MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Low Utilization Rate Favors Profits Growth and Fewer Defaults

Moody's Analytics Research

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THIS REPORT WAS REPUBLISHED MAY 21, 2018 TO UPDATE ECONOMIC FORECASTS FOR THE WEEK AHEAD.

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Credit Markets Review and Outlook

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

Low Utilization Rate Favors Profits Growth and Fewer Defaults

Markets are now torn between upbeat outlooks for corporate earnings and the risks posed to these outlooks by a very low jobless rate. A recent consensus forecast has S&P 500 operating income growing by 22% in 2018 and by 11% in 2019. Moreover, the Blue Chip consensus believes that the pretax operating profits of all U.S. corporations will increase by 5.2% in 2018 and 4.4% in 2019. In addition, an expected drop by the U.S.' high-yield default rate from April 2018's 3.7% to 1.5% by April 2019 complements the positive outlook for profits. Nevertheless, April's historically low unemployment rate of 3.9% hints of limited upsides for both domestic spending and U.S. output that may thwart expectations of operating earnings growth and fewer defaults.

Lack of Qualified and Available Workers May Limit Upside for Growth

The high rate of labor market utilization suggested by the now 3.9% jobless rate raises several risks. For one thing, markets question whether businesses will be able to secure additional workers possessing sufficient levels of productivity. To the degree new hires are relatively inefficient and require substantial training, an effective increase in labor costs will trim profit margins. Not to be overlooked is how a tighter labor market adds to labor costs by compelling businesses to either offer higher wages or risk losing valued employees. Once businesses sense that employee compensation is unduly burdensome they will respond first with hiring freezes, next with attrition, and finally with outright layoffs.

If firm-specific shortages of skilled labor can only be remedied through exorbitant wage hikes, affected businesses may opt against taking on such costs in order to maintain margins. However, any decision to forgo additional sales limits the upside for profits growth.

Finally, if a dearth of available and qualified labor at lower rates of unemployment curbs the growth of payrolls, fewer new jobs should eventually slow the pace of real household expenditures. In turn, slower-than-expected top-line revenue growth would crimp profitability.

Nevertheless, the latest jobless rate may be overstating labor market tightness. A now relatively low labor force participation for Americans of prime working age, or those belonging to the 25- to 54-year age cohort, hints of untapped labor resources. For example, April's 82.0% labor force participation rate for Americans of prime working age is noticeably less than its 83% average of the two-years-ended 2007, or when the jobless rate's accompanying average of 4.6% was far above April's 3.9%.

There are other reasons that suggest April's unemployment rate exaggerates labor market tightness. For one thing, a very tight labor market would exhibit an annual increase by the average hourly wage that is much faster than the 2.6% of the three-months-ended April. Paradoxically, 2006-2007's significantly higher average unemployment rate of 4.6% was accompanied by a much faster 3.6% average annual advance for the average hourly wage.

In addition to uninspiring wage growth and a comparatively low labor force participation rate among prime-age Americans, the vast difference between wage and salary income's 4.5% yearly increase of 2018's first-quarter and its 6.0% average annual ascent of 2006-2007 lends further support to the argument that today's 3.9% unemployment rate overstates labor market tightness.

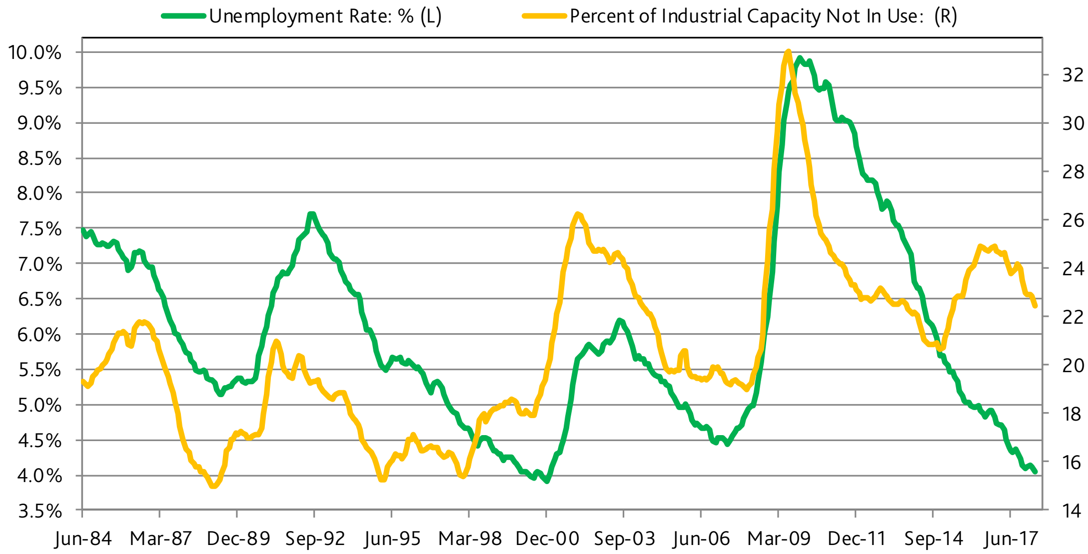
More than Labor Produces Output

But wait, that's not enough. More than the unemployment rate approximates the U.S.' ability to expand production. Not to be overlooked is the U.S.' rate of industrial capacity utilization, which, unlike the unemployment rate, now reflects ample upside potential.

Consider the following comparison. In terms of moving three-month averages, April 2018's unemployment rate of 4.0% was well under its long-term median of 5.7% and was "tighter" than 97% of its moving three-month averages since mid-1984. By contrast, the industrial capacity utilization rate averaged a relatively slack 77.5% during the three-months-ended April 2018, which was less than its

79.9% long-term median and, thus, was "tighter" than only 32% of its three-month averages since mid-1984.

Figure 1: Never Before Has a Capacity Utilization Rate of 78.0% Accompanied an Unemployment Rate of 3.9%
moving three-month averages



Intuitively, the rate of labor market utilization that is inversely approximated by the unemployment rate ought to be highly correlated with the rate of industrial capacity utilization. Not that long ago, or during 1984 through 1997, the inverse correlation between the unemployment rate and the capacity utilization rate conformed to expectations and was a relatively strong -0.85. For 1998 through 2013, the correlation eased somewhat to a still very respectable -0.77. However, since the end of 2013, not only did the correlation switch from the expected inverse relationship to a direct relationship, but the post-2013 correlation coefficient of +0.69 was statistically meaningful. Despite how the jobless rate's moving three-month average sank from December 2013's 7.0% to April 2018's 4.0%, the rate of industrial capacity utilization actually dipped from 77.9% to 77.5% over that same time.

