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WEEKLY ECONOMIC UPDATE

19 OCTOBER 2026

ECONOMIC RESEARCH

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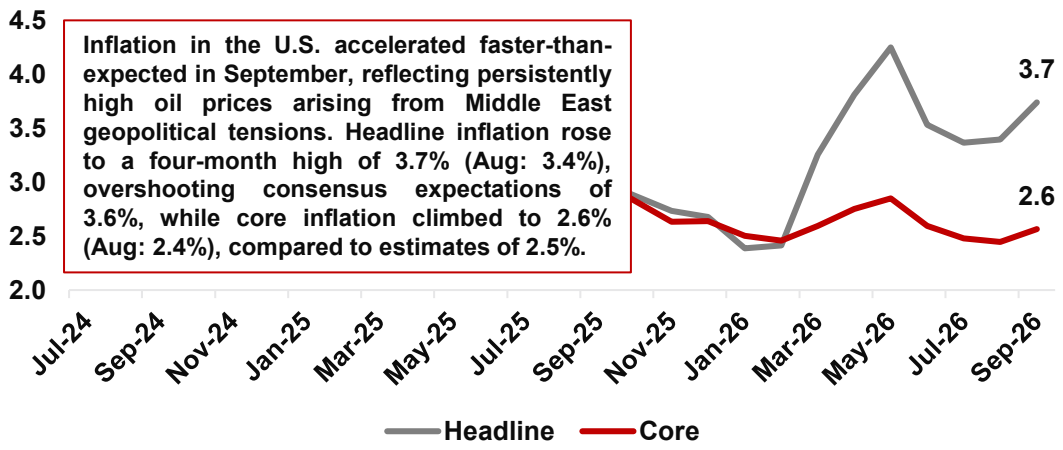
WEEKLY HIGHLIGHT: HOTTER-THAN-EXPECTED U.S. INFLATION REINFORCED PROSPECTS OF ADDITIONAL FED RATE HIKE IN 2026

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GLOBAL

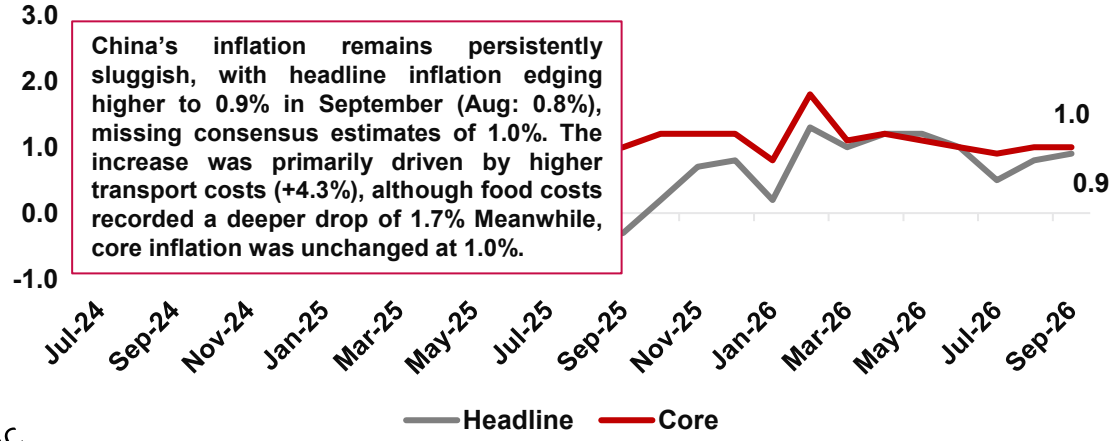
U.S. - Consumer Price Index (CPI), y-o-y%

Inflation in the U.S. accelerated faster-than-expected in September, reflecting persistently high oil prices arising from Middle East geopolitical tensions. Headline inflation rose to a four-month high of 3.7% (Aug: 3.4%), overshooting consensus expectations of 3.6%, while core inflation climbed to 2.6% (Aug: 2.4%), compared to estimates of 2.5%.



China CPI, y-o-y%

China's inflation remains persistently sluggish, with headline inflation edging higher to 0.9% in September (Aug: 0.8%), missing consensus estimates of 1.0%. The increase was primarily driven by higher transport costs (+4.3%), although food costs recorded a deeper drop of 1.7% Meanwhile, core inflation was unchanged at 1.0%.

