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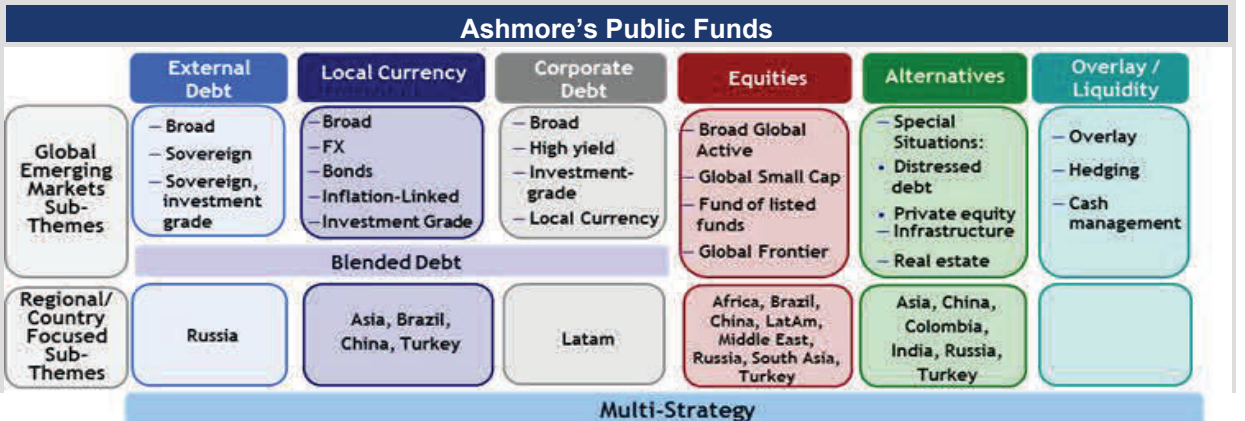
**Summary:** The economic outlook continues to brighten globally, though asset markets continue to be beholden to fundamental weaknesses in Europe and the United States. In the past week, Greece was granted de facto debt relief on official sector debt—with resulting losses to European tax payers. The market then turned its attention back to the fiscal cliff issue and the upcoming FOMC meeting in the United States. We expect the fiscal cliff issue to continue to loom large until the issue has been resolved. To the extent this creates temporary weakness in Emerging Markets, we would urge investors to consider investing further in the asset class, particularly given the stronger underlying growth picture.

**Global:** European governments, the IMF, and the European Central Bank reached an agreement on a major restructuring of Greek official sector debt, thus keeping **Greece** in the Eurozone. Reason: The economic cost of keeping Greece in the club is small and it avoids the huge political downside of a split of the Eurozone. Still, the Greek debt is not yet sustainable, so we will be back talking about Greece again. The election in Catalonia in **Spain** gave support for pro-independence parties, thus making it harder for the government to impose fiscal restraint on regional governments. In the UK, Bank of Canada governor Mark Carney was announced as the new **Bank of England governor**. We think this is an interesting choice, because of the similarities between Canada and the UK, which are both small open economies positioned close to much larger economic blocks (the US and the European Union, respectively). In the United States, the debate between Republicans, Democrats, and the White House over the **fiscal cliff** issue heated up and is likely to continue to dominate headlines between now and a resolution. The other major US focus is the upcoming **FOMC meeting** on 12 December, where the Fed will decide what type of Quantitative Easing will follow the expiry of the so-called Twist Operation. Over the past week, US stock markets rose 1.4%, 10 year US treasury yields declined 5bps to 1.63%, and EURUSD rallied 1.2% to trade just below 1.30. Oil prices traded broadly flat just around the \$110-\$111 level, while other commodities drifted marginally lower. In the past week, Emerging Markets external debt rose 50bps, Emerging Market corporate high yield bonds rose 77bps, local currency sovereign bonds rallied 71bps, and Emerging Market currencies rallied 21bps. Emerging Market equities rose 2.1% in the past week.

**Latin America:** In **Argentina**, the US court extended until 27 February a stay on a ruling requiring Argentina to pay holdout investors. This is a positive development, which increases the likelihood that Argentina will be able to service New York law bonds this year. However, the New York law court's decision has raised important questions about the attractiveness of issuing under New York Law. Going forward, this will likely further tilt issuance in favour of local law in Argentina and other Emerging Markets (a positive development, in our view). The government also hiked utility prices in a bid to stimulate investment. In **Brazil**, the monetary policy committee of the central bank left rates unchanged at 7.25% as expected. In **Chile**, minutes of the central bank showed that the decision to keep rates at 5% was unanimous. **Venezuelan** president Hugo Chavez left the country for further cancer treatment or discussions with **Colombia** and FARC in Cuba. **Mexican** national oil company PEMEX discovered a major oil field on shore in Tabasco state and trade data revealed very strong import and export activity.

**Asia:** In the **Philippines**, real GDP expanded by a larger than expected 7.1% yoy in Q3, led by strong domestic demand. **Thailand's** central bank left rates unchanged at 2.75% in line with market expectations. In **China**, incoming premier Li Keqiang said that he will push for the twin goals of reform and growth. **South Korean** authorities tightened the ceiling on FX forward positions to moderate KRW appreciation. **Singapore** headline inflation declined to 4% yoy in October from 4.7% in September. **Taiwan** industrial production rose to 4.6% yoy in October from 3% yoy in September.

**Eastern Europe, Middle East:** **Hungary's** central bank cut interest rates by 25bps to 6%, maintaining a dovish bias. CPI inflation declined from 6.6% in September to 6.0% in October, but the outlook for a new IMF program remains highly uncertain. S&P downgraded Hungary to BB from BB+. **Israel's** central bank left rates unchanged at 2.0%. **Russia's** parliament approved the 2013-2015 budget with fiscal deficit of 0.8% of GDP in 2013 and 0.2% of GDP in 2014.



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