

Trade Deals & a Truce: Steering through Global Uncertainty – Weekly Economic Commentary, 12 May 2025

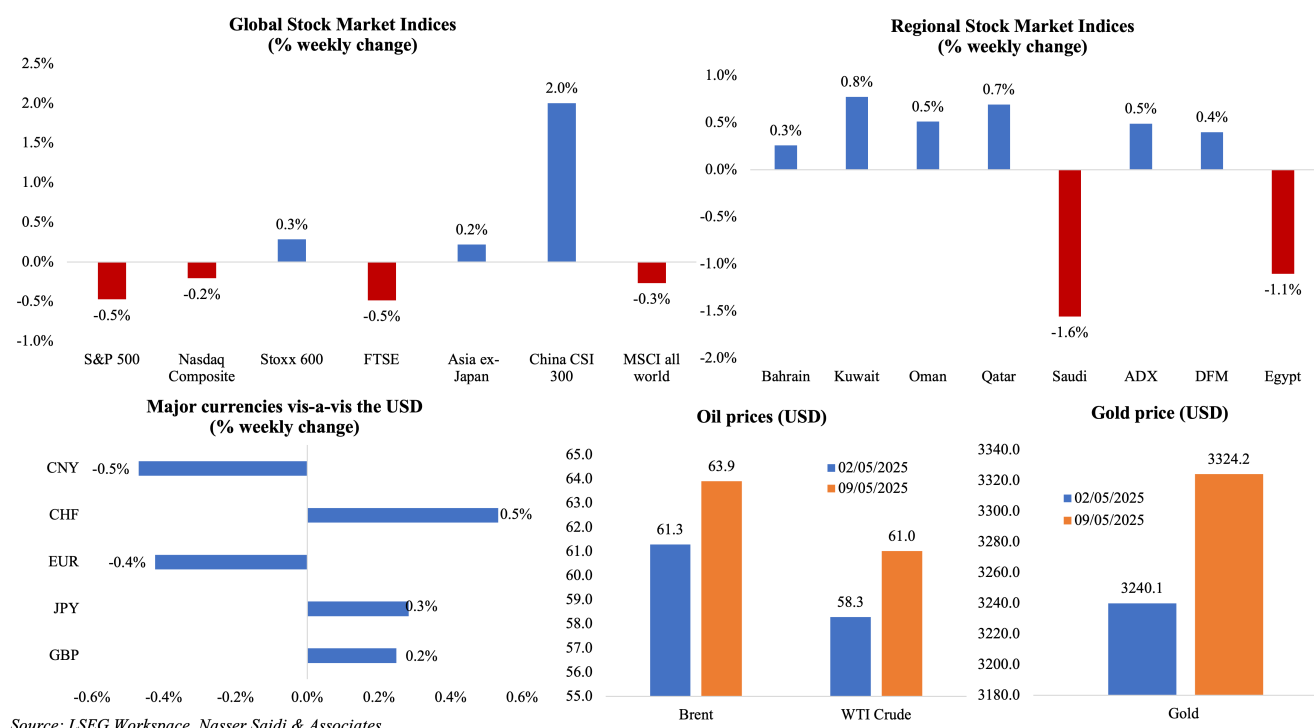
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Markets

This Monday morning, it was announced that US and China had agreed to drastically lower tariffs for 90 days: US will lower its tariffs to 30% (from 145%) while China's retaliatory tariffs will be reduced to 10% (from 125%). A major de-escalation in the ongoing trade war, this agreement was much significant than was expected by the markets leading to a global rally today (India's Sensex was up by 3.74%, Hang Seng Index ticked up almost 3% while in Europe, the DAX and FTSE 100 were up by around 0.6%). The renminbi strengthened as did the dollar (on track for the biggest daily gain since Trump's election) while the safe haven currencies weakened, oil prices ticked up while gold price fell by around 3%.

Last week, major equities markets fell excluding the Chinese equity market (that increased by 2.0% from a week before on positive news about trade negotiations with the US). Regional markets gained (thanks to earnings results) with UAE's ADX touching a near 3-month high on May 6th. The dollar posted a weekly gain on expectations of US-China trade negotiations, after the US-UK deal struck a positive note. Oil prices posted the first weekly gain since mid-Apr with the Brent and WTI crude ending at USD 63.9 and USD 61.0. Gold price also increased, given the India and Pakistan military attacks and tariffs uncertainty: it rose over one percent on Friday alone and up 3% on a weekly basis.

