

## WEEKLY MARKET OUTLOOK

Moody's Analytics Research

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## Financial Market Volatility May Soon Influence Fed Policy

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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: The highest composite speculative-grade bond yield since November 2016 now curbs high-yield bond issuance.

Credit Spreads

Investment Grade: We see year-end 2018's average investment grade bond spread exceeding its recent 121 bp. High Yield: Compared to a recent 366 bp, the high-yield spread may approximate 425 bp by year-end 2018.

Defaults

US HY default rate: Moody's Default and Ratings Analytics team forecasts that the U.S.' trailing 12-month high-yield default rate will sink from September 2018's 3.06% to 2.0% by September 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's US\$-denominated corporate bonds, IG bond issuance may drop by 9.5% to \$1.366 trillion, while high-yield bond issuance is likely to fall by 25.6% to \$337 billion..

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### [Ratings Round-Up](#)

Industrial Sector Leads U.S. Rating Changes

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Credit spreads, CDS movers, issuance.

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### [Moody's Capital Markets Research](#) *recent publications*

Links to commentaries on: Profits, corporate borrowing, U.S. investors, eerie similarities, base metals prices, debt to EBITDA, base metals, trade war, Investment grades, defaults, higher rates, profit growth, credit quality, foreign investors, internal funds, tariffs, borrowing restraint.

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**!** THIS REPORT WAS REPUBLISHED OCTOBER 15, 2018 TO UPDATE ECONOMIC FORECASTS FOR THE WEEK AHEAD.

Click [here](#) for *Moody's Credit Outlook*, our sister publication containing Moody's rating agency analysis of recent news events, summaries of recent rating changes, and summaries of recent research.

## Credit Markets Review and Outlook

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

### Financial Market Volatility May Soon Influence Fed Policy

Free-falling share prices might soon drive the 10-year Treasury yield under 3%. The market value of U.S. common equity was recently 7.4% under its record high of August 29, 2018. In the event the equity market sinks 10% under its current zenith, the containment of inflation expectations supplies the Fed with more than enough leeway to temporarily halt its ongoing normalization of monetary policy.

When monetary policy lacks precedent, flexibility is necessary. Never before has the Fed simultaneously firmed policy by both hiking fed funds and reducing its holdings of Treasury bonds and agency mortgage backed securities. For example, a deep enough drop by the market value of U.S. common stock may prompt the Fed to either downsize or halt the ongoing passive reduction of its Treasury bond holdings.

The equity market recognizes that it takes less of an increase in benchmark interest rates to materially damage business activity in a highly leveraged economy. For example, the share prices of the housing and motor vehicle industries have been hit hard by recent and possibly forthcoming increases for short- and long-term interest rates. As of October 10, the PHLX index of housing-sector share prices had plunged by 22.2% for 2018-to-date. In addition, a sample of seven motor vehicle industry stocks showed an accompanying median 2018-to-date price drop of 25.5%. By contrast, October 10's market value of U.S. common equity had been up by 3.8% since the end of 2017.

The new- and existing-unit home sales of the three months ended August 2018 were 4.4% under their current cycle high of 2017's final quarter, or when the 10-year Treasury yield averaged 2.37%. Once the moving three-month average of total unit home sales is 8% under its high of 2017's final quarter, the 10-year Treasury yield will probably begin to descend.

#### High-Yield Spread Remains Well Below-Trend Despite Equity Turmoil

As of October 10, the market value of U.S. common stock had sunk by 4.9% since the end of September 2018. At the same time, the VIX soared from 12.1 to 23.0 points, which implies the VIX has gone from being well under to significantly above its long-term median of 17.4 points. Though a composite high-yield bond spread has widened considerably from a very thin 335 basis points at the end of September to October 10's 366 bp, the latter was still much narrower than its long-term median of 472 bp.

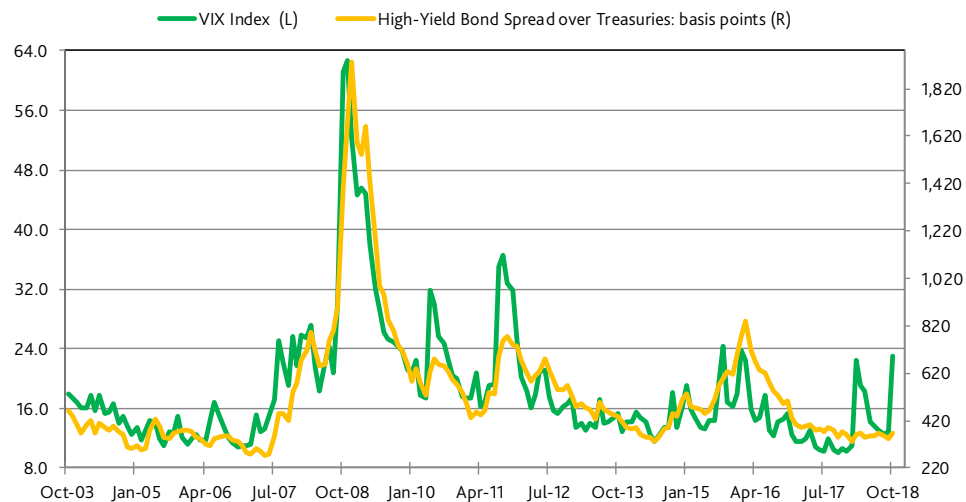
In terms of month-long averages, when the VIX was previously between 22.0 and 24.0 points, the high-yield bond spread averaged 590 bp. However, this tendency was violated as recently as February 2018, or when a 22.5 points average for the VIX was joined by a 361 bp average for the high-yield spread.

Ultimately, the relatively upbeat high-yield bond spread would prove prescient. By June 2018, the VIX's average had dropped to 13.7 points as the month-long average of the market value of U.S. common stock increased by 2.9% from February to June. In fact, for each of the current recovery's two previous incidents showing an atypically high VIX relative to the high-yield spread, the VIX would then fall and equities would rally.

If, as expected, profits grow and the high-yield default rate declines from September 2018's 3.1% to a third-quarter 2019 average of 1.8%, October 2018 will mark the fourth incident since the end of the Great Recession where a steep jump by the VIX relative to the high-yield spread was followed by lower VIX and higher share prices.

## Credit Markets Review and Outlook

**Figure 1: October Marks the Fourth Incident of the Current Recovery Where the VIX Has Risen Sharply Vis-a-vis the High-Yield Bond Spread**  
sources: CBOE, Moody's Analytics



### Core CPI Inflation Hardly Moves as Jobless Rate Sinks from 2012's 8.2%

What has become of the Phillips curve, or the supposed tendency of core CPI inflation to accelerate as the unemployment rate falls to historically low levels? Despite a plunge by the unemployment rate from the 8.2% of 2012's second quarter to the 3.8% of 2018's third quarter, the annual rate of core CPI inflation hardly budged from 2.3% to 2.2%, respectively. Better yet, after excluding shelter costs from the core CPI, the annual rate of growth for this abbreviated version of core inflation actually slowed considerably from the 2.3% of 2012's second quarter to the 1.4% of 2018's third quarter.

The latest sell-off of equities can be partly ascribed to worry over whether too many businesses may have overestimated their pricing power after having become too complacent over costs. The dollar incomes of an aging America may not be growing rapidly enough to easily absorb broadly distributed price hikes.

Even with an extraordinary boost from tax cuts, disposable personal income's 5.3% year-over-year growth for the three-months-ended August 2018 still falls short of the year-over-year increases of 6.2% for 2014's second half and the 7.2% of the four months ended December 2000, or when the jobless rate last remained under 4%.

### Profound Demographic Change May Contain Treasury Bond Yields

As shown by Japan's experience, aging economies are not prime breeding grounds for persistently rapid and ultimately disruptive consumer price inflation. Moreover, India's price inflation has been faster than that of China partly because India's population is younger than that of China.

