Economic Watch

eastwest

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THE LOCAL READ

Inflation and GDP Data Point to Cooling Economy

Source: Gellidon, J. (2024, June 28). A view of a city from a high rise building. Unsplash; Unsplash. https://unsplash.com/photos/a-view-of-a-city-from-a-high-rise-building-L4V3GBq1x0Q

Major economic indicator releases last week shot below analysts' expectations. July inflation cooled to +6.2% y/y (median estimate: 6.4%) while Q2-2026 GDP softened to just +2.3% y/y (median estimate: 2.8%).

Headline inflation moderated as transport inflation slowed to +11.9% y/y and food inflation stabilized at +5.2% y/y. Despite higher crude prices amid renewed U.S.-Iran tensions, transport operators did not fully pass through the increase in costs. Core inflation also eased to +4.2% y/y (previous: +4.4%), although the year-to-date average of +5.0% remained above the Bangko Sentral ng Pilipinas' (BSP) 2-4% target band. Upside risks persist from elevated rice prices (+17.1%), multi-year-high electricity rates (+17.0%), a weaker peso, and pending wage and fare hike petitions.

Meanwhile, Q2-2026 GDP growth slowed to +2.3% y/y, the slowest since the Q1-2021 contraction during the COVID-19 pandemic. The oil shock undermined consumer (+2.8% y/y, prev. 5.2% y/y) and investment spending (-9.2% y/y, prev. -3.1% y/y), while government infrastructure underspending from the flood control scandal similarly dented the country's growth performance, but was made up for by energy-related subsidy spending (+8.3% y/y, prev. +4.8% y/y). A steep decline in Public Construction (-32.4% y/y) caused Industry to contract by -2.4% y/y. On a seasonally adjusted q/q basis, GDP grew by +0.6% (prev. +0.9%).

Outlook: Headline inflation could remain within the 5%–7% range in the coming months, with second-round effects, wage adjustments, and weather impacts posing risks to the inflation outlook. To hit the lower bound of the government's revised 3.5%–4.5% full-year target, the domestic economy must expand by 4.4% in the second half of 2026. However, severe weather, domestic political volatility, and Middle East conflict threaten this growth trajectory by delaying infrastructure spending, elevating food prices, dampening market confidence, and driving persistent geopolitical price shocks.

Article Sources: Chan, K. (2026, August 5). July inflation cools to 4-month low. BusinessWorld Online. https://bworldonline.com/top-stories/2026/08/06/768378/july-inflation-cools-to-4-month-low/
Tabile, J. I. (2026, August 7). Philippine Q2 growth slumps to new post-pandemic low amid oil shock. BusinessWorld Online. https://bworldonline.com/top-stories/2026/08/07/768829/philippine-q2-growth-slumps-to-new-post-pandemic-low-amid-oil-shock/

GLOBAL LENS

U.S.-Iran Negotiations Ongoing; Crude Down to $78/bbl; U.S. Jobs Disappoint

Image Source: J.f Manzanero. (2025, June 4). An oil rig being serviced by a supply ship. Unsplash; Unsplash. https://unsplash.com/photos/an-oil-rig-being-serviced-by-a-supply-ship-3J2FB7BItdA

- The U.S. and Iran continued exchanging messages through neighboring intermediaries last week, even as Iran-aligned Houthis claimed an attack at a Saudi Aramco facility. The IRGC provided a list of demands to the U.S. for opening the Strait of Hormuz. WTI crude settled down to $78.18/barrel accordingly, as traders positioned around warmer diplomatic overtures.

- Meanwhile, U.S. labor data surprised many, with nonfarm payrolls unexpectedly shedding 23,000 workers. Downward revisions were also done for previous June and July releases, with less government workers contributing to the decline. This new labor report materially altered market expectations for the Fed's September meeting, with CME FedWatch now pricing in a 55.6% probability of a rate hold. U.S stock markets rose accordingly.

- **Outlook:** Global markets are likely to remain sensitive to U.S.-Iran negotiation developments, especially with much shorter forward guidance from the Fed. Rate expectations could shift as new data become available.

