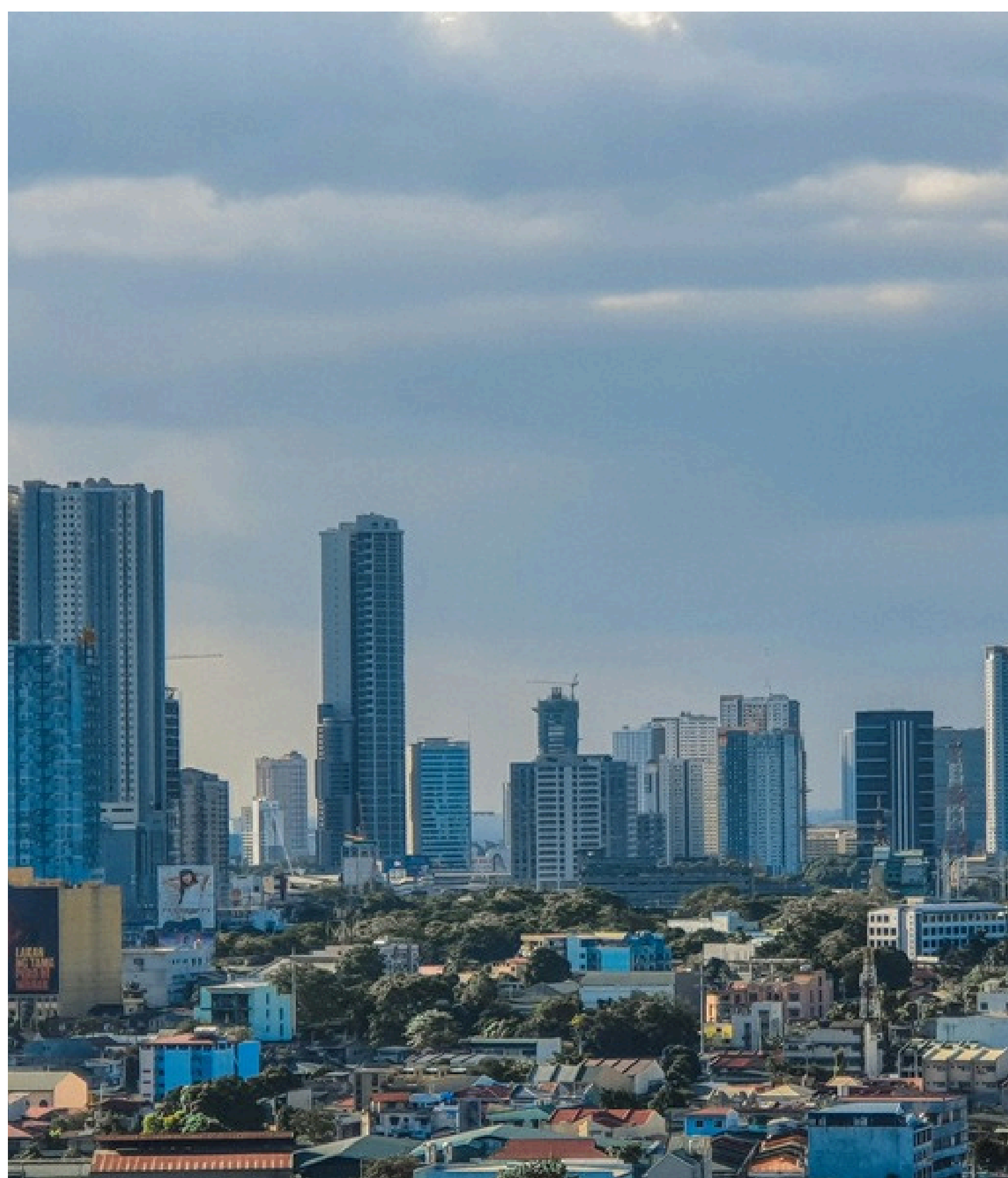




THE LOCAL READ



Source: Caraan, R. M. (2020, April 4). City skyline under white clouds during daytime. Unsplash.com; Unsplash. <https://unsplash.com/photos/city-skyline-under-white-clouds-during-daytime-OAWvZyvik0Q>

BSP Hikes Rates, Raises Inflation Outlook; National Government Turns in Larger March Budget Deficit

As we expected, the Bangko Sentral ng Pilipinas (BSP) raised its policy rate by 25 bps to 4.50% in its April 23rd meeting, citing the need to anchor inflation expectations and stem second round effects in food and transport costs. This effectively ended the rate easing cycle, which gradually lowered the policy rate by 225 bps since 2024. Hiking borrowing costs tends to dampen inflation at the cost of slower economic growth over an 18-24 month horizon. The BSP also raised its inflation outlook to 6.3% this year (prev. 5.1%) due to larger food and second-round passthrough effects. Governor Remolona signaled further rate hikes, mentioning that "Once we start raising the policy rate, we're likely to raise it again."

