MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Fewer Defaults Strongly Favor a Higher Equity Market

Moody's Analytics Research

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Credit Markets Review and Outlook

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

Fewer Defaults Strongly Favor a Higher Equity Market

Notwithstanding the occasional jarring setback, the market value of U.S. common stock need only rise by 4.8% in order to return to its record high of January 26, 2018. Such a recovery appears to be well within reach if profits grow. Moreover, the realization of the projected decline by the U.S.' high-yield default rate from April 2018's 3.7% to 1.5% by April 2019 implies a firming of corporate finances that can only facilitate a recovery by share prices. For each of 130 year-to-year declines by the high-yield default rate since 1994, the market value of U.S. common stock (as measured by the Dow Jones Total Stock Market index) was up from its year-earlier value.

Roughly 88% of the 209 year-to-year declines by the high-yield default rate since June 1985 have been accompanied by a yearly increase for the market value of U.S. common stock. The medians for the year-to-year changes of this sample are -1.5 percentage points for the default rate and +13.4% for the market value of common equity.

However, the 209 yearly declines by the default rate hardly show a monotonic relationship with the yearly percent change of the market value of common stock. For example, when the range of the default rate's annual decline deepens from 0.7 to 1.0 percentage point to 2.0 to 2.5 percentage points, the average percent increase for the market value of common stock paradoxically slows from 13.9% to 8.2%. Nevertheless, when the default rate's annual drop is deeper than 7.5 percentage points, the market value of common equity soared higher by 28.1% annually, on average.

Integrity Matters to Financial Markets

The 26 of the 209 yearly declines by the default rate that showed a yearly drop by the market value of common equity were not randomly distributed. Seventeen of the 26 overlapped the span of February 2002 through June 2003, or when the market value of equity sank by 15.7% annually, on average, despite an average 2.8 percentage point year-to-year drop by the default rate that owed much to an accompanying 25% average annual surge by pretax operating profits. The seemingly irrational pessimism of 2002 and 2003's first-half largely stemmed from how scandals involving the likes of Enron and WorldCom triggered a disruptive loss of confidence in the integrity of corporate income statements and balance sheets.

Higher Treasury Yields Can Offset Positive Influence of Fewer Defaults

Four of the other 26 months overlapped very large year-to-year advances by the 10-year Treasury yield that outweighed the good news of a declining default rate and lively profits growth. More specifically, they included November-December 1987's 174 basis point year-over-year jump by the 10-year Treasury yield to 8.92%, on average, and October-November 1994's 214 bp advance by the10-year Treasury yield to 7.85%. For both episodes, pretax operating income increased by approximately 22% year over year.

The remaining five months showing an odd combination of year-to-year declines by share prices amid a yearly slide by the default rate began in June 1988 and ended in October 1988. That span is difficult to explain given the accompanying growth of profits and narrowing of corporate bond yield spreads.

In conclusion, each year-to-year decline by the monthly default rate since November 1994 has been joined by an annual increase for the market value of U.S. common stock. Given the positive outlook for profits perhaps the biggest threat to a continuation of this trend through the remainder of 2018 is the consensus projection of an 83 bp yearly increase by the 10-year Treasury yield to a fourth-quarter 2018 average of 3.2%.

Projected Climb by Treasury Yields Encounters Headwinds

The adverse response by global financial markets to the 10-year Treasury yield's recent visit to 3% suggests that the benchmark Treasury yield may have difficulty averaging 3.2% over a three-month span over the near term. Moreover, May's surprisingly deep annual setbacks by U.S.-dollar denominated corporate bond issuance, April's lower than expected home sales, May's month-to-month decline by mortgage applications from potential homebuyers, and the fewest applications for mortgage refinancings since 2000 all hint of only a limited climb by Treasury bond yields. Interest rates will be closer to a top the more quickly higher borrowing costs dull credit-sensitive activity.

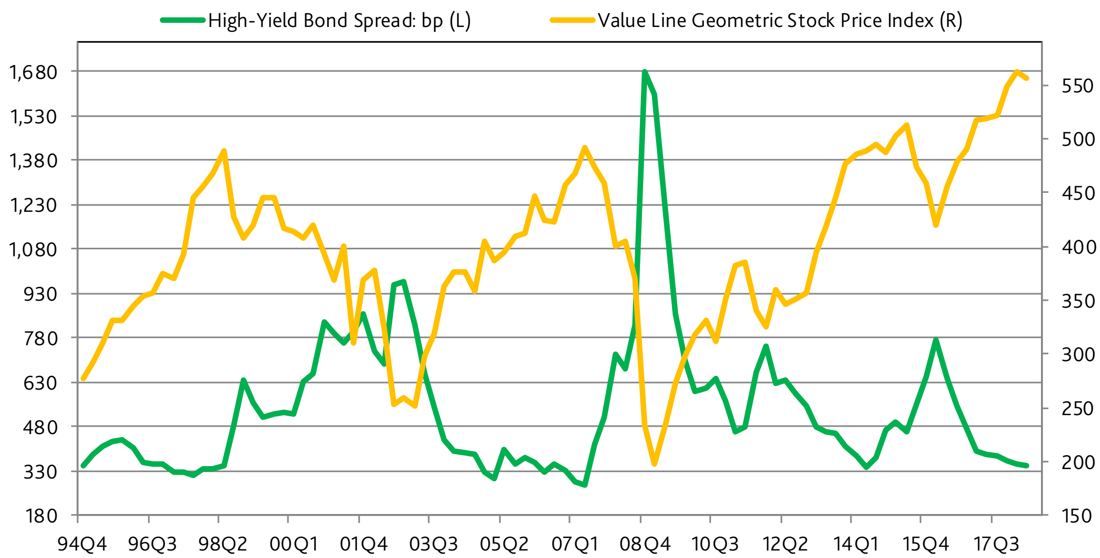
Higher mortgage yields have taken their toll of housing-related financial securities. The PHLX's housing sector stock price index needs to soar by 18.3% if it is to return to its current cycle high of January 23, 2018. In addition, 2018-to-date's -1.99% total return from high-yield bonds linked to housing activity lags well behind the -0.16% return from the U.S.' entire high-yield bond market.

Russell 2000 Wields Considerable Influence Over High-Yield Credit

The latest high-yield bond spread of 377 bp is much thinner than the 450 bp midpoint associated with the recent Volatility Index of 15.2 points. In part, this discrepancy stems from how the VIX is derived from the S&P 500 stock price index, while the high-yield bond spread shows a stronger long-term correlation with both the Russell 2000 stock price index for small- to mid-sized companies and Value Line's geometric stock price index. The daily change of the latter index attempts to approximate the unweighted average daily percent change of U.S. share prices.

Figure 1: High-Yield Bond Spread Widened as Value Line Geometric Stock Price Index Fell Amid 1998-2000's Rally by S&P 500

sources: Value Line, Moody's Analytics



Unlike the S&P 500's recent 5.5% shortfall compared to its record high of January 26, 2018, the Russell 2000 has been setting new highs of late. The Russell 2000's 6.6% increase the end of 2017 outperformed the accompanying percent changes of 2.1% for the market value of U.S. common stock, the 1.5% of the S&P 500 and the -1.0% of the Dow Jones Industrial Average. However, the Russell 2000 trailed NASDAQ's comparably measured advance of 8.2%.

