MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Base Metals Price Slump May Dispute Benign Default Outlook

Moody's Analytics Research

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THIS REPORT WAS REPUBLISHED AUGUST 20, 2018 TO UPDATE ECONOMIC FORECASTS FOR THE WEEK AHEAD.

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.

Credit Markets Review and Outlook

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

Base Metals Price Slump May Dispute Benign Default Outlook

New signs of industrial commodity price deflation have grabbed the attention of financial markets. Nevertheless, the latest slide by Moody's industrial metals price index has yet to even remotely approach its 26.1% average year-over-year plunge of the six-months-ended January 2016.

The two major takeaways from the latest slide by base metals prices are (i) global industrial activity has subsided and (ii) any stay by the 10-year U.S. Treasury yield above 3% will be short-lived. The widespread depreciation of emerging market currencies versus the dollar has not only put downward pressure on the prices of internationally trade commodities, it has also added to the domestic currency cost of repaying the dollar-denominated debt obligations of emerging market borrowers.

August 15's 3.5% daily plunge by Moody's industrial metals price index to its lowest close since July 24, 2017 was the deepest one-day drop since the 3.9% decline of November 23, 2015. Moreover, the year-to-year percent change of the industrial metals price index has undergone a striking deterioration. In less than three months, the base metals price index has gone from being up by 32.3% yearly on June 6, 2018 to being down by 5.3% annually on August 15.

High-Yield EDF and Default Forecast Edge Higher

If the yearly percent decline of the industrial metals price index deepens, the outlook for corporate credit quality is likely to suffer. The available record shows that when the industrial metals price index incurs a significant year-to-year decline, a yearly increase by an estimate of high-yield default risk is likely. Pronounced industrial metals price deflation tends to boost high-yield default risk.

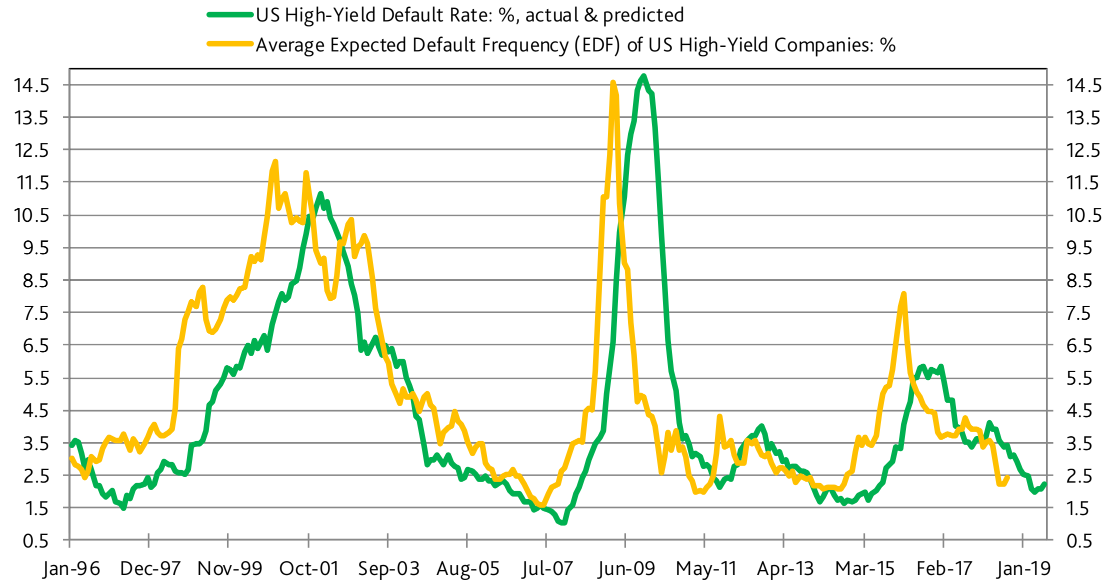
The average estimated default frequency metric of U.S./Canadian high-yield issuers serves as a useful proxy for near-term default risk. In support of the average high-yield EDF's role as a leading indicator of market-wide default risk, the high-yield EDF metric generates a strong correlation of 0.88 with the high-yield default rate of nine months later.

After averaging 2.23% in July 2018, the high-yield EDF has averaged 2.45% thus far in August. Meanwhile, Moody's Investors Service's Default Research Group believes that the U.S.' high-yield default rate will sink from July 2018's 3.4% to 2.0% by April 2019 and edge higher thereafter.

Though the default outlook remains benign, default expectations have undergone some subtle changes that hint of a future loss of momentum for U.S. business activity. When April 2018's default report was released in early May 2018, the default rate was projected to average 1.8% during January-April 2019. However, as of the recently released default report for July 2018, the average default rate projected for January-April 2019 has since been revised up to 2.3%.

Figure 1: Average High-Yield EDF Metric Agrees with Default Research Group on Possible Q2-2019 Bottom for Default Rate

sources: Moody's Investors Service, Moody's Analytics



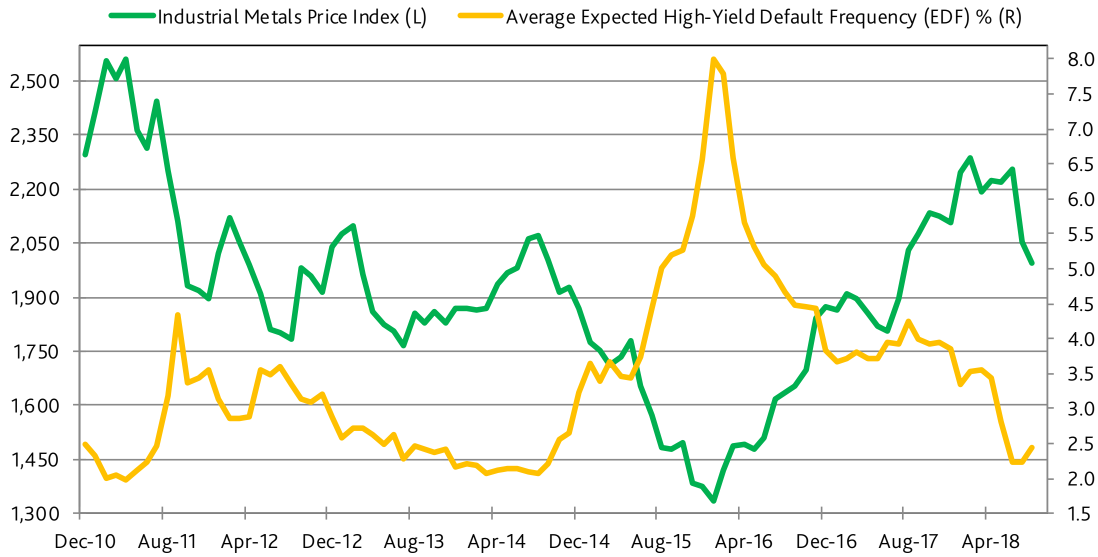
As Base Metals Prices Deflate, Default Risks Rise and Spreads Widen

In terms of the year-to-year changes of month-long averages, the average high-yield EDF metric generates a meaningful inverse correlation of -0.73 with Moody's industrial metals price index. Since the end of 1996, Moody's industrial metals price index posted an annual increase of at least 5% in 138 months. In 109, or 79%, of these 138 advances, the accompanying month-long average of the high-yield EDF was down from its year-earlier average.

