

Kinzletter : Weekly Global Economical and Geopolitical insights

Global developments: Key Highlights

- **EU Review Finds Israel in Breach of Trade Deal Over Gaza:** An EU review led by Kaja Kallas says Israel violated human rights and international law in Gaza, breaching its trade deal. Ministers will discuss it Monday, but sanctions are unlikely.
- **Syria Resumes First SWIFT Transaction Since War:** Syria made its first SWIFT transfer since the war, sending funds to an Italian bank; U.S. transactions may follow soon, said its central bank chief.
- **Spain Pushes Back on NATO's 5% Defence Target:** Spain has asked to opt out of NATO's proposed 5% GDP defence spending goal. PM Pedro Sanchez called the target "unreasonable" and warned it could undermine EU defence efforts, urging a more flexible approach.



Global Economic development

Global investment trends continue to reflect the impact of **economic uncertainty**, geopolitical tensions, and shifting financial priorities. **Global FDI** dipped to \$1.5 trillion, with the modest rise driven by **volatile financial flows** in Europe. **Europe** saw a steep **58%** drop, while **Africa** surged **75%** due to a major project in **Egypt**. Investment in critical sectors like **energy**, **transport**, and **water** declined sharply, threatening **sustainable development efforts**. In parallel, U.S. tariff policies, China's weak demand, and Europe's stagnation raise **global economic concerns**. JPMorgan's **Jamie Dimon** cautioned about **rising stagflation risks** in the U.S., and Russia signalled a **looming recession**. **Gulf stock markets** fell as the **Iran-Israel conflict** spooked investors, with major indices in Saudi Arabia, Dubai, and Qatar posting losses. The **data** underscores the need for **global cooperation** and policy reforms to ensure **investment supports** sustainable, inclusive growth amid **rising global challenges**.

Fed Holds Rates Steady, Signals Two Cuts later.

- **Fed Holds Rates, Warns of Inflation:** The Federal Reserve kept interest rates steady and signaled possible cuts in 2025, but Chair Jerome Powell cautioned that rising import tariffs could trigger a "meaningful" inflation shock, delaying rate cuts.
- **Tariffs Cloud Outlook:** Powell said tariffs under the Trump administration are expected to raise consumer prices as businesses pass on costs, complicating the Fed's inflation and growth targets amid a forecasted slowdown and higher unemployment.
- **Policy Uncertainty and Political Tensions:** With a divided Fed outlook and Trump pushing for immediate, aggressive rate cuts—calling Powell "stupid"—the central bank remains cautious, awaiting clearer data before adjusting policy.

Overview on G7 Summit.

- **Rising Geopolitical Tensions:** The G7 joint statement backed Israel's right to self-defence and called Iran the "principal source of regional instability," while urging a Gaza ceasefire. Trump's early departure disrupted key meetings with Ukraine and Australia, weakening diplomatic momentum.
- **Fractured Unity on Russia & China:** The EU pushed for tougher sanctions on Russia, but Trump opposed them, criticized Russia's G8 expulsion, and suggested future inclusion of China—indicating a shift toward pragmatic engagement with strategic rivals.
- **Trade Strains & Shifting Alliances:** Tariff disputes dominated. While the UK-U.S. struck a limited deal, talks with Japan, the EU, and Canada stalled.

Net oil imports
% of GDP, quarterly

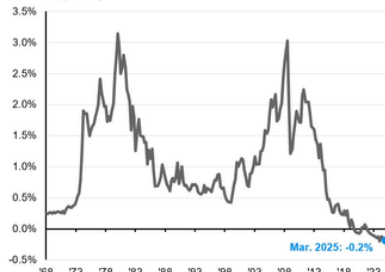


CHART OF THE WEEK

Late last week, **Israel's airstrikes** on Iranian nuclear sites sent **gold prices higher** and pushed oil prices up over 7%, as **Iran supplies ~4% of global oil**. This spike complicates the economic outlook—**falling energy prices** had been helping ease inflation, but **higher oil** now threatens a **stagflationary** turn. Every \$10 rise in **WTI crude** could add ~0.3% to **CPI**. While the **U.S.** is less **vulnerable** than in past decades—now a **net oil exporter**—lingering conflict could keep inflation risks elevated. Amid rising geopolitical and policy uncertainty, investors should remain **diversified** across assets to weather **potential volatility** ahead. **Source: JP Morgan**



Israel-Iran Conflict Escalates Amid Civilian Casualties and Diplomatic Push

- **Worsening Conflict with Strategic Escalation:** Iran launched five ballistic missiles, including the long-range Sejil, at central Israel; Israel hit missile and nuclear-linked sites across Iran. The week-long conflict has killed 639 in Iran and 24 civilians in Israel (unverified).
- **Civilian and Urban Targets at Risk:** Missile debris sparked fires in Tel Aviv; sirens sounded across central Israel and the West Bank as Israeli defences intercepted multiple threats amid strikes on key urban and economic hubs.
- **Diplomacy in Deadlock:** Iran ruled out U.S. talks under fire, despite European efforts in Geneva. Trump signalled a two-week pause before any U.S. move, saying diplomacy is tough while Israel is "winning."



