MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Debt-to-Profits Outperforms Debt-to-GDP

THIS REPORT WAS REPUBLISHED APRIL 2, 2018 TO UPDATE ECONOMIC FORECASTS FOR THE WEEK AHEAD.

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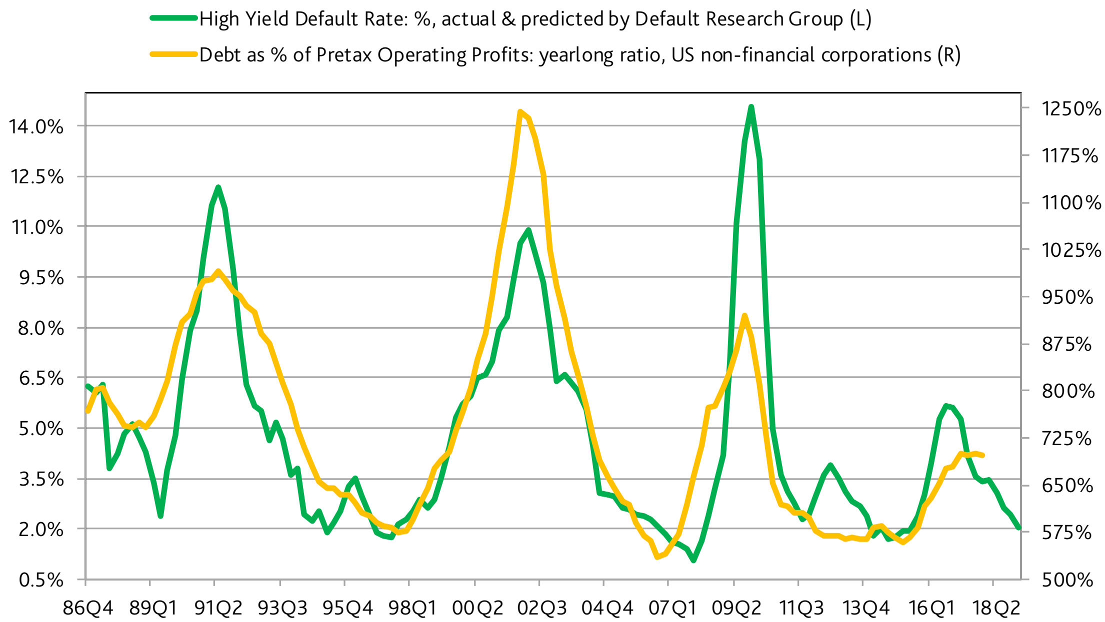
Credit Markets Review and Outlook

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

Debt-to-Profits Outperforms Debt-to-GDP

In 2017's final quarter, the 7.7% yearly advance by nonfinancial-corporate profits from current production outran the accompanying 6.6% increase of nonfinancial-corporate debt. The record shows that if pretax operating profits continue to outpace corporate debt, corporate credit quality will improve. The correlation between the high-yield default rate's quarter-long average and the yearlong ratio of debt-to-operating profits for US nonfinancial corporations is a meaningful 0.82.

Figure 1: Realization of Lower Default Rate May Require Faster Growth by Profits Vis-a-vis Corporate Debt
sources: Moody's, Federal Reserve, Bureau of Economic Analysis



The slower growth of debt relative to profits has lowered the moving yearlong ratio of debt-to-operating profits for US nonfinancial corporations from Q1-2017's current cycle high of 699% to the 697% of Q4-2017. The realization of a projected decline by the US' high-yield default rate from February 2018's 3.6% to Q4-2018's expected 2.4% will probably require the continued faster expansion of operating earnings and internal funds relative to corporate debt. As inferred from early March's Blue Chip consensus forecast of a 6.5% annual increase by total US corporate profits from current production, nonfinancial-corporate debt growth of less than 5% would support forecasts of a lower default rate.

Early 2018's annual contraction by the gross borrowing of US corporations hints of a slower expansion by corporate debt outstanding. Preliminary estimates for 2018's first-quarter suggest year-over-year declines of 14% for the investment-grade bond offerings and 26% for the high-yield bond issuance of US-domiciled companies. By contrast, yearlong 2017 showed annual increases by US corporate bond issuance of 6% for investment-grade and 23% for high-yield. Moreover, following 2017's advance of 37%, newly rated bank loan programs from high-yield issuers sank by an estimated 28% annually in 2018's first quarter.

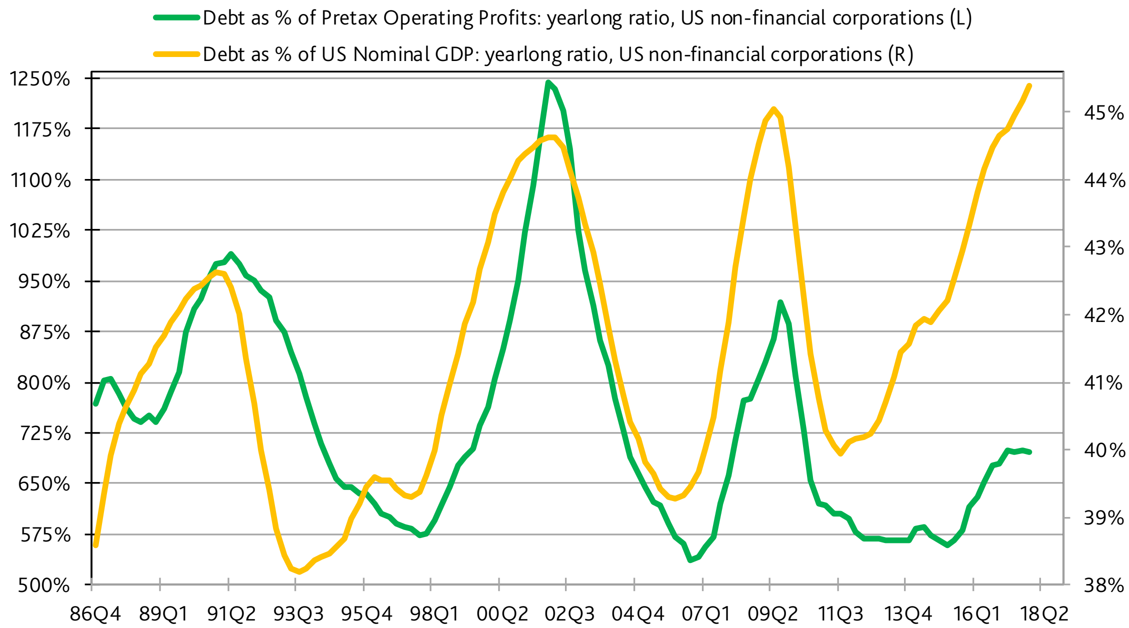
Operating Profits May Be a Better Denominator Than GDP

Quite a fuss has been made over the now record ratio of nonfinancial-corporate debt-to-GDP. Previous record highs for the ratio of corporate debt-to-GDP coincided with ultra-high ratios of debt-to-profits. For example, when the ratio of corporate debt to GDP crested in Q4-1990, Q4-2001, and Q2-1990, the accompanying ratios of corporate debt-to-operating profits were 975%, 1,245%, and 864%, respectively.

Moreover, regardless of Q4-2017's record ratio of corporate debt to GDP, not only is the accompanying 697% ratio of nonfinancial-corporate debt-to-pretax operating profits far under Q4-2001's record high of 1,245%, but it also falls considerably short of the previous cycle highs of 990% for Q2-1991 and 919% for Q3-2009. The fact that the latter is significantly less than its previous cycle highs brings attention to how Q4-2009's highest default rate since the Great Depression (of 14.5%) was more the consequence of an unprecedented collapse by systemic liquidity as opposed to being the offshoot of other drivers of credit quality that are specific to nonfinancial corporations.

When comparing corporate debt to either operating profits or GDP it is important to note that the US' high-yield default rate's 0.82 correlation with the moving yearlong ratio of nonfinancial-corporate debt-to-operating profits is stronger than its 0.52 correlation with the moving yearlong ratio nonfinancial-corporate debt-to-GDP.

Figure 2: Ratio of Corporate Debt to Profits Looks Far Less Alarming than the Ratio of Debt to GDP
sources: Moody's Analytics, BEA, Federal Reserve



Profits Growth Prevents a Lift-Off by the Default Rate

All of this brings attention to how for the current recovery to date, the 6.2% average annual increase by nonfinancial-corporate operating profits has well outpaced nominal GDP's accompanying 3.5% growth rate. The containment of employee compensation facilitated the faster growth of profits vis-a-vis GDP.

Thus far, the current business cycle upturn shows a modest 3.4% average annual increase by the total employee compensation of nonfinancial corporations. Though employee compensation's annual increase quickened from 2016's 2.6% to 2017's 3.3%, the latter still trailed its 4.7% average annual gain of 2013-2015. A tighter labor market and the faster yearly increase by the average hourly wage does not mean that businesses can afford to be more tolerant of faster growth by labor costs. In all likelihood, wage growth will be curbed by the need to maintain margins in a highly competitive business environment.