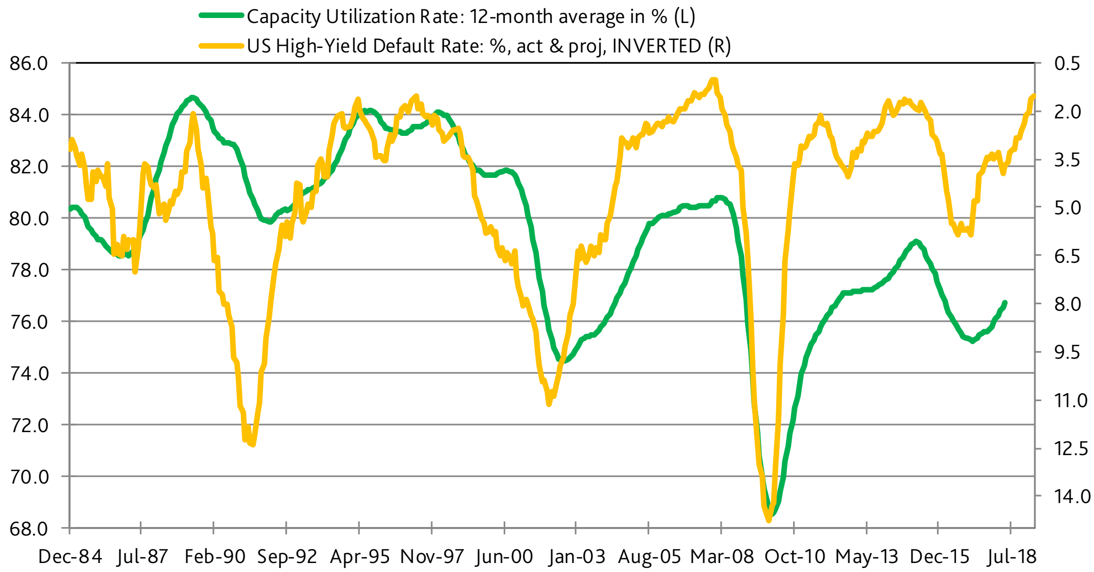
Though the unemployment rate's median fell from 1984-1997's 6.1% to a subsequent 5.3%, rather than mimicking the jobless rate and showing a higher rate of resource utilization, the industrial capacity utilization rate's median fell from 82.5% to 77.3%, respectively. The accompanying slowdown by the annual rate of core PCE price index inflation from a 1984-1997 median of 3.3% to a 1.7% median thereafter may owe something to the accompanying decline by the industrial capacity utilization rate. In fact, the drop by the industrial capacity utilization rate may help explain the jarring switch in the median annual percent change of the PCE price index for consumer durables from the 1.2% inflation of 1984-1997 to the 2.0% deflation since then. By contrast, the decline by the median annual rate of inflation for the PCE price index's consumer service component revealed a relatively mild slowdown from 3.6% to 2.4%, respectively.

Capacity Utilization Has Outperformed the Jobless Rate

The record shows that the industrial capacity utilization rate outperforms the unemployment rate when it comes to explaining the growth of profits and the high-yield default rate, especially during business cycle upturns. In terms of moving yearlong averages, notwithstanding the unemployment rate's slide from 2014's 6.2% to the 4.9% of the span-ended September 2016, the annual percent change of pretax operating profits still switched direction from 2014's 5.3% increase to the 6.8% contraction of the year-ended September 2016. By contrast, the drop by the industrial capacity utilization rate's moving yearlong average from 2014's 79.0% to the 75.6% of September 2016 was consistent with the shrinkage of operating income.

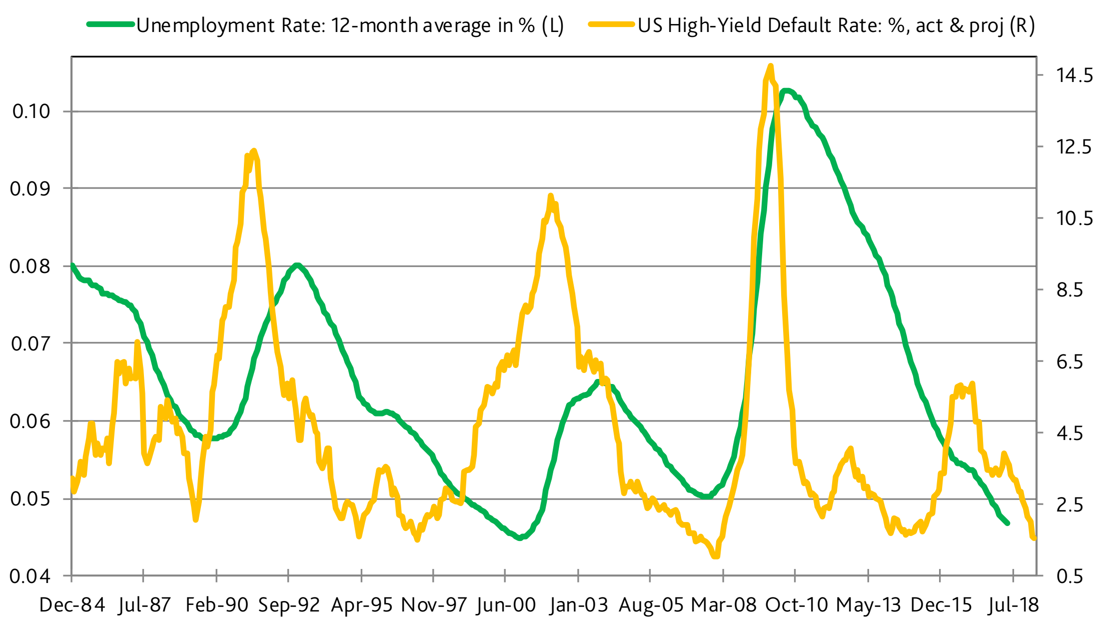
Moreover, a plunge by the capacity utilization rate's moving yearlong average from February 2015's current upturn high of 79.1% to a February 2017 low of 75.2% was in agreement with the high-yield default rate's ascent from September 2014's current cycle low of 1.6% to August 2016's latest high of 5.8%.

Figure 2: Projections of a Slide by the High-Yield Default Rate through April 2019 (Inverted) Imply a Rising Rate of Capacity Utilization
sources: Federal Reserve, Moody's Analytics



Much to the contrary, absolutely no evidence of a steep climb by the default rate could be discerned from the slide by the unemployment rate's moving 12-month average from September 2014's 6.5% to August 2016's 4.9%.

Figure 3: Unemployment Rate Fell Amid the Default Rate's Ascents of 2015-2016, 1998-2000, and 1986-1987



When both the unemployment rate and the capacity utilization rate indicate declining rates of resource utilization, recessions either impend or are present. In turn, profits contract and the default rate soars.

Credit Markets Review and Outlook

What the jobless rate tends to miss and the capacity utilization rate captures are those episodes within a business cycle upturn showing a temporary decline by profits and a noteworthy climb by the default rate. Prior to 2016, the previous such incident occurred during 1998-2000. In contrast to how the moving yearlong averages of the capacity utilization rate and pretax profits from current production both crested in 1997, the unemployment rate continued to slide until its yearlong average bottomed at the 4.0% of year-end 2000. The latter included the unemployment rate's last visit to 3.9% during the months of September 2000 through December 2000.

Jobless Rate's Last Visit to 3.8% was Amid a Vastly Different Backdrop

In all likelihood, the U.S.' jobless rate will soon break under the 3.8% of April 2000. However, in April 2000, the labor force participation rate for prime working-age Americans was a seemingly stratospheric 84.4% and the average hourly wage jumped up by 4.0% yearly. The latter helped to boost wage and salary income by a now inconceivable 8.8% year-over-year during the three-months-ended April 2000.

It should be added that though April 2000's capacity utilization rate of 82.2% was down from November 1997's 84.7% high of 1991-2000's recovery, it was well above both November 2014's 79.6% high for the current upturn and the 78.0% of April 2018. Oddly enough, despite 2000's very positive trends for the labor market, the default rate was still in the process of rising from December 1997's 2.1% to December 2000's 7.5%.

In summary, April's very low unemployment rate does not preclude the possibility of an even lower jobless rate before the costliness of and impediments to further increases in output harm both profitability and corporate credit quality. However, the upward pressure now being put on benchmark bond yields by an unfolding surge in the supply of tradable Treasury notes and bonds threatens to significantly curb credit-sensitive spending and destabilize financial markets. Once again, an unavoidable overshooting by interest rates may be the trigger behind the next contraction by profits and lift-off by the default rate.

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

THE U.S.

By Ryan Sweet of Moody's Analytics

Fed minutes may help explain 'symmetric'

The economic calendar cools off a little. The minutes from the May FOMC meeting should be mostly uneventful, but the Fed may provide color around the use of "symmetric" in the statement. We believe it implies that the Fed will stomach a mild and temporary overshoot of its 2% inflation objective. In other words, the Fed is cautioning financial markets not to panic if realized inflation overshoots the target. The minutes are unlikely going to show the Fed is overly concerned about inflation, yet. However, policymakers may grow increasingly worried that the unemployment rate will distance itself from the Fed's estimate of full employment, currently 4.5%.

