MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

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Profits Growth Curbs Defaults

Credit Markets Review and Outlook *by John Lonski*

Profits Growth Curbs Defaults

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The Week Ahead

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

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The Long View

Full updated stories and key credit market metrics: First-quarter 2018's sum of US$-denominated high-yield bond offerings plus new high-yield bank loan programs sank by 21% annually.

Credit Spreads	Investment Grade: We see year-end 2018's average investment grade bond spreads exceeding its recent 115 bp. High Yield: Compared to a recent 362 bp, the high-yield spread may approximate 425 bp by year-end 2018.
Defaults	US HY default rate: Compared to March 2018's 3.9%, Moody's Default and Ratings Analytics team forecasts that the U.S.' trailing 12-month high-yield default rate will sink to 1.7% by March 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 4.7% to $1.438 trillion, while high-yield bond issuance is likely to fall by 4.2% to $435 billion..

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Ratings Round-Up *by Kathryn Asher and Michael Ferlez*

Industrial Sector Dominates U.S. Activity

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Market Data

Credit spreads, CDS movers, issuance.

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Moody's Capital Markets Research *recent publications*

Links to commentaries on: Foreign investors, internal funds, tariffs, borrowing restraint, default decline; corporate bonds, tax law changes, stocks and spreads, Greek drama, South Korea, Brazil sovereign credit, Greece and Spain, dangers in the outlook, high-yield borrowing.

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

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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.

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Credit Markets Review and Outlook

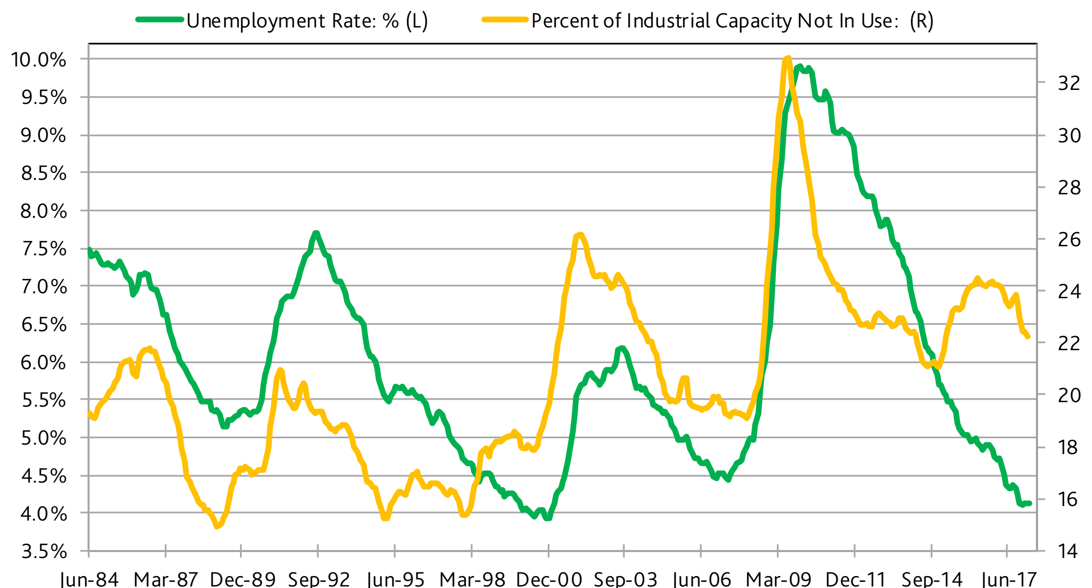
By John Lonski, Chief Economist, Moody's Capital Markets Research, Inc.

Profits Growth Curbs Defaults

First quarter 2018's earnings season has arrived. Though the annual increase of corporate revenues is expected to slow from its pace of 2017's final quarter, operating income is expected to quicken. Tax cuts and the containment of labor costs help to explain the expected improvement in operating leverage, or the projected acceleration of operating income relative to revenue growth. In addition, to the degree the Federal Reserve's estimated rates of capacity utilization capture reality, February 2018's relatively low utilization rates of 78.1% for all U.S. industry, 77.4% for manufacturing, and 77.1% for manufacturing excluding high technology provide room for the faster growth of operating profits relative to sales.

Low rates of capacity utilization suggest that March's relatively low unemployment rate of 4.1% may be overstating the limits to noninflationary growth. Never before has an unemployment as low as 4.1% been accompanied by an industrial capacity utilization rate as low as 78.1%. When the unemployment rate last descended to 4.1% in Q4-1999, the industrial capacity utilization rate averaged 82.0%.

Figure 1: Never Before Has a Capacity Utilization Rate of 78.1% Joined an Unemployment Rate of 4.1%
moving three-month averages



In addition, low rates of capacity utilization leave room for faster growth by labor productivity, which, in turn, would curb the growth of unit labor costs amid faster wage growth. The moving yearlong growth rates of the past 25 years show that core PCE price index inflation has a stronger correlation of 0.37 with the annual growth rate of unit labor costs compared to core inflation's 0.21 correlation with average hourly earnings growth.

Outlook for Revenues and Operating Income Favors Wider Margins

According to consensus forecasts that are compiled by Bloomberg News, the yearly growth rate for the per share operating income of the S&P 500 is expected to edge up from Q4-2017's 16.2% to Q1-2018's prospective 17.0%. Meanwhile, S&P 500 revenues per share are expected to slow from Q4-2017's 7.9% to 6.7% for Q1-2018. After excluding the S&P 500's price-sensitive and volatile energy companies, the latest consensus projections have operating income per share improving from Q4-2017's 14.3% to Q1-2018's 15.3%, while revenues per share slow from 6.9% to 5.8%, respectively.

The consensus' upbeat outlook for 2018 differs from a more subdued view of 2019. Unlike the Blue Chip consensus' expectation of a slight deceleration by nominal GDP's annual growth rate from 2018's 4.9%

to 2019's 4.8%, the Bloomberg consensus believes that the annual increase of the S&P 500's per share revenues will incur a more pronounced slowdown from 2018's 7.1% to 2019's 4.7%, wherein growth by the per share revenues excluding energy companies may sag from 6.4% to 5.0%.

As an important aside for the credit market, if 2019's S&P revenues slow by as much as predicted, the latest Blue Chip consensus forecast of a climb by the 10-year Treasury yield's calendar year average from 2018's 2.9% to 3.4% in 2019 may prove to be too ambitious. Not to be overlooked is how business sales growth is one of the primary drivers of payrolls growth.

Perhaps it is not surprising that projections of substantially slower S&P 500 revenue growth in 2019 are accompanied by forecasts of significantly slower growth by operating earnings. Nevertheless, though the S&P 500's yearlong operating income per share is expected to decelerate from 2018's 20.7% to 2019's 11.0%, the latter would still more than double 2019's projected 4.7% increase by sales.

A continued widening of profit margins in 2019 may also be inferred from the predicted 10.9% annual increase for the operating income of the S&P 500's non-energy companies despite the notable slowing by the category's operating income from 2018's 19.0% projected growth rate. Corporate credit quality will benefit if 2018-2019's implied widening of profit margins is broadly distributed.

Companies Have a Strong Incentive to Contain Labor Costs

The Bureau of Economic Analysis supplies a much more inclusive estimate of corporate operating income that is not on a per share basis, namely pretax profits adjusted for economic depreciation and excluding the influence of changes in the value of inventories. This version of profits can be referred to as profits from current production or pretax operating profits.

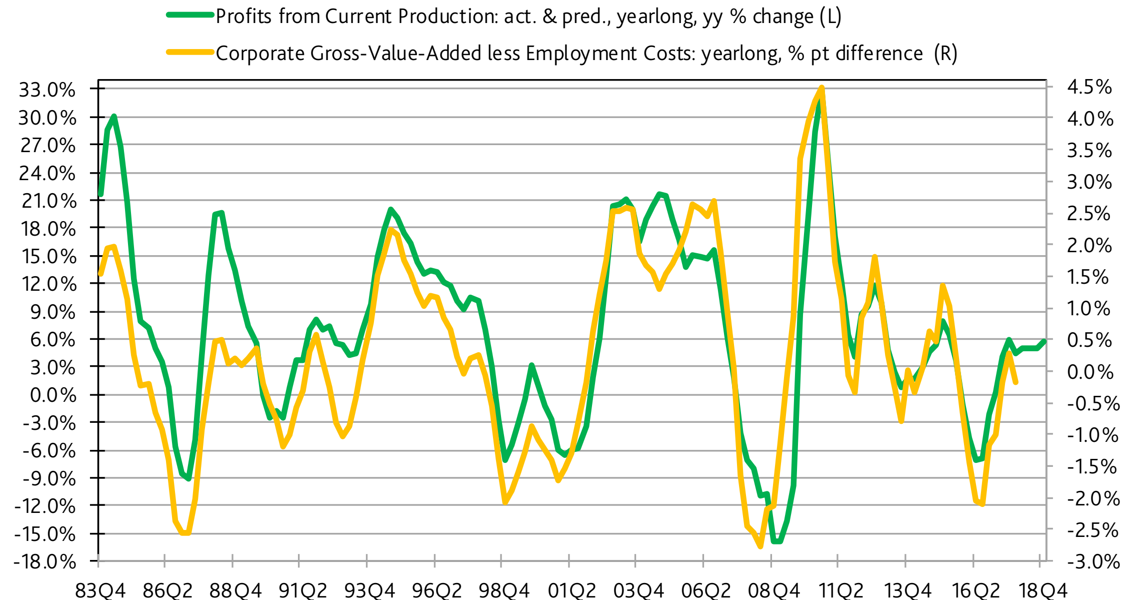
After rising by 4.4% annually in 2017, March 2018's Blue Chip consensus projected annual growth rates for profits from current production of 5.2% in 2018 and 4.3% in 2019. The consensus forecast of a quickening by nominal GDP growth from 2017's 4.1% to 4.9% in 2018 is critical to the realization of faster operating profits growth. This is because of the strong 0.91 correlation between the yearlong growth rates of nominal GDP and corporate gross value added, where the latter approximates total corporate revenues net of non-labor input costs.

