

## The Week Ahead: Trade war escalates, resulting in sharp sell-off in global markets

### ▶ **Global: US tariff hikes risk a material global growth slowdown**

The reciprocal tariffs introduced by the US last week have triggered a rising wave of trade protectionism and equity market sell-off, posing significant downside risks to global growth. The US raised its average effective tariff rate to c.15.0-20.0% (from c.2.5% at end-2024), the highest since the 1910s. For more details, please see our note **US & GCC Economic Update - Gulf better placed regarding US reciprocal tariffs; secondary impact critical**, published on 3 April 2025. China has imposed a matching 34.0% tariff on the US, signalling an aggressive stance compared to its measured approach in February, though this could be to negotiate bargaining power. We acknowledge that markets face significant uncertainties, given the scope for further escalation over the coming weeks. We now see the tariff measures reducing global growth in 2025 by c.0.5pp, with the most significant downside coming from Asia, even if trade negotiations commence. Fed Chair Jerome Powell acknowledged increased uncertainties, though noted that the Fed is not in a hurry to cut rates. He added that the economic impact of the tariffs – on both inflation and growth, will likely be much greater than expected. The market pricing of further Fed rate cut expectations in 2025 has also risen significantly to c.113.8 bps from c.75.9 bps at the end of March.

### ▶ **Oil: OPEC+ supply hike likely aimed at limiting overproducers**

The escalating trade wars and unexpected supply increase announcement by OPEC+ have resulted in a sharp fall in oil prices, with Brent falling by c.15.4% over the last two days to c.USD63.2 p/b at the time of publishing, the lowest since April 2021. OPEC+ announced an unexpected 411K b/d rise in oil output for May, significantly higher than the previously scheduled 138K b/d. Adherence to the OPEC+ compensation cuts will be critical for limiting the actual increase in supply. This represents a front-loaded supply increase, ahead of rising demand during the summer. Over the past month, the oil price has broadly risen, as US secondary sanctions on the purchase of crude from Iran, Russia and Venezuela have tightened oil markets. However, the move is also seen by the market as potentially aimed at improving compliance from key overproducers Iraq and Kazakhstan. We acknowledge strong headwinds to global oil demand growth, including from key markets such as China and India, leading to downside risks to our 2025 Brent forecast of USD72.5 p/b.

### ▶ **India: RBI to cut rates by 25 bps, maintain 'neutral' stance**

We expect the RBI to deliver its second consecutive rate cut in April, reducing the repo rate by 25 bps to 6.0%. Below-target inflation (Feb: 3.6% y-o-y), rising headwinds to GDP growth, especially for externally facing sectors, and the recent strengthening in the INR against the USD support a rate cut. We expect the RBI to maintain a cautious bias, holding its 'neutral' monetary stance for now. India faces a c.27.0% tariff, though exemptions imply a lower effective tariff of c.20.0%, which is markedly smaller than most Asian peers. A potential trade deal with the US, involving some reprieve from the recently imposed tariffs, will be a critical trigger for the RBI to turn overtly dovish.

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# I. Recent Events and Data Releases

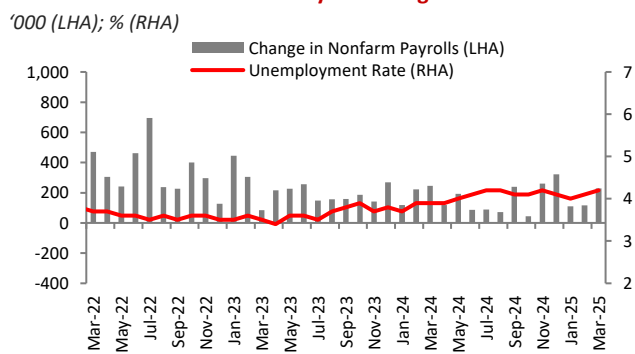
## A. Advanced Economies

### US: March NFP remains solid across the board; downside risks loom

The labour market appears to be solid for now, though a deterioration could force a rethink from the Fed, in our view. The March NFP report significantly exceeded expectations, with a robust increase of 228K jobs (February: 151K; consensus: 140K), driven by broad-based gains. The rebound was particularly strong in the leisure and hospitality sectors, benefiting from improved weather conditions. The unemployment rate rose slightly to 4.2% from 4.1%, primarily due to a higher participation rate – albeit pointing to greater labour market uncertainties. Average hourly earnings edged up by 0.3% month-over-month (February: 0.2%), indicating that broader income growth continues to outpace inflation, which should support household consumption as tariffs are implemented. However, we believe this may be the last robust NFP print. The implementation of tariffs and federal job layoffs led by the Department of Government Efficiency (DOGE) are likely to weigh on employment figures in the coming months. The manufacturing sector will be particularly vulnerable to the impact of tariff policies, while federal job cuts will likely affect the government, education, and healthcare sectors. We maintain our outlook for the Fed to deliver two 25 bps rate cuts for now, though we acknowledge that a deteriorating labour market outlook could prompt the Fed to undertake larger and faster rate cuts.

