

MNI POLITICAL RISK ANALYSIS - US Daily Brief 02-06-25

by Adam Burrowes

The White House *(times subject to change)*

13:30 ET 17:30 BST	President Trump has lunch with Vice President JD Vance
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KEY DATES:

- ❖ Target for Congress to send 'Big Beautiful Bill' to Trump's desk: July 4
- ❖ Government funding expires: September 30

Washington

President Donald Trump will meet with Vice President JD Vance for lunch at 13:30 ET 18:30 BST. He has no other scheduled events in his diary.

- Treasury Secretary Scott Bessent told CBS on Sunday he expects a call between Trump and Chinese President Xi Jinping "very soon."
- Bessent also [noted](#) that the US "is never going to default" on its debt: "That is never going to happen... We are on the warning track and we will never hit the wall."

OMB Director Russell Vought told CNN on Sunday that the administration is still looking at 'impoundment' as a strategy to reduce government spending. "We're certainly not taking impoundment off the table," he said.

- Vought will deliver testimony to the Senate Appropriations Committee on Wednesday where he is likely to receive a hostile reception from Democrats who view him as the architect of Trump's plan to slash the Federal bureaucracy.

Russian and Ukrainian delegations arrived in Istanbul this morning for a second round ceasefire talks. There is little optimism for a ceasefire after a series of escalations over the past month, culminating in an audacious Ukrainian drone attack on Russia's long-range bomber fleet. (More below)

Trade and Tariffs

Trump announced in a surprise move on Friday that he will double the tariff rate on steel and aluminium imports to 50%, starting on Wednesday.

- The BBC notes that Trump said the move would help boost the local steel industry and national supply, while reducing reliance on China.

National Economic Council Director Kevin Hassett again teased imminent trade deals although he noted that "licenses are coming a little slower than we would like".

- Hassett told "This Week": "I expected that we were going to probably see one perhaps as early as last week. And I think that one of the things that's happened is that the trade team has been focused 100 percent like a laser beam on the China matter to make sure that there are no supply disruptions, because these licenses are

coming a little slower than we would like. ... Once that thing's resolved, then we're going to take deals into the Oval that [USTR] Jamieson Greer and [Commerce Secretary] Howard Lutnick had negotiated."

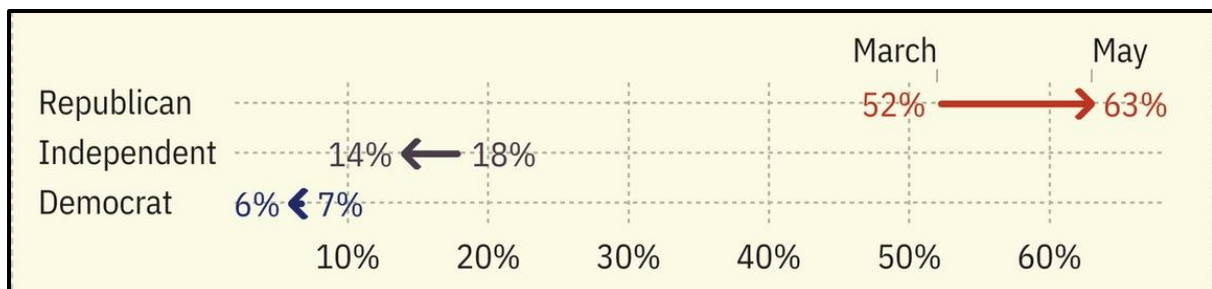
Commerce Secretary Howard Lutnick [told](#) Fox News that "tariffs are not going away", despite two court rulings that Trump overstepped his authority in using an emergency declaration to impose his 'Liberation Day' tariffs.

- Lutnick: "Rest assured, tariffs are not going away. [Trump] has so many other authorities that even in the weird and unusual circumstance where this was taken away, we just bring on another or another or another. Congress has given this authority to the president, and he's going to use it."

On trade deals, Lutnick claimed, "I think we're going to get a lot, a lot of deals done. I think they're all being set up. We could sign lots of deals now, but I think we're trying to make them better and better and better."

