MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Loan Default Rate May Approach Bond Default Rate

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Credit Markets Review and Outlook

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

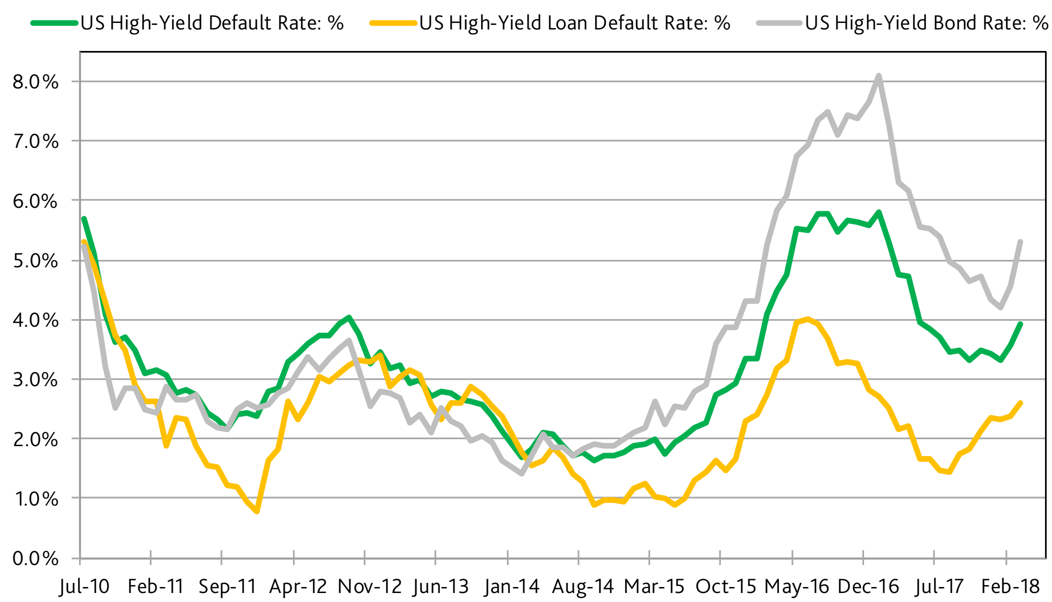
Loan Default Rate May Approach Bond Default Rate

The high-yield bond market continues to shrug off equity market volatility. Notwithstanding a climb by the VIX index's month-long average from December 2017's 10.3 points to April-to-date's 18.6 points, as well as a rise by the U.S.' high-yield default rate from January 2018's 3.3% to March's 3.9%, April 25's composite high-yield bond spread of 352 basis points was thinner than the 359 bp of year-end 2017. Still, thin spreads reflect strongly held expectations of a renewed slide by the high-yield default rate well into 2019. Such conviction implicitly assumes systemic liquidity will remain plentiful.

The high-yield default rate is derived from the default rates for the bonds and loans of high-yield issuers. During the 10 years ended 2017, the amount of outstanding high-yield bond debt rose by 3.1% annualized, on average, to $1.292 trillion, while the outstanding loan debt of high-yield issuers expanded by 4.7% annualized to $1.365 trillion. As the ratio of loan debt to the total rated debt of U.S. high-yield issuers has risen from 2007's 47.6% to 2017's 51.4%, the importance of the loan default rate to the overall high-yield default rate has increased.

The rise by the U.S.' overall high-yield default rate from January 2018's now 26-month low of 3.3% to March's 3.9% masked different performances by the bond and loan default rates. More specifically, the U.S. high-yield bond default rate increased from January 2018's 28-month low of 4.2% to March 2018's 5.3%, while the high-yield loan default rate rose from August 2017's 31-month low of 1.45% to March's 2.6%. Though March 2018's high-yield bond default rate was down from the 6.3% of March 2017, the latest loan default rate was up from the 2.2% of a year earlier.

Figure 1: Loan Default Rate's Importance to the US High-Yield Default Rate Has Been on the Rise
source: Moody's Investors Service



The faster growth of outstanding leveraged loans vis-a-vis outstanding high-yield corporate bonds hints of a higher default rate for leveraged loans compared to the category's historical performance. During the past 12 months, a rapidly growing number of new high-yield issuers have issued only loans and no bonds. This is a sharp break from the recent past when new high-yield bank loan programs often were accompanied by at least one new high-yield bond issue.

A growing reliance on variable-rate loans may increase the exposure of high-yield issuers to widely anticipated Fed rate hikes going forward. Nonetheless, high-yield loan issuers may sense (i) a limited upside for the federal funds rate and (ii) future reductions by the fixed rated borrowing costs of high-yield bonds. However, the latter appears very much in doubt if only because of how the recent composite high-yield bond spread of 354 bp is so much thinner than its long-term median of 465 bp. Rather, the primary driver behind the increased popularity of loans among high-yield borrowers may be the relaxation of bank loan covenants.

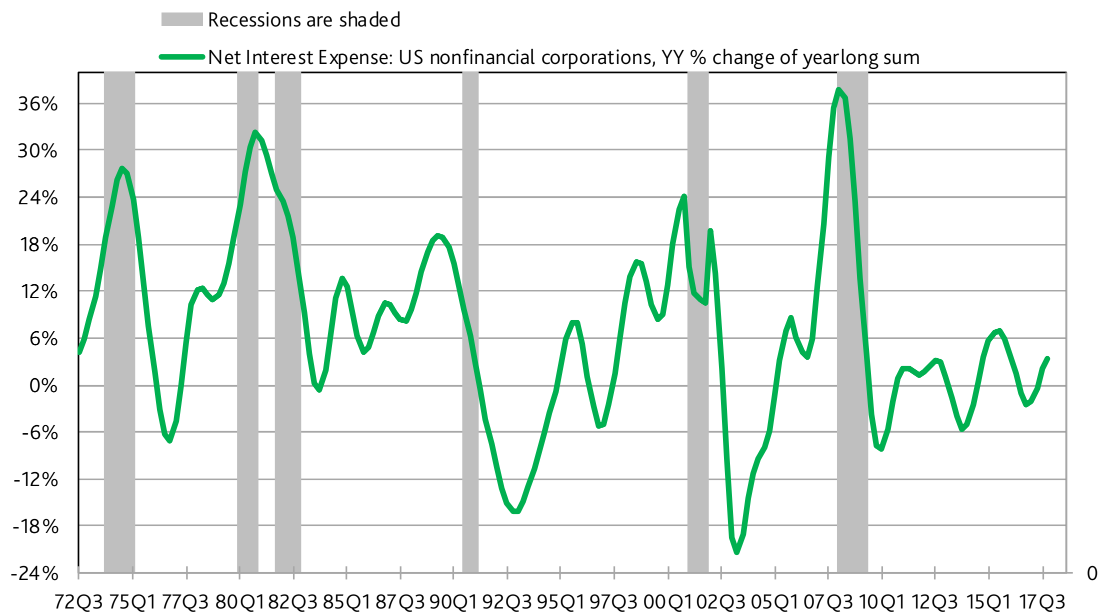
In addition, holders of high-yield debt cannot help but notice how 2018-to-date's 2.1% total return from leveraged loans compares favorably with the -0.5% return from high-yield bonds. Amid rising benchmark interest rates, variable-rate loans are likely to outperform fixed-rate bonds.

Net Interest Expense Is on the Rise

Interest costs were well contained in 2017. An aggregate approximation of the net interest expense of U.S. nonfinancial corporations rose by only 3.4% annually for all of 2017. The last time the high-yield bond spreads swelled, net interest expense rose by as much as 6.8% annually for the year-ended Q3-2015.

At the time of the financial crisis, the annual increase of nonfinancial-corporate net interest expense peaked at the 37.7% of the year-ended Q1-2008. The experience of 2015 suggests that if net interest expense's yearlong average grows faster than 7% annually, the yield spreads of medium- and speculative-grade bonds will widen considerably in response to significantly higher default risk. Moreover, the historical record strongly suggests that once the moving yearlong growth rate of nonfinancial-corporate net interest expense breaks above 12%, a recession may not be that far away.