Recently, the base metals price index rose by at least 5% annually in each of the 24 months ended July 2018. In 23 of the 24 months, the high-yield EDF metric fell from its year earlier reading. Basically, the base metals price index's 21.9% average annual advance of the 24-months-ended July 2018 was joined by a 1.25 percentage point average annual decline for the average high-yield EDF.

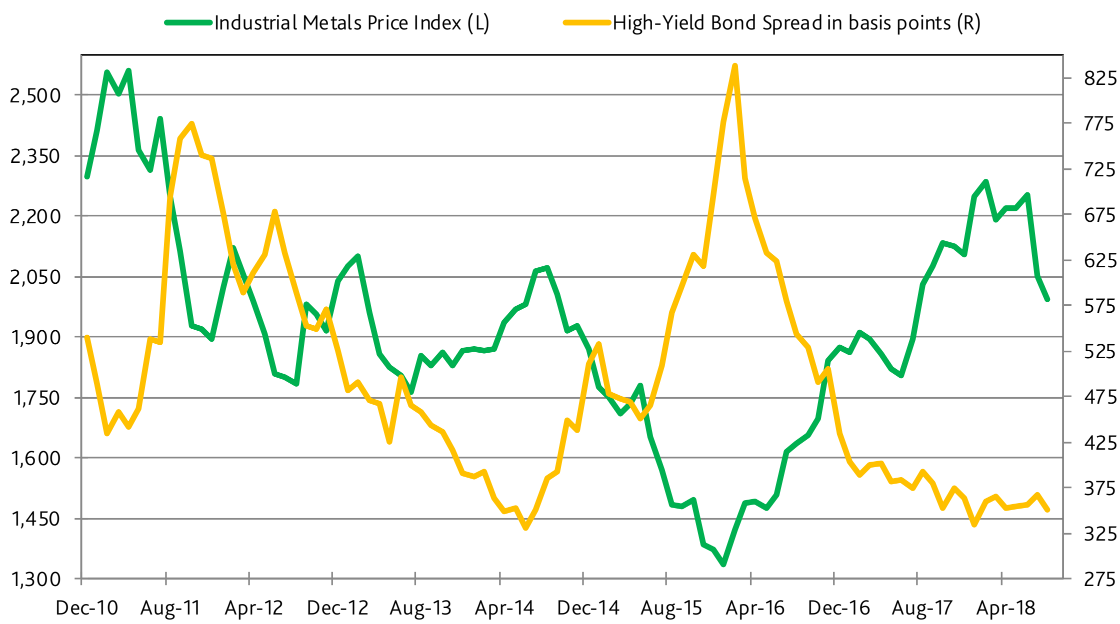
At the other extreme, the high-yield EDF incurred a year-to-year increase for 71, or 87%, of the 82 months showing a year-to-year drop of 5% or deeper by the month-long average of the base metals price index. The last stretch of yearly declines of 5% or deeper by the industrial metals price index began in February 2015 and ended in June 2016. In each of those 17 months, the high-yield EDF rose from a year earlier. Here, the average 17.8% annual drop by the base metals price index of the 17-months-ended June 2016 was accompanied by an average 2.45 percentage point increase for the high-yield EDF.

Figure 2: Latest Drop by Industrial Metals Price Index Warns of a Climb by the Average Expected High-Yield Default Frequency (EDF) Metric
source: Moody's Analytics



Also since year-end 1996, the composite high-yield bond spread increased from a year earlier in 87% of the months showing a year-to-year drop by the base metals price index of 5% or deeper. Moreover, the high-yield bond spread narrowed from a year earlier in 76% of the months showing a year-to-year increase of at least 5% by the industrial metals price index.

Figure 3: Extended Slide by Industrial Metals Price Index Is Likely to Widen the High-Yield Bond Spread
source: Moody's Analytics



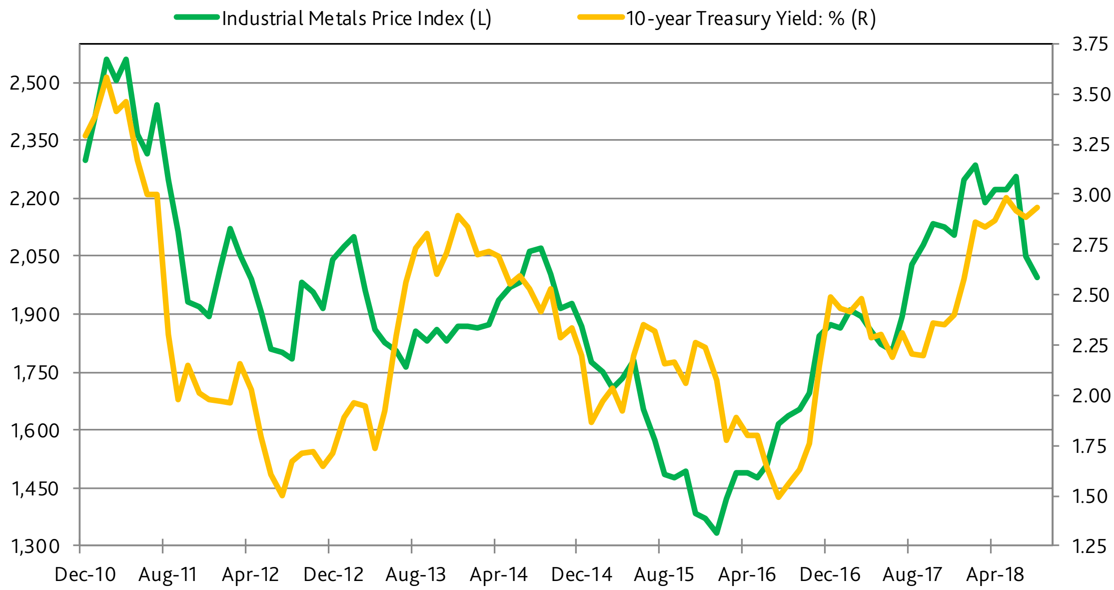
Lower Base Metals Prices Now Rein In Treasury Yields

A lasting ascent by the 10-year Treasury yield to 3% and beyond probably requires the support of another noteworthy climb by the base metals price index. In the event that the industrial metals price index softens further, a 3% benchmark Treasury yield may be unattainable.