Weekly % changes for the week ending 8-9 May from May 1 (regional) & May 2 (international)



Global Developments

US/Americas:

- **US Fed left policy rates unchanged** at the 4.25%-4.50% range, as widely expected, citing rising “uncertainty about the economic outlook” and risk of higher unemployment and higher inflation.
- **A trade deal was reached between the US and the UK:** rather than a “historic trade deal”, this is more a semblance of an agreement, with lower tariffs on some of UK exports such as cars, aluminum and steel while the blanket 10% tariff still holds. The 25% import taxes on cars and car parts into the US (above an existing 2.5%) has been lowered to 10% for a maximum of 100k cars from the UK; the 25% tariff on steel and aluminum has been removed.
- **US goods and services trade deficit widened to a new record USD 140.5bn in Mar** (Feb: USD 123.2bn) as **imports surged to an all-time high of USD 419bn (+4.4%)**, in anticipation of tariffs, while exports inched up by just 0.2% (to a record USD 278.5bn). The goods deficit

increased to USD 163.5bn while services surplus edged lower by USD 0.8bn to USD 23bn.

- **S&P Global composite PMI stood at 50.6 in Apr, the weakest reading since Sep 2023**, and down from the preliminary estimate of 51.2 and Mar's 53.5. Overall business confidence dropped to a 2.5 year low and **services PMI** edged lower to 50.8 (the **slowest in 17 months**).
- **ISM services PMI ticked up to 51.6 in Apr** (Mar: 50.8), thanks to a jump in business activity (53.7 from 55.9), new orders (52.3 from 50.4) and an increase in employment (49 from 46.2) while prices paid accelerated (65.1 from 60.9).
- **Initial jobless claims in the US declined by 13k to 228k in the week ended May 2** and the 4-week average inched up by 1k to 227k. **Continuing jobless claims fell** by 29k to 1.879mn in the week ended Apr 25. Separately, **non-farm productivity fell in Q1** (-0.8% annualised rate from an upwardly revised 1.7% in Q4), **for the first time since Q2 2022**, alongside a surge in unit labour costs (5.7% from 2% in Q4).

Europe:

- **Producer price index in the eurozone fell by 1.6% mom in Mar** (Feb: 0.2%), the largest decline since May 2023. In yoy terms, PPI grew by 1.9%, easing from Feb's 3% gain, driven by slower growth in energy prices (3.8% from 7.6%) and intermediate goods (0.8% from 0.9%). Capital and non-durable consumer goods gained (1.8% and 1.7% respectively).
- **Retail sales in the eurozone dropped by 0.1% mom in Mar** (Feb: 0.2%), despite gains in real wages and in line with rising uncertainty. Sales were up by 1.5% yoy (from 1.9%).
- **Sentix investor confidence in the eurozone ticked up in May**, gaining 10.6 points to -8.1 – the current situation

rose to -19.3 (from -23.3), the highest since Aug 2024, alongside the expectations index that turned positive (3.8 from -15.8).

- **Exports from Germany grew by 1.1% mom in Mar to an 11-month high** of EUR 133.2bn while imports fell by 1.4%, causing the trade surplus to widen to EUR 21.1bn (Feb: EUR 18.0bn). Exports to the EU and US rose by 3.1% mom and 2.4% respectively while that to China was up by 10.2%.
- **Industrial production in Germany grew by 3% mom in Mar** (Feb: -1.3%), posting the strongest gain since Oct 2021, as the automotive and pharmaceuticals sector gained (+8.1% and 19.6% respectively). IP fell by 0.2% yoy (Feb: -4.1%) – the slowest dip since Nov 2022.
- **German factory orders rebounded in Mar**, rising 3.6% mom and 3.8% yoy (Feb: flat mom and -0.2% yoy). Orders increased across the board – consumer, capital and intermediate goods were up by 8.7%, 3.7% and 2.5% respectively. Foreign orders were up by 4.7%, versus domestic orders' 2.0% gain.
- **Services PMI dips across Europe in Apr** (compared to a month ago): **German services PMI stood at 49.0 in Apr** (from the preliminary estimate of 48.8) but stayed below the neutral-50 mark (and 50.9 in Mar), on subdued demand and rising uncertainty. **Services PMI in the eurozone clocked in at 50.1** (up from the preliminary estimate of 49.7 but slightly lower than Mar's 51), as new orders fell, and input costs rose. **In the UK, services PMI was 49.0 in Apr** (from the preliminary 48.9 and lower than Mar's 52.5), after 17 months of expansionary readings.
- **The Bank of England lowered interest rates by 25bps to 4.25%** at the latest meeting, the fourth cut in the past year, with the governor signalling that the path ahead "gradually and carefully, is downwards".
- **The UK and India signed a free trade deal after three years of negotiations:** the UK government estimates that it will increase bilateral trade by GBP 25.5bn a year by

