

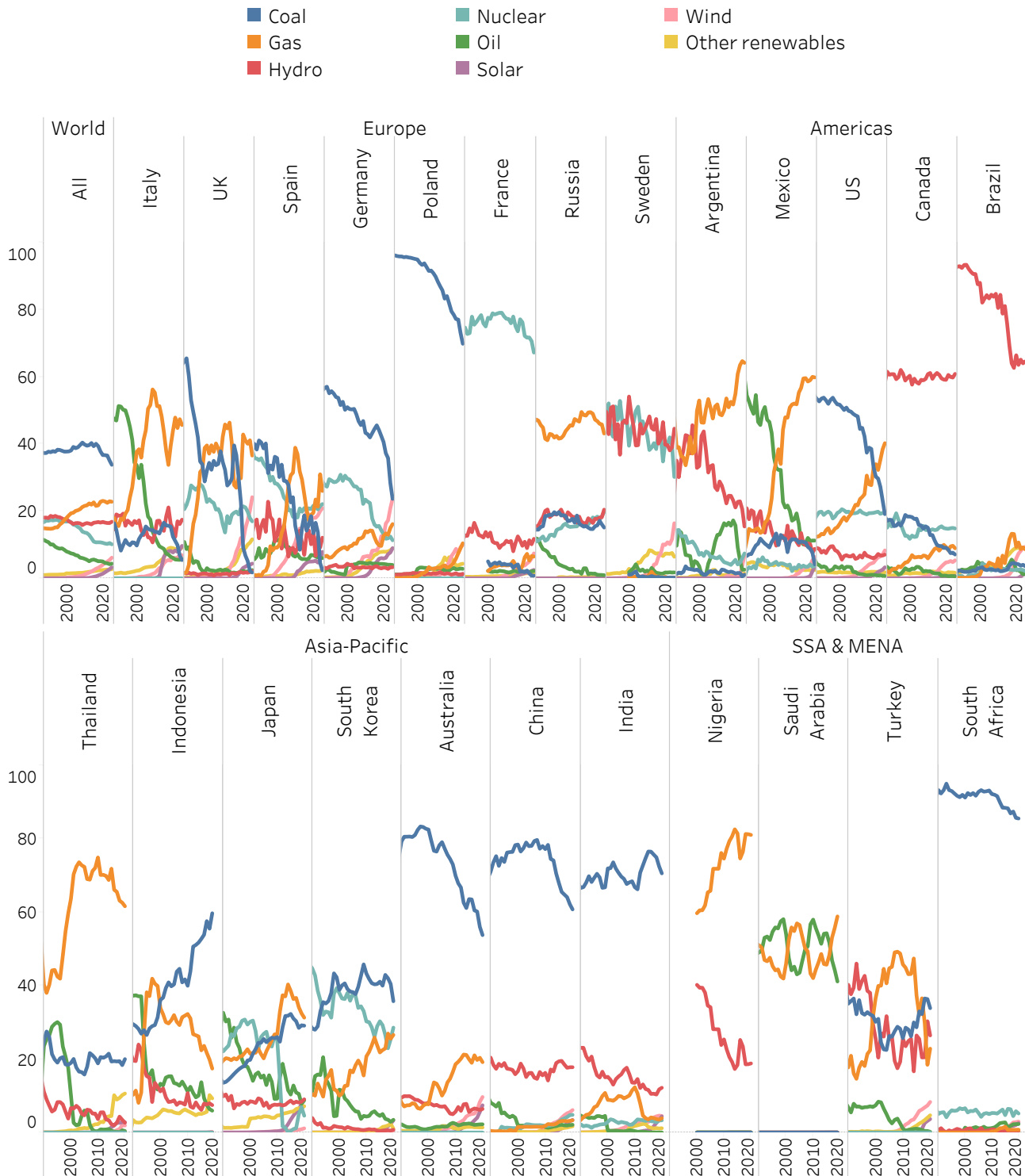
WEEKLY POLITICAL COMPASS

The **US** and **China** held virtual trade-related talks. Tensions are rising in the relationship between the **UK** and the **EU**. **Japan's** new PM will dissolve the Diet. **Argentina's** finance minister will attend the annual IMF meetings. Meanwhile, candidate registration ended in the **Philippines**, **Austria** has a new chancellor, another presidential debate will be held in **Chile**, and the new party of **Cote d'Ivoire's** former president will hold its inaugural congress.

CHART OF THE WEEK

Rising energy prices risks derailing decarbonization efforts while increasing social unrest

Electricity production by source, % electricity (1990-2020)



Source: BP Statistical Review of World Energy & Ember

Across the globe, leaders are increasingly concerned about the economic and political fallout of the ongoing **energy crisis**. In countries such as Spain, France and Italy, governments have responded with the introduction of energy

vouchers and tax cuts for consumers. However, the surge in gas and electricity prices stems from diverse structural and one-off factors and cannot be tackled exclusively at the national level. Some EU member states are demanding the EU revise its energy market, including the emissions trading scheme ETS and the build-up of strategic reserves. Low and middle-income countries such as Thailand, Mexico, Argentina, and Nigeria are also highly dependent on natural gas. Some developed economies have the fiscal space to support those most at risk due to rising electricity prices, which might help to temper social discontent. Middle-income countries, however, where inflation is rising even faster than in rich economies, will have a harder time responding. Ultimately, the energy crisis risks derailing the post-pandemic economic recovery while leading to a higher scrutiny of the most ambitious decarbonization policies.

WHAT TO WATCH

US/China

US Trade Representative Katherine Tai and Chinese Vice Premier Liu He held virtual trade talks on 8 October to assess implementation of the . Tai also raised Washington's concerns about issues not covered in that deal, including subsidies and industrial policy, while Liu pressed Tai for the [cancellation of US tariffs](#).

