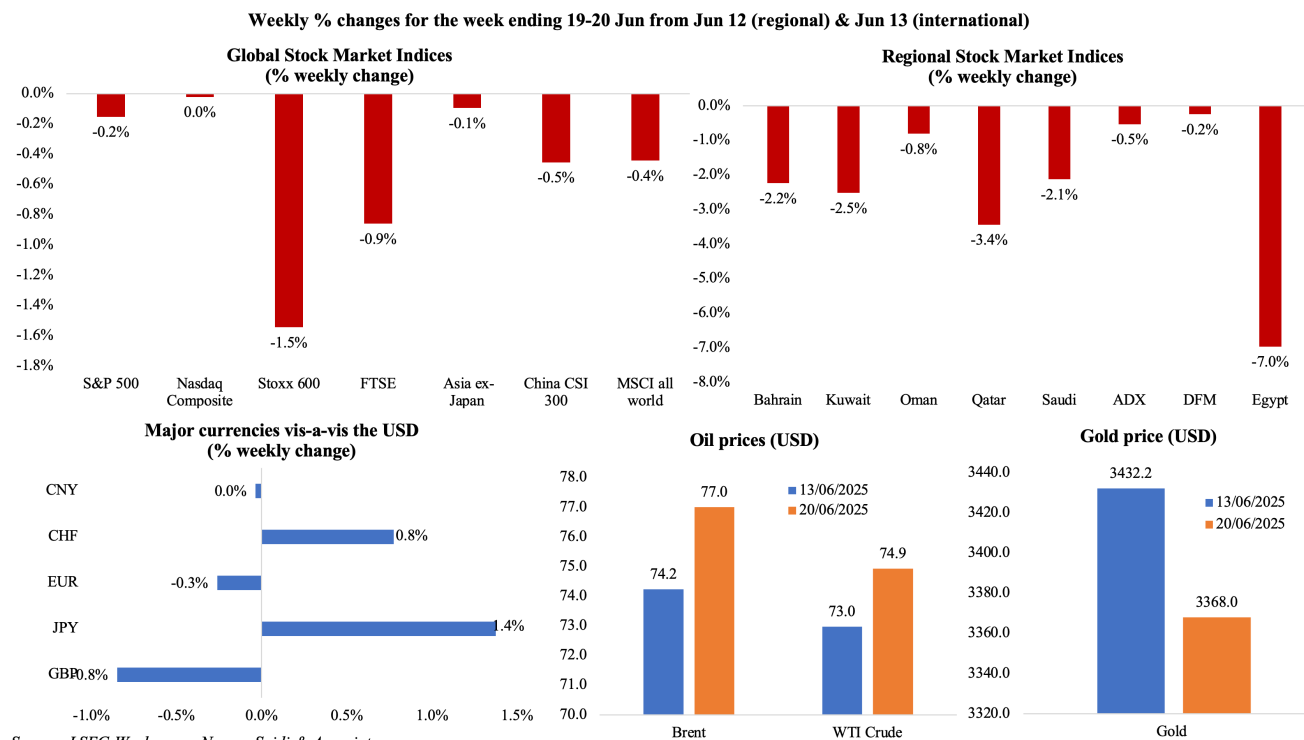


# US Geopolitical Risks, Tariff Pressures, and Mounting Debt Weigh on Global Outlook, Weekly Economic Commentary, 23 Jun 2025

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## Markets

**Markets are bracing for Iran's response to the US attack over the weekend:** European and Asian markets slipped today, while US markets (open now) have advanced. Crude oil prices touched a 5-month high today (to USD 81.4 per barrel) before declining while the dollar index and gold price also declined during the day. Regional markets ended higher today despite the regional conflict. At the end of last week, Trump stated that he would decide on US position about military action after two weeks: nervous investors caused stocks to close lower. Regional markets were down last week given the escalation in the Israel-Iran conflict. The US dollar rose to a 3-week high versus the JPY and gained versus the CHF and oil prices closed higher.



## Global Developments

### US/Americas:

- **The Fed held policy rates unchanged at 4.5% at the latest meeting as expected.** The continued wait-and-watch approach is understandable given the mixed economic signals (such as a tame inflationary print, robust labour market versus weak manufacturing and lower consumer confidence) amid rising inflationary and recessionary risks. Fed's latest projections show a weaker growth (1.4% in 2025), with unemployment rate rising to 4.5% (from current level of 4.2%) and PCE inflation rising to 3% (from 2.1% in Apr) – painting a modest stagflationary picture.
- **Industrial production in the US declined 0.2% mom in May** (Apr: 0.1%), reflecting softening demand conditions across key sectors: both mining and manufacturing ticked up by 0.1% (the latter on motor vehicles) alongside a 2.9% dip in utilities output. In yoy terms, IP grew by 0.6% yoy – the smallest uptick this year – while capacity utilisation eased to 77.4% (from 77.7%). If

demand remains subdued, expect further deceleration in production.

