MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Corporate Bonds Beg to Differ With Their Equity Brethren

Moody's Analytics Research

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Credit Markets Review and Outlook

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

Corporate Bonds Beg to Differ with Their Equity Brethren

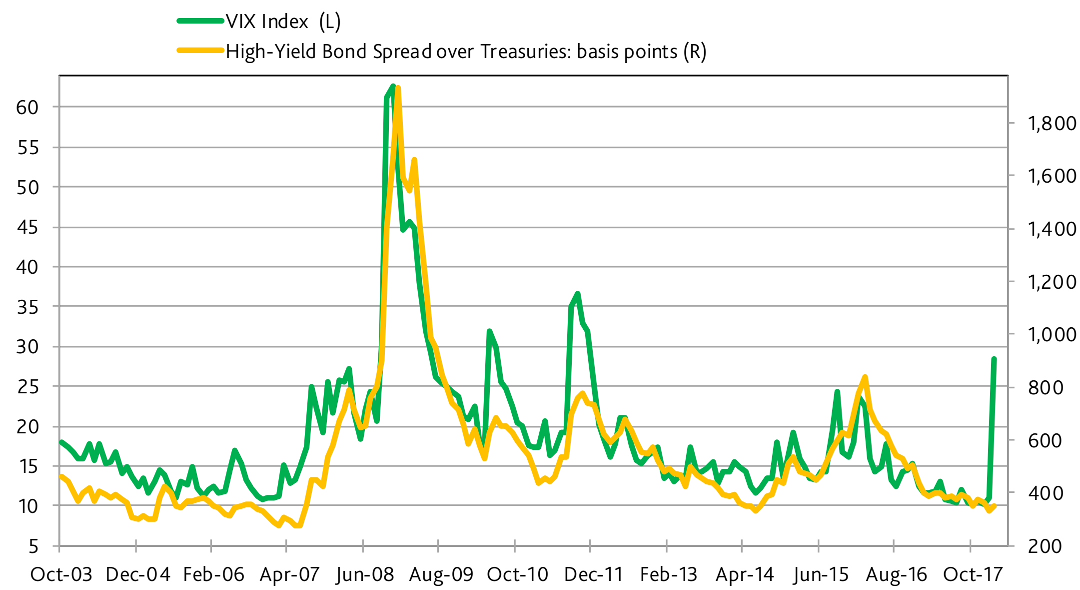
Thus far, the corporate credit market has been relatively steady amid equity market turmoil. Corporate credit's comparative calm stems from expectations of continued profit growth that underpins a still likely slide by the high-yield default rate. The record shows that 90% of the year-to-year declines by the default rate were joined by year-to-year growth for the market value of U.S. common stock.

Today's positive outlooks for business sales and operating profits suggest that equities will recover once issues pertaining to interest rates are sufficiently resolved. For now, equities may be paying dearly for having been more richly priced vis-a-vis fundamentals when compared to corporate bonds.

Since the VIX index's current estimation methodology took effect in September 2003, the high-yield bond spread has generated a strong correlation of 0.90 with the VIX index. However, for now that ordinarily tight relationship has broken down. Never before has the high-yield bond spread been so unresponsive to a skyrocketing VIX index.

The VIX index's 28.5-point average of February-to-date has been statistically associated with an 832-basis-point midpoint for the high-yield bond spread. Instead, the high-yield bond spread recently approximated 353 bp. Thus, the high-yield spread predicted by the VIX index now exceeds the actual spread by a record 479 bp.

Figure 1: Elevated VIX Index Now Favors a High-Yield Bond Spread that More Than Doubles Recent 353 bp *(correlation = 0.90)*
sources: CBOE, Moody's Capital Markets



The old record high gap was the 364 bp of October 2008, or when the actual spread of 1,398 bp would eventually surpass the 1,762 bp predicted by the VIX index. Not long thereafter, the actual high-yield spread would peak at the 1,932 bp of December 2008.

More recently, or during the euro zone crisis of 2011, the 1,018 bp high-yield spread predicted by the VIX index was as much as 323 bp above August 2011's actual spread of 695 bp. After eventually peaking at October 2011's 775 bp, the spread narrowed to 590 bp by August 2012.

What transpired following August 2011 and October 2008 warns against being too quick to dismiss the possibility of at least a 100 bp widening by the latest high-yield spread. Nevertheless, high-yield spreads would be significantly thinner one year after the gap between the predicted and actual spreads peaked.

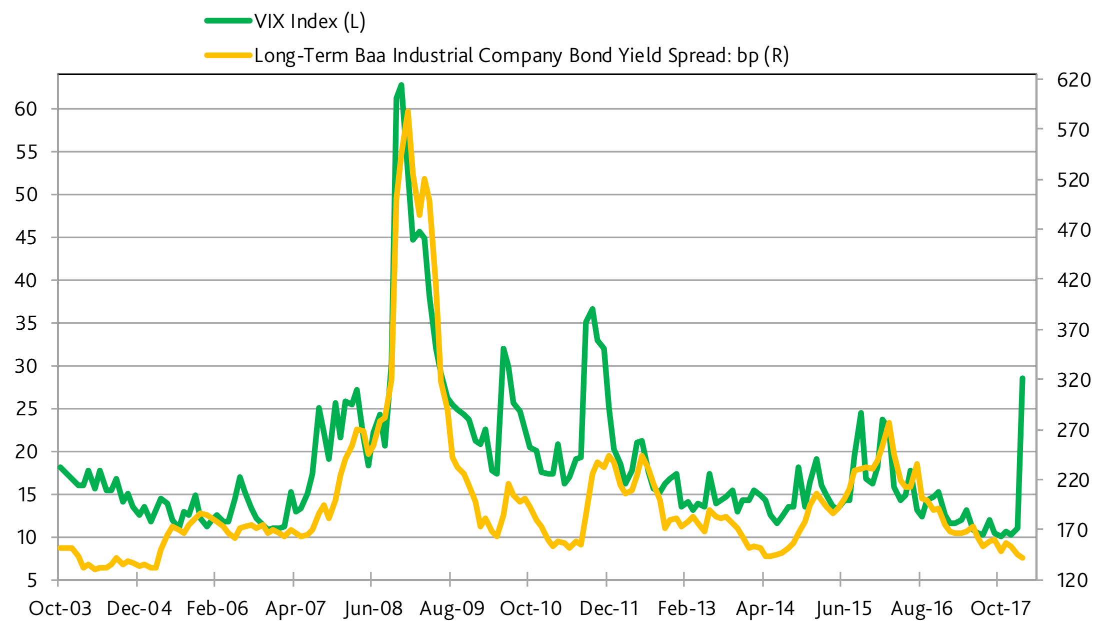
For example, by August 2012, the high-yield spread had narrowed to 590 bp, while the spread had thinned to 737 bp by October 2009.

Baa Spread Remains Very Thin Despite Well-Above-Average VIX Index

In addition, the recent VIX index favors a much wider spread for Baa-grade corporate bonds. The VIX index now favors a 279 bp yield spread for Moody's long-term Baa industrial company bond yield, which was a very wide 137 bp greater than the actual spread of 142 bp.

The latest gap between the predicted and actual Baa spread was second only to the 146 bp of August 2011, or when the predicted Baa spread of 330 bp exceeded the actual 184 bp. The actual long-term Baa industrial company bond spread would eventually peak at December 2011's 244 bp and would still be a relatively wide 216 bp as of August 2012.

Figure 2: Baa Industrial Company Bond Yield Spread Shrugs Off Now Elevated VIX Index *(correlation = 0.85)*



The comparatively unperturbed and still atypically thin corporate bond yield spreads suggest that the latest sell-off of equities is overblown from the perspective of fundamentals. Perhaps the high-yield bond spread correctly senses that Treasury bond yields are not about to remain at levels that suppress interest-sensitive business activity.

However, the failure of Treasury yields to drop sharply in response to deep equity market sell-offs increases the risk of a climb by interest rates that curbs interest-sensitive spending. Thus, the upcoming peak spring selling season for housing may have much to say about where both interest rates and share prices are headed. A subdued pace for home sales might well establish a top for 2018's 10-year Treasury yield.

The 10% drop by the PHLX index of housing-sector share prices since January 26 may be warning of a disappointing pace for home sales. The possible combination of softer home sales and fewer auto sales would favor a less-than-3% peak for the 10-year Treasury yield.