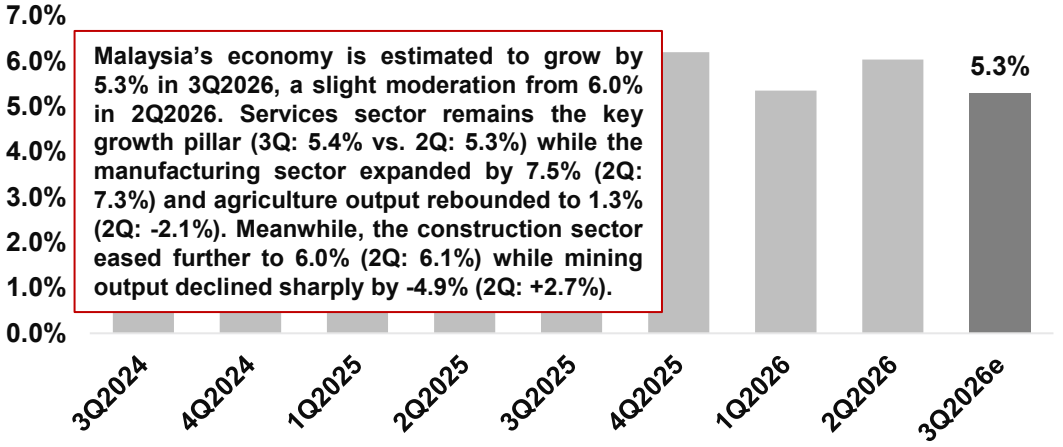


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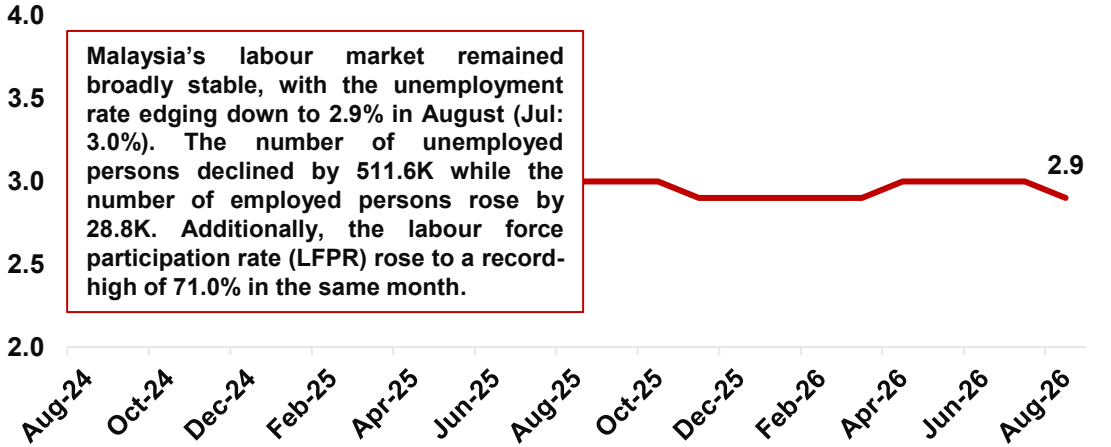
Malaysia - Real GDP, y-o-y%

Malaysia's economy is estimated to grow by 5.3% in 3Q2026, a slight moderation from 6.0% in 2Q2026. Services sector remains the key growth pillar (3Q: 5.4% vs. 2Q: 5.3%) while the manufacturing sector expanded by 7.5% (2Q: 7.3%) and agriculture output rebounded to 1.3% (2Q: -2.1%). Meanwhile, the construction sector eased further to 6.0% (2Q: 6.1%) while mining output declined sharply by -4.9% (2Q: +2.7%).



