



WEEKLY ECONOMIC UPDATE

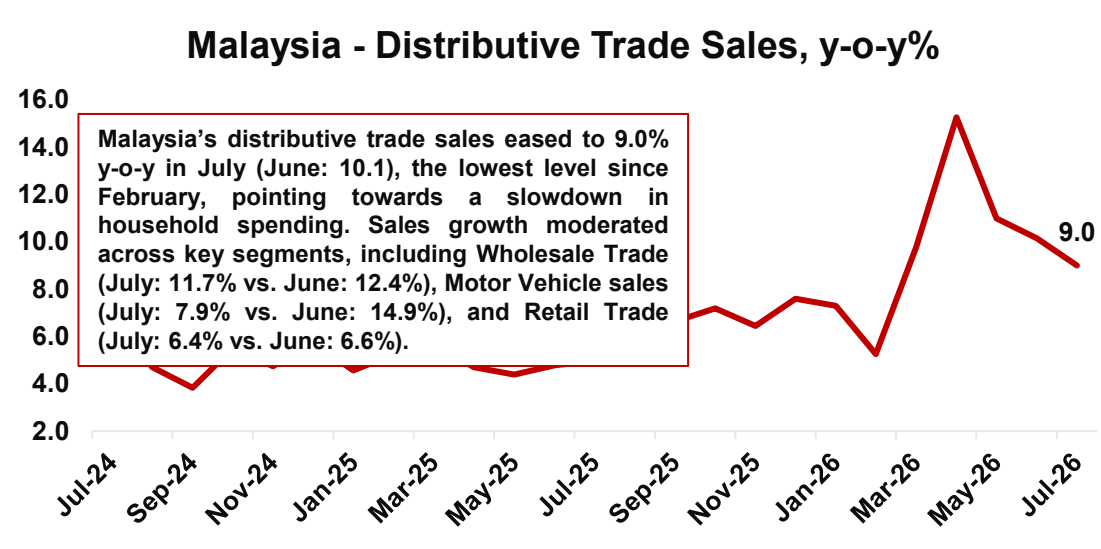
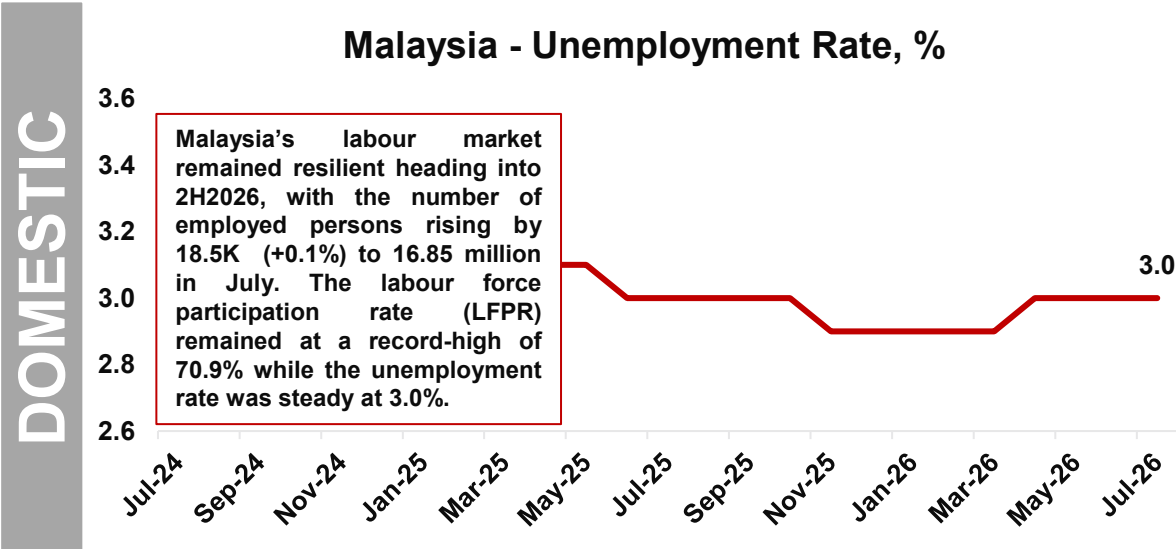
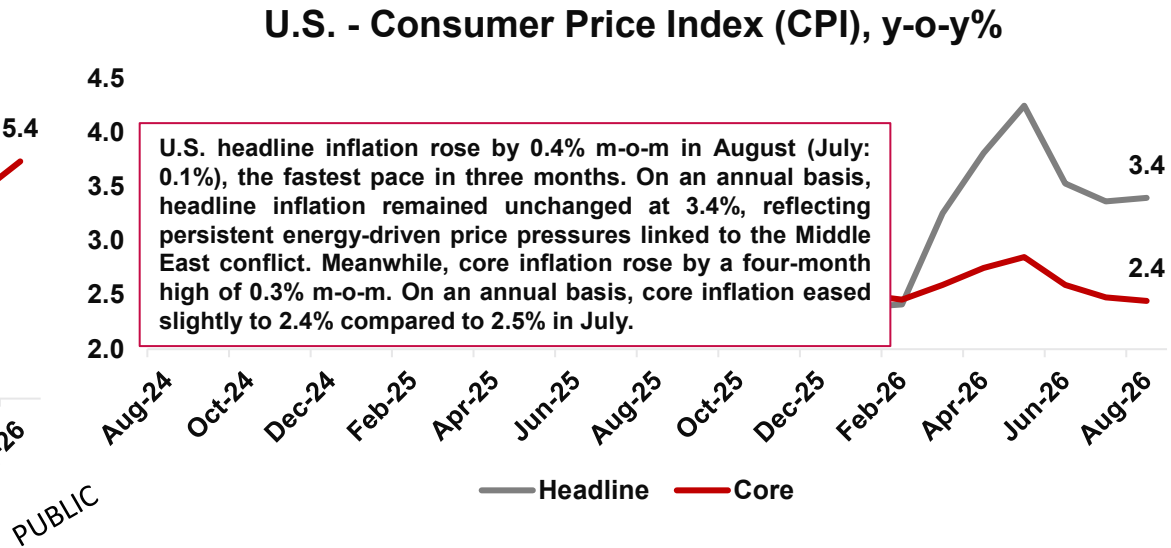
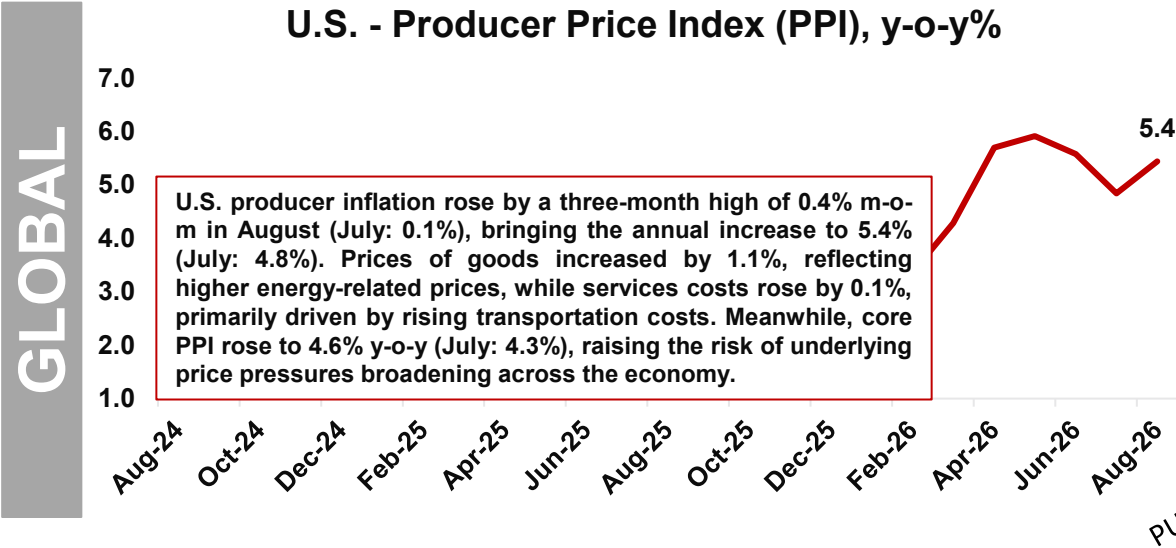
14 SEPTEMBER 2026

