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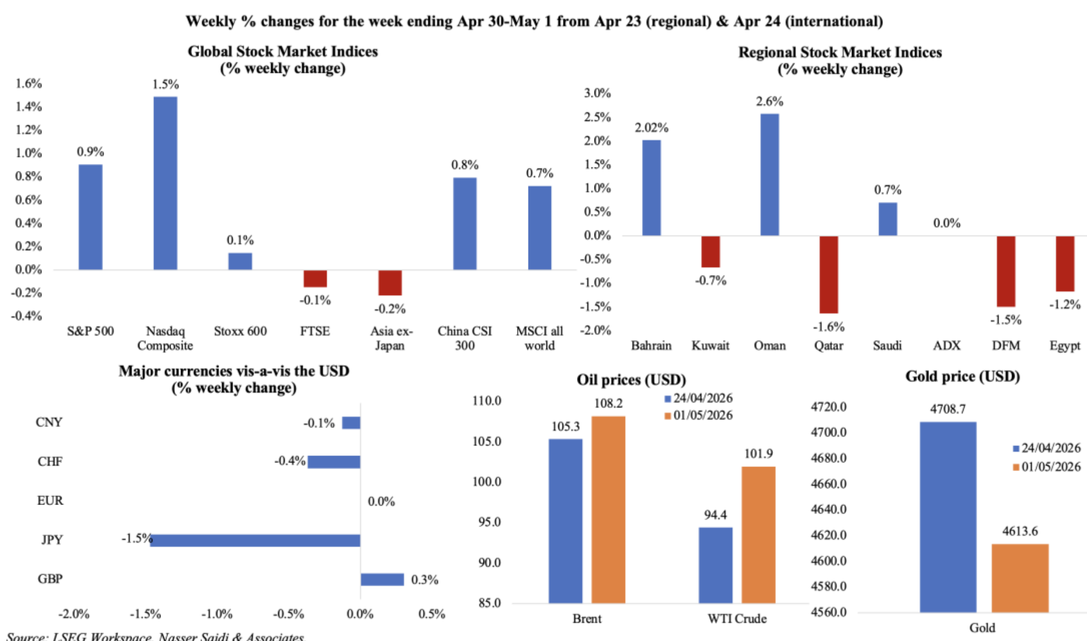
Fault Lines: Conflict, Energy & the New Global Order

Weekly Economic Commentary, 4 May 2026

Markets

Global equities markets have been mixed, with strong US corporate earnings (especially tech stocks) on one side, concern about commercial bank AI and data centre debt, and ongoing unresolved Middle East tensions on the other. Global shares posted their biggest monthly rise since 2020 in April on earnings optimism. Regional equities ended mostly in the red last week with reports that US was considering military action with the negotiations to a permanent deal with Iran reaching nowhere. Currency markets have been witnessing central bank interventions – Japan to curb JPY speculation amid the current carry trade; the Reserve Bank of India stepped in after INR fell to a new record low of 95.3337 to a dollar on Thur amid oil strains and related price concerns. Gold price posted a 2.0% drop last week as markets weighed the latest proposal for negotiations against the inflationary impact of sustained high oil prices. Brent touched USD 126.41 a barrel on Thursday, the highest level since Mar 2022; fresh proposals from Iran to the US offered some respite and oil prices dropped on Friday though it ended with a weekly gain (Brent up 2.7% and WTI up 8.0%). Expect equity and commodity markets to witness continued high volatility given continuing geoeconomic and geopolitical risks and unresolved issues.



Economic Consequences from the conflict in the Middle East & Policy Responses

The global economy continues to be weighed down by the economic impact of the escalation of the Iran conflict. With the **war having cost the US a reported USD 25bn so far**, with the Trump

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administration requesting a **$1.5 trillion defence budget** for next year - a 42 percent increase. The deadlock at the Strait of Hormuz continues to restrict shipping traffic to a trickle. The US on Sun (3 May) announced **"Project Freedom" to help ships that are stranded in the Strait** (though details are scant as to how) and secure transit routes while **US Treasury warned shippers against paying tolls to Iranian forces**, even in the form of charity. In the meantime, **US approved over USD 8.6bn in military sales to Middle East allies** to reinforce regional security.