Figure 2: Latest Climb by Corporate Net Interest Expense Has Yet to Alarm
sources: BEA, Moody's Analytics

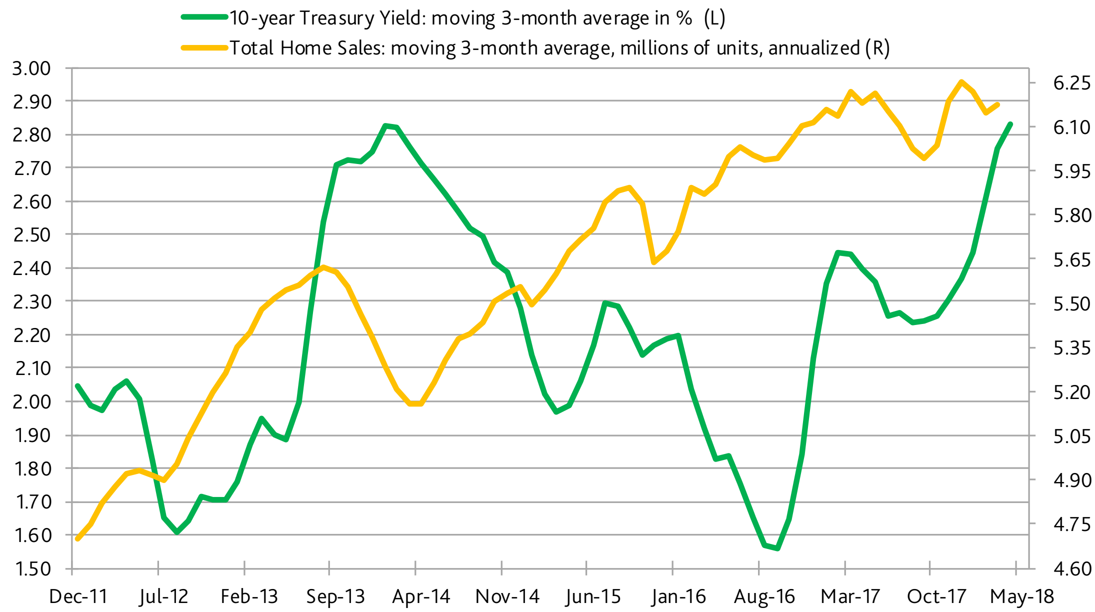


Slump by Home Sales Reversed the Taper Tantrum

It is difficult, if not impossible, to predict how high interest rates can climb before triggering deflationary developments that drive interest rates lower. When attempting to ascertain a possible top for yields, the record suggests keeping a close eye on interest-sensitive spending and industrial commodity prices.

During 2013-2014's taper tantrum, the 10-year Treasury yield's month-long average climbed up from December 2012's 1.72% to a December 2013 high of 2.90%. The latter still serves as the highest month-long average since July 2011's 3.00%. Once the moving three-month average of total home sales had sunk by 6% from August 2013's localized high, the 10-year Treasury yield began to trend lower in January 2014.

Figure 3: Notable Drop by Unit Home Sales Brought an End to 2013-2014's Taper Tantrum
sources: National Association of Realtors, US Census Bureau, Moody's Analytics



Total home sales have yet to signal an impending top for the 10-year Treasury yield. The unit home sales of 2018's first quarter dipped by only 1.2% from Q4-2017's current cycle. Moreover, April-to-date's seasonally-adjusted upswing by mortgage applications from potential homebuyers hints of a sequential rise by Q2-2018's home sales.

Nevertheless, in the event that unit home sales slow yet again in the current quarter, the case favoring a less than 3% 10-year Treasury yield will be strengthened. Indeed, the equity market harbors doubts regarding the ability of home sales to shoulder significantly higher mortgage yields. For example, the PHLX index of housing sector share prices was recently a deep 16.7% under its January 23, 2018 peak, while also sinking by 11.7% since the end of 2017. By contrast, the market value of U.S. common stock recorded much shallower setbacks of 6.8% from its January 26 high and 0.2% for the year to date. Similarly, 2018-to-date's -1.3% total return from housing-related high-yield bonds trailed the -0.3% return for the overall high-yield bond market.

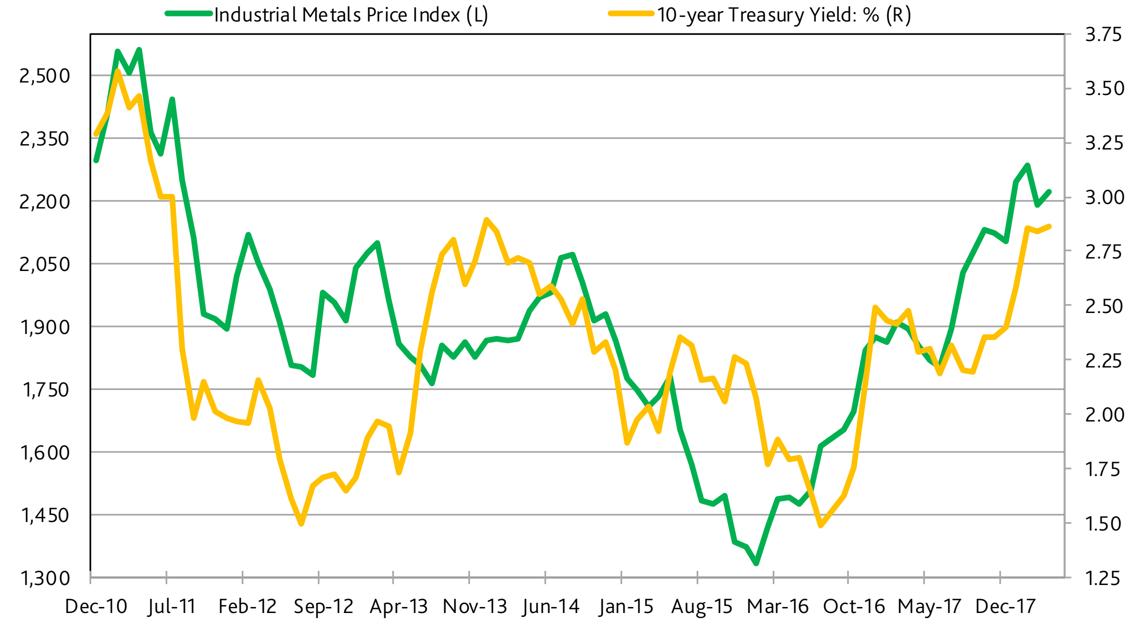
Treasury Bond Yields Often Follow Path Taken by Base Metals Prices

It is hard to believe that the current economic recovery is about to complete its ninth year and yet both Moody's industrial metals price index and the 10-year Treasury yield set their respective highs for the current upturn back in early 2011. More specifically, when the moving three-month average peaked at the 3.41% of the span-ended April 2011, the base metals price index's three-month average also crested at a level that is 14% above its latest reading. Subsequently, both measures eased considerably in response to the current global upturn's stubbornly subpar pace.

Since 2010, 69% of the year-to-year contractions by the industrial metals price index were joined by a year-to-year decline for the 10-year Treasury yield. The only time this tendency was violated on a recurring basis was during the taper tantrum. Despite how the industrial metals price index fell annually by 7%, on average, in each of the seven months from September 2013 through March 2014, the 10-year Treasury yield recorded an average annual increase of 54 basis points. The fact that Treasury bond yields rose in defiance of base metals price deflation helps to explain why the 10-year Treasury yield's previous visit to 3% was short-lived.

Not long after the taper tantrum, industrial commodity price deflation took hold and the industrial metals price index incurred a year-to-year decline in each month beginning with January 2015 and ending in June 2016 that averaged 17%. In response, the 10-year Treasury yield sank from December 2014's 2.20% to July 2016's 1.49%.

Figure 4: Treasury Bond Yields Are Likely to Follow the Path Taken by Industrial Metals Price Index
source: Moody's Analytics



In each of the 22 months since June 2016 the base metals price index advanced from the prior year by 21%, on average. As a result, the 10-year Treasury yield's month-long average might soon top December 2013's now 81-month high. Barring some combination of slower global expenditures and a stronger dollar exchange rate, the base metals price index is likely to rise.

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

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

Fed's assessment of economy will be little changed

The focus for the new week will be on the Fed and April employment. We expect the Federal Open Market Committee to keep the target range for the fed funds rate unchanged at 1.5% to 1.75%. There won't be any update to the Fed's Summary of Economic Projections, nor a press conference. Therefore the focus will be on the changes to the statement. The caps on the Fed's Treasury and mortgage-backed securities holdings, or the upper limit on the amount of investments that are allowed to mature without reinvestment each month, increased in April. Thus, no adjustment will occur in May. We don't anticipate any dissents.

On the statement and the balance of risks, the Fed can sound a bit more upbeat (though not yet worried) about inflation, and while consumer spending was soft in the first quarter, the assessment of the economy will remain little changed. The same holds for the labor market as the unemployment rate remains below the Fed's estimate of full employment and trend job growth is strong. The Fed will look past the weakness in job growth in March.

Turning to employment, we expect nonfarm employment to have risen 200,000 in April while the unemployment rate slipped from 4.1% to 4%. We look for a 0.3% gain in average hourly earnings. Elsewhere, the core PCE deflator likely came close to the Fed's 2% target in March, thanks to some favorable comparisons. Vehicle sales likely fell in April and this will be the first input into our high frequency GDP model's estimate of second quarter GDP growth. We expect the ISM surveys to have weakened in April.

