MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

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Profits Determine Effect of High Corporate Debt to GDP Ratio

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Credit Markets Review and Outlook

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

Profits Determine Effect of High Corporate Debt to GDP Ratio

As of 2018's second quarter, the gross debt of U.S. nonfinancial corporate businesses was at an unprecedented 45.8% of GDP, where the ratio is a moving yearlong average. Data from the "Financial Accounts of the United States," formerly known as the "Flow of Funds Accounts," is best viewed from the perspective of a moving yearlong average mostly because the quarterly data are frequently subject to substantial revisions, where even the moving yearlong averages can be altered considerably.

Volatile Flows Are Best Examined in a Yearlong Context

It is especially risky to have much confidence in the durability of the recent annualized quarterly flows supplied by the "Financial Accounts of the United States." Jarring changes in the annualized quarterly flows can exaggerate the underlying trend of the variable in question. For example, according to the latest, September 20, edition of the Financial Accounts, the annualized net equity buybacks of nonfinancial-corporate businesses soared from the $405 billion of 2018's first quarter to the $841 billion of the second. The latter is second only to the $987 billion annualized pace of 2007's final quarter according to a record that begins in 1951. However, September 20's edition of the Financial Accounts downwardly revised 2017's annualized quarterly net stock buybacks by $64 billion, on average, for an average percentage reduction of 18%.

Given the underlying volatility of annualized quarterly flows, it may be premature to assign much significance to the second quarter's outsized reading for net stock buybacks. By contrast, the $485 billion of net equity buybacks for the year-ended June 2018 remains well under the metric's $616 billion high for the current upturn from the year-ended September 2016, as well as its $706 billion zenith for the year-ended December 2007.

Financial Accounts' New Definition of Liquidity May Be Too Generous

Sometimes, the Federal Reserve will even change the definitions of the metrics found in the Financial Accounts. For example, as shown in Table L.103, June 7, 2018's edition of the Federal Reserve's "Financial Accounts of the United States" set the "total liquid assets" of nonfinancial corporate businesses equal to the sum of the category's deposits, money market fund shares, security repurchase agreements, commercial paper, Treasury securities, federal agency-backed securities, municipal securities, and mutual fund shares. All of this added up to $2.662 trillion of liquid assets for nonfinancial corporations as of 2018's first quarter.

However, the recently released September 20, 2018 edition of the Federal Reserve's "Financial Accounts of the United States" added first quarter 2018's $1.861 trillion of corporate equities held by nonfinancial corporations to the aforementioned June 7 definition of liquid assets. After the usual revisions, first-quarter 2018's total liquid assets soared from $2.519 trillion using June 7's definition to $4.380 trillion using September 20's definition.

In turn, the net debt of nonfinancial corporations sank from the $6.593 trillion, or 32.9% of GDP, according to June 7's approach to a shockingly lower $4.732 trillion, or merely 23.6% of GDP, according to September 20's methodology.

Moreover, an upward revision of first-quarter 2018's outstanding nonfinancial-corporate debt from June 7's $9.057 trillion to September 20's $9.112 trillion edged gross corporate debt up from 45.3% to 45.7% of GDP.

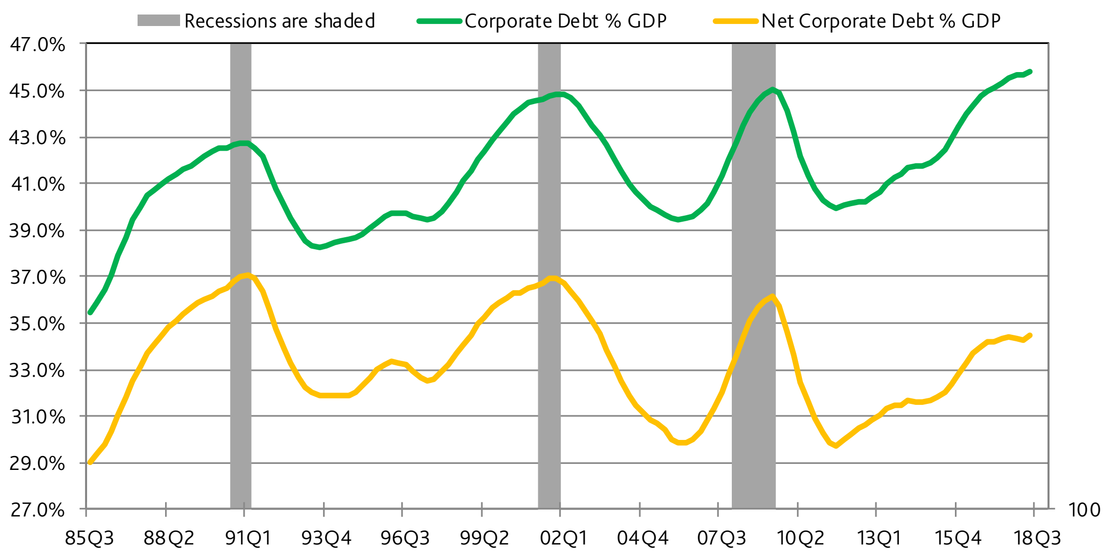
Both definitions of liquid assets may not be liquid enough in a time of systemic stress mostly because the inclusion of either mutual fund shares or corporate equities increases the susceptibility of liquidity to sudden and deep downturns in the market value of common equity.

An Equity-Free Measure of Net Corporate Debt Might Be Best

Thus, it might be best to exclude both corporate equities and mutual fund shares from liquid assets, which would lower first-quarter 2018's liquid assets to $2.243 trillion. By doing so, the net debt of nonfinancial corporations equals 34.3% for the first quarter and 34.5% for the second quarter of 2018, where the ratios are moving yearlong averages.

Though both ratios top their 33.2% median since the end of 1985, both are significantly under the sample's 37.0% zenith from the first quarter of 1991. Coincidentally, during the Great Recession, this ratio of net corporate debt to GDP crested at second-quarter 2009's 36.1%.

Figure 1: As a % of GDP, Corporate Debt Sets New Zenith, but Net Corporate Debt Is Closer to Its Long-Term Median than Its Sample High
U.S. nonfin. corp., yearlong ratios
sources: Federal Reserve, BEA, Moody's Analytics



The equity-free ratio of net corporate debt to GDP previously climbed up to a range between 34% and 35% during April-June 2008, July 1998-December 1998, and October 1987-June 1988. April-June 2008 overlapped the milder stage of the Great Recession, or when the high-yield bond spread's month-long average ignored the declining trend of core profits and temporarily narrowed from March 2008's 791 basis points to June 2008's 654 bp.

July 1998-December 1998 coincided with emerging market turmoil and related industrial commodity price deflation both of which helped to prompt a cutting of the federal funds rate from August 1998's 5.50% to 4.75% by year-end 1998. The 10-year Treasury yield's month-long average also fell from August 1998's 5.34% to December 1998's 4.65%. In addition, core profits declined year-over-year during 1998's second half.

