MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

High-Yield Bond Issuance Thrives Despite Tax Law Changes

Moody's Analytics Research

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Credit Markets Review and Outlook *by John Lonski*

High-Yield Bond Issuance Thrives Despite Tax Law Changes

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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: January 2018's month-long average for a composite high-yield bond spread is likely to be the lowest since the 277 basis points of June 2007.

Credit Spreads	Investment Grade: We see year-end 2018's average investment grade (IG) bond spreads exceeding its recent 100 bp. High Yield: Compared to a recent 329 bp, the high-yield spread may approximate 400 bp by year-end 2018.
Defaults	US HY default rate: Compared to December 2017's 3.3%, Moody's Default and Ratings Analytics team forecasts that the US' trailing 12-month high-yield default rate will average 2.4% during 2018's final quarter.
Issuance	In 2017, US$-IG bond issuance grew by 6.8% to a record $1.508 trillion, while US$-priced high-yield bond issuance advanced by 33.0% to a new record calendar-year high of $453 billion. For 2018, US$-denominated IG bond issuance may rise by 0.6% to $1.517 trillion, while US$-priced high-yield bond issuance grows by 3% to $467 billion.

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Ratings Round-Up *by Njundu Sanneh*

Infrastructure Utilities Darken Rating Change Activity

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Credit spreads, CDS movers, issuance.

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Moody's Capital Markets Research *recent publications*

Links to commentaries on: Stocks and spreads, Greek drama, South Korea, Brazil sovereign credit, Greece and Spain, dangers in the outlook, high-yield borrowing, Saudi Arabia, defaults, credit/stocks, China, yields/prices, debt/growth, upside surprise, bulls, less fear.

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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.

High-Yield Bond Issuance Thrives Despite Tax Law Changes

Some predicted that the loss of the full deductibility of business interest expense would weigh heavily on the issuance of dollar-denominated high-yield bonds. However, corporate bond issuance has exceeded expectations thus far in 2018.

According to the new tax law, business interest expense remains fully deductible until a company's interest expense reaches 30% of the firm's EBITDA. The latter equals earnings before interest, taxes, depreciation and amortization.

All else the same, corporate credit quality deteriorates as interest costs climb relative to EBITDA. Thus, the loss of the full deductibility of interest expense falls most heavily on lower-rated, financially stressed companies.

Because investment-grade companies generally show a level of interest expense that is less than 30% of EBITDA, the full deductibility of interest expense remains in effect for most investment-grade companies. Moreover, the interest expense of a significant number of high-yield issuers often falls short of the 30% threshold.

Among high-yield issuers, the loss of the full deductibility of interest expense may be most apparent at ratings of B3 or lower. Nevertheless, corporate tax reform has yet to eliminate the issuance of very low rated bonds. The issuance tally for January to date shows $3.9 billion of new bonds rated B3 and $1.9 billion graded Caa. The $5.5 billion of offerings rated B3 or lower approximates 15% of the $35.7 billion of dollar-priced high-yield bonds issued thus far in January.

The resilience of very low grade bond offerings suggests January 2018's month-long high-yield bond issuance will advance by 15% from January 2017's $36 billion. For all of 2018, dollar-denominated high-yield bond issuance is expected to grow by 3% annually to $468 billion.

Refinancings of both outstanding bonds and loans will continue to be the primary driver of high-yield bond issuance. Corporate bond coupons still top corporate bond yields by enough to support a constructive backdrop for corporate bond issuance. Recently, the average high-yield coupon of 6.38% was 77 basis points greater than the average speculative-grade of 5.61% according to data from Barclays Capital. The funding of M&A will also figure prominently among 2018's uses of proceeds derived from high-yield bond issues.

Offerings of Bonds Rated Less than B2 Surged in 2017

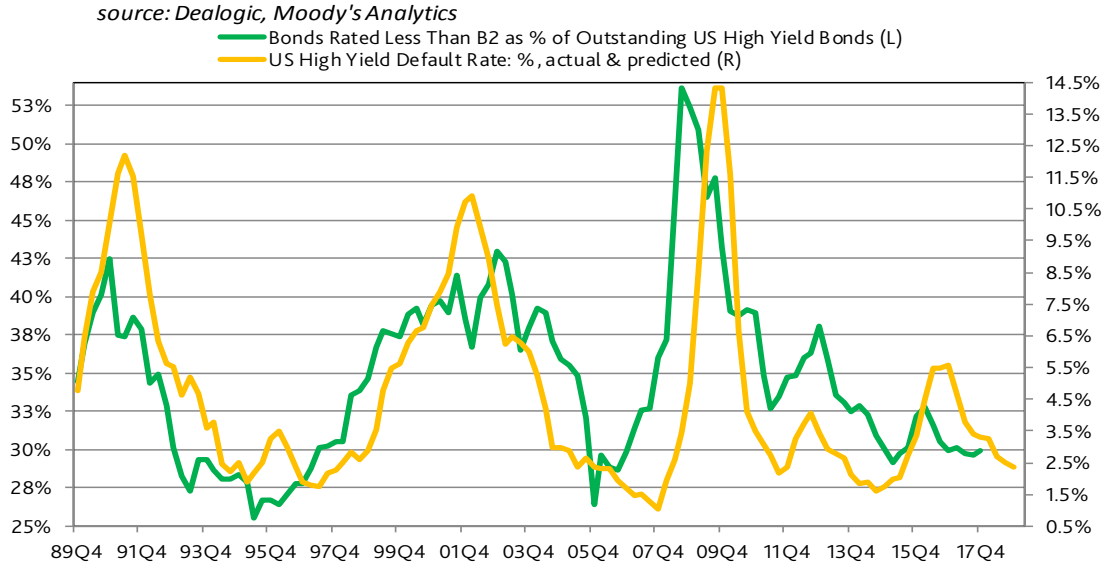
The issuance of lower-rated high-yield bonds thrived in 2017. Yearlong 2017's record $115 billion of newly offered bonds graded B3 or lower was up by 53% annually and accounted for 25.3% of 2017's record $453 billion of dollar-denominated high-yield bond issuance, where the latter advanced by 33.0% annually. Nevertheless, the supply of new bonds rated less than B2 approximated 25% of 2017's dollar-denominated high-yield bond issuance, which was slightly under the 27% share of the 10 years ended 2016.

The "B3 or lower" category consisted of a 38.9% advance by 2017's B3-rated offerings to a record $71 billion, while the issuance of bonds rated less than B3 (all Caa-grade) soared higher by 83.9% to $43 billion, which was well under 2013's record $63 billion.

Outstandings of Lower Rated Bonds Have Yet to Alarm

As of Q4-2017, bonds rated B2 or lower comprised 30.0% of the outstandings of U.S. high-yield corporate bonds. The share was unchanged from Q4-2016 and was consistent with expectations of a lower default rate by year-end 2018. The high-yield default rate shows a relatively strong correlation of 0.73 with the percent of outstanding high-yield bonds rated less than B2 from three quarters earlier.

Figure 1: Bonds Rated Less Than B2 as % of Outstanding US High-Yield Corporate Bonds Support Expectations of Lower Default Rate
source: Dealogic, Moody's Analytics

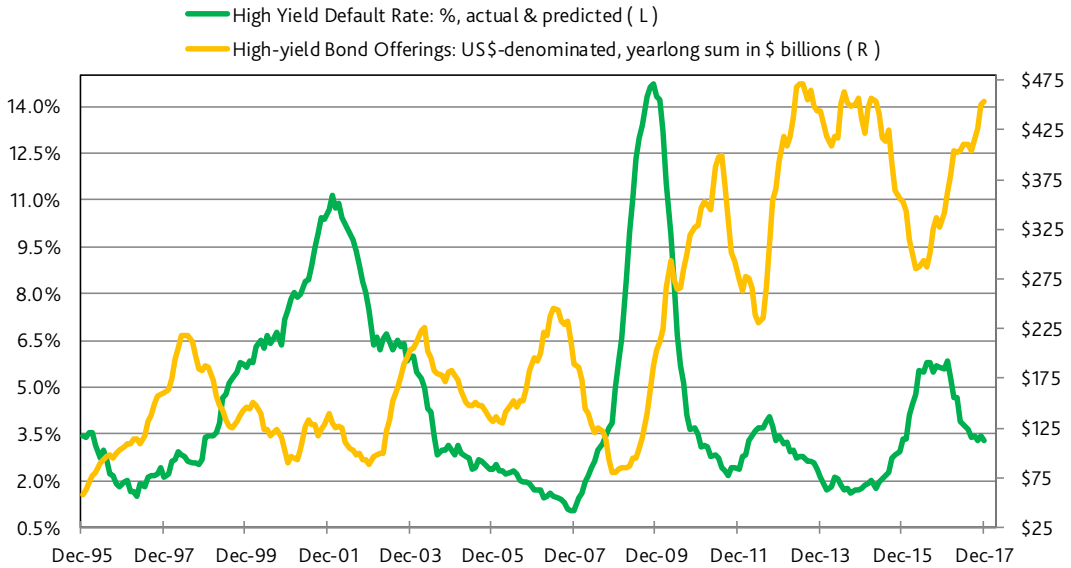


Not too long ago, a climb by the share of outstanding high-yield bonds rated less than B2 from a Q1-2015 low of 29.1% to a Q1-2016 high of 32.8% was accompanied by a climb by the default rate from the 2.0% of Q1-2015 to Q4-2016's most recent high of 5.6%. The latest climb by the default rate overlapped a widening by the high-yield bond spread's month-long average from May 2015's 451 bp to February 2016's 839 bp. At the same time, the month-long average of the market value of U.S. common stock sank by a cumulative 12.9% from May 2015's then record high to February 2016's now four-year low. The health of the corporate bond and equity markets requires the avoidance of another climb by the default rate to 5% or higher.