On the fiscal side, the national government turned in a wider budget deficit in March, some +2.0% YoY higher to P349.7-B as LGU transfers and energy subsidies grew. However, the quarterly budget deficit was still some -20.3% YoY lower on slow infrastructure project rollout. Larger fiscal deficits may be desirable if actualized as high quality, forward-looking investment projects. Government spending also supports economic growth.

Outlook: Our monetary policy outlook pencils in two more 25-bps rate hikes, bringing the key rate to 5.00% by year-end. While we think that rate hikes will disproportionately hinder economic growth, the BSP's price stability mandate will likely take precedence over it. Our inflation outlook mirrors the BSP's, where we see persistently above-target inflation for the rest of the year as the economy adjusts its prices. All hopes are pinned onto the second half of this year, where the national government is widely expected to ramp up infra spending and help rebound economic growth.

Article Sources: Sy, A. M. (2026, April 23). BSP raises rates, signals more hikes - BusinessWorld Online. BusinessWorld Online. <https://www.bworldonline.com/top-stories/2026/04/24/745239/top-rates-signals-more-hikes/>
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GLOBAL LENS

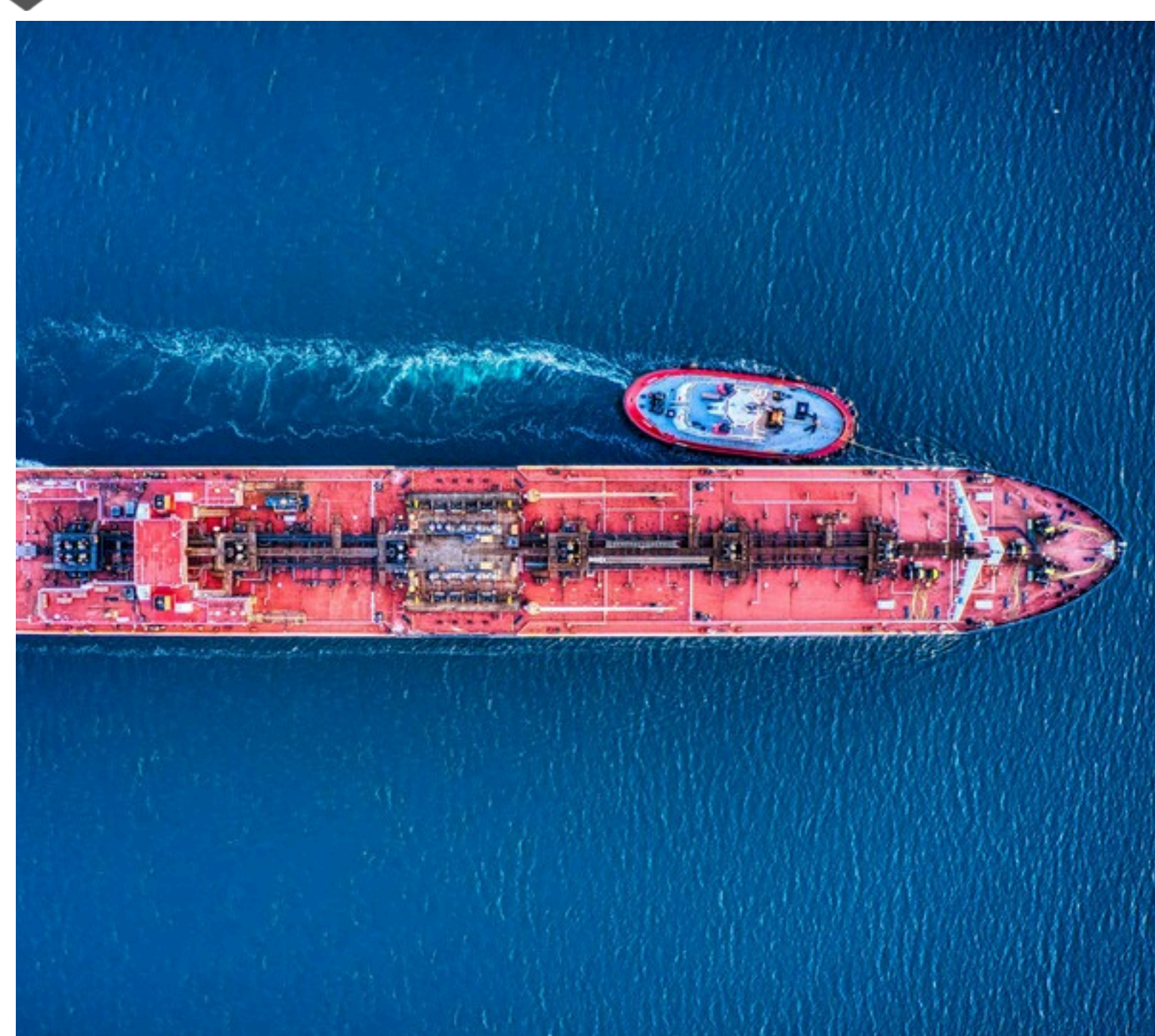


Image Source: Venti Views. (2020, February 24). A red oil tanker shot from directly above. Unsplash.com; Unsplash. <https://unsplash.com/photos/aerial-view-of-city-buildings-beside-body-of-water-during-daytime-ASmaVvS4AZM>

Article Sources: Sayeed, S., Shahid, A., & Holland, S. (2026, April 25). Trump cancels envoys' Pakistan trip, in blow to hopes for Iran war breakthrough. Reuters. <https://www.reuters.com/world/middle-east/us-negotiators-go-islamabad-iran-says-no-direct-talks-2026-04-25/>
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U.S-Iran Peace Talks Up in Smoke; Oil Rises



Citing a "not good enough" peace offer, President Trump held back U.S. envoys from attending a much-awaited round of Pakistan peace talks with a high-level Iranian official. The Strait of Hormuz remains locked down under Iran and the U.S. naval blockade. Complicating the issue, Israel continued strikes at Hezbollah sites despite extending the official Israel-Lebanon ceasefire.



