ECONOMICS & GLOBAL FOREIGN EXCHANGE HIGHLIGHTS

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WARSH'S JACKSON HOLE SPEECH OFFERS HAWKISH SIGNALS, RENEWING SEPTEMBER RATE HIKE BETS

U.S. inflation was stickier than expected, prompting a more cautious assessment of the U.S. Federal Reserve (Fed)'s monetary policy path. U.S. personal consumption expenditure (PCE) inflation edged higher by 0.2% m-o-m in July (June: -0.1%), slightly higher than consensus estimates of a 0.1% increase. On an annual basis, headline PCE inflation was unchanged at 3.7%, surpassing expectations of a moderation to 3.6%. A closer examination revealed that the sticky reading was largely driven by the durable goods segment, which accelerated to 3.4% (June: 2.9%), while services inflation persisted at 3.7%. Meanwhile, non-durable goods inflation slowed to 3.9% (June: 4.1%), although it remains well above target. Meanwhile, core PCE inflation rose by 0.2% m-o-m (June: 0.1%), keeping the annual rate unchanged at 3.3%. Taken together, these indicators suggest that underlying price pressures may be broadening across consumer categories, particularly in services.

Notably, the PCE data challenges the prevailing disinflation narrative despite earlier signs of moderation in the U.S. consumer price index (CPI) data. Previously, inflation was believed to gradually converge towards the Fed's 2.0% target, supported by easing headline and core inflation. Headline CPI slowed for a second consecutive month to 3.4% in July (June: 3.5%), reflecting softer energy-related price pressures as the impact of the energy shock linked to the U.S.-Iran conflict continued to dissipate. Core inflation also eased slightly to 2.5% from 2.6%. The benign inflation data, observed in isolation, supported the view that disinflation remains on track, reducing the urgency for a more aggressive policy response from the Fed. However, the persistence of PCE inflation presents a contrasting signal, complicating the policy outlook. Against this backdrop, markets fell back onto the baseline expectation that the Fed will maintain a higher-for-longer policy stance until there is clearer evidence of disinflation, with at least one rate increase in 2026.

Fed Chair Kevin Warsh's hawkish signals revived September rate hike expectations. Speaking at the Jackson Hole Symposium, Warsh emphasized that the Board remains unconvinced that underlying inflation is easing at a sufficiently convincing pace. Notably, he shared that the Board is assessing not only the direction of inflation, which has generally trended downwards, but also the speed of this improvement. As such, it is crucial to note that while progress has been made, the pace of disinflation was relatively modest. Broader inflation data supported this assessment. Over the past 12 months, Warsh highlighted that 54% of goods and services in the PCE basket recorded price increases surpassing 3.0%. Over the past 6 months, the picture showed limited change. The share declined only marginally to 49%, indicating that nearly half of all PCE components continue to exhibit price growth well beyond the Fed's 2.0% target. This indicated that elevated price pressures remain widespread across the economy, fueling concerns that the disinflation process may have stalled. Market participants swiftly repriced their policy expectations, with probability of a September rate increase rising to above 65.0%, from around 41.0% a week earlier.

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Inflation remains the Fed's primary concern despite signs of moderation in labor market conditions. Warsh reaffirmed the central bank's commitment to its dual mandate of price stability and maximum employment but acknowledged that the Board is particularly concerned with the elevated upside risks to inflation. While labor supply growth has slowed and certain areas of the labor market have softened, he noted that overall employment conditions remain broadly consistent with full employment. These remarks alleviated earlier concerns that weaker hiring momentum or a shrinking labor force could delay the Fed's policy response. Instead, markets are increasingly confident that the Fed will maintain a sufficiently restrictive monetary stance until there is clearer evidence that inflation is moving sustainably towards target, barring any meaningful downside surprise to the job market.

Upcoming Events: Key Economic Data Release

Monday	**Japan Retail Sales & Industrial Production (July), China NBS Manufacturing PMI (August)**
Tuesday	**S&P Global Manufacturing PMI, Euro Area Consumer Prices (August) & Labour Market Data (July), U.S. JOLTS Job Openings (July)**
Wednesday	**Australia 2Q2026 GDP, U.S. ADP Employment Data (August)**
Thursday	**Bank Negara Malaysia Policy Decision, Euro Area Producer Prices (July), Australia Trade Performance (July)**
Friday	**U.S. Nonfarm Payrolls & Labour Market Data (August), Japan Household Spending (July), Euro Area & Singapore Retail Sales (July)**

Table 1: Selected Currencies Overview

	14-Aug	21-Aug	28-Aug	WoW	YTD
DXY Index	99.67	98.80	99.70	0.9%	1.4%
USDMYR	4.09	4.04	4.02	-0.3%	-0.9%
XAUUSD	4,376.40	4,603.07	4,455.11	-3.2%	3.1%
EURUSD	1.16	1.17	1.16	-0.8%	-1.4%
GBPUSD	1.35	1.36	1.35	-0.8%	0.5%
AUDUSD	0.71	0.72	0.72	-0.1%	7.4%
USDSGD	1.28	1.27	1.27	0.4%	-0.9%
USDJPY	159.32	158.95	160.09	0.7%	2.2%
USDCNY	6.74	6.72	6.73	0.1%	-3.7%

