BANK ISLAM

WEEKLY ECONOMIC UPDATE

05 OCTOBER 2026

ECONOMIC RESEARCH

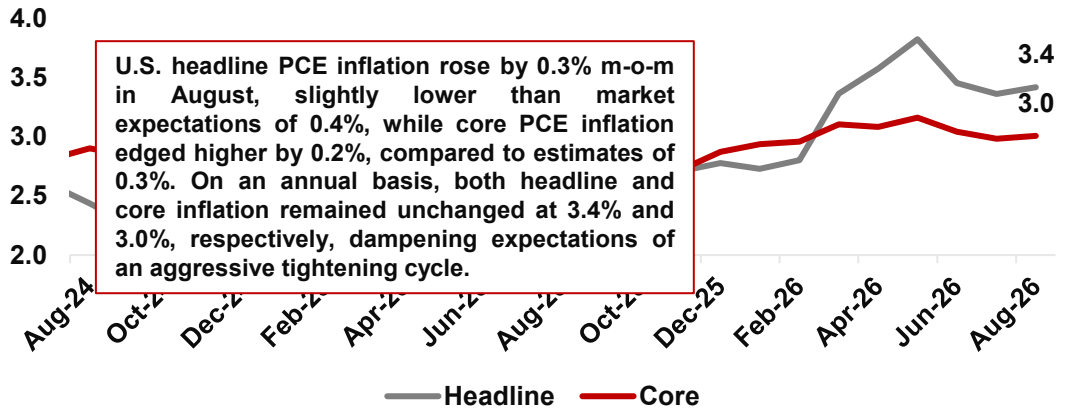
IMRAN NURGINIAS IBRAHIM
FARAH ZAZREEN ZAINUDIN
KHAYRIN FARZANA FAZLI

WEEKLY HIGHLIGHT: PCE INFLATION UNDERSHOT CONSENSUS ESTIMATES, CASTING DOUBT OVER THE POSSIBILITY OF AN OCTOBER FED HIKE

BANK ISLAM

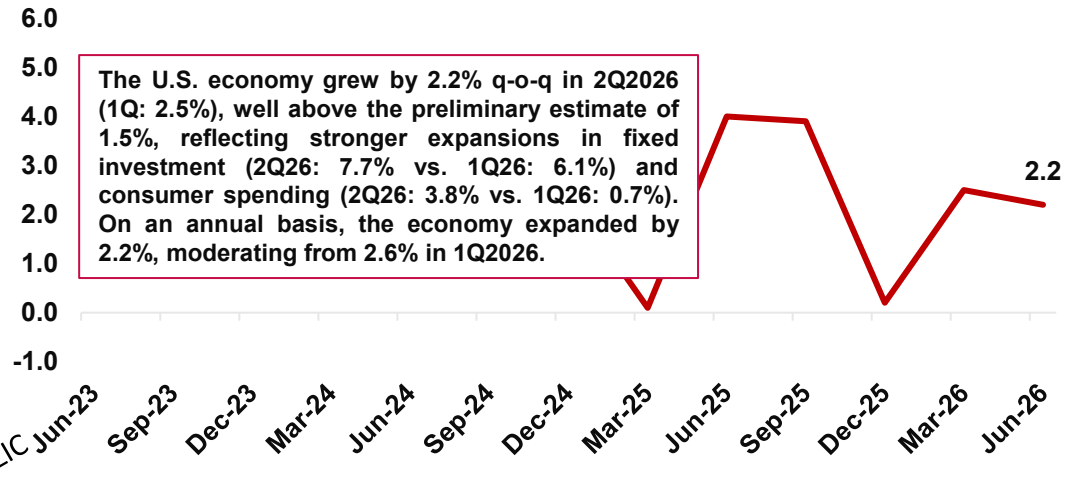
GLOBAL

U.S. - Personal Consumption Expenditure (PCE) Price Index, y-o-y%



U.S. headline PCE inflation rose by 0.3% m-o-m in August, slightly lower than market expectations of 0.4%, while core PCE inflation edged higher by 0.2%, compared to estimates of 0.3%. On an annual basis, both headline and core inflation remained unchanged at 3.4% and 3.0%, respectively, dampening expectations of an aggressive tightening cycle.

