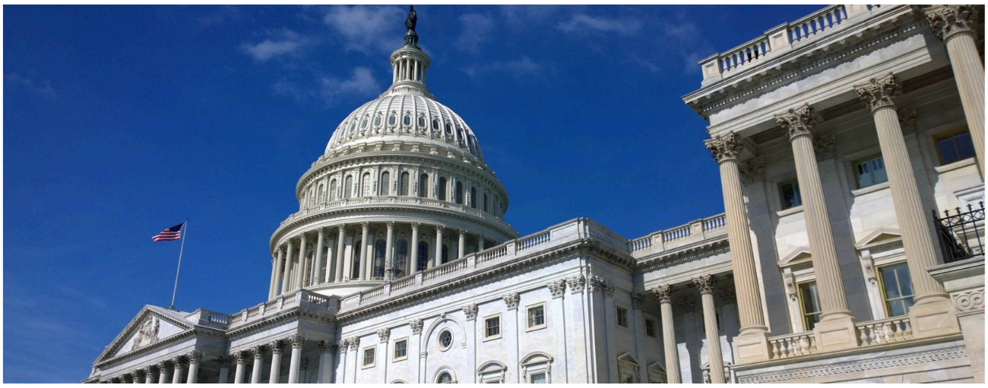
US Debt Ceiling: Done Deal (?)

May 30, 2023 8:36 CEST

An agreement on the urgently needed raise of the debt ceiling in the US appears to be on the horizon. President Biden and the Republican chief negotiator Kevin McCarthy agreed on a compromise solution. However, this must be approved by Congress in the near future, as latest estimates point to a default as of June 5.



Agreement found, but inception of the policy not yet fixed

The self-imposed debt ceiling of the US must be raised if reached, otherwise the economy will no longer be able to service existing liabilities. This would represent an unprecedented, potentially catastrophic scenario for the world economy and global financial markets. However, after intensifying negotiations, the Democratic and Republican negotiating teams were able to agree on a **compromise solution**. This provides for a **suspension of the cap until January 1, 2025**. Such a suspension has been used with increasing frequency, especially in the last decade. In return, on the **spending side**, non-defense spending is to be kept at the current year's level, while defense spending can be increased by up to 3%. Further, some federal aid programs are to be made subject to **stricter working requirements**, and the **moratoria currently in place for student loans are to be ended**. A **new funding structure for the Internal Revenue Service** was also approved. This selection of agreed-upon measures illustrates that the draft represents a compromise solution among the parties involved.

However, the proposal must still pass the Congress, which consists of the Senate and the House of Representatives, before President Biden can finally seal it with his signature. This must happen before **June 5**, which is the **latest estimate of the US's default-date**. Two factors could prove to be a problem in this regard. First, the **review of such a document naturally takes time**. House representatives, for example, have up to 72 hours to consider proposed legislation before it comes to a vote. Second, Republican hardliners from the so-called "Freedom Caucus" in particular have already announced their intention to **block the agreement**. Given the rather narrow majorities in the chambers of Congress, finalization of the introduced proposal could accordingly stand on shaky ground. Nevertheless, we think that majorities voting for the proposal will be found eventually, and that a **default of the US can thus be averted**.

On **interest rate markets**, the discussion about the debt ceiling can best be followed on the CDS market, where investors insure themselves against a US default. CDS spreads have widened significantly in the course of the tough negotiations and the associated uncertainty. Already in anticipation of a solution, these have fallen from 270 bp to below 200 bp (6M). A further drop in the course of the official agreement in Congress is likely. The same applies to very short maturities of the US Treasury yield curve (1-3M). In the broad US Treasury market, yields have started the week at slightly lower levels, suggesting a positive reaction. However, the agreement is in line with broad market expectations and,

Markus TSCHAPECK
Analyst
+43 1 71707-1687
markus.tschapeck@rbinternational.com

Franz ZOBL
Analyst Editor
+43 1 71707-3603
franz.zobl@rbinternational.com

in general, it is important to emphasize that the debt ceiling issue received broader media attention than financial market attention, where the topic is a very uncomfortable tail risk.

