JUNE 28, 2018

CAPITAL MARKETS RESEARCH

MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

Weekly Market Outlook Contributors:

John Lonski
1.212.553.7144
john.lonski@moodys.com

Njundu Sanneh
1.212.553.4036
njundu.sanneh@moodys.com

Franklin Kim
1.212.553.4419
franklin.kim@moodys.com

Yuki Choi
1.212.553.0906
yukyung.choi@moodys.com

Moody's Analytics/U.S.:

Ryan Sweet
1.610.235.5213
ryan.sweet@moodys.com

Moody's Analytics/Europe:

Barbara Teixeira Arajuo
+420.224.106.438
barbara.teixeiraarajuo@moodys.com

Moody's Analytics/Asia-Pacific:

Katrina Ell
+61.2.9270.8144
katrina.ell@moodys.com

Veasna Kong
+61.2.9270.8159
veasna.kong@moodys.com

Editor
Reid Kanaley
1.610.235.5273
reid.kanaley@moodys.com

Trade War Will Turn Ugly if Profits Shrink

Credit Markets Review and Outlook *by John Lonski*

Trade War Will Turn Ugly if Profits Shrink

» FULL STORY PAGE 2

The Week Ahead

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

» FULL STORY PAGE 6

The Long View

Full updated stories and key credit market metrics: A well below-trend high-yield bond spread and an above-trend long-term Baa industrial spread cannot coexist indefinitely.

Credit Spreads	Investment Grade: We see year-end 2018's average investment grade bond spread resembling its recent 136 bp. High Yield: Compared to a recent 370 bp, the high-yield spread may approximate 425 bp by year-end 2018.
Defaults	US HY default rate: Moody's Default and Ratings Analytics team forecasts that the U.S.' trailing 12-month high-yield default rate will sink from May 2018's 3.7% to 2.0% by May 2019.
Issuance	In 2017, US$-denominated IG bond issuance grew by 6.8% to a record $1.508 trillion, while US$-priced high-yield bond issuance advanced by 33.0% to a new record calendar-year high of $453 billion. For 2018's US$-denominated corporate bonds, IG bond issuance may drop by 6.0% to $1.418 trillion, while high-yield bond issuance is likely to fall by 10.9% to $404 billion..

» FULL STORY PAGE 13

Ratings Round-Up

Strong Operating Performance Underpins Improved Corporate Credit Quality

» FULL STORY PAGE 17

Market Data

Credit spreads, CDS movers, issuance.

» FULL STORY PAGE 19

Moody's Capital Markets Research *recent publications*

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

THIS REPORT WAS REPUBLISHED JULY 2, 2018 TO UPDATE ECONOMIC FORECASTS FOR THE WEEK AHEAD.

» FULL STORY PAGE 24

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

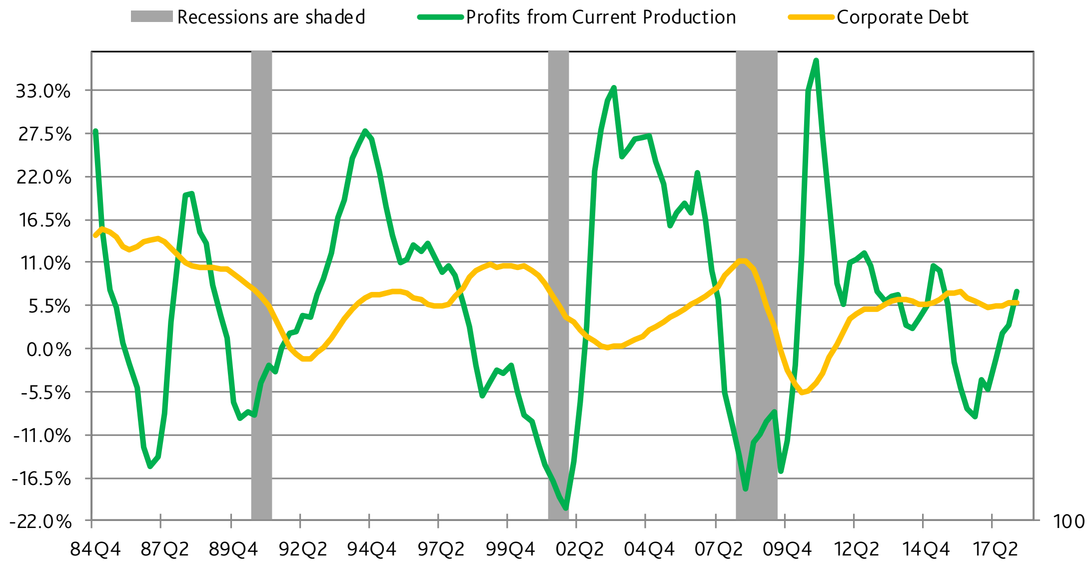
Credit Markets Review and Outlook

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

Trade War Will Turn Ugly if Profit Shrink

Let's start with the good news of operating profits' much faster rise relative to the growth of corporate debt. During 2018's first quarter, the 9.7% year-to-year advance by the pretax operating profits of U.S. nonfinancial corporations far outran the accompanying 5.2% increase by nonfinancial corporate debt. Moreover, for the year-ended March 2018, operating profits' 7.2% increase also outpaced the 5.9% growth of corporate debt.

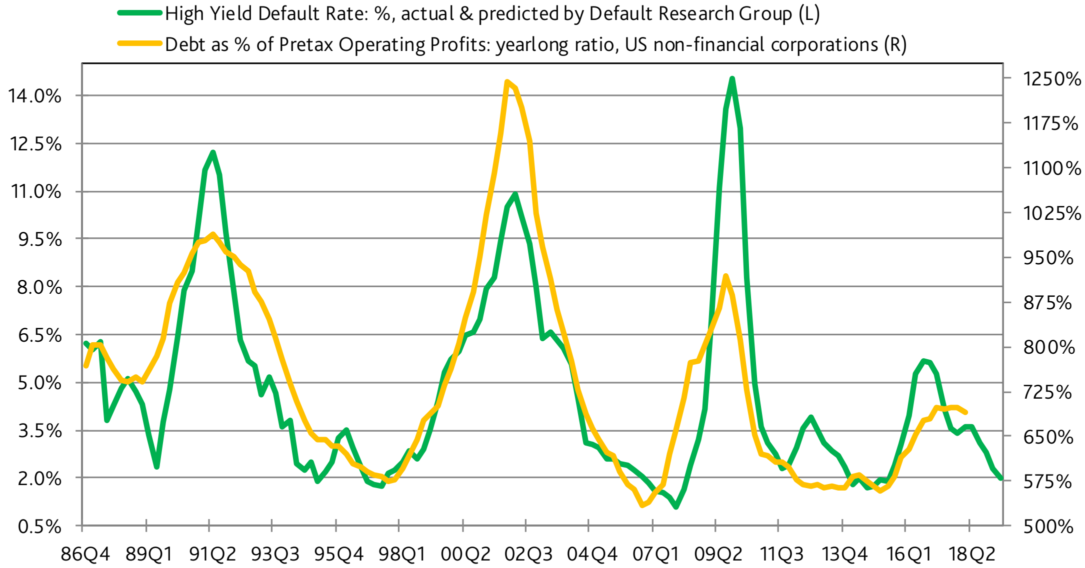
Figure 1: Operating Profits Are Expected to Outrun Corporate Debt
y/y % changes of yearlong averages for US nonfinancial corporations
sources: BEA, Federal Reserve, Moody's Analytics



In turn, the moving yearlong ratio of debt to operating profits for nonfinancial corporations eased from third-quarter 2017's cycle high of 699% to the 691% of 2018's first quarter. The near-term outlook calls for the continuation of faster growth by operating profits relative to debt. Such constructive expectations for corporate credit quality lend support to Moody's Default Research Group's predicted slide by the U.S.' high-yield default rate from May 2018's 3.7% to 2.0% by May 2019. However, the latter would still be somewhat above the current recovery's 1.6% low of September 2014, which overlapped calendar year 2014's comparatively low 566% ratio of corporate debt to operating profits.

Figure 2: Faster Growth by Operating Profits Vis-a-vis Corporate Debt Complements Expectations of Lower Default Rate

sources: Moody's Investors Service, Federal Reserve, Bureau of Economic Analysis



Will Policymakers Snatch Defeat from the Jaws of Victory?

