MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

M&A Both Enhances and Diminishes Corporate Credit Quality

Moody's Analytics Research

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Credit Markets Review and Outlook *by John Lonski*

M&A Both Enhances and Diminishes Corporate Credit Quality

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The Week Ahead

We preview economic reports and forecasts from the US, UK/Europe, and Asia/Pacific regions.

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The Long View

Full updated stories and key credit market metrics: For January-April 2018, US$-denominated corporate issuance incurred yearly setbacks of 8% for investment-grade and 11% for high-yield.

Credit Spreads	Investment Grade: We see year-end 2018's average investment grade bond spreads exceeding its recent 118 bp. High Yield: Compared to a recent 353 bp, the high-yield spread may approximate 425 bp by year-end 2018.
Defaults	US HY default rate: Compared to March 2018's 3.9%, Moody's Default and Ratings Analytics team forecasts that the U.S.' trailing 12-month high-yield default rate will sink to 1.7% by March 2019.
Issuance	In 2017, US$-denominated IG bond issuance grew by 6.8% to a record $1.508 trillion, while US$-priced high-yield bond issuance advanced by 33.0% to a new record calendar-year high of $453 billion. For 2018's US$-denominated corporate bonds, IG bond issuance may drop by 5.4% to $1.428 trillion, while high-yield bond issuance is likely to fall by 4.0% to $435 billion..

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Ratings Round-Up *by Njundu Sanneh*

Positive Rating Revisions Point to Improving Credit Quality

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Market Data

Credit spreads, CDS movers, issuance.

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Moody's Capital Markets Research *recent publications*

Links to commentaries on: Default rates, profit growth, foreign investors, internal funds, tariffs, borrowing restraint, corporate bonds, tax law changes, stocks and spreads, Greek drama, South Korea, Brazil sovereign credit, Greece and Spain, dangers in the outlook.

THIS REPORT WAS REPUBLISHED MAY 7, 2018 TO UPDATE ECONOMIC FORECASTS FOR THE WEEK AHEAD.

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

Credit Markets Review and Outlook

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

M&A Both Enhances and Diminishes Corporate Credit Quality

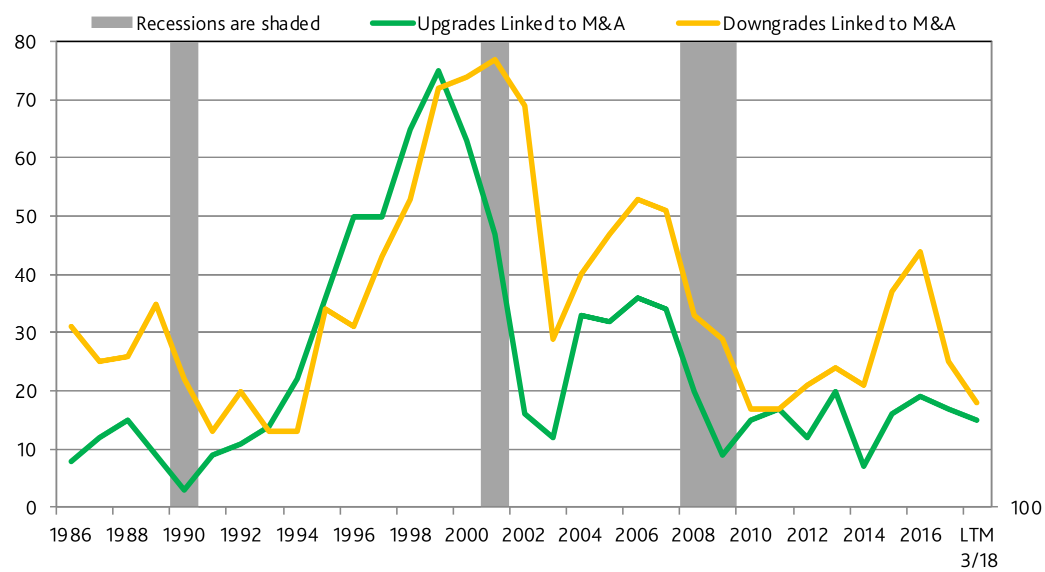
Mergers, acquisitions and divestitures wield considerable influence over corporate credit quality, where M&A's impact on a single company's credit standing can vary over time. For example, a credit rating may be downgraded early on because of the substantial increase in leverage brought on by a debt-financed acquisition. However, over time, the acquisition may help to boost profitability, liquidity and the company's market value by enough to eventually prompt a credit rating upgrade. If the subsequent upgrade is partly ascribed to the success of an earlier merger, then the upgrade will be linked to M&A. To the contrary, if a once promising merger or acquisition instead flops and thereby triggers a credit rating downgrade, the downgrade will be viewed as being the offshoot of M&A.

M&A Tends to Produce More Downgrades than Upgrades for Investment-Grade

Data on the influence of M&A on U.S. corporate credit rating revisions has been compiled since early 1986. For a span covering January 1986 through March 2018, M&A figured in 806 upgrades and 1,141 downgrades of U.S. investment-grade issuers and 1,500 upgrades and 1,194 downgrades of speculative-grade issuers. Thus, over the past 32 years, M&A has been cited in more downgrades than upgrades for investment-grade companies and in more upgrades than downgrades for high yield.

Often, when a financially stronger company acquires a financially weaker entity, the stronger company's credit rating is more likely to be downgraded while the weaker company's rating is upgraded. Moreover, investment-grade corporations are better able to afford an M&A-inspired credit rating downgrade without sacrificing so much in terms of financial flexibility that the company's long-term prospects are jeopardized. In general, an extended diminution of corporate America's credit quality might lead to a decrease in risk taking that could rein in the long-term growth outlook for business activity.

Figure 1: Except for 1993-1999, M&A-Linked Rating Changes of US Investment-Grade Companies Show More Downgrades than Upgrades
yearlong count, investment-grade issuers



The latest yearlong trend shows that previous and current M&A has been a net benefit to high-yield credit rating changes and a slight net detriment to investment-grade rating revisions. During the year-ended March 2018, M&A influenced 79 high-yield upgrades and 58 high-yield downgrades, while also affecting 15 investment-grade upgrades and 17 investment-grade downgrades. When limiting M&A's influence to the credit rating changes of 2018's first quarter, high-yield showed 15 upgrades and 16 downgrades, while investment-grade revealed two upgrades and two downgrades.

High-Yield Spreads Respond With a Lag to M&A-Linked Rating Changes

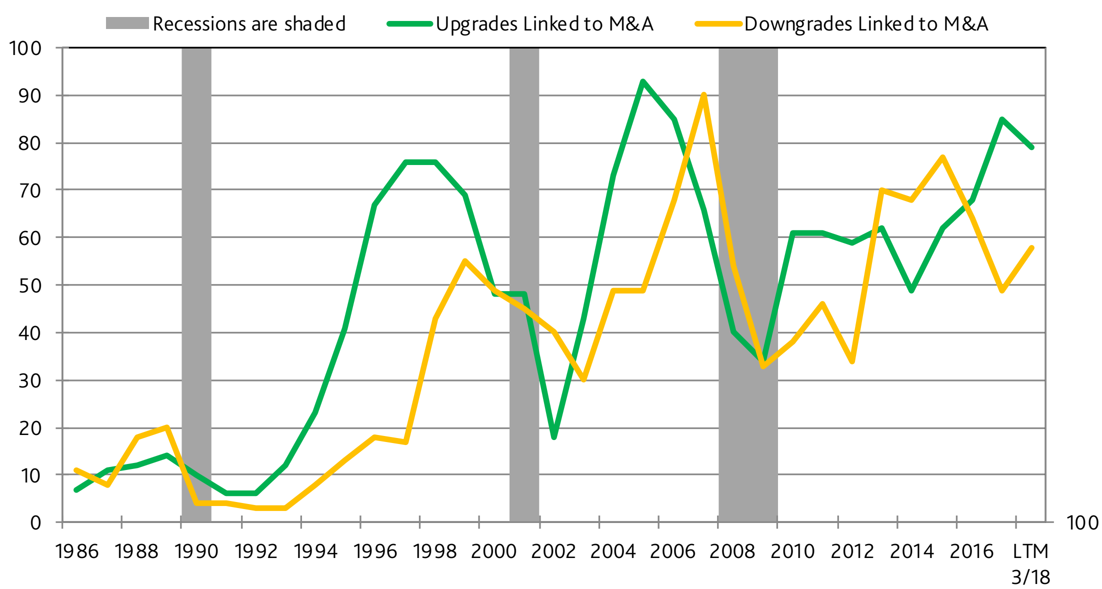
M&A was involved in more high-yield downgrades than upgrades in 1986, 1987-1988, 2000-2001, 2007-2008, and 2013-2015. For the year immediately following each year showing more M&A-linked downgrades than upgrades for high-yield issuers, the high-yield bond spreads averaged 671 basis points. For all other years since 1985, the high-yield spread averaged a much thinner 479 bp.

M&A Offers High-Yield a Means of Strengthening Credit Quality

Because of an already low speculative-grade credit rating, high-yield issuers are less likely to engage in a merger, acquisition or divestiture that further diminishes their credit standing. The potential loss of financial flexibility stemming from burdensome M&A may entail too much additional default risk for high-yield issuers.

