BANK ISLAM

WEEKLY ECONOMIC UPDATE

7 SEPTEMBER 2026

ECONOMIC RESEARCH

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WEEKLY HIGHLIGHT: MARKETS ARE INCREASINGLY PRICING IN THE LIKELIHOOD OF A SEPTMBER ECB HIKE, SUPPORTED BY HOTTER INFLATION

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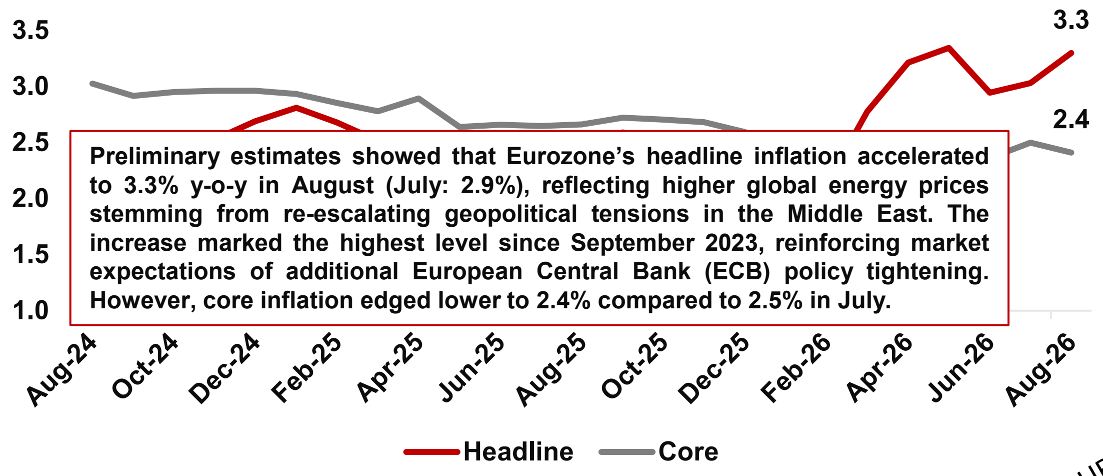
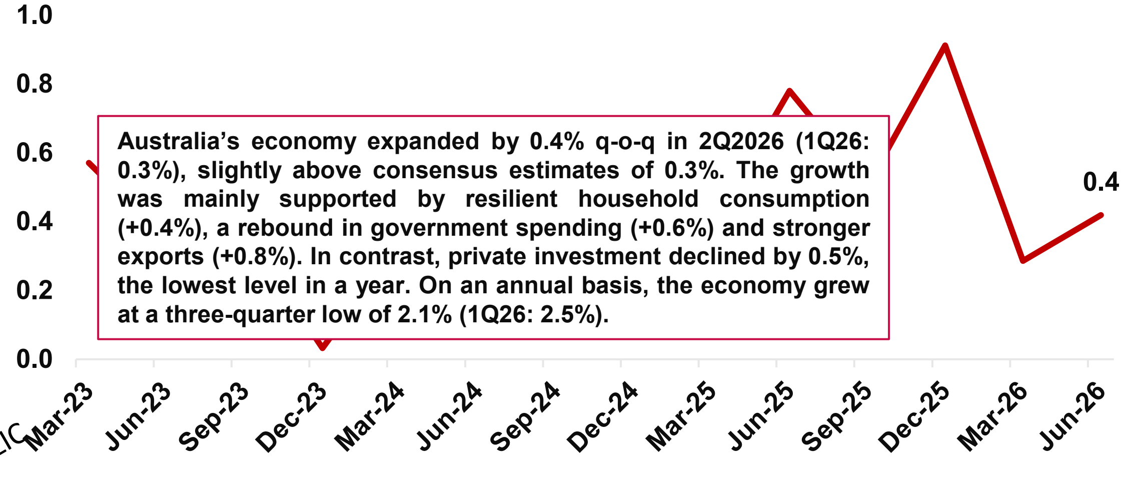
GLOBAL

Euro Area - Consumer Price Index (CPI), y-o-y%



Preliminary estimates showed that Eurozone's headline inflation accelerated to 3.3% y-o-y in August (July: 2.9%), reflecting higher global energy prices stemming from re-escalating geopolitical tensions in the Middle East. The increase marked the highest level since September 2023, reinforcing market expectations of additional European Central Bank (ECB) policy tightening. However, core inflation edged lower to 2.4% compared to 2.5% in July.

Australia - Real GDP, q-o-q%

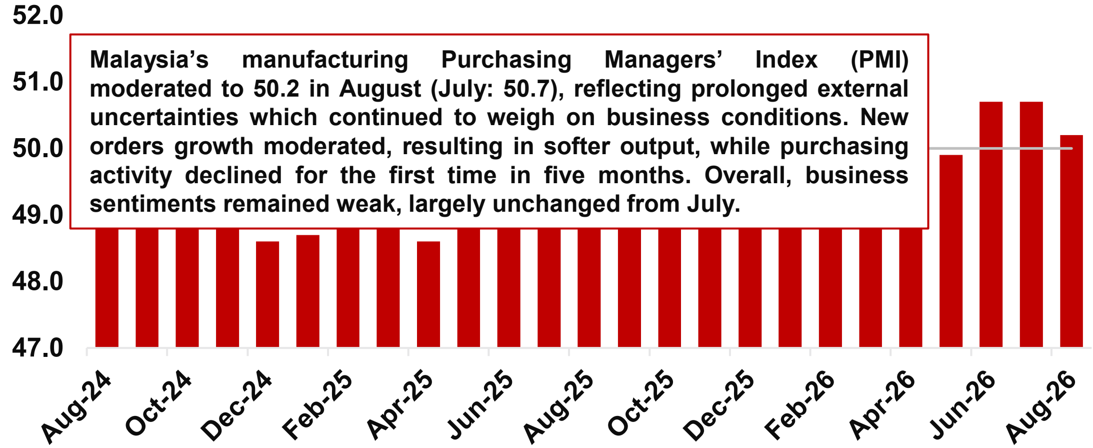


Australia's economy expanded by 0.4% q-o-q in 2Q2026 (1Q26: 0.3%), slightly above consensus estimates of 0.3%. The growth was mainly supported by resilient household consumption (+0.4%), a rebound in government spending (+0.6%) and stronger exports (+0.8%). In contrast, private investment declined by 0.5%, the lowest level in a year. On an annual basis, the economy grew at a three-quarter low of 2.1% (1Q26: 2.5%).