Nonetheless, the annual growth rates of both nominal GDP and corporate gross value added (GVA) generate relatively low correlations of 0.34 and 0.42, respectively, with the growth of pretax operating profits. By contrast, the difference between the annual growth rates of corporate GVA and corporate employment costs generate a much stronger correlation of 0.86 with the growth of pretax operating profits.

The record suggests that if the annual growth rate of corporate GVA at least matches employment-cost growth, pretax operating profits are likely to rise by the predicted 5.2%. In view of how 2018's expected 4.9% annual increase by nominal GDP has been statistically associated with a 4.6% midpoint for corporate GVA growth, the Blue Chip profits forecast will be met provided that corporate employment costs grow no faster than 4.6%. According to the BEA's National Income Product Accounts, corporate employee compensation rose by only 3.3% annually in 2017.

Figure 2: In terms of Annual Growth Rates, Operating Profits Are Highly Correlated with the Difference Between Corporate Gross-Value-Added Less Employment Costs

sources: BEA, Moody's Analytics

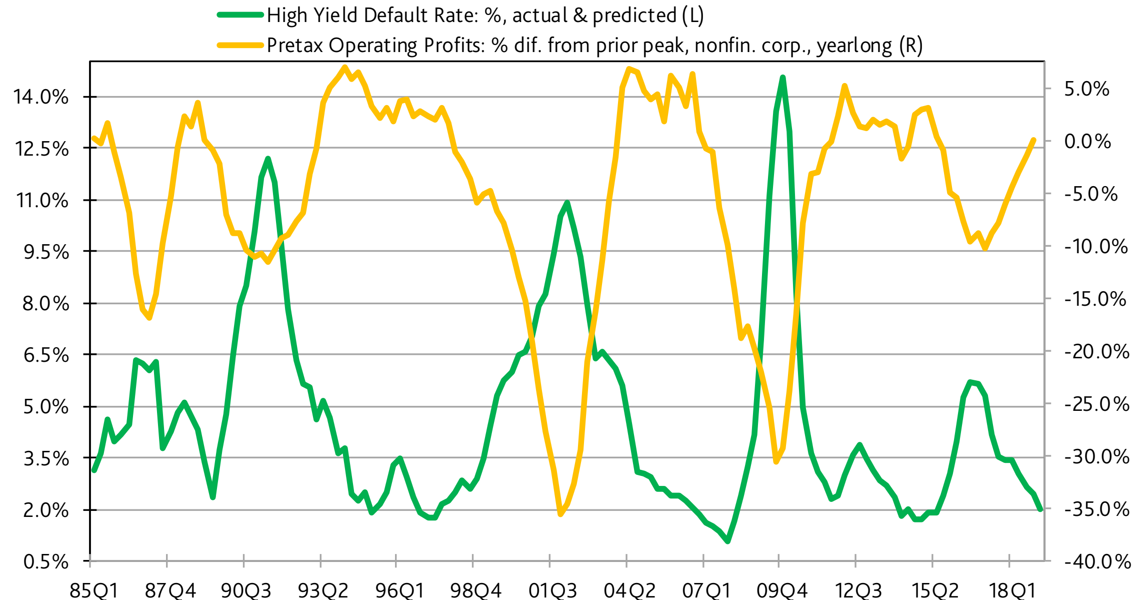


Each Jump by the Default Rate since 1982 Was Joined by a Profits Slump

The avoidance of a contraction by operating profits is of critical importance to corporate credit. The historical record suggests that a disruptive shrinkage of pretax profits may be avoided if employee compensation growth exceeds corporate GVA growth by no more than a percentage point.

Since 1982, there have been five episodes of a deeper than 5% drop by the moving yearlong average of operating profits from its then record high. Each episode was joined by a default rate in excess of 5%, where the latest such incident occurred in 2015 and early 2016.

For the most recent episode, a nearly 10% drop by operating profits from its high of Q2-2015 helped to lift the U.S. high-yield default rate up from Q3-2014's current cycle low of 1.7% to Q3-2016's localized top of 5.7%. In addition, the high-yield bond spread widened from Q2-2014's current cycle low of 344 basis points to a Q1-2016 high of 776 bp.



Since 1982, the high-yield bond spread averaged 675 bp or wider in only 18, or 6.2%, of the 292 months overlapping an economic recovery that was past its second year. In only seven of the 18 months did the moving yearlong average of operating profits grow annually. Those odd months were the six months spanning August 2011 through January 2012 and June 2012.

In conclusion, as long as the growth of operating profits preserves a benign default outlook, a notable swelling of the composite high-yield bond spread should be avoided. Moreover, the continuation of profits growth favors at least a stabilization of the broad equity indices, especially if interest rates do not top current views. However, a surprisingly burdensome upswing by interest rates cannot be ruled out if only because the Fed's ongoing hiking of fed funds and simultaneous shrinkage of its bond holdings lacks precedent.

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

THE U.S.
By Ryan Sweet

Calendar Heats Up

The economic calendar heats up. New data on retail sales, industrial production and housing starts will help us fine-tune our estimate of first quarter GDP growth. They will also provide some guidance on whether the weather was a significant drag on the economy in March. The March employment report would suggest weather was an issue, but it captures what occurred mid-month; there is potential that weather didn't have as much of an impact as the employment data would suggest.

There will be a slew of Fed speeches in the week ahead. Odds are they will generally mirror the message from the minutes that the Fed is growing more confident that inflation will return to its 2% objective. Therefore, the tone of Fed speeches will likely lean hawkish. We continue to look for three additional rate hikes this year, occurring in June, September and December.

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Mon @ 8:30 a.m.	NY Empire State Manufacturing Survey for April	index	18.0	18.2	15.0 to 21.5	22.5
Mon @ 8:30 a.m.	Retail Sales, advanced for March	% change	0.4*	0.4	-0.1 to 0.5	-0.1
	Excluding autos	% change	0.2*	0.2	-0.1 to 0.4	0.2
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence	index, 4-wk MA				41.5
Mon @ 10:00 a.m.	Business Inventories for February	% change	0.6	0.6	0.4 to 0.8	0.6
Mon @ 10:00 a.m.	NAHB Housing Market Index for April	index	70	70	68 to 71	70
Tues @ 8:30 a.m.	New Residental Construction for March	mil, SAAR	1.248*	1.270	1.199 to 1.300	1.236
	Permits	mil, SAAR	1.315*	1.330	1.275 to 1.500	1.298
Tues @ 9:15 a.m.	Industrial Production for March	% change	0.4*	0.3	0.0 to 0.8	1.1
	Capacity Utilization	%	77.9*	77.9	77.5 to 78.4	78.1
Wed @ 2:00 p.m.	Beige Book					
Thur @ 8:30 a.m.	Jobless Claims for 4/14/18	ths	231	229	220 to 231	233
Thur @ 8:30 a.m.	Philadelphia Fed Survey for April	index	20.1	20.8	18.0 to 28.0	22.3
Thur @ 10:00 a.m.	Conference Board Leading Indicators for March	% change		0.3	0.0 to 0.5	0.6
*Preliminary forecast						

MONDAY, APRIL 16

Retail sales (March; 8:30 a.m. EDT)

Nominal retail sales are forecast to have risen 0.4% in March, better than February' s 0.1% decline and the first increase since November. Temporary factors likely hurt retail sales in February, including delayed tax refunds. Through mid-February, tax refunds were running well behind their prior five-year average. Part of the reason is that, in an effort to reduce fraud, the IRS last year began delaying tax refunds until mid-February for households claiming the Earned Income Tax Credit or Additional Child Tax Credit. Therefore, it's safe to assume some of these refunds and virtually all the associated spending was pushed into March, similar to last year.

