

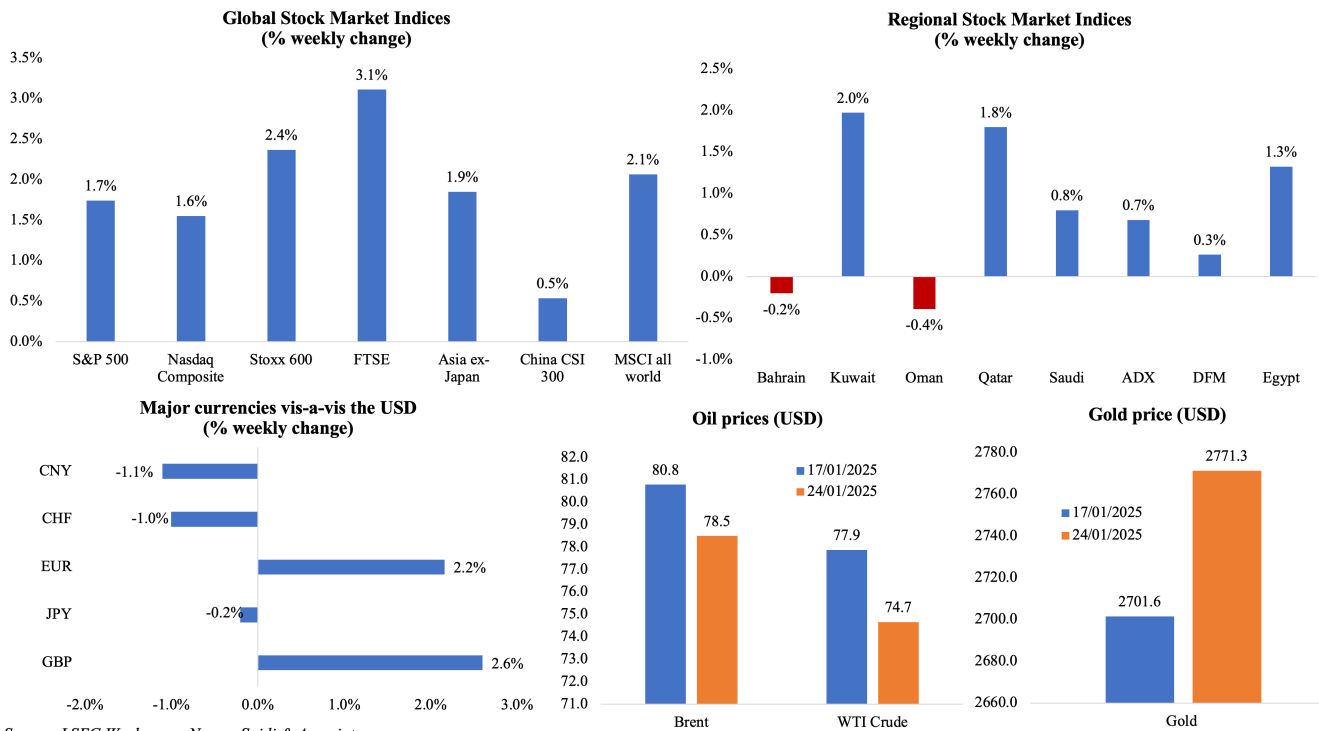
Weekly Economic Commentary – Jan 27, 2025

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Markets

Major equity markets had a good week, with Chinese markets taking relief from Trump's comments on a softer tariff stance. Regional equities performance was mixed, with Qatar gaining on news of new investor-friendly laws while markets were largely cautious about potential tariffs (that could impact major oil producers). The dollar slipped while euro and GBP posted 2% weekly gains in a week when yen moved higher after the rate hike (and stayed volatile), and Trump's softer China stance lifted CNY to its strongest reading in 8 weeks. Oil prices declined last week after 4 weekly gains, and uncertainties related to Trump's policies caused gold to move closer to record highs. Bitcoin touched a new record high last Monday (USD 109k+) on expectations of light regulations under the Trump administration but slipped lower later in the week.

