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

BSP Hikes Rates by 25 bps; NG Spending Returns in July

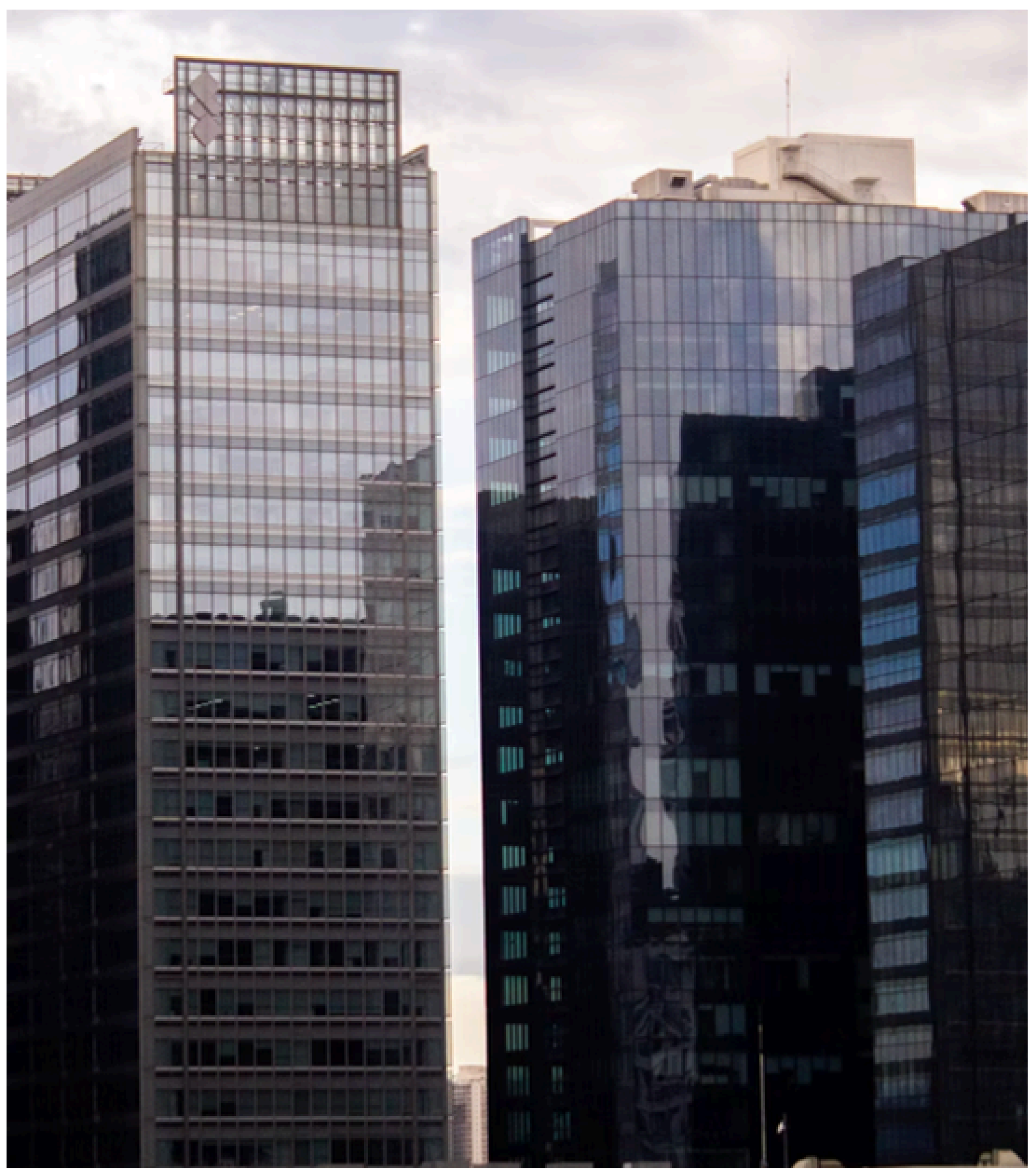


Image Source: Revilla, X. (2026, May 21). Modern glass office buildings against a cloudy sky. Unsplash; Unsplash. https://unsplash.com/photos/modern-glass-office-buildings-against-a-cloudy-sky-UxdZJA3Pdrw