PUBLIC

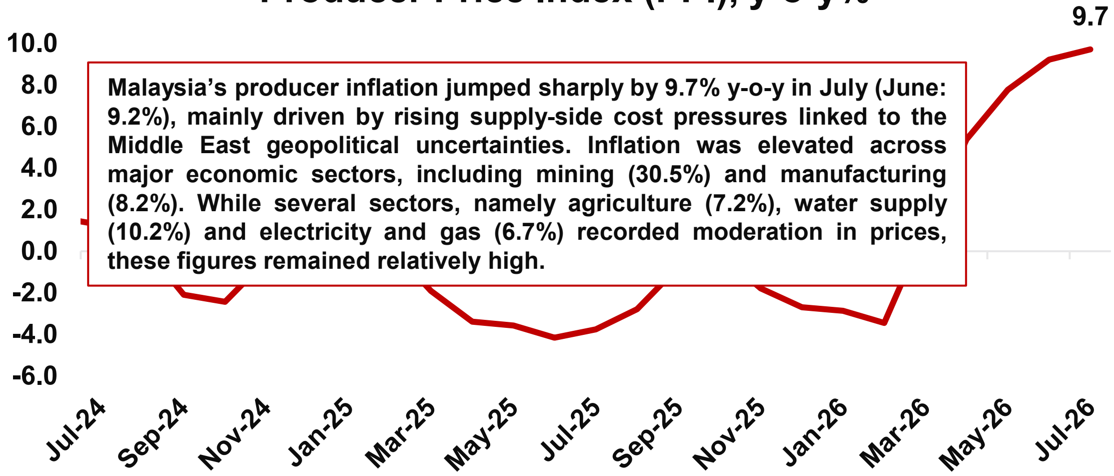
DOMESTIC

Malaysia - Manufacturing PMI s.a.



Malaysia's manufacturing Purchasing Managers' Index (PMI) moderated to 50.2 in August (July: 50.7), reflecting prolonged external uncertainties which continued to weigh on business conditions. New orders growth moderated, resulting in softer output, while purchasing activity declined for the first time in five months. Overall, business sentiments remained weak, largely unchanged from July.

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



Malaysia's producer inflation jumped sharply by 9.7% y-o-y in July (June: 9.2%), mainly driven by rising supply-side cost pressures linked to the Middle East geopolitical uncertainties. Inflation was elevated across major economic sectors, including mining (30.5%) and manufacturing (8.2%). While several sectors, namely agriculture (7.2%), water supply (10.2%) and electricity and gas (6.7%) recorded moderation in prices, these figures remained relatively high.

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

ECONOMIC RESEARCH

U.S. WEEKLY HIGHLIGHT: EMPLOYMENT GROWTH SURPRISED TO THE UPSIDE, STRENGTHENING THE CASE FOR A SEPTEMBER HIKE

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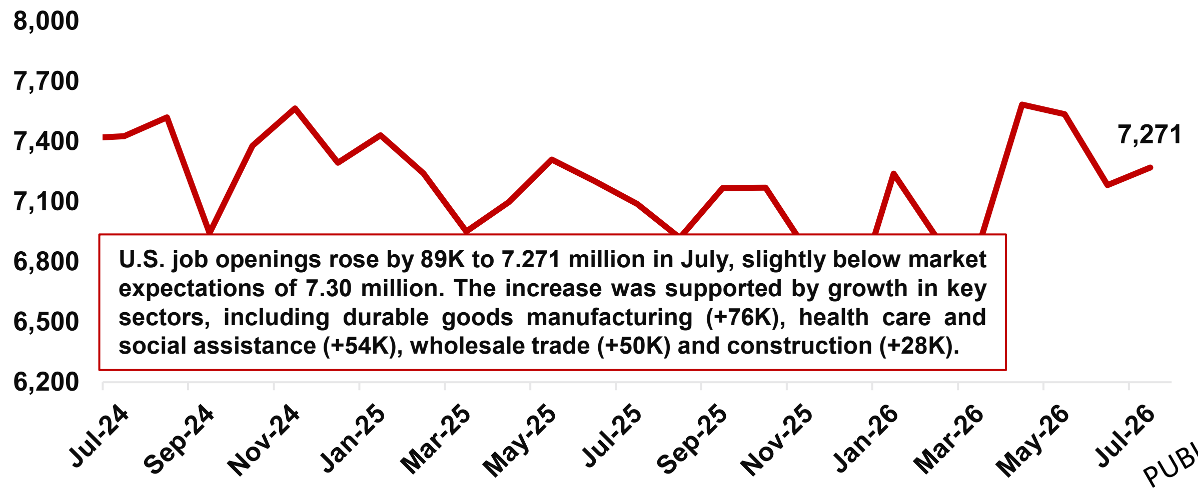
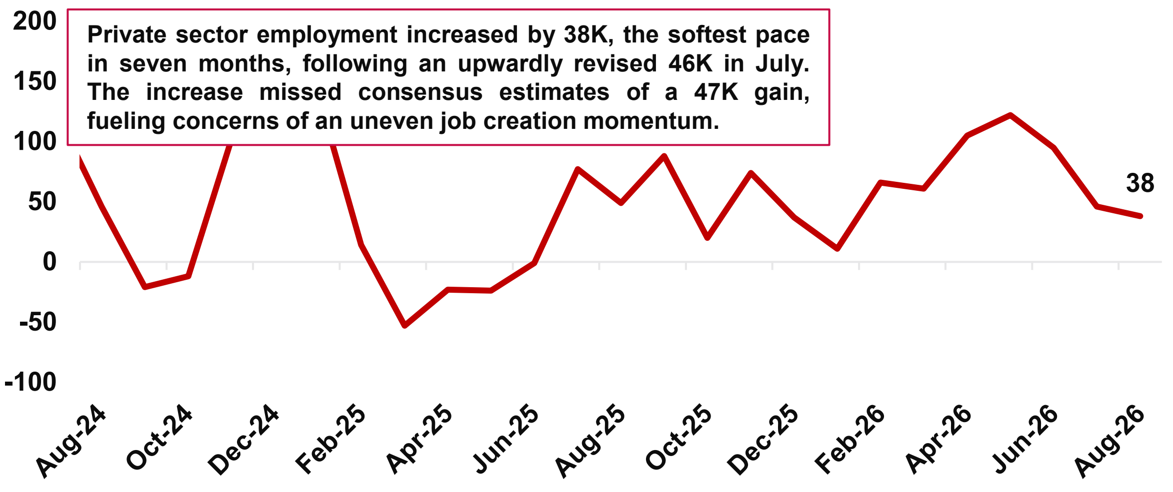
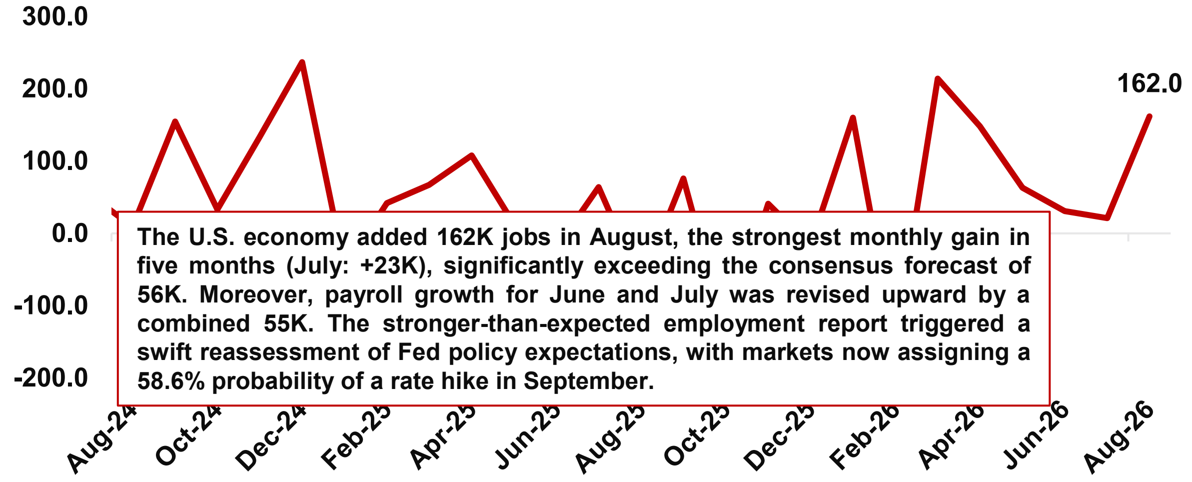
JOLTS Job Openings, '000