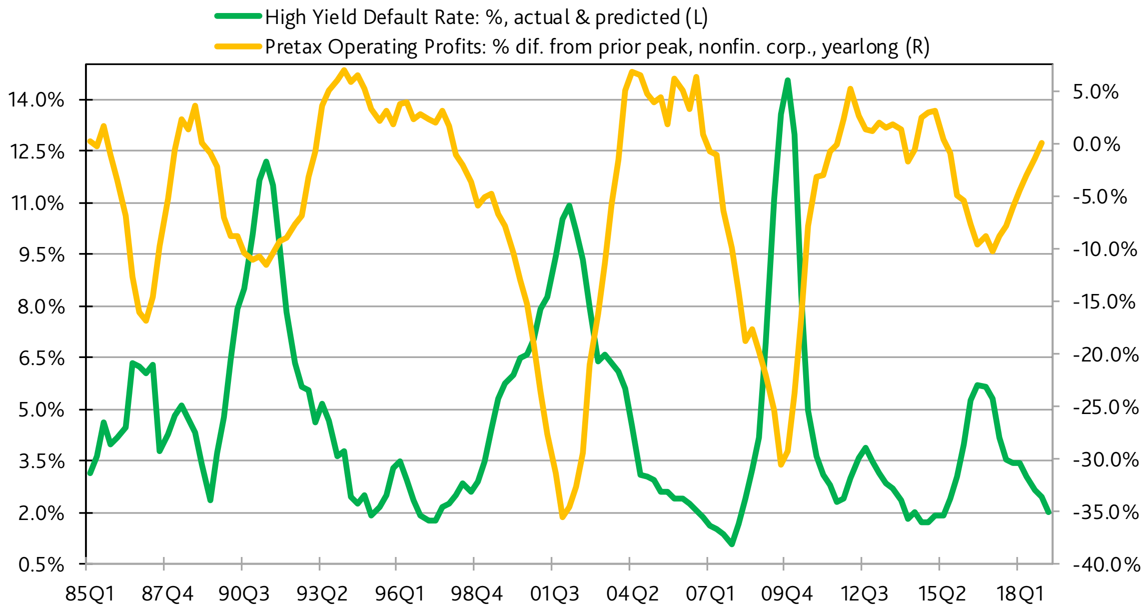
Real GDP matters most to corporate credit whenever economic activity contracts outright. Otherwise, corporate credit may ignore even very rapid rates of economic growth.

Despite real GDP's scintillating 4.4% average annual advance of 1998-2000, the high-yield bond spread widened from its 335 basis points (bp) average of the 12-months-ended June 1998 to 590 bp, on average, during July 1998 through December 2000. The widening by the high-yield spread overlapped a disruptive climb by the default rate from December 1997's 2.1% to December 2000's 7.5%.

What mattered more than breakneck GDP growth to corporate credit was 1998-2000's 6.8% average annualized contraction by the profits from current production of US nonfinancial corporations. The record shows that the default rate tends to move in a direction opposite to that taken by operating profits. Of special note is how each time the moving yearlong average of operating profits drops by 5% or deeper from its earlier maximum, the high-yield default rate eventually climbs up to at least 5%.

Figure 3: Each Deeper Than -5% Drop by Profits from Prior Cycle High Was Joined by a Greater Than 5% High-Yield Default Rate

sources: Moody's Investors Service, National Income Product Accounts



Wide LIBOR Spread Limits Upside for Fed Funds

Three-month LIBOR recently equaled 2.3%, which was 68 bp above fed funds' midpoint of 1.675% and 55 bp above the accompanying three-month Treasury bill rate of 1.75%. The latter gap is commonly referred to as the TED spread.

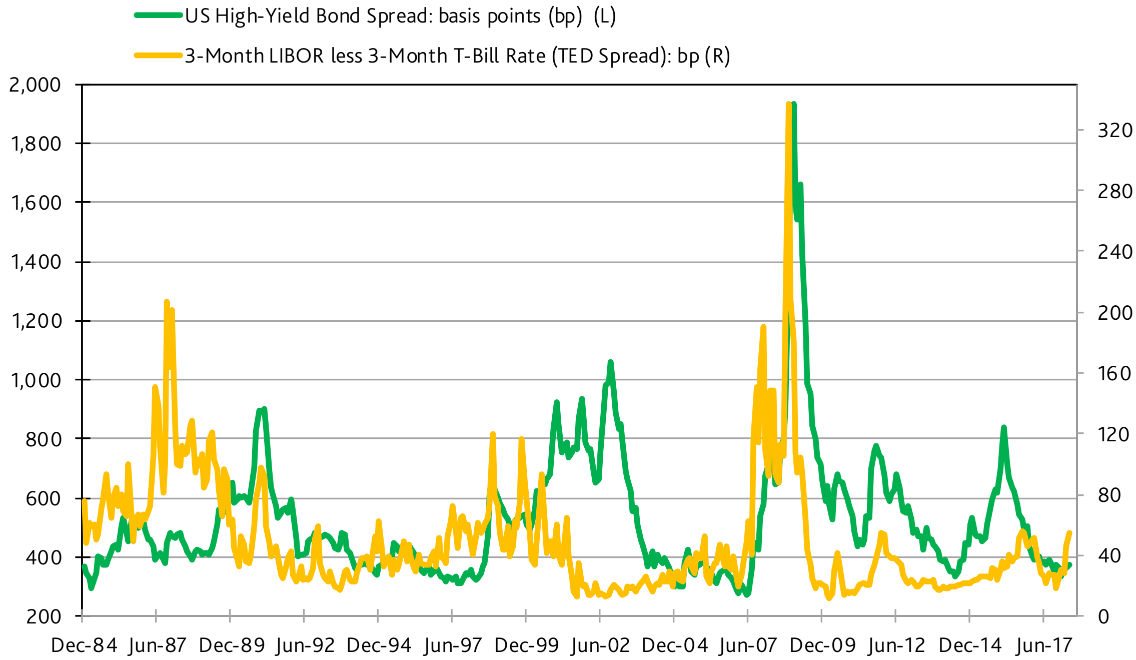
For previous episodes of Fed rate hikes since 1990, the median spread between three-month LIBOR and fed funds is 26 bp, while the TED spread's median equals 39 bp. Thus, from a historical perspective, three-month LIBOR is priced for a 2% midpoint for fed funds. In effect, three-month LIBOR is a couple of rate hikes ahead of the Fed.

Because of its importance as the benchmark floating interest rate for leveraged loans, the latest jump by three-month LIBOR may cool business activity and, thus, effectively substitute for Fed rate hikes. By itself, the now wide spread between three-month LIBOR and fed funds does not rule out the attainment of a 2.125% midpoint for fed funds by year's end, but it does diminish the likelihood of four rate hikes in 2018.

The now above-trend TED spread of 85 bp is extraordinary given the accompanying well-below-average high-yield bond spread of 374 bp. It was in June 2007 that an atypically wide TED spread of 62 bp was last joined by an especially thin high-yield bond spread of 277 bp. June 2007 happened to coincide with a peaking of the corporate credit cycle.

Another noteworthy anomaly occurred in September 1987, or when a thin high-yield bond spread of 381 bp coincided with a wide TED spread of 101 bp. The next month would prove calamitous for equities.

Figure 4: TED Spread (or 3-Month LIBOR lees 3-Month T-Bill Rate) Has Yet to Alarm



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

THE U.S.

By Ryan Sweet and U.S. staff of Moody's Analytics

More noise than signal in the March employment report

The focus for the coming week will be March employment but there will be more noise than signal. Our preliminary forecast is for nonfarm employment to have risen by 155,000 from February to March. Weather will be a temporary drag. The shift from unseasonably warm weather in February to more seasonably normal weather in March (and a snowstorm on the East Coast during the payroll reference week) will depress job growth, likely in construction employment, retail and leisure/hospitality.

We expect the unemployment rate to have slipped from 4.1% to 4%. Trend job growth is more than sufficient to keep up with growth in the working-age population, which should cause the unemployment rate to trend lower. The forecast is for the workweek to have remained unchanged and average hourly earnings for all private workers to have risen 0.2%, leaving it up 2.7% on a year-ago basis.

Employment aside, there will be a number of other data that could alter our estimate of first quarter GDP, which is tracking 2% at an annualized rate. The nominal trade deficit likely widened in February because of the Olympics, which boosts imports of broadcasting and licensing fees. Vehicle sales likely fell in March, possibly hurt by weather.

There will be a number of Fed speeches but we remain comfortable with our forecast for three additional rate hikes this year—at the June, September and December meetings.

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence for 3/30/18	index, 4-wk MA				38.3
Mon @ 10:00 a.m.	Construction Spending for February	% change	0.5	0.4	-0.3 to 0.8	0.0
Mon @ 10:00 a.m.	ISM Manufacturing Index for March	diffusion index	59.5	60.0	58.0 to 63.6	60.8
Tues @ 12:00 a.m.	Vehicle Sales for March	mil, SAAR	16.80	16.90	16.60 to 17.30	17.08
Wed @ 8:15 a.m.	ADP National Employment Report for March	change, ths		205	110 to 235	235
Wed @ 10:00 a.m.	Factory Orders for February	% change	1.8	1.7	0.5 to 2.0	-1.4
Wed @ 10:00 a.m.	ISM Nonmanufacturing Index for March	diffusion index	58.8	59.0	57.5 to 60.0	59.5
Thur @ 8:30 a.m.	Jobless Claims for 3/31/18	ths	232			215
Thur @ 8:30 a.m.	International Trade for February	$ bil	-57.5	-56.5	-57.6 to -55.0	-56.6
Fri @ 8:30 a.m.	Employment Situation for March	change, ths	155	189	115 to 255	313
	Average Workweek	#	34.4	34.5	34.4 to 34.5	34.5
	Unemployment rate	%	4.0	4.0	3.9 to 4.1	4.1
	Average Hourly Earnings	% change	0.2	0.3	0.1 to 0.3	0.1

MONDAY, APRIL 2

Business confidence (week ended March 30; 10:00 a.m. EDT)

Forecast: N/A

Global business sentiment is strong and unwavering and consistent with a global economy that is growing firmly above its potential. That businesses remain so upbeat is particularly impressive given the recent volatility in global financial markets and prospects for higher U.S. tariffs and rising trade tensions between the U.S. and China.