However, a still-positive outlook for operating profits is now marred by considerable uncertainty. What may degenerate into an extended trade war of attrition could preserve financial market volatility indefinitely. Given the global complexities of modern supply-chain management, a surprisingly large number of U.S.-based businesses may delay capital spending and staffing plans until trade-related uncertainties are sufficiently resolved. As it now stands, tariff-driven increases in material costs have compelled some companies to rein in employee compensation for the purpose of protecting profit margins. In addition, higher materials costs have been weighing on the credit quality of some manufacturers that use steel intensively.

Tariffs explain why year-to-date advances of 40% for the spot price of steel and 21% for the most actively traded lumber futures contract are so much greater than the accompanying 0.5% dip by Moody's industrial metals price index (which excludes steel's price). To the degree tariffs increase the costs of materials and inventories, businesses will tighten their control of other costs, the most prominent being employee compensation.

Relaxation of China's Monetary Policy May Limit Upside for Fed Funds

Any trade war will require the use of all policy weapons. Recently, the Peoples Bank of China adopted a more accommodative monetary policy ostensibly in response to slower than expected domestic spending and a need to enhance systemic liquidity. The latter brings attention to difficulties arising from troubled loans. Though not specifically mentioned, one of the intentions of the latest relaxation of China's monetary policy is to allow China to better withstand any loss of economic activity to a trade war.

Not to be overlooked is how the $521 billion of U.S. merchandise imports from China during the 12-months-ended April 2018 far exceeded the comparably measured $133 billion of U.S. merchandise exports to China. Worth mentioning is how that imbalance includes billions of dollars of goods that are manufactured in China for U.S.-domiciled businesses. China is unrivaled as far as being a manufacturing platform for companies based in advanced economies. Thus, many American businesses and shareholders are vulnerable to tariffs imposed on imports from China.

In quick response to the relaxation of China's monetary policy, the U.S. dollar rose to 6.604 yuan. Though the latter was the highest yuan price of the dollar since mid-December 2017, it was still -4.7% under December 2016's average of 6.929 yuan. Of course, Chinese officials worry that expectations of a weaker yuan might prompt unwanted capital outflows from China.

Credit Markets Review and Outlook

Nevertheless, a wider interest rate gap between the U.S. and China would favor a cheaper Chinese currency versus the dollar. In turn, a depreciation by China's currency vis-a-vis the dollar would offset part of any tariff-induced increase in the dollar price of U.S. imports from China.

All else the same, a costlier dollar exchange rate diminishes prospects for U.S. corporate earnings. The recent strengthening of the dollar against a broad array of currencies from both advanced economies and emerging market countries will reduce (i) the global price competitiveness of goods and services produced in the U.S. and (ii) the dollar value of foreign-currency denominated earnings from abroad.

On the positive side, a stronger dollar will lessen the risk of faster consumer price inflation. As a result, a stronger dollar can substitute for Fed rate hikes.

Ten-year Treasury Yield Is Less Likely to Have an Extended Stay Above 3%

In view of how recent rate hikes and a nearly 3% 10-year Treasury yield disrupted financial markets outside the U.S., the Federal Open Market Committee's latest median projection of a 2.375% midpoint for fed funds by the end of 2018 may prove to be too high. Recognizing the risks implicit to a possible trade war and the disinflationary effect of further dollar exchange rate appreciation, the futures market disputes the FOMC's median projection for fed funds and recently assigned only a 44.2% probability to a year-end midpoint for fed funds that exceeds 2.125%. If other central banks pursue policies that facilitate dollar appreciation, the Fed may have no choice but to stretch out its planned normalization of U.S. monetary policy.

Just prior to the latest outbreak of trade-related stress, the 10-year Treasury yield closed at June 14's 2.94%. Since then, the benchmark Treasury yield eased to a recent 2.83%. From the perspective of the accompanying 3.0% drop by the market value of U.S. common stock since June 14, the decline by the 10-year Treasury yield has not been especially deep.

Nevertheless, a downwardly revised outlook for Treasury yields has prompted a 5.8% advance by the Dow Jones Utility index since June 14. However, despite the possibility of lower than earlier expected mortgage yields, an index of housing-sector share prices has sunk by 5.1% since June 14. The latter brings attention to how trade related uncertainties and financial market volatility may force businesses to show restraint when it comes to staffing and employee compensation.

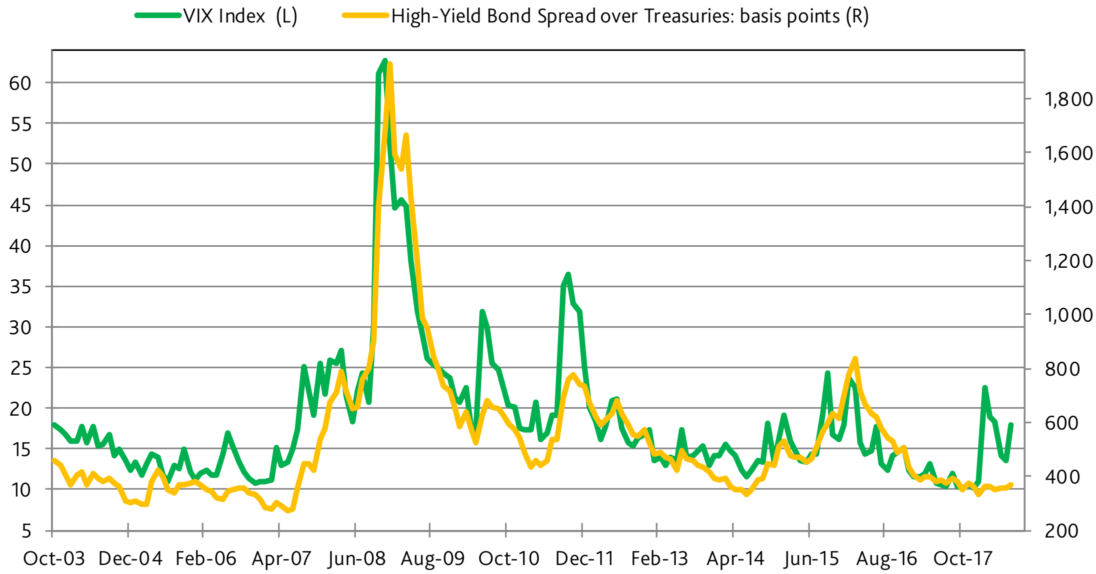
In turn, the upside for home sales may continue to be limited by the subpar financial condition of many lower- and middle-income households. The pitifully low 3.1% personal savings rate of the 12-months-ended April 2018 highlights the well below-average financial flexibility of many Americans. Implicit to such a very low average for the personal savings rate is the likelihood that 33% to 40% of U.S. households save an imperceptible, if any, amount of their after-tax income.

When a financially stronger middle class provided a hospitable breeding ground for the persistently rapid consumer price inflation of 1972-1981, the personal savings rate averaged a much higher 11.4%. Yes, consumer price inflation may spurt higher every now and then, but today's average American consumer may lack the financial wherewithal necessary for the establishment of stubbornly rapid price inflation.

VIX and Baa Yield Spread Imply High-Yield Bond Spread Is Unsustainably Thin

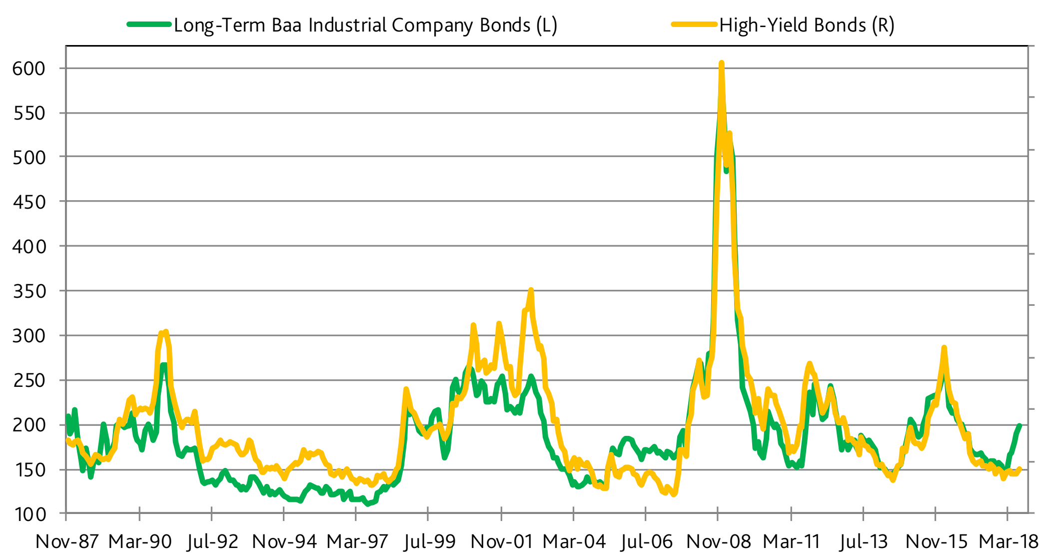
Though a composite high-yield bond spread has widened from June 14's 345 basis points to the 370 bp of June 27, the latter still remains well under the spread's post September 2003 median of 460 bp. However, a recent VIX of 18.0 points was noticeably above its accompanying median of 15.9 points. In the event the VIX remains above 16.5 points, the high-yield spread is likely to widen to at least 425 bp.