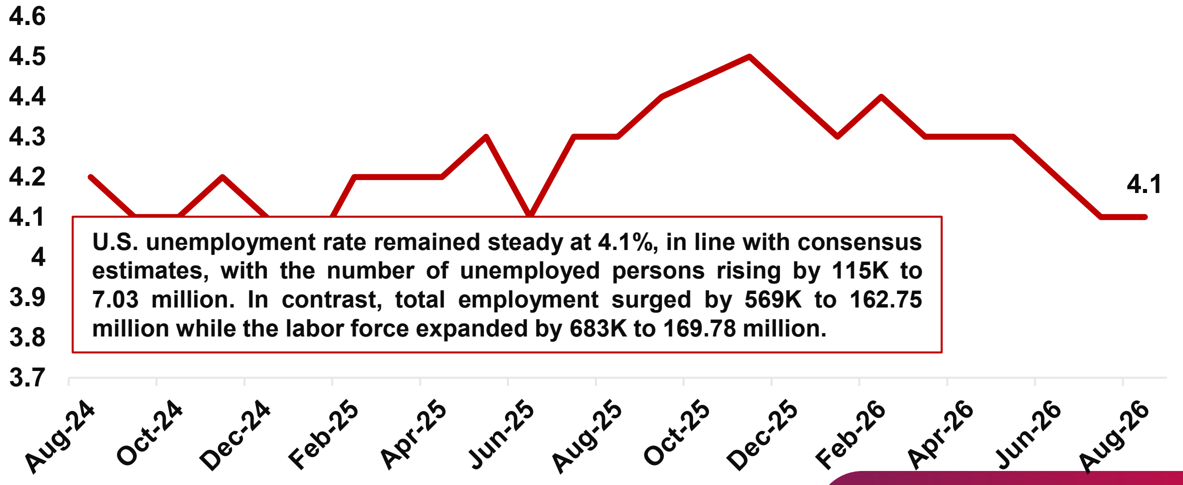
ADP Nonfarm Employment, monthly change ('000)



