

## MNI POLITICAL RISK ANALYSIS - US Daily Brief 02-05-25

by Adam Burrowes

### The White House *(times subject to change)*

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President Trump participates in the 2025 RNC Spring Gala, Mar-a-Lago, Florida

#### KEY DATES:

- ❖ House GOP target for concluding budget reconciliation: May 26
- ❖ White House target for concluding budget reconciliation: July 4
- ❖ Government funding expires: September 30

### Washington

President Donald Trump has a light schedule today following a busy week of public events marking the first 100 days of his second term. He arrived in Mar-a-Lago, Florida, yesterday evening after delivering the keynote speech at a commencement event at the University of Alabama.

- This evening, he will attend the Republican National Committee Spring Gala at Mar-a-Lago. The event comes as Congressional Republicans tentatively push back against some of Trump's legislative priorities. (More on that below)
- Vice President JD Vance is out this morning with an op-ed in [The Washington Post](#) touting the administration's successes so far.

Yesterday, Trump removed National Security Advisor Mike Waltz and Deputy National Security Advisor Alex Wong, the first significant shakeup in administration personnel.

- The move came after Waltz struggled to shake off the controversy of the Signal chat story, but may also reflect an ideological pivot within Trump's national security team that is leaning further away from Waltz's traditional conservative foreign policy position.
- Notwithstanding the Signal scandal, Waltz's hawkish foreign policy pronouncements regarding Iran and Russia had appeared increasingly out of step with the Trump White House, which prefers dealmaking to hard power projection.
- Trump named his Secretary of State Marco Rubio as temporary NSA and nominated Waltz to move laterally to Ambassador to the United Nations, setting up a fraught nomination hearing that Democrats will use to highlight Waltz's lax national security protocol.

Potential replacements include Trump's frontline negotiator, Steve Witkoff, who has often operated beyond his official remit as special envoy to the Middle East. Although Witkoff told reporters he isn't interested in the job, he has the backing of Donald Trump Jr. and Elon Musk.

- Politico notes that 'MAGA' conservatives have rallied behind senior State Department official Michael Anton as a longshot replacement. Politico notes Anton is, "known as

a kind of foreign policy moderate: He has been critical of neoconservative hawkishness, but he is also not a full-throated advocate of the style of non-interventionist foreign policy supported by Vice President JD Vance and others in the administration.”

- The biggest loser from the episode is House Speaker Mike Johnson (R-LA). He saw three members of his caucus poached by the White House, threatening to shrink his majority to just a single vote. None of those three – Waltz, former Rep Matt Gaetz, and Rep Elise Stefanik (R-NY) – currently hold administration positions.

## China

Markets have been receptive to reports that the United States and China are sounding out trade discussions, signalling a potential thaw in the trade war.

- Reuters reports: “The United States has approached China to seek talks over President Donald Trump’s 145% tariffs and Beijing’s door is open for discussions, China’s Commerce Ministry said on Friday...”
- According to Reuters, the Chinese commerce ministry said in a [statement](#) (BBG) that the US should be prepared to take action in correcting “erroneous” practices and cancel unilateral tariffs, adding that Washington needs to show “sincerity” in negotiations.
- The Ministry said: “The US has recently sent messages to China through relevant parties, hoping to start talks with China. China is currently evaluating this.”

The New York Times [reports](#): “China’s signaling about its willingness to talk comes as the tariffs appear to have already taken a toll on Chinese producers. An official report on manufacturing activity in April showed that factories in China had experienced their sharpest monthly slowdown in more than a year.”

- Wu Xinbo, the dean of the Institute of International Studies at Fudan University in Shanghai, said: “We know that China and the United States have contacts at the working level. The key now is that China hopes that the United States will give a clear signal that it is sincere in negotiating, and then it can move from this kind of working contact to formal negotiations. China has kicked the ball to the United States.”

## Economy

Axios reports that a fast-food slowdown could be an early indicator of a coming recession: “McDonald’s comparable sales fell 3.6% at U.S. stores, its worst showing since the pandemic, in a sign that people are pinching pennies...”

- Axios continues: “Signs of a fast-food slowdown are spreading: Starbucks saw comparable sales decline in Q1, and Domino’s Pizza said customers are opting for cheaper carryout over delivery.
- “Wingstop CEO Michael Skipworth flagged “a meaningful pullback in our business” in “specific pockets,” including Hispanic customers and “lower middle income” consumers.”

