breather over the summer, allowing for the bank to continue with its plans of reducing its asset purchases from October and by outright stopping them in January.

The prospects for rate hikes next year, however, have faded. Growth is clearly slowing—we expect the euro zone's expansion will ease to 2% in 2018, down from 2.5% last year—while core inflation pressures are still a far cry from the ECB's target of 2%. Our view is that the first deposit rate hike will come by the fourth quarter of next year, while the main refinancing rate should not be lifted before the beginning of 2020.

FRIDAY, JULY 27

France: GDP (Q2; 7:45 a.m. BST)

First GDP data are expected to show that the economy expanded by 0.3% q/q in the three months to June, up from a 0.2% gain in the previous stanza. But risks are tilted to the downside, as monthly production and construction data disappointed in May, suggesting that both sectors could have performed unimpressively over the quarter as a whole. So even penciling in a 1.5% m/m rebound in factory growth in June, we expect that production fell by 0.1% q/q in the second quarter, a disappointing result given that it builds on the first stanza's 1.3% plunge. Results are a little better for construction, where we expect output grew by 0.9% q/q, but we caution that a rebound was always expected following the staggering 4% plunge in the first quarter, which was largely due to the snowfalls

and low temperatures at the start of the year. Temperatures jumped in the three months to June, ensuring that construction projects that had been put on hold resumed again. Elsewhere, we still have little data for the services sector, but retail sales figures are nothing to write home about. Even assuming a 1.5% m/m rise in household goods spending in June, which is optimistic given that it had increased by 0.9% in May, goods spending would increase by only 0.1% q/q over the quarter as a whole, a sobering number considering the diametrically opposed decline in the three months to March. Our hopes are that consumers financed higher services spending by shopping less in the high street, but we still have little data to corroborate this. What's more, several strikes in the transportation sector are expected to have hurt the broad measure of services output.

Spain: Retail Sales (June; 8:00 a.m. BST)

Given the uptick in consumer sentiment, we forecast that retail sales bounced back in June and added 0.2% from a month earlier. But that still means the yearly growth rate languished in negative territory for a second consecutive month. Retail has had a rough run in the last two months as fuel prices boosted inflation. We expect that the drag on shopping was temporary, though, and that purchases will pick up slightly as consumers smooth their spending and inbound tourism lifts demand. We don't expect a big bounce in the second half of the year, as dim wage prospects will weigh on consumers' mood. Retail sales may be a little shy of 1% in 2018.

Russia: Monetary Policy (July; 11:30 a.m. BST)

Headline inflation further eased in June to 2.3%. But more important is that inflation expectations soared to 9.8% over the month because of rising fuel prices. All considered, the Bank of Russia is unlikely to change the key rate, now 7.25%, at its July meeting. Central bankers believe that expectations may get stuck higher for longer, mainly because of the anticipation of tax policy changes spilling over to consumer prices. Russia's value-added tax is set to increase from 18% to 20% in 2019, so long-term expectations of Russians have worsened. The share of those who believe that inflation will significantly exceed target in three years surged in June from 39% to 46%.

ASIA-PACIFIC

By Katrina Ell and the Asia-Pacific staff of Moody's Analytics in Sydney

S. Korea's GDP Likely Hit 0.7% q/q in Q2, With Solid External Demand

Asia's economic data calendar is very light. South Korea's June quarter national accounts will be the highlight. South Korean GDP likely grew 0.7% q/q in the June quarter, down from the 1% rise in the March quarter. External demand remained solid, with exports of semiconductors continuing to grow at a double-digit pace. Although consumption likely received some lift from a large minimum wage hike, the deterioration in the labour market and dimming consumer confidence likely kept consumer spending relatively restrained.

Australia's headline consumer price index rose a whisker over the June quarter with upward contributions expected from fuel and to a lesser extent food. Annual inflation is expected to have picked up, to 2.1% from 1.9% previously. Core inflation will be closely watched, and we expect minimal change from the 1.95% y/y pace notched in the March quarter, just shy of the Reserve Bank of Australia's 2%-to-3% target range. Gradual monetary policy normalisation is unlikely to begin until the December quarter of 2019.

Singapore's unemployment rate likely rose to 2.2% in the June quarter, following the 2% recorded in the March quarter. The labour market has had a great run after favourable conditions through 2017. Elsewhere, New Zealand's trade surplus likely narrowed in June, but export sector strength remains because of soft commodities. In May the strength came from meat exports, particularly lamb, and in April the lift came from kiwifruit, which enjoyed a strong start to the season. Global growth should keep soft commodity exports buoyant in the near term, but downside risks cloud the outlook given the

trade war between the U.S. and China. If the proposed protectionist policies escalate, the consequences will be devastating for global trade flows and New Zealand will not be immune.

	Key indicators	Units	Moody's Analytics	Last
Wed @ 7:00 a.m.	South Korea Consumer sentiment for July	Index	105.1	105.5
Wed @ 8:45 a.m.	New Zealand Foreign trade for June	NZ$ mil	134	294
Wed @ 11:30 a.m.	Australia Consumer price index for Q2	% change	0.5	0.4
Thurs @ 9:00 a.m.	South Korea GDP for Q2	% change	0.7	1.0
Fri @ 12:30 p.m.	Singapore Unemployment rate for Q2	%	2.2	2.0

MONDAY, JULY 23

No major economic indicators are scheduled for release.

TUESDAY, JULY 24

No major economic indicators are scheduled for release.