Sources: Bloomberg, Bank Islam

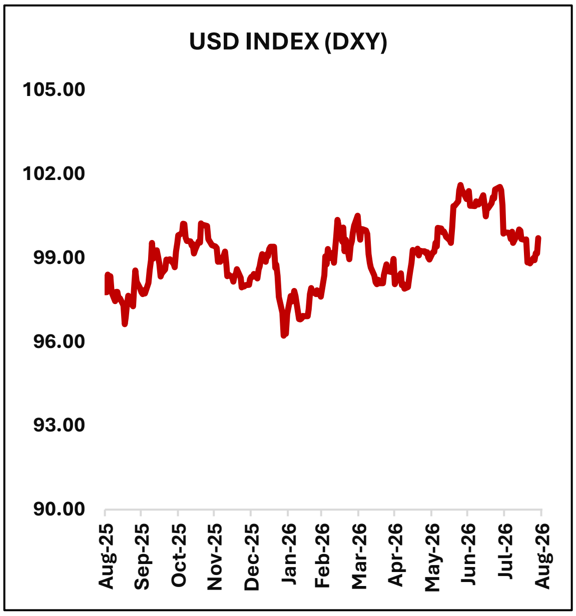
Commentaries

DXY: USD index ended on a positive note as investors eye September hike

The USD index rebounded by 0.9% w-o-w last week, driven by a late-week reassessment of the Fed's monetary policy expectations. While the USD came under pressure in the preceding week following the U.S. Treasury's annoucement to expand buyback operations for longer-dated debt, the greenback continued to derive structural support from a higher-for-longer Fed policy narrative. Recent inflation data also reinforced this view. Depsite both headline and core CPI inflation pointing towards a gradual disinflation trend, they remain above the Fed's 2.0% target, supporting the argument for a more restrictive monetary policy for longer, rather than a policy pivot. Incoming PCE inflation data further strengthened the case as it challenged the disinflation narrative. Notably, PCE inflation was stickier-than-expected, with headline and core PCE indices staying unchanged at 3.7% and 3.3% respectively. As such, markets broadly anticipate the Fed to deliver a pause in September following the mixed inflation picture, until there is clearer evidence of sustained disinflation. Consequently, the USD traded on a firm footing throughout the week, remaining anchored above the 99.0 support level. Nevertheless, Fed Chair Kevin Warsh's Jackson Hole speech on

Friday triggered a shift in market sentiments. Warsh acknowledged that upside risks to inflation remain elevated, emphasizing that the Board remains focused on restoring price stability. Backing his remarks, Warsh highlighted that almost half of the components within the PCE basket recorded price increases exceeding 3.0% in the past six months, indicating that underlying inflationary pressures remain relatively broad-based. Overall, Warsh's comments fueled concerns that progress towards the Fed's inflation target may be slower than anticipated, prompting markets to reprice the near-term policy outlook. The probability of a September rate increase subsequently climbed over 65.0%, from around 41.0% a week earlier.

Short-term outlook: This week, investor attention will be centred on key U.S. labor market releases, including non-farm payrolls, the unemployment rate and wage growth data. While Warsh noted that certain segments of the job market have shown signs of cooling, he maintained that broader labor market conditions remain aligned with full employment and inflationary risks are the priority in shaping policy expectations at the current juncture. The reassurance helped alleviate concerns that weakening employment growth could delay, or even materially alter, the Fed's policy trajectory. As such, incoming labor market data will play a crucial role in shaping market expectations for the near-term policy decision. A resilient labor market would reinforce the case for further policy tightening in September and provide additional support to the USD. Conversely, a more pronounced slowdown in employment conditions could temper such expectations, although it is unlikely to meaningfully alter the broader trajectory. Against this backdrop, we expect the USD to trade with a mildly bullish bias in the near term within a projected range of 99.10-100.20.

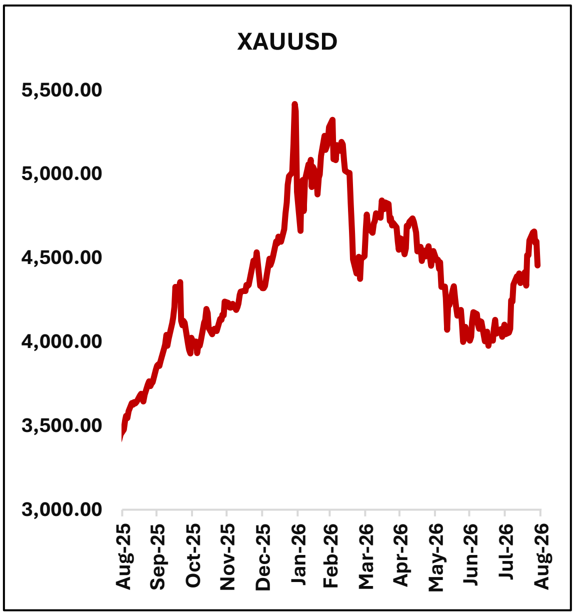


Source: Bloomberg

XAUUSD: Gold price declined, recent geopolitical escalation presents as a pivotal catalyst

Gold (XAU) erased some of its earlier gains last week, declining by 3.2% w-o-w as renewed hopes for a September Fed rate increase triggered rotation back into the USD. From a technical perspective, the XAU began the week on relatively stable footing, holding above the 4,600-support zone. Investor positioning remained cautious ahead of the U.S.' PCE inflation data and second estimate of 2Q2026 GDP growth. While the XAU repeatedly tested the USD4,600 support level, it initially managed to remain above this threshold as markets largely remained unconvinced of a policy action in the near term. However, market sentiments shifted materially towards the end of the week, prompted by hawkish signals from Fed Chair Kevin Warsh at the Jackson Hole Symposium. Warsh's remarks reinforced higher-for-longer FFR expectations, reducing the appeal of non-yielding assets, including gold. As such, the USD and Treasury yields climbed while the XAU faced renewed pressure, leading to a clear break below the 4,600-support level. Selling momentum subsequently intensified, pushing the XAU below the next immediate support around 4,500 and closing Friday's session at 4,455.11.