Nonfarm Payrolls, monthly change '000



Unemployment Rate, %



Sources: U.S. Bureau of Labor Statistics (BLS), CEIC Data

REGIONAL EQUITY: ASEAN EQUITIES LEAD WEEKLY GAINS AS INVESTORS WEIGH FED OUTLOOK AND GROWTH RISKS

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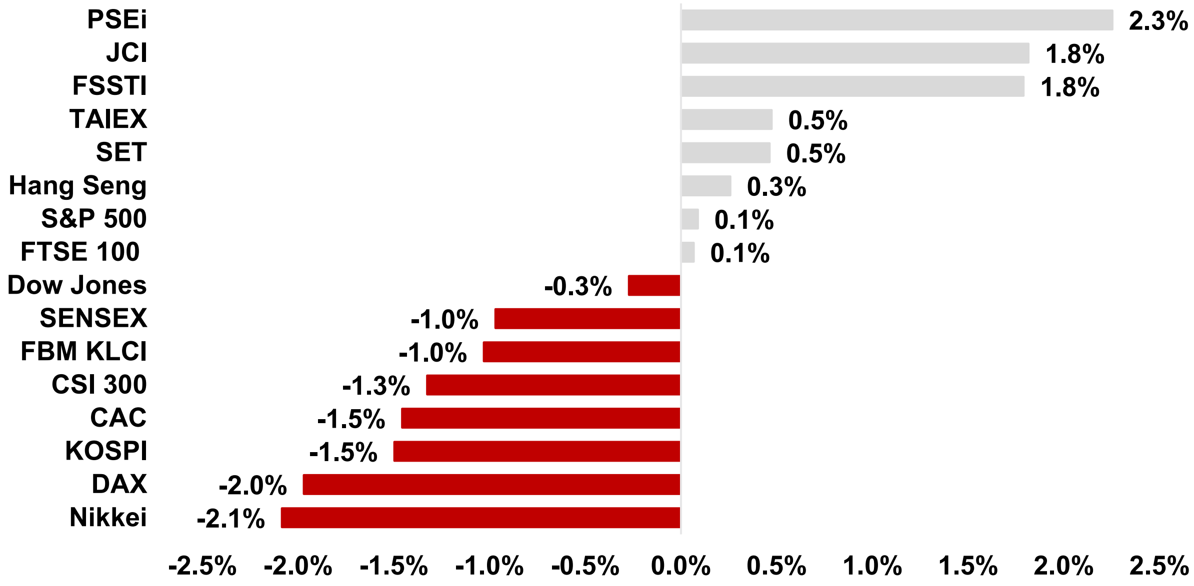
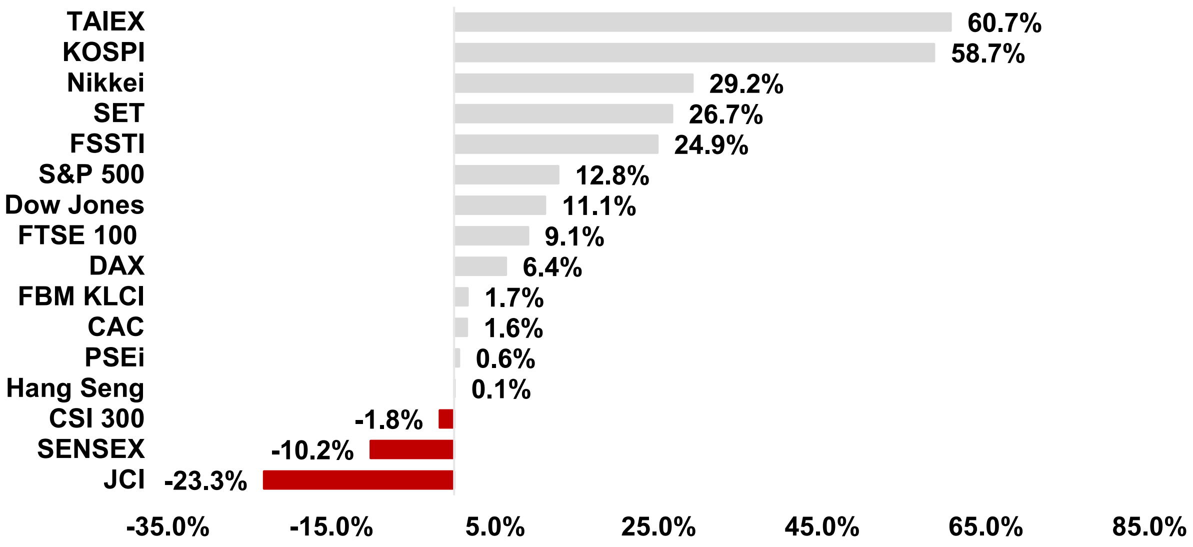
Weekly Gain/Loss of Major Equity Market, w-o-w%



YTD Gain/Loss of Major Equity Markets, %
(As of 04 September 2026)



Sources: Bursa, CEIC Data

- Global equities closed mixed in the week ended September 4, as investors balanced concerns over higher oil prices and inflation against expectations that the Federal Reserve may avoid immediate policy tightening.
- ASEAN markets outperformed, led by the Philippines (+2.3%), Indonesia (+1.8%) and Singapore (+1.8%), supported by improving regional risk sentiment, resilient domestic fundamentals and selective buying in financial and commodity-linked stocks.
- In contrast, Japan (-2.1%), Germany (-2.0%) and South Korea (-1.5%) lagged as rising global bond yields and higher energy prices weighed on export- and technology-oriented markets, while investors remained cautious over the global manufacturing outlook.
- A stronger-than-expected U.S. nonfarm payrolls data reinforced expectations that the U.S. economy remains resilient, although it also increased the possibility of further monetary tightening. Consequently, the S&P 500 edged up 0.1% as economic optimism offset rate concerns, while the Dow Jones slipped 0.3% amid pressure from higher Treasury yields and rising energy prices.

DOMESTIC EQUITY: RENEWED GEOPOLITICAL TENSIONS LED TO A BROAD DECLINE ACROSS BURSA

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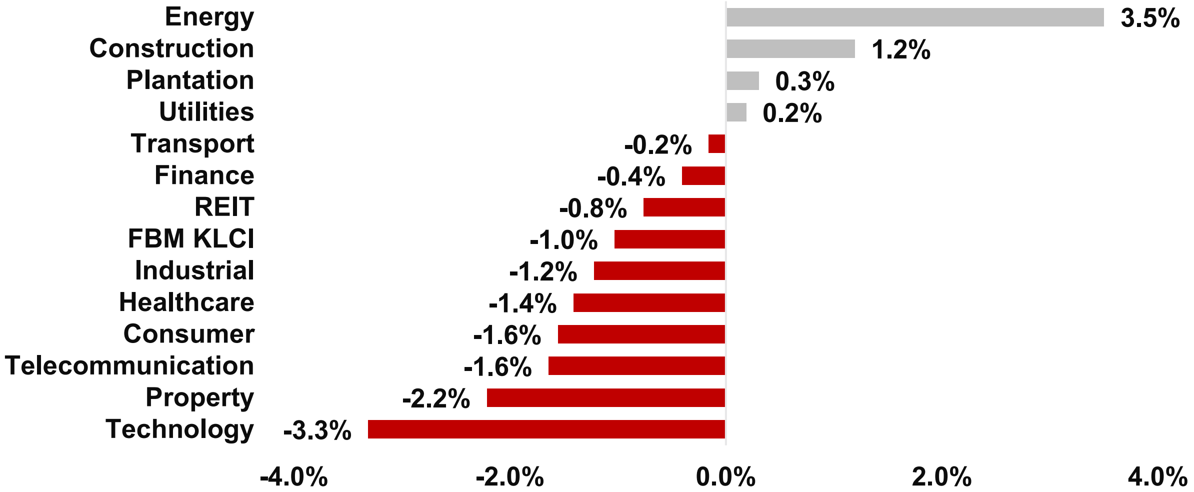
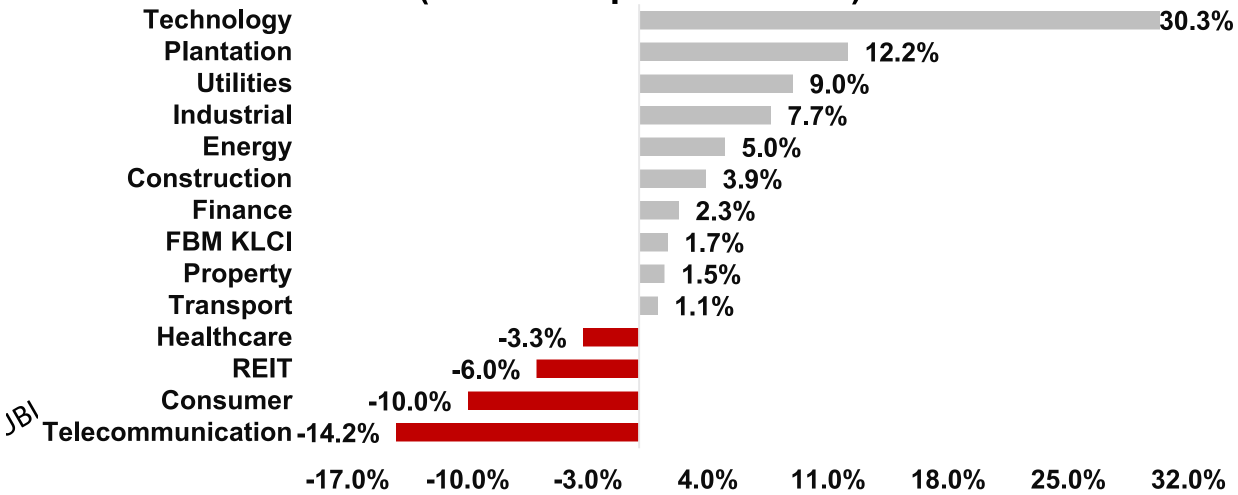
Weekly Bursa Sectoral Performance, w-o-w%