Abstracting from the weekly vagaries of the survey, a strong not quite one-half of responses to the nine questions posed in the survey are positive, while less than one-tenth of the responses are negative. Sentiment is especially strong in the U.S., likely buoyed by the recent corporate tax cuts.

Businesses' biggest concern is around regulatory and legal issues, although this concern is receding with about one-third of respondents saying such issues are their greatest worry. Worries about the cost and availability of labor are on the rise and are now the top concern of nearly one-fourth of respondents.

The four-week moving average in our global business confidence index slipped from 39.1 to 38.3 in the week ended March 23.

ISM manufacturing survey (March; 10:00 a.m. EDT)

Forecast: 59.5

The ISM manufacturing index increased from 59.1 in January to 60.8 in February. Historically, an ISM index doesn't stay north of 60 for long. The details suggest that history will repeat itself, as the improvement in February was mostly attributable to the employment index, which rose from 54.2 to 59.7. Also, the inventory index climbed while new orders and production softened. We expect the ISM manufacturing index to have fallen from 60.8 in February to 59.5 in March.

TUESDAY, APRIL 3

Vehicle sales (March; 4:00 p.m. EDT)

Forecast: 16.8 million annualized units

We look for vehicle sales to have fallen from 17.08 million annualized units in February to 16.8 million in March. This would be the third consecutive monthly decline and fifth in the past six months. March will put the first quarter in the books and sales will likely average 17 million annualized units, compared with the 17.82 million in the fourth quarter, which was boosted by replacement demand following the hurricanes.

For March, we believe weather was a slight negative for vehicle sales. Our past work has shown that vehicle sales are more sensitive to snowstorms than temperatures. Therefore, sales in the Northeast will likely be affected by the several storms that occurred through the month.

WEDNESDAY, APRIL 4

ADP National Employment Report (March; 8:15 a.m. EDT)

Forecast: N/A

The ADP National Employment Report showed private employment rose by 235,000 from January to February. Though we find ADP useful in predicting the Bureau of Labor Statistics estimate, there is an important methodological difference related to active versus paid employees. ADP counts employees as working as long as they're on the payroll, but the BLS counts only those who worked at some point during the reference week. This becomes an issue when there is a weather event, and a major snowstorm hit the East Coast around the March payroll reference week.

THURSDAY, APRIL 5

Jobless claims (week ended March 31; 8:30 a.m. EDT)

Forecast: 232,000

We look for initial claims for unemployment insurance benefits to have risen 17,000 to 232,000 in the week ended March 31. This would reverse the previous week's 12,000 decline, but new filings would remain near their lowest levels since the 1970s. Claims are volatile and the incoming data include Good Friday. This could add some volatility to new filings since the timing of this holiday changes, creating seasonal adjustment issues.

International trade (February; 8:30 a.m. EDT)

Forecast: $57.5

We look for the nominal trade deficit to have widened from $56.6 billion in January to $57.5 billion in February. Already-released data showed that nominal goods exports rose 2.2% and imports gained 1.4%. This led the advance goods deficit to have widened from a revised $75.3 billion in January to $75.4 billion in February. However, we expect the services surplus to have narrowed. In February there was likely an increase in imported royalties and broadcast license fees associated with the Winter Olympics.

FRIDAY, APRIL 6

Employment Situation (March; 8:30 a.m. EDT)

Forecast: 155,000 (nonfarm employment)
Forecast: 4% (unemployment rate)

Our preliminary forecast is for nonfarm employment to have risen by 155,000 from February to March. Weather will be a temporary drag. The shift from unseasonably warm weather in February to more seasonably normal weather in March (and a snowstorm on the East Coast during the payroll reference week) will depress job growth, likely in construction, retail and leisure/hospitality. There could also be some offset for retail because of the early Easter.

Quantifying weather's impact is tricky. In February, unadjusted employment in weather-sensitive industries, including retail, leisure/hospitality and construction, rose by a combined 127,000 in a month when it normally declines. Our back of the envelope estimate puts weather's boost to seasonally adjusted February employment at 30,000 to 50,000. Still, even adjusting for the weather effect, February job growth was strong. More seasonably normal weather in March and a snowstorm during the payroll reference week will likely cause weather to shift from a positive to noticeable drag.

There could have been other factors, including hiring fatigue. Not seasonally adjusted employment rose 1.22 million in February, the most for any February this expansion and above its average of 877,000. Therefore, some hiring may have been pulled forward into February, coming at the expense of March. Weather aside, the labor market data would be encouraging for March. The four-week moving average in initial claims edged lower from the February to March payroll reference weeks. The Conference Board's labor market differential, or the difference between the share of respondents reporting jobs plentiful less the share reporting jobs hard to get, widened from 24 in February to 25 in March, a cyclical high for the expansion.

We expect the unemployment rate to have slipped from 4.1% to 4%. Trend job growth is more than sufficient to keep up with growth in the working age population, which should cause the unemployment rate to trend lower. The forecast is for the workweek to have remained unchanged and average hourly earnings for all private workers to have risen 0.2%, leaving it up 2.7% on a year-ago basis.

We will finalize our employment forecast after the ISM surveys, the Conference Board's Help Wanted Index, and the ADP National Employment Report.

EUROPE

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

Euro zone inflation likely rebounded

The week brings preliminary euro zone CPI figures for March, and we are confident they will show that inflation in the currency area rebounded to 1.3% at the end of the quarter following a one-off dip to 1.1% in February, which in our view marked the low for the year. Stronger food inflation will mainly be behind the acceleration; last year's adverse weather in February led to a fresh produce supply shock, which in turn raised fruit and vegetable prices sharply. Since the same was not repeated this year, unprocessed food prices fell by 0.9% y/y in the middle of the first quarter, down from a 1.1% rise in January and an average 2.5% increase over the past six months. We are penciling in a sharp mean-reversion to 1% in March, which should help push the broad measure of food CPI inflation up to 1.8%, from 1% in February. But that's not all for non-core components; energy inflation is also expected to have accelerated over the month, as the price of a Brent barrel climbed past $70 at the end of the month and is now reading in euro terms around 11% higher than in March 2017, compared with only 2.7% in February. We thus expect energy inflation to pick up to 2.5% in March, from 2.1% in February.

Regarding core inflation, the early timing of Easter this year compared with last year—Easter fell on April 16 in 2017, while this year it fell on April 1—will similarly have boosted the headline. We expect prices of transport services such as airfares rose and boosted services inflation, though this will mean-revert in April. Core goods inflation is also expected to heat up, though, hitting 0.7% from 0.6% in February, on the back of stronger manufactured goods inflation in France, though a correction in clothing inflation in Germany should provide some small offset.

Our theory is that the trend in the euro zone's inflation rate is clearly to the upside, and this will put some pressure on the European Central Bank by summer. First, we expect that the headline will jump past the bank's 2% target by summer, provided that oil prices hold at their current levels of around $69 per Brent barrel. That's because base effects will push energy inflation up significantly over the next six months, and it will likely peak at around 6% in June, up from 2.1% in February. Similarly, the complete fading of last year's supply shock-related effects combined with the recent rebound in commodity prices is set to ensure that food inflation bounces back to around 2% by the second quarter of this year. For core prices, we expect that the tight labour market combined with the ongoing economic momentum will help gradually lift services inflation back to a around 1.8% at the end of the year, from 1.3% in February. Core goods inflation will accelerate but to a lesser extent, as the euro remains strong and continues to read around 15% higher against the dollar in year-ago terms, which in turn depresses import prices.

Summing up, we expect that the core rate will slowly rise and reach 1.5% by year's end, still below the ECB's target at 2%. This gradual increase will allow the ECB to finish its quantitative easing via a gradual taper to zero in the fourth quarter, but risks regarding the currency area's monetary policy are clearly tilted to greater or faster tightening, notably as our forecasts for the core are much higher than that of the ECB's, which sees the rate averaging only 1.1% this year.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 7:30 a.m.	Russia: GDP for Q4	% change yr ago	2.1	1.8
Tues @ 8:00 a.m.	Germany: Retail Sales for February	% change	0.1	-0.7
Wed @ 9:00 a.m.	Italy: Unemployment for February	%	10.8	11.1
Wed @ 10:00 a.m.	Euro Zone: Preliminary Consumer Price Index for March	% change	1.3	1.1
Wed @ 10:00 a.m.	Euro Zone: Unemployment for February	%	8.6	8.6
Thur @ 10:00 a.m.	Euro Zone: Retail Sales for February	% change	0.9	-0.1
Fri @ 8:05 a.m.	Spain: Industrial Production for February	% change	1.5	-2.6
Fri @ 9:00 a.m.	Germany: Industrial Production for February	% change	0.5	0.1
Fri @ 1:40 p.m.	Russia: Consumer Price Index for March	% change	0.2	0.2

MONDAY, APRIL 2

No major indicators are scheduled for release.