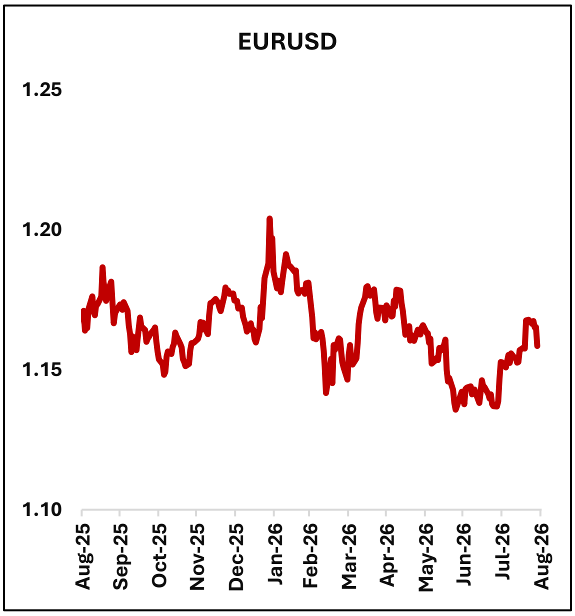
Short-term Outlook: Looking ahead, the XAU price action will largely remain influenced by USD movements. Investors are expected to remain cautious ahead of key U.S. labor market releases, potentially offering modest support to gold prices. However, barring any meaningful downside surprise, the Fed's broader policy tightening trajectory will remain intact, improving the relative appeal of the USD and weighing on the XAU. At the same time, geopolitical developments may provide modest support through safe-haven channels. U.S.-Iran tensions have once again moved into focus after a series of military strikes on Iranian targets, which Washington described as a response to attacks on commercial oil tankers in the Strait of Hormuz. The resurgence of geopolitical uncertainty is expected to dampen investor risk appetite and reinforce demand for traditional safe-haven assets. As a result, we expect XAU to trade with a mild bullish bias, with near-term resistance at USD4,400, while key support is likely to hold around USD4,300.



Source: Bloomberg

EURUSD: EUR weakened despite improving economic sentiments

The euro (EUR) depreciated by 0.8% w-o-w last week, primarily weighed by a broad-based strength of the USD. With limited macroeconomic catalysts from the Eurozone during the week, the EUR remained largely driven by external factors, particularly the repricing of Fed interest rate expectations. On the macro front, economic conditions appear to gradually improve. The Eurozone economic sentiment rose to 98.4 in August (July: 97.1), marking the fourth straight month of expansion and the highest reading since January. The uptrend suggested that both businesses and consumers are increasingly confident amid a more resilient than expected growth backdrop, as well as signs of easing Middle East geopolitical uncertainties. Notably, confidence improved across all sectors, suggesting that firms are gradually becoming more optimistic over operating conditions, with service providers recording the biggest increase to 5.8% (July: 5.1%). The improving business sentiments are particularly notable as consumer-facing segments are typically the most sensitive to geopolitical and macroeconomic disruptions. Other economic segments recorded softer declines, including manufacturers (August: -5.3 vs. July: -6.1), consumers (August: -15.5 vs. July: -15.9), retailers (August: -5.7 vs. July: -6.8) and constructors (August: -5.0 vs. July: -5.2). This indicated that the recovery is broad-based across the region, lifting the overall growth outlook this year. Nevertheless, inflation concerns remain a key source of caution, with consumer inflation expectations rising to 33.0 in August (July: 30.4). Households remain wary of rising price pressures, presenting as a key risk to household demand as consumers may opt to reprioritize and scale back their discretionary spending in response. In contrast, manufacturers' selling-price expectations eased to 16.4 (July: 17.8), pointing towards easing price pressures at the production level.

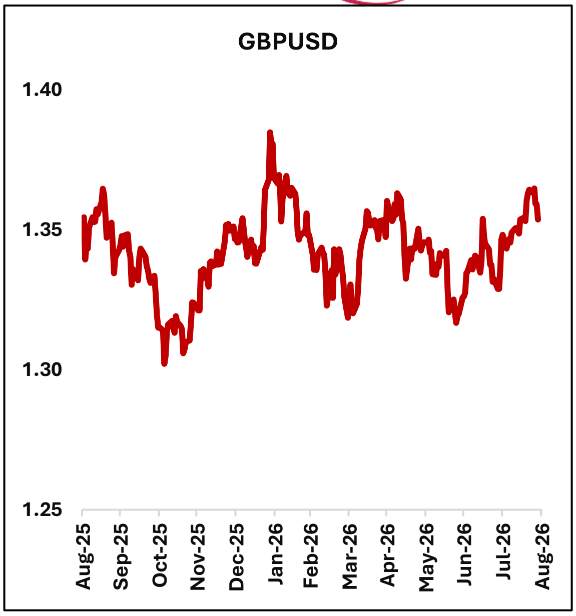


Source: Bloomberg

Short-term Outlook: Central to investor attention this week will be Eurozone producer prices and retail sales data, providing insights into growth and inflation dynamics. Earlier consumer sentiment index showed that consumer confidence over economic conditions is improving, although they remain cautious of rising prices. This dissonance makes the upcoming retail sales data more crucial as it will offer a clearer indication of these sentiments are translating into consumption activity. Should retail sales improve, this suggests that household demand remains supportive of growth despite anticipation of higher prices. Conversely, if spending slows, this will suggest that households are turning more cautious, which increases downside growth risks, particularly if inflation remains elevated for longer. Inflation data will also be closely monitored. Preliminary figures showed that headline inflation accelerated to 3.3% y-o-y in August (July: 2.9%) while core inflation eased to 2.4% (July: 2.5%). Against this backdrop, the upcoming producer inflation data will provide early signals of how inflationary risks are developing at the production level. Any upside surprise will reinforce concerns over cost pass-through into consumer prices and complicate the European Central Bank's policy outlook. In the near term, we expect the EUR/USD pair to trade within a mildly bullish range between 1.1570 to 1.1650.

