Moody's ANALYTICS

WEEKLY MARKET OUTLOOK

Profits Growth and Benign Default Outlook May Offset Higher Interest Rates

Moody's Analytics Research

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Credit Markets Review and Outlook

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

Profits Growth and Benign Default Outlook May Offset Higher Interest Rates

Corporate bonds and equities got out of the gate quickly in 2018. Though benchmark interest rates are likely to climb higher, the combination of corporate earnings growth and a benign outlook for corporate defaults should be enough to prevent a deep and extended slide by share prices. Except for late 1987's stock market crash, the historical record shows that since 1982, interest-rate inspired declines by the broad equity indices have been relatively brief and shallow.

A fundamentally unwarranted surge by the 10-year Treasury yield from the 7.00% of mid-January 1987 to roughly 10.25% just prior to the market plunge of October 19, 1987 deserves a good deal of blame for that calamity. The month-long average of the market value of U.S. common stock plunged by 27.4% from July 1987's peak to December 1987's bottom and not until July 1989 would this metric return to its July 1987 high. Note that the market's collapse from July 1987 through December 1987 occurred despite overlapping real GDP's average quarter-to-quarter annualized increase of 5.2% and an average yearly increase by pretax operating profits of 23.0%. Moreover, the equity market effectively ignored a drop by the high-yield default rate from April 1987's then 16-year high of 7.0% to September 1987's 3.8%.

Leading Indicator of Defaults Drops to Lowest Close since May 2015

A benign outlook for corporate defaults weighs against a deep and prolonged slump by earnings-sensitive securities in 2018. The average expected default frequency (EDF) metric of US/Canadian high-yield issuers is a reliable leading indicator of the high-yield default rate. In early January 2018, the high-yield EDF metric fell to 3.50% for its lowest daily close since May 2015. However, May 2015's average high-yield EDF was part of a rising trend. By contrast, early January 2018's reading was part of a declining trend.

It was during July-August 2012 when the high-yield EDF's month-long average had previously descended to 3.50%. In turn, the U.S.' high-yield default rate would decline from its 3.8% average of July-August 2012 to the 2.7% of July-August 2013. Consistent with what transpired during 2012-2013, Moody's Default Research Group recently projected a decline by the U.S.' high-yield default rate from November 2017's 3.4% to 2.3% by November 2018.

Equities Likely to Benefit if Default Rate Drops

Equities are likely to benefit if predictions of a year-to-year drop by default rate prove true. Beginning with December 1989, the month-long average of the market value of US common stock rose from a year earlier for 163, or 90%, of the sample's 181 year-to-year declines by the default rate.

Eleven of the 16 exceptions to this trend occurred during August 2002 through June 2003, or when the market value of U.S. common stock sank by 17.7% annually, on average, despite the default rate's average year-to-year plunge of 3.0 percentage points. Though the default rate exhibited a constructive response to the 21.2% year-over-year surge by pretax operating profits for the year-ended June 2003, the equity market was slow to believe in the durability of the then unfolding upturn by corporate earnings.

Notwithstanding the default rate's average 1.3 percentage point drop of October 1994 through January 1995, the market value of U.S. common stock declined from a year earlier in each of those four months by 1.9%, on average. Share prices also contradicted what otherwise might be inferred from the 17.5% year-over-year advance by pretax operating profits of the year-ended March 1995. Blame for late 1994's annual drop by the market value of common stock rest squarely on Q4-1994's 223 basis points (bp) year-over-year lift-off by the 10-year Treasury yield to 7.84%.

Credit Markets Review and Outlook

In spite of 1994's surge by Treasury bond yields, the year-over-year decline by the market value of U.S. common stock bottomed at the relative shallow -3.2% of December 1994. Yes, a steep jump by interest rates might weigh on 2018's equity market. But, the depth of any decline by share prices will be comparatively shallow compared to the damage ordinarily imparted by a significant and extended contraction of profits.

2018's Climb by Interest Rates Is Likely to be Milder than the Upheavals of 1987 and 1994

Recent consensus predictions for benchmark bond yields fall considerably short of what occurred in 1994 and 1987. The average prediction of January 1, 2018's Blue Chip Financial Forecast calls for relatively mild year-over-year increases for the 10-year Treasury yield of 30 bp, to a first-half 2018 average of 2.65%, and of 54 bp, to a second-half average of 2.85%.

It was only four years ago, or at the height of 2013-2014's taper-tantrum, that December 2013's month-long average for the 10-year Treasury yield soared by 118 bp year to year to 2.90%. Nevertheless, not only did December 2013's month-long average for the market value of U.S. common stock advance by 20.4% from a year earlier, but the high-yield bond spread also narrowed from December 2012's 482 bp to December 2013's 391 bp. Only if 2018's widely expected climb by benchmark interest rates slows business sales by enough to shrink profits might higher interest rates prompt a deep and extended decline by share prices.

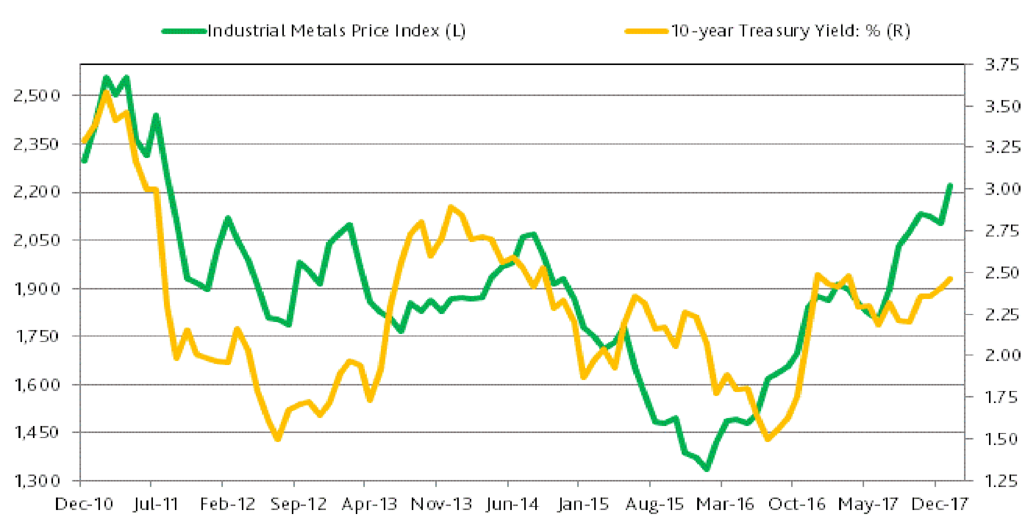
In addition, the recent ascent by the 10-year Treasury yield versus the S&P 500 dividend yield may not be enough to sink equities. During the five-years-ended October 2007, the market value of U.S. common stock grew by 14.0% annualized, on average, despite a 4.40% average for the 10-year Treasury yield that topped the accompanying S&P 500 dividend yield by 266 bp. Thus, stocks still might be attractively priced relative to Treasury bonds if, by 2018's final quarter, the 10-year Treasury yield rises from its recent 2.45% to 2.90%, while the dividend yield eases from today's 1.85% to 1.70%.

Further Advances by Industrial Commodity Prices Imply Higher Treasury Bond Yields

Industrial commodity prices have been surging in a manner that puts upward pressure on Treasury bond yields. As inferred from the 0.80 correlation between the annual growth rates of the world economy (as measured by the IMF) and Moody's industrial metal price index of the last 30 years, significant advances by base metals price tend to be coincident with faster global growth. And, it is that upturn by global growth that puts upward pressure on benchmark interest rates. Not surprisingly, the 23.5% annual increase by year-long 2017's average for the industrial metals price index was joined by a 49 bp increase for the 10-year Treasury yield's year-long average, to 2.33%.

Recently, the base metals price index attained its highest reading since September 2011. Nevertheless, the index still trails its record high of April 2011 by nearly 17%. Coincidentally, the 10-year Treasury yield averaged 3.46% in April 2011, which is nearly a percentage point higher than its recent 2.46%.

