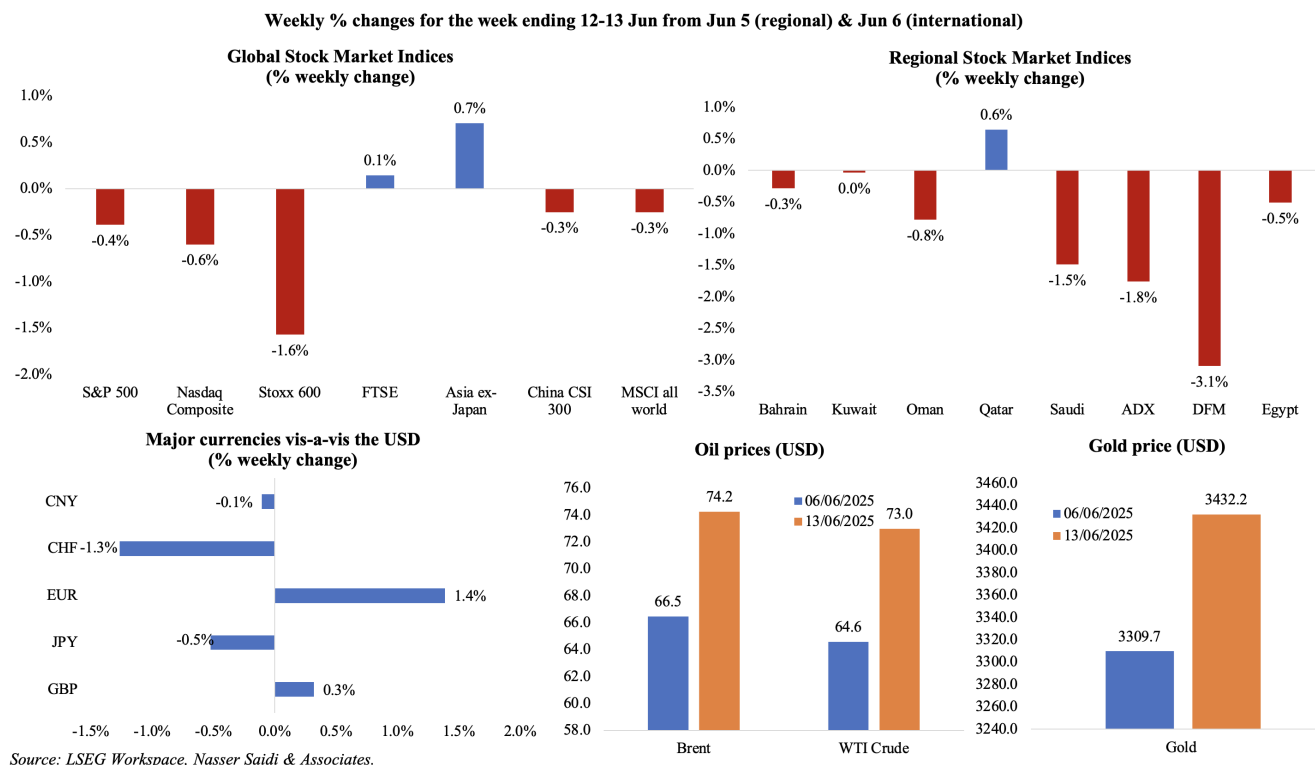


Rising geopolitical risks adds to the trade tariff turmoil, Weekly Economic Commentary, 16 Jun 2025

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Markets

Earlier in the week, investors found comfort in the progress of US-China trade negotiations, though markets dived following Israel's military strikes on Iran and retaliation by end of the week and into Monday. VIX closed last week at the highest in three weeks. Increased geopolitical risks led regional Middle Eastern equities markets down. Safe-haven currencies rose against the dollar (CHF, JPY) alongside the euro rising to the highest since Oct 2021. Oil prices were up more than 7% last week reaching multi-month highs of near USD 75; both Brent and WTI posted the largest intraday moves since 2022. Gold price surged, rising close to the record-high USD 3500 from intra-day trading in Apr. Markets are likely to be dominated by higher geopolitical and trade policy risks and higher oil prices, along with disruption of energy markets and global supply chains.