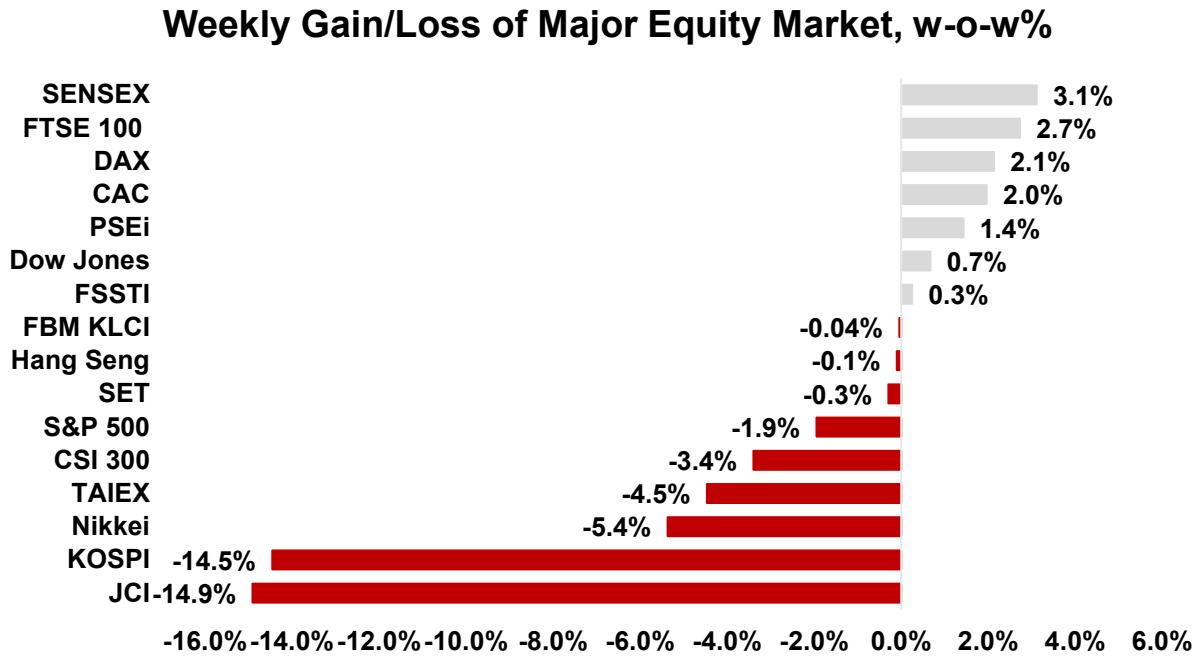
Malaysia - Unemployment Rate, %

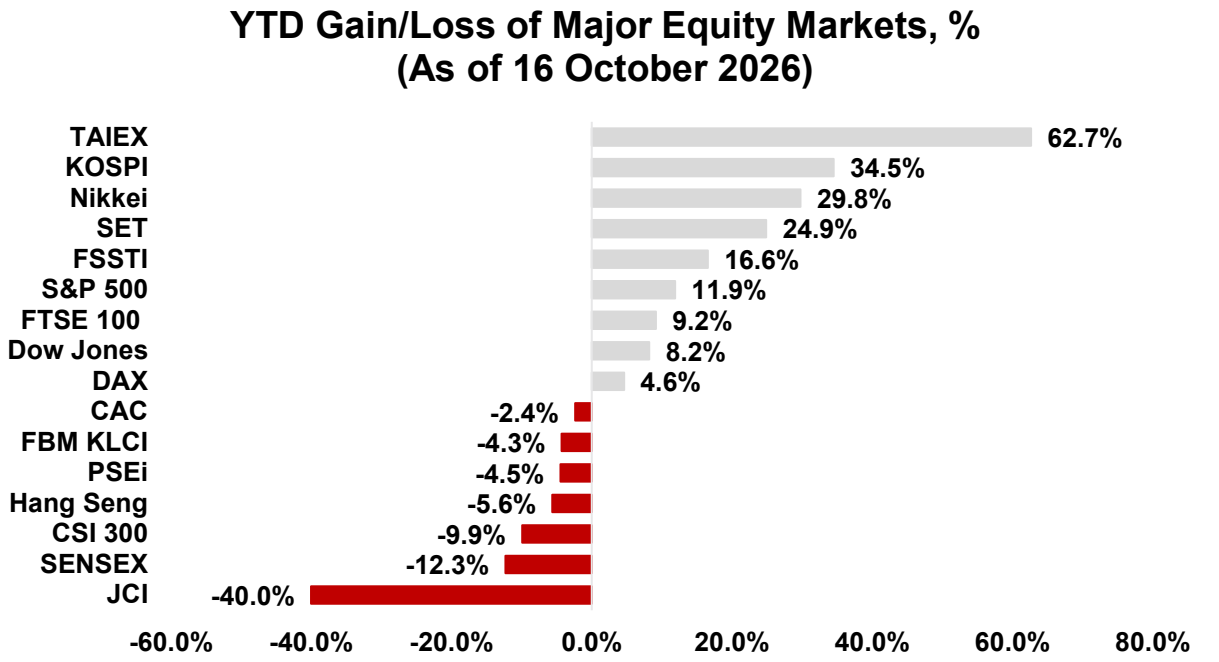
Malaysia's labour market remained broadly stable, with the unemployment rate edging down to 2.9% in August (Jul: 3.0%). The number of unemployed persons declined by 511.6K while the number of employed persons rose by 28.8K. Additionally, the labour force participation rate (LFPR) rose to a record-high of 71.0% in the same month.



