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WEEKLY ECONOMIC UPDATE

13 JULY 2026

ECONOMIC RESEARCH

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WEEKLY HIGHLIGHT: U.S. INFLATION DATA MODERATED MEANINGFULLY, EASING EXPECTATIONS OF A NEAR-TERM FED HIKE

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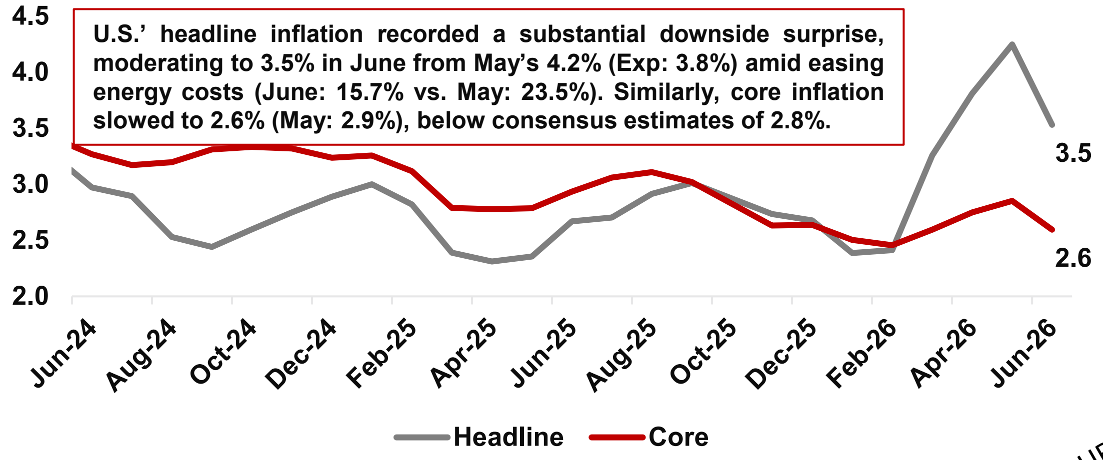
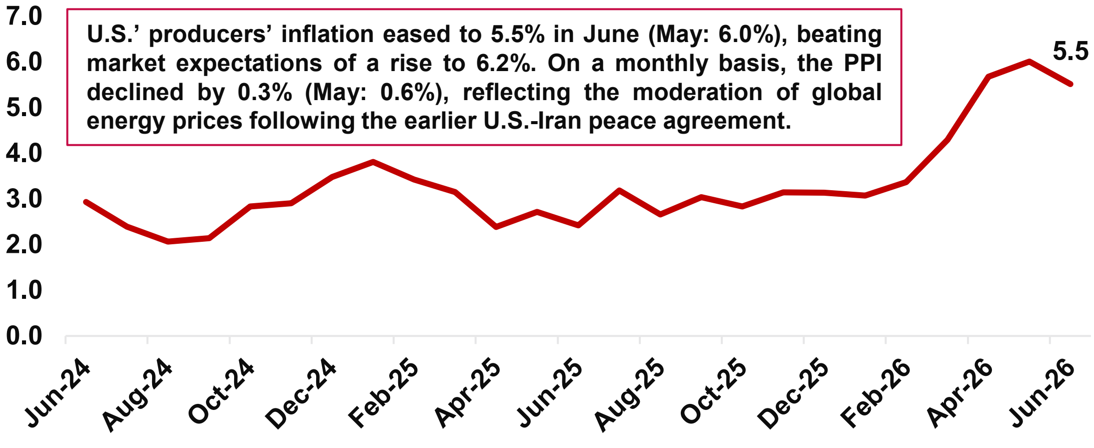
GLOBAL

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



U.S.' headline inflation recorded a substantial downside surprise, moderating to 3.5% in June from May's 4.2% (Exp: 3.8%) amid easing energy costs (June: 15.7% vs. May: 23.5%). Similarly, core inflation slowed to 2.6% (May: 2.9%), below consensus estimates of 2.8%.

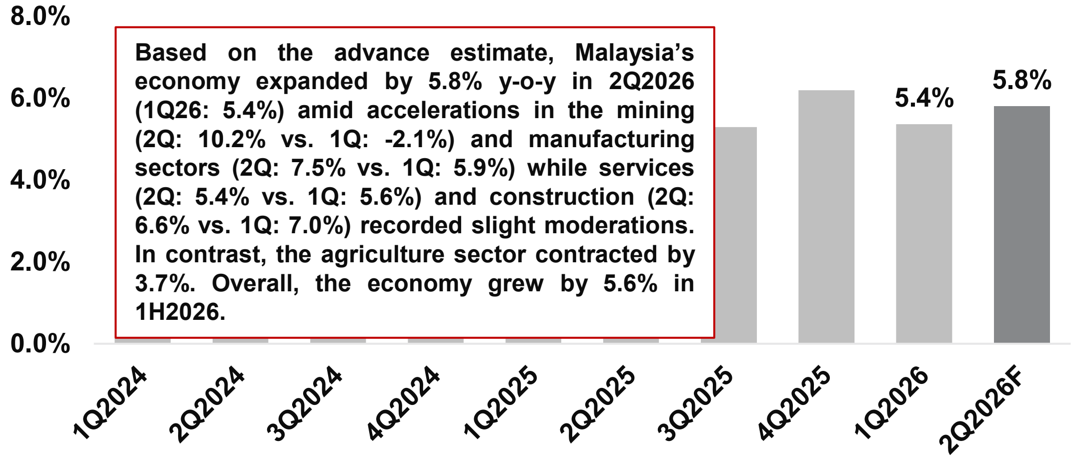
U.S. Producer Price Index (PPI), y-o-y%



U.S.' producers' inflation eased to 5.5% in June (May: 6.0%), beating market expectations of a rise to 6.2%. On a monthly basis, the PPI declined by 0.3% (May: 0.6%), reflecting the moderation of global energy prices following the earlier U.S.-Iran peace agreement.