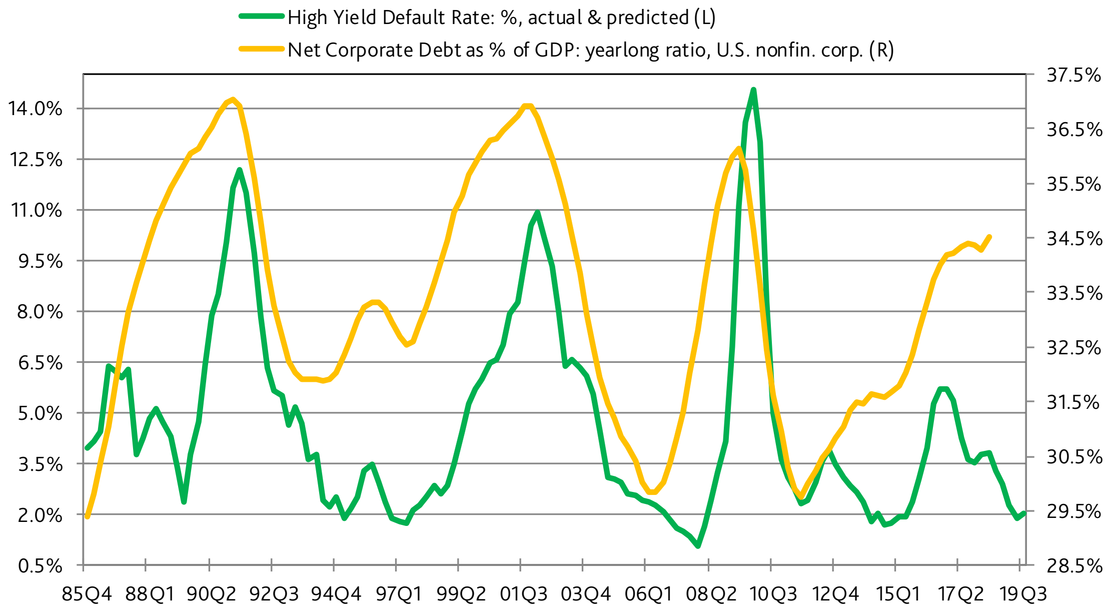
Despite the above-trend ratio of net corporate debt to GDP of October 1987-June 1988, the core profits of nonfinancial corporations grew by roughly 18% annualized over that brief span. And that would help to quickly restore investor confidence following October 1987's stock market crash and reverse a brief upswing by the default rate.

Default Rates Have Declined amid a Rising Ratio of Net Corporate Debt to GDP

The ratio of net corporate debt to GDP may reveal something important about the high-yield default rate over time, but, by itself, the ratio is not a reliable near-term indicator of defaults. Despite how the ratio climbed up from second-quarter 1987's 33.1% to second-quarter 1989's 35.8% of GDP, the high-yield default rate fell from 6.3% to 2.4% over that same span. A solid performance by core pretax profits explains why the default rate overcame the faster growth of net corporate debt relative to GDP.

Figure 2: Default Outlook Is Benign Despite Elevated Ratio of Net Corporate Debt to GDP

sources: Federal Reserve, BEA, Moody's Investors Service, Moody's Analytics



During the two years ended June 1989, the core profits of nonfinancial corporations expanded by 11.7% annualized, on average. By contrast, when the ratio of net corporate debt to GDP subsequently its record 37.0% of 1991's first quarter, a concurrent 5.4% average annualized drop by core profits helps to explain why the default rate soared to a first-quarter 1991 peak of 11.65%.

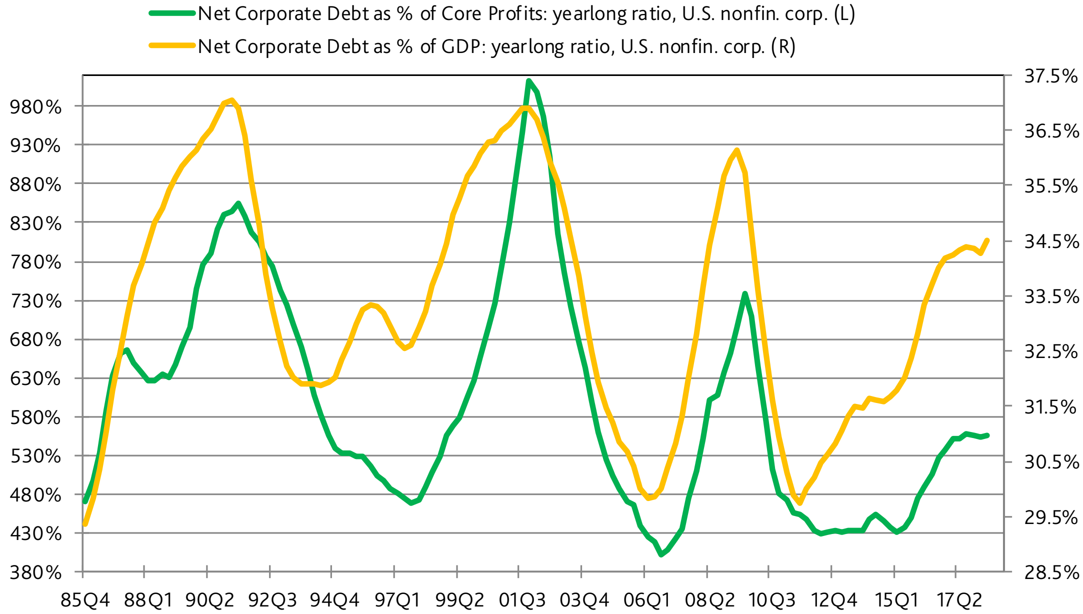
Similarly, the climb by net corporate debt from fourth-quarter 1997's 32.9% to fourth-quarter 2001's 36.9% of GDP was joined by the default rate's lift-off from 2.3% to 10.5% mostly because of an accompanying 10.3% average annualized contraction by the core profits of nonfinancial corporations.

Complementing the earlier findings, the default rate's climb from a fourth quarter 2007 low of 1.1% to second quarter 2009's 11.1% may have been more the offshoot of a 12.9% average annualized drop by core profits than the rise by net corporate debt from fourth-quarter 2007's below-trend 32.0% to second-quarter 2009's 36.1% of GDP.

The record strongly indicates that a climb by the ratio of net corporate debt to GDP does not trigger a sharp and disruptive upswing by the default rate unless accompanied by a shrinkage of core profits. If the positive outlook for profits through 2019 proves accurate, the high-yield default rate will probably not rise much above its post-1985 median of 3.7% into 2020.

Figure 3: Corporate Leverage Appears Much Lower When Compared to Core Profits As Opposed to GDP

sources: Federal Reserve, BEA, Moody's Investors Service, Moody's Analytics



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

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

Hurricane Clouds September Employment

The week ahead is packed but the focus will be on September employment. It is difficult to precisely quantify the effect of a hurricane on the Bureau of Labor Statistics' monthly employment estimates. The severity of the storm, the region affected, duration of disruption, and the timing of the month the hurricane occurs can all affect employment. This creates considerable uncertainty about how the labor market fared in September. Therefore, we will likely not be able to glean too much about the state of the labor market from the September Employment Situation report, to be released Friday.

Employment aside, there will be a number of key survey-based data, including the ISM manufacturing and nonmanufacturing surveys. Construction spending likely rose 0.4% in August. Meanwhile, vehicle sales likely fell in September while the nominal trade deficit for August will likely show that net exports will be a big drag on third quarter GDP growth.

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence	index, 4-wk MA				32.8
Mon @ 10:00 a.m.	Construction Spending for August	% change	0.4	0.5	0.2 to 0.7	0.1
Mon @ 10:00 a.m.	ISM Manufacturing Index for September	diffusion index	60.3	60.1	58.1 to 61.6	61.3
Mon @ 12:00 a.m.	Vehicle Sales for September	mil, SAAR	17.0			16.7
Wed @ 8:15 a.m.	ADP National Employment Report for September	change, ths		185	155 to 210	163
Wed @ 10:00 a.m.	ISM Nonmanufacturing Index for September	diffusion index	58.7	58.0	57.5 to 59.5	58.5
Thur @ 8:30 a.m.	Jobless Claims for 9/29/18	ths	218	210	200 to 230	214
Thur @ 10:00 a.m.	Factory Orders for August	% change	2.0	1.0	0.9 to 1.0	-0.8
Fri @ 8:30 a.m.	Employment Situation for September	change, ths		190	160 to 203	201
	Average Workweek	#		34.5	34.4 to 34.5	34.5
	Unemployment rate	%		3.8	3.8 to 3.9	3.9
	Average Hourly Earnings	% change		0.3	0.2 to 0.4	0.4
Fri @ 8:30 a.m.	International Trade for August	$ bil	-53.7	-49.0	-52.0 to -47.2	-50.1

MONDAY, OCTOBER 1

Business confidence (week ended September 28; 10:00 a.m. EDT)
Forecast: N/A

Global businesses are upbeat, but the escalating global trade war appears to be weighing on confidence. This nervousness is most evident with regard to expectations about business prospects into next year; they are about as weak as they have been at any time during this economic expansion. Close to one-third of respondents say that prospects are weakening; the highest percentage since the economy was pulling out of the Great Recession at the start of this decade.
The four-week moving average in our global business confidence index fell from 31.8 to 32.8 in the week ended September 21.