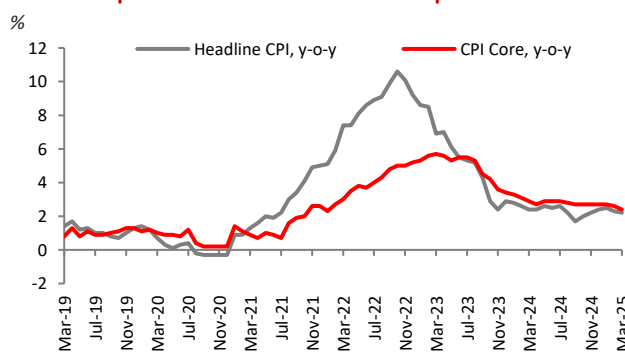
*The March NFP could potentially be the last robust labour market report*

**Fig. 1. US: Labour market remains solid for now; impact of DOGE and tariffs likely in coming months**



Source: Bureau of Economic Analysis, ADCB Economic Research

**Fig. 2. Eurozone: Downside surprise in core CPI keeps door open for the ECB to cut rates in April**



Source: Eurostat, ADCB Economic Research

### Eurozone: Risks tilted towards April cut on higher-than-expected tariffs

We now see the ECB cutting its policy rates by 25 bps in April, with the larger-than-expected 20.0% US reciprocal tariffs (expected: c.10.0%) adding material headwinds to the GDP growth outlook. We expect US reciprocal tariffs to lower 2025 GDP growth by c.0.3-0.6ppts on weakening export growth, with a deterioration in business and household confidence weighing on private investments and consumption. The European Commission is reportedly working on a fiscal package to counter the impact of the tariffs. However, near-term fiscal support will likely be limited as it will take time for the Commission to vote and implement the measures. We believe the EU will first seek to negotiate a trade deal with the US before implementing counter-tariffs and it has so far

*The steep US reciprocal tariffs on the Eurozone add significant downside risks to GDP growth*

not announced any retaliatory measures. Concrete details on the EU's plans are likely to be announced this week, after the EU Trade Ministers meeting (8-9 April). If universal tariffs are introduced by the EU on US imports, they will likely have a contained impact on inflation, adding c.0.25-0.35ppts to headline CPI, as US imports account for less than 10.0% of the bloc's total imports.

The recent progress with disinflation also supports an earlier rate cut from the ECB – we previously expected the next cut to be in July. Headline CPI slowed to 2.2% y-o-y in March (February: 2.4%), with core inflation decelerating more than expected to 2.4% (consensus: 2.5%; February: 2.6). This takes 1Q2025 headline and core CPI broadly in line with the ECB's expectations for the quarter. The downside surprise in core CPI was led by services decelerating sharply to a three-year low of 3.4% y-o-y in March (February: 3.8%), with underlying price pressures cooling. The impact of the later start of Easter was already assumed in consensus forecasts. The 3MMA Seasonally Adjusted Annual Rate (SAAR) of services CPI inched down further to 2.2% (February: 2.3%), likely giving the ECB confidence that disinflation remains broadly on track, while headwinds to growth are rising.

*1Q2025 headline and core CPI broadly in line with the ECB's projections*

## B. Emerging Economies

### Turkey: CBRT to keep rates steady despite downside surprise in CPI

Headline CPI decelerated more than expected to 38.1% y-o-y in March (February: 39.1%; consensus: 38.9%) with cooling in both energy and core CPI. The sharp fall in the TRY against the USD triggered by the arrest of Istanbul Mayor Ekrem Imamoglu occurred only in late March, and hence had a limited impact on the CPI print. We expect the inflationary impact of the weaker currency to be more apparent in 2Q inflation prints, with headline inflation rising by c.0.5-0.7 ppts to c.39.0% (upper bound) – broadly in line with the 1Q2025 average. Meanwhile, core inflation decelerated to 37.0% y-o-y in March (February: 39.0%), albeit partly due to a favourable base. The CBRT will likely remain concerned about still-sticky underlying prices, with 3MMA core CPI only inching down to 3.2% in March and remaining in the 3.2%-3.4% range seen from 4Q2024.