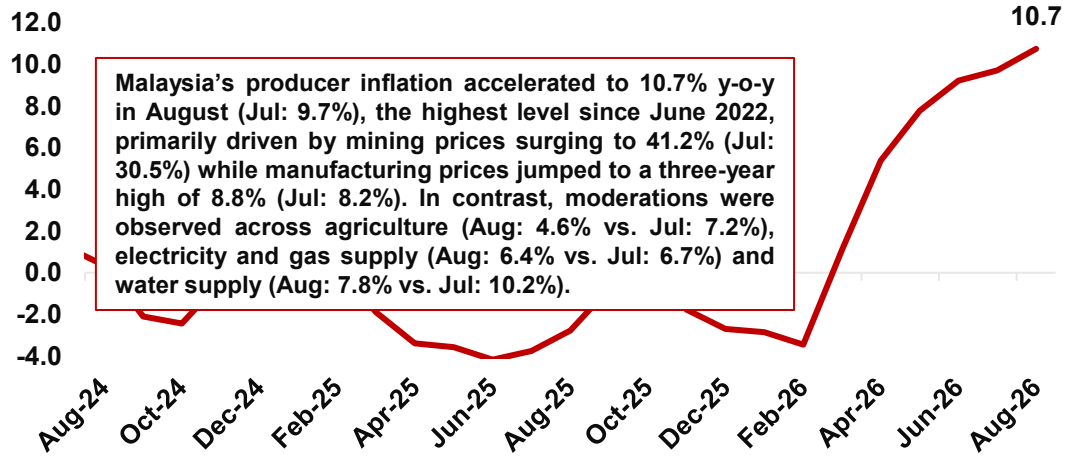
U.S. - Quarterly Real GDP, q-o-q%



The U.S. economy grew by 2.2% q-o-q in 2Q2026 (1Q: 2.5%), well above the preliminary estimate of 1.5%, reflecting stronger expansions in fixed investment (2Q26: 7.7% vs. 1Q26: 6.1%) and consumer spending (2Q26: 3.8% vs. 1Q26: 0.7%). On an annual basis, the economy expanded by 2.2%, moderating from 2.6% in 1Q2026.

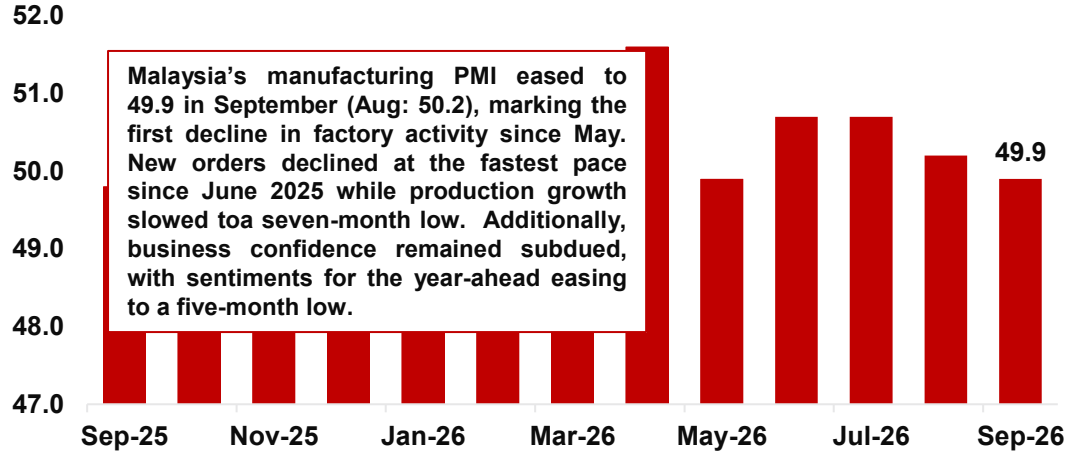
DOMESTIC

Malaysia - Producer Price Index (PPI), y-o-y%



Malaysia's producer inflation accelerated to 10.7% y-o-y in August (Jul: 9.7%), the highest level since June 2022, primarily driven by mining prices surging to 41.2% (Jul: 30.5%) while manufacturing prices jumped to a three-year high of 8.8% (Jul: 8.2%). In contrast, moderations were observed across agriculture (Aug: 4.6% vs. Jul: 7.2%), electricity and gas supply (Aug: 6.4% vs. Jul: 6.7%) and water supply (Aug: 7.8% vs. Jul: 10.2%).

