

# Kinzletter : Weekly Global Economical and Geopolitical insights

## Global developments: Key Highlights

- **Fed Rate Cut Expected in December Amid Dovish Signals:** Morgan Stanley expects a 0.25% Fed rate cut in December, joining J.P. Morgan and BofA Global research, after dovish comments and soft U.S. economic data. Strategists said Powell may offset the cut with cautious language, signalling future moves will depend on incoming data.
- **US NSS Focuses on Western Hemisphere:** The new US National Security Strategy emphasises restoring American "preeminence" in the Western Hemisphere, taking a non-interventionist approach.
- **Taiwan president Urges China to Prioritize Economic Well-Being Over Territorial Ambitions:** Taiwan President Lai Ching-te told the New York Times that China should focus on improving citizens' lives rather than "territorial expansion," noting Taiwan's economy may grow 7.37% this year versus China's 4%, and offered Taiwan's support.
- **Asim Munir Approved as Pakistan's Top Military Chief:** Pakistan Prime Minister Shehbaz Sharif approved Munir's appointment as both Chief of the Army Staff and Chief of Defence Forces, giving him command over all service branches and control of the National Strategic Command, making him Pakistan's most powerful military leader.



## Global Economic development

**Global markets** were **volatile** this week amid **mixed economic data**, **central-bank signals**, and **geopolitical developments**. Softer inflation in **Germany** and France raised hopes of a **measured ECB approach**, supporting **modest equity gains**, though **weak industrial output** and **contractionary PMIs** weighed on **cyclical sectors**. **German bond yields** fell, while **natural gas price** swings added **uncertainty**. **Rising US Treasury yields** on **strong labor-market data** prompted **equity swings**; tech stocks consolidated, and a **stronger dollar** pressured **emerging markets**. The **Fed** may cut rates **25 bps** after September's core PCE inflation of **2.8% annually**. **Emerging markets** saw capital outflows. **Asian markets** faced slowing **Chinese growth** and **weaker trade**; **Latin America** was affected by **commodity volatility**. China's provincial five-year plans prioritise **AI**, **6G**, **new energy**, **rare earths**, and **advanced computing**, with **GDP** projected at **4.5–5%** for **2026**. In the **Gulf**, **UAE GDP** growth leads at **4.8%**, **Saudi Arabia** at **3.8%**, with digital transformation and AI driving diversification. **Arab GDP** is projected at **\$4 trillion** in 2026, unemployment falls to **9.2%**, and **inflation** moderates to **8.1%**. **India** received a **'C' grade** for national account statistics due to the **outdated 2011–12 base year**; other data were rated **'B'**. The **RBI** cut the repo rate to **5.25%**, with retail inflation at **0.25%** and projected GDP growth of **7.3%**. **Markets** remain **data-driven** amid divergent policies, regional risks, and **technological transformations**, requiring careful monitoring of **inflation**, **interest rates**, and **fiscal developments**.

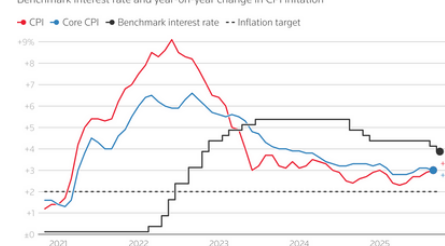
### United states sets 2027 target for NATO.

- **U.S. Pushes 2027 Deadline:** United States has urged Europe to assume most of NATO's conventional defense responsibilities by 2027, warning it may scale back participation in some coordination mechanisms if progress falls short.
- **Europe Calls Timeline Unrealistic:** European officials say the deadline is unattainable due to capability gaps, production backlogs, and reliance on unique U.S. assets like intelligence and surveillance that cannot be quickly replaced.
- **Transatlantic Tensions Rising:** The proposal deepens uncertainty over the U.S. role in Europe, with mixed signals from the Trump administration and ongoing debates about NATO burden-sharing, defense spending, and negotiations with Russia.