ECONOMIC RESEARCH

IMRAN NURGINIAS IBRAHIM
FARAH ZAZREEN ZAINUDIN
KHAYRIN FARZANA FAZLI

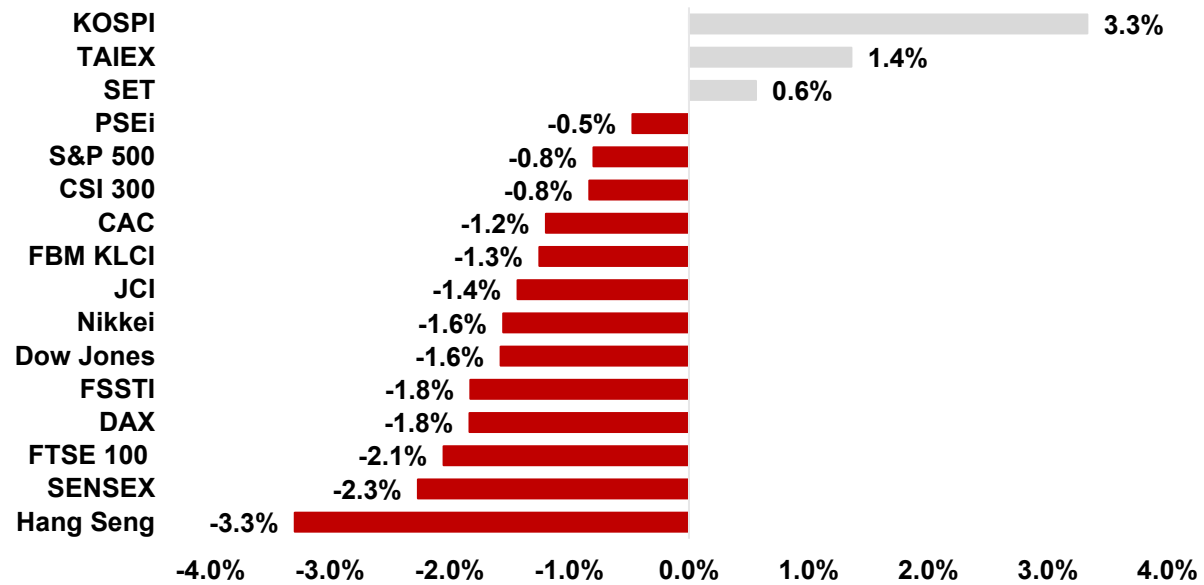
WEEKLY HIGHLIGHT: UNDERLYING PRICE PRESSURES ARE HEATING UP, REINFORCING EXPECTATIONS OF A SEPTEMBER FED RATE HIKE

