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

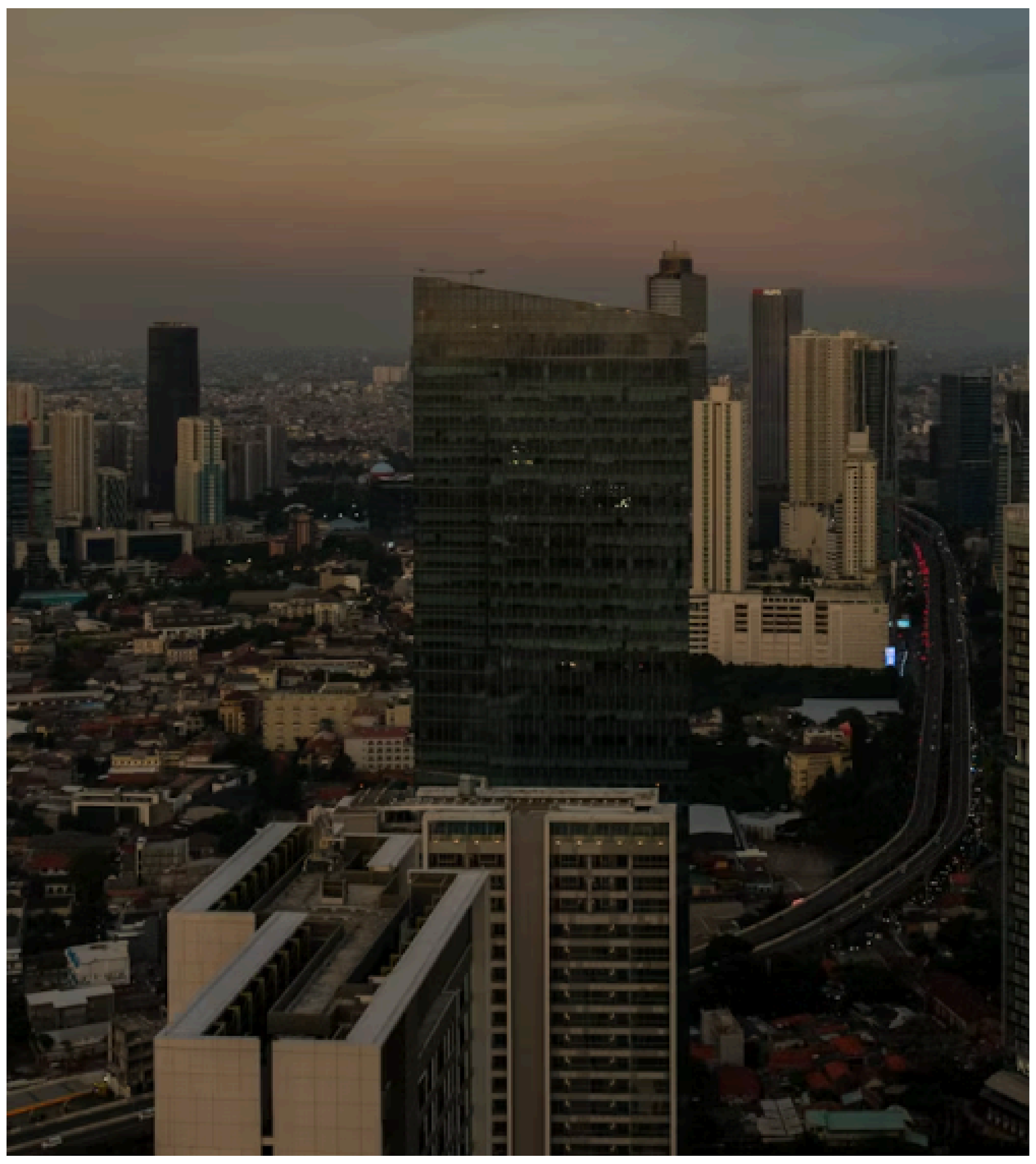


Image Source: Kristianto, D. (2025, May 27). City skyline at sunset or dusk [Photograph]. Unsplash.