As derived from an examination of yearly percent changes by month-long averages beginning with December 1985, the 10-year Treasury yield recorded an annual decline in 100, or 89%, of the 114 months showing an annual drop by the base metals price index of 5% or deeper. For example, when the base metals price sank by 5% or deeper in each of the 17 months ended June 2016, the 10-year Treasury yield's accompanying average also fell annually in 15 of the 17 months.

On the other hand, the 10-year Treasury yield's month-long average exceeded that of a year earlier in 109, or 58%, of the 189 months in which the base metals price index increased by at least 5% annually. When the base metals price index recently increased by at least 5% annually in each of the 24 months ended July 2018, the 10-year Treasury yield rose year-to-year in 20 of those months.

Figure 4: 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



Weakening Trend of Homebuyer Mortgage Applications Limits Upside for Treasury Yields

The now declining trend for homebuyer mortgage applications further strengthens the case favoring a less-than-3% 10-year Treasury yield.

As of August 10, the Mortgage Bankers Association's weekly index of mortgage applications for the purchase of a home fell sequentially for a fifth straight week. The index's latest moving four-week average was 5.7% under its average of the contiguous four-weeks-ended July 13, 2018 and was off by 0.5% year-over-year. Moreover, the latest moving four-week average of homebuyer mortgage applications was 9.5% under its latest peak of May 4, 2018.

The latest moving 13-week average of the MBA's index of mortgage applications from potential homebuyers inched higher by merely 0.6% year-over-year for its smallest annual rise since the 0.5% of the 13-weeks-ended March 13, 2015. Moreover, this moving 13-week average is on the verge of declining year-over-year for the first time since the span-ended February 27, 2015.

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

THE U.S.

By Ryan Sweet of Moody's Analytics

Powell's Jackson Hole Speech One of the Week's Highlights

The week is fairly light on the U.S. data front, putting the focus on the Federal Reserve and geopolitical developments. We don't expect Federal Reserve Chair Jerome Powell to use his speech at the Fed's Jackson Hole Economic Symposium to provide any clues on the near-term course for monetary policy, because the central bank appears committed, and the data are cooperating for two more rate hikes this year. Maintaining the status quo shouldn't be surprising, since sending any clear signals about the Fed's plan would front-run the Federal Open Market Committee. The title of the Jackson Hole conference this year is "Changing Market Structure and Implications for Monetary Policy." Powell is scheduled to discuss monetary policy in a changing economy. Therefore, his comments could be less about the immediate path of monetary policy and more on how the Fed could address the next downturn.

Turning to the data, we look for no change in existing-home sales, while new-home sales inch higher. Initial claims for unemployment insurance benefits likely rose in the week ended August 18. The incoming data will include the August payroll reference week. The week will end with the release of durable goods and we will release our forecast later.

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence for 8/17/18	index, 4-wk MA				31.4
Wed @ 10:00 a.m.	Existing-home sales for July	mil, SAAR	5.38	5.4	5.28 to 5.51	5.38
Wed @ 2:00 p.m.	FOMC minutes for August					
Thurs @ 8:30 a.m.	Jobless Claims for 8/18/18	ths	215	215	210 to 220	212
Thurs @ 10:00 a.m.	New-home sales for July	#, SAAR	633	645	608 to 660	631
Fri @ 8:30 a.m.	Durable goods orders for July	% change		-0.8	-3.5 to 1.7	0.8
Fri @ 8:30 a.m.	Excluding transportation for July	% change		0.5	0 to 1	0.2

MONDAY, AUGUST 20

Business confidence (week ended August 17; 10:00 a.m. EDT)

Forecast: N/A

The escalating global trade war appears to be weighing on business confidence. Global businesses remain upbeat, but sentiment has meaningfully softened in recent months, last week's increase notwithstanding. Much of the weakening in sentiment is in expectations about business prospects into early next year, which are as weak as they have been at any time during this economic expansion. Less than 40% of respondents say that prospects are improving; the lowest percentage since the economy was pulling out of the Great Recession at the start of this decade.

The four-week moving average in our business confidence index rose from 27.7 to 31.4 in the week ended August 10 but it remains well below that seen earlier this year.

TUESDAY, AUGUST 21

No major economic releases scheduled.

WEDNESDAY, AUGUST 22

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

Forecast: 5.38 million annualized units

We look for existing-home sales for July to remain at June's level of 5.38 million annualized units, leaving them below their second quarter average of 5.41 million. There has been a small improvement in inventories but they remain lean and will remain a drag on existing-home sales. Pending home sales rose modestly in June but they lead existing-home sales by one to two months.

THURSDAY, AUGUST 23

Jobless claims (week ended August 18; 8:30 a.m. EDT)

Forecast: 215,000

The forecast is for initial claims for unemployment insurance benefits to have risen by 3,000 to 215,000 in the week ended August 18. The incoming data take on added importance, as they include the August payroll reference week.

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

Forecast: 633,000 annualized units

We look for new-home sales to inched higher in July, rising from 631,000 annualized units to 633,000. This is our preliminary forecast and we will finalize it before the data is released. The housing market data have underwhelmed and we believe new-home sales may not buck that trend.

FRIDAY, AUGUST 24

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

We will release our forecast later in the week.

EUROPE

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

Germany Likely to Confirm the Q2 Acceleration

The week's only top-tier report will be publication of the second estimate of Germany's second-quarter GDP. We aren't penciling in any revisions; we expect growth to be confirmed at 0.5% q/q, an acceleration from the 0.4% gain in the first quarter. By contrast, we expect yearly growth decelerated to 2%, from 2.1% in the previous quarter. But an easing toward more sustainable rates was expected this year, following 2017's extraordinary momentum. And this is not a development contained to Germany; growth is slowing across all major euro zone economies and in the euro zone itself.

A slowdown in net trade is largely behind the broad loss of momentum. Trade tensions related to the global trade war are undoubtedly at fault. But there are other factors as well. Base effects related to a surge in exports in the second half of 2017 were always expected to depress net trade's contribution to growth in the first half of this year, while the lagged effect of the stronger euro also takes part of the blame, since it has depressed the competitiveness of the area's exporters. Accordingly, breakdown details to be released Friday are expected to show that German net exports likely dragged in the second quarter, and that's for the second stanza running.

