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WEEKLY ECONOMIC UPDATE

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ECONOMIC RESEARCH

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WEEKLY HIGHLIGHT: BANK OF ENGLAND (BOE) FACES AN INCREASINGLY CHALLENGING POLICY TRADE-OFF AMID STICKY INFLATION AND WEAKENING HOUSEHOLD SPENDING

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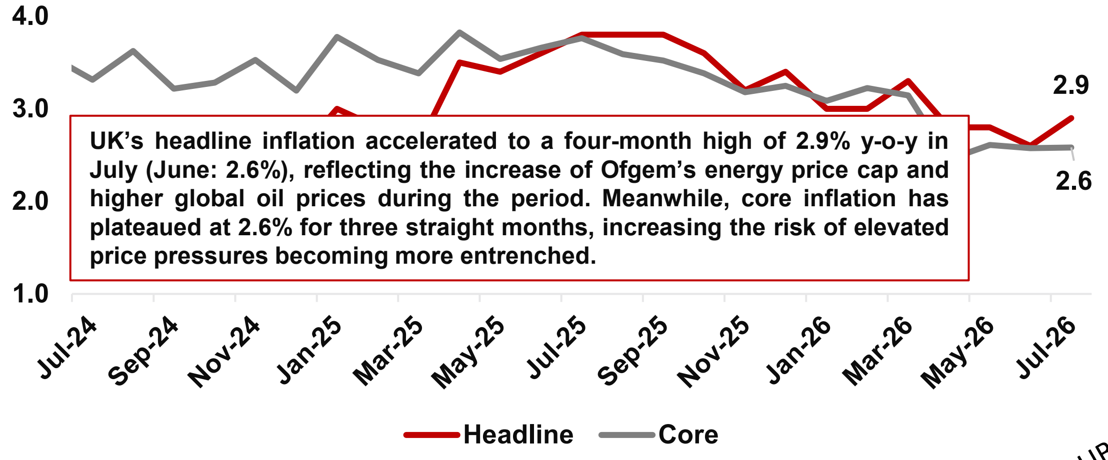
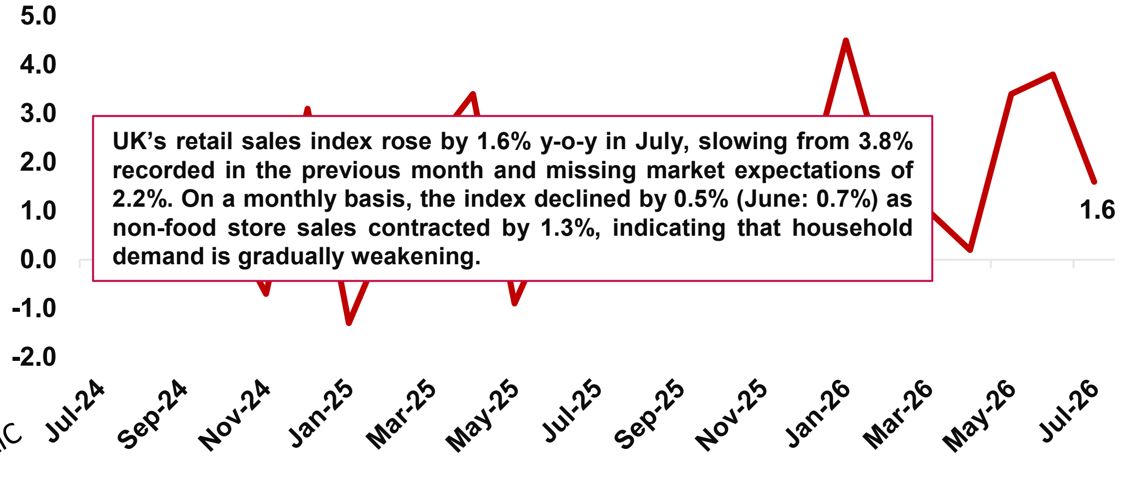
GLOBAL

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



UK's headline inflation accelerated to a four-month high of 2.9% y-o-y in July (June: 2.6%), reflecting the increase of Ofgem's energy price cap and higher global oil prices during the period. Meanwhile, core inflation has plateaued at 2.6% for three straight months, increasing the risk of elevated price pressures becoming more entrenched.

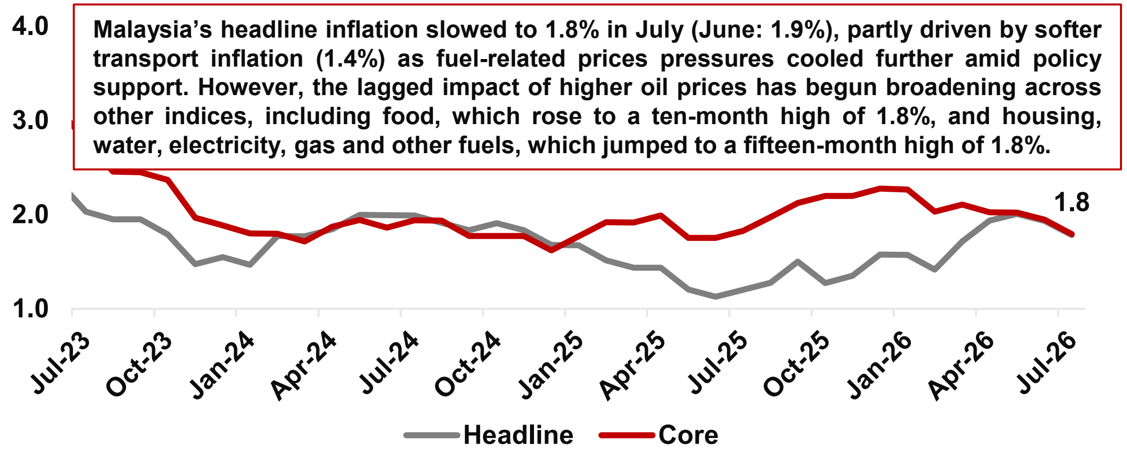
UK - Retail Sales Index (RSI), y-o-y%



UK's retail sales index rose by 1.6% y-o-y in July, slowing from 3.8% recorded in the previous month and missing market expectations of 2.2%. On a monthly basis, the index declined by 0.5% (June: 0.7%) as non-food store sales contracted by 1.3%, indicating that household demand is gradually weakening.