To avoid a larger overshoot, the unemployment rate will have to stabilize soon, and GDP growth will have to moderate. For context, trend GDP growth would have to weaken by 1 percentage point and trend monthly job growth would have to fall from its current 198,000 to 100,000 to stabilize the unemployment rate. This is unlikely given that the economy is only beginning to feel the effects of the fiscal stimulus. Therefore, the Fed will likely have to be more aggressive than financial markets are anticipating in an effort to tighten financial market conditions.

As for the data, we look for a modest drop in new-home sales as higher mortgage rates and lean inventories will bite. Existing-home sales are also expected to have dropped in April. The preliminary forecast is for durable goods orders to have fallen 0.6% in April. Excluding transportation, orders likely rose 0.3%.

The Treasury Department will sell $276 billion in Treasury bills and notes. The deadline for Treasury to outline recommendations to limit Chinese investment in sensitive U.S. technology is on Monday.

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence	index, 4-wk MA				39.0
Wed @ 10:00 a.m.	New-Home Sales for April	ths, SAAR	683	677	650 to 700	694
Wed @ 2:00 p.m.	FOMC minutes					
Thur @ 8:30 a.m.	Jobless Claims for 5/19/18	ths	224	220	210 to 230	222
Thur @ 10:00 a.m.	Existing-Home Sales for April	mil, SAAR	5.49	5.56	5.45 to 5.68	5.60
Fri @ 8:30 a.m.	Advanced durable goods orders for April	% change	-0.6	-1.4	-3.0 to 1.2	2.6
	Excluding transportation	% change	0.3	0.5	-0.5 to 0.8	0.1
Fri @ 10:00 a.m.	Michigan sentiment for May, final	index	99.0	98.8	97.0 to 100.0	98.8

MONDAY, MAY 21

Business confidence (week ended May 18; 10:00 a.m. EDT)

Forecast: N/A

Global business sentiment remains strong and unwavering, and consistent with a global economy that is growing well above its potential. U.S. businesses are feeling the best, while South American businesses are the least optimistic. Responses to all nine questions in the survey are upbeat, but especially for the availability of credit and the demand for office space.

Abstracting from the weekly vagaries of the survey, a robust nearly one-half of responses to the nine questions posed in the survey are positive, while well less than one-tenth of the responses are negative. The only one other time in the history of the survey when sentiment was consistently stronger than today was in spring 2015.

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

The four-week moving average in our global business confidence index slipped from 39.4 to 39 in the week ended May 11.

TUESDAY, MAY 22

No major economic releases scheduled.

WEDNESDAY, MAY 23

New-home sales (April; 10:00 a.m. EDT)

Forecast: 683,000 annualized units

New-home sales are forecast to have dropped from 694,000 annualized units in March to 683,000 in April. This would be the first decline since December and reverse only some of the increase seen in the first quarter of this year. New-home sales are volatile and unreliable from month to month but some payback is likely as higher mortgage rates and lean inventories hurt sales.

THURSDAY, MAY 24

Jobless claims (week ended May 19; 8:30 a.m. EDT)

Forecast: 224,000

Initial claims for unemployment insurance benefits rose by 11,000 to 222,000 in the week ended May 12. This lowered the four-week moving average by 2,750 to 213,250, leaving it down 18,000 between the April and May payroll reference weeks—suggesting a pickup in job growth in May. We look for initial claims to have risen from 222,000 to 224,000 in the week ended May 19. Layoffs due to a temporary shutdown at Ford may boost new filings but it should be modest, at best.

Existing-home sales (April; 10:00 a.m. EDT)

Forecast: 5.49 million annualized units

Existing-home sales are forecast to have fallen from 5.6 million annualized units in March to 5.49 million in April. Most housing indicators we track have softened recently and we don't expect existing-home sales to buck this. The pending home sales index increased 0.4% in March, on the heels of a 2.8% gain in February and 5% drop in January. Rising mortgage rates, lean inventory, and tax law changes are likely weighing on home sales. Pending home sales normally lead existing home sales by one to two months but the relationship isn't perfect.

Existing-home sales will feed into our high-frequency GDP model's estimate of second quarter GDP via broker commissions (residential investment).

FRIDAY, MAY 25

Durable goods orders (April; 8:30 a.m. EDT)
Forecast: -0.6%

Durable goods orders increased 2.6% in March and transportation accounted for the gain, particularly nondefense aircraft, where orders rose 44.5%. Excluding transportation, orders were unchanged following a 0.9% gain in February. The key details for business investment were disappointing, as core capital goods orders and shipments fell in March. For April, we expect total durable goods orders to have fallen 0.6%. Boeing orders point toward a drop in defense aircraft while the forecast assumes a small increase in defense aircraft orders. Motor vehicles were also likely a drag. We will finalize our forecast for durable goods early next week.

EUROPE

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

Expect no revision of headline first quarter GDP in the U.K.

In the spotlight will be the second estimate of the U.K.'s first quarter GDP. We do not expect the headline to be revised from its current 0.1% q/q rate, which marks a sharp slowdown from the previous stanza's 0.4% expansion. Yearly growth is similarly expected to be confirmed at 1.2%, worsening from the 1.4% gain in the previous quarter and the slowest since the second stanza of 2012. True, first quarter figures for the industrial and the construction sectors released on May 10 didn't exactly match the Office for National Statistics' estimates that fed into the preliminary report, but the divergences are small and shouldn't be enough to prompt a revision to the headline number.

First, March's 0.1% m/m rise in industrial production ensured that production rose by only 0.6% q/q in the first quarter, below the ONS's estimate of 0.7%, as the rebound in oil production that followed the closure of the Forties pipeline in December was revised slightly downwards. The impact of this revision is lower than 0.1 percentage point, while in any case it should be completely offset by a small upward revision in the construction numbers. Even if construction fell according to ONS's estimates in March, revisions in previous months mean that output in the sector declined by 2.7% q/q, less than the 3.3% drop assumed in the preliminary GDP report. Note that the production and the manufacturing sectors account for 14% and 6% of the U.K.'s total output, respectively. Meanwhile, we still have limited data available for the services sector. The ONS has estimated that services output rose by 0.1% in March, which is a decent forecast following the 0.2% drop in February.

The key detail from the second GDP report will be the expenditure breakdown of growth. We expect that net exports contributed slightly to growth in the first quarter, likely by 0.1 percentage point, partially offsetting the 0.4-percentage point drag it was in the fourth stanza. Monthly foreign trade data suggest that in volume terms, goods exports rose by 0.1% q/q in the three months to March, while imports fell by 0.3%. We caution, though, that this contribution is mainly due to volatility in the erratic items balance, since net trade excluding erratics is still expected to have subtracted from growth. This is disappointing and again highlights how sterling has not yet managed to boost net exports since it began weakening in late 2015. This is in harmony with our theory that the boost to U.K. competitiveness was unimpressive. Not only did producers raise prices rapidly following the pound's plunge, but demand for imports also remained solid because of the U.K.'s low industrial base.

Regarding the other expenditure components, we expect that consumer spending slowed sharply. March's drop in retail sales means that retail sales volumes declined by 0.5% q/q in the year's opening stanza, fully reversing a 0.4% gain in the fourth quarter. We aren't much more optimistic regarding services spending, since the cold weather in February and March is expected to have dented household spending in restaurants and cafes, as well as other types of transportation and leisure spending. Data from growth's production breakdown show that output in distribution, hotels and restaurants—mostly consumed by households—fell by 0.1% q/q. Similarly, we expect that government spending remained subdued; the production breakdown already showed that output in the government spending and other services subsector rose by only 0.1% q/q, the same as in the previous stanza.