Consumer spending, by contrast, should have ramped up in line with the upward trend in wage growth and leading indicators. Wages are having a hard time coming out of the doldrums in most euro zone economies, but not in Germany. The country's labour market is going from strength to strength—

Eurostat's harmonized unemployment rate fell to 3.4% in June, the lowest among all euro area countries. This has given workers unprecedented bargaining power. Union wage demands look fanciful, while anecdotal evidence from wage deals in manufacturing and construction points to nominal wage growth in the private sector close to 5% y/y this year. This is supporting consumption spending following an unimpressive second half of 2017, and we think this trend will continue in the third and fourth quarters.

Government spending is also expected to have rebounded strongly from a one-off 0.5% q/q decline in the first quarter, which was mainly due to a shift in the timing of federal reimbursements to local governments. Although Germany is committed to a nearly balanced budget, government spending has rarely declined in quarterly terms, so we think that a strong rebound was warranted in the second quarter. Comments from the German statistical office suggest that public spending was one of the main drivers of the acceleration in the three months to June.

Investment likely also grew, though only slightly given the already-strong results for the first quarter. The quarter's unseasonably warm weather—temperatures were a whopping 5°C above their long-term averages in April, 3.9°C in May, and 2.4°C in June—is expected to have provided a solid boost to building activities, though the boost will be limited by the already-solid results for the opening stanza. Machinery and equipment investment should have increased as well, but to a much lesser extent than previously as investment in the sector gained a robust 1.2% q/q in the three months to March.

The strong preliminary German headline allowed for aggregate second quarter growth in the euro zone to be revised to 0.4% q/q, up from an initial estimate of 0.3% and the same pace as recorded in the first quarter. Among the major economies, Germany was an outlier; GDP growth actually slowed in Italy and Spain, while it remained only steady at a meagre 0.2% q/q in France. The story was a little better for smaller economies, but in general it hasn't changed much from earlier in the year—momentum is broadly slowing in the euro zone but is not falling off a cliff. We expect that yearly GDP growth for the euro area will slow toward 1.7% at the end of the year, from 2.2% in the second stanza, which is consistent with quarterly growth remaining steady at 0.4% in the third and the fourth quarters.

	Key indicators	Units	Moody's Analytics	Last
Fri @ 8:00 a.m.	Germany: GDP for Q2	% change	0.5	0.4

MONDAY, AUGUST 20

No major indicators are scheduled for release.

TUESDAY, AUGUST 21

No major indicators are scheduled for release.

WEDNESDAY, AUGUST 22

No major indicators are scheduled for release.

THURSDAY, AUGUST 23

No major indicators are scheduled for release.

FRIDAY, AUGUST 24

Germany: GDP (Q2; 8:00 a.m. BST)

According to preliminary estimates, German growth ticked up in the second stanza, with real GDP expanding by 0.5% q/q following a 0.4% gain in the three months to March. However, in year-ago terms, the expansion rate decelerated to 2% from 2.1% in the previous stanza, and was well below the 2.8% expansion rate reached at the end of 2017. Largely behind the less than stellar result was continued weakness in net exports, as imports increased faster than exports. The upcoming Brexit and the introduction of new import tariffs by the U.S. are worrying for German exports, which propelled the economic expansion in the second half of last year. On a positive note, fixed investment improved in the three months to June and private and government consumption also supported the overall expansion.

ASIA-PACIFIC

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

Despite Solid External Demand, Thai Economy Likely Cooled

The economic data calendar is quiet. Thailand's economy likely cooled in the June quarter. Private consumption likely continued its steady expansion, supported by an improvement in incomes and a rise in consumer confidence, as well as government measures such as the social welfare card project. Thailand benefited from solid external demand during the June quarter, even amid rising trade frictions. However, net exports likely provided less of a contribution to growth than in the first quarter, dragging the overall headline lower.

Japan's July core-inflation reading is unlikely to excite. We forecast core CPI to be unchanged from June's 0.8% y/y. Over the short term, we expect fuel prices to remain the key driver of the CPI, as higher commodity prices are adding to retail fuel costs. Core-core inflation, which excludes food and energy, remains stagnant at around 0.2%. There has been improvement in wage growth this year, but nothing that materially changes the mediocre consumption outlook.

New Zealand's retail trade volumes likely accelerated in the June quarter, but this is largely on base effects. Underlying fundamentals have weakened a bit and this is hurting households' exuberance to spend. The labour market has cooled a little and the already-elevated underemployment rate appears to be on an upward trend. Migration is slowing after the record high year in 2017, and the slowing property market is having an impact via wealth effects. New Zealand's export picture remains healthy, with meat and edible offal a particular strength of late on higher global prices, with added support from dairy and kiwifruit.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 12:30 p.m.	Thailand GDP for Q2	% change yr ago	4.3	4.8
Wed @ 8:45 a.m.	New Zealand Retail trade for Q2	% change	0.7	0.1
Fri @ 8:45 a.m.	New Zealand Foreign trade for July	NZ$ mil	130	-113
Fri @ 9:30 a.m.	Japan Consumer price index for July	% change	0.8	0.8

MONDAY, AUGUST 20

Thailand: GDP (2018Q2; 12:30 p.m. AEST; 2:30 a.m. GMT)

Thailand's economy likely expanded 4.3% y/y in the June quarter, down from a 4.8% increase in the first three months of 2018. Private consumption should have continued its steady expansion, supported by an improvement in incomes and rise in consumer confidence, as well as government measures such as the social welfare card project. Meanwhile, private investment, which has been especially weak in recent years, likely improved modestly, largely on the back of increased expenditure on capital goods. Thailand benefited from solid external demand during the June quarter, even amid rising trade frictions. However, net exports likely provided less of a contribution to growth than in the first quarter.

TUESDAY, AUGUST 21

No major economic indicators are scheduled for release.

The Week Ahead

WEDNESDAY, AUGUST 22

New Zealand: Retail Trade (2018Q2; 8:45 a.m. AEST; Tuesday, 10:45 p.m. GMT)

New Zealand's retail trade volumes likely rose by 0.7% q/q in the June quarter after the mediocre 0.1% rise in the March quarter. Consumption appears on a gradual slowing trend in New Zealand and the expected improvement in the second stanza is largely coming off the extremely weak March quarter. Underlying fundamentals have weakened a little and this is hurting households' exuberance to spend. The labour market has cooled a little and the already-elevated underemployment rate appears to be on an upward trend. Also, migration is slowing after the record high year in 2017, and the slowing property market is having an impact via wealth effects.

THURSDAY, AUGUST 23

No major economic indicators are scheduled for release.