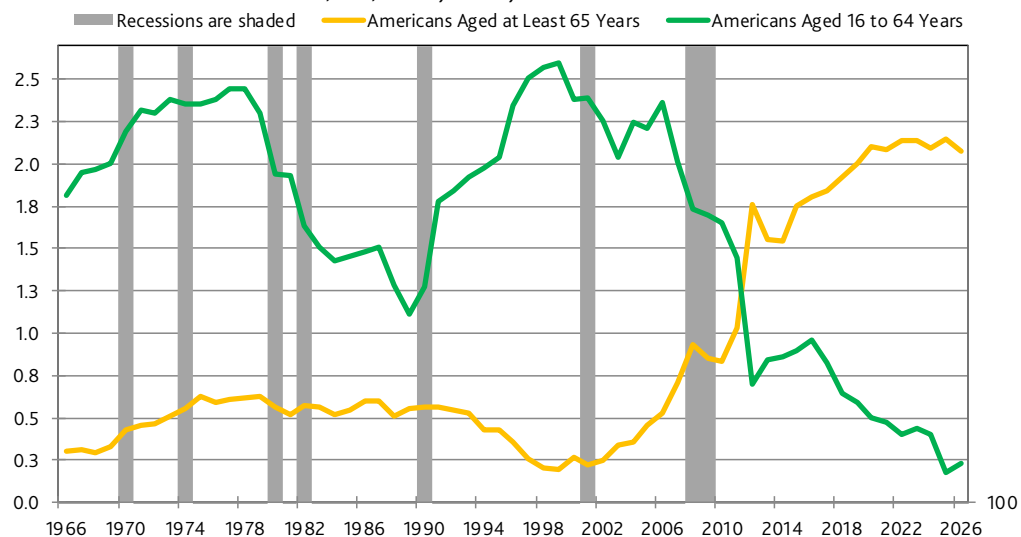
Though U.S. demographic change will be less severe than that of Japan, the ongoing and forthcoming aging of the U.S. population is without precedent. The average annual increase in the number of Americans aged 16 to 64 years, or the working-age population, is expected to slow from 2.48 million of the five-years-ended 2000 to 500,000 during the next five years, while the number aged 65 years and older is projected to soar from the 260,000 per annum of the five-years-ended 2000 to 2.1 million annually over the next five years.

In all likelihood, the growth rates of real GDP, household expenditures, and consumer price inflation will be slower than otherwise. In turn, current five-year forecasts for short- and long-term interest rates may prove to be on the high side.

## Credit Markets Review and Outlook

**Figure 2: Unprecedented Aging of U.S. Population May Profoundly Effect Financial Markets and Business Activity**

*sources: Census Bureau, BEA, Moody's Analytics*



### Older Workforces Are Less Likely to Sustain Consumer Price Inflation

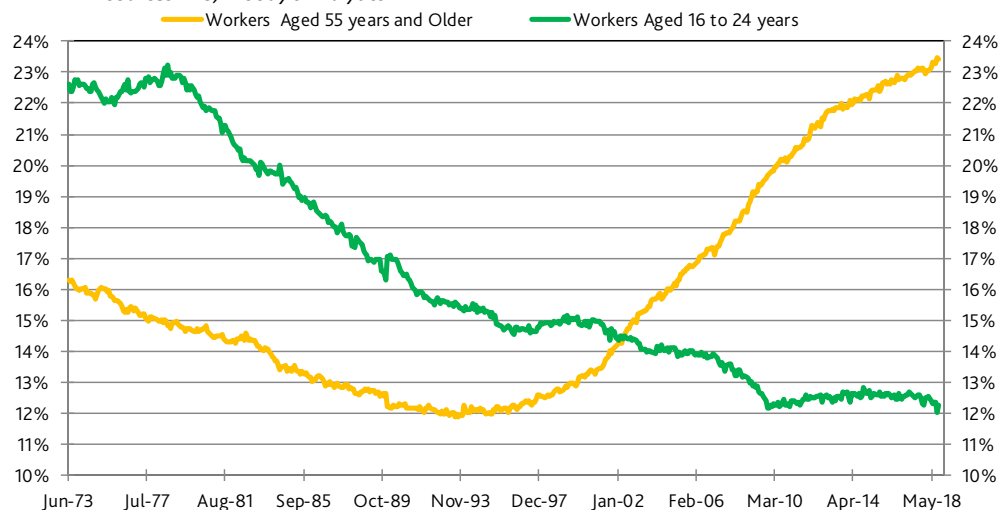
In addition to the overall population, the U.S. workforce also has aged. As derived from September's employment report, a record 23.4% of household survey employment consists of workers aged 55 years and older. By contrast, amid the persistently rapid consumer price inflation of the 1970s and very early 1980s, a record 23.2% of such employment consisted of workers aged 16 to 24 years in August 1978.

If older workers spend more cautiously than younger employees, then price hikes face greater consumer resistance as the workforce ages. Moreover, the growth rates for both personal income and household spending might be expected to slow as a growing percentage of employment is at least 55 years of age.

**Figure 3: Older Workers' Record High Share of Employment May Rein In Growth Rates of Wage & Salary Income and Household Expenditures**

*age cohort as % of household survey employment*

*sources: BLS, Moody's Analytics*



Since June 2009's final month of the Great Recession, the cumulative 11.4% increase by household survey employment has been unevenly divided between a 34.8% surge in the number of employed individuals aged at least 55 years and a much smaller 5.7% increase for the employment of those aged from 16 to 54 years. However, the latter also was unevenly divided, wherein the employment of the 35 to 54 year age cohort dipped by a cumulative 0.6% since June 2009, while employment expanded by 18.2% for the 25 to 34 year age cohort and rose by 8.0% for the 16 to 24 year age cohort.

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

### THE U.S.

By Ryan Sweet, Moody's Analytics

### Florence Could Show Up in The Week's Data

The economic calendar heats up, and some of the data, including retail sales, initial claims, industrial production, housing starts and existing-home sales could be impacted (either positively or negatively) by Hurricane Florence. We look for retail sales to have risen 0.6% in September, supported by an increase in vehicle sales. Florence likely provided a boost to nominal retail sales via building material stores. Existing-home sales are forecast to have fallen from 5.34 million annualized units in August to 5.26 million in September, the lowest since early 2016. Some of the decline can be blamed on Hurricane Florence since a good chunk of existing-home sales and a large portion of home closings each month normally occur at the end of the month.

The Federal Open Market Committee minutes from the September Fed meeting are not likely to provide any big surprises. However, they will be scrutinized by financial markets more than usual. Financial markets have been on edge that the Fed may raise rates more than currently priced in. The divergence between where the Fed's expected path for the fed funds rate and market's has been fairly wide for some time. Eventually, this gap had to narrow. Financial market conditions will also be watched this week, but we don't think the recent struggles on Wall Street will have any meaningful impact on the economy.

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Mon @ 8:30 a.m.	NY Empire State Manufacturing Survey for October	index	21.0	20.0	13 to 24.8	19.0
Mon @ 8:30 a.m.	Retail Sales, advanced for September	% change	0.6	0.6	0.4 to 1.1	0.1
	Excluding autos	% change	0	0.4	0.2 to 0.9	0.3
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence	index, 4-wk MA				32.6
Mon @ 10:00 a.m.	Business Inventories for August	% change	0.5	0.5	0.3 to 0.6	0.6
Tues @ 9:15 a.m.	Industrial Production for September	% change	0.1	0.2	0 to 0.6	0.4
	Capacity Utilization	%	78.2	78.2	77.9 to 78.4	78.1
Tues @ 10:00 a.m.	Job Openings and Labor Turnover Survey for August	ths		6,900	6,750 to 6,948	6,939
Tues @ 10:00 a.m.	NAHB Housing Market Index for October	index	66	67	66 to 68	67
Wed @ 8:30 a.m.	New Residential Construction for September	mil., SAAR		1,210	1,179 to 1,282	1,282
	Permits	mil., SAAR		1,275	1,208 to 1,310	1,249
Wed @ 2:00 p.m.	FOMC minutes for September					
Thur @ 8:30 a.m.	Jobless Claims for 10/13/18	ths	210	210	204 to 225	214
Thur @ 8:30 a.m.	Philadelphia Fed Survey for October	index	21.9	20.0	16.2 to 24	22.9
Thur @ 10:00 a.m.	Conference Board Leading Indicators for September	% change		0.5	0.2 to 0.6	0.4
Fri @ 10:00 a.m.	Existing-Home Sales for September	mil., SAAR	5.26	5.29	5.23 to 5.39	5.34

#### MONDAY, OCTOBER 15

#### Retail sales (September; 8:30 a.m. EDT)

Forecast 0.6% (headline)

Forecast 0.4% (ex-autos)

We look for retail sales to have risen 0.6% in September. There is considerable uncertainty in the forecast because of Hurricane Florence and also the release of the new iPhone. The latter isn't expected to have any noticeable impact on September retail sales as new versions each year have been released in September, therefore the seasonal adjustment should capture it. We expect the hurricane to have provided a boost to building material store sales. Already-released data on unit vehicle sales were solid and we expect autos to add 0.2 percentage point to nominal retail sales growth in September. Nominal spending at gasoline stations likely added 0.1 percentage point to retail sales growth.

## The Week Ahead

**Business confidence (week ended October 12; 10:00 a.m. EDT)**

Forecast: N/A

Global business sentiment remains good, consistent with a global economy that is growing just above its potential. Sales and pricing are sturdy. However, the escalating trade war is weighing on sentiment, particularly among Asian and European companies. This nervousness is most evident with regard to expectations about business prospects into next year; they are about as weak as they have been at any time during this expansion. More than one-fourth of respondents say that prospects are weakening, the highest percentage since the economy was pulling out of the Great Recession at the start of this decade.