Malaysia - Manufacturing PMI s.a., points

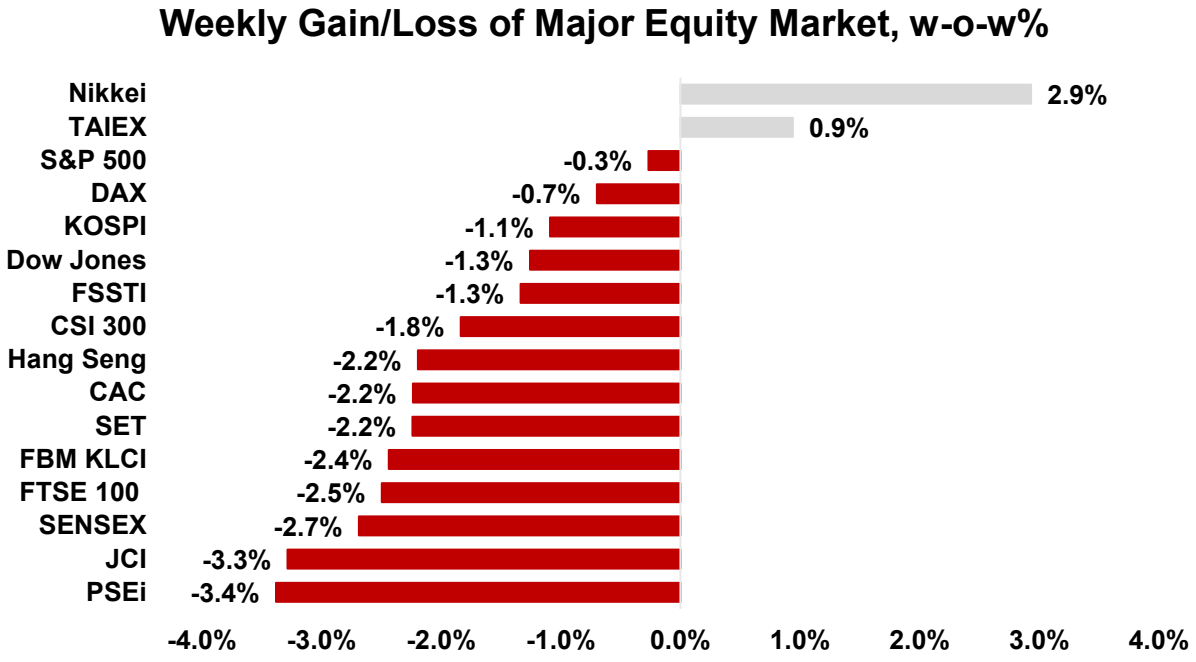


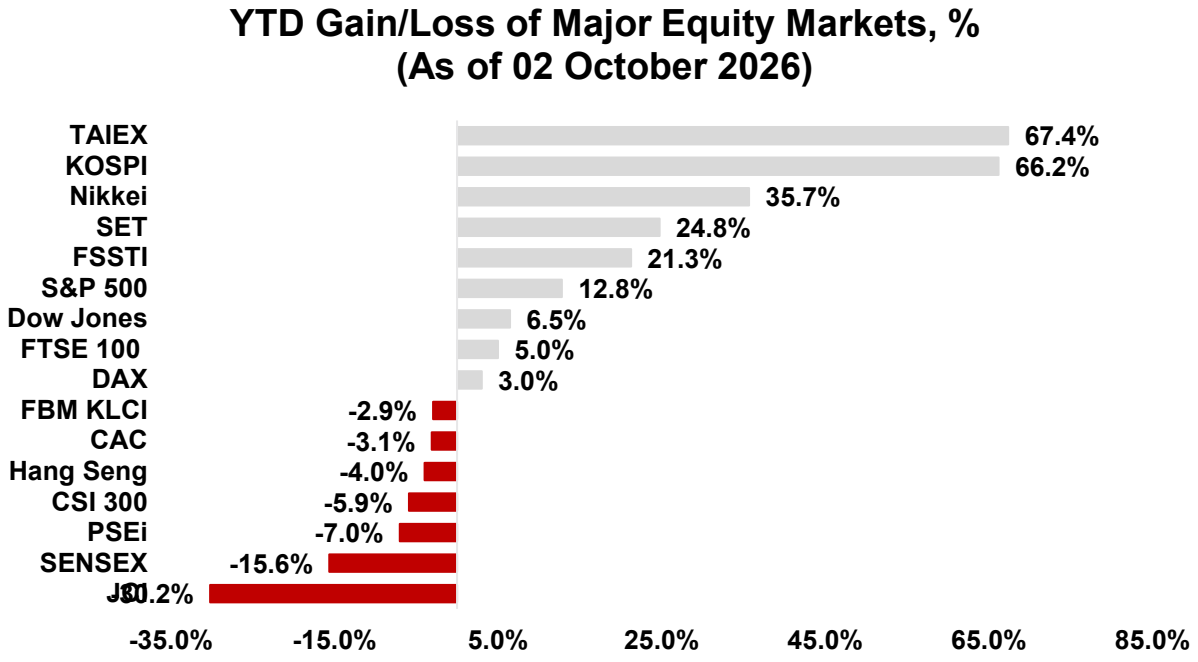
Malaysia's manufacturing PMI eased to 49.9 in September (Aug: 50.2), marking the first decline in factory activity since May. New orders declined at the fastest pace since June 2025 while production growth slowed toa seven-month low. Additionally, business confidence remained subdued, with sentiments for the year-ahead easing to a five-month low.

Sources: U.S. Bureau of Labor Statistics, Department of Statistics Malaysia (DOSM), CEIC Data

