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WEEKLY ECONOMIC UPDATE

17 AUGUST 2026

ECONOMIC RESEARCH

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WEEKLY HIGHLIGHT: U.S. INFLATION REPORT REINFORCED UNDERLYING DISINFLATION TREND, DIMMING FED HIKE HOPES

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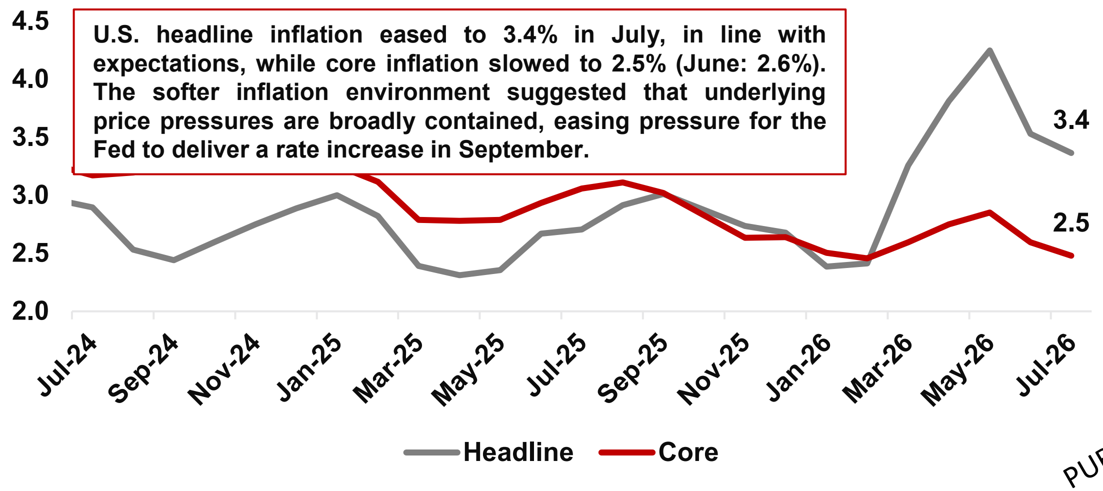
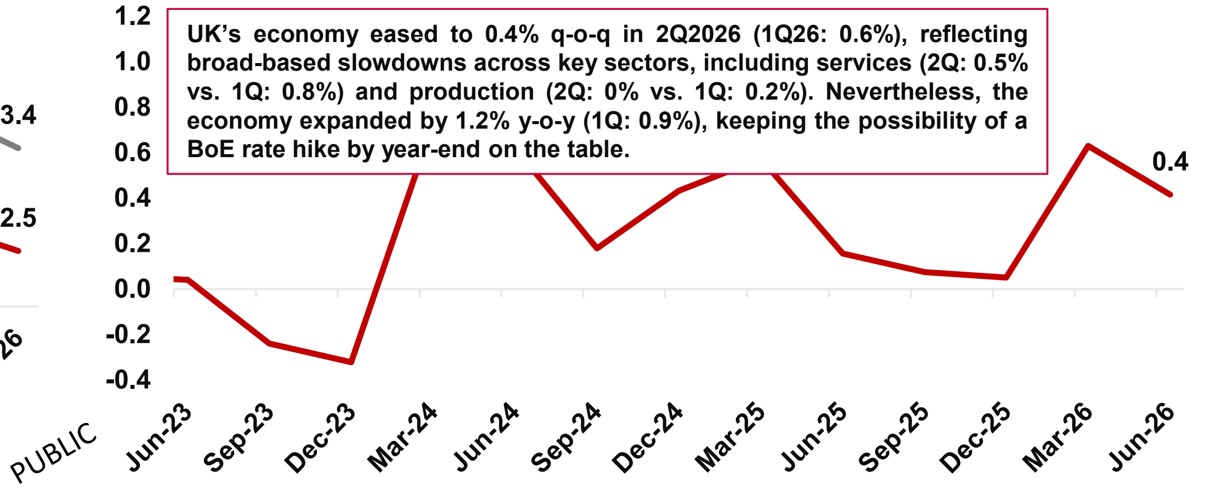
GLOBAL

