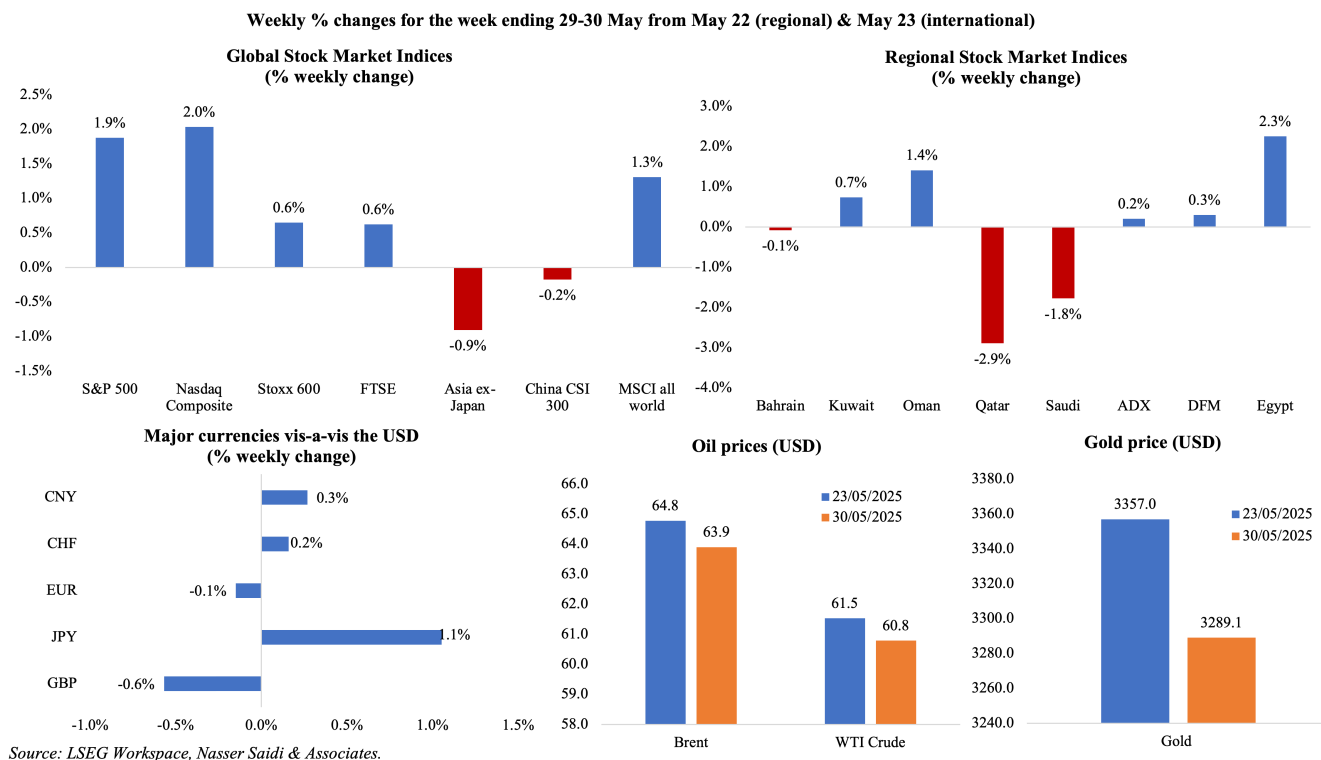


Trade Policy Uncertainty persisting: Tariff Escalation & Trade Tensions Resume. Syria getting reintegrated – Weekly Economic Commentary, 2 Jun 2025

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Markets

Most major equities markets posted a weekly gain despite declarations by US President Trump on trade tariffs (of China violating an initial agreement) and hiking tariff on steel and aluminium imports. The week that also saw the US international trade court blocking the Trump tariffs before an appeals court reinstated it. Despite the US trade policy uncertainty, US indices (S&P 500 and Nasdaq index) and the MSCI main world index clocked in the biggest monthly rallies since Nov 2023. Regional markets were mixed with Qatar and Saudi posting the largest declines. Both the euro and the GBP were down against the dollar last week. Oil prices fell by just over one percent last week, ahead of the OPEC+ decision (with the OPEC+ decision to keep output hike unchanged, oil prices jumped higher on Monday). Gold price fell by 2% from a week ago.