High-yield issuers often look to M&A as a means of enhancing credit quality. If financial conditions are favorable, financially stressed high-yield issuers may divest business assets in order to secure funds that might help to pay down outstanding debt. Thus, healthy equity and credit markets are of critical importance to avoiding an extended climb by the high-yield default rate. Otherwise, if access to financial capital is prohibitively expensive, an inability to quickly liquefy business assets implies a higher default rate than otherwise. When M&A activity seizes up, default rates are more likely to soar.

Figure 2: M&A-Linked High-Yield Rating Changes Show Upgrades Still Leading Downgrades by a Wide Margin
yearlong count, speculative-grade issuers

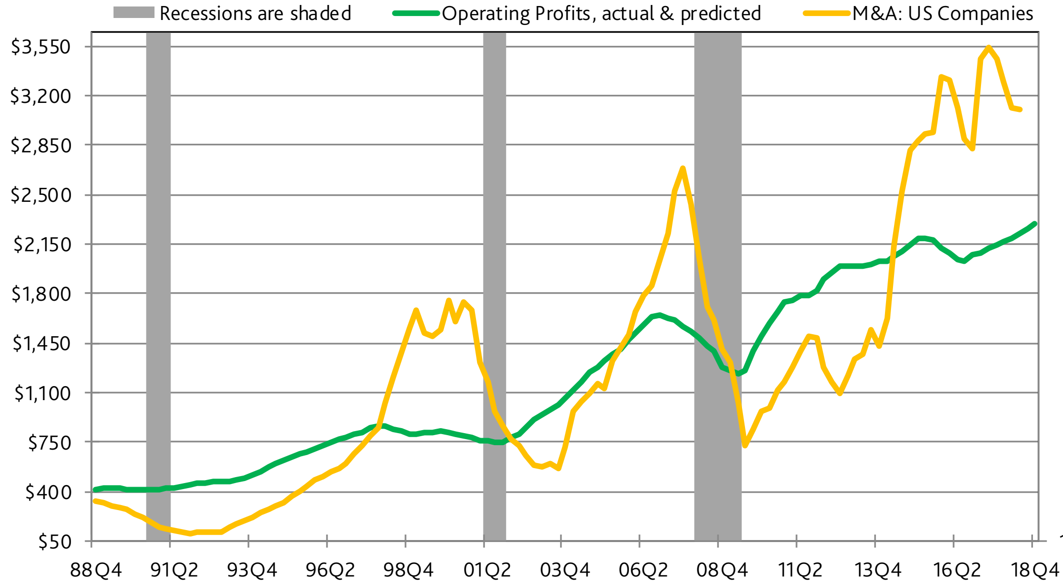


M&A Activity Soars During the Mature Phase of a Business Cycle Upturn

Mergers and acquisitions now proceed at an elevated pace, which is typical for the mature phase of a business cycle upturn. As the business cycle ages, opportunities for rapid growth by organic corporate revenues dwindle. In order to meet ambitious earnings per share targets, companies are more likely to restructure either their capitalization or operations, where the latter often is achieved through mergers, acquisitions or divestitures. Companies can widen profit margins by shedding less profitable operations or by achieving improved economies of scale via acquisitions. The urge to merge (or divest) ought to be stronger, as the upside for organic revenues and profits becomes more limited. In turn, as the underlying growth of pretax operating income slows in response to an aging upturn, M&A should rise.

In addition, the last two peaks for the moving yearlong dollar-value of M&A occurred in Q3-2007 and Q1-2000. Recessions commenced shortly thereafter in December 2007 and March 2001. Once the business cycle downturn arrived, M&A's moving yearlong sum plunged by 73% from a Q3-2007 top to a Q3-2009 bottom and by 68% from a Q1-2000 peak to a Q3-2003 trough.

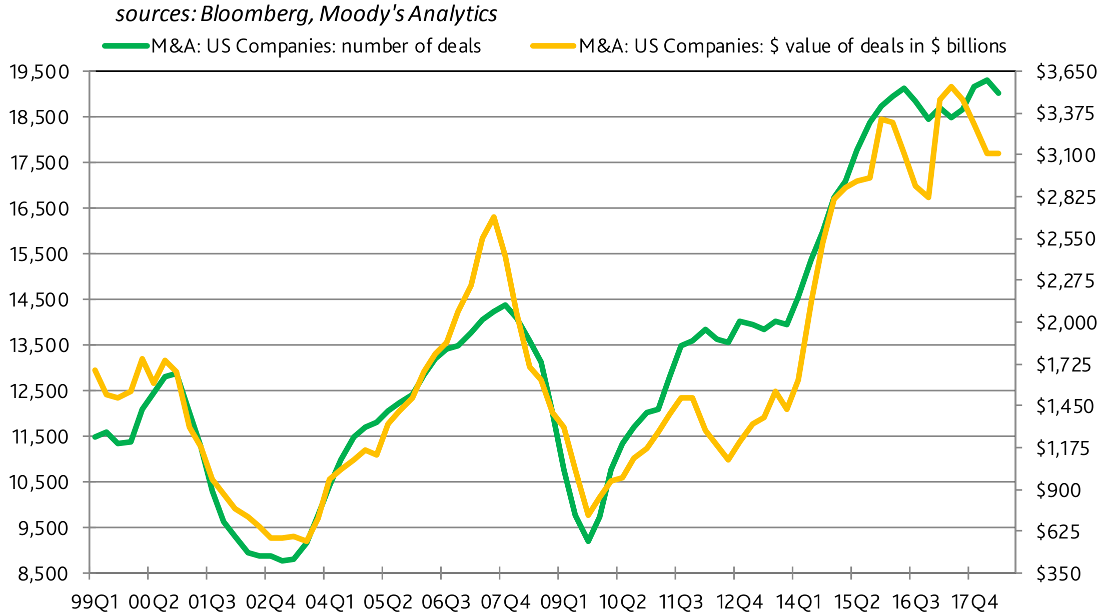
Figure 3: How M&A Behaves Through the Business and Profits Cycles
$ billions
sources: Bloomberg, Bureau of Economic Analysis, Moody's Analytics



Average Size of M&A Deals Now Shrinks

The recent trend of mergers and acquisitions involving at least one U.S. business shows more deals affecting a smaller dollar amount of business assets, on average. For the 12-months-ended April 2018, the number of mergers and acquisitions involving at least one U.S.-based business rose by 3% from the 12-months-ended April 2017, while the dollar value of such M&A contracted by 11% annually.

Figure 4: M&A Fades In Terms of the Number and Value of Deals
moving 4-qtr sums
sources: Bloomberg, Moody's Analytics



Perhaps, the equity market's richest valuation relative to adjusted after-tax profits since 2002 now reduces the incidence of very large M&A deals. Still, the latest ratio of the market value of U.S. common stock to the moving yearlong average of after-tax profits adjusted for changes in inventory valuation and economic depreciation lags each of its quarterly readings from Q2-1998 through Q1-2002. And, the grossly overvalued equity market of 1998-2000 failed to prevent a 25% average annual increase by the value of U.S. M&A to 2000's then-record $1.678 trillion.

M&A Is Now the Primary Driver of New Highly Leveraged Loans

The funding of small- to medium-sized acquisitions helps to explain why the number of new high-yield bank loan tranches funding M&A soared higher by 33% year-over-year during the 12-months-ended March 2018 compared to the accompanying 3% annual rise in the number of new high-yield loan tranches that merely refinanced outstanding business debt. Thus far, the credit rating revisions of the U.S.' high-yield issuers have been relatively unscathed by the recent surge in high-yield loan borrowing that has financed M&A.

Equity Market Volatility Could Suppress M&A

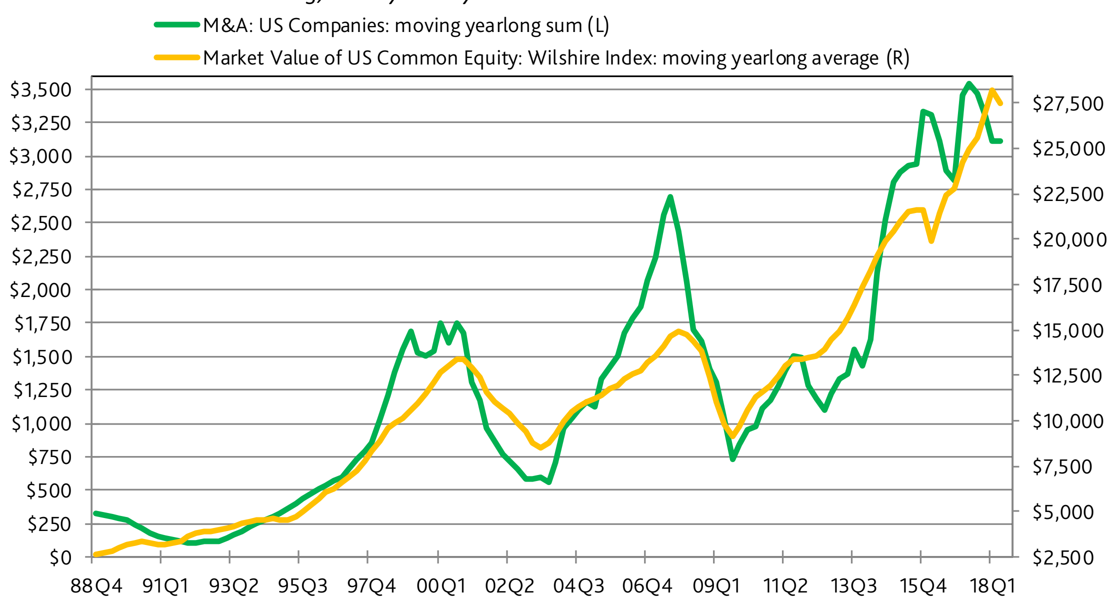
M&A tends to follow the path taken by the market value of U.S. common stock. Deep plunges by the market value of equity often implied likewise for M&A. At the other extreme, pronounced equity market rallies typically are accompanied by surges in M&A. If the current bout of equity market volatility persists, M&A is likely to subside.