Another reason for the weakness in retail sales over the past couple of months is payback for the strong growth late last year, which was boosted by rebuilding and replacement demand following the hurricanes. This is clear in retail sales at motor vehicle and parts dealers, building material stores, and furniture and home furnishings. Combined retail sales in these segments fell 0.3% in February and 1% in January. This subtracted 0.1 percentage point from total retail sales growth in February and 0.3 percentage point in January. The forecast assumes hurricane-related payback is done.

Unit auto sales rose in March, and we look for autos to add 0.2 percentage point to retail sales growth. We expect spending at gasoline stations to be a neutral for retail sales growth in March. The forecast assumes that the seasonal adjustment for retail sales correctly captures the shift in Easter.

Business confidence (week ended April 13; 10:00 a.m. EDT)

Global business sentiment is strong, shrugging off talk of a U.S.-led trade war and volatility in financial markets. Confidence is close to the record high set in spring 2015. Sentiment remains strongest in the U.S., as it has for much of the past several years, and to a lesser degree Asia. South American businesses remain consistently less upbeat, although sentiment has improved recently.

Abstracting from the weekly vagaries of the survey, a strong one-half of responses to the nine questions are positive, while well less than one-tenth of the responses are negative. Sentiment is especially strong in the U.S., likely buoyed by the recent corporate tax cuts.

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 are now the top concern of nearly one-fourth of respondents.

The four-week moving average in our business confidence survey increased from 39.4 to 41.5 in the week ended April 6.

NAHB housing market index (April; 10:00 a.m. EDT)

We look for the NAHB housing market index to be unchanged at 70 in April. This would end a streak of three consecutive monthly declines. Still, the index would remain above its average for 2017 and among the highest this cycle. The NAHB index is a better gauge of the direction rather than magnitude of single-family residential investment. The trend in the NAHB has improved some recently and supports our forecast for single-family housing starts to increase over time.

TUESDAY, APRIL 17

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

Housing starts are expected to have edged higher in March, coming in at 1.248 million annualized units, compared with February's 1.236 million. We look for a modest drag from the storms in the Northeast in March. We look for housing permits to have risen from 1.298 million annualized units in February to 1.315 million in March. Permits are normally less sensitive to weather than starts.

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

Industrial production likely increased 0.4% in March. Based on hours worked, we expect manufacturing production to have fallen 0.1%. Weather should boost utility output in March. We also look for a modest gain in mining.

WEDNESDAY, APRIL 18

No major releases sheduled.

THURSDAY, APRIL 19

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

We look for initial claims for unemployment insurance benefits to have slid from 233,000 to 231,000 in the week ended April 14. The incoming data take on added importance because they include the payroll reference week. Assuming our forecast comes to fruition, new filings would be slightly higher than those during the March payroll reference week. Nonetheless, the trend in initial claims remains strong.

FRIDAY, APRIL 20

No major releases sheduled.

EUROPE

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

New data will add to U.K. disappointment

The coming week will be busy for the U.K., with top-tier releases on inflation, unemployment and retail sales. We expect them to only add to the previous weeks' data disappointments, providing further reasons for the Bank of England not to rush into tightening monetary policy sooner rather than later. And while we don't rule out a move in May anymore, especially given the Monetary Policy Committee members' recent comments, it is hard to see how the bank can justify higher rates amid the grim prospects for first quarter growth. Construction figures for February were bleak; output fell by 1.7% m/m, building on an already-steep 3.1% decline in January, suggesting that the sector's recession likely worsened in the opening stanza of the year, while no better news came from manufacturing, which declined in February for the first time in almost a year. True, industrial production for the first quarter as a whole will still have expanded, but that will only be due to base effects related to oil production, which plunged in the fourth quarter of 2017 on the back of the emergency closure of the Forties pipeline, and to a jump in energy demand because of February and March's below-normal temperatures. The underlying trend in manufacturing is far weaker than suggested by the industrial production headline.

U.K. retail sales figures to be released Thursday will only add insult to injury. The week of unusually heavy snowfall at the end of February and early March caused severe disruptions in the country, and among those hit the hardest were high-street retailers. Accordingly, we expect sales to have plunged by 1.5% m/m in March, fully reversing February's 0.8% increase and pushing the yearly expansion in the sector down to only 1%, half the rate recorded for the previous year. Leading indicators corroborate our forecasts. The CBI's reported sales balance tumbled to -8 in March, from 8 in February, while the BDO's High Street sales tracker, which measures sales at nonfood stores, plunged by 10.1% y/y over the month, the worst result in almost 10 years. Even worse is that prospects also appear to have deteriorated, with the balance of retailers expecting sales to increase over the next month dropping to 16 in March, from 21 in February.

Over the first quarter as a whole, then, sales likely declined by 0.8% q/q, more than reversing the fourth quarter's 0.5% gain. True, the recent rebound in consumer confidence and the small recovery in real wages should push sales back up in the second stanza, but that the fiscal squeeze is set to intensify from April, that mortgage rates should increase, and that the housing market remains in the doldrums should ensure that consumer spending remains subdued over 2018 as a whole.

If the poor growth figures aren't enough to deter the MPC from hiking rates, there is also the fact that U.K. inflation looks set to move back to target this year, catching the BoE by surprise. We expect that inflation remained steady at 2.7% in March, while it should cool further to 2.6% in April. All evidence shows that most of the pass-through from higher import prices has already been completed, with price expectation balances calculated by both the European Commission and Markit falling at the end of the quarter. Accordingly, the net balance of services firms intending to raise prices over the next three months fell to an eight-month low of just 12 in March, from 18 in February, suggesting that domestically generated inflation remains subdued. Our view is that inflation will return to 2% by December, while the MPC expects it at 2.4%.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 2:30 p.m.	Russia: Industrial Production for March	% change yr ago	0.7	1.5
Tues @ 9:00 a.m.	Italy: Consumer Price Index for March	% change yr ago	1.0	0.8
Tues@ 9:30 a.m.	U.K.: Unemployment for February	%	4.3	4.3
Wed @ 9:30 a.m.	U.K.: Consumer Price Index for March	% change yr ago	2.7	2.7
Wed @ 10:00 a.m.	Euro Zone: Consumer Price Index for March	% change yr ago	1.4	1.3
Wed @ 2:00 p.m.	Russia: Unemployment for March	%	5.3	5.0
Wed @ 2:00 p.m.	Russia: Retail Sales for March	% change yr ago	2.0	1.8
Thur @ 9:30 a.m.	U.K.: Retail Sales for March	% change yr ago	1.0	1.5

MONDAY, APRIL 16

Russia: Industrial Production (March; 2:30 p.m. BST)

Russia's industrial production softened in February but remained in positive year-over-year territory. Utilities carried much of the weight, improving sharply from their year-over-year contraction in January. Natural resources showed modest improvement from a year ago, and manufacturing was disappointing relative to its January year-over-year performance. Overall, signs point to a decent outlook for the labour market and the retail economy, and improvements in consumer spending over time should help manufacturing continue on the right track as domestic demand rallies. We see sizable risks in 2018. The threat of stricter U.S. sanctions this year could trigger massive depreciation, which would drive up inflation and call for aggressive rate hikes to keep price growth in check.

TUESDAY, APRIL 17

Italy: Consumer Price Index (March; 9:00 a.m. BST)

Inflation in Italy remains tepid, but price pressures are intensifying. We expect inflation to accelerate to 1% y/y in March, from February's disappointing 0.5%. February's figure was depressed due to winter sales of clothing and footwear, and with those sales now over, inflation will rebound. Preliminary estimates suggest the pickup in prices was broad-based, with all expenditure divisions higher than a year ago except for recreation and culture. Sustained growth in manufacturing has led to supply-side constraints and is putting upward pressure on input prices that producers are then passing on to consumers. Strengthening economic activity should support more stable price growth in the near term.

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

The U.K.'s headline unemployment rate likely held steady at 4.3% in the three months to February, its lowest since 1975. Growth in the number of employed persons is expected to have eased somewhat following a sharp decline in the November quarter, while the number of unemployed likely increased marginally following a small drop previously. The good news is that survey data for March are upbeat, showing that permanent staff appointments rose markedly at the end of the first quarter, though growth in temp billings further softened to a 13-month low. We expect that employment growth will slow in 2018 compared with 2017's strong gains, as little slack remains in the economy.

WEDNESDAY, APRIL 18

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

The U.K.'s annual headline CPI should have remained steady at 2.7% in March. A jump in food inflation to 3.5%, from February's sharp decline to 3%, will have driven the headline the most, since base effects related to last February's supply shock in fresh produce are expected to have already faded. But services inflation is also expected to have climbed to 2.6%, from 2.4% in February, as the early Easter likely boosted airfares and accommodation prices.

