MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Surging Equities and Thinner Spreads Favor Higher Treasury Yields

Moody's Analytics Research

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Credit Markets Review and Outlook

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

Surging Equities and Thinner Spreads Favor Higher Treasury Yields

Earnings-sensitive securities have thrived thus far in 2018. Not only was the market value of U.S. common stock recently up by 4.5% since year-end 2017, but a composite high-yield bond spread narrowed by 23 basis points to 336 bp. The latter brings attention to how the accompanying composite speculative-grade bond yield fell from year-end 2017's 5.82% to a recent 5.72% despite the 5-year Treasury yield's increase from 2.21% to 2.39%, respectively.

Thus, the latest climb by the 10-year Treasury yield from year-end 2017's 2.41% to a recent 2.62% is largely in response to the upwardly revised outlook for real returns that are implicit to the equity rally and the drop by the speculative-grade bond yield. The 10-year Treasury yield is likely to continue to trend higher until equity prices stagnate, the high-yield bond spread widens, interest-sensitive spending softens, and the industrial metals price index establishes a recurring slide. In view of how the PHLX index of housing sector share prices has risen by 4.5% thus far in 2018, investors sense that home sales will grow despite the forthcoming rise by mortgage yields.

Moreover, increased confidence in the timely servicing of home mortgage debt has narrowed the gap between the 30-year mortgage yield and its 10-year Treasury yield benchmark from the 172 bp of a year earlier to a recent 152 bp. The latter is the narrowest such difference since the 150 bp of January 2014, which roughly coincided with a peaking of the 10-year Treasury yield amid 2013-2014's taper tantrum.

Do suppliers of credit to the high-yield bond market and mortgage market correctly sense an impending top for benchmark Treasury yields? If they are wrong and the 10-year Treasury yield quickly climbs above its 2.71% average of the six-months-ended March 2014, they will regret having acquiesced to the atypically thin spreads of mid-January 2018.

Another Record Year for M&A Requires a New Record High for Profits

A widely expected upturn by 2018's mergers and acquisitions should lend support to share prices, provided that benchmark borrowing costs do not increase considerably. In 2017, M&A involving at least one U.S.-domiciled company advanced by 18% annually to a calendar-year record $3.317 trillion.

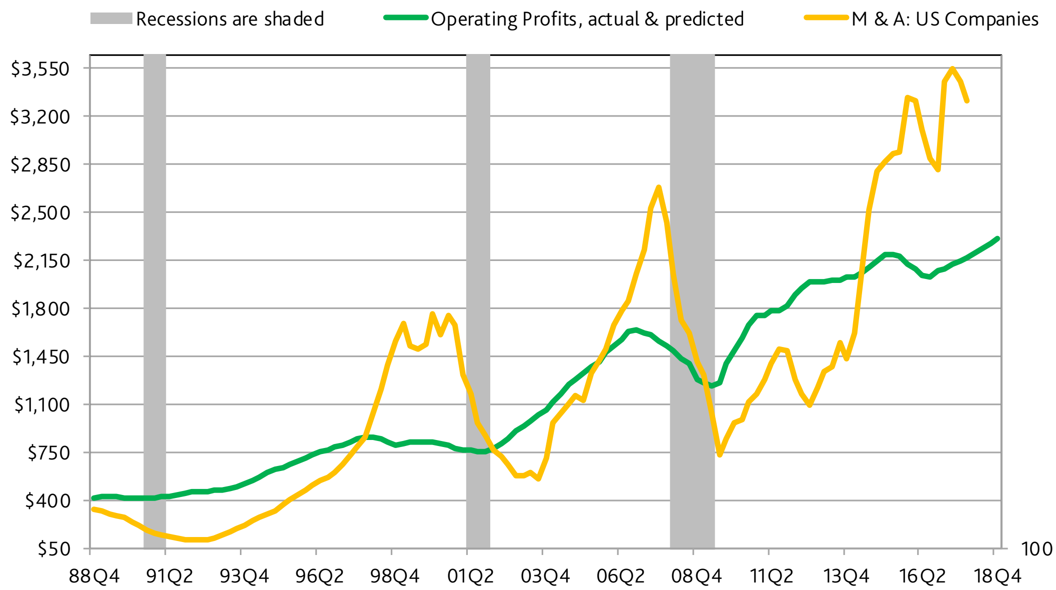
A narrowing of corporate bond yield spreads from their yearlong 2017 averages of 161 bp for the long-term Baa-rated industrials and 383 bp for high-yield would support the realization of a new record high for M&A in 2018.

For now, spreads are consistent with continued growth for M&A. In addition to the previously mentioned high-yield bond spread of 336 bp, the long-term Baa industrial spread recently equaled 143 bp.

The continued growth of pretax operating profits is of critical importance to a further expansion of M&A. Since 1988, M&A's moving yearlong sum grew annually for 72% of the observations showing an annual increase by operating profits' moving yearlong sum and for 41% of the annual contractions by operating profits.

Figure 1 not only shows M&A's sensitivity to the direction taken by pretax profits, it also shows that M&A goes through long stretches where it either exceeds or trails profits. For example, in each quarter beginning with 2014's second quarter, M&A exceeded pretax operating profits by 43%, on average, while M&A instead was 31% less than profits, on average, in each quarter beginning with Q2-2009 and ending with Q1-2014.

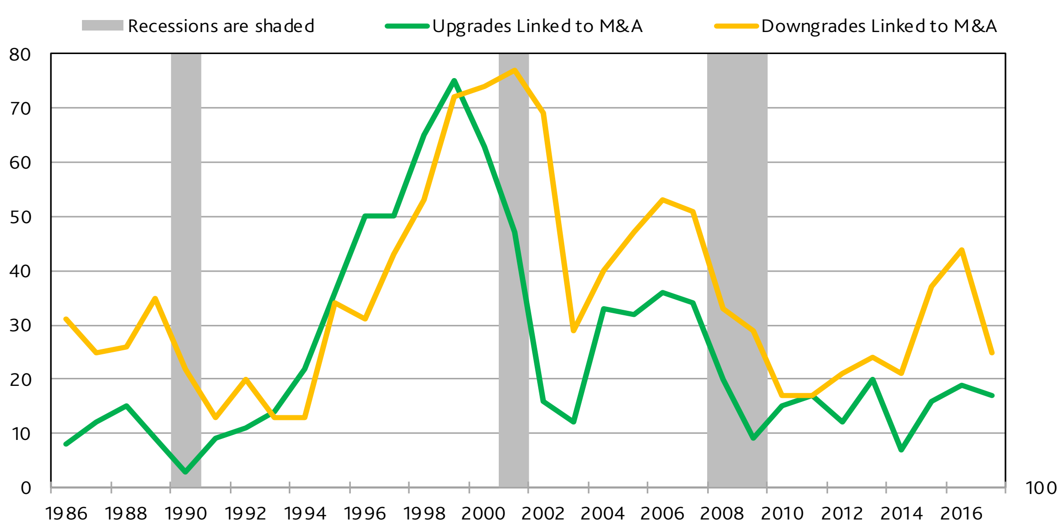
Figure 1: If Operating Profits Grow, M&A Is Likely to Set a New Record High in 2018
$ billions; source: Bloomberg, Bureau of Economic Analysis, Moody's Analytics



M&A Was Less of a Net Drag on Investment-Grade Rating Changes in 2017

Whenever mergers, acquisitions or divestitures (M&A) help to prompt a change in a U.S. investment-grade credit rating, a downgrade is more likely than an upgrade. For each calendar year starting with 2000, M&A was linked to more downgrades than upgrades among investment-grade credit rating changes. Nevertheless, the number of investment-grade upgrades linked to M&A barely dipped from 2016's 19 to 2017's 17, while the number of investment-grade downgrades linked to M&A sank from 2016's 44 to 2017's 25. Also during 2017, M&A entered into six "fallen-angel" downgrades from investment- to speculative-grade, all of which occurred during the second half. The only span where M&A-linked upgrades outnumbered downgrades stretched from 1993 through 1999.