Global Developments

US/Americas:

- US President Trump announced that the **US will double its tariffs on steel and aluminium imports to 50%** (from 25%), coming into effect from Wednesday (Jun 4). **President Trump also accused China of violating the preliminary trade deal** (not removing the non-tariff barriers as agreed under the deal), raising doubts about the current tariff truce. **China stated** on Monday (Jun 2) **that US violated the agreement** by AI chip export controls, threat to cancel Chinese students visas and warning against using chips made by Huawei.
- **US GDP grew fell by a 0.2% annualised rate in Q1** (prelim: -0.3%), the first quarterly contraction in 3 years. While consumer spending slowed to 1.2% (the slowest since Q2 2023) and government spending fell by 4.6% (sharpest fall since Q1 2022), fixed investment and exports grew by 7.8% (the largest increase since mid-2023) and 2.4% respectively.
- **Personal income grew by 0.8% mom in Apr** (Mar: 0.7%)

alongside an uptick in personal spending 0.2% (from Mar's 0.7%) and **savings rate rose to a 1-year high** of 4.9% (Mar: 4.3%). Real disposable personal income also rose 0.7% mom, its fastest pace since Jan 2024.

- **Core PCE softened to 2.5% in Apr** (Mar: 2.7%), **the smallest increase since Mar 2021**, but still above the Fed's 2% target. PCE stood at 2.1% from Mar's 2.3% gain.
- **The FOMC minutes did not contain any major surprises**, with the Fed stating the need for more time to assess the impact of higher tariffs and gauging it appropriate to wait before changing interest rates. The report **noted an increase in risks of both higher unemployment and higher inflation**.
- **Durable goods orders in the US tumbled by 6.3% mom in Apr** (Mar: 7.6%), the sharpest decline since Jan 2024, as capital goods orders declined (-14.6%) alongside a plunge in overall transportation orders (-17.1%). Non-defence capital goods orders excluding transportation slipped by 1.3% following Mar's 0.3% gain.
- **S&P Case Shiller home price index increased by 4.1% yoy in Mar** (Feb: 4.5%), clocking in the softest increase since Sep 2023; a breakdown by city highlighted stronger annual appreciation in the largest urban markets.
- **Pending home sales fell by 6.3% mom and 2.5% yoy in Apr** (Mar: +5.5% mom and -0.6% yoy), given relatively high mortgage rates as housing inventory levels are near 5-year highs.
- **Goods trade balance in the US narrowed to USD 87.62bn in Apr** (Mar: USD 163.5bn) as **goods imports fell** by 19.8% to USD 276.1bn (posting the **biggest one-month drop in goods imports on record**) following the imposition of tariffs, while exports rose 3.4% to USD 188.5bn.
- **Dallas Fed manufacturing business index improved to -15.3 in May**, from Apr's -35.8, as the production index fell close to zero and new orders rose (to -8.7 from -20); future production index ticked up 16 points to 31.1. **Richmond Fed manufacturing index improved to -9 in**

May (Apr: -13). Chicago PMI slipped to a 4-month low of 40.5 in May (Apr: 44.6), remaining contractionary for the 18th month in a row, as new orders and production declined.

- **Michigan consumer sentiment index was revised up to 52.2 in May (preliminary estimate: 50.8), as expectations index moved up (to 47.9 from 46.5). The one- and five-year inflation expectations were revised lower to 6.6% and 4.2% respectively (prelim: 7.3% and 4.6%).**
- **Initial jobless claims in the US increased by 14k to a 1-month high of 240k in the week ended May 23 and the 4-week average down by 250 to 230.75k. Continuing jobless claims increased by 26k to 1.919mn in the week ended May 16, the highest since Nov 2021. The labour market is showing signs of softening.**

Europe:

- **Economic sentiment index in the EU increased to 94.8 in May (Apr: 93.8), with services confidence weakening to a 4-year low of 1.5. Germany and Italy posted an increase in ESI readings (to 91.5 and 98.6 respectively) while it weakened in France (93.1 from 96.6).**
- **Harmonised inflation in Germany eased for the fourth month in a row, to 2.1% yoy in May (Apr: 2.2%), the lowest since Sep.**
- **German retail sales fell by 1.1% mom in Apr (Mar: 0.9%), the first drop in four months, as non-food and food sales declined by 1.3% and 0.1% respectively. Sales grew by 2.3% yoy (Mar: 3.3%)., with online sales jumping 14.1%.**
- **German GfK consumer confidence survey moved to -19.9 in Jun (May: -20.8), the highest reading since Nov 2024. Economic expectations rose to a 2-year high of 13.1 (from 7.2) and income expectations increased to 10.4 (from 4.3).**
- **Unemployment rate in Germany stood unchanged at 6.3% yoy**

in Apr, the highest since Sep 2020, with the number of unemployed higher by 34k to 2.963mn.

Asia Pacific:

- **China's NBS manufacturing PMI ticked up to 49.5 in May** (Apr: 49.0), with the production index moving to expansionary territory (+0.9 ppts to 50.7) while new orders sub-index inched up 0.6ppts to 49.8. **Non-manufacturing PMI edged down** to 50.3 (from 50.4) though staying above the 50-mark for the fifth month in a row. New orders and foreign demand shrank (at 46.1 and 48.0 respectively) while employment stood at a weak 45.5.
- **Japan's Leading Economic Index rose to 108.1 in Mar** from the preliminary estimate of 107.7, the lowest level since Dec 2024 (the reading stands lower than Feb's 108.2). **Coincident index slipped to 115.9 in Mar** (prelim: 116.0), the lowest reading since Nov 2024.
- **Tokyo inflation eased to 3.4% yoy in May** (Apr: 3.5%), with non-fresh food prices up by 6.9% and services inflation up to 2.2% (Apr: 2.0%). Excluding food and energy, prices moved higher to 2.1% (from 2%). **Excluding fresh food, prices rose by 3.6% (from 3.4%), the fastest pace since Jan 2023.**
- **Industrial production in Japan fell by 0.9% mom in Apr** (Mar: 0.2%), the second decline in 2025, with declines across production machinery (-8.7%) and transport equipment excluding motor vehicles (-7.0%) among others. In yoy terms, IP grew for the third month in a row, up by 0.7% (vs Mar's 1%).
- **Retail trade in Japan grew by 3.3% yoy in Apr** (Mar: 3.1%), clocking in gains for the 37th consecutive month. Sales were up in automobile (9.5%), clothing & personal goods (5.9%) and non-store retailers (2.1%) among others. Large retailer sales grew by 3.3% (Mar: 3%).
- **GDP in India grew by 7.4% yoy in Jan-Mar** (Q4: 6.2%), recording the **fastest pace since Q1 2024**. Manufacturing

output grew by 4.8% (Q4: 3.6%) and construction was up 10.8% (from 7.9%) while consumer spending eased (6% from 8.1% in Q4) and government spending fell (-1.8% from +9.3% in Q4).

- **India's industrial production grew by 2.7% yoy in Apr** (Mar: 3.9%), as manufacturing pace slowed (+3.4% from Mar's 4%) and mining output fell (-0.2% from +1.2%).
- **The Bank of Korea lowered policy interest rates by 25 bps to 2.5%** and signalled that more easing was to come. The apex bank also lowered growth projection to 0.8% this year (from its Feb forecast of 1.5%), a pace last seen during the financial crisis in 2009 (it has stayed above 2% ever since, excluding the pandemic). Growth in 2026 is estimated at 1.6% (down by 0.2%).
- **Singapore industrial production grew by 5.3% mom and 5.9% yoy in Apr** (Mar: -2.7% mom and 6.8% yoy). The volatile biomedical manufacturing shrank by 1.1%, and excluding that sector, output rose by 8.1% in Apr.