WEDNESDAY, JULY 25

South Korea: Consumer Sentiment Index (July; 7:00 a.m. AEST; Tuesday, 9:00 p.m. GMT)

South Korean consumer sentiment likely dimmed in July, having resumed its downward trend in June by declining to a 14-month low of 105.5. The June downturn was mainly due to weaker sentiment about economic conditions, as well as living standards and spending intentions. Sentiment about prospective employment also fell, not surprising given the recent deterioration in the labour market. South Korea's labour market remains weak, with the unemployment rate still relatively elevated and employment rising by less than 1% in the last five months. We expect the consumer sentiment index to slip to 105.1 in July.

New Zealand: Foreign Trade (June; 8:45 a.m. AEST; Tuesday, 10:45 p.m. GMT)

New Zealand's trade surplus likely narrowed to NZ$134 million in June after the NZ$294 million surplus in May. Annual export growth has been performing well through the second quarter, mainly on strength in soft commodities; in May the strength came from meat exports, particularly lamb, and in April the lift came from kiwifruit, which enjoyed a strong start to the season. Global growth should keep soft commodity exports buoyant in the near term, but downside risks cloud the outlook given the trade war between the U.S. and China. If the proposed protectionist policies escalate, the consequences will be devastating for global trade flows and New Zealand will not be immune.

Australia: Consumer Price Index (2018Q2; 11:30 a.m. AEST; 1:30 a.m. GMT)

Australia's headline consumer price index likely hit 0.5% q/q in the June quarter, following the March quarter's 0.4% rise. Upward contributions are expected from fuel and to a lesser extent food. Annual inflation is expected to have picked up, to 2.1% from 1.9% previously. Core inflation will be closely watched, and we expect minimal change from the 1.95% y/y pace notched in the March quarter, a whisker shy of the Reserve Bank of Australia's 2%-to-3% target range. The RBA is happy on the sidelines and unlikely to begin gradual policy normalisation until the December quarter of 2019.

THURSDAY, JULY 26

South Korea: GDP (2018Q2; 9:00 a.m. AEST; Wednesday, 11:00 p.m. GMT)

South Korean GDP likely grew 0.7% q/q in the June quarter, down from the 1% rise in the first three months of the year. External demand remained solid in the June quarter, with exports of semiconductors growing at a double-digit pace, even as the pace has slowed over recent months. Although private consumption likely received some lift from a large minimum wage hike at the start of the year, the deterioration in the labour market and dimming consumer confidence likely kept

consumer spending relatively restrained. Meanwhile, fixed investment rebounded somewhat in the March quarter and likely stayed healthy on the back of strong investment in the tech sector.

FRIDAY, JULY 27

Singapore: Employment (2018Q2; 12:30 p.m. AEST; 2:30 a.m. GMT)

Singapore's unemployment rate likely rose to 2.2% in the June quarter, following the 2% recorded in the March quarter. The labour market has had a great run after favourable conditions through 2017. Unemployment for citizens was unchanged at 3% in the March quarter, while unemployment for residents fell to 2.8%, from 3% prior. Singapore's economy slowed in the June quarter, and while the unemployment rate tends to be a lagged barometer of economic health, Singapore's labour market is relatively responsive, particularly given its outsize exposure to global conditions.

The Long View

US$-denominated investment-grade corporate bond issuance may incur its worst July since July 2014.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
July 19, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 130 basis points exceeds its 122-point mean of the two previous economic recoveries. This spread may be no wider than 140 bp by year-end 2018.

The recent high-yield bond spread of 368 bp is less than might be inferred from the spread's macroeconomic drivers and the long-term Baa industrial company bond yield spread. The adverse implications for liquidity of possibly significantly higher interest rates merit consideration.

DEFAULTS

After rising from January 2018's latest bottom of 3.4% to March's 4.0%, the U.S. high-yield default rate has returned as of June to 3.4%. Moody's Default and Ratings Analytics team now expects the default rate will average 2.5% during 2019's first quarter.

US CORPORATE BOND ISSUANCE

Yearlong 2017's US$-denominated bond issuance rose by 6.8% annually for IG, to $1.508 trillion and soared by 33.0% to $453 billion for high yield. Across broad rating categories, 2017's newly rated bank loan programs from high-yield issuers sank by 26.2% to $72 billion for Baa, advanced by 50.6% to $319 billion for Ba, soared by 56.0% to $293 billion for programs graded single B, and increased by 28.1% to $25.5 billion for new loans rated Caa.

Second-quarter 2017's worldwide offerings of corporate bonds showed an annual 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.

Third-quarter 2017's worldwide offerings of corporate bonds showed an annual percent decline of 1.6% for IG and an increase of 6.6% for high-yield, wherein US$-denominated offerings dipped by 0.7% for IG and grew by 4.3% for high yield.

Fourth-quarter 2017 revealed year-over-year advances for worldwide offerings of corporate bonds of 17.6% for IG and 77.5% for high-yield, wherein US$-denominated offerings posted increases of 21.0% for IG and 56.7% for high yield.

First-quarter 2018's worldwide offerings of corporate bonds incurred year-over-year setbacks of 6.3% for IG and 18.6% for high-yield, wherein US$-denominated offerings posted sank by 14.4% for IG and 20.8% for high yield.