Figure 3: Above-Trend VIX Warns of Wider High-Yield Bond Spread...
Sample Medians Equal 16.0 for VIX Index and 460 bp for Spread
source: CBOE, Moody's Capital Markets



A recent long-term Baa-grade industrial company bond yield spread of 198 bp that well exceeds its post September 2003 median of 178 bp reinforces the negative outlook for high-yield bonds. As inferred from the historical record, a 198 bp spread for the long-term Baa industrials has typically been associated with a 544 bp midpoint for the high-yield spread, which is much wider than the recent 370 bp. It was in 2007 that a well below trend high-yield spread was joined by a significantly above average Baa yield spread. Since late 1987, the high-yield bond spread shows a very strong correlation of 0.92 with the long-term Baa industrial company bond yield spread.

Figure 4: A 198 bp Long-Term Baa Industrial Bond Spread Disputes the Thinness of the Recent 370 bp High-Yield Bond Spread...Long-Term Medians Are 174 bp for the Baa Industrials and 471 bp for High-Yield
in basis points (bp); source: Moody's Analytics



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

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

FOMC Minutes, June Employment Highlight the Week

The week will be busy. The focus will be on the minutes from the Federal Open Market Committee and the June employment report. The Fed appears to have the economy in the sweet spot as unemployment is low and inflation is at the central bank's 2% objective. We will release our forecast for June employment next week. Elsewhere, we look for a small improvement in the ISM manufacturing index while the nonmanufacturing survey likely edged lower in June. Vehicle sales were likely little changed in June and the nominal trade deficit should narrow in May.

Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Moody's Analytics Business Confidence for 6/29/18	index, 4-wk MA				38.0
Vehicle Sales for June	mil, SAAR	16.9	17.0	16.43 to 17.1	16.9
Construction Spending for May	% change	0.5	0.4	-0.5 to 1.2	1.8
ISM Manufacturing Index for June	diffusion index	58.8	58.1	54.9 to 60	58.7
Factory Orders for May	% change	0.1	0.0	-0.8to 0.4	-0.8
ADP National Employment Report for June	change, ths		187	155 to 220	178
Jobless Claims for 6/30/18	ths	230	224	215 to 230	227
ISM Nonmanufacturing Index for June	diffusion index	58.5	58.3	57 to 60	58.6
FOMC minutes					
Employment Situation for June	change, ths		198	154 to 210	223
Average Workweek	#		34.5	34.4 to 34.5	34.5
Unemployment rate	%		3.8	3.7 to 3.8	3.8
Average Hourly Earnings	% change		0.3	0.2 to 0.4	0.3
International Trade for May	$ bil	-43.4	-43.6	-50.5 to -42.0	-46.2

MONDAY, JULY 2

Business confidence (week ended June 29; 10:00 a.m. EDT)
Forecast: N/A

Global businesses are upbeat. Sales are solid, as are hiring and investment. The demand for office space is also strong, and credit is amply available. U.S. businesses continue to feel the best, likely buoyed by corporate tax cuts, while South American businesses are the least optimistic.

The only blemish in the survey is around expectations of business conditions later in the year; they are near the bottom of the range that has prevailed throughout much of this economic expansion. This may be due to building concerns about the Trump administration's trade policies.

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

The four-week moving average in our business confidence index rose from 36.5 to 38 in the week ended June 22.

ISM manufacturing index (June; 10:00 a.m. EDT)

Forecast: 58.8

We look for the ISM manufacturing index to have risen from 58.7 in May to 58.8 in June. We look for the inventory index to have bounced back after unexpectedly falling in May. Supplier deliveries should remain elevated because of growing supply constraints. This will remain a weight on production.

TUESDAY, JULY 3

No major economic releases scheduled

WEDNESDAY, JULY 4

No major economic releases scheduled in observance of Fourth of July

THURSDAY, JULY 5

ADP National Employment Report (June; 8:15 a.m. EDT)

Forecast: N/A

Based on ADP payroll records, the private sector grew by 178,000 jobs in May. This represents a modest slowdown from the impressive rate of payroll growth in the first quarter of this year. The composition of job creation across company sizes remained roughly the same. Midsize companies remain the strongest performers, adding 84,000 jobs and capping a six-month stretch in which gains averaged better than 90,000. Performance at large companies was solid, adding 56,000 jobs, slightly below the pace over the last year.

Jobless claims (week ended June 16; 8:30 a.m. EDT)

Forecast: 230,000

We look for initial claims for unemployment insurance benefits to have risen from 227,000 to 230,000 in the week ended June 30. These data are for the week prior to the Fourth of July holiday and new filings can be choppy.

FRIDAY, JULY 6

Employment Situation (June; 8:30 a.m. EDT)

Forecast: Will be released during the week

International trade (May; 8:30 a.m. EDT)

Forecast: -$43.4

The advance goods deficit narrowed by $2.5 billion in May to $64.8 billion. This is the smallest goods deficit in more than a year and indicates that trade will likely be supportive of second quarter GDP growth. Nominal exports rose 2.1% from the prior month, while imports gained 0.2%. Capital goods and foods, feeds and beverages provided the largest support to the growth in exports, while stronger imports of capital goods bumped up total imports. We look for the total nominal trade deficit to be $43.4 billion.

EUROPE

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

Euro Zone Unemployment Rate Likely Dipped in May

In the spotlight is Monday's release of the euro zone's unemployment rate, which we expect dipped further to 8.4% in May, from 8.5% in April, its lowest in almost 10 years. Granted, growth in the euro area slowed in the first quarter and is set to ease further in the second stanza, but we should not forget that the labour market is, together with core inflation, one of the longest-lagging indicators of the region's economy. Despite the second quarter's dip in most survey indicators, hiring intentions remained solid in services, manufacturing as well as construction, even if employment growth cooled compared with last year's pace. Our view is that unemployment will trend downwards in the next six to nine months in the currency bloc and will finish the year at 8.1%, reflecting the still-solid economic conditions around the monetary bloc, the labour market reforms especially in France, and the monetary stimulus from the European Central Bank.

Across countries, we expect Germany will post solid gains in the second half of the year, but the pace of decline in jobless claims is likely to slow given there is now little slack remaining. Prospects for France are also optimistic, and in the spotlight will be the successful implementation of President Emmanuel Macron's bold reforms. Similarly, unemployment in Spain should fall, though our view is that the pace of decline will sharply decelerate from 2017's eye-popping gains, even if unemployment in the country remains well above that of other euro zone economies. The outlook for Italy is more uncertain, since growth there remains weak compared with that of its euro zone peers, and there is little progress in tackling the country's labour competitiveness problems.

Final PMI figures for the euro zone countries are expected to confirm that sentiment rallied somewhat in June. This would chime in with our expectations that the slowdown in the euro zone economies reversed slightly at the end of the second quarter. The service sector is expected to have been primarily responsible for the improvement, offsetting a dip in manufacturing confidence. The story here is that, despite the fact that sentiment has cooled significantly since the start of the year, levels are still consistent with solid growth in the euro area. We thus expect industrial production to have rebounded by 1% q/q in the second quarter, enough to keep yearly growth solid at around 3%, while gains in services and construction are also expected to have come in solid. We are penciling in 0.4% q/q growth in euro zone's GDP, the same as in the previous stanza.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 7:30 a.m.	Russia: GDP for Q1	% change yr ago	1.3	0.9
Mon @ 9:00 a.m.	Italy: Unemployment for May	%	11.0	11.2
Mon @ 10:00 a.m.	Euro Zone: Unemployment for May	%	8.4	8.5
Tues @ 10:00 a.m.	Euro Zone: Retail Sales for May	% change	-0.4	0.1
Thur @ 8:05 a.m.	Spain: Industrial Production for May	% change	1.2	-1.8
Fri @ 7:00 a.m.	Germany: Industrial Production for May	% change	0.3	-1.0
Fri @ 9:00 a.m.	Italy: Retail Sales for May	% change	0.3	-0.7
Fri @ 1:40 p.m.	Russia: Consumer Price Index for June	% change	0.5	0.4

MONDAY, JULY 2

Russia: GDP (Q1; 7:30 a.m. BST)

Russian GDP likely printed at 1.3% y/y in the opening stanza, up from 0.9% in the fourth quarter of 2017. The Bank of Russia estimates that GDP expanded by 0.3% q/q after just 0.1% q/q in the previous quarter, but we caution that the quarterly growth might be downwardly revised, since we expect that end-year GDP will be upwardly revised given the marked upward revision in industrial performance. In its May release, Rosstat doubled 2017's industrial figures to 2.1%, from 1%. Manufacturing is a key driver of Russian GDP, and the first estimate showed that the sector's 1.9% m/m expansion in the first quarter largely offset the weakness of construction and retail. Sanctions and the depreciation of the ruble may drag on growth, but because of the high base from last year, a dip in the headline yearly rates is on the cards for the second and third quarters.

