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RENEWED MIDDLE EAST GEOPOLITICAL TENSIONS SPARKED RISK-OFF MODE LAST WEEK

Markets End Week on Defensive Footing Amid Converging Risks

Global markets closed the week in a markedly more defensive posture than where they began. After a steady rally through May, supported by robust AI-driven optimism, resilient economic data, and tentative hopes for easing geopolitical tensions, investors were abruptly confronted with three simultaneous risks. A sharp correction in technology stocks, renewed concerns over a prolonged higher-interest-rate environment in the United States, and escalating tensions in the Middle East collectively undermined sentiment across asset classes.

The initial shock originated from the AI trade itself. Broadcom's unexpected revenue miss triggered a wave of profit-taking across semiconductor and AI-related equities, highlighting how valuations built on elevated growth expectations leave little margin for disappointment. At the same time, a significantly stronger-than-expected US employment report reinforced confidence in economic resilience but reduced the urgency for Federal Reserve easing. Meanwhile, optimism surrounding a potential US-Iran agreement faded quickly as military activity intensified around the Strait of Hormuz, reigniting fears over energy supply disruptions and inflation.

Taken together, these developments leave markets entering the new week at a critical inflection point. A deeper equity market correction, further upward pressure on Treasury yields, and renewed gains in oil prices could reinforce an evolving risk-off environment.

Currency Markets: Dollar Leads, Commodities Lag

In currency markets, the US Dollar emerged as the clear outperformer, supported by rising yields, safe-haven demand, and shifting monetary policy expectations. Should Treasury yields remain above 4.5% and equity markets stay under pressure, the USD appears well positioned to extend its near-term gains. The Japanese Yen (JPY) ranked second, benefiting from geopolitical uncertainty despite its relative weakness against the USD, while Sterling (GBP) followed. At the weaker end, the New Zealand Dollar (NZD) underperformed, followed by the Australian Dollar (AUD) and Swiss Franc (CHF). The Euro (EUR) and Canadian Dollar (CAD) traded in the middle of the pack.

AI Trade Faces a Reality Check

The most immediate catalyst for Friday's risk-off move came from the technology sector, where NASDAQ recorded its steepest daily decline in over a year. The index fell 4.2%, led by a 6.2% drop in Nvidia and a 7.9% decline in Broadcom, as concerns emerged that AI demand may not expand as rapidly as previously anticipated. For the week, NASDAQ lost approximately 4.7%, marking its sharpest weekly decline in over a year. Broader indices were somewhat more resilient. The Dow Jones Industrial Average (DJIA) fell 1.3% on Friday and declined 0.3% w-o-w, while the S&P 500 dropped 2.6% both on the day and for the week, snapping a nine-week winning streak.

Broadcom's earnings carried particular significance given its central role in the AI ecosystem as a supplier of custom semiconductors. Although the revenue miss was modest, it struck a market priced for near-perfection after months of AI-driven gains. The resulting selloff extended across the broader technology complex. Crucially, this correction does not signal the end of the AI investment theme. Rather, it suggests a transition toward a more discriminating phase, where investors become increasingly selective and less willing to reward companies solely for AI exposure.

Strong Payrolls Reinforce Higher-for-Longer Narrative

The second headwind came from US labor market data. May non-farm payrolls rose by 172,000, well above consensus expectations, while April figures were revised higher to 179,000. The unemployment rate remained steady at 4.3%, and labor force participation was unchanged, underscoring continued labor market resilience despite tighter financial conditions and elevated energy costs.

While the report does not necessarily signal imminent rate hikes, it reinforces the Federal Reserve's ability to remain patient. Policymakers have increasingly shifted focus toward assessing whether higher energy prices could trigger second-round inflation effects. A resilient labor market allows the Fed to delay easing decisions and monitor inflation dynamics more closely.

Rising Treasury yields may ultimately prove more consequential than the payroll data itself. Over the past year, equity markets have tolerated elevated rates on the assumption that eventual easing would follow. However, if strong economic data continue to delay that pivot, valuation pressures, particularly in high-growth sectors like technology, may intensify.

The next critical test will come from inflation data. While payrolls alone are unlikely to prompt further tightening, any evidence that higher oil prices are feeding into broader price pressures could lead markets to reassess the likelihood of additional rate hikes. According to the CME FedWatch tool, expectations are increasingly shifting toward an extended period of restrictive policy, with rates potentially remaining elevated through 2026.

Geopolitical Risks Resurface

The third, and potentially most significant, risk stems from renewed geopolitical tensions in the Middle East. Over recent weeks, markets had priced in the possibility of a US-Iran agreement or at least a continuation of ceasefire arrangements, contributing to lower oil prices and improved risk sentiment. However, those expectations unraveled by week's end.

Military tensions escalated around the Strait of Hormuz, a critical global energy chokepoint. US forces reportedly conducted strikes on Iranian radar and surveillance facilities following drone activity near key shipping lanes. Iran responded with missile attacks targeting US military installations and vessels in the region. While air defense systems intercepted many of these projectiles, the incidents underscored the fragility of the security backdrop.

Further reports indicated missile launches toward Israel, heightening regional instability. Although interceptions prevented casualties, the developments reinforced concerns that the conflict could broaden. Diplomatic efforts appear to have stalled, with limited progress toward a negotiated resolution.

The implications for energy markets are significant. While oil prices remain below the USD100 threshold, the risk premium is rising. Sustained increases in crude prices would not only weigh on global growth but also complicate the inflation outlook, potentially amplifying second-round effects across sectors such as transportation and manufacturing.

In this context, the Middle East conflict may prove to be the critical link tying together the three dominant market risks: weaker risk appetite, rising inflation, and prolonged monetary tightening.

Rates, Dollar, and Oil: Key Market Drivers

US Treasury yields ended the week higher, with the 10-year yield climbing back above 4.5% as investors reassessed the outlook for monetary policy.