Heavy Supply of Treasuries and Inflation Risks Boost Bond Yields

The U.S. Treasury bond market is now being hit hard by the combination of a surge in the supply of tradable Treasury bonds and the possibility that forthcoming fiscal stimulus amid a comparatively low unemployment rate may give rise to persistently rapid price inflation. More specifically, investor aversion to U.S. Treasury debt stems from (i) the increase in the federal budget deficit stemming from forthcoming tax cuts, (ii) the increase in the supply of tradable Treasury coupon securities stemming from scheduled reductions in Fed holdings of Treasury debt, (iii) a widely anticipated hiking of fed funds' midpoint from a current 1.375% to 2.125% by year's end, and (iv) worry over a possibly extended upswing by consumer price inflation. If PCE price index inflation shows signs of remaining well above 2%, fed funds' midpoint could finish 2018 at 2.375%.

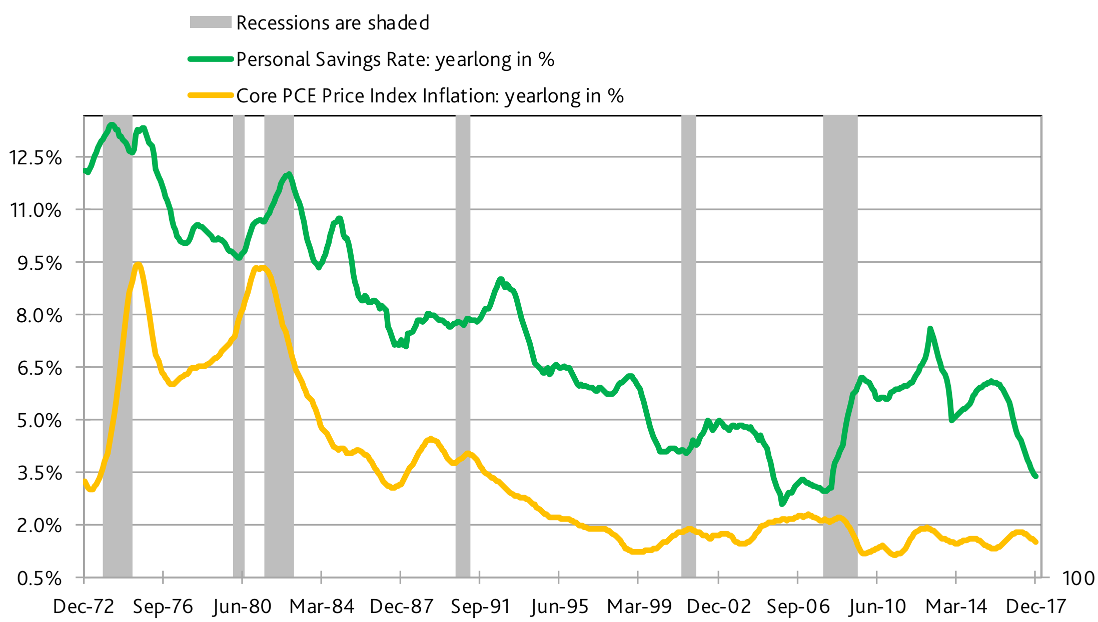
Mostly because of costlier energy products, the annual rate of PCE price index inflation should break above 2% in March. However, it's still problematic as to whether PCE price index inflation's annual rate will reach August-September 2011's current recovery high of 2.9%.

Low Personal Savings Rate Saps Business Pricing Power

In addition, fiscal stimulus may not supply much of a lift to demand-driven consumer price inflation. In view of the relatively low personal savings rates of the past several years, an unexpectedly large share of personal income tax cuts may be saved and not spent. Moreover, the low personal savings rate questions whether consumers are able to afford a broadly distributed and recurring acceleration of consumer prices. The more consumers reduce real spending in response to faster consumer price inflation, the more likely it is that price hikes will be rescinded.

For a sample that begins in 1972, the moving year-long rate of core PCE price inflation reveals a strong correlation of 0.82 with the moving year-long personal savings rate, or the percent of disposable personal income that is saved. When the personal savings rate averaged 11.35% during the 10-years-ended 1982, the accompanying annualized rates of inflation were 7.1% for the PCE price index and 7.7% for the core PCE price index. Far slower were the average annualized rates of growth of 1.7% for the core PCE price index and 1.8% for the PCE price index during the 10-years-ended 2017, or when the personal savings rate averaged a much lower 4.9%.

Figure 3: Core PCE Price Index Inflation's Trend Moves in Direction Taken by the Personal Savings Rate
sources: Bureau of Economic Analysis, Moody's Analytics

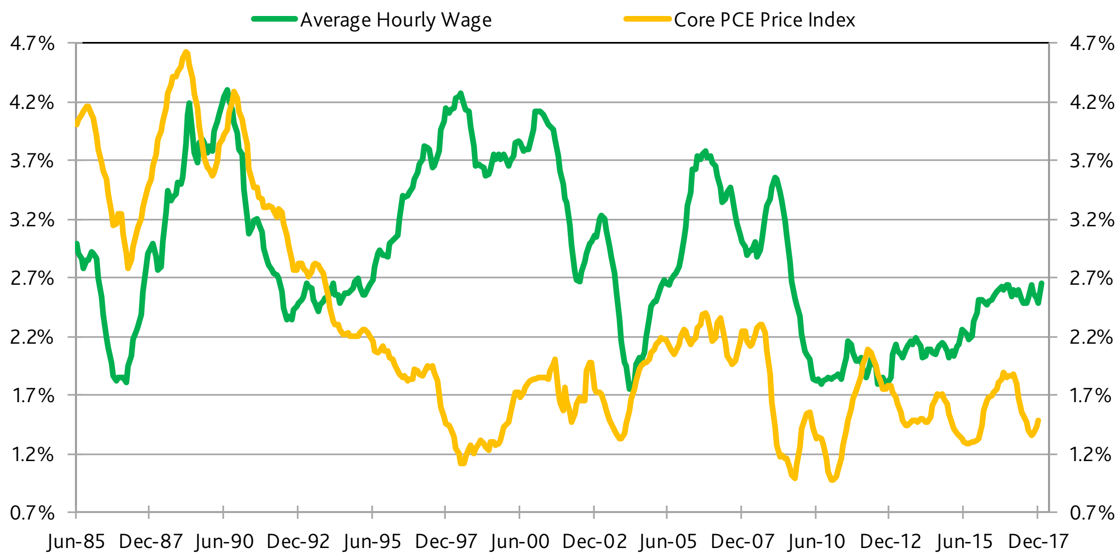


Faster Wage Growth Is Not a Trustworthy Indicator of Core Inflation

The average hourly wage has not been a trustworthy leading indicator of consumer price inflation's underlying pace. For example, despite how the year-over-year growth rate of the average hourly wage accelerated from Q3-1992's 2.3% to Q4-1997's 4.2%, the annual rate of core PCE price index inflation slowed from 2.9% to 1.5%, respectively. The slight 0.21 correlation between core PCE price index inflation and the growth by the average hourly wage implies faster wage growth does not assure a faster rate of core PCE price index inflation.

The record shows that slower wage growth does a better job of signaling a deceleration by core PCE price index inflation compared to faster wage growth's ability to indicate faster core inflation. Since June 1986, the average hourly wage's annual increase accelerated over a 12-month span on 225 occasions. For only 111, or 49%, of those accelerations by the hourly wage did the annual rate of core PCE price index inflation also increase. By contrast, the annual rate of core PCE price index inflation decelerated from 12 months earlier for 103, or 67%, of the months showing a slower annual increase by the average hourly wage.

Figure 4: Core PCE Price Index Inflation Often Slows When the Average Hourly Wage Accelerates *(correlation = 0.21)*
yy % change of moving 3-month averages
source: Moody's Analytics



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

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

Worrying about Wages

The economic calendar was sparse this week, but there were a couple of interesting comments by Federal Reserve officials. New York Fed President William Dudley said that his outlook for the economy hasn't changed because of the recent slide in equity prices. We share a similar view, and a more substantial and persistent tightening in financial markets would be needed to justify us making any changes to our near-term forecast.

There is still the risk that markets have become conditioned to assume the Fed will respond to each decline in the stock market. This moral hazard issue is difficult to break and, sooner or later, the Fed may have to draw a line. The Fed shouldn't act unless the tightening in financial market conditions is altering the economy's trajectory. The recent turbulence in financial markets hasn't altered the economy's course, therefore the Fed would be best served to stay the course.

