MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Outstandings of Rated U.S. Corporate Bonds Dip from 2018's First to Second Quarter

Credit Markets Review and Outlook *by John Lonski*

Outstandings of Rated U.S. Corporate Bonds Dip from 2018's First to Second Quarter

» FULL STORY PAGE 2

The Week Ahead

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

» FULL STORY PAGE 6

The Long View

Full updated stories and key credit market metrics: Second-quarter 2018's US$-denominated corporate bond issuance rose by 2% yearly for investment-grade and plunged by 29% yearly for high-yield.

Credit Spreads	Investment Grade: We see year-end 2018's average investment grade bond spread resembling its recent 136 bp. High Yield: Compared to a recent 385 bp, the high-yield spread may approximate 425 bp by year-end 2018.
Defaults	US HY default rate: Moody's Default and Ratings Analytics team forecasts that the U.S.' trailing 12-month high-yield default rate will sink from May 2018's 3.7% to 2.0% by May 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 6.4% to $1.413 trillion, while high-yield bond issuance is likely to fall by 10.2% to $407 billion..

» FULL STORY PAGE 14

Ratings Round-Up

Upgrades Point to Lower Speculative Grade Default Rates

» FULL STORY PAGE 18

Market Data

Credit spreads, CDS movers, issuance.

» FULL STORY PAGE 21

Moody's Capital Markets Research *recent publications*

Links to commentaries on: Trade war, Investment grades, defaults, higher rates, profit growth, credit quality, foreign investors, internal funds, tariffs, borrowing restraint, corporate bonds, tax law changes, stocks and spreads, Greek drama, South Korea, Brazil sovereign credit.

THIS REPORT WAS REPUBLISHED JULY 9, 2018 TO UPDATE ECONOMIC FORECASTS FOR THE WEEK AHEAD.

» FULL STORY PAGE 26

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.

Outstandings of Rated U.S. Corporate Bonds Dip from 2018's First to Second Quarter

According to Moody's Capital Markets Research Group, second-quarter 2018's outstandings of Moody's-rated U.S. corporate bonds excluding ABS and MBS rose by 3.3% year-over-year to $7.212 trillion, which was a slight 0.6% under first-quarter 2018's record high of $7.259 trillion. The second quarter's yearly increase of 3.3% was much slower than the 6.3% yearly increase of 2018's first quarter and was the smallest since the 2.1% of 2015's final quarter.

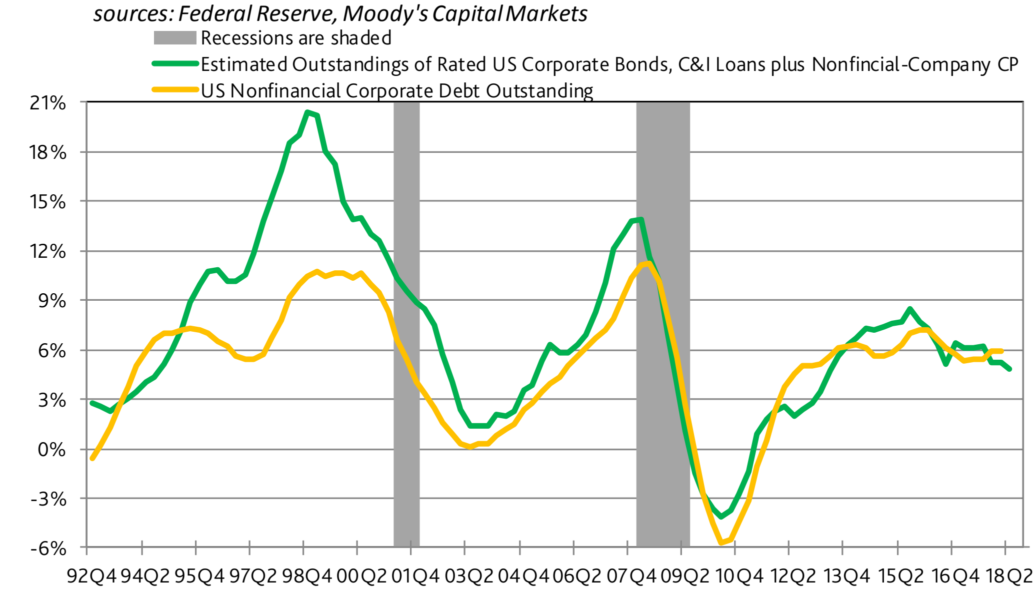
The -0.6% dip by U.S. corporate bonds outstanding from the first to the second quarter of 2018 was only the third such sequential decline by the rated outstandings of U.S. corporate bonds during the past five years. The other two quarterly retreats were those of 0.2% of 2016's final quarter and 5.7% in 2015's final quarter.

Rated Corporate Bonds Hint of Slower Growth for U.S. Nonfinancial-Corporate Debt

A deceleration by corporate debt could offset some of the upward pressure being put on benchmark interest rates by the faster growth of U.S. Treasury debt. Our estimate of outstanding U.S. corporate bonds offers insight regarding the path taken by the Federal Reserve's estimate of U.S. nonfinancial-corporate debt. In order to hazard a better guess of the current quarter's growth of U.S. nonfinancial-corporate debt, the outstandings of bank-held commercial and industrial loans and nonfinancial-company commercial paper are added to the estimated outstandings of rated U.S. corporate bonds.

The year-over-year growth rate for this limited sum of the outstandings of short- and long-term corporate debt shows a relatively strong correlation of 0.83 with the year-over-year growth rate of U.S. nonfinancial corporate debt. Thus, the deceleration by the yearly increase of the sum of the outstandings of rated U.S. corporate bonds, bank-held C&I loans plus nonfinancial-company CP from Q1-2018's 5.3% to Q2-2018's projected 3.6% supports a slowing by the yearly increase of U.S. nonfinancial corporate debt from Q1-2018's 5.2% to a Q2-2018 pace that is less than 5%.

Figure 1: Correlation between Actual Rate of US Nonfinancial-Corporate Debt and Its Proxy Equals 0.91 since 1999
annual % changes of moving yearlong averages
sources: Federal Reserve, Moody's Capital Markets



Slower Private-Sector Debt Growth Partly Offsets Faster Rise by U.S. Government Debt

Credit Markets Review and Outlook

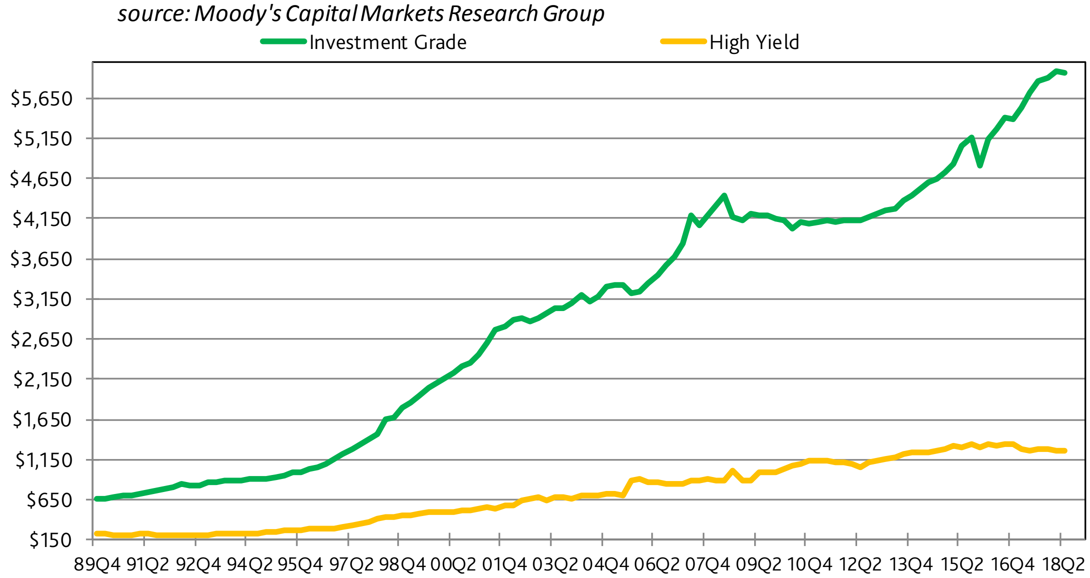
To some extent, the now lower than expected Treasury bond yields are partly the offshoot of possibly slower growth by nonfinancial-corporate debt, consumer credit, and home mortgage debt.

The likelihood of a notable deceleration by home mortgage debt finds support from the notable decelerations by the Mortgage Bankers Association's mortgage application indices from the first- to the second-quarter of 2018. For example, the year-over-year increase by the MBA's index of mortgage applications from prospective home buyers slowed from Q1-2018's 5.9% to Q2-2018's 2.6%, while the yearly contraction by the MBA's index of applications for mortgage refinancings deepened from the 3% slide of Q1-2018 to the 22% plunge of Q2-2018.