Since 1988, the lagging yearlong dollar-value of M&A has approximated 11.3% of the market value of U.S. common equity. The recent ratio of 11.3% matches that long-term average. This measure of M&A bottomed at 2.9% of the market value of equity in Q1-1992 and peaked at 18.4% of common equity's market value in Q3-2007. Not only might an unsteady equity market weigh on M&A, volatile equities also would lift the default risks of high-yield debt.

Figure 5: Growth by M&A Requires a Healthy Equity Market

$ billions

sources: Bloomberg, Moody's Analytics



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

THE U.S.
By Ryan Sweet

Fed communication will be critical in managing expectations

The April employment report supports the Fed's view that the economy as in the sweet spot, with inflation near its objective and unemployment low. Therefore, the central bank sees no need to abandon its mantra of normalizing interest rates gradually. We interpret "gradual" as one rate hike per quarter. The hard part for the Fed is to keep the economy in the sweet spot, and to do so we believe rates will have to increase more than financial markets are penciling in. Therefore, Fed communication will be critical, as policymakers will have to manage expectations.

The Fed will be keeping a close eye on the unemployment rate, core inflation and inflation expectations. If the unemployment rate continues to decline, it would likely fan concerns within the Fed that the labor market could eventually overheat. The magic number for the unemployment rate is unclear because NAIRU—the nonaccelerating inflation rate of unemployment—is extremely difficult to estimate in real-time. However, it's clear the Fed's estimate of NAIRU, at 4.5%, is too high. Odds are that the Fed will lower its estimate of NAIRU, which would imply that the labor market isn't as far beyond full employment. The magic number on year-over-year growth in the core PCE deflator is 2.5%. Anything north of this would cause the Fed to be more aggressive in raising interest rates. It's unlikely we will hit this soon, therefore the risks to our forecast for a total of four rate hikes this year are skewed toward fewer rather than more.

The focus for the week ahead is on the consumer price index. Our preliminary forecast is for the headline consumer price index to have risen 0.3% in April, following a 0.1% decline in March. We expect that rising energy prices provided a boost to the headline CPI in April. We look for a trend-like gain in food prices. Excluding food and energy, the CPI likely rose 0.2% in April. Within core prices, we look for a trend-like gain in rents. Apparel prices are expected to have fallen, while jet fuel prices will boost airfares. We believe new- and used-car prices fell.

Elsewhere, we look for a modest gain in producer prices, a slight increase in initial claims, and a decline in consumer confidence.

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence	index, 4-wk MA				40.7
Tues @ 6:00 a.m.	NFIB Small Business Survey for April	index	105.3	104.7	103.5 to 106	104.7
Tue @ 10:00 a.m.	Job Openings and Labor Turnonver Survey for March	ths				
Wed @ 8:30 a.m.	Producer Price Index for April	% change	0.2	0.2	0.2 to 0.6	0.3
	Core PPI	% change	0.2	0.2	0.1 to 0.3	0.3
Thur @ 8:30 a.m.	Jobless Claims for 5/5/18	ths	215	219	210 to 226	211
Thur @ 8:30 a.m.	Consumer Price Index for April	% change	0.3	0.3	0.2 to 0.4	-0.1
	Core CPI	% change	0.2	0.2	0.2 to 0.3	0.2
Fri @ 8:30 a.m.	Import Prices for April	% change	0.6	0.5	0.3 to 0.9	0.0
	Excluding fuels	% change	0.3	0.2	0.2 to 0.3	0.1
Fri @ 10:00 a.m.	Michigan sentiment for May, preliminary	index	96.8	98.4	95.5 to 101	98.8

The Week Ahead

MONDAY, MAY 7

Business confidence (week ended May 4; 10:00 a.m. EDT)
Forecast: N/A

Global business sentiment remains stalwartly strong. 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 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 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 these issues are their greatest worry. Worries about the cost and availability of labor are on the rise and are now the top concern of nearly one-fourth of respondents.

The four-week moving average of our weekly business confidence survey slipped from 42.7 to 40.7 in the week ended April 27.

TUESDAY, MAY 8

NFIB small business survey (April; 6:00 a.m. EDT)
Forecast: 105.3

The NFIB small business optimism index is expected to have risen from 104.7 in March to 105.3 in April. This would reverse little of the decline in March. That was only the second decline in the past six months. Some of the decline could be attributed to increased volatility in U.S. equity markets and growing concerns about escalating trade tensions. There also appears to be a bias in the NFIB survey, having fallen every March since 2005 but one. Already-released data by the NFIB showed that 57% of respondents said they are hiring or planning to hire, up from the 53% in March. A net 33% of small-business owners also report higher worker compensation, on par with the previous month and the highest reading since 2000. Also, 88% of respondents noted difficulties in finding qualified candidates, with 22% saying that this is their single most important business problem.

WEDNESDAY, MAY 9

Producer prices (April; 8:30 a.m. EDT)
Forecast: 0.2% (headline)
Forecast: 0.2% (core)

Growth in producer prices came in a little hotter than we expected in March. The PPI for final demand rose 0.3% in March after increasing 0.2% in February and 0.4% in January. Final demand services accounted for 70% of the increase in the March PPI. Final demand services prices increased 0.3% while goods prices were also up 0.3%. Excluding food, energy and trade, the PPI rose 0.4% for the third consecutive month, leaving it up 2.9% on a year-ago basis. Turning to April, we look for the PPI for final demand to have risen 0.2%. We look the PPI for final demand goods and services to have both risen 0.3%. The core PPI is expected to increase 0.2% in April.

THURSDAY, MAY 10

Jobless claims (week ended May 5; 8:30 a.m. EDT)
Forecast: 215,000

Initial claims for unemployment insurance benefits paint a favorable picture of the labor market. New filings rose by 2,000, to 211,000, in the week ended April 28. The gain reversed little of the prior week's decline and lowered the four-week moving average by 7,000 to 222,000 in the week ended April 28, the lowest since 1973. With claims this low, they are likely being driven more by the take-up rate rather than accurately reflecting the number of layoffs. Therefore, they are likely less useful in assessing the state of the labor market. Continuing claims dropped 77,000, to 1.76 million, in the week ended April 21, and the insured unemployment rate hit 1.2%, a record low.

We look for initial claims to have risen by 4,000 to 215,000 in the week ended May 5.

Consumer prices (March; 8:30 a.m. EDT)

Forecast: 0.3% (headline)
Forecast: 0.2% (core)

Our preliminary forecast is for the headline consumer price index to have risen 0.3% in April following a 0.1% decline in March. Rising energy prices are expected to have provide a boost to the headline CPI in April. We look for a trend-like gain in food prices. Excluding food and energy, the CPI likely rose 0.2% in April. Within core prices, we look for a trend-like gain in rents. Apparel prices are expected to have fallen in April while jet fuel prices will boost airfares. We believe new and used-car prices fell.

We expect the headline CPI to have risen 2.5% on a year-ago basis in April while the core index rose 2.2%. We will revisit our forecast for the headline and core CPI's following producer prices.

FRIDAY, MAY 11

University of Michigan survey (May-preliminary; 10:00 a.m. EDT)

Forecast: 96.8

We expect the University of Michigan's consumer sentiment to have declined from 98.8 in April to 96.8 in May, according to the preliminary survey. There were not a ton of supports for sentiment in early May as stocks were mostly lower and gasoline prices increased. We view the labor market as a neutral for sentiment. Unemployment is low but wage growth remains modest. High-frequency measures of sentiment we track also weakened in early May.

EUROPE

By Barbara Teixeira Araujo

The Bank of England will hold fire

The week ahead will be busy for the U.K., especially as Thursday will bring the Bank of England Monetary Policy Committee's May meeting. Only a month ago, markets were expecting this to be a decisive one, bringing the second BoE rate hike in a decade. But the probability of such a move has fallen sharply. The latest economic data have come in weak, suggesting that the underlying momentum of Britain's economy has slowed significantly at the turn of the year, giving the bank time to sit tight and avoid raising rates sooner than later. We therefore expect the BoE to hold fire until August before hiking its main policy rate to 0.75%, from its current 0.5%.