ISM manufacturing survey (September; 10:00 a.m. EDT)
Forecast 60.3

We look for the ISM manufacturing index to have dropped from 61.3 in August to 60.3 in September. The hurricane may have boosted supplier deliveries but we look for a decline in new orders, production and inventories.

TUESDAY, OCTOBER 2

No major economic releases scheduled.

WEDNESDAY, OCTOBER 3

ADP National Employment Report (September; 8:15 a.m. EDT)
Forecast 623,000 at an annualized rate

In August, private-sector payrolls expanded by 163,000 on net, according to the ADP National Employment Report. This marks a slowdown in hiring from the first half of the year, when gains averaged just more than 200,000 jobs per month. Though we find ADP useful in predicting the subsequent BLS estimate, there is an important methodological difference related to active versus paid employees. ADP counts employees as working as long as they are on the payroll, but the BLS counts only those who worked at some point during the reference week. This becomes an issue when there are weather events such as the recent hurricanes. Still, ADP likely captured some of the weather effect via the storms disrupting businesses' hiring and firings.

THURSDAY, OCTOBER 4

Jobless claims (week ended September 29; 8:30 a.m. EDT)
Forecast 218,000

Hurricane Florence likely continue to temporarily boost to initial claims. We look for new filings to have risen from 214,000 to 218,000 in the week ended September 29.

FRIDAY, OCTOBER 5
Employment Situation (September; 8:30 a.m. EDT)
Forecast: We will release our forecast after the ISM surveys and ADP.

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

Investors Fret Over Chances of a No-Deal Brexit

The week will bring some important data releases, but in the spotlight should be U.K. Prime Minister Theresa May's speech following the conclusion of the 2018 Conservative Party conference on Wednesday. Investors are fretting over the rising chances of a no-deal Brexit, especially after May's rather bold televised speech on September 21. On her return from the Salzburg summit with EU leaders, the prime minister rebuffed each of the EU's two propositions for the U.K.'s future relationship with the bloc. First, May claimed that the off-the-shelf Norway option—which would see Britain remain in the single market and customs union, and pay into the EU budget—would make a mockery of the Brexit vote. Second, the Canada option—consisting of a free-trade agreement similar to the one Canada signed with the EU—would imply triggering the EU's backstop solution for Northern Ireland, which in practice would mean that the country would stay in the single market and customs union while the rest of the U.K. would withdraw. May reiterated that this option was unacceptable for the U.K., as it would effectively create a border down the Irish Sea, threatening the constitutional integrity of the country.

Our view is that May's hardened stance was mainly designed to shore up her position at the weekend conference, reducing the risk of a no-confidence vote against her being triggered. Her position as the party's leader remains fragile, especially now that the deadline for concluding Brexit negotiations is looming. She should soften her tone somewhat once the conference is over, though we expect brinkmanship to continue to be the word of the day. The EU has repeatedly indicated that October 18 is the final date for reaching a consensus and opening the door for an extraordinary Brexit summit to be held in November, during which the parties would complete the withdrawal treaty. We think that this date could easily be missed and still allow enough time for the EU and the U.K. parliaments to vote on the final agreement during the first quarter of 2019, before Brexit day on March 30, so we wouldn't be surprised if heated negotiations dragged on until Christmas.

We maintain that both parties will eventually reach a deal on the terms of the U.K.'s withdrawal, avoiding the catastrophic no-deal scenario by allowing the transition period to be implemented (it should last until December 30, 2020). Our baseline is that the U.K. will give in to the EU's proposed Northern Ireland backstop solution, ensuring that the future trade relationship is on soft lines. Accordingly, we expect that during the transition period the U.K. and the EU will negotiate a trade deal similar to the one currently being mooted by the U.K. government, but that in the end the U.K. will remain in the customs union and abide by the EU's regulations on goods; in other words, that it will follow a "common rule book." This should allow for the border between Ireland and Northern Ireland to remain open. There will be no access for services firms, but we expect that both parties will negotiate some type of bilateral deal for the different services industries.

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	Key indicators	Units	Moody's Analytics	Last
Mon @ 8:00 a.m.	Germany: Retail Sales for August	% change	-0.3	-0.4
Mon @ 9:00 a.m.	Italy: Unemployment for August	%	10.8	10.4
Mon @ 10:00 a.m.	Euro Zone: Unemployment for August	%	8.2	8.2
Tues @ 8:30 a.m.	Spain: GDP for Q2	% change yr ago	0.6	0.7
Wed @ 10:00 a.m.	Euro Zone: Retail Sales for August	% change	0.4	-0.2
Wed @ 10:00 a.m.	Italy: GDP for Q2	% change	0.2	0.3
Fri @ 8:00 a.m.	Spain: Industrial Production for August	% change	0.5	-0.3
Fri @ 9:00 a.m.	Italy: Retail Sales for August	% change	0.3	-0.1
Fri @ 2:00 p.m.	Russia: Consumer Price Index for September	% change	0.3	0.0

MONDAY, OCTOBER 1

Germany: Retail Sales (August; 8:00 a.m. BST)

August likely brought a contraction in German retail sales after they decreased in the previous month. Sales are expected to have decreased by 0.3% from July, when they dropped by 0.4%. In year-ago terms, sales continued to grow but the pace of increase remained muted at around 1%. The GfK consumer climate indicator for August fell to 10.6 after holding steady at 10.7 in the previous month, and was considerably weaker than this year's peak of 11 reached in February. Meanwhile, German inflation remained strong in August and stayed marginally above the ECB's target of 2%, while the unemployment rate remained at the record low of 5.2%. Private consumption expenditure continued to increase in the second quarter after it recovered at the start of the year. However, consumers will likely keep a tight grip on their wallets in coming quarters because of the uncertain outlook.

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

The Italian unemployment rate likely ticked back up to 10.8% in August after dropping to 10.4% in July. The decline in the unemployment rate in July was driven by workers exiting the labour market. Weakening business sentiment amid increased uncertainty on government policies and changes in labour laws will likely hold back hiring. Although the Italian labour market will improve over the coming year, the economy is showing signs of slowing, which will keep the jobless rate from falling faster. Italy's labour force has a long way to go on the road to recovery and necessary structural reform may be delayed by political discord.

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

The euro zone's unemployment rate likely held steady at 8.2% in August, its lowest reading since the end of 2008. All leading indicators showed that employment growth remained robust over the month, and the Markit PMI release found that August saw further job creation, with the rate of expansion improving to a six-month high. Employment rose in all of the nations covered by the survey, and in the spotlight was that job growth accelerated in Germany to its fastest since March 2011. We nonetheless suspect that employment gains are starting to slow in the euro area, in line with the recent dips in the headline confidence numbers. But such a slowdown was always expected, particularly in those places where little slack remains in the job market. We expect the downward trend in joblessness to persist in quarters to come, and we forecast that the euro zone's unemployment rate will reach 7.9% by the end of 2018.