Predictions of Wider Baa Spread Are at Odds with Treasury Yield and Default Outlooks

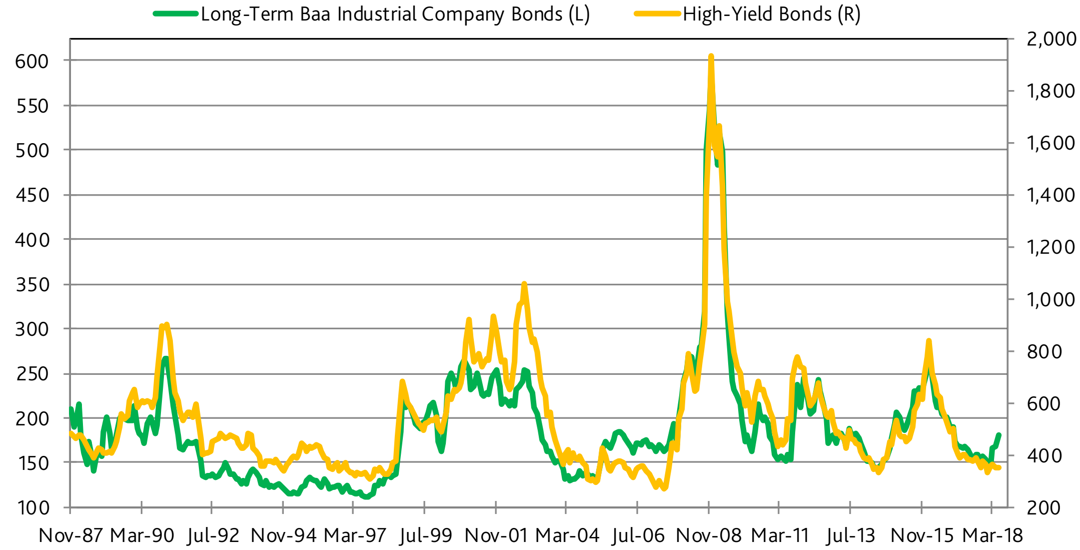
As derived from one survey, the spread between Moody's long-term Baa-rated industrial company bond yield average and the 30-year Treasury yield is expected to widen from Q1-2018's 153 bp to 195 bp by 2018's final quarter. May 2018's average for this spread should be close to 180 bp. The projected widening by the long-term Baa industrial spread implicitly assumes an expected deterioration of corporate credit quality that may help to rein in business spending by enough to prevent the 10-year Treasury yield from rising from a recent 2.85% to the 3.2% predicted for 2018's final quarter. In the event the 10-year Treasury yield does climb to 3.2% despite a 195 bp spread for long-term Baa-grade corporate bonds, then prospects for 2019's business activity and corporate credit quality are likely to worsen.

Credit Markets Review and Outlook

The long-term correlation between the composite high-yield bond spread and the long-term Baa industrial company bond yield spread is a very strong 0.92. In the past, when the Baa industrial spread's month-long average was between 175 bp and 185 bp, the high-yield bond spread revealed a median of 471 bp, which is well above the recent high-yield spread of 377 bp. If the consensus proves correct about the future direction of the Baa industrial spread, the odds favor a widening by the high-yield bond spread and a worsened outlook for high-yield defaults that could diminish systemic liquidity.

Figure 2: A 180 bp Long-Term Baa Industrial Bond Spread Disputes the Thinness of the Recent 377 bp High-Yield Bond Spread ... Long-Term Medians Are 174 bp for the Baa Industrials and 471 bp for High-Yield

in basis points (bp); source: Moody's Analytics



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

THE U.S.

By Ryan Sweet of Moody's Analytics

Nonmanufacturing likely bounced back

Things quiet down on the data front. We get a look at the nonmanufacturing segment of the economy, which accounts for 88% of GDP, with the release of the ISM nonmanufacturing survey. We look for the composite index to have bounced back in May. The trade deficit for April will have implications for our tracking estimate of second quarter GDP. Also, with the April trade deficit, annual revisions will be released. The revisions could alter our tracking estimate of first quarter GDP. We look for a small downward revision to productivity growth for the first quarter and indications are that the second quarter isn't shaping up to be much better.

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence	index, 4-wk MA				37.1
Mon @ 10:00 a.m.	Factory Orders for April	% change	-0.5	-0.5	-0.8 to 0.6	1.6
Tues @ 10:00 a.m.	Job Openings and Labor Turnonver Survey for April					
Tues @ 10:00 a.m.	ISM Nonmanufacturing Index for May	diffusion index	58.3	57.9	57.0 to 59.0	56.8
Wed @ 8:30 a.m.	Productivity and Costs for 2018Q1, final	% change, SAAR	0.6	0.7	0.3 to 0.9	0.7
	Unit Labor Costs	% change, SAAR	2.9	2.8	2.6 to 3.0	2.7
Wed @ 8:30 a.m.	International Trade for April	$ bil	-48.8	-49.8	-52.5 to -47.6	-49.0
Thur @ 8:30 a.m.	Jobless Claims for 6/2/18	ths	225	223	220 to 226	221

MONDAY, JUNE 4

Business confidence (week ended June 1; 10:00 a.m. EDT)

Forecast: N/A

Global business sentiment remains stalwartly optimistic. This is especially impressive given the recent volatility in global financial markets, and prospects for higher U.S. tariffs and heightened trade tensions between the U.S. and many of its trading partners. Sentiment is especially strong in the U.S., as it has been for much of the past several years, likely most recently buoyed by corporate tax cuts. In the history of this survey, which began in 2003, the only other time sentiment has been stronger on a consistent basis was in early 2015.

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

The four-week moving average in our global business sentiment survey fell from 37.9 to 37.1 in the week ended May 25. Though it remains off its recent peak, confidence is higher than that seen for most of 2017.

TUESDAY, JUNE 5

ISM nonmanufacturing survey (May; 10:00 a.m. EDT)

Forecast: 58.3

We look for the ISM nonmanufacturing index to have increased from 56.8 in April to 58.3 in May. This would reverse most of the decline seen in March but still leave the index below the 59.5 in February and 59.9 in January. Within the details, the employment index will likely bounce back after falling in April. New orders and the business activity are also forecast to have improved in May. Supplier deliveries dropped in April, and we expect them to have risen in May. This would indicate slowing supplier deliveries as there are some anecdotes of growing supply constraints. Respondents noted in the April survey a shortage of class-A drivers and poor trucking and rail conditions. This could be partly attributed to new trucking regulation that was implemented on April 1.

WEDNESDAY, JUNE 6

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

Forecast: -$48.8 billion

We expect the nominal trade deficit to have narrowed from $49 billion in March to $48.8 billion in April. Already-released data showed that nominal goods deficit narrowed to $68.2 billion, but both nominal imports and exports fell 0.5%. We expect the services surplus to have contracted slightly. There is more uncertainty in the forecast than normal because the incoming data will include annual revisions. Trade in goods on a Census basis will be revised beginning with 2015, and statistics on trade in goods on a balance of payments basis and on trade in services will be revised beginning with 2010. Revised statistics on trade in goods on a Census basis will reflect corrections and adjustments to previously published not seasonally adjusted statistics, reclassifications of several end-use commodities, and recalculated seasonal and trading-day adjustments.

THURSDAY, JUNE 7

Jobless claims (week ended June 2; 8:30 a.m. EDT)

Forecast: 225,000

Initial claims for unemployment insurance benefits are expected to have risen from 221,000 to 225,000 in the week ending June 2. This would leave new filings a little above their prior four-week moving average. New filings are not a perfect measure of layoffs since the propensity for a laid-off worker to file a claim, also known as the take-up, fluctuates depending on where the economy is in the business cycle. With the labor market tight and a large number of job openings, the take-up rate is low.

