

WEEKLY POLITICAL COMPASS

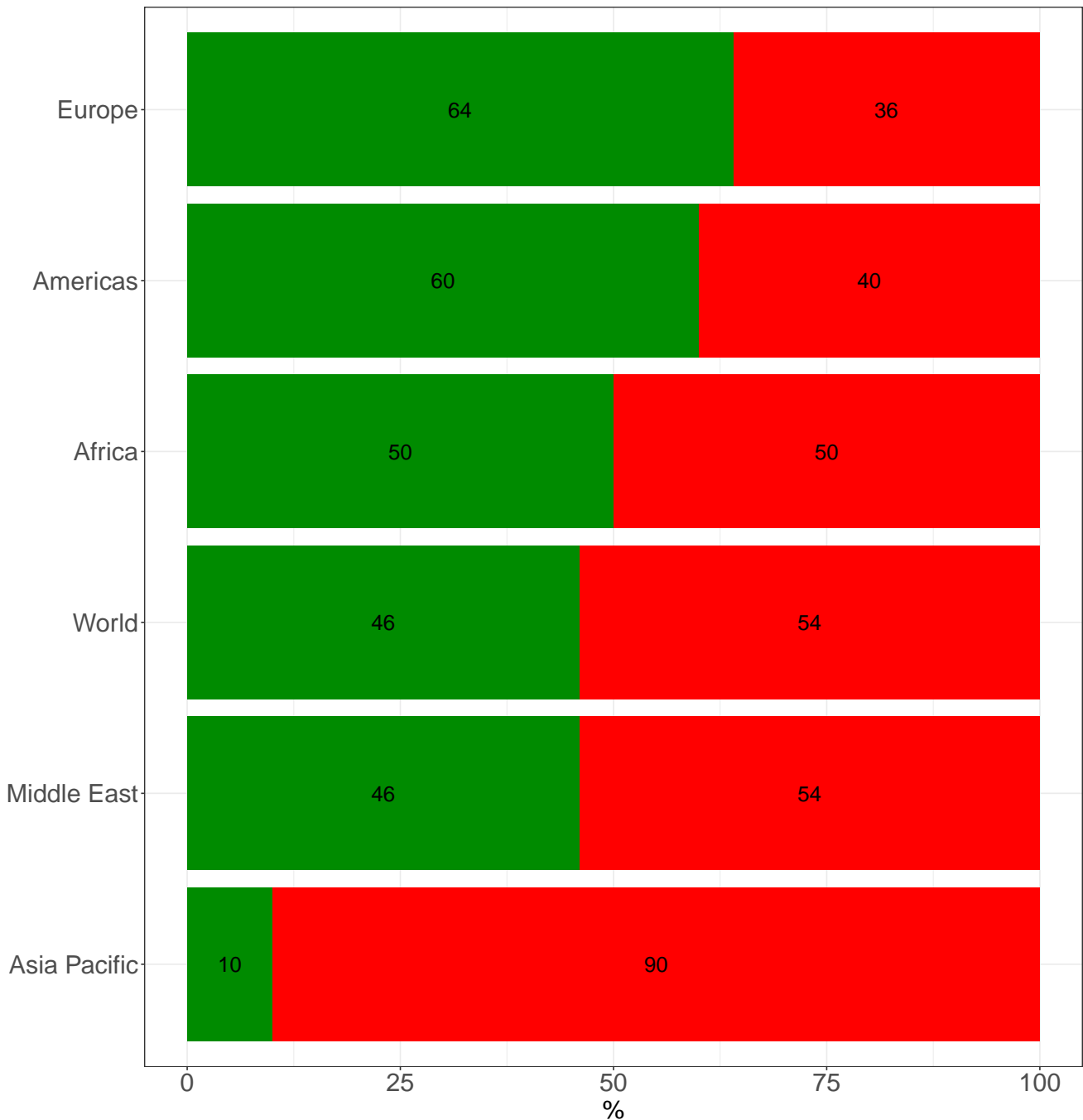
Ukraine's successful counterattack has increased expectations of further Western support. The leaders of **Russia** and **China** might meet this week. Windfall taxes and utility bailouts are the least contested **EU** proposals to counter the energy crisis. **Kenya's** new president will be sworn in. Meanwhile, duties on India's rice exports will benefit other producers in **Southeast Asia**, **Sweden's** next government might rely on support from the far right, **Brazil's** president gained some additional support in the polls, and **Nigeria's** National Petroleum Company has confirmed the scale of oil theft in the country.

