

## Global Political Insights

### Alert: Shutdown-apoloosa: Non-Essential US Government Functions Closed After Deal Proves Elusive

- **The House and Senate Failed to Reach an Agreement on a Continuing Resolution (CR) on Monday Night, Launching the First US Government Shutdown in 17 Years:** Uncertainty increased over the last four days, as our probability of a favorable resolution before the deadline dropped from 90% to 50%. The heart of the dispute is the Affordable Care Act ("Obamacare").
- **Shutdown Feels Short Term to Us Today:** With each turn of this Congressional ping pong game, the House's package shrunk: from defunding Obamacare, to a one-year delay, to a one-year delay of the Act's individual mandate and a ban on health-care subsidies for Congressional staff. Finally the House moved to appoint a *conference committee* to negotiate with the Senate. Since the gap between the chambers is theoretically shrinking as a matter of policy and, with political pressure sure to increase, this suggests a near-term resolution to the crisis to us today. Still we remind investors, regardless of the outcome, expect more trips back to the brink before the 2014 election. Consistent with our "Noisy Heart Attack" thesis of US budget politics, any CR will not extend for the full fiscal year.<sup>1</sup>
- **Conference Committee Would Mean Another Round of Negotiation, Though the Senate Needn't Go Along; No Conference Would Point to Eventual "Clean" CR:** If the Senate does proceed to conference, both houses will appoint negotiators to the *conference committee*. The final outcome of their negotiation, called the *conference report*, is then returned to both chambers for a final vote. At this stage, the conference bill cannot be amended further. If successful, the bill is then sent to the President for his signature or veto. In the alternative scenario should the Senate refuse to go to conference, which appears likely as of this writing, the ping pong game continues. As the list of Obamacare policy options shrinks, the House should eventually be led to pass a "clean" CR. The current CR draft extends federal funding through December 15. But the final version of a clean bill might only last a few weeks, the timing thereby linking the CR directly to the debt limit.
- **Brinksmanship Makes Debt Ceiling Outlook Neutral:** Given the poor state of relations between the House, the Senate and the White House, we are concerned about the outlook for a debt ceiling increase come October 17. On Thursday, House leadership floated a debt-limit bill that also included more than 30 other policy proposals, potentially forecasting more rounds of the ping pong game. A reasonable view of market risk suggests this uncertainty must carry over into the debt-ceiling debate even after the CR is finally resolved.

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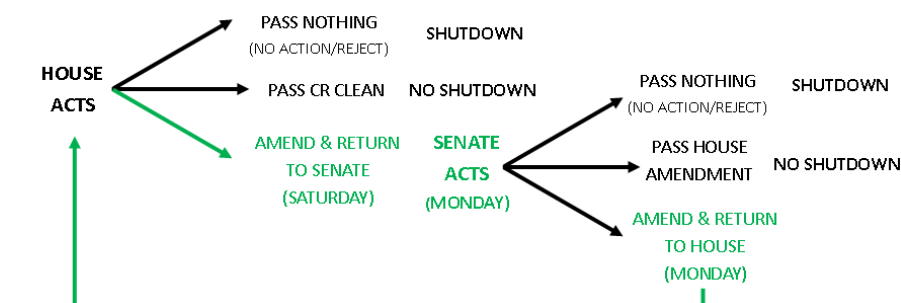
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<sup>1</sup> For more, see Matt Dabrowski, Tina Fordham et al. "[U.S. Political Risk Outlook: Autumn Budget Battles and the Next Fed Chair](#)," Citi Research. August 1, 2013.