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Mon @ 8:30 a.m.	Nominal personal Income for March	% change	0.4	0.4	0.0 to 0.5	0.4
	Nominal personal spending for March	% change	0.5	0.5	0.4 to 0.5	0.0
	Core PCE deflator for March	% change	0.2 (0.16% unrounded)	0.2	0.1 to 0.2	0.2
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence for 4/27/18	index, 4-wk MA				
Mon @ 10:00 a.m.	Pending Home Sales for March	%change	0.7	0.5	0.5 to 2.0	3.1
Tues @ 12:00 a.m.	Vehicle Sales for April	mil, SAAR	17.00	17.20	16.70 to 17.60	17.40
Tues @ 10:00 a.m.	Construction Spending for March	% change	0.6	0.5	-0.4 to 1.0	0.1
Tues @ 10:00 a.m.	ISM Manufacturing Index for April	diffusion index	58.0	58.5	57.0 to 59.5	59.3
Wed @ 8:15 a.m.	ADP National Employment Report for April	change, ths		193	145 to 225	241
Wed @ 2:00 p.m.	FOMC Monetary Policy for April	%	1.50 - 1.75	1.50 - 1.75		1.50 - 1.75
Thur @ 8:30 a.m.	Jobless Claims for 4/28/18	ths	228	225	212 to 232	209
Thur @ 8:30 a.m.	Productivity and Costs for 2018Q1, preliminary	% change, SAAR	1.0	1.0	0.4 to 1.3	0.0
	Unit Labor Costs	% change, SAAR	2.4	3.0	2.3 to 3.2	2.5
Thur @ 8:30 a.m.	International Trade for March	$ bil	-48.9	-50.0	-57.8 to -47.5	-57.6
Thur @ 10:00 a.m.	Factory Orders for March	% change	1.1	1.2	0.6 to 1.5	1.2
Thur @ 10:00 a.m.	ISM Nonmanufacturing Index for April	diffusion index	57.6	58.1	57.0 to 59.3	58.8
Fri @ 8:30 a.m.	Employment Situation for April	change, ths	200	195	145 to 229	103
	Average Workweek	%	34.5	34.5	34.4 to 34.5	34.5
	Unemployment rate	%	4.0	4.0	3.9 to 4.0	4.1
	Average Hourly Earnings	% change	0.3	0.3	0.2 to 0.5	0.3

The Week Ahead

MONDAY, APRIL 30

Personal income and spending (March; 8:30 a.m. EDT)

Forecast: 0.4% (nominal income)
Forecast: 0.5% (nominal spending)
Forecast: 0.16% (core PCE deflator)

We look for nominal personal income to have risen 0.4% in March. The labor income proxy from the monthly employment report is consistent with wages adding 0.2 percentage point to total nominal income growth in March. Nonwage income is also expected to add 0.2 percentage point to income growth.

Nominal spending should post a solid gain in March, aided some by utility spending. We look for nominal spending to have risen 0.5%. We don't anticipate vehicles adding anything to total nominal spending growth in March. Retail sales point toward a small boost from consumer goods excluding autos and gasoline. Lower prices will hurt nominal spending on gasoline in March, but services should be solid, partly because of unseasonably cool weather that helped boost utility consumption.

We look for the core PCE deflator, the Fed's preferred measure of inflation, to have risen 0.15% in March, raising year-over-year growth from 1.6% to 1.9%. Some favorable base effects will help boost year-over-year growth in March.

Business confidence (week ended April 27; 10:00 a.m. EDT)

Forecast: N/A

Global business sentiment remains about as upbeat it has ever been in the 15 years of this survey. This is especially impressive given the recent volatility in global financial markets, and prospects for higher U.S. tariffs and rising trade tensions between the U.S. and China.

Abstracting from the weekly vagaries of the survey, a strong one-half of responses to the nine questions in the survey are positive, while well less than one-tenth of the responses are negative.

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

The four-week moving average of our weekly business confidence survey increased from 41.9 to 42.7 in the week ended April 20.

TUESDAY, MAY 1

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

Forecast: 58

We look for the ISM manufacturing index to have fallen from 59.3 in March to 58 in April. The regional manufacturing surveys for April generally weakened and the ISM will likely follow. We will finalize our ISM forecast on Monday after the release of the Chicago PMI and Texas manufacturing survey.

Vehicle sales (April; 10:00 a.m. EDT)

Forecast: 17 million annualized units

Vehicle sales were surprisingly strong in March, but the improvement is unlikely to stick. Vehicle sales rose from 17.03 million annualized units in February to 17.49 million in March. Aggressive discounting and an extra weekend of sales than last year provided a boost, particularly on a year-ago basis. Vehicle sales were up 3.9% from a year prior in March, compared with the 2.5% decline in February. Turning to April, we expect vehicle sales to have dropped 2.8% to 17 million annualized units. Vehicle sales will be the first input into our high-frequency GDP model's estimate of second quarter GDP.

WEDNESDAY, MAY 2

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

Forecast: N/A

Based on ADP payroll records, private sector employment increased by 241,000 in March. This is in line with impressive payroll growth in the first quarter of this year and well above the 185,000 monthly job pace in 2017. Service providers added 176,000 jobs, up from an average gain of around 150,000 in 2017. Although a tightening labor market will eventually impede growth, nothing points to a significant slowdown in the near term, and recent corporate and personal tax cuts may propel stronger growth in 2018. Professional/business services added 44,000 jobs and hold the mantle as the service industry's strongest performer.

Though we find ADP useful in predicting the Bureau of Labor Statistics estimate, there is an important methodological difference related to active versus paid employees. ADP counts employees as working so long as they're on the payroll, but the BLS counts only those who worked at some point during the reference week. This becomes an issue when there are weather events or temperatures deviate noticeably from historical norms. April was colder than normal leading up and during the reference week.

THURSDAY, MAY 3

Jobless claims (week ended April 21; 8:30 a.m. EDT)

Forecast: 228,000

Initial claims fell by 24,000, to 209,000, in the week ended April 21, putting new filings at their lowest since 1969. This is too good to be true, and initial claims can swing wildly this time of year because of seasonal adjustment issues surrounding the timing of Easter, Passover and spring breaks. Unadjusted initial claims in New York fell 18,402 in the week ended April 21, and that may have been attributed to spring breaks. We look for new filings to have risen to 225,000 in the week ended April 28.

International Trade (March; 8:30 a.m. EDT)

Forecast: -$48.9 billion

We look for the nominal trade deficit to have narrowed from $57.6 billion in February to $48.9 billion in March. The advance goods deficit narrowed more sharply than expected in March, dropping by $7.8 billion. Nominal goods exports rose 2.5% from the prior month, while imports declined 2.1%. We also expect payback for the $1 billion increase in imports of intellectual property, reflecting payments for the rights to broadcast the 2018 Winter Olympic Games.

FRIDAY, MAY 4

Employment Situation (March; 8:30 a.m. EDT)
Forecast: 200,000
Forecast: 4% (unemployment rate)
Forecast: 0.3% (average hourly earnings)

We look for nonfarm employment to have risen 200,000 between March and April, a touch lighter than the 211,000 average over the prior six months. This is our preliminary forecast and will finalize it after the ISM surveys and ADP National Employment Report. Weather was unfavorable as heating degree days were higher than their prior five-year average leading up and during the payroll reference week in April. Therefore, this lends some downside risk to our forecast. Still, there is a tendency for job growth to come in stronger than consensus expectations in April.

We look for the unemployment rate to have fallen from 4.1% to 4%. The unemployment rate has barely budged recently, but we believe this ended in March. One reason the unemployment rate failed to decline is that the labor force has jumped, rising 2.8% at an annualized rate in the first quarter, the second largest gain this cycle and among the biggest since early 2000. The increase in the labor force raised the break-even rate of job growth. In other words, the economy needed to create more jobs to keep up with growth in the working-age population.

The number of jobs needed to keep the unemployment rate stable is now running around 195,000 per month, noticeably more than we anticipated heading into this year. This estimate is the function of the size of the civilian population, the labor force participation rate, the employment-to-labor force ratio, and the ratio of payroll-to-household employment. The break-even rate of job growth isn't constant, and the key determinant will be the labor force participation rate. Plugging our forecasts in, the break-even rate of job growth will begin to decline in the second half and through 2019 and 2020.

With the break-even rate of job growth higher than previously thought, the unemployment rate may not fall as much as we expect. This isn't necessarily a bad omen for the economy, and it would be welcome by the Fed, since it would suggest that the odds of the economy overheating have diminished. The issue is that the break-even rate could quickly drop if labor force growth moderates. Therefore, it's important to assess what has boosted the labor force recently. Labor force flows data suggest that the improvement is attributed to fewer people leaving the workforce rather than workers returning. This could shift as stronger wage growth pulls workers back into the labor force. But for now we are sticking with our forecast for labor force growth to slow noticeably through the rest of this year.

We look for average hourly earnings to have risen 0.3% between March and April, leaving it up 2.8% on a year-ago basis.

EUROPE

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

Euro zone inflation has likely rebounded

The week ahead will bring preliminary euro zone CPI figures for April, and we are confident they will show that inflation in the currency area rebounded further to 1.4% at the start of the second quarter, from 1.3% in March. Stronger energy and core goods inflation is expected to have been the main factor behind the acceleration, offsetting a small correction in services inflation.

Notably, energy inflation is expected to have gained a boost from the further rise in Brent prices, as the price of a Brent barrel climbed past $70 at the middle of the month and is now reading in euro terms around 18% higher than in April 2017, compared with 11% in March. We thus expect energy inflation to pick up to 2.3% in April, from 2% in March. Regarding the other components of noncore CPI, food inflation is expected to have remained only steady following supply shock-related wild swings at the start of the year, but alcohol and tobacco inflation is expected to have continued to provide a significant boost to the headline after jumping in March on the back of tax hikes in France. Accordingly, we expect tobacco inflation to remain elevated until base effects kick in next year.

Regarding core inflation, we are penciling in a jump in core goods prices following a one-off plunge in March. Our theory is that the bad weather depressed demand for retailers' new spring collections at the end of the first quarter, forcing them to heavily discount and pushing clothing and household goods inflation sharply down. But temperatures climbed sharply in April and largely exceeded their long-term averages across the Continent, which suggests that clothing inflation jumped back up. This will be offset in part by a pullback in services inflation; the early timing of Easter this year compared with last boosted airline fares in March, so a correction is due in April. But it won't be enough to offset the gains elsewhere.

