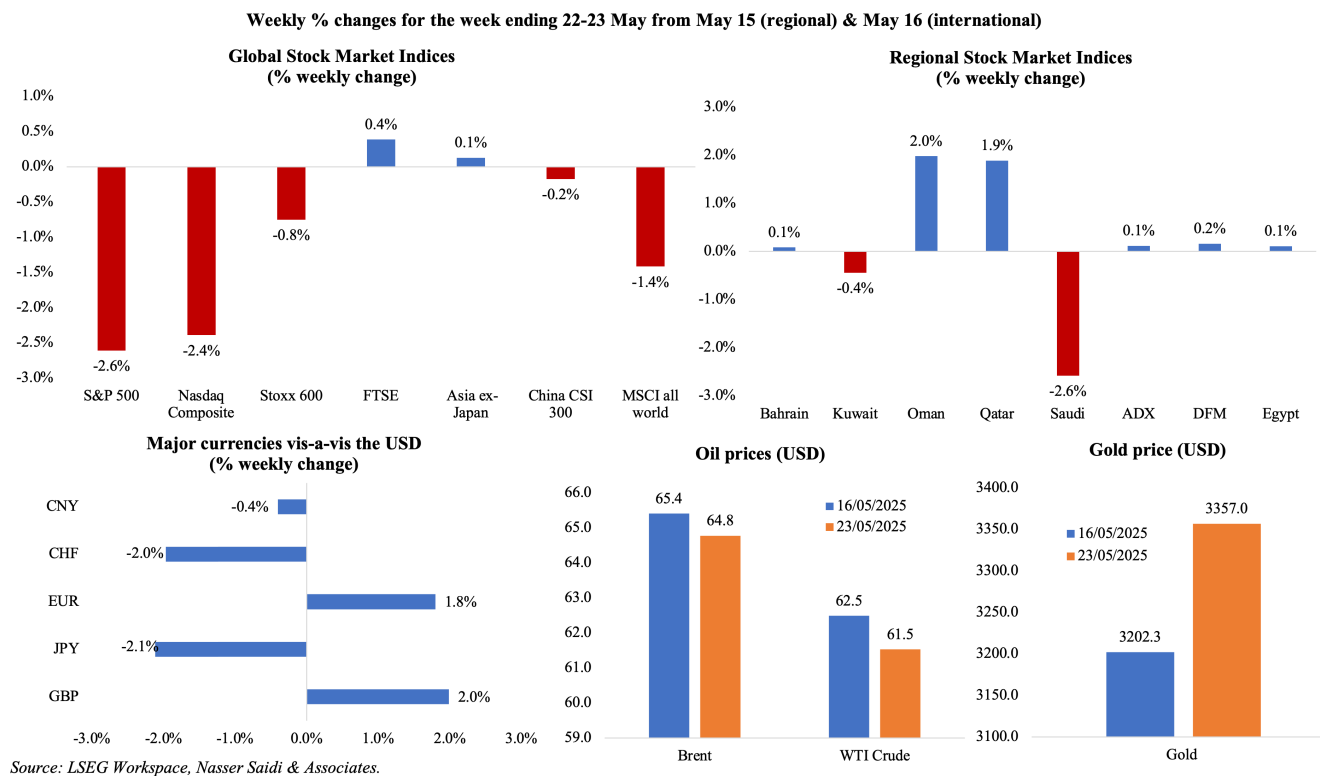


Tariff Turbulence Reignites Trade War Fears, Rattling Bond Markets and Clouding Inflation Outlook – Weekly Economic Commentary, 26 May 2025

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Markets

New trade and tariff threats from US President Trump, along with a US credit rating downgrade earlier in the week, resulted in weekly dips across equities markets globally and Vix jumped to a more than 2-week high. Calls for 50% tariffs on EU imports and a 25% tariff on imported Apple iPhones saw all major US indices end in the red last week, along with Stoxx 600. Regional markets were mixed with Saudi posting the largest drop, while Dubai touched an all-time high last week on strong Q1 earnings (it ended the week slightly up, +0.2% from a week ago). The dollar weakened over debt fears, the euro gained versus the greenback, and safe haven currencies (JPY, CHF) benefitted. While oil prices were down by more than 2% last week amid concerns of weaker demand, gold price ticked up to a 6-week high on safe haven demand.



