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After 5 straight weeks of gains, the PSEi may finally be at the end of its winning streak. With Turkey refusing to release an American pastor who is accused of supporting the 2016 coup against Turkish President Recep Erdogan, Trump has decided to increase economic pressure on Turkey. This sent the Turkish lira to an all-time low. In the past 3 days alone, the lira has depreciated 30% against the US dollar, with half the loss on Friday alone.

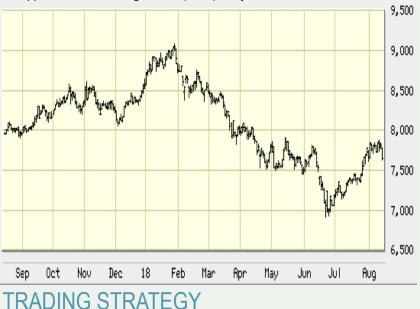
The sharp fall in the lira comes on the back of new tariffs on top of other economic sanctions. In a tweet, Trump said he authorized increasing steel and aluminum tariffs to 20% and 50% respectively.

Unfortunately, fears of a full-blown financial crisis in Turkey have led to a sell-off in stocks worldwide. However, this de-risking is not isolated to emerging markets. Developed markets are also feeling the heat as many banks in the Europe and the US hold Turkish assets in varying degrees. In fact, the European Central Bank already expressed concern over the impact of the weak Turkish lira on its banking system.

If it were not for Turkey, China's imposition of tariffs on \$16 billion of US goods starting August 23 would have grabbed the headlines. This is an ongoing concern that we continue to monitor as both countries continue to escalate trade tensions.

These global events have overshadowed the BSP's 50 bps rate hike. This was not only timely but also crucial because inflation spiked to 5.7% in July. If it were not for this rate hike, the Philippine peso and stock market might have fallen significantly. Note that the euro has broken below 1.15 while the DXY has broken out. However, with GDP growth at 6%, the BSP now has to maintain a delicate balance of taming inflation without dampening growth.

Philippine Stock Exchange Index (PSEi) - 1 year chart





With Turkey now in the midst of a financial crisis, markets have once again become jittery. While we welcome the BSP rate hike, weak growth, trade tensions and Turkey's financial crisis prompt us to pause in our buying.



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