

Daily Economic Update

Economic Research Department
6 March 2025

US: Service activity unexpectedly quickens but tariffs and policy-related uncertainties cloud the outlook. The ISM services PMI rose to 53.5 in February from January's disappointing 52.8, on improvements in new orders (to 52.2) and employment (to 53.9), which logged the highest reading since December 2021. The February reading partly eased worries about stalling economic momentum following a series of weaker data releases, but price pressures appear to be intensifying and becoming more broad-based, with the ISM cost sub-index rising to 62.6 from an already high 60.4 in January. This echoes the sharp jump in prices to their highest in two and a half years in the manufacturing survey as previously reported. ISM services survey respondents generally cited heightened uncertainties about tariffs and the government's other policies related to cuts in Federal spending as weighing on input prices and overall confidence, which underscores their cautious outlook. Meanwhile, on the tariff front, government officials stated that the administration was looking to delay tariffs on auto imports from Canada and Mexico for one month and consider exemptions for some agricultural imports from these two countries.

Europe: Germany pushes for massive fiscal reform to allow increased defense spending. In a major move to overhaul strict constraints on government borrowing, Germany plans to amend its constitution to exempt defense and security expenditures from limits on fiscal spending. In addition, Chancellor-in-waiting Friedrich Merz is planning a €500 billion infrastructure fund that will be established for priority investments in areas including housing, transportation, and energy grids, over the next decade. Moreover, Germany is calling on the EU to reform its fiscal rules to allow countries to make bigger defense expenditures, again a significant shift for the country. In fact, the EU is already proposing to extend €150 billion in loans to boost defense spending, and a further €650 billion could be unlocked over four years without triggering budgetary penalties. The EU is holding a summit today to discuss and possibly endorse some proposals. The move comes following intensifying US-Ukraine tensions that have led to the US freezing military aid to the Zelensky government. Market reaction has been significant, with European bond yields soaring on Wednesday with increases over the last three days of nearly 40 bps for the bloc's largest four economies, the euro rallying by around 2.7% against the USD over the same period, and European stock markets up strongly on Wednesday.

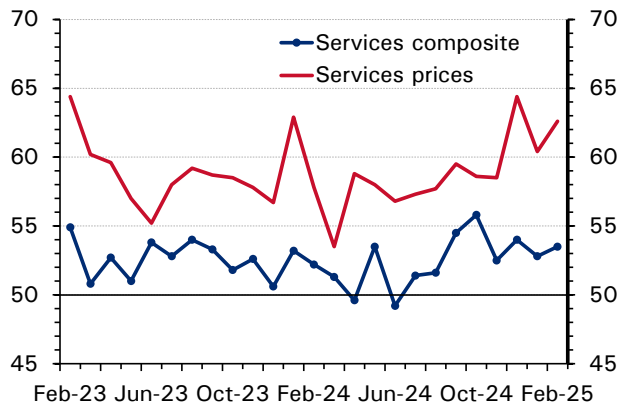
Japan: Services sector expansion extends in February; manufacturing remains in contraction. The Au Jibun Bank Japan Services PMI experienced its fastest growth in six months, rising to 53.7 from January's 53.0. The monthly gain, the fourth in as many months, was driven by robust sales and stronger increases in new export business. The improvement in services activity helped offset a ninth consecutive, albeit decelerating, monthly contraction in manufacturing activity (up to 49.0 in February from 48.7 in January) and pull up the composite PMI, which combines both sectors, from 51.0 in January to 52.0 in February, a five-month high rate of expansion. Meanwhile, Bank of Japan Deputy Governor Shinichi Uchida indicated that the bank plans to continue raising interest rates in line with market expectations, emphasizing the challenge of determining Japan's neutral

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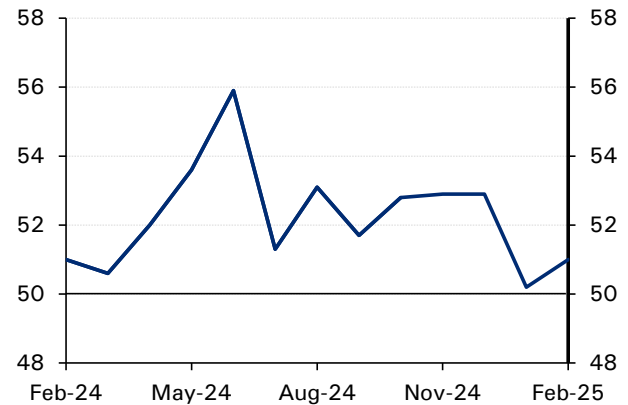
interest rate and the need for caution amid global economic uncertainties. Nevertheless, he remained optimistic about Japan's economic performance, supported by anticipated wage increases and the expectation that inflation will continue to trend down to the bank's 2% target.