FRIDAY, JUNE 8

No major releases scheduled.

EUROPE

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

Expect confirmation of first quarter slowing in the euro zone

Following two busy weeks, the week ahead brings another barrage of top-tier data for euro zone economies. Among the major releases will be the final GDP and retail sales figures for the currency area, as well as industrial production numbers for all the main European economies. The final estimate of the euro zone's first quarter GDP should confirm that the single-currency area slowed at the start of 2018, growing by only 0.4% q/q, down from 0.6% in the fourth quarter. In yearly terms, growth is expected to have also edged down, to 2.5% from 2.8% previously. Still, this is a solid figure, since it remains well above the 2.1% average for the past two years. Risks are nonetheless tilted toward a downward revision to only 0.3% q/q and 2.4% y/y, because final figures for France showed that the country expanded by only 0.2% q/q, instead of the 0.3% initially estimated. Yet this is not our base scenario; we think that the downward revision in France was not sharp enough to push the aggregate number down by 0.1 percentage point.

And while the quarterly slowdown was disappointing, it was not unexpected. Base effects from a roaring end to 2017 were always expected to depress the first quarter headline, particularly in manufacturing, while the bad weather in February and March also took a toll on retail sales, services consumption and building activities. We forecast that the fading of base effects and the jump in temperatures in April should ensure that second quarter growth rebounds to 0.5% q/q, which would chime in with our expectations of a gradual return to a more sustainable yearly growth rate of around 2%.

The key detail of this final release will be the expenditure breakdown of growth. Already-released figures showed that the picture was uneven across the main economies, making it hard to predict the aggregate components. A sharp loss of momentum in investment in France, particularly in manufacturing, was mainly behind the 0.5-percentage point slowdown in the country, while figures from Destatis showed that investment actually accelerated in Germany. This acceleration contrasts with that country's dismal monthly industrial production figures, so we think that a downward revision is warranted. We thus maintain our forecast that a slowdown in investment was a main factor behind the slowdown in the first quarter, as capacity constraints in manufacturing soared in most major countries following rapid growth at the end of last year, putting a lid on the expansion. We expect that investment in construction also slowed, but to a lesser extent, as the cold weather and the snowfalls disrupted building activities across the Continent in the middle of the quarter.

Net trade should have dragged as well, correcting the strong results in the fourth quarter. We expect that exports outright declined following an unsustainable jump at the end of last year, led by the capital goods sector. Capital goods exports can be volatile, particularly for large items such as planes and ships, and already-released data for most major countries confirm our view of a poor quarter for exports. Imports, meanwhile, are expected to have remained only steady, depressed by the slowdown in capital expenditures.

Consumer spending growth likely held steady as a sharp easing in goods spending was offset by a small uptick in services spending. The snowfalls and the bad weather kept consumers away from the High Street, but spending in services excluding accommodation and leisure services—they too were hit by the cold weather—should have recovered following a disappointing fourth quarter. Across major countries, a slowdown in France is expected to have been offset by a pickup in Germany and Spain.

The good news is that consumer spending should recover in the second quarter, and so should investment, mainly in construction. But the expansion is set to cool in 2018 as a whole compared with the blistering gains in 2017. Accordingly, we expect that growth in the area will slow to 2% y/y by year's end, from 2.5% in the first quarter, in line with the slowdown in the trend in real money growth.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 10:00 a.m.	Euro Zone: Retail Sales for April	% change	0.5	0.1
Tues @ 1:40 p.m.	Russia: Consumer Price Index for May	% change	0.6	0.4
Wed @ 8:05 a.m.	Spain: Industrial Production for April	% change	0.2	1.2
Thur @ 9:00 a.m.	Italy: Retail Sales for April	% change	0.3	-0.2
Thur @ 10:00 a.m.	Euro Zone: GDP for Q1	% change	0.4	0.6
Fri @ 8:00 a.m.	France: Industrial Production for April	% change	0.3	-0.4
Fri @ 9:00 a.m.	Germany: Industrial Production for April	% change	-0.6	1.0

MONDAY, JUNE 4

No major indicators are scheduled for release.

TUESDAY, JUNE 5

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

Euro zone retail sales likely rose by 0.5% in monthly terms in April, building on a 0.1% increase in March. The preliminary country data made available until now have been mixed, showing that a 2.3% m/m surge in production in Germany offset a 0.5% decline in France and a 0.3% fall in Spain. Numbers for Ireland are out too, showing that sales in the country rose by a strong 1.5% m/m, reversing most of the previous month's 1.9% plunge. Across sectors, we expect that clothing sales increased in most major countries on the back of the rise in temperatures, which likely drove up demand for retailers' spring ranges following the chilly months of February and March. Food sales are expected to have remained relatively steady, while spending on household durables should have come in mixed across countries. We expect that retail sales will remain robust throughout this year, and support will mainly come from a rebound in sales in Germany following weak results since the third quarter of 2017. Germany's labour market is going from strength to strength, pushing up wages, and anecdotal evidence shows that pay settlements have started to rise sharply.

WEDNESDAY, JUNE 6

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

Spanish industry likely pulled back from its March peak and printed at 0.2% m/m in April, as energy production should have flatlined and the consumer goods sector retreated after an outstanding performance earlier. The dip in Spanish sentiment is largely in sync with major European peers, pointing to an easing in momentum in manufacturing. On a more positive note, we see signs of a construction revival which could keep capital goods production afloat. Competitive wages are also boosting the manufacturing sector's competitiveness. Despite Spain's GDP growth spurt, salaries increased by 0.2% on average in 2017. But as the trade war with the U.S. intensifies and the cheap oil that propelled Spanish industry comes to an end, we see sizable downward risks in the near term.

THURSDAY, JUNE 7

Italy: Retail Sales (April; 9:00 a.m. BST)

Italy's retail sales likely rebounded in April, adding 0.3% m/m, following a 0.2% decline in March. Domestic demand is strengthening thanks to rising employment. External demand for Italian products has driven up labour needs, especially in manufacturing where capacity constraints are limiting gains. Better labour market prospects are improving wage dynamics and bolstering household spending. However, an uncertain economic and political environment is tilting risks to the downside.

FRIDAY, JUNE 8

France: Industrial Production (April; 8:00 a.m. BST)

France's industrial production likely grew by 0.3% m/m in April, reversing much of March's 0.4% decline. The yearly rate should have risen to 2.9%, from 1.8% in March, back above the 2.7% average for the past 12 months. Oil refining is expected to rebound from a sharp 8.3% m/m decline at the end of the quarter due to maintenance of one of the country's major refineries, boosting manufacturing production, though manufacturing of transport equipment likely rose too following a subdued April. Developments in the 'other manufacturing' subsector should have come in mixed, as an expected decline in pharmaceuticals output—pharmaceuticals production is highly volatile and it already rose sharply for two consecutive months, warranting a decline in April—should offset a rebound in clothing sales. The month's warm weather is expected to have raised demand for retailers' spring collections following two months of subdued footfall, firing up factories again. By contrast, the main drag on the headline is likely to have been energy production, as temperatures remained unseasonably high during the month—this April was the third warmest April since 1900—depressing demand for heating.

