ECONOMICS & GLOBAL FOREIGN EXCHANGE HIGHLIGHTS

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BANK ISLAM

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U.S. CONSUMER INFLATION SURPRISED TO THE DOWNSIDE, DIMMED EXPECTATIONS OF NEAR-TERM FED HIKE

Investor risk appetite deteriorated sharply following reescalation of U.S.-Iran geopolitical tensions curbed. Risk aversion returned to global financial markets as tensions erupted between U.S. and Iran last week, triggered by Iran's strikes on a commercial vessel reportedly travelling through unauthorized routes in the Strait of Hormuz. The U.S. swiftly reacted by launching attacks on Iran's military and surveillance installations, prompting retaliatory strikes on U.S. military bases across the Gulf region, including those in Qatar, Kuwait, Bahrain, Jordan, UAE and Oman. The escalation had revived safe-haven demand, leading to a renewed rotation into the USD last Monday. This move was further reinforced by the USD's yield advantage amid growing expectations of a near-term Federal Reserve (Fed) policy tightening. This resulted in a broad-based repricing across asset classes with traditional safe-haven currencies posting weekly declines as of 13 July, including gold (-3.9%), the Swiss franc (-1.2%), the euro (-0.5%), and the Japanese Yen (-0.2%).

Intensifying concerns over disruptions to global trade and energy supply routes. Beyond fears of a broadening regional fallout, markets were rattled as shipping conditions through the Strait of Hormuz became increasingly uncertain. Both parties stood at an impasse, with each maintaining a clear, opposing stance on the status of the waterway. While Iran announced that the Strait is effectively closed, the U.S. continued to maintain that it remains open and navigable. The conflicting signals heightened concerns of prolonged global supply chain disruptions, driven by route uncertainty, shipment delays, and higher freight and insurance costs. Consequently, global energy prices rebounded, with Brent crude rising to around USD85/bbl while WTI climbed above USD80/bbl as of last Monday, increasing the risks of energy-driven inflationary pressures. Against this backdrop, the probability of a July Fed hike rose above 41.0% last Monday. However, the knee-jerk reaction proved short-lived as subsequent U.S. macroeconomic data effectively rebalanced Fed policy expectations.

U.S. inflation report delivered a meaningful downside surprise. Both headline and core inflation undershot expectations in June, challenging the market narrative that underlying price pressures were increasingly entrenched. Following the earlier U.S.-Iran peace agreement, global energy prices reversed sharply, effectively returning to pre-conflict levels. The correction was reflected across monthly inflation indicators, suggesting that underlying price pressures remain on a gradual disinflationary trend. Notably, headline inflation declined by 0.4% m-o-m (+3.5% y-o-y), the largest monthly decline since April 2020. This was primarily driven by a 5.7% m-o-m drop in energy costs, with gasoline prices falling by 9.7% m-o-m. Additionally, food inflation increased marginally to 0.19% m-o-m from 0.15% m-o-m in May, indicating that price pressures remained relatively contained.

Price pressures are gradually converging towards the Fed's long-term objective. Core inflation remained steady on a monthly basis, bringing the annual rate down to 2.6% (May: 2.9%), with core goods prices declining by 0.1% m-o-m while core services inflation was unchanged. This suggested that underlying price

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pressures, after stripping away the volatile energy component, were largely contained. Parsing through the data, several key components recorded softer increases or outright declines, including vehicle insurance (-2.0%), public transport (-0.7%), apparel (-0.6%), medical goods (-0.2%), medical care services (-0.1%), miscellaneous personal services (-0.1%) and shelter (0.1%). Taken together, the underlying disinflation trend has reduced the urgency for more restrictive monetary conditions. This provides the Fed with greater flexibility to assess the evolving risk landscape, particularly as geopolitical developments continue to remain as a significant source of uncertainty. Markets significantly scaled back their more aggressive expectations of an imminent Fed policy tightening.

Softer producer prices reinforced the shifting narrative. Producer inflation fell by 0.3% m-o-m in June (May: 0.6%), the largest decline in fourteen months. The main driver was a 1.4% decline in goods inflation, the most since July 2022, as gasoline prices plunged by 12.0%. Meanwhile, core producer inflation moderated to a six-month low of 0.1% m-o-m (May: 0.8%). Notably, prices for farm products slumped by 2.1%, led by declines in fruits, vegetables and nuts (-4.1%) and grains (-11.6%) while poultry prices eased to 0.3%. Similarly, manufacturing-related cost pressures softened, with producer prices for chemical and allied products and rubber and rubber products both contracting by 0.2%. Overall, the moderation in producer inflation reaffirmed that supply-side pressures are less broad-based than initially feared, reducing the risk of cost pass-through into consumer prices. As a result, the likelihood of a July hike dropped further to just above 10.0% according to the CME FedWatch tool. On the FX front, major currencies were largely affected by USD dynamics and geopolitical news during the week. With the greenback losing some of its bullish momentum as investors unwound their USD positioning, this prompted a recalibration of flows and allowed major currencies to appreciate against the USD in the latter half of the week.