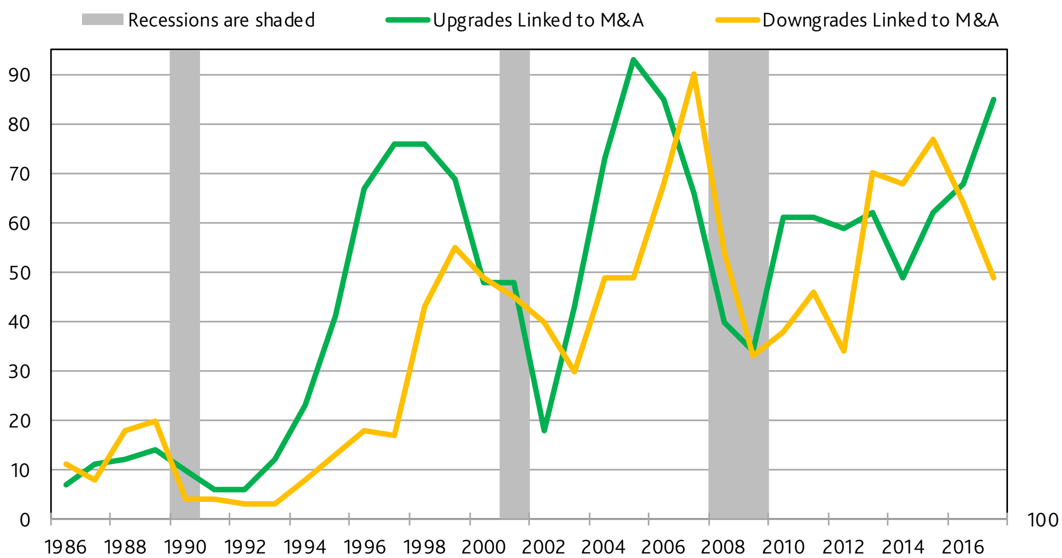
Figure 2: Except for 1993-1999, M&A-Linked Rating Changes of US Investment-Grade Companies Show More Downgrades than Upgrades
calendar-year count, investment-grade issuers



M&A Was More of a Net Benefit to 2017's High-Yield Rating Revisions

Far different from its typical impact on investment-grade credit ratings, M&A tends to be cited in more upgrades than downgrades among high-yield credit rating revisions. In 22 of the 32 years since 1985, M&A figured in more high-yield upgrades than downgrades. M&A was mentioned in 85 of 2017's high-yield upgrades, which was up considerably from 2016's 68. At the same time, the number of M&A-linked high-yield downgrades plunged from 2016's 64 to 49 in 2017. As recently as for each of the three years ended 2015, M&A figured in more high-yield downgrades than upgrades.

Figure 3: M&A-Linked Rating Changes of US High-Yield Companies Showed More Upgrades than Downgrades in 22 of the 32 Years since 1985
calendar-year count, high-yield issuers



Outstandings of High-Yield Corporate Bonds Shrank in 2017

After increasing by 2.9% year-to-year to Q4-2016's record $1.344 trillion, Q4-2017's outstandings of U.S. high-yield corporate bonds shrank by 4.8% from a year earlier to $1.280 trillion. In part, 2017's contraction by the outstandings of U.S. high-yield corporate bonds was the offshoot of 2017's 20 "rising star" upgrades from speculative- to investment-grade that exceeded the accompanying 12 "fallen-angel" downgrades from investment- to speculative-grade. By contrast, 2016's 34 "fallen-angel" downgrades far surpassed the 14 "rising-star" upgrades.

However, returning to 2017, after first-half 2017's 14 "rising-star" upgrades topped the three "fallen-angel" downgrades, the nine "fallen-angel" downgrades of the second-half outnumbered the six "rising-star" upgrades. Nevertheless, a composite high-yield bond spread has narrowed from Q4-2017's 363 bp to the 338 bp of January-2018-to-date partly because the accompanying average high-yield expected default frequency metric fell from 3.91% to 3.41%, respectively.

A drop by the average VIX index from Q4-2017's 10.3 points to the 10.0 points of January-to-date also helped to narrow the high-yield bond spread. However, a recent VIX index of 12.1 points may be hinting of a rising trend for this important driver of high-yield and Baa credit spreads. An extended climb by the VIX index would probably eventually be joined by wider spreads for medium- and speculative-grade corporate bonds.

Not since Q4-2006's 6.3% yearly drop to $843 billion have the outstandings of U.S. high-yield corporate bonds shrunk from a year earlier amid a mature business cycle upturn. The combination of first-half 2007's reduction in high-yield default risk and 2006's contraction of outstanding high-yield corporate bonds would thin the high-yield bond spread considerably.

Credit Markets Review and Outlook

Of course, these positive developments did little to prevent the chaos that arrived by late 2007, which was much more the consequence of a deterioration of household-sector credit quality than an immediate worsening of high-yield credit worth.

Following a Q4-2006 average of 316 bp, a composite high-yield bond spread narrowed to very thin averages of 305 bp for Q1-2007 and 277 bp for Q2-2007. The thinning of the high-yield bond spread complemented a decline by the average high-yield EDF metric from Q4-2006's 2.39% to the 1.89% of Q1-2007 and the 1.62% of Q2-2007.

Nevertheless, markets committed a big mistake by downplaying the year-over-year declines by nonfinancial-corporate pretax operating profits of 3.1% for Q1-2007 and 1.3% for Q2-2007 that quickly deepened into annual setbacks of 20.0% for Q3-2007 and 14.2% for Q4-2007. For now, the good news is that early January 2018's Blue Chip consensus expects that the annual increase by pretax operating profits will quicken from 2017's prospective 4.8% to 6.1% in 2018. However, in the event profits contract from a year earlier, the high-yield bond spread should widen to at least 600 bp, while the market value of U.S. common stock sinks by at least 10%.

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

THE U.S.

By Ryan Sweet of Moody's Analytics

To Shut Down or Not

For something that has rarely occurred since the 1990s, we have recently found ourselves evaluating the economic costs of a U.S. government shutdown fairly frequently. Since 1990, there have been only four government shutdowns. The shutdown in 1990 lasted three days and occurred mostly over the weekend. The government issued furloughs and suspended nonessential services from November 14 through November 19, 1995, and from December 16, 1995, to January 6, 1996, for a total of 27 days. The most recent shutdown occurred from October 1 to October 17, 2013. A new shutdown is possible at midnight Friday, the latest in a series of such threats.

By our calculations, a weeklong federal shutdown would cost the economy 0.1 to 0.2 percentage point in annualized real growth in the first quarter. Some federal government spending would simply be postponed, limiting the impact. The biggest effect would come from lost work hours and compensation for federal employees, which the national product accounts treat as government output. Unlike government spending on goods and services, the loss in hours worked would not be made up in subsequent quarters.

Spillover effects should be fairly small. Consumer confidence would likely suffer, but that doesn't imply that spending would follow. The bigger potential issue is that a shutdown could cause a significant and sustained increase in uncertainty. That's because a short-term funding extension would just be kicking the can down the road and would add to other pressing issues that need to be addressed, including the debt ceiling, which may need to be raised late this quarter. In the worst-case scenario, the funding issues eventually bump into the debt-ceiling negotiations. Our past work has shown that when brinkmanship is tied to the debt ceiling, the economic costs are higher.