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

German industrial production likely retreated slightly at the start of the second quarter, falling 0.6% m/m, after jumping by 1% in March. In year-ago terms, the rate of increase is expected to have ticked up to around 1.8% in April from 1.5% in the previous month. Demand weakened further at the end of the first quarter, which likely weighed on production somewhat. German manufacturing orders rose 0.9% m/m in March, but the yearly expansion rate remained relatively stable at 3.1%. Domestic orders recovered during the month, while foreign orders were behind the overall contraction. The Markit manufacturing PMI slid further in April to a nine-month low of 58.1 from 58.2 in March, well below the peak in December, pointing to weakening momentum in the sector. The outlook remains clouded because of the uncertainty caused by the Brexit negotiations and in particular the new U.S. import tariffs, which 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's second GDP estimate for Q1 will underline weak start to 2018

It was a weak start to 2018 for Japan's economy. GDP fell 0.2% q/q, following the 0.4% gain in the December quarter, according to preliminary estimates. We do not expect material revisions in the second GDP estimate. The quarterly decline in GDP growth was largely due to faltering domestic demand; both consumption and investment were flat, causing overall domestic demand to decline. Export growth has also cooled, helped by the stronger yen eroding the improved competitiveness that was a boost in 2017.

China's trade data suggest that trade tensions with the U.S. have not dampened activity so far, although if threatened imminent tariffs are enacted, they will bite. China's monthly trade surplus likely widened in May. Both exports and imports are expected to remain on a broadly improving trend, following the drop in March on seasonal factors.

Elsewhere, Australia's GDP growth likely improved to 0.5% q/q in the March quarter, following the disappointing 0.4% expansion in the December quarter. Preliminary estimates suggest a positive 0.3-percentage point contribution from net exports, after they were a drag in the fourth quarter. The consumption contribution will be mediocre, unsurprising given subdued income growth.

On the policy front, the Reserve Bank of India will likely keep the repo rate steady at 6% in June, but the decision will be down to the wire. Emerging market outflows have stepped up in recent weeks and India's rupee has come under pressure, so the RBI may come off the sidelines to help arrest the outflows. We attached a 40% probability that a rate hike will occur, reversing the 25 basis point reduction in August. Elsewhere, the Reserve Bank of Australia will keep the cash rate on hold in June for the 21st consecutive meeting. At first glance, it looks as though the RBA has been resting on its laurels for all that time, but taking a closer look, that response is just what the doctor ordered. Predictability and stability are necessary features of monetary policy in Australia. We don't expect interest rate hikes until early 2019.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 11:30 a.m.	Australia Retail trade for April	% change	0.4	0.0
Tues @ 2:00 p.m.	Malaysia Foreign trade for April	MYR bil	9.2	14.7
Tues @ 2:30 p.m.	Australia Monetary policy for June	%	1.5	1.5
Tues @ 6:00 p.m.	Taiwan Consumer price index for May	% change yr ago	2.3	2.0
Wed @ 11:30 a.m.	Australia GDP for Q1	% change	0.5	0.4
Wed @ 5:30 p.m.	India Monetary policy for June	%	6.0	6.0
Thurs @ 11:30 a.m.	Australia Foreign trade for April	A$ bil	0.9	1.5
Fri @ Unknown	China Foreign trade for May	US$ bil	32.6	28.8
Fri @ 9:50 a.m.	Japan GDP for Q1 - second estimate	% change	-0.2	0.4
Fri @ 6:00 p.m.	Taiwan Foreign trade for May	US$ bil	3.6	4.2

MONDAY, JUNE 4

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

Australia's seasonally adjusted retail trade likely hit 0.4% m/m in April after being flat in March. This should keep the trend pace around 0.3% m/m, below its historical average of 0.5%. The underperformance reflects how households are not spending with exuberance amid relatively upbeat economic conditions, and the reason is income growth. Despite ongoing labour market tightening for the past 18 months, wage growth is running around 2% y/y, not far above the record low 1.8% reached last year. We expect modest improvement in income growth over 2018, which should drive some improvement in the pace of retail spending.

TUESDAY, JUNE 5

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

Malaysia's trade surplus likely narrowed in April to MYR9.2 billion after ballooning to MYR14.7 billion in March after disruptions from Lunar New Year festivities dissipated. The uptick in March was mainly driven by manufactured goods, in particular the electrical and electronics category. The sustained upswing in the global tech cycle powered Malaysia's economy in 2017 to its best performance in years. Ongoing buoyancy in global tech demand should lift Malaysia's external sector, which is heavily exposed to the tech cycle again this year, although not to the same lofty heights.

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

The Reserve Bank of Australia will keep the cash rate steady at 1.5% at its June policy meeting, where it has been since August 2016. At first glance, it looks as though the RBA has been resting on its laurels for all that time, but taking a closer look, that response is just what the doctor ordered. Predictability and stability are necessary features of monetary policy in Australia. Interest rates are firmly in accommodative territory, and that is necessary to support the economy, especially the weak spots such as wages, and to support the uptrend in nonmining investment. There's no need to rush policy normalisation. With nascent wage growth alongside inflation hovering at the low end of the central bank's 2%-to-3% target, we don't expect interest rate hikes until early 2019.

Taiwan: Consumer Price Index (May; 6:00 p.m. AEST; 8:00 a.m. GMT)

Taiwan's consumer price index likely increased 2.3% y/y in May, after rising 2% in April. Price pressures are expected to gradually rise this year as the impact of a high base on fresh produce prices fades and wages increase for public servants and minimum wage earners. That being said, amid the rising threat from trade protectionism, we expect the central bank to remain cautious and maintain its current monetary policy stance in the near term. Inflation will need to be on the high side of 2% in the next two months for the central bank to consider lifting the policy rate from 1.375%.

WEDNESDAY, JUNE 6

Australia: GDP (2018Q1; 11:30 a.m. AEST; 1:30 a.m. GMT)

Australia's GDP growth likely improved to 0.5% q/q in the March quarter, following the disappointing 0.4% expansion in the December quarter. Preliminary estimates suggest net exports added 0.3 percentage point to GDP growth, after subtracting 0.4 percentage point in the December quarter. The turnaround reflects marked improvement in export volumes, as supply impediments eased. Consumption is poised to add around 0.2 percentage point, a mediocre contribution but not entirely surprising given ongoing weakness in income growth. Our forecast for March quarter GDP growth will firm as further partial indicators are released over the next week.

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

The Reserve Bank of India will likely keep the repo rate steady at 6% in June, but the decision will be down to the wire. Emerging market outflows have stepped up in recent weeks and India's rupee has come under pressure, so the RBI may come off the sidelines to help arrest the outflows. We attached a 40% probability that a rate hike will occur, reversing the 25-basis point reduction in August. Inflation has heated up in recent months and reached a three-month high in April at 4.6% y/y, but it remains at the lower end of the RBI's 4.7%-to-5.1% target range. There are upside risks to inflation due to high oil prices; India's is the world's third largest oil importer so elevated oil prices bloat the import bill.

THURSDAY, JUNE 7

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

Australia's trade surplus likely narrowed to A$920 million in April, following the A$1.53 billion surplus in March. The import bill likely increased in April, particularly for intermediate goods, due to the jump in global oil prices from supply concerns in crucial spots. Australia's export sector is doing well, a testament to strong global demand. But there was a second consecutive monthly pullback in iron ore prices in April, which should drag on the trade surplus.