TUESDAY, OCTOBER 2

Spain: GDP (Q2; 8:30 a.m. BST)

Spain's GDP likely expanded by 0.6% on a quarterly basis in the second quarter, a touch below the 0.7% previously. Year-ago GDP growth eased to 2.7% from 3% in the opening stanza. Consumption hit a soft patch in the second quarter and posted a meagre 0.2% gain in quarterly terms following a strong run of 0.7% expansion over the last four quarters. Trade also shaved from the quarterly growth. Exports retreated by 1% on a quarterly basis for the first time since the third quarter of 2016. The three-month moving average of the sector fell to 0.2%, coming off a peak in 2017. An outsize stimulus came from machinery and capital goods accumulation, which accelerated to 5.5% q/q after falling by 1.6% previously, but that is hardly a sustainable pace. Falling consumption and exports suggest that the second quarter GDP figure will be a one-hit wonder, and it won't be long before cooler global demand drags on the headline GDP.

WEDNESDAY, OCTOBER 3

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

Euro zone retail sales likely added 0.4% in monthly terms in August, following a 0.2% decline in July. This should have pushed the yearly rate up to 2%, from 1.1% previously, in line with the past year average. Most of the preliminary country data haven't been made available yet, but we expect that sales mean-reverted from weakness in July in most major countries. Across sectors, food and household goods sales are expected to have rebounded following declines at the start of the quarter, while clothing sales are also expected to have remained robust as temperatures normalized, and this should have boosted retailers' new fall collection. Fuel sales likely remained only steady, failing to recover from a decline in July.

THURSDAY, OCTOBER 4

No major indicators are scheduled for release.

FRIDAY, OCTOBER 5

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

Industrial production likely ticked up 0.5% m/m in August following two consecutive months of drops. Durable consumer goods should have lifted the figure, but energy production was also likely less of a disaster after it hit rock bottom in July. In year-ago terms, we expect industry printed at 0.2%, well below the 12-month average of 2.6%. Assuming slow manufacturing for the rest of the year, we are penciling in industrial output to grow less than 1% this year, down from 3.2% in 2017.

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

Italy's retail sales likely strengthened in July, expanding 0.3% m/m following a 0.1% decline in June and July. Consumer confidence remains stalwart, despite political uncertainty and a slowdown in the euro area generally. The labour market is improving, with the inactivity rate near its lowest in more than a decade and employment rising above its prerecession peak. Sturdy household spending will underpin retail sales in the coming quarters.

Russia: Consumer Price Index (September; 2:00 p.m. BST)

Russia's CPI likely rose 0.3% for September, after 0% in August on a not seasonally adjusted basis. On a year-ago basis inflation rose to 3.1% in August, up from 2.5% as reported in July. This is a sharp acceleration. The Bank of Russia caught us by surprise in September, hiking the policy rate by 25 basis points. The rising inflation had convinced central bankers to pause policy normalization back in June, but the bank significantly revised up its inflation projection to 5% to 5.5% by the end of next year, warranting an even tighter stance.

ASIA-PACIFIC

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

Japanese Businesses Warily Watch U.S.-China Trade War

Japan's Tankan survey of business sentiment likely dipped by 1 point in the third quarter, as businesses are more wary of the escalating trade war between the U.S. and China. The Tankan survey is a good indicator of the Japanese economy; a rising index leads overall business investment. Although the index has risen over the past year thanks to the yen's depreciation, the recent declines in 2018 coincide with fragile external demand conditions.

South Korea's closely watched trade surplus likely narrowed in September. The monthly trade data are a useful and timely barometer of Asia's export performance. Tech shipments remain an important strength in the export ledger, while autos are weak, even though they have improved from a year earlier.

Central banks in India and Australia will likely keep their policy rates steady in October. The decision in India is less certain. The Reserve Bank of India hiked the repo rate by 25 basis points at its August meeting to 6.5%, its highest rate in more than two years. Governor Urjit Patel said the main reason for August's hike was to anchor inflation, which has been above the medium-term inflation target of 4% for several months. The more settled inflation outlook following the earlier rate hikes will likely douse further calls for rate hikes in 2018.

The Reserve Bank of Australia is in a fortunate place because domestic economic conditions are broadly on a gradual improving trend. Wage growth has passed its trough, and forward indicators suggest persistent health in employment growth, although job creation has slowed from 2017. Inflation is subdued, meaning there's no rush to start hiking rates. The housing market is on an entrenched cooling trend and, with lending rates modestly rising independent of the cash rate, will ensure the once heated pockets (namely Sydney) will continue to soften. Rate hikes are unlikely to come into view until late 2019 at the earliest.

	Key indicators	Units	Moody's Analytics	Last
Mon @ Unknown	South Korea Foreign trade for September	US$ bil	6.5	6.9
Mon @ 9:50 a.m.	Japan Tankan Survey for Q3	Index	20	21
Tues @ 9:00 a.m.	South Korea Retail sales for August	% change yr ago	0.4	0.5
Tues @ 2:30 p.m.	Australia Monetary policy for October	%	1.5	1.5
Tues @ 3:00 p.m.	Japan Consumer confidence for September	Index	43.1	43.3
Thurs @ 11:30 a.m.	Australia Foreign trade for August	A$ bil	1.32	1.55
Fri @ 9:00 a.m.	South Korea Consumer price index for September	% change yr ago	1.4	1.4
Fri @ 11:30 a.m.	Australia Retail sales for August	% change yr ago	0.2	0.0
Fri @ 2:00 p.m.	Malaysia Foreign trade for August	MYR bil	6.4	8.3
Fri @ 5:30 p.m.	India Monetary policy for October	%	6.5	6.5
Fri @ 6:00 p.m.	Taiwan Consumer price index for September	% change yr ago	1.8	1.5

The Week Ahead

MONDAY, OCTOBER 1

South Korea: Foreign Trade (September; Unknown)

South Korea's merchandise trade surplus likely narrowed to US$6.5 billion in September. The foreign trade surplus came in a healthy US$6.9 billion in August, thanks to solid growth in exports and some moderation in import growth. Shipments of semiconductors remained a standout, continuing to expand at a robust double-digit pace. However, foreign demand for ships continued to weaken, as did exports of home appliances and mobile phone equipment. Car exports improved somewhat from a year earlier, although growth was weak. One development that looms large is the escalating trade spat between the U.S. and China. China's tech products are a prime target for U.S. tariffs, and any slowdown in China's tech exports will likely flow through the supply chain to South Korea, a key supplier of intermediate goods.

Japan: Tankan Survey (2018Q3; 9:50 a.m. AEST; Sunday, 11:50 p.m. GMT)

A drop in business sentiment in the second quarter suggests that Japanese firms are wary of the recent trade tensions emerging between the U.S. and China. The Tankan survey of large manufacturers dropped by 3 points to 21 in June. Although the forecast was for the index to remain unchanged in September, we suspect the index could've fallen to 20 because of continued trade skirmishes between the U.S. and China. Risks are that this could spill into a trade dispute with Japan and the U.S. The Tankan survey is a good indicator of the Japanese economy; a rising index leads overall business investment. Although the index has risen over the past year thanks to the yen's depreciation, the recent declines in 2018 coincide with fragile external demand conditions.

TUESDAY, OCTOBER 2

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

South Korean retail sales remained soft in July. Sales of passenger cars continued to be weak, slipping for the third consecutive month. Sales of furniture also fell, as did footwear and pharmaceuticals. Still, the modest rise in month-ago terms was helped by an improvement in household appliances, clothing, fuel, cosmetics, electronics, and books and stationery purchases. Although retail sales continue to creep up, a weak labour market and dimming consumer sentiment will likely limit spending. South Korea's unemployment rate edged up in its latest reading, and employment growth slowed to its weakest pace since the start of 2010. Retail sales likely edged up 0.4% m/m in August.