No better news should have come from investment, and our forecast is that business investment stalled following a 0.3% q/q rise in the fourth quarter. Production data clearly suggest that investment in construction and in machinery and equipment fell, while Brexit uncertainty is still pushing firms to adopt a wait-and-see strategy.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 2:00 p.m.	Russia: Unemployment for April	%	5.0	5.0
Tues @ 2:00 p.m.	Russia: Retail Sales for April	% change yr ago	2.0	2.0
Wed @ 9:30 a.m.	U.K.: Consumer Price Index for April	% change yr ago	2.4	2.5
Thur @ 8:00 a.m.	Germany: GDP for Q1	% change	0.3	0.6
Thur @ 9:30 a.m.	U.K.: Retail Sales for March	% change yr ago	0.7	1.1
Fri @ 9:30 a.m.	U.K.: GDP Expenditure Breakdown for Q1	% change	0.1	0.4

MONDAY, MAY 21

No major indicators are scheduled for release.

TUESDAY, MAY 22

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

Retail trade is beginning to show signs of stress. Growth has slowed in 2018 after a strong 2017. Most of retail's strength in 2017 was fueled by debt. Loans to households rose 13% in 2017, with unsecured credit card debt propelling domestic consumption. Incomes, however, have made little headway. Fueling ongoing consumption with debt is an unhealthy platform for growth if income gains remain elusive. As a result, Russian households will increase cautionary saving. Consumption and retail should both slow. With the Central Bank of Russia still reducing interest rates, debt will continue to fuel some growth in retail trade. We expect a 2% year-over-year gain in April, in line with the previous month but slower than the average monthly pace in 2017.

WEDNESDAY, MAY 23

U.K.: Consumer Price Index (April; 9:30 a.m. BST)

The U.K.'s annual headline CPI should have declined further to only 2.4% in April, from 2.5% in March, on the back of a broad-based easing in price pressures. The main drag is nonetheless expected to have come from a correction in services inflation due to effects related to the early Easter; transportation inflation got a boost in March—air transport services inflation climbed to 9.5%, from 7.5%—warranting a decline in April. But core goods inflation is also expected to have weakened across the board, in line with our expectations that retailers have finished passing through the sterling-related jump in import prices to consumers. Our view is that core goods inflation will fall to about zero by the end of 2018, from 1.8% in March, and data from the European Commission corroborate our forecast. Its net balance of general retailers intending to raise prices over the next three months dropped to 40 in April, from 45 in March, substantially below last year's average at 54. We expect that core inflation decelerated to 2.1%, from 2.3% in March.

Regarding the noncore components, an uptick in motor fuels inflation on the back of higher Brent prices—pump prices rose 3% y/y in March, after holding steady in February—should be offset by a cooling in electricity and natural gas inflation. True, three of the U.K.'s Big Six suppliers announced price increases over the last month, which will boost the CPI in June, but so far the weighted-average increase in electricity prices, 4.5%, is less than half of last year's 10.9% rise. Elsewhere, food inflation likely remained steady at 3%.

THURSDAY, MAY 24

Germany: GDP (Q1; 8:00 a.m. BST)

Germany's growth disappointed at the start of the year. The preliminary estimate showed the pace of expansion slowed markedly, with real GDP growing by just 0.3% q/q, halving the 0.6% registered in the three months to December. In year-ago terms, the expansion rate decelerated to 2.3% in the first quarter from 2.9% in the previous stanza. Largely behind the slowdown was weakness in net exports, as both exports and imports contracted from the previous quarter. The upcoming Brexit and recent introduction of steel tariffs by the U.S. are worrying for German exports, which propelled the economic expansion in the second half of last year. Also, government spending is predicted to have decreased for the first time in just less than five years. On a positive note, fixed investment improved in the three months to March while private consumption supported overall expansion.

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

U.K. retail sales likely rose by 1.4% m/m in April, fully reversing March's 1.2% decline. Base effects will nonetheless push the yearly rate down to only 0.7%, from 1.1% in March, further below the past-year average at 1.6%. Over the month, we expect sales to have increased across the board, recovering from weather-related weakness at the end of the first quarter. The cold weather and the week of unusually heavy snowfall at the end of February and early March depressed sales in the high street and demand for fuel, but temperatures climbed higher in April, increasing footfall. Although leading indicators for April have come in rather weak—the BRC gauge of like-for-like sales plunged by 4.2% y/y, from a 1.4% rise in March, while the CBI reported sales balance remained in negative territory—we caution that most surveys are not calendar adjusted, which means they do to not take into account the early Easter effect, while the official data are doing so. Despite our optimistic forecasts for April, we remain cautious about the outlook for retail sales in 2018. Households' borrowing costs are set to rise, take-home pay has recently been squeezed by an increase in the minimum pension contributions, and the housing market remains in the doldrums; this all should keep a lid on consumer spending. The good news is that real wages returned to growth in February, which should in turn boost consumer confidence.

FRIDAY, MAY 25

No major indicators are scheduled for release.

ASIA-PACIFIC

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

Japan's trade balance likely stayed in surplus

The economic data calendar is relatively quiet this week. Japan's trade balance likely remained in surplus in April. Export shipments from Japan are slowing in early 2018, while values have also cooled on the back of the rising yen. This should have eased in April, as the currency has depreciated once again. Tech exports were the main contributor to growth last year. However, with the tech cycle past its peak, electronic exports are taking a back seat.

Thailand's economy likely expanded 3.8% y/y in the March quarter, down from a 4% rise in the fourth quarter of 2017. External demand remains solid, while domestic demand is soft. Private consumption growth cooled in the first quarter amid weak income growth, a soft labour market, and elevated household debt. Private investment growth was modest in the first two months of the year and fell by a 43-month low of 5% y/y in March.

Elsewhere, the second estimate of Taiwan's first quarter GDP growth is likely to be unchanged from the preliminary estimate. Taiwan's economy expanded 3% y/y in the first quarter, down from 3.3% in the prior quarter. The economy's export-oriented sectors continued to perform well, even as trade tensions between the U.S. and mainland China ramped up.

The Bank of Korea will likely keep the policy rate unchanged at 1.5% in May. Although inflation climbed to a six-month high in April, price pressures remain fairly mild. Two factors keeping a lid on price pressures are the elevated won and the soft labour market. With inflation still below the central bank's 2% target and the labour market showing signs of weakness, we expect monetary policy to stay on hold until early 2019.

	Key indicators	Units	Moody's Analytics	Last
Mon @ Unknown	Thailand GDP for Q1	% change yr ago	3.8	4.0
Mon @ 8:45 a.m.	New Zealand Retail trade for Q1	% change	0.5	1.7
Mon @ 9:50 a.m.	Japan Foreign trade for April	¥ bil	170	119
Thurs @ 8:45 a.m.	New Zealand Foreign trade for April	NZ$ mil	198	-86
Thurs @ Unknown	South Korea Monetary policy for May	%	1.5	1.5
Fri @ 7:00 p.m.	Taiwan GDP for Q1	% change yr ago	3.0	3.3

MONDAY, MAY 21

Thailand: GDP (2018Q1; Unknown)

Thailand's economy likely expanded 3.8% y/y in the March quarter, down from a 4% rise in the fourth quarter of 2017. Although external demand remains solid, export growth has cooled off a high base, with net exports likely providing less of a contribution to GDP growth in the first quarter of 2018. Domestic demand remains soft. Private investment growth was modest in the first two months of the year and fell by a 43-month low of 5% y/y in March. Private consumption growth also slowed through the first three months of the year, amid weak income growth, a soft labour market, and elevated household debt. Tourism remains a bright spot, providing some offset.

New Zealand: Retail Trade (2018Q1; 8:45 a.m. AEST; Sunday, 10:45 p.m. GMT)

New Zealand's retail trade likely cooled to 0.5% q/q in the March quarter, after rebounding with a 1.7% gain in the December quarter. Slower net migration is starting to have an adverse impact, after record levels lifted consumption in the prior 12 months. Sustained softness in income growth is another drag. Some offset will come from the Labour government's pro-consumption agenda, which has included offering the first year of university free to New Zealand citizens. Young people age 18 to 24 have a higher marginal propensity to spend than the broader population, even with lower incomes.