Global Developments

US/Americas:

- **US President Trump threatened a 50% tariff on the EU** last Friday, stating that he was “not looking for a deal” and warned of a 25% tariff on Apple’s imported iPhones and on Samsung. On Sunday, it was decided that the tariffs on EU will be delayed till July 9th.
- **The US tax and spending cuts package was passed in the House last week:** initial estimates from the Congressional Budget Office suggest that tax measures (most of which are extension of tax cuts from Trump’s first term) would lead to an increase in deficit by USD 3.8trn over a decade while other provisions would cut nearly USD 1trn in federal support for Medicaid and food stamps programs. This would also add more than USD 3trn to the national debt (currently at more than USD 37trn). The bill is unlikely to pass the Senate without drastic revisions.
- **Moody’s downgraded the US credit rating to Aa1 (stable)** from Aaa (negative), citing fiscal strains from the

growing debt, courtesy of increased federal spending and tax cut-led decline in revenues. S&P had downgraded the US credit rating in Aug 2011, and Fitch Ratings cut it in Aug 2023.

- **Chicago Fed national activity index slumped to -0.25 in Apr** (Mar: 0.03), with production related indicators down (-0.18 from -0.07) alongside the sales, orders & inventories category (-0.04 from +0.06).
- **Kansas Fed manufacturing activity plunged to -10 in May** (from -5), with weaker non-durable goods production; meanwhile, production, shipments, and new orders declined.
- **S&P Global US manufacturing PMI rose to 52.3 in May** (Apr: 50.2), as new orders increased to a 15-month high and production moved back into expansionary territory. **Input costs were the highest since Aug 2022** and employment fell for the second month in a row. Services PMI also increased to 52.3 (from 50.8) on higher new orders even as foreign orders fell at the sharpest-ever pace (outside the pandemic months).
- **Existing home sales fell by 0.5% mom to a 7-month low** of 4mn in Apr and the median home price ticked up by 1.8% yoy to USD 414k. **New home sales unexpectedly surged** by 10.9% mom to 743k in Apr (highest since Feb 2022) while inventory stood at 504k (or 8.1 months of supply), near levels seen in 2007.
- **Initial jobless claims in the US stood declined** by 2k to a 4-week low of 227k **in the week ended May 16** and the 4-week average inched up by 1k to 231.5k. **Continuing jobless claims increased** by 36k to 1.903mn in the week ended May 9.

Europe:

- **Manufacturing PMI in the eurozone moved up to a 33-month high of 49.4 in May** (Apr: 49), as production increased for the third consecutive month and new orders did not

decline. **Services PMI fell to 48.9 in May** (Apr: 50.1), falling for the first time since Nov and at the fastest pace in 16 months, with weak domestic demand dragging down the numbers.

