The best that can be said for the KRW right now is that it is a consistent performer: thus far this year Asia’s worst performing currency has lost around 4% to the USD to add to the near 4% it lost in 2018. But the fact that just under half of this year’s losses materialised last week speaks of a growing crisis of confidence in the currency.

That China’s economic troubles provided the initial spark for the KRW’s current downtrend should not be that surprising given South Korea’s close, direct and indirect, economic ties to the country (China absorbs 27% of its exports, more than double the US). Indeed, five of the top 10 daily moves in the KRW this year have been instigated by China-related news.

And having been confined to a 3% range for eight months, on February 28 the KRW suffered a wobble from which it has yet to recover thanks to a particular weak batch of PMI data across the border).

In view of its return to impressive levels of stimulus, China could yet ride to the rescue, but the KRW’s recent performance hints at damage that a swift elimination of global trade risks may be unable to remedy.
In early March, the 91% daily correlation between USD/CNH and USD/KRW that had held since the start of the year gave way to a marked divergence: indeed, while both currencies have ceded ground to the USD in the interim, the KRW’s losses have exceeded the CNH’s by a factor of 6 to 1, and news flow last week seemingly constituted something of a straw for the camel’s back.

The malaise behind the KRW’s 2.5% losses these past ten days began on April 18 when US/China trade uncertainty got the better of the Kospi to the tune of 1.4% (following a near twelve day winning streak.) On Wednesday the index fell by a further 0.9% as tech stocks endured a rout; and then on Thursday, the worst GDP report since the GFC constituted the coup de gras, sending the KRW to lows not seen in over two years.

The data revealed a 2.6% q/q decline in exports, a 10.8% slide in capex and inevitably raised serious questions of the BOK’s policy stance: at the turn of the month, Governor Lee Ju-yeol told reporters that “the situation doesn’t warrant reviewing an easing in policy interest rates now”. But with last week’s Japanese industrial production only compounding fears for growth in the region, the market would be forgiven for having its doubts.

The second half of the year will be better than the first maintains Finance Minister Hong Nam-ki. Certainly, the GDP data came a day after the government launched a KRW 6.7 trn supplementary budget to boost weak exports and additional measures are being promised – an assurance that helped the Kospi bounce back today.

But then, the BOK’s 2% inflation target looks increasingly remote: annual inflation fell to 0.4% in March (the second lowest in the OCED), and in view of recent events, last month’s new 1.1% 2019 inflation forecast (downgraded from January’s 1.4%) could already be in some doubt.

Either way, speculation as to the BOK’s next move is on the rise and the fact that the yield on the benchmark three-year bond is once more drifting back towards the year’s lows is worth keeping an eye on given an inverse 81% correlation with USD/KRW since the start of last year.

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