The economic calendar is a little light. Our U.S. high-frequency GDP model has fourth quarter GDP growth tracking 3% at an annualized rate. We will finalize our forecast ahead of fourth quarter GDP, released next Friday. Next week housing will also be in focus with the release of existing- and new-home sales. Durable goods orders will also be important to assess manufacturing and business investment trajectory heading into this year.

	Key indicators	Units	Moody's Analytics	Consensus	Last
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence	index, 4-wk MA			35.9
Wed @ 10:00 a.m.	Existing-Home Sales for December	mil, SAAR		5.67	5.81
Thur @ 8:30 a.m.	Advanced goods deficit for December	$ bil		-68.5	-69.7
Thur @ 8:30 a.m.	Jobless Claims for 1/20/18	ths			220
Thur @ 10:00 a.m.	New-Home Sales for December	ths, SAAR		675	733
Thur @ 10:00 a.m.	Conference Board Leading Indicators for December	% change		0.5	0.4
Fri @ 8:30 a.m.	Advanced durable goods orders for December	% change		0.9	1.3
	Excluding transportation	% change		0.6	-0.1
Fri @ 8:30 a.m.	GDP for 2017Q4, advanced	% change, SAAR		3.0	3.2

We will release our U.S. forecasts on Monday.

EUROPE

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

We Remain Downbeat About Britain's Momentum

The week ahead will be busy, bringing the preliminary estimate of fourth quarter GDP figures for the U.K. We remain downbeat about Britain's economic momentum, and we expect growth there to have further slowed following the third quarter's already weak 0.4% expansion. Given the Office for National Statistics' recent revisions, yearly growth should print as low as 1.4%, slowing from an already weak 1.7% expansion in the third quarter. This compares with much better results for most G-7 economies and the euro zone itself. Germany is expected to have expanded by 2.7% in the final stanza of the year, France by 2.2%, Japan by 1.8%, and Italy by 1.7%, while the U.S. and Canada are forecast to expand by 2.6% and 3%, respectively. Growth in the whole euro area should come in at a strong 2.6%, the same as in the previous stanza and its joint-highest since the first quarter of 2011.

At this point, it is hard to still claim that last year's Brexit vote made no dent on the British economy. The pound's slump clearly failed to boost the U.K.'s external trade position, while at the same time it took a huge toll on consumer spending, which had been for several years the engine of the country's growth. We don't expect much will change in the fourth quarter. Regarding GDP's production breakdown, we expect that services spending again disappointed and increased by only 0.4% q/q, the same rise as in the previous stanza and much below 2016's average at 0.6%. Retail sales are still expected to have risen by 0.6% q/q at the end of the year on the back of good results for November, but retail trade accounts for only around 7% of total services output, which means that the industry should have contributed a paltry 0.03 to 0.04 percentage point to GDP growth. And we are pessimistic about output outside the distribution sector. Our view is that consumers have likely clamped down on most of their services spending to finance sales in the High Street. True, we do not have much leading data on the bulk of services activity, but the index of services rose by a paltry 0.2% m/m in October, while the PMIs are consistent with services growth of 0.3% q/q. In all, we look for total services to contribute around 0.32 percentage point to the country's expansion.

The outlook is a little better for U.K. production, but only slightly. Hard data available show that industrial production rose by 0.2% month on month in October and 0.4% in November, with manufacturing expanding healthily. But factory growth is expected to have plunged in December due to the emergency closure of the Forties oil pipeline—we expect that mining and quarrying production will have fallen by as much as 18% m/m—so we are penciling in a mere 0.3% q/q gain in production in the fourth quarter, slowing sharply from the 1.3% increase in the previous stanza and contributing only 0.05 percentage point to GDP growth.

U.K. construction, meanwhile, should have disappointed sharply. While construction output rose by 0.4% m/m in November, this followed a 1.1% slump in October, which means that output would still have fallen by 1.5% q/q even if we forecast a further 0.4% m/m rise in December. All leading data for the sector have been abysmal, suggesting that the industry is undergoing a sharp correction as Brexit woes are weighing heavily on companies' and households' will to undertake major financial commitments. Our forecast suggests that construction again subtracted around 0.08 percentage point from GDP growth, which together with our estimates for production and services means that the country's GDP likely rose by 0.3% q/q in the fourth quarter.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 10:00 a.m.	Germany: ZEW Indicator of Economic Sentiment for January		18.0	17.4
Tues @ 2:30 p.m.	Russia: Industrial Production for December	% change yr ago	-2.7	-3.6
Tues @ 3:00 p.m.	Russia: Retail Sales for December	% change yr ago	3.0	2.7
Wed @ 9:00 a.m.	Euro Zone: Credit Confitions for Q4	net %	-0.2	-1.0
Wed @ 9:30 a.m.	U.K.: Unemployment for November	%	4.3	4.3
Wed @ 5:00 p.m.	France: Job Seekers for December	ths, SA	3.42	3.45
Thur @ 8:30 a.m.	Spain: Unemployment for Q4	%	16.4	16.4
Thur @ 12:45 p.m.	Euro Zone: Monetary Policy for January	%	0.0	0.0
Thur @ 3:30 p.m.	Russia: Unemployment for December	%	5.7	5.1
Fri @ 9:00 a.m.	Euro Zone: Monetary Aggregates for December	% change yr ago	5.0	4.9
Fri @ 9:30 a.m.	U.K.: GDP Production Breakdown for Q4	% change yr ago	1.4	1.7
Fri @ 11:00 a.m.	Germany: Ifo Business Climate Index for January	index	117.5	117.2

We will update our Europe forecasts on Monday.

FRIDAY, JANUARY 19

U.K.: Retail Sales (December; 9:30 a.m. GMT)

U.K. retail sales likely decreased by 1% m/m in December, partially reversing the staggering 1.2% rise in November. Due to base effects, though, the yearly rate is expected to have jumped to 2.7%, a little above the past-year average at 2.1%. Leading indicators released in recent weeks have been mixed, but we expect that the Black Friday boost to sales will largely have mean-reverted in December. That's because ONS's seasonal adjustment is still largely based on the old pattern (which excludes the Black Friday effect) and consumers are increasingly doing their Christmas shopping during this sales-focused holiday. Accordingly, data from CBI are in line with our forecasts; the survey reported that the sales balance fell back to +20 in December, from +25 in November, pointing to a 3% y/y rise in sales, which is only a little higher than our expectations at 2.7%. But we caution nonetheless that the CBI balance often is a poor guide to sales; it is extremely erratic given the small number of retailers included in the survey.

Across sectors, we expect that declines were broad-based, though food sales likely performed better than nonfood sales. Fuel sales should also have fallen given that pump prices rose further over the month. Risks are still tilted to the downside, though, as accelerating inflation combined with limited wage growth will continue to erode real wages and consumers' purchasing power throughout the year, while banks are reducing their credit supply and the savings rate is at record lows.

ASIA-PACIFIC

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

South Korean GDP likely expanded 3.4% y/y in the fourth quarter

More than a year after the Bank of Japan launched its Quantitative and Qualitative Monetary Easing with Yield Curve Control program, inflation remains well below the central bank's 2% target. The program has had success, but despite the modestly improving economy and falling unemployment rate—now at its lowest rate since 1993— we don't see consumer prices rising above 1%, let alone reaching the central bank's 2% target. Forward-looking indicators such as money market and forward rates suggest that further increases in the BoJ stimulus are unlikely. The BoJ has already slowed the pace of asset purchases without signaling this to the market. Formal tapering of its large-scale asset purchases is likely by the end of 2018.

With one of the world's most competitive export-manufacturing industries, South Korea's economy is benefiting from the synchronized upswing in global demand. GDP expanded 3.8% y/y in the September quarter, and likely grew a further 3.4% in the final quarter of 2017. Growth was likely supported by still-healthy export growth, albeit below the pace set in the third quarter. Private consumption was restrained through the first three quarters of 2017, but likely experienced a mild improvement in the final quarter, as consumer confidence rose. Meanwhile, firm export-manufacturing activity and increased capital expenditure in the tech sector likely supported investment. For full 2017, real GDP likely expanded 3.2% y/y, with expansion expected to moderate to 3% in 2018, as export growth cools off a high base.