- **Current account surplus** (seasonally adjusted) **in the eurozone widened to EUR 50.9bn in Mar** (Feb: EUR 40.6bn): Surpluses were recorded for goods (EUR 44bn), services (EUR 13bn) and primary income (EUR 7bn) while secondary income posted a deficit (EUR 13bn).
- **Consumer confidence in the euro area improved in May**, up to -15.2 from -16.7 in Apr.
- **German GDP grew by 0.4% qoq in Q1**, higher than the preliminary estimate of 0.2%, as both manufacturing output and exports grew at a much stronger pace with US importers frontloading purchases (Q4: -0.2%). Exports grew by 3.2% qoq, household consumption gained by 0.5% and investment increased by 0.9% while government spending declined by 0.3%. **In yoy terms, GDP fell by 0.2%** (Q4: -0.4%).
- **Manufacturing PMI in Germany moved up to 48.8 in May** (Apr: 48.4): though still in contractionary territory, this was the highest reading in 33 months, supported by new orders (fastest since early 2022) and output (rising for the third month in a row). **Services PMI fell to 47.2** (Apr: 49), **the sharpest decline since Nov 2022**, as new orders fell for the ninth straight month. Future expectations improved but still remains lower vs the long-run average.
- **German Ifo business climate increased to an 11-month high of 87.5 in May** (Apr: 86.9), with the expectations gauge rising to 88.9 (from 87.4) while the current assessment slipped to 86.1 (from 86.4). Retail and construction sectors reported a pickup in sentiment.
- **Producer price index in Germany fell by 0.6% mom and 0.9% yoy in Apr**. The yoy decline was driven down by lower energy prices (-6.4%) while prices for non-durable and durable consumer goods increased by 3.2% and 1.4%

respectively.

- **UK inflation surged to 3.5% in Apr** (Mar: 2.6%), a result of the increase in prices of electricity, gas & other fuels (+6.7% yoy) and water & sewerage (26.1%, the largest monthly hike since Feb 1988). Services inflation ticked up to 5.4% (from 4.7%), air fares rose by 27.5% (as Easter holidays fell towards end-Apr) and food inflation increased by 3.4%. **Core CPI also inched up to 3.8%** (Mar: 3.4%). Retail price index increased to 4.5% in Apr (Mar: 3.2%).
- **Manufacturing PMI in the UK slipped to 45.1 in May** (Apr: 45.4) while **services PMI became expansionary**, rising to 50.2 (Apr: 49). New work fell to the most for 2.5 years, with respondents citing delayed investment decisions and lower non-essential spending.
- **UK retail sales increased by 1.2% mom and 5.0% yoy in Apr** (Mar: 0.1% mom and 2.6% yoy), helped by sunny weather; this was the fourth consecutive monthly gain and the largest yoy increase since Feb 2022.
- **UK GfK consumer confidence moved up to -20 in May** (Apr: -23), supported by the BoE's latest interest rate cut and the "trade deal" agreed with the US.

Asia Pacific:

- **The People's Bank of China lowered its benchmark lending rates by 10bps, for the first time since Oct, to support growth:** the one- and five-year loan prime rates were lowered to 3.0% and 3.5% respectively.
- **China's fixed asset investment grew by 4.0% yoy in Jan-Apr** (Q1: 4.2%): infrastructure investment increased by 5.8% and manufacturing investment jumped by 8.8% while real estate investment dropped by 10.3%. **FDI fell by 10.9% yoy in Jan-Apr** (Q1: -10.8%).
- **Industrial production in China grew by 6.1% yoy in Apr**, though slowing from Mar's 7.7% gain. **Retail sales increased by 5.1%** (Mar: 5.9%) with US tariffs lowering

consumer sentiment, leading to weaker demand. **Unemployment rate fell** to 5.1% from 5.2% in Mar.

