Economic Watch

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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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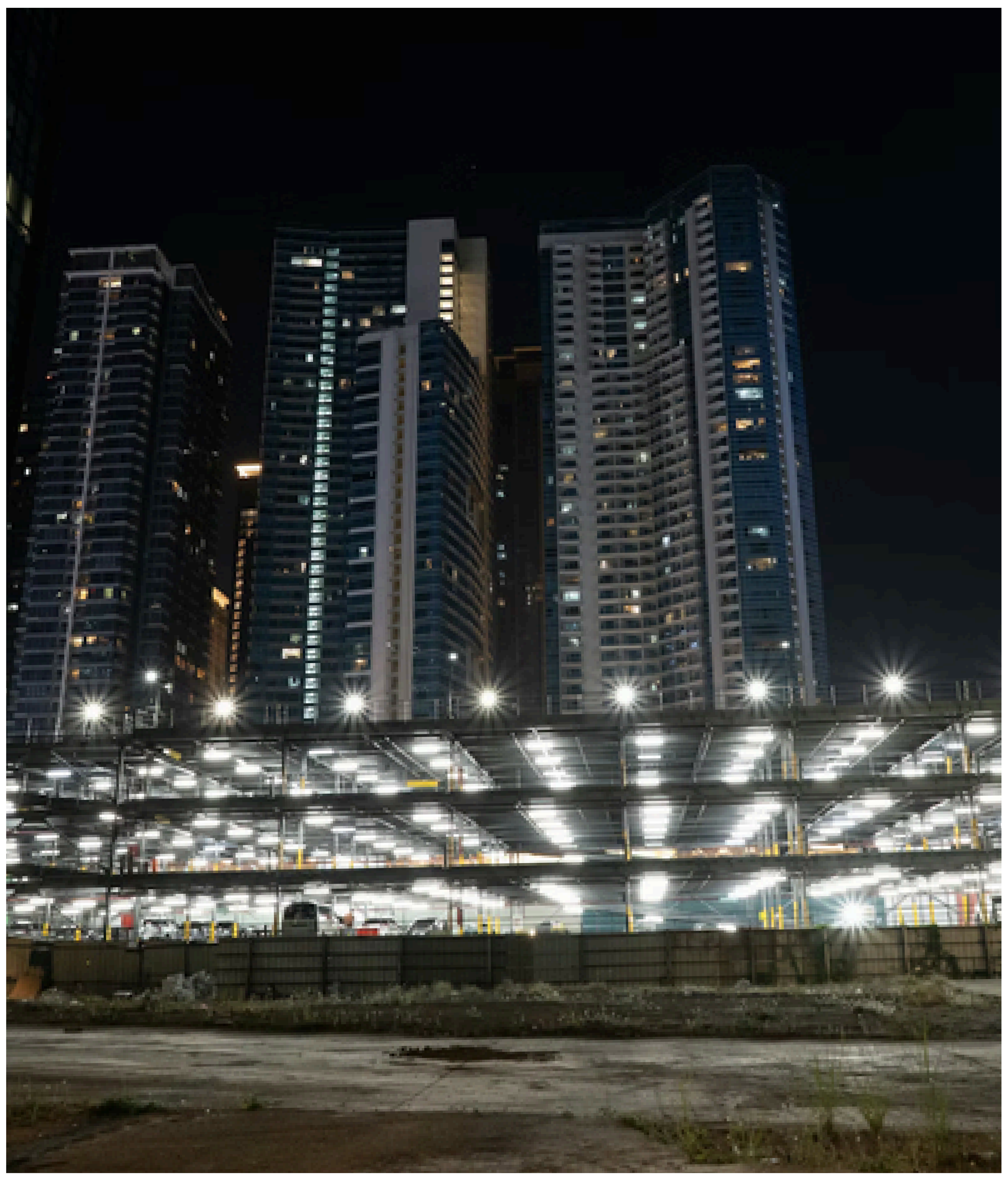
THE LOCAL READ



Source: MacroLingo LLC. (2025). Modern city buildings illuminated at night with lights. In Unsplash. https://unsplash.com/photos/modern-city-buildings-illuminated-at-night-with-lights-Aek6bEauW5A

Investment Inflows and Bank Lending in Focus

Recent data showed November 2025 net FDI inflows reached a 4-month high at USD 897.0 million, down 0.3% year-on-year, while cumulative 11-month inflows fell 22% to USD 7.1 billion. Analysts link this to weak investor sentiment amid slow growth and governance concerns.

