

Weekly Market Outlook will not publish August 30. It will return September 6.

WEEKLY MARKET OUTLOOK

Significant Differences, Eerie Similarities

ARKET OUTLOOK Credit Markets Review and Outlook by Mark Zandi

Significant Differences, Eerie Similarities

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The Week Ahead

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

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The Long View

Full updated stories and key credit market metrics: January-July 2018 showed year-over-year declines by U.S. corporate bond issuance of 22% for investment grade and 19% for high yield.

Credit Spreads	Investment Grade: We see year-end 2018's average investment grade bond spread exceeding its recent 126 bp. High Yield: Compared to a recent 360 bp, the high-yield spread may approximate 425 bp by year-end 2018.
Defaults	<u>US HY default rate</u> : Moody's Default and Ratings Analytics team forecasts that the U.S.' trailing 12-month high-yield default rate will sink from June 2018's 3.4% to 2.2% by June 2019.
Issuance	In 2017, US\$-denominated IG bond issuance grew by 6.8% to a record \$1.508 trillion, while US\$-priced high-yield bond issuance advanced by 33.0% to a new record calendar-year high of \$453 billion. For 2018's US\$-denominated

by 11.8% to \$400 billion..

corporate bonds, IG bond issuance may drop by 8.7% to \$1.378 trillion, while high-yield bond issuance is likely to fall

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Ratings Round-Up

Economic Growth, Labor Market Strength Underlie Credit Quality

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Market Data

Credit spreads, CDS movers, issuance.

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Moody's Capital Markets Research recent publications

Links to commentaries on: Base metals prices, debt to EBITDA, base metals, trade war, Investment grades, defaults, higher rates, profit growth, credit quality, foreign investors, internal funds, tariffs, borrowing restraint, corporate bonds, tax law changes.

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THIS REPORT WAS REPUBLISHED AUGUST 27, 2018 TO UPDATE ECONOMIC FORECASTS FOR THE WEEK AHEAD.

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

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Credit Markets Review and Outlook

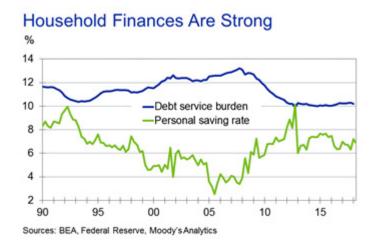
Credit Markets Review and Outlook

By Mark Zandi, Chief Economist, Moody's Analytics

Significant Differences, Eerie Similarities

The U.S. business cycle has entered its boom phase. This is a period that typically comes closer to the end of the cycle, just prior to a recession. It is characterized by robust economic growth, tightening labor and product markets, intensifying wage and price pressures, monetary tightening, and higher interest rates.

Another feature of the boom phase of a business cycle is excessive risk-taking somewhere in the financial system. This fuels the boom and is eventually at the center of the subsequent bust. Subprime mortgage loans were the obvious culprit a decade ago, runaway internet stocks that pumped up a stock market bubble were the problem in the early-2000s recession, and the savings and loan crisis incited the early 1990s downturn.



Risk-taking is clearly on the rise in this cycle, the aforementioned overvalued asset markets and easier underwriting are testimonial, but it is unclear precisely what might do this cycle in. There has been handwringing that households may be overborrowing again. But this concern seems overblown. Household credit growth is consistent with income gains, and debt loads that had fallen sharply after the last recession show no indication of rising. Debt service burdens remain low. And personal savings rates look ample after recent data revisions.

To be sure, vehicle and retail card lenders were extending too much credit not too long ago, and credit quality eroded. But lenders have since upped their standards, and delinquencies have peaked. Student loans are a problem, but not for the financial system, since the bulk of these loans are backed by the federal government. Student loans are thus a taxpayer problem, which could manifest itself in the next downturn by adding to the nation's fiscal problems; policy makers will be under intense pressure to forgive and forbear on more of this debt.

Even so, worries that the nation's ballooning budget deficits and debt load could do this cycle in are also overdone. They are a corrosive on growth as they push up long-term interest rates, but we are still a long way from U.S. Treasury bonds losing their safe-haven status to global investors. Municipal debt is more of an issue. But, while it will likely exacerbate the next recession, it won't be the catalyst for it.

Leveraged lending

The most serious developing threat to the current cycle is lending to highly leveraged nonfinancial businesses. Across all businesses, borrowing appears manageable. The ratio of debt outstanding to GDP is about as high as it has ever been, yet this is a continuation of a long-running trend and reflects a

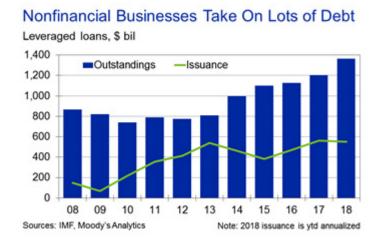
MOODY'S ANALYTICS CAPITAL MARKETS RESEARCH

Credit Markets Review and Outlook

broadening in the availability of credit to more businesses. The ratio of debt to business profits looks even more benign—largely unchanged since the early 1980s, abstracting from recessions when profits are hammered.

However, while businesses appear to be in good shape in aggregate, a significant number of highly leveraged companies are taking on sizable amounts of debt. This is evident in the rapid growth of so-called leveraged loans—loans extended to companies that already have considerable debt. These loans tend to have floating rates—typically Libor plus a spread—with a below-investment-grade (Baa or less) rating.

Leveraged loan volumes are setting records, and loans outstanding have increased at a double-digit pace over the past five years to nearly \$1.4 trillion. Businesses use the loans to finance mergers, acquisitions and leveraged buyouts, followed by refinancing, and to pay for dividends, share repurchases and general expenses.



Powering leveraged lending is demand from the collateralized loan obligation market. CLOs are leveraged loans that have been securitized, and global investors can't seem to get enough of them. This is clear from the thin spreads between CLO yields and comparable risk-free Treasuries. Approximately one-half of leveraged loans currently being originated are packaged into CLOs, with CLO outstandings approaching \$550 billion.

Easing underwriting

To meet the strong demand for leveraged loans from the CLO market, lenders are easing their underwriting standards. According to the Federal Reserve's survey of senior loan officers at commercial banks, a net 15% of respondents say they lowered their standards on commercial and industrial loans to large and medium-size companies this quarter compared with the previous quarter. The only other time loan officers eased as aggressively on a consistent basis was at the height of the euphoria leading up the financial crisis in the mid-2000s. Standards for loans to small companies have not eased nearly as much, since they are much less likely to be bundled into a CLO.

Covenants on leveraged loans—restrictions on borrowers to ensure they can repay their loans—have also deteriorated, according to Moody's Investors Service. The rating agency's loan covenant quality indicator has fallen to its lowest level in its six-year history. Borrowers are negotiating greater flexibility to manage their balance sheets by moving or selling collateral, and they are increasingly able to sell collateral without using the proceeds to pay down their loans. It is becoming more unclear whether the collateral backstopping loans will be available in a bankruptcy.

The easing in underwriting is also evident in the below-investment-grade or junk corporate bond market. The junk market hasn't kept pace with the surging leveraged loan market, but it is nearly as big, with more than \$1.3 trillion in outstandings. Here as well, bond covenants have eroded substantially in recent

MOODY'S ANALYTICS

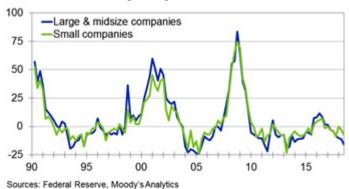
CAPITAL MARKETS RESEARCH

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years, according to the rating agency, with the Moody's bond covenant quality indicator currently hovering near record lows.