Sources: Eurostat, Department of Statistics Malaysia (DOSM), CEIC Data

REGIONAL EQUITY: GLOBAL EQUITY MARKETS MIXED AMID DIVERGING REGIONAL SENTIMENT



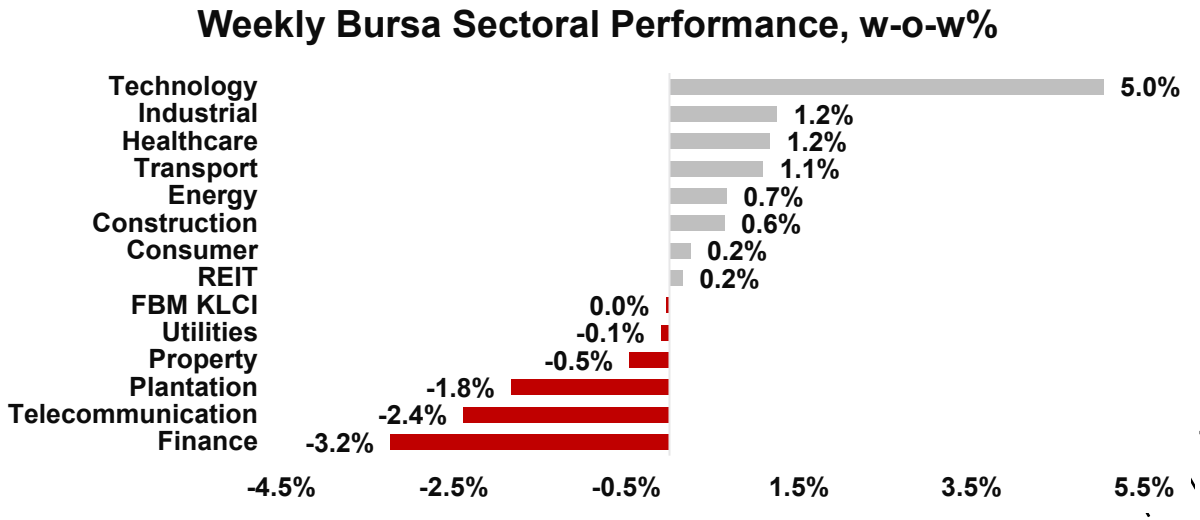


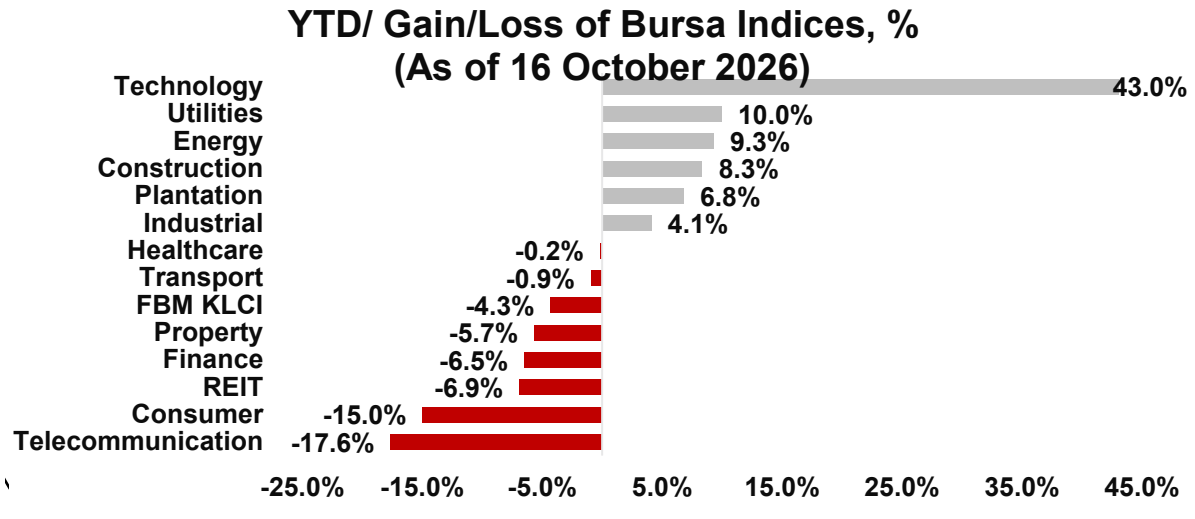
Sources: Bursa, CEIC Data

- Global equity markets ended the week on a mixed note as investors weighed inflation developments, interest rate expectations, corporate earnings and rising uncertainty surrounding AI-related investments. India's SENSEX (+3.1%) was the top performer, mainly due to a sharp rebound in IT stocks following strong earnings, improved global risk sentiment, and renewed foreign investor interest.
- Meanwhile, European equities strengthened last week, supported by improving risk appetite, lower bond yields and positive corporate earnings, with the FTSE 100 and DAX rising 2.7% and 2.1%, respectively.
- In contrast, several Asian markets came under pressure amid heightened market uncertainty and concerns over the global growth outlook. Indonesia's JCI (-14.9%), South Korea's KOSPI (-14.5%) and Japan's Nikkei (-5.4%) were the weakest performers during the week, reflecting broad-based risk aversion and cautious investor sentiment towards export-oriented and technology-related sectors.
- U.S. equities were mixed, with the Dow Jones (+0.7%) posting modest gains while the S&P 500 (-1.9%) declined, reflecting a rotation towards more defensive sectors and increased caution towards high-growth technology stocks.

DOMESTIC EQUITY: FBM KLCI EDGED LOWER AS ADVANCED ESTIMATES SIGNALED A MODERATION IN THE ECONOMY

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Sources: Bursa, CEIC Data

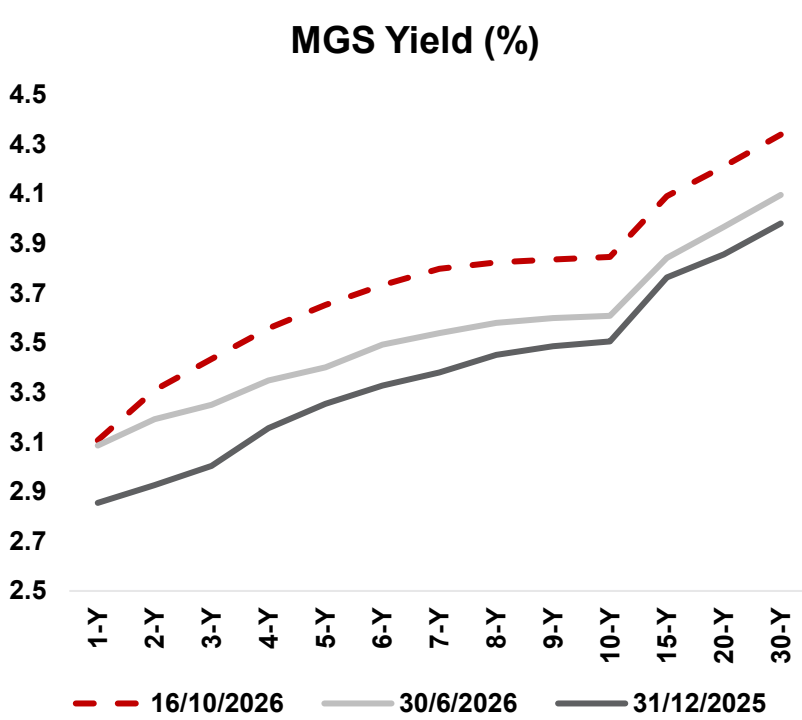
- The FBM KCLI declined marginally by 0.04% for the week ending 16 October as investors turned cautious following the release of Malaysia's softer 3Q2026 Gross Domestic Product (GDP) data.
- Investor sentiments weakened on Friday as preliminary figures showed that Malaysia's economy grew by 5.3%, a notable moderation from 6.0% in 2Q2026. The slowdown was driven by a sharp decline in mining output (3Q: -4.9% vs. 2Q: 2.7%) and a moderation in construction activity (3Q: 6.0% vs. 2Q: 6.1%). Nevertheless, the drag was partly offset by expansions across the manufacturing (3Q: 7.5% vs. 2Q: 7.3%), services (3Q: 5.4% vs. 2Q: 5.3%), and agriculture (3Q: 1.3% vs. 2Q: -2.1%) sectors.
- As such, the release weighed on earlier optimism over Malaysia's growth prospects, prompting investors to swiftly lock in gains accumulated following the tabling of Budget 2027.
- Performance across Bursa was mixed, with the Technology index outperforming by 5.0% w-o-w. Meanwhile, the Industrial and Healthcare indices climbed higher by 1.2% each, supported by expectations of sustained industrial momentum and the anticipated rollout of various Budget 2027 initiatives aimed at uplifting the healthcare ecosystem.
- In contrast, the Finance index led losses, declining by 3.2% w-o-w, followed by the Telecommunications and Plantation indices, which slipped by 2.4% and 1.8%, respectively.

