Corporate Credit Monthly Update
June 2018

European economic indicators remain ambivalent. Although inflation has reached the 2% threshold, the increase is due chiefly to the rise in the price of oil. Excluding food and energy prices, inflation is stagnating at around 1%. The European Central Bank announced the close of its asset purchase programme in December, but surprised the markets by postponing the possibility of a rate hike until summer 2019. Aside from the ECB announcement, newsflow during the month was mainly political. In Italy, the coalition government formed by the League and the 5-Star Movement endeavoured to reassure the markets regarding the country's budgetary policy, after the turbulence observed during May. Italian 10-year bond yields eased from 2.79% to 2.68% but nonetheless remained significantly higher than the 2.02% recorded at the end of last year. The early part of the month saw the downfall of the Spanish prime minister Mariano Rajoy, which added to political incertitude over the future of Europe. Tensions between European countries have been heightened over the question of migrants, notably following the adoption of a tougher position by Italy. Clear signs of disagreement appeared within the German government, between Chancellor Angela Merkel and the minister for the interior, who is also the leader of the Bavarian Christian-Democrats. A compromise was nonetheless reached at the end of the month at the European council meeting. June was a negative month for high yield markets across the board, with the transport and financial services sectors hit the hardest.

The economic climate in the US remains favourable, with an annual growth rate of 3% and household confidence indicators at high levels. Consumer spending remains strong, driven by rising wages and a lower savings rate. Core inflation (excluding food and energy prices) is close to the 2% target level set by the Federal Reserve. Against this backdrop, the US central bank increased its base rates by 0.25% for the second time and announced plans to implement two further hikes by the end of the year. 10-year bond yields are now at 2.86%. Investors are concerned over the risk of a trade war after President Trump's decision to set customs taxes. High yield markets turned around at the end of the month. The automobile sector (-1.1%) was hit particularly hard by the new customs tariffs policy. On the other hand, the retail trade sector, which is benefiting from the healthy domestic economy, posted a positive performance in June (+1.2%).

In emerging markets, during June, investor attention focussed on the slowdown in the Chinese economy and incertitude stemming from the US customs tariffs policy. Volatility among emerging currencies against the dollar continues to undermine investor confidence, driving high yield markets lower and forcing central banks to intervene in order to support their currencies, notably in India, Indonesia, Mexico, the Czech Republic and Turkey. Meanwhile, in Turkey, the authoritarian policy led by President Erdogan and his aims to control the central bank's monetary policy has generated a strong sense of wariness in the markets, but without weighing on his popularity, as he was a comfortably re-elected during the elections on 24 June with heightened powers. In the emerging high yield segment, the heaviest monthly losses were recorded among utilities and in the services and technology sectors. Healthcare was the only sector which posted gains.

Companies in the Spotlight

Edreams Odigeo (Europe)

Online travel retailer eDreams Odigeo reported a good set of FY 2017/2018 results, delivering on its diversification strategy. Revenues grew by 5% while adjusted EBITDA soared by 10% y-o-y and net leverage contracted to 2.1x, down from 2.7x a year earlier. The yearly performance was driven by expansion markets while core markets (Spain, Italy and France) generated lower bookings.

Dell (US)

Dell announced it will go public again by listing Dell Technologies Class C common stock on the NYSE. These shares will be exchanged, plus a cash payment, against VMWare tracking stocks, simplifying Dell's structure. No debt is required and Dell reiterated its commitment to achieve investment grade status.

Ajecorp (Emerging Countries)

Fitch has affirmed the Peruvian beverage producer Ajecorp's (Atic) senior unsecured notes at B-, and its rating outlook has been revised to positive. Fitch expects Atic's adjusted debt/EBITDA to trend below 4x by 2019 and highlights the group's strong geographical diversification and improving cash flow generation capacity.

