

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: Syiaco, P. (2020, October 9). City skyline during night time [Photograph]. Unsplash. <https://unsplash.com/photos/city-skyline-during-night-time--YwW0QLoYQI>

May Inflation Softer than Expected; Industrial Indicators More Sanguine

Good news came in through the May inflation reading, easing slightly to +6.8% YoY (prev. +7.2%) and well below analyst expectations (7.9%) and BSP's forecast range (7.1-7.9%). Lower global crude prices fed into local pump price rollbacks, lowering inflation in Transport (+16.2% YoY, prev. +21.4% YoY) and Housing, Water, Electricity, Gas, and Other Fuels (+7.8% YoY, prev. +8.2%). Milder increases were also seen for the heavily-weighted Food & Non-Alcoholic Beverages segment (+5.7% YoY, prev. +6.0%) despite more expensive Rice prices (+15.6% YoY). In contrast, second-round effects in tertiary sectors continued, with Health (+4.1% YoY), Recreation, Sport & Culture (+5.2% YoY), and Restaurants & Accommodation Services (+6.7% YoY) now above the 2-4% target band.

Meanwhile, industrial indicators as seen in the May S&P Global Philippines Manufacturing PMI and the April Volume of Production Index (VoPI) flashed encouraging signs for the country's industrial sector. Manufacturing PMI returned to expansionary territory at 50.8, as new orders growth encouraged more production but supply chain bottlenecks continued to constrain operations. VoPI growth, on the other hand, jumped by +12.0% YoY (prev. +10.2%) as base effects, inventory frontloading, and lucrative petroleum refining activities encouraged production.

Outlook: We're seeing some macroeconomic improvements per the latest indicator readings, though further gains may be limited in the coming months. Risks in the form of the still-unresolved Middle East conflict, the looming "Super El Nino" season, and local political noise may undermine economic confidence. In a similar vein, improvements in manufacturing conditions may be transitory, as firms frontloaded production and expansions were concentrated in select industries. At the very least, the latest inflation reading may relieve the need for aggressive rate hike moves, where a 25 bps hike in the June meeting remains one of the possible policy outcomes.

Article Sources: Acabal, J. J. (2026, June 5). April factory output growth fastest in over 4 years - BusinessWorld Online. BusinessWorld Online. <https://bworldonline.com/top-stories/2026/06/05/754825/april-factory-output-growth-fastest-in-over-4-years/>
Chan, K. (2026, June 5). Philippine inflation eases to 6.8% in May amid pump price rollbacks - BusinessWorld Online. BusinessWorld Online. <https://bworldonline.com/top-stories/2026/06/05/754801/philippine-inflation-eases-to-6-8-in-may-amid-pump-price-rollback/>
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GLOBAL LENS