Yearly Increase by Investment-Grade Outstandings Slows Considerably

Second-quarter 2018's outstandings of investment-grade U.S. corporate bonds rose by 4.1% annually to a record $5.957 trillion. The year-to-year increase for this category slowed considerably from the 9.3% of 2017's fourth quarter and the 8.1% of 2018's first quarter. Also, second-quarter 2018's outstandings of investment-grade corporate bonds dipped by 0.6% from the prior quarter. Meanwhile, the estimated gross issuance of investment-grade by U.S. companies incurred annual setbacks of 20% for 2018's second quarter and 19% for 2018's first half. By contrast, yearlong 2017's gross offerings of investment-grade bonds grew by 6% annually.

Figure 2: Outstandings of High-Yield Bonds Drop from 2013's 28% to Q2-2018's 21% of Investment-Grade Outstandings
US corporate bonds outstanding excluding ABS and MBS in $ billions
source: Moody's Capital Markets Research Group



High-Yield Bonds Outstanding Drop Yearly for Fifth Straight Quarter

Outstandings of U.S. high-yield corporate bonds eased lower by 0.5% from a year earlier to the second quarter's $1.255 trillion. U.S. high-yield corporate bonds have now declined year-over-year for five consecutive quarters. The outstandings of U.S. high-yield corporate bonds peaked back in 2016's final quarter at a record $1.344 trillion.

The latest shrinkage by U.S. high-yield corporate bonds outstanding masks a brisk expansion by the outstanding loan debt of high-yield issuers. In all likelihood, U.S. high-yield corporate debt continues to grow because of sufficiently rapid growth by the loan debt of high-yield issuers.

Following yearlong 2017's 23% annual advance and a 22% yearly plunge for 2018's first quarter, the gross issuance of high-yield bonds sank by 14% annually in the second quarter. By contrast, after the year-over-year percent change of newly rated loans from high-yield issuers plummeted from the 37% surge of yearlong 2017 to the 22% drop of 2018's first quarter, this metric may have soared higher by 44% annually in the second quarter.

Contraction by Stock of Outstanding Bonds Reins In High-Yield Spreads

The contraction by high-yield corporate bonds outstanding since the end of 2016 has helped to rein in the market-wide average of high-yield bond spreads. For example, comparisons of the month-long averages of March 2018 and June 2018 show Moody's long-term industrial-company bond yield spreads widening from 105 basis points to 124 bp for single-A and from 166 bp to 190 bp for Baa. However, a composite high-yield bond spread narrowed from March 2018's 365 bp to June's 359 bp.

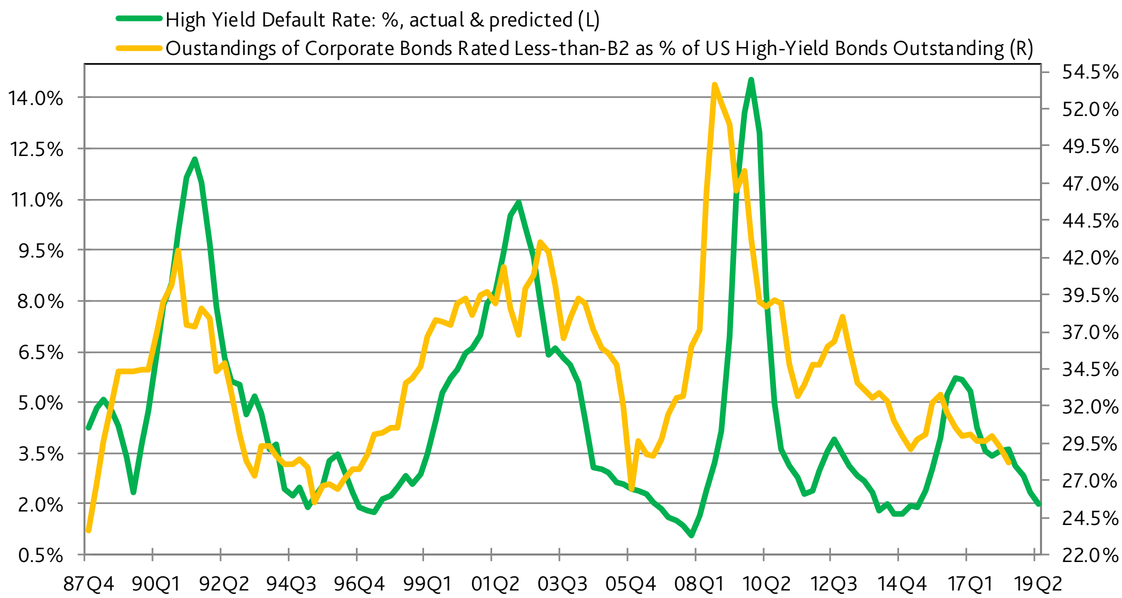
Nevertheless, heightened equity market volatility that includes a rise by the average VIX from the 12.4 points of the first two weeks of June 2018 to 14.9 points since June 14 has helped to lift the high-yield bond spread to a recent 385 bp. Meanwhile, the long-term single-A industrial spread has widened to a recent 129 bp, as the Baa industrial spread hardly budged to 199 bp.

Very Low Grade's Share of High-Yield Bonds Is Lowest since End of 2005

Bonds graded B3 or lower are significantly more susceptible to default than higher rated obligations. For example, the average one-year default rate jumps up from the 3.3% of B2 rating category to 5.4% for B3 and then to 10.6% for issuers graded less than B3.

The record shows that the U.S. high-yield default rate tends to move in the direction taken by the share of outstanding high-yield bonds rated less than B2. When bonds rated less than B2 rose from Q1-2015's 29.1% to Q1-2016's 32.8% of the U.S.' dollar amount of outstanding high-yield bonds, the high-yield default rate would jump up from Q1-2015's 1.9% to Q3-2016's latest localized peak of 5.7%. In conjunction with a subsequent slide by the percent of high-yield bonds graded less than B2 to the 28.2% of 2018's second quarter, after falling to May 2018's 3.7%, Moody's Default Research Group predicts the high-yield default rate may average 2.3% during 2019's first quarter.

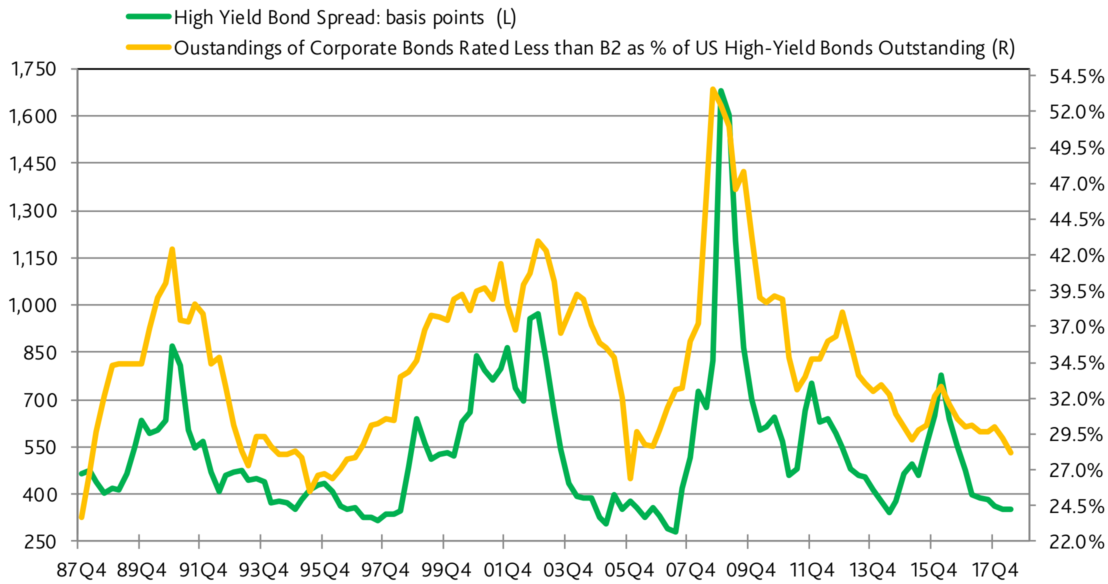
Figure 3: Bonds Rated Less than B2 Drop from Q1-2016's 33% to Q2-2018's 28% of US High-Yield Corporate Bonds Outstanding
sources: Moody's Investors Service, Moody's Capital Markets



