WEEKLY ECONOMIC UPDATE

27 JULY 2026

ECONOMIC RESEARCH

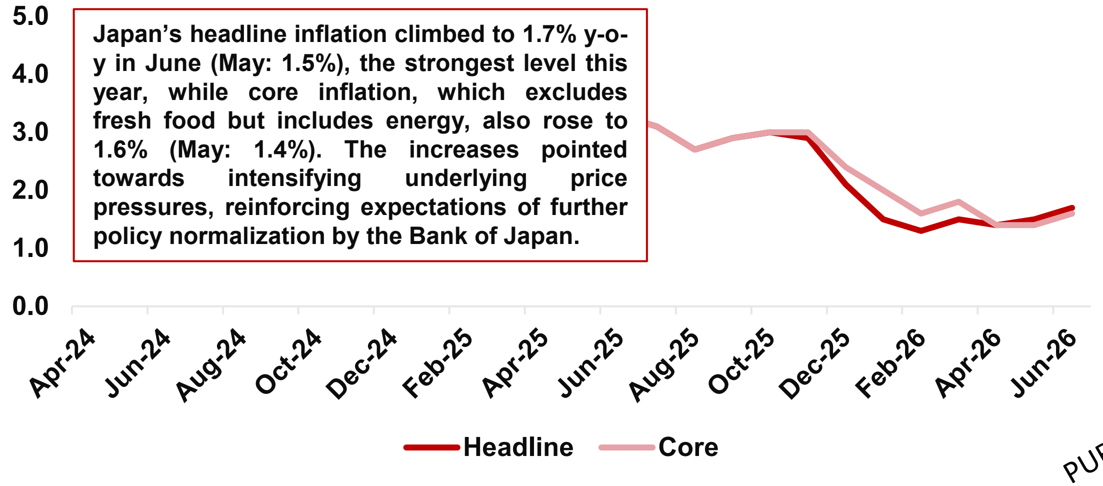
IMRAN NURGINIAS IBRAHIM
FARAH ZAZREEN ZAINUDIN
KHAYRIN FARZANA FAZLI

WEEKLY HIGHLIGHT: PICKUP IN JAPAN'S INFLATION REAFFIRMS BOJ POLICY NORMALIZATION PATH

BANK ISLAM

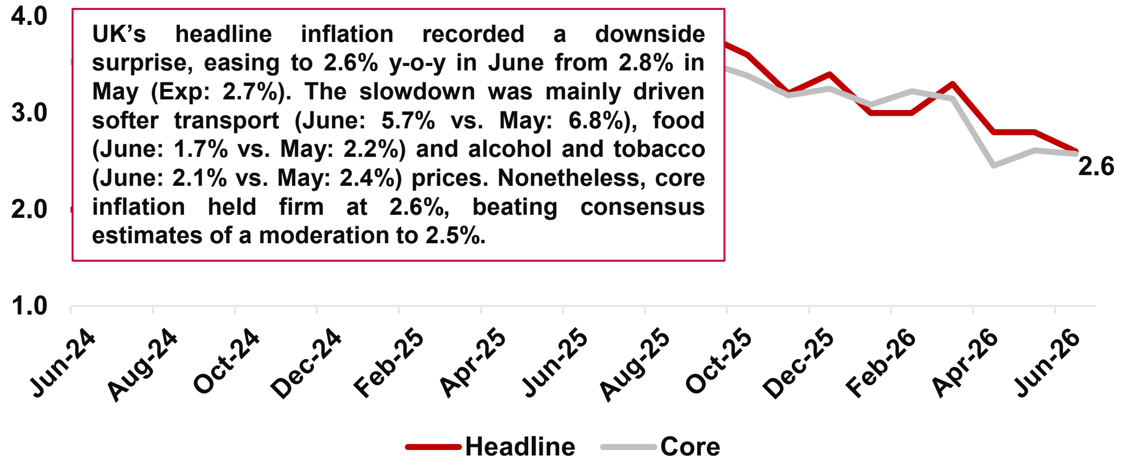
GLOBAL

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



Japan's headline inflation climbed to 1.7% y-o-y in June (May: 1.5%), the strongest level this year, while core inflation, which excludes fresh food but includes energy, also rose to 1.6% (May: 1.4%). The increases pointed towards intensifying underlying price pressures, reinforcing expectations of further policy normalization by the Bank of Japan.

UK – CPI, y-o-y%

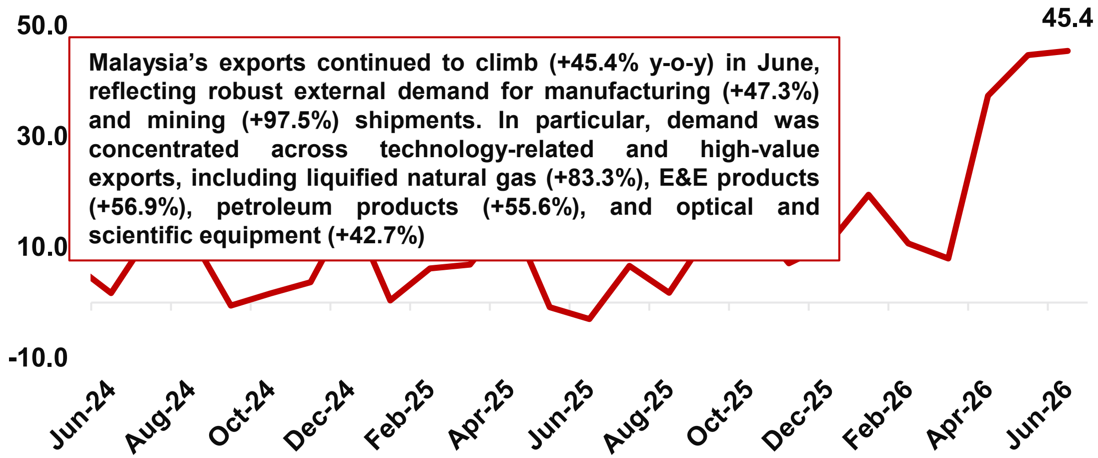


UK's headline inflation recorded a downside surprise, easing to 2.6% y-o-y in June from 2.8% in May (Exp: 2.7%). The slowdown was mainly driven softer transport (June: 5.7% vs. May: 6.8%), food (June: 1.7% vs. May: 2.2%) and alcohol and tobacco (June: 2.1% vs. May: 2.4%) prices. Nonetheless, core inflation held firm at 2.6%, beating consensus estimates of a moderation to 2.5%.