Reflecting similar growth concerns, domestic liquidity growth (M3) slowed to 7.0% YoY (prev. +7.6%) and bank lending growth to 9.2% YoY (prev. +10.3%) in December. These banking indicators demonstrated the impact of weaker Q4 performance and persistently high interest rates.

Outlook: Tepid foreign investment readings may further dampen medium-term growth outlook, though many expect inflows to normalize later this year. Local markets may trade with an overarching "trudging through'' narrative weighing on their heads, barring any major improvements to governance quality or economic performance. More immediate is the BSP's February 19th meeting, which we think will be at least a 25.0-bps cut due to tame inflation and weaker growth momentum. While economy-wide effects of policy rate changes may take 18-24 months to play out, some sectors will bounce back faster, especially where monthly amortizations matter (e.g housing, auto and motorcycles, equipment leasing, mechanized agriculture, etc.).

Sources: San Juan, A. (2026, February 10). Caution rules: FDI dips 22% to $7.1B in January-November. BusinessMirror. https://businessmirror.com.ph/2026/02/10/caution-rules-fdi-dips-22-to-7-1b-in-january-november/
Nicolas, I. (2026, February). Bank lending slows in December 2025 despite rate cuts. INQUIRER.net. https://business.inquirer.net/573364/bank-lending-slows-in-december-2025-despite-rate-cuts

GLOBAL LENS

Source: Junior, R. (2017). Wall St and Broadway signs. In Unsplash. https://unsplash.com/photos/traffic-lights-near-white-concrete-building-during-day-time-4fsCBcZt9H8

Fed Hold Likely, AI Fatigue Setting In

Global markets followed U.S. data last week: lower inflation (2.4% in January) and strong non-farm payroll growth (+130,000) have reduced expectations for Fed rate cuts. The latest indicators suggest another Fed hold, typically weighing on equities.

Meanwhile, the CBOE VIX (a "fear indicator'), rose substantially on the back of big A.I. selloffs. The VIX was hovering around the 17.5 mark before jumping three points midway through the week, as AI giant Cisco Systems announced lower earnings guidance for FY-2025.

Outlook: We expect further volatility in global markets, with investors wary of an AI bubble. More clarity on this can be attained when the big tech companies release their 2025 earnings calls. Markets are also overwhelmingly pricing in a Fed rate hold next month, which could support the U.S. dollar after suffering weakness post-Japanese elections.

Source: Herszenhorn, M. J., & Xie, Y. (2026, February 11). Treasuries Fall as Better-than-Expected Job Data Resets Fed Bets. Bloomberg.com; Bloomberg. https://www.bloomberg.com/news/articles/2026-02-11/treasuries-fall-as-better-than-expected-job-data-resets-fed-bets
MarketMinute. (2026, February 13). Volatility Returns to Wall Street: VIX Surges 18% as AI Fatigue Triggers Massive Three-Day Sector Rotation. FinancialContent. https://markets.financialcontent.com/stocks/article/marketminute-2026-2-13-volatility-returns-to-wall-street-vix-surges-18-as-ai-fatigue-triggers-massive-three-day-sector-rotation#google_vignette

FOREX FOCUS

Peso-Dollar Firms Before BSP Meeting

The peso-dollar trended lower during the week amid weakness in the U.S. dollar, which however, stabilized at around 97 DXY (index of US dollar vs a basket of currencies, with 100 as base) as the week ended. The peso appreciated by 1.0% w/w (week-on-week) to close at Php 58.004/USD as weekly trading volume increased by 9.0% to USD 6.68-B. Weak local needs (esp. during February) and dwindling offshore demand drove the moves even as U.S Treasury yields again eased. High foreign buying in the local equities market may have also added some appreciation pressure.