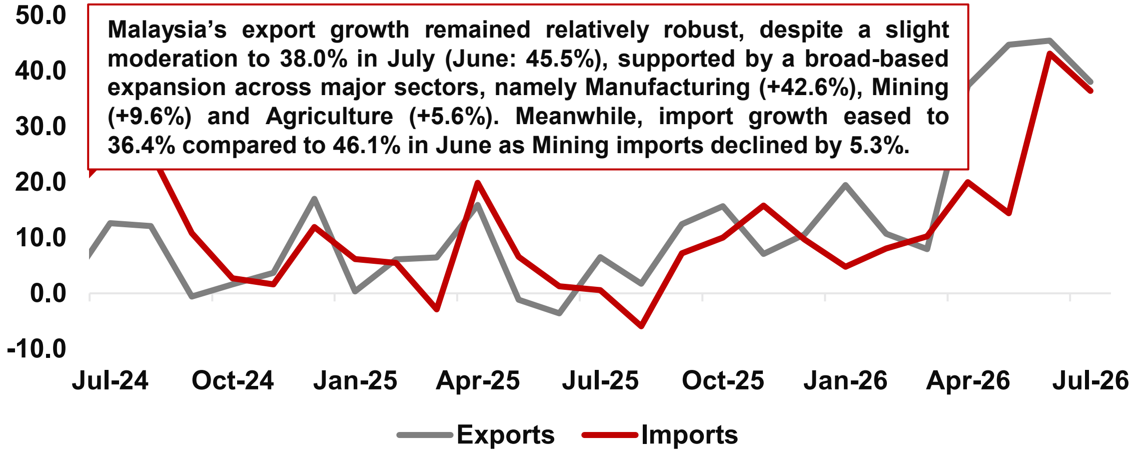
DOMESTIC

Malaysia - Consumer Price Index (CPI), y-o-y%



Malaysia's headline inflation slowed to 1.8% in July (June: 1.9%), partly driven by softer transport inflation (1.4%) as fuel-related prices pressures cooled further amid policy support. However, the lagged impact of higher oil prices has begun broadening across other indices, including food, which rose to a ten-month high of 1.8%, and housing, water, electricity, gas and other fuels, which jumped to a fifteen-month high of 1.8%.

Malaysia - Total Exports vs. Imports, y-o-y%



Malaysia's export growth remained relatively robust, despite a slight moderation to 38.0% in July (June: 45.5%), supported by a broad-based expansion across major sectors, namely Manufacturing (+42.6%), Mining (+9.6%) and Agriculture (+5.6%). Meanwhile, import growth eased to 36.4% compared to 46.1% in June as Mining imports declined by 5.3%.

