

Daily Economic Update

Economic Research Department
8 May 2025

US: Fed maintains interest rates and sees higher inflation and unemployment risks; Trump to announce trade deal with the UK. The FOMC left policy interest rates unchanged at the 4.25-4.5% range in a unanimous vote, citing increased uncertainty about the economic outlook and rising risks of higher inflation and unemployment. The committee also maintained the current pace of the bank's balance sheet reduction at \$5bn for treasury securities and \$35bn for MBS per month. The statement highlighted that swings in trade have skewed recent economic figures (such as the weak Q1 GDP) but underlying activities continued to expand at a solid pace. In a post-meeting conference, Chair Powell emphasized that the effect of tariffs on the economy and inflation would depend on actual implementation but cautioned that announced trade duties, if left in place, would likely cause higher inflation and unemployment and slower growth. He also mentioned a lack of clarity about the inflation trajectory, saying that tariff effects could be short-lived or persistent, and reiterated his previous stance of not being in a hurry to adjust policy rates. Powell also ruled out any pre-emptive rate cuts, while relying on a data-driven approach. Overall, there were hardly any new takeaways from his remarks and consequently, the market reaction was relatively muted. Futures markets continue to see around three interest rate cuts of 25 bps each this year, with the first move seen in July. Meanwhile, President Trump stated that he would announce "a major trade deal" later today, with news outlets speculating it would be with the UK. He also struck his tough stance on talks with China, saying he wouldn't preemptively lower duties before going to the negotiation table, keeping markets on edge. Previously he also mentioned that he would make a "very, very big announcement, one of the most important announcements that have been made in many years about a certain subject," before the start of his Middle East tour next week, without elaborating further, but adding that "it is really, really positive" and will come "either Thursday, or Friday or Monday."

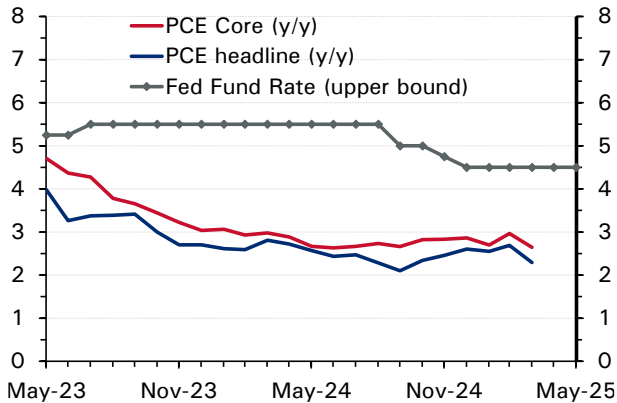
Eurozone: Retail sales disappoint, decreasing slightly in March. Retail sales fell 0.1% m/m in March, below consensus expectations of no change and less than February's 0.2% increase. The decline was similar across Europe's biggest economies, with Germany, France, and Spain posting m/m decreases of 0.2%, 0.1%, and 0.2%, respectively. Furthermore, y/y retail sales experienced their lowest increase in 8 months, rising only 1.5% (versus 1.6% consensus) as tariff threats potentially influence confidence and retail spending. ECB President Christine Lagarde highlighted the risk of falling consumer spending in a recent press conference, warning that "the major escalation in global trade tensions and associated uncertainties... may drag down investment and consumption".

Japan: Government is weighing domestic concerns in US trade negotiations. The ongoing trade negotiations between Japan and the US are encountering some political resistance as the ruling Liberal Democratic Party has expressed reluctance to include US rice imports in a potential tariff reduction agreement, citing the need to protect Japan's agricultural sector. This announcement came amid the conclusion of the second round of tariff negotiations without significant progress, highlighting that discussions remain in preliminary stages, with

no common ground yet established. Key topics, including US tariffs on Japanese automotive exports and Japan's agricultural import policies, were reportedly left unresolved. Meanwhile, the Japanese government has distanced itself from earlier suggestions that it might leverage its holdings of US Treasury bonds as a negotiation tactic. Trade talk progress could have some bearing on Japan's Upper House elections in July, and the ability of Prime Minister Shigeru Ishiba's ruling coalition to secure a majority of 125 seats.