YTD Gain/Loss of Bursa Indices, %
(As of 4 September 2026)



Sources: Bursa, CEIC Data

- The FBM KLCI declined by 1.0% w-o-w for the week ending 4 September amid a shorter trading week. Against a backdrop of limited domestic macroeconomic catalysts, investor sentiments were largely driven by external developments, particularly Middle East geopolitical tensions.
- Notably, tensions between U.S. and Iran re-escalated, triggering a broad risk-off mode across global financial markets which supported a flight towards safe-haven assets and reducing appetite for risk-sensitive equities.
- Additionally, stronger-than-expected U.S. employment data has renewed expectations of additional policy tightening by the Federal Reserve (Fed), increasing the relative appeal of U.S. assets and contributing to the portfolio rebalancing away from emerging market assets.
- Looking closer, most Bursa indices closed in the red, with the Technology index leading the losers (-3.3%), partly weighed by growing concerns surrounding the global AI bubble. This was followed by the Property index, slipping by 2.2% w-o-w.
- In contrast, the Energy index topped the gainers, climbing by 3.5% w-o-w against a backdrop of rising global oil prices, followed by the Construction index (-1.2%).

FIXED INCOME: STRONG U.S. EMPLOYMENT GROWTH FUELS FED HIKE EXPECTATIONS, PUSHING UST YIELDS HIGHER

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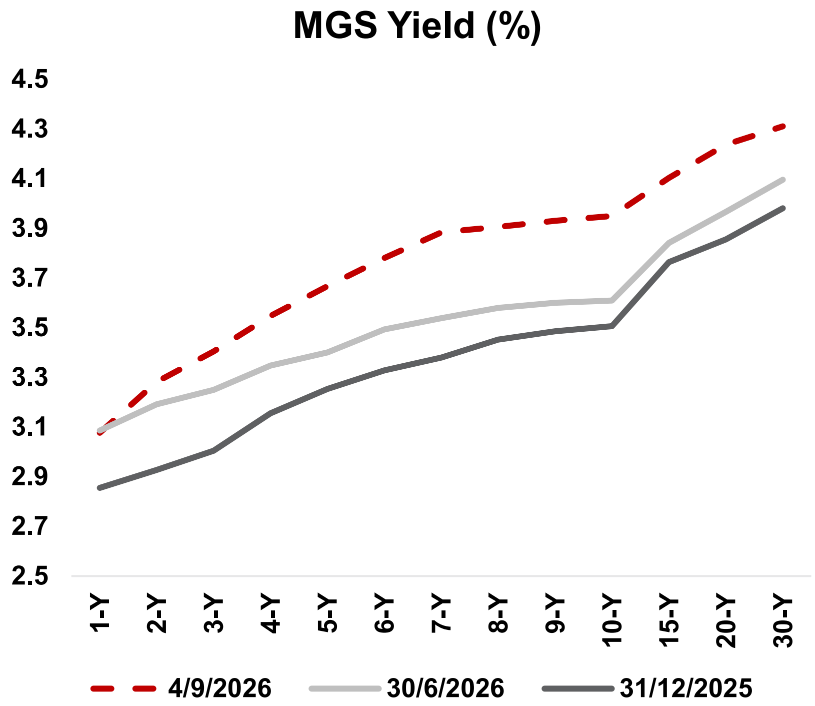
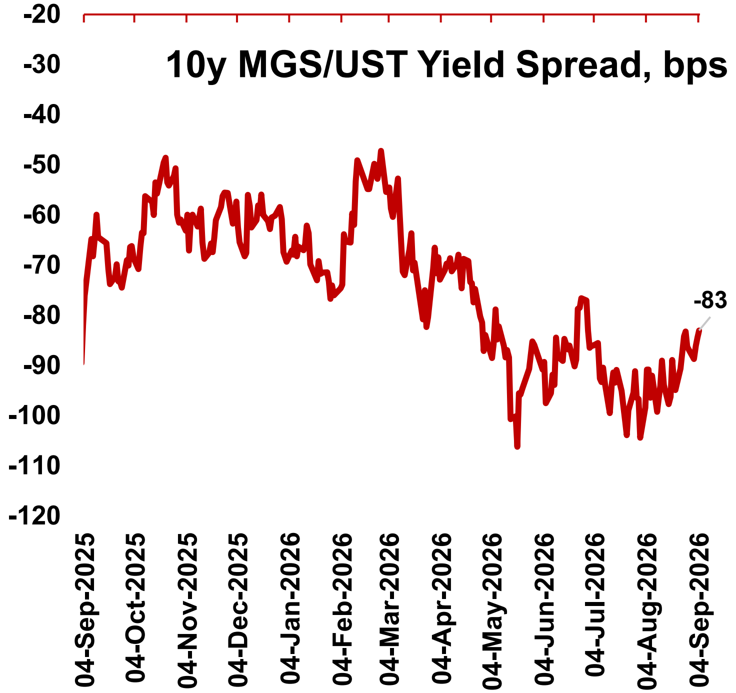
Weekly Changes, basis points (bps)