Chart 1: US ISM services PMI
(index, above 50 expansion)



Source: Haver

Chart 2: Qatar non-oil private sector PMI
(index; >50 = growth)



Source: Qatar Financial Center, S&P Global, Haver

UAE: GDP expands by 3.8% in the first nine months of 2024. GDP growth in the first nine months of 2024 reached 3.8% y/y, according to the government's media office. This compares favorably with the 3.4% recorded in the corresponding period of 2023 and was driven predominantly by robust non-oil sector growth of 4.5% y/y (though slower compared to the 6.0% logged in same period in 2023). Meanwhile, oil sector activity rebounded (0.4% y/y), albeit modestly, from the contraction recorded over the same period in 2023 (-3.4%). We expect growth to remain robust, in line with other economic metrics including the very positive PMI readings seen in Q4 2024, which showed private sector activity in December expanding at the fastest pace in nine months (55.4) and mostly sustained in yesterday's PMI release for February (55.0). The federal government intends to double UAE GDP to AED 3 trillion (\$800bn) by 2031, according to its vision 2031 strategy.

Qatar: Non-energy private sector activity strengthens in February. Qatar's non-energy private sector PMI edged up to 51.0 in February from 50.2 in January, rising for the first time in three months, according to the S&P Global Qatar PMI. The labor market emerged as the primary growth driver, with employment expanding at a record pace (back above 60) in February, the seventh consecutive monthly gain, which contrasted largely flat output from January and a second consecutive monthly decline in new orders. Staff costs rose at their second-highest rate in February, albeit slightly below the previous month's peak of above 60. Despite these labor cost pressures, firms continued to reduce output prices for the seventh consecutive month, reflecting competitive pricing dynamics. Business sentiment remained upbeat, underpinned by firms' expectations of strong population growth, ongoing industrial development, and expanding tourism.

Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,557	-0.36	1.46
Bahrain (ASI)	1,976	-0.21	-0.50
Dubai (DFMGI)	5,313	-0.77	2.99
Egypt (EGX 30)	30,876	0.37	3.82
GCC (S&P GCC 40)	738	-0.18	2.18
Kuwait (All Share)	8,166	0.01	10.92
KSA (TASI)	11,899	-0.28	-1.14
Oman (MSM 30)	4,411	-0.01	-3.62
Qatar (QE Index)	10,492	0.20	-0.74

International			
CSI 300	3,903	0.45	-0.82
DAX	23,081	3.38	15.93
DJIA	43,007	1.14	1.09
Eurostoxx 50	5,489	1.89	12.11
FTSE 100	8,756	-0.04	7.13
Nikkei 225	37,418	0.23	-6.21
S&P 500	5,843	1.12	-0.66

3m interbank rates	%	Change (bps)	
		Daily	YTD
Bahrain	5.63	-0.11	-5.57
Kuwait	3.94	0.00	0.00
Qatar	4.65	0.00	-2.50
UAE	4.30	11.02	-14.42
Saudi	5.41	4.90	-13.41
SOFR	4.30	-0.95	-0.49

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	4.27	-6.00	-47.0
Oman 2027	5.21	4.00	-35.0
Qatar 2026	4.47	-1.00	-32.0
Kuwait 2027	4.65	0.00	-32.0
Saudi 2028	4.73	1.00	-35.0

International 10YR			
US Treasury	4.28	3.81	-29.3
German Bund	2.78	30.35	42.1
UK Gilt	4.67	14.65	10.6
Japanese Gvt Bond	1.44	2.00	36.5

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	0.06	0.16
KWD per EUR	0.33	1.56	4.52
USD per EUR	1.08	1.56	4.22
JPY per USD	148.88	-0.61	-5.28
USD per GBP	1.29	0.77	3.05
EGP per USD	50.62	0.08	-0.33

Commodities	\$/unit	Change (%)	
		Daily	YTD
Brent crude	69.30	-2.45	-7.15
KEC	74.20	1.38	-2.10
WTI	66.71	0.60	-6.99
Gold	2915.3	0.20	10.88

Quoted prices/rates collected after close of last trading day (or are most recent available)

Source: LSEG / Haver