Figure 1: Further Climb by Industrial Metals Price Index May Lead to Higher Treasury Bond Yields

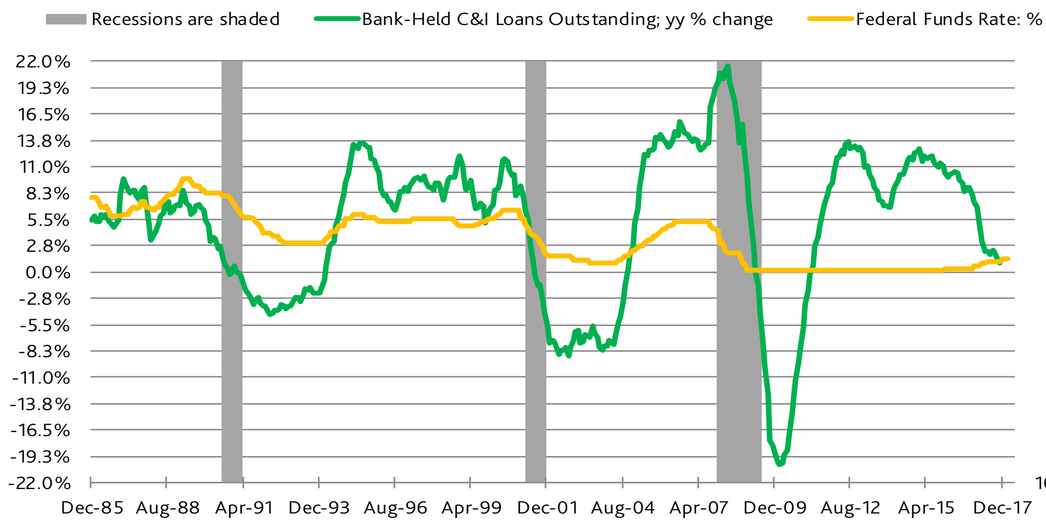


Credit Markets Review and Outlook

Record Slow Growth for C&I Loans amid a Mature Recovery

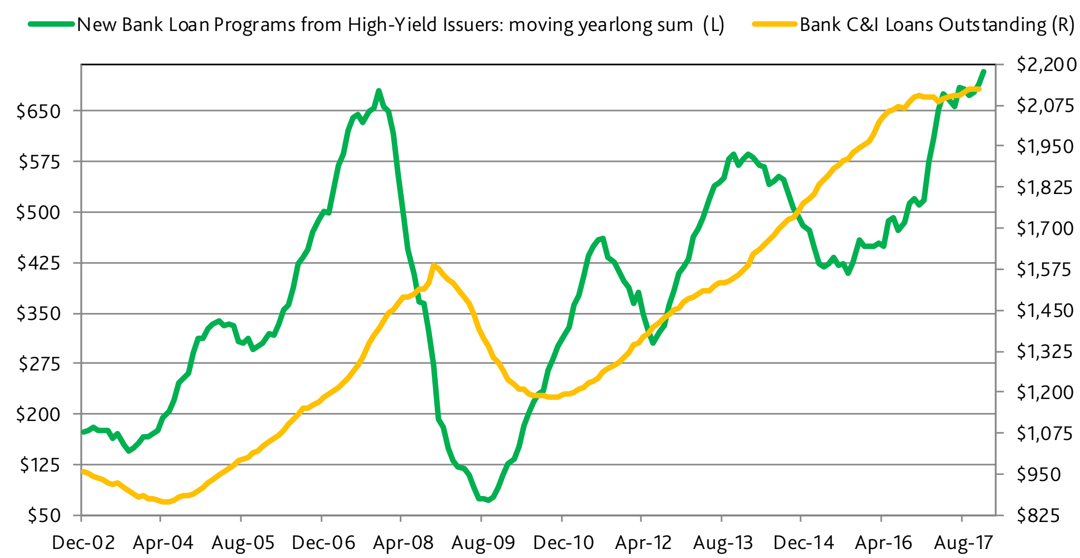
November 2017's outstandings of commercial & industrial (C&I) loans held by banks barely rose by 0.9% from November 2016. Never before have the outstandings of C&I loans grown so slowly from the prior year more than five years into an economic recovery. Prior to 2008, the previous bottom for the yearly increase of C&I loans more than five years after a recession was the 2.5% of May 1990. By the way, a recession arrived in July 1990. As inferred from Figure 2, the now very slow growth of outstanding C&I loans may be signaling a limited upside for the federal funds rate.

Figure 2: Unless Bank-Held C&I Loans Accelerate, the Upside for Fed Funds May be More Limited than Commonly Thought



Nevertheless, newly-rated bank loan programs from high-yield issuers soared higher by 37.2% annually during 2017. It may well be that the rapid growth of new high-yield bank loan programs may be signaling an acceleration of bank-held C&I loans. Still, it is odd that despite much improved growth rates for business sales and profits, as well as an easing of business loan standards, senior bank loan officers have reported a net reduction in the business sector's demand for bank loans.

Figure 3: Yearlong 2017's New Bank Loan Programs from High-Yield Issuers Advance by 37.2% Annually as November 2017's Bank-Held Commercial and Industrial (C&I) Loans Rise by 0.9% Yearly
$ billions; source: Moody's Analytics, Federal Reserve



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

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

Focus on inflation and retail

The economic calendar is fairly backloaded this week. The focus will be on inflation, but we don't believe the immediate policy implications are significant. The latest Federal Open Market Committee minutes continued to show a lively debate about whether the recent weakness in inflation is attributable to transitory or more persistent factors. The Fed is puzzled, like many economists, that inflationary pressures haven't developed even as slack in the broader economy has diminished. Uncertainty surrounding inflation doesn't diminish the odds of a March rate hike.

Because inflation has remained persistently below the Fed's 2% objective, a few participants suggested the study of alternative frameworks for the conduct of monetary policy such as price-level targeting or nominal GDP targeting. This would be useful, as the Fed may have to think outside the box to address the next recession because the zero lower bound for the fed funds rate will likely be hit and fiscal policy could be handcuffed by the deficit. A change to the Fed's policy framework is not likely any time soon.

We look for the CPI to have risen 0.1% in December while the core index, which excludes food and energy, rose 0.2%. We believe import prices will rise 0.5% in December while producer prices advanced 0.1%. Elsewhere, we look for a decent gain in retail sales, supported by a gain in autos. Business inventories likely rose 0.4%. The CPI, import prices, producer prices, retail sales and business inventories will all feed into our high-frequency GDP model's estimate of fourth quarter GDP.

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence	index, 4-wk MA				35.9
Tues @ 6:00 a.m.	NFIB Small Business Survey for December	index	108.0	108.0	106 to 110	107.5
Tue @ 10:00 a.m.	Job Openings and Labor Turnonver Survey for November					
Wed @ 8:30 a.m.	Import Prices for December	% change	0.5	0.4	0.2 to 0.8	0.7
	Excluding fuels	% change	0.1	0.1	-1.0 to 0.2	0.1
Thur @ 8:30 a.m.	Jobless Claims for 1/6/18	ths	252	245	235 to 270	250
Thur @ 8:30 a.m.	Producer Price Index for December	% change	0.1	0.2	-0.1 to 0.5	0.4
	Core PPI	% change	0.1	0.2	0.1 to 0.3	0.3
Fri @ 8:30 a.m.	Consumer Price Index for December	% change	0.1	0.1	0.0 to 0.3	0.4
	Core CPI	% change	0.2	0.2	0.1 to 0.3	0.1
Fri @ 8:30 a.m.	Retail Sales, advanced for December	% change	0.4	0.4	0.2 to 0.9	0.8
	Excluding autos	% change	0.3	0.4	0.1 to 1.1	1.0
Fri @ 10:00 a.m.	Business Inventories for December	% change	0.4	0.3	0.2 to 0.4	-0.1

MONDAY, JANUARY 8

Business confidence (week ended January 5; 10:00 a.m. EST)

Forecast: N/A

Global businesses are feeling upbeat. Abstracting from the weekly vagaries of the survey, a healthy more than 40% of responses to the nine questions posed in the survey are positive, while less than 10% of the responses are negative. Respondents are notably cheery about present business conditions, as close to half say business conditions are improving, and they expect even better conditions in 2018.

Businesses' biggest complaint is around regulatory and legal issues, with about 40% of respondents saying these issues are their greatest worry. One-fourth of respondents say the cost and availability of labor are their most serious problems. Concern with the strength of their sales and taxes has significantly receded.