Lenders Go Easier on Business Borrowers

Net % of loan officers tightening standards on C&I loans



Eerie similarities

Considering the leveraged loan and junk corporate bond market together, highly indebted nonfinancial companies owe about \$2.7 trillion. Their debts have been accumulating quickly as creditors have significantly eased underwriting standards. As interest rates rise, so too will financial pressure on these borrowers. Despite all this, global investors appear sanguine, as credit spreads in the CLO and junk corporate bond market are narrow by any historical standard.

Regulators are undoubtedly nervous—they issued guidance to banks to rein in their leveraged lending in 2013—but an increasing amount of the most aggressive lending is being done by private equity, mezzanine debt, and other institutions outside the banking system and regulators' purview.

Now consider that subprime mortgage debt outstanding was close to \$3 trillion at its peak prior to the financial crisis. Insatiable demand by global investors for residential mortgage securities drove the demand for subprime mortgages, inducing lenders to steadily lower their underwriting standards. Subprime loans were adjustable rate, which became a problem in a rising rate environment as borrowers didn't have the wherewithal to make their growing mortgage payments. Regulators were slow to respond, in part because they didn't have jurisdiction over the more egregious players.

It is much too early to conclude that nonfinancial businesses will end the current cycle in the way subprime mortgage borrowers did the previous one. Even so, while there are significant differences between leveraged lending and subprime mortgage lending, the similarities are eerie.

The Week Ahead

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

THE U.S.

By Ryan Sweet of Moody's Analytics

September Rate Increase Still on Track

The U.S. economic calendar remains light. We look for second quarter GDP growth to be unrevised between the government's first and second estimates. The incoming data have pointed toward small but offsetting revisions across components. The advance Quarterly Services Survey suggests growth in real intellectual property products should be revised higher. We also look for an upward revision to growth in real government spending. These will be only enough to offset the likely downward revisions to growth in consumer spending, residential investment and equipment spending. The core PCE deflator likely rose 0.1% in July, leaving it up 1.9% on a year-ago basis. The monetary policy implications won't be significant; it is close to a slam dunk that the Fed will raise rates in September.

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence for 8/24/18	index, 4-wk MA				31.7
Tues @ 10:00 a.m.	Conference Board Consumer Confidence for August	index		126.5	123 to 128.5	127.4
Wed @ 8:30 a.m.	GDP for 2018 Q2-second estimate	% change, SAAR	4.1	4.0	3.9 to 4.2	4.1
Wed @ 10:00 a.m.	Pending Home Sales for July	% change	-0.3	0.4	-1.0 to 0.8	0.9
Thur @ 8:30 a.m.	Jobless Claims for 8/25/18	ths	212	214	208 to 216	210
Thur @ 8:30 a.m.	Nominal personal Income for July	% change	0.4	0.4	0.2 to 0.5	0.4
Thur @ 8:30 a.m.	Nominal personal Spending for July	% change	0.4	0.4	0.3 to 0.5	0.4
Thur @ 8:30 a.m.	Core PCE deflator for July	% change	0.1	0.2	0.1 to 0.3	0.1
Fri @ 10:00 a.m.	Michigan sentiment for August, final	index	95.1	95.5	94. to 96.5	95.3

MONDAY, AUGUST 27

Business confidence (week ended August 24; 10:00 a.m. EDT)

Forecast: N/A

Global businesses sentiment has stabilized, but this comes after several months of weakening. Businesses appear to be growing wary of the escalating global trade war. Much of the weakening in sentiment is in expectations about business prospects into early next year, which are as weak as they have been at any time during this expansion. Less than 40% of respondents say that prospects are improving, the lowest percentage since the economy was pulling out of the Great Recession at the start of this decade. Businesses' other big concern is around regulatory and legal issues, although this concern is receding with about one-third of respondents saying it is their greatest worry.

The four-week moving average in our business confidence index rose from 31.4 to 31.7 in the week ended August 17 but it remains well below that seen earlier this year.

TUESDAY, AUGUST 28

Conference Board consumer confidence (August; 10:00 a.m. EDT)

We will release our forecast ahead of the report.

The Week Ahead

WEDNESDAY, AUGUST 29

GDP (2018Q2-second estimate; 8:30 a.m. EDT)

Forecast: 4.1% at an annualized rate

We look for second quarter GDP growth to be unrevised between the government's first and second estimates. The incoming data have pointed toward small but offsetting revisions across components. The advance Quarterly Services Survey suggests growth in real intellectual property products should be revised higher. We also look for an upward revision to growth in real government spending. These will be only enough to offset the likely downward revisions to growth in consumer spending, residential investment and equipment spending. With the second estimate, the Bureau of Economic Analysis will release its initial estimate of corporate profits.

THURSDAY, AUGUST 30

Jobless claims (week ended August 25; 8:30 a.m. EDT)

Forecast: 212,000

The forecast is for initial claims for unemployment insurance benefits to have risen by 2,000 to 212,000 in the week ended August 25. Elsewhere, continuing claims take on added importance, as they include the August payroll reference week.

Personal income and spending (July; 8:30 a.m. EDT)

Forecast: 0.4% (nominal income)
Forecast: 0.4% (nominal consumption)
Forecast: 0.1% (core PCE deflator)

We look for nominal personal income to have risen 0.4% between June and July. The labor income proxy for private workers was weak in July and we believe that will also be reflected in nominal wages. Therefore, we have nominal wages adding only 0.2 percentage point to total personal income growth in July. Nonwage income has been solid recently and we look for it to add 0.2 percentage point. Nominal consumer spending likely rose 0.4% in July. The forecast assumes that gasoline and autos were both roughly neutral for growth in total consumer spending in July. Consumer goods excluding autos and gasoline likely added 0.2 percentage point. Services will chip in the other 0.2 percentage point to total consumption growth in July. However, we look for utilities to be a drag.

Both the headline and core PCE deflators are forecast to have risen 0.1% in July. We look for the headline PCE deflator to have been up 2.3% on a year-ago basis, compared with 2.2% in June. The core PCE deflator was likely up 1.9% in July, matching the gain in June.

The revisions to personal income, spending and PCE deflators will be consistent with those incorporated into the government's second estimate of second quarter GDP. The new information will be the monthly breakdown.

FRIDAY, AUGUST 31

University of Michigan consumer sentiment (August-final; 10:00 a.m. EDT)

Forecast: 95.1

The University of Michigan's consumer sentiment index likely came in at 95.1 in August, according to the final survey. This would be a touch below the preliminary estimates 95.3. Other high-frequency measures of consumer sentiment have been stronger than implied by the Michigan survey.

The Week Ahead

EUROPE

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

Euro Zone Inflation Likely Eased

The week will be busy for the euro zone economies, and of note are the preliminary euro zone CPI figures for August. We are confident they will show that inflation in the currency area eased slightly to 2%, after it peaked at 2.1% in July. A small dip in energy inflation is likely to have offset a small uptick in food inflation, while services and noncore goods inflation likely held steady. Accelerating energy inflation was a key feature of the CPI report over the first half of 2018. The price of a Brent barrel has soared since February and peaked at \$78 in June, compared with an average reading of \$54 for 2017 as a whole. This pushed energy inflation to 9.5% in July. But base effects now ensure that energy inflation edges back gradually. Accordingly, the price of a Brent barrel in euro terms was around 41% higher than in August 2017, compared with a much stronger 51% reading in July, which should help push energy inflation back to around 8.8% for August. We expect energy inflation will cool further to around 4.5% by the end of the year.

