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BANK ISLAM

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BENIGN U.S. INFLATION DAMPENS ODDS OF A SEPTEMBER FED RATE INCREASE

July inflation data came in largely as expected, easing concerns over a more aggressive Fed policy response. U.S. headline inflation moderated to 3.4% y-o-y in July (June: 3.5%), in line with expectations and signalling a continued easing in price pressures despite ongoing geopolitical uncertainties. The moderation was driven mainly by softer energy-related costs, particularly transportation inflation, which slowed to 5.8% (June: 6.5%) as gasoline price inflation eased to 24.6% from 26.7% previously. Household inflation also remained contained at 3.3%, supported by a slower increase in fuel oil prices which under the household energy category, decelerated to 39.1% from 42.9% in June. Meanwhile, core inflation edged lower to 2.5% (June: 2.6%), indicating that the spillover effects from higher energy prices into broader consumer prices have remained limited. With inflation developments broadly in line with expectations, the Federal Reserve (Fed) faces less pressure to tighten policy further and can maintain its cautious, data-dependent stance. Reflecting this, market expectations have shifted towards a prolonged pause, with the CME FedWatch Tool showing the probability of rates remaining unchanged at 3.50%-3.75% in September rising to nearly 70% from around 55% a week earlier.

The latest inflation report also reinforced the broader disinflation trend across the U.S. economy. Price growth moderated across several major categories, including food and beverages, medical care, recreation, shelter, and other goods and services, pointing to a broad-based easing in inflation rather than isolated improvements in a few segments. At the same time, inflation for housing and apparel remained stable and contained. The decline in core inflation to a five-month low further supports the view that underlying price pressures are gradually converging towards the Fed's target and remain well anchored. Beyond inflation, signs of labour market softening have also strengthened the case for a steady policy stance. The U.S. economy unexpectedly lost 23K jobs in July (June: +20K), while payroll figures for May and June were revised down by a cumulative 103K, indicating weaker labour market conditions than previously reported. Taken together, easing inflationary pressures and a cooling labour market suggest diminishing urgency for additional policy tightening, reinforcing expectations that the Fed will keep its Federal Funds Rate (FFR) on hold in the near term.

Diplomatic progress in the Middle East could support a more favourable inflation outlook in the months ahead. On a monthly basis, U.S. headline inflation increased by 0.1% in July (June: -0.4%), in line with market expectations. The uptick was largely attributable to higher energy prices following the escalation of U.S.-Iran tensions, which raised concerns over potential disruptions to critical energy and trade routes in the Middle East, particularly the Strait of Hormuz and the Red Sea. These concerns briefly pushed Brent crude above USD100 per barrel and WTI above USD85 per barrel, contributing to a modest rise in consumer prices. Core inflation also recorded a moderate increase of 0.2% m-o-m (June: 0.0%). However, subsequent diplomatic progress, including negotiations between Iran and Oman aimed at ensuring safe navigation through the Strait of Hormuz, has helped ease fears of prolonged supply disruptions. As a result, oil prices have retraced, with Brent and WTI falling back to around

USD85 and USD82 per barrel, respectively. If diplomatic engagement continues and energy prices remain contained, the moderation in energy-related costs should provide additional support to the ongoing disinflation process, keeping inflation on a gradual downward path over the medium term.

Nonetheless, risks to the inflation outlook remain skewed to the upside given the fragile geopolitical environment. Concerns over shipping security and the possibility of renewed disruptions to oil supply continue to underpin a geopolitical risk premium in global energy markets, limiting the scope for a sustained decline in oil prices. Any deterioration in regional stability, breakdown in negotiations, or material disruption to energy flows could trigger another sharp increase in crude oil prices and slow the pace of disinflation. Conversely, continued diplomatic progress and the normalization of trade and shipping routes would help alleviate supply-side pressures, supporting a more benign inflation environment. Against this backdrop, the Fed is likely to maintain a cautious and data-dependent policy approach, balancing the recent improvement in inflation dynamics against lingering geopolitical risks and signs of moderating economic activity.

Upcoming Events: Key Economic Data Release

Monday	**Japan 2Q2026 GDP & Industrial Production (July), China Labor Market, Retail Sales & Industrial Production (July), Singapore Trade (July), Malaysia Consumer Prices (July)**
Tuesday	**UK Labor Market Data (June), U.S. Industrial Production (July), Australia Consumer Confidence (August)**
Wednesday	**UK Consumer & Producer Prices (July), Euro Area Consumer Prices (July)**
Thursday	**FOMC Minutes, PBoC Policy Decision, Australia Labor Market Data (July), Japan & Malaysia Trade (July)**
Friday	**Japan Consumer Prices (July), UK Retail Sales (July), S&P Global Preliminary PMI**

Table 1: Selected Currencies Overview

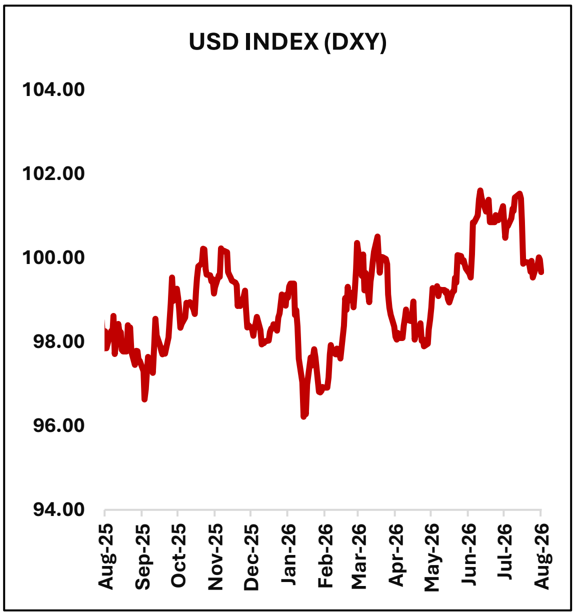
Column1	31-Jul	7-Aug	14-Aug	WoW	YTD
DXY Index	99.91	99.54	99.67	0.1%	1.4%
USDMYR	4.09	4.09	4.09	-0.1%	0.6%
XAUUSD	4,046.15	4,341.56	4,376.40	0.8%	1.3%
EURUSD	1.15	1.16	1.16	0.1%	-1.5%
GBPUSD	1.35	1.35	1.35	0.3%	0.5%
AUDUSD	0.70	0.71	0.71	0.2%	6.2%
USDSGD	1.28	1.28	1.28	0.0%	-0.5%
USDJPY	157.40	157.76	159.32	1.0%	1.7%
USDCNY	6.75	6.75	6.74	0.0%	-3.5%