Across the globe, the difference between the percentage of all positive responses and all negative responses to the nine survey questions came in at 33% last week and 36% on a four-week moving average basis. In the U.S., business confidence stood at 36% last week and 39% on a four-week moving average basis.

For historical context, when measurably less than 10% of responses are net positive, as was the case during much of 2008 and the first half of 2009, the economy is in recession. Readings of 20% to 30% are consistent with an economy that is expanding at potential. The global economy is expanding above potential with readings of more than 30%. The all-time low was -30% in December 2008 and the peak was 46% in April 2015.

The four-week moving average in our global business confidence index fell from 37.5 to 35.9 in the week ended December 29.

TUESDAY, JANUARY 9

NFIB small business survey (December; 6:00 a.m. EST)
Forecast: 108

The NFIB small business optimism index increased from 103.8 in October to 107.5 in November, a new high for the series that began in 1986. Through November, the NFIB small business index is averaging 105.7 this quarter and this would be consistent with GDP growth in excess of 4% at an annualized rate. It appears that the significant divergence between the survey-based and hard data is reemerging. Tax legislation likely boosted small-business sentiment in November and could provide more support in December. We expect the NFIB small business optimism survey to have risen from 107.5 in November to 108 in December. According to already-released data by the NFIB, the shortage of qualified workers reached a record high in December, and the number of respondents who made plans to raise compensation was the second highest in history of the series.

WEDNESDAY, JANUARY 10

Import prices (December; 8:30 a.m. EST)
Forecast: 0.5%

We expect import prices to have risen 0.5% in December following a 0.7% gain in November. December's increase would leave import prices up 3.2% on a year-ago basis. Energy will continue to boost import prices in December as we forecast that energy import prices rose around 4%. Excluding fuels, we look for import prices to have risen 0.1%, leaving them up 1.5% on a year-ago basis.

THURSDAY, JANUARY 11

Jobless claims (week ended January 6; 8:30 a.m. EST)
Forecast: 252,000

We look for initial claims for unemployment insurance benefits to have risen by 2,000 to 252,000 in the week ended January 6. This would be the fourth consecutive weekly gain and bring the cumulative increase over this span to 27,000. Our work has shown that colder than normal weather can boost new filings and we believe this occurred in the week ended January 6. Because of the weather and seasonal adjustment issues surrounding the holidays, it's difficult to draw too much from the rise in initial claims over the past several weeks.

FRIDAY, JANUARY 12

Consumer price index (December; 8:30 a.m. EST)

Forecast: 0.1% (headline)

Forecast: 0.2% (core)

The headline consumer price index is forecast to have risen 0.1% in December. This is our preliminary forecast and we will revisit it following import and producer prices. The forecast is for energy prices to have fallen in December. The CPI for gasoline is expected to have fallen around 2.5% in December, which would be consistent with our estimate of the change in seasonally adjusted retail gasoline prices. Higher natural gas prices should provide only some offset. Food prices likely rose 0.1% between November and December.

Excluding food and energy, the CPI likely rose 0.2% (0.17% unrounded). Despite the gain, year-over-year growth in the core CPI will remain at 1.7%. Within the core CPI, we forecast a trend-like increase in rents and owner equivalent rents. We expect apparel prices to have edged higher in December while new-vehicle prices were little changed and used-car prices rose around 0.5%. Airfares are a little bit of a wild card, as the relationship between them and jet fuel prices has weakened recently. Jet fuel prices have continued to climb, but growth in the CPI for airfares has been weak.

Retail sales (December; 8:30 a.m. EST)

Forecast: 0.4% (headline)

Forecast: 0.3% (core)

Nominal retail sales likely rose 0.4% in December, but we will finalize our forecast later in the week. The increase in unit vehicle sales suggests autos will provide some support to retail sales in December. We look for autos to have added 0.1 percentage point to December total retail sales growth. Therefore, excluding autos, we look for sales to have risen 0.2%. Building materials are forecast to have been neutral for total retail sales in December. The forecast assumes some payback for hurricane rebuilding, and colder than normal weather late in the month may have hurt building material store sales. Retail sales at gasoline stations likely subtracted 0.1 percentage point from total sales growth, hurt by lower prices at the pump.

EUROPE

By Reka Sulyok and Europe staff of Moody's Analytics in London and Prague

Manufacturing powers into 2018

The new week's indicators will fill in details about November's industrial and export performance in the euro area and the U.K. Based on leading survey data, we expect manufacturing to power into 2018 both on the Continent and in the U.K.

Although the yearly rate in the euro zone is still expected to have cooled to only 2.5% in November, following a 3.7% gain previously, the slowdown in the yearly rate is largely due to the base effect and has little to do with the healthy underlying trend. No individual country data have been released yet, but we think that the standout will be Germany, where we forecast production to have risen by around 0.8% m/m in November, following a 1.4% plunge in October. This will offset more sobering news elsewhere, notably in France, where production is expected to have plunged following two consecutive months of extraordinary gains. Ireland's rate should also mean-revert following its 10.6% jump in October, and likely so will Italy's. Across sectors, energy production is expected to have soared on the back of November's lower temperatures, but we look for capital and intermediate goods production to have increased as well, on the back of a pickup in external demand. The rebound in industrial production means we expect the euro zone economy likely grew 0.6% to 0.7% q/q in the final quarter of 2017.

The Markit PMI for December corroborates our belief that industrial production strongly contributed to the currency bloc's GDP growth in the closing quarter. In particular, Austria, Germany and Ireland had reason to gloat, with their PMIs each soaring to record highs, while France and Greece also posted substantial gains. Downticks in the Netherlands, Italy and Spain, meanwhile, are no cause for alarm, since the PMI still points to robust results for these countries at the end of 2017. The U.K. numbers were less festive, but still decent. The Markit manufacturing PMI retreated to 56.3 in December, after climbing to a 51-month high of 58.2 in November. Despite the slide, the index remains above the long-run average and indicates steady improvement in the sector's business conditions. Despite the Brexit woes, the U.K. business sentiment gauge tracked the exemplary German business sentiment between late summer 2016 and autumn 2017. Such strong confidence signals that companies do not think the exit from the EU will bring abrupt changes to doing business.

Against the backdrop of buoyant industrial performance, the euro area's export activity should be propelled by firming foreign demand. A new trade agreement with Japan, signed in early December, is one major step to furthering the currency bloc's trade liberalization and to securing it as a leader in international trade. In the near term, a slight 2% depreciation of the euro should improve cost competitiveness and keep imports contained. However, we are penciling in a gradual softening of trade gains later on as the business cycle matures and global demand slows, and as the increasing import content of manufacturing industries drags on the trade balance.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 10:00 a.m.	Euro Zone: Retail Sales for November	% change	1.5	-1.1
Mon @ 10:00 a.m.	Euro Zone: Business and Consumer Sentiment for October	index	116.0	114.6
Mon @ 9:00 a.m.	Germany: Manufacturing Turnover and Orders for November	% change	-0.4	0.7
Tues @ 8:00 a.m.	Germany: Foreign Trade for November	€ bil	21.0	19.9
Tues @ 9:00 a.m.	Germany: Industrial Production for November	% change	0.8	-1.4
Tues @ 8:00 a.m.	France: Foreign Trade for November	€ bil	-4.7	-5.0
Tues @ 9:00 a.m.	Italy: Unemployment for November	%	11.0	11.1
Tues @ 10:00 a.m.	Euro Zone: Unemployment for November	%	8.8	8.8
Tues @ 1:40 p.m.	Russia: Consumer Price Index for December	% change	0.5	0.2
Wed @ 8:00 a.m.	France: Industrial Production for November	% change	-1.1	1.9
Wed @ 9:30 a.m.	U.K.: Industrial Production for November	% change	0.9	0.0
Wed @ 9:30 a.m.	U.K.: Foreign Trade for November	£ bil	-11.0	-10.8
Thur @ 7:45 a.m.	France: Consumer Price Index for December	% change yr ago	1.3	1.2
Thur @ 8:05 a.m.	Spain: Industrial Production for November	% change	0.5	0.6
Thur @ 9:00 a.m.	Italy: Retail Sales for November	% change	0.3	-1.0
Thur @ 10:00 a.m.	Euro Zone: Industrial Production for November	% change	0.5	0.2
Fri @ 8:05 a.m.	Spain: Consumer Price Index for December	% change yr ago	1.2	1.7
Fri @ 9:00 a.m.	Italy: Industrial Production for November	% change	0.3	0.5

TUESDAY, JANUARY 9

Germany: Industrial Production (November; 9:00 a.m. GMT)

German industrial production likely recovered in November, expanding 0.8% m/m, after contracting in the previous two months. In year-ago terms the rate of increase is expected to have ticked up to around 3%. Robust demand likely supported production. German manufacturing orders added 0.5% m/m in October, with the monthly increase driven by both domestic and foreign orders. In year-ago terms, factory orders added 6.8%, though the pace of increase in foreign and domestic orders decelerated compared with a strong end of the third quarter. The Markit manufacturing PMI rose further to 62.5 in November, which is the second highest reading since the survey began in 1996, signaling continued strong momentum in the middle of the last quarter. However, the outlook remains clouded as the uncertainty caused by the Brexit negotiations and political deadlock in Germany could curb manufacturing in coming months.