We long have been advocating that the trend in the euro zone's inflation rate is to the upside. First, we expect that the headline will jump past the European Central Bank's 2% target by summer, provided that oil prices hold at their current levels of around $74 per Brent barrel. That's because base effects will continue to push energy inflation up significantly over the next six months, leading it to peak at around 6% in June, up from 2% in March. Similarly, the complete fading of last year's supply shock-related effects combined with the recent rebound in commodity prices is set to ensure that food inflation bounces back to around 2% by the second quarter of this year. For core prices, we expect that the tight labour market combined with the ongoing economic momentum will help gradually lift services inflation to around 1.8% at the end of the year, from 1.5% in March. Core goods inflation will also accelerate, but to a lesser extent. since the euro remains strong and continues to read around 14.7% higher against the dollar in year-ago terms, which in turn depresses import prices.

In all, we expect that the core rate will slowly rise to 1.5% by year's end, still below the ECB's 2% target. This gradual increase will allow the ECB to finish its quantitative easing via a gradual taper to zero in the fourth quarter. But risks regarding the currency area's monetary policy have tilted towards a less rapid tightening recently, notably following the latest barrage of grim data on the euro zone economies. Yet, while first-quarter growth figures should indeed come in weak, we expect that the second stanza will bring better numbers. Leading data have softened, but they are still consistent with a solid rate of yearly expansion.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 8:00 a.m.	Germany: Retail Sales for March	% change	0.0	-0.7
Wed @ 9:00 a.m.	Italy: Unemployment for March	%	11.0	10.9
Wed @ 10:00 a.m.	Euro Zone: Preliminary GDP for Q1	% change	0.3	0.6
Wed @ 10:00 a.m.	Euro Zone: Unemployment for March	%	8.5	8.5
Thur @ 10:00 a.m.	Euro Zone: Preliminary Consumer Price Index for April	% change	1.4	1.3
Fri @ 10:00 a.m.	Euro Zone: Retail Sales for March	% change	0.3	0.1
Fri @ 1:40 p.m.	Russia: Consumer Price Index for April	% change	0.3	0.3

MONDAY, APRIL 30

No major indicators are scheduled for release.

TUESDAY, MAY 1

No major indicators are scheduled for release.

WEDNESDAY, MAY 2

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

The unemployment rate in Italy likely ticked higher in March, rising to 10.97% from 10.9%. The unemployment rate has been trending downward since the beginning of 2017 as stronger economic growth increases labor demand. While the inactivity rate has also fallen over the last several years, reaching its lowest point in more than a decade last year, it has moved higher in recent months. Youth unemployment also remains one of the highest in the EU. Although we are optimistic that the labor market conditions will improve this year, Italy's labor force has a long way to go on the road to recovery and necessary structural reform will be delayed by political deadlock.

Euro Zone: Preliminary GDP (Q1; 10:00 a.m. BST)

The euro zone economy looks headed for a disappointing start to the year. We expect first quarter growth in the area to have slowed sharply to only 0.3% q/q, from 0.7% in the fourth quarter of 2017, with yearly growth set to come in at 2.4%, down from 2.7% previously. This is no cause for despair, though. Base effects from a barnstorming end to 2017 are expected to have played a big role in the easing, notably in manufacturing, while the bad weather should also have taken a toll as it depressed retail sales, services consumption and building activities. Adding insult to injury, record high levels of sickness leaves in Germany are expected to have provided a further dent to activity.

Accordingly, we expect weakness to have been registered across all sectors. Notably, industrial production should have declined by as much as 0.5% q/q, though we caution that this represents only a partial reversion from the fourth quarter's 1.4% rise. Capacity constraints in countries such as France and Germany are biting, putting a lid on the expansion, but export orders also slowed. Elsewhere, construction output is expected to come in only flat, slowing significantly form a 0.9% rise in the fourth quarter. That's because a weather-related jump in output in January is expected to have been offset by disruptions in building activities in both February and March, notably due to the snowfalls across the Continent. Last but not least, retail sales data suggest that growth in services output is also expected to have slowed. Even if we pencil in a sharp increase in March following disappointing data for January and February, we are looking for only a small 0.2% to 0.3% q/q gain in retail sales in the first stanza, the same as in the fourth quarter. To that we add that leading data for non-distribution services activities all weakened at the start of the year.

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

The euro zone's unemployment rate likely held steady at 8.5% in March, its lowest reading since the end of 2008, pausing after impressive gains over the previous months. Risks are tilted to the upside, though. Both leading and hard data show that job growth remained solid at the end of the first quarter after an already impressive performance start of the year, even if the headline confidence numbers dipped somewhat across the area. For instance, although the Markit composite PMI for the euro zone slipped further to 55.2 in March, from 57.1 in February, staff levels continued to increase by one of the greatest extents seen over the past decade. Employment gains were recorded in all major countries, but particularly in Spain. Backlogs of work continued to rise sharply over the month, indicating that firms will continue to hire over the second quarter to keep up with demand. We expect the downward trend in joblessness to persist in quarters to come, due to improving economic conditions around the monetary bloc, labour market reforms, and stronger industrial bases in Spain, Ireland and Portugal. We forecast that the euro zone's unemployment rate will reach 8% to 8.1% by the end of 2018.

THURSDAY, MAY 3

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

Euro zone inflation likely picked up to 1.4% in April, from 1.3% in March, boosted by both higher core and noncore inflation. First, regarding the noncore components of the index, food inflation was likely stable following wild swings related to base effects at the start of the year. Energy inflation, by contrast, is expected to have picked up, as oil prices rose sharply over the month and were in euro terms 18.2% higher than in April 2017, while in March they were only 11.1% higher than in the same period of the previous year. If oil prices hold at their current levels of around $74 per Brent barrel, energy inflation will continue to heat up over the next few months and peak in June. Chances are that this will push the inflation headline above the ECB's 2% target.

Regarding core inflation, developments across countries have been volatile lately, but we expect that the trend is to the upside. Accordingly, we expect that core inflation accelerated to 1.1% in April, from 1% in March, as a correction in core goods inflation should offset a small pullback in services inflation. March's below-average temperatures depressed demand for retailers' new spring collections, so they were forced to discount and this pushed clothing inflation sharply down in March. Since temperatures climbed sharply in April, we expect a swift mean-reversion. Meanwhile, the early timing of Easter boosted airline fares in March, so a small correction is expected in April, but not enough to offset gains elsewhere.

FRIDAY, MAY 4

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

Euro zone retail sales likely rose by 0.3% in monthly terms in March, building on a 0.1% increase in February. Most of the preliminary country data for the area's major economies haven't been made available yet, though, with numbers out only for France—where consumption of manufactured goods rose by 0.4% m/m— and for Spain, where sales rose by 0.4% m/m, following a 0.2% increase in February. Numbers for Ireland are out too, but the story there is grim with sales declining by 2.2% m/m. Our view is that the standout will be a rebound in German sales following three consecutive declines. All leading data corroborate our view of resilient spending, though some easing has been observed in confidence figures lately. Across sectors, clothing sales are expected to have sharply declined on the back of the bad weather; below-average temperatures across the Continent are expected to have depressed demand for retailers' new spring collections. But we expect that retail was solid elsewhere, notably in spending on food in the runup for Easter, on new cars, and on household goods.

Russia: Consumer Price Index (April; 1:40 p.m. BST)

Consumer prices rose in March, though the pace of annual inflation undershoots the central bank's target. Despite some strong signs through the second and third quarters, Russia's economy failed to achieve a strong lift in 2017, netting only 1.6% GDP growth over the recessionary 2016. The country is still several years from regaining its previous economic highs. Fortunately, low year-over-year inflation leaves a wide opening for more policy easing by the central bank, which can afford to shed another 1 point off its policy rate before reaching its prerecession low. Bank Governor Elvira Nabiullina suggested that the board was open to accelerating the pace of interest rate cuts with an eye toward promoting economic growth and reaching an equilibrium level of inflation, with a 4% target.

ASIA-PACIFIC

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

Chinese manufacturing is cruising along

Chinese manufacturer sentiment jumped sharply in March after the Lunar New Year in February. Firms are reporting higher production thanks to higher domestic and export-oriented demand. Global tech demand remains healthy and consumer spending at home is similarly strong. The main wrinkle is trade tensions with the U.S., which may have caused some pullback in orders as firms await more policy certainty. We expect the official PMI declined by 0.2 point to 51.3 in April.

The focus will also be on foreign trade data from South Korea, the first major economy in Asia to release April data. South Korea's foreign trade surplus likely narrowed in April. Semiconductor exports likely remained a bright spot, while exports of LCD screens remained weak. Although the recent spike in trade protectionism continues to cloud the outlook, negotiations between South Korea and the U.S. have gone some way to allaying concerns of heavier U.S. trade restrictions.

A number of March foreign trade indicators are due. March trade data are hotly anticipated, as they are the first clean reading of how manufacturing and exports are tracking early in 2018. Malaysia's trade surplus likely widened in March. Malaysia's exports did well from the tech upswing last year, and other indicators suggest buoyancy through the first half of 2018, albeit at a slightly slower pace than what was enjoyed in 2017.