2040 (in 2024, bilateral trade stood at GBP 42bn), add GBP 4.8bn a year to the UK economy over time and boost wages by GBP 2.2bn every year in the long run. The UK deal with India is its third biggest after agreements with Australia and Japan.

Asia Pacific:

- **China's consumer prices declined for the third month in a row**, down by 0.1% yoy in Apr (Mar: -0.1%), with non-food prices flat and a sharp decline in transport cost (-3.9% vs -2.6%). "International imported factors" were reported as the reason for the consistent decline. Core inflation held steady at 0.5%. **Producer price index fell by 2.7% in Apr** (Mar: -2.5%), remaining in negative readings for the 31st consecutive month, with declines across mining (-9.4%) and raw materials (-3.6%) among others.
- **Exports from China grew by 8.1% yoy in Apr** (Mar: 12.4%) and imports fell by 0.2% (Mar: -4.3%) taking the trade surplus to USD 96.18bn. China's direct exports to the US plunged by 21% yoy to USD 33bn, alongside strong increase in exports to Southeast Asia (21%) and Europe (8%).
- **China's Caixin services PMI slipped to 50.7 in Apr** (Mar: 51.2): though remaining expansionary for the 7th straight month, new orders eased to a 7-month low and employment dipped while sentiment weakened to the third-lowest level since the series began in early 2012.
- **The Bank of Japan meeting minutes showed a divided monetary policy board**, some advocating for cautious moves in raising rates given downside risks from the US tariff hikes while others argued for decisive action.
- **Overall household spending in Japan rebounded in Mar**, up 2.1% yoy from Feb's 0.5% drop. Due to inflation, the average total consumption spending in the fiscal year that ended in March marked the highest level in 22

years.

- **Japan's labour cash earnings grew at a slower pace of 2.1% yoy in Mar** (Feb: 2.7%) as overtime pay fell (for the first time since Sep) and bonus payments grew at a weaker pace while base salary held steady (1.3%). **Real wages fell 2.1%**, posting a drop for the third consecutive month (Feb: -1.5% & Jan: -2.8%).
- **Japan's leading economic index slipped to 107.7 in Mar** (Feb: 108.2) and the coincident index decreased to 116 (from 117.3), both clocking in the lowest reading since Nov on the impact from US tariff hikes and rising cost pressures.
- **Services PMI in Japan increased to 52.4 in Apr** (preliminary: 52.2 and Mar: 50), supported new orders growing at the fastest pace in 12 months and rising employment though input costs rose the most since Feb 2023.
- **India's composite PMI slipped to 59.7 in Apr**, lower than the preliminary reading of 60 but higher than Mar's 59.5. This was the fastest reading since Aug 2024 as both manufacturing and services PMI expanded, and with foreign sales increasing at the fastest pace in 9 months.
- **Retail sales in Singapore rebounded in Mar**, up by 1.1% from Feb's 3.5% drop, with rebounds across many categories including supermarkets (3.4% From Feb's -13.3%) and recreational goods (3.2% vs -8.2%) among others. Sales however reported a monthly decline (-2.8% mom, reversing Mar's 3.0% gain).

Bottom line: The high-stakes trade negotiations between China and the US over the weekend, post US-UK trade deal, resulted in some relief, as the countries agreed to slash tariffs for a 90-day period. The India-Pakistan military operations, that had heightened during the week, were reined in with a surprise ceasefire announcement – this has boosted investor sentiment and fuelled a stock market rally in both India and Pakistan

(the latter also supported by the IMF's approval of USD 2.4bn in loans). This week US President Trump will travel to Qatar, Saudi Arabia and the UAE. Some easing of export restrictions on microchips to the region was signalled by the President last week; one can also expect promise of investments in the US in addition to announcements related to defence and aerospace sectors (including airline orders). Trade tariffs are likely to be discussed (including in UAE, which is facing hiked tariffs on steel and aluminum).