The US Dollar Index (DXY) also strengthened, reclaiming the psychologically important 100 level. The combination of firm yields, resilient economic data, and risk aversion has turned the technical outlook more constructive. While the rally was initially driven by stronger-than-expected payrolls data, broader market developments have increasingly begun to work in USD's favor. Stable Treasury yields and a moderate risk-off environment alone could be sufficient to lift DXY higher. However, the more interesting scenario is one in which, should equity weakness deepen alongside rising geopolitical risks, the USD could benefit further from both yield support and safe-haven demand.

Meanwhile, Brent crude has re-emerged as a critical variable. Recent price weakness, driven by optimism over a potential US-Iran agreement, may reverse if geopolitical tensions continue to escalate. A sustained rebound in oil would reinforce the broader risk-off narrative and add further complexity to the inflation outlook.

Table 1: Euro Area Harmonized Index of Consumer Prices (HICP), y-o-y%

	May-25	Feb-26	Mar-26	Apr-26	May-26
All-items	1.9	1.9	2.6	3.0	3.2
All-items excluding; energy	2.5	2.4	2.3	2.2	2.4
energy, unprocessed food, alcohol & tobacco	2.3	2.4	2.3	2.2	2.5
Food, alcohol & tobacco	3.2	2.5	2.4	2.4	2.0
Energy	-3.6	-3.1	5.1	10.8	10.9
Non-energy industrial goods	0.6	0.7	0.5	0.8	0.9
Services	3.2	3.4	3.3	3.0	3.5

Sources: Eurostat, Bank Islam

Euro Area inflation hits 32-month high. Preliminary estimates indicate that Eurozone's headline inflation climbed higher to 3.2% y-o-y in May, the highest level since September 2023. The increase was primarily driven by a spike in energy prices (+10.9%), underscoring the severity of energy-related cost shocks amid the ongoing U.S.-Iran geopolitical conflict. The initial impact of higher global fuel prices was direct and sustained, as evidenced by energy inflation surging sharply to 5.1% in March (Feb: -3.1%) before continuing to strengthen through May as the conflict extended well past the three-month mark. Prolonged supply-side pressures, including shipping disruptions along the Strait of Hormuz, elevated risk premia and higher freight costs are keeping energy prices structurally elevated, raising the likelihood of spillovers into domestic price dynamics. Recent data reaffirm that price pressures are already broadening beyond energy costs, which increases the risk of more entrenched inflation. Notably, services inflation accelerated to 3.5% in May, remaining persistently elevated above 3.0% over four years, while core inflation edged up to 2.5%.

Broadening price pressures solidifies case for additional ECB tightening. FX markets have widely priced in a rate hike at the European Central Bank (ECB)'s meeting on 11 June, while increasingly weighing the likelihood of another move in September. This narrative is supported by ECB President Lagarde's earlier guidance where she highlighted different monetary policy paths depending on the intensity and persistence of the inflation shocks. The first scenario is a shock that is limited in size and short-lived, which would require no policy action,

while a larger magnitude but not-too-persistent shock could necessitate “some measured adjustment”. The third case outlined inflation overshooting ECB’s target significantly and persistently, which would warrant an “appropriately forceful and persistent”. Given the recent spike to 3.2% in May, a June hike is all but confirmed. Concurrently, the case for additional tightening is strengthening as underlying price pressures are evidently broadening across both consumer goods and services, increasing the risk of inflation becoming more entrenched down the road. In its April meeting, ECB officials had already flagged that the energy-driven supply shock was more persistent than expected, suggesting that current conditions remain challenging. Coupled with limited progress in resolving the U.S.-Iran conflict and restoring supply chains, energy prices are expected to remain structurally elevated for longer. Against this backdrop, risks to inflation are skewed to the upside, reinforcing bets of additional tightening beyond June.

Week Ahead for FX

Looking ahead, US inflation data will be the key focal point as investors assess the likelihood of further Federal Reserve tightening. Additional releases, including the University of Michigan consumer sentiment index, trade data, and existing home sales, will provide further insight into economic conditions.

In Europe, attention will center on the European Central Bank, where a rate hike is widely anticipated. Canada is also scheduled to announce its latest policy decision.

In Asia, China will release trade and inflation data, while Japan’s growth figures will offer a snapshot of regional economic momentum. India’s inflation data will also be closely watched. In Malaysia, upcoming releases, including April’s industrial production, manufacturing sales, and distributive trade data, are expected to indicate some moderation in activity.

Upcoming Events: Key Economic Data Release

Monday	Japan Final 1Q2026 GDP
Tuesday	China Exports (May), Australia Business Confidence (May) & Consumer Confidence (June), U.S. Exports (April)
Wednesday	U.S. Consumer Prices (May), China Consumer Prices (May), Japan Producer Prices (May)
Thursday	ECB Policy Decision, U.S. Producer Prices (May), Malaysia Unemployment Rate (April)
Friday	Japan Industrial Production (April), Malaysia Retail Sales & Industrial Production (April), UK GDP & Industrial Production (April), U.S. Consumer Sentiment (June)

Table 1: Selected Currencies Overview

	22-May	29-May	5-Jun	WoW	YTD
DXY Index	99.24	98.94	100.07	1.1%	1.8%
USDMYR	3.97	3.96	4.03	1.7%	-0.7%
XAUUSD	4,509.40	4,540.26	4,328.45	-4.7%	0.2%
EURUSD	1.16	1.17	1.15	-1.2%	-1.9%
GBPUSD	1.34	1.35	1.33	-0.8%	-1.0%
AUDUSD	0.71	0.72	0.70	-1.9%	5.6%
USDSGD	1.28	1.28	1.29	1.1%	0.4%
USDJPY	159.18	159.27	160.29	0.6%	2.3%
USDCNY	6.80	6.77	6.79	0.3%	-2.9%