The four-week moving average in our global business confidence survey was unchanged at 32.6 in the week ended October 5. The recent tightening in financial market conditions could weigh on business sentiment in the upcoming survey.

## TUESDAY, OCTOBER 16

**Industrial production (September; 9:15 a.m. EDT)**

Forecast 0.1% (headline)

We look for industrial production to have risen 0.1% in September. We don't anticipate a significant impact on production from Hurricane Florence but it could depress utility output, offsetting some of the boost that the warmer than normal September. Manufacturing output will likely be hurt by a drop in motor vehicle and parts production. Active rotary rig counts suggest mining output slipped in September.

**NAHB housing market index (October; 10:00 a.m. EDT)**

Forecast 0.1% (headline)

We look for the NAHB housing market index to have dropped from 67 in September to 66 in October. Though mortgage rates have risen, the impact on the NAHB index is likely modest; the index isn't overly sensitive to changes in mortgage rates. The correlation between changes in the 30-year fixed mortgage rate and the NAHB index is weak historically and in this cycle, suggesting little hit to builders' moods from the recent rise in mortgage rates. However, homebuilder stock prices have weakened, even prior to the past week. This will likely weigh on sentiment. Recent hurricanes could provide some support to builder sentiment as there will be an anticipation of increased demand as rebuilding begins. Overall, we find the NAHB housing market index is more useful in assessing the trajectory, rather than the level, of single-family housing starts.

## WEDNESDAY, OCTOBER 17

**Housing starts (September; 8:30 a.m. EDT)**

We will release our forecast on Tuesday.

## THURSDAY, OCTOBER 18

**Jobless claims (week ended October 6; 8:30 a.m. EDT)**

Forecast 210,000

Initial claims for unemployment insurance benefits rose by 7,000, to 214,000, in the week ended October 6. New filings in North Carolina and South Carolina remain elevated, which is attributed to Hurricane Florence. Over the next few weeks, new filings in these states should return to their pre-hurricane trend. However, Hurricane Michael likely will boost new filings in Florida, therefore initial claims will remain choppy. We look for initial claims to have fallen to 210,000 in the week ending

## The Week Ahead

October 13, which includes the payroll reference period. The forecast assumes that Hurricane Michael depressed initial claims initially and they will increase in subsequent weeks, particularly in Florida.

FRIDAY, OCTOBER 19

### Existing-home sales (September; 8:30 a.m. EDT)

Forecast 5.26 million annualized units

Existing-home sales are forecast to have fallen from 5.34 million annualized units in August to 5.26 million in September, the lowest since early 2016. Some of the decline can be blamed on Hurricane Florence since a good chunk of existing-home sales and a large portion of home closings each month normally occur at the end of the month. Therefore, Florence interrupted closings in September and Hurricane Michael will weigh on sales in October. A majority of these sales are delayed and will be recouped over the next few months. Outside of the hurricane effects, pending home sales, which lead existing sales by one to two months, signaled further weakening in existing-home sales.

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## EUROPE

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

### Euro Zone Inflation Pressures Accelerate

Publication of the final euro zone CPI inflation figures for September will be the big news of the week. We expect them to confirm that inflation pressures accelerated at the end of the quarter in the currency area, despite our earlier view that they had already peaked for the year. Headline inflation is expected to be confirmed at 2.1%, up from 2% in August, a reading above the European Central Bank's target for the second time this year.

The details should nonetheless be much less hawkish for the ECB than the headline implies, because we expect them to confirm that the pickup was driven entirely by a jump in noncore inflation, while the core rate cooled slightly to 0.9%, from 1% in August. The downtick in the core reading is due only to rounding effects, since services and nonenergy goods inflation held steady. But even an unchanged reading would be disappointing, since we and the consensus were largely expecting the core rate to rebound strongly from weakness in August. We were penciling in a sharp, but now unlikely, rebound in the volatile package holiday inflation gauge, following a plunge in August. Similarly, we were expecting that deflation in the clothing sector would ease somewhat. Here too, we probably missed the forecast, as noncore goods inflation pressures remained low.

Jumps in euro zone food and energy inflation will explain most of the overshoot. Food inflation was expected to climb as this summer's scorching, dry weather hurt crop yields and pushed prices of fresh foods higher. We expect food inflation will remain elevated during the next one or two months, and then ease from November. Elsewhere, the rise in energy inflation was not at all penciled in. Base effects clearly suggested that energy inflation had already peaked for the year in July. We see September's rise as being mainly a blip, and we still look for energy inflation to edge back from October and continue to fall through the end of the year.

Overall, then, the details are expected to make for a rather dovish result. Euro zone core inflation seems reluctant to heat up despite the tightening labour market and the fact that growth has been reading above potential for several quarters. For us, though, the direction of travel remains to the upside, even if September's results made us revise down our expectations for year-end core inflation to 1.3%, from 1.4%. Falling energy inflation will ensure that the headline rate slows to 1.6% by December.

We haven't changed our story about the ECB. We think it will proceed with its plan to end asset purchases in December, but it won't be pressured to start hiking the deposit rate until the fourth

## The Week Ahead

quarter of next year, since there is still no evidence that we are at the start of a marked increase in underlying inflation pressures.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 2:00 p.m.	Russia: Industrial Production for September	% change yr ago	2.7	2.7
Tues @ 9:30 a.m.	U.K.: Unemployment for August	%	4.0	4.0
Tues @ 10:00 a.m.	Italy: Consumer Price Index for September	% change yr ago	2.0	1.6
Tues @ 10:00 a.m.	Euro Zone: External Trade for August	bil euro	14.5	17.6
Wed @ 9:30 a.m.	U.K.: Consumer Price Index for September	% change yr ago	2.5	2.7
Wed @ 10:00 a.m.	Euro Zone: Consumer Price Index for September	% change yr ago	2.1	2.0
Wed @ 2:00 p.m.	Russia: Unemployment for September	%	4.4	4.6
Wed @ 2:00 p.m.	Russia: Retail Sales for September	% change yr ago	2.0	2.8
Thur @ 9:30 a.m.	U.K.: Retail Sales for September	% change yr ago	3.5	3.3

## MONDAY, OCTOBER 15

No major indicators are scheduled for release.

## TUESDAY, OCTOBER 16

**U.K.: Unemployment (August; 9:30 a.m. BST)**

The U.K.'s headline unemployment rate likely held steady at 4% in the three months to August, after it unexpectedly fell to 4% in the June quarter. Growth in the number of employed persons likely eased considerably following a jump the previous quarter, as all surveys of employment intentions have weakened since the start of the year, but we still expect some further decline in the number of unemployed. Elsewhere, we expect that wage growth remained steady in August, after it accelerated sharply in July with the pay of 1.3 million National Health Service workers rising by 3%. We are thus penciling in that average salaries, including bonuses, grew by 2.6% y/y in the three months to August.

**Italy: Consumer Price Index (September; 10:00 a.m. BST)**

Inflation likely accelerated after disappointing in the previous month. We expect inflation climbed to 2% y/y in September following a 1.6% uptick in August, as price pressure continue to build. The end of summer sales of clothing and footwear likely contributed to stronger price gains over the month. In addition, price pressures are building as capacity constraints and higher energy costs drive up input prices. Price growth will likely accelerate this year as more consistent economic growth and an improving labour market drive up material and labour costs.

**Euro Zone: External Trade (August; 10:00 a.m. BST)**

The euro zone's external trade surplus likely narrowed to around €14.5 billion in the middle of the third quarter, following a surplus of €17.5 billion in July. The balance was in surplus of €15.2 billion in July 2017. Slowing economic activity within the single-currency bloc likely continued to weigh on imports in the second quarter. Imports have been rising sharply in recent months despite slightly weaker economic momentum in the euro area, which likely carried over into the third quarter, weighing on the trade balance. Various geopolitical tensions are clouding the outlook for euro zone exports. The British exit from the EU may hamper trade between the two parties in the coming years, and the impact of U.S. President Trump's policies, including steel import tariffs, could curb euro zone exports to its biggest trade partner, or even result in a global trade dispute. The weakening of the euro, however, could offer some relief.



## The Week Ahead

WEDNESDAY, OCTOBER 17

**Euro Zone: Consumer Price Index (September; 10:00 a.m. BST)**

Final CPI figures for the euro zone should confirm that inflation picked up to 2.1% in September, from 2% in August, driven by a jump in food inflation and a further climb in energy inflation, which are expected to have offset a marginal dip in the core rate. Food inflation is expected to have accelerated to 2.7%, from 2.4%, as this year's exceptionally hot, dry summer hurt crop yields and pushed up fresh produce prices. Energy inflation should have picked up to 9.5%, from 9.2%, though we still expect base effects related to Brent prices to push it lower in coming months. Core inflation, by contrast, likely slowed to 0.9%, from 1% previously, but this was probably due to rounding as services and noncore foods inflation are expected to have held at 1.3% and 0.4%, respectively. We project that the tight labour market and the weaker euro will push the core rate up towards 1.3% by the end of the year. Our story for the ECB is thus unchanged; it will end quantitative easing by December but won't hike rates before the end of 2019.