PUBLIC

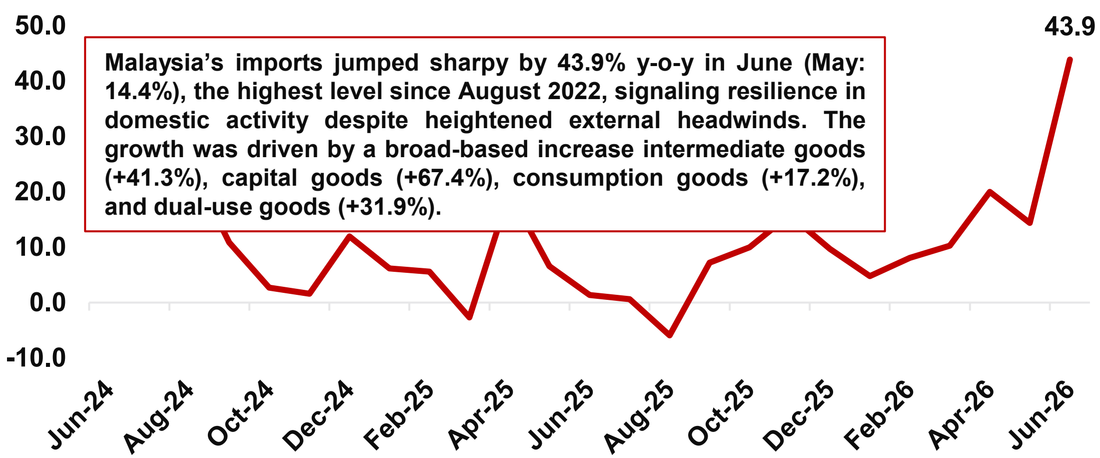
DOMESTIC

Malaysia - Exports, y-o-y%



Malaysia's exports continued to climb (+45.4% y-o-y) in June, reflecting robust external demand for manufacturing (+47.3%) and mining (+97.5%) shipments. In particular, demand was concentrated across technology-related and high-value exports, including liquified natural gas (+83.3%), E&E products (+56.9%), petroleum products (+55.6%), and optical and scientific equipment (+42.7%)