GBPUSD: British Pound underperformed against a stronger USD

The British pound (GBP) weakened by 0.8% w-o-w against a backdrop of a relatively quiet calendar, offering limited fresh catalysts for the GBP. From a technical standpoint, the GBP/USD currency pair opened last Monday's session broadly stable above the 1.36-support level and remained above this threshold in the earlier half of the week. However, the absence of domestic catalysts and a relatively stronger USD gradually weighed on the GBP, resulting repeated tests of the immediate support around 1.36. Sentiments deteriorated further by the end of the week as hawkish Fed signals revived September rate hike expectations, bolstering a rotation into the USD. This in turn has renewed pressure on the GBP, pushing it to break decisively below the level and close the week at 1.3538. Nevertheless, the GBP continued to gather structural support from expectations of additional Bank of England (BoE) policy tightening, driven by persistent upside risks to inflation and a growing hawkish divide within the Committee. The BoE has slashed its Bank Rate by a cumulative 100bps in 2025, bringing it down to 3.75% from 4.75%. However, a surge in oil prices and heightened supply-side linked to the Middle East conflict has led to a pivot as the disinflation progress apparently stalled. In its July meeting, policymakers were split, with three Committee members favouring a 25-bp hike. Additionally, rising inflation further reaffirmed the case for more restrictive rates. Notably, headline inflation accelerated to a four-month high of 2.9% in July (June: 2.6%), reflecting higher energy costs and emerging signs of inflationary pressures broadening across consumer goods and services. Core inflation also had plateaued at 2.6% for three straight months to July, further reinforcing the need for additional policy tightening. As such, investors broadly expect the BoE to deliver at least one rate increase this year, providing structural support to the GBP despite its near-term weakness.

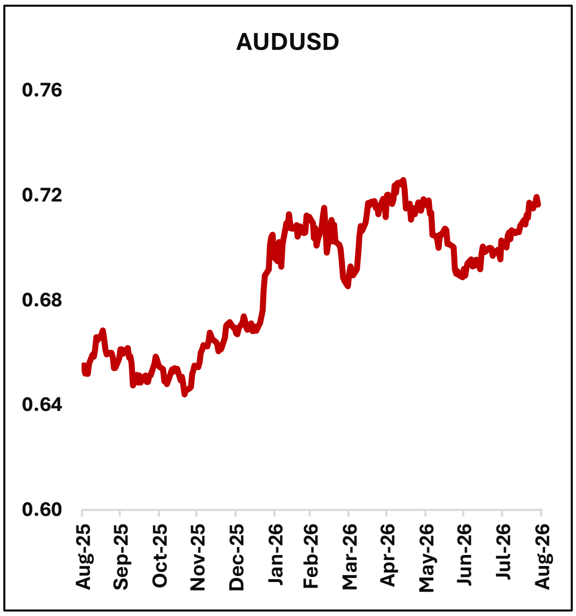


Source: Bloomberg

Short-term Outlook: Looking ahead, it will be a relatively light calendar on the macro front, with the near-term outlook for GBP/USD likely to remain influenced by external developments and USD price action. Nevertheless, expectations of additional BoE tightening should help limit downside pressure on the GBP as it maintains the relative interest rate differentials with other major economies. Against this backdrop, the GBP/USD pair will likely trade with a slightly bearish bias within the 1.3480–1.3560 range.

AUDUSD: Australian Dollar edged lower, although hotter-than-expected trimmed mean inflation provided modest support

The Australian dollar (AUD) slipped by 0.1% w-o-w last week, pressured by a stronger USD amid renewed market expectations of a potential September Fed hike. Nevertheless, downsides to the AUD were limited by sustained expectations of further policy tightening by the Reserve Bank of Australia (RBA). Australia's latest inflation data also presented a mixed picture, reinforcing the need for a cautious policy approach. On one hand, headline inflation eased to 3.5% in July (June: 3.8%), the lowest level since November 2025. The moderation was broad-based, with softer price increases observed across key segments, including goods, which eased to an 11-month low of 3.2%, services (July: 3.7% vs. June: 4.0%) and food and non-alcoholic beverages (July: 3.2% vs. June: 3.3%). These figures point towards a disinflation progress, which would argue that current monetary levels appear sufficiently restrictive to curb underlying price pressures. On the other hand, measures of underlying inflation remained elevated, suggesting that slowing headline inflation is masking persistent underlying price pressures. RBA's trimmed mean inflation was unchanged at 3.6%, the highest level since September 2024 and exceeding estimates of a moderation to 3.5%. On a monthly basis, the trimmed mean inflation rose by 0.5% (June: 0.3%), higher than expectations of 0.3%. The divergence between moderating headline inflation and sticky core inflation supports the case for a more restrictive policy stance for longer, offering some support to the AUD. Additionally, while measures of headline inflation may have begun to ease, they remain well above the RBA's 2-3% target range, which further strengthens this view.

