WEEKLY ECONOMIC UPDATE

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ECONOMIC RESEARCH

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WEEKLY HIGHLIGHT: ELEVATED ENERGY PRICES LINKED TO THE U.S.-IRAN CONFLICT CONTINUED TO UNDERPIN TRANSPORT COSTS

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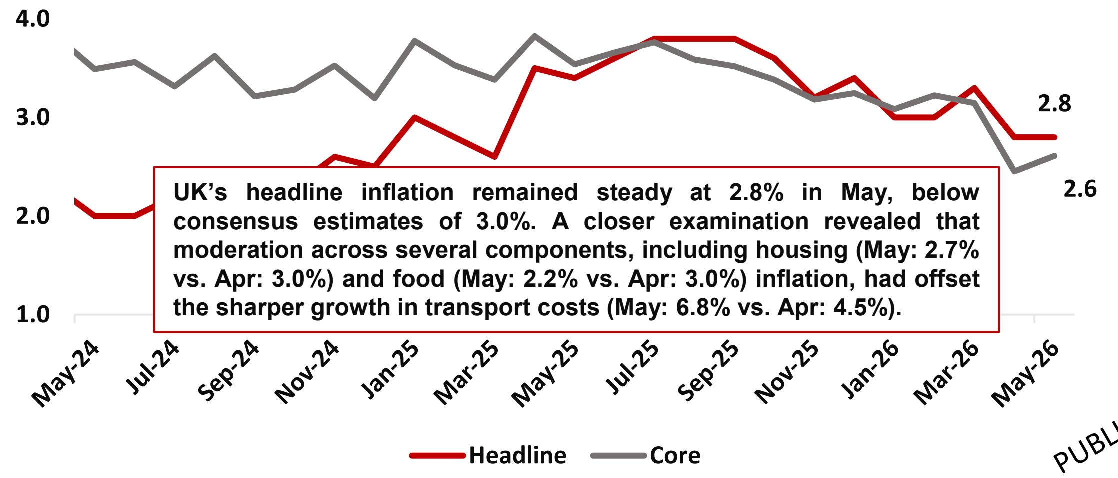
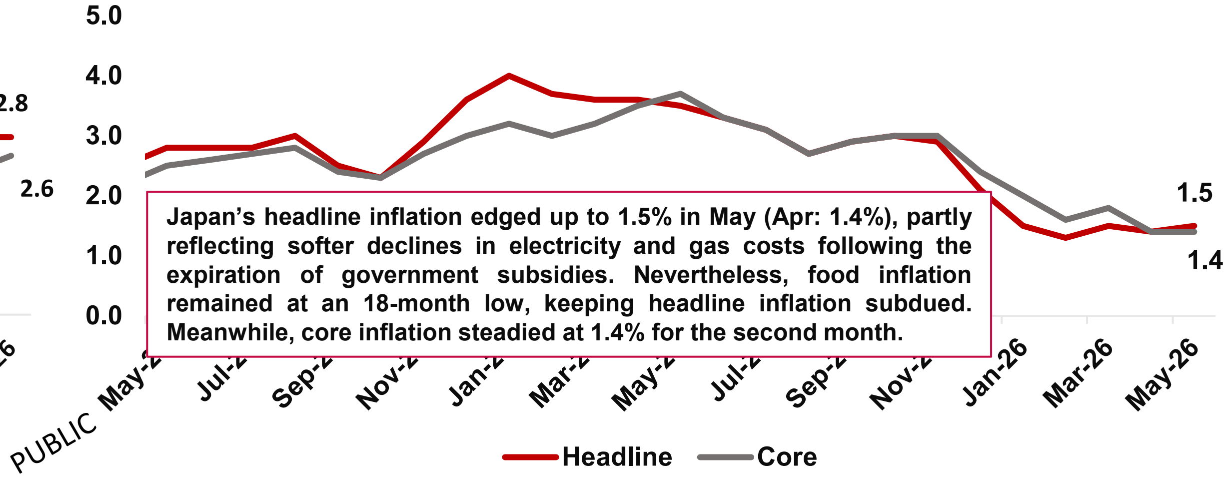
GLOBAL

UK – Consumer Price Index (CPI), y-o-y%



UK's headline inflation remained steady at 2.8% in May, below consensus estimates of 3.0%. A closer examination revealed that moderation across several components, including housing (May: 2.7% vs. Apr: 3.0%) and food (May: 2.2% vs. Apr: 3.0%) inflation, had offset the sharper growth in transport costs (May: 6.8% vs. Apr: 4.5%).

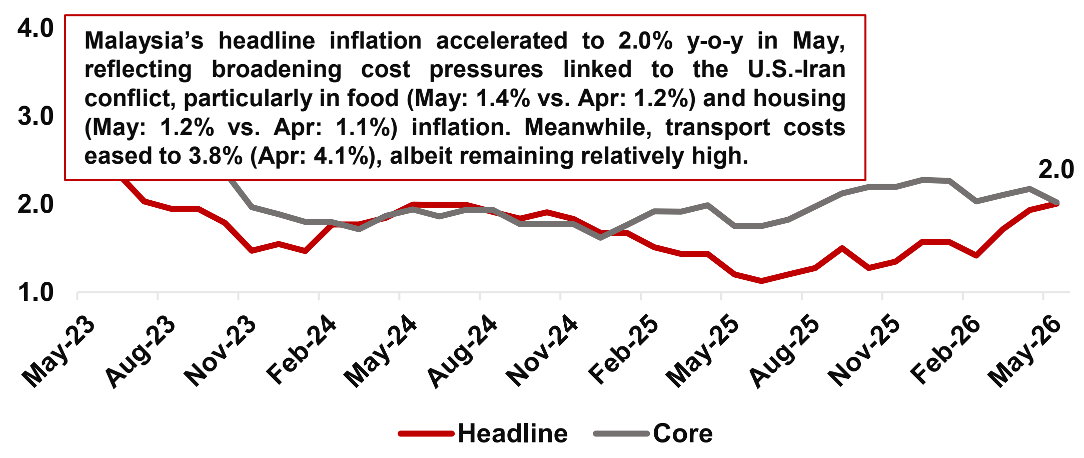
Japan - CPI, y-o-y%



Japan's headline inflation edged up to 1.5% in May (Apr: 1.4%), partly reflecting softer declines in electricity and gas costs following the expiration of government subsidies. Nevertheless, food inflation remained at an 18-month low, keeping headline inflation subdued. Meanwhile, core inflation steadied at 1.4% for the second month.

