MOODY'S ANALYTICS

WEEKLY MARKET OUTLOOK

Moody's Analytics Research

Weekly Market Outlook Contributors:

John Lonski
1.212.553.7144
john.lonski@moodys.com

Yuki Choi
1.212.553.0906
yukyung.choi@moodys.com

Njundu Sanneh
1.212.553.4036
njundu.sanneh@moodys.com

Moody's Analytics/U.S.:

Ryan Sweet
1.610.235.5213
ryan.sweet@moodys.com

Moody's Analytics/Europe:

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

Reka Sulyok
+420.224.106.435
reka.sulyok@moodys.com

Moody's Analytics/Asia-Pacific:

Katrina Ell
+61.2.9270.8144
katrina.ell@moodys.com

Editor
Reid Kanaley
1.610.235.5273
reid.kanaley@moodys.com

Profit Outlook Offsets Record Ratio of Corporate Debt to GDP

Credit Spreads	Investment Grade: We see year-end 2018's average investment grade bond spread exceeding its recent 122 bp. High Yield: Compared to a recent 346 bp, the high-yield spread may approximate 420 bp by year-end 2018.
Defaults	US HY default rate: Moody's Default and Ratings Analytics team forecasts that the U.S.' trailing 12-month high-yield default rate will sink from June 2018's 3.4% to 2.3% by June 2019.
Issuance	In 2017, US$-denominated IG bond issuance grew by 6.8% to a record $1.508 trillion, while US$-priced high-yield bond issuance advanced by 33.0% to a new record calendar-year high of $453 billion. For 2018's US$-denominated corporate bonds, IG bond issuance may drop by 9.6% to $1.364 trillion, while high-yield bond issuance is likely to fall by 12.8% to $395 billion..

THIS REPORT WAS REPUBLISHED AUGUST 13, 2018 TO UPDATE ECONOMIC FORECASTS FOR THE WEEK AHEAD.

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

Credit Markets Review and Outlook

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

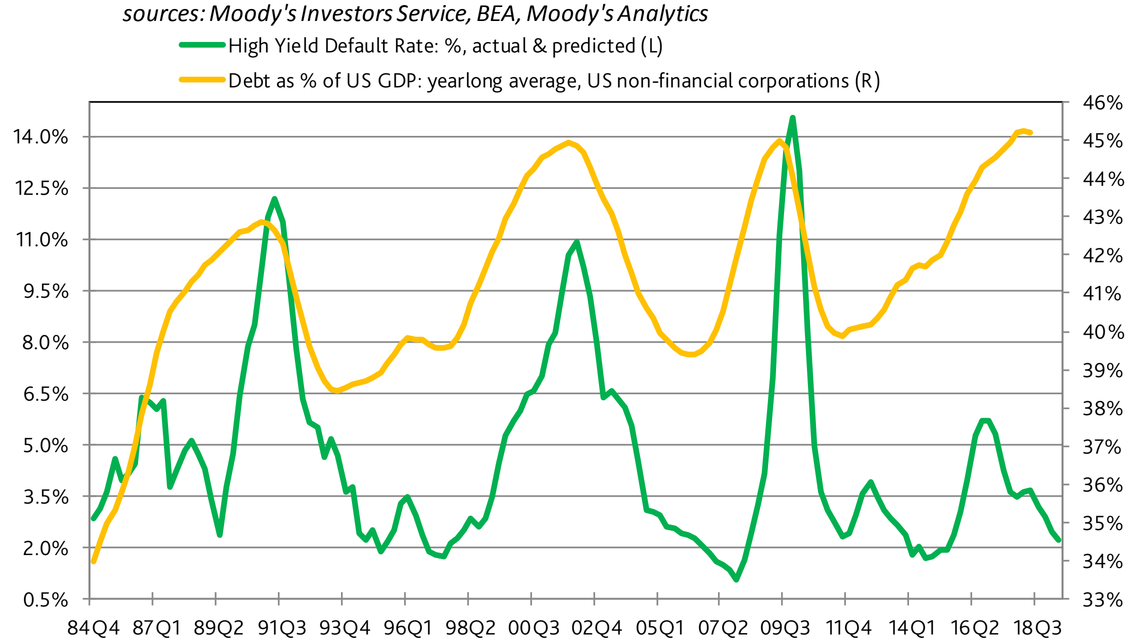
Profit Outlook Offsets Record Ratio of Corporate Debt to GDP

A high ratio of debt to GDP may be manageable, that is up until the income flow servicing such debt recedes. During the past several years, the ratio of U.S. nonfinancial-corporate debt to GDP seems to have lost its ability to explain both the magnitude and the direction of the high-yield default rate. As of 2018's first quarter, corporate debt rose to a new record high 45.5% of GDP (both are in terms of rolling yearlong averages). Nevertheless, after most recently peaking at the 5.9% of January 2017, the default rate has dropped to June 2018's 3.4% and is expected to ease to 2.3% by June 2019.

By contrast, when the corporate debt to GDP ratio previously set comparable record highs that exceeded 42% in 2009's second quarter, 2001's final quarter, and 1990's fourth quarter, the default rate quickly soared to cycle highs of 14.7% (as of November 2009), 11.1% (as of January 2002) and 12.4% (as of June 1991).

Figure 1: Default Rate Last Sank Amid a Fast Rising Ratio of Corporate Debt to GDP during the Late 1980s

sources: Moody's Investors Service, BEA, Moody's Analytics



A sinking default rate amid an elevated and rising ratio of corporate debt to GDP is not without precedent. Despite how the yearlong ratio of nonfinancial-corporate debt to GDP climbed up from the 40.0% of June 1987 to June 1989's 42.1%, the U.S. high-yield default rate plunged from the 6.3% of 1987's second quarter to the 2.4% of 1989's second quarter.

It may be worth noting that the default rate's climb from the 2.8% of 1984's final quarter overlapped an episode of industrial commodity price deflation that included a 66% plunge by the moving three-month average price of West Texas Intermediate crude oil from a July 1980 high 0f $39.50 per barrel to an August 1986 bottom of $13.38.

Today's energy alarmists should be reminded that during the recession-plagued span of 1980-1982, forecasts of $200 per barrel crude by the late 1980s were commonplace. The lesson of the early 1980s is to never underestimate the power of technology to curb price inflation over time. Inflation is more than just a monetary phenomenon.

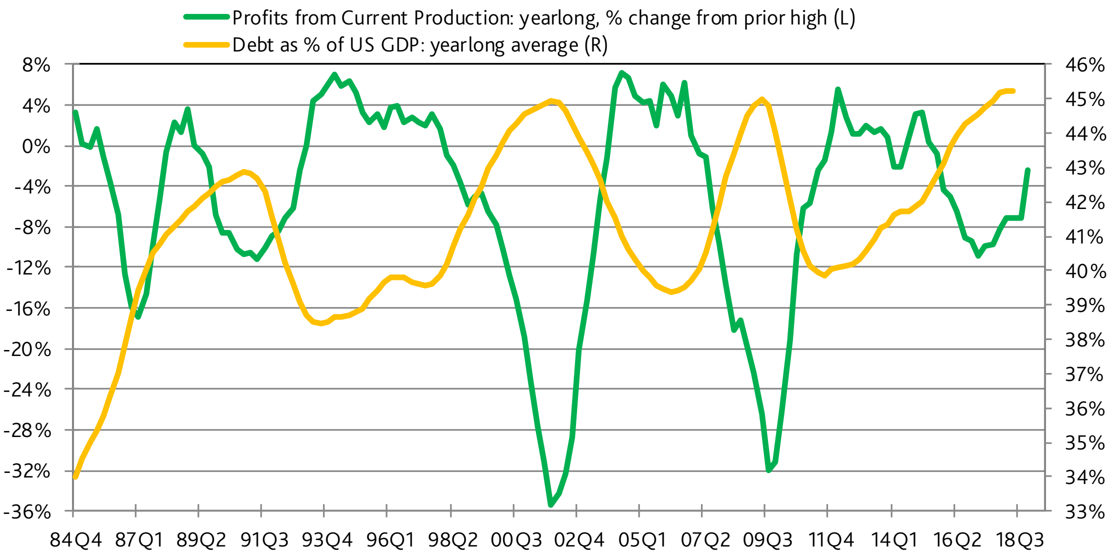
In addition to the mid-1980s unforeseen collapse of energy prices, the moving three-month average of Moody's industrial metals price index plummeted by a cumulative 42% from March 1980's then-record high to a November 1985 bottom.

The industrial commodity price deflation of the mid-1980s also helped to slash nonfinancial-corporate profits from current production. After peaking in September 1985, the moving yearlong average of profits from current production would sink by a cumulative 17% to a March 1987 bottom. And it was the plunge by profits that helped to explain a climb by the default rate from the 4.6% of 1985's third quarter to its 6.3% top of 1987's second quarter.

Current Situation Resembles That of Late-1980s

Subsequent to March 1987, the yearlong average of profits from current production would soar by 29% to a March 1989 peak. It was that pronounced recovery by profits that allowed the default rate to bottom at the 2.4% of 1989's second quarter notwithstanding the much faster 10.5% average annualized advance by nonfinancial-corporate debt relative to the GDP's 7.4% increase of the two-years-ended June 1989. Elevated ratios of corporate debt to GDP do not become onerous until profits trend lower. As shown by Figure 2, each of the three previous record highs for the ratio of corporate debt to GDP overlapped an extended a deep declining trend by profits relative to profits' then record high.

