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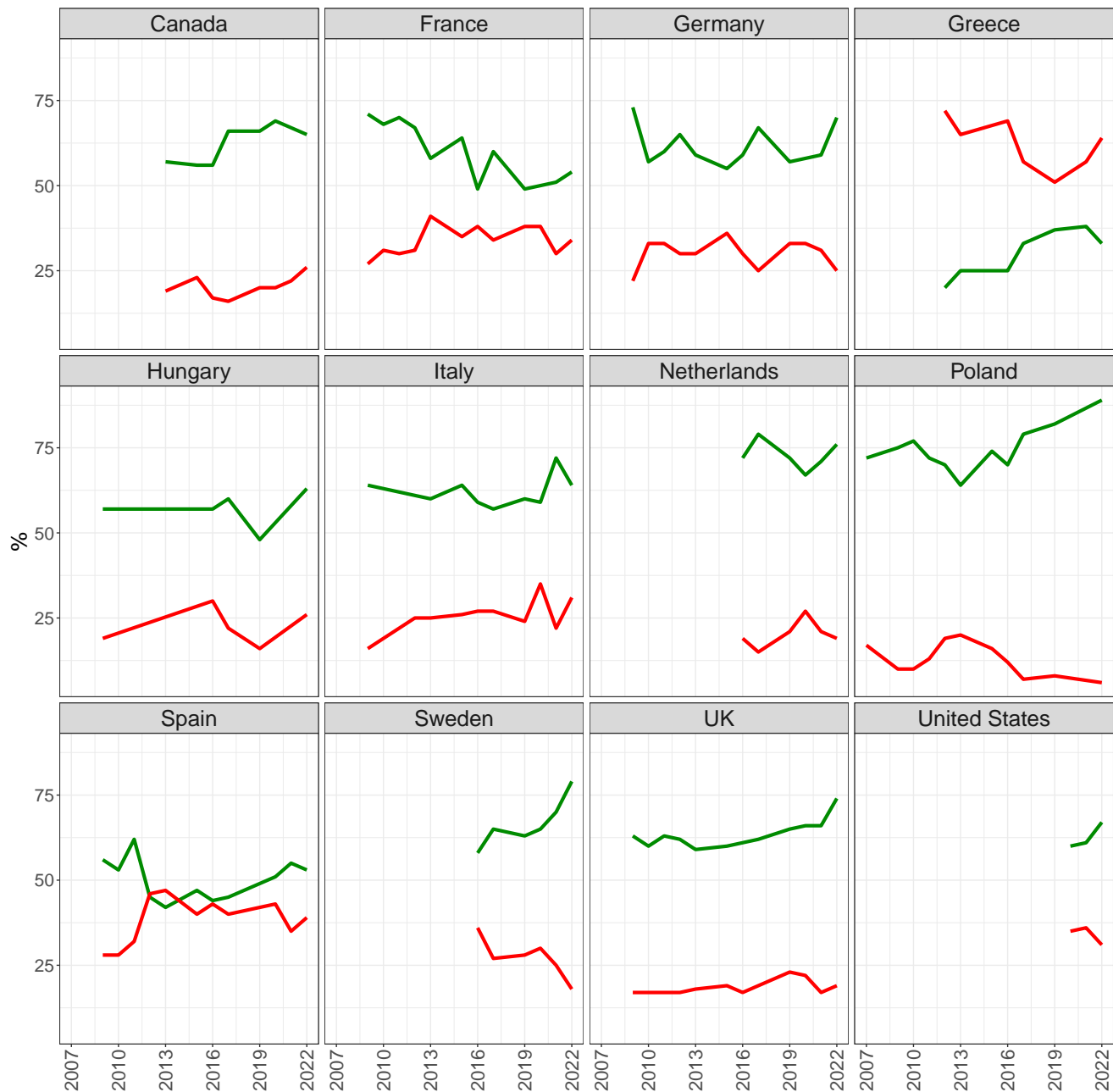
## WEEKLY POLITICAL COMPASS

**Russia** has defaulted on its sovereign debt. **Western** leaders are discussing additional sanctions. Meanwhile, **China's** president will make his first trip outside the mainland since the pandemic, **Turkey's** president remains a key veto player ahead of the NATO summit, **Ecuador's** national assembly will continue discussion whether to impeach the president, and labor issues are in focus in **South Africa**.

### CHART OF THE WEEK

## Favorable views of NATO have surged in some countries

— Favorable — Unfavorable



Source: Pew Research Center. Spring 2022 Global Attitudes Survey

As alliance leaders are gathering for their summit in Madrid this week, favorable **views of NATO** have increased significantly across member states. Against the backdrop of Russia's invasion of Ukraine, the surge is particularly pronounced in Poland, Germany, the UK, and Sweden. However, negative views of NATO are still widely held in countries like Spain, Italy, and Greece. In fact, Italy and Greece are the two only countries where views of the alliance have deteriorated over the past year. While in most countries (Spain, Sweden, France, and the UK) right-wing voters tend to be more supportive of NATO, the opposite pattern is observed in the US and Canada. In the US, for instance, 53% of Republicans hold a positive view of NATO, while this figure is much higher (81%) among Democrats. Therefore, the politicization of foreign policy issues – including defense spending – is one of the key issues to watch in the medium term across rich democracies.