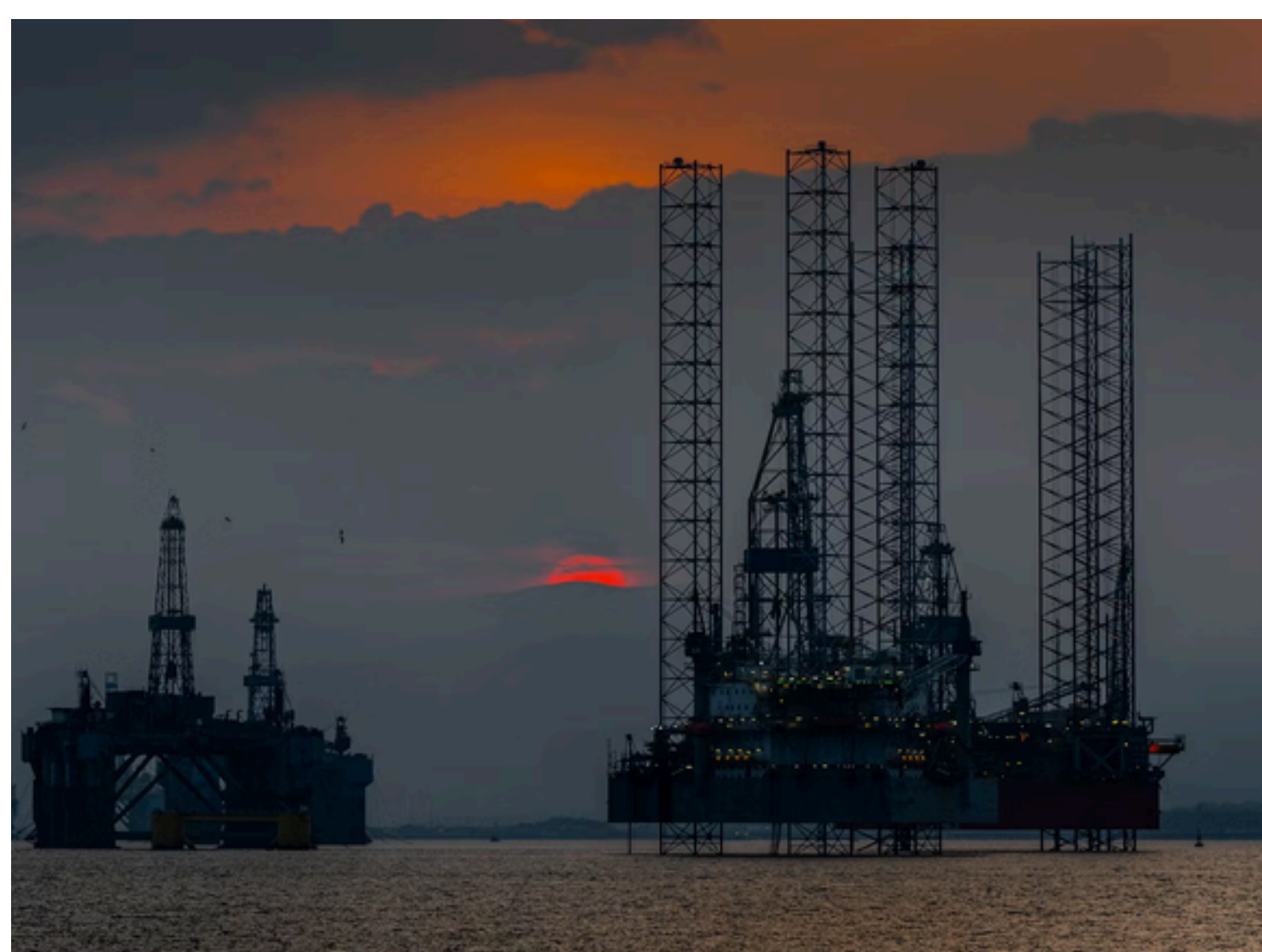


Image Source: Wicks, B. (2022, March 29). A group of oil rigs in the ocean [Photograph]. Unsplash. <https://unsplash.com/photos/a-group-of-oil-rigs-in-the-ocean-EjzE0y1W7z4>

Middle East Flip Flops; Non-Farm Payrolls Better than Expected



Global crude prices remained rangebound as markets eyed developments in the latest round of Middle East push and pull. WTI crude was v-shaped in the past week, initially trading around \$95/bbl from the previous week's peace soundings, but then peaking at \$99.5/bbl by mid-week as the U.S. and Iran launched more strikes. It then sharply reverted towards \$94.1/bbl by Friday, as peace speculation again took hold. Oil markets appear to be adapting, having kept below \$100/bbl (WTI) in the past two weeks with more "dark tanker traffic" coursing through secondary routes. U.S. oil executives warned of price spikes from continued drawdowns in U.S. oil inventories last week.



In the U.S., major stock indices slid as rate cut hopes vanished with non-farm payrolls growing better than expected at +172,000 in May. While seemingly counterintuitive, better labor market indicators tend to depress stock market valuations as the Fed turns to its inflation-fighting mandate. Higher rates weigh heavily on the newfound AI trade, with its massive capital expenditures and slow rollouts.



Outlook: Oil markets may price in more uncertainty in the following week, with newfound conflict escalation in the Middle East and vague data regarding tanker flows. In the medium term, upside may be capped with softer Chinese oil purchases as the country grapples with slowing momentum. Market participants may look out for Fed soundings, with latest data pointing to a hold and with rate hike odds rising. The meeting will also feature updated Summary of Economic Projections, with the critical dot plot mapping out Fed officials' rate outlook in the medium term.

Article Sources: Mohamed, E., & Uras, U. (2026, June 7). Iran war live: US forces shoot down two Iranian drones in Strait of Hormuz. Al Jazeera. <https://www.aljazeera.com/news/liveblog/2026/6/7/iran-war-live-israel-kills-lebanon-general-pakistan-urges-end-to-war>
Paraskova, T. (2026, June 6). Oil Market Flying Blind as Dark Tanker Traffic Surges in Hormuz. OilPrice.com. <https://oilprice.com/Energy-General/Oil-Market-Flying-Blind-as-Dark-Tanker-Traffic-Surges-in-Hormuz.html>



FOREX FOCUS

Peso-Dollar Moves Mirrors Softer Crude

USDPHP trended mildly downward (appreciation) this week tracking crude oil prices more than U.S. dollar movements.