Figure 2: Rising Trend for Profits Offsets the Loss of Credit Quality to a Steep Ratio of Corporate Debt to GDP in Late-1980s and Today
US nonfinancial corporations
sources: BEA, Moody's Analytics



Thus, the current zenith for the ratio of corporate debt to GDP is distinguished from the previous three highs by the ongoing and expected near-term growth for nonfinancial-corporate profits from current production. This approximation of pretax operating profits grew by 4.1% annually during the 12-months-ended March 2018 and is likely to grow by 5% for all of 2018 before slowing to a passable 3% rise in 2019. By contrast, profits from current production's moving yearlong average contracted by 14% annually, on average, when the ratio of corporate debt to GDP set its previous three record highs.

Nominal GDP May Outrun Corporate Debt in 2018

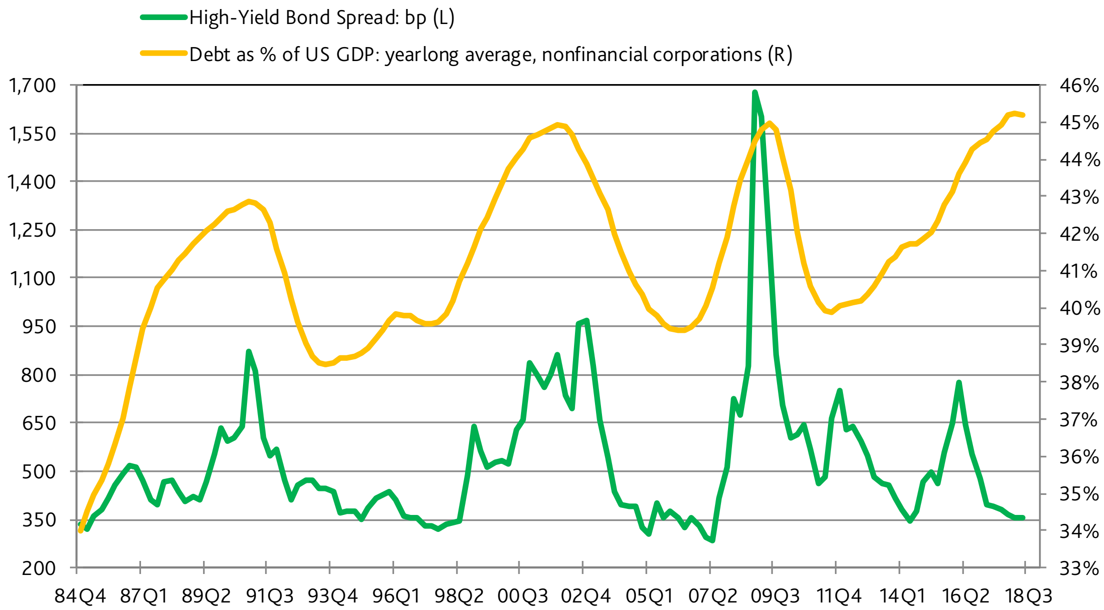
Looking ahead, the consensus looks for GDP growth of just over 5% for 2018, which just might outpace the comparably-measured rise by corporate debt. January-July 2018's 25% year-over-year decline by the gross corporate bond issuance of U.S.-domiciled corporations supports the possibility of a slower than 5% increase by 2018's nonfinancial corporate debt. Thus the ratio of corporate debt to GDP may ease going into 2019. By comparison, January-July 2017's 11% year-over-year increase by U.S. corporate bond issuance overlapped a 5.9% annual advance by yearlong 2017's average amount of outstanding nonfinancial-corporate debt that well outpaced nominal GDP's comparably measured gain of 4.2%.

Nevertheless, a declining ratio of corporate debt to GDP will offer no assurance of an improved outlook for corporate credit quality if prospects for profitability deteriorate.

Markets Shrug Off Record Ratio of Corporate Debt to GDP

Financial markets are seemingly oblivious to a new record high ratio of corporate debt to GDP. Second-quarter 2018 revealed averages of 355 basis points for the high-yield bond spread and 15 points for the VIX. The latter two readings reflected a much more positive outlook for corporate earnings compared to the averages of 979 bp for the high-yield spread and 26 points for the VIX that accompanied three previous record highs for the ratio of corporate debt to GDP. Strong financial markets assure ample systemic liquidity that makes it easier for distressed credits to avoid default.

Figure 3: Well Below-Trend High-Yield Bond Spread Joins Record Ratio of Corporate Debt to GDP
source: BEA, Moody's Analytics



High-Leverage Necessitates Tight Cost Controls

By itself, the ratio of corporate debt to GDP offers an incomplete assessment of corporate credit quality's current state. Corporate earnings will determine whether the ratio of corporate debt to GDP is excessive. When profits shrink, the servicing of corporate debt will be challenged by the simultaneous diminution of cash flows, the market value of business assets, and systemic liquidity.

Thus, it is critically important that highly leveraged businesses strive to protect their profit margins. Given the heavy weight assigned to labor costs, highly leveraged businesses might limit the yearly growth of their average hourly wage to 2%, which, in today's tight labor market, requires a wide variation in wage changes within a firm. As corporate debt climbs higher relative to GDP, there is a stronger need to avoid a contraction by profits. In turn, cost controls are likely to be tighter than otherwise.

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

THE U.S.

By Ryan Sweet of Moody's Analytics

Autos Likely Dragged on Retail Sales Growth

It's a busy week. Retail sales will be the focus. We look for retail sales to have risen 0.1% in July. Given the drop in unit sales, we expect autos to be a drag on retail sales growth, shaving 0.2 percentage point off growth. Within nonauto retail sales, we believe building materials edged lower after a solid gain in each of the past two months. Growth in retail sales at health and personal care stores has been on a good run recently, but payback is inevitable and the forecast assumes some of it came in July. Spending at gasoline stations likely fell in July while restaurants likely posted a more modest gain than in May or June. Amazon's Prime Day adds uncertainty to the forecast. but the past few years show little concrete evidence that there is a significant impact. Industrial production likely increased 0.3% in July while the housing-related data will likely improve but still underwhelm.

	Key indicators	Units	Moody's Analytics	Consensus	Consensus Range	Last
Mon @ 10:00 a.m.	Moody's Analytics Business Confidence for 8/10/18	index, 4-wk MA				27.7
Tues @ 6:00 a.m.	NFIB Small Business Survey for July	index	106.9	106.8	106.0 to 107.5	107.2
Tues @ 8:30 a.m.	Import Prices for July	% change	-0.1	0.1	-0.2 to 0.4	-0.4
	Excluding fuels	% change	0.1	0.1	0.0 to 0.1	-0.3
Wed @ 8:30 a.m.	NY Empire State Manufacturing Survey for August	index	20.0	20.0	19.0 to 20.0	22.6
Wed @ 8:30 a.m.	Productivity and Costs for 2018Q2, preliminary	% change, SAAR	2.6	2.5	2.0 to 2.6	0.4
	Unit Labor Costs	% change, SAAR	-0.8	0.0	-0.8 to 2.4	2.9
Wed @ 8:30 a.m.	Retail Sales, advanced for July	% change	0.1	0.1	0.0 to 0.8	0.5
	Excluding autos	% change	0.3	0.4	0.2 to 1.1	0.4
Wed @ 9:15 a.m.	Industrial Production for July	% change	0.3	0.4	0.1 to 0.6	0.6
	Capacity Utilization	%	78.1	78.2	78.0 to 78.4	78.0
Wed @ 10:00 a.m.	Business Inventories for June	% change	0.1	0.1	-0.1 to 0.4	0.4
Wed @ 10:00 a.m.	NAHB Housing Market Index for July	index	68.0	67.0	67.0 to 69.0	68.0
Thur @ 8:30 a.m.	Jobless Claims for 8/11/18	ths	216	218	208 to 225	213
Thur @ 8:30 a.m.	Philadelphia Fed Survey for August	index	23.7	22.0	20.7 to 24.0	25.7
Thur @ 8:30 a.m.	New Residental Construction for July	mil, SAAR	1.27	1.273	1.233 to 1.320	1.320
	Permits	mil, SAAR	1.31	1.308	1.280 to 1.330	1.173
Fri @ 10:00 a.m.	Michigan sentiment for August, preliminary	index	99.0	97.9	96.5 to 99.0	97.9
Fri @ 10:00 a.m.	Conference Board Leading Indicators for July	% change		0.4	0.1 to 0.6	0.5

MONDAY, AUGUST 13

Business confidence (week ended July 6; 10:00 a.m. EDT)

Forecast: N/A

President Trump's decision to raise tariffs on U.S. trading partners and the tit-for-tat response appear to be weighing on business confidence. Global businesses remain upbeat, but sentiment has meaningfully softened in recent months. Much of the weakening in sentiment is in expectations about business prospects into early next year, which are as weak as they have been at any time during this economic expansion. Less than 40% of respondents say that prospects are improving, the lowest percentage since the economy was pulling out of the Great Recession at the start of this decade.

Businesses' other big concern is around regulatory and legal issues, although it is receding with about one-third of respondents saying the issues are their greatest worry. Worries about the cost and availability of labor are on the rise and the issues are now the top concern of nearly one-fourth of respondents. The four-week moving average in our global business confidence index fell from 29.4 to 27.7 in the week ended August 3, the lowest this year.