The Bank of Korea's consumer confidence index likely ticked up to 111.8 in January, after easing to 110.9 in the prior month. Tensions on the Korean peninsula escalated again in December, after another bout of provocations by North Korea. However, the resumption of high-level talks in January for the first time in more than two years has raised hopes that tensions could start to ease. Along with improved economic conditions and President Moon Jae-in's populist policies, that should lift consumer confidence.

The Philippines' economy has been a standout in recent years, underpinned by strong domestic demand and favorable demographics. Growth prospects got a further boost late last year with the passage of the first tax reform bill, which will help to fund President Rodrigo Duterte's ambitious infrastructure development program. The Duterte administration plans to spend PHP8 trillion to PHP9 trillion on infrastructure to 2022. That will go some way to improving the country's poor infrastructure, which has long prevented the Philippines from reaching its potential. GDP likely grew 6.7% y/y in the final stanza of 2017, after a 6.5% lift in the prior three quarters. Domestic demand likely remained the main driver of growth, with exports also providing lift thanks to strong demand for electronics and components.

	Key indicators	Units	Moody's Analytics	Last
Tues @ 7:00 p.m.	Taiwan Industrial production for December	% change yr ago	2.2	0.9
Tues @ 7:00 p.m.	Taiwan Domestic trade for December	% change yr ago	3.6	3.4
Tues @ Unknown	Japan Monetary policy for January	¥ tril	80	80
Wed @ 10:50 a.m.	Japan Foreign trade for December	¥ bil	290	364
Thurs @ 8:45 a.m.	New Zealand Consumer price index for Q4	% change	0.4	0.5
Thurs @ 10:00 a.m.	South Korea GDP for Q4	% change	0.1	1.5
Thurs @ 7:30 p.m.	Hong Kong Foreign trade for December	HK$ bil	-48.0	-39.7
Fri @ Unknown	Philippines GDP for Q4	% change yr ago	6.7	6.5
Fri @ 8:00 a.m.	South Korea Consumer sentiment index for January	Index	111.8	110.9
Fri @ 10:30 a.m.	Japan Consumer price index for December	% change yr ago	0.9	0.8
Fri @ 1:30 p.m.	Singapore Unemployment rate for Q4	%	2.0	2.1
Fri @ 4:00 p.m.	Singapore Industrial production for December	% change yr ago	-3.4	5.2

The Week Ahead

MONDAY, JANUARY 22

No major economic indicators are scheduled for release.

TUESDAY, JANUARY 23

Japan – Monetary Policy – January

Time: Unknown
Forecast: ¥80 trillion

The Bank of Japan is expected to remain comfortably on the sidelines at the first meeting of 2018. The December meeting had few surprises. The central bank kept the monthly annualised purchase target of ¥80 trillion unchanged. The bank will target the long-term interest rates through its yield curve control policy, while a -0.1% interest rate on excess reserves will target the short-term rate. We expect the BoJ to keep its policy levers unchanged again in January. Underlying inflation has picked up slightly, but we don't see inflation hitting the BoJ's 2% target. The BoJ will likely begin to taper its asset purchases by year's end, after recently announcing that it will lower its purchases of long-dated securities.

Taiwan – Domestic Trade – December

Time: 7:00 p.m. AEDT (8:00 a.m. GMT)
Forecast: 3.6%

Taiwan retail sales have perked up in recent months and likely grew 3.6% y/y in December, after a 3.4% lift in the prior month. Households have started to benefit from the upturn in economic growth, and consumers have become increasingly upbeat over recent months. Although wage gains have been modest, the labour market improved modestly in 2017. With economic conditions expected to remain relatively firm in 2018, the labour market gradually improving, and consumer confidence elevated, the outlook for consumer spending is encouraging.

Taiwan – Industrial Production – December

Time: 7:00 p.m. AEDT (8:00 a.m. GMT)
Forecast: 2.2%

Taiwan industrial production likely grew 2.2% y/y in December, after edging up a slower than expected 0.9% in November. The Markit Manufacturing Purchasing Managers' Index for Taiwan rose to an 80-month high of 56.6 in December, thanks to a strong lift in new orders. Along with upbeat business confidence, which improved to an eight-month high in December, the strong PMI reading suggests the outlook for Taiwan manufacturing remains bright in the near term, especially in the electronics sector.

WEDNESDAY, JANUARY 24

Japan – Foreign Trade – December

Time: 10:50 a.m. AEDT (Tuesday, 11:50 p.m. GMT)
Forecast: ¥290 billion

Japan's monthly trade surplus likely fell in December to ¥290 billion from November's ¥364 billion. The lower surplus likely stems from a slowdown in year-ago export growth because of base effects. Exports have been making steady gains, and imports will likely rise, as commodity prices have risen in recent months. Overall, the export picture is largely unchanged. Rebounds in exports across Asia have led the resurgence, although we expect shipments to slow in 2018. The uptick in the global tech cycle alongside improved demand from the U.S. added to GDP growth in the first three quarters of 2017, and we expect further contributions from net exports in the December quarter. Business sentiment also remains high, as evidenced by the recent Tankan survey of large manufacturers. Overall, the yen's depreciation in 2017 has boosted export values and driven corporate profits to record highs.

THURSDAY, JANUARY 25

New Zealand – Consumer Price Index – 2017Q4

Time: 8:45 a.m. AEDT (Wednesday, 9:45 p.m. GMT)
Forecast: 0.4%

New Zealand's headline CPI growth likely notched 0.4% q/q in the December quarter following the third stanza's 0.5%. This brings annual growth to 1.8%, from 1.9% previously, still shy of the midpoint of the Reserve Bank of New Zealand's 1% to 3% target range. The housing market is cooling, and this is bringing down housing-related costs. In the third quarter housing made the largest upward contribution and was slightly offset by falls in transport prices. Petrol prices made an upward contribution in the fourth quarter, after subtracting in the third quarter, reflecting higher global prices flowing through to consumers. Interest rate hikes are unlikely to come into view until early 2019, a desirable move to keep upward pressure off the exchange rate.

South Korea – GDP – 2017Q4

Time: 10:00 a.m. AEDT (Wednesday, 11:00 p.m. GMT)
Forecast: 0.1%

South Korean GDP likely expanded 0.1% q/q in the December quarter, after surging 1.5% in the prior quarter, a pace not hit since the June quarter of 2010. In year-ago terms, that translates to a firm 3.4% lift, after a 3.8% rise in the September quarter. Growth was likely supported by still-healthy export growth, albeit below the pace set in the third quarter. Private consumption was restrained through the first three quarters of 2017 and likely experienced a mild improvement in the final quarter, as consumer confidence rose. Meanwhile, firm export-manufacturing activity and increased capital expenditure in the tech sector likely support investment in the December quarter.

Hong Kong – Foreign Trade – December

Time: 7:30 p.m. AEDT (8:30 a.m. GMT)
Forecast: -HK$48 billion

Trade activity through Hong Kong's port remains healthy, with accelerating year-on-year growth for exports and imports in November. This was partly due to seasonal factors, such as a resumption of activity after the Golden Week in the mainland. That said, global trade flows clearly remained healthy at the end of 2017. Manufacturers in China continue to see higher export orders and increased their own tech component imports ahead of the holiday season. Hong Kong's trade deficit likely widened to HK$48 billion in December from a HK$39.7 billion deficit in November.

