

MNI POLITICAL RISK ANALYSIS - US Daily Brief 24-01-23

By Adam Burrowes

The White House

10:00 ET 15:00 GMT	President Biden receives his Daily Briefing
13:30 ET 18:30 GMT	Press Briefing by Press Secretary Karine Jean-Pierre
15:00 ET 20:00 GMT	President Biden hosts Democratic Congressional leaders at the White House
17:20 ET 22:20 GMT	President Biden hosts a reception for new members of Congress

Elections Countdown:

- ❖ 2024 Presidential Election: 651 days

Debt Ceiling

Senate Majority Leader Chuck Schumer (D-NY) kicked off the legislative year in the Senate yesterday with a combative speech challenging the Republican Party on brinksmanship over the debt limit.

- Schumer said that “Democrats begin the 118th Congress with an open hand of cooperation,” and contrasted it with a description of an obstructionist GOP beholden to a fringe of “MAGA” conservatives, arguing that “MAGA Republicans,” playing “brinksmanship” with the debt ceiling is “not an abstract issue.”

Schumer: “Listen to what could happen if we default: interest rates will go up on mortgages, on car loans, on credit cards. Pensions – the money people had put aside – will lose billions. So will 401(k)s in all likelihood. Home values will decline because when mortgage interest rates go up, people are willing to pay less for homes.”

- Schumer: “Unfortunately, House Republicans have kicked off their new majority by saying “yes” to brinksmanship, “yes” to hostage-taking, and “yes” even to risking default... If Republicans want to show they can govern effectively, they’re off to a pretty poor start.”

Schumer challenged Republicans to lay out their plan for avoiding a default arguing that a plan to cut social spending would be “deeply unpopular with the American people.”

- Schumer: “If Republicans are talking about draconian cuts, they have an obligation to show Americans what those cuts are, and let the public react. And let’s let them do it now, not six months from now when the danger of default is much closer.

Axios suggests that the current Democrat strategy of refusing to negotiate with Republicans will persist in the short term: “Democrats believe they have the upper hand — both because of the inherently risky nature of economic brinkmanship and the perception that any Republican spending cuts will be unpopular.”

- Jonathan Lavine at Bain Capital said yesterday: “The debt ceiling is a real risk that will come to a point where it will terrify markets, because it is a wild game of chicken.”

Tax

President Biden will deliver a speech in Virginia on Thursday attacking a Republican proposal to abolish the IRS and replace it with a 30% national sales tax.

- The speech is in response to the Fair Tax Act proposed by Republican House Rep Buddy Carter (R-GA) which House Speaker Kevin McCarthy (R-CA) reportedly promised to consider as part of a quid pro quo for the speaker’s gavel.
- The speech will likely follow a formula which found success ahead of the midterms attacking an economic plan proposed by Senator Rick Scott (R-FL).
- Axios: “With a divided Congress, the political battle over the economy for the next two years will be more about perception than actual policies. Biden wants to build a narrative for his case by bludgeoning Republicans with their own words.”

NATO

State Department Spokesperson Ned Price told reporters yesterday he is confident that Sweden and Finland will be granted admission into NATO despite a deepening political standoff between Sweden and Turkey.

- Turkish President Recep Erdogan said yesterday that Turkey would not support Sweden’s NATO bid after footage emerged of protestors burning a Quran outside the Turkish embassy in Stockholm.

Erdogan: “So you will let terror organizations run wild and then expect our support for getting into NATO. That’s not happening.”

- Price: “As the Swedish prime minister said, burning books that are holy to many is a deeply disrespectful act,” but asserted that, “Finland and ... are ready to join the Alliance because of their military capabilities, the longstanding security partnership that we have with Finland and Sweden [and] because these are highly developed democracies.”

Europe

Christine Lagarde, President of the European Central Bank, warned yesterday of trade fragmentation in a speech at Deutsche Börse Annual Reception in Eschborn, Germany.

- Lagarde said that “major economies – led by the United States and China – are increasingly using trade to limit the ambitions of geopolitical rivals. That could fragment world trade with potentially huge costs. The IMF estimates that severe trade fragmentation may cost global output roughly 7% in the long term – an amount similar to the annual output of Japan and Germany combined.”