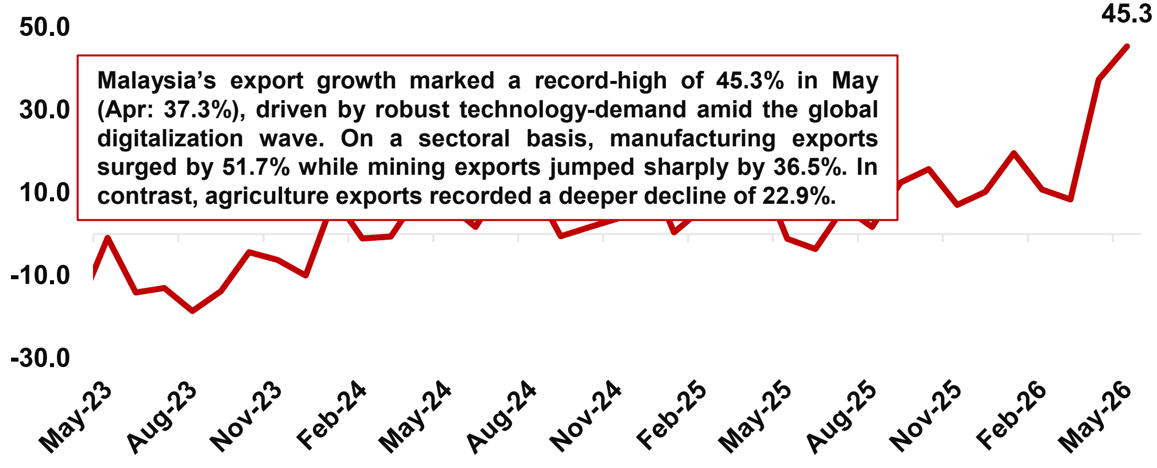
DOMESTIC

Malaysia – CPI, y-o-y%



Malaysia's headline inflation accelerated to 2.0% y-o-y in May, reflecting broadening cost pressures linked to the U.S.-Iran conflict, particularly in food (May: 1.4% vs. Apr: 1.2%) and housing (May: 1.2% vs. Apr: 1.1%) inflation. Meanwhile, transport costs eased to 3.8% (Apr: 4.1%), albeit remaining relatively high.

Malaysia - Exports, y-o-y%



Malaysia's export growth marked a record-high of 45.3% in May (Apr: 37.3%), driven by robust technology-demand amid the global digitalization wave. On a sectoral basis, manufacturing exports surged by 51.7% while mining exports jumped sharply by 36.5%. In contrast, agriculture exports recorded a deeper decline of 22.9%.

Sources: Office for National Statistics, Department of Statistics Malaysia (DOSM), CEIC Data

REGIONAL EQUITY: GLOBAL EQUITIES END IN GREEN AS U.S.–IRAN PEACE DEAL EASES RISK

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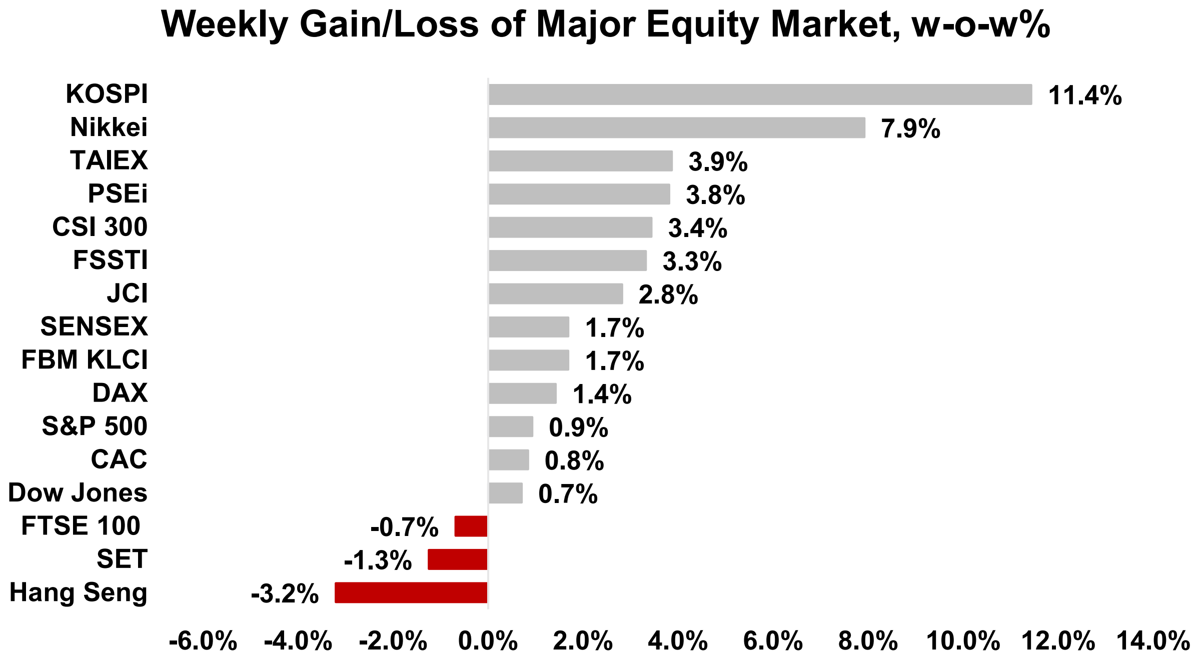