Weekly % changes for the week ending 23-24 Jan from 16 Jan (regional) & 17 Jan (international)



Global Developments

US/Americas:

- **Flash manufacturing PMI in the US moved to expansionary territory to 50.1 in Jan (Dec: 49.4) the highest since June. Services PMI slowed to 52.8 (Dec: 56.8), taking the composite PMI Output index to a 9-month low of 52.4 (Dec: 55.4). Input prices rose to 58.5 (from 56.0), output charges rose to 53.8 (from 52.1) and employment jumped to a 2.5 year-high of 53.7 (mostly in services sector).**
- **Existing home sales grew by 2.2% mom to 4.24mn in Dec: though the reading was the highest since Feb, full year sales was the lowest since 1995 and the median existing home price stood at a record-high of USD 407,500.**
- **Michigan consumer sentiment index was revised down to 71.1 in Jan (prelim: 73.2; Dec: 74.0), with declines in both current conditions (74 from 77.9) and expectations (to 69.3 from 70.2). The 5-year inflation expectation was lowered to 3.2% (from an earlier 3.3% print).**
- **Initial jobless claims increased by 6k to 223k in the**

week ended Jan 17, leading to a decline in the 4-week average to 213.5k (by 0.75k). **Continuing jobless claims increased** by 46k to 1.899mn in the week ended Jan 10, the highest reading since mid-Nov 2021.

Europe:

- **EU's flash manufacturing PMI rose to 46.1 in Jan** (Dec: 45.1), helping the composite PMI cross into an expansionary reading of 50.2 (Dec: 49.6). **Composite PMI in Germany climbed to a 7-month high of 50.1 in Jan** (Dec: 48), turning expansionary thanks to an increase in both manufacturing PMI (to 44.1 from Dec's 42.5) and services PMI (to 52.5 from 51.2). Meanwhile, France's services industry shrank even further (to 48.9 from 49.3 in Dec).
- **Consumer confidence in the euro area moderated to -14.2 in Jan** (Dec: -14.5), with consumers expecting more rate cuts this year. In the broader EU, sentiment was steady (-13.3).
- **Producer price index in Germany grew by 0.8% yoy in Dec** (Nov: 0.1%), with prices inching up for the second month in a row following more than a year of deflation. The increase was largely due to higher prices for non-durable consumer goods (2.6%) and capital goods (1.8%) while energy costs fell (-0.2%).
- **Germany's ZEW economic sentiment weakened to 10.3 in Jan** (Dec: 15.7) whilst recording a slight improvement in the current situation (-90.4 from -93.1). **Economic sentiment index in the eurozone was more optimistic**, with the reading up one point to 18.
- **Average earnings in the UK increased by 5.6% in the 3 months to Nov** (prev: 5.2%) but while taking inflation also into account the increase was 3.2% (the highest since 2007, when excluding pandemic months). In the meantime, **UK unemployment rate inched up to 4.4%** in Nov (Oct: 4.3%) – some signs of a cooling labour market.

- **GfK consumer confidence in the UK slumped to -22 in Jan** (Dec: -17), the lowest reading since Nov 2023.

Asia Pacific:

- **The People's Bank of China left interest rates unchanged** at 3.1% earlier last week; on Friday, the PBoC injected CNY 200bn worth 1-year medium-term lending facility loans to some financial institutions (at an unchanged 2% rate).
- **The Bank of Japan hiked rates by 25 bps to 0.5%, the highest since 2008.** The Bank raised its core inflation projection to stay north of the 2% target for three years citing potential higher import costs (from a weaker yen) and labour shortages among others.
- **Inflation in Japan surged to 3.6% yoy in Dec** (Nov: 2.9%). **Excluding fresh food, prices rose to a 16-month high of 3%** (Nov: 2.7%) but excluding food and energy, prices were unchanged at 2.4%.
- **Japan's exports increased by 2.8% yoy in Dec** (Nov: 3.8%) while imports rebounded (1.8% from -3.8%). For the full year, exports clocked in a record-high JPY 107.9trn (the second year in a row of JPY 100trn+) while trade deficit totalled JPY 5.3trn.
- **Industrial production in Japan fell by 2.2% mom and 2.7% yoy in Nov** (Oct: -2.3% mom and -2.8% yoy)
- **The flash manufacturing PMI in Japan unexpectedly declined to 48.8 in Jan** (Dec: 49.6), as new orders declined (the most in 6 months), output fell (the sharpest drop since Apr) while employment rose. Services PMI inched up to 52.7 (Dec: 50.9), with new orders rising for the 7th consecutive month.
- **India's manufacturing PMI moved up to 58 in Jan** (Dec: 56.4), thanks to a rebound in output and new orders. **Services PMI slowed to 56.8** (Dec: 59.3), the slowest gain since Nov 2022, despite an increase in new orders (boosted by foreign sales); meanwhile input prices rose

to the highest in 1.5 years.

- **GDP in South Korea expanded by 0.1% qoq and 1.2% yoy in Q4**, according to preliminary estimates: this was the slowest yoy rise since Q2 2023. Private consumption ticked up by 0.2% alongside a 0.5% uptick in government consumption, and exports gained by 0.3%.
- **Korea's producer price index rose by 0.3% mom and 1.7% yoy in Dec** (0.1% mom & 1.4% yoy); yoy costs were driven up by manufacturing products (1.2% vs Nov's 0.5%).
- **Inflation in Singapore remained unchanged at 1.6% in Dec** though prices of food and housing edged up to 2.5% each while healthcare was up by 2.7%. **Core inflation fell sharply to 1.8%, the lowest level in more than 3 years**, and from 1.9% in Nov.
- **The Monetary Authority of Singapore eased monetary policy for the first time in 5 years**, with the slope of the SGD NEER band lowered "slightly"; the width of the policy band and the level were left unchanged. Core inflation is projected to average 1.0–2.0% in 2025, lower than the 1.5–2.5% estimate in Oct 2024.
- **Singapore's industrial production fell by 0.7% mom in Dec** (Nov: 1.7%). In yoy terms, IP grew by 10.6% (Nov: 10.8%), thanks to transport engineering output (16%) and electronics output (14.3%) amid the volatile biomedical manufacturing sector up by 9.4%.

Bottom line: Fed meets this week and is widely expected to leave rates unchanged. President Trump's comments on China and potential tariffs were softer-than-expected following a phone call with President Xi. But, events later in the week offer a glimpse of increased uncertainty in the near-term:- a tariff hike was imposed on Colombia after a deportation flight was denied permission to land and Colombia in turn pushed for retaliatory tariffs – these have since been rolled back. Of greater worry are statements about Greenland and pushing for Jordan and Egypt to accept Palestinian refugees (a major deviation from the US stance of a 2-state solution).