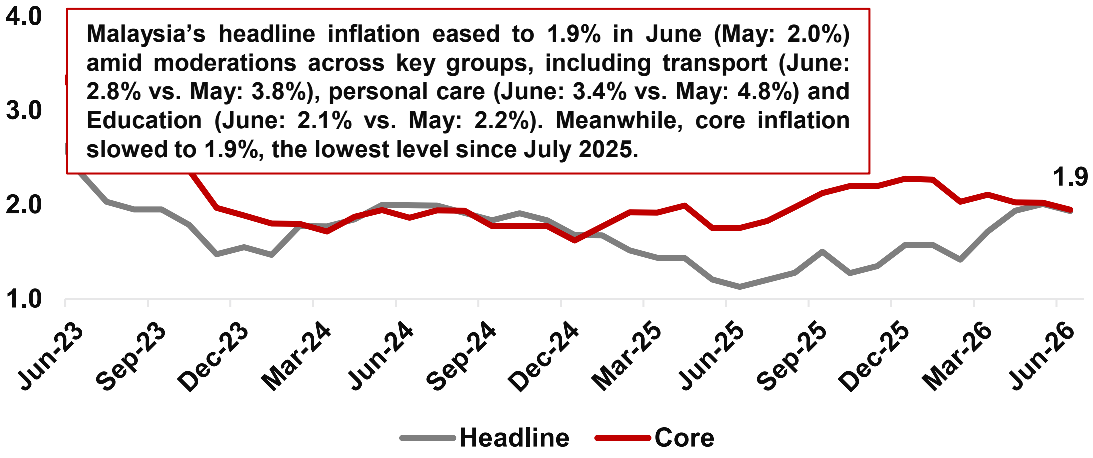
DOMESTIC

Malaysia - Real GDP, y-o-y%



Based on the advance estimate, Malaysia's economy expanded by 5.8% y-o-y in 2Q2026 (1Q26: 5.4%) amid accelerations in the mining (2Q: 10.2% vs. 1Q: -2.1%) and manufacturing sectors (2Q: 7.5% vs. 1Q: 5.9%) while services (2Q: 5.4% vs. 1Q: 5.6%) and construction (2Q: 6.6% vs. 1Q: 7.0%) recorded slight moderations. In contrast, the agriculture sector contracted by 3.7%. Overall, the economy grew by 5.6% in 1H2026.