The Bangko Sentral ng Pilipinas (BSP) hiked its key policy rate by 25 bps to 5.00%, the highest level since June 2025 as above-target inflation and upside risks contended with the second-half growth rebound narrative. Despite easing inflation (July inflation: 6.2%), price pressures remained above the BSP's 2-4% target for the fifth straight month. The rate hike was reportedly done to anchor inflation expectations in light of emerging risks: an aggressive El Nino season and minimum wage increases. However, BSP also lowered its 2026 inflation outlook slightly to 4.1% (prev. 4.3%).

The National Government's (NG) budget deficit widened to P106.3-B in July 2026 from P18.9-B a year earlier, pushing the seven-month fiscal gap to P893.1-B. UPLIFT social assistance programs, military modernization, foreign-assisted rail projects, and higher interest payments drove expenditures up +19.82% y/y to P588.6-B. Meanwhile, revenue picked up by +2.12% to P482.3-B as stronger BIR and BOC tax collections partly offset a -39.92% drop in non-tax income, which reflected base effects from the timing of central bank dividend remittances.

Outlook: Attention is now shifting from the initial oil shock to new inflation risks in the latter half of this year. In particular, agricultural damages from weather risks remain the single most important risk to consider. Local inflation could remain around 6%, above the BSP's 2-4% target band, for the rest of the year. Weak growth concerns could also factor into the BSP's decision-making process. On the fiscal side, food security and climate risk mitigation programs may remain areas of focus for government spending.

Article Sources: Chan, K. (2026, August 27). Philippine central bank hikes key rate for third straight meeting. BusinessWorld Online. https://bworldonline.com/top-stories/2026/08/27/772835/philippine-central-bank-hikes-key-rate-for-third-straight-meeting/
Tabile, J. (2026, August 28). Budget deficit widens more than fivefold in July. BusinessWorld Online. https://bworldonline.com/top-stories/2026/08/28/772958/budget-deficit-widens-more-than-fivefold-in-july/