Regional Developments

- **Bahrain's budget deficit has declined by 83% when comparing 2024 and 2021**, as per Bahrain Institute for Political Development. If interest on the public debt (exceeding BHD 750mn) were excluded, the national budget would show budget surpluses.
- **Investcorp** (founded in Bahrain) **could consider an IPO in the next 3-5 years**, with either London or New York as the listing venue, revealed the vice chairman on the sidelines of the World Economic Forum.
- **Egypt's President disclosed that the country requires USD 20bn annually to secure petroleum products** while also stating that the state is working to increase dollar availability.
- **Egypt's Suez Canal expansion** (a new 10km extension) **is expected to be operational in Q1 of this year**, according to the chairman of the canal authority.
- **Inflation in Kuwait rose to 2.5% yoy in Dec** (Nov: 2.36%), thanks to increased costs of food & beverages (5%), clothing (5.13%) and health (4.0%) while transportation (-1.5%) declined.
- **Kuwait's trade surplus with Japan narrowed by 30.3% yoy to JPY 69.7bn in Dec**, dropping for the 4th month in a row due to slower exports. This brought the full year surplus to JPY 842bn, down by 16.5% yoy.
- **Kuwait Oil Company announced discovery of new oil and gas reserves**: a 74 sq km area at the Al-Jlaiaa offshore field includes 800mn medium-density barrels of oil and 600bn standard cubic feet of associated gas.
- **Kuwait's new decree allows ministries to set fees and costs for public services** (to be approved by the cabinet), compared to the previous law that required an approval from the National Assembly.
- **US Treasury holdings by Kuwait surged by 18.9% yoy to USD 51.2bn in Nov 2024**, implying a 10.46% uptick from end-2023. Saudi Arabia was among the top 20 largest

countries holding US Treasury bonds, with approximately USD 135.6bn.

- **Inflation in Lebanon dropped to 45.24% in 2024**, substantially lower than the 221.3% clocked in the year before. This was partly due to the stabilisation of the LBP and extensive dollarisation of payments and cash-based economy.
- The **IMF's Article IV report on Oman projects GDP growth to rebound to 2.6% in 2025** driven by non-oil sector growth (3.4%) and the gradual phaseout of oil production cuts. Inflation is estimated to converge to 2% over the medium term (after a low 0.8% in 2024). The IMF also commended the country's prudent fiscal policies that also resulted in government debt easing to 35% of GDP in 2024. More: <https://www.imf.org/en/Publications/CR/Issues/2025/01/22/Oman-2024-Article-IV-Consultation-Press-Release-and-Staff-Report-561155>
- **UK invested USD 5bn in Oman in the 12 months to Oct**, with most assets concentrated in the oil and gas sector, according to official data. UK's investment accounted for just over half the cumulative FDI in Oman at end-Sep.
- **Qatar plans to issue new bankruptcy, PPP, and commercial registration laws** in a bid to improve investor confidence, and as the country aims to attract USD 100bn in FDI by 2030. , The new minister of commerce and economy disclosed that around 27 laws and regulations were being reviewed across 17 ministries. UNCTAD data show that Qatar's FDI inflows were negative USD 474mn in 2023, down from USD 76.1mn in 2022.
- The Ministry of Finance in **Qatar revealed a budget surplus of QAR 0.9bn in Q4 2024** as revenues fell by 12.5% yoy to QAR 48.7bn and spending fell by 12%; the surplus is to be used to reduce public debt.

- **Saudi Arabia's Crown Prince plans an expanded trade & investment package worth USD 600bn with the US over the next 4 years.** The Saudi economy minister disclosed that this includes existing investments as well as procurement and from both public and private sectors. Meanwhile President Trump asked for the "investment" to be rounded up to USD 1trn, also asking for the oil price to be brought down.
- **Saudi Arabia set a target of USD 100 as a return on investment for every dollar allocation** in the budget, disclosed the finance minister at the World Economic Forum (WEF). Citing Saudi's success in doubling the returns to USD 200, the minister called for countries to invest in raising efficiency of government spending.
- **Saudi exports fell by 4.7% yoy to SAR 90.6bn in Nov** – oil exports, which accounted for 70.3% of total exports, posted a decline (to SAR 63.5bn) while re-exports jumped (+82.9% to SAR 9bn). With merchandise imports up by 13.9% yoy, trade surplus narrowed sharply lower to SAR 16.8bn (Nov 2023: SAR 20.3bn). **China retains the title as top trading partner:** accounting for 15% of exports and 27% of imports.
- **Saudi Arabia's** minister of commerce revealed at WEF that **trade in services** in the country **grew by 7% yoy to SAR 540bn in 2023** while also highlighting its digital infrastructure investments (spending of USD 25bn in the past 5 years and an allocation of USD 20bn for future projects in the next 5 years).
- **PIF sold USD 4bn of bonds last week** was 4-times oversubscribed and followed the sovereign bond sale that raised USD 12bn earlier this month.
- **Aramco's CEO expects oil demand to increase by an additional 1.3mn barrels per day** in 2025 compared to an average 104.6mn bpd in 2024.
- **Saudi IPO pipeline remains strong.** Low-cost carrier **Flynas plans to list 30% of its shares** and is in the final stage of awaiting approval from the CMA. Online