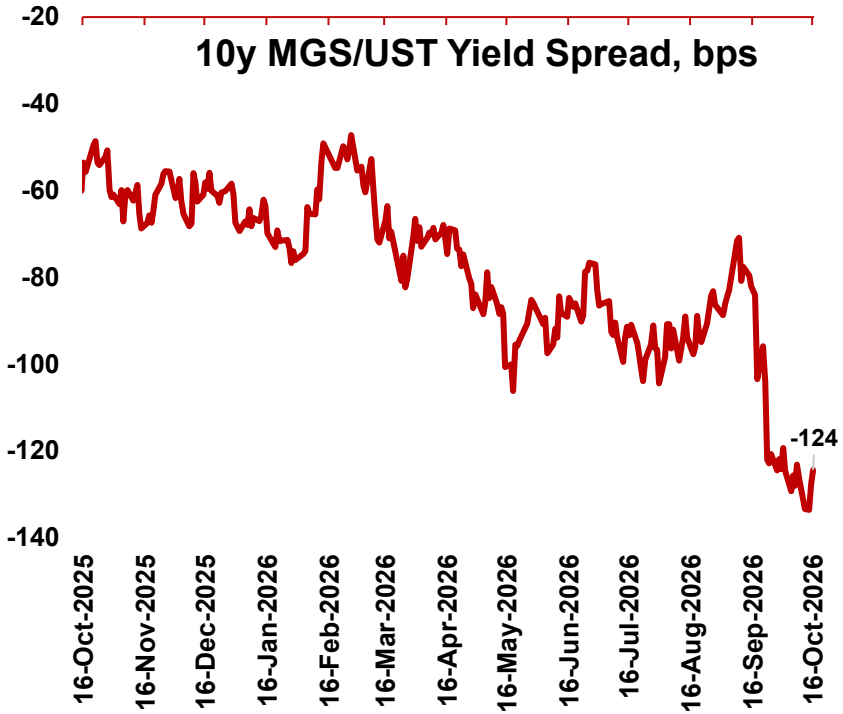
FIXED INCOME: SAFE-HAVEN DEMAND DRIVES BOND YIELDS LOWER DESPITE HIGHER U.S. INFLATION

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Weekly Changes, basis points (bps)			
UST	**Yields (%) 9-Oct-26**	**Yields (%) 16-Oct-26**	**Change (bps)**
3-Y UST	4.89	4.82	-7
5-Y UST	5.02	4.89	-13
7-Y UST	5.13	4.98	-15
10-Y UST	5.24	5.09	-15
MGS	**Yields (%) 9-Oct-26**	**Yields (%) 16-Oct-26**	**Change (bps)**
3-Y MGS	3.47	3.43	-4
5-Y MGS	3.74	3.65	-9
7-Y MGS	3.93	3.80	-13
10-Y MGS	3.98	3.85	-13
GII	**Yields (%) 9-Oct-26**	**Yields (%) 16-Oct-26**	**Change (bps)**
3-Y GII	3.49	3.45	-4
5-Y GII	3.77	3.67	-10
7-Y GII	3.93	3.79	-14
10-Y GII	4.00	3.89	-11