- Lutnick said he does not expect another tariff extension after the 90-day pause: "I think that's the deadline, and the president's just going to determine what rates people have. If they can't get a deal done, President Trump is going to determine what deal there's going to be."

Figure 1: US Adults who say Tariffs help the Economy, March vs. May



Source: Marquette Law School, Semafor

Tariffs at the Supreme Court

Bloomberg [reports](#) that the legal argument the US Supreme Court used to block swathes of former President Joe Biden's agenda "now looms as a threat to [Trump's] sweeping tariffs."

- Semafor notes: "The US Supreme Court used the "major questions doctrine" to block Biden's student loan forgiveness plan and his effort to set power-plant pollution limits, ruling that federal agencies can't take sweeping political and economic action without congressional approval."
- Bloomberg notes: "Critics say the administration's tariffs would have an even bigger impact than the estimated \$400 billion Biden student-loan package, which Chief Justice John Roberts described as having "staggering" significance in his 2023 opinion invalidating the plan."
- The White House argues the concept only applies to administrative agencies rather than the presidency, and the court has "left its options completely open" on that front, an expert said, per Semafor.

China

As noted above, Trump and Chinese President Xi Jinping are expected to hold their first known call since Trump's inauguration in the coming days. Treasury Secretary Scott Bessent said late week that a call between the leaders is needed to revive "stalled" trade talks.

- The call, if it happens, come amid a major escalation in rhetoric between Washington and Beijing, with officials from both countries accusing the other of violating the terms of the agreement struck in Geneva in May that resulted in a tariff truce.
- The Wall Street Journal reports that the deal hinged on Beijing agreeing to resume the crucial mineral supply... "China is slow-walking the concession. Rare earths and other elements are needed to make cars, chips and other products," according to US officials.

Bloomberg writes: "The dust-up threatened to again upend trade relations between the world's two largest economies, which have been held together by a fragile, weeks-old tariff truce."

- Barron's writes: "The tone is alarming but [a Trump and Xi call] suggests the war of words is largely posturing in order to gain leverage."

US Defense Secretary Pete Hegseth delivered hawkish remarks on China at the Shangri-La Security Dialogue in Singapore over the weekend that could further inflame tensions.

- Hegseth said China wanted to become a hegemonic power in Asia and was acting in a manner that should be an urgent "wake-up call", [per FT](#). Hegseth said the US did "not seek conflict" with China but would "not let our allies and partners be subordinated".

Europe

The European Commission said in a statement on Saturday that the EU "strongly" regrets Trump's decision to double steel and aluminium tariffs and warned of potential countermeasures.

- The European Commission said: "This decision adds further uncertainty to the global economy and increases costs for consumers and businesses..."
- The Commission added: "The tariff increase also undermines ongoing efforts to reach a negotiated solution. In good faith, the EU paused its countermeasures on 14 April to create space for continued negotiations," warning the bloc "is prepared to impose countermeasures".

Commerce Secretary Howard Lutnick and US Trade Representative Jamieson Greer are expected to meet with EU Trade Commissioner Maros Sefcovic in Paris this week.

- The meeting is likely to take place on the sidelines of the Organisation for Economic Co-operation and Development (OECD) Ministerial Council Meeting running 3-4 June.

Congressional Business

The House is OUT

The Senate is IN

Committee Schedule –

Big Beautiful Bill

The Senate comes back into session this evening to start modifying the Republican tax and spending 'One Big Beautiful' megabill. The House will return tomorrow with a message for their colleagues in the upper house: Heavy-handed changes could imperil final passage through the House.

- Senate Majority Leader John Thune (R-SD) wants the bill on Trump's desk by July 4, but some Senators are questioning that deadline. Senator Kevin Cramer (R-ND) said: "I'm not sure the Fourth of July is a legitimate deadline. We should really commit to getting it done" by September 30.
- Cramer's revised deadline could be risky as the package includes a hike to the debt limit. A summer X date is not out of the question if the United States Court of International Trade's ruling against Trump's tariff is upheld by the Supreme Court, impacting revenue.
- Bloomberg notes: "Wall Street analysts and private forecasters see the [X-date] deadline falling sometime between late August and mid-October."