TUESDAY, AUGUST 14

Import prices (July; 8:30 a.m. EDT)

Forecast: -0.1%

We look import prices to have fallen 0.1% between June and July. We expect lower commodity prices to have pushed import prices lower in July. Past appreciation in the U.S. dollar should also put downward pressure on nonfuel import prices. Also, it may be surprising that import prices have risen more recently given the tariffs. However, the direct impact of tariffs on measures of producer and consumer prices will differ. The impact will be larger on producer and consumer prices as import prices exclude duties.

WEDNESDAY, AUGUST 15

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

Forecast: 0.1% (total)
Forecast: 0.3% (ex autos)

We look for retail sales to have risen 0.1% in July. Given the drop in unit sales, we expect autos to be a drag on retail sales growth, shaving 0.2 percentage point off growth. Within nonauto retail sales, we believe building materials edged lower after a solid gain in each of the past two months. Growth in retail sales at health and personal care stores has been on a good run recently but payback is inevitable and the forecast assumes some occurs in July. Spending at gasoline stations likely fell in July while restaurants likely posted a more modest gain than that in either May or June. Amazon's Prime Day adds uncertainty to the forecast, but the past few years show little concrete evidence that there is a significant impact.
With the release of retail sales, the data are revised back three months. The data are also revised once a year to incorporate annual survey information and new seasonal factors, and they undergo a comprehensive benchmark revision once every five years with the release of the Census of Retail Trade. Revisions are unpredictable. However, the average difference between the government's current and initial estimates of June retail sales is an upward revision of 0.2 percentage point, the largest for any month.

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

Forecast: 0.3%

Our preliminary forecast is for industrial production to have risen 0.3% in July. Manufacturing output likely rose 0.6%, supported by a solid gain in motor vehicle and parts. We look for a modest decline in mining output. July was only slightly warmer than normal. Therefore, we look for utility output to have fallen in July. We will finalize our forecast for industrial production ahead of the report.

THURSDAY, AUGUST 16

Jobless claims (week ended August 11; 8:30 a.m. EDT)

Forecast: 216,000

We look for initial claims for unemployment insurance benefits to have risen from 213,000 to 216,000 in the week ending August 11. We believe the distortions from the Fourth of July holiday and annual auto plant shutdowns have worked their way through the data.

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

Forecast: 1.27 million annualized units (starts)
Forecast: 1.31 million annualized units (permits)

Starts fell in June and leading indicators disappointed. Permits fell 2.2% in June, the third consecutive decline. There is a silver lining, as the drop in permits was isolated to multifamily in June. Single-family permits edged higher but remain off their recent peak. Single-family construction packs a bigger GDP and employment punch than multifamily. Though single-family permits are still running ahead of starts, the gap isn't enormous. Nor does it signal a significant decline in construction over the next few months. Turning to July, we don't think weather was an issue. It was a little warmer than normal, but we look for starts to have fallen to 1.27 million annualized units.

FRIDAY, AUGUST 17

No major economic releases scheduled.

EUROPE

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

Is the Euro Zone Slowdown Sharper Than Expected?

The week will be extremely busy on the data front for the euro zone and U.K. economies. Among the major releases will be the final CPI and industrial production figures for the euro zone, as well as unemployment, retail sales and inflation figures for the U.K. It is hard to know for sure where markets' focus will be, as right now volatility is extremely high and risks are strongly tilted everywhere to the downside. In the euro zone, fears are that the area's economy is going through a sharper than expected slowdown this year. Accordingly, while we were hoping that the first quarter's weak results were mainly due to the harsh weather—which disrupted construction and dented spending—it came as a huge blow that second quarter preliminary GDP figures fell largely short of expectations. They showed that the area's economy lost further momentum in the three months to June, expanding by only 0.3% q/q.

The breakdown details are not available yet, so the industrial production data to be released during the week will be key in helping us better understand what is behind this unexpected easing in activity. We expect them to confirm our fears that industrial production fell by 0.1% q/q in the three months to June, a result which is extremely disappointing given that it builds on the 0.6% decline in the first quarter. The good news is that most of the decline is expected to have come from a plunge in energy production, which was all but expected given that temperatures exceeded their long-run average in April, May and June. By contrast, manufacturing is expected to have performed a bit better. But the truth is that the increase is unlikely to be something to write home about, based on what individual country figures have been telling us. This means manufacturing investment is set to disappoint again, following a subpar first quarter. In an economy in which capacity constraints abound and credit conditions remain favourable, our view is that lower confidence among businesses because of trade war fears is the likely culprit keeping investment down.

A further letdown in economic data for the euro zone will worry the European Central Bank, notably as it intends to scrap quantitative easing by the end of the year. We do expect it to carry on with that plan, but the bank has made the end of QE dependent on incoming data, which means it can always reverse course. However, we think bank President Mario Draghi would not want to lose this window of opportunity, with growth still robust despite slowing and inflation above target. Accordingly, we expect that final CPI figures for July will confirm that the area's inflation rate jumped to 2.1% at the start of the third quarter, from 2% in June. Most of the rise is explained by volatility related to oil prices, but core inflation is expected to have gained momentum too.

The U.K. figures also have the scope to move markets. The pound has crashed to an 11-month low against the dollar and a nine-month low against the euro, as Brexit fears are offsetting any good news on the economic front. But that doesn't mean investors won't get spooked if the figures disappoint and raise doubts about the pertinence of the Bank of England's recent decision to hike interest rates. Our view is that the results during the week will come broadly in line with expectations. Retail sales are expected to rebound in July following a decline in June, while inflation likely remained steady at 2.4%

in July; a further decline in core goods inflation is expected to have offset higher electricity and oil prices. Elsewhere, the U.K. unemployment rate likely held steady at 4.2%, while wage growth likely accelerated slightly to 2.7% y/y in the three months to June, from 2.6% in the three months to May. None of these results will tell us things we don't already know about the U.K. economy. Nor will they prompt us to change our forecast that the MPC is now set to stand pat until at least the second quarter of 2019.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 10:00 a.m.	Italy: Consumer Price Index for July	% change yr ago	1.2	1.4
Tues @ 7:00 a.m.	Germany: Consumer Price Index for July	% change yr ago	2.0	2.1
Tues @ 7:45 a.m.	France: Consumer Price Index for July	% change yr ago	2.4	2.3
Tues @ 8:00 a.m.	Spain: Consumer Price Index for July	% change yr ago	2.2	2.3
Tues @ 9:30 a.m.	U.K.: Unemployment for June	%	4.2	4.2
Tues @ 10:00 a.m.	Euro Zone: Industrial Production for June	% change	-0.3	1.3
Wed @ 9:30 a.m.	U.K.: Consumer Price Index for July	% change yr ago	2.4	2.4
Wed @ 2:00 p.m.	Russia: Industrial Production for July	% change yr ago	2.0	2.2
Thur @ 9:30 a.m.	U.K.: Retail Sales for July	% change yr ago	3.3	2.9
Thur @ 10:00 a.m.	Euro Zone: External Trade for June	bil euro	20.0	16.5
Fri @ 10:00 a.m.	Euro Zone: Consumer Price Index for July	% change yr ago	2.1	2.0
Fri @ 2:00 p.m.	Russia: Unemployment for July	%	4.7	4.7
Fri @ 2:00 p.m.	Russia: Retail Sales for July	% change yr ago	2.7	3.0

MONDAY, AUGUST 13

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

Inflation in Italy likely slowed marginally from last month's strong pace. We expect inflation increased 1.2% y/y in July following a 1.4% increase in June, as price pressures are building. Preliminary estimates suggest inflation was driven largely by rising energy prices, as well as higher clothing and footwear prices due to a delay in summer sales. Price pressures are building as capacity constraints and higher energy costs drive up input prices. Price growth will likely accelerate this year as more consistent economic growth and an improving labor market increase both material and labor costs.

TUESDAY, AUGUST 14

Germany: Consumer Price Index (July; 7:00 a.m. BST)

Preliminary estimates show that Germany's yearly inflation remained strong in July, ticking marginally down to 2%, not seasonally adjusted, from 2.1% recorded in June, staying slightly above the European Central Bank's target of close to but below 2%. The pace of increase of goods' prices decelerated somewhat from June, while the annual inflation of services ticked up compared with the previous month. Food price inflation slowed markedly, decelerating by 0.8 percentage point from June to 2.6% y/y. Meanwhile, the pace of energy prices gained further, reaching 6.6% y/y in July, up from 6.4% previously, driven to a large extent by high oil prices. The Brent crude remained close to $75 per barrel on average in July, 53% higher in year-ago terms. Meanwhile, the euro stabilized in the last two months at around 1.17 per U.S. dollar. The seasonally adjusted CPI likely reached 2% y/y in July.

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

The U.K.'s headline unemployment rate likely held steady at 4.2% in the three months to June, its lowest since 1975. Growth in the number of employed persons is expected to have accelerated somewhat following a more subdued rise in the March quarter, while the number of unemployed likely fell marginally for the second quarter running. Survey data for July 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.

Euro Zone: Industrial Production (June; 10:00 a.m. BST)

Industrial production in the euro zone likely fell by 0.1% q/q in the three months to June, a result which is extremely disappointing given that it builds on the 0.6% decline in the first quarter. The good news is that most of the decline is expected to have come from a plunge in energy production, which was all but expected because temperatures exceeded their long-run average in April, May and June. By contrast, manufacturing is expected to have performed a bit better. But the truth is that the increase is unlikely to be something to write home about, based on already-released individual country figures. Manufacturing investment is set to disappoint again, following a subpar first quarter. In an economy in which capacity constraints abound and credit conditions remain favourable, our view is that lower confidence among businesses because of trade war fears is the likely culprit keeping investment down.

