

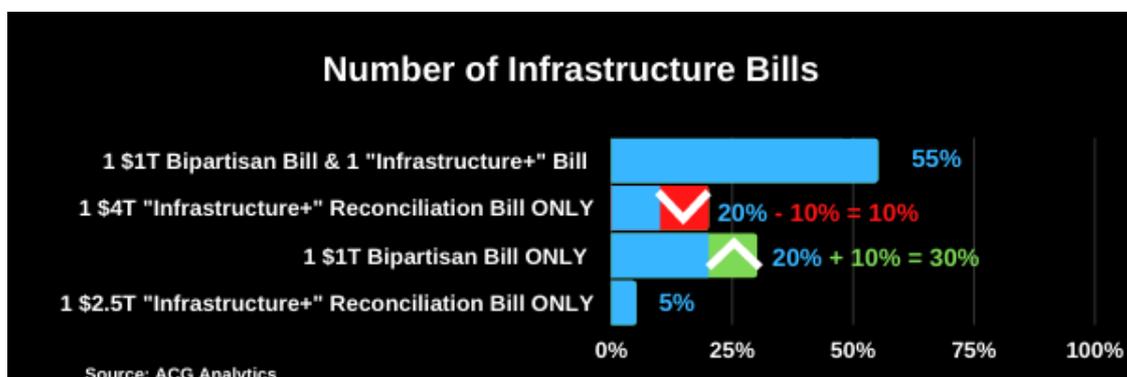
July 8, 2021

Policy Percentages®

United States, Europe & Latin America

Welcome to ACG Analytics' Policy Percentages weekly forecast. In this edition, we will discuss our outlook on key policy issues in U.S. domestic policy, Europe and Latin America macro areas. Please note that these are our estimates on the date published, are re-evaluated regularly and subject to change. For more information, please feel free to reply to this email or reach out to us at research@acg-analytics.com.