Article Sources: Habib, H., & Aras, U. (2026, August 9). Iran war live: Tehran seeks 'to create grounds' for talks with US. Al Jazeera. https://www.aljazeera.com/news/liveblog/2026/8/9/iran-war-live-tehran-demands-end-to-us-blockade-to-reopen-strait-of-hormuz
Cox, J. (2026, August 7). Here are three key takeaways from the disappointing july jobs report. CNBC. https://www.cnbc.com/2026/08/07/here-are-three-key-takeaways-from-the-disappointing-july-jobs-report.html

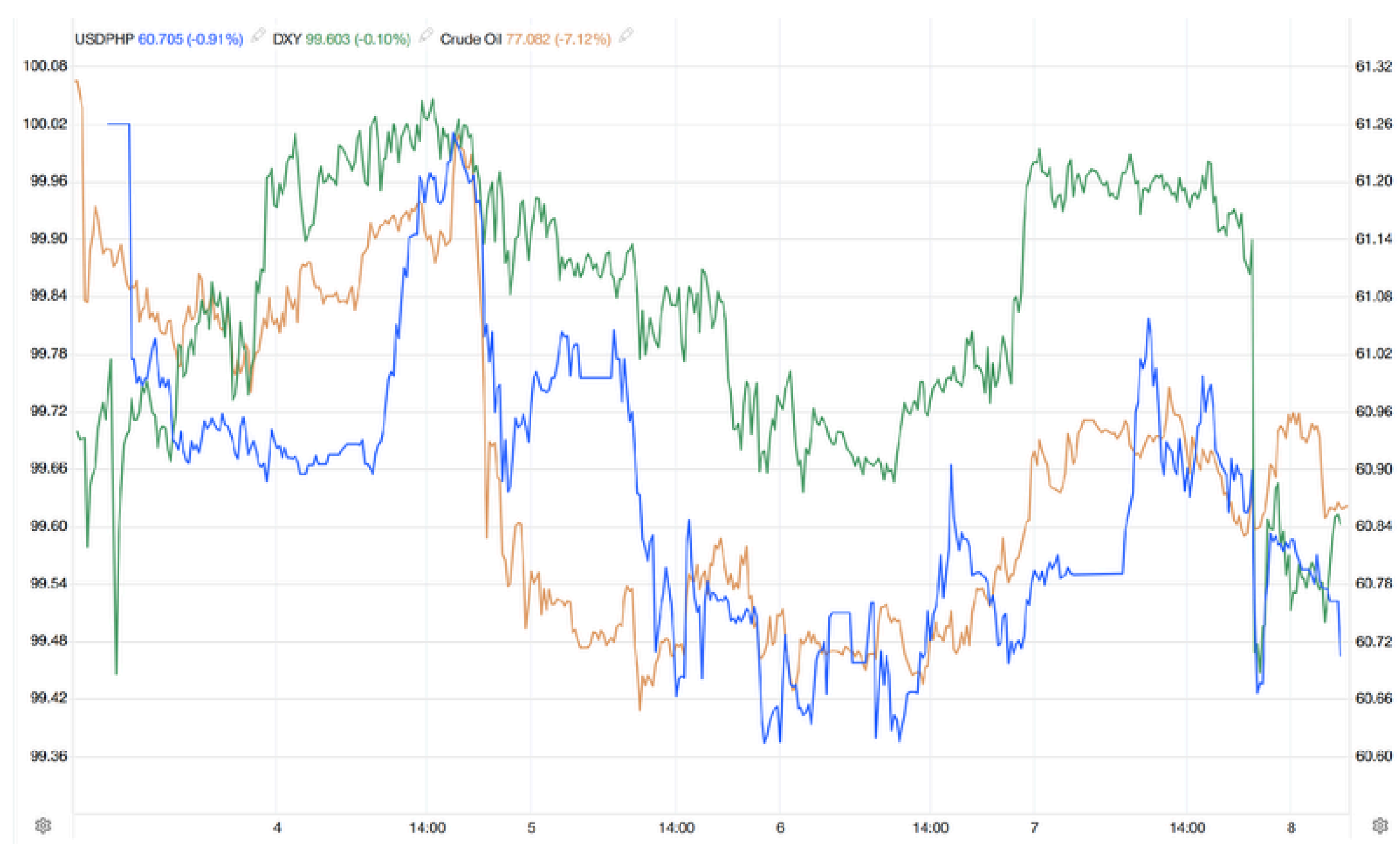
FOREX FOCUS

Lower Inflation and Tamer Oil Prices Strengthen Peso-Dollar Rate

Image Source: Synkevych, R. (2021, January 12). 10 and 20 us dollar bill. Unsplash; Unsplash. https://unsplash.com/photos/10-and-20-us-dollar-bill-ZQhkkCaVKFM