Euro Zone: Unemployment (November; 10:00 a.m. GMT)

The euro zone's unemployment rate likely was steady at 8.8% in November, its lowest reading since January 2009, after having fallen unexpectedly in October. Both leading and hard data show that the euro zone's momentum remained strong in the middle of the fourth quarter after an already-impressive performance in the third stanza, which should have given a further lift to the area's labour market. Accordingly, the Markit composite PMI showed that euro area job creation surged to a decade high, mainly because of a strong inflow of new business. Staffing levels are increasing in all major countries, but particularly in Germany, France, Spain and Ireland. We expect the downward trend in joblessness to persist in quarters to come, on the back of improving economic conditions around the monetary bloc, labour market reforms, and stronger industrial bases in Spain, Ireland and Portugal.

Russian Federation: Consumer Price Index (August; 14:15 p.m. GMT)

Consumer prices rose 0.5% m/m in December, though the pace of yearly inflation stayed close to its lowest, undershooting the central bank's inflation target, and annual inflation is at its slowest rate on record thanks to stabilizing oil prices and the stronger ruble. We highlight that the drop in food prices was a temporary shock and we expect that it will fade in coming months. Nevertheless, soft year-over-year inflation leaves a wide opening for continued policy easing. The one-week repo rate is still well above what it was before the oil slump, when inflation hovered around 7%.

WEDNESDAY, JANUARY 10

U.K.: Industrial Production (October; 9:30 a.m. GMT)

We forecast that U.K. industrial production rose by 0.9% m/m in October, following a flat reading in September. Because of base effects, the yearly rate is still expected to fall back to 2.3%, from a reading of 3.5% previously, which is nonetheless higher than the 2.1% average for the past 12 months. Across sectors, we expect that energy production influenced the headline the most, as November's temperatures were 0.4 degrees Celsius below the month's long-term average, which should have raised demand for heating. Mining and quarrying output, by contrast, is expected to have fallen sharply following a jump in October, which was mostly caused by the reopening of oil rigs following unseasonal maintenance closures.

Regarding manufacturing, the report will likely be mixed but risks are tilted to the upside. Clothing and food sales should have rebounded following weakness in October, while the production of transport equipment and pharmaceuticals likely fell. Leading data have been rather upbeat lately, so we are penciling in a positive report.

THURSDAY, JANUARY 11

No major indicators are scheduled for release.

FRIDAY, JANUARY 12

Italy: Industrial Production (November; 9:00 a.m. GMT)

Italy's industrial production likely expandede in November, though a bit more slowly than in the previous month. We expect output rose 0.3% m/m, down from a 0.5% gain in October. Although forward-looking indicators still suggest strong momentum in manufacturing at the end of 2017, they eased a bit in December. Manufacturing sentiment slid to 110.5 from 110.7 in November, while confidence in construction retreated to 127.1 from 132.1 previously. Meanwhile, the manufacturing PMI dipped to 57.4 in December from an almost seven-year peak of 58.3 in November. Strong gains in new orders and firming export orders are promising and suggest that industry will buoy the economy in coming months. Neither the political uncertainty ahead of general elections nor the Brexit negotiations have harmed the expansion yet.

ASIA-PACIFIC

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

China's consumer price growth is likely cooling

China's foreign trade surplus likely narrowed in December. Tech import components were strong in November, pointing to a strong holiday season. Imports of commodities, including crude oil, coal and iron ore, also showed good growth, suggesting domestic demand remains robust. Exports could moderate in 2018 as demand for certain new products is sated. Monetary tightening in the U.S. could lift the dollar and lower Chinese export prices.

China's consumer price growth likely cooled in December. Food prices are coming down after a period of elevated inflation as supplies increase. Nonfood inflation likely finished off the year stable at 2.5% y/y and within the government's 3% target for 2017. Producer prices are also cooling as the decline in raw materials costs are now influencing factory prices.

Elsewhere, India's consumer price inflation likely accelerated in December because of below-average rainfall in 2017. This means food price inflation has accelerated, while rising global commodity prices have also caused fuel inflation to increase on a year-ago basis. Thus, India's inflation is on the higher end of the central bank's 4% target.

The Bank of Korea will take a breather in January as it waits to see the impact of November's 25-basis point rate increase, the first rate hike since 2011. We expect inflation to stay relatively subdued, which suggests monetary policy normalization is likely to be slow. However, President Moon Jae-in's stimulus measures such as a minimum wage increase this year and efforts to boost employment pose risks of higher inflation and could prompt faster-than-expected rate hikes.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 7:00 p.m.	Taiwan Foreign Trade for December	US$ bil	5.8	6.0
Tues @ 4:00 p.m.	Japan Consumer Confidence for December	Index	44.7	44.9
Wed @ Unkown	China Monetary Aggregates for December	% change yr ago	9.0	9.1
Wed @ Unkown	Phillippines Industrial Production	% change yr ago	-7.0	-6.6
Wed @ 10:00 a.m.	Sourth Korea Employment for December	%	3.7	3.7
Wed @ 12:30 p.m.	China Consumer Price Index for December	% change yr ago	1.6	1.7
Wed @ 12:30 p.m.	China Producer Price Index for December	% change yr ago	6.0	5.8
Thurs @ 11:30 a.m.	Australia Retail Sales for November	% change	0.2	0.5
Thurs @ Unknown	Sourth Korea Monetary Policy for January	%	1.5	1.5
Fri @ Unkown	China Foreign Trade for December	US$ bil	37	40
Fri @ 11:00 p.m.	India Consumer Price Index for December	% change yr ago	5.0	4.9
Fri @ 11:20 p.m.	Inida Industrial Production for November	% change yr ago	2.5	2.2

FRIDAY, JANUARY 5

Australia – Foreign Trade – November

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)
Forecast: A$650 million

Australia's monthly trade surplus likely widened to A$650 million in November, from an A$105 million surplus in October. The small trade surplus in October was caused by falls in hard commodity exports. Iron ore endured hefty falls in values and volumes over October. November iron ore values likely improved, reflecting the higher spot price, which increased by 22% from its late-October slump to US$71.51 per metric tonne in early December. Usually the lag is short between the spot price and being incorporated into export contracts. A longer-term support to merchandise exports is higher production capacity coming on line from liquefied natural gas. Australia is in the final stretch of an A$200 billion LNG construction boom. Once the remaining two projects of eight are finalized, Australia could topple Qatar as the world's biggest LNG exporter. Australia has recently become the world's second largest exporter of LNG.

Taiwan – Consumer Price Index – December

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)
Forecast: 0.5%

Taiwan's consumer prices were subdued in the final month of 2017. We expect CPI rose 0.5% y/y in December, from a 0.3% rise in November. Food prices have been the main drag on the CPI in the fourth stanza. Core inflation is higher and likely remained steady at 1.6% y/y in December for a second straight month. Underlying price pressures show signs of building, consistent with firmer economic activity. The central bank will keep its monetary policy settings unchanged at its December policy meeting. The benchmark policy rate has been at 1.375% since July 2016.

Malaysia – Foreign Trade – November

Time: 3:00 p.m. AEDT (4:00 a.m. GMT)
Forecast: MYR8.3 billion

Malaysia's monthly trade surplus likely maintained its seesaw pattern in November. The surplus likely narrowed to MYR8.3 billion, after widening to MYR10.5 billion in October. The bright spot on the export ledger will remain electrical and electronics products. Tech manufacturing has enjoyed stellar conditions in 2017 amid strong offshore demand. We expect the tech cycle has passed its peak and expect cooler conditions through 2018.