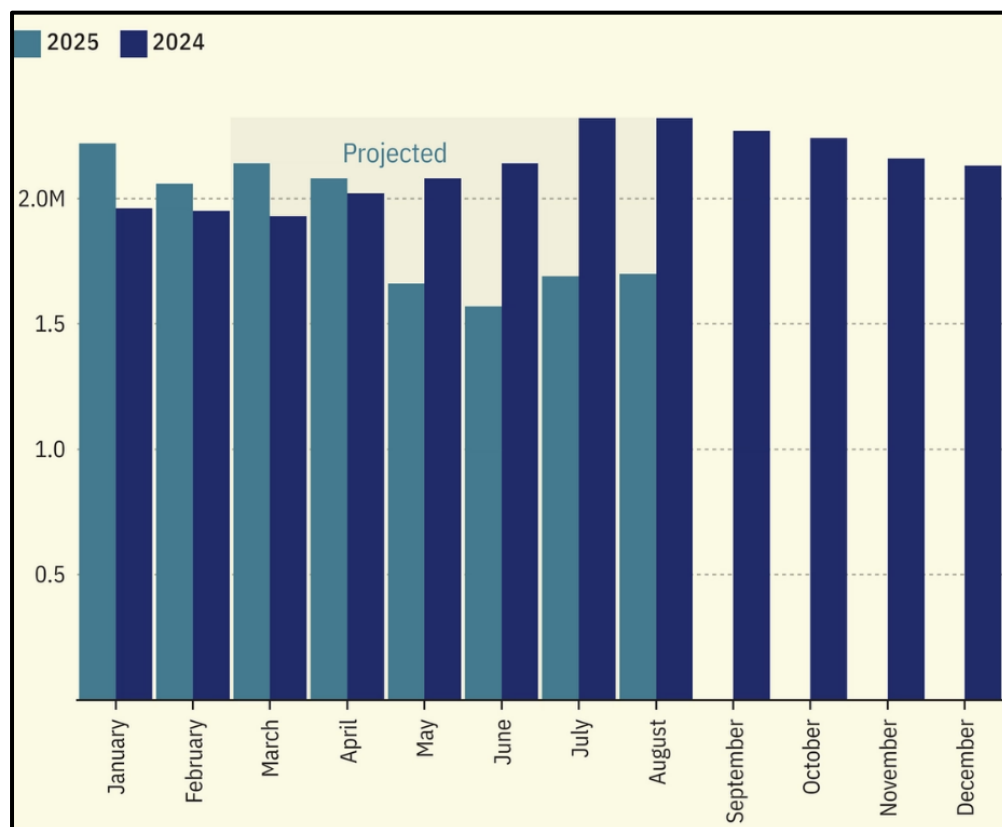
Semafor writes that Trump's trade war with China will "crash onto American shores next week," as the "last Chinese goods that were loaded ahead of the 145% tariffs are now docking at US ports."

- Semafor notes: "Analysts expect empty shelves, higher prices, and layoffs to become a reality in the US within weeks. The drop in shipments will be amplified by the end of the de minimis loophole on Friday; the exemption allows packages under \$800 to avoid duties."

The Washington Post [reports](#) that Congressional Republicans are "waving off" recession fears, "echoing Democrats four years ago who called inflation "transitory.""

- Senate Majority Leader John Thune (R-SD) said: "All these short-term economic indicators are — they are short-term, they measure it sort of day by day, month by month, quarter by quarter,"

**Figure 1: Monthly US Cargo Imports, Twenty-Foot Equivalent Units (TEU)**



Source: Semafor, Hackett Associates Global Port Tracker

## Europe

EU's trade commissioner Maroš Šefčovič told [The Financial Times](#) that Brussels would offer to increase purchases of US goods by €50bn to address the "problem" in the trade relationship, but the bloc "would not accept Washington keeping in place 10 per cent tariffs on its goods as a fair resolution to trade talks."

- FT notes: “Šefčovič said the key argument he was making to US trade representative Jamieson Greer and commerce secretary Howard Lutnick was taking account of American services exports to the EU, which would bring the overall trade deficit with Europe to only about €50bn. That could be closed rapidly with deals to purchase more US gas and agricultural products...”
- Šefcovic said: “If what we are looking at as a problem in the deficit is €50bn, I believe that we can really . . . solve this problem very quickly through LNG purchases, through some agricultural products like soyabeans, or other areas,”.
- He cautioned it would be “very difficult” to reach a deal that was “clearly good and acceptable for our member states and our European parliament”.

## Japan

Japanese Prime Minister Shigeru Ishiba told [FNN](#) this morning that Tokyo, “absolutely will not accept tariffs like those on automobiles,” and cautioned that he does not want to do anything that could “undermine the national interest” by rushing negotiations with the US.