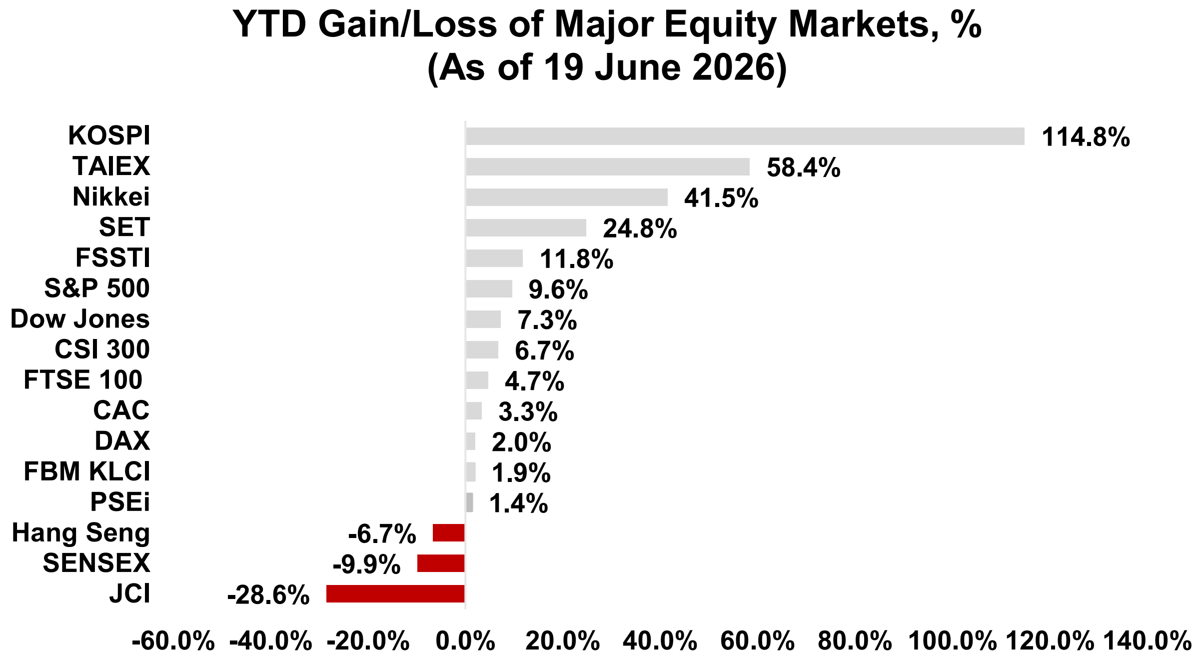

Sources: Bursa, CEIC Data

- Global equity markets mostly closed higher for the week ended June 19, with sentiment shaped by easing geopolitical risk. It was led by South Korea's KOSPI, which posted the strongest performance with a 11.4% gain, followed by Japan's Nikkei (+7.9%).
- A key supportive factor was progress toward a U.S.-Iran peace deal, which helped reduce oil-driven inflation fears and improved risk sentiment. That easing in geopolitical tension also contributed to lower safe-haven demand, supporting cyclicals and travel-sensitive sectors. However, this positive tone was partially offset by a more hawkish Federal Reserve outlook, which pushed up short-term yields and weighed on rate-sensitive growth stocks.
- In the U.S., equities were range-bound as stronger retail sales signaled economic resilience but also reinforced concerns about prolonged higher rates, with the S&P 500 (+0.9%) and Dow Jones (+0.7%) posting only marginal gains.
- In contrast, Hong Kong's Hang Seng (-3.2%) posted the highest decline, followed by Thailand's SET (-1.3%) and UK's FTSE 100 (-0.7%).

DOMESTIC EQUITY: FBM KLCI MIRRORED BROAD REBOUNDS ACROSS REGIONAL PEERS FOLLOWING U.S.-IRAN PEACE DEAL

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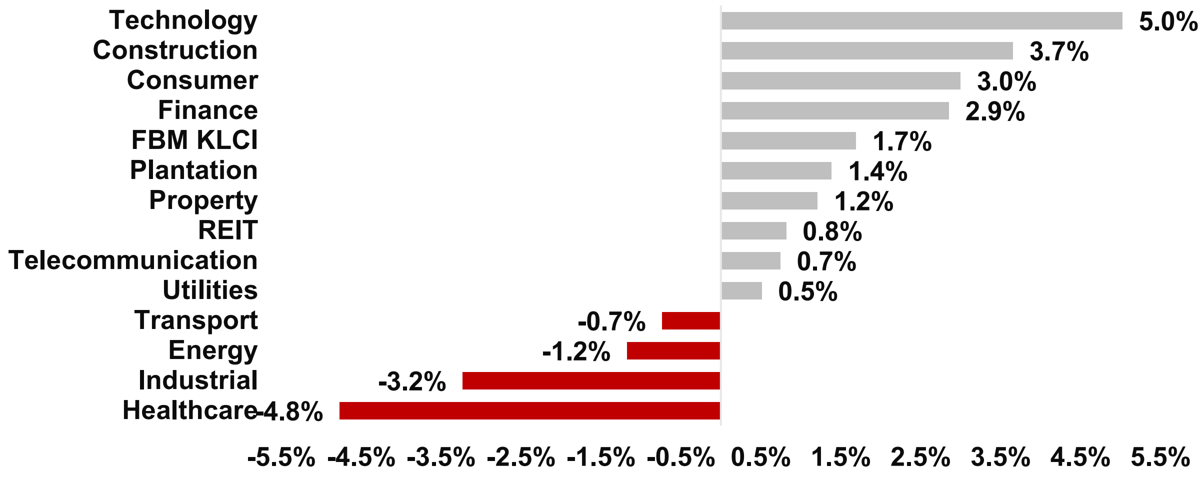
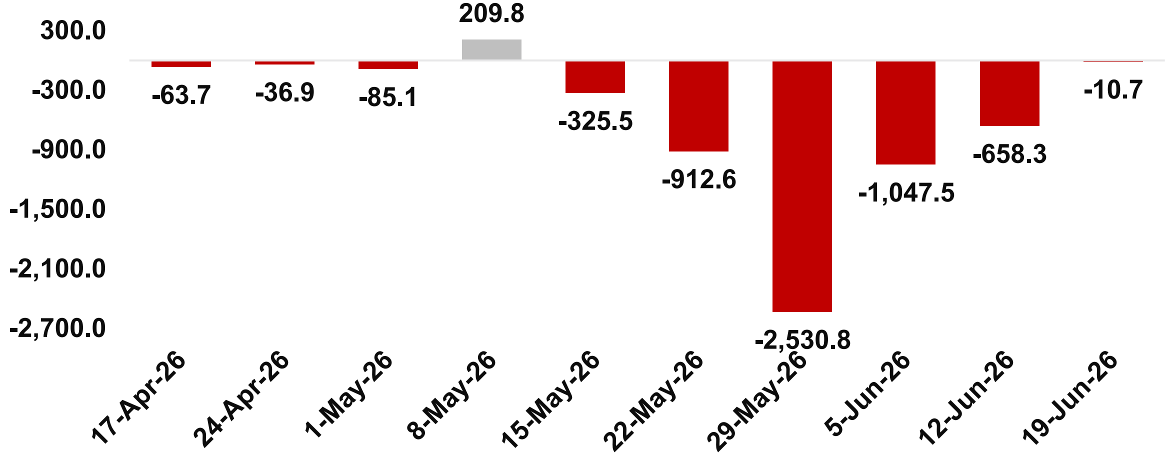
Weekly Bursa Sectoral Performance, w-o-w%