Falling USDPHP appreciated broadly along with U.S. dollar weakness (-0.38%), but magnified by lower crude oil prices (WTI, see Global)

The peso-dollar rate slid by -0.56% to end at P60.90/$ with slightly more variation than during previous week. However, it did not sustain the downward trend as firm/trader demand rebounded mid-week when it hit a low of P60.751/$, with volumes exceeding $1.5-B. Average daily trading volume rose by 9.2% to $1.46-B. The closing range mildly narrowed to P0.41 from P0.43.



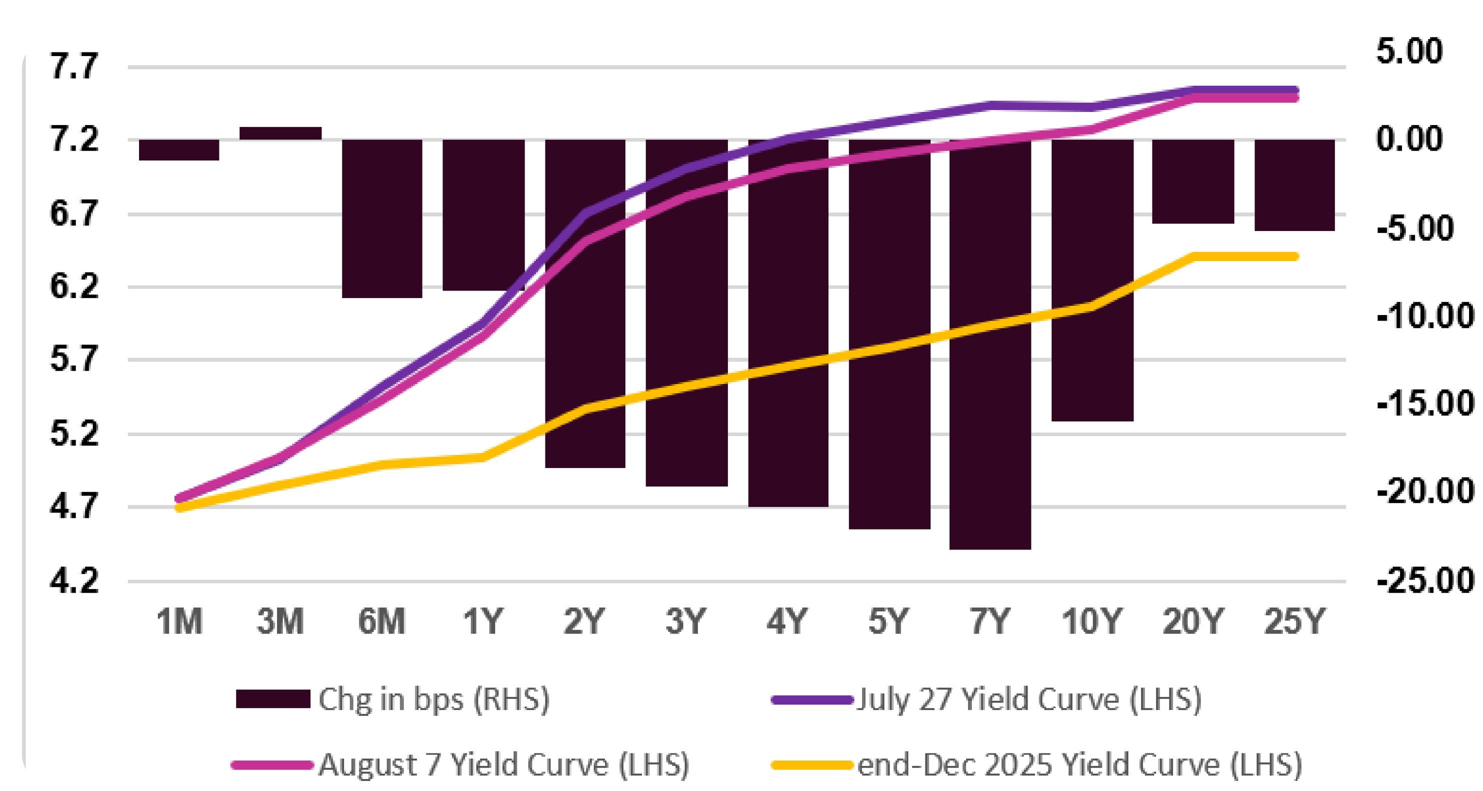
Source: Trading Economics. (2026). US Dollar Philippine Peso. Tradingeconomics.com. https://tradingeconomics.com/united-states/government-bond-yield