FRIDAY, AUGUST 24

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

New Zealand's monthly trade balance likely returned to surplus in July, recording a NZ$130 million surplus, after slipping into a NZ$113 million deficit in June, only the second deficit for that month in the past decade. Higher petroleum and products swelled the import bill on higher global prices, followed by a jump in the volatile fishing vessels category. The export picture remains healthy, with meat and edible offal a particular strength of late on higher global prices, with added support from dairy and kiwifruit. Exports improved in the June quarter and were up 4.5% q/q, following the 5.7% drop in the March stanza, with dairy being the largest driver.

Japan: Consumer Price Index (July; 9:30 a.m. AEST; Thursday, 11:30 p.m. GMT)

Japan's July core-inflation reading is unlikely to provide any surprises. We forecast core CPI to be unchanged from June's 0.8% y/y. Prices across the key consumer categories are expected to be unchanged, although medical costs are rising on the back of an ageing population. Housing inflation is falling, as various government allowances in the housing market have been abolished. This will keep home values—and housing inflation—declining. Over the short term, we expect fuel prices to remain the key driver of the CPI, as higher commodity prices are adding to retail fuel costs. Core-core inflation, which excludes food and energy, remains around 0.2%.

The Long View

The US$-denominated high-yield bond issuance of August-to-date already tops July 2018's month-long tally.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
August 16, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 125 basis points resembles its 122-point mean of the two previous economic recoveries. This spread may be no wider than 130 bp by year-end 2018.

The recent high-yield bond spread of 357 bp is wider than the 346 bp of the previous week and 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

July 2018's U.S. high-yield default rate of 3.37% was the lowest since January 2016's 3.34% and was less than the 3.82% of July 2017. Moody's Default and Ratings Analytics team now expects the default rate will approximate 2.2% by July 2019, which implies a deepening of the default rate's yearly decline from July 2018 to July 2019.

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 -2.6% for IG and -11.9% 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.

The Long View

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 Araujo and Reka Sulyok of Moody's Analytics
August 16, 2018

TURKEY

Turkey's Finance Minister Berat Albayrak said that the government believes the banking system can weather the lira's depreciation and hinted that fiscal policy changes are coming. To rein in inflation, the government appears to favor fiscal over monetary policy. In fact, Albayrak said monetary policy would likely not bring lower inflation, suggesting that a rate hike by the central bank is unlikely in the near term.

Based on his comments, it appears Turkey is ready to break from the stimulative policy practices of the past and commit to fiscal consolidation, targeting a fiscal surplus of TRY6 billion by the end of the year. Turkey also is not turning to the International Monetary Fund for help. Key to this announcement is that Qatar signaled it is ready to offer $15 billion in assistance, or 1.8% of Turkey's GDP, to remedy the U.S. dollar liquidity issues. The central bank already lowered the required reserves of banks to stave off a liquidity squeeze in the banking system.

There is a limit to how much more dollar liquidity the central bank can inject, since its reserves are low, covering just 74% of the debt due in the near term. In October, some $9 billion in debt will need to be repaid. And through the first half of next year, the country's private sector will have an even bigger pile of hard-currency debt coming due.

Time will tell if the commitment to prudent fiscal policy will restore market confidence or prove only a temporary boost to the lira. The lira gained 1% against the dollar during the press conference Thursday and was up by 3% since Wednesday. The danger is that markets still await higher interest rates to compensate for the riskiness of Turkish assets. And the comment that Turkey is not planning on capital controls may not be reassuring, given that the central bank already imposed restrictions on banks' foreign exchange operations.

UNITED KINGDOM

The rise in U.K. retail sales in July beat market expectations and our forecast, as a combination of higher than average temperatures, the continued World Cup celebrations, and heavy discounting by online retailers drove up sales across the board. Provided that they hold steady in August and September, July's upbeat results would mean that sales should increase further in the third quarter, likely by 0.8% q/q, despite having already soared by 2% in the previous stanza, the strongest gain in 17 years.

But we are a little less optimistic. Our view is that sales will correct in August and stay relatively contained in September—ensuring that the quarterly increase softens to 0.4%—as the temporary factors that boosted sales at the start of the third quarter aren't expected to last for long. The biggest driver of sales during July was a jump in online sales, but the Office for National Statistics reported that this was due to heavy discounting by online retailers during summer sales. Amazon even postponed its aggressive Prime Day discount period to avoid clashes with the World Cup events. Attesting to that is that not seasonally adjusted nonstore prices fell 0.9% m/m in July, building on a 1.2% decrease in June, far worse than the cumulative 0.8% decline recorded between June and July 2017. A mean reversion is due in August, which should help bring the yearly increase in online sales a little closer to its previous-year average.

Also, July's heat wave and the World Cup celebrations ensured that consumer demand for food and drinks remained strong, but we are not expecting this strength to be sustained in August and September. The yearly trend in food sales is now reading around three times its average recorded since January, and our view is that household fundamentals haven't improved enough (or even at all) to justify such an upturn in food demand. We thus expect food sales to correct in August.

Developments in nonfood sales should be more mixed. July's warm weather boosted demand for summer clothes, but at the same time it depressed footfall in most other nonfood stores, as reported by the ONS. We thus expect demand for clothing to correct in August, but that temperatures became more bearable over the month should nonetheless have brought consumers back to the high street and boosted demand for household goods and sales in nonspecialized stores.

All in all, we don't expect retail sales' strength in the second quarter to carry over into the third stanza. The outlook for spending in the second half of 2018 looks far from promising; higher oil prices, rising interest rates, a dwindling housing market, and the fiscal squeeze will weigh on consumer confidence and the will to buy. Accordingly, consumers' savings intentions skyrocketed recently, suggesting that households are becoming increasingly cautious.

ASIA PACIFIC

By Katrina Ell of Moody's Analytics
August 16, 2018

INDONESIA

Bank Indonesia continues its reign as Asia's most aggressive central bank, hiking its policy rate this week by 25 basis points to 5.5%. The rupiah has come under renewed pressure as contagion from the slump in the Turkish lira has rattled other emerging markets. The central bank is clearly worried about capital outflows intensifying and noted that the move was partly to keep the current account at a safe level.

Indonesia's current account deficit widened to 2.4% of GDP in the June quarter, from 2% previously. There's concern that the deficit will widen further in the second half of 2018 given the sustained downward pressure on the currency. Bank Indonesia is officially comfortable with a current account deficit lower than 3% of GDP, but a widening deficit is undesirable in the current state of play where investors keep homing in on potential economic weak spots.