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

REGIONAL EQUITY: GLOBAL EQUITIES LOSE MOMENTUM AS HIGHER YIELDS AND OIL WEIGH ON RISK APPETITE

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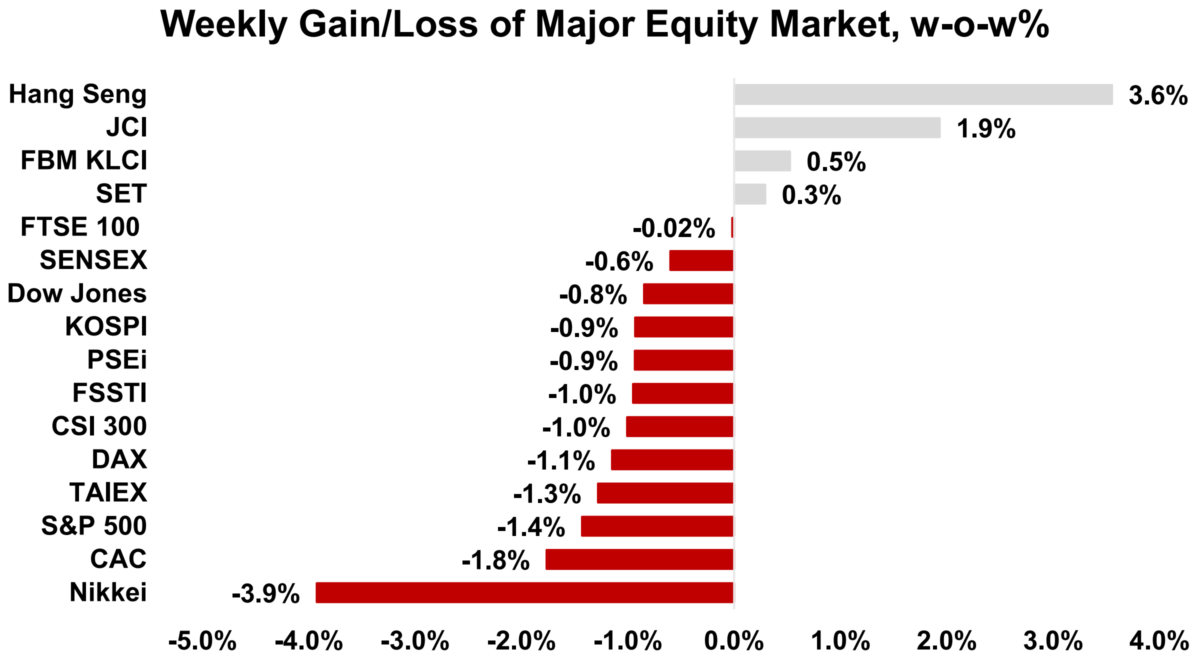
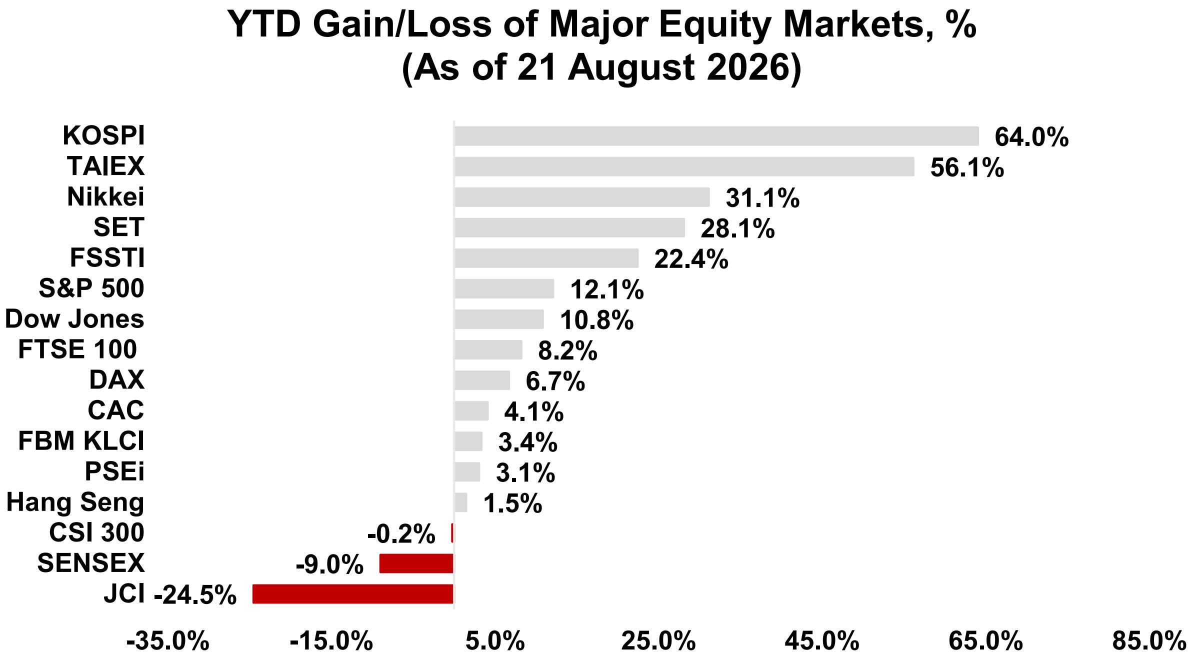
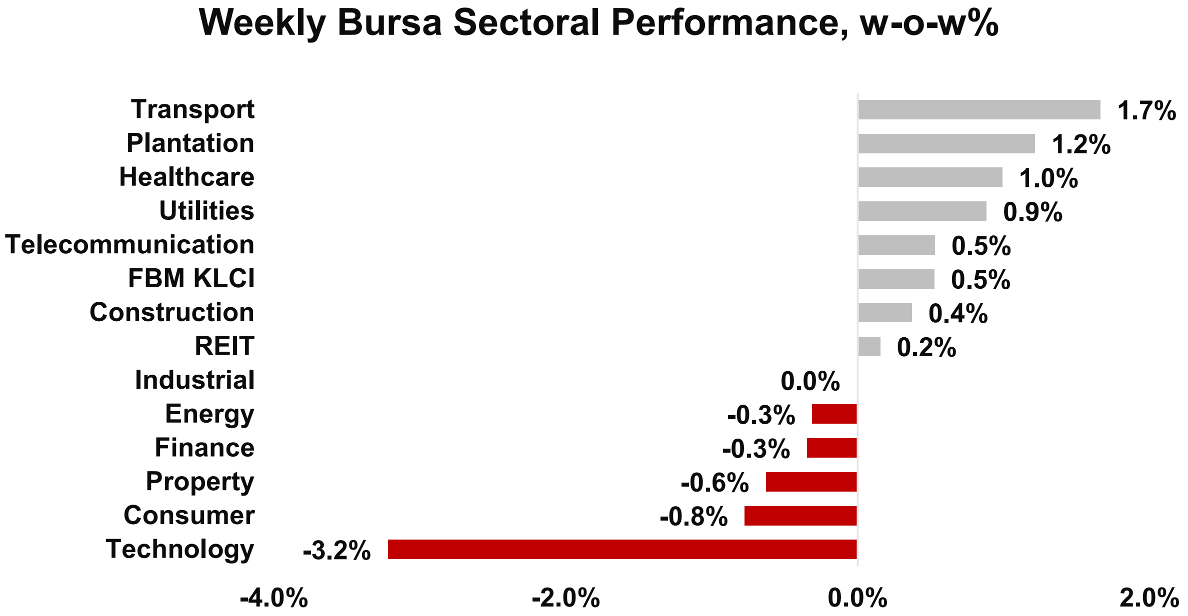