- Ishiba said: “Reducing the trade deficit is something that should be done. We will do what we can to reduce it, but we must not do so at the expense of Japanese jobs.”
- Ishiba's comments came after a high-profile meeting between Japan's Economic Revitalisation Minister and chief trade negotiator Ryosei Akazawa and US Treasury and Commerce secretaries, Scott Bessent and Howard Lutnick, in Washington, D.C., on 1 May.
- Kyodo News [reports](#) that Akazawa said the two sides. “had agreed to hold intensive ministerial discussions from mid-May onward after starting Friday to sort out points of contention at the working level”,

Japanese Finance Minister Katsunobu Kato warned today that Tokyo could use its USD\$1 trillion-plus holdings of US Treasuries as leverage in trade talks with Washington, but did not explicitly threaten to sell them, according to [Reuters](#).

- Reuters notes that Kato’s remarks, “touch on a critical concern global investors have about what Japan and China, the two largest owners of U.S. government debt, might do in seeking tariff concessions from the Trump administration.”
- Kato: “But we obviously need to put all cards on the table in negotiations. It could be among such cards... Whether we actually use that card, however, is a different question.”
- Martin Whetton, head of financial markets strategy at Westpac, said: “Playing the card early, while the U.S. bond market is in the minds of the administration after recent weeks, is a smart move. They don't have to do anything. But they can put themselves in a solid position to negotiate. It is, after all, the art of the deal.”
- Reuters notes that Japan's top trade negotiator, Ryosei Akazawa, “said he deepened talks on trade, non-tariff measures and economic security cooperation in his second round of talks with Bessent in Washington on Thursday. He also said the two sides hoped to hold their next meeting in mid-May.”

## **Congressional Business**

The House is OUT

The Senate is OUT

Committee Schedule –

## **Presidential Budget**

President Trump is expected to release a “skinny” version of his 2026 presidential budget today, providing the first look at his priorities for funding the government. A more complete budget is expected in the coming weeks.

- The presidential budget will provide a blueprint for Congressional appropriators to begin drafting the 12 annual funding bills for Fiscal Year 2026.
- The Washington Post reports that the partial budget proposal “calls for \$163 billion in cuts to federal spending in the next fiscal year.”
- Politico reports: “Lawmakers expect the final funding request to be unprecedented in nature, infused with recommended cuts from the so-called Department of Government Efficiency and potentially proposing reorganizations that could have sweeping implications for federal agencies and Democratic-aligned priorities.”
- Axios notes that Trump's budget requests for HHS, “will offer clues on how much he wants to spend on Medicaid.”

## **Republican News**

House Republicans are off to an inauspicious start to their reconciliation markups, delaying three crucial committee sessions due to internal disputes over spending priorities.

- Punchbowl News reports: “After a White House meeting between Trump, Speaker Mike Johnson, House Majority Leader Steve Scalise and key committee chairs, the GOP leadership decided to delay markups next week in the House Energy and Commerce, Ways and Means and Agriculture panels, according to Republican lawmakers and aides.”
- The three Committees in question are tasked with finding a combined total of USD\$1.1 trillion in spending cuts. As the cuts are likely to fall heavily on Medicaid, food stamps, and other popular safety net programmes, panel discussions have exposed major gaps between conservatives and moderates.

The Energy and Commerce Committee dispute is by far the most consequential, threatening to derail the GOP's entire reconciliation agenda. Republican leadership, seeing the risk of a public hearing exposing cracks in GOP unity, have delayed the three markups from May 7 to May 12, buying an extra week to iron out internal disputes.

- Politico notes: “The fate of the megabill, at this point, appears to hinge almost entirely on the Medicaid question: Are deep cuts to Medicaid something to be avoided? Or are they the whole point of pursuing the legislation? That clash is playing out in both public and private...”

House Natural Resources Committee Chair, Bruce Westerman (R-AR), told reporters that a major overhaul of permitting is unlikely to be included in the 'Big Beautiful Bill', due to reconciliation rules.

- Punchbowl notes: "Westerman aims to approve some mining projects in reconciliation, specifically the Twin Metals mine in Minnesota. He's also floated the idea of requiring more auctions for oil and gas drilling."

Trump isn't making life easier for House Republicans. Speaking in the White House Rose Garden yesterday, Trump reiterated his support for no taxes on tips, overtime pay, or social security - pledges that are not clearly facilitated by the Republican budget blueprint, but Treasury Secretary Scott Bessent has indicated could be financed by tariff revenue.