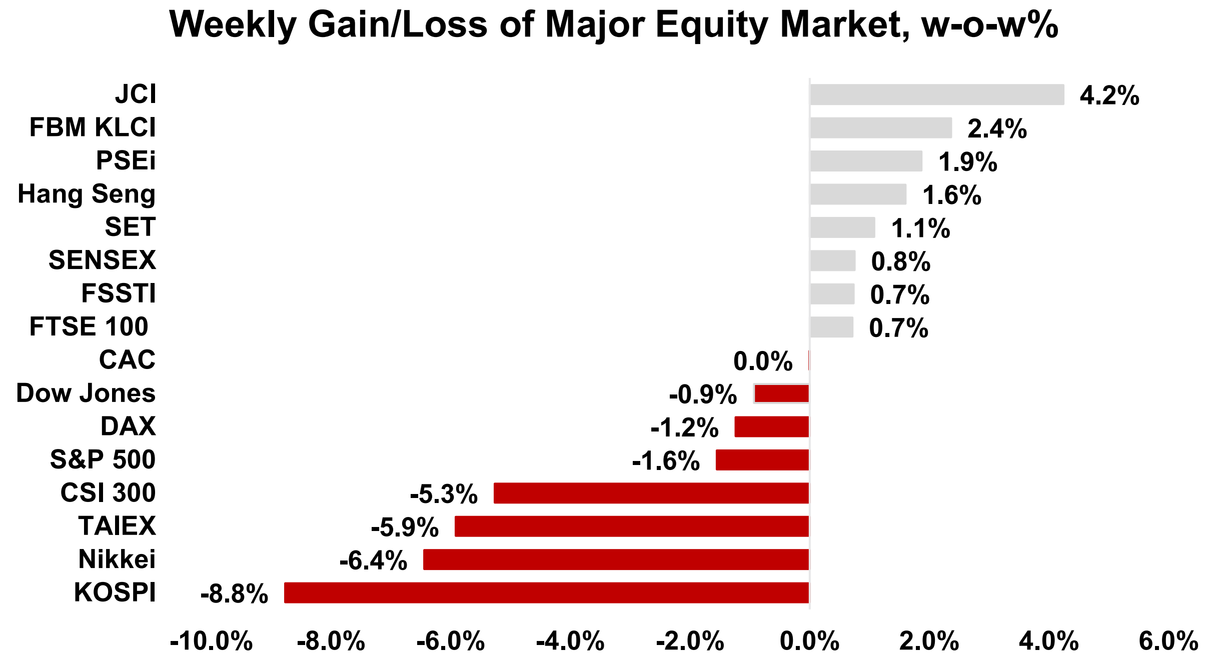
Malaysia – CPI, y-o-y%

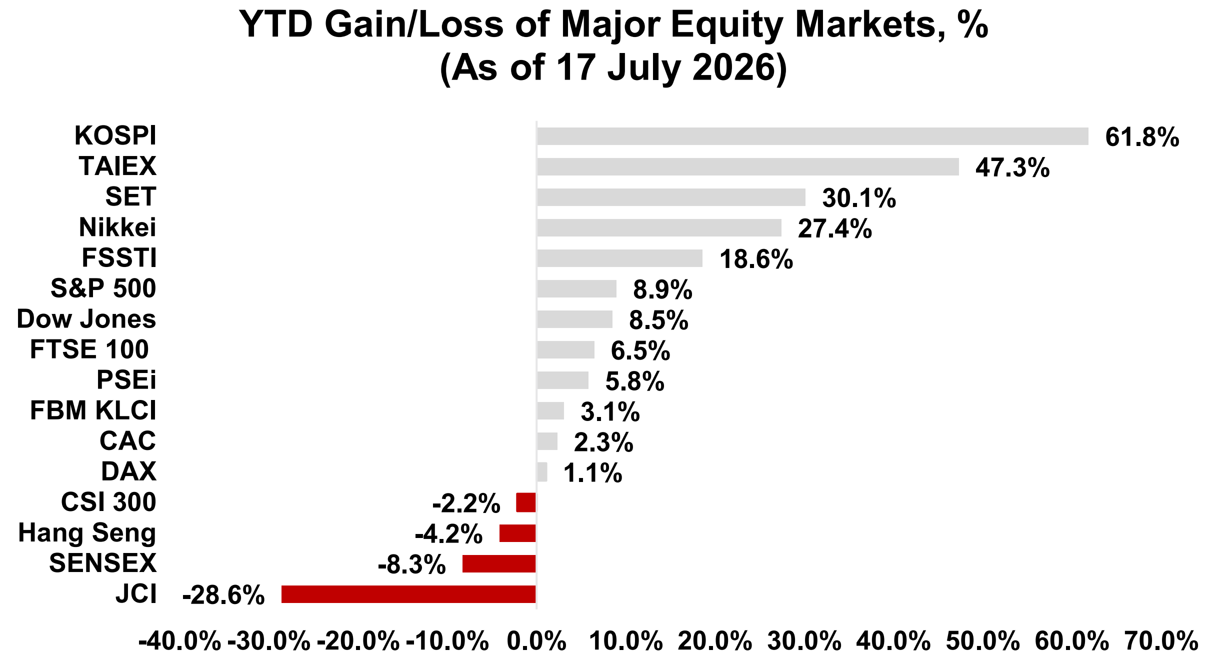


Malaysia's headline inflation eased to 1.9% in June (May: 2.0%) amid moderations across key groups, including transport (June: 2.8% vs. May: 3.8%), personal care (June: 3.4% vs. May: 4.8%) and Education (June: 2.1% vs. May: 2.2%). Meanwhile, core inflation slowed to 1.9%, the lowest level since July 2025.

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

REGIONAL EQUITY: GLOBAL EQUITIES DIVERGE AS TECH RETREATS, GEOPOLITICAL TENSIONS RISE





Sources: Bursa, CEIC Data

- Global equities closed mixed last week as investors shifted out of large-cap technology and AI-related stocks, reversing the strong gains seen previously. Oil prices climbed on concerns over potential supply disruptions, adding to inflation worries and dampening overall risk appetite.
- European equities softened as investors remained cautious ahead of key inflation data and the upcoming ECB policy meeting. Asian markets traded mixed, with investors balancing resilient U.S. economic data against renewed geopolitical tensions in the Middle East.
- In the U.S., the Dow Jones slipped 0.9% while the S&P 500 fell 1.6%, with U.S. Treasury yields edging lower as softer inflation readings strengthened expectations that the Federal Reserve could remain on hold.
- Regionally, Korea's KOSPI continued to be the top loser, followed by Japan's Nikkei and Taiwan's TAIEX, while Indonesia's JCI, Malaysia's KLCI, and Philippine's PSEI led gains.

DOMESTIC EQUITY: FBM KLCI STRENGTHENED AS SOLID 2Q2026 GROWTH LIFTED INVESTOR SENTIMENTS

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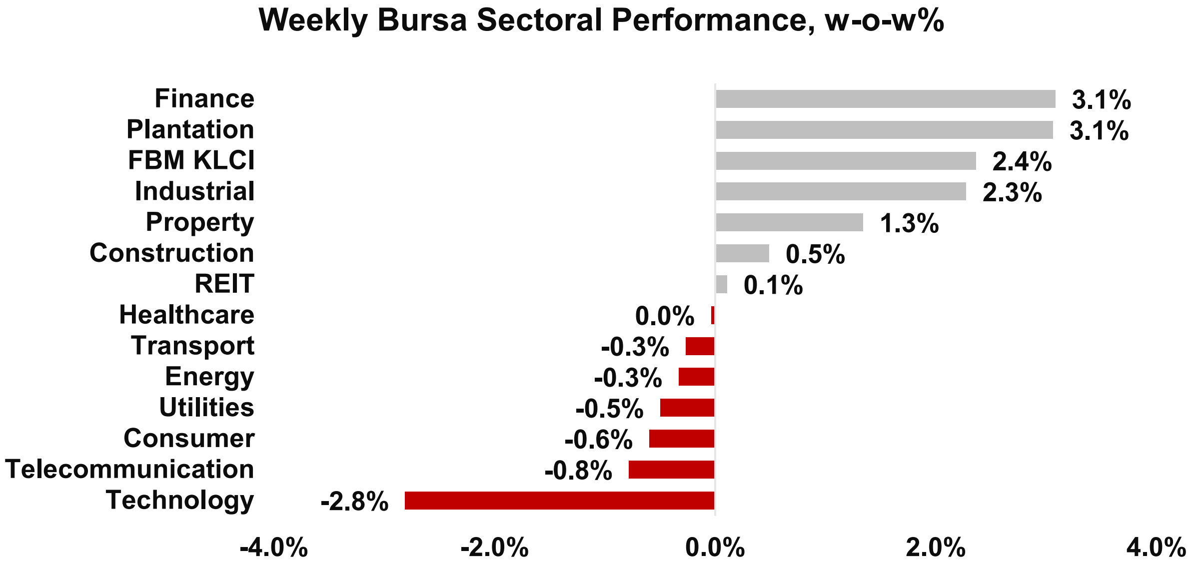