- **Retail sales in the US edged lower by 0.9% mom in May** (Apr: -0.1%), **the largest drop since Jan**, dragged down by a decline in motor vehicle purchases (-3.5%). In yoy terms, sales were up by 3.3% (Apr: 5%). This reflects weakening consumer momentum, given tighter credit conditions and high prices.
- **Building permits in the US fell by 2% mom to 1.393mn in May, the lowest since Jun 2020**, as single-family building permits slipped by 2.7% to 898k, the lowest level since Apr 2023. **Housing starts plunged by 9.8% to 1.256mn, the lowest since May 2020**. This retreat highlights affordability challenges as well as elevated financing and construction costs (partly due to tariffs and labour shortages), suggesting continued softness in residential construction.
- **Manufacturing sentiment remains under pressure. The NY Empire State manufacturing index** slipped to -16 in Jun (May: -9.2), as new orders and shipments declined, selling price increases accelerated alongside employment rising for the first time in several months. **Philadelphia Fed manufacturing survey index** stood at -4 in Jun, unchanged from the previous month, with employment index falling into negative readings, its lowest level since May 2020.
- **Initial jobless claims in the US slipped by 5k to 245k** in the week ended Jun 13 and the 4-week average rose by 4.75k to 245.5k, the highest reading since Aug 2023. **Continuing jobless claims fell** by 6k to 1.945mn in the week ended Jun 6.

## **Europe:**

- **Current account surplus in the euro area narrowed to EUR 20bn in Apr, the lowest since May 2023**, and a sharp decline from March's EUR 51bn (that was driven by

frontloading by consumers and businesses). This reflects weaker surpluses of goods trade (EUR 30bn from EUR 44bn) and services (EUR 7bn from EUR 13bn). While the region remains in surplus, the reading suggests softening of external demand.

- **The preliminary reading of consumer confidence in the eurozone unexpectedly fell to -15.3 in Jun** (May: -15.2), scoring well below the long-term average. The readings highlight cautious consumers amid prolonged inflation pressures and modest wage growth.
- **The ZEW economic sentiment index in Germany surged to 47.5 in Jun** (May: 25.2), as the current situation reading improved to -72 (May: -82) – the latter was the sharpest increase in this measure since Apr 2023. **Economic sentiment index in the eurozone also increased**, rising to 35.3 from 11.6 in May alongside an improvement in current economic situation (up 11.7 points to -30.7). This rebound was partly driven by growth in investment and consumer demand, and expectations of policy normalization, according to ZEW.
- **Producer price index in Germany fell by 0.2% mom and 1.2% yoy in May** (Apr: -0.6% mom and -0.9% yoy), with energy costs dragging down the overall index (-6.7% yoy) extending deflationary trends in input costs. Prices rose in yoy terms for non-durable consumer goods (3.6%), durable consumer goods (1.6%), and capital goods (1.9%).
- **Inflation in the UK eased to 3.4% in May** (Apr: 3.5%), largely due to a drop in transport prices (0.7% from 3.3%) alongside a slower pace of services inflation (4.7% from 5.4%) while food & beverage prices rose (4.4% from 3.4%). **Core inflation moderated: 3.5% from 3.8%.**
- **The Bank of England at the latest meeting left interest rates unchanged at 4.25%**, as widely expected; three committee members voted for a 25bps cut. With inflation trending toward target and growth indicators weakening, the BoE appears increasingly poised to begin rate cuts

later this year, possibly as early as August. However, risk factors are rising in light of recent events in the Middle East.

- **UK retail sales fell by 2.7% mom and 1.3% yoy in May reversing April's gains** (1.3% mom and 5% yoy); this was the sharpest monthly drop since Dec 2023. The monthly decline was due to lower spending at food stores (-5%, the largest drop since May 2021) as well as at clothing & footwear (-1.8%) and household goods stores (-2.5%). Excluding automotive fuel (which fell by 1.6%), retail sales were down by 2.8% mom.