Upcoming Events: Key Economic Data Release

Monday	**People's Bank of China Loan Prime Rates, Malaysia Trade Performance (June)**
Tuesday	**UK Labour Market Figures (May), Australia Economic Sentiment Index (July)**
Wednesday	**Japan Trade Performance (June), UK Consumer & Producer Inflation (June)**
Thursday	**European Central Bank Policy Decision, Australia Labour Market Figures (June), Singapore Consumer Inflation (June)**
Friday	**S&P Global PMI, Japan Consumer Inflation (June), UK Retail Sales (June), Singapore Industrial Production (June),**

Table 1: Selected Currencies Overview

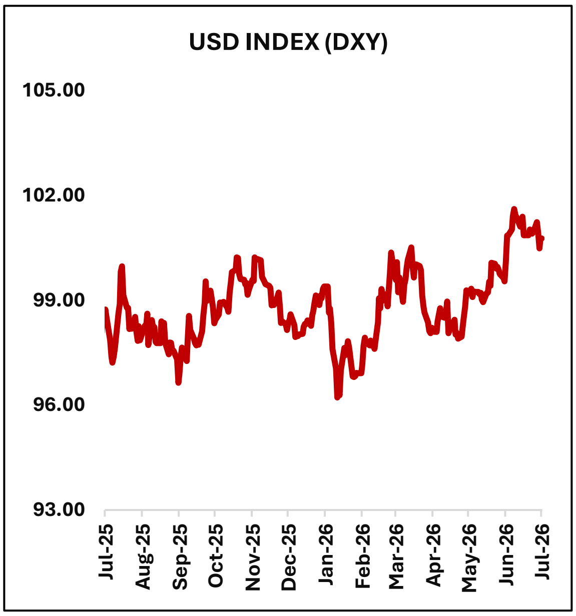
	3-Jul	10-Jul	17-Jul	WoW	YTD
DXY Index	100.86	100.95	100.77	-0.2%	2.5%
USDMYR	4.07	4.07	4.10	0.6%	0.9%
XAUUSD	4,176.94	4,119.93	4,017.39	-2.5%	-7.0%
EURUSD	1.14	1.14	1.14	0.2%	-2.6%
GBPUSD	1.34	1.34	1.35	0.4%	-0.2%
AUDUSD	0.69	0.70	0.70	0.4%	4.7%
USDSGD	1.29	1.29	1.29	0.0%	0.5%
USDJPY	161.34	161.68	162.40	0.4%	3.6%
USDCNY	6.78	6.78	6.78	0.0%	-3.0%

Sources: Bloomberg, Bank Islam

Commentaries

DXY: USD index slipped as markets expect Fed to remain on hold in July

The USD ended the week without establishing a clear directional bias, despite a meaningful improvement in the US inflation outlook. The USD index initially opened on a firm footing last Monday, supported by a broad risk-off move following intensifying tensions between U.S. and Iran. The USD also benefitted from its higher yield advantage as the rebound in oil prices heightened concerns of rising inflationary pressures and the potential need for a firmer monetary response. The bullish momentum continued into the next session, but it proved short-lived. A significantly softer June inflation report prompted a swift reassessment of Fed expectations, reversing earlier gains in the USD. Notably, June's consumer inflation figures suggested that inflation is converging towards the Fed's long-term target, albeit at a more gradual pace. The evidence of disinflationary trend is meaningful as it provides the Fed with greater flexibility to pause and assess the dynamics of evolving macroeconomic conditions and geopolitical risks. As such, investors are increasingly certain that the FFR will be maintained at current levels in the near term, weighing on U.S. treasury yields and diminishing the relative appeal of USD-denominated assets. This prompted investors to recalibrate their positioning, causing the USD to break decisively below the 101.0-support level. Nonetheless, a closer examination of the inflation reports revealed an important caveat. Lower gasoline prices accounted for a substantial portion of the improvement in both CPI and PPI, reflecting a period when Middle East tensions briefly eased and oil prices retreated. As energy markets reversed course later in the week, investors became increasingly aware that a key driver of June's disinflation was already fading. Consequently, the disinflation narrative remained credible, but its sustainability came into question. As such, downside pressure was limited and the USD index retained modest bullish bias as markets are still pricing in the probability of at least one hike by year-end.



Source: Bloomberg

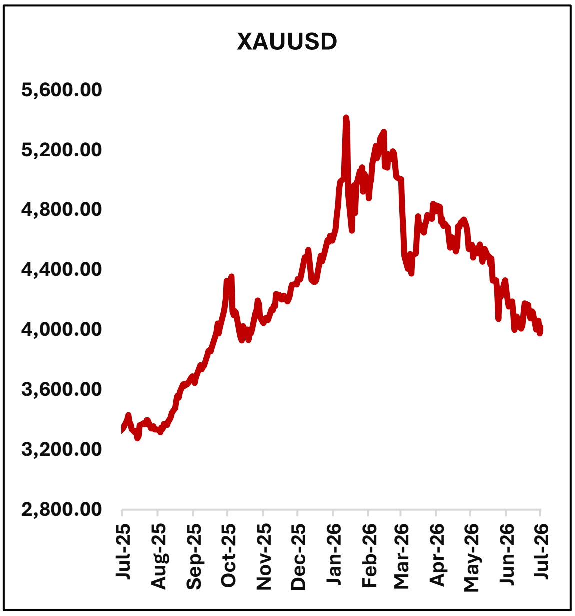
Short-term outlook: While the weaker inflation prints have reduced the necessity for immediate policy tightening, it did not significantly alter expectations on the broader tightening cycle. Second-round effects could not be discounted, given the typical lagged transmission from cost pressures into broader consumer categories, while the recent rebound in oil prices could exert additional upward pressure on inflation. Additionally, resilient consumer spending warrants a heightened degree of caution as it increases the risk of demand-driven inflationary pressures, necessitating a sufficiently restrictive policy stance. Retail sales, excluding automobiles and gasoline stations, rose by 0.4% m-o-m in June, relatively higher than the annual average pace across 2024-2025. As such, these upside risks continue to support the case for additional Fed tightening. The USD index extended its correction lower last week but continued to hold above support at 100.20. While this consolidation may persist in the near term, the broader recovery scenario remains intact. A break above the minor resistance level at 101.30 would likely trigger a retest of 101.80. A decisive move above that level would expose the next upside target around 102.90.

