

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: iSawRed. (2022). A sign on the sidewalk. In Unsplash. https://unsplash.com/photos/a-sign-on-the-sidewalk-sSkNS1_3l6w

Manufacturing Indicators Moderate, February Inflation as Expected; All Eyes on Oil

Industrial indicators point to steady performance, as the Manufacturing PMI improved to 54.6 in February (prev. 52.9), while Volume of Production Index growth slowed to +1.2% year-on-year (YoY) in January. Higher production costs and logistics delays appear to be tempering improvements in the manufacturing sector.

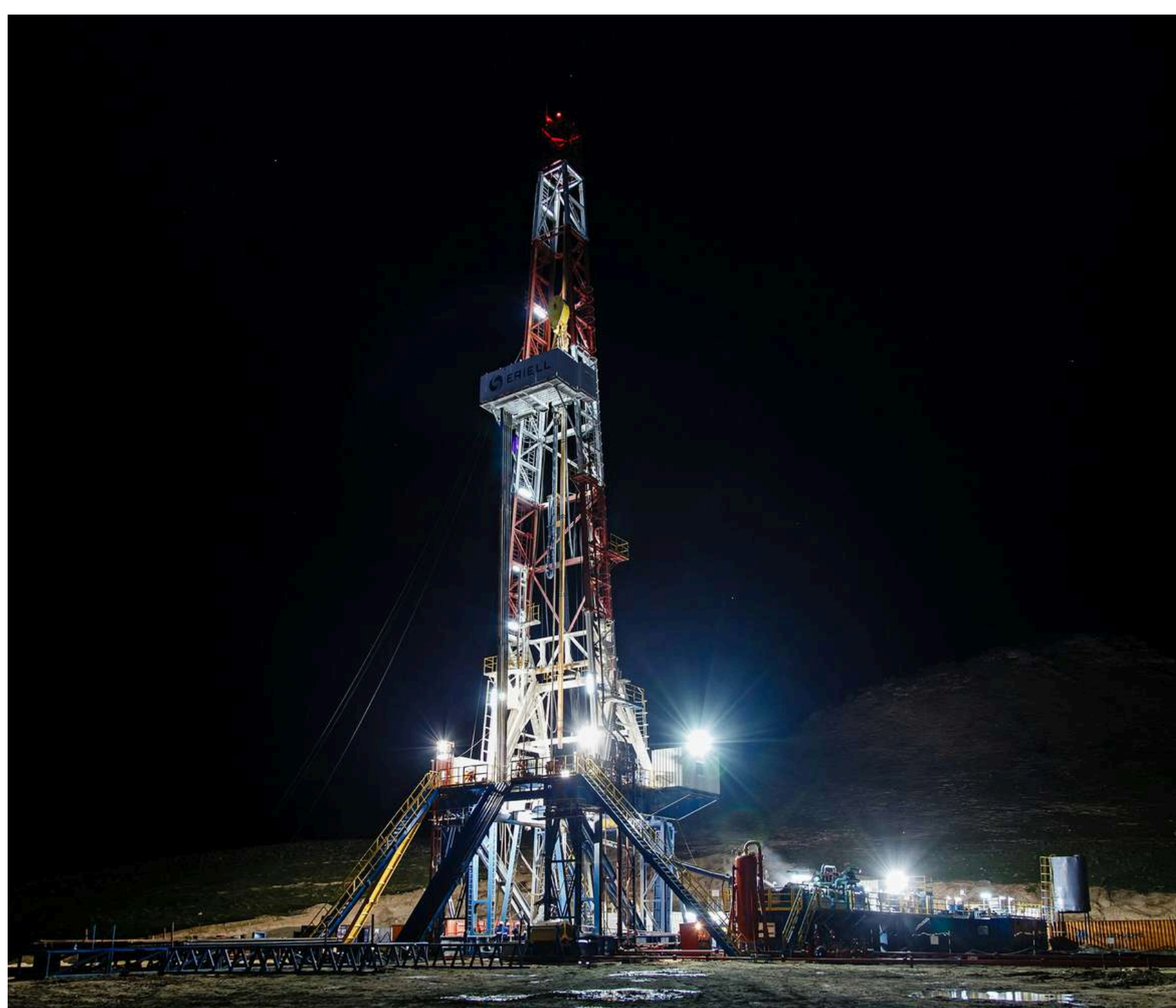
Headline inflation rose to 2.4% YoY (prev. 2.0%) in February, driven by higher food and energy costs. Inflation for Housing, Water, Electricity, Gas, and other Fuels increased to 3.5% YoY (prev. 3.3%), but recent crude price hikes from Middle East conflict may only show up in March data. Although proposals for a pause or cut in fuel excise taxes to ease rising oil prices have emerged, government officials prefer targeted, time-bound subsidies. Dubai spot crude jumped 16.1% to \$79.39/barrel as of writing, while Nomura estimates that a 10% global oil price rise could boost local inflation by +0.5 percentage points.