WEDNESDAY, AUGUST 15

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

The U.K.'s annual headline CPI should have remained steady at 2.4% in July, as a further small rise in motor fuel prices and yet another increase in electricity fares are expected to offset yet another decline in core inflation. First, the recent jump in Brent prices to an average of $74 per barrel in July, compared with $48 in July 2017, should have boosted motor fuels' contribution to the headline to 0.4 percentage point, from 0.38 percentage point in June. Electricity and natural gas inflation should have also picked up, as three other U.K. energy suppliers hiked electricity and gas prices in July this year, Food inflation is meanwhile expected to have held only steady following a dip in June, but it should soften in coming months as most of the U.K.'s food retailers have finished passing through the sterling-related jump in import prices to consumers.

Regarding core inflation, we expect that core goods cooled a little bit further in July even if we expect clothing inflation to have rebounded somewhat following June's plunge. Apparel retailers likely began their summer sales earlier than usual in June, which means that the monthly decline in clothing prices in July will be smaller than usual, leading the contribution of the sector to rebound somewhat. But our view that clothing retailers are cutting their normal (non-sale) prices in response to the recent decline in import prices, and to the fierce competition in the sector, which means that the rebound won't be too pronounced. Elsewhere, we expect that inflation in the wider core goods sector fell rapidly as the anniversary of last year's sharp rise in import prices is reached. Services inflation is also expected to have remained only steady or to have fallen slightly on the back of a mean reversion in June's unexpected rise in recreational services inflation.

Our view is that base effects related to the import-price shock and to the recent rise in oil prices will ensure that the headline CPI falls swiftly in the third and fourth quarters, before hitting target at the end of the year.

THURSDAY, AUGUST 16

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

U.K. retail sales likely rose by 0.5% m/m in July, fully reversing the 0.5% decline in June. This should have pushed the yearly rate up to 3.3%, from 2.9% previously, further above the past-year average of 1.7%. Over the month, the main driver of the headline was likely a mean reversion in nonfood sales, after spending in nonfood stores plunged in June with the heat wave and the World Cup celebrations ensuring that consumers stayed away from the high street. But that temperatures remained 2.2 °C above their long-term average over the month and that the main World Cup matches that led to an explosion in TV audiences didn't happen until the first week of July suggest that the rebound was limited.

Food and alcohol sales likely remained resilient as households are expected to have continued to enjoy the good weather. Fuel sales, meanwhile, are expected to have struggled because of the higher price at the pump, though the monthly increase in July is expected to have been much less pronounced than that of June.

After a 2.1% q/q increase in sales in the second quarter, July's results are expected to put sales on course to again rise in quarterly terms in the third quarter, though by a much lesser extent. Accordingly, we remain cautious about the outlook for retail sales in 2018. Households' borrowing costs are set to 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.

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

The euro zone's external trade balance likely increased to around €20 billion at the end of the second quarter, following a surplus of €16.5 billion in May. The balance was in surplus of €25.7 billion in June 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 quarter of this year the euro zone 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 the coming years, and the impact of President Trump's policies, including steel import tariffs, could curb euro zone exports to its biggest trade partner.

FRIDAY, AUGUST 17

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

Final CPI figures for the euro zone should confirm that inflation rose to 2.1% in July, from 2% in June, supported by further growth in energy inflation, which is expected to have soared to as much as 9.4% on the back of higher Brent prices. But core inflation is also expected to have risen to 1.1%, from 0.9%, as services and nonenergy goods inflation both are set to have gained ground. Food inflation, by contrast, likely corrected from a jump in June. Base effects suggest that energy inflation has likely peaked for the year in July, but the trend in the core rate is still to the upside, in line with the strong gains in the labour market and the lower euro. This should bring the headline closer to the core; we expect inflation will ease to around 1.6% by December.

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

Russia retail is on stable footing for now. 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. Wage growth has stabilized at a healthy pace after lagging the remainder of the recovery. Many households kept up spending even with slow income gains due to increased borrowing. The debt burden rose substantially in 2017, which will keep retail growth modest as consumers pay off loans. The World Cup will provide some benefit in July. The tournament ended midmonth, so additional spending by fans early in July will push up sales. This will provide less stimulus than it did in June. As a result, retail trade growth will slow to a still-healthy 2.7% year over year in July.

ASIA-PACIFIC

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

A Gradual but Entrenched Cooling Trend in China

China's July activity data will show a gradual and bumpy, but entrenched, cooling trend. Investment in fixed assets has been slowing consistently through 2018 because of the continued slowdown in mining-related investment. Fears of the escalating trade war may also be cooling manufacturers' appetite for new investment. Public investment, such as for roads, is increasing at a strong pace. On the retail front, auto sales slumped in June but likely improved mildly in July thanks to government subsidies for energy-efficient vehicles. Industrial production likely bucked the cooling trend in July, but this is mostly related to a low base effect rather than improvement in underlying demand.

Japan's foreign trade surplus likely widened in July. Exports should have increased thanks to continued growth in electronic and machinery equipment. Shipments to China and Thailand likely remained firm. Higher commodity prices have bloated the import bill of late, a trend that's expected to persist over the medium term.

India's inflation pulse is rising, and because of that and emerging market outflows, the Reserve Bank of India is reluctantly tightening interest rates. We expect CPI gathered further momentum in July amid higher energy prices and the weak rupee, amongst Asia's worst-performing currencies this year.

Bank Indonesia has also been on the tightening bandwagon as it tries to stem outflows. We expect the central bank will take a breather in August, following 100 basis points worth of hikes since mid-May. The recent earthquake and broad-based relief for emerging markets across the globe in July are contributing factors.

Malaysia's economy had a great run through the first half of 2018. We expect GDP growth hit 5.4% y/y in the June quarter, unchanged from the March quarter's pace. Buoyant tech demand is providing a key support to manufacturing and exports given the economy's outsize exposure. Private consumption likely enjoyed a lift from government cash handouts and the removal of the goods and services tax in early June, which encouraged higher discretionary spending. The brakes will be applied to the upbeat growth engine a little in the second half, as the newly elected government has ended some infrastructure projects.

	Key indicators	Units	Moody's Analytics	Last
Mon @ 10:00 p.m.	India Consumer price index for July	% change yr ago	5.3	5.0
Tues @ 12:00 p.m.	China Fixed asset investment for July	% change yr ago YTD	5.8	6.0
Tues @ 12:00 p.m.	China Industrial production for July	% change yr ago	6.7	6.0
Tues @ 12:00 p.m.	China Retail sales for July	% change yr ago	9.1	9.0
Wed @ Unknown	Indonesia Foreign trade for July	US$ bil	-0.68	1.74
Wed @ Unknown	India Foreign trade for July	US$ bil	-17.1	-16.7
Thurs @ 9:50 a.m.	Japan Foreign trade for July	¥ bil	320	66
Thurs @ 11:30 a.m.	Australia Unemployment rate for July	%	5.4	5.4
Thurs @ 2:00 p.m.	Malaysia GDP for Q2	% change yr ago	5.4	5.4
Thurs @ Unknown	Indonesia Monetary policy for August	%	5.25	5.25
Fri @ Unknown	Singapore Non-oil domestic exports for July	% change yr ago	4.5	1.1
Fri @ 9:00 a.m.	South Korea Unemployment rate for July	%	3.7	3.7

MONDAY, AUGUST 13

India: Consumer Price Index (July; 10:00 p.m. AEST; 12:00 p.m. GMT)

India's consumer price inflation ticked up slightly in June to 5% y/y, following May's 4.9% rise. We expect a pickup to 5.3% for July; higher commodity prices have increased energy costs across India, and producers aren't afraid to pass on the higher cost of diesel and petrol to consumers. Food inflation remains largely contained, and a forecast of a normal monsoon season means food inflation is unlikely to be a threat over the coming months. An increase in rental allowances for government workers caused a sharp increase in rental costs, which is reflected in housing inflation. The rupee's depreciation remains the biggest threat to India's inflation. Indeed, the central bank raised interest rates in August, pointing to higher inflation pressures that are likely to persist over the coming months.

TUESDAY, AUGUST 14

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

Investment in fixed assets in China has been slowing consistently through 2018 as a result of the 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, expands at a strong pace. Total fixed asset investment likely grew 5.8% y/y for the year to July, down from 6% for the year to June.

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

China's industrial production decelerated in June, driven by a sharp decline in electricity and manufacturing output growth. Some of this may be due to fears about the effects of potential U.S. import tariffs, which could take effect in September. Although manufacturing sentiment remains optimistic, firms are increasingly wary about the outlook. Firms are seeing slowing orders for export and domestic goods. That said, industrial production likely grew 6.7% y/y in July, up from 6% in June. The increase in year-on-year terms is mostly due to a much weaker comparison in July 2017.

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

China's retail trade growth improved slightly in June, mostly because of an increase in fuel prices. Broad-based gains also occurred across food, household appliances and daily necessities, suggesting that household demand remains robust. Auto sales slumped in June but are likely to recover thanks to government subsidies for energy-efficient vehicles. Retail spending likely grew 9.1% y/y in July, up slightly from a 9% increase in June.