REGIONAL EQUITY: GLOBAL EQUITIES RETREAT AS RISING YIELDS AND OIL PRICES OFFSET AI OPTIMISM

BANK ISLAM





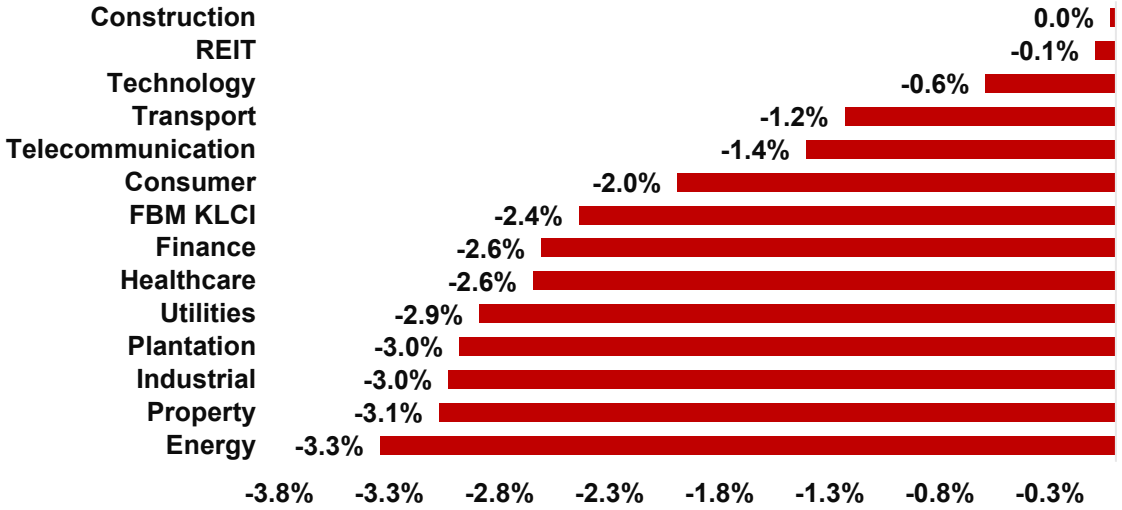
Sources: Bursa, CEIC Data

- Global equities ended mostly lower in the week ended 2 October, as investors balanced continued optimism surrounding AI-related investment against the headwinds of rising bond yields and higher energy prices.
- Among major markets, Japan's Nikkei emerged as the best performer, gaining 2.9%, supported by strong gains in technology and semiconductor-related stocks amid expectations that AI-driven demand for advanced chips and digital infrastructure will remain robust. Taiwan's TAIEX also advanced 0.9%, benefiting from its large exposure to the global semiconductor supply chain and continued strength in AI-linked technology counters.
- In contrast, the Philippines' PSEi recorded the largest decline at 3.4%, followed by Indonesia's JCI (-3.3%) and India's Sensex (-2.7%). The underperformance of these markets likely reflected growing concerns over tighter global financial conditions, as higher U.S. Treasury yields reduced the attractiveness of emerging-market assets and increased the risk of capital outflows. Meanwhile, commodity-importing economies also faced added pressure from rising oil prices, which raised concerns over inflation and external balances.

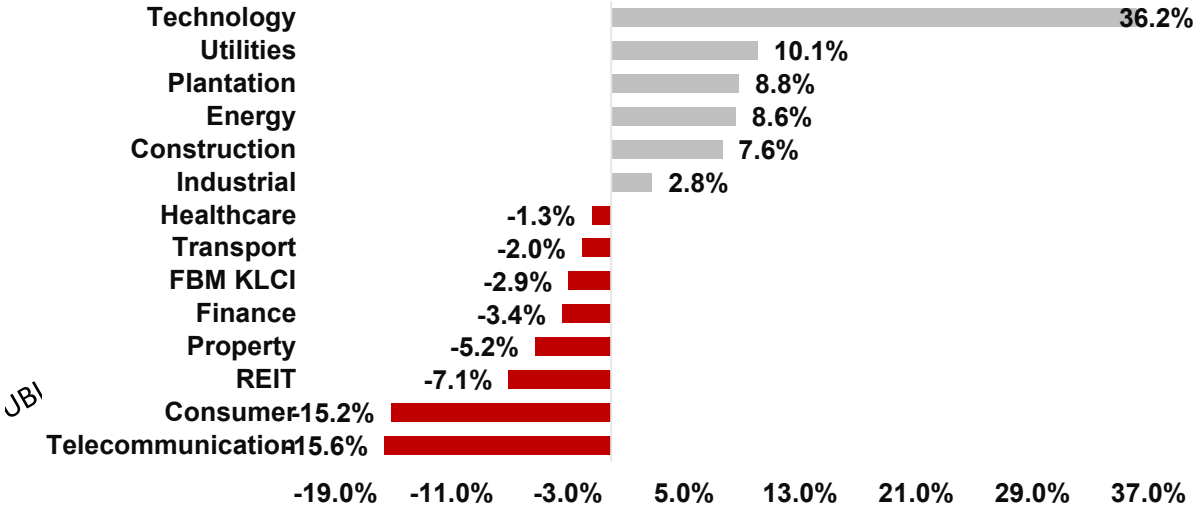
DOMESTIC EQUITY: BURSA CLOSED IN A SEA OF RED AGAINST A RELATIVELY QUIET DOMESTIC MACRO BACKDROP

BANK ISLAM

Weekly Bursa Sectoral Performance, w-o-w%



YTD/ Gain/Loss of Bursa Indices, %
(As of 2 October 2026)



