

MNI POLITICAL RISK ANALYSIS - US Daily Brief 10-03-23

By Adam Burrowes

The White House

09:00 ET 14:00 GMT	President Biden receives his Presidential Daily Briefing
14:00 ET 19:00 GMT	The President holds a bilateral meeting with European Commission President Ursula von der Leyen
14:30 ET 19:30 GMT	Press Briefing by Press Secretary Karine Jean-Pierre, Office of Management and Budget Director Shalanda Young, and Council of Economic Advisers Chair Cecilia Rouse

Elections Countdown:

- ❖ 2024 Presidential Election: 606 days

FY24 Budget

President Biden unveiled his USD\$6.8 trillion FY24 budget request yesterday, setting up a prolonged confrontation with the GOP over government spending.

- The budget proposes tax hikes on the wealthy to extend Medicare solvency and reduce the deficit by USD\$3 trillion over 10 years but makes few concessions in social spending.

Biden told a crowd in Philadelphia: "My 2024 budget is a blue-collar blueprint to rebuild America in a fiscally responsible way that leaves no one behind."

- Punchbowl News notes that Biden's budget, "doesn't address the looming shortfall in the Social Security program. Without changes, Social Security would only be able to pay 77% of benefits in 2035."
- Biden's budget calls for USD\$842 billion (3.2% increase) in defence spending and significant hikes for the Departments of Agriculture (14%), Commerce (11%), Education and Energy (13.6%), HHS (11.5%), Interior (9.3%), Justice (5.9%), Labor (11.5%), State (11%), Transportation (6.7%), and Treasury (15%).

Senate Majority Leader Chuck Schumer (D-NY): "...Republicans love to talk about deficit cuts and saving tax dollars, but Democrats are the ones actually getting it done."

- House Speaker Kevin McCarthy (R-CA) provided a less positive take: "President Biden just delivered his budget to Congress, and it is completely unserious. He proposes

trillions in new taxes that you and your family will pay directly or through higher costs. Mr. President: Washington has a spending problem, NOT a revenue problem."

As always, Biden's budget request comes with the caveat that very little, if any, of the proposals will become law. Biden's primary objective is to frame the debate ahead of a politically grueling showdown with House Republicans over fiscal policy and the debt ceiling.

- Howard Gleckman with the Urban-Brookings Tax Policy Center: "None of the tax increases in this proposal are going anywhere. The idea that House Republicans are going to accept any tax increases is just far-fetched."

Biden made it clear that there will be no negotiations with the GOP until McCarthy releases his budget.

- Biden: "I want to make it clear: I'm ready to meet with the Speaker anytime — tomorrow if he has his budget. Lay it down, tell me what you want to do. I'll show you what I want to do. See what we can agree on, what we don't agree on."

McCarthy warned that a Republican budget may not come until late spring or summer, dangerously close to the so-called x-date when the Treasury Department exhausts extraordinary measures to stave off a default: "We were going to do the budget in April. But unfortunately, the president is so late with his budget, it delays our budget."

- House Minority Leader Hakeem Jeffries (D-CA) provided an early preview of the animosity that may be expected in the coming months: "The House Republican budget plan is in the witness protection program. It's in hiding... I think that it's so extreme that they are afraid to put it in the public domain."
- Jeffries continued: "Put it into the public domain so that House Republican leadership can have a real conversation with President Biden in front of the American people. But they refuse to do it and that tells us everything we need to know."

House Budget Committee Chair Jodey Arrington (R-TX) told CNN yesterday that a GOP budget would be released in May, but his spokesperson walked that comment back shortly after, saying there was no timeline on the budget release.

09:00 ET 14:00 GMT: Treasury Secretary Janet Yellen will testify before the House Ways and Means Committee on President Biden's budget request.

Congressional Business

The House will meet at 09:00 ET 14:00 GMT

The Senate is out

Committee Schedule –

- 09:00 ET 14:00 GMT: HOUSE Oversight and Accountability: "The Biden Family Investigation: The Department of the Treasury"
- 09:00 ET 14:00 GMT: HOUSE Ways and Means: President Biden's Fiscal Year 2024 Budget Request with Treasury Secretary Yellen

Europe

14:00 ET 19:00 GMT: President Biden will host European Commission President Ursula von der Leyen at the White House today, with a potential deal related to the massive US Inflation Reduction Act (IRA) green tech subsidy scheme as well as relations with China set to dominate talks.

- On the IRA, the EU has announced its own Green Deal Industrial Plan that intends to loosen state aid rules around green tech and renewable energy. However, the US and EU are seen as close to a deal on the EU being given a similar exemption as Canada and Mexico - the US' USMCA partners - regarding access to 'Made in America' incentives. The announcement of a final deal is not expected today.

On China, the EU has sought to show to the US that it is taking measures to reduce reliance/influence of Beijing, including the plan to place export controls on chip manufacturing equipment in line with US measures.

- Biden and von der Leyen are also likely to talk 'critical minerals', referring to rare earths crucial in the production of green tech such as EV batteries. Historically, China has been a major source of these materials, but both US and EU looking to alter their supply chains. For the EU, which does not have significant deposits of these materials, developing supply chains with the US crucial for future green tech ambitions.
- The two will hold a joint press conference shortly after the meeting.

Mexico

Relations between the US and Mexico continue to strain amid accusations from US lawmakers that Mexico is failing to prevent the transit of narcotics into the United States.

