

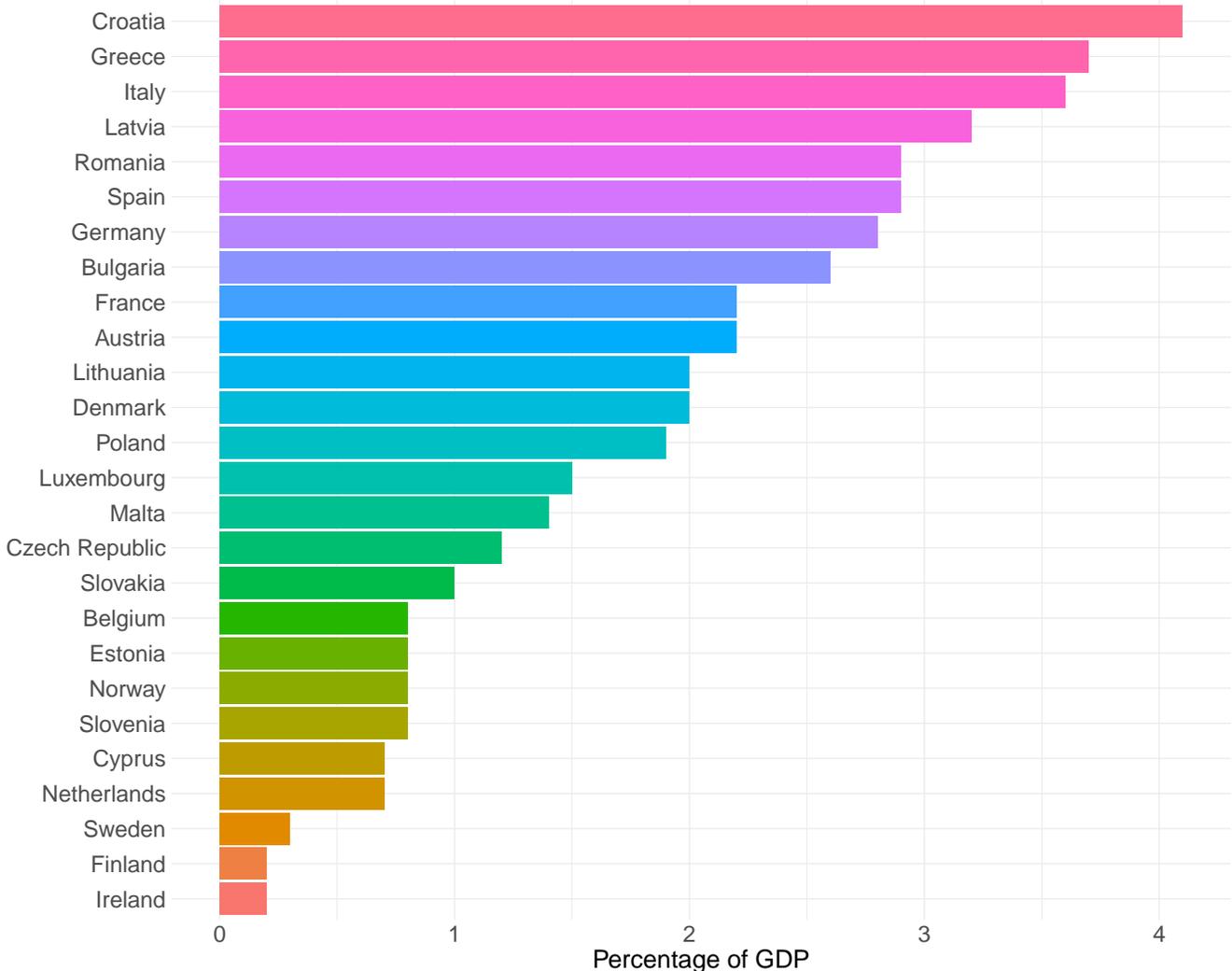
WEEKLY POLITICAL COMPASS

Self-proclaimed republics in Eastern **Ukraine** will hold fake referenda. The **US** president appears to be signaling a shift away from “strategic ambiguity” vis-à-vis **China**. Voters are going to the polls in **Italy**. Cabinet announcements in **Kenya** may be delayed further. Meanwhile, the leaders of **South Korea** and **Japan** are considering holding a summit, attention in the **UK** will shift back to fiscal policy, **Argentina’s** vice president will remain in the political spotlight, and **Angola’s** new president has appointed his cabinet.