GLOBAL LENS

Oil Prices Pick up on Flareup; Hawkish Jackson Hole

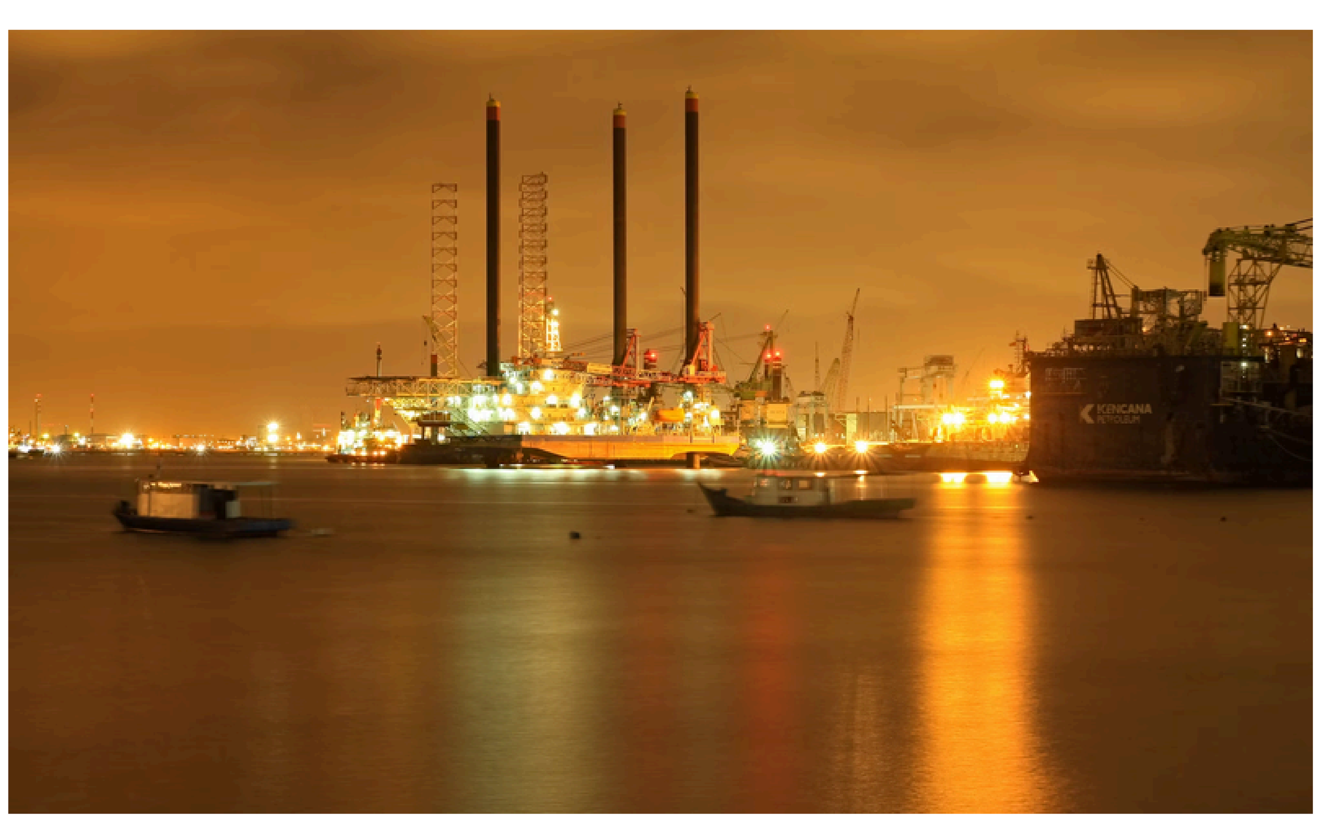


Image Source: Newman, T. (2020, February). city skyline during night time. Unsplash; Unsplash. https://unsplash.com/photos/city-skyline-during-night-time-iTZ_guCHHt0

- Tensions between the U.S. and Iran returned as tit-for-tat strikes against military sites, along with hits to commercial tankers and new American economic sanctions tied to IRGC entities drove WTI crude oil prices to $86.0/barrel.
- Meanwhile, global markets listened carefully to Fed Chair Warsh's Jackson Hole speech, noting a more hawkish tilt that weighed on global asset valuations. Market consensus accordingly shifted to a 63.9% probability of a Fed rate hike in September (using CME FedWatch tool).
- **Outlook:** Markets are now looking at the degree of escalation in the Middle East and further clues on U.S monetary policy. Until another lasting ceasefire is signed, geopolitical uncertainty may keep policymakers and markets on edge.

Article Sources: True, C., El-Moctar, R., Sharma, Y., Uras, U., Jamal, U., Mustafa, A., Quillen, S., & Khalili-Tari, D. (2026, August 30). Iran updates: IRGC attacks US bases in Jordan after US bombs Larak Island. Al Jazeera. https://www.aljazeera.com/news/liveblog/2026/8/30/iran-war-live-iran-pledges-to-stand-firm-against-unjust-us-sanctions
Lee, J. (2026, August 31). Jackson hole analyst roundup: Warsh's speech sends hike chances higher, may put Fed "at odds" with Treasury. CNBC. https://www.cnbc.com/2026/08/31/jackson-hole-fed-chair-kevin-warsh-hawkish-rate-hikes-analysts.html