Weekly Foreign Fund Net Inflows/Outflows, RM Million



Sources: Bursa, CEIC Data

- The FBM KLCI climbed 1.7% higher w-o-w for the week ending June 19, reflecting broad-based gains across regional equity markets.
- Investor risk sentiments improved significantly following the finalization of an agreement to end the ongoing U.S.-Iran geopolitical conflict, triggering a rotation away from safe-haven assets.
- Domestically, buying interest in the local market remain supported by Malaysia's resilient economic fundamentals amid key releases last week, continuing to bolster investor confidence.
- Looking closer, most Bursa indices ended in the green with the Technology index (+5.0%) extending its momentum, driven by optimism over the global technology bubble. This was followed by the Construction (+3.7%) and Consumer (3.0%) indices.
- In contrast, as investors unwound defensive positions, related stocks came under pressure with declines seen in the Healthcare (-4.8%) and Transport (-0.7%) indices. Additionally, profit-taking activities were seen in previously outperforming sectors, leading to a 3.2% and 1.2% declines in the Industrial and Energy indices.
- Foreign investors remained as net sellers for the sixth straight week, albeit recording a smaller net outflow of RM10.7 million. This has increased the 2026 cumulative net outflow thus far to RM3.6 billion.

FIXED INCOME: UST YIELDS MIXED AS FED HAWKISHNESS LIFTS SHORT END, CEASEFIRE EASES SAFE-HAVEN DEMAND

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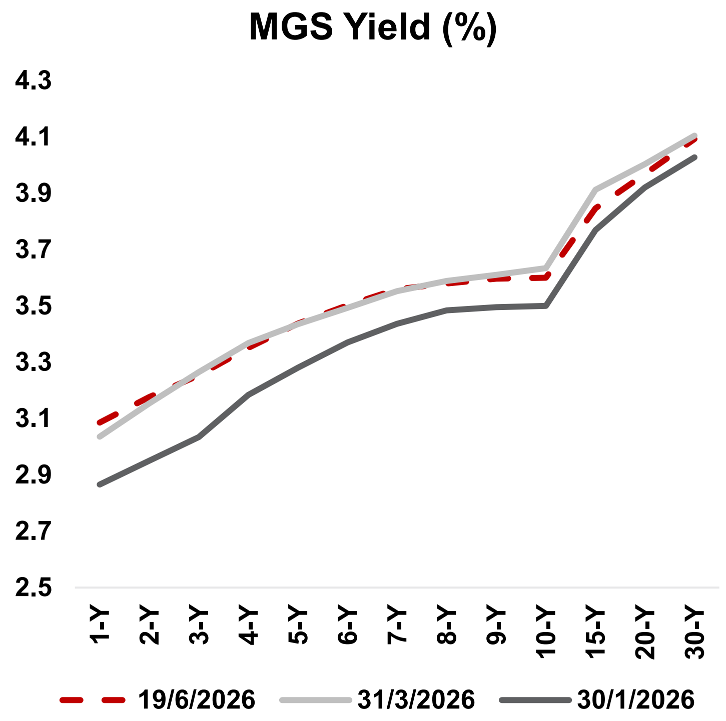
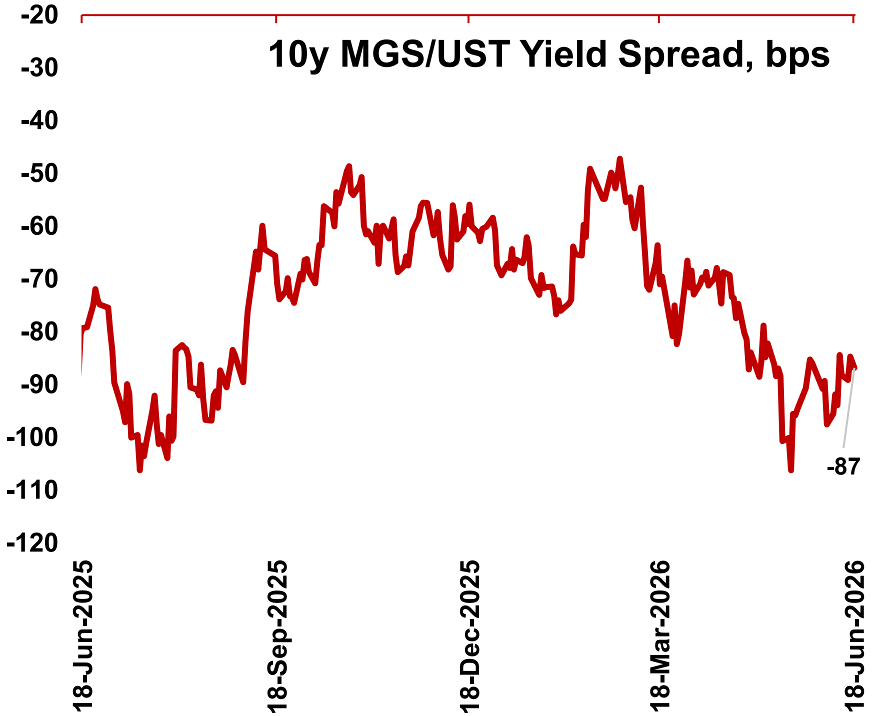
Weekly Changes, basis points (bps)