The Dollar enters the new week still lacking a clear catalyst. However, the trajectory of the US-Iran conflict may ultimately determine its next major move. Should tensions continue to escalate, Brent crude could challenge or surpass the USD90 threshold while WTI has touched USD85/bbl at today's session, reinforcing concerns that the recent disinflation trend may prove temporary. Such a scenario would likely push Treasury yields higher and provide renewed support for the Dollar. Conversely, any meaningful de-escalation that allows oil prices to retreat would strengthen confidence that inflation is returning to a sustained downward path. Markets would likely scale back expectations for further policy tightening, creating conditions for broader Dollar weakness. For now, the balance of risks appears tilted modestly toward further escalation. The increasingly coordinated nature of recent military actions and the widening scope of retaliatory measures suggest a more volatile phase of the conflict.

Nevertheless, recent weeks have demonstrated how quickly geopolitical dynamics can shift. As a result, the Dollar remains at a critical juncture. Its next significant move is likely to be driven less by Fed rhetoric or scheduled economic releases and more by whether rising oil prices continue to reshape the inflation outlook.

XAUUSD: Gold price remained under pressure

Gold price (XAU) fell by 2.5% w-o-w last week, underperforming despite a weaker USD as investors maintained short exposure on gold. The XAU initially faced renewed pressure and tested the psychological support of USD4,000 last Monday amid escalating U.S.-Iran tensions. However, even as the USD retreated, the XAU struggled to stage a meaningful recovery. This suggests that investors remain largely bearish on gold vis-à-vis other major currencies as persistent upside risks to inflation could compel major central banks to maintain restrictive monetary policy conditions for longer. Notably, energy markets remain a key source of risk. Global energy prices had rebounded recently, with Brent crude climbing above USD88/bbl as of 19 July, increasing the risks of energy-driven price pressures. Beyond rising cost pressures, the status of the Strait of Hormuz remains highly uncertain. Iran earlier announced that the waterway was effectively closed, while the U.S. maintained that it remained open. The proposal by U.S. President Donald Trump to impose a 20% toll on transiting vessels, although subsequently withdrawn, further underscored the volatility and uncertainty surrounding passage through the Strait. Thus, the persistent disruptions to global trade routes are expected to generate broader supply-side pressures via longer shipping times and higher logistics costs. These may gradually translate into higher consumer prices, reinforcing upside risks to inflation. Against this backdrop, the XAU's relative appeal was outweighed by expectations of higher-for-longer monetary policy stances by major central banks.

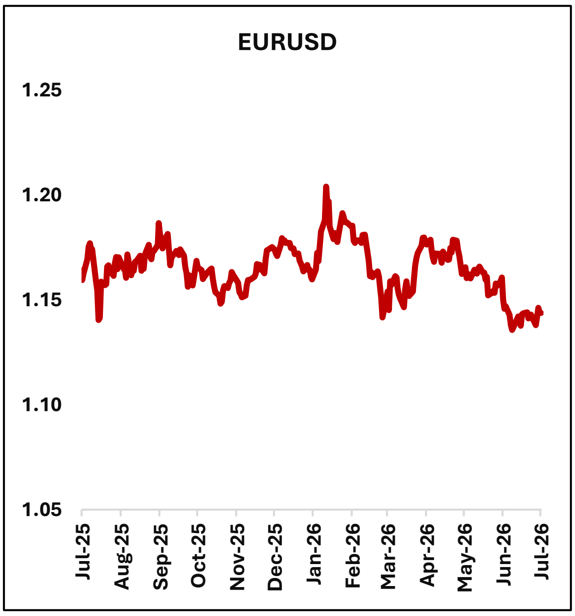


Source: Bloomberg

Short-term Outlook: The XAU is expected to consolidate with a modest bearish bias this week. Reports of U.S. service members being killed in an attack rattled markets at market open, heightening concerns of intensifying military operations between both parties. Such fears are expected to sustain demand for safe-haven assets, although the XAU's gains will remain subdued against the USD, which will be supported by its safe-haven and higher-yield appeal. Immediate resistance is observed around USD 4,075, while key support emerges near USD 3,980.

EURUSD: EUR edged higher ahead of ECB's July meeting

The euro (EUR) climbed marginally higher by 0.2% w-o-w as investors fully priced in the likelihood of the European Central Bank (ECB) remaining on hold in July. Eurozone's industrial production contracted by 0.2% m-o-m in May (Apr: 0.3%) amid slower output of durable consumer goods (-1.1%) and intermediate goods (-0.3%). The print came in below consensus estimates of a 0.2% expansion, signalling that heightened supply-side pressures stemming from the Middle East conflict had weighed on production activity. On an annual basis, industrial production fell by 1.2% (Apr: 0.4%). Against this backdrop, the ECB will likely maintain a pause to mitigate growth risks, particularly given the recent escalation. Rising energy prices and potential supply disruptions are amplifying downside pressures on the production front, potentially further constraining the sector. While such expectations limit some upside gains to the EUR, the currency outperformed against the USD during the week amid a broad-based portfolio rebalancing following the U.S. inflation surprise. From a technical standpoint, the EUR/USD pair briefly slipped below the 1.14-support level last Monday and closed at 1.1381. However, the currency pair soon recovered and topped the 1.14-level again, ending the week at 1.1439.