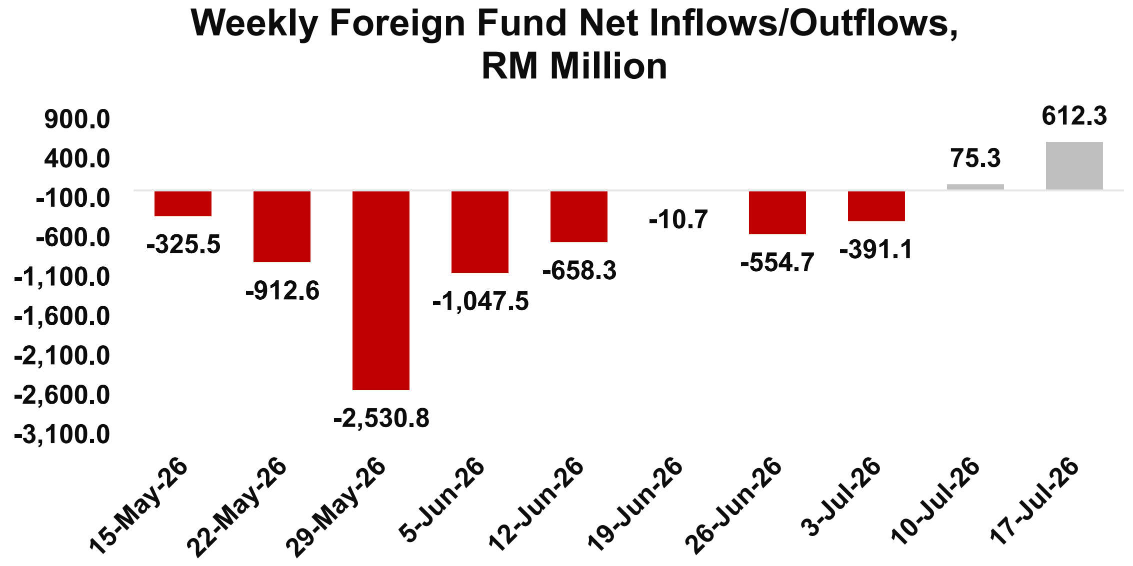

Sources: Bursa, CEIC Data

- The FBM KLCI climbed further by 2.4% w-o-w for the week ending July 17, driven by improving investor confidence over Malaysia's growth outlook.
- Preliminary data showed that Malaysia's economy grew by 5.8% in 2Q2026 (1Q26: 5.4%), underscoring resilient fundamentals against a backdrop of mounting external headwinds. The expansion was led by the manufacturing (+7.5%) and mining (+10.2%) sectors amid stronger output for electrical, electronic and optical products; chemical, rubber and plastic products; and natural gas. These sectors helped sustained overall economic momentum, mitigating drags from a moderation in the services (2Q: 5.4%) and construction (2Q: 6.6%) amid rising cost pressures, supply disruptions and broader geopolitical uncertainties. Meanwhile, the agriculture sector remained a drag on growth, contracting by 3.7% due to weaker production in the oil palm and fisheries segments.
- Bursa indices closed mixed, with both the Finance and Plantation indices climbing by 3.1%. In contrast, the Technology index slumped by 2.8%, tracking weaker performances across regional peers as investors grew increasingly cautious over the AI boom.
- Foreign investors remained net buyers for the second week with a total net inflow of RM612.3 million, the highest net inflow since January. This has reduced the cumulative net outflow thus far to RM3.8 billion.