Global Developments

US/Americas:

- **US-China trade deal saw some progress last week, generating cautious optimism:** though any concrete outcomes were limited, the discussions were seen as a positive sign. US tariffs were set at 55% and China's at 10%, while export controls (on rare earth magnets and AI chips) were also eased.
- **US inflation inched up slightly to 2.4% yoy in May** (Apr: 2.3%), reflecting higher food (2.9%), transport (2.8%) and shelter (3.9%) costs, while core inflation remained unchanged at 2.8%. Inflation, though cooling, remains higher than the Fed's 2% target rate. Though the current CPI reading does not seem to show an impact of the tariffs, it is likely that the pass through will be reflected in the months ahead.
- **Producer price index in the US rose 2.6% in May** (Apr: 2.5%), driven by services and goods components. Core PPI eased to 3.0% (from 3.2%).
- **The monthly budget statement in the US showed a deficit**

of USD 316bn in May (Apr: surplus USD 258bn), due to seasonal outflows (such as tax refunds and higher interest payments) and continued fiscal expansion (+2% mom and 8% yoy; interest on debt topped USD 92bn). Additionally, President Trump's tariffs resulted in **customs duties surging 270% yoy to a record USD 23bn in May**. For the first eight months of the fiscal year, deficit totalled USD 1.37trn (+14% yoy).

- **NFIB business optimism index in the US rose three points to 98.8 in May**, driven by better expectations for sales and hiring while uncertainty was still high (+2 points to 94). Eighteen percent of small business owners reported taxes as their single most important problem (+2 points from Apr).
- **The preliminary reading of the Michigan consumer sentiment index ticked up to 60.5 in Jun** (May: 52.2), the first increase in 6 months, supported by gains in current conditions (7 vs. 58.9 in May) and future expectations (58.4 from 47.9). **Long-term inflation expectations edged lower**: one- and five-year inflation expectations slipped to 5.1% and 4.1% respectively (from 6.6% and 4.2%).
- **Initial jobless claims in the US were stable at an eight-month high of 248k** in the week ended Jun 6 (previous week's reading was revised upwards by 1k) and the 4-week average rose by 5k to 240.25k (the highest level since Aug 2023). **Continuing jobless claims jumped** by 54k to 1.956mn in the week ended May 30.

Europe:

- **Industrial production in the eurozone grew by 0.8% yoy in Apr** (Mar: 3.7%). In mom terms, **production fell by 2.4% reversing Mar's similar gain**: this was the largest monthly decline since Jul 2023, highlighting weak external demand and underlying volatility. Production of non-durable consumer goods fell 3.0% (Mar: +1.8%),

energy output declined 1.6% (from -0.5%) while capital goods output dropped 1.1% (from 2.4%).

- **Inflation (harmonised index) in Germany stood at 2.1% yoy in May**, in line with preliminary estimates, and the lowest since Oct 2024: food prices were up (+2.8%), services inflation eased (3.4% from 3.9%), while energy prices fell (-4.6%). Wholesale price index eased to 0.4% (vs 0.8%), that could translate into lower consumer prices in the coming months.
- **Sentix investor confidence in the eurozone inched up to 0.2 in Jun** (May: -8.1), the highest level in a year, with expectations index up 30.1 points over two months. The sentiment index for Germany stood at -5.9, the highest since Mar 2022.
- **UK GDP grew contracted by 0.3% mom in Apr** (Mar: 0.2%), the largest monthly drop since Oct 2023, as monthly services output fell (0.4%) while construction was one of the bright spots (+0.9%). Industrial production fell by 0.3% yoy (Mar: -0.7%) alongside an uptick in manufacturing (0.4% from Mar's 0.8% dip).
- **Unemployment rate in the UK inched up to a 4-year high** of 4.6% in the 3 months to Apr, a modest uptick from 4.5% the month before, and a rise in the claimant count (33.1k vs Apr's 21.2k). In contrast to payroll data, **average earnings in the UK increased** by 5.2% yoy in the 3 months to Apr (excluding bonus; Q1: 5.5%) and by 5.3% (including bonus; Q1: 5.6%). The slight cooling in pay growth could ease concerns about a wage-price spiral.
- **UK like-for-like retail sales grew by a slow 0.6% yoy pace in May**, the slowest pace of growth in 6 months, and compared to Apr's 6.8% uptick. The moderation in spending suggests shoppers becoming more selective (in non-food items such as fashion and big-ticket purchases), given "lower consumer confidence".

