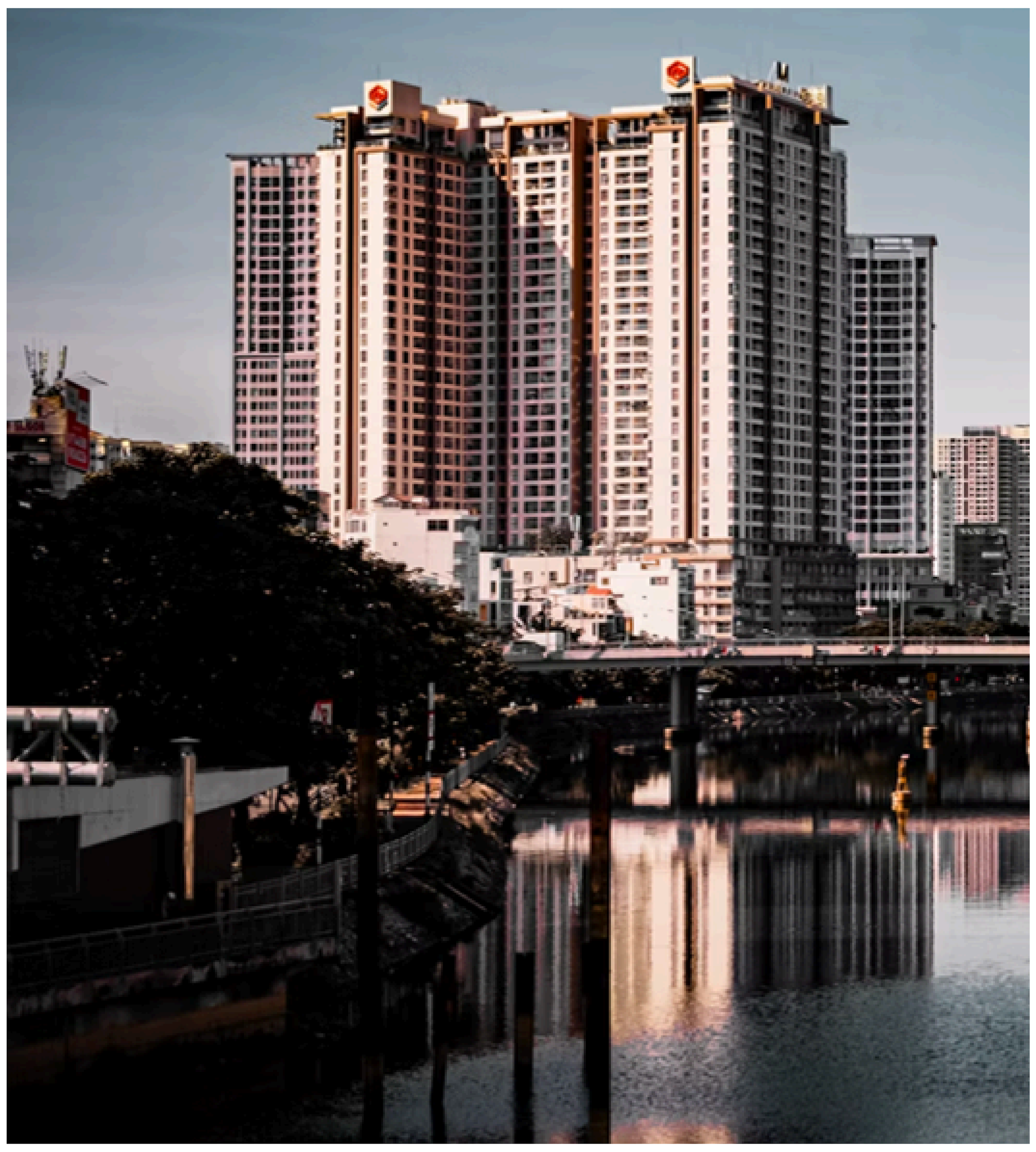
Economic Watch

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

Issue 31: August 24, 2026

THE LOCAL READ

PMI Rebounds; Credit Rating Holds; Infra Spending in View; BOP Swings to Deficit in July