FRIDAY, JUNE 8

China: Foreign Trade (May; Unknown)

China's trade surplus likely widened to US$32.6 billion in May, after a US$28.8 billion surplus in April and a US$5 billion deficit in March. Exports and imports are expected to remain on a broadly improving trend, following the drop in March on seasonal factors. All told, the data suggest that trade disputes with the U.S. have not dampened activity so far, although potential tariffs that could be enacted in late May could hurt trade in coming months.

Japan: GDP (2018Q1; 9:50 a.m. AEST; Thursday, 11:50 p.m. GMT)

The preliminary estimate of Japan's March quarter GDP was disappointing, interrupting the eight quarters of continued growth. Seasonally adjusted real GDP fell 0.2% q/q, following the 0.4% gain in the December quarter. We do not expect material revisions in the second GDP estimate. The quarterly decline in GDP growth was largely due to faltering domestic demand; both consumption and investment were flat, causing overall domestic demand to decline. Export growth has also cooled, helped by the stronger yen eroding the improved competitiveness that was a boost in 2017.

Taiwan: Foreign Trade (May; 6:00 p.m. AEST; 8:00 a.m. GMT)

Taiwan's trade surplus likely narrowed to US$3.6 billion in May, after declining to US$4.2 billion in April. Although we expect Taiwan to benefit from solid external demand this year, the threat from trade protectionism poses a downside risk. Mainland China is under pressure from the U.S. to reduce its bilateral trade surplus. A full-blown trade war between the two would deal a big blow to Taiwan. Taiwanese firms are a key part of mainland China's manufacturing supply chain, and many Taiwanese businesses operate on the mainland.

The Long View

May's US$-denominated corporate bond offerings plunged by 30% annually in response to a 68 basis point jump by the 10-year Treasury yield to 2.98%.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
May 31, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 124 bp approximates 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 377 bp resembles what is inferred from the spread's macroeconomic drivers and the Volatility 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% and subsequently bottoming at January 2018's 3.3%, April's U.S. high-yield default rate equaled 3.7%. Moody's Default and Ratings Analytics team expects the default rate will average 1.9% during Q1-2019.

US CORPORATE BOND ISSUANCE

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

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.

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

For yearlong 2016, worldwide corporate bond offerings rose by 2.3% annually for IG (to $2.402 trillion) and sank by 7.8% for high yield (to $426 billion). During yearlong 2017, worldwide corporate bond offerings increased by 4.0% annually (to $2.499 trillion) for IG and advance by 41.2% for high yield (to $602 billion). The projected annual percent changes for 2018's worldwide corporate bond offerings are +1.8% for IG and -5.0% for high yield.

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

The Long View

US ECONOMIC OUTLOOK

The consensus expects that the mid-point for the federal funds rate should finish 2018 at 2.125%. In view of the considerable underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global economy operates below trend, the 10-year Treasury yield may not remain above 3% for long. A fundamentally excessive climb by Treasury bond yields and a pronounced slowing by expenditures in dynamic emerging market countries are among the biggest threats to the adequacy of economic growth and credit spreads.

EUROPE

By Barbara Teixeira Arajuo of Moody's Analytics
May 31, 2018

EURO ZONE

The preliminary report on the euro zone's May inflation exceeded the consensus by far, though individual country figures released Wednesday and early Thursday had already hinted at an upward surprise. But markets needn't be alarmed. Most of the jump was due to a spike in energy prices and to a rebound in services inflation, both of which were largely expected. There is still little evidence that we are at the start of a marked increase in inflation, and underlying inflation pressures remained weak.

But now the ECB clearly finds itself in a difficult position. Volatility in bond markets related to the political chaos in Italy would normally push the bank to try to buy some time before announcing an end to its quantitative easing programme—we still expect asset purchases to be dialed down to zero in the fourth quarter, though now we are not sure that the bank will announce such a move at its June meeting. A further easing in economic activity data would do likewise. Both are possible, since it is still hard to say how the situation in Italy will play out, while survey data for the second quarter are coming in weak. But at the same time the ECB may be afraid of delaying action when inflation is at target and growth remains solid. It may also fear losing this window of opportunity to start normalizing policy.

Inflation data won't give the Monetary Policy Committee a breather over the summer. The recent rise in Brent prices will push energy inflation higher in June and July, leading the headline rate to jump past 2%. Services inflation, meanwhile, should edge back slightly in June, after it surged on the back of a reversal of the Easter effect in May. But our view is that services inflation will gradually rise from July, in line with the developments in the labour market.

Food inflation should also edge higher, while tobacco inflation will remain high until March, when base effects related to a tax hike in France will kick in. Core goods inflation, by contrast, represents the major downside risk. It fell further below trend in May, to only 0.2%.

Overall, while we still forecast that the ECB will end its asset purchase programme via a gradual taper to zero in the fourth quarter, we think that the current chaos in financial markets will likely prompt it to postpone hiking the deposit rate as soon as the first half of next year.

FRANCE

Following Tuesday's sharp plunges in the wake of the Italian political crisis, most European markets regained some of the lost ground on Wednesday as reports emerged that the Five Star and the Lega would make a new attempt to form a government. This calmed investors' fears, but it still overshadowed the barrage of datapoints released during the day. On balance, the consensus missed the mark on most of the results, from the jump in retail sales in Germany, to the staggering rise in the country's inflation rate, to the plunge in spending on goods in France. But the main downside detail was the downward revision to France's first quarter GDP growth.

The final estimate shows that the French economy grew just 0.2% q/q in the three months to March, below the initial estimate of 0.3% and down sharply from a 0.7% gain previously. But while this is disappointing, we had already warned that the risks of a downward revision were high. Industrial production figures for March had come in well below the estimates that fed into the statistical office's first growth estimate, suggesting that manufacturing investment was likely to be revised down. And that is exactly what happened, though the revision to total investment was a little larger than we had first forecast because services and construction investment were also revised lower.

That consumer spending was also revised down marginally added to the bad news. But though the numbers are weak, they are not a calamity. Several one-off factors such as the bad weather and March's heavy snowfalls, as well as the early timing of Easter, dented growth in consumer spending and construction over the quarter. And blistering growth in the second half of last year created challenging base effects for growth in manufacturing investment at the start of 2018, meaning that a pullback wasn't completely unexpected.

We are confident that the momentum in France remains solid, so we are penciling in a rebound in the second quarter. We caution, though, that 2017's staggering performance is unlikely to be repeated this year.

ASIA PACIFIC

By Alaistair Chan, Katrina Ell, Veasna Kong, Faraz Syed of Moody's Analytics
May 31, 2018

CHINA

China's One Belt One Road Initiative was announced in September 2013 in Kazakhstan by President Xi Jinping. It combined a number of existing initiatives into two: the Silk Road Economic Belt, which is a land-based initiative to create infrastructure links to central Europe, notably with a railway through central Asia, and the Maritime Silk Road, which is a maritime-based initiative to build infrastructure along sea routes from China through Southeast Asia, the Middle East and Europe.

Recreating the historic Silk Road is positioned as China's attempt to build geopolitical heft and status. Countries that are part of the initiative would naturally expect more and improved economic links to the powerhouse Chinese economy and benefit from increased integration and easier transport that follows. Indeed, countries included in the initiative are vast.

Of course, there are also a number of possible geopolitical objectives that China is pursuing. For example, by building links to Pakistan it 'contains' India and also minimizes China's dependence on trade flows via the Straits of Malacca. Increased linkages to China's economy could also provide China with greater say in setting global standards.