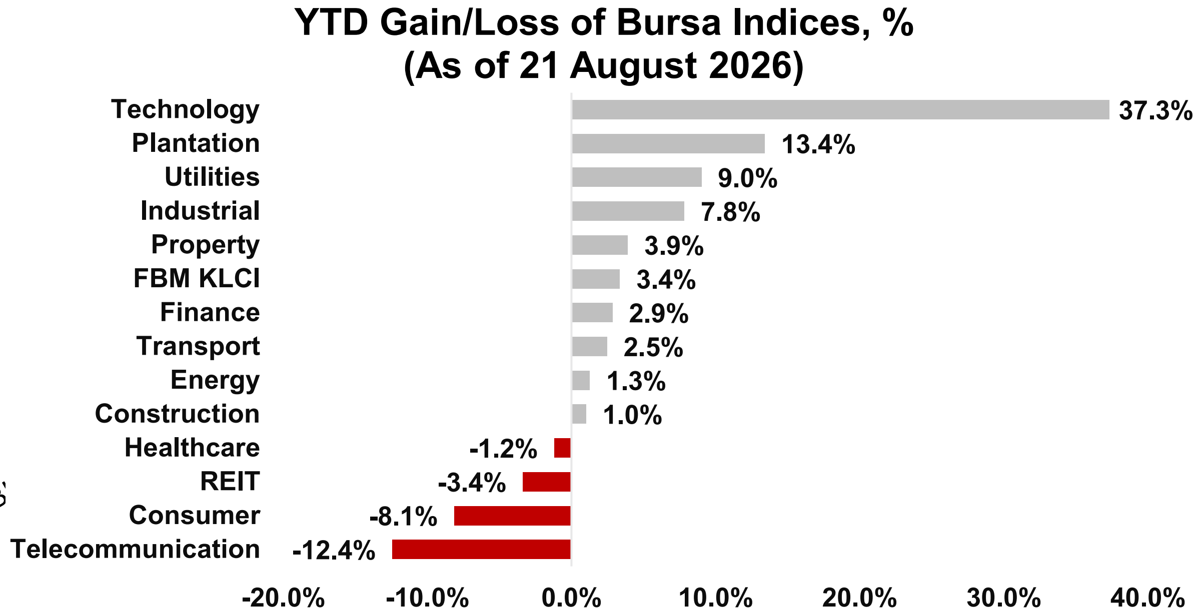


Sources: Bursa, CEIC Data

- Global equities were broadly weaker last week, with investors remaining cautious amid concerns over global growth, elevated oil prices and geopolitical uncertainties. Among major markets, Hong Kong's Hang Seng led gains (+3.6%), likely supported by improving sentiment towards Chinese equities and policy support measures. Regional markets such as Indonesia's JCI (+1.9%), Malaysia's FBM KLCI (+0.5%) and Thailand's SET (+0.3%) also advanced.
- In the U.S., the S&P 500 fell 1.4%, while Dow Jones contracted 0.8% as investors became more concerned about bond yields and the Middle East situation.
- In Asia, Japan's Nikkei posted the steepest decline (-3.9%), while Taiwan's TAIEX (-1.3%), South Korea's KOSPI (-0.9%) and China's CSI 300 (-1.0%) also retreated. The broad weakness suggests a risk-off mood among investors. The common theme across markets was not a sudden deterioration in earnings, but rather higher yields combined with higher oil prices, which made investors more cautious on valuations.

DOMESTIC EQUITY: FBM KLCI RECORDED GAINS AMID IMPROVING INVESTOR RISK APPETITE





Sources: Bursa, CEIC Data

- The FBM KLCI rebounded by 0.5% w-o-w for the week ending 21 August, bolstered by an improvement in investor risk appetite while resilient domestic economic fundamentals provided underlying support.
- Investor sentiments were largely supported by the U.S. Treasury's buyback operations, which resulted in softer Treasury yields and prompted a capital rotation into higher-risk assets, including emerging market equities. Furthermore, key domestic macroeconomic releases had reinforced confidence in Malaysia's growth outlook, lifting buying interest in the local market.
- Looking closer, Bursa indices closed mix with defensive and cyclical stocks emerging as the top gainers. The Transport index climbed by 1.7% w-o-w, followed by the Plantation (+1.2%) and Healthcare (+1.0%) indices.
- In contrast, the Technology index fell by 3.2%, broadly mirroring regional trends amid rising concerns over increasingly stretched AI-related valuations.

FIXED INCOME: RISING UST YIELDS AS INFLATION AND FISCAL CONCERNS MOUNT

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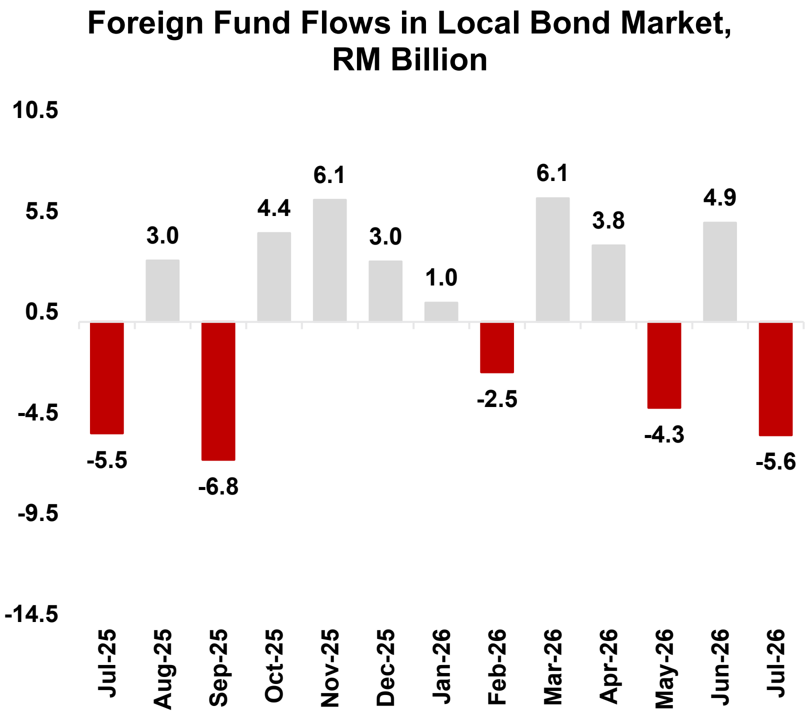
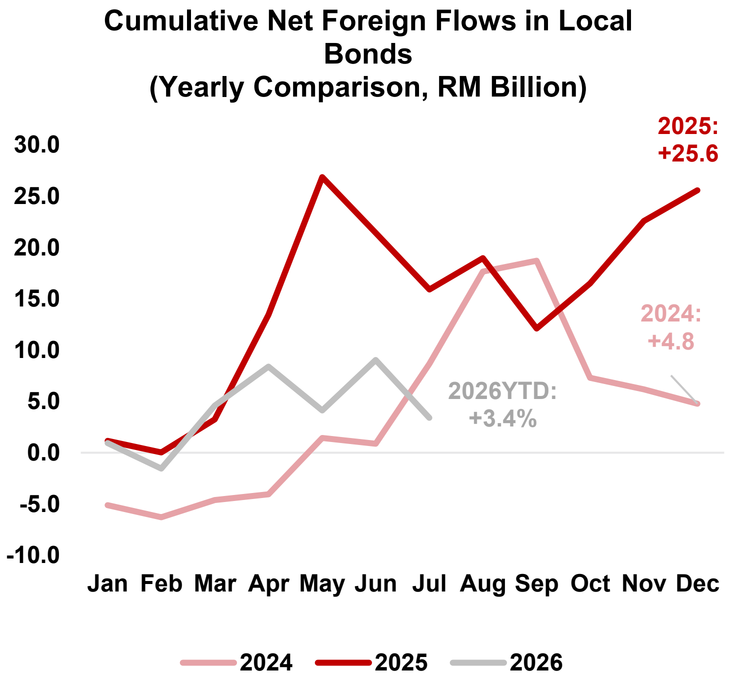
Weekly Changes, basis points (bps)