By contrast, we expect the other components of noncore inflation will continue to contribute markedly to the headline. First, alcohol and tobacco inflation surged in March because of the tax hike in France, and should remain elevated until base effects kick in next year. Second, food inflation is supposed to pick up slightly over the next few months, in line with the recent rise in food producer prices, while Europe's scorching summer likely hurt crop yields and pushed up prices of fresh produce in August.

Regarding core inflation, we are penciling in services inflation to hold only steady at 1.4% in August after rebounding in July. We expect the tight labour market combined with the ongoing recovery will ensure that services inflation continues on an upward trend and accelerates to around 1.6% at the end of the year. We look for core goods inflation to have held its ground in August too, though it has scope to climb significantly over the next few months. Weakness in nonindustrial goods inflation has been a main theme in the latest CPI releases, and the sector's inflation rate remains well below trend. Our view is that a lagged effect from the stronger euro last year could be depressing durables and semidurables prices, but we expect that this will be reversed soon, since the euro depreciated sharply and is now reading around 2.5% lower in year-ago terms against the dollar, while it was reading around 15% higher at the start of the year.

Overall, we think the core rate has the potential to reach 1.3% to 1.4% by the end of the year. But this forecast depends strictly on a significant pickup in core goods inflation. The fading of base effects related to energy inflation will then ensure that the headline is brought closer to the core; we forecast that the headline rate will ease to 1.6% by the end of the year.

We thus haven't changed our story about the European Central Bank. We think the ECB will proceed with its announced plan to end its asset purchases in December, but it won't be pressured to start lifting the deposit rate until the fourth quarter of next year. There is still no evidence that we are at the start of a marked increase in inflation, with underlying inflation pressures remaining significantly below the central bank's target of 2%.

The Week Ahead

	Key indicators	Units	Moody's Analytics	Last
Mon @ 5:00 p.m.	France: Job Seekers for July	mil, SA	3.5	3.44
Wed @ 7:45 a.m.	France: GDP for Q2	% change	0.2	0.2
Wed @ 7:45 a.m.	France: Household Consumption Survey for July	% change	0.5	0.1
Thur @ 9:00 a.m.	Germany: Unemployment for August	%	5.2	5.2
Thur @ 10:00 a.m.	Euro Zone: Business and Consumer Sentiment for August	index	111.9	112.1
Thur @ 12:05 a.m.	U.K.: Consumer Confidence for August	index	-9.0	-10.0
Fri @ 8:00 a.m.	Germany: Retail Sales for July	% change	-0.5	1.2
Fri @ 8:00 a.m.	Spain: Retail Sales for July	% change yr ago	0.2	0.4
Fri @ 9:00 a.m.	Italy: GDP for Q2	% change	0.2	0.3
Fri @ 9:00 a.m.	Italy: Unemployment for July	%	10.8	10.7
Fri @ 10:00 a.m.	Euro Zone: Preliminary Consumer Price Index for August	% change	2.0	2.1
Fri @ 10:00 a.m.	Euro Zone: Unemployment for July	%	8.3	8.3

MONDAY, AUGUST 27

France: Job Seekers (July; 5:00 p.m. BST)

France's labour market is struggling to make significant progress amid weaker economic growth in the first half of the year. We expect the number of job seekers ticked up slightly to 3.45 million in July after holding relatively steady at 3.44 million in June. Skills shortages for high-skilled jobs are increasing, while lower-skilled workers face higher unemployment, underemployment, and worse access to training. Fortunately, ongoing labour market reforms will help raise inclusiveness, skills and job quality. The unemployment rate should thus trend lower this year following the small decline in the second quarter.

TUESDAY, AUGUST 28

No major indicators are scheduled for release.

WEDNESDAY, AUGUST 29

France: GDP (Q2; 7:45 a.m. BST)

We expect second quarter GDP data to confirm that France's growth held steady at just 0.2% q/q in the second quarter. This should have pushed yearly growth down to 1.7%, from 2.2%. Behind the easing was likely a 0.1% q/q decline in consumer spending, as above-average temperatures in April, May and June depressed demand for heating, while strikes in the transport sector likely dented consumers' spending in transport services. Investment and government spending, by contrast, likely picked up. Elsewhere, net trade should have again detracted from growth because firms replenished their inventories through imports, as expected. The good news is that base effects should ensure that the quarterly rate will accelerate to 0.4% to 0.5% in the third quarter.

France: Household Consumption Survey (July; 7:45 a.m. BST)

French household expenditure on goods likely rose by 0.5% m/m in July, following a meagre 0.1% rise in June. This should have pushed the yearly rate up to 0.6%, following a paltry 0.3% gain previously, still below the 1.1% average increase for the previous year. Driving the headline the most was likely a jump in food spending on the back of the World Cup celebrations and the warm weather, as temperatures exceeded their long-term average by 2.5 °C and should have boosted demand for food and drinks. The flip side is that this probably depressed energy production for yet another month, as it already declined by 0.4% in June. Elsewhere, we expect that car production rose following a 0.4% m/m drop in June.

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THURSDAY, AUGUST 30

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

Germany's seasonally adjusted unemployment rate likely remained at 5.2% in August, after it fell to this record low in May. German businesses are increasing their labour force, despite the uncertainties and geopolitical tensions such as the continued Brexit negotiations or the introduction of additional controversial import tariffs by the U.S. Strong economic expansion has supported job creation over the last year, but there has been visible cooling so far this year. Although the German expansion rate ticked up to 0.5% q/q in the second quarter, from 0.4% in the previous stanza, in year-ago terms the growth rate decelerated to 2% from 2.1%, and was well below the 2.8% expansion rate reached at the end of 2017. Moreover, business sentiment surveys have been gradually dropping since the beginning of this year. The unemployment rate is therefore likely bottoming out.

FRIDAY, AUGUST 31

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

July likely brought a contraction in German retail sales after they recovered somewhat in the previous month. Sales are expected to have decreased by 0.5% from June, when they rose by 1.2%. In year-ago terms, sales continued to grow but the pace of increase remained muted at around 1%. The GfK consumer climate indicator for July held steady at 10.7 after falling to this value in the previous month, but slid further to 10.6 in August. Meanwhile, German inflation remained strong in July and stayed marginally above the ECB's target of 2%. Preliminary estimates show that 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.

Spain: Retail Sales (July; 8:00 a.m. BST)

We expect that retail sales growth halved to 0.2% m/m in July, from 0.4% in the previous month. But we caution that the upbeat June reading was largely a recovery of the losses in April and May. A big bounce in sales is unlikely, since accelerating inflation will curb purchasing power. Also, labour absorption should stall towards the end of the year as the economy switches to a lower gear. Sticky unemployment and low pay rises will keep a lid on Spanish consumption. All considered, growth in retail sales may be a little shy of 1% in 2018.