U.S. - Consumer Price Index (CPI), y-o-y%

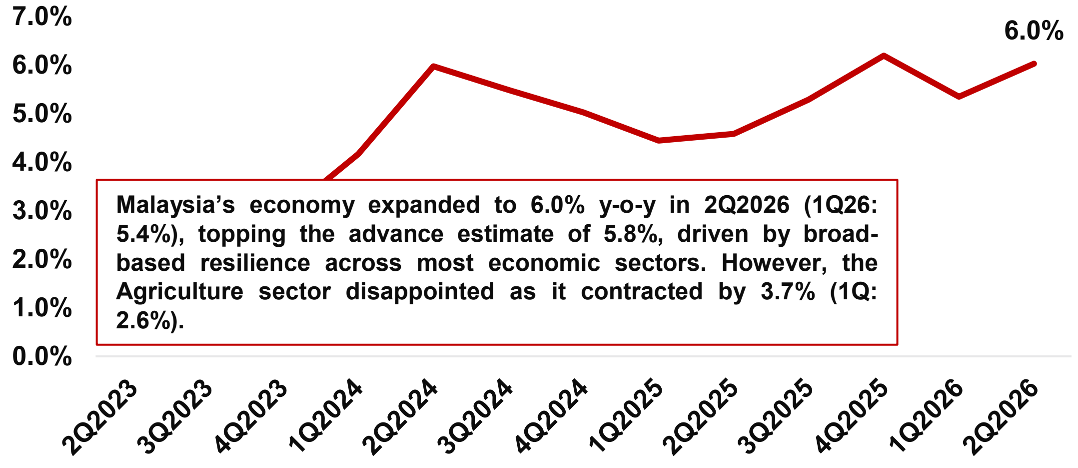


UK - Real GDP sa, q-o-q%

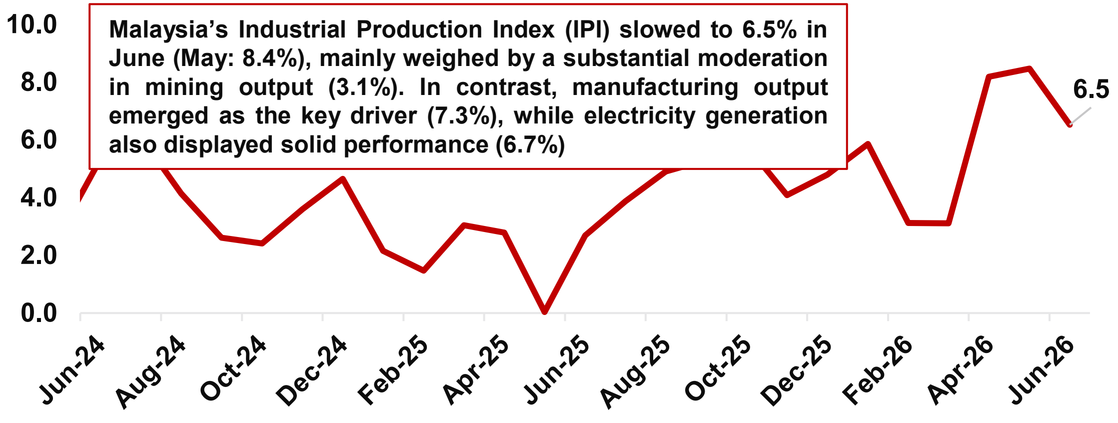


DOMESTIC

Malaysia - Real GDP, y-o-y%

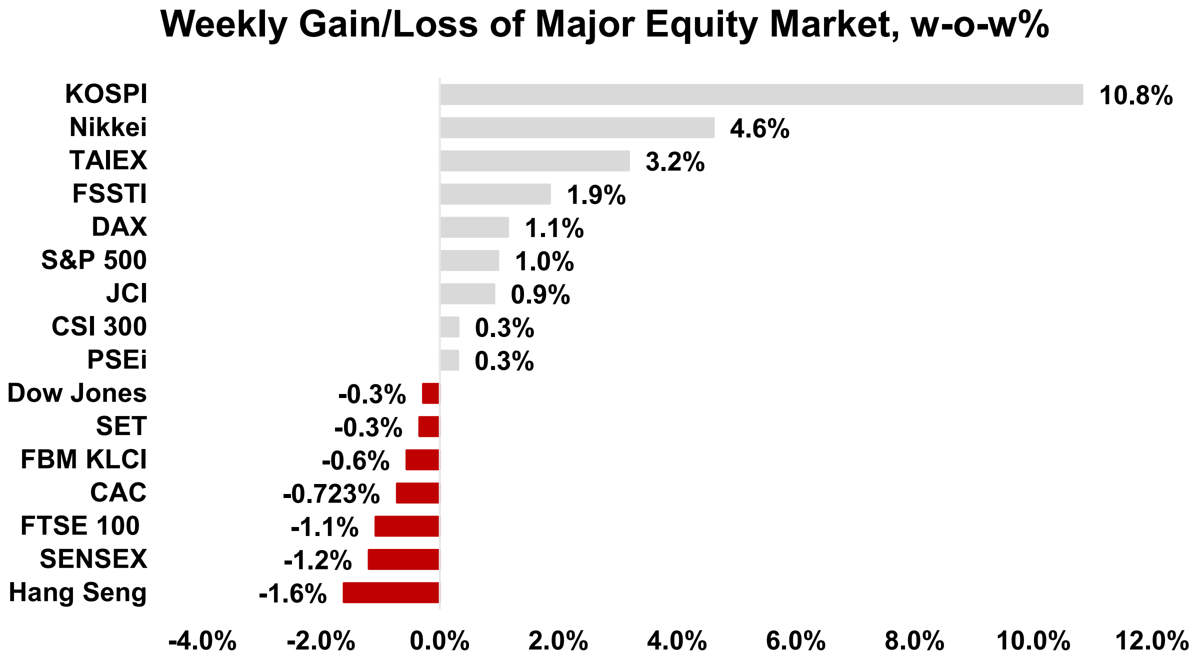


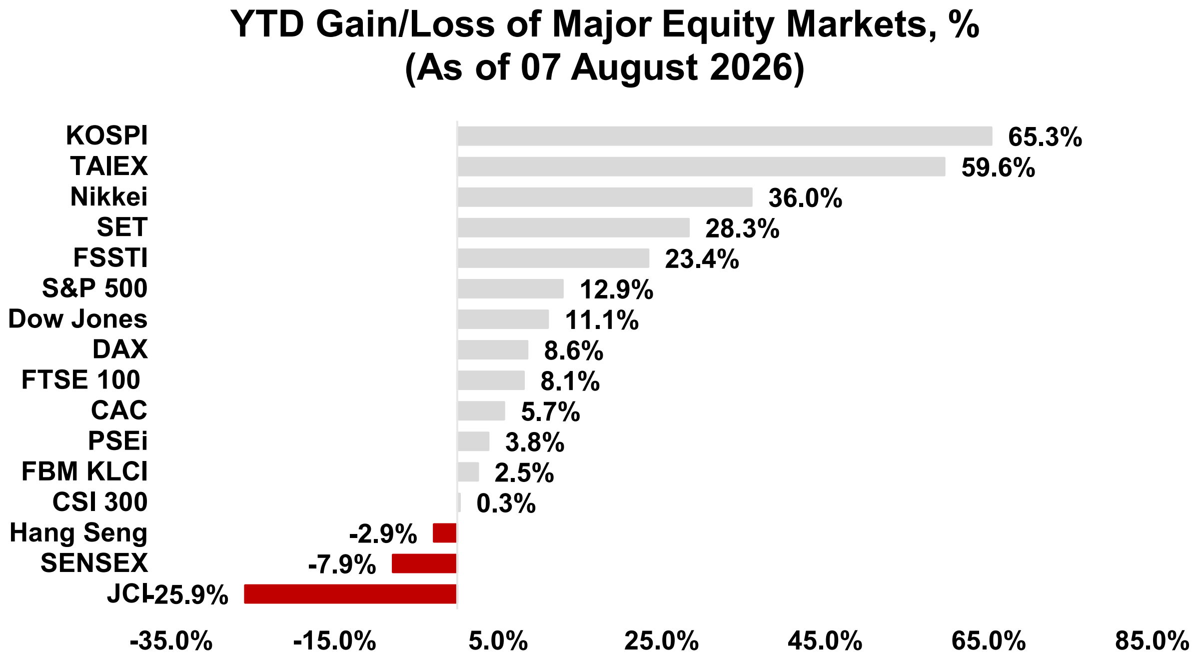
Malaysia - Industrial Production Index (IPI), y-o-y%