Asia Pacific:

- **Inflation in China remained deflationary for the fourth straight month in May**, declining by 0.1% yoy (Apr: -0.1%), indicating subdued domestic demand. Clothing and education costs were slightly up (1.5% and 0.9% respectively) but offset by larger declines in transport (-4.3%) and food prices (-0.4%). **Producer price index dropped 3.3% yoy** (Apr: -2.7%), the steepest drop since Jul 2023, reflecting ongoing weakness in industrial activity. Further monetary and fiscal stimulus may be necessary to stabilize domestic prices and spur private consumption.
- **Exports from China grew by 4.8% yoy in May** (Apr: 8.1%), partly due to weaker global demand, while imports slid 3.4% (Apr: -0.2%) highlighting tepid domestic demand. Trade surplus widened to USD 103.22bn (Apr: USD 96.18bn). **China's exports to the US tumbled 34.5% yoy**, the sharpest decline since Feb 2020.
- **Money supply growth in China ticked up** by 7.9% yoy in May (Apr: 8%). **New loans disbursed rose to CNY 620bn**, from CNY 280bn in Apr, partly supported by the trade truce with the US and a response to recent efforts to bolster liquidity.
- **Japan's GDP shrank at a 0.2% annualised rate in Q1** (prelim: -0.7%) while in qoq terms, GDP stagnated (vs a 0.2% dip). Weak private consumption (0.1%) and external headwinds offset modest government spending (-0.5%) while business investment grew 1.1%.
- **Producer price index in Japan rose by 3.2% yoy in May** (Apr: 4.1%), the lowest reading since Sep. While foods & beverages costs rose (4.2% from 4.0%) and petroleum & coal prices were up 0.6% (though lower than Apr's 6.3%), chemical prices fell further (-3.1% vs -2.4%).
- **Consumer price inflation in India slowed in May**, to 2.82% – the lowest reading since Feb 2019 and from Apr's 3.16%. This was partly due to food inflation easing below 1%, the lowest since Oct 2021, while other categories were higher including education (4.12%),

transport & communication (3.85%), and housing (3.16%).

Bottom line: The Fed was widely expected to hold interest rates unchanged this week, given expectations of higher inflation rates in the months ahead, and the current geopolitical situation only strengthens the argument for a pause in rates. Geopolitical tensions resulting from the Israel-Iran war and ongoing unresolved Ukraine-Russia conflict, add to trade tariff uncertainty affecting trade, especially with President Trump announcing that letters would be sent to trade partners within the next two weeks setting unilateral tariff rates on countries that do not reach deals. This is in contrast with the Treasury Secretary's statement that the current pause would be extended for nations that are in negotiations currently. The main impact of an escalation in the Israel-Iran war would be on the energy markets with higher oil prices becoming a major upwards risk factor for inflation. If Iran's oil and gas production or exports are affected during the war, investors are likely to worry about supply constraints from blockages, potentially impeding transport through the Strait of Hormuz, a rise in shipping insurance premiums and impact on tourism given travel risks and cancellation of flights.

Regional Developments

- **The World Bank**, in its latest Global Economic Prospects report, **estimates the MENA region to grow by 2.7% this year** (downgraded from Jan projections) and average 3.9% in 2026-27. The uptick is the result of higher oil activity among oil exporters while oil importing nations' growth will be supported by easing inflation that in turn drives private consumption. More in Chapter 2.4 of the report, accessible via: <https://openknowledge.worldbank.org/server/api/core/bits/treams/2baabfb0-d076-444b-9564-7935afab5ada/content>
- **Egypt's external debt service grew by 37% yoy to USD 21.3bn in H1 of the current fiscal year**, driven by

principal repayments (USD 17.1bn) and interest payments (USD 4.2bn).

