



THE LOCAL READ



Image Source: Gellidon, J. C. (2018, February 19). City buildings during night time [Photograph]. Unsplash. <https://unsplash.com/photos/city-buildings-during-night-time-Khmo4T-rsQ>



GLOBAL LENS



Image Source: Afonso, M. (2017, October 21). Gray warship on body of water [Photograph]. Unsplash. <https://unsplash.com/photos/gray-warship-on-body-of-water-BOgAYwERXbs>

Article Sources: Al Jazeera Staff. (2026, May 30). Iran reasserts control over Hormuz Strait as deal with US remains elusive. Al Jazeera. <https://www.aljazeera.com/news/2026/5/30/iran-reasserts-control-over-hormuz-strait-as-deal-with-us-remains-elusive-Cox.1> (2026, May 28). Core inflation hit an annual rate of 3.3% in April, as expected, Fed's preferred gauge shows. CNBC. <https://www.cnbc.com/2026/05/28/core-inflation-hit-an-annual-rate-of-3point3percent-in-april-as-expected-feds-preferred-gauge-shows.html>

Businesses Eye Middle East Peace Deal; Trade Deficit Near Four-Year High

As expected with escalation into the second month of the Middle East conflict, business confidence in April soured further as the Middle East conflict pushed inflation higher, but forward-looking expectations improved on demand and peace hopes. Business sentiment declined, with the current month Confidence Index (CI) slipping to -35.8% (prev. -24.3%), per the Bangko Sentral ng Pilipinas' (BSP) Business Expectations Survey (BES). A negative CI print indicates more surveyed firms were pessimistic than optimistic. However, businesses' outlooks appeared to improve, with quarter-ahead (-7.5%, prev. -17.3%) and year-ahead (+19.5%, prev. 11.7% YoY) expectations rising over their March readings. Firms looked forward to improved demand conditions due to the start of the school year and better economic conditions on peace treaty hopes. BSP's month-ahead inflation outlook sits at 7.1-7.9%, with more expensive food and a weaker peso contributing to faster price growth.

Meanwhile, the country's trade deficit in the same month hit \$5.97-B, some +49.8% YoY higher as the Israel, U.S.-Iran war continued damaging supply chains and bloating energy imports. Despite disruptive logistics costs weighing on semiconductor shipments, exports still rose (+6.3% YoY, \$7.21-B). On the other hand, imports growth soared (+22.4% YoY, \$13.17-B), with Mineral Fuels, etc. shipments doubling in value (+105.6% YoY, \$2.56-B). Consistent with the weaker CI, Capital Goods import growth (a form of investment spending) slowed to +8.2% YoY (\$3.68-B).

Outlook: These current readings reflect current headwinds on the Philippine economy. While crude prices have eased in recent weeks, the macro impact through higher inflation, weaker growth, and strained confidence may take time to completely resolve. We think inflation may approach the high end (7.9%) of BSP's estimate, faster than April's 7.2% due to higher commodity prices and base effects. Any large surprise to the upside could spur an off-cycle hike, but our base case remains a possible 25-bps hike in BSP's June meeting, subject to incoming economic data.

Article Sources: Chan, K. (2026, May 29). Inflation woes drag Philippine business confidence in April - BusinessWorld Online. <https://www.bworldonline.com/top-stories/2026/05/29/753130/inflation-woes-drag-philippine-business-confidence-in-april/>
Gila-Carlos, R. A. (2026, May). BSP sees May inflation at 7.1%-7.9% on food, peso pressures. INQUIRER.net. <https://business.inquirer.net/592940/bsp-sees-may-inflation-at-7-1-7-9-on-food-peso-pressures>
Castillo, M. M. (2026, May 29). April trade deficit nears 4-year high. BusinessWorld Online. <https://www.bworldonline.com/top-stories/2026/05/29/753117/april-trade-deficit-nears-4-year-high/>

Negotiations Continue Under Airstrikes; Eyes on June Fed Meeting



Global crude prices softened last week on improved deal progress between the U.S. and Iran, with some flashpoints along the way. WTI crude oil prices traded between \$90-95/bbl in the first half of the week as U.S. airstrikes on Iranian port Bandar Abbas occurred despite ongoing peace talks. Oil then tumbled towards the \$86-91/bbl range as both sides reportedly agreed to a "framework of a deal". Despite this, soundings from both sides turned a tad more aggressive over the weekend.