Outlook: USDPHP could trade sideways following lower-than-expected July inflation (6.2% YoY) and the narrower June trade deficit ($4.9-B from $6.1-B in May). July's GIR decline of -$1.37-B, reported Friday 7th, may offset a softer U.S. dollar.

THE BOND BLUEPRINT

Yields Settle on Softer Crude Prices

Investors returned to the bond market at near 7-week highs in volume for both auctions and secondary market.



Source: Bloomberg, Authors' Calculations

GS Auctions

Tender-offer-ratio (TOR) in auctions improved to 3.075x from 2.885x previously. The 5Y (FXTN 20-17) initial offering Of P30.0-B had a 3.127x TOR which prompted the Bureau of Treasury to offer (and accept) P10.0-B more under the TAP facility. Investors demanded 27.0 basis points (bps) more than its previous re-issuance with yield of 7.139%. The Treasury bills (T-bill) auctions saw yields a tad lower by -1.9 bps (to 5.652% for 182-day bills) to -3.8 bps (to 5.912% for 364-day T-bills. 91-day papers dipped by -2.2 bps.

GS Secondary Trading

Trading volume surged by 38.5% to P291.8-B, a 7-week high, as crude oil prices (WTi) eased further to below $80/bbl and U.S. GDP growth slowed in Q2. The 3Y-5Y buckets gained 11.4% points to 46.7% market share, basically at expense of <3Y tenors which gave up 11.0% share. Yields fell across board, except for 3M. Double-digit declines of -16.0 bps (10Y) to -23.3 bps (7Y) occurred in the belly. Both ends of the curve saw single digit falls from -4.8 (20Y) to –9.0 bps (6M). 10Y benchmark ended at 7.2703% while 5Y at 7.105%.

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

Outlook: U.S. economic data released Friday 7th in the previous week will likely impact the local bond market this week. Job losses in July and downward revisions for May and June caused its 10Y yield to tumble by some 7 bps Friday. Relatively steady FX rate and apparent easing of inflation should also support a modest downward bias at the long end of the curve.

THE EQUITY PLAY

Top Five Index Winners & Losers

Stock	Close as of August 9	W/W Change
ACEN	3.1	4.8%
URC	61.9	4.7%
CNPF	32.6	4.0%
AEV	36.9	3.9%
ICT	1,000.0	3.8%
SMC	63.8	-4.8%
GLO	1,725.0	-4.7%
ALI	16.3	-3.8%
AC	494.0	-3.4%
SCC	20.0	-2.2%

Source: LSEG. (2026). LSEG Workspace [Database]. Retrieved August 9, 2026 from "Workspace Add-in for Excel"

PSEi Closes Higher on Event-Driven Week

The PSEi rose by +0.86% w/w to end at 6,290.35, recouping some losses from the previous period. The index reached a weekly high of 6,334.72 on Monday, August 3, but faced volatility throughout the week, dipping to a low of 6,277.95 on Thursday before recovering slightly to close the week constructively. The market traded around major economic data releases, keeping cautious before the Q2-2026 GDP release.

Market turnover fell by -18.15% w/w to P29.51-B, as investors remained cautious. Foreign investors were net sellers for three out of five trading days, resulting in a net P910.90-M weekly selling posture, a reversal from the net buying posture of P881.52-M seen the previous week.

