Economic Watch

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THE LOCAL READ

July Unemployment Hits 6.0%; H1 BOP Deficit Narrows

Source: Waranont (Joe). (2019, January 16). High angle photo of buildings [Photograph]. Unsplash. https://unsplash.com/

Labor indicators and monetary data indicate resilient economic performance in the first seven months of the year.

The country's Balance of Payments deficit for the first half of 2026 slimmed to $3.9-B (prev. $5.6-B), as a larger financial account offset an energy crisis-driven trade deficit. Stronger net inflows in other investments and equity, intercompany loan payments supported financial account flows. On the other hand, the current account deficit bloated to $15.4-B (prev. $10.2-B) as the U.S.-Iran war increased costs for energy imports and capital equipment. More positively, end-August Gross International Reserves picked up to $104.8-B, covering 6.8x months' worth of imports as the BSP's gold holdings and foreign investments raised reserve levels. Bank lending growth in July similarly accelerated to +10.4% y/y (prev. +9.8%) for industrial activity, but slowed for consumer credit (+17.1% y/y).

Meanwhile, large seasonal entrants and graduates (1.3-M) into the labor force along with monsoon rains drove the unemployment rate to a four-year high of 6.0% in July 2026, shedding 1.4-M jobs monthly. The Philippine Statistics Authority attributed the increase largely to a seasonal influx of 1.3-M young entrants and fresh graduates. Underemployment eased to 12.9%, indicating improved job quality year-over-year, although lower-productivity sectors such as agriculture and food services absorbed most new workers. Meanwhile, higher-value industries such as manufacturing shed 134,000 jobs. Economists noted that while elevated unemployment may strain household finances, a softer labor market could moderate future wage hike petitions and help contain medium-term inflation.

Outlook: The latest labor market indicators point to softer, but not necessarily weaker job performance. These were largely due to seasonal movements due to the weather and entrants from new graduates. That said, a softer labor market could influence consumption and wage-driven inflation, which may factor into future policy considerations, especially with the recently reinstated NCR minimum wage order.

Article Sources: Bangko Sentral ng Pilipinas. (2026). BOP deficit narrows in H1 2026 amid stronger financial account inflows. Bsp.Gov.Ph. https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=8068&MType=MediaReleases
Sinaking, E. M. (2026, September 8). Philippine jobless rate rises to 6%, highest in four years. BusinessWorld Online. https://bworldonline.com/top-stories/2026/09/09/775424/philippine-jobless-rate-rises-to-6-highest-in-four-years/

GLOBAL LENS

U.S.-Iran Tensions Sizzle, Oil Back to $100/barrel; U.S. Inflation Hotter than Expected

Image Source: Harb, C. (2024, September 19). A factory with a lot of red and white pipes [Photograph]. Unsplash. https://unsplash.com/

Negotiation overtures appeared to die down, with more military strikes and Hormuz flashpoints. The IRGC and the U.S. military traded strikes against commercial tankers in the Persian Gulf, stoking supply concerns. Compounding the issue, Iranian-backed drone attacks from Iraq temporarily shut down Saudi Arabia's critical 1,200km East-West oil pipeline, sending WTI crude just above $100/bbl by Friday.

Meanwhile, global financial markets are now pricing in a higher chance of a Fed rate hike, with U.S. core inflation on the higher end of estimates. While CPI rose within consensus at +0.4% m/m, core CPI logged a faster-than-anticipated +0.3% m/m gain, moving traders towards rate hike bets. CME FedWatch tool shows implied rate hike probabilities by 86.2%, materially higher than the roughly 69% logged before the CPI release.

Outlook: Markets are now trading with two key events on their radar: resurgent crude oil prices and a hawkish Fed environment. In the absence of definitive forward-looking policy statements under Fed Chair Warsh's approach, markets may remain sensitive to incoming economic data, while the recent rise in crude oil prices could add to inflation concerns.