Outlook: The oil spike's effects hinge on the duration and intensity of the Middle East conflict. President Trump initially suggested a 4-5 week timeline, but military actions have reached other countries, widening the scale of the conflict. Inflation will rise, likely weakening the peso and prompting risk-off behavior in markets. Businesses and consumers may encounter supply chain issues and higher prices, which could weigh on Q1 GDP growth and the economic recovery narrative this year.

Sources: Montalvo, P. (2026, March 6). Factory output slows in January. BusinessWorld Online. <https://www.bworldonline.com/top-stories/2026/03/06/734669/factory-output-slows-in-january/?amp>
Lalu, G. P. (2026, March). Bill filed giving president special powers to suspend oil tax. INQUIRER.net. <https://newsinfo.inquirer.net/2190813/bill-filed-giving-president-special-powers-to-suspend-oil-tax>



GLOBAL LENS



Source: Worksite Ltd. (2019). ERIELL oil rig. In Unsplash. https://unsplash.com/photos/red-and-white-tower-during-nighttime-7NULKst_TBk

Article Sources: Gebelley, M., Pamuk, H., & Magid, P. (2026, March 6). Trump demands Iran's "unconditional surrender," complicating diplomatic paths. Reuters. <https://www.reuters.com/world/middle-east/trump-urges-iranian-kurds-attack-iran-war-widens-2026-03-06/>
George, L., Strohecker, K., & Campos, R. (2026, March 5). Down but not out: Emerging markets could endure Middle East shocks, investors say. Reuters. <https://www.reuters.com/business/finance/down-not-out-emerging-markets-could-endure-middle-east-shocks-investors-say-2026-03-05/>

Oil Prices Soar on Heightened Middle East Conflict



Global crude oil prices lunged some 40 percent higher (WTI, +35.8%) since the start of intensified military strikes in Iran, with the latest high-profile casualty being Iranian Supreme Leader Khamenei. Further retaliatory strikes have spilled over into neighboring countries, with President Trump's recent calls for Iran's unconditional surrender seen to prolong hostilities. Oil tankers are still prohibited from passing through the Strait of Hormuz, leading to oil futures hitting three-year highs.



Meanwhile, JPMorgan reduced its rating on emerging market (EM) currencies and bonds to "marketweight" due to uncertainty. Lower weights may lead to reduced foreign buying for EM assets. Safe-haven demand reversed weeks of foreign inflows that had benefited EMs before the conflict. Analysts note EM fundamentals are strong, but asset rotation will depend on how long the conflict lasts.



Outlook: Oil price uncertainty will continue to be the main narrative for this week, with further escalation potentially on the table. Markets will look at how local economies will translate higher oil prices into their inflation and growth readings. We expect continued risk-off sentiment through this week, thumping down any breakout rallies among risky asset classes but with bullish tilts for precious metals and defense companies.



FOREX FOCUS

Asian Currencies Slide on Risk-off Sentiment

Contrary to claims by some analysts, the U.S. dollar has remained as a safe haven, with regional currencies weaker w/w (see Table). Average daily trading volume rocketed by +57.63% w/w to \$1.940-B as traders and investors took advantage of the earlier USD-PHP appreciation in the previous week despite the U.S. dollar recovery. With the FX rate higher by P0.20 at the opening of trading on March 2, it seems that BSP intervened initially, but USD-PHP still closed at P58.20, weakening by P0.543 or nearly 1% on Monday. The upswing moderated as the week went on and by an unusually small loss of P0.06/\$ on Thursday. However, by the end of the week, it had gone back to P59.00 or 2.33% w/w, second largest depreciation in ASEAN+2.

