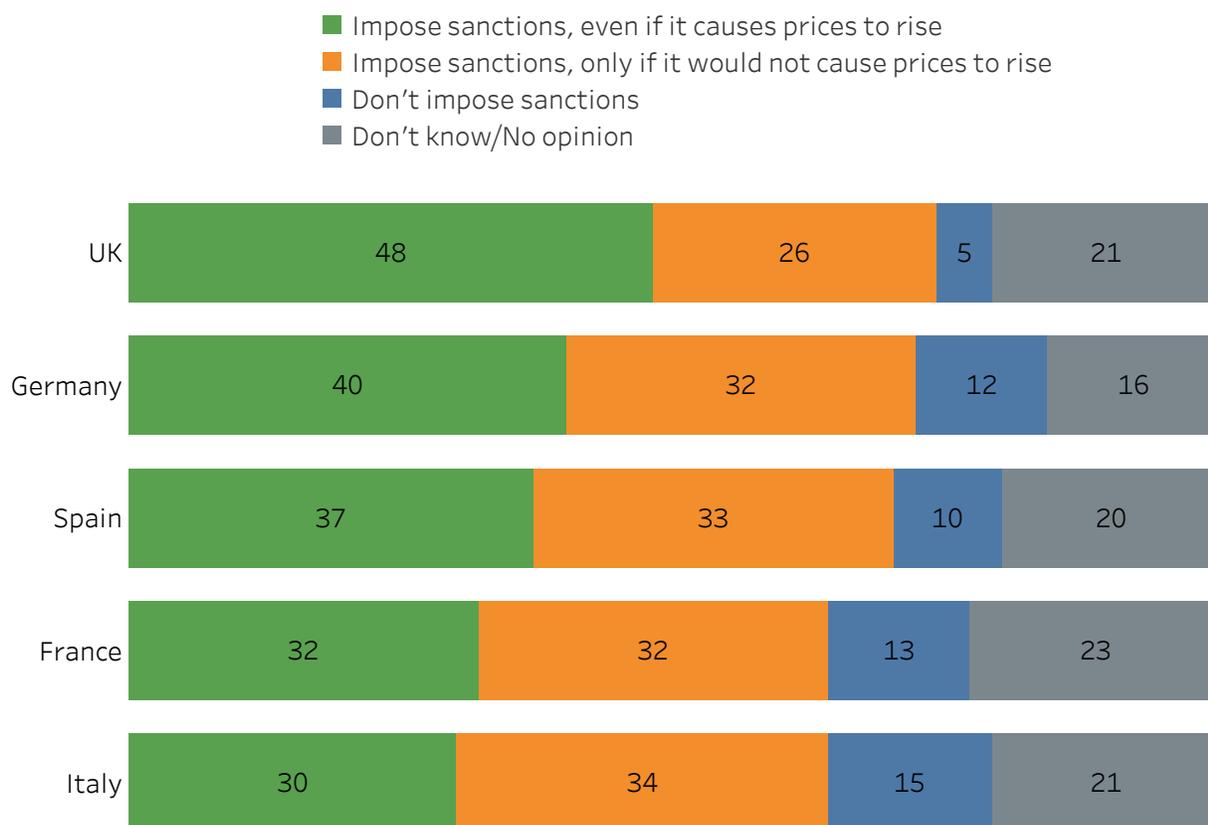


WEEKLY POLITICAL COMPASS

The **EU** will impose new sanctions on **Russia**. The **Chinese** army has deployed medical personnel to Shanghai. Presidential elections will be held in **France**. **Kenya's** constitutional court has ruled the BBI reform project unconstitutional. Meanwhile, in **Japan** the new structure of the Tokyo Stock Exchange went into effect, **Germany** will decide on mandatory vaccinations, **Mexico's** president faces a presidential recall referendum, and **South Africa** will temporarily reduce the general fuel levy.

CHART OF THE WEEK

Support for oil and gas sanctions is often conditional on price increases concerns



Source: Morning Consult. Survey conducted March 16-18, 2022, among at least 998 adults in each country.

The European Union is working on **further sanctions against Russia** after reports emerged of alleged atrocities and war crimes over the weekend. The key question, however, is whether the new package will include an outright ban on oil and gas Russian imports. While Germany, Italy, and other EU countries highly dependent on Russian gas have opposed this

ban since the beginning of Russia's invasion, the mood appears to be shifting in some EU capitals, including Berlin and Rome. The main driving force behind further sanctions remains Western popular outrage created by Russia's actions in Ukraine, which forces EU countries to reconsider their position. Regardless of the EU's decision, however, governments will face difficult trade-offs – weighing up whether democratic or economic concerns should be prioritized in the coming months. Against the backdrop of inflationary pressures, these dilemmas will remain difficult to solve.

WHAT TO WATCH

EU/Russia

Following reports about atrocities committed by Russian soldiers in Ukraine, member states' ambassadors are expected to agree on a new set of restrictive measures this week. An extraordinary European Council has, however, not been called so far. The new measures are likely to include a mix of enforcement tools, additional names to be added to the list of sanctioned individuals, and technology-related restrictions. Oil and gas bans remain unlikely for now, but an EU-wide stop on Russian coal imports is being discussed, reflecting the gradual evolution of the debate.