Bottom line: Trade tensions could flare up again this week given the doubling of steel and aluminium tariffs (the EU has already threatened countermeasures) alongside the tiff between US and China with each accusing the other of violations (US officials are expecting this to be "ironed out" once Presidents Trump and Xi speak though no date/ time has been set). The key data releases / events this week are the EU inflation reading (likely to be around the 2% target) and ECB meeting (rate cut expected) as well as US jobs reports (in light of the FOMC minutes highlighting risks of higher unemployment). Meanwhile, OPEC+ went ahead with the decision to raise oil production – another increase of 411k barrels per day for July – as it aims to regain market share; oil price is down almost 10%+ so far this year hovering in the USD 60+ per barrel.

Regional Developments

- **OPEC+ decided to raise output by 411k barrels per day**

(bpd) in Jul, doing so for the third consecutive month. This increased production is equivalent to 1.2% of global demand.

- **Update on Syria:** the EU lifted economic sanctions on Syria, following a similar move from the US earlier last month; (b) Syria will reopen its stock market from today Jun 2nd (it had stopped trading on Dec 5th); (c) Syria's economy minister revealed that a new currency is being developed while also assuring that no hasty decisions would be made; (d) Saudi and Qatar will provide financial support to Syria's state employees over a 3-month period; (e) Syria signed an MoU with a consortium led by Qatar's UCC Holding to develop USD 7bn worth power generation projects (estimates to provide over 50% of Syria's electricity needs).
- **Bahrain non-oil exports grew by 22% yoy to BHD 338mn in Apr** and non-oil imports increased by 20% to BHD 575mn. China was the top source nation for imports into Bahrain, accounting for 11% of total, followed by Australia (10%) and the UAE (9%). Value of non-oil re-exports declined by 9% to BHD 71mn; the top 3 re-export countries (UAE, Saudi and Luxembourg) accounted for close to three-fourths of re-exports value. Trade deficit widened by 32% to BHD 166mn.
- Despite rising debt levels, **Bahrain's BHD 70mn in 3-month government treasury bills were almost three times oversubscribed.** This brings the total outstanding value of outstanding government T-bills to BHD 2.11bn.
- The IMF, following the fifth review, declared that **Egypt has made substantial progress toward macroeconomic stability**, though it needs to widen its tax base and streamline tax exemptions, and urged the government to push asset sales to create jobs.
- **Non-oil trade deficit in Egypt narrowed by 28% yoy to USD 8bn in Jan-Apr**, reported Asharq News, thanks to non-oil exports surging 27% (to USD 17bn) while imports grew by 1% to USD 25bn.

- **Egypt and EU will launch an investment guarantees mechanism valued at EUR 1.8bn** in June, according to the Minister of Planning, Economic Development & International Cooperation. This aims to attract private capital as well as mobilize major investments and additional funding from international development banks.
- **Egypt and Germany signed a EUR 118mn (EGP 6.7bn) financial cooperation agreement** to support education & energy and also a new **EUR 21mn (EGP 1.2bn) debt swap tranche** for targeting sustainable and renewable energy supply improvement. The latter raises the Egypt-Germany Debt Swap Programme's total value to approximately EUR 297mn.
- **Plans underway to link Egypt to Asia and Europe:** Egypt's transport minister disclosed that the country is linking to a rail network connecting Asia and Europe. However, no decision has been taken related to a long-planned bridge linking Saudi Arabia and the Sinai Peninsula.
- **Egypt approved four new private sector backed renewable energy projects:** the solar and wind energy projects (valued at USD 388mn) are expected to generate 400 MW. Separately, the electricity and renewable energy minister stated that seven private sector proposals had been evaluated, each of them with plans to build a 100 MW renewable energy facility.
- **S&P affirmed Kuwait's A+ rating with a stable outlook,** indicating low risk of default, citing strong asset positions and despite fiscal pressures.
- **Oman posted a budget deficit of OMR 136mn in Q1 2025.** Revenues fell by 6.8% yoy to OMR 2.64bn alongside a 4.0% increase in spending (to OMR 8.7bn). **Average oil price fell by 12.1% yoy to USD 73** in Q1 and average daily oil production fell by 5.8% to 955k barrels per day. There was a **sharp decline in net oil revenues** (-13.0% yoy to OMR 1.47bn) and **net gas revenues** (-1.8% to OMR 436mn). Net O&G together accounted for 72.3% of revenues. The **government plans to borrow OMR 2.454bn (USD**

6.4bn) **this year to balance the budget**, and around OMR 750mn (USD 1.94bn) will be raised from government development bonds & local sovereign sukuk.