Lower Default Rates Facilitate High-Yield Borrowing Activity

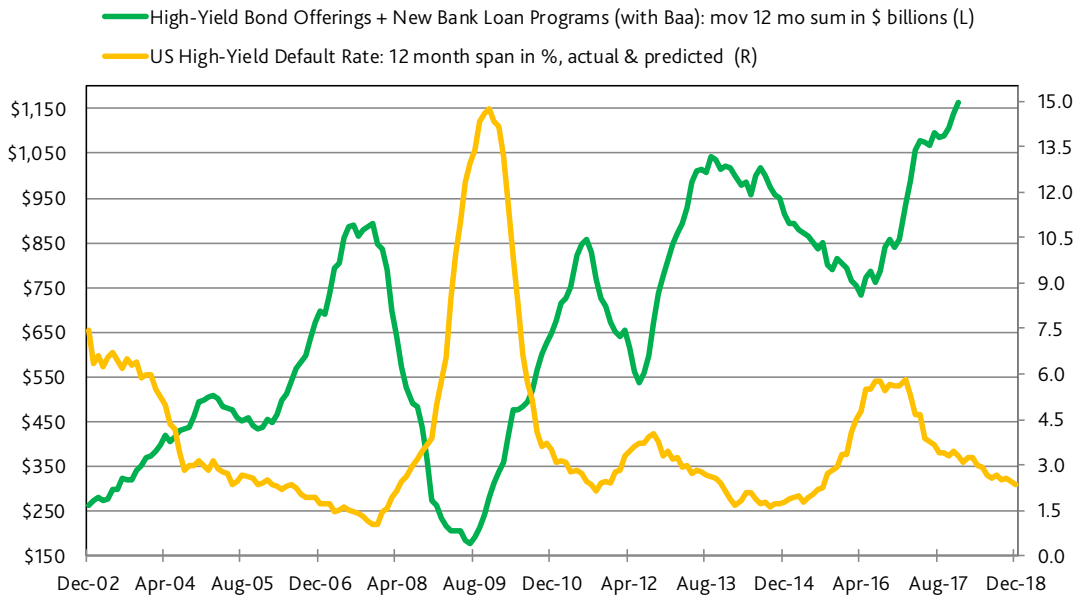
A declining default rate facilitates high-yield bond issuance. Since 1995, 66% of the year-to-year declines by the high-yield default rate were accompanied by a year-over-year increase for the moving 12-month sum of dollar-denominated high-yield bond issuance.

Figure 2: Last Three Deep Declines by High-Yield Bond Issuance Occurred Amid a Rising High-Yield Default Rate
source: Dealogic, Moody's Analytics



However, after adding newly rated bank loan programs from high-yield issuers to high-yield corporate bond issuance, the correspondence between high-yield borrowing activity and the default rate strengthens. Since 2003, 84% of the 107 year-to-year declines by default rate were joined by a year-over-year increase for the moving 12-month sum of high-yield bond offerings plus newly rated high-yield bank loan programs. Thus, if the default rate avoids a noteworthy ascent, both business activity and financial markets are less likely to suffer from a disruptive contraction of systemic liquidity.

Figure 3: Lower Default Rate Lessens Risk of a Slump by High-Yield Borrowing Activity
source: Dealogic, Moody's Analytics



Home Sales Will Give Direction to Treasury Bond Yields

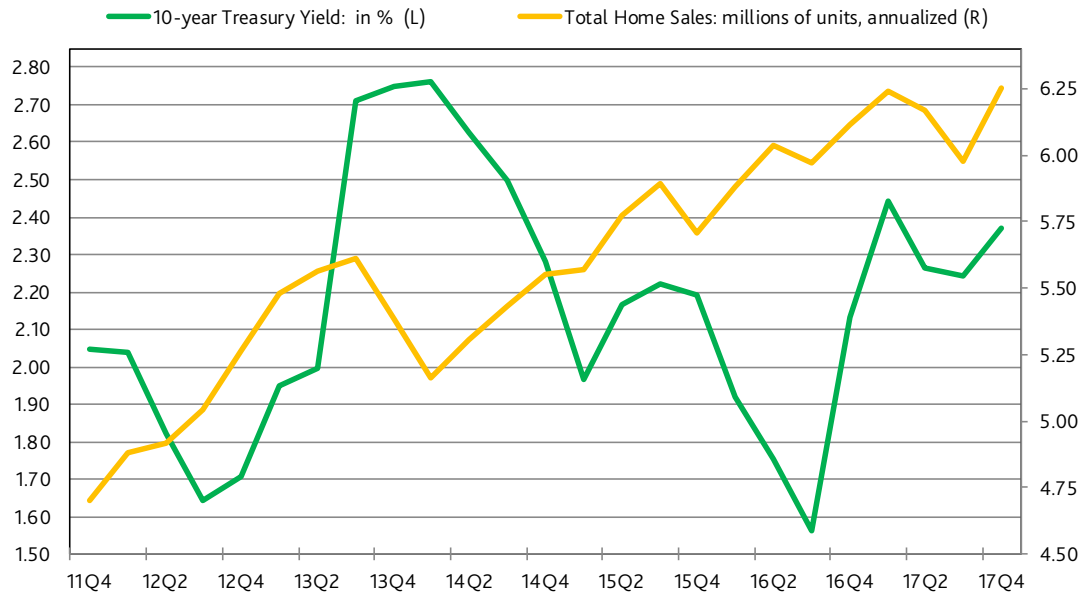
Investors appear confident in the U.S. economy's ability to shoulder recent and forthcoming increases by interest rates. For example, an index of U.S. housing-sector share prices recently was up by 5.0% thus far in 2018. Thus, investors expect that home sales will grow despite a widely anticipated rise by mortgage yields.

Nevertheless, December 2017's monthly setbacks by unit sales of new and existing U.S. homes warned of a future slide by home sales in response to a possibly excessive climb by benchmark Treasury bond yields. Roughly four years back, unit home sales sank in a delayed response to the "taper tantrum" climb by U.S. Treasury bond yields of 2013-2014.

An 11% climb by the annualized pace of unit home sales from Q3-2012's 5.00 million units to Q3-2013's 5.61 million units helped to quickly lift the average 10-year Treasury yield from Q3-2012's 1.64% to Q3-2013's 2.71%. However, a subsequent climb by the 10-year Treasury yield to a Q1-2014 average of 2.76% reduced unit home sales by 8% from Q3-2013's peak to Q1-2014's annualized pace of 5.16 million units.

Unit home sales bottomed in Q1-2014 mostly because the 10-year Treasury began to ease after January 2014. Not until the 10-year Treasury yield had sunk to a first-half 2015 average of 2.07% would unit home sales return to the 5.61 million units of Q3-2013. The lesson of the taper tantrum is that U.S. Treasury yields may continue to ascend until interest-sensitive home sales weaken materially.

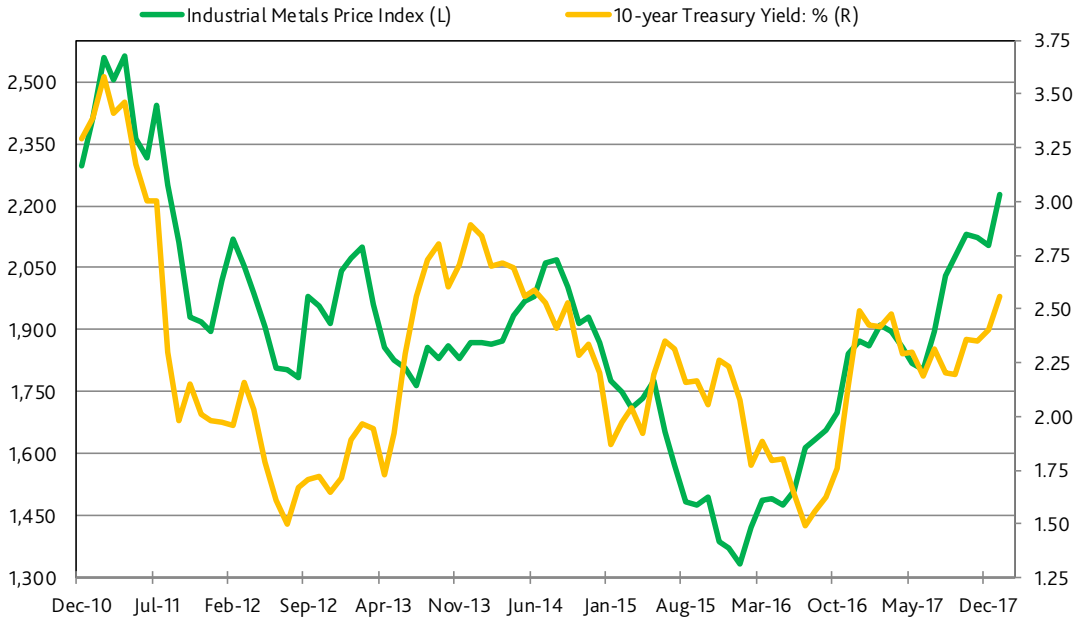
Figure 4: Notable Drop by Unit Home Sales Brought an End to 2013-2014's Taper Tantrum
source: National Association of Realtors, US Census Bureau, Moody's Analytics



Industrial Commodity Price Inflation Lifts Treasury Bond Yields

A seemingly relentless climb by industrial commodity prices now helps to lead the 10-year Treasury yield higher. The recent 19.0% year-over-year increase by Moody's industrial metals price index to its highest reading since August 2011 reflects an improving world economy that now increases both the returns expected from real assets and inflation expectations. In turn, the IMF just revised its forecast for 2018 global economic growth up from 3.7% as of October 2017 to a livelier 3.9%. Coincidentally, the IMF now expects 2018's world economic growth to attain its fastest pace since 2011's 4.2%. For now, fast rising industrial commodity prices warn of higher Treasury bond yields up until either interest-sensitive business activity sags or earnings-sensitive financial-asset prices sink.

Figure 5: Further Climb by Industrial Metals Price Index Favors Higher Treasury Bond Yields



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

THE U.S.

By Ryan Sweet of Moody's Analytics

Hourly wages, productivity likely will disappoint

We expect the week ahead to bring some mixed news on the economy. Our preliminary forecast is for nonfarm payrolls to have risen by 205,000 in January and the unemployment rate to have remained unchanged at 4.1%. Average hourly earnings are likely going to disappoint as a calendar quirk offsets the boost from changes to state minimum wages. A bigger downer will be productivity since it was likely unchanged in the fourth quarter, reinforcing the poor trend. We also look for a 0.2% gain in the core PCE deflator, leaving year-over-year growth at 1.5%.

Elsewhere, construction spending and factory orders could have implications for revisions to fourth quarter GDP growth. January vehicle sales will kick off our tracking of first quarter GDP. Vehicle sales likely weakened in January, suggesting a weak start for real durable goods spending this quarter.

The January Federal Open Market Committee meeting will be more symbolic than substantive. We look for the Fed to leave the target range for the fed funds rate unchanged, and changes to the post-meeting statement will be relatively minor. We don't expect any dissents.

The Fed's assessment of growth should remain unchanged. The December statement noted that growth has been solid and fourth quarter GDP growth should reinforce that assessment. Real GDP grew 2.6% at an annualized rate in the fourth quarter, above the economy's potential growth rate. Also, the composition of growth was favorable and sets up well for growth in the first half of this year. The bar for the Fed to upgrade its assessment of growth is likely high.