BSP Hikes Rates in its April Meeting; Approved Building Permits Dip

As expected, the Bangko Sentral ng Pilipinas (BSP) hiked its policy rate by 25 bps in its April 18th meeting, bringing it to 4.75% on the back of an above-target inflation outlook until 2027. The BSP maintained a hawkish outlook due to uncertainty in the Middle East pushing oil and fertilizer prices higher and lagged second-round effects creeping in, even as a peace deal was announced last week. As such, policymakers signaled willingness to raise rates more in future meetings even as softer GDP growth remains a key risk.

Meanwhile, high borrowing rates and building materials costs have been discouraging property developers in project build outs, with the PSA's approved building permits tally winding down by -6.8% YoY in April. Despite a slight downtick in market debt yields (see Bond Market), they remain elevated compared to pre-Middle East conditions, which raises mortgage costs and lowers property demand. Building materials such as concrete and steel have also been more expensive because of the Middle East war, pushing developers to delay or cancel projects.

Outlook: While solid Middle East peace progress has materialized (see Global Read), we still see much above-4% inflation for this year as the price shock travels through the economy in the form of higher wage and cost pressures (second-round effects). There remains a possibility of further policy rate hikes this year to bring the key rate to 5.25% accordingly. Construction activity may benefit from the national government's planned return of public capital spending in the second half of the year, although higher building costs may continue to affect project viability.

Article Sources: Chan, K. (2026, June 18). BSP keeps door open to more interest rate hikes - BusinessWorld Online. BusinessWorld Online. https://bworldonline.com/top-stories/2026/06/19/757762/bsp-keeps-door-open-to-more-interest-rate-hikes/
Manago, H. C. (2026, June 19). Approved building permits fall 6.8% in April - BusinessWorld Online. BusinessWorld Online. https://bworldonline.com/economy/2026/06/19/757940/approved-building-permits-fall-6-8-in-april/