- Lagarde identified the US Inflation Reduction Act as a "geopolitical wind" which may lead to a "scramble for resources," and argues that the EU must protect its "critical interests in a fast-changing world," because as an economy that is deeply integrated into global supply chains, the EU is more exposed to trade risk than the United States or China.

Congressional Business

The House will meet at 12:00 ET 17:00 GMT

The Senate will meet at 10:00 ET 15:00 GMT

Committee Schedule –

Democrat News

Democrats are facing a difficult decision on how to proceed in Arizona after Rep Ruban Gallego (D-AZ) announced that he will challenge Senator Kyrsten Sinema's (I-AZ) Senate seat in 2024, potentially splitting the Democrat vote if Sinema chooses to run for re-election in 2024.

- Sinema changed her party affiliation from Democrat to Independent following the Midterm Elections last November, citing a desire to operate more independently as a lawmaker.
- Sinema is expected to continue to caucus with Democrats, effectively functioning as a Democrat, in the same way as Senators Bernie Sanders (I-VT) and Angus King (I-ME) but that hasn't prevented her from being targeted by progressive Democrats who argue that her voting record has obstructed the Democrat legislative agenda.

Energy Security

Freeport LNG, the second largest US LNG export hub, yesterday requested permission to restart operations after completing repairs to damage caused by a fire on June 8.

- Reuters: "Freeport LNG sought permission to begin introducing LNG into the plant's piping system, according to a filing released on Monday with the U.S Federal Energy Regulatory Commission (FERC). "Subsequent approvals would be necessary" to fully return the liquefaction trains to service, it wrote."

Energy Secretary Jennifer Granholm announced yesterday that the Department of Energy is still on track to replenish the Strategic Petroleum Reserve (SPR) despite a lack of interest in a purchase offer last month.

- Granholm: "I have no concerns that we will be able to refill and replenish the SPR and do it at a savings to taxpayers."
- Granholm told reporters at the White House to "stay turned" for a briefing on how the Department plans to proceed on replenishing the reserve.

- Granholm also confirmed that President Biden would veto Republican legislation in the House of Representatives which would restrict SPR sales to entities connected to China in the unlikely event it passes both chambers of Congress: "[Biden] will not allow the American people to suffer because of the backwards agenda that House Republicans are advancing."

Iran

The US announced yesterday a new raft of sanctions on the Iranian Revolutionary Guards Corps. The sanctions announced in parallel with the EU and United Kingdom target members of the IRGC involved in the suppression of anti-regime protests.

- State Department Spokesperson Ned Price told reporters that the State Department has "enjoyed exceptionally close cooperation and coordination with" despite an EU decision to refrain from designating the IRGC a terrorist organisation.
- Price responded to a question from the press pack flagging up comments made Josep Borrell, High Representative of the Union for Foreign Affairs and Security Policy, suggesting that the Joint Comprehensive Plan of Action nuclear accords may have scope for revival by saying: "We've been very clear that the JCPOA is not on the agenda, has not been on the agenda for months."

The US Envoy to Iran, Rob Malley, told Bloomberg yesterday that the US will increase pressure on China to stop buying Iranian oil. The primary source of Iranian income which the US argues is funding the manufacture of military hardware provided to Russia.

- On the sale of Iranian oil, Malley said: "China is the main destination of illicit exports by Iran," adding "No, we're not fine with it. Can we enforce our sanctions perfectly? No. But we'll do everything in our power to make sure they're enforced."
- Bloomberg: "Iranian shipments of crude oil and refined products have surged in recent months. Much of the oil appears to be heading to China, the world's biggest importer, and disguised as coming from Malaysia."