### Gulf leaders affirm solidarity at Bahrain GCC summit.

- **Political and Security Unity:** GCC leaders emphasised collective security, respect for sovereignty, rejection of force, support for a two-state solution for Palestine, and cooperation against extremism, terrorism, and WMDs.
- **Economic and Technological Cooperation:** Members pledged to deepen trade, investment, and digital integration, advance AI and cybersecurity, and promote sustainable development and clean energy.
- **International Partnerships:** Leaders highlighted stronger ties with friendly nations, Bahrain's role in the UN Security Council, and a new joint action plan with Italy to boost strategic cooperation.

US Inflation and interest rates  
Benchmark interest rate and year-on-year change in CPI inflation



CPI and Core CPI as of Sept. 2025. Benchmark interest rate and inflation target as of Oct. 2025. The benchmark interest rate is the midpoint of the federal funds target rate.  
Sources: Bureau of Labor Statistics, LSEG

## CHART OF THE WEEK

Speculation over a **potential third Fed rate cut next week** has shifted repeatedly since the October reduction. Wall Street has grown optimistic, treating another cut as likely, but **Fed Chair Jerome Powell** highlighted strongly differing views among **policymakers**, warning that a **December cut** is far from **certain**. **Uncertainty** is compounded by **incomplete economic data**: November inflation figures and recent jobs reports will only be released after the **Fed meeting**. While **rate futures** show moderate confidence in **interest rate cut**, **traders** remain cautious as market sentiment remains **highly volatile**. (Source : Reuters)



## ***Iran conducts Gulf drills, launching ballistic and cruise missiles at mock targets.***

- **Iran Tests Missiles in Gulf Drills :** Iran's IRGC Navy fired ballistic and cruise missiles and deployed drones during two-day exercises in the Strait of Hormuz and Gulf of Oman, showcasing enhanced AI-enabled readiness.
- **SCO Counterterrorism Exercises Held in Northwest Iran :** Iran hosted a multilateral anti-terror drill with SCO members and partners including Saudi Arabia, Iraq, Oman and Azerbaijan aimed at boosting coordination and signalling deterrence to adversaries.
- **Exercises Follow June Israel–Iran Air Conflict :** The drills come after a 12-day air war involving Israel and the U.S., with Western states warning that Iran's expanding missile capabilities threaten regional stability.



## ***Israel-aligned militia leader Yasser Abu Shabab dies in Gaza strike.***

- **Death of Israeli-Backed Militia Leader :** Yasser Abu Shabab, head of the Israeli-supported Popular Forces militia in Gaza, was killed in a violent clan dispute, dealing a major setback to Israel's efforts to build local anti-Hamas proxies.
- **Conflicting Accounts and Local Backlash :** While his group claims he was shot while mediating a family dispute, local sources say he died after refusing to release a kidnapped hostage highlighting deep tensions between the militia and Gaza's powerful clans.
- **Blow to Israel's Proxy Strategy :** Abu Shabab's death deepens doubts about the viability of Israel-backed factions, which have been accused of looting aid and collaborating with Israel, and are heavily discredited among Palestinians.

## Other Geopolitical developments

### ***United States and Ukraine negotiators say meaningful peace progress hinges on Russia.***

- **Progress Hinges on Russia:** U.S. and Ukraine negotiators said constructive talks took place, but any real movement toward peace requires Russia to commit to de-escalation and a long-term settlement.
- **Security Framework Discussed:** Both sides agreed on a security arrangements framework and emphasised Ukraine's need for guarantees that protect its sovereignty, citizens, and post-war future.
- **Sticking Points Remain:** Major disputes persist over occupied Ukrainian territory and security guarantees, with recent Moscow talks yielding no compromise despite ongoing rounds of negotiations.