- He also repeated support for interest deductions for US-made cars - another pledge that doesn't easily fit into the budget blueprint - and committed to "saving Medicaid": "One of the important things will be saving Medicaid for Americans in need,"

Politico reports that Hill Republicans are delivering a "flurry of rare rebukes" of the Trump administration, a sign that Trump "doesn't have complete control over the GOP".

- Politico notes that Speaker Mike Johnson split with the White House over making steep Medicaid cuts to fund the GOP's megabill. And House Appropriations Chair Tom Cole was "showing impatience" with the White House over the delayed presidential budget.

## Russia-Ukraine

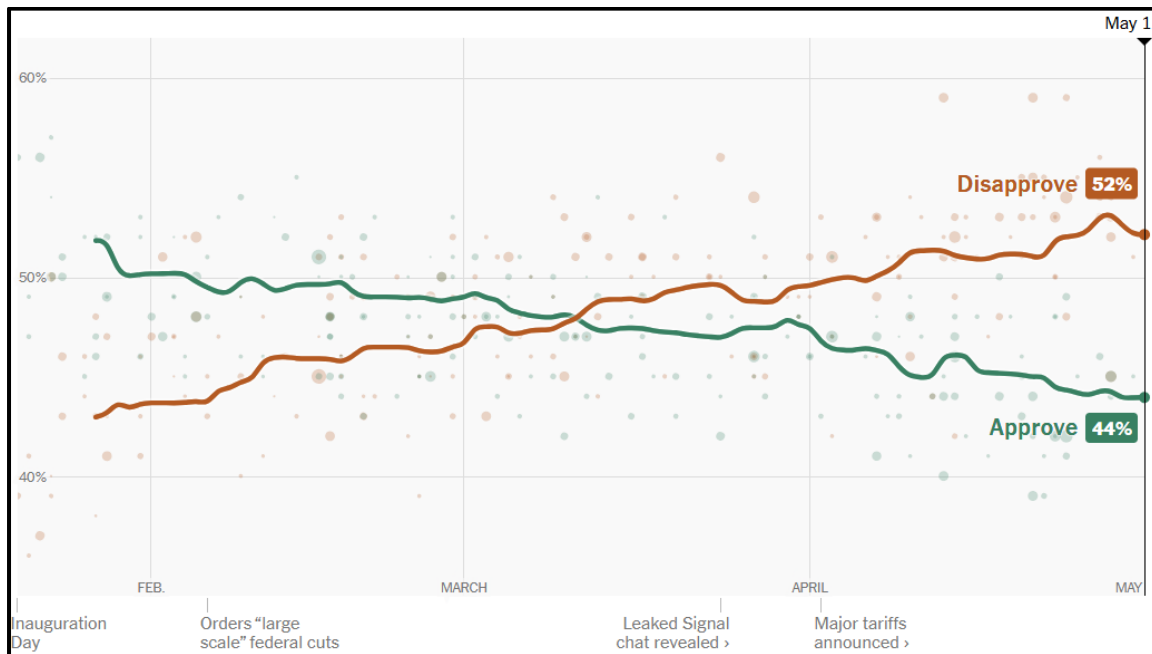
The US-Ukraine reconstruction [agreement](#) signed by US Treasury Secretary Scott Bessent and Ukrainian Finance Minister Yuliia Svyrydenko in Washington, D.C, on Wednesday does not include formal security assurances but inculcates a strategic partnership that the US believes will operate as a deterrent for future Russian aggression. It also keeps the door open for Ukraine to join the European Union at some point in the future.

- The document notes that the US provided "significant" financial and material support to Ukraine since the Russian invasion in 2022. While the agreement doesn't call on Kyiv to reimburse previous assistance, Ukraine will be required to increase payments to the reconstruction fund to offset any future military or financial assistance, appearing to open the door for continued US military aid.
- The agreement affirms a "long-term strategic alignment" between the US and Ukraine, stating it is a "tangible demonstration of [US] support for Ukraine's security, prosperity, reconstruction, and integration into global economic frameworks".
- It notes that the US, EU, and other states supporting Ukraine should benefit from the investments in mining, energy, and related technology, but stresses that "states and other persons" who have "acted adversely to Ukraine" should not benefit from the reconstruction, a clear reference to Russia.
- The Ukrainian Parliament must now ratify the agreement, likely to happen in the next two weeks.

## Chart of the Day

President Trump's approval rating has stabilised slightly after he stepped back from the most hardline rhetoric in his trade war.

**Figure 2: Trump Approval Rating**



Source: New York Times

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