Source: Duy Nod. (2023, November 6). a body of water surrounded by tall buildings. Unsplash; Unsplash. https://unsplash.com/photos/a-body-of-water-surrounded-by-tall-buildings-LwMhXIaRCNQ

While widespread floods in Luzon in the past two weeks dampened sentiment, some "green shoots" emerged. S&P Manufacturing PMI climbed in July to its highest level of 51.8 since February 2026 as demand resurfaced. Japan's credit rating R&I affirmed its "A-"investment-grade credit rating with a "stable" outlook. With some improving conditions relative to the height of the war, vehicle sales slowdown eased to -8.0% YoY in June from -15.7% in May. Still, more business confidence would be needed to put the economy back in full recovery mode. For one, infrastructure spending may still slide by -2.2% in Q3 (albeit, much better than -32.4% in Q2, based on the latest Department of Budget and Management (DBM) and Development Budget Coordination Committee (DBCC). This should speed up in Q4 when the government projects a 49.4% increase in this area. To make this happen, it must quickly resolve delayed contractor payments, right-of-way issues, slow rollout of projects due to procurement scrutiny.

The Philippines' balance of payments (BoP) swung to a $1.47-B deficit in July 2026 from a $3.40-B surplus in June, marking its first monthly shortfall since April. The gap also widened from $167-M a year earlier amid a persistent trade deficit, foreign portfolio outflows, and large external debt payments. Gross international reserves fell to an 18-month low of $103.32-B as the BSP supported the weaker peso and the government settled foreign obligations. Resilient remittances and foreign direct investments cushioned the seven-month BoP deficit at $5.35-B, narrower than the $5.76-B gap in the same period last year. BoP deficits tend to depreciate the peso-dollar rate, with more dollars leaving the country than entering it.

Outlook: Second half growth may pick up relative to previous quarters, but the economy now has to deal with the added headwind of destructive weather effects. Up next is the BSP policy meeting on August 27, Thursday, where many expect the BSP to keep above-target inflation and a weak growth outlook in mind.

Article Sources: Chan, K. (2026, August 20). BoP swings to $1.5-B deficit in july. BusinessWorld Online. https://bworldonline.com/top-stories/2026/08/21/771574/bop-swings-to-1-5-b-deficit-in-july/
Tabile, J. I. (2026, August 20). Recovery in infrastructure spending not likely until Q4. BusinessWorld Online. https://bworldonline.com/top-stories/2026/08/21/771571/recovery-in-infrastructure-spending-not-likely-until-q4/