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

REGIONAL EQUITY: GLOBAL EQUITIES END MIXED AS COOLING U.S. INFLATION SUPPORTS RISK APPETITE AMID RISING OIL PRICES





Sources: Bursa, CEIC Data

- Global equities closed mixed in the week ended August 14, as investors balanced softer U.S. inflation and diminishing expectations of further Fed tightening against rising oil prices, geopolitical tensions in the Middle East, and mounting signs of weakening consumer demand.
- South Korea's KOSPI (+10.8%) was the standout performer among major regional markets, surging 10.8% w-o-w. The rebound was led by Samsung Electronics and SK Hynix as investors returned to the AI and memory-chip trade, with foreign flows also improving alongside a firmer won. This was followed by Japan's Nikkei (+4.6%) and Taiwan's TAIEX (+3.2%).
- U.S. equities also ended mixed last week, with the S&P 500 rising 1.0% while the Dow Jones edged down 0.3%. The S&P 500 reached another record high during the week as softer inflation data eased concerns over Fed rate hike. However, weaker retail sales data on Friday raised concerns about slowing consumer spending momentum.
- Meanwhile, Hong Kong's Hang Seng (-1.6%) was the worst-performing major market, followed by India's SENSEX (-1.2%) and UK's FTSE 100 (-1.1%).

DOMESTIC EQUITY: FBM KLCI DIPPED W-O-W ON PROFIT-TAKING, ALTHOUGH MALAYSIA'S GROWTH OUTLOOK REMAINED ROSY

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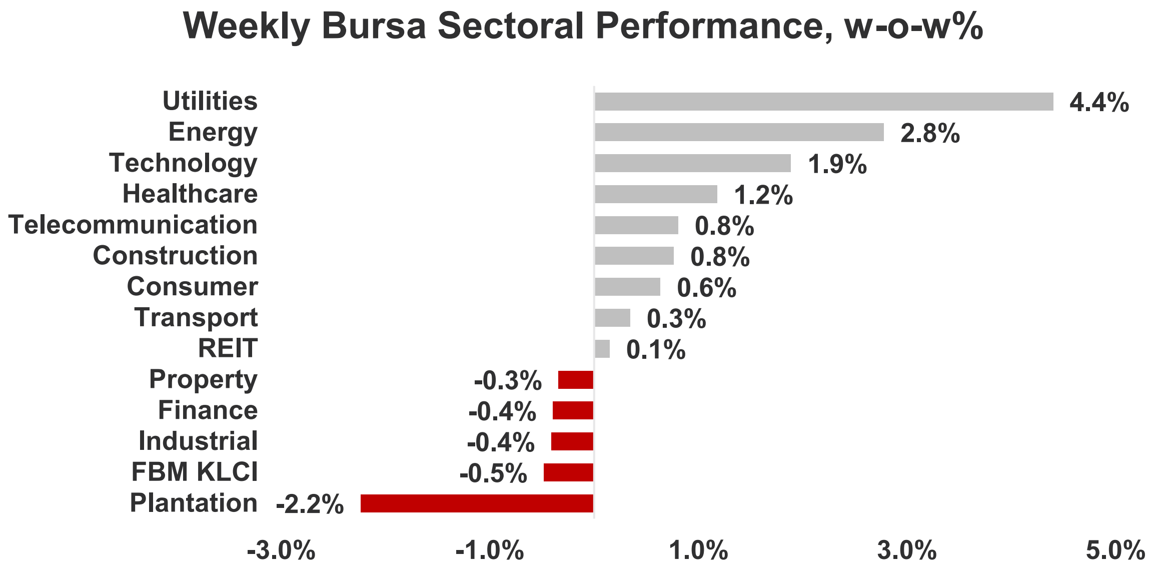