Source: PiggyBank. (2022). a pile of money sitting on top of a table. In Unsplash. Unsplash. https://unsplash.com/photos/a-pile-of-money-sitting-on-top-of-a-table-1SbXOfNcjnU

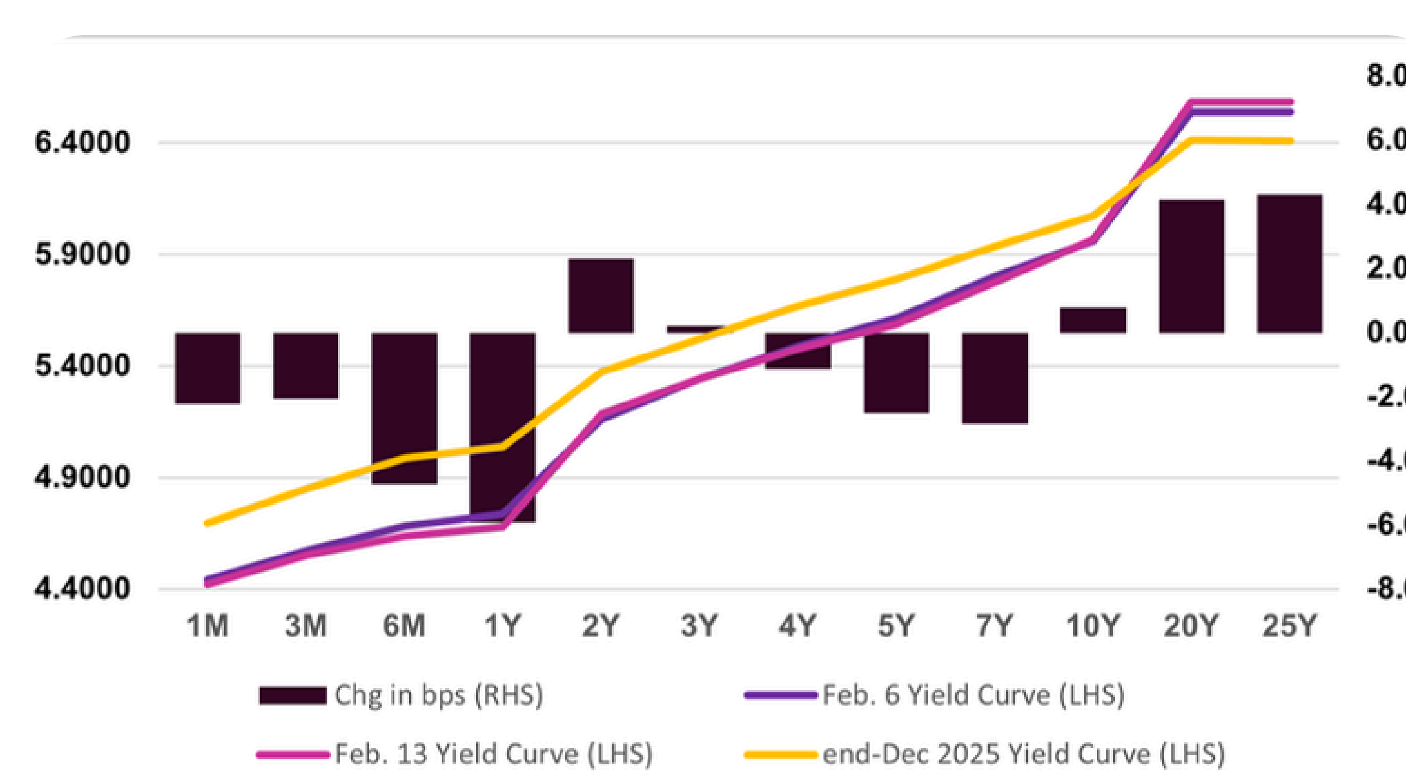
Source: Trading Economics. (2026). US Dollar Philippine Peso. Tradingeconomics.com. https://tradingeconomics.com/united-states/government-bond-yield

Outlook: The next weeks will see two major opposing forces at work. The expected BSP 25 bps policy rate cut on its February 19 meeting would drive USDPHP upward while feeble U.S. dollar, with lower bond yields amid milder inflation print, pull it downwards. Very short-term indicators seem to favor a mild appreciation within a similar trading range as this week. The fundamentals (i.e., weak OFW remittances month, mildly recovering economy and dollar demand) should push it again back clearly above Php58/USD.