Bank Indonesia is at pains to demonstrate it is on the front foot against emerging markets falling out of favour. It had already taken action earlier in the week via intervention in the currency and bond markets to try to quell the renewed outflows from emerging markets, but clearly this wasn't enough to allay the central bank's fears of further deterioration in Indonesia's external position. The problem is that the rupiah just won't stabilize; it's hovering around its weakest level since 2015, when investors ran for cover following China's surprise yuan devaluation.

GDP above expectations

The central bank has stated that it is prioritizing external stability over domestic demand. But the June quarter national accounts would have certainly been an encouraging factor behind the latest rate hike, at first glance. The country's GDP growth came in above expectations with a 5.3% y/y gain, accelerating from 5.1% in the March quarter. But these figures overstate the strength of domestic demand, as consumption was an important driver of the June quarter's uptick and was helped by the timing of religious festivities over the quarter, a situation that will not linger into the second half of the year.

Bank Indonesia, with cumulative tightening since mid-May to 125 basis points, isn't just aggressive in this tightening cycle; it is also unpredictable as evinced by markets not quite picking when the central bank will move or hold steady this cycle (nor have we, to be honest). We have zero doubt further interest rate hikes will occur into 2019 if emerging market outflows again pick up the pace, or never quite calm back down with Turkey's ongoing tumult. Bank Indonesia will keep trying a range of artillery to stabilize, making the government's 5.4% full-year growth target for 2018 even more unlikely.

Ratings Round-Up

By Michael Ferlez

Industrial and Utility Sectors Dominate U.S. Rating Changes

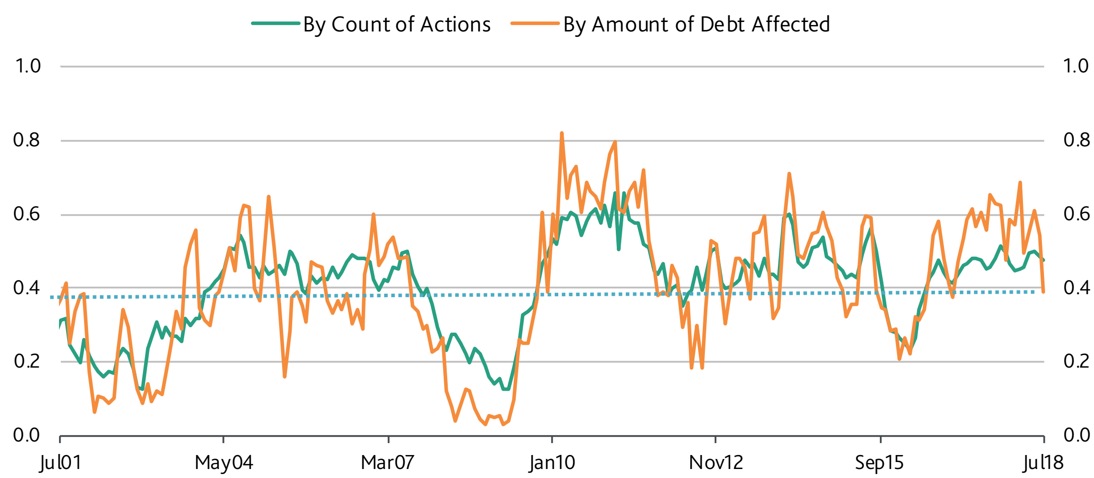
The industrial and utility sectors dominated U.S. rating changes. The contribution of positive rating revisions was 69% last week, well above the long-term average of 40%. In the industrial sector, S&P Global Inc. was the notable upgrade, with the firm's senior unsecured ratings upgraded to A3 from Baa1. The most notable downgrade was United Technologies Corp. The manufacturing firm had its long-term rating, including the senior unsecured rating cut to Baa1 from A3. The change reflects the corporation's higher financial risk following the partially-debt financed acquisition of Rockwell Collins.

After being hit hard during the oil and commodity crash a couple of years ago, the U.S. industry has been benefiting from higher oil prices. Oil firm's Endeavor Energy Resources L.P. and Denbury Resources Inc. were both upgraded, though oil service firm Energen Corp. was downgraded. In the utility sector changes were mixed. The rating of Southern Company–Georgia Power Company was downgrade while sibling company, Southern Company–Mississippi Power, received a rating upgrade.

International rating change activity was dominated by upgrades in Vietnam. Vietnam's sovereign rating was upgraded to Ba3 from B1. The upgrade underpins the country's strong growth potential, supported by improving labor and capital efficiencies. The sovereign upgrade helped drive upgrades of 11 Vietnamese banks. Meanwhile, European rating change activity was limited, with only six changes. Rating changes were predominately upgrades concentrated in the industrial sector. Notable upgrades include Equinor ASA and The Co-Operative Bank PLC.

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
8/8/18	S&P GLOBAL INC.	Industrial	SrUnsec	3,700	U	Baa1	A3	IG
8/8/18	SOUTHERN COMPANY (THE) -GEORGIA POWER COMPANY	Utility	SrUnsec/BCF /LTIR/JrSub/PS	6,370	D	A3	Baa1	IG
8/8/18	SOUTHERN COMPANY (THE) -MISSISSIPPI POWER COMPANY	Utility	SrUnsec/PS	1,396	U	Ba1	Baa3	SG
8/8/18	ACI WORLDWIDE, INC.	Industrial	SrUnsec	400	U	B2	B1	SG
8/9/18	UNITED TECHNOLOGIES CORPORATION	Industrial	SrUnsec/LTIR/MTN	26,195	D	A3	Baa1	IG
8/9/18	INTERGEN N.V.	Utility	SrSec	974	U	B1	Ba3	SG
8/9/18	AMERICAN SEAFOODS GROUP LLC	Industrial	SrSec/BCF		D	B1	B2	SG
8/10/18	WILLIAMS COMPANIES, INC. (THE)	Utility	SrUnsec	4,188	U	Ba2	Baa3	SG
8/13/18	ENERGEN CORPORATION	Industrial	SrUnsec/LTCFR /PDR/MTN	530	U	B2	B1	SG
8/13/18	AIRCASTLE LIMITED	Financial	SrUnsec /LTCFR/Sub/PS	3,200	U	Ba1	Baa3	SG
8/13/18	ENDEAVOR ENERGY RESOURCES, L.P.	Industrial	SrUnsec/LTCFR/PDR	1,000	U	B3	B2	SG
8/13/18	HAWAIIAN HOLDINGS, INC.	Industrial	LTCFR/PDR	445	U	B1	Ba3	SG
8/14/18	DENBURY RESOURCES INC.	Industrial	SrSec/LTCFR /PDR/SrSub	3,611	U	Caa1	B3	SG