Investors have talked of a Fed safety net in some form or another at least since the October 1987 stock-market crash prompted the Alan Greenspan-led central bank to lower interest rates. This was famously dubbed the Greenspan-put, which was followed by the Bernanke- and Yellen-put. Naturally there will be debate about a Jerome Powell-put, and although there is likely a threshold for stocks to cross that would justify a Fed response, we are nowhere near that today. Therefore, the Fed can stay on its current track.

Financial markets seem rattled by the acceleration in wage growth, which would imply that inflationary pressures will build and the Fed will need to tighten more aggressively. We don't buy into the message from average hourly earnings in January. Still, even if wage growth accelerates, the implications for growth would be more significant initially than for inflation. The relationship between growth in consumer spending and nominal wage growth is strong this cycle. In other words, if pay increases, workers will spend a large share of it. The implications of stronger wage growth for inflation aren't immediate.

To assess how a sudden increase in wages for private workers would impact growth in the core consumer price index, we examined the relationship between year-over-year growth in the employment cost index for private wages and, using a vector autoregression model, controlled for economic conditions, productivity and energy prices.

The results showed that the boost to core inflation is fairly small and takes several quarters to come to fruition. Therefore, even if wage growth suddenly accelerates, the Fed should not feel any urgency to raise interest rates more often than the three to four expected this year.

The upcoming week is jam packed and the key data will be the consumer price index, retail sales, industrial production and housing starts.

We will release our forecasts on Monday.

	Key indicators	Units	Moody's Analytics	Consensus	Last
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence	index, 4-wk MA			35.0
Tues @ 6:00 a.m.	NFIB Small Business Survey for January	index			104.9
Wed @ 8:30 a.m.	Consumer Price Index for January	% change		0.3	0.1
	Core CPI	% change		0.2	0.2
Wed @ 8:30 a.m.	Retail Sales, advanced for January	% change		0.3	0.4
	Excluding autos	% change		0.5	0.4
Wed @ 10:00 a.m.	Business Inventories for December	% change		0.3	0.4
Thur @ 8:30 a.m.	Jobless Claims for 2/10/18	ths			221.0
Thur @ 8:30 a.m.	NY Empire State Manufacturing Survey for February	index		17.70	17.70
Thur @ 8:30 a.m.	Philadelphia Fed Survey for February	index		22.0	22.2
Thur @ 8:30 a.m.	Producer Price Index for January	% change		0.3	-0.1
	Core PPI	% change		0.2	0.2
Thur @ 9:15 a.m.	Industrial Production for January	% change		0.4	0.9
	Capacity Utilization	%		78.0	77.8
Thur @ 10:00 a.m.	NAHB Housing Market Index for February	index		73	72
Fri @ 8:30 a.m.	Import Prices for January	% change		0.5	0.1
	Excluding fuels				-0.1
Fri @ 8:30 a.m.	New Residental Construction for January	mil, SAAR		1.210	1.192
	Permits	mil, SAAR		1.300	1.302
Fri @ 10:00 a.m.	Michigan sentiment for February, preliminary	index		95.8	95.7

EUROPE

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

Germany finished 2017 on solid footing

The week ahead brings several top-tier releases for both the euro zone and the U.K. On the spotlight will be the release of Germany's preliminary GDP. We expect that the German economy finished 2017 on solid footing, expanding by 0.6% q/q and pushing the yearly rate up to a staggering 3%. The main driver of the strong headline is expected to have been a further increase in manufacturing investment, though chances are that production slowed slightly compared to the third quarter figures. Already-released figures show that factory growth increased by 0.7% q/q at the closing stanza of the year, slowing slightly from a 1.1% gain previously. This shouldn't be seen as a cause of concern, though, as strong growth in the three months to September had created unfavorable base effects, and all leading indicators point to continued strength in the first quarter. Elsewhere, net trade is also expected to have contributed, and that's despite December's weak export figures. The result is impressive given the euro's strength, but this hasn't been only a Germany story. Exports are expected to have remained resilient across most euro zone countries. Consumer spending, by contrast, is a wild card. Retail sales figures disappointed in Germany in December, pushing quarterly growth in retailing to only 0.1% q/q and creating downside risks to overall spending.

Elsewhere, we will get retail sales and CPI data for the U.K. Those have been on the spotlight all through last year, as sterling-led imported inflation has dented consumers' purchasing power and caused real wages to fall for already ten consecutive months. Not much has changed at the start of 2018, so our forecast is that retail sales again disappointed in January. Already-released leading data are pointing toward a mere 0.1% m/m increase in the sales index, which is a rather poor result on the light of December's 1.5% decline. According to the British Retail Chamber, like-for-like sales values increased by only 0.6% y/y in January, the same as in the previous month, which is a rather poor result given that sales fell sharply in January 2016. A sharp decline in nonfood sales was the main culprit in the disappointing results, offsetting an increase in food sales. While general retailers acted quickly and raised prices in response to the pound's depreciation throughout 2017, supermarkets were late to the party, due to high competition, which means that price increases on food products have remained significant at the end of 2017 and into 2018. In our view, then, consumers are spending less on other products to compensate for higher food prices. The CBI Distributive Trades Survey corroborates this story; its reported sales balance declined to +12 in January, from +20 in December, only in line with its 2017 average.

The good news is that we expect most of the pass-through of higher import prices to consumers to be almost over, so inflation is expected to fall back sharply this year. This will provide some respite for consumers. True, we still forecast inflation to come in at 3% in January, the same as in December, again one percentage point above the MPC's target. But that's mostly because of one-off and noncore effects, which should quickly dissipate over the next few months. First, the dip in December's headline was mostly due to a decline in the contribution of airfares—mostly because of tweaks in the weighing methodology—and this will mean-revert in January, boosting transport inflation. Second, tobacco inflation will continue to increase during the first quarter as a response to Novembers' rise in duties, but it should stabilize from April. Third, the recent rise in oil prices will mean that the contribution of energy inflation to the headline will remain high over the first half of the year before gradually falling back from the end of the third quarter. Services inflation—barring transport—and core goods inflation should meanwhile have remained steady. While we think that the former won't budge much this year, the contribution of the latter is expected to fall gradually, helping bring the headline rate closer to target.

We will update our forecasts on Monday.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 9:30 a.m.	U.K.: Consumer Price Index for January	% change yr ago	3.0	3.0
Wed @ 7:10 a.m.	Germany: Consumer Price Index for January	% change yr ago	1.6	1.7
Wed @ 8:05 a.m.	Spain: Retail Sales for January	% change	0.2	-0.6
Wed @ 10:00 a.m.	Euro Zone: Industrial Production for December	% change	-0.1	1.0
Thur @ 8:05 a.m.	Spain: Consumer Price Index for January	% change yr ago	0.5	1.1
Thur @ 10:00 a.m.	Euro Zone: External Trade for December	€ bil	29.0	26.3
Thur @ 2:30 p.m.	Russia: Industrial Production for January	% change yr ago	2.4	-1.5
Fri @ 9:30 a.m.	U.K.: Retail Sales for January	% change yr ago	2.0	1.4

ASIA-PACIFIC

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

Japan data will confirm the economy's stellar run last year

Japan's GDP data will confirm the economy had a stellar run in 2017. December quarter GDP likely rose 0.4% q/q, after a same magnitude rise in the September quarter. Unlike the previous quarter, we believe domestic demand will add to GDP growth in December. Most partial demand indicators suggest that consumption and business investment rose. Exports remain the growth engine of the economy. Improved global demand, a tech cycle upswing, and a cheaper yen likely caused the economy to expand 1.6% for 2017 overall.

Monetary policy meetings in South Korea, Thailand and Indonesia will show that central banks across the region are generally comfortable on the sidelines in the first quarter. The Bank of Korea has adopted a wait-and-see approach given the still-subdued price pressures, after November's 25-basis point increase, the first rate hike since 2011. Inflation is expected to remain muted, suggesting the monetary policy rate hike cycle is likely to be mild. Bank Indonesia indicated in January that it had shifted to a neutral bias, following 200 basis points of easing in the past two years, most recently with 50 basis points of cuts in the third quarter. Central bankers said the main driver for the policy shift was inflation, which is creeping higher through the bank's target range on the back of higher food and oil prices.