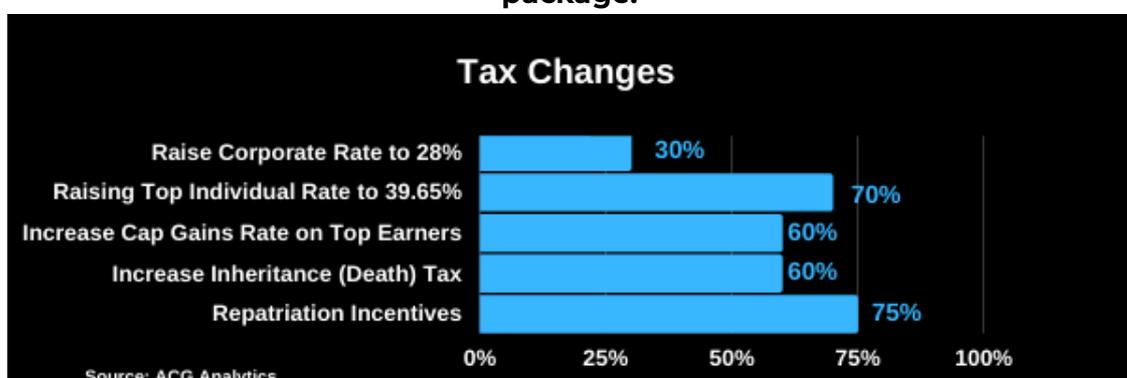
U.S. Domestic Policy

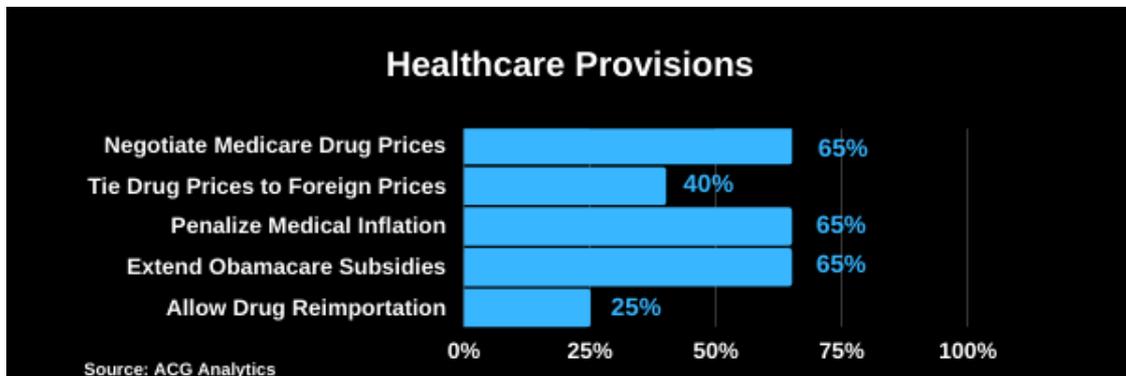
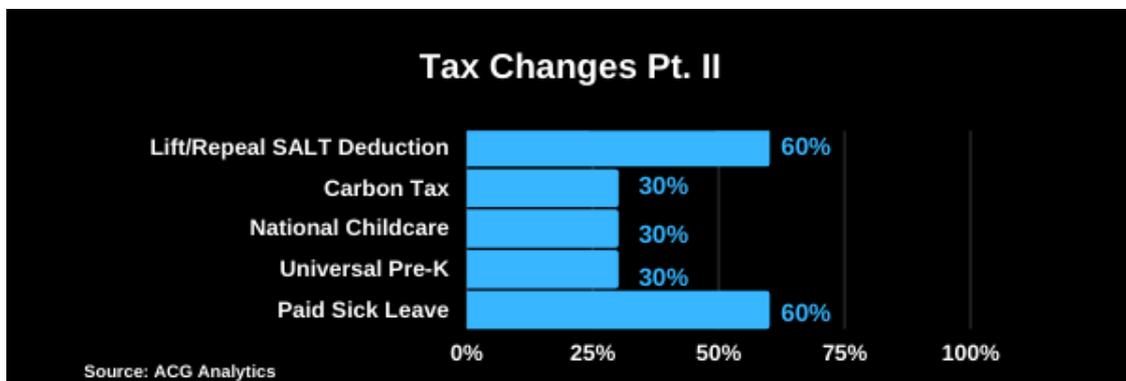


- Yesterday, ACG Analytics previewed elements of rental assistance and a deal on the state and local tax (SALT) deduction cap that many Democrats hope to incorporate in a Reconciliation bill. Those may be found [here](#) and [here](#).

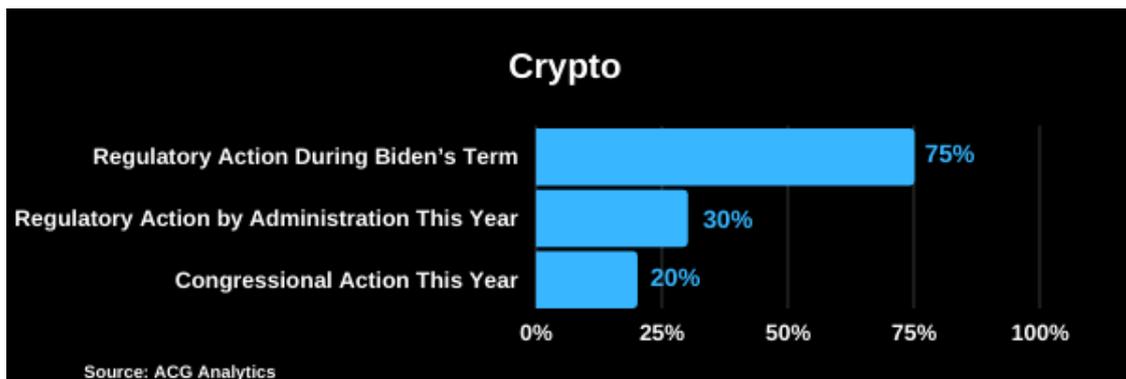
- This week, the House Problem Solvers Caucus came out in formal support of a bipartisan infrastructure deal, increasing pressure on House Speaker Nancy Pelosi (D-CA) to bring the agreement to the House Floor even if Democrats cannot summon enough votes to move a Reconciliation bill. She has stated that she will bring no legislation to the House Floor unless the Senate sends her a Reconciliation bill.
- Democrats are hoping to begin the Reconciliation process this month and likely have the votes to commence the process—but not necessarily enough votes to conclude it as Republicans found out in 2017 when John McCain famously voted against repealing portions of Obamacare. For now, Democrats can afford to lose 4 votes on the House Floor, but that slim margin of error will be reduced to 3 votes when a new Republican is seated sometime after July 27th. In the Senate, the margin of error is none.
- Democrats continue to piece together a legislation package that is approximately \$6 trillion in new spending, but earlier this week, Senator Joe Manchin (D-WV) suggested he may be uncomfortable north of around \$2 trillion. The fight over the size of the package pits Democrats against Democrats and may lead to more defections than Democrats can bear. Democrats appear to have at least 1 defection on the House side already given that full repeal of the SALT income tax deduction cap is unlikely. Defections over the size of the package, inclusion or exclusion or certain policies or provisions can also be imagined.
- The White House has had to engage in extensive damage control after President Biden threatened to veto a bipartisan traditional infrastructure package he ostensibly supports unless a Reconciliation infrastructure+ bill is sent to his desk more-or-less simultaneously. His comments have angered Republican lawmakers, although not seriously enough to stop passage of a bipartisan package—yet.
- **Senate Minority Leader Mitch McConnell (R-KY) has not yet endorsed the bipartisan package, arguing that he wants to ensure that its methods of financing infrastructure are sound—a concern shared by other members of the Senate Republican Caucus. Even so, passage of the bipartisan bill is the best chance of thwarting support for a larger measure which Republicans will certainly dislike on an entirely different scale. Yesterday, the coterie of Senators supporting the bipartisan deal grew with the formal addition of Senator Jackie Rosen (D-NV).**