TUESDAY, APRIL 3

Russia: GDP (Q4; 7:30 a.m. BST)

Russia's economy is in the midst of a weak recovery following its energy price-driven decline. Although the economy will continue its forward march, the recovery will not accelerate without meaningful structural and political reforms, which are increasingly unlikely given the political climate. Growth in 2018 and 2019 will be only 2% per year. This is slow even by developed world standards given the synchronized global expansion, and is slow for a country still recovering from a sharp contraction. Reported GDP growth in 2017 likely overstated the strength; year-over-year figures benefited from a low 2016 base, and GDP contracted 1.3% at an annualized rate in the third quarter. Fourth quarter GDP was likely 2.1% y/y.

WEDNESDAY, APRIL 4

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

The unemployment rate in Italy likely declined in February to 10.8%. The unemployment rate has been trending downward since the beginning of 2017 as stronger economic growth increases labour demand. However, many of the jobs are concentrated in temporary or part-time work. The inactivity rate is also elevated and youth unemployment remains one of the highest in the EU. Wages in Italy will increase slowly because of the slack in the labour market. Although we are optimistic that labour market conditions will improve this year, Italy's labour force has a long way to go on the road to recovery.

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

Euro zone inflation likely rebounded to 1.3% in March, following its dip to 1.1% in February. A jump in food inflation is expected to have been the main driver of the pickup; last year's adverse weather in February led to a fresh produce supply shock, which in turn raised prices of fruits and vegetables sharply. Since the same was not repeated this year, unprocessed food prices fell by 0.9% y/y in the middle of the first quarter, down from a 1.1% rise in January and an average 2.5% increase over the past six months. We are penciling in a sharp mean-reversion to 1% in March, which should help push the broad measure of food CPI inflation up to 1.8%, from 1% in February. But energy inflation is also expected to have picked up, as oil prices rose sharply over the month and were in euro terms 11.2% higher than in March 2017, while in January they were only 2.7% higher than in the same period of the previous year. If oil prices hold at their current levels of around $69 per Brent barrel, energy inflation will continue to heat up over the next few months and peak in June. Chances are that this will push the inflation headline above the ECB's 2% target.

Regarding core inflation, developments across countries have been volatile, but we expect that the trend is to the upside. Core inflation accelerated to 1.1% in March, from 1% in February, as services inflation is expected to rise on the back of this year's early Easter holidays. But core goods inflation should also climb to 0.7%, from 0.6% in February, on the back of increases in manufactured goods prices in France following several months of declines.

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

The euro zone's unemployment rate likely held steady at 8.6% in February, its lowest reading since the end of 2008, pausing after impressive gains over the previous months. Risks are tilted to the upside, though. Both leading and hard data show that job growth remained solid in February and March after an already-impressive performance at the end of last year, even if the headline confidence numbers dipped somewhat across the area. Although the Markit composite PMI for the euro zone slipped to 57.1 in February, from 58.8 in January, staff levels increased by one of the greatest extents over the past seven years. Employment gains were recorded in all major countries, but particularly in France and Spain. To that we add that backlogs of work continued to rise sharply over the month, indicating that firms will continue to hire over the second quarter to keep up with demand. We expect the downward trend in joblessness to persist in quarters to come, on the back of improving economic conditions around the monetary bloc, labour market reforms, and stronger industrial bases in Spain, Ireland and Portugal.

THURSDAY, APRIL 5

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

Euro zone retail sales likely rose by 0.9% in monthly terms in February, fully reversing the declines in December and January. Most of the preliminary country data for the area's major economies haven't been made available yet, though, with numbers out only for Spain—where sales rose by a mere 0.1% m/m, following a 0.3% increase in January—and for Ireland, where sales fell by 0.2% m/m. But our view is that the standout will be a rebound in German sales following two consecutive downbeat months, as sales there declined by 2% m/m in December and by a further 1.1% in January. All leading data point to a rebound in the middle of the first quarter, with the Markit retail PMI ticking up to 53.8 in February, from 53 in January, while the GfK consumer climate indicator for February rose to 11 from 10.8 in the previous month. France is a wild card. While Eurostat's estimate of retail sales in January pointed to a 0.6% m/m rise in sales, France's national gauge was reporting a 1.9% decline, so either January's Eurostat number will be revised down and we would then pencil in a sharp increase in February, or the national gauge will be revised up. In the case of the latter, we still forecast a gain in February, but it would be more subdued.

FRIDAY, APRIL 6

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

We expect industrial production bounced back by 1.5% m/m in February, with energy production contributing strongly. Weather turned harsher over the month, which helped industrial production rebound. On an underlying basis, a strengthening global appetite is fueling Spanish exports. The near-term outlook looks upbeat. Unfilled new orders expanded by 3.4% in February, building on a 3% uptick in January. As domestic consumption is soft, though, industrial performance remains at the mercy of external demand. If trade tensions intensify, industrial production could hit a soft patch.

Germany: Industrial Production (February; 9:00 a.m. BST)

German industrial production likely recovered somewhat in February, expanding by 0.5% m/m after dropping by 0.1% at the start of the year. In year-ago terms the rate of increase is expected to have ticked down to around 4.5%, from 5.5% in January. Robust demand likely supported production. Although German manufacturing orders fell 3.9% m/m in January, the annual expansion rate accelerated to 8.2% from 7.9% in the previous month. Domestic and foreign orders each fell during the month but continued to rise strongly in year-ago terms. Although the Markit manufacturing PMI retreated further in February to 60.6, from the survey's record high of 63.3 reached in December, it continued to signal that the strong momentum was maintained in the first quarter of the new year. However, the outlook remains clouded as the uncertainty caused by the Brexit negotiations and U.S. imports tariffs could curb the manufacturing sector in coming months.

ASIA-PACIFIC

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

Japan likely took a breather

Japan's impressive run likely took a breather in the March quarter. The closely watched Tankan survey will likely show business sentiment cooled in the opening months of 2018, after rising for five consecutive quarters. The Tankan index of large manufacturers rose to 25 in the December quarter, but we expect it slipped to 23 in March. The first quarter of 2018 has been marred by increased geopolitical tensions and prospects of a trade war as the U.S. administration opts for a protectionist policy.

South Korea's monthly foreign trade indicator is a highlight, not least because South Korea is the first major economy in Asia to release those data. March data should also mark the first clean reading of 2018 after the Lunar New Year seasonality that plagues January and February each year. South Korea's foreign trade surplus likely widened slightly in March. Semiconductor exports should remain a standout and keep rising at a robust pace, though growth is moderating. The upswing in global tech demand lifted South Korea's economy in 2017, and we expect an ongoing boost, albeit in a reduced capacity in 2018.

There's an onslaught of Australian economic releases. The Australian consumer wasn't in a good spot in the second half of 2017, and that has spilled over into 2018. Retail trade surprised on the downside and rose just 0.1% m/m in January on a seasonally adjusted basis, following -0.5% in December. We expect only modest improvement in February with a 0.3% m/m gain, in line with the current trend pace. Australia's monthly trade balance likely remained in surplus in February. Improvement in transport equipment, other mineral fuels, and metal exports should keep offsetting weakness in rural goods.

On the policy front, the Reserve Bank of Australia is sitting pretty. The cash rate will hold steady at 1.5% at the April meeting. The RBA doesn't need to be in a hurry to tighten rates, as core inflation is below the 2% to 3% target range and is expected to only gradually gather momentum over 2018 in line with wages. Interest rate normalization isn't expected until early 2019.

	Key indicators	Units	Moody's Analytics	Last
Mon @ Unknown	South Korea Foreign trade for March	US$ bil	3.5	3.3
Mon @ 9:50 a.m.	Japan Tankan survey for Q1	Index	23	25
Tues @ 9:15 a.m.	South Korea Consumer price index for March	% change yr ago	1.1	1.4
Tues @ 2:30 p.m.	Australia Monetary policy for April	%	1.5	1.5
Wed @ 11:30 a.m.	Australia Retail sales for February	% change	0.3	0.1
Thurs @ 11:30 a.m.	Australia Foreign trade for February	US$ mil	650	1,055
Thurs @ 2:00 p.m.	Malaysia Foreign trade for February	MYR bil	6.7	9.7
Thurs @ 5:30 p.m.	India Monetary policy for April	%	6.0	6.0

MONDAY, APRIL 2

South Korea: Foreign Trade (March; Unknown)

South Korea's foreign trade surplus likely widened slightly to US$3.5 billion in March from February's US$3.3 billion. Exports slowed markedly in February because of a high base and fewer working days. Disruption from Lunar New Year celebrations in major trading partners mid-February also were at play. Despite the slower February, semiconductor exports increased at a robust, though moderated, double-digit pace. The upswing in global tech demand lifted South Korea's economy in 2017 and we expect an ongoing boost, albeit in a reduced capacity.

Japan: Tankan Survey (2018Q1; 9:50 a.m. AEST; Sunday, 11:50 p.m. GMT)

Business sentiment in Japan likely fell in the first quarter of 2018, after rising for five consecutive quarters. The Tankan index of large manufacturers rose to 25 in the December quarter, but we expect it slipped to 23 in March. Much of the increase for manufacturers stems from rising external demand; Japanese firms remain at the forefront of manufacturing technology. With the yen depreciating in 2017, exports have risen by double digits throughout the year, with corporate profits rising to record highs. However, the first quarter of 2018 has been marred by increased geopolitical tensions and prospects of a trade war as the U.S. administration opts for a protectionist policy.

