MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Declining Default Rate Offsets Drag of Higher Interest Rates

Moody's Analytics Research

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Credit Markets Review and Outlook *by John Lonski*

Declining Default Rate Offsets Drag of Higher Interest Rates

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The Week Ahead

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

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The Long View

Full updated stories and key credit market metrics: Unexpectedly high interest rates now curb corporate borrowing.

Credit Spreads	Investment Grade: We see year-end 2018's average investment grade (IG) bond spreads exceeding its recent 103 bp. High Yield: Compared to a recent 378 bp, the high-yield spread may approximate 425 bp by year-end 2018.
Defaults	US HY default rate: Compared to January 2018's 3.2%, Moody's Default and Ratings Analytics team forecasts that the US' trailing 12-month high-yield default rate will sink to 2.0% by January 2019.
Issuance	In 2017, US$-denominated IG bond issuance grew by 6.8% to a record $1.508 trillion, while US$-priced high-yield bond issuance advanced by 33.0% to a new record calendar-year high of $453 billion. For 2018, US$-denominated IG bond issuance may drop by 5% to $1.431 trillion, while US$-priced high-yield bond issuance sinks by 4.5% to $433 billion.

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Small Scale Energy Firms Still Under Pressure

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Market Data

Credit spreads, CDS movers, issuance.

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Moody's Capital Markets Research *recent publications*

Links to commentaries on: Corporate bonds, tax law changes, stocks and spreads, Greek drama, South Korea, Brazil sovereign credit, Greece and Spain, dangers in the outlook, high-yield borrowing, Saudi Arabia, defaults, credit/stocks, China, yields/prices, debt/growth.

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THIS REPORT WAS REPUBLISHED FEBRUARY 20 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.

Declining Default Rate Offsets Drag of Higher Interest Rates

Corporate bond yield spreads have been relatively steady throughout recent equity market tumult. Expectations of a declining high-yield default rate into early 2019 have anchored corporate yield spreads.

Moody's Default Research Group predicts that the U.S.' high-yield default rate may drop from January 2018's 3.2% to 2.0% by January 2019. The latest Blue Chip projection of a 6.3% annual increase for the U.S.' pretax operating profits complements expectations of a lower default rate.

When the U.S.' default rate hovered about its lows of the current business cycle upturn and averaged 1.85% from January 2014 through June 2015, the market value of U.S. common equity posted a year-to-year increase in each of the span's 18 months that averaged 15.3%. Since the late 1980s, the market value of common stock advanced from the previous year for roughly 90% of the months corresponding to a year-to-year decline by the default rate.

Nevertheless, a sickly equity market could diminish systemic liquidity by enough to drive the default rate higher. An improving equity market facilitated an increase in the number of U.S. corporate credit rating upgrades from 2015's 18 and 2016's 33 to the 41 of 2017.

At the same time, a fully, if not richly, valued equity market lessens the incentive to boost share prices via share buybacks or special dividends. In turn, the number of rating downgrades ascribed to equity buybacks and dividends fell from 2015's 48 and 2016's 51 to 2017's 30. The latter represented the fewest such downgrades since 2012's 27, or when companies focused intently on firming balance sheets that were weakened by the Great Recession.

Corporate Credit Shrugs Off Heightened Equity Volatility

Thus far, the U.S.' corporate credit market has fared much better than the equity market during the latest episode of financial market volatility. Despite how the VIX index's moving five-day average soared from the extraordinarily low 9.4 points of the span-ended January 8, 2018 to the 31.5 points of February 9, the high-yield bond spread's accompanying five-day average barely widened from January 8's 342 basis points to February 9's 366 bp. By contrast, when the VIX index's moving five-day average shot up from the 12.1 points of July 22, 2015 to the 32.2 points of August 27, 2015, the comparably measured average of the high-yield bond spread swelled from 499 bp to 603 bp.

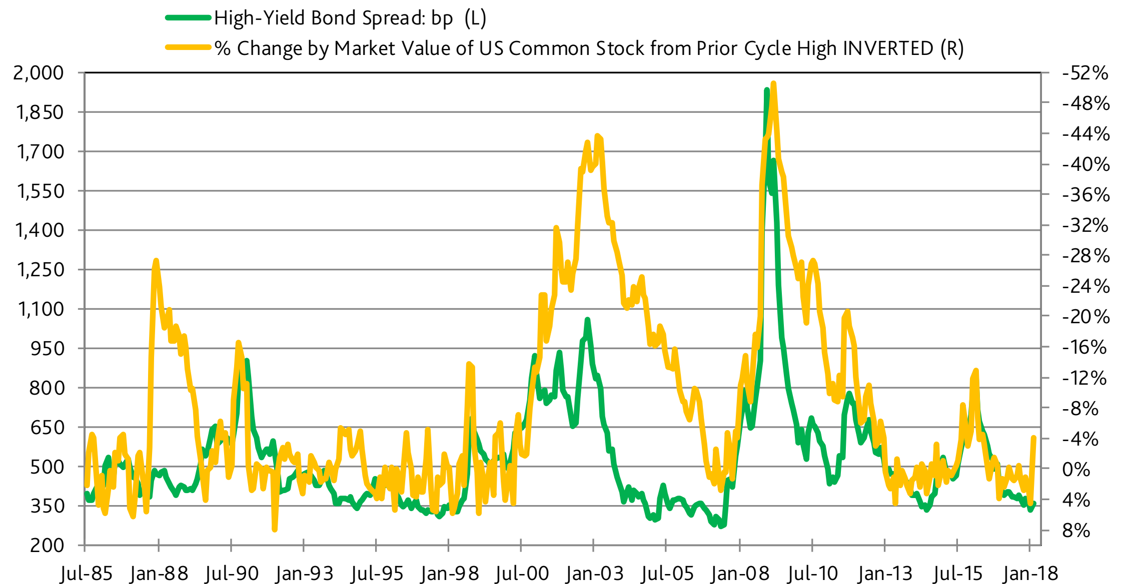
One reason as to why the corporate credit market was more sensitive to the equity market volatility of the summer of 2015 centers on the accompanying expectation of a rising, as opposed to falling, default rate. During 2015's third quarter, Moody's Default Research Group projected a climb by the U.S.' high-yield default rate from July 2015's 2.3% to 3.4% by August 2016. Expectations of a rising default rate were joined by an emerging shrinkage of 2015's pretax operating profits linked to the deep year-to-year declines incurred by industrial commodity prices. For example, July 2015 revealed year-to-year drops of 23.8% for Moody's industrial metals price index and 50.3% for the price of WTI crude oil.

By contrast, the Blue Chip consensus forecast of early February 2018 has pretax operating profits quickening from 2017's prospective 4.8% to 6.3% in 2018. Moreover, in terms of the yearly percent advances for the latest moving four-week averages, both the industrial metals price index and the price of crude oil were up by roughly 20%.

Credit's Ongoing Performance Resembles 1994 and 1987

An examination of the historical record shows only three episodes since 1982 where a notable drop by the U.S. equity market was not accompanied by at least a 100 bp swelling of the high-yield bond spread, where the latest incident still unfolds. Similar to the ongoing episode, the previous two occurrences of 1994 and 1987 saw equity prices being driven lower by fast rising interest rates amid an upbeat outlook for profits.