Sources: Bloomberg, Bank Islam

Commentaries

DXY: USD index edged higher by 0.1% w-o-w

The USD index was largely under pressure last week, weighed by rising expectations of a pause in the Fed's September meeting against a backdrop of cooling labour market conditions and gradually easing inflation. Earlier in the week, the USD moved with a slightly positive bias as investors positioned themselves ahead of the July inflation report. As a result, the USD touched the highest point of 100.02 during Wednesday's session before retreating lower. However, the absence of a meaningful upside surprise prompted markets to reassess their policy expectations. With the job market displaying signs of cooling, the evidence of a disinflation process further reduces the urgency for the Fed to deliver additional tightening. Consequently, investors became increasingly cautious of pricing in a rate increase in September and the USD faced renewed selling pressure. Weaker than expected producer prices also supported the argument for a more restrained Fed. Producer inflation was unchanged on a monthly basis in July (June: -0.1%), missing estimates of a 0.2% increase. Goods prices declined for a second straight month (July: -0.7% vs. June: -1.4%) as energy prices declined by 3.1% while food process fell by 0.9%. Additionally, services prices rose at a slower pace (July: 0.2% vs. June: 0.5%). On an annual basis, producer prices slowed to 4.7% from 5.5% in June (Est: 4.9%). Core producer inflation also showed moderation, easing to 4.2% (June: 4.7%), and on a monthly basis, it rose by a slight 0.2% (June: 0.4%). As such, easing price pressures on the production level have diminished the risks of pass-through into broader consumer categories. Nevertheless, the USD gained modest support to end Friday's session 0.1% w-o-w higher as inflation remained relatively elevated to the Fed's target, reinforcing its wait-and-see approach.

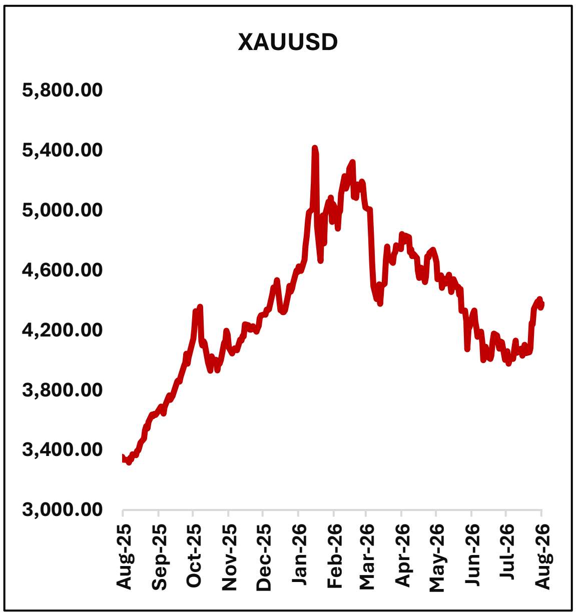


Source: Bloomberg

Short-term outlook: Looking ahead, central to investor attention will be the release of the Federal Open Market Committee (FOMC) minutes. The minutes are expected to shed light on policy discussions, offering insights into the Fed's decision-making process and how they assess the balance between fulfilling their dual mandate. Despite the recent moderation across both producer and consumer inflation, the bias remains skewed for additional tightening. Notably, while the disinflation process appears to be progressing, measures of inflation remain elevated relative to the Fed's 2.0% target. Furthermore, second-round effects and prolonged Middle East geopolitical uncertainties remain as key upside risks. Inflation may increase in the coming months as underlying price pressures are gradually passed through the supply chain. As such, the Fed is expected to maintain a sufficiently restrictive stance for longer, providing modest support to the USD. In the near term, we expect the USD to trade with a neutral-to-mildly bullish bias within a projected range of 99.20-100.30.

XAUUSD: Gold price staged a rebound against a softer USD

Gold (XAU) strengthened by 0.8% w-o-w last week, supported by the rotation away from the USD as investors scaled back their Fed rate hike expectations. The repricing increased the relative attractiveness of non-yielding assets, including gold, providing modest support to the XAU. Additionally, easing geopolitical tensions in the Middle East alongside progress towards establishing a route framework through the Strait of Hormuz improved investor risk appetite, which supported broader market activity. As a result, the XAU briefly climbed above the 4,400-resistance level on Wednesday before retreating and consolidating within the 4,300 zone towards the end of the week.