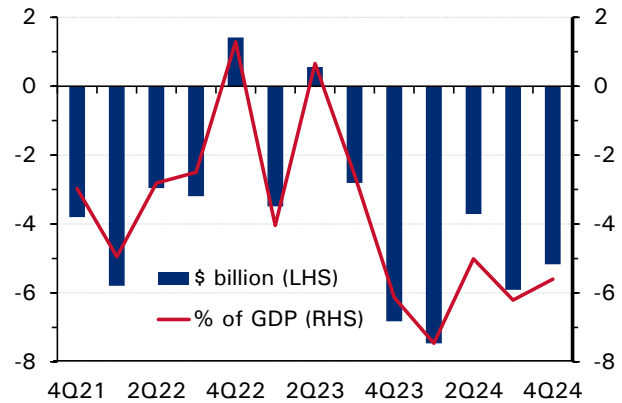
Chart 1: US PCE inflation and Fed interest rate

(%)



Source: Haver

Chart 2: Egypt current account balance



Source: Central Bank of Egypt, Haver

Egypt: Current account deficit narrows in Q4 2024, international reserves at a fresh high. Figures published by the Central Bank of Egypt show the country's current account balance improving slightly in Q4 2024, with the deficit narrowing to \$5.1 billion (5.6% of GDP) from \$5.9 billion in Q3 and from \$6.8 billion a year earlier. The improvement was due to inflows of remittances from Egyptians overseas (\$8.7 billion), which rose for a third consecutive quarter. This has helped offset the deficit in the trade balance (\$-13.4 billion), which, while easing on the previous quarter's reading, has widened compared to Q4 2023 (26% y/y) as import restrictions have been lifted. Petroleum imports especially have surged even as energy prices have trended lower. Services income also remained low, with Suez Canal receipts still in the doldrums (-63% y/y to \$881 million) due to the troubles in the Red Sea. On a positive note, travel/tourism revenues are up (17% y/y) and levels of foreign direct investment increased to \$3.3 billion from \$3.2 billion a year earlier (having spiked in the intervening period due to the Ras Al-Hekma deal). Moreover, the net international reserves position has also improved, reaching a record \$48.1 billion in April, up 2.2% so far in 2025 and 36% since before the Ras Al-Hekma deal in March 2024.

Daily market indicators

Stock markets	Index	Change (%)	
		Daily	YTD
Regional			
Abu Dhabi (ADI)	9,611	-0.13	2.04
Bahrain (ASI)	1,912	0.15	-3.75
Dubai (DFMGI)	5,338	-0.29	3.47
Egypt (EGX 30)	31,840	-1.38	7.06
GCC (S&P GCC 40)	724	0.48	0.30
Kuwait (All Share)	8,007	0.21	8.76
KSA (TASI)	11,399	-0.31	-5.30
Oman (MSM 30)	4,353	0.26	-4.88
Qatar (QE Index)	10,479	-0.06	-0.87

International			
CSI 300	3,809	1.01	-3.21
DAX	23,250	-0.41	16.78
DJIA	40,829	-0.95	-4.03
Eurostoxx 50	5,263	-0.37	7.50
FTSE 100	8,597	0.01	5.19
Nikkei 225	36,831	0.00	-7.68
S&P 500	5,607	-0.77	-4.67

3m interbank rates	%	Change (bps)	
		Daily	YTD
Bahrain	5.64	-1.30	-4.57
Kuwait	4.00	0.00	6.25
Qatar	4.65	0.00	-2.50
UAE	4.15	-0.10	-29.88
Saudi	5.37	2.15	-16.48
SOFR	4.30	-0.91	-0.69

Bond yields	%	Change (bps)	
		Daily	YTD
Regional			
Abu Dhabi 2027	4.16	2.00	-58.0
Oman 2027	5.01	-14.00	-55.0
Qatar 2026	4.43	-3.00	-36.0
Kuwait 2027	4.42	-2.00	-55.0
Saudi 2028	4.67	0.00	-41.0

International 10YR			
US Treasury	4.27	-2.91	-30.4
German Bund	2.47	-5.75	11.2
UK Gilt	4.46	-5.25	-10.7
Japanese Gvt Bond	1.29	3.00	21.5

Exchange rates	Rate	Change (%)	
		Daily	YTD
KWD per USD	0.31	0.11	-0.42
KWD per EUR	0.35	0.42	9.35
USD per EUR	1.13	-0.61	9.14
JPY per USD	143.82	0.99	-8.50
USD per GBP	1.33	-0.55	6.27
EGP per USD	50.59	-0.04	-0.39

Commodities	\$/unit	Change (%)	
		Daily	YTD
Brent crude	61.12	-1.66	-18.11
KEC	64.05	3.17	-15.49
WTI	58.07	-1.73	-19.03
Gold	3381.4	-0.88	28.61

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

Source: LSEG / Haver