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

The unemployment rate in Italy likely declined in May, falling to 11% from 11.2% in April. Employment has been rising for four years, and the employment rate is nearing its 2008 peak. However, the number of inactive workers remains elevated. Improving job prospects in the coming year thanks to a strong global economy will improve wage dynamics and entice more people to seek work. The unemployment rate will fall slowly through the end of the decade as the labour force expands. Although we are optimistic that the labour market conditions will improve this year, Italy's labor force has a long way to go on the road to recovery and necessary structural reform may be delayed by political discord.

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

The euro zone's unemployment rate likely dipped to 8.4% in May, from 8.5% in April, its lowest reading since the end of 2008. All leading indicators showed that employment growth remained robust over the month, particularly in countries such as France and Spain. Even so, we suspect that employment gains are starting to slow in the euro area, in line with the recent dips in the headline confidence numbers. The Markit PMI release found that, even if pressure on capacity was alleviated by a further robust increase in employment in May, the rate of job creation slipped to its lowest in nine months, while job gains moderated in manufacturing and services alike. 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% to 8.1% by the end of 2018.

TUESDAY, JULY 3

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

Euro zone retail sales likely retreated by 0.4% in monthly terms in May, following a 0.1% increase in April. The preliminary country data made available until now have been mixed, showing that a 2.1% m/m plunge in production in Germany and a 0.1% fall in Spain likely offset a 0.6% rise in France. Numbers for Ireland are out too, showing that sales in the country rose by a meagre 0.1% m/m, but this is still good news since it follows a sharply upwardly revised 3.1% increase in April. Across sectors, we expect that clothing sales declined in most major countries, mean-reverting from the weather-related strength in the previous month, while food sales are expected to have increased. Spending on household durables should have come in mixed across countries. We expect that retail sales will remain relatively robust throughout this year, and support will mainly come from a rebound in sales in Germany following weak results since the third quarter of 2017. Germany's labour market is at full steam, pushing up wages, and anecdotal evidence shows that pay settlements have started to rise sharply.

WEDNESDAY, JULY 4

No major economic indicators are scheduled for release.

THURSDAY, JULY 5

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

Spain's industrial production likely expanded by 1.2% m/m in May but failed to make up for the losses from April, when output plummeted by 1.8% m/m. We expect that the energy sector was neither a help nor a hindrance. The boost may have come from a recovery in capital goods following April's low. Escalation of tariff measures can have a knock-on effect on the Spanish economy, since exports have been instrumental to the recovery. All considered, we expect that industry's contribution to GDP will disappoint in the second quarter.

FRIDAY, JULY 6

Germany: Industrial Production (May; 7:00 a.m. BST)

German industrial production likely recovered slightly in May, adding 0.3% m/m, after dropping by 1% in April. In year-ago terms, the rate of increase is expected to have ticked down to around 1.4% in May from 2% in the previous month. Demand weakened sharply at the start of the second quarter, which likely weighed on production somewhat. German manufacturing orders dropped 2.5% m/m in April and fell 0.1% in year-ago terms, which is the first yearly contraction since mid-2016. Domestic orders drove the contraction during the month, while foreign orders fell to a lesser extent. The Markit manufacturing PMI slid further in May to a 15-month low of 56.9, from 58.1 April and well below the peak in December, pointing to cooling momentum in the sector. The outlook remains clouded, as the uncertainty caused by Brexit negotiations and in particular the new U.S. import tariffs could hurt manufacturing in coming months.

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

Italy's retail sales likely improved in May, gaining 0.3% m/m, following a 0.7% decline in April. In the first quarter, household consumption expenditure increased by 0.4% compared with the previous year. Italy's employment situation is slowly improving as better job prospects reduce inactivity and increase employment. A stronger labour market is improving wage dynamics. However, risks are weighted to the downside. Consumer sentiment has waned over the last several months, as political uncertainty is weighing on consumers' confidence in the current economy and near-term expectations. In addition, the Markit retail PMI has fallen below the critical no-change mark, with May signaling the third consecutive month of contraction in retail sales activity.

ASIA-PACIFIC

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

Trade Tensions Likely Dampened Business Sentiment in China and Japan

Global trade tensions likely dampened business sentiment in China and Japan. China's official manufacturing PMI likely declined by 0.4 point to 51.5 in June. Firms are reporting higher production thanks to higher domestic and export-oriented demand. That said, concerns are emerging regarding new export orders, not least because of uncertainty in global trade policy. Japan's Tankan survey results likely improved in the June quarter, after the March quarter disappointment. Monthly indicators in the second quarter confirm improvement across the important export, manufacturing and consumption sectors, but gains will be capped by the global protectionist sentiment.

South Korea's foreign trade surplus likely narrowed in June. A welcome rebound in exports, led by a surge in semiconductor exports, kept the trade surplus elevated in May. Although we expect external demand to stay relatively firm this year, global tech demand has passed its peak and South Korea's important semiconductor exports are trending downwards. The performance of South Korea's electronics exports in June will be closely watched given that country is the first to release monthly trade data in Asia, providing a reasonable barometer of the current tech cycle.

At its July policy meeting, the Reserve Bank of Australia will keep the cash rate steady at 1.5%, where it has been since August 2016. At first glance, it looks as though the RBA has been resting on its laurels for all that time, but taking a closer look, that response is just what the doctor ordered. Predictability and stability are necessary features of monetary policy in Australia. There's no need to rush policy normalization amid subdued price growth; therefore, we don't expect interest rate hikes until early 2019.

A handful of Australia's activity data for May will show an ongoing and decent expansion. Retail trade likely expanded at about trend pace in May, after rising above trend because of a warmer than usual April, which led to increased spending eating out. Cooler weather hit by May, likely lifting spending on clothing and at department stores. A sustained softness in income growth, which we expect will improve only mildly over 2018, is holding back a stronger expansion in retail spending. Australia's foreign trade surplus continues to be held back by a bigger crude oil import bill amid high global prices.

	Key indicators	Units	Moody's Analytics	Last
Mon @ Unknown	South Korea Foreign trade for June	US$ bil	6.0	6.7
Mon @ 9:50 a.m.	Japan Tankan survey for Q2	Index	26	24
Mon @ 11:00 a.m.	China Manufacturing PMI for June	Index	51.5	51.1
Tues @ 9:00 a.m.	South Korea Consumer price index for June	% change yr ago	1.6	1.5
Tues @ 2:30 p.m.	Australia Monetary policy for July	%	1.5	1.5
Wed @ 11:30 a.m.	Australia Foreign trade for May	A$ mil	820	977
Wed @ 11:30 a.m.	Australia Retail sales for May	% change	0.3	0.4
Thurs @ 2:00 p.m.	Malaysia Foreign trade for May	MYR bil	11.2	13.0
Thurs @ 6:00 p.m.	Taiwan Consumer price index for June	% change yr ago	1.9	1.6
Fri @ 6:00 p.m.	Taiwan Foreign trade for June	US$ bil	3.89	4.41

MONDAY, JULY 2

South Korea: Foreign Trade (June; Unknown)

South Korea's foreign trade surplus likely narrowed to US$6 billion in June, after edging up to US$6.7 billion in the prior month. A welcome rebound in exports, led by a surge in semiconductor exports, kept the trade surplus elevated in May. Exports of auto parts were also strong, as were computer, textiles, petroleum, machinery and mobile phone exports. Although we expect external demand to stay relatively firm this year, trade tensions remain a key downside risk.

