MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Markets Suggest the U.S. Fares Best in a Trade War

THIS REPORT WAS REPUBLISHED JULY 16, 2018 TO UPDATE ECONOMIC FORECASTS FOR THE WEEK AHEAD.

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Credit Markets Review and Outlook

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

Markets Suggest the U.S. Fares Best in a Trade War

Financial markets believe that the U.S. is likely to fare better than most other major economies in an all-out trade war. This is because (i) international trade accounts for a smaller share of U.S. business activity, (ii) the U.S. imports far more than it exports, and (iii) the U.S. now well outperforms other major economies. Nevertheless, though the U.S. is better able the withstand the direct and collateral damage of a trade conflict, it is still expected suffer casualties in a trade war. And such casualties might well influence the outcome of November's Congressional elections.

The current episode of trade-related tensions emerged following the U.S. markets' close of June 14, 2018. As of the early afternoon of July 12, the market value of U.S. common stock (also known as the Wilshire Index) defied the expectations of many, having exceeded June 14's close by 0.5%. In addition, the broadest readily available valuation of U.S. common equities topped its year-end 2017 mark by 5.3%.

As inferred from equity market performance, countries having large trade surpluses have the most to lose from a protracted trade war. Since June 14, the U.S.' equity market has fared much better than the major equity market indices of countries having large trade surpluses. For example, China's Shanghai Composite has sunk by 6.8%, Korea's KOSPI has slumped by 5.7%, Germany's DAX has lost 4.7%, and Japan's Nikkei has retreated by 2.4%. Moreover, the aforementioned equity market indices have incurred 2018-to-date setbacks of 14.2% for China, 9.4% for Korea, 2.5% for Japan, and 3.3% for Germany.

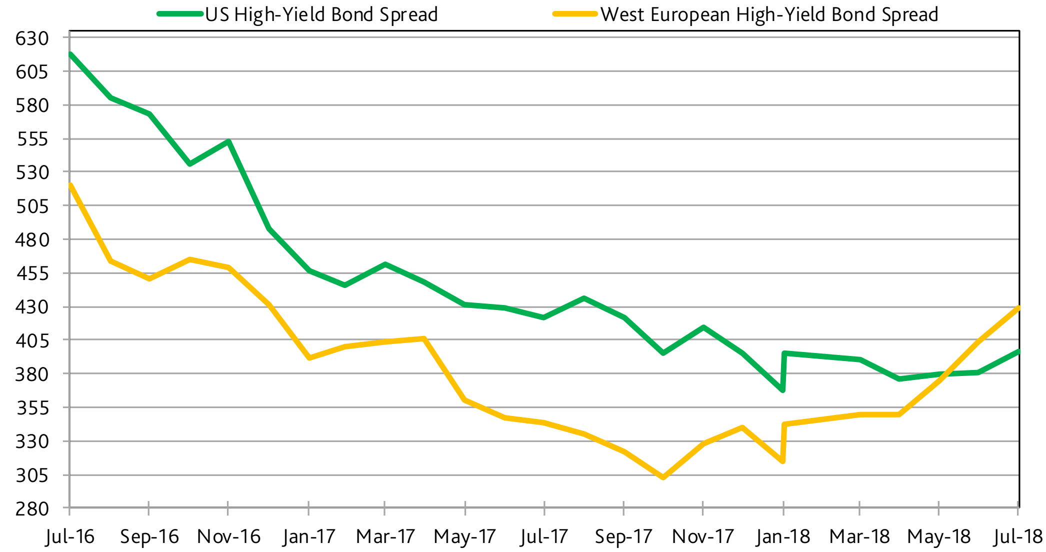
Some major share price indices were struggling relative to the U.S.' equity market prior to the latest outbreak of trade friction. The 2018-to-date results as of June 14's finish showed setbacks of 8.0% for China's Shanghai Composite, 4.0% for Korea's KOSPI, and 0.1% for Japan's Nikkei. Even June 14's 1.5% year-to-date rise by the Germany's DAX compared unfavorably with the comparably measured 4.8% advance by the market value of U.S. common stock. Apparently, the outlook for business activity in the aforementioned large trade surplus countries was less than stellar prior to the latest intensification of trade tensions.

In a Break from Trend, European High-Yield Spread Is Now Wider than US Spread

On the credit front, Credit Suisse's European high-yield bond spread has widened by 22 basis points from June 14's 394 bp to July 10's 416 bp, while the accompanying U.S. high-yield bond spread has broadened from June 14's 370 bp to July 10's 385 bp. As recently as May 2018, the European high-yield bond spread's month-long average of 375 bp was thinner than the U.S.' 380 bp. Better yet, January 2018 showed a much narrower average of 314 bp for the European high-yield spread relative to the U.S.' then 368 bp. The fact that Europe's 436 bp average high-yield bond spread of 2015-2017 was a deep 120 bp under the U.S.' accompanying average of 556 bp underscores how Europe's high-yield bond spread is now atypically wide compared to the U.S.

Credit Markets Review and Outlook

Figure 1: Europe's High-Yield Bond Spread Has Gone from being Narrower to Wider than the US High-Yield Bond Spread
in basis points
sources: Credit Suisse, Moody's Analytics



The widening of Europe's high-yield bond spread vis-a-vis the U.S.' high-yield spread since May represents a sharp break from the previous trend. Europe's now wider high-yield bond spread partly stems from the more subdued outlook for European business activity relative to the U.S. In turn, the upside for European benchmark interest rates is less than what held earlier in 2018.

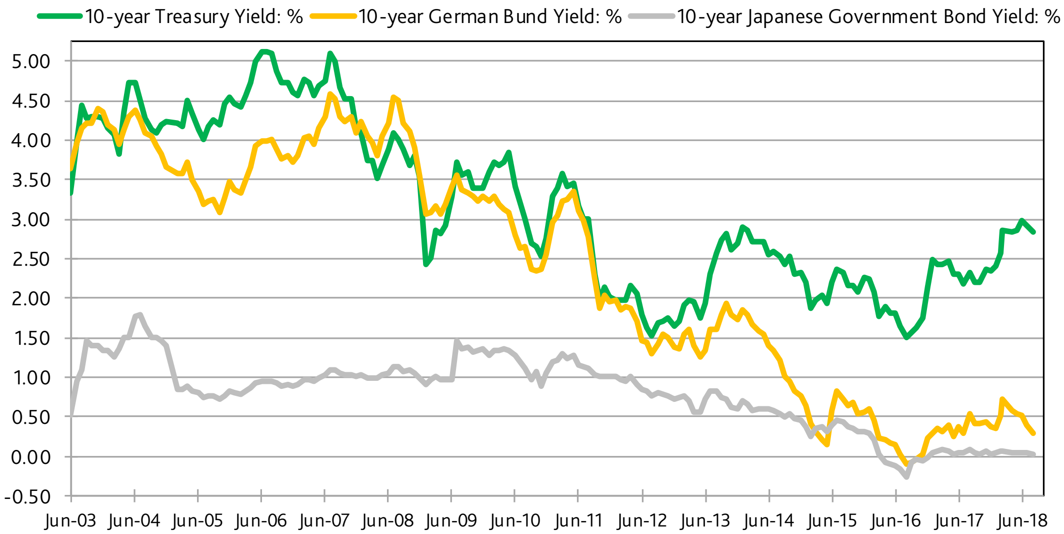
Gap between US and German Government Bond Yields Is Widest since 1987

After averaging 0.72% during February 2018, the 10-year German government bond yield (the euro zone's benchmark for the 10-year maturity) has averaged only 0.30% thus far in July. By contrast, the 10-year U.S. Treasury yield's corresponding averages have barely dipped from February's 2.86% to the 2.85% of July-to-date. In turn, the spread between the 10-year government bond yields of the U.S. and Germany has widened from February's already wide 213 bp to a recent 254 bp, where the latter tops each of its month-long averages of the past 30 years. Until the government bond yields of other advanced economies climb higher on a recurring basis, the 10-year U.S. Treasury yield may have difficulty remaining above 3%.