There are also a number of domestic objectives, including using up overcapacity in steel, upgrading inland China, upgrading domestic infrastructure, and boosting exports. One Belt One Road will also help China's 'Made in China 2025' initiative that seeks to move its industry up the value chain by setting regional and global technology standards, for example in high-speed rail and telecoms. Beijing hopes that emerging markets that benefit from OBOR will be more likely to accept higher-end Chinese industrial goods than their developed market counterparts. Providing an inroad into the higher-end market would help facilitate China's underlying development strategy and drive greater acceptance of Chinese goods.

High-speed rail is an important part of this strategy. The Chinese government has reportedly mobilized 10,000 scientists and engineers to build on imported foreign technology. There has been success so far, with China being home to more than 50% of the world's total constructed high-speed railway, according to the Lowy Institute. Pushing out China's brand of high-speed railway is also hoped to push out China's high-end industrial exports, with a large market in countries covered by OBOR, especially southeast Asia and central Asia. There has already been some success. In the Jakarta-Bandung High-Speed Railway project, Beijing secured the rights to build the 142-kilometre high-speed rail line connecting the Indonesian capital of Jakarta and Bandung, toppling the Japanese, who were also bidding for the project. The project will reportedly adopt "Chinese standards, Chinese technology and Chinese equipment", according to Xinhua.

Windfalls for China

China's motivations for OBOR are multifaceted. At its heart is the need to address economic and political issues within China, while enabling China to assert its leadership on the global stage. From a domestic point of view, that means maintaining stability and ensuring the ongoing prosperity of its economy. On the external front, it means championing free trade, economic integration, and fostering regional stability to support growth domestically.

For inland China, aside from helping to utilize excess capacity and improve connectivity, developing the western provinces is a priority for the government, because it may help to quell possible secessionist movements in Xinjiang and Tibet, especially among the Uighurs and other ethnic minorities that have not reaped the full benefits of China's economic development.

The OBOR initiative forms a critical part of "The China Dream," including the "rejuvenation of the Chinese nation." Underpinned by that grand vision, Xi has presided over an increasingly nationalistic agenda, with his centralization of power in the Communist Party, military, and government providing him with the power to push through deeper economic reforms as well as a more assertive foreign policy. Indeed, one overarching objective of OBOR is to pull countries closer to China's sphere of influence. China has already had success on this front, with countries such as Cambodia, Laos, Myanmar, and the Philippines already lurching towards China.

The China-Pakistan Corridor

One of the highest-profile projects to date is the China-Pakistan Economic Corridor, as it links Kashgar in Xinjiang with the Port of Gwadar. The project has been estimated to cost $46 billion. There have been rising aspirations in Xinjiang for greater autonomy from Beijing's rule. Beijing's strategy to overcome Xinjiang's frustrations and rising militancy is by addressing the high poverty and underdevelopment in the region. Landlocked Xinjiang, which is more than 4,000 kilometers away from China's coastal ports, would greatly benefit from the construction of the Port of Gwadar, via reduced transport costs. Improving economic prosperity, it is hoped, would reduce poverty and frustration with the central government. It won't be easy to construct the project; Pakistan is not an easy place to do business, with the Pakistani military pledging to deploy 12,000 soldiers to protect the project.

Financing OBOR

China estimates that it needs around $26 trillion of infrastructure investment by 2030 to fulfill its OBOR goal. This amounts to around $1.7 trillion of funding per year on highways, railways and sea ports. The majority of the committed funding has been from the public sector; however, private partnerships and general funding from the private sector is expected to increase. Newly formed financial intermediaries will have direct mandate to tap into the large savings pool across Asia and help bring private and public funding together for OBOR projects.

The most famous of the newly established banks is the Asian Infrastructure Investment Bank. However, other banks have also increased their mandate towards serving OBOR interests. The New Development Bank, which was previously the BRICS development bank, and the Silk Road Fund have committed finances towards OBOR projects. Together with the AIIB, these amount to more than $1.1 trillion.

Raising capital will likely come from government, sub-sovereign and corporate bond; talks of purpose-built Silk Road Bonds are also under way. However, there remains considerable uncertainty around the rate of return for these projects. Much of the investment in OBOR projects is in developing countries or areas, which carries political, sovereign, event and financial risk. Thus raising private capital at favorable rates won't be an easy task. Various proponents of OBOR have floated the idea of developing fundamental bond and equity indexes which capture OBOR risks and returns more appropriately.

However, public funding, especially from China, is already under way. China has initiated its outbound expansion into countries directly part of OBOR. Moreover, China committed to around $14.4 billion in nonfinancial outbound direct investment last year to 59 OBOR economies. Investment into Europe generally has been geared toward the less developed economies in Eastern and Southern Europe.

All levels of the Chinese government, from provincial universities to the national economic planning agency, are trying to get involved with OBOR. According to the Lowy Institute, most provinces across China have developed their own OBOR plan to coincide with the national blueprint.

Ratings Round-Up

By Kathryn Asher and Michael Ferlez

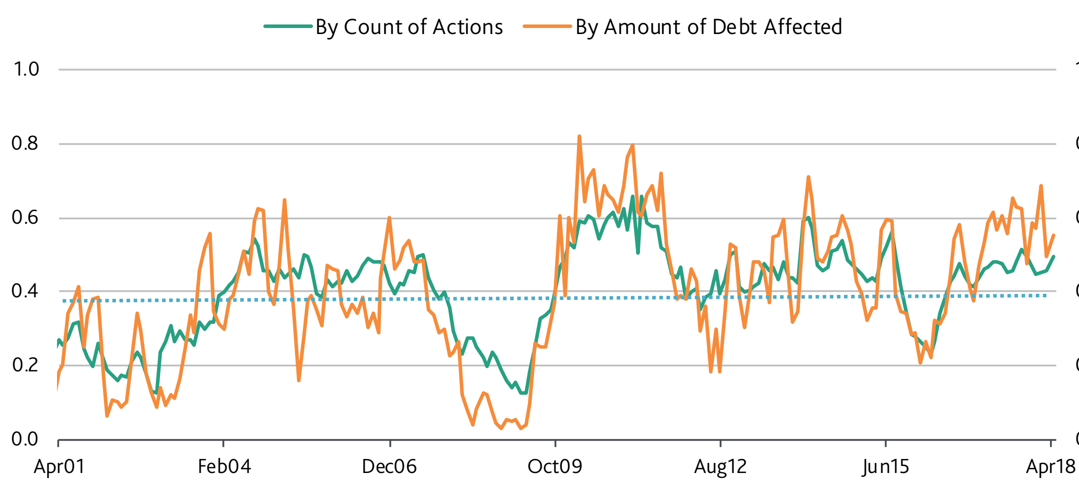
Latest U.S. Rating Changes Are All in the Utility Sector

In the U.S., the industrial sector was the only sector to undergo rating changes last week. The ratio of positive rating changes to total rating changes in the U.S. was 60%. Notable upgrades were Rockies Express Pipeline LLC and Ithacalux S.A.R-Informatica LLC. Rockies Express Pipeline was upgraded to reflect leverage after the firm agreed to repay $550 million in unsecured notes, while software developer, Ithacalux S.A.R-Informatica LLC, was upgraded to reflect improving revenues and profitability.

