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Updates from the Treasury Department and the Congressional Budget Office (CBO) suggesting that Treasury could exhaust extraordinary measures in early June probably point to a temporary suspension of the debt ceiling to buy more time for negotiations. Passing a short-term suspension of the debt ceiling is not a slam dunk, but it could pass Congress with limited political blowback. A subsequent suspension might not be politically viable, which will raise the stakes on the negotiations on a longer-term deal.

On Monday, the Treasury Department and the Congressional Budget Office said that Treasury would likely exhaust its extraordinary measures for managing the debt ceiling in early June (X-date). President Joe Biden subsequently invited congressional leaders to the White House for a meeting on May 9. **Based on a compressed timeline (between now and early June) during which each chamber of Congress will be out of session part of the time and President Biden will be on a trip to Asia, it is unlikely that Washington can reach a long-term debt limit agreement before the X-date. A short-term suspension (which we mentioned in an April 4, 2023 note) seems like a probable outcome.**

A short-term suspension of the debt limit (three months?) could be accompanied by some modest concessions and a framework for dealing with the debt ceiling and spending bills. **Such a move should at least temporarily calm the markets. However, this also increases pressure on lawmakers to reach a deal before the suspension expires because passing a second suspension will likely prove to be more difficult.** Pressure will mount from Republican voters on GOP office holders to not just kick the can down the road but to, instead, extract major concessions from Democrats.

As for a longer-term deal, there is **good news** and bad news. The good news is that a united GOP front strengthens House Speaker Kevin McCarthy's hand, which should help negotiations move forward. A weakened Speaker would have trouble reaching a deal and would have made the odds of achieving an agreement worse than they are currently.

As for the **bad news**, both sides are miles apart. The White House and Democrats not only are calling for a clean debt ceiling hike (which could not pass either the Senate or the House), President Biden seems to believe that President Barack Obama's negotiations in 2011 with Speaker John Boehner were a mistake and led to a bad deal. **Mr. Biden seems to be determined not to give in and make the same mistake (in his view) that President Obama made.**

If true, negotiating a deal will be more difficult than in 2011 when Washington went right up to the X-date before agreeing to the Budget Control Act of 2011. On the Republican side, as we have previously noted, Speaker McCarthy is constrained by a narrow majority and conservatives who will be reluctant to vote for a debt limit bill that does not include significant budget cuts.

There is also the Trump factor to contend with. Former President Donald Trump complained about being forced to accept what he viewed as weak debt ceiling increases when he was president. **If Mr. Trump were to publicly denounce an agreement as insufficient, he could crush congressional Republican support for a bill. Given Mr. Trump's affinity for chaos, the Trump factor cannot be dismissed.**

Certainly, a last-minute debt ceiling deal could be reached, as has happened in the past, but it is worth reiterating that the political dynamics in the current situation are different and more complex than in the debt ceiling showdowns of 2011 and 2013.

Even if there is a temporary debt ceiling suspension, the relief for investors is likely to be short-lived.

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