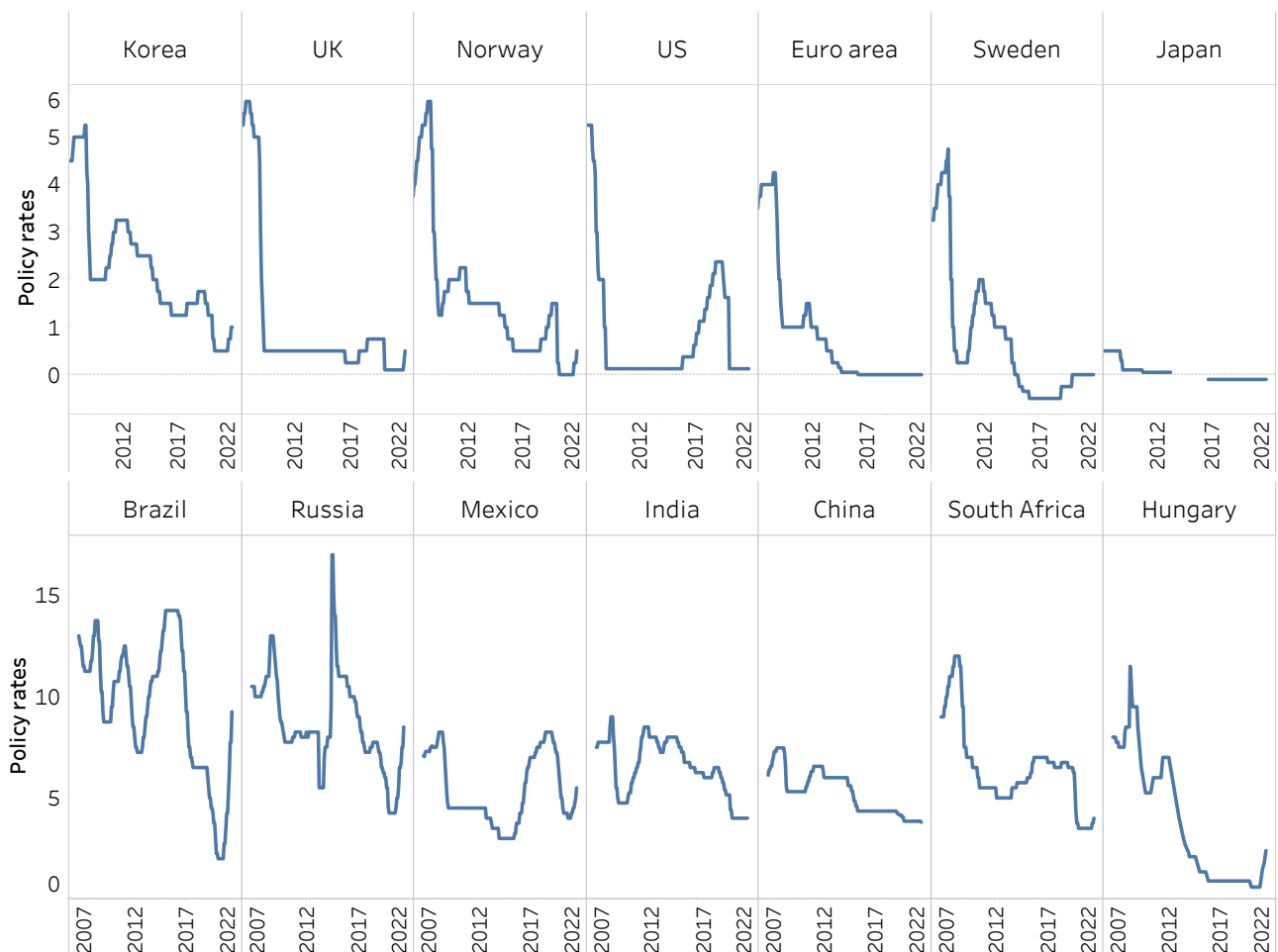


WEEKLY POLITICAL COMPASS

Russia will engage in military maneuverings and diplomacy this week. **Germany's** chancellor is visiting the US. Campaigning starts for the **Philippines'** presidential election. Meanwhile, **Japan's** government will decide about restrictions in Tokyo, the **Spanish** center-right might have cooperate with a far-right party, a leftist candidate remains the favorite to win **Colombia's** presidency, and electoral reform is causing political debate in **Nigeria**.

CHART OF THE WEEK

Central banks in developed economies are turning more hawkish in 2022



Source: Bank for International Settlements (last update on 6 February 2022)

After emerging markets have gradually raised **interest rates** over the past year, central bankers in developed economies have also turned more hawkish in recent months. However, there have so far been diverging positions between the US and the UK on the one side and the European Central Bank (ECB) on the other. The Bank of England raised rates last

week for the second time in three months, and the Fed could begin hiking as early as in March. Meanwhile, the ECB has argued that inflation in the eurozone remains more benign: its surge, the ECB argues, is still mainly energy-price driven and should stabilize over the course of the year. If the ECB were to follow a more hawkish approach in the coming months – which seems more likely after President Christine Lagarde’s press conference last week –, one consequence could be even greater attention for the conversation about fiscal policy and deficit rules in the EU.