**Russia: Unemployment (September; 2:00 p.m. BST)**

The labour market should continue to tighten as Russian consumers are doing their part to keep the economy afloat, but many risks remain. Much of the recent spending strength has been the result of increased borrowing, which will be a cause for concern if incomes do not begin to rise in concert with the expected pickup in inflation.

**Russia: Retail Sales (September; 2:00 p.m. BST)**

Domestic sources of Russian retail demand seem to be growing at a healthy, stable pace. After leaping early in the year, real wages have stayed roughly 7% above what they were a year ago for most of 2018. Nonetheless, retail progress likely slowed in September. Some of the strength in the retail segment over the summer was due to tourist inflows for the World Cup. Further U.S. sanctions also came on line late in August. Although the sanctions do not directly target consumers, they caused an immediate depreciation of the ruble, which will reduce the affordability of foreign goods. We expect year-over-year growth slowed to 2% in September.

THURSDAY, OCTOBER 18

**U.K.: Retail Sales (September; 9:30 a.m. BST)**

U.K. retail sales likely declined by 0.5% m/m in September, fully reversing the 0.3% rise in August. But due to base effects, we still expect the yearly rate to have increased to 3.5%, from 3.3% previously, above its past-year average of 2%. Household goods sales are expected to have mean-reverted after strong growth in August, notably as strong momentum in the sector doesn't chime in with the depressed housing market. Also, we expect that sales in other stores will decline as well, after having risen solidly in August. Most of August's gains in the other store subsector were due to a jump in sales of sports equipment, games and toys. These depend heavily on the bestseller charts for computer games and are extremely volatile month to month.

We also expect online retail to correct following the eye-watering results for the previous two months, which were likely because the extremely warm weather kept consumers at home during the summer. By contrast, we expect that food sales increased.

Despite September's expected decline, sales are still set to increase over the third quarter as a whole, which is an optimistic result following the second quarter's staggering 2.1% q/q jump. But we remain cautious about the retail outlook in 2018. Households' borrowing costs are set to keep rising, take-home pay has recently been squeezed by an increase in the minimum pension contributions, and the housing market remains in the doldrums. This all should keep a lid on consumer spending.

## The Week Ahead

FRIDAY, OCTOBER 19

No major indicators are scheduled for release.

## ASIA-PACIFIC

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

## China's September Data Dump Could Show Trade War Impacts

China dominates the economic calendar. Its September monthly data dump will be closely watched for insight into the slowing growth trajectory and trade war impacts. Industrial production growth has hovered around 6% y/y in the last few months, and growth likely slipped to 5.9% in September. Amid the uncertainty created by the trade war, local manufacturers are likely to be scaling back production to avoid potential excess inventories.

Fixed asset investment growth in China reached a record low in August and likely stayed soft in September. Fixed investment growth will be weak into 2019, as overcapacity in heavy industry, softness in real estate, curbs on pollution, and earlier efforts to rein in financial risks weigh on investment. That said, Beijing's recent moves to stabilize growth, such as reserve requirement ratio cuts, may help dampen the slowdown through the remainder of the year.

GDP growth likely hit 6.6% y/y in the third quarter, down from 6.7% in the prior quarter, even as easing efforts likely helped to stabilise growth. Accepting slower growth has long been a challenge in China. Government policy has shifted to a more expansionary stance over recent months. In addition to cutting reserve requirement ratios, the central bank has boosted cash injections, and new infrastructure spending has been announced.

China's consumer prices likely accelerated in September for a fourth straight month. A number of factors are contributing to higher prices. The first is African swine fever, which was first picked up in China in early August and has reportedly spread to six provinces. Also adding to price pressures was flooding in food-producing areas such as Shandong province. Food prices likely will remain elevated in the near term, lifting headline inflation.

Elsewhere, Japan's core CPI likely held at 0.9% y/y in September. Core CPI has been languishing just shy of 1% since March with fuel the primary upward driver. Wage growth has enjoyed some improvement over 2018 but remains the perennial disappointment and will keep the Bank of Japan's 2% inflation target elusive. The BoJ reaffirmed in September that monetary settings will remain ultra-loose for the foreseeable future, a sensible strategy with wages and price growth failing to launch.

	Key indicators	Units	Moody's Analytics	Last
Mon @ Unknown	India Foreign trade for September	US\$ bil	-17.3	-17.4
Mon @ 3:00 p.m.	Indonesia Foreign trade for September	US\$ bil	-0.83	-1.02
Tues @ 8:45 a.m.	New Zealand Consumer price index for Q3	% change	0.5	0.4
Tues @ 12:30 p.m.	China Consumer price index for September	% change yr ago	2.4	2.3
Tues @ 12:30 p.m.	China Producer price index for September	% change yr ago	4.0	4.1
Wed @ 11:30 a.m.	Singapore Foreign trade for September	% change yr ago	5.3	5.0
Thurs @ 10:50 a.m.	Japan Foreign trade for September	¥ bil	-20.0	-190.36
Thurs @ 11:30 a.m.	Australia Unemployment rate for September	%	5.3	5.3
Thurs @ Unknown	South Korea Monetary policy for October	%	1.5	1.5
Fri @ 10:30 a.m.	Japan Consumer price index for September	% change yr ago	0.9	0.9
Fri @ 1:00 p.m.	China Fixed asset investment for September	% change yr ago YTD	5.3	5.3
Fri @ 1:00 p.m.	China GDP for Q3	% change yr ago	6.6	6.7
Fri @ 1:00 p.m.	China Industrial production for September	% change yr ago	5.9	6.0
Fri @ 1:00 p.m.	China Retail sales for September	% change yr ago	8.8	9.0

## The Week Ahead

MONDAY, OCTOBER 15

**India: Foreign Trade (September; Unknown)**

Despite global trade tensions, India's exports remain healthy, helping bring the overall trade deficit down in August. The trade deficit came down to US\$17.4 billion in August, from an \$18.02 billion deficit in July. Exports surged ahead, rising in August by 19% over the year. We expect the trade balance will remain under pressure, with the deficit likely easing only slightly to \$17.3 billion in September. The import bill remains bloated on the back of higher commodity prices. This is keeping the trade deficit elevated despite the reprieve in August. Strong global growth continues to drive demand for India's engineered and chemical goods. We expect exports to remain firm for the remainder of the year, while imports will continue to rise because of high commodity prices.

**Indonesia: Foreign Trade (September; 3:00 p.m. AEDT; 4:00 a.m. GMT)**

Indonesia's trade deficit likely narrowed further in September to US\$830 million, after coming in at US\$1.02 billion in August, roughly half the US\$2.01 billion recorded in July. The government took action from early September to reduce its oil imports, including requiring vehicles to use locally sourced B20 biodiesel. Another drag on imports is the government's plan to delay import-heavy energy projects. Both of these actions are aimed at shoring up the rupiah, which has been hit hard this year by emerging markets globally coming under pressure; the rupiah has recently been hovering around its lowest level since 1998.

TUESDAY, OCTOBER 16

**New Zealand: Consumer Price Index (2018Q3; 8:45 a.m. AEDT; Monday, 9:45 p.m. GMT)**

New Zealand's headline consumer price growth likely rose 0.5% q/q in the September quarter, following the 0.4% q/q rise in the second stanza. Higher imported inflation from the weak kiwi in addition to high petrol prices are the main upward contributors. Some partial offset is coming from food prices, which have fallen through July and August. Annual CPI likely crept up to 1.7%, from the June quarter's 1.5%. We maintain our view that the Reserve Bank of New Zealand's next move is up, but that will not come into view until mid-2020, given a broader slowdown in domestic demand that is already taking place, ensuring demand-side inflation stays moderate.

**China – Consumer Price Index (September; 12:30 p.m. AEDT; 1:30 a.m. GMT)**

China's consumer prices likely increased 2.4% y/y in September, following the 2.3% recorded in August. China's headline and core inflation accelerated in August for a third straight month. A number of factors are contributing to higher prices. The first is African swine fever, which was first picked up in China in early August and has reportedly spread to six provinces. Also adding to price pressures was flooding in food-producing areas such as Shandong province. Food prices likely will remain elevated in the near term, lifting headline inflation.