- President Andrés Manuel López Obrador dismissed US allegations at a press conference yesterday and rejected a call for military action to be taken against Mexican cartels.
- AMLO: "Here, we do not produce fentanyl, and we do not have consumption of fentanyl. Why don't they [the US] take care of their problem of social decay?"
- "We are not going to permit any foreign government to intervene in our territory, much less that a government's armed forces intervene."

AMLO's comments come after two Republican lawmakers proposed an Authorization for the use of Military Force (AUMF) to target Mexican cartels.

- Reps. Dan Crenshaw (R-TX) and Mike Waltz (R-FL) said the proposed AUMF authorizes the president to, "use all necessary and appropriate force" against nine cartels in Mexico.
- Crenshaw said: "And so in Mexico, I think you've got to leverage [the Mexican government] more. I think that's one of the reasons AUMF is useful. Because it lets them know we're serious. The problem with this Mexican president [Andrés Manuel López Obrador] is he doesn't apparently want to solve the problem."
- Waltz: "We have essentially an ungoverned narcoterrorist state directly on our border, and I would posture that if ISIS or Al Qaeda sent chemical weapons that killed 80,000 Americans, we would probably be thinking about it and doing something about it."

Republican News

Politico has reported that Florida Governor Ron DeSantis (R-FL) has given his “clearest statement” so far that he plans to run for President in 2024.

- According to Politico, DeSantis told confidants he intends to run for president and a super PAC that launched yesterday “is likely to serve as an approved outside spending vehicle for his campaign.”
- Politico states that the DeSantis allies “do not expect him to announce a run until after the Florida state legislative session ends in May. But in recent conversations, DeSantis has described his presidential plans without any caveats that would suggest he’s still deciding, according to the two people familiar with his comments.”

Axios has reported that Senate Republicans are close to recruiting Tim Sheehy, a decorated military veteran and businessman, to challenge Senator Jon Tester (D-MT) for the crucial Montana Senate race in 2024.

- Axios: “Candidate quality was the GOP's downfall in 2022. Republicans view Sheehy — a political outsider who doesn't have a history of controversial statements or unpopular votes — as straight out of central casting.”

Energy Security

House Republicans will introduce a broad package of energy legislation entitled the Lower Energy Costs Act, next Tuesday.

- House Majority Leader Steve Scalise (R-LA): “The bill is focused on opening up American energy by streamlining the permit process. Having a one-stop shop for things like pipelines, where right now you might have to go through five different federal agencies to get approval to build a pipeline and it drags these projects out to the point where they don’t happen...”
- We are forcing more lease sales so that we can have more areas being explored so that we can produce more energy...
- And we’re also dealing with mining as well of rare-earth minerals. So that’s something else that China had cornered the market on, mostly because it’s very difficult to get permits to mine for rare-earth minerals here in America.”

Punchbowl News: “...in our estimation you should view this legislation as a menu of options for energy add-ons in future talks with the Biden administration. There’s a sense among some House Republican leadership aides that McCarthy and Scalise may push for energy policy as part of a broader debt-limit negotiation.”

US Secretary of State Antony Blinken will meet virtually with counterparts from the G7 and other “key partners” today to reaffirm, “collective support for Ukraine’s energy sector.”

Israel

A group of more than 80 House Democrats have written to President Biden urging him to work with Israel and Palestine to prevent further damage to the two-state solution.

- Reps. Rose Delauro (D-CT), Jan Schakowsky (D-IL) and Jim McGovern (D-MA) wrote: "Consistent and sustained U.S. diplomatic leadership is critical to preempt counterproductive unilateral actions and prevent violent escalations. We urge you to make clear that the U.S. will firmly oppose any moves toward annexation that the Israeli government may pursue as a result."
- The House Democrats warned that Prime Minister Benjamin Netanyahu's proposed judicial overhaul would "entrench settlement of the West Bank and advance a pro-annexation agenda, undermining the prospects for a two-state solution and threatening Israel's existence as a Jewish and democratic state."
- The letter comes as widespread protests in Israel cut short a trip from US Defense Secretary Lloyd Austin.

Iran

The US yesterday announced fresh sanctions on 39 entities, many of which based in China, which the US Treasury Department claim help facilitate Iran's circumvention of sanctions.

- Deputy Treasury Secretary Wally Adeyemo: "Iran cultivates complex sanctions evasion networks where foreign buyers, exchange houses, and dozens of front companies cooperatively help sanctioned Iranian companies to continue to trade," saying that the measures would, "disrupt Iran's foreign financial networks, which it uses to launder funds."
- Liu Pengyu, a spokesperson for China's embassy in Washington, said the measures had no basis in international law and were, "typical unilateral sanctions and illegal 'long-arm jurisdiction.'"

Poll of the Day

Semafor has reported that, "New York is increasingly unchallenged as the world's financial center."

- Semafor: "Less than 20 years ago it looked as if it was on the decline, with few companies choosing to list themselves there. But it is now "a power with no equal," The Economist reported. Its main rivals, London and Hong Kong, have fallen away, with Brexit and the Chinese Communist Party's tightening grip respectively making them less attractive. U.S. exchanges took eight times as much money in non-Chinese initial public offerings as London and Hong Kong together, and even Chinese firms increasingly look to New York when allowed."

Figure 1: Stock Exchanges by Market Capitalisation of Listed Companies, USD\$ Trilliond



Source: Semafor

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