Despite another proposed peace accord vanishing into thin air in June 1-5, 2026 week, the peso-dollar rate strengthened by -0.19% to P61.470/\$ from P61.59/\$ a week earlier. The U.S. conducted air strikes into Iran earlier in the week and saw a moderate upswing in crude oil (WTI) prices which the peso followed. However, the slower global economy (and oil demand, especially from China, the world's largest importer) and more supply response (e.g., U.S., Brazil, Canada, etc.) have resulted in lower highs in WTI prices since its peak in early April, closing the week at \$90.54/bbl (Brent at \$93.1/bbl). Thus, trading volume picked in the last three days raising the average daily trading by 10.2% to \$1.74-B from \$1.58-B previously. To ward undue speculation on the FX rate, BSP decreed that forward FX transactions (including non-deliverable forwards, NDFs) must have legitimate underlying needs.



Source: Demidko, D. (2019, February 19). Three round gold-colored coins on 100 US dollar banknotes [Photograph]. Unsplash. <https://unsplash.com/photos/three-round-gold-colored-coins-on-100-us-dollar-banknotes-eBWzFKahEaU>



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

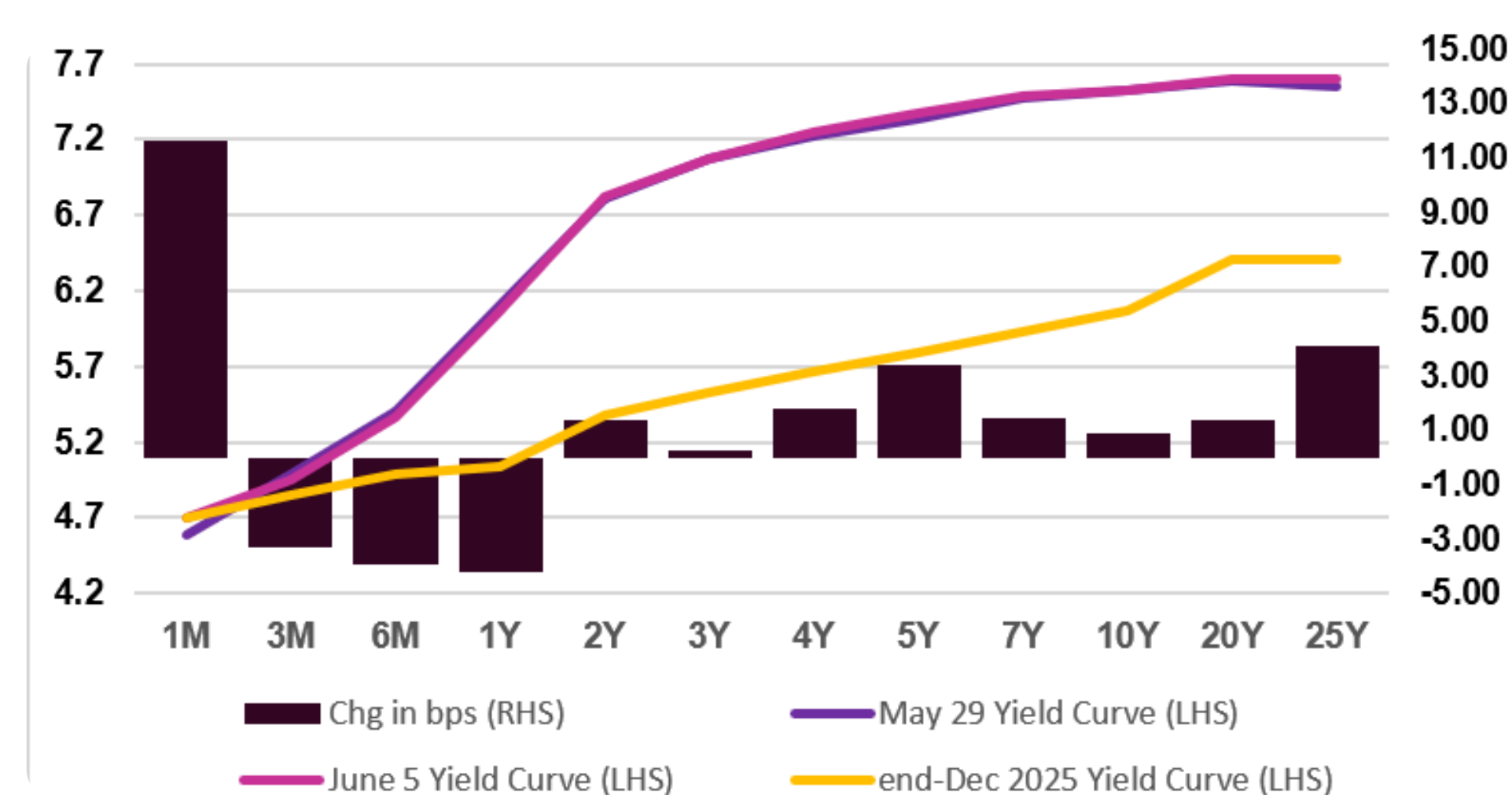
Outlook: Two opposite forces will face up in the coming weeks. In favor of the peso would be the lower-than-expected inflation rate (6.8% YoY) for May and sideways movement in crude oil prices. However, the U.S. dollar strengthened as the week ended with employment gains way-above-market expectations, which will reverberate domestically only this coming week. Robust gains in employment of 172,000 in May (plus upward adjustment of April job data by 64,000 to 179,000) also pushed U.S. 10-year T-bonds 6 bps higher to 4.54%.