Sources: Bloomberg, Bank Islam

Commentaries

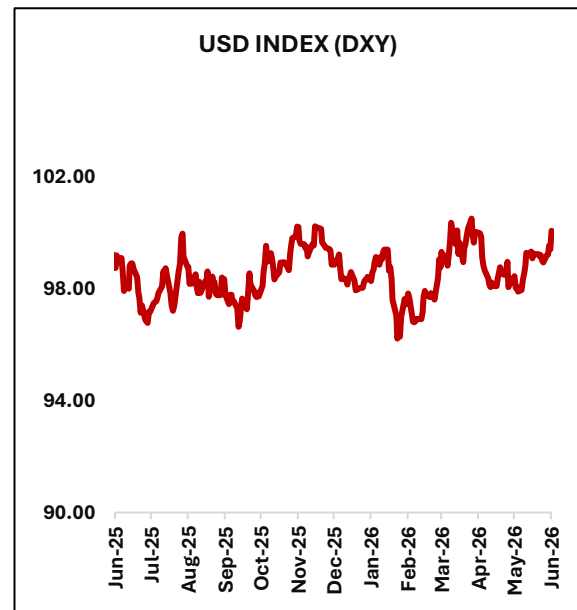
DXY: USD index breached key 100.00-level last Friday to close at 100.07

The USD index appreciated by 1.1% last week, supported by sustained resilience in the U.S. job market and deteriorating risk sentiments amid renewed U.S.-Iran tensions. Notably, the economy added 172K jobs in May (Apr: 179K), significantly exceeding consensus estimates of 85K, while the unemployment rate held steady at 4.3%. The uptick was largely driven by private employment increasing by 120K (Apr: 177K), underscoring resilient business confidence despite heightened geopolitical risks and a more challenging business environment. Prior ADP data also reinforced the strength in private sector hiring, with payrolls rising at a 17-month high of 122K (Apr: 105K). Furthermore, job gains for March and April were revised higher by 29K to 214K (Prev: 185K) and 64K to 179K (Prev: 115K) respectively. Cumulatively, the revisions added 93K to employment levels in March and April, suggesting that hiring momentum has been stronger-than-expected. Overall, while job growth displayed slight moderation in May, the labour market appeared broadly firm. Against this backdrop, the Fed has greater policy flexibility to prioritise inflation control without the urgency of addressing a weakening labour market. As such, investors are increasingly pricing in the probability that the next adjustment will be a hike, providing structural support to the dollar. According to the CME FedWatch tool, the likelihood of a hike by September has climbed to around 34.0% as of Friday, up from around 20.0% a month earlier.

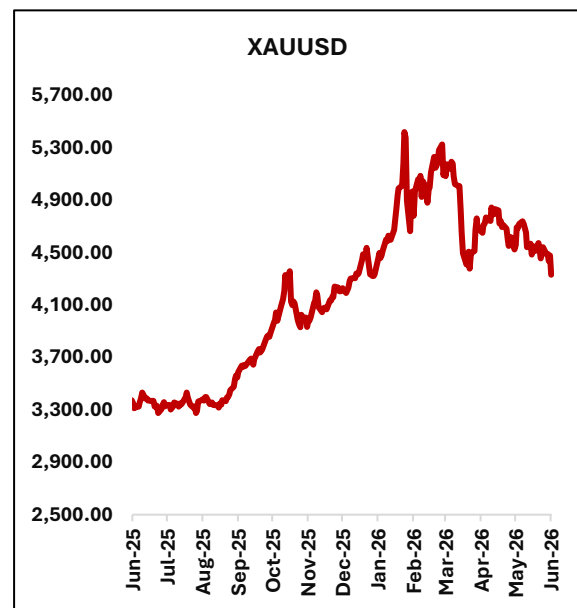
Short-term outlook: Investor attention this week will be centred on the upcoming consumer price index (CPI) and producer price index (PPI) releases, granting more clarity on the impact of intensifying geopolitical-linked price pressures on domestic price dynamics. Risks to inflation remained skewed to the upside. To make the situation more challenging, production-side inflation had rose sharply to 6.0% (Mar: 4.3%), signalling mounting costs pressure at the factory level which raises the possibility of pass-through into consumer goods. Early signs of broadening price pressures have emerged, with core inflation edging higher to 2.8% in May (Apr: 2.6%), which risks inflation becoming more entrenched and complicating the Fed's policy path ahead. Should incoming data reaffirm this trend, it would strengthen the case for a hawkish Fed. Beyond the Fed's policy outlook, re-escalating tensions between U.S. and Iran will likely weigh on investor sentiments, renewing demand for safe-haven holdings, particularly the dollar. As such, we expect the USD to trade with a bullish bias, moving within the 99.50-101.00 range in the near term.

XAUUSD: Gold price plunged as investor risk appetite deteriorated

Gold price (XAU) fell sharply by 4.7% w-o-w as risk aversion swept across FX markets following escalating tensions between U.S. and Iran towards the end of week. From a technical standpoint, the XAU traded largely within a narrow range of 4,420.00-4,490.00 last week as investors closely monitored developments in regard to the U.S.-Iran negotiations. While progress has been limited, both sides had previously shared positive signals with U.S. officials indicating that significant progress has been made to reach a peace framework. However, markets whipsawed on Friday following reports of renewed military exchanges. Iran reportedly fired warning shots at U.S. warships in the Gulf of Oman, a move that would signal a broadening scope of military operations. Although the U.S. Central Command (CENTCOM) denied these claims, it confirmed its own strikes on Iran, including firing down Iranian drones in the Strait of Hormuz and striking coastal surveillance radar installations in Goruk and Qeshm Island. The renewed clashes rattled markets, raising concerns over the durability of the fragile ceasefire and triggering a flight to safety into the USD, which in turn weighed on the XAU. Consequently, the XAU broke below the key support level of 4,400.00, closing the week at 4,328.45.