Figure 1: February 2018 Was Only Third Time since 1982 Where High-Yield Bond Spread Did Not Balloon Amid a Notable Drop by Market Value of Common Stock (INVERTED)
source: Moody's Analytics



The most recent installment transpired in 1994. Back then, a climb by the 10-year Treasury yield's month-long average from an October 1993 low of 5.33% to a November 1994 high of 7.96% helped to drop the month-long average of the market value of common stock by more than 5% from its prior high during the second and third quarters of 1994. Despite slumping share prices, the high-yield bond spread averaged only 375 bp during the six-months-ended September 1994, which was well under its 443 bp average of 1993's second half.

In 1994, speculative-grade corporate credits were largely unfazed by fast rising interest rates and a wobbly equity market partly because of how the annual increase of operating profits had accelerated from 1993's already strong 9.8% to 1994's 19.1%. And, of course, the default rate was in the process of dropping from December 1993's 3.6% to January 1994's 2.5%.

1987's Equity Market Plunged More than 25% Despite Rapid Profits Growth

In 1987, the 10-year Treasury yield's month-long average skyrocketed from a January 1987 low of 7.08% to an October 1987 high of 9.52%. An uprising by benchmark interest rates would help to drive down the stock market's month-long average by a very deep 27.4% below its prior high by December 1987.

Nevertheless, the high-yield bond market was relatively unscathed. Though the high-yield spread widened from a Q3-1987 average of 395 bp to the 484 bp of November 1987, the latter was thinner than its 511 bp average of 1986's final quarter. Notwithstanding the equity market turmoil of 1987's final months, the high-yield bond market did not lose sight of an ongoing slide by the default rate from December 1986's 6.3% to December 1987's 4.4%. It would not be until May 1989 that the default rate bottomed at 2.1%.

In addition, the declining default rate overlapped a strong performance by corporate earnings. After contracting by 8.5% annually in 1986, operating profits posted outsized annual advances of 12.8% in 1987 and 13.4% in 1988.

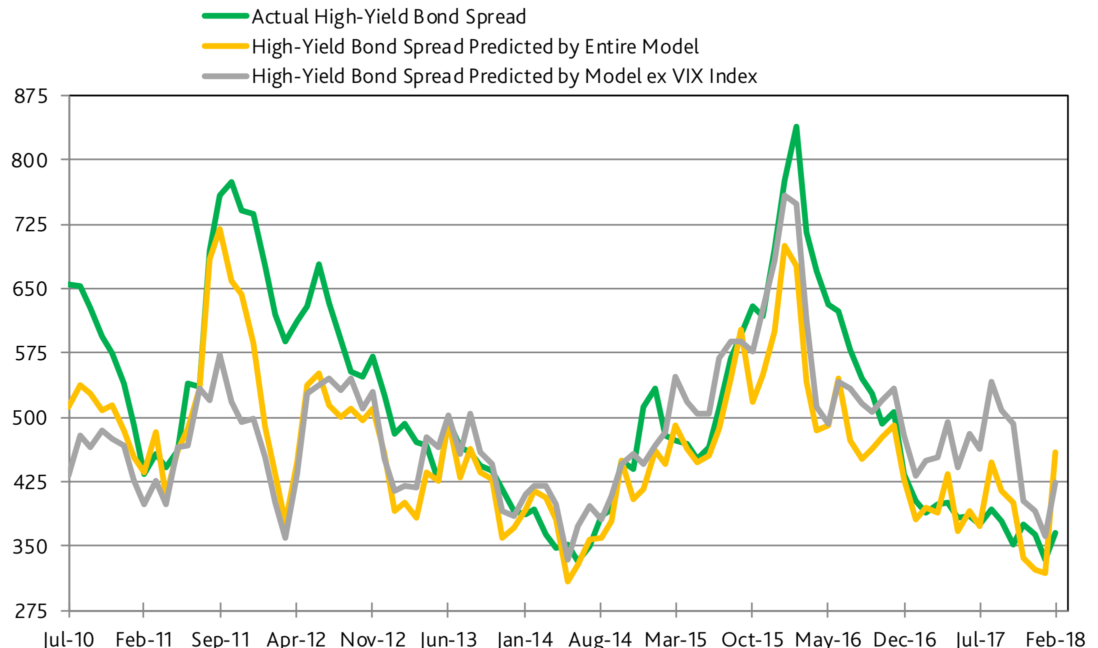
High-Yield Spreads Are Now Too Thin Vis-a-vis Default Risk and Business Activity

From the perspective of an explanatory model showing a meaningful adjusted r-square statistic of 0.89, the high-yield bond spread now appears to be too thin both with and excluding the now elevated VIX index. Using various lags, the model explains the high-yield bond spread in terms of (i) the average expected default frequency (EDF) metric of U.S./Canadian high-yield issuers, (ii) the VIX index, and (iii) the moving three-month average of the Chicago Fed's national activity index. When including the recent

VIX index of 19.8 points, the model recently predicted a 460 bp midpoint for the high-yield bond spread, which was much wider than February 14's 381 bp.

After removing the VIX index from the set of explanatory variables, the adjusted r-square eases somewhat to a still respectable 0.84. Despite the removal of a now above-trend VIX index, the remaining explanatory variables predict a midpoint of 424 bp for the high-yield spread that still exceeds the actual spread.

Figure 2: Explanatory Model Says the High-Yield Spread Is Too Thin Both With and Excluding the VIX Index
source: Moody's Analytics



Thus, barring significantly lower readings for the high-yield EDF metric and the VIX index, as well as a jump by the national activity index, the high-yield bond spread is more likely to widen than narrow. By the way, the recent high-yield EDF metric of 3.53% compares unfavorably to its yearlong 2014 average of 2.31%.

Earnings-Sensitive Markets Expect Inflation to Slow from January's Pace

For now, equities have transcended the 10-year Treasury yield's jump up to 2.91%. Even interest-sensitive housing-sector share prices have climbed significantly higher. Apparently, the equity market does not view January's monthly increases of 0.5% for the CPI and 0.3% for the core CPI as foreshadowing a disruptive ascent by consumer price inflation.

As inferred from the equity market's ongoing rebound from February 8's low, January's 0.5% monthly surge by the CPI overstated the underlying rate of consumer price inflation, while the accompanying 0.3% monthly drop by retail sales short-changed consumer spending's positive trend.

Moreover, January's combination of faster CPI growth and a contraction by retail sales favors a monthly decline by January's real consumer spending that prompted the Atlanta Fed's GDPNow model to downwardly revise its forecast of Q1-2018's annualized quarterly increase by real consumer spending from 3.0% to 2.0%. GDPNow's once much cited projection of a 5.4% annualized quarterly surge by Q1-2018's real GDP has since been cut to 3.2%. Earnings-sensitive markets welcome slower growth if it lessens the risk of a burdensome climb by interest rates.

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

THE U.S.

By Ryan Sweet of Moody's Analytics

Home sales could weigh on GDP growth

The economic calendar is very light. The key will be existing-home sales, and we believe they fell in January. This could weigh on GDP growth via lower broker commissions. Initial claims were likely unchanged in the week ended February 17, which includes the February payroll reference week. The minutes from the January Federal Open Market Committee meeting should be uneventful. There were a lot of cosmetic changes to the post-meeting statement, as references to the hurricane-related disruptions were removed. The statement continued to describe the balance of risks as roughly balanced. Tweaks to the inflation assessment described inflation has having continued to run below 2%.