Also, the wider than expected interest-rate advantage of U.S. government debt might stoke a further appreciation by the dollar in terms of euros. When the dollar soared against the euro during 1999-2000, the 10-year U.S. Treasury yield averaged only 95 bp more than the 10-year German bund yield, wherein the moving 12-month average of this spread peaked at January 2000's 116 bp.

Figure 2: Ten-year Government Bond Yields: When US Treasury Yield's Moving 12-month Average Last Approximated 3% During Span-Ended September 2011, Accompanying Averages Were 2.81% for Germany and 1.13% for Japan

in %; sources: Bloomberg, Moody's Analytics



Plunge by Base Metals Price Index Hints of Lower Treasury Bond Yields

Over the past month, Moody's industrial metals price index has plunged by 12.2% to its lowest reading since August 16, 2017. Thus, unless base metals prices firm, the industrial metals price index could be showing year-to-year declines by late summer. In addition, the latest decline by the base metals price index from a month earlier was the deepest since the span-ended September 26, 2011. Moreover, July 11's industrial metals price index was 23% under its record high of April 11, 2011, or when the 10-year Treasury yield closed at 3.59%.

For the 30-years-ended 2017, the annual percent change of Moody's industrial metals price index shows a relatively strong correlation of 0.79 with the IMF's estimate of global economic growth. In terms of a month-long average, the industrial metals price index's most recent localized peak occurred in February 2018. However, the latter still trailed its record high of April 2011 by 10.7%. An ebbing of global industrial activity can be inferred from how July-to-date's average for the base metals price index was recently 8.4% less than its February 2018 average.

Since the end of 1987, the base metals price index's quarter-long average fell from a year earlier in 49 quarters. In 41, or 86%, of these 49 quarters, the 10-year Treasury yield's calendar- quarter average was also down from a year earlier. For the 37 quarters showing at least a 5% annual drop by the industrial metals price index, 32, or 86%, of the quarters coincided with a yearly decline by the 10-year Treasury yield. Thus, the earlier cited possibility of year-to-year setbacks for the industrial metals price index by late summer implies early July's Blue-Chip consensus projection of a 3.05% average for the 10-year Treasury yield of 2018's second half may prove too high.

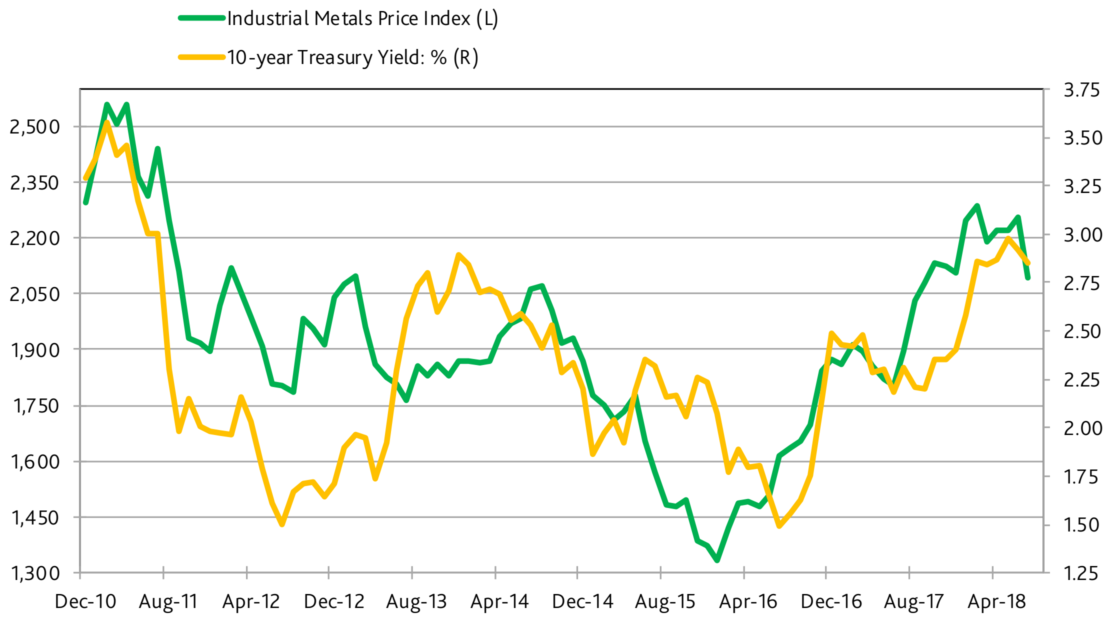
As the yearly decline by the industrial metals price index deepens, the likelihood of an accompanying drop by the 10-year Treasury yield increase appreciably. For example, the 10-year Treasury yield sank annually in each of the 27 quarters since 1987 that contained a yearly plunge by the base metals price index of 10% or deeper. This 27 quarter sub-sample supplied an 80 bp median for the 10-year Treasury yield's annual drop, wherein 25 of the quarters recorded an annual decline by the 10-year Treasury yield of 25 bp or deeper.

Relationship between Base Metals Price Index and Treasury Yields Is Asymmetrical

However, the strength of the direct correlation between the annual percent change of the base metals price index and the year-over-year basis points change of the 10-year Treasury yield is far from symmetrical in that base metals price inflation is less likely to be joined by a higher benchmark Treasury yield. More specifically, the 10-year Treasury yield increased annually in only 37, or 51%, of the 73 quarters since 1987 showing a yearly increase by the industrial metals price index. Moreover, the 10-year Treasury yield increased annually in 25, or 69%, of the 36 quarters revealing at least a 20% yearly advance by the base metals price index.

Second quarter 2018's 22.2% yearly ascent by the industrial metals price index was joined by a 66 bp annual increase for the 10-year Treasury yield to 2.92%. During the first seven trading days of 2018's third quarter, the base metals price index's nearly 12.5% year-over-year increase was accompanied by a 49 bp annual increase, to 2.85%, for the 10-year Treasury yield. Nonetheless, if the industrial metals price index fails to surpass and remain above its February 2018 average, the 10-year Treasury yield may have difficulty staying above the 3% threshold.

Figure 3: Industrial Metals Price Index's Latest Slump Weighs Against Much Higher Treasury Bond Yields
source: Moody's Analytics



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

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

A Week of Data, Fedspeak, and the World Stage

The week ahead will have its fair share of key economic data, political events and Fedspeak. On the data front, we look for another solid month of retail sales thanks to an increase in both vehicle sales and prices. Excluding autos, retail sales in June will be less impressive. May's decline in industrial production was a fluke and we look for it to have rebounded in June. Housing starts likely fell in June but the weakness should be attributed mostly to multifamily.

On the politics front President Trump is meeting with Russian President Vladimir Putin. There will be plenty to digest from the Fed as Chairman Jerome Powell will testify before Congress. He will likely reiterate that the economy is strong and that gradual increases in interest rates are justified. Powell will get grilled on trade policy but he'll try to dodge; Fed chairs normally try not to provide fiscal or trade policy suggestions. Powell may still provide some clues on how the Fed would view any inflationary impact of the tariffs. He will likely note that if inflation moved up just a step in the price level, that would be something the Fed would look past.

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence	index, 4-wk MA				35.6
Mon @ 8:30 a.m.	NY Empire State Manufacturing for July	diffusion index	20.5	22.0	18 to 26	25.0
Mon @ 8:30 a.m.	Retail Sales, advanced for June	% change	0.5	0.5	0.2 to 1.0	0.8
	Excluding autos	% change	0.2	0.4	0.2 to 0.7	0.9
Mon @ 10:00 a.m.	Business Inventories for May	% change	0.4	0.4	0.2 to 0.5	0.3
Tues @ 9:15 a.m.	Industrial Production for June*	% change	0.7	0.5	0.2 to 1.0	-0.1
	Capacity Utilization*	%	78.3	78.3	77.8 to 78.5	77.9
Tues @ 10:00 a.m.	NAHB Housing Market Index for July	index	68.0	69	68 to 69	68
Wed @ 8:30 a.m.	New Residential Construction for June	mil., SAAR	1.290	1.325	1.270 to 1.340	1.350
	Permits	mil., SAAR	1.340	1.325	1.320 to 1.345	1.301
Wed @ 2:00 p.m.	Beige Book					
Thur @ 8:30 a.m.	Jobless Claims for July 14	ths	224	220.0	215 to 230	214
Thur @ 8:30 a.m.	Philadelphia Fed Survey for July	diffusion index	21.0	20.5	18.0 to 23.0	19.9
Thur @ 10:00 a.m.	Conference Board Leading Indicators for June	% change		0.5	0.3 to 0.6	0.2
*Preliminary						

MONDAY, JULY 16

Retail sales (June; 8:30 a.m. EDT)
Forecast: 0.5% (total)
Forecast: 0.2% (ex autos)

We look for nominal retail sales to have risen 0.5% from May to June. Autos should provide a decent contribution to total retail sales growth. Unit vehicle sales rose in June and prices increased, providing a boost to nominal retail sales. Excluding autos, we look for retail sales to have risen 0.2%. The forecast assumes that lower gasoline prices lowered spending at gasoline stations. Sales at building material stores were likely neutral for total retail sales growth in June.