Most economic indicators released over the past couple of weeks have surprised to the downside. The preliminary first quarter GDP figures for the U.K. were downright terrible. They fell well short of the consensus, showing that growth decelerated to a five-year low of just 0.1% q/q at the start of 2018, from 0.4% in the fourth quarter, on the back of broad-based weakness across all sectors of the economy. True, we did expect that heavy snowfalls in February and March would dent growth, but most worrying was that the Office for National Statistics assured that the overall impact of the bad weather was limited. This corroborated our view that there is more to the first quarter story than temporary factors, and that the U.K. economy is still too fragile to warrant a rate hike this month.

Adding to the woes is that leading data for April remained soft. A weighted average of the services, manufacturing and construction PMIs suggests that output growth will remain subdued at only 0.2% q/q in the second quarter, and even more concerning is that the PMIs do not include the energy sector, whose output is supposed to mean-revert sharply from a weather-related boost in the first quarter. We expect better figures for May and June as real wages are growing again, and this should help support consumer spending, but the picture is still of an economy which remains weak. In any case, we think the BoE has all it needs to assess if weakness in the first quarter was solely because of temporary factors or because of a deterioration in underlying momentum.

That inflation pressures are easing faster than the BoE had expected provides even more reason for the BoE not to rush. Inflation moderated to its slowest in a year in March, and at 2.5% it was 0.3 percentage point below the central bank's forecast. Most important, price pressures eased across the board, with the core rate pulling back to just 2.3%, further below its past six-month average of 2.6%. Inflation could bounce back in April because of volatility in clothing inflation, but the overall trend in the CPI's remaining components barring fuel is not so promising. We expect the headline rate to slow this year more quickly than the MPC is forecasting, just as it accelerated in 2017 more rapidly than expected. We see it reaching target by the end of this year. All leading indicators show that the price balance expectations for general and food retailers fell sharply during the first quarter.

The MPC should also bear in mind that the fiscal squeeze is set to intensify this year. Despite the better-than-expected government deficit figures, the government stuck to its austerity plans in last week's Spring Statement. Cyclically adjusted borrowing—barring transfers to the EU and interest payments—is expected to fall by 0.4% of GDP in fiscal 2018-2019, double the reduction in 2017-2018. This is because only one-fifth of the £10 billion worth of cuts announced in the Summer Budget of 2015 that directly affect household incomes has been delivered so far.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 9:00 a.m.	Germany: Industrial Production for March	% change	0.1	-1.6
Wed @ 8:00 a.m.	France: Industrial Production for March	% change	0.8	1.2
Wed @ 8:05 a.m.	Spain: Industrial Production for March	% change	0.4	1.5
Wed @ 9:00 a.m.	Italy: Retail Sales for March	% change	0.2	0.4
Thur @ 9:00 a.m.	Italy: Industrial Production for March	% change	-0.3	-0.5
Thur @ 9:30 a.m.	U.K.: Industrial Production for March	% change	0.1	0.1
Thur @ 12:00 p.m.	U.K.: Monetary Policy and Minutes for May	%	0.5	0.5
Fri @ 8:05 a.m.	Spain: Consumer Price Index for April	% change yr ago	1.1	1.2
Fri @ 3:00 p.m.	Russia: Foreign Trade for March	$ bil	13.1	12.2

MONDAY, MAY 7

No major indicators are scheduled for release.

TUESDAY, MAY 8

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

German industrial production likely was little changed in March, adding 0.1% m/m after dropping unexpectedly by 1.6% in the previous month. In year-ago terms, the rate of increase is expected to have ticked up to around 2.6%, from 2.4% in February. Demand softened in the middle of the first quarter, which likely weighed on production. Although German manufacturing orders rose 0.3% m/m in February, the yearly expansion rate decelerated sharply to 3.5% from 8.6% in the previous month. Domestic orders fell during the month, while foreign orders continued to increase. The Markit manufacturing PMI slid further in March to 58.2 from 60.6 in February and well below the peak in December, which points to flagging momentum in the sector. The outlook remains clouded because of uncertainty caused by the Brexit negotiations and in particular the new U.S. imports tariffs, which could hurt the manufacturing sector in coming months.

WEDNESDAY, MAY 9

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

France's industrial production likely grew by 0.8% m/m in March, building on a 1.2% rise in February. The yearly rate should have declined to 3.2%, from 4% in March, though still well above the 2.8% average for the past 12 months. Energy production is expected to have increased further, though by less than in the previous month, as temperatures in March remained below their seasonal norm but by less than in February. We are penciling in a 3.5% m/m jump in the sector's output, down from 13.2% previously. Mining and quarrying is also set to have grown, as the meagre 0.4% m/m gain in February fell well short of our expectations of a stronger jump following January's 7% plunge. Output in manufacturing likely increased across the board, mean-reverting from a 0.6% drop in February. All leading indicators—particularly the new orders-to-inventory ratio, one of the best gauges of manufacturing performance—point to a rebound over the month, particularly in transport and machinery and equipment output. Over the quarter as a whole, though, March's expected increase won't salvage the first quarter numbers, and we expect that industrial output fell by 0.8% q/q, a correction following the 1.6% increase in the fourth stanza of last year.

Spain: Industrial Production (March; 8:00 a.m. BST)

The Spanish manufacturing sector lost steam at the start of the year, and we expect that industrial production added 3.9% y/y in March. The February numbers showed that energy was the only sector keeping industry afloat. The PMI for manufacturing remained firmly in expansionary territory, but sentiment sagged to 54.8 in March and further to 54.4 in April. Job creation eased and new orders gained just 5% y/y in the first quarter from 8% in 2017, which points to a cooling in output.

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

Italy's retail sales likely expanded in March by just 0.17% m/m, following a 0.4% gain in February. Consumer confidence remains high compared with a year ago thanks to a strengthening economy and improved job prospects, but political uncertainty is still likely weighing on consumer spending. In addition, the retail PMI fell in March as sales continued to miss their targets. Soft wage growth is restraining household spending and the jobless rate needs to drop further to jump-start wage growth and boost household spending.

THURSDAY, MAY 10

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

Italy's industrial production likely fell by 0.25% m/m in March following a 0.47% decline in February. Business confidence has sagged since the start of the year as a stronger euro and capacity constraints limit output. Supply-side constraints are putting upward pressure on producer prices and contributed to a drop in the manufacturing PMI, which fell to lowest reading in eight months in March, signaling reduced activity ahead. In addition, political uncertainty is likely taking a toll on consumer spending and investment. The political deadlock is unlikely to derail Italy's expansion, but weak governance and insufficient structural reforms in the coming year pose risks.

U.K.: Industrial Production (March; 9:30 a.m. BST)

We forecast that U.K. industrial production added 0.1% m/m in March, the same increase as in February. Due to base effects, the yearly rate is expected to have accelerated to 3.1%, from 2.2% previously, above the 1.6% average for the past 12 months. Across sectors, developments were likely mixed. Growth in energy production probably slowed following a jump in February, though it will not outright fall because temperatures remained around 1.6 °C below their seasonal norms in March, ensuring that demand for heating remained strong. By contrast, mining and quarrying is expected to have recovered following a decline in February attributable to a one-day planned closure of the Forties pipeline and to planned maintenance in two of the six main U.K. oil fields.

Production in the manufacturing sector was likely unimpressive, following an already-disappointing 0.2% decline in February, the first in a year. The picture for the subsector is uneven, but drops in pharmaceuticals and transport equipment output are expected to have offset increases in machinery and equipment and in clothing production. All leading surveys show that the support to growth in manufacturing output from sterling's depreciation is fading now that more than 18 months have passed since the Brexit vote. To that we add that capacity constraints are biting because Brexit uncertainty is preventing firms from investing to increase capacity.

Over the first quarter as a whole, industrial production should have nonetheless expanded by 0.7% q/q, largely because of jumps in mining and quarrying and in energy production, while manufacturing is expected to have increased only slightly.

FRIDAY, MAY 11

Spain: Consumer Price Index (April; 8:05 a.m. BST)

Consumer price growth from a year ago likely sat at 1.1% in April, down from 1.2% in the previous month. Lower energy prices and cheaper tourism package prices weighed on inflation. But the preliminary estimate shows that prices climbed 0.8% from a month ago thanks to stronger core prices. Even so, we do not expect inflation to keep this pace in coming months. The purchasing power of Spaniards is still the main constraint, since job creation is slowing and wage growth remains sluggish. The minimum wage hike may boost the propensity to consume, but households typically respond to better economic conditions with a delay, so core inflation may stay tepid in the near term.

ASIA-PACIFIC

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

China's trade performance healthy, but clouds are on the horizon

China's trade performance remains healthy, although clouds are on the horizon. The trade balance fell into deficit in March because of Lunar New Year effects, but exports likely rebounded in April since global tech demand remains healthy. However, there are signs that trade frictions are hurting manufacturer sentiment, which could point to slower tech shipments ahead. Credit growth in China continues to decelerate as part of the government's renewed commitment to clamp down on financial risks. The central bank has been cracking down hard on shadow forms of lending, and restrictions and increased transparency on local government borrowing are also slowing credit growth. Credit is increasingly channeled into the official banking sector. M2 likely grew 8.4% y/y in April, up slightly from 8.2% in March.