Significative Primary Issues

EUR

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
DKT Finance	7.000%	2023	€1.05Bn	B3
Outokumpu OYJ	4.130%	2024	€250m	Ba3

US

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Boyd Gaming	6.000%	2026	$700m	B3
Charter Com.	4.500%	2024	$1.1Bn	Ba1

EM

Issuer	*Coupon*	*Maturity*	*Amount*	*Rating*
Aoyuan Property	7.500%	2021	$425M	B2
Bulgarian Energy	3.500%	2025	€400M	Ba2

Rating Moves

ArcelorMittal	Moody's	↗	Baa3
AT&T	S&P	↘	BBB
Bayer AG	Moody's	↘	Baa3
BT Group PLC	Fitch	↘	BBB
Carslon Travel Inc.	S&P	↘	B-
ELIOR Group SA	S&P	↘	BB
Fortum Oyj	Fitch	↘	BBB
General Electric Co	Fitch	↘	A
Holdikks SAS	S&P	↘	CCC-
Moby SpA	S&P	↘	B
SSAB AB	S&P	↗	BB
Techem GmbH	Fitch	↘	B+

Macro Economic Events

European Union:

- The European Commission adopted regulations enabling the implementation of balanced measures in response to the customs duties imposed by the US on steel and aluminium. These measures, targeting a list of products with a total value of EUR 2.8 billion, came into force on Friday 22nd June.

- Eurozone inflation accelerated during May. Prices rose by 1.9% year-on-year last month, as energy and goods & services prices increased.

- Unsurprisingly, the ECB left its base rates unchanged. On the other hand, the central bank announced plans to progressively reduce the pace of its monthly securities repurchase programme to half the current level, i.e. EUR 15 billion per month compared to 30 billion today, from October until December, ahead of a complete halt beyond December 2018. It also ruled out a hike in base rates before summer 2019.

Greece: a debt-relief agreement was reached with the Eurogroup, covering EUR 96 billion of Greek debt contracted in 2012 under the bailout facility set up at the time. The Eurogroup agreed to extend the average maturity by 10 years from 32.5 to 42.5 years. The grace period during which neither the capital nor interest will be paid was also extended by 10 years.

World: after 2 days of bitter discussions, the G7 leaders reached an agreement on the need for “free, fair and mutually beneficial trade” and on the importance of combatting protectionism, according to a joint statement. However, the US president later instructed his representatives not to ratify the final statement following comments from the Canadian prime minister Justin Trudeau, regarding the implementation of customs duties.

Opec: OPEC members reached an agreement to increase production, but without rescinding the output ceiling arrangement concluded in November 2016. With this vague agreement, which contained no detail regarding individual quotas, the cartel has nonetheless ensured that global demand will be satisfied, while also preserving the unity of the group, as Iran was formally opposed to stepping-up production.

United States: Donald Trump announced the forthcoming implementation of 25% customs duties on USD 50 billion of imports from China. Meanwhile, the Fed increased the federal funds rates range by a quarter-point, as expected, to 1.75 - 2%. The interest rate on excess reserves was also increased to 1.95%. The Fed is now anticipating 4 hikes this year, compared to only 3 previously, while maintaining plans for 3 further hikes in 2019.

China: the People’s Bank of China announced a 50 bps reduction in the banking reserve requirements ratio for certain banks, which should liberate a total of 700 billion yuan (EUR 92 billion) of reserves.

Market Data Indices		Performance		Duration	Yield
High Yield		MTD*	YTD*	DTW*	YTW*
HE00	High Yield Europe	-0.46%	-1.69%	3.95	3.52%
J0A0	High Yield United States	0.34%	0.04%	4.16	6.37%
H7PC	High Yield Europe BB/B Excluding Financials	-0.50%	-1.35%	3.88	3.64%
JC4N	High Yield United States BB/B Excluding Financials	0.22%	-0.39%	4.26	5.98%
HYEF	High Yield Emerging Countries Excluding Financials	-1.12%	-3.65%	3.62	7.62%
Investment Grade					
ER00	Investment Grade Europe	-0.03%	-0.57%	5.08	0.99%
C0A0	Investment Grade United States	-0.55%	-3.13%	6.92	4.05%
EMIC	Investment Grade Emerging Countries	-0.02%	-1.96%	5.14	4.10%
Governments					
10YGE	10-Year German Bond	0.36%	1.19%		0.30%
10YUS	10-Year US Bond	0.03%	-3.85%		2.86%