GLOBAL LENS

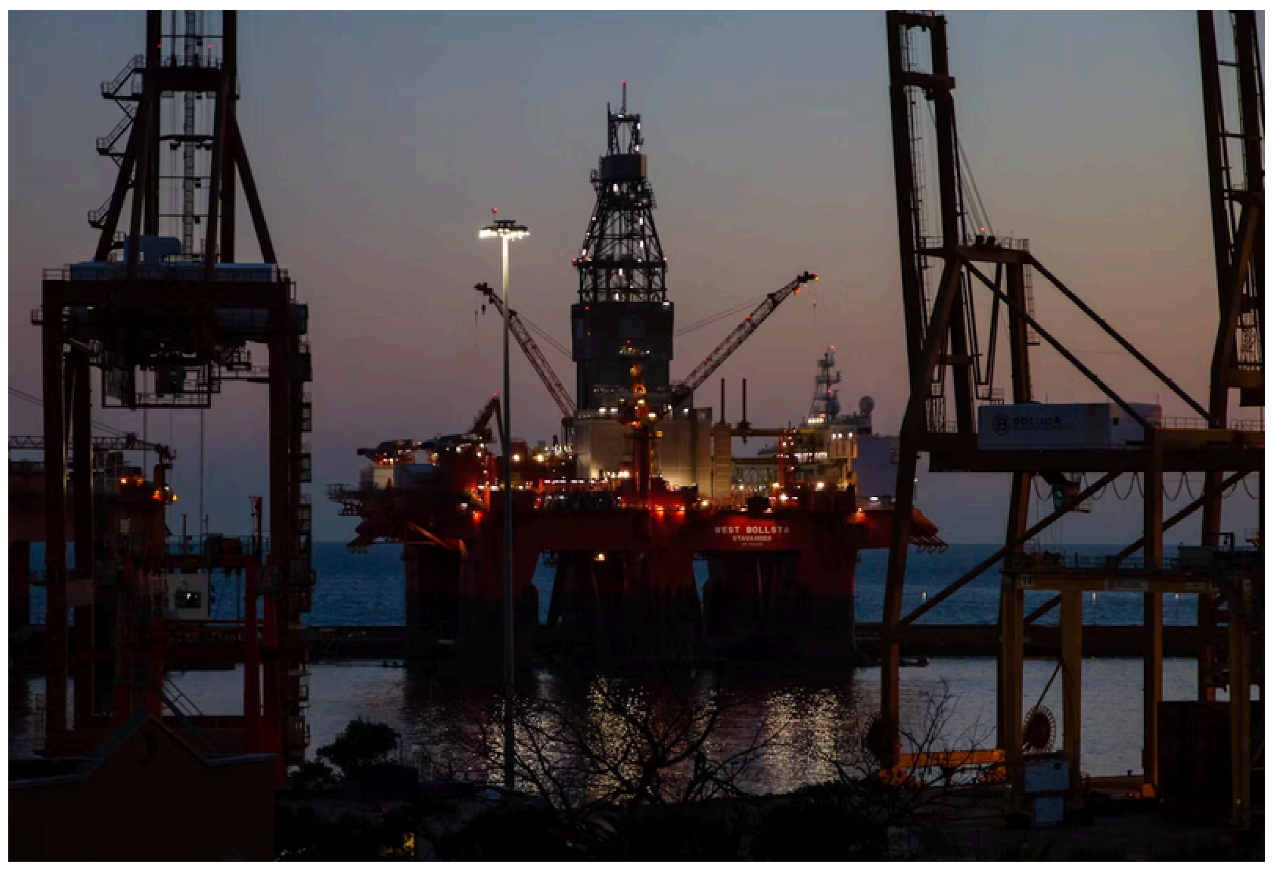


Image Source: Lupan, M. (2021, August 21). Red and black metal tower during sunset [Photograph]. Unsplash.

Middle East Peace Deal Bets; Fed Holds Rates in Warsh Debut

- Global crude oil prices plunged last week to as low as $73/bbl (WTI) as the U.S. and Iran agreed to a 60-day ceasefire agreement that reopened the Strait of Hormuz. However, crude picked up a tad towards $77/bbl as tensions culminated in Iran once again closing the Strait, citing aggressive Israeli attacks against Hezbollah. U.S. Vice President Vance met with Iranian officials in Switzerland for further negotiations towards the actual peace deal.

- In the U.S., markets were glued to Warsh's first policy meeting as Fed Chair, presiding over a hawkish rate hold as U.S. inflation pressures built up. Markets observed Fed transcripts showing a notably shorter statement with hints for future rate cuts removed, and Warsh's outlook in the Fed's "dot plot" was missing.

- **Outlook:** A peace deal may emerge as negotiations continue. Key risks now include the participants' implementation and sticking to peace deal conditions, with flip-flopping Hormuz openness likely to induce market volatility. Meanwhile, market participants continue to monitor the Federal Reserve's policy stance as the United States continues to contend with above-target inflation. Future Fed statements may continue to be shorter, as policymakers try to avoid volatility associated with explicitly laying out future policy paths.

Article Sources: Al Jazeera Staff. (2026, June 21). Vance arrives in Switzerland for US-Iran talks. Al Jazeera. https://www.aljazeera.com/news/2026/6/21/vance-arrives-in-switzerland-for-us-iran-talks
Cox, J. (2026, June 17). Fed holds rates steady, pares down statement to remove cutting bias. CNBC. https://www.cnbc.com/2026/06/17/fed-interest-rate-decision-june-2026.html

FOREX FOCUS

Peso-Dollar Strengthens on U.S.-Iran Ceasefire

The U.S.-Iran 60-day ceasefire MOU signed on Sunday, June 14th drove crude oil prices to below $80/barrel for both WTI and Brent during the June 15-19, 2026 week. The USDPHP appreciated accordingly.

Despite an Iranian drone attack on Monday (15th), the peso-dollar rate fell by a little over a peso by Tuesday to P60.320. However, the Fed's decision to put policy rate on hold led to a strengthening of the U.S. dollar, such that by end of the week the FX rate moved up slightly to P60.775, still a -0.94% w/w appreciation. The market shrugged off BSP's hike in its policy rate by 25 bps to 5.75% and a signal for a further increase(s) in the year. Trading volume peaked on Tuesday ($2.5-B) as market players closed sell positions with a little bit of uncertainty still in the air. Average daily volume jumped by 13.3%% w/w to $1.85-B from $1.63-B previously as end user demand likely took advantage of the 44-day low.

Source: Source: Flores, P. (2023, November 19). A bunch of different currency sitting on top of a wooden table [Photograph]. Unsplash.