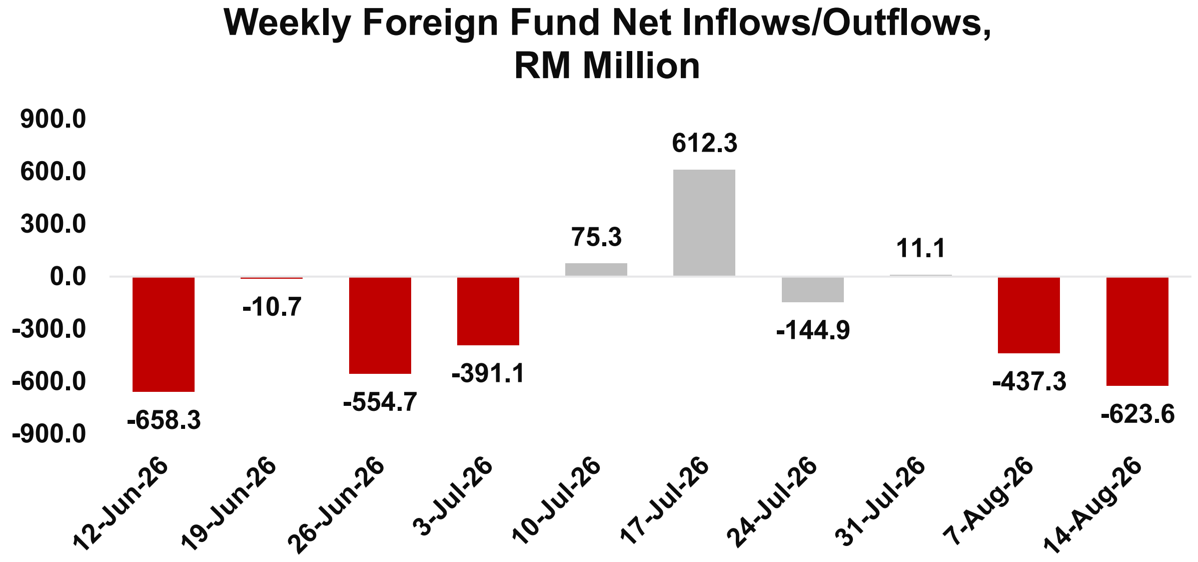

Sources: Bursa, CEIC Data

- The FBM KLCI edged 0.5% lower w-o-w in the week ended 14 August, as late-session profit-taking on Friday weighed on overall market performance. Despite the pullback, confidence in Malaysia's growth trajectory remained intact, underpinned by the economy's stronger-than-expected expansion in 2Q26.
- The economy expanded by 6.0% y-o-y, surpassing the advance estimate of 5.8%, driven by broad-based expansions across most expenditure components. Notably, growth was led by net exports, which surged by a significant 168.5% y-o-y (1Q: 13.5%), and resilient domestic demand, with private consumption rising to 4.8% (1Q: 4.7%) while public expenditure climbed higher to 7.6% (1Q: 4.1%).
- Gross fixed capital formation (GFCF) was primarily supported by public investment (2Q: 6.3% vs. 1Q: 5.3%) while private investment momentum eased to 4.3% (1Q: 7.8%), reflecting a more cautious investment environment amid heightened geopolitical uncertainties.
- Most Bursa indices closed in the green with the Utilities index jumping sharply by 4.4%, followed by the Energy index (2.8%).
- In contrast, the Plantation index underperformed (-2.2%) as investors turned cautious following the contraction of the Agriculture sector, which declined by 3.7% in 2Q2026 amid high-base effects and softer oil palm yields.
- Foreign investors shed a total of RM623.6 million of equities last week, increasing the cumulative net outflow thus far to RM5.0 billion.

FIXED INCOME: UST YIELDS CLOSE MIXED AS SOFTER ECONOMIC DATA TEMPER FED OUTLOOK, OIL PRICES REKINDLE INFLATION CONCERNS

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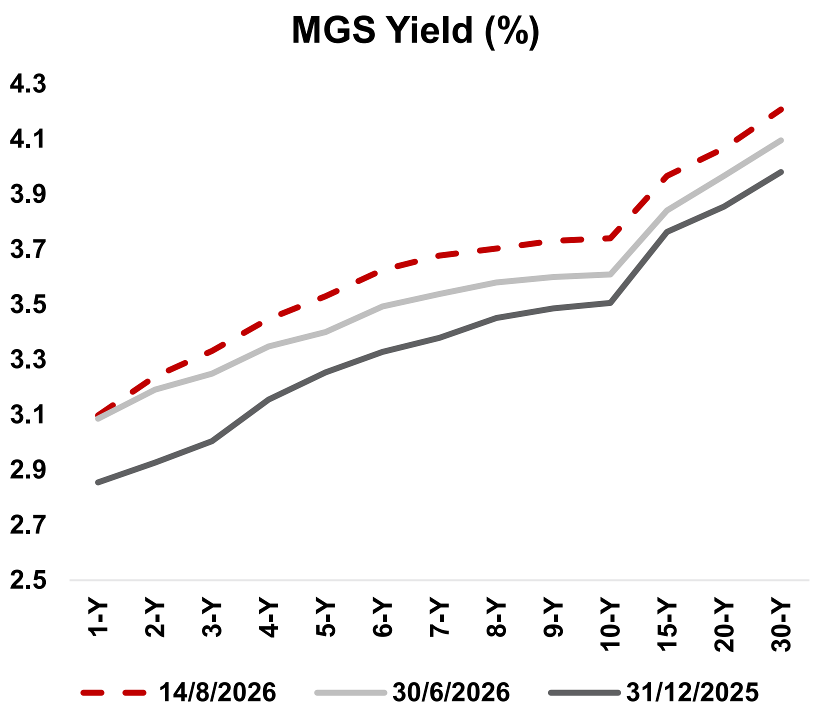
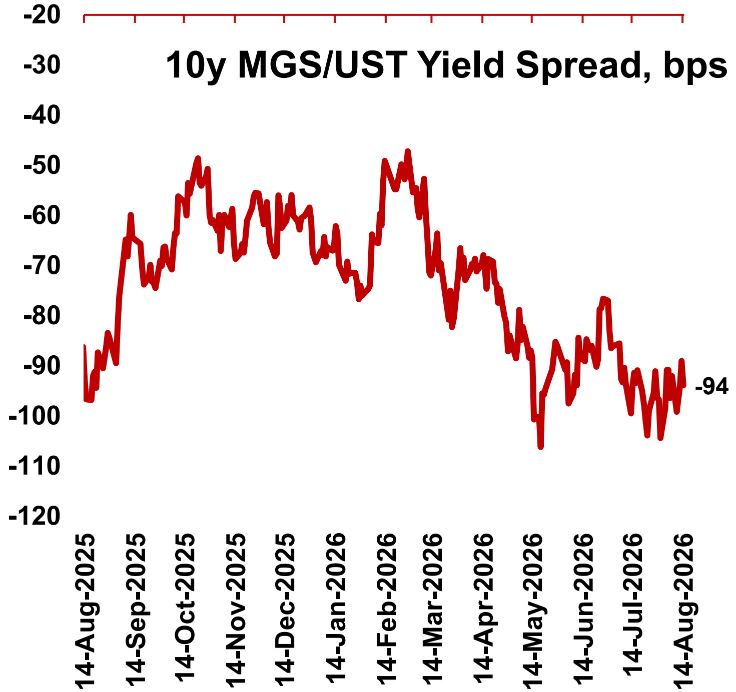
Weekly Changes, basis points (bps)

