

## Political pressure on the Fed increases – implications for the GCC

12 January 2026 – Market Economics

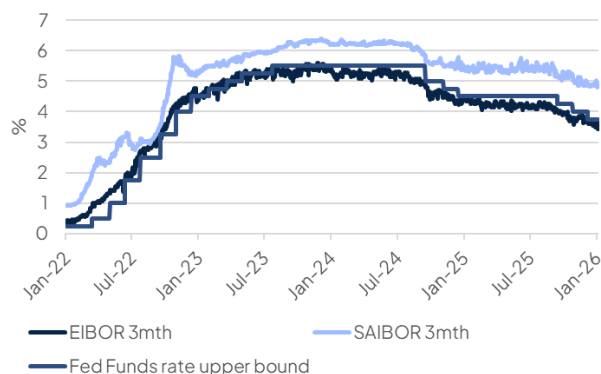
The US Department of Justice has served the Federal Reserve with grand jury subpoenas and the threat of criminal indictments over the Fed's handling of renovations of its headquarters. Fed chair Jerome Powell said in his response to the subpoenas that they should be viewed in the "broader context of the administration's threats and ongoing pressure" on the Fed to cut rates.

We had already expected that the Fed would remain challenged by pressures from the White House and that in 2026 there would effectively be "two Feds"; the current Fed with Powell as chair and a post-May Fed when a new chair is appointed. Public dissents among policymakers were already obfuscating the Fed's messaging on the economy and this new threat to Fed governance from the government will further cloud the Fed's freedom of action.

### GCC links to the Fed mainly through rates and FX

How does this scenario impact on the GCC economies and markets? As GCC economies maintain for the most part pegged currencies to the US dollar, regional policy rates move in step with the Fed. Lower rates last year from the Fed were followed by central banks in the region and we expect that the Fed will cut another 75bps in 2026 and that regional banks will follow. Activity indicators for 2025 show that the economies of the UAE and Saudi Arabia had been performing well even with rates at higher levels so another move lower in rates will be welcome but unlikely to materially accelerate growth for either economy.

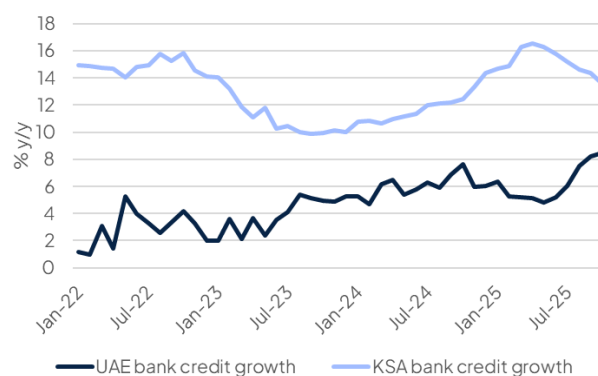
### Local rates follow the Fed



Source: Bloomberg, Emirates NBD Research.

Credit demand in both the UAE and Saudi Arabia was strong in H2 2025 and lower rates will help borrowers free up capital for further consumption and investment, both of which we are expecting will support growth in 2026.

### UAE and Saudi Arabia credit demand on the rise

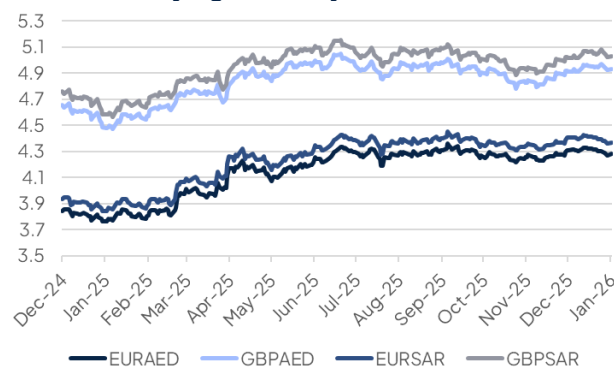


Source: Bloomberg, Emirates NBD Research.

### Intrusion on Fed is dollar negative

The immediate market reaction to the latest Fed developments is dollar negative. EURUSD jumped by 0.2%, matched by a similar move in USDJPY and GBPUSD. Regional crosses followed the US dollar in 2025 and weakened against majors and the reaction in trade today has been similar. Our ex-ante expectation for 2026 was another year of dollar weakness, although not to the same scale as 2025.

### Local currency against majors



Source: Bloomberg, Emirates NBD Research.

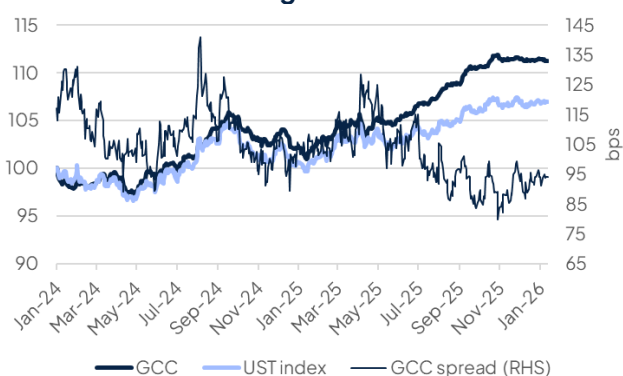
A weaker USD, and by extension weaker GCC currencies, has both positive and negative



outcomes for regional economies. Imported goods become more expensive but non-oil exports, and in particular services exports, become relatively more competitive. The origin of the region's imports also contains a high share from markets like India and Turkey where the currencies depreciated against the US dollar (and UAE dirham and Saudi riyal) in 2025, offsetting to a degree the rise in other currencies.

Doubts over Fed governance will also increase anxiety in US Treasury markets, contributing further to our expectation of a steeper curve this year. Elevated rates on the long end of the US curve will keep upward pressure on borrowing costs for the region though an overall strong credit profile in economies like the UAE and Saudi Arabia and strong investor demand for regional issuances will help to keep spreads contained.

### GCC bonds held strong in 2025



Source: Bloomberg, Emirates NBD Research. Note: bond indexes rebased to Jan 1 2024 = 100.

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