Higher food inflation is keeping the Reserve Bank of India on the sidelines. India's CPI inflation likely remained elevated in January at 5% y/y. We expect inflation could accelerate further in early 2018 as commodity and food prices continue to charge. Ultimately the level of rain during the coming monsoon season will determine the path of food inflation, and rainfall was below average in the previous season, driving the currently higher food prices.

Malaysia did exceptionally well in 2017 and fourth quarter GDP data will extend that trend. Household consumption is upbeat at the hand of low interest rates and spillovers from the sustained upswing in the global tech cycle lifting manufacturing and exports. Malaysia's full-year GDP growth is on track to reach an impressive 5.8% in 2017, stronger than the 4.2% pace in 2016.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 11:00 p.m.	India Consumer price index for January	% change yr ago	5.0	5.2
Mon @ 11:20 p.m.	India industrial production for December	% change yr ago	7.3	8.4
Mon @ Unknown	China Monetary aggregates for January	% change yr ago	8.7	8.6
Tues @ Unknown	South Korea Monetary policy for February	%	1.5	1.5
Tues @ 7:00 p.m.	Taiwan GDP for Q4 - second estimate	% change yr ago	3.3	3.1
Wed @ 10:00 a.m.	South Korea Unemployment rate for January	%	3.6	3.6
Wed @ 10:50 a.m.	Japan GDP for Q4 - preliminary estimate	% change	0.4	0.4
Wed @ 3:00 p.m.	Malaysia GDP for Q4	% change yr ago	5.8	6.2
Wed @ 7:30 p.m.	Thailand Monetary policy for February	%	1.5	1.5
Thurs @ Unknown	India Foreign trade for January	US$ bil	15.1	14.9
Thurs @ 10:50 a.m.	Japan Machinery orders for December	% change mo ago	-1.2	5.7
Thurs @ 11:30 a.m.	Australia Unemployment rate for January	%	5.5	5.5
Thurs @ 11:30 a.m.	Singapore Foreign trade for January	% change yr ago	5.4	3.1
Thurs @ 3:00 p.m.	Indonesia Foreign trade for January	US$ mil	320.0	270.0
Thurs @ 5:45 p.m.	India Wholesale price index for January	% change yr ago	4.1	3.6
Thurs @ Unknown	Indonesia Monetary policy for February	%	4.3	4.3

MONDAY, FEBRUARY 12

China – Monetary Aggregates – January

Time: Unknown

Forecast: 8.7%

China's M2 money supply growth likely rose to 8.7% y/y in January from 8.6% in December. Bank lending remains strong, suggesting sustained demand for housing even as the housing market is cooling. Housing markets in virtually all major cities across the country are cooling, although the majority are still showing price gains. Although credit growth increased, the increase was smaller than was the case in 2016 because of slower corporate bond issuance, which could point to softer business confidence and slower investment in 2018. Businesses may also be turning back to bank borrowing, as the central bank has signalled a greater appetite for lending. The different timing of the Lunar New Year will begin playing its usual havoc with January and February data.

India – Consumer Price Index – January

Time: 11:00 p.m. AEDT (12:00 p.m. GMT)

Forecast: 5%

India's CPI inflation likely hit 5% y/y in January, from the 5.2% recorded in December. Food and fuel prices are keeping inflation relatively elevated. An additional lift has come from an increase in rental allowances pushing up housing inflation. We expect inflation could accelerate further in early 2018 as commodity and food prices charge ahead. This will keep the Reserve Bank of India on the sidelines. Ultimately the level of rain during the coming monsoon season will determine the path of food inflation. Rainfall was below average in the previous season, driving the current higher food prices.

India – Industrial Production – December

Time: 11:20 p.m. AEDT (12:20 p.m. GMT)

Forecast 7.3%

Base effects will help lift India's industrial production growth in annual terms for December. We look for production to hit 7.3% y/y, from November's already-strong 8.4%, also because of base effects. In November 2016, demonetisation, the removal of high-value currency from circulation, was introduced. Much of the year-on-year gains in manufacturing reflects the base effects and disruptions that fairly quickly ensued. Mining has improved thanks to rising commodity prices, while government spending to improve India's infrastructure is paying dividends, as evidenced by the uptick in electricity production in 2017.

TUESDAY, FEBRUARY 13

South Korea – Monetary Policy – February
Time: Unknown

Forecast: 1.5%

The Bank of Korea will keep the policy rate at 1.5% in February. Following November's 25-basis point increase, the first rate hike since 2011, the BoK is likely adopting a wait-and-see approach given still-subdued price pressures. Inflation is expected to remain muted, suggesting the monetary policy rate hike cycle is likely to be mild. However, President Moon Jae-in's stimulus measures such as a minimum wage increase this year and efforts to boost employment pose risks of faster inflation.

Taiwan – GDP – 2017Q4
Time: 7:00 p.m. AEDT (8:00 a.m. GMT)

Forecast: 3.3%

The second estimate of Taiwan's fourth quarter GDP growth will be unchanged from the preliminary estimate. GDP growth surprised on the upside, rising 3.3% y/y, up from a 3.1% lift in the prior quarter. For the full year, GDP rose 2.8% in 2017, a little above our expectations of a 2.6% gain. The upswing in global demand has provided Taiwan's economy with a welcome reprieve from the last few years of sluggish expansion. Taiwan's exports rebounded 13.3% y/y in 2017 after contracting in the prior two years. With external conditions likely to remain favourable in 2018, we expect GDP growth to remain relatively firm this year.

WEDNESDAY, FEBRUARY 14

South Korea – Employment – January
Time: 10:00 a.m. AEDT (Tuesday, 11:00 p.m. GMT)

Forecast: 3.6% Unemployed

South Korea's unemployment rate likely stayed at 3.6% in January. Since rising to 4% earlier in 2017, the unemployment rate has improved modestly and hovered around 3.7%. Meanwhile, the youth unemployment rate fell during most of 2017 but ticked up to 9.5% in December, a five-month high. We expect the labour market to improve modestly in 2018 as government efforts to boost the labour market gain traction. Youth unemployment, in particular, should start to ease, at least a little as targeted government measures begin to take effect.

Japan – GDP – 2017Q4
Time: 10:50 a.m. AEDT (Tuesday, 11:50 p.m. GMT)

Forecast: 0.4%

Japan's economy is expected to maintain its upward trajectory. December quarter GDP likely rose 0.4% q/q, after a rise of the same magnitude in the September quarter. However, unlike the previous quarter, we believe domestic demand will add to GDP growth in the fourth quarter. Consumption, which accounts for around 60% of GDP, is expected to rise and add to growth. This will likely give around 0.1 percentage point to GDP growth, while business investment will likely add another 0.1 percentage point. Overall, the Japanese economy had a good quarter; most partial demand indicators suggest that consumption and business investment rose. Exports remain the economy's growth engine and will likely add around 0.2 percentage points to growth in December. Improved global demand, a tech cycle upswing, and a cheaper yen likely caused the economy to expand 1.6% for 2017 overall.

Malaysia – GDP – 2017Q4

Time: 3:00 p.m. AEDT (4:00 a.m. GMT)

Forecast: 5.8%

Malaysian GDP growth likely cooled to 5.8% y/y in the December stanza, following a 6.2% gain in the third quarter, its fastest pace since mid-2014. Malaysia did exceptionally well in 2017 and the fourth quarter will extend that trend. Household consumption is upbeat at the hand of low interest rates and spillovers from the sustained upswing in the global tech cycle lifting manufacturing and exports. Government consumption will make a relatively reasonable contribution to GDP growth in the first quarter of 2018 ahead of the general elections, scheduled to occur before May. Malaysia's full-year GDP growth for 2017 is on track to reach an impressive 5.8%, stronger than the 4.2% pace in 2016.

Thailand – Monetary Policy – February

Time: 7:30 p.m. AEDT (8:30 a.m. GMT)

Forecast: 1.5%

The Bank of Thailand will keep its key policy interest rate at 1.5% at its first meeting for 2018. GDP growth improved noticeably in 2017, largely on the back of the upswing in external demand. Domestic demand, however, remains relatively subdued and is keeping a lid on inflation. Consumer price inflation averaged less than 1% y/y in 2017, below the Bank of Thailand’s 1% to 4% target range. We expect price pressures to remain soft, leaving the central bank with room to keep rates on hold well into 2018.