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Mon @ 8:30 a.m.	Personal Income for December	% change	0.3	0.3	0.2 to 0.8	0.3
	Personal Spending for December	% change	0.4	0.4	0.2 to 0.8	0.6
Mon @ 8:30 a.m.	Core PCE Deflator for December	% change	0.2	0.2	0.1 to 0.3	0.1
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence	index, 4-wk MA				34.3
Tues @ 10:00 a.m.	Conference Board Consumer Confidence for January	index	122.0	123.0	119.0 to 125.5	122.1
Wed @ 8:15 a.m.	ADP National Employment Report for January	change, ths		183	160 to 229	250
Wed @ 8:30 a.m.	Employment Cost Index for 2017Q4	% change	0.6	0.6	0.4 to 1.0	0.7
Wed @ 10:00 a.m.	Pending Home Sales for December	%change	-1.2	0.5	-1.2 to 0.5	0.2
Thur @ 12:00 a.m.	Vehicle Sales for January	mil, SAAR	17.20	17.25	16.70 to 17.60	17.76
Thur @ 8:30 a.m.	Jobless Claims for 1/27/18	ths	242	236	230 to 245	233
Thur @ 8:30 a.m.	Productivity and Costs for 2017Q4, preliminary	% change, SAAR	0.0	1.1	-0.5 to 3.0	3.0
	Unit Labor Costs	% change, SAAR	1.8	1.0	-0.5 to 2.2	-0.2
Thur @ 10:00 a.m.	Construction Spending for December	% change	0.5	0.4	-0.2 to 0.8	0.8
Thur @ 10:00 a.m.	ISM Manufacturing Index for January	diffusion index		58.6	57.7 to 61.0	59.7
Thur @ 2:00 p.m.	FOMC Monetary Policy for January	%	1.25-1.50	1.25-1.50		1.25-1.50
Fri @ 8:30 a.m.	Employment Situation for January	change, ths	205	180	150 to 230	148
	Average Workweek	#	34.5	34.5	34.4 to 34.5	34.5
	Unemployment rate	%	4.1	4.1	4.0 to 4.2	4.1
	Average Hourly Earnings	% change	0.2	0.3	0.1 to 0.3	0.3
Fri @ 10:00 a.m.	Michigan sentiment for January, final	index	94.8	95.0	94.4 to 96.0	94.4
Fri @ 10:00 a.m.	Factory Orders for December	% change	1.6	0.9	0.4 to 2.5	1.3

MONDAY, JANUARY 29

Personal income and spending (December; 8:30 a.m. EST)

Forecast: 0.3% (income)
Forecast: 0.4% (spending)
Forecast: 0.2% (core PCE deflator)

We look for nominal personal income to have increased 0.3% in December following a 0.3% gain in November and 0.4% increase in October. Wages should chip in. The labor income proxy increased 0.5% in December, and we believe this should help nominal wages contribute 0.2 percentage point to total personal income growth in December. Nonwage income will add 0.1 percentage point to income growth. We shaved a little off our forecast for total personal income growth as there could be an impact from the tax legislation, which was signed into law in December. Therefore, some taxpayers could have shifted income from December into 2018 in anticipation of lower taxes. We believe the impact will be modest because businesses didn't change the timing of bonuses. Rather, we believe the impact, if any, would be in proprietor's income.

Nominal consumer spending is forecast to have risen 0.4% in December. There was a cold spell toward the end of the month; the impact was clear on utility production, and we believe it will boost utility consumption also. The forecast assumes that autos and gasoline were essentially neutral for spending growth. Goods excluding autos and gasoline will add 0.1 percentage point to nominal spending growth in December.

While the core CPI was firm in December, we look for core personal consumption expenditures to have risen 0.17%, keeping the year-ago change steady at 1.5%. The gap expected between the core CPI and core PCE indexes is partially due to airfares, because the relevant source data for the PCE index from the PPI has been weak. Also, the core PCE is more sensitive to fluctuations in the U.S. than the CPI because it includes a travel component.

Business confidence (week ended January 26; 10:00 a.m. EST)

Forecast: N/A

Global businesses are sanguine. Abstracting from the weekly vagaries of the survey, a healthy over 40% of responses to the nine questions posed in the survey are positive, while less than 10% of the responses are negative. Respondents are notably cheery about present business conditions, as half say they are improving, and they expect even better conditions into next year.

Across the globe, the difference between the percentage of all positive responses and all negative responses to the nine survey questions came in at 33% last week and 34% on a four-week moving average basis. In the U.S., business confidence stood at 38% last week and 38% on a four-week moving average basis.

For historical context, when measurably less than 10% of responses are net positive, as was the case during much of 2008 and the first half of 2009, the economy is in recession. Readings between 20% and 30% are consistent with an economy that is expanding at potential. The global economy is expanding above potential with readings of over 30%. The all-time low was -30% in December 2008 and the peak was 46% in April 2015.

The four-week moving average in our global business confidence survey slipped from 35.9 to 34.3 in the week ended January 19.

TUESDAY, JANUARY 30

Consumer confidence (January; 10:00 a.m. EST)
Forecast: 122

The Conference Board's consumer confidence index is forecast to have slipped from 122.1 in December to 122 in January. The Conference Board survey is sensitive to labor market conditions and the decline in initial claims recently would argue for a larger increase in sentiment than we are forecasting, however, the reliability of new filings is low in January because of timing of holidays and potential impact of weather. Elsewhere, stock prices are a positive for sentiment along with tax legislation. The tax legislation is difficult to assess in terms of when it will boost sentiment, because it hasn't hit paychecks yet. Rising gasoline prices are a clear drag on sentiment in January. We don't believe the government shutdown will affect confidence because it occurred late in the month. Most of the responses for the Conference Board are collected by mid-month. There were mixed messages elsewhere. The Bloomberg consumer confidence index rose in January, but the Michigan survey softened.

WEDNESDAY, JANUARY 31

ADP National Employment Report (January; 8:15 a.m. EST)
Forecast: N/A

The ADP National Employment Report showed private employment increased by 250,000 between November and December. This caps an impressive fourth quarter, which saw job gains average 224,000. The pace of growth averaged 212,000 jobs per month in 2017, well above what is needed to keep pace with population gains. Goods producers weakened a bit after several strong performances, adding 28,000 jobs. Meanwhile, service providers notched their best performance of the year, gaining 222,000 jobs.

The average absolute difference between the first print of ADP and the government's estimate of private employment was 51,000 per month in 2017.

THURSDAY, FEBRUARY 1

Jobless claims (week ended January 27; 8:30 a.m. EST)
Forecast: 242,000

Initial claims for unemployment insurance benefits are forecast to have risen from 233,000 to 242,000 in the week ending January 27. This would be the second consecutive weekly gain, but it still would not have unwound all of the drop in the week ended January 13 when claims fell 45,000. If our forecast comes to fruition it would put new filings slightly above their prior four-week moving average.

ISM manufacturing index (January; 10:00 a.m. EST)
Forecast: Released after ISM Chicago

Vehicle Sales (week ended January 27; 8:30 a.m. EST)
Forecast: 17.2 million annualized units

With the boost from replacement demand following last year's hurricanes fading, we expect vehicle sales to have declined in January, dropping from 17.85 million annualized units to 17.2 million. This would put sales below their fourth quarter average and suggest that durable goods spending got off to a slow start this quarter. Real spending on motor vehicles and parts added 0.4 percentage point to GDP growth in the fourth quarter and contributed 0.3 percentage point to growth in the third. Odds are this won't be matched in the first three months of this year.

FRIDAY, FEBRUARY 2

Employment Situation (January; 8:30 a.m. EST)

Forecast: 205,000 (employment)
Forecast: 4.1% (unemployment rate)
Forecast: 0.2% (average hourly earnings)

Our preliminary forecast is for nonfarm employment to have risen by 205,000 between December and January. This would be noticeably better than the 148,000 net gain in December but in line with the average over the prior three months. The forecast assumes some weather boost, which should be visible in construction. We also look for job growth in professional and business services to have bounced back after a disappointing December.

With the January employment report will come the annual benchmark revisions, affecting data from April 2016 to March 2017. The preliminary revisions released by the Bureau of Labor Statistics point toward a total upward revision of 95,000, or 0.1%. This is a small revision and amounts to 8,000 per month, raising average monthly job growth over this span from 179,000 to 187,000.

The preliminary benchmark revision estimate doesn't alter our view of the job market or have any implications for monetary policy. The preliminary estimates show private nonfarm payrolls will be revised up by 98,000, or 0.1%. Within private employment, there will be a sizable upward revision to leisure and hospitality employment of 113,000, or 0.7%. Transportation and warehousing will be revised up by 75,400, while information will be revised higher by 77,000.

On the other hand, professional/business services will be revised down by 276,000, or 1.4%. This will cut average monthly job growth in professional/business services from April 2016 to March 2017 from 53,000 to 30,000. Wholesale trade employment will be revised down by 17,500, and mining/logging will be revised lower by 32,000, or 4.9%.

The government's preliminary benchmark revision estimate is normally close to the final. Over the past 10 years, the average absolute annual benchmark revision to total nonfarm payrolls has been 0.3%, ranging from 0% to 0.7%. Therefore, the pending revision is small.

Turning back to January, we look for the unemployment rate to have remained at 4.1%. Unrounded, the unemployment rate was 4.09% in December. We expect average hourly earnings to have risen 0.2% in January. Minimum wage increases by states and a number of larger companies should provide a boost to average hourly earnings in the month. In fact, 18 states increased their minimum wages at the start of this year: 10 states boosted minimum wage rates following legislation or voter ballot initiatives, and eight states did so following standard annual adjustments for cost-of-living changes.

Overall, the impact should be modest, likely adding 0.1 percentage point to growth in average hourly earnings in January. This should offset the calendar quirk that will affect earnings this month. There is a clear tendency for growth in average hourly earnings to be depressed when the 15th day of the month—the date when many workers are paid—falls outside the reference week, shaving 0.1 percentage point, on average, off average hourly earnings.

New population controls will be incorporated into the household survey, making the levels in the December and January survey not directly comparable.

EUROPE

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

We are extremely optimistic about euro zone momentum

The week ahead will be very busy, bringing the preliminary estimate of fourth quarter GDP figures for France and the euro zone as a whole. We are extremely optimistic about the single-currency area's economic momentum, and we expect growth there to have at least matched the previous quarter's already-strong pace at 0.6% q/q and 2.6% y/y. This will come on the back of broad-based expansion among all the member countries, but Germany and France will have again led the pack. Growth figures for Germany, which should be released by mid-February, will likely show a small deceleration following the third stanza's incredible performance—not that this should be anything to worry about, since full-year GDP growth is still expected to have soared to an incredible 2.6%—but we are more sanguine about France. We think that the fourth-quarter rate accelerated there to a staggering 0.7% q/q, following an upward-revised 0.6% pace of expansion in the three months to September. This will have pushed the yearly expansion to as high as 2.5%, the strongest pace since the first quarter of 2011.