BANK ISLAM

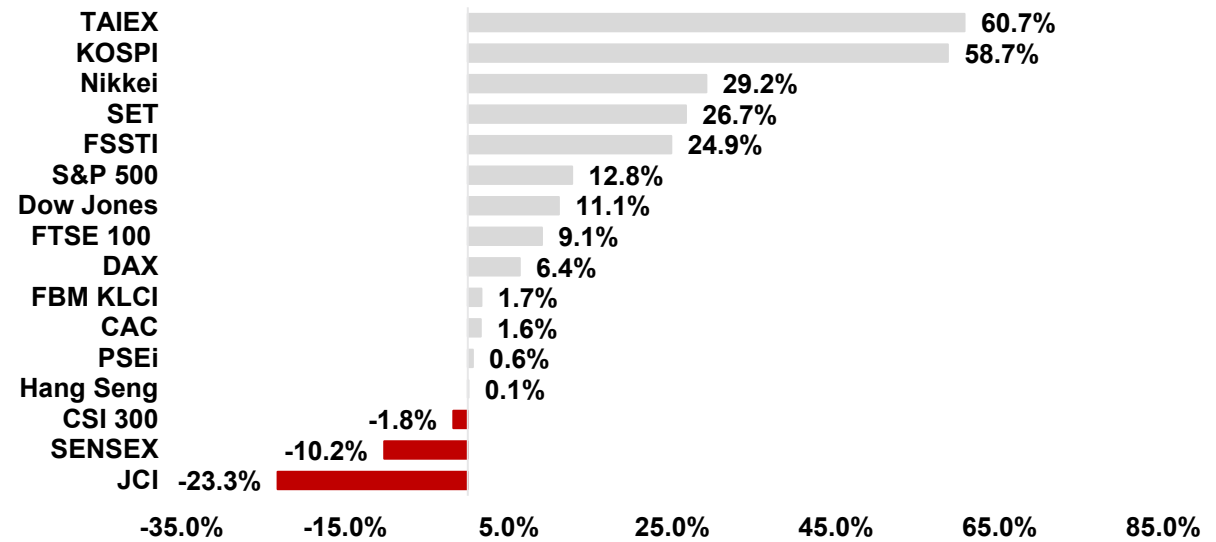


REGIONAL EQUITY: GLOBAL EQUITIES RETREAT AS OIL, BOND YIELDS AND RATE-HIKE FEARS WEIGH ON RISK SENTIMENT

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



YTD Gain/Loss of Major Equity Markets, %
(As of 11 September 2026)