MONDAY, JANUARY 8

Taiwan – Foreign Trade – December

Time: 7:00 p.m. AEDT (8:00 a.m. GMT)
Forecast: US$5.8 billion

Taiwan's trade surplus likely stayed elevated at US$5.8 billion in December after rising to almost US$6 billion in November. Taiwan's exports rebounded a firm 14% y/y in November after a modest 3% gain in the prior month. Demand for tech products was especially strong, with exports of electronic components increasing 16% y/y and information and communications technology products up 13.5% y/y. With overseas economic conditions likely to remain relatively firm, Taiwan should benefit from solid export growth in 2018, albeit below the pace set in 2017.

TUESDAY, JANUARY 9

Japan – Consumer Confidence – December

Time: 4:00 p.m. AEDT (5:00 a.m. GMT)
Forecast: 44.7

Japan's consumer confidence likely decreased to 44.7 in December from November's 44.9. The pickup in November stems from the euphoria around the election result, which faded in December. Moreover, consumer uncertainty increased in December after continued political uncertainty around the Korean peninsula. Elsewhere, inflation expectations broadly increased, which is not surprising given that core inflation rose to a recent high of 0.9% y/y in November. Further gains to inflation expectations are likely, although core inflation will remain capped at around 1%.

WEDNESDAY, JANUARY 10

China – Monetary Aggregates – December

Time: Unknown
Forecast: 9%

China's M2 money supply growth likely cooled to 9% y/y in December from 9.1% in November. Bank lending remains strong, suggesting continued demand for housing even as the housing market is cooling. Housing markets in virtually all major cities across the country are cooling, although the majority are still seeing price gains. That said, although credit growth increased, the increase was smaller than was the case in 2016 because of slower corporate bond issuance, which could point to softer business confidence and slower investment in 2018. Businesses may also be turning back to bank borrowing, as the central bank has signalled a greater appetite for lending.

Philippines – Industrial Production – November

Time: Unknown
Forecast: -7%

We expect industrial production fell 7% y/y in November after a 6.6% drop in the prior month. Industrial production growth has been in a downturn since the start of 2017. Much of that reflects the high base from a year earlier, when activity was ramping up during the presidential election year. However, that will fade in 2018. Meanwhile, we expect firm external demand and strong investment to support a moderate recovery of industrial production this year. Infrastructure development is likely to ramp up thanks to President Rodrigo Duterte's infrastructure development program, and that should help the production of key inputs such as cement.

South Korea – Employment – December

Time: 10:00 a.m. AEDT (Tuesday, 11:00 p.m. GMT)
Forecast: 3.7% unemployed

South Korea's unemployment rate likely held at 3.7% in December for a second straight month. Employment growth has slowed because of the lagging private sector. The public sector has picked up pace, with employment growth rising to 8.3% y/y in November from 8.2% in October. The public sector has ramped up recruitment noticeably in recent months, in line with President Moon's various initiatives to boost the labour market. The stubbornly elevated youth unemployment rate hovered around a 10-month low of 8.9% in November after slowly falling for the past quarter.

China – Consumer Price Index – December

Time: 12:30 p.m. AEDT (1:30 a.m. GMT)
Forecast: 1.6%

China's consumer price growth likely cooled to 1.6% y/y in December from 1.7% in November. Food prices are coming down after a period of elevated inflation as supplies, especially pork, increase. Nonfood inflation likely finished the year stable at 2.5% y/y and within the government's 3% target for 2017. Housing-related inflation is likely to come down in coming months as lower sales prices affect the calculations and as lower producer price inflation similarly slows raw materials price growth.

China – Producer Price Index – December

Time: 12:30 p.m. AEDT (1:30 a.m. GMT)
Forecast: 6%

China's producer price growth likely hit 6% y/y in December, up from 5.8% in November. While producer prices are cooling, November's 1.1-percentage point slump was likely exacerbated by factory shutdowns in Beijing for the Party Congress and in the lead-up to the visit by U.S. President Donald

Trump. The shutdowns lowered demand for electricity and coal. The underlying trend is that the decline in raw materials costs are now influencing factory prices. Lower prices for iron ore and other commodities are cooling producers' costs and affecting their own output, which should result in lower consumer prices in coming months.

THURSDAY, JANUARY 11

Australia – Retail Sales – November

Time: 11:30 a.m. AEDT (12:30 a.m. GMT)
Forecast: 0.2%

Australian retail trade likely returned to a subdued pace at 0.2% m/m in November after the 0.5% m/m rebound in October. The strength in October, which saw a broad-based increase across industries, states and territories, was more of a temporary rebound rather than the start of sustained improvement. The trend picture remains weak, with retail sales running at -0.1% m/m and reflecting the soft consumption pulse. The central bank will keep interest rates on hold until early 2019, giving stubbornly weak income growth time to improve to support stronger retail trade later in 2018.

South Korea – Monetary Policy – January

Time: Unknown
Forecast: 1.5%

The Bank of Korea is expected to leave its key policy rate unchanged at 1.5% at its January policy meeting as it waits to see the impact of November's 25-basis point rate increase, the first rate hike since 2011. We had expected the Bank of Korea to keep rates on hold in November, as headline inflation has been weak. We expect inflation to stay relatively subdued, which suggests monetary policy normalization is likely to be a slow affair. However, President Moon's stimulus measures such as a minimum wage increase this year and efforts to boost employment pose risks of higher inflation and could prompt faster-than-expected rate hikes.

Malaysia – Industrial Production – November

Time: 3:00 p.m. AEDT (4:00 a.m. GMT)
Forecast: 4.6%

Malaysian industrial production likely improved to 4.6% y/y in November from a 3.4% slump in October. Electrical and electronics remain the main growth driver but largely drove October cooling, with the category slowing to 5.9% y/y from a 6.6% gain in September. We expect the tech sector to remain on a slowing trend, as the global tech cycle appears to have passed its peak. For this reason, we are expecting slower manufacturing and export performance from Malaysia in 2018. Tech production was a key strength to the Malaysian economy in 2017, helping industrial production reach an almost three-year high in August. It also helped third quarter GDP growth surge to 6.2% y/y, its fastest pace since mid-2014.

FRIDAY, JANUARY 12

China – Foreign Trade – December

Time: Unknown
Forecast: US$37 billion

China's foreign trade surplus likely narrowed to US$37 billion in December from US$40.2 billion in November. Tech import components were strong in November, pointing to a strong holiday season. Imports of commodities, including crude oil, coal and iron ore, also showed good growth, suggesting domestic demand remains robust. We expect annual export growth did not maintain the burly acceleration to 12.3% y/y in November. Exports could moderate in 2018 as demand for certain new products is sated, although the growing U.S. and European economies will enable households there to spend. Monetary tightening in the U.S. could also potentially lift the dollar and lower Chinese export prices.

India – Consumer Price Index – December

Time: 11:00 p.m. AEDT (12:00 a.m. GMT)
Forecast: 5%

India's consumer price inflation likely accelerated to 5% in December after an increase to 4.9% in November, up from 3.6% in October. We expected inflation to rise because of slightly below-average rainfall in 2017. This means food price inflation has accelerated, while rising global commodity prices have also caused fuel inflation to increase on a year-ago basis. Thus, India's inflation is on the higher end of the central bank's 4% target. Further rate cuts remain unlikely in 2018, and we expect the Reserve Bank of India's next move will depend on the monsoon season in 2018. More rainfall shortages could cause inflation to rise and the RBI to hike rates.

India – Industrial Production – November

Time: 11:20 p.m. AEDT (12:20 a.m. GMT)
Forecast: 2.5%

India's industrial production likely increased to 2.5% in November from October's 2.2%. A moderate rise again in November would reflect the ongoing improvements in domestic economic conditions. But for a large economy such as India's, production should be expanding at nearly a double-digit pace. Last year's demonetisation has caused sentiment to fall across India, although it is slowly improving. Recovering and expanding PMIs suggest that production will continue to rebound over the coming months; however, a sustained double-digit increase remains unlikely. The reform momentum in India has been slow despite a friendlier business environment. Overall, we believe production will grow faster in 2018 than it did in 2017.