Economic consequences of the conflict are becoming clearer with new data releases and announcements. The International Air Transport Association (**IATA**) recorded **significant disruptions to March air traffic**, with Middle East airlines plunging (cargo traffic was down a steep 54.3% while passenger traffic plunged 60.8%); jet fuel prices rose by 106.6% yoy to their highest level in over 23 years. The conflict has disrupted global circuit board supply chains and **threatened critical digital infrastructure**, including subsea cables passing through the chokepoint. In the UAE and Bahrain, the recovery of a damaged Amazon cloud region is expected to take several months. On the industrial front, **Fertiglobe** has seen its profit nearly triple due to higher prices for agricultural inputs and the **EU has authorized subsidies for businesses affected by fuel and fertilizer shortages.** Meanwhile, the UN climate chief noted that the **war is supercharging the clean energy transition.**

Policy rates on hold. Last week, the ECB and Bank of England held interest rates unchanged as did the US Fed and Bank of Japan. The **Fed sounded more hawkish** (lowering chances of a rate cut this year) while both the **ECB and BoJ signalled that rate hikes were on the horizon** given the high energy costs and related inflationary pressures.

Energy markets remain intensely volatile. While OPEC+ agreed to another oil output hike, the US naval blockade continues to squeeze Iran's exports, forcing crude onto floating storage. The biggest news last week was the **UAE's historic departure from OPEC after nearly six decades, a strategic decision**: with its increased energy production efficiency and energy diversification, accepting OPEC quotas were increasingly binding constraints on energy policy. While Russia and Algeria have pledged to stay within the OPEC framework to maintain price floors, the UAE's exit suggests that regional powers are increasingly prioritizing national autonomy over collective price governance. **As both supply and demand dynamics shift** (growing competition of non-OPEC members and the widespread availability of alternative options to oil & gas on the supply side; China's steady reduction in oil and gas dependence on the demand side) **the ability of OPEC+ to artificially support prices will be compromised.**

In the short-term, the effects of UAE's departure will likely be muted – regional oil flows via the Strait have been throttled. But when the Strait of Hormuz eventually reopens, the world will not return to the "normal" of past years. Instead, it will face a market where OPEC+'s share has dwindled to roughly 28% in real terms. With the market facing a synchronised surge in non-OPEC supply and downward demand pressures, **expect a significant downward repricing of**

crude which will favour energy diversified oil economies that can survive comfortably in a lower-price regime.

The **UAE is uniquely positioned in this regard.** With its fiscal break-even estimated at close to USD 45 per barrel and a more-diversified economy, UAE will be able to withstand volatile oil prices better than its GCC peers. The UAE is **likely to pursue long-term, bilateral supply contracts** to secure future volume, modelled after its CEPAs and Qatar's recent LNG agreements. In the age of greater weaponisation of the USD, the **UAE could even opt to price its oil in Chinese yuan** and develop the PetroYuan market in partnership with China and other oil importers especially if the dollar liquidity remains tight. Additionally, the UAE's **sovereign wealth funds** (with deep pockets and global investments) **can act as automatic fiscal and economic stabilisers** using their deep pockets and global investment portfolios to absorb the shock to government spending if oil revenues fall sharply.

Countervailing Regional Policies & Developments

- **UAE announced its exit from OPEC after nearly six decades**; Reuters reported that a UAE official stated that the country is **not considering any further withdrawals** from other multilateral organisations. *Read our op-ed on the OPEC exit titled "UAE's Leap into Energy Independence & the New Oil Order".*
- **OPEC+ agreed to a third production hike since the closure of the Strait of Hormuz** to stabilize global price expectations. The move to raise oil output targets by 188,000 barrels per day in June will remain an "on paper" one as oil supplies continue to stay disrupted due to the Strait closure. Market stabilization efforts will remain a fixture of OPEC policy; it is expected to take a few months for flows to normalise even after the Strait is fully opened. With the UAE leaving, OPEC+ includes 21 members including Iran; only seven nations plus the UAE had participated in these monthly meetings.
- **Arab LNG exports declined by almost one-quarter to about 22 million tonnes in Q1** 2026, according to the Organisation of Arab Petroleum Exporting Countries, as strikes on critical infrastructure led to production facilities damages. The drop in output due to substantial fall in LNG exports by Qatar (-33% to 14.5mn tonnes) and the UAE (-39% to around 1mn tonnes) is creating a **structural supply gap** and will likely maintain global spot prices elevated.
- **An ADNOC LNG tanker successfully crossed the Strait of Hormuz for the first time since the war began**, according to ship tracking data though no official confirmation was received. Separately, **ADNOC is offering clients the option to load crude outside the Gulf** "on a case-by-case basis" to bypass the chokepoint. Though alternative delivery points were not mentioned, it is likely that transfers will happen either off Fujairah or Oman's Sohar.
- **Bahrain is offering fee deferrals for Q1 2026 to support hotels and restaurants** hit by travel advisories and a demand vacuum in the hospitality sector. This proactive relief aims to prevent insolvency among SMEs during the conflict, and such fiscal intervention will likely expand if regional travel remains restricted.