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

The Reserve Bank of Australia will keep the cash rate at 1.5% in October, where it has been since August 2016. The RBA is in a fortunate place because domestic economic conditions are broadly on a gradual improving trend. Wage growth has passed its trough, and forward indicators suggest persistent health in employment growth, although job creation has slowed from 2017. Inflation is subdued, meaning there's no rush to start hiking rates. The housing market is on an entrenched cooling trend and, with lending rates modestly rising independent of the cash rate, will ensure the once heated pockets (namely Sydney) will continue to soften. Rate hikes are unlikely to come into view until late 2019, at the earliest.

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

Consumer confidence continues to slide in the second half of the year as various global events have increased anxiety. The consumer confidence index slipped 0.2 point to 43.3 in August, down from 43.5 in July. We expect sentiment may have slipped a further 0.2 point in September to 43.1. Global momentum is also driving Japanese consumer sentiment. Trade tensions continue to threaten regional growth prospects. The outlook for consumption remains mixed. Retail sales increased in June, but spending was largely driven by higher fuel prices. Overall, higher fuel costs are the primary driver of inflation expectations. But consumers are aware that a transitional rise in fuel costs will be removed on a year-ago basis even if commodity prices remain high.

WEDNESDAY, OCTOBER 3

No major economic indicators are scheduled for release.

THURSDAY, OCTOBER 4

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

Australia's trade surplus likely narrowed further in August to A$1.32 billion, following the A$1.55 billion surplus recorded in July. Nonrural goods are behind the strength on the merchandise front, given ongoing buoyancy in commodity demand and increased export capacity for liquefied natural gas. Rural goods are struggling amid the widespread drought, particularly impacting the eastern states. There's no relief for Australia's rural goods in the near term. Dry conditions will persist into the final quarter of 2018, and food safety concerns over strawberries and other fruit following malicious tampering have been an added weight on fresh produce in September.

FRIDAY, OCTOBER 5

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

Headline inflation remains muted in South Korea as it remained below the Bank of Korea's 2% inflation target in its last reading. That soft reading was driven by a decline in utilities inflation, which reflected government cuts to electricity prices to ease the burden on locals due to the heat wave. Meanwhile, inflation also cooled on the back of a fall in health and communication prices. Excluding food and energy prices, inflation remains at a multiyear low, suggesting underlying prices pressures are still weak. One development keeping a lid on price pressures is the weak labour market, with employment growth down at its weakest reading since the start of 2010. Consumer prices likely rose 1.4% y/y in September.

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

Australian retail trade likely rose a modest 0.2% m/m in August, after being flat in July. The seasonally adjusted monthly expansion will remain below the trend pace of 0.3% as households make a modest downward adjustment to discretionary spending in light of entrenched cooling in the housing market, tighter lending rates, and ongoing weakness in income growth encouraging households to tighten purse strings a little after increasingly dipping into savings to fund higher-than-expected consumption through the first half of 2018.

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

Malaysia's trade surplus likely narrowed to MYR6.4 billion in August, following the MYR8.3 billion recorded in July. The important tech category staged a comeback with exports rising by 23.6% y/y in July, and this is unlikely to be repeated in August. Nevertheless, electrical and electronic shipments will still help absorb weakness in palm oil shipments, which have been struggling on both a volume and value basis. Palm oil prices have improved a little in September, which should translate to improved exports, especially given the weaker ringgit.

India: Monetary Policy (October; 5:30 p.m. AEST; 7:30 a.m. GMT)

The Reserve Bank of India hiked the repo rate by 25 basis points at its August meeting to 6.5%, its highest rate in more than two years. We believe that the central bank will remain on hold at its October monetary policy meeting. RBI Governor Urjit Patel said the main reason for August's hike was to anchor inflation, which has been above the medium-term inflation target of 4% for several months. But we think other factors are just as important to the bank, namely its quest to stabilise the rupee and stem capital outflows, which have gathered pace in fits and starts over 2018 as emerging markets have come out of favour. The recent stability in capital outflows and a more settled inflation outlook following the earlier rate hikes will likely douse further calls for rate hikes in 2018.

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

Taiwan's consumer price growth likely hit 1.8% y/y in September, following the unexpected cooling to 1.5% in August. Tobacco prices likely remained elevated after the cigarette tax hike, while vegetable prices spiked due to extensive flooding in some parts. The hit to CPI will be partially absorbed by government measures to stabilise prices, as is the norm in Taiwan. Excluding food prices, inflation pressures remain subdued. The central bank's position is that the current accommodative monetary policy stance is appropriate, and interest rate hikes are unlikely until late this year at the earliest.

The Long View

As far as ultimately giving direction to the equity market, thin high-yield spreads have proven correct thus far in 2018.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group
September 27, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 121 basis points resembles its 122-point mean of the two previous economic recoveries. This spread may be no wider than 130 bp by year-end 2018.

The recent high-yield bond spread of 338 bp is less than what 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

August 2018's U.S. high-yield default rate of 3.41% was less than the 3.51% of August 2017. Moody's Default and Ratings Analytics team now expects the default rate will approximate 2.1% by August 2019 after averaging 1.9% during 2019's second quarter.

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.

Second-quarter 2017's worldwide offerings of corporate bonds showed an annual 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.

Second-quarter 2018's worldwide offerings of corporate bonds eked out an annual increase of 2.8% for IG, but incurred an annual plunge of 20.4% for high-yield, wherein US$-denominated offerings rose by 1.6% for IG and plummeted by 28.1% 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 changes for 2018's worldwide corporate bond offerings are -0.7% for IG and -21.0% 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 U.S.'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 Araujo of Moody's Analytics
September 27, 2018

EURO ZONE

Euro zone confidence data released over the past few days have been mixed across sectors and countries, but one trend that is standing out is how sentiment in the manufacturing sector is falling off a cliff. For September, the manufacturing PMI and the European Commission's industrial gauge each deteriorated sharply, falling to a 16- and a 24-month low, respectively.

The reasons behind such a slowdown are of little wonder. Trade tensions and volatility in emerging markets are taking a toll on export demand—euro zone export orders outright fell in September, for the first time since June 2013—causing work backlogs to fall and employment growth to slow sharply. Brexit, the higher price of a Brent barrel, growing risk aversion, and destocking are similarly playing a role. Adding to that, we suspect that volatility around the shift in the EU's car emission rules has depressed confidence in the auto industry over the month, though we need to see more specific data to be sure. In any case, it is alarming that sentiment in the euro zone manufacturing industry dropped to its lowest in four years at the end of the third quarter, according to Markit. We still expect that euro zone industrial production will rise by around 0.8% q/q in the three months to September, but we have to watch out for renewed weakness ahead.

Thankfully, the disappointing figures are limited to manufacturing. Figures for the services sector have been much better, showing that activity there remains buoyant. It is being boosted by strong domestic demand, itself supported by still-solid job and wage gains.

FRANCE

French consumers have been hit by many headwinds this year, and it is not for nothing that consumer confidence has fallen off a cliff since January. First, accelerating inflation—the EU's harmonized gauge of CPI inflation peaked at 2.6% in August—has dented real wage growth. Second, disposable income has been hit by tobacco and fuel tax hikes, while households also had to shoulder an increase in income tax at the beginning of the year due to a rise in generalized social contributions. Third, President Macron's labour market reforms have made it easier for companies to hire and fire, raising fears of unemployment. Fourth, long-lasting strikes in the transportation sector during the second quarter left commuters grounded and disrupted activity in several industries.

The good news is the situation for France should improve soon. Inflation is on track to cool gradually this year and next, in line with base effects related to oil prices. Combined with the expected pickup in wages—the labour market remains robust—this should help ease the pressure on households' purchasing power. Meanwhile, cuts to direct taxes and social security contributions should provide a further boost from the end of 2018 onwards. The preparations for 2019's budget imply further tax cuts next year, even if the budget has yet to be passed.

So, despite the recent deterioration in French confidence numbers, we still expect household consumption to pick up during the third and fourth quarters, following a weather-related decline in the second quarter. Our view is that consumer spending will rise by around 1.3% over the two quarters, following a meagre 0.1% increase in the first half of the year.