THURSDAY, FEBRUARY 15

India – Foreign Trade – January

Time: Unknown

Forecast: US$15.1 billion

India's large import bill has begun to widen the trade deficit. The January monthly trade deficit likely widened to US$15.1 billion, after it increased in December to US$14.9 billion. The uptick is largely due to higher oil prices, which are swelling India's import bill substantially. And while export growth has firmed and is rising in the double digits on year-ago basis, it hasn't kept pace with commodity prices that are increasing the other side of the ledger. Strong export demand from India's major trading partners helped exports of major commodities such as engineering goods.

Japan – Machinery Orders – December

Time: 10:50 a.m. AEDT (Wednesday, 11:50 p.m. GMT)

Forecast: -1.2%

Japan's machinery orders likely fell by 1.2% m/m in December, after the impressive 5.7% gain in November and 5% rise in October. Usually machinery orders are volatile, so the expected December fall does not alter our view that the capital expenditure pipeline for the next six to eight months is upbeat. That being said, fixed investment remains uneven, and lower machinery orders in the third quarter means that investment will likely remain uneven in 2018, too. The broad-based gains across the major categories suggest there could be upside potential in 2019 ahead of the Summer Olympics in Tokyo.

Australia – Employment Situation – January

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)

Forecast: 5.5% Unemployed

Australia's seasonally adjusted unemployment rate likely held at 5.5% in January. The labour market is kicking off 2018 on a solid footing. Trend full-time employment rose in December for a 14th straight month and likely continued that into January. Employment growth is hovering around 3.3% y/y, comfortably above its 20-year average of 1.9%. Further labour market tightening is necessary to deliver stronger income growth and pull consumption from its soft position. We expect only modest improvement in income growth over 2018.

Singapore – Foreign Trade – January

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)

Forecast: 5.4%

Singapore’s exports likely improved in January and rose 5.4% y/y, following December's weaker than expected 3.1% y/y. The main driver of the turnaround will be tech exports, expected to improve from their three-month low of 5.3% y/y in December. The sustained upswing in the global tech cycle was a key support to the economy in 2017, driving a generally solid manufacturing and export performance. Although overseas economic conditions are likely to remain favorable in 2018, a high base from a year earlier is likely to inhibit export growth in the near term.

Indonesia – Foreign Trade – January

Time: 3:00 p.m. AEDT (4:00 a.m. GMT)

Forecast: US$320 million

Indonesia's foreign trade balance likely returned to surplus in January with a US$320 million reading, after the US$270 million deficit recorded in December. This was Indonesia's first trade deficit in five months. Export growth slumped in December to a six-month low, partly because of high base effects. The trade surplus is likely to stay relatively small in coming months or even notch further deficits amid President Joko Widodo's big infrastructure development push, keeping capital imports strong. Some lift of the export front will come from higher global oil prices boosting export receipts. The West Texas Intermediate spot price is up around 5% so far this year.

Indonesia – Monetary Policy – February

Time: Unknown

Forecast: 4.25%

Bank Indonesia indicated in January that it had shifted to a neutral bias, following 200 basis points of easing in the past two years, most recently with 50 basis points of cuts in the third quarter. Central bankers said the main driver for the policy shift was inflation, which is creeping higher through the bank's target range on the back of higher food and oil prices. Prices for rice, a staple in the country, have increased 6.1% in recent months. Another driver of the newly adopted neutral stance is major central banks offshore, namely the Federal Reserve continuing with policy normalization over 2018. The external risks from further easing in Indonesia are too high. The rupiah already came under pressure in the third quarter from local easing after being stable previously. The policy rate will likely stay at 4.25%.

India – Wholesale Price Index – January

Time: 5:45 p.m. AEDT (6:45 a.m. GMT)

Forecast: 4.1%

India's wholesale price inflation likely accelerated to 4.1% in January, from 3.6% in December. Food prices will drive inflation higher, while rebounding commodity prices are also contributing. The poor monsoon rains have resulted in lower crops sowed for 2017 than in the previous year. Overall, the concurrent CPI release of inflation suggests that India's inflation pulse is rising. We believe the RBI is unlikely to cut rates further in 2018, with the next move likely to be a rate hike later in 2018. However, this could depend on the monsoon rains in 2018.

FRIDAY, FEBRUARY 16

No major economic indicators are scheduled for release.

The Long View

Corporate bond issuance remains material despite the equity market's elevated volatility.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
February 8, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 98 bp is far under its 122-point mean of the two previous economic recoveries. This spread is more likely to be wider, as opposed to narrower, a year from now.

The recent high-yield bond spread of 353 bp is less than what is inferred from the spread's macroeconomic drivers, the high-yield EDF metric, and the VIX index. The adverse implications for liquidity of possibly significantly higher interest rates merit consideration.

DEFAULTS

After setting its current cycle high at January 2017's 5.8%, the US high-yield default rate has since eased to the 3.3% of December 2017. Moody's Default and Ratings Analytics team expects the default rate will average 2.4% in Q4-2018. A deeper slide to its 1.85% average of the 18-months-ended June 2015 is unlikely for now.

US CORPORATE BOND ISSUANCE

Yearlong 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.

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

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

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

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.

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). For yearlong 2017 have worldwide corporate bond offerings increasing by 4.0% annually (to $2.499 trillion) for IG and advanced by 41.2% for high yield (to $602 billion). The worldwide corporate bond offerings of 2018 are expected to show annual increases of 0.3% for IG and a dip of 0.6% for high yield.

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

US ECONOMIC OUTLOOK

The 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 2.7% for long. A fundamentally excessive climb by Treasury bond yields and a pronounced slowing by expenditures in dynamic emerging market countries are among the biggest threats to the adequacy of economic growth and credit spreads going forward.

EUROPE

By Reka Sulyok and Anna Zabrodzka of Moody's Analytics
February 8, 2018

Germany

Protracted negotiations to form a German government concluded with a final coalition deal between Angela Merkel's Christian Democrats (CDU) and their former coalition partner, the Social Democrats (SPD). The SPD's majority still needs to give a thumbs up to the deal in March to end the political deadlock. We expect SPD to do so since the party would gain some leverage on important issues in finance, foreign affairs and labour.

Even so, SPD is not totally enamored of this coalition. The new deal is just another way to maintain the status quo, and support for the party plunged to a historical low when it governed jointly with the CDU previously. The SPD will be in dire need of a theme that captures the hearts and minds of the electorate in the next cycle. Their cozy relationship with the Ministry of Foreign Affairs may prompt SPD to forge ahead with deeper euro zone integration. That said, Germany may second the French proposal of a multi-speed EU in the EU budget negotiations in May. But that alone is unlikely to earn SPD the electorate's sympathy, since what happens in Brussels is too distant and of too little importance to the public.

Instead, SPD may use its influence to settle problems at home. Public finance may take center stage, since in our view there is scope for the government to increase public spending. The German economy powered into 2018, and the country has been piling up savings in its coffers. So now would be a prime time for SPD to push for a spending spree to broaden the party's weakening base. Early talks laid the groundwork for increasing spending on infrastructure such as high-speed internet and public schools. All considered, the time is right as risks to the fiscal outlook are low: We expect solid GDP growth close to 2% this year. But we've yet to see the new government commit to more fiscal spending, and if history is any guide, the to-be-formed government may be cagier than we'd hope for. The recent stock market roller-coaster ride, and the jump in 10-year yields, may prompt the new German government to be more cautious.

Euro Zone

The euro zone doesn't seem to get tired of surprising markets. According to data released Monday, the area's composite PMI rose again in January, to 58.8 from 58.1 in December, above both the consensus and its initial estimate. The gauge clearly suggests that growth in the area is now within a whisker of the record high reached in June 2006. Across sectors, stronger than expected figures for services—the growth of which reached a 10-year high—offset a modest dip in Markit's manufacturing gauge, though we caution that the rate of expansion in industrial output remained extremely robust and very close to December's all-time high.

Even better is that growth is broad-based across countries, with solid inflows of both domestic and external new business underpinning order books and output growth. What's more, the strong momentum across the area has pushed job growth further up, to a 17-year high at the start of the year, although it wasn't enough to prevent work backlogs from rising again. This suggest that even more upside should lie ahead.

