



THE REAL DEAL

ALL OUR EYES ON U.S. POLITICS

The partial government shutdown has ended and it now appears that an agreement on funding for the remainder of the fiscal year has been reached. The President delivered his State of the Union address on February 5; the address was delayed from its originally scheduled date due to the shutdown. There have been several trade-policy developments and trade received a good deal of attention in the State of the Union. The Federal Reserve decided not to raise rates at its January meeting and indicated a more dovish position going forward. Members of Congress are weighing in on the Brexit debate and the 2020 field continues to take shape with a handful of candidates formally announcing.

END OF THE LONGEST GOVERNMENT SHUTDOWN—DEAL STRUCK ON “WALL” AND GOVERNMENT FUNDING

The 35-day partial federal government shutdown—the longest ever—ended on January 25 with a deal to fund the government until February 15. President Trump, who said he would not agree to a deal to reopen the government without funds for a border wall, eventually capitulated and did not secure any additional wall funding. The deal that ended the shutdown funded the government for three weeks so that a 17-member bipartisan conference committee could negotiate. As of this writing, the committee had reached an [“agreement in principal”](#) that would provide \$1.375 billion in funding for 55 miles of new border fencing (far less than Trump’s demand of \$5.7 billion). The deal would also bundle together the remaining seven appropriations bills to fund federal agencies through the end of the fiscal year. Legislation formalizing the agreement must be written, passed by both chambers, and signed into law before midnight on February 15 to prevent another lapse in appropriations.

TRUMP DELIVERS HIS STATE OF THE UNION

Trump delivered his [State of the Union](#) address to Congress on February 5. During his address, he warned of the insecure southern border and the “urgent national crisis” of illegal immigration. Other priorities laid out by Trump included building infrastructure; curbing medical costs and drug prices; halting the domestic spread of HIV; and seeking a cure for childhood cancers. On foreign policy, Trump announced that he would meet with North Korean leader Kim Jong un for the second time later this month, he also cited “constructive talks” with the Taliban in Afghanistan. Trump said that the withdrawal of the United States from the Intermediate-Range Nuclear Forces (INF) Treaty might lead to a “different agreement” or a build-up of U.S. forces. Trump also condemned the socialist policies of Venezuelan President Nicolás Maduro, the subject of renewed diplomatic activity with the [recent appointment of a special envoy](#), and vowed to continue confronting Iran.

UPDATE ON U.S.-CHINA TRADE WAR

We are nearing the March 1 deadline to reach a deal before the 10% tariffs on \$200 billion in imports from China will rise to 25%. High-level negotiations were held in China in January, Vice Premier Liu He was in Washington at the end of January for talks, and U.S. trade representative Robert Lighthizer and Treasury secretary Steven Mnuchin were in China the second week of February. Despite the high-level

negotiations, Lighthizer recently told Senators that significant obstacles remain. While the use of tariffs as negotiating leverage is controversial among lawmakers, there seems to be bipartisan agreement in Congress on the need for enforceable commitments from China on issues related to intellectual property theft, forced transfer of technology, and discrimination against U.S. companies. Trump has said that a summit with Chinese President Xi Jinping is a precondition to a final deal, but administration officials said that a meeting before the deadline is “highly unlikely.” Trump has indicated that he is open to letting the March 1 deadline pass without penalty if an agreement is near.

FATE OF THE USMCA

In the State of the Union, Trump called for congressional approval of the U.S.-Mexico-Canada Agreement (USMCA) to replace the North American Free Trade Agreement (NAFTA), yet the agreement faces an uncertain future. Most Democrats are calling for tightening the labor, environmental, and drug-price provisions and the deeper we get into 2019, the more difficult passage will be due to political considerations. The government shutdown delayed the International Trade Commission’s report on the USMCA, which is the next step in the ratification process. That report, as well as final text and draft implementing legislation, must be submitted before the Congress can move forward. On December 1, Trump announced he was planning to formally withdraw from NAFTA. This move would apply pressure to Congress by removing the status-quo option of keeping NAFTA and would instead force a vote between the prospect of no regional trade structure and the USMCA. Legislators from both parties are also saying that there should not be a vote on the USMCA until the Section 232 steel and aluminum tariffs on Canada and Mexico are lifted.