Low-Grade Bonds Declining Share of High-Yield Bodes Well for Spreads and Upturn

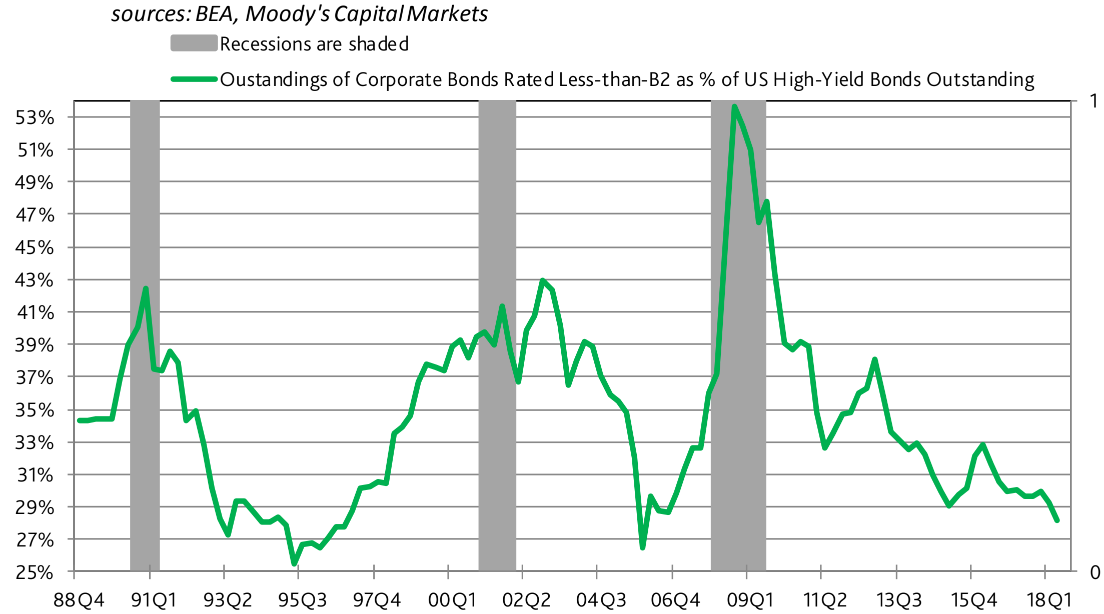
The share of outstanding high-yield bonds rated B2-or-lower also shows a strong correlation of 0.76 with the high-yield bond spread. For the 24 quarters since 1987 where bonds graded B2 or lower comprise between 25% and 30% of high-yield bonds outstanding, the sample's median high-yield bond spread is 377 bp, which is close to the recent 385 bp.

Figure 4: High-Yield Spread Often Moves in Direction Taken by Percent of High-Yield Bonds Rated Less-than-B2
source: Moody's Capital Markets



Finally, each of the three previous recessions was preceded by a rising ratio of bonds rated less-than-B2 as a percent of outstanding high-yield bonds. However, in addition to Figure 5, a quick glance at Figure 3 shows how a jump by the share of low rated high-yield bonds from Q1-2002's 36.7% to Q4-2002's 43.0% provided very misleading forecasts of a higher default rate and a possible double-dip recession. During 2002, markets had temporarily lost confidence in the meaning of corporate balance sheets and income statements owing to a couple of high-profile bankruptcies. For now, the good news is that the declining share of high-yield bonds receiving the riskiest credit ratings favors both a lower default rate and the continuation of a now nine-year long business cycle upturn.

Figure 5: Latest Slide by Relative Incidence of Higher-Risk Speculative-Grade Bonds Augurs Well for Current Upturn
sources: BEA, Moody's Capital Markets



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

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

(Soy)Bean Counting

The U.S. trade deficit has narrowed recently but remains wider than that between 2013 and 2016. The trade data could be increasingly choppy over the next couple of months. The World Cup will be a small and temporary issue for U.S. trade in June and July. The World Cup can have an impact on services trade as U.S. broadcasters pay fees for broadcast rights. This will be captured in imports of intellectual property. The impact of the World Cup is smaller than that of the Olympics; the bigger issue for the U.S. trade deficit could be soybeans.

There are reports that Chinese businesses could cancel U.S. soybean shipments before July 6, when China's retaliatory tariffs against the U.S. are implemented. This could lead to the cancellation of more than 1 million tons of U.S. soybeans by the end of August. China accounts for roughly half of U.S. soybean exports.

We will be keeping a close eye on weekly data on U.S. soybeans inspected for export. Despite the trade tensions, soybeans inspected for export are up on a year-ago basis, likely in anticipation of China's 25% tariff on U.S. soybeans. Recently, the top destinations for U.S. soybeans (excluding China) have been Vietnam, the Netherlands, Pakistan, Mexico and Canada. Therefore, soybeans could help reduce the nominal U.S. trade deficit in May and June, but this support will quickly fade.

The impact of China's tariff on U.S. soybeans will be more visible in the weeks ahead. The timing is bad as soybean exports are seasonal and they normally increase in the third quarter before jumping in the fourth quarter. If trade tensions don't ease, soybeans will likely be a drag on the U.S. trade deficit. Though soybeans are a fairly small share of total U.S. exports, large swings in soybean exports can move the needle on the total nominal trade deficit. For example, surging U.S. soybean exports in 2016 temporarily reduced the trade deficit. The opposite is likely to happen this year.

The trade tensions will intensify as the U.S. tariffs on $34 billion in Chinese imports goes into effect Friday. Though the impact on GDP and employment is small, trade tensions are still affecting the U.S. economy now via the supply chain. Imports, not just from China, are crucial for the U.S. supply chain and broader manufacturing. Real imports matter more for domestic manufacturing output than real exports. Therefore, U.S. policies aimed at narrowing the trade deficit via reducing imports are problematic. Difficult in sourcing materials is likely one reason that the ISM supplier's delivery index is now at its highest since 2004, implying slowing deliveries. Of course there are factors boosting it, including solid domestic growth and transportation issues but tariffs are not helping.

Other evidence of the tariff impact is in consumer prices. The CPI for laundry equipment has risen significantly over the past three months because of the tariffs imposed on imported washing machines.

The data released so far this week have been solid. The ISM surveys suggest that the economy has plenty of momentum. Vehicle sales were better than expected in June but the impact on our estimate second quarter GDP growth wasn't significant. Our high-frequency GDP model has second quarter GDP growth tracking 3.6% at an annualized rate.

The Week Ahead

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence	index, 4-wk MA				36.9
Tues @ 6:00 a.m.	NFIB Small Business Survey for June	index	105.8			107.8
Tues @ 10:00 a.m.	Job Openings and Labor Turnonver Survey for May					
Wed @ 8:30 a.m.	Producer Price Index for June	% change	0.1	0.2	0.0 to 0.3	0.5
	Core PPI	% change	0.2	0.2	0.1 to 0.4	0.3
Thur @ 8:30 a.m.	Jobless Claims for 7/7/18	ths	223	225	215 to 235	231
Wed @ 8:30 a.m.	Consumer Price Index for June	% change	0.2	0.2	0.0 to 0.3	0.2
	Core CPI		0.2	0.2	0.1 to 0.3	0.2
Thur @ 8:30 a.m.	Import Prices for June	% change	-0.2	0.2	-0.2 to 0.8	0.6
Fri @ 10:00 a.m.	Michigan sentiment for July, preliminary	index	99.4	98.3	97 to 99.5	98.2

MONDAY, JULY 9

Business confidence (week ended July 6; 10:00 a.m. EDT)

Global business confidence remains strong, characterized by solid sales, hiring and investment. The demand for office space is also strong, and credit is amply available. U.S. businesses continue to feel the best, likely buoyed by corporate tax cuts, while South American businesses remain the least optimistic. The only potentially troubling aspect of the survey is around expectations of business conditions later in the year; they are at the bottom of the range that has prevailed throughout much of this economic expansion. This may be due to increasing concerns about the Trump administration's trade policies.

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

The four-week moving average in our global business confidence index slipped from 38 to 36.9 in the week ended June 29.

TUESDAY, JULY 10

NFIB small business optimism index (June; 6:00 a.m. EDT)

We look for the NFIB small business optimism index to have dropped 2 points to 105.8 in June. This would reverse a good portion of May's 3-point gain and put it below its first quarter average of 106.4. Other surveys of business confidence we track, including our proprietary index, weakened in June and we believe the NFIB survey will follow suit. Also, the NFIB index has a tendency to fall in June, having done so in four of the past six years. This could be a fluke, but we anticipate some payback is warranted given this May's gain in the index. Already-released data by the NFIB showed an increase in job openings among small businesses in June while hiring plans also improved. Difficulty in finding qualified workers also increased in June but there was only a small gain in plans to raise worker compensation.

WEDNESDAY, JULY 11

Producer prices (June; 8:30 a.m. EDT)

We expect the producer price index for final demand to have risen 0.1% between May and June. Energy will shift from a support to drag. The PPI for energy rose 4.6% in May but is forecast to have dropped in June. The forecast also assumes a modest drop in food prices. Excluding food and energy, we expect a trend-like 0.2% gain in June.

THURSDAY, JULY 12

Jobless claims (week ended July 7; 8:30 a.m. EDT)

We look for initial claims for unemployment insurance benefits to have fallen from 231,000 to 223,000 in the week ended July 7. Claims are volatile and unreliable this time of year because of the Fourth of July holiday and annual auto plant shutdowns for retooling.

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

Forecast: 0.2% (headline); Confidence (3), Risks

Forecast: 0.2% (core); Confidence (3), Risks

We look for the consumer price index to have risen 0.2% in June, leaving it up 2.8% on a year-ago basis. Energy prices will be a small drag on the headline index. Food prices are expected to have risen 0.1% in June. Excluding food and energy, we look for a 0.2% gain in the CPI, raising year-over-year growth from 2.2% to 2.3%. We anticipate a trend-like gain in rents while airfares should perk up even though the relationship between them and jet fuel prices have broken down. Penciled into the forecast is a small gain in both new- and used-car prices.

FRIDAY, JULY 13

Import prices (June; 8:30 a.m. EDT)

Forecast: -0.2% (headline); Confidence (3), Risks

Forecast: 0% (nonfuel); Confidence (3), Risks

The forecast is for import prices to have declined 0.2% in June. Fuel prices will be a drag on import prices in June. Excluding fuels we expect import prices to have been unchanged as recent appreciation in the U.S. dollar puts downward pressure on nonfuel prices. Fluctuations in the dollar affect nonfuel import prices with lag.