UST	Yields (%) 14-Aug-26	Yields (%) 21-Aug-26	Change (bps)
3-Y UST	4.24	4.31	7
5-Y UST	4.36	4.43	7
7-Y UST	4.51	4.57	6
10-Y UST	4.68	4.74	6
MGS	**Yields (%) 14-Aug-26**	**Yields (%) 21-Aug-26**	**Change (bps)**
3-Y MGS	3.33	3.34	1
5-Y MGS	3.53	3.55	2
7-Y MGS	3.68	3.73	5
10-Y MGS	3.74	3.79	5
GII	**Yields (%) 14-Aug-26**	**Yields (%) 21-Aug-26**	**Change (bps)**
3-Y GII	3.35	3.36	0
5-Y GII	3.54	3.55	2
7-Y GII	3.68	3.73	5
10-Y GII	3.75	3.79	4

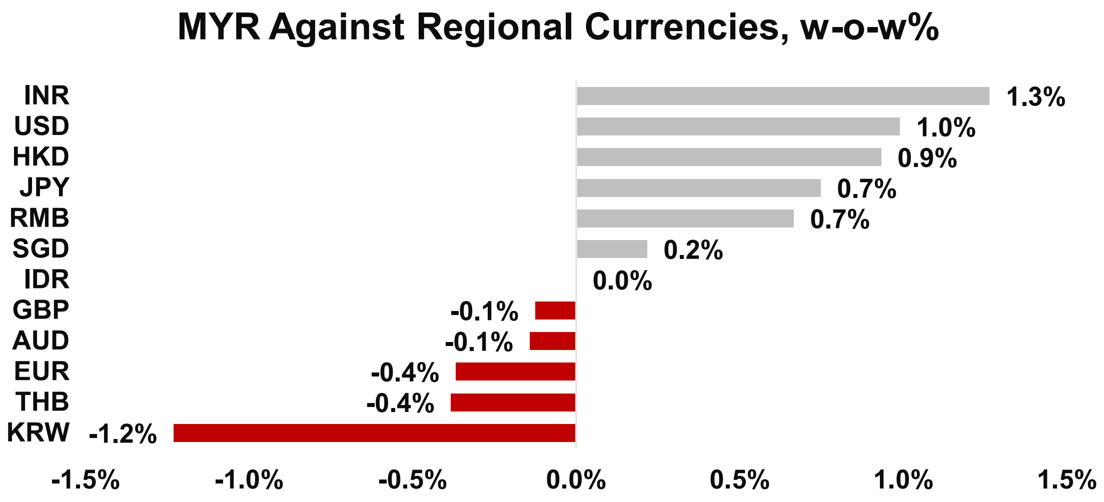
Sources: BNM, Federal Reserve Board

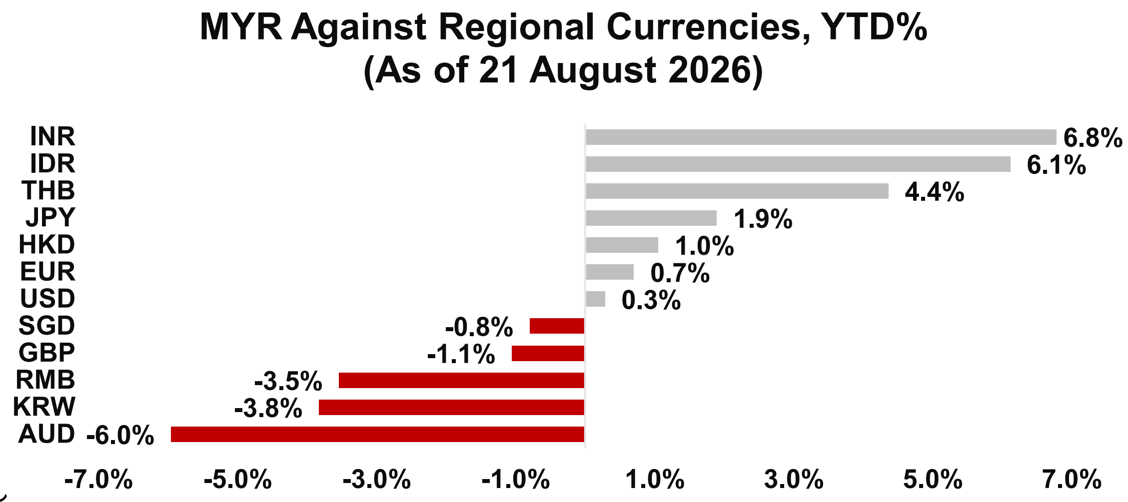




- U.S. Treasury (UST) yields ended higher in the range of 6bps and 7bps for the week ending August 21. UST yields moved higher last week as investors reassessed inflation risks and the outlook for monetary policy amid rising oil prices and persistent fiscal concerns. The increase in crude prices heightened concerns that inflation could remain elevated for longer, reinforcing expectations that the Federal Reserve may maintain a restrictive policy stance. Meanwhile, concerns over the U.S. fiscal outlook and the growing supply of government debt continued to exert upward pressure on longer-dated Treasury yields.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields also ended higher by between 1bp and 5bps.
- Foreign fund flows in the local bond market recorded a net foreign outflow of RM5.6 billion in July (Jun: +RM4.9 billion). Consequently, local govvies' foreign shareholdings to total outstanding dipped to 20.2% in July (Jun: 20.6%)
- As of the first seven months 2026, the local bond market recorded the cumulative net foreign inflows of RM3.4 billion, lower than the inflows of RM15.9 billion in the same period in the previous year.

FX MARKET: RINGGIT STRENGTHENED AGAINST THE USD FOLLOWING AN EXPANSION OF THE U.S. TRESURY'S BUYBACK OPERATIONS





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

- The Ringgit appreciated by 1.0% w-o-w against the USD for the week ended 21 August, supported primarily by a softer USD amid the expansion of the U.S. Treasury's buyback operations.
- Notably, rising concerns over the U.S.' deteriorating fiscal outlook and growing supply of government debt have increasingly contributed to upward pressure on long-term Treasury yields, with the 30-year yield breaching the highest level since 2007 at 5.31% last Monday. Consequently, the U.S. Treasury announced plans to at least double the size of its buybacks for longer-dated debt to alleviate the pressure on bond yields.
- The announcement took markets by surprise, triggering a sharp repricing across financial markets following a rotation away from the USD. As a result, the USD broke decisively below the 99.00-support level and closed Wednesday's session at 98.83.
- The USD remained under pressure in the latter half of the week as the Federal Open Market Committee (FOMC) minutes failed to deliver any meaningful hawkish surprises. The minutes highlighted that inflation has remained persistently elevated, with several Board members noting that underlying inflationary pressures remain acute even after excluding the direct effects of tariff increases and higher energy costs, which suggested that price pressures are becoming increasingly entrenched.
- Nevertheless, the Fed also noted that medium- and longer-term inflation expectations remained anchored, with incoming inflation indicators pointing towards a gradual disinflation process converging towards the Fed's 2.0% target. As such, the minutes largely reinforced existing policy expectations rather than signaling a more aggressive policy tightening path, offering limited support to the USD.