Across sectors, consumer spending is expected to have again explained most of the headline, but it was likely higher investment in manufacturing that was the main factor behind the gain of pace. Industrial production figures for the fourth quarter have been amazing up until now, which in turn likely led payers in the manufacturing industry—where capacity is already stretched—to step up capital expenditures. Even if we pencil in a further contraction in France's monthly factory growth figures in December, which is rather unlikely given that industrial production already corrected in November following October's jump, the quarterly rate would still be up by around 1.9%. Across sectors, growth is expected to have come mainly on the back of soaring manufacturing output, which should have risen by as much as 2.3% q/q, but mining and quarrying are also set to have contributed.

Investment in construction, by contrast, should have disappointment. Provided that construction output rises by 0.5% m/m in December, it is still set to have contracted by 0.1% q/q over the quarter as a whole. This is odd, notably considering the recent soar in commercial and industrial real estate market surveys, and the latest uptick in residential new work. Our guess is that construction output in France will rebound sharply in the first quarter of 2018 and compensate for the unexpected weakness at the closing of 2017. Indeed, French construction investment is still below pre-crisis peaks, so the scope for improvement is significant.

The bigger picture is then that subdued construction investment in France will have dragged on the figures for the euro zone as a whole, but better numbers for Germany likely provided some offset, explaining why the latest construction activity data suggest that the industry had a decent finish to the year. The increase in output is nonetheless expected to have been modest compared to what had been announced by leading indicators. While the 0.5% m/m rise in construction activity in November was welcome news, it only partially reversed the previous month's 0.3% decline. We expect that the area's output in the sector rose further in December, but even accounting for this growth should come in at only 0.3% q/q, following a meagre 0.1% increase in the previous stanza.

As in France, though, the euro area's main growth driver was likely higher investment in manufacturing, notably as Germany too provided strong support. Our forecast of a 0.2% decline in industrial production output in December is consistent with a 1.1% q/q rise over the quarter, which is only marginally lower than the previous quarter already strong 1.2% increase. Elsewhere, services output is expected to have remained solid on the back of strong household consumption but it is unlikely to have accelerated, underpinning our forecast for growth in the area to have remained steady at 0.6% in the closing stanza of the year.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 8:05 a.m.	Spain: Retail Sales for December	% change	0.3	1.3
Tues @ 6:30 a.m.	France: GDP for Q4	% change	0.7	0.6
Tues @ 7:45 a.m.	France: Household Consumption Survey for December	% change	0.3	2.2
Tues @ 10:00 a.m.	Euro Zone: GDP for Q4	% change	0.6	0.6
Wed @ 8:00 a.m.	Germany: Retail Sales for December	% change	-0.3	2.3
Wed @ 9:00 a.m.	Germany: Unemployment for January	%	5.5	5.5
Wed @ 9:00 a.m.	Italy: Unemployment for December	%	11.0	11.0
Wed @ 10:00 a.m.	Euro Zone: Preliminary Consumer Price Index for January	% change	1.5	1.4
Wed @ 10:00 a.m.	Euro Zone: Unemployment for December	%	8.7	8.7
Thur @ 10:00 a.m.	Russia: Reserve Fund for February	RUB tril	3.45	3.75

MONDAY, JANUARY 29

Spain: Retail Sales (December; 8:05 a.m. GMT)

Spain's seasonally adjusted retail sales likely printed at 0.3% month over month in December as the constitutional crisis in Catalonia was less of an influence on the consumer mood. Consumer sentiment was still lackluster; however it slightly improved from November, indicating that the seasonal demand might have pushed nonfood demand higher. Still, wage gains likely stalled at the end of the year as the job report confirmed the national unemployment rate at 16.55%, 0.15 percentage point higher than in the third quarter. Risks to our forecast are skewed to the downside: Smaller than assumed purchasing power and the lingering political tensions could have dragged the retail performance. We see slim chances that the increase in the minimum wage would kick-start domestic demand: While it could boost workers' purchasing power, the wage hike may lead to an increase in unemployment, so the overall effect can be mildly negative.

TUESDAY, JANUARY 30

France: GDP (Q4; 6:30 p.m. GMT)

Preliminary GDP data are expected to show that the French economy grew by 0.7% q/q in the three months to December, accelerating further from a 0.6% gain in the previous stanza. Consumer spending is expected to have again increased, even if retail remained only steady over the quarter. Retail sales account for less than 30% of total spending, and normally consumers step up services spending when they stay away from the high street. This view is corroborated by the country's recent labour market gains, and by the small pickup in pay settlements observed in the end of the year.

But even if consumption again increased and explained most of the headline, higher investment in manufacturing was likely the main factor behind the headline's gain. Industrial production figures for the fourth quarter have been amazing up until now, which in turn likely led the manufacturing industry—where capacity is already stretched—to step up capital expenditures. Even if we pencil in a further contraction in the country's monthly factory growth figures in December, which is rather unlikely given that industrial production already corrected in November following October's jump, the quarterly rate would still be up by around 1.9%. Across sectors, growth is expected to have come mainly on the back of a surge in manufacturing output, which should have risen by as much as 2.3% q/q, but mining and quarrying is also set to have contributed.

Investment in construction likely disappointed. Provided that construction output rises by 0.5% m/m in December, it is still set to have contracted by 0.1% q/q over the quarter. Net trade meanwhile is a wild card: Even if it drags on growth in the third quarter, which would normally

suggest a mean reversion in the three months to December, export figures have disappointed lately. We still expect that net trade will have slightly contributed, or at least remained steady.

France: Household Consumption Survey (December; 7:45 p.m. GMT)

French household expenditures on goods likely rose by 0.3% m/m in December, building on an already-strong 2.2% m/m gain in November. This would push the yearly rate up to 1.8%, from 1.2% previously, double the 0.9% average increase recorded for the previous year. Sales have been unusually volatile lately, but we expect that December will have brought more substantial results. We expect that spending on household goods increased further from November, and that car sales also jumped after two months of unexpected weakness. Clothing is a wild card, but we think that it has scope to increase further in December given the timing of Black Friday, notably as Cyber Monday's sales were not incorporated into November's results. However, Black Friday sales in the country are not as widespread an event as in the U.K. or in the U.S. Energy consumption should have stabilized following wild swings in October and November. In all, December's further rise won't push the quarterly growth much higher, and we expect sales to have only held steady in quarterly terms in the three months to December, down from a 0.7% q/q gain previously.

Euro Zone: GDP (Q4; 10:00 p.m. GMT)

The euro zone economy looks headed for a strong end to the year. We expect fourth quarter growth in the area to have at least matched the previous stanza's already-strong pace at 0.6% q/q and 2.6% y/y. This will come on the back of broad-based expansion among all the member countries, but Germany and France will have again led the pack. Growth figures for Germany, which should be released by mid-February, will likely show a small deceleration following the third stanza's incredible performance—not that this should be anything to be worried about, since full-year GDP growth is still expected to have soared to an incredible 2.6%—but we are more sanguine about France. We think that the fourth quarter rate accelerated in the country to 0.7% q/q, following an upwardly revised 0.6% pace of expansion in the three months to September.

Across sectors, the area's main growth driver was likely higher investment in manufacturing. Notably, manufacturing in France soared on the back of higher domestic and export orders, but Germany too is expected to have provided strong support. Our forecast of a 0.2% decline in industrial production output in December is consistent with a 1.1% q/q rise over the quarter, which is only marginally lower than the previous quarter's 1.2% increase. Services output is expected to have remained solid on the back of strong household consumption but it is unlikely to have accelerated, while construction output is set to have disappointed. While the 0.5% m/m rise in construction activity in November was welcome news, it only partially reversed the previous month's 0.3% decline. We expect that the area's output in the sector rose further in December, but even accounting for this, growth should come in at only 0.3% q/q, following a meagre 0.1% increase in the previous stanza.

WEDNESDAY, JANUARY 31

Germany: Retail Sales (December; 8:00 a.m. GMT)

German retail likely retreated slightly at the end of the last year following a sharp jump in the previous month. Sales are expected to have decreased by 0.3% from November when they rose by 2.3%. In year-ago terms the growth rate likely slowed to 2.8% from 4% previously. The Markit retail PMI rose in December, increasing to 55.1 from 54.6 in November, point to robust improvement in the sector during the month. Meanwhile, the GfK consumer climate indicator for December was unchanged at 10.7 from the previous month, and increased to 10.8 at the start of the new year. Consumption expenditure likely supported the country's expansion during the previous year and will likely continue to do so in the coming quarters. However, conservative German households will likely not increase their spending significantly in coming months because the outlook remains uncertain and because of higher inflation.

Germany: Unemployment (January; 9:00 a.m. GMT)

Germany's seasonally adjusted unemployment rate likely remained at 5.5% at the start of 2018, after it fell to this record low in November. German businesses remain confident in the country's future expansion, increasing their labour force, despite the uncertainties and geopolitical tensions, such as the lack of a coalition following parliamentary elections. Although the flash Markit PMI for January retreated to a two-month low of 58.8, it remained close to the survey's record high and showed that employment continued to expand strongly, and the pace of increase accelerated to the highest since early 2011. However, the unemployment rate is likely reaching its bottom. Germany received a vast inflow of refugees during the second half of 2015, some of whom will be entering the labour force in the coming years, which will likely push unemployment rate higher.

Euro Zone: Unemployment (December; 10:00 a.m. GMT)

The euro zone's unemployment rate likely was steady at 8.7% in December, its lowest reading since January 2009, pausing after impressive gains over the previous months. Risks are nonetheless titled to the upside, though. Both leading and hard data show that the euro zone's momentum remained strong at the end of the year after an already impressive performance in the third stanza, which should have given a further lift to the area's labour market. Accordingly, the Markit composite PMI for the euro zone jumped to a 139-month high in December, with job creation soaring to almost seven-year highs in both services and manufacturing. Staffing levels are increasing in all major countries, but particularly in Germany, France, Spain and Ireland. We expect the downward trend in joblessness to persist in quarters to come, on the back of improving economic conditions around the monetary bloc, labour market reforms, and stronger industrial bases in Spain, Ireland and Portugal.

THURSDAY, FEBRUARY 1

No major economic indicators are scheduled for release.

FRIDAY, FEBRUARY 2

No major economic indicators are scheduled for release.

ASIA-PACIFIC

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

Japan's economy held steady in December, rounding off a stellar 2017

Japan's monthly activity data will likely show the economy held steady in December, rounding off its stellar run in 2017. The unemployment rate likely held at 2.7% in December. Labour force growth has been firm in 2017, but the pace is unlikely to be maintained in 2018. We expect the labour market could tighten further in 2018, although prospects for wage growth remain uncertain. We expect retail sales firmed further in December, although they likely slowed on a year-ago basis. Spending remained uneven in the second half of the year after a solid rise in the first half. Wage growth has cooled, affecting consumption.

Japan's industrial production remains upbeat in annual terms. Global demand for Japanese semiconductors and integrated circuits has risen over the past year or so thanks to the broad-based uptick in the global tech cycle. Auto production also remains firm, with the yen's decline from last year aiding competitiveness across manufacturing and production. We believe external demand will continue to boost Japan's economy over the medium term.