Italy: GDP (Q2; 9:00 a.m. BST)

Italy's GDP growth likely slowed in the second quarter, expanding 0.2% q/q and 1.1% on a year-ago basis. Rising trade tensions and political uncertainty have weakened business and consumer confidence, reducing business investment and consumer demand. Net exports were likely a drag on top-line GDP in the second quarter as foreign demand for Italian-made goods also waned. Political risks have largely subsided, as the newly formed coalition government has calmed fears of Italy leaving the euro zone. However, near-term downside risks still come from the uncertainty surrounding new government policies as well as the possibility of a global trade war. Growth prospects remain moderate, and Italy's economy will likely grow by 1.1% in 2018, from 1.6% in 2017.

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

The Italian unemployment rate likely ticked up to 10.8% in July after holding steady at 10.7% for two months. Job prospects are improving, drawing more people into the labour force. However, hiring cannot keep up with the influx of job seekers, pushing the unemployment rate higher. The labour market will continue to improve this year thanks to a strong global economy. But although we are optimistic, 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. Italy's parliament has passed a new labour law

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that aims to crack down on short-term employment and precarious labour practices. However, the Italian social security organization estimates the law will result in the loss of thousands of jobs due to higher labour costs. A slowdown in hiring could undo recent labour market advances and further delay the recovery.

Euro Zone: Preliminary Consumer Price index (August; 10:00 a.m. BST)

Euro zone inflation likely eased slightly to 2% in August, after it peaked at 2.1% in July. A small dip in energy inflation likely offset a small uptick in food inflation, while services and noncore goods inflation likely held steady. Accelerating energy inflation was a key feature of the CPI report over the first half of 2018, but the price of the Brent barrel in euro terms was around 41% higher than in August 2017, compared with a much stronger 51% reading in July, and should help push energy inflation back to around 8.8% in August. We expect base effects will allow energy inflation to cool further to around 4.5% by the end of the year.

By contrast, we expect that the other components of noncore inflation contributed significantly to the headline. First, alcohol and tobacco inflation surged in March because of the tax hike in France, and should remain elevated until base effects kick in next year. Second, food inflation is supposed to pick up slightly over the next few months, in line with the recent rise in food producer prices, while Europe's scorching summer should have damaged crop yields and pushed up prices of fresh produce in August.

Regarding core inflation, we are penciling in services inflation to have held only steady at 1.4% in August, after it rebounded in July. We expect the tight labour market combined with the ongoing recovery to ensure that services inflation continues on an upward trend and accelerates to around 1.6% at the end of the year. Meanwhile, we look for core goods inflation to have held ground in August too, though it also has scope to heat up significantly over the next few months. Weakness in nonindustrial goods inflation has been a main theme in the latest CPI releases, and the sector's inflation rate remains well below trend. Our view is that a lagged effect from the stronger euro last year could be depressing durables and semidurables prices, but we expect that this will be reversed soon as the euro depreciated sharply and is now reading around 2.5% lower in year-ago terms against the dollar, while it was reading around 15% higher at the start of the year.

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

The euro zone's unemployment rate likely held steady at 8.3% in June, 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 July saw further job creation, with the rate of expansion remaining solid even if it eased slightly compared with the previous month. Employment rose in all of the nations covered by the survey, and in the spotlight was that growth improved in Germany, France, Spain and Ireland. 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 a slowdown was always expected, particularly in countries such as Germany, Austria and the Netherlands, 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 8% by the end of 2018.

ASIA-PACIFIC

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

Nothing Spectacular in Japan's July Data

A barrage of Japan's July activity data will show nothing spectacular. Retail spending likely cooled a little and spending on nondiscretionary items continues to drive consumption, especially for fuel. We

The Week Ahead

expect the unemployment rate will remain unchanged at 2.4%. The burly employment growth enjoyed early in 2018 will not be maintained heading into 2019. How much further the labour force can rise probably has upper limits, although female participation, which has been increasing, still has some way to go.

Japan's industrial production is having a tough time of late and further declines are expected over July. By category, tech remains a bright spot as do iron and steel, and transport equipment, but this won't be enough to offset the weakness in general purpose machinery and chemicals.

China's manufacturer sentiment has been deteriorating as trade tensions have escalated, and a further pullback is expected in August. The official manufacturing PMI indicates that firms remain optimistic on net. Sentiment regarding production and new orders is fading, suggesting a slowdown in manufacturing output ahead from both domestic and foreign firms. China's sentiment data have been the most sensitive to the trade war between the U.S. and China, with foreign trade data showing minimal impact, so far.

India's GDP growth likely ticked up a notch to 7.8% y/y in the June quarter. The agriculture outlook has improved, as the monsoon season is looking decent, but other factors suggest the forecast second quarter pace will not be maintained. In particular, high oil prices will bloat the import bill and ultimately dampen consumption, while near-term monetary tightening, with rate hikes in June and August, are another dampener.

The Bank of Korea has kept monetary settings steady recently due to the weak labour market and escalating trade frictions. There were, however, two dissenters at the last monetary policy meeting, who suggested that rates should rise in the near term to address financial imbalances. However, amid still-mild price pressures and rising trade tensions, we expect the Bank of Korea to keep its key policy rate unchanged at its August meeting.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 7:00 a.m.	South Korea Consumer confidence survey for August	Index	100.2	101.0
Wed @ 3:00 p.m.	Japan Consumer confidence survey for August	Index	43.1	43.5
Thurs @ 9:50 a.m.	Japan Retail sales for July	% change yr ago	1.1	1.8
Fri @ 9:00 a.m.	South Korea Retail sales for July	% change	0.3	0.6
Fri @ 9:30 a.m.	Japan Unemployment rate for July	%	2.4	2.4
Fri @ 9:50 a.m.	Japan Industrial production for July	% change	-1.6	-2.1
Fri @ 11:00 a.m.	China Manufacturing PMI for August	Index	51	51
Fri @ Unknown	South Korea Monetary policy for August	%	1.5	1.5
Fri @ 5:30 p.m.	Thailand Foreign trade for July	US\$ bil	3.0	2.9
Fri @ 5:30 p.m.	Thailand Private consumption for July	% change yr ago	4.0	3.8
Fri @ 10:00 p.m.	India GDP for Q2	% change yr ago	7.8	7.7

MONDAY, AUGUST 27

No major economic indicators are scheduled for release.

TUESDAY, AUGUST 28

South Korea: Consumer Sentiment Index (August; 7:00 a.m. AEST; Monday, 9:00 p.m. GMT)

South Korean consumer sentiment likely dimmed further in August. The labour market remains alarmingly weak. Employment growth in July slowed to its weakest reading since the start of 2010 amid declines in mining, manufacturing, wholesale and retail trade, real estate, facilities management, and education jobs. With jobs, especially for the young, increasingly hard to come by, we expect the consumer sentiment index to slip to 100.2 in August.

The Week Ahead

WEDNESDAY, AUGUST 29

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

Japanese consumers continue to adjust their economic expectations downward. The consumer confidence index likely fell further in August to 43.1 after July's 43.5. There has been a fall in most major categories, although income growth held up possibly because of a rise in minimum wages. The rising concerns around trade wars and weather-related issues across Japan likely weighed on overall sentiment. Sentiment has fallen back to around its level last year, but sharper declines remain unlikely thanks to improved labour market conditions. Inflation expectations likely fell further in August.