A suite of March quarter GDP data is due. Indonesia's GDP growth likely cooled to 5.1% y/y in the opening quarter of 2018 following the 5.2% gain in the December quarter. Consumption enjoyed a modest uptick in the final quarter and we expect a similar speed in the first quarter as retail trade continues to underperform despite relatively easy monetary settings. Exports had a difficult quarter due to various disruptions, and an additional drag on palm oil exports occurred from higher excise taxes in India. The Philippines remains the jewel in Asia. GDP growth likely hit 6.8% y/y in the first quarter, after a 6.5% lift in the December quarter. Consumer spending is rising at a healthy pace, thanks to steady inflows of overseas worker remittances and a firm labour market. Investment has been robust and is likely to remain strong as the government boosts infrastructure development.

Elsewhere, Hong Kong's economy continues to grow at a good pace. GDP likely grew 0.8% in the first quarter, the same as in the fourth quarter of 2017. Trade is booming thanks to the positive global economic environment, which is lifting port activity as well as tourist spending from the mainland. Domestically, housing's bull market remains intact despite continued cooling measures.

	Key indicators	Units	Moody's Analytics	Last
Mon @ Unknown	Indonesia GDP for Q1	% change yr ago	5.1	5.2
Mon @ 6:00 p.m.	Taiwan Foreign trade for April	US$ bil	4.2	6.0
Tues @ Unknown	China Foreign trade for April	US$ bil	35	-5
Tues @ 11:30 a.m.	Australia Retail sales for March	% change	-0.1	0.6
Tues @ 6:00 p.m.	Taiwan Consumer price index for April	% change yr ago	2.0	1.6
Thurs @ Unknown	China Monetary aggregates for April	% change yr ago	8.4	8.2
Thurs @ Unknown	Philippines GDP for Q1	% change yr ago	6.8	6.5
Thurs @ 7:00 a.m.	New Zealand Monetary policy for May	%	1.75	1.75
Thurs @ 11:30 a.m.	China Consumer price index for April	% change yr ago	2.0	2.1
Thurs @ 11:30 a.m.	China Producer price index for April	% change yr ago	3.5	3.1
Fri @ 6:30 p.m.	Hong Kong GDP for Q1	% change yr ago	0.8	0.8
Fri @ 10:20 p.m.	India Industrial production for March	% change yr ago	6.8	7.1

MONDAY, MAY 7

Indonesia: GDP (2018Q1; Unknown)

Indonesia's GDP growth likely cooled to 5.1% y/y in the opening quarter of 2018 following the 5.2% gain in the December quarter. Consumption enjoyed a modest uptick in the final quarter and we expect a similar speed in the first quarter, as retail trade continues to underperform despite relatively easy monetary settings. Exports had a difficult quarter because of various disruptions, and higher excise taxes in India created an additional drag on palm oil exports. A rebound in crude oil prices will help export receipts for Indonesia's important oil manufacturing and export sector. Full-year GDP growth notched 5.1% in 2017, and a similar pace is expected this year.

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

Taiwan's trade surplus likely narrowed to US$4.2 billion in April, after rising to US$6 billion in March. Taiwan's exports rebounded in March, after Lunar New Year-induced weakness in the prior month. Shipments of electronics rebounded strongly, up by a 13-month high, as demand from mainland China picked up. Although we expect Taiwan to benefit from solid external demand this year, the threat from rising trade protectionism poses a downside risk.

TUESDAY, MAY 8

China: Foreign Trade (April; Unknown)

China's trade performance remains healthy, although clouds are on the horizon. The trade balance fell into deficit in March because of Lunar New Year effects, but exports likely rebounded in April since global tech demand remains healthy. However, there are signs that trade frictions are hurting manufacturer sentiment, which could point to slower tech shipments ahead. The trade balance likely rebounded to a US$35 billion surplus in April, after a US$5 billion deficit in March.

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

Australia's retail trade has been choppy in recent months but the underlying trend remains weak. Seasonally adjusted retail trade likely fell by 0.1% m/m in March, following the upward-surprise 0.6% gain in February. We expect trend retail trade likely cooled back to 0.3% m/m, shy of its 0.5% long-term trend. Sustained weak wage growth is preventing households from opening their wallets with exuberance. Consumption hasn't been in a good spot since mid-2017. The expectation of further, albeit modest, improvement in wage growth over 2018 suggests consumption will keep healing over the year, although it may be a bumpy ride.

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

Taiwan's consumer price index likely increased 2% y/y in April, after rising 1.6% in March. Food prices rose in March for a fourth straight month. However, excluding food, consumer prices rose by 1.6% y/y, well down on the rise seen in February. Price pressures are expected to gradually rise this year, as the impact of a high base on fresh produce prices fades, and wages increase for public servants and minimum wage earners. That being said, amid an uncertain global economic outlook and the rising threat from trade protectionism, we expect the central bank to remain cautious and maintain its current monetary policy stance in the near term.

WEDNESDAY, MAY 9

No major economic indicators are scheduled for release.

THURSDAY, MAY 10

China: Monetary Aggregates (April; Unknown)

Credit growth in China continues to decelerate as part of the government's renewed commitment to clamp down on financial risks. The central bank has been cracking down hard on shadow forms of lending, and restrictions and increased transparency on local government borrowing are also slowing credit growth. Credit is increasingly channeled into the official banking sector. M2 likely grew 8.4% y/y in April, up slightly from 8.2% in March.

Philippines: GDP (2018Q1; Unknown)

The Philippine economy likely grew 6.8% y/y in the first quarter, after a 6.5% lift in the December quarter. The economy is in somewhat of a sweet spot. Consumer spending is rising at a healthy pace, thanks to steady inflows of overseas worker remittances and a firm labour market. Investment has been robust and is likely to remain strong as the government boosts infrastructure development. Meanwhile, the upswing in external demand is providing a lift to exports. Along with favourable demographics, these factors are likely to see the Philippines remain one of the fastest-growing economies in the region in coming years.

New Zealand: Monetary Policy (May; 7:00 a.m. AEST; Wednesday 9:00 p.m. GMT)

The Reserve Bank of New Zealand will keep the Official Cash Rate steady at 1.75% at its May policy meeting. The RBNZ has left the policy rate unchanged since November 2016. While it appears the central bank is merely sitting on the sidelines when it comes to monetary policy, that is really just what the doctor ordered. Stability and predictability from the central bank are necessary conditions for the New Zealand economy, particularly as it grapples with some relatively important changes to government policy with the current Labour government led by Prime Minister Jacinda Ardern, including changes to university fees and tightening of migration. Rate hikes are unlikely until early 2019 and could be pushed out further if the low inflation environment proceeds, particularly in light of the removal of university fees for first-year students.

China: Consumer Price Index (April; 11:30 a.m. AEST; 1:30 a.m. GMT)

Inflation pressures in China are stable and quiescent. Nonfood inflation has been stable, thanks partly to the cooling housing market. Producer price inflation has also been decelerating, which will filter into lower consumer prices over coming months. Food price inflation will also continue to moderate. Consumer price inflation likely fell to 2% in April, from 2.1% in March.

China: Producer Price Index (April; 11:30 a.m. AEST; 1:30 a.m. GMT)

Producer price inflation fell to a 17-month low in March as metals, food, energy and materials price inflation continued to ease. Prices have declined for iron ore, coal and other commodities because of global oversupply and government policy to stem overcapacity. That said, there was likely a rebound in April in year-on-year terms due to the weak reading in April 2017. China's producer price growth likely rose to 3.5% y/y in April, from 3.1% in March.

FRIDAY, MAY 11

Hong Kong: GDP (2018Q1; 6:30 p.m. AEST; 8:30 a.m. GMT)

Hong Kong's economy continues to grow at a good pace. Trade is booming thanks to the positive global economic environment, which is lifting port activity as well as tourist spending from the mainland. Domestically, housing's bull market remains intact, despite continued cooling measures. Government measures to support the economy, such as promised tax cuts and other relief measures, may have also encouraged households to spend. GDP likely grew 0.8% in the first quarter, the same as in the fourth quarter of 2017.

India: Industrial Production (March; 10:20 p.m. AEST; 12:20 p.m. GMT)

India's industrial production profile is recovering firmly at the start of 2018. Industrial production rose 7.1% y/y in February, slightly down from 7.4% in January and a respectable 6.8% is forecast for March. The resurgence in the second half of last year and early 2018 is largely thanks to increased export demand and the fading ill effects of demonetisation. We expect production momentum will remain strong in the first half of 2018 as external demand buttresses growth. Moreover, rising manufacturing production is a sign that India's goods and services tax is reducing supply bottlenecks. However, for a large economy such as India's, production should easily be expanding at double digits if going at full tilt. Further reforms after the general election in 2019 could improve the domestic momentum further.

The Long View

For January-April 2018, US$-denominated corporate issuance incurred yearly setbacks of 8% for investment-grade and 11% for high-yield.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
May 3, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 118 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 353 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 -1.0% for high yield.

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

The Long View

US ECONOMIC OUTLOOK

The consensus expects that the mid-point for the federal funds rate should finish 2018 at 2.125%. In view of the considerable underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global economy operates below trend, the 10-year Treasury yield may not remain above 2.85% 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
May 3, 2018

EURO ZONE

The preliminary report on euro zone inflation in April fell well short of investors' forecasts, pushing market-based interest rate expectations for 2019 sharply down. But we caution against reading too much into these numbers. The below-consensus headline was mostly because of a pullback in core inflation, which itself can be fully explained by a bigger-than-expected Easter effect that pushed services inflation down by 0.5 percentage point over the month. Elsewhere, the buildup of price pressures was broad-based.