Meanwhile, the ratio of positive rating changes to total rating changes in Europe was 57%. Rating revisions were dominated by the industrial sector, though several financial and utility firms also received rating changes. The notable upgrade in the industrial sector was Air Canada, which was upgraded from Ba2 to Ba1 to reflect the reduced leverage and the firm's commitment to reduce debt. Meanwhile, GKN PLC-GKN Holdings PLC was the notable downgrade in the industrial sector. In the financial sector, European banks Abanca Corporacion Bancaria, S.A. and Novikombank JSCB were both upgraded. Elsewhere, Empresas Publicas de Medellin E.S.P, was downgraded from Baa2 to Baa3. The Colombian utility was downgraded following a string of disasters at the firm's Ituango hydro-electric generation plant.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

FIGURE 2
Rating Key

BCF	Bank Credit Facility Rating	MM	Money-Market
CFR	Corporate Family Rating	MTN	MTN Program Rating
CP	Commercial Paper Rating	Notes	Notes
FSR	Bank Financial Strength Rating	PDR	Probability of Default Rating
IFS	Insurance Financial Strength Rating	PS	Preferred Stock Rating
IR	Issuer Rating	SGLR	Speculative-Grade Liquidity Rating
JrSub	Junior Subordinated Rating	SLTD	Short- and Long-Term Deposit Rating
LGD	Loss Given Default Rating	SrSec	Senior Secured Rating
LTCF	Long-Term Corporate Family Rating	SrUnsec	Senior Unsecured Rating
LTD	Long-Term Deposit Rating	SrSub	Senior Subordinated
LTIR	Long-Term Issuer Rating	STD	Short-Term Deposit Rating

FIGURE 3
Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
5/24/18	ROCKIES EXPRESS PIPELINE LLC	Industrial	SrUnsec/LTCFR/PDR	2,575	U	Ba2	Ba1	SG
5/24/18	GLOBAL BRASS AND COPPER HOLDINGS, INC. -GLOBAL BRASS AND COPPER, INC.	Industrial	LTCFR/PDR		U	B1	Ba3	SG
5/29/18	ITHACALUX S.A.R.L-INFORMATICA LLC	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	650	U	Caa2	Caa1	SG

Source: Moody's

FIGURE 4
Rating Changes: Corporate & Financial Institutions – Europe

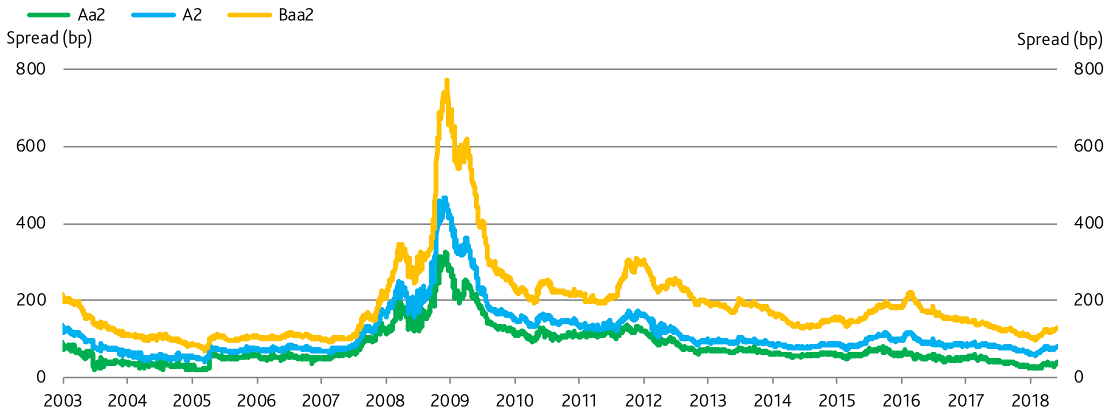
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
5/24/18	IRKUT CORPORATION, JSC	Industrial	LTCFR/PDR		D	Ba3	B1	SG	RUSSIA
5/24/18	SUEK JSC	Industrial	SrUnsec /LTCFR/PDR	611	U	Ba3	Ba2	SG	RUSSIA
5/24/18	EVRAZ PLC-EVRAZ GROUP S.A.	Industrial	SrUnsec /LTCFR/PDR	750	U	B1	Ba3	SG	LUXEMBOURG
5/25/18	ABANCA CORPORACION BANCARIA, S.A.	Financial	LTD		U	Ba3	Ba2	SG	SPAIN
5/28/18	ENCE ENERGIA Y CELULOSA, S.A.	Industrial	SrUnsec /LTCFR/PDR	291	U	Ba3	Ba2	SG	SPAIN
5/29/18	NOVIKOMBANK JSCB	Financial	LTD		U	B2	B1	SG	RUSSIA
5/29/18	GKN PLC-GKN HOLDINGS PLC	Industrial	SrUnsec/MTN	1,464	D	Baa3	Ba1	IG	UNITED KINGDOM

Source: Moody's

Market Data

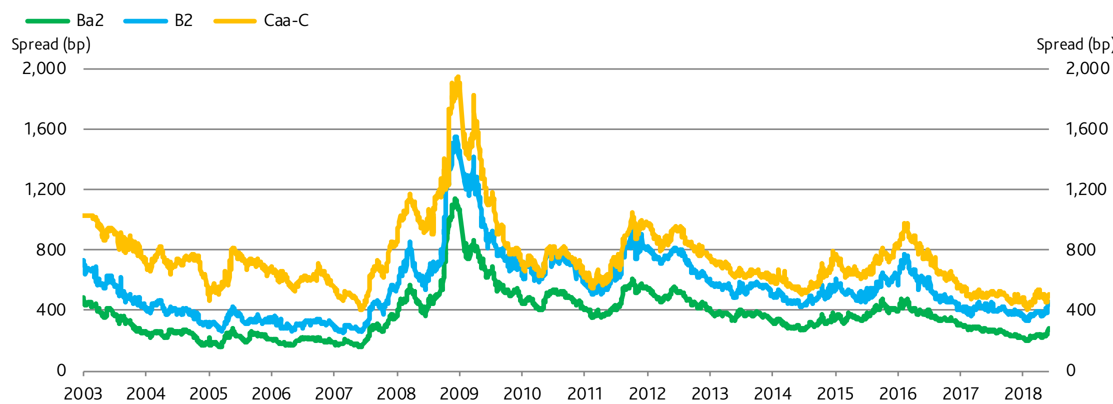
Spreads

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 (May 23, 2018 – May 30, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 30	May. 23	Senior Ratings
Talen Energy Supply, LLC	Caa2	C	B1
R.R. Donnelley & Sons Company	Caa2	Ca	B3
MBIA Insurance Corporation	Caa2	Ca	Caa2
Apple Inc.	Aaa	Aa1	Aa1
John Deere Capital Corporation	Baa1	Baa2	A2
Oracle Corporation	Aa3	A1	A1
PepsiCo, Inc.	Aa2	Aa3	A1
Walmart Inc.	Aa2	Aa3	Aa2
Amgen Inc.	A1	A2	Baa1
International Business Machines Corporation	Aa2	Aa3	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 30	May. 23	Senior Ratings
JPMorgan Chase & Co.	A3	A2	A3
Citigroup Inc.	Baa1	A3	Baa1
Morgan Stanley	Baa2	Baa1	A3
Bank of America, N.A.	A3	A2	Aa3
Viacom Inc.	Ba2	Ba1	Baa3
Ball Corporation	Baa2	Baa1	Ba1
Service Corporation International	Ba3	Ba2	Ba3
Sealed Air Corp.	Ba1	Baa3	Ba3
Progressive Corporation (The)	A3	A2	A2
Huntsman International LLC	Ba1	Baa3	Ba1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 30	May. 23	Spread Diff
Frontier Communications Corporation	Caa1	1,433	1,342	92
Hertz Corporation (The)	B3	926	866	60
Avon Products, Inc.	B3	934	885	49
Penney (J.C.) Corporation, Inc.	B3	1,203	1,158	45
Lexmark International, Inc.	Caa1	1,354	1,311	43
ServiceMaster Company, LLC (The)	B1	261	219	42
Parker Drilling Company	Caa2	1,363	1,323	40
International Game Technology	Ba2	195	160	35
Dole Food Company, Inc.	B3	209	178	31
Dish DBS Corporation	B1	639	609	30