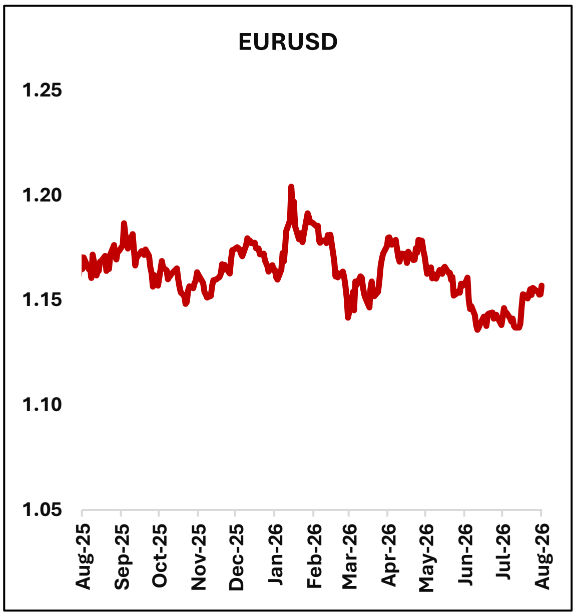


Source: Bloomberg

Short-term Outlook: Looking ahead, the XAU will likely be driven by USD dynamics and evolving geopolitical developments. Over the weekend, Iran's Foreign Ministry spokesman Esmaeil Baghaei stated that Iran had finalised a shipping route map for the Strait of Hormuz following weeks of discussions with Oman. The establishment of a navigation framework increases the prospects of a gradual normalisation in shipping activity through the waterway, easing concerns of prolonged disruptions to global trade and oil flows. However, geopolitical risks remain elevated. During the week, both U.S. and Iran exchanged threats alluding to potential military escalation. While the absence of direct escalation helped preserve investor risk appetite, U.S. President Donald Trump adopted a more confrontational rhetoric by threatening economic pressure against Iran on Friday. The threat appeared to rattle markets as economic pressure on Iran could potentially generate spillover effects across trading partners, regional and global markets. Against this backdrop, investors are likely to remain highly cautious in the near term as they continue to monitor geopolitical developments. Thus, we expect the XAU to trade with a mildly bullish bias with immediate resistance seen around USD 4,400, while key support emerges near USD 4,280.

EURUSD: EUR appreciated as investors price in a September hike

The euro (EUR) rose slightly by 0.1% w-o-w last week, supported by signs of resilient economic activity. The Eurozone's industrial production increased by 0.1% y-o-y in June (May: -0.1%), surpassing expectations of a deeper drop of 0.8%. On a monthly basis, industrial production was unchanged (Est: -0.1%) compared to a 0.3% rise in May. The stable performance was supported by a rebound of durable consumer goods output (June: 0.3% vs. May: -1.3%) while both non-durable consumer goods (June: 3.0% vs. May: 3.3%) and energy (June: 1.5% vs. May: 2.6%) remained relatively resilient. In contrast, production declined for intermediate goods (June: -0.8% vs. May: -0.2%) and capital goods (June: -1.4% vs. May: -0.5%). Additionally, labour market conditions appeared relatively stable in the second quarter despite heightened geopolitical uncertainties. Notably, the number of employed persons increased by 0.1% q-o-q (1Q: 0.1%) to 176.58 million. The growth marked the 21st consecutive of employment growth, suggesting that the pace of job creation remains broadly consistent. On an annual basis, employment increased by 0.5% in 2Q2026 (1Q: 0.5%). Overall, the sustained strength of job growth indicated that hiring appetite remained favourable, reflecting resilient business confidence despite more challenging operating conditions linked to energy-related supply side pressures. This has helped lift investor sentiments over the region's growth prospects, offering underlying support to the EUR.

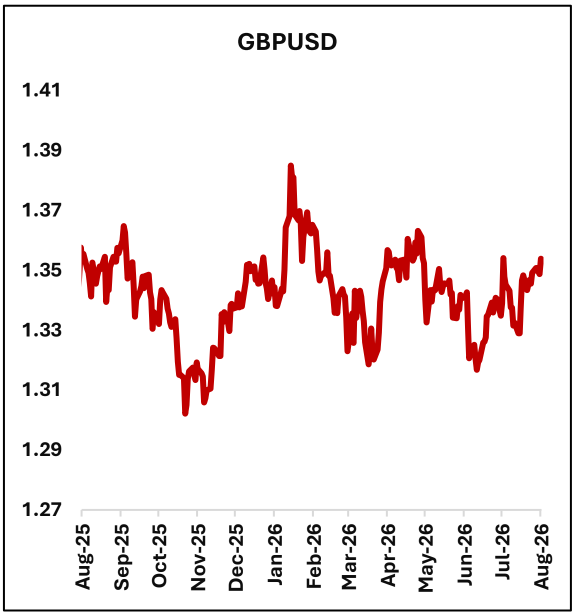


Source: Bloomberg

Short-term Outlook: It will be a relatively light macroeconomic calendar this week, which may limit fresh catalysts for the EUR. That said, investors are expected remain on alert for the release of final July inflation estimates. Should the upcoming data reinforce the earlier increases in both headline (July: 2.5% vs. June: 2.4%) and core inflation (July: 2.9% vs. June: 2.8%), it will strengthen the case for the European Central Bank (ECB) to maintain its monetary settings at current levels, with the potential for additional tightening if underlying price pressures proved more persistent than expected. Conversely, a surprise downside may dampen such expectations, potentially exerting pressure on the EUR. Nonetheless, consensus estimates largely expect the final readings to remain stable. Against this backdrop, we expect the EUR/USD pair to trade within a mildly bullish range between 1.1495 to 1.1590 this week, remaining supported by expectations of a slightly hawkish ECB bias.

GBPUSD: British Pound strengthened amid a robust 2Q2026 growth

The British pound (GBP) appreciated by 0.3% w-o-w amid a stronger-than-expected 2Q2026 growth. The UK economy expanded by a three-quarter high of 1.2% y-o-y (1Q: 0.9%), exceeding market estimates of a 1.1% growth. The increase was primarily driven by sustained momentum of the services sector (2Q: 1.5% vs. 1Q: 1.2%) and a rebound of in production output (2Q: 0.3% vs. 1Q: -0.1%), which offset a 2.0% decline in construction. Looking closer, the production growth was mainly supported by a 1.2% expansion of the manufacturing sector while the mining and quarrying sector contracted (-5.7%). On the expenditure side, household consumption increased by 1.1% (1Q: 0.9%) and gross fixed capital formation (GFCF) jumped to 2.7% (1Q: 1.6%), while government spending eased to 1.4% (1Q: 2.7%). However, net trade emerged as a drag as exports rose by 2.4% while imports increased by 2.9%. Taken together, the data indicated that domestic demand remained largely resilient, mitigating the impact of ongoing geopolitical volatility and broader macroeconomic headwinds. The stronger-than-expected growth lifted optimism over the UK's outlook, particularly relative to its peers, which offered modest support to the GBP. Additionally, the resilience of domestic activity grants the central bank greater flexibility to maintain its Bank Rate at sufficiently restrictive levels for longer.

