



Editorial

POLITICAL ANALYSIS AND CORPORATE SECURITY UNIT

ANALYSIS OF THE CURRENT SITUATION

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Recession in the United States and Global Economic Slowdown

The beginning of an economic recession in the United States has been predicted, likely due on early or mid 2023. Several institutions and banks like Deutsche Bank and Wells Fargo have assured that there is a “3 to 4” probability (Wall Street Journal) that both the US and world economy will begin to stall soon. This phenomenon would result in higher unemployment rates, an extension of the ongoing inflation, higher consumer price indexes, and an overall deceleration of the global economy. In essence, current economic issues caused by the Russian invasion of Ukraine, high oil prices, the aftermath of COVID-19 and the readjustment of global supply chains could be aggravated, for at least six months.

Although political and economic analysts cannot determine exactly when a recession in the United States will start, many consider it will be “mild and short”, lasting around six months in the best case scenario. (Bloomberg). However, they have also warned that even if the Federal Reserve manages to avoid a recession, current inflation rates and slow economic growth could persist for additional months or even years, as OPEC members like Saudi Arabia and the UAE have been revealed to have reached their maximum oil output capacity, rendering them unable to meet additional demand (Reuters). This supply crunch, on top of the European Union embargo on Russian natural gas, will inflate the price of oil for more time. However, the United States has recently turned to other Assessed Russian control of Ukrainian territory. Source: Institute for the Study of War producers such as Venezuela, as revealed by the meeting in Caracas in March and soon at the end of June, demonstrating a rapprochement with the government of Nicolás Maduro (Reuters).



"Current inflation rates and slow economic growth could persist for additional months or even years"



It is also worth noting the political and social factors that will affect the performance of the world economy in the coming years, such as the development of the war between Ukraine and Russia, which will be a determining variable for the markets. With 124 days to go since the beginning of the invasion, Russia has adjusted its offensive strategy towards a defensive one, alternating its initial goals of capturing most of the Ukrainian territory and overthrowing the government in Kyiv, to two new minor goals: securing a land corridor to Crimea, and control eastern Ukraine as far as Kharkiv, the country's second largest city. This means that the next areas of war activity will be concentrated mainly in cities like Kherson, Kharkov, and Donetsk. For the United States Department of Defense, it is impossible to assess how or when the war will end (Department of Defense).

Assessed Control of Terrain in Ukraine and Main Russian Maneuver Axes as of June 27, 2022, 3:00 PM ET



Assessed Russian control of Ukrainian territory. Source: Institute for the Study of War

Several analysts believe that it could “cool down”, becoming a slower and less frequent conflict on the new border between Russia and Ukraine, with occasional skirmishes and without any territorial concessions. However, there is hope in the fact that the pace of the war has recently slowed. This could normalize the anxiety in the markets, but it would be far from being enough to appease the inflationary rates and the high prices of oil.



The Chinese government's response to the pandemic will also be decisive during 2023 and the second half of 2022. The COVID-19 restrictions imposed in Shanghai during April and May were notorious for paralyzing the largest port in Asia, with notable consequences in world markets.

In the event of a new outbreak of COVID-19, economic difficulties could continue, increasing the likelihood that the United States will enter a recession. Although most developed countries have lifted restrictions in the face of the pandemic, Asia is one of the last places where prohibitions on the entry of foreigners remain, and various types of restrictions that undoubtedly harm trade. China has ensured that the “zero COVID” policy, including isolation protocols, mass testing and travel restrictions, will remain in place for the next five years (The Guardian).

For this reason, the supply chain already hit by the aftermath of COVID-19 in the West will likely continue to face the consequences of the pandemic until China lifts the restrictions.