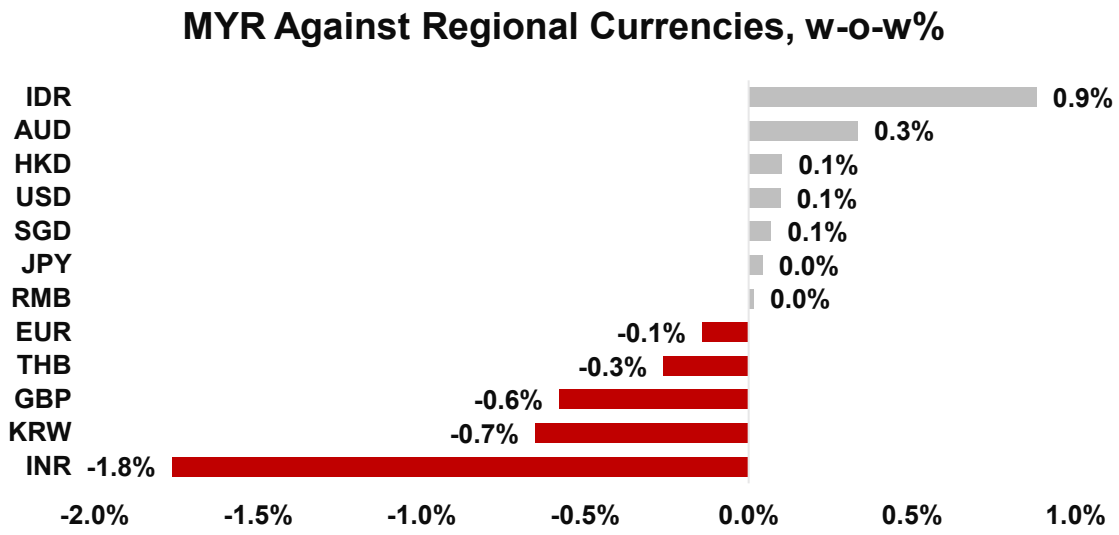
Sources: BNM, Federal Reserve Board

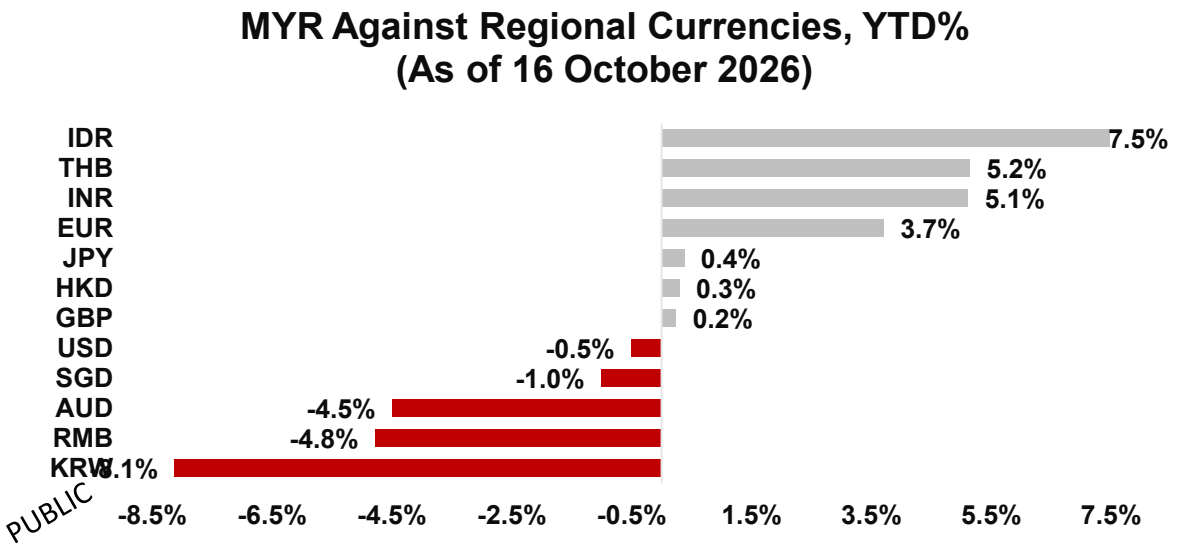




- U.S. Treasury yields declined by 7bps to 15bps across the curve during the week ended 16 October, despite September inflation coming in above expectations. U.S. headline CPI accelerated to 3.7% y-o-y in September (August: 3.4%), while core inflation remained elevated at 2.6% (August: 2.4%), initially pushing the 10-year Treasury yield to around 5.33% before yields reversed and ended the week lower.
- The subsequent decline reflected strong flight-to-quality demand as investors became increasingly concerned about the sustainability of debt-funded AI investments and the potential spillover of stress in AI-related credit markets to broader financial markets. In addition, markets pared back expectations of further near-term Federal Reserve tightening, particularly following limited policy guidance from Fed Chair Kevin Warsh.
- Similarly, Malaysian Government Securities (MGS) and Government Investment Issues (GII) declined by 4bps to 14bps.
- The 10y MGS/UST yield spread narrowed in the negative territory at -124bps from -127bps in the prior week.

FX MARKET: RINGGIT EDGED HIGHER AMID A LATE-WEEK PULLBACK IN THE GREENBACK





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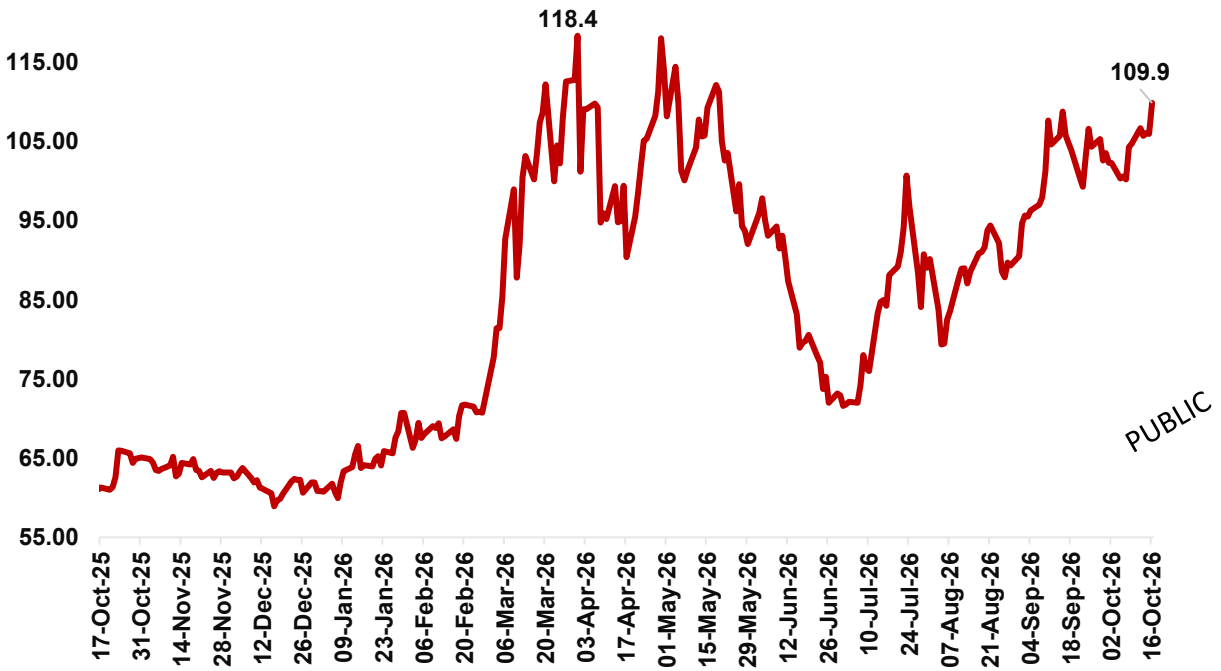
Sources: BNM, Federal Reserve Board (Fed), CEIC Data