- **Egypt increased industrial natural gas prices starting in May** to mitigate the fiscal strain caused by global energy volatility. This follows March's 17% hike in domestic fuel prices. While these hikes are necessary to boost state revenues, these higher input costs will likely be passed directly to energy-intensive manufacturers and eventually end consumers.
- Asharq Business reported that **Egypt is planning to invest** over USD 600mn **towards an integrated logistics zone for storing and handling petroleum products** at the Northern port of Alexandria. These facilities will offer an alternative logistics route for shipping oil cargoes.
- **Rising risk aversion triggered by the Iran war has led to a selloff in Egyptian debt**, with risk premiums climbing as investors weigh geopolitical spillovers. This market volatility has **prompted Egypt to delay planned international bond issuances**.
- **The Iranian rial dropped to a record low of 1.8 million per dollar**, signalling a catastrophic loss of domestic fiscal stability. **Inflation is currently running at 65.8% yoy** (from 20 Mar-20 Apr) and is likely to increase as the currency weakens. This uncontrolled devaluation will further erode purchasing power and the state's capacity to manage a wartime economy and reconstruction needs in the near-term.
- **Iraq has commenced work on the Basra-Haditha pipeline** with a planned capacity of 2.5mn barrels per day (bpd), a project that signifies a strategic shift to bypass vulnerable southern export terminals. The country also expects that **oil output, and exports can recover within a week once the Hormuz crisis ends**. The deputy oil minister stated that production currently stood at 1.5mn bpd, with about 200k bpd exported via Ceyhan, while two tankers had been prepared and two more were expected.
- **Over one million people in Lebanon are expected to face acute food insecurity** as the conflict continues despite the ceasefire alongside more displacements and supply disruptions. The agriculture ministry revealed that more than **76% of farmers in the South have been displaced and 22% of all agricultural land damaged** in the latest round of fighting. The deepening humanitarian crisis threatens to trigger a full-scale social collapse without urgent multilateral intervention.
- **Qatar unveiled comprehensive support packages for markets, foreign firms and free zones** to maintain investor confidence. These buffers are designed to prevent capital flight and include support of up to 40% on eligible local expenses through its National Incentives Programme, rent waivers, payment deferrals and lease extensions for affected tenants in the freezones as well as expanded digital services from the Ministry of Commerce and Industry among others. Separately, according to Bloomberg, **Qatar's helium exports to Japan fell to the lowest in over a year** - plunging 81% yoy to 8,800kg in Mar.
- **Strains in the construction and retail sectors are increasing Saudi bankruptcy filings**, reflecting the uneven impact of on non-oil sector industries. Filings almost doubled to 141 cases in Q1, up from 74 in the same period in 2025, with retail and construction together accounting for nearly two-thirds of the cases. Concurrently, **Saudi Arabia pulled funding for non-core projects like LIV Golf** to prioritize national security and infrastructure.