### ***Assad's exiled spy chief and billionaire cousin are steering Syrian unrest from Russia.***

- **Rival Powerbrokers in Exile:** Kamal Hassan and Rami Makhlouf , Assad Loyalists are funding and recruiting tens of thousands of Alawite fighters from abroad to foment armed uprisings against Syria's new government and reclaim influence in the post-Assad order.
- **Competing Militia Networks:** Both men are racing to control hidden command centres and weapons stockpiles along the coast, but their rivalry, weak grassroots backing, and lack of Russian support have slowed any real insurgent momentum.
- **Government Pushback:** President Ahmed al-Sharaa's administration is sending former Assad loyalists to stabilize Alawite areas, as sectarian tensions and fresh coastal protests rise, limiting the exiles' chances of igniting a viable uprising.





## ***Oil rises to a two-week peak amid Fed rate-cut signals and supply worries.***

- **Oil prices hit two-week highs:** Brent rose 0.8% to \$63.75 and WTI gained 0.7% to \$60.08, driven by expectations of a U.S. Federal Reserve rate cut next week, which could boost economic growth and energy demand, alongside geopolitical uncertainties affecting supplies from Russia and Venezuela.
- **Market and trade developments:** Investors monitored U.S.-China trade talks, potential U.S.-Mexico-Canada discussions, and moderate U.S. consumer spending, all of which influence expectations for economic growth and energy demand.
- **Supply-side concerns:** Ongoing uncertainty over Russian and Venezuelan oil output, including sanctions, potential policy shifts, and incidents like a Ukrainian drone attack on Russia's Temryuk port, added bullish pressure to oil markets.



## ***Saudi Arabia lowers January oil prices for Asia to a five-year low.***

- **Saudi Arabia lowers Asian crude prices:** The official selling price (OSP) of Arab Light crude for January was cut to \$0.60 a barrel above the Oman/Dubai benchmark, the lowest premium in five years and down from \$1 in December, reflecting signs of a market surplus.
- **Rising global supply pressures:** OPEC+ led by Russia has increased output by 2.9 million bpd since April 2025, while eight members paused further hikes for Q1 2026; additional supply from the U.S. and Brazil adds to concerns of a potential glut.
- **Market impact and influence:** The cut follows falling Dubai premiums (70¢ vs. 90¢ in November) and may boost Chinese buying; Saudi prices also guide Iran, Kuwait, and Iraq, affecting 9 million bpd to Asia.

## Recommended readings

<b><i>Afghanistan-Pakistan Quagmire Reveals the Limits of China's Leverage . ( Source : ORF)</i></b>	<b><i>Escalating Japan-China Tensions: Insights from the Past and Prospects for the Future. ( Source : CSIS)</i></b>
<ul style="list-style-type: none"> <li>• <b>China's early advantage in post-2021 Afghanistan has eroded:</b> Despite early engagement with the Taliban, China's key security concerns — ETIM, ISKP attacks, and threats to its nationals and projects remain unresolved, limiting its expected gains.</li> <li>• <b>Limited Leverage Behind China's Mediation:</b> China's trilateral efforts to ease Pakistan-Afghanistan tensions are undermined by Kabul's inaction on TTP militants and the Taliban's reluctance to engage, exposing Beijing's limited leverage.</li> <li>• <b>India's Rising Taliban Engagement:</b> Afghanistan's diversification especially closer ties with India and Central Asia has reduced China's diplomatic dominance, with India's growing footprint seen by Beijing and Islamabad as shrinking their strategic space and complicating China's interests.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>China's Escalation and Narrative Push:</b> Beijing reacted strongly to PM Takaichi's Taiwan-related remarks, launching a wide diplomatic, political, and informational campaign against Japan while keeping economic and military measures limited but leaving ample room for further escalation.</li> <li>• <b>Rising Structural Tensions and Limited Deescalation Space:</b> Historical patterns from 2010 and 2012 show that crises reset Japan-China relations to a lower baseline; today's domestic political climates in both countries, and the centrality of Taiwan to China, make deescalation even harder.</li> <li>• <b>Long-Term Strategic Shift in Japan:</b> The episode is likely to accelerate Japan's diversification away from economic dependence on China and deepen defense ties with the U.S. and partners, reinforcing a long-term strategic drift away from Beijing amid uncertainty over U.S. policy.</li> </ul>