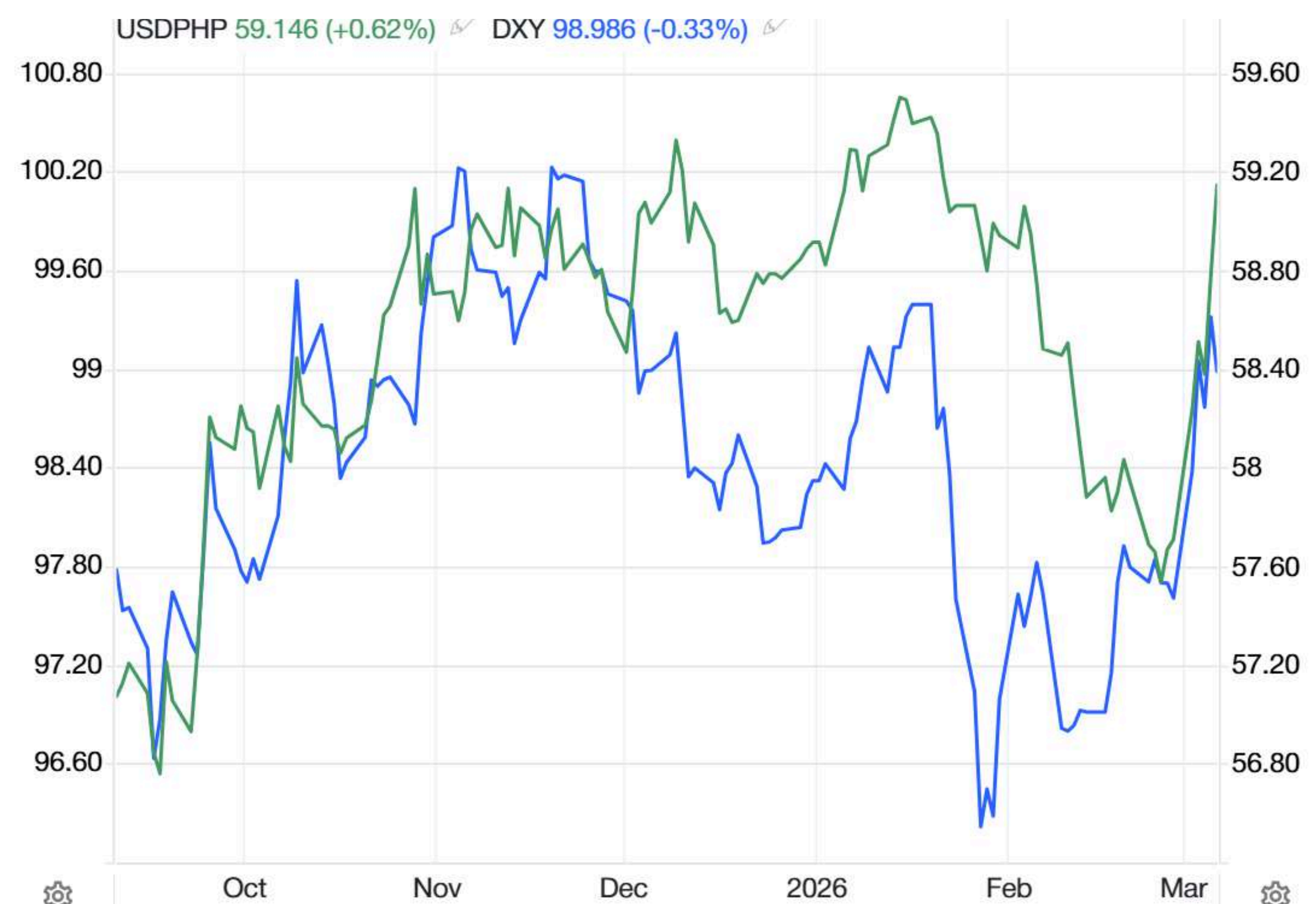


Source: Prouzet, E. (2019, November 3). US dollar and Chinese yuan banknote lot. Unsplash.com; Unsplash. <https://unsplash.com/photos/us-dollar-and-chinese-yuan-banknote-lot-XBkrBrkp88>

ASEAN Forex Watch

Currency	W/W % Depreciation
Philippine Peso	2.33%
Indian Rupee	1.18%
Indonesian Rupiah	1.20%
Malaysian Ringgit	1.70%
Thai Baht	2.37%
Singapore Dollar	1.13%
Vietnamese Dong	0.67%