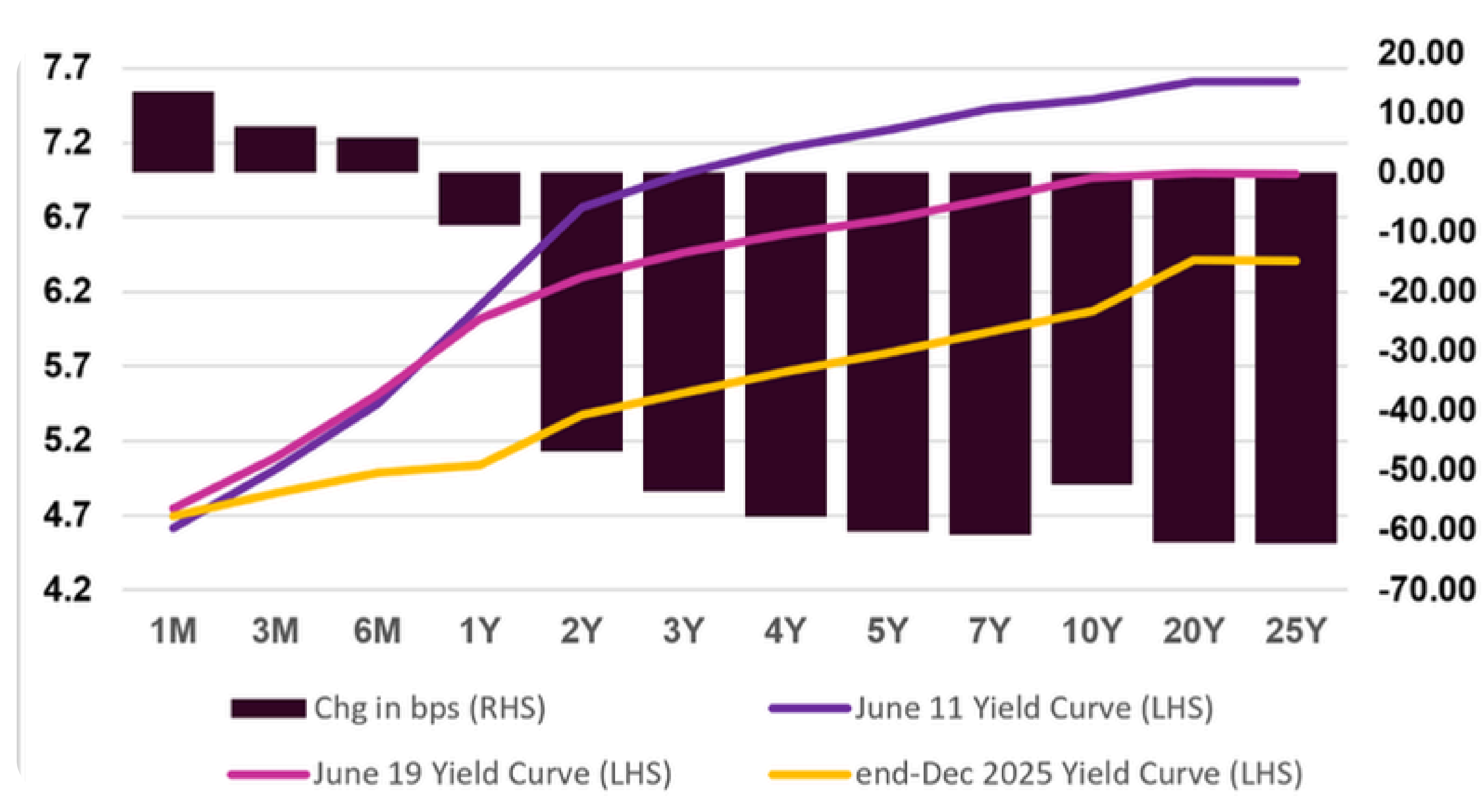
Source: Trading Economics. (2026). US Dollar Philippine Peso. Tradingeconomics.com. https://tradingeconomics.com/united-states/government-bond-yield

Outlook: Movements in the USDPHP rate may continue to be influenced by developments in the Middle East and ongoing peace negotiations. As of writing, Iran reportedly re-closed the Strait of Hormuz while high-level officials continued peace negotiations in Switzerland.

