

Kinzletter : Weekly Global Economical and Geopolitical insights

Global developments: Key Highlights

- U.S. Rejects Iran's Compensation Demand Over Nuclear Site Strikes :** The U.S. has dismissed Iran's call for financial compensation over June's strikes on its nuclear facilities, calling the demand "ridiculous." Spokesperson Tommy Pigott urged Tehran to end support for terrorism and nuclear escalation instead. Iran insists it won't return to nuclear talks unless the U.S. takes responsibility and offers reparations.
- Trump Slams Fed Chair Powell, Demands Aggressive Rate Cuts:** President Donald Trump criticised Federal Reserve Chair Jerome Powell after the central bank kept interest rates unchanged, calling for a significant 3-percentage-point rate cut. He suggested the Fed's board should consider overriding Powell's decisions, despite concerns that such a move could fuel inflation.
- New Syrian Government Seeks Russian Support Amid Challenges:** On his first official visit to Moscow, Syrian Foreign Minister Asaad al-Shaibani expressed a desire for continued Russian support, calling it vital as Syria faces ongoing challenges and aims to rebuild a united, strong nation.



Global Economic development

The **global economy** faces renewed strain as **Trump's sweeping tariffs (10–41%)** hit nations like **India, Taiwan, and South Africa**. A late **U.S.–EU deal** capped most tariffs at **15%**, but **steel and aluminium** still face **50%**, and **Canada** voiced **alarm** over a **35% hike**. **Markets** slumped, especially in **Europe and Asia**. China's 5.2% Q2 growth masks deeper issues: **falling manufacturing PMI, weak demand, and deflation**. The **Politburo** pledged **reforms** and **consumption** boosts but avoided **monetary easing**. A **90-day tariff truce** with the **U.S.** offers temporary relief. **India**, hit with a **25% tariff** and penalties for **Russia trade**, saw its growth forecast trimmed to 6.3%. Manufacturing holds steady, but **confidence** is slipping amid global uncertainty. **Europe** has managed to avoid a **deeper trade conflict** by conceding to **US demands**—agreeing to increase imports of **American gas and military goods** and lowering select **EU tariffs**. The compromise has prevented an all-out trade war, but many **European exporters** now face **thinner margins** and **higher operating costs**. **Critics** within the **EU** describe the deal as a reluctant capitulation to **US pressure**. In Africa, **shrinking US aid** is prompting a shift in **financing strategy**. The **African Development Fund** will now turn to **markets** to raise **\$5 billion** every **three years**, marking a departure from **donor-heavy models**. This underscores the **financial strain** facing **emerging economies** as they navigate a more **fragmented global order**. The **global outlook** remains **fragile**, shaped by trade realignments, supply chain shifts, and policy uncertainty.

U.S. Treasury to raise \$1 trillion this quarter through increased short-term debt issuance.

- Short-Term Debt Surge Despite Past Criticism:** Scott Bessent reverses his previous stance by expanding short-term Treasury issuance to raise \$1 trillion this quarter, avoiding pressure on long-term rates but increasing refinancing risk.
- Fed Critique and Tariff Deadline Flexibility:** Bessent urges the Federal Reserve to adopt more imaginative policy, downplays concerns about Trump's August 1 tariff deadline, and signals talks may continue beyond it.
- Global Trade Momentum and China Pressure:** Bessent cites recent deals with Japan and the EU as strengthening the U.S. position in China talks, claiming international alignment and increased leverage.

IMF raises 2025 growth forecast slightly but warns tariff risks continue to cloud outlook.

- IMF Slightly Upgrades Global Growth Outlook, But Risks Loom :** The IMF raised its global growth forecast to 3.0% for 2025 and 3.1% for 2026, citing strong pre-tariff purchases and a drop in U.S. effective tariff rates—but warned of high risks from future tariff hikes, geopolitical tensions, and rising fiscal deficits.
- Tariff Shock Still Weighs on Outlook:** While the U.S. has eased some tariffs, announced future hikes—especially on autos, metals, and tech—could raise costs, slow trade, and drag down growth. The IMF noted these increases aren't yet reflected in its projections and could cut 2025 growth by 0.2 percentage points.
- Uneven Recovery Across Major Economies:** The IMF raised 2025 growth forecasts for the U.S., euro area, and China, but warned that early stockpiling effects will fade and ongoing tariff pressures could slow momentum in 2026.