Source: LSEG. (2026). LSEG Workspace [Database]. Retrieved Mar 6, 2026 from "Workspace Add-in for Excel"



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

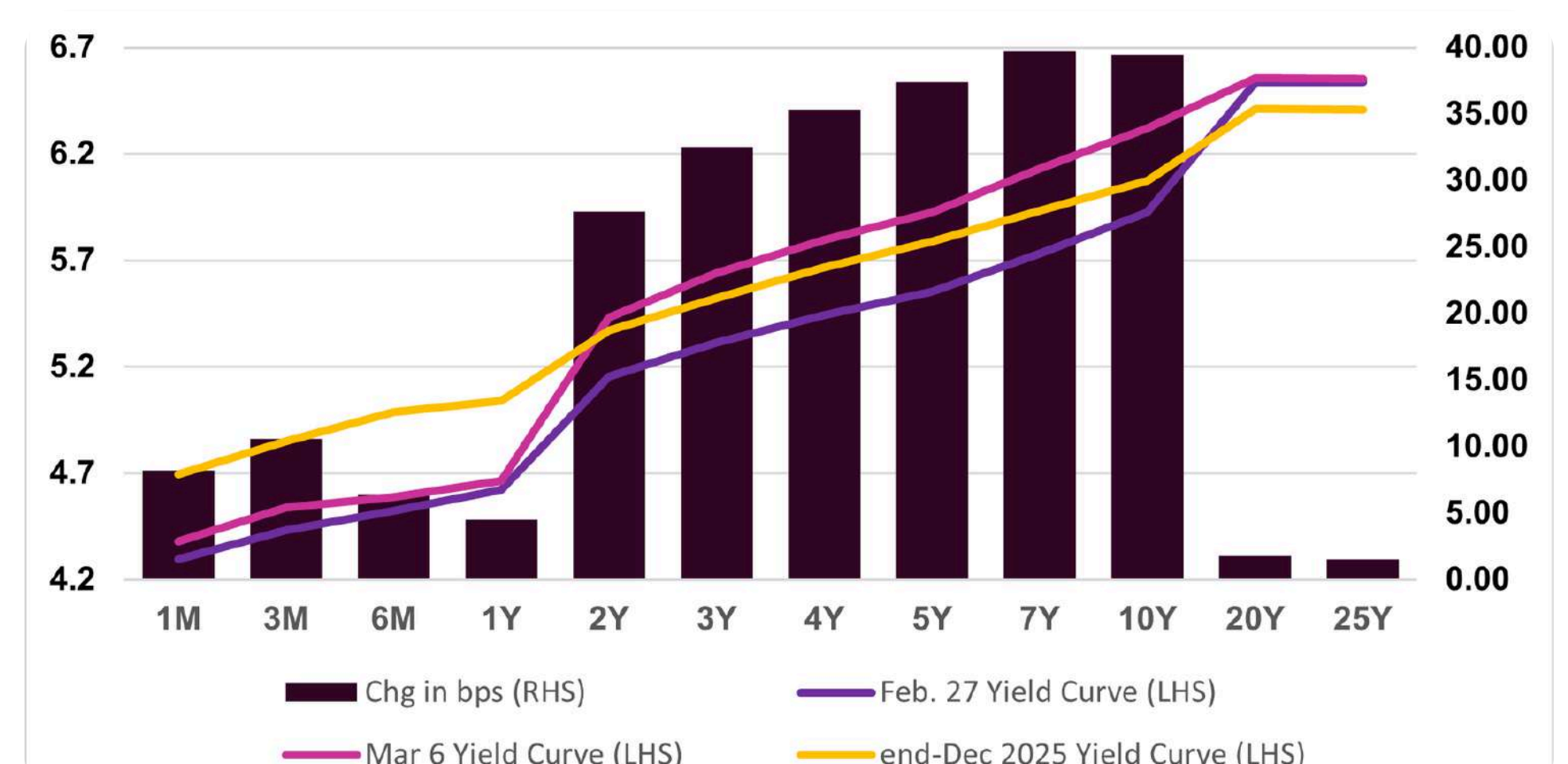
Outlook: We expect upward pressure may continue as crude oil prices soar, while BSP intervention should remain moderate. Global risk aversion will likely translate into outflows of investors from emerging markets like the Philippines. Besides, heightened uncertainty (VIX above 20) favors the US dollar.