- **While oil and gas exports from Oman declined by 16% to USD 9.6bn in Q1 2025**, non-oil exports grew by 8.6% to USD 4.2bn (or roughly 28.6% of total exports) partly due to an **increase in minerals exports**. Imports during Q1 grew by 11% to USD 11.2bn, with transportation equipment accounting for 27% of total imports.
- **Bank loans disbursed in Oman grew** by almost 9% yoy to **OMR 33.4bn (USD 87bn) in Mar, a 2-year high**, thanks to the increase in personal loans (+7%) and business lending (+6%). Furthermore, private sector deposits grew by 7.1% yoy to OMR 21.5bn.
- **Oman established a new company** – Oman Minerals Trading Company – **to regulate mineral exports** and to unify price negotiations and standardise contracts with global buyers. According to the CEO of Oman's Minerals Development Oman (of which the new company is a subsidiary) the new company will launch a supplier and buyer registration programme in Q3 2025, ahead of its official activation in May 2026.
- The agreement between **UAE's DP World and Oman signed a 50-year deal to develop and operate the first phase of the Al-Rawdah Special Economic Zone (SEZ)** highlights a strategic alignment of interests aimed at enhancing regionaleconomic integration and leveraging each nation's strengths. The new SEZ in Oman will also offer opportunities for well-established businesses in the UAE to transfer knowledge and skills. By developing specialized zones and infrastructure, **Oman can enhance connectivity and economic cooperation across the region, integrate itself into regional value chains** and position itself as a key player in regional trade and economic networks, **complementing UAE's established role in global logistics and trade**. Additional comments [here](#).
- The **GCC-ASEAN aim to raise trade between the two blocs**

to USD 180bn by 2032 from around USD 130.7bn in 2024. On the sidelines of the GCC-ASEAN Summit in Malaysia last week, the **GCC and Malaysia agreed to launch free trade discussions.**

- **OPEC+ will establish a framework to determine and set new oil production baselines for 2027.** These baselines, once finalised, will guide production policy after the current round of cuts expires.
- **China officially extended its visa-free policy to all GCC member states** starting June 9th: UAE and Qatar had been permitted previously. The visa waiver is across visits for tourism, business, family visits, exchanges or transit and is limited to 30 days.

Saudi Arabia Focus



- **Saudi Arabia's overall exports fell by 0.9% mom and 9.8% yoy to SAR 93.8bn** in Mar 2025, with oil exports down by 16.1% yoy while non-oil exports rose 6.7% to SAR 18.6bn and re-exports surged 21.0% to SAR 8.4bn. **Share of oil exports to overall exports slipped** to 71.2% (Feb: 71.5%). **Imports inched up** by 2.3% mom and 0.1% yoy to SAR 74.0bn in Mar 2025. This resulted in a **narrower trade surplus of SAR 19.8bn** – down from Feb's SAR 22.3bn and Mar 2024's SAR 30.1bn.
- **Deposit growth in Saudi Arabia averaged 9.1% in Jan-Apr 2025** while govt deposits fell 2.3% mom to SAR 427.8bn in Apr. As of Apr, credit growth has outpaced deposit growth for 15 months in a row. **Net foreign assets slipped in Apr**, down 3.6% mom to SAR 1.56trn. Consumer spending declined, following the Ramadan-Eid supported surge.
- **Saudi Aramco raised USD 5bn from a bond sale last week**, and the CEO disclosed that the business will continue to support expansion plans. Earlier during the earnings calls after Q1 results, the CEO had stated that the

company can sustain itself during weak prices since its extraction costs were one the lowest globally (at nearly USD 3 a barrel).