TUESDAY, APRIL 3

South Korea: Consumer Price Index (March; 9:15 a.m. AEST; Monday, 11:15 p.m. GMT)

South Korean consumer prices likely cooled to 1.1% y/y in March, after hitting 1.4% in February. February's acceleration was driven by a rebound in food and beverage prices, which rose to a five-month high of 2.2% y/y. A spike in fresh produce prices is common around the Lunar New Year because of increased demand due to higher prevalence of eating out and family gatherings. Headline inflation remains comfortably below the Bank of Korea's 2% target, hovering around 1.1% to 1.2% y/y. We expect price pressures to stay mild, suggesting the Bank of Korea is likely to keep its key policy rate at 1.5% in the near term.

Australia: Monetary Policy (April; 2:30 p.m. AEST; 4:30 a.m. GMT)

The Reserve Bank of Australia is sitting pretty and will hold the cash rate steady at 1.5% at its April meeting. The RBA doesn't need to be in a hurry to tighten rates, as core inflation is below the 2% to 3% target range and is expected to only gradually gather momentum over 2018 in line with wages. Interest rate normalization isn't expected until early 2019. The central bank has put a question mark over the consumption outlook and so do we. There's no question households are feeling frugal in the midst of soft income growth. We expect income growth to only gradually improve over 2018 amid tightening in the labour market. If the Australian dollar maintains current levels rather than depreciating, interest rate hikes could be delayed further.

WEDNESDAY, APRIL 4

Australia: Retail Sales (February; 11:30 a.m. AEST; 1:30 a.m. GMT)

The Australian consumer wasn't in a good spot in the second half of 2017, and that has spilled over into 2018. Retail trade surprised on the downside and rose just 0.1% m/m in January on a seasonally adjusted basis, following -0.5% in December. We expect only modest improvement in February with a 0.3% m/m gain, in line with the current trend pace. This is below the long-term monthly trend of 0.5% m/m and a return to this pace in the first half of the year is unlikely. We expect income growth to pick up modestly over 2018, and this should translate to improvement in consumption later in the year.

THURSDAY, APRIL 5

Australia: Foreign Trade (February; 11:30 a.m. AEST; 1:30 a.m. GMT)

Australia's monthly trade balance likely remained in surplus in February, at A$650 million, smaller than the A$1.06 billion notched in January. Improvement in transport equipment, other mineral fuels, and metal exports on a seasonally adjusted basis more than offset weakness in rural goods in January. Imports have had a subdued start to the year with consumption, capital and intermediate imports declining over January; large drivers were lower inbound shipments of clothing, civil aircraft, industrial equipment, and parts for transport equipment. U.S. protectionist trade policy is a downside risk to the upbeat export outlook, not least because of its adverse impact on commodity prices.

Malaysia: Foreign Trade (February; 2:00 p.m. AEST; 4:00 a.m. GMT)

Malaysia's monthly trade surplus likely narrowed to MYR6.7 billion in February, from the MYR9.7 billion recorded in January. Exports have enjoyed a good start to the year, rising by 18.1% y/y in January, from the 4.9% gain in December. Replicating the trend through 2017, electrical and electronics exports were the biggest growth driver, a sign of strength in global tech demand. Palm oil shipments also did well thanks to the suspension of export duties on crude palm oil, which lifted volumes. Buoyancy is expected in this category through the first quarter, and increased supply may keep downward pressure on unit values. Annual export growth will, however, likely return to single-digit expansion as a result of Lunar New Year celebrations in mid-February, which disrupted production and shipments.

India: Monetary Policy (April; 5:30 p.m. AEST; 7:30 a.m. GMT)

India's monetary policy committee will likely become more hawkish at the March monetary policy meeting. However, we expect the repo rate to remain at 6%. Inflation has inched higher in recent months, while growth has also picked up. Food prices are adding the most to headline inflation, while a resurgence in commodity prices has added to fuel costs. Despite this, we think the central bank is unlikely to raise interest rates. A more likely scenario would be that the Reserve Bank of India waits until the monsoon season in 2018; if rains are below average again, the central bank could raise rates in the second half of the year.

FRIDAY, APRIL 6

No major economic indicators are scheduled for release.

The Long View

The return of a less than 2.8% 10-year Treasury yield could spark early April's corporate bond issuance.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
March 29, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 116 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 374 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 U.S. high-yield default rate has since eased to the 3.6% of February 2018. Moody's Default and Ratings Analytics team expects the default rate will average 2.1% during the three months ended February 2019. 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 projected annual percent changes for 2018's worldwide corporate bond offerings are +2.0% for IG and -3.3% 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 2.8% 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 Thomas Nichols of Moody's Analytics
March 29, 2018

RUSSIA

Russia's economy is in the midst of a weak recovery following its energy price-driven decline. While the economy will continue its upward march, the recovery will not accelerate without meaningful structural and political reforms, which are increasingly unlikely given the political climate.

Growth in 2018 and 2019 will be only 2% per year. This is slow even by developed world standards given the current synchronized global expansion, and is very slow for a country still recovering from a sharp contraction. Reported GDP growth in 2017 likely overstated strength; year-over-year figures benefited from a low 2016 base, and GDP contracted 1.3% at an annualized rate in the third quarter.

Energy drives investment growth

Two key pillars of the Russia recovery—business investment and household consumption—will begin to weaken. Investment closely mirrors the energy industry, and rising oil prices are behind the growth in fixed investment.

Russia voluntarily cut oil production by 300,000 barrels per day as part of the joint OPEC and non-OPEC deal to reduce global oil supply, which extends through the end of 2018. In 2017, this deal was a major lifeline for Russia. Although production volumes fell, price gains pushed up overall oil revenues. This encouraged rising investment in productivity and energy infrastructure. Construction began on many pipelines. Two major pipelines remain under construction; the TurkStream will connect Russia to Turkey under the Black Sea, and the Nord Stream 2 will flow to Germany under the Baltic Sea.

However, investment projects in the energy industry will begin to dry up. After their stellar 2017, oil prices have reached a tenuous equilibrium and will stall for most of 2018. Global demand growth is expected to slow from 2017, and increasing output from OPEC members and the U.S. will fulfill new demand.

Nimble U.S. shale producers can bring new barrels to market rapidly at the current price point, and many OPEC members have spare capacity that they can quickly bring on line. Without Western technology aiding in Arctic extraction, Russia will miss out on capturing new demand.

A sustainable pace

Despite the slowdown, investment will not fall, but simply settle at a sustainable pace. Some infrastructure projects, such as the pipelines, are already in the works, with more spending imminent. The government could also help offset some problems. Public infrastructure projects will be the most surefire route toward GDP growth in the short term.

Falling interest rates will also help prevent investment from falling outright. With inflation below the target rate of 4% per year, the Central Bank of Russia is lowering interest rates. In 2017, the central bank dropped interest rates a total of six times, and has already lowered rates twice in 2018. The key policy rate sits at 7.25%, its lowest rate since early 2014.

Lower borrowing costs will help businesses keep investment up, and help maintain consumer spending power, as well. The lower rates, along with weak headline inflation, should keep consumption moving up. However, growth is expected to slow. Consumers have already softened somewhat in the new year; retail trade decelerated meaningfully to 1.8% year over year in February.

The slowdown comes due to weak income growth, and most strength in 2017 was fueled by debt. Loans to households rose 13% in 2017, with unsecured credit card debt propelling domestic consumption. This is an unhealthy platform for growth with incomes stuck in the mud. As a result, Russian households will increase cautionary saving. Consumption and retail will both slow, averaging below 2% year-over-year throughout most of 2018.

The quick rise in household debt also increases risk to the forecast. While the baseline expectation is slower but reasonable growth, higher debt combined with weak income growth raises the specter of an all-out retrenchment in consumption.

Geopolitical risks and reforms

Geopolitical concerns are the darkest cloud over the Russian economy. Western sanctions over the invasion of Ukraine are hamstringing the energy and banking industries. Without Western investment in arctic oil fields, Russian oil production will not be able to rise, even if Russia backs out of the OPEC output cut at the end of this year. Russian banks also cannot issue debt on foreign exchanges. This increases systemic risk, since both creditors and lenders are Russian.

Looking beyond the sanctions, the Russian economy is in deep need of reform. Growth is linked too closely to oil revenues. This model is no longer sustainable with U.S. shale producers drilling aggressively and keeping a ceiling on prices. Without policy efforts to diversify the economy, it will remain on shaky ground. Recent price stability has served to simply mask the underlying problem: Another oil slump would cause all aspects of Russia's economy to crater again.

Moreover, policy reform appears ever less likely. Vladimir Putin secured his fourth presidential term this month. Experience shows that Putin is not keen on modernizing reform. Although Putin indicated some support for diversification on the campaign trail, he has continually tightened state control on the economy and maintained an antagonistic foreign policy at the expense of deteriorating foreign relations and costly economic sanctions. Winning 76% of the vote, this agenda appears to have the popular mandate.