UST	Yields (%) 12-Jun-26	Yields (%) 18-Jun-26	Change (bps)
3-Y UST	4.12	4.19	7
5-Y UST	4.21	4.23	2
7-Y UST	4.34	4.34	0
10-Y UST	4.48	4.46	-2
MGS	**Yields (%) 12-Jun-26**	**Yields (%) 18-Jun-26**	**Change (bps)**
3-Y MGS	3.25	3.25	0
5-Y MGS	3.43	3.43	0
7-Y MGS	3.57	3.56	-2
10-Y MGS	3.60	3.59	-1
GII	**Yields (%) 12-Jun-26**	**Yields (%) 18-Jun-26**	**Change (bps)**
3-Y GII	3.25	3.24	-1
5-Y GII	3.38	3.37	-1
7-Y GII	3.56	3.55	-1
10-Y GII	3.62	3.60	-2

Sources: BNM, Federal Reserve Board





- The U.S. Treasury (UST) yields ended mixed in the range -2bps and 7bps for the week ending June 18. The U.S. markets were closed on Friday due to the Juneteenth National Independence Day holiday. U.S. Treasury yields moved in opposite directions last week, with shorter-term yields advancing while longer-term yields edged lower. It was largely driven by a more hawkish message from the Fed, which reinforced expectations that monetary policy could remain restrictive for longer under Fed Chair Kevin Warsh. Markets subsequently raised their expectations for additional rate increases, leading to a notable rise in short-dated yields.
- Meanwhile, easing tensions in the Middle East following progress toward a U.S.-Iran peace agreement reduced demand for safe-haven assets.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields ended lower in the range of -2bps and -1bps.
- The 10y MGS/UST yield spread narrowed marginally in the negative territory at 87bps relative to -88bps in the previous week.

FX MARKET: RINGGIT DEPRECIATED AGAINST A BACKDROP OF U.S. FED AND BNM POLICY DIVERGENCE

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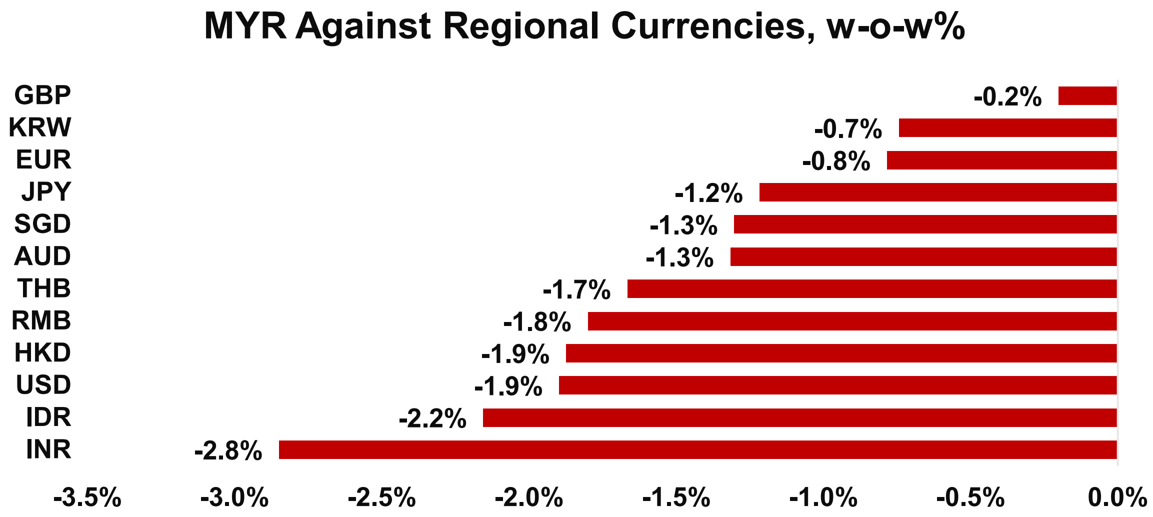