**China – Producer Price Index (September; 12:30 p.m. AEDT; 1:30 a.m. GMT)**

Producer prices likely increased 4% y/y in September, down from 4.1% in the prior month. Producer price inflation had accelerated in recent months on the back of higher prices of key commodities. However, inflation eased to a three-month low in August on the back of weaker rises for ferrous and nonferrous metals and raw materials prices. Meanwhile, foodstuff inflation remained subdued. Although the escalating trade war between the U.S. and China could push up import costs because of China's retaliatory stance, the impact of higher import costs could be more than offset by the reduction in China's exports to the U.S., which could put downward pressure on factory gate prices.

WEDNESDAY, OCTOBER 17

**Singapore – Foreign Trade (September; 11:30 a.m. AEDT; 12:30 a.m. GMT)**

Growth in Singapore's nonoil domestic exports likely improved modestly to 5.3% y/y in September following the 5% rise in August and 13.6% gain in July. We expect the underlying trend to remain; electronics will be a drag, while pharmaceuticals were a key strength. Non-electronics picked up the slack from the tech sector in August and were up 7.8% y/y, markedly slowing from the 18.6% gain in

## The Week Ahead

July. The strength in August continued to mainly come from pharmaceuticals, which advanced 33.4%. Pharmaceuticals are notoriously volatile and heavily influenced by production cycles that can cause wild swings from month to month. Forward indicators suggest weaker manufacturing in coming months.

## THURSDAY, OCTOBER 18

**Japan – Foreign Trade (September; 10:50 a.m. AEDT; Wednesday, 11:50 p.m. GMT)**

Japan's trade deficit widened in August for the second consecutive month on the back of decelerating exports. The seasonally adjusted trade deficit widened to ¥190.36 billion in August after July's ¥102 billion deficit. We expect the trade deficit to have improved in September but to have remained in a small deficit of ¥20 billion. Last year's sharp export growth was unlikely to be repeated this year, but higher commodity prices are bloating the import ledger, causing the overall trade balance to swing into a small deficit. Still, it's not time to panic. Exports continue to rise on a year-ago basis, which is promising considering last year was stellar for Japanese exporters. Downside risks will persist as higher commodity prices could hurt global trade.

**Australia – Employment Situation (September; 11:30 a.m. AEDT; 12:30 a.m. GMT)**

Australia's labour market is in a healthy spot. We expect the seasonally adjusted unemployment rate was unchanged at 5.3% in September. The trend unemployment rate is also forecast to hold at 5.3%. The highlight of the August report was that the trend underutilisation rate edged down to 13.6%, its lowest since late 2013. It is also 0.5 percentage point lower than a year earlier. Employment growth held broadly steady in August, at 2.5% y/y, while the participation rate has increased 0.4 percentage point from a year earlier to 65.6%. Forward indicators suggest labour market tightening has further to run, with modest upward pressure remaining on wage growth heading into 2019.

**South Korea – Monetary Policy (October; Unknown)**

The Bank of Korea will keep the policy rate steady at 1.5% in October. Although inflation could begin to creep up on the back of higher oil and electricity prices, the labour market is weak, with employment growth languishing at multiyear lows. This is keeping a cap on consumption. An additional drag is elevated household debt, meaning South Korean consumers are sensitive to upward movements in lending rates, adding to pressure on the Bank of Korea to keep policy settings steady.

## FRIDAY, OCTOBER 19

**Japan – Consumer Price Index (September; 10:30 a.m. AEDT; Thursday, 11:30 p.m. GMT)**

Japan's core CPI ticked up a whisker in August to 0.9% y/y following the 0.8% gain in July. Core CPI has been languishing just shy of 1% since March with fuel the primary upward driver. We forecast the core CPI remained unchanged in September. The acceleration in headline CPI to 1.3% y/y from the 0.9% rise in July was the result of adverse weather, forcing vegetable prices to spike. Adverse weather continued into September with flooding keeping upward price pressure on fresh produce. Wage growth has enjoyed some improvement this year but remains the perennial disappointment and will keep the Bank of Japan's 2% inflation target elusive. The BoJ reaffirmed in September that monetary settings will remain ultra-loose for the foreseeable future, a sensible strategy with wages and price growth failing to launch.

**China – Fixed Asset Investment (September; 1:00 p.m. AEDT; 2:00 a.m. GMT)**

Fixed asset investment growth in China reached a record low in August and likely stayed soft in September. Growth of fixed asset investment fell to 5.3% y/y year to date in August, and likely remained at 5.3% in September. The moderation in growth is consistent with our view that fixed investment growth is likely to be weak in 2018, as overcapacity in heavy industry, softness in real estate, curbs on pollution, and earlier efforts to rein in financial risks weigh on investment. That said, Beijing's recent moves to stabilize growth, such as reserve requirement ratio cuts, may help dampen the slowdown through the remainder of the year.

## The Week Ahead

### China – GDP (2018Q3; 1:00 p.m. AEDT; 2:00 a.m. GMT)

China's economy likely grew 6.6% in the third quarter, down from 6.7% in the prior quarter, even as easing efforts likely helped to stabilise growth. Amid the escalating trade spat with the U.S., government policy has shifted to a more expansionary stance over recent months. Reserve requirement ratios have been cut, the central bank has boosted cash injections, and new infrastructure spending has been announced. Accepting slower growth has long been a challenge in China. Although the recent stimulatory measures are likely to help shore up near-term growth, a reversion to the old credit-fueled growth model could undermine earlier deleveraging efforts.

### China – Industrial Production (September; 1:00 p.m. AEDT; 2:00 a.m. GMT)

Industrial production growth has hovered around 6% y/y in the last few months, and growth likely slipped to 5.9% in September. Amid the uncertainty created by the trade war with the U.S., local manufacturers will likely scale back production to avoid potential excess inventories. Optimism among manufacturers is particularly weak, and forward-looking manufacturing indicators such as new orders and hiring suggest production will cool in coming months.

### China – Retail Sales (September; 1:00 p.m. AEDT; 2:00 a.m. GMT)

Retail sales growth improved to 9% y/y in August following the 8.7% gain in July. Petroleum, an important driver, rose at almost 20% y/y in August and has been accelerating over 2018, increasing gasoline prices. Some relief is expected in September, given that the government reduced retail gasoline and diesel prices late in August. Retail trade has held up relatively well in 2018, despite signs of weakness elsewhere in the economy. Retail sales likely grew 8.8% y/y in September.

## The Long View

### The highest composite speculative-grade bond yield since November 2016 now curbs high-yield bond issuance.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group  
October 11, 2018

#### CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 121 basis points resembles its 122-point mean of the two previous economic recoveries. This spread may be no wider than 130 bp by year-end 2018.

The recent high-yield bond spread of 366 bp is still less than what might be inferred from the spread's macroeconomic drivers and the long-term Baa industrial company bond yield spread. The adverse implications for liquidity of possibly significantly higher interest rates merit consideration.

#### DEFAULTS

September 2018's U.S. high-yield default rate of 3.06% was less than the 3.55% of September 2017. Moody's Default and Ratings Analytics team now expects the default rate will average 1.8% during 2019's third quarter.

#### 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.

Third-quarter 2017's worldwide offerings of corporate bonds showed an annual percent decline of 1.6% for IG and an increase of 6.6% for high-yield, wherein US\$-denominated offerings dipped by 0.7% for IG and grew by 4.3% for high yield.

Fourth-quarter 2017 revealed year-over-year advances for worldwide offerings of corporate bonds of 17.6% for IG and 77.5% for high-yield, wherein US\$-denominated offerings posted increases of 21.0% for IG and 56.7% for high yield.

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

Second-quarter 2018's worldwide offerings of corporate bonds eked out an annual increase of 2.8% for IG, but incurred an annual plunge of 20.4% for high-yield, wherein US\$-denominated offerings rose by 1.6% for IG and plummeted by 28.1% for high yield.

Third-quarter 2018's worldwide offerings of corporate bonds showed year-over-year setbacks of 6.5% for IG and 38.7% for high-yield, wherein US\$-denominated offerings plunged by 24.7% for IG and by 37.5% for high yield.

For yearlong 2016, worldwide corporate bond offerings rose by 2.3% annually for IG (to \$2.402 trillion) and sank by 7.8% for high yield (to \$426 billion). During yearlong 2017, worldwide corporate bond offerings increased by 4.0% annually (to \$2.499 trillion) for IG and advance by 41.2% for high yield (to \$602 billion). The projected annual changes for 2018's worldwide corporate bond offerings are -2.3% for IG and -23.0% 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 U.S.'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 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.

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### EUROPE

By Barbara Teixeira Araujo of Moody's Analytics  
October 11, 2018

#### UNITED KINGDOM

The U.K.'s new monthly GDP release for August brought mixed news. That growth only flatlined over the month against expectations of a small increase came as the main disappointment, but this downward surprise was in part offset by the upward revisions to June's and July's figures. The latter allowed for GDP to have increased as much as 0.7% for the three months to August, which puts growth on track to accelerate to around 0.6% over the second quarter as a whole, up from 0.4% in the previous stanza and above the Bank of England's Monetary Policy Committee expectations of a repeated reading.