These developments will nonetheless be offset by a further slowdown in fuel inflation, and by a plunge in nonenergy goods inflation. The latter is expected to have eased on the back of a pullback in clothing inflation. As observed in the major European countries, we expect that the rebound in clothing prices after winter sales was relatively weak in March compared with previous years, pushing clothing inflation to only 3.2%, from 3.4% in February. But core goods inflation likely weakened across the board, in line with our expectations that retailers have finished passing through the sterling-related jump in import prices to consumers. Elsewhere, motor fuel inflation should have slowed further as pump prices held steady in yearly terms in March, compared with a 0.6% rise in February. We caution, however, that the recent rise in oil prices will mean that the contribution of energy inflation to the headline should remain high over the first half of the year before gradually easing from the end of the third quarter. Electricity and tobacco inflation, meanwhile, are each expected to have remained steady.

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

Euro zone annual harmonized inflation likely picked up to 1.4% in March, from 1.3% in February, in line with the initial estimate and the consensus expectations. A sharp rebound in food inflation likely drove the headline, as base effects related to last year's weather-related supply shock faded, but services inflation should also have jumped as the early Easter holidays boosted transportation and accommodation prices at the end of the month. The core rate probably remained steady at 1%, but this was likely due to a one-off drop in nonenergy goods inflation to well below its trend, since the rebound in clothing prices after winter sales was weak compared with previous years in France and Germany, which calls for a sharp mean-reversion in April.

Elsewhere, energy inflation should have dipped slightly in March. We caution, though, that base effects will mean that inflation in the sector should start accelerating from next month and peak in June, provided that oil prices remain at their current levels of around $71 per Brent barrel.

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

March's gain in retail sales is expected to settle at 2% y/y, slightly better than February but not as strong as the majority of last year. Growth in retail trade slowed markedly in February due to soft income growth. Most of the strength in retail in 2017 was fueled by debt. Loans to households rose 13% in 2017, with unsecured credit card debt propelling domestic consumption. This is an unhealthy platform for growth with incomes stuck in the mud. As a result, Russian households will increase cautionary savings. Consumption and retail should both slow, averaging below 2% y/y throughout most of 2018. With the Bank of Russia still cutting interest rates, debt will fuel some growth in retail trade.

THURSDAY, APRIL 19

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

U.K. retail sales likely fell by 1.5% m/m in March, fully reversing January's 0.8% increase. This should have pushed the yearly rate down to only 1%, from 1.5% in February, further below the past-year average at 1.7%. We expect sales declined across the board. The week of unusually heavy snowfall at the end of February and early March caused severe disruptions in the country, and evidence shows that among those hit the hardest were high-street retailers. Leading indicators all but corroborate our weak forecasts. The CBI's reported sales balance sank to -8 in March, from 8 in February, while the BDO's High Street sales tracker, which measures sales at nonfood stores, plunged by 10.1% y/y over the month, the worst result in almost 10 years. Even worse is that prospects also appear to have deteriorated, with the balance of retailers expecting sales to increase over the next month dropping to 16 in March, from 21 in February. Elsewhere, we expect that fuel consumption rose slightly, given that pump prices dropped further during the month.

Over the first quarter as a whole, then, sales are expected to have declined by 0.8% q/q, more than reversing the fourth quarter's 0.5% gain.

FRIDAY, APRIL 20

No indicators are scheduled for this day.

ASIA-PACIFIC

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

China growing at potential pace

All eyes will be on China's March quarter GDP growth. We look for a 6.7% y/y expansion, slower than the December quarter's 6.8%. China's economy continues to grow at its potential pace. The government tacitly allowed a mild pickup in credit growth to perk up activity ahead of the all-

important Congress in late October, which is helping investment and production, but this effect is fading as the government prioritises the minimising of financial risks. The slowing housing market is also cutting demand for heavy industrial output, although the effects seem to have been alleviated as construction picks up in certain cities. Manufacturing output continues to grow on healthy global tech demand and domestic auto demand.

China's March activity data also are due. Fixed investment growth likely cooled in March, and softening is broadly expected over 2018. While investment in infrastructure continues to grow at a strong pace, mining-related investment for coal and iron ore is falling. China's manufacturing output likely showed continued steady growth in March.

There was a moderate pickup in the combined January-February data, which reflects continued global demand for tech goods as well as stronger domestic demand for electric vehicles, among other things. Retail spending in China picked up in early 2018. Steady wage growth and good employment conditions are driving retail spending. Electronics sales in particular are seeing strong growth. The slowing housing market may have been giving some households pause, but this effect seems to be fading.

Japan's exports likely rebounded in March, and year-ago gains suggest that the overall momentum remains intact. Strong tech demand continues to boost export values of Japan's electronic goods, which added most to overall export growth in 2017. A firmer global economy, evidenced by improved growth in the euro zone and the U.S., could continue to support demand for large Japanese manufacturers in 2018. But downside risks are rising, particularly with the global wave of trade protectionism.

Japan's consumer price inflation likely held steady at 1% y/y in March after inflation accelerated in February on the back of a broad-based increase in prices. While the overall inflation pulse remains weak, it's somewhat heartening to see that prices across Japan aren't going backwards for now. However, we believe the Bank of Japan's 2% target is unlikely to be met in the short to medium term.

	Key indicators	Units	Moody's Analytics	Last
Mon @ Unknown	Indonesia Foreign trade for March	US$ mil	950	-120
Tues @ 10:30 a.m.	Singapore Foreign trade for March	% change yr ago	6.5	-5.9
Tues @ 12:00 p.m.	China Fixed asset investment for March	% change yr ago YTD	7.7	7.9
Tues @ 12:00 p.m.	China GDP for Q1	% change yr ago	6.7	6.8
Tues @ 12:00 p.m.	China Industrial production for March	% change yr ago	6.8	7.2
Tues @ 12:00 p.m.	China Retail sales for March	% change yr ago	9.7	9.7
Wed @ 9:50 a.m.	Japan Foreign trade for March	¥ bil	170	-201
Thurs @ 8:45 a.m.	New Zealand Consumer price index for Q1	% change	0.3	0.1
Thurs @ 11:30 a.m.	Australia Unemployment rate for March	%	5.5	5.6
Thurs @ Unknown	Indonesia Monetary policy for April	%	4.25	4.25
Fri @ 9:30 a.m.	Japan Consumer price index for March	% change yr ago	1.0	1.0

MONDAY, APRIL 16

INDONESIA: FOREIGN TRADE (MARCH; UNKNOWN)

Indonesia's trade balance likely returned to surplus in March, notching US$950 million after three consecutive deficits, the latest being a US$120 million shortfall in February. Lunar New Year affected February's data, with imports rising across the board, a usual trend in the lead-up to the holiday, which occurred in mid-February this year. Exports didn't fare as well, unsurprising given the disruption in production and shipments. Beyond the seasonal effect, Indonesia's exports are doing well thanks to buoyant global demand. However, palm oil is a sore point, with exports slumping in February, likely because of India's recent palm oil duty hike. Softness is expected through March.

TUESDAY, APRIL 17

SINGAPORE: FOREIGN TRADE (MARCH; 10:30 AEST; 12:30 A.M. GMT)
Singapore's nonoil domestic exports likely rebounded in March to 6.5% y/y, following the Lunar New Year-driven 5.9% slump in February. March data will be closely watched since it is the first clean reading after Lunar New Year festivities affected January and February data. Electronics will be a focus as an input to how the global tech cycle is faring. The electronics category has endured three consecutive months of annual declines, surprising given that other indicators of global electronics demand suggest continued buoyancy and the upswing being sustained.

China: Fixed Asset Investment (March; 12:00 p.m. AEST; 2:00 a.m. GMT)
Investment in fixed assets in China picked up in the first two months of the year thanks to a surge in agriculture-related investment. Investment in infrastructure also continues to grow at a strong pace. The main downside remains falling mining-related investment for coal and iron ore. Nonetheless slower credit growth suggests slower overall investment growth this year. Total fixed asset investment likely grew 7.7% y/y for the year to March, after a 7.9% increase for the January-February period.

China: GDP (2018Q1; 12:00 p.m. AEST; 2:00 a.m. GMT)
China's economy continues to grow at its potential pace. The government tacitly allowed a mild pickup in credit growth to perk up activity ahead of the all-important Congress in late October, which is helping investment and production, but this effect is fading as the government prioritises minimising financial risks. The slowing housing market is also cutting demand for heavy industrial output, although the effects seem to have been alleviated as construction picks up in certain cities. Manufacturing output continues to grow on healthy global tech demand and domestic auto demand. The economy likely grew 6.7% in the first quarter of 2018, slower than the December quarter's 6.8%.