EUROPE

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

What We Will Learn From U.K. Industrial Production Data

In the spotlight will be Tuesday's release of the U.K.'s industrial production figures for April, as well as the Office of National Statistics' new monthly GDP publication for May. The latter will be part of the institution's new publishing model for GDP, which will give two, rather than three, estimates of quarterly GDP as well as speeding up the index of services publication by two weeks. Together with the index for production and for construction, this will enable the ONS to publish monthly estimates for growth. The timing for this change is rather sensitive, though, as May's result is likely to shape the Bank of England Monetary Policy Committee's decision on whether to hike interest rates when they next meet in August. At the last meeting, members of the MPC made it clear that a further hike would be contingent on a rebound in second-quarter data. They had largely estimated that the first quarter's weakness was weather-related but still wanted time to assess whether the slowdown was temporary or a reflection of a more broad-based loss of momentum.

As of now, the hard data available for the U.K.'s second quarter do not support a rate hike. Both industrial production and construction fell sharply in April, much below consensus expectations, offsetting a 0.3% rise in the index of services. Put together, the official data are showing that economy-wide output was only 0.1% above its first-quarter average in April, highlighting the downside risks to the MPC's forecast that growth would have accelerated to 0.4% q/q in the three months to June. We do expect growth to pick up in May, but the rebound will still fail to convince that the economy is on track for a significant increase in the second quarter. For instance, we expect that industrial production output rose by 0.5% m/m in May, failing to offset the 0.8% decline in April, notably as energy production is set to have again dragged on the headline as temperatures over the month climbed further above their long-term average. Accordingly, this May was considered to be the second warmest since records began in 1910. Rising manufacturing production will provide some offset. But this has to be put in the context of the huge 1.4% m/m decline in April, which was the largest since October 2012. The best days of the manufacturing sector's revival now lie in the past, with leading indicators all showing that the support to factories from sterling's depreciation is fading now that more than 18 months have passed since the Brexit vote. Our view is that industrial production will fall by around 0.3% q/q in the second quarter—not a disaster given that it rose by 0.6% in the previous stanza.

Elsewhere, U.K. construction output likely held only steady over the month following a 0.5% m/m rise in April, while services output is expected to have slowed to around 0.2%, from 0.3% in April, which would result in a monthly increase in activity of 0.2%.

But we want to make our view crystal clear: Though we expect that the data will disappoint and fall short of the MPC's expectations in the second quarter, we still think that the Committee will act in August. Inflation is set to pick up over the summer on the back of a further rise in energy and electricity prices, bolstering the hawks in the MPC—three out of nine members voted for a hike in June—while at the same time we think it more likely than not that the Bank won't want to lose the summer's window of opportunity. If it does not hike then, the next possible date for a move would not come until November, and that's risky given that progress on the Brexit front is due by the end of October. Government failure to agree on something would trigger a renewed period of political and financial market instability, and the MPC would be constrained.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 11:00 a.m.	OECD: Composite Leading Indicators for May		99.9	99.9
Tues @ 8:00 a.m.	France: Industrial Production for May	% change	1.1	-0.5
Tues @ 9:00 a.m.	Italy: Industrial Production for May	% change	-0.2	-1.2
Tues @ 9:30 a.m.	U.K.: Industrial Production for May	% change	0.5	-0.8
Thur @ 7:00 a.m.	Germany: Consumer Price Index for June	% change yr ago	2.1	2.2
Thur @ 7:45 a.m.	France: Consumer Price Index for June	% change yr ago	2.4	2.3
Thur @ 10:00 a.m.	Euro Zone: Industrial Production for May	% change	1.0	-0.9
Thur @ 3:00 p.m.	Russia: Foreign Trade for May	$ bil	16.0	15.3
Fri @ 8:00 a.m.	Spain: Consumer Price Index for June	% change yr ago	2.3	2.1

MONDAY, JULY 9

No major economic indicators are scheduled for release.

TUESDAY, JULY 10

France: Industrial Production (May; 7:45 a.m. BST)

France's industrial production likely grew by 1.1% m/m in May, fully reversing April's 0.5% decline. Due to base effects, the yearly rate should have nonetheless fallen to only 0.8%, from 2.1% in April, below the 3% average for the past 12 months. The main boost to the headline is expected to have come from energy production, following two consecutive months of weather-related drops. Temperatures fell back somewhat in May after an extremely warm April—the third warmest since 1900—and this must have lifted demand for heating. We caution nonetheless that temperatures over the month remained 1.3°C above their long-run average, likely keeping a lid on the rebound. Elsewhere, manufacturing output is also expected to have increased. First, oil refining is set to have rebounded from two consecutive months of declines due in part to maintenance at one of the country's major refineries, though manufacturing of machinery & equipment and pharmaceuticals likely rose following subdued results April. This is expected to have offset an anticipated decline in transport equipment output, as well as a pullback in food production. By contrast, clothing sales are expected to have remained robust, since the warm weather is again expected to have raised demand for retailers' summer collections, ensuring that production remained solid.

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

Industrial production in Italy likely continued to trend downward in May, falling 0.2% m/m following a 1.2% decline in April. Business and consumer confidence has pulled back in the last several months amid economic and political uncertainty. Output and new orders have slowed as a result. Manufacturing activity will likely pick up in the second half of the year as an increase in confidence spurs consumer demand. In fact, Italy's June Markit manufacturing PMI ticked up for the first time since January thanks to an increase in both output and new orders. Still, the uncertain economic and political environment weights risks to the downside.

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

We forecast that U.K. industrial production rose by 0.5% m/m in May, only partially reversing a 0.8% decline in April. This is expected to have pushed the yearly rate up slightly to 1.9%, from 1.8% previously, in line with the average rise for the past 12 months. Across sectors, developments were likely mixed. Growth in energy production is expected to have again dragged on the headline, as temperatures climbed further above their long-run average over the month—they exceeded their seasonal norm by 1.7°C, up from 1°C in April, making this the second warmest May since 1910—depressing demand for heating and thus for utilities production. Mining and quarrying are similarly expected to have contracted, mean-reverting from an unexpected 6.9% m/m jump in May, which was likely only a blip.

Production in the manufacturing sector by contrast is expected to have increased following a disappointing 1.4% m/m decline in April, the largest since October 2012. The picture for the subsector is uneven, though; we expect that machinery and equipment, transport equipment, and other manufacturing output rose the most, while pharmaceuticals and electrical equipment production likely declined. But the sector's rebound will be far from impressive. Leading surveys for May were soft, showing 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.

WEDNESDAY, JULY 11

No major economic indicators are scheduled for release.

THURSDAY, JULY 12

Germany: Consumer Price Index (June; 7:00 a.m. BST)

Preliminary estimates show that Germany's yearly inflation remained strong in June, ticking marginally down to 2.1% from 2.2% recorded in May, still above the European Central Bank's target of close to but below 2%. The pace of increasing goods prices continued to accelerate, while annual inflation in services eased somewhat compared with the previous month. Food price inflation ticked down by 0.1 percentage point to 3.4% in June. Meanwhile, the pace of energy prices gained further, reaching 6.4% y/y, up from 5.1% in May, driven to a large extent by high oil prices. The price of Brent crude eased slightly below $75 per barrel on average in June from $76.87 in May but was still 60% higher in year-ago terms. Meanwhile, the euro weakened against the U.S. dollar, falling to $1.17 in June from $1.18 in the previous month, adding some inflation pressures. The seasonally adjusted CPI likely reached 2% y/y in June.

France: Consumer Price Index (June; 7:45 a.m. BST)

Climbing oil and food prices likely pushed French harmonized inflation up to 2.4% y/y in June, from 2.3% in the previous month. The core rate, by contrast, is expected to have fallen back slightly as services inflation corrected from the early Easter-related jump in May. Deflation in manufacturing goods meanwhile likely was unchanged. We expect that higher oil prices will remain the main driver of the headline in coming months possibly keeping the headline above the ECB's target for a while. Core inflation should only gradually firm in coming months as GDP growth will bounce back from the lackluster Q1 performance; we expect it to rise to around 1.1% by the end of the year.

FRIDAY, JULY 13

No major economic indicators are scheduled for release.

ASIA-PACIFIC

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

China's Trade Data Will Be Scrutinized, Given Tensions With the U.S.

China's foreign trade data for June will be in the spotlight and heavily scrutinised given the trade dispute with the U.S. In May the surplus narrowed as China's imports surged; higher commodity prices are lifting the import bill. If tariffs are enacted on Chinese goods imported into the U.S., the Mainland's export growth would be hurt. Underlying activity remains robust thus far.

Inflation pressures in China remain quiescent, with food price disinflation, especially for pork, leading the overall index lower in May. Core inflation is also stable. Rising producer price inflation could cause firms to pass on costs, but this is not showing up as yet and will likely appear at year's end if at all.

Credit growth in China has been slowing for a decade, but the cooling has accelerated in 2018 as part of the government's commitment to clamping down on financial risks. That said, monetary policy is turning to a mild easing stance to keep growth broadly on track. The People's Bank of China cut certain banks' reserve ratios by 100 basis points in April and an additional 50 basis points in late June.