GLOBAL LENS

Missile Strikes in the Middle East; Debt Sustainability Woes

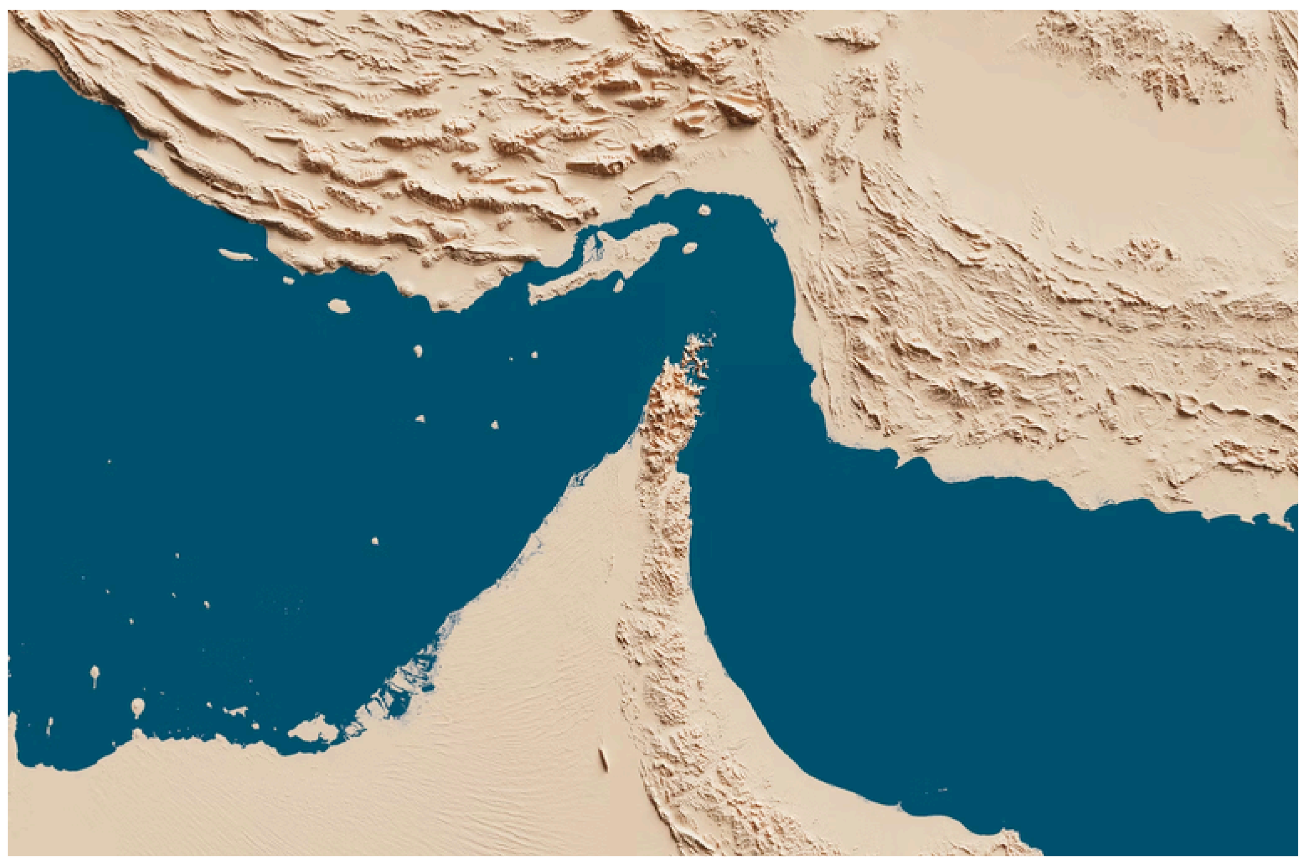


Image Source: Planet Volumes. (2026, April 7). Strait of hormuz between iran and oman. Unsplash; Unsplash. https://unsplash.com/photos/strait-of-hormuz-between-iran-and-oman-8koWngCqqzM

Further U.S. economic sanctions and frictions on the Gaza issue escalated tensions in the Middle East last week. The U.S. maintained its blockade on Iranian ports, with Iran warning neighboring countries of retaliation should they join in. In Gaza, a 15-point peace proposal meeting concluded without any significant breakthroughs. WTI crude oil hit $86-87/barrel by the end of the week accordingly.

Meanwhile, long-term borrowing yields across advanced economies hit decade-high levels, as a combination of rising inflation concerns and fiscal sustainability pressures sparked selloffs across bond markets. Higher yields tend to dampen economic activity by raising borrowing costs, while also deflating stock market valuations. Yields only settled when the U.S. Treasury signaled it would double its bond buyback plan on Thursday.

Outlook: Global markets may trade facing more uncertainty surrounding Middle East negotiations and risk-off sentiment. AI and big tech valuations are particularly sensitive to rate expectations, which may add volatility to the AI trade.