COMMODITY: BRENT EXTENDS RALLY ON RENEWED IRAN SUPPLY CONCERNS DESPITE ALTERNATIVE SUPPLY CUSHION

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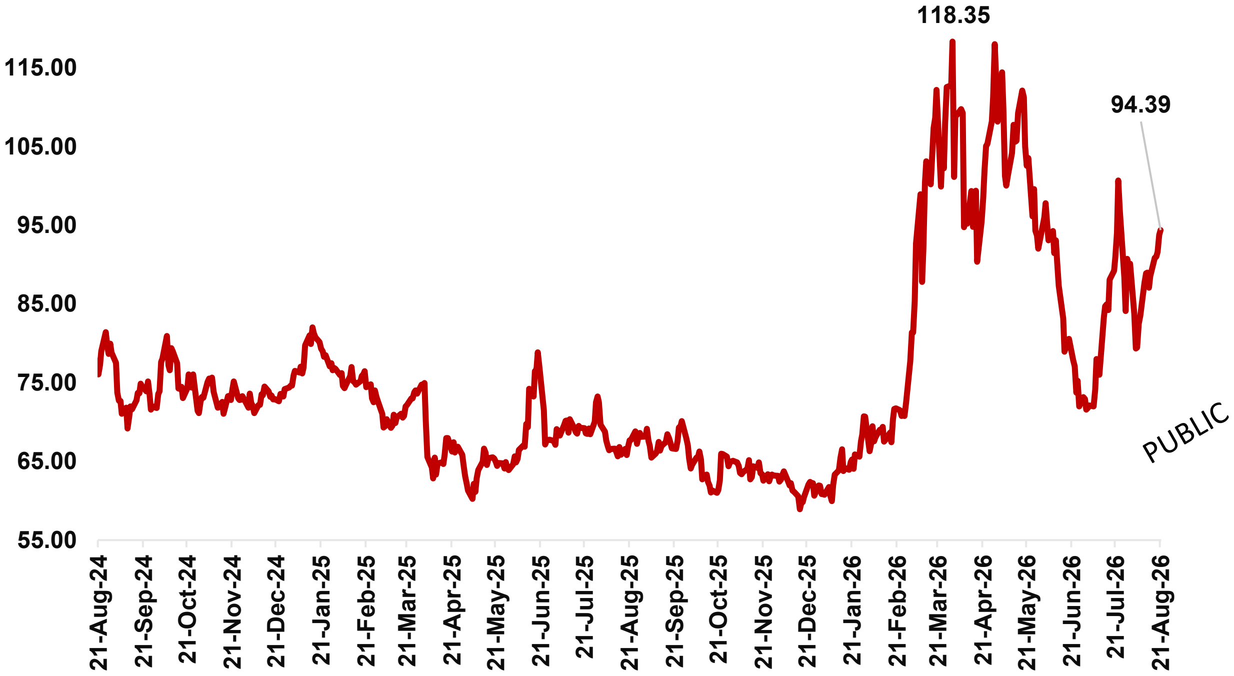