ASIA PACIFIC

By Katrina Ell of Moody's Analytics
March 29, 2018

CHINA

China's 2018 National People's Congress concluded on 20 March, after running since 5 March. Nearly 3,000 delegates from across China gathered to largely rubber-stamp the Communist Party's agenda. The Congress offered important insights into policymaking direction in the near term. We delved beneath the headlines to find the more interesting and useful insights.

Quality over quantity

The GDP growth target for this year was announced as being "around 6.5%," unchanged from 2017. One important difference was that the aspiration to achieve a faster growth rate if possible was left out, after being included in 2017. This goes to the heart of China's well-documented push to achieve quality over quantity when it comes to economic growth. Priorities for this year include improving air quality, expanding environmentally friendly industries such as electric cars, and reducing income inequality. To this end, the premier announced a 19% y/y hike in spending on anti-pollution initiatives for this year.

The GDP target is much lower than previous years when the minimum level the government targeted was 8%. Quality growth is about recognising that prosperity will be achieved without the pollution that has taken a toll on the quality of air, water and life. This recognizes that China is no longer amongst the cheapest globally to do business. Land, energy and labour prices are all rising. To compensate for higher costs, the quality of outcomes from doing business, especially regarding manufacturing, needs to improve.

Higher-quality growth is also about moving up the value chain. In particular, greater innovation can yield higher productivity and income growth, helping China transition to a higher-income economy.

Important forecasts were released just prior to the Congress. The budget deficit target was lowered to 2.6% of GDP in 2018, from 3% in 2017. This comes in below expectations for a reduction to 2.9% and suggests a fiscal drag this year. Local government borrowing has already slowed and monetary policy isn't expected to pick up the slack, with the official forecast for M2 growth remaining steady at 8.2%.

The Moody's Analytics GDP forecast is unchanged at 6.5% for 2018, following 6.9% in 2017. But there is added downside risk given China's reduced growth ambition alongside lower fiscal and monetary support. The increasing threat from protectionist U.S. trade policy alongside Chinese retaliation brings another important downside risk.

Financial risk

Reducing financial risk is one of the Communist Party's principal objectives for 2018, and so far significant changes have occurred. The systemic importance of China's financial system should not be understated. The International Monetary Fund estimates that China's financial system represented almost 470% of GDP in 2016, after growing rapidly in size and complexity over the past decade. In 2011 the financial system represented around 260% of GDP.

China intends to keep the macro leverage ratio basically stable in 2018. It appears Beijing prefers slowing debt growth rather than cutting the absolute level, suggesting that the elevated total debt-to-GDP ratio of around 260% will barely budge this year.

China's total debt has been steadily rising for the past decade. History tells us that when economies take on a large pile of debt in a short timeframe they are more prone to a hard landing. In January, an IMF study identified 43 credit booms where the credit-to-GDP ratio increased by more than 30 percentage points in five years. Of those examined, 38 ended with a marked growth slowdown or financial crisis. China's debt-to-GDP ratio has increased by 54 percentage points in the past five years.

Sovereign debt is not the problem, since high debt sits mainly on corporate balance sheets. According to the Bank of International Settlements, corporate debt was 163% of GDP in mid-2017. In other words, banks are the main drivers and that is why improved financial regulation is critical. More worrying, since 2008, the number of firms in a questionable financial position has increased.

Financial regulation in the spotlight

The March Congress revealed that the People's Bank of China will be handed greater financial regulatory powers, including all rule-making responsibilities. Meanwhile, the regulatory bodies responsible for banking and insurance will be merged. Combining the China Banking Regulatory Commission and the China Insurance Regulatory Commission marks the biggest industry shuffle since 2003. These regulatory bodies together oversee US$43 trillion in financial assets. The merger will address regulatory arbitrage, unclear responsibilities and cross-regulation.

Speculation that China was to overhaul the financial system has been around since the 2015 stock market crash. During that crash, partly blamed on a lack of inter-regulatory agency management, around 30% of the value of A-shares on the Shanghai stock market was eroded in a month.

In the past year Beijing has cracked down on leverage and risky market practices via a number of new rules. This has been partly to address companies' increasingly risky practices such as banks and insurers offering complex hybrid products and more opaque investment products. Casualties have been significant, falling most heavily on the smaller banks, which have been enduring higher borrowing costs. Larger banks have been able to absorb the higher costs via their extensive retail deposits for funding.

Regulation is also becoming more sophisticated. The PBoC will use a Macro Prudential Assessment framework to better gauge the health and risks in the entire financial system. Taking a more holistic approach to risk management occurred globally in the aftermath of the 2009 financial crisis when post-mortems revealed a poor understanding of systemic risk, and significant strides have been made internationally to improve overall industry health.

Although improved regulation is a positive step, the recent changes reflect power being further centralized at the top. It is unclear how independent the PBoC is from President and Communist Party leader Xi Jinping, and the PBoC has been given important additional regulatory powers. Centralisation of power opens the door to those at the helm steering toward their own agenda without a broader view of the best way forward. It can also remove important checks and balances.

An underlying problem is that Chinese financial institutions are well-versed in circumventing central government reforms. So it remains to be seen how effective Beijing's financial reforms will be. There is comfort in anecdotal evidence that the banking regulator is cleaning up the financial system more aggressively than ever before.

Abolishing term limits

The Congress approved the proposal to amend the constitution removing the provision that the president and vice president will serve no more than two consecutive terms, paving the way for Xi to stay at the helm indefinitely. Prior to the change he was due to step down in 2023. An amendment to write Xi's thoughts on socialism with Chinese elements into the constitution supposedly elevates him to the same status as China's founder Mao Zedong. Removing term limits was unpopular in China out of concern that Xi does not purely have the interests of Chinese society in mind and because of the longer-term implications of having an indefinite leader.

Anticorruption push

Anticorruption efforts have ramped up. Yang Xiaodu was elected at the Congress to the newly formed anticorruption agency, the National Supervisory Commission. This combines the Ministry of Supervision and the National Bureau of Corruption Prevention and has been part of a broader government campaign to streamline government organisations to prevent overlap and inefficiencies. Yang has stated that the commission's main mission will be to address wrongdoing by officials before it snowballs into more serious misdeeds.

The new anti-graft body has been elevated to the same level as the Supreme Court and the top prosecutor's office. In the past, the anti-corruption movement has faced hurdles for its lack of purview over some agencies.

The rise of Liu He

A suite of new leaders was revealed at China's March Congress. China's leaders tend to be closely scrutinized since their personality and skill set offer important clues on the direction of the world's second largest economy.

Among the most significant appointments was Liu He, named one of China's four vice premiers in charge of economic and financial concerns. Liu is Xi's top economic adviser. It is believed that Liu has been the primary force behind China's shift away from debt-fueled investment to drive growth and toward consumption. Liu has been rising through the ranks of the Communist Party and in October became one of the 25 members of China's Politburo, the government's second most powerful body.

Part of Liu's responsibility will be to improve supervision and coordination between the newly amalgamated financial regulator and the central bank. The appointment coincides with the People's Bank of China being handed greater oversight of the financial system, including law-making responsibilities.

Liu rose to international prominence at the World Economic Forum in Davos late in January. During his speech, Liu reiterated Xi's sentiment from last year's annual forum that China stood firm against protectionism. Liu also vowed that China would introduce economic reforms this year that "exceed the expectations of the international community," coinciding with its 40th anniversary of opening the economy. Liu singled out opening financial, manufacturing and some service sectors, alongside improving intellectual property rights and increasing imports, which includes lowering tariffs on imported autos.

Liu is a Harvard-educated technocrat, and his actions so far suggest he favours finding a balance between opening the economy to market forces and maintaining the Communist Party's rule on the economy—in other words, market liberalization the Chinese way. We caution against expecting a Western-style form of liberalisation. Liu is a close ally of Xi's and is seen as a pair of steady hands to realise Xi's vision that China will feature more largely on the international stage, all while the Communist Party exerts greater control over operations.

Liu's appointment demonstrates Xi's commitment to address financial risk. Liu was widely assumed to be the anonymous "authoritative person" who gave an interview to the People's Daily in 2016 accusing unnamed officials of trying to spend their way out of economic doldrums, rather than shutting down "zombie enterprises"—often state-owned enterprises operating with significant overcapacity and saddled with debt. Chinese industrial firms are estimated to have had an average overcapacity of 13% in 2015. Cement and steel fared worse, with estimates suggesting around 30% overcapacity.

What about economic reform?

Xi isn't known as an economic reformist; to date his reforms have been more political. Since Xi entered office in 2012, the Communist Party has increased its control over state-owned and private enterprises. Xi has previously emphasized the importance of making state-owned enterprises stronger and bigger as well as more efficient. We are skeptical whether these three objectives are complementary.

According to the Nikkei Asian Review, at least 288 of the 3,300 firms listed on the Shanghai and Shenzhen stock exchanges at end of July 2017 had changed their corporate charters to allow the Communist Party greater influence in management, disclosure forms show. This is up from just over 40 firms in 2016 and the fewer than 10 firms amending each year from 2010 to 2015. It's unusual for publicly listed firms to blatantly allow the Communist Party a central role in decision-making and to formalize that in charters. Party influence can undermine company boards rather than create an environment to foster greater private sector investment.