Article Sources: Everett, M., Aras, U., van der Wolf, M., & Abuomer, E. (2026, August 23). Iran war live: Tehran warns neighbours against joining US economic war. Al Jazeera. https://www.aljazeera.com/news/liveblog/2026/8/23/iran-war-live-tehran-warns-neighbours-against-joining-us-economic-war
Staff Writer. (2026, August 18). Long-term yields in US, Japan, Europe soar to highest in years. Nikkei Asia. https://asia.nikkei.com/business/markets/bonds/long-term-yields-in-us-japan-europe-soar-to-highest-in-years

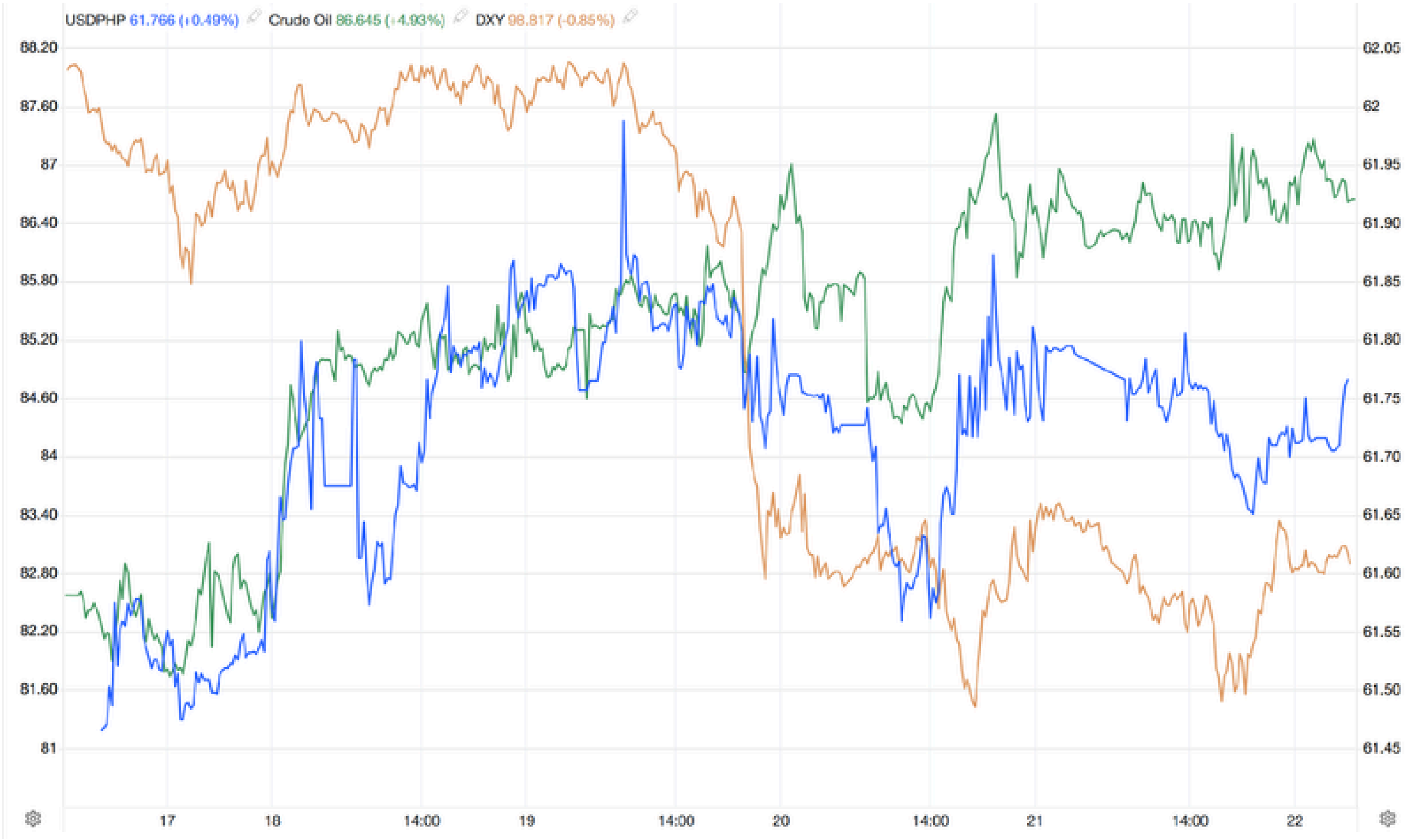
FOREX FOCUS

Peso-Dollar Rate Tracks Oil Price Gains

The week saw USDPHP responding more to crude oil price upswing despite the U.S. dollar (DXY) sliding in the process.