Though there are not a lot of key economic data, daily tax refunds and income and employment tax withholdings shouldn't be ignored. The tax legislation has clearly boosted consumer sentiment and could help spending in February.

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Tues @ 10:00 a.m.	Moody's Analytics Business Confidence	index, 4-wk MA				35.3
Wed @ 10:00 a.m.	Existing-Home Sales for January	mil, SAAR	5.53	5.62	5.40 to 5.74	5.57
Thur @ 8:30 a.m.	Jobless Claims for 2/17/18	ths	229	230	225 to 235	230
Thur @ 10:00 a.m.	Conference Board Leading Indicators for January	% change		0.7	0.3 to 1.1	0.6

MONDAY, FEBRUARY 19

No economic releases scheduled in observance of Presidents Day.

TUESDAY, FEBRUARY 20

Business confidence (week ended February 16; 10:00 a.m. EST)

Forecast: N/A

Global businesses are feeling good, the recent swings in global financial markets notwithstanding. Responses to all of the questions in the survey are upbeat, particularly expectations regarding business conditions into this summer. The survey results are consistent with a global economy that is expanding well above its potential. Businesses' biggest concern is around regulatory and legal issues, although it is receding with about one-third of respondents saying those issues are their greatest worry.

Across the globe, the difference between the percentage of all positive responses and all negative responses to the nine survey questions came in at 35% last week and 35% on a four-week moving average basis. In the U.S., business confidence stood at 40% last week and 39% on a four-week moving average basis. For historical context, when measurably less than 10% of responses are net positive, as was the case during much of 2008 and the first half of 2009, the economy is in recession. Readings between positive 20% and 30% are consistent with an economy that is expanding at potential. The global economy is expanding above potential with readings of more than 30%. The all-time low was negative 30% in December 2008 and the peak was 46% in April 2015.

The four-week moving average in our global business confidence index rose from 35 to 35.3 in the week ended February 9.

WEDNESDAY, FEBRUARY 21

Existing-home sales (January; 10:00 a.m. EST)

Forecast: 5.53 million annualized units

We look for the existing-home sales to have fallen from 5.57 million annualized units in December to 5.53 million in January. Other data on home sales have been weakened recently, and we believe this will be visible in existing sales. With the January report, the annual revisions will be incorporated.

THURSDAY, FEBRUARY 22

Jobless claims (week ended February 3; 8:30 a.m. EST)

Forecast: 229,000

We look for initial claims for unemployment insurance benefits to have dropped from 230,000 to 229,000 in the week ended February 17. The incoming data take on added importance because they include the payroll reference week. Assuming our forecast comes to fruition, new filings would be slightly higher than those during the January payroll. Nonetheless, the trend in initial claims remains strong and shows little indication that trend job growth is set to slow noticeably.

FRIDAY, FEBRUARY 23

No major economic releases scheduled.

EUROPE

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

Improvement in the U.K.'s fourth quarter expected to stick

In the spotlight ahead will be the Thursday publication of the second estimate of the U.K.'s fourth quarter GDP, which should also bring an expenditure breakdown of growth. We do not expect the headline to be revised from its current 0.5% q/q rate, which is an improvement on the previous quarter's 0.4% expansion. True, production and construction figures for December did not match the initial Office for National Statistics estimate, but the developments in these two sectors fully offset each other. On the one hand, industrial production fell by 1.3% m/m at the end of the year, which means that the production index is now estimated to have increased by only 0.5% q/q over the quarter as a whole, below the statistical office's estimate of a 0.6% rise. Production accounts for 14% of total output, which means that the revision would amount to -0.014 percentage point. On the other hand, construction rose by 1.6% m/m in December, which means that output in the second estimate fell by 0.7% q/q, better than the 1% drop assumed in the preliminary estimate. But given that construction accounts for only 6% of the U.K.'s total output, the revision to the headline would amount to an almost diametrically opposed 0.015 percentage point. Meanwhile, we still have limited data available for the services sector. The ONS has estimated that services output held steady in December, which is a decent forecast following the 0.4% jump in November.

The expenditure breakdown should show that net trade shaved a colossal 0.5 percentage point off growth, following a neutral contribution in the third quarter. This would again highlight how sterling has not yet managed to boost net exports since it began weakening in late 2015, making the current one by far the most unsuccessful depreciation in U.K. history. Trade data already made available show that the volume of imports rose by 1.7% q/q in the three months to December, while imports fell by 0.6%. Yes, some offset will come from a rise in inventories, more specifically a rise in the 'net acquisition of valuables' component, given the jump in imports of nonmonetary gold. But this offset

shouldn't be higher than 0.35 percentage point, meaning that net exports still dragged on growth over the quarter as a whole.

Regarding the other expenditure components, we expect that consumer spending will struggle to maintain its 0.6% q/q pace of growth from the third quarter. December's drop in retail sales means that retail sales volumes grew by only 0.4% q/q in the year's closing stanza, down from a 0.8% decline in the third quarter. Car registrations, meanwhile, should have fallen by around 2% q/q, which combined imply a 0.3-percentage point contribution to total spending. We aren't much more optimistic regarding spending. Data from growth's production breakdown show that output in the distribution, hotels and restaurants sector—mostly consumed by households—increased by a mere 0.1% q/q. The good news is that production of transport, storage and communication services was up by a a stronger 0.8%, and this will provide some offset. Similarly, government spending and other services increased by 0.4%.

We are penciling in a sharper rise in business investment, though Brexit uncertainty still means that growth will have remained below that recorded for the previous decade. We look for a 0.5% q/q expansion, the same rate as for the previous stanza. Data for U.K. industries were strong in the fourth quarter, and we expect that machinery and equipment investment provided the main boost to the headline. Factory growth figures showed manufacturing output grew by 1% q/q in the three months to December. Construction investment, meanwhile, should have disappointed for yet another quarter.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 2:00 p.m.	Russia: Retail Sales for January	% change yr ago	3.3	3.1
Mon @ 2:00 p.m.	Russia: Unemployment for January	%	6.3	5.1
Wed @ 9:30 a.m.	U.K.: Unemployment for December	%	4.3	4.3
Thur @ 7:45 a.m.	France: Consumer Price Index for January	% change yr ago	1.5	1.2
Thur @ 9:30 a.m.	U.K.: GDP Expenditure Breakdown for Q4	% change	0.5	0.4
Thur @ 10:00 a.m.	Italy: Consumer Price Index for November	% change yr ago	1.3	1.0
Fri @ 8:00 a.m.	Germany: GDP for Q4	% change	0.6	0.8
Fri @ 10:00 a.m.	Euro Zone: Consumer Price Index for January	% change yr ago	1.3	1.4

MONDAY, FEBRUARY 19

Russia: Retail Sales (January; 2:00 p.m. GMT)

Russian retail sales picked up in 2017 and are contributing to the economy. With the macro economy firmly in recovery, the ruble has appreciated and inflation is now below the Central Bank of Russia's target rate of 4%. As a result, the CBR dropped its key policy rate six times throughout the year. With lower inflation, lower borrowing costs, and the strong ruble making imported goods relatively cheaper, consumers have been stepping up spending. The recovery is continuing to pick up steam. We expect the pace of retail sales growth to tick higher, to 3.3% year over year.