Across major countries, on the spotlight was France. At 59.6, the country's PMI is now reading even higher than that of Germany at 59. But Italy's figures also brought great news, having jumped to a 139-month high of 59, from 56.5 in December. This is consistent with GDP growth in the country accelerating to a strong

0.6%, q/q, from an expected 0.4% q/q expansion in the fourth quarter. Spain's composite gauge also rose at the start of the year, to a six-year high of 56.7, though the story here is that the country is now clearly underperforming its major peers following several quarters of outperformance.

By contrast, the story wasn't so great in the U.K. All three of the country's PMIs—construction, manufacturing and services—fell in January, bringing the weighted-average of the three gauges to its lowest since September 2016 at the start of the year. This is consistent with growth slowing to only 0.3% q/q in the first quarter, from 0.5% at the end of 2017, which is in line with our forecasts. It also chimes in with our view that markets are jumping the gun by expecting that the Bank of England will hike rates as soon as May. We think the central bank still has breathing space, notably as inflation will likely fall back sharply this year, so we don't expect any move before August.

ASIA PACIFIC

By Faraz Syed of Moody's Analytics
February 8, 2018

Japan

Japan finished 2017 on a firm footing and we expect December's GDP to expand 0.3% q/q. Overall, Moody's Analytics expects that GDP likely expanded 1.6% in 2017, inflation reached halfway to the Bank of Japan's 2% target, and the unemployment rate fell to 2.9%. The rosy outlook is set to continue in the first half of 2018. We expect GDP growth will slow to 0.8% this year.

But spending ahead of the planned sales tax hike in 2019, along with spending commencing for the Tokyo Olympic Games in 2020, should see domestic demand add to GDP growth over the coming year. Initially we assumed the recent upswing would end by 2017, but the yen has maintained its relatively low level, range-trading between ¥110/$ to ¥115/$, Moreover, global economic conditions have surprised on the upside, cushioning external demand.

The growth engine

The sustained upswing in manufacturing has undoubtedly been one of the bright spots for the economy, and it is expected to continue in 2018. Purchasing Managers' Indexes point to a steady rise over the last year, and a firmer global economy will boost Japan's manufacturing sector. A reading above 50 indicated net optimism. The manufacturing PMI reached a four-year high in the first month of 2018. Overall, the manufacturing PMI has improved around 10% since its lull in late 2016, while Japan's Tankan business sentiment index hit a decade high in the final quarter of 2017.

And the key driver of the manufacturing resurgence has been the tech boom in 2017. High-tech exports account for around 16% of Japan's total manufacturing exports. Though their share has come down over the past two decades, tech exports are still a sizeable chunk of Japan's export base. Tech demand has shown resilience throughout the year, buoyed by releases of various new smartphone models, but also buttressed by an improving U.S. consumer.

Exports added to GDP growth in 2017, with merchandise exports rising around 12% over the year. We analysed over 250 product categories to examine Japan's export growth. And to little surprise, we found that electronic parts or tech-related products added most to Japan's export boom in 2017. Our analysis also indicated that auto shipments added firmly to overall export growth. The cheaper yen, along with new car model releases with relatively low entry price points and a reputation for quality, makes Japanese cars globally competitive.

It's worth noting that consumers have been more confident in 2017. While consumption has been inconsistent, it has broadly held up despite meager wage gains. This is partly due to strong job gains; the unemployment rate fell to a record low of 2.8%, while the economy added 520,000 net new jobs in 2017. Indicators on consumption such as retail sales and household expenditures are synthesised into an index. The synthetic index indicates that consumption expanded in the final quarter of December, after taking a breather in the prior quarter. While the Japanese consumer hasn't lit up the charts like exports, there could be some upside potential in the first half of 2018, especially as the labour market continues to tighten.

But inflation remains missing

Downside risks persist. Despite Japan's productive year, we forecast inflation to remain below the central bank's 2% target in 2018. Inflation expectations have risen over the past year, but that's largely due to rebounding oil prices. West Texas Intermediate crude oil rose 15% in 2017. Japan's core-inflation, which includes oil prices, rose 0.9% y/y in December. Overall, headline inflation grew 0.5% in 2017.

Our analysis of the CPI basket confirms that inflation rose largely because of fuel and food prices. Energy costs added 0.25 percentage points to headline CPI, while food prices also added around 0.2 percentage points. Underlying inflation was largely unchanged as core categories either grew only miserly or remained in deflation. For example, housing inflation—includes rental costs—detracted from overall CPI inflation. Japan's housing market had a poor year, with housing starts falling. Given housing supply is expected to rise on the back of an ageing population, housing costs will remain negligent. Categories such as housing have a large weight in the overall CPI basket. We expect inflation to decelerate in 2018.

Bank of Japan tightening?

The Bank of Japan has kept all its policy levers unchanged since late 2016 when it introduced its yield-curve control policy. The policy targets are keeping the 10-year Japanese government bond at around 0%. This was introduced to steepen the yield curve, as a flat yield curve hurts financial sector profitability. Since the introduction, the yield curve steepened in early 2017, and it has largely been unchanged since.

In late January 2018, the BoJ announced that it increased its three- to five-year bond purchases to ¥330 billion, higher than the ¥300 billion purchase rate occurring since September. The move was to push 10-year JGB yields closer to the 0% level targeted by the central bank in line with its yield control program. Earlier in the month, the BoJ suggested it will purchase fewer long-term bond yields, thus fewer long-term JGB purchases mean more short-term JGB purchases.

Taking a closer look at the BoJ's balance sheet, we can see that the central bank owns a larger portion of its JGB share in the short-end tenors. Given that financial institutions and large corporates need to hold the long-end JGBs as part of their risk-free capital requirements, we expect the BoJ will continue to focus on purchasing shorter-term JGBs. However, since it already owns a large portion of the short end, the BoJ's monetary policy levers are stretched, and the slowing of asset purchases is inevitable. We expect the BoJ will look to taper sometime later this year. Unofficially, the BoJ is already slowing its asset purchases by not sticking to the JGB purchasing target of monthly annualised ¥80 trillion.

The BoJ is up to its neck in stimulus, but tightening policy now could derail the gains made since quantitative easing began. Given the thin supply of JGBs, especially on the short end, the BoJ will be forced to slow its pace of asset purchases by year's end. However, communication around this will be key, as expectations of a tighter BoJ would see the yen rise. Financial market expectations, measured by a net noncommercial futures contract, suggest more short positions on the yen. This means more investors expect the yen to fall, than rise. A bearish momentum in the domestic currency would offset downside risks associated with slowing asset purchases.

Ratings Round-Up

By Njundu Sanneh

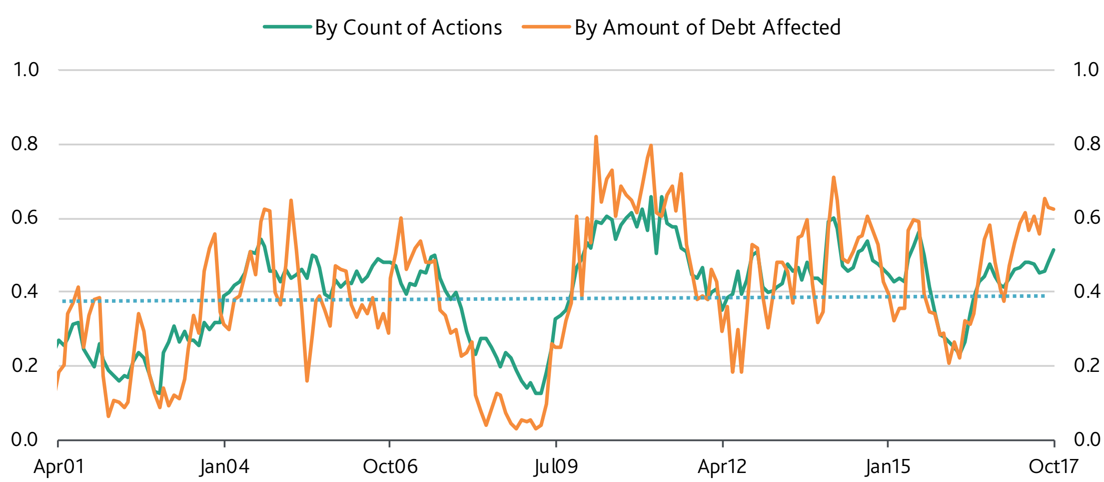
Retail Saves the Day

The weekly rating changes are heavily skewed toward the U.S., which accounts for 12 of 13 total rating changes. The only European rating revision was Danske Bank A/S, a Danish Bank that was downgraded on February 2. The downgrade was a result of correcting a data error used in the model that overestimated the amount of protection provided by the bank's outstanding debt for senior creditors.