UK/EU

The EU Commission will on 13 October unveil a list of products that could become exempt from the Northern Irish border checks resulting from the Brexit deal. However, Brussels will not offer the renegotiation of the Northern Ireland protocol demanded by the UK. This, in turn, could motivate the UK to put parts of the protocol on hold unilaterally. However, the EU is not expected to answer with outright retaliatory tariffs in the short term.

Japan

New Prime Minister Fumio Kishida will dissolve the Diet on 14 October, as the country moves towards a Lower House general election on 31 October. The ruling LDP are in a strong position to retain power together with their coalition partners Komeito, and Kishida's Cabinet are already drawing up post-election economic stimulus measures that would likely be passed in mid-December.

Argentina

Finance Minister Martin Guzman will be at the International Monetary Fund (IMF)'s annual meetings this week. As much as Guzman hopes to bring back positive news about the direction of travel for Argentina's program talks with the Fund, any significant developments are unlikely. Guzman's own position is fragile as the governing Front for All (FdT) coalition appears headed for defeat in November's mid-terms, in which case Vice-President Cristina Fernandez (CFK) could well demand his scalp. Recent allegations that IMF head Kristalina Georgieva pressured staff at the World Bank to manipulate data in China's favor in the 2018 Doing Business index are another complication for Guzman. Greater clarity about a new IMF program will have to wait until after the mid-terms.

ON THE HORIZON

ASIA

Philippines

Candidate registration ended on 8 October without presidential daughter and nominal survey frontrunner Sara Duterte entering the race for 9 May 2022. There is speculation she may still enter by substituting for another party's candidate by the deadline of 15 November. However, if she doesn't run the benefit would most likely accrue to Ferdinand Marcos Jr. Survey numbers this early can be very volatile but Marcos and Manila mayor Francisco Domagoso are now the presumed frontrunners.

South Korea

The ruling Democratic Party selected Gyeonggi province governor Lee Jae-myung as its candidate to succeed Moon Jae-in in next March's presidential election. A one-time factory worker turned lawyer, Lee is known for promoting populist policies like Universal Basic Income (UBI), but is also facing corruption allegations relating to his time as mayor of a Seoul municipality.

EUROPE

Austria

Following Sebastian Kurz's resignation, foreign minister Alexander Schallenberg has been sworn in as the new chancellor. With this leadership change, the ruling coalition of Schallenberg's center-right OVP with the Greens continues. Kurz will remain OVP leader while trying to disprove the corruption allegations against him. The next elections are scheduled for 2024, but Kurz might eye a return to the chancellery before that date.

Germany

Exploratory talks about the next government continue this week. Following negotiation rounds scheduled for 11 and 12 October (and a two-day trip by designated chancellor Olaf Scholz to the IMF meetings in Washington), the three parties will take stock of the talks after another gathering planned for 15 October. It is possible that by the end of this week, the Social Democrats (SPD), the Greens and the center-right Liberals (FDP) decide to launch formal coalition negotiations.

Hungary

On 16 October, the opposition will conclude its primary elections to select its joint prime ministerial candidate for the 2022 parliamentary elections. The second-round runoff is taking place between Klara Dobrev representing liberal Democratic Coalition (DK) and Peter Marki-Zay, conservative mayor of a small town in south-east Hungary. Dobrev might be better positioned to keep the opposition parties united, but she might struggle to attract independent and right-leaning voters in the general election. Meanwhile, Marki-Zay could be better positioned to challenge incumbent Viktor Orban, but he might struggle to keep opposition parties united behind his candidacy.

Italy

From 15 October Italy will require all workers - in both the public and private sectors - to present a Green Pass in the workplace or face suspension without pay. A protest against the Green Pass – the biggest demonstration against Covid restrictions the country has seen – turned violent in Rome on 9 October when far-Right mobs stormed trade union buildings and clashed violently with riot police.

Romania

Today, 11 October, President Klaus Iohannis starts consultations with parliamentary parties on forming the next government after the Florin Cîtu's (National Liberal Party, PNL) cabinet lost a vote of no confidence on 5 October. Iohannis will likely give the mandate to another PNL member who could then try to negotiate the restoration of the previous coalition government consisting of PNL, USR-PLUS and the Democratic Alliance of Hungarians in Romania (UDMR) or forming a minority cabinet supported by smaller parties in parliament. In any case, negotiations could take several weeks.

LATIN AMERICA

Chile

Another presidential debate takes place tonight, 11 October, 41 days ahead of the first-round election. The scandal arising from the "Pandora Papers" puts Sebastian Sichel, the candidate for the governing *Chile Podemos Mas*(CP+)

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coalition, in a particularly delicate position because of his association with President Sebastian Pinera, who has been hit by revelations arising from the document leak. Several recent polls show Sichel slipping into third place as the ultra-conservative Jose Antonio Kast gains ground. The most recent Cadem poll based on fieldwork in the second half of last week puts Kast on 18%, only slightly behind the leftist Gabriel Boric, who is on 21%. Meanwhile, Sichel has dropped nine points over the last month and is on 10%.

MIDDLE EAST AND AFRICA

Cote d'Ivoire

On 16 and 17 October, the new party of former president Laurent Gbagbo will hold its inaugural congress.

Following his return to Cote d'Ivoire in June, Gbagbo (76) had made clear that he had no plans to retire from politics. The formation of a new political party marks the official end of attempts to reconcile with his former prime minister Pascal Affi N'Guessan. N'Guessan had led the Ivorian Popular Front (FPI)'s legally recognized wing since Gbagbo's extradition to The Hague in 2011, while Gbagbo had continued to lead his rival party wing in absentia.

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