Thune's job this week is balancing the moderate conservative factions of his conference. Senator Ron Johnson (R-WI), who is unlikely to seek re-election in 2026, is leading a conference bloc that wants more deficit reduction measures. Johnson has the support of Senators Rand Paul (R-KY), Mike Lee (R-UT), and Rick Scott (R-FL).

- Thune also has to contend with moderates, including Senators Susan Collins (R-ME) and Lisa Murkowski (R-AL), who are wary of cuts to safety net programmes like Medicaid and SNAP. Senator Josh Hawley (R-MO) has also vocally opposed Medicaid cuts.
- Moreover, there is a reportedly sizable group of Republican senators who are sceptical about rolling back tax credits from the Biden-era Inflation Reduction Act. Senators Murkowski, Thom Tillis (R-NC), John Curtis (R-UT), and Jerry Moran (R-KS) are on the record wanting a more "targeted approach".
- Senate Minority Leader Chuck Schumer (D-NY) believes there are more GOP senators who are on the fence and intends to use the IRA repeal as a wedge.

Politico reports: "Thune and Senate Finance Chair Mike Crapo [R-ID], who is juggling Medicaid and tax conflicts in the bill, are talking to key members in anticipation of difficult negotiations. Crapo [said] he personally backs the House's Medicaid work requirements, which some GOP senators wary of benefit cuts say they could also support. But beyond that, they're steering clear of public commitments."

- Politico adds: "One potentially major sticking point: The House-passed freeze on provider taxes, which most states use to help finance their share of Medicaid costs."

Sen. Jim Justice, the former West Virginia governor, called it a “real issue” and Hawley has also raised concerns. But other GOP senators, including Kevin Cramer, want to go even further in reducing, not just freezing, the provider tax.”

- Fox News notes that, “while noting the rising trajectory of the U.S. debt, [JP Morgan’s Jamie Dimon] encouraged lawmakers to “get the tax bill done” and then “focus on other things to grow the economy.””

Appropriations

Congress will also, this week, begin work on funding the government for Fiscal Year 2026, although it is likely to take a back seat to Senate negotiations over the ‘One Big Beautiful Bill’.

- On Friday, President Trump sent Congress a fleshed out [1,200 page appendix](#) to the ‘skinny budget’ he released on May 2 that outlines a 22 percent cut in non-defense spending.
- Politico notes: “Among the proposed cuts to most federal departments, the administration is asking Congress to slash \$12 billion from federal education programs, \$5 billion from agriculture efforts and a total of more than \$60 billion from health, housing and community development work.”
- Commerce Secretary Howard Lutnick will testify to House and Senate panels on the Commerce Department’s budget request on Wednesday and Thursday respectively.

Russia-Ukraine

On June 2, Ukraine launched a coordinated drone attack, damaging more than 40 warplanes from Russia's long-range bomber fleet in five regions across Russia. US and Ukrainian officials [said](#) Washington was not forewarned of the attack.

- Politico writes: “This is a game-changing moment in modern warfare, with repercussions for every serious military on the planet, including here in America. At relatively little expense — although with jaw-dropping audacity — a small-ish nation has delivered a major strategic setback to one of the most powerful militaries on earth, deep inside its own territory.”

In a [statement](#) on X, Ukrainian President Volodymyr Zelenskyy said, “Russia suffered significant losses - entirely justified and deserved.”

- Prominent Ukraine war analyst, Mick Ryan, notes on Substack that, “Ukraine has slowly but surely evolved what might now be one of the most effective long-range strike systems in the world.”
- Zelenskyy said the attack was authorised 18 months ago, revealed that all Ukrainian combatants had been successfully withdrawn from Russia, and warned that Kyiv, “will continue this work.”
- Zelenskyy added, “We continue to propose a full and unconditional ceasefire, along with all rational and dignified steps that could lead to a lasting and reliable peace. The Russians, however, have not shared their “memorandum” with anyone - we don’t have it, the Turkish side doesn’t have it, and the American side doesn’t have the Russian document either.”