Regional Developments

- **The Parliament in Bahrain approved the tax on MNEs:** the Domestic Minimum Top-up Tax for MNEs Law will affect 348 companies in Bahrain and will raise tax revenues (approximately BHD 130mn).
- **Bahrain's current account surplus narrowed by 16% to BHD 858mn** (equivalent to almost 5% of nominal GDP) on lower oil revenues and higher service of external debts, according to a ministry of finance report.
- **Mumtalakat, Bahrain's sovereign wealth fund, reported its largest profit in 2024** (BHD 363mn) from a net loss of BHD 497mn in 2023. The fund has roughly USD 18bn of assets under management, with stakes in 60 companies across 13 countries.
- **Annual urban inflation in Egypt increased to 13.9% in Apr** (Mar: 13.6%), with transport reporting the largest uptick (37.4%) followed by housing & utilities (13.9%) and recreation & culture (20.8%) while food & beverage prices eased (6.0% from 6.6%).
- **Egypt's decline in PMI** (to 48.5 in Apr from March's 49.2) can be traced back to declines in output and new orders on **persistent weakness in domestic & international demand**. Interestingly, though input costs rose (after Mar's decline to a 58-month low, given the 15% surge in fuel prices), selling prices were stable after 56 months of inflation.

- **The IMF team is in Egypt, conducting the fifth review of the country's loan program.** Though the fourth review was approved by the IMF Board in early-Mar and disbursement of USD 1.2bn unlocked, the staff report has not yet been issued.
- **Balance of payments deficit in Egypt reached USD 502.6mn in H1** of the fiscal year 2024-25 (H1 2023-24: USD 409.6mn) while current account deficit during the period climbed to USD 11.1bn (vs USD 9.6bn a year before). Remittances into Egypt grew by 80.7% to USD 17.1bn, FDI posted net inflow of USD 6bn, while **portfolio investments logged a net outflow of USD 3.7bn**. Suez Canal revenues plunged by 62.3% yoy to USD 1.8bn in Jul-Dec 2024.
- **Egypt's net international reserves reached USD 48.143bn at end-Apr** from USD 47.757bn at end-Mar. Separately, the central bank reported that **net foreign assets surged by 47% mom to USD 15bn in Mar** that could be due to FDI inflow as well as the USD 1.2bn IMF tranche.
- **Egypt's government has implemented nearly 500 reform measures between May 2022 and Dec 2024**, according to a recent report by the Information and Decision Support Centre. This included around 189 measures Improving the business environment and supporting investment along with 134 measures specifically for the industrial sector. About 64.2% of reforms were implemented in 2024.
- **About 3.5mn Egyptians are currently employed in the industrial sector**, or 7.5% of the national workforce, according to the Deputy PM. The government **aims to double this to 8mn by 2030** (or 20% share). This would be accompanied by plans to increase industrial output to USD 170bn by 2030 (from USD 76bn in 2024).
- **Egypt joined the Industrial Transition Accelerator** – the third country to join after the UAE and Bahrain – **to promote clean industrial projects in MENA**. The ITA's Project Support Programs, launched in 2024, have promoted 45+ projects so far (investments of USD

100bn+).

- The **Suez Canal Economic Zone** signed a **50-year concession deal** with UAE's **Abu Dhabi Ports Group** to set up a **logistics and industrial zone**, with the latter committing USD 120mn for initial development and feasibility studies.
- **Kuwait's nominal GDP fell by 3% yoy to KWD 49.1bn** (USD 162bn) in 2024, dragged down by oil sector (-11% yoy to KWD 21.3bn or nearly 43% of overall GDP). The non-oil sector ticked up by 3.5% yoy to KWD 27.8bn
- **Kuwait PMI jumped to 54.2 in Apr** (Mar: 52.3), supported by new orders (thanks to competitive pricing and marketing) and output.
- Though **Lebanon posted an uptick in headline PMI in Apr** (49 from March's 47.6), **business confidence turned pessimistic** for the first time since Nov 2024. Export demand declined while sub-50 readings of output & new orders showed improvement. Respondents cited high customs duties and shipping costs driving up input costs (especially imported goods).
- **Oman's** finance minister revealed on Oman Television that the country **recorded a fiscal surplus of USD 1.4bn in 2024**, as oil price averaged USD 82 per barrel (significantly higher than the USD 60 used for budget estimates). This surplus would help reduce debt, which stands at USD 40bn, according to the minister.
- The **Oman Investment Authority signed an agreement with Algeria's finance ministry to establish an investment fund** worth USD 298.79mn. The fund is expected to focus on mining, food security and pharmaceutical industries.
- **PMI in Qatar edged down to 50.7 in Apr** (Mar: 52): though output rose for the first time this year, new business dropped, and employment growth was the slowest in 8 months. The report also found that construction activity remained weak despite signs of stabilization.
- Bloomberg reported that **Qatar Airways was close to finalizing a deal to buy around 100 widebody jets** from

Boeing – likely to be announced during Trump's visit to the country.