Second-quarter 2018's worldwide offerings of corporate bonds eked out an annual increase of 2.8% for IG, but incurred an annual plunge of 20.4% for high-yield, wherein US$-denominated offerings rose by 1.6% for IG and plummeted by 28.1% 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). During yearlong 2017, worldwide corporate bond offerings increased by 4.0% annually (to $2.499 trillion) for IG and advance by 41.2% for high yield (to $602 billion). The projected annual changes for 2018's worldwide corporate bond offerings are +0.4% for IG and -12.1% 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 consensus expects that the mid-point for the federal funds rate should finish 2018 at 2.125%. 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 3% 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.

EUROPE

By Barbara Teixeira Arajuo of Moody's Analytics
July 19, 2018

UNITED KINGDOM

We find it odd that markets reacted so badly to the decline in U.K. retail sales in June, with the pound plunging to a 10-month low; a correction was always expected following two consecutive months of sharp increases. The month's yearly rise in sales actually exceeded our expectations, while growth over the quarter as a whole registered at 2.1% q/q, its strongest in 17 years. We think investors are overreacting and that June's retail figures won't scare the Bank of England into standing pat next month.

June's heat wave and the World Cup celebrations ensured that consumers stayed away from the High Street but that they bought food and drinks at food stores for summer barbecues and garden parties. Accordingly, food sales rose for the third consecutive month, while clothing and household spending, as well as spending on other stores, declined. But this is nothing to worry about since consumers had already stocked up on retailers' summer collections during April and May, when the weather was also unusually warm. Similarly, the fall in internet sales needs to be seen in the context of a streak of rises since the start of the year. That fuel sales rose for the third consecutive month was also welcome, as sales were expected to have sagged given that prices at the pump are now rising in line with the higher price of a Brent barrel.

July food sales should remain resilient, since the World Cup matches that led to an explosion of TV audiences happened this month. But July should also bring better results for nonfood sales. But we caution that the outlook for spending in the second half of 2018 looks far from promising; we expect that consumers will struggle this year. Soaring oil prices, rising interest rates, a dwindling housing market, and the fiscal squeeze will weigh on consumer confidence and their will to buy. Accordingly, consumers' savings intentions skyrocketed in the first half of the year, suggesting that households are becoming increasingly cautious.

On the bright side, most of the sterling-related increases in import prices have been passed through to consumers, with the recent CPI figures showing that food and core goods inflation has begun to decelerate. The softer CPI figures combined with a further acceleration in basic wages suggest that the squeeze on consumers' purchasing power is finally easing, with real wages set to return to growth soon. We caution, however, that wages will gradually rise but won't soar.

We thus haven't changed our forecast that household spending on goods will only gradually recover this year, following 2017's sharp slowdown.

U.K. JOBS

The latest U.K. labour market report wasn't particularly impressive, but our view is that it was just strong enough to push the Bank of England's Monetary Policy Committee into action next month. Employment growth accelerated over the May quarter and pushed the activity rate among the working-age population to its highest on record, while unemployment again fell, even if at a slower pace than that in the previous year. Also good news was that all of the rise in employment owed to another big increase in the number of employees and full-time workers.

True, wage growth slowed, but some easing was already expected since it was mainly base effects that boosted pay gains over the previous months. The monthly annualized rate—a measure frequently used by the MPC—jumped past 3%, from zero in the previous month, exceeding the average for the past year. Given that inflation has cooled recently, this allowed for regular real wages to rise for the fifth consecutive month after falling throughout 2017, providing further evidence that the U.K.'s cost-of-living squeeze has eased this year.

These figures corroborate our view that an August hike by the BoE is still on the table. But we caution that the underlying momentum is nothing to write home about. For instance, all leading surveys are pointing toward moderating employment gains over coming months given that employment intentions have all deteriorated. Also, that consumer confidence remains in the doldrums while inflation is set to heat up again during the summer—owing to higher Brent prices—should prevent job-to-job flows from picking up any time soon, ensuring that wage growth remains broadly subdued.

We thus expect wage growth will remain robust this year but won't soar. Our base case scenario is that wage growth will average 2.8% over the year as a whole, up from 2.3% in 2017 but still below the MPC's forecast of 3%. Combined with Brexit uncertainty and overall still-anemic growth, this should prevent the BoE from hiking again before May next year.

ASIA PACIFIC

By Katrina Ell of Moody's Analytics
July 19, 2018

CHINA

The economic relationship between the world's two largest economies, the U.S. and China, is stressed to its worst level in recent history. There is no end in sight to the escalation: On 10 July, U.S. Trade Representative Robert Lighthizer announced that a 10% tariff on Chinese goods imports valued at around $200 billion was in the pipeline. Among the goods likely to be included are tobacco products, hydrocarbons, agricultural goods, wood products, fabrics, and even some tech products such as routers. The trade representative has yet to list an implementation date, but hearings on the list of products are scheduled for 20 to 23 August.

Tariffs on $34 billion in Chinese goods were implemented on 6 July, and $16 billion more in tariffs are on the trade representative's radar. The total $250 billion accounts for 50% of U.S. goods imports from China and 1.3% of U.S. nominal GDP. China has said retaliation to the latest $200 billion in proposed tariffs is on the cards, though the exact measures are thus far unknown. Although China cannot match the U.S. in dollar-for-dollar retaliation, it is considering other countermeasures. These could include holding up licenses for U.S. firms, delaying the approval of mergers and acquisitions involving U.S. companies, and increasing the frequency and intensity of inspections of American products at borders.