Malaysia - Imports, y-o-y%

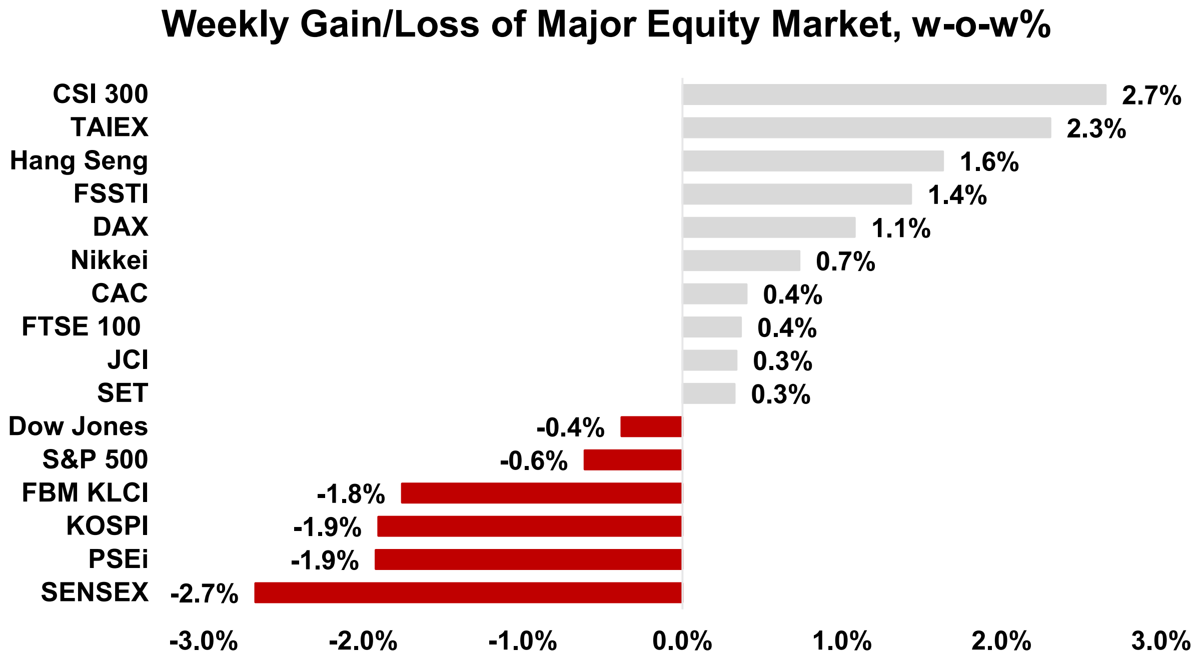


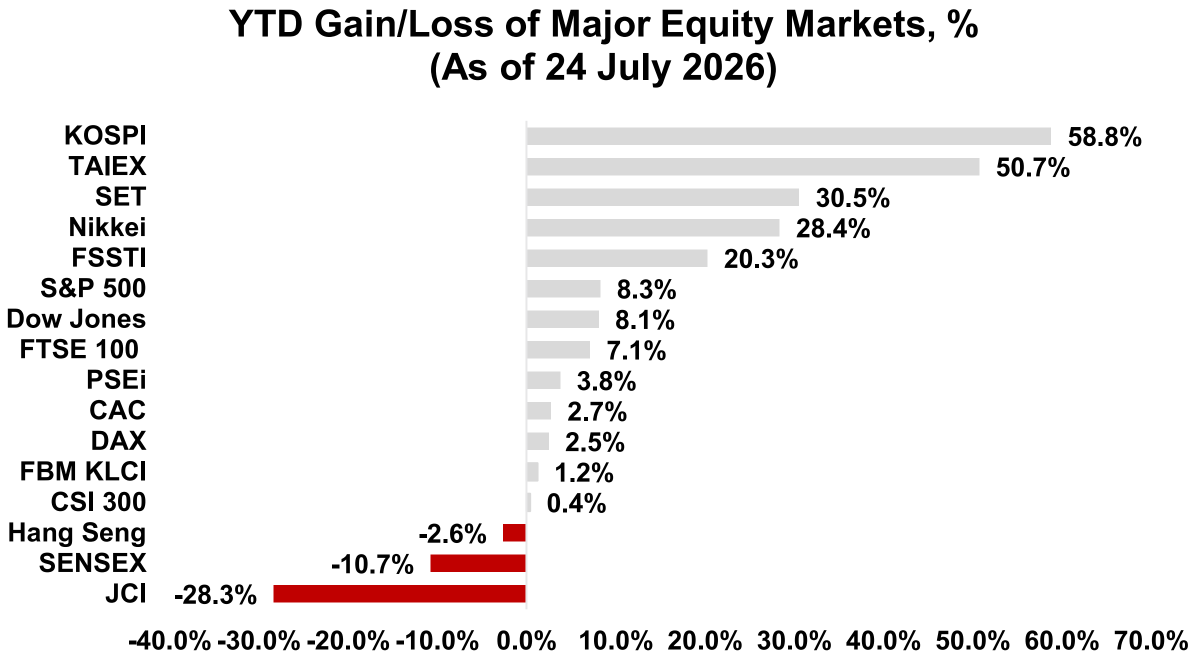
Malaysia's imports jumped sharpy by 43.9% y-o-y in June (May: 14.4%), the highest level since August 2022, signaling resilience in domestic activity despite heightened external headwinds. The growth was driven by a broad-based increase intermediate goods (+41.3%), capital goods (+67.4%), consumption goods (+17.2%), and dual-use goods (+31.9%).