WEDNESDAY, AUGUST 15

Indonesia: Foreign Trade (July; Unknown)

Indonesia's trade balance has been volatile of late, influenced by seasonality related to religious festivities. We expect the trade balance swung into a US$680 million deficit in July, after a US$1.74 billion surplus in June. Exports for important commodities including palm oil have been under pressure recently from subdued prices and difficulties in key markets including Europe and India, which have been less open to Indonesia's palm oil, partly because of concerns about sustainability. Downside risks stemming from the trade war between the U.S. and China cloud the export outlook.

India: Foreign Trade (July; Unknown)

India's trade deficit widened in June as imports surged on the back of higher commodity prices. The trade deficit slipped to US$16.66 billion from May's $14.62 billion deficit. We expect a further widening of the deficit to US$17.1 billion in July. Although imports are surging, policymakers will take heart that export growth has also picked up because of higher commodity prices and improved global demand. India remains vulnerable to external conditions; sharp depreciation of the rupee in recent months has put pressure on policymakers to raise interest rates. Capital flight is a double whammy for India, as rupee depreciation causes import costs to rise and overall inflation to heat up.

THURSDAY, AUGUST 16

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

Japan's foreign trade surplus likely rose to ¥320 billion in July, following a surplus of ¥66 billion in June. Exports likely increased thanks to sustained growth in electronic and machinery equipment. Shipments to China and Thailand likely remained firm, while exports to India have increased at a rapid clip in recent months. Commodity prices have driven imports higher, a trend likely to persist over the medium term. An escalation in trade disputes has thus far not detracted from export growth, but external demand is unlikely to be as firm as last year. That's despite the yen remaining at levels that are relatively favourable for Japanese exporters.

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

Australia's labour market has had a great run. The trend unemployment rate cooled to 5.4% in June, its lowest in more than five years. The closely watched trend unemployment rate has been trending lower since late 2014. Employment growth remained at 2.6% y/y, comfortably above its long-term pace of 2%. We expect the seasonally adjusted unemployment rate held steady at 5.4% in July. Forward indicators point to labour market tightening, thanks to generally buoyant business conditions and the sustained upswing in nonmining business investment, although at a slower pace than in 2017. This should provide modest spillover to income growth this year, which has been painfully weak for the past two years.

Malaysia: GDP (2018Q2; 2:00 p.m. AEST; 4:00 a.m. GMT)

Malaysia's economy had a great run through the first half of 2018. We expect GDP growth hit 5.4% y/y in the June quarter, unchanged from the March quarter's pace. Buoyant tech demand is providing a key support to manufacturing and exports given the economy's outsize exposure, although at a softer level than was enjoyed in 2017. Private consumption likely enjoyed a lift from government cash handouts and the removal of the goods and services tax in early June, which encouraged higher discretionary spending. The brakes will be applied a little to the upbeat growth engine in the second half, as the newly elected government has ended some infrastructure projects.

Indonesia: Monetary Policy (August; Unknown)

Bank Indonesia looks likely to keep the policy rate on hold at 5.25% in August. The central bank maintains a hawkish stance but is taking a breather as the prior 100 basis points of hikes since mid-May are digested. The recent devastating earthquake on the island of Lombok in early August is another reason to stay on the sidelines this month, given the hit to sentiment and severe damage to infrastructure and livelihoods. That being said, further hikes are likely in 2018, not least because the rupiah remains amongst Asia's worst-performing currencies in Asia, and the hikes represent not only changes to asset prices but also a symbolic action that the bank will remain on the front foot against capital flight.

FRIDAY, AUGUST 17

Singapore: Foreign Trade (July; 2:00 a.m. AEST; Thursday, 4:00 p.m. GMT)

Singapore's export growth likely improved to 4.5% y/y in July, following the weak 1.1% in June. Tech shipments remain the largest weight on the export sector, but base effects are overstating the slowdown. We expect electronics endured their eighth straight annual contraction in July. Relief will come from other manufactured goods, and the more volatile pharmaceutical category, which should extend its run of double-digit gains in annual terms.

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

South Korea's jobless rate likely held steady at 3.7% in July. Although the unemployment rate improved to 3.7% in June, job growth remains alarmingly weak. Employment has risen by less than 1% in its last five readings and remains close to a low not hit in more than eight years. Most sectors of the economy registered declines in employment, with mining, real estate and education especially weak. Jobs in manufacturing also fell for a third consecutive month. Amid a weak labour market, South Korean consumers have become less upbeat of late. Consumer sentiment fell to a 14-month low in its latest reading, as consumers were less optimistic about economic conditions, living standards and spending intentions.

The Long View

January-July 2018's US$-denominated high-yield bond issuance plunged by 25% year over year.

By John Lonski, Chief Economist, Moody's Capital Markets Research Group,
August 9, 2018

CREDIT SPREADS

As measured by Moody's long-term average corporate bond yield, the recent investment grade corporate bond yield spread of 122 basis points matches its 122-point mean of the two previous economic recoveries. This spread may be no wider than 130 bp by year-end 2018.

The recent high-yield bond spread of 346 bp is thinner than the 350 bp of the previous week and 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 rising from January 2018's latest bottom of 3.4% to March's 4.0%, the U.S. high-yield default rate has returned as of June to 3.4%. Moody's Default and Ratings Analytics team now expects the default rate will average 2.5% during 2019's first quarter.

US CORPORATE BOND ISSUANCE

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

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

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

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

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

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

For yearlong 2016, worldwide corporate bond offerings rose by 2.3% annually for IG (to $2.402 trillion) and sank by 7.8% for high yield (to $426 billion). During yearlong 2017, worldwide corporate bond offerings increased by 4.0% annually (to $2.499 trillion) for IG and advance by 41.2% for high yield (to $602 billion). The projected annual changes for 2018's worldwide corporate bond offerings are -2.2% for IG and -12.3% 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 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 Araujo and Reka Sulyok of Moody's Analytics
August 9, 2018

UNITED KINGDOM

In the absence of top-tier economic data at the start of this week, trade war and Brexit fears dominated the headlines. On Wednesday, sterling fell to its lowest in 11 months against the dollar and in nine months against the euro. Investors are fretting about the risks of a no-deal Brexit, after U.K. Trade Secretary Liam Fox announced over the weekend that the chances of such a scenario have increased.

We have long argued that the pound's volatility would intensify in the run-up to the deal's deadline, which in theory is October, since negotiations were never expected to be easy. Chances are that much worse lies ahead, as both the EU and the U.K. are unlikely to readily concede to each other's demands. We expect things will get even dirtier over the coming months, before the U.K. and the EU agree on a last-minute deal not by October, but most likely by December.

The most likely outcome

Negotiations have progressed significantly so far this year, but reaching a final deal is still far from preordained. Our view is that Prime Minister Theresa May's softened Brexit plans, which call for a facilitated customs arrangement, will not fly with the EU as they are. The EU is likely to argue that its tax base could be eroded if smugglers circumvented checks in the U.K., since the arrangement would have the U.K. collecting taxes for the EU at its borders. The EU will likely insist that the European Court of Justice remain the final arbiter in trade disputes instead of an independent arbiter, as the U.K. wants.

And while our base case remains for the U.K. to stay in the customs union but not reach any agreement on services trade, chances that the U.K. will eventually capitulate to the EU's demands—likely opting to stay in the European Economic Area to preserve full access to services firms—have increased sharply lately. If that is the case, business investment could surge next year after firms hoarded cash and adopted wait-and-see strategies in 2018.

In contrast, further uncertainty or the failure to agree on a final deal would hurt the real economy by preventing investment from rebounding in 2019. Furthermore, a further depreciation of the pound would cause real wage growth to sink below zero again, preventing a recovery in consumption.

GERMANY

German industrial output shed 0.9% m/m in June. That closes out the second quarter at 0.4% growth in industrial production, compared with 0.1% in the first stanza. The worse than expected June performance comes on the heels of other fairly disappointing news about manufacturing. New orders fell by 4% m/m in June, the third largest decline in five years. Increased trade uncertainty and a slowing global demand created worries for the German manufacturers in the second quarter. But if we disentangle temporary drags from the underlying trend, industrial performance in the second quarter remains consistent with a slight acceleration of GDP growth to around 0.4% q/q in the second quarter from 0.3% q/q previously.

We caution that the monthly industrial reports give a much noisier signal of the underlying momentum. In the first quarter of 2017, when GDP registered a hefty 0.9% growth, new orders were nothing to write home about, dipping by 0.1% on average. Yet, for the following two quarters industrial production surged by 1.6%.

Risks of an all-out trade war recently eased. While a final trade deal with the U.S. needs the approval of the European Parliament, we see no reason member states would not approve. President Trump agreed to work towards a zero tariff, zero barrier, zero subsidy deal with the EU in exchange for a piece of the European gas market. As the uncertainty subsides and the depreciation of the euro over the year lifts demand, German exports may pick up in the second part of the year.

Instead, labour shortages may hamper the performance of German industry. The first signs of strain are there: The labour market is already tight with unemployment hovering at 5.3%. The job vacancy rate rose to 2.9% in the first quarter, 0.3 percentage point higher than a year earlier and the highest level since reunification. The German Chamber of Commerce and Industry reports that skilled labour shortages limited the output of 60% of German companies, up from 16% in 2010.

The monthly swings in forward-looking indicators may paint a darker picture than the reality. But none of this is to dismiss the importance of the industrial clues we received over the second quarter. Those effectively squashed the idea that Germany could extend its above-potential ride in the short run.

ASIA PACIFIC

By Katrina Ell of Moody's Analytics
August 9, 2018

ASEAN

Southeast Asia's growth engine remains upbeat after a solid performance in 2017, when many economies enjoyed their best performance in years. Buoyant global demand lifting the important export and manufacturing engines has been the key support, particularly given the sustained upswing in the global tech cycle for which the region has an outsize exposure.

