WEEKLY ECONOMIC UPDATE

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ECONOMIC RESEARCH

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MARKETS OVERVIEW

- The dominant narrative last week was not that the Federal Reserve turned less hawkish, but rather that markets became less convinced it would need to become even more aggressive. Early in the week, investors aggressively priced in additional rate hikes following the June FOMC meeting, driven by a wave of increasingly hawkish projections from major investment banks. However, by the end of the week, those expectations had moderated as inflation data came in largely in line with forecasts and the sharp decline in oil prices reduced concerns about a renewed surge in energy-driven inflation.

- This shift was significant. Deutsche Bank's forecast of two rate hikes this year, whilst Bank of America's more aggressive outlook for hikes in September, October, and December, initially propelled the USD sharply higher. Gold briefly fell below the critical USD4,000 psychological level as markets positioned for a more forceful Fed response. However, May's PCE report failed to deliver the upside surprise needed to justify such aggressive scenarios. At the same time, the continued drop in crude oil prices, following the U.S.-Iran ceasefire, materially improved the near-term inflation outlook. By the end of the week, market expectations had largely settled back to a base case of one Fed rate hike before year-end.

- What stood out most, however, was the resilience of the USD. Treasury yields retreated and expectations for multiple rate hikes diminished, yet the greenback retained nearly all of its gains, finishing the week as the strongest major currency. This suggests that investors increasingly view the USD's strength as part of a broader structural trend, rather than a simple reaction to shifting Fed expectations.

- While the repricing of Fed policy expectations slowed the USD's momentum toward the end of the week, it did little to undermine the broader bullish outlook. Under normal circumstances, falling Treasury yields, reduced expectations for multiple rate hikes, and a collapse in oil prices would have triggered a much sharper correction in the currency. Instead, the USD merely consolidated after a strong rally, reinforcing the view that bullish sentiment remains firmly intact.

- This resilience indicates that the market no longer sees the USD's recovery as solely dependent on the prospect of more aggressive Fed tightening. Even as expectations revert to a single rate hike this year, U.S. interest rates are still projected to remain among the highest in the developed world, while the US economy continues to outperform many of its peers. In addition, ongoing uncertainty around global growth and persistent volatility in equity markets continue to support demand for the USD during periods of risk aversion.

MARKETS OVERVIEW

- The earlier repricing in Fed expectations reflected a brief market concern that policymakers might need to respond more aggressively to persistent inflation. Following the FOMC meeting, consensus shifted toward expectations of further tightening, amplifying fears that inflation could remain elevated well into 2027, pushing Treasury yields and the Dollar Index (DXY) higher.

- However, that narrative began to lose traction in the latter half of the week. May's PCE data showed headline inflation rising from 3.8% y-o-y to 4.1%, while core PCE edged up from 3.3% y-o-y to 3.4%, both in line with expectations. Without a meaningful upside surprise, markets lacked justification to sustain more aggressive pricing for Fed tightening. As a result, some of the more extreme expectations were unwound, with markets reverting to a more conventional base case of one rate hike before year-end. The probability of a September hike eased to around 60%, while expectations for multiple hikes this year declined.

- Another key factor was the continued decline in oil prices. Following the U.S.-Iran ceasefire and the easing of sanctions, both Brent and WTI crude fell to around USD70 per barrel, effectively returning to pre-conflict levels. This significantly improves the near-term inflation outlook, as lower energy prices are likely to exert downward pressure on headline CPI and PCE in the coming months. While underlying inflation remains elevated and the Fed is unlikely to declare victory anytime soon, the drop in oil prices has provided policymakers with some breathing space. Unless incoming data begin to surprise to the upside again, markets appear comfortable anchoring expectations around a single rate hike in 2026.

- Looking ahead, focus shifts to two key developments that could quickly revive expectations of a more aggressive Fed if labor market strength holds, and ultimately determine whether the USD can extend its gains. The first is the June nonfarm payrolls (NFP) report, another stronger-than-expected outcome would reinforce the view that the Fed may need to deliver more than one rate hike this year, supporting further USD strength. The second is the performance of the technology sector. Despite recent volatility, the NASDAQ remains above the 25,000 level, suggesting no broad retreat. However, a renewed wave of selling in tech stocks would likely trigger a fresh bout of risk aversion, providing an additional tailwind for the USD regardless of whether Fed expectations turn more hawkish again.