Markets digested further escalations in the Middle East, with Iran and the U.S. capturing commercial vessels passing through the Strait. Our WTI benchmark traded just above \$86/bbl early last week on peace hopes but steadily climbed towards \$97/bbl as seized commercial vessels added risk.



Outlook: Further volatility expected as shifts in negotiations fray market nerves. While negotiations will likely continue, we think it is in the incumbent U.S. administration's best interest to move towards peace ahead of the November U.S. midterm elections. Oil prices may begin winding down by the second half of this year (per U.S. Energy Information Administration's short-term outlook), but it will likely be a bumpy road getting there as both sides have periodic u-turns.



FOREX FOCUS

Peso Dollar Depreciates Despite BSP Hike

Renewed upswing in crude oil prices (e.g., WTI up by +8.0% to \$94.40/barrel) dominated in the local forex market.

The week started with a slight appreciation on carryover optimism from the previous week's slide in crude oil prices. By mid-week this had reversed to an upward (depreciating) trend as Iran declared the Strait of Hormuz closed. Thus, despite BSP's policy rate hike by 25 bps on Thursday April 23rd, which widened the spread between BSP policy rates and U.S. Fed to 75 bps, and should have strengthened peso, the USDPHP rate ended the week at \$60.70/\$, a 1.1% w/w uptick. The U.S. dollar's movements (stronger by 0.6% w/w) had much less impact on the peso. Average daily Trading volume down tumbled by -8.4% w/w to P1,569.21, continuing with a similar decline a week ago. This pattern (i.e., lower volume, higher prices) suggests that local investors/firms preferred to hold on to their U.S. dollar assets, given the uncertainty of meaningful negotiations.

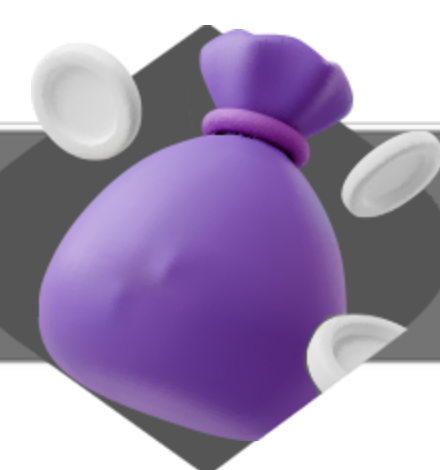


Source: PiggyBank. (2022). a pile of money sitting on top of a table. In Unsplash. Unsplash. <https://unsplash.com/photos/a-pile-of-money-sitting-on-top-of-a-table-15bXOfNcjlU>