Singapore's GDP growth likely slowed to 4.1% y/y in the June quarter, according to the advance estimate. This follows the 4.4% expansion in the March quarter. Global demand remains upbeat but has slowed from the lofty heights enjoyed in 2017, and high base effects are overstating the slowdown in 2018.

On the policy front, the Bank of Korea will likely keep the policy rate at 1.5% in July. Although inflation climbed to a six-month high in April, price pressures remain relatively mild, as a strong won and a softening labour market are keeping a lid on price pressures.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 6:00 p.m.	Taiwan Foreign trade for June	US$ bil	3.89	4.41
Tues @ Unknown	China Monetary aggregates for June	% change yr ago	8.4	8.3
Tues @ 11:30 a.m.	China Consumer price index for June	% change yr ago	1.8	1.8
Tues @ 11:30 a.m.	China Producer price index for June	% change yr ago	4.0	4.1
Wed @ 9:00 a.m.	South Korea Unemployment rate for June	%	4.0	4.0
Wed @ 9:50 a.m.	Japan Machinery orders for May	% change	1.3	10.1
Thurs @ Unknown	South Korea Monetary policy for July	%	1.5	1.5
Thurs @ 10:00 p.m.	India Consumer price index for June	% change yr ago	5.0	4.9
Thurs @ 10:20 p.m.	India Industrial production for May	% change yr ago	4.7	4.9
Fri @ Unknown	Singapore GDP - Advanced for Q2	% change yr ago	4.1	4.4
Fri @ Unknown	China Foreign trade for June	US$ bil	26.0	24.9

MONDAY, JULY 9

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

Taiwan's trade surplus likely narrowed to US$3.89 billion in June, following the US$4.41 billion trade surplus in May. The May trade report was solid, with export and import growth accelerating on an annual basis. The uptick in exports was broad-based with stronger growth across the important categories including electronics, machinery, and electrical equipment and plastic. Unsurprisingly, the import bill swelled as higher global oil prices made an impact, a situation that likely lingered through

June. Forward-looking export orders suggest buoyancy in Taiwan's export sector in the coming months, albeit with electronics coming in a little softer.

TUESDAY, JULY 10

China: Monetary Aggregates (June; Unknown)

Credit growth in China has been slowing as part of the government's renewed commitment to clamping down on financial risks. That said, official policy is now turning to a mild easing stance. The People's Bank of China cut certain banks' reserve ratios by 100 basis points in April and an additional 50 basis points in late June. The freed-up funds will enable those banks to boost lending and could cause other finance companies to boost activity. The M2 money supply likely grew 8.4% y/y in June, up from 8.3% in May.

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

Inflation pressures in China remain quiescent, with food price disinflation, especially for pork, leading the overall index lower in May. Core inflation is also stable. Rising producer price inflation could cause firms to pass on costs, but this is not showing up yet and will likely appear at year's end if at all. The government maintains its curbs on housing, which is crimping an important source of consumer price inflation. Consumer prices likely rose 1.8% y/y June, the same as in May.

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

Producer price inflation picked up to a four-month high of 4.1% y/y in May, because of rising raw materials prices, notably for energy. Rising prices for energy and other commodities is broadly positive, helping to boost industrial profits and ease deflation and debt concerns. Firms are also able to pass some of their costs on, as seen in PMI data. Monetary easing could give price pressures a further boost in coming months. China's producer price growth likely rose to 4% y/y in June.

WEDNESDAY, JULY 11

South Korea: Employment (June; 9:00 a.m. AEST; Tuesday, 11:00 p.m. GMT)

South Korea's unemployment rate likely held steady at 4% in June. South Korea's labour market remains weak, with employment growth still anemic, rising by less than 1% for the last few months. The marked slowdown in job growth suggests that the 16.4% minimum wage hike at the start of the year is undermining hiring. Other structural issues such as the increase in automation are also likely at play, with industries such as semiconductor manufacturing adding little to their headcounts despite strong conditions in the sector. Overall, the South Korean labour market remains worryingly weak, with job creation languishing despite relatively firm economic activity.

Japan: Machinery Orders (May; 9:50 a.m. AEST; Tuesday, 11:50 p.m. GMT)

Japan's core machinery orders surged by 10.1% m/m in April, marking the biggest jump in more than a decade and following the 3.1% drop in March. We don't expect a repeat in the May report, and a large slowdown, to 1.3%, is likely. Demand for auto parts drove manufacturing in April, but that one-off increase is unlikely to be repeated in May. That said, the strong start to the June quarter suggests that the investment pipeline may be on the mend after losing steam in the March quarter, but we'll need a few more monthly datapoints before we're convinced since the machinery orders data are volatile from month to month. On balance, risks are downwardly skewed on the back of increased trade tensions between the U.S. and China.

THURSDAY, JULY 12

South Korea: Monetary Policy (July; Unknown)

The Bank of Korea will likely keep the policy rate at 1.5% in July. Although inflation climbed to a six-month high in April, price pressures remain relatively mild, as a strong won and a softening labour market are keeping a lid on price pressures. With the unemployment rate elevated and simmering trade frictions clouding the broader global outlook, a rate hike in the near term is unlikely. That being said, the BoK is wary of leaving rates too low for too long, and eager to create policy space for any future economic downturns.

India: Consumer Price Index (June; 10:00 p.m. AEST; 12:00 p.m. GMT)

India's consumer price growth accelerated to 4.9% y/y in May from the 4.6% gain in April. We expect CPI climbed to 5% y/y in June on the back of higher oil prices. The weak rupee has also contributed to broader inflation pressures creeping higher in recent months, a situation that ultimately led the Reserve Bank of India to hike interest rates at its June policy meeting, the first policy movement since August. Further hikes seem likely over the remainder of 2018, particularly if emerging market outflows continue and inflation keeps trending higher.

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

India's industrial production stayed relatively subdued and likely rose by 4.7% y/y in May, following the 4.9% expansion in April. Manufacturing is expected to contribute towards overall production, but with concerns around global growth re-emerging, we expect a slowdown in production midway through the year in India. Manufacturing may come under increased pressure in the near term as higher fuel costs have an impact, a situation that will linger through the remainder of the June quarter. India's high reliance on oil imports makes it especially susceptible to higher oil prices filtering through the production.

FRIDAY, JULY 13

Singapore: GDP - Advanced (2018Q2; 2:00 a.m. AEST; Thursday, 4:00 p.m. GMT)

Singapore's GDP growth likely slowed to 4.1% y/y in the June quarter, according to the advance estimate. This follows the 4.4% expansion in the March quarter. Global demand remains upbeat but has slowed from the lofty heights enjoyed in 2017 and high base effects are overstating the slowdown in 2018. The global tech cycle, a critical driver of Singapore's economy, is on a gradual slowing path. Heightened global trade tensions, especially between the U.S. and China, remain a downside risk to the outlook given Singapore's outsize exposure to global demand.

China: Foreign Trade (June; Unknown)

China's trade data will be heavily scrutinised given the trade dispute with the U.S. In May the surplus narrowed as China's imports surged; higher commodity prices are lifting the import bill. If tariffs are enacted they would naturally cut into China's export growth. Underlying activity remains robust thus far, however, and higher tech component imports in prior months presage higher exports of tech products. China's trade balance likely widened to a US$26 billion surplus in June, after a US$24.9 billion surplus in May.

The Long View

Second-quarter 2018's US$-denominated corporate bond issuance rose by 2% yearly for investment-grade and plunged by 29% yearly for high-yield.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
July 5, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 136 basis points exceeds its 122-point mean of the two previous economic recoveries. This spread may be no wider than 140 bp by year-end 2018.

The recent high-yield bond spread of 385 bp is less than might be inferred from the spread's macroeconomic drivers and the long-term Baa industrial company bond yield spread. The adverse implications for liquidity of possibly significantly higher interest rates merit consideration.

DEFAULTS

After setting its current cycle high at January 2017's 5.8% and subsequently bottoming at January 2018's 3.3%, May's U.S. high-yield default rate equaled 3.7%. Moody's Default and Ratings Analytics team expects the default rate will average 2.0% 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 -9.5% for high yield.

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

The Long View

US ECONOMIC OUTLOOK

The consensus expects that the mid-point for the federal funds rate should finish 2018 at 2.125%. In view of the considerable underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global economy operates below trend, the 10-year Treasury yield may not remain above 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
July 5, 2018

EURO ZONE

The PMI release on Wednesday brought respite for euro zone markets following the recent barrage of weak data for the currency area. The region's composite PMI rebounded slightly in June, after declining uninterruptedly since January, suggesting that the economy's slowdown may be over, at least for now. Accordingly, the gauge rose to 54.9, from 54.1 in May, driven by a strong pickup in activity in the services sector, the index of which rose by 55.2, from 53.8 in May.

Euro zone manufacturing, by contrast, posted less impressive results. Its PMI fell to 54.9 in June, from 55.5 in May, but this is still consistent with a solid pace of increase in industrial production. Even better is that employment growth in the sector remained strong, while work backlogs rose. Firms are nonetheless getting worried about a further escalation in the global trade war, especially in Germany, and this is should hit sentiment numbers over the coming month. Our view is that both supply-side constraints and weaker demand will dent manufacturing production this year, but this was all but expected following 2017's eye-watering performance.