Thailand's trade surplus also likely widened in March. Imports, particularly of durable goods, have increased noticeably in recent months. We expect infrastructure investment to pick up in 2018, which is likely to keep imports of capital goods strong. In Australia, exports have improved with recent gains in iron ore prices filtering through to higher export receipts. The import bill has also increased, but of a lesser degree, especially because of recent gains in crude oil prices lifting the intermediate import bill. Preliminary estimates suggest that net exports will make a nil contribution to GDP growth in the March quarter, after a 0.5-percentage point drag in the December quarter.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 9:00 a.m.	South Korea Retail sales for March	% change	-0.5	1.0
Mon @ 11:00 a.m.	China Manufacturing PMI for April	Index	51.3	51.5
Mon @ 5:30 p.m.	Thailand Private consumption for March	% change yr ago	2.7	2.5
Mon @ 5:30 p.m.	Thailand Foreign trade for March	US$ bil	2.7	2.3
Tues @ Unknown	South Korea Foreign trade for April	US$ bil	5.7	6.9
Tues @ 2:30 p.m.	Australia Monetary policy for May	%	1.5	1.5
Wed @ 8:45 a.m.	New Zealand Unemployment rate for Q1	%	4.6	4.5
Wed @ 9:00 a.m.	South Korea Consumer price index for April	% change yr ago	1.3	1.3
Wed @ 3:00 p.m.	Japan Consumer confidence for April	Index	44.2	44.3
Thurs @ 11:30 a.m.	Australia Foreign trade for March	A$ bil	1.09	0.83
Fri @ 2:00 p.m.	Malaysia Foreign trade for March	MYR bil	9.5	9.0

MONDAY, APRIL 30

South Korea: Retail Sales (March; 9:00 a.m. AEST; Sunday, 11:00 p.m. GMT)

South Korean retail sales likely slipped 0.5% m/m in March, after ticking up 1% in the prior month. Despite a large minimum wage hike at the start of the year, retail sales were weak in the first two months of 2018. In part, that reflects the weakening labour market, with the jobless rate at an eight-year high of 4% in March. Job growth has been soft, and consumer sentiment has also dimmed of late.

China: Manufacturing PMI (April; 11:00 a.m. AEST; 1:00 a.m. GMT)

Manufacturer sentiment jumped sharply in March after the Lunar New Year in February. Firms are reporting higher production thanks to higher domestic and export-oriented demand. Global tech demand remains healthy and consumer spending at home is similarly strong. The main wrinkle is trade tensions with the U.S., which may have caused some pullback in orders as firms await more policy certainty. We expect the official PMI declined by 0.2 point to 51.3 in April.

Thailand: Private Consumption (March; 5:30 p.m. AEST; 7:30 a.m. GMT)

Private consumption likely grew 2.7% y/y in March, after a 2.5% rise in the prior month. Consumer spending is likely to pick up modestly this year, thanks to the government's social welfare card scheme and other government spending initiatives ahead of the long-awaited election next year. That being said, elevated household debt and a soft labour market are likely to keep consumer demand relatively restrained.

Thailand: Foreign Trade (March; 5:30 p.m. AEST; 7:30 a.m. GMT)

Thailand's trade surplus likely increased to US$2.7 billion in March, after rising to US$2.3 billion in the prior month. Export growth likely rebounded, as supply chains in the region kicked up a gear following Lunar New Year disruptions. Imports, particularly of durable goods, have increased noticeably in recent months. We expect infrastructure investment to pick up in 2018, which is likely to keep imports of capital goods strong.

TUESDAY, MAY 1

South Korea: Foreign Trade (April; Unknown)

South Korea's foreign trade surplus likely narrowed to US$5.7 billion in April, after rising to US$6.9 billion in March. Semiconductor exports remained the bright spot, while exports of LCD screens remained weak. Although the recent spike in trade protectionism continues to cloud the outlook, negotiations between South Korea and the U.S. have gone some way to allaying concerns of heavier U.S. trade restrictions.

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

The Reserve Bank of Australia will keep the cash rate steady at 1.5% in May for the 20th consecutive meeting. Little has changed in recent months to justify a change in policy stance. The economy continues to improve gradually, and the tighter regulatory regime with respect to household debt and mortgages in particular has given the RBA wider latitude in keeping interest rates low. The low inflation environment also means the central bank doesn't need to be in a hurry to normalize policy rates. The bank continues to talk up the positives of the economy, but the fundamental slack in many areas means that wages are flat and so will prevent any normalisation of interest rates any time soon. Conditions are getting better, just at a really slow pace. Interest rate hikes are not expected until early 2019.

WEDNESDAY, MAY 2

New Zealand: Employment Situation (2018Q1; 8:45 a.m. AEST; Tuesday, 10:45 p.m. GMT)

New Zealand's unemployment rate likely increased to 4.6% in the March quarter, following the 4.5% recorded in the December quarter. New Zealand's labour market has been tightening for more than a year, a particularly impressive achievement given the record high net migration. Migration has passed its peak and will likely trend lower over 2018, as the Labour government has tightened eligibility requirements. Slowing labour supply growth should start to put upward pressure on income growth. We don't expect a strong rebound in income growth; while the labour market has tightened, it is not tight. The underutilization rate is still relatively elevated and in the fourth quarter rose by 0.1 percentage point to 12.1%, indicating a high level of lingering slack.

South Korea: Consumer Price Index (April; 9:00 a.m. AEST; Tuesday, 11:00 p.m. GMT)

South Korean consumer price inflation likely held steady at 1.3% y/y in April. A large minimum wage hike at the start of the year and the government's expansionary policies have had a limited impact on price pressures to date. A firm won and softening labour market have also kept price pressures subdued. We expect inflation to remain mild in the near term, suggesting the Bank of Korea is unlikely to alter its monetary policy stance in the near term.

Japan: Consumer Confidence (April; 3:00 p.m. AEST; 5:00 a.m. GMT)

Japan's consumer confidence index was unchanged at 44.3 in March, but we expect it to slip slightly to 44.2 in April. Although the index remains relatively elevated by historical standards, it has cooled in recent months as global stock market ructions and global trade war chatter have increased downside risks. The main subcategories showed modest movements over March. Overall livelihood softened a little, while employment strengthened. More concerning is that the closely watched income growth lost all the ground gained in February, likely in response to the annual spring wage negotiations not yielding anything spectacular. And the recent drop in Japan's core-CPI suggests that inflation expectations are also expected to slip over the coming months, casting a shadow over the Bank of Japan's 2% inflation target.

THURSDAY, MAY 3

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

Australia's monthly trade balance likely hit an A$1.09 billion surplus in March, following the A$830 million surplus in February. Exports have advanced with recent improvement in iron ore prices filtering through to higher export receipts. The import bill has also increased, but of a lesser degree, especially because of recent gains in crude oil prices lifting the intermediate import bill. Preliminary estimates suggest that net exports will make a nil contribution to GDP growth in the March quarter, after a 0.5-percentage point drag in the December quarter. Real export and real import volumes are each tracking around 2.5% q/q, with the first two months in the bag.

FRIDAY, MAY 4

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

Malaysia's monthly trade surplus likely widened in March to MYR9.5 billion, after narrowing to MYR9 billion in February. March trade data are hotly anticipated, as it is the first clean reading of how manufacturing and exports are tracking early in 2018. In particular, export and import growth slumped in yearly terms in February after spiking in January. This reflects temporary factory shutdowns due to the Lunar New Year celebrations midmonth. Malaysia's exports did well from the tech upswing last year, and other indicators suggest buoyancy through the first half of 2018, albeit at a slightly slower pace than what was enjoyed in 2017.

The Long View

Second-quarter 2018's US$-denominated corporate bond issuance may show yearly gains of 7% for investment-grade and 3% for high yield.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
April 26, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 116 bp is 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 352 bp is less than what is inferred from the spread's macroeconomic drivers, the high-yield EDF metric, and the VIX index. The adverse implications for liquidity of possibly significantly higher interest rates merit consideration.

DEFAULTS

After setting its current cycle high at January 2017's 5.8% and subsequently bottoming at January 2018's 3.3%, the U.S. high-yield default rate has since risen to March's 3.9%. Nevertheless, Moody's Default and Ratings Analytics team expects the default rate will drop to 2.0%, on average, during Q1-2019.

US CORPORATE BOND ISSUANCE

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

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

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

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

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

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

For yearlong 2016, worldwide corporate bond offerings rose by 2.3% annually for IG (to $2.402 trillion) and sank by 7.8% for high yield (to $426 billion). During yearlong 2017, worldwide corporate bond offerings increased by 4.0% annually (to $2.499 trillion) for IG and advance by 41.2% for high yield (to $602 billion). The projected annual percent changes for 2018's worldwide corporate bond offerings are +4.8% for IG and -1.5% for high yield.

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

The Long View

US ECONOMIC OUTLOOK

The consensus expects that the mid-point for the federal funds rate should finish 2018 at 2.125%. In view of the considerable underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global economy operates below trend, the 10-year Treasury yield may not remain above 2.8% for long. A fundamentally excessive climb by Treasury bond yields and a pronounced slowing by expenditures in dynamic emerging market countries are among the biggest threats to the adequacy of economic growth and credit spreads.

EUROPE

By Barbara Teixeira Araujo of Moody's Analytics
April 26, 2018

ECB

The European Central Bank's April monetary policy minutes and press conference made for a tedious affair. While markets were looking for any hint regarding the policy implications of the recent softening in economic data, Mario Draghi noted that monetary policy per se was not even discussed at Thursday's meeting. True, he acknowledged the recent deceleration in growth across the euro area, but he claimed that the ECB needs more time to assess whether the loss of pace is due solely to temporary factors, or if it is more of a permanent development.

