

## WEEKLY POLITICAL COMPASS

Welcome to this edition of the Weekly Political Compass from Teneo's political risk advisory team.

This week, we are taking a closer look at **South Korea's** presidential election. Meanwhile, **Germany's** chancellor heads to Washington, the leaders of the **US** and **China** could speak directly, and another round of **Russia/Ukraine** peace talks ends without progress. Elsewhere, **Poland** gets a new right-wing president, **Brazil** discusses hiking its financial operations tax, **Japan** edges towards a trade deal, and **Senegal** struggles to meet an IMF deal deadline.

As always, we welcome your questions or comments at [Macro@teneo.com](mailto:Macro@teneo.com).

### GLOBAL SNAPSHOT

*With South Korea electing a new president on 3 June following six months of political drift, we ask our Senior Advisor [Victor Cha](#) to look ahead.*

How is the race shaping up?

Lee Jae-myung of the progressive Democratic Party remains the favorite. He has consistently led the race since the beginning and has regularly polled around the 50% mark in public opinion polls. The conservative vote is likely to be split between People Power Party nominee Kim Moon-soo and former PPP leader Lee Jun-seok, who have been averaging around 35% and 10%, respectively. The failure of Lee Jun-seok to drop out and 'unite the right' around Kim's candidacy increases the likelihood of a Lee Jae-myung victory.

What are the main issues facing the incoming president?

The economy will be one key issue, with the Bank of Korea recently cutting its 2025 growth forecast in half to 0.8% and exports to the US down 8% in May compared to twelve months prior. Negotiating a trade deal with the Trump administration before higher tariffs kick in on 9 July will be a race against time. On foreign policy, the "quiet crisis" that has developed in the US-ROK alliance in 2025 will also have to be addressed, with the Pentagon already planning to pull one brigade of troops out of South Korea. On China and North Korea, a Lee Jae-myung presidency would also likely mean greater outreach than under conservative former president Yoon Suk-yeol.

### WHAT TO WATCH

#### ASIA-PACIFIC

US/China

**White House economic advisor Kevin Hassett said US President Donald Trump and Chinese President Xi Jinping will hold a phone call "this week," while Treasury Secretary Scott Bessent said the two will speak "soon." Bessent said**

the two presidents would discuss Chinese export controls on critical minerals, amid both governments' [recent moves](#) to withhold critical industrial and tech inputs.

## US/Japan

**A bilateral trade deal could be concluded as soon as mid-June.** Japanese trade envoy Ryosei Akazawa looks set for a fifth visit to Washington this week, with speculation that Prime Minister Shigeru Ishiba could also return to the White House to meet Trump before the G7 Summit in Canada starting on 15 June. Akazawa sounded positive in media comments on 31 May following the fourth round of trade talks but gave no indication of progress on key issues like autos and steel.

## **EUROPE**

### Germany

**Chancellor Friedrich Merz will head to Washington on 5 June for his first visit to meet US President Donald Trump.** Since taking office, Merz has articulated a more active role for Germany as part of the coalition of European states supporting Ukraine. His government has also suggested raising defense spending to 5% of GDP. While this might help Merz in his first encounter with Trump, US tariffs pose a major problem for the export-dependent German economy. After the UK skilfully leveraged its monarchy and France the grand reopening of Notre Dame de Paris, an invitation to the southwest German hometown of Trump's ancestors is hoped to help improve the president's impression of Germany.

### Russia/Ukraine

**The second round of direct talks between Russian and Ukrainian delegations in Istanbul on 2 June did not bring any breakthroughs.** Moscow and Kyiv reportedly exchanged proposals for a ceasefire and agreed to hold another exchange of prisoners of war as well as the remains of deceased soldiers. Overall, the two sides appear far apart on ceasefire terms and steps towards a comprehensive settlement of the war, while the exchange of massive drone strikes in recent days does not indicate readiness for major compromises on other side. Following the meeting, the Russian side intends to release a public statement.

### Poland

**A victory by right-wing opposition candidate Karol Nawrocki in the 1 June presidential elections represents a major setback for Prime Minister Donald Tusk's government.** The result limits the government's ability to advance key reforms and fulfill electoral pledges, and points to difficult choices ahead. The PM could reshuffle the government to speed up the implementation of his policy agenda or even call for snap parliamentary elections in an effort to re-establish his popular mandate. Tusk is scheduled to make public statement at 8 p.m. local time on 2 June.

## **LATIN AMERICA**

### Mexico

**President Claudia Sheinbaum on 1 June described the first ever elections for the judiciary as a "total success," though the National Electoral Institute (INE) put turnout at approximately 13%.** The possibility that many ballots were left blank or were spoiled may reduce the effective vote even further. However, official results will not be confirmed until 15 June. Budget cuts meant that there was no preliminary quick count to provide an indication of voting trends, while there were also questions over the chain of custody procedures for ballot papers. Newly elected judges will take up their positions from 1 September, including members of the Supreme Court (SCJN), the main electoral court (TEPJF) and its local offshoots, the judiciary's administrative and disciplinary council (TDJ), as well as hundreds of circuit and district judges. Elections for remaining judicial positions are scheduled for 2027.

### Brazil

**A controversial proposal by the government for an increase in the financial operations tax (IOF) reaches a sensitive juncture in negotiations with Congress, while President Lula da Silva will be in France.** In order to comply with the agreed

fiscal framework, the government announced a BRL 10bn (USD 1.75bn) blockage of spending assuming an increase in the IOF this year. Changes in the IOF can be applied immediately unlike other taxes, which is especially attractive for the government, but Congress must approve them and currently opposes any tax increases. A ten-day deadline set by House Speaker Hugo Motta for the government to present an alternative plan to the IOF increase will elapse only one day after Lula returns from his official trip to France, adding to the stress that has already lasted for weeks.

## AFRICA

### Senegal

**The government's initial hope of agreeing a new program with the International Monetary Fund (IMF) by end-June is unlikely to materialize.** This follows the earlier suspension of an existing program with the Fund after President Diomaye Faye's government reported that its audit showed that the previous administration had significantly misreported key macroeconomic data. Resuming a new program with Fund is contingent upon the IMF Executive Board granting a waiver or resolving the misreporting issue. Only after this decision can new discussions about a new program start.

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