Across countries, the PMI results were bright everywhere but Spain. The main upside detail was the 1.4-point increase in the German composite index to 54.8. But the France and the Italian indexes also rose, to 55 and 53.9, respectively, from 54.2 and 52.9. By contrast, the Spanish PMI fell to a 15-month low of 54.8, from 55.9, dragged by weakness in manufacturing and services.

Granted, at 54.7, the euro zone composite PMI average for the second quarter as a whole is still much lower than the 57 recorded for the previous stanza. But we had long warned that the PMI survey was overestimating growth so far this year, so even accounting for the decline the gauge is still consistent with growth accelerating to 0.5% q/q in the second quarter, from 0.4% in the first one. Given that hard data has until now disappointed, we are a little bit more cautious and expect that growth held steady at 0.4% q/q.

The above-consensus rise in the U.K. services PMI only added to the cheerful results for the manufacturing and construction sector for June. The weighted average of the three sector's index is now consistent with growth accelerating to 0.4% q/q in the second quarter, from 0.2% in the first stanza. We caution nonetheless that the PMI has repeatedly overestimated GDP growth over the past few years, and notably hard data have been incredibly weak up until now. Accordingly, we are a little more pessimistic; we pencil in that growth will rise to 0.3% q/q.

The PMI nonetheless confirms our view that the Bank of England's Monetary Policy Committee won't want to lose August's window of opportunity to hike interest rates.

RETAILING

The flat reading in euro zone retail sales in May was disappointing, but at least it was better than the fall at which individual country figures released over the previous week were pointing. This ensured that yearly growth decelerated only slightly instead of plunging outright. Even better is that base effects remain favourable for a strong rebound over the second quarter as a whole. Even if sales remain only steady in June, sales will still rise by 0.4% q/q in the three months to June, following an unchanged headline at the start of the year. We are much more optimistic than that; we are penciling in a 0.8% m/m rise at the end of the quarter—consistent with yearly growth edging up to 1.7%, in line with leading indicators—which would push quarterly growth up 0.6% q/q.

Over the month, the details were as soft as the headline but broadly in line with our forecasts. Accordingly, the decline in nonfood sales, which came as the main hit to the numbers, was all but expected following April's broad-based subsectoral jump. Although the plunge in textile sales was dreadful, a correction was always likely given that clothing sales soared in April on the back of good weather. Meanwhile, the rise in food sales—the release's key upside detail—can also be seen as a rebound from April's sharp decline. The story here is that food sales jumped in March on the back of the early timing of Easter, notably as households boost their consumption of food products in the week preceding Easter, before correcting sharply in April. May's increase only brought the trend in food sales back in line with its past year average.

Regarding fuel sales, we were surprised to see they held steady and didn't fall further in May. The recent rise in prices for the Brent barrel is lifting pump prices, and this should be ensuring that demand for fuel suffers, notably as households normally spend a fixed amount in fuel each month. Given that pump prices are set to increase further over the summer, fuel sales should remain contained, but we caution that demand for fuel is rather inelastic in the medium term, which means that households should soon start to adapt their budgets to account for higher fuel prices.

Results for June should be better, as temperatures climbed further over the month, boosting footfall and clothing sales. Temperatures read as much as 1.8°C above their seasonal norms in France, and 2.4°C in Germany. We caution nonetheless that retail sales have been extremely volatile lately, making it extremely hard for us to read the trend past the monthly movements. We are nonetheless still confident that the outlook for euro zone consumer spending remains upbeat, with unemployment steadily falling, wages rising, and inflation remaining relatively contained.

ASIA PACIFIC

By Katrina Ell, Veasna Kong and Alaistair Chan of Moody's Analytics
July 5, 2018

SOUTHEAST ASIA

Southeast Asia is a critical constituent of China's One Belt One Road Initiative. The various proposed projects offer Southeast Asia an immense opportunity to improve infrastructure, which in many cases is a significant bottleneck to lifting potential economic growth and could dramatically improve interconnectivity and efficiencies within the region and further abroad. China is already an important source of foreign direct investment in the region, accounting for almost 7% of inbound FDI flows in 2015. Chinese FDI into developing Southeast Asia is fairly diversified with Indonesia a particularly large recipient historically.

There is also an underlying cautiousness around allowing Chinese-backed infrastructure investment to occur, and what is in the best interests of national economies may not suit OBOR interests and vice versa. A shift has already occurred in Malaysia since the May election away from OBOR, and it could occur in other parts as projects progress and politics inevitably comes into play. We delved into the main recipients of OBOR projects through Southeast Asia to provide a state of play and what the future path will likely look like.

Thailand embraces OBOR

In Thailand, a project currently being mooted is the Kra canal, which would connect the Indian and Pacific oceans and cut sailing time down by 1,200 kilometers for ships that normally pass the Malacca Strait, or as much as six days for other routes. This would be especially beneficial to China. However, the canal has been proposed for some time without gaining any traction and has already faced the ire of Singapore, the main shipping hub in the region. There are also security concerns, given the separatist movement in southern Thailand, so it is unlikely to get off of the ground in the near term.

A project at a more advanced stage of development is a US$5.2 billion high-speed rail line linking Thailand to Laos. Thailand is providing the funding and materials while China is managing the construction, which commenced in 2017 and is expected to be completed by 2023. The rail line complements the "Thailand 4.0" initiative, which aims to lift Thailand up the value-added chain and take the economy to the next stage of economic development. Critical to this will be the Eastern Economic Corridor project. The EEC aims to transform Thailand's eastern seaboard into an advanced industrial, logistics and trade hub.

Given the synergies with OBOR, especially in terms of infrastructure development and the emphasis on connectivity, the Thai government is integrating the EEC with OBOR, with the rail link being the centerpiece of that strategy. Construction of the 414-kilometer Laos section of the route commenced in 2016. The project is worth US$6 billion, equivalent to about one-third of the country's GDP. Almost one-third of the project will be funded by the Laos government, with the remainder funded by loans from Export-Import Bank of China and other Chinese banks. Although the rail line ties in nicely with the Laos government's strategy to transform Laos from a landlocked to "land-linked" country, the increase in Lao's debt burden is a concern. The rail line linking Thailand to China is a key part of the Pan-Asia Railway Network, which links China to the rest of Southeast Asia via three proposed routes. The central route links China with Laos, Thailand, Malaysia and Singapore; the east route links China to Cambodia and Vietnam, and the west route links China to Myanmar.

Malaysia's new government less keen

The role that One Belt One Road will play in Malaysia is less certain since the general elections in May. Newly elected Prime Minister Mahathir Mohamad announced in June that the government would review major projects agreed to by the previous government. This includes the East Coast Rail Link, which is the country's largest project. The project is worth around $13.8 billion and was planned to connect Malaysia's largest port with Thailand. Mahathir is renegotiating the terms, as he views them as unfavourable, and this coincides with the government's quest to reduce its debt, which is hovering around 80% of GDP.

The high-speed rail link from Kuala Lumpur to Singapore is less likely to come to fruition since the change of government and is valued at $17 billion. This important infrastructure project was hoped to improve bottlenecks and was slated to begin operating in 2026. The journey between Kuala Lumpur and Singapore was to fall from around five hours to 90 minutes because of the project. It's unclear what, if anything, will be put in its place and if other proposed infrastructure links included under the One Belt One Road initiative will still go ahead.

Project delays in Indonesia

The largest OBOR project in Indonesia is the Jakarta-Bandung high-speed rail, a project that Jakarta awarded to the Chinese in 2015 after a tight race with Japan. It has met some problems including land ownership issues. The project is valued at $5 billion. Ownership rights for nearly 40% of land have yet to be resolved. Construction began in early 2016 and was initially supposed to be completed by 2019, but the latest government estimates indicate that the railway may not be in use until 2024.

China is Indonesia's largest trading partner, and bilateral trade reached $63.4 billion in 2016. Though Jakarta is generally keen to expand its relationship with China and improve its infrastructure, historically there are differences that have at times made each side wary of the other. A proposal to help manage this wariness is to keep investment projects open to bids from countries in addition to China. Indonesia's lack of infrastructure is an acknowledged and important drag on Indonesia's GDP growth. Improvements would make progress lifting growth from its current 5% pace and closer to President Joko Widodo's elusive 7% target, initiated when he came into office more than three years ago.

Vietnam is cautious

Although Vietnam stands to benefit greatly from OBOR, longstanding mistrust of Beijing—highlighted by the territorial dispute in the South China Sea—has meant OBOR has been slow to gain traction in the country. OBOR can claim only a relatively small metro line in Hanoi (cost $891 million) among its projects in Vietnam. Vietnam has also sought alternatives to Chinese high-speed rail technology, with a feasibility study for a Japanese high-speed rail line currently being carried out. Japanese businesses are a preferred partner for many infrastructure projects, given public perceptions of greater trustworthiness in their process and technologies.

Vietnam also remains skeptical about the practical benefits of the OBOR, with unresolved issues including the commercial terms of Chinese loans on offer and interest rates charged. The Vietnamese government is taking a wait-and-see approach, to gauge the success of OBOR projects around the region before committing to further projects of significance.

