Weekly Focus

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October 25, 2012

TRENDS TO KEEP AN EYE ON

Bosnia & Herzegovina – still a political mess; **Czech Republic** – the risk that the government may fall has increased palpably; **Hong Kong** – FX market intervention suggests a continued commitment to the currency peg.

BRAZIL

The government now appears to have a tight hold on the real's exchange rate and is, therefore, less worried about losing out in the "currency war." This makes things easier for the authorities in the near term. From a longer-term vista, there could be a growing risk of rising inflation forcing the CB to start hiking interest rates.

GREECE

Athens has reached a draft agreement with its creditors on a new austerity package and a raft of labor reforms. The question now will be whether, and in what form, it can get the pact through parliament. Time is running out.

JAPAN

While the government and the CB haggle over whether, when and by how much monetary policy should be eased further to fight deflation and prevent the country from sinking deeper into a new recession, the worsening conflict between Japan and China over a bunch of non-inhabited islets in the East China Sea is doing tangible damage to mutually beneficial relations.

KUWAIT

The political crisis has been deepening as opposition members have been stepping up their public protests. At issue are electoral laws meant to improve the workings of a dysfunctional parliament. The turmoil has not yet risen to the level of an Arab Spring revolt, but neither is there any assurance that elections on December 1 will solve the problem.

LEBANON

The army has managed to halt the fighting between supporters and opponents of Syria's Pres. Al-Assad, but it is doubtful that the truce will last. The US now supports the notion that there should be a new government, which would, however, most likely resolve nothing.

ROMANIA

The country has made good progress under two stand-by arrangements from the IMF, but conditions are likely to deteriorate in the months ahead. Persistent political turbulence will be part of the problems by raising doubts among investors about how closely Romania will adhere to the conditions of its IMF agreements.

SOUTH AFRICA

With an end to the unrest in the mining sector nowhere in sight, two rating companies have now downgraded the nation's debt. A key question is to what extent the specter of nationalization will, once again, rear its head. With all the trouble, though, Pres. Zuma still looks well-positioned to retain the leadership of the ANC and – eventually – the country's presidency.

TURKEY

The current-account BoP deficit has been improving, so much so that analysts have started to look forward to a possible credit promotion to investment-grade. At that, a longer-term external account threat persists, and credit rating agencies will not ignore the political situation, either.