Quantifying the trade war

We ran a Trade War scenario through our global macro model to simulate the impact of the Trump administration introducing its proposed tariffs on Chinese goods imports, and China retaliating broadly in kind. Under the scenario, China's forecast GDP growth in 2019 was reduced from 6.38% to 6.03%. The channels of direct impact are important. Higher tariffs lift import prices, acting like a tax and reducing the purchasing power of households and businesses. That leads to weaker spending and investment. Weaker offshore sales weigh on stock prices, causing another hit to business investment and employment growth. The long-term impacts are significant: Lower international trade flows hurt productivity growth as comparative advantage is not realized to the extent that it had the potential to without the protectionist policies.

Our global model includes 68 countries and is linked via trade flows, foreign direct investment, and financial markets, so we are able to view the spillover to other economies from this Trade War scenario. The ASEAN-5—Indonesia, Malaysia, Singapore, Thailand and the Philippines—is particularly vulnerable to a reduction in global trade flows, particularly from the U.S. and China given its important export and manufacturing wagons

are tightly hitched to these economies. Under the scenario we found that ASEAN-5's GDP growth fell from a forecast 4.31% in 2019 in the baseline to 4.07% in the downside scenario.

In practice, the hit to China and ASEAN-5's GDP growth would likely be more severe, as the economic consequences go beyond the dollars and cents of the tariffs. Secondary impacts not adequately captured via the direct GDP hit include global supply chains being disrupted; higher policy uncertainty causing businesses to delay hiring and investment; the higher cost of capital; and consumers delaying spending, especially on big-ticket items.

A globally consuming trade war

We used Google Trends as an alternate way to gauge how consuming the trade frictions are to the global environment. Google Trends provides total searches for a term relative to the total number of searches done on Google over time; changes and spikes can be a useful barometer of the current state of play. Google Trends adjusts search data to make comparisons between terms easier. To do this, each datapoint is divided by the total searches of the geography and time range it represents, to compare relative popularity. The resulting numbers are then scaled to a range of 0 to 100. The assumption is that an increase in relative search popularity would imply that it is on consumers' minds and affecting sentiment.

Google searches for "trade war" and "China-United States relations" worldwide have spiked in 2018. As of mid-July, these search terms are hovering near or at their peak level of interest over the past five years, a testament to the level of strain that arguably the world's most important bilateral economic relationship is under and the broader concern it is generating globally.

China's stock market has been the most obvious casualty from the trade tensions. The Shanghai Composite has fallen 16% in the year to 19 July, by far the worst of its emerging market neighbours in Asia.

In many economies, the stock market's performance is a barometer for the health of the real economy. However, the stock market's performance is not always closely correlated with the real economy. This is especially so in China, where the link between the stock market and GDP performance is weak.

China's equity market doesn't mirror the economy's performance as a normal stock market does. China's crackdown on shadow banking and various stock market corrections on the back of concerns around debt sustainability have increased stock market volatility in the past decade while China's GDP growth has been steady. Indeed, the correlation between the Shanghai Composite and China's nominal GDP growth was 0.01 from 2008 to 2018.

China's equity market is under the close purview of the government, which has a wide array of tools to influence equity performance. For example, in 2016 the government wanted to stop short-selling, so it prohibited large shareholders from selling and forced a $250 billion injection into the market.

Who's impacted by China's stock market slump?

Retail investors are hefty holders of Chinese stocks, tending to buy and sell based disproportionately on speculation rather than fundamentals. Given this, the Shanghai Composite is relatively volatile. If equity prices rise, retail investors tend to jump in, further adding to the spike and vice versa.

Reliable data on equity ownership are hard to come by, but the 2015 China Household Finance Survey shows that 8.8% of households participated in the equity market, rising from 4.1% in 2014. Equities remain a relatively small proportion of total household wealth, with real estate typically making up the lion's share.

China's wealthiest 20% of households accounted for 92% of total household equity ownership in 2013. We expect that figure has been reduced a little since, but the story doesn't materially change. The bottom line is that while equity ownership isn't important for the average household, it is for some of the wealthiest households, which could mean that the government will not allow the slump to deepen materially further. In short: Unequal exposure to the equity market means that the limited impact on the average household, and therefore economy, from the 2018 slump isn't likely to have a broad economic impact.

Ratings Round-Up

By Njundu Sanneh

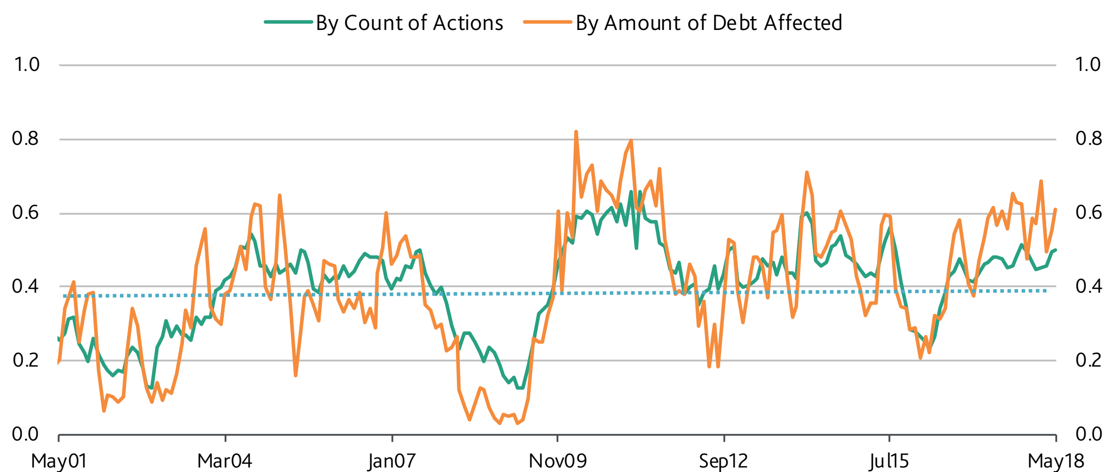
Positive Rating Revisions Up in U.S., Down in Europe