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

REGIONAL EQUITY: GLOBAL EQUITIES MIXED AHEAD OF CENTRAL BANKS MEETINGS AND GEOPOLITICAL RISKS

BANK ISLAM



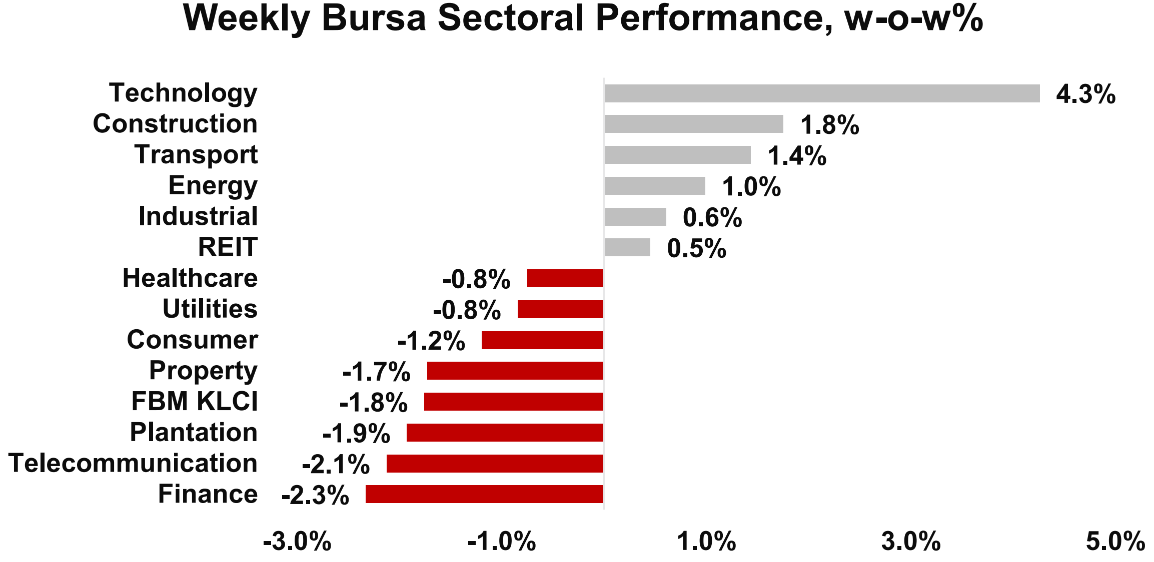


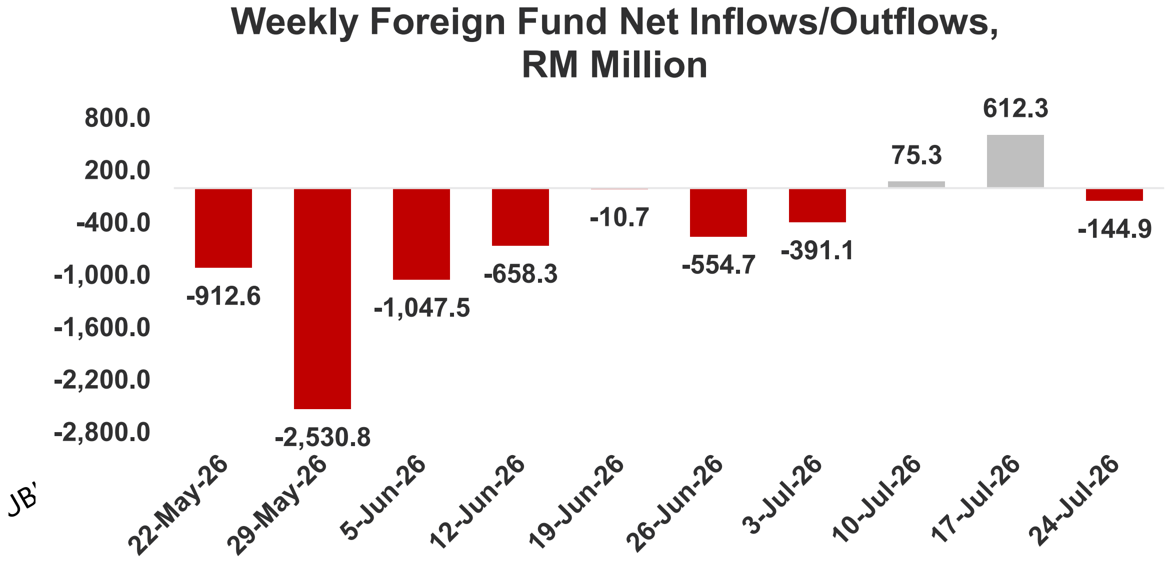
Sources: Bursa, CEIC Data

- Global equity markets closed mixed for the week ended July 24, led by China’s CSI 300 which grew by 2.7%, followed by Taiwan’s TAIEX (+2.3%), and Hong Kong’s Hang Seng (+1.6%).
- Investors reduced risk exposure ahead of key central bank meetings including the Federal Reserve, Bank of Japan, and Bank of England, as well as another busy week of corporate earnings. Concerns over Middle East conflicts which now involving Yemen has also dampened sentiment.
- U.S. stocks - Dow Jones (-0.4%) and S&P 500 (-0.6%) recorded marginal decline as investor sentiment was shaped by the sharp climb in oil prices, intensifying Middle East conflict, and unease over rising artificial intelligence (AI) investment costs, despite strong quarterly earnings.
- Meanwhile, India’s SENSEX (-2.7%), the Philippines’ PSEi (-1.9%) and South Korea’s KOSPI (-1.9%) were the top losers for the week ending July 24.

DOMESTIC EQUITY: FBM KLCI MIRRORED REGIONAL PEERS, PRESSURED BY A BROAD-BASED FLIGHT TO SAFETY

BANK ISLAM





Sources: Bursa, CEIC Data

- The FBM KLCI declined by 1.8% w-o-w for the week ending 24 July as persistent Middle East geopolitical tensions continued to weigh on investor risk appetite.
- Escalating U.S.-Iran tensions proved to be a double whammy to investor sentiments, extending fears of a broader regional conflict while also fueling higher inflation expectations following the sharp increase in global energy prices. This triggered a rotation into the USD, supported by its safe-haven and higher-yield appeal, leading to a broad-based repricing across asset classes.
- Additionally, the recent announcement of U.S. tariffs reignited concerns over potential disruptions to the global trade landscape, reinforcing heightened caution among investors as they continue to monitor related developments.
- Looking closer, Bursa indices closed mixed. The Finance index fell by 2.3%, followed by the Telecommunications (-2.1%) and Plantation (-1.9%) indices. In contrast, the Technology index extended its gains, surging by 4.3%.
- Foreign investors fled the local market, recording with a total net outflow of RM144.9 million. This has increased the cumulative net outflow thus far to RM4.0 billion.