THE BOND BLUEPRINT

Mild Movements Ahead of Policy Meeting

Investors kept in the sidelines in both auction and secondary markets, as yields and volumes moved sideways.



Source: Bloomberg, Authors' Calculations

GS Auctions

With P80.0-B offered by the Bureau of Treasury (BTr), the Tender-Offer-Ratio (TOR) fell to 1.7266x from 2.263x previously. Treasury bills' (T-bills) TORs all fell below 1.952x of the previous week. Yield movements varied, with 91-day T-bills practically unchanged, while 364-day bills rose 10.6 bps to 6.269%. Conversely, the 182-day T-bills saw a 7.6 bps slide to 6.624%. The 5.1Y (FXTN 20-17) offering of P30.0-B initially had a TOR of 1.937x and with the yield moderately climbing by 15.1 bps (7.400%), BTr decided to open a P10.0-B TAP facility which attracted almost the same amount.

GS Secondary Trading

Trading volume eased 9.0% to P182.3-B. Yields were mixed, with mild declines at the short end (<1Y) and slight increases at longer tenors, led by the 25Y at +4.09 bps. Sub-5Y tenors accounted for 85.2% of trading, up from 70.2%, while 7Y-10Y activity fell to 4.0% from 24.1%; the 5Y-7Y bucket rose to 10.2% from 3.3%. Among shorter papers, 6M and 3M yields fell 4.0 bps and 3.3 bps to 6.3645% and 4.9562%. For longer maturities, the 3Y rose 0.3 bps to 6.0692% and the 10Y edged up 0.9 bps to 7.5293%, while most others climbed 1.36 bps (20Y) to 3.4 bps (5Y), ending at 7.5965% and 7.3714%, respectively.



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

Outlook: Investors will likely keep their gun powder dry while awaiting any further cues from BSP on a possible policy rate move later in June and the sustainability of increased yields in U.S. Treasuries. Elevated inflation rates and the rise in U.S. Treasuries may provide BSP with reason to raise rates by 25 bps. On the other hand, lower-than-expected inflation in May, stable to lower crude oil prices, weak GDP and employment growth may raise odds of a hold. Market expectations remain mixed regarding BSP's next policy move.



THE EQUITY PLAY

Top Five Index Winners & Losers

Stock	Close as of June 8	W/W Change
ICT	855.0	13.6%
JFC	136.3	7.4%
AEV	33.6	5.7%
ACEN	3.5	4.5%
CNPF	27.1	3.4%
AC	406.0	-7.0%
LTG	14.9	-5.8%
JGS	26.6	-4.7%
CNVRG	10.5	-4.5%
SMC	67.9	-4.4%

Source: LSEG. (2026). LSEG Workspace [Database]. Retrieved June 8, 2026 from "Workspace Add-in for Excel"

PSEi Recovers on Softer Inflation Print

The PSEi regained ground against the previous week's selloff, gaining +2.94% w/w to 5,938.38 on bargain hunting and improved economic indicators. The market picked up after the MSCI-driven rout, briefly touching 6,000 by mid-week but slipping afterwards on higher crude oil prices. Support came in by Friday after the softer-than-expected May inflation reading improved selective buying sentiment.

Trading volumes normalized, down by -29.67% w/w to P37.59-B compared to the previous week's selloff. Net foreign selling continued, though at a much slower level of P853.47-M (prev. P9.23-B). Sectors were mixed, with bargain hunters rotating into Services (+9.53% w/w) and Financials (+1.66% w/w), while shifting out of Mining & Oil (-1.46% w/w) and Holdings Firms (-1.14% w/w).