THE BOND BLUEPRINT

Inflation Worries Push up Risk Premia on Long End

The coordinated U.S.-Israel attack on Iranian nuclear facilities, missile sites, and top leadership on February 28th roiled financial markets across the globe, hurling crude oil prices (WTI) by 6.2% on March 2nd. By the end of the week, it had soared by 35.8% w/w to \$90.90/barrel from 66.96/bbl. The likely significant impact on local inflation immediately swept through the secondary GS bond market, which saw a selloff that drove long-dated yields up by nearly 40 bps w/w (see figure to the right)



Source: Bloomberg, Authors' Calculations

GS Auctions

Despite Bureau of Treasury (BTr) offering only P27.0-B for Treasury bill (T-bill) auctions on March 2 compared to P37.8-B weekly since the start of 2026, yields rose mildly by 6.0 bps for 182-day T-bills up to 7.1 bps for 91-day T-bills. The two instruments ended with yields of 4.417% and 4.311%, respectively. However, the low demand surfaced in following day's reissuance of 4.9-year FXTN-07-71 with a Tender-Offer-Ratio (TOR) of 1.592x. Yields for the usual P30.0-B T-bond offering jumped by 16.0 bps to 5.717%.

GS Secondary Trading

Iranian regional missile strikes on non-military targets and rising crude oil prices fueled risk-off sentiment in the secondary GS market. Benchmark yields in the 5-7-10 year ranges jumped by 37.4, 39.7, and 39.4 bps, with the latter two closing at 6.130% and 6.3182%. Trading volume fell 14.2% to P303.3-B; 51.3% of activity was in these tenors, while the 3 to <5 year segment led with 29.16%. Combined, these buckets accounted for 80.58% of trading, concentrating activity in those segments.



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

Outlook: Risk aversion should remain with Iran war's end, and crude oil shipments from Middle East still uncertain. Yields will likely move sideways with an upside bias for the the 3-10yr space, albeit unlike the week's surge. De-risking into much shorter tenors will likely continue and so yields there many suffer less. The 20-year and 25-year bond volumes should remain very small (each below 1%) since life insurance companies dominate those buckets as they seek to match assets against future liabilities, with minimal yield changes as in the week just ended.



THE EQUITY PLAY

Top Five Index Winners & Losers

Stock	Close as of Mar 6	W/W Change
PLUS	18.1	12.7%
SMC	72.0	5.8%
SCC	28.1	0.2%
ICT	718.0	0.0%
DMC	9.6	-0.5%
JGS	26.2	12.7%
GTAP	588.0	-12.2%
URC	71.7	-10.4%
AC	538.0	-10.3%
CNPF	36.0	-9.9%

Source: LSEG. (2026). LSEG Workspace [Database]. Retrieved Mar 6, 2026 from "Workspace Add-in for Excel"

PSEi Down on Middle East Jitters

Risk-off sentiment following the emergent Middle East crisis sent the PSEi down by -4.4% w/w to 6,320.41 over the week of March 2-6. Both local and foreign investors retreated from recent gains, keeping on the defensive as conflict built up through the week. Some bargain hunters stepped up for oversold counters, but the cautious mood ultimately contained any possible breakouts.

Defensive posturing saw market turnover slide by -21.7% w/w to P40.6-B, with net foreign activity reversing into selling participation to the tune of P947.0-M. All sectors ducked for cover, with the Services sector (-0.97% w/w) the least harmed while the Mining & Oil sector (-8.69% w/w) bled the most. Market breadth turned overwhelmingly negative, with 39 gainers to 196 losers for the week.



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

Outlook: The ongoing conflict in the Middle East trumped local fundamentals and the within-expectations corporate earnings season. Investors may continue to trade within the familiar 6,200-6,400 range with a bearish tilt so long as the war continues. Investors will also have higher inflation and weaker peso outlooks weighing on their minds, keeping the market downbeat for now. Local and foreign buyers can keep on the lookout for oversold counters, particularly among Financials and Industrials, but the overall mood points to risk-off behavior. Long-term investors may appreciate the bargain hunting environment more.



OUR OUTLOOK

- 1 Market directions is anchored on the ME development.
- 2 Risk-off on equities and long-dated bonds may persist.
- 3 Expect more pressure on forex, with PH further weakening.
- 4 Consumer stocks may face heavier pressure.

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