The Won - An End In Sight?

- Weak fundamentals continue to pressure the KRW
- A pivotal level is fast approaching
- Bears may not have it all their own way

South Korea’s Won, Asia’s worst performing currency this year, is fast approaching a pivotal level led by a gloomy global outlook. But breaching KRW 1,200 to the USD will still present the bears with a challenge, and a sustained breach doubly-so.

The odds on the KRW at least testing this level are undoubtedly short, however. Indeed, in the six times that the currency has traded around its current level in the past ten years (1,191), only once - in May/June 2016 – has it failed to go on to challenge the 1,200 level. And in 2019, the fundamentals remain firmly on the side of the bears.

Compounded by the end of a two-year super-cycle in the demand for semiconductors, slowing global growth has been anathema to an export-led economy like South Korea. Hence, uncertainty surrounding China’s economic outlook and its relations with the US has been a large factor behind the KRW’s under-performance (five of the top ten daily moves in the KRW this year have been instigated by China-related news.)

The Aerial View
Morning Briefing

The KRW’s downward

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Newswatch

1. The US Commerce Department has added Huawei and 70 affiliates to its "Entity List" >

2. President Trump poised to delay a decision by up to six months to impose tariffs on EU and
trajectory has been super-charged by bad economic data and a sliding CNY

In fact, the currency’s slide got underway on April 18 when US/China trade uncertainty proved to be the last straw for the Kospi (it has since fallen 8.1%). And over the past fortnight or so, the KRW’s downward trajectory has been super-charged by poor economic data and a sliding CNY (with which the currency holds an 89% one-month rolling correlation.) The KRW’s poor performance is such that it has lost 2.1% to the USD since April 25 in which time the USD index has ceded 0.6%.

The country's worst set of GDP data since the 2008 global financial crisis prompted the Bank of Korea to retreat from hawkish territory into a neutral camp, but the pressure is growing for it to take one step further: unemployment has risen for a second consecutive month, and although inflation picked up in April from a three-year low, the BOK’s latest minutes clarify that policymakers are increasingly concerned about one of the lowest inflation rates in the OECD and its remoteness from the BOK’s 2% target.

Such is the pressure being brought to bear on the KRW that last week’s (reported) intervention by the BOK provided only fleeting assistance. However, investors were apprised yesterday of the fact that the Ministry of Finance is “watching out for any unusual movements” in the market, and in view of the history of the price action around KRW 1,200, further operations might yet prove more successful.

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Indeed, the volatility in the price action above KRW 1,200 in times past suggests that this is a level which induces some discomfort into the market. Certainly, since 2009, USD/KRW has tended to spend only fleeting periods above
This psychologically important level.

This may explain recent patterns of investor behaviour: BNY Mellon’s iFlow data reveal three days of net buying of the KRW after a near month-long phase of aggressive selling (see chart below).

This has also materialised just as the KRW has drifted into oversold conditions: the 14-day relative strength index in USD/KRW now stands at its highest level since late 2014, or above levels that have tended to precede periods of consolidation, albeit of variable duration.

The KRW’s recent performance hints at damage that a swift elimination of global trade risks and a regenerated Chinese economy may be unable to remedy. But the 1,200 level has proven a stubborn hurdle. What happens next could therefore give valuable insight into perceptions about the health of the global economy and the likely fate of one of its principal exporters.

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