

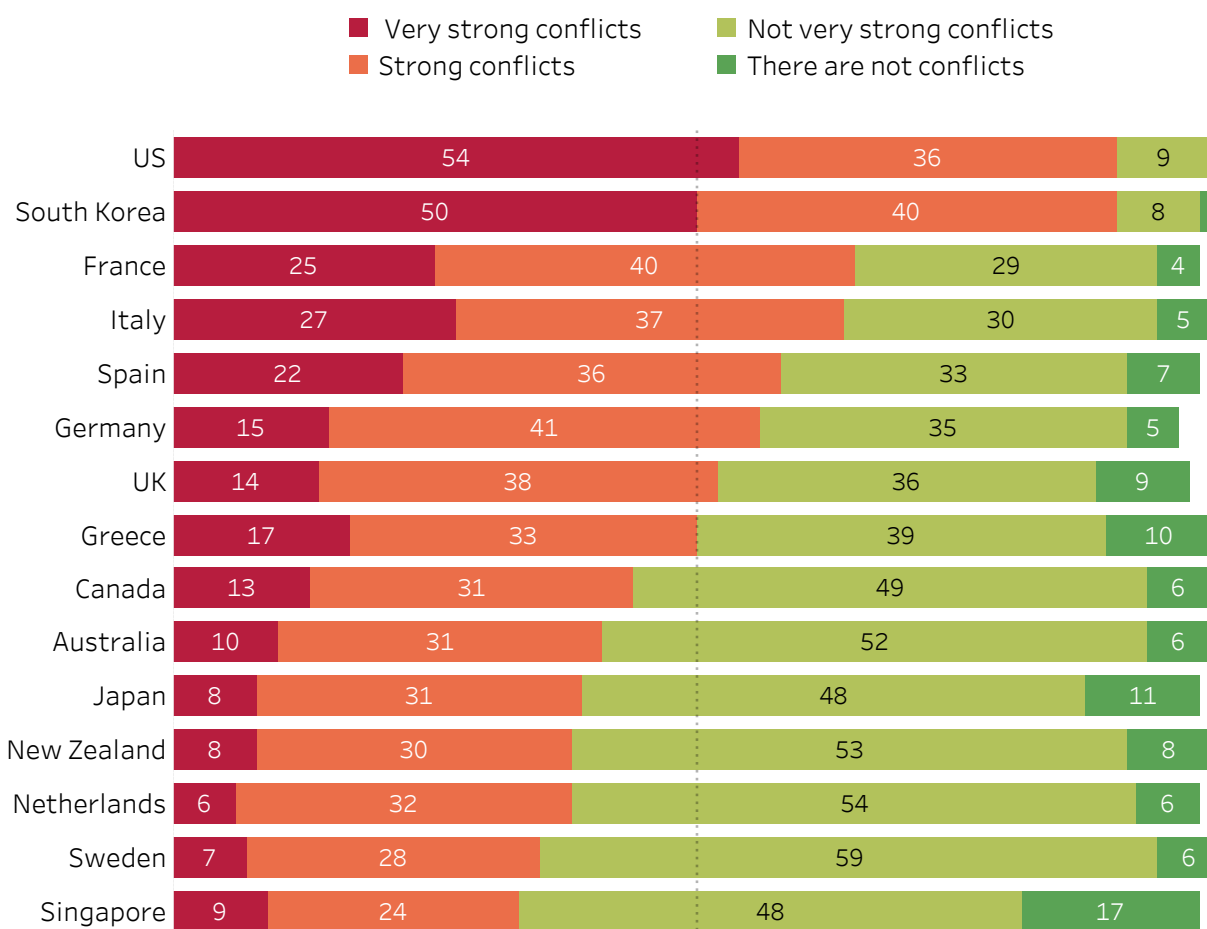
## WEEKLY POLITICAL COMPASS

**China** has tested a new missile. **Turkey's** currency is set for more volatility. **Chile** is on high alert. Meanwhile, a civilian-military standoff continues in **Pakistan**, formal coalition talks will begin in **Germany**, a constitutional amendment will be put to a vote in **Brazil**, and a commodity trader has opened talks with the government of **Chad** over a loan restructuring.

### CHART OF THE WEEK

#### Perceived party polarization varies substantially across advanced economies

"Are the conflicts between people who support different political parties very strong, strong, not very strong or are there not any conflicts" (%)



Source: Pew Research Center. Spring 2021 Global Attitudes Survey.

The Covid-19 pandemic has heightened **political polarization** in some advanced economies. This has been more pronounced in countries where this trend was already strong before the pandemic, including the US and France. According to a recent survey, in the US and South Korea about 90% of respondents believe that there are very strong or strong conflicts between people who support different political parties. The perceived levels of political party polarization are also particularly high in France, Italy, Spain, Germany, and the UK. They are much lower in more consensus-oriented European countries, such as Sweden and the Netherlands, despite both having strong populist parties in parliament. Similarly, people in advanced economies outside Europe tend to see their countries as less divided across party lines. The societal and political divisions across countries should be a factor to watch in the post-pandemic recovery, particularly in light of new challenges that require bold political answers, such as the energy crisis and supply bottlenecks. In emerging markets, where the fiscal and monetary space is more limited, widespread popular discontent could complicate the already uncertain path to economic recovery.

## WHAT TO WATCH

### China

**China's military tested a nuclear-capable hypersonic missile in August that circled the earth before approaching its target.** US intelligence was surprised by the progress Beijing has achieved on a technology that Moscow and Washington are also pursuing, the *Financial Times* reported exclusively, citing unnamed US intelligence officials. This technology could eventually allow the People's Liberation Army to overcome US missile defense systems designed to protect against ballistic missiles, which travel faster but follow a more predictable trajectory.

