

WEEKLY POLITICAL COMPASS

Lula has won the presidency in **Brazil**. **Russia** has suspended the Black Sea grain deal. The Bank of **England** will be at the center of attention this week. Meanwhile, **China** is granting women greater protection, **Kosovo** is going ahead with its controversial license plate change, left-leaning governments across **Latin America** will welcome the election outcome in Brazil, and **Nigeria's** president supports replacing high-value naira notes.

CHART OF THE WEEK

Inflation and inequality concern citizens across the globe

Which three of the following topics do you find the most worrying in your country? (%)



Source: Ipsos. October 2022. Representative sample of adults in each country

While many forecasts suggest that inflation has peaked in the US, the Euro area, and the UK, the **global economic outlook** remains highly uncertain. In the US, real GDP rose by 0.6% in the third quarter after two negative quarters, while in Europe sluggish growth is observed across the largest economies. Against this backdrop, governments and central banks continue to be at a crossroads. While the former want to signal to voters – increasingly concerned about inflation and rising inequality – that they are doing as much as possible to support them economically, the latter want to emphasize their independence by taking strong action to bring down inflation. Some governments and prominent political figures, such as French President Emmanuel Macron, have warned monetary policymakers over the damage that further hikes could cause to the economy. Should inflation remain high, and some countries fall into recession, tensions between governments and monetary policymakers could become more pronounced.

WHAT TO WATCH

Brazil

Former President Luiz Inacio Lula da Silva from the leftwing Workers' Party (PT) won the presidency over incumbent president Jair Bolsonaro from the rightwing Liberals Party (PL). Lula won by the smallest margin since re-democratization in the 80s: a little over two million votes or a difference of 1.8 percentage points (50.9-49.1%). Lula had 3mn more votes in the second round than in the first; President Jair Bolsonaro, more than 7mn. The result confirmed a strong inverse correlation between voting preferences and rejection rates: Lula's result was equivalent to Bolsonaro's rejection and vice-versa. Bolsonaro did not congratulate his opponent and remains silent since the announcement of Lula's victory. In his first speech to a big crowd in São Paulo, Lula said his victory was not the PT's victory but the victory of democracy and the coalition that supported him.

Russia/Ukraine

Following a drone attack on Russia's Black Sea Fleet in Sevastopol on 29 October, Moscow has indefinitely suspended its participation in the Black Sea Grain Initiative – which was set to expire in the second half of November – claiming that it cannot guarantee the safety of civilian cargo ships. Although some ships on 31 October were resuming their passage via the designated humanitarian corridor overseen by Turkey, Ukraine, and the UN, Moscow's move endangers grain exports from Ukraine going forward. Given the significance of food exports for Ukraine, multiple developing countries, and the global commodity markets, Moscow might use the issue as a bargaining chip in relations with the West and Ukraine.

UK

All eyes will be on the Bank of England meeting on 3 November. While a 0.75 percentage point interest rate rise seems to be the consensus among BoE watchers, the medium-term outlook poses several questions. Most importantly, now that the government has delayed its budget presentation to 17 November, the interplay between monetary and fiscal policy will be a key signpost to watch.

ON THE HORIZON

ASIA PACIFIC

China

China's legislature passed a law on 30 October granting women greater protection against gender discrimination and sexual harassment. This included special protections for poor, elderly, and the disabled. The legislation approved by the National People's Congress Standing Committee updates the Women's Rights and Interests Protection Law for the first time in 30 years, following tens of thousands of public comments and three revisions.

South Korea

President Yoon Suk-yeol faces his most challenging week since taking office as he responds to the Itaewon Halloween tragedy. Yoon's more engaged initial reaction suggests that he has learned some of the lessons of then-president Park Geun-hye's response to the 2014 Sewol ferry disaster, which became the source of lasting political damage for her.

EUROPE

Italy

Prime Minister Giorgia Meloni's government is expected to extend existing measures aimed at shielding consumers from surging energy costs until year-end. Meloni can count on resources from this year's budget worth around EUR 9-10bn to fund the extension. Ahead of the submission of the 2023 budget to Brussels (expected on 19 November), the new government is also striving to send a signal of discontinuity with past administrations by amending Italy's Covid policy and considering increasing the cash payment ceiling from EUR 2,000 today.

[Serbia/Kosovo](#)

On 31 October, Kosovo is set to impose new requirements for vehicle license plates for all its residents, which might lead to renewed skirmishes between Kosovo police forces and ethnic Serbs in northern Kosovo. Anecdotal reports suggest that few ethnic Serbs residing in Kosovo have complied with the new license plate regulations, while Belgrade considers such a requirement illegitimate. Despite high tensions, a larger-scale conflict would likely be prevented by NATO peacekeeping forces stationed in Kosovo.

LATIN AMERICA

[Latam](#)

Lula's election victory will be welcomed by left-leaning governments across the region even if economic conditions are hugely different to when Lula was last in power. Some regional leaders will recognize yesterday's election outcome as reflecting aspects of their own political predicaments. These include intense political polarization (Peru) and a relatively narrow margin of victory for the leftist winner (Colombia). Venezuela's Nicolas Maduro will be hoping that Lula will eventually help normalize the regime's position. At the same time, Jair Bolsonaro's stronger-than-expected performance will buoy conservatives vying for power in the likes of Argentina and Peru.

MIDDLE EAST AND AFRICA

[Nigeria](#)

President Muhammadu Buhari confirmed, on 30 October, his support for plans announced by the Central Bank of Nigeria (CBN)'s to launch new designs and replace high value naira notes. The president's statement comes days after Finance Minister Zainab Ahmed disclosed to the National Assembly that her ministry was not consulted by the CBN on the plans, and warned of the potential risks of the exercise. Ahmed's statements have once again raised questions about potential chaotic decision making amongst economic policymakers and suggest that there may be power plays happening between the finance ministry and the CBN. The divergent views between monetary and fiscal authorities on the issue have deepened concerns about the potential negative impact of the exercise on the economy, which the CBN says it hopes to complete by 31 January 2023.

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