Japan: Tankan Survey (2018Q2; 9:50 a.m. AEST; Sunday, 11:50 p.m. GMT)

Business sentiment in Japan likely improved in the June quarter after decelerating in the March quarter following five consecutive increases. We expect the Tankan index of large manufacturers rose to 26 in the second quarter, from 24 in the March quarter. GDP contracted over the first quarter, but monthly indicators in the second quarter confirm improvement across the important export, manufacturing and consumption sectors. That being said, heightened concern about the impact of escalating global trade tensions likely dampened manufacturer confidence in the June quarter.

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

China's manufacturer sentiment improved in May as firms brushed away fears of a trade war. Firms are reporting higher production thanks to higher domestic and export-oriented demand. That said, concerns are emerging regarding new export orders. Recent tariffs by the U.S. represent an escalation of the trade dispute and are likely to dampen sentiment. We expect the official PMI declined by 0.4 point to 51.5 in June.

TUESDAY, JULY 3

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

South Korean consumer prices likely ticked up 1.6% y/y in June. One development keeping a lid on price pressures is the weak labour market. The unemployment rate edged back up to a multiyear high of 4% in its latest reading. Job growth has been anemic, suggesting that the large minimum wage hike at the start of the year is undermining hiring. Under the circumstances, South Korean consumers have understandably become less upbeat of late. Because of the weak labour market and trade tensions, the Bank of Korea will keep rates on hold in the near term.

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

At its July policy meeting, the Reserve Bank of Australia will keep the cash rate steady at 1.5%, where it has been since August 2016. At first glance, it looks as though the RBA has been resting on its laurels for all that time, but taking a closer look, that response is just what the doctor ordered. Predictability and stability are necessary features of monetary policy in Australia. Interest rates are firmly in accommodative territory, and that is necessary to support the economy, especially the weak spots such as wages, and to support the uptrend in nonmining investment. There's no need to rush policy normalisation. With nascent wage growth alongside inflation hovering at the low end of the central bank's 2%-to-3% target, we don't expect interest rate hikes until early 2019.

WEDNESDAY, JULY 4

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

Australia's monthly trade surplus likely narrowed to A$820 million in May, from A$977 million in April and A$1.73 billion in March. We expect intermediate import growth accelerated as the crude oil import bill increased amid higher global prices. This helped offset falls in consumption and capital imports to drive the trade surplus lower. The trade balance will remain under pressure because of elevated oil prices through most of June. Merchandise export growth likely improved in May, after falling in April because of declines in both iron ore and coal.

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

Australian retail trade met our expectations with a 0.4% m/m gain in April, after being flat in March. Increased spending at cafes, restaurants and takeaways drove the acceleration as a warmer than usual April led to increased spending eating out. The improvement more than offset the adverse impact on clothing and department store sales from the cooler weather kicking off a little later this year. We expect a 0.3% m/m expansion for May, in line with trend pace but below its long-term trend of 0.5%, as sustained softness in income growth, which we expect to improve only mildly over 2018, is holding back consumption.

THURSDAY, JULY 5

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

Malaysia's trade surplus marginally narrowed to MYR13 billion in April, and we expect further narrowing to MYR11.2 billion in May. Annual export and import growth recorded decent accelerations in April, with export growth returning to double digits after a two-month hiatus. Unsurprisingly, electrical/electronics, Malaysia's largest merchandise export, led the charge and was up 21% y/y in April, replicating the strength seen in 2017 and so far this year. We expect this continued in May, albeit at a slightly slower pace. Refined petroleum shipments also soared thanks to gains on the volume and value fronts, the latter because of supply concerns pushing up global prices. Of Malaysia's major export categories, palm oil is faring the worst, hurt by sluggish global prices, and the near-term outlook remains soft as stockpiles have been building.

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

Taiwan's consumer price index likely increased 1.9% y/y in June, after surprising on the downside in May. Even as fuel prices continued to rise strongly on the back of higher global oil prices, headline inflation cooled, as food and transportation prices rose at a weaker pace and clothing prices continued to fall in year-ago terms. Excluding food and energy, consumer prices were 1% higher in May, suggesting underlying prices are subdued.

FRIDAY, JULY 6

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

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

The Long View

A well below-trend high-yield bond spread and an above-trend long-term Baa industrial spread cannot coexist indefinitely.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
June 28, 2018

CREDIT SPREADS

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

The recent high-yield bond spread of 370 bp is less than might be inferred from the spread's macroeconomic drivers and the long-term Baa industrial company bond yield spread. The adverse implications for liquidity of possibly significantly higher interest rates merit consideration.

DEFAULTS

After setting its current cycle high at January 2017's 5.8% and subsequently bottoming at January 2018's 3.3%, May's U.S. high-yield default rate equaled 3.7%. Moody's Default and Ratings Analytics team expects the default rate will average 2.0% during Q1-2019.

US CORPORATE BOND ISSUANCE

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

First-quarter 2017's worldwide offerings of corporate bonds showed annual percent increases of 7.7% for IG and 110.6% for high-yield, wherein US$-denominated offerings advanced by 17.1% for IG and by 98.3% for high yield.

Second-quarter 2017's worldwide offerings of corporate bonds showed an annual percent decline of 6.3% for IG and an increase of 8.3% for high-yield, wherein US$-denominated offerings fell by 6.4% for IG and grew by 5.8% for high yield.

Third-quarter 2017's worldwide offerings of corporate bonds showed an annual percent decline of 1.6% for IG and an increase of 6.6% for high-yield, wherein US$-denominated offerings dipped by 0.7% for IG and grew by 4.3% for high yield.

Fourth-quarter 2017 revealed year-over-year advances for worldwide offerings of corporate bonds of 17.6% for IG and 77.5% for high-yield, wherein US$-denominated offerings posted increases of 21.0% for IG and 56.7% for high yield.

First-quarter 2018's worldwide offerings of corporate bonds incurred year-over-year setbacks of 6.3% for IG and 18.6% for high-yield, wherein US$-denominated offerings posted sank by 14.4% for IG and 20.8% for high yield.

For yearlong 2016, worldwide corporate bond offerings rose by 2.3% annually for IG (to $2.402 trillion) and sank by 7.8% for high yield (to $426 billion). During yearlong 2017, worldwide corporate bond offerings increased by 4.0% annually (to $2.499 trillion) for IG and advance by 41.2% for high yield (to $602 billion). The projected annual percent changes for 2018's worldwide corporate bond offerings are +2.1% for IG and -9.9% 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 3% for long. A fundamentally excessive climb by Treasury bond yields and a pronounced slowing by expenditures in dynamic emerging market countries are among the biggest threats to the adequacy of economic growth and credit spreads.

EUROPE

By Barbara Teixeira Arajuo and Reka Sulyok of Moody's Analytics
June 28, 2018

EURO ZONE

Economic sentiment in June continued to fall from December's 17-year high in the euro zone, but the good news is that the decline was only marginal. What's more, the main driver of the dip was a drop in consumer confidence, which was expected given the recent rise in energy inflation resulting from the previous months' jump in the price of a Brent barrel. The news was better elsewhere, with sentiment in the industrial, service and retail sectors holding steady or climbing somewhat.

The sharp rise in sentiment in France and Italy was the standout detail. The rebound in Italy came as welcome news following the sharp drop in the previous month, when fears of a political crisis were looming large. The fact that the Northern League and the Five Star Movement finally managed to form a government certainly played a major role in calming nerves and boosting sentiment, though prospects remain clouded given the government's bold fiscal programme. Elsewhere, it was disappointing that sentiment in Germany dropped sharply. In our view, the story here is that mounting risks of a trade war with the U.S., especially since President Trump threatened to impose tariffs on cars and their inputs, were mainly responsible for the hit.

Developments will continue to diverge in coming months, but we expect that sentiment will broadly stabilize during the summer. Overall, the headline confidence index is still pointing to above-trend growth of around 0.7% to 0.8% q/q in the euro zone in the second quarter, which is in our view too optimistic. We are penciling in a more subdued 0.4% gain, the same as in the previous stanza, which would chime in with our expectations that the currency area's growth will gradually slow this year to a more sustainable yearly rate of around 2% by the fourth quarter.

U.K.

Fresh data from Nationwide Building Society confirmed our expectations that house prices in the U.K. will continue to cool throughout 2018. The 0.5% monthly increase in June wasn't enough to prevent residential price growth from slowing further in yearly terms at the end of the second quarter, to only 2%, its lowest in five years. As we argued in our briefing Tuesday, the recent rise in mortgage interest rates since February is playing a major role in keeping demand for housing depressed.

Recent data from the Bank of England showed that quoted rates increased across the board in May. In the spotlight was that the average quoted interest rate for a two-year fixed mortgage with 75% loan-to-value rose to 1.72%, from a low of 1.49% in February, its highest since June 2016. Combined with lingering Brexit uncertainty and still subdued wage growth, it is no wonder that the RICS new buyer enquiries balance sank further into the red, to -7 in May.