Source: Moody's

FIGURE 4
Rating Changes: Corporate & Financial Institutions – Europe

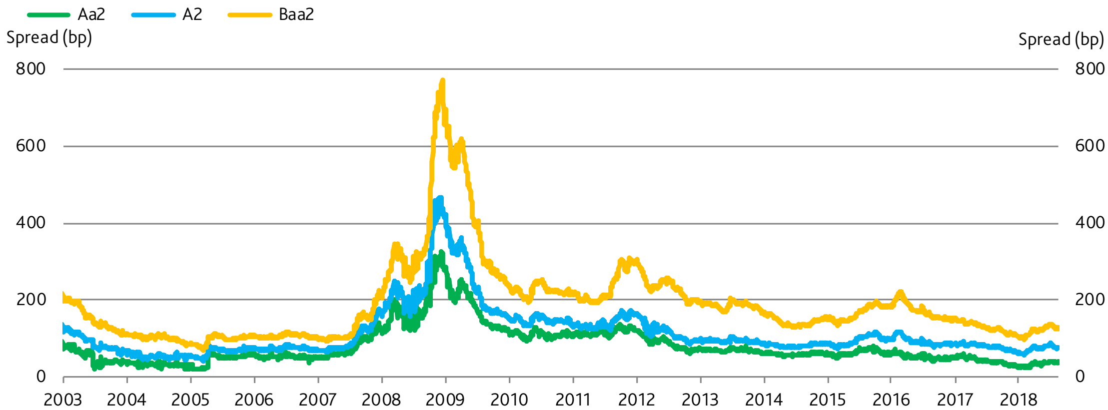
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
8/8/18	N.V. NEDERLANDSE GASUNIE	Utility	SrUnsec/LTIR/MTN	2,915	U	A2	A1	IG	NETHERLANDS
8/8/18	CONSTELLIUM N.V.	Industrial	SrUnsec/LTCFR/PDR	2,350	U	B3	B2	SG	NETHERLANDS
8/9/18	EQUINOR ASA	Industrial	SrUnsec/MTN	23,039	U	Aa3	Aa2	IG	NORWAY
8/10/18	LANXESS AG	Industrial	SrUnsec/LTIR /MTN/PS	2,858	U	Baa3	Baa2	IG	GERMANY
8/14/18	THE CO-OPERATIVE BANK PLC	Financial	LTD/MTN		U	Caa2	Caa1	SG	UNITED KINGDOM
8/14/18	HOUSE OF FRASER (UK & IRELAND) LIMITED	Industrial	SrSec/LTCFR/PDR	211	D	Caa2	C	SG	UNITED KINGDOM

Source: Moody's

Market Data

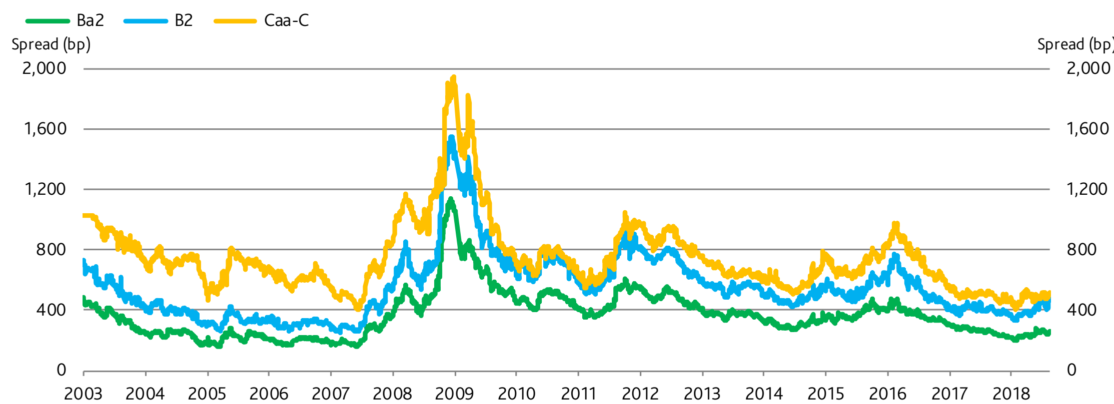
Spreads

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

Market Data

CDS Movers

Figure 3. CDS Movers - US (August 8, 2018 – August 15, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Aug. 15	Aug. 8	Senior Ratings
United States of America, Government of	Aaa	Aa1	Aaa
Ally Financial Inc.	Ba1	Ba2	Ba3
PepsiCo, Inc.	Aa2	Aa3	A1
Exxon Mobil Corporation	Aa2	Aa3	Aaa
Philip Morris International Inc.	A3	Baa1	A2
Abbott Laboratories	Aa3	A1	Baa2
Anthem, Inc.	A1	A2	Baa2
CenturyLink, Inc.	B2	B3	B2
FedEx Corporation	A2	A3	Baa2
CCO Holdings, LLC	Ba3	B1	B1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Aug. 15	Aug. 8	Senior Ratings
Monsanto Company	Baa1	A1	Baa1
JPMorgan Chase & Co.	A2	A1	A3
Bank of America Corporation	A3	A2	A3
Goldman Sachs Group, Inc. (The)	Baa2	Baa1	A3
JPMorgan Chase Bank, N.A.	A1	Aa3	Aa3
Wells Fargo & Company	A3	A2	A2
Bank of America, N.A.	A3	A2	Aa3
John Deere Capital Corporation	Baa1	A3	A2
McDonald's Corporation	Aa3	Aa2	Baa1
Walmart Inc.	Aa3	Aa2	Aa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 15	Aug. 8	Spread Diff
Rite Aid Corporation	B3	924	758	166
Weatherford International, LLC (Delaware)	Caa1	632	496	135
Parker Drilling Company	Caa2	1,482	1,399	83
K. Hovnanian Enterprises, Inc.	Caa3	1,192	1,116	76
Avon Products, Inc.	B3	876	810	67
Chesapeake Energy Corporation	Caa1	519	469	51
Frontier Communications Corporation	Caa1	1,434	1,393	41
Freeport Minerals Corporation	Baa3	203	165	38
Freeport-McMoRan Inc.	Ba3	192	156	36
Nabors Industries Inc.	B1	339	311	29

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 15	Aug. 8	Spread Diff
MBIA Insurance Corporation	Caa2	597	675	-78
Windstream Services, LLC	Caa2	2,912	2,981	-69
MBIA Inc.	Ba3	332	401	-69
Sears Roebuck Acceptance Corp.	C	2,119	2,177	-58
Sears Holdings Corp.	C	1,792	1,842	-49
CenturyLink, Inc.	B2	267	310	-43
Level 3 Communications, Inc.	B1	148	168	-21
Qwest Corporation	Ba2	119	135	-16
Hertz Corporation (The)	B3	760	775	-15
McClatchy Company (The)	Caa2	477	491	-14