Average daily trading in the holiday-shortened week increased by +6.7% to $1.63-B. It reflected the renewed ascent of crude oil prices, especially above the critical $85/bbl by August 20, in an uptrend since the beginning of the month. This strengthening lifted the USDPHP rate to an intraday high of P61.995/$ on the 19th but closed the week at P61.67/$, still +0.36% higher w/w marked by a tighter range of P0.32 from P0.45 previously, but at more elevated levels.

Image Source: McArthur, J. (2026, April 24). A chaotic pile of various international banknotes. Unsplash; Unsplash. https://unsplash.com/photos/a-chaotic-pile-of-various-international-banknotes-QBELhJJHcIw



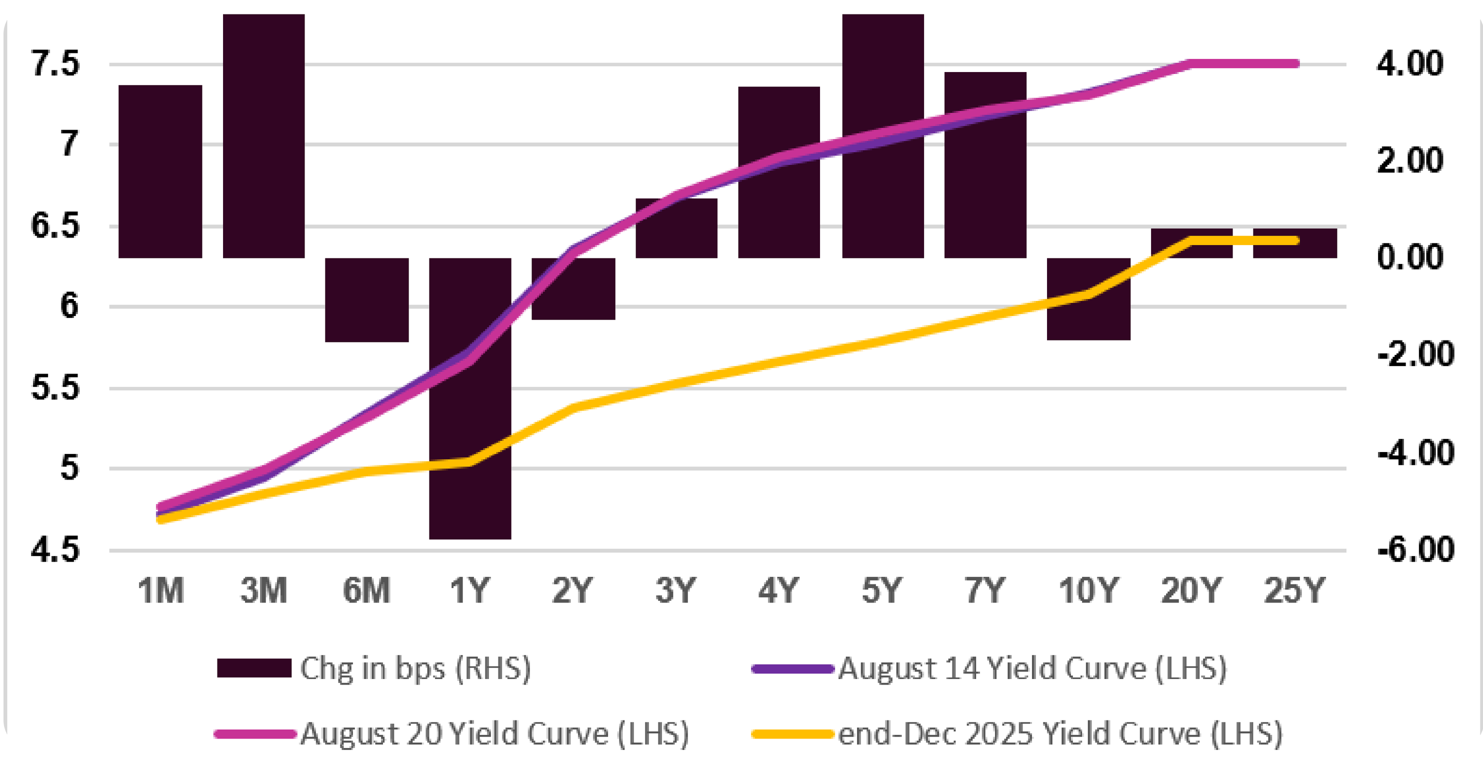
Source: Trading Economics. (2026). US Dollar Philippine Peso. Tradingeconomics.com. https://tradingeconomics.com/philippines/currency