The Long View

The US: The recent ultra-low VIX index favors a high-yield bond spread of less than 350 basis points.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
January 4, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 103 bp is far under its 122-point mean of the two previous economic recoveries. This spread is more likely to be wider, as opposed to narrower, a year from now.

The recent high-yield bond spread of 357 bp is less than what is inferred from the spread's macroeconomic drivers and the high-yield EDF metric. 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%, the US high-yield default rate has since eased to the 3.4% of November. Moody's Default and Ratings Analytics team expects the default rate will average 2.4% in Q3-2018. A deeper slide to its 1.85% average of the 18-months-ended June 2015 is unlikely for now.

US CORPORATE BOND ISSUANCE

Yearlong 2016's US$-denominated bond issuance rose by 5.5% annually for IG, to $1.411 trillion and dropped by -3.5% to $341 billion for high yield. Across broad rating categories, 2016's newly rated bank loan programs from high-yield issuers advanced by 45% to $98 billion for Baa, rose by 2% to $212 billion for Ba, and soared by 43% to $208 billion for programs graded less than Ba.

Q4-2015's worldwide offerings of corporate bonds showed annual percent declines of -8.7% for IG and -51.4% for high-yield, wherein US$-denominated offerings dipped by +1.3% for IG and plunged by -45.1% for high yield.

Q1-2016's worldwide offerings of corporate bonds showed annual percent declines of -4.9% for IG and -51.4% for high-yield, wherein US$-denominated offerings rose by +1.3% from Q1-2015 for IG, but plunged by -45.1% annually for high yield.

Q2-2016's worldwide offerings of corporate bonds showed an annual increase of +6.3% for IG and an annual drop of 5.2% for high-yield, wherein US$-denominated offerings dipped by -2.2% for IG and sank by -6.3% for high yield.

Third-quarter 2016's worldwide offerings of corporate bonds showed an annual advance of +19.5% for IG and +42.8% for high-yield, wherein US$-denominated offerings soared higher by +34.1% for IG and by +46.4% for high yield.

Fourth-quarter 2016's worldwide offerings of corporate bonds showed annual percent changes of -10.2% for IG and +24.9% for high-yield, wherein US$-denominated offerings fell by -8.5% for IG and advanced by +24.9% for high yield.

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.

A preliminary estimate for 2017's final quarter shows year-over-year advances for worldwide offerings of corporate bonds of 17.0% for IG and 71.2% for high-yield, wherein US$-denominated offerings posted increases of 20.7% for IG and 52.3% 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). Preliminary estimates for yearlong 2017 have worldwide corporate bond offerings increasing by +3.8% annually (to $2.493 trillion) for IG and advance by +40.0% for high yield (to $596 billion). The worldwide corporate bond offerings of 2018 are expected to show annual increases of 2% for IG and 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.

US ECONOMIC OUTLOOK

The consensus expects that the mid-point for the federal funds rate should finish 2018 at 2.125%. In view of the considerable underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global economy operates below trend, the 10-year Treasury yield may not remain above 2.5% 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 going forward.

EUROPE

By Suzanne Schatz of Moody's Analytics
December 31, 2017

Belgium

Belgium has been a solid performer in 2017 despite growth lagging that of neighbors Germany and the Netherlands. After averaging 1.2% real GDP growth in 2016, Belgium's year-over-year real GDP growth accelerated to 1.6% in the first quarter of 2017, reinforced by 1.5% year-over-year growth in the second quarter. Real GDP growth is expected to have accelerated in the second half of the year, setting up the country to register real GDP growth of around 1.8% for the year. Growth is forecast to pick up to 2% in 2018.

Improved domestic demand

Increased investment and consumption spending have bolstered output growth in 2017. Domestic demand is improving and consumption spending, which makes up about half of total output, grew at 1.7% year over year in the first quarter, its fastest pace since 2010. Its 1.6% year-over-year growth in the second quarter was not far behind.

The labor market is tightening, absorbing new labor force entrants and then some. The unemployment rate is falling despite the expanding labor force, and at 7.2% in the third quarter, was only 0.3 percentage point above the cyclical low reached in 2011. Inflation has also risen in 2017 thanks to tightening labor markets and higher wages.

On an annual basis, the net household disposable income growth rate in Belgium has picked up, and it outpaced that of Germany in the second quarter. This has been good news for the housing market. House prices reached their highest level on record in the first quarter and remained around the same level in the second quarter. This should lift retail sales, which have been volatile over the past year.

Favorable population trends

Services will continue to drive the Belgian economy, particularly in the Brussels metro area. Brussels' status as the administrative and diplomatic center of Europe supports population growth in the metro area. Favorable population trends will keep demand for education and human health/social work strong, and steady payroll growth in the industry will contribute to overall employment gains in the metro area.

Overall employment growth in the capital region will also be supported by growth in finance and insurance payrolls, as well as tourism, with employment in the accommodation and food industries forecast to rise steadily. Brussels will remain a solid performer in the quarters to come.

Solid employment gains nationally will keep the jobless rate relatively low, and inflation will rise as wage pressure mounts. Steady employment growth will bolster private consumption spending, which will continue to be a major driver of growth. Government consumption will also support growth over the next few years.

Business investment

Belgium's corporate income tax overhaul, which is in its last stages of debate in Parliament, may make the country a friendlier environment for business investment. If passed, the tax overhaul would reduce Belgium's corporate tax rate from 33% to 29% in 2018, and further reduce it to 25% in 2020.

Belgian exports have continued to post solid growth despite the euro's strengthening against the dollar. However, the U.K.'s coming exit from the European Union remains a downside risk for Belgium's export sector. While the EU and Britain have reached an agreement covering several important issues, including citizens' rights, financial obligations to the EU, and the Northern Ireland-Republic of Ireland border, a trade agreement has yet to be reached.

The U.K. is set to exit the EU in March 2019, posing harsh time constraints for a trade agreement to be struck. If the U.K. leaves the union without a trade agreement, Belgium's export sector may take a hit, as Britain is Belgium's fourth largest export partner.

ASIA PACIFIC

By Katrina Ell of Moody's Analytics
January 4, 2018

Australia is forecast to topple Qatar as the world's largest exporter of liquefied natural gas within the next two years, after recently becoming the world's second largest exporter. The bulk of Australia's LNG exports head to Asia, with Japan the largest market (accounting for 80% of total LNG exports). China and South Korea make up most of the remaining share. India is an important emerging market. Japan is the largest global importer of LNG; natural gas demand has increased since the Fukushima nuclear disaster in 2011.

While prices with Asian LNG importers are negotiated confidentially, the price is highly correlated with global oil prices, with a lag as contracts are typically long term but can be subject to periodic negotiation, sometimes driven by changes in oil prices. Short-term purchases (between one and five years) account for 25% to 30% of global LNG trade, up from less than 5% around the early 2000s, according to the Reserve Bank of Australia. Australia's short-term contracts are estimated to be only 5% to 10% because of producers recovering the significant costs associated with bringing a recent production facility on line.

Australia's Wheatstone liquefied natural gas project began production in October after a two-year construction phase and shipped its first export to Japan late in that month. Wheatstone is the sixth of eight projects included in an A$200 billion LNG construction boom (equivalent to 12% of Australia's GDP) that is now in its final stretch. Once the remaining two projects are finalized, Australia could topple Qatar as the world's biggest LNG exporter. Australia has recently become the world's second largest exporter of LNG.

LNG production is highly capital intensive so will not provide as much labour as the investment phase that has mostly finished. Household incomes will enjoy a lift from domestic profits, although foreign ownership in the industry is high, meaning leakage offshore. Government coffers will benefit from higher corporate tax revenue and some states and territories receiving higher royalties, indirectly affecting households via higher availability of transfer payments.

Late in September Australia's largest gas suppliers agreed to increase gas supply to the eastern states in 2018, where prices and shortages have increased notably in recent years. More specifically the three largest suppliers agreed to offer the domestic market the gas that was identified as the expected demand shortfall by the Australian Energy Market Operator. This guarantee is for two years. The preference to supply the export market has been blamed for local supply shortages and higher local prices.

The government has only threatened at this point to introduce gas export caps if local supply does not increase and to keep a lid on price growth next year. We think it's unlikely that export caps will need to be introduced given the forecast of significant increases in production capacity expected in 2018 and 2019, and we believe the suppliers' guarantee to provide the local market to be credible so long as the federal government maintains pressure and closely monitors wholesale local prices.