However, darkened clouds are hovering and Southeast Asia has come under increasing pressure from offshore ructions. Tighter monetary policy settings have come into view earlier than expected as central banks try to calm emerging market outflow pressure. This will drag on domestic demand and contribute to softer GDP growth through 2019.

The escalating trade war between the U.S. and China presents elevated downside risk to the region's solid outlook. The ASEAN-5—Indonesia, Malaysia, Singapore, Thailand and the Philippines—is forecast to expand 4.8% in 2018 and 4.4% in 2019, following the 5% gain in 2017.

Varying degrees of upbeat growth

ASEAN's economic performance is tightly attuned to global conditions, with exports and manufacturing critical to economic success. In 2017, ASEAN-5's nominal exports rose 12.8% y/y because of buoyant global demand, and exports are on track to expand 11.4% in 2018.

The improvement is not equal across economies. For instance, the sustained tech upswing benefited the Philippines, Thailand and Malaysia given their large exposure. Singapore, traditionally a large tech exporter, has been moving towards higher-value-added products, making better use of its highly educated workforce. This has resulted in an expansion in the specialized chemical industry as well as biomedical products such as pharmaceuticals. Although the industry is more volatile than tech exports, the profit margins tend to be higher, as there is less focus on minimizing labour costs.

Indonesia has a larger resource sector than many other countries in the region. Mining and utilities output has accounted for around 12% of GDP since the late 1980s. Oil and gas account for around 40% of Indonesia's mining and utilities output and 1.5% of global crude oil and natural gas production.

The development of Indonesia's manufacturing sector has been different from that of manufacturing sectors elsewhere in Southeast Asia. Production in Indonesia has focused on food, tobacco and textiles, rather than elaborately transformed manufactured goods. As a result, the sustained upswing in the global tech cycle has not given Indonesia the same degree of manufacturing upturn enjoyed by many of its neighbours.

The Philippines is amongst Asia's fastest-growing economies and will remain that way through the medium term. GDP growth is forecast at 6.8% in 2018 and 6.9% in 2019, following the 6.6% rise in 2017. The

The Long View

Philippines' longer-term growth outlook is similarly upbeat, with growth expected to average around 7% y/y from 2018 to 2022.

Philippine consumption has consistently posted growth rates above 5% y/y since 2010. Underpinning this has been a steady rise in the population, in particular the working-age population. The demographic changes accompanying this are favourable to the economic outlook over the longer term as well. The Philippines' working-age population isn't expected to peak until after 2050. Therefore, consumption will rise and the dependency ratio will fall.

Exposure to a trade war

ASEAN relies heavily on offshore demand, especially from China and the U.S., to fuel its manufacturing and export engines. If the trade war between the U.S. and China were to escalate, global trade flows would be seriously squeezed and would hurt ASEAN-5 economically. In none of these economies would domestic demand alongside local fiscal and monetary stimulus measures be able to pick up the slack from a slump in external demand. Southeast Asia is particularly vulnerable to a slowdown in China's economy. China is the largest trading partner and a critical stimulant to growth for many ASEAN economies.

China's tech products are a prime target for U.S. tariffs, and the problem is that the global tech supply chain is tightly bound, with Southeast Asia a key provider of various components. For the bulk of the ASEAN-5, tech products are the largest merchandise export. Also, their exports contain a relatively high import content, a testament to reliance on global supply chains. China is an important source of those foreign inputs and also an important final destination to assemble those goods, which then get shipped further abroad.

Some Chinese parts that are currently shipped directly to the U.S. could be redirected via Southeast Asia to avoid tariffs, but whether this would be a boon for Southeast Asia is a question, given that manufacturing is still taking place in China. In the medium to longer term China could accelerate offshoring to Southeast Asia, where labour and operating costs are lower in some parts, but this wouldn't be enough to offset the direct hit from lower trade flows.

We ran a Trade War scenario through our global macro model to simulate the impact of the Trump administration's proposed tariffs on Chinese goods imports, and China retaliating broadly in kind. Our global model includes 68 countries and is linked via trade flows, foreign direct investment, and financial markets so we can view the spillover to other economies from this Trade War scenario. We found that ASEAN-5's GDP growth was reduced by 0.24 percentage point to 4.16% in 2019.

In practice, the hit to GDP growth would likely be more severe since the economic consequences go beyond the dollars and cents of the tariffs. Secondary impacts are difficult to capture and include global supply chains being disrupted; higher policy uncertainty causing businesses to delay hiring and investment; the higher cost of capital; and consumers delaying spending, especially on big-ticket items.

Ratings Round-Up

By Njundu Sanneh

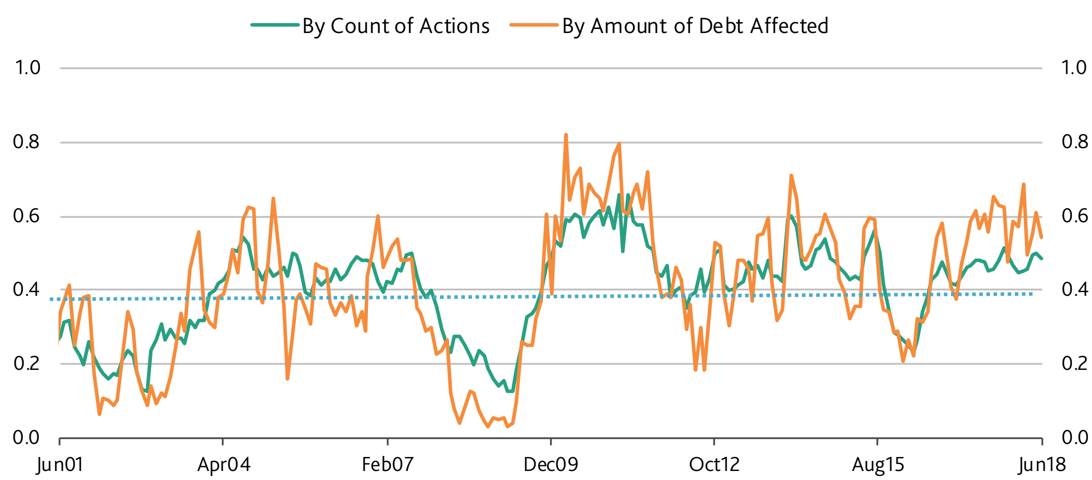
German Banks Ramp Up European Rating Revisions Activity

The rating revisions of German banks over the past week in response to legislation that changed the assumptions of government support for the various debt instruments pushed the rating count for Europe to 32 with 25 of those coming from Germany. All but one of the German companies, Oxea Holding DREI GMBH, were banks. The changes in the law to bring German baking legislation more in line with the EU's Bank Recovery and Resolution Directive, which is intended to transfer bank failure costs to lenders from taxpayers. The result was a change in the ranking of various instruments in case of insolvency. The senior unsecured ratings of bonds outstanding before July 21 were downgraded, while the issuer ratings were upgraded in response to these changes. Apart from the German entities, rating revisions activity was limited across several European countries.

For the U.S., rating revisions activity cut across a broad spectrum of sectors, and the contribution of positive rating revisions at 62% is well above the long-term average of 40%. The oil services sector has had a good run over the past few weeks with several upgrades. Oil services firms were among the most hard hit when oil and other commodity prices fell precipitously a couple of years ago. Other sectors that added to positive changes were healthcare, automotive retail and leasing. Computer peripherals, consumer products, and electronic sectors experienced rating downgrades.

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	Old STD Rating	New STD Rating	IG/ SG
8/1/18	LOEWS CORPORATION -DIAMOND OFFSHORE DRILLING, INC.	Industrial	SrUnsec/LTCFR/PDR	2,000	D	Ba3	B2			SG
8/1/18	DUKE ENERGY CORPORATION -PIEDMONT NATURAL GAS COMPANY, INC.	Utility	SrUnsec/CP	1,340	D	A2	A3	P-1	P-2	IG
8/1/18	DUKE ENERGY CORPORATION-PROGRESS ENERGY, INC.	Utility	SrUnsec	3,400	U	Baa2	Baa1			IG
8/1/18	PEARL MERGER SUB, INC.	Industrial	SrSec/BCF		D	Caa1	Caa2			SG
8/2/18	SERVICEMASTER GLOBAL HOLDINGS INC. -SERVICEMASTER COMPANY, LLC (THE)	Industrial	SrSec/BCF		U	Ba2	Baa3			SG
8/3/18	UNICREDIT S.P.A.-UNICREDIT BANK AG, NEW YORK BRANCH	Financial	LTIR/MTN		U	Baa2	A2			IG
8/3/18	PSS INDUSTRIAL GROUP CORP.	Industrial	SrSec/BCF /LTCFR/PDR		U	Caa3	Caa2			SG
8/6/18	ASHTEAD GROUP PLC -ASHTEAD CAPITAL, INC.	Industrial	SrSec	2,300	U	Ba2	Baa3			SG
8/6/18	CATALENT, INC.-CATALENT PHARMA SOLUTIONS, INC.	Industrial	SrSec/BCF/LGD		U	Ba3	Ba2			SG
8/7/18	MACOM TECHNOLOGY SOLUTION HOLDINGS, INC.	Industrial	SrSec/BCF /LTCFR/PDR		D	Ba3	B2			SG
8/7/18	PENSKE AUTOMOTIVE GROUP, INC.	Industrial	LTCFR/PDR/SrSub	1,650	U	Ba2	Ba1			SG
8/7/18	DIEBOLD NIXDORF, INC.	Industrial	SrUnsec/SrSec /BCF/LTCFR/PDR	400	D	B3	Caa2			SG
8/7/18	CURO GROUP HOLDINGS CORP.	Financial	SrSec/LTCFR	578	U	Caa1	B3			SG