The U.S. energy and building materials sectors were the main contributors in pushing the contribution of positive rating changes to 69% in the past week. Other sectors to experience upgrades in the U.S. included forest products and appliances/utensils. This week's jump was quite significant as the contribution of positive rating changes for the U.S. has come in around 40%-50% for the past several weeks. The positive outlook for the energy industry reflects the gains in commodity prices to levels well above the 2016 lows even though prices have settled into a moderate range and are likely to see sizeable gains in the near to medium term. The gains in prices however, will continue to enable companies to increase production and increase revenue even if operating performance growth remains limited. For the building materials sector, the continued growth of the economy, construction spending and the tightening labor market are all supportive of continued strong performance for the sector.

The rating change activity in Europe for the past week was skewed toward adverse rating changes with upgrades accounting for only 25% of the eight total rating changes. The two upgrades were in semiconductors and banking while the downgrades span automotive, banks and consumer products.

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 Rating	New LTD Rating	IG/ SG
7/11/18	INTEGER HOLDINGS CORPORATION -GREATBATCH LTD.	Industrial	LTCFR		U	B3	B2	SG
7/12/18	WEC ENERGY GROUP, INC.	Utility	SrUnsec/LTIR/JrSub	2,900	D	A3	Baa1	IG
7/12/18	ELECTRONIC ARTS, INC.	Industrial	SrUnsec/LTIR	1,000	U	Baa2	Baa1	IG
7/12/18	CARRIZO OIL & GAS, INC.	Industrial	SrUnsec/LTCFR/PDR	1,030	U	B3	B2	SG
7/13/18	BRIGHTVIEW ACQUISITION HOLDINGS, INC. -BRIGHTVIEW LANDSCAPES, LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG
7/16/18	COMSTOCK RESOURCES, INC.	Industrial	LTCFR/PDR		U	Caa2	B3	SG
7/16/18	HIGHMARK INC.	Financial	SrUnsec/IFSR	600	U	Baa3	Baa2	IG
7/16/18	GENERAC HOLDINGS INC. -GENERAC POWER SYSTEMS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	Ba3	Ba2	SG
7/16/18	VERSO PAPER CORP. -VERSO PAPER HOLDING LLC	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
7/17/18	HD SUPPLY, INC.	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	1,000	U	B2	Ba3	SG
7/17/18	TRIUMPH GROUP, INC.	Industrial	SrUnsec/LTCFR/PDR	1,175	D	B3	Caa1	SG
7/17/18	CONDUENT INCORPORATED -CONDUENT BUSINESS SERVICES, LLC	Industrial	SrSec/BCF	510	D	Ba2	Ba3	SG
7/17/18	GREENLIGHT ACQUISITION CORPORATION -VERRA MOBILITY CORPORATION	Industrial	SrSec/BCF		D	B1	B2	SG

Source: Moody's

Ratings Round-Up

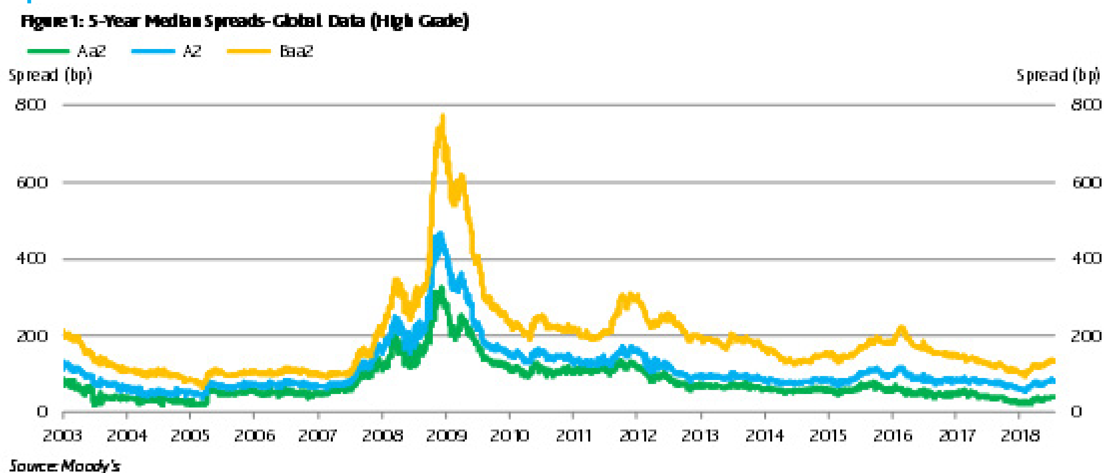
FIGURE 4
Rating Changes: Corporate & Financial Institutions – Europe