Ratings Round-Up

By Kathryn Asher and Michael Ferlez

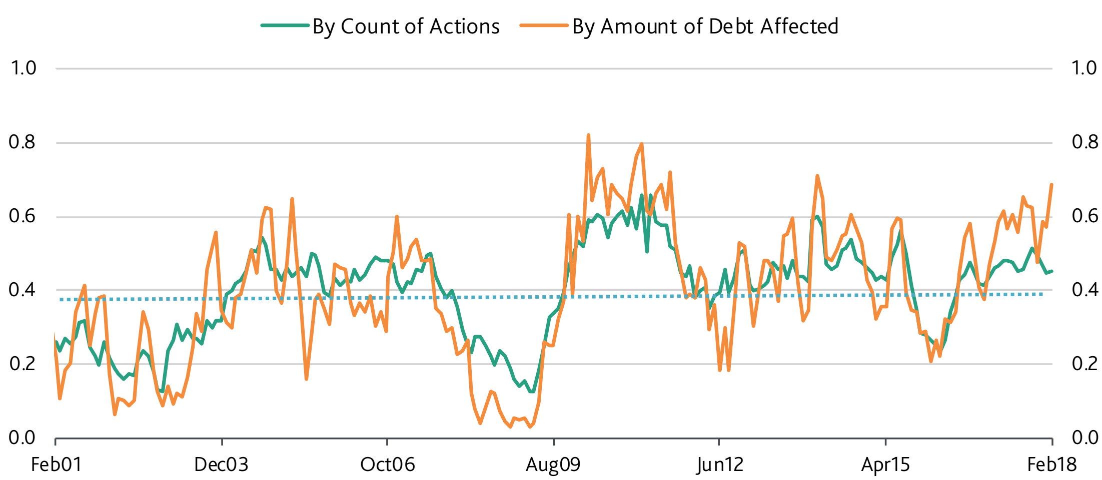
Industrial Sector Dominates U.S. Activity

The industrial sector dominated U.S. activity—accounting for all of the rating changes—though the direction of rating changes was mixed. The ratio of positive rating changes to total rating changes in the U.S. was 50%, an improvement from 44% in the previous week. The notable downgrades in the U.S. were Tesla Inc. and Remington Outdoor Company Inc. Remington Outdoor Company Inc. was downgraded after filing for Chapter 11 bankruptcy on March 25. On the other hand, Tesla's downgrade was reflective of a significant shortfall in the production rate of the company's Model 3 electric vehicle and liquidity pressures due to its large negative free cash flow and pending maturities of convertible bonds. On the upgrade side was Intuit Inc. The software maker's upgrade was driven by the favorable outlook for its two core products: TurboTax and QuickBooks.

The story in Europe was a bit brighter, with the ratio of positive rating changes to total rating changes at a solid 77%, compared with 24% in the previous week. Eleven of the 18 upgrades in Europe were in the financial sector. The upgrade of Belarus on March 16 helped improve the ratings mix in the past week. The upgrade of the sovereign debt rating, as well as the country ceiling rating, was the result of improving economic conditions following a two-year energy-driven recession. Belarus' improving liquidity position and strengthening operating environment led to the rating upgrades of four of the nation's banks. There was one notable downgrade. Netherlands-based Rabobank was downgraded as the bank struggles to control costs and boost profitability.

FIGURE 1

Rating Changes - US Corporate & Financial Institutions: Favorable as % of Total Actions



* Trailing 3-month average

Source: Moody's

Ratings Round-Up

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
3/21/18	EXTERRAN CORPORATION -EXTERRAN ENERGY SOLUTIONS, L.P.	Industrial	SrUnsec/LTCFR/PDR	375	U	B3	B1	SG
3/26/18	CHARLES RIVER LABORATORIES INTERNATIONAL, INC.	Industrial	SrSec/BCF		U	Ba2	Ba1	SG
3/26/18	FGI HOLDING COMPANY, INC.-REMINGTON OUTDOOR COMPANY, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa3	Ca	SG
3/27/18	MASCO CORPORATION	Industrial	SrUnsec	3,075	U	Ba1	Baa3	SG
3/27/18	INTUIT INC.	Industrial	SrUnsec/BCF		U	Baa1	A3	IG
3/27/18	ON SEMICONDUCTOR CORPORATION	Industrial	SrSec/BCF/LTCFR/PDR		U	Ba1	Baa3	SG
3/27/18	PHI, INC.	Industrial	SrUnsec/LTCFR/PDR	500	D	B3	Caa1	SG
3/27/18	ADVANCED DISPOSAL SERVICES, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	425	U	Caa1	B3	SG
3/27/18	TESLA, INC.	Industrial	SrUnsec/LTCFR/PDR	1,800	D	B3	Caa1	SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

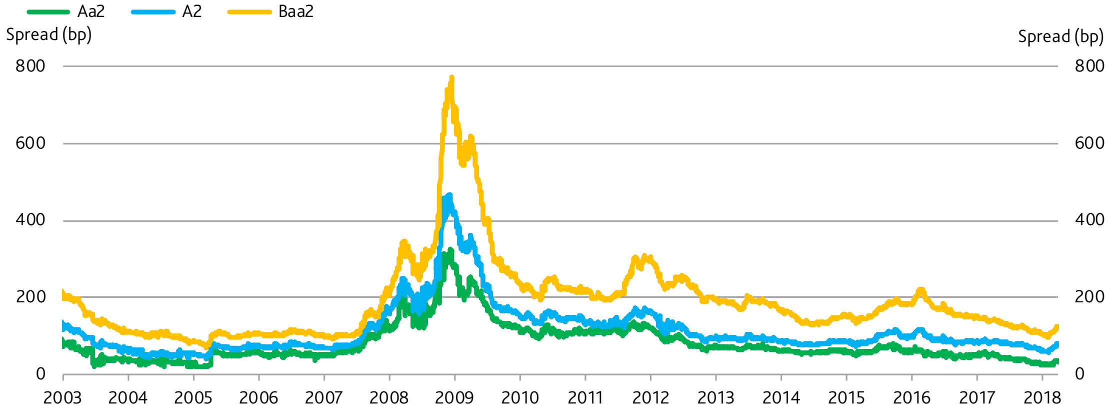
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
3/21/18	SBERBANK-BPS-SBERBANK	Financial	LTD		U	Caa2	Caa1			SG	BELARUS
3/21/18	AUTOVIA DE LOS VINEDOS, S.A. (AUVISA)	Industrial	SrSec/BCF	79	U	B3	B1			SG	SPAIN
3/21/18	BELARUSBANK	Financial	LTD		U	Caa2	Caa1			SG	BELARUS
3/21/18	BELAGROPROMBANK JSC	Financial	LTD		U	Caa2	Caa1			SG	BELARUS
3/21/18	BELINVESTBANK	Financial	LTD		U	Caa2	Caa1			SG	BELARUS
3/21/18	SELECTA GROUP B.V.	Industrial	LTCFR/PDR		U	Caa1	B3			SG	NETHERLANDS
3/22/18	KUTXABANK, S.A	Financial	SrUnsec/SLTD	62	U	Baa3	Baa2	P-3	P-2	IG	SPAIN
3/22/18	SYNCREON GROUP HOLDINGS B.V. -SYNCREON GROUP B.V.	Industrial	LTCFR/PDR		U	Caa3	Caa2			SG	NETHERLANDS
3/23/18	LANDSVIRKJUN	Utility	SrUnsec/MTN	151	U	Baa3	Baa2			IG	ICELAND
3/23/18	BANQUE FEDERATIVE DU CREDIT MUTUEL	Financial	Sub/MTN/PS	9,146	D	A3	Baa1			IG	FRANCE
3/23/18	ING GROEP N.V. -ING BANK SLASKI S.A.	Financial	SLTD		U	A3	A2	P-2	P-1	IG	POLAND
3/23/18	GERMANY-DEPFA FUNDING III LP	Financial	PS	45	U	Ca	Caa2			SG	UNITED KINGDOM
3/23/18	CREDITO VALTELLINESE S.P.A.	Financial	Sub/MTN		U	Caa2	B3			SG	ITALY
3/23/18	BT GROUP PLC-BRITISH TELECOMMUNICATIONS PLC	Industrial	SrUnsec/LTIR/MTN	18,503	D	Baa1	Baa2			IG	UNITED KINGDOM
3/23/18	ORKUVEITA REYKJAVIKUR	Utility	LTCFR		U	Ba2	Ba1			SG	ICELAND
3/23/18	GROUPE CREDIT MUTUEL -CREDIT MUTUEL ARKEA	Financial	Sub/JrSub/MTN	2,843	D	A3	Baa1			IG	FRANCE
3/27/18	RABOBANK	Financial	SrUnsec/LTD/LTIR/MTN/Sub/PS	124,393	D	Aa2	Aa3			IG	NETHERLANDS