- **Inflation in Japan was unchanged at 3.6% in Apr**, with food prices rising the least in 4 months (6.5% from Mar's 7.4%, though rice prices surged by 98.4% due to poor harvests). Excluding food and energy (i.e. "core core"), prices inched up to 3.0% (from 2.9%). **Core inflation** (i.e. excluding fresh food) **climbed to the highest since Jan 2023**, clocking in at 3.5% (from 3.2% in Mar).
- **Japan's trade balance moved to a deficit of JPY 115.8bn in Apr**, from Mar's JPY 559.4bn, adversely affected by US tariffs and a strong yen. Exports grew by 2.0% yoy (Mar: 4.0%), rising for the seventh month in a row, while imports fell by 2.2% (reversing Mar's 1.8% gain).
- **Manufacturing PMI in Japan stayed in contraction territory in May, though ticking up to 49.0** (Apr: 48.7), as the declines in new orders and foreign sales fell at a slower pace. Inflation eased, with input price moderated to a 14-month low, while output cost easing to a near 4-year low. **Services PMI meanwhile slipped to 50.8** (Apr: 52.4) with employment slipping to a 17-month low amid slowing new orders.
- **Infrastructure output in India grew by 0.5% yoy in Apr** (Mar: 3.8%), the lowest reading since Aug 2024: this was a result of slower growth in cement (6.7% from 12.2%) and steel (3.0% from 9.3%) while refinery products declined (-4.5% from +0.2%).
- **India's manufacturing PMI inched up to 58.3 in May** (Apr: 58.2), the highest since Jun 2024, thanks to uptick in new orders and output though input prices grew the most in over 11.5 years. **Services PMI remained expansionary for the 46th month in a row**, to 61.2 (Apr: 58.7), thanks to output growing at the strongest pace in 14 months and domestic new orders up the most in 11 months.
- **GDP in Singapore shrank by 0.6% qoq in Q1, reversing Q4's 0.5% gain**. In yoy terms, growth was up 3.9% in Q1

(Q4: 5.0%). Expectations are for another quarter of a drop in growth, with the tariff hike causing a direct, adverse effect on manufacturing and wholesale trade sectors, denoting a technical recession. Growth is forecast at 0.0% to 2.0% this year by the Ministry of Trade and Industry, citing global economic uncertainties.

- **Inflation in Singapore stood at 0.9% in Apr while core inflation posted the first increase in six months (0.7% from Mar's 0.5%).** Services inflation (1.1% from 0.6%) and food prices (1.4% from 1.3%) ticked up and was offset by declines in retail & other goods (-1.2% from -0.5%). Private road transport, and accommodation – both not included in core inflation – moderated to 1.3% and 1.1% respectively (from 2.1% and 1.4% in Mar).

Bottom line: Markets continue to be affected by US tariff threats and counter-threats, with a see-saw nature of announcements – threaten the EU on Fri, delay it on Sun; tariffs on Apple / Samsung could start “on, I guess, the end of June”. The reignited fears of trade wars led to bond market jitters once again – the 30-year Treasury yield had climbed to above 5% (the highest since Oct 2023), also hit by the credit downgrade. Inflation readings for Apr this week will be closely watched to gauge the initial impact from the tariff ambush – the US PCE reading, as well as consumer prices in France and Germany. Preliminary PMI readings indicated a divergence in inflationary pressure – easing in EU, UK, Japan, while increasing in the US (from higher tariffs) – that could complicate monetary policy decisions starting in June and the second half of this year.

Regional Developments

- **Real GDP in Bahrain grew by 2.6% yoy in 2024, supported by an uptick in non-oil sector (3.8%) vs decline in oil sector activity (-4.0%). Real GDP growth was up by 3.4% yoy in Q4(Q3: 2.9%), pushed by non-oil activity (4.6%,**

from Q3's 4.8%) as oil sector plunged (Q4's 3.5% drop vs Q3's 6.73% dip). Among the non-oil non-government sector, **information & communication posted the highest growth in 2024** (12.3% yoy) followed by **professional, scientific and technical** (9.5%) and accommodation and food services (5.9%). Financial and insurance activities, which contributed the most to real GDP in 2024 (17.2%), grew by 7.2%.