ASIA PACIFIC

By Abhilasha Singh and Jesse Rogers of Moody's Analytics
September 27, 2018

CHINA

With trade tensions between the U.S. and China escalating further, much ink has been spilled on the impacts of Chinese tariffs on U.S. states and metropolitan areas. The focus on U.S. states, metro areas and counties owes in part to the sheer geographic diversity of the U.S. economy as well as attempts by China's leaders to turn up the heat on members of the U.S. congressional leadership. By contrast, U.S. tariffs are a far blunter instrument, hitting a broad cross-section of Chinese imports with a near homogeneous tariff rate. However, given the growing geographical diversity of the Chinese economy, escalating trade tensions would exact a broad regional toll.

China's coastal provinces remain the country's beating heart, and fallout from a broader escalation of global trade tensions would strike these provinces first. Running from Beijing and Shanghai in the north to Guangdong on the southeast coast, the eight provinces that cover China's coastline account for more than 80% of the country's exports and an even greater share of foreign direct investment. Provincial officials in Guangdong, China's most populous province and its largest in terms of GDP, have already reported a slowdown in exports in industries targeted by U.S. tariffs, and the latest round of U.S. tariffs put into place the third week of September could dampen manufacturing and exports farther up the coast.

Although coastal provinces rely most on trade, measures by provincial governments to mitigate trade risk could provide a degree of insulation in the near term. In Guangdong, provincial officials moved recently to slash corporate taxes, lower electricity prices, and reduce transportation costs and land rents. Meanwhile, officials in export-oriented Fujian announced similar measures to curb the blow of slowing exports. In contrast to inland provinces, debt burdens in China's East remain low and will allow for greater fiscal intervention should trade conflicts deepen.

One Belt, One Road benefit

China's central and western provinces rely more on commodities and agriculture, but with factory wages rising rapidly on the coast, manufacturing supply chains have stretched westward over the past decade. Manufacturers' inland march has been abetted by cost-cutting incentives put into place by the public and private sectors. Six out of seven new free trade zones established last year by the central government are in inland provinces, a designation that will help unlock foreign investment given less burdensome requirements for state ownership in joint ventures. These inland provinces are also slated to benefit from rapid investment vis-à-vis China's One Belt, One Road initiative.

Among China's central provinces, Anhui and Henan boast thriving factory sectors, with the latter attracting large investments from Foxconn and other computer and electronics manufacturers. As a result, exports have risen by a factor of three and four, respectively, in the past six years. Despite considerable distance from the coast, Henan now accounts for about a sixth of mobile devices produced for domestic and international markets. Meanwhile, Anhui has lessened its reliance on old-line textile industries and grown its share of China's computer and electronics exports, helping its economy to outpace all other central provinces in GDP growth.

Manufacturing has also risen in importance in the West, although higher-value manufacturing such as transportation equipment, computers and pharmaceuticals remains concentrated in just a handful of western provinces. Of the 12 provinces spanning the West, only Sichuan and Chongqing lay claim to a sophisticated manufacturing base that has grown in both exports and domestic production. Despite the West's relative isolation, rapid growth in Sichuan and Chongqing has spilled into surrounding provinces, making the region more vulnerable to a broader trade conflagration.

A heavy economic toll

The three provinces that make up China's Northeast—Jilin, Heilongjiang and Liaoning—were among the first to develop large manufacturing industries, but their orientation toward heavy industry and the loss of global competitiveness of their pivotal textiles, machinery and autos has taken a heavy economic toll. The economies of Heilongjiang and Liaoning have contracted for the past two years, while until recently Jilin has ranked among China's slowest-growing provinces.

All three provinces rely on large, state-run firms that have been slow to attract foreign direct investment and adapt their products to shifting global preferences. Their diminished share of China's export boom is a source of weakness, but would also limit the fallout from a collapse in global trade volumes.

The rapid diversification of China's economy and the growing importance of manufacturing as an economic driver in central and western provinces would amplify fallout from a potential trade shock. Although inland provinces still account for a smaller share of China's exports and foreign investment, the inland migration of supply chains over the past decade has been a powerful driver of economic growth. It has also helped close the gap in economic development between the center and west and China's coastal provinces.

While tariff escalation between the U.S. and China has yet to spread to services, export-oriented services such as tech and finance would feel the pinch should trade tensions slow global growth. In particular, fledging service centers in Guangdong and Shanghai would be hard-pressed to advance their global leadership should trade escalation fuel the rise of non-tariff barriers discouraging international trade and investment.

Ratings Round-Up

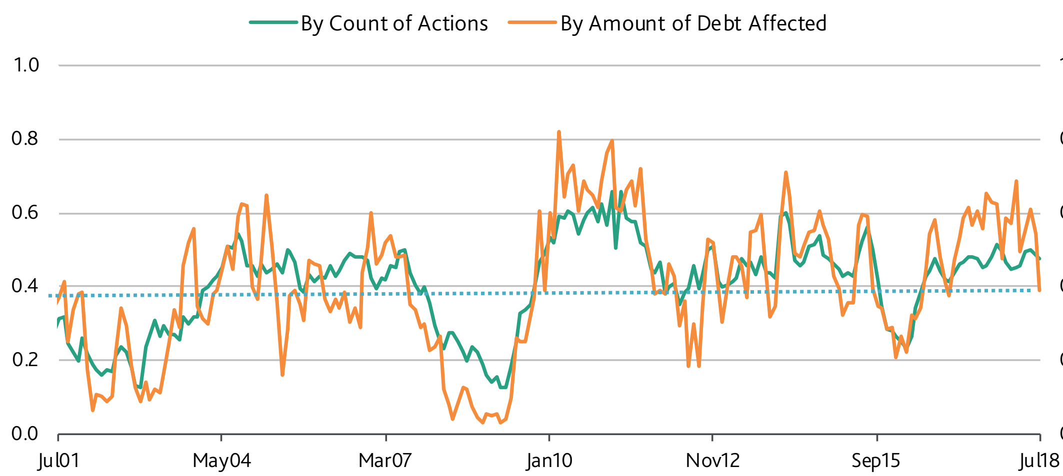
U.S. Rating Changes Dominated by Industrials

The industrial sector dominated U.S. rating changes. The contribution of positive rating revisions was 55% last week, well above the long-term average of 40%. Rating changes were spread across a number of industries. In the industrial sector, notable upgrades include, Westlake Chemical Corporation, whose rating was raised from Baa3 to Baa2 on $2 billion of affected debt. Outside the industrial sector rating changes were evenly split. Dominion Energy Gas Holdings, LCC had its senior unsecured debt downgraded to A3, while Radian Group Inc. was upgraded to Ba2.