China's official manufacturing PMI data for January will provide a first glimpse on how China's manufacturers are faring after the holiday season. Manufacturing sentiment declined slightly in December but remained positive. Tech manufacturers are still seeing growing export orders, but domestically oriented automakers may be seeing falling demand. We look for the official PMI to fall 0.2 point to 51.4 in January.

Australia's headline consumer price index likely hit 1.9% y/y in the December quarter, from 1.8% previously. The indexation of the tobacco excise, a rise in fuel prices at the pump and a modest rebound in fruit and vegetable prices were behind the uptick. Headline inflation is roughly in line with the Reserve Bank of Australia's 2% forecast and is only a notch below the target range of 2% to 3%. Inflation is expected to only gradually creep higher over 2018, leaving the central bank the flexibility to keep interest rates on hold through 2018.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 8:45 a.m.	New Zealand Foreign trade for December	NZ$ mil	-620	-1200
Tues @ 10:30 a.m.	Japan Unemployment rate for December	%	2.7	2.7
Tues @ 10:30 a.m.	Japan Household expenditure survey for December	% change yr ago	0.5	2.4
Tues @ 10:50 a.m.	Japan Retail trade for December	% change yr ago	1.2	2.2
Wed @ Unknown	Thailand Industrial production for December	% change yr ago	3.7	4.2
Wed @ 10:00 a.m.	South Korea Industrial production for December	% change yr ago	1.1	-1.6
Wed @ 10:00 a.m.	South Korea Retail trade for December	% change	2.7	5.6
Wed @ 11:30 a.m.	Australia Consumer price index for Q4	% change	0.7	0.6
Wed @ 11:50 a.m.	Japan Industrial production for December	% change	-0.3	0.6
Wed @ 12:00 p.m.	China Manufacturing PMI for January	Index	51.4	51.6
Wed @ 4:00 p.m.	Japan Consumer confidence for January	Index	44.9	44.7
Wed @ 4:00 p.m.	Japan Housing starts for December	% change yr ago	-1.4	-0.4
Wed @ 6:30 p.m.	Thailand Private consumption for December	% change yr ago	2.3	1.9
Wed @ 6:30 p.m.	Thailand Foreign trade for December	US$ bil	2.9	3.3
Wed @ 7:00 p.m.	Taiwan GDP for Q4	% change yr ago	2.5	3.1
Thurs @ Unknown	South Korea Foreign trade for January	US$ bil	6.4	5.8
Thurs @ 10:00 a.m.	South Korea Consumer price index for January	% change yr ago	1.8	1.5

FRIDAY, JANUARY 26

Philippines – GDP – 2017Q4

Time: Unknown
Forecast: 6.7%

The Philippines economy likely grew 6.7% y/y in the December quarter, after a 6.5% lift in the prior three quarters. Domestic demand likely remained the major driver of growth, with exports also providing lift thanks to strong demand for electronics and components. Consumer spending likely remained firm, as households benefited from steady inflows of overseas worker remittances and a healthy labour market. Investment also likely stayed solid on the back of government-led infrastructure projects. The Duterte administration plans to spend PHP8 trillion to PHP9 trillion on infrastructure to 2022. Those plans got a boost late last year with the passage of the first tax reform bill, as it will help fund the ambitious infrastructure plans.

South Korea – Consumer Sentiment Index – January

Time: 8:00 a.m. AEDT (Thursday, 9:00 p.m. GMT)
Forecast: 111.8

The Bank of Korea's consumer confidence index likely ticked up to 111.8 in January, after easing to 110.9 in the prior month. Tensions on the Korean peninsula escalated again in December, after another bout of provocations by North Korea. However, the resumption of high-level talks in January for the first time in more than two years has raised hopes that tensions could start to ease. Along with improved economic conditions and President Moon Jae-in's populist policies, that should help to lift consumer confidence.

Japan – Consumer Price Index – December

Time: 10:30 a.m. AEDT (Thursday, 11:30 p.m. GMT)
Forecast: 0.9%

Japan's core inflation rose another notch in November to 0.9% y/y, up from 0.8% in October. We expect inflation remained at 0.9% in December. Higher fuel costs remain the primary driver while domestic demand looks to have improved modestly in the December quarter, with consumers a little less frugal. We expect this will only marginally bolster inflation heading into 2018. The key unknown remains whether sustained income growth will emerge. We have seen green shoots, but the annual spring wage negotiations will be important; the government has already begun campaigning for firms to deliver at least a 3% increase. Moreover, we don't expect the BoJ to hit its 2% inflation target, although tapering long-term asset purchases remains an option by year's end.

Singapore – Industrial Production – December

Time: 4:00 p.m. AEDT (5:00 a.m. GMT)
Forecast: -3.4%

Singapore's industrial production likely fell 3.4% y/y in December, after growth slowed to 5.2% in the prior month. Industrial production growth has cooled since August, as a high base from a year earlier has inhibited gains. Although we expect external demand to remain favorable in 2018 and support demand for semiconductors and electronics, which was especially firm in 2017, the high base from a year earlier is likely to inhibit growth in coming months. Singapore's Markit PMI fell 3.3 points to 52.1 in December, suggesting the local private sector ended 2017 on a softer note.

Singapore – Employment – 2017Q4

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

In line with the surge in GDP growth in the September quarter, Singapore's seasonally adjusted unemployment rate edged lower to a one-year low of 2.1% in the third quarter. Staffing levels in the services sector increased in the first three quarters of 2017. However, manufacturing shed jobs despite

the upturn in exports. The construction job market also remained weak. Still, with economic activity remaining solid in the final stanza of 2017, we expect the unemployment rate to have edged down to 2% in its latest reading.

MONDAY, JANUARY 29

No major economic indicators are scheduled for release.

TUESDAY, JANUARY 30

New Zealand – Foreign Trade – December

Time: 8:45 a.m. AEDT (Monday, 9:45 p.m. GMT)

Forecast: -NZ$620 million

New Zealand's trade deficit likely narrowed in December to NZ$620 million from NZ$1.2 billion in November, the first November deficit of more than NZ$1 billion since 2005. November's large deficit was due to a jump in aircraft and aircraft parts. These bulky, one-off purchases often drive large swings in the trade balance. Exports were also impressive, although less so than imports. The export trend remains upbeat and dairy will likely remain the main driver, as has been the case through 2017. Butter prices surged in the second half of 2017 as a particularly bright spot thanks to buoyant Asian demand, especially from China.

Japan – Employment Situation – December

Time: 10:30 a.m. AEDT (Monday, 11:30 p.m. GMT)

Forecast: 2.7% unemployed

Employment growth rose in November, and despite a rise in the labour force, strong job gains reduced the unemployment rate to a record low of 2.7%. We expect the unemployment rate was unchanged in December. From July to August, employment rose by 460,000. After falling 210,000 total in the two months prior to November, employment rose again by 140,000 in November. This suggests that employment in December likely rose again. Overall, labour force growth has been firm in 2017, but the pace is unlikely to be maintained in 2018. The labour market could tighten further in 2018, although prospects for wage growth remain uncertain.

Japan – Household Expenditures Survey – December

Time: 10:30 a.m. AEDT (Monday, 11:30 p.m. GMT)

Forecast: 0.5%

Workers' household expenditure surprised on the upside and rose 2.4% y/y in November following a 2.6% gain in October. Expenditures likely slowed to 0.5% in December, despite the upward trend in the final quarter. Overall, consumer spending increased in 2017, although gains remain relatively small for a large economy such as Japan's. That's because wage growth has been weak despite the labour market tightening further. Policymakers are putting pressure on firms to deliver meaningful wage hikes in 2018, but breaking the tradition of prioritizing job stability over income growth is a difficult undertaking.

Japan – Retail Sales – December

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

Forecast: 1.2%

Retail sales rose a sharp 2.2% y/y in November, bucking the trend from October's 0.2% decline. The index also rose over the month, which suggests there could be renewed momentum in the final quarter of 2017. Thus, we expect retail sales firmed further at 1.2% in December, although they likely slowed on a year-ago basis. Spending remained uneven in the second half of the year despite a solid rise in the first half. Wages had risen to a 17-year high by midyear. However, since wage growth has cooled, consumption has slowed. Japan's September quarter GDP shows private consumption fell and domestic demand declined. We expect a slight pickup in the December quarter as consumers dip further into savings.

WEDNESDAY, JANUARY 31

Thailand – Industrial Production – December

Time: Unknown

Forecast: 3.7%

Industrial production likely grew 3.7% y/y in December after a 4.2% lift in the prior month. Thailand's manufacturers should continue to benefit from favourable external conditions in 2018. Thai exports turned up noticeably last year, and that momentum should be carried through into 2018 thanks to strong demand for electronics and components and improved demand for autos. Manufacturing should also get a boost from government-led infrastructure projects, which are expected to ramp up this year.

South Korea – Industrial Production – December

Time: 10:00 a.m. AEDT (Tuesday, 11:00 p.m. GMT)

Forecast: 1.1%

South Korean industrial production likely ticked up 1.1% y/y in December after slipping 1.6% in the prior month. Industrial production growth has weakened noticeably since September. The weakness has been broad-based, with production of capital, intermediate and consumer goods all falling in year-ago terms. However, production of information and communications technology products continues to be a bright spot and should continue to benefit from firm external demand in 2018, even as a high base from a year earlier inhibits gains.

South Korea – Retail Sales – December

Time: 10:00 a.m. AEDT (Tuesday, 11:00 p.m. GMT)

Forecast: 2.7%

South Korean retail sales surged 5.6% m/m in November, and likely grew a further 2.7% in December, as a gradually improving labour market and President Moon Jae-in's stimulus measures continue to support consumer spending. The Bank of Korea's consumer sentiment index slipped in December after rising close to seven-year high in November. Still, consumer confidence stayed upbeat, and consumers remained relatively positive about prospective income and spending, which bodes well for retail sales.

Australia – Consumer Price Index – 2017Q4

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

Forecast: 0.7%

Australia's headline consumer price index likely rose 0.7% q/q in the December quarter from a 0.6% gain in the third. The indexation of the tobacco excise, a rise in fuel prices at the pump, and a modest rebound in fruit and vegetable prices were behind the quarterly growth. This brings annual inflation up to 1.9%, from the third quarter's 1.8%. Headline inflation is roughly in line with the Reserve Bank of Australia's 2% forecast and is sitting only a notch below the target range of 2% to 3%. Headline inflation is expected to only gradually creep higher over 2018, leaving the central bank the flexibility to keep interest rates on hold through 2018.