- **Qatar's plan to fund salaries of Syria's public sector** – by providing USD 29mn monthly for three months, extendable –has been approved by the US.
- **FDI in the Middle East and Africa region, measured by number of projects, declined to 2,687 in 2024** from a record-high 2,699 in 2023, according to fDi Intelligence: this was roughly 15.8% of global projects. **Capital investment however plunged by 40.7%** to USD 158.3bn, while the top capital investment recipient was the renewables sector. UAE and Saudi clocked in the largest number of announced FDI projects in 2024, but **Egypt was the most attractive in terms of capital investment** (USD 54.5bn across 139 projects). **Renewable sector was the region's top sector in 2024 by value**, while the real estate sector was back in the limelight – with a capital investment of USD 27.4bn (+43% yoy) across 110 projects in the MEA region.
- **Saudi Arabia and UAE led the 2024 Government Electronic and Mobile Services Maturity Index (GEMS)**, with scores of 96% and 95% respectively, according to ESCWA. The report noted that the digital divide is evident in the region, with the gap having widened to 95% in 2024 (from 91% in 2023).
<https://www.unescwa.org/publications/government-electronic-mobile-services-gems-maturity-index-2024>
- **IP0 proceeds in the MENA region jumped by 106% yoy in Q1 2025**, according to EY. MENA raised USD 2.1bn from 14 IPOs (+4% yoy) during the month: five IPOs were on Tadawul and seven on Nomu supported by one each in Oman and UAE. The report also mentioned that 17 firms received the approval from Saudi CMA for IPOs, while in the UAE three have disclosed plans to list.

Saudi Arabia Focus

- **Saudi Arabia and the US are planning to sign a memorandum for cooperation in the fields of mining and mineral resources** during President Trump's visit this week. A potential **landmark civil nuclear deal** is also being reported, with US companies standing to benefit from contracts to develop Saudi's nuclear power plants.
- **Saudi Arabia's PMI inched lower to 55.6 in Apr** (Mar: 58.1), but **remaining the highest among Middle East nations**, as new orders slowed (58.6 from 63.2). Output growth was strong, thanks to rising sales, new project approvals and strong tourist numbers, as per the report. The pace of hiring growth accelerated the most in 10.5 years (matching the level in Oct '23) but was also accompanied by a record-high staff cost inflation.
- **Saudi fiscal deficit widened to SAR 58.7bn in Q1 2025** (Q4 2024: SAR 57.7bn). **Overall revenues fell** by 10.2% yoy to SAR 263.6bn in Q1, with oil revenues fell by 17.7% (to SAR 149.8bn) given the subdued oil prices and production cuts. Oil revenues accounted for 56.8% of total income in Q1 and non-oil revenues grew by 2.1%, with taxes accounting for 77.6% of non-oil revenues. Overall **expenditures rose** by 5.4% yoy to SAR 322.3bn in Q1. Capex fell by 19.5% to SAR 27.8bn. Compensation of employees, which accounted for 45.3% of total spending, gained the least – up by 6.2% to SAR 146.1bn.
- **Saudi Aramco reported a 4.6% drop in net income to USD 26bn in Q1** on higher operating costs. Aramco's base dividends grew by 4.2% yoy to SAR 79bn (USD 21bn), as expected, but **paid only SAR 800mn in performance-related dividends versus SAR 40bn in Q1 2024**. The fall in oil prices, and potential for further decline as OPEC+ phases out voluntary cuts, will add pressure on its capex plans (between USD 52-58bn this year): one option is to tap the debt market.
- **Industrial production in Saudi Arabia increased by 2%**

yoy in Mar, supported by gains in manufacturing (1.1% mom and 5.1% yoy). Manufacture of chemicals & chemical products and the manufacture of food products surged by 14.3% and 6.9% respectively. Oil-related industrial activity ticked up by 0.1% mom and 0.5% yoy while non-oil activities were up by 3.3% mom and 5.6% yoy.