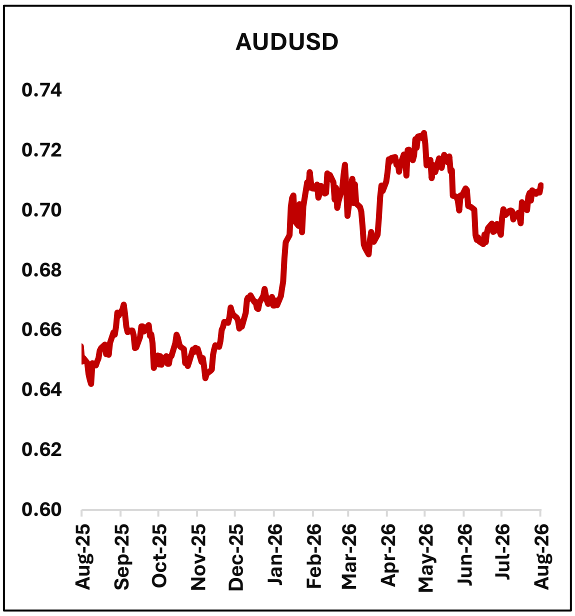


Source: Bloomberg

Short-term Outlook: This week will feature a range of key releases including labour market, consumer and producer inflation and retail sales data. These readings will grant more comprehensive insights into current macroeconomic conditions and guide investors in shaping their outlooks. The BoE appeared well-positioned to hold its Bank Rate steady in the near term given that risks to growth and inflation appeared relatively balanced. Economic activity remained robust in the second quarter despite heightened supply-side pressure while headline inflation had moderated to 2.6% in June, the lowest level since March 2025. However, core inflation held steady at 2.6% in June, raising concerns that the disinflation process may have stalled. Coupled with energy market volatility, second-round effects may yet materialize. Additionally, prolonged supply disruptions and elevated input cost pressures may weigh on the production side, potentially dampening domestic activity over the coming months. As such, the BoE is widely expected to maintain a slightly hawkish bias, providing underlying support to the GBP. This week, the GBP/USD pair will likely trade with a bullish bias within the 1.3460–1.3570 range.

AUDUSD: Australian Dollar climbed higher following RBA meeting

The Australian dollar (AUD) edged 0.2% higher w-o-w last week, supported by hawkish signals from the Reserve Bank of Australia (RBA) that strengthened expectations of a prolonged restrictive monetary policy stance. The RBA voted unanimously to keep its Cash Rate unchanged at 4.35%, highlighting an increasingly challenging environment. On one hand, financial conditions have tightened following three rate hikes thus far while the economy has shown signs of slowing. Consumer spending has weakened, housing credit growth has slowed, and labour market conditions have cooled more than expected. On the other hand, inflation has remained relatively high, reflecting a mix of elevated price pressures stemming from the Middle East conflict and domestic capacity pressures. Against this backdrop, the RBA maintains a tightening bias. The Board expects inflation to remain elevated and return to around the midpoint of the target range in late 2027, with risks tilted to the upside. Additionally, RBA Governor Michele Bullock cautioned earlier that she foresees that the Cash Rate may have to be increased again. RBA Assistant Governor Christopher Kent also remarked that while current levels are somewhat restrictive, risks remain skewed for higher rates. He hinted that additional policy tightening would be necessary should a particular set of conditions not materialize, including the reopening of the Strait of Hormuz within a reasonable time, and a pickup in productivity growth. As such, investors are pricing in the probability of another rate increase by year-end, lending modest support to the AUD.

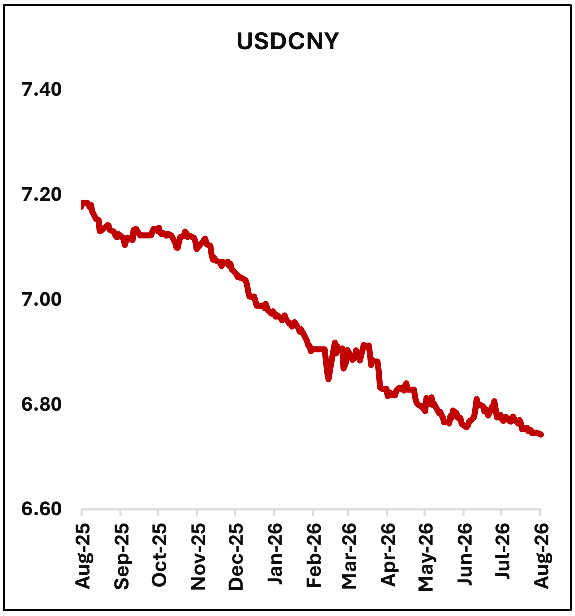


Source: Bloomberg

Short-term Outlook: Central to investor attention this week will be July's labour market data, offering crucial signals to help investors shape their RBA policy expectations. Any indication of slowing job market momentum, including softer job growth or higher unemployment, may constrain the RBA's ability to deliver further rate increases, although it is unlikely to materially alter the policy trajectory. Conversely, any evidence of resilient job market conditions will strengthen the argument for additional tightening. As such, we expect the AUD/USD currency pair to trade with a mildly bullish bias within a projected range of 0.7040–0.7110 in the near term.

