Economic Watch

A weekly newsletter produced by EastWest Bank in collaboration with the School of Economics of the University of Asia and the Pacific

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THE LOCAL READ

Source: Cohen, O. D. (2024, May 3). a body of water in front of tall buildings. Unsplash; Unsplash. https://unsplash.com/photos/a-body-of-water-in-front-of-tall-buildings-b8Qfehp8pFA

2027 Budget in Focus; BSP Weighing Inflation and Growth

The Department of Budget and Management submitted a proposed P7.2-T National Expenditure Program for FY-2027, some 6.0% higher than the 2026 budget, prioritizing social services and public infrastructure. Social services command the largest share at P2.46-T (34.1%), with the Department of Education receiving P976-B, the Department of Health receiving P353.8-B, and the 4Ps social protection program securing P99.1-B. Economic services claim P1.83-T (25.5%), directing P644-B to the Department of Public Works and Highways alongside key capital outlays for rail transport (P195-B) and network development (P176.6-B). General public services take P1.32-T (18.3%), debt servicing consumes P1.14-T (15.9%), and defense gets P452.4-B (6.3%). The budget also sets aside P692.7-B for climate resilience, signaling clear commercial opportunities across public construction, healthcare supply chains, education technology, and transport sectors. However, former budget chief Benjamin Diokno flagged the budget's lack of "elbow room" with optimistic revenue assumptions, larger social grant spending, and elevated interest payments.

On the monetary side, BSP Governor Remolona at the Economic Journalists Association of the Philippines' Economic Forum said that the weak Q2 GDP growth reading (2.3% y/y) may make BSP less aggressive in tightening, subject to more encouraging inflation data. Surveyed external forecasters showed a gradual easing of headline inflation to 5.4% over the next year.

Outlook: Weak growth could support a more dovish BSP stance, although high inflation may constrain the scope for easing. Headline inflation is estimated at 5.4% next year, with the potential to fall below 5% if crude oil prices decline amid increased supply and weaker demand. A second-half rebound in government spending remains key to meeting the growth target, while neutral base effects should clarify trends. The proposed 2027 budget will likely face closer legislative scrutiny.

Article Sources: Aquino, N., & Bacon, P. J. (2026, August 11). PHL's 2027 budget puts social services, infrastructure in focus. BusinessWorld Online. https://bworldonline.com/top-stories/2026/08/11/769449/phls-2027-budget-puts-social-services-infrastructure-in-focus/
Chan, K. (2026, August 14). Remolona: Weak growth may temper tightening. BusinessWorld Online. https://bworldonline.com/top-stories/2026/08/14/770283/remolona-weak-growth-may-temper-tightening/

GLOBAL LENS

Image Source: Mihai. (2022, August 30). a silhouette of a machine. Unsplash; Unsplash. https://unsplash.com/photos/a-silhouette-of-a-machine-MCoy-g7q7_s

U.S.-Iran Tensions Mount Once More; U.S. Inflation Cools

The Rising U.S.-Iran tensions pushed West Texas Intermediate crude up more than 5% for the week to $82.40/bbl on August 14. Stalled talks on reopening the Strait of Hormuz and new U.S. demands for reparations initially dampened market optimism. Tensions intensified after U.S. officials threatened an indefinite naval blockade of Iranian ports and severe economic sanctions on Tehran. Although higher U.S. commercial inventories briefly weighed on prices midweek, fears of Middle Eastern supply disruptions and a widening global deficit sustained a strong geopolitical risk premium in energy markets. Israeli strikes on neighboring Lebanon also continued.

Meanwhile, markets moved higher as U.S. inflation softened to +0.1% m/m in July (prev. +0.4% m/m), tracking lower pump prices and stable inflation for food, apparel, and vehicles. With lower inflation, market consensus now leans towards a Fed rate hold in its September meeting, compared to the "hike" outlook post-FOMC meeting (based on CME FedWatch tool).

Outlook: Global markets will likely reflect U.S.-Iran developments given the fluid nature of the discussions. Further escalation prolonging the Hormuz lockdown may raise risk premia, though adapting market expectations and growing supply from other oil exports may keep world crude prices away from the triple-digits seen at the height of the conflict. Rate expectations may also feed into big-ticket tech and AI valuations.