- **Credit to Saudi MSMEs grew by 28% yoy to SAR 351.7bn in Q4 2024**, according to SAMA. Small enterprises saw credit growth tick up by 32.5% to SAR 122.3bn while medium enterprises accounted for 53.2% of total credit disbursed to MSMEs (+18% to SAR 187.3bn).
- **Saudi Arabia's Capital Market Authority issued guidelines for four categories of debt instruments: green, social and sustainable bonds, along with sustainability-linked bonds.** The number of listed firms disclosing sustainability practices in Saudi rose to 94 in 2024 (2023: 81) and sustainability disclosure among top 100 listed firms jumped to 65% (vs 58%). https://cma.org.sa/Documents/Green_Social_Sustainability_Sustainability_Guidelines.en.pdf
- In a bid to facilitate access and ease the conditions for home ownership, **Saudi Arabia reduced the minimum age for housing support eligibility to 20** (from 25). Other updated regulations included the **removal of financial dependency requirement** that was applied to wives and divorced mothers (ensuring equal access regardless of gender) and a reduction in the mandatory holding period for housing support assets to 5 years (from 10).
- According to GASTAT, **about 71% of the Saudi population is under the age of 35** while the **average and median age is 26.6 and 23.5 years respectively**. Saudi households made up around 51% of all households.
- **Hong Kong and Saudi Arabia plan to allow more cross-border financial products:** this was revealed after an ETF tracking Saudi government bonds began trading in Hong Kong. The CEO of Hong Kong's Securities and Futures Commission disclosed that a Sukuk bond and REIT products are in the pipeline.



- **UAE and EU launched CEPA negotiations:** EU accounts for 8.3% of UAE's non-oil trade. UAE-EU non-oil trade grew by 3.6% yoy to USD 67.6bn in 2024.
- UAE's sovereign wealth fund **Mubadala sold USD 1bn in 10-year US dollar-denominated sukuk**, in its first debt sale of the year.
- **Dubai issued its first tokenised property certificate** (also the first in the Middle East). The property was listed on the Prypcio Mint platform, which allows users to buy **fractional shares of property through secure digital tokens**: the initiative attracted 224 investors, with an average individual investment of AED 10,714 (USD 2,900). The platform is licensed by the Virtual Assets Regulatory Authority (VARA) and the Dubai Land Department in collaboration with other regulators including the central bank and the Dubai Future Foundation. Over 6,000 persons have since joined the waitlist for the platform.
- **S&P reaffirmed Abu Dhabi's "AA" rating and Ras Al-Khaimah's "A" rating**, citing robust fiscal stance, infrastructure-led growth and improvement in economic diversification.

Media Review:

Rebuilding Lebanon

<https://www.thenationalnews.com/news/mena/2025/05/30/lebanon-israel-war-reconstruction-hezbollah/>

Reuters: India to exempt Saudi fund from foreign portfolio investment rules, sources say

<https://www.reuters.com/world/india/india-exempt-saudi-fund-foreign-portfolio-investment-rules-sources-say-2025-05-30/>

Kuwait eyes public-private partnership energy projects to help end power crisis

<https://www.reuters.com/business/energy/kuwait-eyes-public-private-partnership-energy-projects-help-end-power-crisis-2025-05-29/>

Dollar's correlation with Treasury yields breaks down

<https://www.ft.com/content/9ca05517-b3fb-46f1-9cde-866061e816a7>

Dr. Nasser Saidi's Interview with Al Arabiya on the EUR & CNY as potential alternatives to the dollar, 27 May 2025

<https://nassersaidi.com/2025/05/28/interview-with-al-arabiya-arabic-on-the-eur-cny-as-potential-alternatives-to-the-dollar-27-may-2025/>

in

Arabic:

<https://www.alarabiya.net/aswaq/special-stories/2025/05/27/>

Will the UAE break OPEC?

<https://www.economist.com/finance-and-economics/2025/06/01/will-the-uae-break-opec>

Debt is Higher and Rising Faster in 80 Percent of Global Economy

<https://www.imf.org/en/Blogs/Articles/2025/05/29/debt-is-higher-and-rising-faster-in-80-percent-of-global-economy>

China's carbon emissions may have peaked

<https://www.economist.com/china/2025/05/29/chinas-carbon-emissions-may-have-peaked>

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