USDCNY: Chinese Yuan traded range-bound amid subdued July inflation

The Chinese yuan (CNY) gained little fresh catalysts last week, ending the period broadly flat against the USD. On the macroeconomic front, easing consumer inflation pointed towards persistently sluggish domestic demand while the impact of energy-driven price pressures was less pronounced than expected. Headline inflation slowed to a six-month low of 0.5% y-o-y in July (June: 1.0%), reflecting a continuous decline in food inflation (July: -1.5% vs. June: -1.6%) while non-food prices moderated sharply (July: 0.9% vs. June: 1.5%). In particular, transport costs slowed considerably to 0.4% from 4.1% in June, weighed by government fuel-price reductions and global energy prices continuing to ease from previous peak levels. On a monthly basis, headline inflation recorded a softer drop of 0.1% (June: -0.3%), beating expectations of a 0.2% increase. Core inflation also displayed a downward trend as it moderated to 0.9% (June: 1.0%), indicating that underlying price pressures remained broadly contained. At the production level, inflation eased to a three-month low of 3.5% y-o-y (June: 4.1%) as the effects of elevated input cost pressures continued to dissipate. With inflation remaining relatively low, the People's Bank of China (PBoC) is widely expected to maintain its policy settings in the near term, providing limited support for further CNY appreciation. Nevertheless, the CNY remained supported by ongoing efforts to strengthen the currency, with the USD/CNY pair consolidating within the 6.7420-6.7470 range during the week.

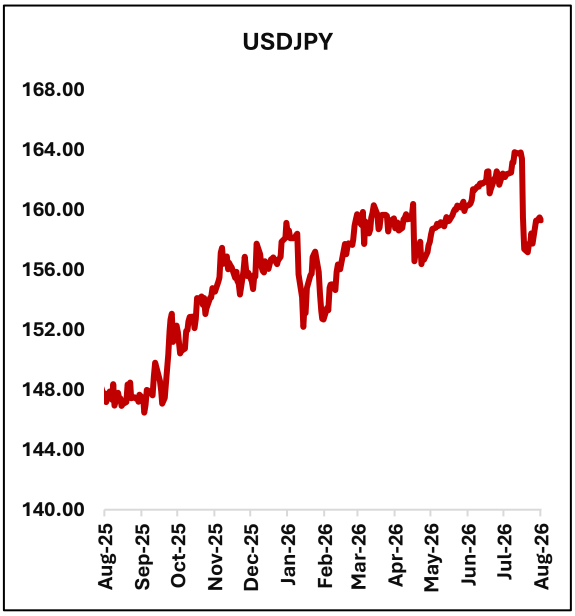


Source: Bloomberg

Short-term Outlook: This week, investor focus will be centred on July industrial production, retails sales and labour market data, alongside the PBoC's monetary policy decision. The release of these key macroeconomic data will provide fresh signals on domestic demand and supply dynamics, helping investors assess the giant economy's outlook. Recent data underscored the challenge of generating domestic demand despite earlier fiscal stimulus, which raises concerns over China's outlook. The passthrough effects of elevated price pressures into broader consumer categories also cannot be discounted, emerging as a potential downside growth risk. While producer inflation had eased in recent months, it remained elevated above 3.0%, which may gradually trickle into consumer prices over time. Such second-round effects may erode household purchasing power and prompt more cautious spending behaviour, further dampening China's growth prospects. Against this backdrop, upcoming indicators are crucial signals to either an improvement in domestic demand conditions or reinforce aforementioned concerns. In the near term, we expect USD/CNY to trade with a slightly bearish bias within a projected ranged between 6.7390-6.7480.

USDJPY: Japanese Yen underperformed despite earlier efforts to maintain the currency stability

The Japanese yen (JPY) came under renewed pressure last week, erasing most of its earlier gains linked to the coordinated Japan-U.S. intervention to stabilise the currency previously. Market participants appeared increasingly sceptical about the Bank of Japan's (BoJ) ability to deliver policy normalization in a timely manner against a backdrop of broadly stable inflation and emerging signs of slowing economic activity. As such, BoJ interest rates will likely remain lower relative to other major economies, reducing the appeal of the JPY. Sentiments towards the JPY was also weighed by weaker-than-expected producer inflation, further diminishing the prospects of a rate increase in the near term. Japan's producer inflation rose by 0.1% m-o-m in July (June: 0.4%), the lowest level since February. On an annual basis, the producer inflation eased to 7.2% (June: 7.3%), lower than estimates of 7.4%, suggesting that input cost pressures are moderating faster than expected. Price growth slowed across several categories, including food and drinks (July: 4.0% vs. June: 4.2%), chemicals (July: 12.9% vs. June: 15.1%), petroleum and coal (July: 17.5% vs. June: 22.8%), electronic components (July: 3.3% vs. June: 3.5%), information and communication (July: 17.3% vs. June: 17.5%), and textiles (July: 1.1% vs. June: 1.4%). However, prices accelerated for other components, including transport equipment (July: 2.6% vs. June: 2.3%), iron and steel (July: 1.7% vs. June: 0.3%), electrical machinery (July: 4.6% vs. June: 3.9%), production machinery (July: 2.5% vs. June: 1.8%), and metal products (July: 1.5% vs. June: 1.3%). Overall, the mixed inflation picture highlighted the uneven nature of underlying price pressures materializing across domestic price dynamics. As such, this prompted a more cautious assessment of the inflation outlook, reinforcing expectations that the BoJ will remain balanced and data-dependent in adjusting its policy settings. As a result, investors shifted their focus on the still-wide interest rate differential between Japan and the U.S.' FFR, which continues to weigh on demand for the JPY.