Article Sources: Durie, A. M., Peter, Z., Magee, C., Lawal, S., Marsi, F., Angopa, B., & Bah, M. (2026, August 15). Iran war updates: Iran says Hormuz under its control, Israel bombs Lebanon. Al Jazeera. https://www.aljazeera.com/news/liveblog/2026/8/15/iran-war-live-trump-vows-to-make-hormuz-us-territory-pretty-soon
McCormick, M., & Duguid, K. (2026, August 12). US inflation falls to 3.4% in july. Financial Times. FinancialTimes. https://www.ft.com/content/52727749-4360-4463-8822-dc3bfd8ef279?syn-25a6b1a6=1

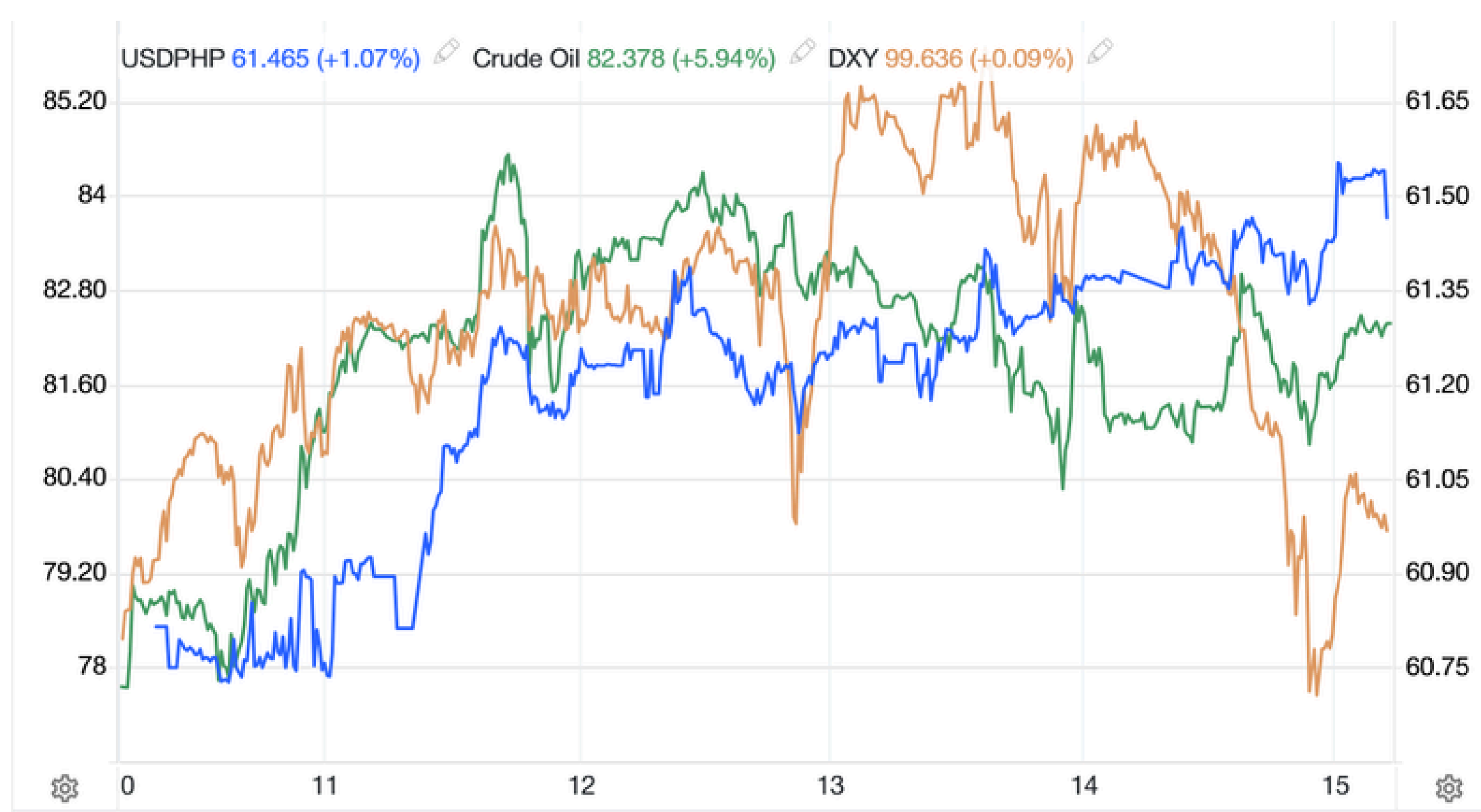
FOREX FOCUS

Peso-Dollar Rate Moves with Oil Price Flare

While broadly tracking U.S. dollar, the crude oil price movements and especially its midweek upswing impacted USDPHP more.