China

The People's Liberation Army deployed 2,000 medical personnel to Shanghai, and neighboring provincial authorities added 10,000 more, as the city prepares for a second round of mass testing. A two-stage lockdown-and-testing campaign is scheduled to conclude on 5 April, but many areas of the city remain on lockdown. The city has recorded [more than 20,000 infections](#) over the last week.

France

Voters will go to the polls in the first round of the presidential elections on 10 April. Incumbent President Emmanuel Macron and radical right candidate Marine Le Pen are likely to go into the runoff that will take place on 24 April. While Macron is still likely to be re-elected, Le Pen has been able to narrow the gap with the president in the opinion polls in recent days on the heels of a campaign strongly focused on the topic of the rising cost of living. The key variables to watch between the two rounds are the potential endorsements by other candidates and the number of left-wing voters suggesting in opinion polls they will support Macron to stop Le Pen from becoming president.

Kenya

On 31 March, the Supreme Court ruled the Building Bridges Initiative (BBI) unconstitutional. Affirming prior rulings, the apex court dealt a final blow to the grand constitutional reform project of President Uhuru Kenyatta and opposition leader Raila Odinga. While expected, the ruling further complicates Odinga's presidential campaign against Kenyatta's estranged deputy William Ruto ahead of elections in August. Ruto has held a significant lead over Odinga in the few available opinion polls in recent months, though the latter appears to be catching up. A crucial signal to watch will be the appointment of running mates and endorsements from regional power brokers.

ON THE HORIZON

ASIA PACIFIC

Japan

The slimmed-down three-tier structure of the Tokyo Stock Exchange went into effect on 4 April, part of ongoing efforts to make Asia's second-largest bourse more attractive to international investors. Firms in the new Prime segment will be expected to have higher market capitalization and better corporate governance. Yet with 1839 companies, the new top tier will be only slightly smaller than the 2177-component First Section it replaces, raising concerns that the shake-up will do little to help investors differentiate the best from the rest.

EUROPE

Germany

After most Covid-19 restrictions have been phased out, the idea of mandatory vaccinations faces an uncertain future politically. The Bundestag will vote on several initiatives developed by cross-party groups of MPs on 7 April. The government has not tabled an own initiative, mostly due to skepticism amid the center-right Liberals (FDP). In previous votes, the Bundestag has already decided against a general vaccination requirement for all adults. However, MPs could still opt for a solution that applies to older citizens.

Hungary

The ruling Fidesz claimed a landslide victory in the general elections yesterday, 3 April, and will maintain a supermajority (more than two-thirds of mandates) in parliament. The new cabinet – expected to be sworn in the second half of May – will have to deal with the increasingly challenging fiscal situation amid slowing economic growth and high energy prices. For the opposition, the disappointing electoral outcome will lead to a period of introspection, while their joint prime ministerial candidate Peter Marki-Zay will likely bear the brunt of the criticism.

Serbia

According to preliminary results, President Aleksandar Vucic was re-elected for a second five-year term in office, while the ruling Serbian Progressive Party (SNS) won the parliamentary elections held yesterday, 3 April. Prime Minister Ana Brnabic is widely expected to remain in office, although government formation might be protracted. The re-election of incumbents suggests policy continuity in most areas, including the focus on large infrastructure projects, reluctance to impose sanctions on Russia, and slow reforms in tackling corruption and rule of law issues.

LATIN AMERICA

Brazil

Congress will focus on social bills with electoral appeal this week. On top of the list is an increase in the monthly disbursement per family in the new cash transfer program, *Auxilio Brasil*. The first payment was in February, but the government wants to close to double it to compensate for the current lower value when compared with the covid-19 emergency aid. Bills improving conditions for government scholarships are also to be addressed this week. The president may veto BRL 3.86bn (USD 830bn) in compensation funds for the difficulties encountered by the cultural establishment during the pandemic. The Supreme Court (STF) will start on 6 April to examine cases against the government in relation to the preservation of the Amazon and other ecosystems.

Mexico

President Andres Manuel Lopez Obrador (AMLO) faces a presidential recall referendum on 10 April. Unlike a conventional recall vote sought by voters, AMLO himself has pushed for the referendum as a means to boost his authority. For the referendum to be legally valid, 40% of the electorate must participate. This amounts to around 37.9mn voters. Although turnout is likely to be well below this threshold (many AMLO opponents will not vote and there is no significant movement trying to eject him from power in this referendum), AMLO will try to portray the result as a ringing endorsement of his presidency. The lower the turnout, the greater the risk of an angry reaction from AMLO; in this scenario, the National Electoral Institute (INE) would almost certainly be the main target of his ire.

MIDDLE EAST AND AFRICA

South Africa

Finance Minister Enoch Godongwana has announced a temporary reduction in the general fuel levy to shield the economy from surging petrol prices. The levy will be reduced by ZAR 1.50 from 6 April until 31 May. This is expected to cost the government ZAR 6bn in revenue, though the government hopes to offset this by selling fuel from strategic fuel stocks. From June, the government is planning further interventions, including a price cap on 93 octane petrol, which would allow retailers to sell at prices below the regulated threshold, and wider phased reforms to the pricing methodology, which Godongwana has hailed as “full deregulation.”

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