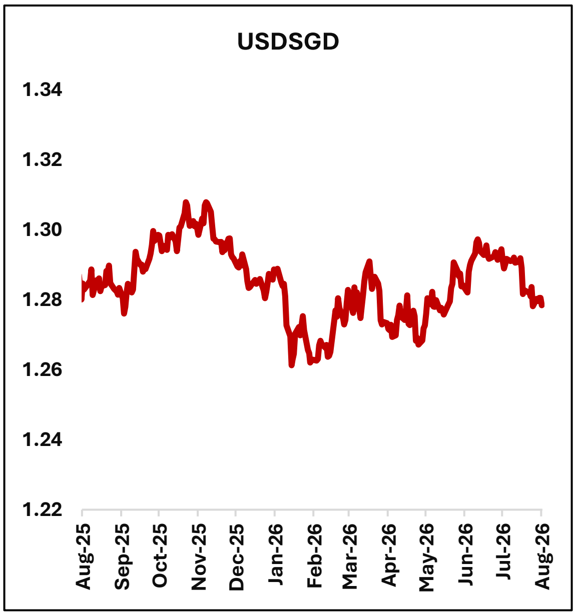


Source: Bloomberg

Short-term Outlook: Japan's economy expanded by 0.3% q-o-q 2Q2026 (1Q26: 0.5%) amid stagnant private consumption and a decline in capital expenditure, reflecting a more cautious spending and investment environment. The softer growth profile indicates that economic momentum is beginning to slow, potentially limiting the BoJ's scope to deliver further additional tightening and likely weighing on the JPY this week. Upcoming releases to watch out for will be the July trade and consumer inflation data, which are expected to provide further clues on the inflation and monetary policy outlook. Any indication that underlying price pressures are gradually trickling into consumer prices could strengthen expectations for additional policy normalisation, offering modest support to the JPY. Conversely, weaker-than-expected inflation readings would reinforce expectations of a cautious BoJ, likely exerting further pressure on the JPY. Against this backdrop, we expect USD/JPY to trade with a mildly bullish bias within a projected range of 158.0 to 160.0 in the near term, supported by persistent yield differentials and a relatively cautious BoJ outlook.

USDSGD: Singaporean Dollar was little changed last week

The Singapore dollar (SGD) struggled to establish a clear directional bias last week, trading range-bound within the 1.2780-1.2920 range against the USD. The price action was largely attributed to Singapore's relatively light calendar week. That said, the SGD derived underlying support as incoming data last Monday reaffirmed the resilience of the economy, lifting investor optimism over its 2026 growth outlook. The economy expanded by 5.9% y-o-y in 2Q2026, albeit slowing slightly from 6.3% in the previous quarter, surpassing initial estimates of 5.7%. Growth was primarily driven by robust external demand, which underpinned the expansion of manufacturing industries (2Q26: 12.5% vs. 1Q26: 7.3%) and the resilience of services-producing industries (2Q26: 4.9% vs. 1Q26: 6.3%). Notably, AI-related demand boosted growth of electronics and precision engineering output in the manufacturing clusters alongside the machinery, equipment and supplies segment of wholesale trade. In contrast, construction growth moderated to 5.8% (1Q26: 12.9%) amid elevated supply-side pressures linked to the Middle East geopolitical uncertainties. On a quarterly basis, the economy grew stronger-than-expected by 1.4% (1Q26: 1.1%). In 1H2026, Singapore's Gross Domestic Product (GDP) rose by 6.1% y-o-y. Following the robust 1H2026 growth and expectations of sustained AI-related demand, the Ministry of Trade and Industry (MTI) has upgraded the 2026 growth forecast to 4.5-5.5%, from 2-4% previously.

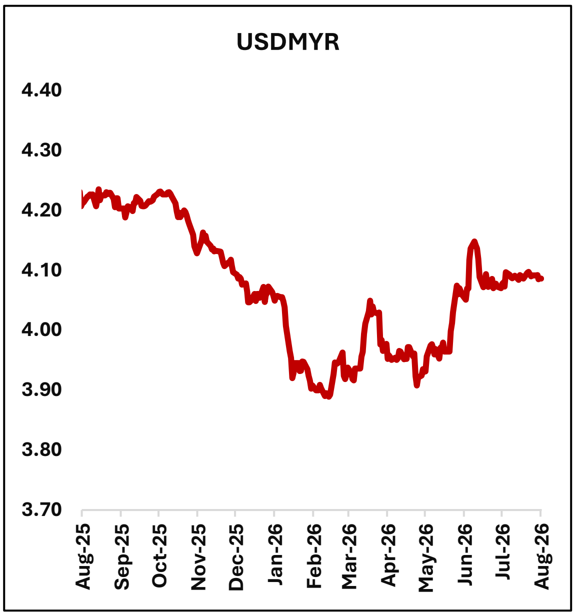


Source: Bloomberg

Short-term Outlook: Recent data further reinforces the optimism over Singapore's trade and growth prospects. Notably, non-oil domestic exports accelerated to 24.2% in July (June: 20.8%), driven by robust electronics shipments (+112.1%), which offset a 2.3% drop in non-electronics exports. The increase was broad-based across the electronics segment, underpinned by stronger exports of disk media products (+339.1%), PCs (+120.8%), and ICs (+84.5%). Looking ahead, this week will feature a relatively light macroeconomic calendar, which leaves the SGD vulnerable to geopolitical developments and USD movement. That said, AI-related demand is expected to continue bolstering export momentum, providing modest support to the SGD. In the near term, we expect the USD/SGD pair to consolidate with a neutral to mildly bearish bias, moving between the 1.2770–1.2810 range.