Europe pushes to revive Iran talks as U.S. weighs military strikes.

- **E3 and Iran Signal Openness to Diplomacy Despite Stalemate:** European foreign ministers (Germany, France, UK) and the EU met Iran's Foreign Minister in Geneva to push for de-escalation and renewed nuclear talks, but no concrete progress or follow-up meeting was announced.
- **Major Obstacles Remain:** Iran insists it won't engage with the U.S. until Israeli strikes stop, while France now supports a zero enrichment deal, aligning more closely with Washington.
- **Talks of Parallel Negotiation Track:** EU considers a separate negotiation track without the U.S., though chances remain slim amid ongoing conflict.

Other Geopolitical developments

Russia Escalates Demands Amid Stalled Peace Talks and Global Tensions.

- **Ultimatum and Peace Stalemate:** Russia warned Ukraine to accept its terms — including territorial concessions and NATO neutrality — or face further military action, while rejecting a U.S.-backed ceasefire and demanding full Ukrainian withdrawal from annexed regions.
- **Conflicting Signals from Moscow:** While Ambassador Kelin spoke of eventual Ukrainian "surrender," President Putin denied seeking capitulation, instead urging recognition of occupied territories and asserting claims over four Ukrainian regions.
- **Wider Geopolitical Tensions:** Putin raises World War III fears and offers to mediate the Israel-Iran conflict.

Erdogan pledges to ramp up Turkey's missile production amid escalating Israel-Iran conflict.

- **Erdogan Boosts Missile Production:** Amid the escalating Israel-Iran conflict, Turkish President Erdogan announced plans to ramp up medium- and long-range missile production to strengthen deterrence and close the airpower gap.
- **Diplomatic Outreach and Regional Concerns:** Erdogan held talks with global leaders, offering to mediate nuclear negotiations, while expressing concerns over energy security, refugee influx from Iran, and potential economic fallout for Turkey.
- **Tensions with Israel Simmer:** Despite no immediate threat of conflict, strained Turkey-Israel ties, criticism from both sides, and regional military buildup point to growing unease and a potential arms race in the Middle East.



Oil Falls as Trump Hints at Iran Strike Decision Within Two Weeks.

- **Oil Prices Drop on De-Escalation Signals:** Brent crude fell as much as 3.5%, dipping below \$77, after President Trump indicated a decision on striking Iran may take up to two weeks, easing fears of immediate military action.
- **Volatile Market Dynamics:** The oil market experienced sharp fluctuations, with an \$8 price swing, heightened volatility, and bullish options sentiment—briefly surpassing levels seen after Russia's Ukraine invasion.
- **Strait of Hormuz in Focus:** Despite ongoing Israeli attacks on Iran's nuclear sites, oil infrastructure remains intact. The market remains on edge over potential disruption through the Strait of Hormuz, a key chokepoint for global crude flows.



Two oil tankers collide and ignite near the Strait of Hormuz.

- **Tanker Collision Amid Rising Tensions:** Two oil tankers, Adalynn and Front Eagle, collided and caught fire near the Strait of Hormuz, a key oil transit route, amid escalating Iran-Israel conflict and increased electronic interference in the region.
- **No Major Damage:** All crew were safe, with no oil spill; one tanker carried 2 million barrels of Iraqi crude, the other was empty.
- **Shipping Risks Rise:** Navigation disruptions and regional tensions have led to anchored vessels and cautious shipping activity, though Gulf insurance rates remain stable for now.

Recommended readings

How will AI influence US-China relations in the next 5 years? (Source: Brookings Institution)

- **AI as Opportunity and Risk:** It highlights AI's potential for both collaboration and conflict in U.S.-China relations—offering opportunities for dialogue (e.g., in nuclear command systems) while also posing risks of misuse by rogue actors and foreign interference.
- **Beyond the Tech Race:** It calls for shifting the U.S.-China AI dynamic from rivalry to parallel advancement, cautioning that restrictive policies may hinder innovation.
- **Focus on Innovation:** To stay competitive, the U.S. must prioritize creative learning models, support its private tech sector, and strengthen civic and digital infrastructure—key elements in countering China's centralized AI strategy.

On Iran, US restraint could reduce risks. (Source: Middle East Institute)

- **Dangerous Rhetoric Raises Strategic Risks:** President Trump's public threat against Iran's Supreme Leader introduces ambiguity into U.S. policy, undermines legal norms, and risks miscalculation by adversaries or regional actors.
- **Escalation Could Trigger Retaliation:** A potential strike on Iran's Fordow nuclear site, especially if perceived as U.S.-backed, could provoke asymmetric Iranian responses including cyberattacks, proxy strikes, or activity inside the U.S.
- **Alliance Strain and Erosion of Credibility:** Reckless statements may weaken trust among allies, embolden unilateral actions, and erode the clarity and unity essential for effective deterrence and regional stability.