



**Philequity Corner (November 11, 2019)**  
**By Wilson Sy**

### **7 is significant**

In a previous article, we cited the reasons why the Philippine peso is appreciating, one of which is the increasing likelihood of a “Phase-One” US-China trade deal (see *Technical point to a stable and stronger peso*, Oct. 28, 2019). One crucial factor that many do not take into account is the movement of the Chinese yuan.

A significant development that happened last week was the Chinese yuan’s break below CNY7/USD1 which is both technical and psychological support. A sustained break below this level will further strengthen the Philippine peso and other Asian EM currencies.

### **Chinese yuan rallies on trade optimism**

Chinese Commerce Ministry spokesman Gao Feng said Thursday that the two countries had “serious and constructive” talks the past two weeks and agreed to remove the additional tariffs in phases. White House economic adviser Larry Kudlow confirmed the advance in negotiations and said that tariff concessions would be part of the agreement when the Phase-One deal is approved.

The Chinese yuan appreciated as much as 0.67% last week to close at 6.99 on Friday. This level is the strongest the yuan has traded in 14 weeks.

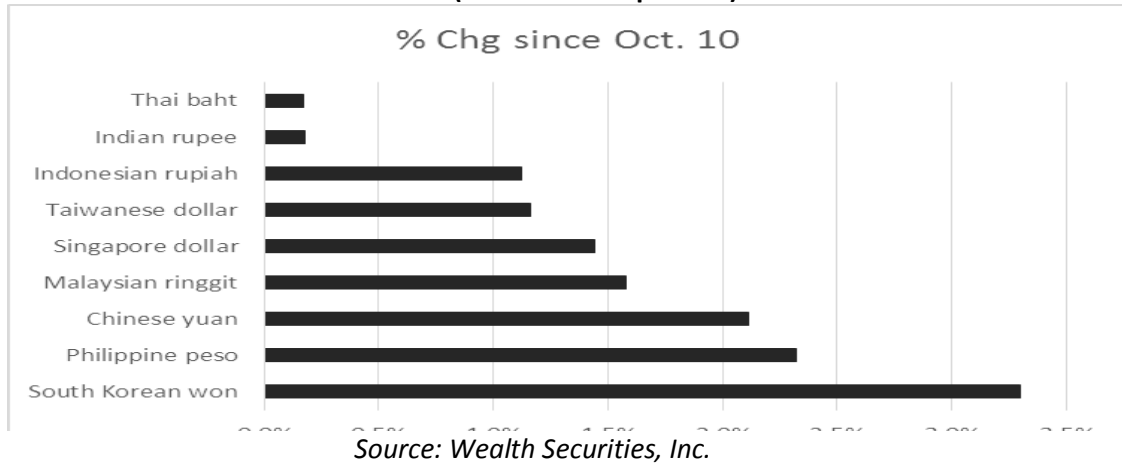


Source: Tradingview.com, Wealth Securities Research

### **Asian EM currencies continue to strengthen**

Asian EM currencies have rallied sharply following the announcement of a possible Phase-One deal last October 10. The South Korean won appreciated the most, gaining 3.3%, followed by the Philippine peso and the Chinese yuan, which gained 2.3% and 2.1%, respectively.

### Performance of Asian EM currencies (October 10 to present)



### Dollar Index pulls back from Oct. 1 high

Meanwhile, the dollar index has pulled back from its Oct. 1 high of 99.67 and is now consolidating. Optimism that the US and China will soon end the trade war reduced the safe-haven demand for the US dollar. The dollar index has also weakened since the Fed lowered interest rates for the third time last month, but it has now indicated that a pause is ahead.

### US Dollar Index



### Peso's secret weapon

A recent article from Bloomberg noted that "bumper real yields" is the secret weapon that has made the Philippine peso strong. "The slowing inflation rate has pushed up the real yield on the nation's 10-year bonds to 3.77%, from a low of 0.33% in November 2018," according to the article. It also mentioned the narrowing trade deficit and the coming peak remittance month of December as the other two major factors supporting the peso.

With things looking positive, both externally and domestically, the Philippine peso continues to strengthen and has reached our target of 50.50 vs. the US dollar. If the Chinese yuan sustains its strength below 7.00 and the peso appreciates below 50.50, then the next target for the peso would be the 50.00 support level.

*Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit [www.philequity.net](http://www.philequity.net) to learn more about Philequity's managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 689-8080 or email [ask@philequity.net](mailto:ask@philequity.net).*