REGIONAL

National Strike in Ecuador

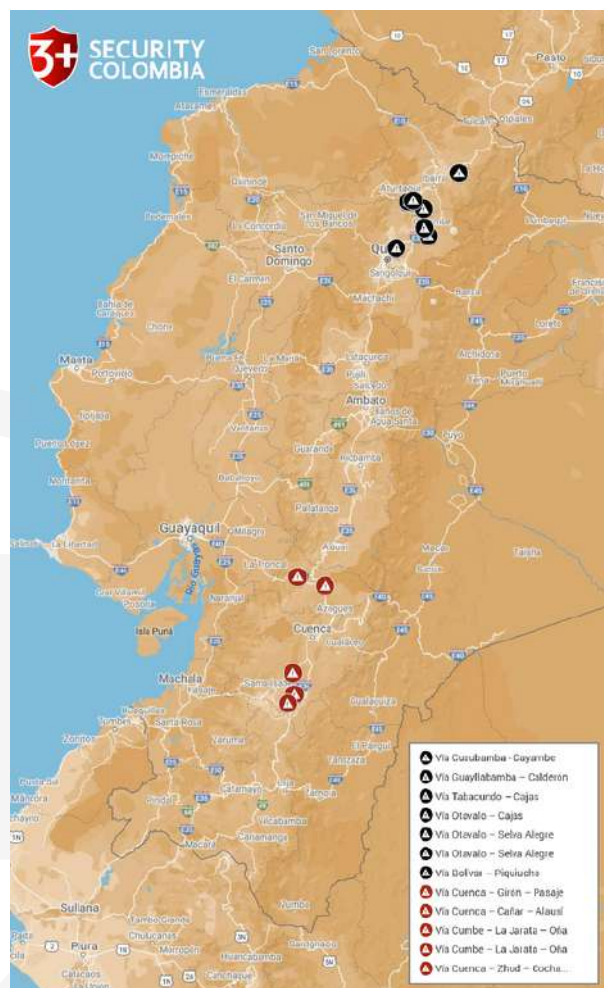
In the midst of a 'National Strike' that has already lasted two weeks, the government of Guillermo Lasso in Ecuador was close to being removed last Tuesday, June 28.

An intense legislative debate was held in the National Assembly of Ecuador to determine the possible dismissal of the Lasso government with a necessary minimum of 92 votes in favor required among a total of 137 assembly members.

After more than 18 hours of debate, divided into three days in which 109 assembly members took part to express their position, this vote only obtained 80 of the 92 necessary votes, with 48 votes against and 9 abstentions, so that this motion for dismissal was unsuccessful.

It is worth noting that various parties across the political spectrum have so far rejected the process.

The 'National Strike' in Ecuador, led by indigenous groups, has been motivated by economic, political and social reasons, such as high costs of living, high fuel prices, dissatisfaction of indigenous populations, and excessive use of force by the authorities. These have been worsened by the fact that 166 have been injured and five have died during protests, increasing tensions between the opposition and the government. Roadblocks have been reported on several main roads in the country, mainly around Quito and Cuenca, with some occasional blockages in Guayaquil. The entry of merchandise to the Port of Guayaquil has not been particularly affected, but it could be the target of future demonstrations if they persist.



Roadblocks in Ecuador amid the National Strike. Source: 3+ Security Colombia Ltda.





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Thus, the 'National Strike' quickly managed to paralyze trade and transportation in the country, with estimated losses of more than US\$140 million in the productive sector, according to a report published by the Ministry of Production, Foreign Trade, Investments and Fisheries. (La República) The tourism sector has been particularly vulnerable, since 80% of reservations have been canceled and around US\$3 million are lost daily in this sector alone. On the other hand, the mining-energy industry in Ecuador, which is responsible for the main export products in the country, and also the largest source of income from the fiscal box (with contributions of 30%), has presented large losses. Due to the mobilizations, the closure of roads, the seizure of facilities and violent incidents, the state oil company Petroecuador registered the closure of 995 wells and 33 towers on June 27, with a total of 1,200,000 barrels of oil lost (BNAmericas).

There is a high probability that the demonstrations will remain active until an agreement is reached between the opposition groups and the government. The removal of the Lasso government would surely end the protests, but if this process were to fail, it would be extended for additional time. In Ecuador, political polarization has recently increased, and this has caused the indigenous movements to convene the largest number of their communities on a daily basis, while the productive sectors led by the chambers of commerce and industry have called for conciliation for the well-being of citizens and the respect of the Constitution.



LOCAL

The Outcome of Presidential Elections in Colombia

The candidate Gustavo Petro was named as the winner of the presidential elections in Colombia on June 19. The leader of the Historical Pact obtained 50.48% of the votes with 100% of the tables counted, compared to Rodolfo Hernández with 47.26%.

While markets were expecting a rapid depreciation of the Colombian peso against the dollar after Sunday's results, it stabilized at COP\$ 4,100, and has remained at that rate ever since. However, the Colombian Stock Exchange, as well as the shares of companies belonging to the COLCAP stock market index, have presented great losses in their value since June 19. For example, Ecopetrol shares hit their lowest point in a year, reporting a 12% depreciation in one week.

