

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 the rapidly evolving landscape of US trade policy, impacting **China, Mexico, Canada**, and perhaps **South Africa**. Meanwhile, **Japan's** PM will visit Washington, **the UK's** PM will visit Brussels, and **France's** PM will try to pass the budget. Elsewhere, three **Baltic states** are shifting away from Russia's electricity network, **Turkey's** inflation rate slows slightly, and **Nigeria's** statistical recalculations could result in a big jump in GDP.

Should you have questions or wish to discuss any of these stories in greater detail, please do not hesitate to reach out to us at macro@teneo.com.

GLOBAL SNAPSHOT

After Donald Trump's weekend tariff announcements, we ask our China analyst [Gabe Wildau](#) for the very latest.

What exactly has been announced?

The three executive orders that President Trump signed on 1 February were due to take effect from 4 February. For Canada, this would mean a 25% tariff on all its exports to the US except oil, which would see a 10% import tax rate. Mexico's exports to the US were also set to see a 25% tariff rate, but the latest reports suggest that President Claudia Sheinbaum has secured a one-month pause [see Mexico update below]. Imports from China are due to see a 10% tariff, while the 'de minimus' exemption for small-value shipments from the affected countries would also be scrapped. President Trump has said the three countries are contributing to flows of migrants and drugs into the US.

How has China responded?

The Chinese government on Sunday threatened unspecified "[countermeasures](#)" in response, but also left the door open for negotiations. The foreign ministry declared that "fentanyl is America's problem" but also cited China's previous "extensive anti-narcotics cooperation" with Washington. The Commerce Ministry called for "frank dialogue and strengthen[ed] cooperation" with the US.

WHAT TO WATCH

ASIA-PACIFIC

Japan/US

Prime Minister Shigeru Ishiba will visit Washington for a first in-person meeting with Donald Trump on 7 February, amid great uncertainty for US allies and major trading partners. Ishiba would prefer to keep the focus on further enhancing security and economic cooperation, as he seeks to build a close relationship with Trump approaching that enjoyed by predecessor Shinzo Abe. But with Japan running a roughly USD 70bn/year [trade surplus with the US](#), and given

Japanese manufacturers' strong economic interests in China, Mexico, and Canada, discussion of tariffs may be hard to avoid.

EUROPE

UK/EU

British Prime Minister Sir Keir Starmer is attending an informal Council meeting of EU leaders in Brussels on 3 February, in an attempt to reset relations post-Brexit. His visit coincides with growing concerns over potential US tariffs on Europe, after President Trump signaled trade measures against the EU while hinting at a more lenient approach towards the UK. Starmer seeks closer economic and security ties with the EU, which is complicated by his opposition to a youth mobility scheme. Technical EU-UK talks in the aftermath of the meeting will test Starmer's ability to balance EU engagement with domestic pressures while trying to manage transatlantic relations.

France

French Prime Minister Francois Bayrou will employ Article 49.3 of the constitution twice on 3 February to pass the 2025 budget without a parliamentary vote. Two further instances could follow this week, each exposing the government to potential no-confidence motions. While the leftist France Unbowed (LFI), the Communist Party, and the Greens have all signaled intentions to file such motions, the stances of the far-right National Rally (RN) and the all-important Socialists (PS) remain uncertain amid internal divisions. While the situation mirrors the events of December 2024, when then-PM Michel Barnier's government collapsed after employing Article 49.3, limited alternatives might convince the PS to let the budget pass.

Germany

Following last week's controversial Bundestag votes and weekend protests in major cities, the impact on the poll lead of the Christian alliance (CDU/CSU) will be closely watched. The CDU/CSU had tabled initiatives to limit migration, knowing that the far-right Alternative for Germany (AfD) would vote in favor. This has led to fierce accusations against chancellor candidate Friedrich Merz for allegedly breaking the so-called firewall against centrist cooperation with the AfD. However, the impact might be biggest in eventual coalition talks, potentially forcing center-left parties to choose between insisting on Merz softening his stance on migration or on public spending.

Baltic states

Lithuania, Latvia, and Estonia will disconnect from the Moscow-controlled "BRELL network" electricity system and synchronize with the continental European system on 7-9 February. The move by the three Baltic states will be the culmination of multi-year and multi-billion-euro efforts to delink critical energy infrastructure from the Soviet-era networks, which is viewed as a source of insecurity. The countries have boosted the physical and cyber security of their energy systems in anticipation of potential external disruption efforts during this highly symbolic and technically complex transition.