THE BOND BLUEPRINT

Bond Markets Overreact to January Inflation

During the week of February 9-13, 2026, the Philippine bond market faced a sharp decline in auction participation and trading volume, mainly due to faster inflation and global volatility. Investors showed increased caution, favoring shorter maturities as yields generally eased. Meanwhile, the peso appreciated slightly amid fluctuations in the U.S. dollar, reflecting persistent market uncertainty.



Source: Bloomberg, Authors' Calculations

GS Auctions

Last week, government securities auction tenders dropped by 50.7% to Php 238.5-B as the Bureau of Treasury reduced its offerings by 22.8% w/w (week-on-week) to Php 67.8-B, lowering the Tender-Offer-Ratio to 3.5172x from 5.512x previously. Investors favored T-bills, keeping their TOR high at 4.1845x (down from 4.6778x), while the 7.5-year T-bond auction TOR fell sharply to 2.68x. Yields on the 182-day and 364-day T-bills decreased by -9.4 bps (to 4.578%) and -7.4 bps (to 4.615%), respectively, and the FXTN 70-71 bond yield slipped by 7.5 bps to 5.859%.

GS Secondary Trading

Following the faster local inflation data of 2.0% and U.S. market volatility, secondary trading volume fell 29.9% to Php 329.0-B for February 9-13, 2026. Trades focused more on papers under 3 years (54.6% share), while 3–5-year instruments dropped to 32.3%. Yields largely eased, with the 1-year down 5.9 bps to 4.6781%, and 3-months down 2.1 bps. The 7-year and 5-year yields also fell, but the 10-year benchmark inched up by 0.8 bps to 5.9676%.

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

Outlook: Faster-than-expected January inflation (2.0% YoY vs. 1.8% est) and U.S. dollar volatility slowed local bond yield declines last week. The upcoming BSP policy rate cut (25 bps) and lower-than-expected U.S. inflation (2.4%) are expected to further push yields down. However, global uncertainties and market overreaction to January's higher local inflation (i.e., many call it an "acceleration'' even though after removing usual seasonal influences, it only rose by 0.1% MoM, or 1.2% when annualized) will likely limit declines until the next inflation data in March.

THE EQUITY PLAY

Top Five Index Winners & Losers

Stock	Close as of Feb 13	W/W Change
PGOLD	39.0	5.4%
JFC	207.8	4.9%
ICT	658.0	4.4%
SCC	33.2	3.3%
CNVRG	14.5	3.1%
SMC	70.0	-6.7%
PLUS	13.6	-5.4%
LTG	15.6	-2.9%
ALI	20.7	-2.8%
CNPF	38.0	-2.4%

Source: LSEG. (2026). LSEG Workspace [Database]. Retrieved Feb 13, 2026 from "Workspace Add-in for Excel"

PSEi Dips Mildly on Profit Taking and MSCI Rebalancing

The PSEi slipped by 0.10% week-on-week to 6,384.58 as risk-off sentiment and profit taking prevented a sustained break above 6,500. Early gains reflected Wall Street optimism and peso strength but reversed as investors repositioned for this week. MSCI rebalancing resulted in new weightings: ICT, BDO, and BPI increased in the main index, while ALI, SM, and SMPH decreased; APX and MYNLD were added to small caps. MSCI indices serve as portfolio benchmarks, so these changes may prompt foreign investment movements.

Weekly market turnover modestly gained by +5.8% w/w to Php 38.0-B, as investors remained cautious ahead of the BSP meeting. Net foreign buying dropped -10.7% w/w to Php 1.3-B, indicating slowing offshore demand. Mining and oil led sector gains (+5.8%), followed by Industrials (+1.1%). Property lagged (-0.7%) due to reduced ALI and SMPH weights in the MSCI rebalancing.

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 stock market may keep defensive until the Monetary Board's decision on Thursday (which we think is a 25-bps cut). We expect volatile movements after the BSP policy rate decision on Thursday this coming week and early in the following week. More company Q4 and FY-2025 earnings briefings will be available over the rest of February and March, which could encourage selective plays based on earnings outlooks. In the meantime, investors will take cues from Wall Street movements, global geopolitical headlines and local investigations into the flood control mess.

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OUR OUTLOOK

1. The main equity index will move sideways this week (6250 – 6500).
2. Both equities and bonds will turn its attention to the BSP policy.
3. Expect flat movement on the bonds particularly on the long-dated.
4. A downward bias on the S&P 500.

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