brokerage and trading platform Derayah Financial plans to offer a 20% stake, selling more than 49.9mn shares.

- The minister of economy and planning stated that **Saudi is still assessing different aspects** before deciding on whether to join the BRICS bloc.
- **Saudi Arabia and Italy signed cooperation and industrial agreements worth USD 10bn**, with infrastructure, energy, defence, sport, entertainment and tourism key sectors for greater cooperation.

UAE Focus



- **Gross banks' assets in the UAE inched up** by 1.3% mom to AED 4.46trn at end-Oct alongside money supply up by 0.9% to AED 2.27trn. Gross credit rose by 0.6% to AED 2.17trn while deposits increased by 1.5% to AED 2.8trn.
- **UAE released a whitepaper highlighting the nation's FDI success** thanks to its investment-friendly environment, dedicated trading zones, strong credit rating, stable ties and trade agreements. FDI surged by 35% yoy to USD 30.7bn in 2023 (or 6% of GDP), placing the country 11th globally for FDI inflows by value, as well as 2nd globally for total number of greenfield projects.
- **UAE's economy minister revealed that income taxes are "not on the table"** during an interview with Bloomberg News.
- The **Abu Dhabi Government Digital Strategy 2025-2027 will see the allocation of AED 13bn** towards making Abu Dhabi a global leader in AI-driven government. This includes plans to achieve 100% adoption of sovereign cloud computing for government operations and digitising and automating 100% of processes among others.
- **Etihad Rail unveiled plans to link Abu Dhabi and Dubai in 30 minutes**: train speeds are estimated to touch up to 350 km per hour and the service will "pass through key strategic destinations and tourist attractions".
- **DP World's CEO (at WEF) revealed plans to invest more**

than USD 1bn in developing port infrastructure in Peru. Separately, the company's deputy chief executive revealed that Red sea freight prices could drop "at least 20-25%" over the next 2-3 months if the ceasefire continues to hold. Separately, ADNOC's logistics division stated that it would continue to divert cargoes around Africa as the risk stays high.

- **Dubai expanded freehold areas along Sheikh Zayed Road:** private property owners would be allowed to convert the ownership to freehold, at a fee.
- **Businesses supplying precious metals in the UAE need to no longer charge or collect VAT,** according to updated VAT regulations. The update introduced a reverse charge mechanism for registered traders i.e. where the responsibility for calculating and paying VAT is shifted from the supplier to the buyer.

Media Review:

Etihad to sound out investors as Gulf carriers race towards IPOs

<https://www.reuters.com/markets/deals/etihad-sound-out-investors-gulf-carriers-race-towards-ipos-2025-01-24/>

UNCTAD Global Investment Trends Monitor, Jan 2025

<https://unctad.org/publication/global-investment-trends-monitor-no-48>

Trump's Trade Scam

<https://www.project-syndicate.org/commentary/trump-external-revenue-service-is-a-scam-by-stephen-s-roach-2025-01>

How small Chinese AI start-up DeepSeek shocked Silicon Valley

<https://www.ft.com/content/747a7b11-dcba-4aa5-8d25-403f56216d7e>

<https://www.economist.com/leaders/2025/01/23/chinese-ai-is-catching-up-posing-a-dilemma-for-donald-trump>

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