THURSDAY, AUGUST 30

Japan: Retail Sales (July; 9:50 a.m. AEST; Wednesday, 11:50 p.m. GMT)

Japanese retailers bounced back in June after a slowdown in May. Retail sales increased 1.8% y/y in June, following the 0.6% rise in May. We expect retail sales increased by 1.1% y/y in July. However, spending on nondiscretionary items will drive most of the increase in spending. This will largely be felt in retail fuel costs, which are expected to rise sharply, although higher general merchandise sales, along with the continued rise in medical expenses, have been increasing in recent months. Moreover, spending could ramp up slightly in July and August as various bonuses are paid out.

FRIDAY, AUGUST 31

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

South Korean retail sales remained soft in June despite ending two months of decline. In year-ago terms, retail sales growth decelerated to a five-month low. Sales of passenger cars continued to be weak, declining for the second consecutive month. Sales of household appliances also remained weak, as was demand for telecommunication and computer equipment. Sales of semidurable and nondurable goods fared better, led by sales of footwear and luggage, cosmetics, and pharmaceuticals. Overall, however, retail sales continue to be dampened by a weak labour market and dimming consumer sentiment, which likely kept sales growth to just 0.3% m/m in July.

Japan: Employment Situation (July; 9:30 a.m. AEST; Thursday, 11:30 p.m. GMT)

Japan's employment report for June was slightly less rosy than expected. The unemployment rate rose to 2.4%, up from 2.2% the month prior. We expect the unemployment rate will remain unchanged at 2.4%. The pace of job growth early in 2018, while astronomical, will not be maintained heading into 2019. How much further the labour force can rise probably has upper limits, although female participation, which has been increasing, still has some way to go. Overall, a sustained improvement in income remains elusive despite the tightening labour market, although small gains will ensure the economy doesn't slip into deflation.

Japan: Industrial Production (July; 9:50 a.m. AEST; Thursday, 11:50 p.m. GMT)

Japanese manufacturers are having a tough time of late. Industrial production fell by 2.1% m/m in June following the 0.2% fall in May. We expect a further decline in July of 1.6% following adverse weather conditions. By category, tech remains a bright spot as do iron and steel, and transport equipment, but this won't be enough to offset the weakness in general purpose machinery and chemicals. Forward-looking indicators suggest industrial production will be on the mend through August by a modest degree.

China: Manufacturing PMI (August; 11:00 a.m. AEST; 1:00 a.m. GMT)

China's manufacturer sentiment has been deteriorating as trade tensions escalated, although firms remain optimistic on net. Sentiment regarding production and new orders is fading, suggesting a slowdown in manufacturing output ahead. Trade tensions have contributed to capital outflows and a lower yuan, and are likely to affect manufacturers' businesses in increasingly tangible ways soon. We expect the official PMI declined by a further 0.3 point to 51 in August.

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The Week Ahead

South Korea: Monetary Policy (August; Unknown)

Against the background of the weak labour market and escalating trade frictions, the Bank of Korea has refrained from raising its key policy rate further so far this year. There were, however, two dissenters at the last monetary policy meeting, who suggested that rates should rise in the near term to address financial imbalances. However, amid still-mild price pressures and rising trade tensions, we expect the Bank of Korea to keep its key policy rate unchanged at 1.5% at its August meeting.

Thailand: Foreign Trade (July; 5:30 p.m. AEST; 7:30 a.m. GMT)

Thailand's trade surplus increased to US\$2.9 billion in June, after rebounding strongly in May. Exports grew at a double-digit pace for the third straight month, as did imports. By product, manufactured exports remained solid, with apparel and footwear, wood, paper and rubber products, as well as electronics continuing to increase at a healthy pace. Automotive exports were also solid. The trade spat between the U.S. and China has intensified in recent weeks, clouding Thailand's export outlook. China's tech products are a prime target for U.S. tariffs, and any slowdown in China's tech exports is bound to impact Thailand. The trade surplus likely increased to US\$3 billion in July.

Thailand: Private Consumption (July; 5:30 p.m. AEST; 7:30 a.m. GMT)

Private consumption growth likely edged up to 4% y/y in July, after rising 3.8% in the prior month. Private consumption is expanding at a steady pace in Thailand. Consumption is likely being supported by an improvement in incomes, as well as government measures such as the social welfare card project, which provides low-income earners with funds for grocery purchases and transportation. Improved consumer confidence is also helping. Consumer confidence has risen to its highest level since mid-2013.

India: GDP (2018Q2; 10:00 p.m. AEST; 12:00 p.m. GMT)

India's GDP growth notched an impressive 7.7% y/y in the March quarter and will likely increase 7.8% in the June quarter. The effects of demonetisation and to a lesser extent the goods and services tax caused disruptions to the economy in 2017. However, first quarter growth is also a noticeable improvement on the 7.2% expansion in the December quarter. The agriculture outlook has improved, as the monsoon season is looking decent, but other factors suggest the second quarter pace will not be maintained. In particular, high oil prices will bloat the import bill and ultimately dampen consumption, while near-term monetary tightening, with a rate hike in June and August, could hurt GDP growth prospects in the coming quarters.

The Long View

The Long View

January-July 2018 showed year-over-year declines by U.S. corporate bond issuance of 22% for investment grade and 19% for high yield.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group, August 23, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 126 basis points eclipses 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 360 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

July 2018's U.S. high-yield default rate of 3.37% was the lowest since January 2016's 3.34% and was less than the 3.82% of July 2017. Moody's Default and Ratings Analytics team now expects the default rate will approximate 2.2% by July 2019, which implies a deepening of the default rate's yearly decline from July 2018 to July 2019.

US CORPORATE BOND ISSUANCE

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

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 **-4.0**% for IG and -10.3% 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 Paul Matsiras of Moody's Analytics August 23, 2018

GREECE

The Greek debt crisis is ancient history. With its string of five consecutive quarterly increases in real GDP, Greece has produced its best run of economic growth since 2005-2006. While growth has been consistent, the sources of growth are much less so: Exports have usually been positive, but consumption and investment have not.

Economic growth will keep up its pace over the coming years. Consumption will contribute more to output as the labor market improves, driving stronger wage gains and boosting incomes and spending that will eventually trickle into the housing market. Inflation, which has remained modest since the start of 2017, will slowly close the 1-percentage point gap with the rest of the euro zone. Stronger global growth bodes well for the country, in terms of both improved exports and a greater influx of tourists to the Mediterranean.

Post mortem

Eight years of heavy austerity and restructuring of the labor market wreaked havoc on the Greek economy. Real GDP fell by a quarter of its 2008 level, the unemployment rate jumped up to more than 25%, and incomes fell by almost a third. As a result, the Greek economy remains far behind its European counterparts.

Part of what has made growth so hard to come by is the fleeing population. Poor economic conditions accompanied by suffocating austerity measures and spikes in taxes led to wide-scale business shutdowns. Greeks left the country in droves to find jobs elsewhere, leading to a 4% decline in the population from 2010. The ensuing brain drain altered the makeup of the Greek economy substantially, too, as the country could not support enough high-tech industries without highly skilled workers.

More jobs should mean more spending

The improving economy has helped the labor market make a steady comeback. Led by gains in secondary and tertiary industries, total employment has increased steadily since 2014. The job market still has a long way to go to return to its pre-Great Recession levels. Employment is 20% below its mid-2008 peak while the unemployment rate, at 20.3% in the first quarter of 2018, is about 13 percentage points above its prerecession low. Even worse, about a third of families have at least one unemployed member, and among those who do have a job, it is likely for minimum wage. Put together, in-work poverty has climbed to one of the highest levels in Europe.

