

WEEKLY POLITICAL COMPASS

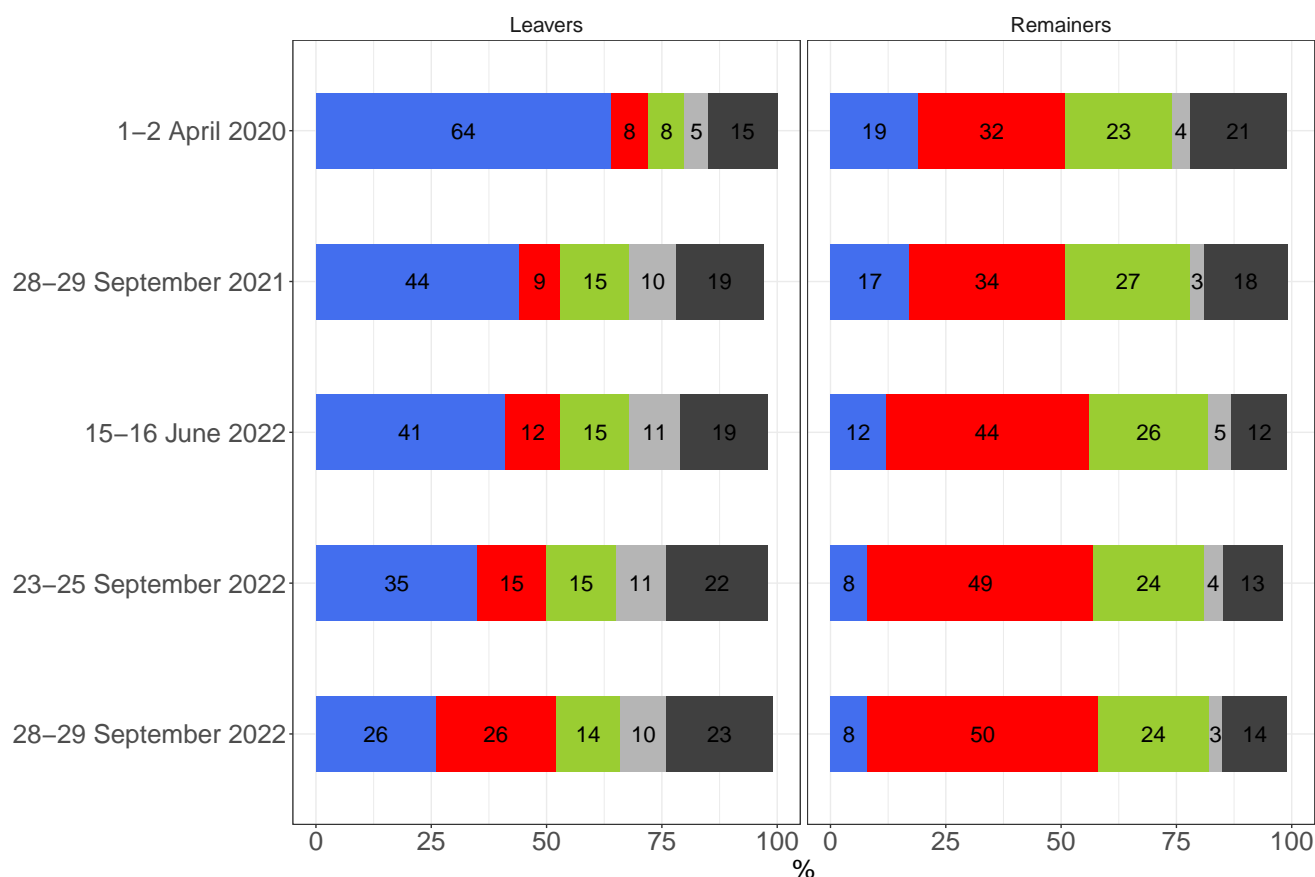
The new **UK** government has abandoned some of its tax cut plans. **Brazil** is heading for a presidential runoff election. **Indonesia** is the first country to approve a **Chinese**-developed mRNA vaccine. **West African** states face a political conundrum following the coup d'état in Burkina Faso. Meanwhile, there is speculation that **Malaysia's** parliament could be dissolved, government formation in **Bulgaria** will be complicated, the US secretary of state will visit **Colombia**, and the new board of **South African** power utility Eskom has taken office.

CHART OF THE WEEK

Brexiteers are also leaving the Conservative party

Voting intention of Leave and Remain voters (according to 2016 EU referendum vote)

■ Conservative ■ Labour ■ Other parties ■ Would not vote ■ Don't know



Source: YouGov

After days of market turmoil, the **UK government's fiscal plans** appear to be alienating the Conservative base. The latest polls give Labour a substantial lead over the Tories. Two trends are worth highlighting. First, an important share of those who voted for the Conservatives in the 2019 general election – around 17% – would now vote Labour. This proportion

of Conservative switchers is similar to the one observed in Tony Blair's 1997 landslide victory. Second, the Conservative party is becoming less hegemonic among Brexiters. In fact, the graph above shows that today as many Leavers would vote for the Conservatives as for Labour, which suggests that "Trussonomics" – particularly against the backdrop of the cost-of-living crisis – is not particularly popular among large swaths of the 2019 Tory electoral coalition.

WHAT TO WATCH

UK

The government has announced a major U-turn on its controversial plan to cut the top income tax rate. This follows last week's market rout and the build-up of major opposition among Conservative backbenchers. The next signpost to watch is whether the government's move has appeased or emboldened moderate MPs – most of whom did not vote for Truss but for Rishi Sunak who had been opposed to tax cuts. Internal Tory politics will, in turn, also depend on the market reaction over the coming weeks. More uncertainty is likely ahead as Truss will constantly have to scope out how far she can push the small-state agenda she promised to the Conservative membership base.