WEEKLY HIGHLIGHT: HOTTER-THAN-EXPECTED UNDERLYING PRICE PRESSURES REINFORCE RBA'S CAUTIOUS POLICY STANCE

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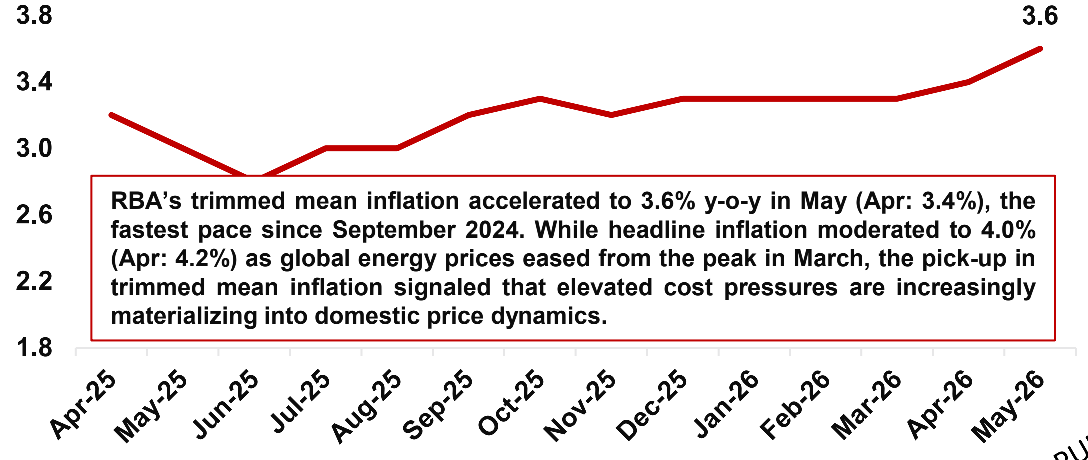
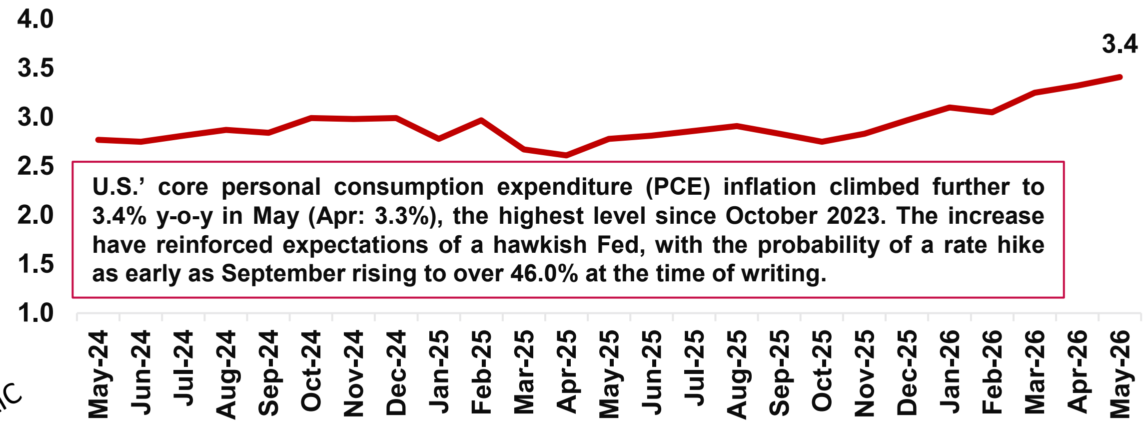
GLOBAL

Australia - Trimmed Mean Inflation, y-o-y%



RBA's trimmed mean inflation accelerated to 3.6% y-o-y in May (Apr: 3.4%), the fastest pace since September 2024. While headline inflation moderated to 4.0% (Apr: 4.2%) as global energy prices eased from the peak in March, the pick-up in trimmed mean inflation signaled that elevated cost pressures are increasingly materializing into domestic price dynamics.

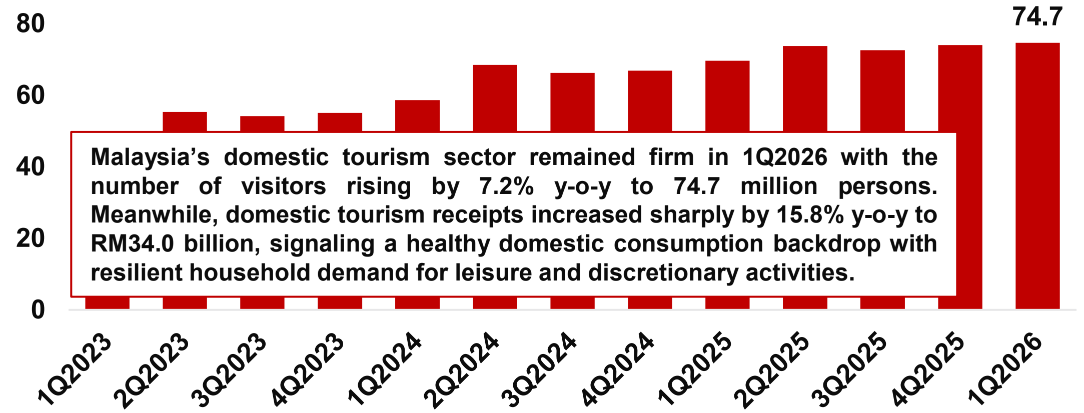
U.S. - Core Personal Consumption Expenditure (PCE) Inflation, y-o-y%



U.S.' core personal consumption expenditure (PCE) inflation climbed further to 3.4% y-o-y in May (Apr: 3.3%), the highest level since October 2023. The increase have reinforced expectations of a hawkish Fed, with the probability of a rate hike as early as September rising to over 46.0% at the time of writing.

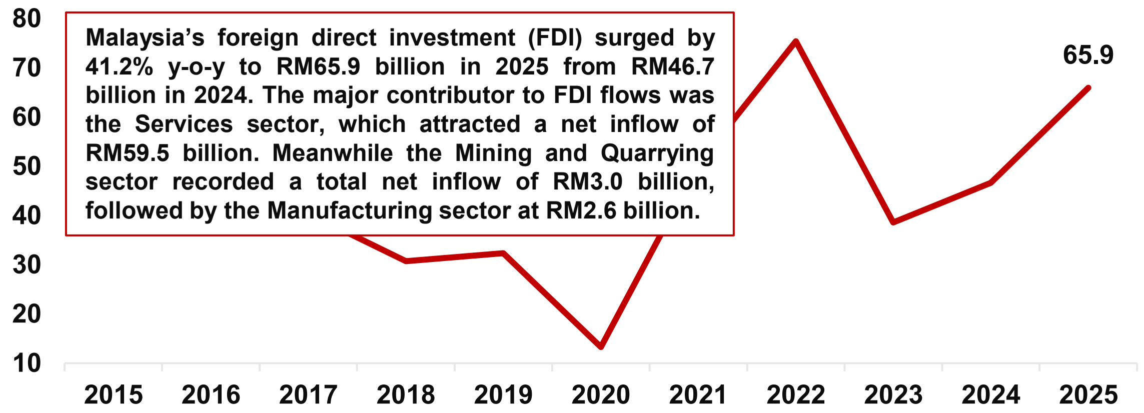
DOMESTIC

Malaysia - Number of Domestic Visitors, million person



Malaysia's domestic tourism sector remained firm in 1Q2026 with the number of visitors rising by 7.2% y-o-y to 74.7 million persons. Meanwhile, domestic tourism receipts increased sharply by 15.8% y-o-y to RM34.0 billion, signaling a healthy domestic consumption backdrop with resilient household demand for leisure and discretionary activities.