Source: Bloomberg



Source: Bloomberg

Short-term Outlook: Over the weekend, tensions escalated further as Iran carried out retaliatory strikes on Bahrain and Kuwait, while US forces continued operations targeting Iranian drones. That said, intermittent clashes have occurred even during previous ceasefire periods, suggesting that a complete breakdown in diplomatic efforts is not inevitable. Encouragingly, Pakistan's Interior Minister Mohsin Naqvi arrived in Tehran as part of renewed diplomatic engagement, signalling continued willingness among regional actors to de-escalate the conflict. Looking ahead, investor sentiment is likely to remain highly sensitive to geopolitical developments. Sustained hostilities would keep risk appetite under pressure, reinforcing USD strength across FX markets. Notably, reports of Iranian strikes on Israel have further intensified tensions, contributing to heightened volatility at the start of the week. Against this backdrop, gold (XAU) is expected to trade with a cautious bias in the near term. Key resistance is seen at around USD 4,430, while initial support is likely to emerge near USD 4,270.

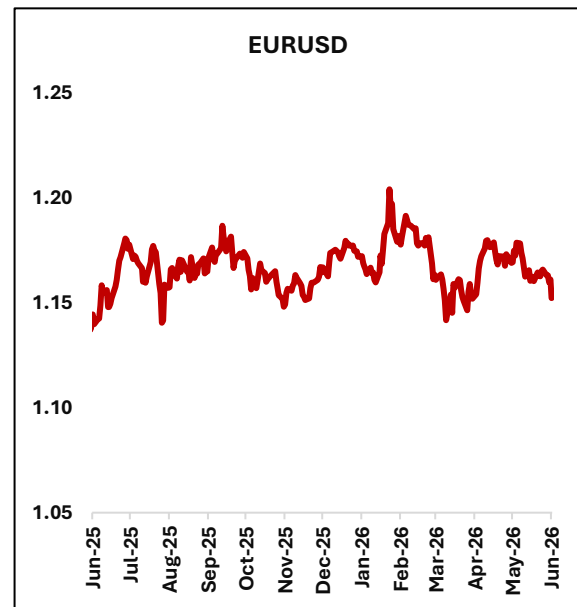
EURUSD: EUR weakened despite rising inflationary pressures

The euro (EUR) depreciated by 1.2% w-o-w last week, pressured by a stronger USD. While recent data pointed to intensifying price pressures and reinforced the probability of an ECB rate hike this week, upside to the EUR was limited as the adjustment was largely priced in. Beyond consumer prices, costs at the production level have also materially accelerated, jumping to a three-year high of 4.9% y-o-y in April (Mar: 2.0%). This increases the risk of pass-through to consumers, further bolstering expectations of additional ECB tightening. However, emerging signs of economic slowdown have cast doubt on the policy outlook. Notably, the Eurozone economy contracted by 0.2% q-o-q in 1Q2026, its first decline since 4Q2022. The downward revision from a 0.1% growth initially signals softer-than-expected activity, reflecting cautious consumption, subdued investment momentum, and tighter energy supply linked to the ongoing U.S.-Iran conflict. The slowdown also reinforced earlier PMI data which indicated growing weaknesses across the manufacturing and services sector, highlighting that prolonged supply-side pressures are increasingly weighing on growth prospects. As such, the ECB faces a more complex policy trade-off, which has kept investors cautious on the EUR. The currency also came under renewed pressure towards the end of the week amid deteriorating risk sentiments, breaking below the immediate 1.16-support level to close at 1.1522.

Short-term Outlook: Central to investor attention this week will be the ECB's policy meeting on 11 June. With a 25-bp hike widely priced in, focus will shift onto forward guidance and ECB's updated macroeconomic projections. On one hand, hotter-than-expected inflation has reaffirmed expectations of a tightening cycle, with investors pricing in a hike in June and September. However, the evolving balance of risks has tilted once again. Early signs of a slowing economy warrant more caution as additional tightening would exacerbate already restrictive financial conditions presented by higher inflation. As such, investors will be on high alert to assess how ECB policymakers are weighing these evolving risks in consideration of their policy path. Overall, the outlook remains constructive, which should provide modest support to the EUR. Thus, the EUR/USD currency pair is expected to trade with a mildly bullish bias within the 1.1490 to 1.1560 range.

GBPUSD: British Pound pressured by a stronger USD week

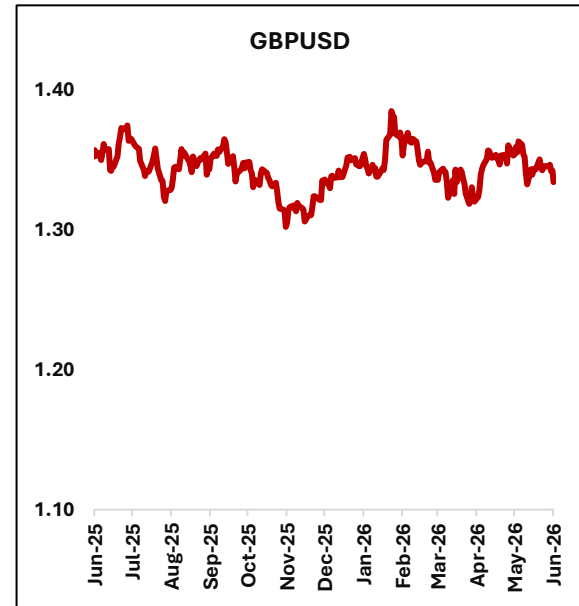
The British pound (GBP) declined by 0.8% w-o-w as escalating U.S.-Iran tensions triggered heightened risk aversion late last week, prompting renewed interest in the USD. On the macroeconomic front, recent data signalled emerging weakness in the services sector with the Services PMI easing to 49.3 in May (Apr: 52.7), the first decline in thirteen months. New orders fell for a third month as both domestic and external demand remained subdued. Hospitality and transport service providers noted weaker discretionary spending and higher input costs, while professional services highlighted growing risk aversion among clients. Against this backdrop, job cuts rose at the fastest pace since February while business expectations for the year ahead dipped to the weakest level in over a year,



Source: Bloomberg

reflecting growing concerns over supply-side pressures and slowing demand. In contrast, the manufacturing sector displayed sustained resilience as the manufacturing PMI climbed to a four-year high of 53.9 in May (Apr: 53.7). New orders expanded for the sixth straight month while output increased at a three-month high, reflecting rapid front-loading activities as firms attempt to mitigate supply chain disruptions linked to the Middle East conflict. Nevertheless, geopolitical-linked price pressures are materializing significantly at the production level, as evidenced by input cost inflation climbing to the highest level in nearly four years. The mixed picture highlights an uneven growth backdrop, supporting a more measured Bank of England (BoE) policy stance as it continues to weigh the evolving risks to its mandate.