UST	Yields (%) 7-Aug-26	Yields (%) 14-Aug-26	Change (bps)
3-Y UST	4.25	4.24	-1
5-Y UST	4.35	4.36	1
7-Y UST	4.49	4.51	2
10-Y UST	4.65	4.68	3
MGS	**Yields (%) 7-Aug-26**	**Yields (%) 14-Aug-26**	**Change (bps)**
3-Y MGS	3.32	3.33	1
5-Y MGS	3.53	3.53	0
7-Y MGS	3.67	3.68	1
10-Y MGS	3.73	3.74	1
GII	**Yields (%) 7-Aug-26**	**Yields (%) 14-Aug-26**	**Change (bps)**
3-Y GII	3.36	3.35	-1
5-Y GII	3.53	3.54	0
7-Y GII	3.65	3.68	3
10-Y GII	3.73	3.75	2

Sources: BNM, Federal Reserve Board





- U.S. Treasury (UST) yields ended the week of 14 August on a mixed note, ranging between -1bp and +3bps across the curve. The 3-year UST yield edged 1bp lower to 4.24%, while the benchmark 10-year yield rose 3bps to 4.68%.
- Yield movements were primarily driven by weaker July employment data and softer inflation, which reinforced expectations that the Fed is unlikely to tighten monetary policy further. U.S. headline inflation moderated to 3.4% y-o-y in July (June: 3.5%), while monthly CPI increased by a modest 0.1%. Core inflation also eased to 2.5% y-o-y (June: 2.6%), indicating that underlying price pressures continued to moderate despite persistently elevated energy prices.
- The rise in oil prices late in the week also introduced renewed inflation concerns, limiting the extent of the bond rally.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields also ended mixed by between -1bp and 3bps.
- The 10y MGS/UST yield spread widened in the negative territory at 94bps relative to -92bps in the previous week.

FX MARKET: RINGGIT EDGED HIGHER AS SEPTEMBER FED HIKE EXPECTATIONS EASED, MALAYSIA'S ROBUST ECONOMY PROVIDED UNDERLYING SUPPORT