FIXED INCOME: UST YIELDS SLIP ON SOFTER INFLATION AND SAFE-HAVEN FLOWS

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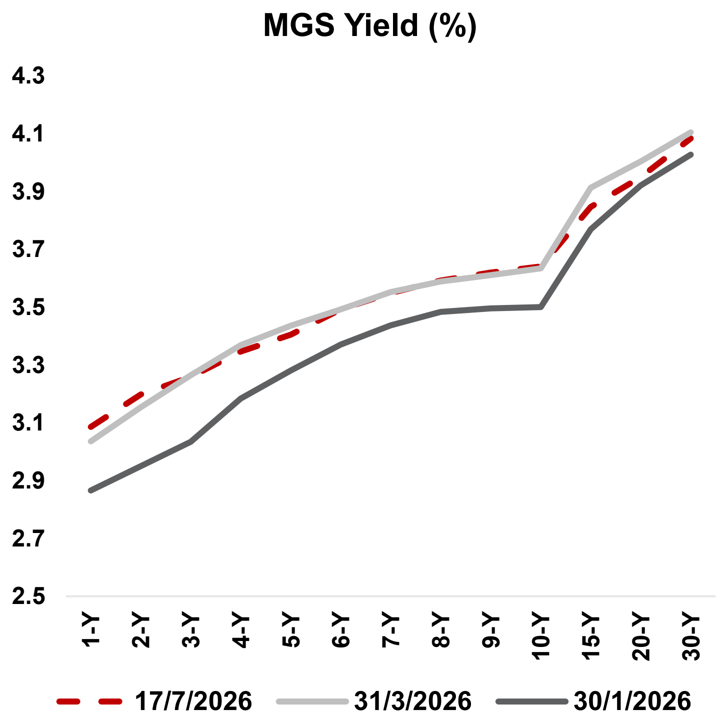
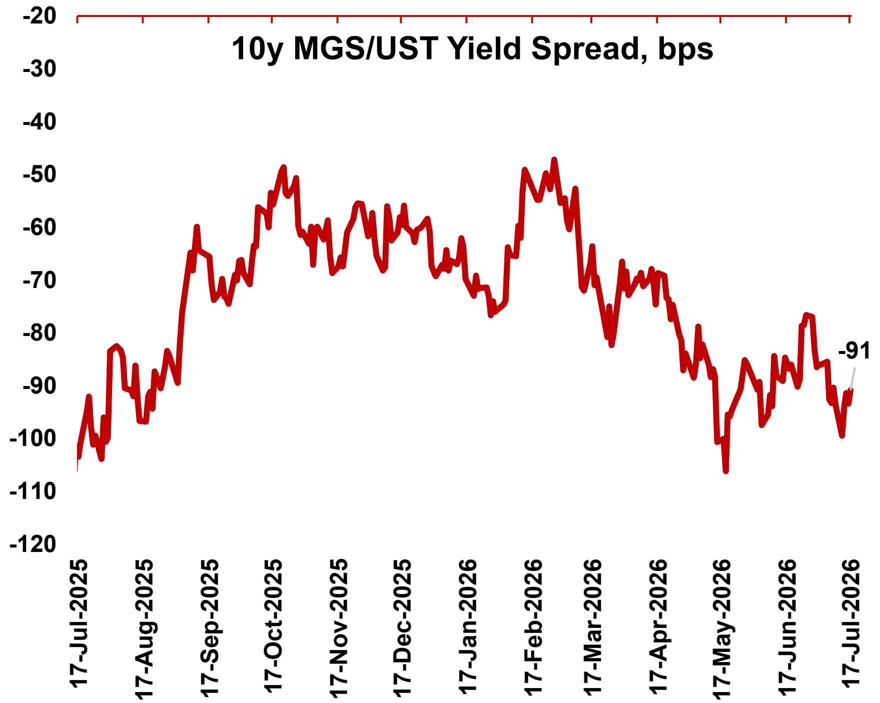
Weekly Changes, basis points (bps)			
UST	Yields (%) 10-Jul-26	Yields (%) 17-Jul-26	Change (bps)
3-Y UST	4.22	4.21	-1
5-Y UST	4.30	4.28	-2
7-Y UST	4.42	4.40	-2
10-Y UST	4.56	4.55	-1
MGS	Yields (%) 10-Jul-26	Yields (%) 17-Jul-26	Change (bps)
3-Y MGS	3.26	3.26	0
5-Y MGS	3.40	3.41	1
7-Y MGS	3.54	3.55	1
10-Y MGS	3.62	3.64	2
GII	Yields (%) 10-Jul-26	Yields (%) 17-Jul-26	Change (bps)
3-Y GII	3.26	3.28	2
5-Y GII	3.38	3.39	1
7-Y GII	3.54	3.56	1
10-Y GII	3.62	3.64	1

Sources: BNM, Federal Reserve Board





- U.S. Treasury (UST) yields ended lower, dipping between 1bp and 2bps for the week ending July 17, as investors rotated into safe-haven assets amid renewed geopolitical tensions in the Middle East, increasing demand for Treasuries and pushing yields lower.
- Softer U.S. inflation data added to the downward pressure, with June CPI slowing to 3.5% y-o-y (vs. 3.8% expected; May: 4.2%), reinforcing expectations that the Federal Reserve would be less likely to raise rates in the near term. The Producer Price Index (PPI) also surprised on the downside, further supporting the view that inflationary pressures were easing.
- In contrast, Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields ended higher by between 1bp and 2bps.
- The 10y MGS/UST yield spread narrowed marginally in the negative territory at 91bps relative to -94bps in the previous week.

FX MARKET: RINGGIT EASED AS JUNE DISINFLATION FURTHER REINFORCES STEADY BNM POLICY OUTLOOK

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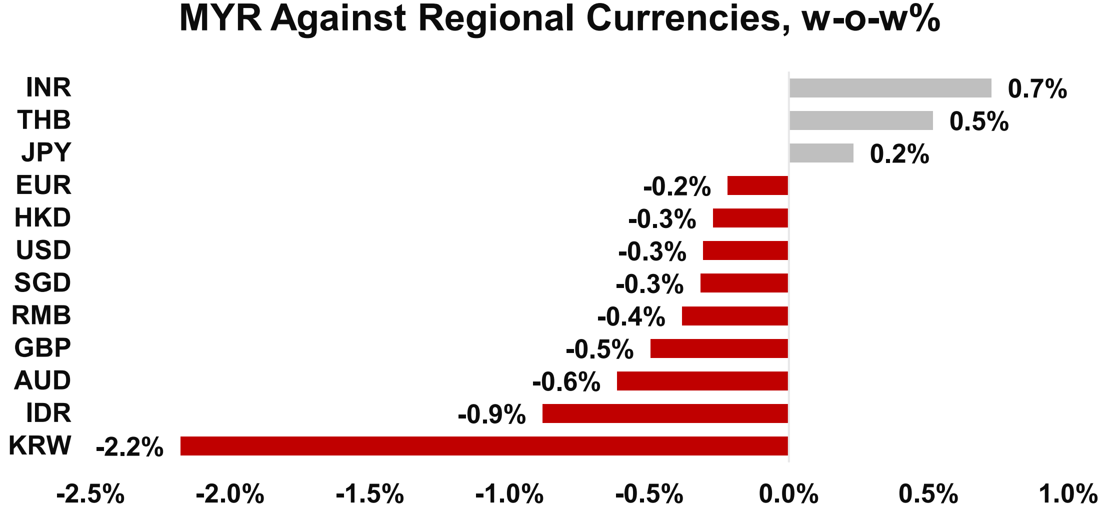