Japan – Industrial Production – December

Time: 11:50 a.m. AEDT (12:50 a.m. GMT)

Forecast: -0.3%

Industrial activity in Japan remains buttressed by external demand for the country's electronics and autos. Industrial production increased 0.6% m/m in November, with strong year-ago gains as well, suggesting that production will end the year strong. However, production is choppy over the month, so we expect production dropped in December, hitting -0.3%. That said, year-ago gains are expected to continue. Global demand for Japanese semiconductors and integrated circuits has risen over the past year or so thanks to the broad-based uptick in the global tech cycle. Auto production also remains firm,

with the yen's decline from last year aiding competitiveness across manufacturing and production. We believe external demand will continue to boost Japan's economy over the medium term.

China – Manufacturing PMI – January

Time: 12:00 p.m. AEDT (1:00 a.m. GMT)

Forecast: 51.4

Sentiment data for January will provide a first glimpse on how China's manufacturers are faring after the holiday season. Manufacturing sentiment declined slightly in December but remained positive. Tech manufacturers are still seeing growing export orders, but domestically oriented automakers may be seeing falling demand. We expect the official PMI fell 0.2 point to 51.4 in January.

Japan – Consumer Confidence – January

Time: 4:00 p.m. AEDT (5:00 a.m. GMT)

Forecast: 44.9

Japan's consumer confidence dropped in December after the euphoria of the election in November. The seasonally adjusted consumer confidence index dropped 0.2 point to 44.7 in December, with a broad-based slowdown across the major categories. However, we expect consumer confidence to pick up slightly in January to 44.9. The broad-based rise in sentiment across the major categories in 2017 suggests that consumers are slowly feeling the benefits of Prime Minister Shinzo Abe's economic policies, or Abenomics. The cheap yen has helped exporters and is boosting incomes for those who work in export-oriented industries. This should buttress sentiment over the coming months.

Japan – Housing Starts – December

Time: 4:00 p.m. AEDT (5:00 a.m. GMT)

Forecast: -1.4%

Japan's housing starts are in a trend decline after a strong year in 2016. Overall housing starts fell 0.4% y/y in November following October's 4.8% drop. We expect the trend will continue in December and starts will decline by 1.4%. There has been a broad-based decline across all major categories in recent months, which suggests that a rebound remains unlikely. After a tailwind from negative interest rates and tax concessions to owners in 2016, housing starts are dropping on a year-ago basis. This was expected since housing demand was never going to maintain the momentum of 2016. We expect housing starts to remain moribund in 2018.

Thailand – Private Consumption – December

Time: 6:30 p.m. AEDT (7:30 a.m. GMT)

Forecast: 2.3%

Private consumption likely grew by a three-month high of 2.3% y/y in December, after rising 1.9% in November, thanks to a 23-day tax break. Although there may be some pullback from November, private consumption likely stayed firm in December, as consumer confidence rose to a 23-month high. Overall, consumer spending was relatively subdued in 2017, as little if any wage gains and elevated household debt curbed spending. Without further government stimulus, the situation is unlikely to change in the near term, suggesting consumer spending will remain subdued.

Thailand – Foreign Trade – December

Time: 6:30 p.m. AEDT (7:30 a.m. GMT)

Forecast: US$2.9 billion

Thailand's trade surplus likely narrowed to US$2.9 billion in December after rising to US$3.3 billion in the prior month. Thailand's exports remained firm in the first two months of the final quarter, and we expect that continued in December, as external demand likely stayed strong. Exports of electronics have been especially firm in 2017, while agriculture exports have also turned up noticeably thanks to an

upswing in agricultural prices. However, export growth has decelerated in recent months and may cool further as a high base from a year earlier inhibits gains.

Taiwan – GDP – 2017Q4

Time: 7:00 p.m. AEDT (8:00 a.m. GMT)

Forecast: 2.5%

Taiwan's economy likely grew a healthy 2.5% y/y in the December quarter, down from a 3.1% lift in the prior quarter. The upswing in global demand has given the economy a welcome reprieve from the last few years of sluggish growth. Taiwan's exports rebounded by 13.3% y/y in 2017 after contracting in the prior two years. In contrast, private investment has weakened in recent quarters and likely remained a drag on growth in the final stanza. Household consumption likely continued its modest run of improvement.

THURSDAY, FEBRUARY 1

South Korea – Foreign Trade – January

Time: Unknown

Forecast: US$6.4 billion

South Korea's foreign trade surplus likely ticked up to US$6.4 billion in January after narrowing to US$5.8 billion in December. Export growth moderated in the fourth quarter but continued to grow at a healthy pace. Growth continued to be led by robust exports of semiconductors, while mobile phone and PC exports were also firm. However, exports of LCD screens have weakened in recent months, and automobile exports ended 2017 on a weak note, down 34.2% y/y. South Korean car exporters have come under pressure of late, with the Trump administration making clear its intentions to alter a 2012 free trade deal that has boosted Korean car exports to the U.S.

South Korea – Consumer Price Index – January

Time: 10:00 a.m. AEDT (Wednesday, 11:00 p.m. GMT)

Forecast: 1.8%

South Korean consumer prices likely ticked up to a three-month high of 1.8% y/y in January after rising 1.5% in the prior month. Headline inflation remained below the Bank of Korea's 2% target in the final quarter of 2017, as demand-side pressures stayed weak despite the upturn in economic growth. Indeed, South Korea's labour market improved only modestly last year. With inflation likely to stay subdued, the Bank of Korea is likely to leave its key policy rate unchanged at 1.5% in the near term as it waits to see the impact of November's 25-basis point rate increase.

FRIDAY, FEBRUARY 2

No major economic indicators are scheduled for release.

The Long View

January 2018's month-long average for a composite high-yield bond spread is likely to be the lowest since the 277 basis points of June 2007.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
January 25, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 100 bp is far under its 122-point mean of the two previous economic recoveries. This spread is more likely to be wider, as opposed to narrower, a year from now.

The recent high-yield bond spread of 329 bp is less than what is inferred from the spread's macroeconomic drivers and the high-yield EDF metric. The adverse implications for liquidity of possibly significantly higher interest rates merit consideration.

DEFAULTS

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

US CORPORATE BOND ISSUANCE

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

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

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

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

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

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

For yearlong 2016, worldwide corporate bond offerings rose by 2.3% annually for IG (to $2.402 trillion) and sank by 7.8% for high yield (to $426 billion). For yearlong 2017 have worldwide corporate bond offerings increasing by 4.0% annually (to $2.499 trillion) for IG and advanced by 41.2% for high yield (to $602 billion). The worldwide corporate bond offerings of 2018 are expected to show annual increases of 4% for IG and 3% for high yield.

The financing of acquisitions and shareholder compensation will stand out among 2016's uses of funds obtained via bond issues and newly-rated bank loan programs. Companies will resort to acquisitions

and divestitures in order to better cope with the US's subpar recovery. To the degree companies fear significantly higher bond yields, pre-fundings will rise.

US ECONOMIC OUTLOOK

The consensus expects that the mid-point for the federal funds rate should finish 2018 at 2.125%. In view of the considerable underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global economy operates below trend, the 10-year Treasury yield may not remain above 2.7% for long. A fundamentally excessive climb by Treasury bond yields and a pronounced slowing by expenditures in dynamic emerging market countries are among the biggest threats to the adequacy of economic growth and credit spreads going forward.

EUROPE

By Reka Sulyok of Moody's Analytics
January 26, 2018

Euro zone

The Markit PMI climbed to a 12-year high in the euro area in January. The sentiment gauge added 0.5 point from December and reached 58.6. Manufacturing, which sent the PMI soaring in December, cooled, but services sizzled to keep the momentum going.

Relentless optimism in Germany and France informed the euro zone headline. While headline PMIs ticked down a little in both countries, the level of confidence remained close to historical highs. Purchasing managers have been locking in more resources, keeping activity elevated in the two biggest euro area economies. Italy and Spain have been less spectacular. Their service sectors have been grappling with low domestic demand. The reckless strengthening of the single currency may hurt the economies in the euro zone periphery; the euro is currently hovering around US$1.23, up by 3% from the end of 2017 and showing that solid data encourage investments in the euro area.

The PMIs resonate with other sentiment gauges. Both the Ifo Climate Indicator and the European Commission's sentiment gauge reached stratospheric levels in December. Drawing on this very strong growth signal and strong industrial results from Germany, our real-time GDP estimate of the euro zone signals that GDP may have accelerated from 0.6% q/q in the third quarter to 0.8% q/q for the fourth quarter. But we caution that the link between the business climate indicators and GDP growth may well be softer. We expect that the estimate may be a tad lower once the monthly activity indicators complete the picture for the last quarter. That said, odds are still high that the euro area ended the year accelerating from the third quarter.

Given the GDP growth momentum, the fate of quantitative easing seems clearer. Strong and sustained GDP growth relieved pressure on the European Central Bank to continue with further stimulus. We estimate that the euro area reaches a peak in the first half of 2018 and gradually slows to trend by 2020. The vigorous activity should induce price pressures this year as the crisis slack is largely absorbed. Our forecast pencils in that inflation in the euro zone will inch upward and reach 1.7% this year, but it may fall short of the central bank's target range in 2019. Expectations are poised to stay low, while the real economy will not exert upward pressure once the output gap is closed.

IFM optimism

In the run-up to the Davos World Economic Forum this week, the International Monetary Fund published some cheery updated forecasts for the major European economies. The euro zone is expected to grow by 2.2% this year, 0.3 percentage point higher than the IMF's projection in October. Germany, the currency bloc's powerhouse, looks set to expand by 2.3%, which is 0.5 percentage point above the earlier estimate. The increase in the German GDP growth rate is likely driven by strengthening global demand, and we expect the country's current account surplus to hover around 7.4% of GDP in the next two years. A bigger contribution from exports should propel the economy in 2018.

France and Italy appear to be absorbing the slack from the financial crisis more quickly than the October report suggested. France's GDP may clock in at 1.9% while Italy's should register at 1.4% this year, since both countries are still on the verge of closing their negative production gap.

The IMF estimates that Spain's output gap closed in 2017. Still, the economy is expected to outpace the euro area on average and grow 2.4% this year. But even this solid rate of expansion is 0.1 percentage point lower than the October report had forecast, because of the political turbulence in Catalonia.

Maurice Obstfeld, Director of Research at the IMF, stressed that the bright outlook for 2018 is largely from global spillovers stemming from the fiscal impetus in China and the U.S. and from the stabilizing commodity market—a potent combination that spurs global demand. Yet relaxed financial conditions, which have compressed government bond yields and buttressed investment, may have introduced key financial vulnerabilities. The IMF has warned that a sudden tightening of the monetary policy stance carries a high risk of debt distress. But the refinancing need is bound to increase even if the unwinding of quantitative easing is gradual, because once their output gaps close the major economies should slow in line with their potential growth, which is estimated to be below the precrisis rate.