- The Ringgit appreciated by 0.1% w-o-w against the USD last week, supported by a late-week pullback in the USD (-0.4% w-o-w) as investors rotated out of USD-denominated assets.
- In the earlier half of the week, the Ringgit remained under pressure as investor focus was centered on the Fed's monetary policy path. Notably, the U.S. inflation report delivered an upside surprise, with headline inflation accelerating to a five-month high of 0.6% m-o-m in September (Aug: 0.4%), while core inflation rose to 0.3%, surpassing estimates of 0.2%. The increase reflected persistently elevated global commodity prices, with energy inflation jumping sharply by 5.2% m-o-m (Aug: 2.1%), the highest level since March, while shelter costs accelerated to 0.4% (Aug: 0.3%) and household fuel and utilities inflation surged to 0.5% (Aug: 0.1%). The latest print further reinforced prospects of more restrictive Fed rates for longer, providing modest support to the USD and weighing on regional currencies, including Ringgit.
- Nevertheless, Fed Chair Warsh refrained from providing any meaningful hawkish guidance during the annual IMF forum, prompting markets to scale back expectations of a more aggressive policy tightening cycle.
- Additionally, growing concerns over the recent AI-driven investment boom have triggered a broad-based sell-off in global technology stocks, resulting in a bond rally. Against this backdrop, U.S. treasury yields eased lower and exerted pressure on the USD by the end of the week.

COMMODITY: BRENT JUMPS ON RENEWED MIDDLE EAST AND RUSSIA SUPPLY RISKS

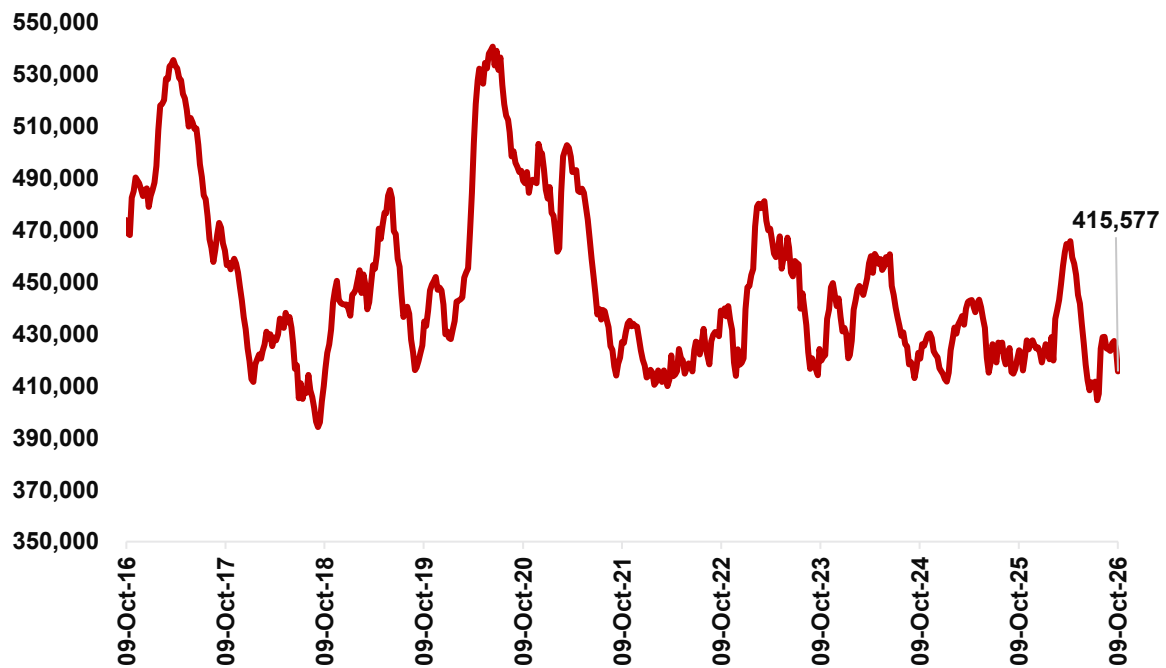
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Brent Crude in USD per barrel



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



Sources: Bloomberg, Energy Information Administration (EIA)