Russia: Unemployment (January; 2:00 p.m. GMT)

Russian unemployment remains near its historical low. With yearly inflation undercutting the central bank's 4% target, the bank is making overtures that it may accelerate its easing policy in an effort to stabilize prices. The improving investment climate should hold down unemployment. Further improvements in the job market should lend more support to the domestic consumer and help get the broader economy back on track.

TUESDAY, FEBRUARY 20

No major economic indicators are scheduled for release.

WEDNESDAY, FEBRUARY 21

U.K.: Unemployment (December; 9:30 a.m. GMT)

The U.K.'s headline unemployment rate was likely unchanged at 4.3% in the three months to December, its lowest since 1975. The number of employed is expected to have remained relatively steady following a strong increase in the November quarter, while the number of unemployed likely increased somewhat, ending its previous months-long streak of declines. The good news is that survey data for January are upbeat, showing that permanent staff appointments rose markedly at the start of the year, though growth in temp billings softened to a 10-month low. We expect that employment growth will slow in 2018 compared with 2017's strong gains, as little slack remains in the economy.

THURSDAY, FEBRUARY 22

France: Consumer Price Index (January; 7:45 a.m. GMT)

Inflation in France accelerated to 1.5% y/y in January, up from 1.2% in the previous stanza. But underlying inflation remained tepid in monthly terms. As winter sales ramped up, prices shed 0.1% over the month, more than offsetting the hike in energy and food prices. Services inflation mean-reverted after the price hike in the holiday season. We already see energy prices rising again, which will increase supply-side inflation in the months ahead feeding into the headline. Overall, domestically generated inflation is still soft, so we project some minor rise in core inflation.

Italy: Consumer Price Index (January; 10:00 a.m. GMT)

Inflation in Italy remains subdued. Considerable labour market slack is weighing on wage growth, and thus on demand-driven inflation. However, the situation is slowly improving and wages should pick up in the coming months. Strengthening economic activity should also support more stable price growth as yearly gains accelerated to 1.8% in the third quarter, the fastest since the first quarter of 2011. Performance should remain sturdy this year as forward-looking indicators are upbeat, though the pace of gains will likely slow. Core inflation will remain weak through the first half of the year, though the cyclical trend is moving higher.

FRIDAY, FEBRUARY 23

Germany: GDP (Q4; 8:00 a.m. GMT)

Preliminary estimates show German output continued to expand strongly in the last quarter of 2017, growing by 0.6% q/q, after expanding by 0.7% in the three months to September. In year-ago terms, the expansion rate accelerated to 2.9% from an upwardly revised 2.7% in the third stanza. This is the fastest annual pace of growth since mid-2011. As in the previous quarter, net exports contributed to output growth in the three months to December, despite the appreciating euro. Fixed investment in machinery and equipment also gained, while investment in construction retreated from the previous quarter. Private consumption was broadly unchanged, while government consumption supported output growth. Overall in 2017, real GDP grew by 2.5%.

Euro Zone: Consumer Price Index (January; 10:00 a.m. GMT)

Euro zone annual harmonized inflation likely decelerated to 1.3% in January, from 1.4% in December. Preliminary numbers show that the headline was taken back a notch by slightly lower food and energy inflation at the start of the year. If the current oil prices are sustained, though, energy inflation is set to increase significantly from the second quarter, pushing the headline close to its 2% target.

In contrast, the core rate is expected to have increased slightly to 1%, from 0.9% in December, on the back of an uptick in core goods inflation. Services inflation is a wild card, but we expect it to have picked up somewhat given the strong jump in France's services rate. We expect core inflation to rise this year, even if gradually; it should reach 1.5% by year's end.

ASIA-PACIFIC

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

Fuel costs likely to drive rise in Japan's core inflation

Asia's economic data calendar is light next week, but there will be some closely watched releases. Japan's core inflation likely rose a notch in January. Higher fuel costs remain the primary upward driver, while domestic demand looks to have improved modestly in the December quarter, with consumers a little less frugal. The key unknown remains whether sustained and stronger income growth will emerge. We have seen green shoots; the annual spring wage negotiations will be important, and the government has already begun campaigning for firms to deliver at least a 3% increase.

On the trade front, Japan's exports lost a little steam in December and we expect some momentum returned in January. Tech products will remain a bright spot, replicating the trend throughout 2017. Consumer demand remains buoyant, particularly in the U.S. and Chinese markets. The cheap yen has been an added lift to lofty global demand, and futures suggest further downward pressure in the near term.

Thailand's GDP growth likely hit 4.1% y/y in the fourth quarter, from 4.3% in the third. This would bring full-year GDP growth to 3.9% in 2017, following the 3.2% expansion in 2016. Similar to the third quarter, exports will be the main source of growth, especially amid strong electronics demand. We expect private consumption remained muted, as a weak labour market, alongside elevated household debt, has inhibited spending.

New Zealand's retail trade likely improved in the December quarter. A slowdown was expected in the September quarter following the surge in June related to an influx of overseas visitors for sporting events. Retail trade is unlikely to maintain the burly pace experienced in 2017, as net migration is expected to slow; this was the critical support to household consumption.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 10:50 a.m.	Japan Foreign trade for January	¥ bil	175	87
Mon @ 1:30 p.m.	Thailand GDP for Q4	% change yr ago	4.1	4.3
Fri @ 8:45 a.m.	New Zealand Retail trade for Q4	% change	0.6	0.2
Fri @ 10:30 a.m.	Japan Consumer price index for January	% change	1.0	0.9

MONDAY, FEBRUARY 19

Japan – Foreign Trade – January

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

Forecast: ¥175 billion

Japan's monthly trade surplus likely widened to ¥175 billion in January, from the ¥87 billion recorded in December. Exports lost a little steam in December, and we expect some momentum returned in January. Tech products will remain a bright spot, replicating the trend throughout 2017. Consumer demand remains buoyant, particularly in the U.S. and Chinese markets. Autos have also done well, as new models are being released. The cheap yen has been an added lift to lofty global demand, and futures suggest further downward pressure in the near term.

Thailand – GDP – 2017Q4

Time: 1:30 p.m. AEDT (2:30 a.m. GMT)

Forecast: 4.1%

Thailand's GDP growth likely hit 4.1% y/y in the fourth quarter, from 4.3% in the third. This would bring full-year GDP growth to 3.9% in 2017, following the 3.2% expansion in 2016. Similar to the third quarter, exports will be the main source of growth, especially amid strong electronics demand. Indeed,

exports rose 7.4% y/y in the third quarter, their fastest pace since late 2012. Domestic demand is travelling in a slower lane. We expect private consumption remained muted because a weak labour market, alongside elevated household debt, has inhibited spending.

TUESDAY, FEBRUARY 20

No major economic indicators are scheduled for release.

WEDNESDAY, FEBRUARY 21

No major economic indicators are scheduled for release.

THURSDAY, FEBRUARY 22

No major economic indicators are scheduled for release.