Cox, J. (2026, September 11). Inflation persisted in august, potentially locking in a fed interest rate hike. CNBC. https://www.cnbc.com/2026/09/11/cpi-inflation-report-august-2026.html
Khalili-Tari, D., & Jamal, U. (2026, September 13). Iran war live: Heavy fighting erupts in Yemen as Houthis make new push. Al Jazeera. https://www.aljazeera.com/news/liveblog/2026/9/13/iran-war-live-saudi-arabia-and-houthis-trade-strikes-over-bab-al-mandeb

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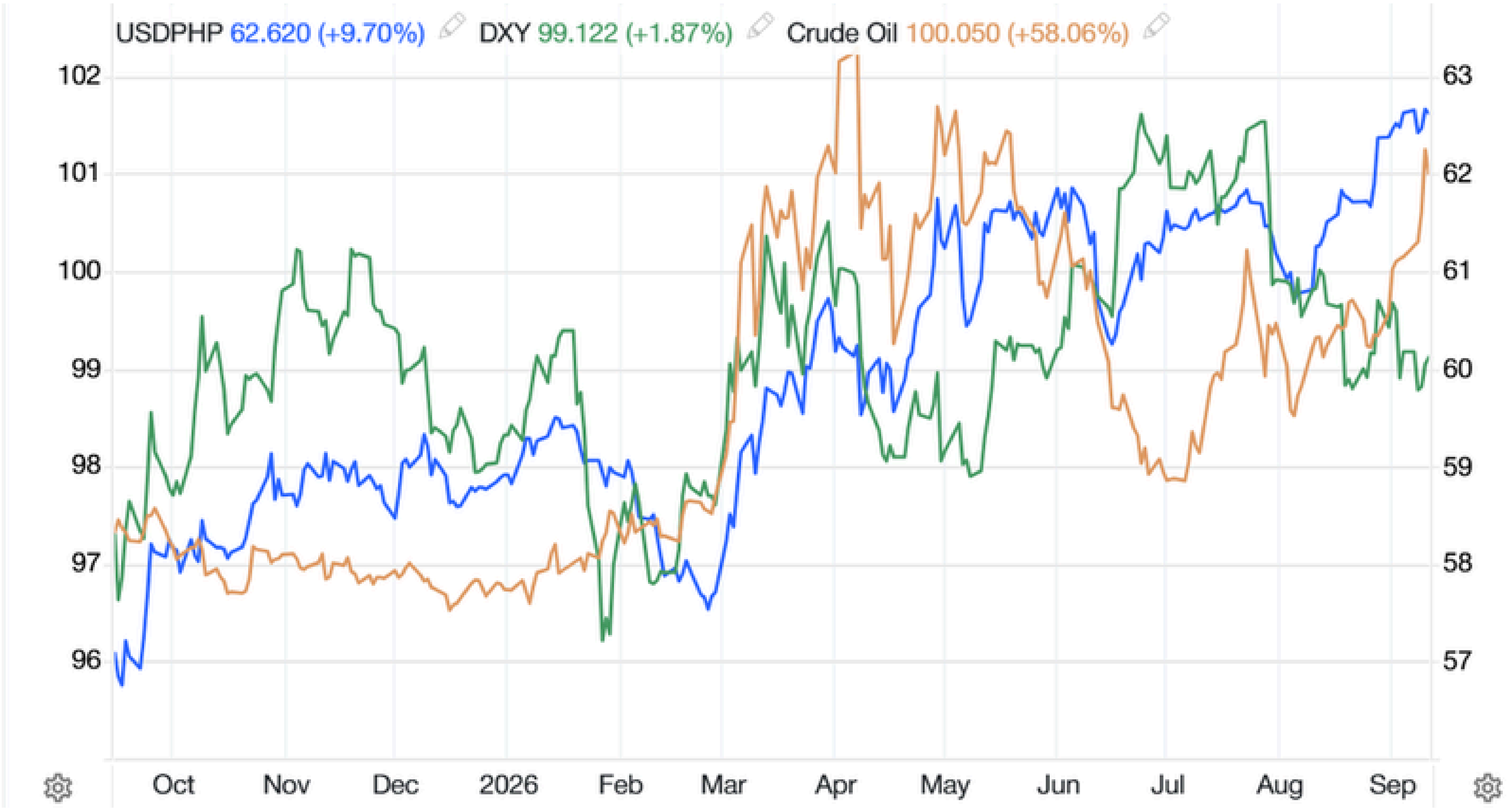
FOREX FOCUS

Peso-Dollar Rate Keeps Elevated

USDPHP remained in an elevated trading range more influenced by the sharp surge in crude oil prices with WTI closing above $100/bbl last seen May 20, 2026.

Uncertain about the direction of the peso-dollar rate amid surging crude oil prices, average daily trading eased by -15.2% to $1.32-B from $1.55-B previously. Based on hourly date (in standard deviation), USDPHP traded in a narrower range to P0.096 from P0.245 a week ago. The peso-dollar rate rose by +0.14% to close at 62.68/$, highest recorded close. Fortunately, the upswing got tempered by the U.S. dollar trending downward until Thursday (U.S. time).