FRIDAY, JANUARY 26

Philippines – GDP – 2017Q4

Time: Unknown
Forecast: 6.7%

The Philippines economy likely grew 6.7% y/y in the December quarter, after a 6.5% lift in the prior three quarters. Domestic demand likely remained the major driver of growth, with exports also providing lift thanks to strong demand for electronics and components. Consumer spending likely remained firm, as households benefited from steady inflows of overseas worker remittances and a healthy labour market. Investment also likely stayed solid on the back of government-led infrastructure projects. The Duterte administration plans to spend PHP8 trillion to PHP9 trillion on infrastructure to 2022. Those plans got a boost late last year with the passage of the first tax reform bill, as it will help fund the ambitious infrastructure plans.

South Korea – Consumer Sentiment Index – January

Time: 8:00 a.m. AEDT (Thursday, 9:00 p.m. GMT)
Forecast: 111.8

The Bank of Korea's consumer confidence index likely ticked up to 111.8 in January, after easing to 110.9 in the prior month. Tensions on the Korean peninsula escalated again in December, after another bout of provocations by North Korea. However, the resumption of high-level talks in January for the first time in more than two years has raised hopes that tensions could start to ease. Along with improved economic conditions and President Moon Jae-in's populist policies, that should help to lift consumer confidence.

Japan – Consumer Price Index – December

Time: 10:30 a.m. AEDT (Thursday, 11:30 p.m. GMT)
Forecast: 0.9%

Japan's core inflation rose another notch in November to 0.9% y/y, up from 0.8% in October. We expect inflation remained at 0.9% in December. Higher fuel costs remain the primary driver while domestic demand looks to have improved modestly in the December quarter, with consumers a little less frugal. We expect this will only marginally bolster inflation heading into 2018. The key unknown remains whether sustained income growth will emerge. We have seen green shoots, but the annual spring wage negotiations will be important; the government has already begun campaigning for firms to deliver at least a 3% increase. Moreover, we don't expect the BoJ to hit its 2% inflation target, although tapering long-term asset purchases remains an option by year's end.

Singapore – Industrial Production – December

Time: 4:00 p.m. AEDT (5:00 a.m. GMT)
Forecast: -3.4%

Singapore's industrial production likely fell 3.4% y/y in December, after growth slowed to 5.2% in the prior month. Industrial production growth has cooled since August, as a high base from a year earlier has inhibited gains. Although we expect external demand to remain favorable in 2018 and support demand for semiconductors and electronics, which was especially firm in 2017, the high base from a year earlier is likely to inhibit growth in coming months. Singapore's Markit PMI fell 3.3 points to 52.1 in December, suggesting the local private sector ended 2017 on a softer note.

Singapore – Employment – 2017Q4

Time: 1:30 p.m. AEDT (2:30 a.m. GMT)
Forecast: 2% Unemployed

In line with the surge in GDP growth in the September quarter, Singapore's seasonally adjusted unemployment rate edged lower to a one-year low of 2.1% in the third quarter. Staffing levels in the services sector increased in the first three quarters of 2017. However, manufacturing shed jobs despite the upturn in exports. The construction job market also remained weak. Still, with economic activity remaining solid in the final stanza of 2017, we expect the unemployment rate to have edged down to 2% in its latest reading.

The Long View

Medium-grade corporate bond yield spreads are now at their narrowest widths since the spring of 2014.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
January 18, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 99 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 336 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 3.3% of December 2017. Moody's Default and Ratings Analytics team expects the default rate will average 2.4% in Q4-2018. A deeper slide to its 1.85% average of the 18-months-ended June 2015 is unlikely for now.

US CORPORATE BOND ISSUANCE

Yearlong 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.

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.

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.

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). For yearlong 2017 have worldwide corporate bond offerings increasing by 4.0% annually (to $2.499 trillion) for IG and advanced by 41.2% for high yield (to $602 billion). The worldwide corporate bond offerings of 2018 are expected to show annual increases of 3% for IG and 1% 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 Reka Sulyok of Moody's Analytics
January 18, 2018

Central and Eastern Europe

Central Europe's growth spurt in 2017 outpaced much of the rest of Europe's. Romania topped the growth chart: In the third quarter its GDP doubled its yearly pace to 8.6% from 4.3% in the same period in 2016. The Czech Republic and Poland reached the 5% threshold because of the low base in 2016. Hungary followed close behind with GDP accelerating to 3.9% y/y in the third quarter.

The vigorous growth is a barometer of the mature business cycle: According to central bank estimates, the output gap turned positive in the Czech Republic and Poland, while Hungary is on the cusp of closing the gap.

The region owes the bulk of its growth success to the fresh injection of EU money to aid the developing countries in the Eastern periphery. The windfall from the Cohesion Fund, aimed at reducing economic disparities among the EU countries, could provide extra fiscal stimulus at home: Ahead of this year's parliamentary elections in Hungary, HUF2.5 billion in project funding, or about 7% of GDP, was allocated over 2017. The government expects GDP to clock in at 4.3% in 2018.

EU funding is no silver bullet

Central and Eastern Europe member states are eligible for the extra EU funding because their GDP per capita is below 75% of the EU average. But the EU's convergence policy is controversial at best, and a positive impact on productivity is not apparent. For instance, in 2007 Romania and Hungary won more than €23 million in a joint infrastructure tender that delivered impassable roads.

In many cases across the region, according to news reports, EU-related public procurement contracts benefited public office holders, feeding the suspicion that the stream of EU transfers may have created more corruption in the recipient states. Newly elected Czech Prime Minister Andrej Babis faces fraud allegations in connection with EU funds stemming from a case before his election.

We have yet to see how much structural funding the next EU budget will allocate to the region beyond 2020 since official budget talks won't start until spring. Risks that a multispeed Europe would endanger the transfers seem to have lessened: While the Visegrad Four nations—the Czech Republic, Hungary, Poland, and Slovakia—committed to pay a little more to EU coffers, the idea that the financial aid would be linked to full compliance with the EU principals seems to have faded. Still, the Cohesion Fund is likely to be cut 5% to 10% in the next fiscal cycle.

Even if the convergence aid is not disrupted in the next fiscal cycle after 2020, streamlining steady transfers will not meaningfully lift the region's potential. In the current fiscal period, only a small share of the funds was allocated to foster innovative activities. The post-communist bloc may be stuck in the middle-income trap: Large-scale rent-seeking erodes efficiency and assumes a drag on potential that is unlikely to disappear in the short term.

Rise in job vacancy rates

Joblessness is low in the region. Slovakia is the outlier with an unemployment rate a touch above the EU average at 7.5% in the third quarter of 2017. Its neighbors are ranked in the ten lowest rates in the EU: The Czech Republic recorded the lowest unemployment rate EU-wide at 2.5%; Hungary's jobless rate sat at 4%.

But the stellar unemployment report is only half of the picture. The tightening of the labour market coincides with a rise in job vacancy rates. The European Commission paints a grim picture: In the Visegrad Four countries, every third company is hit by a labour shortage that limits production.

Consequently, wage tensions started to mount in the region: In the first three quarters of 2017, real wages rose a whopping 4.1% y/y in the Czech Republic and skyrocketed 8.1% in Hungary. But if wages go higher, the countries run the risk of losing their competitive edge. Central Europe has been an assembly center of cars and electronics. Increasing labor costs put those assembly jobs, typically filled with low-skilled workers, in jeopardy.

The problem has already caught policymakers' attention. To ease a labor shortage at its car factories, Slovakian authorities set out to make it easier to employ non-EU citizens starting this May. Similarly, Poland eased conditions to recruit a cheaper workforce from Ukraine to remedy a skills shortage that crippled its construction industry, absorbing around a million Ukrainian migrant workers.

And in a bid to attract Tesla to settle in Hungary and keep its German manufacturers from moving, the Hungarian government lowered the corporate tax rate to a flat 9% effective from 2017, while its accommodative monetary stance keeps the forint depressed to stave off deterioration in cost-competitiveness.