Business confidence (week ended July 13; 10:00 a.m. EDT)
Forecast: N/A

Global business confidence remains strong. Abstracting from the weekly vagaries of the survey, not quite one-half of responses to the nine questions posed in the survey are positive, while well less than one-tenth of the responses are negative. Business sentiment remains consistent with a global economy that is growing above its potential.

However, businesses may finally be responding to the mounting global trade war. Expectations of business conditions by year's end have fallen to the bottom of the range that has prevailed throughout much of the economic expansion.

Businesses' other big concern is regulatory and legal issues, although it is receding with about one-third of respondents saying those issues are their greatest worry. Worries about the cost and availability of labor are on the rise, and these issues are now the top concern of nearly one-fourth of respondents. The four-week moving average in our business confidence index fell from 36.9 to 35.6 in the week ended July 6.

TUESDAY, JULY 17

Industrial production (June; 9:15 a.m. EDT)

Forecast: 0.7%

Industrial production slipped 0.1% in May, but we look for it to have bounced back in June. Manufacturing output fell 0.7% in May as motor vehicle and parts production dropped 6.5%. Some of the decline in motor vehicle and parts is attributable to a fire in May at a Michigan auto parts supply factory that disrupted the supply chain. Though this was a temporary setback, auto manufacturers had to halt or cut production of some models. We expect motor vehicle and parts production to have bounced back. Mining production likely continued to increase, but we look for small decline in utility output. Overall, we expect industrial production to have risen 0.7% in June.

WEDNESDAY, JULY 18

Housing starts (June; 8:30 a.m. EDT)

Forecast: 1.29 million annualized units (starts)
Forecast: 1.34 million annualized units (permits)

We look for housing starts to have fallen from 1.35 million annualized units in May to 1.29 million in June. There was a sizable but unsustainable increase in starts in the Midwest in May. We expect some payback, which will weigh on total housing starts. The forecast for a drop in housing starts is also supported by permits, which have weakened recently. We look for June permits to have risen to 1.34 million annualized units.

THURSDAY, JULY 19

Jobless claims (week ended July 14; 8:30 a.m. EDT)

Forecast: 224,000

We look for initial claims for unemployment insurance benefits to have risen by 10,000 to 224,000 in the week ending July 14, which includes the payroll reference week. Claims are noisy this time of year because of seasonal adjustment issues around the Fourth of July and annual auto plant retooling. If our forecast comes to fruition, new filings would be up slightly between the June and July payroll reference periods but claims would still be consistent with solid job growth.

A key consideration is the break-even level of initial claims, or that level consistent with no monthly job growth. We estimate the break-even level of initial claims by using the Job Openings and Labor Turnover Survey data and the take-up rate. The break-even level of jobless claims has been trending lower over the past several years, reflecting an increase in job market separations (including quits) and a lower take-up rate. By our calculations, the current break-even level of initial claims is 265,000, the lowest this cycle.

FRIDAY, JULY 20

No major releases scheduled.

EUROPE

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

Completing the Picture on Euro Zone Inflation

Data out in the week will complete the picture on euro zone inflation, the most important metric the European Central Bank will consider at its July meeting in two weeks. With the final inflation figure missing only for Italy out of the major euro zone members, there is not much additional information to glean from the final release. At the end of June the preliminary estimate for the euro area came in at 2%, up from 1.9% in May thanks to the 20% jump in oil prices from a year ago. But on an underlying basis, little has changed over recent months; core inflation dipped to just 1% y/y in June.

The spillover of fuel prices into consumer prices was the overarching theme of the June reports. Inflation in Germany printed at 2.1%, slightly above the ECB's target. But stripping out the energy components, inflation was steady at just 1.7%. Headline harmonized inflation was even higher in France at 2.3%, but services inflation, which is usually a better gauge of underlying demand conditions, disappointed at 1.2%, down from 1.5% previously. The ECB already commented that the stronger run of inflation in June is broadly in line with its forecast. The bank expects euro zone-wide inflation to clock in at 1.7% this year and next. Wage tensions and domestic cost pressures should lift core prices gradually towards the end of the year.

The ECB is nearing a tipping point in monetary policy. Globally, 32 of 59 central banks have already signaled a rate hike in 2018. The ECB's dovish message from June stands out, when the bank said that interest rates should remain at their present settings at least through the summer of 2019. This contrasts with the U.S. Federal Reserve, which has hinted that two more interest rate hikes are in the pipeline for this year. The most important question for central bankers is whether the advantages of the lax policy stance still outweigh the risks of unwinding the stimulus too late into the cycle. The ECB has already said that it would rather risk exiting late than tightening too early, since tightening early could drive inflation expectations even lower. The calendar-based guidance is also a strong signal that the bankers are less concerned that a late exit would leave the euro area unshielded in a shock scenario.

The bank's president, Mario Draghi, did not delve into the tradeoffs of the policy normalization at the hearing of the European Parliament. A key takeaway from his speech was that the bank is upbeat about the underlying growth momentum in the euro area despite the slowdown in the first quarter. He stressed that inflation is nearing target and that expectations are well-anchored, so that inflation in the medium term may sustainably reach target. Draghi used the opportunity to plead for further European integration, and he urged policymakers to tighten the monetary union to better prepare for global challenges.

The Week Ahead

	Key indicators	Units	Moody's Analytics	Last
Mon @ 10:00 a.m.	Euro Zone: External Trade for May	bil euro	20.0	16.7
Mon @ 2:00 p.m.	Russia: Industrial Production for June	% change yr ago	3.0	3.7
Tues @ 9:30 a.m.	U.K.: Unemployment for May	%	4.2	4.2
Tues @ 10:00 a.m.	Italy: Consumer Price Index for June	% change yr ago	1.1	1.0
Wed @ 9:30 a.m.	U.K.: Consumer Price Index for June	% change yr ago	2.7	2.4
Wed @ 10:00 a.m.	Euro Zone: Consumer Price Index for June	% change yr ago	2.0	1.9
Wed @ 2:00 p.m.	Russia: Unemployment for June	%	4.7	4.7
Wed @ 2:00 p.m.	Russia: Retail Sales for June	% change yr ago	2.5	2.4
Thur @ 9:30 a.m.	U.K.: Retail Sales for June	% change yr ago	2.4	3.9

MONDAY, JULY 16

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

The euro zone's external trade balance likely increased to around €20 billion in May, following a surplus of €16.7 billion at the start of the second quarter. The balance was in surplus of €19.2 billion in May 2017. Both exports and imports are expected to have remained muted. Slowing economic activity within the single-currency zone likely weighed on imports in the second quarter. In the first stanza, the euro zone's GDP expansion rate almost halved compared with the end of 2017 and likely remained subdued in the three months to June. Meanwhile, various geopolitical tensions are keeping the outlook for the euro zone trade balance clouded. The British exit from the EU may hamper trade between the two parties in coming years, and the impact of President Trump's policies, including steel import tariffs, could curb euro zone exports to its biggest trade partner, or even result in a global trade dispute.

Russia: Industrial Production (June; 2:00 p.m. BST)

Russian industrial production remained upbeat in May, though conditions are still mixed. Economic policies will not help growth in a meaningful way, but consumption could. The Bank of Russia is unlikely to rush with any further rate cuts, fearing the bite of further depreciation. In the current environment, monetary policy is unlikely to spur investment this year, and fiscal policy will not give much impetus either.