Tourism has been a crucial to the Greek labor market, because foreign spenders encourage small businesses to spring up to cater to the crowds. Other jobs are being created as manufacturers shift sales outside the Greek market, stoking a rise in exports, which now make up a third of economic activity, up from a quarter before the crisis.

The rising job count is duly lifting incomes. Total compensation of employees has accelerated over the past four years, driving stronger disposable income gains. As a result, consumer sentiment surpassed its prior cycle peak at the end of 2017 and will climb as the tight labor market boosts wages. Consumers also have the wherewithal to spend; year-ago growth in real retail sales is increasing consistently for the first time since the economic downfall and will stay the course through the end of the decade.

Take me home

The improving labor market and income gains will slowly revive housing demand and in turn will boost the housing market. Population declines, restrictive credit conditions, and high real estate taxes have weighed greatly over the

The Long View

past eight years. New residential construction continues to disappoint and has advanced only slowly over the past three years from its 2012 low. House prices are only now beginning to pick up in value but remain almost half of their 2008 level. Making matters worse, rents and house prices are falling at well below the inflation rate, making real house price declines actually worse than they appear and hurting household access to credit. Low housing demand and a high amount of existing-housing supply have likewise curbed employment in construction, which has fallen by about half of its 2007 peak, and industry job gains have slowed significantly of late.

The housing recovery will differ geographically; it will be stronger in the areas around Athens while the rest of Greece will struggle more to make up lost ground. House prices in Attiki (the NUTS 2 statistical region that includes Athens and nearby Piraeus) have only now bottomed out, while house prices in the rest of Greece continue to tumble. Attiki is also the center of housing demand, as the region has accounted for about a fifth of year-to-date building permits in the country.

Open for business

Eight years after the beginning of their sovereign debt crisis, Greece has made enough progress for its creditors to ease restrictions and effectively allow the Greeks to reenter international bond markets. The completion of the Greek bailout in late August marks a symbolic end to the euro zone's long debt crisis, which put the survival of Europe's common currency in doubt earlier this decade. With the conclusion of the bailout—eight long years of dependence on rescue loans from the euro zone and the International Monetary Fund—Greece will now have to finance itself only from capital markets and its own reserves. This will also eliminate the need for Greece to undergo anymore fiscal retrenchment and economic overhauls requested by its international creditors, which were conditions for the bailout.

There was significant progress made over the eight years. Greek officials were able to turn a 15.1% budget deficit in 2008 into a 0.8% surplus last year, revamp the pension system, improve the statistical collection agency, and create an independent tax collector. However, these all came at a cost; during the worst of the crisis, pensions were cut up to 40% and aggressive taxation that led to a spike in income poverty (when a person has less than 60% of the median income after social transfers). Moreover, Greece is not quite out of the woods. Although there is more breathing room for the debt due over the next 10 years, Greece will continue repayments until 2060.

Avoiding Sisyphus

Risks abound for Greeks to lose the ground they have made, like the mythical Sisyphus—who was forced to push a boulder up a mountain every day just to see it roll back down at night. Although there are plenty of outside forces that could disrupt the economic recovery (such as increasing protectionist policies and ongoing trade wars), Greece faces two main domestic risks for a sustainable return to international markets. First, Greek authorities will have to maintain their commitments to creditors, implementing what has been agreed upon so the country does not lose the credibility that the conclusion of bailout program has created. Second, Greece faces political risks. Notably, the government may face a change in power during the next election in early 2019, which could add to uncertainty as to whether the country will enact the policies necessary to ensure sovereign debt remains sustainable.

ASIA PACIFIC

By Faraz Syed of Moody's Analytics August 23, 2018

JAPAN

Ostensibly, the measures introduced by the Bank of Japan at the July monetary policy meeting were further commitment to monetary easing. The BoJ's major policy changes can be notoriously difficult to digest, and Governor Haruhiko Kuroda's press conference thereafter didn't provide further clarity. Like the Led Zeppelin legend, we work backwards to find the devil in the details, and believe that the BoJ's tweaks are a stairway to tighter, not looser monetary policy. It seems almost certain that the central bank's next big move won't be further easing, given the measures recently introduced.

The BoJ tweaked a variety of measures. First, the central bank formally introduced 'forward guidance' to keep interest rates low. Second, it's committed to implementing greater flexibility by allowing the 10-year Japanese government bond yield to move 'upwards' and 'downwards'. Third, it's limiting the number of each individual

The Long View

ETF that it purchases, and shifting focus to ETFs that track the Tokyo Stock Price Index. And the most significant change, which supports our view of tighter policy, is that the BoJ will lower the 'policy rate balance', or excess reserves, to which the negative 0.1% interest rate is applied.

Exhibit A: Forward guidance

At the outset, forward guidance appears to be an accommodative measure to telegraph that rates will be kept at the zero bound. The central bank has implemented its willingness to persist with quantitative and qualitative easing until inflation stays above 2% for a sustained period. Forward guidance can be separated into two concepts.

First is the Delphic forward guidance, which provides the monetary policy committee's forecasts of key economic variables. Second is the Odyssean forward guidance, in which the central bank conveys to the market that it will keep short-term interest rates low even after the economy has recovered. Presumably, the BoJ is committing itself to Odyssean forward guidance, as the Delphic form is already explicitly provided through quarterly forecasts of economic variables.

However, it can be argued that the BoJ has been implementing Odyssean forward guidance policy from the beginning of its quantitative easing program in early 2013. BoJ's monetary policy statements, along with Kuroda's speeches, have consistently stated that the central bank will keep rates low until inflation is well above 2%. Moreover, unlike their counterparts at the U.S. Federal Reserve, the BoJ members don't provide dot plots of their short-term interest rate expectations. This suggests that there's almost nothing new about the introduction of forward guidance.

Thus, forward guidance, after five years of QQE, stems from a desire to keep short-term expectations anchored when the BoJ begins to tighten policy further. Any hints of tighter BoJ policy has caused a sharp JGB selloff, and the BoJ is aware that an official taper announcement will exacerbate the rise in yields, as evidenced during the 2013 taper tantrum with the Fed.

Thus, rather than seeing forward guidance as a more accommodative policy measure, we believe the BoJ is paving the way for tighter policy. Forward guidance will be used to remind financial markets that short-term rates will be kept at the lower bound even as the BoJ begins to tighten its policy.

Exhibit B: Flexibility in the 10-year JGB

The BoJ's statement said there would be greater flexibility in allowing the 10-year JGB yield to move 'upwards' and 'downwards', away from its target of 0%. This was confirmed in Kuroda's press conference, when he suggested this tolerance would be letting the yield go to plus or minus 0.2%.

While this may not seem a significant policy shift, let's take a step back. The BoJ introduced yield curve control in September 2016 in response to the yield curve flattening excessively; yields on long-term tenors including the 10-year were trading in negative territory. Financial institutions suffer when the yield curve flattens because they raise funding through the short end of the curve, but investments are linked to the long end of the curve. A flattening of the curve lowers net interest margins. Since the introduction of yield curve control, 10-year JGBs have remained around 0%, with the BoJ rushing to purchase when yields rose above 0.1%.