Source: Moody's

Ratings Round-Up

FIGURE 4

Rating Changes: Corporate & Financial Institutions – Europe

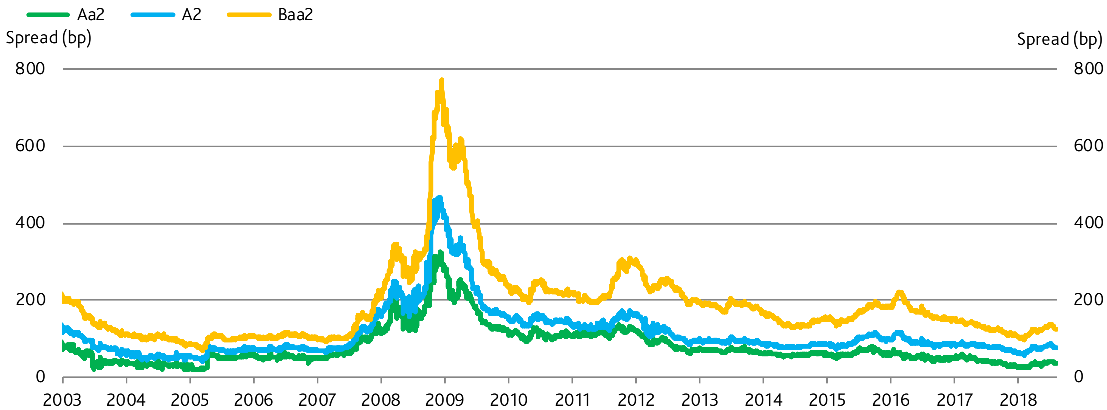
Date	Company	Sector	Rating	Amount ($ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	New STD Rating	IG/ SG	Country
8/1/18	FUNDACION BANCARIA, LA CAIXA-CAIXABANK, S.A.	Financial	SrUnsec/JrSrUnsec /LTIR/Sub/MTN/PS	10,774	U	Baa2	Baa1			IG	SPAIN
8/1/18	TITAN WHITE HOLDING & CY S.C.A.-OXEA HOLDING DREI GMBH	Industrial	SrSec/BCF/LTCFR/PDR		U	B3	B2			SG	GERMANY
8/1/18	DEBENHAMS PLC	Industrial	SrUnsec/LTCFR/PDR	263	D	B1	B2			SG	UNITED KINGDOM
8/2/18	LIBERBANK	Financial	LTD		U	B1	Ba3			SG	SPAIN
8/3/18	DEKABANK DEUTSCHE GIROZENTRALE	Financial	JrSrUnsec	783	D	Aa3	A1			IG	GERMANY
8/3/18	ERSTE GROUP BANK AG -ERSTE BANK HUNGARY ZRT.	Financial	SLTD		U	Baa3	Baa2	P-3	P-2	IG	HUNGARY
8/3/18	BAYERISCHE LANDESBANK	Financial	LTIR/MTN		U	A1	Aa3			IG	GERMANY
8/3/18	BAYERISCHE LANDESBANK	Financial	JrSrUnsec	37,686	D	A1	A2			IG	GERMANY
8/3/18	VOLKSWAGEN AKTIENGESELLSCHAFT-VOLKSWAGEN BANK	Financial	LTIR/MTN		U	A3	A1			IG	GERMANY
8/3/18	COMMERZBANK AG	Financial	SrUnsec/LTIR/LTD /Sub/MTN/PS	9,382	U	A2	A1			IG	GERMANY
8/3/18	UNICREDIT S.P.A.-UNICREDIT BANK AG	Financial	JrSrUnsec	2,294	D	Baa2	Baa3			IG	GERMANY
8/3/18	DEUTSCHE BANK AG	Financial	JrSrUnsec	58,266	D	Baa2	Baa3			IG	GERMANY
8/3/18	DEUTSCHE BANK AG	Financial	SrUnsec/MTN		U	Baa2	A3			IG	GERMANY
8/3/18	DZ BANK AG DEUTSCHE ZENTRAL - GENOSSENSCHAFTSBANK	Financial	JrSrUnsec	23,638	D	Aa3	A1			IG	GERMANY
8/3/18	DZ BANK AG DEUTSCHE ZENTRAL-GENOSSENSCHAFTSBANK	Financial	LTIR/MTN		U	Aa3	Aa1			IG	GERMANY
8/3/18	LANDESBANK HESSEN -THUERINGEN GZ	Financial	LTIR/MTN		U	A1	Aa3			IG	GERMANY
8/3/18	LANDESBANK HESSEN -THUERINGEN GZ	Financial	SrUnsec/JrSrUnsec	34,146	D	A1	A2			IG	GERMANY
8/3/18	NORDDEUTSCHE LANDESBANK GZ	Financial	LTIR/MTN		U	Baa3	Baa2			IG	GERMANY
8/3/18	NORDDEUTSCHE LANDESBANK GZ	Financial	JrSrUnsec	29,905	D	Baa3	Ba1			IG	GERMANY
8/3/18	LANDESBANK BADEN -WUERTTEMBERG	Financial	JrSrUnsec	17,156	D	A1	A2			IG	GERMANY
8/3/18	DEUTSCHE APOTHEKER - UND AERZTEBANK EG	Financial	JrSrUnsec	41	D	Aa3	A1			IG	GERMANY
8/3/18	AAREAL BANK AG	Financial	LTIR/MTN		U	Baa1	A3			IG	GERMANY
8/3/18	SPARKASSE KOELNBONN	Financial	JrSrUnsec	66	D	A2	A3			IG	GERMANY
8/3/18	MUENCHENER HYPOTHEKENBANK EG	Financial	JrSrUnsec	2,939	D	A1	A2			IG	GERMANY
8/3/18	LANDESBANK SAAR	Financial	LTIR		U	A2	A1			IG	GERMANY
8/3/18	KREISSPARKASSE KOELN	Financial	JrSrUnsec	37	D	A2	A3			IG	GERMANY
8/3/18	SPARKASSENVERBAND BADEN-WUERTTEMBERG	Financial	LTIR		U	Aa3	Aa2			IG	GERMANY
8/3/18	EURASIAN RESOURCES GROUP S.A R.L.	Industrial	LTCFR/PDR		U	B3	B2			SG	LUXEMBOURG
8/3/18	ERWERBSGESELLSCHAFT DER S-FINANZGRUPPE MBH & CO. K-LANDESBANK BERLIN AG	Financial	LTIR/MTN		U	A1	Aa2			IG	GERMANY
8/3/18	ERWERBSGESELLSCHAFT DER S-FINANZGRUPPE MBH & CO. K-LANDESBANK BERLIN AG	Financial	JrSrUnsec	5,006	D	A1	A2			IG	GERMANY
8/7/18	BANCA CARIGE S.P.A.	Financial	LTIR/LTD		D	Caa2	Caa3			SG	ITALY

Source: Moody's

Market Data

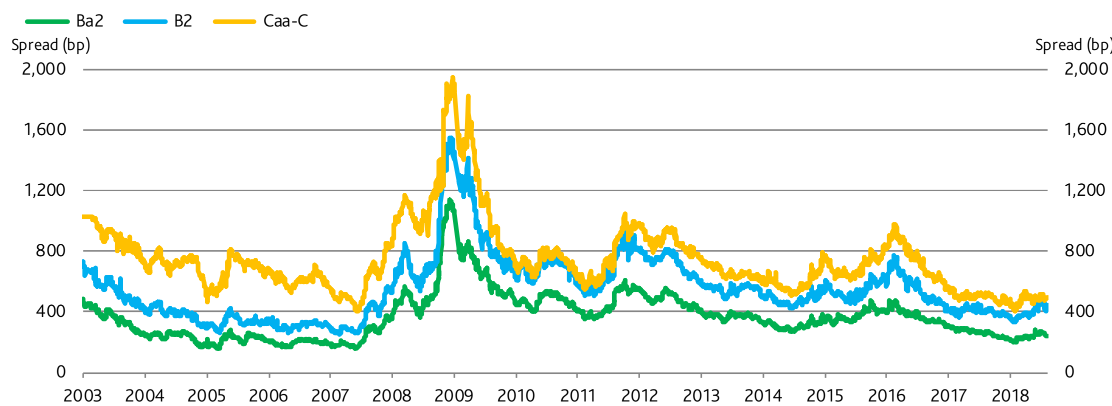
Spreads

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 (August 1, 2018 – August 8, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Aug. 8	Aug. 1	Senior Ratings
Bank of America Corporation	A2	A3	A3
Pfizer Inc.	Aa1	Aa2	A1
Kraft Heinz Foods Company	Baa2	Baa3	Baa3
Dow Chemical Company (The)	Baa1	Baa2	Baa2
United Airlines, Inc.	B1	B2	Baa2
CCO Holdings, LLC	B1	B2	B1
Norfolk Southern Corporation	Aa1	Aa2	Baa1
Sprint Communications, Inc.	B2	B3	B1
Consolidated Edison Company of New York, Inc.	A1	A2	A2
Dish DBS Corporation	Caa1	Caa2	B1