- Ashraq News reported that **Egypt is planning to issue the first tranche of the EGP 25bn Ijarah sukuk issuance in Q3 2025** (maturities range from 3-10 years). Ijarah sukuk involves leasing assets to sukuk holders in exchange for rental income derived from those assets.
- **Exports from Egypt to BRICS nations grew** by 31.5% yoy to USD 905mn in 2024, and imports rose by 40.1% yoy to USD 3.376bn.
- **Egypt is planning to attract FDI into the tourism sector, by opening new opportunities**, to meet the goal of attracting 30mn tourists annually by 2028. For example, the country plans to add approximately 19k new hotel rooms in 2025 via new projects and expansion of existing projects. The minister of tourism also presented the targeted investments in the field of antiquities preservation and restoration, stating that an average of around 36 such projects have been implemented annually over the past five years.
- **Egypt allocated Red Sea land** (a 174 sq km plot on the coast) **to the finance ministry for issuing Sukuk** in a bid to lower the cost of public debt. No other details were provided.
- With energy demand expected to rise 39% over the next decade, **Egypt signed multiple LNG supply deals**: covering the delivery of at least 125 LNG cargoes per year for up to two years, this includes deals with Saudi Aramco, Singapore's Trafigura Group and Switzerland's Vitol Group as well as the Egyptian Natural Gas Holding Company's agreements with Dubai-headquartered BGN, the UK's Shell and others.
- **Nearly three-fourth of Iraq's oil exports of 1.2bn barrels in 2024 was supplied to Asian markets, resulting in revenues north of USD 95bn**. The country hence plans to invest in refineries in China, India, South Korea, Vietnam and Indonesia, as per a government adviser.

- **Financing by Islamic banks and banking units in Oman surged by 13% yoy to OMR 7.1bn by end-Apr**, according to the central bank, while deposits in such entities jumped by 22% yoy to OMR 7.1bn. In comparison, credit disbursed by traditional banks were up 8% yoy to OMR 26.4bn and deposits up 4% to OMR 16.7bn.
- **Oman's three- to five-star hotels revenues rose by 17.3% yoy** to OMR 109.213mn as of end-Apr, thanks to an increase in guests (+8.6% to 831,751) and higher occupancy rates (61.1% from 53.4% a year ago). **European tourists formed the bulk** (+19.9% to 314,535) alongside guests from Asia (+5.4% to 114.4k) and GCC (+12.6% to 53.6k).
- **Residential property prices in Oman increased by 7.3% yoy in Q1 2025**, according to NCSI data, thanks to a 6.5% uptick in residential land prices. Oman aims to deliver 62,800 new residential units to the market by 2030, with some 5,500 expected this year.
- **Qatar Central Bank's foreign currency reserves and liquidity grew** by 3.6% yoy to QAR 258.135bn in May. Its official reserves were up by 4.57% yoy to QAR 198.712bn.
- **OpenAI** has been discussing **potential financing to the tune of USD 40bn with Saudi PIF, and existing UAE shareholder MGX** among others, including India's Reliance Industries.
- **India's power minister disclosed that discussions are underway regarding the setup of an undersea interconnection** with Oman, Saudi Arabia and the UAE, enabling India to **export electricity** (2GW+). Estimated costs of the 1,700km subsea cable to Saudi Arabia is INR 470bn (USD 5.5bn) and the 1,400km cable to the UAE is around INR 435bn.
- **Syria's central bank governor stated that the country will adopt a unified exchange rate, ahead of a transition to a managed float system.** The country is also **planning to fully reintegrate into SWIFT** international money transfer system within weeks, which

will boost trade and investment relations.