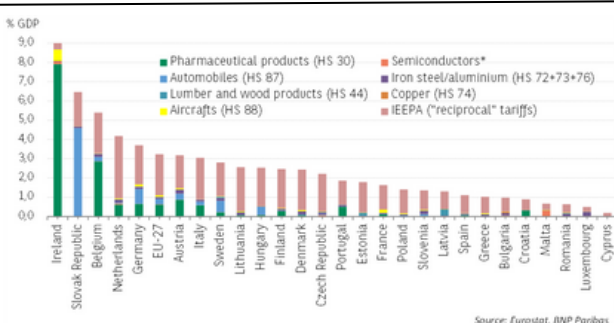


CHART OF THE WEEK

Despite **criticism**, the **US–EU trade deal** struck in **Scotland** avoids a trade war and secures relatively strong terms for the **EU**. The **bloc** made no concessions on key issues like **VAT or tech rules** and gained **zero-for-zero tariffs** in major sectors like **aerospace**. Though **tariffs** rose overall, the impact is **modest**—EU exports to the **US** are under **3% of GDP**. The **deal** brings **stability**, protects **vulnerable sectors**, and lets the **EU** refocus on **internal reforms** and **new trade partnerships**. Source : BNP Paribas



UN Declaration Revives Two-State Push Amid Gaza War, Global Support Grows.

- **Global Push for Two-State Solution:** Saudi Arabia and France led a UN-backed declaration urging a Gaza ceasefire, Palestinian Authority control in Gaza, and steps toward a sovereign Palestinian state.
- **Rising Support for Palestinian Recognition:** France, the UK, and others plan to recognise Palestine by September if no progress is made, while the declaration also calls for international peacekeeping and sanctions on extremist settlers.
- **Israel, US, and Hamas Reject Terms:** The U.S. and Israel boycotted the conference, calling it premature and dangerous to Israeli security. Hamas rejected the disarmament demand, framing the Palestinian struggle as ongoing until full sovereignty and Jerusalem as the capital are achieved.



Zelenskyy urges 'regime change' in Russia after deadly strike on Kyiv kills 26.

- **Zelenskyy urges regime change in Russia after Kyiv strike:** After a Russian missile and drone strike on Kyiv killed 26 people, including three children, Ukrainian President Volodymyr Zelenskyy urged allies to pursue regime change in Moscow, warning that without it, Russia would continue to destabilise the region even after the war ends.
- **Trump slams Russia, signals fresh sanctions:** President Trump condemned Russia's actions as "disgusting" and hinted at new sanctions, days after issuing a 10-12 day ultimatum for Moscow to halt its invasion.
- **Ukraine restores anti-corruption bodies amid battlefield tensions:** Kyiv reversed a controversial law after mass protests, restoring key anti-corruption agencies. Meanwhile, Russia claimed control of Chasiv Yar, though Ukraine says fighting continues.

Other Geopolitical developments

Syria's Fragile Transition: Elections, Unrest, and International Crosscurrents.

- **First Post-Assad Elections Announced:** Syria will hold its first parliamentary elections since Bashar al-Assad's ouster from September 15-20, with Interim President Ahmed al-Sharaa appointing one-third of the 210 seats under a transitional framework established in March.
- **Violence Clouds Transition:** Deadly sectarian clashes in Suwayda, Israeli airstrikes, and a US citizen's killing prompt investigations and international scrutiny.
- **Diverging Global response:** While India deepens diplomatic ties and sends humanitarian aid to the provisional Syrian government, the US under President Trump imposed punitive 41% tariffs on Syrian imports as part of a broader trade crackdown.