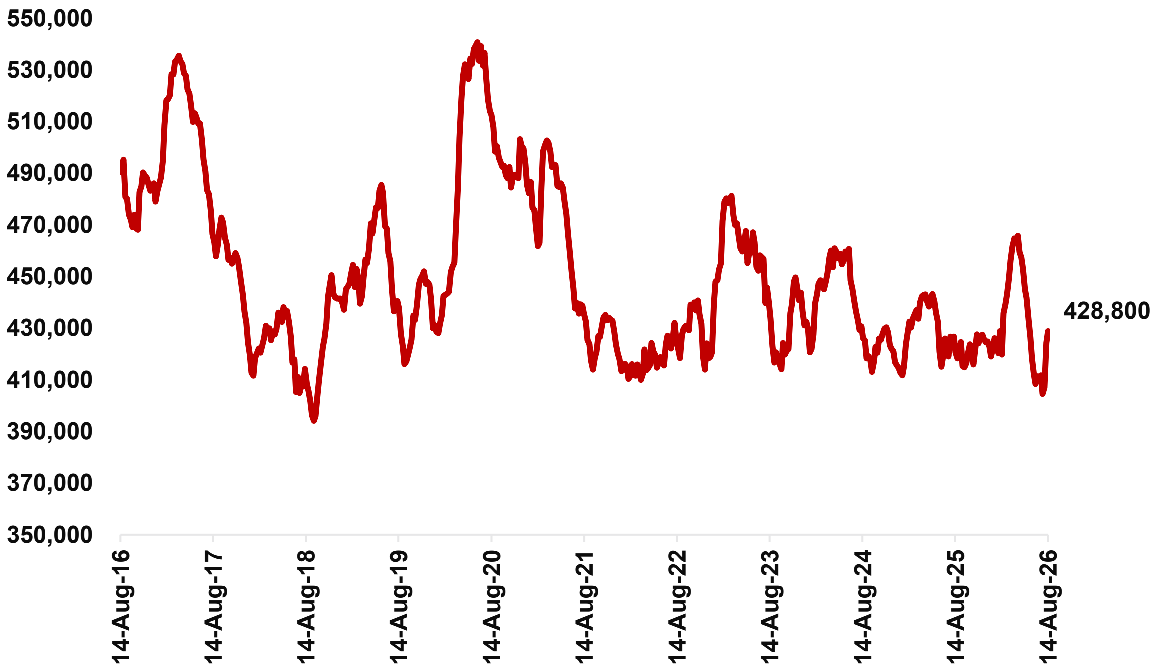
Brent Crude in USD per barrel



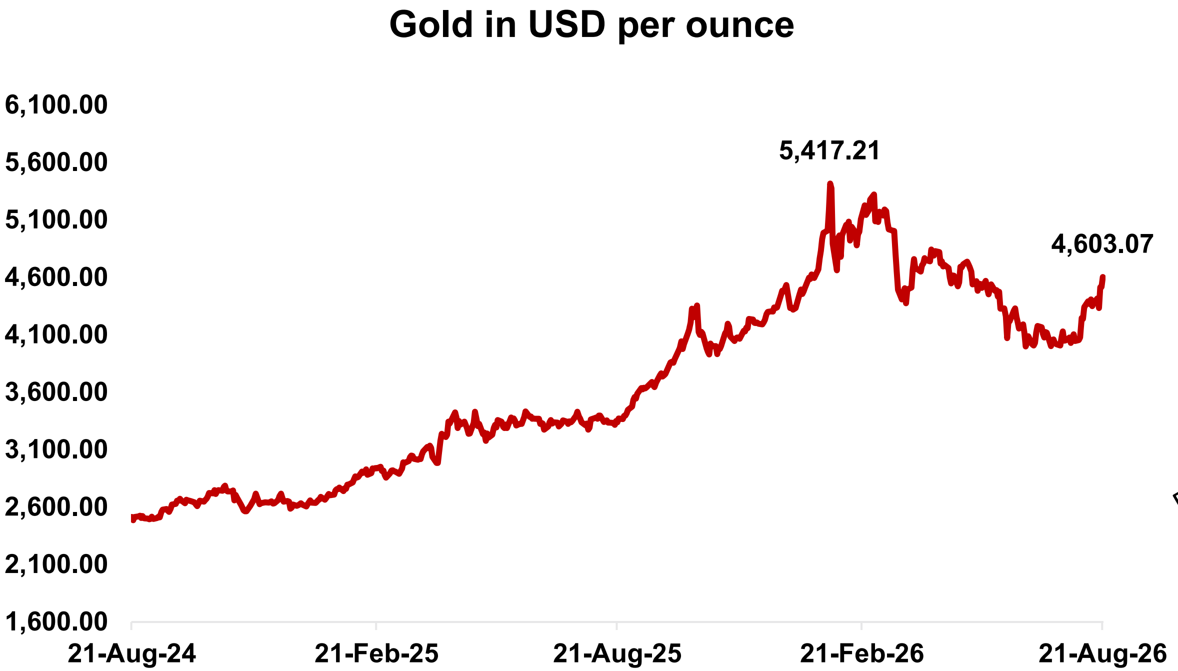
U.S. Crude Oil Inventory, '000 barrel - EIA