On the **stock markets**, the preliminary breakthrough in the debt dispute was already largely anticipated on Friday — especially in the US. Yesterday, the impulses from this hardly provided any more support on the few European stock exchanges that were open. With the exception of China, virtually all of Asia's stock indices managed a gain on Monday; in Europe, however, the gains made at the beginning crumbled in the course of trading and the Euro STOXX 50, DAX and ATX each closed between 0.2% and 0.4% lower. However, it should be noted that stock markets around the world had already taken the debt dispute lightly in the run-up (even if media reports could have given a different impression). We remember: On 19 May, for example, the DAX reached an all-time high (!). In this respect, even if the outcome of this temporary negative factor is finally positive, we do not necessarily have to expect new, too large price jumps.

Disclosure

Risk notifications and explanations

Warnings:

- Figures on performance refer to the past. Past performance is not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance of a financial instrument, a financial index or a securities service is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment in a financial instrument, a financial or securities service can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service.

This publication is a short term market comment, which is a summary of economic data and events, which are, among others, related to financial instruments and its issuers. This short term market comment is not explained in detail and does not contain a substantial analysis.

Any information and recommendations designated as such in this publication which are contributed by analysts from RBI's subsidiary banks are disseminated unaltered under RBI's responsibility.

A description of the concepts and methods used in the preparation of financial analyses is available under: **www.raiffeisenresearch.com/concept_and_methods**.

Detailed information on sensitivity analyses (procedure for checking the stability of potential assumptions made in the context of financial analyses) is available under: **www.raiffeisenresearch.com/sensitivity_analysis**.

Disclosure of circumstances and interests which may jeopardise the objectivity of RBI: **www.raiffeisenresearch.com/disclosuresobjectivity**.

Detailed information on recommendations concerning financial instruments or issuers disseminated during a period of 12 month prior to this publication (acc. to Art. 4 (1) i) Commission Delegated Regulation (EU) 2016/958 of 9.3.2016) is available under: **https://raiffeisenresearch.com/web/rbi-research-portal/recommendation_history**.

Disclaimer

Responsible for this publication: Raiffeisen Bank International AG („RBI")

RBI is a credit institution according to §1 Banking Act (Bankwesengesetz) with the registered office Am Stadtpark 9, 1030 Vienna, Austria.

Raiffeisen RESEARCH is an organisational unit of RBI.

Supervisory authority: As a credit institution (acc. to § 1 Austrian Banking Act; Bankwesengesetz) Raiffeisen Bank International AG is subject to the supervision by the Austrian Financial Market Authority (FMA, Finanzmarktaufsicht) and the National Bank of Austria (OeNB, Oesterreichische Nationalbank). Additionally, RBI is subject to the supervision by the European Central Bank (ECB), which undertakes such supervision within the Single Supervisory Mechanism (SSM), which consists of the ECB and the national responsible authorities (Council Regulation (EU) No 1024/2013 - SSM Regulation). Unless set out herein explicitly otherwise, references to legal norms refer to norms enacted by the Republic of Austria.

This document is for information purposes and may not be reproduced or distributed to other persons without RBI's permission. This document constitutes neither a solicitation of an offer nor a prospectus in the sense of the Austrian Capital Market Act (Kapitalmarktgesetz) or the Austrian Stock Exchange Act (Börsegesetz) or any other comparable foreign law. An investment decision in respect of a financial instrument, a financial product or an investment (all hereinafter "product") must be made on the basis of an approved, published prospectus or the complete documentation for such a product in question, and not on the basis of this document.

This document does not constitute a personal recommendation to buy or sell financial instruments in the sense of the Austrian Securities Supervision Act (Wertpapieraufsichtsgesetz). Neither this document nor any of its components shall form the basis for any kind of contract or commitment whatsoever. This document is not a substitute for the necessary advice on the purchase or sale of a financial instrument, a financial product or advice on an investment. In respect of the sale or purchase of one of the above mentioned products, your banking advisor can provide individualised advice suitable for investments and financial products.

This analysis is fundamentally based on generally available information and not on confidential information which the party preparing the analysis has obtained exclusively on the basis of his/her client relationship to a person.

Unless otherwise expressly stated in this publication, RBI deems all of the information to be reliable, but does not make any assurances regarding its accuracy and completeness.

In emerging markets, there may be higher settlement and custody risk as compared to markets with established infrastructure. The liquidity of stocks/financial instruments may be influenced, amongst others, by the number of market makers. Both of these circumstances can result in elevated risk in relation to the safety of investments made in consideration of the information contained in this document.

The information in this publication is current as per the latter's creation date. It may be outdated by future developments, without the publication being changed.