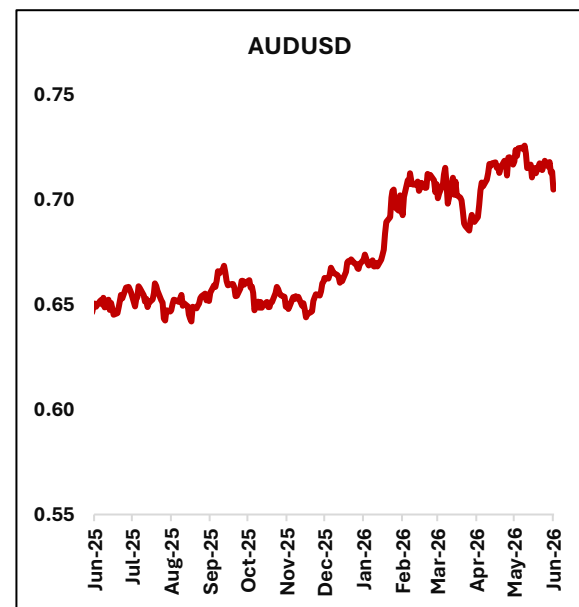
Short-term Outlook: This week, key releases will be UK's April Gross Domestic Product (GDP) and industrial production figures, which are expected to provide clearer insight into the underlying health of the economy. At the current juncture, the BoE appears tentatively comfortable to adopt a more cautious and balanced policy approach. While elevated input cost pressures pose upside risks to inflation, emerging signs of weakening demand suggest that growth momentum may be softening. Furthermore, recent policy support has helped ease headline inflation, reducing urgency for monetary policy to react within the broader policy mix. The central bank will likely only adopt an aggressive tightening stance if a sharper-than-expected rise in inflation materialises. The divergence between services and manufacturing sectors further complicates the BoE's policy outlook. As such, even with the upcoming release, investor sentiment on the GBP will likely remain subdued with the GBP/USD pair trading within a projected range of 1.3300–1.3420 this week.



Source: Bloomberg

AUDUSD: Australian Dollar depreciated amid softer-than-expected growth

The Australian dollar (AUD) fell by 1.9% w-o-w last week following weaker-than-expected 1Q2026 data. Growth moderated to a four-quarter low of 0.3% q-o-q (4Q25: 0.9%), missing expectations of 0.5%, driven by subdued household consumption, a decline in government spending, and slowing external demand. However, investment momentum remained firm as data centre developments supported private investment while public investment increased amid higher defence and infrastructure outlays. On an annual basis, growth held steady at 2.5%, slightly below consensus estimates of 2.7%. While the broader Reserve Bank of Australia (RBA) tightening trajectory remains intact, the slowdown highlighted downside risks to growth, prompting markets to recalibrate their policy expectations. Consumer demand remains fragile (1Q26: 0.3% vs. 4Q25: 0.6%) against a backdrop of weakening confidence, rising price pressures and softening labour market conditions. Such trend was reaffirmed by April's household spending easing to 4.9% from 6.3% in March. As such, additional tightening could be delayed to avoid further constraining consumer demand. Reflecting these risks, the RBA downgraded its 2026 growth forecast in May to 1.3% from 1.8% previously. The central bank also acknowledged that a longer-than-expected Middle East conflict will erode household disposable income and spending, while labour market conditions will materially ease. In short, the recent data, coupled with prolonged U.S.-Iran tensions, has casted uncertainty over the pace of RBA's rate hikes which weighed on the AUD.



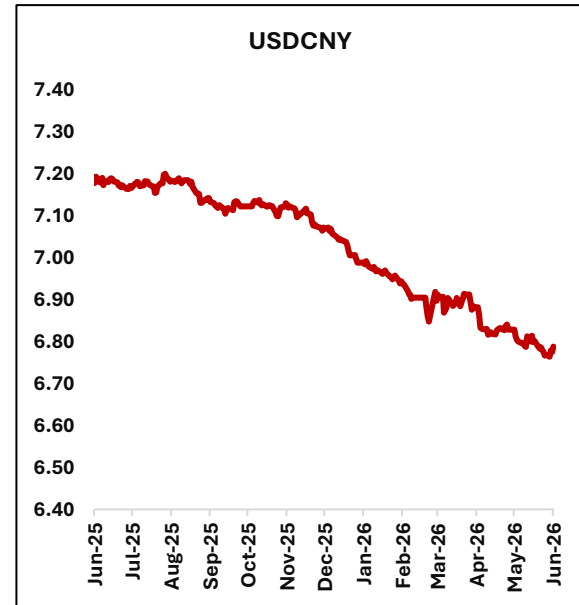
Source: Bloomberg

Short-term Outlook: Looking ahead, the macroeconomic calendar will be relatively light, with attention focused on Australia's business and consumer confidence indicators. These releases will provide valuable insight into how firms and households are navigating heightened geopolitical uncertainty and offer clues as to how sentiment may translate into future consumption patterns. That said, they are unlikely to be definitive market movers. As such, the AUD/USD pair is expected to be largely driven by USD dynamics and geopolitical developments, consolidating with a neutral-to-mildly bearish bias within the 0.6980–0.7080 range.