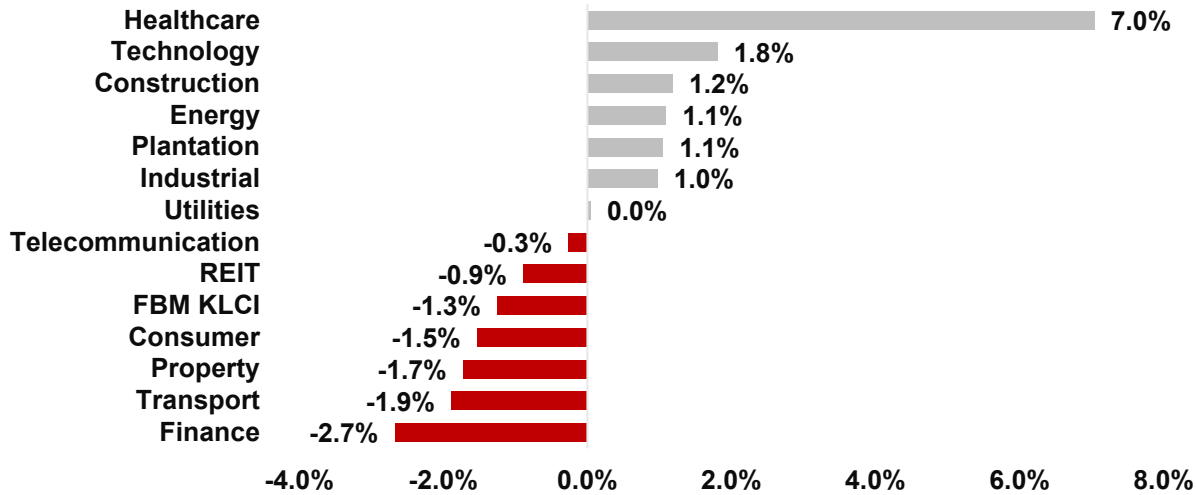


Sources: Bursa, CEIC Data

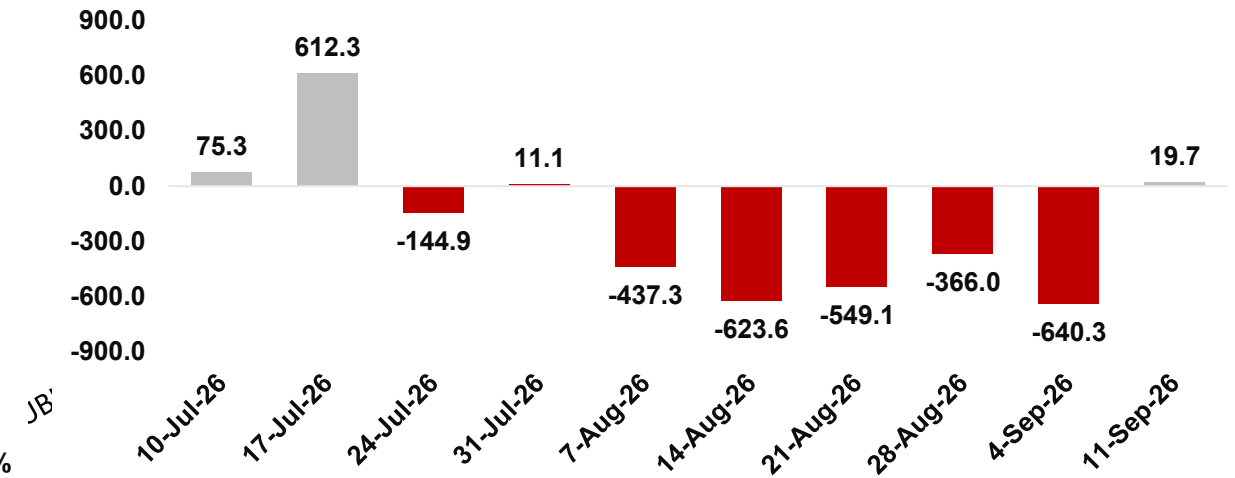
- Global equities mostly ended lower for the week ended 11 September, as the sharp increase in oil prices and bond yields raised concerns about inflation and tighter monetary policy. Asian technology-driven markets outperformed, led by Korea's KOSPI (+3.3%) and Taiwan's TAIEX (+1.4%), meanwhile Thailand's SET increased marginally by 0.6%. In the U.S., the Dow Jones fell 1.6% and S&P 500 declined 0.8% for the week, despite a strong rebound on Friday after U.S. CPI came in broadly in line with expectations.
- Hong Kong's Hang Seng (-3.3%) posted the steepest decline amid continued concerns over China's economic outlook, particularly the ongoing weakness in the property sector and subdued