China: Industrial Production (March; 12:00 p.m. AEST; 2:00 a.m. GMT)
China's manufacturing output likely showed continued steady growth in March. There was a moderate pickup in the combined January-February data, which reflects continued global demand for tech goods as well as stronger domestic demand for electric vehicles, among other things. Manufacturer sentiment dropped in February as production among many exporters halted for the weeklong Lunar New Year holiday. Positive sentiment for new orders suggests a pickup in coming months. Industrial production likely grew 6.8% y/y in March, down from a 7.2% increase for January-February.

China: Retail Sales (March; 12:00 p.m. AEST; 2:00 a.m. GMT)
Retail spending in China picked up in early 2018. Steady wage growth and good employment conditions are driving retail spending. Electronics sales in particular are seeing strong growth. The slowing housing market may have been giving some households pause, but this effect seems to be fading. Retail spending likely grew 9.7% y/y in March, the same as in the January-February period.

WEDNESDAY, APRIL 18

Japan: Foreign Trade (March; 9:50 a.m. AEST; Tuesday, 11:50 p.m. GMT)
Japan's exports likely rebounded in March, and year-ago gains suggest that the overall momentum remains intact. February was a disruptive month because of the Lunar New Year festivities, which caused the trade balance to slip into a deficit of ¥201 billion. It likely moved to a ¥170 billion surplus in March. We broadly expect exports to outgrow imports in March, which will keep the trade surplus intact. Strong tech demand continues to boost export values of Japan's electronic goods, which added most to overall export growth in 2017. A firmer global economy, evidenced by improved growth in the euro zone and the U.S., could continue to support demand for large Japanese manufacturers in 2018. But downside risks are rising; President Trump's support of protectionist measures could signal the beginning of a trade war. If it materialises, Japan will be a major economy exposed to protectionist measures.

THURSDAY, APRIL 19

New Zealand: Consumer Price Index (2018Q1; 8:45 a.m. AEST; Wednesday, 10:45 p.m. GMT)

New Zealand's consumer price index likely rose 0.3% q/q in the March quarter, following the downside surprise 0.1% expansion in the December quarter. Food price increases remain modest, rising just 0.1% y/y in February because of lower meat prices, in particular beef and chicken. Towards the end of February and continuing into March a combination of humid weather and Cyclone Gita affected crop supplies and began applying upward pressure. This may see food prices rise closer to 1% y/y by the end of March, subsequently pushing up the quarterly estimate of CPI from the mediocre fourth quarter reading. The Reserve Bank of New Zealand is unlikely to be moved by the data, with monetary policy likely remaining on hold until early 2019.

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

Australia's seasonally adjusted unemployment rate likely dropped to 5.5% in March, from 5.6% in February. The more closely watched trend unemployment rate likely held at 5.5%. Employment growth is running at around 3.3% y/y, well above its long-term average of 1.9%. February's employment report was particularly pleasing because it confirmed that the still-elevated underutilization rate is continuing to edge lower because of labour market tightening. We expect this trend to continue over 2018, albeit at a slower pace that will eventually put upward pressure on mediocre wage growth.

Indonesia: Monetary Policy (April; Unknown)

Bank Indonesia is sitting pretty on the sidelines, with its policy rate expected to hold steady at 4.25% through the first half of 2018. Inflation is within target and expected to remain that way in coming months. The easing bias was dropped in January as the central bank became concerned about the capital outflow implications. Tightening policy too soon would risk hurting already-subdued consumption. The central bank is closely watching U.S. protectionist trade policy and trading partner retaliation, which were explicitly mentioned in the March policy statement as a downside risk to the upbeat outlook and already-jittery financial markets.

FRIDAY, APRIL 20

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

Japan's consumer price inflation was likely unchanged at 1% in March after inflation accelerated in February on the back of a broad-based increase in prices. Core CPI inflation ticked up to 1% in February, from 0.8% in January. Inflation excluding food and energy was up 0.4%, after 0.1% in the previous month. While the overall inflation pulse remains weak, it's somewhat heartening to see that prices across Japan aren't going backwards for now. After a solid 2017, the Japanese economy is on a solid footing heading into 2018. Prices of clothing, medical care and recreational activities added sharply to inflation in February. However, fuel costs will continue to drive core inflation, which is the Bank of Japan's preferred measure. We believe the BoJ's 2% target is unlikely to be met in the short to medium term.

The Long View

First-quarter 2018's sum of US$-denominated high-yield bond offerings plus new high-yield bank loan programs sank by 21%.

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

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 115 bp is under its 122-point mean of the two previous economic recoveries. This spread is more likely to be wider, as opposed to narrower, a year from now.

The recent high-yield bond spread of 362 bp is less than what is inferred from the spread's macroeconomic drivers, the high-yield EDF metric, and the VIX index. 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%, the U.S. high-yield default rate has since risen to March's 3.9%. Nevertheless, Moody's Default and Ratings Analytics team expects the default rate will drop to 2.0%, on average, 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 2.3% for IG and 16.3% for high-yield, wherein US$-denominated offerings posted sank by 12.0% for IG and 20.4% 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 +3.9% for IG and -2.3% for high yield.

The financing of acquisitions and shareholder compensation will stand out among 2016's uses of funds obtained via bond issues and newly-rated bank loan programs. Companies will resort to acquisitions and divestitures in order to better cope with the US's subpar recovery. To the degree companies fear significantly higher bond yields, pre-fundings will rise.

The Long View

US ECONOMIC OUTLOOK

The consensus expects that the mid-point for the federal funds rate should finish 2018 at 2.125%. In view of the considerable underutilization of the world's productive resources, low inflation should help to rein in Treasury bond yields. As long as the global economy operates below trend, the 10-year Treasury yield may not remain above 2.8% for long. A fundamentally excessive climb by Treasury bond yields and a pronounced slowing by expenditures in dynamic emerging market countries are among the biggest threats to the adequacy of economic growth and credit spreads going forward.

EUROPE

By Maria Cosma of Moody's Analytics
April 12, 2018

IRELAND

Ireland's comeback continues to impress. Real GDP growth accelerated to 7.8% in 2017, the largest increase in the European Union, according to preliminary estimates from the Central Statistics Office. Surging exports carried the economy forward as private consumption slowed and investment turned from lift to drag. In the near term, these trends are expected to reverse. Consumption will contribute more to output as the labor market returns to full employment, driving stronger wage gains and boosting incomes and spending. Conversely, while stronger global growth bodes well for Irish exports, the appreciation of the euro against the dollar will chip away at competitiveness, and downside risks to foreign trade, including trade wars and a post-Brexit border with Northern Ireland, are mounting.

From the ashes

The Irish economy's recent performance stands out in the context of where it was just a few years ago. Once the second "I" in PIIGS, an acronym for Europe's most volatile, debt-laden economies, Ireland was the first euro zone country to exit its European Union-International Monetary Fund bailout in late 2013. Since then, output gains have largely returned to their prerecession pace. Still, the surge in 2015 to an annual growth rate just north of 25% was the result of revisions to national accounts data, and even recent estimates of gross fixed capital formation, exports, and imports may be slightly distorted.

Assuming the effects of the revision are not reversed and that aggregate economic activity measures stabilize, real GDP growth will moderate to 7% in 2018 and 3.1% in 2019, well ahead of the European average.

The favorable economic outlook, in addition to the Irish government's commitment to improving its finances, are supporting Ireland's smooth return to international financial markets. The yield on Irish 10-year government bonds increased slightly from 0.7% in 2016 to 0.8% in 2017, but this is still well below its double-digit peak at the height of the sovereign debt crisis. The improvement stems from a significant reduction in the fiscal deficit and government debt. Over the next few quarters, long-term government bond yields will gradually rise in tune with euro zone sovereign bond yields as the European Central Bank begins to tighten monetary policy in early 2019.

Back to work

The labor market is also returning to form. Led by gains in office services, retail and healthcare, total employment has increased steadily since 2013, and will return to 2007 levels by late next year. At 6.1% in February, the unemployment rate is only 1.5 percentage points above its prior expansion average, according to Eurostat.

The higher count of jobs is lifting incomes. Total compensation of employees has accelerated over the past four years, driving stronger disposable income gains. As a result, consumer sentiment surpassed its prior cycle peak at the end of 2017 and will continue to climb as the tight labor market boosts wages. Consumers also have the wherewithal to spend; year-ago growth in real retail sales is trending right around where it was in the previous expansion, and will stay the course through the end of the decade.

Housing's unbalanced recovery

The improving labor market, strong population growth, and less restrictive credit conditions are keeping housing demand robust. Nevertheless, new residential construction continues to disappoint and has advanced only slowly over the past three years from its 2012 low. A dearth of builders may be to blame; employment in construction is half of where it was at its 2007 peak and job gains have slowed significantly of late.

With housing demand outstripping available supply, residential property prices are surging, particularly in the Dublin area, fueling fears of another housing bubble. House prices rose 10.2% in 2017 and are expected to add 7.4% in 2018. However, as homebuilding picks up over the next few quarters, house prices will moderate to a more balanced growth path of 3.5% by the end of the decade.