But little has been done to enhance skill formation and skill matching or to provide labour market policies to alleviate the overdependence on traditional manufacturing. Outcomes of the OECD's Programme for International Student Assessment, or PISA, test in Poland, Hungary and Slovakia are weaker than the OECD average and call for a revamp of education to hedge against the risks of automation, which can purge the low-added-value jobs Central Europe fights tooth and nail to keep.

Brain drain leaves CEE high and dry

Based on the increasing number of long-term unfilled job openings, we believe that the emigration of skilled labour from CEE countries to the Western part of the EU has intensified. Lacking a centralized EU account of labour migration, however, it is hard to prove the exact magnitude. Hungary, a nation of just 9 million, lost 600,000 to 700,000 workers who relocated for better pay, according to a recent estimate. Poland's Central Statistical Office reckoned that 2.5 million Poles worked abroad for longer than three months in 2016. The large outflow of workers surely exacerbates wage stress in the region.

Strong pay gains have started to feed into price growth. Inflation reached the upper tolerance band in the Czech Republic while core inflation exceeded the 2% target, prompting the central bank to initiate a rate hike cycle in August. Central bankers decided on a 25-basis point increase in November. We believe that inflation will stay firmly above the target, hovering around 3%, because of the one-off effect of regulated price increase and the start of the electronic registration of sales.

The Romanian National Bank surprised markets and tightened monetary conditions at its January meeting: The policy rate increased by 25 basis points to 2%. Inflation shot above the target in November, reaching 3.2%, because of an increase in administrated prices and excise duties. Third quarter GDP also signaled an overly strong aggregate demand, which could ratchet up the price pressures. The early rate hike is aimed at pre-empting further price acceleration.

Hungary reluctant to hit the brake

The Hungarian National Bank seems reluctant to hit the brake just yet, as it kept the policy rate unchanged in December. The bank laid the groundwork for maintaining a loose stance in 2018: The inflation report left the price projection unchanged at 2.5% for 2018, assuming slower core inflation, even though the bank increased the GDP projection to 3.9% for 2018 from 3.7% earlier. But other factors point to a pickup in inflation: An increase in the minimum wage, indexation of pensions, and a fiscal stimulus before spring elections may fuel price growth.

The Hungarian National Bank has long been mooting the possibility of further easing and has also signaled that it strives to promote mortgage lending while maintaining its inflation-targeting regime. We interpret the recent announcement of regular purchases of mortgage-backed securities as a countercyclical policy tool: The central bank set out to prepare for bad times and promote fixed-term mortgage deals to hedge against interest rate risks.

ASIA PACIFIC

By Alaistair Chan of Moody's Analytics

January 18, 2018

China's economy ended 2017 in a good position, with manufacturing output growing steadily, the housing market cooling at a manageable pace, and external conditions favorable. Fourth quarter GDP growth likely came in around 6.8% y/y, suggesting a full-year 6.8% expansion, which is right within the government's 6.5% to 7% target for 2017.

The government's official macro policy stance remains unchanged for 2018: stable monetary policy and proactive fiscal policy. This suggests that policymakers are satisfied with the overall direction of the economy and will likely continue to tweak policy in various areas this year.

Manufacturing output has been helped by global demand for electronics and rebounding domestic demand for automobiles. Investment in manufacturing production continues at a healthy pace, imports of tech components are robust, and sentiment surveys show that firms ended 2017 reporting a jump in new export orders. These factors suggest that firms are gearing for continued growth in 2018. A rebound in demand for electric cars will lift sales and production of energy-efficient vehicles in 2018.

The housing market continues to slow nationally, with price growth across most major markets slowing in year-on-year terms. That said, demand remains brisk, as seen in good transaction volumes and continued mortgage lending. Prices of new apartments in 50 out of 70 major cities saw price gains in November. Property developers have been able to reduce inventories down to a four-year low, and those in big cities continue to build.

The government's goal to end overcapacity in heavy industry in 2017 has had mixed results. Although various coal and steel producers did shut production, many resumed output as prices rebounded. Higher commodity prices have lifted industrial profits and boosted producer price inflation, which in turn lowers the debt burden in real terms for many heavy industrial firms. On the flip side, reports suggest that indebted firms are not lessening demand for credit, as the asset-to-liability ratio of Chinese corporates was little changed.

2018 resolutions

China's annual Central Economic Work Conference concluded in late December with three major themes articulated for the next three years: containing financial risk, alleviating poverty, and protecting the environment.

Regarding poverty reduction, the goal remains to reduce the number of citizens living below the poverty line to zero by 2020. The government claims that 60 million were lifted out of poverty over the past five years, but lifting the remainder—estimated at 43 million Chinese in 2016, or 4% of the population—will be harder. Moreover, although spending on poverty alleviation grew more than 19% yearly over the past four years, a recent public inspection showed that at least CNY111.8 million has been misused.

People's Bank of China Governor Zhou Xiaochuan, who is rumored to leave office in 2018, has been increasingly speaking out on financial risks in the economy, talking about the potential for a 'Minsky moment' where asset prices collapse due to debt or capital account problems. Therefore, the PBoC seems to be pushing for a renewed clampdown on credit growth. The PBoC tends to take the hawkish side on credit growth but is one voice among many in the government. The Ministry of Commerce, for instance, tends to advocate for looser policy to maintain economic growth. Thus, the 'two steps forward, one step back' nature of policy will continue to be felt.

The PBoC does seem to be winning some small battles. It continues intervening in interbank markets and raised interest rates on seven- and 28-day interbank rates by 5 basis points in December. This was a relatively small increase. But as the first increase since March, it was a signal that the PBoC is maintaining a watchful eye on financial markets.

This month the PBoC began taking some actions on the currency. The yuan appreciated 6.7% against the dollar in 2017, which seemed to have given the central bank some confidence to undertake some liberalising measures. It has removed the so-called counter-cyclical factor in its calculations when it determines the daily yuan fix, which was introduced in 2017 ostensibly to reduce currency volatility but was believed to be a measure to discourage excessive yuan depreciation. The removal of the counter-cyclical factor is a sign that the PBoC is comfortable with the yuan's direction and does not foresee much volatility in the near term.