domestic demand. The index also remained vulnerable to rising U.S. Treasury yields and higher-for-longer interest rate expectations given its heavy concentration of technology and China-related stocks.
- The market is entering this week with three major cross-asset risks: the Fed decision, UST yields approaching 5.0%, and Brent crude oil remaining above USD100/barrel. The near-term equity outlook remains cautious, particularly for rate-sensitive growth and consumer sectors, although any stabilisation in oil prices could provide some relief.

DOMESTIC EQUITY: BURSA CLOSED IN THE RED AMID A BROADER ROTATION TOWARDS U.S. ASSETS

Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



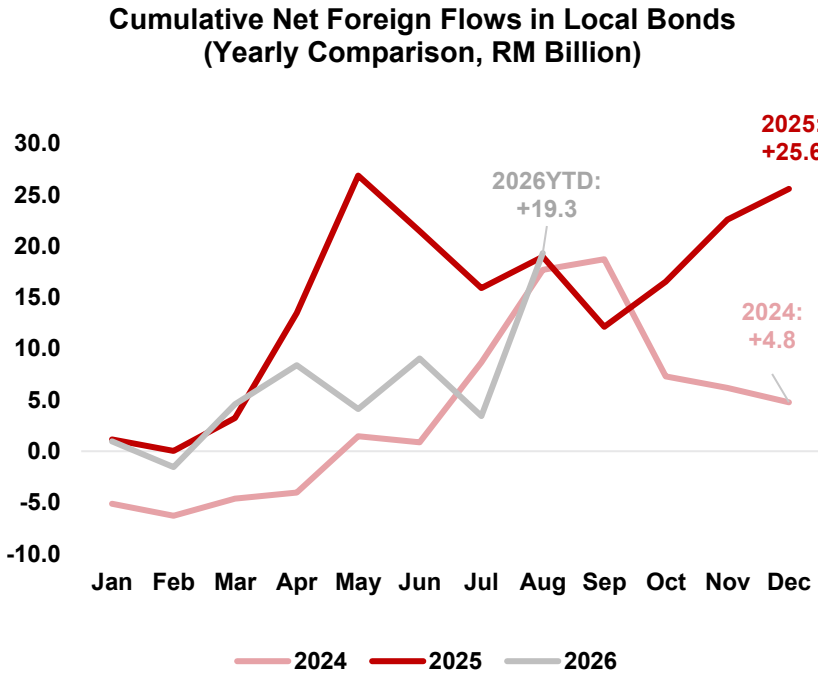
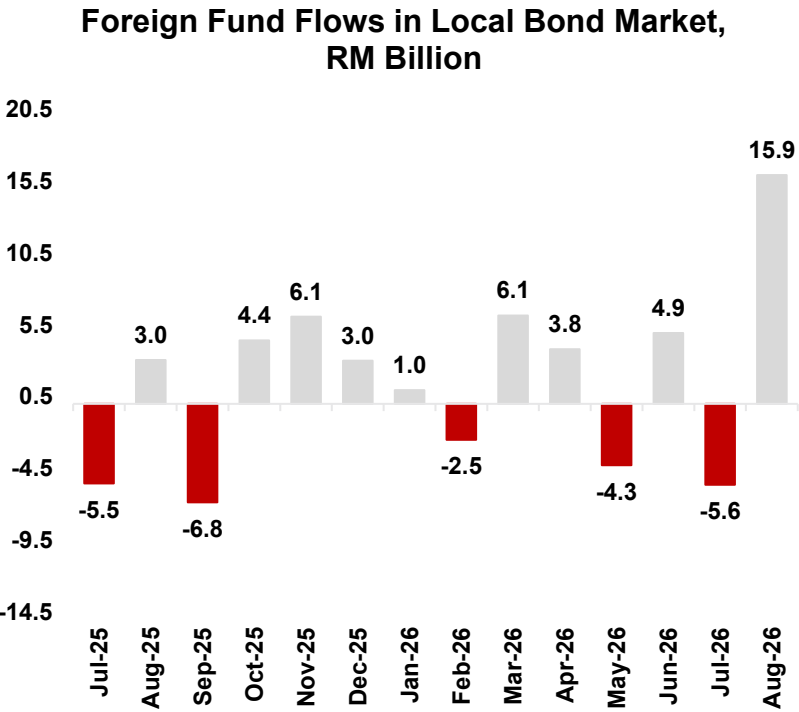
Sources: Bursa, CEIC Data