Made in Ireland

The outlook for trade-oriented goods and services remains mixed. Surging exports are supporting the Celtic Tiger's comeback, and represented 120% of output in 2017. Leading goods exports include pharmaceuticals and medical devices, machinery, aircraft, and meat and dairy products. Service exports have also been on the rise, dominated by foreign multinational firms that have been flocking to Ireland for its lower taxes and labor costs and well-educated population. According to the Economic Social and Research Institute, the bulk of service exports are in computer programming, wholesale trade and information services.

In the near term, stronger global growth and fiscal stimulus in the U.S., Ireland's top trading partner, bode well for demand for Irish goods and services. However, a stronger euro will hurt competitiveness and risks of a trade war are escalating with the introduction of U.S. and Chinese tariffs. For now, the current account deficit with Mexico and China is the focus of the Trump administration's protectionist trade agenda. However, should the European Union get caught in the crosshairs, Ireland's farmers and manufacturers would suffer.

Meanwhile, service exports stand to lose the most from Brexit. While products headed to the U.K. accounted for 11% of total goods exports in 2017, that figure was 16% for services.

Brexit troubles

Brexit also introduces geopolitical risks because the establishment of a physical border would violate the terms of the Good Friday Agreement, the 1998 treaty that ended decades of sectarian violence known as The Troubles. However, unless there is full regulatory alignment between the U.K. and the E.U., a physical border would have to be established to monitor the flow of goods and apply E.U. and U.K. duties.

Similarly, the Good Friday Agreement gives the people of Northern Ireland the choice of Irish or British citizenship or both, which entitle them to the same free movement rights if both countries are in the EU. However, a post-Brexit world requires that they be either British or Irish citizens, taking away free-movement rights from those who choose British citizenship. Further complicating the situation, the majority of Northern Ireland voted to stay in the EU, and thus a Brexit-induced identity crisis in the region could open old wounds and spark renewed violence.

For now, U.K. Prime Minister Theresa May is proposing a customs partnership with Brussels, using tracking technology to prevent the construction of a physical border in Northern Ireland. However, the technology needed for such an arrangement is still in the early stages, and the question of the free movement of people across the island remains unanswered. Thus, risks to the economic outlook are mainly linked to the outcome of Brexit negotiations.

ASIA PACIFIC

By Katrina Ell of Moody's Analytics
April 12, 2018

CHINA

China's GDP growth target for this year is "around 6.5%," unchanged from 2017. One important difference is that the aspiration to achieve a faster growth rate if possible was left out of the 2018 target. This goes to the heart of China's push to achieve quality over quantity in economic growth. Priorities for this year include improving air quality, expanding environmentally friendly industries such as electric cars, and reducing income inequality.

The GDP target is much lower than in previous years when the minimum target was 8%. Quality growth is about recognising that prosperity will be achieved without the pollution that has taken a toll on the quality of air, water and life. This recognizes that China is no longer amongst the cheapest globally to do business. Land, energy and labour prices are rising. To compensate for higher costs, the quality of outcomes from doing business, especially manufacturing, needs to improve.

Official forecasts lower the budget deficit target to 2.6% of GDP in 2018, from 3% in 2017. This is below expectations for a reduction to 2.9% and suggests a fiscal drag this year. Local government borrowing has already slowed and monetary policy isn't expected to pick up the slack, with the official forecast for M2 growth remaining steady at 8.2%.

Reducing financial risk is one of the Communist Party's principal objectives for 2018. Improving financial regulation is an important way China intends to better manage its large pile of debt. The systemic importance of China's financial system should not be understated. The International Monetary Fund estimates that China's financial system represented almost 470% of GDP in 2016, after growing rapidly in size and complexity over the past decade. In 2011 the financial system represented around 260% of GDP. China intends to keep the macro leverage ratio basically stable in 2018. Beijing appears to prefer slowing debt growth rather than cutting the absolute level, suggesting that the elevated total debt-to-GDP ratio of around 260% will barely budge this year.

China's total debt has been steadily rising for the past decade. When economies take on a large pile of debt in a short time frame they are more prone to a hard landing. In January, an IMF study identified 43 credit booms where the credit-to-GDP ratio increased by more than 30 percentage points in five years. Of those examined, 38 ended with a marked growth slowdown or financial crisis.

China's debt-to-GDP ratio has increased by 54 percentage points in the past five years. Sovereign debt is not the problem; high debt sits mainly on corporate balance sheets. According to the Bank of International Settlements, corporate debt was 163% of GDP in mid-2017. Thus, banks are the main drivers, and that is why improved financial regulation is critical.

The March Congress revealed that the People's Bank of China will be handed greater financial regulatory powers, including all rule-making responsibilities. The regulatory bodies responsible for banking and insurance will be merged. Combining the China Banking Regulatory Commission and the China Insurance Regulatory Commission marks the biggest industry shuffle since 2003. These regulatory bodies together oversee US$43 trillion in financial assets. The merger will address regulatory arbitrage, unclear responsibilities and cross-regulation. Although improved regulation is a positive, the changes reflect power centralisation. It is unclear how independent the PBoC is from Xi, who is also leader of the Communist Party.

Xi isn't known as an economic reformist; his reforms have been more political. Since Xi entered office in 2012, the Communist Party has increased its control over state-owned and private enterprises. Xi has previously emphasized the importance of making state-owned enterprises bigger and stronger as well as more efficient. We are skeptical whether these three objectives are complementary.

Japan takes a breather

Japan enjoyed a stellar run in 2017, with GDP growth hitting 1.7%, its fastest pace since 2013. Upbeat consumption, manufacturing and exports delivered the performance, but that is not expected to be replicated in 2018.

Consumption is on a softer footing through the first quarter as meaningful improvements in wage growth failed to materialize following the annual spring negotiations. The stronger yen from heightened global risk aversion is also hurting manufacturing and export competitiveness, following a favourable run in 2016 and 2017. GDP growth is forecast at 0.9% in 2018.

Japan notably did not receive special dispensation over tariffs on its steel exports to the U.S., possibly because of its large bilateral trade surplus with the U.S. Japan ships only around 5% of its steel exports to the U.S., but if the tariffs are introduced it could pave the way for other tariffs, culminating in a bigger impact.

The Long View

Stubborn problem

Inflation remains a stubborn problem for the Bank of Japan. Core inflation, the BoJ's preferred inflation measure, is running at 1% y/y, well shy of the 2% target. Fuel inflation will likely add less to inflation over 2018, after being a primary upward contributor in 2017. Consequently, inflation will average 0.8% over 2018. Although we expect the yen to depreciate to its stable level of ¥110 to ¥115 per dollar, the currency could still appreciate if risk aversion increases. This will not only signal lower near-term inflation, but also pressure Japan's export sector.

Although the BoJ may slow its pace of asset purchases as it runs out of Japanese government bonds to purchase later this year, overall monetary policy will remain extremely accommodative with the central bank sticking with its negative interest rate policy and yield control policy into 2019.

Japan's contribution to global growth has been dwindling and ASEAN-5 is making a gradually larger contribution. But regions such as ASEAN-5 heavily depend on offshore demand to fuel GDP growth. There's a strong reliance on developed country markets, with exports and trade rising as a share of GDP growth in the past 20 years. Even though Southeast Asia is making a larger contribution to growth, the U.S., Europe and, to a lesser extent, Japan are still more important stimulants to global growth.

All told, Asia had a great 2017, with many economies expanding at their fastest pace in years. Asia's economic performance is closely tied to the global business cycle: As long as global growth is ticking over nicely, Asia usually follows suit because its manufacturing sectors are generally heavily weighted to service offshore demand. The sustained upswing in the global tech cycle was a key support, and forward indicators suggest persistent buoyancy through the first half of 2018.