- **Bahrain's total inward FDI stock grew by 5.7% yoy to BHD 17.3bn in 2024. Financial and insurance activities accounted for close to two-thirds of Bahrain's inward FDI stock in 2024** (65.8%), followed by manufacturing (13.5%); by country of origin of investment, Kuwait, Saudi Arabia and the UAE topped the list – each with a share of 35.2%, 23.5% and 9.8% respectively of total FDI stock.
- **Bahrain-based Investcorp will invest in the expansion of Oman's Port of Duqm** as part of a consortium, contributing 20% of the overall amount of USD 500mn.
- **Egypt's central bank cut interest rates by 100bps, the second rate cut this year.** This lowered the overnight deposit rate to 24% and the lending rate to 25% while the discount rate was reduced to 24.5%. The central bank statement projected growth in Jan-Mar to have increased to 5.0% from 4.3% in Oct-Dec 2024.
- **Egypt's PM revealed, following a meeting with the IMF, that growth was up 3.9% in Jul-Dec,** supported by a 17% increase in FDI and 80% surge in private sector investment. He stated that the budget deficit had dropped to 6.5% over the past 10 months, and non-oil exports grew by 33% in Jul-Mar. The IMF commended Egypt's reforms leading to positive results. The PM also stated that the **government is drafting a long-term national economic strategy that will extend to 2030** – looking beyond the IMF program that ends by late 2026/early 2027.
- **Trade between Egypt and Arab countries grew by 16% yoy**

to USD 30.5bn in 2024, according to CAPMAS data. Egypt's exports to Arab nations increased by 18% to USD 16.2bn, while imports grew by 14% to USD 14.3bn. **Arab investments in Egypt soared to USD 41.5bn** in the fiscal year 2023-24 (vs USD 7.3bn in FY 2022-23). **Remittances from Egyptians in Arab countries declined** by 3.5% yoy to USD 13.8bn in the FY 2023-24.

- **Egypt's manufacturing and extractive industries index grew 3.9% yoy in Mar**, thanks to seasonal demand for food and a boost in steel rebar production, according to CAPMAS.
- The CEO of **Egypt's** General Authority for Investment and Free Zones disclosed that **about 2800 Chinese firms operated in the country**, attracting more than USD 8bn in investments.
- **The EU cleared EUR 4bn of macro-financial assistance to Egypt**, and the country will have 35 years to repay the loans, effectively a grant. This financial aid is expected to address the deteriorating macro-fiscal situation and financing needs of Egypt and should cover the financing gap between July 2025 and June 2027.
- **Inflation in Kuwait eased to 2.25% in Apr** (Mar: 2.41%), the slowest since Sep 2020, on lower **food prices (4.61%, the lowest since Jul 2020)** while costs of housing services held steady (0.74%) in addition to restaurants & hotels (1.5%) and recreation & culture (1.92%) among others.
- **Kuwait's new Public Debt Law** aims to boost financing and liquidity, disclosed the undersecretary of the ministry of finance, while also revealing that **a sukuk issuance law will be issued soon** (pending final procedures). She also stated that the Ministry of Finance is authorized to mandate the Central Bank or Kuwait Investment Authority to act on its behalf in securing financing – the former for conducting domestic borrowing operations and latter for foreign borrowing operations. Separately, the Director of the Public Debt Department at the

ministry revealed that **estimated borrowing will range between KWD 3-6bn (USD 10-20bn) in the fiscal year 2025-26** – mainly to fund infrastructure projects worth KWD 2.3bn.

- **Kuwait's plan to "re-price" its public services fees is estimated to generate KWD 500mn (USD 1.6bn) in non-oil revenue annually**, reported Al-Rai daily, citing government sources.
- **Inflation in Oman inched up to 0.91% yoy in Apr (Mar: 0.45%)**, with increases in transport costs (3.1% from 1.7%) and restaurants & hotels (1.5% from 0.7%) while food price decline eased (-0.3% From -0.7%).
- **Oil and gas exports accounted for around two-thirds of Oman's overall exports in Q1 2025**, (65.2% vs 69.5% in Q1 2024). **Exports fell by 10.4% yoy to OMR 5.66bn** (as oil exports plunged by 15.9% yoy to OMR 3.7bn). Imports increased by 10.8% to OMR 4.3bn) – resulting in a narrower trade surplus (OMR 1.35bn vs OMR 2.4bn in 2024). **UAE was Oman's largest non-oil trade partner**: non-oil exports to UAE grew by 25.5% yoy to OMR 259mn in Q1 2025, while re-exports were OMR 126mn. **Oman's imports originated mainly from GCC**: UAE was Oman's largest source of imports (OMR 995mn, or 23.1% of total).
- **Hotel revenues in Oman** (from three- to five-star hotels) **increased by 10.6% yoy to OMR 79.43mn by end-Mar**, thanks to a 2.3% rise in number of hotel guest (to 610k) and higher occupancy rate (59.5%). Domestic tourists declined (-9.1% to 171,809) while guests from the GCC surged by 18.2% to 37,646.
- **Invest Qatar launched a USD 1bn programme to attract investment inflows**, offering financial packages covering up to 40% of expenses for five years. The minimum investment required to access the fund's capital will be QAR 25mn in addition to job creation targets.
- **The number of FDI projects in Qatar stood at 241 in 2024**, a record-high & more than double the projects in 2023. **Greenfield projects accounted for close to three-**