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
7/12/18	TATA MOTORS LIMITED -JAGUAR LAND ROVER AUTOMOTIVE PLC	Industrial	SrUnsec /LTCFR/PDR	4,910	D	Ba1	Ba2			SG	UNITED KINGDOM
7/13/18	PFLEIDERER GROUP S.A.	Industrial	SrSec/BCF /LTCFR/PDR		D	Ba3	B1			SG	POLAND
7/16/18	THE ROYAL BANK OF SCOTLAND GROUP PLC	Financial	SrUnsec/Sub/JrSub /MTN/PS/CP	49,404	U	Baa3	Baa2	P-3	P-2	IG	UNITED KINGDOM
7/16/18	GAZBANK JSCB	Financial	LTD		D	B3	C			SG	RUSSIA
7/16/18	KETER GROUP B.V.	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3			SG	NETHERLANDS
7/17/18	SAFILO CAPITAL INTERNATIONAL SA -SAFILO S.P.A.	Industrial	LTCFR/PDR		D	B1	B2			SG	ITALY
7/17/18	SPIE BONDCO 3 S.C.A.-SPIE SA	Industrial	SrUnsec	700	D	Ba3	B1			SG	FRANCE
7/17/18	VAT GROUP AG	Industrial	LTCFR/PDR		U	Ba3	Ba2			SG	SWITZERLAND

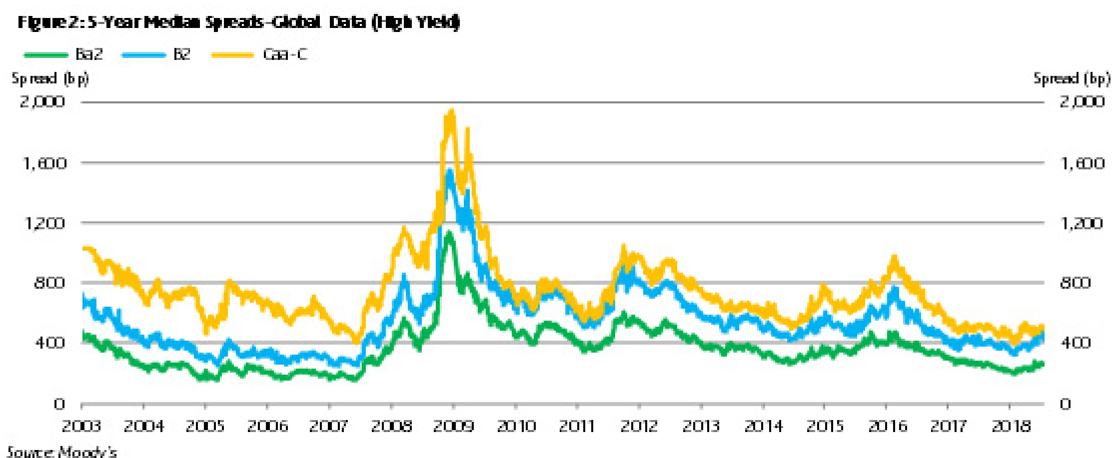
Source: Moody's

Market Data

Spreads



Source: Moody's



Source: Moody's

Market Data

CDS Movers

Figure 3. CDS Movers - US (July 11, 2018 – July 18, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 18	Jul. 11	Senior Ratings
CA, Inc.	Baa2	Ba1	Baa2
Comcast Corporation	A3	Baa1	A3
McDonald's Corporation	Aa2	Aa3	Baa1
Walmart Inc.	Aa2	Aa3	Aa2
Caterpillar Financial Services Corporation	A3	Baa1	A3
Pfizer Inc.	Aa2	Aa3	A1
UnitedHealth Group Incorporated	Aa2	Aa3	A3
Union Pacific Corporation	Aa2	Aa3	Baa1
United Parcel Service, Inc.	Aa2	Aa3	A1
Dominion Energy, Inc.	A2	A3	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 18	Jul. 11	Senior Ratings
Arconic Inc.	B3	B1	Ba2
Toyota Motor Credit Corporation	Baa1	A3	Aa3
Oracle Corporation	A1	Aa3	A1
Ford Motor Company	Ba2	Ba1	Baa2
Philip Morris International Inc.	Baa1	A3	A2
United Technologies Corporation	Aa3	Aa2	A3
U.S. Bancorp	Aa2	Aa1	A1
Medtronic, Inc.	Aa2	Aa1	A3
American Tower Corporation	Ba3	Ba2	Baa3
Calpine Corporation	Caa1	B3	B2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 18	Jul. 11	Spread Diff
Windstream Services, LLC	Caa2	2,182	2,099	84
Arconic Inc.	Ba2	261	201	60
Chesapeake Energy Corporation	Caa1	515	477	39
Penney (J.C.) Corporation, Inc.	Caa1	1,198	1,171	27
Goodyear Tire & Rubber Company (The)	Ba3	218	196	22
McClatchy Company (The)	Caa2	577	558	19
Dish DBS Corporation	B1	614	596	18
Avon Products, Inc.	B3	958	943	16
L Brands, Inc.	Ba1	274	260	14
Xerox Corporation	Baa3	233	220	13

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 18	Jul. 11	Spread Diff
Parker Drilling Company	Caa2	1,459	1,706	-247
USG Corporation	Ba1	220	369	-149
Lexmark International, Inc.	Caa1	1,220	1,288	-68
CA, Inc.	Baa2	68	120	-52
Genworth Holdings, Inc.	B2	403	448	-45
Rite Aid Corporation	B3	676	713	-36
Hertz Corporation (The)	B3	967	997	-30
AK Steel Corporation	B3	423	452	-30
Unisys Corporation	B3	474	501	-28
United Airlines, Inc.	Baa1	235	260	-26