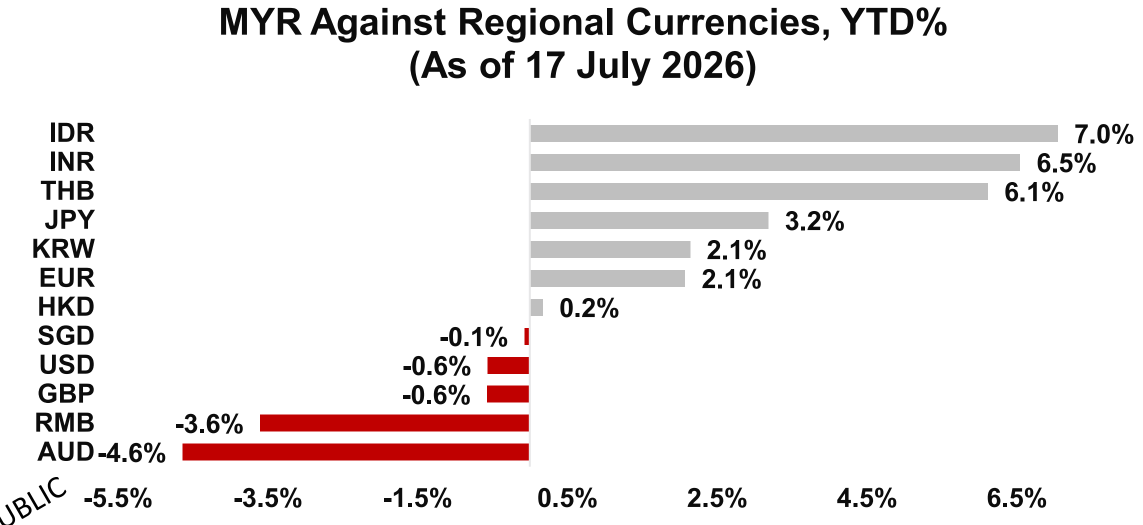

Sources: BNM, Federal Reserve Board (Fed), CEIC Data

- The Ringgit depreciated by 0.3% w-o-w the week ending 17 July despite a similar softness observed in the USD, weighed by rate differentials between Bank Negara Malaysia's Overnight Policy Rate (OPR) and the Fed's Federal Funds Rate (FFR).
- Malaysia's inflation remained steady in June, indicating that price pressures were broadly contained, which further reduced the need for a hawkish pivot by BNM. Thus, investors are increasingly certain that the central bank is poised to keep the OPR unchanged this year, offering limited support to the Ringgit.
- Meanwhile, the USD index initially strengthened last Monday following the escalation of U.S.-Iran geopolitical tensions, triggering a flight to safety as investors positioned for the possibility of a broader regional conflict.
- The escalation also renewed concerns of potential disruptions to global trade shipments amid heightened uncertainty over the status of the Strait of Hormuz. As such, global energy prices rebounded, resulting in rising inflation expectations. The initial reaction was swift as markets began to aggressively price in a near-term Fed policy tightening, with the probability of a July hike climbing above 41.0% last Monday, which improved the USD's yield appeal.
- However, U.S. inflation came in significantly softer than expected, signaling that price pressures are less entrenched than feared. While the moderation in headline inflation (June: 3.5% vs. May: 4.2%) could be attributed to the sharp reversal in energy prices earlier, core inflation also eased meaningfully (June: 2.6% vs. May: 2.9%). The disinflation suggested that underlying price pressures is relatively contained, granting the Fed greater flexibility to navigate its policy path. Thus, markets significantly scaled back their more aggressive bets, exerting renewed pressure on the USD (-0.2% w-o-w) as prospects of a July move dropped sharply.