fourth of total by number (& 96% by capex). The country received more than USD 2.7bn last year, with **Japan the top international investor** (almost USD 1.4bn).

- **Qatar Investment Authority plans to “more than double” the value of its US investments over the next decade,** disclosed its CEO at a conference in Doha. During President Trump’s visit, the fund had pledged to invest USD 500bn into the US over the next decade. Separately, **QIA received approval to acquire a 10% stake in China Asset Management Co.** – this would make QIA the third-largest shareholder in the Chinese asset manager.
- **QatarEnergy CEO revealed that Qatar’s North Field East natural gas expansion project will begin production in mid-2026.** The project is expected to produce 126mn metric tons of LNG per annum (mtpa) by 2027, up from 77 mtpa now.
- **The tourism sector in Qatar contributed QAR 55bn to GDP in 2024** (around 8% of total economic output), up by 14% yoy, according to the Chairman of Qatar Tourism. **International visitor arrivals surged 25% yoy to 5mn** last year, with in-destination spending rising to nearly QAR 40bn.
- **Travel and tourism sector in Qatar is projected to contribute QAR 124.2bn to the economy** in 2025, as per estimates from the World Travel & Tourism Council (WTTC), and rise further to QAR 166.6bn by 2035. International visitors will spend QAR 98.8bn in 2025 while domestic spending will be around QAR 12.6bn.
- **GCC is home to projects worth approximately USD 1.54trn** (at the pre-execution stage), with Saudi accounting for 52.1% of the total (or USD 801.2bn). In Q1, value of contracts awarded in the GCC declined by 26.8% yoy to USD 52.4bn (the lowest in eight quarters) according to MEED data.
- **GDP losses in conflict-hit states in the Arab region has surpassed 60% of GDP,** disclosed a senior IMF official, identifying Lebanon, Syria, West Bank & Gaza among the

most affected.

Saudi Arabia Focus



- **Saudi Arabia's budget airline flynas IPO price was set at SAR 80 per share**, after the institutional tranche was oversubscribed more than 100 times. Retail subscription for 10.3mn shares will close on 1 June.
- **Assets under management in Saudi capital markets surged by 21% yoy to SAR 1.01trn in 2024.** The number of investment funds rose to 1549 (from 1285), the number of investors increased to 1.72mn (+47%) and the value of listed debt instruments grew 21% to SAR 664bn. Net foreign investments in Saudi capital market grew by 10.1% yoy to SAR 218bn in 2024. Total foreign ownership in the main market, at SAR 423bn, accounted for 11% of overall free float shares.
- **The PIF aims to double European investments to 170bn by 2030** by opening its first subsidiary company office in France.
- Reuters reported that **Saudi Aramco is considering asset sales** to free up funds alongside **also looking for investors** in infrastructure (including pipelines) **for the Jafurah gas project**. Separately, Bloomberg reported that **Sabir is planning to list its subsidiary National Industrial Gases Company** and that it was in early talks with potential advisors.
- **Saudi Arabia's National Debt Management Center raised SAR 4.08bn (USD 1.08bn) via sukuk issuances** as of May this year: this was up 9.09% mom and 54.5% surge from Mar (when SAR 2.64bn was raised).
- **Aramco reduced methane emissions by 11.4% yoy in 2024** and set a new 2030 target to cut upstream carbon intensity. The company's sustainability report can be accessed via <https://www.aramco.com/en/sustainability/sustainability->