The 12 U.S. revisions were evenly split between positive and adverse rating changes. The positive rating changes affected sectors ranging from retail to homebuilding and metals and mining. Among noteworthy upgraded companies were United States Steel Corp., Hovnanain Enterprises, Inc. and Calceus Acquisition, Inc. (Cole Haan). The unlikely upgrade of a retail outfit such as Cole Haan was precipitated by an improvement in its liquidity profile, strong brand recognition and outperformance of the sector based on solid products and strong distribution channels. The downgrade side is headlined by SCANA Corp. and its subsidiary South Carolina Electric & Gas Co., MacAndrews & Forbes Holding's Revlon Group and Cenveo Corp., a unit of Cenveo, Inc. Political and regulatory concerns were noted in the downgrade of SCANA as the South Carolina Legislature reviews the rates charged by the utility following the abandonment of some of its nuclear projects. The possibility that SCANA may have to take considerable rate reductions in the future weighed on the rating downgrade.

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	Old STD Rating	New STD Rating	IG/ SG
2/1/18	TOWN SPORTS INTERNATIONAL HOLDINGS, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR		U	Caa1	B3	SGL-2	SGL-2	SG
2/2/18	CALCEUS ACQUISITION, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa1	B3			SG
2/2/18	CENVEO, INC. - Cenveo Corporation	Industrial	SrSec/LTCFR/PDR	788	D	Caa1	Ca			SG
2/2/18	INTERNATIONAL EQUIPMENT SOLUTIONS, LLC - Paladin Brands Holding, Inc	Industrial	LTCFR/PDR		U	B3	B2			SG
2/2/18	MACANDREWS & FORBES HOLDINGS INC	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	950	D	Caa1	Caa3			SG
2/2/18	NEW RESIDENTIAL INVESTMENT CORP.	Financial	LTIR		D	B1	B2			SG
2/2/18	UNITED STATES STEEL CORPORATION	Industrial	SrUnsec/SrSec/LTCFR/PDR/SGL	2,330	U	Caa1	B2			SG
2/5/18	HOVNANIAN ENTERPRISES, INC.	Industrial	PDR	540	D	Caa1	Ca			SG
2/5/18	HOVNANIAN ENTERPRISES, INC.	Industrial	SrSec/LTCFR/LGD	540	U	B3	B2			SG
2/5/18	SCANA CORPORATION	Utility	SrUnsec/LTIR/SrSec/BCF/CP	5,610	D	Baa3	Ba1	P-3	NP	IG
2/5/18	VIRTUS INVESTMENT PARTNERS, INC.	Financial	SrSec/BCF		D	Ba1	Ba2			SG
2/6/18	CRG HOLDING CORP. - Salient CRGT, Inc.	Industrial	SrSec/BCF		U	B3	B2			SG

Source: Moody's

FIGURE 4
Rating Changes: Corporate & Financial Institutions – Europe

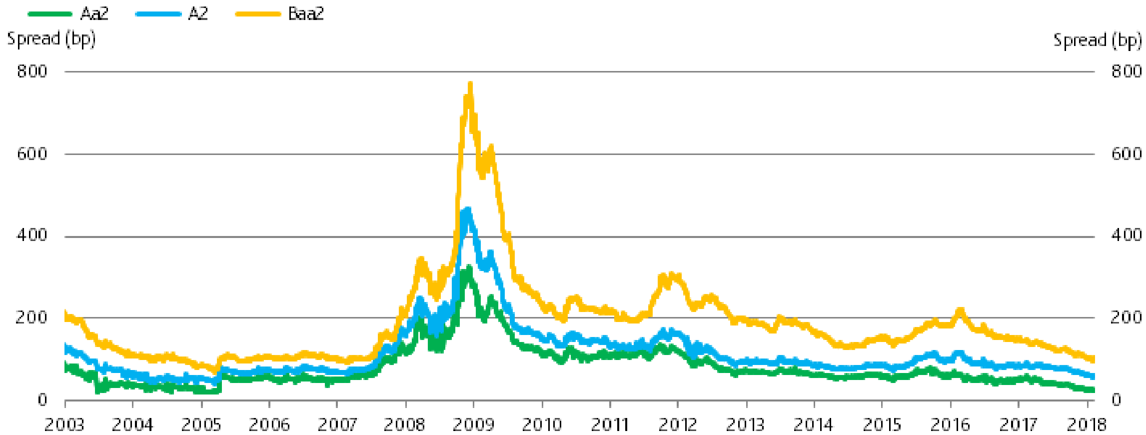
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
2/2/18	DANSKE BANK A/S	Financial	LTD	300	D	Aa3	A1	IG	DENMARK

Source: Moody's

Market Data

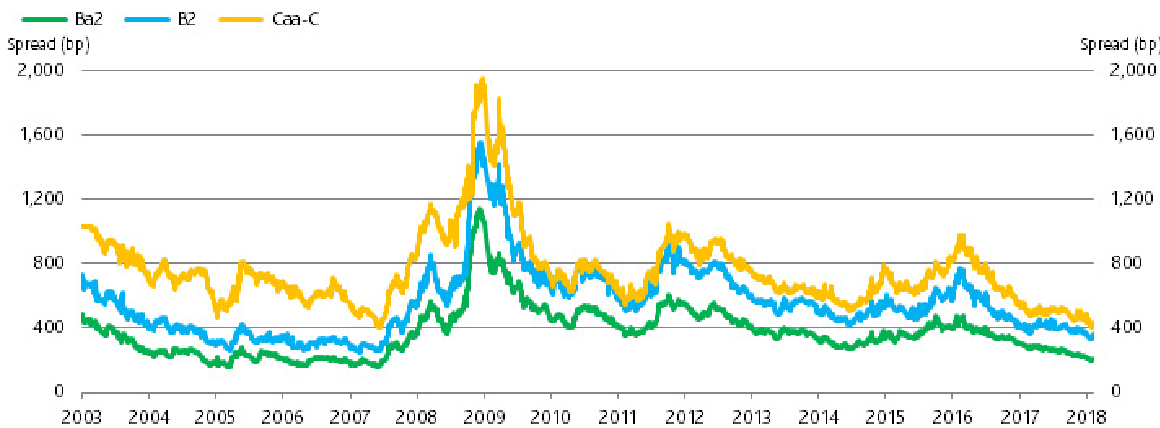
Spreads

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 (January 31, 2018 – February 7, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 7	Jan. 31	Senior Ratings
Colgate-Palmolive Company	Aa2	Aa3	Aa3
PepsiCo, Inc.	Aa3	A1	A1
Abbott Laboratories	A2	A3	Baa3
Simon Property Group, L.P.	Baa2	Baa3	A2
Consolidated Edison Company of New York, Inc.	A3	Baa1	A2
Nissan Motor Acceptance Corporation	Baa2	Baa3	A2
NiSource Finance Corporation	A3	Baa1	Baa2
Penney (J.C.) Corporation, Inc.	Caa3	Ca	B3
Charles Schwab Corporation (The)	A3	Baa1	A2
Welltower Inc.	Baa3	Ba1	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 7	Jan. 31	Senior Ratings
HSBC Finance Corporation	A1	Aa1	Baa1
ConocoPhillips	A2	Aa2	Baa1
Amgen Inc.	A2	Aa3	Baa1
Reynolds American Inc.	A1	Aa2	Baa2
E.I. du Pont de Nemours and Company	A1	Aa2	A3
CSX Corporation	A1	Aa2	Baa1
Halliburton Company	A2	Aa3	Baa1
Ball Corporation	Baa2	A3	Ba1
Exelon Corporation	A2	Aa3	Baa2
Packaging Corporation of America	A2	Aa3	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 7	Jan. 31	Spread Diff
Nine West Holdings, Inc.	C	25,372	24,037	1,335
Sears Roebuck Acceptance Corp.	C	3,271	2,934	337
Sears Holdings Corp.	C	2,909	2,609	300
Windstream Services, LLC	B3	2,326	2,199	127
Weatherford International, LLC (Delaware)	Caa1	540	414	126
Parker Drilling Company	Caa2	841	732	109
Chesapeake Energy Corporation	Caa1	676	608	68
Diamond Offshore Drilling, Inc.	Ba3	255	208	46
Dean Foods Company	B2	318	276	43
iStar Inc.	B1	246	205	42