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

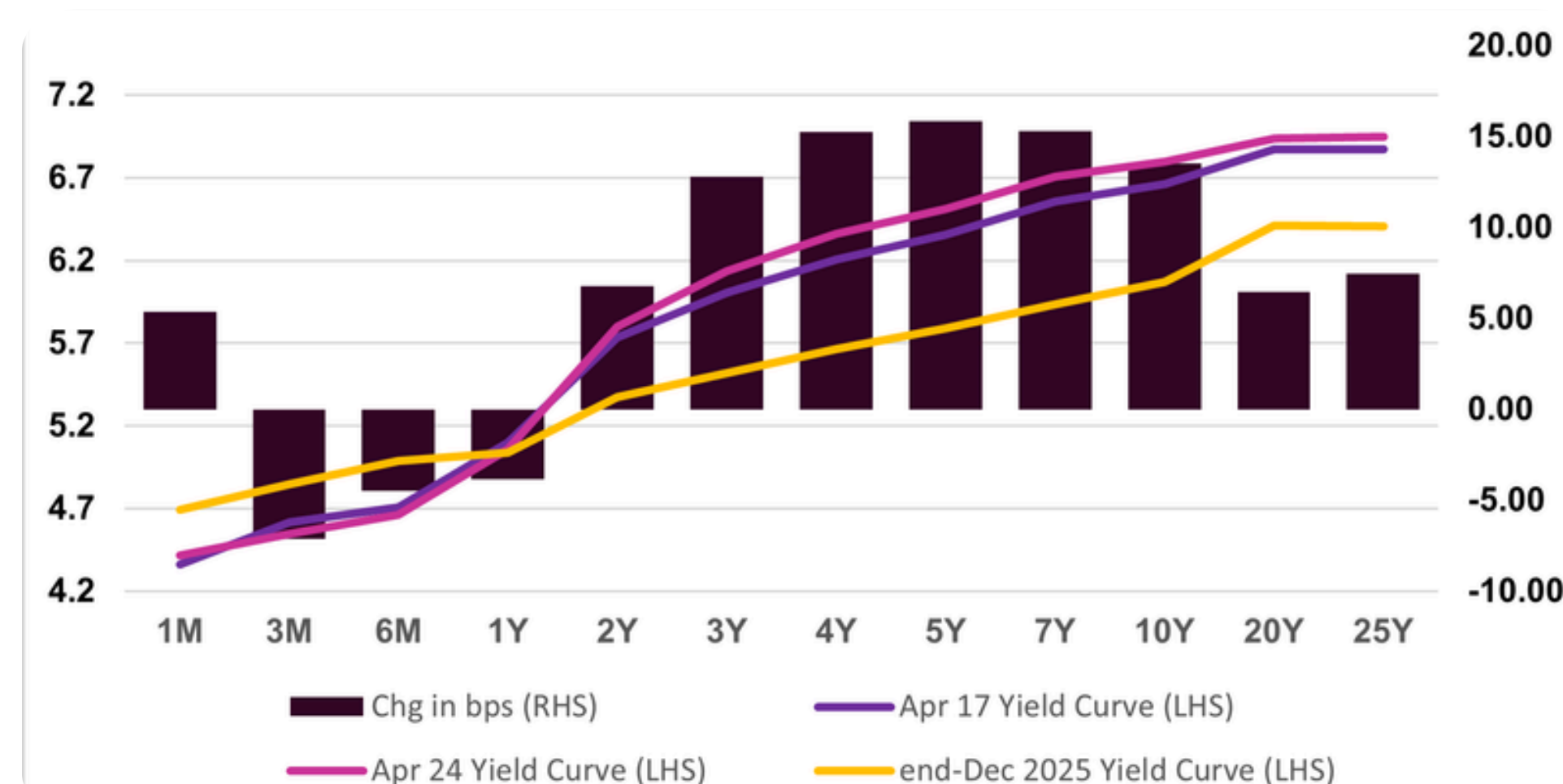
Outlook: While peso-dollar rate may appreciate due to the sharp rise in the past week, it may return to a depreciation mode quickly. With a major Iran oil field destroyed by the U.S. and both Iran and U.S. controlling part of Strait of Hormuz, and a second negotiations up in the air, crude oil prices should continue its upswing in the short-term. As in the previous week, this confluence of events may drive USDPHP even higher. The extent will remain dependent on crude oil supply availability, even though the elevated crude oil prices will likely reduce global demand and supply response from other sources over the medium-term.