### **Asia Pacific:**

- **The PBoC left the loan prime rates on hold:** the one- and five-year LPRs were at 3.0% and 3.5% respectively.
- **China's slew of economic indicators shows an uneven performance. Industrial production grew by 5.8% yoy in May**(Apr: 6.1%), as firms reduced output partly due to tariff pressures and weak external demand. **Retail sales increased** by 6.4%, the fastest pace since Dec 2023, and quicker compared to Apr's 5.1%. **Fixed asset investment expanded at a slower pace**, by 3.7% in Jan-May vs 4% in Jan-Apr. **FDI into China fell further** by 13.2% yoy in Jan-May (Jan-Apr: -10.9%), suggesting investor caution amid geopolitical tensions and confidence concerns.
- **The Bank of Japan left interest rates unchanged at 0.5% at the latest meeting**, maintaining a cautious stance even as inflation remains above target. The BoJ announced plans to slow the cuts to government bond purchases (to JPY 200bn per quarter) from April 2026 till Mar 2027.
- **Inflation in Japan eased to 3.5% in May** (Apr: 3.6%), with food prices up 6.5% (though rice prices jumped over 100%). **Excluding food and energy, prices ticked up to 3.3%** (Apr: 3%), the fastest gain since Jan 2024. **Excluding fresh food, prices increased to 3.7%** (from

3.5%), the fastest pace since Jan 2023, pointing to persistent underlying price pressures.

- **Exports from Japan fell by 1.7% yoy in May** (Apr: 2%), the first drop since Sep 2024, while **imports plunged by 7.7%**(Apr: -2.2%). Trade deficit widened to JPY 637.6bn (Apr: JPY 115.6bn), and may reintroduce currency volatility, thereby complicating the BoJ's path to normalization. Exports to the US and China fell by 11.1% and 8.8% respectively.
- **Core machinery orders in Japan fell steeply by 9.1% mom in Apr** (Mar: +13%), the weakest reading since Apr 2020, with non-manufacturing plummeting by 11.8%.
- **Wholesale price inflation in India inched up by 0.39% yoy in May** (Apr: 0.85%), the lowest since Mar 2024, as food costs slowed to a 19-month low of 1.72% (vs Apr's 2.55%).
- **India's goods trade deficit narrowed to USD 21.9bn in May** (Apr: USD 26.42bn), driven by a moderation in imports (USD 60.6bn from Apr's USD 64.91bn) while exports contracted by 2.2% (to USD 38.7bn). **Trade in services posted an estimated surplus of USD 14.65bn in May**, as services exports rose to an estimated USD 32.39bn (+9.4%) while imports increased to USD 17.14bn.

**Bottom line:** The US attack on Iran over the weekend added another level of global economic uncertainty. Iran's Parliament approved the closure of the Strait of Hormuz, a critical chokepoint through which about one-fifth of daily global oil production flows through every day. This has yet to be put into effect – but, should that happen, not only would raise fuel prices and production costs, it would also increase shipping costs (and related insurance). Other potential responses could include attack on oilfields and infrastructure of US allies or on US military bases in the Middle East. Prior to the attacks, and ahead of the US trade partners' July 9th deadline for tariffs, the US President Trump revealed that negotiations with both EU and Japan were not close to a deal

while also hinting at rollout of pharmaceutical tariffs “very soon”. Tariffs issues have now been set aside as questions are raised whether the US is embarking on another war in the Middle East (especially in the backdrop of US debt at USD 36.2trn and the “Big Beautiful Bill” on the table that could add at least a further USD 2.8trn according to Congressional Budget Office estimates). Meanwhile, this week’s flash PMI readings and US PCE data would show if the ongoing trade uncertainty remained a major concern for businesses and if inflationary pressures are on the rise. Worthwhile noting that the renewed concerns in the Middle East (as an aftermath of the US attack on Iran) could lead to higher oil prices, that in turn affect selling prices and consumer demand, in addition to supply chain disruptions.

### **Regional Developments**

- **The US strike on Iran over the weekend had the GCC nations on high alert, with its leaders calling for maximum restraint.** The GCC states are home to multiple US military bases that could be targeted in the event of an escalation.
- **The World Bank in its recent report on the GCC forecast growth to increase to 3.2% in 2025 and 4.5% in 2026, from 1.7% in 2024 – supported by expansions in the non-hydrocarbon sectors.** The report, which highlights Oman as an example of effective economic reform and fiscal management, found that a 1-unit increase in fiscal spending could boost non-hydrocarbon output by 0.1-0.45 units in the region. Read the report <https://documents1.worldbank.org/curated/en/099739006122521594/pdf/IDU-9f13d3a1-2bd9-4785-8b43-980b730b04b0.pdf>
- **Bahrain and UK signed a new partnership that will see total investment of GBP 2bn from Bahrain’s private sector into the UK’s key growth sectors including financial services, clean energy, manufacturing and technology.**