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Figure 1. Congressional Ping Pong Game Continues as Deadline Passes Without a CR



Source: Citi Research

Figure 2. Key Upcoming Dates in Developed Markets Political Risk

October 1	US fiscal year begins
October 2	Vote of confidence expected in Italian parliament
October 4	Italian Senate commission expected to vote on Berlusconi expulsion
October 14-18	US Congress on scheduled recess (expect cancellation for debt ceiling talks)
October 17	US Treasury's announced debt ceiling "X-Date," accounting measures exhausted
October 23	Citi Research's suggested debt ceiling "X-Date," cash position exhausted 2
October	Troika review (Eurozone)
November 14-16	SPD party convention following members' vote on grand coalition (Germany)
December	Germany Chancellor Angela Merkel expected to finalize new government
December 3	Italian Constitutional Court expected to issue decision on porcellum electoral law

Source: Citi Research

■ **Unforeseen Details for Markets: No Jobs Report?** The shutdown is reported to have impacts on the SEC, the BLS, and the CFTC. At the SEC, law enforcement functions, market surveillance, and EDGAR filings will continue, but other functions will be put on hold. The BLS has said weekly data releases will continue, but it's unclear whether Friday's jobs report will come out on time. The Fed, the Comptroller of the Currency, and the CFPB are all self-funded and will not be affected.<sup>3</sup>

Figure 3. Shutdown #18 Since the Modern Budget Process Was Established in 1974

Dates	President	House	Senate	Days Out	At Issue
Sept. 30 - Oct. 11, 1976	Ford	Dems	Dems	10	Health Education & Welfare Dept. funding
Sept. 30 - Oct. 13, 1977	Carter	Dems	Dems	12	Medicaid funding for abortion
Oct. 31 - Nov. 9, 1977	Carter	Dems	Dems	8	Medicaid funding for abortion
Nov. 30 - Dec. 9, 1977	Carter	Dems	Dems	8	Medicaid funding for abortion
Sept. 30 - Oct. 18, 1978	Carter	Dems	Dems	18	Funding for nuclear-powered aircraft carriers
Sept. 30 - Oct. 12, 1979	Carter	Dems	Dems	11	Federal pay scale, abortion funding
November 20-23, 1981	Reagan	Dems	GOP	2	Budget cuts
Sept. 30 - Oct. 2, 1982	Reagan	Dems	GOP	1	Inadvertent delay in funding bills
December 17-21, 1982	Reagan	Dems	GOP	3	MX missile program, jobs package
November 10-14, 1982	Reagan	Dems	GOP	3	Defense, foreign aid & education spending
Sept. 30 - Oct. 3, 1984	Reagan	Dems	GOP	2	Water projects program, crime bill
October 3-5, 1984	Reagan	Dems	GOP	1	Water projects program, crime bill
October 16-18, 1986	Reagan	Dems	GOP	1	Welfare expansion, labor & energy issues
December 18-20, 1987	Reagan	Dems	Dems	1	Fairness Doctrine, Nicaraguan Contras
October 5-9, 1990	Bush Sr.	Dems	Dems	3	Deficit reduction
November 13-19, 1995	Clinton	GOP	GOP	5	Medicare, balanced budget
Dec. 5, 1995 - Jan. 6, 1996	Clinton	GOP	GOP	21	Balanced budget
?	Obama	GOP	Dems	?	Affordable Care Act ("Obamacare")

Source: *The Washington Post*, Citi Research

■ **Debt Ceiling: Is This Time Different?** Historically, debt ceiling disputes are not unusual, and are always tied to the same types of difficult fiscal disputes at issue today. Congress waited to raise the limit at the last minute (within 30 days of the exhaustion of issuance authority or later) on at least 10 occasions: in 1953, 1967, 1977, 1979, 1987, 1989, 1990, 1995, 2002, and 2011. There was a technical violation of the ceiling in 1979. In 1983, the Senate actually voted down one increase, only to delay a second for four weeks.

<sup>2</sup> Andrew Hollenhorst. "Short-End Notes - Rate floor / Debt ceiling." Citi Research. September 27, 2013.

<sup>3</sup> Victoria Stillwell. "Bureau of Labor Statistics to Suspend Operation in U.S. Shutdown." Bloomberg News. September 27, 2013. Kyle Stock. "Government Shutdown: SEC & CFTC Would Furlough Enforcement Staffs." Bloomberg Businessweek. September 30, 2013.

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