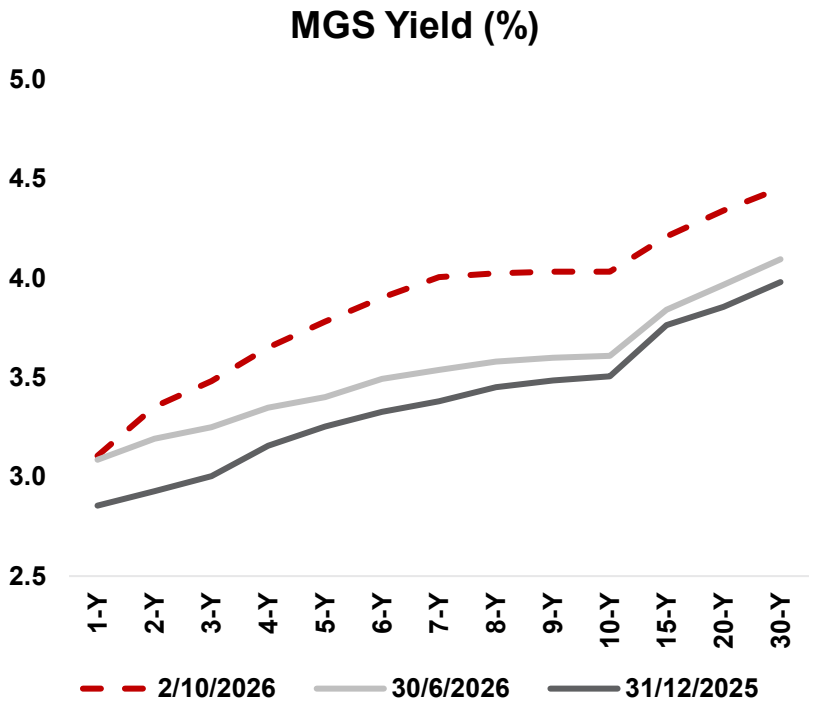
Sources: Bursa, CEIC Data

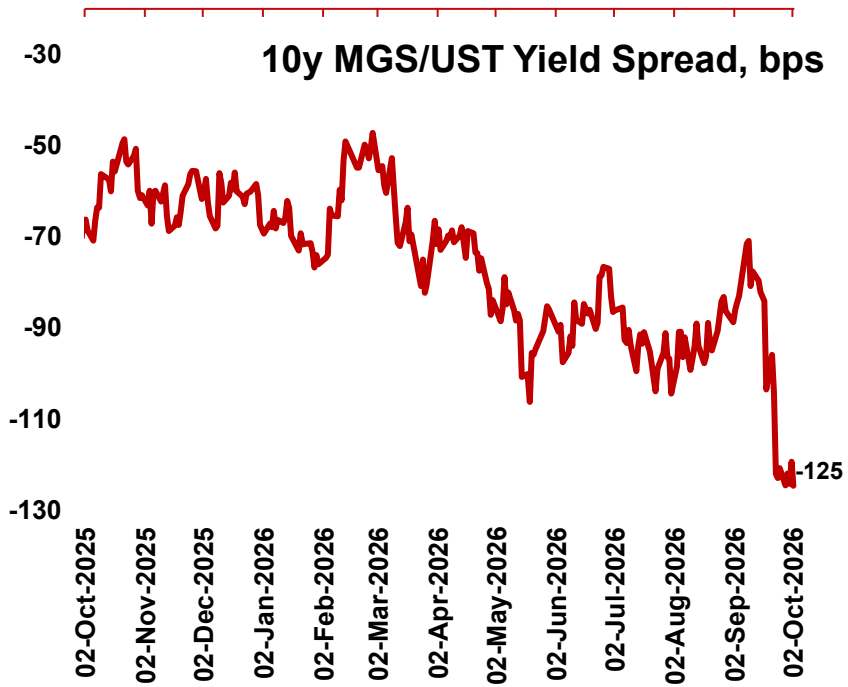
- Bursa counters ended in a sea of red for the week ending 2 October, with the benchmark FBM KCLI declining by 2.4% w-o-w amid a sustained rotation towards USD-denominated assets.
- Given the lack of major domestic catalysts, investors sentiments remained largely driven by external developments. Notably, hawkish Fed policy expectations, a solid 2Q2026 U.S. growth and persistent concerns over the U.S.' fiscal outlook had pushed the 10-year UST yield to multi-decade highs, which continued to lift the relative attractiveness of U.S. assets and renewing selling pressure across emerging market equities, including Malaysia.
- Looking closer, the Energy index emerged as the biggest loser, plunging by 3.8% as investors locked in gains following the sector's recent outperformance. The Property index declined by 3.1%, followed closely by the Industrial index falling by 3.0%.

FIXED INCOME: US TREASURY YIELDS CURVE STEEPENS AS MARKETS PRICE PERSISTENT INFLATION RISKS

BANK ISLAM

Weekly Changes, basis points (bps)			
UST	**Yields (%) 25-Sep-26**	**Yields (%) 2-Oct-26**	**Change (bps)**
3-Y UST	4.94	4.96	2
5-Y UST	4.98	5.06	8
7-Y UST	5.06	5.17	11
10-Y UST	5.17	5.28	11
MGS	**Yields (%) 28-Aug-26**	**Yields (%) 2-Oct-26**	**Change (bps)**
3-Y MGS	3.36	3.48	13
5-Y MGS	3.60	3.78	18
7-Y MGS	3.79	4.01	21
10-Y MGS	3.87	4.03	17
GII	**Yields (%) 28-Aug-26**	**Yields (%) 2-Oct-26**	**Change (bps)**
3-Y GII	3.38	3.50	12
5-Y GII	3.60	3.78	19
7-Y GII	3.80	4.00	20
10-Y GII	3.85	4.06	20