FRIDAY, FEBRUARY 23

New Zealand – Retail Trade – 2017Q4
Time: 8:45 a.m. AEDT (Thursday, 9:45 p.m. GMT)

Forecast: 0.6%

New Zealand's retail trade likely improved in the December quarter, rising 0.6% q/q, after rising just 0.2% in the third quarter. A slowdown was expected in the September quarter, following the surge in June related to an influx of overseas visitors for sporting events. Unsurprisingly, food and beverage services recorded the largest fall in the third stanza with volumes down 3.1%. This is a pullback from the jump experienced in June, which put hospitality spending at multiyear highs. Retail trade is unlikely to maintain the burly pace experienced in 2017, as net migration is expected to slow; this was the critical support to household consumption.

Japan – Consumer Price Index – January
Time: 10:30 a.m. AEDT (Thursday, 11:30 p.m. GMT)

Forecast: 1%

Japan's core inflation likely rose a notch to 1% y/y in January, after holding steady at 0.9% in November and December. Higher fuel costs remain the primary upward driver while domestic demand looks to have improved modestly in the December quarter, with consumers a little less frugal. The key unknown remains whether sustained and stronger income growth will emerge. We have seen green shoots; the annual spring wage negotiations will be important, and the government has already begun campaigning for firms to deliver at least a 3% increase. We don't expect the Bank of Japan to hit its 2% inflation target, although tapering long-term asset purchases remains an option by the end of the year.

The Long View

Unexpectedly high interest rates now curb corporate borrowing.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
February 15, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 103 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 378 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 3.2% of January 2018. Moody's Default and Ratings Analytics team expects the default rate will average 2.2% during the three months ended January 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 worldwide corporate bond offerings of 2018 are expected to show annual increases of 0.2% 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 2.75% 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 of Moody's Analytics
February 15, 2018

Euro Zone

If one thing is certain about the next EU budget, it is that changes are coming in the next fiscal cycle starting in 2021. Before bidding farewell to the EU, the U.K. is expected to pay its commitments until 2020. Beyond that, the EU will no longer benefit from the second biggest contributor to the area's coffers. This will squeeze revenues, with the financing shortfall expected to be €12 billion to €14 billion a year. This couldn't come at a worse time, since new EU policy proposals to tackle inbound migration and beef up border protection will add to expenses.

The funding gap

European politicians have differed wildly on how to remedy the funding gap, setting the stage for a contentious budget wrangle in May. In June 2017, the European Commission laid the groundwork for a quasi-fiscal union with euro zone members. The argument was that closer fiscal ties with the single-currency area could alleviate financial risks and reinforce debt sustainability so that the monetary union would weather external shocks far better than it did in 2008.

Predictably, that soft message hardly set politicians' heartbeats racing. So far, the push for a closer alliance with euro zone members has been featured only in France's EU agenda. In late September, French President Emmanuel Macron called for a stronger core of the union to fight the rise in nationalism and angled towards a joint fiscal policy with the euro area.

Although Macron's agenda was vague, many interpreted it as a vision of the currency bloc forging ahead and leaving the EU's developing regions behind. Little wonder, then, that the Central and Eastern European countries felt stung. The CEE region benefits from the weaker exchange rate, and none of the countries are seriously planning to join the single-currency area in the foreseeable future.

Higher contribution

But they also do not want their economies to wither or to lose access to the EU money tap that would help speed up their convergence in real terms. This explains why these countries rushed to contribute more to the upcoming EU budget: Central Europeans are comfortable handing over 1.1% of their gross national income, from the long-standing limit of 1%.

But Europe's core economies may take the opposite view. Austria and the Netherlands, for example, already signaled they might not agree to the CEE's higher contributions. Instead, the core may argue for reducing the budget for the Cohesion Fund, which aims to reduce economic disparities among EU countries, by 5% to 10%. If eligibility criteria remain intact, a large chunk of the cut would hurt the CEE economies. In 2016, annual transfers from the EU for the contributions were 4% of gross national income in Hungary, 2.7% in Poland, 2.2% in Slovakia, and 1.9% in the Czech Republic.

The German press reported in early February that European politicians are pondering a complete overhaul of the Structural Funds and Cohesion Fund. According to the news report, EU Structural Funds would be disbursed only to laggard regions with average income below 90% of the EU average. Countries above the average income level of the EU could be cut out of EU transfers altogether.

This means that Austria, Belgium, the Netherlands, Luxembourg, Denmark, Finland, France, Ireland, Germany and Sweden would not receive a cent from EU funds. The overhaul would save around €100 billion in seven years, so it would more than make up for the revenue shortfall after the U.K.'s departure, and possibly finance a shift towards defense spending.

As pragmatic as the proposal sounds, we worry that the reform can't be pushed through the EU's dispute resolution mechanism. The core countries are unlikely to accept losing their research and development funding, since they are the main beneficiaries of the Horizon 2020 program fostering innovation.

More effective

The front-line countries could argue that the R&D spending has been more effective than the transfers from the Cohesion Fund. And the proof is there: In its Autumn Convergence Report in 2017, the European Commission found that convergence stalled in those regions benefiting the most from the Cohesion Fund. The risk is that core economies will use this argument during the budget talks to slash the Cohesion Fund.

The frustration with the EU transfers from West to East poses hard questions ahead of the budget talks in May. Most of the issues are politically tinged. The budget talks will likely resurrect earlier ideas of linking EU transfers to the rule of law and compliance with the immigration quota agreement. But we need to filter out the political noise to hear what's really happening.

The political will to spend on new areas seems solid, but financing new initiatives solely with budget cuts seems extreme. Budget talks should focus on finding fresh sources of revenues first, then tweaking the details by rationalizing spending. Adding to the challenge is that consensus is required under EU rules, with the budget approved anonymously by all prime ministers. In the end, then, higher contributions seem almost inevitable.

ASIA PACIFIC

By Katrina Ell of Moody's Analytics
February 15, 2018

South Korea

The Olympic Games are more than a global sporting event. They are an opportunity to strengthen geopolitical ties, important in a global environment plagued with several tense hot spots. The 2018 Winter Olympics is being hosted in PyeongChang, South Korea. The event runs from 9 February until 25 February. Excitement is at fever pitch in South Korea, which won the right to host the Winter Olympics in PyeongChang on its third attempt. The decade-long campaign included failed bids to host the 2010 and 2014 Winter Games.

Hosting the Olympics is generally viewed as an honour, providing countless opportunities to showcase the city and hope of lasting positive economic spillovers to the host nation. We delved into the economic implications for South Korea and examined prior host nations' economic experiences.

An unlikely victor

PyeongChang is a county in Gangwon Province that's home to around 45,000 people (0.01% of South Korea's total population). Prior to the Olympics, PyeongChang was known mainly as a producer of potatoes and cattle. While PyeongChang is only 80 miles (126 kilometers) from Seoul, the capital of South Korea, getting there from the capital prior to recent infrastructure upgrades took hours on difficult mountain roads.

The governor of the Gangwon Province said PyeongChang was the last place the national government would consider for investment, so it was hoped that hosting the Olympics would change that, and it has. Infrastructure and transport linkages have dramatically improved. National estimates suggest the government has poured US$13 billion (0.9% of GDP) into the region, building sporting facilities as well as a new high-speed rail and highway as well as almost 100 new tunnels and 80 bridges to improve access from Seoul.