TUESDAY, JULY 17

U.K.: Unemployment (May; 9:30 a.m. BST)

The U.K.'s headline unemployment rate likely held steady at 4.2% in the three months to April, its lowest since 1975. Growth in the number of employed persons is expected to have accelerated somewhat following a more subdued rise in the February quarter, while the number of unemployed likely fell marginally for the second quarter running. Survey data for June nonetheless show that employment gains are starting to lose momentum following extraordinary gains over the past year, even if staff shortages push starting salaries up. We expect employment growth will slow in 2018 compared with 2017, as little slack remains in the economy.

Italy: Consumer Price Index (June; 10:00 a.m. BST)

Inflation in Italy likely accelerated in June as price pressures increase. We expect inflation added 1.1% y/y following a 1% uptick in May. Preliminary estimates suggest stronger inflation was driven largely by rising energy prices, as well as higher food costs. Price pressures are building as capacity constraints and higher energy costs drive up input prices. As the labour market improves and consumer demand strengthens, these costs will be passed on to consumers, pushing prices up further. Price growth will likely accelerate this year as steadier economic growth and an improving labour market increase material and labour costs.

WEDNESDAY, JULY 18

U.K.: Consumer Price Index (June; 9:30 a.m. BST)

The U.K.'s annual headline CPI should have accelerated to 2.7% in June, from 2.4% in May, on the back of rises in motor fuels, electricity and transportation service inflation. First, the recent jump in Brent prices to an average of $74 per barrel in June, compared with $46 in June 2017, should have boosted motor fuels' contribution to the headline by 0.37 percentage point, from 0.27 percentage point in May. Rising oil prices are expected to have lifted not only noncore inflation, though, as transport service inflation likely increased on the back of higher prices at the pump. True, transport companies face rigidities in setting final selling prices, but this lag is usually not longer than one to three months.

Electricity and natural gas inflation should have also picked up. Several of the U.K.'s big six electricity companies hiked electricity and gas prices in June this year, while they did it between March and May in 2017, causing electricity inflation to cool in the three months to May 2018 before rebounding in June. Food inflation is also expected to have edged up somewhat, following a dip in May, in line with developments observed in most major prices regarding fresh produce. We caution, though, that this rise was likely only seasonal, and food inflation should soften in coming months as most of the U.K.'s food retailers have already finished passing through the sterling-related jump in import prices to consumers.

Regarding core inflation, we expect that core goods inflation rebounded to 2.1% as discounting in the summer sales was unusually pronounced in June last year, though this all will depend on when the ONS will collect the data (on either the second or the third Wednesday of the month). If it is on the third Wednesday, it is more likely that core goods inflation accelerated by just 1.8%, from 1.7% in May. In any case, our view is that core goods inflation will fall to about zero by the end of 2018.

The headline will likely remain elevated at around 2.7% in July, but base effects should ensure that it falls swiftly in the third and fourth quarters, before hitting target at the end of the year.

Euro Zone: Consumer Price Index (June; 10:00 a.m. BST)

Final CPI figures for the euro zone should confirm that inflation rose to 2% in June, from 1.9% in May, supported by further growth in food and energy inflation, with the latter soaring to 8% on the back of higher Brent prices. Core inflation by contrast is expected to have stepped back as expected to 1%, from 1.1%, as May's Easter-related jump in services inflation corrected. Nonenergy goods inflation, by contrast, should have gained 0.4%, which is welcome news following several months of soft results.

Russia: Retail Sales (June; 2:00 p.m. BST)

Retail trade in 2018 has slowed from the strong pace in 2017. Most of the strength in retail last year was fueled by debt. Loans to households rose 13% in 2017, with unsecured credit card debt propelling domestic consumption. With the Central Bank of Russia halting its rate cutting cycle, debt burdens remain a slight cause for concern for Russia households, slowing consumption. Nonetheless, the labor market remains on a tear. The economy is near full employment, with the unemployment rate sitting at a record low. Labor market tightness is beginning to translate to wage gains. Year-ago growth in real wages has accelerated to a healthy pace this year, alleviating some of the tension over high debt loads. With the competing pressures of high debts and rising incomes, we expect a 2.5% year-over-year gain in retail trade in June, roughly in line with the average growth so far this year.

THURSDAY, JULY 19

U.K.: Retail Sales (June; 9:30 a.m. BST)

U.K. retail sales likely declined by 1% m/m in June, after they rose by 1.8% in April and 1.2% in May. This should have pushed the yearly rate down to 2.4%, from 3.9% in May, though it will still read above the past-year average of 1.6%. Over the month, the main drag on the headline was likely a mean reversion in nonfood sales, after spending jumped in weather-sensitive sectors in May as temperatures soared and the royal wedding and the Champion League added to the cheer. Food sales are expected to have decreased, too; supermarkets attributed some of the 1.1% m/m increase in May to the good weather, so some correction should be observed in June even if limited as temperatures at the end of the quarter exceeded their long-term average. Fuel sales likely struggled on the back of higher pump prices.

Despite the monthly decline, the picture is still bright for the quarter as a whole. Sales are expected to have increased by 1.8% q/q, following a 0.3% drop in the first quarter. But we remain cautious about the outlook for retail sales in 2018. Households' borrowing costs are set keep rising, take-home pay has recently been squeezed by an increase in the minimum pension contributions, and the housing market remains in the doldrums. This all should keep a lid on consumer spending.

FRIDAY, JULY 20

No major economic indicators are scheduled for release.

ASIA-PACIFIC

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

China's GDP Growth Likely Hit 6.5% in the June Quarter

Asia's economic data calendar is packed to the brim, and China's June quarter national accounts data will be the focus. GDP growth likely hit 6.5% y/y, from the March quarter's 6.8%. The government is easing policy gently, with reserve ratio cuts worth 150 basis points over the quarter, despite its goal of minimising financial risks. Trade disputes with the U.S. have hurt market sentiment, and investment is an important drag. Manufacturing output is holding up well thanks to automobile production, but tech output seems to be entering a softer phase.

China's monthly activity data for June will generally show an entrenched cooling trend. In particular, investment in fixed assets has been slowing consistently through 2018 due to a continued slowdown in mining-related investment. Fears of a trade war may also be cooling manufacturers' appetite for new investment. Public investment, such as for roads, continues to expand at a strong pace. Retail trade decelerated in May for a second straight month and likely decelerated modestly in June. The cooling housing market in some cities, coupled with slower car sales due to a policy encouraging energy efficient cars over SUVs, are drivers.

China's industrial production has been mixed, with slower production of heavy industrial outputs outweighing gains in automobiles. Tech manufacturing continues to grow well, but coming tariffs will start to hurt. Manufacturer sentiment remains optimistic despite the tensions with the U.S., but has been faltering of late, suggesting orders are slowing.

Japan's foreign trade balance likely returned to surplus in June. The deficit in May was largely due to an outsize purchase of aircraft. Export shipments to China, India, Southeast Asia and Oceania will likely remain firm. Fuel imports will likely remain high because of elevated commodity prices. Meanwhile, underlying inflation in Japan remains anaemic, although a pickup in fuel prices could boost core inflation, which includes energy costs, in June. The Bank of Japan has dropped its 2% inflation target for 2019 but is expected to maintain its quantitative and qualitative easing policy for the foreseeable future.

Bank Indonesia has been one of Asia's most aggressive central banks since emerging market outflows heated up in the third quarter. Bank Indonesia has increased the policy rate by 100 basis points since May to 5.25%. We expect a further rate hike at its mid-July meeting, with at least a 25-basis point increase expected. We will firm this forecast closer to the meeting, as the central bank tends to drip-feed the likely outcome through the media in the lead-up to the meeting.