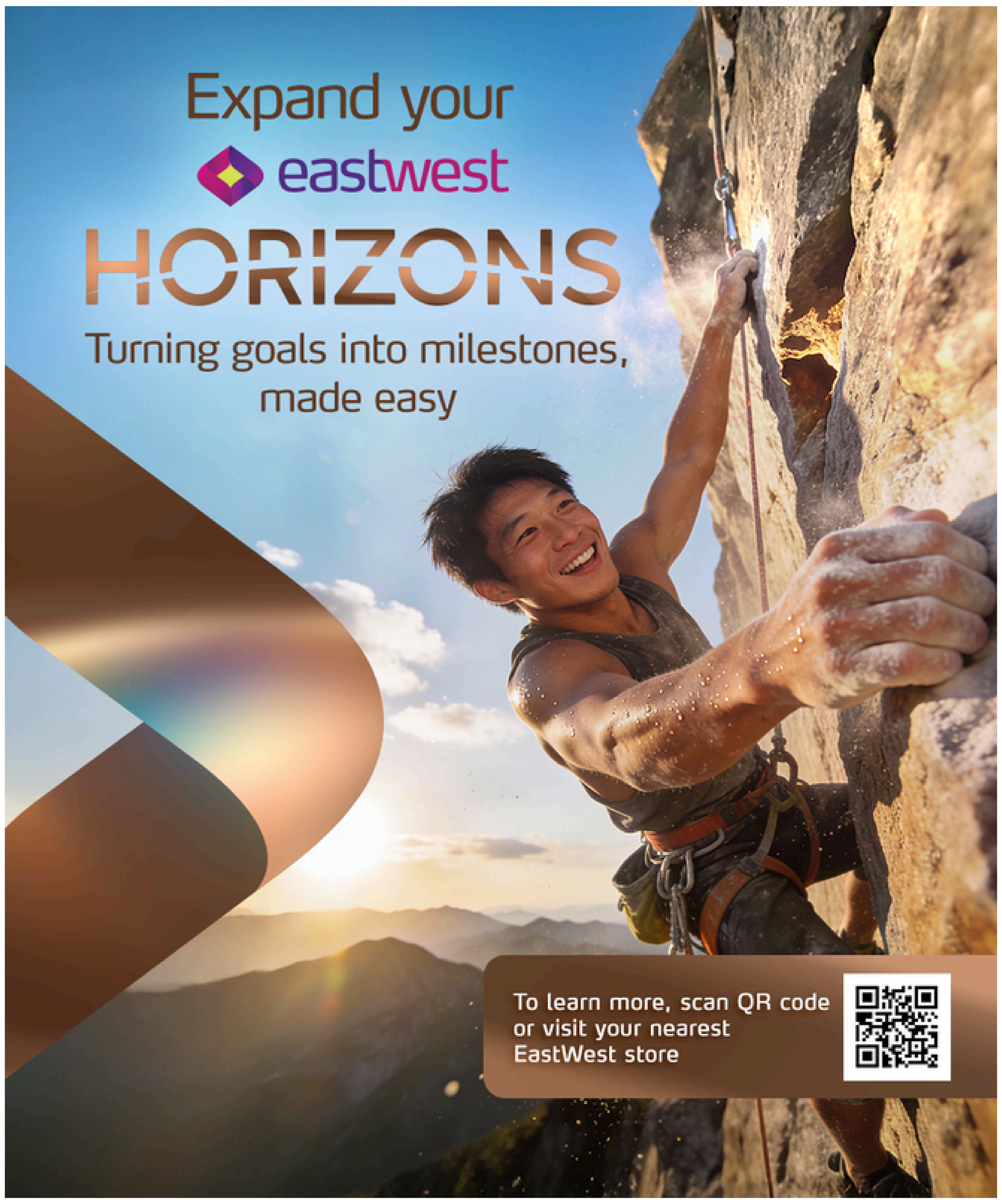
Among sectors, Mining & Oil led the rally with a significant +8.55% w/w gain on strong earnings calls, followed by the Services sector, which rose by +2.80% w/w. On the other hand, the Property and Financials sectors trailed, falling by -1.01% and -0.78% respectively. Market breadth remained slightly negative with 103 gainers to 110 losers and 28 unchanged.

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

Outlook: PSEi may continue its rangebound movements as local and foreign investors digest last week's indicator releases. Counters with resilient Q2 corporate earnings and attractive dividend yields may continue supporting buying activity in the absence of further shocks.

OUR OUTLOOK

1. Weaker market as it reflects the lower GDP
2. Bonds and equities could trade sideways
3. Trading activity may favor defensive stocks
4. Bond market activity could favor shorter-duration securities



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