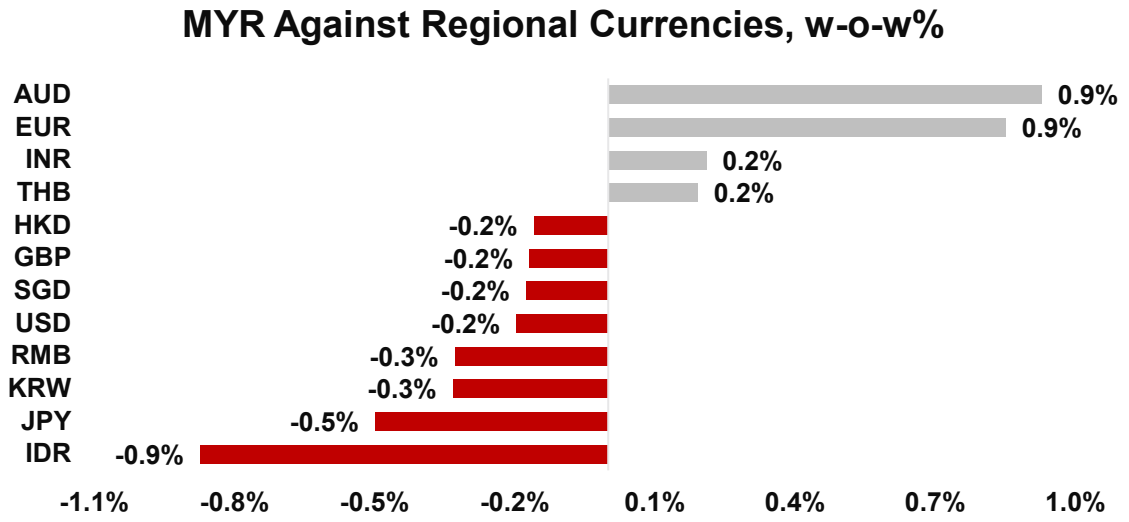
Sources: BNM, Federal Reserve Board

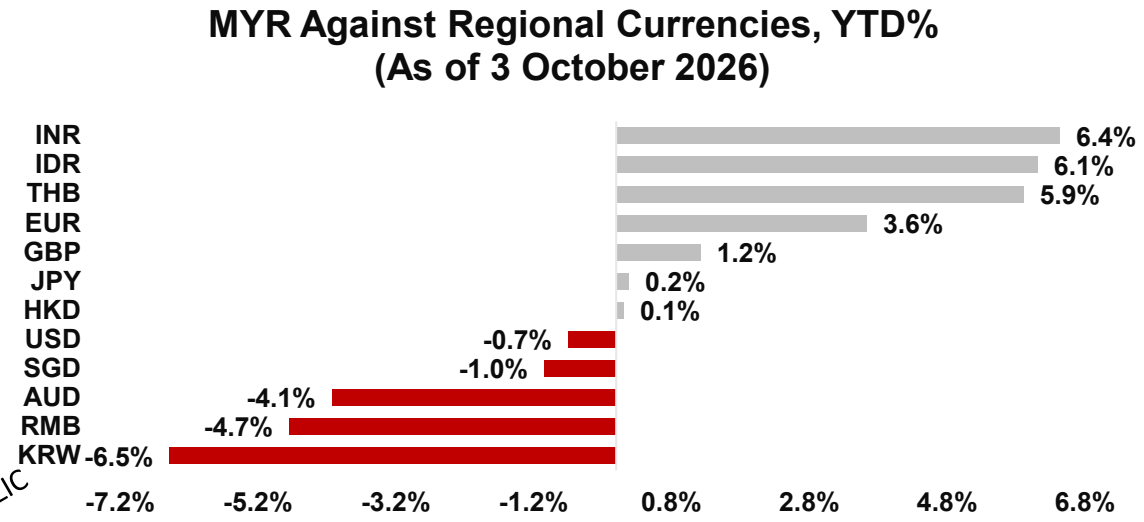
- U.S. Treasury (UST) yields rose across the curve by 2bps to 11bps during the week ended 2 October, reflecting expectations that U.S. interest rates will remain higher for longer amid persistent inflationary pressures and elevated energy prices.
- The increase was more pronounced at the longer end of the curve, resulting in further yield-curve steepening. This suggests investors are demanding higher term premia to compensate for inflation uncertainty, elevated Treasury supply and the prospect of restrictive monetary policy remaining in place for an extended period.
- Meanwhile, Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields also moved higher, increasing by 12bps to 21bps across most tenors. The sharper rise relative to USTs likely reflected domestic repricing ahead of Budget 2027, alongside spillover effects from the global bond sell-off and expectations of a sustained higher-rate environment globally.
- The 10-year MGS/UST yield spread widened further negative territory to -125bps from -121bps in the previous week.

PUBLIC

FX MARKET: RINGGIT DEPRECIATED WHILE THE USD TOUCHED THE HIGHEST LEVEL THIS YEAR AT 102.21

BANK ISLAM





PUBLIC

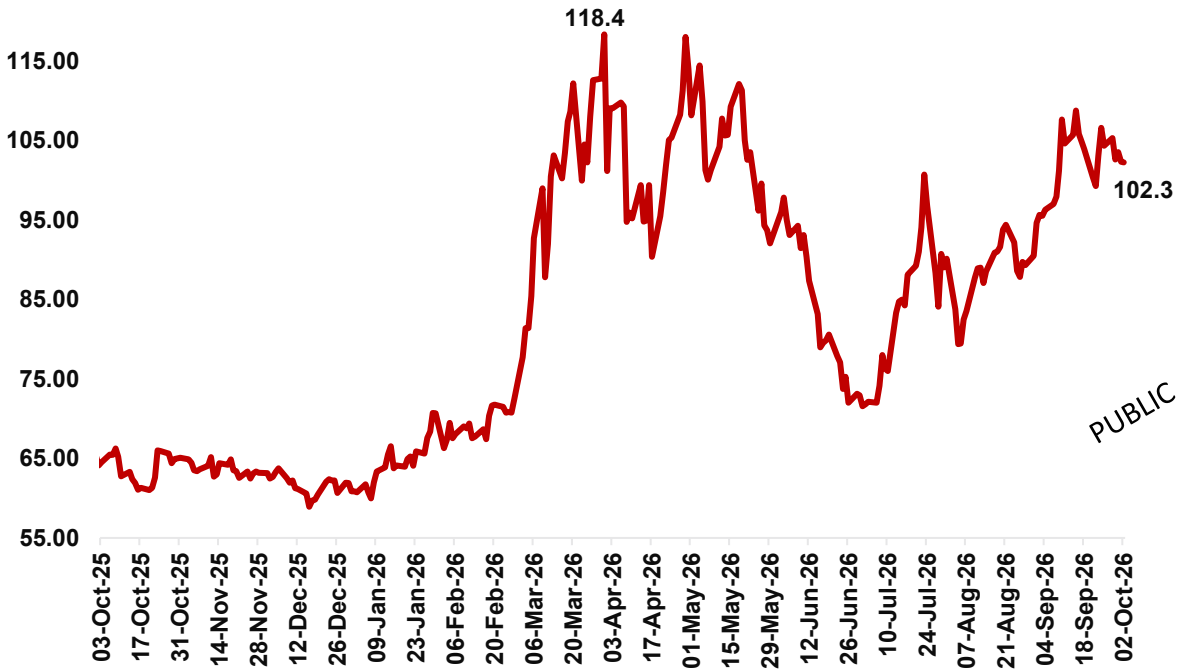
Sources: BNM, Federal Reserve Board (Fed), CEIC Data