Source:Jonsson, F. G. (2022, April 16). A roll of one hundred dollars sitting on top of a wooden table [Photograph]. Unsplash. https://unsplash.com/



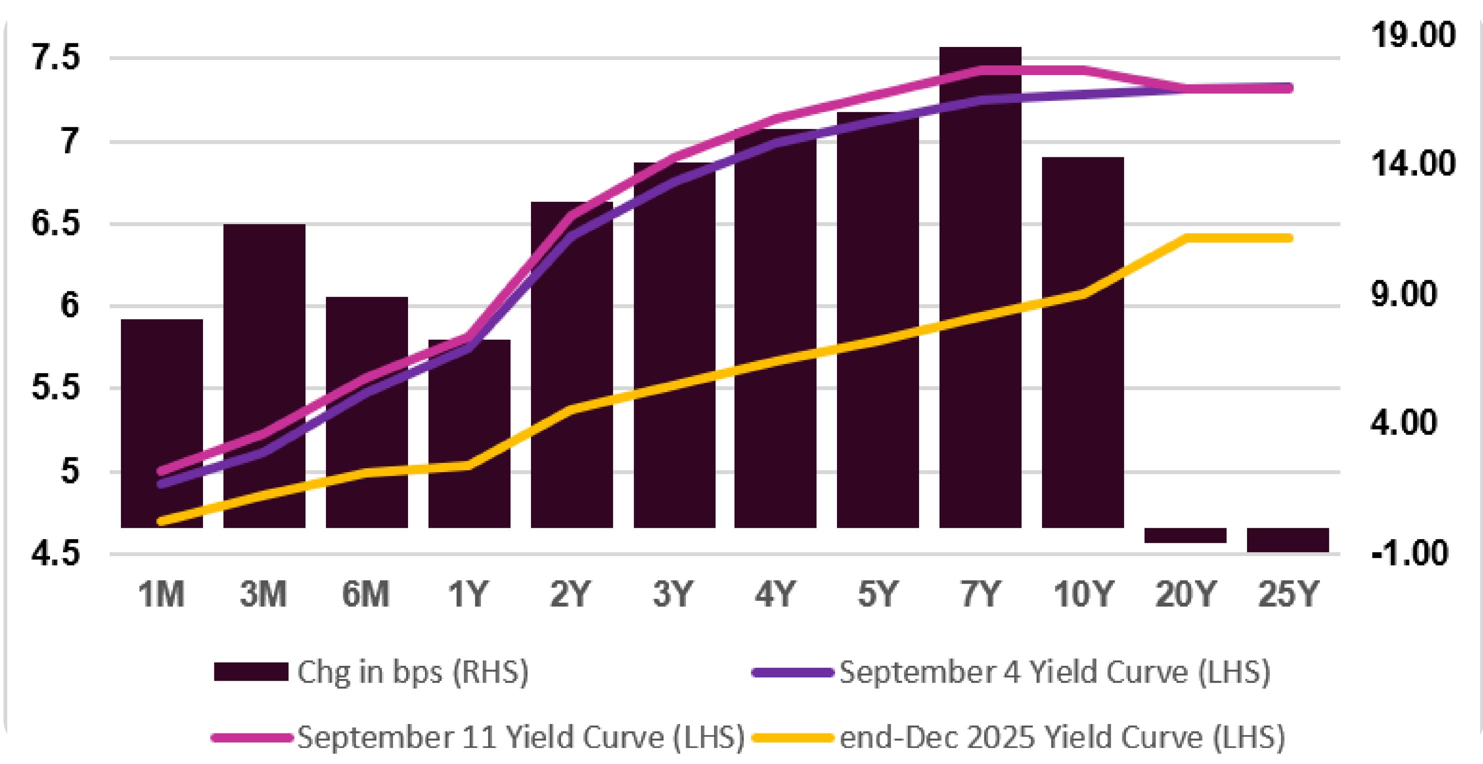
Source: Trading Economics. (2026). US Dollar Philippine Peso. Tradingeconomics.com. https://tradingeconomics.com/philippines/currency

Outlook: Crude oil price movements may remain a key factor influencing USDPHP. Over the weekend, WTI fell by about 4% to below $97/barrel, which could also influence near-term currency movements.

THE BOND BLUEPRINT

Investors Pull Back from Bond Market on U.S. Yield Surge

Investors veered further away from local bond markets, in both auctions and secondary market, as 10Y U.S. bond yields continued to climb to the highest level since October 2023. The surge in crude oil prices had less direct effect on the market, although these worked through U.S. Treasuries.