- The FBM KLCI declined by 1.3% w-o-w for the week ending 11 September, reflecting ongoing capital reallocation as evolving external developments continued to dominate investor sentiments.
- In particular, escalating tensions in the Middle East and a broad reassessment of U.S. Federal Reserve (Fed)'s policy expectations has enhanced the appeal of relatively higher-yielding and safe-haven assets, which primarily underpinned demand for U.S. assets. This in turn has reduced the relative attractiveness of emerging market assets, including Bursa.
- Looking closer, Bursa indices closed mixed as cautious investors maintained defensive positions. The Healthcare index topped the gainers, rising sharply by 7.0% w-o-w to its highest level since June.
- In contrast, the Finance index underperformed as it fell by 2.7%, followed by the Transport and Property indices, which declined by 1.9% and 1.7%, respectively. Notably, the REIT index slipped to a 15-month low as expectations of prolonged global monetary policy tightness reduced the appeal of yield-sensitive assets.
- Foreign investors recorded a net inflow of RM19.7 million last week, reducing the cumulative net outflow in 2026 to RM6.6 billion.

FIXED INCOME: GLOBAL BOND SELL-OFF INTENSIFIES AS OIL SHOCK REVIVES INFLATION AND RATE-HIKE RISKS



Weekly Changes, basis points (bps)			
UST	Yields (%) 4-Sep-26	Yields (%) 11-Sep-26	Change (bps)
3-Y UST	4.45	4.69	24
5-Y UST	4.54	4.78	24
7-Y UST	4.65	4.87	22
10-Y UST	4.78	4.96	18
MGS	Yields (%) 4-Sep-26	Yields (%) 11-Sep-26	Change (bps)
3-Y MGS	3.41	3.55	14
5-Y MGS	3.67	3.86	19
7-Y MGS	3.88	4.12	24
10-Y MGS	3.95	4.18	23
GII	Yields (%) 4-Sep-26	Yields (%) 11-Sep-26	Change (bps)
3-Y GII	3.42	3.56	13
5-Y GII	3.67	3.82	15
7-Y GII	3.88	4.11	23
10-Y GII	3.95	4.17	22

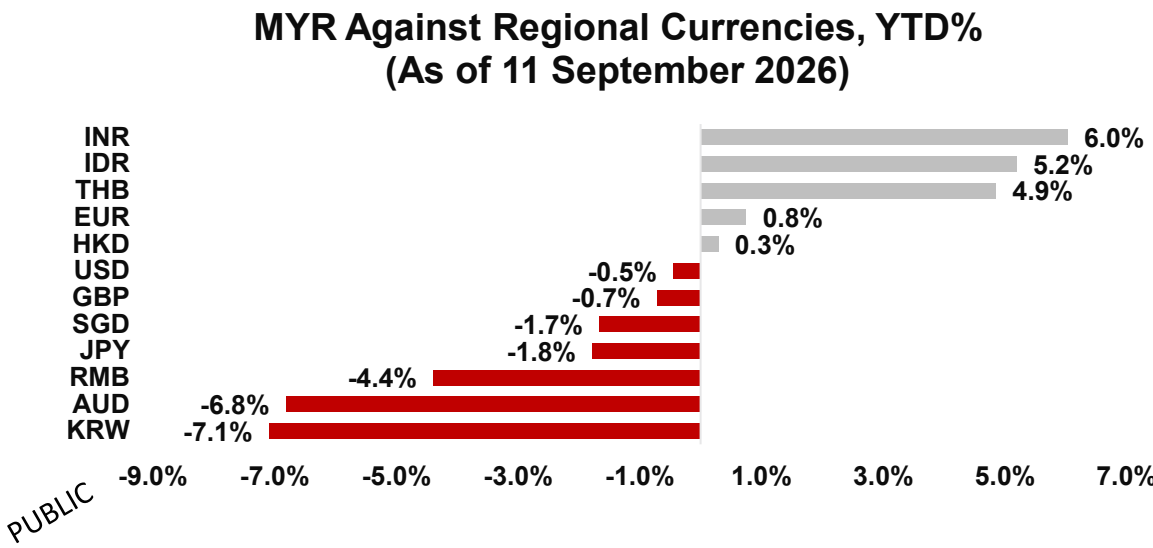
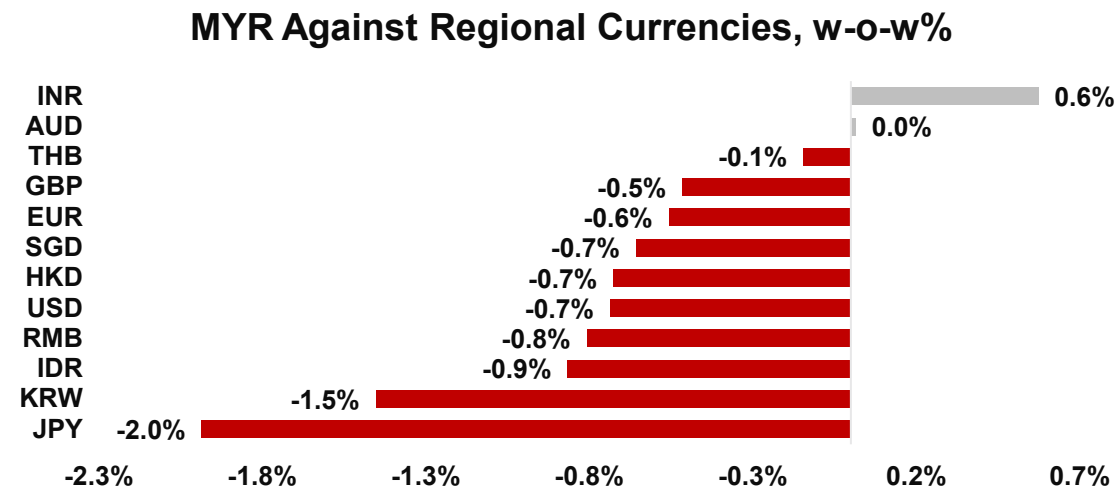


