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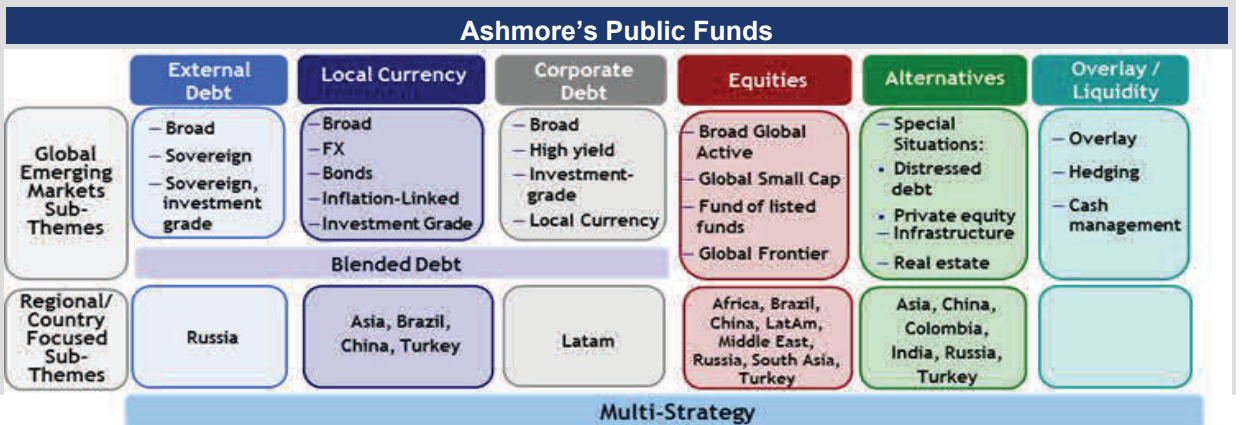
**Summary:** Emerging market bonds and equities both rallied over the week and currencies were flat to slightly down against the US Dollar. Markets in general have been choppy, with profit taking before year end, a bearish element in US markets, Hurricane Sandy and US election and fiscal cliff. HIDC data has been positive recently, but deleveraging continues. The 18th **Chinese** Communist Party Conference, and with it the change in national leadership, starts today. **Turkey** is now investment grade.

**Global:** Obama's clear win in the **US** Presidential race, combined with his not facing any more election races in the future, may result in more ambitious efforts to stimulate the economy. Although the returned Republican Congress is most likely to continue the gridlock, that party's lack of appeal to a changing demographic may possibly lead to an eventual move towards the political centre, and more conciliation with the Administration. Then again, it may not any time soon. Obama may change tack with his economic team, with Geithner leaving. The Fed - QE policy is now set, and should Bernanke not seek another term the most likely replacement, Janet Yellen, would likely favour policy continuation. On the election result US stocks fell, though the impact was not widespread internationally, and US Treasuries rose. The reduction in uncertainty (and very possibly international concerns about Romney's foreign policy) led to some Dollar strength. However, the focus is now clearly on the fiscal cliff. The Dollar could start to weaken shortly should better terms of trade through a weaker Dollar become a clearer policy intention, and should inflation be seen by foreign central banks as a means to erode debt obligations. However, with deflationary forces still dominant, whilst the yield curve can be expected to steepen in a few years when recovery starts in earnest, the fear driving investors into the US Treasury bubble looks sustainable for now ... but like any major bubble no one really knows when it might burst. **China's** leadership change is underway, and though well-flagged, may result in more policies to shift away from an export-led model of growth. **EU:** France is considering painful fiscal adjustment. Greece is again experiencing political resistance to their mandated adjustments. The ECB's Draghi said bank deposit guarantee systems would not be merged, backing Germany and reflecting the running dispute between Germany (wanting strong institutions and a banking union regulator with teeth) and France (wanting bailouts today but not the major delegation of sovereignty arguably necessary for a strong banking union).

**Latin America:** **Venezuela** has started to adjust fiscally: spending fell 34% year on year in real terms in the four weeks following the election. Major currency devaluation is likely, possibly within weeks, and needed bond issuance is likely to fall as a result - all positive for the sovereign creditworthiness. **Argentina's** sovereign risk increased after the US court case allowing hold-out investors to challenge payments to other bondholders going through US banks. President Fernández de Kirchner's disapproval rating rose to 59.3% from 29.4% a year ago. One worries that desperate action may result. **Brazil's** inflation data was mixed, with the IPCA measure edging up due to food prices, but the IGP-DI measure falling month on month in October on the back of a drop in producer prices. **Mexico's** central bank also sees a fall in trend inflation.

**Asia:** Local bond sales by **Chinese** local government financing vehicles have been suspended—possibly a significant development heralding the birth of a major municipal bond market. **Malaysian** September industrial production was expected at 0.6% year on year after -0.2% in August, but came in at 4.9%. This continues a theme across the region of domestic demand being much stronger and less noticed than export demand (for which statistics are higher frequency). Slowdown in Asia appears to be done, and growth is now resuming. Slowdown in HIDCs has likely a decade or so still to run.

**Eastern Europe, Middle East:** **Turkey** was raised to investment grade by Fitch. Central bank officials indicated they would fight any resulting upward currency movement. **Czech** industrial production was weaker than expected and **Poland** cut interest rates 25bp to 4.5%, indicating more of the same ahead if growth does not pick up more. **Russia** moved closer to local bond Euroclearability, and inflation fell more than expected.



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