



POLITICAL GRIDLOCK IN THE US AFTER MID-TERM ELECTIONS

The US Midterms this week saw the Democrats wrestle back control of the House of Representatives after eight years, while the Republicans maintained control of the Senate leaving the country politically gridlocked. The elections weren't without their fair share of controversy. Voting machines appeared to break down in predominately black areas of the county of Georgia leaving voters unable to vote for African-American candidate Stacey Abrams with incumbent governor Kemp winning the county. In Ohio, claims of vote rigging turned out to be caused by a temporary paper jam.

The US market generally reacted positively to the news as the result went according to expectations. There is also hope that the Democrats will be willing to delay the implementation of further tax reforms or fiscal stimulus by President Trump potentially cooling the need for further rate hikes. A softening dollar also provided refreshing news for emerging countries laden with US dollar debt.

THE MARKETS THIS WEEK

FTSE 100	S&P 500	Nikkei 225	Euro Stoxx 50	Hang Seng	US 10 Yr	UK 10 Yr	Brent Crude	Gold	Wheat	GBP USD
+0.14%	+2.43%	+0.03%	+0.06%	-3.34%	-0.01%	+0.03%	-3.22%	-0.96%	-1.18%	+0.35%

GLOBAL: EARNINGS SEASON WINDS DOWN

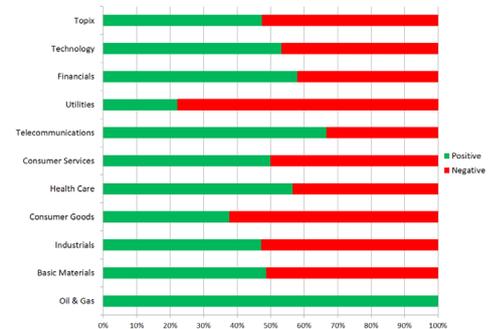


The average earnings for S&P 500 members exceeded expectations last quarter with the final figures expected to be around 26 per cent. However, the positive news was tempered by the fact that most of the companies provided cautious growth outlooks for next year, as the effects of rising costs and trade tensions start to be factored in.

One country already feeling the trade war squeeze is Japan. Half of the Japanese companies within the Topix Index fell short of expected profit forecasts last quarter.

Elsewhere, UK retails reports were gloomy. Only 26 per cent of retailers surveyed reported that sales in October were higher than those of a year ago. Rising competition and the increasing threat from online retailers such as Amazon was the main reason for the downbeat reports. However, Sainsbury managed to produce a positive report this week driven by a hot summer and sharing some of its retail space with Argos. The company continues to wait for the approval of the merger with Asda.

Japan Third Quarter Earnings per Sector VS. Analyst Consensus (%)



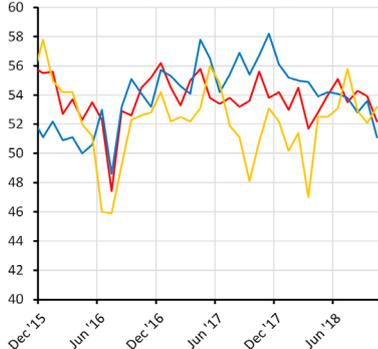
UK: SERVICE SECTOR GROWTH HITS A SEVEN-MONTH LOW

The UK service sector growth dropped to a seven-month low after a strong summer period. The IHS Markit services purchasing managers index fell to 52.5 in October. The survey is being used to illustrate how Brexit negotiations are affecting Britain's economy. The industry accounts for 80 per cent of the British economy.

Meanwhile, data published by Halifax this week highlighted that annual rate of house price growth fell from 2.5 per cent in September to 1.5 per cent in October. This is the lowest rate of annual growth since March 2013. Economic uncertainty and interest rate rises held back activity as mortgage approvals dropped off slightly. Monthly home sales also remained flat in the three months to September.

Overall, GDP grew by 0.6 per cent in the three months to September expanding at the fastest pace in two years.

UK Construction, Services and Manufacturing Purchasing Managers Indices



EM: EMERGING COUNTRIES ABANDON DOLLAR CURRENCY IN DEBT SALES



The divergence between the US and European interest rates has led to many emerging markets switching the currency in which their debt is sold. The Fed is expected to continue tightening borrowing costs while the European Central Bank is expected to remain dovish. As a result, in the six-months to October emerging nations sold \$277bn of non-dollar denominated debt. In comparison, they sold only \$24bn of dollar denominated debt within the same period.

To illustrate the trend, Kazakhstan has given up its dollar addiction for the first time; abandoning the currency to instead sell €1.05 billion of bonds this week, with UK buyers acquiring the lion's share of the debt sold. The country was also told off this week by the International Monetary Fund, for overburdening the central bank with tasks such as bailing out banks, being part of long-term financing of the economy and subsidising the nations mortgage programme.

Kazakhstan USD Credit Spread Curve Now and Credit Spread Curve One Year ago (Basis points)