Ratings Round-Up
By Njundu Sanneh

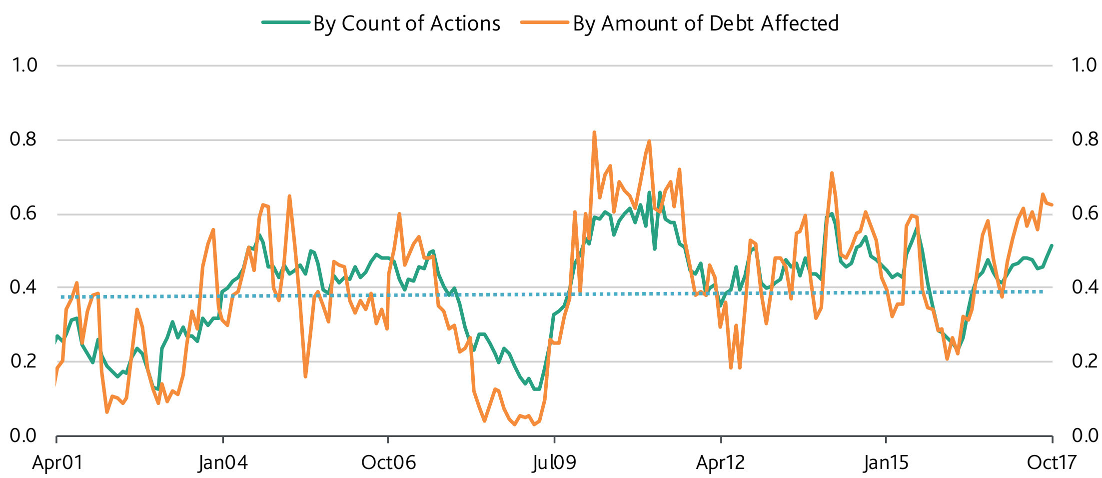
Positive Rating Revisions Rebound

For the first time in the past four weeks, upgrades outnumber downgrades in the weekly rating revisions list. The tallies have been low, but downgrades were on top for the past three weeks. The ascendancy of upgrades this past week was driven by positive rating changes from diverse sectors ranging from defense, healthcare, consumer durables and even retail. The fairly strong credit quality environment as reflected in low high-yield corporate spreads should continue to limit downgrade activity relative to upgrades. Total rating changes numbered 11 with the U.S. accounting for eight of the total. The U.S. also accounted for most of the positive rating changes with five of the six total rating upgrades attributed to U.S. companies. Some of the major upgraded U.S. companies included Vizient Inc., Kratos Defense & Security Solutions, Concentra Inc., and Edwards LifeSciences Corp. The upgrades were driven by M&A activity, capital structure management, and improving operating performance. Cablevision Systems Corp. is one of two U.S. downgrades, with deterioration of its capital structure through an increase in secured loans contributing to the downgrade.

In Europe, with only three on the rating revisions list, the upgrade of WM Morrision Supermarkets PLC was a result of a combination of improving operating performance and debt reduction. The improvements in customer focus, product quality and online sales all contributed to the sustained improvements in profitability.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

Ratings Round-Up

FIGURE 2

Rating Key

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

FIGURE 3

Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
1/10/18	LAGO RESORT & CASINO, LLC	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	Caa1	SG
1/11/18	KRATOS DEFENSE & SECURITY SOLUTIONS, INC.	Industrial	SrSec/LTCFR/PDR	300	U	B3	B2	SG
1/11/18	PGX HOLDINGS, INC.	Industrial	LTCFR/PDR		D	B2	B3	SG
1/12/18	CABLEVISION SYSTEMS CORPORATION	Industrial	SrUnsec/SrSec/BCF	8,886	D	Ba1	Ba2	SG
1/12/18	CONCENTRA INC.	Industrial	SrSec/BCF		U	B2	B1	SG
1/12/18	STEINWAY MUSICAL INSTRUMENTS, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa1	B3	SG
1/16/18	EDWARDS LIFESCIENCES CORPORATION	Industrial	SrUnsec	600	U	Baa3	Baa2	IG
1/16/18	VIZIENT, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	1,200	U	B1	Ba3	SG

Source: Moody's

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

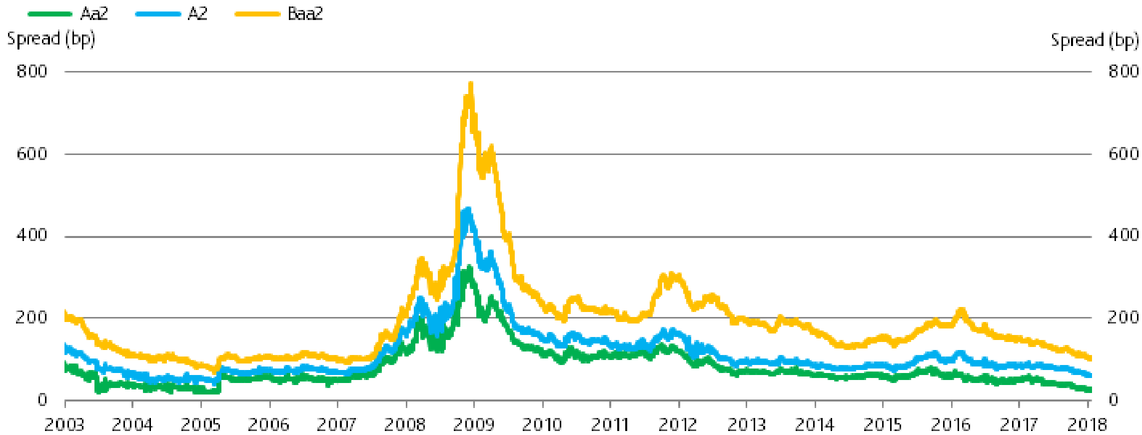
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
1/10/18	ENSCO PLC	Industrial	SrUnsec	4,744	D	B2	B3			SG	UNITED KINGDOM
1/16/18	FOUR SEASONS HEALTH CARE GROUP HOLDINGS LIMITED - Elli Investments Limited	Industrial	SrUnsec	240	D	Ca	C			SG	UNITED KINGDOM
1/16/18	WM MORRISON SUPERMARKETS PLC	Industrial	SrUnsec/SLTIR/MTN	2,413	U	Baa2	Baa3	P-3	P-2	IG	UNITED KINGDOM

Source: Moody's

Market Data

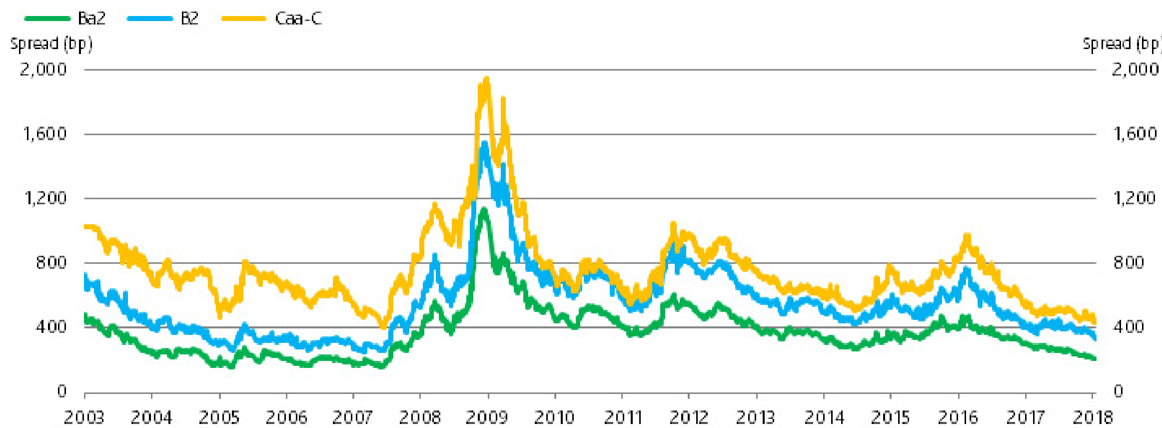
Spreads

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



Source: Moody's

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



Source: Moody's

Market Data

CDS Movers

Figure 3. CDS Movers - US (January 10, 2018 – January 17, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 17	Jan. 10	Senior Ratings
U.S. Bancorp	Aa1	Aa2	A1
Target Corporation	A2	A3	A2
Viacom Inc.	Ba2	Ba3	Baa3
Halliburton Company	A1	A2	Baa1
Plains All American Pipeline L.P.	Ba1	Ba2	Ba1
Xerox Corporation	Ba2	Ba3	Baa3
Noble Energy, Inc.	Baa3	Ba1	Baa3
Marathon Oil Corporation	Baa3	Ba1	Ba1
Hess Corporation	Ba1	Ba2	Ba1
Nabors Industries Inc.	B2	B3	B1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 17	Jan. 10	Senior Ratings
Dow Chemical Company (The)	A1	Aa2	Baa2
Avon Products, Inc.	Ca	Caa2	B3
McClatchy Company (The)	Ca	Caa2	Caa2
United States of America, Government of	Aa2	Aa1	Aaa
Citibank, N.A.	Baa2	Baa1	A1
Aetna Inc.	Aa3	Aa2	Baa2
Procter & Gamble Company (The)	Aa1	Aaa	Aa3
General Electric Company	Baa1	A3	A2
Abbott Laboratories	Baa1	A3	Baa3
Union Pacific Corporation	Aa1	Aaa	A3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 17	Jan. 10	Spread Diff
Nine West Holdings, Inc.	Ca	15,451	14,940	511
RentPath, LLC	Caa1	404	350	54
Embarq Corporation	Ba2	356	317	39
Pitney Bowes Inc.	Ba1	445	408	37
Windstream Services, LLC	B3	2,109	2,073	36
Hertz Corporation (The)	B3	741	706	35
Talen Energy Supply, LLC	B1	691	658	33
Staples, Inc.	B3	574	551	24
Wendy's International, LLC	Caa1	162	141	22
Navistar International Corp.	Caa1	284	267	18