For prices, the good news is that the U.K.'s tight labour market is set to keep a lid on supply, preventing prices from outright falling. Our view is that yearly growth in Nationwide's gauge of house prices will drop to 1.2% by December, from 3.2% at the start of this year.

The picture will remain uneven across the country, though. London, for instance, was the weakest performing region over the second quarter as a whole, with prices down by 1.9% y/y. By contrast, prices increased in all other regions, and the East Midlands came first with prices climbing by 4.4%. We expect London's market lull to continue during the second half of this year, especially as we don't see much progress being made on the

Brexit front before November. This should help keep a lid on demand in the capital, especially foreign demand for high-end flats. We caution, though, that at £468,845 average prices in London are still twice the national average of £214,578.

Price growth should also cool in the other U.K. regions, though in their majority to a lesser extent than in London. That's because London's outsize financial services industry is most at risk from an EU exit.

ASIA PACIFIC

By Veasna Kong of Moody's Analytics
June 28, 2018

THAILAND

Thailand's central bank held its key policy interest rate at 1.5% at its June monetary policy meeting, even as it lifted its GDP growth and inflation forecasts. The Bank of Thailand now expects the economy to expand 4.4% this year, up 0.3 percentage point from its prior forecast. Inflation is expected to pick up to 1.1%, up 0.1 percentage point from prior expectations.

The Bank of Thailand's more optimistic view is not surprising given the recent run of data. GDP growth accelerated to a five-year high of 4.8% y/y in the first quarter of 2018. Inflation has perked up as well, rising to 1.5% y/y in May, a pace not achieved since the start of 2017.

The Bank of Thailand's decision to keep rates on hold means interest rates have not risen since August 2011, extending a run of 37 months of near-record low interest rates. The clock must be wound back eight years to find the last interest rate hike cycle. Back then, price pressures were rebounding in the aftermath of the global financial crisis. Consumer prices declined as much as 4.4% y/y in July 2009, but by January 2010, inflation had reached a 16-month high of 4.1%, well above the BoT's 0.5%-to-3% target at the time.

In the first quarter of 2010, GDP surged 12.2% y/y, up from a 4.2% fall in the same period a year earlier. However, it wasn't until July 2010 that the BoT lifted its benchmark interest rate from a historical low of 1.25%. That marked the start of a 225-basis point rate hike cycle that lasted 14 months, with the key policy interest rate rising to a peak of 3.5% in August 2011.

Although the Thai economy has had a good run of late, the conditions for rate hike are not yet in hand. Inflation, while rising, remains below the midpoint of the Bank of Thailand's 1%-to-4% target range. Inflation has spent the bulk of the last four years below 1% and found its way into the central bank's target range only in its last two readings.

Higher oil prices

Much of the recent increase has been due to the rise in transportation and communication prices, which in turn, largely reflects the increase in oil prices. Brent oil prices have risen more than US$10 per barrel since their trough in 2018, and are up about 58% from same the time last year.

However, prices have declined from their recent peak, suggesting the lift in headline inflation could be brief. Indeed, we expect oil prices to ease as financial demand fades and strong U.S. production helps to balance supply and demand, even as Iranian supply is poised to fall.

Core inflation, which excludes volatile oil and fresh food prices, remains subdued and below 1% despite creeping up in recent months. Thus, absent higher oil prices, price pressures continue to be fairly mild. One reason is the lackluster labour market. Despite the economy's cyclical upturn, employment was down 0.1% y/y in the first four months of the year. Unemployment, while low by international standards at just 1%, remains relatively elevated.

Average wages slipped 0.1% in the last year. Wages in agriculture, the largest employer in the country, increased a mild 2.9% in 2017, having spent the prior two years in decline. However, agriculture wages fell 2.4% y/y in the March quarter of 2018. In manufacturing—a sector at the forefront of the rebound in exports—wages rose just 0.2% in 2017 and were up a mild 1% y/y in the first three months of 2018.

The Long View

The BoT's decision to keep rates on hold bucks the trend elsewhere in the region. With the Federal Reserve normalizing monetary policy and narrowing interest rate spreads in the region, and economic activity firmer throughout Southeast Asia, most central banks in the region have started to normalize interest rates. Malaysia's central bank was the first to start lifting its policy rate. The Monetary Authority of Singapore began tightening monetary policy two months ago, and central banks in the Philippines and Indonesia soon followed, pulling the trigger in May.

Taper tantrum memories

Memories of the 2013 taper tantrum remain vivid in emerging markets. During that episode, emerging market currencies such as the Indian rupee depreciated by more than 20%, as capital outflows accelerated sharply in response to heightened expectations of reduced bond-buying by the Fed.

This time around, although Fed rate hikes are not all together that surprising given the strength of the U.S. economy and given that the Fed has been signaling its intentions for some time, the adjustment by financial markets has nonetheless intensified in 2018, with capital outflows increasing noticeably from emerging markets since around mid-April.

The threat from volatile capital flows needs watching, but Thailand's economy is in a relatively strong position to withstand any sudden outflows. Foreign currency reserves are near a record high, equivalent to around 10 times monthly imports, while the external balances remain in surplus. Meanwhile, foreign currency-denominated debt and foreign holdings are relatively low in Thailand, suggesting the economy is less vulnerable to capital outflows.

Although we think the BoT's decision to leave rates on hold in June is justified, the upward revisions to GDP growth and inflation forecasts do suggest that the BoT is edging towards a rate hike. One member of the monetary policy committee voted to raise rates by 25 basis points in June, citing strong economic growth and the risks of keeping rates too low for too long. Increasing policy space was another motivation, as there is little room to cut rates further in the event of a major adverse shock. But judging by the central bank's monetary policy statement, most committee members remain cautious about the economic recovery.

A threat to global trade

The Trump administration's decision to levy additional tariffs on imports of Chinese goods and tit-for-tat response from China threaten to undermine global trade. The proposed tariffs on China's imports amount to 9% of U.S. imports from China and 2.1% of total U.S. imports. In response, China has already threatened to levy its own duties on US$50 billion of its imports from the U.S.

Another, albeit less quantifiable issue is Thailand's political climate. Four years after Prime Minister Prayut Chan-ocha rose to power in a military coup, Thailand's return to civilian rule remains uncertain. General elections have been pushed back on numerous occasions, the latest to early 2019. Bouts of political instability have undermined the Thai economy for more than a decade, and although frictions between the urban/elite yellow shirts and rural/populist red shirts have subsided, tensions simmer beneath the surface and could flare up over the election period.

Ratings Round-Up

By Njundu Sanneh

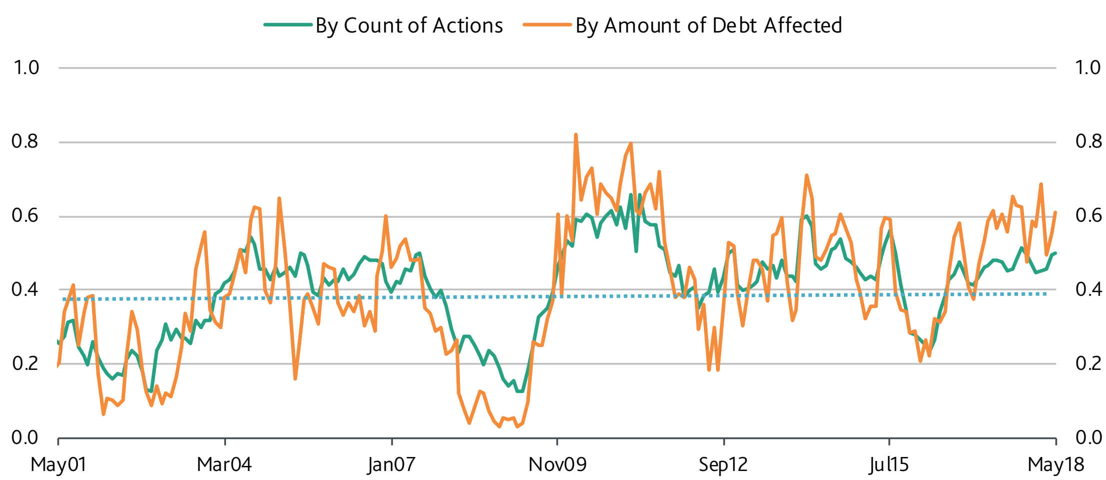
Strong Operating Performance Underpins Improved Corporate Credit Quality

The weekly rating revisions were quite sparse over the past week, with only 11 total changes. The contribution of positive rating changes, however, improved for both Europe and the U.S. The U.S. rating change contribution improved to 40% from 32% last week and Europe's remains high. It rose to 80% from 75% last week. The main drivers of the rating improvement were changes in capital structure and merger and acquisition activity. U.S. companies Cryusone LP, Liquidnet Holdings, Inc., KBC Bank N.V. of Belgium, and ArcelorMittal of Luxembourg are among the firms that are seeing their capital structures improve as a result of improving performance and prudent financial management. Cryusone has increased its scale as data centers increased demand. Its portfolio expanded to $5.4 billion at the end of 2018Q1 from $3.4 billion a year prior. ArcelorMittal's commitment to strong credit metrics, even through acquisitions and investments, anchors a strong balance sheet as performance remains strong.