- The Ringgit declined by 0.2% w-o-w against the USD for the week ending 2 October, pressured by a broad-based USD strength. In contrast, the USD index strengthened by 1.0% w-o-w following a sharp rise in the 10-year U.S. Treasury yield, triggering a broad-based repricing across asset classes.
- Notably, the 2Q2026 U.S. GDP growth was revised higher to 2.2% q-o-q from the initial estimate of 1.5%, while the first quarter growth was upgraded to 2.5%, compared to 2.1% previously. The upward revisions suggested that domestic activity is more resilient than expected, alleviating concerns of a sharp slowdown amid a more challenging external environment..
- Meanwhile, U.S. Personal Consumption Expenditure (PCE) inflation came in softer-than-expected. The headline PCE inflation rose by 0.3% m-o-m (Consensus: 0.4%), while the core measure edged higher by 0.2% (Consensus: 0.3%), presenting the clearest challenge against the October Fed-hike expectations.
- Nevertheless, despite weighing on expectations for an imminent rate hike, the Fed's policy tightening trajectory remained intact. Coupled with the resilient economic growth, this pushed the benchmark 10-year UST yield to 5.34% on Thursday, the highest level since 2002, providing further support to the USD. As such, the USD index briefly broke above the key 102.0 psychological level while the USD/MYR pair faced renewed upward pressure, closing the week at 4.0845.

COMMODITY: BRENT REMAINED ABOVE USD100 DESPITE SOME RECOVERY IN MIDDLE EAST SUPPLY

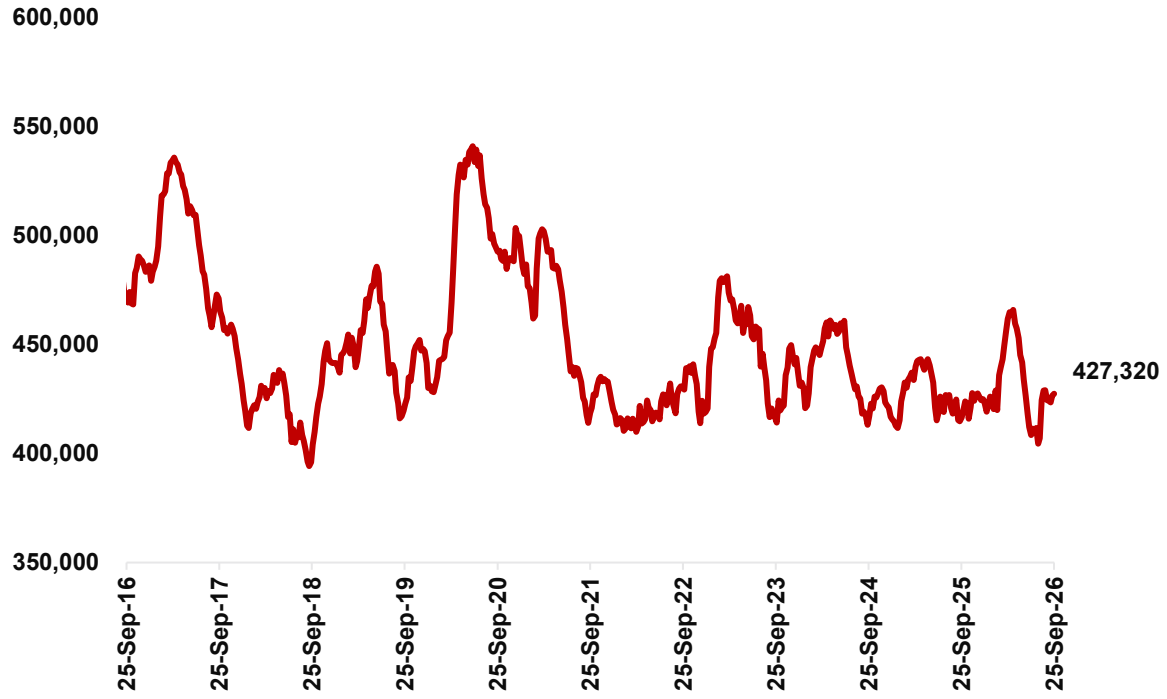
BANK ISLAM

Brent Crude in USD per barrel



PUBLIC

U.S. Crude Oil Inventory, '000 barrel - EIA



Sources: Bloomberg, Energy Information Administration (EIA)