Ratings Round-Up

By Njundu Sanneh

Upgrades Point to Lower Speculative Grade Default Rates

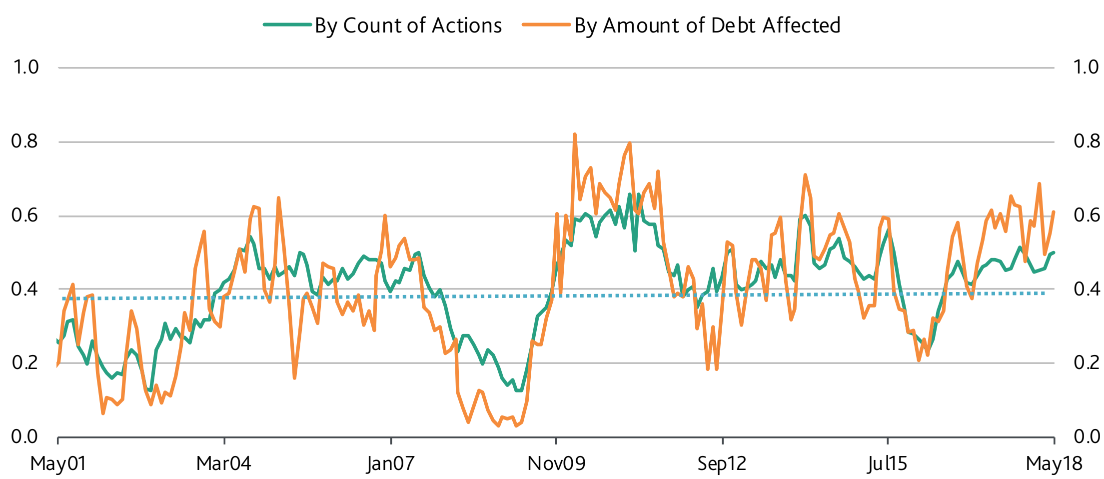
The weekly rating changes count rose to about normal levels in the past week with nine European and 14 U.S. rating revisions, a substantial jump from the 11 total rating changes the week earlier. Europe's high positive rating changes to total rating changes ratio abound with the metric at 78% in the past week following the previous weeks 80%. The U.S. also saw and improvement in the ratio of positive rating changes to 43% from the 33% of the previous week. The more stable trailing 3-month moving average of the count of favorable as a percent of total rating changes which dipped to 45% in January and February has since steadily risen to 50% as of the end of May.

The U.S. negative rating changes were driven by among others software, retail, oil services and chemicals sectors. Fairway Group Holdings Corp. was downgraded because of poor operating performance that makes its capital structure untenable. The strong competitive environment in the supermarket sector makes it doubtful that it will be able to improve performance enough to address its balance sheet challenges. Transocean Inc., a subsidiary of Transocean Ltd., is another downgraded company with poor operating performance as offshore oil drilling activities remain weak, even though the energy sector generally has a positive outlook. On the positive side, Diamondback Energy Inc. was upgraded owing to its strong growth while maintaining a strong balance sheet and making very little use of leverage for the expansion by using equity infusions and cash on hand.

In Europe, financials slightly edged industrials with five of the nine total rating changes. The financials were all upgraded while the industrial several sectors were split two apiece in terms of rating change direction.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

Ratings Round-Up

FIGURE 2

Rating Key

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

FIGURE 3

Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
6/27/18	EVERSOURCE ENERGY-CONNECTICUT LIGHT AND POWER COMPANY (THE)	Utility	SrSec/LTIR/PS	3,421	U	A2	A1	IG
6/27/18	GIBRALTAR INDUSTRIES, INC.	Industrial	LTCFR/SrSub/PDR	210	U	B1	Ba3	SG
6/27/18	STAR WEST GENERATION LLC	Industrial	SrSec/BCF		D	B1	B2	SG
6/27/18	CARROLS RESTAURANT GROUP, INC.	Industrial	SrSec/LTCFR/PDR	275	U	B3	B2	SG
6/27/18	DIAMONDBACK ENERGY, INC.	Industrial	SrUnsec/LTCFR/PDR	1,300	U	B1	Ba3	SG
6/27/18	TRANSOCEAN LTD-TRANSOCEAN INC.	Industrial	SrUnsec/LTCFR/PDR	7,189	D	Caa1	Caa2	SG
6/27/18	ZEBRA TECHNOLOGIES CORPORATION	Industrial	SrSec/BCF/LTCFR/PDR		U	Ba3	Ba2	SG
6/27/18	PETROCHOICE HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
6/27/18	TI FLUID SYSTEMS LIMITED -TI GROUP AUTOMOTIVE SYSTEMS L.L.C.	Industrial	SrSec/BCF		D	Ba3	B1	SG
6/28/18	FAIRWAY GROUP HOLDINGS CORP.	Industrial	SrSec/SrUnsec /BCF/LTCFR/PDR		D	B2	Caa2	SG
6/28/18	GOLDCUP PARENT, INC. -EXPLORER HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG
6/28/18	GHX ULTIMATE PARENT CORPORATION	Industrial	SrSec/BCF		D	B2	B3	SG
6/29/18	ELWOOD ENERGY LLC	Utility	SrSec	402	U	Ba2	Ba1	SG
7/3/18	INTERMEDIA HOLDINGS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

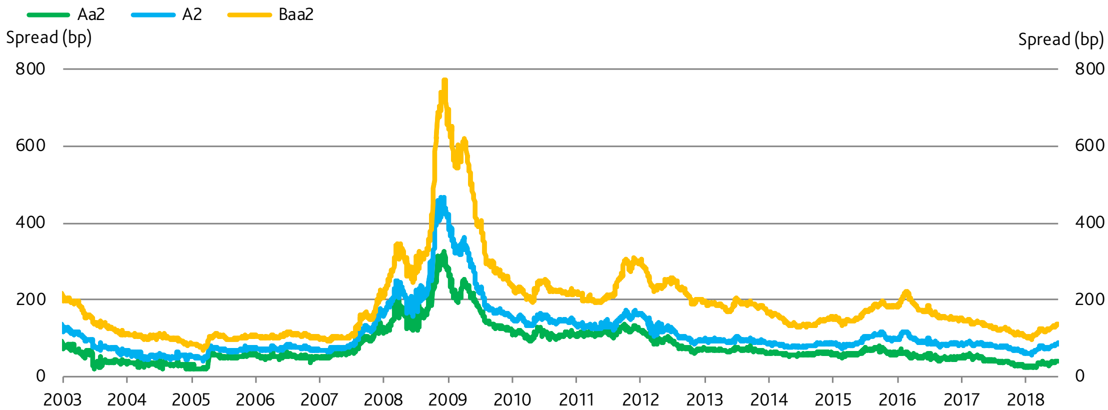
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
6/27/18	GERMANY-DEPFA BANK PLC	Financial	SrUnsec/SLTD	157	U	Baa2	A2	P-2	P-1	IG	IRELAND
6/29/18	AKTIA P.L.C. -AKTIA BANK P.L.C.	Financial	SrUnsec/SLTD/MTN	650	U	A3	A1	P-2	P-1	IG	FINLAND
6/29/18	BPCE	Financial	SrUnsec/LTIR/LTD /JrSrUnsec/Sub/MTN/PS	58,877	U	A2	A1			IG	FRANCE
6/29/18	CABOT CREDIT MANAGEMENT LTD-CABOT FINANCIAL (LUXEMBOURG) S.A	Financial	SrSec/LTCFR	1,187	U	B2	B1			SG	LUXEMBOURG
7/2/18	NOVARTIS GROUP -NOVARTIS AG	Industrial	SrUnsec/LTIR	25,616	D	Aa3	A1			IG	SWITZERLAND
7/2/18	SPARKASSE KOELNBONN	Financial	Sub/MTN		U	Baa2	Baa1			IG	GERMANY
7/2/18	VIA A11 N.V.	Industrial	SrSec	670	U	A3	A2			IG	BELGIUM
7/3/18	CONSTRUTORA ANDRADE GUTIERREZ S.A.	Industrial	SrUnsec/LTCFR	345	D	Caa2	C			SG	LUXEMBOURG
7/3/18	EDREAMS ODIGEO S.A.	Industrial	SrSec/LTCFR/PDR	493	U	B3	B2			SG	LUXEMBOURG