Although we don't have subsector details yet, we are confident that plunges in airfares, accommodation and package holiday inflation were the main drags on the services gauge. Easter Sunday fell on April 1 this year, while last year it fell on April 16; just as the early timing of the holidays boosted services inflation in March, as transportation and hotel prices surged at the end of the month, it dampened it in April. Elsewhere, core goods inflation accelerated but nonetheless remained below trend, which warrants a further uptick in May.

Regarding noncore inflation, price pressures intensified in all subsectors and the trend here is clearly to the upside. Food inflation will be supported by the recent uptick in commodity prices, while tobacco inflation will remain high until March next year, when base effects related to a tax hike in France will kick in. The story is similar for energy prices. Base effects will mean that inflation in the sector should accelerate in coming months and peak in the summer, provided that oil prices remain at their current levels of around $73 per Brent barrel. What's more, the rise in oil prices will support not only energy inflation but also the core rate. Transportation prices are sensitive to the price of fuel, and we expect that transport services inflation will rise accordingly.

Overall, then, we maintain our forecast that inflation will pick up this year, and we see April's disappointment mainly as an Easter-related blip. Our view is that core inflation will accelerate to around 1.4% to 1.5% by year's end, allowing the European Central Bank to end its asset purchase programme via a gradual taper to zero in the fourth quarter, while the deposit rate should begin rising from the first quarter of next year. But we will watch the economic data closely, as further disappointments on the growth front or a stubbornly low core rate could delay the ECB's decisions.

First quarter preliminary GDP numbers for the euro zone all but confirmed that the single-currency area slowed at the start of 2018. The good news is that the figures weren't as bad as we had feared. The upward revision to fourth quarter growth came as a main upside surprise, helping keep yearly growth at 2.5%, a solid figure even if it marks a slight slowdown from the previous stanza's unsustainable 2.8% rate. This pace of expansion remains well above the 2.1% average for the past two years, while it is also far stronger than the 1.2% recorded since 2012.

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

The breakdown is not available yet, but we expect weakness was registered across all sectors in the first quarter. Slowing investment was likely a major drag on the headline, especially because of biting capacity constraints in manufacturing in France and Germany. But investment in construction should similarly have disappointed on the back of the weather-related disruptions. No better news should have come from net trade, but here the slowdown was mainly caused by a correction in exports following an unsustainable jump in the fourth quarter. Elsewhere, consumer spending growth likely remained steady as a sharp easing in goods spending is expected to have been offset by a small uptick in services spending.

An aging population, subdued prospects for productivity growth, and the expected removal of stimulus from the European Central Bank will ensure that growth slows towards more sustainable rates in coming years. For 2018, we project the expansion to cool in most major countries, particularly Germany. By contrast, we think that France still has scope to grow solidly. Construction investment represents the main upside risk, while we also expect some supply-side shift to the economy if President Emmanuel Macron succeeds in implementing his bold labour market reform.

ASIA PACIFIC

By Katrina Ell and Alaistair Chan of Moody's Analytics
May 3, 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.

Some signs of slowing momentum are emerging. 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 fading as the government prioritizes minimizing financial risks.

Authorities are clamping down on financial risk, which is cooling investment and industrial production, especially in sectors still with significant overcapacity such as cement. Cooling momentum was most evident in March activity data for industrial production and fixed asset investment. 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 6.9% in 2017, its fastest pace in two years. Last year marked the first annual acceleration since 2010 and follows GDP growth hitting a 26-year low of 6.7% in 2016. The acceleration is the result of a government-sponsored increase in credit growth in 2016 that pushed investment higher and resulted in a better-performing economy ahead of the Congress in late October.

Recent performance

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 February lunar holidays. 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.

A sharper than anticipated slowdown in hard commodities growth 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 smaller cities show signs of recovery 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 smartphone production decelerating sharply over the past few months. This is not altogether surprising because most of the new smartphone models were released late last year. One concern is that trade tensions may be weighing on manufacturers' minds; sentiment on new export orders has fallen after U.S. President Donald Trump began targeting China.

Reducing financial risk

Reducing financial risk is one of the Communist Party's principal objectives for 2018, and so far significant changes have occurred. The systemic importance of China's financial system should not be understated. The International Monetary Fund estimates that China's financial system represented almost 470% of GDP in 2016, after growing rapidly in size and complexity over the past decade.

In 2011 the financial system represented around 260% of GDP. China intends to keep the macro leverage ratio basically stable in 2018. Beijing appears to prefer slowing debt growth rather than cutting the absolute level, suggesting that the elevated total debt-to-GDP ratio of around 260% will barely budge this year.

Sovereign debt is not the problem since high debt sits mainly on corporate balance sheets. According to the Bank of International Settlements, corporate debt was 163% of GDP in mid-2017. In other words, banks are the main drivers and that is why improved financial regulation is critical. More worrying, since 2008, the number of firms in a questionable financial position has increased.

Financial regulation in the spotlight

The March 2018 National People's Congress revealed that the People's Bank of China will be handed greater financial regulatory powers, including all rule-making responsibilities. Meanwhile, the regulatory bodies responsible for banking and insurance will be merged. Combining the China Banking Regulatory Commission and the China Insurance Regulatory Commission marks the biggest industry shuffle since 2003. These regulatory bodies together oversee US$43 trillion in financial assets. The merger will address regulatory arbitrage, unclear responsibilities and cross-regulation.

Speculation that China was to overhaul the financial system has been around since the 2015 stock market crash. During that crash, partly blamed on a lack of inter-regulatory agency management, around 30% of the value of A-shares on the Shanghai stock market was eroded in a month.

In the past year Beijing has cracked down on leverage and risky market practices via a number of new rules. This has been partly to address companies' increasingly risky practices such as banks and insurers offering complex hybrid products and more opaque investment products. Casualties have been significant, falling most heavily on the smaller banks, which have been enduring higher borrowing costs. Larger banks have been able to absorb the higher costs via their extensive retail deposits for funding.

"Made in China 2025"

The Trump administration takes issue with China's "Made in China 2025" development strategy, and we posit that this is a major sticking point in the closed door negotiations between Washington and Beijing to keep the proposed tariffs from coming to fruition. China plans to transform its economy into a high-tech powerhouse, dominating advanced industries including robotics, aviation and new-energy vehicles.

This approach makes sense under the usual model of economic development, in which countries transition away from labour-intensive industries and move up the value chain. It makes sense that China would want to dominate this space, with high technology regarded as being where future technological advancements lie. This involves moving away from the "Made in China" stigma of cheap consumer goods such as plastic toys, clothing and footwear, necessary given China's rising operating costs, especially for labour.

The strategy has irked international trading partners because of China's aims to achieve self-sufficiency, implying it would overtake existing technological hubs in the U.S., Japan and Germany. The strategy reportedly has specific targets such as Chinese companies controlling 70% of the domestic market in key areas by 2025, reducing reliance on foreign high-tech imports. This would hurt countries where high-tech sectors constitute a large share of industrial output and exports, and would violate World Trade Organization rules.

Foreign acquisitions

Since China announced its development strategy in 2015, Chinese investment in foreign firms that specialize in the automation and digitization of manufacturing has increased, according to the Mercator Institute for China Studies. Notable purchases have been German firms, including those specializing in aviation and aerospace, solar modules and lithium-ion batteries. The Chung-Hua Institute for Economic Research estimates that in 2016, Chinese firms engaged in foreign acquisitions related to manufacturing and information technology to the tune of almost US$57 billion.

Discomfort in the U.S. and Europe has grown in recent years as China invests more in foreign high-tech firms. Perhaps President Trump intended to target China's increasing intellectual property via foreign investment and questionable requirements for foreign firms doing business in the large and growing Chinese market all along with the protectionist policies. In other words, the U.S. is not just about targeting the bilateral trade deficit with China, but trying to curtail China's climbing up the technological supply chain.

The "Made in China 2025" development strategy together with the One Belt One Road Initiative shows a clear shift in the global balance of power. China's global investment push via One Belt One Road has led to important movements in longstanding international relationships. For instance, parts of Southeast Asia including the Philippines have become more aligned with China in recent years. The bottom line is that developing nations need investment to propel growth, boost productivity and lift prospects, and China is offering exactly that, with a few strings attached.

The U.S.-China trade relationship

The goods trade deficit that the U.S. runs with China is well-known, but it is less acknowledged that the U.S. runs a steadily growing trade surplus in services. China has retaliated so far only with plans to make it more difficult for U.S. goods exports, and has not taken action yet on services.

Global demand is shifting from goods to services. This trend is well entrenched in China as the drivers change from urbanisation and basic manufactured goods to consumption and more complex services. Well-established expertise in industries such as education, healthcare and professional services means that the U.S. is in good stead to meet the rising needs of Chinese society so long as China remains open to it.

The U.S. services trade surplus with China was US$32.9 billion in 2015, up from US$16.5 billion in 2011. In 2015, U.S. services exports to China were US$47 billion, equivalent to 0.25% of U.S. GDP. It is also a rapidly growing area. From 2006 to 2015, U.S. services exports to China were up more than 400%, while services exports to the rest of the world rose 76%, according to the U.S.-China Business Council.