Should Democrats be able to invoke Reconciliation, the following percentages apply to items which could be included in a Reconciliation package:



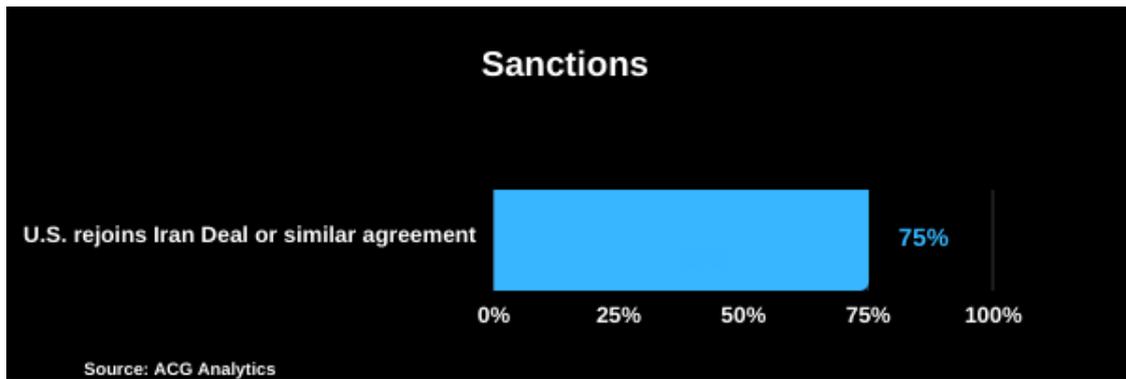


End of Infrastructure Percentages

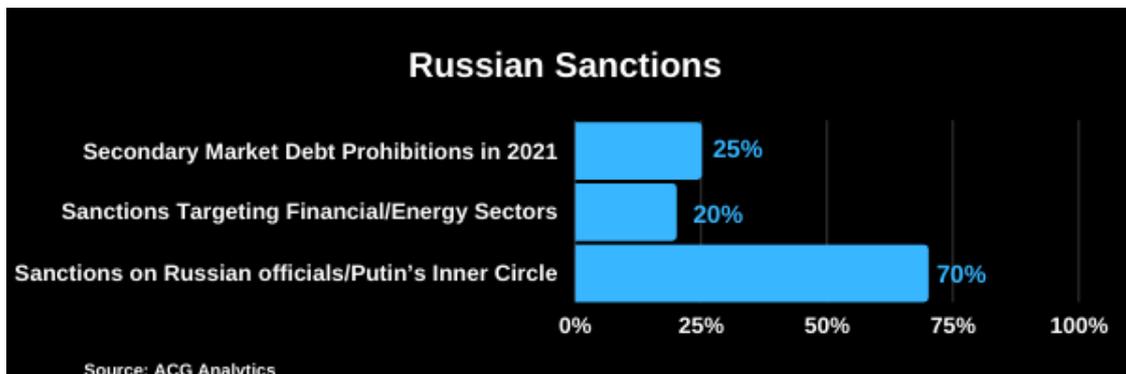


- **The Biden Administration has signaled its interest in increased crypto regulation. That combined with negative headlines regarding their use in illicit activities; lack of consumer protections; and high market volatility, means it is not a question of if there will be additional regulations in the crypto space but when.**
- **While Administration officials have signaled their interest, key agencies with jurisdiction have yet to take action. The recent Securities & Exchange Commission (SEC) regulatory agenda did not explicitly mention crypto, although its fall agenda may. Any rulemaking process is likely to take ~1 year given the complexity of the issue which makes final action this year extremely unlikely;**
- **The Office of the Comptroller of the Currency (OCC) is conducting a review of the previous Administration's decision including the decision allowing Anchorage, Paxos, and Protego (3 cryptocurrency firms) to become national trust banks with conditional charters. The conclusion of this review *could* result in the reversal of many policies enacted at the tail-end of the Trump Administration although the timeline and end date of this review is unknown;**
- **Despite a flurry of crypto related hearings, there are not any major bills in the works. Although this could change quickly if there is an**

inciting event such as another cyberattack with a large ransom (like the Colonial Pipeline attack) or a terrorist attack facilitated by a large cryptocurrency.