Inflation						
Expected inflation		June	May	April	6M	12M
EURO INF	Expected inflation for 2018 in Europe	1.60%	1.50%	1.50%	1.45%	1.60%
US INF	Expected inflation for 2018 in the United States	2.56%	2.50%	2.46%	2.12%	2.20%
Realized inflation		June	May	April	6M	12M
EUR CPI	Realized inflation in Europe (rolling 12-month)	1.20%	1.90%	1.20%	1.40%	1.30%
US CPI	Realized inflation in the United States (rolling 12-month)	2.50%	2.80%	2.50%	2.10%	1.60%

**MTD = Month-to-date, YTD = Year-to-date, DTW = Duration-to-worst, YTW = Yield-to-worst*　　*Source : Merrill Lynch*

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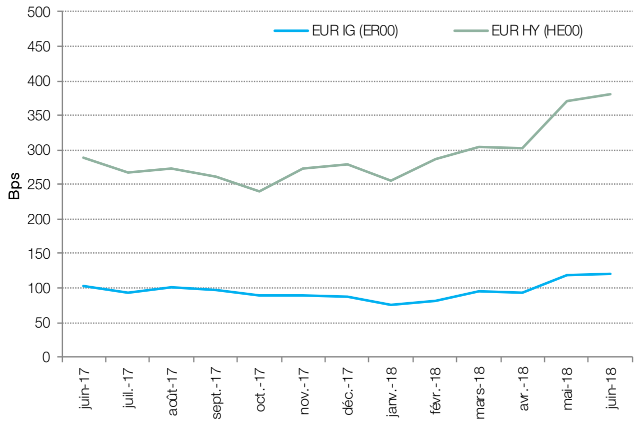
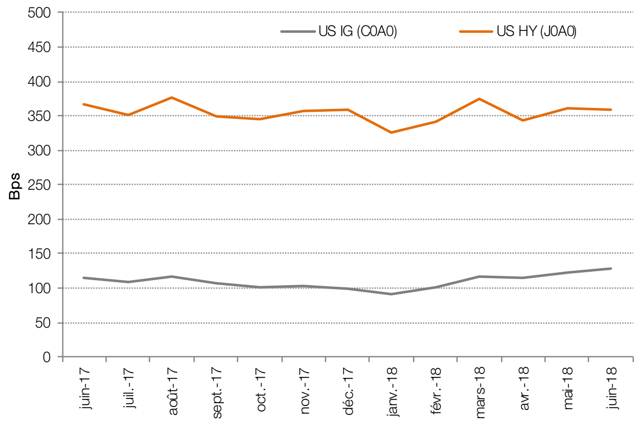
EUR Corporate Bond Spreads (OAS) by Index



US Corporate Bond Spreads (OAS) by Index



Corporate Bond Spreads		June	May	6 months	12 months
Europe					
ER00	Investment Grade Europe	119	117	85	101
HE00	High Yield Europe	381	368	277	297
ER30	Bonds rated A Europe	98	98	73	85
ER40	Bonds rated BBB Europe	149	145	103	123
HE10	Bonds rated BB Europe	303	290	208	229
HE20	Bonds rated B Europe	552	536	451	388
United States					
C0A0	Investment Grade United States	128	121	97	112
J0A0	High Yield United States	368	370	369	381
C0A3	Bonds rated A United States	104	97	74	89
C0A4	Bonds rated BBB United States	161	153	126	143
JUC1	Bonds rated BB United States	266	263	228	246
JUC2	Bonds rated B United States	391	396	381	396
Emerging Countries					
EMIC	Investment Grade Emerging Countries	169	167	133	149
HYEF	High Yield Emerging Countries	512	469	369	474
EMAQ	Bonds rated A Emerging Countries	128	127	107	122
EM2B	Bonds rated BBB Emerging Countries	222	219	169	190
EM3C	Bonds rated BB Emerging Countries	381	355	255	296
EM6B	Bonds rated B Emerging Countries	610	538	404	494

Source : Merrill Lynch

Anaxis Asset Management

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