

Kinzletter : Weekly Global Economical and Geopolitical insights

Global developments: Key Highlights

- **Trump's Second UK Visit Marked by Investments and Trade Talks:** U.S. President Donald Trump began his second state visit to Britain with a royal welcome, heavy security, and protests, as tech giants pledged \$42B in UK investments and trade talks loomed over tariffs on steel, whisky, and salmon.
- **EU Seeks Closer Ties with India Amid Disputes Over Russia and Trade:** The EU seeks closer ties with India despite differences over Russian oil and Ukraine, while balancing trade talks with pressure for tougher sanctions and tariffs.
- **UN Keeps Iran Sanctions in Place :** The UN Security Council has decided against permanently lifting economic sanctions on Iran over its nuclear program, a move Tehran has denounced as "politically biased."
- **IMF chief proposes Daniel Katz as First Deputy Managing Director:** IMF Managing Director Kristalina Georgieva has proposed Daniel Katz, currently Chief of Staff to U.S. Treasury Secretary Scott Bessent, as First Deputy Managing Director, effective October 6, 2025, pending Executive Board approval.



Global Economic development

Global markets are navigating a period of **heightened uncertainty** shaped by **monetary policy shifts**, **trade tensions**, and **structural reforms**. In the **United States**, optimism remains intact as **equity markets** hit record highs following the **Federal Reserve's decision** to cut **interest rates**. Gold prices are also climbing, marking a fifth consecutive weekly gain as investors anticipate further monetary easing. Overall, the **U.S. market outlook** remains **resilient**, supported by earnings momentum and accommodative policy. In contrast, **China's economy** continues to show signs of **strain**. Factory output and retail sales both recorded their **weakest growth** in nearly a year, while **unemployment** has edged up and **housing prices** remain under **pressure**. Exports to the **United States** fell by more than **30%** in August, underscoring the drag from the ongoing trade conflict, although **overall exports** rose modestly. **Policymakers** face a difficult balancing act: additional stimulus is needed to stabilize demand, but financial risks in the **property sector** limit Beijing's room for **manoeuvre**. The **outlook** remains **fragile**, with **economists** divided over the scale and timing of potential interventions. Europe too is under pressure, with **Mario Draghi** warning of **slow reform** progress and the risk of falling behind the **U.S.** and **China** in competitiveness, despite EU efforts on AI, defense, and red-tape reduction. The **Gulf** presents a more **stable picture**, with foreign assets rising **6.3%** in 2024 to **\$761.9 billion**, led by the **UAE**. **Liquidity** has expanded, banking systems remain **capitalised**, and rate cuts in line with the Fed are expected to support **non-oil growth** in **2025**. Overall, **some regions** are showing resilience while others face **structural challenges**, with the **global outlook** hinging on how effectively **policymakers** respond to growing **economic** and **geopolitical pressures**.

The Federal Reserve has lowered interest rates for the first time this year.

- **Fed Cuts Rates Amid Labor Market Weakness:** The Federal Reserve lowered its benchmark rate by a quarter point to 4–4.25%, its first cut of the year, citing slowing job growth and rising unemployment despite inflation edging higher.
- **Political and Institutional Tensions:** Chair Jerome Powell resisted months of pressure from the Trump administration for deeper cuts, while newly appointed governor Stephen Miran dissented in favour of a half-point reduction, reflecting divisions within the Fed.
- **Outlook and Risks:** The Fed signalled two more possible cuts this year, though officials remain split. Sluggish hiring, Trump's immigration crackdown, and tariff-driven inflation complicate the path forward, with critics questioning the timing of easing.

Syria-Israel Security Talks Advance Amid US Engagement and Sanctions Relief.

- **Syria-Israel Security Talks:** Syria plans to sign multiple security and military agreements with Israel by year-end, focusing on halting Israeli operations inside Syria, as Foreign Minister Asaad al-Shaibani visits Washington to discuss sanctions relief.
- **Strategic Disputes Remain:** Israel insists on retaining control over Mount Hermon, while Syria seeks only a security arrangement replicating the 1974 buffer zone model, with no normalization or peace agreement currently on the table.
- **International Engagement and Sanctions Easing:** The US signals willingness to ease sanctions and reconnect Syria to the global financial system, contingent on reforms and anti-corruption measures, while the UN emphasizes urgent financial support and the cessation of foreign military interventions.