- **Patent applications filed with the Saudi Intellectual Property Authority** grew by 13.33% yoy to approximately 8,029 in 2024. More than half the applications were filed from outside Saudi (+15% yoy to 4921) and filed design applications also grew by 8.75%.
- Renewable energy firm **ACWA Power** posted a **44% yoy increase in net profits** to SAR 427mn (USD 114mn) in Q1, with revenues surging 60% to SAR 1.97bn.

UAE Focus



- **UAE PMI held steady at 54 in Apr**: output growth eased to a 7-month low, but new orders rose (to 56.9 from 56.3, on strong international demand) and employment sub-index increased (to 51.4, the highest in 11 months). Dubai PMI fell to 52.9 (from 53.2) with new business growth posting the slowest pace (since Oct).
- **UAE's gross bank assets grew by 1.6% mom and 10.5% yoy to AED 4.64trn in Feb 2025. Central Bank total assets expanded by 3.3% mom to a new record-high AED 939.0bn.**
- Overall **UAE banks' deposits grew by 10.2% yoy in Feb 2025**, and 1.0% year-to-date thanks to a 9.4% yoy surge in resident deposits (to AED 2.626trn). **Gross credit growth lagged**, but up by 9.5% yoy in Feb and 1.1% ytd. This was due to growth in domestic credit (0.1% mom and 5.3% yoy to AED 1.85trn) and foreign credit (5.1% mom and 38.2% yoy to AED 355.0bn).
- UAE announced a **strategy to more than double the assets of Islamic banks by 2031** (to AED 2.56trn from AED 986bn in 2024) and also increase the value of listed Islamic

sukuk to more than AED 660bn.

- **UAE minister of state for foreign affairs** disclosed that the country's **investments in Belarus crossed USD 4bn**: UAE is among the top three investors in Belarus, with the funds covering defence, technology, hospitality and urban development.
- **Dubai attracted 971 projects in the in cultural and creative industries sector in 2024**, the leading destination among 233 cities, according to fDi Markets. The sector attracted total FDI capital inflows amounting to AED 18.86bn and creating 23,517 new jobs last year.
- **UAE state investment fund Mubadala** disclosed a **9.1% yoy jump in assets under management to AED 1.2trn** (USD 326.74bn) and a 33.7% surge in deployed capital (to AED 119bn) last year. The fund's **portfolio allocation shows 40% investment in private equity, 23% in public markets, and 17% in infrastructure and real estate**.
- The UAE telecom operator **du reported an increase in mobile subscribers in Q1** (+6% yoy to 9.1mn, with 475k new additions) and a 14% jump in fixed customers to 701k (+19k new customers). This can be read as a proxy to the growing population in the country.
- **DP World is testing a hydrogen powered crane to reduce emissions**: the firm operates 1500 cranes in over 60 ports. The test is currently being carried out on the company's cranes at the Vancouver Port (though accessibility to green hydrogen is a major limiting factor).
- **Emirates airlines revealed a record profit in 2024** (up 18% yoy to USD 6.2bn) and a record revenue (USD 39.6bn) after having transported 53.7mn passengers (+3% yoy) and increased seat capacity (+4%).
- **Walt Disney announced plans to develop a new Disney theme park in Abu Dhabi** in cooperation with a regional developer: though no opening date was announced for the attraction, this would be the first Disney park since the one in Shanghai was opened in 2016. This could be a

major draw for tourists from and around the region.

Media Review:

How Trump weaponises uncertainty

<https://www.ft.com/content/f22c96ac-ed0e-4cda-b531-20f1168c7554>

Saudi Arabia sits on fence over BRICS with eye on vital ties with US

<https://www.reuters.com/world/middle-east/saudi-arabia-sits-fence-over-brics-with-eye-vital-ties-with-us-2025-05-08/>

Global turmoil has at least one beneficiary: currency traders

<https://www.economist.com/finance-and-economics/2025/05/08/global-turmoil-has-at-least-one-beneficiary-currency-traders>

Manufacturing-Led Export Strategies Still Make Sense

<https://www.project-syndicate.org/commentary/manufacturing-led-development-model-still-promising-by-amrit-amirapu-and-arvind-subramanian-2025-05>

Oman steps up efforts to curb rising unemployment

<https://www.agbi.com/analysis/employment/2025/05/oman-steps-up-efforts-to-curb-rising-unemployment/>

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