As we have long been advocating, Draghi stressed that one-off factors could have distorted first-quarter data. The blistering gain of momentum at the end of 2017 likely played the biggest role, since it created challenging base effects for growth at the start of the year. Also important was the sharp drop in temperatures and the heavy March snowfall in several member countries, because they depressed retail sales, services consumption and building activities, and the early timing of Easter. Capacity constraints are biting in most of the area's economies and likely took a toll as well, particularly in manufacturing, while record-high levels of sick leave due to the flu added insult to injury.

Draghi further claimed that despite the expected slowdown (we are penciling in a deceleration in euro zone GDP growth to 0.3% q/q in the first quarter, from 0.7% previously), expansion remains solid and inflation expectations are unchanged. Yet a key point of his speech was that the ECB is cautious and will monitor incoming data closely, suggesting that further deterioration could have a major impact on how the bank will proceed with ending its asset purchase programme. This creates risks to our forecast that quantitative easing will be dialed down via a gradual taper to zero in the fourth quarter.

GERMANY

Germany's Ifo sentiment index disappointed and dropped to 102.1 in April from 103.3 in March, as looming trade uncertainty worries German exporters. This disconcerting news about businesses' assessment comes on the heels of a poor February industrial report. Behind the industrial drop was that transport goods plunged by 5% while capital goods fell by 3.1%. Meanwhile, capacity constraints in the construction sector curbed activity, and the sector's output fell 2.2% y/y. True, unusually long spells of sick leave due to the flu epidemic and strikes in the metal manufacturing sector plagued the industry. But we cannot rule out that the slowdown is more fundamental since all the sentiment indicators began to fall in unison. The manufacturing PMI slid to 58.1 in April from 58.2 in March and 60.6 in February, and is well below the peak in December. New orders growth cooled to a 16-month low. The ZEW economic sentiment index plunged to a five-year low of -8.2 in April, from 5.1 in March.

Business surveys strongly suggest that industry's momentum lost steam in the first quarter. So it was surprising that professional German forecasters surveyed by Ifo upwardly revised their projections for 2018 and 2019 slightly in their Spring Joint Economic Forecast released last week. German GDP should expand by 2.2%, up from the earlier consensus forecast of 2%.

Bundesbank also estimates that the German economy is still operating at its capacity limits with record-low joblessness of 5.3%. But we caution that a shortage of skilled workers is not unheard of among German firms, which raises some concern about the near-term outlook. What's more, falling money supply amid unwinding of the monetary stimulus is bad news if the industrial slip proves permanent in coming months. Contrasting with the upwardly revised near-term outlook is the Macroeconomic Policy Institute of Germany's warning that the probability of Germany sinking into recession jumped to 32.4% in April, after only 6.8% in March.

We have yet to see if sentiment only reacted to the U.S.-China trade spat, or if there are more structural factors at play. A potential global trade war adds significant risk for major car manufacturers. In 2016, Germany exported cars to the U.S. at a value of €21.8 billion, representing 17% of exports outside the EU.

ASIA PACIFIC

By Katrina Ell of Moody's Analytics
April 26, 2018

CHINA

China's economy proved remarkably stable in the March quarter. GDP growth hit 6.8% y/y for a third consecutive quarter. The stable run is a result of the continued favourable global conditions alongside government support in various areas. Some signs of slowing momentum are emerging. In particular, the quarterly rate of growth cooled to 1.5% in the March quarter, from 1.6% in the fourth quarter and 1.8% in the third. The government tacitly allowed a mild pickup in credit growth to perk up activity ahead of the Communist Party Congress in late October, which helped investment and production, but this effect is now fading as the government prioritizes minimizing financial risks.

Authorities are clamping down on financial risk, which is cooling investment and industrial production, especially of sectors still with significant overcapacity such as cement. Cooling momentum was most evident in March activity data for industrial production and fixed asset investment. Retail trade enjoyed a temporary bump as the targeted retail marketing campaign to coincide with International Women's Day on 8 March encouraged greater spending, particularly by females and online.

We expect further momentum will be lost in coming quarters as Beijing compels local governments to rein in infrastructure projects to contain credit growth. The property market should also continue its cooling trend as government controls remain in place. We maintain our full-year forecast for GDP growth at 6.5% in 2018, from 6.8% in 2017.

An ongoing downside risk to the outlook is the proposed U.S. tariffs on China's manufacturing goods. It's unclear how the trade policy between the two countries will evolve over the short and medium term. It could be that China's manufacturing output is likely to record stronger growth in domestically oriented production such as for energy-efficient vehicles, rather than for export-oriented goods. Indeed, more stringent pollution targets will prompt a further shift towards electric cars this year.

President Xi Jinping gave a relatively upbeat assessment of the economy at the recent Boao Forum for Asia in mid-April. At the forum, Xi specifically addressed concerns that the U.S. has previously highlighted with its bilateral trade relationship. In particular, Xi noted that he would promote import growth and open China's service sector to greater foreign investment. This latter issue is a sore point with the U.S. due to the restricted access and rules that foreign firms must abide by to operate in China including a lack of protection on intellectual property. Further details on the pace or form that these measures would take was not provided.

Slower industrial production

China's industrial sector performed worse than expected in March after outperforming during the Lunar New Year festivities in the January-February period. March is probably the first datapoint of the year that precludes the impact of the lunar holidays in February. So the broad-based slowdown suggests that production could cool in 2018, after an export-driven tech boom in 2017. The slowdown in manufacturing output was sharper than anticipated, which suggests that the tech cycle could be slowing in 2018. Moreover, the government's policy to lower overcapacity is weighing on mining, with commodity prices easing in the first quarter of 2018.

The Long View

A sharper than anticipated slowdown in hard commodities suggests that housing and other construction-related activities are cooling. This is evidenced by the drop in cement and glass production, while falling production of crude oil and coke suggests that the government is committed to lowering overcapacity across the various sectors. Production of cement, steel, and other inputs to the housing sector could suffer as a result of the slowdown in Tier 1 cities, although there are signs of recovery in smaller cities already, which may offset this.

Manufacturing sentiment on new export orders remains firm thanks to continued global demand for tech goods. But the global tech cycle looks to have passed its peak, with production of smartphones decelerating sharply over the past few months. This is not altogether surprising because most of the new smartphone models were released late last year. Reasonable demand will continue through the year but at a slower pace compared with 2017.

Pockets of strength in investment

Fixed asset investment was up 7.5% y/y in the first three months of 2018, down from 9.2% in the same period last year. Private investment was up 8.9% y/y YTD in March and is traveling in a faster lane than public investment, which rose 7.1%. The improvement in private investment reflects the result of improved corporate profits from last year and government policy support, both of which have since cooled.

Real estate investment accelerated to 10.4% y/y in the March quarter, the fastest pace in three years and much stronger than the 9.9% average rise in the combined January-February period. A government push to build more public housing may have been at play here, as there was also a jump in construction starts. Property sales are travelling in a slower lane amid a barrage of government measures to curb house price growth. Sales by floor area were up just 3.6% y/y in the March quarter.

Over the remainder of the year, Beijing's efforts to deleverage the economy, cool the real estate market, and lower pollution and overcapacity are likely to keep investment growth restrained.

Stable monetary conditions

The People's Bank of China surprised markets last week by announcing that it will cut the reserve-requirement ratio by 1 percentage point for some banks from 25 April. It will affect most banks including commercial banks, joint-stock banks and foreign lenders. Large commercial banks are currently subject to a 17% reserve-ratio requirement. The magnitude of the reserve-requirement cut is significant, marking only the fifth time that the PBoC has cut by this size.

But we wouldn't get too carried away by the reduction. According to the PBoC's official statement, the move aims to ensure stable liquidity in the banking system and improve its structure. In other words, this is not the start of easier monetary conditions in China. This reserve-requirement cut is necessary to keep liquidity and money supply growth stable in the near term. The official forecast is for M2 growth to remain steady at 8.2% in 2018. The PBoC has been fine-tuning monetary conditions in China for some time, guiding market rates higher without raising broader lending rates.

The PBoC's stance of "prudent and stable" monetary conditions remains intact. The prudent policy stance is necessary to prevent ongoing debt build-up and ensure that some already highly leveraged institutions don't go further down a worrying path. But this is not an easy road and this ratio cut is helping to ease the pain of deleveraging. Shadow credit growth is on a downtrend so support is needed to sustain the formal lending sector. Policymakers signaled in March that they expect to keep the leverage ratio broadly stable this year, rather than completely reversing the rising leverage trend of recent years. To this end, we expect debt will remain around 260% of GDP.

This audacious move is newly appointed PBoC Governor Yi Gang's highest-profile policy change to date. It suggests that Yi is not afraid to deliver significant policy adjustments. Importantly, the move was announced on the back of better-than-expected March quarter GDP growth, indicating the economy has enough momentum to not be put off course by the government's commitment to knuckling down on financial risks and achieving higher-quality growth in 2018.