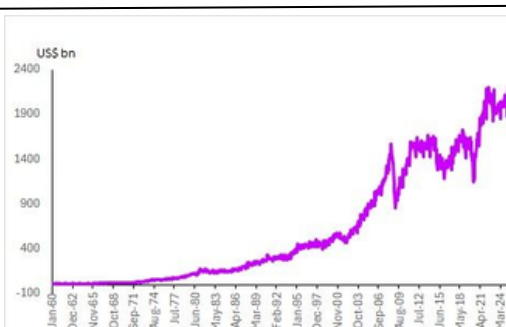


CHART OF THE WEEK

The **trade war** has caused disruption but not severe damage. **US GDP** fell in early **2025** due to **import surges** and **inventory adjustments**, while domestic demand dipped slightly; consumer spending remained **resilient**. The **labor market** softened modestly, with **unemployment** at **4.3%** and retail sales up **5% YoY**. Globally, **exports** fell **6.5%** early in the year but rebounded **13%**, leaving overall shipments up nearly **6% YTD**—a far milder impact than past crises like the **Global Financial Crisis**, the **2014–2016 slowdown**, or the **pandemic**. **Source : Haver Analytics.**



Growing Isolation for US and Israel as Gaza Crisis Deepens.

- **EU Considers Sanctions on Israel:** The European Commission proposed suspending Israel's preferential trade access to the EU, reimposing tariffs on €5.8bn of exports, and sanctioning far-right Israeli ministers, though approval is uncertain due to political divisions among EU states.
- **US Isolation at the UN & Gaza Crisis:** The United States vetoed a Security Council resolution for a permanent Gaza ceasefire for the sixth time, leaving it isolated as the UN warns of "cataclysmic" conditions and over 65,000 Palestinian deaths, with starvation and malnutrition worsening.
- **Global Backlash vs. US Support:** While international allies tighten arms restrictions, provide aid to the Palestinian Authority, and move toward recognizing Palestinian statehood, the US seeks congressional approval for \$6.4 billion in arms sales to Israel.



Ukraine anticipates receiving \$3.5 billion in NATO PURL commitments by October.

- **European Pledges for US Weapons:** Kyiv estimates that European countries' total pledges to buy US weapons for Ukraine will reach around \$3.5 billion by October, with over \$2 billion already announced under the NATO Prioritised Ukraine Requirements List (PURL).
- **Funding and Delivery Mechanism:** Under PURL, Kyiv identifies urgent military needs, which are checked with Washington and bundled into \$500 million packages for European NATO countries to finance; early packages from Canada, Germany, the Netherlands, Denmark, Norway, and Sweden are expected to arrive soon.
- **Additional Contributions Needed:** To meet the \$3.5 billion target, an additional \$1.37 billion in pledges is required by the end of October, with potential new contributors including the United Kingdom; Finland has ruled out participation.

Other Geopolitical developments

Draft resolution says Arab-Islamic summit will warn Israeli attacks threaten normalisation.

- **Arab-Islamic Summit Condemnation:** Leaders will warn that Israel's September 9 attack on Qatar, along with other hostile acts, threatens regional coexistence and undermines efforts to normalise ties with Israel, according to a draft resolution.
- **Israel-Qatar Tensions:** Israel blames Hamas leaders in Qatar for ongoing conflict, pressuring Doha to expel them, while Qatar accuses Israel of sabotage and "state terrorism" but vows to continue mediation efforts.
- **Regional and U.S. Reactions:** Gulf states, including the UAE, condemned Israel's actions, highlighting Qatar's security as vital for Gulf stability; former U.S. President Trump criticised the attack, affirming Qatar's role in peace efforts.

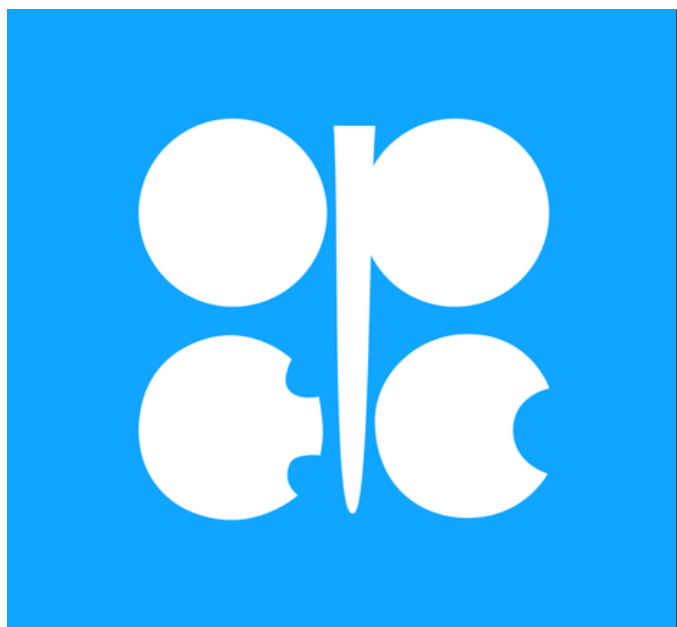
UN commission of inquiry has accused Israel of committing genocide against Palestinians in Gaza.