Meanwhile, international markets are keeping a close eye on U.S. economic indicators ahead of the Fed's June 16-17 meeting. Their preferred inflation measure, Core PCE prices, grew within expectations by +3.3% YoY, but still above their 2 percent target. This comes as market expectations of a Fed hold clash against the dovishly perceived Fed Chair Warsh. U.S. non-farm payrolls released later this week (est. +60,000) will provide more clarity for market participants on the Fed's direction.



Outlook: Global markets may see elevated volatility as Warsh will make his Fed chair debut in the June policy meeting. Lately, markets appear to be pricing in the latest peace overtones from both sides of the Middle East conflict, which could stabilize conditions but may backfire severely if peace negotiations break down once more.

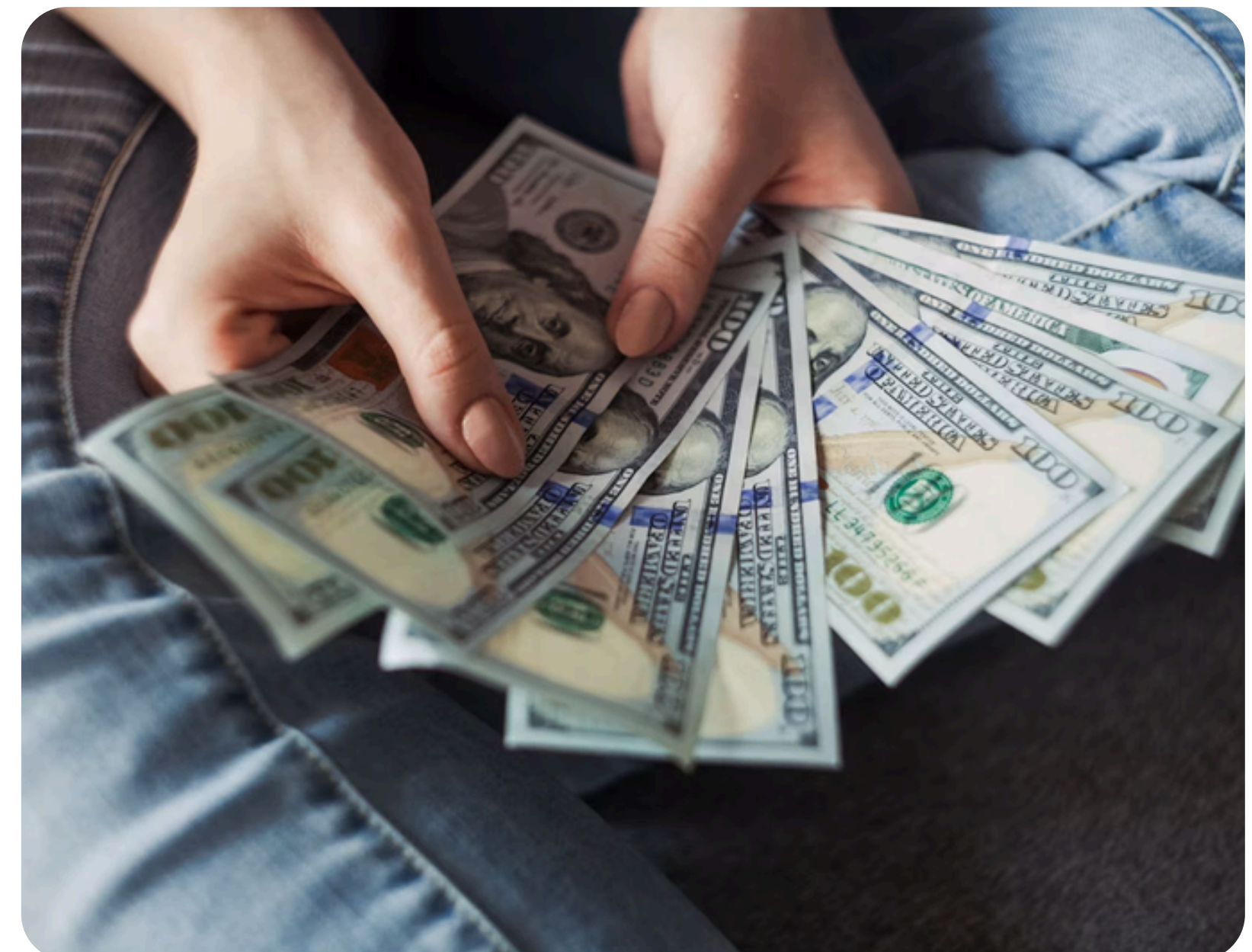


FOREX FOCUS

Inflation Jitters Keep Peso Soft