UST	Yields (%) 28-Jul-26	Yields (%) 4-Sep-26	Change (bps)
3-Y UST	4.31	4.45	14
5-Y UST	4.35	4.54	19
7-Y UST	4.47	4.65	18
10-Y UST	4.61	4.78	17
MGS	**Yields (%) 28-Jul-26**	**Yields (%) 4-Sep-26**	**Change (bps)**
3-Y MGS	3.29	3.41	12
5-Y MGS	3.48	3.67	19
7-Y MGS	3.62	3.88	26
10-Y MGS	3.70	3.95	25
GII	**Yields (%) 28-Jul-26**	**Yields (%) 4-Sep-26**	**Change (bps)**
3-Y GII	3.33	3.42	9
5-Y GII	3.45	3.67	22
7-Y GII	3.59	3.88	29
10-Y GII	3.69	3.95	26

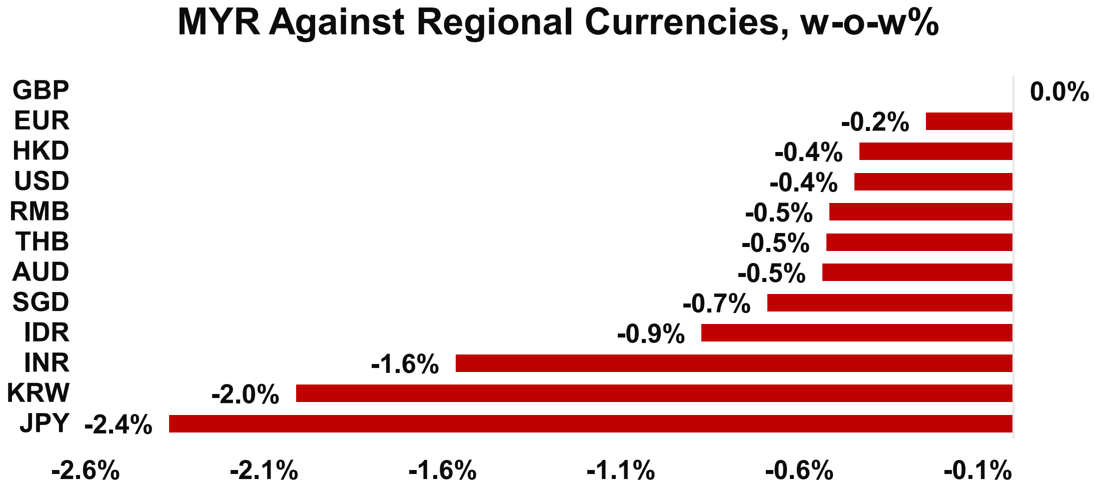
Sources: BNM, Federal Reserve Board

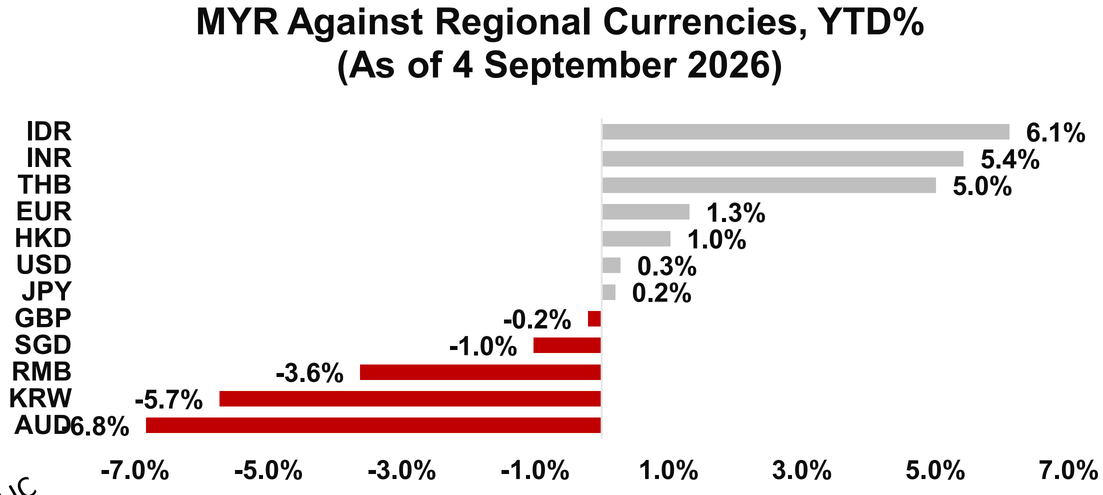




- U.S. Treasury (UST) yields ended the week of 4 September markedly higher, rising by 14-19bps across the curve. The sharp increase was primarily driven by a much stronger-than-expected U.S. employment report released on Friday, which prompted investors to reassess Fed policy expectations and increase bets on a September rate hike. Nonfarm payrolls rose by 162K in August, substantially surpassing the consensus forecast of 56K, while job gains for the previous two months were also revised upward, further highlighting the resilience of the labor market.
- Earlier in the week, bond yields rose sharply amid a surge in oil prices and Fed Chair Warsh’s commitment to bringing inflation under control. The market expectations for further policy tightening have strengthened, with markets now pricing in a nearly 60% likelihood of a 25bps hike in the Federal Open Market Committee (FOMC) meeting this month.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields also ended higher by between +9bps and +29bps.
- The 10y MGS/UST yield spread narrowed in the negative territory at 83bps relative to -86bps in a week before.

FX MARKET: RINGGIT DEPRECIATED DESPITE A WEAKER USD AND BNM'S DECISION TO KEEP OPR UNCHANGED AT 2.75%





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

- The Ringgit depreciated against a basket of major currencies for the week ending 4 September, reflecting the absence of fresh domestic catalysts to support the local note. Against the USD, the Ringgit weakened by 0.4% w-o-w despite the USD index (DXY) declined by 0.5%.
- On the domestic front, Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 2.75% last week, reiterating that the prevailing rate remains consistent with the outlook for price stability and economic growth. This marked the seventh consecutive meeting where the OPR has been left unchanged since September 2025, highlighting that BNM remains comfortable with the current policy stance despite rising pipeline inflation and stronger-than-expected economic activity. However, the policy decision was widely anticipated by markets, offering limited support to the Ringgit.
- Meanwhile, the USD remained largely subdued despite renewed demand for U.S. assets amid a reassessment of Fed policy expectations and renewed Middle East tensions. Tensions between U.S. and Iran re-escalated last week following U.S. military strikes in Iran and retaliatory attacks on U.S. bases across the Gulf region. This led to broad risk-off modes among investors, contributing to the ongoing rotation into safe-haven assets and offering modest support to the USD.
- U.S. non-farm employment data delivered a meaningful upside surprise, with the economy adding 162K jobs in August, well above the consensus estimates of 56K. Additionally, job growth for June and July was revised upwards by a cumulative 55K, signaling that the hiring momentum may be stronger than initially expected. Market reaction was swift, with investors increasingly pricing in the probability of a September rate hike by the Fed.