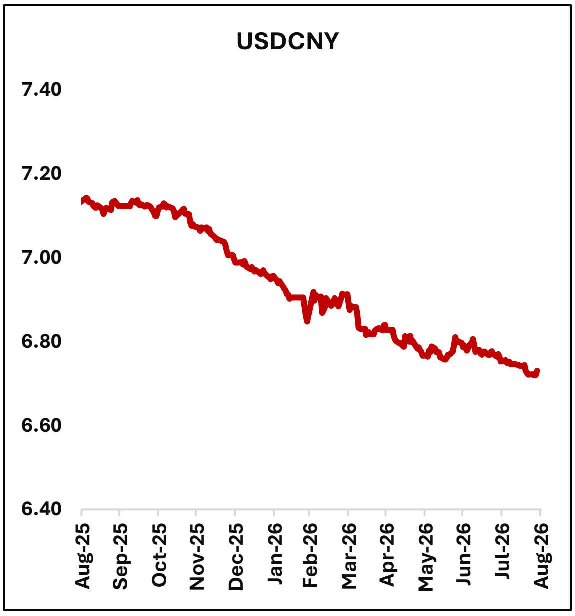


Source: Bloomberg

Short-term Outlook: Looking ahead, the RBA's hawkish policy outlook remains supported by resilient economic conditions. Notably, Australia's economy expanded stronger-than-expected by 0.4% q-o-q in 2Q2026 (1Q26: 0.3%), driven by resilient household expenditure, net trade and government spending. On an annual basis, the economy moderated to 2.1% (1Q26: 2.5%). Investors will also closely monitor the release of July's trade figures, which will provide further insights into external demand conditions amid ongoing geopolitical and supply-chain uncertainties. Any improvement or continued resilience in export growth will further lift Australia's growth prospects and reinforce the likelihood of additional tightening. Conversely, softer trade performance may raise concerns over growth momentum, although it is unlikely to materially alter policy expectations. As such, we expect the AUD to remain supported by hawkish policy expectations in the near term, with the AUD/USD currency pair trading with a mildly bullish bias within a projected range of 0.7110–0.7170 this week.

USDCNY: Chinese Yuan eased amid a light data calendar

The Chinese yuan (CNY) dipped marginally by 0.1% w-o-w last week, weighed by a lack of fresh catalysts to support the CNY. In the earlier half of the week, the USD/CNY currency pair was confined within a narrow range between 6.7170-6.7250 as investors remained subdued, awaiting clearer directional catalyst. By Friday, the currency pair has remained range-bound, although the CNY continued to draw support from its broader appreciation trend. However, following Fed Chair Warsh's Jackson Hole speech, the swift repricing of Fed expectations lifted USD/CNY above its recent trading range, and the pair closed the week at 6.7301.

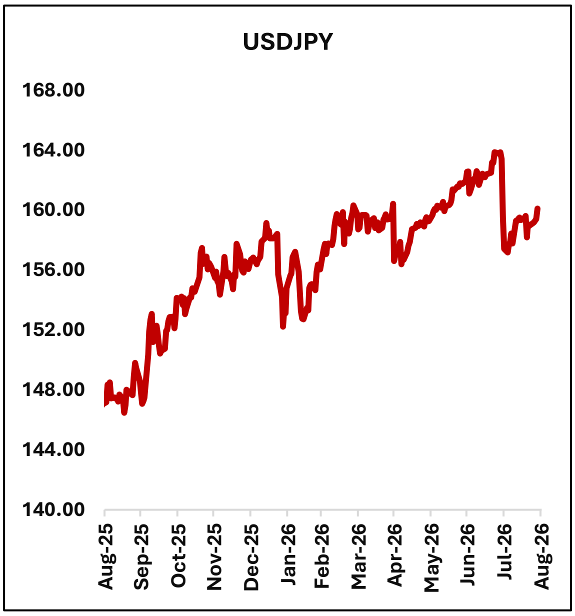


Source: Bloomberg

Short-term Outlook: Upcoming releases this week will be China's composite and services Purchasing Managers' Index (PMI), offering greater clues into the underlying economic momentum. The data will be particularly important following the moderation in China's growth performance during 2Q2026, which brought 1H2026 growth to 4.7% and casted doubt over the economy's ability to achieve its full-year growth target of 5.0%. On the manufacturing front, recent measures suggested that operating conditions are gradually improving. The RatingDog Manufacturing PMI increased more-than-expected to 51.5 in August (Exp: 51.0, July: 50.9), reflecting higher output and new orders. The official NBS Manufacturing PMI has also risen to 49.8 in August (July: 49.2), recording faster pace of output (Aug: 50.4 vs. July: 49.9) and new orders (Aug: 50.6 vs. July: 48.5). The rise in both measures of PMI indicate that factory activity is gradually stabilizing, despite ongoing external uncertainties. Thus, the services data will complement this, providing insights into the strength of domestic demand. A favourable services PMI would suggest that demand remains resilient, helping to lift the outlook, while conversely, a contraction in services PMI will reinforce concerns over the sustainability of China's recovery, exerting pressure on the CNY. Against this backdrop, we expect the USD/CNY pair to consolidate with a neutral-to-slightly bearish bias within a projected ranged between 6.7180-6.7220.

USDJPY: Japanese Yen weakened despite rising BoJ rate hike hopes

The Japanese yen (JPY) declined by 0.7% w-o-w last week, reaffirming the Yen's persistent weakness as the USD/JPY currency pair rebounded above the 160.0-resistance level. The JPY remained under pressure amid persistent interest rate differentials and increasingly hawkish Fed signals, while the lack of meaningful JPY demand highlights continued concerns over the currency's structural weakness. Following the fading impact of the earlier U.S.-Japan coordinated currency intervention, investors appeared increasingly sceptical whether the BoJ will be able to deliver timely policy tightening. As a result, USD/JPY held above the 159.0-support level during the week. However, recent macroeconomic data points towards accelerating price pressures, building a case for additional policy tightening. Notably, Tokyo's headline inflation, a close proxy for Japan's inflation, rose to 1.9% y-o-y in August (July: 1.8%), while core inflation increased to a five-month high of 1.8% (July: 1.7%), surpassing consensus estimates of 1.7%. Core *core* inflation, which excludes fresh food and energy, also rose to a five-month high of 2.0% (July: 1.8%). Collectively, these indicators displayed an uptrend, signalling that underlying price pressures are gaining traction amid a mix of higher energy-driven cost pressures and fading effects of fuel subsidies. The gradual pickup in inflation has reinforced expectations of a near-term policy tightening by the BoJ, reaffirming its broader policy normalization cycle. However, the Yen's weakness is structural, particularly as investors increasingly rotated into the USD by the end of the week. As a result, the USD/JPY pair broke decisively over the 160.0-resistance level during Friday's session and closed the week at 160.10.