CHART OF THE WEEK

Countries' fiscal response to the energy crisis varies across the EU

Governments allocated funding to shield households and businesses from the energy crisis



Source: Bruegel (last updated on 19 September 2022). Measures in place before September 2021 are not included

Governments across the EU are responding to the energy crisis with **measures to protect consumers and businesses** from rising prices. These include the reduction of electricity VAT in most countries, as well as a more contested windfall tax on energy companies introduced in Italy and Spain. However, a week after the European Commission outlined its own proposals – also including a windfall tax – countries continue to diverge on how to respond to the crisis due partly to different structures in energy markets and national energy dependences. At the same time, governments face more difficult economic trade-offs than during the pandemic, given rising inflation and monetary policy tightening. While politically they are pressured to spend, any fiscal easing at the time of tight labor markets and high inflation could lead central banks to restrict policy even further.

WHAT TO WATCH

Russia/Ukraine

On 23-27 September, Moscow-backed administrations of the self-proclaimed Luhansk People's Republic (LPR) and the Donetsk People's Republic (DPR) will hold fake referendums on joining Russia. Similar votes are likely to be announced in Ukraine's Kherson and Zaporizhzhia regions, partially occupied by Russia. As in Crimea in 2014, the fake referendums are likely to be used as a pretext by Russia to formally annex these territories. Such a course of action would constitute a major escalation, and the Kremlin could cite the need to "preserve Russia's territorial integrity" to declare a full or partial mobilization or justify using heavier weapons. Amendments to the Criminal Code passed by the State Duma today suggest that Moscow might be laying the legal groundwork for the announcement of martial law and mobilization. The annexation would also complicate eventual peace/ceasefire talks as Russia's constitution prohibits ceding territory.

US/China

US President Joe Biden stated clearly the US military would come to Taiwan's defense if the island faced attack by China, appearing to signal a shift away from Washington's longstanding policy of "." As with Biden's previous statements on the issue, a White House spokesman again said the president's statements do not signal an official policy shift, but Biden's statement may deepen worries in Beijing that Washington's One China Policy is eroding.

Italy

A right-wing bloc led by Georgia Meloni's Brother of Italy (Fdi) looks set to win a majority in both houses of parliament in the 25 September elections. While the new government is unlikely to seek a confrontation with the EU, its plans for the economy will create some friction with Brussels. Even though the right-wing alliance is expected to secure a comfortable parliamentary majority, personal rivalries and policy differences within the bloc will create turbulence.

Kenya

Newly inaugurated President William Ruto's cabinet announcements may be delayed by a few more days. He is now expected to announce his cabinet after his trip to Queen Elizabeth's burial in the UK and the UN General Assembly in New York. Meanwhile, Ruto's Kenya Kwanza alliance and Raila Odinga's Azimio La Umoja coalition are tussling over the parliamentary majority. In the National Assembly, Azimio has 174 MPs vs Kenya Kwanza's 162. Ruto's side claims that it has secured majorities in both houses, but the question is whether MPs who have shifted allegiance since the elections technically remain Azimio members.

ON THE HORIZON

ASIA PACIFIC

Japan

The Bank of Japan's Monetary Policy Committee will announce its latest policy decision on 22 September, but there have been no indications that it will move away from its long-term ultra-accommodative stance. With the yen already

at a 24-year low against the US dollar, there would be even greater downward pressure on Japan's currency if the Fed again raises interest rates on 21 September and the BOJ holds.

South Korea/Japan

President Yoon Suk Yeol and Prime Minister Fumio Kishida are reportedly considering holding a summit in New York on 20 or 21 September on the sidelines of the UN General Assembly, for what would be the first such bilateral meeting since 2019. Yoon is eager to improve icy Seoul-Tokyo ties amid a deteriorating regional security environment, but Kishida may want prior assurances that the South Korean Supreme Court would not force the liquidation of Japanese companies' assets in relation to the wartime forced labor issue.