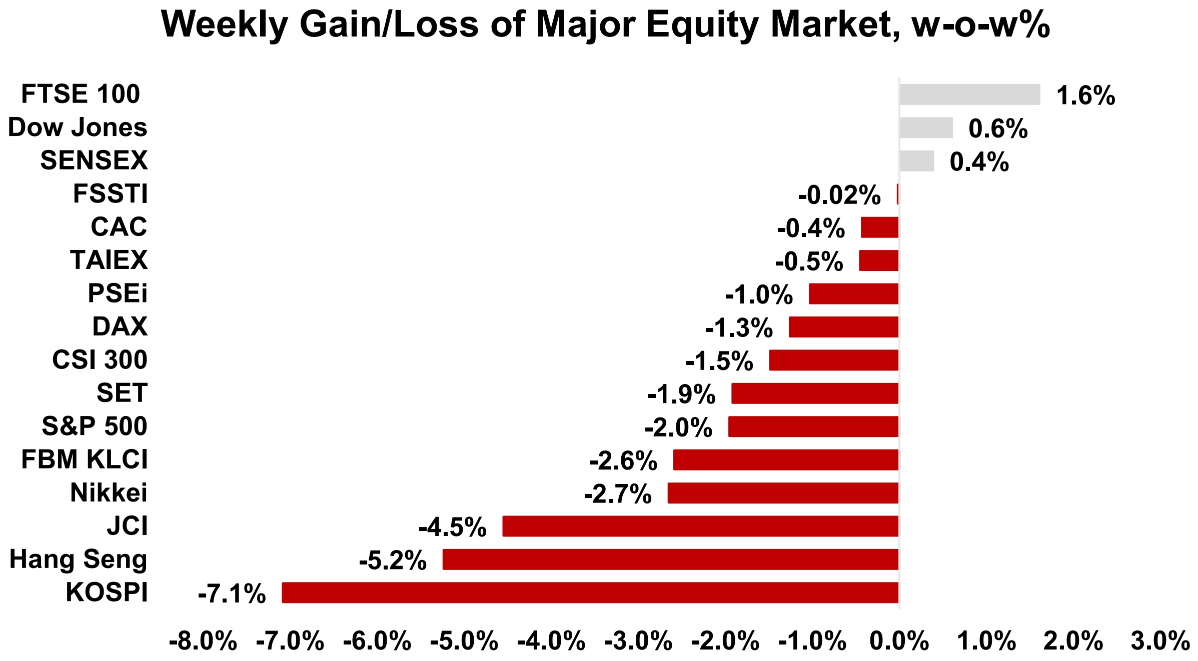
Malaysia - Foreign Direct Investment (FDI), RM billion

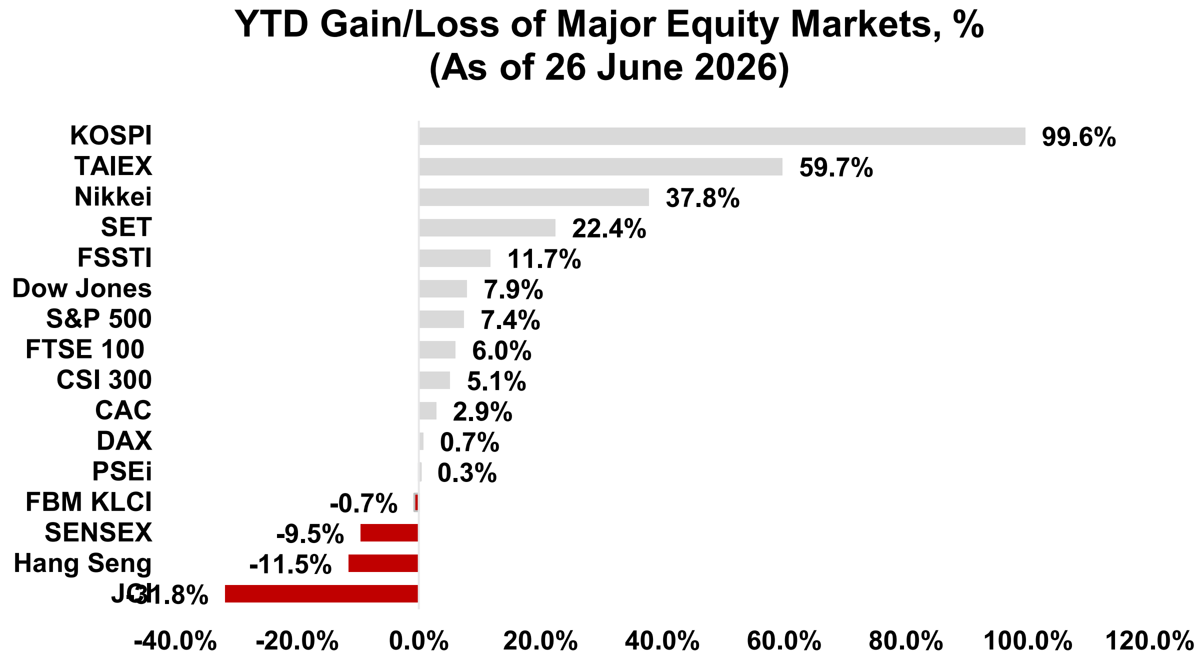


Malaysia's foreign direct investment (FDI) surged by 41.2% y-o-y to RM65.9 billion in 2025 from RM46.7 billion in 2024. The major contributor to FDI flows was the Services sector, which attracted a net inflow of RM59.5 billion. Meanwhile the Mining and Quarrying sector recorded a total net inflow of RM3.0 billion, followed by the Manufacturing sector at RM2.6 billion.