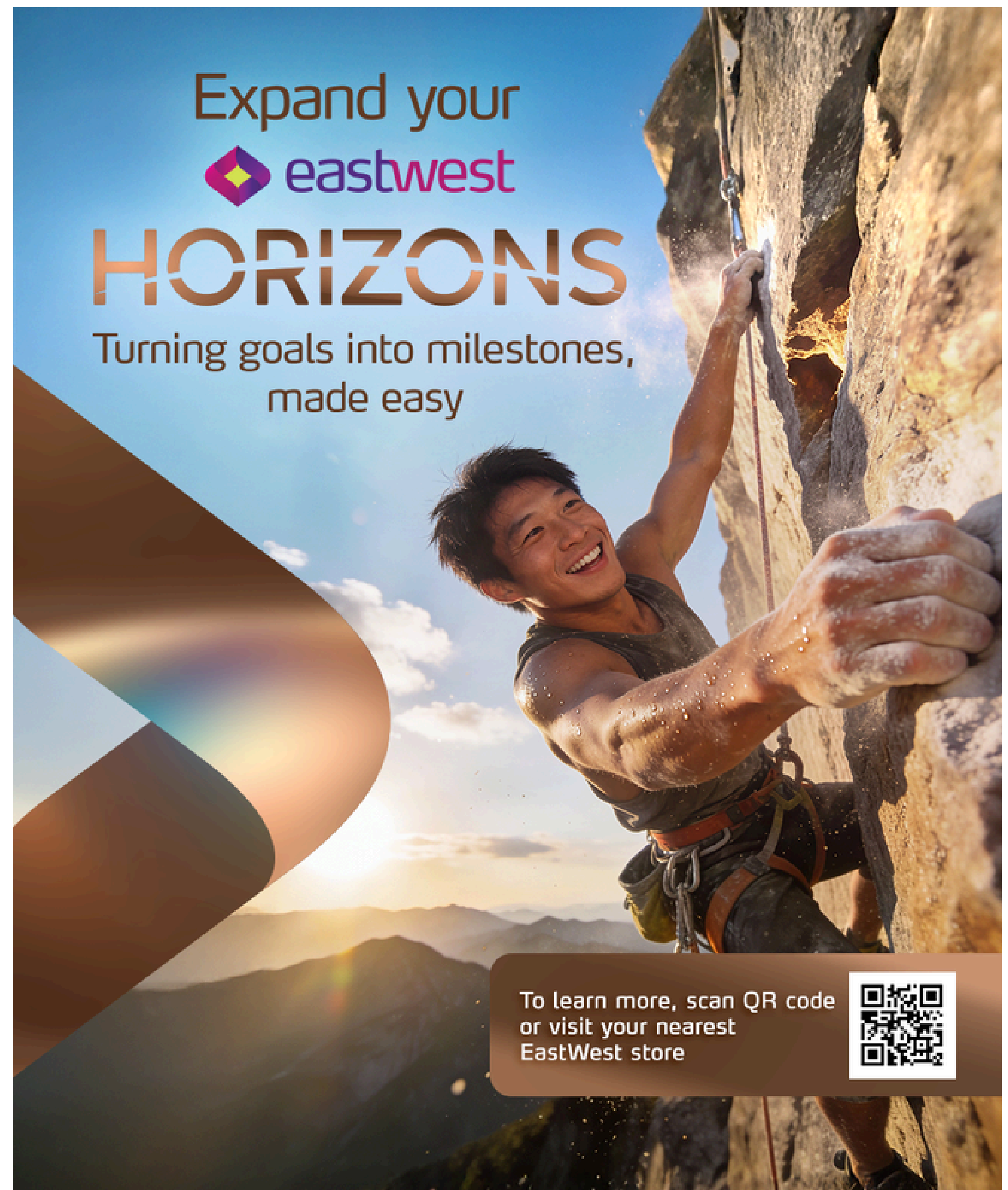


Source: Investa. (2026). PSE:PSEI - Philippine Stock Exchange Index (PH) | Price and Chart | Investagrams. Investagrams. <https://www.investagrams.com/Stock/PSE:PSEI>

Outlook: The local bourse may trade rangebound as encouraging economic indicators clash with looming dual Fed-BSP policy meetings. Investors may monitor sectoral rotations but could be reluctant to take on outsized bets with newfound oil price risks and hawkish central bank outlooks. Technical indicators likewise suggest sideways trading for now.

OUR OUTLOOK

- 1 Local equities may start the week on a cautious note.
- 2 Federal Reserve could keep rates higher for longer.
- 3 Treasury yields and local GS may remain elevated for some time.
- 4 Expect more profit-taking on tech and AI stocks.
- 5 Markets are likely to remain highly data- and policy-dependent.



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