Despite softer crude oil prices at the start of the week amid claims on both sides of the Middle East conflict on a peace deal, the peso-dollar rate moved sideways as firms and consumers remained fidgety about the acceleration in inflation rates.

Safe haven demand for the U.S. dollar kept USDPHP hovering around a narrow range of 13 centavos. It gingerly appreciated by -0.16% to close the week at P61.590/\$. Warnings by at least two analysts—one local, one foreign-- that the FX rate may reach P65.00/\$--likely contributed to the inability of USDPHP to track the fall in crude oil prices. Trading on an average daily basis climbed by 14.5% to a moderate \$1.58-B from \$1.38-B, with higher volumes at the beginning of the shortened week (by a Muslim holiday in the country).

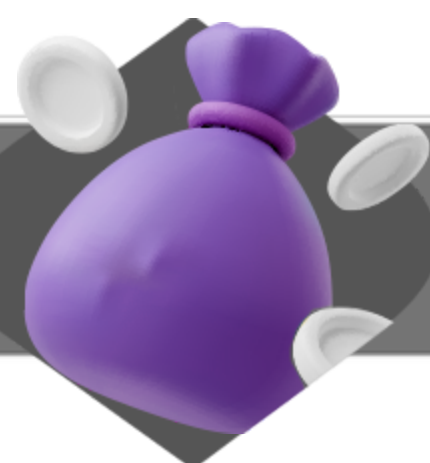


Source: Mils, A. (2019, March 28). Fan of 100 U.S. dollar banknotes [Photograph]. Unsplash. <https://unsplash.com/photos/fan-of-100-us-dollar-banknotes-ICPhGxs7pww>



Source: Trading Economics. (2026). US Dollar Philippine Peso. Tradingeconomics.com. <https://tradingeconomics.com/united-states/government-bond-yield>