The financial crisis appears to have permanently weakened long-term productivity by shifting capacities to less productive sectors. Although it's a question if any policy tool can promote better allocation, the IMF is still warning policymakers against complacency, since structural policy reforms can in any case help fortify against the next crisis.

ASIA PACIFIC

By Faraz Syed of Moody's Analytics
January 25, 2018

India

India's GDP growth is expected to rebound in 2018 to 7.2% after an estimated slowdown to 6.2% in 2017. Consumption will remain consistent, though we expect investment to grow 8%, up from 2% in 2017, and add around 2.5 percentage points to GDP growth. External demand improved in 2017, but a sharper rise in commodity imports caused net exports to detract from overall GDP growth.

External shocks unhinged India's growth prospects in 2017. The ill-effects of demonetisation—removal of 86% of currency from circulation—caused disruptions across various industries, but these have faded in recent months. The recovery in the cash-intensive manufacturing and service sectors in recent months points to a cyclical recovery. For example, the Purchasing Managers' Index rose sharply in December, and we expect the momentum to continue in early 2018.

Other indicators point to modest optimism, too. India's industrial production rebounded towards the year's end—rising 8.4% y/y in November—thanks to improved external demand. Engineering manufactured goods rebounded, while higher commodity prices are increasing basic metals production.

The government's capital infusion into public sector banks, worth around $32 billion, will boost credit growth over the coming year. Investment was hindered because the corporate sector failed to pay its debts, which increased bad loans on public sector bank balance sheets. Directives from the Reserve Bank of India to better recognise nonperforming loans also added to a weaker investment profile over the last few years.

Thus, credit growth, after slowing over the past few years, could be reinvigorated in 2018. Nonfood credit, which includes loans for investment, rose in the final quarter of 2017. Loans to the priority sectors remain low, which suggests that despite improvements in the bank balance sheets, it could take some time before credit growth takes full flight.

Emerging concerns

The reform momentum has provided ammunition to wax lyrical about India's medium-term growth prospects. The new goods and services tax will improve India's business environment; the World Bank

ranked India 100 out of 190 in the overall ease of doing business index for 2018, a jump of around 30 positions from the previous year. Yet despite the euphoria of the steady reforms, concerns around India's macroeconomic stability have risen.

First, inflation in India is accelerating. After decelerating to a low of 1.5% in June, inflation rebounded to 5.2% in December. India's salient food prices—which account for 45% of the CPI basket—are rising, up 5% in December. Crop sowing in 2017 was below average on the back of uneven monsoon rains. Moreover, retail fuel prices are expected to add to headline inflation. Prices of key global commodities have risen, and OPEC is expected to persist with production cuts through 2018.

Second, a wider trade deficit has caused concerns about India's current account. Inflation alone won't threaten macro stability, but the confluence of a rising trade deficit has reignited concerns of a current account deficit blowout. The trade deficit widened to US$14.9 billion in December on the back of imports rising faster than exports; a rally in commodity prices remains the main cause of the increase in the import bill.

Financial markets suggest that investors remain wary of stability concerns. Indeed, the currency has depreciated more than 1% in recent weeks, while bond yields have rallied since the second half of 2017, despite a ratings upgrade by Moody's Investors Service.

India's yield curve has also shifted upwards in 2018, compared with 12 months prior. Ghosts of the 2013 taper tantrum—where capital exited emerging market economies on expectations of Federal Reserve asset-purchase tapering—continue to linger for India. Back then, the currency depreciated by more than 20%, inflation was in double digits, and the current account deficit was wide. However, we don't see a repeat of that for India in 2018. India's overall external position has improved, foreign exchange reserves are above $400 billion, and capital inflows, including foreign direct investment, are rising at a steady pace.

Hawkish RBI in 2018

Salient inflation in India poses a concern for policymakers. It's difficult to anchor inflation effectively when prices can swing from 1.5% to 5% in the space of a few months. But that's the reality that policymakers will continue to deal with because around half of an average Indian's income is spent on food. The trend is unlikely to change materially, as growth in India's middle class remains slow.

Thus, we expect the RBI to stick to its inflation-targeting playbook. Fears of higher inflation and capital outflow mean that the central bank will be wary of cutting rates further, and we expect the repo rate to remain unchanged at 6% through 2018. Near-term prospects of a hike remain unlikely, though there is an outside 25% chance that rates could increase at the February monetary policy meeting. But a more likely scenario is that the RBI will wait until the monsoon season to see how food prices evolve for remainder of the year.

Ratings Round-Up

By Njundu Sanneh

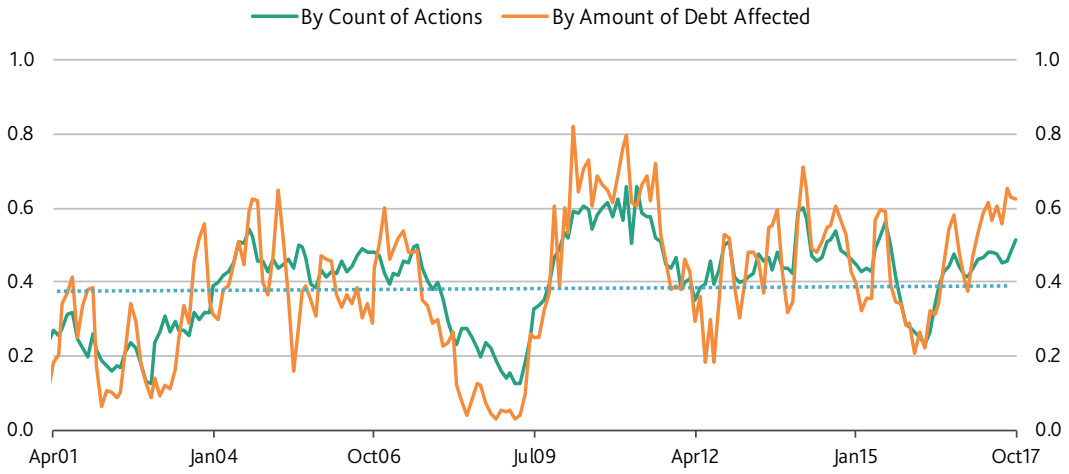
Infrastructure Utilities Darken Rating Change Activity

The downgrade of several U.S. utility/infrastructure project finance entities has tilted the balance strongly towards negative rating changes in the past week. The downgrade of five infrastructure/utility companies accounted for more than 50% of the total U.S. downgrades and almost half of the total U.S. count of 12 rating revisions. The downgrades of the infrastructure/utility units are mainly due to weak merchant power pricing environment, relatively low electricity demand and commodity prices. These have added to the poor operating performance for these entities and some of them are nearing default. The other sectors experiencing downgrades include energy, insurance/financial guarantor, apparel and retail. The downgrade of Bon-Ton stores, a retail company, reflects the company's ability to meet interest payments at the expiration of the 30-day grace period and entering into forbearance agreements. The missed interest payment constitutes a default by Moody's definition of default. The positive rating news from the past week came from the packaging, technology and transportation sectors.

Rating revisions activity remains sparse in Europe with a count of only three in the past week. The performance of positive rating changes is much better with two out of the three being upgrades. It's worth noting that the sample was, however fairly small.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

Ratings Round-Up

FIGURE 2

Rating Key

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

FIGURE 3

Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG
1/17/18	BON-TON STORES INC., (THE)	Industrial	SrSec/LTCFR/PDR/LGD	350	D	Ca	C			SG
1/17/18	FIRSTENERGY CORP.	Utility	SrUnsec/SrSec/LTCFR/PDR	4	D	Caa1	Ca	SGL-3	SGL-4	SG
1/17/18	MBIA INC.	Financial	SrUnsec/IFSR	721	D	Ba1	Ba3			SG
1/17/18	OGLETHORPE POWER CORPORATION	Utility	SrSec	300	D	A3	Baa1			IG
1/17/18	PARKER DRILLING COMPANY	Industrial	SrUnsec/LTCFR/PDR	585	D	Caa1	Caa2	SGL-3	SGL-4	SG
1/17/18	TOLL ROAD INVESTORS PARTNERSHIP II, L.P.	Industrial	SrUnsec	4,443	U	Ba2	Ba1			SG
1/18/18	CIENA CORPORATION	Industrial	SrSec/BCF/LTCFr/PDR		U	Ba2	Ba1			SG
1/19/18	BERRY GLOBAL GROUP INC.	Industrial	SrSec/LTCFR/PDR/BCF	1,600	U	B3	B2			SG
1/19/18	NINE WEST HOLDINGS, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	709	D	Ca	C			SG
1/22/18	SOUTHEAST POWERGEN, LLC	Utility	SrSec/BCF		D	Ba3	B1			SG
1/23/18	EMPIRE GENERATING CO, LLC	Utility	SrSec/BCF		D	Ba3	B1			SG
1/23/18	FIRSTENERGY CORP.	Utility	SrUnsec/SrSec/LTCFR/PDR/BCF	1,868	D	Caa1	Ca	SGL-3	SGL-4	SG

Source: Moody's

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

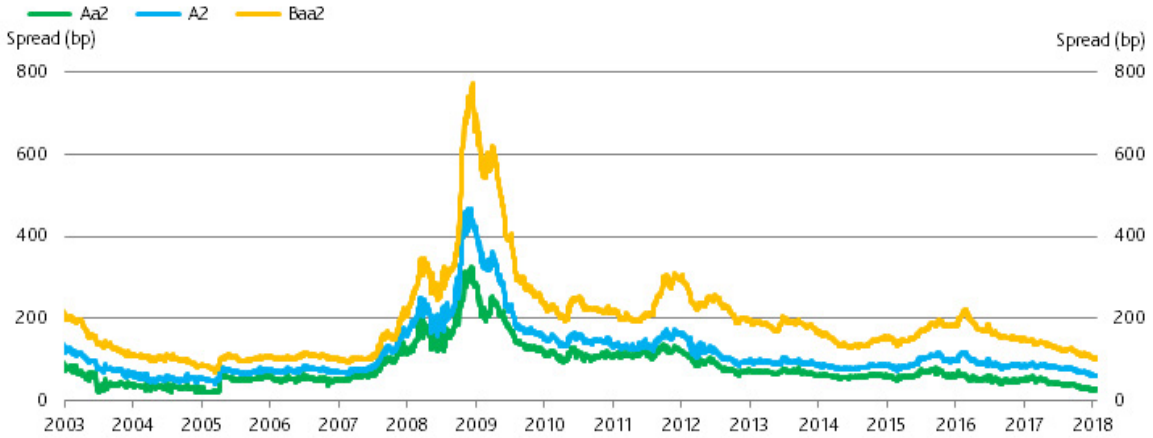
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	New LGD	IG/ SG	Country
1/22/18	SEB - SEB AG	Financial	LTD		U	A2	Aa3		IG	GERMANY
1/22/18	AKIBANK	Financial	LTD		D	B3	Caa1		SG	RUSSIA
1/22/18	TULLOW OIL PLC	Industrial	SrUnsec/LTCFR/PDR	1,300	U	Caa1	B3		SG	UNITED KINGDOM