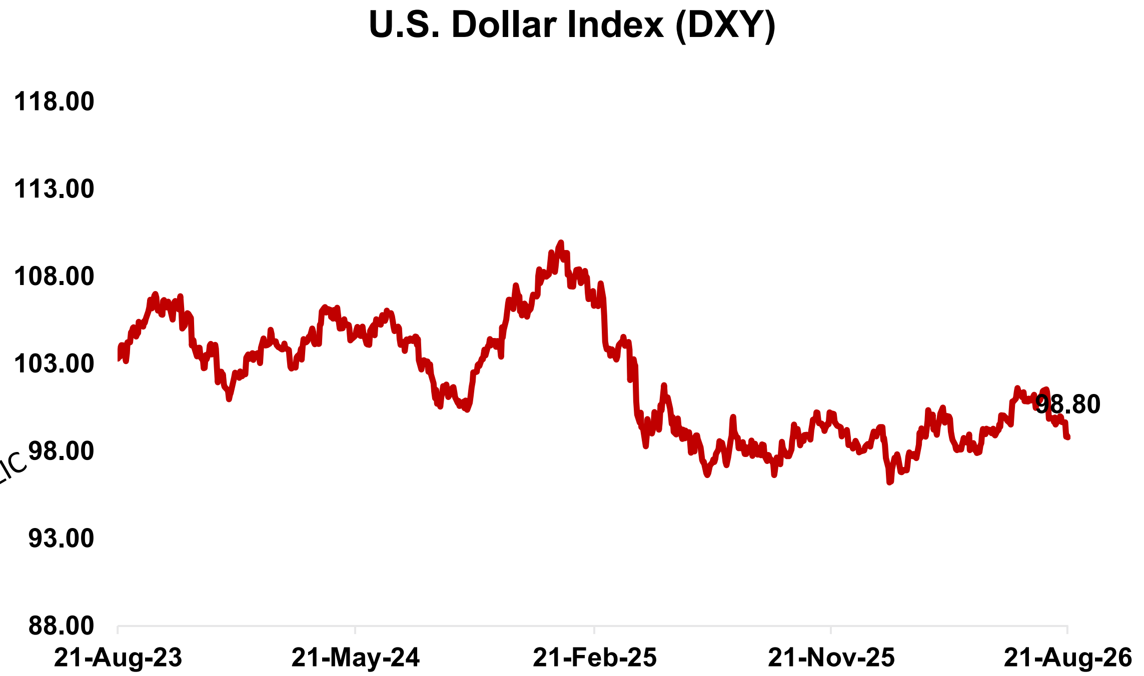


Sources: Bloomberg, Energy Information Administration (EIA)

- Brent oil prices ended Friday (August 21) at US$94.4/barrel, gaining 6.6% over the week and marking a second consecutive weekly gain. The main driver was renewed concern over Iranian supply after the U.S. threatened further sanctions on countries dealing with Iran. The situation remains particularly sensitive because oil flows through the Strait of Hormuz are still well below normal, keeping a geopolitical premium in crude prices.
- At the same time, alternative supply from countries such as the U.S., UAE and Venezuela is providing some cushion, which explains why prices have not moved even higher despite the geopolitical risks.
- U.S. crude oil inventories increased by 4.4 million barrels to 428.8 million for the week ending August 14.

COMMODITY: GOLD PRICE OUTPERFORMED, REBOUNDING ABOVE THE 4,600.0-RESISTANCE LEVEL





Sources: Bloomberg, CEIC Data

- Gold (XAU) strengthened by 5.2% w-o-w, supported by a broad-based weakness of the USD. The USD index declined by 0.9% for the week amid rising fiscal concerns and largely unchanged Fed policy expectations, reducing the relative appeal of dollar-denominated assets. This in turn has renewed investor risk appetite, providing support for non-yielding assets, including the bullion.
- The XAU gained considerable momentum by mid-week, breaking decisively above the key 4,500-resistance level on Wednesday before advancing towards the next major resistance around 4,600. Consequently, the XAU ended the week at USD4,603.07, marking the highest level since May this year.

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WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- In the U.S., the main economic release for this week will be July PCE inflation on Wednesday, together with core PCE and the second estimate of 2Q26 GDP, while new home sales and Conference Board consumer confidence will be released on Tuesday. A softer PCE reading would strengthen the case for the Fed to ease, while a stronger number would reinforce the case for keeping rates higher for longer. Consumer confidence will also be useful in assessing whether households are starting to feel the pressure from higher prices and energy costs. On Friday, Fed Chair Kevin Warsh will speak at Jackson Hole, making his comments particularly important after the PCE data, which could indicate the Fed's tolerance for inflation and the paths of rates. Nvidia's result on Wednesday are another important event for the week because semiconductor and AI stocks have been major part of the market's gain this year. The immediate risk is therefore that a firm PCE reading pushes Treasury yields higher again, putting further pressure on technology valuations.

- Meanwhile, in the Eurozone, key releases will include Germany's final 2Q26 GDP on Tuesday, followed by German GfK consumer confidence on Thursday. The German data will be important because investors are looking for evidence that the region's largest economy is gaining traction after a weak period. The expectation is for only modest growth, so a significant upside surprise in business expectations would provide some reassurance that the European recovery is becoming broader. On inflation, France and Spain are due to release preliminary August CPI data, which will give an early indication of the direction of Eurozone inflation heading into September. The key risk is energy, which if higher oil prices start feeding into transport and other consumer prices, inflation could remain above the ECB's target for longer. In the UK, the focus will be on how the economy is holding up against persistent inflation and higher borrowing costs.

- Asia has several important releases this week including the Bank of Korea's policy decision on Thursday, with inflation pressure and the impact of Middle East energy shock likely to be important consideration. Meanwhile, Japan will release Tokyo CPI on Friday, which should provide an early indication whether underlying inflation remains firm enough to keep the Bank of Japan (BOJ) on a tightening path. China will release July industrial profits, which will be watched for signs that corporate profitability is improving after weak domestic demand and margin pressures. Also, Australia's July CPI on Wednesday will be one of the most closely watched releases because it could influence expectations for the Reserve Bank of Australia's next policy move.

THANK YOU