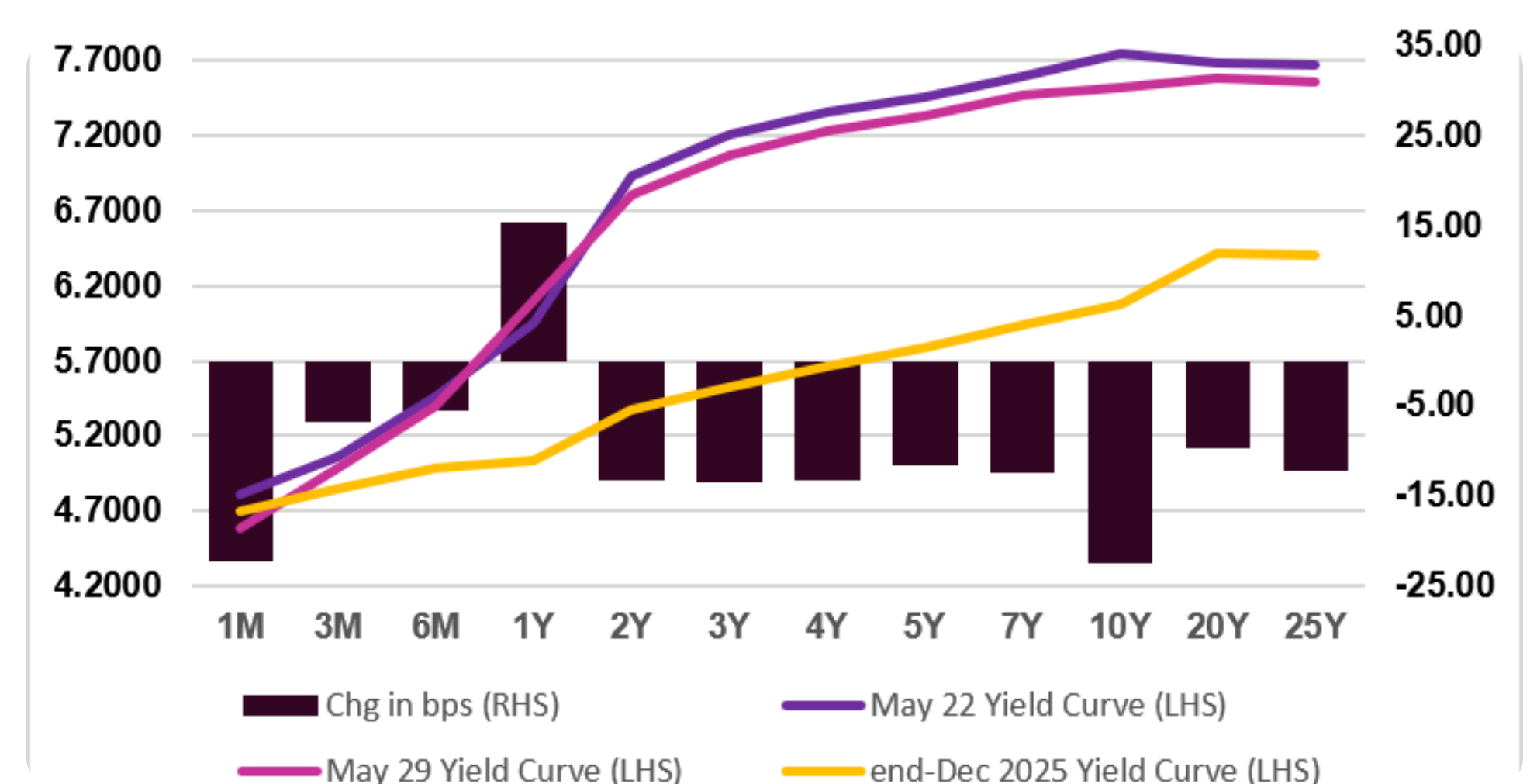
Outlook: With a lag effect of the FX rate of the large decline in crude oil prices by Friday, we may see more sideways movement with a limited downward bias. Normal business demand for the U.S. dollar as we begin a new month should resurface. Besides, the fundamentals (large trade and current account deficits) and the uncertainty on a possible peace accord should continue to put pressure on the peso.



THE BOND BLUEPRINT

Bond Market Risk On Again

We saw more risk appetite in the bond markets, although punctuated by opposite yield movements in the government securities (GS) auctions and secondary markets.



Source: Bloomberg, Authors' Calculations

GS Auctions

The Bureau of the Treasury offered only slightly more bonds than the prior week, but total tenders nearly doubled. The Tender-Offer Ratio (TOR) jumped to 2.263x from 1.180x, with long-dated bonds at 2.625x outpacing Treasury bills. Sensing the National Government's urgent funding needs to cushion elevated fuel prices, investors demanded sharply higher yields: up 68.9 bps for the 4.2Y FXTN 07-70 to 7.430% and 74.5 bps for the 9.8Y FXTN 10-74 to 7.602%. At the short end, the 182-day T-bill yield fell 19.4 bps to 5.700%, while the 364-day and 91-day bills rose 12.6 bps and 6.8 bps, respectively.