The changes at the July meeting to allow the 10-year to trade more freely are also aimed at steepening, not flattening, the curve. For example, global yields have moved upwards, not downwards. And with the Federal Reserve expected to raise interest rates further, global yields are expected to rise. The Bank of England and the European Central Bank are also expected to tighten, not loosen, their policy stances over the coming year. This points to upward bias in global yields. Thus more flexibility in the yield curve means allowing the 10-year JGB to rise. This points to the BoJ looking towards a tighter policy stance.

Exhibit C: Lower balance for negative rates

BoJ's most significant policy shift is lowering the excess reserve balance to which a negative interest rate is applied. The BoJ has three tiers to its current accounts. The first is where a positive interest rate of 0.1% is applied. Second is the macro add-on balance to which a 0% rate is applied. And finally, there is the policy rate balance, or the excess reserve balance, to which a -0.1% rate is applied.

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The BoJ has lowered its policy rate balance, to which a negative rate is applied, from around ¥10 trillion to ¥5 trillion. This is the same as increasing the excess reserve balance rate from -0.1% to -0.05%. Although details of the exact number can change month to month based on arbitrage transactions, the move is a clear case of making interest rates 'less negative'. Financial sector profitability was likely the greatest catalyst in reducing the excess reserve balance.

Overall, a lower excess reserve balance to which a negative interest rate is applied is emblematic of the BoJ paving the way for less stimulatory policy.

Implications: What's next?

The BoJ's latest policy wrangling raises questions on when the central bank will actually begin tapering. We believe official tapering announcements are unlikely in 2018 because the central bank has already slowed its pace of asset purchases: The increase in the monetary base has decelerated sharply. Rather than hitting the ¥80 trillion annualized monthly target, the BoJ is purchasing at a much slower rate, at times, half the target amount. This has led financial markets to deem BoJ's purchases as 'stealth tapering'.

Ratings Round-Up

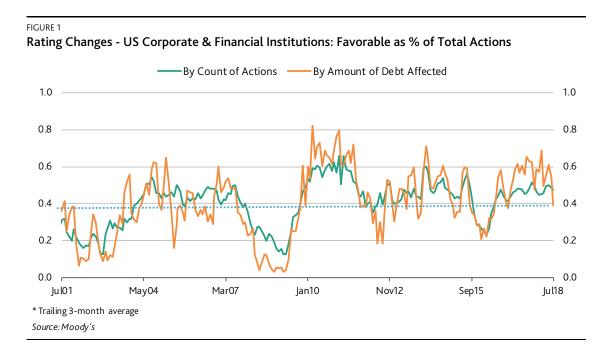
Ratings Round-Up

By Njundu Sanneh

Economic Growth, Labor Market Strength Underlie Credit Quality

Rating revisions over the past week were muted for the U.S. and Europe with 12 total rating changes, eight for the U.S. and four for Europe. There were 14 rating revisions for the U.S. alone in the prior week. Positive rating changes have been consistently besting downgrades as the economy continues to grow, and spreads even for speculative grade issuers remain fairly tight. The tightening cycle that developed-country monetary authorities have entered is yet to force a substantial widening of borrowing cost for speculative grade issuers. Also, gains in commodity prices and strong labor markets (especially in the U.S.) are helping corporate profits and some sectors that accounted for most of the speculative grade defaults in the recent past. Corporate credit quality continues to improve as reflected in the continuous decline in Moody's 12-month trailing speculative grade default rate, which is expected to end the year at 2.1%, from 2.8% at the end of July.

The four rating revisions in Europe were equally split between upgrades and downgrades and were spread across several industries. Among the downgraded European companies was Adient Global Holdings Limited with \$2.04 billion in debt affected. Operational inefficiencies and raw material cost pressures on earnings were the main drivers of Adient's downgrade. The U.S. fared better in terms of contribution of positive rating changes at 63% of total changes. The semiconductors, housing and energy sectors boosted rating upgrades. Retail, pharmaceuticals and business services paced adverse rating changes.



Ratings Round-Up

FIGURE 2 Rating Ke	у		
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 & I	Financial Institutions – US

Date	Company	Sector	Rating	Amount (\$ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
8/15/18	HOVNANIAN ENTERPRISES, INC.	Industrial	PDR		U	Ca	Caa1	SG
8/15/18	EAGLE MATERIALS INC.	Industrial	SrUnsec	350	U	Baa3	Baa2	IG
8/16/18	MAGNACHIP SEMICONDUCTOR CORPORATION	Industrial	SrUnsec/LTCFR	225	U	В3	B2	SG
8/16/18	CROSSMARK HOLDINGS, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	Caa1	Caa2	SG
8/16/18	CENTENNIAL RESOURCE PRODUCTION, LLC	Industrial	LTCFR/PDR		U	B2	B1	SG
8/17/18	KLA-TENCOR CORPORATION	Industrial	SrUnsec	2,250	U	Baa2	Baa1	IG
8/17/18	PENNEY (J.C.) COMPANY, INCPENNEY (J.C.) CORPORATION, INC.	Industrial	SrSec/SrUnsec/BCF/ LTCFR/PDR/MTN	2,393	D	Ba3	B1	SG
8/20/18	LANNETT COMPANY, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	B2	В3	SG
Source: Mo	ody's							

B2 SG LUXEMBOURG

RUSSIA

Ba3 Ba2 SG

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
8/17/18	ADIENT GLOBAL HOLDINGS LTD	Industrial	SrUnsec /LTCFR/PDR	2,043	D	Ba3	В1	SG	UNITED KINGDOM
8/17/18	FAERCH PLAST MIDCO APS -FAERCH PLAST BIDCO APS	Industrial	SrSec/BCF		D	B2	В3	SG	DENMARK

SrSec/BCF

/LTCFR/PDR

LTCFR/PDR

U

Industrial

Industrial

8/20/18 POLAR US BORROWER, LLC

COMMERCIAL SEA PORT, PJSC

8/21/18 NOVOROSSIYSK

Source: Moody's

Market Data

Spreads



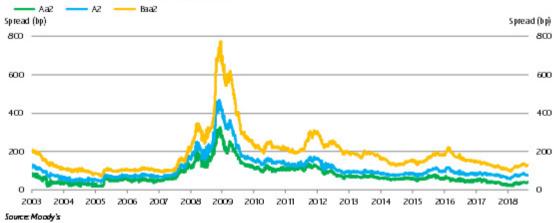
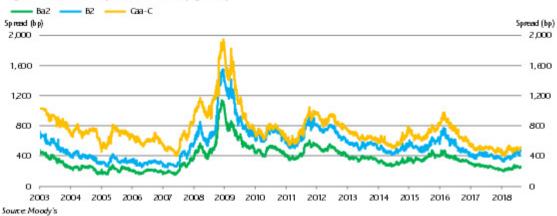


Figure 2: 5-Year Median Spreads-Global Data (High Yield)