While trading volume dropped on Monday in response to the steep fall in crude oil prices (WTI) on Friday of the previous week, firm and trader demand picked up, with average daily trading volume climbing by 4.6% w/w to $1.53-B. USDPHP moved up for the rest of the week above P61/$, peaking on Friday at P61.45/$ as crude oil prices modestly rebounded (see Global). That represented a 0.9% depreciation. On the other hand, the U.S. dollar (DXY) ended the week a tad 0.13% w/w higher, despite easing by Friday.

Image Source: Grey, A. (2018, May 14). 1 U.S.A dollar banknotes. Unsplash; Unsplash. https://unsplash.com/photos/1-usa-dollar-banknotes-8lnbXtxFGZw



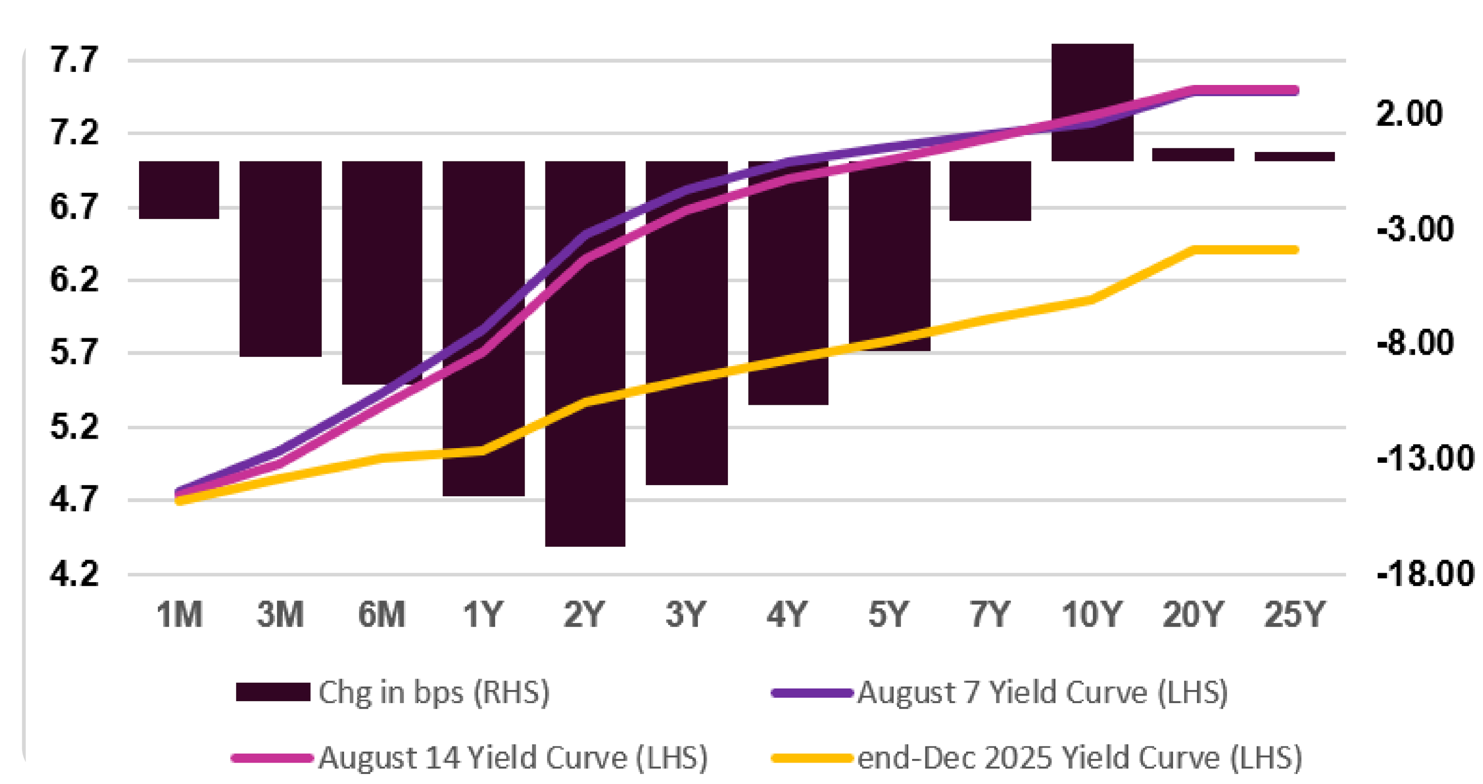
Source: Trading Economics. (2026). US Dollar Philippine Peso. Tradingeconomics.com. https://tradingeconomics.com/philippines/currency