Worth remembering: If the government were to impose strict limits on what could be exported, it would discourage expensive gas exploration at the initial stages given that the price received on the domestic market is lower than what can be obtained offshore.

Ratings Round-Up

By Njundu Sanneh

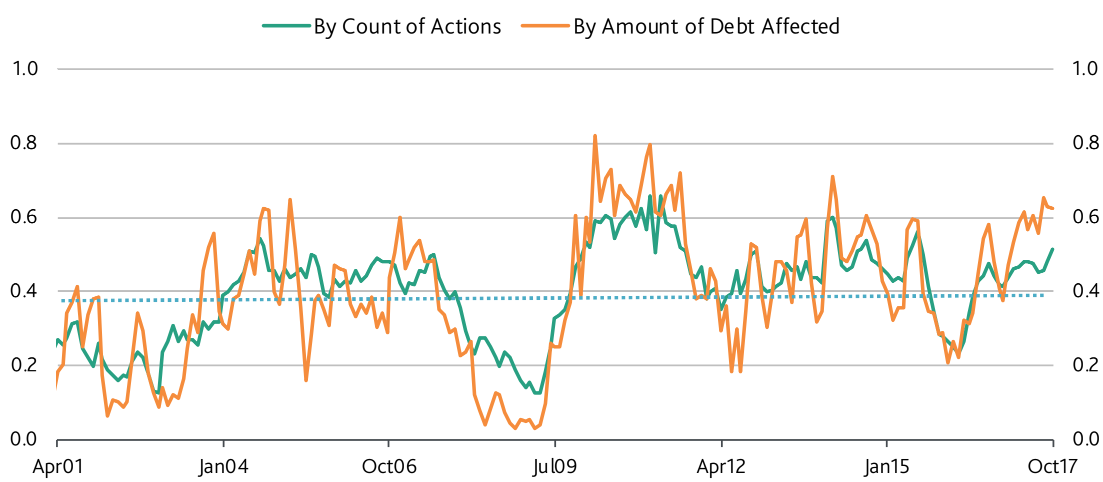
Rating Change Activity Recedes

Rating changes over the past week were quite sparse with only four changes between the U.S. and Europe. While only industrials were affected by the rating changes, the sectors span from medical devices to energy and retail. The two U.S. companies on the rating changes list were downgraded. Energy company Exco Resources, Inc. experienced an adverse rate change on announcing a missed interest payment—an event considered default by Moody's even though Exco obtained a forbearance agreement with the majority of its substantive lenders. M&A activity precipitated the downgrade of the other firm on the U.S. list. Betcon, Dickinson and Co. was downgraded to speculative grade as its acquisition of C. R. Bard, which is expected to be completed, has led to much higher leverage as it assumes debt issued by Bard.

In Europe the two rating changes were split between positive and adverse rating changes. Auris Luxembourg II S.A. was upgraded based on sustained financial and operating performance over the past few years and the expectation that the trend is going to continue into the near to medium term. The company's leading market position in the global hearing aid devices market and the stable nature of the industry helped the operating and financial performance. The challenges in the retail sector are reflective of the downgrade of Steinhoff International Holdings even though the accounting scandal in its South African unit exacerbated the liquidity problems the company is facing with pending debt maturities.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

Ratings Round-Up

FIGURE 2

Rating Key

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

FIGURE 3

Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG
12/27/17	EXCO RESOURCES, INC.	Industrial	LTCFR/PDR		D	Ca	C			SG
12/28/17	BECTON, DICKINSON AND COMPANY	Industrial	SrUnsec/CP	10,028	D	Baa2	Ba1	P-2	NP	IG

Source: Moody's

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

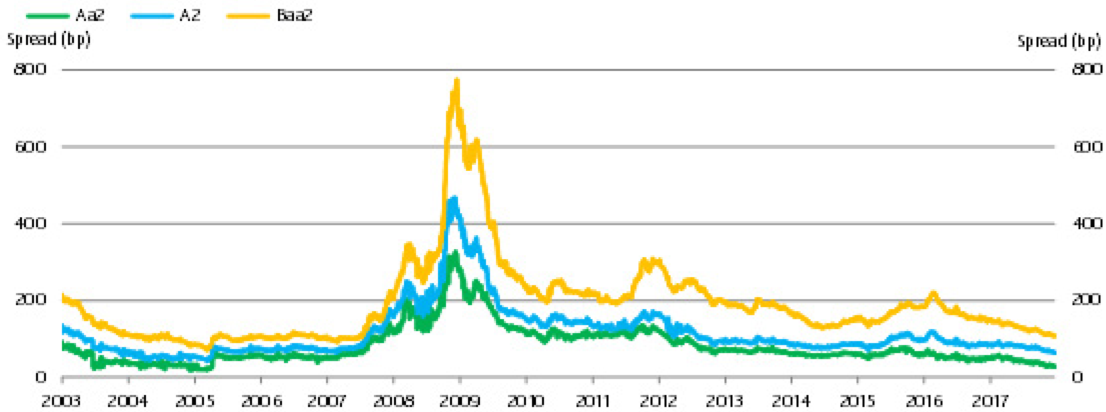
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
12/28/17	STEINHOFF INTERNATIONAL HOLDINGS N.V. - Steinhoff Europe AG	Industrial	SrUnsec	961	D	B1	Caa1	SG	AUSTRIA
1/2/18	AURIS LUXEMBOURG II S.A.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	330	U	Caa1	B3	SG	LUXEMBOURG

Source: Moody's

Market Data

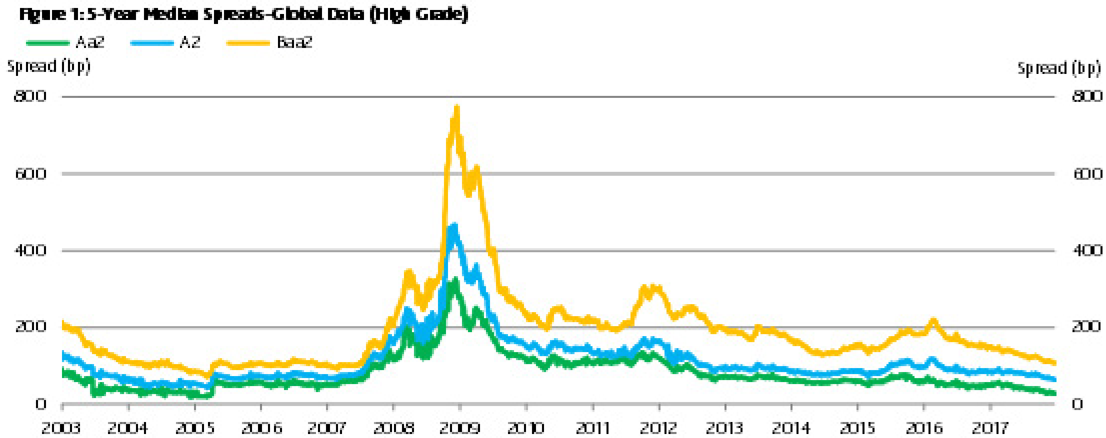
Spreads

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



Source: Moody's

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



Source: Moody's

Market Data

CDS Movers

Figure 3. CDS Movers - US (December 27, 2017 – January 3, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 3	Dec. 27	Senior Ratings
Avon Products, Inc.	Caa2	Ca	B3
Citigroup Inc.	A2	A3	Baa1
Comcast Corporation	A1	A2	A3
Oracle Corporation	A2	A3	A1
Walt Disney Company (The)	Aa3	A1	A2
Caterpillar Financial Services Corporation	A1	A2	A3
Aetna Inc.	Aa3	A1	Baa2
Bank of New York Mellon Corporation (The)	A1	A2	A1
Amazon.com, Inc.	A3	Baa1	Baa1
Valero Energy Corporation	A1	A2	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 3	Dec. 27	Senior Ratings
Danaher Corporation	A3	Aa3	A2
American Express Credit Corporation	Aa2	Aa1	A2
Exxon Mobil Corporation	A1	Aa3	Aaa
United Technologies Corporation	A1	Aa3	A3
Merck & Co., Inc.	Aa3	Aa2	A1
Nissan Motor Acceptance Corporation	Baa3	Baa2	A2
NextEra Energy Capital Holdings, Inc.	Baa1	A3	Baa1
Colgate-Palmolive Company	Aa3	Aa2	Aa3
Kimberly-Clark Corporation	A1	Aa3	A2
Rockwell Collins, Inc.	Baa3	Baa2	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 3	Dec. 27	Spread Diff
Nine West Holdings, Inc.	Ca	16,653	15,946	707
McClatchy Company (The)	Caa2	901	858	43
Genworth Holdings, Inc.	B2	659	633	26
Weatherford International, LLC (Delaware)	Caa1	564	539	25
Embarq Corporation	Ba2	525	501	24
Agilent Technologies, Inc.	Baa2	92	70	22
Bunge Limited Finance Corp.	Baa2	153	133	19
DPL Inc.	Ba3	334	323	12
Avis Budget Car Rental, LLC	B1	282	270	11
American Financial Group, Inc.	Baa1	321	311	11