Japan: Foreign Trade (April; 9:50 a.m. AEST; Sunday, 11:50 p.m. GMT)

Japan's trade balance went back into a surplus of ¥119.15 billion in March, following a ¥201 billion deficit in February. Export shipments from Japan are slowing in early 2018, while values have also cooled on the back of the rising yen. This should have eased in April, as the currency has depreciated again. We expect a trade surplus of ¥170 billion for April. Tech exports were the main contributor to growth last year. However, with the tech cycle slowing, electronic exports are taking a back seat. Export growth is likely to slow, but not derail, over the coming months.

TUESDAY, MAY 22

No major economic indicators are scheduled for release.

WEDNESDAY, MAY 23

No major economic indicators are scheduled for release.

THURSDAY, MAY 24

New Zealand: Foreign Trade (April; 8:45 a.m. AEST; Wednesday, 10:45 p.m. GMT)

New Zealand's trade balance likely returned to surplus, at NZ$198 million in April, following the NZ$86 million deficit in March. Dairy exports will remain an important support, with ongoing buoyancy a key lift. New Zealand's farmers are entering their third straight year of high dairy prices, with dairy supplies growing at about trend or a tad below, and prices supported by strong offshore demand. Weakness in dairy shipments to China in March is not expected to worsen, with consumer demand and broader economic performance tracking around expectations. The trade surplus will remain relatively low amid ongoing buoyancy in domestic demand with an additional lift from the Labour government's pro-spending agenda.

South Korea: Monetary Policy (May; Unknown)

The Bank of Korea will likely keep the policy rate unchanged at 1.5% in May. Although inflation climbed to a six-month high in April, price pressures remain fairly mild. Two factors keeping a lid on price pressures are the elevated won and the softening labour market. South Korea's jobless rate rose to an eight-year high of 4% in March, as employment growth was undermined by the large minimum wage hike at the start of year. With inflation still below the central bank's 2% target and the labour market showing signs of weakness, we expect monetary policy to stay on hold.

FRIDAY, MAY 25

Taiwan: GDP (2018Q1; 7:00 p.m. AEST; 9:00 a.m. GMT)

The second estimate of Taiwan's first quarter GDP growth is likely to be unchanged from the preliminary estimate. Taiwan's economy expanded 3% y/y in the first quarter, down from 3.3% in the prior quarter. The economy's export-oriented sectors continued to perform well, even as trade tensions between the U.S. and mainland China ramped up. Private consumption remained solid, consistent with relatively elevated consumer sentiment. Investment continued to be a weak spot, despite rising corporate profits.

The Long View

A marked drop by corporate bond issuance would be an early indication of burdensome Treasury yields.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
May 17, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 122 bp matches 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 346 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%, April's U.S. high-yield default rate equaled 3.7%. Moody's Default and Ratings Analytics team expects the default rate will average 1.9% during Q1-2019.

US CORPORATE BOND ISSUANCE

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

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

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

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

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

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

For yearlong 2016, worldwide corporate bond offerings rose by 2.3% annually for IG (to $2.402 trillion) and sank by 7.8% for high yield (to $426 billion). During yearlong 2017, worldwide corporate bond offerings increased by 4.0% annually (to $2.499 trillion) for IG and advance by 41.2% for high yield (to $602 billion). The projected annual percent changes for 2018's worldwide corporate bond offerings are +2.1% for IG and -3.8% for high yield.

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

The Long View

US ECONOMIC OUTLOOK

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

EUROPE

By Barbara Teixeira Arajuo and Reka Sulyok of Moody's Analytics
May 17, 2018

EURO ZONE

Euro zone construction figures for March were weak, but nothing we weren't already expecting. Preliminary GDP data released over the past few weeks for the currency area and its major countries had already confirmed the broad-based slowdown in activity in the three months to March, and the construction sector didn't get any respite. Accordingly, the further 0.3% m/m decline in construction production in March and the downward revisions to the February data ensured that output in the sector fell by 0.4% q/q in the first quarter, partially reversing the previous stanza's 0.9% increase.

We caution against putting too much faith in these figures, however. Building activity is subject to weather conditions, and the heavy snowfalls together with the unseasonably cold temperatures across the Continent in February and March certainly took their toll. It was no surprise, then, that the civil engineering sector took the hardest blow, falling by a sharp 1.7% q/q, its strongest contraction in five years. Building, by contrast, still rose by 0.2% q/q, but we caution that this is well below the 0.9% increase in 2017.

The good news is that leading indicators point to a rebound in the second quarter. The European Commission's construction confidence gauge suggests that yearly growth in construction will recover to around 1.8% to 2% in the three months to June, which would deliver a quarterly increase of 1.2%. And that temperatures soared in April and May should ensure that construction projects that had been put on hold, fired back up again.

But the story will remain uneven across countries. Building activity in Germany should tick up only modestly as builders in the country struggle with capacity constraints, while in France we expect construction will jump following a depressing headline at the start of the year. Construction in Italy should also rebound somewhat, but Spain will have a hard time improving on the first quarter's 3.9% q/q gain.

POLAND

There's no denying that the Central and Eastern European currencies were swept up in the whirlwind created by markets' belief that more U.S. rate hikes are on the way this year. The Hungarian forint weakened by 2.1% while the Czech koruna, usually the most stable currency in the region, depreciated by 1% from April. But the Polish zloty tumbled by 2.8%, and this on the heels of a spectacular GDP report from the first quarter. Poland's economy expanded by 1.6% q/q, the second fastest in the EU.

The fundamentals of the Polish economy gave little reason to worry. Inflation picked up in the first half of 2017, though the headline still lagged behind the long-term average at just 1.6% in April this year, firmly at the lower bound of the National Bank of Poland's target band of 1.5% to 3.5%. The inflation differential with the euro zone did not warrant a depreciation. And provided that the economy grows by 4.2% this year, central bankers pencil in inflation at 2.1%, with a climb further above the target only in 2019. This consoled the bank, which looked past the rapid depreciation of the last two weeks and held the policy rate at 1.5% at the May 16 meeting.

We have reason to believe that the zloty's weakening is temporary. The long yields remained resilient while the currency came under pressure. The 10-year government bond yields added 10 basis points from April, much less than the 200 basis points in Turkey, where the lira's depreciation is rooted in weak fundamentals. Even Hungary proved more vulnerable to the sentiment swings; 10-year yields spiked by 63 basis points due to the ultra-accommodative monetary stance the Hungarian National Bank kept at its April meeting, and to its signal that monetary easing may last until 2020. Poland is likely to initiate a policy normalization cycle in 2019, but a hike in energy prices could move that to late this year.

The zloty's losses instead may be driven by fears about the medium-term outlook. A slowdown in the euro area could put the brakes on Poland's expansion. And the first EU budget plan, which hints at a stingy Cohesion Fund from 2021 and new measures that could cut Poland off from the transfers, sow seeds of doubt about the potential of the Polish economy. With no end in sight for the European Commission's investigation into Poland's rule of law, investors are getting jittery. Poland might face a dark future if the commission pushes through new legislation which would allow it to punish member states who fail to abide by the EU's rule of law. If the Cohesion Funds are cut, investment would dry up in Poland, where 60% of public investments is EU financed. Such a worst-case scenario is far from preordained, though, as the budget wrangle only began in May. That 16 member states disapproved of the budget proposal when the parliamentary session started on May 15 suggests that the final deal could look a whole lot different.

ASIA PACIFIC

By Katrina Ell of Moody's Analytics
May 17, 2018

MALAYSIA

Malaysia's general election on May 9 delivered a major political upset that will have economic implications for the Southeast Asian nation. Further financial market volatility is expected in the near term as the new political landscape emerges.

Former Prime Minister and opposition leader Mahathir Mohamad's opposition alliance disrupted the Barisan Nasional coalition's 60-year rule. Preliminary results indicate the opposition won 113 of the 222 seats on offer, while the BN won 79. This marks the BN's worst election result ever. In the 2013 election the BN won 133 seats, which was considered at the time to be a poor result.