- A former Ukrainian officer who runs analytical group Frontelligence Insight said that while the damage would probably not directly influence Russia's position on the battlefield, "It does reduce Russia's strategic capabilities [which] mean the ability to project power globally, the ability to deliver nuclear strikes and overall military posture in Eurasia," per FT.
- The Atlantic Council [writes](#) that "most observers expect some form of Kremlin response to the Ukrainian attack." According to the Atlantic Council, it is likely Moscow will respond "along current operational lines—for example, by conducting even more massive air attacks," despite calls from Russia defence hawks for a more heavy handed response.

Figure 2: June 2 Ukraine Drone Attack on Russia



Source: New York Times

The drone attack came ahead of a second round of Ukraine-Russia ceasefire talks that got underway in Istanbul today. Kyiv's delegation is again be led by Defence Minister Rustem Umerov. The more junior Russian team is headed by Kremlin aide Vladimir Medinsky.

- In late May, Russia launched its [largest aerial attack](#) on Ukraine of the war to date and Zelenskyy struck a [deal with Germany](#) to expand Berlin's role as Kyiv's primary military backer, suggesting that even a preliminary ceasefire agreement is unlikely in the short term.

The prevailing view in European capitals is that Russia will present 'extreme demands' that would effectively end Ukraine's sovereignty, including ending NATO aspirations, a broad demilitarisation, and formal recognition of Russian control over annexed territories.

- FT reports that the Ukrainian memorandum, "calls for a full and unconditional ceasefire ... to be monitored by the US ... security guarantees to ensure Russia will not invade again [and] no formal international recognition of Russian sovereignty over Ukrainian territories currently under Moscow's control"
- It added, "There must be no restrictions on Ukraine's military strength and western sanctions on Russia should be lifted gradually Frozen Russian sovereign assets are to be used "for reconstruction or remain frozen until reparations are paid."
- US State Department spokesperson Tammy Bruce said in a short statement, without mentioning the attack, that Secretary of State Marco Rubio spoke with Russian Foreign Minister Sergei Lavrov to "reiterate" President Trump's call for direct talks, "to achieve a lasting peace."
- Former Ukrainian Foreign Minister Dmitri Kuleba writes in [Foreign Affairs](#): "The stark reality is that neither Russia nor Ukraine has much of an incentive to stop the fighting. ... As a result, for now, a cease-fire in Ukraine is impossible."

If, as expected, there is no progress this week, more pressure will build on Trump to authorise the Senate to move a highly punitive package of sanctions introduced by Senator Lindsay Graham (R-SC). The bill has 82 cosponsors in the Senate and is expected to sail through Congress, if Trump endorses a vote.

- Graham said in Germany this weekend after a trip to Ukraine: "What I learned on this trip was [Putin] is preparing for more war. We saw credible evidence of a summer or early fall invasion."
- AP notes that Graham's bipartisan bill "would impose 500 percent tariffs on countries that continue buying Russian oil, gas, uranium and other exports — targeting nations like China and India that account for roughly 70 percent of Russia's energy trade and bankroll much of its war effort,"
- The Atlantic Council notes that the Ukrainian attack could give Trump more leverage with Russian President Vladimir Putin: "[Trump] point to Ukraine's latest military accomplishment as one more reason to accept Trump's compromise solution for a cease-fire, and note that political pressure in Washington to take more action against Russia is growing."

Iran

Iran is expected to reject a US nuclear proposal, according to a senior Iranian diplomat [quoted by Reuters](#) who cited hardline US demands on Iran's enrichment as a 'red line'. The proposal was presented to Iran on Saturday by Oman's Foreign Minister, who has been acting as a mediator in five rounds of talks.