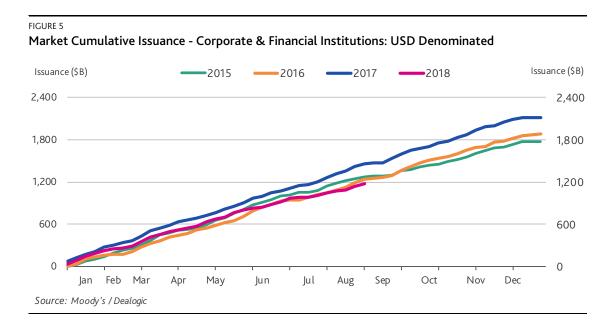


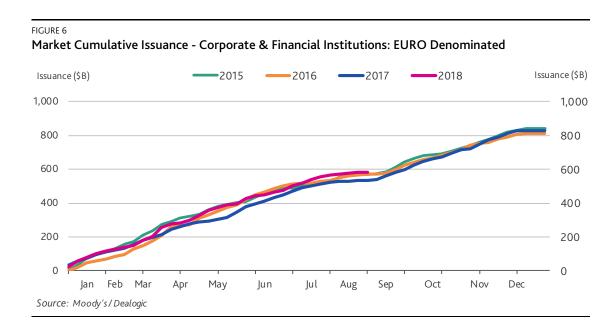
CDS Movers

Figure 3. CDS Movers - US (August 15,2018 – Augus				
CDS Implied Rating Rises	CDS Implie	d Ratings	_	
ksøer	Aug. 22	Aug. 15	Senior Ratings	
PMorgan Chase & Co.	A1	AZ	A3	
PMorgan Chase Bank, N.A.	Aa3	A1	Aa3	
Bank of America, N.A.	A2	A3	Aa3	
4cDonald's Corporation	Aa2	Aa3	Baa 1	
Valmart Inc.	Aa2	Aa3	AaZ	
Caterpillar Financial Services Corporation	A3	Baa1	A3	
fizerInc.	Aa1	AaZ	A1	
umerican Express Company	AaZ	Aa3	A3	
45BC Finance Corporation	A3	Baa1	Baa 1	
Villiams Companies, Inc. (The)	Baa2	Ваа3	Baa3	
DS Implied Rating Declines	CDS Implies	d Ratings		
1902	Aug. 22	Aug. 15	Senior Ratings	
Inited States of America, Government of	Aa1	Aaa	Aaa	
dly Financial Inc.	Ba2	Ba1	Ba3	
ord Motor Credit Company LLC	Ba2	Ba1	Baa 2	
merican Express Credit Corporation	Aa3	AaZ	AZ	
epsiCo, Inc.	Aa3	Aa2	A1	
exon Mobil Corporation	Aa3	Aa2	Aaa	
nitedHealth Group Incorporated	Aa3	Aa2	A3	
ord Motor Company	Ba3	BaZ	Baa2	
eneral Motors Communiv	BaZ	Ba1	Baa3	
isco Systems, Inc.	AaZ	Aa1	Al	
CDS Spread Increases	_		CDS Spreads	
SSBET	Senior Ratings	Aug.22	Aug. 15	Spread Diff
enney (J.C.) Corporation, Inc.	CaaZ	2.089	1213	876
Vindstream Services, LLC	CaaZ	3,068	2,912	156
ears Roebuck Acceptance Corp.	C	2,208	2,119	89
ears Holdings Corp.	č	1,868	1,792	75
. Hovnanian Enterprises, Inc.	Caa3	1,225	1,192	33
.R. Donnelley & Sons Company	B3	719	690	29
Veingarten Realty Investors	Baa1	105	78	27
arker Dritting Company	CaaZ	1.510	1,482	27
ean Foods Company	B3	412	399	13
ealed Air Corp.	Ba3	115	103	12
DS Spread Decreases	_		CDS Spreads	
	Coning Bation	Ann 22		Count Dat
Sign Marrie Count ITD II C	Senior Ratings	Ang.22 862	Aug. 15 927	Spread Diff -66
leiman Marcus Group LTD LLC	Caa3			
exmark International, Inc.	Caa1 B3	1,067	1,126	-59 -51
won Products, Inc.		825	876	
hesapeake Energy Corporation	Caa1	488	519	-31
ordstrom, Inc.	Baa1	123	154	-31
Inisys Corporation	B3	388	419	-31
Veatherford International, LLC (Delaware)	Caa1	604	632	-28
unerican Airlines Group Inc.	B1	324	349	-25
	B3	902	924	-22
Lite Aid Corporation Nabors Industries Inc.	B1	317	339	-22

CDS Implied Rating Rises	CDS Implies	1 Ratings		
lsseer	Aug. 22	Aug. 15	Senior Ratings	
Rabotenk	Aa3	A1	Aa3	
BNP Parites	Al	AZ	Aa3	
Banco Santander S.A. (Spain)	Baa 1	BaaZ	Baa1	
AXA	A1	AZ	AZ	
HSBC Bank plc	Aa2	Aa3	Aa3	
Swiss Reinsurance Company Ltd	AZ	A3	Aa3	
Orsted A/S	Aa3	A1	Baa1	
BNP Parities Fortis SAVNV	A1	AZ	A2	
Koninklijke Ahold Dethaize N.V.	A1	AZ	Baa1	
Unipol Gruppo S.p.A.	BaZ	ВаЗ	Ba1	
CDS Implied Rating Declines	CDS Implies	f Ratings		
sseer	Aug. 22	Aug. 15	Senior Ratings	
Atlantia S.p.A.	B2	BaZ	BaaZ	
The Royal Bank of Scotland Group pic	Ba1	Baa3	BaaZ	
Barclays Pic	Ba1	Baa3	Baa3	
Deutsche Bank AG	BaZ	Ba1	A3	
Natixis	A2	A1	A1	
UniCredit S.p.A.	Ba3	BaZ	Baa1	
Erste Group Bank AG	Baa1	A3	AZ	
Telecom Italia S.p.A.	BI	Ba3	Ba1	
Unione di Banche Italiane S.p.A.	Ba3	BaZ	Baa3	
Banco Comercial Portugues, S.A.	Ba3	BaZ	B1	
	_			
CDS Spread Increases			CDS Spreads	
kseer	Senior Ratings	Aug. 22	Aug. 15	Spread Di
Galapagos Holding S.A.	Caa3	2,706	2,566	141
Atlantia S.p.A.	Baa2	225	166	59
Care UK Health & Social Care PLC	Caa1	153	137	16
Suedzucker AG	BaaZ	131	118	13
Brisa Concessao Rodoviaria S.A.	Ba1	88	79	10
PizzaExpress Financing 1 plc	Caa1	1,193	1,186	
Greece, Government of	BB	370	365	5
Continental AG	Baa 1	61	56	4
Vinci S.A.	A3	49	46	<u>4</u> 3
Old Mutual Plc	Ba1	19	16	
CDS Spread Decreases			CDS Spreads	
ISSUET	Senior Ratings	Aug. 22	Aug. 15	Spread Di
Astaldi 5.p.A.	Caa1	2,624	2,808	-184
CMA CGM S.A.	B	606	660	-54
Boparan Finance plc	Caa1	499	541	-42
Altice Finco S.A.	BB	426	463	-36
Unipot Gruppo S.p.A.	Ba1	154	180	-26
Stena AB	BB	484	510	-25
Casino Guichard-Perrachon SA	Ba1	452	476	-24
Matalan Finance plc	Caa1	704	727	-23
Novafives 5.A.S.	B	345	363	-18
	83	221	238	-17

Issuance





		USD Denominated	
	Investment-Grade	High-Yield	Total*
	Amount \$B	Amount \$B	Amount \$B
Weekly	30.282	2.490	33.859
Year-to-Date	894.153	224.269	1,173.907
		Euro Denominated	
	Investment-Grade	High-Yield	Total*
	Amount \$B	Amount \$B	Amount \$B
Weekly	0.359	0.000	0.359
Year-to-Date	489.787	67.268	583.779

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