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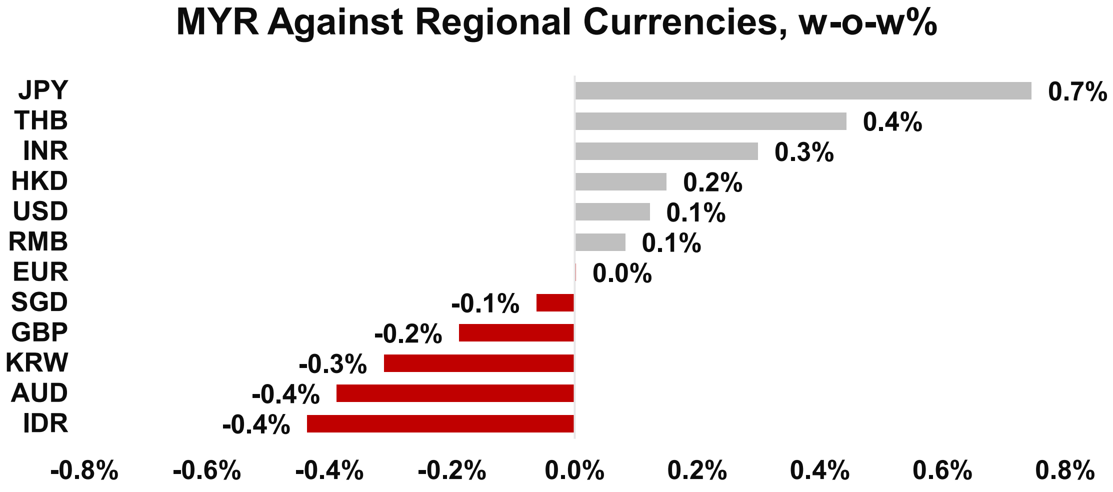
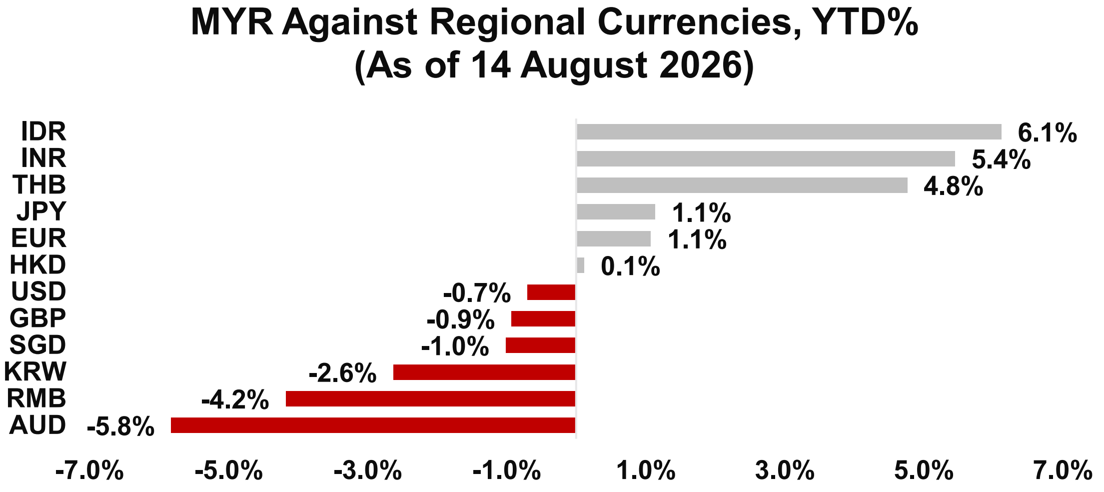
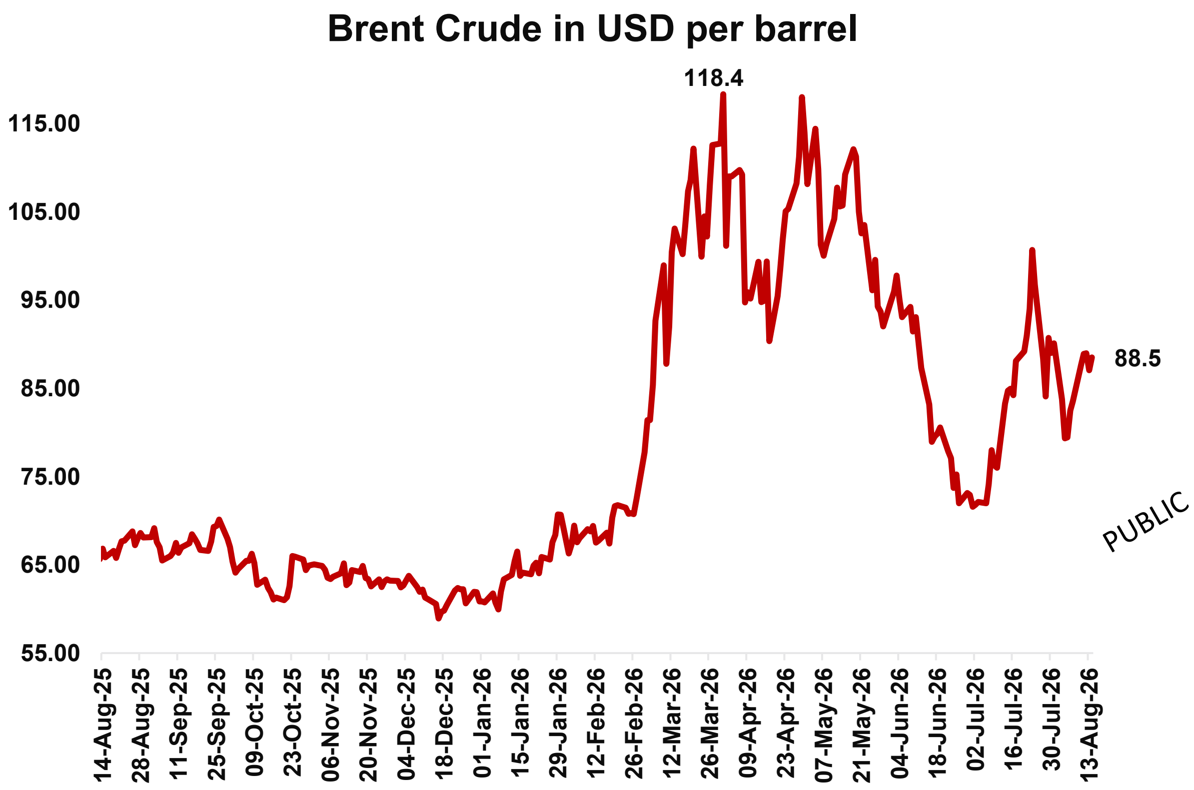