Officials hope the Winter Olympics will be the key to a sustained improvement in tourism for the province. The service sector already accounts for 70% of the local economy, in part because holidaymakers are drawn to the scenic coast.

The North Korea element

In lobbying to host the games, South Korea used PyeongChang's proximity to the North Korean border as a selling point. PyeongChang is located about 50 miles from the border with North Korea, the world's most heavily fortified border. One hope was that holding the games in PyeongChang could promote peace between two nations still technically at war since 1950.

There has been some progress in cross-strait relations, even though tensions escalated to their highest level yet in 2017 as the North Korean regime continued its nuclear weapons program and increased the frequency of testing, despite international condemnation. The North agreed to send 22 athletes to the Olympics, and the two countries will have a joint women's ice hockey team. The most significant show of unity is that all North and South Korean athletes will march under the one flag at the opening ceremony, featuring the Korean peninsula as one body. North Korean leader, Kim Jong-un's younger sister, Kim Yo-jong, will attend, marking the first official visit to the South by a member of the ruling Kim family.

It's hard to know whether improving sporting ties will spill over to the broader relationship. We are skeptical. The bottom line is that the North Korean dictatorship is unwilling to give up its nuclear weapons program even with the harshest trade sanctions ever imposed. It seems unlikely that participation in a sporting event will be a catalyst for change.

The Olympic impact

The Olympics have several well-known opportunities and costs.

Benefits include:

•Improved transport and communication links. This investment leaves a lasting legacy that can lift the long-term productive capacity and potential of an economy.

•An influx of thousands of visitors as well as those competing. The temporary surge in net migration brings an immediate boost to the local economy, especially tourism-related services such as food, restaurants and accommodation.

•Additional employment with the initial infrastructure build in anticipation of the Olympics, which can occur years in advance of the actual event. Higher employment has a flow-on to higher consumption, government revenue, and a broader lift to economic growth. If the economic lift to the host city is lasting—including via higher tourism (as is hoped with PyeongChang)—then there is a permanent gain in employment.

Costs are also significant:

•The large infrastructure spend may not yield lasting benefits, since there may not be an ongoing need for custom-built sporting arenas, and their upkeep can be costly.

•The cost of hosting the Olympics has significantly increased in recent years. As well the initial bidding process, which can run into US$150 million (as was the case for Tokyo's failed bid to hold the 2016 Summer Olympics) and the infrastructure spend, there is also the cost of successfully running the event, including the need for heightened security.

•Sponsorships and ticket sales alone are unlikely to meet these costs, so they result in higher taxes for the local population. For example, Montreal hosted the Olympic Games in 1976, but reportedly didn't pay off the debt until 2006.

•The local population is not always supportive of spending that might have otherwise gone to social housing, education support, or other uses that directly benefit locals.

History is a good guide

There are a multitude of impressive forecasts about the expected economic benefits to PyeongChang and South Korea from the 2018 Winter Olympics. History serves as a good guide on whether projected benefits come to fruition. We found that the economic impact of hosting the Olympics tends to be less positive than anticipated.

Also, initial cost estimates tend to blow massively out of budget. South Korea is no different: When South Korea won the bid for the 2018 Winter Olympics, the government estimated in 2013 that it would cost

around US$7 billion to build the necessary infrastructure. As of February 2018, the cost had reached almost US$13 billion.

The employment boost is not always as beneficial as initially perceived. For example, a 2010 study of the 2002 Salt Lake City Winter Olympics found that the economy added 7,000 jobs, about 10% of the number that officials had initially forecast. Importantly, most jobs went to workers who were already employed. Also, rather than remaining in the U.S., some profits from construction firms, hotels and restaurants went offshore because of foreign ownership.

Also, income from the games hasn't covered expenses for the majority of host cities. For example, the 2012 London Summer Olympics generated $5.2 billion, but $18 billion was spent. Vancouver brought in $2.8 billion for the 2010 Winter Games, but $7.6 billion was spent. The most eye-watering is Beijing, which generated $3.6 billion for the 2008 Summer Olympics, but over $40 billion was spent.

Ratings Round-Up

By Njundu Sanneh

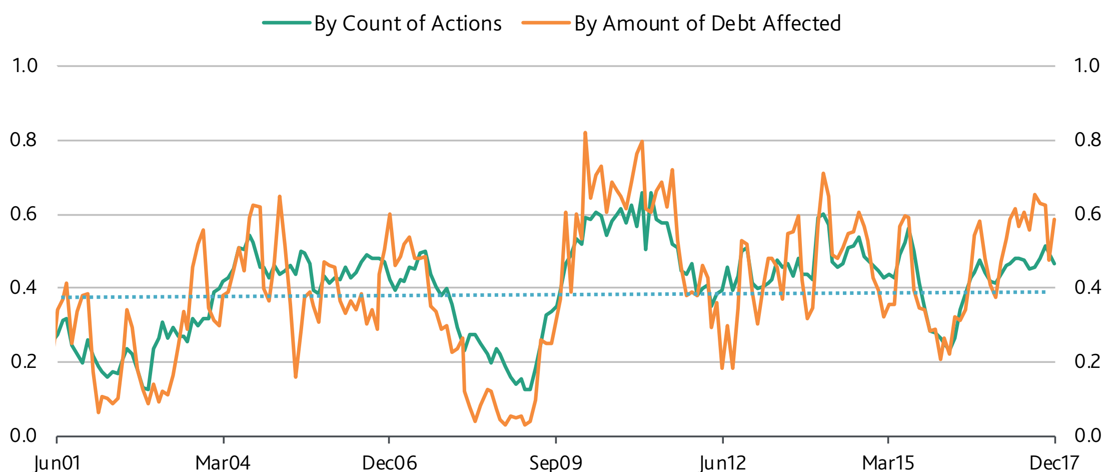
Small Scale Energy Firms Still Under Pressure

The US weekly rating changes were paced by the energy sector with three energy firms in the 13 total entities on the rating revisions lists. The rating revisions for the sector were mixed with two downgrades and one upgrade. The positive rating change for Alta Mesa was grounded in the merger of the company with two other energy companies, Silver Run Corp. II and Kingfisher Midstream, LLC to enable the merged company to exploit economies of scale and better access to capital markets. The MA activity highlights challenges facing smaller size energy companies with relatively high leverage even as energy prices recover from the lows of the last several years. Jones Energy Holdings, LLC and NuStar Energy LP were downgraded on high leverage metrics. Jones Energy increased debt through a $450 million first lien issue to pay down some debt but mainly to fund drilling needs and general corporate expenses. While NuStar's efforts to reduce distributions to equity holders is a positive step, leverage still remains high enough with limited prospects for operating performance to fund capital expenses. Apart from the energy sector, other noteworthy positive rating changes include Abott Laboratories, and SRAM Corp. On the downgrade side we had AMC Entertainment Holdings, Inc. and Genworth Financial, Inc.

Rating revisions continue to be sparse in Europe with only three rating changes across as many sectors. Positive rating changes outnumber downgrades by a two to one.