Sources: BNM, Federal Reserve Board

- The fixed-income market remained under pressure last week as higher oil prices revived inflation concerns and increased expectations of tighter monetary policy. U.S. Treasury (UST) yields ended the week of 11 September significantly higher, increasing by 18-24bps, with the U.S. 10-year Treasury yield approaching 5.0% level. The sell-off was driven by the sharp rise in oil prices above USD100/barrel, which raised concerns that higher energy costs could prolong inflation. Additionally, longer-term yields remained elevated due to concerns over large fiscal deficits, heavy Treasury issuance and the possibility of higher-for-longer interest rates.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields also ended higher by between +13bps and +24bps.
- Foreign fund flows in the local bond market recorded a strong net foreign inflow of RM15.9 billion in August (Jul: -RM5.6 billion). Consequently, local govies' foreign shareholdings to total outstanding increased to 20.7% in August (Jul: 20.2%)
- As of the first eight months 2026, the local bond market recorded the cumulative net foreign inflows of RM19.3 billion, slightly higher than the inflows of RM9.0 billion in the same period last year.

FX MARKET: RINGGIT WEAKENED AS INVESTORS INCREASINGLY PRICE IN THE LIKELIHOOD OF A FED RATE INCREASE

BANK ISLAM

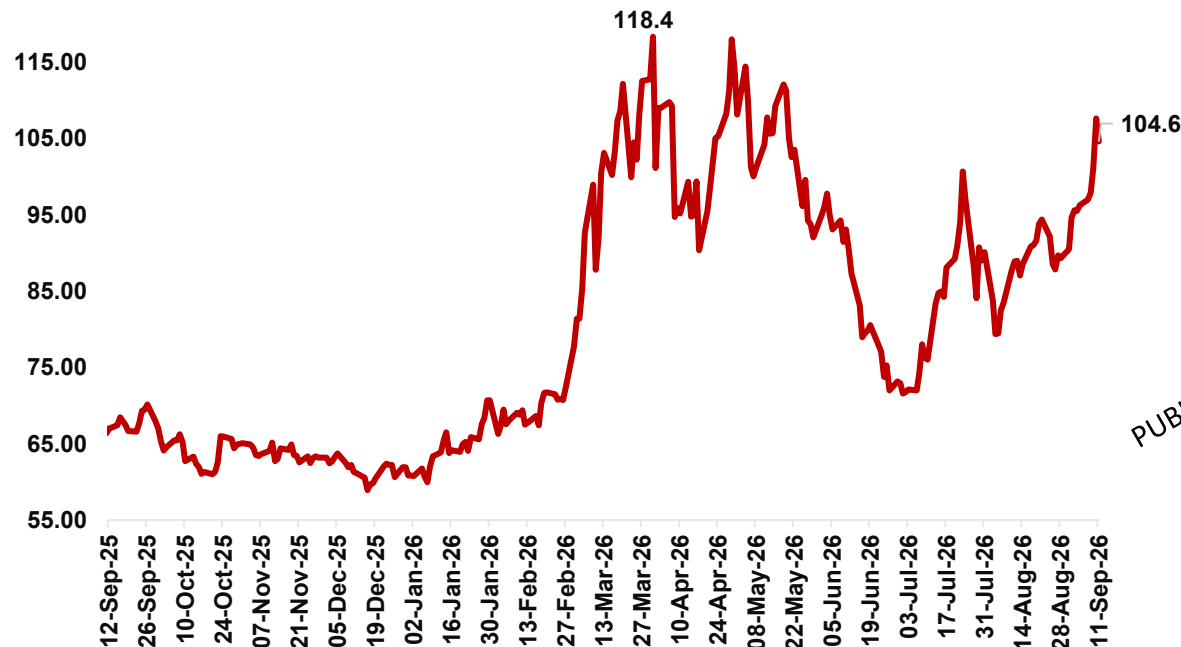


Sources: BNM, Federal Reserve Board (Fed), CEIC Data

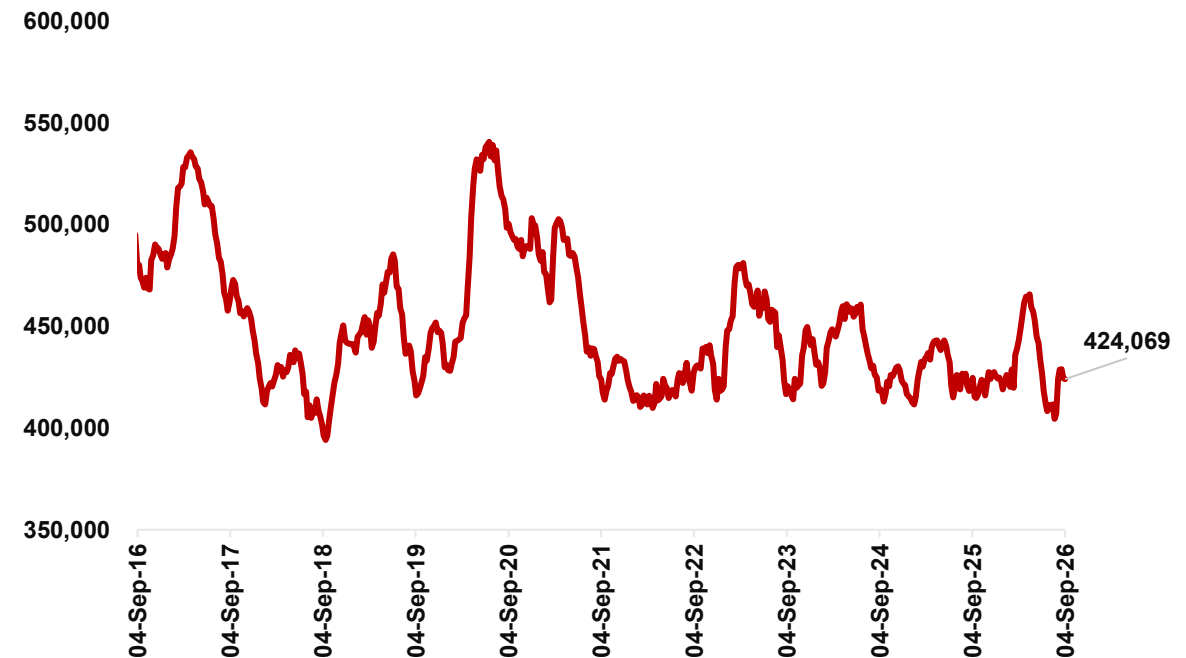
- The Ringgit remained under pressure against a basket of major currencies during the week ending 11 September amid emerging signs of moderation in Malaysia’s domestic momentum.
- Following a robust 1H2026, economy activity has shown signs of easing amid prolonged supply-side pressures linked to the ongoing U.S.-Iran conflict, alongside rising household concerns over living costs. Reflecting this, distributive trade growth eased to 9.0% in July (June: 10.1), driven by broad-based moderations across wholesale trade, retail trade and motor vehicle sales.
- Additionally, growing concerns over stretched valuations and the sustainability of the ongoing Artificial Intelligence (AI) upcycle, coupled with softer external demand, also contributed to softer factory activity. The Industrial Production Index (IPI) slowed to 4.7% in July (June: 6.5%) as manufacturing and electricity output moderated, while the mining IPI declined by 3.2%.
- Against this backdrop, the Ringgit depreciated by 0.7% w-o-w against the USD, pressured by renewed demand for U.S. assets as investors reassessed their Fed policy expectations. U.S. headline inflation was unchanged at 3.4% in August, reflecting persistent energy-driven price pressures amid structurally high global oil prices. With inflation stagnating well above the Fed’s 2.0% target and oil prices surging sharply following the re-escalation of U.S.-Iran tensions, markets increasingly priced in the possibility for a rate increase in the near term.
- Furthermore, while annual core inflation eased slightly (Aug: 2.4% vs. July: 2.5%), monthly core inflation rose to a four-month high of 0.3%, indicating that underlying price pressures remain firm. The pickup suggests that price pressures may be broadening beyond volatile energy prices, increasing the risk of entrenchment and further strengthening the argument for additional Fed policy tightening.

COMMODITY: BRENT SURGES ABOVE USD100 AS MIDDLE EAST SUPPLY RISKS INTENSIFY

Brent Crude in USD per barrel



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



Sources: Bloomberg, Energy Information Administration (EIA)