WHAT TO WATCH

Russia

This week Russia will continue its maneuverings around Ukraine, as leaders engage in diplomacy to de-escalate tensions. On 10 February, Russian and Belarusian forces will begin a ten-day-long military drills aimed to fend off a supposed attack from the West. The exercises are expected to include 30,000 troops (NATO estimate) as well as advanced weaponry and nuclear-capable missile systems. There are reports that Russia might hold its annual nuclear weapons exercises in mid-February too. Meanwhile, French President Emmanuel Macron will meet his Russian counterpart Vladimir Putin in Moscow today, 7 February, in search for diplomatic solutions to the crisis.

Germany/US

Chancellor Olaf Scholz is in Washington for a meeting with the US President. Joe Biden is likely to pressure Scholz on the question of German sanctions in the scenario of a Russian invasion of Ukraine. The chancellor is likely to highlight his recent change in rhetoric on the issue, reiterating the possibility of sanctions, including on Nord Stream 2. However, Scholz has made it clear that the supply of lethal weapons to Ukraine remains a German red line. In this sense, the visit is likely to reflect Scholz’s overall continuity with his predecessor, Angela Merkel.

Philippines

The 90-day campaign period for the 9 May 2022 presidential election starts on 8 February. Ferdinand Marcos Jr., the son of the former autocrat, has a significant lead over the rest of the field, and is the clear favorite. He is, however, a polarizing figure for many of the country's middle class, academe, the Catholic Church, and the business community because of his family's history. With a thin track record in national policymaking, his signals about his potential choices for key economic portfolios could be crucial in how markets and foreign investors read a potential Marcos administration.

ON THE HORIZON

ASIA PACIFIC

Japan

The central government is set to decide by 9 February whether to again extend moderate, localized ‘quasi state of emergency’ restrictions in Tokyo and 12 other prefectures. Omicron has driven national daily confirmed case numbers above 100,000, four times August’s Delta peak, although serious case numbers at around 1100 remain are currently half the previous peak level.

US/China

US officials said their "patience is wearing thin" on China's failure to meet purchase commitments contained in the phase 1 trade deal and said they will continue pressing Beijing. But the US officials also acknowledged they have limited leverage to enforce the deal if China falls short.

EUROPE

Spain

The center-right People's Party (PP) might have to rely on far-right VOX's support to govern the Castile-Leon region after the snap poll taking place this Sunday, 13 February. The PP called the election late last year with the aim of increasing its majority in the regional chamber. However, a lackluster campaign and the party's problems at the national level mean it is now tied with the Socialist Workers' Party (PSOE) in opinion polls. While the regional polls will not have any relevant short-term consequences for national politics, a bad result for the PP and a deal with VOX might hurt the party's prospects ahead of next year's general elections.

UK/EU

A quick resolution of the standoff over the Northern Ireland protocol remains elusive. Following the collapse of the regional government in Belfast, elections might be held before the initially envisaged date of 5 May. In the meantime, the EU can hardly push for meaningful progress given the politically volatile situation. The UK government can very well live with a situation in which the introduction of new customs controls gets delayed even further. As PM Boris Johnson fights for his political survival, UK leaders are unlikely to take the risk of serious negotiations with the EU.

LATIN AMERICA

Brazil

Congress starts to analyze on Tuesday, 8 February 2022 presidential vetoes on spending items relating to social programs, the electoral fund, and assistance to micro-enterprises. Congress should thus restore the electoral fund to its original proposed value (BRL 5.7 billion or USD 1.1 billion) and the refinancing of debts for micro-enterprises. President Jair Bolsonaro will travel to the Northeast, a stronghold of former President Luiz Inacio Lula da Silva and the only region of the country where he lost to Lula's Workers' Party (PT) in the last elections. Congress will also file a proposal for a constitutional amendment that would lower partially or in full tax rates for diesel, gas and ethanol. The Supreme Court (STF) should also judge on 9 February the validity of party federations - a four-year nationwide form of party alliance that would replace the single-election, locally-driven party coalitions.

Colombia

The leftist Gustavo Petro remains the favorite to win the presidency in the May/June elections. That is the evidence from the latest poll by the National Consulting Center (CNC) based on fieldwork from late-January to the beginning of this month. Petro is on 27%, followed by the populist ex-Bucaramanga mayor Rodolfo Hernandez on 14%. The former hostage Ingrid Betancourt ranks a surprise third with 7%. The poll suggests Petro would win in all the run-off scenarios. However, the field of candidates remains fragmented. That should change after coalition primaries scheduled for 13 March. Sergio Fajardo is the favorite to win the center-left primary, while the center-right primary is more competitive, with two former mayors of Barranquilla and Medellin respectively, Alex Char and Federico Gutierrez, tied. Neither Hernandez nor Betancourt are competing in any primary.

MIDDLE EAST AND AFRICA

Nigeria

President Muhammadu Buhari will face increased public pressure this week to sign the Electoral Act Amendment Bill. The president had, in December 2021, rejected the draft legislation sent to him by the National Assembly, citing his disagreement with a clause mandating all political parties to adopt direct primaries as the only means of selecting party representatives for any electoral contest. The legislative chambers have since amended the clause, allowing political parties the option to choose between direct primaries, indirect primaries, or consensus-based primaries as the method of choosing party representatives in any electoral contest, and have sent to the president for approval. With these changes, many had anticipated that the president would swiftly sign the bill into law, but he has continued to delay the bill's asset with no

reasons given. The Independent National Electoral Commission (INEC) has stated that it will not be releasing an electoral calendar until the bill is signed into law.

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