Still, we would caution against reading too much into the three-month-on-three-month numbers; the U.K. economy's underlying momentum remains fragile. The release's details showed that output in the country's outside services sector all but stalled in the middle of the third quarter. The major drag came from a decline in food and accommodation output, which was already expected after the boost that the good weather had provided to July's numbers. But the accompanying output decline in most other services sectors was disappointing and offset the expected sharp increase in car sales in response to the introduction of the EU's new emission testing scheme on September 1.

That U.K. industrial production rose slightly over the month also masked the grim story for the manufacturing industry as a whole. Manufacturing production outright fell over the month, after it merely stagnated over the previous period. And the bad news is that this decline came despite the fact that transport equipment production unexpectedly increased. We were penciling in a decline in manufacturing production, but only because we had seen automobile production plunging—in line with anecdotal evidence and leading indicators—ahead of the introduction of the EU testing scheme.

The truth is that weakness was broad-based over the manufacturing sector as a whole in August, and leading surveys point to further deterioration ahead. Markit's latest numbers for the industry showed that new manufacturing export orders recovered only slightly in September after outright contraction in August.

Elsewhere, the decline in U.K. construction was expected since we see it mainly as a correction from strength in previous months.

All in all, we expect growth will remain subdued at the end of 2018, while the prospect of a further escalation in political tensions in the U.K. remains a key downside risk.

#### GERMANY

That factory growth in Germany fell for the second consecutive month in August was admittedly disappointing, but our view is that the consensus for a substantial rise in the headline always looked too optimistic. As we explained last week, anecdotal evidence had all but shown that car production plunged ahead of the implementation of the EU's new emission testing scheme on September 1, as auto manufacturers struggled with the transition. We thus weren't surprised to see capital goods production drag the most on the headline and decline by 0.7% m/m in the middle of the quarter, and build on July's already grim 2.5% fall.

The good news is that the figures for the other sectors were more optimistic. Consumer and intermediate goods output each rebounded from weakness in the previous month, while energy production rose strongly for the third consecutive period. True, construction output plunged by 1.8% m/m, but we caution that a decline here was always

## The Long View

expected following the jump in July. Production in the construction sector is volatile and depends heavily on weather developments.

We expect September figures will be better, but the rebound in car production will remain contained given that manufacturers' adaptation process can be long. We pencil in a 0.7% m/m rise in industrial production over the month. The bad news is that this increase will not be enough to salvage the story for the third quarter as a whole; production is still set to fall by 0.9% q/q in the three months to September, fully reversing the previous quarter's 1% increase.

The overall picture remains the same: Industrial production in Germany is slowing from the record high pace of expansion reached at the end of last year—dragged lower by the slowdown in global demand—but it is not falling off a cliff. Unless new factory orders growth plunges over the new few months, we expect output growth to remain relatively steady during the fourth quarter of 2018.

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### ASIA PACIFIC

By Katrina Ell of Moody's Analytics  
October 11, 2018

#### CHINA

China announced further stimulus on 7 October as policymakers try to steer the economy through a momentous deleveraging task against the backdrop of an escalating trade war. The People's Bank of China indicated it would cut reserve requirement ratios for some banks by 100 basis points, marking the fourth reserve requirement ratio cut this year. From 15 October, large institutions' reserve requirement ratios (the amount of money that banks need to hold as a proportion of total deposits) would be reduced to 14.5%, while smaller banks would fall to 12.5%.

The PBoC said that the reserve requirement ratio cut will release CNY1.2 trillion in liquidity into the banking system. Of that, a net CNY750 billion (US\$109.2 billion) in cash will be injected and CNY450 billion (US\$65.5 billion) will be used to offset maturing medium-term lending facility loans. The MLF was introduced in 2014 as a funding channel whereby the central bank is able to inject liquidity into the banking system and influence longer-term loans—usually three months to one year.

The PBoC stated that the reserve requirement ratio cut would not add to downward pressure on the yuan. This was likely a preemptive move to avoid fanning capital outflows or heightening tensions with the Trump administration, which hasn't been shy in criticising the weakening yuan. The currency has depreciated 5.6% year to date against the dollar and shed 0.1% to CNY6.904 per dollar on 8 October as the reserve requirement ratio announcement was digested.

#### "Prudent and neutral"

Along this vein, the central bank stuck with its "prudent and neutral" monetary policy stance in October. The PBoC indicated it would keep "liquidity reasonably ample and maintain monetary policy prudent." Despite this rhetoric, there's no doubt the bank has shifted to an easing bias as liquidity support has ramped up over 2018.

Smaller firms have been targeted for monetary stimulus given they have faced waning domestic demand along with higher borrowing costs, partly on the clampdown on shadow lending. In addition to lower reserve requirement ratios, the banking regulator has requested banks to reduce smaller firms' funding costs and raise their tolerance for nonperforming loan ratios.

Beijing is talking down the extent of the easing it is undertaking, a possible tactic to allay concerns that it is kicking the can down the road on addressing the large pile of debt it is carrying and the earlier pledge that addressing financial risk would be a top priority this year. The latest reserve requirement ratio cut follows earlier action from Beijing to step up plans to invest billions in infrastructure projects. In August, the National Development and Reform Commission, China's economic planning agency, announced the approval of a major infrastructure project, its first in over a year. It was a CNY78.7 billion (US\$16.3 billion) rail project for Changchun, in the province of Jilin. Several other projects have since been given the green light.



## The Long View

### Faster than expected

We think the need for greater policy support was triggered because China's by-design cooling probably happened faster than expected. For instance, August fixed asset investment sank to a record low 5.3% y/y YTD, the sixth consecutive month of decelerating growth, and follows July's 5.5%, also a record low. For context, fixed asset investment in August 2017 was 7.8% y/y YTD. A handful of other metrics have also been worrying. These include nonperforming loans surging to 1.86% of total loans in the June quarter, the highest ratio since early 2009. The jump in nonperforming loans was partly triggered by Beijing forcing lenders to label as nonperforming those loans overdue by more than 90 days, an example of tighter financial regulation. Outside of regulatory changes, monthly industrial production and money supply data have also disappointed.

Although the trade war has not yet had a material impact on China's real economy, manufacturing sentiment data along with growing anecdotes of some supply chains avoiding assembly in China, particularly at the final stage, suggest that the impact will rise heading into 2019. The Trump administration has imposed tariffs on around US\$250 billion in Chinese goods imports, with a further US\$267 billion proposed and no near-term resolution in sight.

All told, it makes sense that China has shifted focus towards keeping the growth engine ticking over appropriately, but the medium-term implications of the hefty financial risks it carries loom large.

Our baseline is that further piecemeal stimulus will be released into 2019, but benchmark interest rate cuts still seem unlikely.

## Ratings Round-Up

## Ratings Round-Up

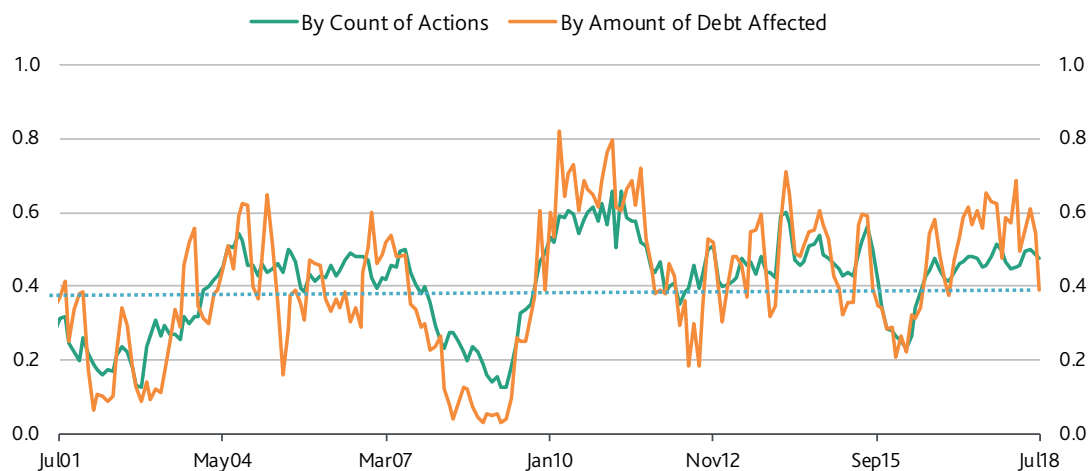
## Industrial Sector Leads U.S. Rating Changes

The industrial sector led U.S. rating change activity last week—accounting for 79% of all changes. The ratio of positive rating changes to total rating changes was 58%. Speculative-grade companies represented 84% of the week's activity. Notable upgrades include Costco Wholesale Corporation, which had its senior unsecured debt upgraded from A1 to Aa3 impacting \$6 billion of debt. On the downgrade side, Diamond Offshore Drilling Inc., a subsidiary of Loews Corporation, had its senior unsecured rating cut to B3 from B2. The downgrade bucks the recent positive trend of upgrades in the U.S. oil industry.