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 17	Jan. 10	Spread Diff
K. Hovnanian Enterprises, Inc.	Caa3	1,751	2,018	-267
Frontier Communications Corporation	B3	1,689	1,783	-93
Rite Aid Corporation	B3	696	788	-91
Parker Drilling Company	Caa2	706	791	-85
Nabors Industries Inc.	B1	294	345	-51
Tenet Healthcare Corporation	Caa1	514	564	-50
Neiman Marcus Group LTD LLC	Caa3	1,174	1,223	-50
MBIA Inc.	Ba3	1,262	1,298	-35
Xerox Corporation	Baa3	127	160	-33
Viacom Inc.	Baa3	112	144	-32

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (January 10, 2018 – January 17, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jan. 17	Jan. 10	Senior Ratings
Swedbank AB	Aa2	A1	Aa3
Banco Popular Espanol, S.A.	Aa3	A2	Baa3
Old Mutual Plc	Aa2	A1	Ba1
Italy, Government of	Ba1	Ba2	Baa2
Spain, Government of	A3	Baa1	Baa2
Societe Generale	Aa1	Aa2	A2
Nordea Bank AB	Aa2	Aa3	Aa3
Santander UK plc	A2	A3	Aa3
Portugal, Government of	Baa3	Ba1	Ba1
ING Groep N.V.	Aa3	A1	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jan. 17	Jan. 10	Senior Ratings
Eurobank Ergasias S.A.	Ca	Caa2	Caa3
Piraeus Bank S.A.	Ca	Caa2	Caa3
Galapagos Holding S.A.	Ca	Caa2	Caa3
Lloyds Bank Plc	A1	Aa3	Aa3
Alpha Bank AE	Caa2	Caa1	Caa3
Bankinter, S.A.	Baa3	Baa2	Baa2
DNB Bank ASA	Aa3	Aa2	Aa2
Danone	Aa2	Aa1	Baa1
National Bank of Greece S.A.	Caa2	Caa1	Caa3
Unilever N.V.	Aa2	Aa1	A1

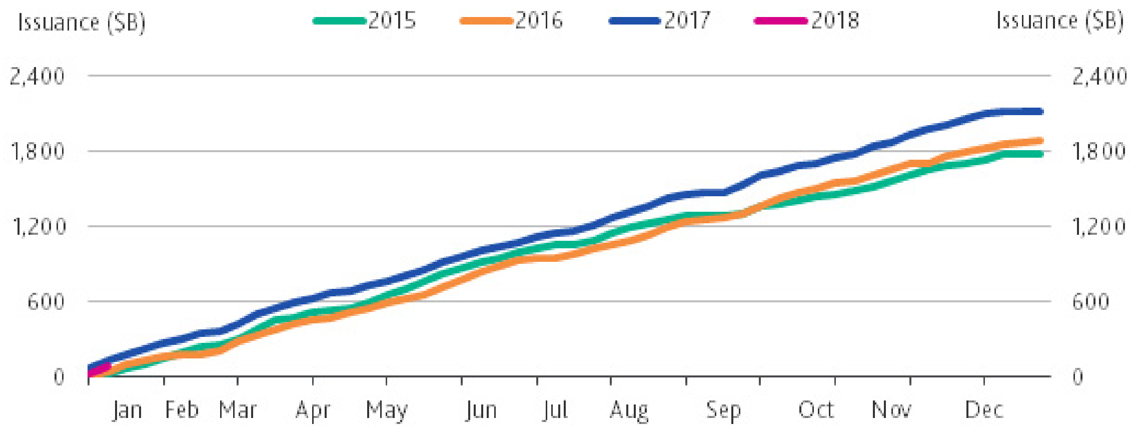
CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jan. 17	Jan. 10	Spread Diff
Astaldi S.p.A.	B3	2,036	1,625	411
Selecta Group B.V.	Caa2	372	259	113
Matalan Finance plc	Caa1	546	480	66
CMA CGM S.A.	B3	387	367	20
Vue International Bidco p.l.c.	B3	240	223	17
GKN Holdings plc	Baa3	109	94	15
Virgin Media Finance PLC	B2	186	176	10
Rexel SA	Ba3	96	87	10
Bankinter, S.A.	Baa2	65	57	9
Stonegate Pub Company Financing plc	Caa1	232	224	8

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jan. 17	Jan. 10	Spread Diff
Boparan Finance plc	B3	486	580	-94
Premier Foods Finance plc	Caa1	256	296	-40
Evraz Group S.A.	B1	235	261	-27
Greece, Government of	Caa2	293	315	-22
Ensco plc	B3	427	449	-22
Caixa Geral de Depositos, S.A.	B1	97	111	-14
Altice Finco S.A.	B3	397	411	-13
Fiat Chrysler Automobiles N.V.	B1	135	145	-10
Iceland Bondco plc	Caa1	323	331	-9
Italy, Government of	Baa2	100	108	-8

Source: Moody's, CMA

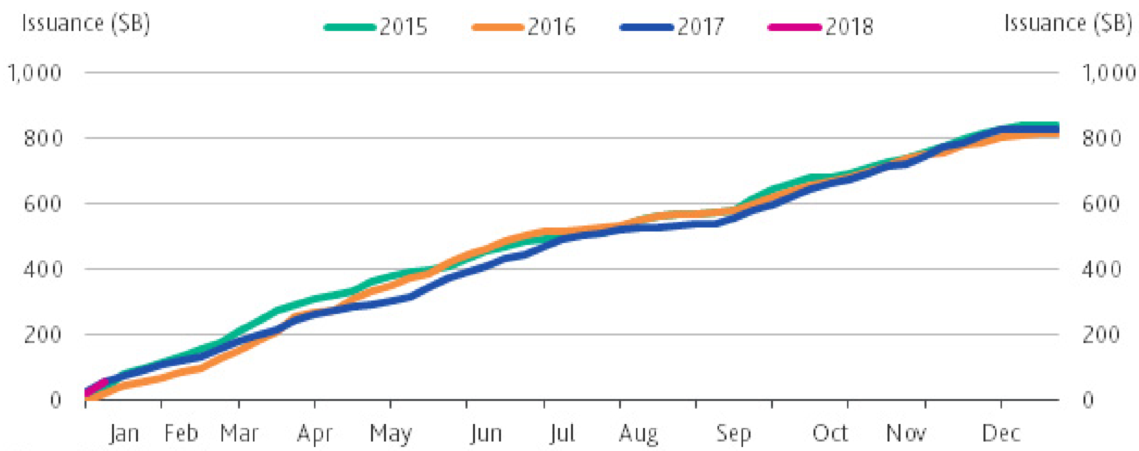
Issuance

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	35.141	13.935	51.374
Year-to-Date	63.267	14.035	79.900

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	36.597	0.902	38.743
Year-to-Date	57.356	0.902	59.540

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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Stocks and Spreads May Transcend Higher Treasury Yields (Capital Markets Research)

Sovereign & Supranational: Brazil's Sovereign Credit Risk at Year's Best

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

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