Unless otherwise expressly stated (**www.raiffeisenresearch.com/special_compensation**), the analysts employed by RBI are not compensated for specific investment banking transactions. Compensation of the author or authors of this report is based (amongst other things) on the overall profitability of RBI, which includes, inter alia, earnings from investment banking and other transactions of RBI. In general, RBI forbids its analysts and persons reporting to the analysts from acquiring securities or other financial instruments of any enterprise which is covered by the analysts, unless such acquisition is authorised in advance by RBI's Compliance Department.

RBI has put in place the following organisational and administrative agreements, including information barriers, to impede or prevent conflicts of interest in relation to recommendations: RBI has designated fundamentally binding confidentiality zones. These are typically units within credit institutions, which are isolated from other units by organisational measures governing the exchange of information, because compliance-relevant information is continuously or temporarily handled in these zones. Compliance-relevant information may fundamentally not leave a confidentiality zone and is to be treated as strictly confidential in internal business operations, including interaction with other units. This does not apply to the transfer of information necessary for usual business operations. Such transfer of information is limited, however, to what is absolutely necessary (need-to-know principle). The exchange of compliance-relevant information between two confidentiality zones may only occur with the involvement of the Compliance Officer.

SPECIAL REGULATIONS FOR THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (UK): This document does not constitute either a public offer in the meaning of the Austrian Capital Market Act (Kapitalmarktgesetz; hereinafter „KMG") nor a prospectus in the meaning of the KMG or of the Austrian Stock Exchange Act (Börsegesetz). Furthermore, this document does not intend to recommend the purchase or the sale of securities or investments in the meaning of the Austrian Supervision of Securities Act (Wertpapieraufsichtsgesetz). This document shall not replace the necessary advice concerning the purchase or the sale of securities or investments. For any advice concerning the purchase or the sale of securities of investments kindly contact your RAIFFEISENBANK. This publication has been either approved or issued by RBI in order to promote its investment business.

Raiffeisen Bank International AG ("RBI"), London Branch is authorised by the Austrian Financial Market Authority and subject to limited regulation by the Financial Conduct Authority ("FCA"). Details about the extent of its regulation by the FCA are available on request. This publication is not intended for investors who are Retail Customers within the meaning of the FCA rules and shall therefore not be distributed to them. Neither the information nor the opinions expressed herein constitute or are to be construed as an offer or solicitation of an offer to buy (or sell) investments. RBI may have affected an Own Account Transaction within the meaning of FCA rules in any investment mentioned herein or related investments and/or may have a position or holding in such investments as a result. RBI may have been, or might be, acting as a manager or co-manager of a public offering of any securities mentioned in this report or in any related security.

SPECIFIC RESTRICTIONS FOR THE UNITED STATES OF AMERICA AND CANADA: This document may not be transmitted to, or distributed within, the United States of America or Canada or their respective territories or possessions, nor may it be distributed to any U.S. person or any person resident in Canada, unless it is provided directly through RB International Markets (USA) LLC ("RBIM"), a U.S. registered broker-dealer, and subject to the terms set forth below.

SPECIFIC INFORMATION FOR THE UNITED STATES OF AMERICA AND CANADA: This research document is intended only for institutional investors and is not subject to all of the independence and disclosure standards that may be applicable to research documents prepared for retail investors. This report was provided to you by RB International Markets (USA) LLC (RBIM), a U.S. registered broker-dealer, but was prepared by our non-U.S. affiliate Raiffeisen Bank International AG (RBI). Any order for the purchase or sale of securities covered by this report must be placed with RBIM. You can reach RBIM at 1177, Avenue of the Americas, 5th Floor, New York, NY 10036, phone +1 212-600-2588. This document was prepared outside the United States by one or more analysts who may not have been subject to rules regarding the preparation of reports and the independence of research analysts comparable to those in effect in the United States. The analyst or analysts who prepared this research (i) are not registered or qualified as research analysts with the Financial Industry Regulatory Authority ("FINRA") in the United States, and (ii) are not allowed to be associated persons of RBIM and are therefore not subject to FINRA regulations, including regulations related to the conduct or independence of research analysts.