Mahathir is 92, so when he was sworn in as prime minister on May 11 he became the world's oldest elected leader. He previously ruled Malaysia for 22 years to 2003. His reign is broadly credited with helping to modernise Malaysia, but also saw opponents imprisoned, a common occurrence in Malaysian politics.

Mahathir joined with jailed politician Anwar Ibrahim, and their alliance of four political parties appealed to the public disenchantment with the defeated prime minister, Najib Razak, and with the rising cost of living. Mahathir had indicated he would seek a pardon from the king for Anwar if they won the election, and once free, Anwar would take over as prime minister. Anwar was freed and granted a royal pardon on Wednesday.

Complicated politics

Malaysian politics are complicated and the ethnic divisions are important. The majority ethnic-Malay Muslims have traditionally supported the BN because of its favourable policies that offer preferential government contracts, government employment, more affordable housing, and easier entry to university. Meanwhile, the opposition alliance appealed to the growing proportion of urban voters, as well as minority ethnic-Chinese and Indians.

Najib ruled Malaysia for almost a decade and was widely expected to win this month's election despite the cloud of corruption that had engulfed him since 2015. In a nutshell, the 1Malaysia Development Berhad was created to bolster Malaysia's long-term economic potential by promoting foreign direct investment. But investigations revealed allegations that almost US$700 million from the state development fund had been transferred into Najib's personal bank accounts as well as siphoned to other questionable avenues.

Transparency International has raised concerns about the investigations into the corruption scandal, calling for greater protection of those who are bringing to light the corruption in Malaysia. The anti-corruption coalition has noted that Malaysia is moving "rapidly towards autocracy and disregarding its international commitments to fight corruption." From an economic perspective, this trend is worrying not least because corruption redirects funds away from more productive endeavors and ultimately erodes an economy's prospects.

The Long View

Transparency International's Corruption Perceptions Index ranks 180 countries via their perceived levels of public sector corruption, using a scale of zero to 100, where 100 is very clean. Malaysia was given a score of 47 in 2017, 2 points worse than the score in 2016, pushing its country ranking down 7 points to 62 last year. While Malaysia is ranked better than its Southeast Asian neighbours Indonesia, the Philippines and Thailand, it is relatively corrupt for its income group. Mahathir has pledged to improve Malaysia's rule of law and address corruption, a difficult task given how entrenched the undesirable behavior can be.

Inheriting a healthy economy

The key factor working in Najib's favour in the lead-up to the election was favourable economic growth. In 2017, Malaysia's GDP growth surged to 5.9%, its fastest pace since 2014 and well up from the 4.2% in 2016. This was largely thanks to the upbeat global environment and Malaysia's large exposure to the sustained upswing in the global tech cycle. Yet, with the World Bank confirming rising household inequality, voters were not adequately reaping those economic benefits.

The lift from buoyant global demand is less assured in 2018 and downside risks are heightened, not least due to the elevated trade tensions between the U.S. and China that threaten to significantly reduce trade flows. Malaysia's GDP growth is forecast at 5% in 2018.

Election promises

The newly elected government made a handful of campaign promises. These include vowing to remove the 6% goods and services tax within 100 days of taking office. The regressive tax, introduced in 2015, has been accused of adding to income inequality. The government also promised to look into reintroducing fuel subsidies. These measures combined would put pressure on government coffers and Malaysia's external position, making it more vulnerable to adverse shifts in global sentiment and capital outflows. Malaysia's budget deficit has been gradually reduced to 3% of GDP in recent years, a welcome development for investors.

Mahathir also promised to review foreign investments, including those that are part of China's One Belt One Road project. If some of these projects are scrapped and the infrastructure bottlenecks are not addressed, longer-term productivity will be hurt. The new government has also promised to return the money lost via the 1MDB scandal.

Mahathir is known to be skeptical of market forces. In early April he indicated a willingness to implement a currency peg on the ringgit to deter "currency manipulators." This could signal that Malaysia's prior pro-market policies may have a weaker push going forward, but to speculate further would be premature.

Central bank tries to instill calm

Bank Negara Malaysia expectedly kept the policy rate unchanged at 3.25% at its May meeting. The central bank tried to instill calm as the election result was still being digested. Bank Negara noted in its statement that Malaysia's economic outlook remained upbeat with fundamentals "strongly anchored."

Bank Negara was amongst the first in Asia to tighten interest rates in 2018, delivering a 25-basis point lift in January. Further hikes are not expected until the fourth quarter of 2018. Inflation is subdued, with CPI cooling to 1.3% y/y in March, its softest pace since July 2016. This gives the central bank breathing space for jitters to settle after the election upset. Oil prices are a big unknown and if tensions in the Middle East continue to keep global oil prices elevated to their highest level in more than three years, Bank Negara may need to hike sooner to help anchor inflation expectations.

Ratings Round-Up

By Njundu Sanneh

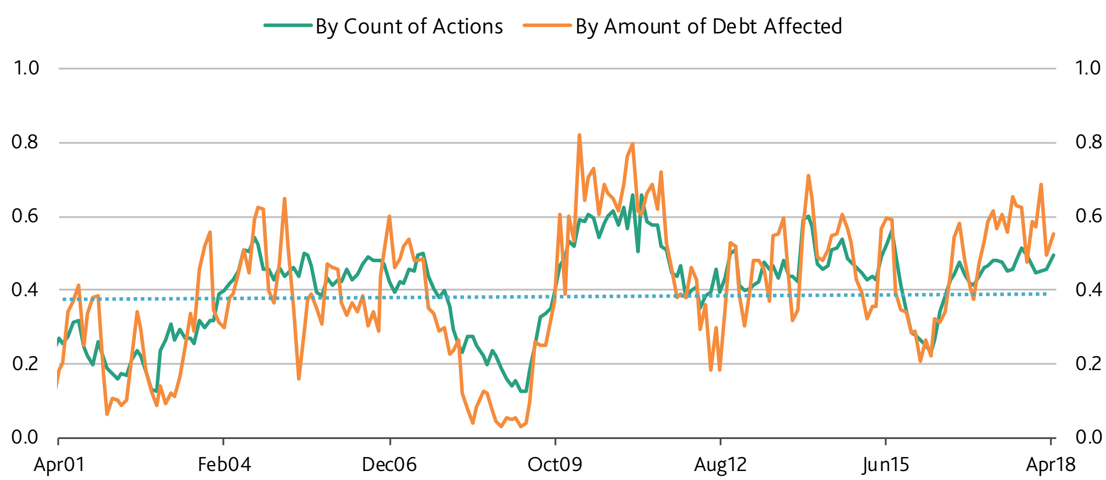
Retail Shows Some Signs of Improvement

Challenges in the retail sector highlight the past week's U.S. rating revisions with four of the 15 total rating changes coming from the sector. The downgrade of retail or related firms accounts for almost 50% of the nine total downgraded firms. The default rate forecast for the retail sector over the next twelve months as of April is 6.34%. This is double the global speculative grade default forecast of 2.6% by December 2018 and well above the U.S. forecast of 3.0%. Even though there are pockets of improvement as job marketing tightening and wage growth underpin consumer spending, 14% of the retail sector is in distress, according to Moody's April Monthly Default Report. Payless Shoes was among the seven defaults registered in April. The retail names on our weekly U.S. list include PetSmart, Inc., Pier 1 Imports (US) Inc., a unit of Pier 1 Imports, Inc., and American Tire Distributors and cover a wide range of sectors within the retail industry. In addition to retail, consumer products also feature highly in the U.S. weekly rating revisions with Dr. Pepper Snapple Group, Inc. downgraded on account of its impending merger with Keurig Green Mountain, Inc. through leverage financing. The upgrade ratio to total rating changes at 45% and 40% fell for the U.S., and Europe was down from 59% and 50%, respectively, the week earlier.