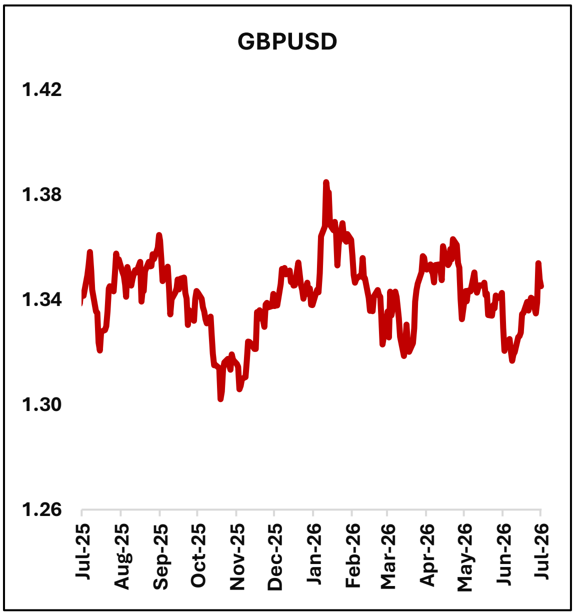


Source: Bloomberg

Short-term Outlook: Central to investor attention this week will be the ECB policy decision. As markets have largely priced in a pause, focus will remain on the forward guidance. During the annual ECB forum in Sintra earlier, ECB officials signaled that there is less urgency for the central bank to deliver additional tightening. Given that U.S. and Iran hostilities have eased at that time, coupled with the disinflation trend, investors were largely comfortable with the narrative. However, the recent escalation in geopolitical tensions and the accompanying rise in energy prices have once again complicated the policy outlook. While higher oil prices have lifted near-term inflation risks, the case for additional rate hikes remains far from straightforward. Signs of emerging weakness in the industrial sector suggest that further monetary tightening could amplify downside risks to economic growth and investment activity. Against this backdrop, the ECB is likely to retain a cautious and data-dependent stance, remaining vigilant to inflation developments while avoiding a premature commitment to further tightening. This approach should lend modest support to the EUR, although ongoing geopolitical uncertainties and their favorable impact on safe-haven demand are likely to continue underpinning the USD. In the near term, we expect the EUR/USD pair to consolidate with a neutral-to-mildly bullish bias within the 1.1420 to 1.1490 range.

GBPUSD: British Pound strengthened amid stronger macroeconomic data

The British pound (GBP) appreciated by 0.4% w-o-w, supported by UK's resilient macroeconomic fundamentals. The UK economy grew by 0.1% m-o-m in May, reversing a 0.1% contraction in April, amid an expansion in the services sector (+0.3%), which offset drags from weaker output in production (-0.5%) and construction (-0.8%). On an annual basis, the economy expanded by 1.3% (Apr: 1.1%), the strongest annual growth since July 2025. This indicated that the cumulative impact of the Bank of England (BoE)'s policy easing cycle have gradually improved financial conditions and supported domestic demand, helping to cushion the economy against mounting external headwinds. The industrial sector also showed signs of strengthening momentum. Manufacturing output accelerated to 2.3% y-o-y in May (Apr: 1.0%), the fastest pace since March 2024, while industrial production rose to a six-month high of 1.0% (Apr: 0%). The combination of improving economic activity and the prospect of renewed inflationary pressures strengthens the argument for further BoE tightening. Although policymakers are likely to proceed cautiously, the balance of risks remains modestly biased towards additional rate increases.

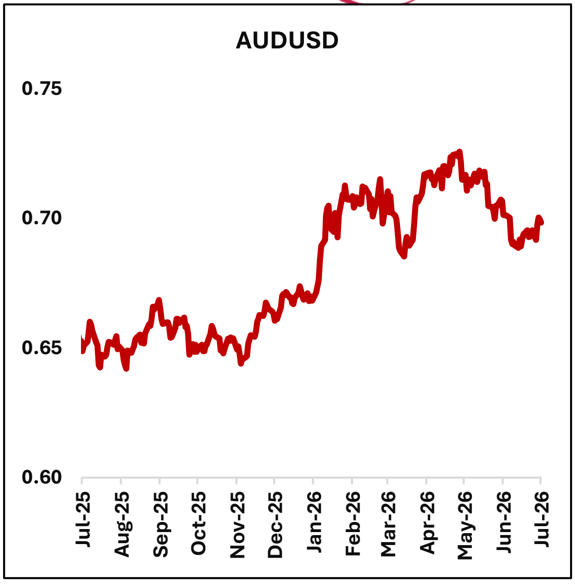


Short-term Outlook: Looking ahead, this week features a busy macroeconomic calendar, including the labour market data, consumer and producer inflation releases and retail sales figures. These releases will provide a comprehensive assessment of the overall economic health while providing early signals on the price dynamics. While June's headline CPI is expected to moderate slightly, reflecting the earlier decline in energy prices, investors will be closely watching the core print as a gauge for underlying price momentum. Producer price data will also be monitored for insights into pipeline inflationary pressures. Any indication that price pressures are broadening will strengthen expectations of a prolonged pause, with potential for additional tightening. Given that energy prices have since rebounded sharply, barring a meaningful deterioration in labour market or retail sales momentum, the BoE's policy trajectory will remain skewed to the upside. As such, we expect the GBP/USD pair to trade with a mildly bullish bias, moving within a projected range of 1.3410–1.3490 this week.

AUDUSD: Australian Dollar climbed amid improving consumer confidence

The Australian dollar (AUD) advanced by 0.4% w-o-w last week, largely driven by the USD's weakness. Last Monday, the AUD came under renewed pressure as investors rotated into defensive positions amid escalating Middle East tensions. However, as bullish conviction in the USD dimmed, the AUD recovered, briefly breaching the 0.70-resistance level on Wednesday before easing slightly to close the week at 0.6984. On the domestic front, recent data showed that the Westpac consumer confidence index rose by 4.1% m-o-m to 83.9 in July (June: 80.9), reflecting easing concerns over energy costs, rising rates and labour market weakness. Assessment on household finances for the upcoming 12-month period jumped by 13.4% to 96.5 while the measure for economic sentiment improved by 0.6% to 78.3. This signalled that consumer confidence is gradually stabilizing as households increasingly adapt to tighter financial conditions stemming from the Reserve Bank of Australia (RBA)'s cumulative rate hikes and persistent geopolitical risks. While this was not a major market mover, the data offered an encouraging signal of a potential pickup in household spending, providing modest support to the AUD.