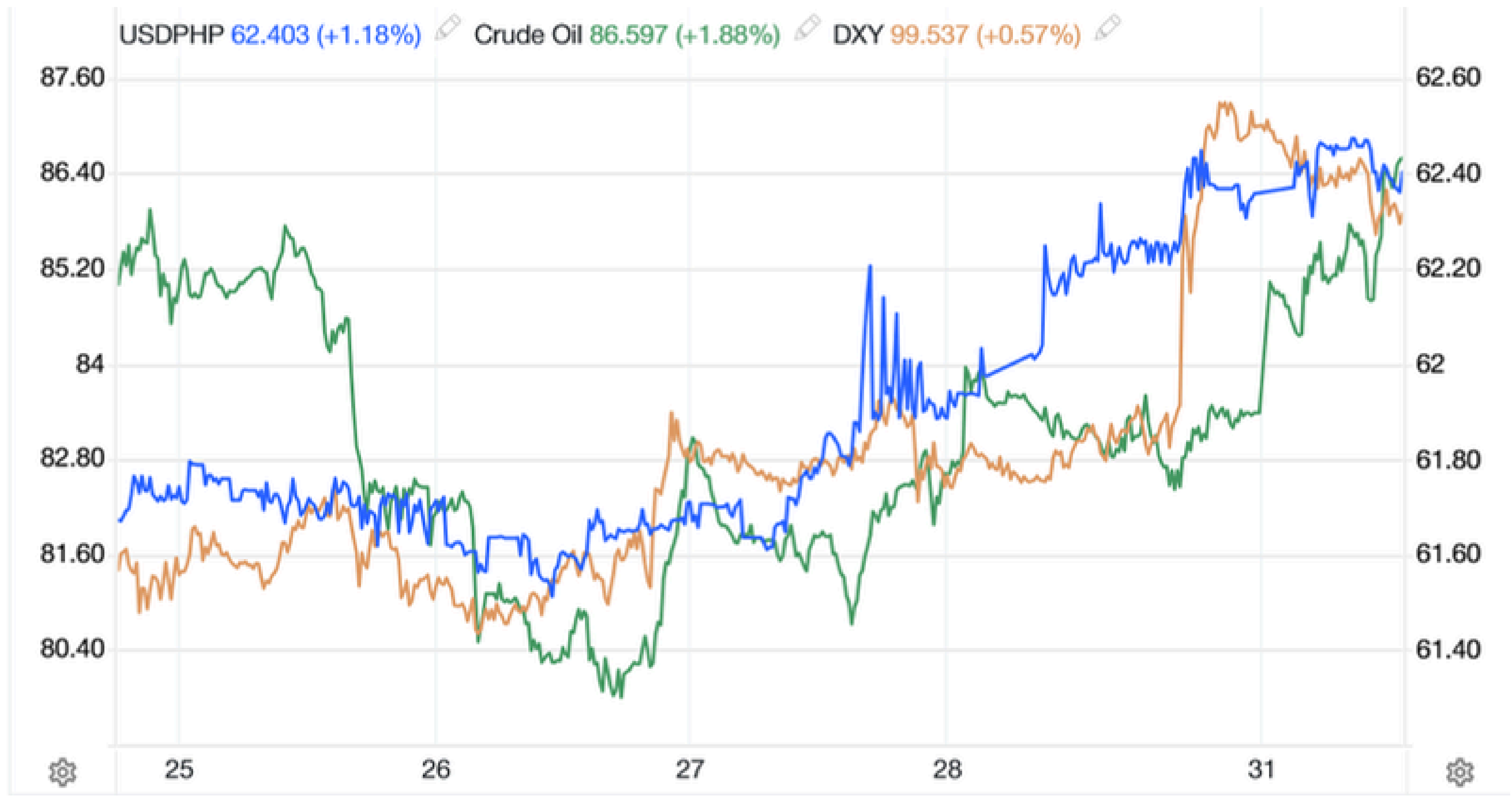
FOREX FOCUS

Peso-Dollar Rate Slides to New Record Low

Source: Boran, I. (2021, June 2). 100 us dollar bill. Unsplash; Unsplash. https://unsplash.com/photos/100-us-dollar-bill-YVnvtMA2mok

Last week, the US dollar strengthened as crude oil prices mildly slipped and USDPHP remained under upward pressure.

Opening the week higher (P61.75/$) than its previous close (P61.67) on Thursday, 20th, USDPHP slumped in the last 3 trading days despite BSP's policy rate hike on Thu, 27th and closed at a new record of P62.265/$, weaker by 0.96% w/w. Daily trading volume average $1.64-B mildly brisker by 0.41% w/w. However, a noticeable jump in demand emerged when FX rate slid to P61.65 on Wednesday. Actually, the last three days averaged $1.88-B in trading, higher than the full-week average.