### Turkey

**The Turkish Lira is sent for another rollercoaster ride this week as the Central Bank (TCMB) is expected to cut interest rates for a second month on 21 October.** The TCMB is likely to lower the benchmark interest rate of 18% by 100bps. President Tayyip Erdogan issued a presidential decree dismissing three of the seven members of the TCMB's monetary policy committee on 14 October, two of whom were seen to have opposed month's rate reduction.

### Chile

**The country – and Santiago in particular – is on high alert today, 18 October, two years to the day since the outbreak of major unrest that lasted until the arrival of the pandemic in March 2020.** The institutional response to the unrest involved a cross-party agreement to set in motion the writing of a new constitution. The constituent assembly that emerged from this process will start work on the content of the new constitution from today, 15 weeks after its inaugural session (the body has been bogged down in arguments over its internal procedures), which leaves it with just under nine months to complete its work.

## ON THE HORIZON

### ASIA

#### Japan

**The general election campaign begins in earnest this week ahead of the 31 October Lower House vote.** The most recent opinion poll puts the ruling LDP at around 30%, twenty points ahead of the opposition CDP, and while a large share of respondents said they were still undecided, the LDP and their coalition partners Komeito are still strong favorites to retain power.

#### Myanmar

**The Association of Southeast Asian Nations (ASEAN) is excluding Gen Min Aung Hlaing, who heads Myanmar's junta, from its 26-28 October summit.** In justifying the uncharacteristic rebuke, ASEAN said there was lack of progress

on the five points agreed upon in April for resolving the country's political crisis. With this development, the generals will continue to struggle to establish their legitimacy, especially with the opposition to the coup organizing an incipient armed resistance to the regime in Yangon.

#### Pakistan

**The impasse over the appointment of a new chief for Pakistan's Inter Services Intelligence (ISI) is expected to end on 22 October.** Prime Minister Imran Khan and the country's army chief, General Qamar Javed Bajwa, are locked in a stand-off after Bajwa unilaterally reshuffled the top leadership of the armed forces on 6 October without consulting the civilian leadership. Negotiations are on as Khan's advisors warn that differences could impact the wafer thin majority of the government with elections due in 2023.

#### Uzbekistan

**Facing limited competition, President Shavkat Mirziyoyev is set to win his second five-year term in the presidential elections scheduled for 24 October.** Mirziyoyev's victory would bode well for the continuity of economic reforms, although political liberalization is moving slowly under his rule. In the near-term, Mirziyoyev will have to deal with the likely repeat of last year's protests over energy shortages during the winter months as well as rising security concerns linked to the Taliban's rule in Afghanistan.

### **EUROPE**

#### Germany

**After the Social Democrats (SPD) and the Greens backed the launch of formal coalition talks over the weekend, the center-right Liberals (FDP) have done the same today, 18 October.** Detailed talks will now begin and are intended to lead to a new government before Christmas. Given the turmoil within in the Christian alliance (CDU/CSU) the outside options for all three potential coalition partners are limited.

#### Hungary

**Peter Marki-Zay – the opposition's joint prime ministerial candidate in the 2022 parliamentary elections – will pose a formidable challenge for incumbent Viktor Orban.** An independent small-town mayor, Marki-Zay received an estimated 56.7% of votes and claimed a victory over Klara Dobrev (Democratic Coalition) in the second round of the opposition primaries that ended on 16 October. This will mark an early start to the 2022 election campaign, likely leading to increasingly competitive political rhetoric and generous socio-economic policies by the ruling Fidesz.

#### Romania

**Today, 18 October, Prime Minister-designate Dacian Ciolos (USR-PLUS) submitted for parliament's approval his government's program and the list of cabinet members.** The date for the vote of confidence has not been set yet, but it should be held within 15 days at most. Ciolos is expected to lose the vote as a none of the parliamentary parties support his candidacy. In such case, President Klaus Iohannis would nominate a new prime ministerial candidate. In the meantime, a caretaker cabinet with limited powers will cope with an increasingly alarming epidemiological situation in the country.

### **LATIN AMERICA**

#### Brazil

**A special committee of House of Representatives shall vote and approve on Tuesday, 19 October on a constitutional amendment.** This would allow the government to delay court-mandated payments of judicial claims due in 2022. This should clear some space in next year's budget in order to secure the creation of a new cash transfer program, the *Auxilio Brasil* - an element of great electoral importance for President Jair Bolsonaro. The Senate should determine the

processing of a controversial bill approved by the House last week on new rules for the incidence of the state-level VAT, the ICMS, on fuel; the influence of governors in the chamber should prevent the bill from moving forward. The week shall also see the reading and approval of the final report from the Senate inquiry into the pandemic, with requests for the indictment of the president, a few ministers and possibly his politician sons for a host of crimes, including the crime against humanity.

## MIDDLE EAST AND AFRICA

### Chad

**Commodity trader Glencore has opened talks with the government of Chad to restructure a USD 1bn loan.** In January 2021, Chad had requested debt treatment under the G20's and Paris Club's Common Framework for debt treatment beyond the Debt Service Suspension Initiative (DSSI). Following agreement, in principle, on the restructuring of Chad's bilateral debt, pressure from the International Monetary Fund (IMF) and the G20 on Glencore – Chad's key private sector creditor – to restructure its debt "on terms at least as favorable" had been growing in recent weeks.

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