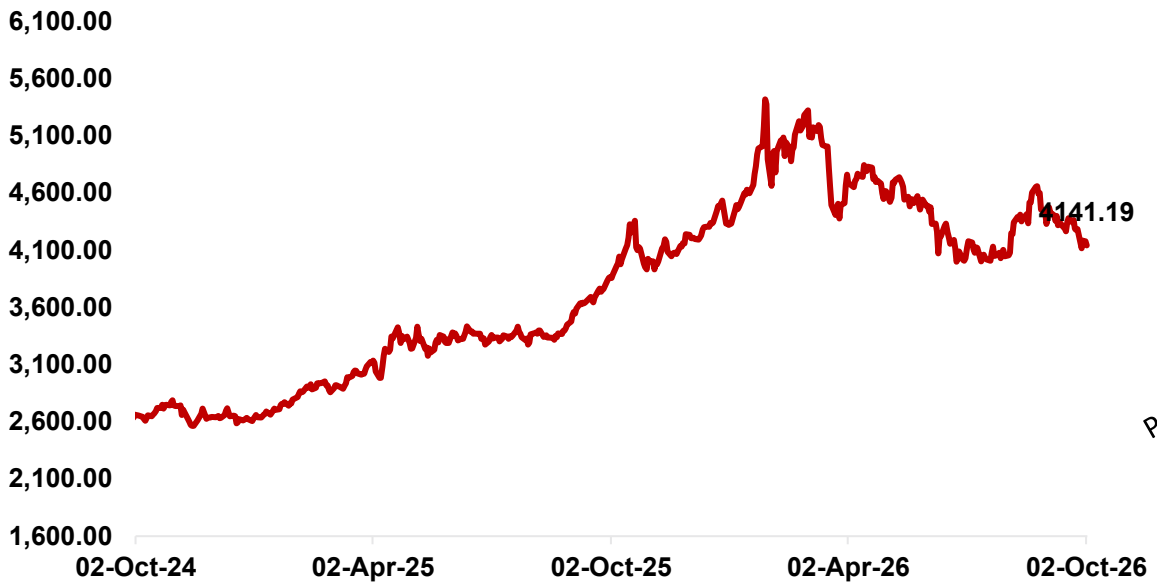
- Brent crude closed the week at USD102.59 per barrel, 2.0% lower than the previous week, as concerns over supply shortages eased. The decline was driven by evidence of recovering crude export flows from the Middle East, with Saudi Arabia and other Gulf producers restoring part of their shipments.
- However, the geopolitical risk premium has not disappeared. The possibility of renewed U.S.-Iran tensions, military deployments around the Gulf and uncertainty over the Strait of Hormuz continue to put a floor under prices. China's decision to restrict refined-product exports is also important because it suggests Beijing is prioritising domestic fuel security amid uncertainty over global supply.
- U.S. crude oil inventories increased by 0.9 million barrels to 427.3 million for the week ending September 25.

PUBLIC

COMMODITY: GOLD PRICE WAS UNDER PRESSURE AS INVESTORS REMAINED BULLISH ON USD

BANK ISLAM

Gold in USD per ounce



U.S. Dollar Index (DXY)



PUBLIC

Sources: Bloomberg, CEIC Data

- Gold (XAU) price struggled to establish a clear directional bias last week as investor focus remained centered on external developments and USD dynamics, limiting upside potential for the XAU.
- From a technical standpoint, the XAU/USD currency pair traded range-bound within 4,110.0-4,190 during the week, before closing at 4,141.19. On a weekly basis, the XAU declined by 3.4%.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- In the U.S., the release of the September FOMC minutes on Thursday will be the key event for financial markets, as investors look for further clues on the Fed's policy outlook. Although the Federal Reserve recently raised interest rates by 25bps, softer-than-expected labour market data have reduced expectations of another rate hike in the near term. September nonfarm payrolls increased by only 29,000, significantly below the consensus forecast of 89,000, leading markets to scale back the likelihood of an October rate increase. According to the CME FedWatch Tool, the probability of an additional 25bps hike currently stands at around 22.1%. The minutes should therefore provide clues on how concerned policymakers are about the renewed energy-driven inflation shock versus signs of labour-market cooling. On Monday, the ISM Services PMI will also be important, with the market looking for whether services activity remains resilient despite higher energy and financing costs.

- China will be closely watched when mainland markets reopen after the Golden Week holiday, particularly following recent policy signals from Beijing. At a State Council meeting on 28 September, policymakers pledged to step up counter-cyclical macroeconomic support and introduce additional measures to bolster the property sector, consumption and investment. Investors will assess whether the improvement in September manufacturing activity can be sustained and whether the latest policy measures translate into stronger domestic demand and broader economic momentum. Japan, meanwhile, will focus on Bank of Japan (BOJ) Governor Ueda's speech on 6 October and the BOJ's regional economic report due later in the week. Japanese wage data, household spending and current-account figures will also help determine whether domestic demand remains strong enough to justify further BOJ tightening.

PUBLIC

- For ASEAN, the data calendar is relatively light, with the Philippines' September CPI (6 October) and Malaysia's August Industrial Production Index (IPI) (9 October) among the key releases. Malaysia's IPI will be closely watched for indications on whether manufacturing activity remains resilient amid robust regional semiconductor demand and rising energy costs. This comes against the backdrop of mixed regional manufacturing survey results in September, with Indonesia and Vietnam remaining in expansion territory, while Malaysia and the Philippines recorded contractions. As such, the IPI data will provide a clearer assessment of whether the weakness in Malaysia's September PMI was temporary or indicative of softer industrial momentum heading into 4Q26. In addition, market attention will be focused on the tabling of Malaysia's Budget 2027 on Friday, which is expected to provide greater clarity on the government's policy priorities, fiscal direction and key economic initiatives going forward.

BANK ISLAM

THANK YOU