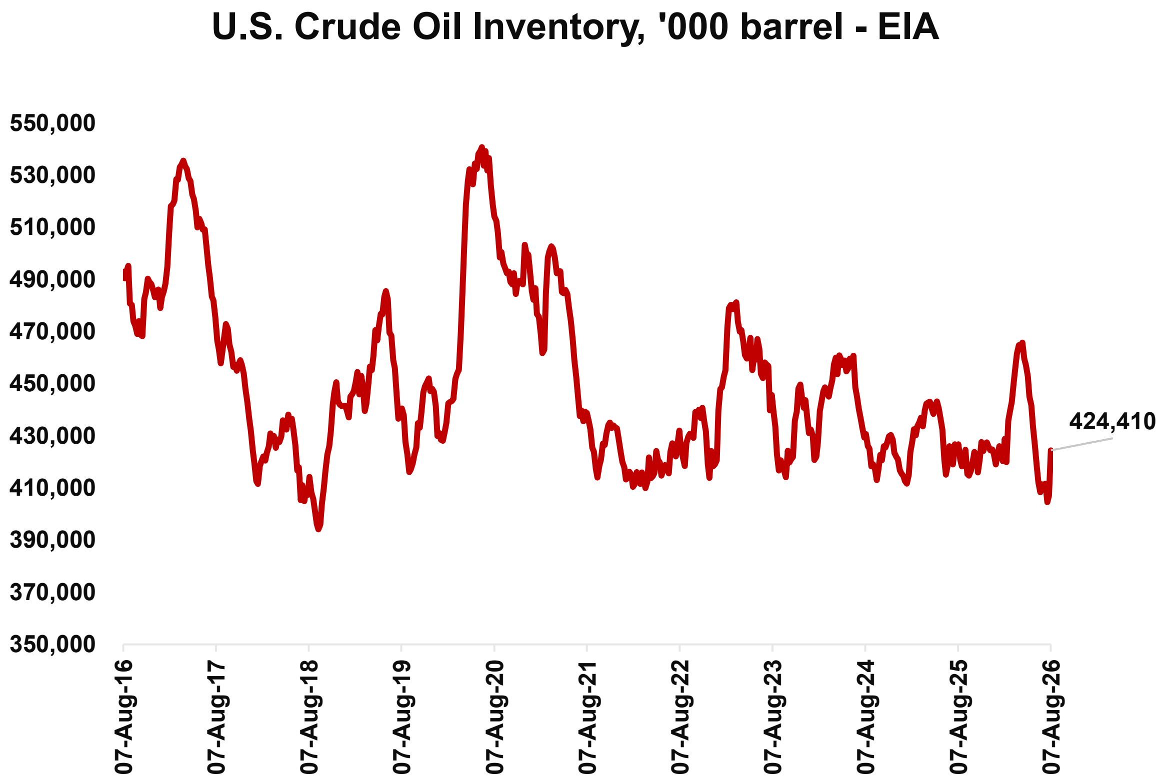


Sources: BNM, Federal Reserve Board (Fed), CEIC Data

- The Ringgit strengthened marginally by 0.1% w-o-w against the USD in the week ended 14 August, supported by improved sentiment following Malaysia's stronger-than-expected economic performance.
- Malaysia's GDP expanded by 6.0% y-o-y in 2Q26, driven by broad-based growth across major sectors. The Mining sector rebounded strongly to 9.2% (1Q26: -2.1%), while Manufacturing and Services maintained solid momentum, growing 7.3% and 5.9%, respectively. Construction activity remained resilient at 6.5%, although moderating from 7.7% in the previous quarter. In contrast, the Agriculture sector contracted by 3.7%, weighed by weaker palm oil production and fishing activities.
- Meanwhile, the USD remained under pressure as benign U.S. inflation data prompted markets to reassess their Fed policy expectations. In the earlier half of the week, the USD index traded with a mildly positive bias as investors positioned themselves ahead of the July inflation report.
- However, the inflation report reinforced the ongoing disinflation trend, reducing the urgency for more restrictive monetary policy conditions by the Fed. Headline inflation moderated to 3.4%, reflecting easing global energy prices which resulted in softer gasoline (July: 24.6% vs. 26.7%) and fuel oil prices (July: 39.1% vs. June: 42.9%).
- Beyond energy, inflation evidently slowed across several key segments, including shelter (July: 3.2% vs. June: 3.3%) and food and beverages (July: 2.9% vs. June: 3.0%). Core inflation eased to 2.5% (June: 2.6%), further reaffirming that underlying price pressures remained contained. This alleviated concerns that inflationary pressures may be broadening and led markets to scale back their rate hike expectations, with the probability now skewed for the central bank to remain on hold in September.

COMMODITY: OIL REBOUNDS ABOVE AS U.S.-IRAN TENSIONS LIFT SUPPLY RISK





Sources: Bloomberg, Energy Information Administration (EIA)

- Brent oil prices closed higher on Friday (14 August), rising by 1.7% on the day to US$88.5/barrel. Over the week, Brent prices increased by approximately 6.0%. The sharp weekly rebound reversed the previous weakness as geopolitical risks increasingly dominated the market.
- The main catalyst was renewed tension between the U.S. and Iran, particularly after Washington threatened to maintain its naval blockade of Iran indefinitely while ceasefire negotiations showed little progress. Concerns were further heightened by attacks on tankers around the Strait of Hormuz and disruption at Russia's Novorossiysk export terminal.
- Near term, oil prices are expected to remain volatile rather than embark on a sustained upward trajectory. While geopolitical developments could continue to support Brent crude prices in the high-US$80 per barrel range, ample inventories and expectations of slower global oil demand growth are likely to cap further gains.
- U.S. crude oil inventories increased sharply by 17.4 million barrels to 424.4.0 million for the week ending August 7.

COMMODITY: GOLD PRICE ADVANCED AS U.S. INFLATION DATA TOOK CENTER STAGE

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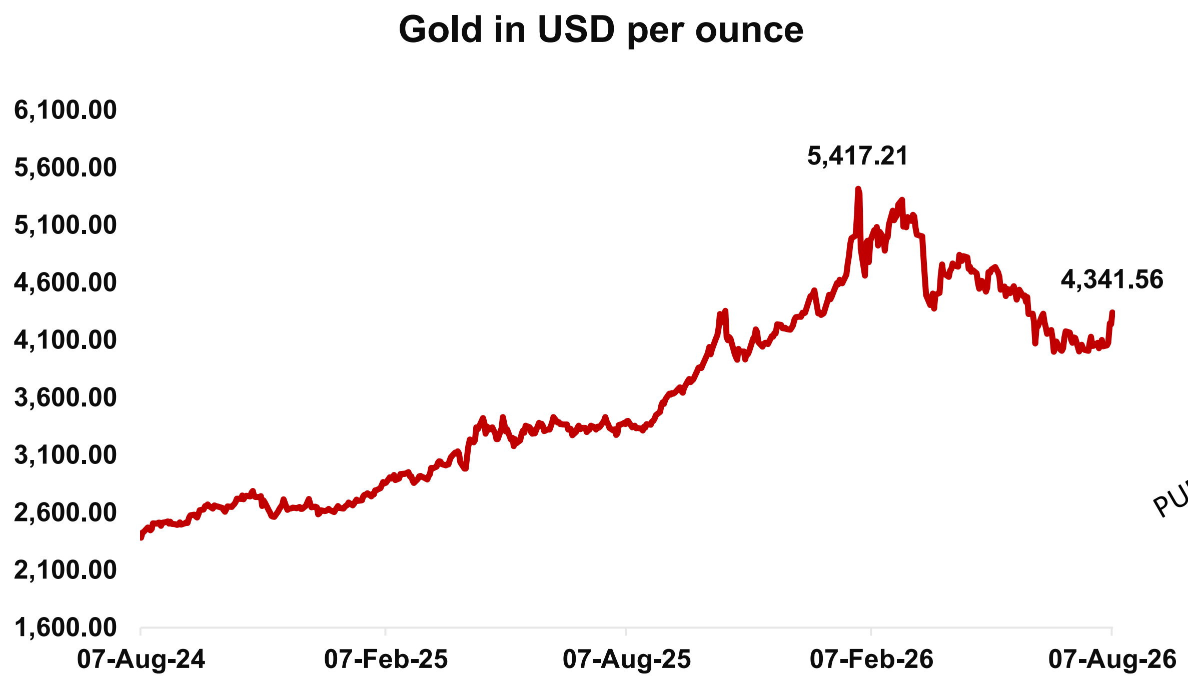