European ratings change activity remained light last week. There were a total of four changes last week—three upgrades and one downgrade. Luxemburg-based real-estate firm CPI Property Group was the only European investment grade company to receive an upgrade.

FIGURE 1

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



\* Trailing 3-month average

Source: Moody's

## Ratings Round-Up

FIGURE 2

**Rating Key**

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

## Ratings Round-Up

FIGURE 3

## Rating Changes: Corporate &amp; Financial Institutions – US

Date	Company	Sector	Rating	Amount (\$ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
10/3/18	ADVANCED MICRO DEVICES, INC.	Industrial	SrUnsec /LTCFR/PDR	862	U	B3	B1	SG
10/3/18	AES CORPORATION (THE)-DAYTON POWER & LIGHT COMPANY	Utility	SrUnsec/SrSec /BCF/LTIR	899	U	Ba2	Ba1	IG
10/3/18	ARES CAPITAL CORPORATION	Financial	SrUnsec/LTCFR	230	U	Ba1	Baa3	SG
10/3/18	TAYLOR MORRISON HOME CORPORATION-TAYLOR MORRISON COMMUNITIES, INC.	Industrial	SrUnsec /LTCFR/PDR	1,650	U	B1	Ba3	SG
10/4/18	CNO FINANCIAL GROUP, INC.	Financial	SrUnsec/LTCFR /SrSub/Sub /IFSR/PS	825	U	Ba1	Baa3	SG
10/4/18	COSTCO WHOLESALE CORPORATION	Industrial	SrUnsec	6,000	U	A1	Aa3	IG
10/4/18	AMERICAN TIRE DISTRIBUTORS, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	Caa1	Caa2	SG
10/4/18	DONCASTERS GROUP LTD	Industrial	SrSec/BCF /LTCFR/PDR		D	B3	Caa1	SG
10/4/18	SBP HOLDING LP -SEI HOLDING I CORPORATION	Industrial	SrSec/BCF /LTCFR/PDR		U	Caa1	B3	SG
10/4/18	ANCHOR GLASS CONTAINER CORPORATION	Industrial	SrSec/BCF /LTCFR/PDR		D	B3	Caa1	SG
10/5/18	LOEWS CORPORATION-DIAMOND OFFSHORE DRILLING, INC.	Industrial	SrUnsec	2,000	D	B2	B3	SG
10/5/18	JILL HOLDINGS LLC-JILL ACQUISITION LLC	Industrial	SrSec/BCF /LTCFR/PDR		U	B2	B1	SG
10/5/18	RENTPATH, LLC	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3	SG
10/8/18	MRP GENERATION HOLDINGS, LLC	Industrial	SrSec/BCF		D	B2	B3	SG
10/8/18	AMERICAN TELECONFERENCING SERVICES, LTD.	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3	SG
10/8/18	AIR METHODS CORPORATION	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	500	D	Caa1	Caa2	SG
10/9/18	CLEVELAND-CLIFFS INC.	Industrial	SrSec/SrUnsec /LTCFR/PDR	1,912	U	Ba3	Ba2	SG
10/9/18	MICRON TECHNOLOGY, INC.	Industrial	SrUnsec	519	U	Ba2	Baa3	SG

Source: Moody's

## Ratings Round-Up

FIGURE 4

## Rating Changes: Corporate &amp; Financial Institutions – Europe

Date	Company	Sector	Rating	Amount (\$ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
10/3/18	TRITON SOLAR US ACQUISITION CO.	Industrial	SrSec/BCF		U	B3	B2	SG	UNITED KINGDOM
10/4/18	PERMANENT TSB GROUP HOLDINGS PLC	Financial	SrUnsec /LTIR/MTN	25	U	Ba3	Ba2	SG	IRELAND
10/9/18	CPI PROPERTY GROUP	Industrial	SrUnsec/LTIR /JrSub/MTN	1,583	U	Baa3	Baa2	IG	LUXEMBOURG
10/9/18	CATLUXE ACQUISITION S.A.R.L. -CATLUXE S.A.R.L.	Industrial	SrSec/BCF /LTCFR/PDR		D	B1	B2	SG	LUXEMBOURG

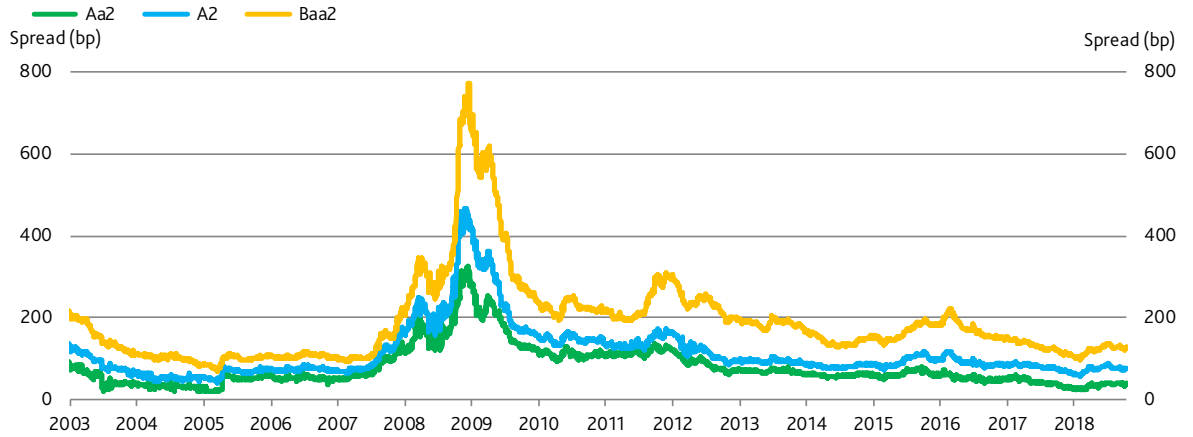
Source: Moody's

Market Data

Market Data

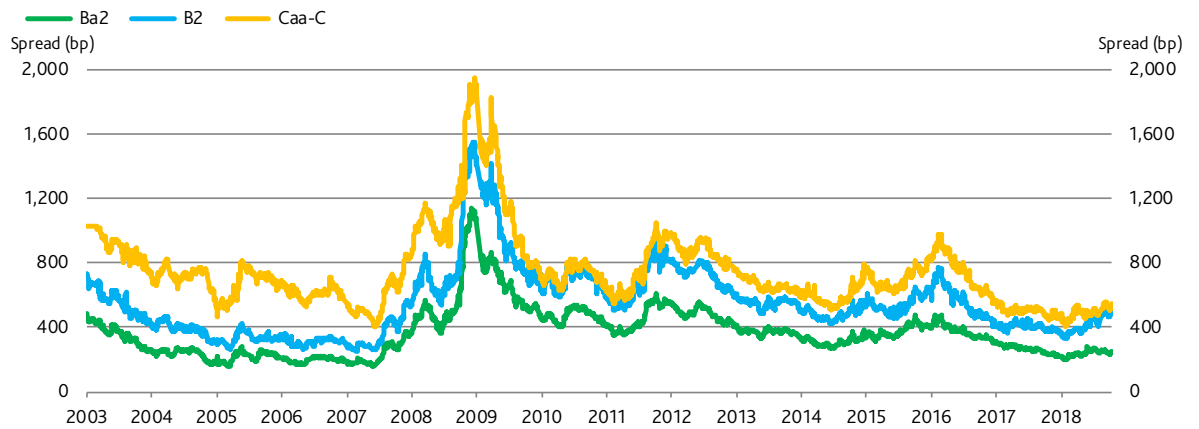
Spreads

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 (October 3, 2018 – October 10, 2018)

CDS Implied Rating Rises		CDS Implied Ratings		
Issuer	Oct. 10	Oct. 3	Senior Ratings	
Toyota Motor Credit Corporation	A2	A3	Aa3	
Enterprise Products Operating, LLC	Baa1	Baa2	Baa1	
First Data Corporation	Ba1	Ba2	B2	
HSBC Finance Corporation	A3	Baa1	Baa1	
CCO Holdings, LLC	Ba2	Ba3	B1	
Cargill, Incorporated	A3	Baa1	A2	
Molson Coors Brewing Company	Baa2	Baa3	Baa3	
Crown Castle International Corp.	Ba1	Ba2	Baa3	
Plains All American Pipeline L.P.	Ba1	Ba2	Ba1	
ERAC USA Finance LLC	Baa2	Baa3	Baa1	