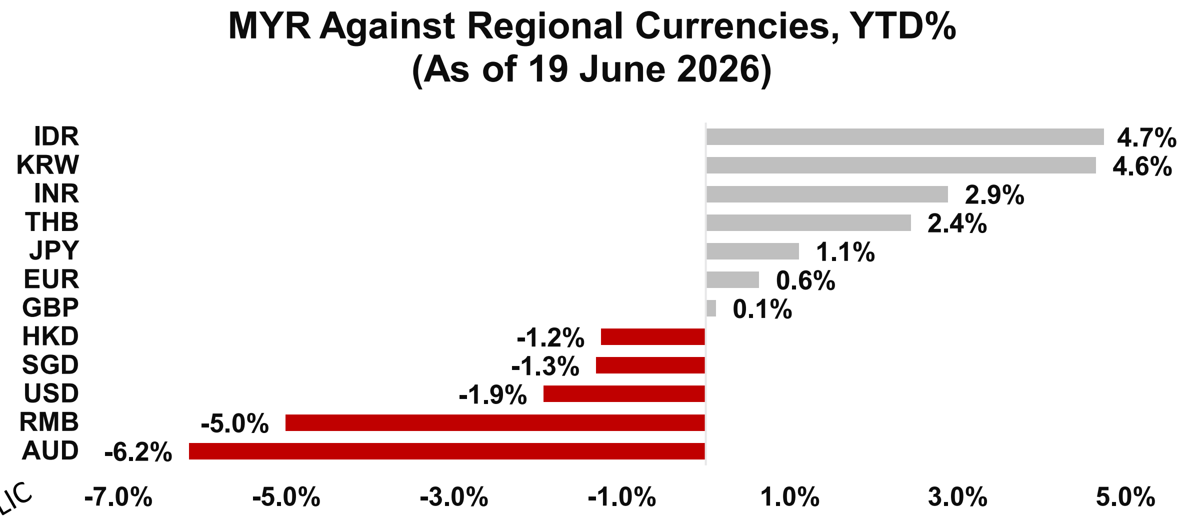

Sources: BNM, Federal Reserve Board (Fed), CEIC Data

- The Ringgit depreciated by 1.9% w-o-w as the USD index strengthened by 1.1%. Earlier in the week, the Ringgit briefly appreciated amid a broad-based repricing across asset classes following the announcement of a finalized peace deal between the U.S. and Iran. However, as near-term geopolitical concerns eased, FX markets shifted their focus towards major central banks policy outlooks, particularly the U.S. Federal Reserve.
- Investor expectations largely lean towards a more hawkish Fed policy stance, driven by upside risks to inflation amid intensifying energy-driven price pressures. In contrast, Bank Negara Malaysia (BNM) maintained its steady policy guidance, reinforcing expectations that the Overnight Policy Rate (OPR) will be held steady at 2.75% in the near term. As such, the Ringgit came under pressure against the USD as the anticipation of widening OPR-FFR rate differentials drove capital flows into higher yielding assets.
- The Ringgit also underperformed against a basket of major currencies, reflecting weakening investor sentiment amid evolving monetary policy expectations.
- By mid-week, the USD gained strong upward momentum following more hawkish-than-expected Fed signals, breaking decisively above the key 100.00 resistance level. Notably, the June dot plot projections revealed that nine out of nineteen Board members foresee additional tightening this year while another eight expects the FFR to be maintained. As such, bullish momentum in the USD/MYR currency pair intensified with the pair advancing past successive resistance zones to close at 4.1368 on Friday, the highest level in over six months.

COMMODITY: HORMUZ CONCERNS LIFT OIL LATE WEEK, BUT CEASEFIRE DRIVES WEEKLY LOSSES TO POST-WAR LOWS

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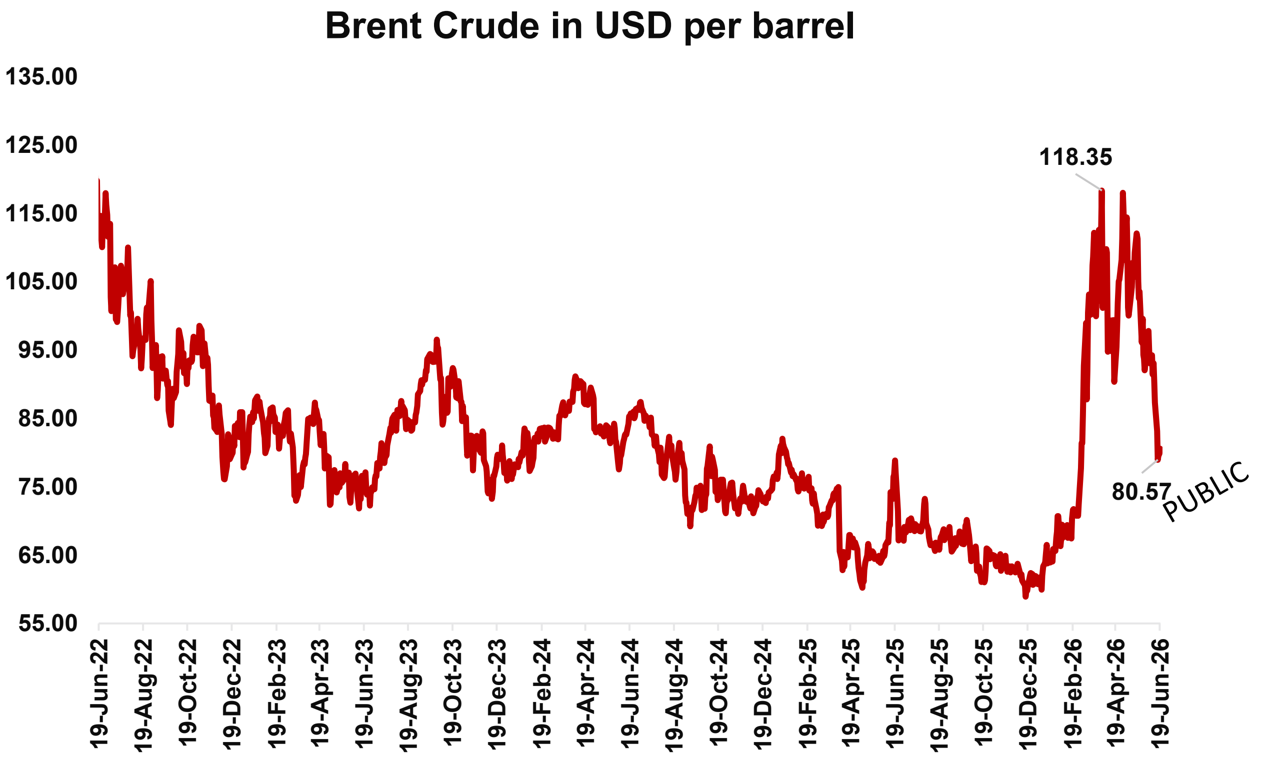