Outlook: USDPHP has recently traded around P61.00/$, with movements influenced by firm demand and changes in crude oil prices. Oil prices could remain sensitive to developments in the Middle East as mutual attacks and Iranian strikes on other countries continued alongside ongoing negotiations.

THE BOND BLUEPRINT

Bond Movements Mixed on Domestic and External Factors

Local bond market had mixed outcomes from the previous week's robust activity, as weak Q2 GDP and the BSP Governor tilting more dovish contrasted with U.S. 10Y yields softly trending higher.



Source: Bloomberg, Authors' Calculations

GS Auctions

Investors played safe and so Tender-Offer-Ratio (TOR) slipped to 2.659x in the week from 3.075x previously. Treasury bill (T-bill) yields sank, with 364-day tumbling the most by -18.9 bps (to 5.723%) and 182-day the least by -1.7 bps (to 4.995%). The 7Y (FXTN 10-71) P30.0-B offering had a respectable yield of 7.182%, but could not be compared with the July offering, which was fully rejected. It attracted decent demand with a TOR of 1.731x and gave a yield of 7.182%. No meaningful comparison could be made with the previous similar offer in July because the Bureau of Treasury (BTr) rejected all bids then.

GS Secondary Trading

Trading volume climbed by 5.9% w/w to P309.0-B driving down yields in the <10Y buckets. The pause to safety showed in 3M-6M space which grabbed nearly half of market share of 48.1% an increase of 21.7% points while the 6M-1Y space added 5.1% points share to reach 13.7%. The two accounted for 61.8% of total trading, at the expense of other tenors. The biggest losers included 3Y-5Y space with -22.1% points slice and 1Y-3Y with milder -2.7% cut. Except for 10Y and longer, yields in local bonds tumbled from minor (-2.6 bps for 7Y ends at 7.0223%) to moderate (-16.2 bps for 5.7171%_-14.65 bps for 3) at the belly. Similar slides of -14 or more bps occurred in the 1Y and 3Y buckets. 10Y benchmark yield modestly rose by 5.2 bps to 7.3219%

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

Outlook: Local macroeconomic data point towards sliding yields, with softer inflation and weaker GDP growth tempering upside. On the other hand, external developments such as Fed soundings and Middle East war developments may bring more volatility, especially towards the 10-year tenor.

THE EQUITY PLAY

Top Five Index Winners & Losers

Stock	Close as of August 16	W/W Change
DMC	7.9	8.5%
MBT	68.9	4.1%
AC	511.0	3.4%
GTCAP	514.0	3.4%
BDO	126.0	3.3%
CNVRG	10.0	-8.1%
SCC	18.4	-7.8%
TEL	1,170.0	-4.9%
EMI	15.1	-4.8%
ALI	15.6	-4.1%

Source: LSEG. (2026). LSEG Workspace [Database]. Retrieved August 16, 2026 from "Workspace Add-in for Excel"

PSEi Edges up Despite Rebalancing Jitters

The PSEi rose marginally by +0.11% w/w to end at 6,297.30, marking its second consecutive week of gains. The index made volatile movements throughout the week, reaching a weekly high of 6,366.64 on Wednesday, August 12, before succumbing to selling pressure that saw it dip to a low of 6,288.25 on Thursday. Investors took profits from an early rally and repositioned on MSCI rebalancing results. Bargain hunters stepped in later to give the local bourse a slight edge over the week.

Market turnover surged by +56.92% w/w to P46.30-B, indicating a significant increase in trading activity compared to the previous week. However, foreign investors intensified their exit, remaining net sellers for three out of five trading days. This resulted in a substantial net P3.66-B weekly selling posture, a sharp increase from the P925.13-M net selling recorded the week prior, with offshore funds repositioning after MSCI downgrades in heavyweight local counters. Despite this, market breadth turned more positive with 125 gainers to just 80 losers and 39 unchanged.