Saudi Arabia Focus



- **Saudi Arabia's GDP grew by 3.4% yoy in Q1 2025:** while this was higher than the preliminary estimate of 2.7%, it was lower than Q4 2024's 4.4% growth. Growth was fastest in the non-oil sector (4.9% vs prelim 4.2%) even as oil sector contracted (-0.5% vs prelim -1.4%, dragged down by output cuts amid softer global demand). Government sector growth (3.2% in Q1) was driven partly by increased spending on infrastructure as well as higher capital expenditure. **Non-oil sector drove expansion illustrating the growing momentum of diversification efforts.** Strong performance was recorded in trade, restaurants & hotels (8.4% yoy), transport & communication (6.0%) and finance, insurance & business services (5.5%).
- **Inflation in Saudi Arabia stood at 2.2% yoy in May** (Apr: 2.3%), as food prices eased (1.6% from Apr's 2.2%) while once again housing rents remained high (+8.1%, and rentals for an apartment up 10.2%). **Wholesale price inflation held steady at a 6-month high of 2.0% yoy**, with increases across agriculture and fishery products (4.4%), and other transportable goods, excluding metals and machinery (4.3%).
- **Industrial production in Saudi Arabia increased by 0.6% mom and 3.1% yoy in Apr**(from an upwardly revised 2.6% mom and 3.4% yoy in Mar). **Oil activities expanded** by 1.6% mom and 4.3% yoy, as oil production rose to 9.01mn barrels per day (bpd), up from 8.99mn a year ago. Manufacture of coke & refined petroleum products surged by 22.6% yoy and 5.8% mom. **Non-oil manufacturing activities** posted a decline of 2.0% mom (though it inched up by 0.1% yoy) in Apr.
- **The total value of large-scale infrastructure contracts**

in Saudi Arabia issued in Jan-May 2025 plunged by 77% yoy to SAR 36bn (USD 9.6bn), according to the Saudi Contractors Authority. Contracts issued by PIF companies declined at a sharper rate of 84%, in line with recent statements that the country would be prioritizing projects and spending.

- **Reuters reported that Nigeria's USD 5bn oil-backed Aramco loan has been delayed** due to the recent drop in oil price (following OPEC+ policy to raise production) thereby producing concern among the banks expected to back the deal.

UAE Focus



- **UAE GDP grew by 4% yoy to AED 1.776bn in 2024**, with the non-oil sector driving growth (5% yoy to AED 1.342bn). **Transport and storage sector grew the fastest (+9.6% yoy)**, followed by building & construction (8.4%) and finance & insurance (7.0%).
- **The EU plans to remove the UAE from its list of high-risk countries for money laundering**, in line with changes by the FATF – this would however need final approval from the European Parliament and Council, which have up to two months to raise objections.
- **Abu Dhabi's financial centre ADGM reported a 32% yoy increase in the number of firms registered at the centre and a 245% surge in assets under management.** Separately, new operating licences at ADGM grew by 67% in Q1, resulting in over 2,380 total firms.
- **Construction has begun on the Dubai Metro's Blue Line:** the AED 56bn expansion, which will include 14 stations and connect to the existing Red and Green Lines, is scheduled for completion by 2029. Dubai Metro transported over 2.527bn passengers as of end-2024 since its launch in Sep 2009, and passenger numbers are expected to reach 200k per day by 2030.

- **Adnoc's listed companies Borouge and Adnoc Logistics & Services entered a 15-year contract to boost petrochemical exports** and deliver a minimum guaranteed revenue of AED 2bn. Borouge plans to increase production capacity by 1.4mn tonnes per year by end-2026.
- **Etihad Airways reported a 17% yoy increase in passengers to 8.4mn in the Jan-May period.** The airline reported an increase in average passenger load (to 87% from 84% in 2024), operating fleet size (100 from 90) and passenger destinations (72 from 60 in May 2024).

Media Review:

Why Israel chose to strike Iran now

<https://www.ft.com/content/58d47aed-82b9-4181-9e65-15834827a95d>

Factory work is overrated. Here are the jobs of the future

<https://www.economist.com/finance-and-economics/2025/06/10/factory-work-is-overrated-here-are-the-jobs-of-the-future>

Disclosing Public Debt Boosts Investor Confidence, Cuts Borrowing Costs

<https://www.imf.org/en/Blogs/Articles/2025/06/12/disclosing-public-debt-boosts-investor-confidence-cuts-borrowing-costs>

IEA report: The Role of Energy Efficiency in Enhancing Competitiveness

<https://www.iea.org/reports/gaining-an-edge>

Land prices surge as Dubai's developers scramble for plots

<https://www.agbi.com/analysis/real-estate/2025/06/land-prices-surge-as-dubais-developers-scramble-for-plots/>

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