CHART OF THE WEEK

International tourism is gradually recovering

% of 2019 levels recovered in January–May 2022

■ Percentage recovered ■ Percentage not recovered



Source: UNWTO (July 2022)

As Covid-19 recedes, **international tourism** is gradually resuming. Compared to last year, international tourist arrivals have increased significantly in H1 globally – particularly in Europe and the Americas – though these figures remain far from pre-Covid-19 levels. International tourist arrivals in Asia Pacific trail far behind any other region, due to lingering restrictions and quarantine requirements. Interestingly, some Balkan and Eastern European countries – including Moldova, Serbia, Albania, Romania, and Bosnia & Herzegovina – are performing much better in terms of tourism earnings than in 2019, according to data from the UN's World Tourism Organization. While the end of restrictions is inviting investment in countries with growing tourism markets, risks are also looming against the backdrop of heightened economic and political uncertainty.

Apart from the ramifications of the Ukraine war and the growing risk of recession in many countries, the travel industry is facing workforce shortages and growing risks of prolonged industrial action.

WHAT TO WATCH

Ukraine

A lightning counterattack successfully carried out by the Ukrainian forces in the Kharkiv region reinforces Kyiv's objective of liberating all territories occupied by Russia since 2014. It has also strengthened expectations of sustained or even increased Western support. For Russia, devastating losses in the Kharkiv region further undermine troop morale and their offensive capabilities across the frontline. Military losses and the humiliation of Russian troops also pose risks to President Vladimir Putin's regime, as domestic criticism of the conduct of the so-called special military operation is mounting from various sides. As a result, Putin faces growing pressure to respond to increasingly unfavorable dynamics on the frontline, which might include either escalatory moves or calls to start ceasefire talks.

Russia/China

Chinese President Xi Jinping will make his first foreign trip since the outbreak of Covid-19, a state visit to Kazakhstan on 14 September. Later in the week Xi will meet Russian President Vladimir Putin at the Shanghai Cooperation Organization's summit in Uzbekistan, according to a Russian official, though Beijing has not yet confirmed Xi's travel plans.

EU

At her annual address to the European Parliament on 14 September, European Commission President Ursula von der Leyen will try to drum up further backing for her energy proposals. Among member states, broad support exists for windfall taxes on energy producers and a relaxation of state aid rules to facilitate utility bailouts. However, mandatory energy saving rules and a price cap on gas imports are politically contested. Meanwhile, a fundamental market reform decoupling electricity and gas prices remains unrealistic in the near term.

Kenya

President-elect William Samoei Arap Ruto will be sworn in on 13 September. After the Supreme Court upheld Ruto's victory last week, the ceremony completes a tense and contested, though ultimately largely peaceful, election cycle. The incoming president has promised to revive the economy but will have to grapple with an immediate public finance crisis and cost-of-living crunch.

ON THE HORIZON

ASIA PACIFIC

Japan

The government looks set to finally lift remaining restrictions on international tourist arrivals by the end of October. The move would involve waiving visa requirements and lifting the daily arrivals cap, and would help the Japanese economy take advantage of the weak yen, which is at its lowest level against the dollar since the 1998 aftermath of the Asian financial crisis.

Southeast Asia

India's decision to impose a 20% export duty on much of its rice exports will give greater market power to Thailand and Vietnam. Traders in both countries have been wanting to increase the commodity's price but have been constrained by India's lower production and selling prices. The Philippines and Malaysia are two of Southeast Asia's largest importers.