- **The UAE identified 150 vital goods to boost supply chain resilience**, to ensure sustainable flow for essential commodities. This move aims to prevent domestic shortages and panic-buying during prolonged periods of external trade friction. This strategy will likely build a more autonomous industrial base, reducing long-term vulnerability to global logistical shocks.
- **Dubai launched an AED 1bn Creative Sector Resilience Portfolio** for its creative and cultural industries, to be delivered in phases, signalling a commitment to long-term diversification. This investment - which includes access to free spaces, funding, professional development and market opportunities - ensures the region remains attractive to global human capital and creative economy sectors.
- **Dubai-based cargo airline SolitAir saw a silver lining from the ongoing shipping disruptions.** The firm witnessed a 50% jump in business during the conflict, gaining 22 new customers since late-March. According to the CEO, the airline raised some customer prices by about 40% on average, with rates in certain routes almost doubling.
- **Emirates NBD went ahead with the first GCC public debt sale since the war began**, acting as a critical bellwether for regional credit market appetite. It priced its USD 750mn Regulation S perpetual non call six-year AT1 bond at par to yield 6.25%; the orderbook peaked more than USD 2.5bn before finalising at USD 1.8bn.
- **Project awards across the GCC declined by 9.7% yoy to USD 61.2bn in Q1 2026**, according to MEED Projects, reflecting the impact of the conflict on the construction landscape. The number and value of contracts dipped to 25 and USD 11.8bn respectively in March (Feb: 80 and USD 26bn). This contraction reflects a strategic wait-and-watch approach from developers and sovereigns alike.
- Reuters reported that **Saudi Arabia might lower its June crude selling prices for Asia from record levels** to preserve its critical market share. This aggressive positioning reflects a shift toward prioritizing volume and long-term buyer relationships over immediate price floors. Chinese refiners planned to buy just 20mn barrels of crude from Saudi Arabia in May, the lowest volume on record, after the seller hiked its price to a record high.
- **Fitch has affirmed ratings for Abu Dhabi** ("AA" with a stable outlook) **and Qatar** ("AA/A-1+" with a stable outlook), noting that robust fiscal reserves and sovereign wealth assets continue to anchor sovereign creditworthiness. However, it also warned that a prolonged conflict could impact the ratings of Qatari banks due to potential liquidity tightening.

Macroeconomic Developments in the MENA region

- **Egypt's unemployment rate fell to a record low of 6.3% in 2025** (2024: 6.6%), reflecting the labour market's capacity to absorb new entrants even as the total labour force expanded by 6.6% to 34.15 million persons. Notably, youth unemployment (ages 15-29) declined to 13.2% (2024: 14.9%) and female unemployment fell to 15.3% (2024: 17.1%) - the lowest jobless rate for women since 2021.
- **Egypt** is aggressively pivoting toward investing in its mineral wealth, **targeting an increase in the mining sector's GDP contribution to approximately 6%** from less than 1%. A

cornerstone of this strategy is the launch of the first comprehensive aerial geophysical survey since 1984, scheduled for June 2026, which aims to close a four-decade geological data gap.

- **The Central Bank of Egypt is set to launch its second financial inclusion strategy** (2026-2030) **by June 2026** to integrate remaining underserved segments through digital innovation and sustainable financing. This follows the milestone financial inclusion rate of 77.6% as of end-2025, with 54.7 million citizens holding active transactional accounts.
- **Remittances from Egyptians working abroad grew by a robust 28% yoy to USD 29.4bn** during the first eight months of FY 2025-2026. In Feb 2026 alone, monthly inflows surged by 25.7% to USD 3.8bn. March numbers will be crucial to understand the impact of the war and geopolitical volatility on such remittance flows.
- **Egypt announced a new natural gas discovery in the Nile Delta** capable of producing 50 million cubic feet per day. The proximity of the discovery to existing infrastructure (less than 2kms) ensures that early production can be integrated into the national grid within weeks.
- **The Egyptian government shortlisted 10 state-owned petroleum companies** for listing on the local exchange as part of its wider privatization mandate. Stakes for the initial public offerings are expected to range from 10-20%, reported Asharq Business.

Macroeconomic Developments in the GCC

- **Inflation in Qatar inched up to 4.17% yoy in Mar** (Feb: 2.51%), the highest since Feb 2023. Prices ticked up 0.76% mom, with largest increases recorded in food & beverages (6.9%), transport (1.63%) and clothing & footwear (0.48%).
- **Greece and Qatar formally deepened their trade, energy and defence ties**, reflecting a mutual interest in exploring investment opportunities including in infrastructure, energy and data centres.
- **Qatar disclosed a significant surge in foreign firms**: **over 14,500 foreign companies** were operational in the country as of end-2025 (**+600% yoy**) driven by business-friendly regulations and the expansion of the country's free zones. Whether this foreign firm registration will thrive in the backdrop of geopolitical uncertainty remains to be seen – if yes, it could lead to a surge in commercial real estate demand and non-oil professional services.
- **Oman is rapidly expanding its economic zones** to attract foreign capital and diversify its hydrocarbon-reliant economy. Oman's Public Authority for Special Economic Zones and Free Zones **secured investment agreements worth more than OMR 200mn across its freezones to drive its industrial growth** (an export-oriented industrial base is being planned spanning EV batteries, steel, construction products and pharmaceuticals). Separately, **Oman is also establishing a specialized SEZ for Artificial Intelligence** and exploring **greater integration with Saudi economic zones** to enhance cross-border trade and supply chain efficiency.
- **Oman and Kazakhstan agreed to establish a joint investment fund** to boost bilateral trade and diversify their economic portfolios - targeting key sectors such as infrastructure, agriculture, and energy transition projects.