Ratings Round-Up

By Njundu Sanneh

Global growth underlines positive rating revisions

The upgrade of the government of Spain's rating on April 13 continues to have knock-on effects on financial and industrial company ratings. Spanish companies thus accounted for five of the 11 European rating revisions, with three financial and two industrial sector entities. The upgrade of the Spanish companies helped boost upgrades to total rating changes for Europe to 82%, a reflection of the improving credit quality and relatively benign spread levels even with indications of central bank inclinations to mop up some of the excess liquidity that has graced the capital market since the financial crisis. The trend of financials dominating the upgrade column in Europe persists as banks' performances improve in an environment of strengthening economic growth and banks appearing to have dealt with a substantial portion of the non-performing loans from the crisis period. The two downgrades were industrial sector firms, Boparan Holdings Limited and la Financiere Atalian SAS of the UK and France, respectively. Boparan is a food manufacturer that was downgraded based on poor performance, and the outlook in the short term points to continued weakness in earnings. Deterioration in Atalian's capital structure, responsible for the downgrade, was precipitated by a debt funded acquisition of Servest Limited, which has increases gross leverage to 6.7X in 2017 from 4.9X at the end of 2016.

Rating change activity in the U.S. was also tilted toward upgrades, with 61% positive rating changes. Rating revisions were spread across several industries, but the usual suspects of retail and energy surfaced in the downgrade column. Competitive pressures in the retail industry from mass retailers and e-commerce have squeezed Petco's margins, and the decline in the coal industry weighs down Murray Energy.

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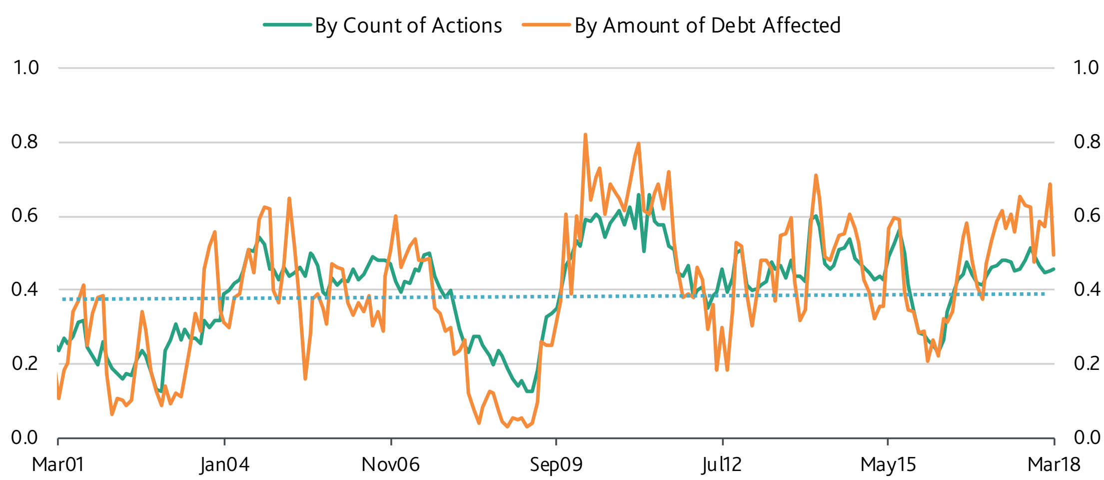
FIGURE 1

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



* Trailing 3-month average

Source: Moody's

Ratings Round-Up

FIGURE 2
Rating Key

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

FIGURE 3
Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
4/18/18	GARDNER DENVER HOLDINGS, INC. -GARDNER DENVER, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B2	B1	SG
4/18/18	QUORUM HEALTH CORPORATION	Industrial	SrSec/BCF		U	B2	B1	SG
4/19/18	MRC GLOBAL INC. -MRC GLOBAL (US) INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2	SG
4/19/18	PETCO ANIMAL SUPPLIES, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
4/20/18	INGREDION INCORPORATED	Industrial	SrUnsec	1,150	U	Baa2	Baa1	IG
4/20/18	DYNEGY INC.	Utility	SrUnsec/SrSec/BCF	6,132	U	B3	B1	SG
4/20/18	CBRE GROUP, INC. -CBRE SERVICES, INC.	Industrial	SrUnsec/BCF	1,025	U	Baa3	Baa2	IG
4/20/18	PFS HOLDING CORPORATION	Industrial	SrSec/BCF/LTCFR/PDR		D	Caa3	C	SG
4/20/18	NN, INC.	Industrial	LTCFR		D	B2	B3	SG
4/20/18	VISTRA ENERGY CORP. -VISTRA OPERATIONS COMPANY LLC	Utility	SrSec/BCF		U	Ba2	Ba1	SG
4/23/18	OSHKOSH CORPORATION	Industrial	SrUnsec	1,000	U	Ba2	Ba1	SG
4/23/18	MURRAY ENERGY CORPORATION	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	B3	SG
4/23/18	ACL I CORPORATION -COMMERCIAL BARGE LINE COMPANY	Industrial	SrSec/BCF /LTCFR/PDR		D	Caa1	Caa2	SG
4/23/18	TRINSEO S.A.	Industrial	SrUnsec/SrSec/BCF /LTCFR/PDR	500	U	B3	B2	SG
4/23/18	CROSBY WORLDWIDE LTD. -CROSBY US ACQUISITION CORP.	Industrial	SrSec/BCF/LTCFR/PDR		U	Ca	Caa3	SG
4/23/18	EMPIRE GENERATING CO, LLC	Industrial	SrSec/BCF		D	B3	Caa2	SG
4/24/18	TRIMBLE INC.	Industrial	SrUnsec	400	D	Baa2	Baa3	IG
4/24/18	OPTIMAS OE SOLUTIONS HOLDING, LLC	Industrial	SrSec/LTCFR/PDR	225	U	Caa2	Caa1	SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

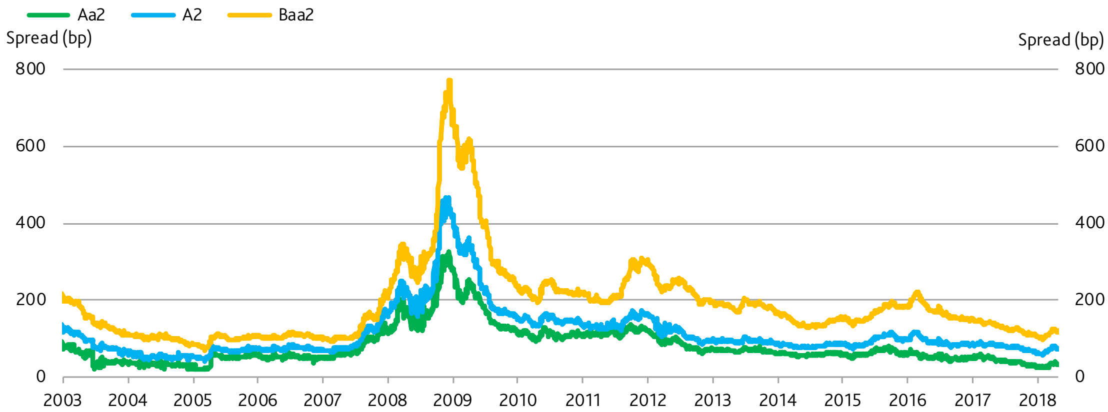
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
4/18/18	NORDDEUTSCHE LANDESBANK GZ -FUERSTENBERG CAPITAL GMBH (I)	Financial	PS	1,044	U	Caa2	Caa1			SG	GERMANY
4/18/18	GRUPO CASER S.A.-CASER S.A.	Financial	IFSR		U	Ba1	Baa3			SG	SPAIN
4/18/18	BOPARAN HOLDINGS LIMITED	Industrial	SrUnsec/LTCFR /PDR	1,182	D	B3	Caa1			SG	UNITED KINGDOM
4/18/18	MAPFRE S.A.-MAPFRE ASIST. CIA INT'L DE SEGUROS Y REASEGUROS S.	Financial	IFSR		U	A3	A2			IG	SPAIN
4/19/18	CANAL DE ISABEL II, S.A.	Utility	SrUnsec/LTIR	614	U	Baa2	Baa1			IG	SPAIN
4/19/18	AUTOVIA DE LA MANCHA S.A.	Industrial	SrSec/BCF		U	Ba3	Ba2			SG	SPAIN
4/19/18	UNICAJA BANCO	Financial	SLTD		U	Ba2	Baa3	NP	P-3	SG	SPAIN
4/20/18	SEB	Financial	SrUnsec/LTIR /LTD/MTN	20,584	U	Aa3	Aa2			IG	SWEDEN
4/20/18	SWEDBANK AB	Financial	SrUnsec /LTD/MTN	16,144	U	Aa3	Aa2			IG	SWEDEN
4/23/18	LA FINANCIERE ATALIAN S.A.S.	Industrial	LTCFR/PDR		D	B1	B2			SG	FRANCE
4/24/18	LLOYDS BANKING GROUP PLC-LLOYDS BANK CORPORATE MARKETS PLC	Financial	LTIR		U	A2	A1			IG	UNITED KINGDOM

