

The PSEi's dramatic one-day, 3.48% recovery last Friday was the strongest one-day move since January 25, 2016. This was due to strength in emerging markets, especially China, as well as strong OFW remittance growth of 5.2%.

Unfortunately, the recovery of the PSEi come undone as China refuses to negotiate with the US. With China making this announcement Saturday, this means that tariffs on \$200 billion of Chinese imports to the US and \$60 billion of US imports to China took effect yesterday. This marks a significant escalation of the trade war.

We note that despite the dollar breakdown against major currencies, the peso is still stubbornly weak. Closing at \$54.23/\$ yesterday, it remains above the crucial threshold. Thus, the Monetary Board meeting on Thursday is crucial as the BSP needs to communicate that it can control inflation without hapering growth. That said, we recognize the limited effect of rate hikes since inflation is driven largely by supplyside factors.



## TRADING STRATEGY



As the peso weakens further, China's refusal to negotiate on trade may rattle markets once again. Though we nibbled a little bit last week, we will now sit tight as we monitor developments surrounding the US-China trade war.



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