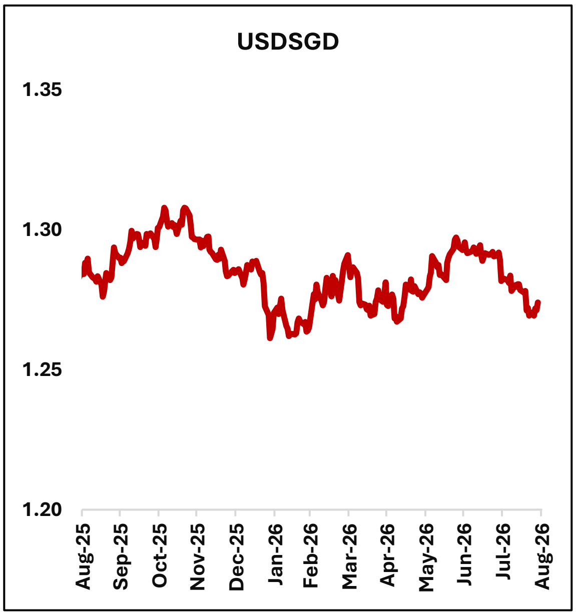


Source: Bloomberg

Short-term Outlook: This week, investor attention will be focused on Japan's household spending data, providing closer insights into household demand dynamics. This will be crucial in deciphering how consumers have fared amid prolonged geopolitical uncertainties and elevated energy-driven price pressures, guiding markets in shaping their policy expectations. Any indication of resilient household spending will further reinforce BoJ rate increase expectations. Conversely, slowing household spending would raise the downside risks to growth and may potentially delay the BoJ's policy normalization path, keeping the JPY under pressure. Recent data showed that retail sales expanded by 4.0% y-o-y in July (June: 0.6%), topping market estimates of a 3.0% gain. The growth was driven by stronger sales across several segments, including motor vehicles (+16.2%), machinery and equipment (+6.3%), general merchandise (+3.1%) and food and beverages (1.1%). On a monthly basis, retail sales jumped by 2.4% (June: -3.9). Against this backdrop, markets are expecting household spending to remain broadly firm, which should help to keep the BoJ policy trajectory intact and offer underlying support to the JPY. In the near term, we expect USD/JPY to trade with a mildly bullish bias within a projected range of 159.60 to 160.50.

USDSGD: Singaporean Dollar eased amid a moderation in factory activity

The Singapore dollar (SGD) depreciated by 0.4% w-o-w last week, coming under pressure against a broad-based USD strength. Domestically, industrial production displayed emerging signs of a slowdown, suggesting that technology-related output may be moderating following recent months of robust growth. Such concerns trailed broader concerns over the sustainability of the global Artificial Intelligence (AI) boom, causing investors to reassess the sustainability of Singapore's strong AI-related production and export growth, which added to downward pressure on the SGD. Singapore's industrial production moderated to 6.8% y-o-y in July (June: 7.5%), marking the softest pace since February. The moderation was primarily driven by weaker output growth in electronics (July: 11.2% vs. June: 21.1%), with semiconductor production growth easing to 8.0% (June: 20.8%) and electronic modules and components rising by 2.5% (June: 5.5%). Beyond electronics, several segments of specialised manufacturing recorded sharper declines, such as biomedical manufacturing (July: -5.3% vs. June: -11.4%) and chemicals (July: -10.6% vs. June: -11.6%). Nevertheless, the broader manufacturing landscape remained resilient. Several segments continued to record robust expansions, including precision engineering (+17.7% y-o-y), transport engineering (+10.8%) and general manufacturing industries (+4.9%), highlighting that growth remains relatively diversified across the sector. On a monthly basis, industrial output rebounded by 2.3% in July, up from a decline of 7.2% in June. Overall, the recent data point to selected normalisation in selected segments, rather than a material deterioration in manufacturing conditions.



Source: Bloomberg

Short-term Outlook: Looking ahead, as momentum within the electronics sectors begin to moderate from exceptionally strong levels, investors assessing whether domestic demand could help sustain Singapore's growth trajectory. Thus, investors will be closely monitoring Singapore's July retail sales data for further insights into household consumption trends. Any improvement in retail sales data will reinforce confidence in the resilience of consumer spending and lift the growth outlook, providing modest support to the SGD. In contrast, any signs of weakness in retail sales could renew concerns over the outlook, particularly if external demand continues to soften amid persistent geopolitical and global economic uncertainties. That said, while Singapore's macroeconomic fundamentals remain broadly supportive, near-term currency movements are likely to remain driven by the USD. We expect investors to remain subdued on the SGD. In the near term, the USD/SGD pair will likely trade with a bullish bias, moving between a projected range of 1.2710–1.2760.