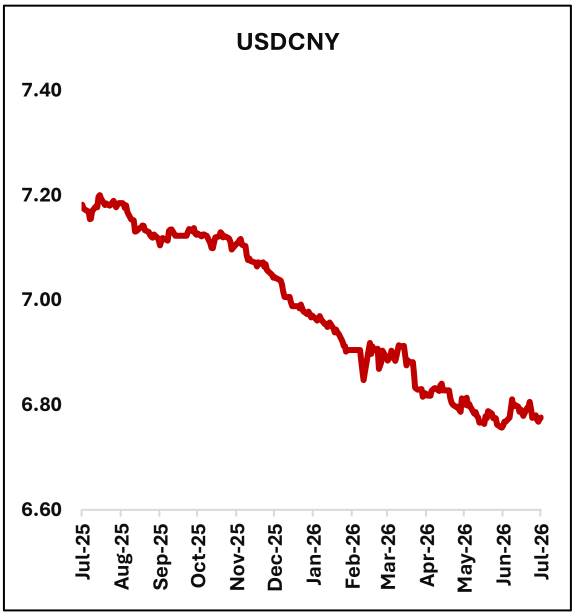
Short-term Outlook: Looking ahead, investor focus will shift to Australia's June labour market data, which will help validate the improvement in consumer confidence. Resilient labour market conditions or sustained hiring momentum would support household spending, likely offsetting softer household purchasing power amid rising energy and living costs. This would reinforce the narrative that the RBA would maintain its cash rate steady in the near term while retaining a tightening bias, sustaining upside support for the AUD/USD pair. However, intensifying geopolitical tensions will likely dominate sentiments this week. Thus, the AUD/USD currency pair will likely trade with a mildly bearish bias within the 0.6930–0.7010 range.



Source: Bloomberg

USDCNY: Chinese Yuan was little changed as GDP growth disappoints

The Chinese yuan (CNY) was range-bound last week, caught between the USD's weakness and a softer domestic backdrop. In the earlier half of the week, the USD/CNY currency pair initially moved lower amid a rotation away from the USD, allowing the CNY track major currencies and strengthen. However, China's 2Q2026 growth came in weaker-than-expected, causing the USD/CNY pair to rebound. Notably, the economy grew by 4.3% y-o-y in 2Q26 (1Q26: 5.0%), undershooting market expectations of 4.5% and the official annual growth target range of 4.5-5.0%. The slowdown, marking the softest pace since 4Q2022, came under scrutiny as it highlighted the persistence of domestic headwinds, potentially derailing the 2026 outlook. Growth was primarily constrained by subdued private consumption, weaker investment momentum and a prolonged property downturn. Meanwhile, external demand remained a key support pillar amid the ongoing global AI upcycle, bolstering the manufacturing and export-related sectors. Evidently, industrial production increased to 5.3% y-o-y in June (May: 4.5%) amid an expansion in manufacturing output (+6.0%). Strong growth was recorded across tech-related and specialised manufacturing segments, including computers and communications equipment (+15.7%), railway and shipbuilding (+18.2%), general equipment (+9.9%), special equipment (+10.0%), electrical machinery (+7.0%) and automotive (+8.7%). The divergence between export-oriented resilience and weakening domestic demand reflected an increasingly uneven growth profile, reinforcing expectations for additional policy support measures to stimulate household spending and private investment.

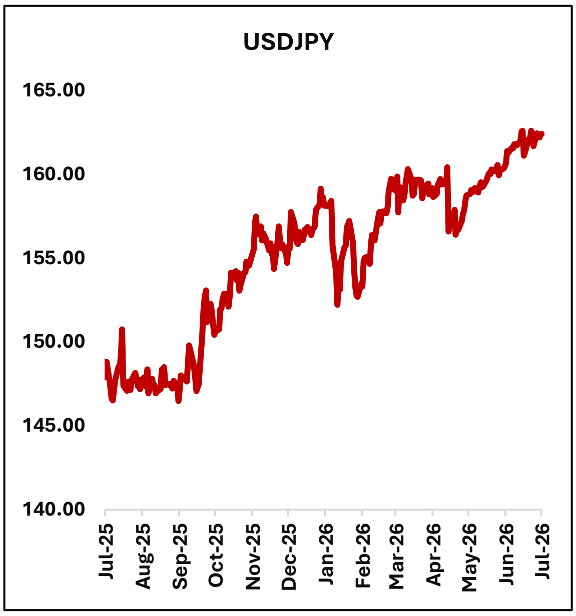


Source: Bloomberg

Short-term Outlook: The People's Bank of China (PBoC) kept its monetary settings unchanged, maintaining the one-year Loan Prime Rate (LPR) at 3.0% and the five-year LPR at 3.5%. While the current policy settings remain accommodative, these are unlikely to provide a significant boost to economic activity, as households and businesses have largely adjusted to the prevailing interest-rate environment. Previous stimulus measures, such as the trade-in programs, also merely delivered temporary support, while improving labour market conditions in recent months failed to translate into a substantial pickup in consumption. This suggests that broader macroeconomic uncertainties and geopolitical headwinds continue to encourage cautious savings behaviour among households. Against this backdrop, investors are increasingly looking towards more targeted fiscal stimulus to significantly revitalize domestic demand. Absent a meaningful fiscal stimulus package or a significant upside surprise in economic activity, sentiment towards the yuan is likely to remain cautious, limiting the scope for a sustained appreciation. Thus, we expect the USD/CNY pair to trade with a bullish bias this week, within a projected range of 6.7680–6.7760.