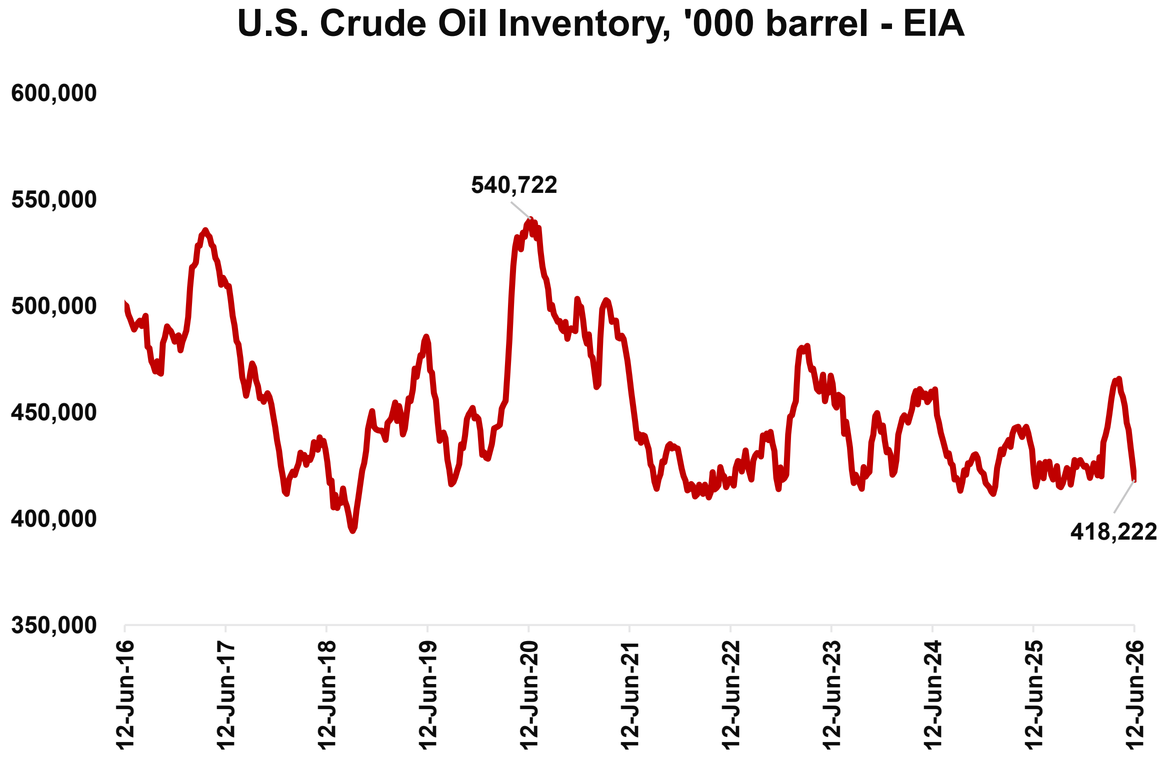

Sources: Bloomberg, Energy Information Administration (EIA)

- Brent crude oil closed higher on Friday (June 19), edging up to USD 80.57/barrel despite posting an almost 8.0% week-on-week decline and fell to levels unseen since the war started.
- Prices were supported by renewed concerns over potential disruptions to oil shipments through the Strait of Hormuz after Iran imposed stricter conditions on vessels transiting the key waterway. Market sentiment was also influenced by lingering uncertainty over the durability of the Israel-Hezbollah ceasefire, prompting traders to maintain a geopolitical risk premium in oil prices.
- In addition, concerns over regional shipping logistics persisted even as tanker movements through the Strait of Hormuz resumed, underpinning crude prices.
- U.S. crude oil inventories declined further by 8.3 million barrels to 418.2 million for the week ending June 12.

COMMODITY: GOLD PRICE DECLINED AS THE USD REGAINED ITS BULLISH TRAJECTORY

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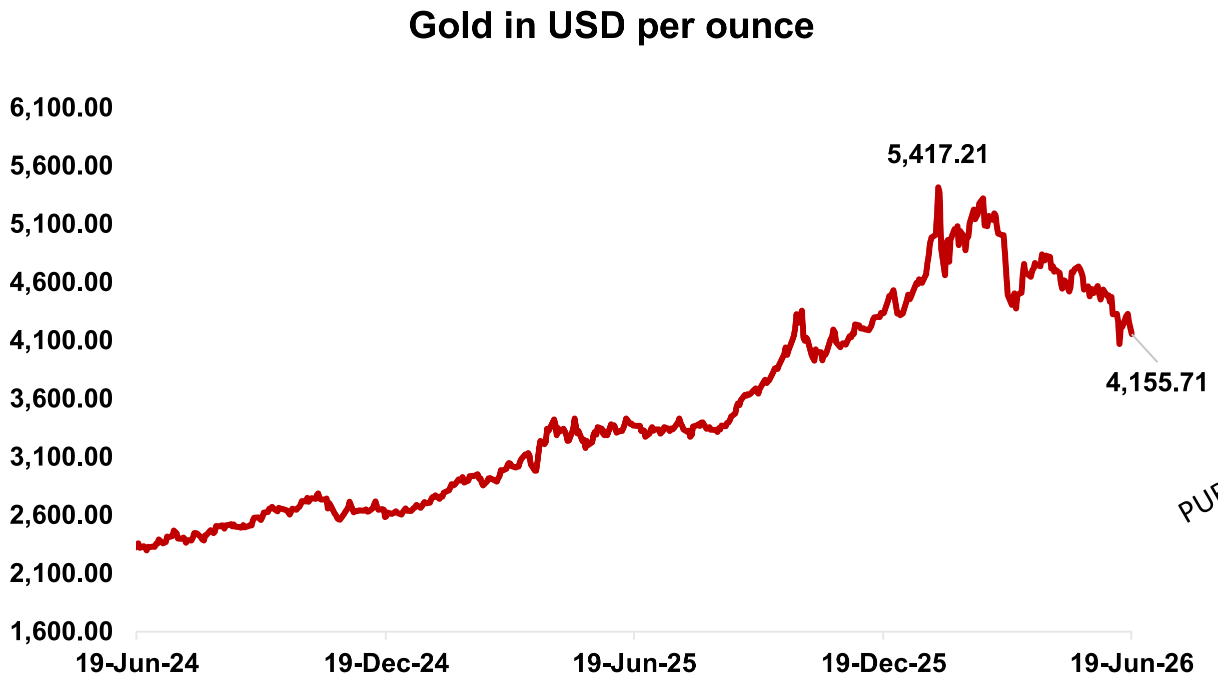