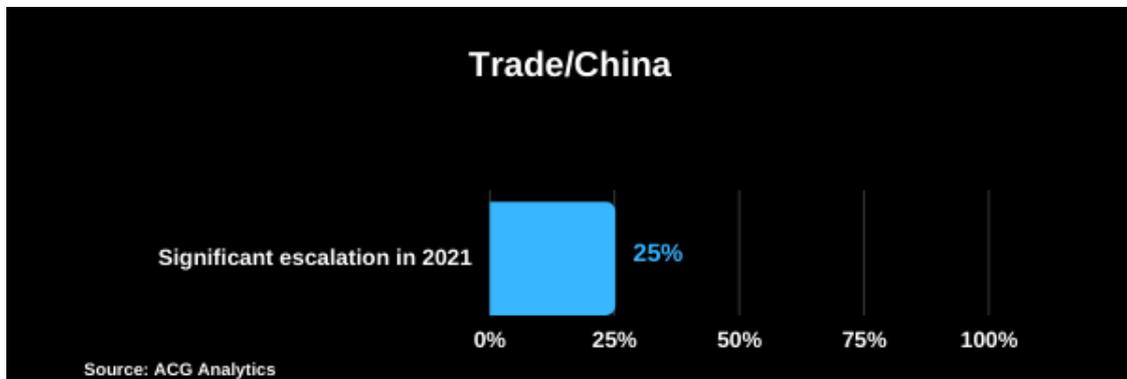


- While the Biden Administration wants to re-join or join a successor agreement to the JCPOA, negotiations will likely be long and complex;
- A successor agreement is more likely than the U.S. simply re-signing the JCPOA and we continue to believe that the United States is unlikely to remove sanctions on Iran's energy sector in the short-run;
- **Negotiations have failed to produce another extension of the International Atomic Energy Agency's (IAEA) monitoring agreement with Iran and the Iranians are refusing to provide the IAEA with information on its nuclear activities;**
- **The Iranian position appears to be hardening after the recent Presidential election, making a breakthrough even less difficult in the short-term, particularly as the Biden Administration is unlikely to unilaterally remove sanctions to reach agreement.**



- **Recent serious Russian cyber attacks add pressure on the Biden Administration to take retaliatory action as President Putin has refused to reign in Russian hacking organizations;**
- **However, unlike cyber attacks earlier this year, this attack did not target critical U.S. infrastructure but did affect the Republican National Committee (RNC);**
- **The U.S. government is continuing to investigate the attack and ACG Analytics believes that the U.S. response could include retaliatory cyber attacks but is unlikely to include serious sanctions escalation;**
- We continue to believe the Biden Administration is unlikely to move forward with secondary market sanctions unless Russia significantly escalates a major geopolitical conflict.