Travel accounts for 60% of U.S. services exports to China. China was the fifth largest destination for inbound tourists into the U.S., with around 3 million Chinese visiting the U.S. in 2016, a 16% y/y increase. Mainlanders in 2016 spent an estimated US$30 billion in the U.S. The number of Chinese travelling abroad is rising with their relatively rapid pace of development.

The tit-for-tat between China and U.S. leaders will harm the U.S.'s reputation as a worthwhile tourist destination. If the U.S. is not seen as a friendly trade partner, there could be broader impacts on other sectors such as education and professional services.

Ratings Round-Up

By Njundu Sanneh

Positive Rating Revisions Point to Improving Credit Quality

The ascendancy of positive rating changes in the weekly revisions persists, with Europe's contribution of positive rating changes to total changes at 100%, though the latest week's sample was relatively small. The contribution of positive rating changes to total rating changes retreated to 47% from 61% the week prior, but this is still well above the long-term 3-month trailing moving average of 40%. Dish DBS Corporation a subsidiary of Dish Network Corporation, and Gibson Brands, Inc. were among the notable downgrades in the U.S. Pressures within the pay TV industry have weakened Dish Network's subscriber growth and operating performance and the competition is likely to mitigate subscriber gains. The focus is likely to be on retention rather than growth in the near term. Gibson was downgraded on account of filing for Chapter 11 bankruptcy protection on May 1 with a restructuring support agreement signed off by the majority of its debtors and principal shareholders. Gulfport Energy Corporation and Activision Blizzard, a software video gaming company, were among the upgraded companies.

Europe's rating revision activity was meek, with only five on the list. The rating change activity was across several industries in multiple countries, but they were all upgrades. Two of the companies on the list, Rheinmetall Ag and Hanel Finance Deutschand GMBH, a subsidiary of Franz Hanel & CIE GMBH, transitioned from speculative grade to investment grade.

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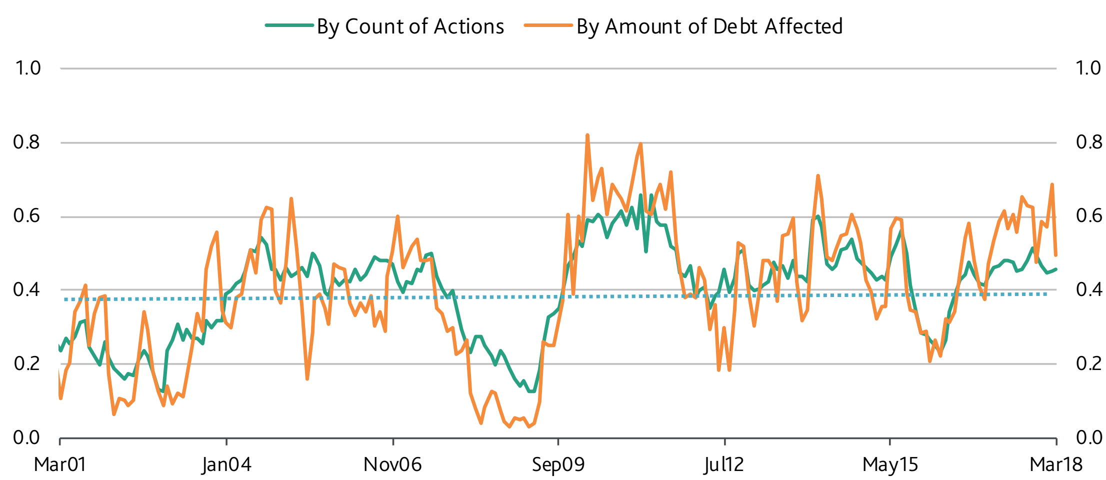
FIGURE 1

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	Old STD Rating	New STD Rating	IG/ SG
4/25/18	BANCO BILBAO VIZCAYA ARGENTARIA, S.A. - COMPASS BANK	Financial	SrUnsec/LTIR/SLTD/Sub/PS	2,614	U	Baa3	Baa2	P-2	P-1	IG
4/25/18	DISH NETWORK CORPORATION -DISH DBS CORPORATION	Industrial	SrUnsec	12,000	D	Ba3	B1			SG
4/25/18	GULFPORT ENERGY CORPORATION	Industrial	SrUnsec/LTCFR/PDR	4,100	U	B2	B1			SG
4/26/18	AMERICAN ELECTRIC POWER COMPANY, INC.-RGS (AEGCO) FUNDING CORPORATION	Utility	SrSec/SrUnsec/LTIR/MTN	1,825	U	Baa1	A3			IG
4/26/18	HALYARD HEALTH, INC.	Industrial	LTCFR/PDR		D	Ba3	B1			SG
4/26/18	HALYARD HEALTH, INC.	Industrial	SrSec/BCF	250	U	Ba2	Ba1			SG
4/26/18	GTT COMMUNICATIONS, INC.	Industrial	SrSec/BCF	575	D	B1	B2			SG
4/26/18	CLOVER MERGER SUB, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B3			SG
4/27/18	DATC HOLDINGS PATH 15, LLC	Industrial	SrSec	151	U	Baa2	Baa1			IG
4/27/18	TRIPLE POINT GROUP HOLDINGS, INC	Industrial	SrSEc/BCF/LTCFR/PDR		D	B3	Caa1			SG
4/30/18	FMR LLC	Financial	SrUnsec	2,846	U	A2	A1			IG
4/30/18	KEMET CORPORATION	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B1			SG
4/30/18	ACTIVISION BLIZZARD, INC.	Industrial	SrUnsec/BCF	3,450	U	Baa2	Baa1			IG
4/30/18	NEP GROUP, INC-NEP /NCP HOLDCO, INC	Industrial	SrSec/BCF		D	B1	B2			SG
4/30/18	ARBOR PHARMACEUTICALS, LLC	Industrial	SrSEc/BCF/LTCFR/PDR		D	B1	B2			SG
5/1/18	GIBSON BRANDS, INC.	Industrial	SrSec/LTCFR/PDR	750	D	Ca	C			SG
5/1/18	CHG HEALTHCARE SERVICES	Industrial	SrSec/BCF		D	B1	B2			SG

Source: Moody's

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

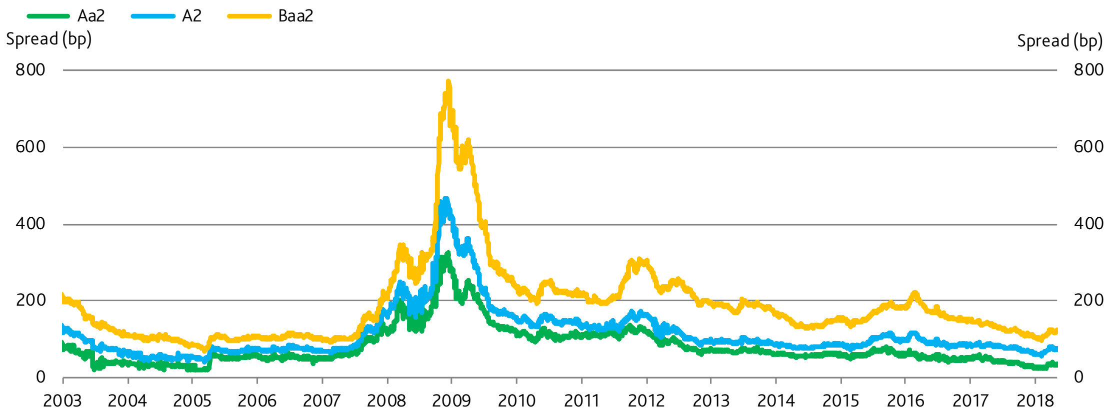
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
4/25/18	FRANZ HANIEL & CIE. GMBH-HANIEL FINANCE DEUTSCHLAND GMBH	Industrial	SrUnsec	605	U	Ba1	Baa3			SG	GERMANY
4/27/18	RHEINMETALL AG	Industrial	STIR/CP		U			NP	P-3	IG	GERMANY
4/27/18	A2A S.P.A.	Utility	SrUnsec/LTIR/MTN	2,986	U	Baa3	Baa2			IG	ITALY
4/27/18	CNH INDUSTRIAL N.V.	Industrial	SrUnsec/MTN	10,308	U	Ba2	Ba1			SG	UNITED KINGDOM
4/30/18	ERSTE GROUP BANK AG	Financial	SrUnsec/SLTD /SrSub/Sub/JrSub/ MTN/PS/CP	39,029	U	A3	A2	P-2	P-1	IG	AUSTRIA