GS Secondary Trading

Yields fell across the curve except at the 1Y tenor, as trading volume jumped 43.7% to P200.4-B, or nearly doubled on an average daily basis (with only 4 trading days). Dealings in <3Y tenors dropped 24.8 percentage points to a 62.2% market share, mainly ceded to the 7Y-10Y segment, whose share surged 20.3 points to 24.1%. Aside from the 1Y tenor's 15.3 bps weekly rise, all other tenors declined by 5.5 bps (6M) to 22.5 bps (10Y), ending at 5.4041% and 7.520%, respectively. Belly yields (2Y to 7Y) mostly fell around 13 bps, with the 5Y tenor posting the biggest drop at 13.6 bps to 6.0665%.



Source: Trading Economics. (2026). United States Government Bond 10Y. Tradingeconomics.com. <https://tradingeconomics.com/united-states/government-bond-yield>

Outlook: Risk-on sentiment emerged on the basis of seemingly converging positions in Middle East conflict agreement, and a local controversy on the compensation of the BSP governor that suggests resistance of business groups on further policy rate hikes. Investor interest in the local bond market may hold, as the market has not factored in the huge ~15% in crude oil prices (to below \$90/barrel for WTI and \$91/bbl for Brent by Friday). Another setback on a peace deal in the Middle East would limit gains.

THE EQUITY PLAY

Top Five Index Winners & Losers

Stock	Close as of May 29	W/W Change
ACEN	3.3	6.6%
BPI	93.9	6.3%
LTG	15.8	5.5%
SMC	71.0	5.2%
JGS	27.9	3.3%
PLUS	10.5	-17.8%
CNPF	26.2	-10.0%
ICT	752.5	-7.7%
JFC	126.9	-7.0%
MER	570.5	-6.2%

Source: LSEG. (2026). LSEG Workspace [Database]. Retrieved May 29 2026 from "Workspace Add-in for Excel"

PSEi Tumbles on MSCI Rebalancing Flows

The PSEi tumbled by -3.23% w/w to 5,768.76 on geopolitical uncertainty and a fresh MSCI rebalancing driven selloff. The index initially gained on softer crude prices, warm peace talk signals, and a regional rally, but reversed course by mid-week as fresh U.S. strikes rattled markets. The market treaded downwards thereafter as investors lacked conviction heading into the MSCI rebalancing date, which turned into a complete rout by Friday. The rebalancing triggered a foreign fund exodus, since tracker funds automatically buy into stocks based on the MSCI indices.

Reflecting the massive last-day selloff, total turnover soared by +65.3% w/w to P42.75-B, with Friday alone accounting for 60% of all traded value. Net foreign selling bloated to P8.22-B, some 6.25x larger than last week. Most sectors declined, with Financials (+0.45% w/w) and Mining & Oil (+0.52% w/w) keeping above water. In contrast, Property (-2.51% w/w) and Services (-6.77% w/w) slid the most as foreign funds sold off positions.



Source: Investa. (2026). PSE:PSEI - Philippine Stock Exchange Index (PH) | Price and Chart | Investagrams. Investagrams. <https://www.investagrams.com/Stock/PSE:PSEI>

Outlook: The market may rebound in the first half of the week, while investors continue to monitor oversold counters where the MSCI rebalancing selloff left off. Crude oil below \$90/bbl and oil price cuts may improve sentiment, but the market may show some hesitation later on, ahead of the Friday local inflation print and American employment indicators release this week.

OUR OUTLOOK

- 1 **US jobs data will be widely watched economic data.**
- 2 **PH manufacturing Purchasing Managers' Index.**
- 3 **May inflation on June 5; consensus at 7.9%.**
- 4 **Bonds auction results.**
- 5 **No expected major market movement.**

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Tell us what you think! What was your favorite part, and what would you like to see next week?