USDMYR: The Ringgit depreciated despite a pickup in producers' inflation

The Ringgit (MYR) continued to trade within a narrow range between 4.075-4.095 against the USD, failing to generate a clear directional bias despite evidence of Malaysia's resilient economic growth. Notably, the economy grew by 6.0% y-o-y in 2Q2026, in line with our in-house projections, supported by a broad-based expansion across most economic sectors. The Mining and Quarrying sector staged a strong rebound (2Q26: 9.2% vs. 1Q26: -2.1%) amid a sharp increase in natural gas production, while the Manufacturing sector accelerated (2Q26: 7.3% vs. 1Q26: 5.9%), supported by robust technology-related demand. The Services sector continued to display resilience as it grew by 5.9% (1Q26: 5.6%), signaling solid household consumption against a backdrop of manageable inflation, tight labour market conditions, and ongoing policy support. Meanwhile, the Construction sector slowed to 6.5% (1Q26: 7.7%) as elevated cost pressures and supply chain disruptions delayed project execution timelines. Agriculture output declined by 3.7% during the quarter (1Q26: 2.6%), reflecting softer output in the oil palm and fishing segments. On the expenditure side, household consumption (2Q26: 4.8% vs. 1Q26: 4.7%) and government spending (2Q26: 7.6% vs. 1Q26: 4.1%), underscoring resilient domestic demand. Additionally, the ongoing AI upcycle resulted in stronger export growth (2Q26: 17.0% vs. 1Q26: 5.2%), contributing to net exports in 2Q2026. In contrast, gross fixed capital formation moderated (4.6% vs 7.3%), reflecting more cautious capital deployment. On a quarterly basis, growth rose sharply by 2.5%, the highest level since 2Q2020. Overall, Malaysia's GDP increased by 5.7% y-o-y in 1H2026, improving investor confidence over its growth outlook. The growing optimism offered structural support to the MYR, resulting in the USD/MYR currency pair edging lower by 0.1% w-o-w.



Source: Bloomberg

Short-term Outlook: Central to investor attention this week will be the release of July trade figures. Evidence of robust external demand for Malaysia's exports, particularly for technology-related products, will further reinforce the economy's outlook. However, any indication of slowing demand may potentially raise growth concerns, although unlikely to considerably alter Malaysia's growth trajectory. The release will also provide fresh insights into how external demand may have evolved amid lingering geopolitical uncertainties and elevated cost pressures. Nevertheless, market participants are widely anticipating exports to remain firm while Bank Negara Malaysia (BNM)'s policy expectations have remained unchanged. Against this backdrop, the MYR has little catalysts to appreciate meaningfully. Thus, in the near term, we expect the USD/MYR pair to consolidate with a neutral-to-mildly bullish bias, within a projected range of 4.0750-4.1000.

Looking ahead, the Ringgit is expected to remain supported by Malaysia's resilient economic fundamentals and BNM's steady monetary policy stance. Nonetheless, external headwinds continue to pose upside risks to USD/MYR, particularly from persistent geopolitical tensions and volatility in global energy markets. A renewed rise in oil prices could reignite inflationary pressures globally and strengthen the case for further monetary tightening among major central banks. At present, market expectations remain tilted towards at least one additional 25-bp rate hike by the U.S. Fed. In contrast, Malaysia's inflation remains broadly manageable, while economic growth has proven more resilient than anticipated, supporting our expectation that BNM will keep the Overnight Policy Rate (OPR) unchanged at 2.75% through year-end, although the policy bias may gradually shift towards tightening should domestic demand and inflation strengthen further. Against this backdrop, a wider interest rate differential between the FFR and the OPR is likely to reduce the relative attractiveness of Ringgit-denominated assets, limiting the currency's appreciation potential against the USD. In addition, political developments are likely to remain an important consideration as Malaysia heads into the electoral cycle. Uncertainty surrounding political stability, policy continuity and the longer-term reform agenda could encourage a more cautious investment environment and weigh on investor sentiment. Taking these factors into account, **we have revised our year-end USD/MYR forecast higher to 4.05 from 3.95 previously**, reflecting a stronger-than-expected USD outlook, the prospect of sustained interest rate differentials, and lingering geopolitical risks.

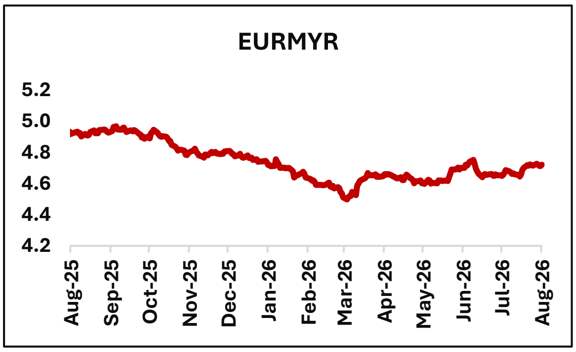
Table 2: Selected Currencies Overview (MYR Crosses)

	31-Jul	7-Aug	14-Aug	WoW	YTD
USDMYR	4.0860	4.0912	4.0863	-0.1%	0.6%
EURMYR	4.7006	4.7162	4.7215	0.1%	-0.9%
GBPMYR	5.4957	5.4993	5.5269	0.5%	1.3%
SGDMYR	3.1840	3.1930	3.1947	0.1%	1.2%
JPYMYR	2.5920	2.5922	2.5652	-1.0%	-1.0%
AUDMYR	2.8742	2.8807	2.8910	0.4%	6.5%
CNYMYR	0.6051	0.6059	0.6061	0.0%	4.3%

Sources: Bloomberg, Bank Islam

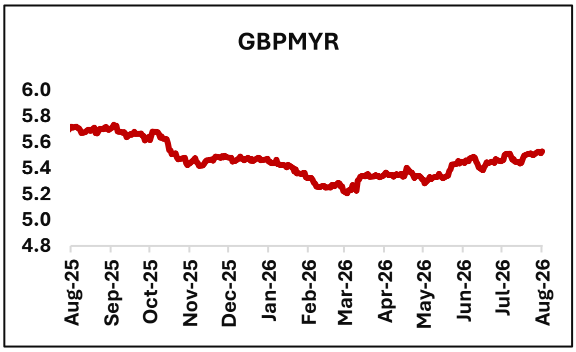
Short Term Outlook for Ringgit Pairs

This week, the outlook for EUR/MYR is mildly bullish as investors remain on the lookout for final estimates of Eurozone's July inflation. Any reinforcement of the earlier pickup in underlying price pressures will strengthen the case for potential ECB rate increases, lending modest support to the EUR. However, any signs of easing inflation may limit the currency's gains. In contrast, Malaysia's inflation has remained broadly manageable with a surprise downside in June, which reinforced BNM's steady policy approach. Against this backdrop, then EUR will likely outperform the MYR in the near term.