THE BOND BLUEPRINT

Short End Slips Mildly, Belly Rises on BSP Hike and Higher Oil Prices

While not as pronounced as the FX rate movements, yields for short-dated government securities (GS) mildly slipped, indicating strong investor preference for that space. The resurgence in crude oil prices will accelerate local inflation further away from BSP inflation target ceiling of 4.0%.



Source: Bloomberg, Authors' Calculations

GS Auctions

Investors continued to show greater preference for Treasury bills (T-bill) auctions as seen with an elevated Tender-Offer-Ratio (TOR) of 2.987x, similar to a week ago, but a huge jump from 1.859x two weeks ago. Tepid demand surfaced for the 7.25-year (FXTN 10-71, reissue) which obtained only a 1.323x TOR. Reflecting the divergent demand conditions, yields for T-bills slumped by as much as -23.3 basis points (bps) for 182-day bills to 4.649% followed by -20.8 bps for 91-day debt, a more modest -11.6 bps slide for 364-day bills. In contrast, investors demanded higher yields (+17.0 bps) for the 10-71 re-issue to 6.643%.

GS Secondary Trading

Secondary trading tracked auctions: trading fell 17.3% w/w to P204.3B, reminiscent of two weeks ago. The <5Y share dipped 7.4% to a still-huge 74.4%, while 5Y-10Y saw selling (23.8% of volume) had yields rise by 6.8 bps. Yield gains were concentrated in 5Y-10Y: +15.9 bps in 5Y (to 6.5137%), +15.3 bps in 7Y (to 6.7099%), and +13.5 bps in 10Y (to 6.7956%). In contrast to other spaces, short-end yields slipped, led by 3M (-7.1 bps to 4.5469%) and 1Y (-3.9 bps to 5.083%).



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

Outlook: The late week hike in BSP policy rate by 25 bps and likely higher crude oil price should drive yields higher across the curve. BSP's apparent stance for higher rates as inflation rages adds fuel to this upswing in Q2.

THE EQUITY PLAY

Top Five Index Winners & Losers

Stock	Close as of Apr 24	W/W Change
CNVRG	12.7	4.6%
SM	629.0	3.1%
JGS	27.6	2.6%
PGOLD	42.7	2.2%
SCC	30.7	1.7%
ALI	15.8	-8.1%
BPI	92.1	-7.2%
ACEN	2.8	-6.3%
AEV	28.4	-5.3%
BDO	115.0	-3.8%

Source: LSEG. (2026). LSEG Workspace [Database]. Retrieved Apr 24, 2026 from "Workspace Add-in for Excel"

PSEi Drops as BSP Hikes Rates, Hormuz Jitters

The PSEi continued sliding by -0.93% w/w to 5,943.49, ducking below the key 6,000 level as risk-off investors digested a BSP rate cut and Middle East uncertainty. The index tumbled throughout the week, trumping short-lived technical rebounds to end lower after the BSP hiked rates. This contrasted with improving sentiment in U.S. markets, highlighting the Philippines' larger risk premia due to the macroeconomic consequences of the conflict.

Turnover slumped by -15.7% w/w to just P31.3-B as investors waited for the BSP's decision. Foreign outflows continued at P2.5-B, though lower by -44.3% w/w. Only two sectors recovered ground, with Holdings (+0.31% w/w) and Services (+0.23% w/w) up on bargain hunting and Q1 earnings speculation. Meanwhile, Financials counters declined the most (-3.42% w/w) after tighter forward earnings guidances. Market breadth remained negative with 105 gainers to 125 losers and 33 unchanged.



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

Outlook: We can expect defensive positioning with sideways movements this week. Investors are now grappling with multiple medium-term headwinds: (1) oil price volatility, (2) a hawkish BSP, and (3) digesting the macro impacts on the energy import-dependent local economy. Against these headwinds, we don't see much room for upside, though local buyers have proven willingness to step in at key support levels. As such, we continue to favor utilities and consumer staples for their inelastic demand conditions and ability to pass on costs. Bargain hunting may set in for Q1 earnings outperformers, but stronger relief rallies may not happen until the Middle East reaches a solid peace framework.



OUR OUTLOOK

- 1 Risk-off continues on equities and bonds.
- 2 New macro headwinds will dictate market directions.
- 3 Local currency pressures will continue.
- 4 Higher inflation and rates expectations in play.
- 5 Market will focus with caution on rate sensitive sectors.

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