CDS Implied Rating Declines		CDS Implied Ratings		
Issuer	Oct. 10	Oct. 3	Senior Ratings	
Westock RKT Company	A2	Aa1	Baa2	
JPMorgan Chase & Co.	A2	Aa2	A3	
Walmart Inc.	A1	Aa1	Aa2	
Amgen Inc.	A2	Aa2	Baa1	
Union Pacific Corporation	A1	Aa1	Baa1	
United Parcel Service, Inc.	A1	Aa1	A1	
Lockheed Martin Corporation	A2	Aa2	Baa1	
Kinder Morgan Energy Partners, L.P.	A2	Aa2	Baa3	
Norfolk Southern Corporation	A1	Aa1	Baa1	
Bristol-Myers Squibb Company	A1	Aa1	A2	

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Oct. 10	Oct. 3	Spread Diff
Sears Roebuck Acceptance Corp.	C	8,847	2,536	6,311
Sears Holdings Corp.	C	5,846	2,145	3,702
Penney (J.C.) Corporation, Inc.	Caa2	2,491	2,311	180
Frontier Communications Corporation	Caa1	1,545	1,447	98
K. Hovnanian Enterprises, Inc.	Caa3	1,376	1,284	91
Weatherford International, LLC (Delaware)	Caa1	652	579	73
Windstream Services, LLC	Caa2	2,341	2,270	71
R.R. Donnelley & Sons Company	B3	741	677	64
Neiman Marcus Group LTD LLC	Caa3	1,133	1,072	61
American Axle & Manufacturing, Inc.	B2	328	268	60

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Oct. 10	Oct. 3	Spread Diff
AutoNation, Inc.	Baa3	429	450	-21
DPL Inc.	Ba1	337	353	-17
First Industrial, L.P.	Baa2	239	251	-12
Black & Decker Holdings, Inc.	Baa1	30	40	-10
Plains All American Pipeline L.P.	Ba1	128	137	-9
Avery Dennison Corporation	Baa2	180	189	-9
Service Corporation International	Ba3	145	152	-7
Sunoco, Inc.	Baa3	81	87	-7
ERAC USA Finance LLC	Baa1	74	80	-6
American Financial Group, Inc.	Baa1	117	122	-6

Source: Moody's, CMA

## Market Data

Figure 4. CDS Movers - Europe (October 3, 2018 – October 10, 2018)

CDS Implied Rating Rises		CDS Implied Ratings		
Issuer		Oct. 10	Oct. 3	Senior Ratings
HSH Nordbank AG		Ba1	Ba3	Baa3
Iceland, Government of		A3	Baa2	A3
Barclays Bank PLC		Baa1	Baa2	A2
Barclays Plc		Baa3	Ba1	Baa3
FCE Bank plc		Baa3	Ba1	Baa3
Raiffeisen Bank International AG		Baa1	Baa2	A3
Allied Irish Banks, p.l.c.		A2	A3	Baa3
Eurobank Ergasias S.A.		Ca	C	Caa2
Banco Sabadell, S.A.		Baa3	Ba1	Baa3
Prudential Public Limited Company		A2	A3	A2

CDS Implied Rating Declines		CDS Implied Ratings		
Issuer		Oct. 10	Oct. 3	Senior Ratings
Nordea Bank AB		A2	Aa2	Aa3
Credit Agricole S.A.		A2	Aa2	A1
Credit Agricole Corporate and Investment Bank		A2	Aa2	A1
Svenska Handelsbanken AB		A2	Aa2	Aa2
Swedbank AB		A3	Aa3	Aa2
SEB		A2	Aa2	Aa2
DNB Bank ASA		A2	Aa2	Aa2
BASF (SE)		A1	Aa1	A1
Airbus SE		A1	Aa1	A2
Royal Dutch Shell Plc		A1	Aa1	Aa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Oct. 10	Oct. 3	Spread Diff
Boparan Finance plc	Caa1	716	594	122
Galapagos Holding S.A.	Caa3	3,103	3,015	89
Ineos Group Holdings S.A.	B1	267	196	71
Jaguar Land Rover Automotive Plc	Ba2	446	383	62
CMA CGM S.A.	B3	671	625	46
Telecom Italia S.p.A.	Ba1	251	225	26
Fiat Chrysler Automobiles N.V.	Ba3	169	145	24
Valeo S.A.	Baa2	113	93	20
Iceland Bondco plc	Caa1	391	372	19
Assicurazioni Generali S.p.A	Baa2	133	119	15

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Oct. 10	Oct. 3	Spread Diff
HSH Nordbank AG	Baa3	128	165	-37
Eksportfinans ASA	Baa3	446	469	-22
Matalan Finance plc	Caa1	854	875	-21
Sappi Papier Holding GmbH	Ba2	348	365	-17
Suedzucker AG	Baa2	129	142	-13
Iceland, Government of	A3	56	68	-12
Permanent tsb p.l.c.	Ba2	216	224	-8
The Royal Bank of Scotland Group plc	Baa2	103	110	-6
Barclays Plc	Baa3	102	108	-6
NatWest Markets Plc	Baa2	84	90	-6

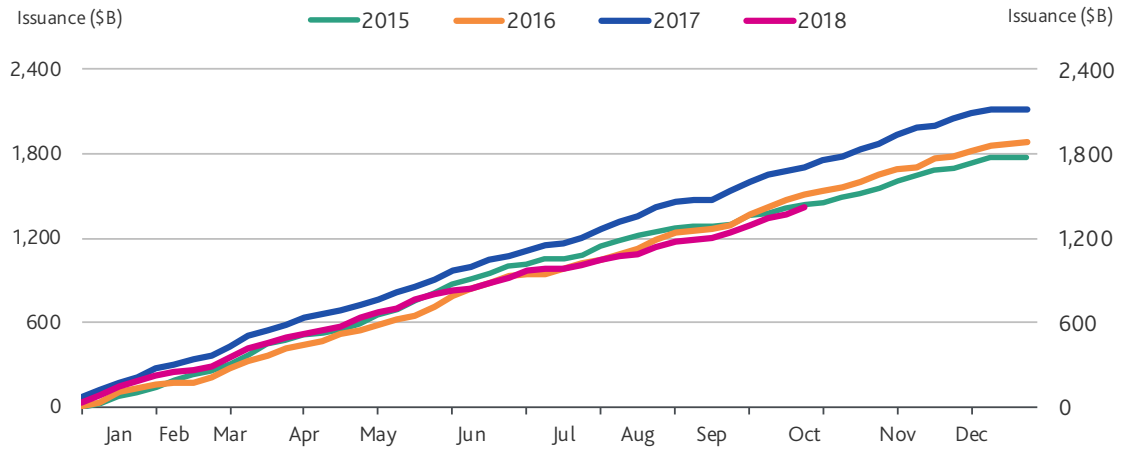
Source: Moody's, CMA



Market Data

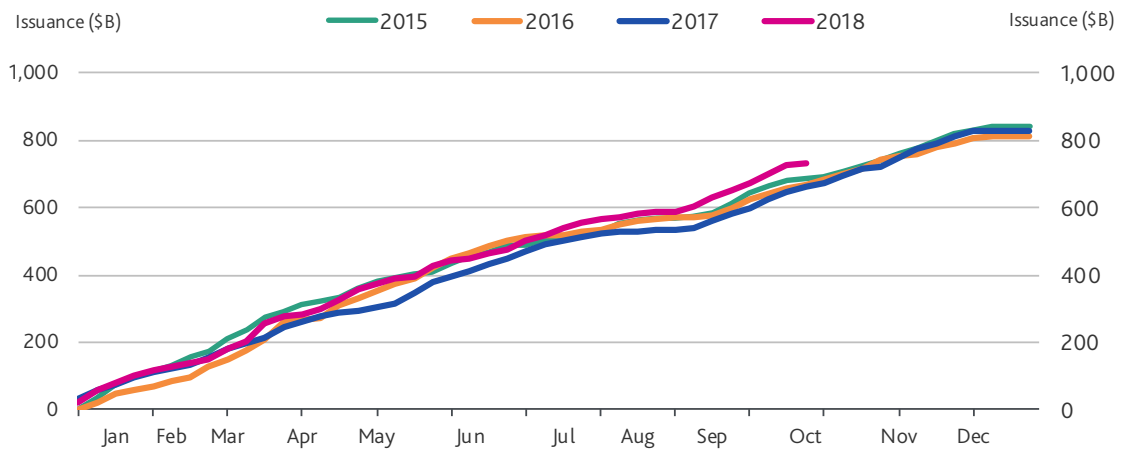
Issuance

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	45.475	4.475	50.365
Year-to-Date	1,094.951	255.519	1,419.141

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount \$B	Amount \$B	Amount \$B
Weekly	5.822	0.957	6.854
Year-to-Date	623.513	78.280	732.022

\* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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