COMMODITY: OIL EXTENDS WEEKLY GAIN AS U.S.-IRAN ESCALATION REVIVES SUPPLY CONCERNS

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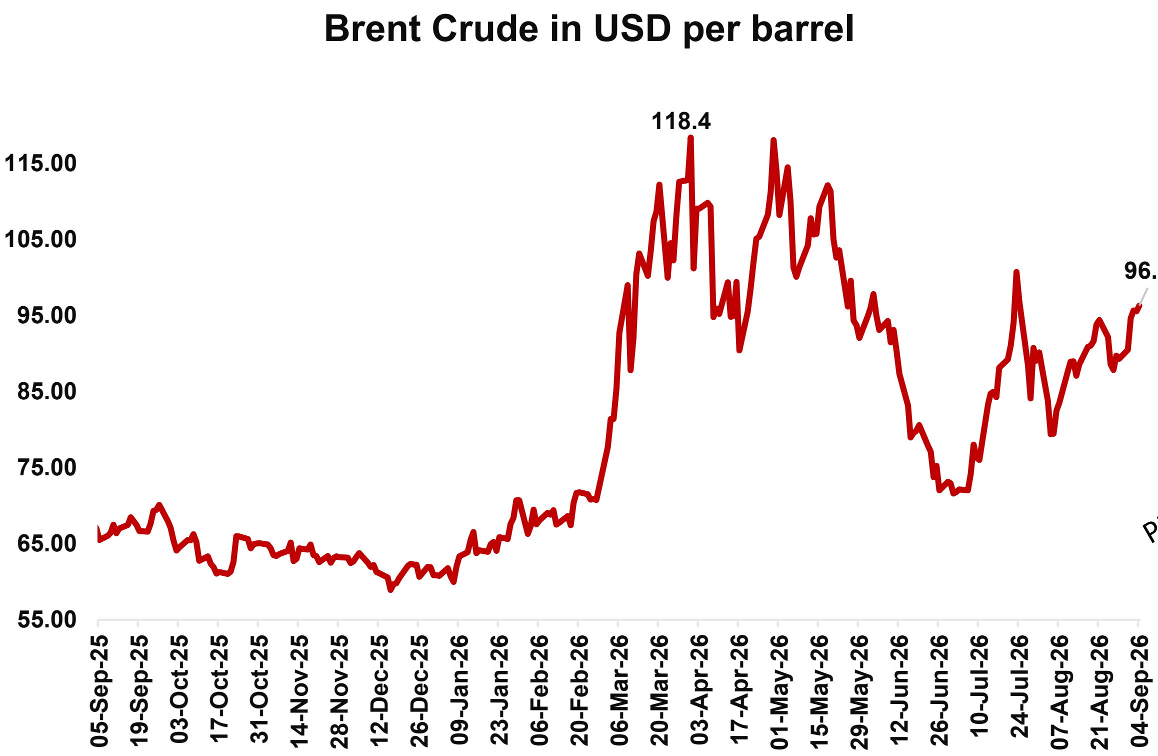

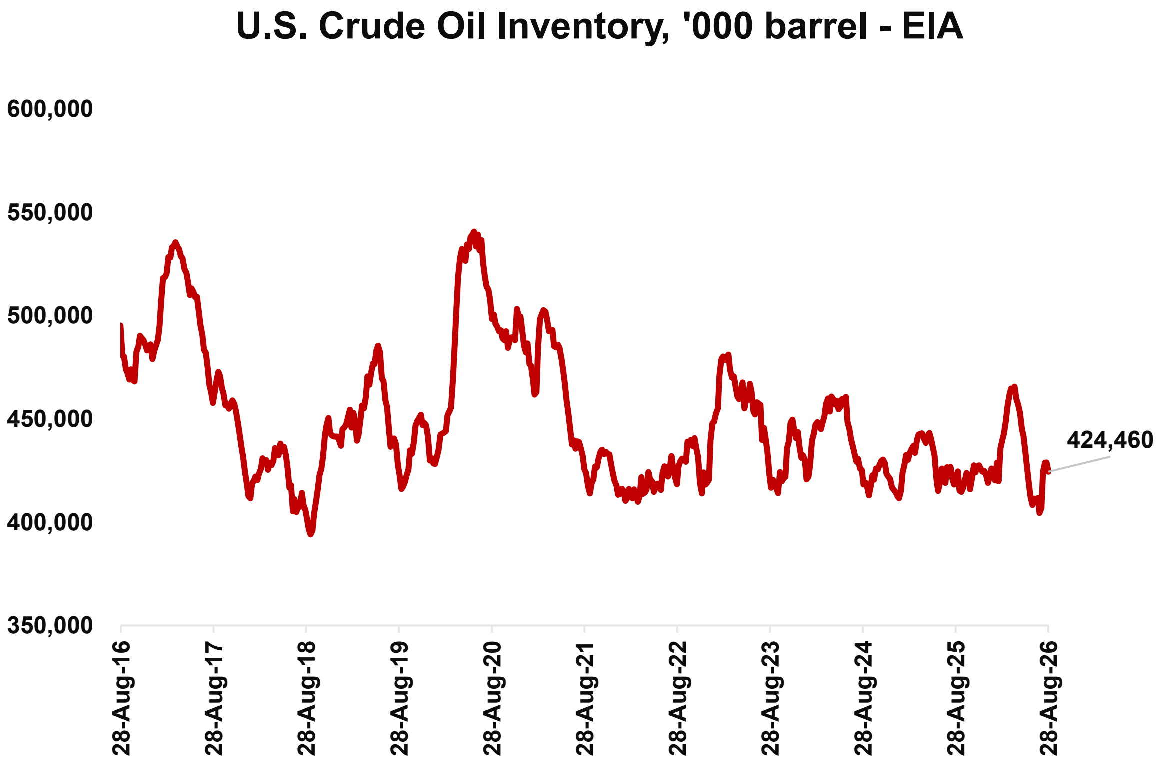

Sources: Bloomberg, Energy Information Administration (EIA)

- Brent oil prices closed the week ending September 4 at US$96.3/barrel, rising sharply by 7.8% w-o-w. Price surged after the U.S. and Iran resumed significant military exchanges, marking the most intense escalation in weeks.
- The renewed conflict raised concerns that physical oil supply disruptions in the Middle East could worsen, particularly if energy infrastructure or shipping vessels become direct targets.
- Despite claims that some oil flows are continuing, shipping traffic through the Strait of Hormuz remains significantly below normal levels. The latest escalation increases the risk of further restrictions to tanker movements, keeping a substantial geopolitical risk premium embedded in oil prices. Additionally, attacks on Russian refining infrastructure have compounded the tightness in global distillate supplies.
- U.S. crude oil inventories declined by 4.5 million barrels to 424.5 million for the week ending August 28.