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
2/7/18	AMC ENTERTAINMENT HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR/SrSub	2,620	D	Ba1	Ba2			SG
2/7/18	JONES ENERGY, INC. - Jones Energy Holdings, LLC	Industrial	SrUnsec/LTCFR/PDR	659	D	Caa2	Caa3			SG
2/8/18	MOMENTIVE PERFORMANCE MATERIALS INC.	Industrial	SrSec/LTCFR/PDR	1,350	U	Caa1	B2			SG
2/9/18	ALTA MESA HOLDINGS, LP	Industrial	SrUnsec/LTCFR/PDR	500	U	Caa1	B3			SG
2/9/18	DAVID'S BRIDAL, INC.	Industrial	SrUnsec/SrSec/LTCFR/PDR	270	D	Caa2	Caa3			SG
2/9/18	JANUS INTERNATIONAL GROUP, LLC	Industrial	SrSec/BCF		D	B1	B2			SG
2/9/18	NUSTAR ENERGY L.P.	Industrial	SrUnsec/lTCFR/PDR/Sub/PS	3,047	D	Ba1	Ba2			SG
2/9/18	VICTORY CAPITAL HOLDINGS, INC.	Financial	SrSec/BCF/LTCFR/PDR		U	B1	Ba3			SG
2/12/18	ABBOTT LABORATORIES	Industrial	SrUnsec/CP	23,806	U	Baa3	Baa2	P-3	P-2	SG
2/12/18	GENWORTH FINANCIAL INC	Industrial	srSec/IFSR	68	D	Ba1	Ba3			SG
2/13/18	AVSC HOLDING CORP.	Industrial	LTCFR/PDR		D	B2	B3			SG
2/13/18	LAMAR ADVERTISING COMPANY -Lamar Media Corporation	Industrial	SrUnsec	1,820	D	Ba1	Ba2			SG
2/13/18	SRAM CORPORATION	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1			SG

Source: Moody's

FIGURE 4
Rating Changes: Corporate & Financial Institutions – Europe

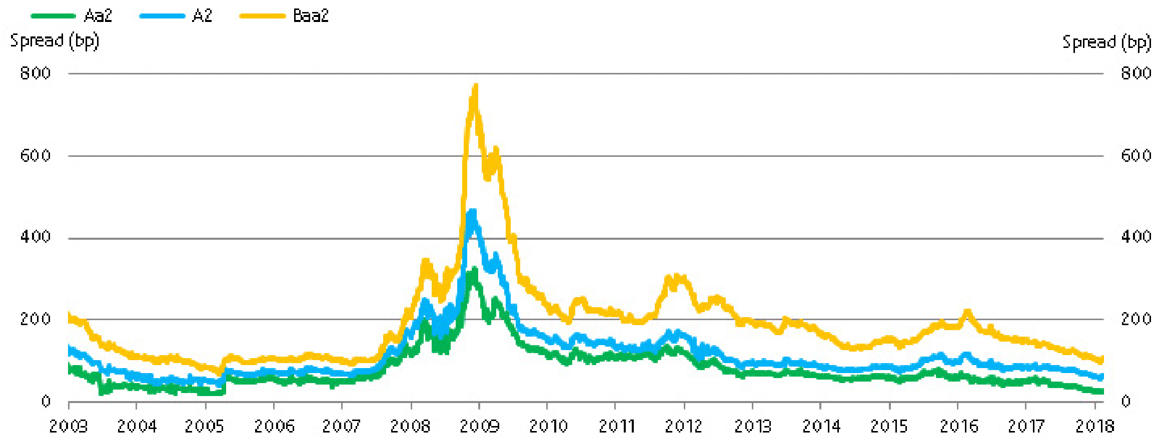
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
2/7/18	HYPO VORARLBERG BANK AG	Financial	SrUnsec/LTIR/LTD/Sub/MTN	1,693	U	Aa1	A3	IG	AUSTRIA
2/8/18	ROCHE HOLDING AG	Industrial	SrUnsec/LTIR/MTN	18,858	U	A1	Aa3	IG	SWITZERLAND
2/8/18	DOUBLEPLAY I LTD	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG	UNITED KINGDOM

Source: Moody's

Market Data

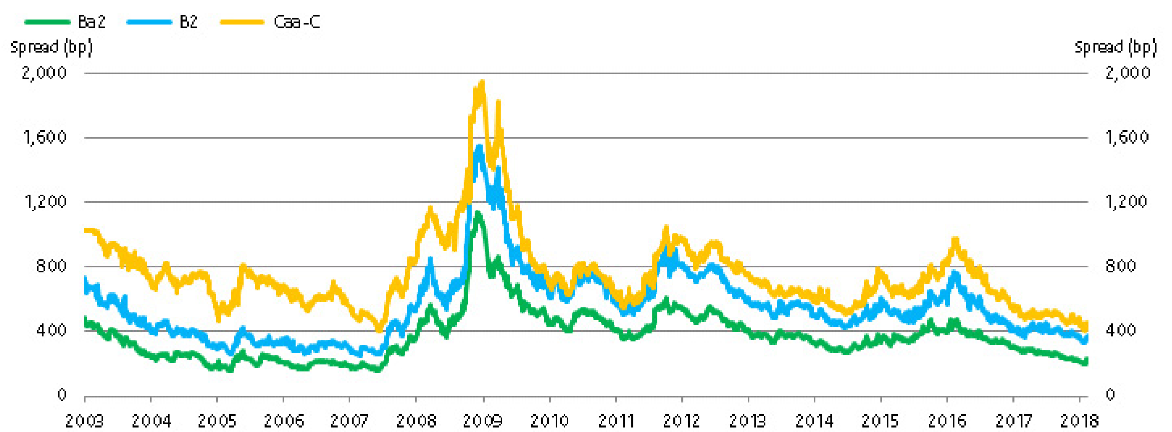
Spreads

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



Source: Moody's

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



Source: Moody's

Market Data

CDS Movers

Figure 3. CDS Movers - US (February 7, 2018 – February 14, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 14	Feb. 7	Senior Ratings
Kimberly-Clark Corporation	Aa2	A1	A2
Verizon Communications Inc.	Baa2	Baa3	Baa1
Ford Motor Credit Company LLC	Ba1	Ba2	Baa2
Oracle Corporation	A2	A3	A1
Coca-Cola Company (The)	Aa1	Aa2	Aa3
Wal-Mart Stores, Inc.	Aa1	Aa2	Aa2
Exxon Mobil Corporation	Aa3	A1	Aaa
Bank of New York Mellon Corporation (The)	A2	A3	A1
United Technologies Corporation	Aa3	A1	A3
Merck & Co., Inc.	Aa2	Aa3	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 14	Feb. 7	Senior Ratings
Colgate-Palmolive Company	A1	Aa2	Aa3
Expedia, Inc.	Ba2	Baa3	Ba1
Burlington Resources, Inc.	Baa1	A2	Baa1
Citigroup Inc.	Baa1	A3	Baa1
Bank of America Corporation	Baa1	A3	A3
Bank of America, N.A.	A3	A2	Aa3
John Deere Capital Corporation	A3	A2	A2
Comcast Corporation	A2	A1	A3
HCA, Inc.	Ba3	Ba2	B1
Procter & Gamble Company (The)	Aa2	Aa1	Aa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 14	Feb. 7	Spread Diff
Nine West Holdings, Inc.	C	31,544	25,372	6,172
Windstream Services, LLC	B3	2,593	2,326	267
Neiman Marcus Group LTD LLC	Caa3	1,385	1,175	210
Sears Roebuck Acceptance Corp.	C	3,473	3,271	203
Sears Holdings Corp.	C	3,089	2,909	180
Talen Energy Supply, LLC	B1	758	676	83
Office Depot, Inc.	B2	652	569	83
Chesapeake Energy Corporation	Caa1	757	676	81
Pride International, Inc.	B3	484	414	70
Frontier Communications Corporation	B3	1,684	1,615	69