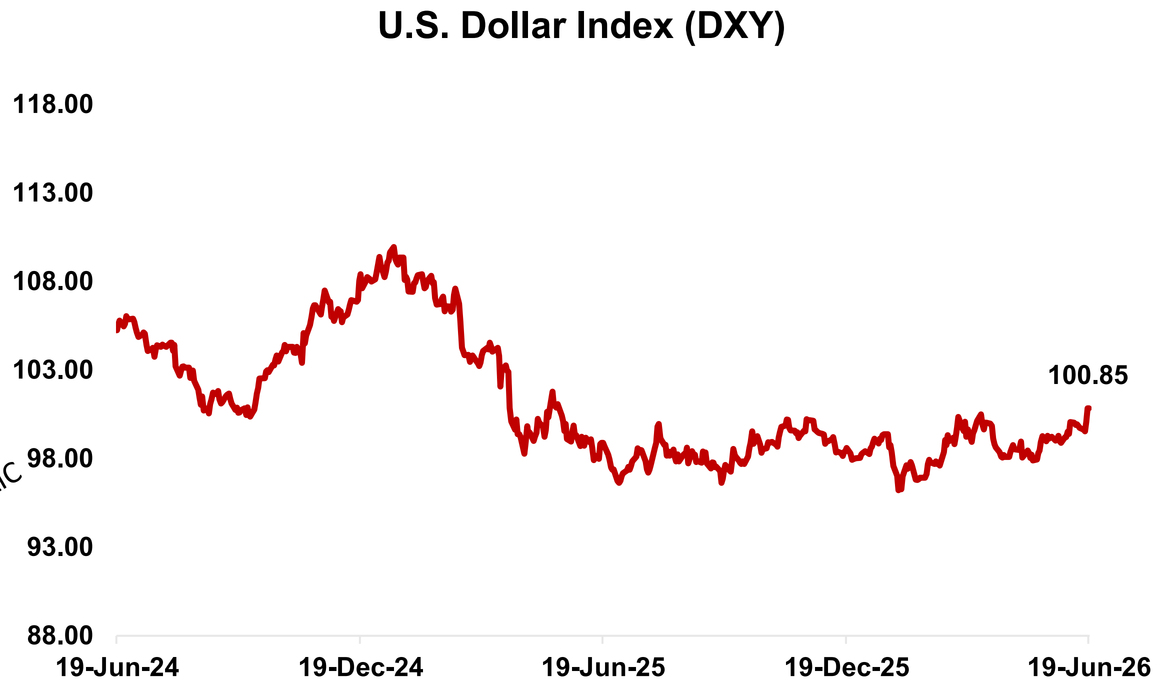

Sources: Bloomberg, CEIC Data

- Gold price (XAU) declined by 1.5% w-o-w last week, pressured by the stronger USD. On Monday, the XAU broke above immediate resistance at 4,300.00 to close at USD4,311.69, with momentum carrying into Tuesday and resulting in a 1.7% weekly gain. Such performance was supported by broad-based recalibrations across global financial markets amid improving investor risk sentiments following the finalization of a peace deal between U.S. and Iran.
- However, gold came under renewed pressure mid-week, retracing its gains to close at USD4,256.93, when hawkish Fed signals provided bullish tailwinds to the USD. Subsequently, the XAU continued to trade with a bearish bias towards the end of the week, breaking decisively below the key support level around 4,200.00 to close at USD4,155.76 on Friday.

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WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- Global financial markets are expected to trade cautiously this week as investors remain focused on geopolitical developments in the Middle East and the outlook for global interest rates. While prospects of a U.S.-Iran peace agreement have improved market sentiment last week, uncertainties surrounding the negotiations are likely to keep volatility elevated, with continued clashes and air strikes by Israeli forces in southern Lebanon and renewed claims by Iran of shutting the Strait of Hormuz. Investors will also closely monitor key inflation data releases from certain economies, including the U.S., Japan, and Australia for further clues on the monetary policy path. Any signs of persistent inflation could reinforce expectations that central banks will maintain a higher-for-longer interest rate stance. Consequently, global bond yields may remain elevated, limiting upside in equity markets. Commodity markets are also expected to remain volatile, with oil prices highly sensitive to geopolitical headlines and supply concerns. Overall, global markets are likely to remain range-bound with sentiment driven largely by geopolitical and inflation developments.

- U.S. markets are expected to focus on several major economic releases this week, with the May Personal Consumption Expenditures (PCE) price index taking centre stage as it is the Fed's preferred inflation gauge. A higher-than-expected PCE reading could reinforce expectations that interest rates will remain elevated for longer. Investors will also monitor the preliminary June manufacturing and services PMI data for fresh insights into the strength of U.S. economic activity. In addition, the final estimate of first-quarter GDP, durable goods orders and weekly jobless claims will provide further clues on growth momentum and labour market conditions. Consumer income and spending figures, alongside the revised University of Michigan consumer sentiment index, will also be closely watched to assess the resilience of household demand. Overall, this week's releases are likely to shape market expectations regarding the outlook for economic growth, inflation and Federal Reserve policy.

- In Asia, markets will focus on monetary policy decisions from the People's Bank of China (PBOC) and Bank of Thailand (BOT). The PBOC is widely expected to keep the interest rate unchanged as resilient exports and stable industrial activity continue to support growth despite weak domestic demand. Strong AI-related electronics exports and improving U.S.-China trade relations have also reduced the urgency for monetary easing. Moreover, higher producer prices, driven by elevated energy and commodity costs, could limit room for further rate cuts. Meanwhile, the BOT is also expected to leave its policy rate unchanged at 1.00%, extending its policy pause. Although Thailand's economic activity has softened, headline inflation remains near the upper end of the central bank's target range, limiting the scope for further easing.

THANK YOU