- **Egypt approved the 2025-26 economic plan:** it aims for a growth rate of 4.5%, public investments to the tune of USD 23bn (vs an estimated USD 19bn in the current fiscal year) or roughly 37% of total investments.
- **Annual urban inflation in Egypt rose to 16.8% yoy in May** (Apr: 13.9%), following the uptick in fuel prices: food prices ticked up (a 4-month high of 11.0%) alongside persistent increases in non-food items such as housing and utilities (14.4% from Apr's 13.9%) and transport (42.1% from Apr's 37.4%) among others. Annual core inflation accelerated to 13.1% in May (Apr: 10.4%).
- **FDI into Egypt clocked in at USD 47bn in 2024**, according to UNCTAD, becoming the ninth largest recipient of FDI flows (2023: USD 10bn). **Greenfield projects increased** in both number (+4%) and value (+30%) while **IPF commitments more than doubled**.
- **Inflation in Kuwait was to 2.25% in May**, the lowest since Sep 2020 and unchanged from the month before. Food and beverages costs ticked up to 4.72% (from 4.61%) while it was steady for housing (0.74%), recreation & culture (1.92%) and restaurants & hotels (1.5%) among others.
- **Oman announced that it will implement its first personal income tax from Jan 2028 – a 5% rate on individuals earning over OMR 42,000 annually.** According to the tax authority, the high threshold means about 99% of Oman's population will not be affected by the tax and that it would raise non-oil revenues to 18% of GDP by 2040.
- **Industrial exports from Oman grew by 8.6% yoy to OMR 1.618bn in Q1 2025**, with such exports to Saudi surging by 28.3% to OMR 259mn.
- According to Oman's export credit agency Credit Oman, **insured non-oil exports from Oman increased** by 6% yoy to OMR 61.2mn in Q1 2025. The mining sector posted the largest increase (a surge of 150% yoy to OMR 570k) while the insured export sales in the building and construction materials sector clocked in a total value

of OMR 27.16mn (+24% yoy). The agency cites estimated untapped export capacity of OMR 5bn.

- **Inflation in Qatar inched up to 0.48% in Apr** (Mar: 0.13%), the highest since Nov 2024.
- **Qatar attracted over USD 2.7bn in FDI last year:** according to the International Media Office, 241 projects were created (+110% yoy) creating more than 9k jobs (+123% yoy). The investments were concentrated in the five sectors including electric power generation, data processing and hosting, retail and wholesale trade, scientific research and development, and water, sewage, and other systems.
- The central bank governor disclosed that **Syria made its first direct SWIFT transfer since the civil war began:** the transaction was from a Syrian to an Italian bank.
- GCC's US Treasury holdings gained in Apr. **Saudi Arabia remained the 17th largest global investor**, with its holdings up by 1.67% mom to USD 133.8bn. **UAE holdings surged** by 8.1% mom and 61.6% yoy to USD 112.9bn – **19th largest holder of US Treasuries** (behind Saudi Arabia and South Korea, but ahead of Germany). **Kuwait posted a gain** of 2.9% mom & 20.7% yoy to a **new record-high of USD 54.2bn** (previous record: USD 52.7bn Mar 2025).
- **UNCTAD's World Investment Report 2025** issued last week showed FDI flows into West Asia up by 4.7% yoy to USD 82bn and that to North Africa up by 277.5% yoy to USD 50.7bn. **Within West Asia, UAE emerged as the best performer**, attracting USD 45.6bn in 2023 (+48.7% yoy) while **Egypt was the best performer in North Africa**, the driving force in Africa's gains, thanks to investment in the Ras Al-Hikma project. **International project finance activity in West Asia increased** – deal value increased by 5% to USD 78bn, supported by infrastructure and energy projects (in UAE, Saudi Arabia and Iraq). This was **in sharp contrast to a decline** in developing Asia (deals were down by 27% and value by 43%).
- The UAE minister of economy revealed that the **unified**

**GCC tourist visa has been officially approved and “waiting now to be implemented, hopefully soon”.**

- **Visitor spending in GCC is projected to rise to USD 223.7bn by 2034**, according to the GCC Statistical Centre, with inbound visitor spending expected to contribute 13.4% to the region’s total exports. Total international visitor spending had touched USD 135.5bn in 2023.