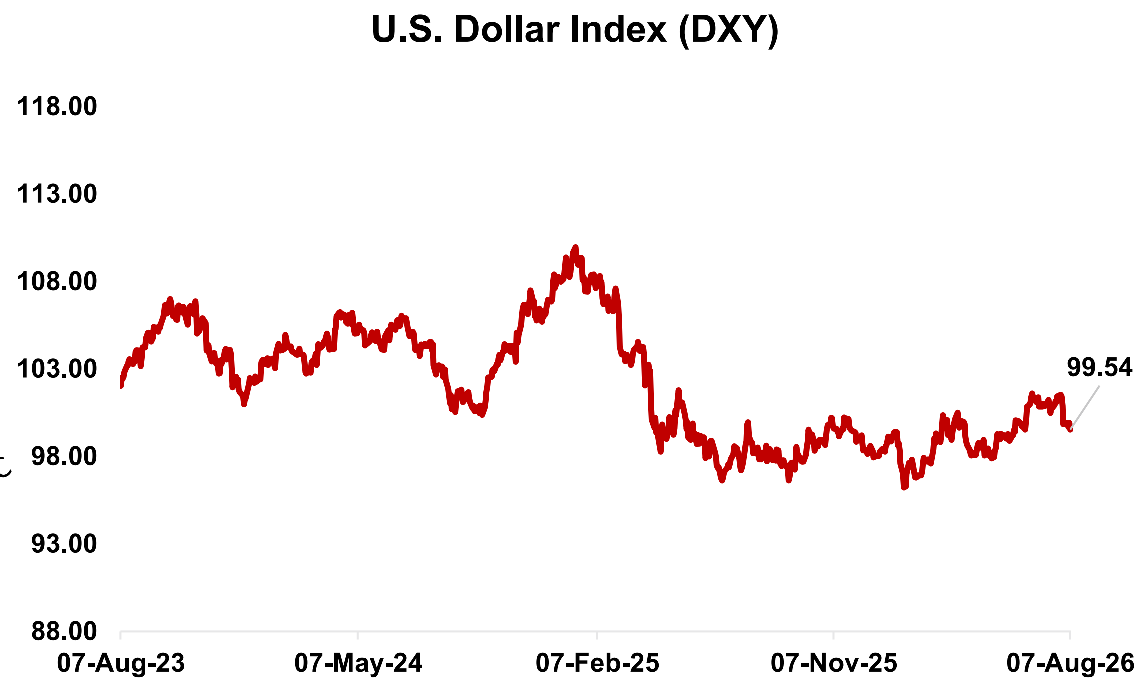

Sources: Bloomberg, CEIC Data

- Gold (XAU) outperformed against the USD last week, appreciating by 0.8% w-o-w.
- Following a benign inflation report, markets have repriced their policy expectations, with the probability of the Fed maintaining its Federal Funds Rate (FFR) at 3.50-3.75% in September climbing to almost 70.0% from around 55.0% a week before.
- The evolving expectations continued to exert pressure on the USD, improving the relative appeal of non-yielding assets and paving the way for gold price to strengthen.
- Despite both U.S. and Iran maintaining a confrontational stance during the week, marked by an exchange of threats, the absence of meaningful military escalation and ongoing diplomatic engagement helped preserve broader risk appetite.

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WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- The U.S. market is likely to remain sensitive to balance between softer inflation, slowing consumer momentum and the Fed's still-cautious stance this week. The main event will be the FOMC minutes on August 20, which should provide more detail on the debate behind July's decision to keep the Fed funds rate at 3.50%–3.75%, particularly given the three dissenting votes. Recent data have shifted the market away from a near-term rate-hike bias, with July payrolls unexpectedly falling by 23,000 and core CPI easing to 2.5% y-o-y, while PPI slowed to 4.7% y-o-y. On Tuesday, July housing starts, building permits and industrial production will provide a clearer read on domestic activity. Additionally, the preliminary August S&P Global manufacturing and services PMIs on Friday will be particularly important in determining whether the recent moderation is becoming broader across the economy. The key risk is that stronger activity data could revive expectations of a September hike, although the market currently sees considerably less pressure for further tightening than it did earlier this month. Conversely, weaker housing, manufacturing or labour-market data would reinforce expectations that the Fed can remain on hold and should be supportive of growth.

- This week, China will be the main focus in Asia as on Monday (17 August), July retail sales, industrial production, fixed-asset investment, unemployment and property-price data all due together. The numbers will be closely watched because recent inflation data point to continued weakness in domestic demand, with July CPI slowing to 0.5% y-o-y and PPI to 3.5%, while 2Q26 GDP growth was only 4.3% y-o-y. The market is therefore looking for signs that government support is beginning to stabilise consumption and investment, although expectations remain relatively subdued. The PBoC is also expected to leave the 1-year and 5-year LPR unchanged at 3.00% and 3.50% on Thursday. Meanwhile, Japan will release its preliminary 2Q26 GDP on Monday, followed by July trade and inflation data later in the week, making the data important for expectations of further BoJ normalisation.

- Bank Indonesia is expected to keep the BI Rate unchanged at 5.75% at its 18–19 August meeting, following the surprise hold at the July meeting after two consecutive 25bp hikes. The pause would allow BI to assess the impact of its earlier tightening on the rupiah and domestic inflation while avoiding excessive pressure on economic growth. The rupiah remains a key consideration, particularly given uncertainty around U.S. monetary policy and global capital flows. At the same time, inflationary risks remain manageable, giving BI some room to shift towards a less restrictive stance if exchange-rate pressures ease. The recent nomination of Destry Damayanti as the sole candidate for the next BI Governor also adds an element of policy continuity, with markets expecting her to broadly maintain the existing stability-oriented approach.

THANK YOU