Ratings Round-Up

By Kathryn Asher and Michael Ferlez

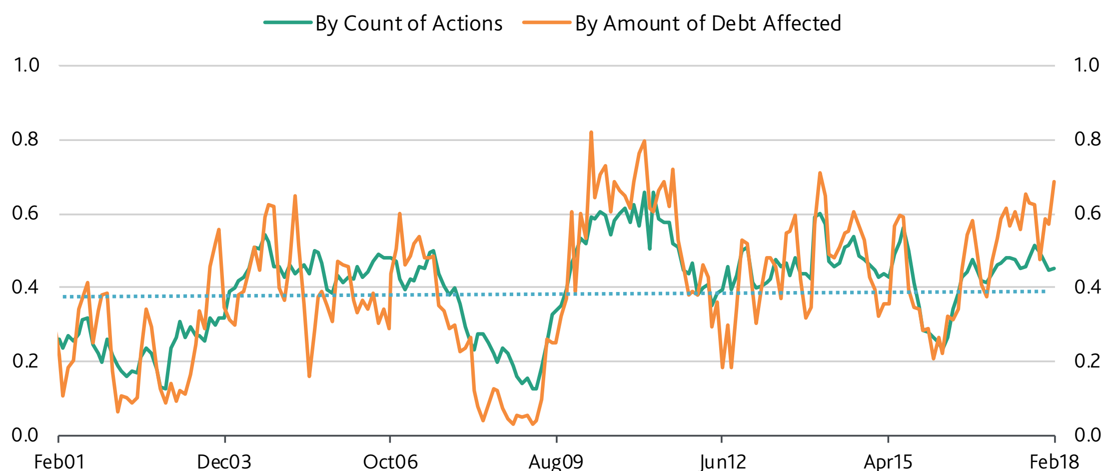
Industrial Sector Dominates U.S. Activity

The industrial sector dominated U.S. activity—accounting for all but two of the rating changes—though the direction of rating changes were mixed. The ratio of positive rating changes to total rating changes in the U.S. was 61%, an improvement from 40% in the previous week. The notable upgrades in the U.S. were HCA Healthcare, Inc., Hilton Worldwide Finance, LLC, and E*TRADE Financial Corporation. HCA Healthcare, Inc.'s rating change reflects the firm's strong competitive position and growth in competitive markets. However, the rating is constrained by the firm's geographic footprint. Hilton Worldwide Finance, LLC was upgraded to reflect the expectation that Hilton would be able to maintain its Moody's adjusted leverage below 4.5x. Lastly, E*TRADE Financial Corporation was upgraded thanks to an improving credit profile. Notable downgrades include Nine West Holdings, Inc., which had its Probability of Default Rating downgraded after the shoe retailer filed for Chapter 11 bankruptcy protection last week.

The story in Europe was not quite as bright. The most notable downgrades were in the U.K., where The Royal Bank of Scotland Group Plc and Barclays Plc were downgraded from A3 to Baaa2 and A1 to A2, respectively. The downgrade for RBSG and Barclays were due the reorganization of their legal structures in accordance to the UK's ring-fencing legislation. Both RBS plc—to be renamed NatWest Markets—and Barclays Bank plc will likely have weaker credit profiles than currently, as they will rely more heavily on capital markets and some wholesale activities—typically riskier activities than retail and commercial banking. Barclay's rating downgrade also reflects ongoing profitability challenges.

FIGURE 1

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



* Trailing 3-month average

Source: Moody's

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
4/4/18	AES CORPORATION (THE)-DPL INC.	Industrial	SrUnsec	1,000	U	Ba3	Ba2	SG
4/4/18	HIGHPOINT OPERATING CORPORATION	Industrial	SrUnsec/LTCFR/PDR	675	U	Caa2	Caa1	SG
4/4/18	EV ENERGY PARTNERS, L.P.	Industrial	PDR		D	Ca	D	SG
4/4/18	P.F. CHANG'S CHINA BISTRO, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	300	D	Caa1	Caa2	SG
4/4/18	AERCAP HOLDINGS N.V. -ILFC E-CAPITAL TRUST I	Financial	JrSub/PS	1,500	U	Ba2	Ba1	SG
4/5/18	E*TRADE FINANCIAL CORP.	Financial	SrUnsec/LTIR/SLTD/Sub/PS	1,700	U	Baa3	Baa2	IG
4/5/18	CENTRAL SECURITY GROUP, INC.	Industrial	SrSec/BCF		D	B2	B3	SG
4/5/18	TWEDDLE GROUP, INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B2	Caa1	SG
4/6/18	WILDHORSE RESOURCE DEVELOPMENT CORPORATION	Industrial	LTCFR/PDR		U	B3	B2	SG
4/9/18	NATIONAL AMUSEMENT INC.-NAI ENTERTAINMENT HOLDINGS LLC	Industrial	PDR		U	B2	B1	SG
4/9/18	HCA HEALTHCARE, INC.	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	9,752	U	B1	Ba2	SG
4/9/18	VINE OIL & GAS, LP	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa1	B3	SG
4/10/18	POTLATCHDELTIC CORPORATION	Industrial	SrUnsec	154	U	Ba1	Baa3	SG
4/10/18	STEAK N SHAKE INC.	Industrial	SrSec/BCF/LTCFR/PDR		D	B3	Caa1	SG
4/10/18	HILTON GLOBAL HOLDINGS LLC -HILTON WORLDWIDE FINANCE, LLC	Industrial	SrUnsec/SrSec/BCF/LTCFR/PDR	2,500	U	Ba3	Ba2	SG
4/10/18	NINE WEST HOLDINGS, INC.	Industrial	PDR		D	Ca	D	SG
4/10/18	PDM INTERMEDIATE HOLDINGS B CORP.-CHECKOUT HOLDING CORP.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2	SG

Source: Moody's

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

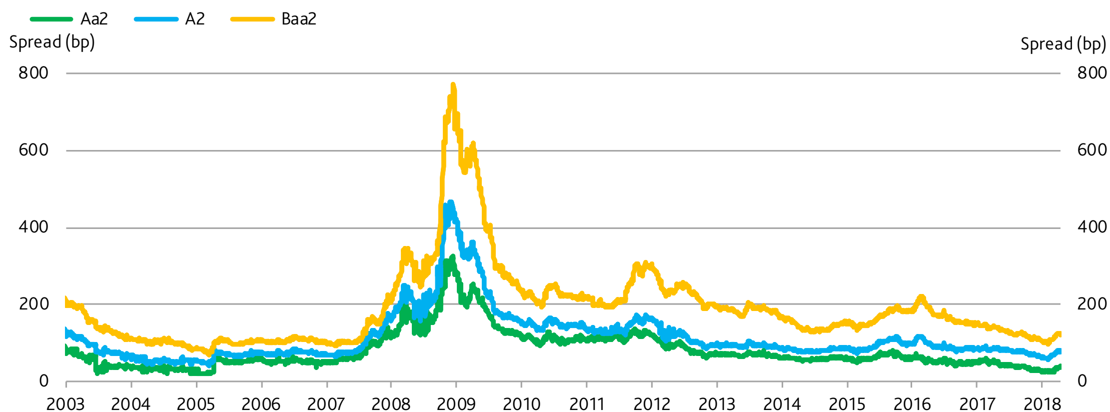
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
4/4/18	THE ROYAL BANK OF SCOTLAND GROUP PLC-THE ROYAL BANK OF SCOTLAND PLC	Financial	SrUnsec/LTIR/SLTD/Sub /JrSub/MTN	21,277	D	A3	Baa2	P-1	P-2	IG	UNITED KINGDOM
4/4/18	BARCLAYS PLC	Financial	SrUnsec/LTIR/LTD/Sub/ JrSub/MTN/PS	103,170	D	A1	A2			IG	UNITED KINGDOM
4/4/18	SENVION S.A.	Industrial	SrSec/LTCFR/PDR	490	D	B2	B3			SG	LUXEMBOURG
4/6/18	BLUESCOPE STEEL LTD. -BLUESCOPE STEEL (FINANCE) LIMITED	Industrial	SrUnsec	500	U	Ba1	Baa3			SG	AUSTRALIA
4/9/18	WIENERBERGER AG	Industrial	LTCFR		U	Ba2	Ba1			SG	AUSTRIA
4/9/18	LSFX FLAVUM HOLDCO, S.L.U.	Industrial	SrSec/BCF/LTCFR/PDR		D	B1	B2			SG	SPAIN