Source: Moody's

Market Data

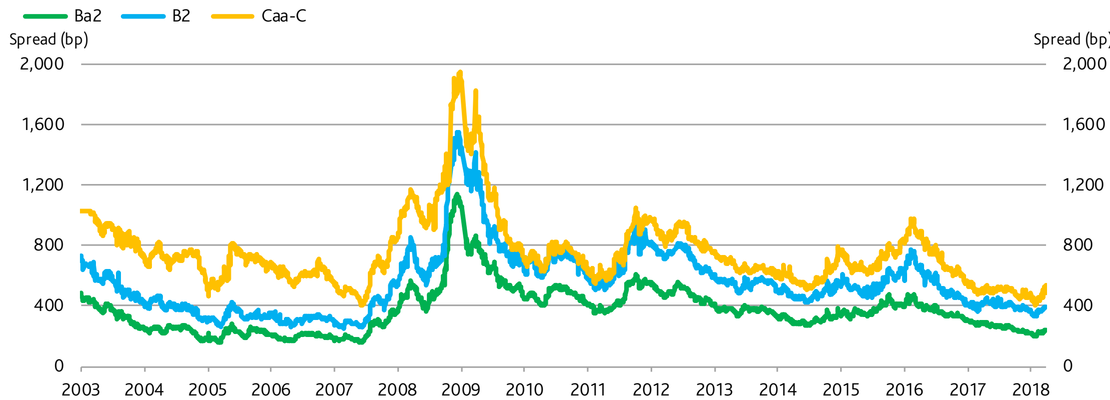
Spreads

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 (March 21, 2018 – March 28, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 28	Mar. 21	Senior Ratings
Colgate-Palmolive Company	Aa2	A1	Aa3
Automatic Data Processing, Inc.	Aa2	A1	Aa3
TRW Automotive Inc.	A2	Baa1	Baa3
Toyota Motor Credit Corporation	Baa1	Baa2	Aa3
Apple Inc.	Aa1	Aa2	Aa1
Oracle Corporation	A1	A2	A1
PepsiCo, Inc.	Aa2	Aa3	A1
Cisco Systems, Inc.	Aa1	Aa2	A1
Exxon Mobil Corporation	Aa2	Aa3	Aaa
Intel Corporation	Aa1	Aa2	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 28	Mar. 21	Senior Ratings
Darden Restaurants, Inc.	Baa1	A1	Baa2
American Express Credit Corporation	A1	Aa2	A2
Pfizer Inc.	A1	Aa2	A1
Deere & Company	Baa1	A2	A2
Talen Energy Supply, LLC	C	Caa3	B1
Arrow Electronics, Inc.	Baa2	A3	Baa3
Ford Motor Credit Company LLC	Ba2	Ba1	Baa2
Comcast Corporation	Baa1	A3	A3
McDonald's Corporation	Aa3	Aa2	Baa1
International Business Machines Corporation	Aa3	Aa2	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 28	Mar. 21	Spread Diff
Nine West Holdings, Inc.	C	30,207	24,312	5,895
K. Hovnanian Enterprises, Inc.	Caa3	2,827	2,290	536
Windstream Services, LLC	Caa1	2,777	2,397	380
Talen Energy Supply, LLC	B1	1,107	916	191
Lexmark International, Inc.	B3	1,690	1,541	149
Neiman Marcus Group LTD LLC	Caa3	1,136	1,052	84
Weatherford International, LLC (Delaware)	Caa1	739	683	56
Hertz Corporation (The)	B3	759	719	40
United States Steel Corporation	B2	255	216	39
Dean Foods Company	B2	466	427	39

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 28	Mar. 21	Spread Diff
Sears Holdings Corp.	C	3,256	3,738	-481
Sears Roebuck Acceptance Corp.	C	3,981	4,288	-307
MBIA Inc.	Ba3	754	927	-173
MBIA Insurance Corporation	Caa2	891	939	-48
Liberty Mutual Group Inc	Baa2	103	117	-14
Laboratory Corporation of America Holdings	Baa2	68	82	-13
Navistar International Corp.	Caa1	262	274	-13
Avery Dennison Corporation	Baa2	179	191	-12
Rite Aid Corporation	B3	736	748	-11
AES Corporation, (The)	Ba2	137	147	-10

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (March 21, 2018 – March 28, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Mar. 28	Mar. 21	Senior Ratings
United Kingdom, Government of	Aaa	Aa1	Aa2
Santander UK plc	A2	A3	Aa3
Bankia, S.A.	Baa1	Baa2	Ba1
Finland, Government of	Baa1	Baa2	Aa1
HSBC Holdings plc	A3	Baa1	A2
ING Bank N.V.	Aa1	Aa2	Aa3
Danske Bank A/S	Aa2	Aa3	A1
Bayerische Landesbank	Aa2	Aa3	A1
Standard Chartered PLC	Baa2	Baa3	A2
Standard Chartered Bank	A1	A2	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Mar. 28	Mar. 21	Senior Ratings
Landesbank Baden-Wuerttemberg	A1	Aa2	A1
Banco Santander S.A. (Spain)	A3	A2	Baa1
Daimler AG	Baa1	A3	A2
Deutsche Telekom AG	A1	Aa3	Baa1
Banco Popular Espanol, S.A.	A3	A2	Baa3
Tesco Plc	Ba2	Ba1	Ba1
ArcelorMittal	Ba2	Ba1	Ba1
National Grid Electricity Transmission plc	Baa1	A3	A3
RWE AG	A3	A2	Ba1
thyssenkrupp AG	Ba1	Baa3	Ba2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Mar. 28	Mar. 21	Spread Diff
Boparan Finance plc	B3	531	488	43
Eksportfinans ASA	Baa3	515	474	41
PizzaExpress Financing 1 plc	Caa1	973	932	41
CMA CGM S.A.	B3	477	442	35
Greece, Government of	B3	325	304	21
Nokia Oyj	Ba1	120	106	15
Wm Morrison Supermarkets plc	Baa2	130	115	15
Ensco plc	B3	473	458	15
Suedzucker AG	Baa2	85	70	15
Telecom Italia S.p.A.	Ba1	139	124	14

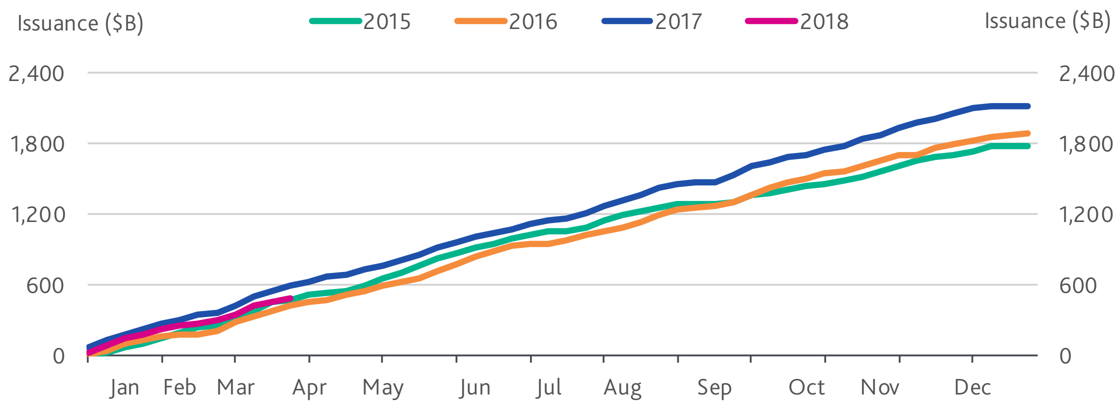
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Mar. 28	Mar. 21	Spread Diff
Astaldi S.p.A.	Caa1	1,770	1,813	-43
Piraeus Bank S.A.	Caa2	883	902	-19
Novafives S.A.S.	B3	165	179	-13
Sappi Papier Holding GmbH	Ba2	346	350	-4
KBC Group N.V.	Baa1	81	83	-3
Orsted A/S	Baa1	38	40	-2
Ardagh Packaging Finance plc	B3	190	192	-2
Unitymedia GmbH	B3	112	113	-2
UPC Holding B.V.	B2	166	167	-2
3i Group plc	Baa1	101	104	-2

Source: Moody's, CMA

Market Data

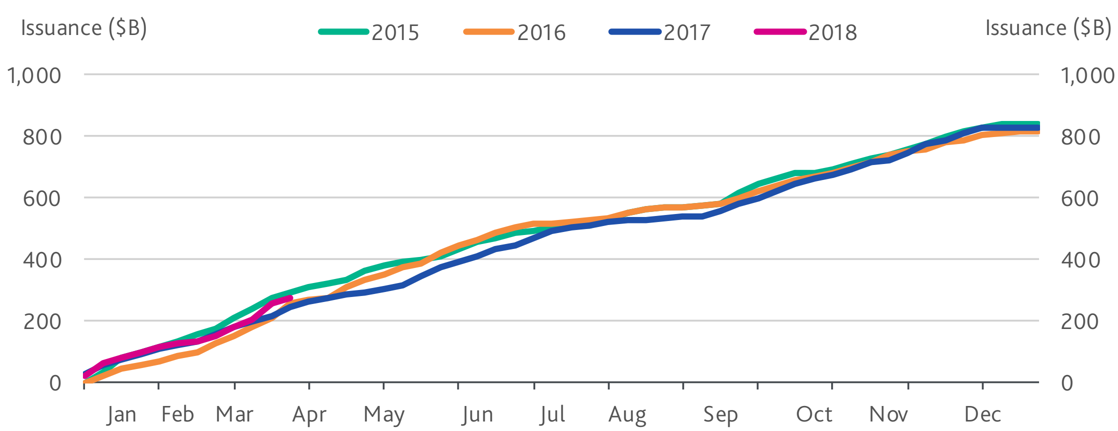
Issuance

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	31.304	3.005	35.879
Year-to-Date	387.264	92.744	491.148

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	13.171	3.811	17.504
Year-to-Date	240.106	24.902	273.833

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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