[report](#)

- **Air passengers travelling through Saudi Arabia grew by 15% yoy to 128mn in 2024**, with 69mn international travellers. Saudi aim to touch 330mn annual passengers by 2030 – a tough ask considering delays in aircraft deliveries.

UAE Focus



- **UAE plans to invest AED 40bn** (as part of the broader Operation 300bn), and expand its industrial base, **in a bid to become a hub for advanced manufacturing over the next five years**. According to the UAE minister of industry and advanced technology, industrial exports from the UAE rose to AED 197bn in 2024, up nearly 70% when compared to 2021.
- **Abu Dhabi Industrial Strategy has supported the increase in industrial GDP** (which grew by 23% to AED 111.6bn in 2024 from AED 90.8bn in 2022) – **and the number of industrial enterprises** (which rose to 1104 in 2024, up 19.4% from 95 in 2022). Separately, **Ajman reported a 7% yoy increase in the number of industrial establishments** to 1549 in 2024; manufacturing accounted for 18.8% of GDP.
- **Dubai Holding increased its Residential REIT IPO to 15% of issued unit capital**, up from the previously announced 12.5%. The IPO was oversubscribed over 26 times and investors are expected to get paid twice a year, starting Sep 2025: the payment size for 2025 will be the higher of AED 1.1bn and an amount equal to 80% of profit for the period before changes in fair value of investment property.
- **ADNOC signed agreements with 12 UAE companies to manufacture critical industrial equipment** under the “Make it in the Emirates” initiative: valued at AED 6bn, the agreements are estimated to create up to 1300

skilled private sector jobs.

- **Abu Dhabi Investment Office and Space42 launched the region's first satellite manufacturing facility** to build local remote sensing capabilities. The facility will build SAR satellites used for earth observation and securing space-based intelligence.
- **Emirates Global Aluminium (EGA) will begin building a primary aluminium production plant in the US by the end of 2026.** The smelter is estimated to have a capacity of 600k tonnes per year, almost doubling US output.
- **Student enrolment in Dubai's private higher education sector jumped by 20% to 42,026 students in the 2024-25 academic year.** There are 41 private higher education institutions in Dubai, of which 37 are international campuses. International students accounted for 35% of overall number current, in line with the target of a 50% share by 2033.
- **Dubai SME is targeting to support 8000 new Emirati businesses by 2033,** raising the total number to 27k from 19k at end-2024. The Acting CEO of Dubai SME disclosed that access to funding and high operating costs were the main challenges faced by the small businesses.

Media Review:

Will sanctions relief unlock Syria's potential, spur economic recovery? (with comments from Dr. Nasser Saidi)

<https://www.arabnews.com/node/2602007/middle-east>

Fostering Core Government Bond Market Resilience

<https://www.imf.org/en/Blogs/Articles/2025/05/21/fostering-core-government-bond-market-resilience>

The man with a plan for Vietnam

<https://www.economist.com/leaders/2025/05/22/the-man-with-a-plan-for-vietnam>

<https://www.economist.com/briefing/2025/05/22/vietnams-economy-is-booming-but-its-new-leader-is-worried>

Saudi poised to increase summer crude burn for power as fuel oil becomes costly

<https://www.reuters.com/business/energy/saudi-poised-increase-summer-crude-burn-power-fuel-oil-becomes-costly-2025-05-20/>

PIF plans USD 100bn 'Project Paradise'

<https://www.agbi.com/giga-projects/2025/05/pif-plans-100bn-project-paradise/>

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