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 7	Jan. 31	Spread Diff
K. Hovnanian Enterprises, Inc.	Caa3	1,639	1,725	-85
Neiman Marcus Group LTD LLC	Caa3	1,175	1,208	-33
Nordstrom, Inc.	Baa1	289	303	-14
Avon Products, Inc.	B3	754	768	-14
United States Cellular Corporation	Ba1	154	165	-11
Sprint Communications, Inc.	B1	345	355	-10
Genworth Holdings, Inc.	B2	631	641	-10
Talen Energy Supply, LLC	B1	676	683	-7
Commercial Metals Company	Ba2	245	252	-7
Clorox Company (The)	Baa1	54	60	-6

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (January 31, 2018 – February 7, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 7	Jan. 31	Senior Ratings
United Kingdom, Government of	Aaa	Aa1	Aa2
BNP Paribas	Aa1	Aa2	Aa3
Alpha Bank AE	Caa1	Caa2	Caa3
Landesbank Baden-Wuerttemberg	Aa2	Aa3	A1
Bankinter, S.A.	Baa2	Baa3	Baa2
Raiffeisen Bank International AG	A3	Baa1	A3
KBC Group N.V.	Baa3	Ba1	Baa1
Iberdrola International B.V.	A1	A2	Baa1
National Bank of Greece S.A.	Caa1	Caa2	Caa3
Prudential Public Limited Company	A2	A3	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 7	Jan. 31	Senior Ratings
Banco Popular Espanol, S.A.	A1	Aa2	Baa3
Lloyds Bank Plc	A2	A1	Aa3
Bankia, S.A.	Baa2	Baa1	Ba1
Danske Bank A/S	Aa3	Aa2	A1
Banco Santander S.A. (Spain)	Aa3	Aa2	Baa1
Erste Group Bank AG	Aa3	Aa2	A3
SEB	Aa3	Aa2	Aa3
UniCredit Bank Austria AG	A3	A2	Baa1
Deutsche Telekom AG	Aa3	Aa2	Baa1
Statoil ASA	Aa1	Aaa	Aa3

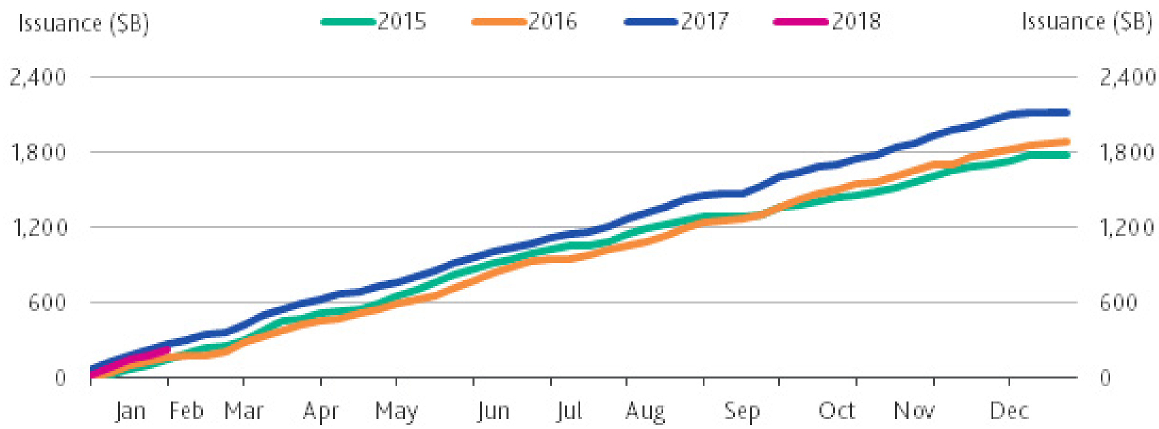
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 7	Jan. 31	Spread Diff
Astaldi S.p.A.	B3	2,012	1,885	127
Galapagos Holding S.A.	Caa3	943	902	41
Matalan Finance plc	Caa1	583	558	25
PizzaExpress Financing 1 plc	Caa1	889	864	25
Ensco plc	B3	380	365	15
Eksportfinans ASA	Baa3	472	458	14
Selecta Group B.V.	Caa2	405	392	13
CMA CGM S.A.	B3	398	386	11
Rexel SA	Ba3	117	106	11
Jaguar Land Rover Automotive Plc	Ba1	151	142	9

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 7	Jan. 31	Spread Diff
Vedanta Resources plc	B2	399	420	-21
Unitymedia GmbH	B3	106	123	-17
Nokia Oyj	Ba1	112	124	-11
UPC Holding B.V.	B2	137	148	-11
Bankinter, S.A.	Baa2	50	60	-9
Sappi Papier Holding GmbH	Ba2	350	358	-8
Finland, Government of	Aa1	50	55	-6
Vue International Bidco p.l.c.	B3	256	261	-6
Premier Foods Finance plc	Caa1	246	252	-6
TDC A/S	Baa3	69	73	-4

Source: Moody's, CMA

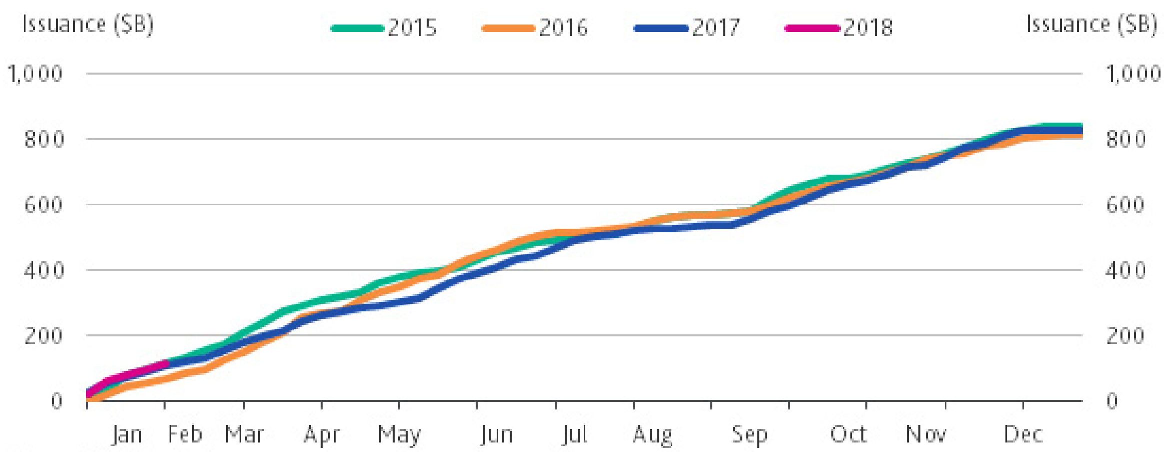
Issuance

Figure 5. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

Figure 6. Market Cumulative Issuance - Corporate & Financial Institutions: Euro Denominated



Source: Moody's / Dealogic

Market Data

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	34.520	6.800	43.411
Year-to-Date	163.652	49.690	226.390

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	15.208	1.086	17.194
Year-to-Date	103.133	8.035	115.473

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

Moody's Capital Markets Research *recent publications*

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

Dangers Lurk Amid 2018's Positive Outlook (Capital Markets Research)

High-Yield Borrowing May Slow Following 2017's Boom (Capital Markets Research)

Sovereign & Supranational: Amid Nearby Sabre Rattling, South Korea's Sovereign Risk Tripled This Year, Recovered Notably in November

2018 Outlooks for Defaults and Profits Imply Ample Liquidity (Capital Markets Research)

Sovereign & Supranational: Middle East Tensions Fuel Saudi Arabia and Lebanon Credit Risk

Fewer Defaults Favor Even Pricier Equities (Capital Markets Research)

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Sovereign & Supranational: China's Market-Based Sovereign Credit Risk Trends Lower

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Spain's Sovereign Credit Risk Receding Post-Referendum

Special Events Supply an Upside Surprise (Capital Markets Research)

Rate Spike Would Tame the Bulls (Capital Markets Research)

Less Fear, More Debt (Capital Markets Research)

Sovereign Risk Report: The Fed and the BoJ (Capital Markets Research)

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