Outlook: Crude oil prices could remain elevated as missile attacks and bombings between the U.S. and Iran escalated. This, along with higher interest rates in the U.S. and other major countries, may influence USDPHP movements this week.

THE BOND BLUEPRINT

Bond Movements Mixed on Domestic and External Factors

While interest in auctions and action in the secondary market waned, bond yields showed mixed movements. On one hand, U.S. interest rates started to rise while BSP signaled willingness not to hike its policy rates.



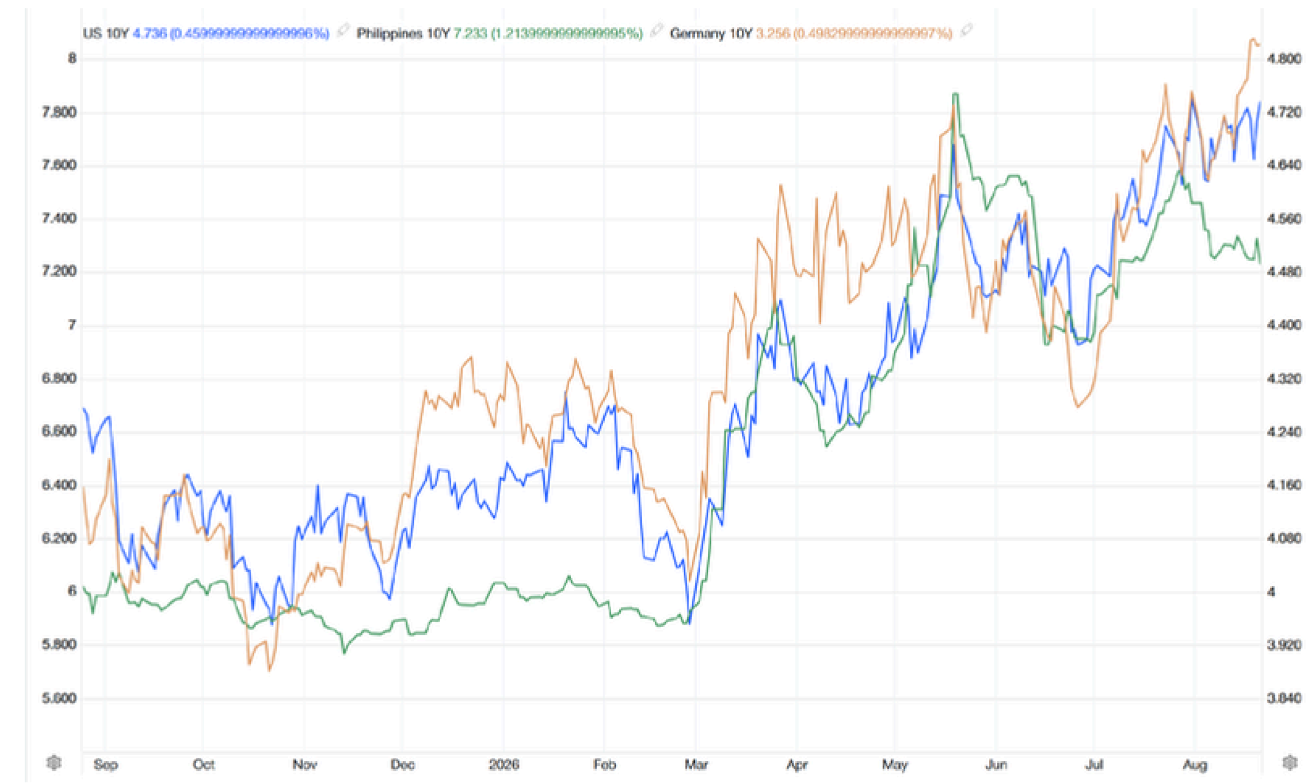
Source: Bloomberg, Authors' Calculations