The Week Ahead

	Key indicators	Units	Moody's Analytics	Last
Mon @ Unknown	Indonesia Foreign trade for June	US$ bil	-1.07	-1.52
Mon @ Unknown	India Foreign trade for June	US$ bil	-15.5	-14.6
Mon @ 12:00 p.m.	China Fixed asset investment for June	% change yr ago YTD	5.8	6.1
Mon @ 12:00 p.m.	China GDP for Q2	% change yr ago	6.5	6.8
Mon @ 12:00 p.m.	China Industrial production for June	% change yr ago	6.3	6.8
Mon @ 12:00 p.m.	China Retail sales for June	% change yr ago	8.3	8.5
Tues @ Unknown	Singapore Foreign trade for June	% change yr ago	9.6	15.5
Tues @ 8:45 a.m.	New Zealand Consumer price index for Q2	% change	0.5	0.5
Thurs @ 9:50 a.m.	Japan Foreign trade for June	¥ bil	320	-297
Thurs @ 11:30 a.m.	Australia Unemployment rate for June	%	5.5	5.4
Thurs @ Unknown	Indonesia Monetary policy for July	%	5.50	5.25
Fri @ 9:30 a.m.	Japan Consumer price index for June	% change	0.8	0.7

MONDAY, JULY 16

Indonesia: Foreign Trade (June; Unknown)

Indonesia's trade deficit likely narrowed to $1.07 billion in June, from a $1.52 billion deficit in May. Higher oil prices kept the trade deficit relatively large in May and June. The occurrence of the religious festival Eid in mid-June likely eased demand for consumer and raw material imports, which provided the usual seasonal spike in the lead-up in May. We expect annual export growth continued performing well, with solid gains in crude oil, gas, and nonoil and gas shipments. Palm oil will likely remain a drag on the export ledger as low global prices continue crimping export receipts.

India: Foreign Trade (June; Unknown)

India's foreign trade deficit likely widened in June to US$15.5 billion, following a US$14.62 billion deficit in May. Imports likely surged double digits again on the back of escalating oil prices; fuel remains the primary driver of India's recent import bill. Moreover, the sharp depreciation of the rupee will add to import prices over the coming months. However, petroleum-related goods form a large chunk of India's exports. So a pickup in oil prices will likely mean an increase in exports, albeit mostly offset by stronger imports. We expect the trade deficit will cause headaches for policymakers because imported inflation costs will be rising. With capital outflows intensifying in recent months, we expect the Reserve Bank of India to deliver another 25-basis point rate hike in August.

China: Fixed Asset Investment (June; 12:00 p.m. AEST; 2:00 a.m. GMT)

Investment in fixed assets in China has been slowing consistently through 2018, due to a continued slowdown in mining-related investment. Fears of a trade war may also be cooling manufacturers' appetite for new investment. Public investment, such as for roads, continues to expand at a strong pace. Total fixed asset investment likely grew 5.8% y/y for the year to June, down from 6.1% for the year to May.

China: GDP (2018Q2; 12:00 p.m. AEST; 2:00 a.m. GMT)

China's economy is on a slowing path. The government seems to be easing policy gently, with reserve ratio cuts worth 150 basis points over the quarter, despite its goal of minimising financial risks. Trade disputes with the U.S. have hurt market sentiment, and investment is also cooling. Manufacturing output is holding up well thanks to automobile production, but tech output seems to be entering a softer phase. The economy likely grew 6.5% in the second quarter of 2018, down from 6.8% in the first quarter.

China: Industrial Production (June; 12:00 p.m. AEST; 2:00 a.m. GMT)

China's industrial production has been mixed, with slower production of heavy industrial outputs outweighing gains in automobiles. Tech manufacturing continues to grow well, but coming tariffs will start to hurt. Manufacturer sentiment remains optimistic despite the tensions with the U.S., but has been faltering of late, suggesting orders are slowing. Industrial production likely grew 6.3% y/y in June, down from 6.8% in May. A strong result in June 2017 will also lower the year-on-year comparison.

China: Retail Sales (June; 12:00 p.m. AEST; 2:00 a.m. GMT)

China's retail trade growth decelerated again in May, suggesting that consumers are losing some appetite for spending. The cooling housing market in some cities, coupled with the uncertain trade outlook, may be driving household caution. That said, slower car sales due to policy encouraging energy-efficient cars over SUVs is also a big factor. Retail spending likely grew 8.3% y/y in June, down from 8.5% in May.

TUESDAY, JULY 17

Singapore: Foreign Trade (June; Unknown)

Singapore's nonoil domestic exports grew in May at their fastest rate in seven months, thanks to persistent strength in the volatile pharmaceutical category. Nonoil domestic exports were up 15.5% y/y in May, following the 11.8% gain in April. Pharmaceuticals were up an impressive 32.1% y/y in May, building on April's 43.7% gain. We expect that the pharmaceutical category lost some steam in June and electronics were unable to pick up the slack. We forecast June nonoil domestic exports increased 9.6%. Tech shipments in May declined for a sixth consecutive month. A high base effect is overstating the annual declines in electronics. Although the global tech cycle has passed its peak, the cooling trend is gradual and will lift Singapore's manufacturing engine in coming months.

New Zealand: Consumer Price Index (2018Q2; 8:45 a.m. AEST; Monday, 10:45 p.m. GMT)

New Zealand's headline consumer price growth likely hit 0.5% q/q in the June quarter, unchanged from the pace in the March quarter. Annual growth, however, likely accelerated to 1.5%, from 1.1% in the prior quarter. Adding to price growth over the second quarter were food prices, transportation and housing. The Reserve Bank of New Zealand has adopted a firm neutral stance, noting that the next interest rate move is balanced "up or down." We maintain that the next move will be up as inflation pressures are forecast to gradually build over 2018 and 2019. We have, however, pushed out our expectation for normalization to begin in the December quarter of 2019, from our previous estimate of the March quarter. This change was due to the weaker inflation and slightly softer growth outlook.

WEDNESDAY, JULY 18

No major economic indicators are scheduled for release.

THURSDAY, JULY 19

Japan: Foreign Trade (June; 9:50 a.m. AEST; Wednesday, 11:50 p.m. GMT)

Japan's foreign trade balance likely rose to a ¥320 billion surplus in June, following a deficit of ¥297 billion in May. The deficit in May was largely due to an outsize purchase of aircraft, and this likely was not repeated in June. Export shipments to China, India, Southeast Asia and Oceania will likely remain firm. Fuel imports will likely remain high due to an increase in global commodity prices. Thus far, we haven't seen any impact of the trade war between the U.S. and China. While a full-blown trade war will derail export shipments from Japan, a small escalation in trade concerns is unlikely to cause severe disruptions. Moreover, the yen remains at levels that are relatively favourable for Japanese exporters.

Australia: Employment Situation (June; 11:30 a.m. AEST; 1:30 a.m. GMT)

Australia's seasonally adjusted unemployment rate likely rose to 5.5% in June, after dipping to 5.4% in May. The more closely watched trend unemployment rate likely held at 5.5%. The labour market has tightened in the past year, with the unemployment and underemployment rates in May each 0.2 percentage point lower than a year earlier. The pace of tightening is slowing, with trend employment growth cooling to 2.6% y/y in May from its 3% pace early in 2018, but remains above its long-term trend of 2%. Employment growth is expected to remain above trend through the remainder of the year, which should translate to mediocre improvement in stubbornly soft wage growth, particularly considering the solid gains over the past year.

Indonesia: Monetary Policy (July; Unknown)

Bank Indonesia has been one of Asia's most aggressive central banks since emerging market outflows heated up in the third quarter. Bank Indonesia has increased the policy rate by 100 basis points since

May to 5.25%. We expect a further rate hike at its mid-July meeting, with at least a 25-basis point increase expected. We will firm this forecast closer to the meeting, as the central bank tends to drip-feed the likely outcome through the media in the lead-up to the meeting. The central bank has also been buying bonds and dipping into foreign reserves to calm outflows; foreign reserves fell for a fifth straight month in June. Indonesia's rupiah in early July was hovering 5.4% lower year to date, around its weakest level since October 2015, despite the central bank's aggressive action in the second quarter.

FRIDAY, JULY 20

Japan: Consumer Price Index (June; 9:30 a.m. AEST; Thursday, 11:30 p.m. GMT)

Underlying inflation in Japan remains anaemic, although a pickup in fuel prices could have boosted core inflation, which includes energy costs, to 0.8% in June. The Bank of Japan has dropped its 2% inflation target for 2019, but it is expected to maintain its quantitative and qualitative easing policy for the foreseeable future. Wage growth is picking up around the edges, thanks to the strong employment market. Continued job growth is pulling people into the workforce. Prices are unlikely to rise meaningfully over the coming months; recent inflation pulse suggests that price pressures outside utility, energy and health costs remain muted.