The opinions, estimates and projections contained in this report are those of RBI only as of the date of this report and are subject to change without notice. The information contained in this report has been compiled from sources believed to be reliable by RBI, but no representation or warranty, express or implied, is made by RBI or its affiliated companies or any other person as to the report's accuracy, completeness or correctness. Securities which are not registered in the United States may not be offered or sold, directly or indirectly, within the United States or to U.S. persons (within the meaning of Regulation S under the Securities Act of 1933 ["the Securities Act"]), except pursuant to an exemption under the Securities Act. This report does not constitute an offer with respect to the purchase or sale of any security within the meaning of Section 5 of the Securities Act and neither shall this report nor anything contained herein form the basis of, or be relied upon in connection with, any contract or commitment whatsoever. This report provides general information only. In Canada it may only be distributed to persons who are resident in Canada and who, by virtue of their exemption from the prospectus requirements of the applicable provincial or territorial securities laws, are entitled to conduct trades in the securities described herein.

EU REGULATION NO 833/2014 CONCERNING RESTRICTIVE MEASURES IN VIEW OF RUSSIA'S ACTIONS DESTABILISING THE SITUATION IN UKRAINE

Please note that research is done and recommendations are given only in respect of financial instruments which are not affected by the sanctions under EU regulation no 833/2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, as amended from time to time, i.e. financial instruments which have been issued before 1 August 2014.

We wish to call to your attention that the acquisition of financial instruments with a term exceeding 30 days issued after 31 July 2014 is prohibited under EU regulation no 833/2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, as amended from time to time. No opinion is given with respect to such prohibited financial instruments.

INFORMATION REGARDING THE PRINCIPALITY OF LIECHTENSTEIN: COMMISSION DIRECTIVE 2003/125/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest has been incorporated into national law in the Principality of Liechtenstein by the Finanzanalyse-Marktmissbrauchs-Verordnung

If any term of this Disclaimer is found to be illegal, invalid or unenforceable under any applicable law, such term shall, insofar as it is severable from the remaining terms, be deemed omitted from this Disclaimer. It shall in no way affect the legality, validity or enforceability of the remaining terms.