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 14	Feb. 7	Spread Diff
MBIA Inc.	Ba3	994	1,251	-257
MBIA Insurance Corporation	Caa2	993	1,160	-167
Unisys Corporation	B3	560	593	-33
AK Steel Corporation	B3	354	372	-19
Pitney Bowes Inc.	Ba1	344	359	-15
Nordstrom, Inc.	Baa1	276	289	-13
Delta Air Lines, Inc.	Baa3	116	125	-9
Macy's Retail Holdings, Inc.	Baa3	208	216	-8
United States Steel Corporation	B2	237	246	-8
Assured Guaranty Municipal Holdings Inc.	Baa2	102	110	-8

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (February 7, 2018 – February 14, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Feb. 14	Feb. 7	Senior Ratings
Eurobank Ergasias S.A.	Caa2	Ca	Caa3
Piraeus Bank S.A.	Caa2	Ca	Caa3
France, Government of	Aaa	Aa1	Aa2
Finland, Government of	Baa1	Baa2	Aa1
SEB	Aa2	Aa3	Aa3
Bankinter, S.A.	Baa1	Baa2	Baa2
Allied Irish Banks, p.l.c.	Baa3	Ba1	Ba1
National Grid Electricity Transmission plc	A3	Baa1	A3
Autoroutes du Sud de la France (ASF)	Baa2	Baa3	A3
Schneider Electric SE	Aa3	A1	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Feb. 14	Feb. 7	Senior Ratings
Telia Company AB	A3	Aa3	Baa1
TDC A/S	Ba3	Baa3	Baa3
Banco Bilbao Vizcaya Argentaria, S.A.	Baa1	A2	Baa1
Banco Santander S.A. (Spain)	A2	Aa3	Baa1
Daimler AG	A3	A1	A2
Banco Popular Espanol, S.A.	A3	A1	Baa3
AXA	A2	Aa3	A2
Iberdrola International B.V.	A3	A1	Baa1
Bouygues S.A.	A1	Aa2	Baa1
Sunrise Communications Holdings S.A.	Ba2	Baa3	B1

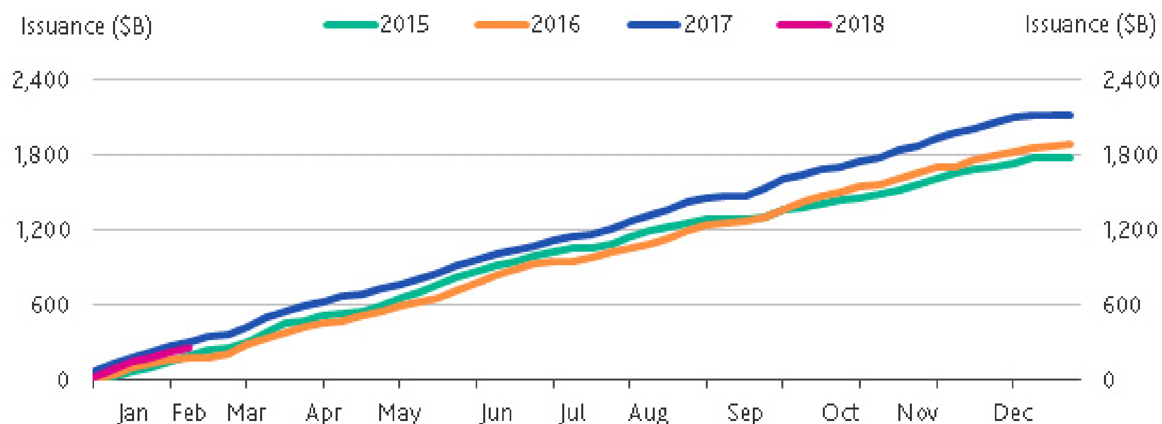
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Feb. 14	Feb. 7	Spread Diff
Astaldi S.p.A.	B3	2,206	2,012	193
Galapagos Holding S.A.	Caa3	1,024	943	81
TDC A/S	Baa3	137	69	68
Ensco plc	B3	444	380	64
Greece, Government of	Caa2	336	281	55
PizzaExpress Financing 1 plc	Caa1	943	889	54
Matalan Finance plc	Caa1	632	583	49
Stena AB	B3	524	477	47
Sunrise Communications Holdings S.A.	B1	107	72	36
Vedanta Resources plc	B2	434	399	35

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Feb. 14	Feb. 7	Spread Diff
Eksportfinans ASA	Baa3	465	472	-6
FCE Bank plc	Baa2	94	98	-4
Permanent tsb p.l.c.	Ba3	202	205	-3
Dexia Credit Local	Baa3	106	109	-2
Old Mutual Plc	Ba1	28	30	-2
Natixis	A2	24	26	-1
Allied Irish Banks, p.l.c.	Ba1	78	80	-1
DZ BANK AG	Aa3	68	69	-1
Banca Monte dei Paschi di Siena S.p.A.	B3	121	122	-1
Alliander N.V.	Aa2	43	43	-1

Source: Moody's, CMA

Market Data

Issuance



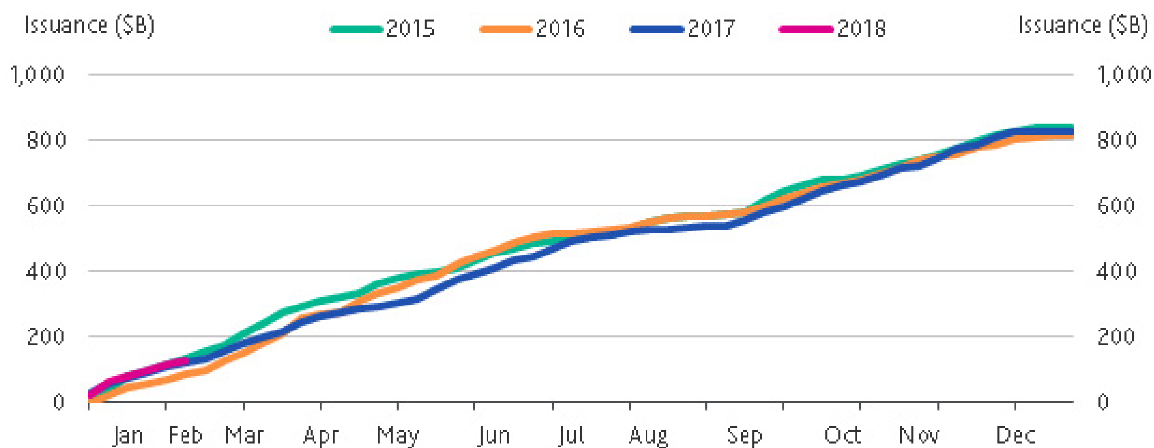


Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	19.557	6.025	26.066
Year-to-Date	183.966	55.715	253.531

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	8.749	2.425	12.410
Year-to-Date	112.008	10.460	127.950

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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