EUROPE

Czech Republic

On 23-24 September, voters will head to the polls to elect municipal councils and one-third (27) of senate (upper chamber of parliament) members. While parties comprising the ruling Together coalition are set to maintain a majority in the Senate, the elections will serve as a test of voters' mood during the cost-of-living and energy crises. Currently, the governing parties occupy 20 out of 27 senate seats up for election in single-mandate constituencies. The ruling coalition parties are also expected to perform well in municipal elections, as the key opposition party the Action of Dissatisfied Citizens (ANO) lacks significant regional presence.

Turkey

The central bank is slated to maintain its policy rate at 13% on 22 September, following a surprise rate cut by the bank last month amid skyrocketing inflation in the country. The recent substantial increase in capital flows of unknown origin to Turkey makes it easier for the authorities to continue pursuing the unorthodox monetary policy dictated by President Tayyip Erdogan.

UK

Following the state funeral for Queen Elizabeth II, attention will shift back to fiscal policy. Chancellor Kwasi Kwarteng is expected to deliver his much-anticipated emergency budget on 23 September. The government will mainly detail PM Liz Truss's plans for a GBP 150bn economic support package. However, beyond the reversal of tax hikes already announced, the chancellor could surprise with additional handouts or tax cuts.

LATIN AMERICA

Argentina

Vice-President Cristina Fernandez (CFK) will remain in the political spotlight this week as her defense team makes its closing arguments in the road infrastructure embezzlement trial known as *Validad*. CFK herself could take the stand on 23 September. The defense case maintains that CFK is a victim of political persecution and that the opposition is guilty of worse corruption. Such a defiant legal strategy makes it unlikely that any dialogue between Peronists and the opposition can get off the ground; *Kirchneristas* have been calling for talks as a way to decompress tensions arising from the trial, which led to protests in late-August that culminated in the failed assassination of CFK on 1 September. CFK currently has immunity from prosecution, and even if she is found guilty, subsequent appeals would mean that there is nothing stopping her from running for office in 2023, probably as a senator, assuming she does not seek the presidency again.

Brazil

President Jair Bolsonaro will speak of issues that may have an electoral impact back home at his address at the United Nations General Assembly today. He will focus on achievements of his government, such as decreasing inflation and improving economic growth prospects for 2022. The speech will come in the wake of his trip to the UK for the funeral of Queen Elizabeth II, where he spoke to supporters from a balcony at the Brazilian ambassador's residence in London in full campaign mode, attacking the Left, abortion and gender "ideology". The president continues therefore to focus on issues that will not attract votes from undecided voters. He has consistently trailed former president Luiz Inácio Lula da Silva by more than 10 percentage points in the polls. Close to 80% of the voters say they will no longer change their vote. Lula has reached 50% of the valid vote and may win on the first round on 2 October depending on the effect of broad-based alliances he has succeeded in putting together.

MIDDLE EAST AND AFRICA

Angola

Following his inauguration for a second term, President João Lourenço swiftly appointed his cabinet on 16 September. He retained many ministers, particularly in the economy portfolios, including Vera Daves, who remains in charge of the finance ministry. Lourenço also named provincial governors, including for Luanda, where opposition party UNITA surged ahead of the ruling MPLA in this year's election. UNITA has refused to recognize the election results, but will take up its parliamentary seats, in the hope of making gains in outstanding municipal elections and winning the 2027 national polls.

South Africa

Load-shedding escalated to 'stage 6' over the weekend and "high stages" of brownouts are expected to continue this week. The latest power crisis has forced President Cyril Ramaphosa to cut short his trips abroad, but his administration will struggle to announce additional quick fixes or reform measures for ailing power utility Eskom. Increasing plant failures combine unfavorably with high prices of diesel on which Eskom has already spent most of its entire 2022 budget. Adding insult to injury for customers, energy regulator NERSA will open public hearings into proposed tariff increases of 32% for 2023-24.

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