USDJPY: Japanese Yen slipped against a weak macroeconomic backdrop

The Japanese yen (JPY) weakened by 0.4% w-o-w, with price action driven largely by USD dynamics and geopolitical developments. Meanwhile, domestic releases broadly reinforced earlier signals of a gradually cooling industrial sector. Industrial production grew marginally by 0.1% m-o-m in May (Apr: 0.5%), the lowest level in four months. This was underpinned by slower output across key manufacturing segments, including general-purpose and business-oriented machinery (-6.0%), electrical machinery, and information and communication electronics equipment (-5.1%) and production machinery (-3.5%). On an annual basis, industrial production declined by 2.1% (Apr: 2.0%). The slowdown reflected growing supply-side pressures amid persistent supply chain disruptions and elevated input costs stemming from the Middle East conflict, clouding over Japan's growth outlook. Against this backdrop, downside risks to growth appear to be intensifying. The Bank of Japan (BoJ) is expected to resume its policy normalization cycle to address inflationary pressures and support the weak Yen, which would result in tighter financial conditions and potentially dampen domestic activity further. Against this backdrop, the JPY was traded with a modest bearish bias, underperforming against the USD during the week.

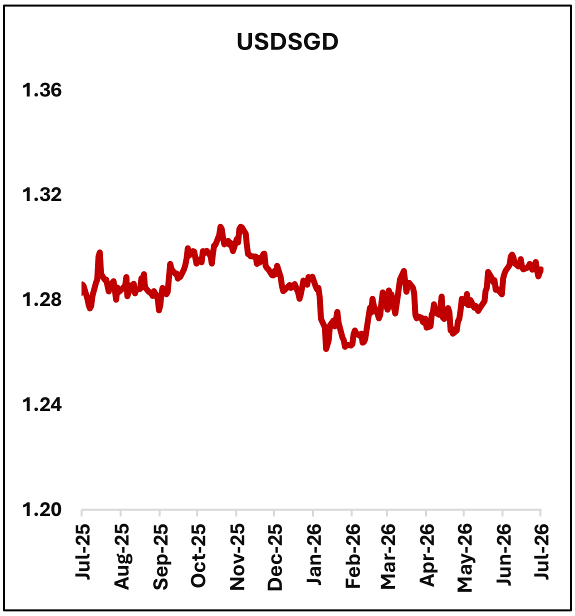


Source: Bloomberg

Short-term Outlook: Investor attention this week will be centered on Japan's trade and consumer inflation releases, with the latter likely to be key in shaping BoJ policy expectations. The headline print is likely to moderate given the decline in energy prices during the month. Thus, core inflation will be the focus as a gauge for underlying price pressures. Any indication of a pickup will reinforce bets of near-term policy tightening, lending underlying support to the JPY. However, the narrative will remain a double-edged sword for the JPY. While additional rate hikes could improve the JPY's appeal, the interest rate differentials with the U.S. will remain wide and continue to favor the USD. Furthermore, tighter monetary conditions could further weigh on domestic demand, exacerbating concerns over Japan's already fragile growth momentum. As such, gains to the JPY may remain limited. This week, we expect the USD/JPY pair to consolidate with a neutral-to-mildly bullish bias, moving within a range of 161.40 and 162.75.

USDSGD: Singaporean Dollar was unchanged amid emerging growth risks

The Singapore dollar (SGD) was little changed against the USD amid a moderation in growth and export momentum. Singapore's economy expanded by 5.7% y-o-y in 2Q2026, slowing from 6.3% in 1Q026. Growth was mainly supported by the goods-producing sectors (2Q26: 10.4% vs. 1Q26: 8.4%) amid a pickup in manufacturing output (2Q26: 12.2% vs. 1Q26: 8.0%), underpinned by the ongoing AI upcycle and technology-related demand. Meanwhile, the construction (2Q26: 6.2% vs. 1Q26: 12.9%) and services sectors (2Q26: 4.6% vs. 1Q26: 6.2%) recorded moderations as rising cost pressures weighed on economic activity. On the external trade front, Singapore's non-oil domestic exports eased to 20.7% y-o-y in June (May: 38.4%). Electronics exports remained the major driver, rising significantly (June: 105.1% vs. May: 94.8%) while non-electronic exports declined by 2.9% in June (May: 17.7%). Overall, the ongoing AI upcycle is expected to continue supporting export momentum, emerging as a crucial growth pillar. However, relatively subdued consumer demand remains a source of concern, underscoring the fragility of the outlook. Growth appears increasingly dependent on external drivers, leaving the economy exposed to downside risks should AI-related demand soften significantly, or geopolitical risks and supply chain disruptions intensify. Such concerns had weighed on the SGD, limiting its gains amid a softening USD by the end of the week.

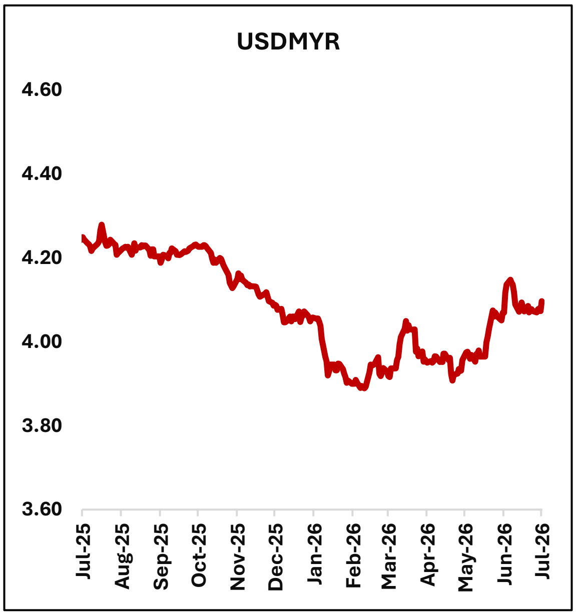


Source: Bloomberg

Short-term Outlook: This week will feature June's consumer inflation and industrial production figures, offering a comprehensive look at both underlying domestic demand conditions and external demand momentum. Inflation is widely expected to remain contained, remaining supportive of household purchasing power and business activity. Meanwhile, the industrial production figures will offer further insights into how resilient external demand, particularly for technology-related exports, continues to translate into manufacturing output growth. That said, barring a significant surprise to either release, investor reaction will likely remain muted with USD movement remaining the major influence over the USD/CNY currency pair. Thus, the pair will likely trade within a bullish range between 1.2880–1.2950 this week.