- **Saudi Arabia GDP Saudi Arabia's real GDP showed a sharp deceleration in annual growth in Q1 2026**, growing by 2.8% yoy – a significant slowdown from the previous quarter's 5% growth. **On a quarterly basis, the economy shrank by 1.5%,** dragged down by oil sector activity (-7.2% qoq) as regional disruptions (due to the Hormuz blockade and war in Iran) took hold in March. **Non-oil activities expanded by 2.8% yoy** and contributed 1.7 percentage points (ppts) to overall growth, though this expansion was much slower than the 5.5% growth from a year ago (and Q4's 4.3%). Oil activities added 0.7ppts, growing 2.3% yoy: the uptick was a result the OPEC+ decision to ease voluntary curbs that raised oil production levels.
- **Saudi Arabia's Vision 2030** has entered its final phase, with **93% of key performance indicators meeting or exceeding targets as of end-2025**; 90% of initiatives were completed or on track. **Phase 3 of Vision 2030** focuses on faster execution of national programs, advancing private sector-led growth (already reached 51% of GDP), tourism expansion and continuing with major infrastructure plans among others.
- **Saudi investment contributed 30% to nominal GDP by end-2025.** FDI inflows increased 5-times to SAR 133bn (vs 2017: SAR 28bn) while FDI stock almost doubled to SAR 1.1trn.
- **Saudi Arabia's female workforce** participation has been rising and their **representation in leadership roles reached 44% in 2025**, marking a significant milestone in social and economic empowerment. This increase reflects progressive labour laws and successful educational initiatives. The continued rise of women in leadership will foster a more diverse and innovative private sector workforce.
- **Saudi Arabia** has achieved widespread connectivity, with a **vast majority of homes now connected to high-speed fibre optic networks** (5.8mn as of end-2025 vs 1.59mn homes in 2017). This digital infrastructure underpins the country's aim of becoming a leading tech and data centre hub, as reliable connectivity supports growth of e-commerce and remote work capabilities; this will also drive the adoption of agentic AI and cloud computing.
- The **UAE is prioritising economic resilience through a National Industrial Resilience Fund** with a capital of AED 1bn (to finance localisation of industries, enhance supply chain resilience via logistics infrastructure and the stockpiling of essential goods while ensuring business continuity) and a **proactive public debt management strategy** designed to reassure institutional investors regarding the sovereign's credit profile. Sustained domestic bond issuance will deepen local capital markets, reducing reliance on foreign-currency borrowing.
- **Abu Dhabi's non-oil foreign trade surged** by 35.7% yoy **to a record-high AED 415.4bn** (USD 113.1bn) in 2025. The **export-led growth** stemmed from a 63% surge in non-oil exports (to AED 175.4bn) and 20% expansion in re-exports (to AED 70bn) while imports rose 22% (AED 170.4bn). **Diversified logistics channels:** Trade flows were evenly **balanced across transport modes** prior to the crisis, with land accounting for 35%, air at 33.5% & sea at 31.5%. Separately, the **activation of the UAE's CEPA with South Korea** on May 1st demonstrates the continued expansion of the nation's global trade network.

- **Dubai has significantly lowered entry barriers by scrapping the minimum property value requirement for investor residency**: property owners in Dubai can now apply for a two-year investor visa regardless of purchase price, removing an earlier AED 750k threshold. Separately, Dubai's real estate market sales touched USD 49bn in Q1, propelled largely by luxury segment transactions (up 62.6% yoy to 2,148 transactions exceeding AED 10mn). Despite regional tensions, **major developers like Aldar maintain that the macro impact has been "exaggerated"** highlighting the companies strong asset base and a strong tenant base. The liberalization of residency rules could result in an influx of global human capital and HNWIs, sustaining secondary market liquidity – supported also by long-term urban expansion projects like the Dubai Metro's Gold Line.
- **Company registrations in the DIFC increased in Mar**, with 258 new firms registered (Mar 2025: 162) and follows a total of 517 in Jan-Feb (+62% yoy). This brings the total new companies established in DIFC in Q1 to 775 (+62% yoy). Separately, Ras Al Khaimah recorded a 15.5% yoy growth in the total capital of economic licenses issued to AED 11.497bn in Q1, indicating strong business creation.
- The **Sharjah Entrepreneurship Centre** (Sheraa) **launched its Entrepreneurs Resilience Fund** to shore up startup resilience and support small enterprises facing economic disruption; it aims to mobilise up to USD 1.36mn to provide financial, operational and marketing support for Sharjah-based startups and SMEs.