*The impact of FX weakness likely to be seen in 2Q prints*

Following the arrest of Mayor Imamoglu, the CBRT responded swiftly to contain the FX fall by hiking the overnight lending rate by 200 bps to 46.0% in an unscheduled meeting (21 March). The overnight lending rate is little used by the CBRT, though the hike signals the CBRT's commitment to orthodox monetary policy and a willingness to contain upside inflationary pressures and support the TRY. These measures have been broadly effective in restoring FX stability, with the TRY now trading in the c.38.1-38.2 range, though still c.3.7% weaker than prior to the sell-off. The CBRT sold c.USD25.0 billion to stabilise the currency due to the large foreign investment outflows. However, the CBRT's net foreign assets have gradually stabilised following the intervention, rising by USD1.0 billion over 26-28 March, pointing to some pickup in capital inflows. We now believe the CBRT will keep the main policy rate (one-week repo) steady in April at 42.5%. The need for orthodox monetary policy will likely impact the magnitude of rate cuts possible in 2H2025, while an improvement in the political backdrop will also be vital to support cuts.

*CBRT likely to resume its rate-easing cycle only in June*

## II. Economic Calendar

Fig. 3. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	Dubai CPI, y-o-y	Mar	3.2%	
	Qatar	CPI, y-o-y	Mar		
	China	New Yuan Loans CNY YTD	Mar	6140.0B	9138.7B
	China	Aggregate Financing CNY YTD	Mar	9290.0B	14092.1B
<b>Monday, 7 April</b>					
10:00	Germany	Industrial Production SA, m-o-m	Feb	2.0%	-1.0%
13:00	Eurozone	Retail Sales, m-o-m	Feb	-0.3%	0.5%
13:00	Eurozone	Retail Sales, y-o-y	Feb	1.5%	1.9%
	China	Foreign Reserves	Mar	3227.22B	3252.00B
<b>Tuesday, 8 April</b>					
3:50	Japan	BoP Current Account Balance	Feb	-257.6B	3926.6B
22:00	US	Fed's Daly Speaks in Discussion on Economic Outlook			
<b>Wednesday, 9 April</b>					
8:30	India	RBI Repurchase Rate	9-Apr	6.3%	6.0%
8:30	India	RBI Cash Reserve Ratio	9-Apr	4.0%	4.0%
15:00	US	MBA Mortgage Applications	4-Apr	-1.6%	
18:00	US	Wholesale Inventories, m-o-m	Feb F	0.3%	0.4%
22:00	US	FOMC Meeting Minutes	19-Mar		
<b>Thursday, 10 April</b>					
3:50	Japan	PPI, y-o-y	Mar	4.0%	3.9%
5:30	China	PPI, y-o-y	Mar	-2.2%	-2.3%
5:30	China	CPI, y-o-y	Mar	-0.7%	0.1%
16:30	US	CPI, m-o-m	Mar	0.2%	0.1%
16:30	US	CPI Ex Food and Energy, m-o-m	Mar	0.2%	0.3%
16:30	US	CPI, y-o-y	Mar	2.8%	2.6%
16:30	US	CPI ex-Food and Energy, y-o-y	Mar	3.1%	3.0%
16:30	US	Real Avg Hourly Earning, y-o-y	Mar	1.1%	
16:30	US	Real Avg Weekly Earnings, y-o-y	Mar	0.8%	
16:30	US	Initial Jobless Claims	5-Apr	219K	224K
	Egypt	Urban CPI, y-o-y	Mar	12.8%	
	Egypt	Urban CPI, m-o-m	Mar	1.4%	
	Egypt	CPI Core, y-o-y	Mar	10.0%	
<b>Friday, 11 April</b>					
10:00	UK	Monthly GDP, m-o-m	Feb	-0.1%	0.1%
10:00	UK	Monthly GDP, 3M/3M	Feb	0.2%	0.4%
10:00	UK	Industrial Production, m-o-m	Feb	-0.9%	0.1%
10:00	Germany	CPI, m-o-m	Mar F	0.3%	0.3%
10:00	Germany	CPI, y-o-y	Mar F	2.2%	2.2%
10:00	UK	Manufacturing Production, m-o-m	Feb	-1.1%	0.2%
10:00	Germany	CPI EU Harmonised, y-o-y	Mar F	2.3%	2.3%
14:30	India	Industrial Production, y-o-y	Feb	5.0%	3.4%
16:30	US	PPI Final Demand, m-o-m	Mar	0.0%	0.2%
16:30	US	PPI ex-Food and Energy, m-o-m	Mar	-0.1%	0.3%
16:30	US	PPI ex-Food, Energy and Trade, m-o-m	Mar	0.2%	0.3%
16:30	US	PPI Final Demand, y-o-y	Mar	3.2%	3.3%
16:30	US	PPI ex-Food and Energy, y-o-y	Mar	3.4%	3.6%
16:30	US	PPI ex-Food, Energy, Trade, y-o-y	Mar	3.3%	
18:00	US	U. of Mich. Sentiment	Apr P	57.0	54.0
18:00	US	U. of Mich. 1 Yr Inflation	Apr P	5.0%	5.1%