USDMYR: The Ringgit depreciated despite a resilient 1H2026 economy

The Ringgit (MYR) declined by 0.6% w-o-w as expectations of a steady Overnight Policy Rate (OPR) offered limited support to Ringgit. Based on advance estimate, Malaysia's economy expanded by 5.8% in 2Q2026 (1Q26: 5.4%) as resilient domestic demand and stronger technology-related exports continued to underpin growth. Accelerations were recorded in the mining (2Q26: 10.2% vs. 1Q26: -2.1%) and manufacturing output (2Q26: 7.5% vs. 1Q26: 5.9%), while construction (2Q26: 6.6% vs. 1Q26: 7.0%) and services sectors (2Q26: 5.4% vs. 1Q26: 5.6%) remained resilient, despite slight moderations. In contrast, the agriculture sector contracted by 3.7% (1Q26: 2.6%), reflecting weaker output in the oil palm and fishing subsectors. Overall, the economy grew by 5.6% in 1H2026, signaling firm macroeconomic fundamentals in the face of heightened external headwinds and lifting the 2026 outlook. Furthermore, Malaysia's headline inflation eased to 1.9% y-o-y in June (May: 2.0%), mainly driven by a moderation in transport costs (June: 2.8% vs. May: 3.8%) and personal care (June: 3.4% vs. May: 4.8%). Similarly, core inflation also eased to 1.9% from 2.0% in May, suggesting that underlying price pressures were broadly contained. Coupled with solid economic activity, this release has further reduced the need for a hawkish pivot by BNM. Thus, investors are increasingly certain that the central bank is poised to keep the OPR unchanged this year. Nevertheless, caution is warranted as global oil prices have rebounded amid the escalation of U.S.-Iran tensions last week, increasing risks of energy-driven price pressures, particularly given the typical lagged transmission effects. Additionally, resilient consumer demand is raising the risks of demand-side price pressures, keeping the long-term policy outlook biased to the upside.



Source: Bloomberg

Short-term Outlook: This week will be a relatively light macroeconomic calendar, providing little catalysts to generate bullish momentum for the Ringgit. With Middle East geopolitical tensions intensifying further over the weekend, investors are likely to remain cautious, hedging defensive positions with the USD and exerting pressure on the MYR. However, an anchored economic outlook and steady BNM expectations will offer modest support to Ringgit. Against this backdrop, USD/MYR is projected to trade with a mildly bullish bias this week, within a range of 4.0650–4.1050.

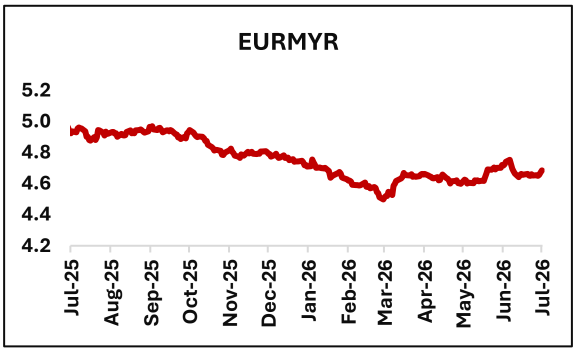
Table 2: Selected Currencies Overview (MYR Crosses)

	3-Jul	10-Jul	17-Jul	WoW	YTD
USDMYR	4.0722	4.0730	4.0968	0.6%	0.9%
EURMYR	4.6579	4.6530	4.6861	0.7%	-1.6%
GBPMYR	5.4369	5.4619	5.5071	0.8%	0.9%
SGDMYR	3.1540	3.1537	3.1734	0.6%	0.5%
JPYMYR	2.5230	2.5182	2.5220	0.2%	-2.7%
AUDMYR	2.8250	2.8289	2.8563	1.0%	5.3%
CNYMYR	0.6002	0.6008	0.6041	0.5%	4.0%

Sources: Bloomberg, Bank Islam

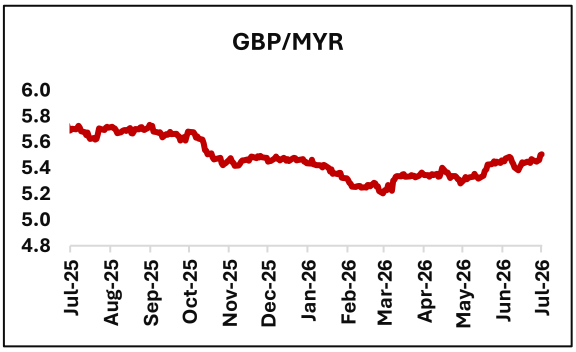
Short Term Outlook for Ringgit Pairs

The outlook for EUR/MYR is bullish this week as investor sentiments is expected to be largely driven by forward guidance by the ECB. The ECB will likely maintain a cautious approach as escalating U.S.-Iran tensions and the uncertainty surrounding the Strait of Hormuz has intensified geopolitical risks. Energy prices have rebounded while disruptions to global trade and energy shipments will exacerbate supply-side pressures, reinforcing the likelihood for the ECB to maintain current monetary settings for longer. Against this backdrop, the rate differentials with the OPR is expected to favour the EUR, causing the currency to outperform the MYR.