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

REGIONAL EQUITY: GLOBAL EQUITIES END LOWER AS TECH PROFIT-TAKING CAPS GAINS

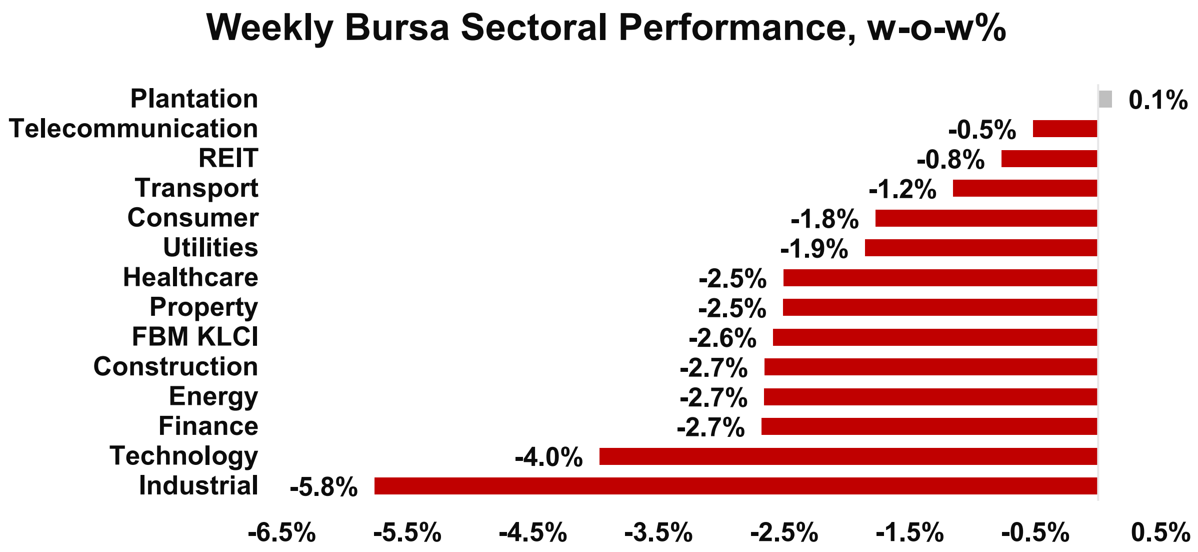


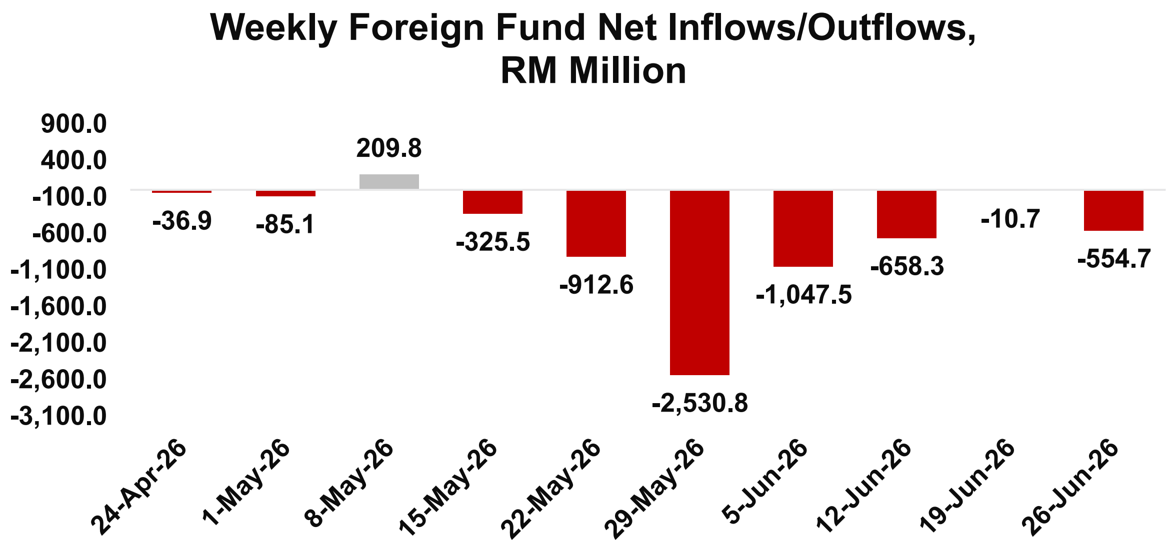


Sources: Bursa, CEIC Data

- Global equity markets broadly retreated in the week ended June 26, with technology shares facing heavy profit-taking after their strong rally in recent weeks. Valuation concerns in the tech sector, coupled with lingering uncertainty over the macroeconomic outlook, kept risk appetite subdued.
- Only three major bourses managed gain during the week, namely UK's FTSE 100 (+1.6%), U.S. Dow Jones (+0.6%), and India's SENSEX (+0.4%).
- In contrast, Korea's KOSPI (-7.1%),Hong Kong's Hang Seng (-5.2%) and Indonesia's JCI were the top losers. The sell-off was driven by profit-taking in semiconductor and AI-related stocks, amplified by Wall Street's tech correction and growing doubts about the sustainability of the global AI boom. The S&P 500 (-2.0%) also fell as technology and AI-related megacaps dragged the index.

DOMESTIC EQUITY: FBM KLCI DIPPED AS INVESTORS REMAINED ON HIGH ALERT OVER GEOPOLITICAL DEVELOPMENTS





Sources: Bursa, CEIC Data

- The FBM KLCI declined by 1.7% w-o-w for the week ending June 26, weighed by profit-taking activities following the broad-based gains observed in the preceding week. Additionally, buying interest remained muted against a backdrop of subdued investor sentiments as market participants continued to monitor geopolitical developments, particularly the progress of negotiations between U.S. and Iran.
- Investor risk appetite deteriorated sharply over the weekend as U.S.-Iran tensions escalated, driving an initial rotation out of riskier assets, leading the FBM KLCI to track regional peers and open Monday's session in the red.
- However, consistent with the volatile nature of the conflict, latest reports indicated that both parties have agreed to halt the latest round of military operations. Nonetheless, trading is expected to remain cautious as sentiments surrounding the durability of the peace agreement has weakened.
- Most Bursa indices ended in the negative territory last week with the Industrial index plunging by 5.8%, followed by the Technology index which fell by 4.0%. In contrast, the Plantation index was the only gainer, climbing marginally by 0.1% w-o-w.
- Foreign investors remained as net sellers for the seventh week, with a net outflow of RM554.7 million. This has increased the cumulative net outflow thus far to RM4.1 billion.