Source: Moody's

Market Data

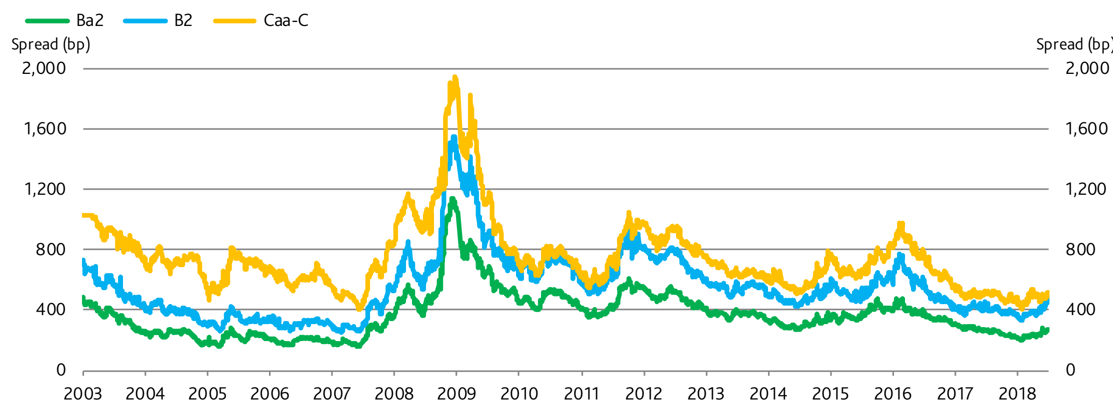
Spreads

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 (June 27, 2018 – July 4, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 4	Jun. 27	Senior Ratings
Union Carbide Corporation	Baa2	Ba3	Baa2
Encompass Health Corp.	Ba3	B3	B1
Genzyme Corporation	Aa2	A1	A1
Wells Fargo & Company	A2	A3	A2
Philip Morris International Inc.	A2	A3	A2
General Electric Company	Baa2	Baa3	A2
Enterprise Products Operating, LLC	Baa1	Baa2	Baa1
Abbott Laboratories	Aa3	A1	Baa2
First Data Corporation	Ba2	Ba3	B2
Berkshire Hathaway Inc.	A3	Baa1	Aa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 4	Jun. 27	Senior Ratings
YRC Worldwide Inc.	C	Caa2	Caa1
Rite Aid Corporation	Ca	Caa2	B3
Toyota Motor Credit Corporation	A3	A2	Aa3
Bank of New York Mellon Corporation (The)	A2	A1	A1
Ford Motor Company	Ba2	Ba1	Baa2
Nissan Motor Acceptance Corporation	Baa2	Baa1	A2
Anthem, Inc.	A1	Aa3	Baa2
Time Warner Inc.	Baa1	A3	Baa2
Calpine Corporation	Caa1	B3	B2
Praxair, Inc.	A1	Aa3	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 4	Jun. 27	Spread Diff
YRC Worldwide Inc.	Caa1	869	673	196
Windstream Services, LLC	Caa2	2,236	2,072	165
Frontier Communications Corporation	Caa1	1,428	1,357	71
Rite Aid Corporation	B3	741	679	62
Sears Roebuck Acceptance Corp.	C	1,994	1,933	61
Sears Holdings Corp.	C	1,658	1,608	50
Avis Budget Car Rental, LLC	B1	439	392	48
Hertz Corporation (The)	B3	1,039	995	44
Bunge Limited Finance Corp.	Baa2	190	150	40
MBIA Inc.	Ba3	595	557	38

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 4	Jun. 27	Spread Diff
McClatchy Company (The)	Caa2	571	705	-134
Encompass Health Corp.	B1	179	304	-125
Union Carbide Corporation	Baa2	75	180	-105
Parker Drilling Company	Caa2	1,799	1,891	-92
AutoNation, Inc.	Baa3	410	443	-33
ServiceMaster Company, LLC (The)	B1	226	255	-28
MBIA Insurance Corporation	Caa2	727	751	-24
DPL Inc.	Ba2	319	342	-23
ONEOK Partners, L.P.	Baa3	76	94	-18
Juniper Networks, Inc.	Baa2	100	118	-18

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (June 27, 2018 – July 4, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 4	Jun. 27	Senior Ratings
Unipol Gruppo S.p.A.	Ba2	B1	Ba1
Italy, Government of	B1	B2	Baa2
Spain, Government of	Baa1	Baa2	Baa1
Societe Generale	A2	A3	A1
Barclays Bank PLC	A3	Baa1	A2
Bankia, S.A.	Baa2	Baa3	Baa3
CaixaBank, S.A.	Baa2	Baa3	Baa2
UniCredit S.p.A.	Ba1	Ba2	Baa1
Banco Santander S.A. (Spain)	Baa2	Baa3	Baa1
Electricite de France	Baa1	Baa2	A3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 4	Jun. 27	Senior Ratings
ING Groep N.V.	Baa2	A3	Baa1
The Royal Bank of Scotland Group plc	Ba1	Baa3	Baa3
Santander UK plc	A2	A1	Aa3
Barclays Plc	Ba1	Baa3	Baa3
Abbey National Treasury Services plc	A2	A1	Aa3
NatWest Markets Plc	Baa1	A3	Baa2
ING Bank N.V.	Aa2	Aa1	Aa3
Raiffeisen Bank International AG	Baa3	Baa2	A3
LafargeHolcim Ltd	Ba1	Baa3	Baa2
Continental AG	Baa1	A3	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 4	Jun. 27	Spread Diff
Galapagos Holding S.A.	Caa3	2,215	2,047	169
Boparan Finance plc	Caa1	662	637	25
Anglo American plc	Baa3	160	147	14
ArcelorMittal	Baa3	165	152	13
NatWest Markets Plc	Baa2	64	55	10
ING Groep N.V.	Baa1	68	58	10
Raiffeisen Bank International AG	A3	83	73	10
LafargeHolcim Ltd	Baa2	111	101	10
Fiat Chrysler Automobiles N.V.	Ba3	184	175	9
Banca Nazionale Del Lavoro S.p.A.	Baa3	80	71	9

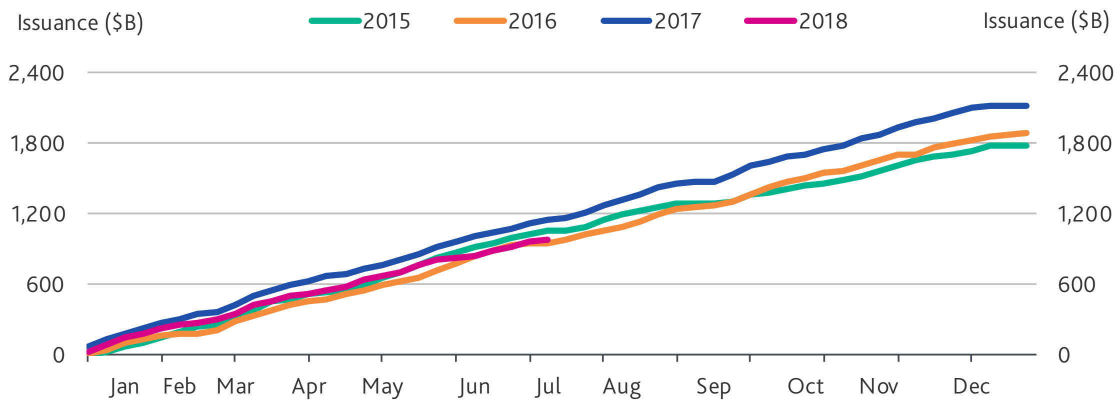
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 4	Jun. 27	Spread Diff
Astaldi S.p.A.	Caa1	1,699	1,731	-33
Eksportfinans ASA	Baa3	431	462	-31
DEPFA BANK plc	A2	207	236	-28
Unipol Gruppo S.p.A.	Ba1	162	189	-27
CMA CGM S.A.	B3	685	709	-24
Permanent tsb p.l.c.	Ba3	192	211	-19
Vedanta Resources plc	B2	413	430	-17
Italy, Government of	Baa2	202	218	-16
Evraz Group S.A.	Ba3	232	249	-16
Sappi Papier Holding GmbH	Ba2	335	349	-14

Source: Moody's, CMA

Market Data

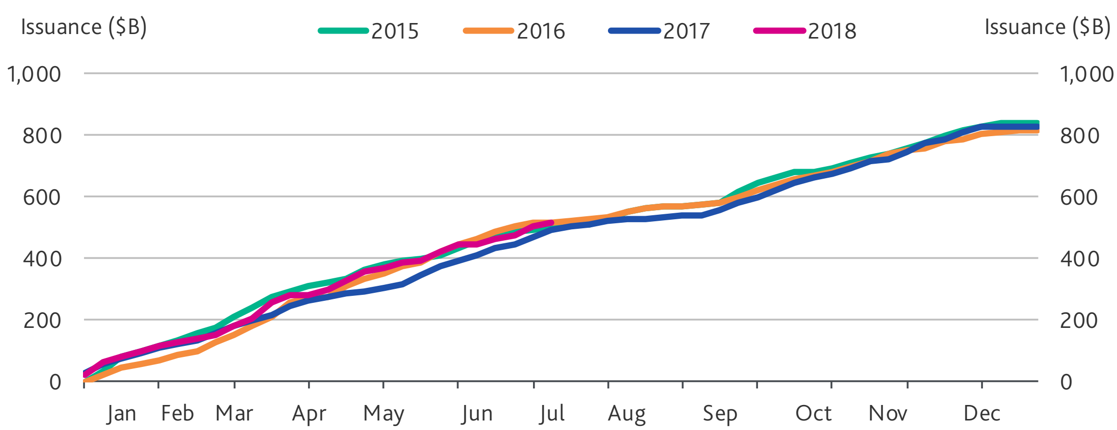
Issuance

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	5.718	8.744	15.695
Year-to-Date	755.257	183.829	985.146

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	11.379	1.998	14.242
Year-to-Date	432.329	62.326	516.902

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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