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (August 8, 2018 – August 15, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Aug. 15	Aug. 8	Senior Ratings
Barclays Plc	Baa3	Ba1	Baa3
Deutsche Bank AG	Ba1	Ba2	A3
CaixaBank, S.A.	Baa2	Baa3	Baa1
Raiffeisen Bank International AG	Baa2	Baa3	A3
DZ BANK AG	Baa1	Baa2	Aa1
Unione di Banche Italiane S.p.A.	Ba2	Ba3	Baa3
Banco Comercial Portugues, S.A.	Ba2	Ba3	B1
UBS AG	Aa3	A1	Aa3
ArcelorMittal	Ba1	Ba2	Baa3
HSH Nordbank AG	Ba2	Ba3	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Aug. 15	Aug. 8	Senior Ratings
Bayer AG	Baa1	A1	Baa1
Atlantia S.p.A.	Ba2	Baa3	Baa2
BAE SYSTEMS plc	Baa2	A3	Baa2
Rabobank	A1	Aa3	Aa3
Portugal, Government of	Ba1	Baa3	Ba1
BNP Paribas	A2	A1	Aa3
HSBC Holdings plc	Baa2	Baa1	A2
Banco Santander S.A. (Spain)	Baa2	Baa1	Baa1
Landesbank Hessen-Thueringen GZ	A2	A1	Aa3
Total S.A.	Aa2	Aa1	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 15	Aug. 8	Spread Diff
Astaldi S.p.A.	Caa1	2,808	2,078	730
Atlantia S.p.A.	Baa2	166	88	78
Permanent tsb p.l.c.	Ba3	219	180	38
Casino Guichard-Perrachon SA	Ba1	476	439	36
UniCredit S.p.A.	Baa1	165	136	29
Italy, Government of	Baa2	246	218	28
Banca Monte dei Paschi di Siena S.p.A.	B3	306	279	27
Greece, Government of	B3	365	338	27
Iceland Bondco plc	Caa1	387	361	27
Jaguar Land Rover Automotive Plc	Ba2	353	329	24

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 15	Aug. 8	Spread Diff
Galapagos Holding S.A.	Caa3	2,566	3,731	-1,165
Boparan Finance plc	Caa1	541	558	-18
Selecta Group B.V.	Caa2	332	340	-8
Stonegate Pub Company Financing plc	Caa1	190	196	-6
Unipol Gruppo S.p.A.	Ba1	180	182	-3
Nationwide Building Society	Aa3	46	48	-2
CNH Industrial N.V.	Ba2	107	109	-2
Banco BPI S.A.	Ba1	131	133	-2
CaixaBank, S.A.	Baa1	74	75	-1
Erste Group Bank AG	A2	54	54	-1

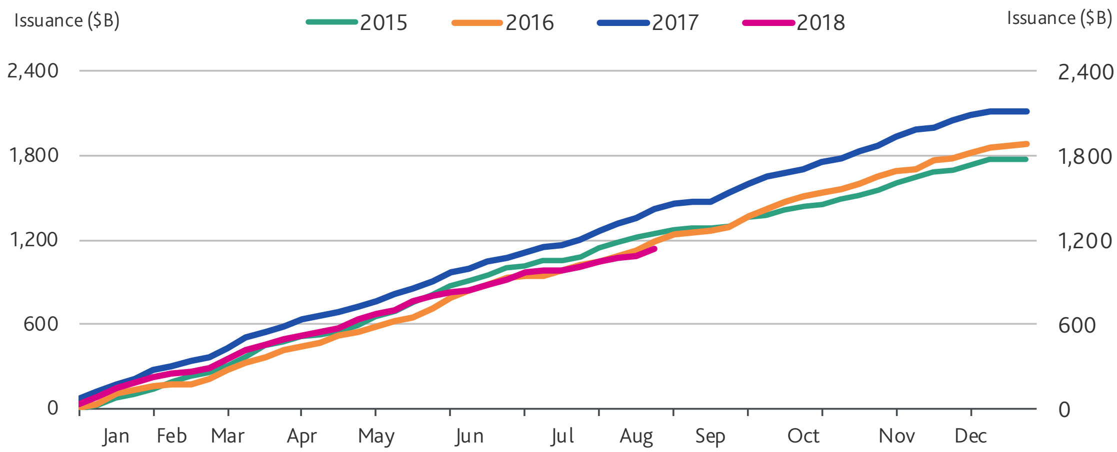
Source: Moody's, CMA

Market Data

Issuance

FIGURE 5

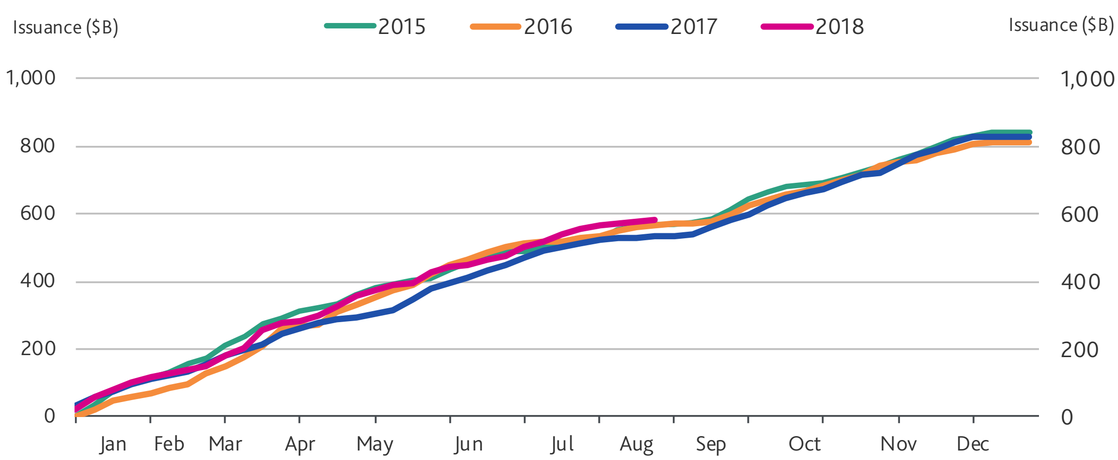
Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



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	33.045	12.100	50.597
Year-to-Date	863.825	219.754	1,139.304

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	3.185	0.000	3.644
Year-to-Date	488.063	67.268	582.309

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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