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (July 11, 2018 – July 18, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 18	Jul. 11	Senior Ratings
Old Mutual Plc	Aaa	Aa2	Ba1
Societe Generale	A2	A3	A1
The Royal Bank of Scotland Group plc	Baa3	Ba1	Baa2
Deutsche Bank AG	Ba1	Ba2	Baa2
Bankia, S.A.	Baa2	Baa3	Baa3
CaixaBank, S.A.	Baa2	Baa3	Baa2
Banco Santander S.A. (Spain)	Baa1	Baa2	Baa1
Danske Bank A/S	A1	A2	A1
ING Groep N.V.	Baa1	Baa2	Baa1
Total S.A.	Aa1	Aa2	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 18	Jul. 11	Senior Ratings
Belgium, Government of	Aa1	Aaa	Aa3
Lloyds Bank Plc	A2	A1	Aa3
Abbey National Treasury Services plc	A3	A2	Aa3
NatWest Markets Plc	Baa3	Baa2	Baa2
Natixis	A1	Aa3	A1
Bayerische Landesbank	A1	Aa3	A1
NatWest Markets N.V.	A2	A1	Baa2
Landesbank Baden-Wuerttemberg	Aa3	Aa2	A1
Telecom Italia S.p.A.	Ba3	Ba2	Ba1
Allied Irish Banks, p.l.c.	A2	A1	Ba1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 18	Jul. 11	Spread Diff
Galapagos Holding S.A.	Caa3	3,051	2,775	276
CNH Industrial N.V.	Ba2	145	128	17
Eksportfinans ASA	Baa3	451	441	10
Jaguar Land Rover Automotive Plc	Ba2	302	293	9
NatWest Markets Plc	Baa2	79	72	7
Scottish Power Limited	Baa1	87	80	7
Scottish Power UK plc	Baa1	78	72	6
Astaldi S.p.A.	Caa1	1,761	1,756	6
Telecom Italia S.p.A.	Ba1	178	173	5
National Grid Electricity Transmission plc	A3	51	46	5

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 18	Jul. 11	Spread Diff
CMA CGM S.A.	B3	600	649	-49
Premier Foods Finance plc	Caa1	224	249	-25
TDC A/S	B1	206	229	-23
Banca Nazionale Del Lavoro S.p.A.	Baa3	60	78	-18
Old Mutual Plc	Ba1	13	29	-16
Bankia, S.A.	Baa3	71	83	-12
Italy, Government of	Baa2	194	204	-11
Banco Bilbao Vizcaya Argentaria, S.A.	A3	85	96	-11
Deutsche Bank AG	Baa2	132	143	-11
Banco Popular Espanol, S.A.	A2	63	74	-11

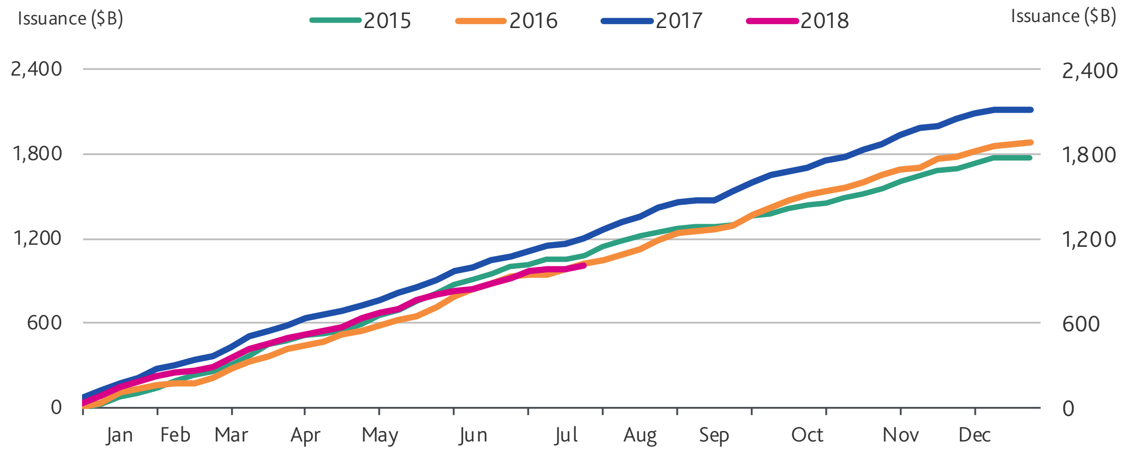
Source: Moody's, CMA

Market Data

Issuance

FIGURE 5

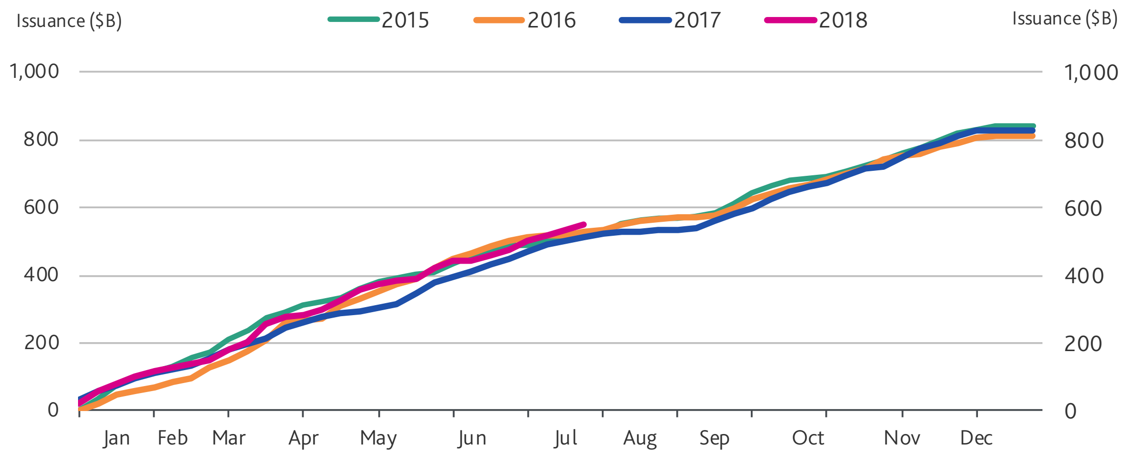
Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