Source: Moody's

Market Data

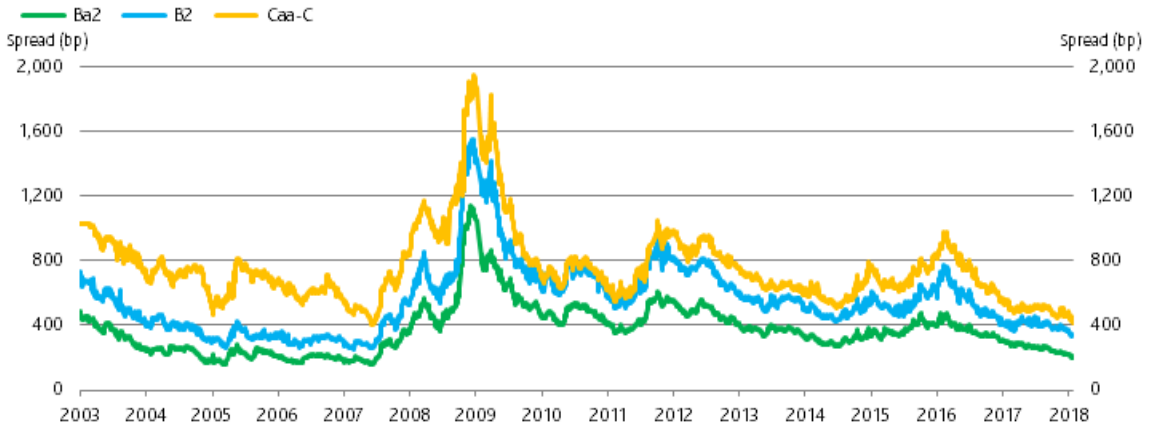
Spreads

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



Source: Moody's

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



Source: Moody's

Market Data

CDS Movers

Figure 3. CDS Movers - US (January 17, 2018 – January 24, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 24	Jan. 17	Senior Ratings
Exxon Mobil Corporation	Aa2	A1	Aaa
Allegheny Energy Supply Company, LLC	Ba3	B2	B1
United States of America, Government of	Aa1	Aa2	Aaa
Comcast Corporation	Aa3	A1	A3
Aetna Inc.	Aa2	Aa3	Baa2
CBS Corporation	Baa3	Ba1	Baa2
Roche Holdings Inc.	Aa1	Aa2	A1
FirstEnergy Corp.	Baa2	Baa3	Baa3
Caterpillar Inc.	Aa1	Aa2	A3
Halliburton Company	Aa3	A1	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 24	Jan. 17	Senior Ratings
General Electric Company	Baa3	Baa1	A2
Bank of America Corporation	A3	A2	A3
Verizon Communications Inc.	Baa3	Baa2	Baa1
Ford Motor Credit Company LLC	Ba2	Ba1	Baa2
Bank of America, N.A.	A2	A1	Aa3
American International Group, Inc.	Baa3	Baa2	Baa1
CVS Health	Baa3	Baa2	Baa1
Ford Motor Company	Ba2	Ba1	Baa2
Home Depot, Inc. (The)	Aa1	Aaa	A2
U.S. Bancorp	Aa2	Aa1	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 24	Jan. 17	Spread Diff
Nine West Holdings, Inc.	C	21,263	15,451	5,812
Neiman Marcus Group LTD LLC	Caa3	1,261	1,174	88
Office Depot, Inc.	B2	687	616	70
Lexmark International, Inc.	Ba3	305	249	56
RentPath, LLC	Caa1	450	404	46
R.R. Donnelley & Sons Company	B2	711	683	27
Wendy's International, LLC	Caa1	181	162	19
Enbridge Energy Limited Partnership	Baa2	118	100	18
Xerox Corporation	Baa3	144	127	17
CSC Holdings, LLC	Ba2	271	256	14

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 24	Jan. 17	Spread Diff
Frontier Communications Corporation	B3	1,464	1,689	-226
K. Hovnanian Enterprises, Inc.	Caa3	1,637	1,751	-114
MBIA Inc.	Ba3	1,167	1,262	-95
MBIA Insurance Corporation	Caa2	1,137	1,220	-83
Weatherford International, LLC (Delaware)	Caa1	411	489	-77
Hertz Corporation (The)	B3	675	741	-66
McClatchy Company (The)	Caa2	836	902	-66
Pride International, Inc.	B3	354	419	-64
Allegheny Energy Supply Company, LLC	B1	165	216	-52
Penney (J.C.) Corporation, Inc.	B3	876	924	-48

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (January 17, 2018 – January 24, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 24	Jan. 17	Senior Ratings
Erste Group Bank AG	Aa2	A2	A3
CaixaBank, S.A.	A3	Baa2	Baa2
United Kingdom, Government of	Aaa	Aa1	Aa2
Ireland, Government of	Aa1	Aa2	A2
Banco Bilbao Vizcaya Argentaria, S.A.	A1	A2	Baa1
ABN AMRO Bank N.V.	A2	A3	A1
Bankia, S.A.	Baa1	Baa2	Ba1
UniCredit S.p.A.	Baa1	Baa2	Baa1
Banque Federative du Credit Mutuel	Aa1	Aa2	Aa3
Banco Santander S.A. (Spain)	Aa2	Aa3	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 24	Jan. 17	Senior Ratings
Santander UK plc	A3	A2	Aa3
HSBC Holdings plc	A2	A1	A2
Banco Popular Espanol, S.A.	A1	Aa3	Baa3
Fresenius SE & Co. KGaA	A2	A1	Baa3
National Grid Gas Plc	A3	A2	A3
CNH Industrial N.V.	Baa3	Baa2	Ba2
TDC A/S	Ba1	Baa3	Baa3
Henkel AG & Co. KGaA	Aa1	Aaa	A2
Old Mutual Plc	Aa3	Aa2	Ba1
Atlas Copco AB	Baa2	Baa1	A2

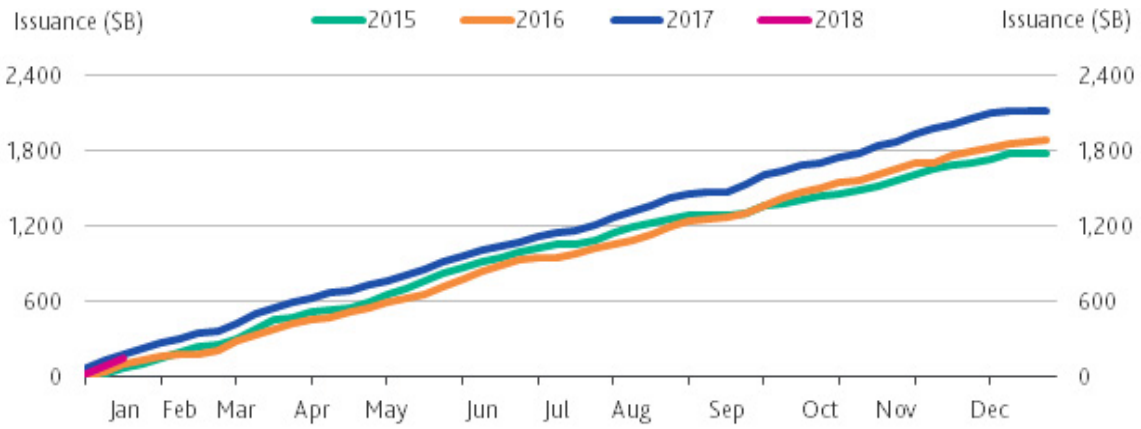
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 24	Jan. 17	Spread Diff
Novafives S.A.S.	B3	118	104	14
Vue International Bidco p.l.c.	B3	248	240	8
Boparan Finance plc	B3	493	486	7
Selecta Group B.V.	Caa2	379	372	7
Matalan Finance plc	Caa1	551	546	6
Banco Popular Espanol, S.A.	Baa3	34	29	5
Old Mutual Plc	Ba1	31	26	5
Banca Nazionale Del Lavoro S.p.A.	Baa3	78	73	5
Henkel AG & Co. KGaA	A2	18	15	3
ITV plc	Baa3	111	109	3

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 24	Jan. 17	Spread Diff
Astaldi S.p.A.	B3	1,630	2,036	-406
Ensco plc	B3	362	427	-66
Stena AB	B3	486	531	-45
Altice Finco S.A.	B3	370	397	-27
Galapagos Holding S.A.	Caa3	885	912	-27
Greece, Government of	Caa2	276	293	-17
Iceland Bondco plc	Caa1	308	323	-15
Premier Foods Finance plc	Caa1	241	256	-15
CaixaBank, S.A.	Baa2	40	54	-13
CMA CGM S.A.	B3	375	387	-12

Source: Moody's, CMA

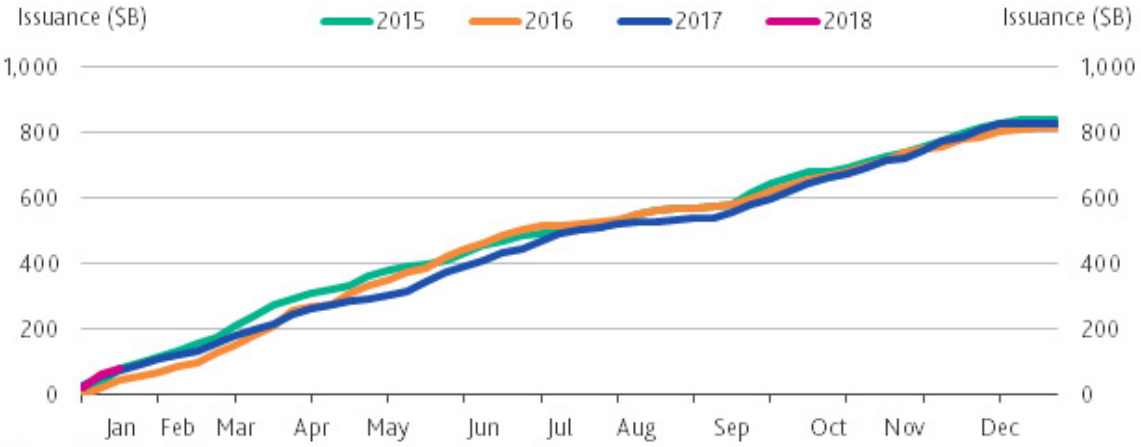
Issuance

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



Source: Moody's / Dealogic

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



Source: Moody's / Dealogic

Market Data

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	49.594	13.160	63.741
Year-to-Date	113.066	27.995	145.938

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	15.607	2.282	19.992
Year-to-Date	74.183	3.184	79.567

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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