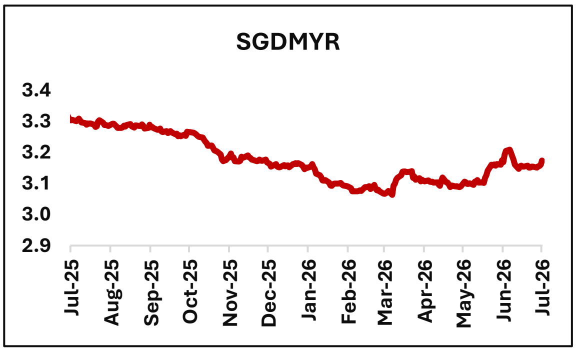
Source: Bloomberg

The outlook for GBP/MYR is skewed to the upside this week as key UK macroeconomic releases are anticipated to support expectations of a prolonged pause by the BoE, while leaving the door for additional hikes open. While headline inflation will likely moderate, core inflation and producer prices will offer closer insights into pipeline price pressures. Should underlying inflation show signs of broadening, this will reinforce the cautiously hawkish narrative. Even without a meaningful upside, the recent rebound in energy remains a key catalyst reaffirming higher inflation expectations. As such, the GBP will likely appreciate against the MYR in the near term.



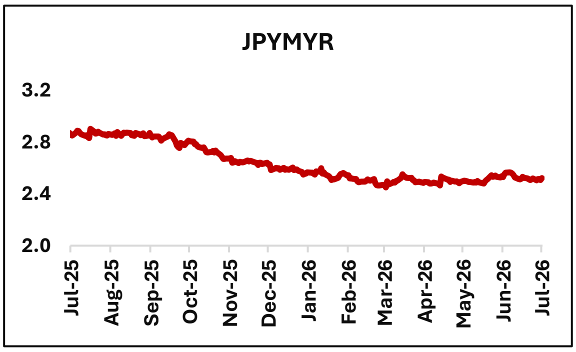
Source: Bloomberg

The SGD/MYR outlook appears neutral-to-mildly bullish, with the SGD gaining the slightest advantage amid a relatively fuller macroeconomic calendar. Investor focus will shift onto Singapore's inflation and industrial production releases, while likely to remain muted on the MYR, barring any significant domestic development. That said, both currencies are highly sensitive to external shocks. Given the intensifying Middle East tensions over the weekend, investors will move with a heightened degree of caution, dampening appetite for emerging market and riskier assets.



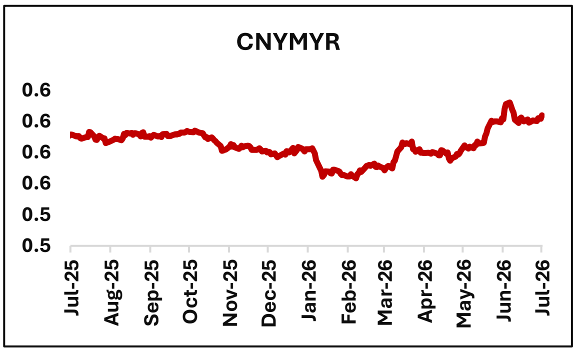
Source: Bloomberg

The outlook for JPY/MYR is neutral-to-mildly bullish amid the release of Japan's trade and inflation figures. Japan's consumer inflation data is expected to take center stage, helping markets shape their BoJ policy expectations. Any indication of broadening price pressures will reinforce the prospects of further policy normalization, lending support to the JPY. Nevertheless, tighter financial conditions and heightened supply-side pressures have seemingly weighed on domestic production. Thus, additional rate hikes would increase downside risks to growth, likely to keep investors restrained on the JPY. In contrast, Malaysia's resilient economy and relatively stable inflation are supporting the case for OPR to be maintained at 2.75%. Taken together, these catalysts are bolstering Malaysia's growth outlook, providing modest support to the MYR.



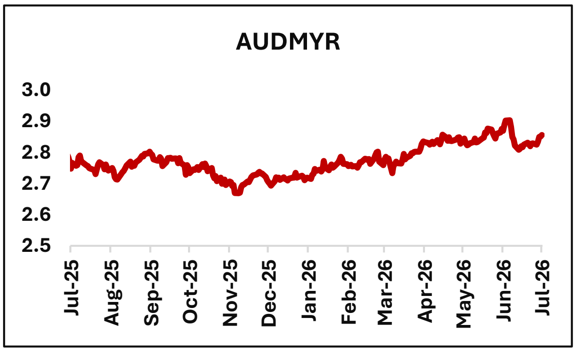
Source: Bloomberg

The CNY/MYR currency pair is expected to trade with a mildly bearish bias this week. The macroeconomic calendar for both fronts is relatively light, with price action likely to be determined by external developments. Nonetheless, the MYR is anticipated to appear slightly more appealing, supported by Malaysia's resilient economic fundamentals and steady BNM policy outlook. In contrast, China's softer 2Q2026 growth has casted doubt over its 2026 outlook, raising concerns that the giant economy may undershoot the official growth target range of 4.5-5.0%.



Source: Bloomberg

The outlook for AUD/MYR is neutral-to-mildly bullish this week. While investors will monitor the upcoming Australia labour market indicators, this will unlikely be a major catalyst for the AUD. Any indication of resilient labour conditions will offer support to household spending while conversely, signals of weakness would heighten caution over the viability of additional policy tightening. In any scenario, the broader RBA trajectory remains intact, allowing the AUD to appear more attractive against the MYR, although its gains may be limited.



Source: Bloomberg