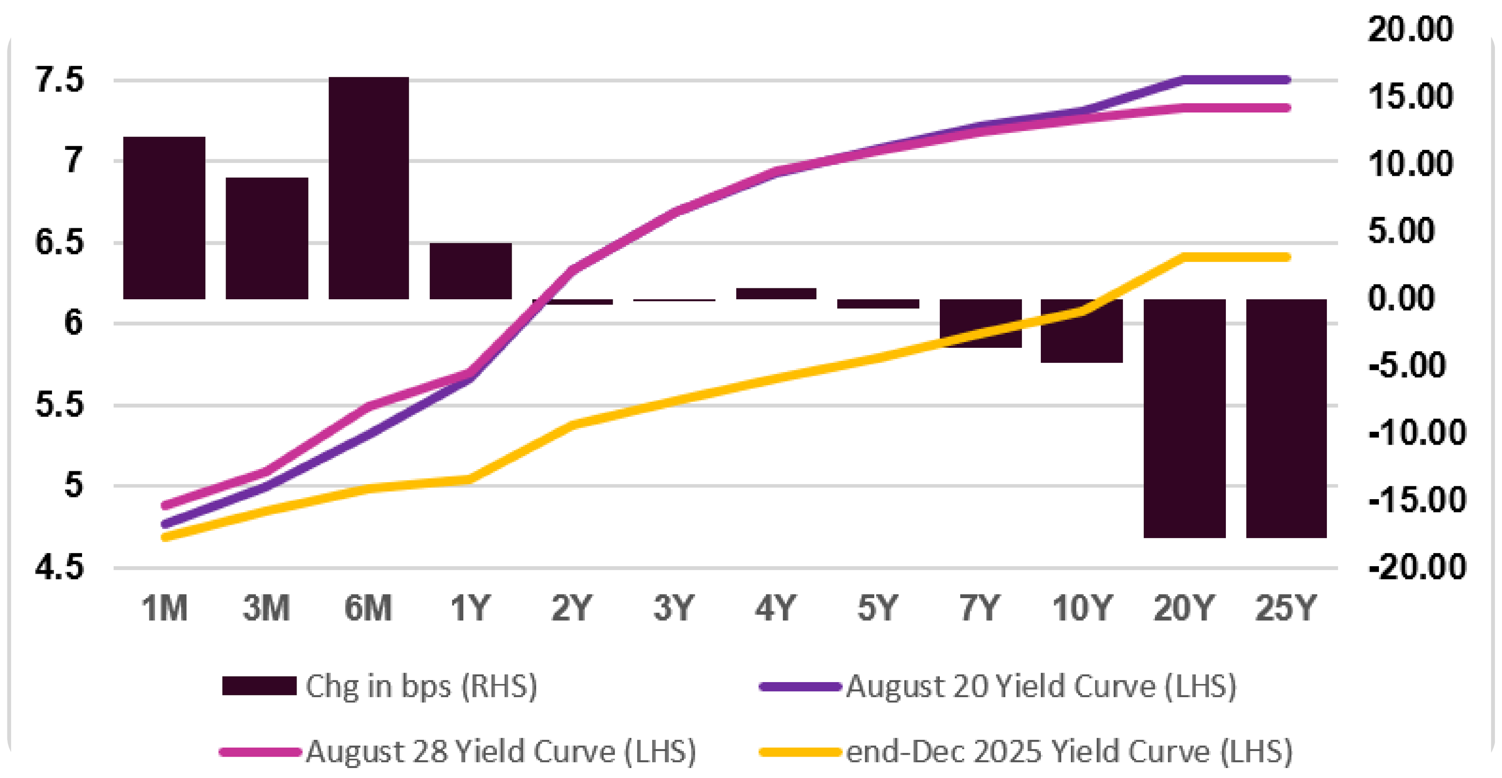
Source: Trading Economics. (2026). US Dollar Philippine Peso. Tradingeconomics.com. https://tradingeconomics.com/philippines/currency

Outlook: During Monday's local holiday, renewed U.S. strikes near the Strait of Hormuz were followed by Iranian missile attacks on U.S. bases in Jordan. With WTI crude oil prices moving above the estimated $85/barrel threshold, oil price movements may continue to influence the peso-dollar rate.