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

Outlook: The local market could see range-bound trading following an event-driven week. Post-MSCI rebalancing, corporate developments, foreign flows, and peso movements could remain among the factors influencing market activity.

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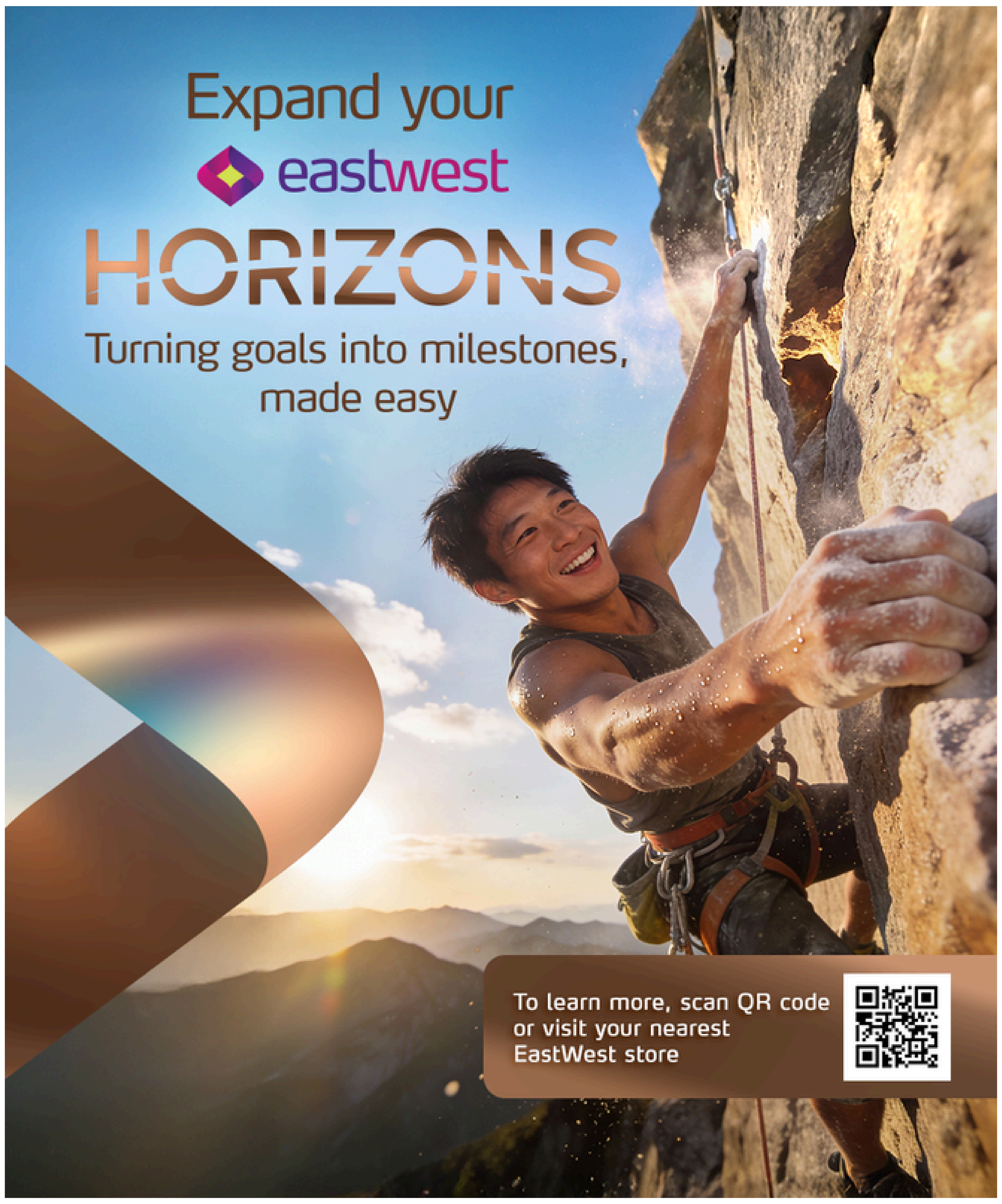
OUR OUTLOOK

1. **Equities and bonds could see sideways trading**
2. **BSP policy decision remains a key market focus**
3. **Shortened trading week could temper market activity**
4. **Selective bargain-hunting could remain in play**



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