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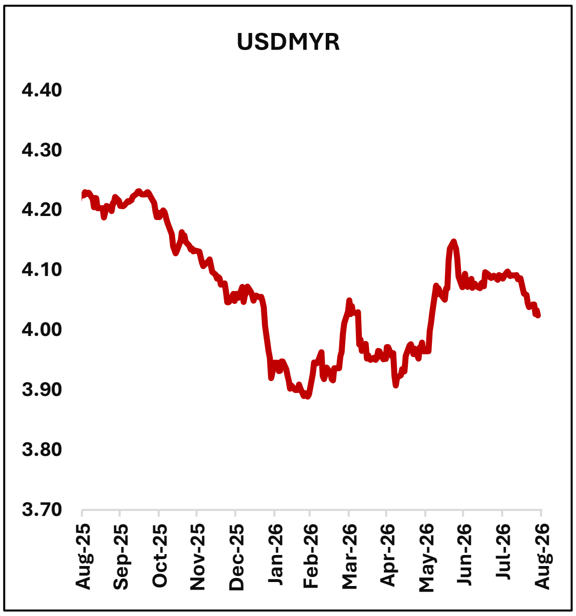
USDMYR: The Ringgit appreciated amid an uptrend in producer prices

The Ringgit (MYR) strengthened by 0.3% w-o-w last week, extending its gains against the USD. Looking back, the U.S. Treasury's announcement of an expansion of its buyback operations on longer-dated debt has exerted pressure on U.S. yields, leading to a broad-based weakness in the greenback. Subsequently, the USD/MYR currency pair faced bearish bias, breaking decisively below the immediate support level around 4.08. With the psychological level successfully breached, this paved the way for the currency pair to advance past consecutive support thresholds. The Ringgit continued to maintain this trajectory into last week's session. On the macroeconomic front, the Ringgit gained modest support from expectations of a stable Bank Negara Malaysia (BNM) policy stance, with the balance of risks firmly tilted towards additional tightening. Recent hotter producer inflation further reinforced this narrative. Producer prices rose sharply by 9.7% y-o-y in July (June: 9.2%), the fastest pace since June 2022, reflecting heightened supply-side cost pressures stemming from elevated commodity prices linked to the Middle East conflict. Based on a sectoral breakdown, manufacturing prices surged by 8.2% (June: 7.2%), driven by higher costs for coke & refined petroleum products (30.4%) and computer, electronic & optical products (10.5%). Mining prices recorded a significant acceleration of 30.5% y-o-y (June: 29.0%) amid higher crude petroleum extraction (39.6%). The increase across producer prices warrants caution as it raises the risk of cost pass-through into consumer prices, which could underpin rising consumer inflation in the coming months. Against this backdrop, BNM appears well-positioned to maintain the Overnight Policy Rate (OPR) at prevailing levels, with the bias skewed to the upside. In contrast, the agriculture sector posted a softer inflation growth of 7.2% (June: 9.1%), while both water supply (July: 10.2% vs. June: 12.7%) and electricity and gas (July: 6.7% vs. June: 10.2%) costs continued to moderate.



Source: Bloomberg

Short-term Outlook: Investor attention will firmly be on BNM's policy decision this week. While investors widely anticipate the OPR to be kept unchanged at 2.75%, they are most eager for forward guidance by the central bank, which will be hints towards the central bank's policy path ahead. Given that consumer inflation has remained manageable thus far and the economy remains resilient, BNM has greater policy flexibility relative to its peers, allowing policymakers to monitor broader geopolitical and macro- developments. However, risks to inflation remain skewed to the upside as underlying price pressures have been increasingly accelerating amid the uptrend in producer inflation, which will likely materialize in consumer categories over the coming months, given the lagged nature of the process. As such, investors will likely look for reassurance from BNM that the prevailing rate is consistent with the inflation and growth outlook, but at the same time, conviction that the central bank will deliver policy action if the balance of risks evolve to necessitate it. Against this backdrop, we expect the USD/MYR pair to trade with a mildly bullish bias, within a projected range of 4.0150-4.0585.

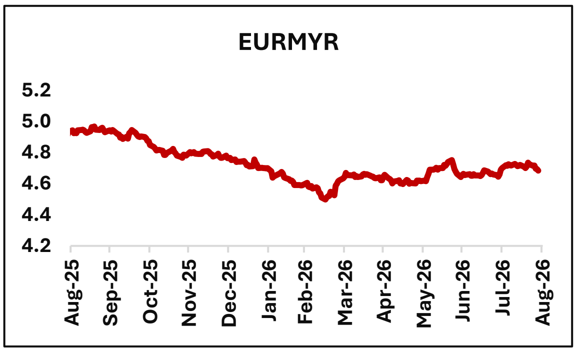
Table 2: Selected Currencies Overview (MYR Crosses)

	14-Aug	21-Aug	28-Aug	WoW	YTD
USDMYR	4.0863	4.0385	4.0247	-0.3%	-0.9%
EURMYR	4.7215	4.7253	4.6850	-0.9%	-1.7%
GBPMYR	5.5269	5.5148	5.4663	-0.9%	0.2%
SGDMYR	3.1947	3.1827	3.1674	-0.5%	0.3%
JPYMYR	2.5652	2.5406	2.5148	-1.0%	-2.9%
AUDMYR	2.8910	2.8910	2.8963	0.2%	6.7%
CNYMYR	0.6061	0.6008	0.5989	-0.3%	3.1%

Sources: Bloomberg, Bank Islam

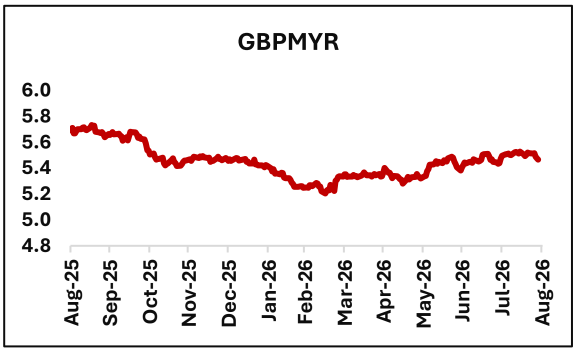
Short Term Outlook for Ringgit Pairs

The outlook for EUR/MYR remains mildly bullish this week amid key Eurozone releases and BNM's policy decision. Eurozone's producer inflation is expected to reaffirm elevated underlying price pressures which would reinforce expectations of additional ECM tightening. The region's retail sales data will provide closer insights into domestic consumption patterns. Any improvement in retail sales will grant the ECB greater policy flexibility, although a slower-than-expected reading will unlikely alter the broader policy trajectory. Against this backdrop, the EUR will remain relatively well supported. Meanwhile, BNM is widely anticipated to maintain the OPR, with bias tilted to the upside. As such, the EUR will likely gain the slightest edge over the MYR in the near term.