- The diplomat said: "Iran is drafting a negative response to the U.S. proposal, which could be interpreted as a rejection the US stance on enrichment on Iranian soil remains unchanged, and there is no clear explanation regarding the lifting of sanctions."
- The IAEA said in a [confidential report](#) on Saturday that Iran has grown its stockpile of 60%-enriched uranium, despite the ongoing talks with the US, per WSJ.
- IAEA Director General Rafael Grossi said: "The significantly increased production and accumulation of highly enriched uranium by Iran, the only non-nuclear-weapon State to produce such nuclear material, is of serious concern."

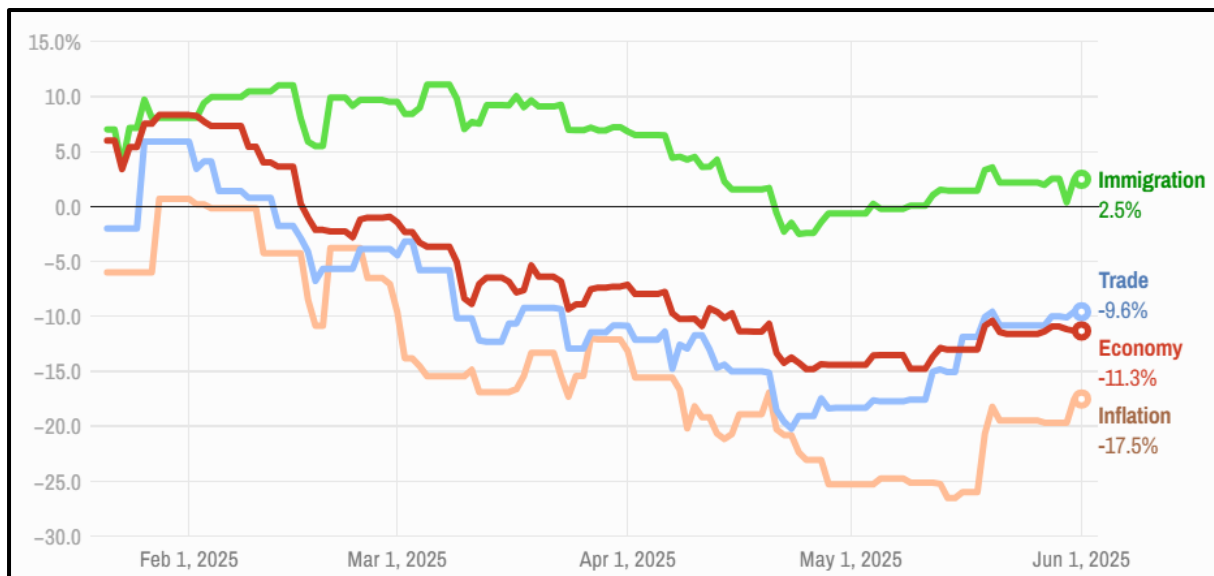
- The findings of the reports, and likely Iranian rejection of the US proposal, raises the prospect that the European signatories of the 2015 JCPOA nuclear accord could trigger a 'snapback' of punitive sanctions on Tehran. A European decision on the 'snapback' is expected to come before October, when the option of reimposing sanctions expires under the JCPOA terms.
- Israeli Prime Minister Benjamin Netanyahu cited the IAEA report as evidence "Iran is totally determined to complete its nuclear weapons program," a comment hinting that Israel may be prepared for unilateral action against Iran's nuclear infrastructure.

Chart of the Day

A new survey from YouGov has found that, "Trump's 3 weakest issues are all linked to the economy."

- YouGov notes that Trump, "is now 19 points underwater on the economy in general (37% approve to 56% disapprove); 22 points underwater on trade and tariffs (35% approve to 57% disapprove); and 27 points underwater on the cost of living (32% approve to 59% disapprove)."
- "To put those numbers in perspective, Trump's average approval rating on the economy was 49% in the middle of 2020 — at the height of the COVID-19 crash. His average disapproval rating was 45%," adds YouGov.

Figure 3: Trump Approval on Issues



Source: Silver Bulletin

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