Monsanto, Starbucks and H&K AG are among the downgraded companies. Monsanto's downgrade was a direct result of the its acquisition by Bayer. Monsanto's credit metrics are higher than those of Bayer, and Bayer's absorption of its debt through like-for-like exchanges explains the ratings. Starbucks' downgrade was triggered by the company's decision to increased its shareholder payout program from $15 billion to $25 billion through debt offerings. And the German defense contractor H&G AG was downgraded as its liquidity continues to deteriorate despite shareholder infusion of debt to shore up its liquidity as operating performance remains weak. The improving global economy, notwithstanding the challenges in global trade, and low speculative grade corporate spreads are likely to underpin corporate credit quality in the near term as speculative grade default rates trend on the downside.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

Ratings Round-Up

FIGURE 2
Rating Key

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

FIGURE 3
Rating Changes: Corporate & Financial Institutions – US

Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG
6/20/18	COMMUNITY HEALTH SYSTEMS, INC. -CHS/COMMUNITY HEALTH SYSTEMS, INC.	Industrial	SrSec/SrUnsec /BCF/LTCFR/PDR	10,225	D	B2	B3	SG
6/20/18	STARBUCKS CORPORATION	Industrial	SrUnsec	6,573	D	A3	Baa1	IG
6/20/18	LIQUIDNET HOLDINGS, INC.	Financial	SrSec/BCF/LTCFR		U	B1	Ba3	SG
6/22/18	BAYER GROUP-MONSANTO COMPANY	Industrial	SrUnsec	6,864	D	A3	Baa1	IG
6/22/18	CYRUSONE INC.-CYRUSONE LP	Financial	SrUnsec/LTCFR	1,200	U	Ba3	Ba2	SG

Source: Moody's

FIGURE 4
Rating Changes: Corporate & Financial Institutions – Europe

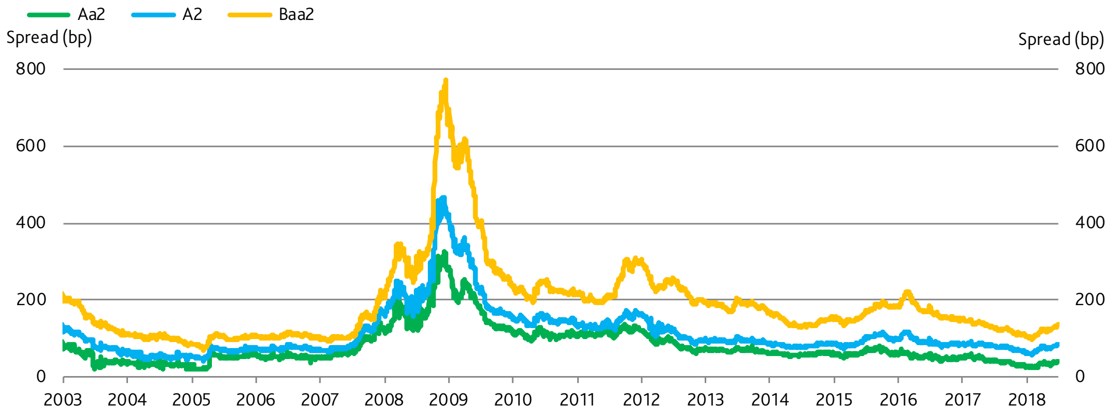
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
6/22/18	ARCELORMITTAL (OLD) -ARCELORMITTAL	Industrial	SrUnsec/MTN/CP	8,437	U	Ba1	Baa3	NP	P-3	SG	LUXEMBOURG
6/22/18	KBC GROUP N.V. -KBC BANK N.V.	Financial	LTD		U	A1	Aa3			IG	BELGIUM
6/26/18	TELEKOM AUSTRIA AG	Industrial	SrUnsec/LTIR/MTN	2,960	U	Baa2	Baa1			IG	AUSTRIA
6/26/18	H&K AG	Industrial	LTCFR/PDR		D	B3	Caa1			SG	GERMANY
6/26/18	ENTEGA AG -ENTEGA NETZ AG	Utility	SrSec	371	U	Baa3	Baa2			IG	GERMANY

Source: Moody's

Market Data

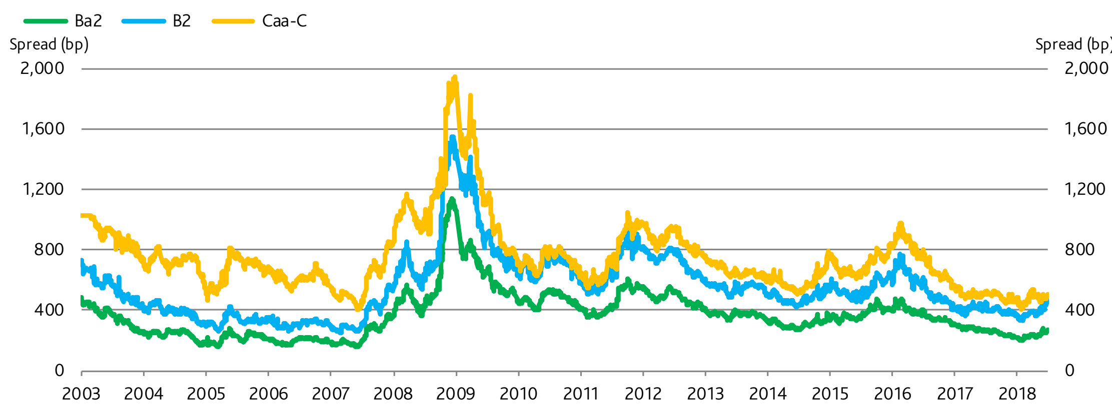
Spreads

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



Source: Moody's

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



Source: Moody's

Market Data

CDS Movers

Figure 3. CDS Movers - US (June 20, 2018 – June 27, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 27	Jun. 20	Senior Ratings
Colgate-Palmolive Company	Aa1	Aa3	Aa3
Monsanto Company	A1	A3	Baa1
Texas Instruments, Incorporated	Aa3	A2	A1
Clorox Company (The)	A2	Baa1	Baa1
Darden Restaurants, Inc.	A2	Baa1	Baa2
JPMorgan Chase & Co.	A1	A2	A3
Goldman Sachs Group, Inc. (The)	Baa1	Baa2	A3
Toyota Motor Credit Corporation	A2	A3	Aa3
Bank of America, N.A.	A2	A3	Aa3
American Express Credit Corporation	Aa3	A1	A2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 27	Jun. 20	Senior Ratings
R.R. Donnelley & Sons Company	Ca	Caa2	B3
Dish DBS Corporation	Caa2	Caa1	B1
Allstate Corporation (The)	Aa2	Aa1	A3
Marriott International, Inc.	A2	A1	Baa2
CIT Group Inc.	Ba2	Ba1	Ba2
Conagra Brands, Inc.	Baa3	Baa2	Baa2
Talen Energy Supply, LLC	Caa3	Caa2	B2
Federal Realty Investment Trust	Baa3	Baa2	A3
Yum! Brands Inc.	Ba1	Baa3	B2
MBIA Insurance Corporation	Ca	Caa3	Caa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 27	Jun. 20	Spread Diff
Windstream Services, LLC	Caa2	2,072	1,788	284
McClatchy Company (The)	Caa2	705	433	272
Hertz Corporation (The)	B3	995	852	143
R.R. Donnelley & Sons Company	B3	760	619	141
Frontier Communications Corporation	Caa1	1,357	1,238	118
Dish DBS Corporation	B1	618	530	88
Talen Energy Supply, LLC	B2	743	675	68
Parker Drilling Company	Caa2	1,891	1,828	63
Penney (J.C.) Corporation, Inc.	Caa1	1,155	1,099	56
Avis Budget Car Rental, LLC	B1	392	336	56