## WHAT TO WATCH

### Russia

**Russia has formally defaulted on its sovereign debt, as bondholders did not receive coupon payments on foreign currency-denominated bonds within a 30-day grace period from 27 May.** However, Moscow is disputing the designation as it is unable to make payments in foreign currencies specified in contracts due to sanctions. At this point, the default is largely symbolic as Russia is barred from international financial markets and has a huge budget surplus from energy exports at elevated prices. However, the designation could trigger repayment of other debts and weigh on the country's reputation in the financial markets over the longer term.

### Russia/West

**Western leaders are discussing additional sanctions on Russia such as an oil price cap or gold import ban at the G7 summit on 26-28 June in Schloss Elmau, Germany.** Later in the week, on 29-30 June, NATO leaders will meet in Madrid, where the alliance is set to adopt its new strategy outlining long-term approaches and tasks to security. In the context of Russia's invasion of Ukraine and Moscow's threats to the West, the new strategic concept is expected to significantly boost NATO presence across Central and Eastern Europe, moving from deterrence to defense in the region. The risk of Russian provocations is heightened this week.

## ON THE HORIZON

### ASIA PACIFIC

#### China/Hong Kong

**President Xi Jinping will make his first confirmed trip outside mainland China since January 2020, before the start of the Covid-19 epidemic.** On 1 July he will attend the 25th anniversary of the Hong Kong handover and the inauguration of [chief executive John Lee](#). Hong Kong is experiencing a Covid-19 wave, including two incoming officials, and Xi is unlikely to spend the night.

#### Japan/South Korea

**Prime Minister Fumio Kishida and President Yoon Seok-youl will participate in the NATO summit on 29-30 June.** Both leaders seek to align their countries more closely than ever with their US ally and other Western democracies in uncertain times. Speculation that Kishida and Yoon will hold a substantive bilateral meeting on the sidelines in Madrid seems premature, but the slow thawing of icy Tokyo-Seoul ties is likely to continue after Japan's 10 July Upper House election.

### EUROPE

#### Turkey/NATO

**The diplomatic standoff prompted by Ankara's opposition to the Finnish and Swedish requests to join NATO looks set to last well past the organization's forthcoming summit in Madrid on 29-30 June.** President Tayyip Erdogan will attend a round of talks with the leaders of Sweden and Finland, as well as NATO ahead of the summit, but this is unlikely to resolve the standoff.

### LATIN AMERICA

#### Brazil

Teneo

**The week will see new developments in relation to the president's possible involvement in a scandal at the education ministry.** The case involving two independent evangelical pastors who allegedly asked for bribes from mayors to facilitate access to federal funds has reached a new level with the arrest of former minister Milton Ribeiro last week. President Jair Bolsonaro may be directly implicated after the leak of a recording where Ribeiro mentioned that the president had told him he suspected the federal police was about to conduct search and seizure operations relating to the case. In another leaked recording in March, a week before his resignation, Ribeiro had already said that he prioritized requests from the pastors fulfilling a request by President Bolsonaro. Congress will decide on whether to set up a parliamentary committee to investigate the case this week. The case has now been submitted by the Prosecutor's Office (MPF) to the Supreme Court (STF) since it involves the president.

#### Ecuador

**The National Assembly is scheduled to continue discussing whether to impeach President Guillermo Lasso tomorrow, 28 June.** Debates over the weekend were inconclusive and the left-wing Union for Hope (UNES) opposition coalition, which is pushing impeachment, still lacks the two-thirds majority required to remove Lasso. Additionally, the government has taken steps to defuse tensions after Lasso lifted a state of emergency in six provinces and late last night authorized a USD 0.10 reduction in the price of main fuel products. The government says that the protests, which began on 13 June, have cost USD 500mn, or approximately 0.5% of GDP.

### MIDDLE EAST AND AFRICA

#### South Africa

**While President Cyril Ramaphosa is discussing energy transitions and food security with G7 leaders, labor issues are in focus at home.** At electricity utility Eskom, workers are picketing at eight power plants. While strikes are restricted for essential services like Eskom, the dispute has forced Eskom to ramp-up load-shedding to 'stage 4' until Wednesday. The deadlocked wage talks have been referred to the Commission for Conciliation, Mediation and Arbitration (CCMA). In the public service, wage talks will continue at the Public Service Co-ordinating Bargaining Council (PSCBC). The government is under pressure to hold the fiscal line, but wage moderation is complicated by inflation, which accelerated to 6.5% y/y in May.

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