Rating revisions were light in Europe, with a downgrade of Belgian mining and metal firm, Nyrstar NV, accounting for the lone change. Rating activity was also light outside Europe, with only three changes, all in Asia.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

FIGURE 2

Rating Key

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

FIGURE 3

Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG
9/19/18	WARRIOR MET COAL, INC.	Industrial	SrSec/LTCFR /PDR	475	U	B3	B2			SG
9/20/18	DOMINION ENERGY, INC. -DOMINION ENERGY GAS HOLDINGS, LLC	Utility	SrUnsec/CP	3,400	D	A2	A3	P-1	P-2	IG
9/21/18	RADIAN GROUP INC.	Financial	SrUnsec/Sub /IFSR/PS	1,040	U	Ba3	Ba2			SG
9/21/18	NEW ACADEMY FINANCE COMPANY LLC-ACADEMY, LTD.	Industrial	SrSec/BCF		D	B3	Caa1			SG
9/21/18	8TH AVENUE FOOD & PROVISIONS, INC.	Industrial	SrSec/BCF		D	B1	B2			SG
9/24/18	ASCENT RESOURCES, LLC -ASCENT RESOURCES UTICA HOLDINGS, LLC	Industrial	SrUnsec/LTC FR/PDR	1,500	U	B3	B2			SG
9/24/18	ODYSSEY LOGISTICS & TECHNOLOGY CORPORATION	Industrial	SrSec/BCF /LTCFR/PDR		U	Caa2	Caa1			SG
9/24/18	DTI TOPCO, INC.-DTI HOLDCO, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	B3			SG
9/24/18	ENVIGO INTERNATIONAL HOLDINGS, INC.-ENVIGO LABORATORIES INC.	Industrial	SrSec /BCF/PDR		D	B2	B3			SG
9/25/18	WESTLAKE CHEMICAL CORPORATION	Industrial	SrUnsec	2,200	U	Baa3	Baa2			IG
9/25/18	G-III APPAREL GROUP, LTD.	Industrial	SrSec /BCF/SGL		U	B1	Ba3			SG
9/25/18	NN, INC.	Industrial	PDR		D	B3	Caa1			SG

Source: Moody's

Ratings Round-Up

FIGURE 4
Rating Changes: Corporate & Financial Institutions – Europe

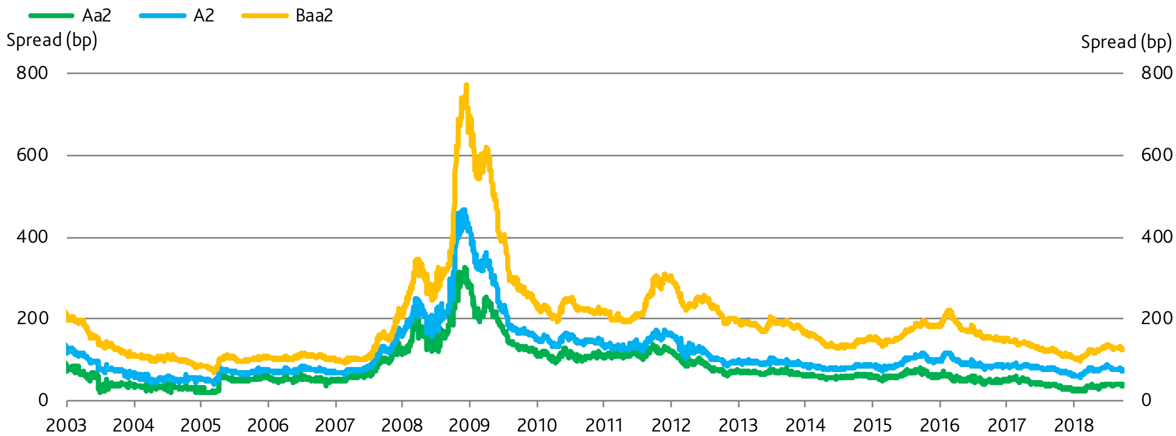
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
9/20/18	NYRSTAR NV	Industrial	SrUnsec /LTCFR/PDR	992	D	B3	Caa1	SG	BELGIUM

Source: Moody's

Market Data

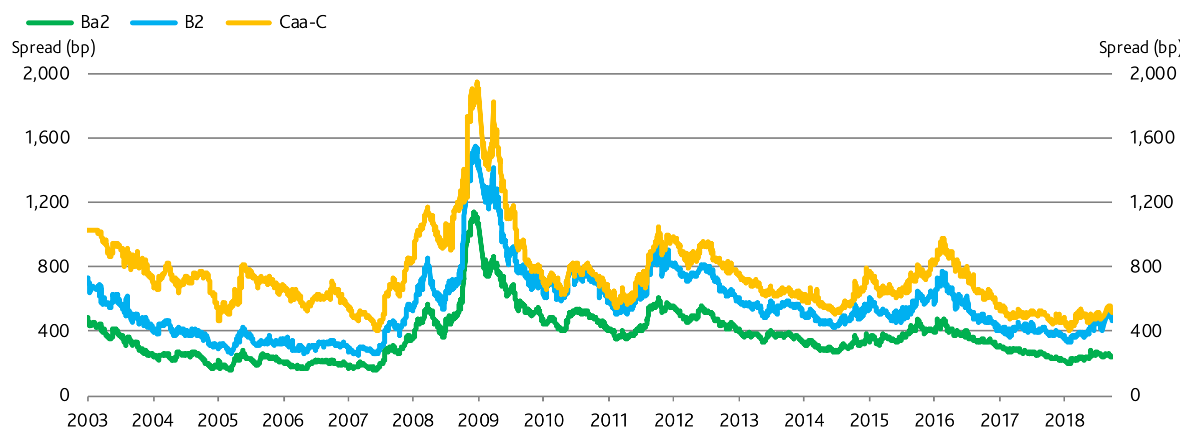
Spreads

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

CDS Movers

Figure 3. CDS Movers - US (September 19, 2018 – September 26, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 26	Sep. 19	Senior Ratings
Oracle Corporation	Aa2	A1	A1
SUPERVALU Inc.	Ba2	B1	B3
United States of America, Government of	Aaa	Aa1	Aaa
John Deere Capital Corporation	A3	Baa1	A2
U.S. Bancorp	Aa1	Aa2	A1
Amazon.com, Inc.	Aa3	A1	Baa1
Nissan Motor Acceptance Corporation	Baa2	Baa3	A2
FedEx Corporation	A3	Baa1	Baa2
American Tower Corporation	Ba3	B1	Baa3
NextEra Energy Capital Holdings, Inc.	Baa2	Baa3	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 26	Sep. 19	Senior Ratings
Comcast Corporation	A3	A1	A3
General Electric Company	Baa3	Baa1	A2
HSBC Finance Corporation	Baa1	A2	Baa1
Eastman Chemical Company	A3	A1	Baa2
Hertz Corporation (The)	Ca	Caa2	B3
Computer Sciences Corporation	Baa2	A3	Baa2
Comcast Cable Communications, LLC	A3	A1	A3
JPMorgan Chase & Co.	A1	Aa3	A3
Citigroup Inc.	A3	A2	Baa1
Morgan Stanley	Baa1	A3	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 26	Sep. 19	Spread Diff
Penney (J.C.) Corporation, Inc.	Caa2	2,318	2,001	318
Frontier Communications Corporation	Caa1	1,532	1,358	174
Neiman Marcus Group LTD LLC	Caa3	979	853	126
Hertz Corporation (The)	B3	854	750	104
Rite Aid Corporation	B3	926	839	87
R.R. Donnelley & Sons Company	B3	626	539	87
Parker Drilling Company	Caa2	1,652	1,568	84
Beazer Homes USA, Inc.	B3	467	387	80
Calpine Corporation	B2	412	345	67
Dish DBS Corporation	B1	531	465	65

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 26	Sep. 19	Spread Diff
Windstream Services, LLC	Caa2	2,466	2,985	-520
Sears Roebuck Acceptance Corp.	C	2,298	2,691	-393
Sears Holdings Corp.	C	1,943	2,294	-351
YRC Worldwide Inc.	Caa1	673	778	-105
Lexmark International, Inc.	Caa1	690	742	-52
SUPERVALU Inc.	B3	150	199	-49
Noble Energy, Inc.	Baa3	66	77	-12
Pride International, Inc.	B3	507	516	-9
Liberty Mutual Group Inc	Baa2	87	94	-7
Bunge Limited Finance Corp.	Baa2	124	132	-7