Source: Bloomberg, Authors' Calculations

GS Auctions

Despite cutting its offering by P10.0 billion to P75.0 billion, the BTr's tender-to-offer ratio fell to 1.179x from 1.3184x. It awarded only 86% of the P45.0 billion in T-bills and 69.0% of the P30.0-billion 6.9-year FXTN 10-71 as investors sought higher yields. Auction yields rose, led by FXTN 10-71's 17.0-basis-point increase to 7.352%; the 91-day and 182-day T-bill yields climbed 7.6 and 10.5 basis points to 5.214% and 5.622%, respectively.

GS Secondary Trading

Yields rose across most tenors, led by the 7-year yield, up 16.0 basis points to 7.2865%, and the 10-year benchmark, up 14.3 basis points to 7.313%; only the 20- and 25-year yields declined slightly. Trading volume fell 19.2% to P127.4 billion, the lowest since May 15, 2026, with sub-five-year maturities accounting for 90.7%. The 3- to 6-month segment led with 47.6%, followed by the 3- to 5-year segment at 33.2%.

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

Outlook: With U.S. bond market players expecting a Fed policy rate hike at its September 16 meeting amid inflation above its 2% target, local bond yields may remain sensitive to expectations surrounding the Fed's policy decision and movements in U.S. inflation and interest rates.

THE EQUITY PLAY

Top Five Index Winners & Losers

Stock	Close as of September 11	W/W Change
ICT	985.0	5.4%
CNPF	33.7	4.7%
MER	480.0	3.9%
DMC	8.1	2.0%
MONDE	6.9	0.9%
PLUS	8.8	-9.5%
GTCAP	448.8	-9.1%
JGS	19.2	-7.0%
SMPH	17.1	-6.7%
SM	535.0	-4.8%

Source: LSEG. (2026). LSEG Workspace [Database]. Retrieved September 11, 2026 from "Workspace Add-in for Excel"

PSEi Retreats in Risk-off Environment

The PSEi slipped by -0.47% w/w (down -28.79 points) to end at 6,061.81, continuing from the previous week's slide. The index saw modest strength mid-week, peaking at a high close of 6,116.53 on Wednesday, September 9, before encountering selling pressure that pushed it to its weekly low close of 6,061.81 on Friday, September 11. Offshore funds turned risk-off amid a depreciating peso and faster U.S. monthly CPI inflation, cementing Fed rate hike expectations.

Market turnover surged by +114.41% w/w to P54.16-B, up substantially from P25.26-B in the prior week, driven by a huge spike in trading volume on Friday, September 11, which logged P32.70-B in value traded. Foreign investors were net buyers for three out of five trading days (Tuesday through Thursday). However, heavy foreign outflows on Monday and Friday resulted in an overall net P760.29-M weekly selling posture (prev. P1.10-B net selling). Foreign participation accounted for 75% of the total market transactions.

Sectoral performance was split. Services led the advancers with a +3.90% w/w jump to close at 3,388.25. Mining & Oil extended its upward momentum, rising +2.03% w/w to 21,493.49. Meanwhile, Holding Firms trailed the rest of the market, dropping -3.93% w/w. Market breadth turned negative, ending the week with 73 gainers to 144 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: The local bourse may remain sensitive to peso-dollar rate movements and the Fed's upcoming policy decision. On the other hand, market valuation remain at 10.7x P/E, still lower than the usual 12.0x P/E associated with the pre-crisis PSEi. Local bargain hunters and long-term investors may cushion any downside movements.

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OUR OUTLOOK

1 **Interest Rates:** U.S. 10Y yields near 5% remain a key factor for local rates and equities.

2 **Financial Conditions:** Higher global interest rates could influence mortgage, corporate, and government borrowing costs.

3 **Philippine Equities:** Elevated interest rates and market valuations remain key considerations for rate-sensitive sectors.

4 **Crude Oil:** Price movements remain in focus amid continued U.S.-Iran tensions.

5 **Market Positioning:** Investors may remain sensitive to global interest rates, oil prices, and geopolitical developments.

- The Philippines' Best for Discretionary Portfolio Management — Euromoney Private Banking Awards 2025-2026
- Outstanding Client Experience in Wealth Management — Global Private Banking Innovation Awards 2025-2026
- Best Private Bank — FinanceAsia Awards 2026
- Best Priority Banking Experience — International Finance Magazine Awards 2023-2026
- Best Private Bank — Global Finance 2024-2025

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