Houthis sentences Brigadier General Ahmed Ali Abdullah Saleh, former Yemeni president Saleh to death.

- **Death Sentence and Asset Seizure:** A Houthi-run military court in Sanaa sentenced Brigadier General Ahmed Ali Abdullah Saleh, son of Yemen's late president, to death for treason, espionage, and corruption, and ordered the confiscation of his assets.
- **Legacy and Influence:** Once groomed to succeed his father and commander of the elite Republican Guard, Ahmed remained influential in Yemen's military and political landscape, even after the 2011 uprising ousted his father.
- **Escalating Houthi Crackdown:** Despite lifted international sanctions, the verdict signals a renewed push by the Houthis to dismantle remnants of the former regime and assert dominance amid Yemen's ongoing conflict.



Oil prices drop ahead of Trump's August 1 trade tariff deadline.

- **Tariff Tensions Weigh on Oil Prices:** Oil prices declined as investors reacted to President Trump's August 1 tariff deadline. The White House confirmed that countries yet to strike trade deals with the U.S. would be contacted, with Mexico receiving a 90-day extension but facing steep tariffs on key exports like steel and automobiles.
- **Mixed U.S. Energy Data:** U.S. crude inventories unexpectedly rose by 7.7 million barrels due to lower exports, while gasoline stocks dropped significantly, indicating robust driving season demand. Meanwhile, crude production hit a record 13.49 million barrels per day in May.
- **Geopolitical Risks Support Prices:** Despite downward pressure, oil prices found support from Trump's threat of secondary sanctions on Russian oil and new sanctions on Iran-linked entities. India and China are facing growing pressure over continued purchases of Russian crude.



Chevron receives limited U.S. license to resume operations in Venezuela, say sources.

- **Chevron Granted Limited License to Operate in Venezuela:** The U.S. has quietly allowed Chevron to resume limited operations in Venezuela, but any oil proceeds are barred from reaching Maduro's government.
- **Operational but No Exports Yet:** Chevron can manage joint ventures and contracts, but payment restrictions raise doubts over whether PDVSA will allocate crude shipments.
- **U.S.-Venezuela Relations Still Strained:** Despite a recent prisoner exchange, political tensions remain high between Washington and Caracas. The Trump administration continues to support Venezuela's opposition, rejecting Maduro's legitimacy. U.S. officials maintain that no oil revenue will reach Maduro, even as China benefits from the redirection of Venezuelan crude.

Recommended readings

Why Israel-Syria Normalisation Remains Elusive in the Wake of Suweida. (Source : ORF)

- **Suweida Ceasefire Exposes Strategic Divide:** Ongoing clashes in Suweida highlight a deeper Israel-Syria rift—Israel demands a buffer near the Golan, while Syria insists on full sovereignty and Golan's return.
- **Mistrust and Fragmentation Undermine Stability:** Israel doubts Syria's new leadership; Damascus sees Israeli strikes as violations. Sectarian tensions and fragmented control worsen instability in southern Syria.
- **Diplomacy Gives Way to Deterrence:** Despite limited talks, core issues remain unresolved. Both sides rely on unilateral actions, with fragile deconfliction replacing meaningful negotiation.

Beijing extends and pretends to deal with its mountain of local government debt. (Source : Atlantic Council)

- **Debt Restructuring Falls Short:** Beijing's 2024 effort to restructure 10 trillion yuan in LGFV debt leaves trillions in unpaid loans and arrears unresolved, with true liabilities possibly exceeding 58 trillion yuan, posing a major financial stability risk.
- **Revenue Collapse Fuels 'Zombie' Firms:** As land sales revenue dries up, many LGFVs are becoming unsustainable, turning into debt-laden entities dependent on borrowing or bailouts, undermining local public services and investment.
- **Delays Deepen Economic Risk:** Beijing's half-measures and reluctance to absorb local debt may avoid short-term pain but increase long-term costs, threatening economic recovery and amplifying financial fragility.