GS Auctions

BTr offered slightly fewer securities, while the tender-offer ratio rose to 2.829x from 2.659x as demand for 182-day and 364-day T-bills exceeded 4x. T-bill yields were mixed: the 91-day and 182-day rose 1.3 bps and 6.8 bps respectively, while the 364-day fell 11.0 bps to 5.613%. T-bond yields declined sharply, with the 3.9Y FXTN 07-70 down 20.7 bps to 6.988% and the 9.5Y FXTN 10-74 down 30.2 bps to 7.300% versus its May auction.

GS Secondary Trading

Average daily trading volume fell -31.1% to P42.6-B during the four-day week. The 3Y-5Y and 5Y-7Y buckets gained 10.2 and 4.7 percentage points, respectively, for a combined 39.8% share. Yields were mixed: the 3M rose 5.4 bps to 5.002%, the 5Y climbed 5.0 bps to 7.072%, the 7Y gained 3.84 bps to 7.2124%, and the 25Y edged up 0.63 bp to 7.5025%, while the 10Y eased 1.7 bps to 7.3052%.



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

Outlook: The rise in crude oil prices amid continued U.S.-Iran tensions, along with higher interest rates in the U.S. and other major economies, could place upward pressure on local bond yields. Heavy rainfall and flooding in Luzon and the minimum wage hike may also contribute to yield movements.

THE EQUITY PLAY

Top Five Index Winners & Losers

Stock	Close as of August 20	W/W Change
AEV	37.9	4.3%
BPI	107.3	3.2%
TEL	1,198.0	2.4%
RCR	7.5	2.3%
JFC	158.0	1.9%
GTCAP	492.0	-4.3%
JGS	21.8	-4.0%
SM	579.0	-3.5%
CNVRG	9.7	-3.4%
ALI	15.1	-3.1%

Source: LSEG. (2026). LSEG Workspace [Database]. Retrieved August 20, 2026 from "Workspace Add-in for Excel"

PSEi Whittles Down on Holiday-Shortened Week

The PSEi slid by -0.93% w/w to end at 6,238.46, backtracking on its previous marginal gain of +0.11% w/w. The index faced persistent downward pressure during the holiday-shortened trading week (with Friday, August 21, closed as a holiday), touching an intraday low of 6,125.55 on Wednesday, August 19, on resurgent U.S.-Iran tensions and a weak peso, before staging a modest recovery toward the end of the week.

Market turnover dropped sharply by -46.10% w/w to P24.96-B, reflecting diminished trading activity due to the shortened week. Foreign investors remained highly defensive, acting as net sellers on all four trading days last week to culminate in a net P2.05-B weekly selling posture. This, however, was a notable reduction from the heavy P4.79-B in net selling recorded the prior week. Foreign transactions accounted for 41% of the week's total market activity.

Sectoral performance was mixed. Mining & Oil continued to lead the charge with a robust +7.47% w/w gain. Industrials also finished in the green, rising by +0.98% w/w. Conversely, Services fell by -1.58% w/w and Holding Firms declined by -1.49% w/w, acting as the primary drags on the index. Despite the index's decline, market breadth remained positive with 123 gainers to 96 losers and 25 unchanged.

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

Outlook: Market activity could remain cautious ahead of the BSP's August 27 meeting. Crude oil prices above $85/barrel and the still-elevated peso-dollar rate may remain among the factors influencing market sentiment.

OUR OUTLOOK

1. **BSP Rate Decision (August 27):** Markets are watching the possibility of a 25-bps rate hike.
2. **Middle East Tensions & Global Yields:** Developments in the Middle East and movements in U.S. Treasury yields remain key market factors.
3. **2027 National Budget:** Legislative discussions on the proposed Php7.2-T national budget could influence the outlook for public spending.

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