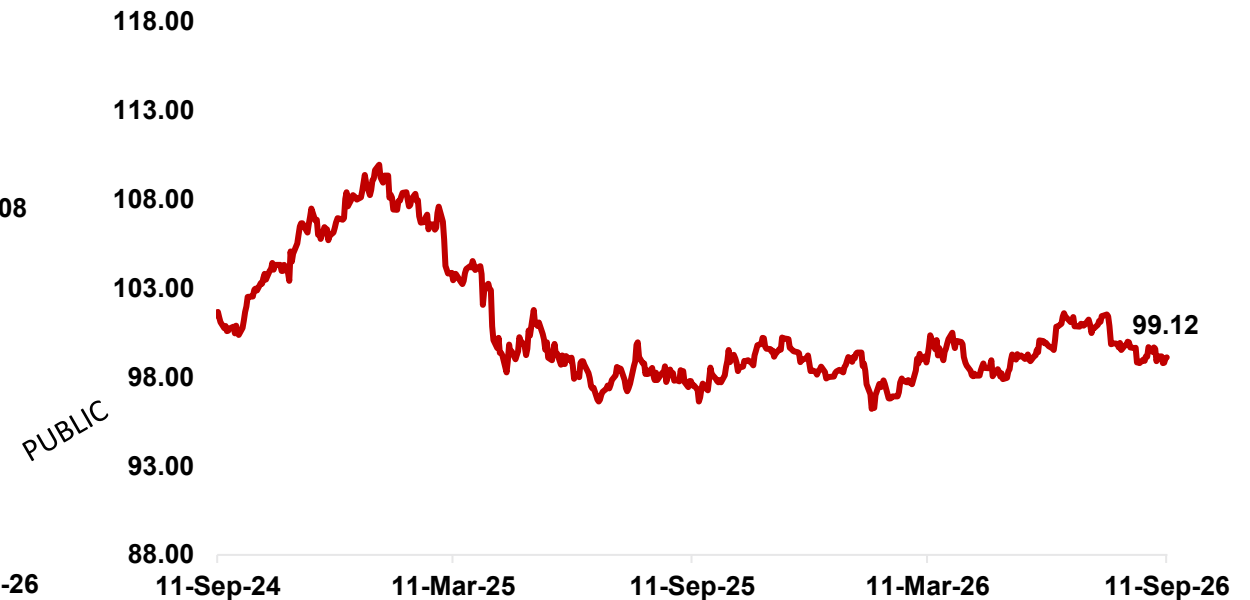
- Brent crude ended the week (11 September) at US\$104.6/barrel, gaining 8.7% w-o-w despite falling by 2.8% on Friday. The major catalyst was the intensification of U.S.-Iran tensions and the continued disruption to shipping around the Strait of Hormuz and Red Sea. Markets became increasingly concerned that attacks on vessels and infrastructure could reduce the availability of crude and refined products. Houthi advances around Yemen also raised concerns over the security of the Bab el-Mandeb shipping route.
- Brent briefly approached USD110/bbl, its highest level in several months, as traders priced in a greater risk premium. Saudi Arabia also faced disruption to its alternative export routes following attacks on oil infrastructure, adding to concerns about the ability of producers to reroute supplies. The market therefore became increasingly sensitive to any further attacks involving oil infrastructure or tankers.
- U.S. crude oil inventories fell by 0.4 million barrels to 424.1 million for the week ending September 04.

COMMODITY: GOLD PRICE DECLINED AS RENEWED MIDDLE EAST TENSIONS REINFORCED HIGHER-FOR-LONGER FED OUTLOOK

Gold in USD per ounce



U.S. Dollar Index (DXY)



Sources: Bloomberg, CEIC Data

- Gold (XAU) declined by 1.8% w-o-w, underperforming against the USD as the latter benefitted from its dual appeal as both a safe-haven and higher-yielding asset. Renewed geopolitical tensions in the Middle East reinforced investors risk-off sentiments, supporting a rotation into USD-denominated assets.
- Furthermore, the sharp rise in global oil prices has reignited inflation concerns, reinforcing expectations that the Federal Reserve may deliver additional policy tightening as soon as this week. According to the CME FedWatch Tool, the probability of a rate hike at the upcoming meeting, which would raise the Federal Funds Rate (FFR) to 3.75-4.00%, surged to over 86.0%, compared with 59.4% a week earlier.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- The key event this week will be the 15–16 September FOMC meeting, with markets closely watching whether the Federal Reserve changes its policy rate after inflation remained elevated. August CPI rose 0.4% m-o-m and 3.4% y-o-y, while core CPI accelerated to 0.3% m-o-m, keeping inflation concerns alive. The market is currently leaning towards a 25bp rate hike, although the outcome remains less straightforward given the conflicting signals between inflation and growth. The Fed will also release its updated economic projections and the Chair's press conference, which could be more important than the rate decision itself. Beyond the FOMC, August retail sales and industrial production will provide fresh indications on the resilience of domestic demand and manufacturing activity. Housing starts, building permits and weekly jobless claims will also help determine whether higher interest rates are beginning to weigh more significantly on the economy. A more hawkish Fed could push UST yields and the US dollar higher, while putting renewed pressure on global equities and emerging-market currencies.
- The Bank of England (BoE) and Bank of Japan (BoJ) will also be the key central-bank events to watch this week, with both decisions scheduled on 17 and 18 September, respectively. The BoE is widely expected to keep the rate unchanged at 3.75%, although the MPC could maintain a hawkish stance as inflation remains above target and higher oil prices add further pressure. Meanwhile, the BoJ is expected to raise its policy rate by 25 bps to 1.25%, continuing its gradual monetary-policy normalisation. The focus will be on whether Governor Ueda signals further rate increases, particularly as inflation remains elevated and the yen has strengthened. Together, the decisions could influence global bond yields, sterling, yen and broader risk sentiment, especially amid renewed energy-price pressures.
- Meanwhile, China will release its August activity indicators, including retail sales and fixed-asset investment on 15 September, which should provide a clearer picture of whether domestic demand is gaining momentum. Retail sales will be particularly important as investors assess the strength of household consumption amid continued concerns over China's property sector. Industrial activity and investment data will also indicate whether manufacturing and infrastructure are sufficient to offset weakness in property-related activity. In Malaysia, the key focus this week will be the August CPI, which is scheduled for release on 18 September. Malaysia's latest inflation reading eased to 1.8% y-o-y in July from 1.9% in June. However, the August data will be closely watched for signs of potential pass-through effects from transportation and food costs, particularly amid elevated producer prices, with the PPI rising by 9.7% y-o-y in July.

BANK ISLAM

THANK YOU