Ukraine

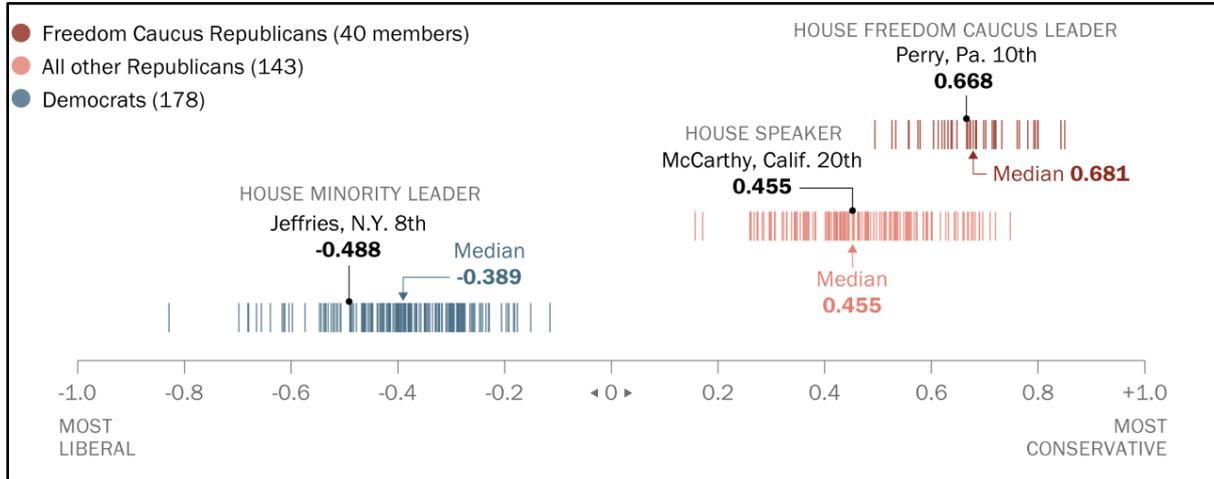
- 08:00 ET 13:00 GMT: US Secretary of State Antony Blinken will co-host a virtual meeting of the G7 today with Japanese Foreign Minister Yoshimasa Hayashi "to reaffirm our collective support for Ukraine's energy sector."

Poll of the Day

The Pew Research Center has released a report showing that members of the House Freedom Caucus are amongst the most conservative lawmakers in the House of Representatives.

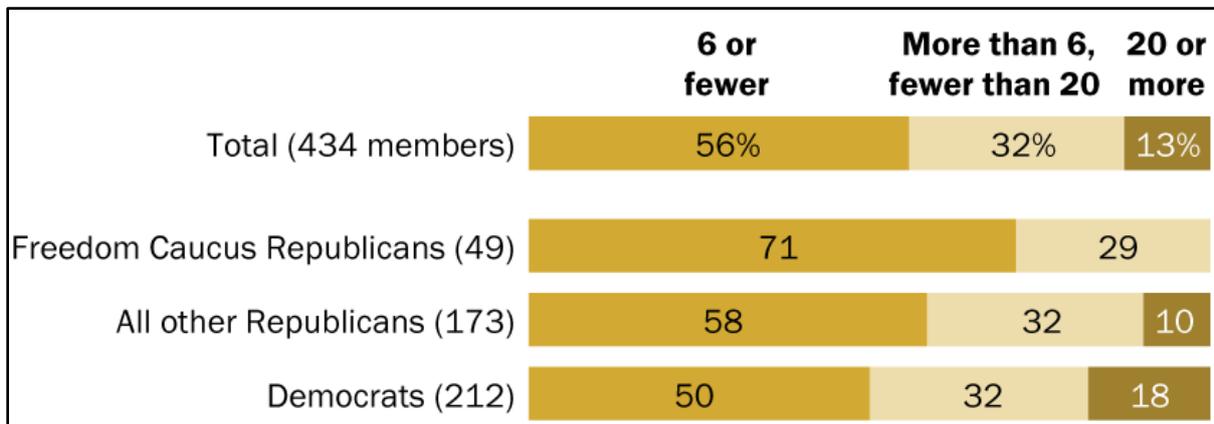
- Members of the HFC have been granted considerable power by House Speaker Kevin McCarthy (R-CA) as part of a series of formal and informal deals made to unlock his bid to become speaker earlier this month.
- The report also shows that that Reps affiliated with the House Freedom Caucus are amongst the least experienced in Congress with 71% of member serving six or fewer years in Congress.

Chart 1: Ideological Scores of House Representatives, Based on Roll Call Votes



Source: Pew Research Center

Chart 2: Freedom House Caucus Members, Years of Service



Source: Pew Research Center

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