FIXED INCOME: U.S. TREASURIES RALLY AS SOFTER INFLATION TEMPERS YIELD PRESSURES

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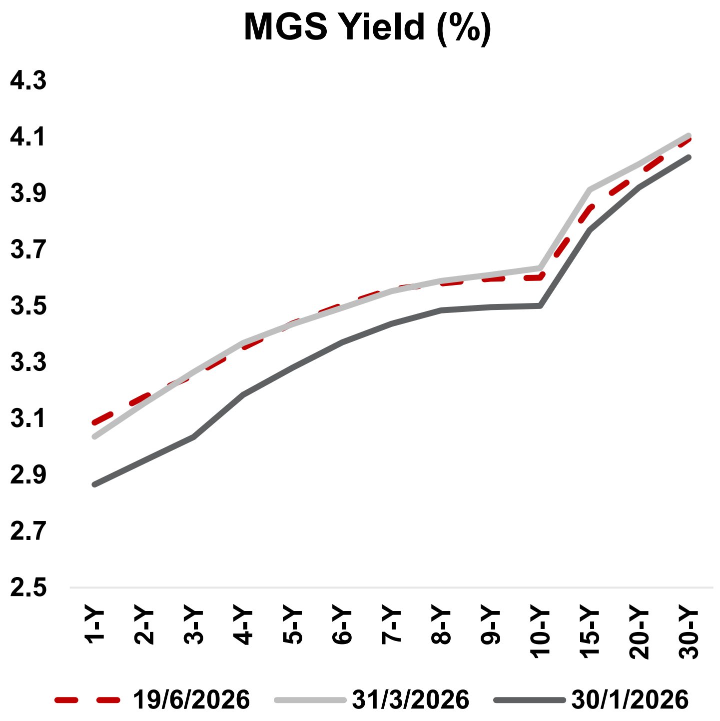
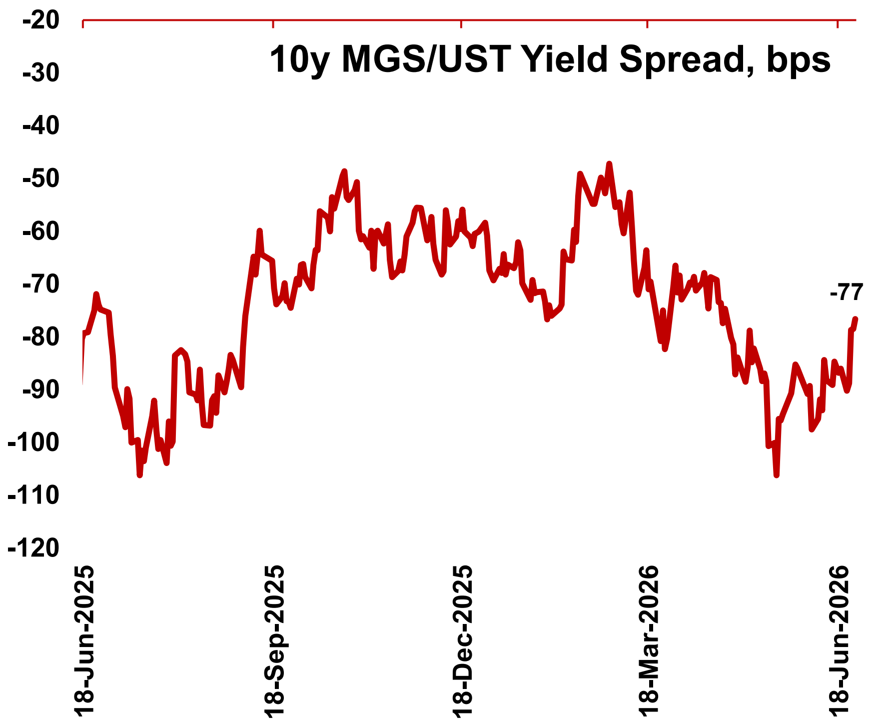
Weekly Changes, basis points (bps)

UST	Yields (%) 18-Jun-26	Yields (%) 26-Jun-26	Change (bps)
3-Y UST	4.19	4.09	-10
5-Y UST	4.23	4.12	-11
7-Y UST	4.34	4.23	-11
10-Y UST	4.46	4.38	-8
MGS	**Yields (%) 18-Jun-26**	**Yields (%) 26-Jun-26**	**Change (bps)**
3-Y MGS	3.25	3.25	0
5-Y MGS	3.43	3.42	-2
7-Y MGS	3.56	3.55	0
10-Y MGS	3.59	3.61	2
GII	**Yields (%) 18-Jun-26**	**Yields (%) 26-Jun-26**	**Change (bps)**
3-Y GII	3.24	3.25	1
5-Y GII	3.37	3.39	3
7-Y GII	3.55	3.55	0
10-Y GII	3.60	3.62	2