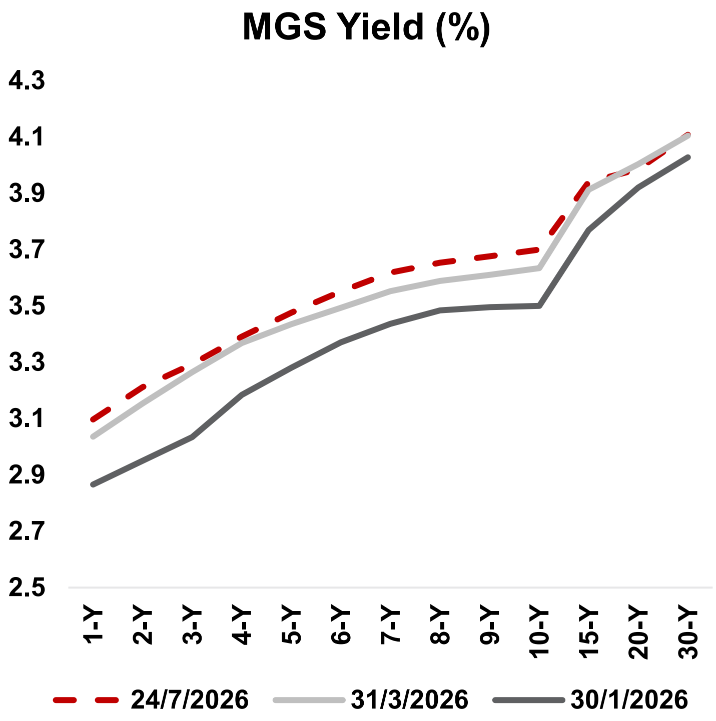
FIXED INCOME: UST YIELDS RISE ON U.S.-IRAN TENSIONS AND JOBS STRENGTH

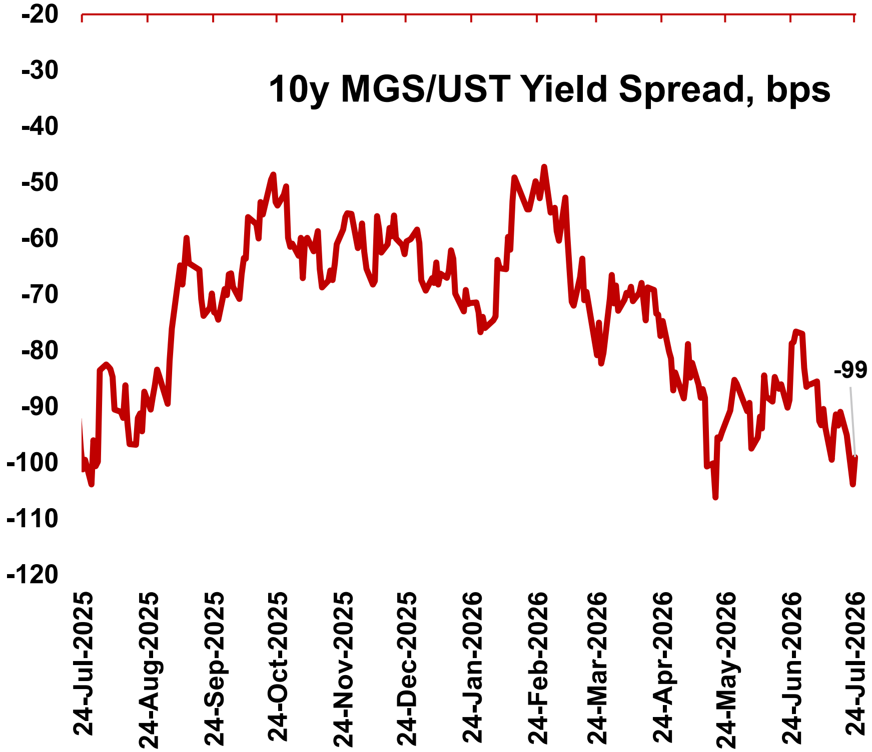
BANK ISLAM

Weekly Changes, basis points (bps)

UST	Yields (%) 17-Jul-26	Yields (%) 24-Jul-26	Change (bps)
3-Y UST	4.21	4.36	15
5-Y UST	4.28	4.43	15
7-Y UST	4.40	4.55	15
10-Y UST	4.55	4.69	14
MGS	**Yields (%) 17-Jul-26**	**Yields (%) 24-Jul-26**	**Change (bps)**
3-Y MGS	3.26	3.29	4
5-Y MGS	3.41	3.48	7
7-Y MGS	3.55	3.62	7
10-Y MGS	3.64	3.70	6
GII	**Yields (%) 17-Jul-26**	**Yields (%) 24-Jul-26**	**Change (bps)**
3-Y GII	3.28	3.33	5
5-Y GII	3.39	3.44	5
7-Y GII	3.56	3.60	4
10-Y GII	3.64	3.69	6

Sources: BNM, Federal Reserve Board

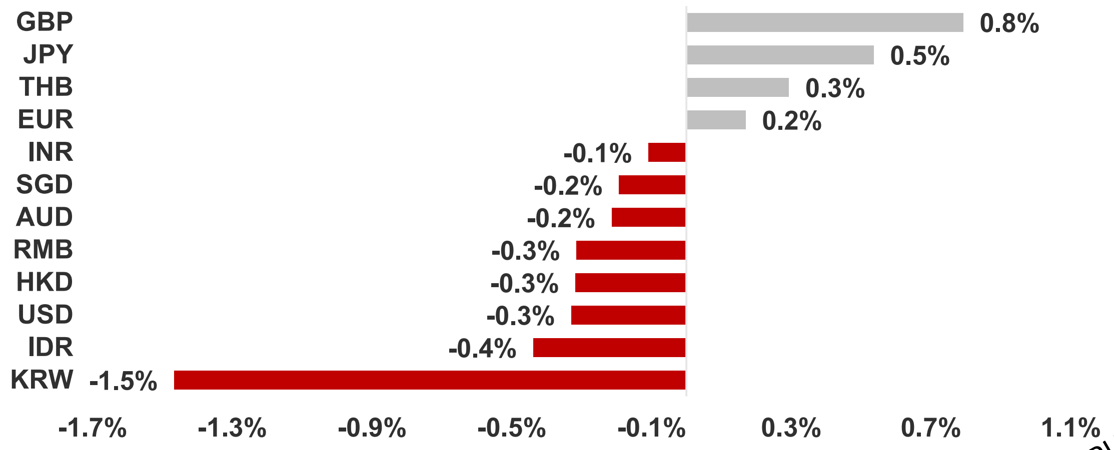




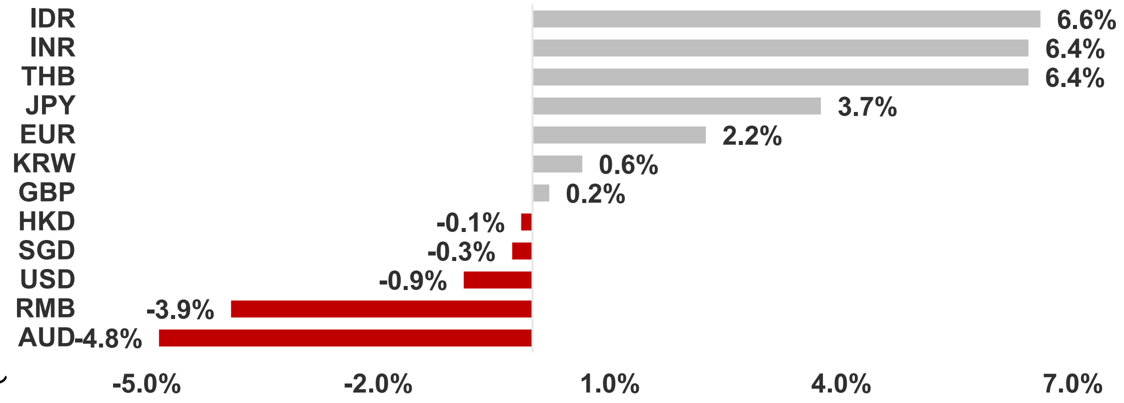
- U.S. Treasury (UST) yields ended higher in the range of 14bps and 15bps for the week ending July 24 as investors reacted to heightened geopolitical risks, with President Trump signaling the potential for broad military action after the Houthis' deeper involvement in the conflict. Escalating tensions raise fears of supply disruptions, pushing oil prices higher above USD100/barrel last week.
- Yields also moved higher as initial jobless claims fell to their lowest level since 1969, with continuing claims declining as well, highlighting labor market resilience and raises inflation risks through stronger consumer spending.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields also ended higher by between 4bps and 7bps.
- The 10y MGS/UST yield spread widened in the negative territory at 99bps relative to -91bps in the previous week.