COMMERCE WILL SOON RULE ON AUTOS

A long anticipated report from the Department of Commerce on automotive imports and national security is due by February 17, which will present options for Trump to apply tariffs on imports of cars and auto parts under Section 232. However, due to the closure of the Commerce Department during the recent shutdown, the report may be delayed. With the report, Commerce will determine the effect of auto imports on the national security. Expect a range of options including a 10% tariff on cars (matching the current tariff on car imports from EU countries); a tariff limited to certain classes of cars, such as electric vehicles; and a 25% tariff on all cars and auto parts, which the President has frequently invoked in public remarks. The White House would have until May 18 to decide what, if any, action they will take.

A DOVISH AND PATIENT FED

In their January 30 statement, the Federal Open Market Committee (FOMC) announced that they would not raise interest rates and Fed Chair Jerome Powell put out a statement more dovish than expected. In 2018, the Fed raised rates four times and the most recent statement said that the Fed will pause and be “patient” in “light of global economic and financial developments.” The Fed also altered its outlook for how many more interest rate hikes it believes will be needed to support full employment and 2% inflation. The Fed also released a separate statement on its plans for quantitative tightening (QT); rather than the “autopilot” process Powell had put forth in December, the Fed is “prepared to adjust” QT should conditions change.

CONGRESS WEIGHS IN ON BREXIT, IRELAND BACKSTOP

Several members of Congress have warned the May government in the United Kingdom that they must not have a “hard” border between Northern Ireland and the Republic of Ireland if they want to, eventually, secure a free trade deal with the United States. The calls come after Sean Coveney, Ireland’s Deputy Prime Minister, was in Washington in February meeting with members of Congress over the backstop plan and the need for a “soft” border. The Friends of Ireland Caucus that met with Coveney includes several powerful members who could stymie a U.S.-UK trade agreement, including the meeting’s host Richard Neal (D-MA), chair of the House Ways and Means Committee, through which any trade agreement must pass. Another of the meeting’s attendees, Congressman Brendan Boyle (D-PA) introduced a resolution opposing a hard border in Ireland.

2020 FIELD TAKES SHAPE

The Democratic contest for the 2020 nomination is shaping up to be a crowded one. Nearly a dozen individuals have either declared their candidacies or established de facto campaigns with the formation of presidential exploratory committees. Even more have said they are considering running and have been holding campaign-style events throughout the country, including in early voting states such as New Hampshire and Iowa. Thus far, Senators Cory Booker (D-NJ), Kristin Gillibrand (D-NY), Kamala Harris (D-CA), Amy Klobuchar (D-MN), Elizabeth Warren (D-MA), Congresswoman Tulsi Gabbard (D-HI), former Congressman John Delaney (D-MD), and former Secretary of Housing and Urban Development Julian Castro (D-TX) have formally declared their candidacy. Other high-profile potential Democratic candidates include, but are not limited to, former Vice President Joe Biden; former Congressman Beto O'Rourke (D-TX); Senator Bernie Sanders (I-VT); Senator Sherrod Brown (D-OH); Senator Michael Bennet (D-CO), and former New York City Mayor Michael Bloomberg.

Meanwhile, Trump is the only Republican to say he intends to run in 2020, although others, such as former Massachusetts Governor William Weld and former Ohio Governor John Kasich indicated that they may challenging him. Kasich has also not ruled out a run as an independent, third-party candidate. Former Starbucks CEO Howard Schultz has indicated he is also considering running as an independent.

PERSONNEL MOVES

Defense Department – **Ian Paul Steff** is the nominee for Assistant Secretary and Director General of the U.S. and Foreign Commercial Service.

Defense Department – **Eric Chewning** is the acting chief of staff.

Interior Department – Acting Secretary **David Bernhardt** has been nominated for Secretary.

State Department – **Keith Krach** has been nominated for Undersecretary for Economic Growth, Energy and the Environment. **Elliott Abrams** is the Special Envoy for Venezuela. **Elan Carr** is Special Envoy to Monitor and Combat Anti-Semitism. **Wess Mitchell** is stepping down as Assistant Secretary for European and Eurasian Affairs, effective February 15.

Treasury Department – **Geoffrey Okamoto** has been nominated for Deputy Undersecretary for International Finance and Development.

White House – **Charles Kupperman** is now Deputy National Security Advisor.

World Bank – **David Malpass**, currently the Undersecretary of the Treasury for International Affairs, has been nominated for President.