Source: Moody's

Market Data

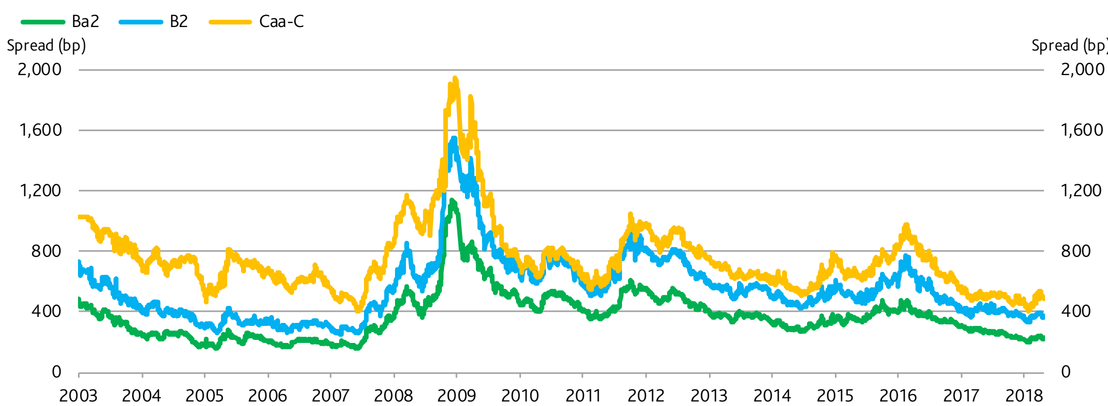
Spreads

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



Source: Moody's

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



Source: Moody's

Market Data

CDS Movers

Figure 3. CDS Movers - US (April 18, 2018 – April 25, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 25	Apr. 18	Senior Ratings
Toyota Motor Credit Corporation	Baa1	Baa2	Aa3
General Electric Company	Baa3	Ba1	A2
Energy Transfer Partners, L.P.	Baa3	Ba1	Baa3
Newell Brands	Ba1	Ba2	Baa3
Waste Management, Inc.	A1	A2	Baa2
Deere & Company	A3	Baa1	A2
Republic Services, Inc.	A1	A2	Baa3
SunTrust Banks, Inc.	Baa3	Ba1	Baa1
Humana Inc.	A1	A2	Baa3
Avis Budget Car Rental, LLC	B2	B3	B1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 25	Apr. 18	Senior Ratings
Altria Group Inc.	A2	Aa3	A3
Reynolds American Inc.	Baa2	A3	Baa2
Freeport-McMoRan Inc.	Ba3	Ba1	Ba3
Citigroup Inc.	Baa1	A3	Baa1
JPMorgan Chase Bank, N.A.	A2	A1	Aa3
Bank of America, N.A.	A3	A2	Aa3
American Express Credit Corporation	A1	Aa3	A2
Comcast Corporation	A3	A2	A3
Citibank, N.A.	Baa3	Baa2	A1
Walt Disney Company (The)	Aa3	Aa2	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 25	Apr. 18	Spread Diff
Windstream Services, LLC	Caa1	2,637	2,558	80
Dish DBS Corporation	B1	565	488	77
Mattel, Inc.	Ba2	487	425	62
Frontier Communications Corporation	Caa1	1,560	1,506	54
Avon Products, Inc.	B3	745	691	54
Beazer Homes USA, Inc.	B3	356	303	53
Staples, Inc.	B3	606	558	48
Freeport Minerals Corporation	Baa3	171	126	45
Freeport-McMoRan Inc.	Ba3	162	119	43
Lexmark International, Inc.	Caa1	1,331	1,288	43

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 25	Apr. 18	Spread Diff
K. Hovnanian Enterprises, Inc.	Caa3	1,728	2,347	-619
Sears Roebuck Acceptance Corp.	C	3,365	3,765	-400
Sears Holdings Corp.	C	2,799	3,132	-333
Talen Energy Supply, LLC	B1	940	1,024	-84
ServiceMaster Company, LLC (The)	B1	214	257	-43
MBIA Inc.	Ba3	648	673	-25
R.R. Donnelley & Sons Company	B3	575	591	-16
Diamond Offshore Drilling, Inc.	Ba3	272	285	-13
Allegheny Energy Supply Company, LLC	B1	174	187	-13
United Airlines, Inc.	Baa1	234	246	-12

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (April 18, 2018 – April 25, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 25	Apr. 18	Senior Ratings
Italy, Government of	Baa3	Ba1	Baa2
Barclays Bank PLC	A2	A3	A2
Abbey National Treasury Services plc	A2	A3	Aa3
Intesa Sanpaolo S.p.A.	Baa2	Baa3	Baa1
Bankia, S.A.	Baa1	Baa2	Baa3
CaixaBank, S.A.	A3	Baa1	Baa2
HSBC Holdings plc	A2	A3	A2
Landesbank Hessen-Thueringen GZ	A1	A2	A1
Royal Bank of Scotland N.V.	A1	A2	Baa2
Banco Popular Espanol, S.A.	A1	A2	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 25	Apr. 18	Senior Ratings
Nationwide Building Society	A1	Aa3	Aa3
RCI Banque	Baa3	Baa2	Baa1
Bayerische Motoren Werke Aktiengesellschaft	A2	A1	A1
Daimler AG	Baa1	A3	A2
Telecom Italia S.p.A.	Ba2	Ba1	Ba1
Sanofi	Aa2	Aa1	A1
KBC Bank N.V.	Aa3	Aa2	A1
Danone	A1	Aa3	Baa1
National Grid Gas Plc	A3	A2	A3
Siemens Aktiengesellschaft	Aa1	Aaa	A1

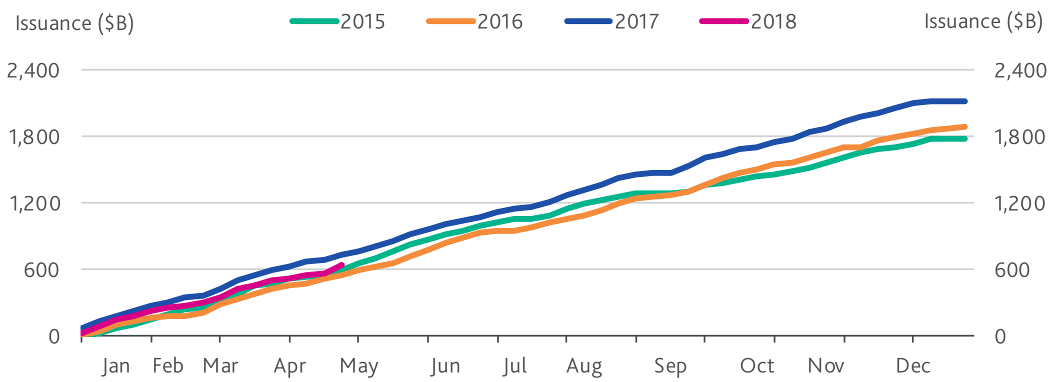
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 25	Apr. 18	Spread Diff
PizzaExpress Financing 1 plc	Caa1	996	945	51
CMA CGM S.A.	B3	533	492	41
Altice Finco S.A.	B3	414	380	34
Iceland Bondco plc	Caa1	358	329	29
Matalan Finance plc	Caa1	676	649	27
Casino Guichard-Perrachon SA	Ba1	265	244	21
NXP B.V.	Ba1	101	80	21
Vedanta Resources plc	B2	428	410	18
Eksportfinans ASA	Baa3	523	506	17
Jaguar Land Rover Automotive Plc	Ba1	227	212	16

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 25	Apr. 18	Spread Diff
Astaldi S.p.A.	Caa1	1,936	2,252	-315
Boparan Finance plc	Caa1	458	480	-23
Galapagos Holding S.A.	Caa3	911	932	-21
Scottish Power Limited	Baa1	93	113	-20
Telefonaktiebolaget LM Ericsson	Ba2	130	150	-20
Scottish Power UK plc	Baa1	83	101	-17
Greece, Government of	B3	295	309	-14
Evraz Group S.A.	B1	224	234	-10
Italy, Government of	Baa2	83	92	-9
GKN Holdings plc	Baa3	108	115	-7

Source: Moody's, CMA

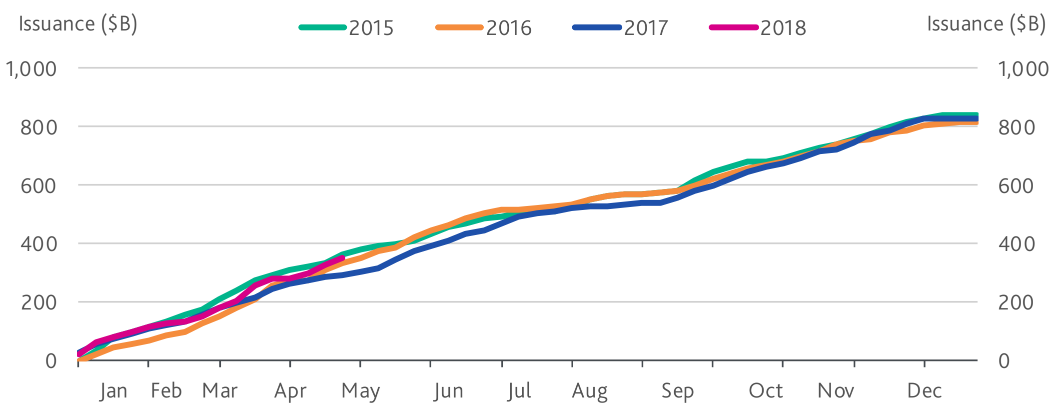
Issuance

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	45.659	16.077	62.024
Year-to-Date	473.139	132.132	631.689

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	16.391	7.696	26.059
Year-to-Date	293.616	42.556	351.408

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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