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 3	Dec. 27	Spread Diff
K. Hovnanian Enterprises, Inc.	Caa3	2,035	2,563	-528
Sears Roebuck Acceptance Corp.	Ca	3,006	3,244	-237
Sears Holdings Corp.	Ca	2,674	2,884	-211
Neiman Marcus Group LTD LLC	Caa3	1,193	1,340	-147
Penney (J.C.) Corporation, Inc.	B3	1,023	1,168	-146
Parker Drilling Company	Caa1	723	834	-111
Windstream Services, LLC	B3	2,008	2,082	-73
Chesapeake Energy Corporation	Caa1	648	716	-68
Rite Aid Corporation	B3	815	880	-65
Navistar International Corp.	Caa1	273	335	-63

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (December 27, 2017 – January 3, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 3	Dec. 27	Senior Ratings
SEB	Aa2	A1	Aa3
Banco BPI S.A.	Ba2	B1	Ba1
Barclays Bank PLC	A2	A3	A1
Banco Bilbao Vizcaya Argentaria, S.A.	A2	A3	Baa1
The Royal Bank of Scotland plc	A3	Baa1	A3
ABN AMRO Bank N.V.	A3	Baa1	A1
HSBC Holdings plc	Aa3	A1	A2
Banco Santander S.A. (Spain)	Aa2	Aa3	Baa1
Nationwide Building Society	A2	A3	Aa3
Landesbank Hessen-Thueringen GZ	A3	Baa1	A1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 3	Dec. 27	Senior Ratings
Finland, Government of	Baa2	A3	Aa1
National Grid Gas Plc	Baa1	A2	A3
Natixis	Aa3	Aa2	A2
Statoil ASA	Aa1	Aaa	Aa3
Telia Company AB	A1	Aa3	Baa1
Unilever N.V.	Aa2	Aa1	A1
United Utilities PLC	Baa3	Baa2	Baa1
Leonardo S.p.a.	Ba2	Ba1	Ba1
United Utilities Water Limited	Baa3	Baa2	A3
Telenor ASA	Aa2	Aa1	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 3	Dec. 27	Spread Diff
Vedanta Resources plc	B2	413	395	18
Finland, Government of	Aa1	56	41	15
Eksportfinans ASA	Baa3	457	442	15
Matalan Finance plc	Caa1	435	421	14
Iceland Bondco plc	Caa1	359	347	11
National Grid Gas Plc	A3	48	39	9
Evraz Group S.A.	B1	248	240	8
Yorkshire Water Services Finance Limited	Baa2	79	73	6
Storebrand ASA	Ba1	187	180	6
Peugeot S.A.	Ba1	107	103	5

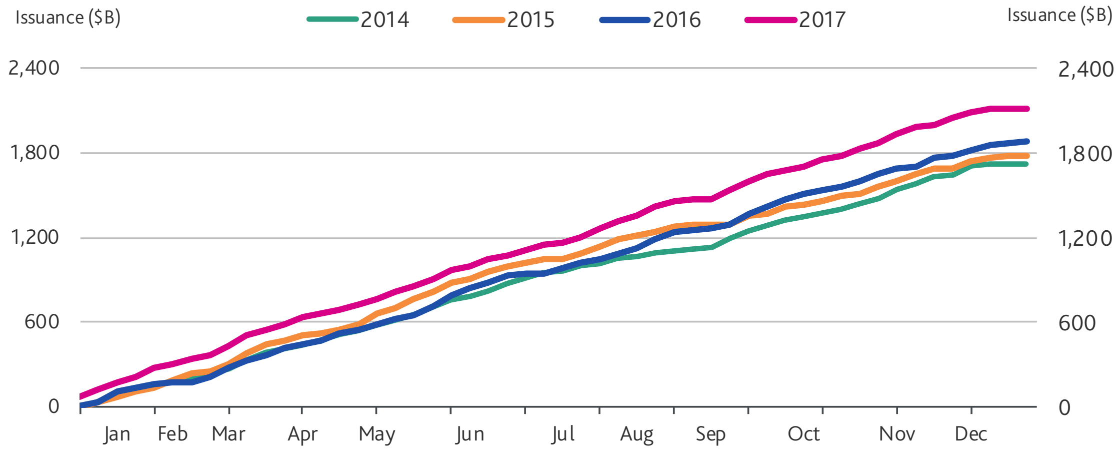
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 3	Dec. 27	Spread Diff
Astaldi S.p.A.	B3	2,356	2,481	-125
Banco BPI S.A.	Ba1	121	192	-72
Boparan Finance plc	B3	583	620	-37
Greece, Government of	Caa2	345	367	-22
Altice Finco S.A.	B3	393	413	-19
Unione di Banche Italiane S.p.A.	Baa3	95	111	-16
Severn Trent Plc	Baa1	86	102	-16
Care UK Health & Social Care PLC	Caa1	162	174	-12
Premier Foods Finance plc	Caa1	296	307	-11
Raiffeisen Bank International AG	A3	54	62	-9

Source: Moody's, CMA

Issuance

FIGURE 5

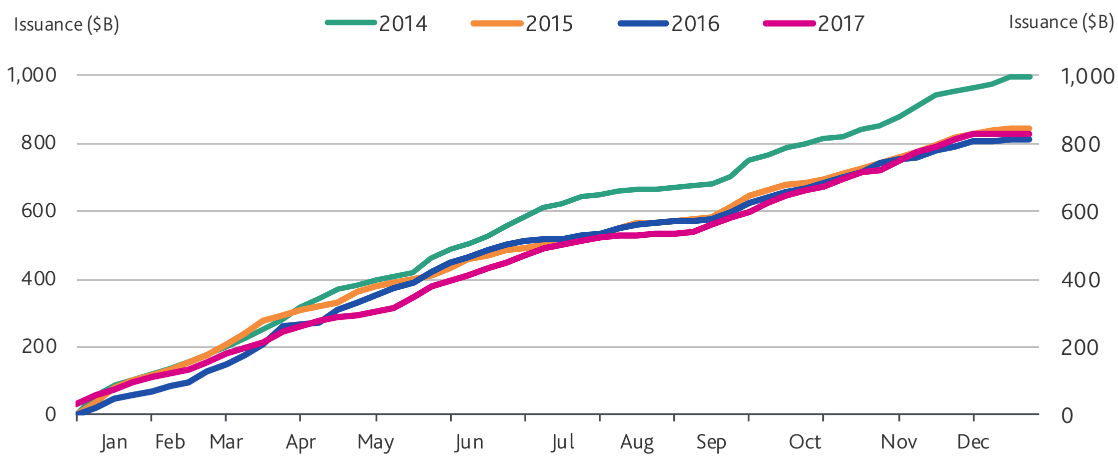
Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

FIGURE 6

Market Cumulative Issuance - Corporate & Financial Institutions: EURO Denominated



Source: Moody's / Dealogic

Market Data

FIGURE 7

Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	0.003	0.000	0.006
Year-to-Date	1,504.726	452.067	2,119.330

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	0.000	0.000	0.018
Year-to-Date	666.233	115.788	830.139

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

Moody's Capital Markets Research *recent publications*

Benign Credit Outlook Comes With Blemishes (Capital Markets Research)

Sovereign & Supranational: EDFs for Greece and Spain Lowest in Years

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Sovereign & Supranational: Middle East Tensions Fuel Saudi Arabia and Lebanon Credit Risk

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