USDCNY: Chinese Yuan dipped despite resilience in manufacturing

The Chinese yuan (CNY) edged lower by 0.3% w-o-w last week, tracking the movement of the USD. However, underlying support emerged from resilient domestic activity, particularly in the services sector. China's RatingDog manufacturing PMI moderated to 51.8 in May, albeit remaining close to April's five-year high of 52.2, highlighting resilient sectoral strength. While both new orders and output moderated, they remained supported by firm domestic demand, while export orders declined slightly. Production levels rose sharply, among the highest since late 2024. Business confidence also stayed positive, supported by expectations of stronger demand, new orders and capacity expansion. On the price front, input and output prices softened, signalling some easing across price pressures, although costs remained structurally elevated against the current backdrop. Meanwhile, the RatingDog services PMI rose to 54.4 in the same month (Apr: 52.6). New orders jumped to a three-month high as domestic orders continued to expand while export orders rebounded following earlier declines. Business sentiment also improved, supported by improving market conditions, business development initiatives and increased client demand. On prices, input price inflation accelerated to the highest level since October 2024, reflecting higher global fuel prices and wage costs.

Short-term Outlook: This week will feature China's trade and inflation data, offering further hints at China's 2026 growth outlook. Recent PMI data highlighted some softening in external demand, and confirmation from trade data would point towards a more challenging global environment ahead. Meanwhile, inflationary pressures are expected to rise amid elevated global commodity prices. The magnitude of this increase will be closely monitored as a sharper-than-expected rise could materially weigh on household spending. Coupled with slowing external demand, this may pose as a double whammy to China's growth prospects, likely necessitating policy intervention to support the economy. This week, we expect the USD/CNY pair to trade with a mildly bullish bias within a 6.7690–6.7930 range this week.

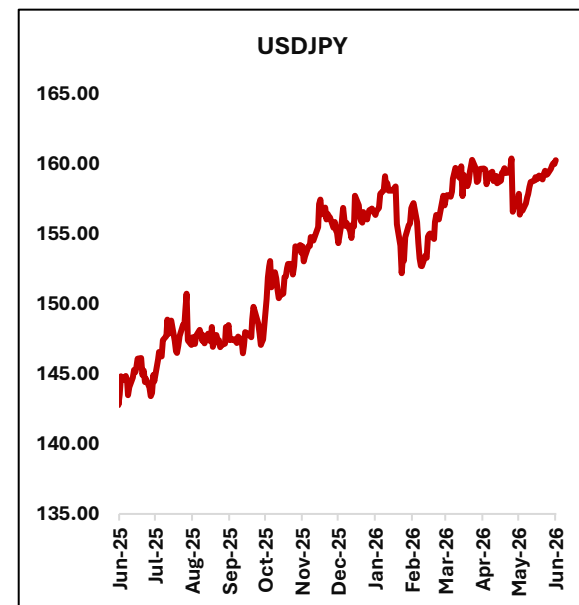


Source: Bloomberg

USDJPY: Japanese Yen breached key 160.00 level last week

Despite intervention measures and hawkish BoJ signals, the Japanese yen (JPY) remained under pressure against the USD last week, particularly as renewed geopolitical tensions drove the USD's bullish breakout into the 100.00 zone. From the technical perspective, the USD/JPY currency pair broke decisively above the key resistance at 160.00 on 4 June and held above this level, closing the week at 160.29. Furthermore, investor sentiments on the JPY remained bearish amid clearer signals of moderating economic momentum. Of note, Japan's 1Q2026 growth was revised down to 1.8% y-o-y from 2.1% earlier, suggesting that domestic activity may be softer than expected. Household spending continued to decline for the fifth consecutive month (Apr: -0.5% vs. Mar: -2.9%), with declines recorded across key categories, including food (Apr: -0.5%), clothing and footwear (Apr: -10.9%), utilities (Apr: -8.6%) and education (Apr: -19.4%). Coupled with milder-than-expected inflation, this persistent weakness in consumption has added complexity to the Bank of Japan (BoJ)'s policy outlook. With cost pressures remaining elevated for longer and energy supply remaining tight, domestic demand faces greater pressure which argues for policy caution. Concerns of hotter inflation were also reassured when both headline and core inflation continued to ease in April, relieving some urgency for an immediate policy response. However, the persistently weak yen and potential for lagged pass-through of cost pressures to materialise down the line backs the case for BoJ's ongoing policy normalisation.

Short-term Outlook: While the BoJ's policy path has come under greater scrutiny, the outlook remains skewed for additional tightening. While moderating slightly in the first quarter, the economy remains on relatively stable footing, granting the BoJ some flexibility to calibrate its policy stance. Looking ahead,



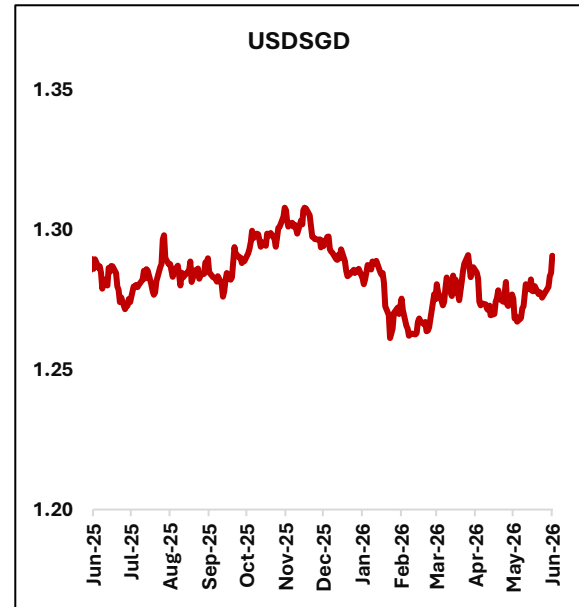
Source: Bloomberg

investors will be closely monitoring upcoming releases, including April's industrial production and May's producer prices data. These will provide further insight into pipeline inflation and manufacturing momentum, painting a more comprehensive picture in assessing the BoJ policy outlook ahead. That said, the weakness of the JPY is expected to persist in the near term, barring policy support or a shift in USD dynamics should tensions de-escalate. Thus, the USD/JPY is expected to trade with a bullish bias, within a projected range of 159.60 to 160.80.