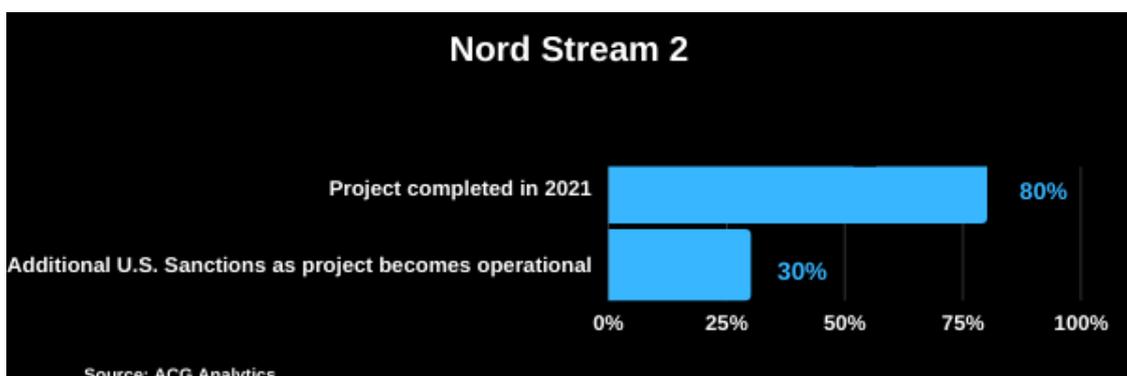
Trade/China



- The United States and China continue to work cooperatively on issues including climate change;
- **The Biden Administration named Sandra Oudkirk as Director of the American Institute in Taiwan, its top official in Taiwan, as China increases pressure on Taipei;**
 - **Taiwan continues to be one of the most likely areas of escalation in the U.S.-China relationship, but a full-scale military conflict is very unlikely;**
- **The United States and China continue to move towards some degree of economic decoupling as China announced expanded scrutiny of U.S.-listed companies due to data concerns requiring regulatory approval to list abroad in the future;**
 - **This could slow the pace of Chinese companies listing in the United States and**
- **This also indicates that compromise between the United States and China on auditing requirements to list on U.S. exchanges is unlikely, at least in the near-term;**
- **Congress is working to reconcile recent House legislation providing funding for U.S. research and innovation with the Senate's version, the U.S. Innovation and Competition Act (USICA), prior to full passage.**

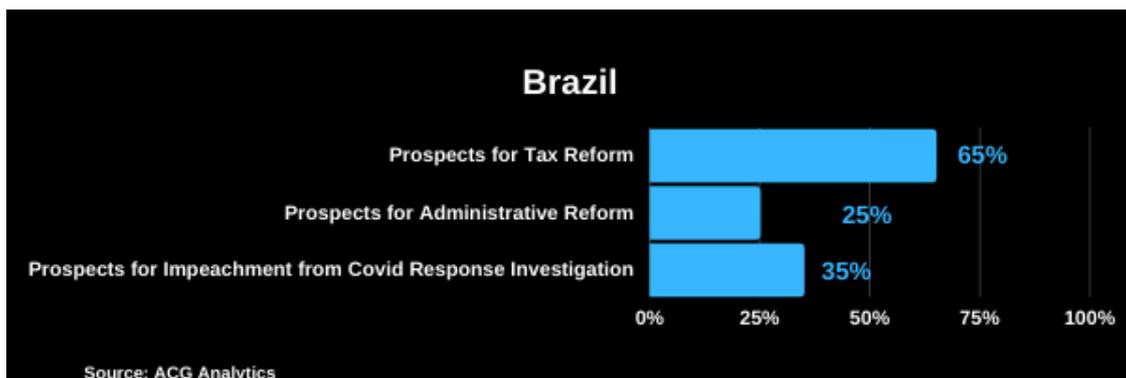
Europe

Nord Stream 2



- Our base case continues to be pipeline completion this year, as the Biden Administration is retreating from a posture based on sanctions;
- The Biden Administration is engaged in a dialogue about the pipeline with Germany;
- The first pipeline is now operational and the remaining sections of the second pipeline are being completed with the necessary permits and barring an intervention will be completed by September;
- Opposition to the project is bipartisan and bicameral in Congress. **A likely compromise with Germany and others is pipeline completion but limited or no gas deliveries through the pipeline for some time in light of broader geo-political tensions with Russia.**

Latin America



- The economic reform agenda is now ready for congressional consideration following the passage of the 2021 budget agreement. Tax reform is slated first among the reforms and has considerable support. A major privatization bill enabling the sale of Eletrobras has now passed both chambers, paving the way for the sale of South America's largest electric utility. Obstacles to passage now include the political disruption caused by the new investigation into Bolsonaro's response to the coronavirus pandemic. Aggressive strains of coronavirus continue to overload the medical system. Political tensions and coronavirus will need to subside in coming weeks for consideration of reform agenda to follow in 2021;
- Administrative reform refers to Guedes' goal of drastically cutting the federal payroll through reductions to the bureaucracy – the reform is tough in an election year (2022), so it must pass in 2021- this is increasingly difficult and likely to fall off of the agenda.
- The new Speaker also committed to protecting the statutory spending caps. His Speakership diminishes prospects for impeachment and generally creates a more constructive environment for the passage of legislation;

- However, new strains of the coronavirus surging in Brazil and a botched vaccination effort by the federal government will deepen the fiscal challenges facing the reform agenda;
- Former President Lula appears to be free to challenge Bolsonaro in 2022 following the annulment of convictions by a Brazilian court. The entrance of a popular leftist candidate could push Bolsonaro further toward pursuing populist policies, threatening Guedes' reforms;
- The Supreme Court has ordered Congress to initiate an investigation into the Bolsonaro Government's response to the coronavirus crisis. The inquiry is underway with multiple hearings with witness testimony. Bolsonaro Administration officials, past and present, have avoided attributions of direct responsibility for pandemic management failures toward President Bolsonaro. However, daily live broadcasts of the hearings appear to be eroding Bolsonaro's popular support.

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