EUROPE

Russia

The ruling United Russia (UR) party and its supported candidates dominated in regional and local votes that took place across the country on 9-11 September. According to preliminary results, incumbents were re-elected as governors in all 14 regions that held votes. UR also claimed convincing victories in regional parliaments of all six regions. In municipal elections in Moscow, UR representatives won an estimated 1,100 out of 1,400 available mandates. Final results are expected on 13-14 September. The election results reflect the dominance of President Vladimir Putin's regime at all levels. However, failures of the so-called special military operation in Ukraine might start eroding public support as well as internal cohesion of the regime.

Sweden

After Sunday's general election, the next government might rely on support from the far-right Sweden Democrats. The rightist bloc's overall lead is extremely narrow, and counting continues, but the center-right Moderate Party seems well positioned to head the next government. The Sweden Democrats are likely to focus on limiting immigration and on recently growing concerns over violent crime in the country. In contrast, the party's opposition to Sweden's EU and (future) NATO membership has softened considerably.

LATIN AMERICA

Brazil

President Jair Bolsonaro gained some percentage points in the polls following illegal rallies on 7 September, Brazil's bicentennial Independence Day. The difference to former president Luiz Inácio Lula da Silva who leads the race is now the lowest since both declared their candidacies at 11 percentage points - 45% to 34%. Lula's party contested the legality of the rallies on a civic celebration day in the electoral court (TSE) but it is unlikely that any significant measure be taken against Bolsonaro. The president's campaign has been barred from using footage from the significantly crowded rallies in Brasilia and Rio de Janeiro in campaign ads, however. Third-way candidates Ciro Gomes and Simone Tebet remained stable at 7-9% and 5% respectively. Overall, Lula has 49% of the valid votes but the chance of a runoff election on 30 October is expected to increase in the weeks leading up to the first round on 2 October. Bolsonaro trails Lula in a runoff by 14 percentage points - 53% to 39%.

Mexico

President Andres Manuel Lopez Obrador (AMLO) has promised to provide a full response to a US-triggered dispute settlement process related to aspects of Mexico's energy policy later this week. AMLO has struck a defiant note in the dispute, which could eventually involve retaliatory trade tariffs being imposed against Mexico if a formal dispute panel is set up and it eventually rules that Mexico is in breach of the United States-Mexico-Canada Agreement (USMCA). Before AMLO's speech, senior US officials including Secretary of State Antony Blinken will be in Mexico for the US-Mexico High-Level Economic Dialogue (HLED) talks. The US will be hoping to head off any egregious anti-US polemics, or at least avoid AMLO's response affecting other areas of bilateral relations.

MIDDLE EAST AND AFRICA

Nigeria

Teneo

After months of speculation by many industry players, a senior executive at the Nigerian National Petroleum Company Limited (NNPCL) confirmed on 11 September the scale of oil theft in Nigeria. Bala Wunti, Group General manager at National Petroleum Investment Management Services (NAPIMS) - a corporate services unit in the upstream directorate of NNPCL - confirmed that Nigeria loses an estimated 470,000 barrels per day (bpd) of crude oil, amounting to USD 700mn monthly due to oil theft. Given that the government relies on revenues from crude oil sales for 95% of its revenues, and the fact that Nigeria is experiencing its most acute FX shortages, the scale of theft is arguably one of the most fiscally disruptive developments in the country at the moment. However, it remains unlikely that such a development would occur at this scale without collusion with powerful people in government and the security forces.

South Africa

Following delays, the ANC nominations process opens today, 12 September, ahead of the party's national conference in December. Branches will begin nominating contenders for the ANC's top leadership roles, which will then be consolidated within ANC regional and provincial structures. While provincial leaders of Limpopo, Gauteng, Mpumalanga, the Northern Cape and Eastern Cape have signaled their support for the re-election of President Cyril Ramaphosa as party leader, the process will be watched for signs of internal opposition, particularly within KwaZulu-Natal's party structures. Just as important will be the race for deputy president, with ANC Treasurer-General and acting Secretary-General Paul Mashatile seemingly in pole position.

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