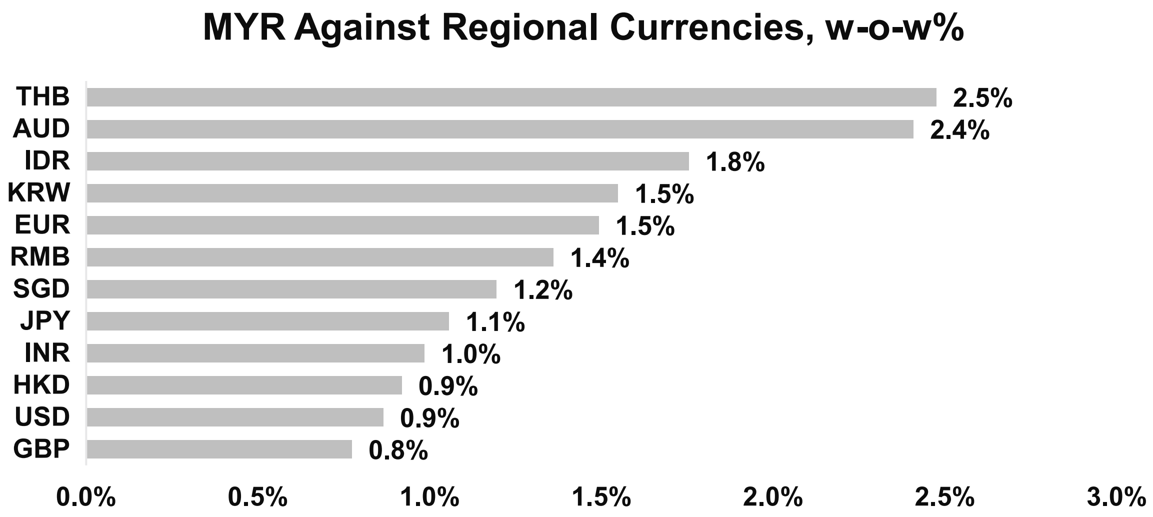
Sources: BNM, Federal Reserve Board

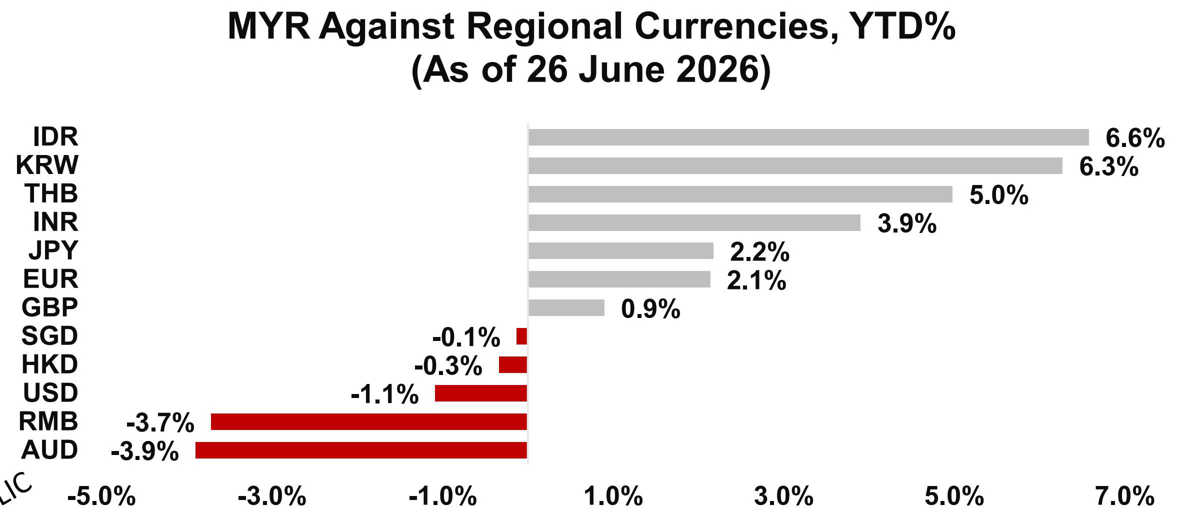




- The U.S. Treasury (UST) yields ended lower, declining between 8bps and 11bps for the week ending June 26. U.S. Treasury yields fell over the week as softer-than-expected inflation readings, particularly the May Personal Consumption Expenditures (PCE) data, reinforced expectations that price pressures are gradually easing. Headline PCE Inflation rose 0.4% m-o-m and 4.1% y-o-y, coming in slightly below expectations. The 10-year treasury yield eased towards 4.38%, marking its lowest level in seven weeks, reflecting increased demand for government bonds.
- Investor sentiment was also supported by easing geopolitical tensions in the Middle East and lower oil prices, which helped reduce near-term inflation concerns.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields ended mixed in the range of -2bps and 3bps.
- The 10y MGS/UST yield spread narrowed further in the negative territory at 77bps relative to -87bps in the prior week.

FX MARKET: RINGGIT APPRECIATED AMID SUSTAINED INVESTMENT MOMENTUM INTO MALAYSIA'S KEY ECONOMIC SECTORS





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

- The Ringgit appreciated by 0.9% w-o-w for the week ending 26 June, supported by improved investor confidence following the release of Malaysia's 2025 foreign direct investment (FDI) data. In the early part of the week, the Ringgit remained under pressure against the USD, with the USD/MYR currency pair trading within a narrow range of 4.1350-4.1550.
- However, investor sentiments shifted as robust FDI figures reinforced Malaysia's long-term outlook. Malaysia's FDI inflows recorded a double-digit growth of 41.2% y-o-y in 2025, surging to RM65.9 billion from RM46.7 billion in 2024. The Services sector remained as the main recipient, attracting RM59.5 billion in net inflows, while the Mining & Quarrying and Manufacturing sectors recorded RM3.0 and RM2.6 billion, respectively. The firm investment momentum underscored the resilience of the economy and long-term growth prospects, lending support to the Ringgit.
- As a result, the USD/MYR pair traded turned bearish, breaking decisively below the 4.12-support level on 25 June and advancing past subsequent support zones to close the week at 4.0890.
- Meanwhile, the USD gathered structural support from expectations of a hawkish Fed amid an interplay of persistently elevated inflation and a stronger-than-expected economy. Notably, core PCE inflation had climbed to 3.4% in May, the highest level since October 2023, indicating that cost pressures are broadening into domestic price dynamics. Meanwhile, the 1Q2026 US GDP was revised upwards to 2.1%, compared to the earlier estimate of 1.6%, highlighting resilient economic conditions and granting the Fed greater policy flexibility.