COMMODITY: OIL SURGES AS MIDDLE EAST CONFLICT REIGNITES SUPPLY DISRUPTION FEARS

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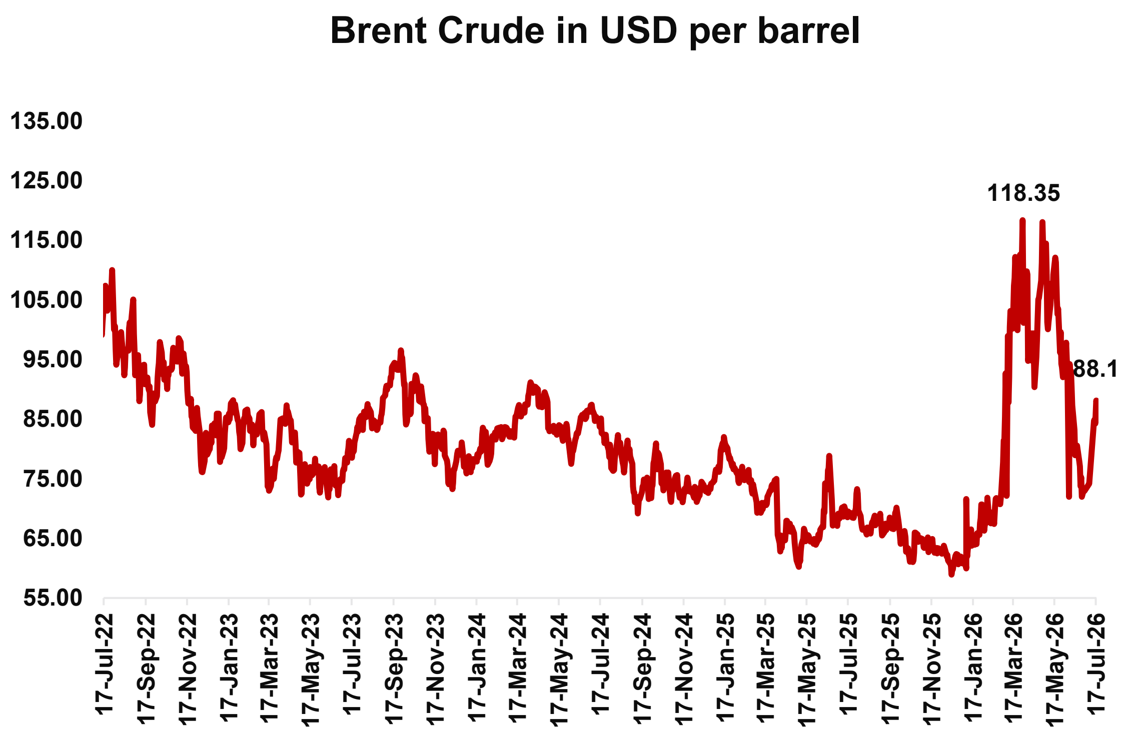

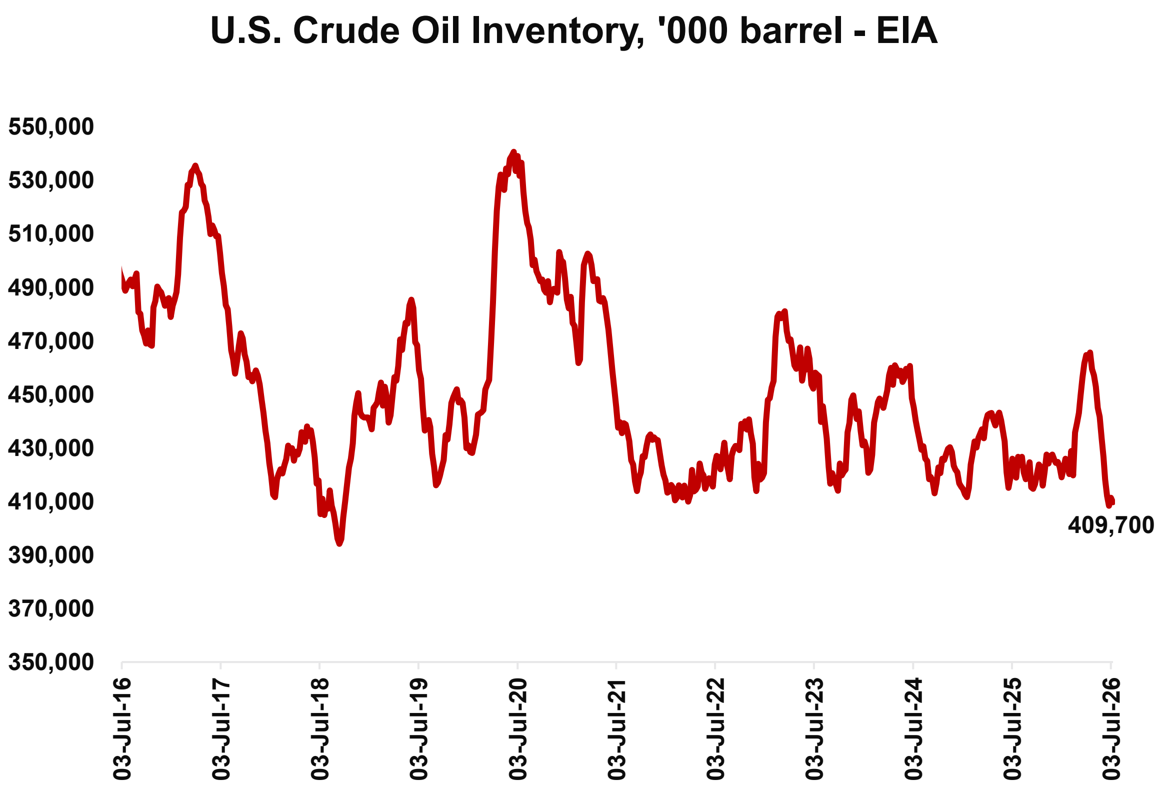

Sources: Bloomberg, Energy Information Administration (EIA)

- Oil prices surged as much as 4.6% on Friday to close at USD88.1/barrel, marking a sharp 15.9% gain week-on-week. Fresh confrontation between the U.S. and Iran heightened uncertainty in the Middle East, prompting investors to price in a higher risk premium. Concerns grew that instability could disrupt shipments through key sea lanes, particularly the Red Sea and the Strait of Hormuz, which are vital for global energy flows.
- Supply security fears outweighed demand concerns, with traders focusing on the risk of near-term disruptions rather than slowing global consumption, providing additional support to crude prices.
- U.S. crude oil inventories dropped by 1.7 million barrels to 409.7 million for the week ending July 10.