- **UN Inquiry Accuses Israel of Genocide:** A UN commission concluded Israel has carried out four of the five acts of genocide defined under international law in Gaza since 2023, citing mass killings, severe harm to civilians, destruction of conditions for survival, and attacks preventing births.
- **Humanitarian Devastation in Gaza:** At least 64,000 Palestinians have been killed, 90% of homes are damaged or destroyed, health and sanitation systems have collapsed, and UN experts warn of famine, underscoring the scale of destruction and suffering.
- **Israel Rejects Allegations:** Israel's government condemned the report as "distorted and false," arguing its operations target Hamas in self-defence. Meanwhile, the International Court of Justice continues to hear South Africa's genocide case, which could take years to conclude.



Putin hints at tax increases to plug Russia's budget deficit.

- **Budget Rule Revived:** From next year, Moscow will reintroduce a modified "budget rule," lowering the oil price cut-off by \$1 annually to \$55 by 2030. The rule channels surplus revenues into reserves to stabilize finances, curb reliance on oil and gas, and cushion sanctions-related shocks.
- **Falling Energy Sales:** Oil and gas sales dropped 23% YoY in September on weaker prices and a stronger rouble, pressuring state finances.
- **Ukrainian Strikes on Refineries:** Drone attacks on major refineries in Bashkortostan and Volgograd disrupted operations, underscoring rising risks to Russian oil infrastructure.



Hedge funds cut bullish oil positions to the lowest level as OPEC raises output.

- **Record-Low Bullish Bets:** Hedge funds slashed net-long positions on US crude to the lowest since records began in 2006, with WTI longs falling sharply and Brent seeing its biggest cut since June.
- **Surplus Fears Deepen:** OPEC+'s decision to raise output in October, alongside forecasts from the EIA and IEA of rising inventories and a record supply surplus in 2026, has reinforced expectations of an oil glut.
- **Bearish Outlook with Risks:** Rising US stockpiles, weak jobs data, and trade war concerns weigh on demand, though geopolitical risks—from Ukraine strikes on Russian infrastructure to Middle East tensions—could still disrupt the bearish trend.

Recommended readings

Tianjin SCO Summit 2025: Key Takeaways and Emerging Trends. (Source: ORF)

- **Expansion with Limits:** The SCO is broadening its outreach with new "SCO partner" status and growing Global South engagement, but deep divergences — especially on Afghanistan — and reluctance from some states make full membership transitions uncertain.
- **Shift Toward Economics:** Consensus on security issues remains fragile, pushing the SCO to focus more on trade, connectivity, and financial cooperation. The revival of the long-debated SCO Development Bank reflects China-Russia alignment and Russia's post-sanctions economic pragmatism.
- **China-Russia Dynamics as the Core Driver:** The organisation's future direction still depends heavily on Beijing-Moscow compromises, with India's cautious alignment and other members' hesitancy shaping the pace of institutional reforms.

Are Arab nations going to impose real costs on Israel? (Source: Atlantic Council)

- **Doha Strike as a Turning Point:** Israel's attack on Hamas leaders in Qatar endangered cease-fire talks, embarrassed regional and US partners, and further eroded international trust in Israel's conduct and legitimacy.
- **Arab States' Leverage Emerging:** Despite years of quiet support for Israel, unanimous condemnation of the Doha strike and growing public anger highlight that regional governments now recognize they have tools—economic ties, airspace, and diplomatic relations—to constrain Israeli actions.
- **Pressure Over Partnership:** Turkey and the UAE have already signaled willingness to impose costs on Israel, and the summit communiqué warned of sanctions, arms suspensions, and diplomatic downgrades, indicating that the region may shift from symbolic protest to concrete pressure if violence continues.