The rating revisions activity in Europe was diverse by geography and by sector. Downgrades accounted for slightly over half of the total rating revisions but the usual suspects of media and publishing and retail were missing from the downgrade column. Commodities sector metals and mining which were among the main defaulters last year are faring better this year as commodity prices continue to ascend. Alcoa Nederland Holding BV, a unit of Alcoa corporation was among the upgraded companies.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

FIGURE 2

Rating Key

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

FIGURE 3

Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
5/10/18	W.R. BERKLEY CORPORATION	Financial	SrUnsec/IFSR/Sub	2,730	U	Baa2	Baa1	IG
5/10/18	MATTEL, INC.	Industrial	SrUnsec/LTCFR/PDR	2,900	D	Ba2	Ba3	SG
5/10/18	DYNEGY INC.	Utility	SrUnsec	5,282	U	B1	Ba3	SG
5/10/18	AMERICAN TIRE DISTRIBUTORS, INC.	Industrial	SrSec/BCF/LTCFR /PDR/SrSub	1,050	D	B3	Caa1	SG
5/10/18	DELTA TUCKER HOLDINGS, INC. -DYNCORP INTERNATIONAL INC.	Industrial	SrSec/BCF/LTCFR /PDR	371	U	Caa1	B2	SG
5/10/18	WRANGLER BUYER CORP	Industrial	LTCFR/PDR		U	B3	B2	SG
5/11/18	PIER 1 IMPORTS, INC. -PIER 1 IMPORTS (U.S.), INC.	Industrial	SrSec/BCF/LTCFR /PDR		D	B1	B3	SG
5/11/18	PLANTRONICS, INC.	Industrial	SrUnsec	1,000	D	Ba2	B1	SG
5/11/18	DR PEPPER SNAPPLE GROUP, INC.	Industrial	SrUnsec	4,225	D	Baa1	Baa2	IG
5/11/18	ZEKELMAN INDUSTRIES, INC.	Industrial	SrSec/BCF/LTCFR /PDR	375	U	Caa1	B3	SG
5/11/18	HILLMAN GROUP INC. (THE)	Industrial	SrUnsec	330	D	Caa1	Caa2	SG
5/14/18	ALPHA MEDIA HOLDINGS LLC-ALPHA MEDIA LLC	Industrial	SrSec/BCF/LTCFR /PDR		D	B1	B3	SG
5/15/18	PETSMART, INC.	Industrial	SrSec/SrUnsec/BCF /LTCFR/PDR	3,900	D	B1	B3	SG
5/15/18	WD WOLVERINE HOLDINGS, LLC -WELLDYNERX, LLC	Industrial	SrSec/BCF /LTCFR/PDR		U	B3	B2	SG
5/15/18	IGLOO INTERMEDIATE HOLDINGS, INC. -IG INVESTMENTS	Industrial	SrSec/BCF /LTCFR/PDR		D	B1	B2	SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

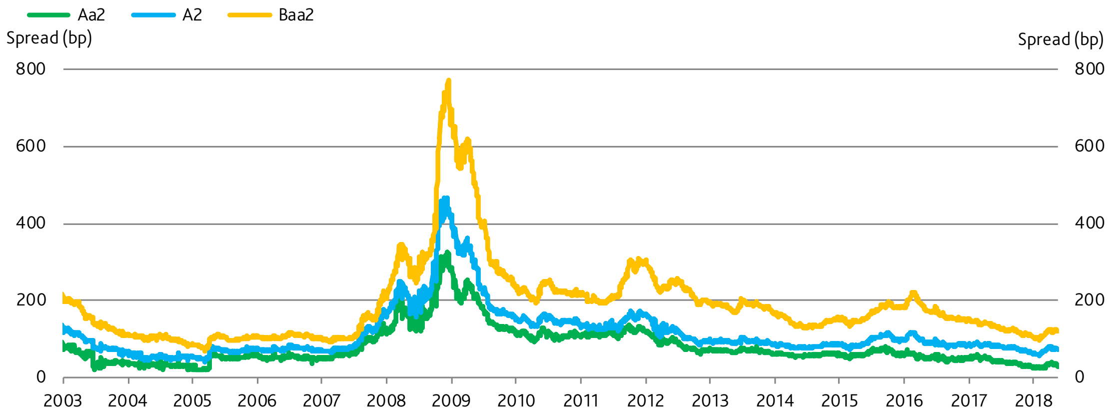
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
5/9/18	KOMMUNAL LANDSPENSJONSKASSE -KLP BANKEN AS	Financial	SLTD		D	A2	A3	P-1	P-2	IG	NORWAY
5/9/18	COLOUROZ MIDCO	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3			SG	LUXEMBOURG
5/11/18	NH HOTEL GROUP S.A.	Industrial	LTCFR/PDR		U	B2	B1			SG	SPAIN
5/11/18	ENAGAS S.A.	Utility	SrUnsec/LTIR	183	U	Baa2	Baa1			IG	SPAIN
5/14/18	BANCO BILBAO VIZCAYA ARGENTARIA, S.A.-GARANTIBANK	Financial	LTD		D	A3	Baa1			IG	NETHERLANDS
5/14/18	MOBY S.P.A.	Industrial	SrSec/LTCFR /PDR	358	D	B1	B3			SG	ITALY
5/14/18	ALCOA CORPORATION -ALCOA NEDERLAND HOLDING B.V.	Industrial	SrUnsec/LTCFR /PDR	1,250	U	Ba2	Ba1			SG	NETHERLANDS
5/15/18	SGL CARBON SE	Industrial	LTCFR/PDR		U	Caa1	B3			SG	GERMANY
5/15/18	OLD MUTUAL PLC-NEDBANK PRIVATE WEALTH LIMITED	Financial	SLTD		U	Baa3	Baa2	P-3	P-2	IG	ISLE OF MAN
5/15/18	CAPITAL HOSPITALS (ISSUER) PLC	Industrial	SrSec/BCF	1,379	D	A2	A3			IG	UNITED KINGDOM
5/15/18	O1 PROPERTIES LIMITED	Industrial	SrUnsec/LTCFR /PDR	1,158	D	B1	B3			SG	CYPRUS