Brazil

There will be a runoff election on 30 October following a surge of votes for President Jair Bolsonaro in contradiction to all major pollsters and poll aggregators. Former President Luiz Inacio Lula da Silva reached 48.43% of the vote, as expected within the error margin, against the president's 43.20% – a full 6-7 percentage points above the polled result on the day before the elections. Lula prevailed by more than 6mn votes, the best ever result for a first-round candidate, but the president did surprisingly well in the crucial Southeast region (43% of the electorate). The specter of a first-round Lula victory may have fired up a strong anti-Workers' Party sentiment which may have spared Lula but took its toll on all other major leftwing candidacies at the federal and state levels. Bolsonaro is expected to put aside his contestation of the electronic voting system in the upcoming runoff campaign.

Indonesia/China

Indonesia became the first country to approve a Chinese-developed mRNA vaccine, even ahead of China itself. Indonesia's food and drugs agency (BPOM) approved Walvax Biotechnology's vaccine for emergency use on 30 September, even though the company has not yet published efficacy data from late-stage trials underway in Indonesia, Mexico, and China.

West Africa

The Economic Community of West African States (ECOWAS) faces another political conundrum this week following the 30 September coup d'état in Burkina Faso. The West African bloc will have to decide whether to place fresh sanctions on Burkinabe's military regime after a breakaway army faction, led by Captain Ibrahim Traore, deposed military ruler Paul-Henri Damiba, who had himself taken power in a putsch from former civilian president Roch Kabore in January. The latest coup d'état casts a shadow of doubt over the previously agreed 1 July 2024 timeline between ECOWAS and Damiba-led regime for a return to constitutional order.

ON THE HORIZON

ASIA PACIFIC

Malaysia

The 2023 budget will be tabled on 7 October and there is speculation that parliament will be dissolved soon afterwards to allow for early elections to be called for November. Prime Minister Ismail Sabri Yaakob may want elections held later but has been outmaneuvered by factions in his United Malays National Organization (UMNO) party that

want this year. Given that the monsoon normally intensifies by December, the window for elections is next month. Yaakob said last week that he is set to meet with the king – although it is not known when -- to discuss possible election dates.

EUROPE

Bulgaria

Another highly fragmented parliament following the 2 October snap parliamentary elections will result in a complicated government formation process. While the center-right Citizens for European Development of Bulgaria (GERB) won most mandates and will get a first chance at forming the cabinet, former prime minister Boyko Borisov's party is unlikely to secure the majority needed to form a stable government unless it cooperates with the far-right pro-Russian Revival. The second-place winner centrist We Continue the Change (PP) also lacks potential coalition partners to form a majority government. As [previously noted](#), the continued political deadlock could result in a temporary technocratic government or another snap election in winter. The former option appears more likely as virtually all political parties agree that a stable government is needed to cope with multiple challenges during the coming months.

Germany

Voters will go to the polls in the Lower Saxony regional election on 9 October. In the last regional election of the year, the local branch of Chancellor Olaf Scholz's Social Democrats (SPD) seems well positioned to defend this major state. Such an outcome would be welcome news for the chancellor in the aftermath of the presentation of his government's EUR 200bn economic support package. However, the fate of Scholz's smaller coalition partners – especially the Liberals (FDP) – should be watched.

Latvia

As , the centrist New Unity (JV) party led by Prime Minister (PM) Krisjanis Karins won most mandates (26/100) in parliamentary elections held on 1 October and will likely get a first chance at forming a new coalition government. President Egils Levits is expected to nominate Karins as PM for the second term in office, who is supported by JV's likely coalition partners – the right-wing National Alliance (13 mandates) and the United List (15 mandates). The three parties – which together would have a slim majority of 54/100 mandates – might be also joined by the center-left Progressives with ten seats. JV's key priorities include international and domestic security, economic competitiveness, and education reform. More generally, the election result reflects strong voter support for pro-Western reform-oriented policies pursued by the Karins government in recent years.

Turkey

Parliament is set to begin its new legislative term with a vote on a new social media bill aimed at curbing dissent. The bill seeks to combat what the government is calling "fake news, disinformation, provocation and lynch justice in the social networks." The proposed legislation has come under criticism due to the use of vague terms and criteria, as well as the risk of abuse by state authorities. The new legislation is the latest effort by President Tayyip Erdogan's government to build a legal mechanism that censors critical posts and videos before the elections in 2023.

LATIN AMERICA

Colombia

US Secretary of State Antony Blinken will be in Bogota today, 3 October, for a meeting with President Gustavo Petro. As the US looks to make sense of Petro's call for a new approach to the war on drugs, Blinken will seek clarification on Petro's proposal to re-think extradition, which has been a key tool of US counter-narcotics policy. Petro's move to thaw relations with Venezuela will also no doubt come under discussion, as will the parallel moves to undertake peace talks with the National Liberation Army (ELN) guerrilla group and bring organized crime groups under the umbrella of Petro's "total peace" initiative. Additionally, Blinken is likely to sound out Petro about a more forceful condemnation of Russia's recent

annexation of four areas of Ukraine ahead of a meeting of the Organization of American States (OAS)'s General Assembly to be held in Lima later this week.

MIDDLE EAST AND AFRICA

South Africa

The new 13-member board of power utility Eskom took office on 1 October. While somewhat enriched with engineering, energy and accounting expertise, the board will face impossible pressure to improve Eskom's worsening load-shedding and declining energy availability factor (EAF). Last week, the EAF stood as low as 55% of installed capacity, with unplanned outages worth 15,862MW and planned maintenance worth 5,206MW. Record outages are fueling calls for the removal of Eskom CEO Andre de Ruyter, even if he is battling financial and operational legacy problems that are largely the result of political failures.

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