FIGURE 6

Market Cumulative Issuance - Corporate & Financial Institutions: EURO Denominated



Source: Moody's / Dealogic

Market Data

FIGURE 7

Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	15.195	4.927	20.712
Year-to-Date	769.894	188.755	1,007.160

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	12.683	1.495	15.831
Year-to-Date	462.706	64.025	552.351

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

Moody's Capital Markets Research recent publications

Markets Suggest U.S. Fares Best in a Trade War (Capital Markets Research)

Trade War Will Turn Ugly if Profits Shrink (Capital Markets Research)

Investment-Grade Looks Softer and High-Yield Looks Firmer Compared With Year-End 2007 (Capital Markets Research)

Fewer Defaults Strongly Favor a Higher Equity Market (Capital Markets Research)

Higher Interest Rates Will Be the Source of Their Own Demise (Capital Markets Research)

Low Utilization Rate Favors Profits Growth and Fewer Defaults (Capital Markets Research)

Equities Giveth and Taketh Away from Credit Quality (Capital Markets Research)

M&A both Enhances and Diminishes Corporate Credit Quality (Capital Markets Research)

Loan Default Rate May Approach Bond Default Rate (Capital Markets Research)

Outstandings Now Show Leveraged Loans Topping High-Yield Bonds (Capital Markets Research)

Profits Growth Curbs Defaults (Capital Markets Research)

Debt-to-Profits Outperforms Debt-to-GDP (Capital Markets Research)

Foreign Investors Ease Burden of U.S.' Elevated Leverage (Capital Markets Research)

Default Rate Defies Record Ratio of Corporate Debt to GDP (Capital Market Research)

Internal Funds Outrun Corporate Debt by Widest Margin since 2011 (Capital Markets Research)

Tariffs Warn of Even Faster Price Inflation and Slower Growth (Capital Markets Research)

Borrowing Restraint Elsewhere Makes Room for Federal Debt Surge (Capital Markets Research)

Declining Default Rate Offsets Drag of Higher Interest Rates (Capital Markets Research)

Corporate Bonds Beg to Differ with Their Equity Brethren (Capital Markets Research)

Topics CreditEdge - Bank Default Risk Improves in 2017

Higher Yields and Lower Equities Might Yet Swell Credit Risk (Capital Markets Research)

High-Yield Bond Issuance Thrives Despite Tax Law Changes (Capital Markets Research)

Surging Equities and Thinner Spreads Favor Higher Treasury Yields (Capital Markets Research)

Sovereign & Supranational: Greece's Sovereign EDF Implies Upbeat Next Act in Greek Economic Drama

Sovereign & Supranational: South Korea's Sovereign Credit Risk: Calmer Against a Friendlier Backdrop

Stocks and Spreads May Transcend Higher Treasury Yields (Capital Markets Research)

Sovereign & Supranational: Brazil's Sovereign Credit Risk at Year's Best

Profits Growth and Benign Default Outlook May Offset Higher Interest Rates (Capital Markets Research)

Benign Credit Outlook Comes With Blemishes (Capital Markets Research)

Sovereign & Supranational: EDFs for Greece and Spain Lowest in Years

To order reprints of this report (100 copies minimum), please call 212.553.1658.

Report Number: 1134760

Editor
Reid Kanaley

Contact Us

Americas:	1.212.553.4399
Europe:	+44 (0) 20.7772.5588
Asia:	813.5408.4131

© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

For Publications Issued by Moody's Capital Markets Research, Inc. only:

The statements contained in this research report are based solely upon the opinions of Moody's Capital Markets Research, Inc. and the data and information available to the authors at the time of publication of this report. There is no assurance that any predicted results will actually occur. Past performance is no guarantee of future results.

The analysis in this report has not been made available to any issuer prior to publication.

When making an investment decision, investors should use additional sources of information and consult with their investment advisor. Investing in securities involves certain risks including possible fluctuations in investment return and loss of principal. Investing in bonds presents additional risks, including changes in interest rates and credit risk.

Moody's Capital Markets Research, Inc., is a subsidiary of MCO. Please note that Moody's Analytics, Inc., an affiliate of Moody's Capital Markets Research, Inc. and a subsidiary of MCO, provides a wide range of research and analytical products and services to corporations and participants in the financial markets. Customers of Moody's Analytics, Inc. may include companies mentioned in this report. Please be advised that a conflict may exist and that any investment decisions you make are your own responsibility. The Moody's Analytics logo is used on certain Moody's Capital Markets Research, Inc. products for marketing purposes only. Moody's Analytics, Inc. is a separate company from Moody's Capital Markets Research, Inc.