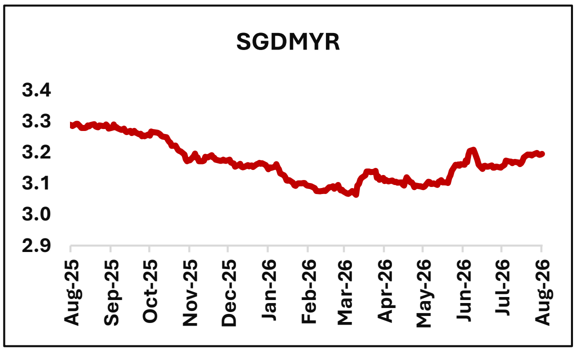
Source: Bloomberg

The GBP/MYR outlook remains bullish this week amid a slew of UK macroeconomic releases, including labour market, inflation and retail sales data. These readings are expected further signal continued strength in domestic activity, granting the BoE greater flexibility. The inflation data will be crucial in shaping near-term policy expectations as core inflation was seen to plateau at 2.6% in June. Should the incoming data reinforce sticky price pressures, this may necessitate additional tightening to curb underlying price pressures. At the current juncture, the balance of risks remains skewed for higher rates, providing the GBP modest support relative to the MYR.



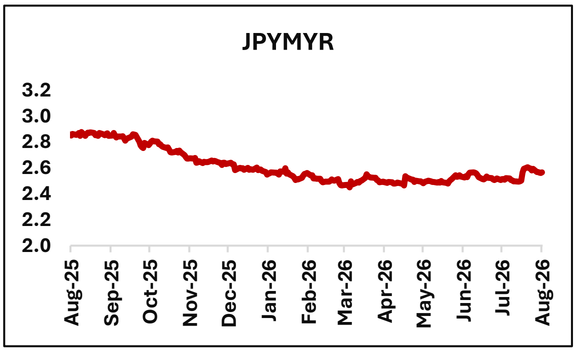
Source: Bloomberg

The SGD/MYR is expected to trade within a neutral-to-slightly bearish bias this week. Both economies appeared closely matched whereby the respective industrial sectors have benefitted from robust technology-related demand amid the global AI upcycle. However, the MYR will likely gain the slightest advantage ahead of the release of Malaysia's trade data this week, where export growth is anticipated to remain firm. In contrast, it will be a relatively light calendar week on Singapore's front, dimming the relative appeal of the SGD.



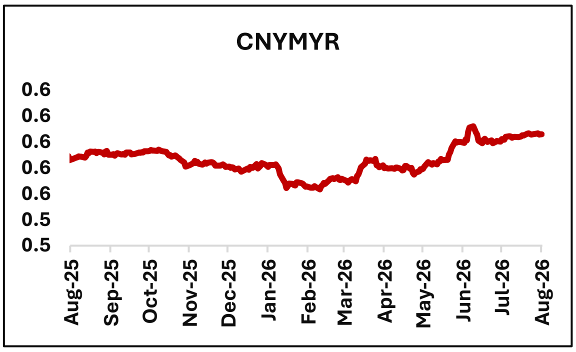
Source: Bloomberg

The outlook for JPY/MYR is skewed to the downside as investors are increasingly sceptical of the BoJ's ability to normalize its monetary policy in the near term. Of note, Japan's inflation has been easing in recent months amid softer food prices while the economy has shown emerging signs of weakening. Against this backdrop, the path towards further tightening appears more complicated than expected, which weighed on the JPY. Thus, the upcoming Japan's inflation data may be pivotal in determining the JPY movement. An increase in price pressures will reinforce bets of additional rate increases while conversely, a continued disinflation will further reduce such expectations. As such, the JPY will likely trade with a cautious bias, leaving room for the MYR to appreciate.

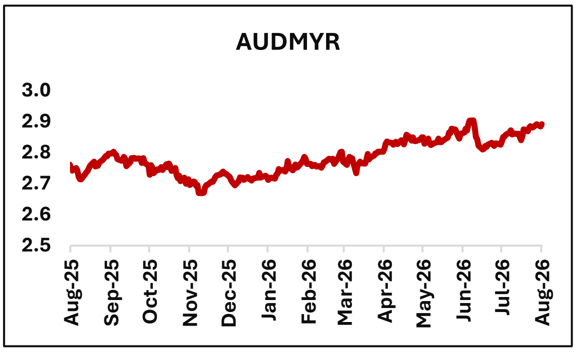


Source: Bloomberg

The outlook for the CNY/MYR pair remains slightly bullish ahead of the PBoC's policy decision this week. While investors broadly expect the PBoC to maintain interest rates at current levels, the CNY will gain modest support from its ongoing appreciation trajectory. In contrast, the MYR has been struggling to establish a clear direction as investors remained relatively subdued on the currency. Nevertheless, the CNY may come under pressure should China's key macroeconomic releases feature a meaningful downside surprise, shifting investor focus onto the economy's outlook and rising downside risks to growth.



The AUD/MYR outlook remains bullish as investor focus remains centred on Australia's July labour market figures. Any evidence of slowing job market momentum may cast uncertainty on future policy tightening and cause markets to reassess their RBA policy expectations. Nevertheless, the broader tightening trajectory remains intact as underlying price pressures remain elevated while RBA policymakers have maintained a slightly hawkish tone. Against this backdrop, we expect the AUD to strengthen against the MYR in the near term.



Source: Bloomberg