THE BOND BLUEPRINT

Active Secondary Market Trading Drops Long End Yields

Bureau of Treasury's (BTr) acceptance of above-secondary market yields for its 3.1Y (FXTN 07-68) sparked secondary market trading especially in the belly but yields dropped the most at the longest end of the curve.



Source: Bloomberg, Authors' Calculations

GS Auctions

Investors shied away from short-dated auctions with a sharp drop in total Tender-Offer-Ratio of (TOR) 1.854x from 2.829x previously. Despite offering additional 35-day CMB, investors preferred the long-dated papers where only 3.1Y issue generated 2.096x TOR. Yields for Treasury bills exhibited minor and mixed changes. 91-day and 364-day T-bills fetched 4.3 basis points (bps) and 2.7 bps higher yields to reach 5.051% and 5.640%, respectively, while 182-day slid a tad -0.9 bps. The lone offering of 3.1Y (FXTN 07-68) saw yields plunged by -39.2 bps from its July offering to 6.825%.

GS Secondary Trading

Secondary-market yields mostly eased, except the 3M-1Y tenors, which rose by +4.2 bps for the 1Y to +16.6 bps for the 6M. The 20Y and 25Y fell the most at -17.7 bps, while the 10Y and 7Y declined 4.5 bps to 7.2577% and 3.6 bps to 7.1764%, respectively. The 2Y-5Y slipped by less than 1 bp. Trading volume rose +9.6% w/w to P186.3-B. The 3Y-5Y share climbed 11.0 percentage points to 45.8% and the 1Y-3Y gained 2.5 points to 7.1%, while the 3M-1Y share fell 14.5 points.

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

Outlook: Local bond yields may remain sensitive to the BSP's 25-bps policy rate hike on August 27 and movements in U.S. interest rates amid elevated Treasury bond issuances.

THE EQUITY PLAY

PSEi Retreats on Macro Pressures

The PSEi retreated by -4.52% w/w, or -282.13 points, to close at 5,956.33, erasing the previous week's gains and falling below the key 6,000 psychological support level. After reaching a weekly high close of 6,251.38 (+0.21%) on Monday, August 24, the index declined for four consecutive sessions and ended at its weekly low on Friday, August 28. BSP's August rate hike, medium-term inflation concerns and the peso-dollar rate reaching new record lows spurred broad risk-off sentiment.

Market turnover surged by +69.11% w/w to P42.21-B, with trading activity peaking at P18.81-B on Friday, August 28. Foreign investors were net sellers throughout the five-session week, bringing net foreign selling to P7.14-B from P2.26-B previously. Foreign participation accounted for 59% of total market transactions.

Safe haven-seeking saw Mining & Oil as the sole sectoral gainer, rising +3.74% w/w to 20,069.88. Property posted the smallest decline at -1.98% w/w, followed by Holding Firms at -3.23% and Industrials at -3.45%. Financials fell -3.99%, while Services led the losses with a -6.90% drop.

Market breadth was broadly negative, with 78 gainers, 140 losers, and 28 unchanged issues.

Top Five Index Winners & Losers

Stock	Close as of August 31	W/W Change
ALI	15.5	2.8%
EMI	15.4	2.4%
PGOLD	41.1	2.4%
PLUS	10.0	1.0%
CBC	54.0	0.9%
SCC	17.2	-8.0%
ICT	885.0	-7.9%
BPI	100.0	-6.8%
GLO	1,630.0	-6.8%
CNVRG	9.1	-6.2%

Source: LSEG. (2026). LSEG Workspace [Database]. Retrieved August 31, 2026 from "Workspace Add-in for Excel"

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 may remain cautious ahead of Friday's August inflation release and amid continued peso-dollar rate volatility. Fuel price rollbacks and stable sovereign credit rating assessments may also influence market sentiment.

OUR OUTLOOK

1. **U.S. Jobs Data:** Friday's release remains in focus following Fed Chair Warsh's speech.
2. **Global Bonds:** Oil prices, inflation, and debt concerns remain key factors influencing global bond markets.
3. **U.S. Dollar:** Dollar movements remain an important factor for Philippine financial markets.
4. **August Inflation:** Friday's inflation release remains a key domestic economic indicator to watch.

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