FX MARKET: RINGGIT UNDERPERFORMED LAST WEEK, THE USD MAINTAINED ITS BULLISH TRAJECTORY

MYR Against Regional Currencies, w-o-w%



MYR Against Regional Currencies, YTD%
(As of 24 July 2026)

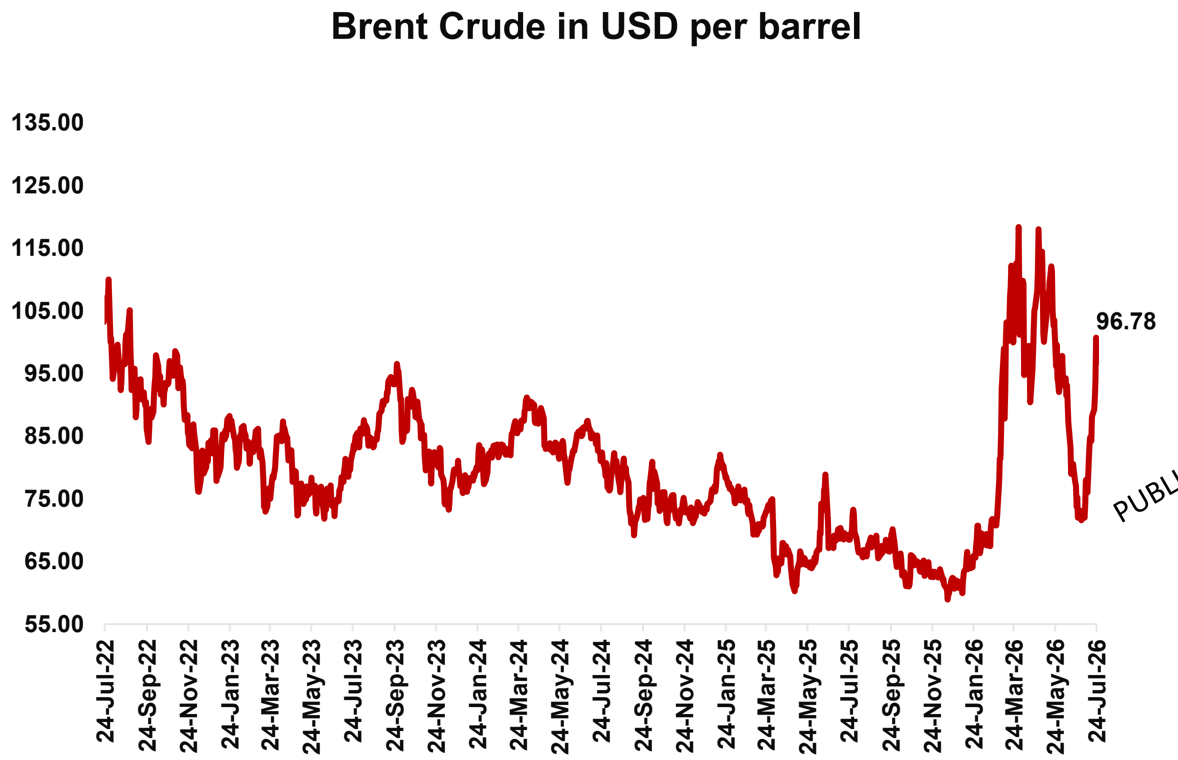


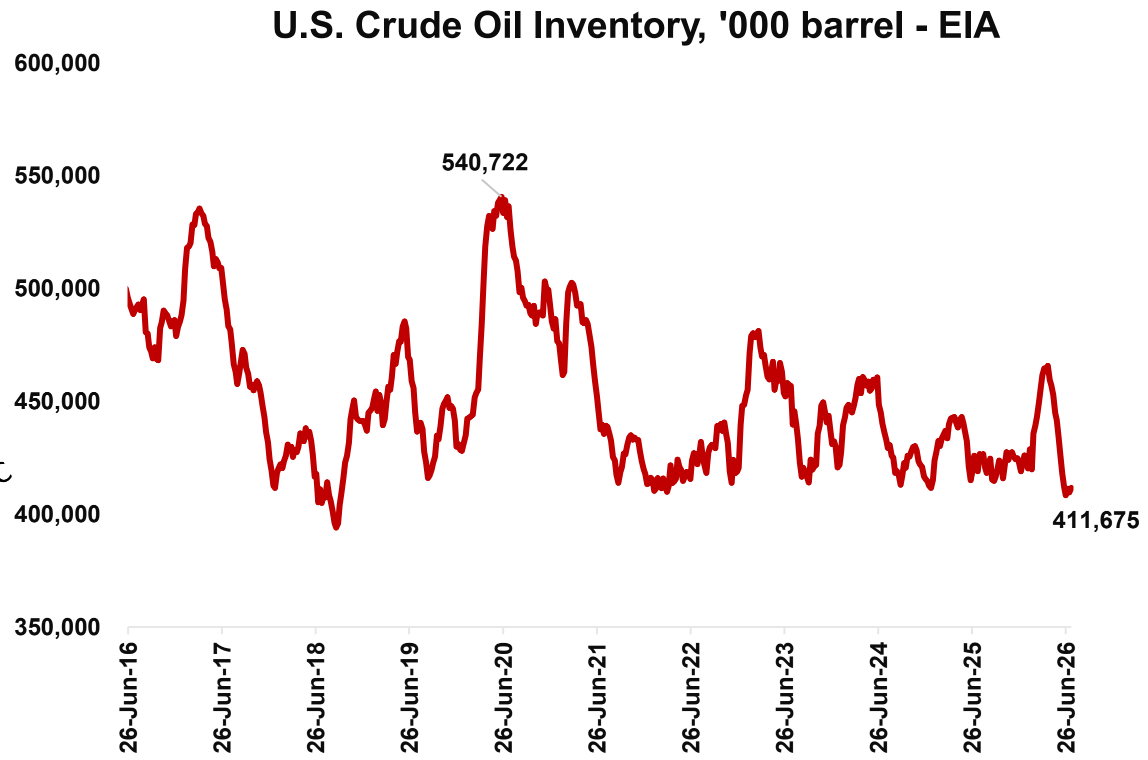
Sources: BNM, Federal Reserve Board (Fed), CEIC Data