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 30	May. 23	Spread Diff
Talen Energy Supply, LLC	B1	772	834	-62
Windstream Services, LLC	Caa1	2,007	2,027	-20
Cooper Tire & Rubber Company	B1	176	193	-17
Neiman Marcus Group LTD LLC	Caa3	976	991	-15
Goodyear Tire & Rubber Company (The)	Ba3	182	191	-9
SUPERVALU Inc.	B3	640	649	-9
Genworth Holdings, Inc.	B2	621	628	-8
PulteGroup, Inc.	Ba1	147	152	-5
Anthem, Inc.	Baa2	43	47	-4
Nordstrom, Inc.	Baa1	204	207	-4

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (May 23, 2018 – May 30, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 30	May. 23	Senior Ratings
Allied Irish Banks, p.l.c.	Baa2	Baa3	Ba1
Bank of Scotland plc	A1	A2	Aa3
AstraZeneca PLC	Aa2	Aa3	A3
GlaxoSmithKline plc	Aa2	Aa3	A2
Swisscom AG	Aa3	A1	A2
VERBUND AG	A2	A3	Baa2
Alliander N.V.	Aa3	A1	Aa2
Compass Group PLC	A1	A2	A3
NXP B.V.	Baa3	Ba1	Ba1
Old Mutual Plc	Aa1	Aa2	Ba1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 30	May. 23	Senior Ratings
Italy, Government of	B2	Ba2	Baa2
Credit Agricole S.A.	A2	Aa2	A1
Spain, Government of	Baa3	Baa1	Baa1
Societe Generale	A3	A1	A1
BNP Paribas	A2	Aa3	Aa3
Banco Bilbao Vizcaya Argentaria, S.A.	Ba1	Baa2	Baa1
Intesa Sanpaolo S.p.A.	Ba3	Ba1	Baa1
CaixaBank, S.A.	Baa3	Baa1	Baa2
Credit Agricole Corporate and Investment Bank	A2	Aa3	A1
UniCredit S.p.A.	Ba3	Ba1	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 30	May. 23	Spread Diff
Astaldi S.p.A.	Caa1	2,770	2,101	669
Novo Banco, S.A.	Caa2	835	674	160
Novafives S.A.S.	B3	366	261	104
Italy, Government of	Baa2	235	147	87
Banca Monte dei Paschi di Siena S.p.A.	B3	262	180	82
UniCredit S.p.A.	Baa1	165	96	69
Intesa Sanpaolo S.p.A.	Baa1	165	99	65
UniCredit Bank AG	Baa2	143	83	60
Assicurazioni Generali S.p.A	Baa2	148	94	54
Matalan Finance plc	Caa1	809	755	54

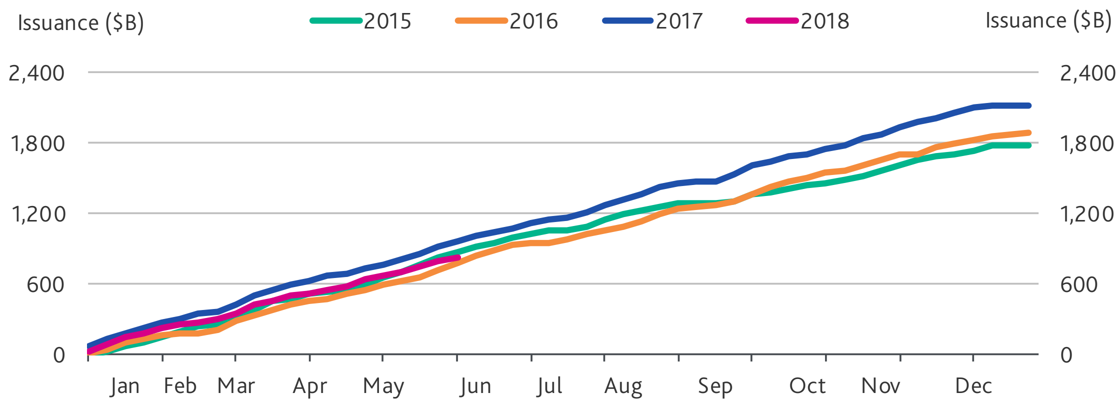
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 30	May. 23	Spread Diff
Eksportfinans ASA	Baa3	472	520	-49
Sappi Papier Holding GmbH	Ba2	350	355	-5
Old Mutual Plc	Ba1	29	30	-1
Marks & Spencer p.l.c.	Baa3	144	145	-1
Legrand France S.A.	A3	58	58	-1
Alpha Bank AE	Caa2	662	662	0
Eurobank Ergasias S.A.	Caa2	891	891	0
Piraeus Bank S.A.	Caa2	881	881	0
Autoroutes du Sud de la France (ASF)	A3	61	61	0
Electrabel SA	Baa1	86	86	0

Source: Moody's, CMA

Market Data

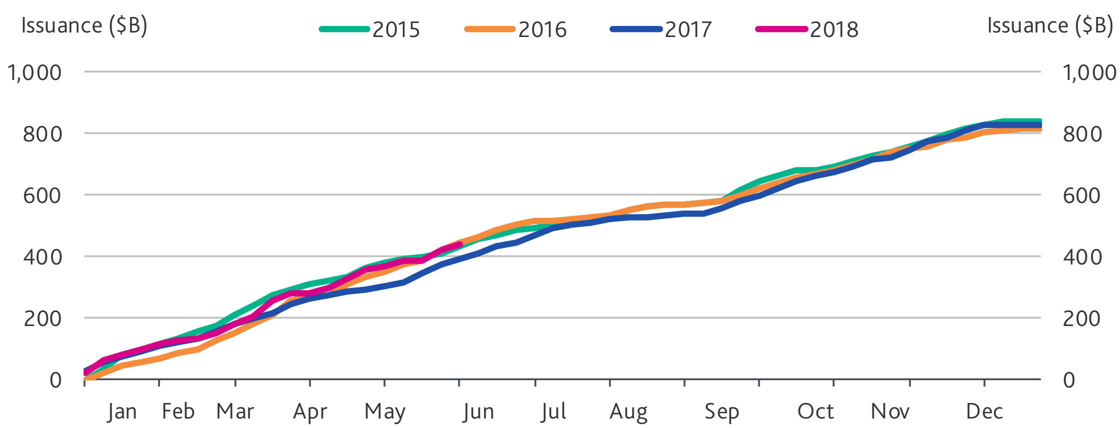
Issuance

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	22.845	3.436	26.516
Year-to-Date	623.697	160.574	816.719

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	11.913	0.649	17.490
Year-to-Date	363.935	51.858	438.104

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

Moody's Capital Markets Research *recent publications*

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

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

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

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

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

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

Profits Growth Curbs Defaults (Capital Markets Research)

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

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

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

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

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

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

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

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

Topics CreditEdge - Bank Default Risk Improves in 2017

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