COMMODITY: GOLD PRICE UNDERPERFORMED DESPITE SAFE-HAVEN DEMAND

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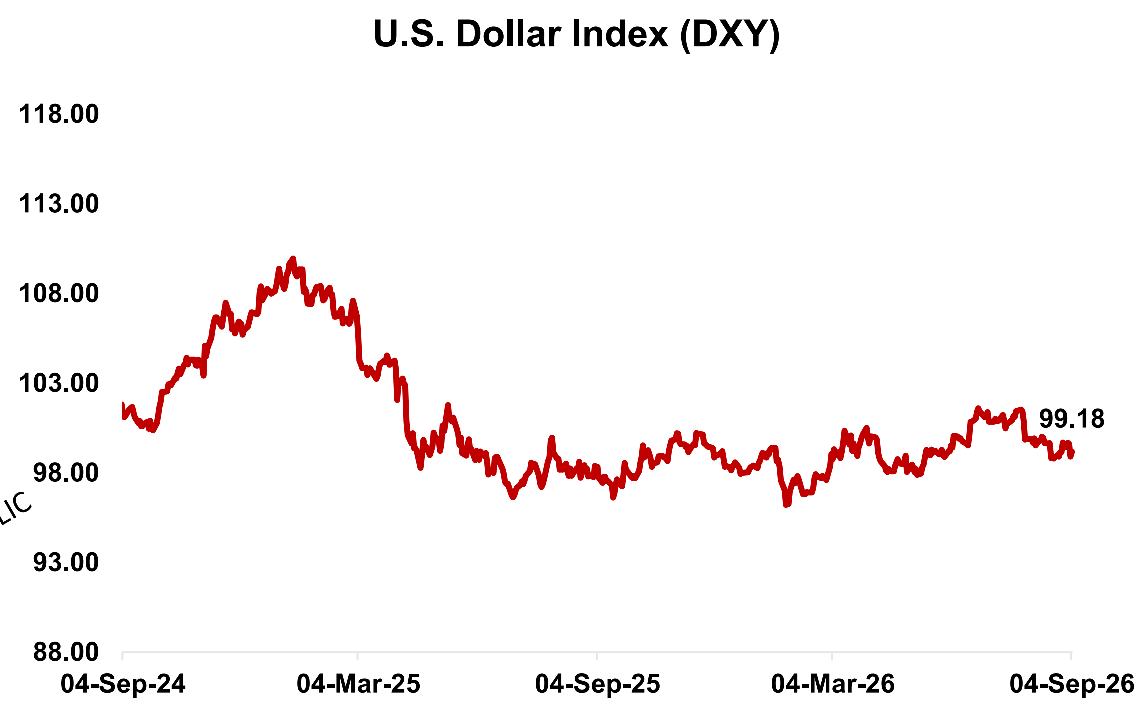

Sources: Bloomberg, CEIC Data

- Gold (XAU) struggled to establish a clear directional bias last week, trading within a relatively limited range between 4,320 and 4,480 as sentiments continued to be influenced by external developments. On a weekly basis, the XAU declined by 0.6%.
- U.S.-Iran tensions intensified earlier in the week as U.S. President Donald Trump escalated his rhetoric, stating that the U.S. is prepared to launch military action if necessary. Subsequent U.S. strikes on Iran were then retaliated with strikes on U.S. military bases across the UAE, Kuwait, Bahrain, Jordan and Iraq. The renewed escalation had dampened risk appetite, resulting in cautious trading activity.
- The rising probability of a September rate increase within a broader policy tightening trajectory had enhanced the relative appeal of U.S. assets, which in turn weighed on non-yielding assets including gold, limiting upside momentum for the XAU.

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WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- The U.S. stock market will enter a shortened trading week following the Labor Day holiday on Monday, with investors shifting their attention firmly towards August inflation data. The main releases will be the Producer Price Index (PPI) on Thursday followed by the Consumer Price Index (CPI) on Friday. These releases come after a stronger-than-expected August labour market report, which has revived concerns that the Federal Reserve may need to maintain a tighter monetary policy stance. Markets are particularly sensitive to whether higher energy costs and recent geopolitical disruptions are beginning to feed into broader consumer prices. A hotter-than-expected CPI could push Treasury yields higher and intensify expectations of a Fed rate hike at the 15–16 September FOMC meeting, potentially pressuring growth. Other releases including consumer credit, weekly jobless claims and the University of Michigan consumer sentiment survey will provide additional clues on household conditions and the resilience of domestic demand.

- Beyond the U.S., the European Central Bank's (ECB) policy meeting on September 10, will be another major event for global financial markets. Markets are widely focused on whether persistent inflationary pressures, particularly from higher energy costs, will prompt the ECB to tighten monetary policy further. The decision is particularly important as global bond markets have already experienced significant selling pressure, pushing borrowing costs higher across major economies. A hawkish ECB outcome could further lift European bond yields and spill over into U.S. and Asian markets, tightening global financial conditions. Investors will also monitor the ECB's guidance on the outlook for inflation and whether policymakers see recent energy shocks as temporary or sufficiently persistent to warrant additional action. The UK will release July GDP, industrial production and manufacturing data on Friday (September 11), offering further insight into the health of the European economy.

- Meanwhile, Asian markets will closely monitor a series of major Chinese economic indicators, particularly August trade data on September 8, and inflation figures on the next day. China's export and import performance will be important in assessing whether external demand remains resilient amid an increasingly uncertain global trade environment. Meanwhile, China's CPI and PPI data will provide further signals on whether domestic demand and pricing conditions are improving or whether deflationary pressures remain entrenched. A weaker-than-expected set of data could reinforce concerns about China's growth momentum and weigh on regional equities, particularly commodity exporters and economies with strong trade exposure to China. Japan will also be in focus with the release of final second-quarter GDP and current account data.

THANK YOU