- The Ringgit depreciated by 0.3% w-o-w against the USD, pressured by a stronger USD (+0.7% w-o-w) as mounting concerns over global energy supply shock led to a broad-based rotation into USD-denominated assets. The USD index traded with a bullish bias, breaking decisively above the 101.0-resistance level last Tuesday and closing the week at 101.47.
- Geopolitical tensions between U.S. and Iran extended into the second week, intensifying fears over a material disruption to global trade and energy flows through key shipping routes. Crude oil prices continued to climb, prompting markets to reassess the inflation outlook as the structurally higher oil prices has increased upside risks to price pressures. As such, investors had repriced their Federal Reserve (Fed) policy expectations, with the probability of at least two FFR hikes by year-end rising over 39.0%, compared to around 28.0% a week prior.
- The Middle East conflict deteriorated further when Yemen's Houthis and Saudi Arabia got increasingly involved in the fray, raising the possibility of a broader supply disruption should tensions spill into other Gulf nations.
- Additionally, the U.S. will impose trade tariffs ranging from 10% to 12.5% on 60 countries on alleged forced labour concerns, renewing jitters of potential disruptions to global supply chains and keeping investor sentiments largely cautious.
- However, U.S. President Trump recently announced a halt to military strikes on Iran to facilitate the resumption of peace negotiations, triggering a sharp retreat across energy prices while the USD opened today's session on a softer footing.