Spain

Prime Minister Pedro Sánchez secured an agreement on 28 January with former Catalan president Carles Puigdemont's Together party to approve a new decree containing key economic measures. These include adjusting pensions to match inflation, extending temporary public transport subsidies, and providing aid to Valencia flood victims. This decision came four days after Together aligned with the center-right People's Party (PP) and the far-right Vox to vote down a similar decree. In exchange for Together's support, the government has expressed willingness to discuss the possibility of proposing a confidence vote on Sánchez. However, a final confidence vote on the PM remains highly unlikely. Meanwhile, after overcoming disagreements within the coalition, the government will initiate the legislative process to reduce the standard workweek from 40 to 37.5 hours, although securing a parliamentary majority for its approval remains uncertain.

Kosovo

An anticipated victory by the governing Self-Determination Movement (LVV) in the 9 February parliamentary elections will likely pave the way for Prime Minister Albin Kurti to remain in office for a second term. A Kurti 2.0 cabinet would likely

continue its hardline nationalist approach towards Serb-majority areas, which would keep tensions with Belgrade high and might draw harsh criticism from the Trump administration in the US.

Turkey

The annual inflation rate fell to 42.1% in January, marking an eighth consecutive month of decline, but the slowdown was less than expected. Monthly inflation rose by 5.0%, exceeding forecasts due to a minimum wage hike and new-year price adjustments, indicating persistent cost pressures. Despite this, the Central Bank is expected to continue its easing cycle. Meanwhile, inflation expectations remain significantly elevated. A December survey by Koc University and Konda found that households anticipate inflation reaching 98% by year-end, confirming a widespread lack of trust in official figures.

LATIN AMERICA

Mexico

President Claudia Sheinbaum has just announced today, 3 February, that — following a telephone call with Trump — the US has agreed to pause its planned application of tariffs for one month. Sheinbaum had been on the brink of revealing details of her “Plan B” to respond to the US tariffs announced on 1 February. According to Sheinbaum, Mexico will now deploy a 10,000-strong National Guard (GN) force to the border with the US; the US has committed to working to improve control of weapons flows to Mexico; and government teams from both countries will work on security and trade issues. In a previous video message on 2 February, Sheinbaum had reiterated her rejection of the US claim of an “alliance” between her government and drug trafficking organizations (DTOs), and instead criticized US policies on public health, drugs, and weapons. However, Sheinbaum maintained a measured tone, repeating her call for a cooperative approach and holding back on announcing retaliatory tariffs. Sheinbaum now has one month to demonstrate progress on curbing migration and fentanyl trafficking, though the parameters for what constitutes progress on these issues remains unclear.

Brazil

As Congress returns from recess, the election of new congressional leaders will likely mean a difficult year for the Lula administration. New Senate Chairman Davi Alcolumbre and House Speaker Hugo Motta, both from the so-called “Big Center” (a centrist and right-leaning group that prioritizes pragmatism and bargaining over ideology), were elected as expected by large margins over the weekend and spoke of the need for an independent Congress. Alcolumbre, who was Senate Chairman during the first half of former President Jair Bolsonaro’s government (2019-2021), is the more senior and influential of the two leaders and should now play the role previously associated with former House Speaker Arthur Lira in dealing with the government. Their elections come at a time when government-congress relations are especially sensitive due to the need to agree on parliamentary budget allocations and pass the Annual Budget law. Both leaders will also press for a ministerial reshuffle that favors Big Center parties.

AFRICA

South Africa

On 2 February, President Trump posted a comment threatening to halt funding to South Africa pending an investigation into alleged land confiscations. President Cyril Ramaphosa and International Relations and Co-operation Minister Ronald Lamola promptly denied that land could be confiscated under South African expropriation laws. However, Mineral Resources Minister Gwede Mantashe might have added fuel to the fire by saying: “Let’s withhold minerals from the US.” The spat could add to pressure on the rand and bonds in the context of broader global tariff threats. South Africa is one of the African countries most at risk of a fallout with the White House because of its strong BRICS alliances, diplomatic posture on Gaza and alleged discrimination of white minorities.

Nigeria

Details are still pending on the rebasing of Gross Domestic Product (GDP) and Consumer Price Index (CPI), which the National Bureau of Statistics (NBS) had planned to conclude by end-January. The NBS has selected 2019 as the new base

year for GDP calculations, replacing the previous base year of 2010, while 2024 has been set as the reference year for the new CPI. The rebasing exercise was last conducted in 2014, updating the GDP base year from 1990 to 2010 and leading to an 89% increase in the country's GDP—a development that elevated Nigeria to the position of Africa's largest economy at that time. The outcome of this current rebasing is not likely to lead to such a marked GDP jump, but could see Nigeria's economy moving up rankings in Africa after falling to fourth position following recent economic headwinds. New economic activities such as the digital economy, modular refineries, and pension fund administration are expected to be better accounted for.

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