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (September 19, 2018 – September 26, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Sep. 26	Sep. 19	Senior Ratings
Dexia Credit Local	Ba1	Ba2	Baa3
Deutsche Bank AG	Ba1	Ba2	A3
ABN AMRO Bank N.V.	A2	A3	A1
Finland, Government of	Baa1	Baa2	Aa1
Erste Group Bank AG	A3	Baa1	A2
UniCredit Bank Austria AG	A3	Baa1	Baa1
FCE Bank plc	Baa3	Ba1	Baa3
Banco Popular Espanol, S.A.	Baa1	Baa2	A2
UniCredit Bank AG	Baa1	Baa2	A2
Eurobank Ergasias S.A.	Ca	C	Caa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Sep. 26	Sep. 19	Senior Ratings
Barclays Bank PLC	Baa2	A3	A2
Aviva Plc	Baa1	A2	A2
Pernod Ricard S.A.	A2	Aa3	Baa2
Lloyds Bank plc	A2	A1	Aa3
Barclays Plc	Ba1	Baa3	Baa3
BNP Paribas	A1	Aa3	Aa3
Landesbank Hessen-Thueringen GZ	A2	A1	Aa3
Standard Chartered Bank	A2	A1	A1
Commerzbank AG	Baa3	Baa2	A1
Bayerische Motoren Werke Aktiengesellschaft	Baa1	A3	A1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Sep. 26	Sep. 19	Spread Diff
Astaldi S.p.A.	Caa2	8,105	6,859	1,246
Jaguar Land Rover Automotive Plc	Ba2	386	318	68
Matalan Finance plc	Caa1	794	735	59
Casino Guichard-Perrachon SA	Ba1	445	386	58
Galapagos Holding S.A.	Caa3	2,844	2,791	52
Suedzucker AG	Baa2	152	105	47
Novafives S.A.S.	B3	423	384	39
Ziggo Secured Finance B.V.	B3	213	179	34
ITV plc	Baa3	128	96	32
Iceland Bondco plc	Caa1	370	342	28

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Sep. 26	Sep. 19	Spread Diff
Novo Banco, S.A.	Caa2	588	612	-25
Eurobank Ergasias S.A.	Caa2	877	891	-14
Piraeus Bank S.A.	Caa2	868	881	-14
Alpha Bank AE	Caa2	652	662	-10
National Bank of Greece S.A.	Caa2	653	661	-8
Ensco plc	B3	466	473	-7
Atlantia S.p.A.	Baa2	206	211	-5
Erste Group Bank AG	A2	50	54	-4
Permanent tsb p.l.c.	Ba3	212	216	-4
Banco Popular Espanol, S.A.	A2	56	60	-3

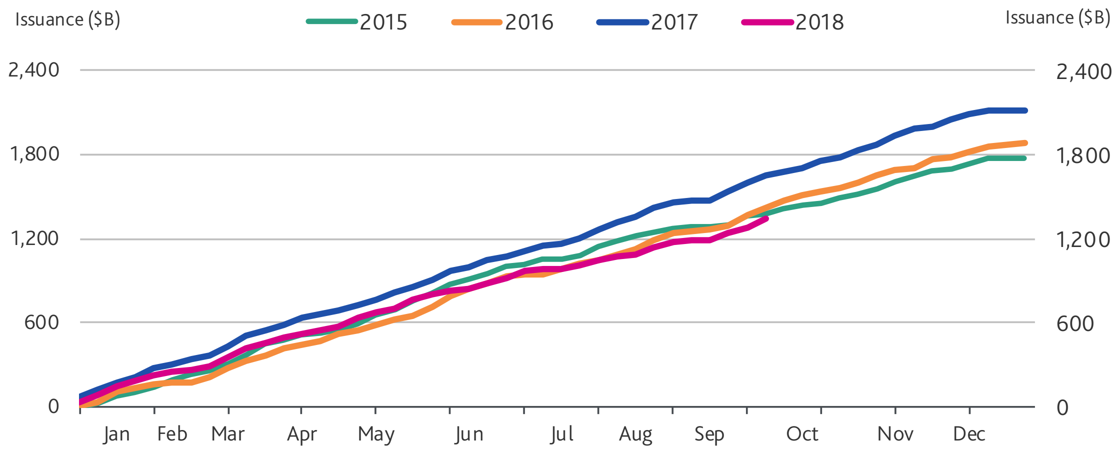
Source: Moody's, CMA

Market Data

Issuance

FIGURE 5

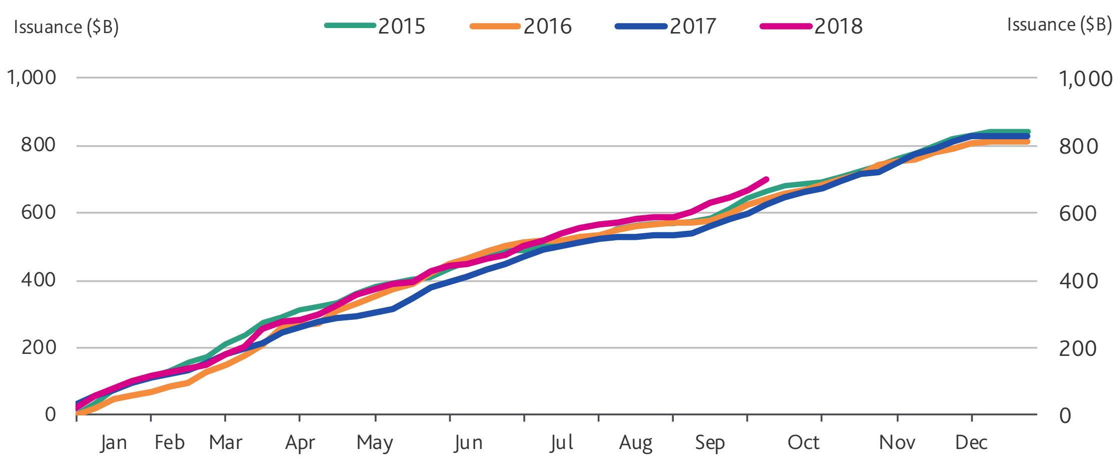
Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



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	47.290	6.660	58.892
Year-to-Date	1,034.405	243.914	1,344.880

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	23.137	2.376	28.869
Year-to-Date	593.682	72.833	698.086

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

Moody's Capital Markets Research recent publications

Higher Interest Rates Suppress Corporate Borrowing (Capital Markets Research)

Middling Ratio of Net Corporate Debt to GDP Disputes Record Ratio of Corporate Debt to GDP (Capital Markets Research)

There's No Place Like Home for U.S. Investors (Capital Markets Research)

Significant Differences, Eerie Similarities (Capital Markets Research)

Base Metals Price Slump May Dispute Benign Default Outlook (Capital Markets Research)

Profit Outlook Offsets Record Ratio of Corporate Debt to GDP (Capital Markets Research)

Upon Further Review, Debt to EBITDA Still Falls Short as an Aggregate Predictor (Capital Markets Research)

Base Metals Price Drop Suggests All Is Not Well (Capital Markets Research)

Markets Suggest U.S. Fares Best in a Trade War (Capital Markets Research)

Trade War Will Turn Ugly if Profits Shrink (Capital Markets Research)

Investment-Grade Looks Softer and High-Yield Looks Firmer Compared With Year-End 2007 (Capital Markets Research)

Fewer Defaults Strongly Favor a Higher Equity Market (Capital Markets Research)

Higher Interest Rates Will Be the Source of Their Own Demise (Capital Markets Research)

Low Utilization Rate Favors Profits Growth and Fewer Defaults (Capital Markets Research)

Equities Giveth and Taketh Away from Credit Quality (Capital Markets Research)

M&A both Enhances and Diminishes Corporate Credit Quality (Capital Markets Research)

Loan Default Rate May Approach Bond Default Rate (Capital Markets Research)

Outstandings Now Show Leveraged Loans Topping High-Yield Bonds (Capital Markets Research)

Profits Growth Curbs Defaults (Capital Markets Research)

Debt-to-Profits Outperforms Debt-to-GDP (Capital Markets Research)

Foreign Investors Ease Burden of U.S.' Elevated Leverage (Capital Markets Research)

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