Source: Moody's

Market Data

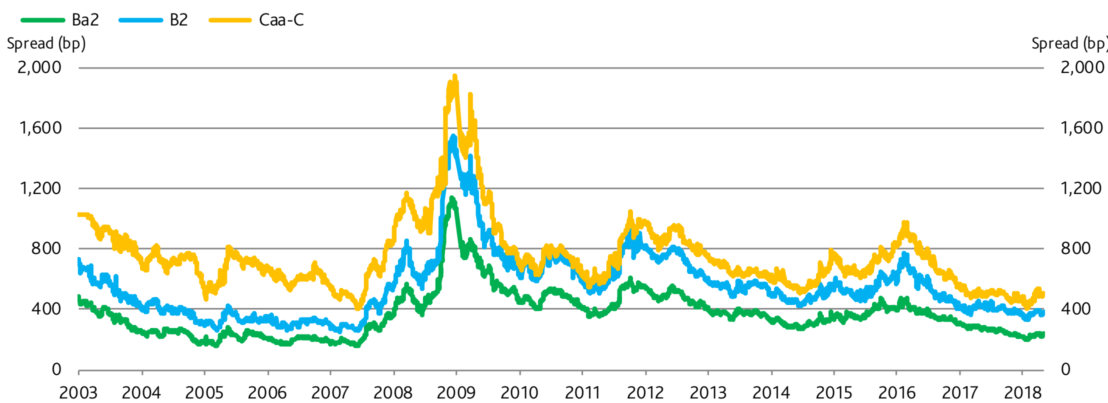
Spreads

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 25, 2018 – May 2, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 2	Apr. 25	Senior Ratings
Andeavor	A1	Baa1	Baa3
McClatchy Company (The)	B3	Caa3	Caa2
Citibank, N.A.	Baa2	Baa3	A1
Caterpillar Financial Services Corporation	Baa1	Baa2	A3
Johnson & Johnson	Aaa	Aa1	Aaa
Home Depot, Inc. (The)	Aa1	Aa2	A2
Medtronic, Inc.	Aa2	Aa3	A3
First Data Corporation	Ba3	B1	B3
Kinder Morgan Energy Partners, L.P.	Baa2	Baa3	Baa3
Cox Enterprises, Inc.	Baa2	Baa3	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 2	Apr. 25	Senior Ratings
Xerox Corporation	Ba3	Ba1	Baa3
MBIA Insurance Corporation	Ca	Caa2	Caa2
Wells Fargo & Company	Baa2	Baa1	A2
Bank of America Corporation	Baa1	A3	A3
Philip Morris International Inc.	Baa2	Baa1	A2
Chevron Corporation	Aa2	Aa1	Aa2
Ford Motor Company	Ba2	Ba1	Baa2
United Technologies Corporation	A1	Aa3	A3
Kraft Heinz Foods Company	Ba1	Baa3	Baa3
Lockheed Martin Corporation	A1	Aa3	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 2	Apr. 25	Spread Diff
K. Hovnanian Enterprises, Inc.	Caa3	2,482	1,728	753
Dish DBS Corporation	B1	643	565	78
R.R. Donnelley & Sons Company	B3	643	575	69
Interval Acquisition Corp	Ba3	281	214	67
Xerox Corporation	Baa3	158	102	56
Calpine Corporation	B2	404	370	34
Arconic Inc.	Ba2	176	145	31
AK Steel Corporation	B3	425	395	29
MGM Resorts International	Ba3	162	137	25
United States Steel Corporation	B2	233	215	18

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 2	Apr. 25	Spread Diff
Sears Roebuck Acceptance Corp.	C	2,812	3,365	-553
McClatchy Company (The)	Caa2	356	849	-493
Sears Holdings Corp.	C	2,339	2,799	-460
Frontier Communications Corporation	Caa1	1,305	1,560	-255
Windstream Services, LLC	Caa1	2,394	2,637	-244
Lexmark International, Inc.	Caa1	1,264	1,331	-67
Navistar International Corp.	Caa1	192	255	-63
Genworth Holdings, Inc.	B2	721	783	-62
Mattel, Inc.	Ba2	429	487	-58
Talen Energy Supply, LLC	B1	889	940	-51

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (April 25, 2018 – May 2, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	May. 2	Apr. 25	Senior Ratings
Nationwide Building Society	Aa3	A1	Aa3
Daimler AG	A3	Baa1	A2
Telecom Italia S.p.A.	Ba1	Ba2	Ba1
ENEL S.p.A.	Baa1	Baa2	Baa2
Tesco Plc	Baa3	Ba1	Ba1
Unibail-Rodamco SE	Baa1	Baa2	A2
Deutsche Post AG	Aa1	Aa2	A3
Compagnie de Saint-Gobain SA	A2	A3	Baa2
Koninklijke KPN N.V.	Baa2	Baa3	Baa3
HeidelbergCement AG	Baa2	Baa3	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	May. 2	Apr. 25	Senior Ratings
National Grid Electricity Transmission plc	Baa1	A2	A3
Barclays Bank PLC	A3	A2	A2
Intesa Sanpaolo S.p.A.	Baa3	Baa2	Baa1
CaixaBank, S.A.	Baa1	A3	Baa2
HSBC Holdings plc	A3	A2	A2
ING Groep N.V.	A3	A2	Baa1
Landesbank Hessen-Thueringen GZ	A2	A1	A1
Alpha Bank AE	Caa2	Caa1	Caa3
NatWest Markets N.V.	A2	A1	Baa2
UniCredit Bank Austria AG	Baa1	A3	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	May. 2	Apr. 25	Spread Diff
Galapagos Holding S.A.	Caa3	1,090	911	179
Stena AB	B3	587	543	45
Permanent tsb p.l.c.	Ba3	201	186	15
Vedanta Resources plc	B2	442	428	14
HSH Nordbank AG	Baa3	159	146	13
Deutsche Bank AG	Baa2	109	101	8
Wm Morrison Supermarkets plc	Baa2	124	117	7
National Grid Electricity Transmission plc	A3	52	46	6
Sappi Papier Holding GmbH	Ba2	355	349	6
Evraz Group S.A.	B1	230	224	6

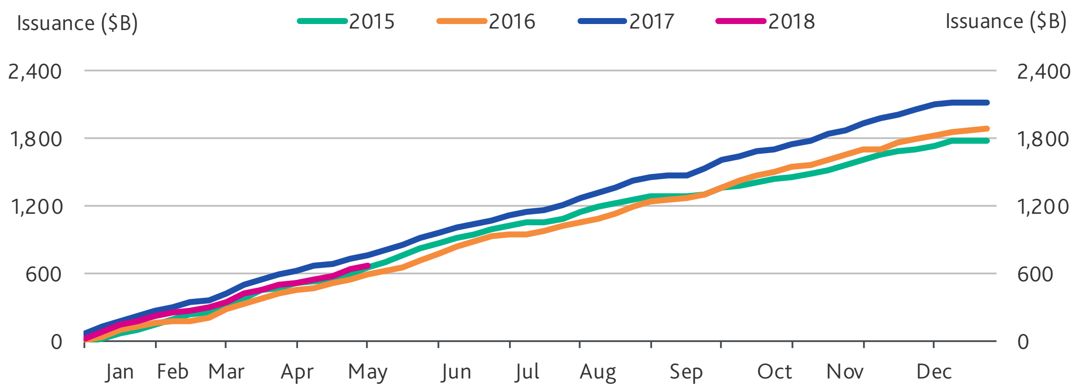
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	May. 2	Apr. 25	Spread Diff
PizzaExpress Financing 1 plc	Caa1	956	996	-39
Astaldi S.p.A.	Caa1	1,901	1,936	-36
Boparan Finance plc	Caa1	437	458	-21
Jaguar Land Rover Automotive Plc	Ba1	208	227	-19
Iceland Bondco plc	Caa1	341	358	-17
CMA CGM S.A.	B3	517	533	-16
Stonegate Pub Company Financing plc	Caa1	286	301	-15
Care UK Health & Social Care PLC	Caa1	105	119	-14
Altice Finco S.A.	B3	401	414	-13
Vue International Bidco p.l.c.	B3	252	264	-12

Source: Moody's, CMA

Market Data

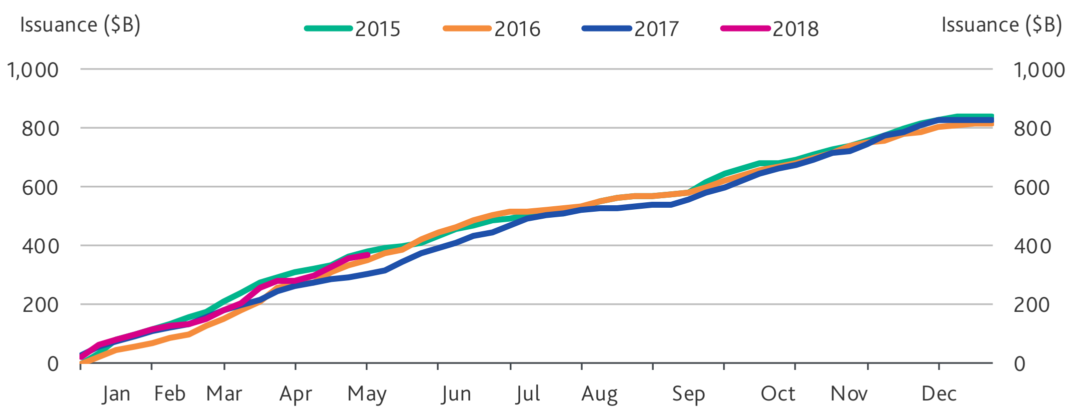
Issuance

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	23.065	8.372	32.704
Year-to-Date	496.578	140.504	665.538

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	9.796	2.955	13.204
Year-to-Date	309.527	45.510	370.355

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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Report Number: 1124015

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