Global Macroeconomic Developments

US/Americas: The Federal Reserve left interest rates on hold while Q1GDP grew at an annualised 2.0% (rebounding after the shutdown-affected quarter, thanks to investment and government spending). Personal income rose 0.6% in March and spending was up 0.9%, with the personal saving rate was 3.6%. Initial jobless claims fell by 26k to 189k in the week ended Apr 25 while housing showed fresh signs of life with stronger starts (10.8% mom to 1.502mn in March, the highest since Dec 2024) and firmer building permits (up 11% mom to 1.538mn in Feb). **Manufacturing has remained in expansion territory**, with S&P Global's PMI at 54.5 in Apr (the strongest since May 2022) and ISM holding at 52.7, which says activity is slowing only gradually. But the real story is that **inflation has re-accelerated at the same time that growth has held up**. Core personal consumption expenditures surged 4.3% qoq annualised in Q1 (Q4: 2.7%), the goods trade deficit widened to USD 87.9bn and ISM prices paid jumped again to 84.6. Even the March retail-sales rebound (up 0.8% mom vs Feb's -1.2% drop) was supported by higher gasoline prices rather than discretionary spending strength. **In other words, the US is still growing, but it is now doing so in a more stagflationary manner**: demand is resilient but higher energy and goods costs are likely to bite into real incomes and margins. The **Fed is likely to keep rates higher and longer than markets once expected**, because the near-term risk is no longer weak growth alone but growth plus rising inflationary pressures, stagflation looms closer.

Europe: Europe's **headline industrial story is better than expected**, but the quality of that improvement is questionable. The euro area manufacturing PMI rose to a near 4-year high of 52.2

in April and the UK factory survey strengthened as well (up to 53.7, the most since May 2022) while Germany remained above 50 despite some loss of momentum (51.4 from 52.2 in Mar). Yet the **broader macro backdrop was softer**: eurozone GDP grew only 0.1% qoq in Q1 (slowing from Q4's 0.2%), headline inflation edged up to 3.0%, sentiment deteriorated (the economic sentiment indicator in the eurozone slipped to 93 in Apr vs Mar: 96.2) and Germany's consumer-side indicators remain weak, with retail sales falling and confidence dropping sharply. **Factory surveys are still being supported** by stock-building and front-loading, but households are not spending enough **while policymakers are increasingly worried about another imported inflation wave.** The European Central Bank therefore held rates steady but signalled a potential rate hike at the next meeting in June, while the Bank of England also stayed on hold as energy-driven inflation risks re-entered the policy debate. Europe's economy is relatively fragile and the inflation backdrop is worsening while its domestic demand base remains too weak.

Asia Pacific: Asia remains the strongest growth region overall, but it is becoming more uneven internally. China's official manufacturing PMI held just above 50 at 50.3 in Apr, while non-manufacturing slipped below 50 (Apr: 49.4); by contrast, the RatingDog manufacturing reading improved (52.2 in Apr vs 50.8 in Mar). China so far points to a narrow, policy-dependent expansion in which industrial sectors are holding up better than the broader domestic demand. **Japan and India show the region's split very clearly.** Japan's manufacturing PMI jumped to 55.1, with output surging and firms clearly front-loading activity amid fears of supply shortages. Meanwhile, the Bank of Japan still kept rates unchanged as Tokyo inflation excluding food and energy eased (to 1.9% from 2.3%). India, by contrast, still looks like the cleanest growth story in the region: manufacturing PMI rose to 55.9 and industrial production expanded, but cost pressure from fuel and raw materials remains elevated. **Asia is not a single story**: China is likely to stay in selective-support mode; Japan will remain cautious unless imported inflation broadens further; India should continue to outperform as long as higher energy costs do not dent much household demand or corporate margins.

Media Review:

UAE's Leap into Energy Independence & the New Oil Order: Dr. Nasser Saidi's op-ed for the Clean Energy Business Council
https://nassersaidi.com/2026/05/01/uae-exit-from-opec-energy-independence-new-oil-order/

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