Source: Moody's

Market Data

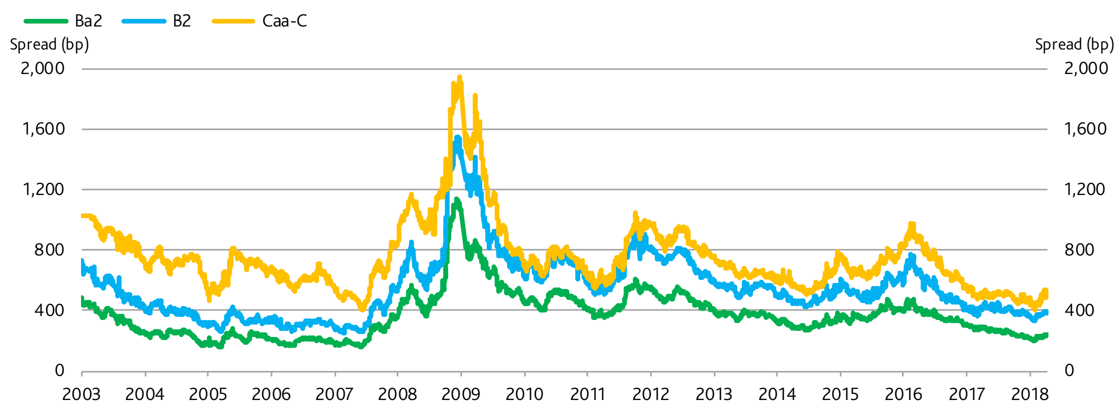
Spreads

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 (April 4, 2018 – April 11, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 11	Apr. 4	Senior Ratings
Comcast Cable Communications, LLC	A2	Baa1	A3
Pfizer Inc.	Aa3	A1	A1
International Business Machines Corporation	Aa2	Aa3	A1
HCA, Inc.	Ba2	Ba3	Ba2
UnitedHealth Group Incorporated	Aa3	A1	A3
Procter & Gamble Company (The)	Aa1	Aa2	Aa3
Ford Motor Company	Ba1	Ba2	Baa2
HSBC Finance Corporation	A1	A2	Baa1
Southern California Edison Company	A1	A2	A2
Lockheed Martin Corporation	Aa2	Aa3	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 11	Apr. 4	Senior Ratings
WEC Energy Group, Inc.	Baa2	Aa1	A3
Apple Inc.	Aa2	Aa1	Aa1
American Express Credit Corporation	A2	A1	A2
Caterpillar Financial Services Corporation	Baa2	Baa1	A3
Exxon Mobil Corporation	Aa3	Aa2	Aaa
Bank of New York Mellon Corporation (The)	Baa2	Baa1	A1
United Technologies Corporation	Aa3	Aa2	A3
Nissan Motor Acceptance Corporation	Baa3	Baa2	A2
Cargill, Incorporated	Baa2	Baa1	A2
NextEra Energy Capital Holdings, Inc.	Baa3	Baa2	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 11	Apr. 4	Spread Diff
Parker Drilling Company	Caa2	1,387	1,262	125
WEC Energy Group, Inc.	A3	62	27	35
Radian Group Inc.	Ba3	168	149	19
MGIC Investment Corporation	Ba2	168	150	18
American Airlines Group Inc.	B1	286	274	13
AK Steel Corporation	B3	428	419	9
Nordstrom, Inc.	Baa1	187	181	6
Western Union Company (The)	Baa2	122	116	6
Levi Strauss & Co.	Ba2	132	127	5
USG Corporation	Ba1	276	270	5

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 11	Apr. 4	Spread Diff
K. Hovnanian Enterprises, Inc.	Caa3	2,129	2,479	-350
Sears Roebuck Acceptance Corp.	C	3,960	4,204	-244
Sears Holdings Corp.	C	3,239	3,439	-200
Weatherford International, LLC (Delaware)	Caa1	677	816	-138
Windstream Services, LLC	Caa1	2,614	2,708	-94
Sprint Communications, Inc.	B1	305	390	-86
ServiceMaster Company, LLC (The)	B1	264	342	-78
Talen Energy Supply, LLC	B1	1,097	1,163	-66
MBIA Inc.	Ba3	719	768	-50
Rite Aid Corporation	B3	686	732	-46

Source: Moody's, CMA

Market Data

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

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Apr. 11	Apr. 4	Senior Ratings
National Grid Electricity Transmission plc	A2	Baa1	A3
Rabobank	Aa1	Aa2	Aa3
Barclays Bank PLC	A3	Baa1	A2
Banco Bilbao Vizcaya Argentaria, S.A.	A3	Baa1	Baa1
UniCredit S.p.A.	Baa2	Baa3	Baa1
Banco Santander S.A. (Spain)	A1	A2	Baa1
Bayerische Motoren Werke Aktiengesellschaft	A2	A3	A1
Landesbank Baden-Wuerttemberg	Aa2	Aa3	A1
E.ON SE	A2	A3	Baa2
Deutsche Telekom AG	Aa3	A1	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Apr. 11	Apr. 4	Senior Ratings
Novafives S.A.S.	B2	Ba3	B3
Spain, Government of	A1	Aa3	Baa2
Societe Generale	Aa3	Aa2	A1
Banque Federative du Credit Mutuel	Aa2	Aa1	Aa3
Norddeutsche Landesbank GZ	Baa3	Baa2	Baa3
Royal Bank of Scotland N.V.	A2	A1	Baa2
Raiffeisen Bank International AG	Baa2	Baa1	A3
British Telecommunications Plc	Baa3	Baa2	Baa2
Piraeus Bank S.A.	Caa3	Caa2	Caa2
Koninklijke KPN N.V.	Baa3	Baa2	Baa3

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Apr. 11	Apr. 4	Spread Diff
Astaldi S.p.A.	Caa1	1,868	1,767	101
Novafives S.A.S.	B3	259	166	92
Evraz Group S.A.	B1	244	199	45
Permanent tsb p.l.c.	Ba3	196	186	9
Royal Bank of Scotland N.V.	Baa2	44	41	3
Raiffeisen Bank International AG	A3	59	56	3
Eksportfinans ASA	Baa3	513	510	3
National Grid Gas Plc	A3	50	48	2
NXP B.V.	Ba1	83	82	2
Matalan Finance plc	Caa1	670	668	2

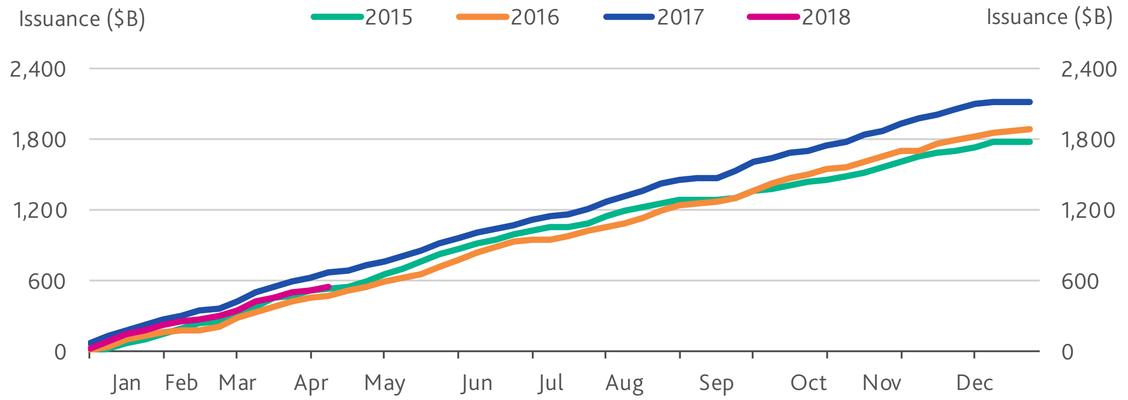
CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Apr. 11	Apr. 4	Spread Diff
Galapagos Holding S.A.	Caa3	958	995	-37
Altice Finco S.A.	B3	442	473	-31
PizzaExpress Financing 1 plc	Caa1	976	1,005	-28
Boparan Finance plc	B3	520	540	-21
Selecta Group B.V.	Caa2	401	421	-20
Iceland Bondco plc	Caa1	349	367	-18
Care UK Health & Social Care PLC	Caa1	137	155	-18
Leonardo S.p.a.	Ba1	127	143	-17
Unitymedia GmbH	B3	98	114	-16
Wm Morrison Supermarkets plc	Baa2	119	134	-15

Source: Moody's, CMA

Market Data

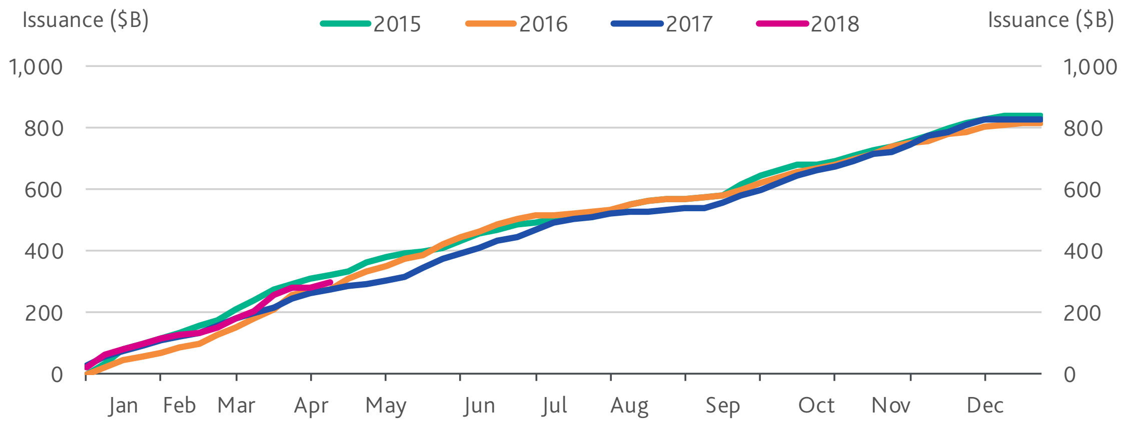
Issuance

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	22.465	9.386	32.097
Year-to-Date	410.398	110.223	545.626

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	12.445	1.046	16.315
Year-to-Date	250.759	32.174	297.596

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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