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 27	Jun. 20	Spread Diff
Chesapeake Energy Corporation	Caa1	488	520	-32
Staples, Inc.	B3	562	590	-28
Avon Products, Inc.	B3	989	1,013	-24
Kroger Co. (The)	Baa1	78	93	-15
Applied Materials Inc.	A3	68	79	-11
Colgate-Palmolive Company	Aa3	30	39	-9
Clorox Company (The)	Baa1	52	61	-9
American Financial Group, Inc.	Baa1	129	139	-9
Baker Hughes, a GE company, LLC	A3	99	106	-7
Texas Instruments, Incorporated	A1	40	47	-7

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (June 20, 2018 – June 27, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jun. 27	Jun. 20	Senior Ratings
Old Mutual Plc	Aa1	A1	Ba1
Bayer AG	A1	A3	Baa1
United Kingdom, Government of	Aaa	Aa1	Aa2
Ireland, Government of	Aa1	Aa2	A2
Santander UK plc	A1	A2	Aa3
Abbey National Treasury Services plc	A1	A2	Aa3
Natixis	Aa3	A1	A2
Landesbank Hessen-Thueringen GZ	A1	A2	A1
Vodafone Group Plc	Baa2	Baa3	Baa1
Swedbank AB	Aa1	Aa2	Aa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jun. 27	Jun. 20	Senior Ratings
Bayerische Motoren Werke Aktiengesellschaft	Baa2	A3	A1
Italy, Government of	B2	B1	Baa2
Spain, Government of	Baa2	Baa1	Baa1
Barclays Bank PLC	Baa1	A3	A2
Bankia, S.A.	Baa3	Baa2	Baa3
HSBC Holdings plc	Baa1	A3	A2
Commerzbank AG	Baa3	Baa2	Baa1
UniCredit S.p.A.	Ba2	Ba1	Baa1
Banco Santander S.A. (Spain)	Baa3	Baa2	Baa1
Standard Chartered PLC	Baa3	Baa2	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jun. 27	Jun. 20	Spread Diff
Galapagos Holding S.A.	Caa3	2,047	1,605	442
Astaldi S.p.A.	Caa1	1,731	1,579	153
Boparan Finance plc	Caa1	637	555	82
Jaguar Land Rover Automotive Plc	Ba1	308	253	54
CMA CGM S.A.	B3	709	659	50
Matalan Finance plc	Caa1	770	728	42
PizzaExpress Financing 1 plc	Caa1	1,125	1,095	30
Stena AB	B3	570	543	27
Italy, Government of	Baa2	218	191	26
Smurfit Kappa Acquisitions	Ba1	110	84	26

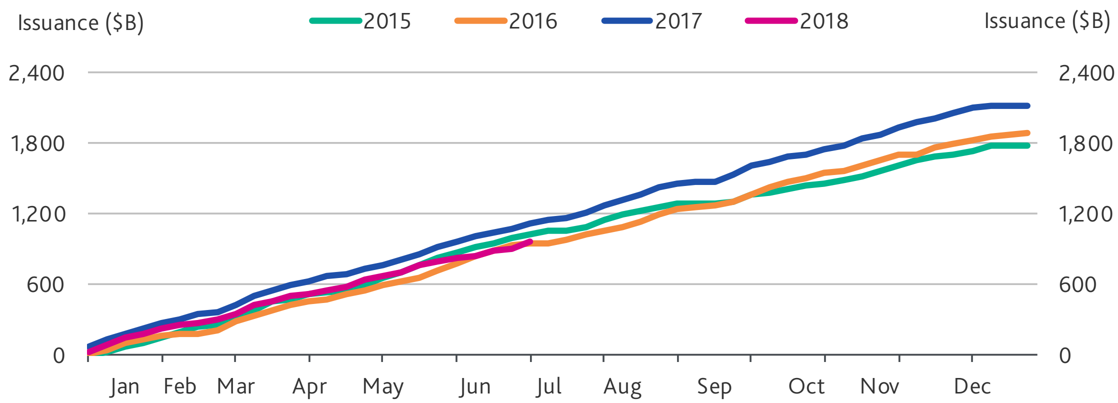
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jun. 27	Jun. 20	Spread Diff
Greece, Government of	B3	333	355	-22
Unipol Gruppo S.p.A.	Ba1	189	207	-18
Permanent tsb p.l.c.	Ba3	211	227	-16
Old Mutual Plc	Ba1	29	41	-12
Stonegate Pub Company Financing plc	Caa1	242	254	-11
Storebrand ASA	Baa3	167	177	-10
Sappi Papier Holding GmbH	Ba2	349	355	-6
Scottish Power UK plc	Baa1	78	81	-4
Scottish Power Limited	Baa1	87	91	-4
TDC A/S	B1	259	262	-3

Source: Moody's, CMA

Market Data

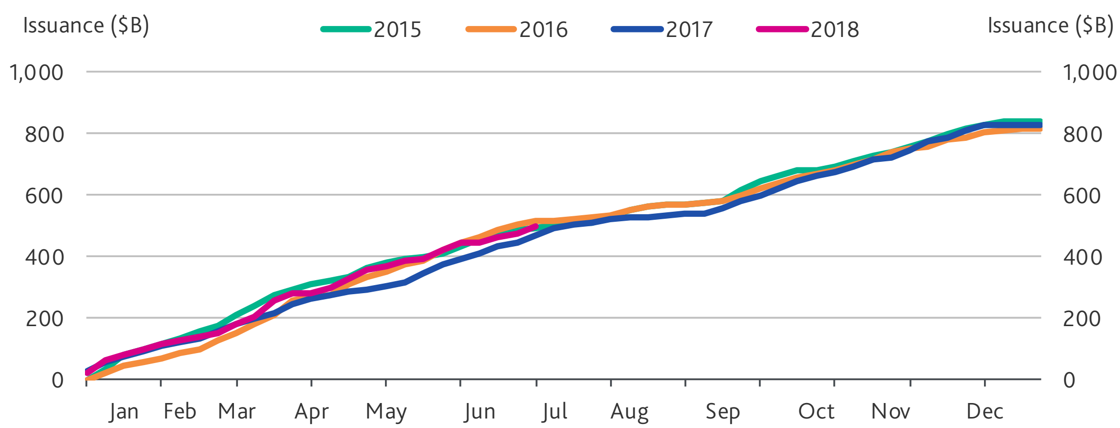
Issuance

Figure 5. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

Figure 6. Market Cumulative Issuance - Corporate & Financial Institutions: Euro Denominated



Source: Moody's/Dealogic

Market Data

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	45.052	4.985	51.118
Year-to-Date	747.031	174.335	959.785

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	22.265	4.653	27.497
Year-to-Date	419.910	60.033	500.700

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

Moody's Capital Markets Research recent publications

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

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

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

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

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

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

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

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

Profits Growth Curbs Defaults (Capital Markets Research)

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

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

Default Rate Defies Record Ratio of Corporate Debt to GDP (Capital Market Research)

Internal Funds Outrun Corporate Debt by Widest Margin since 2011 (Capital Markets Research)

Tariffs Warn of Even Faster Price Inflation and Slower Growth (Capital Markets Research)

Borrowing Restraint Elsewhere Makes Room for Federal Debt Surge (Capital Markets Research)

Declining Default Rate Offsets Drag of Higher Interest Rates (Capital Markets Research)

Corporate Bonds Beg to Differ with Their Equity Brethren (Capital Markets Research)

Topics CreditEdge - Bank Default Risk Improves in 2017

Higher Yields and Lower Equities Might Yet Swell Credit Risk (Capital Markets Research)

High-Yield Bond Issuance Thrives Despite Tax Law Changes (Capital Markets Research)

Surging Equities and Thinner Spreads Favor Higher Treasury Yields (Capital Markets Research)

Sovereign & Supranational: Greece's Sovereign EDF Implies Upbeat Next Act in Greek Economic Drama

Sovereign & Supranational: South Korea's Sovereign Credit Risk: Calmer Against a Friendlier Backdrop

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

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

Profits Growth and Benign Default Outlook May Offset Higher Interest Rates (Capital Markets Research)

Benign Credit Outlook Comes With Blemishes (Capital Markets Research)

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

Dangers Lurk Amid 2018's Positive Outlook (Capital Markets Research)

To order reprints of this report (100 copies minimum), please call 212.553.1658.

Report Number: 1131872

Editor
Reid Kanaley

Contact Us

Americas:	1.212.553.4399
Europe:	+44 (0) 20.7772.5588
Asia:	813.5408.4131