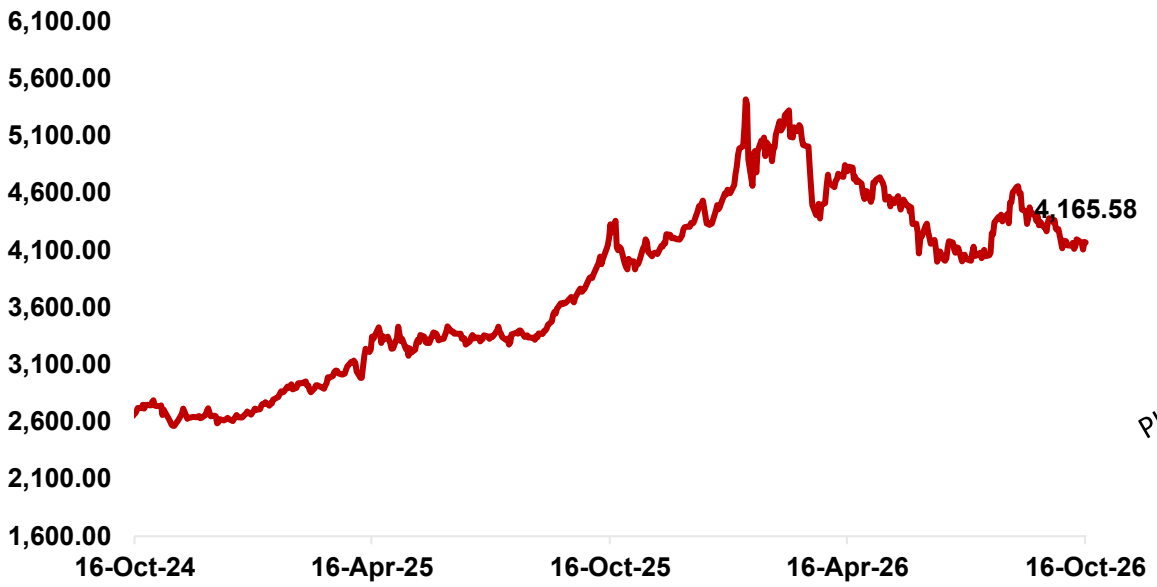
- Brent crude oil prices surged by 3.7% to settle at USD109.86/barrel on Friday, recording its highest close since May. On week-on-week basis, the prices rose by 4.9%. The rally was primarily driven by escalating Middle East tensions, including renewed attacks around the Strait of Hormuz and reports of a ballistic missile intercepted near Saudi Arabia's Red Sea port of Yanbu, heightening concerns over potential disruptions to global oil supplies.
- Meanwhile, uncertainty surrounding U.S. sanctions on Russia added to market volatility. Trump signed an executive order on Friday temporarily waiving certain sanctions and tariffs on Russian exports, with Secretary of State Marco Rubio subsequently indicating that the administration would take up to 60 days to assess their economic implications.
- U.S. crude oil inventories decreased by 8.6 million barrels to 415.6 million for the week ending October 09.

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COMMODITY: GOLD PRICE REGAINED PART OF ITS LOSSES LAST FRIDAY, CLOSING AT 4,165.58

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Gold in USD per ounce



U.S. Dollar Index (DXY)



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Sources: Bloomberg, CEIC Data

- Gold (XAU) prices declined by 0.7% w-o-w last week as hotter-than-expected U.S. inflation reinforced expectations of more restrictive Fed policy stance for longer, which increased the relative appeal of USD and weighed on non-yielding assets.
- Nevertheless, escalating tensions between Saudi Arabia and Yemeni Houthis spurred on a flight to safety, providing some support to gold given its safe-haven status. Notably, the Houthis launched attacks on key Saudi infrastructure, including energy facilities and international airports, fueling concerns over security and broader regional instability.
- Gold then recovered further towards the end of the week as USD retreated following less hawkish than expected signals from Fed Chair Kevin Warsh.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- In the U.S., market will focus on September housing starts and building permits on Tuesday (20 Oct), initial jobless claims on Thursday (22 Oct) and the October flash S&P Global PMIs on Friday (23 Oct). Consensus looks for housing starts to recover to around 1.3 million annualised units, while permits are expected at around 1.39 million. Weekly jobless claims are expected to remain broadly stable at around 200,000, suggesting that the labour market has not yet deteriorated materially despite tighter financial conditions. The flash manufacturing PMI is expected to remain expansionary at around 55, while services PMI is expected at 58, indicating continued strength in the services economy. The key market question is therefore whether resilient activity can coexist with the recent inflation shock without forcing the Fed into a more hawkish stance. The October Beige Book already points to modest employment growth, strong price pressures and relatively soft consumer spending, suggesting an economy that is still expanding but becoming increasingly uneven.

- For Europe, attention will centre on euro-area inflation developments and the UK CPI release on Wednesday (21 Oct), followed by UK retail sales and the flash UK PMI on Friday. The UK unemployment rate is due on Tuesday, with the consensus at 4.9%, while September CPI is expected to rise to 3.4% y-o-y from 3.1%. A higher-than-expected UK inflation reading would lead to monetary tightening by the Bank of England (BOE), particularly as energy prices have risen sharply. UK retail sales on Friday will then provide a useful read on whether elevated prices are beginning to constrain household demand. In the euro area, markets will continue to monitor inflation against the backdrop of renewed energy-price pressures and lingering fiscal concerns, particularly around France.

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- China will be the main Asian macro focus on Monday, with the release of 3Q26 GDP, September industrial production, retail sales, fixed-asset investment, capacity utilization and housing data. Current expectations point to 3Q GDP growth of around 4.4% y-o-y with September industrial production is projected at 5.4%, while retail sales expected to remain relatively subdued. The data will be important in determining whether domestic demand is gaining traction or whether China's recovery remains heavily dependent on manufacturing and exports. A downside surprise could reinforce expectations for additional policy support, particularly for the property and consumption sectors. Japan will also release September CPI on Friday, alongside the October flash PMI. With BoJ Governor Ueda warning that inflation could overshoot the 2.0% target, a firmer CPI reading could keep markets alert to the possibility of further policy normalization.

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THANK YOU