THE BOND BLUEPRINT

Yields Tumble on Middle East Pause

Bond investors, which had priced in BSP policy rate hikes previously, put their idle funds to work in both auctions and secondary markets. Expectations of a rapid deceleration in inflation emerged as main driver.



Source: Bloomberg, Authors' Calculations

GS Auctions

Sensing slower pace in inflation due to falling crude oil prices, investors put their risk-on caps and tendered 3.332x more than the lone 7.2Y (FXTN 10-71) P30.0 bond offer. This led Bureau of Treasury (BTr) to open another P10.0-B in the TAP facility which obtained a higher Tender-Offer-Ratio (TOR) of 4.1454x. With less powder, the TOR for Treasury bills only came to 1.8424x. Surprisingly, yields for 10-71 bonds moderately rose by 13.6 basis points (bps) to 6.779%. Mixed movements occurred in the T-bill auctions, where 364-day bills slid by -14.3 bps to 6.124. 91-day and 182-day T-bills yields saw only minimal changes (+/- 2.0 bps).

GS Secondary Trading

Investors returned to the market with a vengeance, with nearly double the average daily trading volume (+90.3% to P80.2-B) and yields for longer tenors (2Y – 25Y) tumbling by 46.8 to 62.1 bps range. At the short end of the curve, slight yield gains occurred in the 3M and 6M buckets (+7.9 bps and 5.9 bps) to close at 5.0886% and 5.5095%, respectively. The 1Y-10Y tenors grabbed 65.4% market share (+16.7 ppt w/w), at the expense of <1Y buckets which gave up similar amounts. While yields of 20Y and 25Y papers slumped the most by at least 62 bps, the large volume gains in 3Y-5Y space (24.3% share) and in 7Y-10Y (+13.8%) resulted in huge plunges in yields for 7Y (- 60.8 bps to 7.8229%), 5Y (-60.1 bps to 6.6861), and 10Y benchmark (-52.4 bps to 6.9694%).

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

Outlook: With the outsized crash in longer term yields this week and lagged response to the BSP's 25 bps policy rate hike, yields may have an upside tilt moving forward.

THE EQUITY PLAY

Top Five Index Winners & Losers

Stock	Close as of June 8	W/W Change
PLUS	12.5	17.5%
BDO	132.2	13.7%
ALI	14.5	13.5%
BPI	100.2	10.4%
CNPF	29.4	9.7%
PGOLD	42.0	-8.5%
ACEN	3.0	-6.8%
GTCAP	450.0	-5.7%
DMC	8.1	-5.1%
SCC	25.3	-3.8%

Source: LSEG. (2026). LSEG Workspace [Database]. Retrieved June 23, 2026 from "Workspace Add-in for Excel"

Peace Deal Spurs Risk-on PSEi

The PSEi broke past the 6,000 threshold, jumping +3.81% w/w (prev. -0.48%) to 6,135.35 as a Middle East peace deal announcement improved risk sentiment. The market gapped up on Monday, surging some 400 points on open with the U.S-Iran peace deal making headlines over the past weekend. However, gains tapered off thereafter as the market corrected following a BSP hike and a Fed hold, signaling tighter monetary conditions for longer. The Friday FTSE rebalancing also invited a mega selloff on the last trading day of the week as portfolios reallocated among counters.

Trading volumes jumped by +38.0% w/w to P51.15-B as investors rebuilt risk-on bets. Foreigners likewise rebuilt positions, with net foreign buying bloating by +458.1% w/w to P1.6-B. All sectors emerged in the green on broadly improved sentiment. Financials led the charge, gaining +8.84% w/w from previous weeks' selloffs, followed by Property counters (+4.41% w/w), likely helped by a tempered 25 bps hike (against some expectations of +50 bps).

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 constructively, though with some volatility this week as investors may sift through Middle East noise and may pick up from Friday's kneejerk rebalancing selloff. Technical indicators may indicate improving market conditions if risk sentiment normalizes alongside global headlines, though some immediate psychological relief could come in with this week's fuel price cuts.

OUR OUTLOOK

1. **Market sentiment may remain cautious amid prevailing uncertainties.**
2. **De-risking activity may continue in equities and bonds**
3. **Market participants continue to monitor the possibility of additional BSP rate hikes.**
4. **Investors may adopt a more defensive positioning.**

This product feature is separate from and not influenced by the market commentary shown.

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