USDSGD: Singaporean Dollar fell despite pickup in consumer spending

The Singapore dollar (SGD) declined by 1.1% last week even as domestic demand remained solid despite heightened external headwinds. Recent data showed that retail sales jumped to 5.4% in April (Mar: 4.6%). The increase was underpinned by growth in several categories, including petrol services stations (Apr: 14.4% vs. Mar: 4.0%), recreational goods (Apr: 12.3% vs. Mar: 9.1%), clothing and footwear (Apr: 7.8% vs. Mar: 3.7%) and supermarkets and hypermarkets (Apr: 5.8% vs. Mar: 2.6%). While sales for computer and telecommunications equipment (Apr: 14.4% vs. Mar: 4.0%) and motor vehicles, parts and accessories (Apr: 10.7% vs. Mar: 12.9%) moderated, they remained in expansionary territory. On a monthly basis, retail sales rose by 0.3% (Mar: 3.4%). While the release highlighted sustained strength in consumption against a backdrop of stable labour market conditions and manageable inflation, it had limited impact on the SGD. Following escalating U.S.-Iran tensions last week, the USD/SGD pair breached the immediate resistance of 1.29 to close at 1.2907.

Short-term Outlook: Looking ahead, while Singapore's growth outlook remains anchored, the SGD movement will likely be influenced by global factors, particularly USD trends and geopolitical developments. As such, the USD/SGD pair is expected to trade with a bullish bias, trading within the 1.2870–1.2930 range this week.

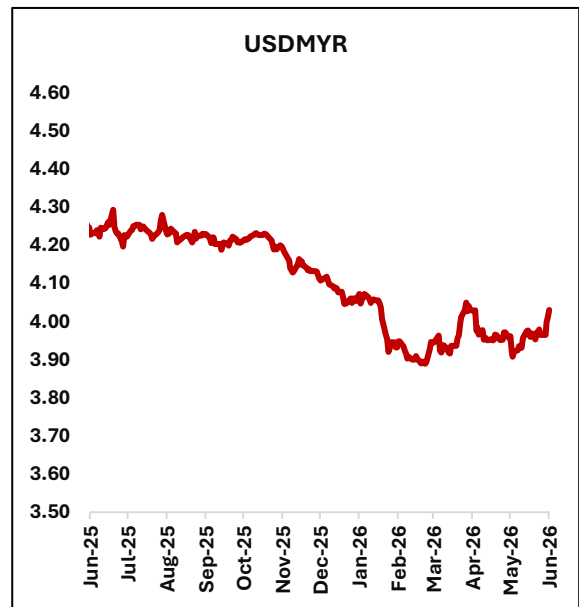


Source: Bloomberg

USDMYR: The Ringgit retreated above the RM4.00-level

The ringgit (MYR) depreciated by 1.7% w-o-w against a relatively light calendar last week, leaving the local note largely driven by USD dynamics. In the earlier half of the week, the MYR remained under pressure following the release of May's PMI data. The manufacturing PMI slipped into the contractionary zone (May: 49.0 vs. Apr: 51.6) amid moderations in both new orders and output. New export orders softened at the sharpest rate since last October, reflecting increasingly subdued external demand. As a result, firms pause hiring. On the price front, input costs rose, driven by higher commodity prices, although output price inflation eased as firms sought to remain competitive. On a positive note, business confidence improved for the first time in four months, reaching its highest level since February. This signaled improving sentiments over business conditions ahead following diplomatic efforts to resolve the U.S.-Iran geopolitical conflict. However, the emerging weakness in manufacturing sector has turned investors cautious on Malaysia's growth prospects, particularly as the geopolitical conflict may extend longer than expected. As a result, the USD/MYR has traded with a bullish bias, leaving the MYR sensitive to subsequent shocks. Following renewed U.S.-Iran clashes, the USD/MYR pair broke above the key 4.00-resistance, closing the week at 4.03.

Short-term Outlook: This week will feature key releases, including April's unemployment rate, retail sales and industrial production data. While providing greater clarity into Malaysia's underlying economic momentum, this is expected to offer partial support to the MYR. The local note will likely remain influenced by USD dynamics, particularly as growing risks of a broader escalation following Iran's strikes on Israel triggered renewed demand for safe-haven assets. Thus, the USD/MYR pair is expected to trade with a bullish bias this week, within a projected range of 4.0250–4.0750.



Source: Bloomberg

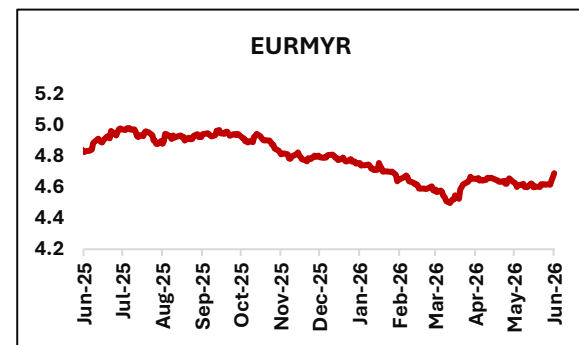
Table 2: Selected Currencies Overview (MYR Crosses)

	22-May	29-May	5-Jun	WoW	YTD
USDMYR	3.9688	3.9645	4.0300	1.7%	-0.7%
EURMYR	4.6042	4.6160	4.6903	1.6%	-1.6%
GBPMYR	5.3288	5.3194	5.4262	2.0%	-0.5%
SGDMYR	3.1002	3.1031	3.1407	1.2%	-0.5%
JPYMYR	2.4923	2.4897	2.5138	1.0%	-3.0%
AUDMYR	2.8293	2.8367	2.8767	1.4%	6.0%
CNYMYR	0.5838	0.5860	0.5955	1.6%	2.5%