COMMODITY: BRENT OIL SLIPS AS CALMER SHIPPING ROUTES EASE SUPPLY FEARS

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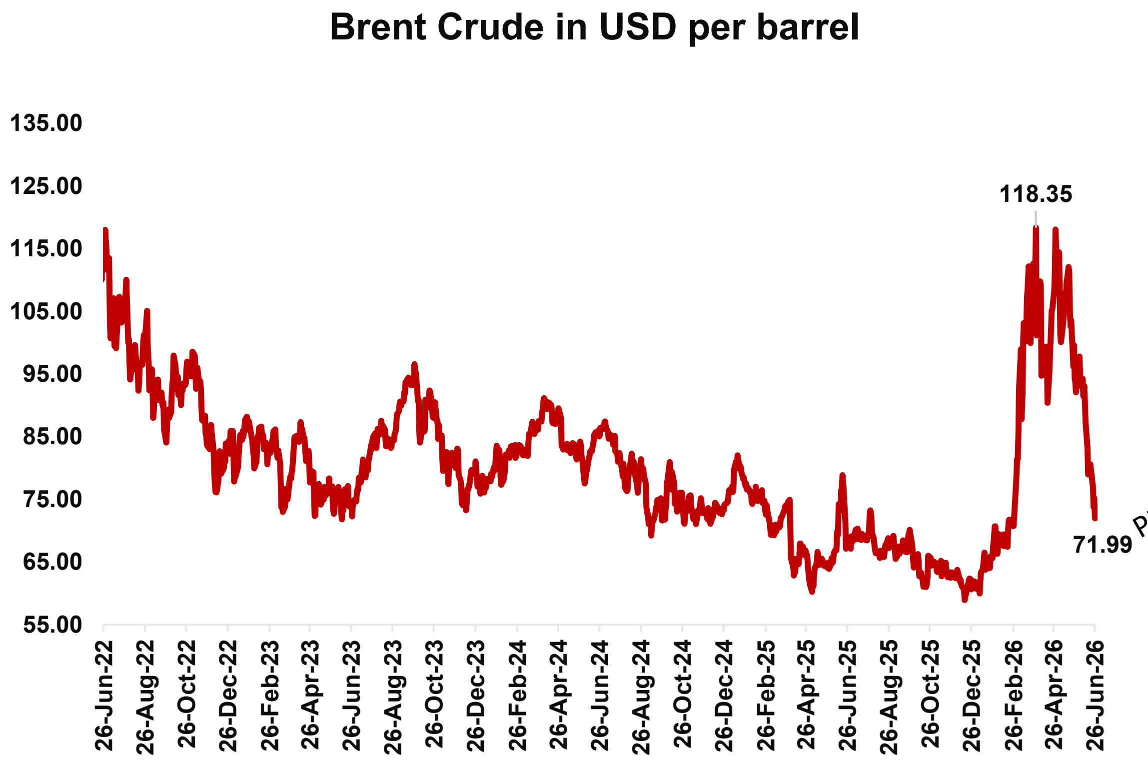

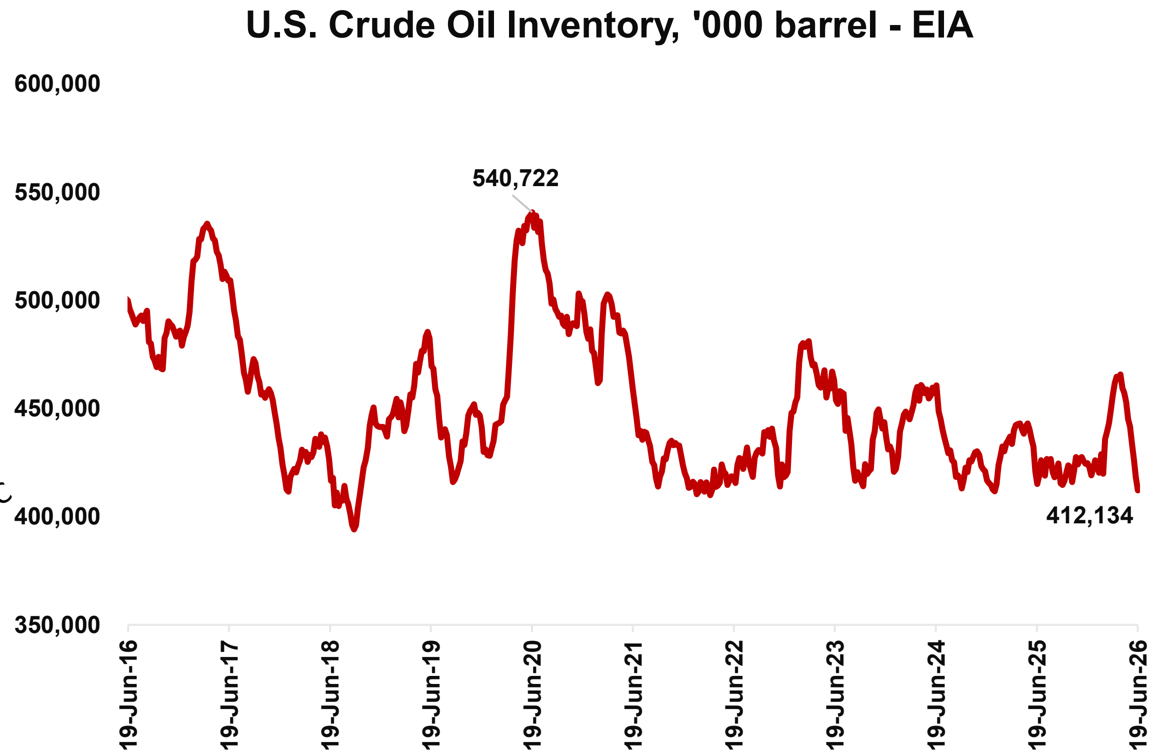

Sources: Bloomberg, Energy Information Administration (EIA)

- Brent crude oil closed lower at USD71.99/barrel on Friday (June 26), marking a 10.6% week-on-week decline as concerns over supply disruptions eased. More oil tankers successfully transited the Strait of Hormuz, signaling that crude flows from the Middle East remain largely uninterrupted despite ongoing geopolitical tensions.
- In the near term, oil prices are likely to remain volatile as markets monitor developments in the Middle East, particularly renewed ceasefire breaches and the risk of fresh disruptions to key shipping routes. However, as long as tanker flows through the Strait of Hormuz remain uninterrupted and no major supply outages emerge, Brent is likely to stay under downward pressure as the geopolitical risk premium continues to unwind.
- U.S. crude oil inventories declined by 6.1 million barrels to 412.1 million for the week ending June 19.