COMMODITY: OIL PULLS BACK AS DIPLOMATIC EFFORTS EASE SUPPLY FEARS

BANK ISLAM



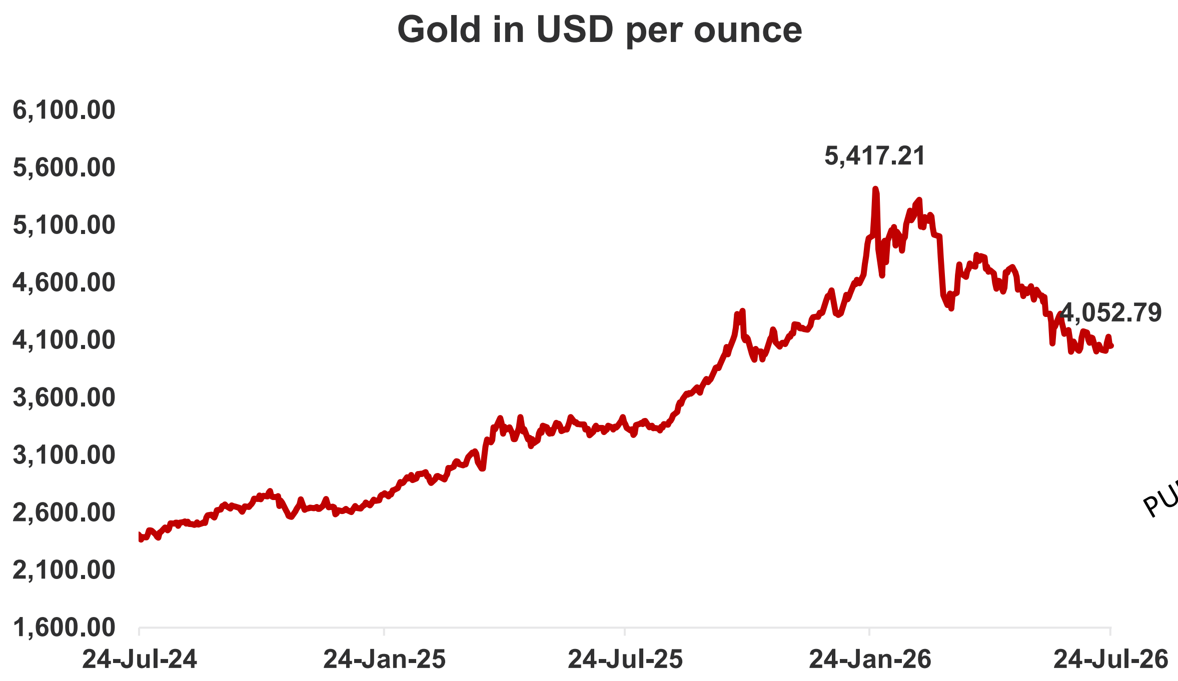


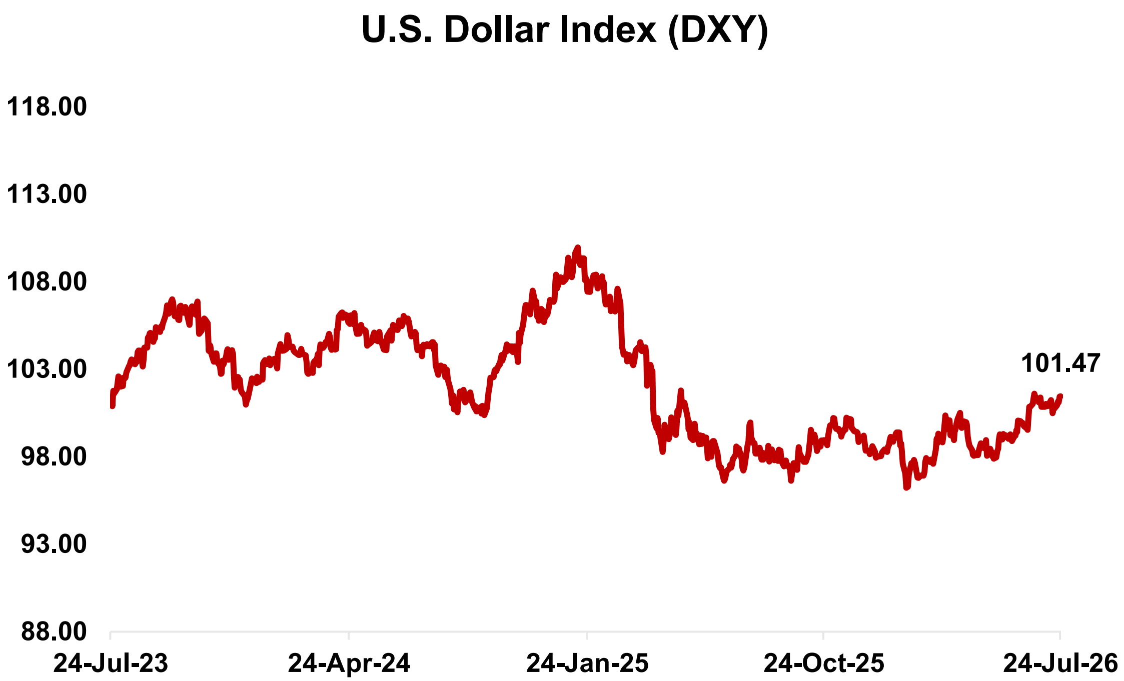
Sources: Bloomberg, Energy Information Administration (EIA)

- Oil prices retreated on Friday, falling 5.1% to close at USD96.78/barrel after briefly crossing USD100/barrel mid-week. On a week-on-week basis, prices still rose 9.9%. Reports that China is encouraging renewed dialogue between the U.S. and Iran reduced immediate concerns over a prolonged geopolitical crisis, prompting investors to unwind some of the recent risk premium in oil.
- Although prices retreated, the market continues to price in the possibility of disruptions to Middle East energy flows. Any setback in negotiations or escalation in regional tensions could quickly restore upward pressure on crude.
- Oil is likely to remain driven by geopolitical headlines rather than fundamentals in the near term, with traders closely monitoring developments involving U.S. and Iran, shipping routes, and major global powers.
- U.S. crude oil inventories increased by 2.0 million barrels to 411.7 million for the week ending July 17.

COMMODITY: GOLD PRICE STAGED A LAST-MINUTE REBOUND, CLIMBING BY 0.9% HIGHER W-O-W

BANK ISLAM





Sources: Bloomberg, CEIC Data

- Gold (XAU) price movement continued to be driven by Middle East geopolitical tensions last week amid an interplay of heightened risk aversion, an evolving inflation outlook and emerging global trade jitters.
- On one hand, the significant rebound across energy markets had reignited concerns over resurging inflation, reinforcing expectations of more restrictive monetary policy approaches by major central banks. Consequently, the relative appeal of non-yielding holdings, including gold, dimmed.
- However, concerns over a broader regional conflict intensified as the Houthis and Saudi Arabia became increasingly involved, which underpinned demand for safe-haven assets. This provided modest support for the XAU given its traditional safe-haven status, leading to prices to rebound USD4,052.79 by last Friday.

BANK ISLAM

WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- This week, investors will focus primarily on the Federal Reserve's policy meeting on 28-29 July, with markets looking for clues on whether policymakers remain concerned about inflation risks stemming from the recent surge in energy prices. While no immediate rate change is widely expected in July, investors will scrutinize Chair Warsh's remarks for any indication of the future policy path. The release of the advance estimate of the US second-quarter GDP and the core PCE inflation report will also be key in shaping expectations for the remainder of the year. Stronger-than-expected economic data could reinforce the view that interest rates may stay elevated for longer. Meanwhile, a heavy slate of corporate earnings, particularly from major technology firms, will test whether current equity valuations remain justified. Markets will also monitor oil prices and geopolitical developments for their potential impact on inflation expectations. Overall, US equities may experience heightened volatility as investors digest a combination of Fed signals, economic data, and earnings results.

- Meanwhile, the Bank of England (BOE) is expected to leave its key interest rate unchanged at 3.75% as policymakers continue balancing persistent inflation against slowing economic activity. Although headline inflation has eased, services inflation and wage growth remain elevated. The Monetary Policy Committee is likely to emphasize that inflation risks have not fully disappeared despite signs of softer demand, especially with the renewed geopolitical tension between the U.S. and Iran that lead to higher oil prices. Investors will pay close attention to the BOE's guidance for any indication of when interest rates could begin to decline. Markets will also assess whether recent economic data have strengthened the case for policy easing later this year. Any hawkish signals could support the pound and push UK government bond yields higher. Overall, the BOE is expected to maintain a restrictive stance while awaiting clearer evidence that inflation is moving sustainably toward its target.

- Likewise, the Bank of Japan (BOJ) is widely expected to keep its policy rate unchanged at this week's meeting after raising interest rates by 25bps to 1.0% in June. Policymakers are likely to acknowledge that inflation remains above target, supported by higher food and energy prices as well as a weaker yen. However, they are also expected to remain cautious given uncertainties surrounding global growth and external demand. Investors will closely watch Governor Kazuo Ueda's remarks for clues on the timing of the next rate increase. Any indication that inflation is becoming more broad-based could strengthen expectations for another hike later this year. The meeting is expected to reinforce a gradual and data-dependent approach to further policy normalization.

BANK ISLAM

THANK YOU