COMMODITY: GOLD PRICE EXTENDED ITS DECLINE, FAILING TO GENERATE MOMENTUM ON ITS SAFE-HAVEN STATUS

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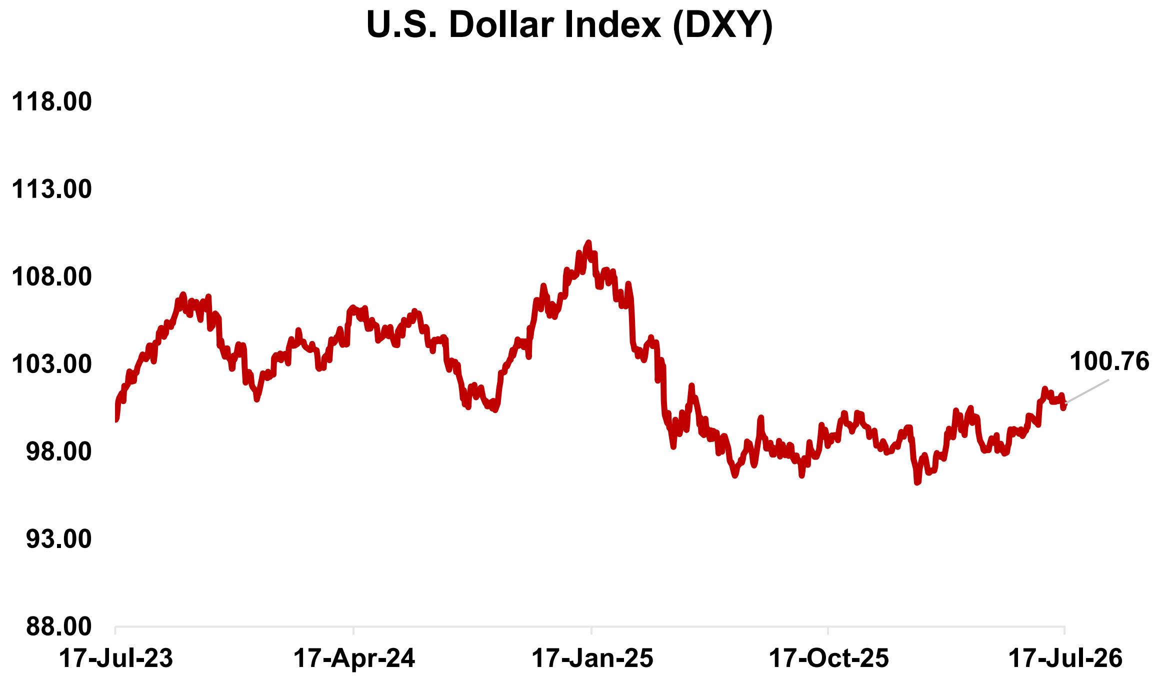

Sources: Bloomberg, CEIC Data

- Gold price (XAU) depreciated by 2.5% w-o-w last week as prolonged geopolitical uncertainties continued to weigh on investor sentiments.
- Tensions between U.S. and Iran intensified following reports of strikes on a commercial vessel in the Strait of Hormuz earlier. This led to the U.S. launching attacks on Iran's military, surveillance and communications facilities, triggering retaliatory strikes across U.S. military bases across the Middle East, including in Kuwait, Qatar, Bahrain, Jordan, UAE and Oman.
- Despite its safe-haven appeal, the XAU has traded with a bearish bias in recent weeks, signaling that investors largely maintained short exposure to the XAU while preferring the USD as a defensive hedge. As such, demand for the XAU remained subdued despite the escalating geopolitical tensions, contributing to its weekly decline.

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- Global equity markets are expected to remain volatile this week as investors navigate geopolitical uncertainty, elevated oil prices and a busy corporate earnings season. Results from major U.S. companies, particularly in the technology sector, will be closely watched for signs of earnings resilience and continued AI-driven investment. Meanwhile, energy stocks may continue to benefit if crude oil prices stay elevated amid ongoing Middle East tensions. Investors will also monitor any shifts in Federal Reserve rate expectations for clues on the outlook for financial markets. Overall, earnings results, interest rate expectations and geopolitical developments are expected to be the main drivers of market direction this week.

- The European Central Bank (ECB) is widely expected to hold rates steady this week after its June hike, as policymakers remain cautious amid eurozone inflation still above target and growth momentum weakening. Headline inflation has eased but remains sticky at around 3%, while energy shocks and subdued confidence continue to weigh on the outlook. The ECB has signaled a meeting-by-meeting approach, avoiding firm forward guidance, but the bias remains toward vigilance against inflation risks. In contrast, Bank Indonesia (BI) is likely to maintain its benchmark rate at 6.00% following consecutive hikes in June and July aimed at stabilizing the rupiah and containing inflation near the upper bound of its target range. The central bank's priority is currency stability and inflation management, even as growth moderates slightly below government expectations. BI will keep rates unchanged to balance external pressures with domestic price stability. Both central banks are therefore expected to pause, reflecting a cautious stance in the face of global uncertainty. Markets will closely watch their communication for signals on future tightening paths.

- The upcoming inflation releases from the UK, Eurozone, and Japan will be closely watched for clues on the next phase of monetary policy. In the UK, inflation is expected to remain relatively sticky as persistent wage growth and services inflation continue to keep price pressures elevated, reducing the urgency for the Bank of England (BoE) to ease policy. Meanwhile, Eurozone inflation is expected to remain broadly contained as lower energy costs and softer domestic demand offset lingering services inflation. Japan's inflation is likely to stay above the Bank of Japan's 2% target, supported by higher food prices and steady wage increases.

THANK YOU