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Aug. 8	Aug. 1	Senior Ratings
Morgan Stanley	Baa1	A3	A3
American International Group, Inc.	Baa3	Baa2	Baa1
Nissan Motor Acceptance Corporation	Baa3	Baa2	A2
HSBC Finance Corporation	Baa1	A3	Baa1
Cargill, Incorporated	Baa1	A3	A2
Halliburton Company	A3	A2	Baa1
Republic Services, Inc.	A1	Aa3	Baa2
EOG Resources, Inc.	Baa3	Baa2	Baa1
PNC Financial Services Group, Inc.	Baa2	Baa1	A3
Lincoln National Corporation	Baa3	Baa2	Baa1

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 8	Aug. 1	Spread Diff
Windstream Services, LLC	Caa2	2,981	2,765	216
Sears Roebuck Acceptance Corp.	C	2,177	2,088	89
Sears Holdings Corp.	C	1,842	1,767	75
Rite Aid Corporation	Caa1	758	696	62
Genworth Holdings, Inc.	B2	398	360	38
Parker Drilling Company	Caa2	1,399	1,371	28
Talen Energy Supply, LLC	B2	778	752	26
United States Steel Corporation	B2	229	202	26
Tenet Healthcare Corporation	Caa1	368	342	25
Dean Foods Company	B3	391	372	19

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 8	Aug. 1	Spread Diff
Avon Products, Inc.	B3	810	968	-158
Hertz Corporation (The)	B3	775	893	-118
Dish DBS Corporation	B1	504	607	-103
MBIA Inc.	Ba3	401	497	-96
Frontier Communications Corporation	Caa1	1,393	1,460	-67
ServiceMaster Company, LLC (The)	B1	245	286	-41
Interval Acquisition Corp	Ba3	241	282	-41
American Axle & Manufacturing, Inc.	B2	269	301	-31
Office Depot, Inc.	B2	515	546	-31
R.R. Donnelley & Sons Company	B3	698	726	-28

Source: Moody's, CMA

Market Data

Figure 4. CDS Movers - Europe (August 1, 2018 – August 8, 2018)

CDS Implied Rating Rises	CDS Implied Ratings		
Issuer	Aug. 8	Aug. 1	Senior Ratings
Telecom Italia S.p.A.	Ba3	B1	Ba1
TDC A/S	Ba3	B1	B1
DEPFA BANK plc	B1	B2	A2
Boparan Finance plc	Caa1	Caa2	Caa1
Matalan Finance plc	Caa3	Ca	Caa1
Wolters Kluwer N.V.	Aa2	Aa3	Baa1
Stonegate Pub Company Financing plc	B1	B2	Caa1
Care UK Health & Social Care PLC	Ba1	Ba2	Caa1
Permanent tsb p.l.c.	Ba3	B1	Ba3
Storebrand ASA	B1	B2	Baa3

CDS Implied Rating Declines	CDS Implied Ratings		
Issuer	Aug. 8	Aug. 1	Senior Ratings
Credit Agricole S.A.	A1	Aa3	A1
Deutsche Bank AG	Ba2	Ba1	A3
Banco Bilbao Vizcaya Argentaria, S.A.	Baa3	Baa2	A3
CaixaBank, S.A.	Baa3	Baa2	Baa1
UniCredit S.p.A.	Ba2	Ba1	Baa1
ING Groep N.V.	Baa2	Baa1	Baa1
Electricite de France	Baa1	A3	A3
RCI Banque	Ba1	Baa3	Baa1
Bayerische Motoren Werke Aktiengesellschaft	Baa1	A3	A1
Daimler AG	Baa3	Baa2	A2

CDS Spread Increases		CDS Spreads		
Issuer	Senior Ratings	Aug. 8	Aug. 1	Spread Diff
Galapagos Holding S.A.	Caa3	3,731	3,373	358
Astaldi S.p.A.	Caa1	2,078	1,791	287
Casino Guichard-Perrachon SA	Ba1	439	377	63
Altice Finco S.A.	B3	452	424	29
PizzaExpress Financing 1 plc	Caa1	1,173	1,151	22
Jaguar Land Rover Automotive Plc	Ba2	329	312	17
Novafives S.A.S.	B3	354	337	17
Italy, Government of	Baa2	218	202	16
UniCredit S.p.A.	Baa1	136	121	15
Greece, Government of	B3	338	322	15

CDS Spread Decreases		CDS Spreads		
Issuer	Senior Ratings	Aug. 8	Aug. 1	Spread Diff
Eksportfinans ASA	Baa3	438	460	-21
TDC A/S	B1	176	187	-12
Stonegate Pub Company Financing plc	Caa1	196	207	-11
Storebrand ASA	Baa3	191	199	-8
DZ BANK AG	Aa1	60	67	-7
Sappi Papier Holding GmbH	Ba2	342	349	-7
Boparan Finance plc	Caa1	558	565	-7
Stena AB	B3	505	511	-7
CNH Industrial N.V.	Ba2	109	116	-6
Care UK Health & Social Care PLC	Caa1	125	131	-6

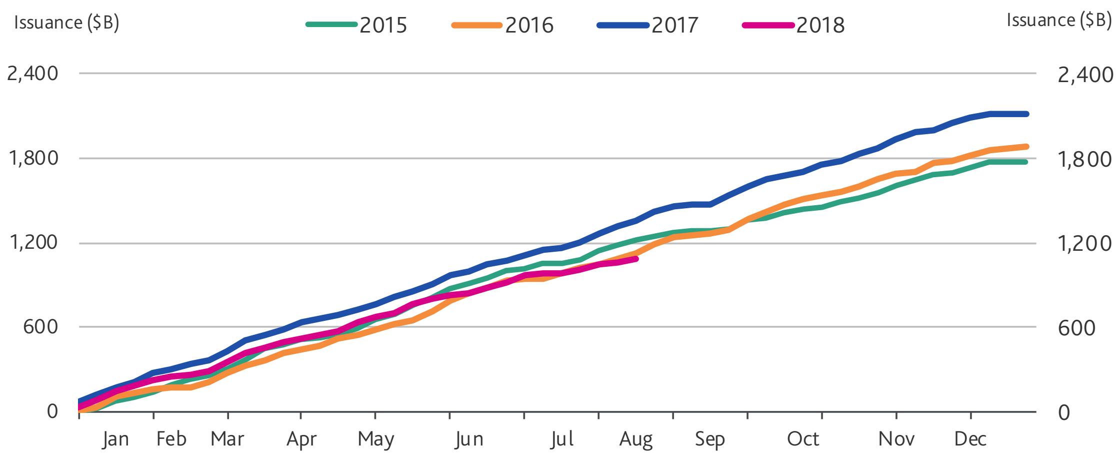
Source: Moody's, CMA

Market Data

Issuance

FIGURE 5

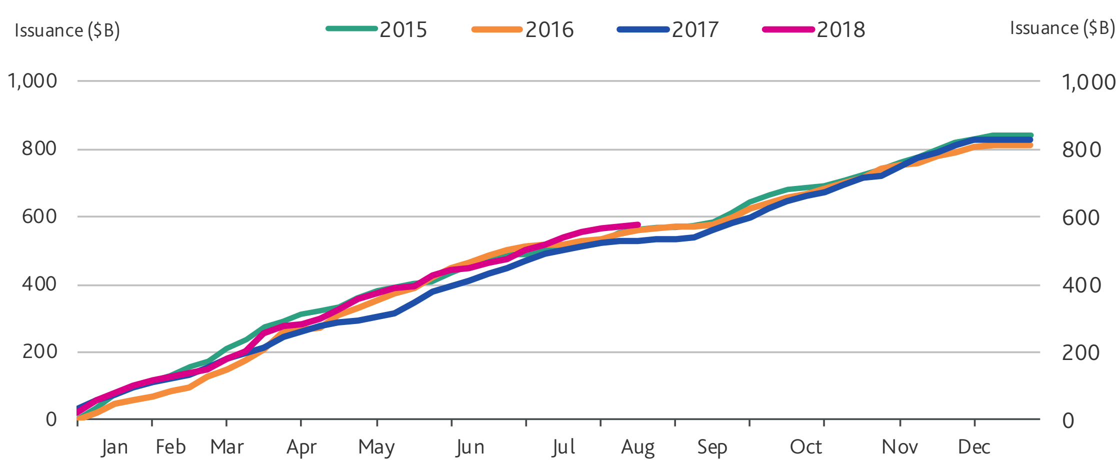
Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



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	9.942	9.065	20.022
Year-to-Date	830.104	207.354	1,087.919

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount $B	Amount $B	Amount $B
Weekly	8.176	0.381	8.576
Year-to-Date	484.645	66.395	578.910

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

Moody's Capital Markets Research recent publications

Upon Further Review, Debt to EBITDA Still Falls Short as an Aggregate Predictor (Capital Markets Research)

Base Metals Price Drop Suggests All Is Not Well (Capital Markets Research)

Markets Suggest U.S. Fares Best in a Trade War (Capital Markets Research)

Trade War Will Turn Ugly if Profits Shrink (Capital Markets Research)

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

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

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

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

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

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

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

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

Profits Growth Curbs Defaults (Capital Markets Research)

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

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

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

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

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

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

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

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

Topics CreditEdge - Bank Default Risk Improves in 2017

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

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

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

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

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

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

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

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

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

Report Number: 1137387

Editor
Reid Kanaley

Contact Us

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