COMMODITY: GOLD PRICE WEAKENED AMID SIGNS OF ESCALATING U.S.-IRAN GEOPOLITICAL TENSIONS

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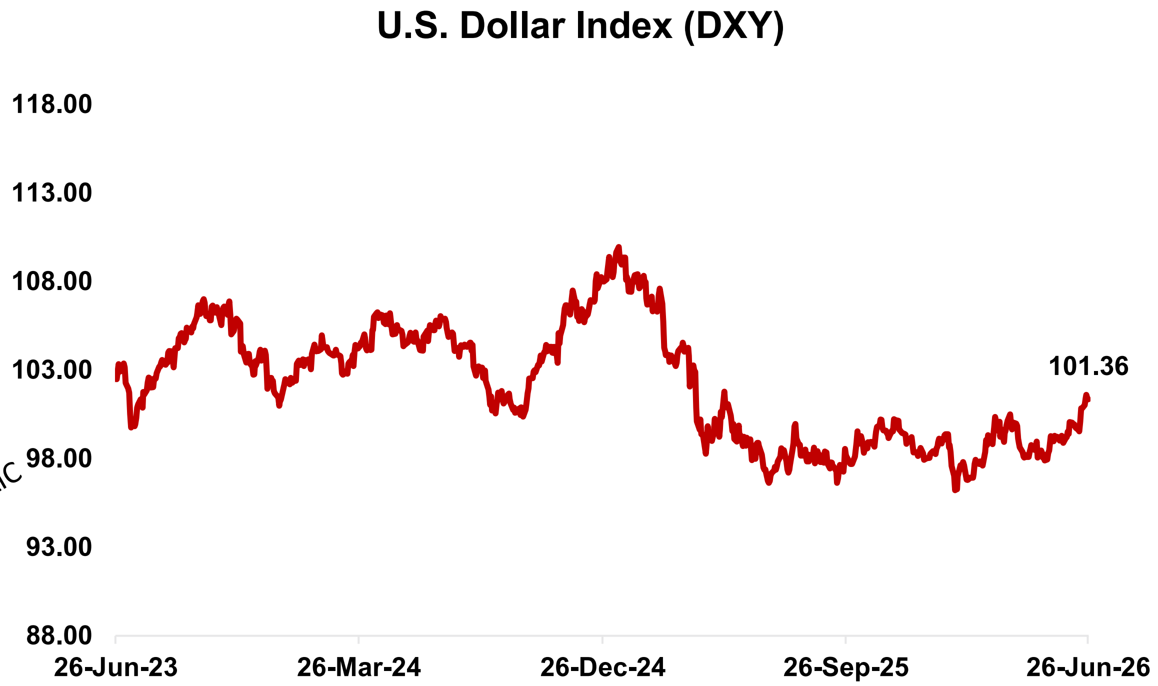

Sources: Bloomberg, CEIC Data

- Gold price (XAU) remained under pressure last week, declining by 1.6% w-o-w as sentiments over the U.S.-Iran geopolitical conflict remained cautious.
- Over the weekend, tensions between U.S. and Iran escalated significantly, highlighting the fragility of the peace agreement. On 27 June, the U.S. military announced that it has launched strikes on Iran in response to an earlier attack on a tanker in the Strait of Hormuz, prompting Iran to retaliate by striking U.S. military bases in Kuwait and Bahrain.
- While both parties have reportedly agreed to halt the latest bout of military operations, the attacks have crippled confidence over the peace deal, which would continue to underpin demand for safe-haven assets, particularly the USD.

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WHAT TO LOOK OUT FOR IN THE MARKETS THIS WEEK

- This week, markets will focus on a series of key U.S. economic releases that could shape expectations for the Federal Reserve's policy outlook. In particular, investors will closely watch the June nonfarm payrolls report, the unemployment rate, and wage growth data for further signals on the strength of the labor market. The ADP private payrolls report and weekly jobless claims will also provide additional clues on whether labour market conditions are easing. Market participants will also monitor the ISM manufacturing and services PMI readings to assess the momentum of U.S. economic activity. The resilient economic data may support the view that policymakers could keep interest rates higher for longer. Investors will also pay close attention to any comments from Federal Reserve officials for further guidance on the interest rate path. Overall, economic data are expected to remain the main driver of market sentiment for the week.

- In Asia, markets will closely monitor a series of key economic releases from major regional economies this week. In China, investors will focus on the June manufacturing and non-manufacturing PMI data to gauge whether recent stimulus measures are gaining traction amid lingering weakness in domestic demand and the property sector. A softer-than-expected reading could reinforce concerns over China's growth outlook and weigh on regional sentiment. In Japan, the Bank of Japan's quarterly Tankan survey will be scrutinised for signs of business confidence and corporate investment trends, particularly as firms continue to navigate rising costs and global trade uncertainties. South Korea will release inflation figures, providing clues on the trajectory of price pressures and the potential policy stance of the central bank. Meanwhile, Indonesia's June inflation data will be watched closely to assess domestic demand conditions and the scope for monetary policy adjustments. Investors will also keep an eye on developments in geopolitical tensions, which remain key driver of risk sentiment across Asian markets. Overall, Asian equities are likely to trade cautiously as investors assess incoming economic data alongside external uncertainties.

- In Malaysia, market attention will centre on the release of the Producer Price Index (PPI) and S&P Global Manufacturing PMI. Investors will monitor the PPI data for clues on producer cost pressures and whether inflation at the wholesale level continue to accelerate. A softer reading could indicate easing input costs for businesses and support corporate margins. Meanwhile, the Manufacturing PMI will provide an early assessment of the health of the factory sector amid lingering external uncertainties. Particular focus will be on new orders, production and export demand, given Malaysia's reliance on external trade. Overall, the data will offer fresh insights into the resilience of Malaysia's industrial sector and economic momentum in the second half of 2026.

THANK YOU