## **Saudi Arabia Focus**



- **Saudi Arabia’s Capital Market Authority (CMA) provided regulatory approval for three entities on a single day (June 18th) to list on Nomu**, underscoring investor appetite. In 2024, Nomu recorded 28 IPOs and three direct listings, together raising over SAR 1.1bn (USD 293.2mn).
- **Saudi PIF launched a new company to build and operate facilities for Expo 2030**: the event is expected to attract 40mn+ visits and, once operational, expected to contribute around USD 5.6bn to Saudi GDP.
- **Tourists visiting Saudi Arabia stood at 116mn in 2024**, with tourism spending rising to SAR 283.8bn (USD 75.6bn); inbound tourists contribution was up 19% yoy to SAR 168.5bn while domestic tourist expenditure was SAR 115.3bn (+1% yoy). Non-religious tourism accounted for 59% of inbound visits (vs 44% in 2019).
- **Employment in the Saudi cultural sector surged by 318%** since the Ministry of Culture was formed in 2018. The number of cultural graduates increased by 79% to 28,800 in 2024, while cultural associations and amateur clubs grew to 993 from 28.
- **Cement sales in Saudi Arabia grew by 6.4% yoy to 13.4mn tonnes in Q1**, thanks to a surge in mega-projects related construction.
- **Riyadh’s ranking in the 2025 Global Startup Ecosystem**

**Report was 23rd, up 60 places in three years. The capital ranked third in terms of funding volume and investment value relative to impact, and fourth in availability of skills and expertise. (Dubai was ahead of Riyadh).**

- **The PIF scored 100% score for top governance, sustainability, and resilience among global SWFs, joining eight others, according to Global SWF. This is an improvement from 96% in 2024, 92% in 2023 and just 28% in 2020.**

## **UAE Focus**



- **The UAE added a Ministry of Foreign Trade and renamed the Ministry of Economy to Ministry of Economy and Tourism. This is a strategic signalling and positioning by the country at a time of global fragmentation, trade & tech wars and Trumponomics to indicate greater openness and regionalised globalisation. Reinforces that trade is a major policy tool for economic diversification.**
- **Non-oil exports from the UAE accelerated by 40.7% yoy to AED 177.3bn in Q1 2025 while total non-oil foreign trade grew by 18.6% yoy to AED 835bn in Q1. The Vice President and PM of UAE revealed that the non-oil foreign trade goal of AED 4trn by 2031 would be achieved within next two years. Trade with India grew by 31%, with Saudi Arabia by more than double (127%), with Turkiye by 8.3% (surpassing prior records) and with China by 9.6%.**
- **Money supply in the UAE grew by 12% yoy in Mar (Feb: 11%). Private sector loans disbursed increased by 9.43% (Feb: 9.52%).**
- **Dubai was home to more than 39k electric vehicles by end-Q1, up 5% yoy, with power consumption by EV chargers up 25% yoy. A total of 39,159 MWh of electricity was used to charge EVs across Dubai till end-Mar from 2015 –**

equivalent of a cumulative 195mn kms.

- **GCC and Middle East markets were the major export destinations for Dubai Chambers members.** GCC nations accounted for 47.2% of the total value of members' exports (a combined value of AED 40.5bn) while Middle East markets excluding the GCC and Africa accounted for 29.1% and 10.6% of exports and re-exports.
- **The DMCC freezone is home to over 45% of the estimated 1,500 US firms in the UAE.** DMCC reported a 7% yoy increase in US companies in the past 12 months.
- **Adnoc's global investments arm, XRG, plans to invest USD 440bn into the US energy industry over the next decade,** according to the CEO of ADNOC.
- **UAE was assigned "AA/A-1+" foreign and local currency sovereign credit ratings with a stable outlook** by S&P Global.

## **Media Review:**

### **How to prevent an inferno in the Middle East**

<https://www.economist.com/leaders/2025/06/22/trump-must-offer-iran-more-than-bombs-rage-and-humiliation>

<https://www.economist.com/middle-east-and-africa/2025/06/22/trump-smashes-iran-and-gambles-the-regime-will-now-capitulate>

### **Qatar holds talks with energy companies on risk of Israel-Iran conflict, sources say**

<https://www.reuters.com/business/energy/qatar-met-with-energy-majors-discuss-risks-israel-iran-war-sources-say-2025-06-20/>

### **Ditching the dollar?**

<https://www.scmp.com/economy/china-economy/article/3315064/chinas-payment-system-spreads-across-africa-and-asia-amid-us-trade-war>

<https://www.reuters.com/world/africa/under-shadow-trump-warning-africa-pioneers-non-dollar-payments-systems-2025-06-20/>

### **Germany and Italy pressed to bring USD 245bn of gold home from**

US

<https://www.ft.com/content/e39390cc-ea02-4197-843a-1e4c242422c>  
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