The Long View

Second-quarter 2018's bond offerings from U.S.-based companies plunged by 19% annually for both investment- and speculative-grade issuers.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
July 12, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 132 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 377 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.

Second-quarter 2018's worldwide offerings of corporate bonds eked out an annual increase of 2.8% for IG, but incurred an annual plunge of 20.4% for high-yield, wherein US$-denominated offerings rose by 1.6% for IG and plummeted by 28.1% for high yield.

For yearlong 2016, worldwide corporate bond offerings rose by 2.3% annually for IG (to $2.402 trillion) and sank by 7.8% for high yield (to $426 billion). During yearlong 2017, worldwide corporate bond offerings increased by 4.0% annually (to $2.499 trillion) for IG and advance by 41.2% for high yield (to $602 billion). The projected annual percent changes for 2018's worldwide corporate bond offerings are +2.0% 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
July 12, 2018

GERMANY

Confidence indicators are flashing a warning of a slowdown in Germany. The Ifo business climate gauge slid to 101.8 in June, from a revised 102.3 in May. At the same time, the composite PMI added 1.4 points and read at 54.8, but the details were far from reassuring. True, the service sector had a much better run in June, but that might be more of a mean-reversion than any underlying improvement. More important, new orders in manufacturing slowed considerably and a pullback in export orders spells trouble for the industry in coming months.

Germany's heavy reliance on exports is on the minds of analysts and businesses these days. The ZEW Indicator of Economic Sentiment, which registers the current assessment of 350 analysts, tumbled to -24.7 in June, a whopping 42.2 points lower than a year earlier. The last time the indicator sat that deep in negative territory was during the European sovereign crisis in summer 2012. And in retrospect, the ZEW indicator offered a good clue to the major turbulences to come. The gauge gave only one false signal in 1995, but proved correct in forecasting recessions in three other instances.

The threat of punitive U.S. tariffs on the German car industry has crippled confidence. The Trump administration has expressed many times its discontent with German economic policies, so targeting German industry further down the road is not far-fetched.

Germany's easing GDP momentum is there in the data. The economy's growth halved to 0.3% q/q in the opening quarter, from 0.6% in the previous stanza. Citing trade uncertainties, the European Commission now expects Germany to grow 1.9% in 2018, down from 2.3% at its spring forecasting round.

But unlike the Commission, our view is that trade is not fully to blame for deteriorating sentiment. Coming off a too-good-to-be-true industrial peak, weaker sentiment since the start of the year is a healthy correction of the bullish bias that dominated the second half of 2017. The policy uncertainties have only intensified the souring of expectations which would have happened anyway, just not as quickly.

That industrial momentum in Germany faded well before the U.S. tariff policy changes likely means that the strong run last year was not sustainable, and that manufacturing is poised to settle at lower rates. This is also why we think the ZEW indicator's second drop in June should not be read as a sure sign of anything yet. But a protracted loss of confidence might be enough to halt investment in key sectors, and that is bad news for Germany, which lags behind France and Italy when it comes to capital accumulation.

FRANCE

Recent data showed that a spiraling trade war would deal a severe blow to France's manufacturing industry, after the sector already had a terrible start to the year. France's industrial production figures disappointed again in May, declining for the third consecutive month and falling well short of both the consensus and our expectations of a sharp rebound. True, the main drag on the headline came from a plunge in oil refining due to extended maintenance in several refineries, but the results for manufacturing as a whole were soft. Output declined in 11 of the 14 manufacturing subsectors, with the main downside surprise being the decline in car production for the second month in a row.

Worth noting, however, is that developments in the subsectors of France's manufacturing industry have been volatile over the past few months, with declines always followed by corrections, making the underlying story hard to read. This calls for a sharp correction in June. Even so, we don't expect that the rebound will be enough to salvage the second quarter as a whole. Our view is that manufacturing output will rise by only 0.3% q/q, failing to reverse a 1.8% plunge in the three months to March.

This creates downside risks to our forecast that the country's GDP will rebound in the second quarter following an unimpressive start to the year. To the lackluster result for the manufacturing industry we add that energy production is set to fall by about 4.8% q/q on the back of the warm weather, which would mean that total production should shed 0.2% q/q in the second quarter, failing to rebound from a 1.3% decline in the previous stanza.

We do forecast that both services and construction production will accelerate, in line with leading indicators. Still, we cannot come up with a forecast of GDP growth that is stronger than 0.3% q/q. Although this is a better result than the previous quarter's 0.2% gain, it is still below our previous expectations of 0.4% to 0.5%. What's more, this would push the yearly rate down by a further 0.4 percentage point to only 1.8%.

ASIA PACIFIC

By Faraz Syed of Moody's Analytics
July 12, 2018

CHINA

Fresh from slapping $34 billion worth of tariffs on Chinese imports last week, the U.S. administration announced a new list of $200 billion in Chinese goods that could be subject to a 10% tariff. U.S. Trade Representative Robert Lighthizer suggests this was in response to China's retaliation—on $34 billion of U.S. goods, mostly agricultural—and its failure to change its trade practices, which the U.S. deems unfair.

The tariffs are unlikely to take effect until September, as the U.S. trade office will begin public notices and comments prior to the final decision. The new tariff list targets China's manufacturing export industries, especially machinery and equipment, which include electronics, autos and textiles. China stated it would be forced to retaliate, though the exact measures are thus far unknown.

Asian financial markets didn't take the news well. Stock markets tumbled across the board; the Hang Seng was down 1.5% while the Nikkei225 fell 1.2%. Chinese financial markets on the front line of the trade war posted broad-based declines: The Shanghai composite fell 2%, while the yuan shed a further 0.33%. Currencies with high trade dependency on China depreciated sharply, with the Australian dollar weakening 0.6% over the day.

Minimal cost

The Moody's Analytics global macroeconomic model estimates the cost of a trade war to be minimal; China's GDP growth would likely be 0.3 percentage point softer than the baseline growth rate of 6.4% in 2019. However, in a trade collapse scenario, we estimate GDP growth could slide 1.1 percentage points below baseline. The cost to the U.S. is of a similar magnitude, with GDP growth around 0.4 percentage point below baseline in 2019.

While our macroeconomic model provides a formal estimate of the cost of a trade war, others have suggested less formal means to track the 'winner' of the trade skirmishes. For example, the performance of the stock market is generally touted as a barometer for the health of the real economy.

The Long View

In the U.S., stock market returns and GDP performance have been strongly correlated since the turn of the 21st century. This suggests that a rising U.S. stock market could provide a gauge of the real economy.

A looser link

However, the performance of the stock market is not always closely correlated with the real economy. This is especially so in China, where the link between stock market and GDP performance has loosened. Although in the early 2000s there was a strong link, in recent times this hasn't been the case. China's crackdown on shadow banking, along with various stock market corrections on the back of concerns around debt sustainability, has increased stock market volatility. During the same time, GDP growth in China has maintained a steady pace.

Since the trade hostilities intensified in mid-May, the Shanghai composite has fallen 15%, while the S&P 500 is up 3.4% since the start of the year. Moreover, the yuan is down nearly 6% since its peak early in the year. While the higher stock valuations may reflect a stronger U.S. economy, the lower stock prices in China may not translate into a weaker economy. The evidence from recent years suggests that China's GDP will maintain a steady path, despite stock market volatility.