This has been identified as a loss of confidence in the future performance of the Colombian economy, given the possibility that Gustavo Petro's projects will harm the country's development. To appease financial anxiety, the president-elect has clarified that the "decarbonization" process will be "gradual and slow", and that "there will be no more exploration contracts under his mandate", but there will be a greater export of coal to supply the additional demand in Europe caused by the war between Russia and Ukraine. (El Tiempo)

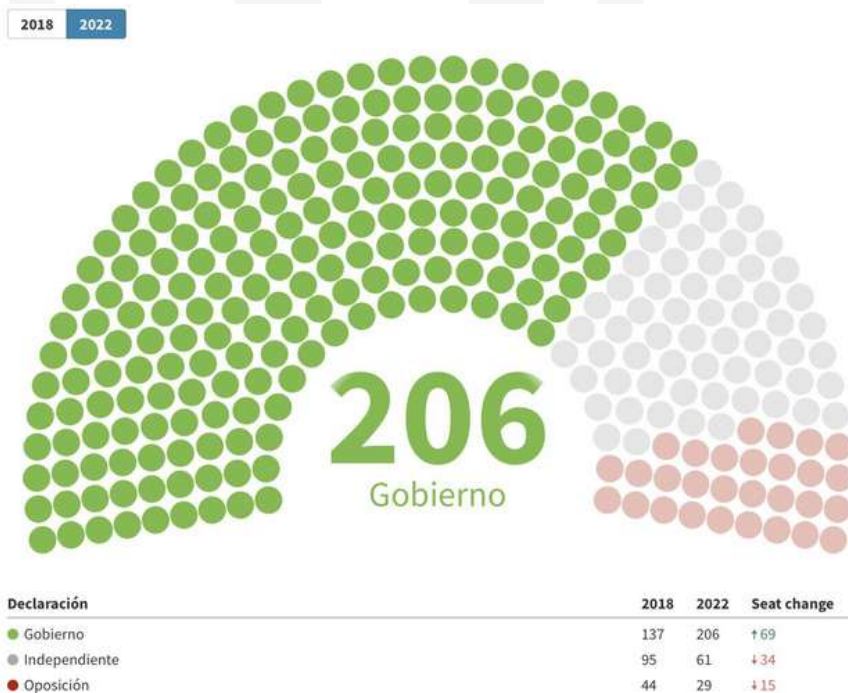
He also recognized that the current government has already started a plan to build solar farms with a capacity of 1 gigawatt, proposing the generation of a total of 3.6 gigawatts during the next four years of his mandate.

The president-elect has clarified that the "decarbonization" process will be "gradual and slow"



Prior to the electoral results, it was speculated that even if Gustavo Petro won the elections, his government would face great difficulties in reconciling bills in Congress, in the absence of a left-wing majority. It was considered that there would be a robust opposition coalition, including parties such as the Liberal, the Partido de la U and even potentially the Green Party. However, several sectors quickly joined the government parties, guaranteeing the government of Gustavo Petro a clear majority in the legislative branch. Thus, the number of congressmen belonging to government parties could reach 70%.

Although parties such as Cambio Radical, with significant political bases in various departments of the country are still awaiting a response, it is unlikely that they will declare themselves as an opposition party. Its leader, Germán Vargas Lleras, could even declare the party as part of the government coalition, after the meeting with the president-elect on Tuesday, June 28. This being the case, Gustavo Petro will probably face fewer difficulties drafting bills for at least one year, which is the minimum period for which the parties must maintain their position of government, independent or opposition.



Speculative composition of the Colombian Congress (including representatives and senators) if the 'Centro Democrático' Party declares itself as the only opposition party. Source: Ricardo Ruíz.



Amid the Conservative Party's controversial decision not to join the opposition coalition, his leader, Omar Yepes, announced his resignation.

Despite the fact that Miguel Uribe is positioned as the most likely leader of the opposition during the next four years (having headed the list of the Democratic Center during the last elections), the opposition in congress will face great leadership challenges as it also has the former candidate Rodolfo Hernández, and the evident fracture within the Democratic Center between Uribe and non-Uribe groups such as María Fernanda Cabal. This would open the way to an easy first year of government for Gustavo Petro.

The most important issues will be the negotiation with armed groups, the recovery of the economy in the face of the global inflation phenomenon, relations with Venezuela, and its prospects for an energy transition.

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