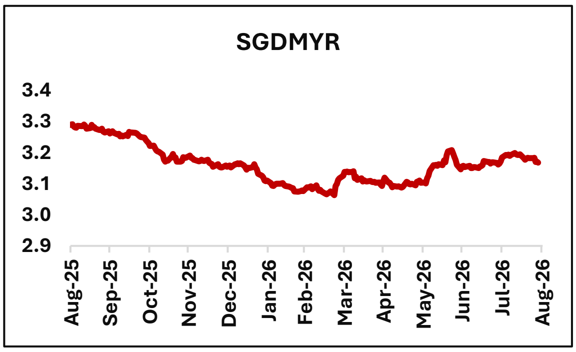
Source: Bloomberg

The GBP/MYR outlook is mildly bearish this week amid a relatively light calendar on the UK front. As such, investors will likely remain subdued on the GBP as attention turns elsewhere for key developments and data releases. In contrast, the MYR will remain relatively more appealing ahead of BNM's policy decision, deriving modest support from both Malaysia's resilient economic fundamentals and expectations of BNM's stable policy outlook.



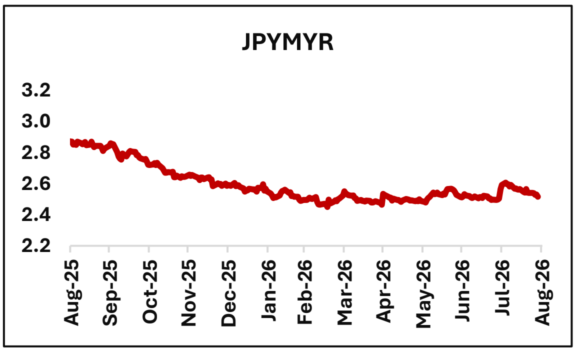
Source: Bloomberg

The SGD/MYR is expected to trade with a slightly bearish bias in the near term as investors await Singapore's retail sales data. With its manufacturing growth showing signs of easing, particularly in technology-related industries, domestic demand will become increasingly important in helping uplift the growth outlook. However, Singapore's domestic demand had previously struggled to maintain its momentum, keeping investors cautious on the SGD. Meanwhile, Malaysia's domestic economic conditions have remained broadly stable, which will lift the MYR against the SGD this week.



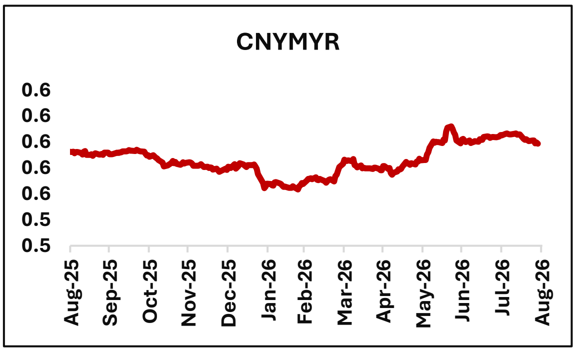
Source: Bloomberg

The outlook for the JPY/MYR pair remains bearish, pressured by the structural weakness of the JPY. Despite earlier joint U.S.-Iran intervention to reinforce currency stability, the JPY has failed to maintain its hold, surrendering most of its gains in the recent weeks. While inflationary pressures in Japan are gaining traction and reinforcing expectations of a near-term BoJ hike, selling momentum of the JPY has persisted. As such, the JPY is expected to underperform against the MYR in the near term. Meanwhile, the MYR is expected to appreciate within its broader structural uptrend, sustaining the momentum barring any geopolitical or macroeconomic shocks.



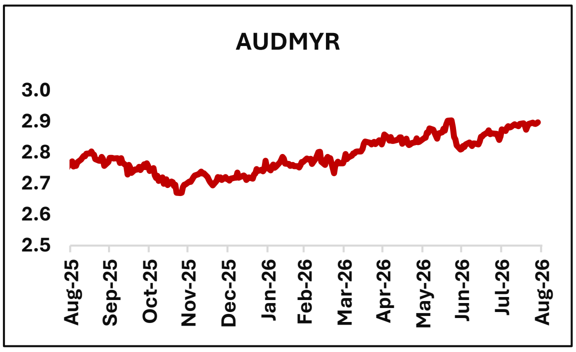
Source: Bloomberg

The CNY/MYR currency pair is expected to trade with a neutral-to-mildly bearish bias this week. China's composite and services PMI will provide closer insights into underlying domestic momentum, complementing earlier pickup in manufacturing activity. Should these readings improve, they will help bolster investor confidence over China's growth. Conversely, a surprise downside will fuel concerns of the economy missing its growth target, potentially exerting pressure on the CNY. However, both the CNY and MYR are part of broader structural uptrends, keeping them closely matched with the MYR gaining the slightest advantage amid Malaysia's resilient fundamentals.



Source: Bloomberg

The outlook for the AUD/MYR currency pair remains mildly bullish as market expectations are firmly fixed on additional RBA policy tightening. Notably, trimmed mean inflation proved stickier-than-expected, strengthening the case for restrictive monetary conditions for longer. In contrast, Malaysia's inflation has remained manageable thus far, which sustains expectations that BNM may maintain the OPR at the prevailing 2.75% level in 2026. Against this backdrop, we expect the AUD to appear relatively more attractive vis-à-vis the MYR.



Source: Bloomberg