Ratings Round-Up

By Njundu Sanneh

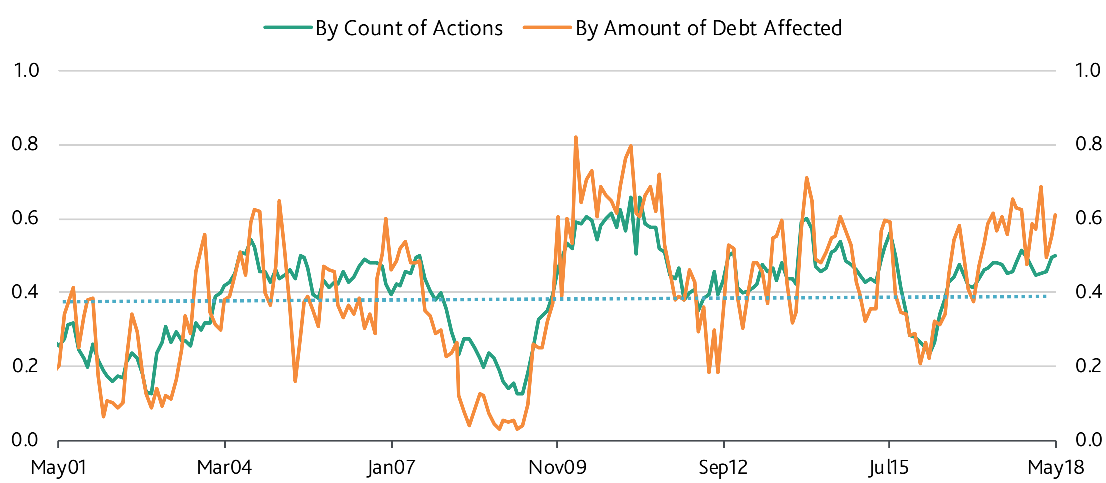
Downgrades Outnumber Upgrades in U.S. Changes, Europe Fares Better

The weekly rating changes numbered nine for the U.S. and four for Europe. The ratio of positive rating changes to total rating changes was 44% for the U.S. almost unchanged from the 43% the week earlier. The contribution of positive rating changes for Europe remains elevated with 75% in the last week. This was slightly lower than the 80% the week earlier but the persistent good run of upgrades compared to downgrades for Europe is evident in the just released Moody's Monthly Default Report. The trailing 12-month speculative-grade default rate for Europe fell to 2.2% at the end of Q2 from 2.8% in Q1. The rate for the U.S. fell to 3.4% from 4% in the corresponding period whilst the global default rate came in at 2.9% from 3.4% in Q1. The default rates for the U.S. and Europe are expected to decline to 2.8% and 1.5% by the end of the year. The low default rates underscore the strength in the global economy and the relatively low speculative grade spreads as credit markets remain accessible notwithstanding the climate of major central banks signaling a tightening in monetary policy. The firming inflation rate in the U.S. as the labor market continues to gain strength as economic growth poses a risks to the relatively low borrowing cost especially for speculative grade corporate borrowers.

The U.S. rating changes were driven by building materials, banking and retail sectors on the positive side and energy/oil services, insurance and the utilities sectors for the adverse rating changes. In Europe construction and chemicals sector firms were among the upgraded whilst healthcare sector was both upgraded and downgraded.

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
7/5/18	OGE ENERGY CORP.	Utility	SrUnsec/BCF/LTIR	2,885	D	A3	Baa1	IG
7/5/18	INFINITY PROPERTY AND CASUALTY CORPORATION	Financial	SrUnsec/IFSR /Sub/JrSub/PS	275	D	Baa2	Baa3	IG
7/6/18	STONEMOR PARTNERS L.P.	Industrial	SrUnsec /LTCFR/PDR	175	D	Caa1	Caa2	SG
7/6/18	BJS WHOLESALE CLUB INC	Industrial	SrSec/BCF /LTCFR/PDR		U	B3	B2	SG
7/9/18	UNIBAIL-RODAMCO SE -WEA FINANCE LLC	Financial	SrUnsec/LTIR	5,312	U	A3	A2	IG
7/9/18	WGL HOLDINGS, INC.	Utility	SrUnsec /MTN/PS	1,874	D	A3	Baa1	IG
7/10/18	ROWAN COMPANIES, INC.	Industrial	SrUnsec /LTCFR/PDR	2,520	D	B2	Caa1	SG
7/10/18	BANKUNITED, INC	Financial	SrUnsec/LTIR /LTD/Sub/PS	400	U	Ba1	Baa3	SG
7/10/18	C.H.I. OVERHEAD DOORS, INC.	Industrial	SrSec/BCF /LTCFR/PDR		U	B3	B2	SG

Source: Moody's

FIGURE 4
Rating Changes: Corporate & Financial Institutions – Europe

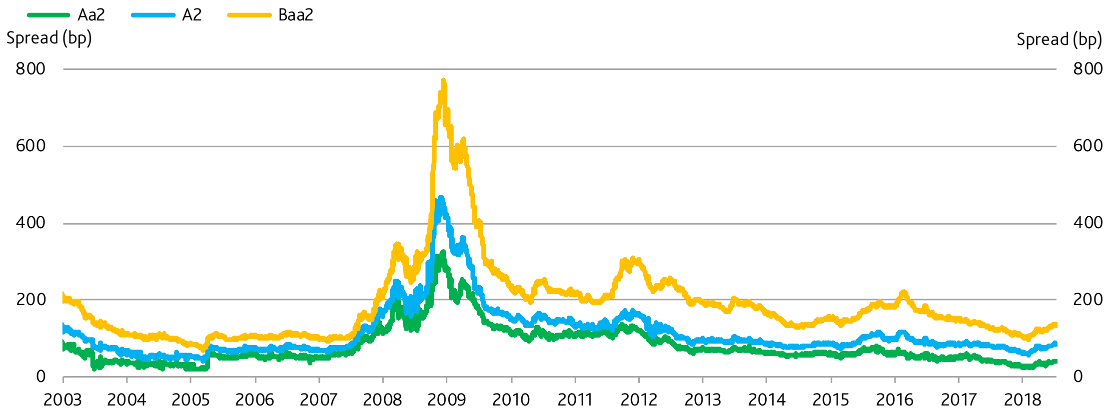
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/ SG	Country
7/5/18	BOUYGUES S.A.	Industrial	SrUnsec/LTIR	2,645	U	Baa1	A3	IG	FRANCE
7/6/18	INOVYN LIMITED	Industrial	SrSec/BCF /LTCFR/PDR		U	B1	Ba3	SG	UNITED KINGDOM
7/9/18	HEALTHCARE SUPPORT (NEWCASTLE) FINANCE PLC	Industrial	SrSec/BCF	525	U	Ba3	Ba2	SG	UNITED KINGDOM
7/9/18	AURIS LUXEMBOURG II S.A.	Industrial	LTCFR/PDR		D	B1	B2	SG	LUXEMBOURG