\*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 4. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>GCC Economies</b>						
	Qatar	CPI, y-o-y	Feb	-1.1%		
	Bahrain	GDP Constant Prices, y-o-y	4Q	2.1%		
<b>Monday, 31 March</b>						
3:50	Japan	Industrial Production, m-o-m	Feb P	-1.1%	2.0%	2.5%
5:30	China	Manufacturing PMI	Mar	50.2	50.4	50.5
12:30	UK	Mortgage Approvals	Feb	66.2K	65.6K	65.5K
16:00	Germany	CPI, m-o-m	Mar P	0.4%	0.3%	0.3%
16:00	Germany	CPI, y-o-y	Mar P	2.3%	2.2%	2.2%
16:00	Germany	CPI EU Harmonised, y-o-y	Mar P	2.6%	2.4%	2.3%
21:17	Saudi Arabia	SAMA Net Foreign Assets SAR	Feb	1543.6B		1537.9B
<b>Tuesday, 1 April</b>						
3:30	Japan	Jobless Rate	Feb	2.50%	2.50%	2.40%
4:30	Japan	Jibun Bank Japan PMI Mfg	Mar F	48.3		48.4
5:45	China	Caixin China PMI Mfg	Mar	50.8	50.6	51.2
10:00	UK	Nationwide House PX, m-o-m	Mar	0.4%	0.2%	0.0%
10:00	UK	Nationwide House Px NSA, y-o-y	Mar	3.9%	4.2%	3.9%
11:55	Germany	HCOB Germany Manufacturing PMI	Mar F	48.3	48.3	48.3
12:00	Eurozone	HCOB Eurozone Manufacturing PMI	Mar F	48.7	48.7	48.6
12:30	UK	S&P Global UK Manufacturing PMI	Mar F	44.6	44.6	44.9
13:00	Eurozone	CPI Estimate, y-o-y	Mar P	2.3%	2.2%	2.2%
13:00	Eurozone	CPI, m-o-m	Mar P	0.4%	0.6%	0.6%
13:00	Eurozone	CPI Core, y-o-y	Mar P	2.6%	2.5%	2.4%
17:45	US	S&P Global US Manufacturing PMI	Mar F	49.8	49.9	50.2
18:00	US	ISM Manufacturing	Mar	50.3	49.5	49.0
<b>Wednesday, 2 April</b>						
10:46	Bahrain	CPI, y-o-y	Feb	0.0%		0.1%
15:00	US	MBA Mortgage Applications	28-Mar	-2.0%		-1.6%
16:15	US	ADP Employment Change	Mar	84K	120K	155K
18:00	US	Factory Orders	Feb	1.8%	0.5%	0.6%
18:00	US	Durable Goods Orders	Feb F	0.9%	0.9%	1.0%
18:00	US	Durables ex-Transportation	Feb F	0.7%	0.7%	0.7%
<b>Thursday, 3 April</b>						
5:45	China	Caixin China PMI Composite	Mar	51.5		51.8
5:45	China	Caixin China PMI Services	Mar	51.4	51.5	51.9
12:00	Eurozone	HCOB Eurozone Services PMI	Mar F	50.2	50.2	50.9
12:00	Eurozone	HCOB Eurozone Composite PMI	Mar F	50.9	50.9	51.3
12:30	UK	S&P Global UK Composite PMI	Mar F	52.0	52.0	51.5
12:30	UK	S&P Global UK Services PMI	Mar F	53.2	53.2	52.5
16:30	US	Trade Balance	Feb	-130.7B	-123.3B	-122.7B
16:30	US	Initial Jobless Claims	29-Mar	225K	225K	219K
17:45	US	S&P Global US Services PMI	Mar F	54.3	54.2	54.4
17:45	US	S&P Global US Composite PMI	Mar F	53.5	53.5	53.5
18:00	US	ISM Services Index	Mar	53.5	52.9	50.8
<b>Friday, 4 April</b>						
10:00	Germany	Factory Orders, m-o-m	Feb	-5.5%	3.4%	0.0%
12:30	UK	S&P Global UK Construction PMI	Mar	44.6	46.3	46.4
16:30	US	Change in Nonfarm Payrolls	Mar	117K	140K	228K
16:30	US	Change in Manufact. Payrolls	Mar	8K	0K	1K
16:30	US	Unemployment Rate	Mar	4.1%	4.1%	4.2%

\*UAE time

Source: Bloomberg, ADCB Economic Research

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