Sources: Bloomberg, Bank Islam

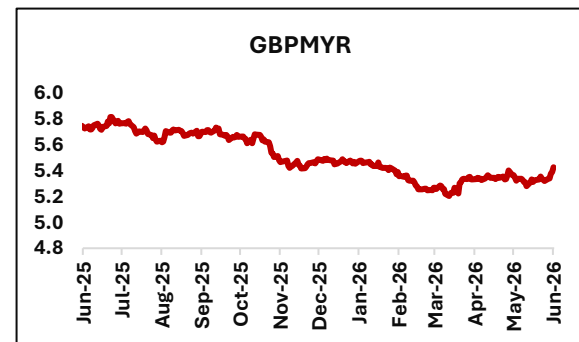
Short Term Outlook for Ringgit Pairs

The outlook for EUR/MYR is bullish amid heightened expectations of an ECB rate hike. Reaffirming growing inflationary pressures in the economy, recent data pointed towards costs intensifying at the production level, increasing the risk of broader pass-through onto consumers. Meanwhile, Bank Negara Malaysia (BNM) is widely expected to hold onto its steady policy approach. As such, widening interest rate differentials will favour the EUR over the MYR this week.



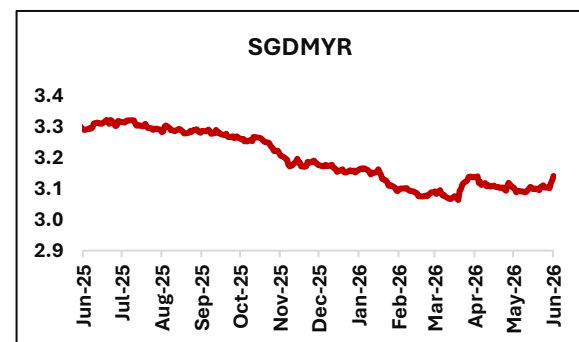
Source: Bloomberg

The outlook for GBP/MYR remains slightly bullish amid the release of UK's April GDP and industrial production figures. The releases are expected to suggest resilience in domestic demand, albeit with some moderation, which will support the case for a more cautious and balanced BoE policy approach. Against this backdrop, the GBP will emerge more attractive vis-à-vis the MYR in the near term.



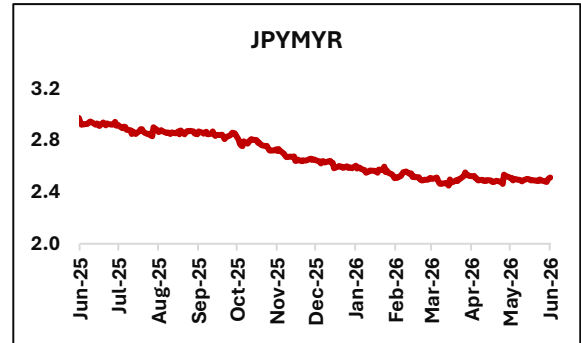
Source: Bloomberg

The outlook for SGD/MYR is neutral-to-mildly bearish as FX markets closely monitor geopolitical developments in the Middle East. Iran's strikes on Israel have increased the risk of broader regional escalation and placed the tenuous U.S.-Iran ceasefire under jeopardy, weighing on investor risk sentiments. As such, the SGD/MYR pair is expected to trade with a cautious bias as appetite for emerging market assets eased. However, the MYR may receive modest support from Malaysia's upcoming macroeconomic releases this week.



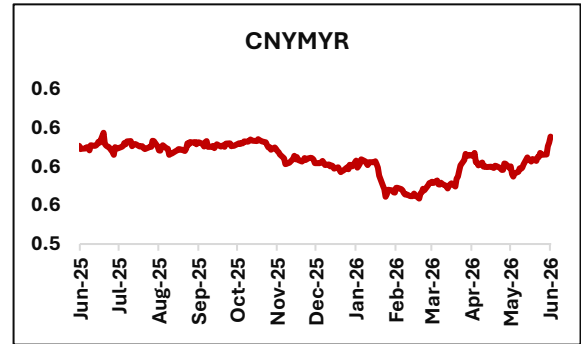
Source: Bloomberg

The outlook for JPY/MYR is slightly bearish ahead of Japan’s manufacturing and producer prices releases. These data are expected to provide greater clarity on domestic price dynamics and the momentum of the manufacturing sector, shaping expectations for the BoJ’s policy normalisation. However, recent data point to softer-than-expected inflation and weakening household spending, complicating the BoJ’s policy stance. As such, the MYR is likely to outperform the JPY in the near term.



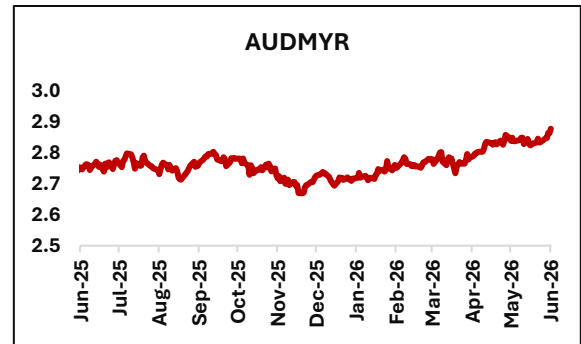
Source: Bloomberg

The outlook for CNY/MYR remains neutral-to-mildly bullish as investors await key macroeconomic releases this week. China’s trade data will offer greater clarity on external demand conditions, enabling markets to better gauge the implications for growth prospects. Meanwhile, Malaysia’s releases will centre on domestic demand, including labor market and retail sales figures. With both economies displaying relatively resilient economic fundamentals, the CNY is expected to gain the slightest advantage, supported by its ongoing appreciation trend.



Source: Bloomberg

The outlook for AUD/MYR remains mildly bullish this week. While the broader RBA tightening trajectory remains intact, the macroeconomic calendar features little market-movers which will likely limit upside to the AUD. In contrast, Malaysia’s releases will be more substantial, with underlying economic momentum widely expected to remain resilient. This will offer modest support to the MYR in the near term.



Source: Bloomberg

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