Source: Moody's

Market Data

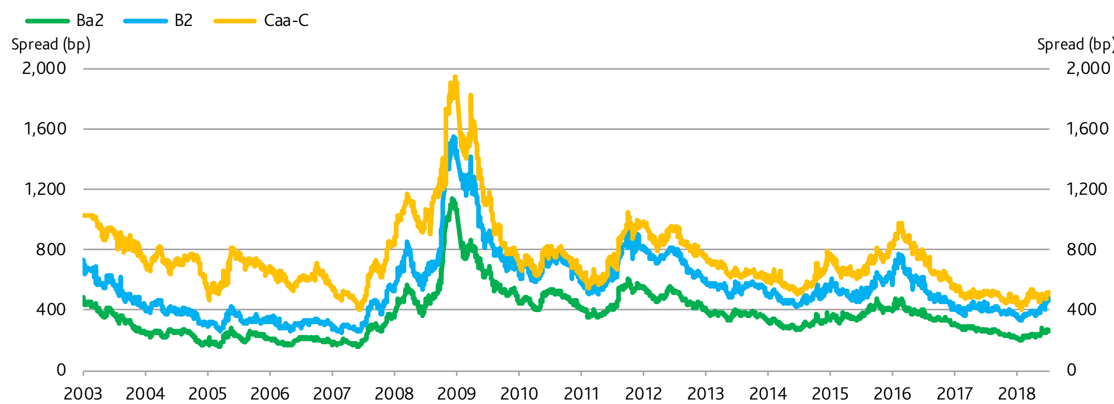
Spreads

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 (July 4, 2018 – July 11, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 11	Jul. 4	Senior Ratings
Rite Aid Corporation	Caa2	Ca	B3
Burlington Resources, Inc.	Aa1	Aa3	Baa1
Comcast Corporation	Baa1	Baa2	A3
Ford Motor Company	Ba1	Ba2	Baa2
CBS Corporation	Baa2	Baa3	Baa2
General Mills, Inc.	Baa2	Baa3	Baa2
American Tower Corporation	Ba2	Ba3	Baa3
Calpine Corporation	B3	Caa1	B2
Marriott International, Inc.	A1	A2	Baa2
Springleaf Finance Corporation	B2	B3	B1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 11	Jul. 4	Senior Ratings
Texas Instruments, Incorporated	Baa3	Aa3	A1
Wells Fargo & Company	A3	A2	A2
McDonald's Corporation	Aa3	Aa2	Baa1
Caterpillar Financial Services Corporation	Baa1	A3	A3
UnitedHealth Group Incorporated	Aa3	Aa2	A3
Philip Morris International Inc.	A3	A2	A2
Chevron Corporation	Aa1	Aaa	Aa2
Intel Corporation	Aa2	Aa1	A1
Enterprise Products Operating, LLC	Baa2	Baa1	Baa1
Union Pacific Corporation	Aa3	Aa2	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 11	Jul. 4	Spread Diff
Texas Instruments, Incorporated	A1	86	40	46
ServiceMaster Company, LLC (The)	B1	258	226	32
Sears Roebuck Acceptance Corp.	C	2,025	1,994	31
Sears Holdings Corp.	C	1,684	1,658	26
K. Hovnanian Enterprises, Inc.	Caa3	1,143	1,128	15
Newell Brands	Baa3	145	131	14
AutoNation, Inc.	Baa3	423	410	13
Penney (J.C.) Corporation, Inc.	Caa1	1,171	1,160	11
Nissan Motor Acceptance Corporation	A2	78	69	8
Applied Materials Inc.	A3	76	68	8

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 11	Jul. 4	Spread Diff
Windstream Services, LLC	Caa2	2,099	2,236	-138
YRC Worldwide Inc.	Caa1	772	869	-97
Parker Drilling Company	Caa2	1,706	1,799	-93
Hertz Corporation (The)	B3	997	1,039	-42
Lexmark International, Inc.	Caa1	1,288	1,330	-42
Avon Products, Inc.	B3	943	976	-33
Unisys Corporation	B3	501	532	-30
Rite Aid Corporation	B3	713	741	-28
Dish DBS Corporation	B1	596	623	-27
Avis Budget Car Rental, LLC	B1	416	439	-24

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (July 4, 2018 – July 11, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Jul. 11	Jul. 4	Senior Ratings
UniCredit Bank Austria AG	A3	Baa3	Baa1
UniCredit Bank AG	Baa1	Ba1	Baa2
Intesa Sanpaolo S.p.A.	Ba1	Ba2	Baa1
Commerzbank AG	Baa2	Baa3	Baa1
Bayerische Motoren Werke Aktiengesellschaft	Baa1	Baa2	A1
Anheuser-Busch InBev SA/NV	Baa1	Baa2	A3
Daimler AG	Baa2	Baa3	A2
Telecom Italia S.p.A.	Ba2	Ba3	Ba1
Fiat Chrysler Automobiles N.V.	Ba2	Ba3	Ba3
British Telecommunications Plc	Baa2	Baa3	Baa2

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Jul. 11	Jul. 4	Senior Ratings
Danske Bank A/S	A2	Aa2	A1
DZ BANK AG	Baa2	A3	Aa3
United Kingdom, Government of	Aa1	Aaa	Aa2
Spain, Government of	Baa2	Baa1	Baa1
Societe Generale	A3	A2	A1
Barclays Bank PLC	Baa1	A3	A2
NatWest Markets Plc	Baa2	Baa1	Baa2
Ireland, Government of	Aa2	Aa1	A2
Bankia, S.A.	Baa3	Baa2	Baa3
CaixaBank, S.A.	Baa3	Baa2	Baa2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Jul. 11	Jul. 4	Spread Diff
Galapagos Holding S.A.	Caa3	2,775	2,215	560
Astaldi S.p.A.	Caa1	1,756	1,699	57
Sappi Papier Holding GmbH	Ba2	349	335	14
Danske Bank A/S	A1	49	39	10
Eksportfinans ASA	Baa3	441	431	10
Unipol Gruppo S.p.A.	Ba1	172	162	10
NatWest Markets Plc	Baa2	72	64	8
DZ BANK AG	Aa3	67	59	8
EWE AG	Baa1	109	104	5
PizzaExpress Financing 1 plc	Caa1	1,133	1,128	5

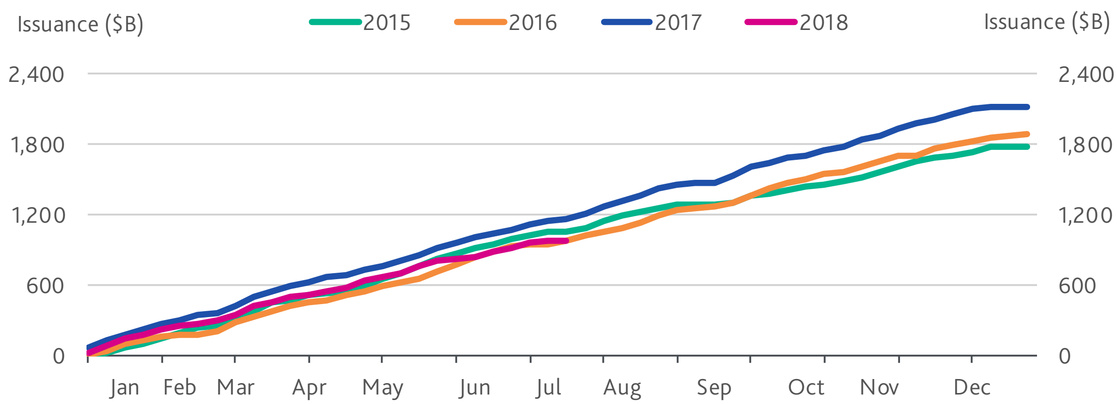
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Jul. 11	Jul. 4	Spread Diff
UniCredit Bank AG	Baa2	63	114	-51
UniCredit Bank Austria AG	Baa1	55	99	-44
Matalan Finance plc	Caa1	724	765	-41
Premier Foods Finance plc	Caa1	249	287	-37
CMA CGM S.A.	B3	649	685	-36
Stena AB	B3	535	572	-36
Altice Finco S.A.	B3	400	431	-31
Vue International Bidco p.l.c.	B3	238	269	-30
RCI Banque	Baa1	110	137	-28
TDC A/S	B1	229	254	-25

Source: Moody's, CMA

Market Data

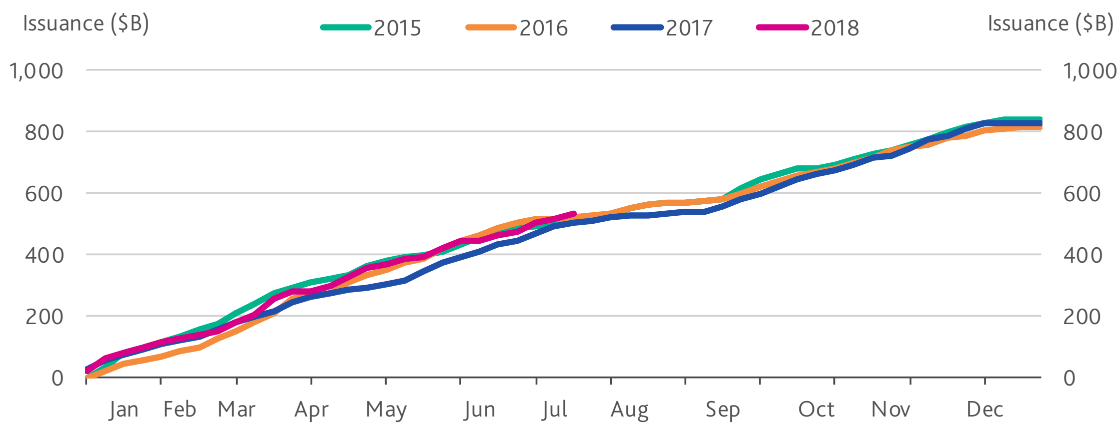
Issuance

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	0.569	0.000	0.669
Year-to-Date	754.679	183.829	984.901

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	16.121	0.204	17.723
Year-to-Date	448.565	62.530	534.858

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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