AARON ALBER
Austria ,
aaron.alber@rbinternational.com

BENEDIKT-LUKA ANTIC
Austria ,
benedikt-luka.antic@rbinternational.com

FABIAN BLASCH
Austria ,
fabian.blasch@rbinternational.com

GUNTER DEUBER
Austria ,
gunter.deuber@rbinternational.com

CASPER ENGELEN
Austria ,
casper.engelen@rbinternational.com

OLEG GALBUR
Austria ,
oleg.galbur@rbinternational.com

AMADEA HIESS
Austria ,
amadea.hiess@rbinternational.com

CHRISTIAN HINTERWALLNER
Austria ,
christian.hinterwallner@rbinternational.com

JAKUB KRAWCZYK
Austria ,
jakub.krawczyk@rbinternational.com

SEBASTIAN MATHE
Austria ,
sebastian.mathe@rbinternational.com

HELGE RECHBERGER
Austria ,
helge.rechberger@rbinternational.com

MATTHIAS REITH
Austria ,
matthias.reith@rbinternational.com

MARKUS REMIS
Austria ,
markus.remis@rbinternational.com

ANDREAS SCHILLER
Austria ,
andreas.schiller@rbinternational.com

TERESA SCHINWALD
Austria ,
teresa.schinwald@rbinternational.com

MANUEL SCHLEIFER
Austria ,
manuel.schleifer@rbinternational.com

JOVAN SIKIMIC
Austria ,
jovan.sikimic@rbinternational.com

GOTTFRIED STEINDL
Austria ,
gottfried.steindl@rbinternational.com

ROK STIBRIC
Austria ,
rok.stibric@rbinternational.com

MARKUS TSCHAPECK
Austria ,
markus.tschapeck@rbinternational.com

FRANZ ZOBL
Austria ,
franz.zobl@rbinternational.com

BRISIDA BUZI
Albania ,
Brisida.BUZI@raiffeisen.al

VALBONA GJEKA
Albania ,
valbona.gjeka@raiffeisen.al

FJORENT RRUSHI
Albania ,
Fjorent.Rrushi@raiffeisen.al

ARISTEA VLLAHU
Albania ,
Aristea.Vllahu@raiffeisen.al

OLGA ZHEGULO
Belarus ,
olga.zhegulo@priorbank.by

ASJA GRDJO
Bosnia Herzegovina ,
asja.grdjo@raiffeisengroup.ba

IVONA ZAMETICA
Bosnia Herzegovina ,
ivona.zametica@raiffeisengroup.ba

MIRZA ZORNIC
Bosnia Herzegovina ,
mirza.zornic@raiffeisengroup.ba

ELIZABETA SABOLEK-RESANOVIC
Croatia ,
elizabeta.sabolek-resanovic@rba.hr

ZRINKA ZIVKOVIC-MATIJEVIC
Croatia ,
zrinka.zivkovic-matijevic@rba.hr

HELENA HORSKA
Czech Republic ,
Helena.Horska@rb.cz

DAVID VAGENKNECHT
Czech Republic ,
david.vagenknecht@rb.cz

LEVENTE BLAHÓ
Hungary ,
levente.blaho@raiffeisen.hu

GERGELY PÁLFFY
Hungary ,
gergely.palffy@raiffeisen.hu

ZOLTÁN TÖRÖK
Hungary ,
torok.zoltan@raiffeisen.hu

DOROTA STRAUCH
Poland ,
dorota.strauch@raiffeisen.pl

NICOLAE COVRIG
Romania ,
Nicolae.Covrig@raiffeisen.ro

ANDREEA-ELENA DRAGHIA
Romania ,
Andreea-Elena.DRAGHIA@raiffeisen.ro

IONUT DUMITRU

Romania ,

Ionut.Dumitru@raiffeisen.ro

ANASTASIA BAYKOVA

Russia ,

ABAIKOVA@raiffeisen.ru

GREGORY CHEPKOV

Russia ,

grigory.chepkov@raiffeisen.ru

STANISLAV MURASHOV

Russia ,

stanislav.murashov@raiffeisen.ru

LJILJANA GRUBIC

Serbia ,

ljiljana.grubic@raiffeisenbank.rs

TIBOR LORINCZ

Slovakia ,

tibor_lorincz@tatrabanka.sk

SERHII KOLODII

Ukraine ,

serhii.kolodii@raiffeisen.ua

OLEKSANDR PECHERYTSYN

Ukraine ,

oleksandr.pecherytsyn@raiffeisen.ua

Imprint

Information requirements pursuant to the Austrian E-Commerce Act

Raiffeisen Bank International AG Registered Office: Am Stadtpark 9, 1030 ViennaPostal address: 1010 Vienna, Postfach 50Phone: +43-1-71707-1846Fax: +43-1-71707-1848

Company Register Number: FN 122119m at the Commercial Court of ViennaVAT Identification Number: UID ATU 57531200Austrian Data Processing Register: Data processing register number (DVR): 4002771S.W.I.F.T.-Code: RZBA AT WW

Supervisory Authorities: As a credit institution (acc. to § 1 Austrian Banking Act; Bankwesengesetz) Raiffeisen Bank International AG is subject to the supervision by the Austrian Financial Market Authority (FMA, Finanzmarktaufsicht) and the National Bank of Austria (OeNB, Oesterreichische Nationalbank). Additionally, RBI is subject to the supervision by the European Central Bank (ECB), which undertakes such supervision within the Single Supervisory Mechanism (SSM), which consists of the ECB and the national responsible authorities (Council Regulation (EU) No 1024/2013 - SSM Regulation). Unless set out herein explicitly otherwise, references to legal norms refer to norms enacted by the Republic of Austria.

Membership: Austrian Federal Economic Chamber, Federal Bank and Insurance Sector, Raiffeisen Association.

Statement pursuant to the Austrian Media Act

Publisher and editorial office of this publication Raiffeisen Bank International AGAm Stadtpark 9, A-1030 Vienna**Media Owner of this publication**Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und FinanzmarktanalysenAm Stadtpark 9, A-1030 Vienna**Executive Committee of Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen:**Mag. Gunter Deuber (Chairman), Mag. Helge Rechberger (Vice-Chairman)Raiffeisen RESEARCH – Verein zur Verbreitung von volkswirtschaftlichen Analysen und Finanzmarktanalysen is constituted as state-registered society. Purpose and activity are (inter alia), the distribution of analysis, data, forecasts and reports and similar publications related to the Austrian and international economy as well as financial markets.**Basic tendency of the content of this publication**

- Presentation of activities of Raiffeisen Bank International AG and its subsidiaries in the area of conducting analysis related to the Austrian and international economy as well as the financial markets.
- Publishing of analysis according to various methods of analyses covering economics, interest rates and currencies, government and corporate bonds, equities as well as commodities with a regional focus on the euro area and Central and Eastern Europe under consideration of the global markets.

Producer of this publication Raiffeisen Bank International AGAm Stadtpark 9, A-1030 Vienna

Creation time of this publication: 30/05/2023 8:36 A.M. (CEST) ;

First Dissemination of this publication: 30/05/2023 8:36 A.M. (CEST)