Source: Moody's

Market Data

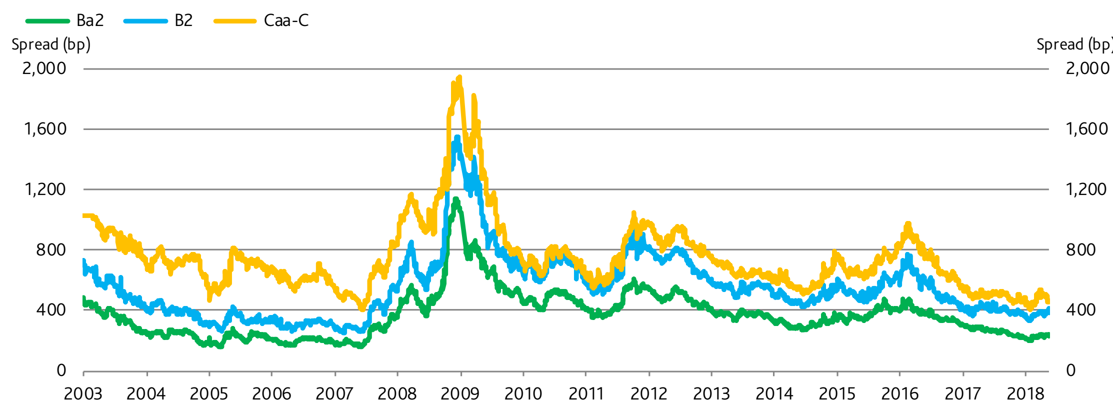
Spreads

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



Source: Moody's

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



Source: Moody's

Market Data

CDS Movers

Figure 3. CDS Movers - US (May 9, 2018 – May 16, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 16	May. 9	Senior Ratings
Bank of New York Mellon Corporation (The)	A3	Baa2	A1
American Express Credit Corporation	Aa3	A1	A2
Procter & Gamble Company (The)	Aa1	Aa2	Aa3
Merck & Co., Inc.	Aa2	Aa3	A1
Amazon.com, Inc.	Baa2	Baa3	Baa1
Kraft Heinz Foods Company	Baa3	Ba1	Baa3
Dominion Energy, Inc.	A3	Baa1	Baa2
3M Company	Aa1	Aa2	A1
First Data Corporation	Ba3	B1	B3
21st Century Fox America, Inc	Aa2	Aa3	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 16	May. 9	Senior Ratings
Xerox Corporation	B2	Ba2	Baa3
United States of America, Government of	Aa1	Aaa	Aaa
JPMorgan Chase & Co.	A3	A2	A3
Citigroup Inc.	Baa1	A3	Baa1
Wells Fargo & Company	Baa1	A3	A2
Bank of America, N.A.	A3	A2	Aa3
Comcast Corporation	Baa2	Baa1	A3
Walt Disney Company (The)	Aa3	Aa2	A2
Enterprise Products Operating, LLC	Baa3	Baa2	Baa1
Time Warner Inc.	Baa2	Baa1	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 16	May. 9	Spread Diff
Xerox Corporation	Baa3	206	142	64
McClatchy Company (The)	Caa2	379	319	59
Beazer Homes USA, Inc.	B3	369	336	32
R.R. Donnelley & Sons Company	B3	733	703	31
Viacom Inc.	Baa3	125	95	30
Hertz Corporation (The)	B3	821	793	28
KB Home	B1	240	212	28
USG Corporation	Ba1	339	311	28
Lennar Corporation	Ba1	158	134	24
PulteGroup, Inc.	Ba1	145	122	23

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 16	May. 9	Spread Diff
Sears Roebuck Acceptance Corp.	C	1,656	2,612	-955
Sears Holdings Corp.	C	1,378	2,172	-795
Talen Energy Supply, LLC	B1	812	942	-130
K. Hovnanian Enterprises, Inc.	Caa3	1,808	1,929	-120
Windstream Services, LLC	Caa1	2,043	2,117	-74
Chesapeake Energy Corporation	Caa1	587	642	-55
Nabors Industries Inc.	B1	268	299	-31
Rite Aid Corporation	B3	621	651	-30
Frontier Communications Corporation	Caa1	1,206	1,234	-28
MBIA Insurance Corporation	Caa2	798	825	-27

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (May 9, 2018 – May 16, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 16	May. 9	Senior Ratings
National Grid Gas Plc	A1	A3	A3
Societe Generale	Aa3	A1	A1
Barclays Bank PLC	A2	A3	A2
ING Groep N.V.	A2	A3	Baa1
Natixis	Aa1	Aa2	A2
Allianz SE	Aa1	Aa2	Aa3
Siemens Aktiengesellschaft	Aaa	Aa1	A1
GKN Holdings plc	Baa3	Ba1	Baa3
SCOR SE	A3	Baa1	A1
Stena AB	Caa1	Caa2	B3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 16	May. 9	Senior Ratings
Italy, Government of	Ba1	Baa3	Baa2
Spain, Government of	A2	A1	Baa1
Portugal, Government of	Baa3	Baa2	Ba1
Finland, Government of	Baa2	Baa1	Aa1
UniCredit Bank Austria AG	Baa2	Baa1	Baa1
Anheuser-Busch InBev SA/NV	Baa1	A3	A3
E.ON SE	A2	A1	Baa2
ENEL S.p.A.	Baa2	Baa1	Baa2
Orange	A2	A1	Baa1
Volkswagen Aktiengesellschaft	Baa2	Baa1	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 16	May. 9	Spread Diff
Astaldi S.p.A.	Caa1	1,490	1,189	301
Matalan Finance plc	Caa1	722	682	39
PizzaExpress Financing 1 plc	Caa1	1,019	991	29
Premier Foods Finance plc	Caa1	284	264	20
TDC A/S	B1	242	225	17
CMA CGM S.A.	B3	531	514	17
Italy, Government of	Baa2	106	90	16
Greece, Government of	B3	315	300	14
Unione di Banche Italiane S.p.A.	Baa3	99	88	11
Unitymedia GmbH	B3	69	59	10

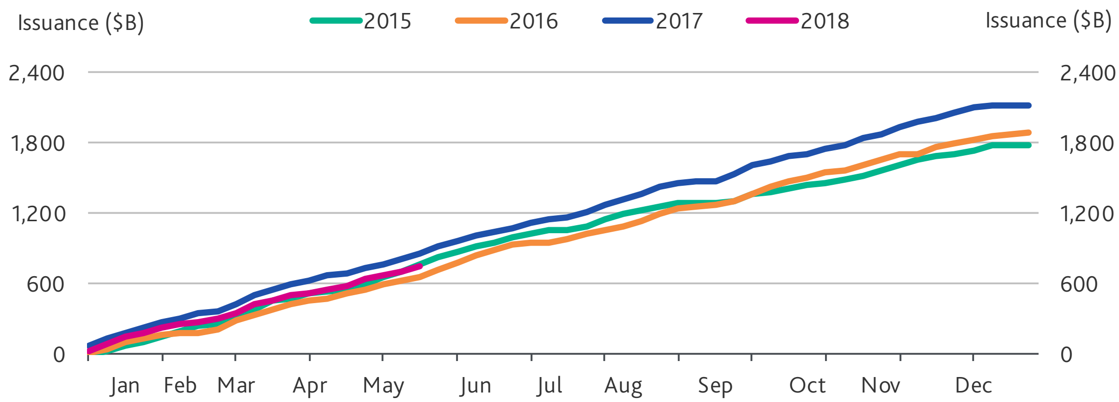
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 16	May. 9	Spread Diff
Evraz Group S.A.	B1	208	233	-26
Galapagos Holding S.A.	Caa3	1,231	1,256	-25
Vue International Bidco p.l.c.	B3	224	243	-20
Stena AB	B3	539	549	-10
GKN Holdings plc	Baa3	87	96	-9
The Royal Bank of Scotland Group plc	Baa3	81	88	-7
National Grid Gas Plc	A3	40	47	-7
Jaguar Land Rover Automotive Plc	Ba1	195	201	-7
Natixis	A2	24	29	-6
Nokia Oyj	Ba1	95	101	-6

Source: Moody's, CMA

Market Data

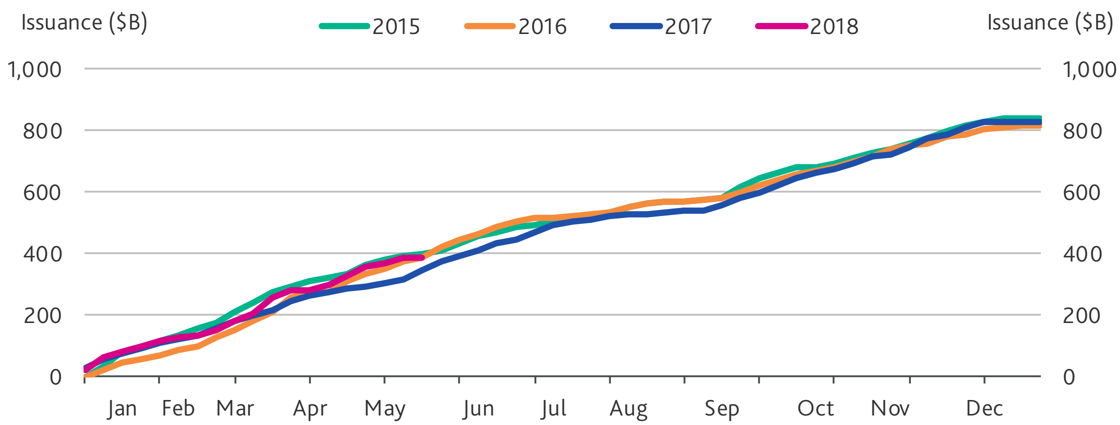
Issuance

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



Source: Moody's / Dealogic

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



Source: Moody's/ Dealogic

Market Data

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	48.766	5.552	56.847
Year-to-Date	568.925	151.653	753.679

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	3.335	0.000	3.656
Year-to-Date	323.111	49.359	388.281

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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